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India | Equity Research | Company Update

UltraTech Cement

Cement

Fortifying its leadership position

UltraTech Cement (UTCEM) has announced phase-3 of its capex programme, which will fortify its leadership position. It has committed to add 21.9mtpa (from FY26 in phases), which will take its India capacity to a mammoth 181.6mtpa (187mtpa including overseas units) from 132.5mtpa currently. Much to the delight of investors (and similar to phase-2), the latest capex (INR 130bn) comes at an optimal cost of just ~USD 72/t (versus replacement cost of ~USD 100/t). Though a few months ahead, the announcement is on expected lines (as guided by UTCEM). Hence, we keep our **HOLD** recommendation and TP of INR 8,742 intact. However, the announcement further amplifies our concern of aggressive industry-wide capacity additions (>100mtpa over FY25–FY26) and hence, a potential worry over the medium term.

Phase-3 capex boost; largely on expected lines

UTCEM's phase-3 capex announcement is in sync with its Chairman's vision statement, made at the most recent AGM – to reach 200mtpa capacity. The capex comes at an optimal cost of USD 72/t, including 39MW WHRS power plants and equipment to feed alternative fuels. Given its strong balance sheet (net debt/EBITDA of 0.3x as of FY23), capex will be funded from internal accruals with ease. The capex offers visibility of industry superior volume growth given it augments UTCEM capacity by 9.4% CAGR over FY23–FY27. Numero-uno UTCEM's capex boost is largely on expected lines (as guided by management in Q2FY24 earnings call); though a few months ahead. Hence, we keep our earnings estimates intact.

Sector concerns intact; maintain HOLD

Post-Q2FY24 earnings, and tracking the improving pricing environment (across regions), we recently upgraded UTCEM to '**HOLD**'. While phase-3 capex boost is a positive for UTCEM, we see little merit arguing in favour of a recommendation or valuation multiple upgrade given fundamental concerns/risks: 1) Long-term sustainability of recent price hikes (as seen historically). 2) Industry capacity addition set to cross >100mtpa over FY25 and FY26. Factoring in the risk of low demand in FY25 (on high base of pre-election surge in FY24), pricing may be a challenge. 3) Latest announcement has potential to stoke a race for capacity addition among larger peers. We continue to value UTCEM at 15x Q2FY26E EV/EBITDA and retain **HOLD**.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	6,31,400	7,30,654	7,89,597	8,65,962
EBITDA	1,06,199	1,39,448	1,59,991	1,74,275
EBITDA (%)	16.8	19.1	20.3	20.1
Net Profit	50,599	78,193	93,893	1,04,950
EPS (Rs)	175.3	270.9	325.3	363.6
EPS % Chg YoY	(29.6)	54.5	20.1	11.8
P/E (x)	46.8	30.3	25.2	22.6
EV/EBITDA (x)	22.6	17.0	14.6	13.0
RoCE (%) (Post Tax)	8.3	11.8	12.6	12.4
RoE (%)	9.7	13.5	14.4	14.2

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Market Data

Market Cap (INR)	2,370bn
Market Cap (USD)	28,475mn
Bloomberg Code	UTCEM IN
Reuters Code	ULTC.BO
52-week Range (INR)	8,751 /6,372
Free Float (%)	40.0
ADTV-3M (mn) (USD)	33.0

Price Performance (%)	3m	6m	12m
Absolute	(0.9)	10.0	28.1
Relative to Sensex	2.5	3.7	20.0

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

Previous Reports

20-10-2023: [Q2FY24 results review](#)

30-07-2023: [Q1FY24 results review](#)

Exhibit 1: Valuations based on 15x Sep'25E EV/E

Particulars (INR mn)	Q2FY26
Assumed EV/EBITDA multiple (x) (A)	15.0
Consolidated EBITDA (B)	1,66,976
Enterprise Value (E) = (A) x (B)	25,04,633
Less: Consolidated Net debt (F)	-18,460
Mcap (G) = (E) - (F)	25,23,093
Shares o/s (mn) (H)	288.6
Value per share (INR) (G) / (H)	8,742

Source: I-Sec research, Company data

Key risks:

- Sharp further uptick in cement prices and/or a major decline in fuel cost are key upside earnings risk.
- Sharp fall/reversal of recent hikes in cement prices and/or major surge in fuel prices are key downside risks.

Exhibit 2: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	60.0	60.0	60.0
Institutional investors	32.4	32.4	32.5
MFs and others	13.9	13.4	13.6
FIs/Banks	0.0	0.0	0.1
Insurance	3.2	2.6	1.6
FIIIs	15.3	16.4	17.2
Others	7.6	7.6	7.5

Source: Bloomberg

Exhibit 3: Price chart


Source: I-Sec research, Company data

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	6,31,400	7,30,654	7,89,597	8,65,962
Operating Expenses	5,25,201	5,91,206	6,29,606	6,91,687
EBITDA	1,06,199	1,39,448	1,59,991	1,74,275
EBITDA Margin (%)	16.8	19.1	20.3	20.1
Depreciation & Amortization	28,880	31,880	34,354	38,204
EBIT	77,319	1,07,568	1,25,638	1,36,071
Interest expenditure	8,227	8,835	7,395	6,435
Other Non-operating Income	5,031	6,361	7,925	11,375
Recurring PBT	74,122	1,05,094	1,26,168	1,41,011
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	23,429	26,807	32,181	35,966
Less: Minority Interest	94	94	94	94
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	50,632	78,225	93,925	1,04,983
Net Income (Adjusted)	50,599	78,193	93,893	1,04,950

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	2,11,429	2,26,223	2,66,967	3,22,841
of which cash & cash eqv.	65,212	68,486	1,02,904	1,51,604
Total Current Liabilities & Provisions	1,83,026	1,79,168	1,83,085	1,87,224
Net Current Assets	28,403	47,056	83,882	1,35,616
Investments	29,576	29,576	29,576	29,576
Net Fixed Assets	4,57,042	4,57,162	5,57,808	6,04,604
ROU Assets	-	-	-	-
Capital Work-in-Progress	74,565	1,02,565	37,565	22,565
Total Intangible Assets	1,28,954	1,28,954	1,28,954	1,28,954
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	7,18,540	7,65,312	8,37,785	9,21,316
Liabilities				
Borrowings	1,14,128	94,128	84,128	74,128
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	5,41,128	6,07,807	6,90,185	7,83,621
Total Net Worth	5,44,015	6,10,693	6,93,072	7,86,508
Minority Interest	64	158	253	347
Total Liabilities	7,18,540	7,65,312	8,37,785	9,21,316

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	79,607	1,10,200	1,28,373	1,43,281
Working Capital Changes	5,350	(15,379)	(2,409)	(3,034)
Capital Commitments	(62,000)	(60,000)	(70,000)	(70,000)
Free Cashflow	22,957	34,821	55,964	70,247
Other investing cashflow	(8,733)	5,500	5,500	0
Cashflow from Investing Activities	(70,733)	(54,500)	(64,500)	(70,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	(20,000)	(10,000)	(10,000)
Dividend paid	(10,969)	(11,547)	(11,547)	(11,547)
Others	-	-	-	-
Cash flow from Financing Activities	(10,969)	(31,547)	(21,547)	(21,547)
Chg. in Cash & Bank balance	3,255	8,774	39,918	48,700
Closing cash & balance	6,846	15,620	55,538	1,04,238

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	175.3	270.9	325.3	363.6
Adjusted EPS (Diluted)	175.3	270.9	325.3	363.6
Cash EPS	275.3	381.3	444.3	495.9
Dividend per share (DPS)	38.0	40.0	40.0	40.0
Book Value per share (BV)	1,884.6	2,115.5	2,400.9	2,724.6
Dividend Payout (%)	21.7	14.8	12.3	11.0
Growth (%)				
Net Sales	20.0	15.7	8.1	9.7
EBITDA	(7.8)	31.3	14.7	8.9
EPS (INR)	(29.6)	54.5	20.1	11.8
Valuation Ratios (x)				
P/E	46.8	30.3	25.2	22.6
P/CEPS	29.8	21.5	18.5	16.6
P/BV	4.4	3.9	3.4	3.0
EV / EBITDA	22.6	17.0	14.6	13.0
EV / te (USD)	229.2	200.8	168.3	154.7
Dividend Yield (%)	0.5	0.5	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	84.8	83.8	83.8	83.7
EBITDA Margins (%)	16.8	19.1	20.3	20.1
Effective Tax Rate (%)	31.6	25.5	25.5	25.5
Net Profit Margins (%)	8.0	10.7	11.9	12.1
NWC / Total Assets (%)	4.0	6.1	10.0	14.7
Net Debt / Equity (x)	0.0	0.0	(0.1)	(0.1)
Net Debt / EBITDA (x)	0.3	0.0	(0.3)	(0.6)
Profitability Ratios				
RoCE (%) (Post Tax)	8.3	11.8	12.6	12.4
RoE (%)	9.7	13.5	14.4	14.2
RoC (%)	11.1	16.1	17.0	16.6
Fixed Asset Turnover (x)	1.4	1.6	1.6	1.5
Inventory Turnover Days	53	54	55	52
Receivables Days	20	20	20	20
Payables Days	56	57	57	55

Source Company data, I-Sec research

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