

Well Aligned To Capture Demand Tailwind; Maintain BUY!
Est. Vs. Actual for Q1FY24: Revenue – **In Line**; EBITDA Margin – **Miss**; PAT – **Miss**
Change in Estimates post Q1FY24 (Abs)
FY24E/FY25E – Revenue2%/4%; **EBITDA** -2%/3%; **PAT**8%/12%

Recommendation Rationale

- In Q1FY24 the company witnessed robust capacity utilization of 89% indicating robust Cement demand in the country and market share gain for the company. The company's organic capacity expansion plan is progressing well. Its total grinding capacity will increase to 165 mtpa in FY25E-FY26E from the current 135.1 mtpa thereby aiding in its volume growth. We have increased the volume growth guidance from earlier 10% CAGR to 12% CAGR over FY23-25E.
- Major Benefit of lower fuel prices would start reflecting in between Q2-Q4FY24 as there is always a lag between order booked and order available for consumption. Further higher blending ratio, increase in the sale of premium products and consumption of higher green energy will aid to higher EBITDA margins going forward. We expect the company to report an EBITDA/tonne of Rs 1180 & Rs 1280 in FY24E/FY25E from Rs 1000/tonne in FY23 driven by higher volume, stable realization, and cost optimization initiatives.
- Cement prices were lower during the quarter but it's heartening to note that prices have increased in the Northern and Western part of India by Rs3-Rs5/bag. The sustainability of higher prices remains a key monitorable. We believe that post Monsoon prices should trend little higher as observed traditionally.

Sector Outlook: Positive
Company Outlook & Guidance: The management guided for double digit volume growth in FY24 driven by higher government expenditure on Infra and housing.

Current Valuation: 16x FY25E EV/EBITDA (Earlier Valuation: 16x FY25E EV/EBITDA)

Current TP: Rs 9,520/share (Earlier TP: Rs 9,350/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance

UTCL reported a mixed set of numbers during the quarter as its Volume/ Revenue grew by 20% and 17% respectively, (In line with expectations) driven by better demand YoY while EBITDA was below our and consensus estimates by 15% and 5% respectively, on the back of higher variable cost. The company reported a profit of Rs 1,688 Cr against Rs 1,584 Cr in Q1FY23 (below expectation)

It recorded an EBITDA margin of 17.2% (vs. our estimates of 20%) against 20.4% YoY. The quarter's volume stood at 29.96 million tonnes per annum (mntpa), up 20% YoY. UTCL's EBITDA/tonne stood at Rs 1017, down 18% YoY and 3% QoQ and it reported blended realization/tonne of Rs 5,920 against Rs 6,056 YoY, down 2% YoY and up 0.5% QoQ. The company's cost/tonne increased by 2% YoY and 1% QoQ to Rs 4,903 driven by higher variable cost.

Outlook: Given the robust demand, upcoming new capacity, ramping up of recently commissioned capacity and benefit of lower commodity prices coupled with higher blending ratio and increasing share of green energy, we expect the company to grow its Volume/Revenue/EBITDA/APAT at CAGR of 12%/12%/26%/40% over FY23-FY25E.

Valuation & Recommendation

The stock is currently trading at 16.5x and 14x FY24E/FY25E EV/EBITDA. We maintain our BUY rating on the stock with a TP of Rs 9520/share, implying an upside potential of 17% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	17,737	-5	17	17,896	-1%
EBITDA	3,048	-8	-2	3,597	-15%
EBITDA Margin	17%	(60bps)	(320bps)	20%	(300bps)
Net Profit	1,688	1	7	1,864	-9%
EPS (Rs)	58	1	7	58	-9%

Source: Company, Axis Research

 (CMP as of 21st July 2023)

CMP (Rs)	8120
Upside /Downside (%)	17
High/Low (Rs)	8,501/6,005
Market cap (Cr)	2,34,390
Avg. daily vol. (6m)Shrs.	345779
No. of shares (Cr)	28.9

Shareholding (%)

	Dec-22	Mar-23	June-23
Promoter	59.96	59.96	59.96
FII's	14.1	14.76	15.8
MFs / UTI	17.4	16.9	15.9
Banks / FI's	0.05	0.05	0.05
Others	8.5	8.30	8.23

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	63,240	71,516	78,836
EBITDA	10,620	14,225	16,883
Net Profit	5,083	8,223	9,866
EPS (Rs)	175	284	342
PER (x)	46	29	24
P/BV (x)	22	17	14
EV/EBITDA (x)	4.3	3.8	3.3
ROE (%)	9%	13%	14%

Change in Estimates (%)

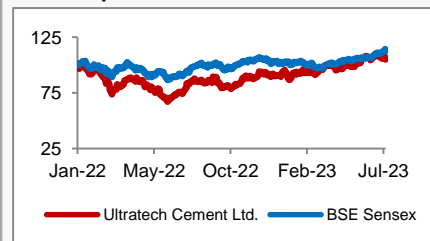
Y/E Mar	FY24E	FY25E
Sales	2%	4%
EBITDA	-2%	3%
PAT	8%	12%

ESG disclosure Score**

Environmental Disclosure	60
Social Disclosure Score	43
Governance Disclosure	94
Total ESG Disclosure Score	65
Sector Average	46

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

Uttam K Srimal

 Research Analyst
 email:uttamkumar.srimal@axissecurities.in

Shikha Doshi

 Research Analyst
 email: shikha.doshi@axissecurities.in

Key Concall Highlights

- Capacity Expansion:** The company's capacity expansion plan is progressing well. Its total grinding capacity stands at 131 mtpa in India and during the quarter it commissioned 3 mtpa grinding capacity. It is also de-bottlenecking 4 mtpa grinding capacity at its existing plant which shall come on stream in FY24. Apart from this, its IInd phase of expansion with 22.8 mtpa grinding capacity is expected to get commissioned in phases over FY25-26. The company is working swiftly to commission some of these capacities in FY24 to get the benefit of robust demand. After the IInd phase of expansion total grinding capacity will get increased to 165 mtpa on a consolidated basis. The management also indicated for further capacity expansion to reach 200 mtpa, details of the same will be revealed after Company Boards approval.
- Volume:** The Company guided for industry-leading volume growth in FY24 driven by better demand across its operating regions. During the quarter the company registered a volume growth of 20% YoY. The blended Cement sale was 70% vs 69% in Q4FY23 and the balance was OPC. The trade and non-trade mix during the quarter stood at 68%/32% against 66%/34% QoQ. Premium Cement formed 22% of the overall trade sale against 20% in Q4FY23. Capacity utilization stood at 89% during the quarter. Clinker conversion ratio improved to 1.44; highest so far. Had Cyclone BIPARJOY not affected the operation, volume growth could have been even better.
- Pricing:** Grey Cement prices were down 0.5%/3% on QoQ/ YoY basis during the quarter as higher competitive intensity and demand restricted the price hike. Blended realization during the quarter was up by 0.6 owing to higher RMC sale. On the positive side management indicated that during July, 2024 the company witnessed price hike by Rs 3- Rs 5 in North & West region despite seasonal factor while South and East pricing are under pressure. Pricing is expected to revive post Monsoon season.
- Power/Fuel:** During the quarter Power/fuel cost on a tonne basis was lower by 3% QoQ and higher by 2% YoY as major benefit of lower fuel prices would start reflecting in the period between Q2FY24-Q4FY24 as there is always a time lag of 4-5 month between order booked and order available for consumption. The consumption cost of pet coke stood at \$178 in Q1FY24 and on a KCAL basis cost stood at Rs 2.34. Spot pet coke price is around \$115 currently. The fuel mix was Pet coke 42% and balance Coal and renewable energy/AFR.
- Its participating in hybrid Solar and Wind power capacity to establish 648 MW of green power that will take its total renewable power capacity to 1.25 GW including WHRS. The company is also increasing its WHRS capacity to 435 MW from current 232 MW. All these capacity would come on stream by FY26 and share of green power in total power consumption would stand increased to 60% on an expanded base (WHRS 25%, Solar & Wind 35%). This will result in major savings in overall power/fuel cost moving ahead. At present share of green power in overall power consumption stands at 22%.
- Freight:** During the quarter freight cost was higher by 3%/4% QoQ/YoY at Rs 1369 owing to resumption of busy season charge by Railways which was partially mitigated by lead optimization and operating efficiencies. Lead distance during the quarter was 410km against 429 km in Q1FY23.
- R/M Cost:** Overall R/M Cost on a tonne basis was higher 8% YoY at Rs 983/tonne owing to increase in the prices of flyash, slag and gypsum etc during the quarter.
- RMC :** At present total number of RMC plant stands at 231 which will increase to 300 in FY24. The company expects healthy growth in RMC business moving ahead.
- Capex:** The company guided for a capex of Rs 6,000 -6,500 Cr each in FY24/FY25 including both growth and maintenance capex.
- Debt/Cash:** The current gross debt stands at Rs 9,886 Cr, cash/cash equivalent at Rs 7,417 Cr and net debt at Rs 2,469 Cr. QoQ basis there has been reduction in gross and net debt.
- Tax Rate:** The company has moved to lower tax regime from Q1FY24, this will reduce tax outgo moving ahead.

Key Risks to our Estimates and TP

- Lower realization and demand in its key market and delay in capacity expansion.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	71516	78836	69916	75510	2%	4%
EBITDA	14225	16883	14443	16360	-2%	3%
PAT	8223	9866	7622	8812	8%	12%

Source: Company, Axis Securities

Result Review Q1FY24

(Rs Cr)	Quarterly Performance				
	4QFY23	3QFY23	4QFY22	% Chg QoQ	% Chg YoY
Net sales	17737	18662	15164	-5%	17%
Expenditure	14689	15340	12069	-4%	22%
EBITDA	3048	3322	3095	-8%	-2%
Other income	174	122	109	43%	60%
Interest	211	191	216	10%	-2%
Depreciation	749	762	695	-2%	8%
PBT	2262	2491	2293	-9%	-1%
Tax	577	822	711	-30%	-19%
Adjusted PAT	1688	1666	1584	1%	7%
EBITDA margin (%)	17.2%	17.8%	20.4%	(60bps)	(320bps)
EPS (Rs)	58.5	57.7	54.9	1%	7%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

(Rs Cr)	Quarterly Performance				
	4QFY23	3QFY23	4QFY22	% Chg QoQ	% Chg YoY
Volume/mnt	29.96	31.70	25.04	-5%	20%
Realisation/tonne (Rs)	5920	5887	6056	1%	-2%
Cost/tonne (Rs)	4903	4839	4820	1%	2%
Raw material/tonne (Rs)	983	1000	912	-2%	8%
Staff Cost/tonne (Rs)	236	226	254	4%	-7%
Power & Fuel/tonne (Rs)	1629	1675	1603	-3%	2%
Freight/tonne (Rs)	1369	1323	1314	3%	4%
Other Expenses /tonne (Rs)	686	615	737	12%	-7%
EBITDA/tonne (Rs)	1017	1048	1236	-3%	-18%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Net sales	63240	71516	78836
Other operating income	0	0	0
Total income	63240	71516	78836
Raw Material	9715	10960	11891
Power & Fuel	18491	18238	19514
Freight & Forwarding	14009	16601	18095
Employee benefit expenses	2739	2977	3170
Other Expenses	7666	8515	9281
EBITDA	10620	14225	16883
Other income	503	712	631
PBIDT	11123	14937	17514
Depreciation & Amortisation	2888	3077	3467
Interest & Fin Chg.	823	842	797
E/o income / (Expense)	0	0	0
Associates	4	7	7
Pre-tax profit	7416	11025	13256
Tax provision	2343	2811	3380
Minority Interests	9	9	9
APAT	5083	8223	9885
Other Comprehensive Income	0	0	0
APAT after Comprehensive Income	5083	8223	9885

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Total assets	91387	97558	106411
Net Block	59584	62944	65784
CWIP	4035	4035	4035
Investments	5837	7337	12417
Wkg. cap. (excl cash)	9329	10153	11274
Cash / Bank balance	1150	1393	1300
Misc. Assets	11452	11696	11602
Capital employed	91387	97558	106411
Equity capital	289	289	289
Reserves	54036	61086	69798
Minority Interests	56	65	74
Borrowings	11058	9558	9058
DefTax Liabilities	6260	6260	6260
Other Liabilities and Provision	19689	20301	20933

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E
Profit before tax	7416	11025	13256
Depreciation	2888	3077	3467
Interest Expenses	823	842	797
Non-operating/ EO item	-597	-712	-631
Change in W/C	-337	-455	-395
Income Tax	1124	2811	3380
Operating Cash Flow	9069	10965	13114
Capital Expenditure	-6200	-6436	-6307
Investments	-1808	-1500	-5080
Others	821	712	631
Investing Cash Flow	-7187	-7225	-10756
Borrowings	826	-1000	0
Interest Expenses	-702	-842	-797
Dividend paid	-1091	-1155	-1155
Others	-664	-500	-500
Financing Cash Flow	-1631	-3496	-2452
Change in Cash	250	244	-94
Opening Cash	121	370	614
Closing Cash	370	614	520

Source: Company, Axis Securities

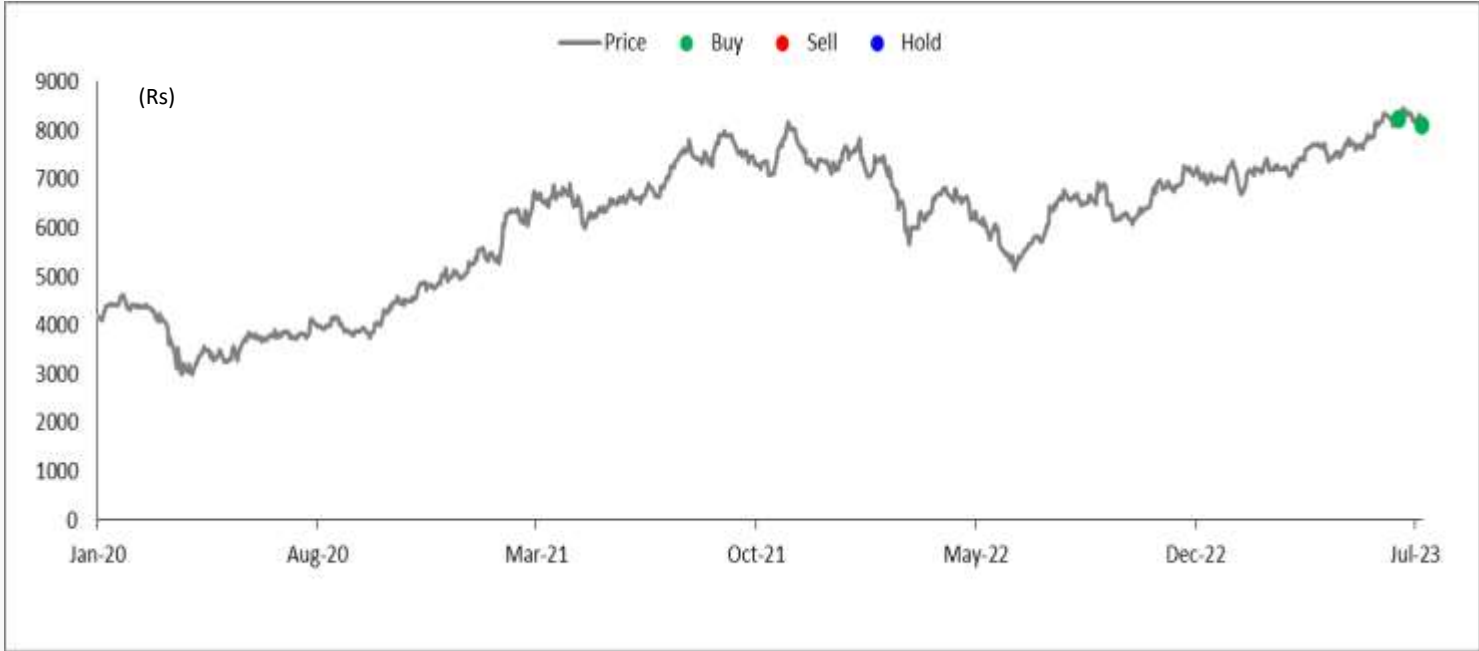
Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E
Operational Ratios			
Gross profit margin	33%	36%	37%
EBITDA margin	17%	20%	21%
PAT margin	8%	11%	13%
Depreciation / G. block	4.5%	4.6%	5.0%
Growth Indicator			
Sales growth	20%	13%	10%
Volume growth	12%	14%	9%
EBITDA growth	-8%	34%	19%
PAT growth	-29%	62%	20%
Efficiency Ratios			
Sales/Gross block (x)	1.01	1.04	1.05
Sales/Net block(x)	1.02	1.10	1.15
Working capital/Sales (x)	-0.05	-0.01	0.07
Valuation Ratios			
PE (x)	46	29	24
P/BV (x)	4.3	3.8	3.3
EV/Ebitda (x)	22	17	14
EV/Sales (x)	3.8	3.3	2.9
MCap/ Sales (x)	3.7	3.3	3.0
EV/Tonne \$	217	200	170
Return Ratios			
ROE	9%	13%	14%
ROCE	13%	17%	18%
ROIC	14%	19%	22%
Leverage Ratios			
Debt / equity (x)	0.2	0.2	0.1
Net debt/ Equity (x)	0.1	0.0	-0.1
Net debt/Ebitda	0.4	0.1	-0.3
Interest Coverage ratio (x)	10	14	18
Cash Flow Ratios			
OCF/Sales	14%	15%	17%
OCF/Ebitda	85%	77%	78%
FCF/Sales	5%	6%	9%
FCF/EBITDA	27%	32%	40%
OCF/Capital Employed	14%	15%	17%
Payout ratio (Div/NP) (%)	22%	14%	12%
AEPS (Rs.)	175	284	342
AEPS Growth (%)	-30%	62%	20%
CEPS (Rs.)	276	391	462
DPS (Rs.)	38	40	40

Source: Company, Axis Securities

UltraTech Cement PriceChart and Recommendation History



Date	Reco	TP	Research
30-Jun-23	BUY	9,350	Initiating Coverage
24-Jul-23	BUY	9,520	Result Update

Source: Axis Securities

About the analyst

Analyst: UttamKSimal

Email: uttamkumar.simal@axissecurities.in

Sector: Cement/Infra

Analyst Bio: Uttam K Simal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research

About the analyst

Analyst: ShikhaDoshi

Email: shikha.doshi@axissecurities.in

Sector: Cement/Infra

Analyst Bio: Shikha Doshi is a Master of Science in Finance from the Illinois Institute of Technology, Chicago, currently handling the Cement/infra sector.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.

ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.

ASL has no material adverse disciplinary history as on the date of publication of this report.

I/We, Aditya Welekar, MBA Finance, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No

5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.

In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report 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 report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This 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 ASL 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.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- 1st Floor, I-Rise Building, Q Parc, Loma Park, Thane, Ghansoli, Navi Mumbai-400701, Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706