UltraTech Cement (ULTCEM)

ICICI direct Research

CMP: ₹ 6,680 | Target: ₹ 8,000 (20%) | Target Period: 12 months | BUY

May 2, 2022

Price hikes to offset margin pressure, going forward…

About the stock: UltraTech is the **largest cement manufacturer** in India with a domestic capacity of 114.5 MT (over 23% of total market) with a leadership position in most regions (excluding east). It has grown through organic and inorganic routes and added ~30 MT of capacity in the last three years.

- It has shown its capability to successfully integrate the acquired assets and ramped-up its utilisations in a profitable manner
- The company is now **focusing on fast growing market of eastern India**, which accounts for 10.2 MT of its total 19.6 MT planned expansion in FY21-24E

Q4FY22 Results: UltraTech Cement reported operationally good results for Q4FY22 as the impact of higher fuel cost was not visible in the quarter.

- Net revenues were marginally lower than our estimates. It grew 8.6% YoY to ₹ 15,168 crore (vs. I-direct estimate. ₹15,535 crore). Sales volumes were flat YoY at 26.3 MT (vs. I-direct estimate: 26.7 MT) on a higher base while blended realisations were up ~9.6% YoY to ₹ 5,758/tonne. Capacity utilisation was at 90%
- Reported EBITDA was at ₹ 2943 crore (vs. I-direct estimate: ₹ 1,468 crore), with EBITDA margins coming in at 19.4% (down 575 bps YoY, up 159 bps QoQ) - against our estimate of 17.2%
- PAT was higher at ₹ 2,454 crore, up 38% YoY (vs. our estimate: ₹ 1468 crore) due to positive tax adjustments and lower interest outgo

What should investors do? Market leadership, strong brand with highest retail presence and robust balance sheet justifies UltraTech 's premium valuations.

- With a target to become net debt free by FY24E and expected RoCE of 15%+, we remain positive on the company and maintain **BUY** rating

Target Price and Valuation: Valued at ₹ 8,000 i.e.16.5x FY23E EV/EBITDA

Key triggers for future price performance:

- Expect company's capacity to increase at CAGR of ~6.8% to 131 MT against industry average capacity CAGR of 4.5-5% over the next two years
- The new organic capacities are being added at lower capital cost (US$60/t) that will help in boosting return ratios (to generate 16-18% IRR)
- Despite capex plans, the company also aims **to become net debt-free by FY24E** supported by strong operating cash flows (from existing and acquired assets) and through efficient working capital management

Alternate Stock Idea: Apart from UltraTech , we also like ACC.

- It has a strong balance sheet with debt frees status. The company is focusing on cost reduction and also adding new capacities via internal accruals

ADITYA BIRLA UltraTech

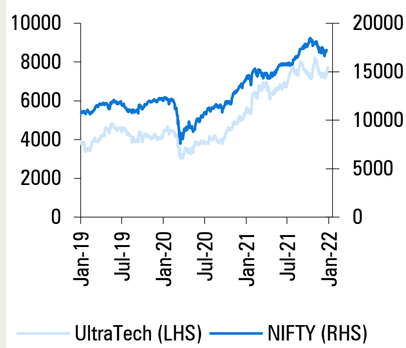
Particulars

Particulars	Amount
Mcap	₹ 192766 crore
Debt (FY22)	₹ 9891 crore
Cash & Invest (FY22)	₹ 155 crore
EV	₹ 202502 crore
52 week H/L	₹8269/₹5629
Equity cap	₹ 288.2 crore
Face value	₹ 10

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	60.0	60.0	60.0	60.0
FII	16.6	16.5	15.7	14.0
DII	14.4	14.6	15.2	16.4
Others	9.0	9.0	9.1	9.6

Price Chart



Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in prices of imported coal/petcoke may impact margins

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales (₹ crore)	39933	40634	43188	50663	8.3	61173	65976	14.1
EBITDA (₹ crore)	7076	8652	10964	10936	15.6	10896	13677	11.8
EBITDA (%)	17.7	21.3	25.4	21.6		17.8	20.7	
Adjusted PAT (₹ crore)	2530	4448	5506	7067	40.8	5688	7593	3.7
EPS (₹)	87.7	154.1	190.8	244.9		197.1	263.1	
EV/EBITDA	29.1	23.7	18.2	17.9		17.6	13.7	
EV/t ($)	265	263	217	214		210	205	
RoNW (%)	7.6	11.6	12.7	14.4		10.6	12.7	
RoCE (%)	9.0	11.4	14.7	14.2		13.6	16.6	

Source: Company, ICICI Direct Research

Key performance highlights

- Domestic sales volumes broadly remained flat YoY at 26.3 MT, up 20.3% QoQ while blended realisations were up 9.6% YoY to ₹ 5,758/tonne, up 1.1% QoQ. Capacity utilisation was at 90%
- Demand across all regions remained muted except central/south that recorded positive trend during Q4FY22
- Cost of production broadly remained flat QoQ (up 18.1%YoY) to ₹ 4641/t due to lower employee and other costs. Further, with the usage of domestic linkage coal (~20% share) and usage of low cost inventory (45-50 days)
- As a result, EBITDA/t improved sequentially by 10.1% (down 15.4% YoY) to ₹ 1117/t (vs. I-direct estimate: ₹1000/t)
- Net profit was higher due to lower interest expense and positive tax adjustments
- During FY22, the company commissioned Bara grinding unit of 2 MT and 1.2 MT in east, taking its total cement manufacturing capacity in India to 114.55 MT. The company has also commissioned 11 MW of WHRS and 48 MW of solar power. With this expansion, the company's green energy share has gone up to 19.7% vs. 16% in Q3.

Key conference call highlights

- **Demand Outlook**: The government plans to complete further 25,000 km of roads, launch 220 new airports by 2025. On the housing front, the government had planned 8 million low-income houses for FY23. Housing inventory across cities had come down to 32 months by the end of 2021 compared to 55 months a year ago. While the long-term demand outlook stays intact, the near-term cost headwinds may lead to some moderation in demand. The current cement prices are hovering at ₹ 30/bag, higher than the exit rate of Q4FY22. If it sustains then it should help the company to mitigate the cost inflation impact in the forthcoming quarter
- **Cost of production**: The average energy cost for the company came in at $164/tonne (up 48% YoY, 10% QoQ) against energy index cost of $222/tonne for Q4FY22. At the current fuel rate of $300/tonne, the company expects P&F cost to increase 10% in the next quarter. Fuel mix of petcoke/imported coal/domestic coal is now at 40:40:20
- To focus on improving fuel blending and increasing WHRS capacity. Commissioned 11 MW WHRS and 483 MW of solar power. With this expansion the company's green energy share has gone up to 19.7% from 16% in Q3. The company has set a target to achieve green energy mix target of 34% by 2024 and 100% renewable energy by 2050
- **Cement prices**: The company undertook a price hike in both trade and non-trade segments. At present, cement prices are higher by ~₹ 30 per bag as compared to prices of ₹360/bag in March 2022.
- **Expansion:** On track to reach 130.9 MT by FY23E. Commissioned Bara grinding unit of 2 MT, taking its total cement manufacturing capacity in India to 114.55 MT. Balance capacities of 16.3 MT to get commissioned in FY23E. Capex for FY23E including maintenance capex would be ₹ 4-5000 crore. **Acquisition:** The company acquired RAK Cement Company for white cement and construction materials PSC (RAKWCT), a company listed in Abu Dhabi and Kuwait Stock Exchange. Synergies with Birla White will boost its market leadership. The company had put on hold the capacity expansion plan in India of ~₹ 978 crore, as it would have access to 9 lakh MT of clinker capacity and 6 lakh MT of white cement capacity from RAKWCT. Currently, they are operating at 65% utilisation and their EBITDA margins are ~19.5%
- **B/S strength:** Retired ₹ 2602 crore of long term debt in FY22. Net D/E is now at 0.32x. Going forward, it would maintain its net debt to EBITDA at ~0.5x
- With regards to non-core assets as a part of acquisition of Nathdwara Cement, the company has now sold off the non-core business in Europe

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Net Sales	15,168	15,535	13,966	8.6	12,471	21.6	Capacity utilsation stood at 90% vs 78% in Q3FY22.
EBITDA	2,943	2,672	3,512	-16.2	2,221	32.5	Spike in petcoke/coal prices led to contraction in the margins
EBITDA Margin (%)	19.4	17.2	25.2	-575 bps	17.8	159 bps	
PAT	2,454	1,468	1,778	38.0	1,632	50.4	
Key Metrics							
Blended volume (MT)	26.3	26.7	26.6	-0.9	21.9	20.3	
Realisation (₹)	5,758	5,811	5,252	9.6	5,697	1.1	
EBITDA per Tonne (₹)	1,117	1,000	1,321	-15.4	1,015	10.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			Comments
(₹ Crore)	Old	New	% Change	Old	New	% Change	
Revenue	60,410.0	61,172.7	1.3	NA	65,976.2	NA	
EBITDA	10,955.0	10,537.2	-3.8	NA	13,676.6	NA	
EBITDA Margin (%)	18.1	17.2	-91 bps	NA	20.7	NA	
PAT	5,565.4	5,440.9	-2.2	NA	7,592.9	NA	
EPS (₹)	192.9	188.5	-2.2	NA	263.1	NA	

Source: Company, ICICI Direct Research

Key triggers for future price performance

Target total capacity of 160 MT by FY30E; to reach 131 MT by FY23E

The target of reaching 160 MT by FY30E from 111.4 MT indicates capacity CAGR of 3.7% during FY20-30E. The newly announced cement capacity expansion of 12.8 MT (9.1 MT clinker capacity) along with ongoing capex of 6.7 MT would take its total capacity to 130.9 MT by end of FY23E. Region wise, major capacities are being added in eastern and central region (73% of 19.5 MT), which has lowest road and power density per capita representing higher growth potential while rural population share remains one of the higher, offering stability in the prices. The balance 27% of new capacities are being added in the north region. Furthermore, as these new organic capacities are being added at lower capital costs (US$60/t), it will help in boosting return ratios (new capacity to generate 15%+ IRR).

Efficiency measures to help sustain margins; b/s to stay firm

While there remains uncertainty in cost inflation with respect to price fluctuations in petcoke and diesel prices, the management's focus towards consolidating the acquired assets, driving synergies, especially on the logistics front, improving premium segment share (to increase from 10% to 15% in two years) and containing fixed overheads on sustainable basis provides cushion against risk of margin erosion going forward. On the leverage front, the net debt/EBITDA is now at 0.9x, vs. 1.4x last year

Valuation & Outlook

UltraTech has successfully integrated acquired assets while protecting its b/s. Given the positive outlook, the new capex targeting central and east region would address the issue of capacity constraint post FY24E. With a target to become net debt free by FY24E and with average RoCE of 15%+, we remain positive on company and maintain BUY rating with unchanged TP of ₹ 8,000/share (i.e. 16.5x FY23E EV/EBITDA).

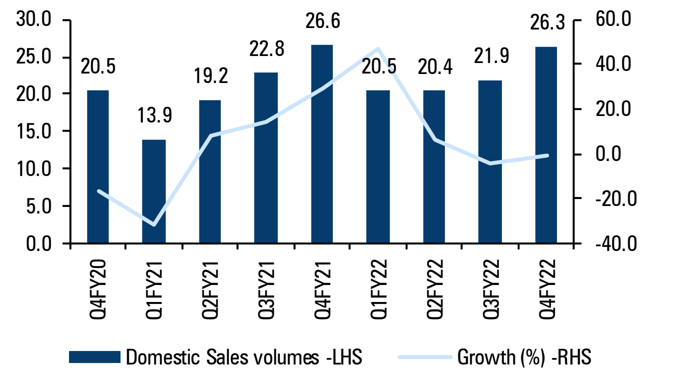
Exhibit 3: Valuation matrix

	Sales (₹ cr)	Gr (%)	EPS (₹)	Gr (%)	PE (x)	EV/Tonne ($)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	40634.2	4.7	87.7	12.8	35.3	263	23.7	14.2	11.0
FY21	43188.4	6.3	154.1	75.8	36.1	217	18.2	11.6	14.6
FY22	50663.5	17.3	190.8	23.8	27.3	214	17.9	12.7	14.4
FY23E	61172.7	20.7	244.9	28.3	33.9	210	17.6	14.4	13.3
FY24E	65976.2	7.9	197.1	-19.5	25.4	205	13.7	12.7	16.6

Source: Company, ICICI Direct Research

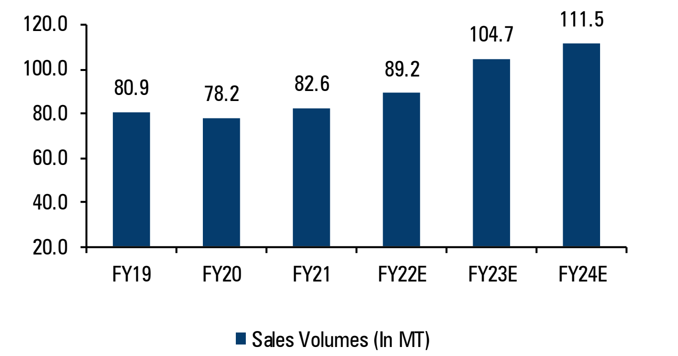
Financial story in charts

Exhibit 4: Sales volumes flat YoY on higher base



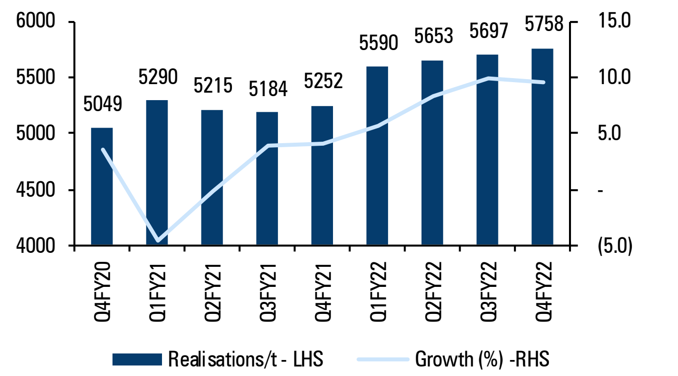
Source: Company, ICICI Direct Research

Exhibit 5: Volumes expected to cross ~100 MT by FY23E



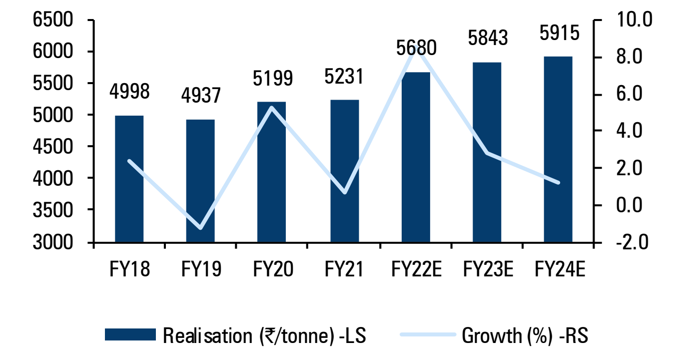
Source: Company, ICICI Direct Research

Exhibit 6: Realisations higher by 9.6% on YoY basis



Source: Company, ICICI Direct Research

Exhibit 7: Realisation growth to moderate with volume pick-up



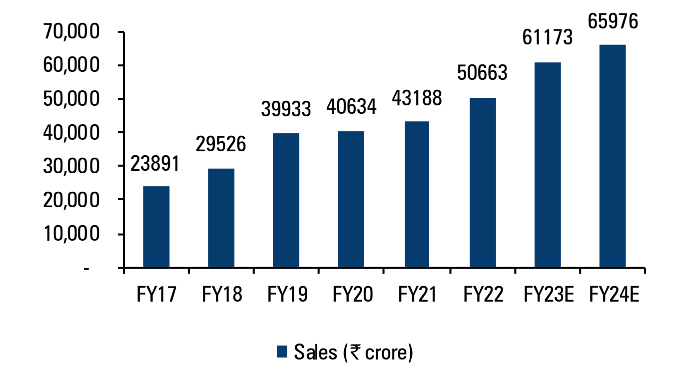
Source: Company, ICICI Direct Research

Exhibit 8: Domestic capacity to reach ~131 MT by FY23E

Zone (in mt)	Capacity	Capacity additions	Total
North	23.8	5.2	29.0
Central	23.3	4.2	27.5
East	19.3	6.9	26.2
West	27.7		27.7
South	20.5		20.5
Domestic Total	**114.6**	**16.3**	**130.9**
Overseas	5.4		5.4
Total	**120.0**		**136.3**

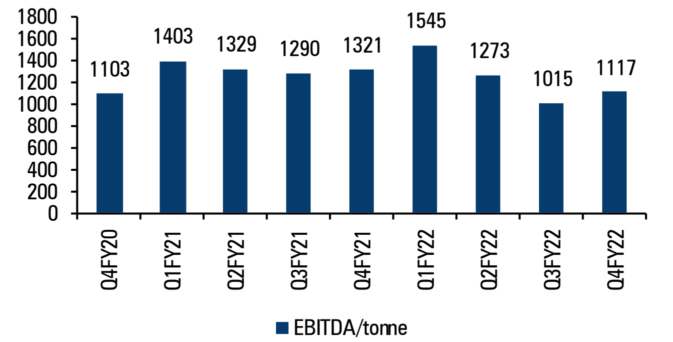
Source: Company, ICICI Direct Research

Exhibit 9: Standalone revenues to grow at 14.1% CAGR in FY21-23E



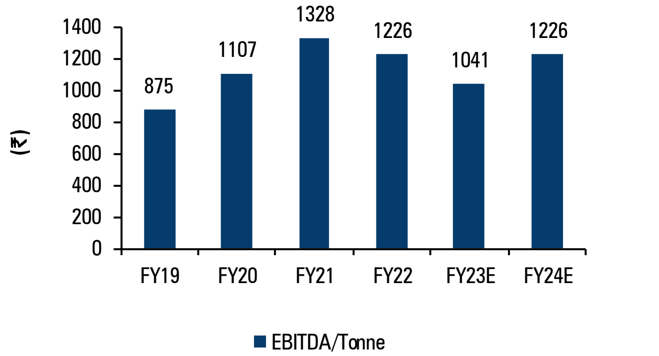
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t up 10.1% QoQ as impact of higher fuel prices not visible



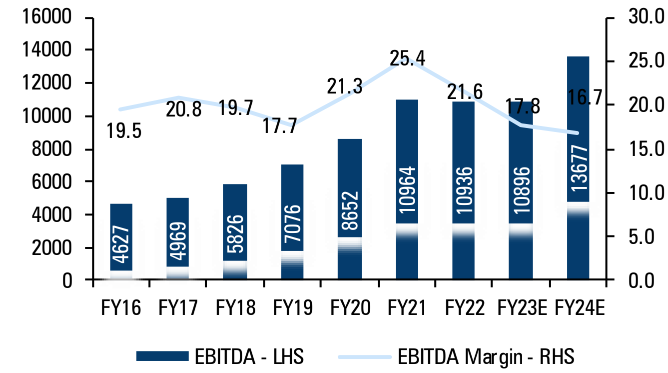
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t trajectory to improve, going ahead



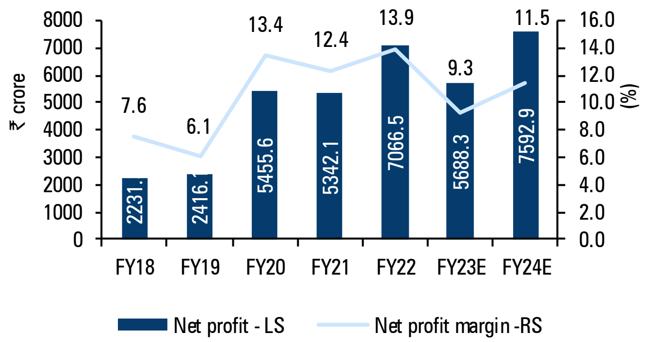
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA growth to trend



Source: Company, ICICI Direct Research

Exhibit 13: PAT margin trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 14: Profit & Loss Account

(Year-end March)	FY21	FY22P	FY23E	FY24E
Total operating Income	**43,188**	**50,663**	**61,173**	**65,976**
Growth (%)	6.3	17.3	20.7	7.9
Raw material cost	7,539	8,560	9,999	10,653
Power & Fuel cost	7,552	10,952	15,602	15,377
Freight cost	9,940	11,561	14,009	14,919
Employees cost	2,182	2,359	2,501	2,651
Others	5,012	6,296	8,166	8,701
Total Operating Exp.	32,224	39,727	50,277	52,300
EBITDA	**10,964**	**10,936**	**10,896**	**13,677**
Growth (%)	26.7	-0.3	-0.4	25.5
Depreciation	2,434	2,457	2,787	3,077
Interest	1,259	798	665	395
Other Income	789	612	800	800
PBT	8,059	8,293	8,244	11,004
Total Tax	2,553	1,227	2,556	3,411
PAT	**5,506**	**7,067**	**5,688**	**7,593**
Growth (%)	0.9	28.3	-19.5	33.5
Adj. EPS (₹)	**191**	**245**	**197**	**263**

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement

(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	5,342	7,067	5,688	7,593
Add: Depreciation	2,434	2,457	2,787	3,077
(Inc)/dec in Current Assets	261	-3,138	1,500	-1,667
Inc/(dec) in CL and Provisions	6,620	-1,759	310	1,712
CF from operating activities	**14,658**	**4,626**	**10,285**	**10,715**
(Inc)/dec in Investments	-920	-123	0	-980
(Inc)/dec in Fixed Assets	-3,062	-5,672	-4,100	-4,200
Others	1,142	-463	0	0
CF from investing activities	**-2,839**	**-6,259**	**-4,100**	**-5,180**
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-3,185	-5,024	-2,500	-3,000
Dividend paid & dividend tax	-1,288	-1,322	-1,392	-1,392
Inc/(dec) in Sec. premium	0	0	0	0
Others	1,002	70	0	0
CF from financing activities	**-3,471**	**-6,277**	**-3,892**	**-4,392**
Net Cash flow	1,571	-1,727	1,193	143
Opening Cash	310	1,881	155	1,348
Closing Cash	**1,881**	**155**	**1,348**	**1,491**

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet summary

(Year-end March)	FY21	FY22P	FY23E	FY24E
Liabilities				
Equity Capital	289	289	289	289
Reserve and Surplus	43,064	48,878	53,174	59,375
Total Shareholders funds	43,353	49,166	53,462	59,663
Total Debt	14,915	9,891	7,391	4,391
Deferred Tax Liability	5,219	4,756	4,756	4,756
Total Liabilities	**63,487**	**63,813**	**65,609**	**68,810**
Assets				
Gross Block	67,569	70,137	76,613	80,563
Less: Acc Depreciation	22,102	24,559	27,346	30,423
Net Block	45,467	45,577	49,267	50,140
Capital WIP	1,522	4,627	2,250	2,500
Total Fixed Assets	46,989	50,204	51,517	52,640
Investments	20,786	15,826	15,826	17,806
Inventory	3,722	5,163	4,759	5,363
Debtors	2,286	2,707	2,656	3,128
Loans and Advances	1,353	2,583	2,311	2,967
Other Current Assets	3,399	3,446	2,672	2,607
Cash	1,881	155	1,348	1,491
Total Current Assets	12,641	14,053	13,746	15,556
Creditors	6,334	8,994	9,106	10,054
Provisions	10,595	6,176	6,374	7,138
Total Current Liabilities	16,929	15,170	15,481	17,192
Net Current Assets	-4,288	-1,118	-1,734	-1,636
Others Assets	0	0	0	0
Application of Funds	**63,486**	**64,913**	**65,609**	**68,810**

Source: Company, ICICI Direct Research

Exhibit 17: Ratio sheet

(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
Adj. EPS (₹)	190.8	244.9	197.1	263.1
Cash EPS	269.5	330.0	293.7	369.8
BV	1,502.3	1,703.8	1,852.7	2,067.5
DPS	37.0	38.0	40.0	40.0
Cash Per Share	65.2	5.4	46.7	51.7
Operating Ratios (%)				
EBITDA Margin	25.4	21.6	17.8	20.7
PBT / Total Operating income	18.3	16.4	13.5	16.7
PAT Margin	12.4	13.9	9.3	11.5
Inventory days	31.9	32.0	29.6	28.0
Debtor days	17.5	18.0	16.0	16.0
Creditor days	40.5	55.2	54.0	53.0
Return Ratios (%)				
RoE	12.7	14.4	10.6	12.7
RoCE	14.7	14.2	13.6	16.6
RoIC	16.0	15.9	14.7	18.6
Valuation Ratios (x)				
P/E	36.1	27.3	33.9	25.4
EV / EBITDA	18.2	17.9	17.6	13.7
EV / Net Sales	4.6	3.9	3.1	2.8
Market Cap / Sales	4.5	3.8	3.2	2.9
Price to Book Value	4.4	3.9	3.6	3.2
Solvency Ratios				
Debt/EBITDA	1.4	0.9	0.7	0.3
Debt / Equity	0.3	0.2	0.1	0.1
Current Ratio	0.7	0.9	0.9	0.9
Quick Ratio	0.6	0.9	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Cement)

Company	CMP			EPS(₹)			EV/EBITDA (x)			EV/Tonne ($)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,200	2,600	BUY	85	102	77	10.9	13.3	9.9	136	124	113	14.7	17.6	12.7	12.6	13.4	9.5
Ambuja Cem*	369	350	BUY	9	10	10	14.7	15.8	12.1	203	206	174	18.6	17.8	15.8	21.0	20.6	18.3
UltraTech Cem	6,753	8,000	BUY	185	245	197	18.2	17.9	17.6	217	214	210	14.7	14.2	13.6	12.7	14.4	10.6
Shree Cement	24,630	25,700	HOLD	641	620	596	22.0	23.2	21.9	257	260	224	18.2	16.1	14.8	15.2	13.1	11.4
Heidelberg Cem	205	225	HOLD	14	8	11	9.8	13.0	11.0	107	106	103	20.1	15.7	19.7	21.1	12.6	15.2
JK Cement	2,750	2,640	HOLD	78	99	77	15.2	15.6	17.5	155	184	161	18.6	16.7	13.2	20.6	17.5	12.2
JK Lakshmi Cen	460	580	BUY	31	28	17	7.2	9.0	11.0	62	63	66	21.1	16.8	12.4	19.0	15.3	9.2
Birla Corp	1,132	1,320	HOLD	88	35	41	9.7	12.8	10.6	119	93	91	10.8	6.5	7.2	12.4	5.0	5.5
Ramco Cement	806	900	BUY	32	24	25	14.2	18.1	17.2	162	168	160	8.6	6.4	6.2	13.5	9.3	8.7
Sagar Cement	270	300	BUY	16	8	16	9.3	13.8	8.6	93	68	66	15.6	8.9	15.6	16.0	7.4	13.5

*Source: Company, ICICI Direct Research, *ACC and Ambuja FY21=CY20, FY22E=CY21E, FY23E=CY22E*

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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