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Equity Research

Equity Research Report Cement

Date: June 30, 2022

Ultratech Cement Ltd

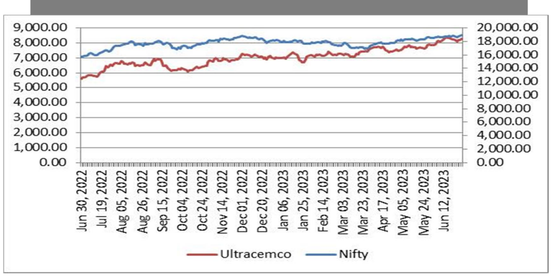
Analyst Recommendation: BUY

BSE Code: 532538 **NSE:Ultracemco**

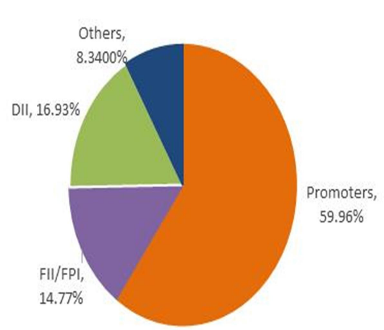
CMP:	**Rs 8295**
2 Year Target -	**Rs 9350**

Face Value	10.0
Market Cap (Rs cr)	2,39,458
Stock PE	47.3
Dividend Yield	0.46%
Shares O/S (Cr)	28.9
Book Value per Share (Rs)	1882
Sensex	64718
Nifty	19,189

1 yr. Price Chart of Stock and BSE



Shareholding pattern as on 31st March 2023



Investor's Rationale

Capacity expansion & positive demand environment to drive growth

UTCL is in the process of expanding its consolidated capacityby 19% from the current135 mtpa to 160 mtpa, which will get operational in phases over FY24E-FY26E. With the completion of the existing expansion, the company plans to further consolidate its market position, increase market share, and maintain its leadership position in the cement industry. Benign demand environment will positively impact its growth prospect. With the expanded capacity and higher utilisation going forward,we expect the company to post a healthy volume CAGR of 10% over FY23A-FY25E, which would be significantly higher than the expected industry growth of 7% CAGR over the same period. We also expect the company to clock a revenue CAGR of 9% over this period.

Easing input costs along with cost optimization measures to improve margins

The recent correction in fuel prices(Pet Coke and Coal) bodes well for the company as it will aid in improving its margin, which will start flowing in from Q1FY24 and onwards. UTCLs integrated operations, improving cement-to-clinker ratio, digitisation of sales channel, prodcution and sale of more blended Cement and effective utilization of resources make it one of the most efficientcost producers of cement in India.Moreover, it has initiated various cost optimization exercises at its operating facilities whichwill aid in its margin improvement going forward. With better capacity utilization, a better demand environment, and robust cost control, we expect the company's EBITDA margins to grow from 17% in FY23 to 22% by FY25E. Concurrently, its EBITDA/tonne would also improve by 30% over FY23-25E to Rs1,300/tonne.

Valuation

We initiate coverage on the stock with a BUY recommendation and target price of Rs9,350/share (valuing the company at 16x of its FY25E EV/EBITDA and on the back of CAGR growth of 9%/9%/24%/32% in Volume/Revenue/EBITDA/APAT over FY23-FY25E).The TP implies an upside of 13% from the CMP.

	FY22	FY20	FY21E	FY22E
Revenue (Rs.Cr)	52,599.00	63,240.00	69,916.00	75,510.00
EBITDA (Rs. cr)	11,514.00	10,620.00	14,443.00	16,360.00
Adj. profit (Rs.Cr)	7,164.00	5,082.00	7,622.00	8,813.00
P/E (x)	27.0	47.0	31.0	27.0
EV/Sales (x)	3.7	3.8	3.4	3.1
EV/EBITDA (x)	17.0	23.0	17.0	14.0
ROE (%)	14.00%	9.00%	12.00%	13.00%
ROCE (%)	14.00%	13.00%	17.00%	17.00%

Capacity expansion & positive demand to drive volume and revenue growth

UTCLs has 24 integrated cement facilities, 29 split grinding units, 8 bulk packaging terminals,1 White Cement unit, 3 Putty Units, and 231 RMC plants as of 31stMar'23 on a pan India basis. UTCL is India's largest cement company with an installed grinding capacity of 136 mtpa and 94.5 mtpa of Clinker capacity as of the date on a consolidated basis accounting for 22% of the all-India capacity share. The company enjoys a substantial presence in most of the regions and its capacity mix as of 31stMar'23 stood at 25.7 mtpa (North), 28.4 mtpa (Central), 22.9 mtpa(East),29.5 mtpa(West), and20.5 mtpa(South). It's the market leader in most of the market.The company has grown its capacity at a CAGR of 10% over FY16-FY23 outpacing the industry growth of 4% CAGR by margin during this period, which has resulted in significant market share gain for the company.

Expansion to gain more market share:UTCL is in the process of expanding its present capacity by 19% from the current 135 mtpa to 160 mtpa on a consolidated basis. The first phase of expansion of 19.9 mtpa is nearly completed and the 2nd phase (22.8 mtpa) is expected to get completed by FY25E. The company has allocated Rs 12,886 Cr for 2ndphase of expansion at an attractive ($76/tonne). The majority of these expansions are taking place (11.9 mtpa) in the eastern region and Central region (11.5 mtpa) and the gain in market share in these regions is eminent. The company also intends to double its RMC plant moving ahead.

East & Central region showing promising growth opportunities:The Eastern & Central region is expected to grow at a CAGR of 8%-9% between FY23-FY25E. Cement consumption in both these regions is below the national average of 240-250 mtpa. Cement demand in FY24E and FY25E in the Central and Eastern regions is estimated at 75 mtpa and 109mtpa. Incremental demand from FY23-FY25E to be ~11mtpa and 19 mtpa which implies a growth CAGR of 9% during this period. We believe the company will be in a position to absorb the increased production from the new facilities in the region.

With the extended capacity, encouraging demand environment and better utilisation going forward,we expect the company to post a volume CAGR of 10% over FY23-FY25E,outpacing industry growth of 7%- 8% CAGR over the same period. We expect the company to clock a revenue CAGR of 9% over the same period.

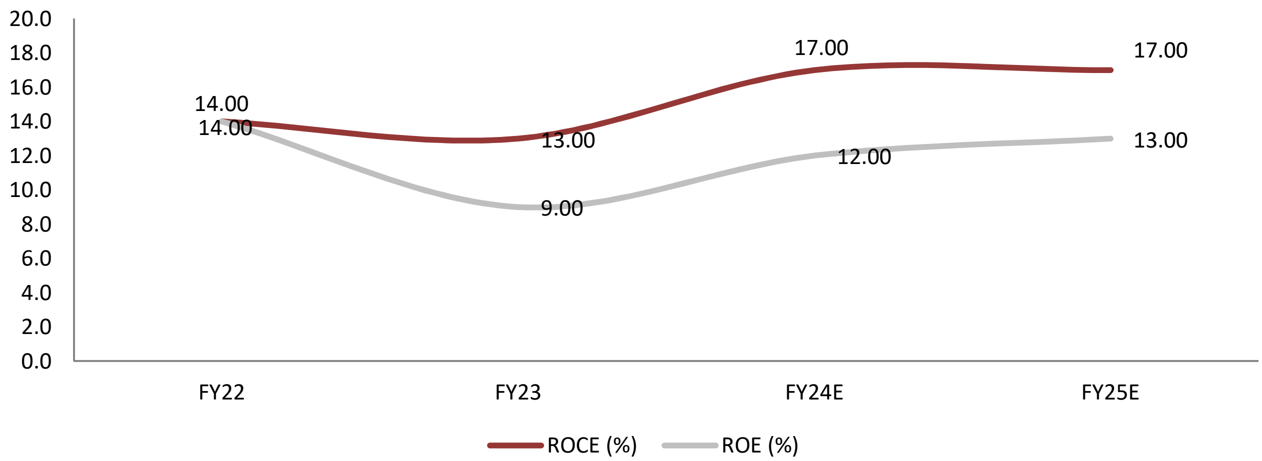
Easing input cost & Other Cost optimization measures to improve margins

Operating margins to improve moving ahead: Power/fuel remained the pain point for the company forthe last 12 to 15 months, severely impacting its operating margins. However, with the softness in the prices of Petcoke and Imported Coal (Down 45%-60%) in the last six months, the company'soperating margins are set to improve and the positive impact of the same would start getting reflected in Q1FY24. The company continues to optimise the fixed and variable costs through a low-cost fuel mix, increasing the share of alternative fuels, production of more blended Cement,moderating cost centres and encouraging the use of lateral alternatives. In FY23,its fuel mix stood at Petcoke at 47%, ImportedCoal at 42%, and Indigenous Coal and others at 11%. The conversion ratio (Clinker to Cement) is also expected to increase to 1.5x from the current 1.42x as the company braces to increase the production of more blended Cement.

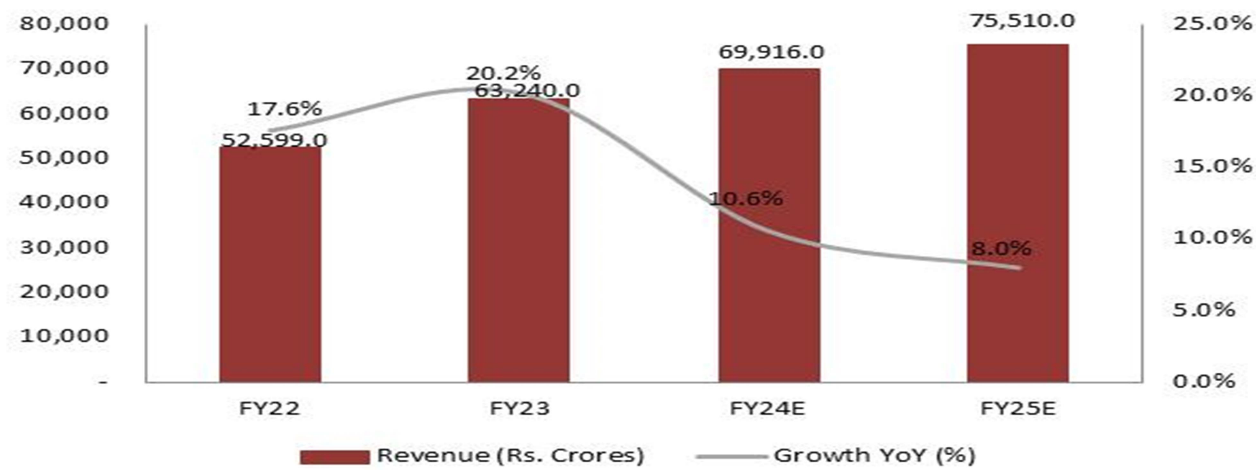
Shrinking lead distances to optimise the logistics cost: The company continues to take relentless efforts to increase its visibility and market share in its natural markets as well as in the markets that are more economically beneficial. It is putting all efforts to considerably shrink the lead distances to optimise the logistics cost,through various supply chain management initiative programmes. It has been able to implement a systemic process to logistics movement on the back of sensitization and collaborative discussion between the sales team and direct dispatches, increase in railways dispatches, higher utilization of grinding units and bulk terminals, and reduce the plant turnaround time and improve security.

On the back of the above measures and softening in commodity prices,we expect the company's cost per tonne to moderate by 5% to Rs4,725/tonne from the current Rs4,978/tonne over FY23-FY25E. With better monitoring of cost drivers and stable realization, we expect EBITDA margins to grow from 17% in FY23 to 22% by FY25E. As a result, EBITDA/tonne is expected to improve by 30% over the period FY23-25E to Rs1,307/tonne

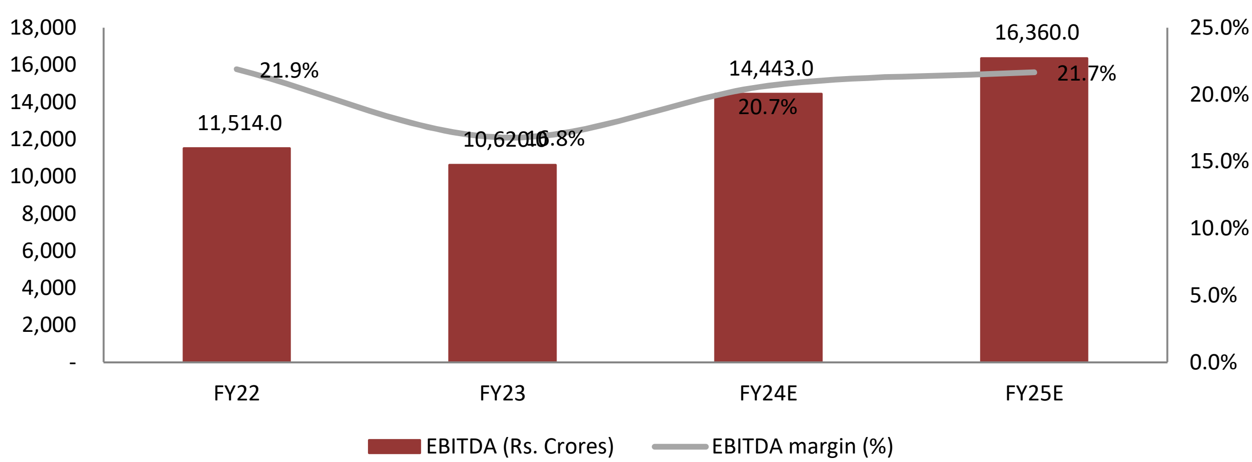
Return ratios on growth track



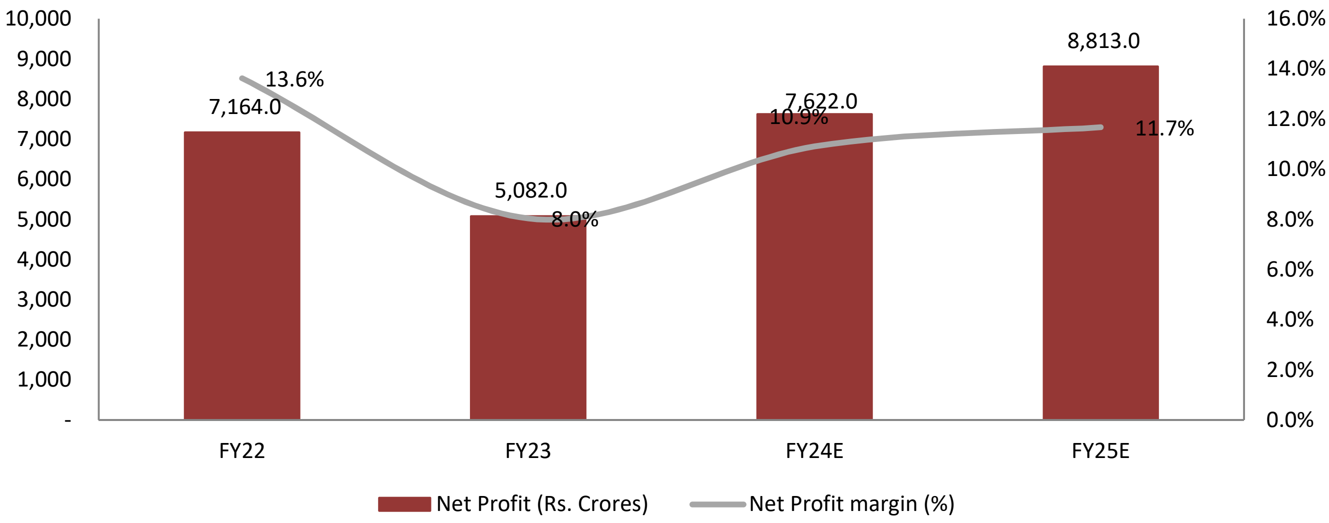
Revenue growth to be steady



EBITDA to grow going ahead



Net profit to surge going ahead



Outlook and Valuation

We expect the company to report Revenue/EBITDA/APAT CAGR of 9%/24%32% over FY23-FY25E, driven by volume CAGR of 10% and stable realization CAGR of 1% over the same period. The stock is currently trading at 16.5x FY24E and 14x FY25E EV/EBITDA (10-year average EV/EBITDA multiple for the company 15.5x)and EV/tonne of $205 and $175 respectively. While the valuation at current levels is not cheap, future growth prospects and strong industry tailwinds will keep the valuation multiplyelevated. We initiate coveragewith a BUY rating and value the company at 16x of its FY25E EV/EBITDAto arrive at a target price of Rs9,350/share, implying an upside potential of 13% from the current levels.

Reliance Industries Ltd - Company Overview

UlltraTech Cement Limited is the cement flagship company of the Aditya Birla Group. A $5.9 Bn building solutions powerhouse, UltraTech is the largest manufacturer of grey cement, ready mix concrete (RMC), and white cement in India. It is the third-largest cement producer in the world, excluding China. UltraTech is the only cement company globally (outside of China) to have 130 MTPA of cement manufacturing capacity in a single country. The company’s business operations span UAE, Bahrain, Sri Lanka, and India.

On a consolidated basis,UltraTech has a grey cementcapacity of 136Million Tonnes Per Annum (MTPA). The company has a network of over 1,20,000 channel partners across the country and has a market reach of more than 80% across India. In the white cement segment, UltraTech goes to market under the brand name Birla White. It has one White Cement unit and 3 Wall Care putty unitswith a current capacity of 2 MTPA. With 231 Ready Mix Concrete (RMC) plants in 109 cities, UltraTech is the largest manufacturer of concrete in India.

It also has a slew of speciality concretes that meet the specific needs of discerning customers. The company’s Building Products business is an innovation hub that offers an array of scientifically engineered products to cater to new-age constructions

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Balance sheet (Consolidated)

(Rs crore)	FY22	FY23	FY24E	FY25E
Liabilities				
Paid up capital	289	289	289	289
Reserves and Surplus	50147	54036	60484	68122
Net worth	**50436**	**54325**	**60773**	**68411**
Minority interest	-3	56	65	75
Total Debt	11299	11058	9558	8058
Other non- current liabilities	22097	25949	26258	26745
Total Liabilities	**83829**	**91388**	**96654**	**103289**
Assets				
Total fixed assets	55495	59584	62637	65080
Capital WIP	4777	4035	4035	4035
Investments	4963	5837	7337	10337
Net Current assets	8,667	10,479	11,171	11,960
Deferred tax assets (Net)	0	0	0	0
Other non- current assets	9,927	11,453	11,474	11,877
Total Assets	**83829**	**91388**	**96654**	**103289**

Profit & Loss Account (Consolidated)

(Rs crore)	FY22	FY23	FY24E	FY25E
Total operating Income	**52599**	**63240**	**69916**	**75510**
Raw Material cost	7965	9715	10737	11434
Employee cost	2535	2739	2958	3150
Other operating expenses	30585	40166	41778	44566
EBITDA	**11514**	**10620**	**14443**	**16360**
Depreciation	2715	2888	3240	3598
EBIT	**8799**	**7732**	**11203**	**12762**
Interest cost	945	823	736	612
Other Income	508	503	561	604
Profit before tax	**8362**	**7412**	**11028**	**12754**
Tax	1190	2343	3420	3955
Profit after tax	**7172**	**5069**	**7608**	**8799**
Minority Interests	-10	9	10	10
P/L from Associates	2	4	4	4
Adjusted PAT	**7164**	**5082**	**7622**	**8813**

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Cash Flow (Consolidated)

Y.E March (Rs crore)	FY22	FY23	FY24E	FY25E
Pretax profit	**8364**	**7416**	**11033**	**12757**
Depreciation	2715	2888	3240	3598
Chg in Working Capital	-473	-337	-383	-302
Others	-2878	-2022	-6665	-7901
Tax paid	1555	1124	3420	3955
Cash flow from operating activities	**9283**	**9069**	**10645**	**12107**
Capital expenditure	-5613	-6200	-6292	-6041
Chg in investments	7689	-1808	-1500	-3000
Other investing cashflow	182	821	561	604
Cash flow from investing activities	**2257**	**-7187**	**-7231**	**-8437**
Borrowings	139	826	-1000	-1000
Others	-12637	-2457	-2391	-2267
Cash flow from financing activities	**-12498**	**-1631**	**-3391**	**-3267**
Net chg in cash	**-958**	**251**	**23**	**403**

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY22	FY23	FY24E	FY25E
Growth (%)				
Net Sales	18.0%	20.0%	11.0%	8.0%
EBITDA	0.0%	17.0%	21.0%	22.0%
Net profit	35.0%	8.0%	11.0%	12.0%
Margin (%)				
EBITDA	22.0%	17.0%	21.0%	22.0%
NPM	14.0%	8.0%	11.0%	12.0%
Return Ratios (%)				
RoE	14.0%	9.0%	12.0%	13.0%
RoCE	14.0%	13.0%	17.0%	17.0%
Valuation(x)				
P/E	27.0	47.0	31.0	27.0
EV/EBITDA	17.0	23.0	17.0	14.0
EV/Net Sales	3.7	3.8	3.4	3.1
Leverage Ratios				
Debt / equity (x)	0.2	0.2	0.1	0.1

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Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Between 10% & -5%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than -5%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*

Member: BSE, NSE, MCX, MCX-SX, CDSL

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