



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	✗	↔	✗

ESG Disclosure Score NEW

ESG RISK RATING
Updated Apr 08, 2022 **35.92**

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 163,890 cr
52-week high/low:	Rs. 8267/5609
NSE volume: (No of shares)	5.9 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

Shareholding (%)

Promoters	60.0
FII	14.0
DII	16.5
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.0	-6.2	-21.3	-28.4
Relative to Sensex	-13.2	-8.8	-19.6	-24.3

Sharekhan Research, Bloomberg

UltraTech Cement Ltd

Asserting leadership; uncertainties cloud industry profitability

Cement	Sharekhan code: ULTRACEMCO		
Reco/View: Buy	↔	CMP: Rs. 5,677	Price Target: Rs. 7,100
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Ultratech announced a capex of Rs. 12,886 crore to add 22.6 mtpa by FY2025 in addition to its ongoing expansion of 16.3 mtpa additions by FY2023. It is likely to increase its capacity share led by expedited capacity additions.
- Similar aggression seen in terms of capacity additions by other three large players may lead to lower operational profitability for industry if demand is unable to keep pace with supply and energy costs do not normalize materially.
- UltraTech's strengthened balance sheet is unlikely to get stretched although its target of achieving net surplus position would get delayed to post FY2025.
- We maintain a Buy on UltraTech with a revised PT of Rs. 7,100, given a downward revision in valuation multiples to factor in the risk on operational profitability led by aggressive expansions by large players including UltraTech.

UltraTech Cement (UltraTech) announced its latest round of capex plan of Rs. 12,886 crore to add 22.6 mtpa cement capacities at \$76/tonne. The same would mean capacity addition of almost 39 mtpa (including 16.3 mtpa ongoing expansions) to reach 153.5 mtpa domestic capacity from current 114.6 mtpa over a three year period by FY2025. It would aid in maintaining its leadership positioning (21% installed capacity share as on FY2022) in the sector. With this, the top four players (UltraTech, Adani Group, Shree Cement, Dalmia Bharat) which account for almost half of the domestic installed capacity have hinted at strong capacity additions viz. Adani group looking to add 70 mtpa over five years, Shree Cement ~37 mtpa by FY2030 and Dalmia Bharat ~13 mtpa by FY2024. We believe these aggressive capacity additions by large players can put undue pressure on operational profitability especially if cement demand do not resonate with the supply and energy costs do not normalize to higher extent.

- **Capacity announcement to maintain UltraTech leadership:** Ultratech holds 21% installed capacity share in the domestic market with 114.6 mtpa capacity as on FY2022. Ongoing expansions to reach 130.9 mtpa domestic capacity by FY2023 and 153.5 mtpa by FY2025 is expected to increase its installed capacity share in the industry owing to expedited capacity additions. The company's low consolidated net debt-to-equity at 0.08x as on FY2022 and healthy cash flow generation is unlikely to stretch balance sheet but its target of achieving net surplus position would get delayed to post FY2025.
- **Top four's aggression may backfire if demand does not reciprocate equally:** Apart from Ultratech, Adani group had recently indicated in media its intention to aggressively double its existing 70 mtpa capacity over the next five years. Shree Cement targets 80 mtpa capacity by FY2030 from 43 mtpa. Dalmia Bharat has capacity target of 48.5 mtpa by FY2024 from 35.9 mtpa while it may delay its plan to reach 110-130 mtpa over the long term. The aggression shown by top four players would lead to lower operational profitability for the industry if the demand environment do not reciprocate and energy costs do not decline materially from current levels.
- **Mid and small players to be in a fix:** The cement industry has been consolidating and is expected to do so going ahead with larger balance sheet size players having the wherewithal to influence the industry's performance. Mid-sized and small players are likely to be at receiving end due to their inability to scale up keeping up the pace with much larger peers. Operational profitability of these players would get impacted to a greater extent in absence of scale and increased competitive environment in regional markets.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 7,100: We remain optimistic on the domestic cement demand growth over a longer period driven by expected healthy demand from infrastructure, rural housing and urban housing. However, aggressive capacity expansion plans of large players could get back fired if cement demand does not grow in tandem with rising supply. Consequently, there is a risk of possible downgrades in earnings estimates for the industry including for UltraTech going ahead. Considering the same, we lower our EV/EBITDA valuation multiple for Ultratech, which is currently trading at 9.8x EV/EBITDA on FY2024E earnings, below its long-term historical average. We continue to maintain our Buy rating on the stock with a revised price target (PT) of Rs. 7,100.

Key Risks

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

Valuation (Standalone)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	43,188	50,663	59,335	67,727
OPM (%)	27.2%	22.8%	23.0%	23.3%
Adjusted PAT	5,457	5,549	6,986	8,462
% YoY growth	49.4%	1.7%	25.9%	21.1%
Adjusted EPS (Rs.)	189.1	192.2	242.1	293.2
P/E (x)	30.0	29.5	23.5	19.4
P/B (x)	3.8	3.3	2.9	2.6
EV/EBITDA (x)	14.7	14.8	11.9	9.8
RoNW (%)	13.4%	12.0%	13.3%	14.1%
RoCE (%)	10.8%	10.2%	12.2%	13.3%

Source: Company; Sharekhan estimates

Capacity expansions by FY2025 to maintain leadership position

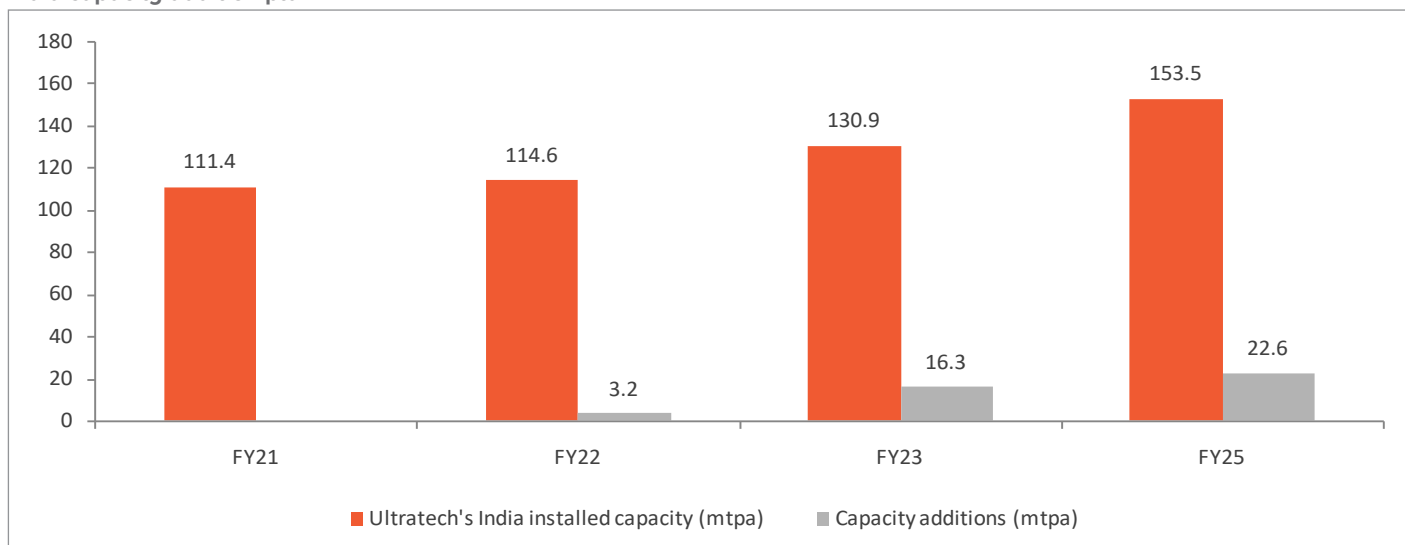
UltraTech announced capex of Rs. 12,886 crore towards increasing capacity by 22.6 mtpa with a mix of brown field and green field expansion at \$76/tonne. Commercial production from these new capacities is expected to go onstream in a phased manner, by FY25. The company's ongoing expansion plan to reach 130.9 mtpa domestic capacity remains on track to be completed by FY2023-end. Upon completion of the latest round of expansion, its overall consolidated capacity will grow to 159 mtpa from 120 mtpa currently. The company had during its Q4FY2022 earnings conference call indicated that it would be coming out with another round of capacity expansion plans to increase capacities post FY2023. However, it has not yet announced region wise capacity additions along with the exact mode of financing (debt-equity mix). As on FY2022, it hold leadership position with 21% capacity share in the domestic market. Ongoing and planned capacity additions are likely to maintain its capacity share over 21% in FY2026.

UltraTech's ongoing and latest announced capacity additions

Zones	Installed capacity (FY22, mtpa)	Regional mix (%)	Industry Capacity (mtpa)	Ultratech share (%)	Ultratech capacity by FY23 (mtpa)	Ultratech capacity by FY25
North	23.8	21	111	21	26.3	-
Central	25.3	22	73	35	28.4	-
East	17.4	15	114	15	26.3	-
West	27.7	24	78	36	29.5	-
South	20.5	18	164	13	20.5	-
All India	114.6	100	540	21	130.9	153.5
Overseas	5.4	-	-	-	5.4	5.4
Total	120.0	-	-	-	136.3	158.9

Source: Company, Sharekhan Research

India capacity addition plan



Source: Sharekhan Research

Impact on industry

The cement industry is expected to witness high capacity additions over the next five years. Currently, the top four players (Ultratech, Adani group, Shree Cement and Dalmia Bharat) account for almost half of the total domestic installed capacity. All the four players have in the recent past indicated towards aggressive growth plans viz. Ultratech – 38.9 mtpa additions by FY25, Adani group planning to double its existing 70 mtpa capacity, Shree cement - ~37 mtpa addition by FY30 and Dalmia Bharat - ~13 mtpa addition by FY24. The same is likely to put pressure on realizations and operational profitability if cement demand growth do not reciprocate and energy costs do not normalise.

Outlook and Valuation

■ Sector view - Improving demand brightens outlook

The cement industry has seen a sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the trailing five years. Amid COVID-19 led disruption, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand has started to pick up. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

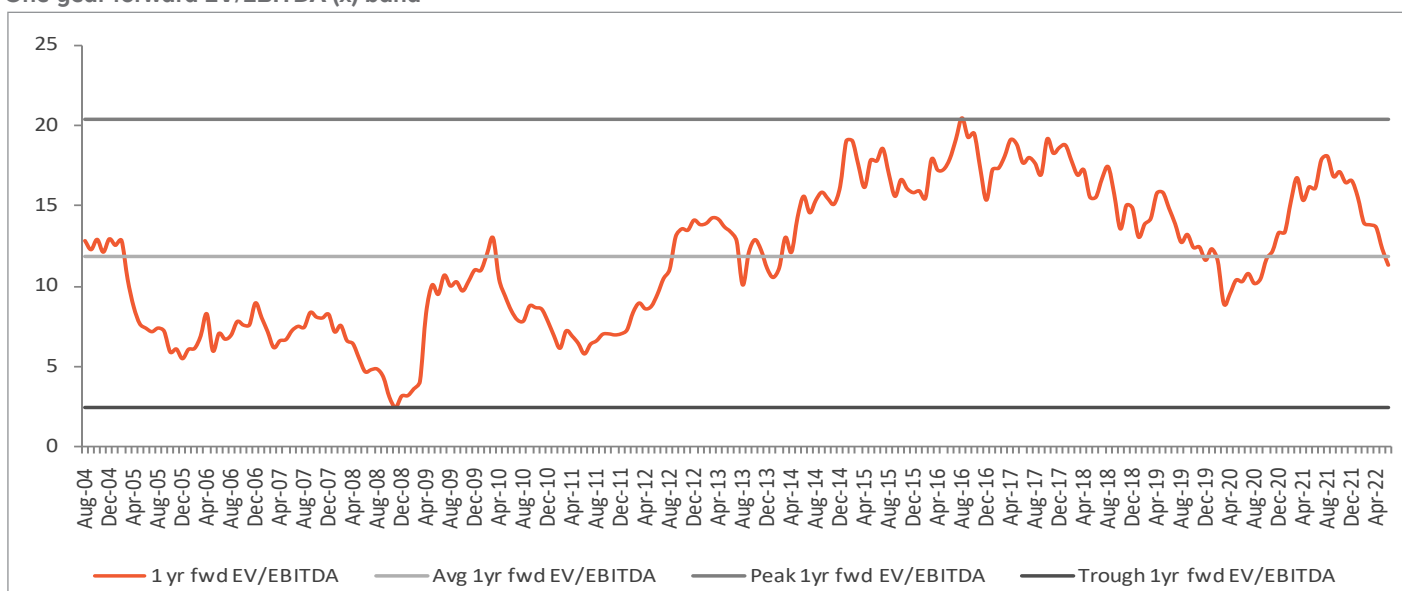
■ Company outlook - Healthy cement demand and balance sheet

UltraTech is expected to see sustained demand emanating from the rural sector and infrastructure sector. Further, demand from the real estate segment in the urban sector has started to witness strong traction with favourable government policies and lower interest rate regime. Management is optimistic about a sustainable demand environment for the cement sector over a longer period, barring the near-term impact of the second wave. The company's capacity expansion plans for adding 19.5 mtpa at a cost of Rs. 6,527 crore is on track and expected to be completed by FY2023-end. Further, the company announced 22.6 mtpa capacity additions to reach 153.5 mtpa installed capacity by FY2025. The company is well placed to benefit from rising cement demand over the next 4-5 years.

■ Valuation - Maintain Buy with a revised PT of Rs. 7,100

We remain optimistic on the domestic cement demand growth over a longer period driven by expected healthy demand from infrastructure, rural housing and urban housing. However, aggressive capacity expansion plans of large players could get back fired if cement demand does not grow in tandem with rising supply. Consequently, there is a risk of possible downgrades in earnings estimates for the industry including for UltraTech going ahead. Considering the same, we lower our EV/EBITDA valuation multiple for Ultratech, which is currently trading at 9.8x EV/EBITDA on FY2024E earnings, below its long-term historical average. We continue to maintain our Buy rating on the stock with a revised price target (PT) of Rs. 7,100.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech Cement	23.5	19.4	11.9	9.8	2.9	2.6	13.3	14.1
Shree Cement	30.5	25.8	15.6	13.3	3.9	3.4	13.4	14.0
The Ramco Cement	19.8	16.4	12.0	10.3	2.1	1.9	11.0	12.0
Dalmia Bharat	31.9	26.1	8.7	7.6	1.4	1.4	4.5	5.3

Source: Sharekhan Research

About company

UltraTech's parent company, Aditya Birla Group, is in the league of Fortune 500 companies. UltraTech is the largest manufacturer of grey cement, ready mix concrete (RMC), and white cement in India. With consolidated grey cement capacity of 116.75 mtpa, it is the third largest cement producer in the world, excluding China, and the only one globally (outside China) to have 100+ mtpa of cement manufacturing capacity in a single country. The company's business operations span across UAE, Bahrain, Sri Lanka, and India.

Investment theme

UltraTech is India's largest cement company. We expect UltraTech to report industry-leading volume growth on account of timely capacity expansion (inorganic and organic expansions) and revival in demand (demand pick-up in infrastructure and urban housing along with continued demand emanating from the rural housing segment). We expect the company to be the biggest beneficiary of multi-year industry upcycle, being a market leader and its timely scaling up of capacities and profitability in the shortest possible time.

Key Risks

- ♦ Slowdown in government spending on infrastructure and increased key input costs led by pet coke and diesel prices.
- ♦ Slowdown in the housing sector, especially affordable housing projects.
- ♦ Inability to improve capacity utilisation and profitability of acquired units.

Additional Data

Key management personnel

Mr. Kumar Mangalam Birla	Non Independent Director-Chairman
Mr. KK Maheshwari	Managing Director
Mr. Atul Daga	Executive Director and CFO
Mr. Sanjeeb K Chatterjee	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Grasim Industries Ltd.	57.28
2	Life Insurance Corp. of India	3.35
3	Standard Life Aberdeen PLC	1.90
4	SBI Funds Management Pvt. Ltd.	1.41
5	The Vanguard Group Inc.	1.40
6	Kotak Mahindra Asset Mgmt	1.29
7	Pilani Investment & Industries Corp. Ltd.	1.21
8	Franklin Resources Inc.	1.17
9	BlackRock Inc.	1.07
10	ICICI Prudential Life Insurance Co.	0.90

Source: Bloomberg

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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 deteriorating 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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