

# UltraTech Cement



**Q2 FY23 RESULT UPDATE**

20<sup>th</sup> October, 2022

# UltraTech Cement Ltd.

**Severe cost pressure dents margin; outlook to improve from next quarter**

CMP <b>INR 6,302</b>	Target <b>INR 7,574</b>	Potential Upside <b>20.2%</b>	Market Cap (INR Mn) <b>INR 18,19,198</b>	Recommendation <b>BUY</b>	Sector <b>Cement</b>
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## Result Highlights of Q2FY23

- In Q2FY23, Ultratech reported sales growth of 15.6% YoY at INR 1,38,927 mn, 1.7% above our estimate. However, on QoQ basis revenue saw a de-growth of 8.4%. The company has been able to maintain decent growth of 6.7% YoY in cement sales volumes at 23.1 MT as against our estimates of 23.5 MT for the quarter.
- EBITDA declined by 31.2% YoY/39.7% to INR 18,666 mn due to higher input cost. The decline in EBITDA was mainly due to 70.5% YoY rise in Power & Fuel costs along with 16.6% YoY higher raw material costs and 13.9% YoY higher freight & forwarding costs. EBITDA margin contracted by 916 bps YoY/697 bps QoQ to 13.4%.
- PAT has seen a decline of 42.5% YoY/52.3% QoQ to INR 7,557 mn. PAT margin contracted by 549 bps YoY and 501 bps QoQ to 5.4%.
- UltraTech achieved capacity utilisation of 76% in Q2FY23 as against 71% during Q2FY22 and 83% during Q1FY23.

## KEY FINANCIALS

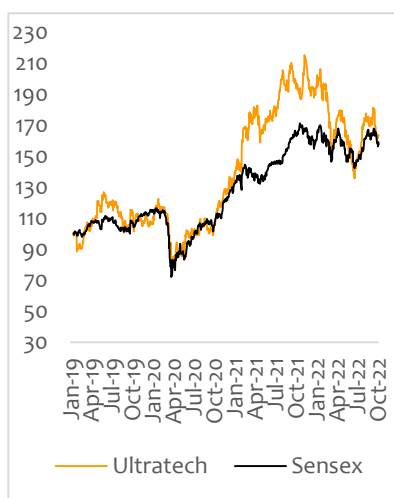
### MARKET DATA

Shares outs (Mn)	289
Mkt Cap (INR Mn)	18,19,198
52 Wk H/L (INR)	8,269/5,157
Volume Avg (3m K)	585
Face Value (INR)	10
Bloomberg Code	UTCEM IN

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	4,21,248	4,47,258	5,25,988	6,13,016	6,92,426
EBITDA	92,836	1,15,679	1,15,144	1,20,151	1,50,949
PAT	58,148	58,417	71,844	60,699	80,870
Adj PAT	37,028	55,809	71,844	60,699	80,870
EPS (INR)	201.5	193.3	248.9	210.3	280.1
EBITDA Margin (%)	22.0%	25.9%	21.9%	19.6%	21.8%
NPM (%)	13.8%	13.1%	13.7%	9.9%	11.7%

Source: Company, KRChoksey Research

### SHARE PRICE PERFORMANCE



### Demand continued to remain robust which aided volume growth despite seasonality

Ultratech was able to maintain decent growth of 6.7% YoY in consolidated cement sales volume at 23.1 MT in Q2FY23 led by healthy demand across segments. Capacity utilization stood at 76% in Q2FY23 as against 71% during Q2FY22 and 83% during Q1FY23. Premium products contributed to 18.8% of trade sales volume in Q2FY23. Blended realization for the company stood at INR 6,014/ton, a growth of 8.3% on YoY basis. Though on QoQ basis realization was mostly flat (0.7% decline) due to seasonality (monsoon) factor. Cement prices have seen correction since May 2022. During the quarter, Central and Northern region saw the sharpest correction, followed by East, West and South. Demand continued to remain robust and have seen month-on-month improvement during the quarter. Ultratech management expects double-digit demand growth over FY23-24E.

### Input costs peaked out during the quarter resulting in collapsing of margins

EBITDA margin contracted by 916 bps YoY/697 bps QoQ to 13.4%. The decline was mainly due to 70.5% YoY rise in Power & Fuel costs along with 16.6% YoY higher raw material costs and 13.9% YoY higher freight & forwarding costs. EBITDA/ton saw a decline of 35.6% YoY/34.6% QoQ to INR 808. Due to correction in pet coke/coal/fuel prices from their peaks, management expects cost/ton to come down from the next quarter.

### Update on capacity expansion plans

During the quarter, Ultratech commissioned 1.3 mtpa brownfield capacity at Dalla, Uttar Pradesh, taking the total grey cement capacity in India to 115.85 mtpa and 121.25 mtpa globally. Ultratech also commissioned 5 MW WHRS and 32 MW renewable power (RE) during the quarter. With this, green power mix has increased to 19.5% with WHRS capacity of 191 MW and RE power capacity of 318 MW. Ultratech will commission another 15.4 mtpa of capacity in H2FY23 and will start the new fiscal FY24 with a capacity of 131.25 mtpa.

### MARKET INFO

SENSEX	59,203
NIFTY	17,564

### SHARE HOLDING PATTERN (%)

Particulars	Jun-22 (%)	Mar-22 (%)	Dec-21 (%)
Promoters	60.0	60.0	60.0
FIIIs	13.1	14.0	15.8
DIIIs	18.2	16.4	15.2
Others	8.7	9.6	9.0
Total	100	100	100

# 14.7%

Revenue CAGR between FY22 and FY24E

# 6.1%

PAT CAGR between FY22 and FY24E

# UltraTech Cement Ltd.

INR Mn	Q2FY23	Q2FY22	Q1FY23	Y-o-Y	Q-o-Q
<b>Revenues</b>	<b>1,38,927</b>	<b>1,20,168</b>	<b>1,51,640</b>	<b>15.6%</b>	<b>-8.4%</b>
Total Expenditure	1,20,261	93,021	1,20,691	29.3%	-0.4%
Raw Material Cost	20,177	17,300	22,826	16.6%	-11.6%
Employee cost	6,912	6,795	6,371	1.7%	8.5%
Power & Fuel	42,961	25,200	40,131	70.5%	7.1%
Freight and Forwarding Expense	30,437	26,733	32,906	13.9%	-7.5%
Other expenses	19,774	16,993	18,457	16.4%	7.1%
<b>EBITDA</b>	<b>18,666</b>	<b>27,147</b>	<b>30,949</b>	<b>-31.2%</b>	<b>-39.7%</b>
<b>EBITDA Margin</b>	<b>13.4%</b>	<b>22.6%</b>	<b>20.4%</b>	<b>-916 bps</b>	<b>-697 bps</b>
Depreciation & amortization	7,079	6,774	6,952	4.5%	1.8%
EBIT	11,587	20,373	23,997	-43.1%	-51.7%
PBT	11,047	19,474	22,926	-43.3%	-51.8%
Tax	3,445	6,371	7,114	-45.9%	51.6%
Share of Associates/Minority Interest	15	-31	-13	NA	NA
<b>PAT</b>	<b>7,557</b>	<b>13,135</b>	<b>15,841</b>	<b>-42.5%</b>	<b>-52.3%</b>
<b>EPS (INR)</b>	<b>26.2</b>	<b>45.5</b>	<b>54.9</b>	<b>-42.5%</b>	<b>-52.3%</b>

## Key Conference Call Highlights:

- For Q2FY23 pet coke consumption was at 40% compared to 19% in Q2FY22. Ultratech expects the percentage mix to increase further in the coming quarter as pet coke prices (~USD 200/ton) are now cheaper than imported coal (~USD 300/ton).
- In between pet coke prices went down to USD 170, but again inched up to USD 200-205.
- Few years back pet coke prices were higher than imported coal. However, now coal prices are higher than pet coke and is rangebound between USD 300-350 per ton.
- Management believes that fuel prices will remain high due to geopolitical conditions prevailing in the world.
- With most of the input prices (pet coke/thermal coal/crude) witnessing correction of nearly 20-25% from their peaks, management expects cost/ton to decline in H2FY23E.
- Despite monsoon seasonality, demand continued to improve M-o-M during the quarter. Ultratech management is bullish on the demand scenario and is expecting double digit growth this year as well as next year.
- East prices have held up quite well compared to other parts of the country. West was neutral on the pricing front.
- Ultratech realization was better compared to peers. Historically Ultratech has enjoyed superior pricing compared to peers, which will continue going forward. Value added products are now 18.8% of total products.
- Inventory days currently stand a bit elevated at 54 days, which will come down to a normal level of 45 days in coming quarters.
- Trade mix was 68% for the quarter.
- Export volume stood at 1 lakh ton for the quarter.
- 4 lakh tons of capacity is under trial production, which will get commissioned in mid-November.
- Ultratech has a capex plan of INR 60-70 bn in FY23, it has already spent ~INR 30 bn during H1FY23.
- The company aims to reach 131 mtpa capacity in India by end of FY23E. The ground work has already commenced for Phase 2 expansion of 22.6 mtpa capacity. This will now get completed by FY26E versus previous deadline of FY25E.
- Ultratech has incurred an additional maintenance cost of INR 800 mn during the quarter due to maintenance shutdown of additional three kilns.
- Net debt for the company has increased to INR 83 bn (+50% QoQ) mainly led by growth capex and increase in working capital due to higher coal inventory.

## Valuation and view

Ultratech has exhibited poor performance during the quarter due to severe headwinds of cost pressure. We believe, the recent correction in energy prices will somewhat ease the margin pressure the company is currently facing. However, due to geopolitical uncertainty (Russia-Ukraine War), the global situation is quite fluid and hence we cannot rule out energy prices again inching up further. We believe, in light of robust demand environment, the aggressive capacity expansion plans that the company is undertaking will drive its future growth and will help the company to retain its market share and industry leading position. We expect the company's Revenues/EBITDA/PAT to grow at 14.7%/14.5%/6.1% CAGR over FY22-24E.

**We are optimistic about the company's future growth prospects and continue to value the stock using EV/EBITDA multiple of 15x on its FY24 estimates, which yields a target price of INR 7,574 per share (unchanged), giving an upside potential of 20.2% over the CMP. Accordingly, we maintain our 'BUY' rating on the shares of Ultratech Cement.**

# UltraTech Cement Ltd.

## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>4,21,248</b>	<b>4,47,258</b>	<b>5,25,988</b>	<b>6,13,016</b>	<b>6,92,426</b>
COGS	63,131	70,858	79,650	1,04,213	1,17,712
<b>Gross profit</b>	<b>3,58,117</b>	<b>3,76,400</b>	<b>4,46,338</b>	<b>5,08,804</b>	<b>5,74,714</b>
Employee cost	25,094	23,530	25,347	31,877	36,006
Power & Fuel	84,679	83,312	1,21,373	1,37,929	1,41,947
Freight and Forwarding Expense	97,254	1,00,433	1,17,123	1,53,254	1,73,107
Other expenses	58,255	53,446	67,352	65,593	72,705
<b>EBITDA</b>	<b>92,836</b>	<b>1,15,679</b>	<b>1,15,144</b>	<b>1,20,151</b>	<b>1,50,949</b>
<b>EBITDA Margin</b>	<b>22.0%</b>	<b>25.9%</b>	<b>21.9%</b>	<b>19.6%</b>	<b>21.8%</b>
Depreciation & amortization	27,022	27,002	27,148	31,639	35,738
<b>EBIT</b>	<b>65,814</b>	<b>88,677</b>	<b>87,996</b>	<b>88,512</b>	<b>1,15,211</b>
Interest expense	19,857	14,857	9,447	8,634	6,847
<b>PBT</b>	<b>52,423</b>	<b>83,791</b>	<b>83,644</b>	<b>86,569</b>	<b>1,15,384</b>
Tax	-5,682	25,387	11,901	25,971	34,615
Minority interest	-44	-13	-101	-101	-101
<b>PAT</b>	<b>58,148</b>	<b>58,417</b>	<b>71,844</b>	<b>60,699</b>	<b>80,870</b>
<b>Adj. PAT</b>	<b>37,028</b>	<b>55,809</b>	<b>71,844</b>	<b>60,699</b>	<b>80,870</b>
<b>EPS (INR)</b>	<b>201.5</b>	<b>202.4</b>	<b>248.9</b>	<b>210.3</b>	<b>280.1</b>
<b>Adj. EPS</b>	<b>128.3</b>	<b>193.3</b>	<b>248.9</b>	<b>210.3</b>	<b>280.1</b>

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	89,020	1,18,075	92,832	88,639	1,10,987
Net Cash Flow from/(used in) Investing Activities	(42,094)	(69,412)	22,570	(52,730)	(59,665)
Net Cash Flow from Financing Activities	(49,911)	(53,169)	(1,24,979)	(1,902)	(27,243)
Net Inc/Dec in cash equivalents	(2,985)	(4,506)	(9,577)	34,007	24,079
Opening Balance	4,412	1,465	1,772	1,205	35,212
Closing Balance Cash and Cash Equivalents	1,465	(3,040)	1,205	35,212	59,292

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratios	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	22.0%	25.9%	21.9%	19.6%	21.8%
Tax rate (%)	-10.8%	30.3%	14.2%	30.0%	30.0%
Net Profit Margin (%)	13.8%	13.1%	13.7%	9.9%	11.7%
RoE (%)	14.9%	13.2%	14.2%	10.8%	12.7%
RoCE (%)	10.9%	14.3%	14.5%	13.1%	15.7%
Adj. EPS (INR)	128.3	193.3	248.9	210.3	280.1

Source: Company, KRChoksey Research

# UltraTech Cement Ltd.

## Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Non-current assets</b>					
Property, plant and equipment	4,38,415	4,22,911	4,25,922	4,55,584	4,89,089
Capital work-in-progress	9,095	16,810	47,773	47,773	47,773
Goodwill	62,525	62,199	62,502	62,502	62,502
Intangible assets	56,271	55,721	54,740	54,740	54,740
Investment in Associate	232	288	302	302	302
Financial assets					
Investments	16,618	12,554	13,423	18,792	20,671
Loans	12,317	1,671	96	96	96
Other financial assets	3,998	5,546	11,100	11,100	11,100
Income Tax Assets (Net)	2,798	3,143	4,795	4,795	4,795
Deferred Tax Assets (Net)	60	72	164	191	215
Other non-current assets	28,255	27,075	30,783	35,876	40,523
<b>Total non-current assets</b>	<b>6,43,298</b>	<b>6,21,332</b>	<b>6,63,383</b>	<b>7,03,535</b>	<b>7,43,591</b>
<b>Current assets</b>					
Inventories	41,483	40,180	55,956	73,212	82,696
Financial assets					
Investments	42,437	1,08,939	49,633	49,633	49,633
Trade receivables	22,383	25,717	30,716	35,798	40,436
Cash and cash equivalents	1,465	1,772	1,205	35,212	59,292
Other Balances with Banks	3,927	18,303	2,386	0	0
Loans	1,977	1,147	69	69	69
Other financial assets	10,609	18,997	18,720	18,720	18,720
Current Tax Assets (Net)	1	1	1	1	1
Assets/Disposal Group held for sale	10,758	9,966	95	95	95
Other current assets	15,034	15,482	16,113	18,779	21,212
<b>Total current assets</b>	<b>1,50,074</b>	<b>2,40,503</b>	<b>1,74,895</b>	<b>2,31,520</b>	<b>2,72,153</b>
<b>TOTAL ASSETS</b>	<b>7,93,371</b>	<b>8,61,835</b>	<b>8,38,278</b>	<b>9,35,054</b>	<b>10,15,744</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	2,886	2,887	2,887	2,887	2,887
Other equity	3,88,269	4,38,860	5,01,466	5,58,190	6,33,764
Equity attributable to the equity shareholders	3,91,155	4,41,747	5,04,353	5,61,077	6,36,651
Non-controlling interests	75	57	-31	-131	-232
<b>Total equity</b>	<b>3,91,230</b>	<b>4,41,804</b>	<b>5,04,322</b>	<b>5,60,946</b>	<b>6,36,420</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	1,73,675	1,35,485	53,030	70,485	55,485
Other financial liabilities	10,559	14,512	12,817	12,817	12,817
Provisions	2,417	3,655	6,178	6,178	6,178
Deferred Tax Liabilities (Net)	49,120	60,407	60,332	70,315	79,423
Other Non-Current Liabilities	63	55	46	46	46
<b>Total non-current liabilities</b>	<b>2,35,834</b>	<b>2,14,114</b>	<b>1,32,404</b>	<b>1,59,841</b>	<b>1,53,949</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	39,851	42,351	48,998	42,351	42,351
Trade payables	35,014	46,993	58,628	76,708	86,645
Other financial liabilities	39,937	55,790	37,263	37,263	37,263
Other current liabilities	35,123	46,008	48,908	48,908	48,908
Provisions	5,481	5,219	2,480	2,890	3,264
Current Tax liabilities (Net)	6,011	7,117	5,273	6,145	6,941
Liabilities included in Disposal Group held for sale	4,890	2,440	1	1	1
<b>Total current liabilities</b>	<b>1,66,308</b>	<b>2,05,917</b>	<b>2,01,552</b>	<b>2,14,268</b>	<b>2,25,375</b>
<b>Total liabilities</b>	<b>4,02,141</b>	<b>4,20,031</b>	<b>3,33,956</b>	<b>3,74,108</b>	<b>3,79,324</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7,93,371</b>	<b>8,61,835</b>	<b>8,38,278</b>	<b>9,35,054</b>	<b>10,15,744</b>

Source: Company, KRChoksey Research

# UltraTech Cement Ltd.

UltraTech Cement Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
20-Oct-22	6,302	7,574	BUY	Buy	More than 15%
25-July-22	6,383	7,574	BUY		
02-May-22	6,679	8,535	BUY	Accumulate	5% – 15%
19-Jan-22	7,556	8,535	ACCUMULATE	Hold	0 – 5%
19-Oct-21	7,170	8,128	ACCUMULATE	Reduce	-5% – 0
23-Jul-21	7,490	8,128	ACCUMULATE		
30-Jun-21	6,825	7,415	ACCUMULATE	Sell	Less than – 5%
11-May-21	6,403	7,415	BUY		

### ANALYST CERTIFICATION:

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