Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

UltraTech Cement Limited

Deriving benefits of being the sector leader

Cement	Sharekhan code: ULTRACEMCO	Company Update

Stock Update

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 6,207**	
Price Target: **Rs. 7,200**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

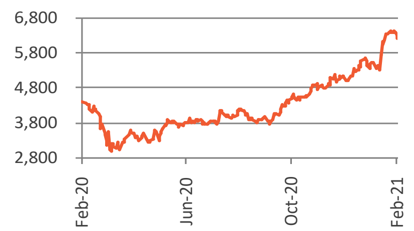
Company details

Market cap:	Rs. 179,169 cr
52-week high/low:	Rs. 6586/2913
NSE volume: (No of shares)	6.0 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

Shareholding (%)

Promoters	60.0
FII	16.8
DII	14.3
Others	9.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.9	27.5	49.6	40.1
Relative to Sensex	9.7	11.5	16.5	16.5

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on UltraTech Cement (UltraTech) with a revised PT of Rs. 7,200.
- Expect healthy demand-led by pick up in non-trade demand along with sustained pricing discipline to benefit in Q4FY2021. Long-term structural demand intact.
- Impact of rise in pet coke and diesel prices to be partially felt in Q4FY2021 and fully in Q1FY2022. Higher rail transport to minimise the impact of diesel price rise.
- The company's 19.5 mtpa expansion plan at a cost of Rs. 6,527 crore (without affecting de-leveraging plan) to ensure industry outperformance over the next four to five years.

UltraTech Cement (UltraTech) is expected to benefit from higher cement demand and stable cement prices although impact of rising pet coke prices is expected to partially impact in Q4FY2021 and fully in Q1FY2022. For Q3FY2021, as per Department for Promotion of Industry and Internal Trade (DPIIT), cement production declined by 4.9% y-o-y with December 2020 production rising by 8.9% m-o-m. However, our coverage universe saw strong volume growth of 7.7% y-o-y with UltraTech reporting one of the best volume growth numbers (up 14.1% y-o-y). Further, cement demand is expected to remain healthy during Q4FY2021 as non-trade demand has started to pick up along with sustained demand emanating from IHB and rural segments. Cement transported through rail during January 2021 has risen by 14.4% y-o-y (up 4.5% m-o-m). As per our channel checks, pan-India average cement prices in January-February 2021 are higher by 2.8% compared to Q4FY2020, with southern region prices up 12.9%. Barring the southern region, average cement prices have remained flat y-o-y. Industry-leading volume growth along with stable pricing environment is expected to benefit UltraTech in maintaining revenue growth for Q4FY2021. On the key input cost front, international average petcoke prices for January-February 2021 are up 9.5% versus Q3FY2021 (up 54% versus Q4FY2020), while domestic pet coke prices for the same period are up 28% versus Q3FY2021 (up 68% versus Q4FY2020). The rise in pet coke prices is expected to reflect partially in Q4FY2021 and fully in Q1FY2022 as low-cost inventory gets exhausted. Further, average retail diesel prices across metros for January-February 2021 have risen by 6.5% versus Q3FY2021 (up 19% versus Q4FY2020). However, rail freight for January-February 2021 declined by 1.8% versus Q4FY2020 and 1% versus Q3FY2021. Freight cost of cement companies is partially saved through higher transportation of cement through the rail network. On the longer term, we expect UltraTech to benefit from growth momentum picking up, as the government's focus continues on infrastructure investments (as highlighted during the recent budget). The company's 19.5 mtpa expansion plan at a cost of Rs. 6,527 crore (without affecting its current de-leveraging plan) would ensure its industry outperformance over the next four to five years. Hence, we continue to maintain our Buy rating on the stock with a revised price target (PT) of Rs. 7,200.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 7,200: UltraTech continues to post one of the leading industry volume growth numbers for Q3FY2021. Further, demand outlook remains buoyant with non-trade demand joining the bandwagon. Further, its ongoing capex plan is expected to provide the next leg of growth with the government's focus continuing to remain on infrastructure investments and the housing sector. Improving demand and limited capacity additions are expected to maintain healthy pricing discipline in the sector going ahead. Hence, we continue to maintain our Buy rating on the stock with a revised PT of Rs. 7,200.

Key Risks

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

Valuation (Standalone) Rs cr

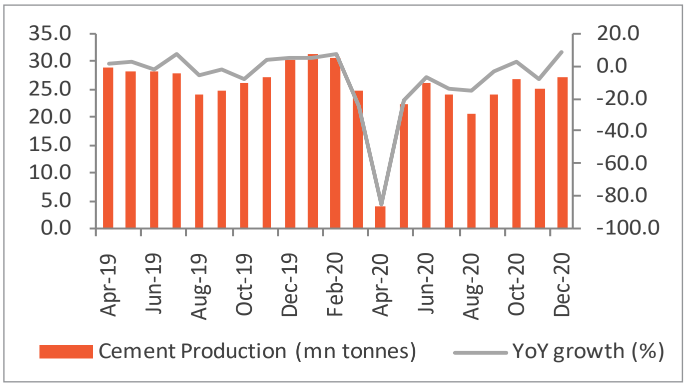
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	40,649	41,131	46,484	52,492
OPM (%)	23.1%	26.1%	25.5%	25.7%
Adjusted PAT	3,652	4,687	5,413	6,449
% YoY growth	44.6%	28.3%	15.5%	19.1%
Adjusted EPS (Rs.)	126.5	162.4	187.5	223.4
P/E (x)	49.1	38.2	33.1	27.8
P/B (x)	4.7	4.2	3.8	3.3
EV/EBITDA (x)	21.6	18.5	16.3	13.7
RoNW (%)	10.2%	11.6%	12.0%	12.7%
RoCE (%)	8.8%	9.5%	10.2%	11.1%

Source: Company; Sharekhan estimates

UltraTech to benefit from industry-leading growth and stable cement pricing environment

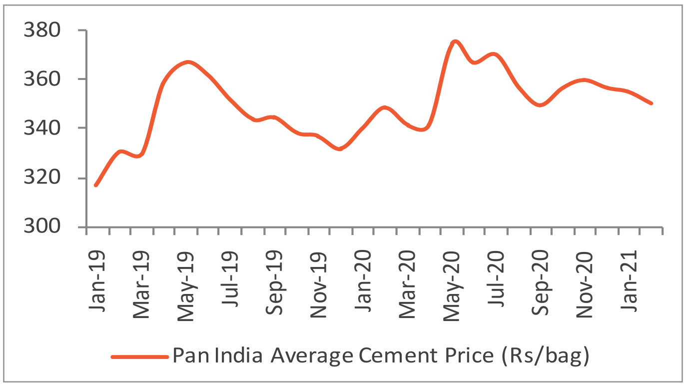
For Q3FY2021, as per DPIIT, cement production declined by 4.9% y-o-y with December 2020 production rising by 8.9% m-o-m. However, our coverage universe saw strong volume growth of 7.7% y-o-y with UltraTech reporting one of the best volume growth numbers (up 14.1% y-o-y). Further, cement demand is expected to remain healthy during Q4FY2021, as non-trade demand has started to pick up along with sustained demand emanating from IHB and rural segments. Cement transported through rail during January 2021 has risen by 14.4% y-o-y (up 4.5% m-o-m). As per our channel checks, pan-India average cement prices in January-February 2021 are higher by 2.8% compared to Q4FY2020 with southern region prices up 12.9%. Barring the southern region, average cement prices have remained flat y-o-y. Industry-leading volume growth along with stable pricing environment is expected to benefit UltraTech in maintaining revenue growth for Q4FY2021.

Cement Production Trend



Source: DIPP; Sharekhan Research

Pan-India cement price trend

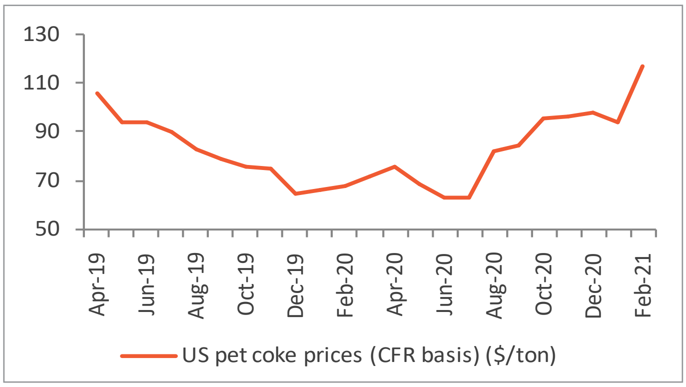


Source: Industry; Sharekhan Research

Rise in pet coke prices to fully reflect in Q1FY2022; Freight costs partially saved through rail transport

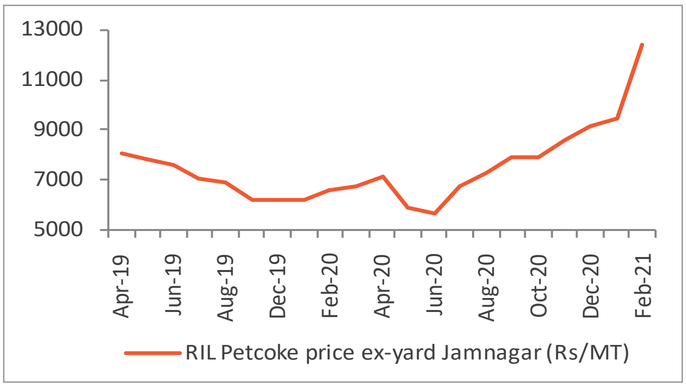
International average petcoke prices for January-February 2021 are up 9.5% versus Q3FY2021 (up 54% versus Q4FY2020), while domestic pet coke prices for the same period are up 28% versus Q3FY2021 (up 68% versus Q4FY2020). Rise in pet coke prices is expected to reflect partially in Q4FY2021 and fully in Q1FY2022 as low-cost inventory gets exhausted. Further, average retail diesel prices across metros for January-February 2021 have risen by 6.5% versus Q3FY2021 (up 19% versus Q4FY2020). However, rail freight for January-February 2021 declined by 1.8% versus Q4FY2020 and 1% versus Q3FY2021. Freight costs of cement companies is partially saved through higher transportation of cement through the rail network.

International petcoke price trend



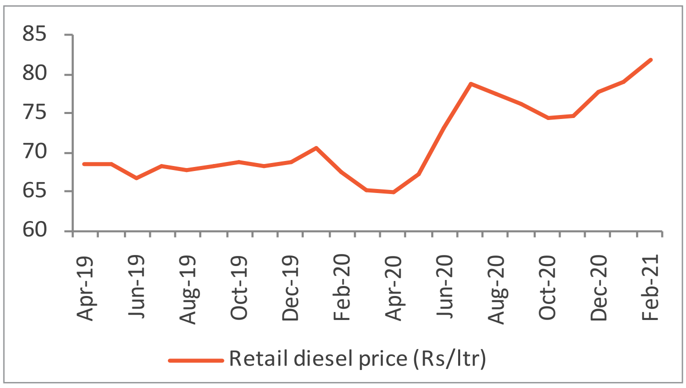
Source: Industry; Sharekhan Research

Domestic petcoke price trends



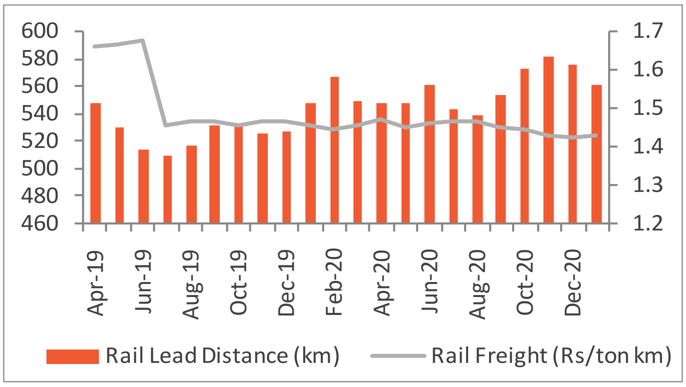
Source: Industry; Sharekhan Research

Retail Diesel Price Trend



Source: Ministry of Petroleum; Sharekhan Research

Railways cement lead distance and freight trend



Source: Ministry of Railways; Sharekhan Research

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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