

UltraTech Cement

Estimate changes 

TP change 

Rating change 

	UTCEM IN
Bloomberg Equity Shares (m)	288
M.Cap.(INRb)/(USD\$b)	2913.9 / 35.1
52-Week Range (INR)	10526 / 6604
1, 6, 12 Rel. Per (%)	0/12/21
12M Avg Val (INR M)	2828

Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	705.1	761.9	844.4
EBITDA	127.8	154.7	180.8
PAT	69.9	88.1	105.8
EPS (INR)	242.1	305.1	366.4
GR. (%)	38.0	26.0	20.1
BV/Sh (INR)	2,078.8	2,338.9	2,650.4

Ratios

ROE (%)	12.2	13.8	14.7
RoCE (%)	11.5	12.8	13.8

Valuations

P/E (X)	41.7	33.1	27.5
P/BV (X)	4.9	4.3	3.8
EV/EBITDA (X)	23.0	18.9	15.7
Div Yield (%)	0.4	0.4	0.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	60.0	60.0	60.0
DII	13.8	15.2	17.6
FII	18.9	17.3	14.8
Others	7.3	7.5	7.7

FII Includes depository receipts

CMP: INR10,094

TP: INR12,000 (+19%)

Buy

Profitability in line with estimate; outlook positive

Variable cost is expected to decline further in 1HCY24

- UTCEM's 3QFY24 operating performance was largely in line with our estimates. EBITDA stood at INR32.5b (est. INR33.8b) and EBITDA/t came in at INR1,191 (est. INR1,236). PAT at INR17.8b was 7% below our estimate on account of lower-than-estimated other income and higher interest costs.
- The management remains optimistic about demand growth prospects and expects capacity utilization to improve to ~80-85% in 4Q (77% in 3Q). Demand has recovered in most of the markets, except the North region, since mid-Dec'23. The cost has been falling and the average fuel cost should further drop by 7-8% over the next six months. Capex is pegged at INR90b for FY24/FY25 each given the accelerated expansion plans.
- We largely maintain our estimates and reiterate **BUY** rating on the stock, given its: a) leadership position, b) robust expansion plans without leveraging the balance sheet, and c) structural cost improvement measures. We value UTCEM at 18x FY26E EV/EBITDA to arrive at our TP of INR12,000.

Grey cement realization up 3% QoQ; EBITDA/t stood at INR1,191

- Consolidated revenue/EBITDA/PAT stood at INR167b/INR32.5b/INR17.8b (up 8%/ 39%/ 68% YoY and down 0.4%/4%/7% vs. our estimates). Consolidated sales volume grew 6% YoY to 27.3mt. RMC/white cement revenue grew 13%/29% YoY during the quarter.
- Grey cement realization was flat YoY (up 3% QoQ; ~1% below our estimate). Blended realization was up 2% YoY/QoQ (in line with estimate). Opex/t was down 3% YoY (in line with estimates), led by a 9%/1% decline in variable/freight costs. Other expenses and employee cost per tonne rose 13%/5% YoY. EBITDA/t was up 32% YoY and OPM improved 4.4pp YoY to 19%.
- In 9MFY24, revenue was up 13% YoY, primarily led by an increase in volume. EBITDA grew 21% YoY, while OPM rose 120bp to 17.5%. EBITDA/t grew 7% YoY to INR1,055 led by lower opex (down 2% YoY). Net debt stood at INR55.4b vs. INR27b at Mar'23. Capex in 9MFY24 stood at INR69.2b.

Highlights from the management commentary

- Industry volume growth should be 3-4% in 3QFY24, partly impacted by elections in four major states, fiscal challenges in Bihar/West Bengal, and other regional headwinds. The management estimates industry growth of 8-9% YoY in FY24.
- Cement prices improved in 3QFY24; however, due to a demand slowdown, prices corrected in Dec'23. Prices should improve when demand rebounds.
- Blended fuel consumption cost stood at USD150/t vs. USD162 in 2Q. Avg. fuel cost stood at INR2.05/kcal vs. INR2.18 in 2Q. Fuel cost is expected to decline further by 7-8% in the next six months.

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Valuation and view

- We estimate a consolidated volume CAGR of ~10% over FY23-26 and EBITDA/t of INR1,090/INR1,220/INR1,300 in FY24/FY25/FY26 (vs. INR1,005 in FY23). We estimate its ROE/ROCE to improve to 15%/14% in FY26 vs. 10%/9% in FY23, aided by profitability improvement and low-cost expansion.
- The stock trades at 19x/16x FY25E/FY26E EV/EBITDA (v/s its 10-years' average EV/EBITDA of 16x). We value UTCEM at 18x FY26E EV/EBITDA to arrive at our TP of INR12,000. We reiterate our **BUY** rating on the stock.

Consolidated quarterly performance

	(INR b)											
	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Net sales	151.6	138.9	155.2	186.6	177.4	160.1	167.4	200.3	632.4	705.1	168.1	(0)
YoY change (%)	28.2	15.6	19.5	18.4	17.0	15.3	7.9	7.3	20.2	11.5	8.3	
Total expenditure	120.7	120.3	131.9	153.4	146.9	134.6	134.9	161.0	526.2	577.3	134.3	0
EBITDA	30.9	18.7	23.4	33.2	30.5	25.5	32.5	39.3	106.2	127.8	33.8	(4)
Margin (%)	20.4	13.4	15.0	17.8	17.2	15.9	19.4	19.6	16.8	18.1	20.1	(65)
Depreciation	7.0	7.1	7.2	7.6	7.5	8.0	7.8	7.9	28.9	31.2	7.9	(1)
Interest	2.2	2.0	2.2	1.9	2.1	2.3	2.6	2.8	8.2	9.9	2.3	16
Other income	1.1	1.5	1.3	1.2	1.7	1.7	1.4	2.1	5.0	6.9	1.7	(19)
PBT before EO expense	22.9	11.0	15.2	24.9	22.6	16.9	23.5	30.6	74.1	93.6	25.3	(7)
'Extra-Ord expense	-	-	-	-	-	-	-	-	-	-	-	
PBT after EO Expense	22.9	11.0	15.2	24.9	22.6	16.9	23.5	30.6	74.1	93.6	25.3	(7)
Tax	7.1	3.4	4.6	8.2	5.8	4.1	5.8	7.9	23.4	23.6	6.1	(6)
Prior period tax adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Rate (%)	31.0	31.2	30.5	33.0	25.5	24.3	24.7	25.9	31.6	25.2	24.3	
Reported PAT	15.8	7.6	10.6	16.7	16.9	12.8	17.7	22.7	50.7	70.0	19.2	(8)
Minority interest	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	0.2	0.0	0.1	0.0	
Adj. PAT	15.9	7.6	10.6	16.7	16.9	12.8	17.8	22.5	50.7	70.0	19.1	(7)
YoY change (%)	-6.7	-42.5	-9.7	12.7	6.3	69.6	67.9	35.0	-10.6	38.0	80.9	

Key operating parameters

Income Statement (INR/t)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY23	FY24E	FY24	Var.
											3QE	(%)
Volume (mt)	25.0	23.1	25.9	31.7	30.0	26.7	27.3	33.6	106.2	117.6	27.3	-
Change (YoY %)	16.3	6.7	11.8	14.4	19.6	15.5	5.6	6.1	12.9	10.8	5.6	
Realization (including RMC)	6,056	6,014	6,002	5,893	5,920	5,999	6,127	5,957	5,957	5,997	6,154	(0)
Change (YoY %)	10.2	8.3	6.9	3.5	-2.2	-0.2	2.1	1.1	6.5	0.7	2.5	
RM cost	912	873	868	1,001	983	935	972	956	919	962	921	6
Power and fuel	1,603	1,861	1,884	1,676	1,629	1,643	1,529	1,499	1,742	1,572	1,558	(2)
Staff cost	254	299	268	226	236	304	281	241	258	264	287	(2)
Freight and forwarding	1,314	1,318	1,345	1,325	1,369	1,316	1,325	1,379	1,320	1,350	1,342	(1)
Other expenditure	737	855	733	615	686	846	828	713	722	763	809	2
Total expenditure	4,820	5,206	5,099	4,844	4,903	5,044	4,936	4,789	4,961	4,910	4,917	0
EBITDA	1,236	808	903	1,049	1,018	956	1,191	1,168	996	1,087	1,236	(4)
YoY change (%)	(19.5)	(35.6)	(13.6)	(5.5)	(17.7)	18.3	31.9	11.4	(18.6)	9.1	36.9	

Sources: Company reports, MOFSL estimates



Highlights from the management commentary

Demand and pricing outlook

- Industry demand growth in 3Q should be 3-4%, partly impacted by elections in four major states, fiscal challenges in Bihar/West Bengal, a construction ban in Delhi-NCR, and floods/rains in few states. Also, the first two days of Jan'24 were impacted by truckers' strike. Amongst its regional capacity utilization; 83-84% was the highest in one region, while the lowest regional capacity utilization was 73-74%. The south region is witnessing improvement in capacity utilization and industry capacity utilization has reached above 70% vs. earlier ~50%.
- There are substantial construction activities across the country and demand has started to improve since mid-Dec'23. Capacity utilization should improve to 80-85% in 4Q and industry volume growth is estimated to be ~8-9% in FY24. Demand has improved in all regions, except the North region. UTCEM's volume growth would continue to be higher than industry growth.
- Cement prices saw some improvement in 3Q but corrected to a large extent by Dec'23-end. Prices should increase when demand recovers.

Operational highlights

- The clinker-to-cement conversion (C:C) ratio stood at 1.42x vs. 1.44x in 2Q. The company continues to focus on improving the C:C ratio and plans to launch new products. Its blended cement share stood at 68% vs. 70% in 2QFY24. Trade share stood at ~64% vs. 67% in 2QFY24. Premium cement share increased by 130bp QoQ to 23%.
- Total 44 kilns are operational as of now, out of which 29 kilns have WHRS. WHRS is being set up for five more kilns. The company will have 48 kilns (considering greenfield lines) by FY27E; out of which 41 kilns will be covered by WHRS. All future kilns will have WHRS and the company will not add a new thermal power plant. 16 to 20MW of WHRS capacity will be commissioned by Mar'24. Its green power share stood at ~24% and this will be doubled by FY25E. It aims to increase green power share to 60%/85% by FY26/FY30, largely through other renewable sources (solar and wind).
- In 3Q, fuel consumption cost was USD150/t vs. USD162/t in 2QFY24. Fuel mix was 44% pet coke (vs. 39% in 2QFY24), 46% imported coal, 6% domestic coal and the rest was AFR. Average fuel cost stood at INR2.05/kcal vs. INR2.18/kcal in 2Q.
- Lead distance declined to 397Km vs. 413Km/403km in 3QFY23/2QFY24. Benefits of lead optimization and operating efficiencies absorbed busy season surcharge on rail freight.
- White cement volume rose 18% YoY to 0.48mt, whereas revenue grew 13% YoY to INR5.9b. RMC revenue increased 29% YoY to INR12.9b. EBITDA margin in RMC was ~4%.
- Other expenses in 3Q were higher due to the advancement of maintenance work at few plants amid a demand slowdown in Oct-Nov'23.

Expansion and debt position

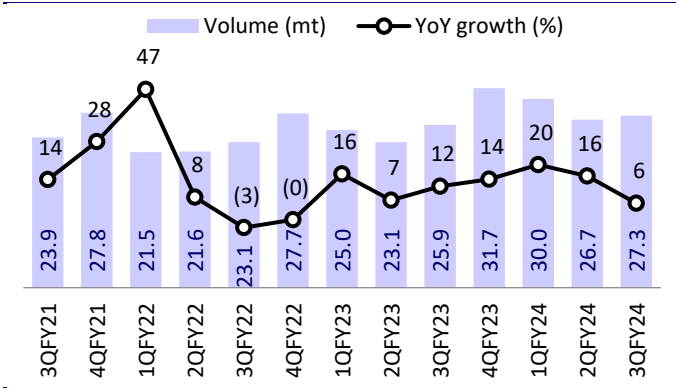
- Some expansion projects are running ahead of the schedule. It has placed orders for the main plant and machinery for Phase III expansion. Civil work has also started at few sites.
- Capex is pegged at INR90b for FY24/FY25 each and INR70b for FY26. Capex stood at INR69b in 9MFY24. Working capital has increased due to the purchase of coal/petcoke. Debt increased in 3QFY24 but should reduce by Mar'24 with improvement in cash flows and reduction in working capital. The management maintains its target of becoming net cash positive by Mar'25 (without considering INR20b debt due to acquisition of Kesoram). The company has organic opportunities available post phase III expansion and capex/t will be below USD90-100.
- Consolidated net debt increased to INR55b vs. INR49b as of Sep'23.
- In Phase-III, clinker capacities of 10-12mtpa will be added in East, North and South (in Phase II clinker addition is 14mtpa). All grinding capacity additions are clinker backed. The company will have state incentives for expansion in Rajasthan, Bihar, Uttar Pradesh, and Punjab. IRR of 15% for expansion plans does not consider incentives.

Others

- Kesoram cement asset acquisition: The CCI application will be filed by Jan'24-end, after which the NCLT process will start. The effective date of the merger would be 1st Apr'24. The company looks for profitable growth opportunities, which should be value accretive. This asset has good limestone quality and markets are also attractive.

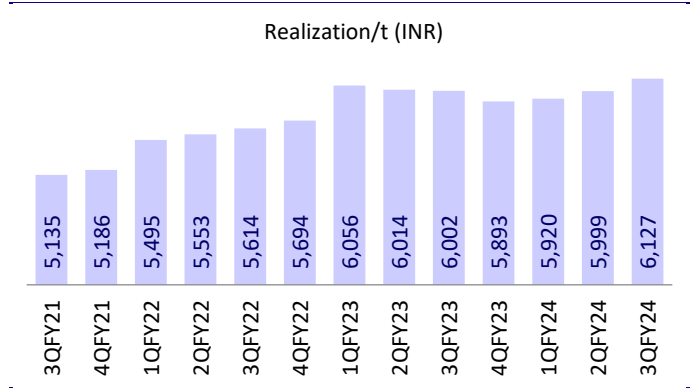
Story in charts

Exhibit 1: Sales volume grew 6% YoY



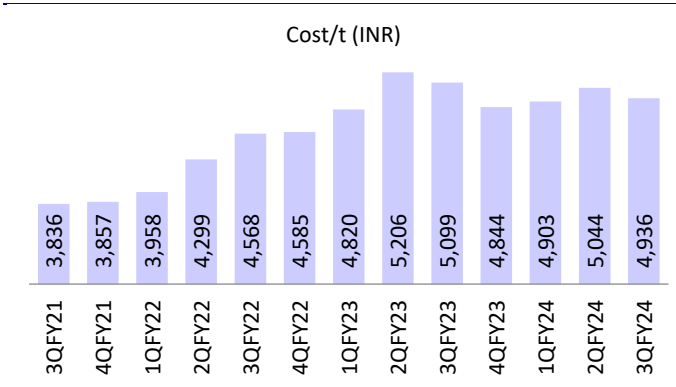
Sources: Company, MOFSL

Exhibit 2: Blended realization was up 2% YoY/QoQ (each)



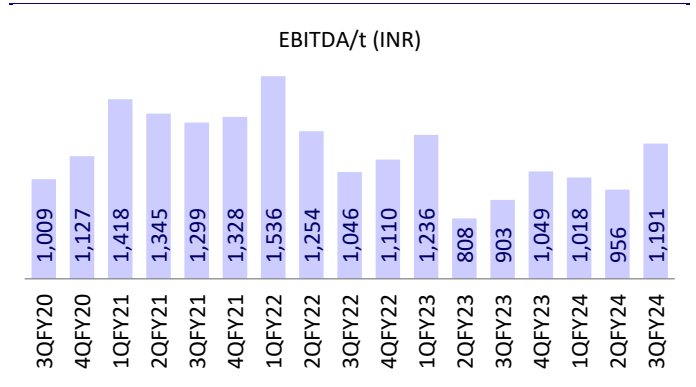
Sources: Company, MOFSL

Exhibit 3: OPEX/t declined 3% YoY



Sources: Company, MOFSL

Exhibit 4: EBITDA/t grew 32% YoY



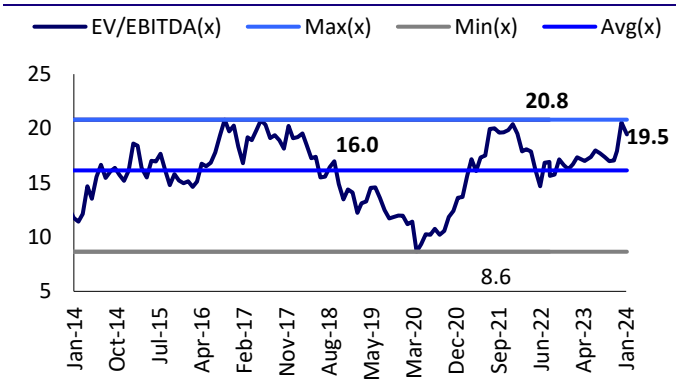
Sources: Company, MOFSL

Exhibit 5: Trends in key operating parameters

INR/t	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)
Realization	6,127	6,002	2%	5,999	2%
RM cost	972	868	12%	935	4%
Power and fuel	1,529	1,884	-19%	1,643	-7%
Staff cost	281	268	5%	304	-8%
Freight and forwarding	1,325	1,345	-1%	1,316	1%
Other expenditure	828	733	13%	846	-2%
Total expenditure	4,936	5,099	-3%	5,044	-2%
EBITDA	1,191	903	32%	956	25%

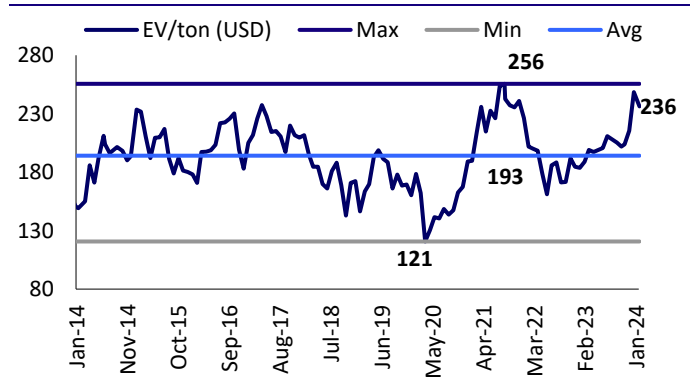
Sources: Company, MOFSL

Exhibit 6: One-year forward EV/EBITDA (x) trend



Sources: Company, MOFSL

Exhibit 7: One-year forward EV/t trend



Sources: Company, MOFSL

Financials and Valuation

Income Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Net Sales	4,24,299	4,47,258	5,25,988	6,32,400	7,05,148	7,61,854	8,44,388	
change%	2.0	5.4	17.6	20.2	11.5	8.0	10.8	
Gross Profit	2,73,950	2,93,088	3,24,966	3,50,337	4,07,235	4,56,764	5,16,025	
Gross margin%	64.6	65.5	61.8	55.4	57.8	60.0	61.1	
Total Expense	3,30,520	3,31,579	4,10,845	5,26,201	5,77,331	6,07,198	6,63,539	
EBITDA	93,779	1,15,679	1,15,144	1,06,199	1,27,816	1,54,656	1,80,849	
EBITDA Margin%	22.1	25.9	21.9	16.8	18.1	20.3	21.4	
Depreciation	27,227	27,002	27,148	28,880	31,225	36,463	41,009	
EBIT	66,552	88,677	87,996	77,319	96,591	1,18,193	1,39,840	
Interest and finance charge	19,917	14,857	9,447	8,227	9,870	7,963	6,999	
other income	6,511	7,342	5,078	5,031	6,907	7,430	8,185	
PBT Before EO	53,146	81,162	83,627	74,122	93,628	1,17,660	1,41,026	
PBT after EO	72,934	78,555	83,627	74,122	93,628	1,17,660	1,41,026	
Total Tax	15,413	25,387	11,901	23,429	23,603	29,442	35,096	
Tax Rate%	21.1	32.3	14.2	31.6	25.2	25.0	24.9	
Minority Interest	(32)	(34)	(118)	54	140	140	140	
Reported PAT	57,553	53,202	71,844	50,640	69,885	88,078	1,05,790	
Adjusted PAT	41,946	54,967	56,665	50,640	69,885	88,078	1,05,790	
change%	50.0	47.8	28.7	(29.5)	38.0	26.0	20.1	
margin%	9.9	12.3	10.8	8.0	9.9	11.6	12.5	

E: Company, MOFSL estimates

Balance Sheet								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Equity Share Capital	2,886	2,887	2,887	2,887	2,887	2,887	2,887	
Total Reserves	3,88,269	4,38,860	5,01,466	5,40,359	5,97,252	6,72,340	7,62,252	
Networth	3,91,155	4,41,747	5,04,353	5,43,245	6,00,139	6,75,227	7,65,139	
Other Liability + Def Tax Liabilities	49,060	60,335	60,169	62,536	71,683	83,051	96,564	
Total Loans	2,28,979	2,04,878	1,02,028	99,008	1,04,008	94,008	79,008	
Minority Interest	75	57	(31)	556	696	836	976	
Capital Employed	6,69,269	7,07,017	6,66,519	7,05,345	7,76,527	8,53,122	9,41,688	
Gross Block	6,02,798	6,14,319	6,41,922	7,10,926	8,07,141	8,98,869	9,80,611	
Less: Accum Dep	95,399	1,22,401	1,49,549	1,78,428	2,09,654	2,46,117	2,87,126	
Fixed Asset (Net Block)	5,07,400	4,91,918	4,92,374	5,32,497	5,97,487	6,52,752	6,93,485	
CWIP	9,095	16,867	47,847	40,404	34,277	32,277	22,277	
Goodwill	62,525	62,199	62,502	63,293	63,293	63,293	63,293	
Total Investment	59,287	1,21,781	63,358	72,970	64,470	64,470	64,470	
Curr. Assets Loans & Advances	1,44,723	1,46,484	1,68,442	1,93,144	2,18,920	2,28,235	2,42,058	
Inventory	41,483	40,180	55,956	66,118	77,198	83,306	92,261	
Account Receivables	22,383	25,717	30,716	38,670	44,589	48,019	53,110	
Cash and Bank	5,392	20,076	3,592	11,496	7,716	27,714	80,597	
Loans and Advances	80,857	80,587	81,770	88,356	97,133	96,910	96,687	
Current Liab and Provision	1,19,152	1,52,307	1,71,595	2,08,459	2,09,636	2,15,620	2,24,493	
Account Payables	35,014	46,993	58,628	72,093	72,264	78,076	86,534	
Other current liabilities	76,240	96,441	1,04,309	1,28,080	1,29,079	1,29,244	1,29,652	
Provision	7,898	8,873	8,658	8,286	8,293	8,300	8,307	
Net Current Assets	25,571	(5,823)	(3,153)	(15,315)	9,284	12,615	17,566	
Application of Funds	6,69,269	7,07,017	6,66,519	7,05,345	7,76,527	8,53,122	9,41,688	

E: Company, MOFSL estimates

Financials and Valuation

Ratios							
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	145.3	190.4	196.3	175.4	242.1	305.1	366.4
Cash EPS	239.7	284.0	290.3	275.4	350.2	431.4	508.5
Book Value	1355.2	1530.4	1747.2	1881.8	2078.8	2338.9	2650.4
DPS	11.5	37.0	38.0	38.0	45.0	45.0	55.0
Payout (incl. div. text)	9.1	19.4	19.4	21.7	18.6	14.7	15.0
Valuation (X)							
P/E	50.6	54.8	40.6	57.5	41.7	33.1	27.5
Cash P/E	42.1	35.5	34.8	36.6	28.8	23.4	19.8
Price/ Book Value	7.4	6.6	5.8	5.4	4.9	4.3	3.8
EV/Sales	7.3	6.7	5.6	4.6	4.2	3.8	3.4
EV/EBITDA	32.8	25.7	25.6	27.6	23.0	18.9	15.7
Div Yield (%)	0.1	0.4	0.4	0.4	0.4	0.4	0.5
Profitability Ratios (%)							
ROE%	11.5	13.2	12.0	9.7	12.2	13.8	14.7
ROCE%	9.5	10.3	12.7	9.0	11.5	12.8	13.8
Turnover Ratios (%)							
Asset Turnover (x)	0.6	0.6	0.8	0.9	1.0	0.9	0.9
Debtors (No. of days)	19	21	21	22	23	23	23
Inventory (No. of days)	36	33	39	38	40	40	40
Creditors (No. of days)	30	38	41	42	37	37	37
Leverage Ratios (%)							
Net Debt/ Equity (x)	0.5	0.2	0.1	0.1	0.1	0.0	(0.1)

E: Company, MOFSL estimates

Cash Flow Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Adj EBITDA	93,779	1,15,679	1,15,144	1,06,199	1,27,816	1,54,656	1,80,849	
Non Cash Op. Exp (Inc)	5,583	4,756	5,078	5,031	6,907	7,430	8,185	
(Inc)/Dec in Wkg Cap	4,503	23,264	(4,730)	(3,370)	(24,599)	(3,332)	(4,950)	
Tax Paid	(8,914)	(12,910)	(15,549)	(11,243)	(14,455)	(18,074)	(21,583)	
Other Operating Activites	(5,929)	(5,785)	(7,110)	(5,932)	(6,907)	(7,430)	(8,185)	
CF. From Op Activity	89,020	1,25,004	92,832	90,685	88,763	1,33,251	1,54,316	
(Inc)/Dec in FA & CWIP	(17,037)	(18,389)	(56,062)	(61,056)	(90,089)	(89,729)	(71,742)	
Free Cashflows	71,983	1,06,615	36,771	29,629	(1,326)	43,522	82,574	
(Pur)/ Sale of inv	(26,266)	(70,949)	76,888	(13,642)	8,500	-	-	
others	1,210	774	1,744	2,827	6,907	7,430	8,185	
CF. From Inv Activity	(42,094)	(88,565)	22,570	(71,871)	(74,682)	(82,299)	(63,557)	
(Inc)/ Dec in net worth	27	70	44	47	-	-	-	
(Inc)/dec in Debt	(26,663)	(25,149)	(1,12,232)	(3,632)	5,000	(10,000)	(15,000)	
Interest Paid	(19,445)	(14,805)	(2,227)	(1,894)	(9,870)	(7,963)	(6,999)	
Dividend Paid (Incl. tax)	(3,800)	(3,748)	(10,650)	(10,913)	(12,991)	(12,991)	(15,878)	
CF. From Fin Activity	(49,911)	(43,565)	(1,24,979)	(16,310)	(17,861)	(30,954)	(37,877)	
(Inc)/dec in cash	(2,985)	(7,125)	(9,577)	2,504	(3,780)	19,998	52,883	
Add: Opening Balance	8,377	27,201	13,169	8,992	11,496	7,716	27,714	
Closing Balance	5,392	20,076	3,592	11,496	7,716	27,714	80,597	

E: Company, MOFSL estimates

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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