

BUY

TP: Rs 13,137 | ▲ 15%

ULTRATECH CEMENT

Cement

24 January 2025

Geared for growth momentum; maintain BUY

- **Healthy 10% YoY volume growth aids flat topline despite 9% dent in realisations in a challenging Q3; capacity utilisation at ~76%**
- **Operating cost per tonne fell to 7% YoY, partially offsetting weak realisations. EBITDA/t rebound to ~Rs 982 in weak demand scenario**
- **Revise FY25 EBITDA estimates downwards, tweak FY26/FY27. Value UTCEM at 17x EV/EBITDA and revise TP to Rs 13,137, retain BUY rating**

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Healthy volume growth ahead of industry: UTCEM reported flat YoY revenue (~10% down QoQ) at ~Rs 163.3bn in Q3FY25 backed by healthy volume. Volumes (excluding white cement segment of 0.51mn tonnes) were at ~28.3mn tonnes, a double-digit ~10.6%/9% gain YoY/QoQ aided by pan-India presence. However, grey cement realisation fell ~10% YoY, flat QoQ at Rs 4,984/t (adjusted for incentives). UTCEM's capacity utilisation was ~76% even in a weak Q3FY25.

Cost savings of 7% commendable: Operating cost/tonne fell 7%/4% YoY/QoQ in Q3 to Rs 4,788/t, partially offsetting the impact of the decline in realisations. Fuel cost (raw material adjusted) fell 8%/2%% YoY/QoQ to Rs 2,389/t with blended import fuel consumption declining YoY/QoQ 17%/6% to US\$ 125/t. Logistic cost fell 5%/3% YoY/QoQ indicating UTCEM was aided by lower lead distance. Other expenditure jumped 6% to Rs 22.6bn well checked due to operating leverage.

Expansion on course: UTCEM's expansion projects are on track and it will commission 9.1mt of capacity in Q4FY25, taking the total to ~185mt by FY25. UTCEM aims to create capacity of 209mt by FY27. UTCEM is awaiting mines transfer approvals from the state authorities of Telangana and Karnataka with regard to Kesoram Cement. The financials of Kesoram Cement will be consolidated with UTCEM in FY25. ICEM's consolidation will likely take ~4-6 quarters.

Valuation outlook: We cut our FY25 estimates for EBITDA by 9%, but maintain FY26/FY27 with minor changes. Consequently EPS changes follow. Our FY24-FY27E EBITDA/PAT CAGR is baked in at 19%/24%. 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 13,137 (from Rs 12,469) and maintain our BUY rating on the stock.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	UTCEM IN/Rs 11,421
Market cap	US\$ 38.1bn
Free float	40%
3M ADV	US\$ 39.3mn
52wk high/low	Rs 12,145/Rs 9,250
Promoter/FPI/DII	60%/15%/17%

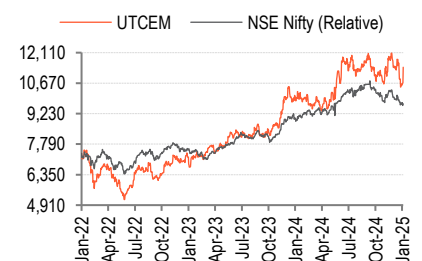
Source: NSE | Price as of 23 Jan 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	6,86,406	6,98,930	8,51,131
EBITDA (Rs mn)	1,35,678	1,28,720	1,82,604
Adj. net profit (Rs mn)	69,769	61,487	98,353
Adj. EPS (Rs)	241.7	213.0	340.7
Consensus EPS (Rs)	241.7	231.0	323.8
Adj. ROAE (%)	12.4	10.0	14.4
Adj. P/E (x)	47.3	53.6	33.5
EV/EBITDA (x)	24.0	25.3	17.6
Adj. EPS growth (%)	41.9	(11.9)	60.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY25	Q2FY25	Our view
Volumes and realisations	<p>Management expects double-digit volume growth for FY26 with capacity utilisation of 80-85%, while it expects 6-7% growth in FY26 for the industry. Management expects to deliver better volume growth than the industry. UTCEM's trade volume was 65.4% in Q3FY25 and blended cement sale 70.1% for 9MFY25.</p> <p>As per management, the lull ended in December 2024 on a positive note. In the North and West India region, price improvement was the highest with >3% improvement in realisations, whereas the East was the weakest region.</p>	<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 August exit at Rs 347/kg and current prices are at Rs 354 indicating a 2% rise.</p>	<p>Demand is likely to be healthy in the last quarter of FY25. UTCEM will beat industry growth and try to maximise its performance in the fourth quarter.</p> <p>UTCEM has maintained higher capacity utilisation despite the demand weakness only indicating the utilisation rates will improve hereon.</p>
Margins	<p>UTCEM indicated that high fuel cost contracts have ended. Pet-coke consumption mix increase was 58% vs 54% QoQ. Fuel cost declined to Rs 1.76/kcal vs Rs 1.84/kcal QoQ. Management expects fuel cost to be around 1.7/kcal in the near future.</p> <p>Lead distance reduced to 377 kms in Q3FY25 vs. 397 kms in Q3FY24.</p>	<p>UTCEM indicated that high fuel cost contracts are nearing the 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 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, prudent churn in fuel mix 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 targets closing FY25 at 185mt of capacity including Kesoram and India Cement. UTCEM has given guidance of capacity addition of 11.8mt/14.7mt in FY26/27 taking the total capacity to 209mt by FY27. Clinker capacity added during Q3FY25 was 6.7mt and another 3.35mt is to be commissioned in Q4FY25. UTCEM has guided for clinker addition of 10mt in FY26.</p>	<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>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>Management has guided for Rs 90bn of capex for FY26 and about Rs 6bn-7bn of capex for FY27 to meet the capacity guidance.</p> <p>UTCEM is awaiting mines transfer approvals from the state authorities of Telangana and Karnataka wrt Kesoram Cement.</p> <p>The open offer was oversubscribed by 110% which concluded on 21 January 2025 at a price of Rs 390/share. UTCEM now holds 81.49% in ICL and there is regulatory compliance being followed to bring it down to 75%. Average cost of equity at Rs 359/share and a cement capacity of 14.45mt values the ICL acquisition at US\$ 98/mt (EV of Rs 120.75bn).</p> <p>UTCEM acquired a non-controlling financial interest of 8.42% for Rs 7.76bn to deepen its presence in the North East region.</p>	<p>UTCEM is on track to achieve capital expenditure without any major change than stated earlier in Q1FY25.</p> <p>Management expects the Kesoram acquisition to conclude in Q4FY25 and will expend ~Rs 4bn-5bn over two years post the acquisition to bring it up to UTCEM's level of performance. Management 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>Despite aggressive capital expenditure plans, healthy cashflows and sharp focus on maintaining balance sheet health have been sustained.</p> <p>We keep close watch on UTCEM's investment in Star Cement. Additionally, the transition of the acquired assets will be a key task in FY26.</p>

Source: Company, BOBCAPS Research | CCI: Competition Commission of India

Fig 2 – Key quarterly metrics

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Volumes (mn mt)	28.3	25.6	10.6	26.0	9.0	27.0	4.8
Cement realisations (Rs/t)	4,984	5,517	(9.7)	4,960	0.5	5,020	(0.7)
Operating costs (Rs/t)*	4,788	5,134	(6.7)	4,995	(4.1)	4,941	(3.1)
EBITDA/t (Rs)	982	1,188	(17.4)	744	31.9	923	6.4

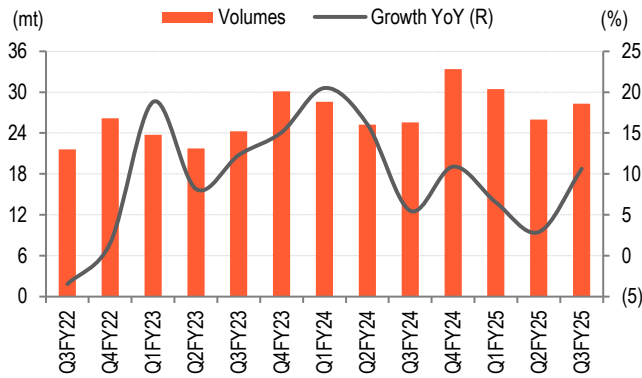
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	Q3FY25E	Deviation (%)
Net Sales	1,63,284	1,61,735	1.0	1,49,052	9.5	1,58,363	3.1
Expenditure							
Change in stock	(886)	(2,307)	(61.6)	(1,567)	(43.4)	(1,201)	(26.2)
Raw material	24,672	22,628	9.0	23,285	6.0	24,578	0.4
purchased products	6,347	8,592	(26.1)	4,887	29.9	5,375	18.1
Power & fuel	37,462	38,107	(1.7)	36,457	2.8	37,569	(0.3)
Freight	37,454	35,697	4.9	35,434	5.7	36,597	2.3
Employee costs	7,857	7,208	9.0	8,566	(8.3)	8,255	(4.8)
Other exp	22,596	21,409	5.5	22,662	(0.3)	22,266	1.5
Total Operating Expenses	1,35,501	1,31,334	3.2	1,29,725	4.5	1,33,439	1.5
EBITDA	27,783	30,401	(8.6)	19,327	43.8	24,925	11.5
EBITDA margin (%)	17.0	18.8	(178bps)	13.0	405bps	15.7	128bps
Other Income	2,061	1,914	7.7	1,817	13.4	1,795	14.8
Interest	3,420	2,369	44.3	2,824	21.1	2,881	18.7
Depreciation	8,565	7,124	20.2	8,501	0.8	8,551	0.2
PBT	17,859	22,821	(21.7)	9,819	81.9	15,288	16.8
Non-recurring items	0	0	0.0	0	0.0	0	
PBT (after non recurring items)	17,859	22,821	(21.7)	9,819	81.9	15,288	16.8
Tax	3,516	5,856	(40.0)	1,850	90.0	3,287	7.0
Reported PAT	14,344	16,965	(15.5)	7,969	80.0	12,001	19.5
Adjusted PAT	14,344	16,965	(15.5)	7,969	80.0	12,001	19.5
NPM (%)	8.8	10.5	(171bps)	5.3	344bps	7.6	121bps
Adjusted EPS (Rs)	49.7	58.8	(15.5)	27.6	80.0	41.6	20

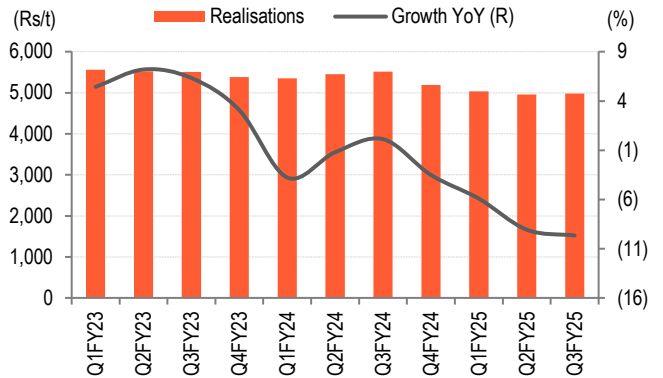
Source: Company, BOBCAPS Research

Fig 4 – Volume growth healthy and ahead of industry



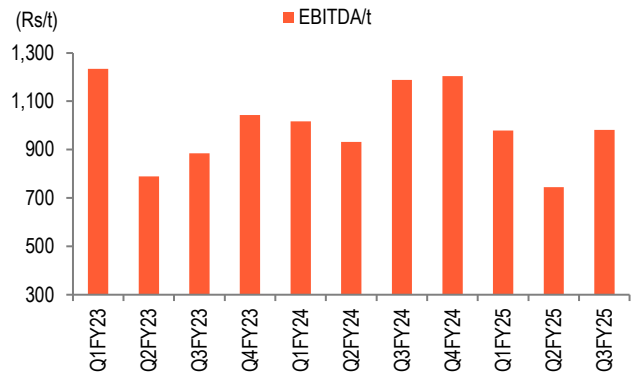
Source: Company, BOBCAPS Research

Fig 5 – Flat realisations QoQ stays a concern



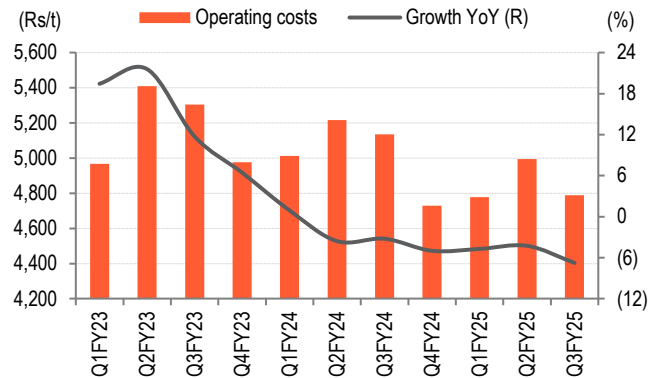
Source: Company, BOBCAPS Research

Fig 6 – EBITDA/tonne leaves further room for improvement



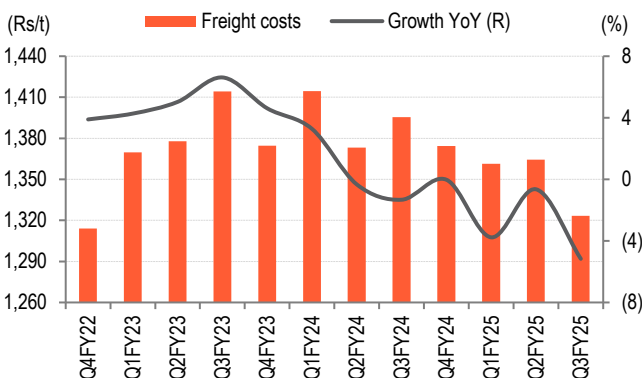
Source: Company, BOBCAPS Research

Fig 7 – Cost savings ahead of estimates driven by well controlled other expenditure



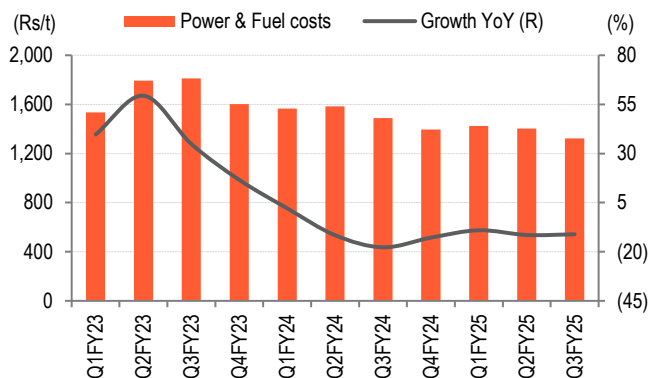
Source: Company, BOBCAPS Research

Fig 8 – Freight cost savings driven by rationalisation of lead distance



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 ~76%. EBITDA/t was ~Rs 982 despite the dent in realisations due to weak pricing. This puts the company on a strong growth path to retain volume market share and still recover margins as the markets recover.

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 deep in South India. Further, the debt on the balance sheet is in a manageable trajectory though initially the book may be mildly stressed. However, UTCEM marks a strong and comprehensive presence in the southern markets with this acquisition to handle competitive pressure.

We cut our FY25 estimates for EBITDA by 9% and maintain FY26/FY27 except for minor changes. Consequently we cut EPS by 17% in FY25, with minor changes of ~2% in FY26 (down) and FY27 (upwards). Our FY24-FY27E EBITDA/PAT CAGR is baked in at 19%/24%. UTCEM is geared for short-term industry challenges, in our view. However, we feel recovery in FY27 to be handy and, hence, our revisions are only 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 13,137 (from Rs 12,469) 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	6,98,930	8,51,131	9,69,109	7,32,731	8,50,762	9,65,781	(4.6)	0.0	0.3
EBITDA	1,28,720	1,82,604	2,24,974	1,40,803	1,81,084	2,22,406	(8.6)	0.8	1.2
Adj PAT	61,487	98,353	1,32,332	74,314	1,01,039	1,29,818	(17.3)	(2.7)	1.9
Adj EPS (Rs)	213.0	340.7	458.5	257.5	350.0	449.7	(17.3)	(2.6)	1.9

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	107.71	118.89	143.86	161.27
Realisations (Rs/t)	5,304	5,145	5,278	5,410
Operating costs (Rs/t)	5,201	4,883	4,726	4,692
EBITDA/t (Rs/t)	1,163	988	1,183	1,311

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	17.0
EBITDA	2,24,974
Target EV	39,24,451
Total EV	39,24,451
Net debt	(75,440)
Target market capitalisation	39,99,892
Target price (Rs/sh)	13,137
Weighted average shares (mn)	288.7

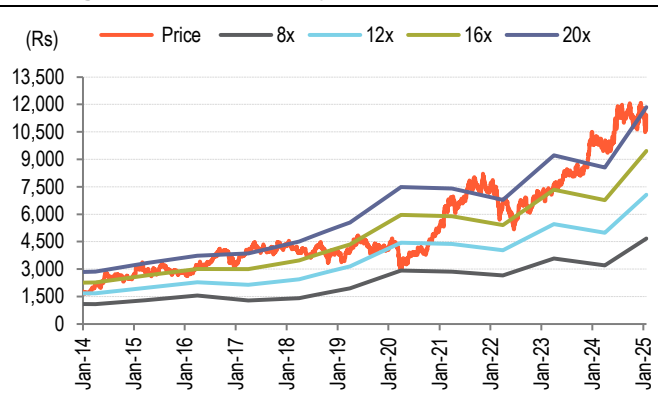
Source: Company, BOBCAPS Research Note: Valuations based on 1-year forward earnings (December 2027)

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	13,137	25.3	17.6	14.4	286.8	259.8	236.6	10.0	14.4	16.8	12.9	17.8	21.1
ACC IN	HOLD	2,398	13.2	11.5	9.5	126.0	115.9	104.8	12.0	13.0	13.0	14.0	15.4	15.2
ACEM IN	HOLD	640	14.3	14.5	11.7	193.0	183.0	175.0	8.8	9.5	11.1	11.0	12.3	14.3

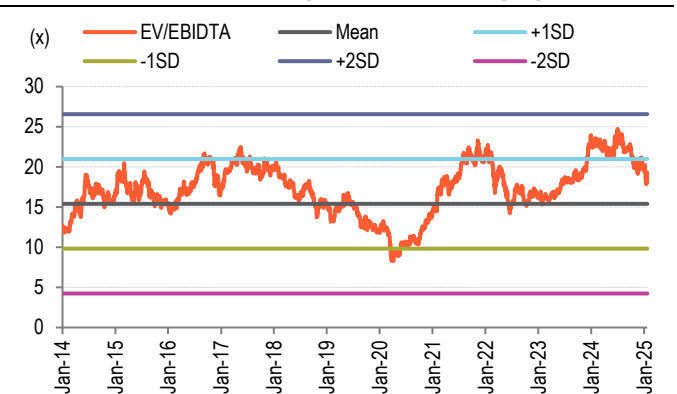
Source: Company, BOBCAPS Research

Fig 14 – EV/EBITDA band: Valuations to stay elevated for the largest cement company and top brand



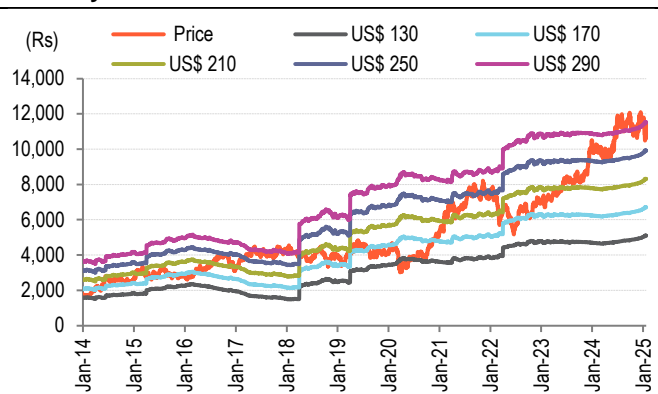
Source: Company, Bloomberg, BOBCAPS Research

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



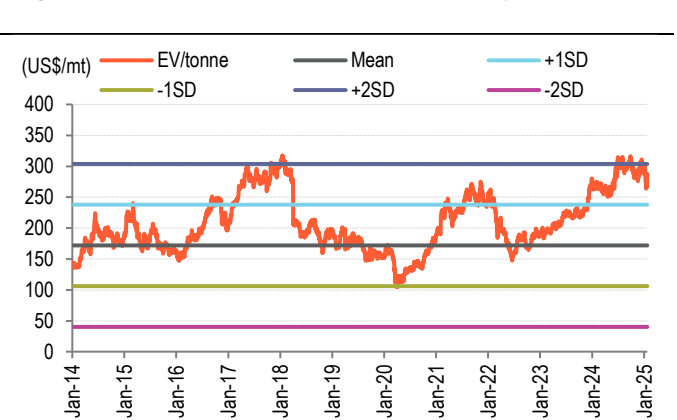
Source: Company, Bloomberg, BOBCAPS Research

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.

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BUY – Expected return >+15%

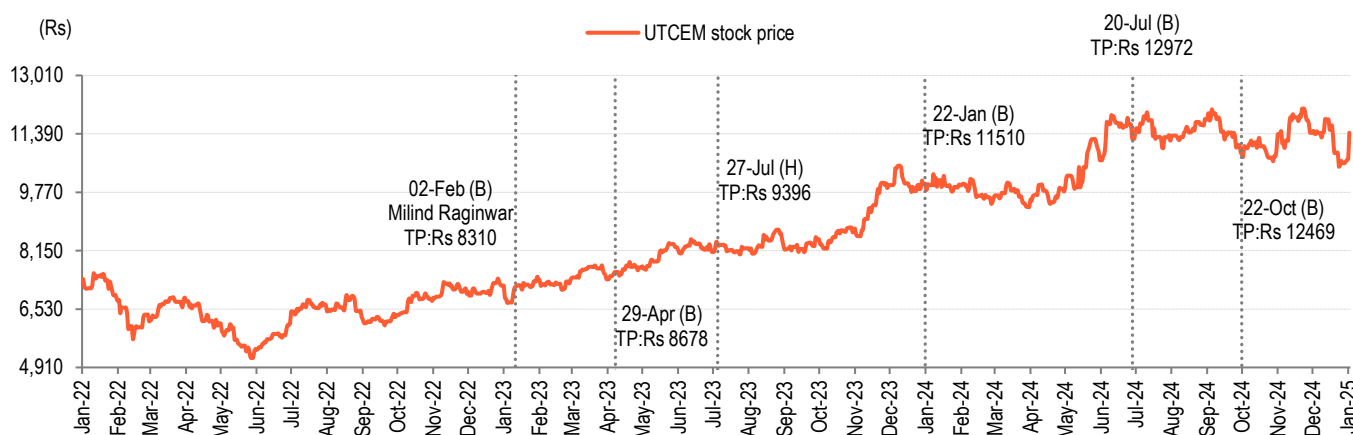
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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