FIRST LIGHT

22 October 2024

RESEARCH

ULTRATECH CEMENT | TARGET: Rs 12,469 | +15% | BUY

Geared up for short-term challenges; maintain BUY

DALMIA BHARAT | TARGET: Rs 1,816 | -1% | HOLD

Challenging phase for Dalmia; valuations factored in

BUILDING MATERIALS

Mixed trade flow: Negative for tiles/laminates; positive for MDF

SUMMARY

ULTRATECH CEMENT

- Steady 3% volume growth aids marginal fall in topline despite dent in realisations in a challenging Q2; capacity utilisation at ~68%
- Non-recurring expenses drag cost savings, to normalise for residual FY25. EBITDA/tonne at ~Rs 744 in a challenging environment
- Cut our FY25/FY26/FY27 EBITDA estimates by 13%/11%/1%. Value UTCEM at 17x EV/EBITDA and revise TP to Rs 12,469. Retain BUY rating

Click here **for the full report.**

DALMIA BHARAT

- Revenue declined by 2%/15% YoY/QoQ to ~Rs 31bn in Q2FY25 as focus returned to volume growth over guarding against declining realisations
- Cost savings of 4% driven by lower energy cost, helped partially mitigate EBITDA weakness
- We lower our EBITDA estimates for FY25/FY26/FY27, though valuations factored in the same. Retain HOLD with TP of Rs 1,816 (vs Rs 2,062)

Click here **for the full report.**

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BUILDING MATERIALS

- Domestic tiles realisation to remain under pressure in the near future as tiles exports fell to a 22-month low level in Aug'24
- Laminate net export volume run rate was down 2.5% YoY in Aug'24, despite a steep increase in domestic capacity
- MDF imports remained weak in Aug'24, but local MDF prices did not rise due to local supply-side issues

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BUY
TP: Rs 12,469 | ⮝ 15%

ULTRATECH CEMENT | Cement | 22 October 2024

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- **Steady 3% volume growth aids marginal fall in topline despite dent in realisations in a challenging Q2; capacity utilisation at ~68%**
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- **Cut our FY25/FY26/FY27 EBITDA estimates by 13%/11%/1%. Value UTCEM at 17x EV/EBITDA and revise TP to Rs 12,469. Retain BUY rating**

Milind Raginwar
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Steady volume growth in a weak quarter: UTCEM reported a 4% fall in YoY revenue (~15% down QoQ) at ~Rs 149.0bn in Q2FY25, marginally lower than estimated due to weaker-than-expected volume. Volumes (excluding white cement segment of 0.45mn tonnes) were at ~25.97mn tonnes, a steady ~3% gain YoY (~15% decline QoQ). Effectively, grey cement realisation fell ~9%/2% YoY/QoQ at Rs 4,960/t (adjusted for incentives receipt of Rs 1bn). UTCEM's capacity utilisation was ~68% even in a weak Q2FY25.

Cost savings restricted due to non-recurring higher staff/other expense: Operating cost/tonne fell 4% YoY in Q2 to Rs 4,995/t, limiting the impact of the decline in realisations. Fuel cost (raw material adjusted) fell 10% YoY (flat QoQ) to Rs 2,428/t, with blended fuel consumption cost staying flat QoQ at US$ 127/t, down 21% YoY. Logistic cost stayed flat YoY/QoQ indicating UTCEM's attempt to cover farther regions. Other expenditure jumped 6% to Rs 22.7bn due to the maintenance shut down, while staff expenses rose due to non-recurring expenses.

Expansion on course: UTCEM's expansion projects are on track and it will commission 8mt of capacity in H2FY25, taking the total capacity to 157mt by FY25. UTCEM aims to create a capacity of 184mt by FY27. Management expects the Kesoram acquisition to be concluded in Q4FY25 and an expense of Rs 4bn-5bn over two years post acquisition to bring it up to the level of UTCEM's capabilities. UTCEM awaits the Competition Commission of India's (CCI) approval with regard to the acquisition of India Cements following which the open offer will be launched.

Valuation outlook: We cut our FY25/FY26/FY27 estimates for EBITDA by 13%/11%/1% and for EPS by 16%/14%/1%. Our FY24-FY27 EBITDA/PAT CAGR is baked in at 19%/23%. UTCEM is well geared for short-term industry challenges, in our view. However, we feel recovery in FY27 to be handy and, hence, our revisions are marginal. Given effective cost management, healthy growth and a strong balance sheet, we continue to value UTCEM at 17x 1-year forward EV/EBITDA to arrive at a TP of Rs 12,469 (from Rs 12,974) and maintain our BUY rating on the stock.

Key changes

Target	Rating
▼	◄►

Ticker/Price	UTCEM IN/Rs 10,869
Market cap	US$ 37.3bn
Free float	40%
3M ADV	US$ 41.9mn
52wk high/low	Rs 12,138/Rs 8,156
Promoter/FPI/DII	60%/15%/17%

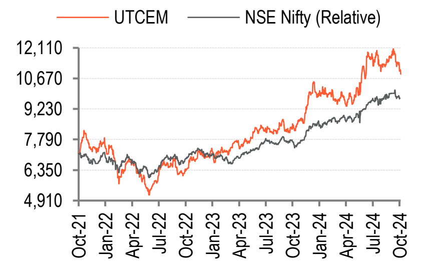
Source: NSE | Price as of 21 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	6,86,406	7,32,731	8,50,762
EBITDA (Rs mn)	1,35,678	1,40,803	1,81,084
Adj. net profit (Rs mn)	69,769	74,314	1,01,039
Adj. EPS (Rs)	241.7	257.5	350.0
Consensus EPS (Rs)	241.7	273.0	362.0
Adj. ROAE (%)	12.4	11.9	14.5
Adj. P/E (x)	45.0	42.2	31.1
EV/EBITDA (x)	22.8	22.0	17.2
Adj. EPS growth (%)	41.9	6.5	36.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD
TP: Rs 1,816 | ⩔ 1%

DALMIA BHARAT | Cement | 22 October 2024

Challenging phase for Dalmia; valuations factored in

- **Revenue declined by 2%/15% YoY/QoQ to ~Rs 31bn in Q2FY25 as focus returned to volume growth over guarding against declining realisations**
- **Cost savings of 4% driven by lower energy cost, helped partially mitigate EBITDA weakness**
- **We lower our EBITDA estimates for FY25/FY26/FY27, though valuations factored in the same. Retain HOLD with TP of Rs 1,816 (vs Rs 2,062)**

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Focus on volume gains, realisations take a hit: DALBHARA's revenue declined by 2%/15% YoY/QoQ to ~Rs 31bn in Q2FY25 as the focus shifted back to volume growth over guarding against a decline in realisation. Volume grew 8% YoY (-10% QoQ) to 6.7mn tonnes. Realisations fell 9%/6% YoY/QoQ to Rs 4,607/t. Cement prices weakened in DALBHARA's key operating regions in eastern and southern India. For Q2, DALBHARA had a capacity utilisation of 58%.

Lower energy expense was key cost savings driver: Overall cost fell 4% YoY to Rs 3,960/t (flat QoQ). Power expenses (adjusted for raw materials) softened by ~13% YoY to Rs 1,719/t, driving cost savings. The energy cost declined largely due to a US$ 26/US$ 5 YoY/QoQ decline in the fuel consumption cost to about US$ 101/t. Effectively, fuel cost during the quarter was Rs 1.36/kcal (Rs 1.38/kcal in Q1FY25). The logistics cost rose by about ~8% YoY to Rs 1,099/t as it serviced central markets through its eastern India plants. Other expenditure was higher by 4% YoY due to maintenance cost.

EBITDA fell on weak realisations: EBITDA decreased by ~26%/35% YoY/QoQ to ~Rs 4.3bn owing to weak topline, and EBITDA margin fell to ~14.1% from ~19% in Q2FY24. EBITDA/t was lower by 33%/29% YoY/QoQ at Rs 621/t. Effectively, APAT at Rs 460mn was down by 61%/81% YoY/QoQ.

Only organic capacity expansion underway post JAL assets under insolvency: DALBHARA is on track to reach 49.5mn tonnes by FY25-end following 0.5mt debottlenecking at Kalyanpur, Bihar, and 2.4mt greenfield expansion at Lanka, Assam. Debottlenecking clinker capacity of 0.9mt is expected in H2FY25.

Maintain HOLD: We prune our FY25/FY26/FY26 EBITDA estimates by ~16%/13%/5% to factor in expectations of slow growth in H1FY25 and no major alternatives regarding JAL's assets. We continue to assign the stock an EV/EBITDA of 12x 1-year forward but lower our TP to Rs 1,816 (from Rs 2,062) which reflects an implied replacement cost of Rs 7.5bn. We maintain a HOLD rating on DALBHARA.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DALBHARA IN/Rs 1,831
Market cap	US$ 4.0bn
Free float	44%
3M ADV	US$ 9.1mn
52wk high/low	Rs 2,431/Rs 1,651
Promoter/FPI/DII	56%/12%/8%

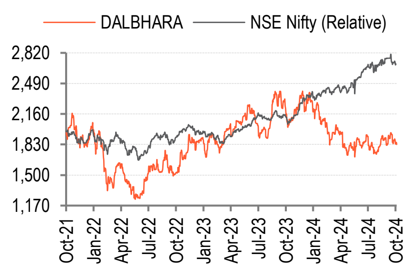
Source: NSE | Price as of 21 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,46,910	1,58,318	1,82,153
EBITDA (Rs mn)	26,390	25,373	31,935
Adj. net profit (Rs mn)	8,540	6,662	10,722
Adj. EPS (Rs)	44.9	36.0	58.0
Consensus EPS (Rs)	44.9	51.0	66.8
Adj. ROAE (%)	5.3	4.2	6.9
Adj. P/E (x)	40.7	50.8	31.6
EV/EBITDA (x)	13.0	15.1	9.8
Adj. EPS growth (%)	31.5	(19.9)	60.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUILDING MATERIALS

21 October 2024

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- **Laminate net export volume run rate was down 2.5% YoY in Aug'24, despite a steep increase in domestic capacity**
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These are key takeaways from Ministry of Commerce trade statistics for the building materials (BM) sector for the month of Aug'24.

Tiles: India's monthly net export value run rate fell to a 22-month low in Aug'24 (-37.4% YoY/-5.5% MoM to Rs 12.5bn) due to high ocean freight rate. As a result, tiles realisation is likely to remain under pressure in the near future. Going ahead, Indian tiles industry exports may remain weak if the US government imposes an anti-dumping duty on Indian tiles products (for which an investigation was initiated in May'24 based on a petition filed by a US tiles manufacturer to impose high tariffs of 408%-828%). The US comprised 8% of India's total tiles exports in FY24.

Laminates: India's laminate monthly volume net export run rate fell by 2.5% YoY/6.2% MoM in Aug'24 due to the impact of high ocean freight rate (despite large capacity addition by GRLM and CPBI in H2FY24). Note that exports form roughly 30-50% of total sales of major domestic laminates companies.

MDF: India's MDF monthly net import volume run rate was down sharply in Aug'24 (-93.7% YoY/ -54.6% MoM to 2,115 CBM) due to high ocean freight rate. However, our channel checks indicate that the domestic MDF price did not go up on a QoQ basis in Q2FY25 due to local supply-side issues. Further, we believe the pace of MDF imports may rise with the normalisation of ocean freight rate in the near future. Rising imports pressure along with the commissioning of large new MDF capacities (CPBI in Q1FY25 and GREENP in Q3FY25) are likely to keep the MDF industry's margin under pressure over the next four to six quarters, in our view.

Particleboard: India's particleboard monthly net import volume run rate fell sharply for the sixth consecutive month (-83.7% YoY in Aug'24) due to high ocean freight rate. However, the particleboard sector margin is likely to remain weak over the medium term due to large capacity additions (by GRLM and CPBI) over H2FY25.

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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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