

UltraTech Cement Ltd.

18 October, 2021

Reuters: ULTC.BO; Bloomberg: UTCEM IN

Best candidate to see through current cost pressures

Ultratech Cement (UTCEM) reported in-line set of numbers for 2QFY22 with reported EBITDA largely in-line with our estimate. Economies of scale (owing to huge capacity and pan-India presence) helped the company in managing elevated input costs in a much better way. Operating cost/mt increased by ~Rs350 on a sequential basis, but the company managed to keep the key input cost i.e. power & fuel in check. The cement industry has seen unprecedented increase in operating costs largely due to massive increase in the price of coal/petcoke and diesel. We believe that Ultratech is the best candidate in the cement space to manage costs despite unrelenting pressure compared to the overall industry given its scale of operations and efficiency of its plants. The management believes that the industry will be able to pass on the increased costs to consumers without affecting demand much. But, we believe that profitability will be moderate compared to the recent quarters and demand growth will be subdued at higher cement prices. We have not changed our estimates and maintained our Accumulate rating on the stock as we believe that the company's *numero uno* position in the Indian cement industry with a large market share across regions will help it to tide over the current elevated cost environment in a far better way compared to peers. UTCEM is our preferred pick among the Large Cap cement names.

2QFY22 performance: UTCEM reported 15.7% YoY growth in revenue, driven by 7.9% YoY growth in volume and 7.2% YoY growth in realisation. Average realisation was up 1% QoQ against our expectation of a 1% decline, owing to higher white cement sales and enhanced presence in the western region, which saw good pricing growth in 2QFY22. Operating costs increased by 12% YoY, largely driven by 27% YoY increase in power & fuel cost and 21% YoY increase in other expenses. Employee cost increased by 20% YoY on an absolute basis, owing to increments and one-time bonus given to employees, which was skipped last year. EBITDA/mt came in at Rs1,254, largely in line with our estimate of Rs1,275.

Operating costs will continue to inch up: Interestingly, power & fuel cost for UTCEM at Rs1,165/mt was higher by only 3.3% QoQ, as the company was able to utilize low-cost coal inventory averaging at US\$120/mt (similar to 1QFY22) against the current spot price of US\$240+/mt. We expect significant increase in power & fuel cost for the next 2 quarters if international coal prices remain elevated for a few more months. Even petcoke availability is an issue given the domestic and international supply crunch. Elevated prices of crude oil and diesel are also likely to affect freight costs and packing costs. The management has guided that the impact of higher coal and fuel prices is likely to be limited at Rs200/mt incrementally in 3QFY22. However, we believe that actual increase in costs could be much higher if the current coal situation persists. We also believe that the ability to pass on the increased costs to consumers will be limited given the strong addition to supply over the next 2 years.

Capex update: The management is continuing with its capex plan of 19.5mn mt and it is expected to be commissioned on time by FY23-end with marginal delay of up to 1-2 months. Post this capex, the company's total capacity will increase to 136mn mt, including overseas capacity. For its 2.3mn mt Dalla Super clinker plant, the company is facing further delays and now the work on the plant will start by the end of FY22. Bara grinding unit of 2mn mt will be commissioned over the next 3 months. Higher prices will not have a major impact on total capex cost for the company for the ongoing expansion.

Other highlights: RMC revenue grew by 57% YoY (on a low base) whereas white cement revenue grew by 16% YoY in 2QFY22. The company increased premium products' sales by 14% YoY. After spending Rs23.5bn in 1HFY22 on capex, the company has trimmed its treasury operations and repaid loans. Current net debt-to-EBITDA ratio stands at 0.47x.

Y/E March (Rs mm)	2QFY21	1QFY22	2QFY22	YoY (%)	QoQ (%)
Net Sales	1,03,871	1,18,298	1,20,168	15.7	1.6
Operating Expenses	76,895	85,224	93,021	21.0	9.1
EBITDA	26,977	33,075	27,147	0.6	(17.9)
EBITDA Margin (%)	26.0%	28.0%	22.6%	(338)bps	(537)bps
Other Income	1,350	2,049	1,401	3.8	(31.6)
Finance Costs	3,579	3,261	2,300	(35.7)	(29.5)
Depreciation	6,771	6,598	6,774	0.0	2.7
PBT	14,621	25,270	19,475	33.2	(22.9)
Tax	5,662	8,269	6,371	12.5	(22.9)
Reported Profit	8,960	17,000	13,103	46.2	(22.9)
Exceptional Items	(3,356)	-	-	NA	NA
Adjusted Profit	12,315	17,000	13,103	6.4	(22.9)
NPM(%)	11.9%	14.4%	10.9%	(95)bps	(347)bps
EPS (Rs.)	30.9	58.7	45.2	46.2	(22.9)

Source: Company, Nirmal Bang Institutional Equities Research

ACCUMULATE

Sector: Cement

CMP: Rs7,399

Target Price: Rs8,199

Upside: 11%

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Key Data

Current Shares O/S (man)	288.7
Mkt Cap (Rsbn/US\$bn)	2,135.9/28.3
52 Wk. H / L (Rs)	8,073/4,440
Daily Vol. (3M NSE Avg.)	371,735

Price Performance (%)

	1 M	6 M	1 Yr.
UltraTech Cement	(4.1)	13.7	63.9
Nifty Index	5.1	28.7	55.6

Source: Bloomberg

Exhibit 1: Detailed financials

Y/E March (Rs mm)	2QFY21	1QFY22	2QFY22	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Net Sales	1,03,871	1,18,298	1,20,168	15.7	1.6	4,24,299	4,47,258	5.4
Expenditure								
Chg. in stock	1,445	(3,437)	(2,169)	NA	NA	(3,578)	4,502	NA
RM consumption	13,497	15,508	17,314	28.3	11.6	57,280	57,937	1.1
Purchase of traded goods	1,816	2,434	2,155	18.6	(11.5)	11,479	8,420	(26.7)
Employee costs	5,663	5,849	6,795	20.0	16.2	25,199	23,530	(6.6)
Freight Costs	22,996	26,482	26,733	16.3	0.9	97,332	1,00,433	3.2
Power and fuel	18,450	24,274	25,200	36.6	3.8	85,169	83,312	(2.2)
Other exp	13,028	14,114	16,993	30.4	20.4	58,947	53,446	(9.3)
Operating Expenses	76,895	85,224	93,021	21.0	9.1	3,31,827	3,31,579	(0.1)
EBITDA	26,977	33,075	27,147	0.6	(17.9)	92,472	1,15,679	25.1
EBITDA Margin (%)	26.0%	28.0%	22.6%	(338)bps	(537)bps	21.8%	25.9%	407bps
Other Income	1,350	2,049	1,401	3.8	(31.6)	6,511	7,342	12.8
Interest Costs	3,579	3,261	2,300	(35.7)	(29.5)	19,917	14,857	(25.4)
Depreciation	6,771	6,598	6,774	0.0	2.7	27,227	27,002	(0.8)
PBT	14,621	25,270	19,475	33.2	(22.9)	51,840	81,162	56.6
Tax	5,662	8,269	6,371	NA	(22.9)	(5,669)	25,387	(547.8)
Reported PAT	8,960	17,000	13,103	46.2	(22.9)	57,509	55,775	(3.0)
Exceptional Items	(3,356)	-	-	NA	NA	-	(2,586)	NA
Adjusted Profit	12,315	17,000	13,103	6.4	(22.9)	57,509	53,189	(7.5)
NPM(%)	11.9%	14.4%	10.9%	(95)bps	(347)bps	13.6%	11.9%	(166)bps
EPS (Rs.)	30.9	58.7	45.2	46.2	(22.9)	198.6	192.6	(3.0)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational data

Operational Data	2QFY21	1QFY22	2QFY22	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Volume (mn mt)	20.06	21.53	21.64	7.9	0.5	82.45	86.37	4.8
Cement Realisation (Rs/mt)	5,178	5,495	5,553	7.2	1.1	5,146	5,178	0.6
Operating Costs (Rs/mt)	3,833	3,958	4,299	12.1	8.6	4,025	3,839	(4.6)
EBITDA (Rs/mt)	1,345	1,536	1,254	(6.7)	(18.3)	1,122	1,339	19.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs

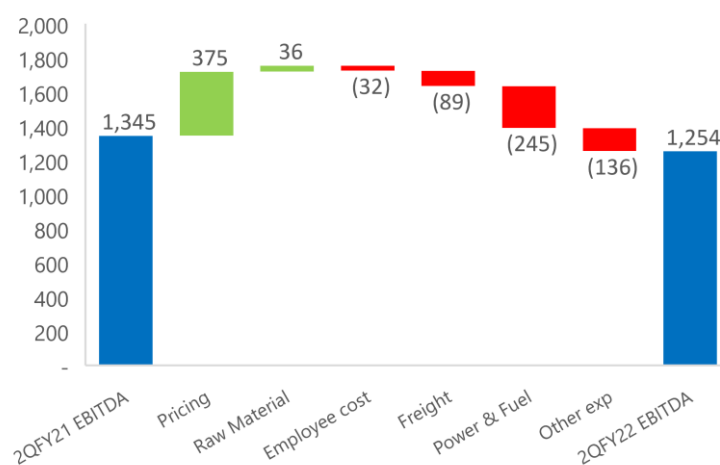
Costs/mt (Rs)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	YoY (%)	QoQ (%)
Raw Material Expenses	801	884	712	822	835	751	868	674	799	(4.3)	18.7
Employee Expenses	342	298	307	384	282	256	221	272	314	11.2	15.6
Freight Expenses	1,142	1,122	1,251	1,097	1,146	1,193	1,183	1,230	1,235	7.8	0.4
Power & Fuel Expenses	1,052	983	996	942	920	1,006	973	1,127	1,165	26.6	3.3
Other Expenses	781	762	656	572	649	630	611	656	785	20.9	19.8
Total Opex/mt	4,118	4,048	3,922	3,818	3,833	3,836	3,857	3,958	4,299	12.1	8.6
EBITDA/mt	1,027	947	1,140	1,413	1,345	1,299	1,328	1,536	1,254	(6.7)	(18.3)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key Financial Summary

Y/E March (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues	4,21,248	4,47,258	5,10,985	5,76,488	6,27,335
YoY (%)	12.7	6.2	14.2	12.8	8.8
EBITDA	92,836	1,14,588	1,32,430	1,51,317	1,58,297
EBITDA (%)	22.0	25.6	25.9	26.2	25.2
Adj. PAT	58,122	54,878	70,115	83,666	88,936
YoY (%)	140.5	(5.6)	27.8	19.3	6.3
EPS (Rs)	200.7	189.5	242.1	288.9	307.1
ROE (%)	17.2	13.2	14.8	15.3	14.2
EV/EBITDA	16.9	13.2	16.7	14.2	13.2
EV/mt (\$)	184.5	169.5	247.0	241.1	234.3
P/E (x)	24.2	25.6	30.6	25.6	24.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: YoY movement in EBITDA/mt


Source: Nirmal Bang Institutional Equities Research

2QFY22 conference call highlights

Demand:

- In 2QFY22, demand was affected due to monsoon across India, especially in the Northern region and Kerala, while it is gradually picking up from Oct'21 and is expected to revive further.
- Management has indicated demand growth of ~6-8% for 2HFY22.
- A better monsoon this year will ensure continued strong demand from the rural segment. Infrastructure segment will see continued higher demand, owing to strong spending by the government, especially on roads, railways, metros, irrigation and airports.

Price:

- In Oct'21, the company has taken a price hike in all the regions and the prices are now back to the pre-monsoon levels. Average price is up by ~4-5% on all-India basis; North has seen ~2-3% hike while East, Central and South regions' prices remained flat and West region price was up by ~5-7%. Sequentially, prices declined by 3% in India with a large drop in the Eastern region.

Cost:

- Coal demand has increased substantially due to lack of coal availability in the international market (i.e. China has shut down coal mining and Russia has cut down supply). Coal prices have jumped by more than US\$50/mt within a month. While it's good news that Coal India's inventory has improved and the power rate/unit is being corrected in the exchange.
- Current pet coke price is economical than coal price and the company is expected to switch back to pet coke in the near term. In 2QFY22, the company achieved 4.4% of the total fuel consumption from alternate fuel. Current spot price of coal is up by 3x and pet coke price is up ~2x from June'21 levels.
- Rising cost is not a concern for the company as it is passing on the cost pressure to consumers.
- Dependency on domestic coal is very less (12% of total fuel mix) for the company.

Expansion & Capex Plan:

- The company has commissioned 1.2mn mt of brownfield expansion in West Bengal and Bihar Unit, which is part of the 3.2mn mt expansion scheduled for FY22. And, clinker sourcing will be done from its Chhattisgarh, East MP and East UP units. These grinding units will focus on producing composite cement, thereby increasing the blending ratio of the company.
- 2mn mt Bara grinding unit is expected to be commissioned before the end of FY22. Bicharpur coal block will start coal mining operation from 3QFY22, which will be used in its Satna cluster plants. The company has also commissioned 12MW WHRS and 21MW Solar Power Plant, and with this expansion, the green power's share will increase to 15% of total power requirement.
- A large part of the operating cash flow is being used for its ongoing expansion plan. During 2HFY22, it has spent Rs23bn on capex and is expected to spend Rs40-50bn for the full year. And, this will be funded from internal accruals.

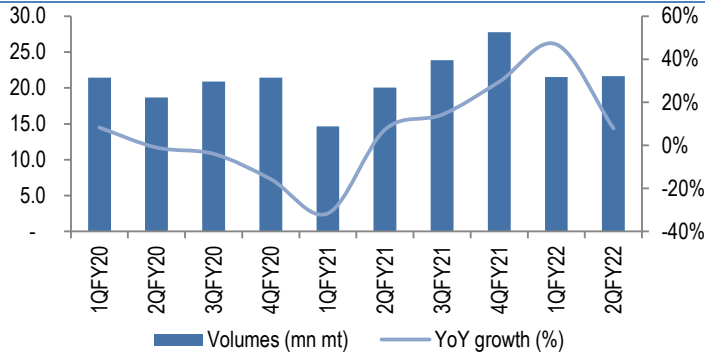
Debt:

- The company has repaid Rs52bn of long-term debt and the net-debt to EBITDA ratio stood at 0.47x on a consolidated basis as on 2QFY22, which is expected to improve further on a QoQ basis, backed by pick-up in sales volume and expansion plan.

Others:

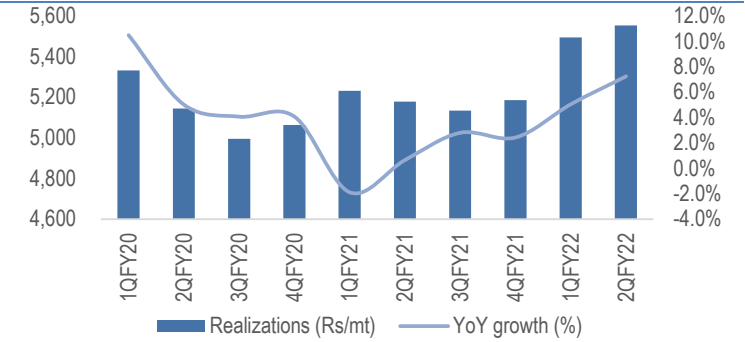
- The company was able to maintain its negative working capital of ~8-9 days in 2QFY22 and the management expects this to improve further, led by reduction in inventory post monsoon.
- Lead distance stood at 425kms in 2QFY22.
- Trade mix stood at 67% in 2QFY22.

Exhibit 6: Volume up by 7.9% YoY



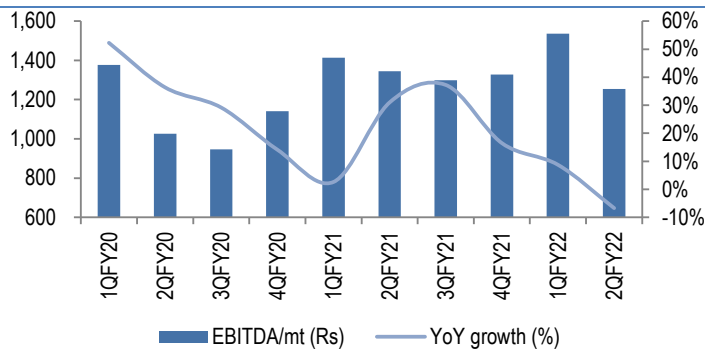
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Realisation up by 1.1% QoQ



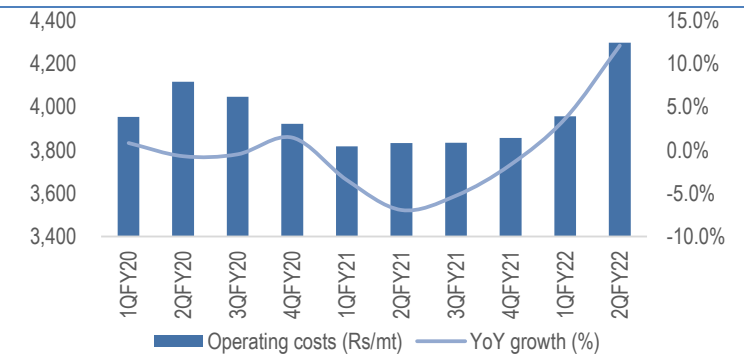
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA/mt dropped by 6.7% YoY



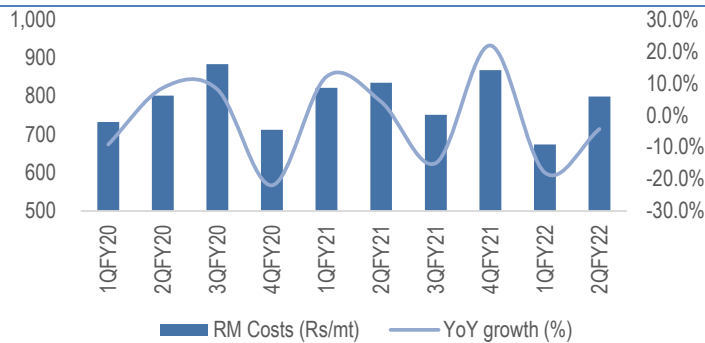
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Operating cost up by 12.1% YoY



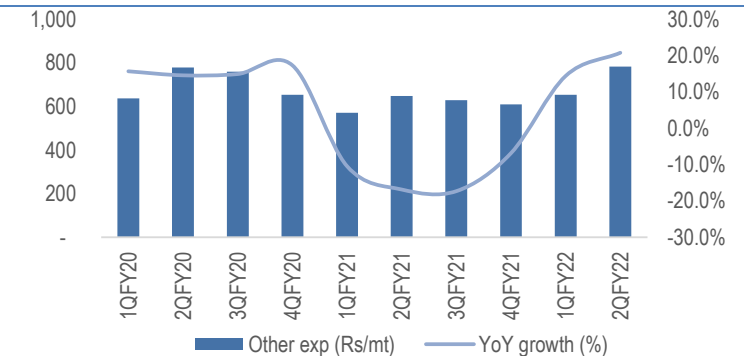
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: RM cost down by 4.3% YoY



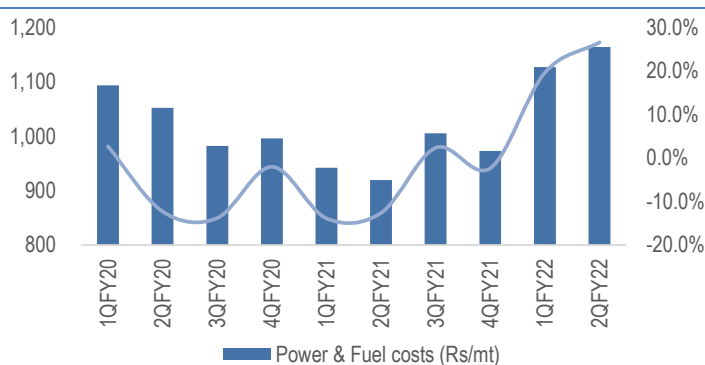
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Other expenses up by 20.9% YoY



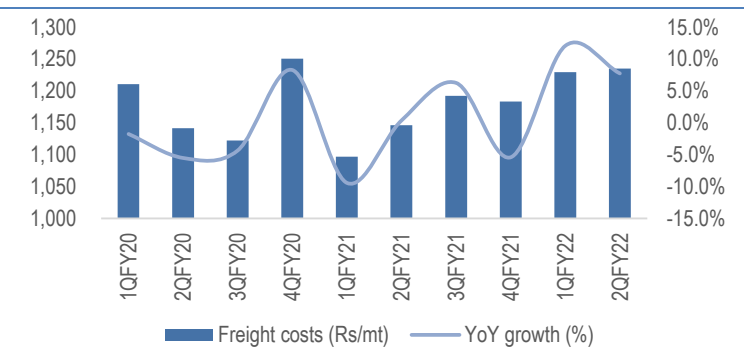
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Power & Fuel cost up by 26.6% YoY



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Freight cost up by 7.8% YoY

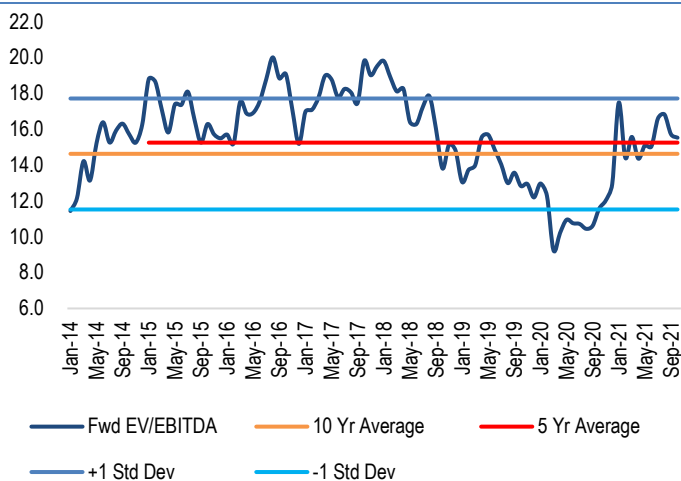


Source: Company, Nirmal Bang Institutional Equities Research

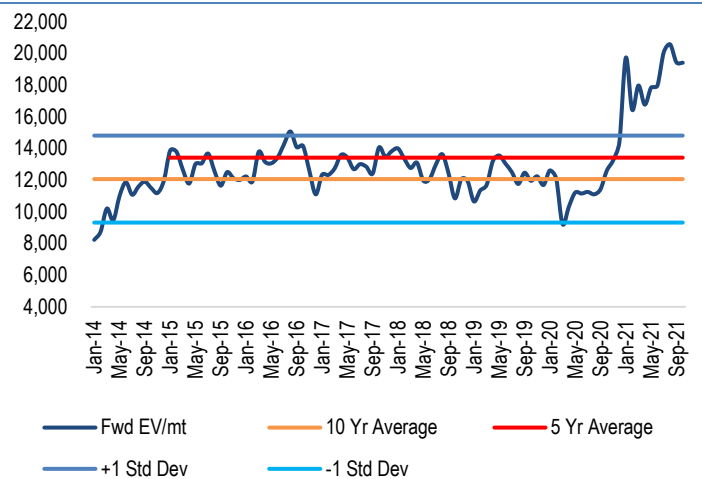
Exhibit 14: Valuation summary

Particulars	(Rs)
Sepx23 EBITDA	1,54,807
Target multiple (x)	15.0
Enterprise value	23,22,100
Less: Net debt	(52,542)
Equity value	23,74,642
No of shares (mn)	289.6
Value per share (Rs)	8,199
CMP (Rs)	7,399
Upside / (downside) %	11%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Rolling charts


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement
Exhibit 16: Income statement

YE March, Rs mn	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	4,21,248	4,47,258	5,10,985	5,76,488	6,27,335
Raw Material Consumed	62,988	68,668	79,093	90,316	1,01,325
Power & Fuel Cost	84,679	85,214	99,580	1,13,710	1,27,571
Employee Cost	25,094	23,443	24,579	25,782	27,056
Freight and Forwarding	97,254	1,00,927	1,16,249	1,31,455	1,44,615
Other expenses	58,398	54,418	59,054	63,908	68,471
Total Expenditure	3,28,413	3,32,670	3,78,555	4,25,171	4,69,038
Operating profit	92,836	1,14,588	1,32,430	1,51,317	1,58,297
Operating profit margin (%)	22.0%	25.6%	25.9%	26.2%	25.2%
Other Income	6,478	7,342	7,959	8,631	9,364
Interest	19,857	14,300	9,663	8,203	6,806
Depreciation	27,022	27,521	28,373	29,609	31,025
PBT	52,435	80,108	1,02,352	1,22,135	1,29,829
Exceptional items	5	5	5	5	5
PBT post exc items	52,440	80,113	1,02,357	1,22,140	1,29,834
Tax	(5,682)	25,236	32,242	38,474	40,898
Tax rate (%)	-10.8%	31.5%	31.5%	31.5%	31.5%
PAT	58,122	54,878	70,115	83,666	88,936
EPS (Rs)	200.7	189.5	242.1	288.9	307.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

YE March	FY20	FY21	FY22E	FY23E	FY24E
Growth (%)					
Sales	12.7	6.2	14.2	12.8	8.8
Operating Profits	36.8	23.4	15.6	14.3	4.6
Net Profits	140.5	(5.6)	27.8	19.3	6.3
Leverage (x)					
Net Debt:Equity	0.42	0.25	0.13	0.02	(0.07)
Interest Cover(x)	4.68	8.01	13.70	18.45	23.26
Total Debt/EBITDA	2.30	1.45	1.07	0.79	0.62
Profitability (%)					
OPM	22.0	25.6	25.9	26.2	25.2
NPM	13.8	12.3	13.7	14.5	14.2
ROE	17.2	13.2	14.8	15.3	14.2
ROCE	13.9	17.0	19.7	21.2	20.6
Turnover ratios (x)					
GFAT	0.8	0.8	0.8	0.9	0.9
Debtors Turnover(x)	18	16	14	14	13
WC days	28	34	40	42	45
Valuation (x)					
P/E	24.2	25.6	30.6	25.6	24.1
P/B	3.6	3.2	4.2	3.7	3.2
EV/EBIDTA	16.9	13.2	16.7	14.2	13.2
EV/mt (\$)	184.5	169.5	247.0	241.1	234.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance Sheet

YE March, Rs mn	FY20	FY21	FY22E	FY23E	FY24E
Equity Capital	2,962	2,962	2,962	2,962	2,962
Reserves and Surplus	3,88,269	4,38,992	5,04,122	5,81,807	6,63,565
Networth	3,91,230	4,41,954	5,07,084	5,84,768	6,66,526
Total Debt	2,13,526	1,65,992	1,41,992	1,19,992	97,992
Deferred tax liability	49,120	49,120	49,120	49,120	49,120
Other non current liabilities	13,039	13,763	14,530	15,341	16,199
Trade Payables	35,014	32,787	37,627	43,165	46,822
Other Current Liabilities	91,442	92,277	94,047	95,958	98,011
Total Current Liabilities	1,66,308	1,54,880	1,57,491	1,60,939	1,62,650
Total liabilities	7,93,371	7,95,892	8,44,400	9,08,343	9,74,671
NB	5,07,299	4,98,873	4,84,500	4,88,891	4,78,865
CWIP	9,196	5,101	16,101	3,101	3,101
Investment	16,850	22,850	37,850	62,850	87,850
Other non current assets	1,09,953	93,734	89,298	85,664	82,680
Inventories	41,483	49,015	57,398	66,336	73,905
Sundry Debtors	22,383	33,085	39,199	45,803	51,562
Cash and Bank	5,392	5,241	17,448	33,739	56,958
Other current assets	80,816	87,994	1,02,605	1,21,960	1,39,749
Total Current Assets	1,50,074	1,75,334	2,16,650	2,67,837	3,22,174
Total Assets	7,93,371	7,95,892	8,44,400	9,08,343	9,74,671

Source: Company, Nirmal Bang Institutional Equities Research

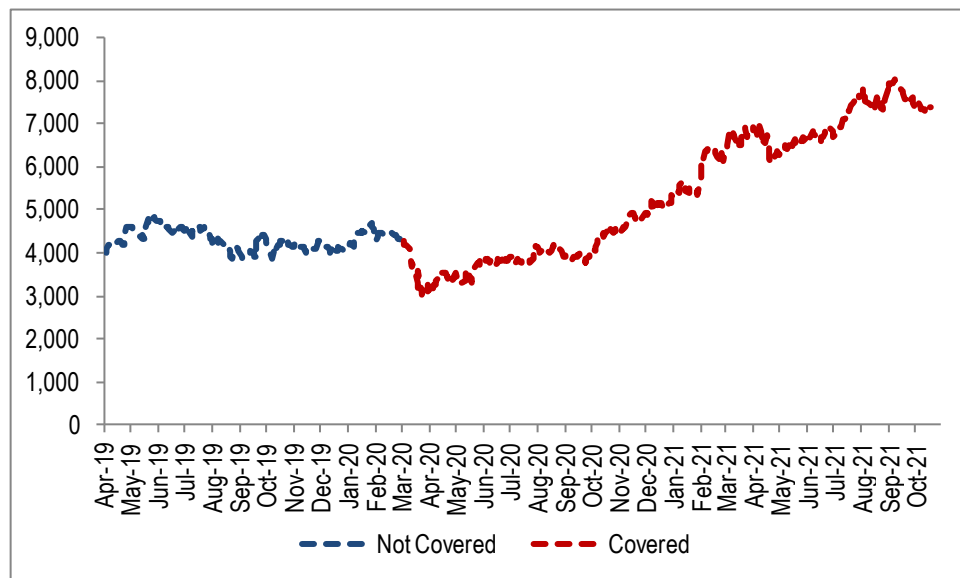
Exhibit 19: Cash flow statement

YE March, Rsmn	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	52,440	80,113	1,02,357	1,22,140	1,29,834
Add : Depreciation & Impairment	27,022	27,521	28,373	29,609	31,025
Add: Interest Exp	19,857	14,300	9,663	8,203	6,806
Cash flow from operations b4 WC	99,318	1,21,935	1,40,394	1,59,953	1,67,665
Net change in Working capital	18,200	(19,804)	(12,498)	(12,449)	(10,406)
Tax paid	5,682	(25,236)	(32,242)	(38,474)	(40,898)
Net cash from operations	1,23,200	76,895	95,653	1,09,030	1,16,361
Capital expenditure	(99,408)	(15,000)	(25,000)	(21,000)	(21,000)
Sale of investments	(30,074)	(13,000)	(25,000)	(40,000)	(40,000)
Net cash from investing	(1,69,786)	(11,781)	(45,564)	(57,366)	(58,016)
Issue of shares	140	-	-	-	-
Increase in debt	(9,229)	(47,534)	(24,000)	(22,000)	(22,000)
Dividends paid incl. tax	(3,462)	(4,154)	(4,985)	(5,982)	(7,178)
Interest paid	(19,857)	(14,300)	(9,663)	(8,203)	(6,806)
Net cash from financing	44,907	(65,264)	(37,881)	(35,373)	(35,126)
Net Cash	(1,680)	(151)	12,207	16,290	23,220
Opening Cash	7,072	5,392	5,241	17,448	33,739
Closing Cash	5,392	5,241	17,448	33,739	56,958

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 March 2020	BUY	4,227	5,679
13 April 2020	BUY	3,366	4,014
21 May 2020	BUY	3,530	4,259
17 July 2020	ACCUMULATE	3,815	4,144
24 July 2020	ACCUMULATE	3,837	4,144
28 July 2020	ACCUMULATE	4,131	4,144
16 October 2020	BUY	4,383	4,798
22 October 2020	BUY	4,632	5,640
7 January 2021	BUY	5,440	6,231
25 January 2021	BUY	5,331	6,430
7 January 2021	BUY	5,440	6,231
12 March 2021	ACCUMULATE	6,763	6,430
8 April 2021	ACCUMULATE	6,971	6,430
11 May 2021	ACCUMULATE	6,406	6,430
25 June 2021	ACCUMULATE	6,962	7,017
23 July 2021	ACCUMULATE	7,480	7,307
7 October 2021	ACCUMULATE	7,519	8,199
18 October 2021	ACCUMULATE	7,399	8,199

Rating track graph


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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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