Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

UltraTech Cement Ltd

Strong performance & concrete growth outlook

Cement	Sharekhan code: ULTRACEMCO	Result Update

Stock Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 7,460**	
Price Target: **Rs. 8,800**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 215,333 cr
52-week high/low:	Rs. 7545/3737
NSE volume: (No of shares)	5.9 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

Shareholding (%)

Promoters	60.0
FII	16.6
DII	14.5
Others	9.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	8.1	23.1	39.1	94.4
Relative to Sensex	7.0	12.8	29.8	55.9

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy rating on UltraTech Cement (UltraTech) with a revised PT of Rs. 8,800, factoring upwardly revised estimates led by sustained healthy demand environment over FY2022-FY2024.
- In Q1FY2022, UltraTech continued to surprise positively on the operating front aided by healthy volume growth seen amid the COVID-19 impact in Q1FY2022, rise in cement prices and contained operating costs.
- Net debt continue to tread lower in Q1. Further, there was a material loan payoff in July 2021. Target to turn net cash in FY2024 and an addition of 19.5MTPA by FY2023 remain intact.
- Underlying demand from rural, urban real estate and large infrastructure projects is expected to remain robust. The management fairly confident of improving operational profitability further.

UltraTech Cement (UltraTech) continued to surprise positively on the operational profitability front in Q1FY2022. The company's standalone revenue rose by 55.6% y-o-y to Rs. 11,477 crores, led by a 47.3% y-o-y rise in volume, while blended realisations grew by 5.7% y-o-y (up 6.4% q-o-q). Against the general belief of the second wave affecting the rural sector, it did not witness any slowdown in rural demand (70% trade sales mix versus 67% in Q4FY2021) while non-trade demand too grew in absolute terms. The average capacity utilization during Q1FY2022 was 73% (93% in Q4FY2021, 71% in FY2021). The company positively surprised on the EBITDA/tonne (blended) front which came in at Rs. 1,545, led by higher realizations and lower cost of goods sold (-15% y-o-y, -18% q-o-q on per tone basis owing to rise in inventory). The power & fuel costs (up 20.6% y-o-y on per tonne basis), freight costs (up 12% y-o-y) and other expenses (up 15.1% y-o-y) broadly remained in-line. The company has been lowering usage of pet coke while 80% of its capacities have captive power plants (having coal linkage through FSA) which has contained the impact of rising pet coke prices (currently at ~$150 versus ~$60 a year ago). The operating profit jumped 62.2% y-o-y to Rs. 3,172 crore (higher than our estimate). Strong operational performance along with lower interest expense (-17% y-o-y) led to adjusted net profit growth of 84% y-o-y to Rs. 1681 crore (higher than our estimate). During Q1FY2022, the company reduced its consolidated net debt by Rs. 733 crore (which could have been more if it had not suffered from increased working capital requirement to the tune of Rs. 600 crore to Rs. 700 crore on account of covid impact). However, it paid off Rs. 5000 crore long term loan on July 22, 2021. The management is confident of turning net cash in FY2024. On the demand outlook, the management expects healthy demand to continue from rural, urban real estate and large infrastructure projects. Its capacity expansion plans for adding 19.5 million tones per annum (mtpa) at a cost of Rs. 6,527 crore (to be entirely funded through internal accruals) is on track and expected to be completed by FY2023 end. On operational profitability, the management is confident of improving it further. We have revised our estimates upwards for FY2022E-FY2023E factoring higher volume offtake and improvement in realisations. We introduce FY2024E earnings in this note. We continue to believe that Ultratech will benefit from strong growth tailwinds in cement demand going ahead posting higher than industry growth rates supported by continuous capacity expansion. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 8,800.

Key positives

- Continued to outperform on operational front led by higher realization and lower cost of goods sold.
- Consolidated net debt reduction of Rs. 733 crore in Q1FY2022 and further Rs. 5000 crore loan payoff.
- Positive management commentary on demand and operational profitability.
- Net cash target by FY2024 and capacity addition of 19.5MTPA by FY2023 on track.

Key negatives

- Rise in working capital owing to COVID impact.
- Pet coke and diesel prices continue to maintain upward trajectory.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 8,800: UltraTech has been able to report strong volume growth which has been driven organically and in the wake of the COVID impact. The healthy pricing discipline and contained input costs has been improving its operational profitability which is expected to improve going ahead. Barring the near-term impact of the second wave of COVID , it has been one of the key beneficiary of strong rural demand, pick up in urban real estate and large government infrastructure projects. The company's capacity expansion coupled with de-leveraging of balance sheet over the next three years is expected to drive earnings over FY2022-FY2024. We have revised our estimates upwards for FY2022E-FY2023E factoring higher volume offtake and improvement in realisations. We have introduced FY2024E earnings in this note. We continue to maintain our Buy rating on the stock with a revised PT of Rs. 8,800.

Key Risks

Weak macro environment leading to lower cement demand and pressure on cement prices negatively affects profitability.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	43,188	50,192	55,687	63,632
OPM (%)	27.2%	28.0%	27.6%	27.9%
Adjusted PAT	5,457	6,983	7,945	9,593
% YoY growth	49.4%	28.0%	13.8%	20.7%
Adjusted EPS (Rs.)	189.1	241.9	275.3	332.4
P/E (x)	39.5	30.8	27.1	22.4
P/B (x)	5.0	4.3	3.7	3.2
EV/EBITDA (x)	19.4	15.8	14.0	11.4
RoNW (%)	13.4%	15.0%	14.8%	15.4%
RoCE (%)	10.8%	12.5%	13.1%	14.1%

Source: Company; Sharekhan estimates

Operational outperformance continues

UltraTech Cement (UltraTech) continued to surprise positively on the operational profitability front in Q1FY2022. The company's standalone revenue rose by 55.6% y-o-y to Rs. 11,477 crore, led by 47.3% y-o-y rise in volume, while blended realisations grew by 5.7% y-o-y (up 6.4% q-o-q). Against the general belief of the second wave of COVID affecting the rural sector, it did not witness any slowdown in rural demand (70% trade sales mix versus 67% in Q4FY2021) while non-trade demand too grew in absolute terms. The average capacity utilization during Q1FY2022 was 73% (93% in Q4FY2021, 71% in FY2021). The company positively surprised on the EBITDA/tonne (blended) front which came in at Rs. 1,545, led by higher realizations and lower cost of goods sold (-15% y-o-y, -18% q-o-q on per tone basis owing to rise in inventory). The power & fuel costs (up 20.6% y-o-y on per tonne basis), freight costs (up 12% y-o-y) and other expenses (up 15.1% y-o-y) broadly remained in-line. The company has been lowering usage of pet coke while 80% of its capacities have captive power plants (having coal linkage through FSA) which has contained the impact of rising pet coke prices (currently at ~$150 versus ~$60 a year ago). The operating profit jumped 62.2% y-o-y to Rs. 3,172 crore (higher than our estimate). Strong operational performance along with lower interest expense (-17% y-o-y) led to adjusted net profit growth of 84% y-o-y to Rs. 1681 crore (higher than our estimate).

Target to turn net cash and capacity expansions on track

During Q1FY2022, the company reduced its consolidated net debt by Rs. 733 crore (which could have been more if it had not suffered from increased working capital requirement to the tune of Rs. 600 crore to Rs. 700 crore on account of the COVID impact). However, it paid off Rs. 5000 crore long term loan on July 22, 2021. The management is confident of turning net cash in FY2024. On the demand outlook, the management expects healthy demand to continue from rural, urban real estate and large infrastructure projects. Its capacity expansion plans for adding 19.5 million tones per annum (mtpa) at a cost of Rs. 6,527 crore (to be entirely funded through internal accruals) is on track and expected to be completed by FY2023 end. On operational profitability, the management is confident of improving it further.

Key Conference takeaways:

- **Q1FY22 demand:** The company saw a revival in demand (both trade and non-trade) as state wise lockdown eased. It did not witness a slowdown in rural demand as is widely believed because of the impact of the COVID second wave in rural areas. It operated at 73% average capacity utilisation during Q1. Regionally, South operated at 50%+, North 70%, East 95%+ and Central & West at 70%+.
- **Q1FY22 cement prices:** Overall, the prices in Q1FY2022 increased by 6-8%. East and South saw price increase of 10%, West 7-10%, North and Central 3-6%.
- **Demand Outlook:** As per the management, urban real estate continues to do well. Large infrastructure projects would drive demand especially Roads which saw average road construction of 37km/day till June end (1 lane km expressway consumes 600 tonnes of cement). The work on first RRTS connecting eight satellite towns in NCR is on full swing. The PM has allocated Rs. 21,000 crore from PM Cares Fund towards developing health infrastructure. The work on airports and smart cities have started. The Mumbai Ahmedabad high speed train project work has commenced from Q1FY2022.
- **Capacity additions:** It would be adding 3.2MnT grinding capacity in FY2022 at Patna, Dankuni and Bara. It would also be adding 16.3MnT cement capacities in FY2023. The clinker capacities at Dalla (1.3MnT) would come up by March 2022 and Pali (2.7MnT) and Hirmi (2.7MnT) by March 2023.
- **Pet coke prices:** The pet coke prices have moved from $60 last year to $100-$120 in June. Currently it is at $150. The July offloading is quoted at $160-$163 while Saudi pet coke is offered at $140. The high pet coke prices have led to low offtake from industry which should bring down the price of pet coke. The company's pet coke cost consumption for Q1FY2022 was $123 versus $109 in Q4FY2021. Its pet coke mix was 17%, other fuels 2-3% and balance was coal. Its 80%+ plants has captive power plants.
- **Leverage & cash:** Its gross debt stood at ~Rs. 19,000 crore while treasury at ~Rs. 13,000 crore. The company had brought down net debt by Rs. 733 crore during Q1FY2022 which could have further lowered but was impacted by increase in working capital (increase of Rs. 600-700 crores) due to covid. It has repaid Rs. 5000 crore long term loan on July 22, 2021. The company is on track to be net cash by FY2024.
- **DFC game changer:** The management believes DFC to be game changer for cement transportation. Out of 2800kms, 435kms is currently operational. The Rake speed is expected to double along with rake size increasing by 4x. Its Nathdwara plants are connected to DFC.
- **Sales mix:** Trade sales accounted for 70% of which rural comprises 65% for Q1FY2022.
- **Capex:** The company did capex of Rs. 1000 crores in Q1FY2022.
- **Green power:** The company targets to achieve green power mix of 34% by FY2024 from current 15.5%.
- **Lead distance:** The lead distance for Q1FY2022 was 432 kms.
- **Fibre asset sale:** The company is hopeful of concluding fibre asset sale (part of Binani acquisition) and other such non-core asset sale in current year.

Results (Standalone) Rs cr

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales	**11,477.0**	**7,373.6**	**55.6%**	**13,965.5**	**-17.8%**
Operating Profit	**3,172.0**	**1,955.2**	**62.2%**	**3,512.4**	**-9.7%**
Other Income	216.4	296.1	-26.9%	84.5	156.1%
EBITDA	3,388.4	2,251.3	50.5%	3,596.9	-5.8%
Interest	275.9	333.4	-17.3%	323.1	-14.6%
Depreciation	597.7	588.7	1.5%	630.9	-5.3%
PBT	**2,514.8**	**1,329.2**	**89.2%**	**2,643.0**	**-4.9%**
Tax	833.7	415.6	100.6%	865.5	-3.7%
Adj.PAT	**1,681.1**	**913.6**	**84.0%**	**1,777.6**	**-5.4%**
Margins			**Bps**		**Bps**
OPM	27.6%	26.5%	112	25.2%	249
PATM	14.6%	12.4%	226	12.7%	192
Tax Rate	33.2%	31.3%	188	32.7%	41

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens outlook

The cement industry has seen sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the trailing five years. Amidst the COVID-19 led disruption, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand has started to pick up. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remains intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

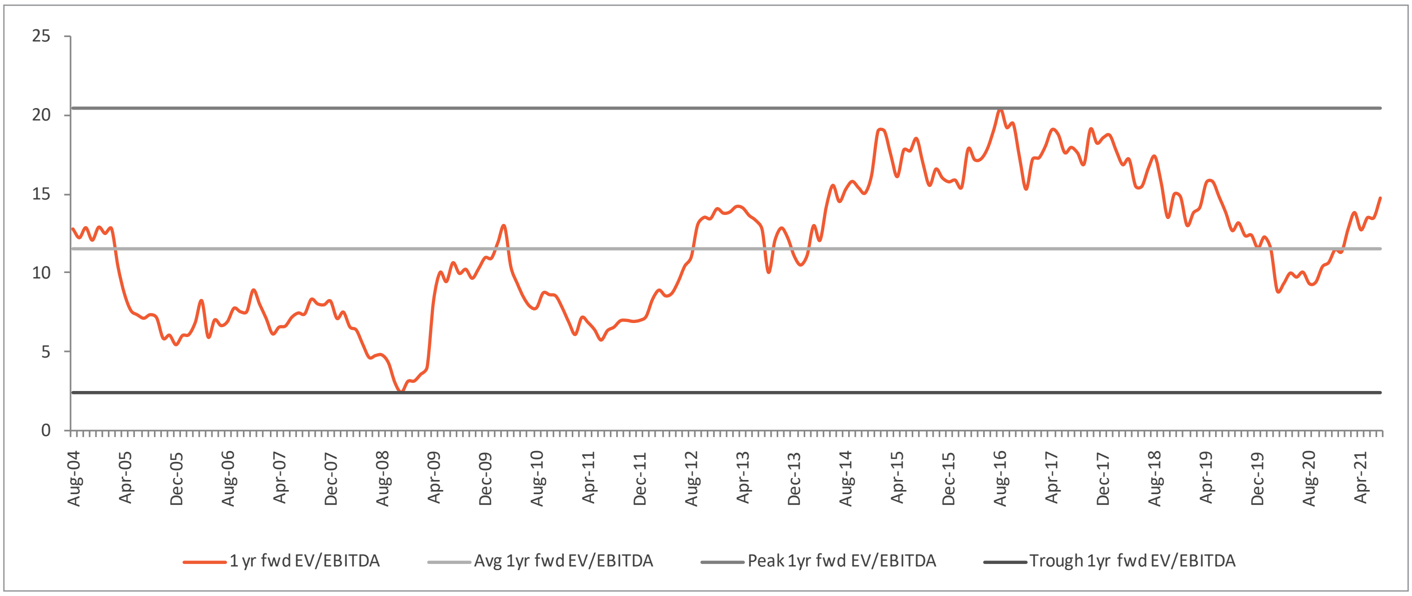
■ Company outlook - Healthy cement demand, profitability, and balance sheet health to remain favourable

UltraTech is expected to see sustained demand emanating from the rural sector, while infrastructure execution is gathering pace. Further, the demand from real estate segment in the urban sector have started to witness strong traction with favourable government policies and lower interest rate regime. The management is optimistic of a sustainable demand environment for the cement sector over a longer period barring the near term impact of the second wave. The company's capacity expansion plans for adding 19.5 million tones per annum (mtpa) at a cost of Rs. 6,527 crore is on track and expected to be completed by FY2023 end. Further, it targets to achieve 25% RoE by FY2025 from current 15%. The company is well placed to benefit from rising cement demand over the next four to five years. Overall, the company's outlook in terms of cement demand, profitability, and balance sheet is expected to remain favourable.

■ Valuation - Maintain Buy with a revised PT of Rs. 8,800

UltraTech has been able to report strong volume growth which has been driven organically and in the wake of covid impact. The healthy pricing discipline and contained input costs has been improving its operational profitability which is expected to improve going ahead. Barring the near term impact of covid second wave, it has been one of the key beneficiaries of strong rural demand, pick up in urban real estate and large government infrastructure projects. The company's capacity expansion coupled with de-leveraging of balance sheet over the next three years is expected to drive earnings over FY2022-FY2024. We have revised our estimates upwards for FY2022E-FY2023E factoring higher volume offtake and improvement in realisations. We introduce FY2024E earnings in this note. We continue to maintain our Buy rating on the stock with a revised PT of Rs. 8,800.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Company	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
UltraTech Cement	30.8	27.1	15.8	14.0	4.3	3.7	15.0	14.8
Shree Cement	38.9	34.1	20.5	17.7	5.8	5.0	15.9	15.7
The Ramco Cement	27.1	23.5	16.8	14.9	4.0	3.5	15.9	15.8
Dalmia Bharat	43.5	35.4	14.1	12.2	3.0	2.8	7.2	8.3

Source: Company, Sharekhan estimates

About company

UltraTech's parent company, the Aditya Birla Group, is in the league of Fortune 500 companies. UltraTech is the largest manufacturer of grey cement, ready mix concrete (RMC), and white cement in India. With a consolidated grey cement capacity of 116.75 mtpa, it is the third largest cement producer in the world, excluding China, and the only one globally (outside China) to have 100+ mtpa of cement manufacturing capacity in a single country. The company's business operations span UAE, Bahrain, Sri Lanka, and India.

Investment theme

UltraTech is India's largest cement company. We expect UltraTech to report industry-leading volume growth on account of timely capacity expansion (inorganic and organic expansions) and a revival in demand (demand pick up in infrastructure, urban housing along with continued demand emanating from the rural housing segment). We expect the company to be the biggest beneficiary of multi-year industry upcycle, being a market leader and its timely scaling up of capacities and profitability in the shortest possible time.

Key Risks

- Slowdown in government spending on infrastructure and increased key input costs led by pet coke and diesel prices.
- Slowdown in the housing sector, especially affordable housing projects.
- Inability to improve capacity utilisation and profitability of acquired units.

Additional Data

Key management personnel

Mr. Kumar Mangalam Birla	Non Independent Director-Chairman
Mr. KK Maheshwari	Managing Director
Mr. Atul Daga	Executive Director & CFO
Mr. Sanjeeb K Chatterjee	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Grasim Industries Ltd	57.28
2	Life Insurance Corp of India	3.35
3	Standard Life Aberdeen PLC	1.90
4	SBI Funds Management Pvt Ltd	1.41
5	Vanguard Group Inc/The	1.40
6	Kotak Mahindra Asset Mgmt	1.29
7	Pilani Investment & Industries Cor	1.21
8	Franklin Resources Inc	1.17
9	BlackRock Inc	1.07
10	ICICI Prudential Life Insurance Co	0.90

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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