Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

UltraTech Cement Ltd

Favorable environment; Crude price hike key monitorable

Cement	Sharekhan code: ULTRACEMCO
Reco/View: Buy ↔	CMP: Rs. 6,571
	Price Target: Rs. 9,200 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 33.85

Updated Jan 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

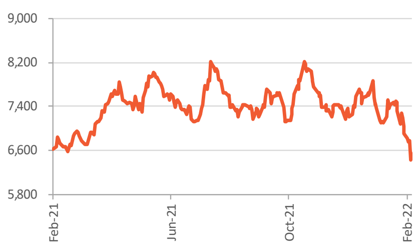
Company details

Market cap:	Rs. 1,89,673 cr
52-week high/low:	Rs. 8,267 / 5,728
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	15.7
DII	15.3
Others	9.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.8	-11.1	-11.1	-1.0
Relative to Sensex	-5.3	-8.9	-8.7	-7.9

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on UltraTech Cement (UltraTech) with an unchanged PT of Rs. 9,200, factoring in sustained healthy demand environment over FY2022-FY2024.
- Average cement prices during Jan-Feb 2022 are up 6% y-o-y led by sharp price increase in South and East regions during February 2022.
- Cement transported through rail rise 4% y-o-y and 13% m-o-m during January 2022 despite Omicron impact in first half. We expect the company to register y-o-y growth for Q4FY2022.
- International and domestic pet coke prices eased during Jan-Feb 2022 compared to Q3FY2022. However, the recent hike in crude price would warrant price hike in case pet coke price move northwards.

UltraTech Cement (UltraTech) is expected to benefit from healthy cement demand (cement transported through rail up 4% y-o-y, 13% m-o-m in January despite Omicron impact during first half) and revival in cement prices in February 2022 (led by South and East). As per our channel checks, average pan-India cement prices in Jan-Feb 2022 have risen by 6% y-o-y. The average cement prices in South and East were up 10% m-o-m and 17% m-o-m during February 2022. On the cost front, international and domestic pet coke prices during Jan-Feb 2022 have declined by 11% and 18% compared to Q3FY2022. The retail diesel prices during the same period are lower by 3%. However, the recent hike in crude prices due to Russia's invasion on Ukraine post near term headwind. The industry might have to take incremental price hike in case the above costs start to inch up.

- **Cement prices inches up in February led by South and East:** As per our channel checks, average pan-India cement prices in January-February 2022 have improved by 6% y-o-y (almost flat against Q3FY2022) led by sharp price hikes undertaken in the Southern and Eastern regions during February 2022. During February 2022, South and East regions witnessed price increase of 10.3% m-o-m (up 7.2% y-o-y) and 16.7% m-o-m (up 22.9% y-o-y) respectively. Cement prices in West and Central remained almost flat m-o-m, while up 8.4% y-o-y and 5.0% y-o-y respectively during February 2022. The cement prices in North declined by 2.6% m-o-m (up 3.2% y-o-y) during February 2022.
- **Expect volume growth for Q4FY2022:** On the demand side, cement demand remained healthy during January 2022 with cement transported through rail rising by 4% y-o-y (up 12.7% m-o-m) despite the omicron impact on the first half of January 2022. The cement production as per DPIIT rose 12.9% y-o-y (up 31.1% m-o-m) during December 2021. We expect cement demand to register y-o-y growth in Q4FY2022 which along with higher cement prices is likely to lead to healthy topline growth for Ultratech.
- **Key input costs ease sequentially although rising crude price remain a concern:** International average pet coke prices and domestic pet coke prices during Jan-Feb 2022 declined by 11% and 18% respectively compared to Q3FY2022. The average retail diesel prices across metros for Jan-Feb 2022 have declined by 3% compared to Q3FY2022. However, the current hike in global crude prices due to Russia's invasion on Ukraine pose near term headwind for the industry in terms of increasing power & fuel and freight costs. Hence, the industry might have to take incremental price hikes in case the above costs start to inch up.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 9,200: UltraTech is expected to benefit from healthy cement demand over the long term, driven by its timely capacity expansion plans. The demand environment is expected to be strong from segments such as infrastructure, rural housing, and urban housing. Easing of power and fuel costs along with expectation of price hikes is likely to maintain healthy operational profitability. We believe 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 continue to maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 9,200.

Key Risks

Weak macro environment would lead to lower cement demand and pressure on cement prices would negatively affect profitability.

Valuation (Standalone) Rs cr

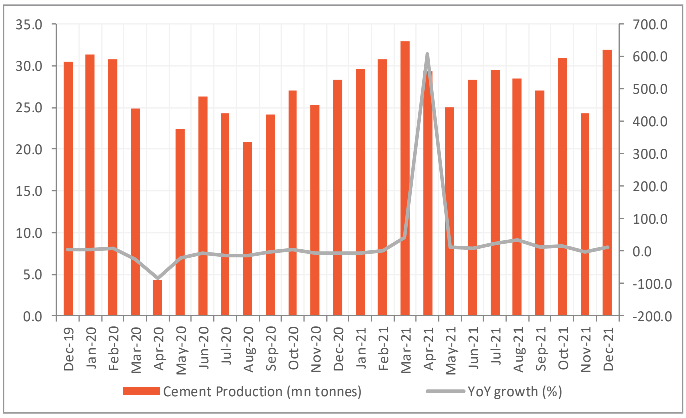
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	43,188	51,568	57,916	66,134
OPM (%)	27.2%	23.8%	24.5%	24.7%
Adjusted PAT	5,457	6,058	7,416	8,873
% YoY growth	*49.4%*	*11.0%*	*22.4%*	*19.6%*
Adjusted EPS (Rs.)	189.1	209.9	257.0	307.4
P/E (x)	34.8	31.3	25.6	21.4
P/B (x)	4.4	3.9	3.4	2.9
EV/EBITDA (x)	17.1	15.9	13.2	10.8
RoNW (%)	13.4%	13.1%	14.1%	14.7%
RoCE (%)	10.8%	11.0%	12.6%	13.6%

Source: Company; Sharekhan estimates

Cement price improve in February; Expect volume growth for Q4FY2022

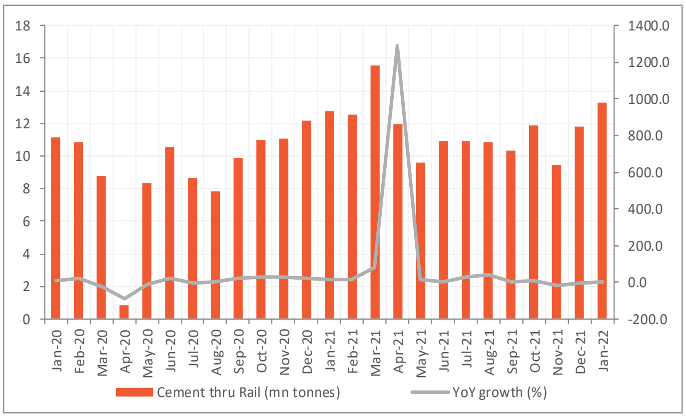
As per our channel checks, average pan-India cement prices in January-February 2022 have improved by 6% y-o-y (almost flat against Q3FY2022) led by sharp price hikes undertaken in Southern and Eastern regions during February 2022. During February 2022, South and East regions witnessed price increase of 10.3% m-o-m (up 7.2% y-o-y) and 16.7% m-o-m (up 22.9% y-o-y) respectively. Cement prices in West and Central remained almost flat m-o-m, while up 8.4% y-o-y and 5.0% y-o-y respectively during February 2022. The cement prices in North declined by 2.6% m-o-m (up 3.2% y-o-y) during February 2022. On the demand side, cement demand remained healthy during January 2022 with cement transported through rail rising by 4% y-o-y (up 12.7% m-o-m) despite the impact of Omicron in the first half of January 2022. The cement production as per DPIIT rose 12.9% y-o-y (up 31.1% m-o-m) during December 2021. We expect the cement demand to register y-o-y growth in Q4FY2022 which along with higher cement prices to lead to healthy topline growth for Ultratech.

Cement production trend



Source: DPIIT; Sharekhan Research

Cement transported through Rail trend

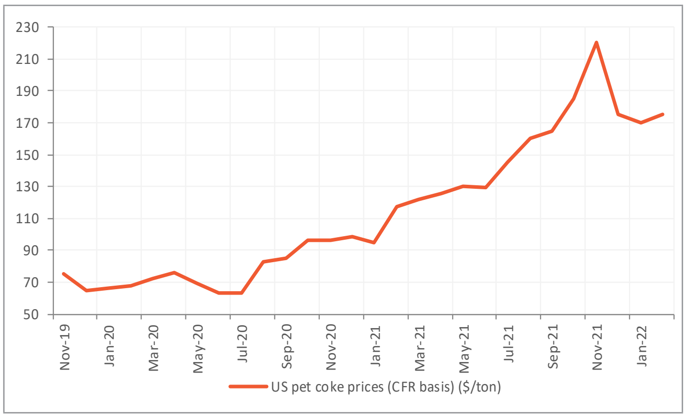


Source: Ministry of Railways; Sharekhan Research

Power & fuel and Diesel prices decline sequentially; Rising crude pose near term challenge

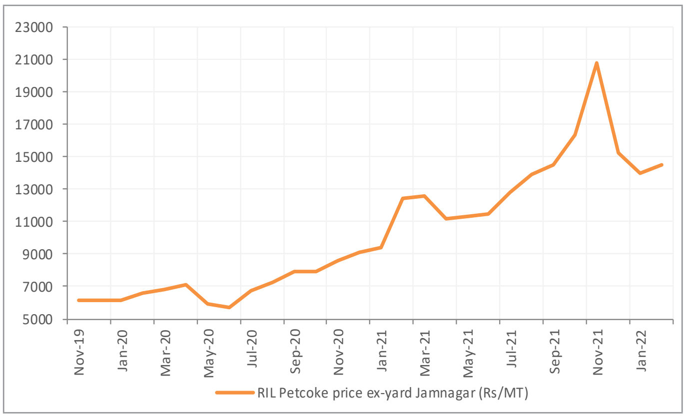
International average pet coke prices during Jan-Feb 2022 declined by 11% compared to Q3FY2022 although are still up 55% compared to Q4FY2021. The domestic pet coke prices during Jan-Feb 2022 have also declined by 18% compared to Q3FY2022 but are up 24% compared to Q4FY2021. On the freight costs, average retail diesel prices across metros for Jan-Feb 2022 have declined by 3% compared to Q3FY2022 (although are up 10% compared to Q4FY2021). Average rail freight for January 2022 are almost lower by 0.5% m-o-m and y-o-y. The current hike in global crude prices due to Russia's invasion on Ukraine pose near term headwind for the industry in terms of increasing power & fuel and freight costs. Hence, the industry might have to take incremental price hikes in case the above costs start to inch up.

International petcoke price trend



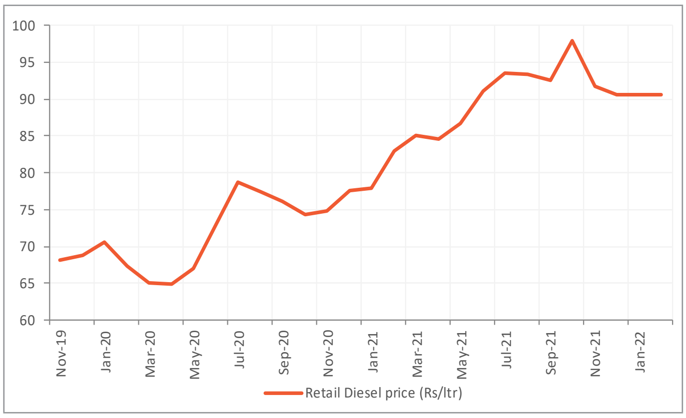
Source: Industry; Sharekhan Research

Domestic petcoke price trends



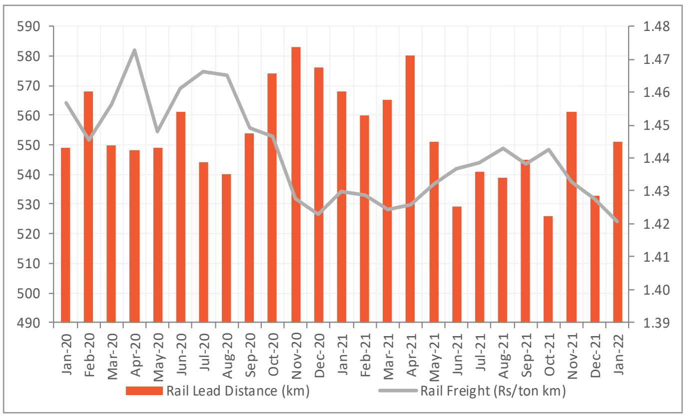
Source: Industry; Sharekhan Research

Retail Diesel Price Trend



Source: Ministry of Petroleum; Sharekhan Research

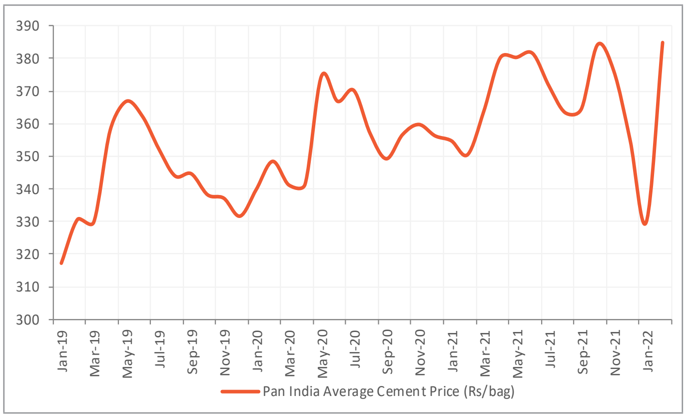
Railways cement lead distance and freight trend



Source: Ministry of Railways; Sharekhan Research

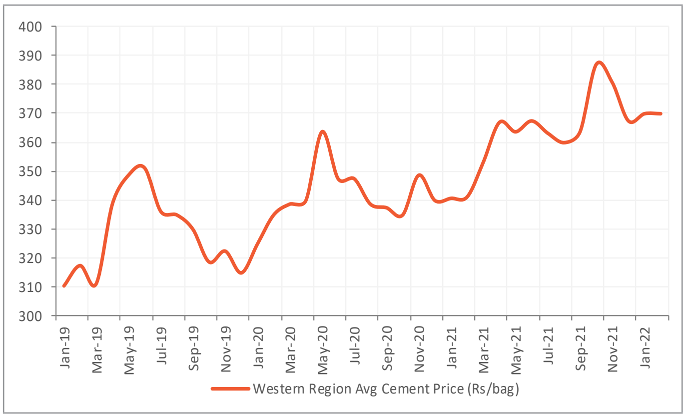
Cement prices in charts

Pan-India price 6.0%/0.5% (Jan-Feb'22 vs. y-o-y/Q3FY22)



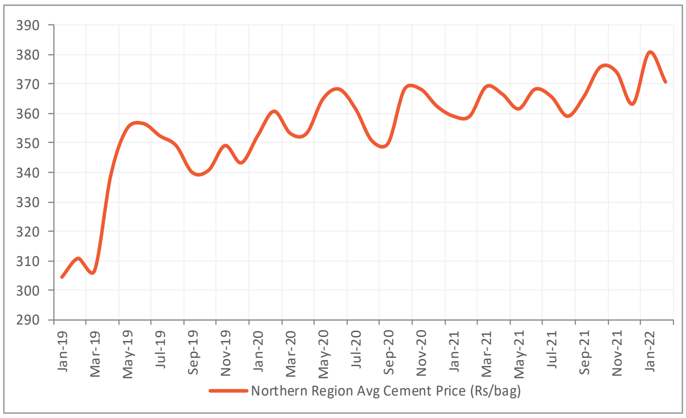
Source: Industry; Sharekhan Research

West price 8.5%/-2.2% (Jan-Feb'22 vs. y-o-y/Q3FY22)



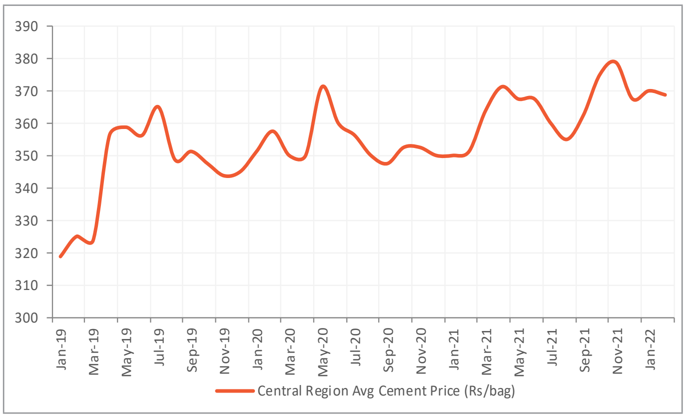
Source: Industry; Sharekhan Research

North price 4.6%/1.3% (Jan-Feb'22 vs. y-o-y/Q3FY22)



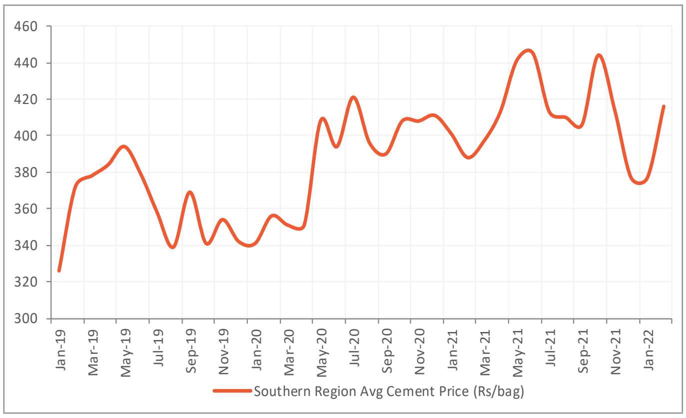
Source: Industry; Sharekhan Research

Central price 5.3%/-1.2% (Jan-Feb'22 vs. y-o-y/Q3FY22)



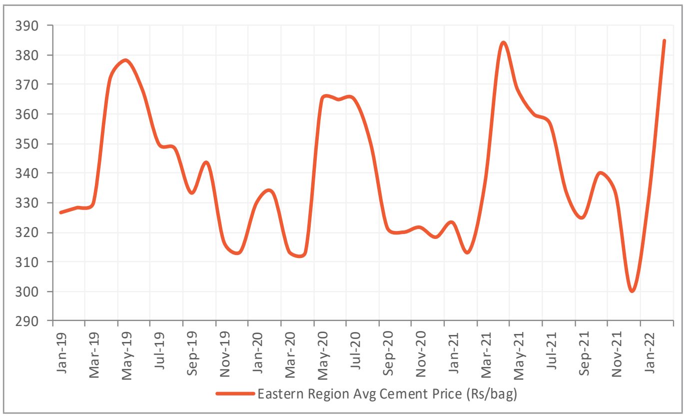
Source: Industry; Sharekhan Research

South price 0.5%/-3.7% (Jan-Feb'22 vs. y-o-y/Q3FY22)



Source: Industry; Sharekhan Research

East price 12.3%/10.2% (Jan-Feb'22 vs. y-o-y/Q3FY22)



Source: Industry; Sharekhan Research

Outlook and Valuation

Sector View – Improving demand brightens outlook

The cement industry has seen sustained improvement in demand over 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 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 remain 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.

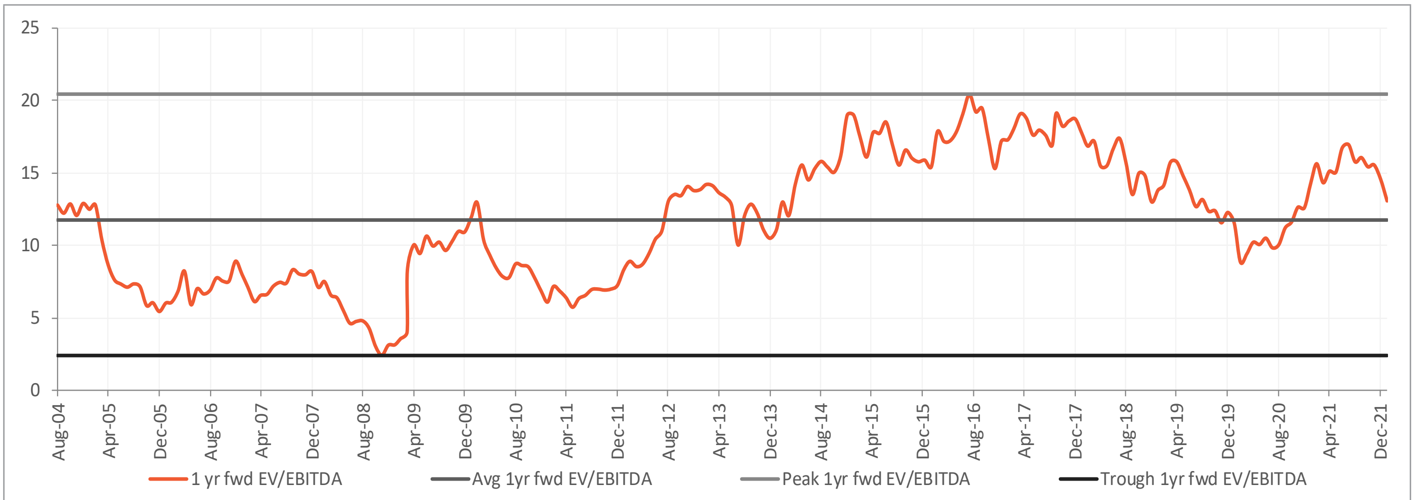
Company outlook – Healthy cement demand, profitability, and balance sheet health to remain favourable

UltraTech is expected to see sustained demand emanating from the rural sector and infrastructure sector. Further, demand from the real estate segment in the urban sector has started to witness strong traction with favourable government policies and lower interest rate regime. 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 mtpa at a cost of Rs. 6,527 crore is on track and expected to be completed by FY2023 end. Further, the company targets to achieve 25% RoE by FY2025 from 15% currently. 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 an unchanged PT of Rs. 9,200

Ultra Tech is expected to benefit from expected healthy cement demand over the long term, driven by its timely capacity expansion plans. The demand environment is expected to be strong from segments such as infrastructure, rural housing, and urban housing. Easing of power and fuel costs along with expectation of price hikes is likely to maintain healthy operational profitability. We believe 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 continue to maintain our Buy rating on the stock with a revised PT of Rs. 9,200.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech Cement	25.6	21.4	13.2	10.8	3.4	2.9	14.1	14.7
Shree Cement	29.6	25.5	15.4	12.9	4.4	3.8	15.9	16.0
The Ramco Cement	22.0	19.9	13.5	12.2	2.6	2.3	12.2	12.2
Dalmia Bharat	27.4	21.4	10.1	8.5	2.0	1.9	7.7	9.1

Source: Sharekhan Research

About company

UltraTech's parent company, 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 utilization 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 and CFO
Mr. Sanjeeb K Chatterjee	Company Secretary

Source: Company Website

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	The Vanguard Group Inc.	1.40
6	Kotak Mahindra Asset Mgmt	1.29
7	Pilani Investment & Industries Corp. Ltd.	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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