

BUY
 TP: Rs 12,469 | ▲ 15%

ULTRATECH CEMENT

Cement

22 October 2024

Geared up for short-term challenges; maintain BUY

- **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**

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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%

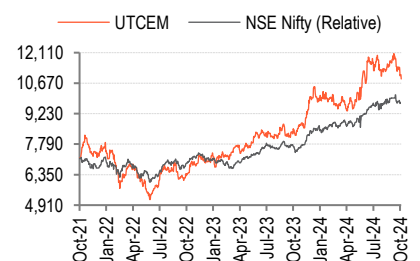
Source: NSE | Price as of 21 Oct 2024

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



Fig 1 – Earnings call highlights

Parameter	Q2FY25	Q1Y25	Our view
Volumes and realisations	<p>Management expects the industry volume in Q2FY25 to grow between -0.5% and 1%, while it expects double-digit growth for H2 for the industry. Further, management expects to deliver better volume growth than the industry. UTCEM's trade volume was 67.5% in Q2FY25 and blended cement sale 70.6% in H1FY25.</p> <p>Marginal increase in cement prices in October with Aug exit at Rs 347/kg and current prices are at Rs 354 indicating a 2% rise.</p>	<p>Management indicated that Indian industry grew at ~3-3.5% in Q1FY25 while UTCEM beat industry growth. Demand may hover at ~7-8% in FY25 after early moderation and will stay at higher single digits. UTCEM's trade volume was 68% in 1QFY25 and blended cement sale was 71%.</p> <p>Moderation of cement prices was across regions in 1Q. 2Q prices are 1.5% lower than the average price of 1QFY25 and management expects a pick-up in prices in 2H.</p>	<p>FY25 demand is likely to be back-ended due to elections and monsoon quarter in the 1H. Effectively, pricing softness may continue for the short term.</p> <p>UTCEM has maintained higher capacity utilisation despite the demand weakness..</p>
Margins	<p>UTCEM indicated that the high fuel cost contracts are nearing an end with a slight impact on Q3FY25. Fuel cost during Q2FY25 was ~1.84/kcal (~2.00/kcal in Q1FY25). Pet-coke consumption mix increase was 54% and management expects this to go up further. Going forward UTCEM expects fuel cost to reduce further.</p>	<p>Management expects overall cost savings of Rs 300 per tonne in the next two years. It expects fuel costs to moderate further post 3QFY25 after utilising full high-cost inventory. Fuel cost during Q1FY25 was ~2.00/kcal (~2.03/kcal in Q4FY24). Blended cost of fuel consumed in Q1FY25 was US\$ 149/t flat vs 4QFY24 and UTCEM expects to reach further lower levels by FY25-end after the use of high-end inventory.</p>	<p>Management has guided for cost savings of Rs 100-300 per tonne incrementally earlier and is on track with contributions by better clinker conversion ratio, higher usage of green energy and logistics cost savings.</p> <p>We expect UTCEM to beat guidance in cost savings, helping it to maintain higher utilisation levels even if prices stay range bound.</p>
Capacity	<p>UTCEM's expansion projects are on track and it will commission 8mt of capacity in H2, taking the total capacity to 157mt by FY25-end. The company further aims to develop a capacity of 184mt by FY27. UTCEM's capacity utilisation was 68% in Q2FY25.</p>	<p>No major change in UTCEM's capacity expansion plans till FY27 as organic expansions to continue as per earlier guidance.</p> <p>The Kesoram Industries-proposed transaction has received Competition Commission of India approval. UTCEM plans to merge KSI assets w.e.f 1 April 2024 following the completion of mandatory procedures.</p>	<p>Capacity expansion plans are on schedule. Both organic and inorganic growth would imply UTCEM is on track to reach >200mn tonnes by FY28.</p>
Capex	<p>UTCEM is on track to achieve capital expenditure without any major change than stated earlier in Q1FY25.</p> <p>Management expects the conclusion of Kesoram acquisition in Q4FY25 and will expend ~Rs 4bn-5bn over two years post acquisition to bring it up to the level of performance of UTCEM. Management also awaits CCI approval for the acquisition of India Cements post which the open offer will be launched.</p> <p>UTCEM has acquired a majority stake in Ras Al Khaimah White Cement.</p>	<p>Capex will be ~Rs 300bn, spread over FY25/FY26/FY27. The capex guidance for FY25/FY26 is ~Rs 80bn/90bn.</p> <p>This includes the outlay for inorganic growth following the acquisition of Kesoram Industries' cement assets.</p> <p>The capex commitment is intact though cash outflow may change.</p>	<p>Despite aggressive capital expenditure plans, healthy cash flows and sharp focus on maintaining balance sheet health have been sustained.</p>

Source: Company, BOBCAPS Research

Fig 2 – Key quarterly metrics

(Rs)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Volumes (mn mt)	26.0	25.2	2.9	30.5	(14.7)	26.2	(1.1)
Cement realisations (Rs/t)	4,960	5,455	(9.1)	5,036	(1.5)	4,961	(0.0)
Operating costs (Rs/t)*	4,995	5,217	(4.2)	4,865	2.7	4,849	3.0
EBITDA/t (Rs)	744	931	(20.1)	891	(16.4)	933	(20.3)

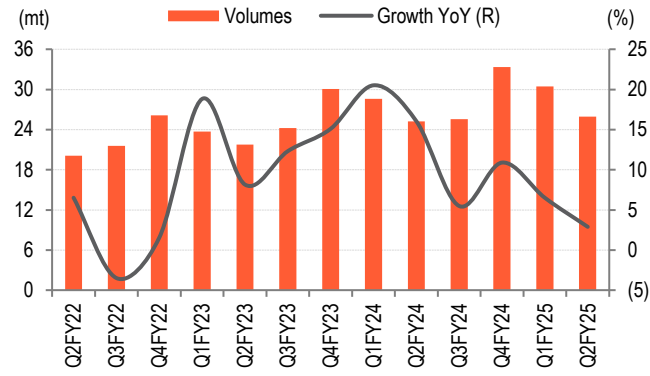
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	Deviation (%)
Net Sales	1,49,052	1,55,170	(3.9)	1,75,324	(15.0)	1,51,777	(1.8)
Expenditure							
Change in stock	(1,567)	(2,246)	(30.2)	159	(1,087.3)	(1,855)	(15.5)
Raw material	23,285	21,837	6.6	25,820	(9.8)	22,627	2.9
purchased products	4,887	8,373	(41.6)	4,300	13.7	3,964	23.3
Power & fuel	36,457	40,029	(8.9)	43,378	(16.0)	37,642	(3.1)
Freight	35,434	34,661	2.2	41,465	(14.5)	35,253	0.5
Employee costs	8,566	7,598	12.7	7,055	21.4	7,157	19.7
Other exp	22,662	21,415	5.8	23,338	(2.9)	22,486	0.8
Total Operating Expenses	1,29,725	1,31,668	(1.5)	1,45,514	(10.9)	1,27,274	1.9
EBITDA	19,327	23,502	(17.8)	29,810	(35.2)	24,503	(21.1)
EBITDA margin (%)	13.0	15.1	(218bps)	17.0	(404bps)	16.1	(318bps)
Other Income	1,817	2,088	(13.0)	1,789	1.6	1,551	17.2
Interest	2,824	2,100	34.5	2,204	28.1	2,231	26.6
Depreciation	8,501	7,279	16.8	8,142	4.4	8,192	3.8
PBT	9,819	16,211	(39.4)	21,253	(53.8)	15,631	(37.2)
Non-recurring items	0	0	0.0	325	0.0	0	
PBT (after non recurring items)	9,819	16,211	(39.4)	21,578	(54.5)	15,631	(37.2)
Tax	1,850	4,155	(55.5)	4,495	(58.8)	3,361	(44.9)
Reported PAT	7,969	12,057	(33.9)	17,083	(53.4)	12,271	(35.1)
Adjusted PAT	7,969	12,057	(33.9)	16,758	(52.4)	12,271	(35.1)
NPM (%)	5.3	7.8	(242bps)	9.6	(421bps)	8.1	(274bps)
Adjusted EPS (Rs)	27.6	41.8	(33.9)	58.1	(52.4)	42.5	(35)

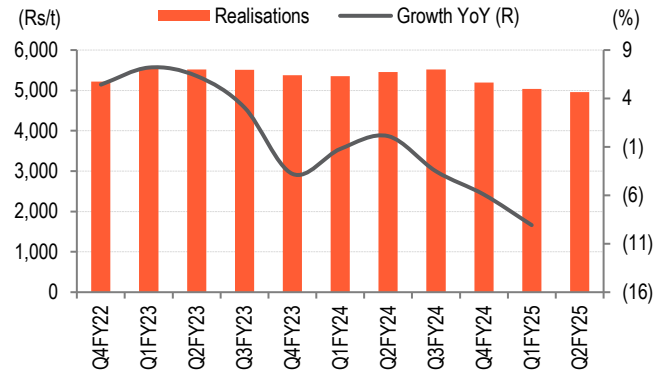
Source: Company, BOBCAPS Research

Fig 4 – Volume growth is tepid though likely to be ahead of industry



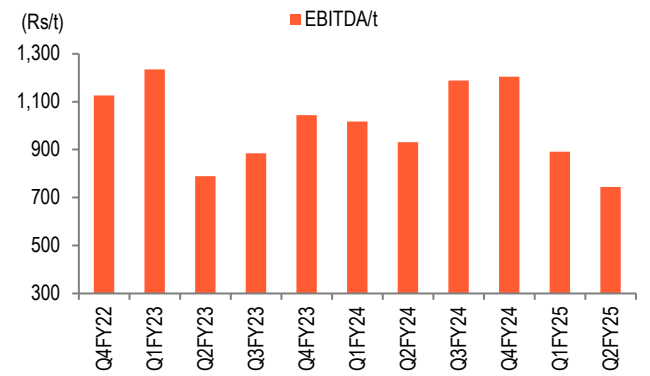
Source: Company, BOBCAPS Research

Fig 5 – Realisation under pressure as demand weakens



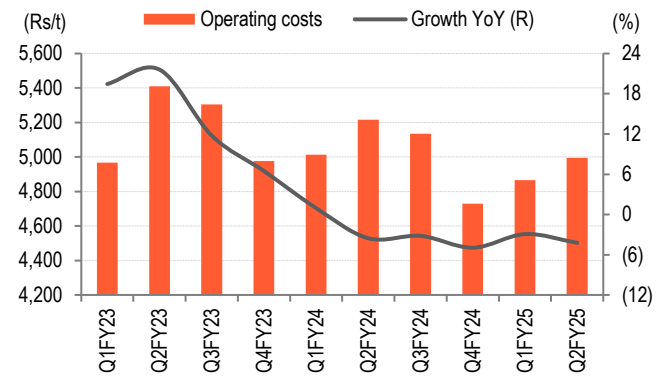
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/tonne leaves further room for improvement



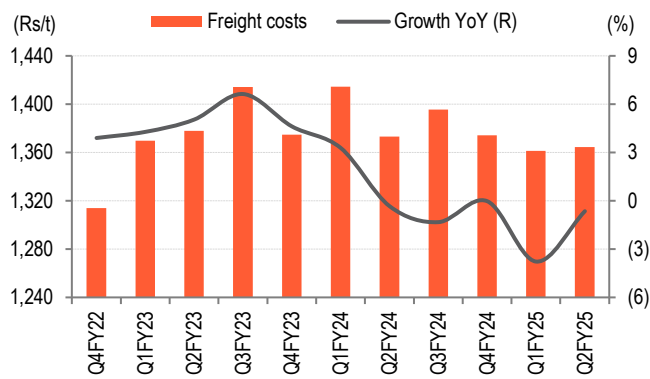
Source: Company, BOBCAPS Research

Fig 7 – Cost savings impacted by non-recurring expenses, to normalise from H2



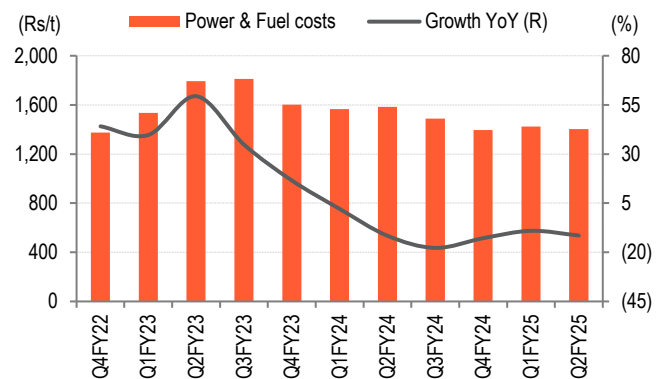
Source: Company, BOBCAPS Research

Fig 8 – Freight cost inched up likely to follow normal trend



Source: Company, BOBCAPS Research

Fig 9 – Energy cost savings limited, but headroom for improvement



Source: Company, BOBCAPS Research

Valuation methodology

UTCEM has maintained its capacity expansion plans till FY27 and beyond. This will help maintain UTCEM's capacity leadership in all the major markets despite competitive pressure. Further, despite market demand slackening the company-maintained capacity utilisation of upwards of 68% with EBITDA/t of ~Rs 744 despite non-recurring expenses in staff and other expenditure. This puts the company on a strong growth path to retain volume market share and still recover margins.

Additionally, cost savings guidance augurs well for providing a boost to EBITDA/t on a higher volume base in the next two years even if prices stay under pressure. This helps to offer added levers to enhance margins even as it is positioned as a capacity leader. The acquisition of Kesoram Industries' cement assets will consolidate its presence in the states of Telangana and Maharashtra. ICEM assets will help consolidate UTCEM's position in southern markets.

Factoring in the above we lower our FY25/FY26/FY27 estimates for EBITDA by 13%/11%/1% and for EPS by 16%/14%/1%. Our FY24-FY27 EBITDA/PAT CAGR of 19%/23% is baked in. 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.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	7,32,731	8,50,762	9,65,781	7,66,364	9,02,211	9,92,527	(4.4)	(5.7)	(2.7)
EBITDA	1,40,803	1,81,084	2,22,406	1,61,210	2,04,324	2,24,107	(12.7)	(11.4)	(0.8)
Adj PAT	74,314	1,01,039	1,29,818	88,708	1,17,059	1,30,981	(16.2)	(13.7)	(0.9)
Adj EPS (Rs)	257.5	350.0	449.7	307.3	405.5	453.8	(16.2)	(13.7)	(0.9)

Source: Company, BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	107.71	124.18	142.81	159.95
Realisations (Rs/t)	5,304	5,198	5,315	5,434
Operating costs (Rs/t)	5,201	4,850	4,769	4,726
EBITDA/t (Rs/t)	1,163	1,043	1,181	1,278

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	17.0
EBITDA	2,22,406
Target EV	38,78,758
Total EV	38,78,758
Net debt	(99,571)
Target market capitalisation	39,78,330
Target price (Rs/sh)	12,469
Weighted average shares (mn)	288.7

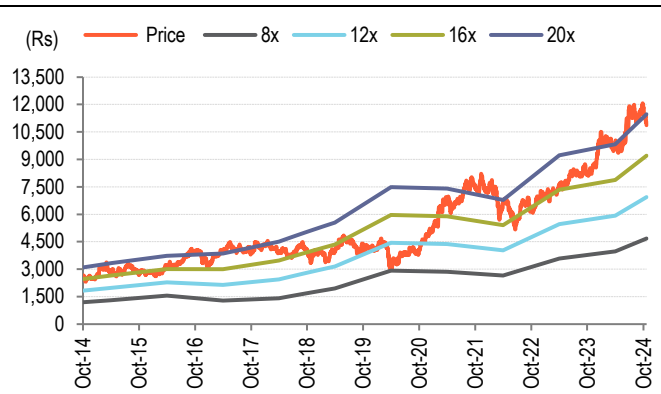
Source: Company, BOBCAPS Research Note: Valuations based on 1-year forward earnings (includes part of FY27E earnings)

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
UTCEM IN	BUY	12,469	22.0	17.2	14.3	274.4	238.5	218.8	11.9	14.5	16.2	15.1	18.3	20.3
ACC IN	HOLD	2,569	14.5	11.8	9.9	140	126	113	13.2	13.3	12.9	17.3	17.2	16.7
ACEM IN	HOLD	667	14.7	15.2	13.9	193.0	183.0	175.0	9.3	10.0	10.1	11.7	13.0	13.2

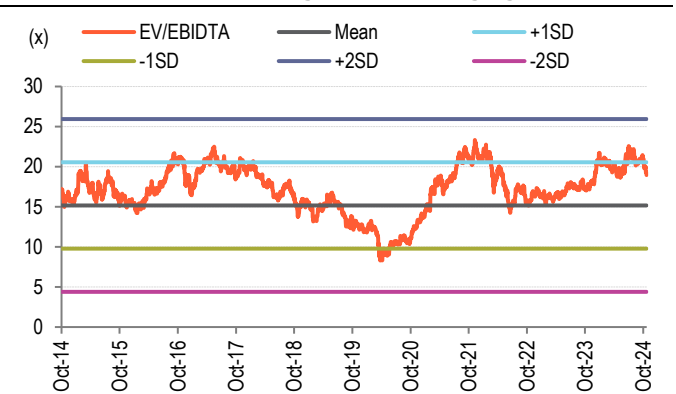
Source: Company, BOBCAPS Research

Fig 14 – EV/EBITDA band: Current valuations fairly poised



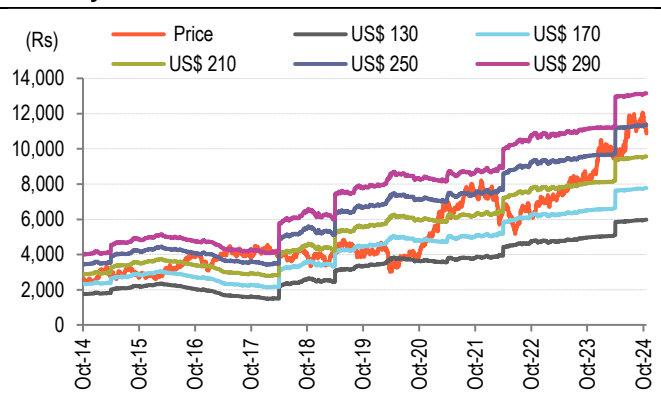
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Forward earnings ahead of mean valuations, factoring better earnings/growth



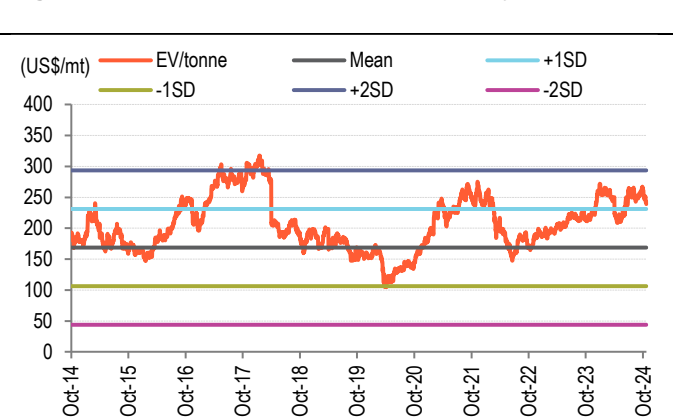
Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: Replacement cost at valuations for industry leader



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd: Valuations to stay elevated



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Increasing competitive intensity and capacity addition may have a negative impact on cement sector pricing and could be detrimental for the industry and UTCEM.
- Delays in the implementation of capex plans could hamper growth.
- Energy cost spikes due to global uncertainties could dampen profitability.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.1	2,302	2,569	HOLD
Dalmia Bharat	DALBHARA IN	4.0	1,831	1,816	HOLD
JK Cement	JKCE IN	3.9	4,208	4,431	HOLD
JK Lakshmi Cement	JKLC IN	1.1	812	687	SELL
Orient Cement	ORCMNT IN	0.9	352	177	SELL
Shree Cement	SRCM IN	10.4	24,298	25,422	HOLD
Star Cement	STRCEM IN	1.0	208	205	HOLD
The Ramco Cements	TRCL IN	2.3	835	737	SELL
Ultratech Cement	UTCEN IN	37.3	10,869	12,469	BUY

Source: BOBCAPS Research, NSE | Price as of 21 Oct 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	6,04,626	6,86,406	7,32,731	8,50,762	9,65,781
EBITDA	99,312	1,35,678	1,40,803	1,81,084	2,22,406
Depreciation	(26,192)	(30,274)	(34,815)	(36,382)	(38,019)
EBIT	80,014	1,02,548	1,15,426	1,55,656	1,96,756
Net interest inc./(exp.)	(7,550)	(8,668)	(10,111)	(10,283)	(10,561)
Other inc./(exp.)	6,894	(2,855)	9,438	10,954	12,370
Exceptional items	0	(720)	0	0	0
EBT	72,464	93,160	1,05,315	1,45,374	1,86,196
Income taxes	(23,295)	(24,111)	(31,002)	(44,335)	(56,378)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	49,169	69,049	74,314	1,01,039	1,29,818
Adjustments	0	(720)	0	0	0
Adjusted net profit	49,169	69,769	74,314	1,01,039	1,29,818

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,13,015	1,26,815	1,34,762	1,48,567	1,64,856
Other current liabilities	68,224	94,541	76,240	78,320	80,400
Provisions	7,779	8,878	9,393	9,946	10,542
Debt funds	1,01,440	80,873	70,226	1,03,957	92,113
Other liabilities	54,758	64,250	65,500	66,950	68,400
Equity capital	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	5,26,482	5,88,065	6,51,572	7,40,453	8,58,112
Shareholders' fund	5,29,369	5,90,952	6,54,458	7,43,339	8,60,999
Total liab. and equities	8,74,584	9,66,309	10,10,579	11,51,079	12,77,310
Cash and cash eq.	72,802	28,680	90,154	1,65,172	1,91,685
Accounts receivables	32,422	34,965	37,827	46,251	55,150
Inventories	60,842	80,358	86,283	1,02,513	1,19,018
Other current assets	1,03,368	83,962	1,15,283	1,36,843	1,62,565
Investments	72,602	71,397	71,397	71,397	71,397
Net fixed assets	4,69,216	4,55,902	4,92,874	5,61,912	6,27,191
CWIP	38,072	1,85,035	90,000	40,000	23,000
Intangible assets	25,260	26,010	26,760	26,991	27,304
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	8,74,584	9,66,309	10,10,579	11,51,079	12,77,310

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	99,263	1,47,378	60,431	1,09,096	1,37,125
Capital expenditures	(55,845)	(1,64,673)	22,497	(55,651)	(86,611)
Change in investments	(17,905)	42,860	(16,000)	(20,000)	(20,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(73,750)	(1,21,813)	6,497	(75,651)	(1,06,611)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(5,434)	(20,567)	(10,647)	33,730	(11,843)
Interest expenses	8	9	10	10	10
Dividends paid	(10,927)	(10,807)	(10,807)	(12,158)	(12,158)
Other financing cash flows	(1,579)	3,342	0	0	0
Cash flow from financing	(17,940)	(28,032)	(21,454)	21,572	(24,001)
Chg in cash & cash eq.	7,573	(2,466)	45,474	55,017	6,513
Closing cash & cash eq.	72,803	28,681	90,154	1,65,172	1,91,685

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	170.3	239.2	257.5	350.0	449.7
Adjusted EPS	170.3	241.7	257.5	350.0	449.7
Dividend per share	37.9	32.0	32.0	36.0	36.0
Book value per share	1,833.9	2,047.3	2,267.3	2,575.2	2,982.8

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.1	4.5	4.2	3.7	3.3
EV/EBITDA	31.2	22.8	22.0	17.2	14.3
Adjusted P/E	63.8	45.0	42.2	31.1	24.2
P/BV	5.9	5.3	4.8	4.2	3.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	67.9	74.1	70.6	69.5	69.7
Interest burden (PBT/EBIT)	90.6	91.5	91.2	93.4	94.6
EBIT margin (EBIT/Revenue)	13.2	14.9	15.8	18.3	20.4
Asset turnover (Rev./Avg TA)	71.9	74.6	74.1	78.7	79.5
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.5	1.5
Adjusted ROAE	9.6	12.4	11.9	14.5	16.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	21.6	13.5	6.7	16.1	13.5
EBITDA	(9.2)	36.6	3.8	28.6	22.8
Adjusted EPS	(24.7)	41.9	6.5	36.0	28.5
Profitability & Return ratios (%)					
EBITDA margin	16.2	19.5	18.9	21.0	22.7
EBIT margin	13.2	14.9	15.8	18.3	20.4
Adjusted profit margin	8.1	10.2	10.1	11.9	13.4
Adjusted ROAE	9.6	12.4	11.9	14.5	16.2
ROCE	12.0	14.4	15.1	18.3	20.3
Working capital days (days)					
Receivables	20	19	19	20	21
Inventory	37	43	43	44	45
Payables	80	83	82	80	80
Ratios (x)					
Gross asset turnover	1.0	1.1	1.0	1.0	1.0
Current ratio	1.4	1.0	1.5	1.9	2.1
Net interest coverage ratio	10.6	11.8	11.4	15.1	18.6
Adjusted debt/equity	0.2	0.1	0.1	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%

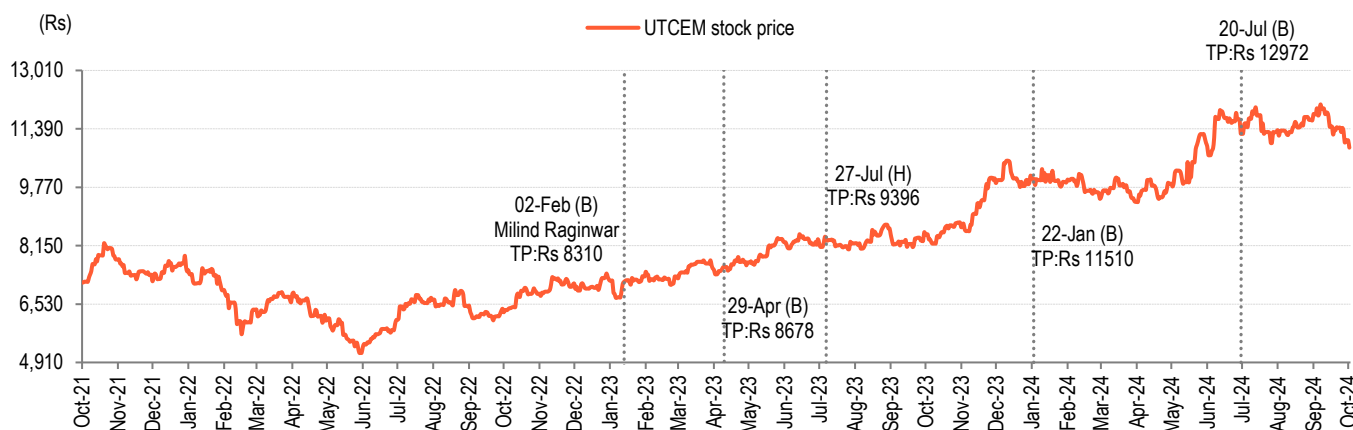
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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