

October 18, 2021

RESULT REPORT Q2 FY22 | Sector: Cement

UltraTech Cement

Revenue Inline, inflated cost dragged EBITDA

Our view

UTCeM's upcoming capacities of 19.5MTPA would help to encash the strong prolonged cement demand and boost the volume growth over FY23-24E. Thus, we believe UTCeM volume to grow at 10%CAGR over FY22-23E. However, the inflating fuel/diesel cost is the major point of concern, but it is likely to pass on further in supply-chain with a potential price hikes. Additionally, the increasing WHRS/green power and the higher blending ratio and improving efficiency would further aid to maintain the strong EBITDA/te of +Rs1,400/te in FY22/23E. Thus, over strong operating profit we expect a robust free cash flow generation of Rs150bn over FY22-23E despite the ongoing CAPEX.

Result Highlights

- Revenue stood at Rs120bn (in-line with YSEC est. of Rs121bn) up by 2% q/q and 16% y/y in this quarter, backed by strong increase in realization by 1% q/q and 8% y/y in Q2FY22.
- Despite the monsoon headwind, the strong demand momentum continued that led the consol. volume to 21.64MT flat q/q and 8% y/y in Q2FY22.
- EBITDA declined substantially by 18% q/q and remained flat y/y to Rs27bn led by the inflating cost up by 9% q/q and 21% y/y v/s our est. of Rs31bn (miss due to surge in other cost 20% q/q and 21% y/y) in Q2FY22.
- Substantial correction in EBITDA led the PAT decline by 23% q/q and 16% y/y to Rs13bn v/s YSEC est. of Rs15bn in Q2FY22.
- Reported EBTIDA/t stood at Rs1,321/te, while the blended EBITDA/te moderated to Rs1,254/te.

Valuation

The Net Debt/EBITDA continue to remain at a bottom low of 0.47x in Q2FY22 v/s 0.44x in last quarter. At the CMP stock trades at 17/14.9x of EBITDA on FY22E/FY23E. Thus, we retain our BUY recommendation with a TP of Rs8,600 (unchanged), valuing the stock at 16x EV/EBITDA (unchanged) on FY23E on the back of strong realization, robust demand scenario, UTCeM's ability to pass on inflating cost and capacity addition.

Exhibit 1: Result table

Particulars (Rs mn)	2QFY22	1QFY22	qoq (%)	2QFY21	yoy (%)
Revenue	120,168	118,298	1.6	103,542	16.1
EBITDA	27,147	33,075	(17.9)	26,949	0.7
EBITDA Margin %	23	28	(536 bps)	26	(343 bps)
Other Income	1,401	2,049	(31.6)	1,349	3.8
Depreciation	6,774	6,598	2.7	6,724	0.7
EBIT	21,774	28,526	(52.2)	21,574	3.8
Interest charges	2,300	3,261	(29.5)	3,568	(35.5)
PBT	19,475	25,269	(22.9)	21,364	(8.8)
Tax	6,371	8,269	(22.9)	5,662	12.5
PAT	13,135	17,026	(22.9)	15,696	(16.3)
EPS (Rs)	45.5	59.0	(22.9)	54.4	(16.3)

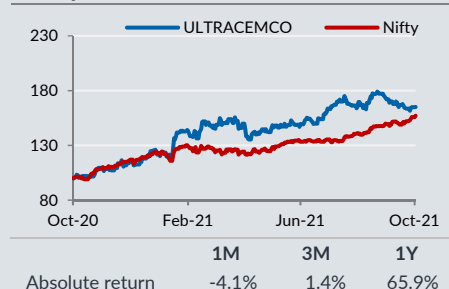
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 7,395
Target Price	: Rs 8,600
Potential Return	: 16%

Stock data (as on October 18, 2021)

Nifty	18,477
52 Week h/l (Rs)	8073 / 4440
Market cap (Rs/USD mn)	2135851 / 28347
Outstanding Shares (mn)	289
6m Avg t/o (Rs mn):	2,744
Div yield (%):	0.5
Bloomberg code:	UTCeM IN
NSE code:	ULTRACeMCO

Stock performance



Shareholding pattern (As of Jun'21 end)

Promoter	59.96%
FII+DII	30.99%
Others	8.28%

Financial Summary

(Rs mn)	FY21	FY22E	FY23E
Revenue	447,258	505,382	565,765
YoY Growth	5%	13%	12%
EBITDA	115,679	135,405	151,158
Margin	25.9	26.8	26.7
PAT	53,202	77,832	90,879
Margin	11.9	15.4	16.1
EPS	184.3	269.6	314.8
NDebt/EBITDA	0.66	0.34	-0.06
ROE	12.0	15.5	15.9
ROCE	14.8	18.7	20.4
EV/EBITDA	16.8	17.0	14.9

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KEY CON-CALL HIGHLIGHTS

Industry Capacity Outlook

- Industry capacity addition for FY22 would be approx. 25-30MTPA and the similar is expected in FY23E. However, it would get slowdown from FY24E onwards because of non-availability of limestone mines. Further, the increasing in steel/input cost would increase the setup cost for greenfield capacity by 15-20%.

Demand & Pricing

- Despite the heavy rains in various parts of the country, the demand momentum remained steady in 1HFY22.
- Strong Infra Push by GOI (Road& Highways, Rail, Metro, Airports etc) along with picking up urban real estate tier 1/2/3 and commercial segment should drive and sustained demand growth. Further, the state & general elections will be driving the demand over FY23/24E. Notably, UTCCEM expects demand to grow 6-8% in 2HFY22 despite high base and expects supply shortage to repeat in various pockets post Chhath festival.
- Further, UTCCEM has taken price hike of ~Rs10-15/bag from 7th Oct'21, got completely absorbed in the market aid to pass on cost impact and current price has almost reached to pre-monsoon level. However, UTCCEM states that ~10% price hike needs to be taken from 2QFY22 to pass on entire cost inflation and therefore further price hike cannot be ruled out.

Fuel & Other Costs

- Avg. Fuel consumption cost stood at US\$120/te v/s spot prices of US\$200/te led by low cost inventory, scale advantages and smart contracting.
- However, UTCCEM guides fuel & power cost to increase by ~Rs200/te sequentially in 3QFY22E. The currently spot price stands over US\$200/te, which might impact the cost up to Rs500/te.
- Alternate Fuel accounted for 4.4%, while the pet coke at 19% and 15-20% of domestic coal and remaining is contributed by imported coal. UTCCEM's Bicharpur coal mine (MP- 3QFY22 onwards), WHRS (12MW added), Solar (21MW added), AFR (4%+), efficiencies (4% cut in power consumption), higher blending, etc. would aid in containing the inflating cost impact.
- Other expenses were high due to annual maintenance costs. Employee costs have risen sharply due to increments, bonuses, etc – will be marginally lower next quarter.

Exhibit 2: Per Tonne Analysis – Consolidated

Per tonne (in Rs)	2QFY22	1QFY22	qoq (%)	2QFY21	yoy (%)
Cement volumes (MT)	21.64	21.53	0.5	20.06	7.9
Cement Realization	5034	5150	(2.2)	5022	0.2
Net Realization - (Blended)	5553	5495	1.1	5162	7.6
Raw Material cost	799	674	18.7	828	(3.4)
Employee cost	314	272	15.6	281	11.8
Power and fuel cost	1165	1127	3.3	916	27.2
Freight cost	1235	1230	0.4	1146	7.8
Other expenses	785	656	19.8	648	21.2
Total Operating Cost	4299	3958	8.6	3818	12.6
EBITDA	1254	1536	(18.3)	1343	(6.6)

Source: Company, YES Sec

Capacity Update

- Capacity expansion program of 19.5MTPA (11.4MTPA clinker) is moving as per schedule and on course to complete by FY23E.
- It has secured environmental clearance from Ministry of Environment, Forest & Climate Change (MEFCC) for its Dalla clinker plant (2.3MTPA), which is to be commissioned by Mar'22.
- UTCEM has commissioned 1.2MTPA GU in Oct'21. It will commission 3.2MTPA in FY22E (including Bara Phase II – 2MTPA) and 16.2MTPA in FY23E.
- Capex was pegged at Rs40-50bn and Rs30bn for FY22E and FY23E, respectively. Further, it has also started expansion of Wall Putty plant, which is to be completed by 2QFY23E.
- Further, 1MTPA Bicharpur coal block is likely to start soon, which is almost 8-10% of its total fuel demand.

Exhibit 3: India Operation – Per Tonne Analysis

Per tonne (in Rs)	2QFY22	1QFY22	% qoq	2QFY21	% yoy
Cement volumes (MT)	20.49	20.53	(0.2)	19.21	6.7
Cement Realization	5034	5150	(2.2)	5022	0.2
Net Realization - (Blended)	5626	5577	0.9	5204	8.1
Raw Material cost	722	642	12.6	798	(9.5)
Employee cost	315	272	16.0	279	13.0
Power and fuel cost	1176	1123	4.7	918	28.2
Freight cost	1292	1282	0.8	1188	8.7
Other expenses	799	669	19.5	641	24.6
Total Operating Cost	4305	3987	8.0	3825	12.6
EBITDA	1321	1590	(16.9)	1379	(4.2)

Source: Company, YES Sec

FINANCIALS

Exhibit 4: Balance Sheet

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	2,746	2,886	2,887	2,887	2,887
Reserves	334,760	387,551	438,860	497,944	566,932
Total Shareholders' Funds	337,507	390,438	441,747	500,831	569,819
Non-current liabilities					
Long term borrowings	206,504	173,675	135,485	108,485	62,485
Deferred Tax liabilities	64,114	49,120	60,407	60,407	60,407
Current liabilities					
Short term borrowings	36,684	41,061	42,351	49,422	52,445
Trade payables	31,597	33,629	46,993	47,296	54,181
Other current liabilities	81,113	85,631	111,355	97,220	97,220
Total equity and liabilities	765,374	792,198	861,835	887,158	920,055
Assets					
Goodwill	62,233	62,525	62,199	62,199	62,199
PPE	446,433	452,814	436,254	436,177	417,302
Non-current investments	14,048	16,850	12,842	12,842	12,842
Current assets					
Current Investments	15,165	42,437	108,939	108,939	108,939
Inventories	40,990	41,834	40,180	44,211	50,648
Trade receivables	27,870	23,832	25,717	29,059	32,531
Cash and cash equivalents	4,412	1,472	1,772	11,607	23,700
Other bank balances	2,984	3,927	18,303	18,303	18,303
Total assets	765,374	792,198	861,835	887,158	920,055

Source: Company, YES Sec

Exhibit 5: Income statement

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
Total Sales	416,088	424,299	447,258	505,382	565,765
EBITDA	73,469	93,779	115,679	135,405	151,158
EBITDA Margin %	17.7	22.1	25.9	26.8	26.7
D&A	24,507	27,227	27,002	28,386	28,875
Other income	4,634	6,511	7,342	21,310	23,166
EBIT	53,597	73,063	96,019	128,329	145,449
Interest Expense	17,779	19,917	14,857	13,349	11,195
PBT	34,685	51,827	78,576	114,981	134,255
Tax	10,681	-5,682	25,387	37,149	43,376
PAT	24,035	57,553	53,202	77,832	90,879
PAT Margin%	5.8	13.6	11.9	15.4	16.1

Source: Company, YES Sec

Exhibit 6: Cash Flow

Y/e 31 Mar (Rs m)	FY19	FY20	FY21	FY22E	FY23E
PBT	34,685	51,827	78,576	114,981	134,255
Depreciation & Amortization	24,507	27,227	27,002	28,386	28,875
Change in Working Capital	(6,957)	5,157	23,289	(21,205)	(3,023)
Taxes	(7,101)	(8,914)	(12,910)	(37,149)	(43,376)
Cash from ops.	59,557	89,724	125,030	98,361	127,925
Change in PP&E	(17,562)	(16,893)	(19,249)	(36,500)	(39,770)
Change Current Investments	26,564	(27,195)	(55,672)	0	0
Cash Flow from Investing	11,138	(41,924)	(88,590)	(36,500)	(39,770)
Change in Borrowings	(46,482)	(26,716)	(23,965)	(19,929)	(42,977)
Dividend	(3,462)	(3,800)	(3,748)	(18,748)	(21,891)
Cash Flow from Financing	(67,568)	(50,759)	(43,565)	(52,026)	(76,062)
Change in cash	3,641	(2,959)	(7,125)	9,835	12,093
Cash at beginning	772	4,412	1,472	1,772	11,607
Cash at end	4,412	1,472	1,772	11,607	23,700

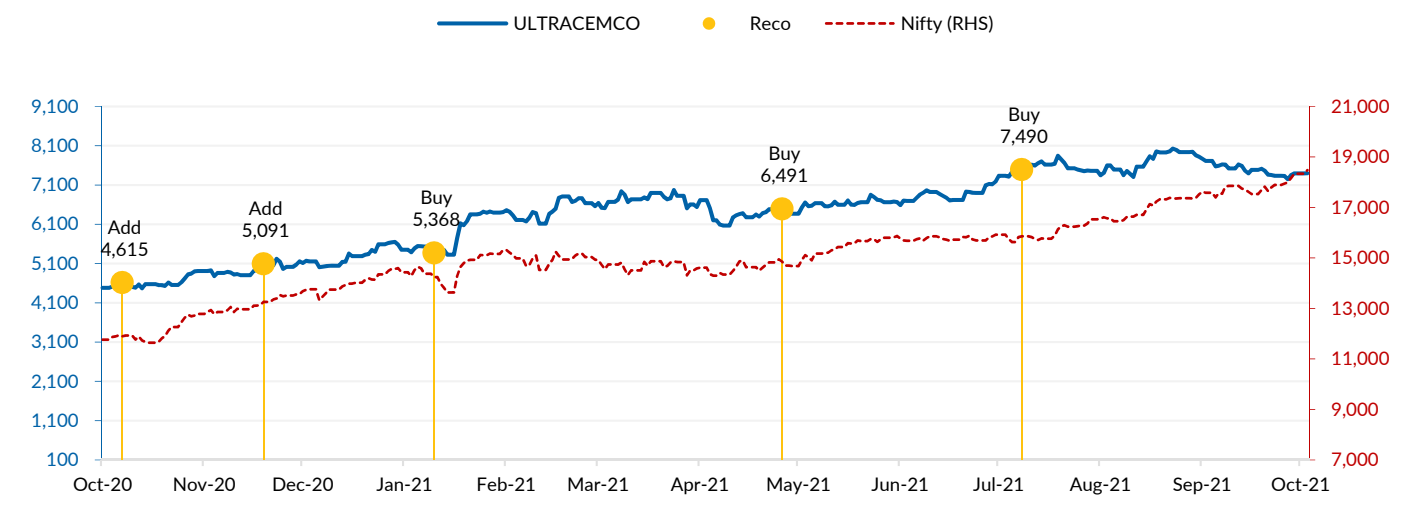
Source: Company, YES Sec

Exhibit 7: Growth and Ratio matrix

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Total Sales	32.4	1.9	5.4	13.0	11.9
EBITDA	19.5	27.6	23.3	17.0	11.6
PAT	8.1	139.4	-7.5	46.3	16.7
Profitability Ratios (%)					
ROE	7.1	9.5	12.0	15.5	15.9
ROCE	9.0	11.8	14.8	18.7	20.4
Per share ratios (Rs)					
EPS	87	199	184	269	314
Adj. BVPS	1231	1352	1530	1735	1974
Valuation (x)					
P/E (x)	45.0	16.2	35.1	29.0	24.8
P/BV (x)	3.2	2.4	4.2	4.5	3.9
EV/EBITDA (x)	17.8	11.9	16.8	17.0	14.8
EV/Ton (\$)	189.9	138.4	237.0	269.7	238.3
Net Debt/EBITDA	3.1	1.9	0.6	0.3	-0.1

Source: Company, YES Sec

Recommendation Tracker



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