UltraTech Cement — HOLD

Strong result with uncertain near term outlook

TP	Rs6,120
CMP	Rs6,406
Potential upside / downside	-4%
Previous Rating	HOLD

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	218.4	253.5
Consensus	217.5	264.5
% difference	*0.4*	*(4.1)*

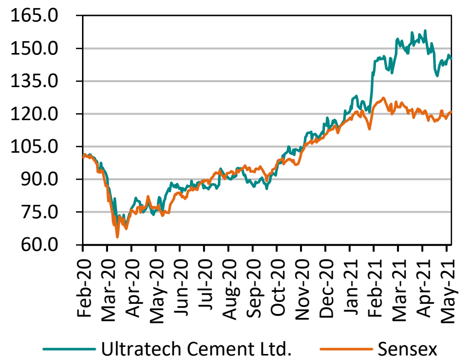
Key Stock Data

Bloomberg/Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	18,49,042
Market cap. (US$ mn)	25,208
3-m daily avg Trd value (Rs mn)	1,657.1
52-week high / low	Rs7,050 / 3,278
Sensex / Nifty	49,502 / 14,942

Shareholding Pattern (%)

Promoters	60.0
FII	17.3
DII	13.7
Public	9.0

Relative to Sensex (%)



Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.2)	0.2	93.7
Rel to Sensex	(6.0)	3.7	37.2

Summary

Ultratech Cement (UTCEM) Q4FY21 EBITDA was higher than our / consensus estimate by 23% / 17%. Beat in number is driven by higher volume growth and lower costs. UTCEM has gained market share in FY21 as it reported cement sales volume growth of 6% YoY versus industry volume declined by 12% YoY for FY21. In Q4FY21, UTCEM witnessed uptick in the plant utilization in every month of Q4FY21 with March-21 month plant utilization of 90%+. Post the result we have factored better than expected result in FY22/23E. This has resulted in increase in the EBITDA by 5-6% over FY22-23E (refer Fig 9). Revised TP is Rs6,120 (earlier Rs5,744) based on unchanged 13x FY23E EV/EBITDA multiple (which is at premium to its last 10 years mean). However, Statewise lockdown has impacted sales volume in April -21 and UTCEM has abstained by giving any volume guidance for FY22E. This is restricting us to revise our current rating of HOLD, despite strong result. We wait for clear environment to turn BUYER, as valuation (EV/EBITDA) at +1 STD of last 10 years mean factors the incremental capacity addition of 13mtpa by FY23E.

Key Highlights and Investment Rationale

- **Snapshot on Q4FY21:** UTCEM Q4 revenue increased by 34% YoY led by volume increase of 30% YoY. EBITDA increased by 51% YoY and EBITDA/t stood at Rs1388 in Q4. UTCEM Opex/t was largely flat QoQ. UTCEM highlighted that costs benefit is led by a) Reduction in fixed cost b) Freight cost benefitted from rail freight discounts and road freight savings and c) Fuel cost benefited from fuel mix optimization.
- **Dividend payout increased, target net cash balance sheet by FY22E:** For FY21, UTCEM has recommended dividend of Rs37/sh (payout of 20%) vs Rs13/sh (payout of ~10%) in FY20. Cash flow was strong, leading to reduction in debt in FY21. UTCEM repaid Rs104bn of debt in FY21 with Net Debt/EBITDA at 0.55x and Net Debt / Equity at 0.15x as on FY21. UTCEM has guided to achieve net cash balance sheet by FY22E. This is achievable as it has CFO of Rs100bn+ in a year.
- **Status on lock-down 2:** UTCEM highlighted that on the ground activity has slowed down in April-21 but government led construction work like Metro, road, coastal road projects is still in construction mode. UTCEM non trade (institutional-Infra) segment, which contributes 21% to its sales volume is less impacted in the current lockdown.

Financial snapshot (Rs mn)

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	3,73,792	4,21,248	4,46,477	4,90,086	5,51,472
EBITDA	67,881	92,836	1,15,543	1,24,391	1,37,479
EBITDA (%)	18.2	22.0	25.9	25.4	24.9
Adj. PAT	24,347	58,161	55,824	63,054	73,175
EPS (Rs)	88.7	201.5	193.4	218.4	253.5
EPS Growth (%)	(5.3)	127.3	(4.0)	13.0	16.1
PE (x)	72.2	31.8	33.1	29.3	25.3
Dividend Yield (%)	0.2	0.2	0.6	0.7	0.8
EV/EBITDA (x)	28.7	22.3	17.5	16.0	14.1
RoE (%)	8.9	17.2	13.4	13.5	14.1
RoCE (%)	9.0	10.8	13.0	13.6	14.8

Source: Company; IDBI Capital Research

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Conference call highlights

- FY21 cement demand has surge from all the corridors and is led by relaxation of stamp duty by state government on real estate, Increase in the need of Space for a house and Infra activity from govt.
- In Q4FY21, region wise for UTCEM East plant operated at 100% utilization, 90% in West, center and North and marginally lower than 90% in South.
- Construction has slowed down in April 21 but Metro, road, coastal road project are still in construction. UTCEM has abstained on giving any guidance and expects clarity post Q1FY21.
- In pandemic, there is an impact on smaller players and large players has gained market share. In Q4 Ultratech sold 0.3mtpa cement versus 1mtpa of all India cement sales. Implying market share of 33%
- Nadawara operated at 85% utilization serving Gujarat and Maharashtra and Century operated at 90% in Q4FY21.
- Dividend is stepped up in FY21 and increase in capacity will result in higher CF in FY22/23. UTCEM has no plans of international foray, Cash will be kept in balance sheet for further acquisition, as there are region where there are opportunity. West region has CCI restriction to increase capacity by UTCEM, All other region is open. And after that cash will be returned to shareholder as dividend. Board has approved dividend policy of 15-25%
- UTCEM capex plan has slowed down due to Covid 2nd wave. But it's on course to achieve commissioning of 19.5mtpa by Mar-23. All equipment payment has been made, Civil work has started on the capex.
- Tight working capital has led to improved CF, with FY21 Net Debt / EBITDA of 0.55x from peak of 3x 3 years back. 2.3mtpa dalla Supper Clinker plant has received Stage 1 clearance of environment and UTCEM expect with this it will start supply to East and Central region by FY22.
- In FY21, prepaid long term loan of Rs50bn and expect more prepayment in FY22.
- Post MMDR act changes, UTCEM Royalty payment is revised lower and this will benefit to the extent of Rs2b in lower royalty in FY22 versus FY21
- Fixed cost has reduced by Rs5bn in FY21. Absolute fixed cost is expected in FY22 at same level as FY21.
- Q4 trade sales stood at 67% and lead distance at 440km. FY21 trade sales at 69%.
- Pet Coke and landed imported coal on blended basis has Gap of 20-25% whwre-in imported coal cheaper on kcal basis.

- No pressure from government on the pricing and govt releasing payment of time.
- All capacity expansions includes WHRS plant. UTCEM has 125MW as WHRS currently, and it will increase to 304MW by FY23. WHRS will become 25% of total power consumed. Current cost is Rs5/kwh grid power and WHRS power will be only Rs50-75 paise / kwh.
- Value added Products stood at 10% of total volume now versus 8% in FY21. Plan is to increase it to 15%.
- Capex in FY22 will be Rs40-50bn and FY23 will be Rs30bn.
- UTCEM did ROE of 12% in FY21 and plans to increase by 3% by FY23.

Exhibit 1: Financial snapshot (Rs mn)

Particulars	4QFY21	4QFY20	*YoY ch (%)*	3QFY21	*QoQ ch (%)*
Revenue	144,056	107,456	*34*	122,541	*18*
Cost of Sales ex Depri	114,132	89,753	*27*	98,338	*16*
EBITDA	36,904	24,427	*51*	30,943	*19*
Depreciation	6,980	6,724	*4*	6,739	*4*
Other Income	603	1,979	*-70*	2,679	*-77*
Interest Expensed	3,772	5,048	*-25*	3,563	*6*
Pretax Profit	26,755	14,634	*83*	23,320	*15*
Tax	8,649	-17,774	*-149*	7,474	*16*
Adj Profit	18,141	11,290	*61*	15,843	*14*

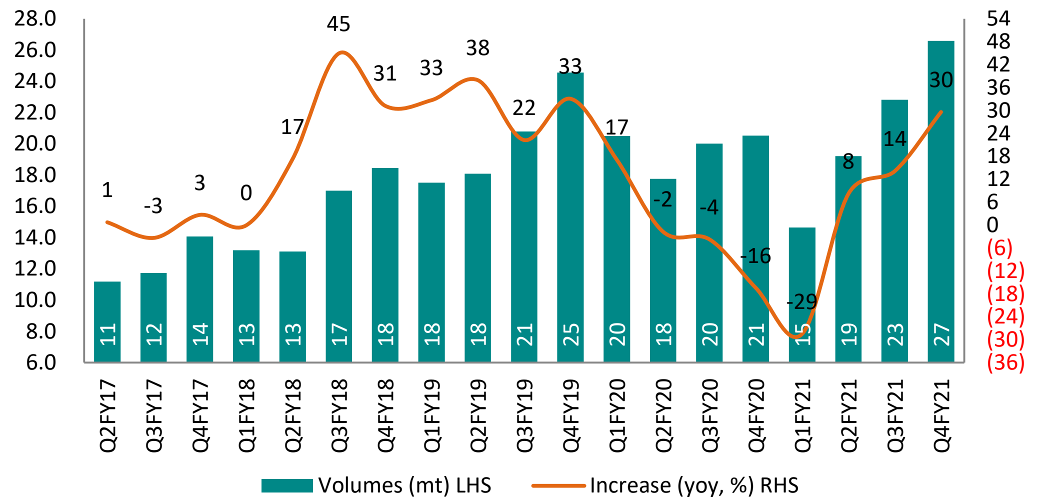
Source: Company

Exhibit 2: Operational matrix

Particulars	4QFY21	4QFY20	*YoY ch (%)*	3QFY21	*QoQ ch (%)*
Volume mt	27	21	*30*	23	*17*
Selling price Rs/t	5,418	5,237	*3*	5,370	*1*
Raw material cost Rs/t	907	709	*28*	786	*15*
Employee cost Rs/t	231	319	*-28*	267	*-14*
Power & Fuel Cost Rs/t	1,017	1,032	*-1*	1,053	*-3*
Freight cost Rs/t	1,236	1,305	*-5*	1,248	*-1*
Other expenses Rs/t	639	681	*-6*	659	*-3*
EBITDA Rs/t	**1,388**	**1,190**	***17***	**1,356**	***2***

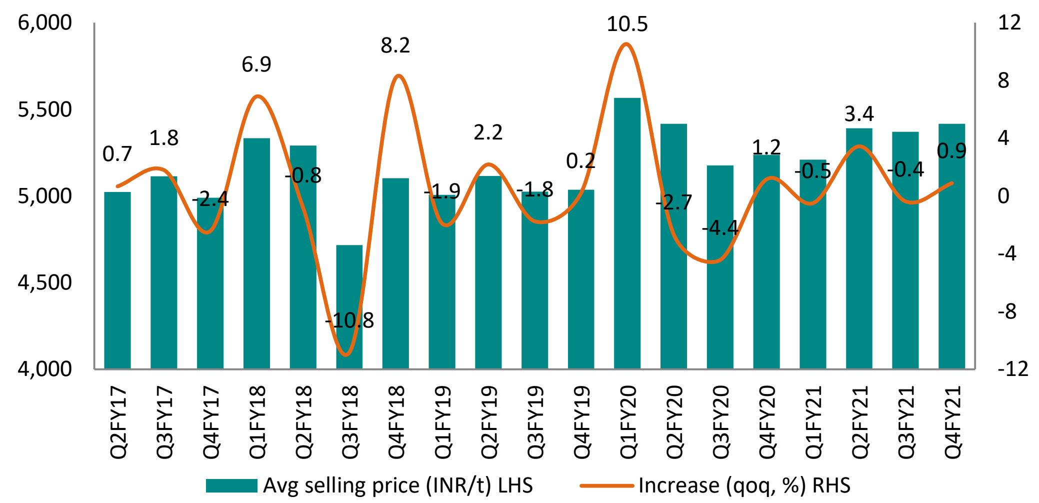
Source: Company

Exhibit 3: Q4FY21 volume up by 30% YoY



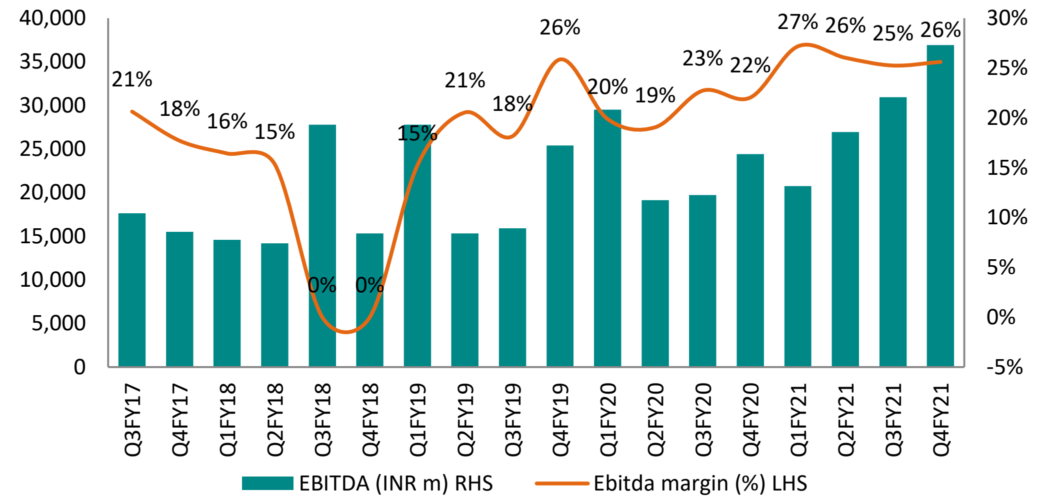
Source : Company

Exhibit 4: Q4FY21 cement price increased by 0.9% QoQ



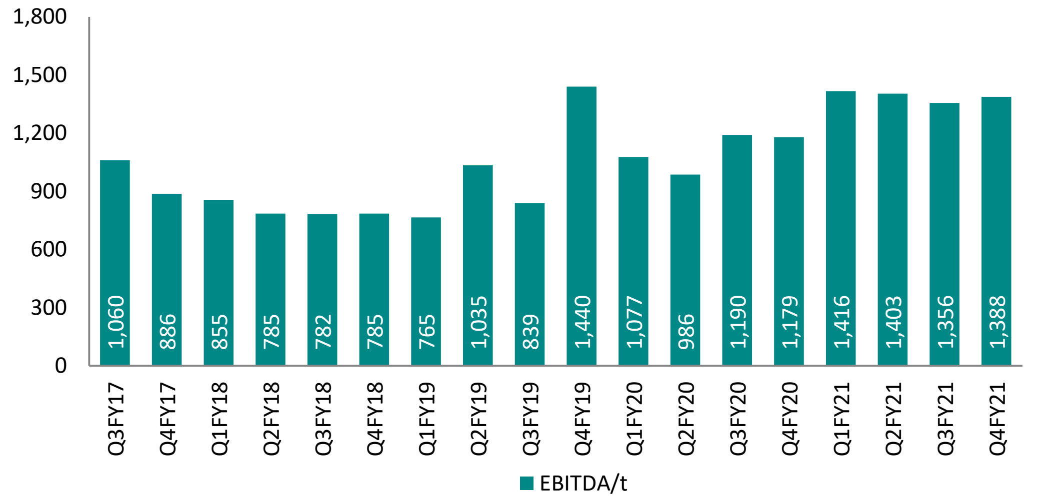
Source : Company

Exhibit 5: Q4FY21 EBITDA margins improved to 26% vs 25% QoQ



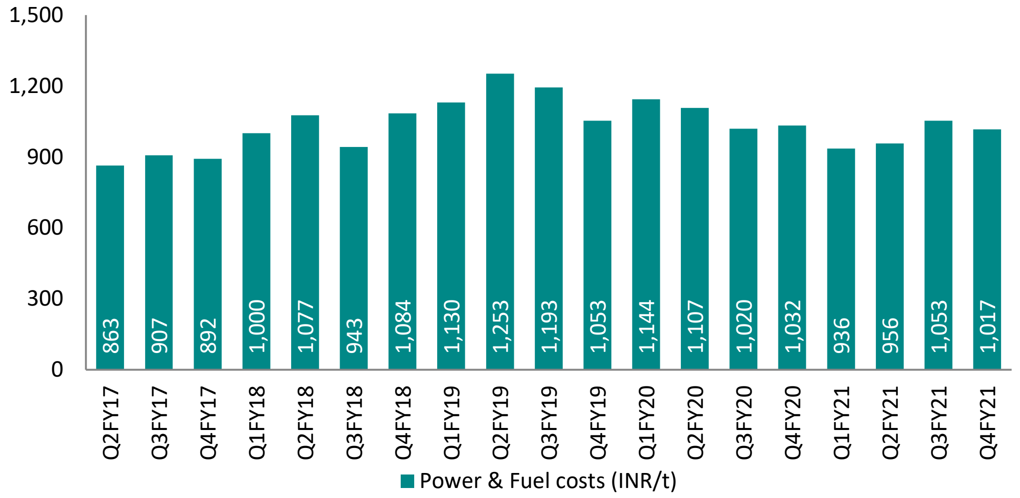
Source : Company

Exhibit 6: Q4FY21 EBITDA /t at Rs1386 (Rs/t)



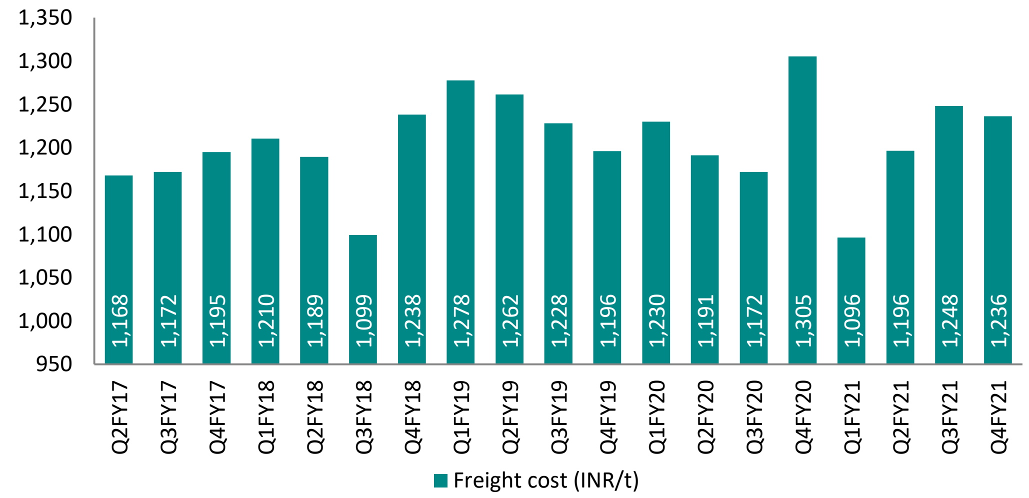
Source : Company

Exhibit 7: Q4FY21 fuel cost down QoQ (Rs/t)



Source : Company

Exhibit 8: Q4FY21 freight cost largely flat QoQ (Rs/t)



Source : Company

Exhibit 9: Change in estimate

	Unit	New		Old		*Change*	
		FY22E	FY23E	FY22E	FY23E	*FY22E*	*FY23E*
Capacity	**mt**	**123**	**136**	**123**	**136**	*0.0%*	*0.0%*
Sales volume	mt	90	100	89	98	*1.7%*	*2.2%*
Utilization	%	73%	73%	72%	72%		
Revenue	INR bn	490	551	480	537	*2.1%*	*2.7%*
ASP	INR /t	5,415	5,524	5,388	5,496	*0.5%*	*0.5%*
Opex cost	INR /t	4,041	4,147	4,093	4,180	*-1.3%*	*-0.8%*
EBITDA	INR bn	124	137	118	130	*5.3%*	*5.8%*
EBITDA	INR/t	1,375	1,377	1,362	1,364	*0.9%*	*0.9%*
Depreciation	INR bn	27	28	27	28	*0.0%*	*0.0%*
Interest expense	INR bn	13	11	13	11	*0.0%*	*0.0%*
Net Profit	INR bn	63	73	58	68	*9.7%*	*8.4%*

Source: IDBI Capital Research

Exhibit 10: Valuation Summary

	FY23E
EBITDA Rs mn	137,479
EV/EBIDTA multiple x	13
EV Rs mn	1,787,226
Debt Rs mn	173,113
Cash Rs mn	152,544
Net Debt Rs mn	20,569
Mcap Rs mn	1,766,657
Shares m	288.7
TP Rs/sh	**6,120**

Source: IDBI Capital Research

Exhibit 11: Valuation band EV/EBITDA

Source: Bloomberg

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	**4,21,248**	**4,46,477**	**4,90,086**	**5,51,472**
Growth (%)	*12.7*	*6.0*	*9.8*	*12.5*
Operating expenses	(3,28,413)	(3,30,934)	(3,65,695)	(4,13,993)
EBITDA	**92,836**	**1,15,543**	**1,24,391**	**1,37,479**
Growth (%)	*36.8*	*24.5*	*7.7*	*10.5*
Depreciation	(27,022)	(26,906)	(27,230)	(27,747)
EBIT	**65,814**	**88,637**	**97,161**	**1,09,732**
Interest paid	(19,857)	(14,833)	(13,017)	(11,099)
Other income	6,478	7,420	7,670	7,920
Pre-tax profit	**52,435**	**81,223**	**91,814**	**1,06,552**
Tax	5,682	(25,387)	(28,697)	(33,304)
Effective tax rate (%)	*(10.8)*	*31.3*	*31.3*	*31.3*
Minority Interest	43.8	(12.5)	(63.1)	(73.2)
Net profit	**58,161**	**55,824**	**63,054**	**73,175**
Exceptional items	-	-	-	-
Adjusted net profit	**58,161**	**55,824**	**63,054**	**73,175**
Growth (%)	*138.9*	*(4.0)*	*13.0*	*16.1*
Shares o/s (mn nos)	*289*	*289*	*289*	*289*

Cash Flow Statement (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	52,435	81,223	91,814	1,06,552
Depreciation	27,022	27,002	27,230	27,747
Tax paid	(8,914)	(12,910)	(28,697)	(33,304)
Chg in working capital	4,503	23,289	(5,632)	(4,016)
Other operating activities	13,987	9,072	5,348	3,179
Cash flow from operations (a)	**89,020**	**1,25,030**	**90,063**	**1,00,159**
Capital expenditure	(17,037)	(18,414)	(40,000)	(25,000)
Chg in investments	(26,907)	(71,357)	-	-
Other investing activities	1,210	562	7,670	7,920
Cash flow from investing (b)	**(42,094)**	**(88,590)**	**(32,330)**	**(17,080)**
Equity raised/(repaid)	27	70	-	-
Debt raised/(repaid)	(27,164)	(25,646)	(19,235)	(34,623)
Dividend	(22,744)	(18,056)	(27,522)	(27,932)
Chg in monorities	-	-	-	-
Other financing activities	(31)	68	-	-
Cash flow from financing (c)	**(49,911)**	**(43,565)**	**(46,757)**	**(62,555)**
Net chg in cash (a+b+c)	**(36,449)**	**14,683**	**10,975**	**20,524**

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	5,89,615	5,71,271	5,84,041	5,81,294
Investments	59,054	1,21,493	1,21,493	1,21,493
Other non-curr assets	-	-	-	-
Current assets	**1,44,608**	**1,69,070**	**1,95,225**	**2,36,175**
Inventories	41,483	40,180	44,844	51,339
Sundry Debtors	22,383	25,717	29,539	34,750
Cash and Bank	5,392	20,076	31,051	51,575
Marketable Secu.	-	-	-	-
Loans and advances	14,294	18,997	19,429	19,336
Total assets	**7,93,277**	**8,61,834**	**9,00,759**	**9,38,962**
Shareholders' funds	**3,91,155**	**4,41,747**	**4,90,296**	**5,46,638**
Share capital	2,886	2,887	2,887	2,887
Reserves & surplus	3,88,269	4,38,860	4,87,409	5,43,751
Total Debt	**2,24,085**	**1,92,348**	**1,73,113**	**1,38,491**
Secured loans	1,84,234	1,49,997	1,34,997	1,07,998
Unsecured loans	39,851	42,351	38,116	30,493
Other liabilities	49,120	67,522	67,522	67,522
Curr. Liab. & prov.	**1,28,843**	**1,60,160**	**1,69,708**	**1,86,118**
Current liabilities	1,21,039	1,51,285	1,60,305	1,75,805
Provisions	7,804	8,874	9,403	10,313
Total liabilities	**4,02,047**	**4,20,030**	**4,10,344**	**3,92,131**
Total equity & liabilities	**7,93,277**	**8,61,834**	**9,00,759**	**9,38,962**
Book Value (Rs)	**1,355**	**1,530**	**1,699**	**1,894**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	201.5	193.4	218.4	253.5
Adj. EPS growth (%)	*127.3*	*-4.0*	*13.0*	*16.1*
EBITDA margin (%)	*22.0*	*25.9*	*25.4*	*24.9*
Pre-tax margin (%)	*12.4*	*18.2*	*18.7*	*19.3*
ROE (%)	*17.2*	*13.4*	*13.5*	*14.1*
ROCE (%)	*10.8*	*13.0*	*13.6*	*14.8*
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.5	0.6	0.6
Leverage factor (x)	2.2	2.0	1.9	1.8
Net margin (%)	*13.8*	*12.5*	*12.9*	*13.3*
Net Debt/Equity (x)	0.6	0.4	0.3	0.2
Working Capital & Liquidity ratio				
Inventory days	36	33	33	34
Receivable days	19	21	22	23
Payable days	135	167	160	155

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	31.8	33.1	29.3	25.3
Price / Book value (x)	4.7	4.2	3.8	3.4
PCE (x)	21.7	22.3	20.5	18.3
EV / Net sales (x)	4.9	4.5	4.1	3.5
EV / EBITDA (x)	22.3	17.5	16.0	14.1
Dividend Yield (%)	*0.2*	*0.6*	*0.7*	*0.8*

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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SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

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Analyst Disclosures

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