Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

UltraTech Cement Ltd

Gaining Southern presence with a good deal

Cement	Sharekhan code: ULTRACEMCO
Reco/View: Buy ↔	CMP: Rs. 9,031
	Price Target: Rs. 10,500 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on UltraTech with a revised PT of Rs. 10,500 as we roll forward our valuation to FY2026E earnings amid strong demand and operational cost tailwinds.
- Ultratech announces acquisition of Kesoram's cement assets at a fairly attractive valuation of $91 adjusted EV/tonne. Transaction to be undertaken through a share swap with nil cash consideration.
- Proposed assets would increase Ultratech's Southern region's capacity mix to 22% from 15% and Industry capacity share to 17% from 11%. Inorganic growth to maintain Industry pricing discipline.
- Expect operational profitability of proposed assets to be brought at par with Ultratech's in a shorter period. Acquired assets to contribute for the full fiscal year during FY2026.

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

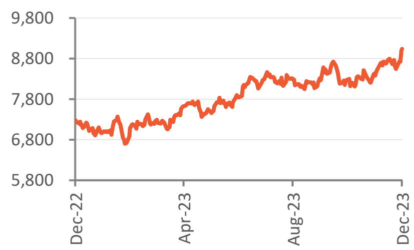
Company details

Market cap:	Rs. 2,60,723 cr
52-week high/low:	Rs. 9,152 / 6,605
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	7.9	9.4	15.3	24.2
Relative to Sensex	1.7	6.2	7.2	17.5

Sharekhan Research, Bloomberg

UltraTech Cement (UltraTech) announced the acquisition of Kesoram's 10.75 mtpa cement assets based in Southern India. The share swap transaction values the target assets at $843 million or $91/tonne (assuming a $30/tonne value for surplus 2.25 mtpa grinding capacity), which is fairly attractive considering the benchmark replacement cost of over $120/tonne. The proposed deal would help increase Ultratech's Southern region's capacity mix to 22% (current 15%) and Industry capacity share to 17% (from 11%). Ultratech's domestic capacity would increase to 144 mtpa and accelerate its domestic capacity goal of 200 mtpa. Going by the anecdotal evidence, Ultratech is likely to bring operational profitability of acquired assets at par with it within a relatively shorter period. The acquired assets would contribute for the full fiscal year during FY2026. The inorganic expansion undertaken by Ultratech bodes well for the overall industry in terms of maintaining healthy pricing discipline.

- **Kesoram's cement assets acquired at fairly attractive valuation:** Ultratech will be acquiring 10.75 mtpa cement assets of Kesoram through a share swap transaction valuing the acquired assets at an EV of Rs. 7034 crore or $843 million. Valuing surplus grinding capacity of 2.25 mtpa at $30/tonne, the deal values Kesoram's clinker-backed 8.5 mtpa cement assets at $91/tonne, which is fairly attractive considering the benchmark replacement cost of over $120/tonne.
- **Acquisition to aid in gaining foothold in South India:** Kesaram's cement assets acquisition would provide Ultratech with the opportunity to extend its footprint in the Southern markets of India and provide entry into the Telangana market. Currently, Southern India comprise the lowest 15% share in overall company's grey cement capacity and 11% share in the Industry's grey cement capacity. Post-acquisition, the Southern region's overall share in its total capacity would increase to 22% (higher than other regions) while the capacity share in the overall industry will increase to 17%. The said acquisition would increase its domestic capacity to 144 mtpa from 133 mtpa and Industry capacity share to 24% from current 22%.
- **Expect operational profitability of acquired assets to be brought at par with Ultratech:** Kesoram's standalone EBITDA/tonne stood at Rs. 516/Rs. 429 during H1FY2024/FY2023, respectively while Ultratech's blended EBITDA/tonne stood at Rs. 962/ Rs. 931, respectively. Kesoram's opex/tonne is below Ultratech due to lower raw material costs and other expenses on per tonne basis, while realisation per tonne is also much lower. Hence, re-branding or re-alignment of Kesoram's product portfolio would help bring operational profitability at par with Ultratech's in a relatively shorter period. As the transaction is expected to be consummated within 9-12 months, the assets are expected to contribute for the full fiscal year during FY2026.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 10,500: 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 company remains on track concerning its capacity expansion plans through organic and inorganic routes. Industry consolidation and cement price hikes undertaken during September and October provide better pricing discipline and strong operational profitability growth tailwinds for the company. At CMP, the stock is trading at an EV/EBITDA of 16.7x/13.5x 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. 10,500 rolling forward our valuation multiple to FY2026E earnings.

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)	53.1	36.1	28.6	23.1
P/B (x)	4.9	4.4	3.9	3.4
EV/EBITDA (x)	25.8	20.5	16.7	13.5
RoNW (%)	9.6%	12.9%	14.5%	15.8%
RoCE (%)	9.0%	12.1%	13.8%	15.2%

Source: Company; Sharekhan estimates

Kesoram's cement assets to be acquired at $91/tonne adjusted EV/tonne

Ultratech, on November 30, 2023, announced that its board has approved Kesoram's proposal of 1) demerging Kesoram's cement business into Ultratech and 2) reduction and cancellation of preference share capital of Kesoram. The cement business of Kesoram consists of two integrated cement plants at Sedam, Karnataka (9 mtpa cement, 5.1 mtpa clinker) and Basantnagar, Telangana (1.75 mtpa cement, 1.2 mtpa clinker). The proposed transaction would be undertaken through share swap with no cash consideration. As per the share swap ratio, one equity share of Ultratech will be issued for every 52 equity shares of Kesoram. Considering Ultratech's closing market price on November 30, 2023, the deal is valued at an EV of Rs. 7034 crore (Kesoram's net debt of Rs. 1657 crore as of September 30, 2023) or $843 million. Valuing surplus grinding capacity of 2.25 mtpa at $30/tonne, the deal values Kesoram's clinker-backed cement assets at $91/tonne, which is fairly attractive considering the benchmark replacement cost of over $120/tonne.

Acquisition to aid in gaining foothold in Southern India

Kesaram's cement assets acquisition would provide Ultratech with the opportunity to extend its footprint in the Southern markets of India. It would also mark its entry in Telangana market, where currently it does not have any cement manufacturing plant. Currently, Southern India comprise the lowest 15% share in the overall company's grey cement capacity and 11% share in Industry's grey cement capacity. Post acquisition of Kesoram's 10.75 mtpa cement assets, the Southern region's overall share in its total capacity would increase to 22% (higher than other regions) while capacity share in overall industry will increase to 17%. The said acquisition would increase its domestic capacity to 144 mtpa from 133 mtpa and Industry capacity share to 24% from current 22%. The proposed transaction will accelerate the company's path of achieving its stated goal of 200 mtpa cement capacity in India.

Grey Cement Capacity Pre & Post Acquisition

Zones	Pre-acquisition			Post-Acquisition		
	Capacity (mtpa)	Capacity mix (%)	Capacity share in Industry (%)	Capacity (mtpa)	Capacity mix (%)	Capacity share in Industry (%)
North	26.5	20	23	26.5	18	23
Central	28.4	21	34	28.4	20	34
East	26.9	20	19	26.9	19	19
West	30.7	23	37	30.7	21	37
South	20.5	15	11	31.3	22	17
All India	**133.0**		**22**	**143.8**		**24**
Overseas	5.4			5.4		
Total	**138.4**			**149.2**		

Source: Company; Sharekhan Research

Expect the operational profitability of acquired assets to be brought at par with Ultratech

Kesoram's standalone EBITDA/tonne stood at Rs. 516 and Rs. 429 during H1FY2024 and FY2023, respectively while Ultratech's blended EBITDA/tonne stood at Rs. 962 and Rs. 931, respectively. Kesoram's opex/tonne is below Ultratech due to lower raw material costs and other expenses on per tonne basis, while realisation per tonne is also much lower. Hence, re-branding or re-alignment of Kesoram's product portfolio would help bring operational profitability at par with Ultratech's in a relatively shorter period. As the transaction is subject to the approval of shareholders and creditors, stock exchanges, NCLT, CCI and other regulatory authorities, it is expected to be consummated within 9-12 months. Hence, the assets are expected to contribute for the full fiscal year during FY2026.

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.

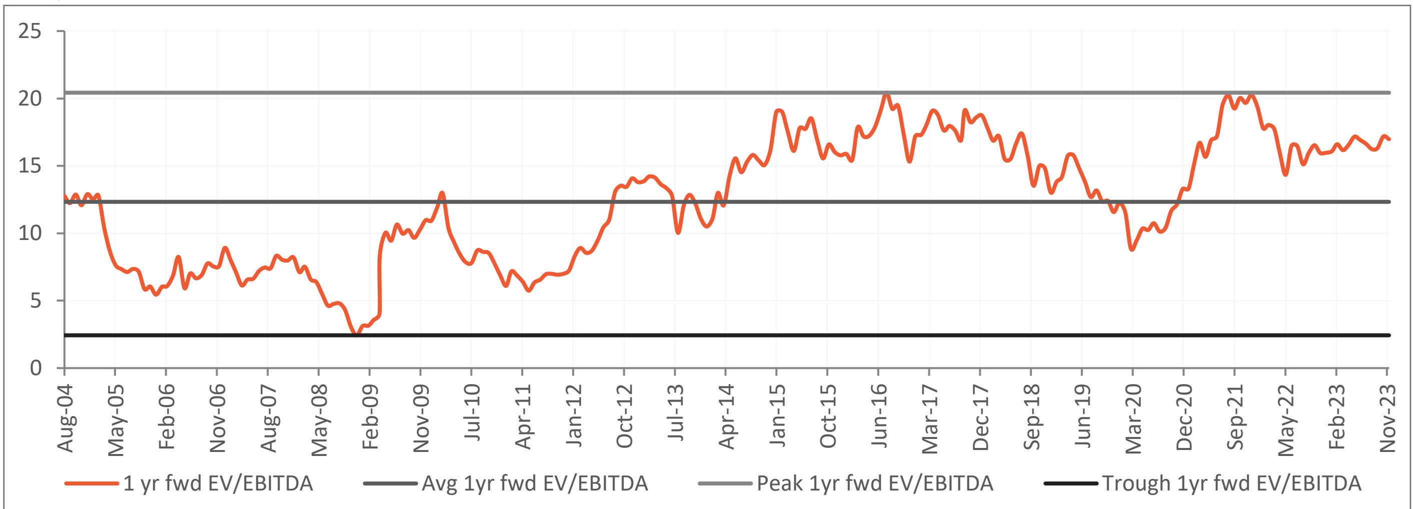
■ Company Outlook – Healthy cement demand, profitability, and balance sheet health to remain favourable

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 a revised PT of Rs. 10,500

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 company remains on track concerning its capacity expansion plans through organic and inorganic routes. Industry consolidation and cement price hikes undertaken during September and October provide better pricing discipline and strong operational profitability growth tailwinds for the company. At CMP, the stock is trading at an EV/EBITDA of 16.7x/13.5x 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. 10,500 rolling forward our valuation multiple to FY2026E earnings.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
UltraTech Cement	28.6	23.1	16.7	13.5	3.9	3.4	14.5	15.8
Shree Cement	38.9	31.0	17.6	14.3	4.4	3.9	12.0	13.5
The Ramco Cement	32.7	28.0	14.0	12.9	3.0	2.8	9.7	10.3
Dalmia Bharat	40.0	31.5	13.1	11.2	2.4	2.2	6.2	7.4

Source: 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 Website

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.