

Results in-line; all eyes on pricing behavior

Ultratech reported in-line set of results with EBITDA of Rs25.5bn, up 37% YoY. While volume growth was impressive at 15.5% YoY, higher operating cost was offset by marginally better realizations. EBITDA/mt at Rs965 is down ~Rs60/mt on QoQ basis as reduction in power & fuel cost is offset by higher other expenses and employee costs. While results are largely in-line with expectations, all eyes are on pricing behavior in 3Q as cement prices in October are 5% higher than 2QFY24 average. The management mentioned that one must wait and watch to see whether pricing sustains at these levels and it's too early to assume that it will remain higher. On the other hand, operating costs have started inching up again after hitting short term low in July 2023. As a result, we have tweaked our pricing and cost estimates and as a result our EBITDA estimate for FY24 and FY25 is marginally lower. We introduce FY26 estimates and move our valuation forward to Sep25 to arrive at our revised TP of Rs9,564 (Rs9,340 earlier). We maintain our ADD rating on the stock.

Q2FY24 result highlights

Revenue at Rs160bn is up 15.3% YoY and 1.3% above our estimate. Aggregate realization at Rs5999/mt is up 1.3% QoQ. Volumes at 26.7mn are up 15.5% YoY. Operating cost at Rs5,044/mt is down 3.1% YoY. Power and fuel costs/mt declined by 11% YoY to Rs1,643. On QoQ basis, operating costs are marginally higher on account of higher employee expenses and other expenses. EBITDA/mt as a result came in at Rs956 vs our expectation of Rs964. Absolute EBITDA came in at Rs25.5bn vs our estimate of Rs25.7 bn and consensus of Rs26.6bn. There was a Rs700mn one off item in employee costs related to a one-time bonus. Adjusted for the same, EBITDA/mt would have been higher at Rs982 in 2Q.

Modified phase 2 capex plan to be completed by June 2025

Ultratech achieved capacity utilization of 75% during the quarter on expanded capacity. The company's ongoing phase 2 expansion of 22.6mn mt is in full swing and it has planned to add another 1.8mn mt of slag grinding capacity to take the total phase 2 expansion to 24.4mn mt. the entire phase 2 capex will be commissioned by June 2025. Additionally, Ultratech also commissioned 30MW WHRS and 83MW of renewable power during the quarter. Green power now contributes 22% of the total power requirement. The next phase of capex is likely to be announced over the next 2 quarters and the management expects to take its capacity to 200mn mt in multiple phases of ~20mn mt capacity each.

Pricing growth witnessed after a long time

All India average cement price in the month of October is 5% higher than 2QFY24 average. The management seemed hopeful of sustaining this price hike but also cautioned that fall in volumes owing to higher prices is likely to result in some volume push, thereby resulting in lower prices. From 2Q average, cement prices are up 7-8% in East, 7-8% in Maharashtra, 5-6% in South, 6-7% in North and flat in Central region. We are building in 2% pricing growth in 2HFY24 and 2% in FY25 for the company.

Valuation

We have marginally tweaked our volume and cost assumptions for the company for FY24 and FY25 respectively. As a result, our EBITDA estimates are lower by 1.5% in FY24 and 2.4% in FY25. Despite the significant ongoing expansion programme, we expect the company to be debt free in FY24. We value the company at 16x FY25 EV/EBITDA to arrive at our revised target price of Rs9,564 (Rs9,340 earlier). We maintain our ADD rating on the stock.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	1,60,121	1,38,927	15.3	1,77,371	(9.7)	7,21,800	8,01,787	8,82,615
EBITDA	25,509	18,667	36.7	30,492	(16.3)	1,47,423	1,58,447	1,73,834
EBITDA margin (%)	15.9	13.4	18.6	17.2	(7.3)	20.4	19.8	19.7
Adj. Net profit	12,804	7,587	68.8	16,902	(24.2)	83,397	90,854	1,00,700
Adj. EPS (Rs)	44.4	26.3	68.7	58.5	(24.2)	288.9	314.7	348.8
EPS growth (%)						64.4	8.9	10.8
PE (x)						29.5	27.1	24.4
EV/EBITDA (x)						16.6	15.3	13.6
PBV (x)						4.0	3.6	3.2
RoE (%)						14.4	13.9	13.8
RoCE (%)						13.5	13.4	13.5

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Cement

20 October, 2023

ADD

Price: Rs8,519

Target Price: Rs9,564

Forecast return: 12%

Institutional Research

Market Data

Bloomberg:	UTCEM IN
52 week H/L:	8,751/6,250
Market cap:	Rs2459.2bn
Shares Outstanding:	288.7mn
Free float:	41.0%
Avg. daily vol. 3mth:	3,25,701

Source: Bloomberg

Changes in the report

Rating:	Add; Unchanged
Target price:	+2.4%; Rs9,564 from Rs9,340
EPS:	FY24: -2%; FY25: -3.5%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	60.0	60.0	60.0	60.0
FII's	17.2	15.8	14.8	14.1
DII's	15.2	16.0	16.9	17.4
Public/other	7.7	8.3	8.3	8.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum 1QFY24	Actual 1QY24	Variance (%)
Revenue	1,58,012	1,60,121	1.3
EBITDA	25,716	25,509	-0.8
EBITDA margin	16.3	15.9	(34) bps
Rep. PAT	12,895	12,804	-0.7
EPS (Rs)	44.7	44.4	-0.7

Source: Bloomberg, Centrum Broking



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Cement

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	7,21,800	7,06,330	2.2	8,01,787	7,68,246	4.4
EBITDA	1,47,423	1,49,653	-1.5	1,58,447	1,62,290	-2.4
EBITDA margin	20.4	21.2	(76) bps	19.8	21.1	(136) bps
Adj. PAT	83,397	85,114	-2.0	90,854	93,838	-3.2
Diluted EPS (Rs)	288.9	294.8	-2.0	314.7	325.1	-3.2

Source: Centrum Broking

UTCEM versus Nifty 50

	1m	6m	1 year
UTCEM IN	(1.3)	13.3	33.1
NIFTY 50	(1.4)	11.3	11.7

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Capacity (mn mt)	132.4	154.1	154.1
Volumes (mn mt)	121.1	132.0	142.7
Realizations (Rs/mt)	5,963	6,074	6,186
Operating expense (Rs/mt)	4,745	4,874	4,968
EBITDA/mt (Rs)	1,218	1,200	1,218
Capex (Rs mn)	(70,000)	(80,000)	(50,000)
Net Debt (Rs mn)	(3,978)	(34,283)	(111,105)

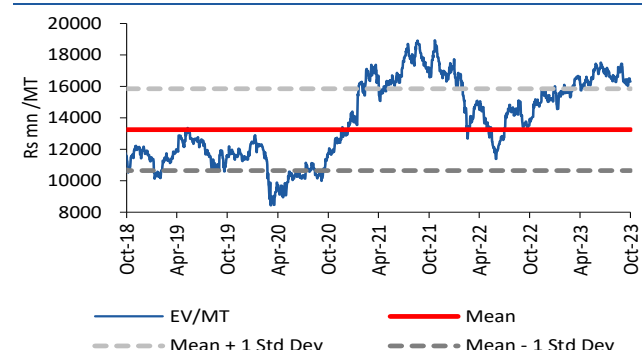
Source: Centrum Broking

Valuations

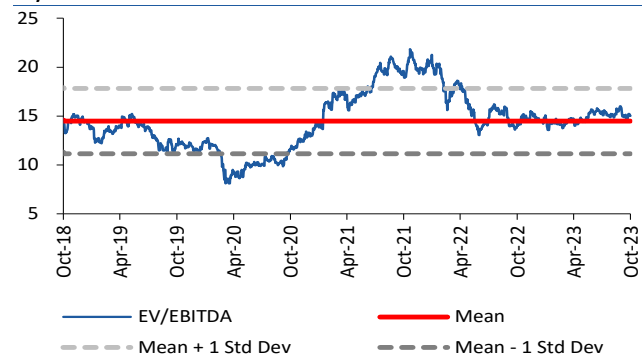
Despite the significant ongoing expansion programme, we expect the company to be debt free in FY24. We value the company at 16x FY25 EV/EBITDA to arrive at our revised target price of Rs9,564 (Rs9,340 earlier). We maintain our ADD rating on the stock.

Particulars	Rs mn
Sep FY25E EBITDA	1,66,140
Target multiple (x)	16.0
Enterprise value	26,58,242
Less: Net debt & CWIP	(1,02,694)
Equity value	27,60,936
No of shares (mn)	288.7
Target Price (Rs)	9,564

1-year forward EV/MT



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY23-25E)			EV/EBITDA (x)			EV/mt (US\$)			FY25E	
	(Rs bn)	Sales	EBITDA	EPS	FY23	FY24E	FY25E	FY23	FY24E	FY25E	RoE (%)	ROCE (%)
ACC	381	-0.9%	33.2%	53.9%	18.3	12.4	9.2	117.1	108.6	95.7	13%	16%
Ambuja Cement	1,077	-2.6%	16.9%	7.3%	20.9	17.8	16.3	261.4	264.9	223.9	6%	8%
Birla Corporation	98	10.5%	51.9%	328.1%	17.4	8.9	7.0	81.9	81.2	76.0	11%	10%
Heidelberg	43	5.5%	17.5%	28.1%	11.7	8.8	7.9	77.4	74.3	72.0	18%	20%
JK Cement	258	12.0%	25.0%	38.4%	21.5	15.3	13.6	147.4	146.3	125.6	18%	13%
JK Lakshmi	80	9.7%	20.4%	31.6%	11.8	9.0	7.8	71.7	71.6	58.7	17%	16%
Nuvoco Vistas	128	7.2%	30.5%	469.3%	14.0	9.0	7.3	85.8	81.2	71.9	6%	9%
Sagar Cements	33	23.8%	76.7%	384.3%	29.6	13.3	10.3	66.6	61.5	53.1	11%	9%
Shree Cements	949	11.0%	29.2%	29.3%	31.6	21.7	18.7	247.2	217.0	203.2	11%	18%
Star Cements	69	21.8%	30.0%	15.3%	13.9	12.0	9.9	142.3	112.4	99.9	13%	13%
The Ramco	234	11.2%	31.2%	47.2%	23.6	15.0	13.1	165.5	156.9	152.0	11%	11%
Ultratech	2,458	12.6%	22.1%	33.8%	23.3	16.6	15.3	224.1	221.9	188.9	14%	15%

Source: Company, Centrum Broking

Exhibit 1: Ultratech – 2QFY24 results summary

Y/E March (Rsmm)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Net Sales	1,38,927	1,77,371	1,60,121	15.3	(9.7)
Expenditure					
Chg. in stock	(3,120)	(485)	(2,793)	(10.5)	475.6
RM consumption	20,043	25,596	23,485	17.2	(8.2)
Purchase of traded goods	3,253	4,329	4,250	30.6	(1.8)
Employee costs	6,912	7,070	8,123	17.5	14.9
Freight Costs	30,437	41,008	35,118	15.4	(14.4)
Power and fuel	42,961	48,812	43,853	2.1	(10.2)
Other exp	19,774	20,550	22,577	14.2	9.9
Operating Expenses	1,20,260	1,46,879	1,34,612	11.9	(8.4)
EBITDA	18,667	30,492	25,509	36.7	(16.3)
EBITDA Margin (%)	13.4%	17.2%	15.9%	249bps	(126)bps
Other Income	1,463	1,737	1,671	14.3	(3.8)
Interest Costs	2,003	2,108	2,339	16.8	11.0
Depreciation	7,079	7,491	7,978	12.7	6.5
PBT	11,032	22,668	16,897	53.2	(25.5)
Tax	3,445	5,766	4,094	NA	(29.0)
Reported PAT	7,587	16,902	12,804	68.8	(24.2)
Exceptional Items	0	0	0	NA	NA
Adjusted Profit	7,587	16,902	12,804	68.8	(24.2)
NPM(%)	5.5%	9.5%	8.0%	254bps	(153)bps
EPS (Rs.)	26.3	58.5	44.4	68.7	(24.2)

Source: Centrum Broking, Company Data

Exhibit 2: Ultratech – 2QFY24 operational performance

Operational Data	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Volume (mn mt)	23.1	30.0	26.7	15.5	(10.9)
Cement Realisation (Rs/mt)	6,014	5,920	5,999	(0.2)	1.3
Operating Costs (Rs/mt)	5,206	4,903	5,044	(3.1)	2.9
EBITDA (Rs/mt)	808	1,018	956	18.3	(6.1)

Source: Centrum Broking, Company Data

Exhibit 3: Operating cost trend

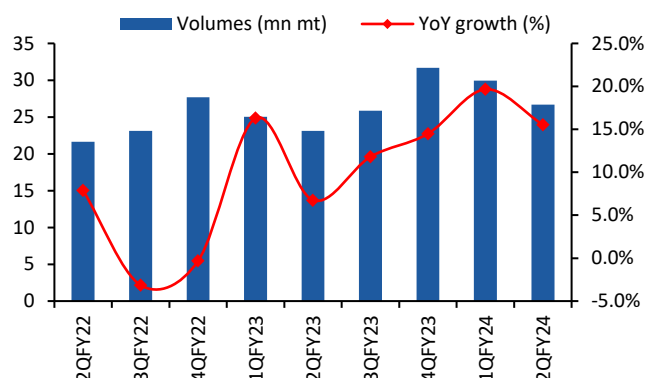
Costs/mt (Rs)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	YoY (%)	QoQ (%)
Raw Material Expenses	799	891	984	912	873	868	969	983	935	7.0	(4.9)
Employee Expenses	314	278	227	254	299	268	226	236	304	1.7	29.0
Freight Expenses	1,235	1,256	1,256	1,314	1,318	1,345	1,323	1,369	1,316	(0.1)	(3.9)
Power and Fuel Expenses	1,165	1,393	1,433	1,603	1,860	1,884	1,675	1,629	1,643	(11.7)	0.8
Other Expenses	785	750	685	737	856	733	615	686	846	(1.2)	23.3
Total Operating costs/mt	4,299	4,568	4,585	4,820	5,206	5,099	4,808	4,903	5,044	(3.1)	2.9
EBITDA/mt	1,254	1,046	1,110	1,236	808	903	1,048	1,018	956	18.3	(6.1)

Source: Centrum Broking, Company Data

Ultratech 2QFY24 conference call highlights

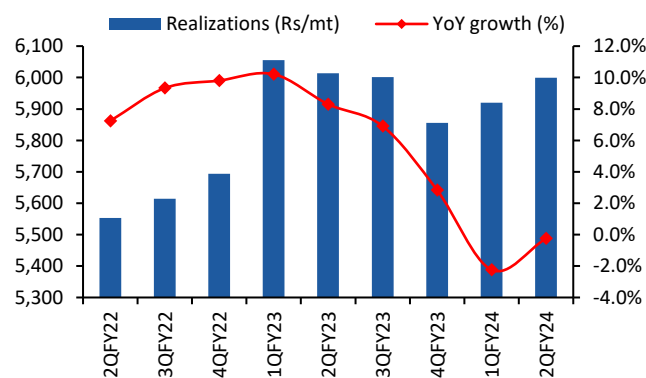
- From June exit, cement prices have moved up across regions and are currently higher by 7-8% from June and 5% from 2Q average. From 2Q average prices are up 7-8% in East, 7-8% in Maharashtra, 5-6% in South, 6-7% in North and flat in Central region. Currently the price hikes are holding up.
- Overall, demand growth in India is 9-11% and in East it is lower at 4-5% on account of erratic rains. Rural demand was strong as the company delivered 15% growth in rural segment.
- Petcoke prices had declined to close to US\$100/mt in July and have moved up substantially to US\$140/mt now. Average fuel costs for the company in 2Q is US\$162/mt and expected to decline further in 3QFY24. Fuel mix for the quarter: Imported coal- 51%, imported pet coke- 39%, domestic coal- 6% and AFR- 4%.
- 2Q generally has higher maintenance costs on account of annual shutdown. During the quarter, 24 kilns of the company were under shutdown.
- Employee costs were higher as onetime bonus was announced for employees on account of achieving 100mn mt of sales in FY23. As a result, operating exp included Rs700mn of one-off items.
- Capex of Rs25.5bn incurred in 2Q and close to Rs45bn in 1H. Overall capex guidance for FY24 maintained at Rs60-70bn.
- Net debt higher from March 2023 levels on account of higher capex and increased fuel inventory.
- Phase 2 expansion of 24.4mn mt to be completed by June 2025 to take total domestic capacity of the company to 159.45mn mt. By the end of FY24, the company will announce next phase of capex.
- Company aims to take its green share of total power requirement 60% by FY26 from 22%. Lead distance for the quarter was 403kms vs 410kms in 1QFY24.

Exhibit 4: Volume growth at 15.5% YoY



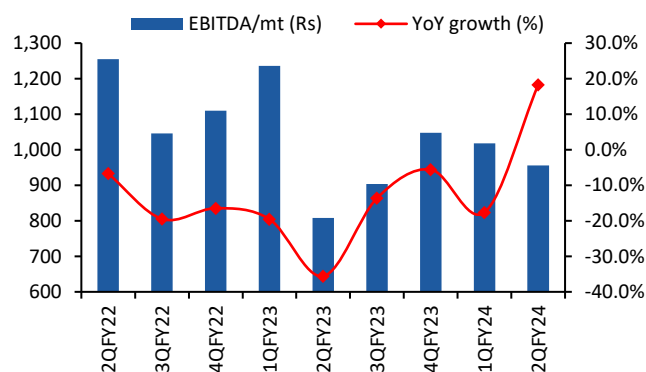
Source: Centrum Broking, Company Data

Exhibit 5: Blended realisations up 1.3% QoQ



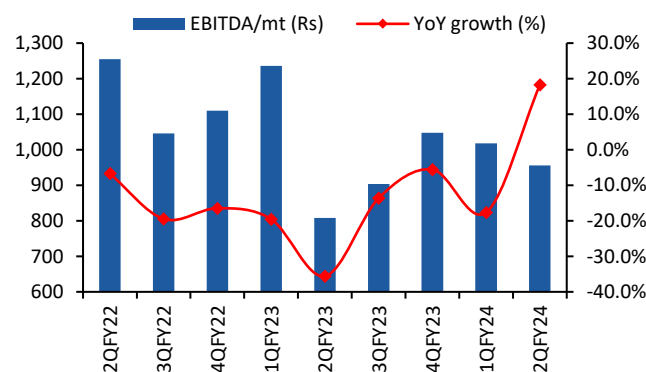
Source: Centrum Broking, Company Data

Exhibit 6: EBITDA/mt up 18.3% YoY to Rs956/mt

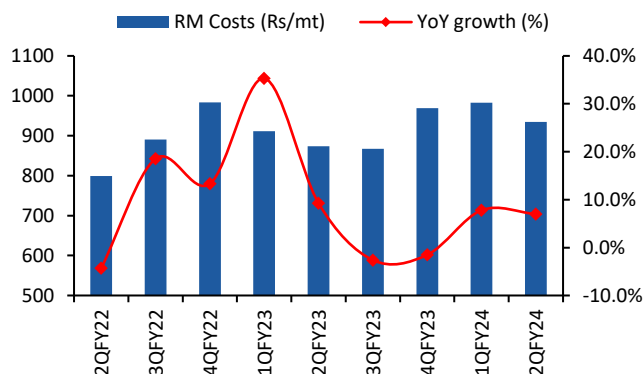


Source: Centrum Broking, Company Data

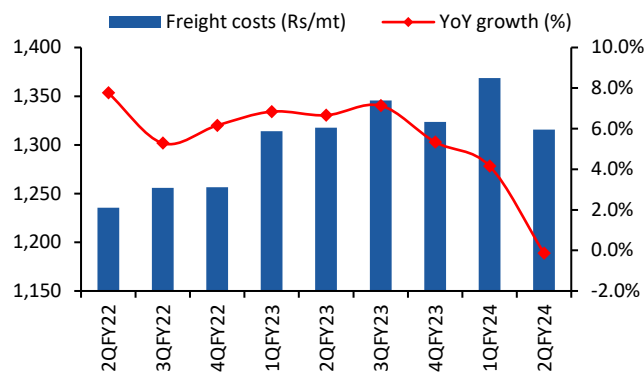
Exhibit 7: Operating costs down by 3.1% YoY



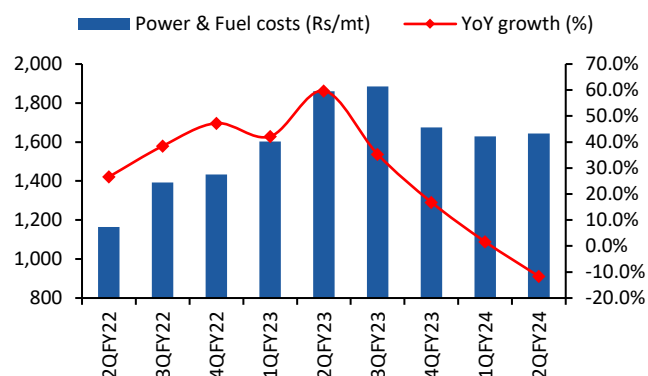
Source: Centrum Broking, Company Data

Exhibit 8: RM costs up 7% YoY


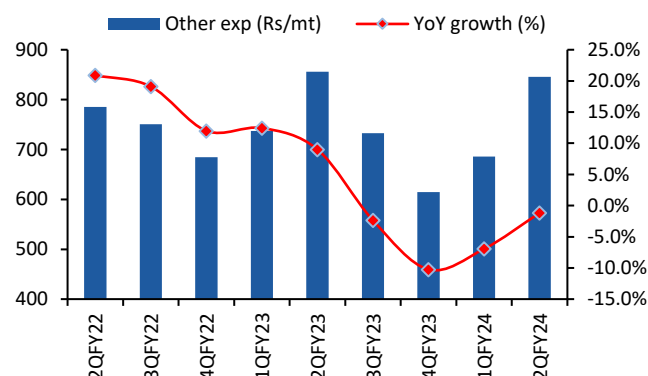
Source: Centrum Broking, Company Data

Exhibit 9: Freight costs flat on a YoY basis


Source: Centrum Broking, Company Data

Exhibit 10: P&F costs down 11.7% on a YoY basis


Source: Centrum Broking, Company Data

Exhibit 11: Other expenses down 6.9% YoY


Source: Centrum Broking, Company Data

Exhibit 12: Key changes to our assumptions and estimate

YE Mar (Rs)	FY24E	FY24E	% chg	FY25E	FY25E	% chg
	New	Old		New	Old	
Revenue	7,21,800	7,06,330	2.2	8,01,787	7,68,246	4.4
EBITDA	1,47,423	1,49,653	-1.5	1,58,447	1,62,290	-2.4
EBITDA margin	20.4	21.2	(76) bps	19.8	21.1	(136) bps
Adj. PAT	83,397	85,114	-2.0	90,854	93,838	-3.2
Diluted EPS	288.9	294.8	-2.0	314.7	325.1	-3.2

YE Mar	FY24E	FY24E	% chg	FY25E	FY25E	% chg
	New	Old		New	Old	
Volumes (mn)	121.1	119.0	1.7	132.0	128.6	2.6
Realization	5,963	5,935	0.5	6,074	5,972	1.7
Operating	4,745	4,677	1.4	4,874	4,710	3.5
EBITDA/mt	1,218	1,257	-3.1	1,200	1,262	-4.9

Source: Centrum Broking, Company Data

Exhibit 13: Valuation Summary

Particulars	(Rs mn)
Sep FY25E EBITDA	1,66,140
Target multiple (x)	16.0
Enterprise value	26,58,242
Less: Net debt & CWIP	(1,02,694)
Equity value	27,60,936
No of shares (mn)	288.7
Target Price (Rs)	9,564

Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	5,25,988	6,32,400	7,21,800	8,01,787	8,82,615
Operating Expense	3,17,569	4,21,435	4,62,298	5,19,222	5,76,038
Employee cost	25,347	27,390	29,406	31,573	33,902
Others	67,929	77,377	82,672	92,545	98,840
EBITDA	1,15,144	1,06,199	1,47,423	1,58,447	1,73,834
Depreciation & Amortisation	27,148	28,880	31,674	35,228	39,507
EBIT	87,996	77,319	1,15,749	1,23,219	1,34,326
Interest expenses	9,447	8,227	6,888	4,513	2,532
Other income	5,078	5,031	5,376	5,747	6,145
PBT	83,627	74,122	1,14,237	1,24,453	1,37,940
Taxes	11,901	23,429	30,845	33,604	37,245
Effective tax rate (%)	14.2	31.6	27.0	27.0	27.0
PAT	71,726	50,694	83,392	90,849	1,00,695
Minority/Associates	17	40	5	5	5
Recurring PAT	71,743	50,734	83,397	90,854	1,00,700
Extraordinary items	0	0	0	0	0
Reported PAT	71,743	50,734	83,397	90,854	1,00,700
Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	17.6	20.2	14.1	11.1	10.1
EBITDA	(0.5)	(7.8)	38.8	7.5	9.7
Adj. EPS	28.6	(29.3)	64.4	8.9	10.8
Margins (%)					
Gross	85.0	84.8	84.5	84.3	84.1
EBITDA	21.9	16.8	20.4	19.8	19.7
EBIT	16.7	12.2	16.0	15.4	15.2
Adjusted PAT	13.6	8.0	11.6	11.3	11.4
Returns (%)					
ROE	15.2	9.7	14.4	13.9	13.8
ROCE	13.1	9.1	13.5	13.4	13.5
ROIC	12.1	8.2	12.2	12.2	13.0
Turnover (days)					
Gross block turnover ratio (x)	0.8	0.9	1.0	1.0	1.0
Debtors	20	20	21	21	21
Inventory	222	231	234	240	238
Creditors	240	247	247	246	245
Net working capital	(26)	(36)	(18)	(13)	(11)
Solvency (x)					
Net debt-equity	0.1	0.0	0.0	0.0	(0.1)
Interest coverage ratio	12.2	12.9	21.4	35.1	68.7
Net debt/EBITDA	0.4	0.2	0.0	(0.2)	(0.6)
Per share (Rs)					
Adjusted EPS	248.5	175.8	288.9	314.7	348.8
BVPS	1,747.1	1,883.8	2,127.4	2,387.7	2,671.2
CEPS	342.6	275.8	398.6	436.8	485.7
DPS	36.9	37.8	45.4	54.4	65.3
Dividend payout (%)	14.8	21.5	15.7	17.3	18.7
Valuation (x)					
P/E	34.3	48.4	29.5	27.1	24.4
P/BV	4.9	4.5	4.0	3.6	3.2
EV/EBITDA	21.7	23.3	16.6	15.3	13.6
Dividend yield (%)	0.4	0.4	0.5	0.6	0.8

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	5,01,435	5,40,915	6,11,216	6,86,356	7,68,199
Shareholders fund	5,04,322	5,43,802	6,14,103	6,89,243	7,71,086
Minority Interest	0	0	0	0	0
Total debt	95,744	88,337	59,402	38,902	18,902
Non Current Liabilities	19,042	19,585	20,086	20,627	21,212
Def tax liab. (net)	60,332	62,601	62,601	62,601	62,601
Total liabilities	6,79,440	7,14,324	7,56,193	8,11,374	8,73,801
Gross block	6,22,009	6,89,010	7,37,807	8,32,807	9,12,807
Less: acc. Depreciation	(1,41,421)	(1,68,417)	(1,98,538)	(2,33,766)	(2,73,273)
Net block	4,80,588	5,20,594	5,39,269	5,99,041	6,39,534
Capital WIP	47,847	40,404	60,055	45,055	15,055
Net fixed assets	5,90,936	6,24,290	6,62,616	7,07,389	7,17,881
Non Current Assets	58,559	67,481	47,418	42,697	38,855
Investments	13,724	14,604	15,604	19,604	23,604
Inventories	55,956	66,118	77,443	88,221	94,697
Sundry debtors	30,716	38,670	44,137	49,028	53,970
Cash & Cash Equivalents	53,225	69,862	65,293	71,098	1,18,920
Loans & advances	69	77	89	100	109
Other current assets	34,929	32,702	46,270	48,454	52,092
Trade payables	58,628	72,093	79,815	89,782	98,171
Other current liab.	97,730	1,25,408	1,20,781	1,23,246	1,25,854
Provisions	2,480	2,044	2,147	2,254	2,367
Net current assets	16,057	7,884	30,490	41,619	93,396
Total assets	6,79,440	7,14,324	7,56,193	8,11,374	8,73,801

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	83,644	74,163	1,14,242	1,24,458	1,37,945
Depreciation & Amortisation	27,148	28,880	31,674	35,228	39,507
Net Interest	9,447	8,227	6,888	4,513	2,532
Net Change – WC	(14,909)	24,810	(27,175)	(5,325)	(3,954)
Direct taxes	(11,901)	(23,429)	(30,845)	(33,604)	(37,245)
Net cash from operations	93,429	1,12,651	94,784	1,25,270	1,38,784
Capital expenditure	(60,140)	(61,443)	(70,000)	(80,000)	(50,000)
Acquisitions, net	0	0	0	0	0
Investments	58,423	(9,612)	(3,800)	(9,000)	(9,000)
Others	(8,177)	(9,615)	20,063	4,721	3,843
Net cash from investing	(9,893)	(80,670)	(53,737)	(84,279)	(55,157)
FCF	83,536	31,981	41,048	40,991	83,627
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(82,092)	(7,408)	(28,934)	(20,500)	(20,000)
Dividend paid	(10,650)	(10,913)	(13,095)	(15,714)	(18,857)
Interest paid	(9,447)	(8,227)	(6,888)	(4,513)	(2,532)
Others	2,169	2,470	501	541	585
Net cash from financing	(1,00,020)	(24,077)	(48,417)	(40,186)	(40,804)
Net change in Cash	(16,484)	7,904	(7,369)	805	42,823

Source: Company, Centrum Broking

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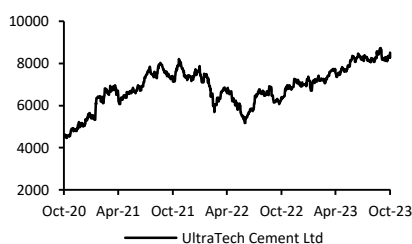
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Ultratech Cement



Source: Bloomberg

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