

**HOLD**  
 TP: Rs 9,396 | ▲ 12%

**ULTRATECH CEMENT**

Cement

27 July 2023

**On a strong pitch but positives priced in; revised to HOLD**

- Grey cement volumes grew 20% YoY to 28.6mt in Q1; utilisation healthy at ~86%
- EBITDA flat YoY at Rs 29.1bn but margin contracted 300bps to 16.9% on lower realisations and higher costs
- FY24/FY25 EBITDA estimates raised 2%/6% for a new TP of Rs 9,396 (vs. Rs 8,678); cut to HOLD as valuations factor in performance

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**Robust performance; clearly defined growth path:** UTCEM reported a 17% YoY rise in Q1FY24 revenue to Rs 172.5bn. Grey cement volumes grew 20% YoY (-5% QoQ) to 28.6mn tonnes, also contributed by ~2mt of newer capacities. Utilisation at ~86% was a positive surprise. Grey cement realisations (adjusted for incentive receipt) fell 4% YoY to Rs 5,352/t, indicating that the demand push was lacking.

**Hardening cost a negative surprise:** Operating cost increased 1% YoY (and QoQ) to Rs 5,013/t which came as a negative surprise, pushed up by 3% higher energy cost ex-raw material (-2% QoQ) due to increased fuel cost. Per-unit raw material cost rose 5% YoY driven by higher fly-ash and slag cost. Logistics expense per tonne increased 3% YoY and QoQ due to the busy season surcharge applied by the railways. Other expenditure was also up 11% YoY (+4% QoQ) to Rs 19.3bn.

**EBITDA flat but margins slip:** EBITDA was flat YoY (-7% QoQ) at Rs 29.1bn, but the margin fell to 16.9% from 19.9% in Q1FY23 (17.3% in Q4FY23), sapped by the weaker realisations and higher costs. EBITDA/t plunged 18% YoY (-2.5% QoQ) to Rs 1,017/t.

**Capex continues; net debt dips:** UTCEM spent ~Rs 18bn on capex in Q1, and net debt contracted by Rs 2.3bn. It commissioned 4.3mt of capacity in the northeast and western regions with another 4mt to be added through debottlenecking by FY24-end, taking capacity to 135mt. Budgeted capex is Rs 60bn-70bn over FY24-FY25.

**Positives priced in; downgrade to HOLD:** We believe UTCEM's strong leadership position and cost-saving initiatives will aid margin gains in FY24/FY25. The balance sheet remains strong, cushioning return ratios. We raise our FY24/FY25 EBITDA estimates by 2%/6% and continue to value the stock at 15x FY25E EV/EBITDA, in line with the 10Y mean, to arrive at a new TP of Rs 9,396 vs. Rs 8,678. At the same time, we revised UTCEM rating to HOLD from BUY as current valuations factor in the positives and offer limited upside potential. At our TP, the stock trades at a replacement cost of Rs 20bn/mt, 2.5x premium to the industry.

**Key changes**

Target	Rating
▲	▼

Ticker/Price	UTCEM IN/Rs 8,352
Market cap	US\$ 29.3bn
Free float	40%
3M ADV	US\$ 29.5mn
52wk high/low	Rs 8,499/Rs 6,005
Promoter/FPI/DII	60%/15%/17%

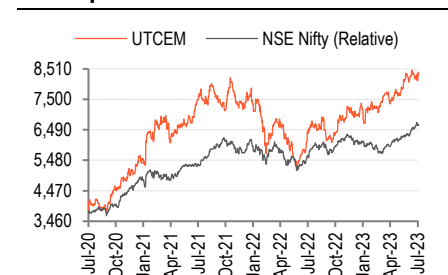
Source: NSE | Price as of 26 Jul 2023

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,04,626	6,67,249	7,70,626
EBITDA (Rs mn)	99,312	1,35,942	1,75,458
Adj. net profit (Rs mn)	49,169	69,937	98,050
Adj. EPS (Rs)	170.3	242.3	339.7
Consensus EPS (Rs)	170.3	253.0	305.0
Adj. ROAE (%)	9.6	12.5	15.5
Adj. P/E (x)	49.0	34.5	24.6
EV/EBITDA (x)	23.8	17.4	13.6
Adj. EPS growth (%)	(24.7)	42.2	40.2

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q1FY24	Q4FY23	Our view
Volumes and Realisation	<p>Domestic volumes grew 20% YoY and utilisation stood at 86% overall. Rural sales formed 65% of trade volumes and grew at 24% YoY. RMC volumes grew by 37% YoY and 8% QoQ.</p> <p>Price hikes are expected from Q3 with trade and non-trade prices likely to converge.</p>	<p>Despite high volumes, prices remained supportive in Q4. Capacity utilisation was at 95% for cement and 91% for clinker.</p> <p>Premium products crossed 20% volume share for UTCEM. Incremental margin on premium products was Rs 10/bag on average, which works out to Rs 200/t, per management.</p>	<p>Strong demand resurgence post monsoon is the key for price revival and sustainability. Infrastructure-driven demand is likely to be stronger in H2FY24.</p>
Margins	<p>Raw material costs rose 6% YoY and 1% QoQ due to higher slag and fly ash costs, while logistics costs increased 1% YoY and QoQ because of seasonal surcharges (cost/tonne analysis). Fuel cost stood at Rs 2.3/kcal this quarter from Rs 2.2/kcal a year ago (Rs 2.5/kcal in Q4) but are guided to soften. Pet coke price was at US\$ 115/t (US\$ 125/t landed).</p>	<p>Spot pet coke prices hover at US\$ 150- 160/t while coal remains at US\$ 170-180/t. Fuel cost was at Rs 2.5/kcal in Q4 and is guided to soften further in the next few quarters.</p> <p>UTCEM targets EBITDA/t between Rs 1,000 and Rs 1,200.</p>	<p>Margin revival will be driven by cost saving measures and better realisations.</p>
Capacity	<p>UTCEM commissioned 4.3mt in the northeast and western regions, taking total domestic capacity to 131.25mt.</p> <p>UTCEM will complete grinding debottlenecking at 4-5 locations by FY24-end, providing incremental capacity of 4mt</p> <p>Management has guided for an increase in RMC plants from 232 to 300 by FY24-end.</p>	<p>Phase-2 expansion of 22.6mt is in progress. Management expects to reach the next milestone of 156mt by H1FY26 and complete the same by FY26-end.</p> <p>The Dalla (Uttar Pradesh) asset under arbitration has 2.3mt of clinker, no grinding unit, and ~100mt of limestone mines.</p>	<p>Capacity expansion plans are as per schedule. The phase-3 plan is to be presented to the board in the near term and will involve both greenfield and brownfield expansion.</p>
Capex	<p>Management has guided for Rs 60bn-70bn in capex in FY24-FY25, including Rs 2.5bn for AFR improvements at various plants.</p> <p>Current capex cost is targeted to range below US\$ 76/t. Management expects capex for phase-3 expansion to remain competitive.</p>	<p>UTCEM spent Rs 60bn on capex in FY23 and expects to incur Rs 128bn for phase-2 expansion.</p>	<p>The capex target is at aggressive replacement cost. However, cement and related capex will help cost-effective cement manufacturing and will be the key for superior performance.</p>
Green energy	<p>UTCEM has guided for the addition of 386MW of wind power and 260MW of solar power by Jun'24. It also expects to increase WHRS from 233MW to 300MW by FY24-end and 425MW by FY26-end.</p> <p>Management is targeting an increase in AFR usage from 5% to 9-10% by FY25-end.</p>	<p>UTCEM has WHRS capacity of 210MW and aims to reach 318MW by the end of FY24.</p> <p>At present, green power is 25% of the total with a target of 34%.</p>	<p>The focus on alternate fuels will be the key to cost efficiency and to cushioning overall energy cost from spikes.</p>
Other key points	<p>Quarterly cash spend on annual capex stood at ~Rs 17.9bn. Net debt reduced by Rs 2.3bn.</p> <p>Other expenses were lower sequentially as advertising expenses increased in Q4FY23 and maintenance cost was lower in 1QFY24.</p> <p>Other operating income rose by Rs 9.2bn QoQ as incentives were received for some plants.</p>	<p>Revenue for construction chemicals was Rs 5.5bn in FY23, with plants in 39 locations.</p> <p>The company has 231 RMC plants at present and added some in April. It expects to double this number soon.</p>	<p>UTCEM's balance sheet remains strong and is likely to strengthen further in the next couple of years</p>

Source: Company, BOBCAPS Research | RMC: Ready Mix Concrete, WHRS: Waste Heat Recovery System, AFR: Alternate Fuel & Raw Material

**Fig 2 – Key quarterly metrics**

(Rs)	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
Volumes (mn mt)	28.6	23.7	20.5	30.1	(5.0)
Cement realisations (Rs/mt)	5,352	5,562	(3.8)	5,382	(0.5)
Operating costs (Rs/mt)*	5,013	4,967	0.9	4,977	0.7
EBITDA/t (Rs)	1,017	1,234	(17.6)	1,044	(2.5)

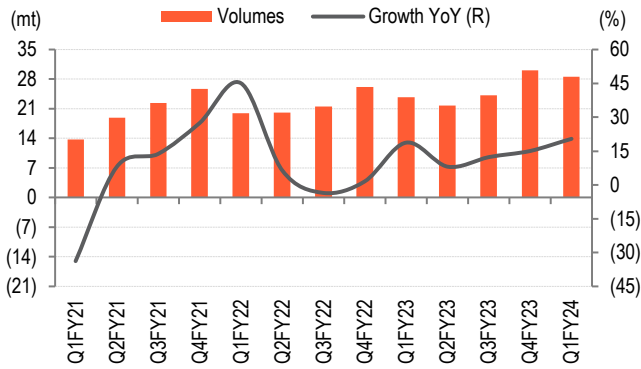
Source: Company, BOBCAPS Research | \*Aggregate cost

**Fig 3 – Quarterly performance**

(Rs mn)	Q1FY24	Q1FY23	YoY %	Q4FY23	QoQ %
<b>Net Sales</b>	<b>1,72,452</b>	<b>1,47,155</b>	<b>17.2</b>	<b>1,81,210</b>	<b>(4.8)</b>
<b>Expenditure</b>					
Change in stock	(321)	(896)		2,417	(113.3)
Raw material	23,844	19,453	22.6	24,502	(2.7)
Purchased products	8,676	7,030	23.4	7,986	8.6
Power & fuel	44,794	36,411	23.0	48,234	(7.1)
Freight	40,458	32,502	24.5	41,378	(2.2)
Employee costs	6,610	5,954	11.0	6,732	(1.8)
Other exp	19,305	17,407	10.9	18,551	4.1
Total Operating Expenses	1,43,366	1,17,861	21.6	1,49,800	(4.3)
<b>EBITDA</b>	<b>29,086</b>	<b>29,294</b>	<b>(0.7)</b>	<b>31,410</b>	<b>(7.4)</b>
EBITDA margin (%)	16.9	19.9	(304bps)	17.3	(46.7)
Other Income	2,582	1,661	55.4	2,006	28.7
Interest	1,911	1,997	(4.3)	1,749	9.3
Depreciation	6,820	6,282	8.6	6,948	(1.8)
PBT	22,937	22,677	1.1	24,719	(7.2)
Non-recurring items	0	0	-	0	-
PBT (after non-recurring items)	22,937	22,677	1.1	24,719	(7.2)
Tax	5,882	7,136	(17.6)	8,216	(28.4)
Reported PAT	17,055	15,540	9.7	16,503	3.3
<b>Adjusted PAT</b>	<b>17,055</b>	<b>15,540</b>	<b>9.7</b>	<b>16,503</b>	<b>3.3</b>
NPM (%)	9.9	10.6	(67bps)	9.1	78.3
<b>Adjusted EPS (Rs)</b>	<b>59.1</b>	<b>53.8</b>	<b>9.7</b>	<b>57.2</b>	<b>3.3</b>

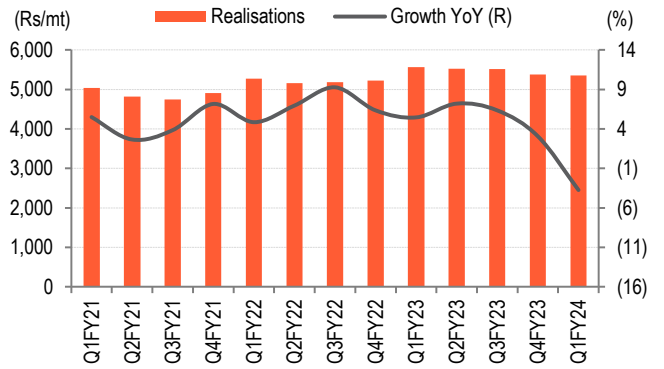
Source: Company, BOBCAPS Research

**Fig 4 – Robust volume growth aided by new capacities**



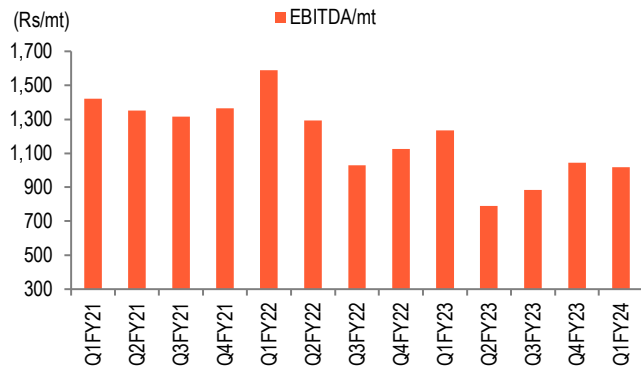
Source: Company, BOBCAPS Research

**Fig 5 – Strong demand revival key for healthy pricing**



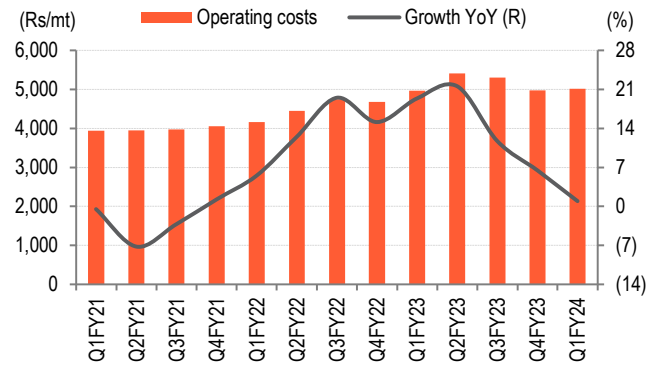
Source: Company, BOBCAPS Research

**Fig 6 – Well maintained operational efficiencies**



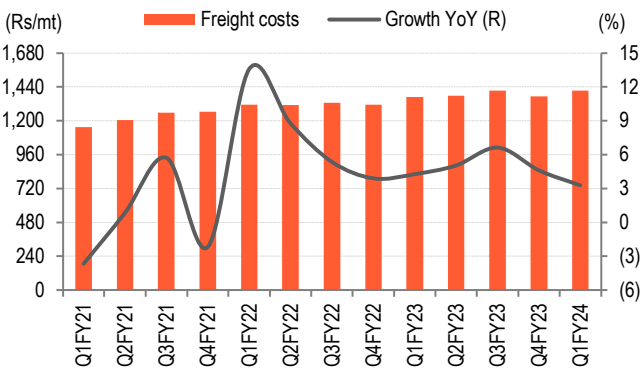
Source: Company, BOBCAPS Research

**Fig 7 – Cost inflation needs to be keenly watched**



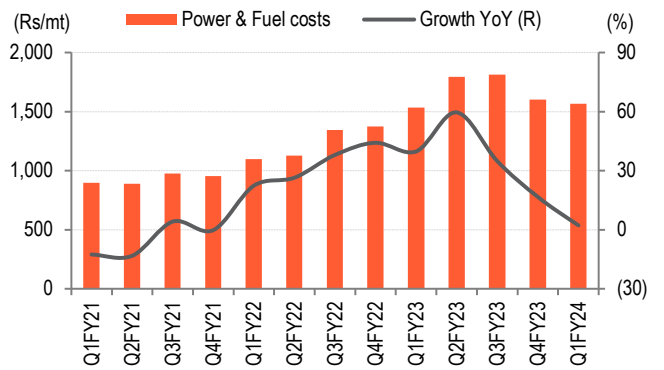
Source: Company, BOBCAPS Research

**Fig 8 – Freight cost pushed up by railway surcharges**



Source: Company, BOBCAPS Research

**Fig 9 – Fuel cost moved up YoY**



Source: Company, BOBCAPS Research

## Valuation methodology

We raise our FY24/FY25 EBITDA estimates by 2%/6% and now model for a revenue/ EBITDA/PAT CAGR of 15%/17%/14% for UTCEM over FY22-FY25. We believe UTCEM's strong leadership position and cost-saving initiatives will aid margin gains over FY24-FY25. A presence in the white cement segment is an added cushion.

Notwithstanding capex-heavy initiatives that are targeted to raise capacity by 15% to 154mt by FY25/FY26, the balance sheet is expected to remain sound, driving our forecast of higher ROCE/ROE at 20%/16% by Y25. However, current valuations of 14x FY25e EV/EBITDA factor in the positives.

We continue to value the stock at 15x FY25E EV/EBITDA, in line with the 10-year mean, and arrive at a higher TP of Rs 9,396 vs. Rs 8,678 post estimate revision. Given limited upside potential, we revise UTCEM's rating from BUY to HOLD. At our TP, the stock trades at a replacement cost of Rs 20bn/mt, 2.5x premium to the industry

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	6,67,249	7,70,626	6,63,047	7,59,075	0.6	1.5
EBITDA	1,35,942	1,75,458	1,33,256	1,65,738	2.0	5.9
EBITDA margin %	20.1	22.5	19.8	21.5	29bps	97bps
Adj. PAT	69,937	98,050	68,041	92,050	2.8	6.5
Diluted EPS	242.3	339.7	235.7	318.9	2.8	6.5

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	87.60	103.13	110.20	126.01
Realisations (Rs/mt)	4,984	5,149	5,304	5,423
Operating costs (Rs/mt)	4,535	4,984	4,907	4,806
EBITDA/mt (Rs)	1,205	873	1,140	1,301

Source: Company, BOBCAPS Research

**Fig 12 – Valuation summary**

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	15
EBITDA	1,75,458
<b>Target EV</b>	<b>26,75,738</b>
Total EV	26,75,738
Net debt	(36,511)
Target market capitalisation	27,12,249
<b>Target price (Rs/sh)</b>	<b>9,396.3</b>
Weighted average shares (mn)	288.7

Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
UTCEM IN	HOLD	9,396	24.7	17.9	13.6	228.8	226.7	192.8	9.6	12.5	15.5	12.0	16.4	20.0
ACC IN	HOLD	1,964	22.4	13.6	9.1	121.8	91.3	84.1	5.2	7.9	11.2	7.9	10.8	14.5
ACEM IN	HOLD	375	11.5	10.6	8.3	292.3	209.6	166.6	5.2	6.4	7.0	9.2	11.1	13.0

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- Outsmarting peers leading to better than estimated efficiencies
- Faster than expected price revival in key markets

Key downside risks to our estimates are:

- lower-than-estimated demand revival which can impact realisations,
- fierce competition that can keep a lid on prices, and
- cost inflation faster than estimated in the next two years.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.4	1,923	1,964	HOLD
Ambuja Cements	ACEM IN	10.7	444	375	HOLD
Dalmia Bharat	DALBHARA IN	4.4	1,956	1,917	HOLD
JK Cement	JKCE IN	3.0	3,217	3,474	HOLD
JK Lakshmi Cement	JKLC IN	1.0	669	551	SELL
Orient Cement	ORCMNT IN	0.4	146	140	HOLD
Shree Cement	SRCM IN	10.7	24,275	24,656	HOLD
Star Cement	STRCEM IN	0.7	143	146	BUY
The Ramco Cements	TRCL IN	2.6	892	585	SELL
Ultratech Cement	UTCEM IN	29.3	8,352	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 26 Jul 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>4,26,770</b>	<b>4,97,294</b>	<b>6,04,626</b>	<b>6,67,249</b>	<b>7,70,626</b>
EBITDA	1,09,648	1,09,364	99,312	1,35,942	1,75,458
Depreciation	(24,344)	(24,568)	(26,192)	(29,335)	(33,736)
EBIT	93,191	90,915	80,014	1,13,919	1,50,816
Net interest inc./(exp.)	(12,591)	(7,983)	(7,550)	(8,125)	(7,938)
Other inc./(exp.)	7,887	6,118	6,894	7,313	9,094
Exceptional items	(1,640)	5,352	0	0	0
EBT	78,961	88,284	72,464	1,05,795	1,42,878
Income taxes	(25,540)	(17,618)	(23,295)	(35,857)	(44,828)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>53,421</b>	<b>70,666</b>	<b>49,169</b>	<b>69,937</b>	<b>98,050</b>
Adjustments	(1,640)	5,352	0	0	0
<b>Adjusted net profit</b>	<b>55,061</b>	<b>65,314</b>	<b>49,169</b>	<b>69,937</b>	<b>98,050</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	85,167	97,164	1,13,015	1,22,505	1,35,472
Other current liabilities	51,683	49,400	68,224	70,160	76,240
Provisions	8,358	8,175	7,779	8,259	8,774
Debt funds	1,73,235	1,06,874	1,01,440	56,221	70,226
Other liabilities	52,191	52,299	54,758	58,348	59,598
Equity capital	2,886	2,887	2,887	2,887	2,887
Reserves & surplus	4,30,640	4,89,820	5,26,482	5,85,612	6,72,855
Shareholders' fund	4,33,526	4,92,706	5,29,369	5,88,498	6,75,742
<b>Total liab. and equities</b>	<b>8,04,161</b>	<b>8,06,617</b>	<b>8,74,584</b>	<b>9,03,991</b>	<b>10,26,051</b>
Cash and cash eq.	1,38,459	56,853	72,802	49,849	1,06,737
Accounts receivables	22,860	27,068	32,422	36,237	42,379
Inventories	37,221	51,625	60,842	67,601	78,602
Other current assets	79,585	1,05,963	1,03,368	1,06,057	1,15,283
Investments	56,098	63,074	72,602	71,397	71,397
Net fixed assets	4,29,898	4,30,850	4,69,216	4,56,841	4,94,893
CWIP	15,221	46,191	38,072	90,000	90,000
Intangible assets	24,820	24,993	25,260	26,010	26,760
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>8,04,161</b>	<b>8,06,617</b>	<b>8,74,584</b>	<b>9,03,991</b>	<b>10,26,051</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>1,20,293</b>	<b>58,914</b>	<b>99,263</b>	<b>1,01,506</b>	<b>1,26,228</b>
Capital expenditures	(17,544)	(55,697)	(55,845)	(69,638)	(72,538)
Change in investments	(74,591)	58,463	(17,905)	19,205	(16,000)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(92,136)</b>	<b>2,766</b>	<b>(73,750)</b>	<b>(50,433)</b>	<b>(88,538)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(9,639)	(66,361)	(5,434)	(45,219)	14,005
Interest expenses	6	7	8	9	10
Dividends paid	(3,750)	(10,670)	(10,927)	(10,807)	(10,807)
Other financing cash flows	892	(816)	(1,579)	0	0
<b>Cash flow from financing</b>	<b>(12,497)</b>	<b>(77,848)</b>	<b>(17,940)</b>	<b>(56,026)</b>	<b>3,198</b>
<b>Chg in cash &amp; cash eq.</b>	<b>15,661</b>	<b>(16,167)</b>	<b>7,573</b>	<b>(4,953)</b>	<b>40,889</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,38,459</b>	<b>56,853</b>	<b>72,803</b>	<b>49,849</b>	<b>1,06,737</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	185.1	244.8	170.3	242.3	339.7
Adjusted EPS	190.8	226.3	170.3	242.3	339.7
Dividend per share	13.0	37.0	37.9	32.0	32.0
Book value per share	1,502.0	1,706.9	1,833.9	2,038.8	2,341.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	5.3	4.7	3.9	3.6	3.1
EV/EBITDA	20.6	21.3	23.8	17.4	13.6
Adjusted P/E	43.8	36.9	49.0	34.5	24.6
P/BV	5.6	4.9	4.6	4.1	3.6

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	67.7	80.0	67.9	66.1	68.6
Interest burden (PBT/EBIT)	86.5	91.2	90.6	92.9	94.7
EBIT margin (EBIT/Revenue)	21.8	18.3	13.2	17.1	19.6
Asset turnover (Rev./Avg TA)	56.1	61.7	71.9	75.0	79.9
Leverage (Avg TA/Avg Equity)	1.9	1.7	1.6	1.6	1.5
Adjusted ROAE	13.4	14.3	9.6	12.5	15.5

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	6.6	16.5	21.6	10.4	15.5
EBITDA	26.7	(0.3)	(9.2)	36.9	29.1
Adjusted EPS	50.8	18.6	(24.7)	42.2	40.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.4	21.6	16.2	20.1	22.5
EBIT margin	21.8	18.3	13.2	17.1	19.6
Adjusted profit margin	12.9	13.1	8.1	10.5	12.7
Adjusted ROAE	13.4	14.3	9.6	12.5	15.5
ROCE	14.7	13.9	12.0	16.4	20.0
<b>Working capital days (days)</b>					
Receivables	20	20	20	20	20
Inventory	32	38	37	37	37
Payables	96	89	80	83	82
<b>Ratios (x)</b>					
Gross asset turnover	0.8	0.9	1.0	1.0	1.1
Current ratio	1.9	1.6	1.4	1.3	1.6
Net interest coverage ratio	7.4	11.4	10.6	14.0	19.0
Adjusted debt/equity	0.4	0.2	0.2	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

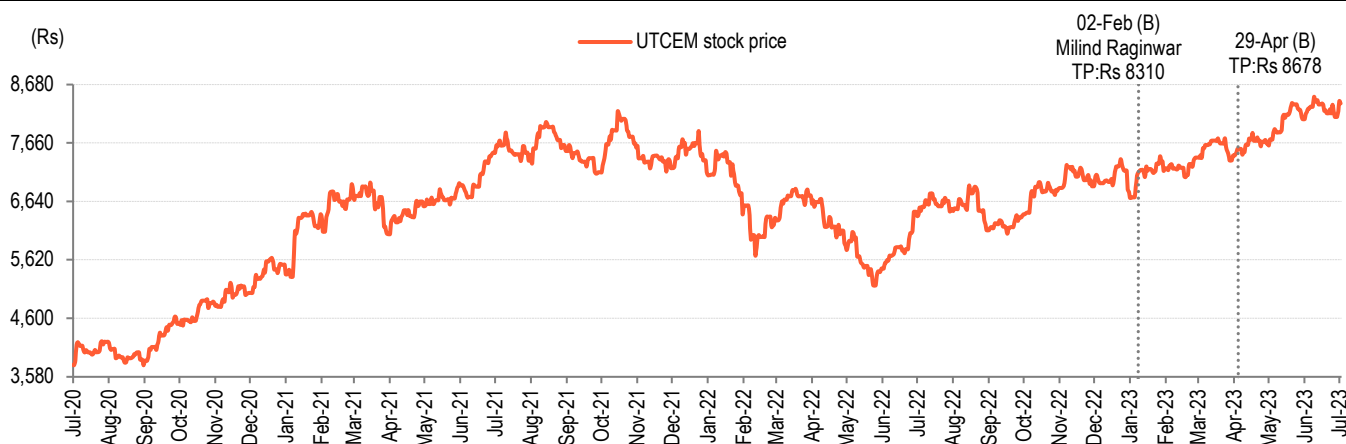
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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### Ratings and Target Price (3-year history): ULTRATECH CEMENT (UTCEM IN)



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