

Ultratech Cement

BSE SENSEX	S&P CNX
35,082	10,789
Bloomberg	UTCEM IN
Equity Shares (m)	275
M.Cap.(INRb)/(USD\$)	1219 / 17.4
52-Week Range (INR)	4594 / 3774
1, 6, 12 Rel. Per (%)	0/-12/-18
Avg Val, INRm	953.0
Free float (%)	38.0

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	297.9	366.3	421.8
EBITDA	58.8	74.1	94.0
PAT	23.1	33.3	47.0
EPS (INR)	84.3	121.2	171.3
Gr. (%)	-12.3	43.8	41.3
BV/Sh (INR)	949.8	1,044.8	1,170.5
RoE (%)	9.3	12.2	15.5
RoCE (%)	8.2	9.8	12.3
P/E (x)	48.8	33.9	24.0
P/BV (x)	4.3	3.9	3.5

Estimate change



TP change



Rating change



CMP: INR4,114 TP: INR4,818(+17%)

Buy

Margin beat led by better realization

Volumes in-line

- **Volumes grow led by JPA ramp-up:** 4QFY18 volumes rose 31% YoY to 18.46mt (est. of 18.2mt), as JPA operated at 75% utilization. We estimate ex-JPA volumes to grow at 8% YoY. Realizations rose 2% QoQ to INR4,877/t (est. of INR4,794) due to higher prices in the central and east markets. Net sales rose 36% YoY (+19% QoQ) to INR90.02b (est. of INR87.3b).
- **Sequential improvement in profitability (YoY numbers not comparable due to JPA acquisitions):** Cost/t declined 1% QoQ, led by a reduction in staff cost and other expenses. EBITDA increased 34% QoQ to INR17.02b (est. of INR14.4b), translating into EBITDA/ton of INR922 (+INR122 QoQ; est. of INR791), with margins at 18.9% (-0.5pp YoY; +2.2pp QoQ) due to higher QoQ realizations and lower cost curve. Reported PAT stood at INR4.9b (+16% QoQ), while adj. PAT was INR6.3b (+81% QoQ; est. of INR4.9b), as INR2.26b cost was provided toward stamp duty charges for JPA's assets.
- **FY18 performance:** Grey cement volumes rose 21% YoY to 59.3mt due to ramp-up of JPA. Revenues rose 25% YoY to INR297b, as blended realizations increased 3% YoY. Blended EBITDA/t stood at INR970 (-2% YoY), led by a 3% YoY increase cost/t to INR3,943, partially offset by better realization. Hence, EBITDA rose 18% YoY to INR58.8b, while PAT fell 20% YoY to INR21.07b due to higher interest and depreciation cost related to JPA acquisitions.
- **Valuation view:** UTCEM is likely to witness strong growth in EBITDA in FY19, led by the full impact of ramp-up of acquired capacity and growth in underlying markets. The company is likely to be the biggest beneficiary of a likely upturn in the Indian cement cycle over FY18-20, as it commands ~20% market share. We value UTCEM at 14.5x FY20 EV/EBITDA to arrive at a target price of INR4,818/share, implying a 17% upside. Maintain **Buy**.

Quarterly Performance

Y/E March	FY17				FY18				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY17	FY18	FY18	Var. (%)
Sales (m ton)	13.19	11.18	11.73	14.07	13.19	13.14	15.85	18.46	50.17	60.64	18.21	1
YoY Change (%)	8.6	3.5	2.3	2.7	0.0	17.5	35.1	31.2	1.6	21.4	29.5	
Blended Realn.(INR/ton)	4,723	4,827	4,781	4,689	5,025	5,001	4,789	4,877	4,762	4,913	4,794	2
YoY Change (%)	-1.5	-2.9	-0.1	3.2	6.4	3.6	0.2	4.0	-0.8	3.2	2.2	
QoQ Change (%)	3.9	2.2	-0.9	-1.9	7.2	-0.5	-4.2	1.8			0.1	
Net Sales	62,295	53,966	56,091	65,953	66,265	65,713	75,899	90,025	238,914	297,901	87,301	3
EBITDA	14,225	10,938	11,135	12,782	15,601	13,513	12,691	17,028	49,690	58,833	14,397	18
Margins (%)	22.8	20.3	19.9	19.4	23.5	20.6	16.7	18.9	20.8	19.7	16.5	
Depreciation	3,027	3,139	3,156	3,357	3,098	4,988	4,744	4,806	12,679	17,636	4,742	
Interest	1,525	1,367	1,293	1,529	1,285	3,759	3,472	3,348	5,714	11,863	3,379	
Other Income	1,504	2,335	970	2,401	1,652	1,680	518	1,059	6,600	4,909	500	
PBT before EO expense	11,177	8,767	7,655	10,297	12,870	6,447	4,993	9,934	37,896	34,243	6,776	47
Extra-Ord expense	0	0	0	137	0	0	-1,038	2,263	137	1,225	0	
PBT after EO Expense	11,177	8,767	7,655	10,160	12,870	6,447	6,031	7,671	37,760	33,018	6,776	13
Tax	3,428	2,757	2,021	3,276	3,963	2,135	1,816	2,791	11,482	10,706	1,883	
Rate (%)	30.7	31.4	26.4	32.2	30.8	33.1	30.1	36.4	30.4	32.4	28	
Reported PAT	7,749	6,011	5,634	6,883	8,906	4,312	4,215	4,880	26,277	22,313	4,893	0
Adj PAT	7,749	6,011	5,634	6,976	8,906	4,312	3,489	6,319	26,372	23,140	4,893	29
YoY Change (%)	28.3	31.4	6.7	-10.7	14.9	-28.3	-38.1	-9.4	11.3	-12.3	-29.9	

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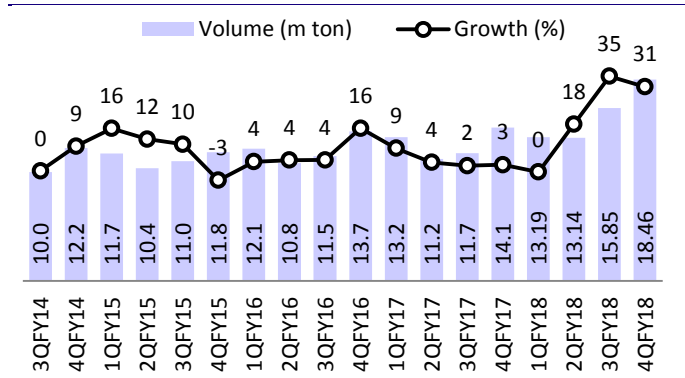
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Volume gains due to JPA ramp-up

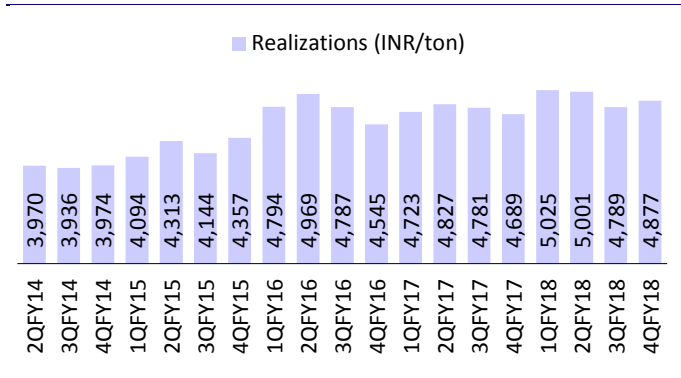
- 4QFY18 volumes rose 31% YoY to 18.46mt (est. of 18.2mt), as JPA operated at 75% utilization.
- We estimate ex-JPA volumes to grow at 8% YoY. Realizations rose 2% QoQ to INR4,877/t (est. of INR4,794) due to higher prices in the central and east markets.
- Net sales rose 36% YoY (+19% QoQ) to INR90.02b (est. of INR87.3b).

Exhibit 1: Cement volumes up 31% YoY led by ramp-up of JPA assets



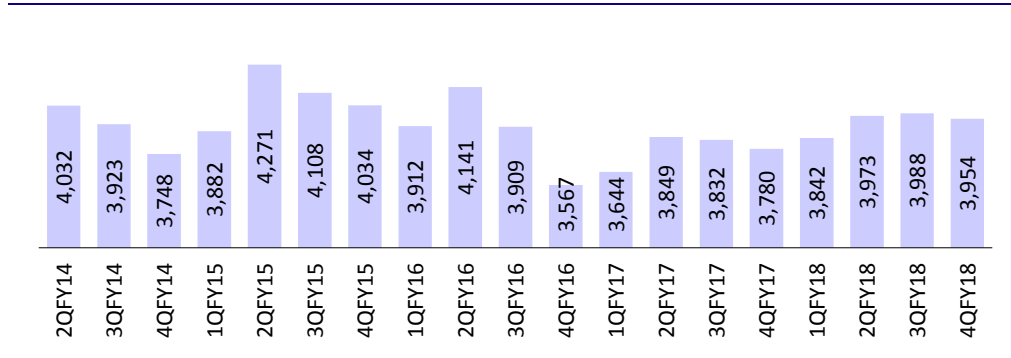
Source: Company, MOSL

Exhibit 2: Blended realizations increased 3% YoY due to increase in pricing in central and eastern markets



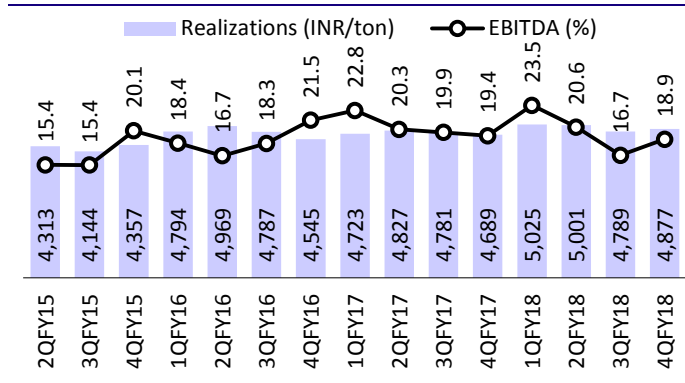
Source: Company, MOSL

Exhibit 3: Cost curve improved due to reduction in staff cost and other expenses



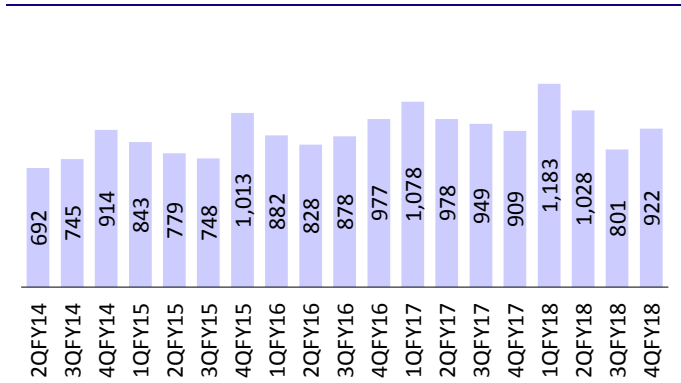
Source: MOSL, Company

Exhibit 4: Margin expands by 2.2pp QoQ due to higher QoQ realizations



Source: Company, MOSL

Exhibit 5: Trend in EBITDA/ton (INR)



Source: Company, MOSL

Sequential improvement in profitability (YoY numbers not comparable due to JPA acquisitions):

- Cost/t declined 1% QoQ led by a reduction in staff cost, raw material cost and other expenses. Power & fuel cost/t increased 8% QoQ due to an increase in import duty on petcoke, while freight cost/t increased 5%QoQ due to higher diesel cost.
- EBITDA increased 34% QoQ to INR17.02b (est. of INR14.4b), translating into EBITDA/ton of INR922 (+INR122 QoQ; est. of INR791), with margins at 18.9% (-0.5pp YoY; +2.2pp QoQ) due to higher QoQ realizations and lower cost curve.
- Reported PAT stood at INR4.9b (+16% QoQ), while adj. PAT was INR6.3b (+81% QoQ; est. of INR4.9b), as INR2.26b cost was provided toward stamp duty charges for JPA's assets.

Exhibit 6: Trend in key operating parameters

INR/Ton	4QFY18	QFY17	YoY (%)	3QFY18	QoQ (%)
Realization	4,877	4,689	4.0	4,789	1.8
RM Cost	801	818	-2.1	840	-4.6
Power & Fuel	1,028	821	25.3	952	8.0
Staff Cost	227	245	-7.4	292	-22.2
Freight & Forwarding	1,232	1,183	4.1	1,176	4.8
Other Expenditure	666	713	-6.6	728	-8.6
Total Expenditure	3,954	3,780	4.6	3,988	-0.8
EBITDA	922	909	1.5	801	15.2

Source: Company, MOSL

FY18 performance

- Grey cement volumes rose 21% YoY to 59.3mt due to ramp-up of JPA. Revenues rose 25% YoY to INR297b, as blended realizations increased 3% YoY.
- Blended EBITDA/t stood at INR970 (-2% YoY), led by a 3% YoY increase cost/t to INR3,943, partially offset by better realization.
- Hence, EBITDA rose 18% YoY to INR58.8b, while PAT fell 20% YoY to INR21.07b due to higher interest and depreciation cost related to JPA acquisitions.

Key concall highlights:

Utilization and Price trend

- The company operated at utilization of 88% in north, 76% in central, 90% in east, 82% in west and 70% in south.
- All-India prices increased 5% YoY and 2% QoQ.

Operations of new assets

- The acquired JPA assets operated at average utilization of 75% for the quarter, with exit utilization at around 85%.
- The acquisition cash broke even in Jan 2018.
- The cost differential between JPA and UTCCEM's assets is INR125/t, excluding statutory charges.

Expansion

- The company commissioned its Greenfield clinker capacity of 2.5mt at Dhar, Madhya Pradesh at capex of USD 90/t.
- The kiln is mutli-fuel and can use alternative fuels.
- UTCCEM also commissioned a cement grinding unit of 1.75mt and is planning to commission another 1.75mt before September 2018.

Demand trend

- Demand in east looks healthy due to the government's spend on low-income housing.
- Infrastructure is driving demand in the north region, while Rajasthan continues to face sand mining ban issues.
- Various infrastructure projects are getting revived in central region.
- Affordable housing and infrastructure projects are picking up in Maharashtra.
- South is witnessing good demand from Andhra Pradesh/Telangana. In spite of political instability in Tamil Nadu, the individual housing segment has started picking up.
- The cement industry should witness growth of 8% in FY18.

Cost Trend

- Cost of petcoke for the quarter was USD 104/t, as against spot rate of USD 115/t. Power & fuel cost had increased due to an increase in import duty on petcoke.
- With a rise in petcoke prices, the company is planning to switch some of its plants to imported coal.
- Logistics cost has increased due to higher diesel prices, partly mitigated by a 3% YoY decline in lead distance.
- Employee cost declined 9% QoQ to INR4.19b due to INR200-250m impact of provisioning of pension liability.

Valuation view: UTCCEM is likely to witness strong growth in EBITDA in FY19, led by the full impact of ramp-up of acquired capacity and growth in underlying markets. The company is likely to be the biggest beneficiary of a likely upturn in the Indian cement cycle over FY18-20, as it commands ~20% market share. We value UTCCEM at 14.5x FY20 EV/EBITDA to arrive at a target price of INR4,818/share, implying a 17% upside. Maintain **Buy**.

Financials and Valuations

Income Statement

	(INR m)							
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	199,991	200,779	226,565	237,088	238,914	297,901	366,330	421,819
Change (%)	10.1	0.4	12.8	4.6	0.8	24.7	23.0	15.1
EBITDA	44,946	36,160	39,153	46,266	49,690	58,833	74,124	93,993
Margin (%)	22.5	18.0	17.3	19.5	20.8	19.7	20.2	22.3
Depreciation	9,454	10,523	11,331	12,970	12,679	17,636	20,274	21,284
EBIT	35,492	25,637	27,822	33,296	37,011	41,197	53,850	72,709
Int. and Finance Charges	2,097	3,192	5,475	5,117	5,714	11,863	13,136	11,536
Other Income - Rec.	4,620	5,310	6,515	4,807	6,600	4,909	5,500	6,000
PBT	38,015	27,755	28,863	32,986	37,896	34,243	46,214	67,173
EO Expense/(Income)	0	-956	0	0	137	1,225	0	0
PBT after EO expense	38,015	28,711	28,863	32,986	37,760	33,018	46,214	67,173
Tax	11,700	7,266	8,715	9,284	11,482	10,706	12,940	20,152
Tax Rate (%)	30.8	25.3	30.2	28.1	30.4	32.4	28.0	30.0
Reported PAT	26,315	21,445	20,147	23,702	26,277	22,313	33,274	47,021
Adj PAT	26,315	20,731	20,147	23,702	26,372	23,140	33,274	47,021
Change (%)	9.4	-21.2	-2.8	17.6	11.3	-12.3	43.8	41.3
Margin (%)	13.2	10.3	8.9	10.0	11.0	7.8	9.1	11.1

Balance Sheet

	(INR m)							
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Equity Share Capital	2,742	2,742	2,744	2,744	2,745	2,745	2,745	2,745
Reserves	149,606	168,233	192,659	213,574	236,665	257,992	284,074	318,572
Net Worth	152,348	170,975	195,403	216,318	239,410	260,737	286,820	321,317
Deferred liabilities	19059	22958	27171	28100	32276	32276	33854	37191
Secured Loan	54,085	51,993	98,149	81,698	85,359	174,200	154,200	134,200
Loans	54,085	51,993	98,149	81,698	85,359	174,200	154,200	134,200
Capital Employed	225,493	245,927	320,723	326,116	357,045	467,213	474,873	492,708
Goodwill					0	0	0	0
Gross Block	213,822	250,778	223,266	239,127	256,748	424,325	429,325	457,525
Less: Accum. Deprn.	82,599	92,059	12,417	12,241	24,424	41,995	62,269	83,554
Net Fixed Assets	131,224	158,718	210,849	226,886	232,324	382,330	367,056	373,971
Capital WIP	35,054	20,384	20,689	14,145	8,778	40,000	60,000	50,000
Investments	51,087	53,917	56,483	57,932	74,087	29,500	29,500	29,500
Curr. Assets	56,723	64,489	66,237	83,020	76,573	73,347	77,754	102,147
Inventory	23,505	23,684	26,428	22,776	22,250	27,881	30,544	33,305
Debtors	10,172	12,810	12,032	14,149	12,762	13,207	14,034	15,728
Cash & Bank Bal	1,427	2,775	2,006	22,352	22,177	5,111	5,935	23,509
Others	21,619	25,220	25,771	23,743	19,384	27,148	27,242	29,605
Curr. Liability & Prov.	48,595	51,614	33,535	55,867	34,717	57,964	59,437	62,910
Creditors	37,903	41,884	29,638	51,721	30,415	48,425	49,531	53,659
Provisions	10,692	9,730	3,898	4,146	4,302	9,538	9,906	9,251
Net Current Assets	8,128	12,875	32,702	27,153	41,857	15,383	18,318	39,236
Appl. of Funds	225,493	245,927	320,723	326,116	357,045	467,213	474,873	492,708

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	96.0	75.6	73.4	86.4	96.1	84.3	121.2	171.3
Cash EPS	130.5	114.0	114.7	133.6	142.3	148.5	195.1	248.8
BV/Share	556	623	712	788	872	950	1,045	1,171
DPS	9.0	9.0	9.0	9.5	10.0	15.0	20.0	25.0
Payout (%)	11.0	13.5	14.2	12.8	12.1	21.4	19.2	17.0
Valuation (x)								
P/E	42.9	54.4	56.0	47.6	42.8	48.8	33.9	24.0
Cash P/E	31.5	36.1	35.9	30.8	28.9	27.7	21.1	16.5
P/BV	7.4	6.6	5.8	5.2	4.7	4.3	3.9	3.5
EV/Sales	5.5	5.5	5	5	5	4	3.2	2.8
EV/EBITDA	24.4	30.5	29.3	24.1	22.3	20.9	16.0	12.3
EV/Ton (Cap-USD)	329	313	285	259	257	221	196	191
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.4	0.5	0.6
Return Ratios (%)								
RoIC	18.1	12.3	9.2	9.7	10.2	8.4	9.8	12.9
RoE	18.7	12.8	11.0	11.5	11.6	9.3	12.2	15.5
RoCE	14.7	10.8	9.3	9.3	9.7	8.2	9.8	12.3
Working Capital Ratios								
Fixed Asset Turnover (x)	1.1	1.2	1.0	1.0	1.1	1.4	1.2	1.1
Debtor (Days)	19	23	19	22	19	16	14	14
Creditor (Days)	69	76	48	80	46	59	49	46
Inventory (Days)	43	43	43	35	34	34	30	29
Wkg. Capital Turnover (Days)	15	23	53	42	64	19	18	34
Leverage Ratio								
Current Ratio	1.2	1.2	2.0	1.5	2.2	1.3	1.3	1.6
Interest Cover Ratio	16.9	8.0	5.1	6.5	6.5	3.5	4.1	6.3
Debt/Equity	0.4	0.3	0.5	0.4	0.4	0.7	0.5	0.4

Cash Flow Statement

	(INR Million)							
Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Op. Profit/(Loss) before Tax	46,244	36,160	39,153	46,266	49,690	58,833	74,124	93,993
Interest/Dividends Recd.	566	5,310	6,515	4,807	6,600	4,909	5,500	6,000
Direct Taxes Paid	-7,165	-3,367	-4,503	-8,355	-7,307	-10,706	-11,362	-16,815
(Inc)/Dec in WC	-3,887	-3,399	-20,596	25,896	-14,878	9,407	-2,111	-3,345
CF from Operations	35,759	34,704	20,569	68,613	34,104	62,444	66,152	79,834
EO expense	32	-956	0	0	137	1,225	0	0
CF from Operating incl EO Exp.	35,727	35,660	20,569	68,613	33,967	61,219	66,152	79,834
(inc)/dec in FA	-32,676	-23,348	-63,766	-22,464	-12,749	-198,864	-25,000	-18,200
Free Cash Flow	3,051	12,312	-43,197	46,149	21,218	-137,645	41,152	61,634
(Pur)/Sale of Investments	-10,349	-2,830	-2,566	-1,449	-16,155	44,587	0	0
CF from investments	-43,025	-26,178	-66,332	-23,913	-28,904	-154,277	-25,000	-18,200
Issue of Shares	79	69	7,150	244	4	3,799	-812	-4,549
(Inc)/Dec in Debt	12,557	-2,092	46,156	-16,452	3,662	88,841	-20,000	-20,000
Interest Paid	-3,268	-3,192	-5,475	-5,117	-5,714	-11,863	-13,136	-11,536
Dividend Paid	-2,539	-2,887	-2,870	-3,029	-3,190	-4,785	-6,380	-7,975
CF from Fin. Activity	6,829	-8,102	44,962	-24,354	-5,238	75,992	-40,328	-44,060
Inc/Dec of Cash	-469	1,380	-801	20,346	-175	-17,066	824	17,574
Add: Beginning Balance	1,896	1,427	2,775	2,006	22,352	22,177	5,111	5,935
Closing Balance	1,427	2,775	2,006	22,352	22,177	5,111	5,935	23,509

E: MOSL Estimates

Corporate profile

Company description

UltraTech Cement, the erstwhile cement division of L&T Ltd, is a subsidiary of Grasim, a part of the Aditya Birla Group. Post merger of Grasim's cement business, it is the largest cement company in India with a total cements capacity of 86mt (by 1QFY16) with a pan-India presence. It is the largest exporters of cement and clinker from India. Post merger, it would be the largest cement company in India and 10th largest in the world.

Exhibit 1: Sensex rebased

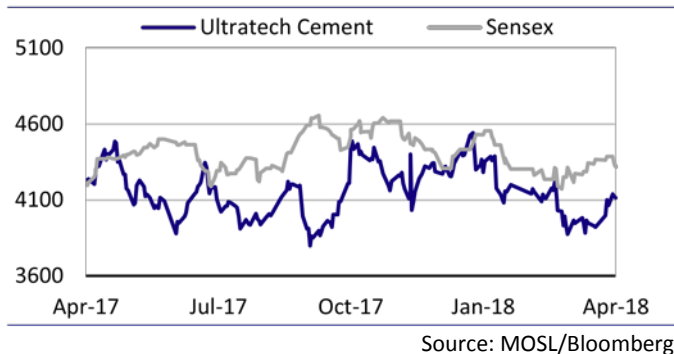


Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	62.0	62.1	62.2
DII	5.8	5.7	5.6
FII	22.3	22.2	21.9
Others	9.9	10.1	10.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIC of India Pension Plus Mixed Fund	2.3
Oppenheimer Developing Markets Fund	1.7
Europacific Growth Fund	1.0
NA	0.0
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Kumar Mangalam Birla	Chairman
K K Maheshwari	Managing Director
Atul Daga	Whole Time Director & CFO
S K Chatterjee	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Alka Bharucha	Arun Adhikari
G M Dave	Renuka Ramnath
S B Mathur	Sukanya Kripalu
D D Rathi	O P Puranmalka
Rajashree Birla	

*Independent

Exhibit 6: Auditors

Name	Type
BNP & Associates	Secretarial Audit
BSR & Co LLP	Statutory
D C Dave & Co	Cost Auditor
Khimji Kunverji & Co	Statutory
N D Birla & Co	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	84.3	86.9	-3.0
FY19	121.2	117.6	3.0
FY20	171.3	161.7	6.0

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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