

UltraTech Cement

BSE SENSEX

53,027

S&P CNX

15,799

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Bloomberg	UTCEM IN
Equity Shares (m)	288
M.Cap.(INRb)/(USDb)	1623.4 / 20.6
52-Week Range (INR)	8267 / 5158
1, 6, 12 Rel. Per (%)	-2/-16/-18
12M Avg Val (INR M)	2919

Financial Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	526	587	620
EBITDA	115	101	120
Adj. PAT	57	48	59
EBITDA Margin (%)	22	17	19
Adj. EPS (INR)	196	165	204
EPS Gr. (%)	3	(16)	24
BV/Sh. (INR)	1,747	1,874	2,038

Ratios

Net D:E	0.1	0.0	(0.0)
RoE (%)	12.0	9.1	10.4
RoCE (%)	12.7	8.5	9.8
Payout (%)	15.3	23.0	19.6

Valuations

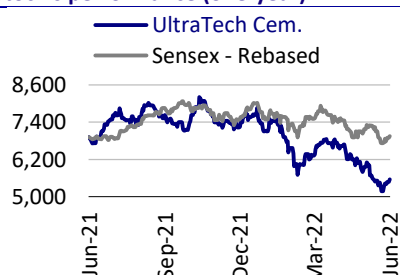
P/E (x)	28.6	34.1	27.6
P/BV (x)	3.2	3.0	2.8
EV/EBITDA(x)	14.5	16.3	13.6
EV/ton (USD)	185	159	157
Div. Yield (%)	0.7	0.7	0.7
FCF Yield (%)	2.3	2.4	2.5

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	60.0	60.0	60.0
DII	16.4	15.2	13.8
FII	14.1	15.8	17.4
Others	9.5	9.0	8.9

FII Includes depository receipts

Stock's performance (one-year)


CMP: INR5,624
TP: INR6,450 (+15%)
Buy

Earnings woes continue; stock correction factors in concerns

Higher costs will impact earnings in 1HFY23

- Earnings for UTCEM as well as the Cement sector is expected to remain under pressure in 1HFY23 and lower than our earlier estimate due to: 1) sustained cost pressures (we expect a INR300-350/t increase in energy costs in 1HFY23), 2) recent decline in Cement prices, which came under pressure in Jun'22, 3) lower than our estimated growth in Cement demand in 1QFY23, and 4) tendency to increase capacities by different players (UTCEM and SRCM recently announced capacity expansions).
- Earnings recovery for UTCEM in FY21 and 1HY22 was driven by fixed cost controls as well as a better pricing scenario. Improvement in the pricing scenario in FY20/FY21 was led by lower industry clinker capacity additions over FY16-22 (a CAGR of 2.9% v/s 7.7% CAGR over FY10-16). Going forward, clinker capacity addition is estimated to be at 5% CAGR till FY25E, with higher capacities expected in Central and East India. This may put pressure on pricing power and profitability for the industry.
- Apart from the announced capacity additions, few other players may tend to announce new capacities. We understand through [media](#) articles that the Adani group, the new entrant (after the acquisition of Holcim's stake in ACC/ACEM gets completed) in the industry, aims at achieving a capacity of 140mtpa over the next five years (v/s its current capacity of 68mtpa).

UTCEM is expanding capacities by 38.9mtpa by FY25E

- UTCEM [recently announced](#) a capacity addition of 22.6mtpa at a capex of INR128.9b. Capex/t for this expansion works out to USD76. Though the company has not specified any locations for these expansions, we expect the clinker plants to be set up across regions, except the western region.
- This expansion excludes the ongoing grinding capacity expansion of 16.3mtpa spread across regions, except South India. Completion of these expansion plans will help UTCEM to achieve domestic Gray Cement production capacity of 153.5mtpa (overseas capacity of 5.4mtpa).
- UTCEM in its Nov'19 [corporate presentation](#) had mentioned it had proven capabilities for organic growth of 51mtpa (it had capacities of 117.4mtpa at that time, including 4mtpa under commissioning in Central India) and inorganic growth of 66mtpa. Between FY16 and FY22, it added 84% of its capacities through the inorganic route.
- We believe that the Adani group's intention to achieve 140mtpa capacities over the next five years is banking on inorganic growth opportunities, indicating increased competition for any possible acquisition opportunity in the industry.
- We have factored in volume growth of 8%/9% for UTCEM in FY23/FY24 v/s our industry volume growth expectation of ~8%. We have trimmed our industry volume growth estimate for FY23 to ~8% from ~9%.

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Higher energy costs a dampener

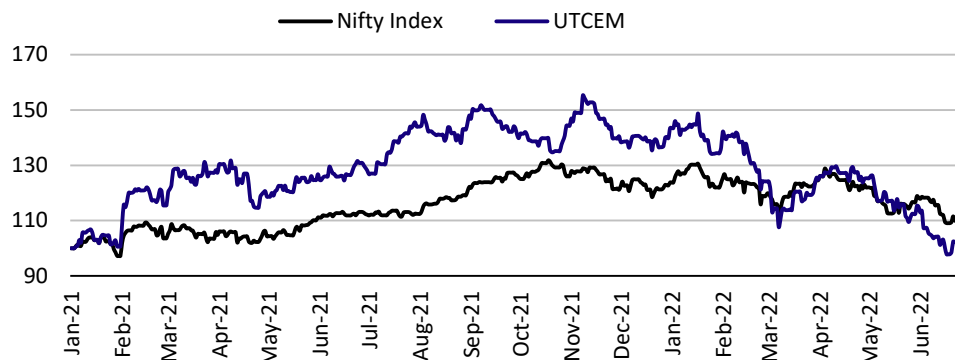
- Coal/petcoke prices have sustained at higher levels for the last one year, which has impacted profitability for the Cement industry. The full impact of higher coal/petcoke prices is yet to reflect in earnings for the industry and we should see a cost increase of INR300-350/t in 1HFY23.
- Though the industry tried to implement price hikes in Apr-May'22, there has been a rollback of announced price hikes in the second half of May'22 and Jun'22. We expect Gray Cement realization for UTCEM to increase by 6-7% QoQ in 1Q, but decline thereafter by ~3% QoQ in 2QFY23.
- Our EBITDA/t estimate for 1H/2QFY23 stands at INR943/INR765 v/s INR1,395 in 1HFY22.

Cut our earnings estimates sharply on higher costs and competition

- We reduce our FY23/FY24 EBITDA estimate sharply (15%/18%), considering higher energy costs in FY23 and our expectation of a decline in pricing power for the industry going forward. We reduce our FY23/FY24 EPS estimate by 23%/27%.
- We factor in an EBITDA/t of INR996/INR1,088 in FY23/FY24 v/s INR1,225 in FY22 (average EBITDA/t of INR951 over FY08-20). Our FY23/FY24 EPS estimate is now 26%/28% below Bloomberg consensus estimates.
- The Cement industry has witnessed a sharp earnings cut in CY22 till date on a steep increase in energy costs. During Mar'22 ([link](#)), we had reduced earnings estimates considerably for the industry and a similar trend was seen in Bloomberg consensus estimates later.

Correction in the stock seems to factor in concerns

- UTCEM has underperformed the broader indices in the last few months on higher energy cost concerns, which impacted profitability of the company and the Cement industry.
- Our current profit estimates factor in lower pricing power concerns and thus, lower profitability for UTCEM. We now expect the company to turn net cash positive in FY25 from FY24 earlier.
- We had expected Cement stocks to remain under pressure in the near-term after the capex announcement by UTCEM. We believe the energy cost decline will be the key trigger for Cement stocks to perform even after the recent underperformance by the sector.
- The stock trades at 16.3x/13.6x FY23E/FY24E EV/EBITDA (v/s its 10-years' one-year average EV/EBITDA of 15x). We have revised our TP to INR6,450 per share (from INR7,825 earlier), based on 15x FY24E EV/EBITDA. We maintain our **Buy** rating on the stock.

Exhibit 1: UTCHEM significantly underperforms the Nifty over the last few months

Note: Chart rebased to 100

Source: MOFSL, Bloomberg

Story in charts

Exhibit 2: Revisions in our estimates

(INR m)	Revised		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Standalone						
Net sales	5,65,026	5,98,094	5,76,861	6,10,706	(2.1)	(2.1)
EBITDA	95,593	1,14,227	1,11,720	1,39,411	(14.4)	(18.1)
Net profit	46,134	57,452	58,564	77,483	(21.2)	(25.9)
EPS (INR)	159.8	199.0	202.9	268.4	(21.2)	(25.9)
Consolidated						
Net sales	5,87,121	6,19,731	5,99,165	6,32,557	(2.0)	(2.0)
EBITDA	1,00,906	1,19,628	1,18,287	1,45,876	(14.7)	(18.0)
Net profit	47,598	58,869	61,936	80,516	(23.1)	(26.9)
EPS (INR)	164.9	203.9	214.6	278.9	(23.1)	(26.9)

Source: MOFSL estimates

Exhibit 3: MOFSL estimates v/s consensus (consolidated)

(INR b)	FY23E			FY24E		
	MOFSL	Consensus	Difference (%)	MOFSL	Consensus	Difference (%)
Revenue	587	593	(1.0)	620	659	(5.9)
EBITDA	101	120	(15.9)	120	146	(18.1)
OPM (%)	17.2	20.2	(305bp)	19.3	22.2	(286bp)
PAT	48	64	(26.2)	59	82	(28.3)
EPS (INR)	164.9	223.4	(26.2)	203.9	284.4	(28.3)

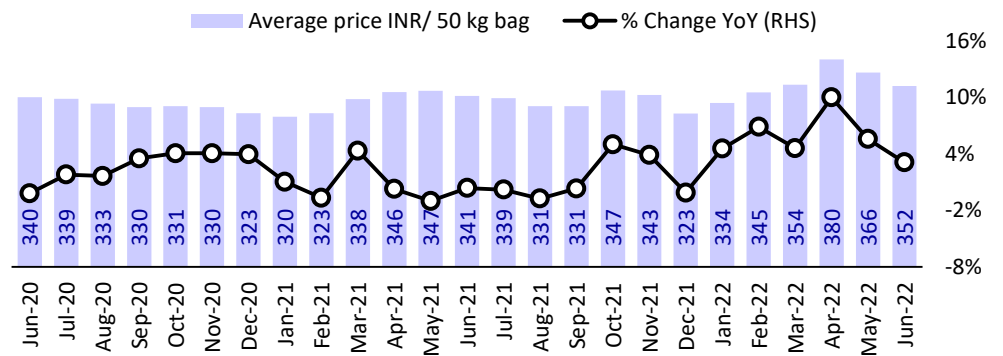
Source: Bloomberg, MOFSL estimates

Exhibit 4: Increasing fuel costs for the industry QoQ, adversely impacting profitability

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23E
Imported coal cost (INR/kcal)	1.19	1.36	1.95	2.04	3.11
Petcoke cost (INR/kcal) – imported	1.79	1.97	2.19	2.09	2.41
Petcoke cost (INR/kcal) – domestic	1.46	1.65	2.23	1.91	2.45
e-auction price (INR/kcal)	1.06	1.06	1.06	2.06	3.06
Coal cost (INR/t) – clinker	1,003	1,115	1,517	1,496	1,917
Coal cost (INR/t) – cement	716	796	1,084	1,069	1,369

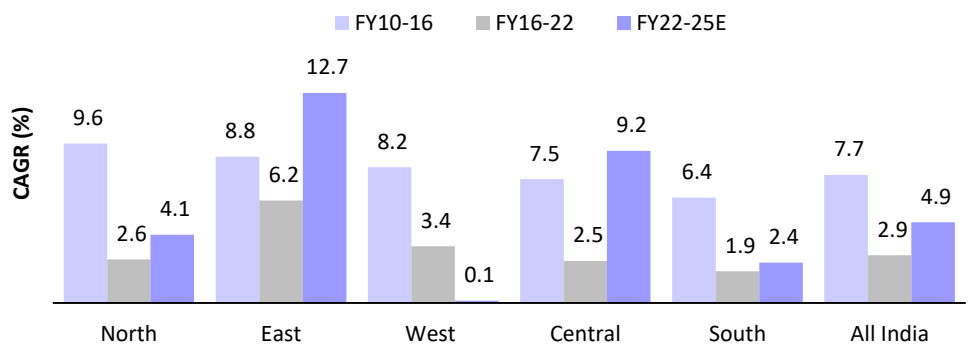
Source: MOFSL, Industry, Bloomberg

Exhibit 5: Partial roll back of price hike taken in Apr-May'22



Source: MOFSL, Cement dealers

Exhibit 6: Expect higher clinker capacity additions in Central and East India



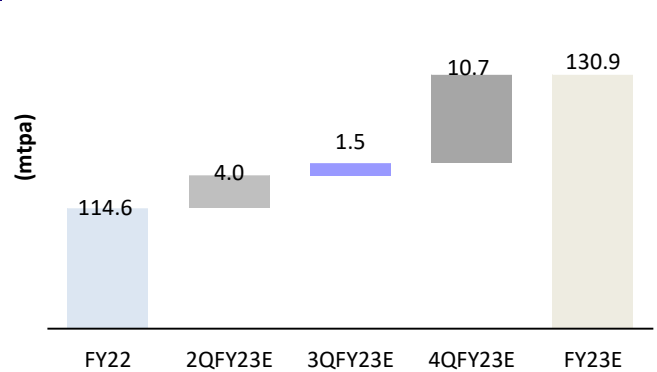
Source: MOFSL, Industry

Exhibit 7: UTCEM's region-wise capacity (mtpa) and share

Zones	Capacity as of Mar'22	Regional mix	Industry capacity	Capacity share in the industry
North	23.8	21%	~111	22%
Central	25.3	22%	~73	35%
East	17.4	15%	~114	15%
West	27.7	24%	~78	35%
South	20.5	18%	~164	13%
All India	114.6	100%	~539	21%
Overseas	5.4			
Total	120.0			

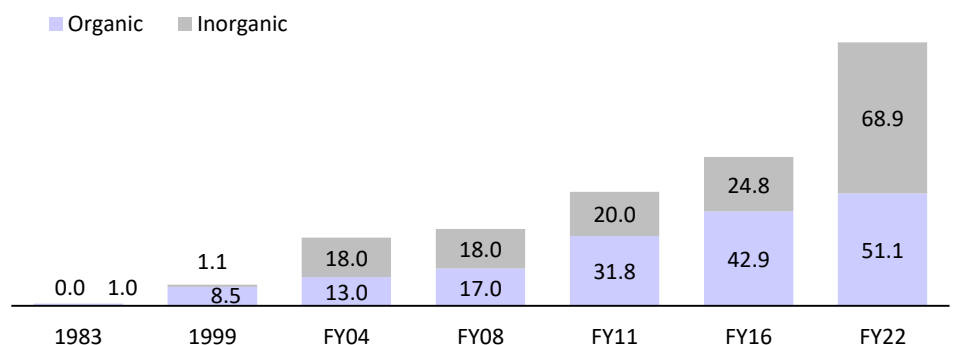
Source: Company, MOFSL

Exhibit 8: Capacity additions under execution



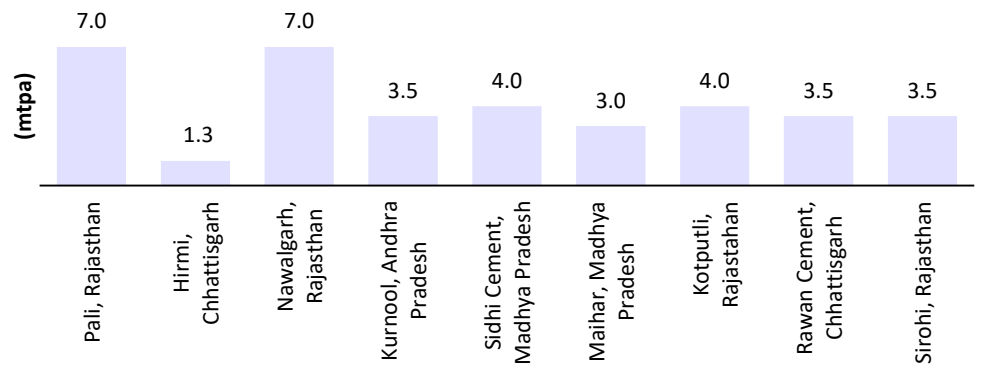
Source: Company, MOFSL

Exhibit 9: UTCEM added 84% of its grinding capacity via the inorganic route over FY16-22



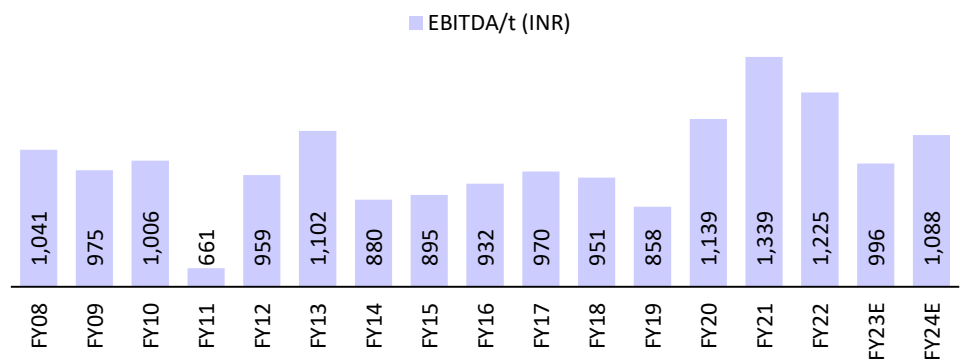
Source: MOFSL, Company; Note: capacity shown is consolidated Gray Cement capacity

Exhibit 10: Various plants/states offering possibilities for clinker expansion for UTCEM



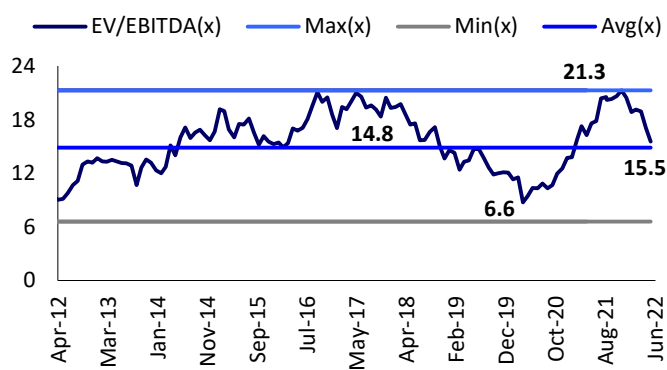
Source: MOFSL, Industry

Exhibit 11: UTCEM’s historical EBITDA/t trend



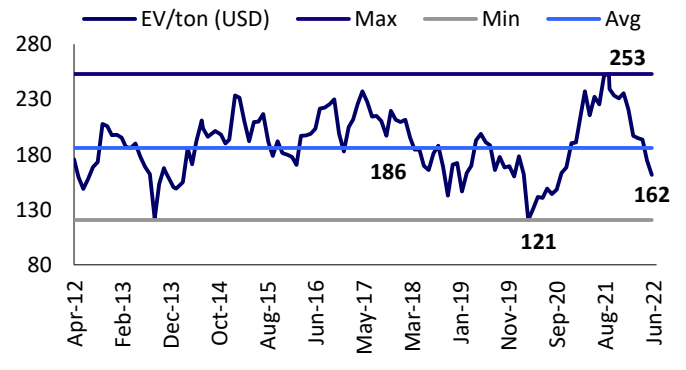
Source: MOFSL, Company

Exhibit 12: One-year forward EV/EBITDA ratio trend



Source: Company, MOFSL

Exhibit 13: One-year forward EV/t trend



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Income from Operations	2,53,749	3,09,786	4,16,088	4,24,299	4,47,258	5,25,988	5,87,121	6,19,731
Change (%)	0.9	22.1	34.3	2.0	5.4	17.6	11.6	5.6
Raw Materials	44,926	52,888	69,831	65,181	70,858	79,650	91,736	1,04,025
Employees Cost	15,223	18,102	22,911	25,199	23,530	25,347	26,133	27,914
Other Expenses	1,41,476	1,77,344	2,49,877	2,40,141	2,37,191	3,05,848	3,68,348	3,68,164
Total Expenditure	2,01,625	2,48,335	3,42,619	3,30,520	3,31,579	4,10,845	4,86,216	5,00,104
As a percentage of Sales	79.5	80.2	82.3	77.9	74.1	78.1	82.8	80.7
EBITDA	52,124	61,452	73,469	93,779	1,15,679	1,15,144	1,00,906	1,19,628
Margin (%)	20.5	19.8	17.7	22.1	25.9	21.9	17.2	19.3
Depreciation	13,484	18,479	24,507	27,227	27,002	27,148	29,300	32,048
EBIT	38,640	42,972	48,962	66,552	88,677	87,996	71,606	87,580
Int. and Finance Charges	6,401	12,376	17,779	19,917	14,857	9,447	7,459	7,450
Other Income	6,481	5,886	4,634	6,511	7,342	5,078	4,086	4,595
PBT bef. EO Exp.	38,721	36,482	35,818	53,146	81,162	83,627	68,233	84,724
EO Items	0	-3,466	-1,139	19,788	-2,607	0	0	0
PBT after EO Exp.	38,721	33,016	34,679	72,934	78,555	83,627	68,233	84,724
Total Tax	11,586	10,770	10,681	15,413	25,387	11,901	20,752	25,973
Tax Rate (%)	29.9	32.6	30.8	21.1	32.3	14.2	30.4	30.7
Minority Interest	-14	24	-37	-32	-34	-118	-118	-118
Reported PAT	27,149	22,222	24,035	57,553	53,202	71,844	47,598	58,869
Adjusted PAT	27,149	24,557	24,823	41,946	54,967	56,665	47,598	58,869
Change (%)	9.6	-9.5	1.1	69.0	31.0	3.1	-16.0	23.7
Margin (%)	10.7	7.9	6.0	9.9	12.3	10.8	8.1	9.5

Consolidated Balance Sheet								(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	2,745	2,746	2,746	2,886	2,887	2,887	2,887	2,887
Total Reserves	2,41,171	2,61,066	3,34,738	3,88,269	4,38,860	5,01,466	5,38,095	5,85,417
Net Worth	2,43,916	2,63,812	3,37,484	3,91,155	4,41,747	5,04,353	5,40,982	5,88,304
Minority Interest	97	160	122	75	57	-31	-148	-266
Total Loans	84,745	1,94,802	2,53,370	2,28,979	2,04,878	1,02,028	97,028	77,028
Deferred Tax Liabilities	27,824	31,827	63,856	49,120	60,407	60,332	67,067	75,454
Capital Employed	3,56,582	4,90,601	6,54,832	6,69,329	7,07,089	6,66,683	7,04,929	7,40,521
Gross Block	2,74,135	4,30,455	5,71,407	6,02,798	6,14,319	6,41,922	7,08,589	7,70,270
Less: Accum. Deprn.	25,943	43,665	68,172	95,399	1,22,401	1,49,549	1,78,848	2,10,896
Net Fixed Assets	2,48,192	3,86,790	5,03,235	5,07,400	4,91,918	4,92,374	5,29,741	5,59,374
Goodwill on Consolidation	10,851	10,363	62,989	62,525	62,199	62,502	62,502	62,502
Capital WIP	9,215	15,112	11,486	9,095	16,867	47,847	31,582	30,582
Current Investment	54,110	39,491	15,165	42,437	1,08,939	49,633	49,633	49,633
Non-current Investment	12,795	14,978	14,048	16,850	12,842	13,725	13,725	13,725
Curr. Assets, Loans, and Adv.	86,926	1,04,677	1,58,335	1,44,307	1,59,034	1,71,938	1,96,346	2,06,608
Inventory	24,006	32,676	40,990	41,483	40,180	55,956	57,533	60,515
Account Receivables	17,571	22,206	27,870	22,383	25,717	30,716	34,316	36,000
Cash and Bank Balance	22,488	2,191	7,397	5,392	20,076	3,592	23,161	29,095
Loans and Advances	22,861	47,604	82,079	75,049	73,061	81,674	81,336	80,997
Curr. Liability and Prov.	65,605	80,904	1,10,548	1,19,152	1,52,307	1,71,595	1,78,861	1,82,166
Account Payables	18,573	23,849	31,671	35,014	46,993	58,628	65,442	69,077
Other Current Liabilities	42,453	50,526	71,206	76,240	96,441	1,04,309	1,04,754	1,04,417
Provisions	4,579	6,529	7,671	7,898	8,873	8,658	8,665	8,672
Net Current Assets	21,321	23,773	47,787	25,155	6,727	343	17,485	24,442
Deferred Tax assets	98	94	121	60	72	164	166	168
Net Assets held for sale	0	0	0	5,808	7,526	95	95	95
Appl. of Funds	3,56,582	4,90,601	6,54,832	6,69,329	7,07,089	6,66,683	7,04,929	7,40,521

Source: Company, MOFSL estimates

Financials and valuations

Ratios	a							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	98.9	89.4	90.4	145.3	190.4	196.3	164.9	203.9
Cash EPS	148.0	156.7	179.6	239.7	284.0	290.3	266.4	315.0
BV/Share	888.6	960.7	1,228.8	1,355.2	1,530.4	1,747.2	1,874.0	2,038.0
DPS	9.4	9.5	10.5	11.5	37.0	38.0	38.0	40.0
Payout (%)	11.5	14.0	14.5	6.6	20.1	15.3	23.0	19.6
Valuation (x)								
P/E ratio			62.2	38.7	29.5	28.6	34.1	27.6
Cash P/E ratio			31.3	23.5	19.8	19.4	21.1	17.9
P/BV ratio			4.6	4.1	3.7	3.2	3.0	2.8
EV/Sales ratio			4.3	4.3	3.8	3.2	2.8	2.6
EV/t (USD)			205.7	205.3	193.3	184.8	159.4	156.9
EV/EBITDA ratio			24.2	19.2	14.7	14.5	16.3	13.6
Dividend Yield (%)			0.2	0.2	0.7	0.7	0.7	0.7
FCF per share			156.8	249.4	369.4	127.4	134.8	139.7
Return Ratios (%)								
RoE	11.7	9.7	8.3	11.5	13.2	12.0	9.1	10.4
RoCE	9.7	8.4	7.1	9.5	10.3	12.7	8.5	9.8
RoIC	9.7	8.2	6.4	8.5	10.2	13.4	8.5	9.9
Working Capital Ratios								
Inventory (Days)	35	38	36	36	33	39	36	36
Debtor (Days)	25	26	24	19	21	21	21	21
Creditor (Days)	27	28	28	30	38	41	41	41
Leverage Ratio (x)								
Current Ratio	1.3	1.3	1.4	1.2	1.0	1.0	1.1	1.1
Interest Coverage Ratio	6.0	3.5	2.8	3.3	6.0	9.3	9.6	11.8
Net Debt/Equity ratio	0.0	0.6	0.7	0.5	0.2	0.1	0.0	0.0

Cash Flow Statement	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	38,721	33,015	34,685	52,423	78,576	83,627	68,233	84,724
Depreciation	13,484	18,479	24,507	27,022	27,002	27,148	29,300	32,048
Interest and Finance Charges	5,822	12,376	17,779	19,917	14,857	9,447	7,459	7,450
Direct Taxes Paid	-7,437	-8,429	-7,101	-8,914	-12,910	-15,549	-14,019	-17,588
(Inc.)/Dec. in WC	5,176	-12,554	-6,957	4,503	23,289	-4,730	2,427	-1,023
CF from Operations	55,765	42,888	62,913	94,949	1,30,814	99,943	93,400	1,05,612
Others	-8	-4,010	-3,356	-5,929	-5,785	-7,110	-4,086	-4,595
CF from Operations incl. EO	55,756	38,877	59,557	89,020	1,25,030	92,832	89,314	1,01,017
(Inc.)/Dec. in FA	-13,557	-18,828	-16,482	-17,037	-18,414	-56,062	-50,402	-60,681
Free Cash Flow	42,199	20,050	43,075	71,983	1,06,616	36,771	38,912	40,336
(Pur.)/Sale of Investments	-11,209	16,246	26,614	-26,266	-70,949	76,888	0	0
Others	0	21,197	1,007	1,210	773	1,744	4,086	4,595
CF from Investments	-24,766	18,616	11,138	-42,093	-88,590	22,570	-46,316	-56,086
Issue of Shares	66	157	52	27	70	44	0	0
Inc./(Dec.) in Debt	-22,297	-42,069	-46,482	-26,663	-25,149	-1,12,232	-5,000	-20,000
Interest Paid	0	-12,099	-16,850	-19,445	-14,805	-2,227	-7,459	-7,450
Dividend Paid	-3,119	-3,340	-3,462	-3,800	-3,748	-10,650	-10,969	-11,547
Others	0	0	-827	-31	68	87	0	0
CF from Fin. Activity	-25,350	-57,351	-67,568	-49,911	-43,565	-1,24,979	-23,429	-38,997
Inc./Dec. in Cash	5,640	142	3,127	-2,984	-7,125	-9,577	19,570	5,934
Opening Balance	33,203	38,843	38,986	42,113	39,129	32,003	22,427	41,996
Closing Balance	38,843	38,986	42,113	39,129	32,003	22,427	41,996	47,930

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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