

Cost optimisation drive to scale up profitability...

UltraTech Cement reported a better than estimated Q1FY21 performance. Cement demand improved and remained buoyant since lifting of lockdown. The company ended Q1FY21 with 46% capacity utilisation. East and central plants operated at healthy capacity utilisation while demand in western regions remained weak. Bulk of cement has come from IHB segment in rural and semi urban areas while demand in urban areas remained weak due to labour migration and localised lockdowns. Realisations across all regions stayed healthy. On the cost front, UltraTech reduced fixed overheads by 21% in the quarter. This and higher realisations, led to a sharp rebound in margins in the quarter. On a sustainable basis, the company is targeting a reduction of fixed overheads by 10% leading to annual saving of ~₹ 500 crore. Currently, plants are running at 60-65% utilisation on companywide capacity. With improved liquidity position (led by reduced w/cap need, demand recovery), the company has now revised its capex guidance upwards to ₹ 1500 crore for FY21E vs. earlier guidance of ₹ 1000 crore.

Volumes to bottom out in FY21E; gain traction from FY22E

FY21 is expected to be subdued for the cement industry due to a significant loss of business with Q1 being a strong quarter. On the one hand, rural and semi-urban demand has been supportive since lifting of the lockdown while, on the other, construction and infrastructure activities are expected to lose steam in coming quarters unless labour shortage and liquidity conditions improve. Rural demand in FY21E could be robust on the back of expectations of normal monsoon and pick-up in individual housing building (IHB). We expect UltraTech to report -9.8% de-growth, 16.4% YoY growth in volumes FY21E, FY22E, respectively. While prices have been better till Q1FY21, we expect them to stabilise going ahead. We model realisation de-growth of 1.6% YoY for FY21E and 2.4% YoY growth for FY22E.

Profitability to derive support from benign costs; B/S firm

While we build in softening of cement prices after a sharp rally in the past six months to cover-up fixed overheads, we expect the industry to benefit from a drop in crude and petcoke prices, which would entail savings in P&F, freight and packing costs. Further, the management is focused on consolidating acquired assets, driving synergies, especially on the logistics front and reducing fixed overhead by 10% on a sustainable basis. These measures should lead to an improvement in profitability, fall in leverage.

Valuation & Outlook

UltraTech has sailed through tough times in the past and also managed to protect its B/S despite making large acquisitions. The management focus on gaining retail share, cost optimisation and better integration of acquired assets has improved overall performance in this challenging environment. Its pan-India presence, combined with management pedigree and B/S strength also augur well for long-term growth. Thus, we maintain our **BUY** rating with a revised target price of ₹ 4,850 (i.e. at 13.5x FY22E EV/EBITDA).



Particulars

Particular	Amount
Mcap	₹ 121489 crore
Debt (FY20)	₹ 18100 crore
Cash & Invest (FY20)	₹ 310 crore
EV	₹ 139279 crore
52 week H/L	₹ 4905/₹ 2910
Equity cap	₹ 288.2 crore
Face value	₹ 10

Key Highlights

- Volume de-growth of 31.8% YoY led by lockdown impact
- Ended Q1FY21 with 46% utilisation. July utilisation rate hover at 60-65%
- Bulk of demand is from rural and semi-urban segment. Construction/renovation of individual houses driving demand
- Reduced fixed overheads by 21% this quarter. 10% reduction is sustainable.
- Maintain BUY with revised target price of ₹ 4850 from ₹ 4,200 earlier

Research Analyst

Rashesh Shah
rashesh.shah@icicisecurities.com

Key Financial Summary (standalone)

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹ crore)	29526	39933	40634	36052	43404	3%
EBITDA (₹ crore)	5826	7076	8652	8244	10451	10%
EBITDA (%)	19.7	17.7	21.3	22.9	24.1	
Adjusted PAT (₹ crore)	2458	2530	5456	3812	5227	-2%
EPS (₹)	89.6	87.7	189.1	132.1	181.1	
EV/EBITDA	22.1	19.1	15.4	15.8	12.0	
EV/t (\$)	217	170	168	158	152	
RoNW (%)	9.5	7.6	14.2	9.2	11.3	
RoCE (%)	10.0	9.0	11.4	10.6	13.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	7,374	7,235	11,022	-33.1	10,360	-28.8	Sales volume decline of 32% YoY led to sharp fall in the revenues during the quarter. Ex-century, sales volume declined by 22% YoY
Other Incomes	296	160	157	89.1	224	32.2	
Raw Material Expenses	1,291	1,262	1,750	-26.3	1,631	-20.9	Flyash prices and gypsum cost remained lower during the quarter
Employee Expenses	518	499	554	-6.6	612	-15.5	
Power and fuel	1,235	1,344	2,136	-42.2	1,932	-36.1	Fall in petcoke prices (down 26% YoY) to \$70/t along with increased usage of petcoke (77% vs 59% LY) led to decline in P&F cost
Freight	1,590	1,737	2,496	-36.3	2,611	-39.1	Increased share of rail mix (28% vs 25% LY) and absense of busy season surcharge led to 6% decline in freight cost/t
Others	785	1,154	1,294	-39.4	1,312	-40.2	
EBITDA	1,955	1,239	2,791	-30.0	2,262	-13.6	
EBITDA Margin (%)	26.5	17.1	25.3	119 bps	21.8	468 bps	
Depreciation	589	630	626	-6.0	609	-3.3	
Interest	333	413	432	-22.8	432	-22.9	
PBT	1,172	356	1,890	-38.0	1,445	-18.9	
Total Tax	366	78	623	-41.2	-1,461	-125.1	
PAT	806	277	1,267	-36.4	2,906	-72.3	

Key Metrics

Volume (MT)	13.6	13.6	19.9	-31.8	20.5	-33.9
Realisation (₹)	5,438	5,331	5,544	-1.9	5,049	7.7
EBITDA per Tonne (₹)	1,442	913	1,404	2.7	1,103	30.8

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	35,958.0	36,052.4	0.3	39,507.0	43,404.1	9.9	
EBITDA	6,926.0	8,244.0	19.0	8,386.0	10,450.5	24.6	
EBITDA Margin (%)	19.3	22.9	361 bps	21.2	24.1	285 bps	
PAT	3,075.0	3,811.8	24.0	4,773.7	5,958.6	24.8	
EPS (₹)	106.6	132.1	24.0	165.4	206.5	24.8	

Source: Company, ICICI Direct Research

Exhibit 3: Key Assumptions

	Current					Earlier		Comments
	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY21E	
Volume (MT)	48.9	59.1	80.9	78.2	70.5	82.1	68.4	77.3
Realisation (₹)	4,883	4,998	4,937	5,198	5,113	5,288	4,936	5,109
EBITDA per Tonne (₹)	1,015	986	875	1,107	1,169	1,273	866	955

Source: Company, ICICI Direct Research

Conference Call Highlights

Operational status: Company received approval for production and dispatch of cement by the third week of April. The demand has remained buoyant since lifting of lockdown. The company ended the Q1FY21 with 46% capacity utilisations. **Currently, it is operating at 60-65% utilisation on companywide capacity.** East and central plants are operating at high capacity utilisation. North demand has been healthy while demand in the western regions are weak at present. **Cement prices after remaining healthy till June 2020 are now down ~4-5% due to onset of monsoons.**

Demand: Bulk of the cement is coming from **IHB segment** in rural and semi urban areas at present. Penetration in the rural market increased 13% during the quarter. Large chunk of migrant labour shifting to their home towns, hike in MSP, better crop productions are keeping the rural demand healthy while shortage of labour in urban areas, localised lockdown are keeping demand weak in urban areas.

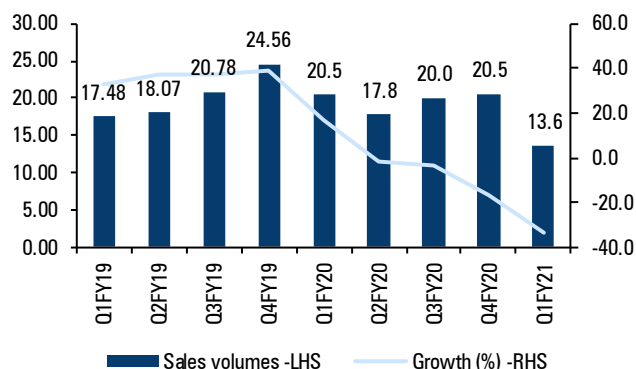
Leverage: Net debt is at ₹ 14,651 crore (vs. ₹ 16,860 as on March 31, 2020) with net debt/EBITDA of 1.44x vs 1.55x during Q4FY20. Operating working capital was at negative ₹ 258 crore. The company intends to reach net debt/EBITDA of 1x at a consolidated level. **The company sold off non-core assets in China for ~₹ 900 crore.** Post tax and other adjustment, the company would receive net cash of ₹ 700 crore by August 2020. The company is targeting further receipts of ~₹ 300 crore from sale of unit in UAE and other assets in Europe leading to total proceeds of ₹ 1000 crore

Capex plans: Capex for FY21 would now increase to ₹ 1500 crore with resumption of economic activities against earlier guidance of ₹ 1000 crore. Pending capex on Bara grinding unit and Bicharpur coal block totalling ~₹ 250 crore will be spent while maintenance capex would be ~₹ 700-800 crore during the year. The 2.2 MT Cuttack grinding unit capex will also resume, which was earlier pushed to next FY. The brownfield expansion at Bihar and West Bengal grinding units is expected to be completed by March 2021. Nathdwara waste heat recovery management system (WHRMS) would be completed this year, taking total WHRMS capacity to 145 MW.

Cost measures: The company has reduced fixed overheads by 21% during the quarter. **On a sustainable basis, the company is targeting a reduction of overheads by 10%.** Total fixed cost expenditure at present is ~₹ 5000 crore, 10% reduction will bring cost savings of ₹ 500 crore on an annual basis.

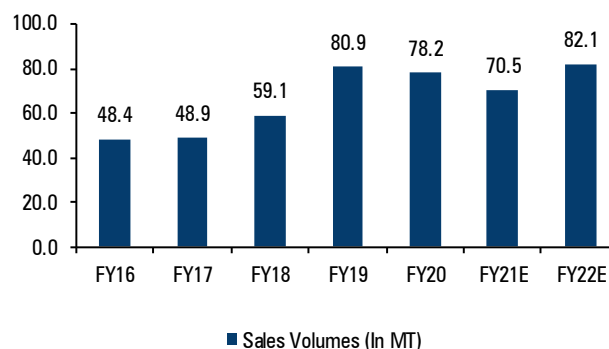
Century assets: Brand transition process is progressing well. The company aims to complete 84% by Q3FY21. Plants during the quarter operated at more than 70% utilisations during May and June 2020 post partial lifting of lockdown. The share of petcoke usage improved to 73% vs. 69% during Q4FY20. Power consumption also improved 3% QoQ. Overall, the company managed to reduce the cost reduction of ₹ 105/t vs. Q4FY20. As a result, the company achieved EBITDA/t of ₹ 900/t for the quarter.

Exhibit 4: Sales volumes decline 33.8% YoY during Q1FY21



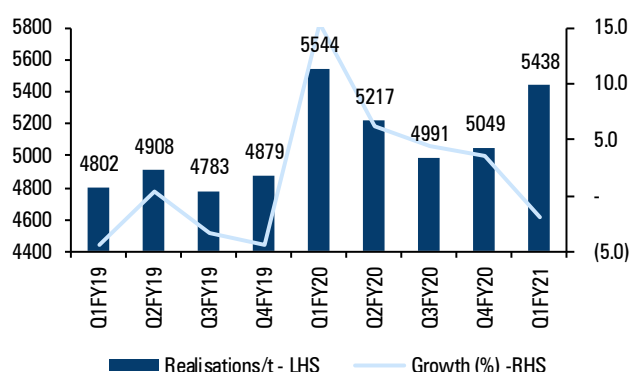
Source: Company, ICICI Direct Research

Exhibit 5: Volumes expected to cross 82 MT by FY22E



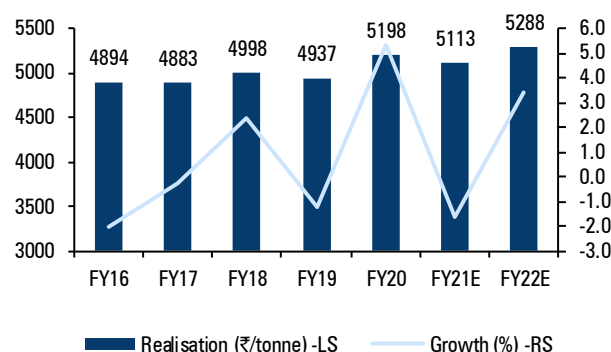
Source: Company, ICICI Direct Research

Exhibit 6: Realisations improve sharply QoQ



Source: Company, ICICI Direct Research

Exhibit 7: Realisations expected to cross ~ ₹ 5200/t in FY22E



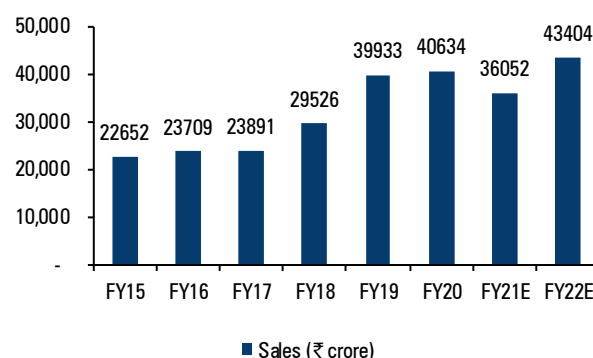
Source: Company, ICICI Direct Research

Exhibit 8: Domestic capacity to reach 118 MT by FY22E

Zone (in mt)	Capacity	Capacity additions	Total
North	23.8		23.8
Central	23.3	2.0	25.3
East	16.1	4.6	20.7
West	27.7		27.7
South	20.5		20.5
Domestic Total	111.4	6.6	118.0
Overseas	3.4		3.4
Total	114.8		121.4

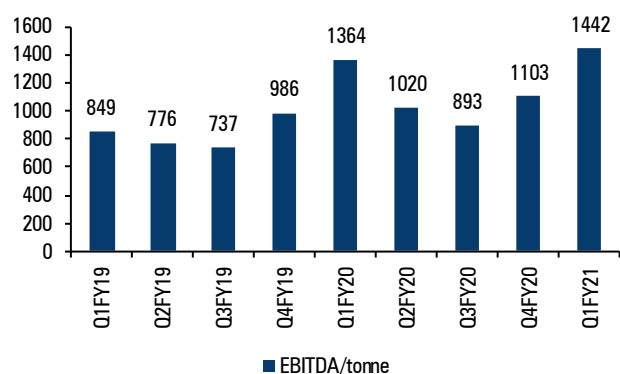
Source: Company, ICICI Direct Research

Exhibit 9: Standalone revenues to grow at 3.4% CAGR in FY20-22E



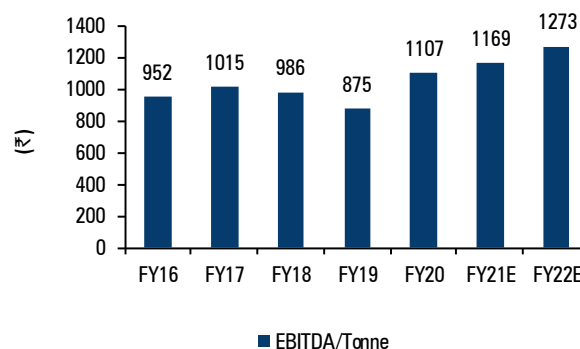
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t increases sharply led by better pricing and cost control initiatives



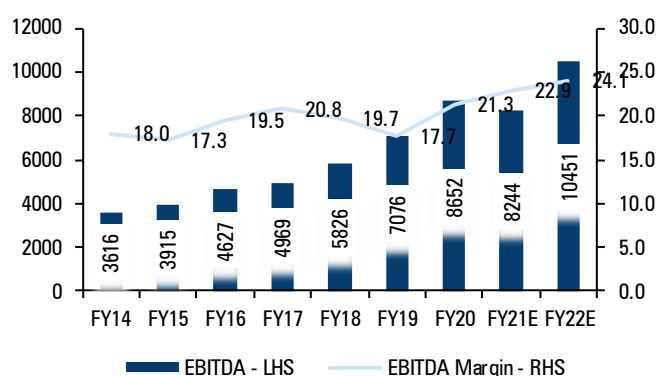
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to remain healthy, going forward



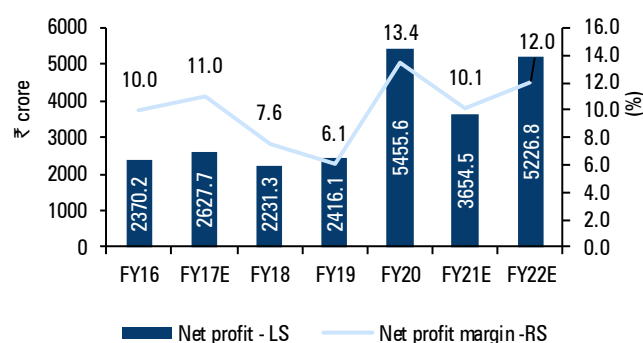
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA growth trend

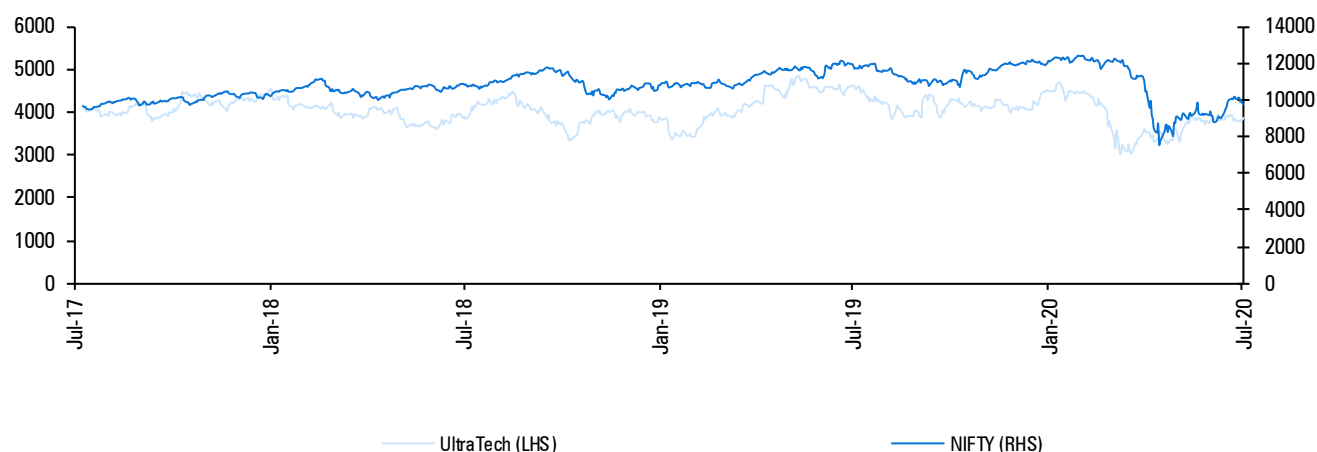


Source: Company, ICICI Direct Research

Exhibit 13: PAT margin to scale back to 12% by FY22E led by healthy realisations, efficiency measures



Source: Company, ICICI Direct Research

Exhibit 14: Three year price performance vs Nifty


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S Position (m)		Change
1	Grasim Industries Ltd	43,830.0	57.3	165.3	0.0
2	Life Insurance Corp	43,646.0	3.9	11.2	0.0
3	Franklin Resources	43,966.0	1.4	4.1	0.0
4	Kotak Mahindra Asset	43,951.0	1.4	4.0	0.3
5	SBI Funds Management	43,951.0	1.4	3.9	0.0
6	Pilani Investment & co	43,881.0	1.4	3.9	0.0
7	Standard Life Aberde	43,951.0	1.3	3.7	-0.7
8	Vanguard Group	43,951.0	1.0	2.9	0.0
9	BlackRock	43,965.0	1.0	2.9	0.0
10	ICICI Prudential	43,951.0	1.0	2.8	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Sep-19	Oct-19	Dec-19	Mar-20	Jun-20
Promoter	61.68	61.11	60.19	60.04	60.04
FII	17.86	17.51	17.60	16.48	16.10
DII	11.93	12.14	12.99	14.15	14.59
Others	8.53	9.24	9.22	9.33	9.27

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 17: Profit & Loss Account

(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	39,933	40,634	36,052	43,404
Growth (%)	35.2	1.8	-11.3	20.4
Raw material cost	6,814	6,907	6,587	7,838
Power & Fuel cost	8,828	7,703	6,608	8,290
Freight cost	10,122	9,570	8,139	9,357
Employees cost	2,158	2,336	2,121	2,134
Others	4,934	5,465	4,353	5,335
Total Operating Exp.	32,857	31,982	27,808	32,954
EBITDA	7,076	8,652	8,244	10,451
Growth (%)	21	22	-5	27
Depreciation	2,317	2,455	2,463	2,541
Interest	1,648	1,704	1,340	1,134
Other Income	501	727	686	800
PBT	3,611	5,220	5,128	7,575
Total Tax	1,081	-236	1,316	2,348
Adj. PAT	2,530	5,456	3,812	5,227
Growth (%)	3	116	-30	37
Adj. EPS (₹)	88	189	132	181

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	2,416	5,456	3,654	5,227
Add: Depreciation	2,317	2,455	2,463	2,541
(Inc)/dec in Current Assets	-1,260	-435	-627	-1,701
Inc/(dec) in CL and Provisions	3,716	-815	-942	333
CF from operating activities	7,190	6,660	4,549	6,401
(Inc)/dec in Investments	-1,601	-288	-350	-850
(Inc)/dec in Fixed Assets	-11,349	-1,100	-1,500	-2,100
Others	1,592	-1,138	0	0
CF from investing activities	-11,357	-2,526	-1,850	-2,950
Issue/(Buy back) of Equity	0	14	0	0
Inc/(dec) in loan funds	2,245	-1,565	-2,500	-3,000
Dividend paid & dividend tax	-381	-452	-452	-452
Inc/(dec) in Sec. premium	0	0	0	0
Others	5,304	16	0	0
CF from financing activities	7,169	-1,987	-2,952	-3,452
Net Cash flow	457	-346	247	-2
Opening Cash	199	656	310	557
Closing Cash	656	310	557	555

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet summary

(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	275	289	289	289
Reserve and Surplus	32,988	38,008	41,210	45,984
Total Shareholders funds	33,263	38,296	41,498	46,273
Total Debt	19,665	18,100	15,600	12,600
Deferred Tax Liability	5,215	4,077	4,077	4,077
Total Liabilities	58,143	60,473	61,175	62,950
Assets				
Gross Block	63,823	64,923	66,829	68,759
Less: Acc Depreciation	17,213	19,668	22,131	24,672
Net Block	46,610	45,255	44,698	44,087
Capital WIP	1,106	1,106	700	870
Total Fixed Assets	47,716	46,361	45,398	44,957
Investments	10,308	13,090	12,940	13,090
Inventory	3,787	3,834	3,870	3,978
Debtors	2,353	1,848	2,300	2,694
Loans and Advances	2,066	2,300	2,747	2,461
Other Current Assets	2,379	3,039	2,729	2,479
Cash	656	310	557	2,230
Total Current Assets	11,242	11,331	12,204	13,842
Creditors	2,975	3,250	2,676	2,794
Provisions	8,149	7,059	6,691	6,146
Total Current Liabilities	11,124	10,309	9,367	8,940
Net Current Assets	118	1,022	2,837	4,903
Others Assets	0	0	0	0
Application of Funds	58,143	60,473	61,175	62,950

Source: Company, ICICI Direct Research

Exhibit 20: Ratio sheet

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Adj. EPS (₹)	87.7	189.1	132.1	181.1
Cash EPS	164.0	274.1	212.0	269.2
BV	1,152.7	1,327.1	1,438.1	1,603.5
DPS	10.9	13.0	13.0	13.0
Cash Per Share	22.7	10.7	19.3	77.3
Operating Ratios (%)				
EBITDA Margin	17.7	21.3	22.9	24.1
PBT / Total Operating income	8.8	12.8	13.8	17.5
PAT Margin	6.1	13.4	10.1	12.0
Inventory days	31.5	34.2	39.0	33.0
Debtor days	18.6	18.9	21.0	21.0
Creditor days	24.3	28.0	30.0	23.0
Return Ratios (%)				
RoE	7.6	14.2	9.2	11.3
RoCE	9.0	11.4	10.6	13.8
RoIC	9.4	11.6	10.8	14.8
Valuation Ratios (x)				
P/E	50.3	22.3	33.2	23.2
EV / EBITDA	19.1	15.4	15.8	12.0
EV / Net Sales	3.4	3.3	3.6	2.9
Market Cap / Sales	3.0	3.0	3.4	2.8
Price to Book Value	3.7	3.2	2.9	2.6
Solvency Ratios				
Debt/EBITDA	2.8	2.1	1.9	1.2
Debt / Equity	0.6	0.5	0.4	0.3
Current Ratio	1.0	1.1	1.3	1.5
Quick Ratio	1.0	1.1	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (Cement)

Company	CMP	M Cap	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,390	HOLD	26,124	73	64	82	10.2	11.1	9.0	92	95	81	17.4	14.0	16.4	11.9	9.7	11.2
Ambuja Cem*	201	HOLD	39,912	7.7	7.8	9.1	11.0	10.9	8.8	109	114	100	13.2	13.4	15.4	10.0	9.4	10.9
UltraTech Cem	4,210	BUY	121,489	189	132	181	15.4	15.8	12.1	168	168	158	11.4	10.6	13.8	14.2	9.2	11.3
Shree Cement	21,350	BUY	77,038	435	223	453	20.9	27.4	19.7	226	214	212	13.8	7.7	13.4	12.1	6.0	11.1
Heidelberg Cem	180	BUY	4,079	11.8	8.7	12.7	8.2	10.9	8.1	110	96	94	22.3	19.0	26.2	20.4	16.6	22.1
JK Cement	1,440	HOLD	11,127	74.9	29.5	52.8	11.4	16.9	12.1	124	119	115	16.2	9.4	13.0	18.5	7.0	11.4
JK Lakshmi Cem	276	BUY	3,249	22.6	13.3	27.0	6.2	7.0	5.0	45	43	42	17.1	13.3	19.2	15.5	8.4	14.8
Star Cement	86	BUY	3,605	6.9	4.3	8.7	7.9	9.4	5.7	117	117	80	17.1	10.3	18.9	15.4	9.0	16.4
Ramco Cement	640	BUY	15,237	25.7	12.1	22.1	15.9	19.9	13.4	140	131	125	7.5	4.7	7.3	12.3	5.6	9.2
Sagar Cement	450	BUY	1,058	17.1	-4.7	10.8	8.3	15.6	9.9	38	40	32	7.2	1.7	5.1	4.2	-1.1	2.4

Source: Company, ICICI Direct Research, *CY19, CY20E, CY21E

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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