Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

UltraTech Cement Ltd

Consistent performer; Retain Buy

Cement	Sharekhan code: ULTRACEMCO
Reco/View: Buy ↔	CMP: Rs. 8,127
	Price Target: Rs. 9,400 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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 July 08, 2023

High Risk

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

Source: Morningstar

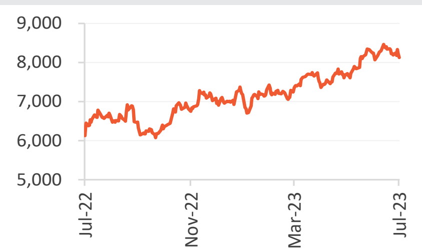
Company details

Market cap:	Rs. 2,34,601 cr
52-week high/low:	Rs. 8501/6005
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	16.3
DII	16.3
Others	7.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	10.4	18.7	32.6
Relative to Sensex	-6.4	-1.4	9.3	12.8

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on UltraTech with an unchanged PT of Rs. 9,400, considering its long-term growth potential.
- The company reported an in-line standalone operational performance for Q1FY2024 aided by strong volume growth of 20% y-o-y. Net profit beat was led by opting for lower tax regime.
- Management expects double digit volume growth for FY2024 and improvement in operational profitability led by lower energy costs from Q3FY2024.
- It would be de-bottlenecking 4 mtpa cement capacities while phase 2 expansion of 22.6 mtpa remain on track and is expected to go on stream in a phased manner by FY2025 and FY2026.

UltraTech Cement (UltraTech) reported an in-line standalone operational performance for Q1FY2024, while the net profit beat was led by lower effective tax rate (adoption of new tax regime). Standalone revenues grew 17.2% y-o-y to Rs. 17,245 crores led by strong volume growth (up 20% y-o-y) while blended realisations declined by 2.2% y-o-y. Blended EBITDA/tonne at Rs. 1,003 (down 17% y-o-y) was in line with our estimate of Rs. 1011/tonne. On the key operating cost front, power & fuel costs declined 2.7% q-o-q (correction in pet coke prices was partially offset by lower pet coke fuel mix and currency devaluation) on per tonne basis while freight cost saw rise of 2.5% q-o-q (busy season surcharge by Indian Rail). Overall, standalone operating profit (down 0.7% y-o-y) was largely in-line while adjusted net profit (up 9.7% y-o-y) came in higher than expected as the company opted for lower tax regime from Q1FY2024. The company commissioned 4.3 mtpa cement capacity FY2024 till date while it would be undertaking de-bottlenecking of 4 mtpa cement capacities to reach 135.25 mtpa by FY2024 end. The phase-2 expansion of 22.6 mtpa remain on track and is expected to go on stream in a phased manner by FY2025 and FY2026. The management expects double-digit volume growth for FY2024 and improvement in operational profitability driven by lower energy costs to accrue from Q3FY2024.

Key positives

- Standalone business volumes rose by 20% y-o-y. Blended realisation remained almost flattish q-o-q.
- Net debt reduces further by Rs. 233 crore during Q1FY2024.
- Opting for a lower tax regime led to a healthy beat on standalone net profitability.

Key negatives

- Decline in pet coke prices was partially offset by lower pet coke fuel mix and higher inventory stocking.
- Other expenses increased 9% q-o-q per tonne basis, led by increased advertisement expenses and higher maintenance costs.

Management Commentary

- The company expects double-digit volume growth in FY2024. The current pet coke price of $125-130 ($115 receipt at Port plus 10% moisture loss cost) would reflect from Q3FY2024.
- Marginal price increase of ~Rs. 5/bag is seen in the North and the West in July, while it is absent in the South and East.
- It incurred Rs. 1796 crore capex in Q1FY2024. It maintained its capex target of Rs. 6000 crore each during FY2024 and FY2025.
- The company plans to increase WHRS capacity from 232 MW to 425 MW and solar power capacity from 648 MW to 1.25 GW by FY2026. On completion of the same, green energy would comprise 60%+.
- Revision in estimates – We have increased standalone revenue estimates for FY2024-FY2025 factoring higher volume growth and net profit estimates factoring lower effective tax rates.

Revision in estimates – We have increased standalone revenue estimates for FY2024-FY2025 factoring higher volume growth and net profit estimates factoring lower effective tax rates.

Our Call

Valuation – Maintain Buy with an unchanged 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 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 15.6x its FY2025E earnings which we believe provides further room for upside. Hence, considering its long-term growth potential, we maintain our Buy rating on the stock, with an unchanged PT of Rs. 9,400.

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	69,745	77,855
OPM (%)	22.8%	17.3%	18.2%	19.6%
Adjusted PAT	5,549	4,917	6,772	8,601
% YoY growth	1.7%	-11.4%	37.7%	27.0%
Adjusted EPS (Rs.)	192.2	170.4	234.6	298.0
P/E (x)	42.3	47.7	34.6	27.3
P/B (x)	4.8	4.4	4.0	3.6
EV/EBITDA (x)	21.3	23.1	19.3	15.6
RoNW (%)	12.0%	9.6%	12.1%	13.8%
RoCE (%)	10.2%	9.0%	11.4%	13.2%

Source: Company; Sharekhan estimates

An in-line performance

Ultratech reported standalone net revenues growth of 17.2% y-o-y at Rs. 17,245 crore which was in-line with our estimate. Cement volumes (announced earlier) were up 19.9% y-o-y (-4.6% q-o-q) at 29.01 MnT while blended realisations were lower 2.2% y-o-y (flat q-o-q) at Rs. 5945/T. Volumes came in ahead of our estimates, while blended realisations marginally lagged. Blended standalone EBITDA/T at Rs. 1003 (-17.2% y-o-y, -3.0% q-o-q) was tad below our estimate of Rs. 1011/T. Standalone OPM stood at 18.4% (-304bps y-o-y, -47bps q-o-q). The power & fuel costs stood at Rs. 1544/T (+2.6% y-o-y, -2.7% q-o-q), freights costs at Rs. 1395/T (+3.8% y-o-y, +2.5% q-o-q) and other expense at Rs. 665/T (-7.5% y-o-y, +9.0% q-o-q). Standalone operating profit declined by 0.7% y-o-y (-7.4% q-o-q) at Rs. 2909 crore, which was 1% lower than our estimate. The standalone net profit rose by 9.7% y-o-y (+3.3% q-o-q) at Rs. 1706 crore (13% higher than our estimate) aided by lower effective tax rate. The net debt increased by Rs. 233 crore q-o-q to Rs. 2469 crore. Following the commissioning of 12.4 mtpa capacity of grey cement in FY23, it has further commissioned 4.3 mtpa capacity in this financial year. The Company's total grey cement manufacturing capacity in India now stands at 131.25 mtpa. Work on its next growth phase of 22.6 mtpa is in full swing. Commercial production from these new capacities is expected to go on stream in a phased manner by FY25/FY26.

Key conference takeaways:

- **Outlook:** The company expects double-digit volume growth in FY2024. The road sector has been allocated 80% of 2.7 lakh crore by the government to be incurred by December 2023. The government has spent Rs. 1 lakh crore by mid-June while the balance expenditure remains on schedule. The road ministry has an aggressive construction target of achieving 40 km per day in FY2024.
- **Cement prices:** Marginal price increase of ~Rs. 5/bag is seen in the North and West in July, while it is absent in South and East.
- **Capacity expansion:** It commissioned 4.3 MTPA cement capacity during the current fiscal till date in North East and Western regions. It has reached 131.25 MTPA cement capacity in India. At the same time, it has identified 4 MTPA cement capacities to be added through de-bottlenecking at 4-5 locations which would help it reach 135.25 MTPA cement capacity by FY2024 end.
- **Power & fuel cost:** The fuel consumption cost declined from $194 in Q4FY2023 to $178 in Q1FY2024. The current pet coke price of $125-130 ($115 receipt at Port plus 10% moisture loss cost) would reflect from Q3FY2024. The company has increased its fuel inventory stock from 38 days in Q4FY2023 to 58 days in Q1FY2024. The fuel mix is 46% imported coal, 7% indigenous coal, 42% pet coke and 5% alternate fuel & lignite.
- **Lead distance:** The lead distance, including clinker transfer, is 410 kms in Q1FY2024. However, the lead distance for sale to customers has reduced from 281 km in Q4FY2023 to 270 kms in Q1FY2024.
- **Renewable energy expansion:** The company plans to increase WHRS capacity from the current 232 MW to 425 MW and solar power capacity from 648 MW to 1.25 GW by FY2026. On completion of the same, green energy would comprise 60%+.
- **RMC expansion:** It will be increasing RMC plants from 232 to over 300 by end of this year.
- **Capex:** It incurred Rs. 1796 crore capex in Q1FY2024. It maintained its capex target of Rs. 6000 crore each during FY2024 and FY2025.
- **Debt:** It reduced its net debt by Rs. 233 crore during Q1FY2024.

Results (Standalone) Rs cr

Particulars	Q1FY2024	Q1FY2023	% YoY	Q4FY2023	% QoQ
Net Sales	**17245.2**	**14715.5**	**17.2%**	**18121.0**	**-4.8%**
Operating Profit	**2908.6**	**2929.4**	**-0.7%**	**3141.2**	**-7.4%**
Other Income	258.2	166.1	55.4%	200.6	28.7%
EBITDA	3166.8	3095.5	2.3%	3341.8	-5.2%
Interest	191.1	199.7	-4.3%	174.9	9.3%
Depreciation	682.0	628.2	8.6%	694.8	-1.8%
PBT	**2293.7**	**2267.7**	**1.1%**	**2472.1**	**-7.2%**
Tax	588.2	713.6	-17.6%	821.6	-28.4%
Reported PAT	**1705.5**	**1554.0**	**9.7%**	**1650.4**	**3.3%**
Exceptional items	0.0	0.0		0.0	
Adj.PAT	**1705.5**	**1554.0**	**9.7%**	**1650.4**	**3.3%**
Margins			**Bps**		**Bps**
OPM	16.9%	19.9%	-304	17.3%	-47
PATM	9.9%	10.6%	-67	9.1%	78
Tax Rate	25.6%	31.5%	-583	33.2%	-759

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 witnessed healthy demand from the rural sector, while infrastructure demand has resumed its pick up. The sector's long-term growth triggers for low per capita consumption and demand (pegged at 1.2x GDP) remain intact. The government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment.

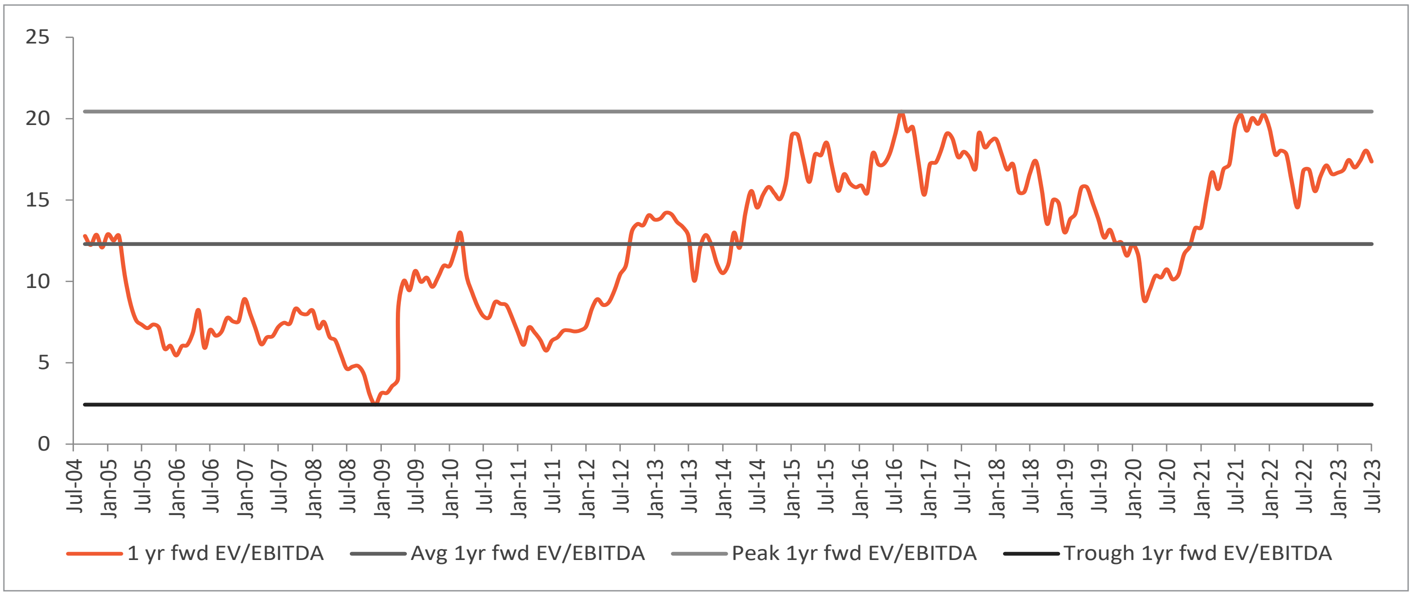
■ Company outlook - Healthy cement demand, profitability, and balance sheet health to remain favourable

UltraTech is expected to see sustained demand from the rural 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 regarding cement demand, profitability, and balance sheet is expected to remain favourable.

■ Valuation - Maintain Buy with an unchanged 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. 1000-1200 EBITDA/tonne in the near to medium term. At CMP, the stock is trading at an EV/EBITDA of 15.6x its FY2025E earnings which we believe provides further room for upside. Hence, considering its long-term growth potential, we maintain our Buy rating on the stock, with an unchanged PT of Rs. 9,400.

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	34.6	27.3	19.3	15.6	4.0	3.6	12.1	13.8
Shree Cement	49.3	43.6	13.7	12.4	2.2	2.1	4.5	4.9
The Ramco Cement	53.2	42.5	19.9	16.0	4.3	4.0	8.3	9.7
Dalmia Bharat	33.8	28.0	15.2	13.4	2.9	2.6	8.8	9.8

Source: Company; Sharekhan Research

About company

UltraTech's parent company, Aditya Birla Group, is in the league of Fortune 500 companies. UltraTech is India's largest manufacturer of grey cement, ready mix concrete (RMC), and white cement. 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 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 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

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

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