

UltraTech Cement



Q2 FY22 RESULT UPDATE

20th October, 2021

UltraTech Cement Ltd.

Margin dented by rising cost; outlook remains healthy...

CMP INR 7,170	Target INR 8,128	Potential Upside 13.4%	Market Cap (INR Mn) INR 2,074,598	Recommendation ACCUMULATE	Sector Cement
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Result Highlights of Q2FY22

- In Q2FY22, Ultratech reported sales growth of 15.7% YoY at INR 1,20,168 mn, 2.5% above our estimate. On QoQ basis revenue saw marginal increase of 1.6%. Cement sales volume saw a growth of 7.9% YoY to 21.64 MT against 20.06 MT in Q2FY21, driven by robust demand.
- Blended realization improved by 7.2% YoY to INR 5,553/t (vs INR 5,178/t in Q2FY21). EBITDA margin contracted by 338 bps YoY/ 537 bps QoQ to 22.6% due to higher fuel costs, other expenses as well as increased staff costs.
- Reported PAT has seen a growth of 12.6% YoY to INR 13,135 mn, though on QoQ basis PAT saw a decline of 22.9%. PAT margin contracted by 30 bps YoY/ 346 bps QoQ to 10.9%.

MARKET DATA

Shares outs (Mn)	289
Mkt Cap (INR Mn)	2,074,598
52 Wk H/L (INR)	8,073/4,440
Volume Avg (3m K)	964
Face Value (INR)	10
Bloomberg Code	UTCEM IN

KEY FINANCIALS

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Revenue	4,16,090	4,21,248	4,47,258	4,79,013	5,18,053
EBITDA	73,471	92,836	1,15,679	1,25,981	1,37,284
PAT	24,037	58,148	58,417	68,209	75,892
Adj PAT	25,175	37,028	55,809	68,209	75,892
EPS (INR)	84	202	193	236	263
Adj. EPS (INR)	92	128	193	236	263
EBITDA Margin (%)	17.7%	22.0%	25.9%	26.3%	26.5%
NPM (%)	5.8%	13.8%	13.1%	14.2%	14.6%

Source: Company, KRChoksey Research

Volume growth cools off QoQ, but remained healthy YoY:

Ultratech's consolidated cement sales volume increased by 7.9% YoY to 21.6 MT; trade mix declined 300bps QoQ to 67%. Blended realization during Q2FY22 was higher by 7.2% YoY at INR 5,553 but was down 0.5% sequentially. A modest increase in volume during the monsoon season indicates that underlying demand is strong and likely to improve in the second half. Consequently, management also guided for strong H2FY22, with volume expected to grow in the range of 6-8% YoY.

Higher cost dented the margins:

In Q2FY22, the company's EBITDA/t declined by 6.7% YoY and 18.3% QoQ to INR1,254/t (vs. INR 1345/1536 per tonne in Q2FY21/Q1FY22). Consequently, the EBITDA margin missed our estimation by 151 bps and stood at 22.6% (vs. 26.0/28.0 in Q2FY21/Q1FY22). Power and fuel costs increased 26.6% YoY to INR 1,165/t, mainly due to a hike in coal/pet coke prices. However, reduction in power consumption and improved operation efficiency somewhat dampens the impact of fuel cost increase. Employee cost increased by 11.2% YoY and 15.6% QoQ to 314/t due to increments and one-time bonuses. While input prices will continue to inch up, the commencement of mining operation at the company's Bicharpur coal block in Q3FY22 will help reduce the dependence on coal purchase.

Expansion remains on track; high usage of low-cost WHRS will lead to cost savings:

The management maintained its guidance of completing the addition of 19.5 mtpa grinding capacity by the end of FY2023, with 5.4 mtpa capacity scheduled to be commissioned in FY22E and the remaining capacity in FY23E. Post expansion, Ultratech's India capacity would increase to 131 mtpa by FY2023E. Further, WHRS capacity would increase from 137 MW in Q2FY22 to 300 MW by the end of FY2023E, boosting the share of green energy to +30% by FY2024E from ~14% in Q2FY22, resulting in significant cost savings.

MARKET INFO

SENSEX	61,716
NIFTY	18,419

SHARE HOLDING PATTERN (%)

Particulars	Sep-21 (%)	Jun-21 (%)	Mar-21 (%)
Promoters	60.0	60.0	60.0
FIIIs	16.5	16.6	17.3
DIIIs	14.5	14.4	13.8
Others	9.0	9.0	8.9
Total	100	100	100

8.9%

 EBITDA CAGR between FY21
and FY23E

16.6%

 Adj PAT CAGR between FY21
and FY23E

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Key Conference Call Highlights:

1. In Q2FY22, demand was affected due to monsoon across India, especially in the Northern region and Kerala, while it is gradually picking up from Oct'21 and is expected to revive further. Also, the management indicated demand growth of ~6-8% for H2FY22.
2. The management expects industry demand growth to sustain at 6-7% YoY over medium term, mainly driven by the government's thrust on Infrastructure development.
3. During the quarter, pan India average prices were up 4-5% YoY, led by an increase of 2- 3% in the North and East regions and a 5-7% increase in West India, while prices remained flat in the Central and South India. In the second week of Oct'21, Ultratech took a price hike of INR 10-15/bag across regions.
4. Trade sales mix declined 300bps QoQ to 67%; premium products volume increased 14% YoY; while lead distance declined 7km to around 425km.
5. Power and fuel cost were up by 26.6% YoY, with an increase in fuel prices partly offset by a ~4% reduction in power consumption and increasing the share of green power to 14% in Q2. During the quarter, the average coal consumption cost stood at USD 120/t and management guided that it might rise by INR 200/t QoQ in Q3FY22. Petcoke usage in the fuel mix increased 200bps QoQ to 19% in Q2FY22.
6. Employee cost was up due to payment of incentives and wage hikes. The same is expected to be rationalized over the next few quarters.
7. Consolidated net debt stood at INR 63.4b v/s INR 249.8b in Dec'18. Net debt/EBITDA improved to 0.47x in Sep'21 from 3.55x in Dec'18. The management expects debt reduction to pick up over the next few years and leverage to rise for some time only if there is a big inorganic expansion. It is evaluating few inorganic opportunities of a smaller size.
8. The company commissioned 1.2mt (0.6mt each in Patliputra and Dankuni) capacity in Oct'21, taking its total domestic capacity to 112.6mt. It is likely to commission 2mt grinding capacity in H2FY22, 4.1mt in H1FY23 and the balance 12.2mt in H2FY23. The management had guided for capex of INR 40-50bn in FY22 and INR 30bn in FY23.

Valuation and view

While the second quarter is a seasonally weak quarter for the sector due to the monsoon, the current quarter has been additionally impacted by rising electricity and fuel costs, which have dented the margins. Nevertheless, Ultratech is the best bet on the sector's revival and India's growing infrastructure, owing to its dominant scale and highly efficient operations. While power inflation will keep costs elevated, we expect the company to increase prices in Q3FY22 to pass on rising costs and protect its margin. We expect Ultratech Cement to post a CAGR of 7.6%, 8.9%, and 16.6% in Revenue, EBITDA, and PAT, respectively, over FY21-23E on the back of a robust demand environment in the country.

We are optimistic about the company's growth prospects and have maintained our estimates for FY22/23E. We continue to value the stock using an EV/EBITDA multiple of 17.5x to FY23E EBITDA, which yields a target price of INR 8,128 per share; an upside of 13.4% over the CMP. We maintain our 'Accumulate' rating on the stock.

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Revenues	4,16,090	4,21,248	4,47,258	4,79,013	5,18,053
COGS	69,831	63,131	70,858	71,373	77,708
Gross profit	3,46,259	3,58,117	3,76,400	4,07,640	4,40,345
Employee cost	22,911	25,094	23,530	27,783	28,493
Power & Fuel	94,361	84,679	83,312	86,222	93,250
Freight and Forwarding Expense	1,03,145	97,254	1,00,433	1,10,173	1,29,513
Other expenses	52,371	58,255	53,446	57,482	51,805
EBITDA	73,471	92,836	1,15,679	1,25,981	1,37,284
EBITDA Margin	17.7%	22.0%	25.9%	26.3%	26.5%
Depreciation & amortization	24,507	27,022	27,002	27,783	30,047
EBIT	48,964	65,814	88,677	98,198	1,07,237
Interest expense	17,779	19,857	14,857	10,747	8,959
PBT	34,686	52,423	83,791	97,424	1,08,400
Tax	10,681	-5,682	25,387	29,227	32,520
Minority interest	-31	-44	-13	-13	-13
PAT	24,037	58,148	58,417	68,209	75,892
Adj. PAT	25,175	37,028	55,809	68,209	75,892
EPS (INR)	87.5	201.5	202.4	236.3	262.9
Adj. EPS	91.7	128.3	193.3	236.3	262.9

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Net Cash Generated From Operations	59,557	89,020	1,22,886	90,131	1,02,495
Net Cash Flow from/(used in) Investing Activities	11,138	(42,094)	(69,412)	(36,187)	(20,381)
Net Cash Flow from Financing Activities	(67,568)	(49,911)	(53,169)	(40,226)	(43,941)
Net Inc/Dec in cash equivalents	3,127	(2,985)	306	13,717	38,173
Opening Balance	772	4,412	1,465	1,771	15,488
Closing Balance Cash and Cash Equivalents	4,412	1,465	1,771	15,488	53,661

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratios	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	17.7%	22.0%	25.9%	26.3%	26.5%
Tax rate (%)	30.8%	-10.8%	30.3%	30.0%	30.0%
Net Profit Margin (%)	5.8%	13.8%	13.1%	14.2%	14.6%
RoE (%)	7.1%	14.9%	13.2%	13.5%	13.2%
RoCE (%)	8.4%	10.9%	14.3%	14.9%	15.3%
EPS (INR)	92	128	193	236	263

Source: Company, KRChoksey Research

UltraTech Cement Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY19	FY20	FY21	FY22E	FY23E
Non-current assets					
Property, plant and equipment	4,46,433	4,38,415	4,22,911	4,33,449	4,34,485
Capital work-in-progress	11,486	9,095	16,810	16,810	16,810
Goodwill	62,233	62,525	62,199	62,199	62,199
Intangible assets	57,827	56,271	55,721	55,721	55,721
Investment in Associate	187	232	288	288	288
Financial assets					
Investments	13,862	16,618	12,554	12,554	12,554
Loans	11,563	12,317	1,671	1,671	1,671
Other financial assets	2,742	3,998	5,546	5,546	5,546
Income Tax Assets (Net)	1,276	2,798	3,143	3,143	3,143
Deferred Tax Assets (Net)	121	60	72	68	74
Other non-current assets	28,103	28,255	27,075	38,321	41,444
Total non-current assets	6,35,832	6,43,298	6,21,332	6,43,113	6,47,278
Current assets					
Inventories	40,990	41,483	40,180	41,064	44,709
Financial assets					
Investments	15,165	42,437	1,08,939	1,08,939	1,08,939
Trade receivables	27,870	22,383	25,717	32,809	35,483
Cash and cash equivalents	4,412	1,465	1,772	15,488	53,661
Other Balances with Banks	2,984	3,927	18,303	0	0
Loans	1,978	1,977	1,147	1,147	1,147
Other financial assets	10,463	10,609	18,997	18,997	18,997
Current Tax Assets (Net)	375	1	1	1	1
Assets/Disposal Group held for sale	10,935	10,758	9,966	9,966	9,966
Other current assets	14,370	15,034	15,482	16,765	18,132
Total current assets	1,29,542	1,50,074	2,40,503	2,45,176	2,91,034
TOTAL ASSETS	7,65,374	7,93,371	8,61,835	8,88,289	9,38,312
EQUITY AND LIABILITIES					
Equity					
Equity share capital	2,746	2,886	2,887	2,887	2,887
Other equity	2,80,877	3,88,269	4,38,860	5,02,603	5,73,526
Equity attributable to the equity shareholders	3,37,498	3,91,155	4,41,747	5,05,490	5,76,412
Non-controlling interests	128	75	57	45	32
Total equity	3,37,626	3,91,230	4,41,804	5,05,534	5,76,444
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Borrowings	2,06,504	1,73,675	1,35,485	1,10,485	80,485
Other financial liabilities	0	10,559	14,512	14,512	14,512
Provisions	1,732	2,417	3,655	3,655	3,655
Deferred Tax Liabilities (Net)	64,114	49,120	60,407	45,506	49,215
Other Non-Current Liabilities	64	63	55	55	55
Total non-current liabilities	2,72,414	2,35,834	2,14,114	1,74,213	1,47,922
Current liabilities					
Financial liabilities					
Borrowings	36,684	39,851	42,351	42,351	42,351
Trade payables	31,597	35,014	46,993	48,886	53,225
Other financial liabilities	33,146	39,937	55,790	55,790	55,790
Other current liabilities	38,670	35,123	46,008	46,008	46,008
Provisions	5,938	5,481	5,219	6,232	6,740
Current Tax liabilities (Net)	4,407	6,011	7,117	6,836	7,393
Liabilities included in Disposal Group held for sale	4,890	4,890	2,440	2,440	2,440
Total current liabilities	1,55,333	1,66,308	2,05,917	2,08,542	2,13,946
Total liabilities	4,27,746	4,02,141	4,20,031	3,82,755	3,61,868
TOTAL EQUITY AND LIABILITIES	7,65,372	7,93,371	8,61,835	8,88,290	9,38,313

Source: Company, KRChoksey Research

UltraTech Cement Ltd.

UltraTech Cement Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
19-Oct-21	7,170	8,128	ACCUMULATE	Buy	More than 15%
23-Jul-21	7,490	8,128	ACCUMULATE		
30-Jun-21	6,825	7,415	ACCUMULATE	Accumulate	5% – 15%
11-May-21	6,403	7,415	BUY		
17-Mar-21	6,640	7,150	ACCUMULATE	Hold	0 – 5%
15-Dec-20	5,015	5,964	BUY		
23-Oct-20	4,615	5,362	BUY	Reduce	-5% – 0
29-Jun-20	4,302	4,496	ACCUMULATE		
22-May-20	3,572	3,966	ACCUMULATE	Sell	Less than – 5%
28-Jan-20	4,686	5,162	ACCUMULATE		

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