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## Ultratech Cement Ltd

# Binani Cement Assets: Ultratech reaches in-principle understanding with Binani Industries

Stock Rating  
Overweight

Industry View  
Attractive

Price Target  
Rs4,892.00

Ultratech has extended support to BIL through a letter of comfort, to assist the latter in termination of bankruptcy proceedings against its subsidiary BCL.

Per the company's press release, Ultratech has reached an in-principle agreement with Binani Industries Limited (BIL) to purchase the latter's 98.43% stake in Binani Cement Limited (BCL). In this regard, Ultratech's board has approved issuing a letter of comfort (to BIL) confirming that it will provide funds amounting to Rs72.66bn. The said value is in line with the revised bid offered by the company (Ultratech) under the Resolution Plan for acquiring BCL.

**The backdrop:** BCL was admitted by the National Company Law Tribunal (NCLT) for bankruptcy proceedings. Last week the Committee of Creditors of BCL approved the resolution plan submitted by Dalmia Bharat – but BIL, the parent company of BCL, has been seeking termination of the insolvency proceedings. The comfort letter issued by Ultratech will be used as support in BIL's application.

**Deal value:** Based on the proposed amount, the implied deal value is US\$185/ton. However, after factoring in the potential sale of international cement assets (5mnt capacity in China and the Middle East), plus potential future expansion (according to our discussions with industry players), the implied deal value is US\$162/ton and US\$128/ton, respectively.

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## Ultratech Cement Ltd ( ULTC.NS, UTCEN IN )

## India Cement / India

<b>Stock Rating</b>	<b>Overweight</b>
<b>Industry View</b>	<b>Attractive</b>
Price target	Rs4,892.00
Up/downside to price target (%)	22
Shr price, close (Mar 16, 2018)	Rs4,026.30
52-Week Range	Rs4,599.90-3,773.30
Sh out, dil, curr (mn)	274
Mkt cap, curr (mn)	Rs1,103,367
EV, curr (mn)	Rs1,098,816
Avg daily trading value (mn)	Rs961

Fiscal Year Ending	03/17	03/18e	03/19e	03/20e
ModelWare EPS (Rs)	98.95	92.52	135.95	196.66
Prior ModelWare EPS (Rs)	-	-	-	-
Consensus EPS (Rs)\$	97.24	93.93	134.61	180.73
Revenue, net (Rs bn)	250.9	311.5	362.1	410.3
EBITDA (Rs bn)	49.3	60.4	79.9	101.4
ModelWare net inc (Rs bn)	27.2	25.4	37.3	54.0
P/E	40.1	43.5	29.6	20.5
P/BV	4.5	4.2	3.7	3.3
RNOA (%)	10.0	12.3	10.3	13.7
ROE (%)	12.4	10.4	14.1	18.3
EV/EBITDA	22.0	20.7	15.3	11.5
Div yld (%)	0.3	0.4	0.7	0.9
FCF yld ratio (%)**	3.4	(13.2)	3.3	5.3
Leverage (EOP) (%)	(1.9)	54.9	39.3	19.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework

\$ = Consensus data is provided by Thomson Reuters Estimates

\*\* = Based on consensus methodology

e = Morgan Stanley Research estimates

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## Key Exhibit

**Exhibit 1: Binani Cement's potential value to Ultratech**

<b>Amount offered (Rs bn)</b>	<b>73</b>
Stake (%)	98%
Implied EV (Rs bn)	74
<b>Per ton (based on Indian capacity) (US\$/ton)</b>	<b>185</b>
Indian capacity (Mnt)	6.3
Total capacity (Mnt)	11.3
<b>Valuation ex International Assets and Fiber glass business</b>	
Assuming international capacity is disposed (Rs Bn)	9.0
Net EV (Rs Bn)	65
<b>Per ton (based on Indian capacity) (US\$/ton)</b>	<b>162</b>
<b>Valuation including potential India capacity Expansion</b>	
Assuming incremental expansion potential (Mnt)	4.0
Total India capacity (Mnt)	10.3
Capex per ton (US\$)	75
Total capex (US\$ Mn)	300
Total capex (Rs Bn)	19
Combined EV (Rs Bn)	84
<b>Per ton (based on Indian capacity) (US\$/ton)</b>	<b>128</b>

Source: Company data, Morgan Stanley Research

## Valuation Methodology and Risks

### ULTC.NS

We derive our price target of Rs4,892 from a probability-weighted residual income model. We assign 60% probability to our base case, 35% probability to our bull case, and 5% to our bear case, the same as we use for the rest of our industry coverage.

The distinct upside risk that we see to our base case comes from the following two sources: 1) better-than-expected cement demand; 2) higher-than-expected margins, driven by better prices/lower costs. Our probability weightings factor in our view that demand growth could have upside risk if GDP growth is better than our India Economics team expects in a stable political environment. This also reflects our belief that the industry is entering a cyclical upturn with a thin capacity pipeline for F17-19e.

We believe the probability of downside risk is low. The main factor here is low risk of medium-term negative surprise on capacity. This also reflects our view that demand growth will remain strong – with improving GDP growth, the government's focus on infrastructure growth and housing demand will gradually recover, helped by improved rural demand.

We assume terminal ROE of 15%, terminal growth rate of 5%, and cost of equity of 11.4% (risk-free rate of 7.5%, equity risk premium of 5.5%, and beta of 0.7).

**Base case value of Rs4,315:** Blended cement realization improves by ~6% in F18, as the capacity utilization starts to recover: F18 volume growth of 20% factors JPA acquisition for 9-months. This is followed by 11% volume growth in F19. This, along with 370bps margin expansion over F17-19 drives 31% EBITDA CAGR.

**Bull case value of Rs6,220:** Cement realizations improve more than in our base case via higher-than-expected demand growth: The company benefits from higher volume growth, given strong demand. Margins expand more than in our base case, to ~23.1% in F18.

**Bear case value of Rs2,525:** Cement realizations improve less than in our base case in F18 because of weaker-than-expected demand growth: Operating margin improves in F18 on a low base for F17, though is below our base case.

### Downside risks to our price target include:

- Weaker-than-expected cement prices, with delay in demand recovery and faster-than-expected ramp-up in industry capacity.
- Lower-than-expected GDP growth, leading to better-than-expected cement demand.

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(as of February 28, 2018)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MSC
Overweight/Buy	1175	37%	315	41%	27%	555	39%
Equal-weight/Hold	1369	43%	357	47%	26%	643	45%
Not-Rated/Hold	53	2%	5	1%	9%	7	0%
Underweight/Sell	552	18%	87	11%	16%	222	16%
<b>TOTAL</b>	<b>3,149</b>		<b>764</b>			<b>1427</b>	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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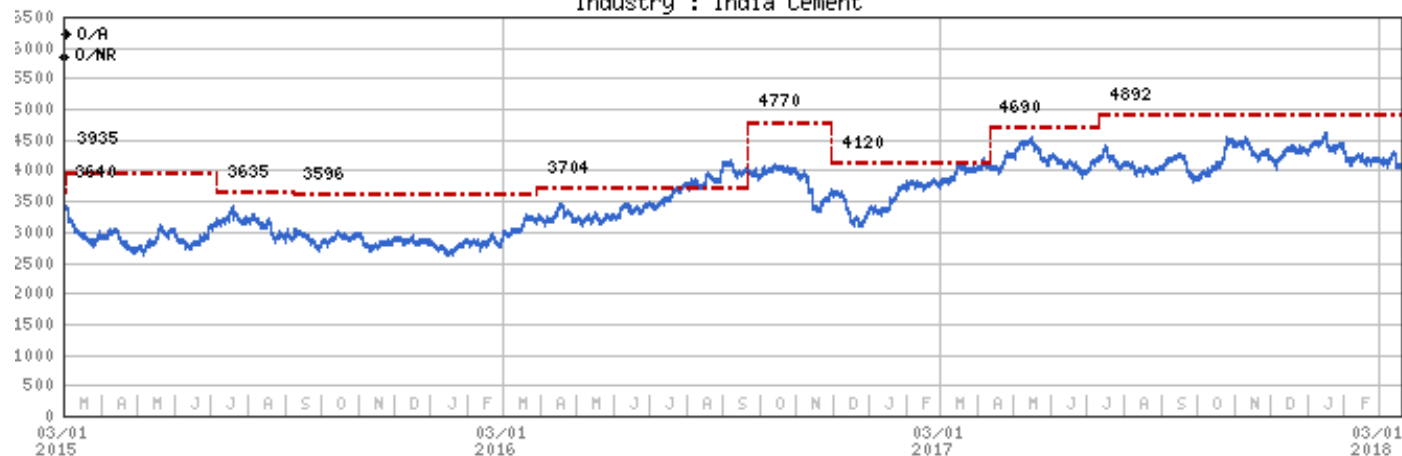
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### Stock Price, Price Target and Rating History (See Rating Definitions)

Ultratech Cement Ltd (ULTC.NS) - As of 3/19/18 in INR  
Industry : India Cement

Stock Rating History: 3/1/15 : O/NR; 3/3/15 : O/A

Price Target History: 1/26/15 : 3640; 3/3/15 : 3935; 7/6/15 : 3635; 9/8/15 : 3596; 3/29/16 : 3704; 9/22/16 : 4770; 11/30/16 : 4120; 4/11/17 : 4690; 7/12/17 : 4892

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Ratings/Industry View  
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/16/2018)
<b>Ashish Jain</b>		
ACC Ltd. (ACC.NS)		Rs1,567.95
Ambuja Cements Ltd. (ABUJ.NS)		Rs234.75
Dalmia Bharat Limited (DALA.NS)	O (10/03/2016)	Rs2,842.25
Grasim Industries (GRAS.NS)	O (07/16/2010)	Rs1,093.55
JK Lakshmi Cement (JKLC.NS)	O (11/10/2017)	Rs424.25
Shree Cement Ltd. (SHCM.NS)	O (09/22/2016)	Rs16,424.40
Ultratech Cement Ltd (ULTC.NS)	O (10/21/2014)	Rs4,026.30

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