Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 Mar 08, 2023	34.23

High Risk

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

Source: Morningstar

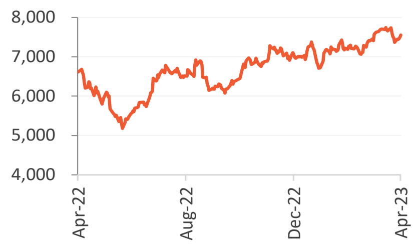
Company details

Market cap:	Rs. 1,97,656 cr
52-week high/low:	Rs. 7,825/5,158
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	15.3
DII	17.2
Others	7.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	9.7	17.2	14.2
Relative to Sensex	-4.1	7.0	15.3	8.0

Sharekhan Research, Bloomberg

UltraTech Cement Ltd

In-line quarter, demand tailwinds intact

Cement	Sharekhan code: ULTRACEMCO

Reco/View: Buy ⟺	CMP: Rs. 7,555	Price Target: Rs. 8,400 ↑

↑ Upgrade ⟺ Maintain ↓ Downgrade

Summary

- We maintain a Buy on UltraTech with a revised PT of Rs. 8,400, increasing our valuation multiple, considering its long-term growth potential.
- The company reported an in-line standalone performance for Q4FY2023 aided by strong volume growth of 15% y-o-y. EBITDA per tonne at Rs. 1030 was aided by a sequential decline in power & fuel and other expenses.
- Phase-I expansion is nearing completion while phase 2 with 22.6 mtpa has commenced. This will take its overall cement capacity to 160 mtpa during FY2026.
- Cement demand remains upbeat led by infrastructure segment while cement prices are expected to remain stable and power & fuel costs are likely to tread lower in the near term.

UltraTech Cement (UltraTech) reported an in-line standalone performance for Q4FY2023. Standalone revenues grew 19.5% y-o-y to Rs. 18,121 crore led by strong volume growth (up 15% y-o-y) and higher blended realisations (up 4% y-o-y). Blended EBITDA/tonne at Rs. 1,030 (down 7% y-o-y) was in line with our estimate of Rs. 1027/tonne. Higher realisations y-o-y, decline in Power & fuels costs (down 11% q-o-q), freight costs (down 2% q-o-q) and other expense (down 16% y-o-y, led by operating leverage) on per tonne basis aided four-digit EBITDA/tonne for the quarter. Overall, standalone operating profit (up 6.7% y-o-y) and adjusted net profit (up 12.2% y-o-y) remained in line with our expectation. The company commissioned 14.6 mtpa cement capacity during FY2023 and FY2024 till date while the phase-2 expansion of 22.6 mtpa has already commenced, which will go onstream by June 2025 taking its overall cement capacity to 160.45 mtpa. The management expects strong demand to sustain, cement prices to remain stable and power & fuel costs to tread lower in the near term.

Key positives

- Standalone business volumes rose by 14.9% y-o-y and 23.5% q-o-q respectively.
- Standalone free cash flow generation during FY2023 despite almost a Rs. 6000 crore capex, Rs. 1,140-crore reduction in gross debt and Rs. 1093 crore dividends.
- Other expenses on per tonne basis declined by 7% y-o-y and 16% q-o-q led by operating leverage.

Key negatives

- Blended realisations were lower 2.2% q-o-q despite effective capacity utilization of 95% during Q4FY23.
- Coal prices remain firm although pet coke prices have been softening. Opening up of China may lead to increase in coal prices.

Management Commentary

- Demand remains strong while it saw cement capacity utilisation of 100% in March 2023 as compared to an average of 95% and 84% during Q4FY2023 and FY2023, respectively. Infrastructure remains key demand driver.
- Cement prices were largely maintained during Q4 while they are expected to remain stable going ahead.
- It incurred almost Rs. 6000-crore capex during FY2023. The similar amount of capex is expected over the next couple of years.
- Phase-1 capacity expansion is almost complete with 2-3 smaller upgradations pending which will be completed before current quarter end. The phase 2 of 22.6 mtpa is in progress.

Revision in estimates – We have fine-tuned our earnings estimates for FY2024-FY2025

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 8,400: UltraTech continues to benefit from strong demand especially from infrastructure, which is expected to sustain going ahead considering the pre-election year and government's focus on infrastructure investments. Cement prices are expected to remain stable in lieu of gaining market share in the wake of strong demand and softening power & fuel costs. It remains on track with respect to its capacity expansion plans, while improving operational efficiencies to target Rs. 1000-1200 EBITDA/tonne in the near to medium term. At CMP, the stock is trading at an EV/EBITDA of 14x its FY2025E earnings which we believe provides further room for upside. Hence, we maintain our Buy rating on the stock, with a revised PT of Rs. 8400 increasing our valuation multiple considering its long-term growth potential.

Key Risks

A weak macro environment leading to lower cement demand and pressure on cement prices would negatively affect profitability.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	50,663	61,327	68,482	76,398
OPM (%)	22.8%	17.3%	18.7%	20.0%
Adjusted PAT	5,549	4,917	6,253	7,845
% YoY growth	1.7%	-11.4%	27.2%	25.4%
Adjusted EPS (Rs.)	192.2	170.4	216.7	271.8
P/E (x)	39.3	44.3	34.9	27.8
P/B (x)	4.4	4.1	3.8	3.4
EV/EBITDA (x)	19.7	21.4	17.4	14.2
RoNW (%)	12.0%	9.6%	11.3%	12.8%
RoCE (%)	10.2%	9.0%	10.6%	12.2%

Source: Company; Sharekhan estimates

An in-line performance

Standalone net revenues grew by 19.5% y-o-y at Rs. 18,121 crore, largely in line with our estimates. Cement volumes were up 14.9% y-o-y (+23.5% q-o-q) at 30.5 million tonnes, while blended realizations were up 4% y-o-y (down 2.2% q-o-q) at Rs. 5941/tonne. Blended standalone EBITDA/tonne at Rs. 1030 (-7.1% y-o-y, +18.6% q-o-q) was in-line with our estimate of Rs. 1027/tonne. Standalone OPM stood at 17.3% (-207bps y-o-y, +304bps q-o-q). The power & fuel costs stood at Rs. 1581/tonne (+16.8% y-o-y, -11.1% q-o-q), freight costs at Rs. 1357/tonne (+4.8% y-o-y, -2.3% q-o-q) and other expense at Rs. 608/tonne (-6.7% y-o-y, -16.1% q-o-q). Standalone operating profit grew by 6.7% y-o-y (+46.5% q-o-q) at Rs. 3141 crore, which was in-line with our estimate. Adjusted Standalone net profit grew by 12.2% y-o-y (+66% q-o-q) at Rs. 1650 crore (largely in-line with our estimate). The company generated free cash flows during FY2023 despite high capex, reduction in gross debt and dividend payouts.

Key conference takeaways:

- **Outlook:** The demand continues to remain strong while it saw cement capacity utilisation of 100% in March 2023 compared to average 95% and 84% during Q4FY2023 and FY2023 respectively. Infrastructure remains the bellwether of demand so OPC consumption may remain high. In the near future, cement conversion ratio can touch 1.5 from an average of 1.41.
- **Cement prices:** They were largely stable during Q4 and are expected to remain so going ahead
- **FY23 performance:** The company crossed 100 million tonnes in cement sales volumes in India during FY2023 from dispatches across 55 plants. RMC plants are 235. The strong feat in volumes were done through dispatches by 50 rakes/day, 12000 trucks/day and 1 lakh plus network channel partners. It performed uniformly pan-India with 2-3% variation in growth across regions.
- **Q4FY2023 performance:** The company achieved strong volume growth of 15% y-o-y. Clinker capacity utilisation was 91% during Q4 and 83% during FY23.
- **Capacity expansions:** Phase 1 capacity expansion is almost complete with 2-3 smaller upgradations pending, which will be completed before current quarter end. The phase 2 of 22.6 mtpa is in progress. The company's cement capacity is slated to increase to 156 mtpa by June 2025.
- **Fuel prices:** Coal prices remain strong while pet coke has been softening. As and when China starts importing coal, the fuel prices may rise. Fuel prices on Kcal basis was Rs. 2.5 in Q4 while it expects P&F costs to soften in the near term. Petcoke prices has reached $150-160/tonne while coal is still higher at $170-180/tonne. Management remain cautious on fuel costs as it may reverse the downward trend with Chinese demand. The pet coke mix during Q4 was 52%. It maintains normal inventory of 45 days.
- **Capex:** It incurred a capex of almost Rs. 6000 crore capex during FY2023. The similar amount of capex is expected over the next couple of years. It generated a small amount of free cash flows despite incurring high capex, paying out dividends and deleveraging.
- **Construction chemicals:** The revenues from construction chemicals was Rs. 550 crore during FY2023 with presence at 39 locations.
- **RMC:** It hopes to double plants in RMC segment from 231 currently.
- **East region:** Its current capacity in East is 22 mtpa and it would be adding another 5 mtpa over the next two years. The region has a strong depth in demand.
- **Premium cement:** The price of premium products is higher by Rs. 10/bag or Rs. 200/tonne.
- **Nathdwara:** Nathdwara is ready to get merged with Ultratech. However, it has already drawn out synergy benefits from the same.
- **Dalla unit:** The 2.3 mtpa Dalla unit is under arbitration. The unit does not have a grinding capacity while limestone reserves are 100 MT.
- **Sri Lankan operations:** The situation in Sri Lanka has almost normalised. Outstanding receivables of Rs. 250 crore since the crisis in Sri Lanka, has been received.

Results (Standalone) **Rs cr**

Particulars	Q4FY23	Q4FY22	YoY %	Q3FY2023	QoQ %
Net Sales	**18121.0**	**15167.5**	**19.5%**	**15008.0**	**20.7%**
Operating Profit	**3141.2**	**2942.9**	**6.7%**	**2144.8**	**46.5%**
Other Income	200.6	144.8	38.5%	158.2	26.8%
EBITDA	3341.8	3087.7	8.2%	2303.0	45.1%
Interest	174.9	174.7	0.1%	193.7	-9.7%
Depreciation	694.8	637.7	9.0%	653.5	6.3%
PBT	**2472.1**	**2275.3**	**8.6%**	**1455.8**	**69.8%**
Tax	821.6	804.7	2.1%	461.6	78.0%
Reported PAT	**1650.4**	**2453.6**	**-32.7%**	**994.2**	**66.0%**
Exceptional items	0.0	983.0		0.0	
Adj.PAT	**1650.4**	**1470.6**	**12.2%**	**994.2**	**66.0%**
Margins			**Bps**		**Bps**
OPM	17.3%	19.4%	-207	14.3%	304
PATM	9.1%	9.7%	-59	6.6%	248
Tax Rate	33.2%	35.4%	-213	31.7%	153

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens outlook

The cement industry has seen a sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been rising in the past five years. Amid COVID-19-led disruptions, 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.

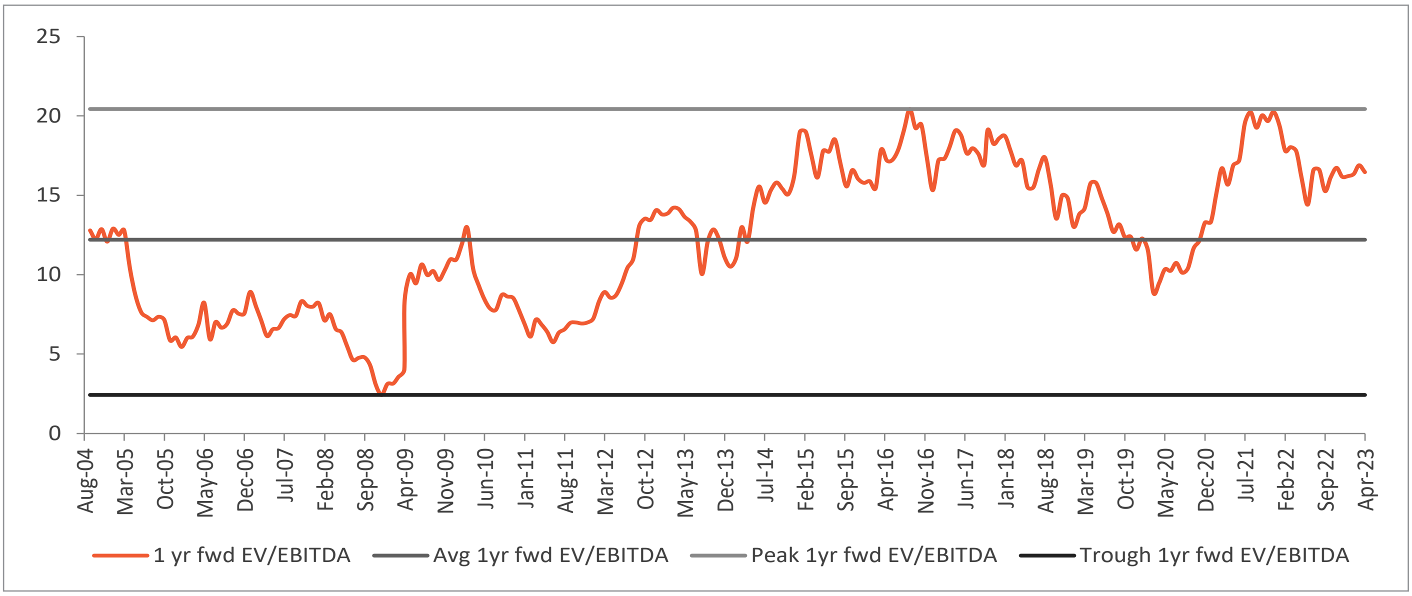
■ Company outlook - Healthy cement demand, profitability, and balance sheet health to remain favorable

UltraTech is expected to see sustained demand from the rural sector and infrastructure sector. Further, demand from the real estate segment in the urban market has started to witness strong traction with favourable government policies and lower interest rates. The management is optimistic about a sustainable demand environment for the cement sector over a longer period. The company's capacity expansion plans for adding 19.5 mtpa capacity is almost complete, while it targets to achieve 159.25mtpa cement capacity by FY25-FY26. The company is well placed to benefit from rising cement demand over the next 4-5 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. 8,400

UltraTech continues to benefit from strong demand especially from infrastructure, which is expected to sustain going ahead considering the pre-election year and government's focus on infrastructure investments. Cement prices are expected to remain stable in lieu of gaining market share in the wake of strong demand and softening power & fuel costs. It remains on track with respect to its capacity expansion plans, while improving operational efficiencies to target Rs. 1000-1200 EBITDA/tonne in the near to medium term. At CMP, the stock is trading at an EV/EBITDA of 14x its FY2025E earnings which we believe provides further room for upside. Hence, we maintain our Buy rating on the stock, with a revised PT of Rs. 8400 increasing our valuation multiple considering its long-term growth potential.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech Cement	34.9	27.8	17.4	14.2	3.8	3.4	11.3	12.8
Shree Cement	55.6	43.3	21.2	16.8	4.5	4.2	8.4	10.1
The Ramco Cement	25.9	20.6	13.6	11.5	2.4	2.2	9.6	11.0
Dalmia Bharat	44.9	41.9	13.1	11.9	2.3	2.1	5.1	5.2

Source: Company; 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. Ultra Tech is the third largest Cement producer in the world, outside of China, with a consolidated Grey Cement capacity of 126.75 mtpa. The company's business operations span across UAE, Bahrain, Sri Lanka, and India. t is a signatory to the GCCA Climate Ambition 2050 and has committed to the Net Zero Concrete Roadmap announced by GCCA.

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

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

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 detoriating 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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