

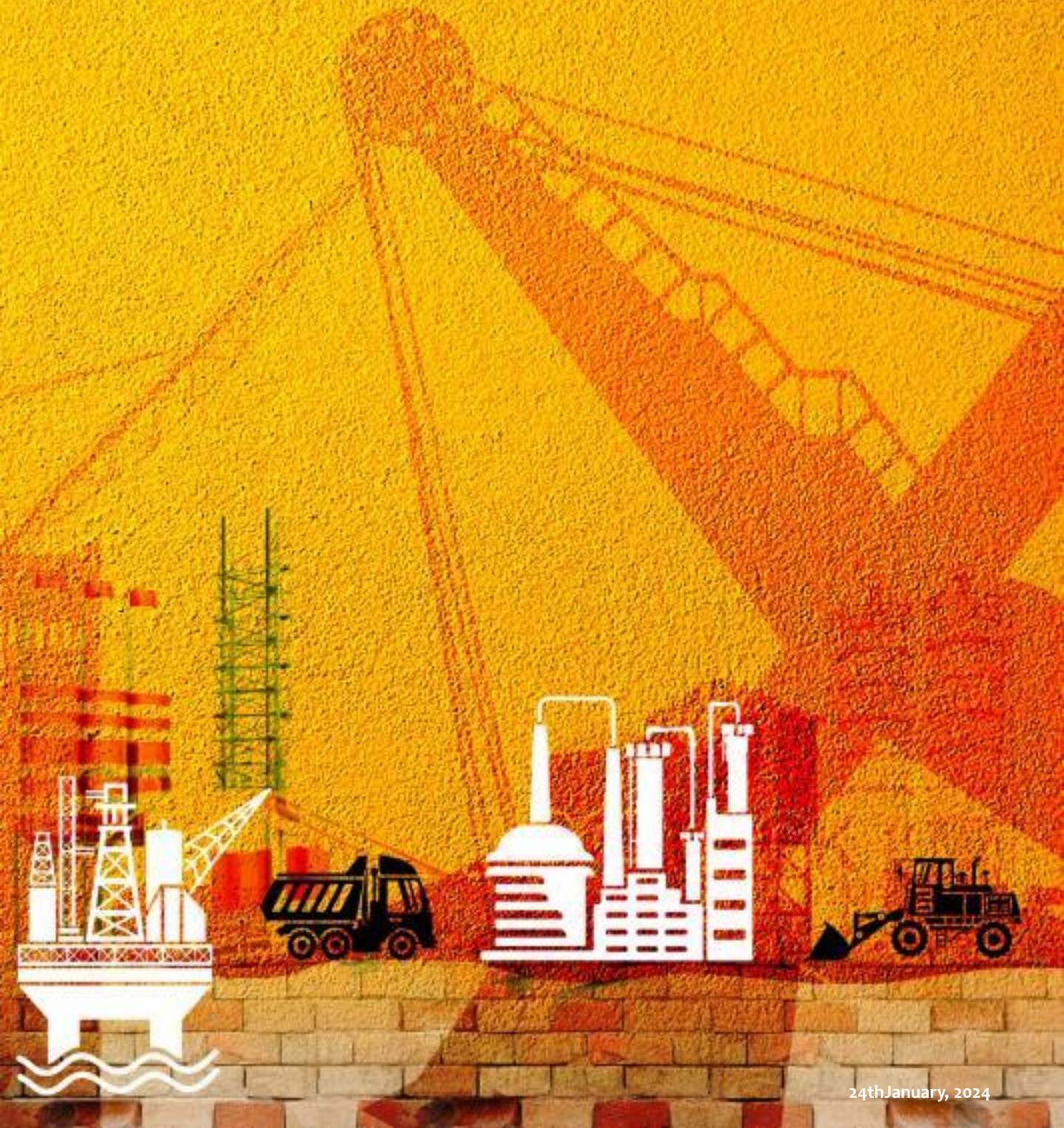


KRChoksey

RESEARCH
by DEVEN CHOKSEY

Q3FY24

UltraTech Cement Ltd



24th January, 2024

UltraTech Cement Ltd.

Strong revenue growth, highest-ever quarterly profit

CMP
INR 9,833

Target
INR 10,286

Potential Upside
4.6%

Market Cap (INR Mn)
INR 28,88,320

Recommendation
HOLD

Sector
Cement

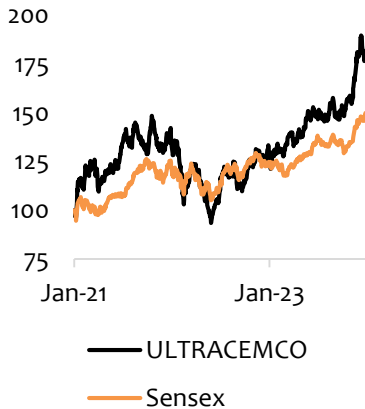
Result Highlights

- UltraTech Cement reported a revenue of INR 1,67,400 Mn for Q3FY24, registering a growth of 7.9% YoY and 4.5% QoQ due to higher demand and price hikes. The revenue missed our estimates by 1.4%. Revenue for 9MFY24 grew by 13.3% YoY to INR 5,04,892 Mn.
- EBITDA of INR 32,546 Mn (39.3% YoY, 27.6% QoQ) was 5.3% above our estimates due to lower-than-expected power and fuel costs, raw material costs and better operational efficiencies. EBITDA margin of 19.4% expanded by 439 bps YoY and 351 bps QoQ. EBITDA for 9MFY24 grew by 21.3% YoY while EBITDA margin expanded by 117 bps YoY, respectively.
- PAT for the quarter increased by 67.9% YoY/ 38.7% QoQ to INR 17,770 Mn registering its highest ever quarterly profit and outperforming our estimate by a 6.6% due to higher EBITDA. For 9MFY24, PAT expanded by 39.7% YoY; PAT margin expanded by 178 bps YoY.

MARKET DATA

Shares outs (Mn)	289
Mkt Cap (INR Mn)	28,88,320
52 Wk H/L (INR)	10,526/ 6,604
Volume Avg (3m K)	342
Face Value (INR)	10
Bloomberg Code	UTCEM IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	70,371
NIFTY	21,239

KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	4,47,258	5,25,988	6,32,400	7,10,188	7,78,980	8,96,701
EBITDA	1,15,679	1,15,144	1,06,199	1,32,303	1,56,336	1,86,633
PAT	53,199	71,844	50,640	73,165	89,262	1,09,850
Adj PAT	55,809	71,844	50,640	73,165	89,262	1,09,850
EPS (INR)	193.3	248.9	175.4	253.4	309.2	380.5
EBITDA Margin (%)	25.9%	21.9%	16.8%	18.6%	20.1%	20.8%
NPM (%)	11.9%	13.7%	8.0%	10.3%	11.5%	12.3%

Source: Company, Deven Choksey Research

Revenue growth driven by increase in volume and realization

During the quarter, UltraTech Cement saw a 6.0%/2.0% YoY/QoQ increase in consolidated sales volume to 27.32 Mt along with an increase of 2.1%/2.8% YoY/QoQ in realization to INR 5,499. Consequently, the revenue grew by 4.5% QoQ and 7.9% YoY to INR 1,67,400 Mn. The growth rate tapered-off from an average of ~12% in the previous six quarters due to factors such as heavy rains in South India, state elections, festivals and shortage of sand.

Growth in EBITDA margin, Net profit reaches new high

EBITDA/ton for Indian operations increased to INR 1,208 in Q3FY24 from INR 900 in Q3FY23, a growth of 34.0% YoY and 27.0% QoQ. This growth in EBITDA was aided by lower fuel and raw material costs albeit there was a slight increase in the costs of gypsum and slag. The lead distance also reduced from 403 kms in Q2FY24 to 397 kms in Q3FY24. This outperformance of EBITDA further aided the bottom-line where the Company delivered its highest ever quarterly profit, growing at 67.9%/38.7% YoY/QoQ to INR 17,770 Mn.

Capex plans progressing on-schedule

For FY24E, the Company is expecting a capex outflow on INR 90,000 Mn. The expansion efforts are on pace where the Company commissioned a bulk terminal in Bangalore and plans to commission a grinding unit in Roorkee by the end of Q4FY24E. Total cement capacity is expected to reach 157.4 Mtpa by FY25E, expanding by 24.4 Mtpa from the current 133 Mtpa. In the phase 3 expansion, an additional 21.9 Mtpa is expected to be commissioned by FY27E, of which 9.3 Mtpa will be brownfield expansion, while 12.6 Mtpa will be through greenfield expansion. UltraTech also forayed into Jharkhand with the acquisition of 0.54 Mtpa grinding capacity from Burnpur Cement Limited and is also in the process of acquiring cement assets of Kesoram Industries Ltd.

Focus on green energy and sustainability

The Company is pushing towards satisfying 85% of its power demand through green power by 2030E. Currently, with 455 MW of renewable energy and 264 MW of WHRS (Waste heat recovery system), UltraTech uses green power mix of 24.1%, an improvement of 21% YoY. This includes WHRS power mix of 16.1% and RE Power mix of 7.9%.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	60.0%	60.0%	60.0%
FIIIs	18.2%	16.7%	15.8%
DIIIs	13.7%	15.0%	16.0%
Others	8.2%	8.3%	8.3%
Total	100.0	100.0	100.0

12.4%

Revenue CAGR between FY23
and FY26E

29.5%

Adj. PAT CAGR between FY23
and FY26E

UltraTech Cement Ltd.

Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Sales	1,67,400	1,60,121	1,55,209	4.5%	7.9%
Total Expenditure	1,34,854	1,34,612	1,31,851	0.2%	2.3%
Cost of Raw Materials	25,057	23,485	22,627	6.7%	10.7%
Purchase of Stock	3,776	4,250	3,811	-11.2%	-0.9%
Changes in Inventories	-2,278	-2,793	-4,002	-18.4%	-43.1%
Employee Cost	7,689	8,123	6,942	-5.3%	10.8%
Other Expenses	22,622	22,577	18,947	0.2%	19.4%
Power & Fuel	41,780	43,853	48,731	-4.7%	-14.3%
Freight and Forwarding Expense	36,209	35,118	34,794	3.1%	4.1%
EBITDA	32,546	25,509	23,359	27.6%	39.3%
EBITDA Margin (%)	19.4%	15.9%	15.0%	351 bps	439 bps
Depreciation	7,835	7,978	7,232	-1.8%	8.3%
EBIT	24,711	17,531	16,126	41.0%	53.2%
Interest Expense	2,622	2,339	2,153	12.1%	21.8%
Other Income	1,405	1,671	1,266	-15.9%	11.0%
Exceptional Items	0	0	0	NA	NA
Share of Associates	57.60	34.90	32.80	65.0%	6.4%
PBT	23,494	16,863	15,240	39.3%	54.2%
Tax	5,804	4,094	4,647	41.8%	-24.9%
Minority Interest	-22.0	-10.70	43.80	105.6%	-150.2%
PAT	17,770	12,815	10,582	38.7%	67.9%
PAT Margin (%)	10.6%	8.0%	6.8%	261 bps	380 bps
EPS (INR)	61.6	44.4	36.7	38.7%	67.9%

Key highlights of post-result conference call

- The management believes the cement industry is slated for a growth of 3%-4% in Q4FY24E.
- The Company has started observing an improvement in demand since mid-December and most of the price gains have been lost by the end of Q3FY24.
- The Capex outlay for FY24E is expected to exceed the initial plans of the Company and is expected to reach around INR 90,000 Mn, with a similar number expected for FY25E. The Company has also taken opportunistic bets on the purchase of materials such as coal and pet coke which has led to a small extension in working capital. Due to the above factors, a marginal increase in debt can be observed for December 2023.
- Further, due to the expectations of a strong Q4FY24E, the cashflows and debt position is expected to improve. UltraTech Cement is working towards a zero net debt position by March 2025E.
- The management is observing an improvement in costs. As per the latest data, imported coal and pet coke are stabilizing, while the ocean freight rates are heating up due to war issues. The Company saw fuel costs of 2.048 per kcal in Q3FY24 against 2.184 per kcal last quarter. Blended cost of fuel consumed net of moisture was USD 150. The usage of domestic fuel is around 6% of the total fuel consumption, and maximum energy is from imported coal and pet coke. Further reduction in fuel costs in the long run is expected.
- UltraTech Cement is currently at 24.1% of its non-fossil fuel-based power with 455 megawatts of renewable energy and 264 megawatts of WHRS (Waste heat recovery system). The Company is working to double this number by the end of FY25E.
- Currently there are 44 kilns in operation, out of which 29 are covered by WHRS. Work is under progress on 5 more kilns. After the end of the expansion which is at the end of completion of Phase 3 by FY27E, the Company will have in all 48 kilns, and 41 kilns will be covered with WHRS. The Management is committed to WHRS and geothermal power for all future expansion.
- Regarding the acquisition of cement assets of Kesoram Industries, the effective date of merger is April 1st, 2024, after which the numbers will be consolidated with retrospective effect. UltraTech will issue one equity share for every 52 shares of Kesoram, offering INR 173.2 per share, a 34% premium to Kesoram's closing price before announcement of the deal.

Valuation and View

In Q3FY24, the Company reported an expansion in revenue with an increase in volume and realizations. Although the revenue growth was hampered by seasonal and exceptional events, the margin expansion was promising due to cost-efficiencies. Planned expansion in phases 2 and 3 is expected to help the Company reach a capacity of 179.3 Mtpa by FY27E. With this high capacity, the lead times are expected to be reduced further, along with a reduction in costs, helping boost margins. This coupled with a spending in housing and infrastructure is anticipated to drive further demand momentum.

We introduce FY26E numbers, with an EBITDA of INR 18,663 Mn. At current valuations, the Company trades at an FY26E EV/EBITDA multiple of 15.6x. We believe that the future growth prospects are currently priced in given the current valuation and accordingly we apply a 16.3x multiple to our FY26E EBITDA, resulting in a target price of INR 10,286 per share (previously INR 9,316). Given the modest upside of 4.6% from current levels, we downgrade our rating on UltraTech Cement to "HOLD" from "ACCUMULATE".

UltraTech Cement Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	4,47,258	5,25,988	6,32,400	7,10,188	7,78,980	8,96,701
COGS	70,858	79,650	97,150	1,00,816	1,01,234	1,17,604
Gross profit	3,76,400	4,46,338	5,35,250	6,09,372	6,77,746	7,79,098
Employee cost	23,530	25,347	27,390	29,338	31,168	42,145
Power & Fuel	83,312	1,21,373	1,84,913	2,06,238	2,25,904	2,60,043
Freight and Forwarding Expense	1,00,433	1,17,123	1,40,092	1,56,258	1,71,083	1,82,927
Other expenses	53,446	67,352	76,657	85,234	93,257	1,07,350
EBITDA	1,15,679	1,15,144	1,06,199	1,32,303	1,56,336	1,86,633
EBITDA Margin	25.9%	21.9%	16.8%	18.6%	20.1%	20.8%
Depreciation & amortization	27,002	27,148	28,880	31,958	35,054	39,455
EBIT	88,677	87,996	77,319	1,00,344	1,21,281	1,47,178
Interest expense	14,857	9,447	8,227	8,802	8,424	7,124
PBT	78,574	83,644	74,163	97,680	1,19,142	1,46,593
Tax	25,387	11,901	23,429	24,420	29,786	36,648
Minority interest	-13	-101	94	94	94	94
PAT	53,199	71,844	50,640	73,165	89,262	1,09,850
Adj. PAT	55,809	71,844	50,640	73,165	89,262	1,09,850
EPS (INR)	184.3	248.9	175.4	253.4	309.2	380.5
Adj. EPS	193.3	248.9	175.4	253.4	309.2	380.5

Exhibit 2: Cash Flow Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	1,25,002	92,832	90,685	1,03,614	1,17,435	1,20,213
Net Cash Flow from/(used in) Investing Activities	-88,565	22,570	-71,871	-84,801	-90,806	-28,939
Net Cash Flow from Financing Activities	-43,565	-1,24,979	-16,310	11,570	-42,901	-42,918
Net Inc/Dec in cash equivalents	-7,128	-9,577	2,504	30,384	-16,272	48,356
Opening Balance	1,465	1,772	1,205	3,704	34,093	17,821
Closing Balance Cash and Cash Equivalents	1,772	1,205	3,704	34,087	17,821	66,177

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	25.9%	21.9%	16.8%	18.6%	20.1%	20.8%
Tax rate (%)	32.3%	14.2%	31.6%	25.0%	25.0%	25.0%
Net Profit Margin (%)	11.9%	13.7%	8.0%	10.3%	11.5%	12.3%
RoE (%)	12.0%	14.2%	9.3%	12.0%	12.8%	13.8%
RoCE (%)	14.3%	14.5%	12.0%	13.6%	15.3%	17.0%
EPS (INR)	184.3	248.9	175.4	253.4	309.2	380.5

Source: Company, KRChoksey Research

UltraTech Cement Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Non-current assets						
Property, plant and equipment	4,22,911	4,25,922	4,64,803	5,23,748	5,79,056	5,70,089
Capital work-in-progress	16,810	47,773	40,349	41,560	42,806	44,091
Goodwill	62,199	62,502	63,293	62,660	62,033	61,413
Intangible assets	55,721	54,740	55,846	56,963	58,102	59,264
Investment in Associate	288	302	8,760	8,935	9,114	9,296
Financial assets						
Investments	12,554	13,423	5,843	6,428	7,071	7,778
Loans	1,671	96	92	101	112	123
Other financial assets	5,546	11,100	18,811	20,692	22,761	25,038
Non-current Tax Assets (Net)	3,143	4,795	4,019	4,220	4,431	4,653
Other non-current assets	27,075	30,783	32,655	34,089	37,391	43,042
Total non-current assets	6,21,332	6,63,383	7,06,441	7,71,731	8,35,587	8,37,885
Current assets						
Inventories	40,180	55,956	66,118	68,614	68,898	80,039
Financial assets						
Investments	1,08,939	49,633	58,366	59,533	64,296	69,440
Trade receivables	25,717	30,716	38,670	43,427	47,633	73,701
Cash and cash equivalents	1,772	1,205	3,704	34,093	17,821	66,177
Other Balances with Banks	18,303	2,386	7,792	7,948	8,107	8,269
Loans	1,147	69	77	84	93	102
Other financial assets	18,997	18,720	14,338	14,768	15,211	15,668
Other current assets	15,482	16,113	18,183	20,419	22,397	25,782
Total current assets	2,40,503	1,74,895	2,07,429	2,49,086	2,44,676	3,39,419
TOTAL ASSETS	8,61,835	8,38,278	9,13,870	10,20,817	10,80,263	11,77,305
EQUITY AND LIABILITIES						
Equity						
Equity share capital	2,887	2,887	2,887	2,887	2,887	2,887
Other equity	4,38,860	5,01,466	5,40,359	6,08,733	6,92,150	7,94,807
Equity attributable to the equity shareholders	4,41,747	5,04,353	5,43,245	6,11,620	6,95,037	7,97,694
Non-controlling interests	57	-31	556	610	665	719
Total equity	4,41,804	5,04,322	5,43,802	6,12,230	6,95,701	7,98,412
Non-current liabilities						
Financial liabilities						
Borrowings	1,35,485	53,030	53,564	85,485	55,485	25,485
Other financial liabilities	14,512	12,817	13,305	12,640	12,008	11,407
Provisions	3,655	6,178	6,242	6,242	6,242	6,242
Deferred Tax Liabilities (Net)	60,407	60,332	62,601	70,301	77,111	88,764
Other Non-Current Liabilities	55	46	38	38	38	38
Total non-current liabilities	2,14,114	1,32,404	1,35,750	1,74,705	1,50,883	1,31,936
Current liabilities						
Borrowings	42,351	48,998	45,444	39,351	41,351	43,351
Trade payables	46,993	58,628	72,093	74,814	75,124	87,272
Other financial liabilities	55,790	37,263	49,299	49,792	50,290	50,792
Other current liabilities	46,008	48,908	51,774	52,292	47,585	43,303
Provisions	5,219	2,480	2,044	2,296	2,518	2,899
Current Tax liabilities (Net)	7,117	5,273	13,664	15,345	16,831	19,375
Total current liabilities	2,05,917	2,01,552	2,34,319	2,33,890	2,33,701	2,46,993
Total liabilities	4,20,031	3,33,956	3,70,069	4,08,596	3,84,584	3,78,929
TOTAL EQUITY AND LIABILITIES	8,61,835	8,38,278	9,13,871	10,20,826	10,80,285	11,77,341

Source: Company, KRChoksey Research

UltraTech Cement Ltd.

UltraTech Cement Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
24-Jan-24	9,833	10,286	HOLD
26-Oct-23	8,205	9,316	ACCUMULATE
22-Jul-23	8,119	9,439	BUY
29-Apr-23	7,540	9,105	BUY
20-Oct-22	6,302	7,574	BUY
25-Jul-22	6,383	7,574	BUY
02-May-22	6,679	8,535	BUY
19-Jan-22	7,556	8,535	ACCUMULATE
ANALYST CERTIFICATION:	7,170	8,128	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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