

## Buy

#### View: 19.5mtpa capacity expansion to drive growth; maintain Buy

- UTCEM has announced capacity expansion program to expand its India cement capacity by 19.5 mtpa to 130.9 mtpa (FY23) from 111.4 mtpa (FY20). This expansion consists of 6.7 mtpa ongoing expansion and 12.8 mtpa proposed expansion with a capex of Rs10.5 bn and Rs54.8 bn respectively totaling to Rs65.3 bn. UTCEM plans to commission 2.0/ 4.7/ 12.8 mtpa capacity in FY21/ FY22/ FY23. This capex is spread across East and Central and minor in North/ West region. The average cost of these projects is less than \$60/ tn thus strengthening overall ROCE.
- UTCEM is also planning to add 11.4 mtpa clinker capacity, out of which 2.3 mtpa (Dalla) to be commissioned by FY22 and rest 9.1 mtpa in FY23.
- We expect 5.6%/ 9.1%/ 17.1% revenue/ EBITDA/ APAT CAGR over FY20-23E led by -1.5%/ 8.0%/ 7.0% volume growth and 1.3%/ 1.0%/ 1.0% realization growth in FY21E/ FY22E/ FY23E.
- We broadly maintain our estimates for FY21E/ FY22E/ FY23E as we previously factored 5.6 mtpa capacity addition in FY22E vs. 6.7 mtpa now and proposed expansion of 12.8 mtpa to contribute marginally in FY23E volume as it will commence from Q3FY23 (4.1 mtpa) and Q4FY23 (8.7 mtpa).
- UTCEM will continue to witness healthy operating cash flow (average Rs85.9 bn/year) and free cash flow (average Rs59.2 bn/year) leading to further deleveraging (Net D:E of 0.06x in FY23E vs. 0.42x FY20). UTCEM, being the largest player in Indian cement industry is its biggest advantage. We maintain Buy with an upward revised TP of Rs5,834 based on 15x (14% discount to 5-year average) consolidated Sept'22E EV/EBITDA.

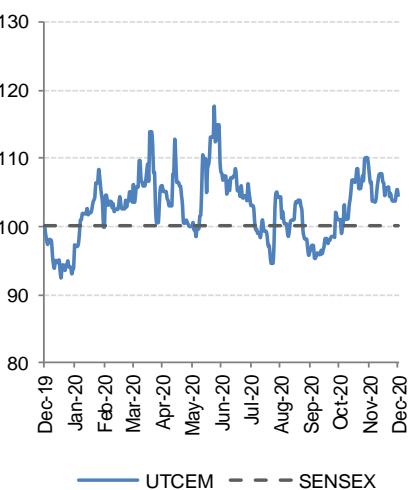
#### FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	4,16,088	4,21,248	4,20,425	4,58,583	4,95,448
Growth(%)	34.3	1.2	(0.2)	9.1	8.0
EBITDA	73,469	92,836	1,03,581	1,11,633	1,20,690
OPM(%)	17.7	22.0	24.6	24.3	24.4
PAT	25,174	37,054	46,936	52,232	59,429
Growth(%)	(2.0)	47.2	26.7	11.3	13.8
EPS(Rs.)	87.2	128.4	162.6	181.0	205.9
Growth(%)	(2.0)	47.2	26.7	11.3	13.8
PER(x)	56.1	38.1	30.1	27.0	23.8
ROANW(%)	8.4	10.2	11.4	11.5	11.8
ROACE(%)	7.5	11.8	9.2	9.8	10.1

CMP	Rs 4,894		
Target / Upside	Rs 5,834 / 19%		
NIFTY	13,134		
<b>Scrip Details</b>			
Equity / FV	Rs 2,886mn / Rs 10		
Market Cap	Rs 1,412bn		
	USD 19bn		
52-week High/Low	Rs 4,997 / 2,910		
Avg. Volume (no)	6,38,601		
Bloom Code	UTCEM IN		
<b>Price Performance</b>			
1M	3M	12M	
Absolute (%)	8	24	16
Rel to NIFTY (%)	(3)	10	6

	Mar'20	Jun'20	Sep'20
Promoters	60.0	60.0	59.9
MF/Banks/FIs	14.2	14.6	15.4
FII	16.5	16.1	15.3
Public / Others	9.3	9.3	9.4

#### UTCEM Relative to SENSEX



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**Exhibit 1: Change in estimates – Broadly maintain estimates**

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	% change	New	Old	% change	New	Old	%change
Net revenues	4,20,425	4,14,391	1.5	4,58,583	4,51,754	1.5	4,95,448	4,82,188	2.7
EBIDTA	1,03,581	1,01,755	1.8	1,11,633	1,09,595	1.9	1,20,690	1,16,740	3.4
EBIDTA margin (%)	24.6	24.6	8	24.3	24.3	8	24.4	24.2	15
Adj. Net Profit	46,936	45,700	2.7	52,232	50,805	2.8	59,429	57,186	3.9
EPS (Rs)	162.6	158.3	2.7	181.0	176.0	2.8	205.9	198.1	3.9

Source: DART, Company

**Exhibit 2: Valuation**

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	15
EBITDA (Sep'22E)	1,16,162
EV	17,42,426
Less: Net Debt (Sep'22E)	58,562
Mcap	16,83,864
Shares o/s (mn)	289
Target Price	5,834
CMP (Rs)	4,894
Upside (%)	19.2

Source: Company, DART

## Key takeaways of the Call

### Capacity Expansion

- Ultratech to expand total India cement capacity by 19.5 mtpa from 111.4 mtpa in FY20 to 130.9 mtpa in FY23 for a total capex of Rs65.3 bn. Project cost is less than \$60/ tn. UAE capacity will be 5.4 mtpa (current 3.4 mtpa) totalling overall capacity to 136.3 mtpa. Company to also add 11.4 mtpa clinker capacity.
- 19.5 mtpa expansion includes 6.7 mtpa ongoing expansion (Capex of Rs10.5 bn) and 12.8 mtpa (Capex of Rs54.8 bn) proposed expansion. Company plans to add 2.0/ 4.7/ 12.8 mtpa in FY21/ FY22/ FY23.
- More than 70% of capacity is brownfield and balance is greenfield. Pali unit (1.9 mtpa), Cuttack unit (2.2 mtpa) and Dhule unit (1.8 mtpa) will be greenfield expansion.
- With these expansion Ultratech's capacity in East/ Central/ West/ North will increase to 26.2/ 31.0/ 27.7/ 25.7 mtpa. South will remain same at 20.5 mtpa.
- 85% of the output to be blended and they are fully secured with limestone.
- Capex guidance of Rs25 bn each year between FY21-23 including maintenance capex.
- Total capex of Rs65.3 bn doesn't factor land cost except for 3 greenfield plants.
- Net Debt/ EBITDA target of below 1x by FY21 from 1.11 (Sep'20). Company aims to be net debt free by FY23.

- Company plans to touch 160 mtpa capacity by FY30 where it is prepared with land and limestone. They won't stop expanding after this as they believe India is highest growth market.
- Capacity share should be approx. 23-23.5% / 30% in FY23/ FY30 from currently 22.3%. Market share will be higher.
- These projects have a IRR of 15% and it would be higher if greenfield projects are taken out.

### Demand

- Company is very bullish on Central and East market and North market is flourishing.
- Cement per capita consumption increased from 190kg to 229kg in FY20 but in the east it is still at 200kg, which is expected to increase.
- Guided for 8% volume CAGR growth in next 10 years. Company can give positive volume growth in FY21.
- Payments are being paid on time to contractors. Urban housing improving except the luxurious housing. Infra projects are going through the roof. Urban markets improving and Tier 2 also reviving.

### Other Updates

- WHRS capacity to be added of 57MW over and above 245 MW renewable energy. 40% of power requirement will be through WHRS for the new expansion.
- Capacity share not a target but only profitable growth.
- Chhattisgarh faces issues of pricing pressure and not in Odisha and Bihar, where the company operates.
- Ultratech's building segment share will be a small part of EBITDA since grey covers a lot.
- Entry barriers in cement business would be readiness and to invest regularly in land and limestone mine.
- Ultratech to expand in White & Putty business shortly. Other segments like RMC and Building products are high margin segments.
- Company has 102 RMC plants and expects to add 20 additional plants by FY21E.
- Company has 2300 UBS stores and plans to double in 3-4 yrs.

### Ongoing Expansion

Zone	State	Cement Capacity (mtpa)
Cuttack	Odisha	2.2
Bara & Dalla	UP	3.3
Dankuni	WB	0.6
Patliputra	Bihar	0.6
Total		6.7

### Proposed Expansion

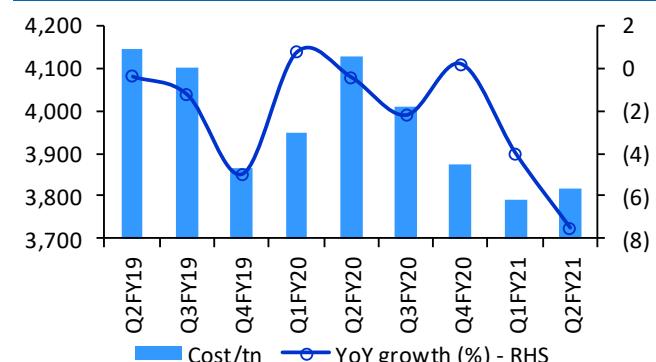
Cluster	State	Cement Capacity (mtpa)	Grinding Capacity (mtpa)	Clinker Capacity (mtpa)	Expected commission
Hirmi	Chhattisgarh	4.5	Cuttack - 2.2 Durgapur - 0.6 Sonar Bangla - 0.6 Jharsuguda - 0.6 Hirmi - 0.6	2.7	Q4FY23
Dhar	MP	4.2	Dhar - 1.8 Dhule - 1.8 Neem ka Thana - 0.6	2.7	Q4FY23
Pali	Rajasthan	1.9	Pali	2.7	Q3FY23
Patliputra	Bihar	2.2	Patliputra	1.0	Q3FY23
Total		12.8			

### Exhibit 3: Volume (mt)



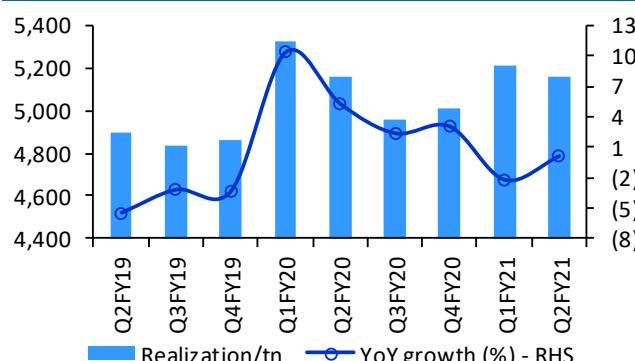
Source: Company, DART

### Exhibit 4: Cost/tn (Rs)



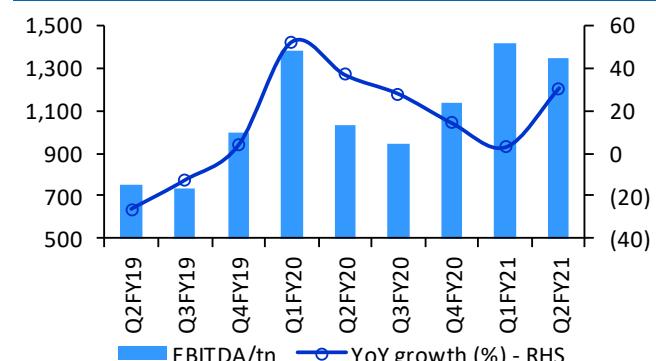
Source: Company, DART

### Exhibit 5: Realization/tn (Rs)



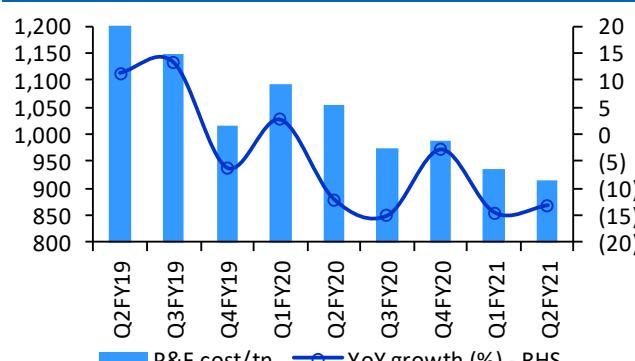
Source: Company, DART

### Exhibit 6: EBITDA/tn (Rs)



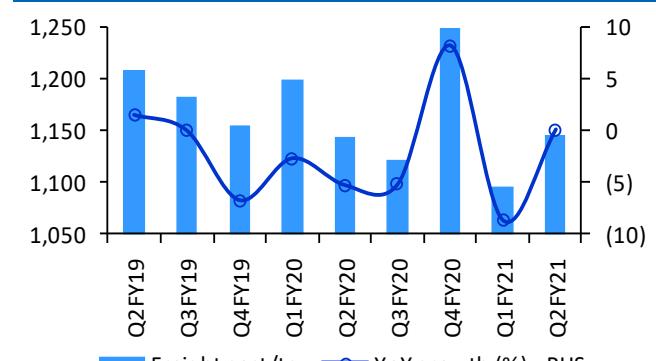
Source: Company, DART

### Exhibit 7: Power & fuel cost/tn (Rs)



Source: Company, DART

### Exhibit 8: Freight cost/tn (Rs)



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>4,21,248</b>	<b>4,20,425</b>	<b>4,58,583</b>	<b>4,95,448</b>
<b>Total Expense</b>	<b>3,28,413</b>	<b>3,16,845</b>	<b>3,46,949</b>	<b>3,74,758</b>
COGS	2,45,064	2,38,731	2,61,941	2,83,369
Employees Cost	25,094	23,589	25,240	26,880
Other expenses	58,255	54,525	59,768	64,509
<b>EBIDTA</b>	<b>92,836</b>	<b>1,03,581</b>	<b>1,11,633</b>	<b>1,20,690</b>
Depreciation	27,022	28,038	29,250	30,927
<b>EBIT</b>	<b>65,814</b>	<b>75,543</b>	<b>82,383</b>	<b>89,763</b>
Interest	19,857	15,294	15,591	13,080
Other Income	6,478	7,449	7,822	8,213
Exc. / E.O. items	0	(4,931)	0	0
<b>EBT</b>	<b>52,423</b>	<b>62,770</b>	<b>74,616</b>	<b>84,898</b>
Tax	(5,682)	20,275	22,385	25,469
RPAT	58,148	42,495	52,232	59,429
Minority Interest	(44)	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>37,054</b>	<b>46,936</b>	<b>52,232</b>	<b>59,429</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	2,886	2,886	2,886	2,886
Minority Interest	75	75	75	75
Reserves & Surplus	3,88,269	4,27,011	4,74,914	5,30,013
<b>Net Worth</b>	<b>3,91,155</b>	<b>4,29,898</b>	<b>4,77,800</b>	<b>5,32,899</b>
Total Debt	2,28,979	2,07,979	1,76,979	1,45,979
Net Deferred Tax Liability	49,120	49,120	49,120	49,120
<b>Total Capital Employed</b>	<b>6,69,329</b>	<b>6,87,072</b>	<b>7,03,974</b>	<b>7,28,074</b>

**Applications of Funds**

Net Block	<b>5,07,299</b>	<b>4,96,261</b>	<b>4,87,011</b>	<b>4,96,084</b>
CWIP	71,721	79,721	84,721	74,721
Investments	16,850	16,850	16,850	16,850
<b>Current Assets, Loans &amp; Advances</b>	<b>1,97,502</b>	<b>2,10,258</b>	<b>2,33,023</b>	<b>2,65,962</b>
Inventories	41,483	41,467	43,974	47,509
Receivables	22,383	25,341	26,384	28,505
Cash and Bank Balances	5,392	18,628	32,317	55,818
Loans and Advances	14,294	13,344	12,394	11,444
Other Current Assets	71,513	71,479	75,954	80,686
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,24,042</b>	<b>1,16,018</b>	<b>1,17,631</b>	<b>1,25,544</b>
Payables	35,014	31,100	30,153	32,577
Other Current Liabilities	89,028	84,918	87,477	92,966
<i>sub total</i>				
Net Current Assets	73,459	94,240	1,15,392	1,40,419
<b>Total Assets</b>	<b>6,69,329</b>	<b>6,87,072</b>	<b>7,03,974</b>	<b>7,28,074</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	41.8	43.2	42.9	42.8
EBIDTA Margin	22.0	24.6	24.3	24.4
EBIT Margin	15.6	18.0	18.0	18.1
Tax rate	(10.8)	32.3	30.0	30.0
Net Profit Margin	8.8	11.2	11.4	12.0
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	58.2	56.8	57.1	57.2
Employee	6.0	5.6	5.5	5.4
Other	13.8	13.0	13.0	13.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.6	0.5	0.4	0.3
Interest Coverage	3.3	4.9	5.3	6.9
Inventory days	36	36	35	35
Debtors days	19	22	21	21
Average Cost of Debt	8.2	7.0	8.1	8.1
Payable days	30	27	24	24
Working Capital days	64	82	92	103
FA T/O	0.8	0.8	0.9	1.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	128.4	162.6	181.0	205.9
CEPS (Rs)	222.0	259.8	282.3	313.1
DPS (Rs)	13.2	13.0	15.0	15.0
Dividend Payout (%)	10.3	8.0	8.3	7.3
BVPS (Rs)	1355.2	1489.5	1655.4	1846.3
RoANW (%)	10.2	11.4	11.5	11.8
RoACE (%)	11.8	9.2	9.8	10.1
RoAIC (%)	10.0	11.3	12.3	13.4
<b>(E) Valuation Ratios</b>				
CMP (Rs)	4894	4894	4894	4894
P/E	38.1	30.1	27.0	23.8
Mcap (Rs Mn)	14,12,387	14,12,387	14,12,387	14,12,387
MCap/ Sales	3.4	3.4	3.1	2.9
EV	15,93,537	15,61,739	15,15,049	14,60,548
EV/Sales	3.8	3.7	3.3	2.9
EV/EBITDA	17.2	15.1	13.6	12.1
P/BV	3.6	3.3	3.0	2.7
Dividend Yield (%)	0.3	0.3	0.3	0.3
<b>(F) Growth Rate (%)</b>				
Revenue	1.2	(0.2)	9.1	8.0
EBITDA	26.4	11.6	7.8	8.1
EBIT	34.4	14.8	9.1	9.0
PBT	51.1	19.7	18.9	13.8
APAT	47.2	26.7	11.3	13.8
EPS	47.2	26.7	11.3	13.8

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	89,020	72,120	87,699	97,804
CFI	(41,151)	(18,838)	(23,089)	(25,894)
CFF	(49,911)	(40,046)	(50,920)	(48,409)
FCFF	71,958	47,120	62,699	67,804
Opening Cash	7,397	5,392	18,628	32,317
Closing Cash	5,392	18,628	32,317	55,818

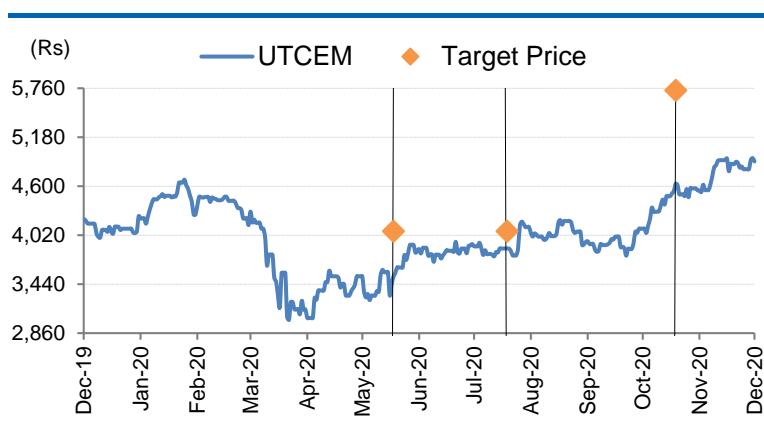
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-20	Accumulate	4,069	3,529
Jul-20	Accumulate	4,069	3,863
Oct-20	Buy	5,736	4,629

\*Price as on recommendation date

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