UltraTech CEMENT
The Engineer's Choice

ULTRATECH CEMENT LTD

Report Type: Q2FY22 Result
Sector: Cement
Date – 2nd Dec 2021

KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Consolidated volumes rose 8% YoY to 21.64mt with India volumes up 8% YoY.
- EBITDA for Q2FY22 stood at ₹2,714.7 Cr, up 0.63% YoY and up -17.9% QoQ.
- EBITDA margins for Q2FY22 came at 22.6% as compared to 28.0% in Q1FY22 and 26.0% in Q2FY21.
- PAT for Q2FY22 stood at ₹1,313.5 Cr, up 8% YoY and down -22.85% QoQ.

2. MANAGEMENT COMMENTARY:

- Management expects to clock a growth of 6-8% YoY in 2HFY22 and has guided at a further round of price hikes to cover fuel cost inflation.
- Management expects industry capacity addition of 20-25 mt in FY22,which will decline over the medium term once production from auctioned limestone mines start.
- 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

3. DEBT AND CAPEX:

- Consolidated net debt stood at Rs.63.4 b v/s Rs 249.8 b in Dec'18. Net debt/EBITDA improved to 0.47x in Sep'21 from 3.55x in Dec'18.
- Bara grinding unit and super dalla clinker unit are expected to be commissioned by Mar'22.
- All Expansions projects are progressing as per schedule and the management has guided at a capex of Rs 40-50 b in FY22.

4. CONCALL SUMMARY

- Company recorded domestic sales growth of 8% YoY and 17% YoY in white cement. Company expects cement demand to grow by 6-8% in H2 FY22.
- On other expenses front, Company expects its FY22 overheads numbers similar to its FY20 levels.
- Company has reached 4.4% of its total fuel consumption as alternate fuel.
- Company has commissioned 1.2mt brownfield expansion in west Bengal and bihar unit (part of 3.2mt scheduled for FY22).
- Company continues to manintain its negative working capital of 8-9 days in Q2 FY22.
- Company mentioned that Bicharpur coal block is expected to start its operations from Q3 FY22 and coal will be used in the cluster plants.
- In Q2FY 22, company has commissioned 12 MW of WHRS and 21MW of solar power. This expansion led to an increase in the company's green energy share up to 15%.
- Q2 FY22 Blended cost stood at $120. Going forward company expects the cost to be $130-140 for Q3 FY22.
- On margin Front, Company expects to maintain EBITDA margin of 26-28% on a steady state.

5. OTHER DEVELOPMENTS:

- Overseas and export operations were impacted due to: 1) higher costs in the UAE, and 2) Slowdown in exports to Sri Lanka from the Gujarat Plant.
- Raw material costs were higher due to increase in slag and gypsum prices.
- Margin is expected tom improve on account of a) reduction in lead distance; b) increase in the green power mix; and c) control on fixed costs.

6. VALUATION AND OUTLOOK:

- Company enjoys leadership position across regions, with a capacity share of 12%/15%/23%/36%/39% in South/ East/North/West/Central India which helps it to maintain its premium pricing in most markets.
- Company guided for EBITDA margins of 26-28% for the coming quarter.
- Company commissioned 1.2 mt brownfield expansion in Eastern markets and re-interated to commission total 4 mtpa in FY22E and 15 mtpa in FY23E.
- Company B/S continue to remain lean and Net Debt/EBITDA at 0.47x

We have maintained BUY rating on stock and value the stock at 35x FY23 earnings to arrive at the target of Rs.8970.

RECOMMENDATION - BUY
CMP – 7323
TARGET - 8970 (23%)

Industry	Cement
NSE CODE	ULTRACEMCO
BSE CODE	532538
Market Cap (₹ Cr)	2,11,367
Shares Outstanding (in Cr)	28.9
52 wk High/Low (₹)	8269/4841
P/E	33.14
P/BV	4.6
Face Value (₹)	10.0
Book Value (₹)	1599.2
EPS (FY21) (₹)	189.3
Dividend Yield (%)	0.5
Debt / Equity	0.5
Interest Coverage	6.4

SHAREHOLDING PATTERN

	Sep 21	Jun 21	Mar 21
Promoters	59.9	59.9	59.9
MF/ DII	9.7	9.6	9.0
FII/FPI	16.5	16.6	17.3
Retail & Others	8.5	8.5	8.4
Promoter Pledging	0.00	0.00	0.00

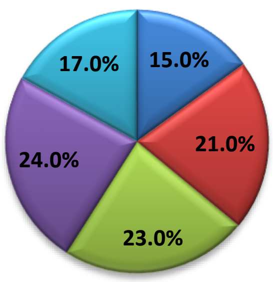
FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2021A	2022E	2023E
Crore			
Sales	44,725.8	52,930	59,920
Sales Gr. (%)	5.4	18.3	13.2
EBITDA	11542.2	12,200	14,070
EBITDA %	27.5	23.1	23.5
PAT	5459.7	6087.7	7,405
EPS (₹)	189.3	210.8	256.4
EPS Gr. (%)	-5.1	11.3	21.6
Ratios			
RoE (%)	13.1	14.2	14.1
RoCE (%)	15.0	14.8	15.4
Valuation			
P/E (x)	35.6	31.0	27.0
Div. Yield	0.6	0.5	0.7

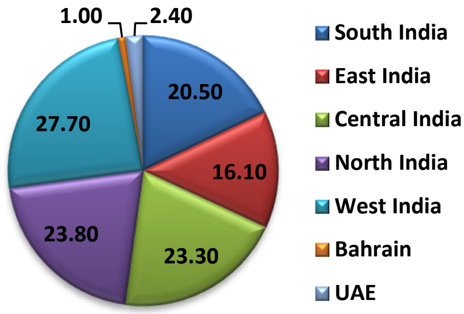
Historical & Industrial Val Ratios	
Historical P/E	35.0
Industry P/E	33.2
Historical P/B	4.8
Industry P/B	4.0

REVENUE SPLIT (Q2 FY22)

Region wise cement revenue contribution



Region wise cement capacity (MTPA)



QUARTERLY PERFORMANCE (CONSOLIDATED) (₹ Cr)

Y/E March	FY20	FY21				FY22			FY21	FY22E*
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3E*		
Net sales	**10,854**	**7,671**	**10,387**	**12,254**	**14,406**	**11,830**	**12,017**	**13,544**	**44,726**	**52,930**
YoY change (%)	-12.3	-33%	8%	17%	33%	54%	15%	10%	5.4%	18.3%
Total Expenditures	**8,409**	**5,593**	**7,689**	**9,160**	**10,715**	**8,522**	**9,302**	**10,324**	**33,158**	**40,730**
EBITDA	**2,445**	**2,078**	**2,698**	**3,094**	**3,690**	**3,307**	**2,715**	**3,220**	**11,568**	**12,200**
Margins (%)	22.53	27.08	25.97	25.25	25.61	27.95	22.59	23.78	25.9	23.05
Depreciation	678	651	677	674	698	660	677	680	2,700	2,700
Interest	506	394	358	356	377	326	230	210	1,486	985
Other income	200	279	135	268	60	205	140	155	734	612
PBT	**1,461**	**1,154**	**1,733**	**2,332**	**2,637**	**2,526**	**1,947**	**2,485**	**8,116**	**9,127**
Rate (%)	122	31.2	32.7	32.0	32.8	32.7	32.7	33.3	32.3	33.3
Adjusted PAT	**3,240**	**793**	**1,167**	**1,585**	**1,772**	**1,700**	**1,310**	**1658**	**5,497**	**6,087.7**
EPS in Rs	**112.3**	**27.5**	**45.4**	**54.9**	**61.5**	**58.9**	**45.5**	57.4	**189.3**	**210.8**
Key Performance Indicators										
Headcount										
RM Cost (% of Sales)	14.1	15.7	16.1	14.6	16.7	12.3	14.4	16.2	15.8	16.2
Staff Cost (% of Sales)	6.1	7.3	5.5	4.9	4.3	4.9	5.7	5.2	5.3	5.4
Other Costs (% of Sales)	79.8	77	78.4	80.5	79	82.8	79.9	78.6	78.9	78.4
EBITDA Margin (%)	22.5	27.1	25.9	25.3	25.6	27.9	22.6	23.7	25.9	23.1
PAT Margin (%)	29.8	10.3	11.2	12.9	12.3	14.4	10.9	12.2	12.3	11.5

Source: Company, Hem Securities Research.

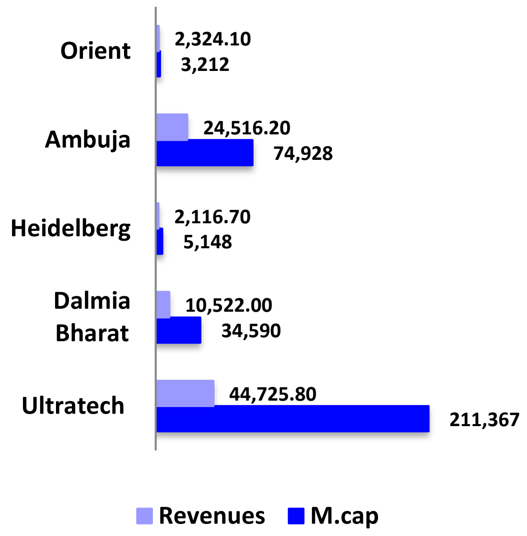
***Insights into the assumptions:**

- Expected to see sharp growth in FY22 on the back of Owning to the improving demand dynamics and a strong sales performance in Q1FY22.
- Near term focus of company is to de leverage the balance sheet. The company reduced its Debt equity ratio to 0.2x in FY21 from 0.5x in FY 20.
- We expect EBITDA and PAT margins to improve supported by favorable pricing and a boost in cement industry led by infrastructure growth in the country.

INDUSTRY OVERVIEW

- India is the second largest producer of cement in the world. It accounts for more than 7% of the global installed capacity.
- Cement production reached 329 million tonnes (MT) in FY20 and is projected to reach 381 MT by FY22. However, the consumption stood 327 MT in FY20 and will reach 379 MT by FY22.
- As per Crisil Ratings, the Indian Cement industry is likely to add 80 million tonnes (MT) capacity by FY24, the highest since the last 10 years, driven by increasing spending on housing and infrastructure activities.
- In FY22, the cement production in India is expected to increase by 4-7% YoY, driven by the government's strong focus on infrastructure development.
- As per the Union Budget 2021-22, the government approved an outlay of Rs 1,18,101 cr (US$ 16.22billion) for the ministry of Road transport and highways, and this step is likely to boost the demand for cement.
- The Union Budget allocated Rs.13,750 cr (US$1.88 billion) and Rs.12,294 crore (US $1.68 Billion) for Urban Rejuvenation Mission: AMRUT and smart cities mission and swachh bharat mission, respectively and Rs.27,500 cr (US$ 3.77 billion) has been allotted under Pradhan mantra awas yojna.
- In the next 10 years, India could become the main exporter of clinker and gray cement to the middle east, Africa and other developing nations of the world.

KEY PLAYERS



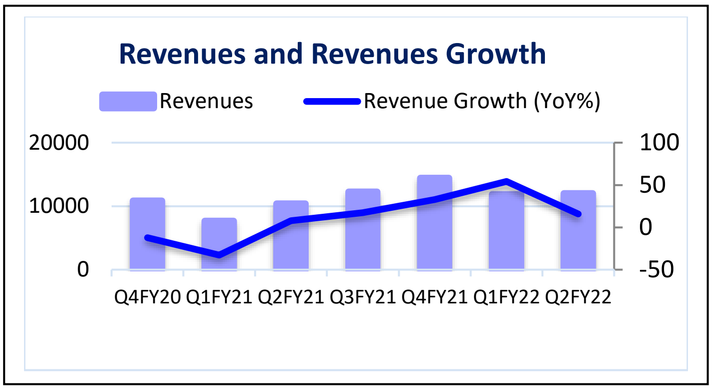
PEER PERFORMANCE

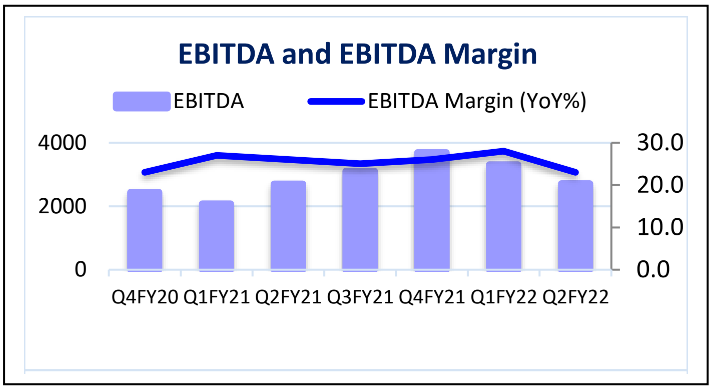
(₹ Cr)

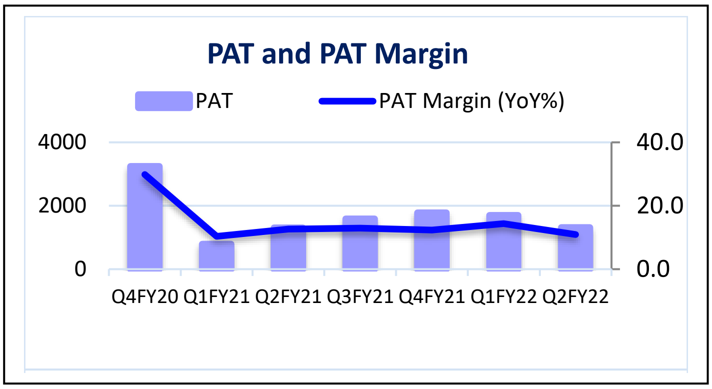
Particulars	Ultratech	Dalmia Bharat	Heidelberg	Ambuja	Orient
Market Cap	2,11,367	34,590	5,148	74,928	3,212
Net Sales	44,725.8	10,522.0	2,116.7	24,516.2	2,324.1
EBITDA	11,542.2	2,783.0	506.6	5,005.6	550.7
PAT	5,459.7	1,243.0	314.9	3092.4	214.2
EPS(₹)	189.3	66.5	13.9	11.9	10.5
EBITDA MARGIN %	27.5	25.2	26.1	19.7	22.2
PAT MARGIN %	12.2	10.5	14.9	11.2	8.3
ROCE %	15.0	10.5	25.2	17.6	19.2
ROE %	13.1	10.7	22.4	13.2	17.8
P/E TTM	35.0	30.4	16.7	25.1	11.7
P/B TTM	220.9	66.3	14.6	16.2	14.7
EV/EBITDA	4.6	2.4	3.6	2.9	2.3
Dividend Yield %	0.5	0.1	3.3	4.4	1.2
MCap/ Sales TTM	4.2	3.1	2.3	2.6	1.2

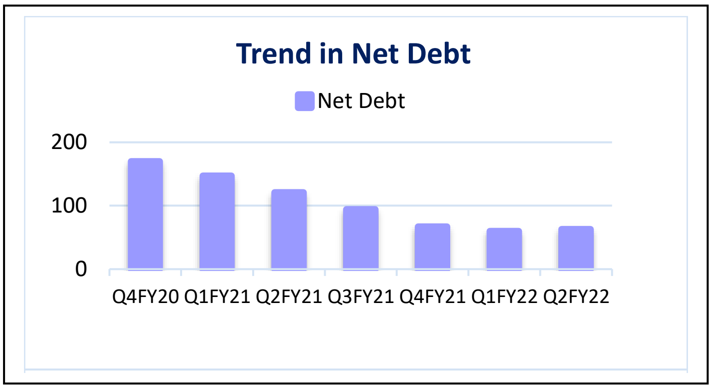
Source: Company, Hem Securities Research.

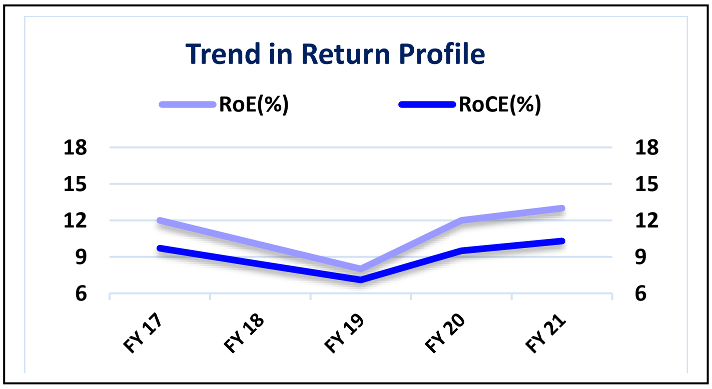
STORY IN CHARTS

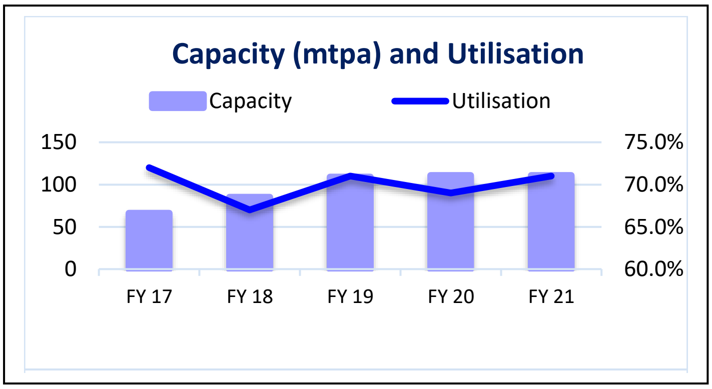


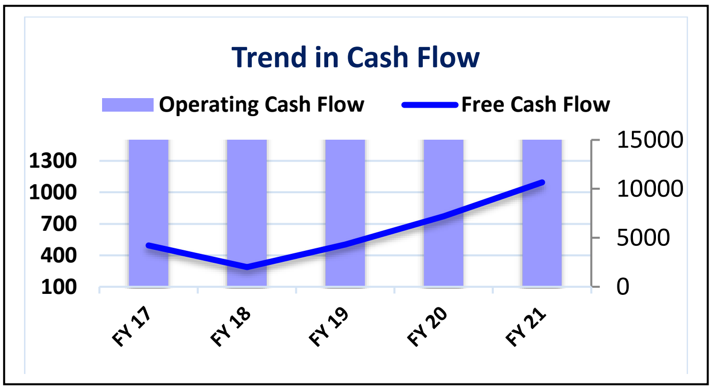


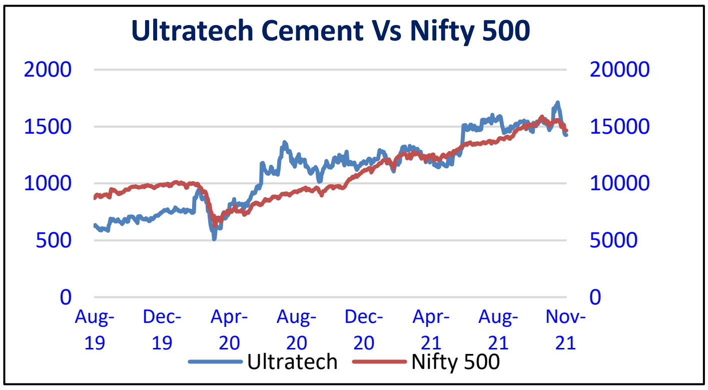












INVESTMENT RATIONALE:

- Company with its large pan-India diversified market presence, premium brand positioning and increased focus on cost efficiencies is better placed to sustain/improve margins in the medium term.
- Company is setting up cement capacities of 19.5 mtpa, with 5.4 mtpa capacity to be commissioned by FY22E and the balance in FY23E.
- Market share gains should continue, aided by the ongoing 20 mtpa expansion program (1.2 MTPA commissioned in oct 21) which should drive a 10% volume CAGR over FY 21-24E.
- Margins are expected to improve on account of a) reduction in lead distance; b) increase in green power mix and c) control on fixed costs.
- Management plans to expand its WHRS and solar capacities to 302MW and 500MW, respectively, by FY24, and achieve a green power mix of 34% (26% WHRS and 8% solar) by FY24 v/s 13% in FY 21.
- A strong pipeline of expansion projects and scope for improvement in utilization of existing capacities offers strong growth visibility
- Management expects to clock a growth of 6-8% YoY in 2HY FY22 and has guided at a further round of price hikes to cover fuel cost inflation.
- Recovery in rural housing, higher MSP (minimum support prices) for kharif crop; improved food grain production in rabi harvest; a third consecutive normal monsoon pick up in infrastructure led construction activity are likely to drive cement demand off-take.

RISK FACTORS:

- Due to coal shortage and oil price increases, margins are expected to remain under pressure in the short term owing to rising fuel costs.
- Economic slowdown and subdued infrastructural development might lead to a slowdown in construction projects, thus leading to a reduction in cement consumption in the country.
- The sharp resurgence of Covid-19 this time may negatively impact the demand environment over the short term.

COMPANY RECAP

- Ultratech cement is a largest cement company in India and one of the leading cement producers globally in terms of cement capacity (114.8 MMTPA) with 24% market share in Indian cement Industry. It is also India's largest exporter of cement, meeting the demand in countries around the Indian Ocean and the Middle East.
- Its manufacturing facilities are present across India with no region accounting for more than 25% of sales. It has 50 integrated plants spread across India. Presently it has a capacity utilization of 80%.
- Company is the largest cement company in India and 3rd largest cement company in the world. It is also the only cement producer outside of china to have 100+ MnTPA of manufacturing capacity in a single country.
- Its brands include Ultratech Cement, Ultratech Concrete, Ultratech building Products, Ultratech Building Solutions & Birla white cement under which it sells various different products.
- The company operates in four countries viz. UAE, Bahrain, Sri Lanka and India. It has capacity of 1 MnTPA in Bahrain, 1.5 MnTPA in Sri Lanka and 2.5 MnTPA in UAE.
- Company has diversified revenue mix: South India (15%), East India (21%), Central India (23%), North India (17%), West India (24%) etc.
- Exports contributes around 4.5% of the total revenues.
- Company region wise cement capacity (MTPA) is south India (20.5), East india (16.1), Central India (23.3), North India (23.8), west India (27.7).
- Country wise cement production is China (65%), India (9%), Vietnam (3%), United states (3%), Egypt (2%) and others (18%).

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

(₹ Cr)

Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Revenue from operations	**25,374.9**	**30,978.6**	**41,608.8**	**42,429.9**	**44,725.8**	**52,930**	**59,920**
Growth YoY (%)	0.9	22.1	34.3	2.0	5.4	18.3%	13.2
Total Expenditure	**20,162.5**	**24,833.5**	**34,261.9**	**33,295.1**	**33,183**	**40,730**	**45,850**
(%) of sales	79.5	80.2	82.3	78.5	74.2	76.95	76.52
EBITDA	**5,212.4**	**6,145.2**	**7,346.9**	**9,134.8**	**11,542**	**12,200**	**14,070**
EBITDA Growth (%)	9.2	14.9	16.0	27.2	23.9	5.7	15.3
EBITDA Margin (%)	20.5	21.1	18.8	23.4	27.5	23.05	23.5
Depreciation	1,348.4	1,847.9	2,450.7	2,722.7	2,700.2	2700	2,820
EBIT	**5,220.4**	**5,496.1**	**6,032.5**	**7,943.2**	**10,808**	**9,500**	**11,250**
EBIT Growth (%)	13.2	0.6	15.6	37.5	31.9	-12.1	18.4
Net Interest Expenses	640.1	1,237.6	1,777.9	1,991.7	1,498.0	985	715
Other Income	648.1	588.6	463.4	800.1	763.8	612	550
Earnings before Taxes	**3,872.0**	**3,301.6**	**3,467.9**	**5,220.6**	**8,013.6**	**9,127**	**11,085**
EBT Margin (%)	13.5	10.4	8.3	12.3	17.9	17.2	21.5
Tax-Total	1,158.5	1,077.0	1,068.1	-531.5	2,553.9	3,039.3	3,680
Rate of tax (%)	29.9	32.6	30.8	-10.2	31.9	33.3	33.2
Net Profit	**2,713.5**	**2,224.6**	**2,399.8**	**5,752.1**	**5,459.7**	**6,087.7**	**7,405**
PAT Growth (%)	9.4	-18.0	7.9	139.7	-5.1	11.5	21.6
PAT Margin (%)	9.5	7.0	5.8	13.6	12.2	11.5	12.4
Minority Interest	1.4	-2.3	3.1	4.4	1.3	0.7	0.7
Adjusted PAT	**2,713.5**	**2,224.6**	**2,399.8**	**5,752.1**	**5,459.7**	**6087.0**	**7404.3**
EPS	**98.9**	**80.9**	**87.5**	**199.4**	**189.3**	**210.8**	**256.4**
EPS Growth (%)	9.5	-18.2	8.1	127.8	-5.1	11.3	21.6

Balance Sheet

Y/E March	2017	2018	2019	2020	2021
Share Capital	275	275	275	289	289
Reserves	24,117	26,107	28,088	38,755	43,886
Net Worth	**24,392**	**26,382**	**28,363**	**39,044**	**44,175**
Borrowings	8,474	19,480	25,337	23,019	20,488
Other Liabilities	9,343	11,280	22,826	17,151	21,514
Total Liabilities & Equity	**42,209**	**57,141**	**76,526**	**79,214**	**86,177**
Fixed Assets	25,904	39,715	56,645	57,151	55,412
Investments	7,612	6,958	4,074	6,849	13,865
Other Assets	8,693	10,468	15,806	15,215	16,900
Total Assets	**42,209**	**57,141**	**76,526**	**79,214**	**86,177**

Source: Company, Hem Securities Research.

Ratios					
Y/E March (Basic (INR))	**2017**	**2018**	**2019**	**2020**	**2021**
Profitability and return ratios					
Net profit margin (%)	9.5	7.0	5.8	13.6	12.2
EBITDA margin (%)	20.5	21.1	18.8	23.4	27.5
EBIT margin (%)	15.8	14.2	12.6	17.0	21.3
ROE (%)	11.7	8.8	8.8	17.1	13.1
ROCE (%)	13.8	11.5	10.0	11.9	15.0
Working Capital & liquidity ratios					
Payables (Days)	31.7	30.2	28.7	34.6	42.9
Inventory (Days)	30.9	32.5	32.3	35.6	33.5
Receivables (Days)	23.5	22.8	22.0	22.2	20.2
Current Ratio (x)	1.6	1.0	0.8	0.9	1.2
Valuations Ratios					
EV/sales (x)	4.6	4.1	3.2	2.7	4.8
EV/EBITDA (x)	19.8	18.9	17.2	11.7	17.3
P/E (x)	40.3	6.0	45.7	16.3	35.6
P/BV (x)	4.5	4.1	3.9	2.4	4.4
Dividend Yield (%)	0.3	0.3	0.3	0.4	0.6
Leverage Ratio					
Debt/Equity (x)	0.4	0.7	0.9	0.6	0.5

Cash Flow Statement

Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**
CF from Operating activities (A)	**5,005**	**3,888**	**6,014**	**8,972**	**12,503**
CF from Investing Activities (B)	**-2,480**	**1,862**	**1,059**	**-4,192**	**-8,859**
CF from Financing Activities (C)	**-2,535**	**-5,735**	**-6,756**	**-5,076**	**-4,356**
Net Cash Flow	-10.3	14.2	316.2	-295.9	-713
Add: Opening Bal.	90	59	101	443	147
Closing Balance	**59**	**77**	**469**	**147**	**-565**

Source: Company, Hem Securities Research.

RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
2nd Dec 2021	Buy	8970

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