Sharekhan by BNP PARIBAS

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UltraTech Cement Ltd

In-line Q4; Bright demand outlook

Cement	Sharekhan code: ULTRACEMCO		
Reco/View: Buy ↔	CMP: Rs. 6,629	Price Target: Rs. 8,600 ↓	

↑ 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 01, 2022

High Risk

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

Source: Morningstar

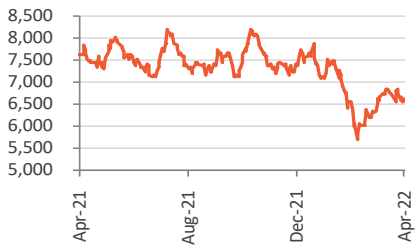
Company details

Market cap:	Rs. 191,360 cr
52-week high/low:	Rs. 8267/5631
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	14.0
DII	16.5
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.1	-8.1	-14.7	-13.0
Relative to Sensex	2.6	-6.5	-9.6	-21.6

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on UltraTech with a revised PT of Rs. 8,600, factoring downward revision in estimates.
- In Q4FY2022, UltraTech reported broadly in-line performance as marginally lower-than-expected volumes were offset by higher realisation. Consolidated net debt reduced sequentially by ~Rs. 2,400 crore.
- Management expects healthy demand environment to sustain, led by infrastructure, rural housing, and urban housing. Price hikes undertaken during April cover increased key input costs.
- White cement expansion plans have been put to rest with RAKWCT's acquisition. Balance grey cement capacity expansion of 16.3 mtpa remains on track, while another round of expansion is to be announced by FY2023-end.

UltraTech Cement (UltraTech) reported broadly in-line operational performance for Q4FY2022, with marginally lower-than-expected volumes getting compensated by higher realisation. The company's standalone revenue rose by 8.6% y-o-y to Rs. 15,168 crore, led by 10.4% y-o-y rise in blended realisation, while volumes declined by 1.7% y-o-y. The company reported blended EBITDA/tonne of Rs. 1,125 (-14.8% y-o-y), in line with our estimate of Rs. 1,123. Adjusting for Rs. 983 crore reversal of tax, adjusted net profit declined by 17.3% y-o-y to Rs. 1,471 crore, which was marginally lower than our estimate. Management expects demand environment to remain strong, led by government-led infrastructure investments, construction of low-income houses, and urban and rural housing segments. Price hike undertaken during April 2022, if sustains, covers the rise in key input costs for the company. With respect to Holcim's asset sale, it expects the buyer to be logical with focus on generating returns.

Key positives

- Blended realisation increased by 10.4% y-o-y to Rs. 5,800/tonne.
- Interest expense declined by 45.9% y-o-y. Consolidated net debt reduced by almost Rs. 2,400 crore q-o-q.
- Completes divestment of non-core assets.

Key negatives

- Cement volume declined by 1.7% y-o-y versus our expectation of flat volume.
- The 2.3MT Dalla Super clinker unit continues to await stage-II clearance, which is expected in May 2022.

Management Commentary

- The company would not go ahead with doubling of white cement capacity after the acquisition of RAKWCT.
- It would be undertaking Rs. 5,000 crore-6,000 crore capex in FY2023. The next round of expansion plans post FY2023 will be announced by FY2023-end.
- The exit April 2022 prices are Rs. 30 per bag higher than the average of Q4FY2022, which was Rs. 360. There will be further attempts to increase prices. Despite price hikes, April 2022 volumes were higher on a y-o-y basis.

Revision in estimates – We have marginally revised our net profit estimates for FY2023-FY2024, factoring higher fuel costs.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 8,600: UltraTech is expected to benefit from healthy cement demand over the long term, driven by its timely capacity expansion. 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 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 price target (PT) of Rs. 8,600, factoring downward revision in estimates.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	43,188	50,663	59,335	67,727
OPM (%)	27.2%	22.8%	23.0%	23.3%
Adjusted PAT	5,457	5,549	6,986	8,462
% YoY growth	49.4%	1.7%	25.9%	21.1%
Adjusted EPS (Rs.)	189.1	192.2	242.1	293.2
P/E (x)	35.1	34.5	27.4	22.6
P/B (x)	4.4	3.9	3.4	3.0
EV/EBITDA (x)	17.3	17.3	14.0	11.7
RoNW (%)	13.4%	12.0%	13.3%	14.1%
RoCE (%)	10.8%	10.2%	12.2%	13.3%

Source: Company; Sharekhan estimates

An in-line operational performance

UltraTech reported standalone net revenue growth of 8.6% y-o-y at Rs. 15,168 crore, which was largely in-line with our estimates. Cement volumes were down 1.7% y-o-y (+21.1% q-o-q) at 26.15 mn tonne, while blended realisations were up 10.4% y-o-y (+0.4% q-o-q) at Rs. 5,800/tonne. Blended standalone EBITDA/tonne at Rs. 1,125 (-14.8% y-o-y, +9.4% q-o-q) was in-line with our estimate of Rs. 1,123/Tonne. Power and fuel costs stood at Rs. 1,375/tonne (+48.8% y-o-y, +2.3% q-o-q), freights costs stood at Rs. 1,314/tonne (+7.3% y-o-y, -0.9% q-o-q), and other expense stood at Rs. 662/tonne (+8.9% y-o-y, -13.6% q-o-q). Further, lower interest expense (-45.9% y-o-y) and, adjusting for Rs. 983 crore tax reversals, adjusted standalone net profit declined by 17.3% y-o-y (+34.1% q-o-q) to Rs. 1,471 crore (marginally below our estimates). Consolidated net debt declined by Rs. 2,396 crore q-o-q to Rs. 3,751 crore (net debt/EBITDA of 0.32x).

Positive demand outlook

The company expects domestic cement demand to remain positive, outpacing other global countries. Demand would be driven by government-led infrastructure investments, low-income housing construction, and urban and rural housing segments. The company witnessed demand growth on a y-o-y basis during April 2022 despite price hikes undertaken in April 2022. The company undertook price hike during April 2022, aggregating to Rs. 30 per bag from average Rs. 390 per bag in Q4FY2022, which if sustains in May would cover increased key input costs. On the capacity expansion front, the company's expansion plans remain on track and should be completed by FY2023 with a new round of capacity expansion post FY2023 to be announced by FY2023-end.

Key conference takeaways:

- **Demand outlook:** India is seeing a fundamentally positive trend in cement demand better than other global markets. The government has announced 25,000 km road construction for FY2023 in the recent budget. There are 220 new airports to come up by 2025. The government has announced eight million low-income houses to be built in FY2023. There has been demand revival in urban housing. Rural markets are likely to benefit from the expected good monsoon season, which would improve cash flows for the segment. The upcoming general elections would keep demand healthy.
- **Cost outlook:** Projects that are in progress would not stop because of rise in costs. Only new home builders, which would comprise 1-2%, would assess the cost and possibly delay construction. Cement forms 11% of the total project cost and its impact would not be more than 1%, while impact of other products is estimated at 12% of costs.
- **Holcim's exit:** Management did not comment on its interest on Holcim's asset acquisition. Management believes that whoever buys the assets has to generate returns and be logical.
- **RAKWCT's acquisition:** RAKWCT is the leader in the GCC region in white cement. It has nine lakh clinker capacity and six lakh white cement capacity. Its capacity utilisation stood at 65% and has 19.5% operating profit margin (OPM). Exports to India form 20%. White cement demand is growing at 7% p.a. in India.
- **Capex:** The company did Rs. 6,000 crore capex in FY2022 and de-leveraged its balance sheet by Rs. 2,800 crore with debt-to-EBITDA at 0.32x. The company has negative working capital of Rs. 1,700 crore in FY2022. UltraTech would be undertaking Rs. 5,000 crore-6,000 crore capex in FY2023. The next round of expansion plans post FY2023 will be announced by FY2023 end.
- **Price hikes:** The company has undertaken price hikes in both trade and non-trade in April 2022. The current cement price is at Rs. 390 per bag versus Q4FY2022 average of Rs. 360 per bag. If the price holds at this level during May, then the company is covered with respect to costs. Expect South, which saw less than 5% rise, all other regions witnessed price hike of 5-10% in April 2022. There will be attempts of further price hikes going ahead.
- **Demand in April:** Demand in April 2022 grew on a y-o-y basis.

- **Pet coke mix:** Pet coke mix stood at 20% in Q4FY2022. It is likely to go up to 40% in Q1FY2023, as landed pet coke is far cheaper than other alternatives. The average cost of pet coke for Q4FY2022 stood at $164 on 2,000 million per KCAL basis. Q1FY2023 is expected to see 10% price increase. The company is maintaining 45-55 days of fuel inventory.
- **Divestment:** The company completed divestment of non-core assets, fibre glass unit in March 2022.
- **Dalla Super:** The 2.3MT clinker unit is expected to receive MOEF clearance during this month; and by the end of Q1FY2023, the asset is likely to be in hand. Further, six to nine months would be taken for its revival. The company would need Rs. 200 crore-250 crore for revival of the unit.
- **Eastern region:** The eastern region has been affected by sand issues in West Bengal and Bihar apart from torrid rains, which impacted construction last year. This year, it should see the fastest growth compared to other regions.
- **New project cost:** The new cement Greenfield plant would cost 20-25% more now.

Results (Standalone) **Rs cr**

Particulars	Q4FY22	Q4FY21	yoy %	Q3FY22	qoq %
Net Sales	**15,167.5**	**13,965.5**	**8.6%**	**12,470.6**	**21.6%**
Operating Profit	**2,942.9**	**3,512.4**	**-16.2%**	**2,221.5**	**32.5%**
Other Income	144.8	84.5	71.4%	108.8	33.0%
EBITDA	3,087.7	3,596.9	-14.2%	2,330.3	32.5%
Interest	174.7	323.1	-45.9%	165.0	5.9%
Depreciation	637.7	630.9	1.1%	608.9	4.7%
PBT	**2,275.3**	**2,643.0**	**-13.9%**	**1,556.4**	**46.2%**
Tax	804.7	865.5	-7.0%	460.1	74.9%
Adj.PAT	**1,470.6**	**1,777.6**	**-17.3%**	**1,096.3**	**34.1%**
Margins			**Bps**		**Bps**
OPM	19.4%	25.2%	-575	17.8%	159
PATM	9.7%	12.7%	-303	8.8%	90
Tax Rate	35.4%	32.7%	262	29.6%	581

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 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.

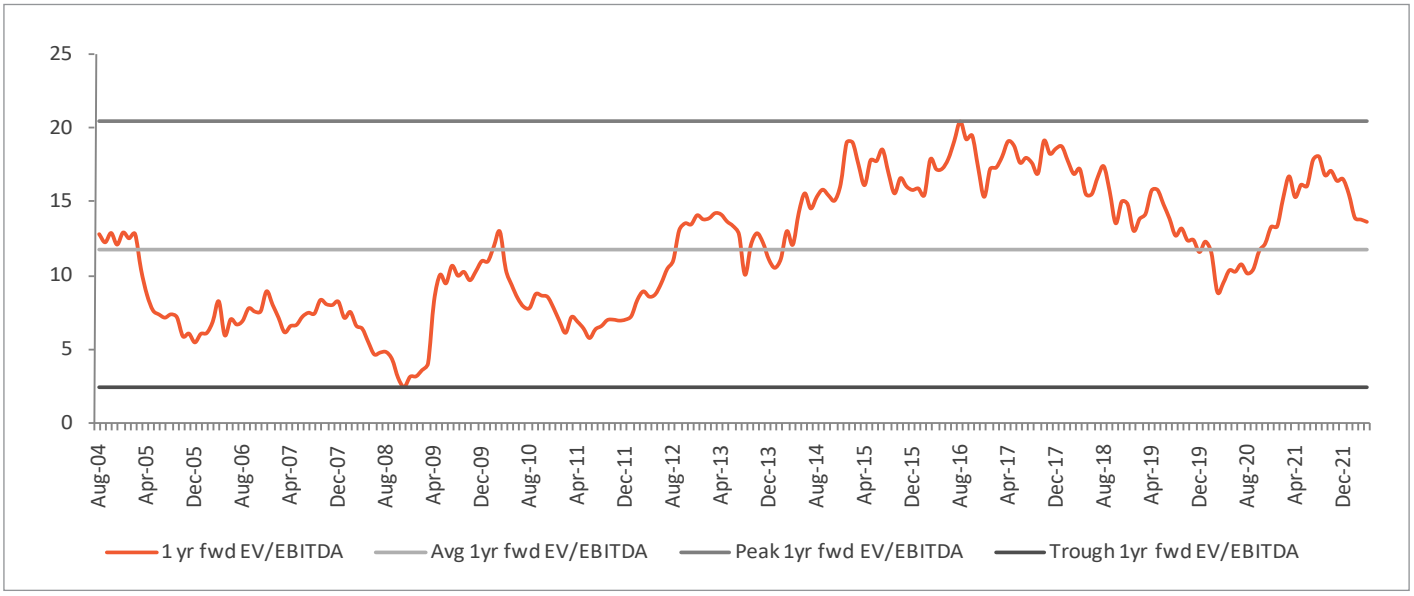
■ Company outlook - Healthy cement demand, profitability, and balance sheet health to remain favourable

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 about 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 a revised PT of Rs. 8,600

UltraTech is expected to benefit from healthy cement demand over the long term, driven by its timely capacity expansion. 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 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 price target (PT) of Rs. 8,600, factoring downward revision in estimates.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech Cement	27.4	22.6	14.0	11.7	3.4	3.0	13.3	14.1
Shree Cement	32.1	27.7	16.9	14.2	4.8	4.1	15.9	16.0
The Ramco Cement	22.3	20.1	13.6	12.3	2.6	2.3	12.2	12.2
Dalmia Bharat	26.4	20.6	9.7	8.2	2.0	1.8	7.7	9.1

Source: Company, Sharekhan estimates

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 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 across 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 revival in demand (demand pick-up in infrastructure and 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 and 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	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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