Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

UltraTech Cement Ltd

Resilient pricing environment amidst seasonal weakness

Cement	Sharekhan code: ULTRACEMCO
Reco/View: Buy ↔	CMP: **Rs. 8,261**
	Price Target: **Rs. 9,500** ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Aug 08, 2023

Severe Risk

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

Source: Morningstar

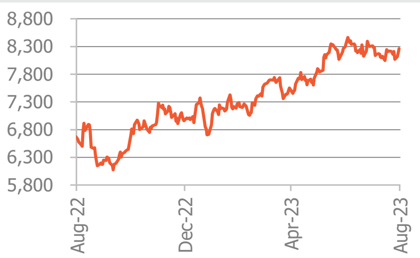
Company details

Market cap:	Rs. 2,38,426 cr
52-week high/low:	Rs. 8,501 / 6,005
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	-0.7	4.6	13.6	23.8
Relative to Sensex	1.5	1.2	4.0	14.5

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on UltraTech with a revised PT of Rs. 9,500 as we roll forward our valuation to September 2025 earnings amid strong demand and operational cost tailwinds.
- Pan-India average cement prices during July-August are marginally up compared to Q1FY2024 led by 1-2% price increase barring East. Cement demand in July affected by heavy rains.
- Domestic pet coke and international coal prices inch up from August although average July-August prices remain lower compared to Q1FY2024.
- Strong demand environment to aid in achieving double digit volume growth for FY2024 with improvement in operational profitability driven by lower accrued energy costs from Q3FY2024.

UltraTech Cement (UltraTech) is expected to benefit from resilient cement prices across most regions during July-August while pet coke/coal prices have inched up in August but the average July-August prices remain lower compared to Q1FY2024. As per our channel check, average cement prices during July-August are marginally up by 0.6% compared to Q1FY2024 led by 1-2% price rise barring East. The cement demand was impacted by heavy monsoon during July 2023, as indicated by 17% m-o-m decline in cement transported through Rail. Further, domestic pet coke and international coal prices have increased by 11% m-o-m and 16% m-o-m during July but average July-August prices remain lower by 15% and 2% compared to Q1FY2024. Ultratech continues to focus on capacity expansion plans, with phase 2 expansion of 22.6 mtpa expected to come on stream in phases by FY2026. It expects strong double-digit volume growth for FY2024 with improved operational profitability driven by lower energy costs from Q3FY2024.

- **Resilient cement prices in most regions despite demand seasonality:** As per our channel checks, average pan-India cement prices in August 2023 declined by 1% m-o-m (up 1% y-o-y), led by a price decline seen in the Eastern region and Southern regions, while Western, Northern and Central areas remained flat m-o-m. Average cement prices during July-August 2023 are marginally higher by 0.6% compared to average Q1FY2024 (almost flat compared to Q2FY2023), led by a 1-2% rise across all regions barring the Eastern region. Cement transported through Indian Railways declined by 17.2% m-o-m in July 2023 (down 5.9% y-o-y) led by heavy rainfall during the month, while June month had seen 5.4% m-o-m increase. The cement production during June 2023 was up 9.4% y-o-y and 1.7% m-o-m.
- **Pet coke and coal prices inch up in August:** International coal prices have seen an uptick in August month, with coal prices inching up 16% m-o-m (although lower by 63% y-o-y but higher by 25% from the lows of June 2023). Average July-August International coal prices remain lower by 2% and 65% compared to Q1FY2024 and Q2FY2023, respectively. Further, domestic pet coke prices for August 2023 increased by 11% m-o-m (down 30% y-o-y while up 11% from the low of July 2023). Average July-August domestic pet coke prices remain lower 15% and 31% compared to Q1FY2024 and Q2FY2023, respectively.
- **Strong demand outlook for FY2024:** The company commissioned 4.3 mtpa cement capacity FY2024 to date while undertaking de-bottlenecking of 4 mtpa cement capacities to reach 135.25 mtpa by FY2024 end. The phase-2 expansion of 22.6 mtpa remains 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.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 9,500: UltraTech is expected 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 due to strong demand and accrued benefits from lower power & fuel costs. It remains on track concerning its capacity expansion plans while improving operational efficiencies to target Rs. 1000-1200 EBITDA/tonne in the near to medium term. We introduce our FY2026E earnings in this note. At CMP, the stock is trading at an EV/EBITDA of 16x/13x its FY2025E/FY2026E 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 a revised PT of Rs. 9500 rolling forward our valuation multiple to September 2025 earnings estimates.

Valuation (Standalone) Rs cr

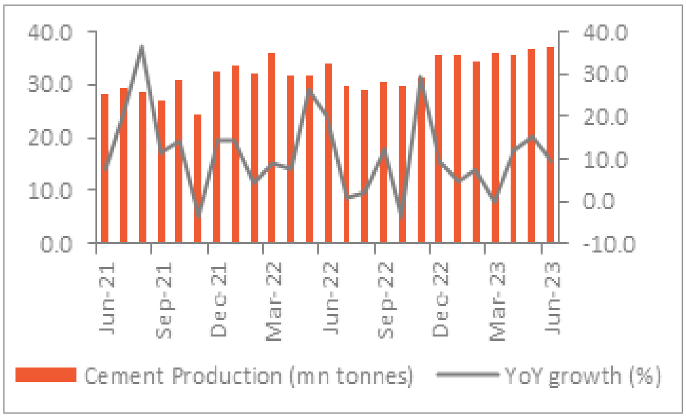
Particulars	FY23	FY24E	FY25E	FY26E
Revenue	61,327	69,745	77,855	86,829
OPM (%)	17.3%	18.2%	19.6%	21.0%
Adjusted PAT	4,917	6,772	8,601	10,731
% YoY growth	-11.4%	37.7%	27.0%	24.8%
Adjusted EPS (Rs.)	170.4	234.6	298.0	371.8
P/E (x)	48.5	35.2	27.7	22.2
P/B (x)	4.5	4.1	3.6	3.2
EV/EBITDA (x)	23.5	19.7	15.9	12.9
RoNW (%)	9.6%	12.1%	13.8%	15.2%
RoCE (%)	9.0%	11.4%	13.2%	14.7%

Source: Company Data; Sharekhan estimates

Cement prices resilient in most regions amidst a seasonally weak period

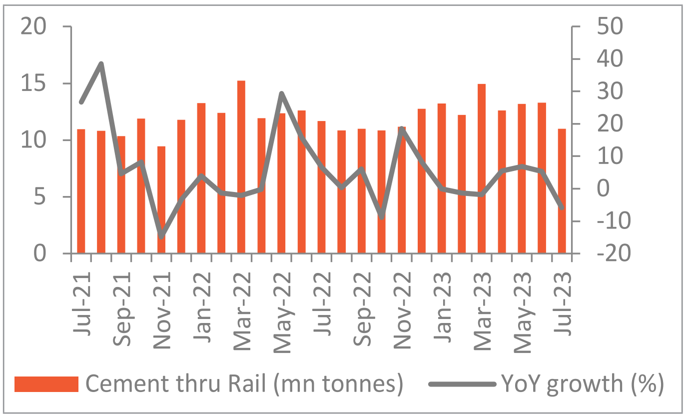
As per our channel checks, average pan-India cement prices in August 2023 declined by 1% m-o-m (up 1% y-o-y), led by a price decline seen in the Eastern region (down 4% m-o-m, up 4% y-o-y) followed by the Southern region (down 1.6% and 5.9% m-o-m and y-o-y), while Western, Northern and Central regions remained flat m-o-m. Average cement prices during July-August 2023 are marginally higher by 0.6% compared to average Q1FY2024 (almost flat compared to Q2FY2023), led by a 1-2% rise across all regions barring the Eastern region, which saw 2% decline. Cement transported through Indian Railways declined by 17.2% m-o-m in July 2023 (down 5.9% y-o-y) led by heavy rainfall during the month, while June month had seen a 5.4% m-o-m increase. The cement production during June 2023 was up 9.4% y-o-y and 1.7% m-o-m. Overall, July has been affected by the peak monsoon season, leading to a decline in demand, although cement prices remained resilient across most regions, barring South and East.

Cement production trend



Source: DPIIT; Sharekhan Research

Cement transported through rail trend

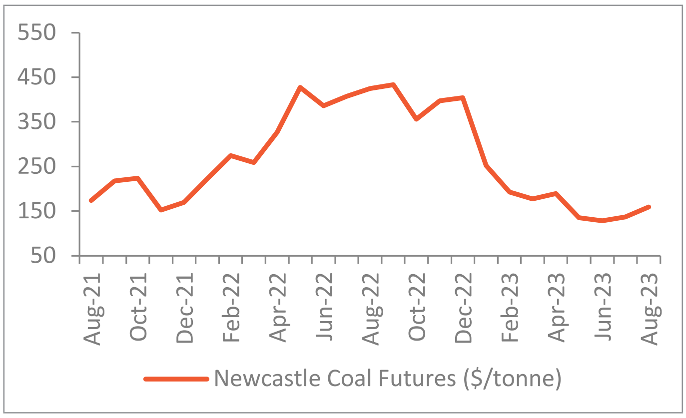


Source: Ministry of Railways; Sharekhan Research

Power and fuel costs inch up in August

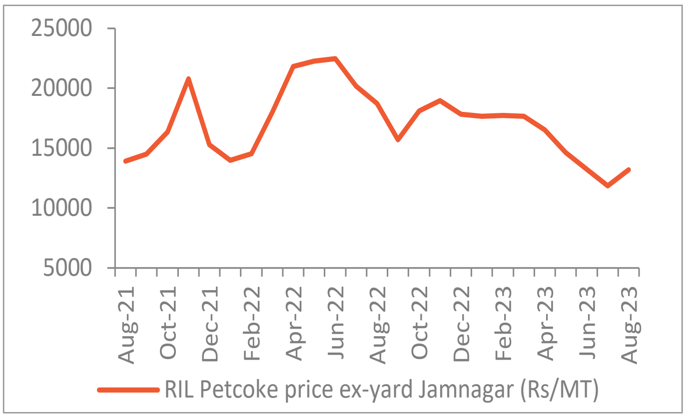
International coal prices have seen an uptick in August month, with coal prices inching up 16% m-o-m (although lower 63% y-o-y but higher by 25% from the lows of June 2023). Average July-August International coal prices remain lower 2% and 65% compared to Q1FY2024 and Q2FY2023, respectively. Further, domestic pet coke prices for August 2023 increased by 11% m-o-m (down 30% y-o-y while up 11% from the low of July 2023). Average July-August domestic pet coke prices remain lower 15% and 31% compared to Q1FY2024 and Q2FY2023, respectively. Regarding freight costs, average retail diesel prices across metros for July-August 2023 have stayed flat compared to Q1FY2024 and Q2FY2023. Rail freight prices during July 2023 remained flattish compared to Q1FY2024, although the same remains higher by 16% compared to Q2FY2023.

International coal price trend



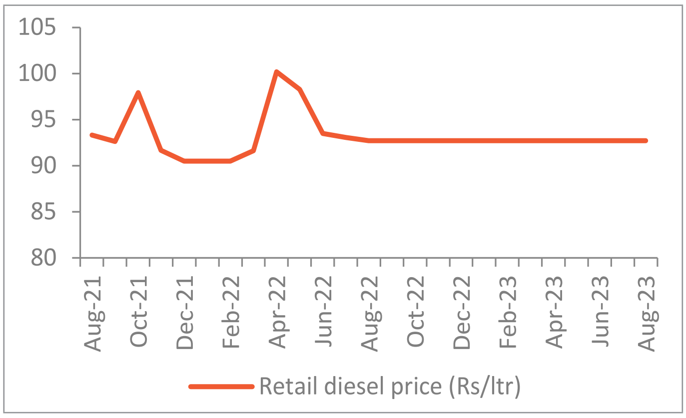
Source: Industry; Sharekhan Research

Domestic petcoke price trends



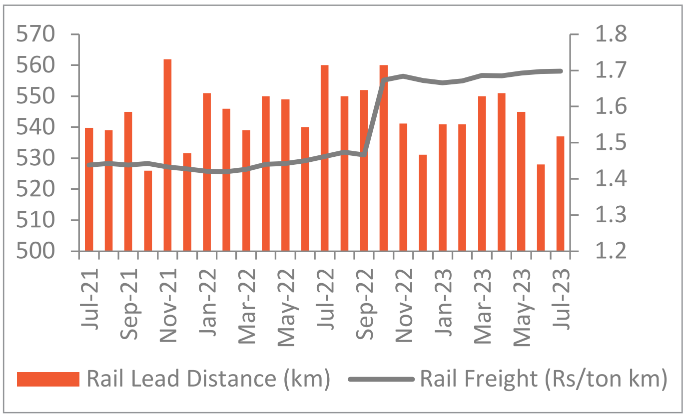
Source: Industry; Sharekhan Research

Retail diesel price trend



Source: Ministry of Petroleum; Sharekhan Research

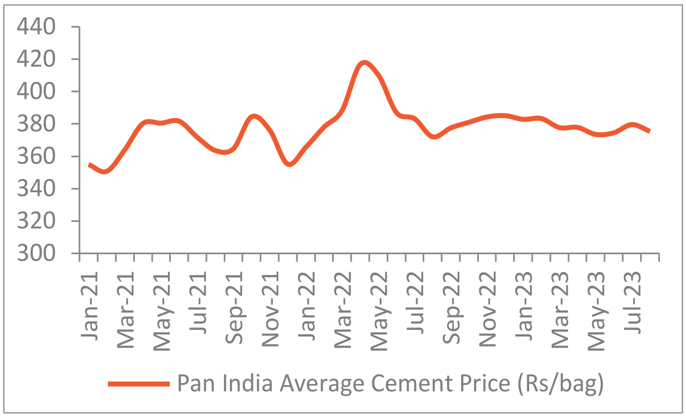
Railways cement lead distance and freight trend



Source: Ministry of Railways; Sharekhan Research

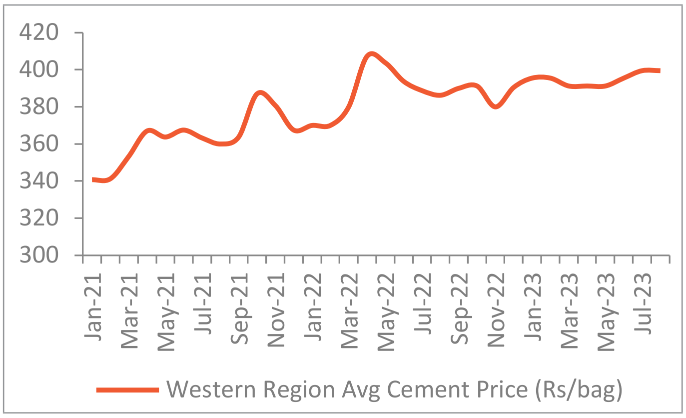
Financials in charts

Pan-India price +0%/+0.6% (July-Aug'23 vs. Q2FY23/Q1FY24)



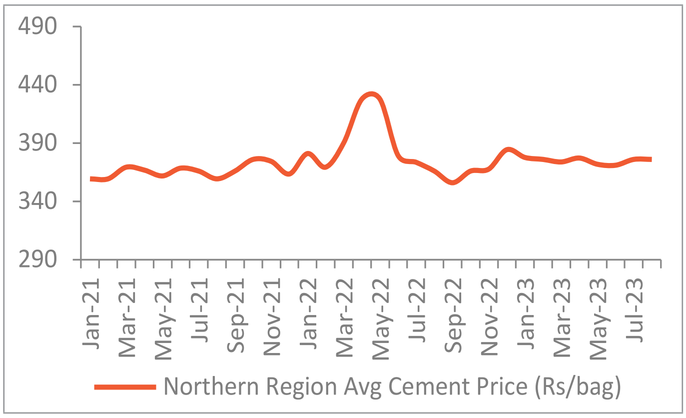
Source: Industry; Sharekhan Research

West price +2.9%/+1.7% (July-Aug'23 vs. Q2FY23/Q1FY24)



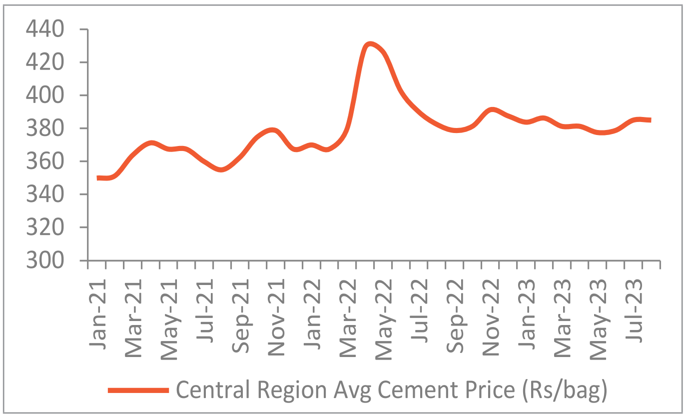
Source: Industry; Sharekhan Research

North price +3.0%/+0.7% (July-Aug'23 vs. Q2FY23/Q1FY24)



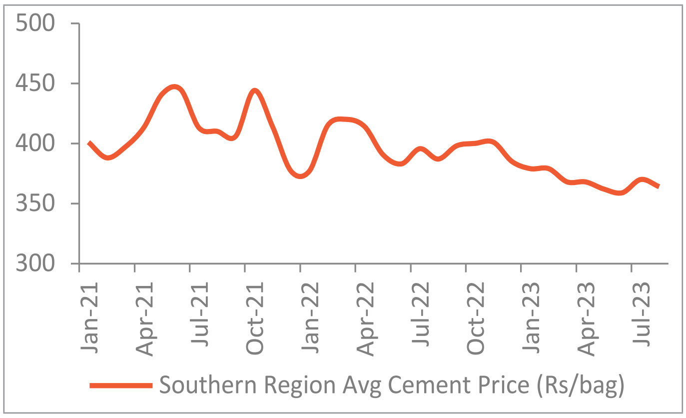
Source: Industry; Sharekhan Research

Central price +0.3%/+1.5% (July-Aug'23 vs. Q2FY23/Q1FY24)



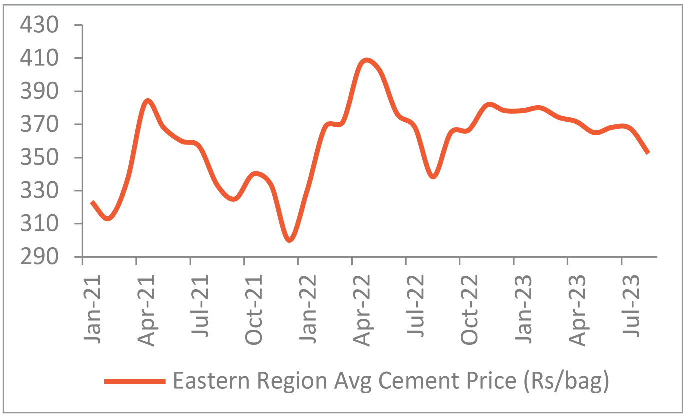
Source: Industry; Sharekhan Research

South price -6.7%/+1.1% (July-Aug'23 vs. Q2FY23/Q1FY24)



Source: Industry; Sharekhan Research

East price +0.8%/-2.3% (July-Aug'23 vs. Q2FY23/Q1FY24)



Source: Industry; Sharekhan Research

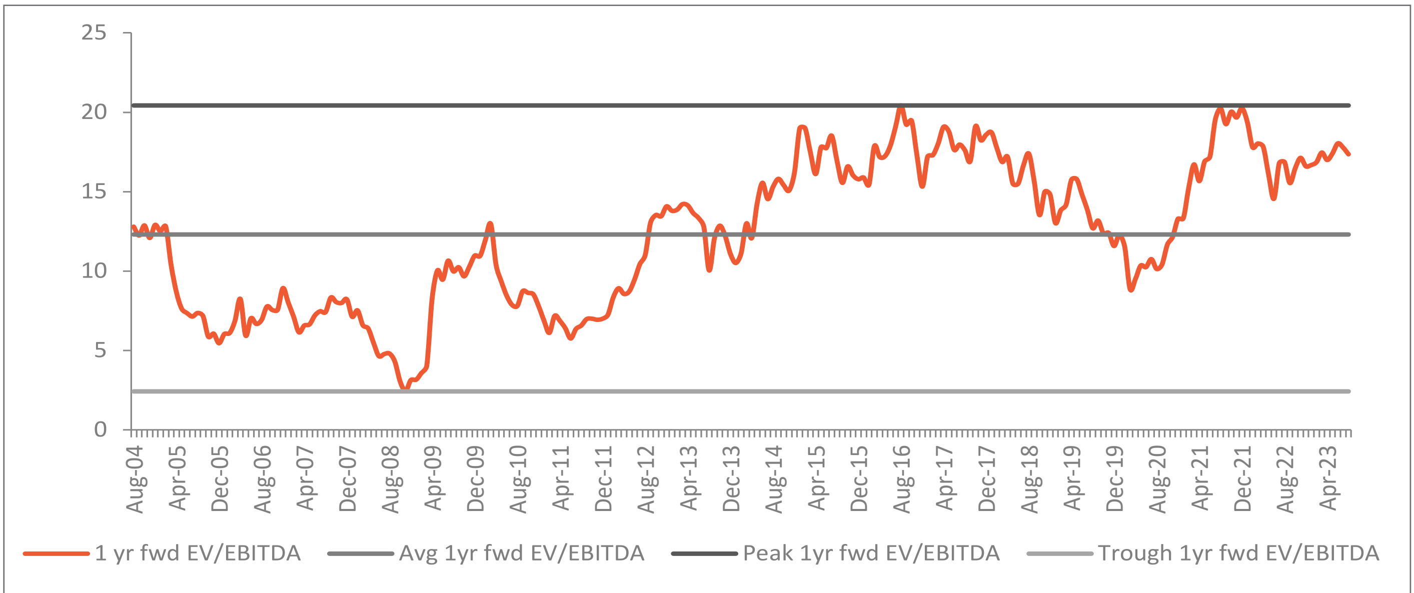
Outlook and Valuation

■ **Sector Outlook – Improving demand brightens the 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. 9,500:** UltraTech is expected 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 due to strong demand and accrued benefits from lower power & fuel costs. It stays on track concerning its capacity expansion plans while improving operational efficiencies to target Rs. 1000-1200 EBITDA/tonne in the near to medium term. We introduce our FY2026E earnings in this note. At CMP, the stock is trading at an EV/EBITDA of 16x/13x its FY2025E/FY2026E 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 a revised PT of Rs. 9500 rolling forward our valuation multiple to September 2025 earnings estimates.

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	35.2	27.7	19.7	15.9	4.1	3.6	12.1	13.8
Shree Cement	50.2	40.1	19.6	15.8	4.4	4.1	9.1	10.6
The Ramco Cement	40.7	28.8	15.8	13.1	2.8	2.6	7.2	9.5
Dalmia Bharat	53.4	47.2	14.8	13.4	2.4	2.3	4.5	4.9

Source: Sharekhan Research

About the 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.	57.3
2	Life Insurance Corp. of India	3.4
3	Standard Life Aberdeen PLC	1.9
4	SBI Funds Management Pvt. Ltd.	1.4
5	The Vanguard Group Inc.	1.4
6	Kotak Mahindra Asset Mgmt	1.3
7	Pilani Investment & Industries Corp. Ltd.	1.2
8	Franklin Resources Inc.	1.2
9	BlackRock Inc.	1.1
10	ICICI Prudential Life Insurance Co.	0.9

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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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.

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