

24 July 2023

India | Equity Research | Q1FY24 results review

UltraTech Cement

Cement

Volume surge fails to drive EBITDA growth

The 20% volume surge reported by UltraTech Cement in Q1FY24 failed to drive EBITDA growth (down 1.5% YoY). EBITDA/te dipped 3% QoQ (~7% below consensus and in line with our estimate) due to: a) realisation decline of 0.4% QoQ, b) variable cost/te being flat QoQ despite low fuel prices, and c) fixed cost/te rising 10% QoQ. The volume surge is driving ~5% upward revision to our FY24E EBITDA, but we see little merit in arguing for an upward revision to FY25E EBITDA given that volume growth can be at risk due to high base of FY24E. Given the underlying competitive intensity and historical precedence of fuel cost drop failing to drive up EBITDA/te, we see little scope for increasing our valuation multiple of 15x FY25E EV/EBITDA. Maintain **REDUCE** with a target price of INR 7,311 (earlier: INR 7,295).

EBITDA/te dips QoQ despite high other operating income

Despite robust volume growth (up 20% YoY) and high other operating income of INR 2.2bn in Q1FY24 vs INR 1.3bn in Q4FY23 (positive impact of INR 31/te QoQ), EBITDA/te dipped 3% QoQ (down 18% YoY) to INR 1,018 driven by: a) weak realisations (down 0.4% QoQ / 3.7% YoY) for the grey cement segment; b) variable cost/te being flat QoQ with freight cost/te rising 3.3% QoQ and unit raw material + fuel cost/te easing just >1% QoQ (despite reported blended fuel cost/t easing ~8% QoQ, i.e. by USD 16); and c) high fixed-cost/te owing to impact of low operating leverage QoQ and also general inflation. In our view, EBITDA/te will likely drop >5% QoQ in Q2FY24E as well.

Limited argument to turn positive

The robust volumes in Q1FY24 are forcing an upgrade to our FY24E volume assumption (up 15% YoY vs the 11% assumed earlier). Yet we see little scope to increase our EBITDA/te estimate. However, we keep FY25E volume estimate intact (implying volume growth of 4% vs the 8% assumed earlier) given the high base. It may be recalled that industry demand for FY20 had slipped ~2-3% YoY due to ~13% surge in the previous pre-election year of FY19. With high underlying competitive intensity, continuous industry-wide capacity addition and historical evidence of easing fuel cost failing to drive-up EBITDA/te, we see little merit in arguing for an upward revision to our valuation multiple of 15x FY25E EV/EBITDA. Maintain **REDUCE** with a target price of INR7,311.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	5,25,988	6,31,400	7,07,863	7,50,011
EBITDA	1,15,144	1,06,199	1,30,068	1,41,426
EBITDA (%)	21.9	16.8	18.4	18.9
Net Profit	71,827	50,599	71,776	79,908
EPS (Rs)	248.8	175.3	248.6	276.8
EPS % Chg YoY	28.7	(29.6)	41.9	11.3
P/E (x)	32.6	46.3	32.7	29.3
EV/EBITDA (x)	20.9	22.5	18.3	16.5
RoCE (%) (Post Tax)	11.8	8.3	10.9	11.0
RoE (%)	15.2	9.7	12.5	12.5

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Market Data

Market Cap (INR)	2,344bn
Market Cap (USD)	28,580.7mn
Bloomberg Code	UTCEM IN
Reuters Code	ULTC.BO
52-week Range (INR)	8,501 /6,005
Free Float (%)	40.0
ADTV-3M (mn) (USD)	30

Price Performance (%)	3m	6m	12m
Absolute	9.1	19.2	26.4
Relative to Sensex	11.8	10.3	20.4

ESG Disclosure	2021	2022	Change
ESG score	65.2	65.5	0.3
Environment	60.0	59.5	(0.5)
Social	44.3	43.1	(1.2)
Governance	91.1	93.6	2.5

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	3.9	0.4
EBITDA	5.4	(0.1)
EPS	13.4	4.6

Previous Reports

29-04-2023: [Q4FY23 results review](#)

20-04-2023: [Re-initiating coverage](#)

Other key highlights

- UTCEM has adopted the new tax regime. Accordingly, our effective tax rate assumption has changed to 25.5% (from the 30% assumed earlier).
- UTCEM has also announced addition of ~4mtpa of grinding capacity in FY24 through de-bottlenecking.

Conference call takeaways

Demand/Volume:

- Demand in FY24 looks robust given Gol's budgeted allocation of ~INR 2.7trn capex towards road and infrastructure spending.
 - Out of the ~INR 2.7trn capex for road and infrastructure, ~INR 1trn has been spent by mid-Jun'23 and the balance will be spent by Dec'23. Gol aims to reach its 40km/day road construction target by FY24-end.
- Industry volume is expected to grow at a double-digit rate in FY24.
- Improvement in clinker factor by 0.04x in past 1 year shall generate additional volumes of 3mnste in near-term.
- UTCEM's average utilisation stood in the range of 85-90% in all regions (except South India) in Q1FY24.

Pricing:

- Jul'23: Cement prices increased by <INR 5/bag in some places in North and West India, while they remained flat in South and East India.
- Pricing is likely to remain tight in East India in the near term owing to capacity addition.

Cost:

- The lead time from booking of fuel consignment to fuel delivery at factory gate is 5-6 months.
- Spot petcoke prices are at ~USD 125/te (factoring moisture loss), but can witness inflation as and when Chinese economy grows at a higher rate.
- Fuel consumption cost: INR 2.34/kcal in Q1FY24 and expected to further reduce in upcoming quarters.
- Q1FY24: Fuel mix: 42% petcoke, 46% imported coal, 7% domestic coal and 5% AFR + lignite coal.
- Petcoke usage declined sequentially primarily due to difficulty in sourcing it.
- Higher other expenses in Q1FY24 were due to higher advertising and maintenance costs.
- AFR usage: 5% in Q1FY24, which is expected to increase to 9% by fiscal year-end.
- Q1FY24: Lead distance: 410km (including inter-clinker movement), while the lead distance from factory is 270km vs 281km QoQ.

Capex:

- FY24 capex: INR 60bn-70bn including phase-II capex, WHRS expansion, debottlenecking (4mtpa), AFR systems (INR 2.5bn), maintenance expenses, etc.
- UTCEM aims to increase its cement capacity by 4mtpa via debottlenecking process in FY24 and achieve total grey cement capacity of 135.25mtpa in India.
- Company will share the phase-3 capex plan (from 159mtpa to 200mtpa) in Q2/Q3FY24.

Green energy:

- UTCEM shall fast-track its green energy programme by installing 648MW (260MW-solar, 388MW-wind) of wind and solar energy capacity by FY26, which will require an INR 3bn equity contribution.
- These capacities shall run at 40-45% plant load factor (PLF) and UTCEM expects to source >60% of the energy requirement from green energy (WHR + wind + solar).
- UTCEM shall also enhance its WHRS capacity by 193MW and reach a total capacity to 425MW by FY26.
- WHRS / renewable energy accounts for ~25%/~35% of the power requirements currently.
- At 155MW of cement capacity, UTCEM shall require ~1,200MW of power.

Others:

- UTCEM (including UNCL) have moved to the new tax regime.
- UTCEM shall evaluate opportunities and weigh synergy benefits before deploying capital into an inorganic asset.
- Except East India, UTCEM does not see a challenge to grow inorganically.
- Higher operating income in Q1FY24 was due to higher incentive run-rate (Pali started receiving incentive) and UTCEM expects to maintain it going ahead.
- Company expects >300 RMC plants in India by FY24-end from 232 plants in operation currently. RMC business is expected to maintain robust growth momentum.

Exhibit 1: Q1FY24 result review – consolidated

INR mn	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %	Q1FY24E	% chg
Volume sales (mn te)	30.0	25.0	19.6	31.7	(5.3)	30.0	-
Net realisation (Rs)	5,920	6,056	(2.2)	5,865	0.9	5,848	1.2
Net sales	1,77,371	1,51,640	17.0	1,85,624	(4.4)	1,75,218	1.2
Raw materials	29,440	22,826	29.0	30,711	(4.1)	29,660	(0.7)
Personnel cost	7,070	6,371	11.0	7,164	(1.3)	7,167	(1.4)
Power & fuel	48,812	40,131	21.6	53,089	(8.1)	46,678	4.6
Freight cost	41,008	32,906	24.6	41,954	(2.3)	40,714	0.7
Other expenses	20,550	18,457	11.3	19,480	5.5	20,882	(1.6)
Total expenses	1,46,879	1,20,691	21.7	1,52,399	(3.6)	1,45,102	1.2
Total cost/te	4,903	4,820	1.7	4,815	1.8	4,843	1.2
EBITDA	30,492	30,949	(1.5)	33,225	(8.2)	30,117	1.2
EBITDA/te	1,018	1,236	(17.7)	1,050	(3.0)	1,005	1.2
Interest	2,108	2,158	(2.3)	1,914	10.1	1,914	10.1
Depreciation	7,491	6,952	7.8	7,617	(1.7)	7,617	(1.7)
Other Income	1,737	1,087	59.8	1,215	43.0	1,215	43.0
Recurring pre-tax income	22,631	22,926	(1.3)	24,909	(9.1)	21,801	3.8
Extraordinary income/(expense)	0	0	NA	0	NA	0	NA
Taxation	5,729	7,114	(19.5)	8,208	(30.2)	6,540	(12.4)
Reported net income	16,902	15,812	6.9	16,701	1.2	15,261	10.8
Recurring net income	16,902	15,812	6.9	16,701	1.2	15,261	10.8

Source: I-Sec research, Company data

Exhibit 2: Per tonne estimate – consolidated

	FY22	FY23	FY24E	FY25E
Blended realisation	5,596	5,976	5,833	5,942
Raw material consumed	847	910	988	1,009
Staff costs	270	259	249	263
Power & fuel	1,291	1,750	1,447	1,418
Freight	1,245	1,326	1,376	1,390
Others	717	726	701	742
Total operating expenses	4,371	4,971	4,762	4,822
EBITDA/te	1,225	1,005	1,072	1,120

Source: I-Sec research, Company data

Exhibit 3: Performance trend and assumptions

Performance trend and assumptions	FY22	FY23P	FY24E	FY25E
Capacity (Grey Cement)	120	133	141	163
Grey Cement sales volumes	93	104	120	124
Capacity utilisation (%)	77	78	85	76
Growth (%)	2.7	10.3	6.3	16.0
Blended realisation (Rs/te)	5,596	5,976	5,833	5,942
Growth (%)	8.1	6.8	(2.4)	1.9

Source: I-Sec research, Company data

Exhibit 4: Earnings Revision

(INR mn)	FY24E			FY25E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	7,07,863	6,81,515	3.9	7,50,011	7,47,003	0.4
EBITDA	1,30,068	1,23,369	5.4	1,41,426	1,41,506	(0.1)
PAT	71,808	63,345	13.4	79,941	76,415	4.6

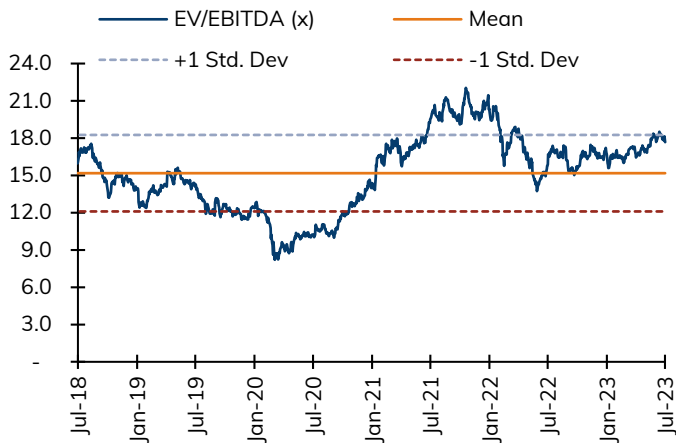
Source: I-Sec research

Exhibit 5: Valuations based on 15x Mar'25E EV/E

Particulars (INR mn)	FY25
Assumed EV/EBITDA multiple (x) (A)	15.0
Consolidated EBITDA (B)	1,41,426
Enterprise Value (E) = (A) x (B)	21,21,384
Less: Consolidated Net debt (F)	11,110
Mcap (G) = (E) - (F)	21,10,274
Shares o/s (mn) (H)	288.6
Value per share (INR) (G) / (H)	7,311

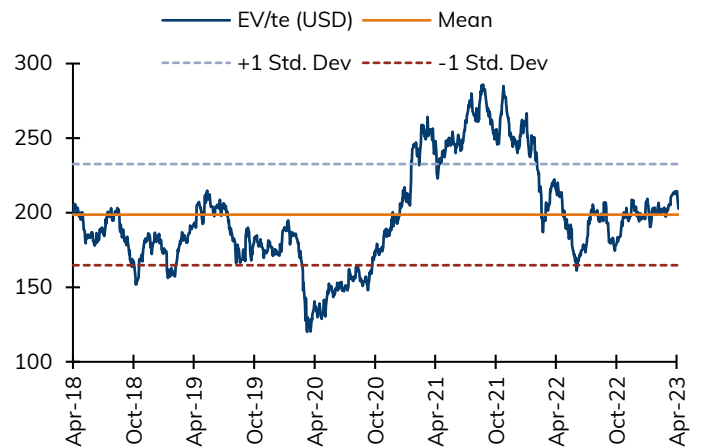
Source: Company data, I-Sec research

Exhibit 6: Rolling EV/EBITDA



Source: I-Sec research

Exhibit 7: Rolling EV/te



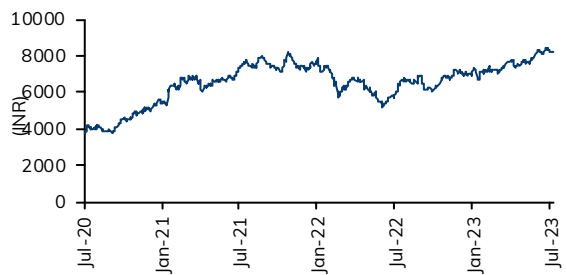
Source: I-Sec research

Exhibit 8: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	60.0	60.0	60.0
Institutional investors	31.9	32.4	32.4
MFs and others	13.8	13.9	13.4
Insurance	3.5	3.2	2.6
FII's	14.6	15.3	16.4
Others	8.1	7.6	7.6

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	5,25,988	6,31,400	7,07,863	7,50,011
Operating Expenses	4,10,845	5,25,201	5,77,795	6,08,585
EBITDA	1,15,144	1,06,199	1,30,068	1,41,426
EBITDA Margin (%)	21.9	16.8	18.4	18.9
Depreciation & Amortization	27,148	28,880	30,623	33,300
EBIT	87,996	77,319	99,445	1,08,126
Interest expenditure	9,447	8,227	8,283	7,383
Other Non-operating Income	5,078	5,031	5,319	6,654
Recurring PBT	83,627	74,122	96,481	1,07,397
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	11,901	23,429	24,611	27,395
Less: Minority Interest	(101)	94	94	94
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	71,844	50,632	71,808	79,941
Net Income (Adjusted)	71,827	50,599	71,776	79,908

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	1,81,261	2,11,429	2,15,894	2,61,076
of which cash & cash eqv.	53,225	65,212	61,125	1,01,864
Total Current Liabilities & Provisions	1,59,495	1,83,026	1,76,513	1,79,907
Net Current Assets	21,766	28,403	39,382	81,170
Investments	29,576	29,576	29,576	29,576
Net Fixed Assets	4,25,922	4,57,042	4,58,419	5,50,119
ROU Assets	-	-	-	-
Capital Work-in-Progress	72,565	74,565	1,02,565	37,565
Total Intangible Assets	1,28,954	1,28,954	1,28,954	1,28,954
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	6,78,783	7,18,540	7,58,896	8,27,384
Liabilities				
Borrowings	1,14,128	1,14,128	94,128	94,128
Deferred Tax Liability	60,332	60,332	60,332	60,332
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	2,887	2,887	2,887	2,887
Reserves & Surplus	5,01,466	5,41,128	6,01,390	6,69,784
Total Net Worth	5,04,353	5,44,015	6,04,277	6,72,671
Minority Interest	(31)	64	158	253
Total Liabilities	6,78,783	7,18,540	7,58,896	8,27,384

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	1,38,927	1,55,209	1,85,624	1,77,371
% growth (YOY)	15.8	20.4	17.7	17.0
EBITDA	18,666	23,359	33,225	30,492
Margin %	13.4	15.0	17.9	17.2
Other Income	1,463	1,266	1,215	1,737
Adjusted Net Profit	7,587	10,626	16,701	16,902

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	97,563	79,607	1,02,526	1,13,335
Working Capital Changes	(4,730)	5,350	(15,066)	(1,049)
Capital Commitments	(56,062)	(62,000)	(60,000)	(60,000)
Free Cashflow	36,771	22,957	27,460	52,286
Other investing cashflow	78,632	(8,733)	5,500	5,500
Cashflow from Investing Activities	22,570	(70,733)	(54,500)	(54,500)
Issue of Share Capital	44	-	-	-
Interest Cost	(9,609)	-	-	-
Inc (Dec) in Borrowings	(1,01,711)	-	(20,000)	-
Dividend paid	(10,650)	(10,969)	(11,547)	(11,547)
Others	(3,053)	-	-	-
Cash flow from Financing Activities	(1,24,979)	(10,969)	(31,547)	(11,547)
Chg. in Cash & Bank balance	(9,577)	3,255	1,413	46,239
Closing cash & balance	3,591	6,846	8,259	54,498

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	248.8	175.3	248.6	276.8
Adjusted EPS (Diluted)	248.8	175.3	248.6	276.8
Cash EPS	342.9	275.3	354.7	392.2
Dividend per share (DPS)	38.0	38.0	40.0	40.0
Book Value per share (BV)	1,747.2	1,884.6	2,093.3	2,330.2
Dividend Payout (%)	15.3	21.7	16.1	14.5
Growth (%)				
Net Sales	17.6	20.0	12.1	6.0
EBITDA	(0.5)	(7.8)	22.5	8.7
EPS (INR)	28.7	(29.6)	41.9	11.3
Valuation Ratios (x)				
P/E	32.6	46.3	32.7	29.3
P/CEPS	23.7	29.5	22.9	20.7
P/BV	4.6	4.3	3.9	3.5
EV / EBITDA	20.9	22.5	18.3	16.5
EV / te (USD)	270.7	228.8	203.5	172.7
Dividend Yield (%)	0.5	0.5	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	84.9	84.8	83.1	83.0
EBITDA Margins (%)	21.9	16.8	18.4	18.9
Effective Tax Rate (%)	14.2	31.6	25.5	25.5
Net Profit Margins (%)	13.7	8.0	10.1	10.7
NWC / Total Assets (%)	3.2	4.0	5.2	9.8
Net Debt / Equity (x)	0.1	0.1	0.1	0.0
Net Debt / EBITDA (x)	0.5	0.5	0.3	(0.1)
Profitability Ratios				
RoCE (%) (Post Tax)	11.8	8.3	10.9	11.0
RoE (%)	15.2	9.7	12.5	12.5
RoIC (%)	14.5	9.7	12.7	13.5
Fixed Asset Turnover (x)	1.2	1.4	1.5	1.5
Inventory Turnover Days	55	53	54	55
Receivables Days	20	20	21	21
Payables Days	61	56	57	58

Source Company data, I-Sec research

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