



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 **35.92**
Updated Aug 08, 2022

High Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 2,08,512 cr
52-week high/low:	Rs. 7,948 / 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	5.3	4.8	33.0	-2.3
Relative to Sensex	3.8	1.2	14.3	-9.9

Sharekhan Research, Bloomberg

UltraTech Cement Ltd

Favourable environment post a challenging Q2

Cement	Sharekhan code: ULTRACEMCO		
Reco/View: Buy	↔	CMP: Rs. 7,223	Price Target: Rs. 8,500 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain Buy on UltraTech Cement (UltraTech) with a revised PT of Rs. 8,500, rolling forward our earnings multiple to September 2024 earnings and considering its long-term growth potential.
- Cement demand bounces back in November 2022 post a weak October, which was impacted by the festive season. Average pan-India cement prices during October-November 2022 were higher by 1% compared to Q2FY2023.
- International coal prices declined on a q-o-q basis during Q3FY2023 till date, while domestic pet coke prices for December 2022 declined 6% m-o-m, resulting in flat q-o-q trend. Diesel prices remain flat sequentially.
- The company commissioned 5.5mtpa grinding units, taking total India cement capacity to 121.35mtpa. The company commenced 4LMT wall care putty capacity, reaching overall 13LMT capacity.

UltraTech Cement (UltraTech) is expected to benefit from demand revival in November (post a weak October), increased cement prices during October-November, and easing of power and fuel costs. As per our channel checks, average pan-India cement prices in October-November 2022 have increased by 1.3% compared to Q2FY2023 average (up 3% vs. Q3FY2022), led by a healthy price increase undertaken in the East. Cement transported through Indian Railways rose by 3% m-o-m during November 2022 (up 18.5% y-o-y) post a weak October (affected by the festive season). On the cost front, international coal prices declined by 8.5% q-o-q during Q3FY2023 till date, while domestic prices corrected by 6% m-o-m for December 2022 (average Q3FY2023 flat q-o-q). Retail diesel prices for October-November 2022 have stayed flat compared to Q2FY2023, while they are lower by 0.7% compared to Q3FY2022.

- Cement demand and prices pick up in November 2022:** As per our channel checks, average pan-India cement prices in November 2022 have increased by 1% m-o-m (up 2% y-o-y), led by a price increase seen in the Eastern region (up 4% m-o-m, up 14% y-o-y) followed by the Central region (up 3% both m-o-m and y-o-y), while Northern and Southern regions remained almost flat on m-o-m basis and Western region saw a decline (down 3% m-o-m, flat y-o-y). Cement transported through Indian Railways increased by 3.1% m-o-m in November 2022 (up 18.5% y-o-y) post a weak October (down 1.3% m-o-m, production declined by 2.3% m-o-m). We expect UltraTech to benefit from a healthy pick-up in demand and pricing environment in Q3FY2023.
- Power and fuel costs easing, while diesel prices stay flat:** International coal prices remained low (down 8.5%) during Q3FY2023 till date compared to the average in Q2FY2023. Further, domestic pet coke prices for December 2022 declined by 6% m-o-m post consecutive hikes seen in October 2022 (up 15.4% m-o-m) and November 2022 (up 4.6% m-o-m). On the freight costs, average retail diesel prices across metros for October-November 2022 have stayed flat compared to Q2FY2023 (down 0.7% compared to Q3FY2022). UltraTech is expected to benefit from the expected decline in power and fuel costs partially during Q3FY2023 and fully during Q4FY2023.
- Cement grinding units of 5.5mtpa commissioned along with 4LMT wall care putty capacity:** In December 2022, the company commissioned 5.5mtpa grinding units (1.8mtpa greenfield at Dhule, Maharashtra, 1.8mtpa brownfield at Dhar, M.P. and 1.9mtpa greenfield at Pali, Rajasthan), taking its total cement manufacturing capacity in India to 121.35mtpa. Further, it commenced production of 4LMT wall care putty plant at Rajasthan during November 2022, taking its total wall care putty capacity to 13LMT.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 8,500: 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 easing in pet coke/coal prices and flat diesel prices provides a key tailwind to improve upon operating margins from Q3FY2023, although the full benefit of easing power and fuel costs is likely to reflect in Q4FY2023 earnings. We continue to maintain our Buy rating on the stock with a revised price target (PT) of Rs. 8,500, rolling forward our valuation multiple to September 2024 earnings and 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)

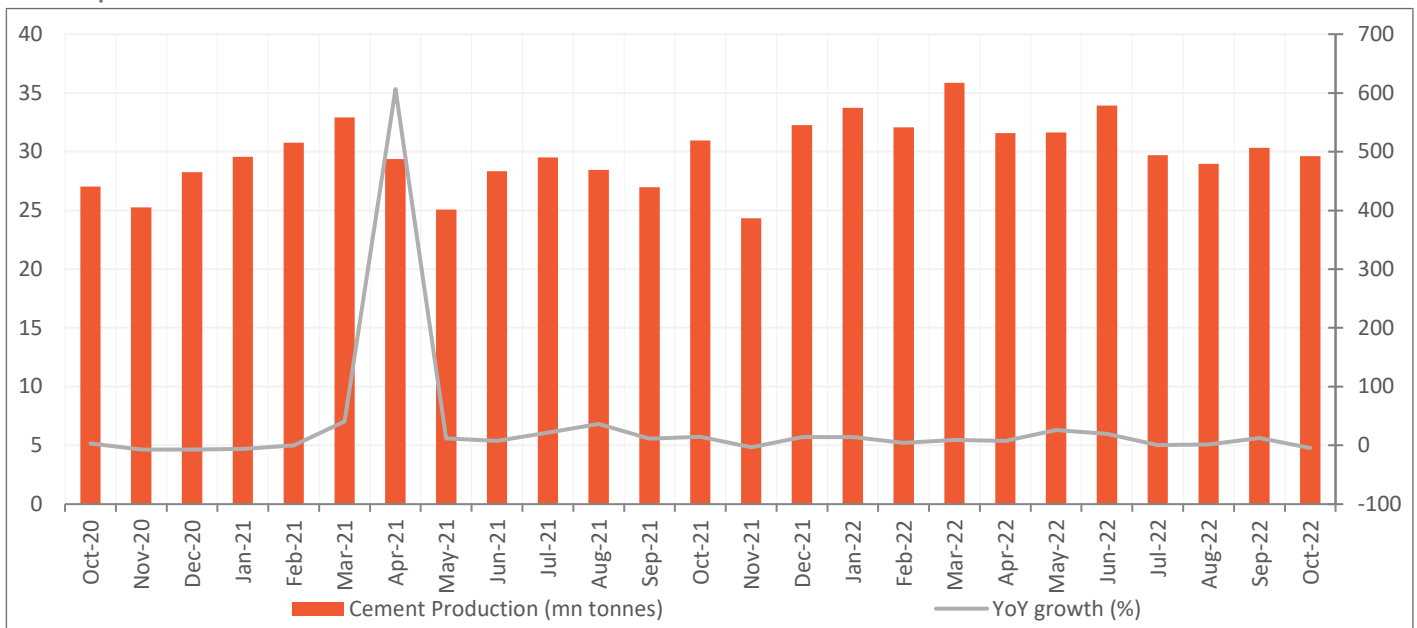
Particulars	FY22	FY23E	FY24E	FY25E
Revenue	50,663	61,316	69,165	78,094
OPM (%)	22.8%	19.1%	20.2%	21.5%
Adjusted PAT	5,549	5,573	6,915	8,737
% YoY growth	1.7%	0.4%	24.1%	26.4%
Adjusted EPS (Rs.)	192.2	193.1	239.6	302.7
P/E (x)	37.5	37.4	30.1	23.8
P/B (x)	4.2	3.8	3.4	3.0
EV/EBITDA (x)	18.9	18.8	15.3	12.4
RoNW (%)	12.0%	10.7%	12.0%	13.4%
RoCE (%)	10.2%	9.7%	10.9%	12.5%

Source: Company; Sharekhan estimates

Cement demand and prices pick up in November 2022

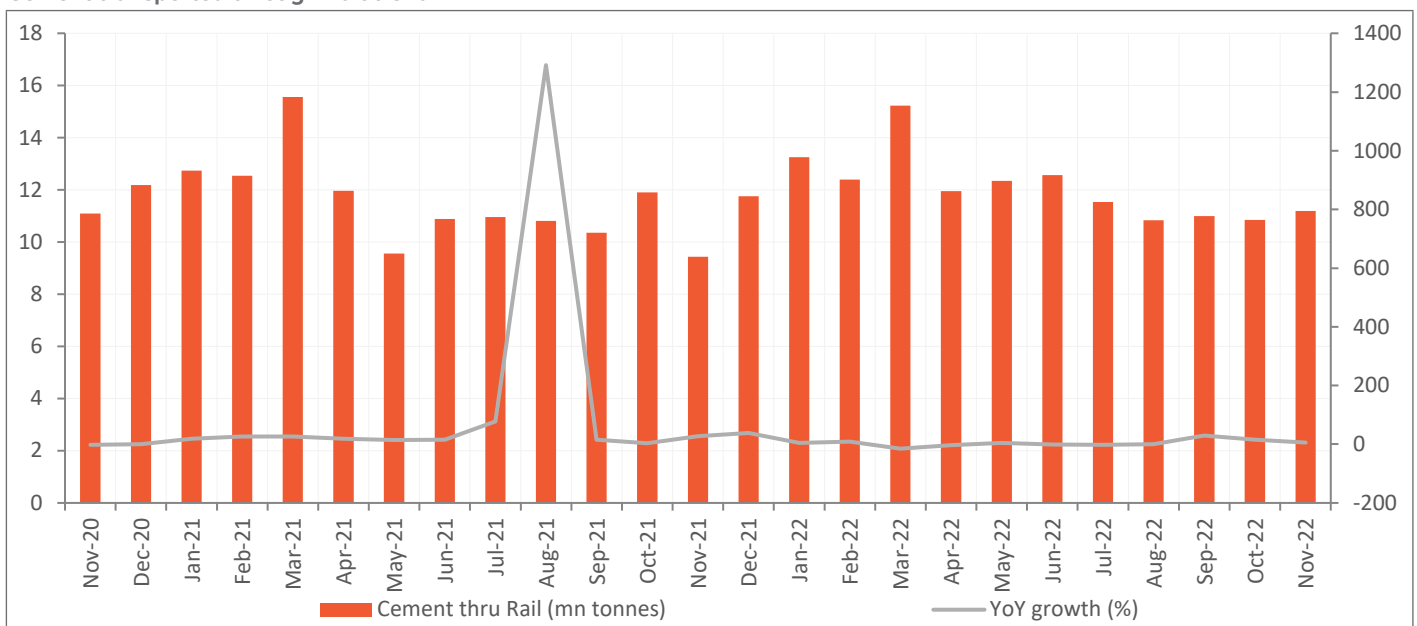
As per our channel checks, average pan-India cement prices in November 2022 increased by 1% m-o-m (up 2% y-o-y), led by a price increase seen in the Eastern region (up 4% m-o-m, up 14% y-o-y) followed by the Central region (up 3% both m-o-m and y-o-y), while Northern and Southern regions remained almost flat m-o-m and the Western region saw a decline (down 3% m-o-m, flat y-o-y). Average cement prices during October-November 2022 are higher by 1.3% compared to average Q2FY2023 (up 3% compared to Q3FY2022), led by a 5% rise in the Eastern region, 1-2% rise in Northern, Central, and Southern regions and a 1% decline in the Western region. Cement transported through Indian Railways increased by 3.1% m-o-m in November 2022 (up 18.5% y-o-y) post a weak October. October month was affected by the festive season, which led to a cement production decline of 2.3% m-o-m (down 4.3% y-o-y) and cement transported through rail decline of 1.3% m-o-m (down 8.8% y-o-y). We expect UltraTech to benefit from a healthy pick-up in demand and pricing environment in Q3FY2023.

Cement production trend



Source: DPIIT; Sharekhan Research

Cement transported through Rail trend

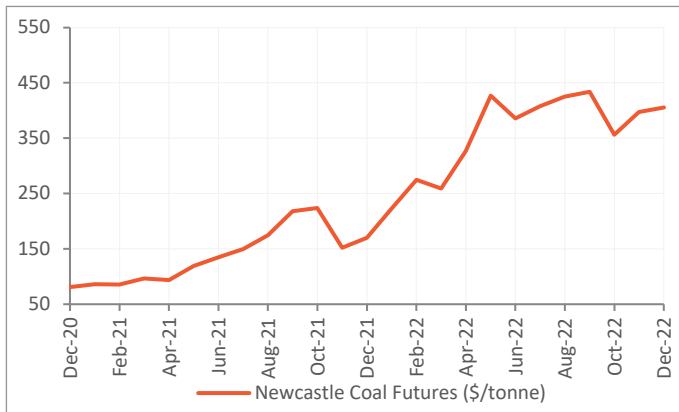


Source: Ministry of Railways; Sharekhan Research

Power and fuel easing, while diesel prices stay flat

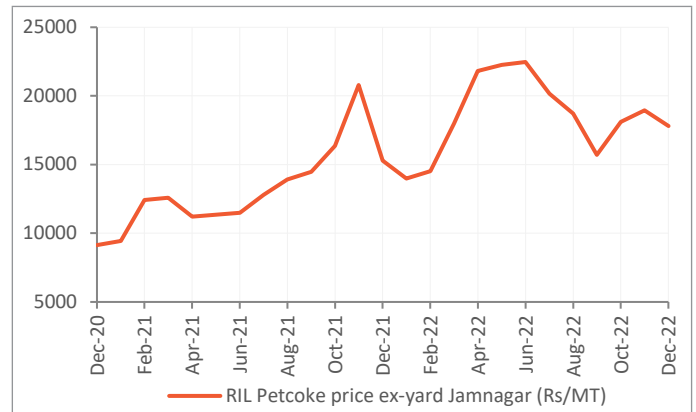
International coal prices remained low (down 8.5%) during Q3FY2023 till date compared to average Q2FY2023. Further, domestic pet coke prices for December 2022 declined by 6% m-o-m post consecutive hikes seen in October 2022 (up 15.4% m-o-m) and November 2022 (up 4.6% m-o-m). Average Q3FY2023 domestic prices remained almost flat q-o-q (up 0.6%), while they increased by 4.7% y-o-y. On the freight costs, average retail diesel prices across metros for October-November 2022 have stayed flat compared to Q2FY2023, while they are lower by 0.7% compared to Q3FY2022. UltraTech is expected to benefit from the expected decline in power and fuel costs partially during Q3FY2023 and fully during Q4FY2023.

International coal price trend



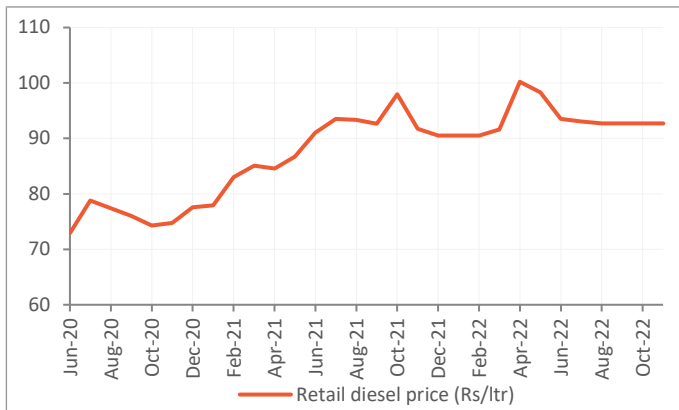
Source: Industry; Sharekhan Research

Domestic petcoke price trends



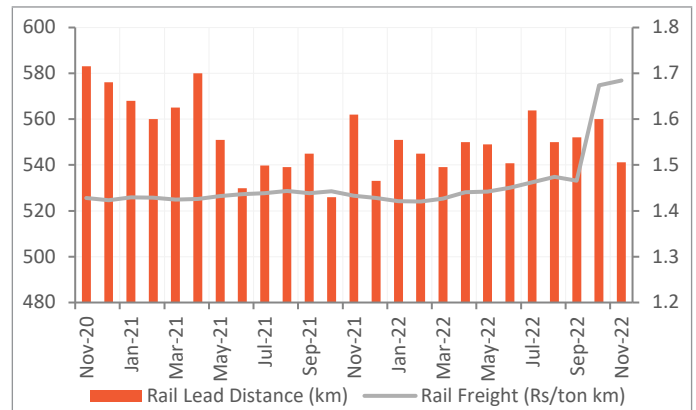
Source: Industry; Sharekhan Research

Retail Diesel Price Trend



Source: Ministry of Petroleum; Sharekhan Research

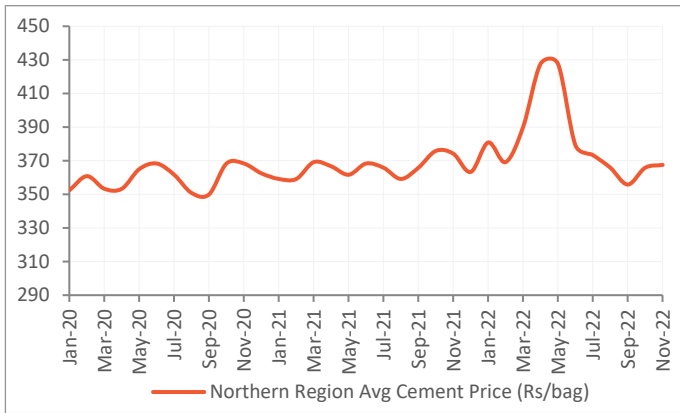
Railways cement lead distance and freight trend



Source: Ministry of Railways; Sharekhan Research

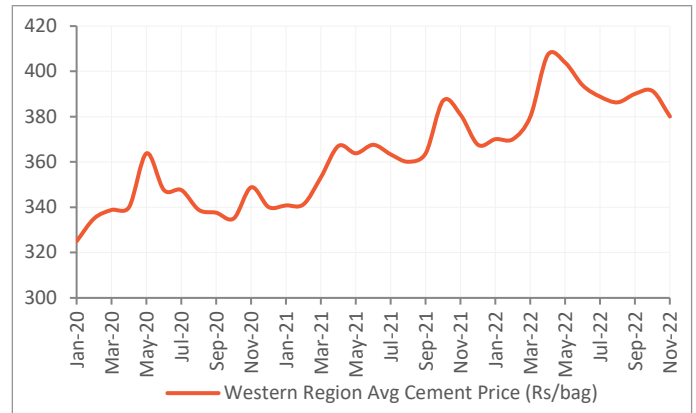
Cement prices in charts

Pan-India price +2.9%/+1.3% (Oct-Nov'22 vs. Q3FY22/Q2FY23)



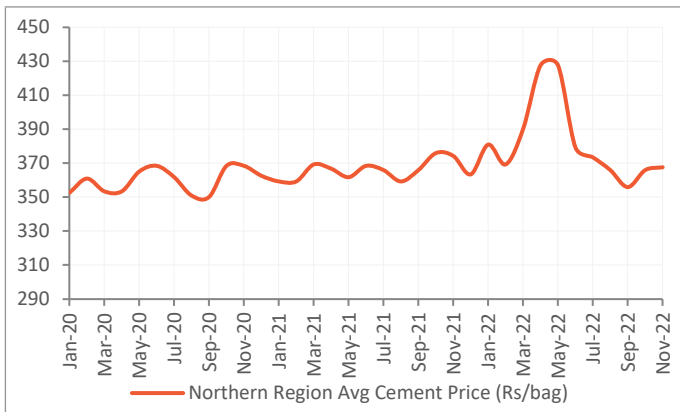
Source: Industry; Sharekhan Research

West price +1.9%/-0.7% (Oct-Nov'22 vs. Q3FY22/Q2FY23)



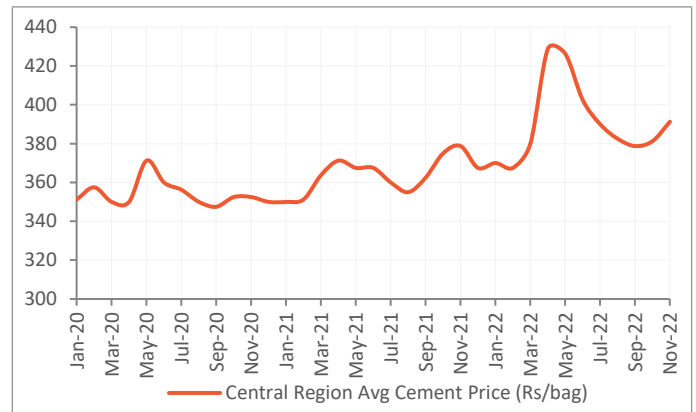
Source: Industry; Sharekhan Research

North price -1.2%/+0.5% (Oct-Nov'22 vs. Q3FY22/Q2FY23)



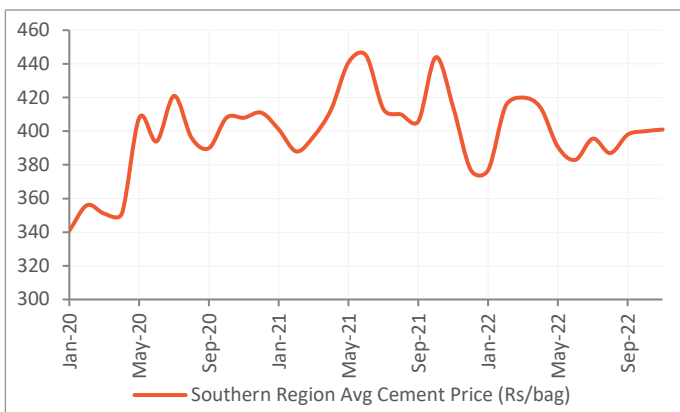
Source: Industry; Sharekhan Research

Central price +3.3%/+0.7% (Oct-Nov'22 vs. Q3FY22/Q2FY23)



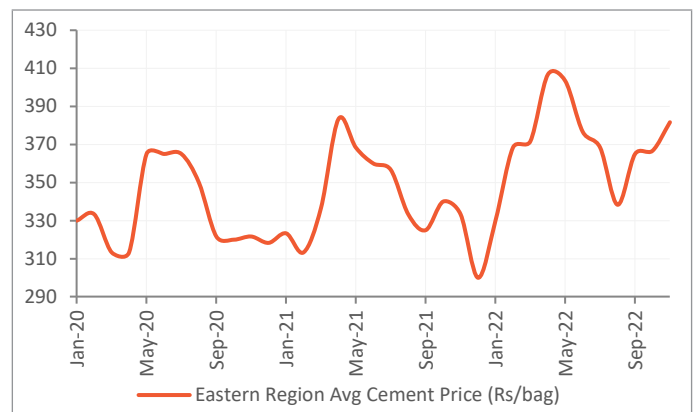
Source: Industry; Sharekhan Research

South price -2.7%/+1.8% (Oct-Nov'22 vs. Q3FY22/Q2FY23)



Source: Industry; Sharekhan Research

East price +15.3%/+4.7% (Oct-Nov'22 vs. Q3FY22/Q2FY23)



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. 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.

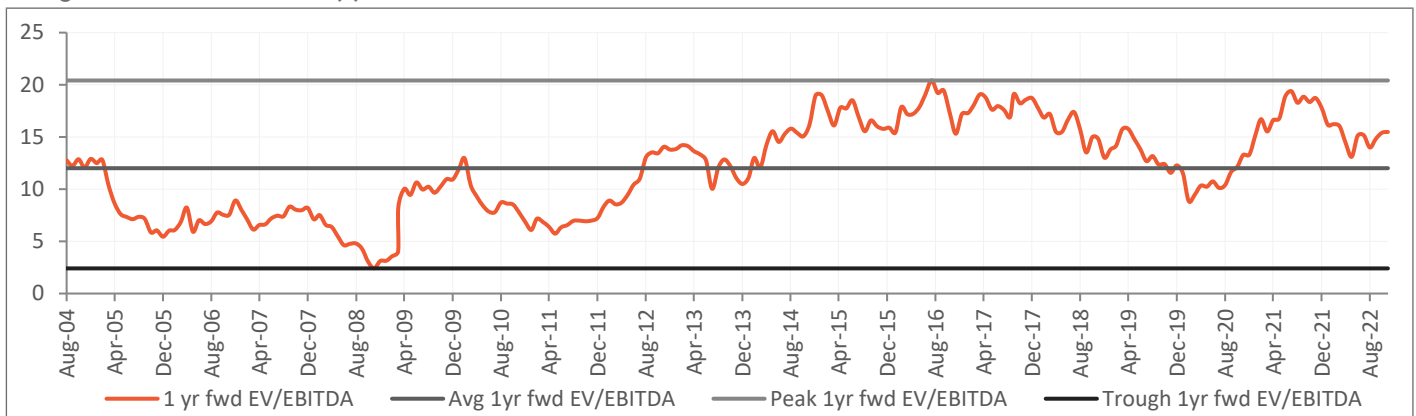
■ Company Outlook – Healthy cement demand, profitability, and balance sheet health to remain favourable

UltraTech is expected to see sustained demand emanating from the rural and infrastructure sectors. 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 capacity 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. 8,500

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 easing in pet coke/coal prices and flat diesel prices provides a key tailwind to improve upon operating margins from Q3FY2023, although the full benefit of easing power and fuel costs is likely to reflect in Q4FY2023 earnings. We continue to maintain our Buy rating on the stock with a revised price target (PT) of Rs. 8,500, rolling forward our valuation multiple to September 2024 earnings and considering its long-term growth potential and reasonable valuation.

One-year forward EV/EBITDA (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech Cement	30.1	23.8	15.3	12.4	3.4	3.0	12.0	13.4
Shree Cement	44.9	30.0	19.4	14.1	4.4	3.9	10.3	13.9
The Ramco Cement	25.2	20.3	13.6	11.6	2.4	2.1	9.8	11.1
Dalmia Bharat	43.8	38.5	12.3	11.1	2.0	1.9	4.7	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. Its domestic cement capacity stands at 121.35mtpa. 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 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 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

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