

October 18, 2017

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Rating	Accumulate
Price	Rs4,091
Target Price	Rs4,500
Implied Upside	10.0%
Sensex	32,584
Nifty	10,211

(Prices as on October 18, 2017)

Trading data

Market Cap. (Rs bn)	1,121.2
Shares o/s (m)	274.1
3M Avg. Daily value (Rs m)	947.2

Major shareholders

Promoters	62.16%
Foreign	22.14%
Domestic Inst.	5.55%
Public & Other	10.15%

Stock Performance

(%)	1M	6M	12M
Absolute	(2.6)	3.0	1.9
Relative	(3.1)	(8.1)	(14.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	98.9	100.2	-1.3
2018	106.5	143.3	-25.7

Price Perf. (RIC: ULTC.BO, BB: UTCEM IN)



Source: Bloomberg

Ultratech (UTCEM) reported Q2FY18 earnings ahead of our expectation. The key surprise came on account of lower other expenses. Given the lumpiness of cost components and stabilisation of acquired assets underway, we believe that current quarter don't reflect the steady run-rate of other expenses and hence, we keep our earnings estimates unchanged for FY18E/FY19E. Given the rich valuations and relatively better earnings outlook for its peers, we remain cautious on the stock in medium term. Maintain **Accumulate** with TP of Rs4500, EV/EBITDA of 16x FY19E.

■ **Lower other expenses drove the beat:** Aided by inorganic growth, domestic grey cement volumes rose 18% YoY at 12.4m tonnes (t), in line with our estimate. Total volumes (including exports and white cement) rose 17.5% YoY at 13.1m (PLe:13.0m) t. Blended realisations rose 2% YoY/Rs103 ($\downarrow 0.5\%$ QoQ/Rs27) at Rs4,930/t, tad above our estimate of Rs4,915. Cost rose 3% YoY/Rs124 to Rs3,973 (PLe:Rs4,115) on account of 26%/Rs190 in energy cost and higher freight cost. Benefited by lower than expected other expenses, EBITDA came above our estimate at Rs12.6bn (PLe:Rs10.4bn), up 15% YoY. Hit by 59%/175% increase in depreciation/interest cost (due to acquisition of JP's cement plants), PAT fell 28% YoY at Rs4.3bn (PLe:Rs3.3bn).

■ **Key highlights of con-call:** 1) Acquired JPA cement assets was EBITDA accretive in the quarter 2) Started selling cement from all the acquired plants under UltraTech brand 3) Reiterated Q4FY18 timeline for 60% utilisation and cash break-even of the acquired capacity 4) Expects acquisition to turn EPS accretive by Q4FY19. Margins would upgrade to UTCEM level by Q4FY20 5) Its East/North/Central/West/South plants operated at 70%/70%/50%/50%/50% 6) Consolidated/Standalone Net Debt at Rs158bn/Rs136bn

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	240,558	248,799	250,916	314,160
Growth (%)	12.2	3.4	0.9	25.2
EBITDA (Rs m)	41,413	46,276	49,291	61,686
PAT (Rs m)	20,983	24,780	27,149	29,229
EPS (Rs)	76.5	90.3	98.9	106.5
Growth (%)	(0.6)	18.1	9.5	7.7
Net DPS (Rs)	9.0	9.5	10.0	10.0

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	17.2	18.6	19.6	19.6
RoE (%)	11.4	11.9	11.7	11.4
RoCE (%)	9.2	9.1	9.6	9.4
EV / EBITDA (x)	29.5	26.1	24.0	21.6
EV / Tonne (\$)	268.6	247.9	230.5	200.3
PE (x)	53.5	45.3	41.4	38.4
P / BV (x)	5.7	5.1	4.6	4.2
Net dividend yield (%)	0.2	0.2	0.2	0.2

Source: Company Data; PL Research

Exhibit 1: Q2FY18 Result Overview (Rs m)

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Sales	64,780	53,979	20.0	65,330	130,110	115,769	12.4
Raw Material	9,153	8,622	6.2	9,547	18,700	19,515	(4.2)
% of Net Sales	14.1	16.0		14.6	14.4	16.9	
Staff Costs	4,440	3,572	24.3	3,803	8,242	7,038	17.1
% of Net Sales	6.9	6.6		5.8	6.3	6.1	
Power & Fuel	13,348	8,797	51.7	12,174	25,521	18,034	41.5
% of Net Sales	20.6	16.3		18.6	19.6	15.6	
Freight	15,553	12,749	22.0	15,880	31,432	28,201	11.5
% of Net Sales	24.0	23.6		24.3	24.2	24.4	
Other Expenses	9,707	9,301	4.4	9,261	18,968	18,322	3.5
% of Net Sales	15.0	17.2		14.2	14.6	15.8	
Total Expenditure	52,200	43,041	21.3	50,664	102,864	91,111	12.9
EBITDA	12,580	10,938	15.0	14,666	27,246	24,658	10.5
Margin (%)	19.4	20.3		22.4	20.9	21.3	
Depreciation	4,988	3,139	58.9	3,098	8,086	6,166	31.1
Other income	2,614	2,335	11.9	2,586	5,200	4,343	19.7
EBIT	10,206	10,134	0.7	14,155	24,360	22,836	6.7
Interest	3,759	1,367	175.0	1,285	5,043	2,891	74.4
PBT	6,447	8,767	(26.5)	12,870	19,317	19,945	(3.1)
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	6,447	8,767	(26.5)	12,870	19,317	19,945	(3.1)
Tax	2,135	2,757	(22.6)	3,963	6,098	6,185	(1.4)
% PBT	33.1	31.4		30.8	31.6	31.0	
Reported PAT	4,312	6,011	(28.3)	8,906	13,219	13,760	(3.9)
Adjusted PAT	4,312	6,011	(28.3)	8,906	13,219	13,760	(3.9)

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Volume (m te)	13.1	11.2	17.5	13.2	26.3	24.4	8.0
Net Blended Realisations (Rs/te)	4,930	4,828	2.1	4,957	4,943	4,749	4.1
EBITDA/ te (Rs/te)	957	978	(2.1)	1,113	1,035	1,011	2.4

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	240,558	248,799	250,916	314,160
Raw Material Expenses	40,502	44,175	44,926	50,804
Gross Profit	200,056	204,623	205,990	263,356
Employee Cost	13,083	14,450	15,223	20,011
Other Expenses	145,560	143,898	141,476	181,658
EBITDA	41,413	46,276	49,291	61,686
Depr. & Amortization	12,034	13,772	13,484	17,191
Net Interest	5,865	5,663	6,401	14,993
Other Income	6,343	7,372	9,314	12,353
Profit before Tax	29,856	34,213	38,721	41,856
Total Tax	8,835	9,417	11,586	12,511
Profit after Tax	21,021	24,796	27,135	29,345
Ex-Od items / Min. Int.	38	16	(14)	116
Adj. PAT	20,983	24,780	27,149	29,229
Avg. Shares O/S (m)	274.4	274.4	274.5	274.5
EPS (Rs.)	76.5	90.3	98.9	106.5

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	41,902	45,255	49,935	50,619
C/F from Investing	(21,538)	(37,267)	(24,685)	(14,506)
C/F from Financing	(21,098)	(8,440)	(25,350)	(23,299)
Inc. / Dec. in Cash	(735)	(452)	(100)	12,814
Opening Cash	2,021	1,287	834	734
Closing Cash	1,287	834	734	13,548
FCFF	79,577	7,161	29,894	(134,611)
FCFE	108,125	11,454	8,479	22,389

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	12.2	3.4	0.9	25.2
EBITDA (%)	8.2	11.7	6.5	25.1
PAT (%)	(0.6)	18.1	9.6	7.7
EPS (%)	(0.6)	18.1	9.5	7.7
Profitability				
EBITDA Margin (%)	17.2	18.6	19.6	19.6
PAT Margin (%)	8.7	10.0	10.8	9.3
RoCE (%)	9.2	9.1	9.6	9.4
RoE (%)	11.4	11.9	11.7	11.4
Balance Sheet				
Net Debt : Equity	0.5	0.4	0.3	0.8
Net Wrkng Cap. (days)	(181)	(203)	(226)	(208)
Valuation				
PER (x)	53.5	45.3	41.4	38.4
P / B (x)	5.7	5.1	4.6	4.2
EV / EBITDA (x)	29.5	26.1	24.0	21.6
EV / Sales (x)	5.1	4.8	4.7	4.2
Earnings Quality				
Eff. Tax Rate	29.6	27.5	29.9	29.9
Other Inc / PBT	21.2	21.5	24.1	29.5
Eff. Depr. Rate (%)	5.4	5.4	4.9	3.8
FCFE / PAT	515.3	46.2	31.2	76.6

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	197,194	219,456	243,916	269,841
Total Debt	101,867	106,160	84,745	241,745
Other Liabilities	21,507	24,565	27,921	31,351
Total Liabilities	320,568	350,182	356,582	542,937
Net Fixed Assets	253,198	261,202	260,393	429,302
Goodwill	10,531	11,062	10,851	10,851
Investments	49,541	50,952	66,905	66,905
Net Current Assets	7,202	26,864	18,336	35,780
<i>Cash & Equivalents</i>	<i>3,633</i>	<i>22,670</i>	<i>22,488</i>	<i>35,302</i>
<i>Other Current Assets</i>	<i>66,679</i>	<i>66,046</i>	<i>61,452</i>	<i>78,954</i>
<i>Current Liabilities</i>	<i>63,110</i>	<i>61,852</i>	<i>65,604</i>	<i>78,476</i>
Other Assets	96	102	97	99
Total Assets	320,568	350,181	356,582	542,937

Quarterly Financials (Rs m)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	55,401	64,956	65,330	64,780
EBITDA	10,445	11,786	14,666	12,580
<i>% of revenue</i>	18.9	18.1	22.4	19.4
Depr. & Amortization	3,156	3,357	3,098	4,988
Net Interest	1,293	1,529	1,285	3,759
Other Income	1,660	3,397	2,586	2,614
Profit before Tax	7,655	10,297	12,870	6,447
Total Tax	2,021	3,276	3,963	2,135
Profit after Tax	5,634	7,020	8,906	4,312
Adj. PAT	5,634	7,020	8,906	4,312

Key Operating Metrics

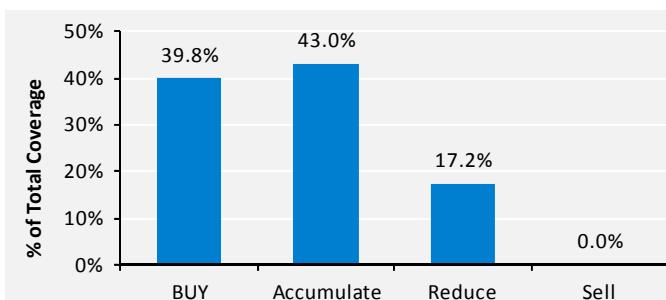
Y/e March	2015	2016	2017E	2018E
Grey Cement Vol. (mn te)	43.4	46.9	47.6	59.0
White Cement Vol. (mn te)	0.6	0.7	0.6	0.7
Clinker Sales Vol. (mn te)	0.7	0.2	—	—
Grey Cement Real. (Rs/te)	4,303.6	4,159.3	4,151.0	4,358.5
White Cement Real. (Rs/te)	11,255.8	10,873.4	10,873.4	11,308.4
Clinker Real. (Rs/te)	3,019.5	2,666.1	2,651.0	2,858.5
Blended EBITDA/tonne (Rs)	876.0	898.9	959.2	992.6
RM cost (Rs/ te)	726.2	732.7	714.6	717.1
Power, Oil & Fuel (Rs/ te)	1,049.8	875.1	809.1	874.5
Freight Chrgs. (Rs/ te)	1,056.6	1,059.7	1,004.6	1,024.7

Source: Company Data, PL Research.

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