

**Well positioned to steer through crisis,
market leadership and size to benefit**

CMP: Rs 4,162

Rating: ACCUMULATE

Target Price: Rs 4,660

Stock Info

| | |
|---------------------------|---------------|
| BSE | 532528 |
| NSE | ULTRACEMCO |
| Bloomberg | UTCEM IN |
| Reuters | ULTC.BO |
| Sector | Cement |
| Face Value (Rs) | 10 |
| Equity Capital (Rs Cr) | 275 |
| Mkt Cap (Rs Cr) | 1,03,082 |
| 52w H/L (Rs) | 4,905 / 2,910 |
| Avg. Yearly Vol (in 000') | 563 |

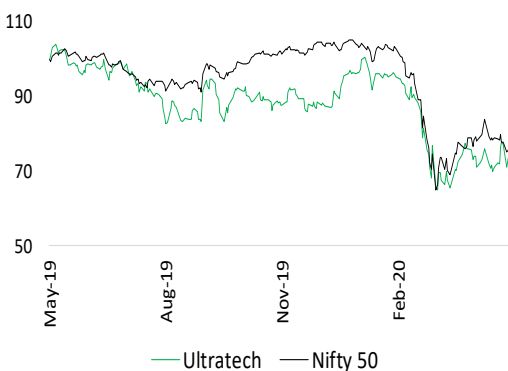
Shareholding Pattern %

(As on June, 2020)

| | |
|-----------------|------|
| Promoters | 60.0 |
| FII | 16.1 |
| DII | 14.7 |
| Public & Others | 9.1 |

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|-------|-------|
| Ultratech | 22.9 | -38.3 | -37.1 |
| Nifty | 18.2 | -12.1 | -6.8 |

Ultratech Vs Nifty



Ultratech witnessed slowdown in Q1FY20 with the advent of Corona virus and nation-wide lockdown. Consolidated revenue stood at Rs 7,634 Cr, a decline of 33.2% YoY/29.0% QoQ, EBITDA stood at Rs 2,075 Cr, shrinking by 29.7% YoY/15.1% QoQ and PAT at Rs 797.4 Cr decreasing by 37.8% YoY/75.4% QoQ. The sharp decline in revenue could be attributed to the Covid-19 induced lockdown which saw sales volume decline by 22% (17.86 million tonne in Q1FY20 to 13.94 million tonne). The net debt fell down to Rs 14,651 Cr in Q1FY21 from Rs 16,680 Cr in Q1FY20. The cement major is on the right track to integrate the acquired assets over last financial year into its internal brand and units.

Q1FY21 Operational Highlights

The fall in realizations were mitigated by fall in expense per tonne: The company's realizations came down during the quarter, which was mitigated by significant fall in expenses for the company, e.g. raw materials (declined 2% YoY), logistics cost (declined 5% YoY) and fuel cost (declined by 11% YoY).

Better integration of acquired assets: The company management informed of the timely integration of the business operations of acquired assets over last financial year. The management expects to complete +80% of brand integration of Century assets by Q3FY21. The Dalla Super clinker plant is expected to be completed by March FY21 while SGUs in eastern region & UP under development are expected to be delayed by over 6 months due to Covid-19.

Operation-wise, the company is working to put in place a cost-effective plan: Due to the fallen demand owing to the pandemic and the strong monsoon, the management is working on a plan to put a cost-efficiency plan in action soon when the demand revives by H2FY21.

Valuation & View

Going ahead, the company has healthy cash reserves, capital reserves, a lower than earlier debt level and good amount of inventory. Also, since the clout around the spread or containment of Coronavirus remains under doubts, the cement maker may not be seeing an upward growth anywhere before the Oct-Dec quarter. We continue to maintain our positive view on Ultratech owing to its market dominance, economies of scale and efficient management. At CMP of Rs 4,162 the stock is available at FY22E EV/EBITDA of 16.0x. After factoring in the size of the company, its highly experienced management, current scenario under the corona crisis, we extend our confidence on the profitability of the firm. Hence, we upgrade upwards our exit EV/EBITDA multiple 17.0x of its FY22E estimates, which yields a revised target price of Rs 4,660 and maintain ACCUMULATE rating.

Concall Highlights:

(i) The cement industry saw revival in demand in the northern states, east and central states, while it faced slowdown in demand in western states, Andhra, Karnataka and Telangana state.

(ii) The industry has not seen any additional capacity expansion during the quarter.

(iii) The management attributes the demand driven by individual persons and migrated labours from cities to eastern states.

(iv) The company's retail share has increased to an all time high of 78% in Q1FY21.

(v) Average cement prices to increase by 7% QoQ during the quarter.

(vi) It has reduced its net debt by Rs 2,200 Cr to Rs 12,950 Cr and is expecting to receive funds from assets held to be sold in Q2FY21 for its Chinese units.

(vii) Average capacity utilization for the quarter stood at 46% for the quarter Q1FY21. For the month of May and June, the capacity utilization stood at >70%.

(viii) Brown-field expansion in Pataliputra, Bihar (0.6 MT) and Dhankoni, WB (0.6 MT) are going on and will operational by early FY22.

(ix) The 2.3 MT clinker plant in UP will be operational by next fiscal year.

(x) Capex for FY21- Rs 1,500 Cr.

(xi) The company expects the business volume to get steady and upward of pre-covid levels only after the festival season in Q3FY21.

Q1 FY21 - Quarterly Performance (Consolidated)

(in Rs Mn)

UltraTech Cement Ltd.

| Rs Mn (consolidated) | Q1FY21 | Q4FY20 | Q1FY20 | Q-o-Q | Y-o-Y |
|-------------------------|---------------|----------------|------------------|-----------------|---------------|
| Net Revenue | 76,338 | 107,447 | 114,197 | -29.0% | -33.2% |
| Material Cost | 41,639 | 62,507 | 65,064 | -33.4% | -36.0% |
| Employee cost | 5,604 | 6,550 | 5,961 | -14.4% | -6.0% |
| Other Expenses | 8,348 | 13,964 | 13,680 | -40.2% | -39.0% |
| EBITDA | 20,746 | 24,427 | 29,493 | -15.1% | -29.7% |
| <i>EBITDA margin %</i> | <i>27.2%</i> | <i>22.7%</i> | <i>25.8%</i> | <i>444bps</i> | <i>135bps</i> |
| Other Income | 2,788 | 1,979 | 1,347 | 40.9% | 107.0% |
| Depreciation | 6,462 | 6,724 | 6,884 | -3.9% | -6.1% |
| EBIT | 17,072 | 19,682 | 23,956 | -13.3% | -28.7% |
| Finance cost | 3,930 | 5,048 | 5,028 | -22.1% | -21.8% |
| Exceptional Item | -1,574 | - | - | - | - |
| PBT | 11,568 | 14,634 | 18,928 | -20.9% | -38.9% |
| Tax Expense | 3,603 | -17,774 | 6,118 | -120.3% | -41.1% |
| Effective tax rate % | 31.1% | -121.5% | 32.3% | 15260bps | -118bps |
| PAT | 7,965 | 32,408 | 12,810 | -75.4% | -37.8% |
| MI & Associates | 9 | 19 | 1 | | |
| Consolidated PAT | 7,974 | 32,428 | 12,811.40 | -75.4% | -37.8% |
| <i>PAT margin %</i> | <i>10.4%</i> | <i>30.2%</i> | <i>11.2%</i> | <i>-1973bps</i> | <i>-77bps</i> |
| EPS (Rs) | 27.6 | 112.4 | 44.4 | -75.4% | -37.7% |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

| Valuations (Rs Mn) | FY22E |
|--------------------|--------------|
| EV/EBITDA (x) | 17.0 |
| EBITDA | 89723 |
| EV | 1525291 |
| Debt | 252695 |
| Cash | 7326 |
| Market Cap | 1279923 |
| No shares | 275 |
| CMP (Rs) | 4162 |
| Target (Rs) | 4,660 |
| Upside (%) | 12.0% |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement

| Y/E March (Rs Mn) | FY19 | FY20 | FY21E | FY22E |
|----------------------------|---------------|---------------|---------------|---------------|
| Revenues | 373,792 | 421,248 | 418,826 | 472,226 |
| <i>Change (%)</i> | 19.0% | 12.7% | -0.6% | 12.8% |
| Total Expenses | 305,911 | 328,413 | 339,249 | 382,503 |
| EBITDA | 67,881 | 92,836 | 79,577 | 89,723 |
| Other Income | 4,381 | 6,478 | 6,282 | 7,083 |
| Depreciation | 21,398 | 27,022 | 23,035 | 25,972 |
| Interest | 15,486 | 19,857 | 14,659 | 16,528 |
| PBT | 35,378 | 52,435 | 48,165 | 54,306 |
| Extra-ordinary | 0 | 0 | 0 | 0 |
| PBT after ext-ord. | 35,378 | 52,435 | 48,165 | 54,306 |
| Tax | 11,068 | -5,682 | 12,123 | 16,292 |
| <i>Rate (%)</i> | 31.3% | -10.8% | 25.2% | 30.0% |
| PAT | 24,310 | 58,117 | 36,042 | 38,014 |
| MI & Associates | -12 | 32 | 23 | 33 |
| Consolidated PAT | 24,322 | 58,085 | 36,019 | 37,981 |
| <i>Change (%)</i> | 9.5% | 138.8% | -38.0% | 5.4% |

Cash Flow Statement

| Y/E March (Rs Mn) | FY19 | FY20 | FY21E | FY22E |
|--|-----------------|-----------------|-----------------|-----------------|
| PBT | 34,685 | 52,423 | 48,165 | 54,306 |
| Depreciation | 24,507 | 27,022 | 23,035 | 25,972 |
| Interest & others | (1,188) | (1,422) | 8,399 | 9,477 |
| Cash flow before WC changes | 73,615 | 93,432 | 88,760 | 90,536 |
| (Inc)/dec in working capital | (6,957) | 4,503 | (33) | 732 |
| Operating CF after WC changes | 66,658 | 97,935 | 88,727 | 90,487 |
| Less: Taxes | 7,101 | 8,914 | 12,123 | (16,292) |
| Operating Cash Flow | 59,557 | 89,020 | 76,604 | 74,196 |
| (Inc)/dec in F.A + CWIP | 11,138 | (42,094) | (40,000) | (39,999) |
| (Pur)/sale of investment | 0 | 0 | 0 | 0 |
| Cash Flow from Investing | 11,138 | (42,094) | (40,000) | (39,999) |
| Free Cash Flow (FCF) | 70,695 | 46,927 | 36,604 | 34,197 |
| Loan raised/(repaid) | 56,919 | (19,103) | (20,058) | (21,061) |
| Equity raised | 0 | 0 | 0 | 0 |
| Interest & others | (16,850) | (18,944) | (19,891) | (20,886) |
| Dividend | (3,462) | (3,800) | (5,403) | (5,697) |
| Cash Flow from Financing Activities | (67,568) | (49,911) | (32,907) | (32,033) |
| Net inc / (dec) in cash | 3,127 | (2,985) | 3,697 | 2,163 |
| Opening balance of cash | 1,286 | 4,450 | 1,465 | 5,163 |
| Closing balance of cash | 4,412 | 1,465 | 5,163 | 7,326 |

Balance Sheet

| Y/E March (Rs Mn) | FY19 | FY20 | FY21E | FY22E |
|---|----------------|----------------|----------------|----------------|
| Sources of Funds | | | | |
| Share Capital | 2,746 | 2,886 | 2,746 | 2,746 |
| Reserves & Surplus | 334,760 | 388,269 | 401,778 | 418,412 |
| Net Worth | 337,507 | 391,155 | 404,525 | 421,158 |
| Loan Funds | | | | |
| MI, Deferred Tax & other Liabilities | 69,189 | 54,148 | 56,855 | 59,698 |
| Capital Employed | 649,884 | 669,387 | 704,095 | 733,551 |
| Application of Funds | | | | |
| Net Block | 446,433 | 438,415 | 460,335 | 469,542 |
| CWIP | 11,533 | 9,196 | 11,533 | 11,533 |
| Other Non-current Assets | 150,858 | 163,662 | 173,482 | 183,891 |
| Deferred Tax Assets | 1,771 | 2,859 | 121 | 121 |
| Net Fixed Assets | 610,596 | 614,132 | 645,471 | 665,087 |
| Investments | 29,213 | 59,287 | 38,730 | 38,730 |
| Debtors | 27,870 | 22,383 | 28,687 | 33,638 |
| Inventories | 40,990 | 41,483 | 43,557 | 45,735 |
| Cash & Bank Balance | 7,397 | 5,392 | 5,163 | 7,326 |
| Loans & Advances & other CA | 38,374 | 39,937 | 51,884 | 56,835 |
| Total Current Assets | 125,565 | 119,953 | 140,048 | 143,534 |
| Current Liabilities | 107,820 | 116,086 | 110,282 | 101,459 |
| Provisions | 7,671 | 7,898 | 9,873 | 12,341 |
| Net Current Assets | 10,075 | (4,031) | 19,894 | 29,735 |
| Total Assets | 649,884 | 669,387 | 704,095 | 733,551 |

Key Ratios

| Y/E March | FY19 | FY20 | FY21E | FY22E |
|---------------------------|--------|--------|--------|--------|
| Per share (Rs) | | | | |
| EPS | 88.7 | 211.5 | 131.1 | 138.3 |
| CEPS | 166.6 | 309.9 | 215.0 | 232.9 |
| BVPS | 1033.7 | 1129.9 | 1472.9 | 1533.5 |
| DPS | 11.5 | 29.6 | 19.7 | 20.7 |
| Div. Payout (%) | 13.0% | 14.0% | 15.0% | 15.0% |
| Valuation (x) | | | | |
| P/E | 46.6 | 19.5 | 31.5 | 29.9 |
| P/CEPS | 24.8 | 13.3 | 19.2 | 17.7 |
| P/BV | 4.0 | 3.7 | 2.8 | 2.7 |
| EV/EBITDA | 22.0 | 15.8 | 17.7 | 16.0 |
| Dividend Yield (%) | 0.3% | 0.7% | 0.5% | 0.5% |
| Return Ratio (%) | | | | |
| EBITDA Margin | 18.2% | 22.0% | 19.0% | 19.0% |
| PAT Margin | 6.5% | 13.8% | 8.6% | 8.0% |
| ROE | 8.6% | 18.7% | 8.9% | 9.0% |
| ROCE | 8.5% | 11.3% | 8.2% | 8.9% |
| Leverage Ratio (x) | | | | |
| Total D/E | 0.8 | 0.8 | 0.6 | 0.6 |
| Net D/E | 0.8 | 0.6 | 0.3 | 0.4 |
| Turnover Ratios | | | | |
| Asset Turnover (x) | 0.6 | 0.6 | 0.5 | 0.6 |
| Receivable Days | 25 | 25 | 25 | 26 |
| Payable days | 96 | 95 | 90 | 91 |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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| Stock Rating Scale | Absolute Return |
|--------------------|-----------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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