Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Ultratech Cement (UTCEM IN)

Rating: BUY | CMP: Rs7,399 | TP: Rs8,600

October 19, 2021

Q2FY22 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	**BUY**		**BUY**	
Target Price	**8,600**		**8,600**	
Sales (Rs. m)	5,81,077	6,39,419	5,81,078	6,39,419
% Chng.	-	-		
EBITDA (Rs. m)	1,42,732	1,62,248	1,42,733	1,62,248
% Chng.	-	-		
EPS (Rs.)	292.6	352.2	292.6	352.2
% Chng.	-	-		

Key Financials - Consolidated

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	442	525	581	639
EBITDA (Rs. bn)	111	128	143	162
Margin (%)	*25.0*	*24.3*	*24.6*	*25.4*
PAT (Rs. bn)	53	71	84	102
EPS (Rs.)	184.2	246.0	292.6	352.2
Gr. (%)	*45.7*	*33.5*	*18.9*	*20.4*
DPS (Rs.)	37.0	48.1	56.9	68.8
Yield (%)	*0.5*	*0.7*	*0.8*	*0.9*
RoE (%)	*12.8*	*15.0*	*15.7*	*16.5*
RoCE (%)	*13.2*	*15.2*	*16.7*	*18.5*
EV/Sales (x)	5.0	4.1	3.6	3.1
EV/EBITDA (x)	20.0	17.0	14.7	12.3
PE (x)	40.2	30.1	25.3	21.0
P/BV (x)	4.8	4.3	3.7	3.2

Key Data	ULTC.BO | UTCEM IN
52-W High / Low	Rs.8,073 / Rs.4,440
Sensex / Nifty	61,766 / 18,477
Market Cap	Rs.2,136bn/ $ 28,347m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.5188.2m

Shareholding Pattern (%)

Promoter's	59.96
Foreign	16.58
Domestic Institution	14.39
Public & Others	9.07
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.1)	10.2	65.1
Relative	(8.8)	(12.9)	6.2

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Earnings in-line; Higher costs to keep margins under check

Quick Pointers:

- Would need cement price hike of Rs35-40/bag to maintain Q1FY22 margins
- Net Debt increased by 6% QoQ to Rs63.4bn due to increase in working capital

UTCEM reported Q2FY22 earnings in line with our estimates, largely due to one-time income in other operating income segment. While, costs came significantly above our estimates due to higher other expenses. EBITDA/t (Incl other operating income) fell 4.5% YoY (↓17% QoQ) to Rs1,320 (PLe: Rs1,355). Ex of other operating income, EBITDA/t fell 10% YoY/22% QoQ to Rs1,182 (PLe: Rs1,285)

Backed by sound B/S (Net debt/EBITDA at 0.5x) and steady cash flows, UTCEM is expanding capacity by 17.5% or 19.5mnt over next couple of years along with sizeable investment in high payback and environment friendly renewable power (WHR + Solar) to increase its share to 34% by FY24 from current 14% of overall power requirement. Led by its dominant size (22% market share) and highly efficient operations, we believe that UTCEM stands out as the best candidate to play the sector. However, we expect near term weakness in the sector due to headwinds on margins coupled with unabated increase in energy cost. Reiterate BUY with TP of Rs8,600, EV/EBITDA of 17.0x FY23e.

- **Higher than expected costs offsets by higher other operating income:** Volumes grew 6.7% YoY (flat QoQ) at 20.5mnt (PLe:20.4mnt). Blended realisations fell 0.5% QoQ/Rs30/t (+6.7% YoY/Rs345/t) at Rs5,475/t (PLe:Rs5,440/t). Domestic grey cement realisations declined 2.5% QoQ/Rs125/t (+3.4% YoY/Rs165/t) at Rs4,967/t (PLe: Rs5,000/t). RMC Revenues grew 57% YoY/21% QoQ at Rs6.1bn largely due to low base. Other operating income doubled YoY/+90% QoQ to Rs2.9bn (PLe:Rs1.46bn) largely due to one-time income of Rs1.4bn related to prior period incentives and non-recurring misc. income. Cost increased 12% YoY/8% QoQ to Rs4,300 (PLe:Rs4,155) due to higher than expected fixed costs. Aided by higher other operating income, EBITDA grew 2% YoY to Rs27.1bn (PLe:Rs27.6bn). Led by 35% fall in interest cost, PAT grew 9% YoY to Rs13.3bn (PLe: Rs13.3bn).
- **Key takeaways of earnings call: 1)** Domestic cement demand expected to grow at 6-8% in H2FY22e **2)** Power & fuel (P&F) cost would increase by Rs200-300/t QoQ in Q3 **3)** At current spot pet coke/thermal coal prices, P&F cost would increase by further Rs500/t **4)** Cement price hike to the tune of Rs10-15/bag absorbed in the market (post hike prices at pre-monsoon levels) **5)** Capex guidance for FY22e/FY23e at Rs40-50bn/Rs30bn (spent Rs23bn in H1FY22) **6)** Plan to start Bicharpur (MP) coal block in Q3; coal block will meet 8-10% of coal requirement **7)** Fuel mix for Q2 at 19%/4%/17%/60% between Pet-coke/AFR/Domestic coal/Imported coal

Exhibit 1: Q2FY22 Result Overview (Rs mn)

Y/e March (Rs mn)	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net Sales	**1,12,720**	**98,950**	***13.9***	**1,13,270**	**2,25,990**	**1,71,850**	***31.5***
Raw Material	18,355	17,884	*2.6*	16,147	34,502	30,790	*12.1*
% of Net Sales	*16.3*	*18.1*		*14.3*	*15.3*	*17.9*	
Staff Costs	6,295	5,223	*20.5*	5,439	11,733	10,398	*12.8*
% of Net Sales	*5.6*	*5.3*		*4.8*	*5.2*	*6.1*	
Power & Fuel	22,631	16,810	*34.6*	21,932	44,563	29,158	*52.8*
% of Net Sales	*20.1*	*17.0*		*19.4*	*19.7*	*17.0*	
Freight	26,379	22,764	*15.9*	26,230	52,609	38,669	*36.0*
% of Net Sales	*23.4*	*23.0*		*23.2*	*23.3*	*22.5*	
Other Expenses	15,825	11,978	*32.1*	13,302	29,126	19,828	*46.9*
% of Net Sales	*14.0*	*12.1*		*11.7*	*12.9*	*11.5*	
Total Expenditure	89,484	74,659	*19.9*	83,049	1,72,533	1,28,843	*33.9*
EBITDA	**23,236**	**24,291**	***(4.3)***	**30,221**	**53,457**	**43,007**	***24.3***
Margin (%)	*20.6*	*24.5*		*26.7*	*23.7*	*25.0*	
Depreciation	6,127	6,127	*0.0*	5,977	12,105	12,013	*0.8*
Other income	4,182	2,700	*54.9*	3,663	7,845	6,498	*20.7*
EBIT	**21,291**	**20,865**	***2.0***	**27,907**	**49,198**	**37,492**	***31.2***
Interest	1,828	3,019	*(39.5)*	2,759	4,586	6,354	*(27.8)*
PBT	**19,463**	**17,846**	***9.1***	**25,148**	**44,611**	**31,138**	***43.3***
Extraordinary income/(expense)	-	(66)		-	-	(1,640)	
PBT (After EO)	19,463	17,780	*9.5*	25,148	44,611	29,498	*51.2*
Tax	6,462	5,693	*13.5*	8,337	14,800	9,355	*58.2*
% PBT	*33.2*	*32.0*		*33.2*	*33.2*	*31.7*	
Reported PAT	**13,001**	**12,087**	***7.6***	**16,811**	**29,812**	**20,142**	***48.0***
Adjusted PAT	**13,001**	**12,132**	***7.2***	**16,811**	**29,812**	**21,269**	***40.2***

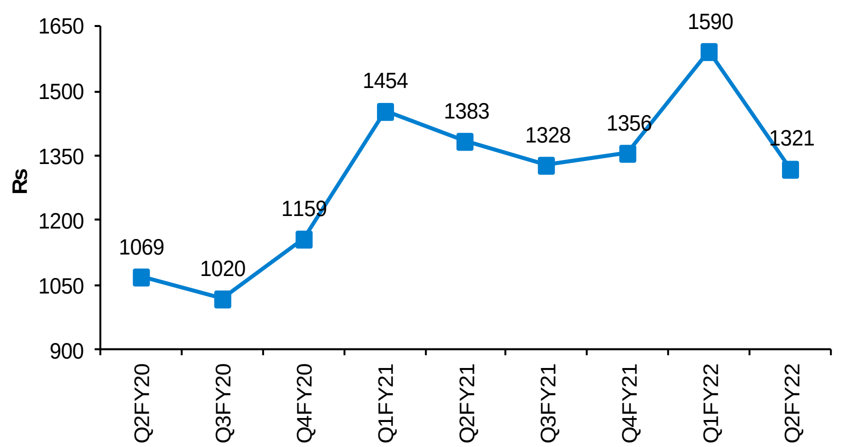
Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Volume (mn t)	20.5	19.2	*6.7*	20.5	41.0	33.2	*23.7*
Net Blended Realisations (Rs/t)	5,501	5,151	*6.8*	5,517	5,509	5,184	*6.3*
EBITDA/t (Rs/t)	1,134	1,265	*(10.3)*	1,472	1,303	1,297	*0.5*

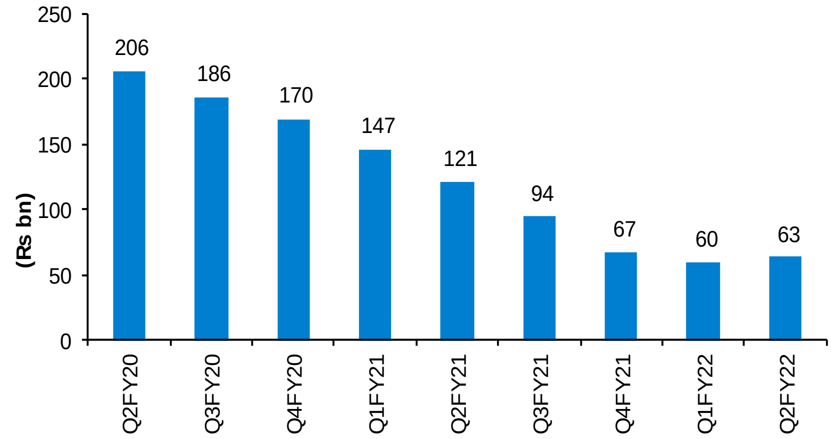
Source: Company, PL

Exhibit 3: EBITDA/t (incl other operating income) fell 4% YoY/17% YoY



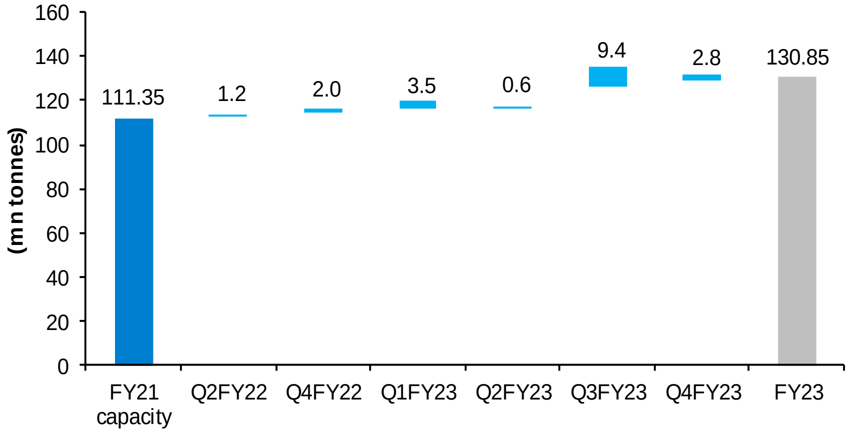
Source: Company, PL

Exhibit 4: Net debt fell by 42% YoY to Rs63bn



Source: Company, PL

Exhibit 5: 19.5mnt of new capacity to fully commission by FY23 end



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	**4,42,393**	**5,24,668**	**5,81,078**	**6,39,419**
YoY gr. (%)	*5.9*	*18.6*	*10.8*	*10.0*
Cost of Goods Sold	70,858	76,646	82,682	91,113
Gross Profit	3,71,535	4,48,021	4,98,395	5,48,307
Margin (%)	*84.0*	*85.4*	*85.8*	*85.8*
Employee Cost	23,530	25,162	26,941	28,657
Other Expenses	36,670	42,501	46,023	50,554
EBITDA	**1,10,814**	**1,27,546**	**1,42,733**	**1,62,248**
YoY gr. (%)	*27.0*	*15.1*	*11.9*	*13.7*
Margin (%)	*25.0*	*24.3*	*24.6*	*25.4*
Depreciation and Amortization	27,002	28,372	29,776	31,274
EBIT	**83,812**	**99,174**	**1,12,957**	**1,30,973**
Margin (%)	*18.9*	*18.9*	*19.4*	*20.5*
Net Interest	14,857	14,372	11,272	8,172
Other Income	12,206	17,495	19,772	23,569
Profit Before Tax	**78,555**	**1,02,297**	**1,21,457**	**1,46,370**
Margin (%)	*17.8*	*19.5*	*20.9*	*22.9*
Total Tax	25,387	31,288	36,995	44,697
Effective tax rate (%)	*32.3*	*30.6*	*30.5*	*30.5*
Profit after tax	**53,168**	**71,009**	**84,463**	**1,01,673**
Minority interest	(13)	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**53,180**	**71,009**	**84,463**	**1,01,673**
YoY gr. (%)	*45.7*	*33.5*	*18.9*	*20.4*
Margin (%)	*12.0*	*13.5*	*14.5*	*15.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**53,180**	**71,009**	**84,463**	**1,01,673**
YoY gr. (%)	*(7.6)*	*33.5*	*18.9*	*20.4*
Margin (%)	*12.0*	*13.5*	*14.5*	*15.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	53,180	71,009	84,463	1,01,673
Equity Shares O/s (m)	**289**	**289**	**289**	**289**
EPS (Rs)	**184.2**	**246.0**	**292.6**	**352.2**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	**6,11,123**	**6,22,123**	**6,71,723**	**6,86,746**
Tangibles	6,11,123	6,22,123	6,71,723	6,86,746
Intangibles	-	-	-	-
Acc: Dep / Amortization	**1,19,205**	**1,47,577**	**1,77,353**	**2,08,628**
Tangibles	1,19,205	1,47,577	1,77,353	2,08,628
Intangibles	-	-	-	-
Net fixed assets	**4,91,918**	**4,74,546**	**4,94,370**	**4,78,118**
Tangibles	4,91,918	4,74,546	4,94,370	4,78,118
Intangibles	-	-	-	-
Capital Work In Progress	38,535	70,010	65,760	81,837
Goodwill	62,199	62,199	62,199	62,199
Non-Current Investments	20,060	20,119	20,119	20,119
Net Deferred tax assets	(60,335)	(73,423)	(88,903)	(1,07,610)
Other Non-Current Assets	8,551	8,821	9,103	9,401
Current Assets				
Investments	1,08,939	1,08,880	1,08,880	1,08,880
Inventories	40,180	50,311	55,720	61,314
Trade receivables	25,717	33,061	36,616	40,292
Cash & Bank Balance	20,076	20,442	47,681	1,08,533
Other Current Assets	15,482	17,640	18,745	19,894
Total Assets	**8,61,835**	**8,97,160**	**9,51,632**	**10,24,460**
Equity				
Equity Share Capital	2,887	2,887	2,887	2,887
Other Equity	4,38,860	4,99,189	5,69,759	6,54,999
Total Networth	**4,41,747**	**5,02,076**	**5,72,646**	**6,57,886**
Non-Current Liabilities				
Long Term borrowings	2,04,878	1,59,878	1,14,878	69,878
Provisions	3,655	3,655	3,655	3,655
Other non current liabilities	2,495	2,495	2,495	2,495
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	46,993	47,436	52,536	57,811
Other current liabilities	87,092	93,557	1,01,878	1,10,485
Total Equity & Liabilities	**8,61,835**	**8,97,160**	**9,51,632**	**10,24,460**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	78,576	1,02,297	1,21,457	1,46,370
Add. Depreciation	27,002	28,372	29,776	31,274
Add. Interest	14,857	14,372	11,272	8,172
Less Financial Other Income	12,206	17,495	19,772	23,569
Add. Other	(5,785)	(12,380)	(14,152)	(17,212)
Op. profit before WC changes	1,14,650	1,32,661	1,48,353	1,68,604
Net Changes-WC	23,289	(13,948)	1,763	1,731
Direct tax	(12,910)	(18,200)	(21,514)	(25,990)
Net cash from Op. activities	**1,25,030**	**1,00,513**	**1,28,602**	**1,44,345**
Capital expenditures	(18,387)	(42,475)	(45,350)	(31,100)
Interest / Dividend Income	-	-	-	-
Others	(70,203)	12,380	14,152	17,212
Net Cash from Invt. activities	**(88,590)**	**(30,095)**	**(31,198)**	**(13,888)**
Issue of share cap. / premium	138	-	-	-
Debt changes	(25,646)	(45,000)	(45,000)	(45,000)
Dividend paid	(3,748)	(10,680)	(13,893)	(16,433)
Interest paid	(14,308)	(14,372)	(11,272)	(8,172)
Others	-	-	-	-
Net cash from Fin. activities	**(43,565)**	**(70,052)**	**(70,165)**	**(69,605)**
Net change in cash	**(7,125)**	**366**	**27,239**	**60,852**
Free Cash Flow	1,06,643	58,038	83,252	1,13,245

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	**98,610**	**1,16,980**	**1,37,570**	**1,12,990**
YoY gr. (%)	*8.5*	*19.4*	*34.9*	*55.6*
Raw Material Expenses	15,330	16,250	22,170	13,170
Gross Profit	83,280	1,00,730	1,15,400	99,820
Margin (%)	*84.5*	*86.1*	*83.9*	*88.3*
EBITDA	**25,140**	**29,030**	**34,150**	**31,140**
YoY gr. (%)	*43.0*	*57.8*	*54.4*	*60.3*
Margin (%)	*25.5*	*24.8*	*24.8*	*27.6*
Depreciation / Depletion	6,450	6,370	6,700	6,330
EBIT	**18,690**	**22,660**	**27,450**	**24,810**
Margin (%)	*19.0*	*19.4*	*20.0*	*22.0*
Net Interest	3,480	3,460	3,670	3,200
Other Income	2,700	3,810	2,720	3,550
Profit before Tax	**17,844**	**23,010**	**26,140**	**25,160**
Margin (%)	*18.1*	*19.7*	*19.0*	*22.3*
Total Tax	5,690	7,530	8,650	8,340
Effective tax rate (%)	*31.9*	*32.7*	*33.1*	*33.1*
Profit after Tax	**12,154**	**15,480**	**17,490**	**16,820**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**12,199**	**15,480**	**17,731**	**16,820**
YoY gr. (%)	*99.7*	*97.6*	*58.9*	*90.1*
Margin (%)	*12.4*	*13.2*	*12.9*	*14.9*
Extra Ord. Income / (Exp)	45	-	241	-
Reported PAT	**12,154**	**15,480**	**17,490**	**16,820**
YoY gr. (%)	*98.9*	*138.2*	*56.4*	*116.3*
Margin (%)	*12.3*	*13.2*	*12.7*	*14.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**12,154**	**15,480**	**17,490**	**16,820**
Avg. Shares O/s (m)	289	289	289	289
EPS (Rs)	**42.3**	**53.6**	**61.4**	**58.3**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	184.2	246.0	292.6	352.2
CEPS	277.8	344.3	395.8	460.6
BVPS	1,530.4	1,739.4	1,983.9	2,279.2
FCF	369.5	201.1	288.4	392.3
DPS	37.0	48.1	56.9	68.8
Return Ratio(%)				
RoCE	13.2	15.2	16.7	18.5
ROIC	11.2	13.1	15.2	18.6
RoE	12.8	15.0	15.7	16.5
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	(0.1)	(0.2)
Net Working Capital (Days)	16	25	25	25
Valuation(x)				
PER	40.2	30.1	25.3	21.0
P/B	4.8	4.3	3.7	3.2
P/CEPS	277.8	344.3	395.8	460.6
EV/EBITDA	20.0	17.0	14.7	12.3
EV/Sales	5.0	4.1	3.6	3.1
Dividend Yield (%)	0.5	0.7	0.8	0.9

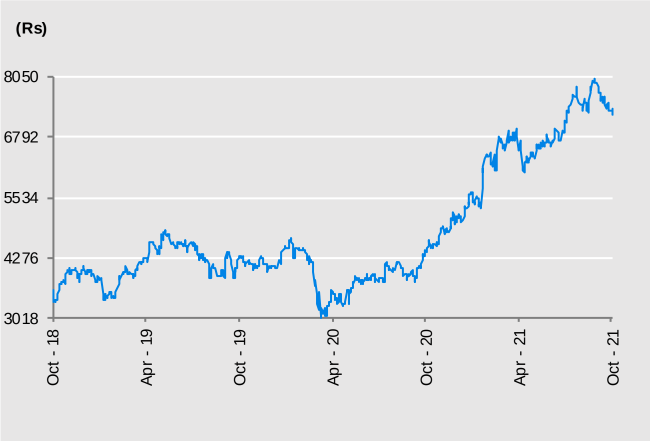
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Total volume (mn te)	83	93	101	112
Blended Real. (Rs/te)	5,169	5,463	5,594	5,521
Blended EBITDA/tonne (Rs)	1,266	1,303	1,344	1,376
RM cost (Rs/ te)	913	918	924	900
Power, Oil & Fuel (Rs/ te)	915	1,087	1,153	1,066
Freight Chrgs. (Rs/ te)	1,204	1,279	1,292	1,306

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-21	BUY	8,600	7,464
2	06-Sep-21	BUY	8,600	7,930
3	23-Jul-21	BUY	8,600	7,459
4	06-Jul-21	BUY	7,750	6,720
5	01-Jul-21	BUY	7,750	6,776
6	10-May-21	BUY	7,500	6,403
7	07-Apr-21	BUY	7,370	6,737
8	03-Mar-21	BUY	6,945	6,430
9	25-Jan-21	BUY	6,100	5,535
10	09-Jan-21	BUY	6,100	5,592

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,460	2,264
2	Ambuja Cement	BUY	460	404
3	Coal India	Accumulate	164	191
4	Dalmia Bharat	Accumulate	2,370	2,074
5	Heidelberg Cement India	Reduce	225	256
6	Hindalco Industries	BUY	570	478
7	Hindustan Zinc	Reduce	288	313
8	Jindal Steel & Power	BUY	535	408
9	JK Lakshmi Cement	Hold	690	653
10	JSW Steel	Accumulate	810	667
11	NMDC	Accumulate	175	144
12	Shree Cement	Hold	27,967	28,750
13	Steel Authority of India	Accumulate	170	116
14	Tata Steel	BUY	1,850	1,289
15	The Ramco Cements	Reduce	980	1,011
16	Ultratech Cement	BUY	8,600	7,464

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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