

October 19, 2022

RESULT REPORT Q2 FY23 | Sector: Cement

UltraTech Cement

Strong NSR upholds profitability

Result Synopsis

Ultratech Cement (UTCEM) volume dipped sequentially by 8% to 23.1MT (+7% y/y; 24.4MT YSEC est.) while reported strong NSR of Rs6014/te (-1% q/q & +8% y/y) translates in revenue of Rs138.9bn declined by 8% q/q (+16% y/y) in Q2FY23. For the quarter, UTCEM reported lower EBITDA/te of Rs808 due to alleviated cost/te of Rs5206 (+8% q/q & +21% y/y) while strong NSR partially offset it. EBITDA/PAT of Rs18.6/7.5bn in Q2FY23, declined by 40/52% q/q and 31/43% y/y due to alleviated cost coupled muted volumes due to monsoon. H1FY23 EBITDA declined to Rs1,031/te (26% y/y) on account of surge in power cost by +51% y/y causing total cost to go up by +21% y/y. So, we have trimmed our EBITDA & PAT estimate by 13% & 23% for FY23E. In Q2FY23, the company commissioned 1.3MTPA of integrated unit at Dalla (UP) taking the total capacity to ~116MTPA and expected to reach at 154MTPA by FY25E (excl. 5.4MTPA of overseas capacities). Phase-I (remaining 15.4MTPA) & newly announced (22.6MTPA) expansion will aid UTCEM to grow at ~9% CAGR (v/s industry 6% CAGR) over FY23-25E. Additionally, UTCEM is committed to increase its green energy share to 36% (WHRS 28% & RE 8%) by FY25E v/s 19.5% in Q2FY23. As UTCEM to increase its WHRS/RE capacity aggressively in Phase-I expansion to 675MW (302MW WHRS & 373MW RE) by FY24E will improve its efficiency. Further in Phase-II, UTCEM plans to add incremental 50-60MW to reduce the thermal power dependency to 50% by FY25E v/s 65% in FY22. We expect healthy FCF generation of Rs61bn post CAPEX outlay of Rs132bn over FY23-24E allows further deleveraging. We maintain BUY rating with a TP of Rs8,453, valuing the stock at 16.5x EV/EBITDA on the FY24 estimates.

Result Highlights

- UTCEM reported console volume of 23.1MT (v/s YSEC est. of 24.4MT) up by 7% y/y on account of incremental capacity, while ongoing monsoon resulted in sequential fall of 8% in Q2FY23.
- Owing to higher premium cement & trade sales, UTCEM reported strong NSR of Rs6014/te (+8% y/y) in Q2FY23 translates in revenue of Rs138.9bn up by +16% y/y but decline by 8% q/q over muted sequential volume (YSEC est. of Rs142.9bn).
- UTCEM total cost/te increased by 21% y/y and 8% q/q (power/freight & other cost/te up by 60/7/9% y/y), dented EBITDA/te by ~36% y/y and q/q to Rs808 in Q2FY23 (v/s YSEC of Rs1031/te).
- UTCEM delivered an EBITDA margin of 13.4% in Q2FY23 against 22.6% in Q2FY22 (v/s 20.4% in Q1FY23). EBITDA/PAT witnessed decline of 31/43% y/y and 40/52% q/q to Rs18.6/7.5bn in Q2FY23 respectively.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	138,927	142,896	133,515	(2.8)	4.1	Topline largely inline led by strong NSR, while higher than expected cost (power & others) dented margins
EBITDA	18,666	25,190	20,303	(25.9)	(8.1)	
Margin (%)	13.4	17.6	15.2	(419 bps)	(177 bps)	
Adj. PAT	7,587	11,681	9,162	(35.0)	(17.2)	

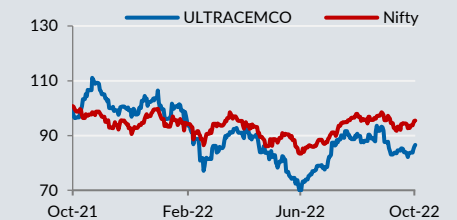
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 6,398
Target Price	: Rs 8,453
Potential Return	: +32%

Stock data (as on Oct 19, 2022)

Nifty	17,512
52 Week h/l (Rs)	8269 / 5157
Market cap (Rs/USD mn)	1847038 / 22256
Outstanding Shares (mn)	289
6m Avg t/o (Rs mn):	2,741
Div yield (%):	0.6
Bloomberg code:	UTCEM IN
NSE code:	ULTRACEMCO

Stock performance



	1M	3M	1Y
Absolute return	-1.0%	5.7%	-10.3%

Shareholding pattern (As of Jun'22 end)

Promoter	60.0%
FII+DII	31.3%
Others	8.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	8,453	8,495

Δ in earnings estimates

	FY23E	FY24E
EPS (New)	178	307
EPS (Old)	232	322
% change	-23%	-5%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	525,988	572,426	649,396
Growth	17.6	8.8	13.4
EBITDA	115,144	102,101	151,907
Margin	21.9	17.8	23.4
Adj PAT	71,844	51,382	88,572
Growth	13.6	(28.4)	72.4
EPS	254	178	307
ND/EBITDA	0.9	1.0	0.4
ROE	14.2	9.5	14.4
ROCE	15.2	12.0	18.2
EV/EBITDA	18.6	18.9	12.5

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Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Net Revenue	120,168	129,849	157,673	151,640	138,927	15.6	(8.4)	525,988	447,258	17.6
Total Expenses	93,021	105,656	126,945	120,691	120,261	29.3	(0.4)	410,845	331,579	23.9
COGS	17,300	20,606	27,240	22,826	20,177	16.6	(11.6)	79,650	70,858	12.4
Employee Expenses	6,795	6,429	6,273	6,371	6,912	1.7	8.5	25,347	23,530	7.7
Power & fuel	25,200	32,214	39,684	40,131	42,961	70.5	7.1	121,373	83,312	45.7
Freight Exp	26,733	29,048	34,789	32,906	30,437	13.9	(7.5)	117,123	100,433	16.6
Other Expenses	16,993	17,358	18,959	18,457	19,774	16.4	7.1	67,352	53,680	25.5
EBITDA	27,147	24,194	30,728	30,949	18,666	(31.2)	(39.7)	115,144	115,679	(0.5)
EBITDA (%)	22.6	18.6	19.5	20.4	13.4	(916 bps)	(697 bps)	21.9	25.9	(397 bps)
D&A	6,774	6,742	7,034	6,952	7,079	4.5	1.8	27,148	27,002	0.5
Other Income	1,401	705	924	1,087	1,463	4.4	34.5	5,078	7,342	(30.8)
Interest Expense	2,300	1,823	2,063	2,158	2,003	(12.9)	(7.2)	9,447	14,857	(36.4)
Exceptional/EO items	-	-	-	-	-	-	-	-	2,607	(100.0)
Share JV/Associates	1	8	4	8	(15)	(1,962.5)	(291.0)	17	22	(22.0)
EBT	19,475	16,341	22,558	22,934	11,032	(43.4)	(51.9)	83,627	78,555	6.5
Tax	6,371	(760)	(1,980)	7,114	3,445	(45.9)	(51.6)	11,901	25,387	(53.1)
Reported PAT	13,103	17,101	24,538	15,820	7,587	(42.1)	(52.0)	71,743	53,189	34.9
Less: Minority Interest	(32)	24	(67)	(21)	30	(193.1)	(244.2)	(101)	(13)	704.0
Adj. PAT	13,135	17,077	24,605	15,841	7,557	(42.5)	(52.3)	71,844	55,809	28.7

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis (Console)

Particulars (Rs)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Total Volumes (MMT)	21.6	23.1	27.7	25.0	23.1	6.7	(7.7)	94.0	86.4	8.8
NSR/te (Blended)	5,553	5,614	5,694	6,056	6,014	8.3	(0.7)	5,596	5,176	8.1
RM/te	799	891	984	912	873	9.3	(4.2)	847	820	3.3
Employees/te	314	278	227	254	299	(4.7)	17.6	270	272	(1.0)
Power/te	1,165	1,393	1,433	1,603	1,860	59.7	16.0	1,291	964	33.9
Freight/te	1,235	1,256	1,256	1,314	1,318	6.7	0.3	1,246	1,162	7.2
Others/te	785	750	685	737	856	9.0	16.1	717	621	15.4
Opex/te (Blended)	4,299	4,568	4,585	4,820	5,206	21.1	8.0	4,371	3,837	13.9
EBITDA/te (Blended)	1,254	1,046	1,110	1,236	808	(35.6)	(34.6)	1,225	1,339	(8.5)

Source: Company, YES Sec

Exhibit 4: Segmental Revenue-Mix (Console)

Particulars (Rs m)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	y/y (%)	q/q (%)	FY22	FY21	y/y (%)
Total Grey Cement Revenue [#]	101,240	109,450	135,230	131,150	117,120	15.7	(10.7)	450,190	389,270	15.6
RMC Revenue	6,140	6,680	8,510	9,000	8,830	43.8	(1.9)	26,410	18,730	41.0
White Cement Revenue	5,050	5,430	5,450	4,990	5,400	6.9	8.2	19,550	17,790	9.9
Overseas Revenue	5,001	5,930	7,010	4,940	4,600	(8.0)	(6.9)	22,320	19,540	14.2
Console Revenue*	117,430	127,100	155,570	150,070	135,957	15.8	(9.4)	517,079	442,393	16.9
Other Operating Revenue	2,738	2,749	2,103	1,570	2,970	8.5	89.2	8,910	4,865	83.2
Net Revenue	120,168	129,849	157,673	151,640	138,927	15.6	(8.4)	525,988	447,258	17.6

Source: Company, YES Sec, note: * net inter segmental sales / # includes export sales of Rs2.8bn in Q2FY23 (v/s Rs2.9bn in Q1FY23 & Rs2.4bn in Q1FY22).

KEY CON-CALL HIGHLIGHTS

Demand & Price Outlook

- Erratic monsoon across India will be impacting the cement consumption and rural cash flow negatively. Management indicated that post festive season (October end) the demand is expected to return strongly.
- Overall demand for H1FY23 stood healthy on y/y basis UTCEM added 4.5MTPA which aided volume growth of ~10% y/y. Whereas management expects to deliver double digit volume growth for FY23E & 24E each.
- UTCEM's 4 lac tonne of wall putty capacity is under trial run and expected to start production from next month. Also, RAK white cement imports to start from Q3FY23 and expected to contribute robust volumes for white cement.
- On the regional dynamics - The utilization level of the east stood strong among other regions at 90%, while north & central stood at 85% & 70% and South/west at 70-75% in Q2FY23. Realization for north & central was sharply corrected sequentially in Q2FY23, while east remained least impacted and west & south remained neutral.
- NSR continues to be Rs6000/te for UTCEM in Q2FY23 due to 1) Higher premium cement sales of 18.8% 2) Higher blended and trade sales 3) Decline in price gap between trade & non-trade segment 4) Top-tier brand privilege.

Costs Outlook

- Geopolitical tension continues to drive the fuel prices in upward direction. Also, the restarting of coal-based power plants by Europe has resulted in fuel prices surge.
- Pet coke prices rebounded to \$205/te v/s \$170/te in Sep '22. While coal continues to be over +\$300/te and remains volatile. Management indicated that the company is not sourcing the Venezuelan sanctioned pet coke.
- Management indicated that in Q3-Q4FY23 the fuel consumption cost is expected to decline marginally. Currently UTCEM holds 55days of fuel inventory (v/s 40-45days historically) resulting in positive working capital as a large fund utilized in purchasing the fuel stock.
- Fuel mix under kiln stood as 50% imported coal and 40% pet coke, while 5% each of indigenous coal and alternate fuel. Whereas management suggested that share of pet coke could increase to 50-60% going forward but not 100% due to its technical constraints.
- Q2FY23 blended energy cost stood at Rs2.48 kcal/kg v/s Rs2.15 kcal/kg q/q (1.42 kcal/kg y/y). While the lead distance stood at 428kms in Q2FY23.
- Kiln was closed during Q2FY23 due to plant maintenance. Management indicated that the company undertook higher than planned maintenance as cost was continuously inching up resulting in higher other cost/te for the quarter.

Capacity Update

- UTCEM commissioned Dalla 1.3MTPA capacity taking the total capacity to ~116MTPA (excl. 5.4MTPA overseas capacity) as on Q2FY23.
- Management indicated that the upcoming Pali & Dhar capacities are almost ready for production and will be commissioned in Q3FY23E (targeting 131.25MTPA capacity by Mar'23). As a result, this upcoming capacity would help to carter the incremental demand and generate robust cashflow.
- UTCEM commissioned 32MW of renewable power capacity in Q2FY23 taking the total capacity to 318MW which contributed ~5.6% of the total power requirement in Q2FY23. UTCEM also commissioned 5MW of WHRS in Q2FY23.
- Management guided Rs60-70bn of CAPEX over FY23-24E.

UTCEM'S EXPANSION PLAN (PHASE I & II)

Exhibit 5: UTCEM grey cement capacity to achieve 153.85MTPA at ~57 locations (IU/GU/BT) by Mar-25 in India

Grey Cement Capacity (MTPA)				
Zones	Mar'20	Phase-I Expansion	Phase-II Expansion	Mar'25
North	23.80	2.70	4.40	30.90
Central	23.30	5.10	7.30	35.70
East	16.20	10.30	5.20	31.70
West	27.70	1.80	-	29.50
South	20.50	-	5.70	26.20
All-India	111.35	19.90	22.60	153.85
Overseas	5.40	-	-	5.40
Console Capacity	116.75	19.90*	22.60	159.25

Source: Company, YES Sec, note: * - original expansion plan was of 19.5MTPA got revised to 19.9MTPA

Exhibit 6: Ongoing Capacity Expansion (Phase-I)

Location	Cement Capacity (MTPA)		Status
	Original	Revised	
Patliputra Bihar	0.60	0.60	Commissioned
Dankuni West Bengal	0.60	0.60	Commissioned
Bara UP	2.00	2.00	Commissioned
Dalla UP	1.30	1.30	Commissioned
Hirmi Chhattisgarh	0.55	1.30	in Q3 FY23
Cuttack Odisha	4.40	2.80	in Q3 FY23
Dhule Maharashtra	1.80	1.80	in Q3 FY23
Pali Rajasthan	1.90	1.90	in Q3 FY23
Dhar II MP	1.80	1.80	in Q3 FY23
Neem ka Thana Rajasthan	0.60	0.80	in Q4 FY23
Jharsuguda II Odisha	0.60	1.50	in Q4 FY23
Sonar Bangla II West Bengal	0.60	1.30	in Q4 FY23
Patliputra II Bihar	2.20	2.20	in Q4 FY23
Durgapur II West Bengal	0.55	-	-
Total	19.50	19.90	

Source: Company, YES Sec

Exhibit 7: UTCEM's expansion plan (Phase-II)

Plants	States	Unit	Project	Capacity (MTPA)
Rajpura	Himachal	GU	Greenfield	2.6
Kotputli	Rajasthan	IU	Brownfield	1.8
North				4.4
Maihar	MP	IU	Brownfield	4.5
Roorkee	Uttarakhand	GU	Brownfield	1.0
West UP	UP	GU	Brownfield	1.8
Central				7.3
Kukurdihi	Chhattisgarh	IU	Greenfield	2.7
Ramgarh	Jharkhand	GU	Greenfield	2.5
East				5.2
APCW	AP	IU	Brownfield	1.8
Karur	Tamil Nadu	GU	Greenfield	2.7
Arakkonam	Tamil Nadu	GU	Brownfield	1.2
South				5.7
Total Planned Capacity				22.6

Source: Company, YES Sec

Exhibit 8: Annual Operational Performance Estimates (Console)

Particulars (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Total Volumes (MMT)	83.1	86.4	94.0	98.2	111.6
Utilization (%)	68%	71%	75%	71%	80%
Cement Realization/te	4,752	4,791	5,139	5,360	5,350
Net Realization/te (Blended)	5,105	5,176	5,596	5,830	5,818
RM/te	784	820	847	931	939
Power/te	1,025	964	1,291	1,500	1,172
Freight/te	1,171	1,162	1,246	1,328	1,325
Employees/te	303	272	270	284	275
Others/te	711	621	723	747	747
Opex/te (Blended)	3,993	3,837	4,371	4,790	4,457
EBITDA/te (Blended)	1,113	1,339	1,225	1,040	1,361

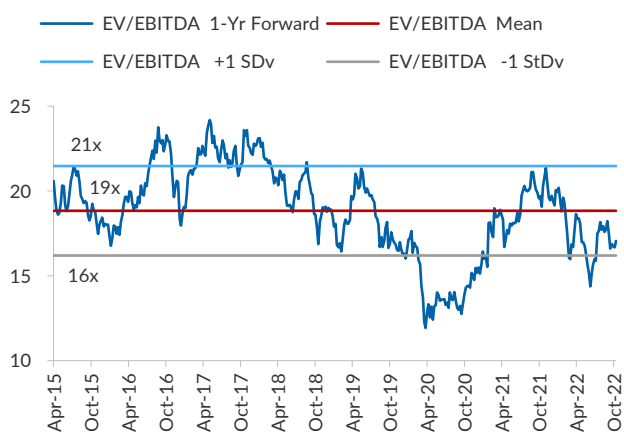
Source: Company, YES Sec

Exhibit 9: Key Estimate Revision (Console)

Y/e 31 Mar	FY23E			FY24E		
(Rs m)	Old	New	Change	Old	New	Change
Revenues	572,426	572,426	0%	649,396	649,396	0%
EBITDA	117,121	102,101	-13%	151,885	151,907	0%
PAT	67,109	51,382	-23%	93,001	88,572	-5%
EPS	232	178	-23%	322	307	-5%

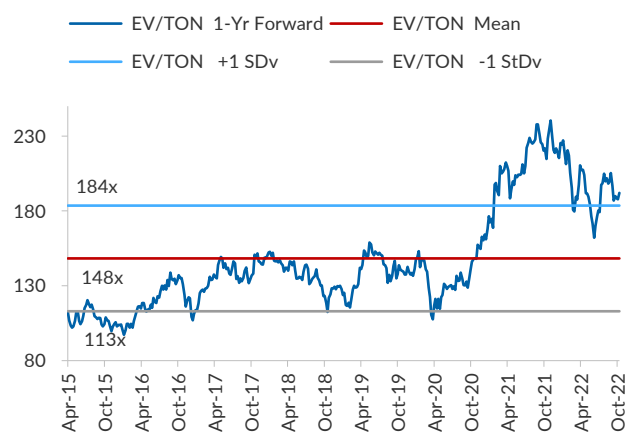
Source: Company, YES Sec

Exhibit 10: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 11: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 12: Balance Sheet (Console)

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	2,886	2,887	2,887	2,887	2,887
Reserves	387,551	438,860	501,466	538,415	612,555
Net worth	390,438	441,747	504,353	541,302	615,441
Other LT Liabilities	10,639	14,568	12,863	12,863	12,863
LT provision.	2,445	3,655	6,178	6,178	6,178
Minority interest	75	57	(31)	57	57
Long-term Borrowing	173,675	135,485	53,030	47,030	22,030
Deferred tax liabilities. (net)	49,120	60,407	60,332	60,332	60,332
Current Liabilities					
Trades Payables	33,629	45,482	58,628	56,177	60,910
Short-term Borrowing	41,061	69,393	48,998	54,159	50,787
Other current liabilities	85,631	85,823	91,445	91,445	91,445
Short Term Provision	5,484	5,219	2,480	2,480	2,480
Total Liabilities	792,198	861,835	838,278	872,024	922,524
Assets					
Total Net Block	496,251	478,575	480,588	491,988	521,164
CWIP & Other Assets	84,455	92,408	122,135	142,135	152,135
Investments	16,850	12,842	13,724	13,724	13,724
Other Non-current Asset	47,368	37,435	46,773	46,773	46,773
Deferred tax asset (net)	60	72	164	164	164
Current Assets					
Inventories	41,834	40,180	55,956	59,919	64,715
Trades Receivables	23,832	25,717	30,716	29,462	32,772
Other current assets	74,173	154,478	84,562	84,562	84,562
Short Term Loans & advances	1,977	52	69	69	69
Cash & Bank Balances	5,399	20,076	3,592	3,228	6,447
Total Assets	792,198	861,835	838,278	872,024	922,524

Source: Company, YES Sec

Exhibit 13: Income statement (Console)

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Net Revenue	424,299	447,258	525,988	572,426	649,396
EBITDA	92,472	115,679	115,144	102,101	151,907
D&A	27,227	27,002	27,148	29,599	31,825
EBIT	65,245	88,677	87,996	72,502	120,082
Interest Expense	19,917	14,857	9,447	9,145	7,830
Other Income	6,511	7,342	5,078	5,152	5,845
Exceptional/EO items	-	2,607	-	-	-
EBT	51,840	78,555	83,627	68,509	118,097
Tax	(5,682)	25,387	11,901	17,127	29,524
Share of Profit/(Loss) in JV/Associates	(12)	22	17	-	-
Reported PAT	57,509	53,189	71,743	51,382	88,572
Less: Minority Interest	(44)	(13)	(101)	-	-
Adj. PAT	57,553	55,809	71,844	51,382	88,572

Source: Company, YES Sec

Exhibit 14: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Cash flow from operation	71,162	13,359	164,045	75,820	117,025
Profit before tax	51,871	81,196	83,745	68,509	118,097
Depreciation	27,227	27,002	27,148	29,599	31,825
Tax paid	5,682	(25,387)	(11,901)	(17,127)	(29,524)
Working capital Δ	(13,574)	(66,833)	65,154	(5,161)	(3,373)
Other operating items	(44)	(2,620)	(101)	-	-
Cash flow from Investing Activities	(33,576)	(7,359)	(68,317)	(61,000)	(71,000)
Capital expenditure	(29,953)	(17,280)	(58,887)	(61,000)	(71,000)
Change in other non-current assets	(3,624)	9,921	(9,430)	-	-
Free cash flow	41,209	(3,921)	105,158	14,820	46,025
Cash flow from Financing activities	(39,583)	8,676	(112,212)	(15,184)	(42,805)
Equity raised	(826)	8,800	1,832	(0)	-
Investments	(2,802)	4,008	(882)	-	-
Debt financing/disposal	(28,451)	(9,859)	(102,849)	(839)	(28,373)
Dividends paid	(3,752)	(10,680)	(10,969)	(14,433)	(14,433)
Other items	(3,752)	16,407	657	88	-
Net Δ in cash	(1,998)	14,676	(16,484)	(364)	3,219

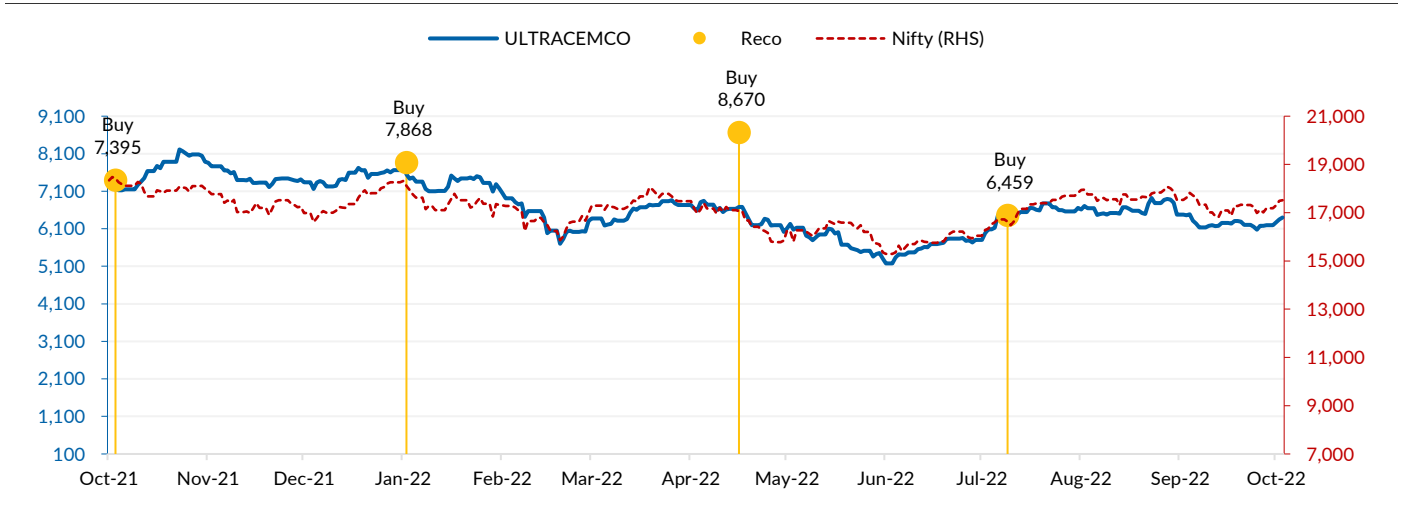
Source: Company, YES Sec

Exhibit 15: Ratio Analysis (Console)

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue	2.0	5.4	17.6	8.8	13.4
EBITDA	25.9	25.1	(0.5)	(11.3)	48.8
EBT	49.5	51.5	6.5	(18.1)	72.4
PAT	139.6	(7.5)	34.9	(28.4)	72.4
EPS	117.5	(0.6)	28.3	(30.0)	72.4
Profitability ratios (%)					
EBITDA (%)	21.8	25.9	21.9	17.8	23.4
EBIT (%)	16.9	21.5	17.7	13.6	19.4
PAT (%)	13.6	11.9	13.6	9.0	13.6
ROCE	11.6	14.3	15.2	12.0	18.2
ROE	14.7	12.0	14.2	9.5	14.4
ROA	11.4	10.7	13.6	9.2	14.8
Per share ratios (Rs)					
EPS	199	198	254	178	307
DPS	13	37	38	50	50
Cash EPS	294	278	343	281	417
BVPS	1,353	1,530	1,747	1,875	2,132
Payout (%)					
Dividend payout	6.5	18.7	14.9	28.1	16.3
Tax payout	(11.0)	32.3	14.2	25.0	25.0
Liquidity ratios					
Inventory days	64	59	64	64	64
Payable days	56	67	67	67	67
Receivables days	22	20	20	20	20
Leverage ratios (x)					
Interest Coverage	3.6	6.5	9.9	8.5	16.1
Net D/E	0.5	0.4	0.2	0.2	0.1
Net Debt/EBITDA	2.4	1.6	0.9	1.0	0.4

Source: Company, YES Sec

Recommendation Tracker



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