UltraTech Cement ACCUMULATE

Eying market share

Summary

Ultratech Cement (UTCEM) has announced new capacity addition plan of 12.8mt. And with this, it will add 19.5mt capacity over FY20-23E. On yearly basis, UTCEM capacity will increase by 4% YoY each in FY21E/22E and 10% YoY in FY23E. Post expansion, its market share by capacity will increase from 22% currently to 23-23.5% by FY23E. Capex for new addition at Rs55bn will be funded from internal accruals. In 19.5mt addition, 70%+ of the capacity will be brownfield expansion and project cost will be less than USD60/t. We have revised our capacity addition estimate and has increased EBITDA by 5% for FY23E (exhibit 5). On unchanged EV/EBITDA multiple of 13x for FY23E, TP is revised to Rs5423 (earlier Rs5073). Maintain accumulate rating on the stock. Positive in UTCEM business is its leadership position, consistently gaining market share and deleveraging of its balance sheet (BS). UTCEM has guided for debt free BS by FY23E.

Key Highlights and Investment Rationale

- **Region wise expansion:** UTCEM has guided to add 19.5mt of capacity in the next 3 years (this includes 12.8mt of new expansion plans). Capacity in east region will increase by 10mt, central by 5mt, West/North by 1.8mt/2.5mt. And thus its total cement capacity will increase to 136mt by FY23E (up by ~20% vs FY20 capacity).
- **Net cash BS by FY23E:** Over FY21E to FY23E, UTCEM has revised capex to Rs25bn pa vs Rs15bn earlier. Capex will be funded from internal accurals and UTCEM expects to become debt-free by the end of FY23E.
- **Outlook on cement industry:** For industry, in the last 2 months, demand from urban housing has seen green shots (except for luxury housing). Over a long period (10 years), company expects industry volume to grow at 8% CAGR. East, central region growth will be in high double digit. Currently, East and central markets have been growing fast and there has been a shortage of capacity in the peak months.

TP	**Rs5,423**
CMP	**Rs4,892**
Potential upside / downside	+11%
Previous Rating	ACCUMULATE

V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	169.9	209.7	242.1
Consensus	147.5	188.4	241.4
% difference	*15.2*	*11.3*	*0.3*

Key Stock Data

Bloomberg/Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	14,12,084
Market cap. (US$ mn)	19,101
3-m daily avg Trd value (Rs mn)	1,039.9
52-week high / low	Rs4,998 / 2,913
Sensex / Nifty	44,633 / 13,134

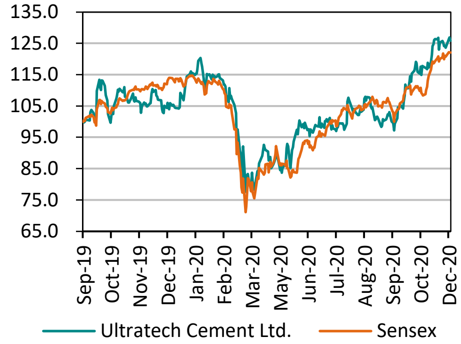
Shareholding Pattern (%)

Promoters	59.9
FII	15.3
DII	15.4
Public	9.4

Price Performance (%)

	-1m	-3m	-12m
Absolute	7.5	23.9	16.2
Rel to Sensex	(3.3)	9.4	6.4

Relative to Sensex (%)



Financial snapshot **(Rs mn)**

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,73,792	4,21,248	4,26,043	4,87,670	5,36,822
EBITDA	67,881	92,836	1,07,554	1,20,715	1,28,400
EBITDA (%)	18.2	22.0	25.2	24.8	23.9
Adj. PAT	24,347	58,161	49,048	60,516	69,871
EPS (Rs)	88.7	201.5	169.9	209.7	242.1
EPS Growth (%)	(5.3)	127.3	(15.7)	23.4	15.5
PE (x)	52.5	23.1	27.4	22.2	19.2
Dividend Yield (%)	0.3	0.4	0.2	0.2	0.3
EV/EBITDA (x)	21.6	16.8	14.1	12.0	10.6
RoE (%)	8.9	17.2	11.8	13.0	13.3
RoCE (%)	9.0	10.8	12.1	14.0	15.2

Source: Company; IDBI Capital Research

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Conference call highlights

Capacity Expansion:

- UTCEM is planning add 19.5mt of capacity in the next 2-3 years (including 12.8mt of new expansion plans). Company expects capacity of 19.5mt will get commissioned by FY23. UTCEM will close FY23E with the total cement capacity of 136mt and by FY30 has target of 160mt capacity.
- In 19.5mt addition, 70%+ of the capacity will be brownfield expansion. Region wise: A) Addition of 10.1mt in East, taking it to a total of 26.2mt. B) Addition of 5.1mt in Central, taking it to a total of 28.4mt C) Addition of 1.8mt in West, taking it to a total of 29.5mt D) Addition of 2.5mt in North, taking it to a total of 26.3mt E) And, south remains the same at 20.5mt.

Project Costs:

- **Since large part of addition is brownfield, company expects to keep the overall project cost at less than USD60/t. For incremental capacity addition, UTCEM target ROCE of 15%.**

Revised Capex:

- **Over FY21E to FY23E, UTCEM has revised capex to Rs25bn pa vs Rs15bn earlier. Company expects to become debt-free by the end of FY23E.**

Renewable/green power:

- UTCEM is investing in WHRS in all expansion units. 40% of the power requirement of this expansion will be through WHRS. Current share of green power of 13%, will increase to 34% post expansion.

Industry:

- Incremental capacity will increase capacity market share of UTCEM to 23-23.5% by FY23E vs 22% currently.
- Company expects industry volume to grow at 8% CAGR growth in the next 10 years. In this East, central growth will high double digit.
- East and central markets have been growing fast and there has been a shortage of capacity in the peak months. UTCEM average capacity utilization in peak period is 100%+ and the company has to shift cement from longer distances to meet it customers demand.
- For industry, demand from urban housing has seen green shots (except luxury housing).

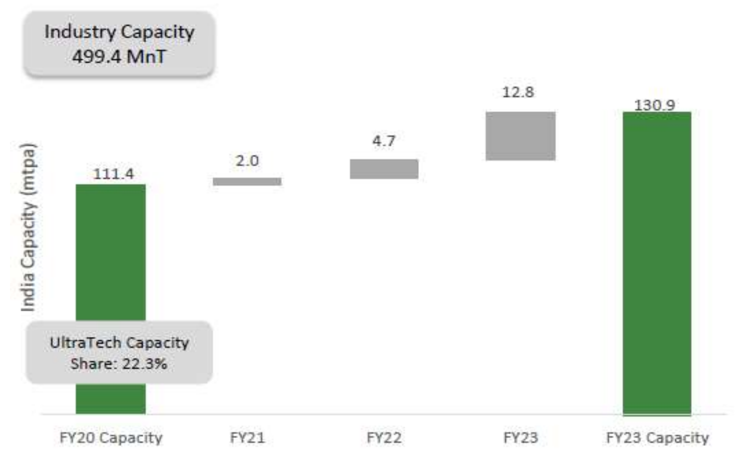
Exhibit 1: Favorable Outlook: Central & East have Highest Potential to outperform among all zones

Macro Economic- Potential	North	Central	East*	West	South	India
Rural Population (FY 20E)	67%	75%	77%	53%	54%	67%
PCC (Kg) – FY 20LE	231	173	203	273	263	227
Housing Shortage (FY20E) (Mn) ^	10	8	9	7	12	50
Road Density (kms/ per lac people) #	294	244	307	469	401	358
Power Density (kWh/Capita)	1233	700	820	1758	1461	1181

* Excl. North-East

Source: Company

Exhibit 2: UltraTech capacity addition to enhance capacity share



ONGOING Expansions

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

PROPOSED Expansions

Cluster	State	Cement Capacity	Grinding Capacity (mtpa)
Hirmi	CG	4.5	Cuttack: 2.2, Durgapur: 0.6, Sonar Bangla: 0.6, Jharsuguda: 0.6, Hirmi: 0.6
Dhar	MP	4.2	Dhar: 1.8, Dhule: 1.8 & Neem ka Thana: 0.6
Pali	Raj	1.9	Pali
Patliputra	Bihar	2.2	Patliputra
Total		12.8	

Source: Company

Exhibit 3: UTCEM positioning

Source: Company

Exhibit 4: UTCEM growth blueprint

Source: Company

Exhibit 5: Change in estimate

	Unit	New		Old		*Change %*	
		FY22E	FY23E	FY22E	FY23E	*FY22E*	*FY23E*
Capacity	mt	**123.4**	**136.2**	**121.0**	**123.4**	*2.0%*	*10.4%*
Sales volume	Rs m	90	98	89	94	*0.5%*	*4.1%*
Revenue		487,670	536,822	485,358	515,855	*0.5%*	*4.1%*
ASP	Rs /t	5,440	5,494	5,440	5,494	*0.0%*	*0.0%*
Opex cost	Rs /t	4,093	4,180	4,095	4,190	*0.0%*	*-0.2%*
EBITDA	Rs m	120,715	128,400	120,030	122,412	*0.6%*	*4.9%*
EBITDA	Rs /t	1,347	1,314	1,345	1,304	*0.1%*	*0.8%*
Interest expense	Rs m	12,326	6,119	12,326	7,626	*0.0%*	*-19.8%*
Net Profit	Rs m	60,516	69,871	60,046	64,725	*0.8%*	*8.0%*

Source: IDBI Capital Research

Exhibit 6 Valuation summary

	FY23E New	FY23E Old
EBITDA Rs mn	128,400	122,412
EV/EBIDTA multiple x	13	13
EV Rs mn	1,669,194	1,591,355
Debt Rs mn	110,749	159,268
Cash Rs mn	6,665	52,245
Net Debt Rs mn	104,084	127,023
Mcap Rs mn	1,565,110	1,464,332
Shares m	288.6	288.6
TP Rs/sh	**5,423**	**5,073**
EV (m USD)	22,256	21,218
Capacity(mt)	136.2	120.3
EV/t	163.4	176.4

Source: IDBI Capital Research

Exhibit 7: Valuation band EV/EBITDA

Source: Bloomberg

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	**4,21,248**	**4,26,043**	**4,87,670**	**5,36,822**
Growth (%)	*12.7*	*1.1*	*14.5*	*10.1*
Operating expenses	(3,28,413)	(3,18,489)	(3,66,954)	(4,08,423)
EBITDA	**92,836**	**1,07,554**	**1,20,715**	**1,28,400**
Growth (%)	*36.8*	*15.9*	*12.2*	*6.4*
Depreciation	(27,022)	(26,713)	(27,230)	(27,747)
EBIT	**65,814**	**80,842**	**93,485**	**1,00,652**
Interest paid	(19,857)	(16,134)	(12,326)	(6,119)
Other income	6,478	6,728	6,978	7,228
Pre-tax profit	**52,435**	**71,435**	**88,137**	**1,01,761**
Tax	5,682	(22,338)	(27,560)	(31,821)
Effective tax rate (%)	*(10.8)*	*31.3*	*31.3*	*31.3*
Minority Interest	43.8	(49.1)	(60.6)	(69.9)
Net profit	**58,161**	**49,048**	**60,516**	**69,871**
Exceptional items	-	-	-	-
Adjusted net profit	**58,161**	**49,048**	**60,516**	**69,871**
Growth (%)	*138.9*	*(15.7)*	*23.4*	*15.5*
Shares o/s (mn nos)	*289*	*289*	*289*	*289*

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	52,435	71,435	88,137	1,01,761
Depreciation	27,022	26,713	27,230	27,747
Tax paid	(8,914)	(22,338)	(27,560)	(31,821)
Chg in working capital	4,503	(4,981)	12,567	13,228
Other operating activities	13,987	9,406	5,348	(1,109)
Cash flow from operations (a)	**89,020**	**80,236**	**1,05,721**	**1,09,807**
Capital expenditure	(17,037)	(25,000)	(25,000)	(25,000)
Chg in investments	(26,907)	-	-	-
Other investing activities	1,210	6,728	6,978	7,228
Cash flow from investing (b)	**(42,094)**	**(18,272)**	**(18,022)**	**(17,772)**
Equity raised/(repaid)	27	-	-	-
Debt raised/(repaid)	(27,164)	(44,817)	(68,519)	(77,524)
Dividend	(22,744)	(13,182)	(8,684)	(1,914)
Chg in monorities	-	-	-	-
Other financing activities	(31)	-	-	-
Cash flow from financing (c)	**(49,911)**	**(57,999)**	**(77,203)**	**(79,438)**
Net chg in cash (a+b+c)	**(36,449)**	**(1,939)**	**3,213**	**4,187**

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	5,89,615	5,87,902	5,85,672	5,82,925
Investments	59,054	59,054	64,959	71,455
Other non-curr assets	-	-	-	-
Current assets	**1,44,608**	**1,48,669**	**1,63,732**	**1,76,903**
Inventories	41,483	46,563	48,412	54,097
Sundry Debtors	22,383	23,345	33,402	36,769
Cash and Bank	5,392	3,453	6,665	10,852
Marketable Secu.	-	-	-	-
Loans and advances	14,294	14,252	14,197	14,129
Total assets	**7,93,277**	**7,95,625**	**8,08,458**	**8,18,882**
Shareholders' funds	**3,91,155**	**4,37,251**	**4,94,126**	**5,59,792**
Share capital	2,886	2,886	2,886	2,886
Reserves & surplus	3,88,269	4,34,365	4,91,239	5,56,905
Total Debt	**2,24,085**	**1,79,268**	**1,10,749**	**33,225**
Secured loans	1,84,234	1,47,387	88,432	26,530
Unsecured loans	39,851	31,881	22,317	6,695
Other liabilities	49,120	54,032	59,435	65,379
Curr. Liab. & prov.	**1,28,843**	**1,24,949**	**1,43,963**	**1,60,232**
Current liabilities	1,21,039	1,17,381	1,35,244	1,50,527
Provisions	7,804	7,568	8,720	9,705
Total liabilities	**4,02,047**	**3,58,249**	**3,14,147**	**2,58,835**
Total equity & liabilities	**7,93,277**	**7,95,625**	**8,08,458**	**8,18,882**
Book Value (Rs)	**1,355**	**1,515**	**1,712**	**1,939**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	201.5	169.9	209.7	242.1
Adj. EPS growth (%)	*127.3*	*(15.7)*	*23.4*	*15.5*
EBITDA margin (%)	*22.0*	*25.2*	*24.8*	*23.9*
Pre-tax margin (%)	*12.4*	*16.8*	*18.1*	*19.0*
ROE (%)	*17.2*	*11.8*	*13.0*	*13.3*
ROCE (%)	*10.8*	*12.1*	*14.0*	*15.2*
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.5	0.6	0.7
Leverage factor (x)	2.2	1.9	1.7	1.5
Net margin (%)	*13.8*	*11.5*	*12.4*	*13.0*
Net Debt/Equity (x)	0.6	0.4	0.2	0.0
Working Capital & Liquidity ratio				
Inventory days	36	40	36	37
Receivable days	19	20	25	25
Payable days	135	135	135	135

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	23.1	27.4	22.2	19.2
Price / Book value (x)	3.4	3.1	2.7	2.4
PCE (x)	15.8	17.7	15.3	13.8
EV / Net sales (x)	3.7	3.6	3.0	2.5
EV / EBITDA (x)	16.8	14.1	12.0	10.6
Dividend Yield (%)	0.4	0.2	0.2	0.3

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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