

January 17, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		BUY	
Target Price	8,535		8,650	
Sales (Rs. m)	5,63,871	6,26,356	5,66,775	6,32,431
% Chng.	(0.5)	(1.0)		
EBITDA (Rs. m)	1,34,246	1,50,814	1,37,150	1,56,889
% Chng.	(2.1)	(3.9)		
EPS (Rs.)	268.7	320.5	277.1	336.8
% Chng.	(3.0)	(4.8)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	442	507	564	626
EBITDA (Rs. bn)	111	118	134	151
Margin (%)	25.0	23.3	23.8	24.1
PAT (Rs. bn)	53	64	78	93
EPS (Rs.)	184.2	221.2	268.7	320.5
Gr. (%)	45.7	20.0	21.5	19.3
DPS (Rs.)	37.0	43.2	52.1	62.5
Yield (%)	0.5	0.5	0.7	0.8
RoE (%)	12.8	13.6	14.7	15.5
RoCE (%)	13.2	13.9	16.1	17.9
EV/Sales (x)	5.3	4.6	4.0	3.4
EV/EBITDA (x)	21.2	19.6	16.8	14.3
PE (x)	42.7	35.6	29.3	24.6
P/BV (x)	5.1	4.6	4.1	3.6

Key Data

ULTC.BO | UTCEM IN

52-W High / Low	Rs.8,269 / Rs.5,260
Sensex / Nifty	61,309 / 18,308
Market Cap	Rs.2,272bn/ \$ 30,600m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.2530.97m

Shareholding Pattern (%)

Promoter's	59.96
Foreign	15.74
Domestic Institution	15.15
Public & Others	9.15
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.3	7.3	44.3
Relative	(0.3)	(7.0)	15.4

Kamlesh Bagmar

kamleshbagmar@plindia.com | 91-22-66322237

Amit Khimesra

amitkhimesra@plindia.com | 91-22-66322244

Higher costs led the miss on earnings

Quick Pointers:

- Costs to remain at elevated levels in Q4 due to high coal prices; reduction expected in Q1FY23e
- Net Debt fell 3% QoQ/Rs1.9bn to Rs61.5bn due to reduction in working capital

UTCEM reported Q3FY22 earnings below our/consensus estimates (CE) by 9%/10%, largely due to steeper than expected increase in cost and in-line realisations. EBITDA/t fell 20% YoY/20% QoQ to Rs1,062 (PLe: Rs1,160).

Street attributes the slide in margins over last couple of quarters to abnormal increase in costs and erratic recovery in prices coupled with demand impacted by unseasonal rains, sand shortage, etc. However, we believe that scope for improvement in margins is very limited as sector is generating strong cash flows with continuous capacity addition. This could potentially be the key driver for earnings downgrade by street. We continue to like UTCEM given its market leading position (20%+ market share), strong B/S (Net debt/EBITDA at 0.5x) and efficient operations. However, high expectation with 2-year volume CAGR of 12%, EBITDA/t of Rs1,300 and rich valuations of EV/EBITDA of 14.2x and P/E of 24.6x FY24e leaves limited upside with potential risk of earnings downgrade. We downgrade stock to ACCUMULATE with revised TP of Rs8,535 (earlier Rs8,650) EV/EBITDA of 15.5x FY24e.

- Higher than expected costs led the miss:** Volumes fell 3.6% YoY (+7% QoQ) at 22.0mnt (PLe:22.1mnt). Blended realisations increased 1% QoQ/Rs50 (+7.8% YoY/Rs400/t) at Rs5,525/t (PLe:Rs5,535/t). Domestic grey cement realisations remained flat QoQ (+6.5% YoY/Rs300t) at Rs4,960/t (PLe: Rs5,015/t). RMC Revenues grew 7.7% YoY/8.8% QoQ at Rs6.7bn. Cost increased 19% YoY to Rs4,595, significantly below our estimate of Rs4,450. The miss was largely due to steeper than expected increase in energy cost. Impacted by margin compression and decline in volumes, EBITDA declined 23% YoY to Rs23.4bn (PLe:Rs25.6bn). Adj. PAT fell 27% YoY to Rs11.2bn (PLe: Rs12.5bn/CE:Rs14.9bn).
- Key takeaways of earnings call:** **1)** In spite of high base want to achieve volume growth in Q4 **2)** Capex guidance for FY22e/FY23e at Rs50bn/Rs40bn (Spent Rs16.9bn/Rs40bn in Q3FY22/9MFY22) **3)** Announced doubling of white cement capacity to 1.25mtpa at a capex of Rs9.65bn; commissioning will be stretched in phases till 2026 **4)** Signed definitive agreement to divest glass fiber business (part of Binani acquisition) in Europe for ~€90mn **5)** Consumption cost of pet coke/imported coal at US\$193/US\$137 per ton **6)** Share of petcoke usage in Q3 at 25% in fuel mix **7)** Trade sales share improved by 700bps QoQ to 64% **8)** Capacity utilisation during Dec'21/Q3FY22 at 80%+/75% **9)** Other operating income included long pending incentive income of Rs500mn received for Rajashri cement plant in Karnataka

Exhibit 1: Q3FY22 Result Overview – Standalone (Rs mn)

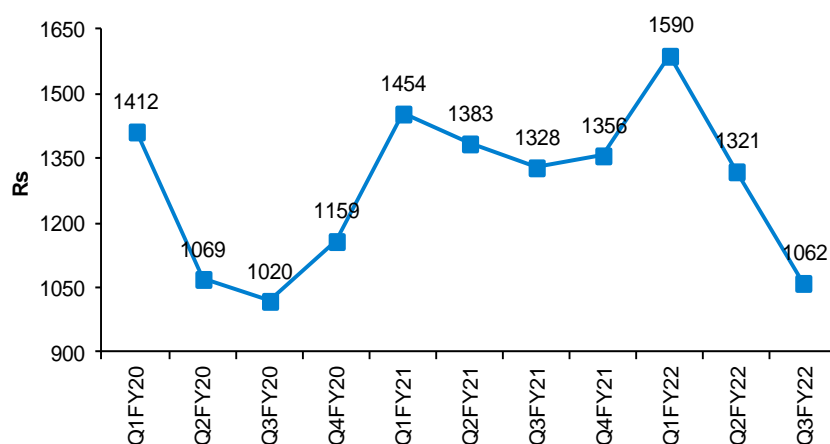
Y/e March (Rs mn)	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	9MFY22	9MFY21	YoY gr. (%)
Net Sales	121,860	117,080	4.1	112,720	347,850	288,930	20.4
Raw Material	22,321	19,091	16.9	18,355	56,823	49,881	13.9
<i>% of Net Sales</i>	<i>18.3</i>	<i>16.3</i>		<i>16.3</i>	<i>16.3</i>	<i>17.3</i>	
Staff Costs	5,994	5,668	5.7	6,295	17,727	16,066	10.3
<i>% of Net Sales</i>	<i>4.9</i>	<i>4.8</i>		<i>5.6</i>	<i>5.1</i>	<i>5.6</i>	
Power & Fuel	29,008	21,803	33.0	22,631	73,571	50,961	44.4
<i>% of Net Sales</i>	<i>23.8</i>	<i>18.6</i>		<i>20.1</i>	<i>21.2</i>	<i>17.6</i>	
Freight	28,635	28,160	1.7	26,379	81,244	66,829	21.6
<i>% of Net Sales</i>	<i>23.5</i>	<i>24.1</i>		<i>23.4</i>	<i>23.4</i>	<i>23.1</i>	
Other Expenses	16,534	14,139	16.9	15,825	45,660	33,967	34.4
<i>% of Net Sales</i>	<i>13.6</i>	<i>12.1</i>		<i>14.0</i>	<i>13.1</i>	<i>11.8</i>	
Total Expenditure	102,492	88,861	15.3	89,484	275,025	217,705	26.3
EBITDA	19,369	28,219	(31.4)	23,236	72,825	71,226	2.2
<i>Margin (%)</i>	<i>15.9</i>	<i>24.1</i>		<i>20.6</i>	<i>20.9</i>	<i>24.7</i>	
Depreciation	6,089	6,022	1.1	6,127	18,194	18,035	0.9
Other income	3,935	3,843	2.4	4,182	11,780	10,340	13.9
EBIT	17,214	26,039	(33.9)	21,291	66,411	63,531	4.5
Interest	1,650	3,007	(45.1)	1,828	6,237	9,360	(33.4)
PBT	15,564	23,033	(32.4)	19,463	60,175	54,171	11.1
Extraordinary income/(expense)	-	-		-	-	(1,640)	
PBT (After EO)	15,564	23,033	(32.4)	19,463	60,175	52,531	14.6
Tax	(751)	7,530	(110.0)	6,462	14,048	16,885	(16.8)
<i>% PBT</i>	<i>-4.8</i>	<i>32.7</i>		<i>33.2</i>	<i>23.3</i>	<i>32.1</i>	
Reported PAT	16,315	15,503	5.2	13,001	46,127	35,645	29.4
Adjusted PAT	10,963	15,503	(29.3)	13,001	40,774	36,772	10.9

Source: Company, PL

Exhibit 2: Operating Metrics

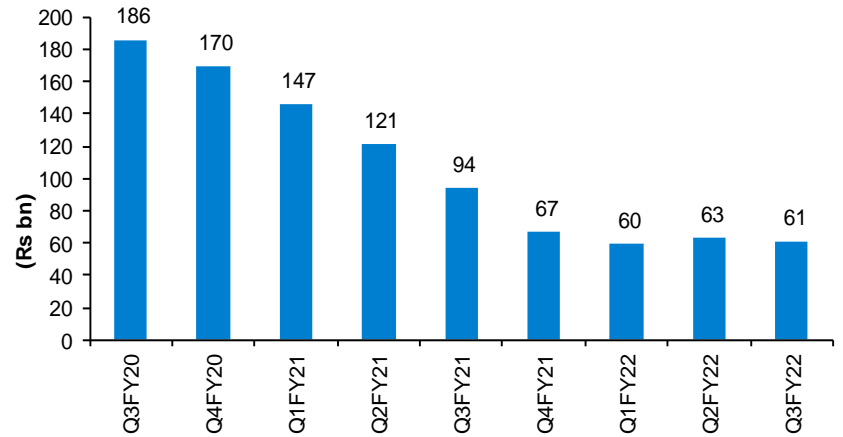
Y/e March	Q3FY22	Q3FY21	YoY gr. (%)	Q2FY22	9MFY22	9MFY21	YoY gr. (%)
Volume (mn t)	22.0	22.8	(3.6)	20.5	63.0	56.0	12.6
Net Blended Realisations (Rs/t)	5,539	5,131	8.0	5,501	5,520	5,162	6.9
EBITDA/t (Rs/t)	880	1,237	(28.8)	1,134	1,156	1,273	(9.2)

Source: Company, PL

Exhibit 3: EBITDA/t (incl other operating income) fell 20% YoY/20.0% QoQ


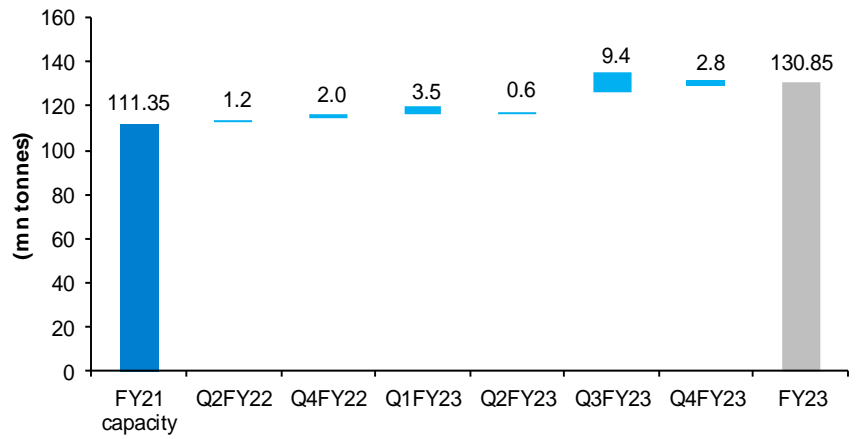
Source: Company, PL

Exhibit 4: Net debt stabilised in range of Rs60-63bn



Source: Company, PL

Exhibit 5: 19.5mnt of new capacity to fully commission by FY23 end



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	4,42,393	5,07,475	5,63,871	6,26,356
YoY gr. (%)	5.9	14.7	11.1	11.1
Cost of Goods Sold	70,858	74,507	80,799	90,441
Gross Profit	3,71,535	4,32,968	4,83,072	5,35,915
Margin (%)	84.0	85.3	85.7	85.6
Employee Cost	23,530	25,162	26,941	28,657
Other Expenses	36,670	41,599	45,227	50,270
EBITDA	1,10,814	1,18,240	1,34,246	1,50,814
YoY gr. (%)	27.0	6.7	13.5	12.3
Margin (%)	25.0	23.3	23.8	24.1
Depreciation and Amortization	27,002	28,372	29,776	31,274
EBIT	83,812	89,868	1,04,470	1,19,540
Margin (%)	18.9	17.7	18.5	19.1
Net Interest	14,857	14,155	9,555	5,555
Other Income	12,206	16,190	16,531	19,120
Profit Before Tax	78,555	91,903	1,11,446	1,33,106
Margin (%)	17.8	18.1	19.8	21.3
Total Tax	25,387	28,065	33,891	40,585
Effective tax rate (%)	32.3	30.5	30.4	30.5
Profit after tax	53,168	63,838	77,555	92,521
Minority interest	(13)	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	53,180	63,838	77,555	92,521
YoY gr. (%)	45.7	20.0	21.5	19.3
Margin (%)	12.0	12.6	13.8	14.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	53,180	63,838	77,555	92,521
YoY gr. (%)	(7.6)	20.0	21.5	19.3
Margin (%)	12.0	12.6	13.8	14.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	53,180	63,838	77,555	92,521
Equity Shares O/s (m)	289	289	289	289
EPS (Rs)	184.2	221.2	268.7	320.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	6,11,123	6,22,123	6,71,723	6,86,746
Tangibles	6,11,123	6,22,123	6,71,723	6,86,746
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,19,205	1,47,577	1,77,353	2,08,628
Tangibles	1,19,205	1,47,577	1,77,353	2,08,628
Intangibles	-	-	-	-
Net fixed assets	4,91,918	4,74,546	4,94,370	4,78,118
Tangibles	4,91,918	4,74,546	4,94,370	4,78,118
Intangibles	-	-	-	-
Capital Work In Progress	38,535	77,510	68,260	89,337
Goodwill	62,199	62,199	62,199	62,199
Non-Current Investments	20,060	20,060	20,060	20,060
Net Deferred tax assets	(60,335)	(72,072)	(86,251)	(1,03,233)
Other Non-Current Assets	8,551	8,821	9,103	9,401
Current Assets				
Investments	1,08,939	1,08,939	1,08,939	1,08,939
Inventories	40,180	48,662	54,070	60,062
Trade receivables	25,717	31,978	35,532	39,469
Cash & Bank Balance	20,076	(6,700)	3,763	55,390
Other Current Assets	15,482	17,404	18,510	19,715
Total Assets	8,61,835	8,74,546	9,07,240	9,76,558
Equity				
Equity Share Capital	2,887	2,887	2,887	2,887
Other Equity	4,38,860	4,92,018	5,57,114	6,34,583
Total Network	4,41,747	4,94,904	5,60,000	6,37,469
Non-Current Liabilities				
Long Term borrowings	2,04,878	1,49,878	89,878	49,878
Provisions	3,655	3,655	3,655	3,655
Other non current liabilities	2,495	2,495	2,495	2,495
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	46,993	45,881	50,980	56,629
Other current liabilities	87,092	91,020	99,340	1,08,558
Total Equity & Liabilities	8,61,835	8,74,546	9,07,240	9,76,558

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	78,576	91,903	1,11,446	1,33,106
Add. Depreciation	27,002	28,372	29,776	31,274
Add. Interest	14,857	14,155	9,555	5,555
Less Financial Other Income	12,206	16,190	16,531	19,120
Add. Other	(5,785)	(11,270)	(11,081)	(12,824)
Op. profit before WC changes	1,14,650	1,23,160	1,39,696	1,57,111
Net Changes-WC	23,289	(15,066)	1,762	2,001
Direct tax	(12,910)	(16,329)	(19,712)	(23,603)
Net cash from Op. activities	1,25,030	91,765	1,21,746	1,35,509
Capital expenditures	(18,387)	(49,975)	(40,350)	(36,100)
Interest / Dividend Income	-	-	-	-
Others	(70,203)	11,270	11,081	12,824
Net Cash from Invt. activities	(88,590)	(38,705)	(29,269)	(23,276)
Issue of share cap. / premium	138	-	-	-
Debt changes	(25,646)	(55,000)	(60,000)	(40,000)
Dividend paid	(3,748)	(10,680)	(12,459)	(15,052)
Interest paid	(14,308)	(14,155)	(9,555)	(5,555)
Others	-	-	-	-
Net cash from Fin. activities	(43,565)	(79,835)	(82,014)	(60,606)
Net change in cash	(7,125)	(26,775)	10,463	51,626
Free Cash Flow	1,06,643	41,790	81,396	99,409

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	1,37,570	1,12,990	1,12,420	1,21,560
YoY gr. (%)	34.9	55.6	14.0	3.9
Raw Material Expenses	22,170	13,170	14,800	18,550
Gross Profit	1,15,400	99,820	97,620	1,03,010
Margin (%)	83.9	88.3	86.8	84.7
EBITDA	34,150	31,140	24,210	20,480
YoY gr. (%)	54.4	60.3	(3.7)	(29.5)
Margin (%)	24.8	27.6	21.5	16.8
Depreciation / Depletion	6,700	6,330	6,490	6,450
EBIT	27,450	24,810	17,720	14,030
Margin (%)	20.0	22.0	15.8	11.5
Net Interest	3,670	3,200	2,250	1,780
Other Income	2,720	3,550	4,280	3,580
Profit before Tax	26,140	25,160	19,750	15,830
Margin (%)	19.0	22.3	17.6	13.0
Total Tax	8,650	8,340	6,460	4,600
Effective tax rate (%)	33.1	33.1	32.7	29.1
Profit after Tax	17,490	16,820	13,290	11,230
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	17,731	16,820	13,290	11,230
YoY gr. (%)	58.9	90.1	8.9	(27.5)
Margin (%)	12.9	14.9	11.8	9.2
Extra Ord. Income / (Exp)	241	-	-	-
Reported PAT	17,490	16,820	13,290	11,230
YoY gr. (%)	56.4	116.3	9.3	(27.5)
Margin (%)	12.7	14.9	11.8	9.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	17,490	16,820	13,290	11,230
Avg. Shares O/s (m)	289	289	289	289
EPS (Rs)	61.4	58.3	46.0	38.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	184.2	221.2	268.7	320.5
CEPS	277.8	319.5	371.8	428.9
BVPS	1,530.4	1,714.5	1,940.1	2,208.5
FCF	369.5	144.8	282.0	344.4
DPS	37.0	43.2	52.1	62.5
Return Ratio(%)				
RoCE	13.2	13.9	16.1	17.9
ROIC	11.2	11.5	13.6	16.5
RoE	12.8	13.6	14.7	15.5
Balance Sheet				
Net Debt : Equity (x)	0.2	0.1	0.0	(0.2)
Net Working Capital (Days)	16	25	25	25
Valuation(x)				
PER	42.7	35.6	29.3	24.6
P/B	5.1	4.6	4.1	3.6
P/CEPS	277.8	319.5	371.8	428.9
EV/EBITDA	21.2	19.6	16.8	14.3
EV/Sales	5.3	4.6	4.0	3.4
Dividend Yield (%)	0.5	0.5	0.7	0.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Total volume (mn te)	83	89	98	111
Blended Real. (Rs/te)	5,169	5,476	5,586	5,455
Blended EBITDA/tonne (Rs)	1,266	1,248	1,298	1,286
RM cost (Rs/ te)	913	928	932	902
Power, Oil & Fuel (Rs/ te)	915	1,130	1,172	1,085
Freight Chrgs. (Rs/ te)	1,204	1,279	1,292	1,306

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-22	BUY	8,650	7,585
2	16-Dec-21	BUY	8,600	7,440
3	19-Oct-21	BUY	8,600	7,399
4	06-Oct-21	BUY	8,600	7,464
5	06-Sep-21	BUY	8,600	7,930
6	23-Jul-21	BUY	8,600	7,459
7	06-Jul-21	BUY	7,750	6,720
8	01-Jul-21	BUY	7,750	6,776
9	10-May-21	BUY	7,500	6,403
10	07-Apr-21	BUY	7,370	6,737

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,555	2,324
2	Ambuja Cement	BUY	440	399
3	Coal India	Accumulate	172	161
4	Dalmia Bharat	Accumulate	2,280	1,990
5	Heidelberg Cement India	Reduce	225	243
6	Hindalco Industries	BUY	620	493
7	Hindustan Zinc	Reduce	288	330
8	Jindal Steel & Power	BUY	555	404
9	JK Lakshmi Cement	Hold	665	602
10	JSW Steel	Accumulate	810	672
11	NMDC	Accumulate	165	140
12	Shree Cement	Hold	28,000	27,001
13	Steel Authority of India	Accumulate	152	110
14	Tata Steel	BUY	1,842	1,169
15	The Ramco Cements	Hold	1,015	1,047
16	Ultratech Cement	BUY	8,650	7,585

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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