Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Company Update

UltraTech Cement Ltd

Fiscal year begins on strong note

Cement	Sharekhan code: ULTRACEMCO
Reco/View: Buy ↔	CMP: Rs. 8,432 / Price Target: Rs. 9,400 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on UltraTech with a revised PT of Rs. 9,400, increasing our valuation multiple, amid strong demand and operational cost tailwinds.
- The company announced a 20% y-o-y growth in domestic and consolidated sales volumes for Q1FY2024 indicating sustained strong demand environment and possibility of market share gains.
- RIL cuts domestic petcoke prices by 10% m-o-m for July 2023 while they are lower by 16% q-o-q in Q1FY2024. International petcoke and Australian coal prices too decline q-o-q.
- Pan-India average cement prices corrected by just 1.6% q-o-q partially retaining savings from P&F costs. Cement prices become key monitorable in the wake of sustained decline in power & fuel (P&F) costs post Q1FY2024.

UltraTech Cement (UltraTech) announced strong sales volume growth of 20% y-o-y (down 5% q-o-q) in both domestic and consolidated sales volumes for Q1FY2024. Strong demand and continuous capacity additions have aided the company in maintaining strong volume growth during FY2023 and Q1FY2024. Further, domestic prices continued to slide, with RIL cutting price by 10% m-o-m for July 2023 (down 16% q-o-q in Q1FY2024). Additionally, International petcoke prices and Australian coal prices declined 24% q-o-q and 27% q-o-q during Q1FY2024. However, pan-India average cement prices were lower just 1.6% q-o-q during Q1FY2024 amid strong demand. We expect UltraTech to benefit from strong demand environment and declining P&F costs during H1FY2024. Going ahead, for the near term, cement prices remain a key monitorable as the savings from P&F costs accrues.

- **FY2024 commences with strong volume growth:** UltraTech announced a strong 20% y-o-y growth (down 5% q-o-q) in both domestic and consolidated sales volumes for Q1FY2024. Capacity utilisation for Q1FY2024 stood at ~90% as compared to 95%/84% in Q4FY2023/FY2023. The company has maintained strong volume growth momentum during Q1FY2024 post reporting 13% y-o-y/ 15% y-o-y volume growth during Q3FY2024/Q4FY2024. UltraTech continues to benefit from strong cement demand led by government-led infrastructure spending and housing demand.
- **Domestic petcoke prices continue to slide in July 2023:** Reliance Industries has cut domestic pet coke price by 10.4% m-o-m (down 41.1% y-o-y) to Rs. 11,856/MT for July 2023. RIL has been cutting domestic prices m-o-m since April 2023 with average pet coke prices for Q1FY2024 dipping by 16% q-o-q (down 33% y-o-y). Further, International petcoke prices declined 8% m-o-m during June 2023, while the same saw 24% q-o-q correction during Q1FY2024. Australian coal prices corrected by 5% m-o-m during June 2023 while the same are lower by 27% q-o-q. Declining coal/petcoke prices since Q3FY2023 is expected to lead to lower power & fuel costs for the industry and Ultratech in particular during H1FY2024.
- **Cement price behavior – A key monitorable in the near term:** As per our channel checks, pan-India average cement prices for Q1FY2024 were lower by 1.6% q-o-q (down 7.3% y-o-y), led by relatively weaker pricing in South (down 3.3% q-o-q) and Central India (down 2.4% q-o-q), while other regions witnessed up to a 1% q-o-q decline. The cement price hikes initiated in early June during the start of the month were rolled back before the onset of monsoons, besides a dip in petcoke/coal prices in June 2023. In the wake of declining petcoke/coal prices, cement prices would be key monitorable in the near term.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 9,400: UltraTech continues to benefit from strong demand especially from infrastructure, which is expected to sustain going ahead considering the pre-election year and the 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. 1,000-1,200 EBITDA/tonne in the near to medium term. At CMP, the stock is trading at an EV/EBITDA of 16x its FY2025E earnings which we believe provides further room for an upside. Hence, we maintain our Buy rating on the stock, with a revised PT of Rs. 9400 increasing our valuation multiple, in the wake of strong demand and operational cost tailwinds.

Key Risks

A weak macro-economic 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)	43.9	49.5	38.9	31.0
P/B (x)	4.9	4.6	4.2	3.8
EV/EBITDA (x)	22.1	24.0	19.5	16.0
RoNW (%)	12.0%	9.6%	11.3%	12.8%
RoCE (%)	10.2%	9.0%	10.6%	12.2%

Source: Company; Sharekhan estimates

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 32.74

Updated Jun 08, 2023

High Risk

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

Source: Morningstar

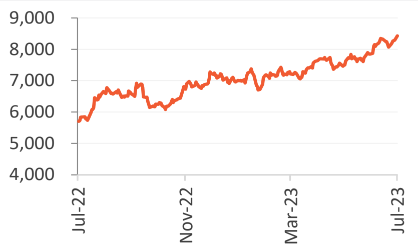
Company details

Market cap:	Rs. 2,43,420 cr
52-week high/low:	Rs. 8500/5486
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

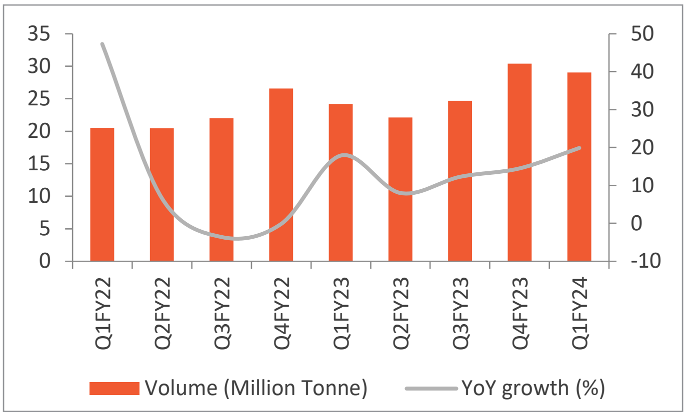
(%)	1m	3m	6m	12m
Absolute	7.1	10.4	20.5	47.8
Relative to Sensex	3.3	0.1	14.1	25.3

Sharekhan Research, Bloomberg

Fiscal year starts maintaining strong volume growth

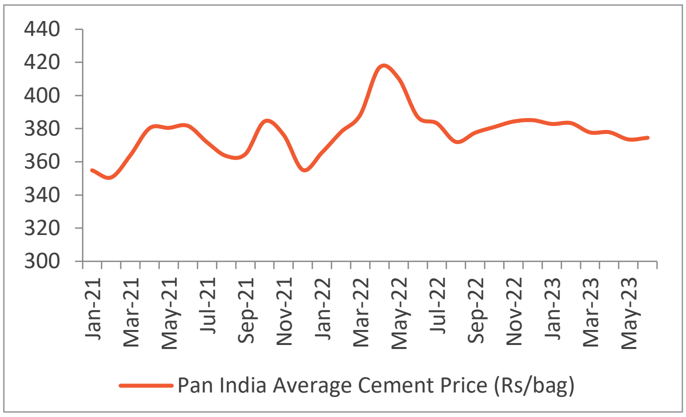
Ultratech announced its sales volume numbers for Q1FY2024. Domestic sales volumes were up 20% y-o-y (down 5% q-o-q) at 29.01 million tonnes and total consolidated sales volumes stood at 29.96 million tonnes (up 20% y-o-y, down 5% q-o-q). Capacity utilization for Q1FY2024 stood at ~90% compared to 95% in Q4FY2023 and 84% in FY2023. The company has maintained strong volume growth momentum during Q1FY2024 post reporting 13% y-o-y and 15% y-o-y volume growth during Q3FY2024 and Q4FY2024. UltraTech continues to benefit from strong cement demand led by government led infrastructure spending and housing demand. Further, as per our channel checks, pan-India average cement prices for Q1FY2024 were lower by 1.6% q-o-q (down 7.3% y-o-y), led by relatively weaker pricing in South India (down 3.3% q-o-q) and Central India (down 2.4% q-o-q) while other regions witnessed up to a 1% q-o-q decline. Cement price hikes initiated in early June during the start of the month were rolled back before the onset of monsoons, besides a dip in petcoke/coal prices in June 2023.

UltraTech domestic volume trend



Source: Company; Sharekhan Research

Pan-India Cement price

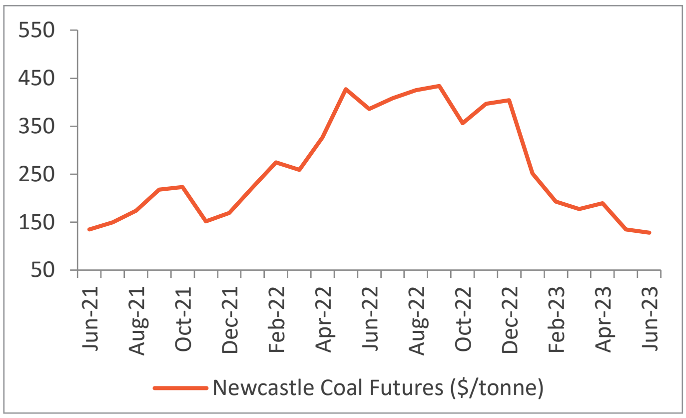


Source: Industry Data; Sharekhan Research

Domestic pet coke prices continue to slide in July 2023

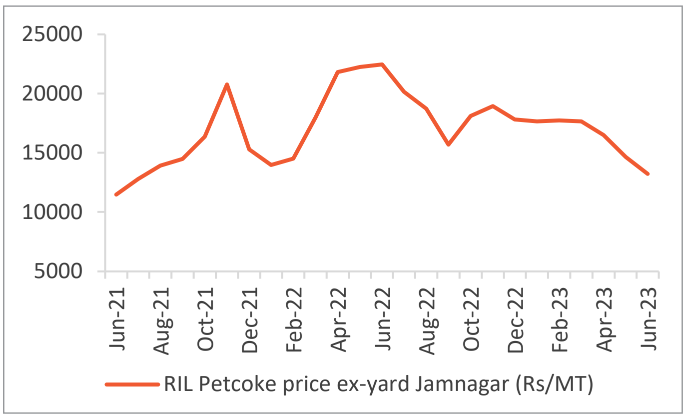
Reliance Industries has cut domestic petcoke prices by 10.4% m-o-m (down 41.1% y-o-y) to Rs. 11856/MT for July 2023. RIL has been cutting domestic prices m-o-m since April 2023 with average petcoke prices for Q1FY2024 dipping by 16% q-o-q (down 33% y-o-y). Further, international petcoke prices declined 8% m-o-m during June 2023, while the same saw 24% q-o-q correction during Q1FY2024. Australian coal prices corrected by 5% m-o-m during June 2023, while the same are lower by 27% q-o-q. However, the cement prices have corrected by just 1.6% q-o-q during Q1FY2024. Declining coal/petcoke prices since Q3FY2023 is expected to lead to lower power & fuel costs for the industry and UltraTech in particular during H1FY2024.

International coal price trend



Source: Industry; Sharekhan Research

Domestic petcoke price trends



Source: Industry; 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.

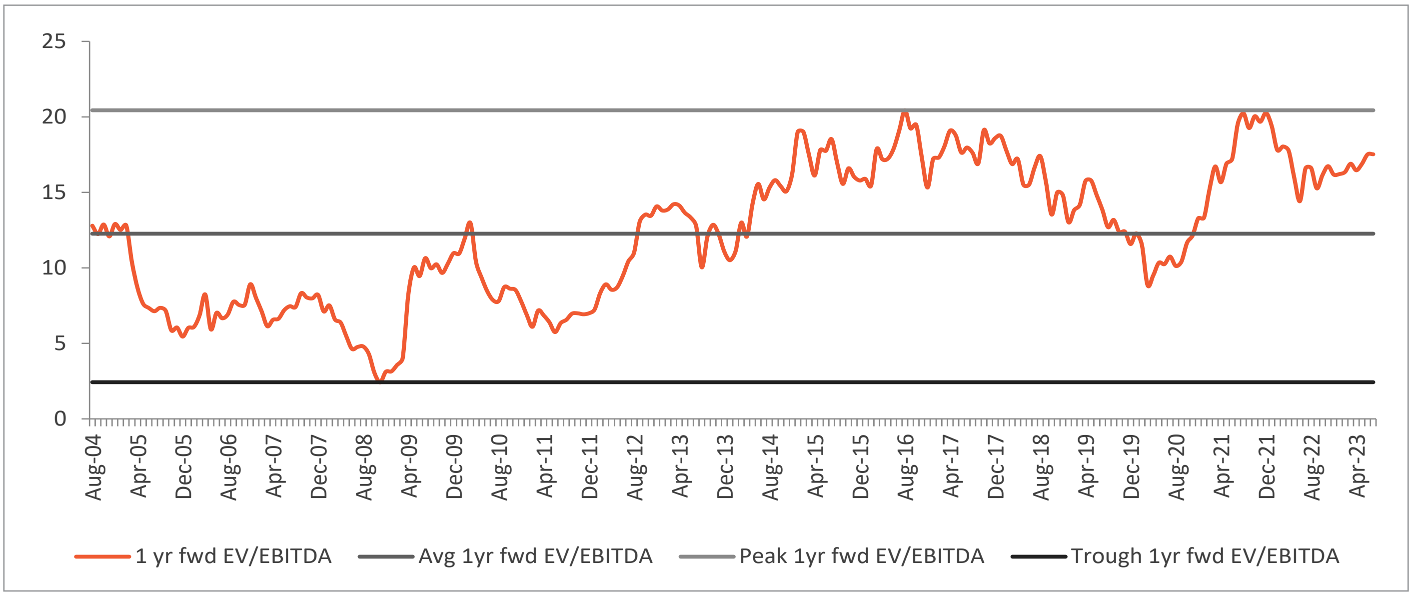
■ Company outlook - Healthy cement demand, profitability, and balance sheet health to remain favorable

UltraTech is expected to see sustained demand from the rural and infrastructure sectors. 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. Capacity expansion plans for adding 19.5 mtpa capacity is almost complete, while it targets to achieve 159.25 mtpa 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. 9,400

UltraTech continues to benefit from strong demand especially from infrastructure, which is expected to sustain going ahead considering the pre-election year and the 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. 1,000-1,200 EBITDA/tonne in the near to medium term. At CMP, the stock is trading at an EV/EBITDA of 16x its FY2025E earnings which we believe provides further room for an upside. Hence, we maintain our Buy rating on the stock, with a revised PT of Rs. 9400 increasing our valuation multiple, in the wake of strong demand and operational cost tailwinds.

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	38.9	31.0	19.5	16.0	4.2	3.8	11.3	12.8
Shree Cement	55.6	44.3	20.8	16.8	4.5	4.1	8.3	9.7
The Ramco Cement	35.8	29.7	15.9	14.1	3.0	2.8	8.8	9.8
Dalmia Bharat	49.4	46.1	14.5	13.1	2.5	2.4	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

Sharekhan
by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/ investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600