



## 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 July 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. 1,86,855 cr
52-week high/low:	Rs. 8,267/5,158
NSE volume: (No of shares)	4.9 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

## Shareholding (%)

Promoters	60.0
FII	13.1
DII	18.3
Others	8.6

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	1.2	10.2	-1.5	-12.4
Relative to Sensex	-5.1	1.9	-6.0	-15.1

Sharekhan Research, Bloomberg

## UltraTech Cement Ltd

## Brighter outlook post Q2 seasonality

## Cement

## Sharekhan code: ULTRACEMCO

Reco/View: Buy



Upgrade



Maintain

CMP: Rs. 6,473

Price Target: Rs. 7,700



Downgrade

## Summary

- We maintain a Buy on UltraTech Cement (UltraTech) with a revised PT of Rs. 7,700, considering its long-term growth potential and reasonable valuation.
- Cement demand and prices during July-August declines sequentially owing to seasonality. We expect cement demand and pricing environment to improve from the fog end of Q2FY2023.
- International and domestic pet coke prices during July-August 2022 decline 23% and 12% respectively compared to Q1FY2023 while diesel prices dip 5%. The benefits to be visible from Q3FY2023.
- Ultratech's aggressive long term capacity addition plans would help in capturing incremental demand along with maintaining its leadership positioning.

UltraTech Cement (UltraTech) is expected to benefit from declining pet coke and diesel prices, the impact of which would be visible from Q3FY2023 whilst Q2FY2023 is expected to be affected by seasonally weak demand and pricing environment coupled with the peaking of power & fuel costs. As per our channel checks, average pan-India cement prices in July-August 2022 have declined by 6.7% compared to the Q1FY2023 average (although remain up 3% vs Q2FY2022). The cement transported through Indian Railways declined by 8% m-o-m during July 2022 (up 5% y-o-y) on account of seasonality. On the cost front, international and domestic pet coke prices during July-August 2022 have declined by 23% and 12% compared to Q1FY2023. The retail diesel prices during the same period are lower by 5%. However, the crude prices continued to remain volatile post Q1FY2023.

**Seasonality impacts cement demand and prices during July-August 2022:** As per our channel checks, average pan-India cement prices in August 2022 have declined by 3% m-o-m (up 2% y-o-y). The average cement prices during July-August 2022 are lower by 6.7% compared to average Q1FY2023 (up 3% compared to Q2FY2022) led by 10-11% decline in Northern and Eastern regions, 8% decline in Central region, 3.5% decline in Western region and 1.2% in Southern region. The cement transported through Indian Railways declined 8% m-o-m in July 2022 (up 5% y-o-y) with the onset of the monsoon. We expect Ultratech to be affected by weak demand and pricing environment in Q2FY2023 led by seasonality.

**Declining pet coke and diesel prices:** key OPM growth tailwind: International average pet coke prices during August 2022 declined by 25% m-o-m (up just 3% y-o-y) while for July-August 2022 they are lower by 23% compared to Q1FY2023 average prices. The domestic pet coke prices during August 2022 declined by 7% m-o-m (up 34.5% y-o-y) while average prices during July-August 2022 are lower 12% lower compared to Q1FY2023. On the freight costs, average retail diesel prices across metros for July-August 2022 have declined by 4.6% compared to Q1FY2023. Ultratech is expected to benefit from the decline in power & fuel costs from Q3FY2023 although Q2FY2023 is expected to be impacted by peaking power & fuel costs, especially in a seasonally weak quarter.

**Aggressive capacity expansion plan to capture incremental demand:** The company's phase I cement capacity addition plan of 19.9mtpa is expected to complete by the FY2023 end taking its domestic cement capacity to 131.25 mtpa. Further, its phase II expansion plan of 22.6mtpa cement capacity would increase its domestic cement capacity to 153.85mtpa by FY2026. Further, it would be undertaking the next leg of expansion to reach 200mtpa domestic cement capacity by FY2030 through both organic and inorganic routes.

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 7,700:** UltraTech is expected to benefit from healthy cement demand over the long term, driven by its aggressive capacity expansion plans. Demand is expected to be strong from segments such as infrastructure, rural housing, and urban housing. Further, the recent decline in pet coke and diesel prices provides a key tailwind to improve upon operating margins from Q3FY2023 although seasonality and peaking power & fuel costs are likely to affect Q2FY2023 earnings. We continue to maintain our Buy rating on the stock with a revised price target (PT) of Rs. 7,700, considering its long-term growth potential and reasonable valuation.

## Key Risks

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

## Valuation (Standalone)

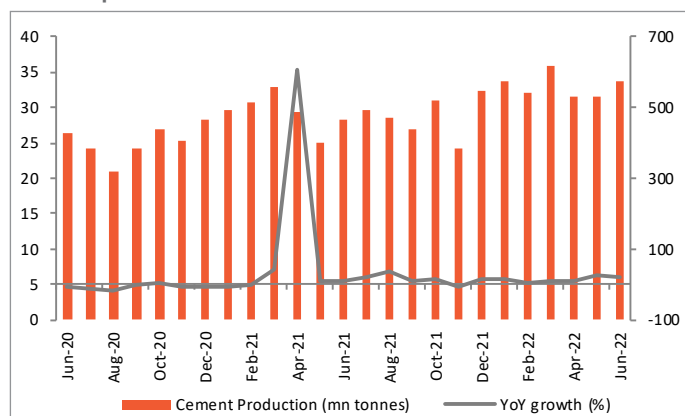
Particulars	FY22	FY23E	FY24E	FY25E
Revenue	50,663	60,325	67,000	74,539
OPM (%)	22.8%	20.7%	20.5%	20.7%
Adjusted PAT	5,549	6,132	6,960	8,014
% YoY growth	1.7%	10.5%	13.5%	15.1%
Adjusted EPS (Rs.)	192.2	212.5	241.2	277.7
P/E (x)	33.7	30.5	26.8	23.3
P/B (x)	3.8	3.4	3.0	2.7
EV/EBITDA (x)	16.9	15.4	13.7	11.9
RoNW (%)	12.0%	11.8%	11.9%	12.2%
RoCE (%)	10.2%	10.9%	11.3%	11.8%

Source: Company; Sharekhan estimates

## Seasonality impacts demand and pricing environment in July-August 2022

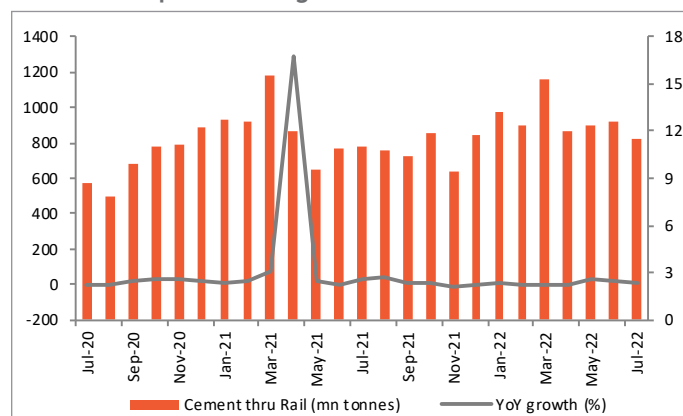
As per our channel checks, average pan-India cement prices in August 2022 have declined by 3% m-o-m (up 2% y-o-y) led by a sharp decline seen in the Eastern region (down 8% m-o-m, up 1.5% y-o-y) while other regions saw prices decline of 1-2% m-o-m. The average cement prices during July-August 2022 are lower by 6.7% compared to average Q1FY2023 (up 3% compared to Q2FY2022) led by 10-11% decline in Northern and Eastern regions, 8% decline in the Central region, 3.5% decline in the Western region and 1.2% in Southern region. The cement transported through Indian Railways declined 8% m-o-m in July 2022 (up 5% y-o-y) with the onset of the monsoon. We expect Ultratech to be affected by weak demand and pricing environment in Q2FY2023 led by seasonality.

Cement production trend



Source: DPIIT; Sharekhan Research

Cement transported through Rail trend

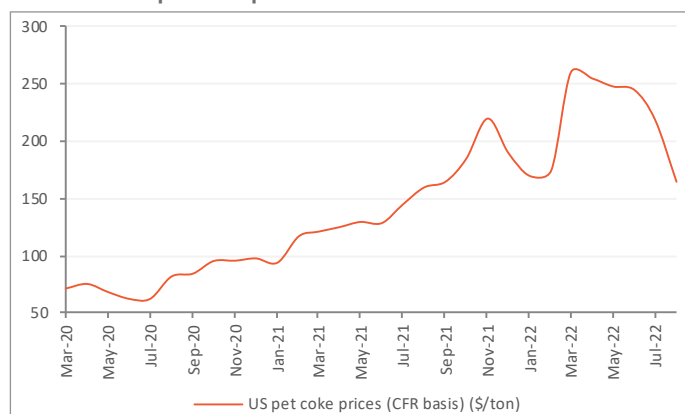


Source: Ministry of Railways; Sharekhan Research

## Power & fuel and Diesel prices decline post Q1FY2023; although crude prices remain volatile

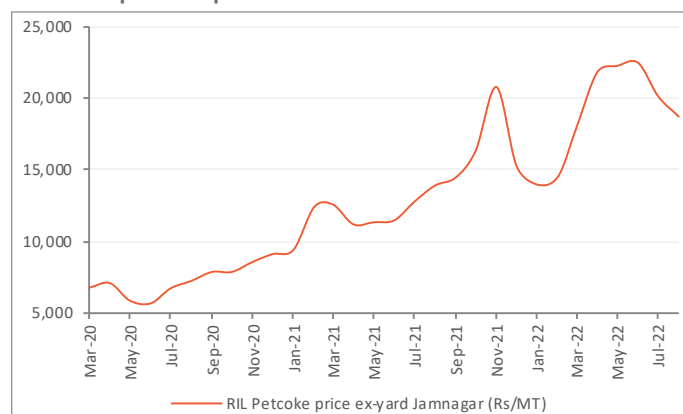
International average pet coke prices during August 2022 declined by 25% m-o-m (up just 3% y-o-y) while for July-August 2022 they are lower by 23% compared to Q1FY2023 average prices. Additionally, as per media reports, Indian cement companies have added Venezuela as another source for cheaper imported pet coke along with Russia in the recent past. The domestic pet coke prices during August 2022 declined by 7% m-o-m (up 34.5% y-o-y) while average prices during July-August 2022 are lower 12% lower compared to Q1FY2023. On the freight costs, average retail diesel prices across metros for July-August 2022 have declined by 4.6% compared to Q1FY2023. Ultratech is expected to benefit from the decline in power & fuel costs from Q3FY2023 although Q2FY2023 is expected to be impacted by peaking power & fuel costs, especially in a seasonally weak quarter.

International petcoke price trend



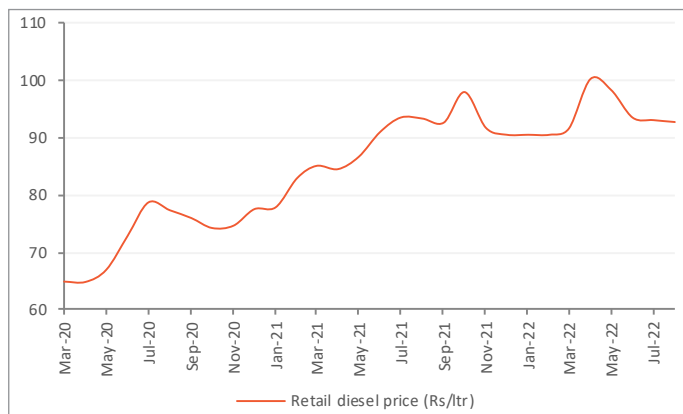
Source: Industry; Sharekhan Research

Domestic petcoke price trends



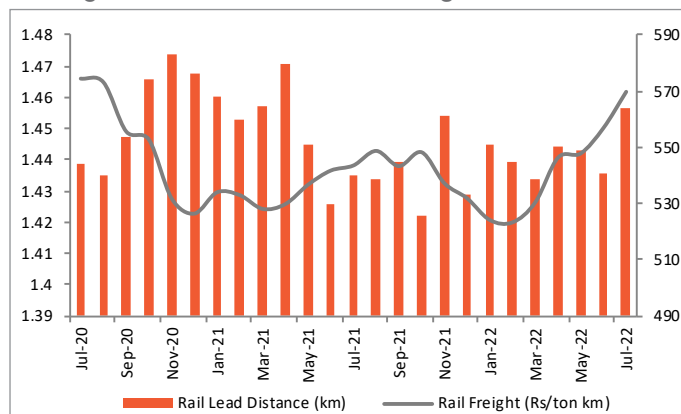
Source: Industry; Sharekhan Research

### Retail Diesel Price Trend



Source: Ministry of Petroleum; Sharekhan Research

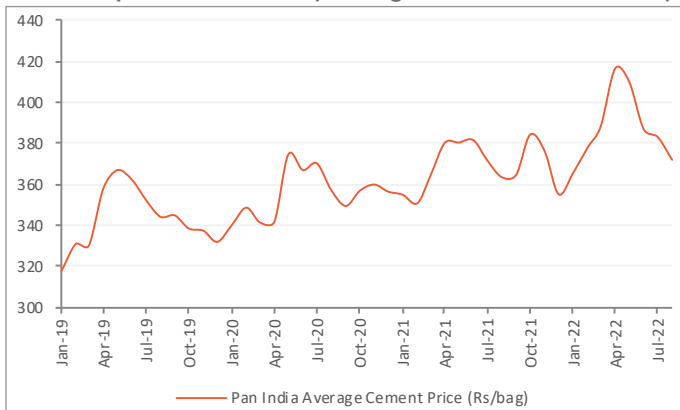
### Railways cement lead distance and freight trend



Source: Ministry of Railways; Sharekhan Research

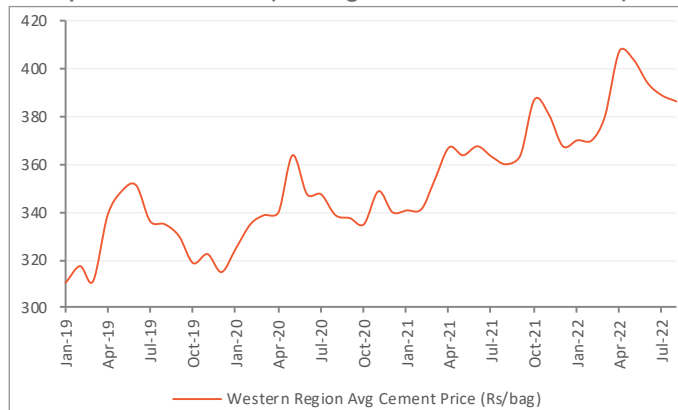
## Cement prices in charts

**Pan-India price +3.0%/-6.7% (Jul-Aug'22 vs. Q2FY22/Q1FY23)**



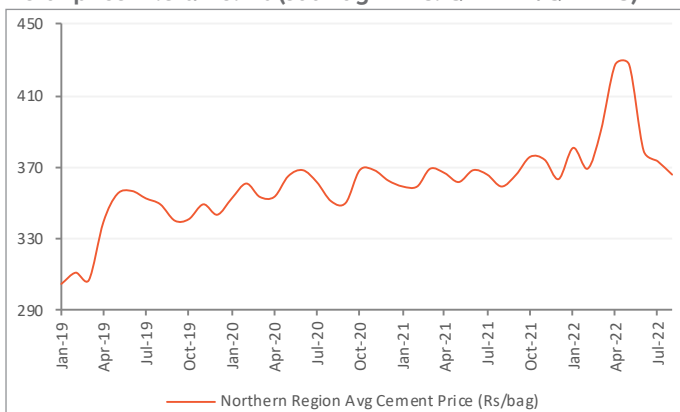
Source: Industry; Sharekhan Research

**West price +6.9%/-3.5% (Jul-Aug'22 vs. Q2FY22/Q1FY23)**



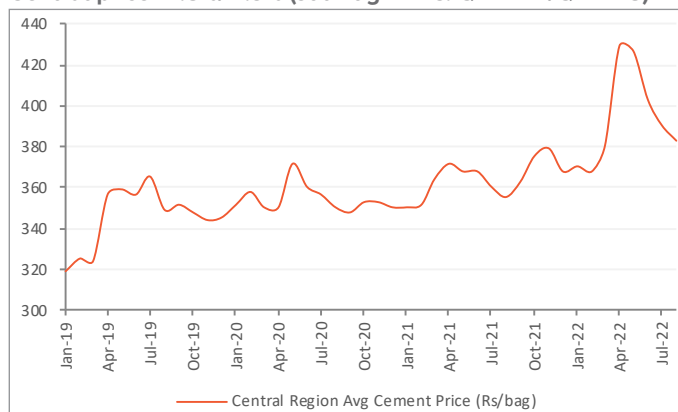
Source: Industry; Sharekhan Research

**North price +1.6%/-10.2% (Jul-Aug'22 vs. Q2FY22/Q1FY23)**



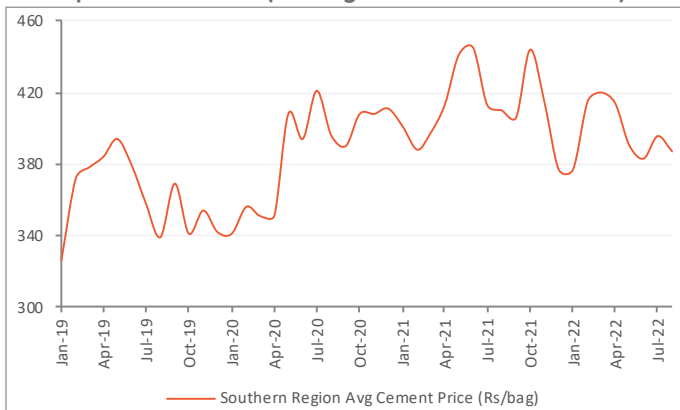
Source: Industry; Sharekhan Research

**Central price +7.5%/-7.9% (Jul-Aug'22 vs. Q2FY22/Q1FY23)**



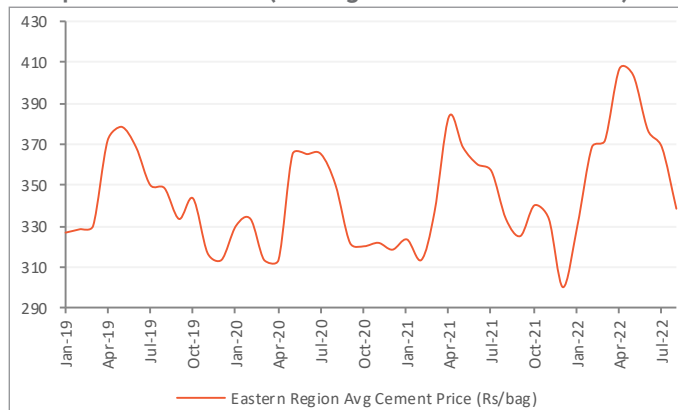
Source: Industry; Sharekhan Research

**South price -4.5%/-1.2% (Jul-Aug'22 vs. Q2FY22/Q1FY23)**



Source: Industry; Sharekhan Research

**East price +4.4%/-10.7% (Jul-Aug'22 vs. Q2FY22/Q1FY23)**



Source: Industry; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Improving demand brightens the outlook

The cement industry has seen sustained improvement in demand over the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the trailing five years. Amidst 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.

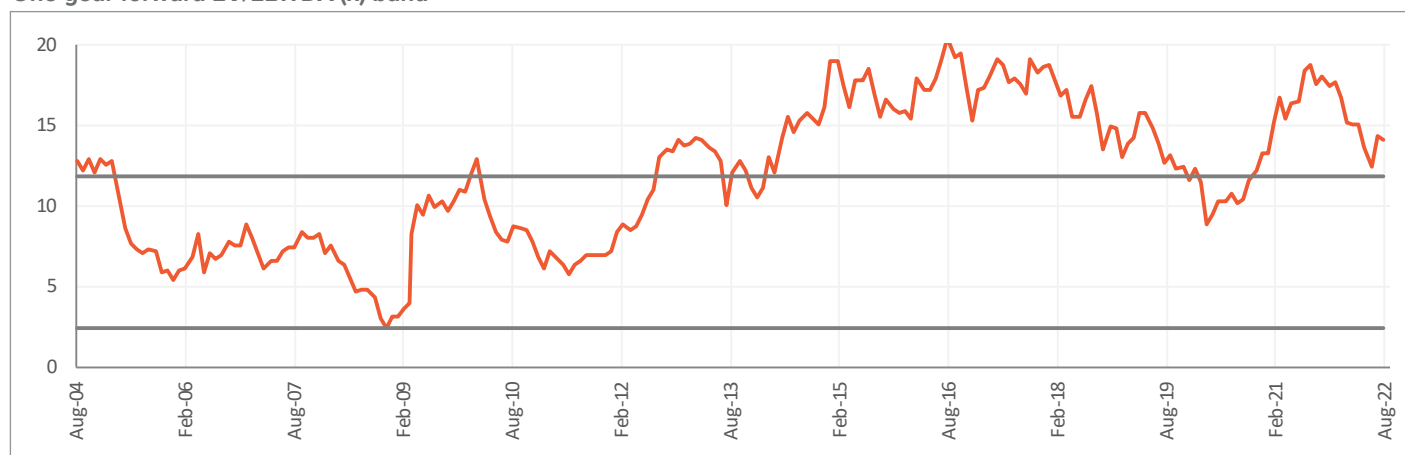
### ■ Company Outlook – Healthy cement demand, profitability, and balance sheet health to remain favourable

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 a 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 targets to achieve 25% RoE by FY2025 from 15% currently. The company is well placed to benefit from rising cement demand over the next four to five years. Overall, the company's outlook in terms of cement demand, profitability, and balance sheet is expected to remain favourable.

### ■ Valuation – Maintain Buy with a revised PT of Rs. 7,700

UltraTech is expected to benefit from healthy cement demand over the long term, driven by its aggressive capacity expansion plans. Demand is expected to be strong from segments such as infrastructure, rural housing and urban housing. Further, the recent decline in pet coke and diesel prices provides a key tailwind to improve upon operating margins from Q3FY2023 although seasonality and peaking power & fuel costs are likely to affect Q2FY2023 earnings. We continue to maintain our Buy rating on the stock with a revised price target (PT) of Rs. 7,700, considering its long-term growth potential and reasonable valuation.

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	30.5	26.8	15.4	13.7	3.4	3.0	11.8	11.9
Shree Cement	51.1	33.2	21.5	15.5	4.2	3.8	8.6	12.1
The Ramco Cement	34.4	22.0	17.4	13.0	2.6	2.3	7.7	11.1
Dalmia Bharat	48.6	33.5	11.9	9.7	1.8	1.7	3.7	5.1

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 a 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 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 a 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 the 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 utilization 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 Website

### 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

# Sharekhan

by BNP PARIBAS

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