Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Ultratech Cement (UTCEM IN)

Rating: BUY | CMP: Rs4,895 | TP: Rs5,400

December 4, 2020

Event Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	**BUY**		**BUY**	
Target Price	**5,400**		**5,400**	
Sales (Rs. m)	4,60,328	5,00,862	4,60,328	5,00,862
% Chng.	-	-		
EBITDA (Rs. m)	1,05,876	1,18,598	1,05,876	1,18,598
% Chng.	-	-		
EPS (Rs.)	192.6	234.5	194.7	238.8
% Chng.	*(1.1)*	*(1.8)*		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	415	425	460	501
EBITDA (Rs. bn)	88	101	106	119
Margin (%)	*21.1*	*23.6*	*23.0*	*23.7*
PAT (Rs. bn)	37	49	56	68
EPS (Rs.)	128.5	169.6	192.6	234.5
Gr. (%)	*47.1*	*32.0*	*13.6*	*21.8*
DPS (Rs.)	13.0	11.5	11.5	11.5
Yield (%)	*0.3*	*0.2*	*0.2*	*0.2*
RoE (%)	*10.2*	*11.8*	*12.0*	*13.0*
RoCE (%)	*10.0*	*11.7*	*12.1*	*13.6*
EV/Sales (x)	3.8	3.6	3.2	2.8
EV/EBITDA (x)	18.2	15.2	13.9	11.7
PE (x)	38.1	28.9	25.4	20.9
P/BV (x)	3.6	3.2	2.9	2.6

Key Data	ULTC.BO | UTCEM IN
52-W High / Low	Rs.4,998 / Rs.2,910
Sensex / Nifty	44,633 / 13,134
Market Cap	Rs.1,412bn/ $ 19,105m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.5719.32m

Shareholding Pattern (%)

Promoter's	59.91
Foreign	15.30
Domestic Institution	15.38
Public & Others	9.41
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.6	26.9	16.2
Relative	(3.0)	(3.0)	5.9

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Capturing attractive growth opportunities

Quick Pointers:

- Cement capacity would increase 17.5% to 131mnt by FY23e
- Guided to turn net cash positive in FY23e (Q2FY21 net debt at Rs121bn)
- Would be funded through internal accruals and has an IRR of 15%
- Will continue to expand capacity to maintain 8% growth in volumes

Ultratech (UTCEM) approved new capacity expansion of 12.8mtpa. It would incur total capital outlay of Rs54.8bn with attractive capex cost of USD58/t, significantly below standard cost of USD75-80/t. This expansion is over and above the ongoing expansion of 6.7mnt.

Nearly 52% of its new capacity would come in East region, which is already facing sharp surge in supplies. Intense competition pushed margins to new lows of Rs850-900/t in the region. However, lower margins were compensated by strong volume growth. We believe that strong fundamentals of the region and near bottomed out margins augur well for the expansion with aided advantage of low capex cost and superior logistics. Rest of the expansion is dedicated in attractive markets of North and Central India. Ultratech (UTCEM) enjoys one of the best earnings quality in the cement sector, led by high trade share and efficient operations. We reiterate BUY on UTCEM with TP of Rs5,400, EV/EBITDA of 15x FY22e.

- **RoCE to improve by 350bps by FY23:** Company expects margins to improve from current levels of Rs1400/t. Aided with low capex cost of new expansion and depreciated assets, management expects RoCE to expand from 11.5 % in FY20 to 15% by FY23.

- **Would become Net Cash positive by FY23e:** In spite of additional growth capex, management is confident to reduce Net Debt/EBITDA to 1.0x (1.2x in Q2FY21) by Q4FY21e and become net debt free by FY23e on the back of strong operating cash flows and stabilisation of acquired asset's operations.

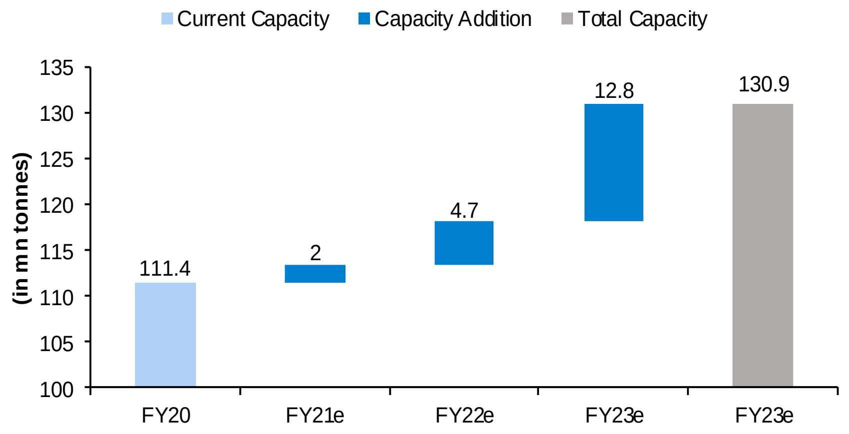
- **East & Central region to lead major expansion plan:** Led by buoyant demand and >100% utilisation during peak season in East & Central regions, company is adding 78% of the total expansion in these two markets. East/Central region capacity will increase by 10.1mtpa/5.1mtpa, taking total capacity to 26.2mnt/28.4mnt. Capacity in West/North region would increase by 1.8mtpa/2.5mtpa to 29.5mnt/26.3mnt. South region's capacity would remain unchanged at 20.5mtpa.

- **Larger focus on reducing energy cost:** Company is also setting up 57MW of Waste Heat Recovery (WHR) power plants as part of the new expansion to meet 40% of power requirement through renewable/green energy. Company is already adding 245MW/350MW of WHR/Solar power at different locations under ongoing projects. The overall share of green energy would increase to 34% against earlier target of 30% due to Increased share in new expansions.

- **Expansion in other segments would follow next leg of growth: 1)** Will shortly announce expansion in White Cement & Putty **2)** Would double Ultratech Building Solutions (UBS) stores in next 3-5 years from 2,300 currently. UBS share in EBITDA is marginal currently **3)** Will add 20 RMC plants by Q4FY21e totaling to 122 plants.

- **Key con-call highlights: 1)** Would add total clinker capacity of 11.4mnt including 2.3mnt at Super Dalla (UP), part of ongoing expansion **2)** 2.0mtpa Bara grinding unit (GU) would commission in Q4FY21e **3)** Would commission 1.9mnt greenfield plant at Pali (Rajasthan) by Q4FY22e **4)** 2.3mtpa clinker plant at Super Dalla (UP) would commission by Q4FY22e **5)** 72% of the expansion is through brownfield route **6)** Pick-up in demand from Infrastructure projects and Individual Home Builder (IHB) segment in tier-II/III region.

Exhibit 1: Capacity to increase by 17.5% to 130.9mtpa in FY20-FY23e



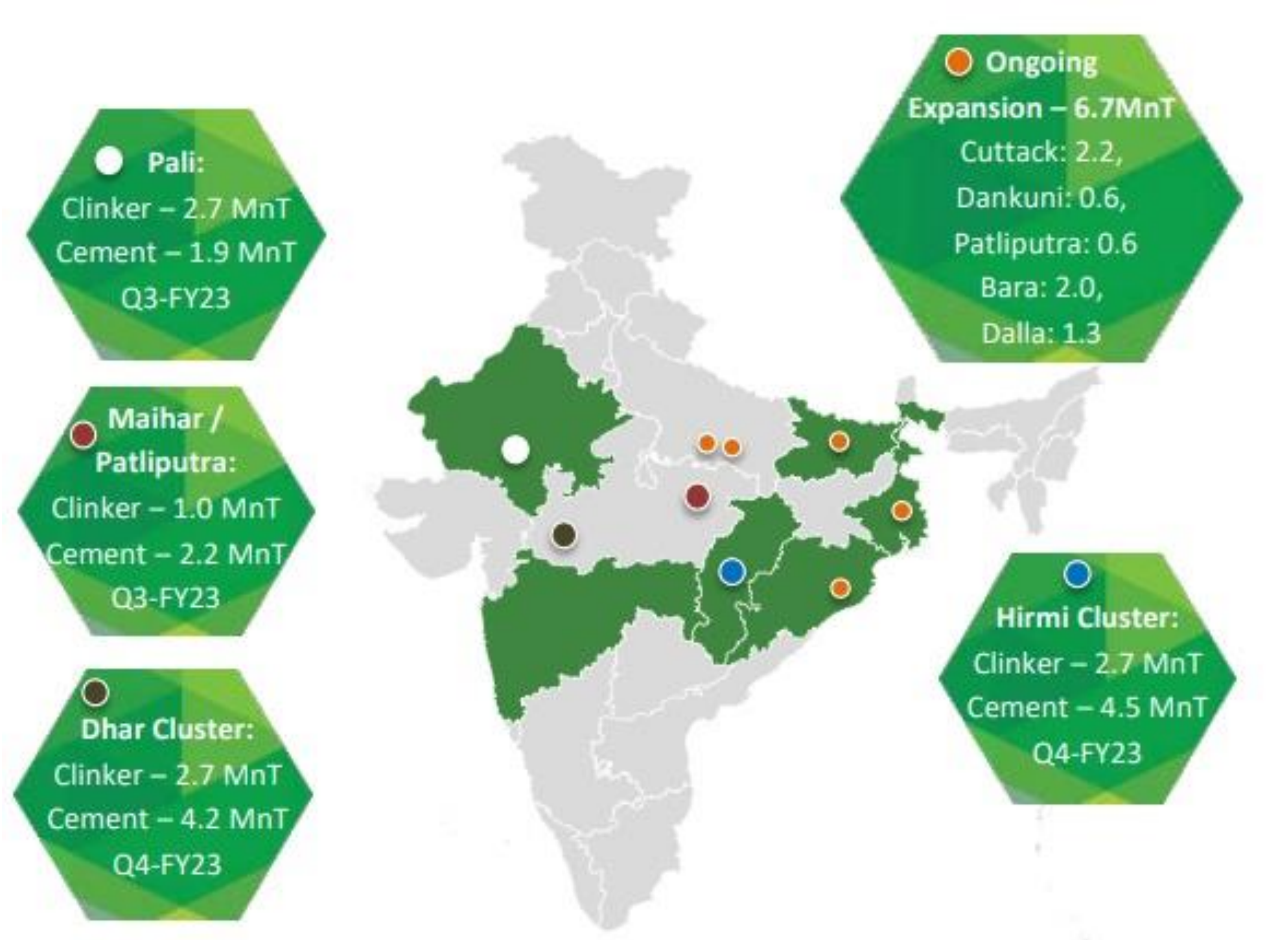
Source: Company, PL

Exhibit 2: Breakup of new + ongoing cement capacity expansion

Location	State	Cement (mtpa)
Cuttack	Odisha	2.2
Durgapur	WB	0.6
Sonar Bangla	WB	0.6
Jharsuguda	Odisha	0.6
Hirmi	Chhattisgarh	0.6
Dhar	MP	1.8
Dhule	MH	1.8
Neem ka Thana	Rajasthan	0.6
Pali	Rajasthan	1.9
Patliputra	Bihar	2.2
Total New Expansion		**12.8**
Ongoing Expansion		
Cuttack	Odisha	2.2
Bara	UP	2.0
Dalla	UP	1.3
Dankuni	WB	0.6
Patliputra	Bihar	0.6
Total Ongoing Expansion		**6.7**
Total cement capacity expansion		**19.5**

Source: Company, PL

Exhibit 3: Location wise expansion



Source: Company, PL

Exhibit 4: Region wise capacity Pre & Post expansion

Region	Pre-Expansion Capacity	Expansion	Post-Expansion Capacity
East	16.1	10.1	26.2
Central	23.3	5.1	28.4
West	27.7	1.8	29.5
North	23.8	2.5	26.3
South	20.5	0	20.5
Total	**111.4**	**19.5**	**130.9**

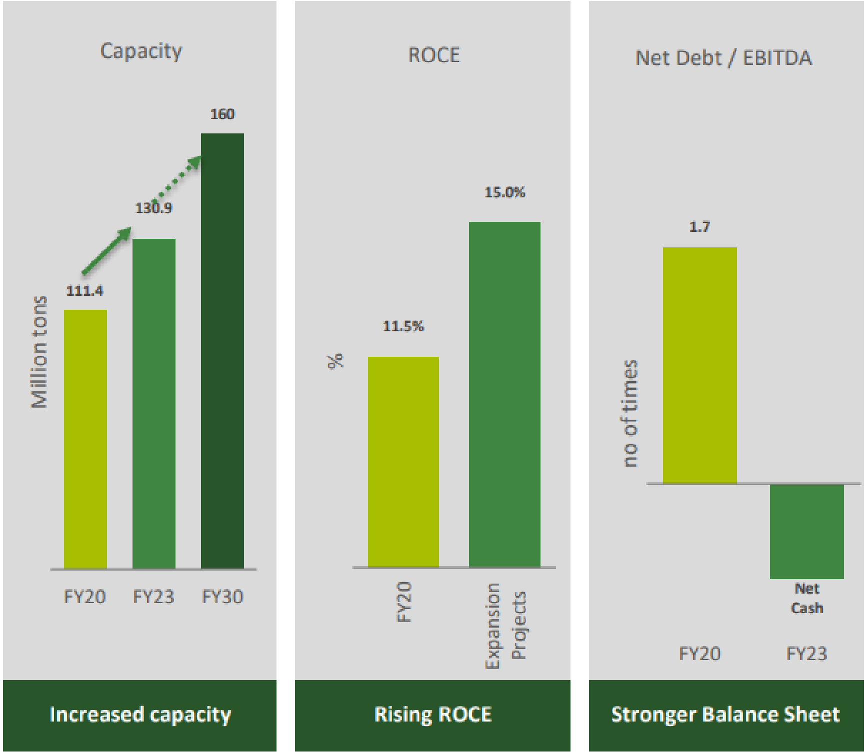
Source: Company, PL

Exhibit 5: Region wise capacity mix Pre & Post expansion

Region	Pre-Expansion capacity mix	Post-expansion capacity mix
East	14.5%	20.0%
Central	20.9%	21.7%
West	24.9%	22.5%
North	21.4%	20.1%
South	18.4%	15.7%

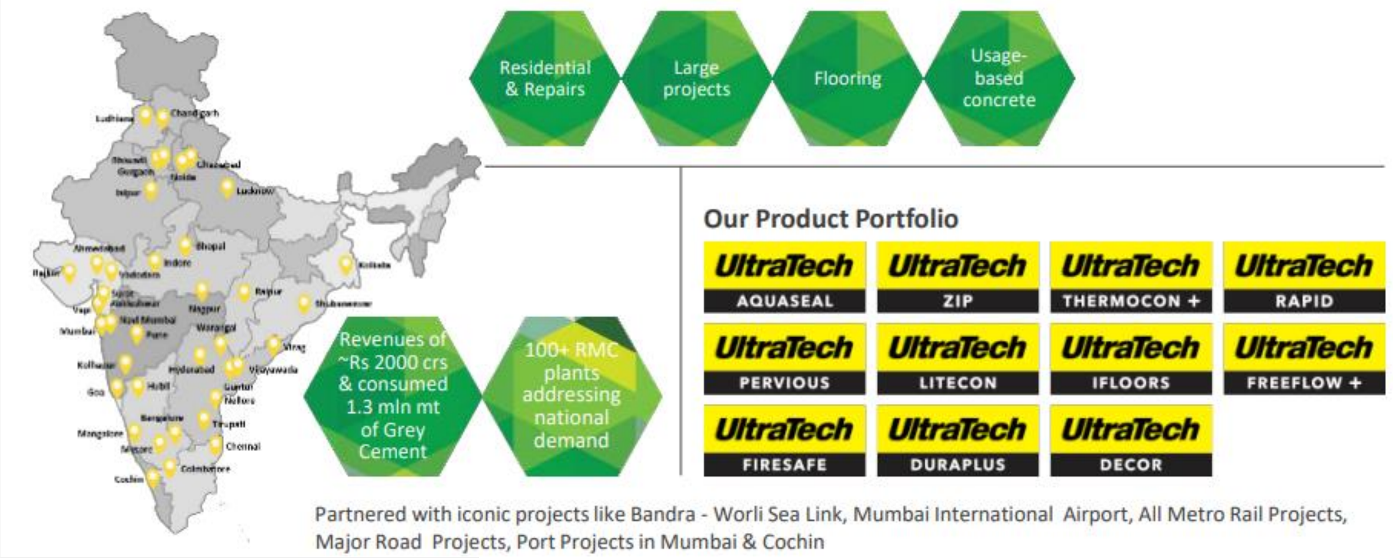
Source: Company, PL

Exhibit 6: Key indicators post expansion



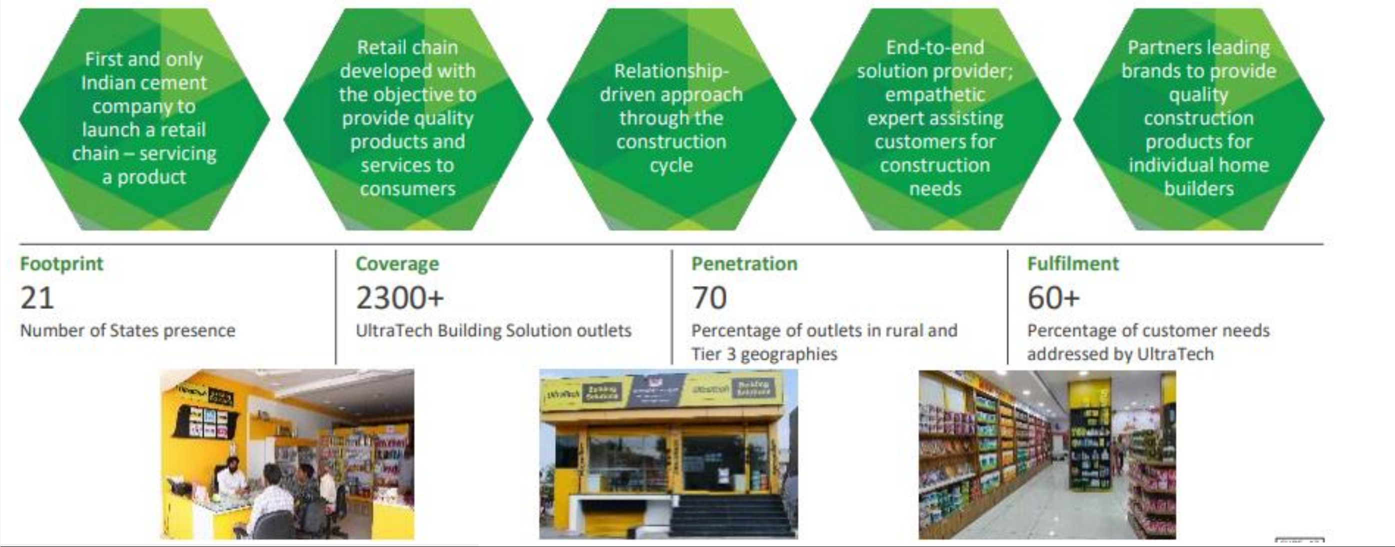
Source: Company, PL

Exhibit 7: Expanding footprint in forward integration



Source: Company, PL

Exhibit 8: Ultratech Building Solutions-Helping in better connect with end customer



Source: Company, PL

Exhibit 9: Offering wide spectrum of services through UBS outlets

Source: Company, PL

Exhibit 10: Expanding offerings in Building Products segment

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	**4,14,759**	**4,25,038**	**4,60,328**	**5,00,862**
YoY gr. (%)	*1.4*	*2.5*	*8.3*	*8.8*
Cost of Goods Sold	63,131	66,296	71,744	77,294
Gross Profit	3,51,628	3,58,741	3,88,584	4,23,569
Margin (%)	*84.8*	*84.4*	*84.4*	*84.6*
Employee Cost	25,094	24,558	26,384	28,229
Other Expenses	37,721	34,963	37,821	40,841
EBITDA	**87,653**	**1,00,507**	**1,05,876**	**1,18,598**
YoY gr. (%)	*32.0*	*14.7*	*5.3*	*12.0*
Margin (%)	*21.1*	*23.6*	*23.0*	*23.7*
Depreciation and Amortization	27,022	27,309	28,446	29,970
EBIT	**60,632**	**73,198**	**77,431**	**88,629**
Margin (%)	*14.6*	*17.2*	*16.8*	*17.7*
Net Interest	19,857	16,048	13,236	9,861
Other Income	12,967	15,226	15,862	18,472
Profit Before Tax	**52,435**	**70,736**	**80,057**	**97,239**
Margin (%)	*12.6*	*16.6*	*17.4*	*19.4*
Total Tax	(5,682)	21,663	24,349	29,432
Effective tax rate (%)	*(10.8)*	*30.6*	*30.4*	*30.3*
Profit after tax	**58,117**	**49,073**	**55,708**	**67,807**
Minority interest	(44)	110	110	110
Share Profit from Associate	-	-	-	-
Adjusted PAT	**37,099**	**48,963**	**55,598**	**67,697**
YoY gr. (%)	*54.6*	*32.0*	*13.6*	*21.8*
Margin (%)	*8.9*	*11.5*	*12.1*	*13.5*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**58,161**	**48,963**	**55,598**	**67,697**
YoY gr. (%)	*142.0*	*(15.8)*	*13.6*	*21.8*
Margin (%)	*14.0*	*11.5*	*12.1*	*13.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	58,161	48,963	55,598	67,697
Equity Shares O/s (m)	**289**	**289**	**289**	**289**
EPS (Rs)	**128.5**	**169.6**	**192.6**	**234.5**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	**5,99,345**	**6,10,345**	**6,26,345**	**6,75,945**
Tangibles	5,99,345	6,10,345	6,26,345	6,75,945
Intangibles	-	-	-	-
Acc: Dep / Amortization	**92,046**	**1,19,355**	**1,47,800**	**1,77,770**
Tangibles	92,046	1,19,355	1,47,800	1,77,770
Intangibles	-	-	-	-
Net fixed assets	**5,07,299**	**4,90,990**	**4,78,545**	**4,98,175**
Tangibles	5,07,299	4,90,990	4,78,545	4,98,175
Intangibles	-	-	-	-
Capital Work In Progress	27,935	32,935	44,410	21,160
Goodwill	62,525	62,525	62,525	62,525
Non-Current Investments	33,164	33,164	33,164	33,164
Net Deferred tax assets	(49,060)	(58,135)	(68,333)	(80,659)
Other Non-Current Assets	12,316	12,316	12,791	13,290
Current Assets				
Investments	42,437	42,437	42,437	42,437
Inventories	41,483	40,757	44,141	48,028
Trade receivables	22,383	25,619	31,529	34,306
Cash & Bank Balance	5,392	46,680	56,589	88,909
Other Current Assets	15,034	14,432	15,245	16,146
Total Assets	**7,93,371**	**8,18,303**	**8,38,382**	**8,75,733**
Equity				
Equity Share Capital	2,886	2,886	2,886	2,886
Other Equity	3,88,269	4,33,479	4,85,758	5,50,136
Total Networth	**3,91,155**	**4,36,366**	**4,88,644**	**5,53,023**
Non-Current Liabilities				
Long Term borrowings	2,28,979	1,98,979	1,53,979	1,08,979
Provisions	2,417	2,417	2,417	2,417
Other non current liabilities	4,953	4,953	4,953	4,953
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	35,014	34,935	35,313	38,422
Other current liabilities	71,099	71,715	73,829	76,257
Total Equity & Liabilities	**7,93,371**	**8,18,303**	**8,38,382**	**8,75,733**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	52,423	70,736	80,057	97,239
Add. Depreciation	27,022	27,309	28,446	29,970
Add. Interest	19,857	16,048	13,236	9,861
Less Financial Other Income	12,967	15,226	15,862	18,472
Add. Other	(5,869)	(9,249)	(9,419)	(11,527)
Op. profit before WC changes	93,432	1,04,845	1,12,320	1,25,543
Net Changes-WC	4,503	(1,416)	(8,649)	(3,113)
Direct tax	(8,914)	(12,589)	(14,150)	(17,107)
Net cash from Op. activities	**89,020**	**90,840**	**89,521**	**1,05,324**
Capital expenditures	(16,272)	(9,000)	(27,475)	(26,350)
Interest / Dividend Income	-	-	-	-
Others	(25,822)	9,249	9,419	11,527
Net Cash from Invt. activities	**(42,094)**	**249**	**(18,056)**	**(14,823)**
Issue of share cap. / premium	(3)	-	-	-
Debt changes	(27,164)	(30,000)	(45,000)	(45,000)
Dividend paid	(3,800)	(3,752)	(3,319)	(3,319)
Interest paid	(18,944)	(16,048)	(13,236)	(9,861)
Others	-	-	-	-
Net cash from Fin. activities	**(49,911)**	**(49,801)**	**(61,555)**	**(58,180)**
Net change in cash	**(2,985)**	**41,288**	**9,909**	**32,320**
Free Cash Flow	72,748	81,840	62,046	78,974

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	**98,160**	**1,02,370**	**72,900**	**98,950**
YoY gr. (%)	*0.4*	*(13.0)*	*(32.8)*	*8.4*
Raw Material Expenses	19,247	16,307	12,906	17,884
Gross Profit	78,913	86,063	59,994	81,067
Margin (%)	*80.4*	*84.1*	*82.3*	*81.9*
EBITDA	**17,535**	**21,373**	**18,715**	**24,291**
YoY gr. (%)	*28.3*	*(3.0)*	*(28.2)*	*45.3*
Margin (%)	*17.9*	*20.9*	*25.7*	*24.5*
Depreciation / Depletion	6,137	6,090	5,887	6,127
EBIT	**11,398**	**15,283**	**12,829**	**18,165**
Margin (%)	*11.6*	*14.9*	*17.6*	*18.4*
Net Interest	4,026	4,324	3,334	3,019
Other Income	3,298	3,463	3,797	2,700
Profit before Tax	**9,338**	**14,448**	**11,718**	**17,780**
Margin (%)	*9.5*	*14.1*	*16.1*	*18.0*
Total Tax	2,907	(14,615)	3,663	5,693
Effective tax rate (%)	*31.1*	*(101.2)*	*31.3*	*32.0*
Profit after Tax	**6,432**	**29,063**	**8,056**	**12,087**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**7,349**	**29,012**	**9,138**	**12,132**
YoY gr. (%)	*69.8*	*174.6*	*(27.9)*	*89.8*
Margin (%)	*7.5*	*28.3*	*12.5*	*12.3*
Extra Ord. Income / (Exp)	(918)	52	(1,082)	(45)
Reported PAT	**6,432**	**29,063**	**8,056**	**12,087**
YoY gr. (%)	*48.6*	*175.0*	*(36.4)*	*89.1*
Margin (%)	*6.6*	*28.4*	*11.1*	*12.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**6,432**	**29,063**	**8,056**	**12,087**
Avg. Shares O/s (m)	289	289	289	289
EPS (Rs)	**25.5**	**100.5**	**31.7**	**42.0**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	128.5	169.6	192.6	234.5
CEPS	222.2	264.3	291.2	338.4
BVPS	1,355.2	1,511.9	1,693.0	1,916.0
FCF	252.0	283.5	215.0	273.6
DPS	13.0	11.5	11.5	11.5
Return Ratio(%)				
RoCE	10.0	11.7	12.1	13.6
ROIC	12.1	9.4	10.0	11.9
RoE	10.2	11.8	12.0	13.0
Balance Sheet				
Net Debt : Equity (x)	0.5	0.3	0.1	0.0
Net Working Capital (Days)	25	27	32	32
Valuation(x)				
PER	38.1	28.9	25.4	20.9
P/B	3.6	3.2	2.9	2.6
P/CEPS	222.2	264.3	291.2	338.4
EV/EBITDA	18.2	15.2	13.9	11.7
EV/Sales	3.8	3.6	3.2	2.8
Dividend Yield (%)	0.3	0.2	0.2	0.2

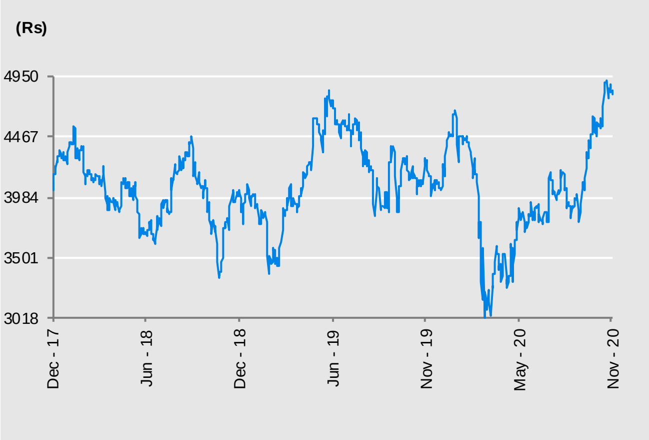
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total volume (mn te)	79	80	86	93
Blended Real. (Rs/te)	5,083	5,174	5,192	5,233
Blended EBITDA/tonne (Rs)	1,037	1,193	1,162	1,206
RM cost (Rs/ te)	871	943	954	955
Power, Oil & Fuel (Rs/ te)	978	907	920	907
Freight Chrgs. (Rs/ te)	1,223	1,236	1,258	1,271

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	22-Oct-20	BUY	5,400	4,629
2	06-Oct-20	BUY	4,950	4,136
3	21-Aug-20	BUY	5,021	4,144
4	29-Jul-20	BUY	4,675	4,136
5	09-Jul-20	BUY	4,300	3,787
6	16-Jun-20	BUY	4,375	3,745
7	21-May-20	BUY	4,350	3,546
8	09-Apr-20	BUY	4,350	3,256
9	25-Jan-20	BUY	5,110	4,643
10	03-Jan-20	BUY	4,675	4,219

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	123
4	Heidelberg Cement India	Hold	195	185
5	Hindalco Industries	BUY	230	192
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	191
8	JK Lakshmi Cement	BUY	370	285
9	JSW Steel	Reduce	223	321
10	NMDC	Accumulate	98	91
11	Shree Cement	Reduce	20,550	23,485
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	405	492
14	The Ramco Cements	Reduce	675	802
15	Ultratech Cement	BUY	5,400	4,629

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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