Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update | Result Update

UltraTech Cement Ltd

Healthy demand and pricing outlook for H2

Cement	Sharekhan code: ULTRACEMCO		
Reco/View: Buy ↔	CMP: Rs. 8,515	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

High Risk

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

Source: Morningstar

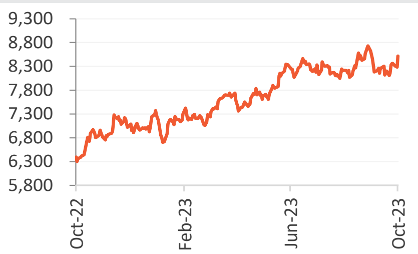
Company details

Market cap:	Rs. 2,45,811 cr
52-week high/low:	Rs. 8750/6254
NSE volume: (No of shares)	3.0 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

Shareholding (%)

Promoters	60.0
FII	17.2
DII	15.4
Others	7.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.7	2.2	13.3	33.1
Relative to Sensex	2.4	4.4	3.1	22.1

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on UltraTech with an unchanged PT of Rs. 9,500, considering its long-term growth potential and buoyant demand and pricing environment in the medium term.
- The company reported in-line standalone revenues for Q2FY2024, led by strong volume growth. Operational profitability marginally lagged due to higher than-estimated P&F costs and other expenses.
- We expect a strong demand environment for H2FY2024 while higher spot cement prices compared to Q2FY2024 average provide operational profitability growth tailwinds.
- Revised phase 2 expansion of 24.4 mtpa remains on track and is expected to go on stream in a phased manner by FY2025 and FY2026. The next phase of expansion will be announced before the calendar year's end.

UltraTech Cement (UltraTech) reported in-line standalone revenues at Rs. 15,517 crore, up 15.1% y-o-y led by 15.4% y-o-y growth in cement volumes. At the same time, blended realisations stayed almost flat y-o-y (although up 1.7% q-o-q). Blended standalone EBITDA/tonne at Rs. 916 (up 19% y-o-y) was marginally below our Rs. 986/tonne estimate. On the critical operating cost front, power & fuel costs declined 11.1% y-o-y per tonne basis. In contrast, employee expenses (bonuses) and other costs (maintenance shutdowns) increased due to one-off expenditures. Overall, standalone operating profit (up 37% y-o-y) and adjusted net profit (up 68% y-o-y) came in 7% and 15% lower than expected. The company remains optimistic about the strong demand environment during H2FY2024, while increased cement prices (up 5% compared to the Q2FY2024 average) are expected to sustain going ahead. It is adding 1.8 mtpa slag grinding capacity, taking total planned phase 2 expansion to 24.4 mtpa, which is likely to go on stream in a phased manner by FY2025 and FY2026. The next expansion phase is expected to be announced before this calendar year end.

Key positives

- Standalone business volumes rose by 15% y-o-y despite erratic monsoons in certain parts of India. Blended realisation improved 1.7% q-o-q.
- Spot pan-India cement prices are up 5% compared to Q2FY2024 average.

Key negatives

- P&F and other expenses witnessed q-o-q increase leading to a miss on standalone EBITDA/tonne.
- Consolidated net debt increased by Rs. 2448 crore to Rs. 4917 crore because of higher capex and working capital requirements to build inventory. Net Debt is expected to tread lower in coming quarters.

Management Commentary

- The demand environment is expected to remain strong during H2FY2024, led by pre-election spending, continued government push on infrastructure development and sustained real estate development. Cement price hikes undertaken during September and October months are expected to hold on due to elevated costs.
- The company's average cement prices for Q2FY2024 were higher 1-1.5% q-o-q. September month exit cement prices were higher by 3-4% compared to June month exit prices. The current spot cement prices are up 5% compared to the Q2FY2024 average.
- The company announcing will announce its next phase of capacity expansion before the calendar year's end. It remains on course to achieve the 200 mtpa capacity target.

Revision in estimates – We have marginally increased standalone revenue estimates for FY2024-FY2026, factoring marginally higher realisations considering the recent price hike taken by the company.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 9,500: UltraTech is well poised to benefit from a strong demand environment led by government spending on infrastructure and rising demand from the housing sector. The cement price hikes undertaken during September and October provide strong operational profitability growth tailwinds and upside risk on our estimated earnings for the company, provided the recent hikes sustains. Further, it remains on track concerning its capacity expansion plans while improving operational efficiencies in the medium to long term. At CMP, the stock is trading at an EV/EBITDA of 15.6x/12.7x 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 an unchanged PT of Rs. 9500.

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	FY23	FY24E	FY25E	FY26E
Revenue	61,327	70,617	78,797	87,847
OPM (%)	17.3%	18.8%	20.2%	21.6%
Adjusted PAT	4,917	7,232	9,118	11,307
% YoY growth	-11.4%	47.1%	26.1%	24.0%
Adjusted EPS (Rs.)	170.4	250.6	315.9	391.8
P/E (x)	50.0	34.0	27.0	21.7
P/B (x)	4.6	4.2	3.7	3.2
EV/EBITDA (x)	24.2	19.3	15.6	12.7
RoNW (%)	9.6%	12.9%	14.5%	15.8%
RoCE (%)	9.0%	12.1%	13.8%	15.2%

Source: Company; Sharekhan estimates

Standalone revenues are in-line while operational profitability misses marginally

Ultratech reported standalone net revenue growth of 15.1% y-o-y at Rs. 15,517 crore, which was in line with our estimate. Cement volumes (announced earlier) were up 15.4% y-o-y (-11.5% q-o-q) at 25.66 MnT while blended realisations were almost flat y-o-y (up 1.7% q-o-q) at Rs. 6047/T. Blended standalone EBITDA/T at Rs. 916 (+18.7% y-o-y, -8.6% q-o-q) was below our estimate of Rs. 986/T. Standalone OPM stood at 15.1% (+242bps y-o-y, -172bps q-o-q). The power & fuel costs stood at Rs. 1560/T (-11.1% y-o-y, +1% q-o-q), freights costs at Rs. 1351/T (+0.2% y-o-y, -3.1% q-o-q) and other expense at Rs. 835/T (+0.9% y-o-y, +25.4% q-o-q). Standalone operating profit rose by 37% y-o-y (-19.2% q-o-q) at Rs. 2350 crore, 7% lower than our estimate. The standalone net profit rose by 67.8% y-o-y (-29.3% q-o-q) at Rs. 1206 crore (15% lower than our estimate), aided by strong operational performance y-o-y and a lower effective tax rate. Miss on net earnings was led by higher than estimated power & fuel costs and other expenses on a per tonne basis. The net debt increased by Rs. 2448 crore q-o-q to Rs. 4917 crore. It commissioned a cement capacity of 2.5 MTPA, taking the total grey cement capacity of the Company to 132.45 MTPA in India. It commissioned 30 MW of WHRS capacity and 83 MW of renewable power capacity, taking the total WHRS capacity to 262 MW and 429 MW. The work on its second growth phase of 22.6 mtpa is in full swing. As part of this project, it adds another 1.8 MTPA of slag grinding capacity, taking total of phase 2 to 24.4 MTPA. The commercial production from all these new capacities is expected to go on stream in a phased manner by FY25/FY26.

Key conference takeaways:

- **Outlook:** The demand environment is expected to remain strong during H2FY2024, led by pre-election spending, continued government push on infrastructure development and sustained real estate development. Cement price hikes undertaken during September and October are expected to hold on due to elevated costs.
- **Cement prices:** The company's average cement prices for Q2FY2024 were higher 1-1.5% q-o-q. September month exit cement prices were higher by 3-4% compared to June month exit prices. Region-wise price performance compared to June exit prices are as follows - East – up 7-8%, Maharashtra – up 7-8%, South – 5-6%, North – 6-7% and Central – Flat. The current spot cement prices are up 5% compared to the Q2FY2024 average. White cement and putty prices remained subdued in Q2FY2024 while volumes improved.
- **Demand:** Pan-India cement demand for Q2FY2024 is estimated at 9-11% y-o-y while East region demand at 4-5% y-o-y.
- **Fuel prices:** The blended fuel consumption price for Q2FY2024 was \$162/tonne compared to \$178/tonne in Q1FY2024. Pet coke (39% share) consumption ,imported coal consumption was \$138/tonne, and imported coal consumption was \$181/tonne. It expects fuel prices to tread southwards during Q3FY2024. stable prices remain stable, the company can see a \$10/tonne reduction in P&F costs during H2FY2024. The fuel mix for Q2FY2024 is Imported coal – 51%, Pet coke – 39% and alternate fuels – 4%.
- **Capacity expansion:** It is adding 1.8 mtpa of slag grinding capacity, taking its second phase of total capacity addition plan to 24.4 mtpa. On completion of the same, it would reach 159.65 mtpa domestic cement capacity by June 2025. The company announce its next phase of capacity expansion before it will announce its next phase of capacity power expansionannounce its next capacity expansion before the calendar year's end. It remains oncourse to achieve 200 mtpa capacity target.
- **Capex:** The company spent Rs. 2545 crore capex in Q2FY2024 of which Rs. 600 crore plus was spent on working capital to build fuel inventory to take advantage of lower prices. It expects to bring down inventory by March 2024. The capex for FY2024 is estimated at Rs. 6000-7000 crore.
- **Debt:** The consolidated net debt has increased to Rs. 4917 crore, led by higher capex spending. It would be pushing down net debt from Q3FY2024 onwards.
- **One-off costs:** The company incurred ~Rs. 40 crores towards one-off bonuses to employees in lieu of crossing 100 million tonne sales volumes in FY2023. It also incurred ~Rs. 30 crores in other expenses related to 24 Klins shut down for normal maintenance.
- **Lead distance:** It achieved a lead distance of 403 km. Secondary lead dropped to 40 kms only. Its 52% of the dispatches are direct to customers.

Results (Standalone) Rs cr

Particulars	Q2FY24	Q2FY23	YoY %	Q1FY2024	QoQ %
Net Sales	**15517.0**	**13482.0**	**15.1%**	**17245.2**	**-10.0%**
Operating Profit	**2350.2**	**1716.0**	**37.0%**	**2908.6**	**-19.2%**
Other Income	208.8	164.5	26.9%	258.2	-19.1%
EBITDA	2559.0	1880.5	36.1%	3166.8	-19.2%
Interest	210.0	186.7	12.5%	191.1	9.9%
Depreciation	727.9	642.7	13.2%	682.0	6.7%
PBT	**1621.1**	**1051.0**	**54.2%**	**2293.7**	**-29.3%**
Tax	415.5	332.7	24.9%	588.2	-29.4%
Reported PAT	**1205.7**	**718.4**	**67.8%**	**1705.5**	**-29.3%**
Exceptional items	0.0	0.0		0.0	
Adj.PAT	**1205.7**	**718.4**	**67.8%**	**1705.5**	**-29.3%**
Margins			**Bps**		**Bps**
OPM	15.1%	12.7%	242	16.9%	-172
PATM	7.8%	5.3%	244	9.9%	-212
Tax Rate	25.6%	31.7%	-602	25.6%	-1

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - 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 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.

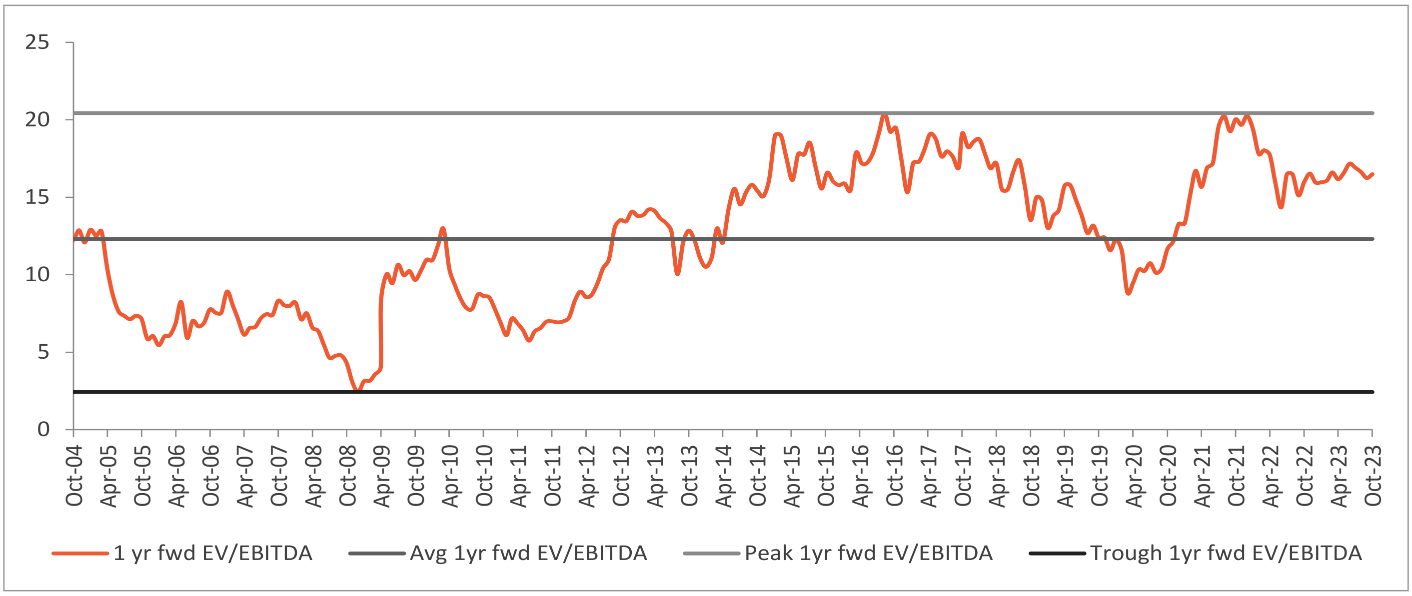
■ Company outlook - Healthy cement demand, profitability, and balance sheet health to remain favourable

UltraTech is expected to see sustained demand from the rural and infrastructure sectors. Further, order 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 more extended period. The company's areitsexpansion techniques for adding 19.5 mtpa capacity are virtually complete, while it aims 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. 9,500

UltraTech is well poised to benefit from a strong demand environment led by government spending on infrastructure and rising demand from the housing sector. The cement price hikes undertaken during September and October provide strong operational profitability growth tailwinds and upside risk on our estimated earnings for the company, provided the recent hikes are sustained. Further, it remains on track concerning its capacity expansion plans while improving operational efficiencies in the medium to long term. At CMP, the stock is trading at an EV/EBITDA of 15.6x/12.7x 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 an unchanged PT of Rs. 9500.

One-year forward P/E (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	34.0	27.0	19.3	15.6	4.2	3.7	12.9	14.5
Shree Cement	54.9	43.9	21.7	17.4	4.8	4.4	9.1	10.6
The Ramco Cement	46.5	32.9	17.6	14.7	3.3	3.0	7.2	9.5
Dalmia Bharat	47.9	38.9	14.7	12.8	2.5	2.3	5.3	6.2

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 timely scaling up capacities and profitability in the shortest possible time.

Key Risks

- Slowdown in government spending on infrastructure and increased essential 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

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.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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: 022-62263303; 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 - 69920600