



Ultratech Cement

BSE SENSEX 23,002 S&P CNX 6,987

CMP: INR2,767 TP: INR3,372 (+22%) Buy



Stock Info

| | |
|-----------------------|-------------|
| Bloomberg | UTCEM IN |
| Equity Shares (m) | 274.4 |
| 52-Week Range (INR) | 3,399/2,531 |
| 1, 6, 12 Rel. Per (%) | 5/8/10 |
| M.Cap. (INR b) | 759.3 |
| M.Cap. (USD b) | 11.1 |
| Avg Val (INRm) | 899.9 |
| Free float (%) | 38.3 |

Financials Snapshot (INR b)

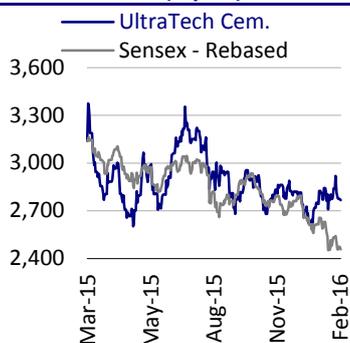
| Y/E Mar | 2016E | 2017E | 2018E |
|---------------|-------|-------|-------|
| Sales | 237.5 | 265.2 | 313.3 |
| EBITDA | 43.0 | 53.1 | 73.6 |
| NP | 20.9 | 28.2 | 43.2 |
| Adj EPS (INR) | 76.3 | 102.8 | 157.6 |
| EPS Gr. (%) | 3.9 | 34.8 | 53.3 |
| BV/Sh (INR) | 750.3 | 835.6 | 972.9 |
| RoE (%) | 10.6 | 13.0 | 17.4 |
| RoCE (%) | 13.2 | 16.4 | 21.7 |
| P/E (x) | 36.3 | 26.9 | 17.6 |
| P/BV (x) | 3.7 | 3.3 | 2.8 |
| EV/EBITDA (x) | 17.7 | 13.7 | 9.4 |
| EV/Ton (USD) | 171 | 164 | 155 |

Shareholding pattern (%)

| As On | Sep-15 | Jun-15 | Sep-14 |
|----------|--------|--------|--------|
| Promoter | 61.7 | 61.7 | 61.7 |
| DII | 7.1 | 6.8 | 5.7 |
| FII | 20.2 | 20.3 | 21.7 |
| Others | 11.0 | 11.3 | 11.0 |

FII Includes depository receipts

Stock Performance (1-year)



Mega deal at favorable valuation for UTCEM

Awaiting clarity on regulatory nods

- Assets that are part of MoU:** UTCEM entered into an MoU with JPA for 22.4mt (clinker 16.2mt) of cement assets at a valuation of INR165b. The deal comprises (a) 11.4mt in Satna Cluster, 4.8mt in north and 6.2mt in south, (b) 325MW of captive power plants and (c) 40years+ limestone reserve. UTCEM with 94.5mt capacity (by mid-FY17) would become 4th largest capacity holder in the world (outside China).
- What makes the assets attractive for UTCEM?** (a) Demand cycle at the cusp of acceleration, (b) organic expansion getting costly and time consuming (land, limestone and approvals) and (c) JPA-portfolio of 12 plants offering complementary market reach to its existing asset base – thus creating strong strategic sense.
- Regulatory hurdles? Optimist on CCI nod; MMDR contingency remains:** Complementary market mix keeps us optimist on CCI node despite large size of the deal. 50% of capacities fall in Satna cluster where UTCEM had no presence. State-wise combined entity's market share wouldn't cross 20-30%, while share in central region would be ~30%. However amendment to MMDR ACT remains a contingency. Management is optimist on resolution in near future, followed by deal conclusion of 12-15months by 1HFY18.
- Winning valuation for UTCEM, in our views:** At INR165b (plus INR4.7b for under construction GU of 4mt), implied EV is ~USD110/ton. Adjusting for MP asset of 4.9mt (IN54b), the incremental assets (17.5mt) come at ~USD100/ton. Currently, JPA has sub-normal utilizations (60-70%) and EBITDA (<INR500/ton) due to operating constraints like working capital management. Assuming 6-7% pricing CAGR in FY16-18 and UTCEM's brand premium of INR200-250/ton (v/s JPA), the target assets may generate EBITDA of INR1,000-1,100/ton (v/s INR1,200 for UTCEM) within 12-months of integration (excluding potential synergies). This, at 75% utilization in FY18, makes transaction valued at 9-10x 1-year fwd EBITDA.
- Synergy benefits not guided, but qualitative hints strong:** Barring natural brand premium, we expect synergies to emerge from (a) logistics – complimentary locations to reduce lead distance in north and central, (b) greater market reach in coastal AP and HP, and (c) resolution of operational bottlenecks boosting utilizations.
- Lower aggression ahead:** We expect UTCEM's net debt/EBITDA to rise to 2.9x v/s 0.6x now) on conclusion of the deal, before gradually declining to 1.7-2x with asset ramp-up and disciplined capex. Being well within UTCEM's gearing threshold of 3.5x net debt/EBITDA and 0.75x net DER, management guided for no major investment in organic capex for next 2-3 years barring select investment in acquisition of critical resources (land and limestone)

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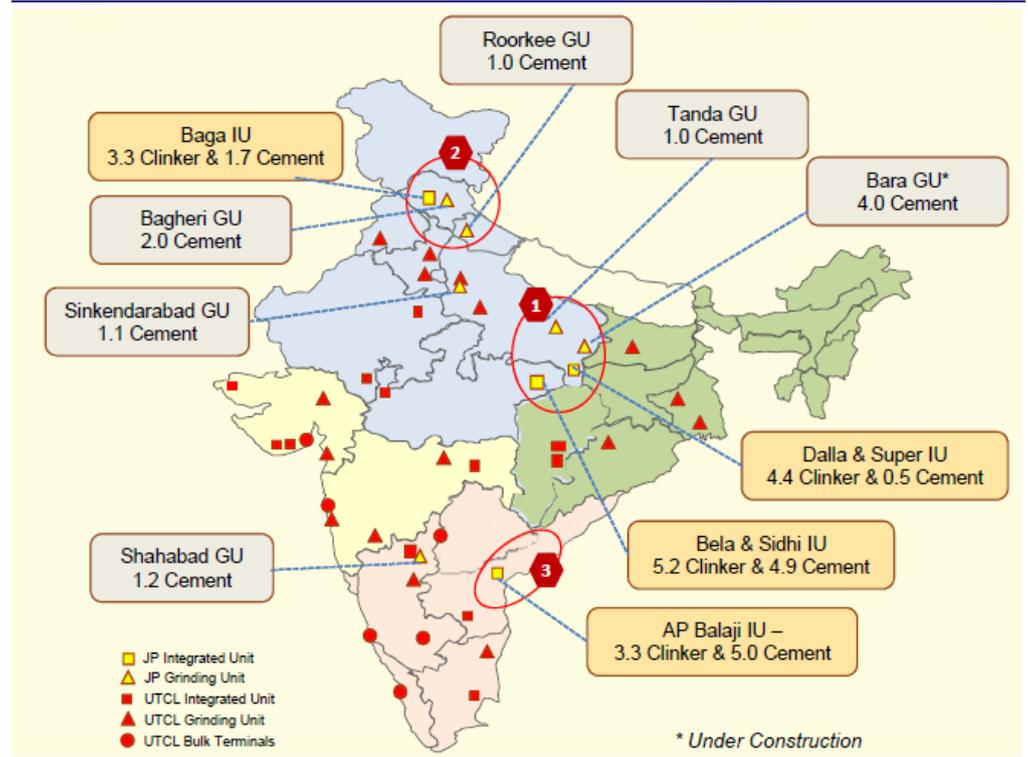
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UTCEM remains our preferred pick

- **JPA deal offers long-term strategic boost:** While sub-normal profitability, low utilizations and fresh debt would lead to EPS dilution in initial years, we expect the transaction to strengthen UTCEM's competitive position through complimentary market reach, synergies, sufficient limestone reserve over medium-term.
- **Pan India growth levers in place:** We believe UTCEM aids most predictable and profitable growth among cement universe on the back of (a) PAN India presence with 17-18% market share (#1 or #2 across regions), (b) strong utilization headroom from recent expansion, and (c) much stabler portability amidst recent weakness (50-100% premium EBITDA/ton v/s ACC, ACEM). It is evident from top quartile growth and profitability over past 2-3 years.
- **Built up edge on efficiencies renders strong and stable margins:** UTCEM delivered strong margins (18-20%) with lowest variance led by (a) consistent efforts in cost savings (rise in pet coke/AFR/WHRS mix, sea route transport, and operating efficiency) and (b) benefits of healthy profitability of white cement. It witnessed strongest savings in direct cost in past 12 months, with further benefits from logistics measures ahead (new grinding facilities in north, west and east, bulk terminus).
- **Mounting entry barrier in the system, UTCEM has preparedness:** Rising entry barrier (critical resources viz. limestone, land getting costlier) offers natural scarcity premium to UTCEM as leader. It has high growth sustainability on the back of strong preparedness like investment in land and limestone in past 4-5 years (can add 20-35mt of brownfield).
- **Dilution in B/S strength would be momentary in our view:** UTCEM's net debt to EBITDA stood at 0.6x S/A (0.9x consolidated). B/S strength enabled it to grab attractive opportunities like JPA's assets. While the transaction would raise net debt/EBITDA to ~2.9x on conclusion, we expect gradual ramp-up in target assets and discipline in other capex (no organic expansion for 2-3 years) would revive the strength back to normal. From its existing assets, it would generate INR30-50b of growth capital from operations (after meeting fixed commitment) which aid self-sustaining growth.
- **Preferred pick:** At the critical juncture of bottoming out growth, UTCEM's strong focus on growth makes its preferred play. We are yet to factor in JPA-deal impact as it is in MoU stage. We expect return ratios to revive to 17-20% and EBITDA/ton to post 20%+ CAGR till FY18 in existing assets. The stock trades at 13.7x/9.4x FY18E EBITDA and EV of US\$164/155/ton. We value UTCEM at INR3,370 (12x FY18E EBITDA, USD190/ton).

Complimentary plant location offers new market reach and potential synergic benefits

Exhibit 1: Plants locations post JPA deal



Source: Company, MOSL

Exhibit 2: Details of JPA assets to be acquired

| Location | Plant | Capacity | |
|---------------|-------|-------------|-------------|
| | | Clinker | Cement |
| Dalla | IC | 2.1 | 0.5 |
| JP Super | C | 2.3 | |
| Tanda | GU | | 1 |
| Sikandarabad | GU | | 1 |
| Bara | GU | | 4 |
| Bela | IC | 2.1 | 2.6 |
| Sidhi | IC | 3.1 | 2.3 |
| Satna Cluster | | 9.6 | 11.4 |
| Baga | IC | 3.3 | 1.7 |
| Bageri | GU | | 2 |
| Roorkee | GU | | 1.1 |
| HP cluster | | 3.3 | 4.8 |
| Balaji | IC | 3.3 | 5 |
| Shahabad | GU | | 1.2 |
| South cluster | | 3.3 | 6.2 |
| Total | | 16.2 | 22.4 |

Source: Company, MOSL

Sub-normal presence in Satna cluster to improve with the deal

Exhibit 3: Capacity and Market mix(%) of UTCEM post JPA deal

| Zone/Region | Pre* | JPA | Post | Mix (%) |
|------------------|-------------|-------------|-------------|------------|
| North | 19 | 4.8 | 23.8 | 27 |
| Satna cluster | | 11.4 | 11.4 | 13 |
| East | 11.4 | | 11.4 | 13 |
| West | 20.4 | | 20.4 | 23 |
| South | 15.5 | 6.2 | 21.7 | 24 |
| All India | 66.3 | 22.4 | 88.7 | 100 |
| Overseas | 3.6 | | 3.6 | |
| Total | 69.9 | 22.4 | 92.3 | |

*1.6mtpa of Bihar GU (to be commissioned in Mar'16) +0.6 mtpa GU in Bahrain

Source: Company, MOSL

State-wise combined entity's market share wouldn't cross 20-30% in states, while share in central region would be ~30%

Exhibit 4: Combined market share (%) in each state

| | Industry | UTCEM | JPA | Combined | Combined |
|-------------------------|----------|-------|------|----------|-----------|
| MP | 35.8 | 3 | 4.9 | 7.9 | 22 |
| UP | 17.1 | 2.6 | 6.6* | 9.2 | 54 |
| Haryana/Punjab/HP/UTKHD | 26.5 | 3 | 4.7 | 7.7 | 29 |
| AP | 57 | 4.5 | 5 | 9.5 | 17 |
| Karnataka | 35.6 | 5.4 | 1.2 | 6.6 | 19 |

Ex-Bara Grinding units (u/c), the share in UP stood at 30%

Source: Company, MOSL

At INR165b the implied EV is ~USD110/ton – at lower end of recent M&A band

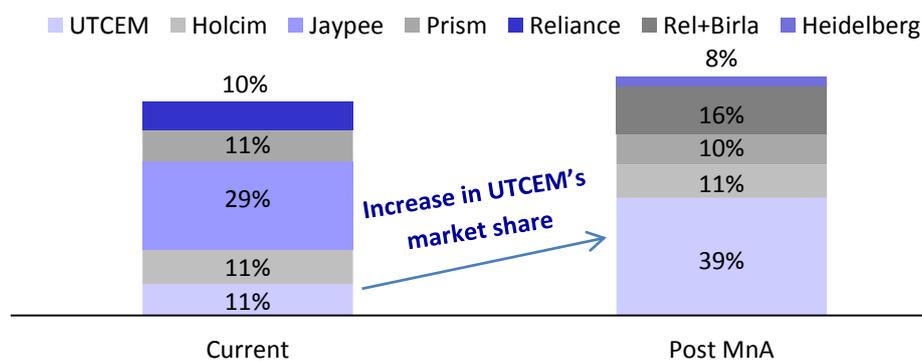
Exhibit 5: Recent M&A deals in the industry

| Acquirer | Acquiree | Year | Capacity | Region | US\$/ton |
|------------------|--------------------|------|----------|-----------|----------|
| Dalmia Bharat | Calcom Cement | 2012 | 2.1 | East | 115 |
| Dalmia Bharat | Adhunik Cement | 2012 | 1.5 | East | 130 |
| Barings Asia PE | Lafarge India | 2013 | 10.9 | East | 157 |
| CRH | Shri Jayajothi | 2013 | 2.4 | South | 97 |
| UltraTech | JP's Gujarat Plant | 2013 | 4.8 | West | 124 |
| Chettinad Cement | Anjani Cement | 2014 | 1.2 | South | 46 |
| Dalmia Bharat | JPA Bokaro (G) | 2014 | 2.1 | East | 90 |
| Shree Cement | JPA Panipat (G) | 2014 | 1.5 | North | 40 |
| Sagar Cement | BMM Cement | 2014 | 1 | South | 90 |
| UltraTech | JP's MP Plant | 2014 | 4.9 | Central | 140 |
| Dalmia Bharat | OCL stake | 2015 | 6.8 | East | 93 |
| Birla Corp | Reliance Cement | 2016 | 5.5 | Central | 135 |
| Ultratech | JPA | 2016 | 22.4 | PAN India | 110 |

Source: : Company, MOSL

The deal is positive for market consolidation as it raises capacity share of top 5 in central to ~85%

Exhibit 6: Market share of top 5 players in Central India



Source: MOSL, Company

Financials and Valuations

| Income Statement | | | | | | (INR Million) | | |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------------|----------------|----------------|
| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
| Net Sales | 132,062 | 181,664 | 199,991 | 200,779 | 226,565 | 237,459 | 265,207 | 313,251 |
| Change (%) | 87.3 | 37.6 | 10.1 | 0.4 | 12.8 | 4.8 | 11.7 | 18.1 |
| EBITDA | 25,597 | 40,039 | 44,946 | 36,160 | 39,153 | 43,009 | 53,101 | 73,611 |
| EBITDA Margin (%) | 19.4 | 22.0 | 22.5 | 18.0 | 17.3 | 18.1 | 20.0 | 23.5 |
| Depreciation | 7,657 | 9,026 | 9,454 | 10,523 | 11,331 | 12,858 | 13,387 | 13,828 |
| EBIT | 17,939 | 31,013 | 35,492 | 25,637 | 27,822 | 30,151 | 39,715 | 59,783 |
| Interest | 2,725 | 2,239 | 2,097 | 3,192 | 5,475 | 5,255 | 5,424 | 5,027 |
| Other Income | 2,619 | 4,568 | 4,620 | 5,310 | 6,515 | 5,000 | 6,000 | 7,000 |
| Extraordinary items | 0 | 666 | 0 | 956 | 0 | 0 | 0 | 0 |
| PBT | 17,833 | 34,009 | 38,015 | 28,711 | 28,863 | 29,896 | 40,290 | 61,756 |
| Tax | 3,791 | 9,467 | 11,700 | 7,266 | 8,715 | 8,969 | 12,087 | 18,527 |
| Tax Rate (%) | 21.3 | 27.8 | 30.8 | 25.3 | 30.2 | 30.0 | 30.0 | 30.0 |
| Min. Int. & Assoc. Share | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 14,042 | 24,542 | 26,315 | 21,445 | 20,147 | 20,927 | 28,203 | 43,229 |
| Adjusted PAT | 14,042 | 24,062 | 26,315 | 20,731 | 20,147 | 20,927 | 28,203 | 43,229 |
| Change (%) | 28.4 | 71.4 | 9.4 | -21.2 | -2.8 | 3.9 | 34.8 | 53.3 |
| Balance Sheet | | | | | | (INR Million) | | |
| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
| Share Capital | 2,740 | 2,741 | 2,742 | 2,742 | 2,744 | 2,744 | 2,744 | 2,744 |
| Reserves | 103,920 | 125,858 | 149,606 | 168,233 | 185,833 | 203,099 | 226,520 | 264,171 |
| Net Worth | 106,660 | 128,598 | 152,348 | 170,975 | 188,576 | 205,843 | 229,264 | 266,914 |
| Debt | 26,373 | 41,529 | 54,085 | 51,993 | 74,142 | 64,142 | 59,142 | 59,142 |
| Deferred Tax | 17,301 | 17,378 | 19,059 | 22,958 | 27,920 | 29,415 | 31,631 | 35,027 |
| Total Capital Employed | 150,334 | 187,505 | 225,493 | 245,927 | 290,638 | 299,400 | 320,037 | 361,084 |
| Gross Fixed Assets | 179,423 | 190,138 | 213,822 | 250,778 | 318,741 | 354,478 | 359,478 | 364,478 |
| Less: Acc Depreciation | 65,420 | 73,797 | 82,599 | 92,059 | 109,267 | 122,125 | 135,512 | 149,340 |
| Net Fixed Assets | 114,003 | 116,342 | 131,224 | 158,718 | 209,475 | 232,353 | 223,966 | 215,139 |
| Capital WIP | 6,831 | 18,965 | 35,054 | 20,384 | 20,737 | 15,000 | 30,000 | 45,000 |
| Investments | 37,303 | 37,888 | 51,087 | 53,917 | 52,088 | 24,500 | 29,500 | 29,500 |
| Current Assets | 41,809 | 56,257 | 56,723 | 64,489 | 69,850 | 92,604 | 101,964 | 138,386 |
| Inventory | 19,565 | 20,359 | 23,505 | 23,684 | 27,514 | 26,023 | 29,064 | 34,329 |
| Debtors | 6,023 | 7,660 | 10,172 | 12,810 | 12,032 | 13,011 | 13,079 | 15,448 |
| Cash & Bank | 1,448 | 1,896 | 1,427 | 2,775 | 2,139 | 24,294 | 30,031 | 54,280 |
| Loans & Adv, Others | 14,773 | 26,342 | 21,619 | 25,220 | 28,165 | 29,276 | 29,790 | 34,329 |
| Curr Liabs & Provs | 49,612 | 41,947 | 48,595 | 51,582 | 61,511 | 65,057 | 65,394 | 66,941 |
| Curr. Liabilities | 43,877 | 33,740 | 37,903 | 41,884 | 48,481 | 52,046 | 54,495 | 55,784 |
| Provisions | 5,735 | 8,207 | 10,692 | 9,698 | 13,030 | 13,011 | 10,899 | 11,157 |
| Net Current Assets | -7,803 | 14,310 | 8,128 | 12,907 | 8,339 | 27,547 | 36,570 | 71,445 |
| Total Assets | 150,334 | 187,505 | 225,493 | 245,927 | 290,638 | 299,400 | 320,037 | 361,084 |

Financials and Valuations

Ratios

| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Basic (INR) | | | | | | | | |
| EPS | 51.2 | 87.8 | 96.0 | 75.6 | 73.4 | 76.3 | 102.8 | 157.6 |
| Cash EPS | 79.2 | 120.7 | 130.5 | 114.0 | 114.7 | 123.1 | 151.6 | 208.0 |
| Book Value | 389.2 | 469.2 | 555.7 | 623.5 | 687.3 | 750.3 | 835.6 | 972.9 |
| DPS | 6.0 | 8.0 | 9.0 | 9.0 | 9.0 | 11.0 | 15.0 | 17.5 |
| Payout (incl. Div. Tax.) | 13.6 | 10.4 | 11.0 | 13.5 | 14.2 | 16.8 | 17.0 | 12.9 |
| Valuation(x) | | | | | | | | |
| P/E | 54.0 | 31.5 | 28.8 | 36.6 | 37.7 | 36.3 | 26.9 | 17.6 |
| Cash P/E | 34.9 | 22.9 | 21.2 | 24.3 | 24.1 | 22.5 | 18.3 | 13.3 |
| Price / Book Value | 7.1 | 5.9 | 5.0 | 4.4 | 4.0 | 3.7 | 3.3 | 2.8 |
| EV/Sales | 5.6 | 4.1 | 3.6 | 3.7 | 3.3 | 3.2 | 2.7 | 2.2 |
| EV/EBITDA | 28.9 | 18.5 | 16.1 | 20.3 | 19.4 | 17.7 | 13.7 | 9.4 |
| Dividend Yield (%) | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.5 | 0.6 |
| Profitability Ratios (%) | | | | | | | | |
| RoE | 18.4 | 20.5 | 18.7 | 12.8 | 11.2 | 10.6 | 13.0 | 17.4 |
| RoCE | 21.1 | 23.5 | 21.3 | 14.4 | 14.1 | 13.2 | 16.4 | 21.7 |
| Turnover Ratios (%) | | | | | | | | |
| Asset Turnover (x) | 0.9 | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 |
| Debtors (No. of Days) | 17 | 15 | 19 | 23 | 19 | 20 | 18 | 18 |
| Inventory (No. of Days) | 54 | 41 | 43 | 43 | 44 | 40 | 40 | 40 |
| Creditors (No. of Days) | 121 | 68 | 69 | 76 | 78 | 80 | 75 | 65 |
| Leverage Ratios (%) | | | | | | | | |
| Net Debt/Equity (x) | -0.1 | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 | 0.0 | -0.1 |

Cash Flow Statement

(INR Million)

| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Adjusted EBITDA | 25,597 | 40,039 | 44,946 | 36,160 | 39,153 | 43,009 | 53,101 | 73,611 |
| Non cash opr. exp (inc) | 1,262 | 1,743 | 1,864 | 5,310 | 6,515 | 5,000 | 6,000 | 7,000 |
| (Inc)/Dec in Wkg. Cap. | -925 | 158 | -3,887 | -3,399 | 3,900 | 2,947 | -3,287 | -10,625 |
| Tax Paid | -5,190 | -7,340 | -7,165 | -3,367 | -3,753 | -7,474 | -9,871 | -15,130 |
| Other operating activities | 0 | -22 | -32 | 956 | 0 | 0 | 0 | 0 |
| CF from Op. Activity | 20,743 | 34,578 | 35,727 | 35,660 | 45,815 | 43,483 | 45,944 | 54,856 |
| (Inc)/Dec in FA & CWIP | -12,169 | -31,575 | -32,676 | -23,348 | -62,440 | -30,000 | -20,000 | -20,000 |
| Free cash flows | 8,574 | 3,003 | 3,051 | 12,312 | -16,625 | 13,483 | 25,944 | 34,856 |
| (Pur)/Sale of Invt | -4,321 | 2,159 | -10,349 | -2,862 | 1,861 | 27,588 | -5,000 | 0 |
| Others | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CF from Inv. Activity | -16,489 | -29,416 | -43,025 | -26,210 | -60,579 | -2,412 | -25,000 | -20,000 |
| Inc/(Dec) in Net Worth | 14 | 16 | 79 | 69 | 323 | -154 | 0 | 0 |
| Inc / (Dec) in Debt | -664 | 83 | 12,557 | -2,092 | 22,149 | -10,000 | -5,000 | 0 |
| Interest Paid | -2,930 | -2,907 | -3,268 | -3,192 | -5,475 | -5,255 | -5,424 | -5,027 |
| Divd Paid (incl Tax) & Others | -728 | -1,905 | -2,539 | -2,887 | -2,869 | -3,507 | -4,782 | -5,579 |
| CF from Fin. Activity | -4,309 | -4,714 | 6,829 | -8,102 | 14,128 | -18,916 | -15,207 | -10,606 |
| Inc/(Dec) in Cash | -55 | 448 | -469 | 1,348 | -636 | 22,155 | 5,737 | 24,249 |
| Add: Opening Balance | 1,503 | 1,448 | 1,896 | 1,427 | 2,775 | 2,139 | 24,294 | 30,031 |
| Closing Balance | 1,448 | 1,896 | 1,427 | 2,775 | 2,139 | 24,294 | 30,031 | 54,280 |

NOTES

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