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ASIAMONEY
2016

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Stock Info

	UTCEM IN
Bloomberg	
Equity Shares (m)	274.4
52-Week Range (INR)	3,600/2,581
1, 6, 12 Rel. Per (%)	5/16/13
M.Cap. (INR b)/ (USD b)	925.2/13.7
Avg Val (INR m)	918
Free float (%)	37.5

Financials Snapshot (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	238.4	265.6	314.5
EBITDA	43.5	54.9	78.3
PAT	21.7	28.8	45.7
EPS (INR)	79.3	104.9	166.5
Gr. (%)	7.9	32.4	58.7
BV/Sh (INR)	755.8	849.1	998.2
RoE (%)	11.0	13.1	18.0
RoCE (%)	9.3	11.2	15.3
P/E (x)	42.5	32.1	20.2
P/BV (x)	4.5	4.0	3.4
EV/EBITDA (x)	19.4	17.7	13.7
EV/Ton (USD)	183	171	164

Shareholding pattern (%)

As On	Mar-16	Dec-15	Mar-15
Promoter	62.5	62.8	61.7
DII	7.1	7.6	5.9
FII	19.0	18.4	21.1
Others	11.4	11.2	11.4

FII Includes depository receipts

Ultratech Cement

CMP: INR3,371 **TP: INR3,673 (+9%)** **Buy**

UTCEM-JPA deal size increased by INR2.9b

Regulatory approvals awaited; no change in shareholding pattern

Contrary to media reports, deal well on track: Media reports last week indicated that the UTCEM-JPA deal had hit a roadblock. Apparently, UTCEM was seeking to adjust the deal by INR15b by cherry-picking JPA's cement assets while JPA had sent parallel feelers to other suitors and PE funds, following which UTCEM is believed to have shot letters to JPA regarding the binding agreement. ICICI Bank had also agreed to invoke the SDR mechanism on fears of the deal collapsing. However, UTCEM has clarified that the deal is well on track and that it has increased the deal size from INR159b to INR161.9b.

Regulatory approvals no longer a hurdle: With the amendment to the MMDR Act passed, the acquisition is subject to approval of shareholders and creditors, sanction of scheme of arrangement by Bombay High Court, approval of Competition Commission of India (CCI) and all other statutory approvals, which could take around 12 months. Complementary market mix keeps us optimistic on CCI nod, despite the large size of the deal. 50% of JPA's capacities fall in the Satna cluster, where UTCEM had no presence. State-wise, the combined entity's market share would be below 30%, while its share in the central region would be ~30%.

Nature of consideration: As consideration, UTCEM would issue the following to JPA.

- i. 1,50,000 unlisted non-convertible cumulative redeemable preference shares of INR100k each
- ii. 13,200 unsecured non-convertible redeemable debentures having face value of INR1m each
- iii. 10 unlisted non-convertible cumulative redeemable preference shares of INR100k each
- iv. 18,049 unsecured non-convertible redeemable debentures having face value of INR1m each

Valuation and view: At the critical juncture of bottoming out growth, UTCEM's strong focus on growth makes it our preferred play. We are yet to factor in the impact of JPA deal, as regulatory approvals are awaited. We expect return ratios to revive to 15-18% and EBITDA/ton to post 20%+ CAGR till FY18 in existing assets. The stock trades at an EV of 17.7x FY17E and 13.7x FY18E EBITDA, and at USD171/ton (FY17E) and USD164/ton (FY18E). We value UTCEM at INR3,673/share (EV of 12x FY18E EBITDA; USD212/ton). **Buy.**



UTCDEM remains our preferred pick

JPA deal offers long-term strategic boost: While sub-normal profitability, low utilization and fresh debt would lead to EPS dilution in initial years, we expect the transaction to strengthen UTCDEM's competitive position through complementary market reach, synergies, and sufficient limestone reserves over the medium term.

Pan India growth levers in place: We believe UTCDEM enjoys the most predictable and profitable growth in our Cement universe on (a) pan-India presence with 17-18% market share (#1 or #2 across regions), (b) strong utilization headroom from recent expansion, and (c) more stable portability amidst recent weakness (50-100% premium EBITDA/ton v/s ACC, ACEM). It has had top quartile growth and profitability over the past 2-3 years.

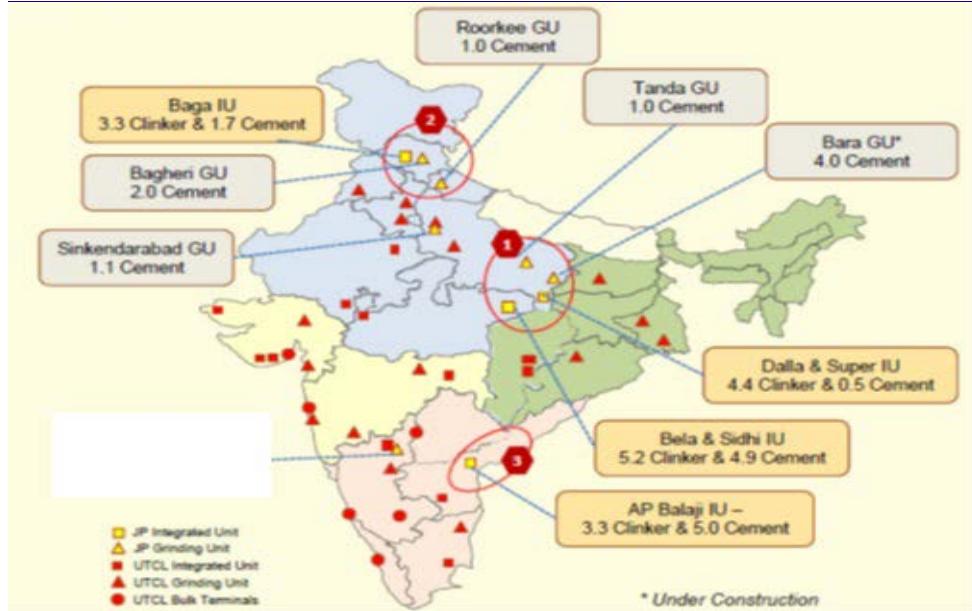
Efficiencies render strong and stable margins: UTCDEM has delivered strong margins (18-20%) with the lowest variance, led by (a) consistent efforts in cost savings (rise in pet coke/AFR/WHRS mix, sea route transport, and operating efficiency), and (b) healthy profitability of white cement. It has witnessed the highest savings in direct cost in the past 12 months, with further benefits from logistics measures ahead (new grinding facilities in North, West and East, bulk terminus).

Mounting entry barriers in the system, UTCDEM is prepared: Rising entry barriers (critical resources like limestone and land getting costlier) gives natural scarcity premium to UTCDEM as the leader. It enjoys high growth sustainability on the back of strong preparedness – investments in land and limestone in the past 4-5 years (can add 20-35m tons of brownfield capacity).

Dilution in B/S strength would be momentary in our view: UTCDEM'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 ~2.7x 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 INR30b-50b of growth capital from operations (after meeting fixed commitment), aiding self-sustaining growth.

Complementary plant locations offer new market reach and potential synergic benefits

Exhibit 1: Plant 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
South cluster		3.3	6.2
Total		16.2	21.2

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	13
East	11.4		11.4	13
West	20.4		20.4	23
South	15.5	5	20.5	24
All India	66.3	21.2	87.5	100
Overseas	3.6		3.6	
Total	69.9	21.2	91.1	

*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 30%; share in central region would be ~30%

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

	Industry	UTCEM	JPA	Combined	Combined
MP	35.8	3.0	4.9	7.9	22
UP	17.1	2.6	6.6*	9.2	54
Haryana/Punjab/HP/UTKHD	26.5	3.0	4.7	7.7	29
AP	57.0	4.5	5.0	9.5	17

* 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

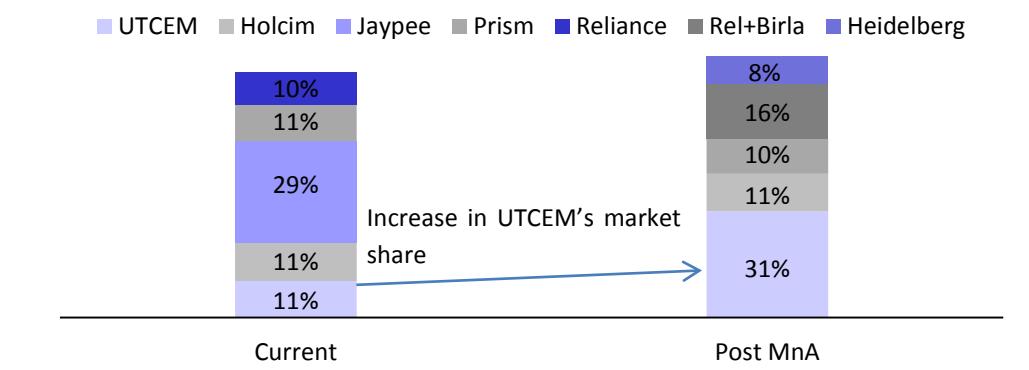
Exhibit 5: Recent M&A deals in the industry

Acquirer	Acquiree	Year	Capacity	Region	USD/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 region to ~75%

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	2016	2017E	2018E	
Net Sales	132,062	181,664	199,991	200,779	226,565	238,410	265,587	314,524	
Change (%)	87.3	37.6	10.1	0.4	12.8	5.2	11.4	18.4	
EBITDA	25,597	40,039	44,946	36,160	39,153	43,498	54,935	78,308	
EBITDA Margin (%)	19.4	22.0	22.5	18.0	17.3	18.2	20.7	24.9	
Depreciation	7,657	9,026	9,454	10,523	11,331	12,890	13,387	13,828	
EBIT	17,939	31,013	35,492	25,637	27,822	30,608	41,549	64,480	
Interest	2,725	2,239	2,097	3,192	5,475	5,053	5,929	5,729	
Other Income	2,619	4,568	4,620	5,310	6,515	5,015	5,500	6,500	
Extraordinary items	0	666	0	956	0	0	0	0	
PBT	17,833	34,009	38,015	28,711	28,863	30,570	41,120	65,252	
Tax	3,791	9,467	11,700	7,266	8,715	8,823	12,336	19,575	
Tax Rate (%)	21.3	27.8	30.8	25.3	30.2	28.9	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	21,747	28,784	45,676	
Adjusted PAT	14,042	24,062	26,315	20,731	20,147	21,747	28,784	45,676	
Change (%)	28.4	71.4	9.4	-21.2	-2.8	7.9	32.4	58.7	
Balance Sheet								(INR Million)	
Y/E Mar	2011	2012	2013	2014	2015	2016	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	204,617	230,213	271,107	
Net Worth	106,660	128,598	152,348	170,975	188,576	207,360	232,956	273,850	
Debt	26,373	41,529	54,085	51,993	74,142	76,607	71,607	71,607	
Deferred Tax	17,301	17,378	19,059	22,958	27,920	32,274	34,535	38,124	
Total Capital Employed	150,334	187,505	225,493	245,927	290,638	316,241	339,098	383,581	
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	122,157	135,544	149,371	
Net Fixed Assets	114,003	116,342	131,224	158,718	209,475	224,483	223,935	215,107	
Capital WIP	6,831	18,965	35,054	20,384	20,737	15,000	25,000	40,000	
Investments	37,303	37,888	51,087	53,917	52,088	51,081	29,500	29,500	
Current Assets	41,809	56,257	56,723	64,489	69,850	87,956	126,151	167,049	
Inventory	19,565	20,359	23,505	23,684	27,514	24,261	27,650	32,745	
Debtors	6,023	7,660	10,172	12,810	12,032	14,149	14,553	15,511	
Cash & Bank	1,448	1,896	1,427	2,775	2,139	22,351	54,843	86,910	
Loans & Adv, Others	14,773	26,342	21,619	25,220	28,165	27,195	29,105	31,883	
Curr Liabs & Provns	49,612	41,947	48,595	51,582	61,511	62,280	65,487	68,075	
Curr. Liabilities	43,877	33,740	37,903	41,884	48,481	51,013	54,573	56,873	
Provisions	5,735	8,207	10,692	9,698	13,030	11,267	10,915	11,202	
Net Current Assets	-7,803	14,310	8,128	12,907	8,339	25,677	60,664	98,974	
Total Assets	150,334	187,505	225,493	245,927	290,638	316,241	339,098	383,581	

E: Estimates

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	51.2	87.8	96.0	75.6	73.4	79.3	104.9	166.5
Cash EPS	79.2	120.7	130.5	114.0	114.7	126.2	153.7	216.9
Book Value	389.2	469.2	555.7	623.5	687.3	755.8	849.1	998.2
DPS	6.0	8.0	9.0	9.0	9.0	9.5	10.0	15.0
Payout (incl. Div. Tax.)	13.6	10.4	11.0	13.5	14.2	13.9	11.1	10.5
Valuation(x)								
P/E					45.9	42.5	32.1	20.2
Price / Book Value					4.9	4.5	4.0	3.4
EV/Sales					4.1	3.8	3.3	2.7
EV/EBITDA					23.6	21.0	16.1	10.7
EV/Ton (Cap-USD)					220.3	202.8	197.1	186.6
Dividend Yield (%)					0.3	0.3	0.3	0.4
Profitability Ratios (%)								
RoE	18.4	20.5	18.7	12.8	11.2	11.0	13.1	18.0
RoCE	16.6	16.9	14.7	10.8	9.9	9.3	11.2	15.3
RoIC	16.2	18.8	18.1	12.3	9.8	9.4	12.2	19.0
Turnover Ratios (%)								
Debtors (No. of Days)	17	15	19	23	19	22	20	18
Inventory (No. of Days)	54	41	43	43	44	37	38	38
Creditors (No. of Days)	121	68	69	76	78	78	75	66
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

Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
(INR Million)								
Adjusted EBITDA	25,597	40,039	44,946	36,160	39,153	43,498	54,935	78,308
Non cash opr. exp (inc)	1,262	1,743	1,864	5,310	6,515	5,015	5,500	6,500
(Inc)/Dec in Wkg. Cap.	-925	158	-3,887	-3,399	3,900	2,875	-2,496	-6,243
Tax Paid	-5,190	-7,340	-7,165	-3,367	-3,753	-4,470	-10,074	-15,987
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	46,918	47,865	62,578
(Inc)/Dec in FA & CWIP	-12,169	-31,575	-32,676	-23,348	-62,440	-22,162	-22,839	-20,000
Free cash flows	8,574	3,003	3,051	12,312	-16,625	24,757	25,027	42,578
(Pur)/Sale of Invt	-4,321	2,159	-10,349	-2,862	1,861	1,006	21,581	0
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-16,489	-29,416	-43,025	-26,210	-60,579	-21,155	-1,257	-20,000
Inc/(Dec) in Net Worth	14	16	79	69	323	66	0	0
Inc / (Dec) in Debt	-664	83	12,557	-2,092	22,149	2,465	-5,000	0
Interest Paid	-2,930	-2,907	-3,268	-3,192	-5,475	-5,053	-5,929	-5,729
Divd Paid (incl Tax) & Others	-728	-1,905	-2,539	-2,887	-2,869	-3,029	-3,188	-4,782
CF from Fin. Activity	-4,309	-4,714	6,829	-8,102	14,128	-5,551	-14,117	-10,511
Inc/(Dec) in Cash	-55	448	-469	1,348	-636	20,212	32,491	32,068
Add: Opening Balance	1,503	1,448	1,896	1,427	2,775	2,139	22,351	54,843
Closing Balance	1,448	1,896	1,427	2,775	2,139	22,351	54,843	86,910

E: Estimates

NOTES

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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudicate violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.

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- Analyst ownership of the stock
- Served as an officer, director or employee

ULTRATECH CEMENT

- No
- No

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