

## RETAIL EQUITY RESEARCH

# Ultratech Cement Ltd

## CEMENT

BSE CODE: 532538

NSE CODE: ULTRACEMCO

Bloomberg CODE: UTCEM:IN SENSEX: 38,897

**HOLD**

Rating as per Largecap

12months investment period

CMP Rs. 4,373 TARGET Rs. 4,464 RETURN 1% 28<sup>th</sup> August 2018**Rich valuation....**

UltraTech Cement Ltd. (Ultratech), part of the Aditya Birla Group, is the largest producer of grey & white cement and ready-mix concrete in India. It has an overall installed grey cement capacity of ~93 MTPA excluding capacity under implementation.

- Ultratech showcased robust performance in Q1FY19 with consolidated revenue increase of ~28% YoY buoyed by uptick in volumes.
- However, EBITDA/tonne plunged by 22% YoY to Rs. 966 impacted by higher energy and freight costs, lower realisation and weakening of INR against USD.
- Resultantly, we trim our EBITDA margin estimates for FY19E/20E by 131/22bps.
- Going ahead, we factor overall sales volume CAGR of 14% over FY18-20E driven by its capacity expansion drive coupled with sustained ramp-up of Jaypee assets and robust demand outlook.
- However, increasing cost pressure and rich valuation at (18.5x/14.5x FY19E/20E EBITDA) leaves limited room for upside. Hence, we downgrade the stock to 'HOLD' with a revised TP of Rs. 4,464 based on 14x FY20E EV/EBITDA.

**Volume led growth**

Ultratech posted impressive growth in Q1FY19 with consolidated revenue increasing by ~28% YoY primarily led by sharp uptick in volumes. The spur in volumes growth was mainly aided by ramp up of capacity utilisation of the acquired JP assets which stood at 70%. While domestic cement volumes witnessed a robust growth of 34% YoY powered by strong demand across all regions, blended realisation dipped by ~3% YoY. Capacity utilisation of the company stood at 77% for the quarter. Management expects strong demand momentum to continue over the next few years with industry growth of 8-10% on account of sustained infrastructure spending and traction in affordable & low-cost housing.

**Rising costs & weak realisation hurt margin**

Notwithstanding robust growth in revenue, EBITDA grew by just ~4% YoY in Q1FY19 translating into 446 bps YoY decline in EBITDA margin to 18.7%. This was mainly on account of continued cost pressure and weak realisation. Resultantly EBITDA/tonne plunged by 22% YoY impacted by higher energy & freight costs and weakening of INR against USD. Power & fuel cost/tonne rose 13% YoY led by higher petcoke prices (increased by 35% YoY to USD 114/tonne) and restriction of petcoke usage in TPPs. Freight cost/tonne increased by ~5% YoY due to increase in diesel prices (20% YoY), change in sales pattern to FOR and poor rake availability in eastern markets. In line with weak operating performance coupled with higher interest (147% YoY) & depreciation charges (54% YoY) on account of acquisition of JP assets and lower other income (56% YoY), the company reported 32% YoY decline in net profit. Notably, the management is eyeing for PBT break-even for of the acquired JP assets by Q1FY20 post the cash break even in Q4FY18.

Despite company's increasing focus on cost efficiencies through higher usage of coal, reduction in lead distance, increasing usage of alternate fuels, waste heat recovery systems, etc, we reduce our EBITDA margin estimates for FY19E/20E by 131/22bps to factor in sustained cost pressure and weak realisation.

**Capacity expansion progress on track**

During the quarter the company commissioned the second cement plant with a capacity of 1.7 mtpa at Dhar, Madhya Pradesh. It is currently operating at a capacity utilisation of 60%. Further the company's 4 mtpa cement grinding unit at Bara, UP is on track and is expected to be commissioned by the end of FY19. Apart from this it is also in the process of acquiring cement business of Century Textiles which is expected to be complete by Q4FY19. As per the deal, UltraTech will acquire 13.4 MTPA (includes 3 integrated cement units of 11.4 mtpa capacity in Madhya Pradesh, Chhattisgarh and Maharashtra and a 2 MTPA grinding unit in West Bengal) of cement assets for an enterprise value of ₹8,600 crore. This acquisition will further bolster its leadership position in the domestic market as its overall capacity will stand augmented to 111.1 mtpa. Currently we have not factored the same into our estimates.

**Outlook & Valuation:** We tweak our EPS estimate for FY19E/20E by 11.8%/6.9% to factor in sustained cost push and weak realisation. Further, valuation appears expensive at 18.5x/14.5x FY19E/20E EBITDA, leaving limited room for upside. Hence, we downgrade the stock to 'HOLD' with a revised TP of Rs. 4,464 based on 14x FY20E EV/EBITDA.

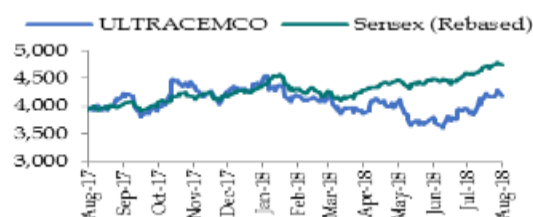
**Company Data**

Market Cap (Rs. cr)	121,618
Enterprise Value (Rs. cr)	137,770
Outstanding Shares (cr)	27.5
Free Float	38%
Dividend Yield	0.2%
52 week high	Rs. 4,594
52 week low	Rs. 3,566
6m average volume (lacs)	2.9
Beta	1.0
Face value	Rs. 10

Shareholding %	Q3FY18	Q4FY18	Q1FY19
Promoters	62.0	62.0	62.0
FII's	22.2	22.3	21.2
MFs/Insti	6.4	6.4	7.4
Public	5.5	5.5	5.5
Others	3.9	3.8	3.9
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	19%	7%	11%
Absolute Sensex	11%	14%	23%
Relative Return*	8%	(7%)	(11%)

\*over or under performance to benchmark index



Consolidated (Rs.cr)	FY18	FY19E	FY20E
Sales	31,411	36,748	42,354
Growth (%)	23.8%	17.0%	15.3%
EBITDA	6,145	7,455	9,223
Margin (%)	20	20.3	21.8
PAT Adj	2,569	3,094	4,480
Growth (%)	-5.4%	20.4%	44.8%
Adj.EPS	93.5	112.7	163.1
Growth (%)	-5.4%	20.4%	44.8%
P/E	47.3	39.3	27.1
P/B	4.6	4.2	3.7
EV/EBITDA	22.8	18.5	14.5
RoE (%)	10.1	11.2	14.4
Adj. D/E	0.7	0.6	0.4

## Quarterly Financials (Consolidated)

### Profit & Loss Account

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
<b>Sales</b>	<b>9,021</b>	<b>7,035</b>	28.2	<b>9,421</b>	(4.2)
<b>EBITDA</b>	<b>1,690</b>	<b>1,632</b>	3.6	<b>1,781</b>	(5.1)
<b>EBITDA margin (%)</b>	<b>18.7%</b>	<b>23.2%</b>	(446bps)	<b>18.9%</b>	(16bps)
Depreciation	507	330	53.7	501	1.2
<b>EBIT</b>	<b>1,184</b>	<b>1,302</b>	(9.1)	<b>1,280</b>	(7.5)
Interest	349	141	147.4	344	1.2
Other Income	73	166	(56.2)	106	(31.7)
Exceptional Items	-	(31)	-	(315)	-
<b>PBT</b>	<b>908</b>	<b>1,296</b>	(30.0)	<b>727</b>	24.9
Tax	277	398	(30.5)	280	(1.3)
<b>PAT</b>	<b>631</b>	<b>898</b>	(29.7)	<b>446</b>	41.4
MI/ Associates	(1)	1	-	0	-
<b>Reported PAT</b>	<b>632</b>	<b>897</b>	(29.5)	<b>446</b>	41.7
Adjustment	-	31	-	315	-
<b>Adj PAT</b>	<b>632</b>	<b>928</b>	(31.9)	<b>761</b>	(17.0)
No. of shares (cr)	27.5	27.5	0.0	27.5	0.0
<b>EPS (Rs)</b>	<b>23.0</b>	<b>33.8</b>	(32.0)	<b>27.7</b>	(17.0)

## Per Tonne analysis

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Total Volume (MT)	17.5	13.2	32.8	18.5	(5.2)
Raw Materials	841	836	0.6	878	(4.2)
Employee Expenses	283	307	(8.0)	241	17.1
Power & Fuel	1,130	1,000	13.0	1,084	4.2
Freight	1,278	1,211	5.5	1,238	3.2
Other Expenses	657	744	(11.6)	697	(5.6)
Total Expenses	4,189	4,099	2.2	4,139	1.2
Realisation	5,155	5,337	(3.4)	5,103	1.0
EBITDA	966	1,238	(22.0)	965	0.1

Source: Company, Geojit Research

## Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Revenue	36,574	43,198	36,748	42,354	0.5	(2.0)
EBITDA	7,891	9,524	7,455	9,223	(5.5)	(3.2)
Margin (%)	21.6	22.0	20.3	21.8	(130 bps)	(20 bps)
PAT	3,507	4,810	3,094	4,480	(11.8)	(6.9)
EPS	127.8	175.2	112.7	163.1	(11.8)	(6.9)

## Consolidated Financials

### Profit & Loss Account

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
<b>Sales</b>	<b>25,153</b>	<b>25,375</b>	<b>31,411</b>	<b>36,748</b>	<b>42,354</b>
% change	3.3%	0.9%	23.8%	17.0%	15.3%
<b>EBITDA</b>	<b>4,901</b>	<b>5,212</b>	<b>6,145</b>	<b>7,455</b>	<b>9,223</b>
% change	10.7%	6.4%	17.9%	21.3%	23.7%
Depreciation	1,377	1,348	1,848	2,075	2,271
<b>EBIT</b>	<b>3,524</b>	<b>3,864</b>	<b>4,297</b>	<b>5,380</b>	<b>6,952</b>
Interest	566	640	1,233	1,496	1,181
Other Income	464	648	584	510	590
<b>PBT</b>	<b>3,421</b>	<b>3,872</b>	<b>3,648</b>	<b>4,393</b>	<b>6,360</b>
% change	14.6%	13.2%	-5.8%	20.4%	44.8%
Tax	942	1,159	1,077	1,297	1,878
Tax Rate (%)	27.5%	29.9%	29.5%	29.5%	29.5%
<b>PAT</b>	<b>2,479</b>	<b>2,714</b>	<b>2,571</b>	<b>3,096</b>	<b>4,483</b>
MI/ PL of Associates	2	(1)	2	2	2
Extraordinary Items	0	0	0	0	0
<b>Reported PAT</b>	<b>2,478</b>	<b>2,715</b>	<b>2,569</b>	<b>3,094</b>	<b>4,480</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>2,478</b>	<b>2,715</b>	<b>2,569</b>	<b>3,094</b>	<b>4,480</b>
% change	18.1%	9.6%	-5.4%	20.4%	44.8%
No. of shares (cr)	27.4	27.5	27.5	27.5	27.5
<b>Adj EPS (Rs)</b>	<b>90.3</b>	<b>98.9</b>	<b>93.5</b>	<b>112.7</b>	<b>163.1</b>
% change	18.1%	9.5%	-5.4%	20.4%	44.8%
DPS (Rs)	9.5	10.0	10.5	12.4	16.1

### Balance Sheet

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
Cash	2,267	2,249	219	663	1,180
Accounts Receivable	1,928	1,757	2,228	2,537	2,927
Inventories	2,455	2,401	3,268	3,597	3,963
Other Cur. Assets	1,519	1,507	1,805	1,904	2,008
Investments	5,095	6,691	5,447	5,447	5,447
Gross Fixed Assets	25,505	27,414	43,045	45,245	47,445
Net Fixed Assets	24,203	24,819	38,679	38,804	38,733
CWIP	1,469	921	1,511	1,511	1,511
Intangible Assets	1,106	1,085	1,036	1,036	1,036
Def. Tax (Net)	(2,431)	(2,773)	(3,173)	(3,173)	(3,173)
Other Assets	1,151	779	2,955	2,805	2,655
<b>Total Assets</b>	<b>38,762</b>	<b>39,436</b>	<b>53,975</b>	<b>55,132</b>	<b>56,288</b>
Current Liabilities	9,447	7,082	8,263	8,728	9,428
Provisions	(304)	168	312	317	321
Debt Funds	7,372	7,450	18,627	16,627	13,127
Other Liabilities	286	335	375	375	375
Equity Capital	274	275	275	275	275
Reserves and Surplus	21,671	24,117	26,107	28,792	32,741
<b>Shareholder's Fund</b>	<b>21,946</b>	<b>24,392</b>	<b>26,381</b>	<b>29,067</b>	<b>33,016</b>
Minority Interest	15	10	16	18	21
<b>Total Liabilities</b>	<b>38,762</b>	<b>39,436</b>	<b>53,975</b>	<b>55,132</b>	<b>56,288</b>
<b>BVPS (Rs)</b>	<b>799.7</b>	<b>888.6</b>	<b>960.7</b>	<b>1,058.4</b>	<b>1,202.2</b>

### Cash flow

Y.E March (Rs cr)	FY16	FY17	FY18	FY19E	FY20E
<b>Pre-tax profit</b>	<b>3,421</b>	<b>3,872</b>	<b>3,301</b>	<b>4,393</b>	<b>6,360</b>
Depreciation	1,377	1,348	1,848	2,075	2,271
Changes in W.C	429	518	(1,248)	(118)	(5)
Others	149	(1)	829	986	591
Tax paid	(852)	(744)	(843)	(1,297)	(1,878)
<b>C.F.O</b>	<b>4,526</b>	<b>4,993</b>	<b>3,887</b>	<b>6,039</b>	<b>7,340</b>
Capital exp.	(2,150)	(1,386)	(2,097)	(2,200)	(2,200)
Change in inv.	(1,658)	(1,162)	3,679	-	-
Other invest.CF	81	79	275	510	590
<b>C.F - investing</b>	<b>(3,727)</b>	<b>(2,469)</b>	<b>1,857</b>	<b>(1,690)</b>	<b>(1,610)</b>
Issue of equity	4	7	16	0	-
Issue/repay debt	46	(1,615)	(4,207)	(2,000)	(3,500)
Dividends paid	(297)	(312)	(334)	(409)	(531)
Other finance.CF	(596)	(614)	(1,205)	(1,496)	(1,181)
<b>C.F - Financing</b>	<b>(844)</b>	<b>(2,535)</b>	<b>(5,730)</b>	<b>(3,905)</b>	<b>(5,212)</b>
Chg. in cash	(45)	(10)	14	444	517
Closing cash	2,267	2,249	219	663	1,180

### Ratios

Y.E March	FY16	FY17	FY18	FY19E	FY20E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	19.5	20.5	19.6	20.3	21.8
EBIT margin (%)	14.0	15.2	13.7	14.6	16.4
Net profit mgn.(%)	9.9	10.7	8.2	8.4	10.6
ROE (%)	12.1	11.7	10.1	11.2	14.4
ROCE (%)	13.7	14.7	12.7	13.0	16.4
<b>W.C &amp; Liquidity</b>					
Receivables (days)	25	23	26	26	26
Inventory (days)	49	48	52	48	47
Payables (days)	32	34	36	34	34
Current ratio (x)	0.9	1.1	0.9	1.0	1.0
Quick ratio (x)	0.6	0.8	0.5	0.6	0.6
<b>Turnover &amp;Levg.</b>					
Gross asset T.O (x)	0.8	0.9	0.9	0.8	0.9
Int. covge. ratio (x)	6.2	6.0	3.5	3.6	5.9
Adj. debt/equity (x)	0.3	0.3	0.7	0.6	0.4
<b>Valuation ratios</b>					
EV/Net Sales (x)	5.1	5.1	4.5	3.8	3.2
EV/EBITDA (x)	25.8	24.3	22.8	18.5	14.5
P/E (x)	49.0	44.8	47.3	39.3	27.1
P/BV (x)	5.5	5.0	4.6	4.2	3.7

## Recommendation Summary (last 3 years)



Dates	Rating	Target
18 August 2015	HOLD	2980
21 January 2016	HOLD	2670
22 July 2016	HOLD	3728
2 December 2016	HOLD	3501
30 January 2017	REDUCE	3472
27 April 2017	HOLD	4320
27 July 2017	BUY	4514
19 March 2018	BUY	4,669
28 August 2018	HOLD	4,464

Source: Bloomberg, Geojit Research

## Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable.	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell. The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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