

Cost pressure to stay for a while; outlook remains firm...

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 the organic and inorganic routes and added around ~30 MT of capacity in the last three years.

- The company has shown its capability to successfully integrate the acquired assets and ramped-up its utilisations in a profitable manner
- It is now **focusing on the fast growing market of eastern India**, which accounts for 10.2 MT of its total 19.6 MT planned expansion over FY21-23E

Q3FY22 Results: UltraTech's results were weak on the margins front due to sharp cost escalations on the power, fuel and freight front.

- Clocked revenue of ₹ 12,471 crore, up 5.4% YoY, 8.0% QoQ. Domestic sales volumes were at 21.9 MT (down 4.1% YoY). Demand in across all regions except north remained muted due to unseasonal rains and festive season
- EBITDA margin was down 707 bps YoY (down 470 bps QoQ) to 17.8%. EBITDA/t came in at ₹ 1015/t (vs. I-direct estimate: ₹ 1128/t)
- PAT was higher at ₹ 1,632 crore, up 5.2% YoY (vs. our estimate: ₹ 1,216 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 justify UltraTech's premium valuations.

- With a target to become net debt free by FY23E and expected RoCE of 17%+, we remain positive on the company and maintain **BUY** rating

Target Price and Valuation: Valued at ₹ 9,300 i.e. 19.0x FY23E EV/EBITDA

Key triggers for future price performance:

- Expect its capacity to increase at CAGR of ~7.4% to 131 MT by FY23E against industry average capacity CAGR of 5.6% during the same period
- 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 FY23E** supported by strong operating cash flows (from existing and acquired assets) and through efficient w/cap management

Alternate Stock Idea: Apart from UltraTech, in our cement sector coverage we also like ACC.

- It has a strong balance sheet with debt free status. The company is focusing on cost reduction and also adding new capacities via internal accruals
- BUY with a target price of ₹ 2,800/share



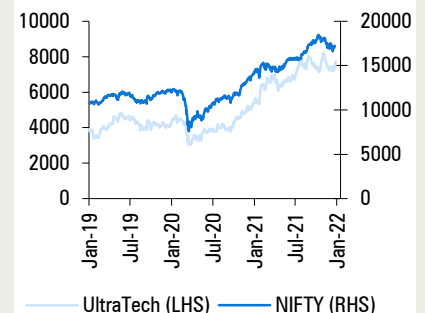
Particulars

Particulars	Amount
Mcap	₹ 227106 crore
Debt (FY21)	₹ 14915 crore
Cash & Invest (FY21)	₹ 1881 crore
EV	₹ 240139 crore
52 week H/L	₹ 7543/₹ 3736
Equity cap	₹ 288.2 crore
Face value	₹ 10

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	60.0	60.0	60.0	60.0
FII	17.3	16.6	16.5	15.7
DII	13.8	14.4	14.6	15.2
Others	8.9	9.0	9.0	9.1

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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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales (₹ crore)	29526	39933	40634	43188	13.5	51690	58817	16.7
EBITDA (₹ crore)	5826	7076	8652	10964	23.5	11189	13893	12.6
EBITDA (%)	19.7	17.7	21.3	25.4		21.6	23.6	
Adjusted PAT (₹ crore)	2458	2530	3892	5506	30.9	6176	7545	17.1
EPS (₹)	89.6	87.7	134.9	190.8		214.0	261.5	
EV/EBITDA	39.3	34.0	27.6	21.3		20.7	16.3	
EV/t (\$)	386.7	303	301	299		289	248	
RoNW (%)	9.5	7.6	10.2	12.7		12.8	13.8	
RoCE (%)	10.0	9.0	11.4	14.7		13.9	17.2	

Source: Company, ICICI Direct Research

Key performance highlights

- Domestic blended sales volumes were down 4.1% YoY to 21.9 MT while blended realisations were up 10% YoY to ₹ 5,697/tonne, marginally up 0.8% QoQ
- Demand across all regions except north remained weak during Q3 due to unseasonal rains in east/south and de-growth in infra demand in the central region, labour availability issues and higher sand prices in west & central region
- Cost of production increased further by 6.9% QoQ (up 20.2% YoY) to ₹ 4682.1/t due to 19.6% QoQ (₹ 217/t) increase in the power & fuel costs. Average fuel consumption cost was at US\$151/t vs. US\$67/t in Q3 last year
- As a result, EBITDA/t declined 20.3% QoQ (down 21.3% YoY) to ₹ 1015/t (vs. I-direct estimate: ₹ 1128/t)

Key conference call highlights

- Demand Outlook:** Strong infra pipeline of government across roads, metros and irrigation segment and upcoming general elections to keep demand momentum strong till FY24E. Pick-up in urban housing, commercial real estate to fuel demand further. Current capacity utilisation stands at 85% plus vs. average Q3 capacity utilisation of 75%. Trade mix was at 64% vs. 67% in Q2
- Cost of production:** Although fuel prices have softened, CoP for Q4FY22E is expected to remain higher at levels similar to Q3 due to higher crude prices. Also, ban on exports of Indonesian coal is expected to stay in the near term. This will have a bearing on coal prices. Expect meaningful softening to happen only from Q1FY24E onwards. Petcoke share is now at 25% in the total fuel mix
- To focus on improving fuel blending and increasing WHRS capacity. Commissioned 19 MW WHRS and 53 MW of solar power. With this expansion, the company's green energy share has gone up to 16% from 15% in Q2, which includes 156 MW of WHRS and 221 MW of solar power. UltraTech has set a target to achieve green energy mix target of 34% by 2024 and 100% renewable energy by 2050
- Cement Prices:** Cement price hikes taken in October 2021 were rolled back fully in November 2021 due to a sudden fall in the demand. Price hikes were taken in some pockets from January onwards. At the pan-India level, price hikes will be taken soon post further demand traction
- 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. Spent ₹ 2300 crore as of Q2, ₹ 1690 crore in Q3. Estimated capex for FY22E may cross ₹ 5000 crore vs. earlier guidance of ₹ 4500 crore. Capex for FY23E including maintenance capex would be ₹ 4000 crore
- The board has also approved capex of ₹ 965 crore towards modernisation and expansion of capacity at Birla White from the current 6.5 LTPA to 12.53 LTPA, in a phased manner. The company is currently meeting the white cement requirements through imports. For FY22E, planned to import 2 lakh tonne of white cement.
- B/S strength:** Retired ₹ 3459 crore of LT debt in Q3 through internal accruals
- With regard to non-core assets as a part of acquisition of Nathdwara Cement, definitive agreement has been signed to sell off the business in Europe. the transaction is expected to be closed in the current quarter

Exhibit 1: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Net Sales	12,471	12,489	11,831	5.4	11,548	8.0	Capacity utilisation at 75% vs. 73% in Q2FY22.
EBITDA	2,221	2,471	2,944	-24.6	2,600	-14.6	Spike in petcoke/coal prices led to contraction in margins
EBITDA Margin (%)	17.8	19.8	24.9	-707 bps	22.5	-470 bps	
PAT	1,632	1,216	1,550	5.2	1,300	25.5	
Key Metrics							
Blended volume (MT)	21.9	21.9	22.8	-4.1	20.4	7.1	
Realisation (₹)	5,697	5,703	5,184	9.9	5,653	0.8	
EBITDA per Tonne (₹)	1,015	1,128	1,290	-21.3	1,273	-20.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	50,044.9	51,690.4	3.3	55,410.0	58,817.1	6.1	Volume growth to remain healthy in FY22E & FY23E
EBITDA	12,843.6	11,189.2	-12.9	14,557.5	13,893.1	-4.6	
EBITDA Margin (%)	25.7	21.6	-402 bps	26.3	23.6	-265 bps	
PAT	6,864.6	6,175.7	-10.0	8,037.4	7,544.8	-6.1	
EPS (₹)	237.9	214.0	-10.0	278.5	261.5	-6.1	

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 growth 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 relatively higher, offering stability in 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 remain uncertainty in the 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, net debt/EBITDA is now at 0.5x, vs 1.72x 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 FY23E and with RoCE of 17%+, we remain positive on company and maintain **BUY** rating with revised target price of ₹ 9,300/share (ie 19x FY23E EV/EBITDA) (earlier TP ₹ 8,950/share).

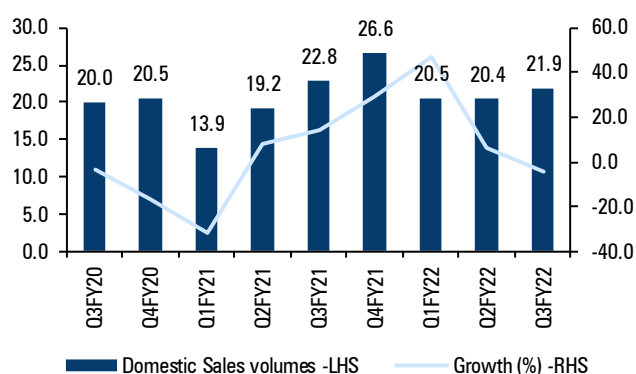
Exhibit 3: Valuation matrix

	Sales (₹ cr)	Gr (%)	EPS (₹)	Gr (%)	PE (x)	EV/Tonne (₹)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	39933.3	4.7	87.7	12.8	94.0	303	34.0	7.3	9.0
FY20	40634.2	1.8	134.9	53.8	41.6	301	27.6	10.2	11.0
FY21	43188.4	6.3	190.8	41.5	42.5	299	21.3	12.7	14.6
FY22E	51690.4	19.7	214.0	12.2	36.8	289	20.7	12.8	14.2
FY23E	58817.1	13.8	261.5	22.2	30.1	248	16.3	13.8	17.2

Source: Company, ICICI Direct Research

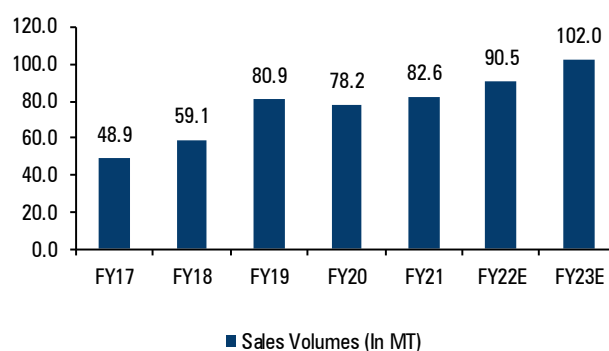
Financial story in charts

Exhibit 4: Sales volumes down 4.1% YoY to 21.9 MT



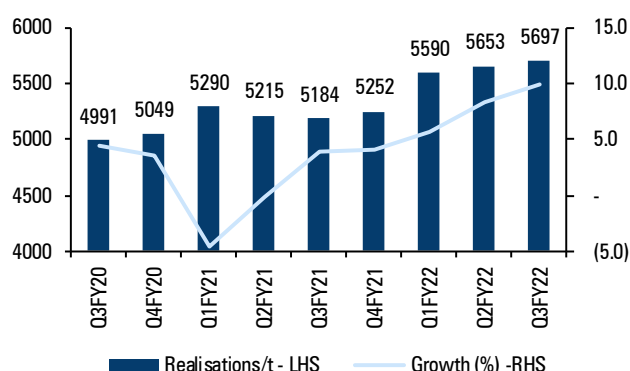
Source: Company, ICICI Direct Research

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



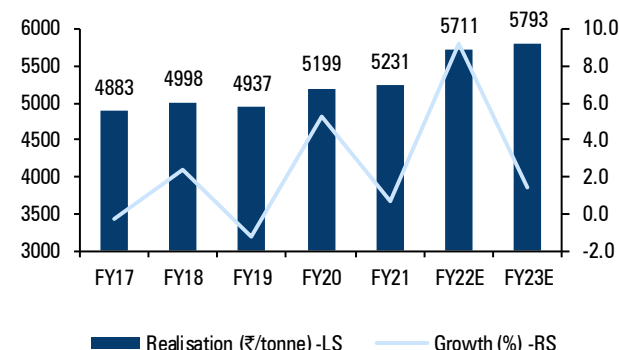
Source: Company, ICICI Direct Research

Exhibit 6: Realisations higher by 9.9% on YoY basis



Source: Company, ICICI Direct Research

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



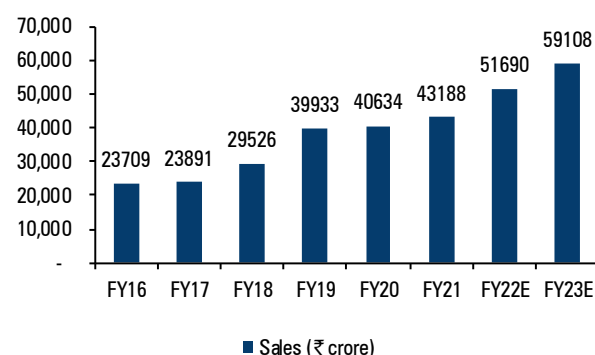
Source: Company, ICICI Direct Research

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	16.1	10.1	26.2
West	27.7		27.7
South	20.5		20.5
Domestic Total	111.4	19.5	130.9
Overseas	5.4		5.4
Total	116.8		136.3

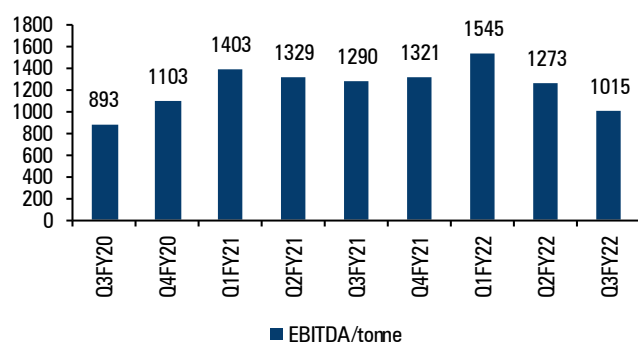
Source: Company, ICICI Direct Research

Exhibit 9: Standalone revenues to grow at 17% CAGR in FY21-23E



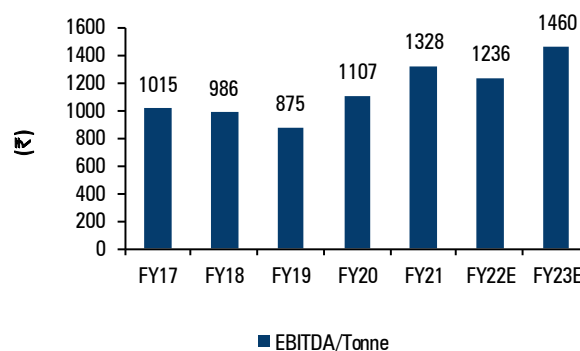
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t declines further by 20.2% QoQ due to higher in the cost pressure



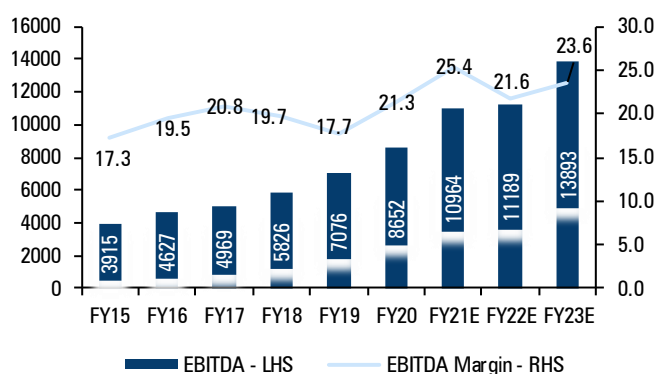
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t trajectory to improve, going ahead, due to cost pass through on firm demand outlook



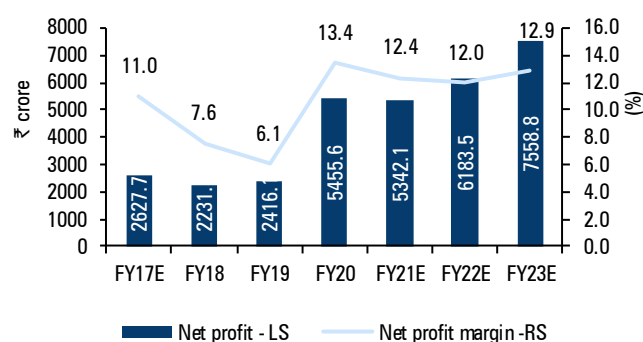
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA growth to trend



Source: Company, ICICI Direct Research

Exhibit 13: PAT margin to reach close to 13% by FY23E led by improved realisations, efficiency measures



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 14: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	40,634	43,188	51,690	58,817
Growth (%)	1.8	6.3	19.7	13.8
Raw material cost	6,907	7,539	8,392	9,745
Power & Fuel cost	7,703	7,552	11,090	12,041
Freight cost	9,570	9,940	11,941	13,265
Employees cost	2,336	2,182	2,383	2,526
Others	5,465	5,012	6,695	7,347
Total Operating Exp.	31,982	32,224	40,501	44,924
EBITDA	8,652	10,964	11,189	13,893
Growth (%)	22.3	26.7	2.1	24.2
Depreciation	2,455	2,434	2,579	3,046
Interest	1,704	1,259	903	712
Other Income	727	789	576	800
PBT	5,220	8,059	8,283	10,935
Total Tax	-236	2,553	2,107	3,390
PAT	5,456	5,506	6,176	7,545
Growth (%)	115.6	0.9	12.2	22.2
Adj. EPS (₹)	135	191	214	261

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	5,456	5,342	6,176	7,545
Add: Depreciation	2,455	2,434	2,579	3,046
(Inc)/dec in Current Assets	-435	261	-2,081	-263
Inc/(dec) in CL and Provisions	-815	6,620	381	187
CF from operating activities	6,660	14,658	7,055	10,515
(Inc)/dec in Investments	-288	-920	0	0
(Inc)/dec in Fixed Assets	-1,100	-3,062	-5,050	-4,100
Others	-1,138	1,142	0	0
CF from investing activities	-2,526	-2,839	-5,050	-4,100
Issue/(Buy back) of Equity	14	0	0	0
Inc/(dec) in loan funds	-1,565	-3,185	-2,500	-4,500
Dividend paid & dividend tax	-452	-1,288	-1,218	-1,218
Inc/(dec) in Sec. premium	0	0	0	0
Others	16	1,002	0	0
CF from financing activities	-1,987	-3,471	-3,718	-5,718
Net Cash flow	-346	1,571	-1,213	697
Opening Cash	656	310	1,881	668
Closing Cash	310	1,881	668	1,365

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	289	289	289	289
Reserve and Surplus	38,008	43,064	48,022	54,348
Total Shareholders funds	38,296	43,353	48,310	54,637
Total Debt	18,100	14,915	12,415	7,915
Deferred Tax Liability	4,077	5,219	5,219	5,219
Total Liabilities	60,473	63,487	65,944	67,771
Assets				
Gross Block	64,923	67,569	72,641	77,141
Less: Acc Depreciation	19,668	22,102	24,682	27,728
Net Block	45,255	45,467	47,959	49,413
Capital WIP	1,106	1,522	1,500	1,100
Total Fixed Assets	46,361	46,989	49,459	50,513
Investments	13,090	20,786	20,286	20,286
Inventory	3,834	3,722	4,209	4,815
Debtors	1,848	2,286	2,529	2,628
Loans and Advances	2,300	1,353	1,748	1,781
Other Current Assets	3,039	3,399	4,355	3,879
Cash	310	1,881	668	1,365
Total Current Assets	11,331	12,641	13,509	14,469
Creditors	3,250	6,334	6,411	6,480
Provisions	7,059	10,595	10,899	11,016
Total Current Liabilities	10,309	16,929	17,310	17,497
Net Current Assets	1,022	-4,288	-3,801	-3,028
Others Assets	0	0	0	0
Application of Funds	60,473	63,486	65,944	67,771

Source: Company, ICICI Direct Research

Exhibit 17: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adj. EPS (₹)	134.9	190.8	214.0	261.5
Cash EPS	274.1	269.5	303.4	367.0
BV	1,327.1	1,502.3	1,674.1	1,893.4
DPS	13.0	37.0	35.0	35.0
Cash Per Share	10.7	65.2	23.2	47.3
Operating Ratios (%)				
EBITDA Margin	21.3	25.4	21.6	23.6
PBT / Total Operating income	12.8	18.3	16.0	18.6
PAT Margin	13.4	12.4	11.9	12.8
Inventory days	34.2	31.9	28.0	28.0
Debtor days	18.9	17.5	17.0	16.0
Creditor days	28.0	40.5	45.0	40.0
Return Ratios (%)				
RoE	10.2	12.7	12.8	13.8
RoCE	11.4	14.7	13.9	17.2
RoIC	11.6	16.0	15.1	18.5
Valuation Ratios (x)				
P/E	41.6	42.5	36.8	30.1
EV / EBITDA	27.6	21.3	20.7	16.3
EV / Net Sales	5.9	5.4	4.5	3.9
Market Cap / Sales	5.6	5.3	4.4	3.9
Price to Book Value	5.9	5.2	4.7	4.2
Solvency Ratios				
Debt/EBITDA	2.1	1.4	1.1	0.6
Debt / Equity	0.5	0.3	0.3	0.1
Current Ratio	1.1	0.7	0.8	0.8
Quick Ratio	1.1	0.6	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,375	2,800	BUY	85	110	126	16.3	11.5	10.0	138	134	134	14.5	18.7	18.9	12.6	14.3	14.4
Ambuja Cem*	407	475	BUY	9	12	13	19.7	14.8	13.5	232	208	206	17.6	19.9	20.3	20.3	22.6	22.6
UltraTech Cem	7,870	9,300	BUY	191	214	261	21.3	20.7	16.3	299	289	248	14.7	13.9	17.2	12.7	12.8	13.8
Shree Cement	27,550	34,500	BUY	641	672	922	26.1	23.9	18.4	307	303	296	18.2	18.0	20.9	15.2	14.0	16.3
Heidelberg Cem	239	285	HOLD	14	15	17	12.0	10.0	8.3	131	127	121	20.1	23.7	27.2	21.1	20.3	20.8
JK Cement	3,600	3,950	HOLD	100	123	138	19.3	16.9	14.2	228	231	230	18.6	19.0	19.9	20.6	20.7	19.3
JK Lakshmi Cem	608	785	BUY	34	37	40	9.6	8.7	8.0	81	80	81	21.1	22.0	21.5	19.0	19.1	17.9
Star Cement	101	120	BUY	6	7	8	10.8	8.4	7.2	90	86	83	13.3	16.4	17.1	12.6	14.2	13.6
Ramco Cement	1,022	1,200	BUY	32	38	48	17.3	16.3	13.2	198	203	189	8.6	9.1	10.4	13.5	13.8	14.8
Sagar Cement	270	350	BUY	16	12	23	9.2	10.1	6.3	91	66	62	15.6	12.6	20.0	16.0	11.0	17.5

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

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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