

*Stellar set of results on the back of improved realisation with EBITDA/ton at all time high; upgrade to Buy with a revised Target Price of Rs 5204*

Current	Previous
<b>CMP: Rs 4233</b>	
<b>Rating: Buy</b>	<b>Rating: Hold</b>
<b>Target: Rs 5204</b>	<b>Target: Rs 4887</b>

(NR-Not Rated)

**Stock Info**

INDEX	
BSE	532528
NSE	ULTRACEMCO
Bloomberg	UTCEM IN
Reuters	ULTC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Mn)	2746
Market Cap (Rs Mn)	11,62,551
52w H/L (Rs)	4905/3260
Avg Weekly Vol (BSE+NSE)	2,438,110

**Shareholding Pattern**

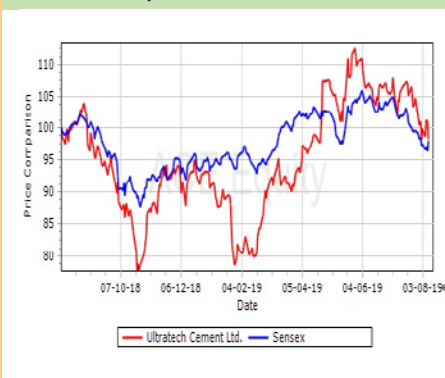
	%
<b>(As on June, 2019)</b>	
Promoters	61.7
Public & Others	38.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ULTRATECH CEMENT	-6.2	19.0	-0.2
SENSEX	-1.2	2.1	-1.5

Source: ACE Equity, Arihant Research

**ULTRATECH v/s SENSEX**



Source: ACE Equity, Arihant Research

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**Ultratech reported stellar set of Q1FY20 numbers surpassing our estimates on all fronts. Revenue for the quarter grew 14.4% YoY to Rs 101.8 bn against our estimate of Rs 97.9 bn. EBITDA for Q1FY20 came at Rs 27.1 bn (estimate Rs 24 bn) a growth of 60.2% YoY and 16.1% QoQ. EBITDA margin expanded +761bps YoY/+522bps QoQ to 26.6% for the quarter against our estimate of 24.5%. PAT for the quarter stood at Rs 12.1 bn which was ahead of our estimate of Rs 10.3 bn, a growth of 90.9% YoY and 19.2% QoQ. We are bullish on Ultratech from longer term perspective and it is our top pick in the cement sector. Factoring in strong result, we have upgraded the stock from Hold to Buy, with a revised target price of Rs 5204.**

**Q1FY20 Operational Highlights**

- For the quarter Ultratech registered a volume growth of 2% YoY in its sales to 17.86 MT against 17.48 MT in Q1FY19. In Q1FY20 premium products sales volume increased by 28% YoY. Ultratech achieved EBITDA/ton of Rs 1466 in Q1FY20 v/s Rs 1072 in Q4FY19, an all-time high.
- EBITDA margin expansion came on the back of lower input costs as well as decline in logistics and energy costs. Raw material and energy costs declined 2% YoY each while logistics cost came down by 5% YoY.
- All the acquisitions done by Ultratech in past few years are now successfully integrated. The company achieved PBT break-even for Nathdwara Cement (earlier Binani Cement) within two quarters of acquisition – which is an industry benchmark. While cement assets of JP Associates achieved PBT breakeven in record eight quarters.
- As far as Century Cement assets are concerned, the company initiated ground work for synergies with itself. Ultratech received NCLT order to take over cement assets of Century Textiles on 3rd July, 2019 and the merger will become effective in Q2FY20 following remaining regulatory approvals.

**Outlook and Valuations**

Cement prices have seen some correction in last two months due to seasonal factors like slow industrial activity during monsoon. Despite subdued demand, Ultratech continued its stellar operational performance. At CMP of Rs 4233, Ultratech is trading at an EV/EBITDA of 18.6x and 15.9x its FY20E and FY21E estimates respectively. Factoring in strong result we kept our FY20E/21E estimates intact, however increased our target EV/EBITDA multiple from 18x to 19x its FY21E estimates, to arrive at a target price of Rs 5204/- per share. **Upgrade to 'Buy'.**

**Financial Performance**

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	EV/EBITDA (x)
FY18	314,108	61,452	22,222	80.9	19.6	8.4	21.9
FY19	373,792	67,881	24,347	88.7	18.2	8.6	20.3
FY20E	412,335	74,220	27,975	101.9	18.0	9.0	18.6
FY21E	458,104	87,040	36,854	134.2	19.0	10.6	15.9

Source: Company, Arihant Research

## Q1FY20 Financial Performance

Rs Mn (consolidated)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>1,01,776</b>	<b>1,09,052</b>	<b>89,002</b>	<b>-6.7%</b>	<b>14.4%</b>
Material Cost	57,000	67,927	56,852	-16.1%	0.3%
Employee cost	5,294	5,025	4,947	5.4%	7.0%
Other Expenses	12,399	12,776	10,292	-2.9%	20.5%
<b>EBITDA</b>	<b>27,083</b>	<b>23,325</b>	<b>16,911</b>	<b>16.1%</b>	<b>60.2%</b>
<i>EBITDA margin %</i>	<i>26.6%</i>	<i>21.4%</i>	<i>19.0%</i>	<i>+522bps</i>	<i>+761bps</i>
Other Income	1,312	1,261	727	4.0%	80.5%
Depreciation	5,993	5,475	5,067	9.5%	18.3%
<b>EBIT</b>	<b>22,402</b>	<b>19,111</b>	<b>12,570</b>	<b>17.2%</b>	<b>78.2%</b>
Finance cost	4,412	4,343	3,485	1.6%	26.6%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>17,990</b>	<b>14,768</b>	<b>9,085</b>	<b>21.8%</b>	<b>98.0%</b>
Tax Expense	5,913	4,625	2,769	27.8%	113.6%
<i>Effective tax rate %</i>	<i>32.9%</i>	<i>31.3%</i>	<i>30.5%</i>	<i>+155bps</i>	<i>+239bps</i>
<b>PAT</b>	<b>12,077</b>	<b>10,143</b>	<b>6,316</b>	<b>19.1%</b>	<b>91.2%</b>
MI & Associates	1	-12	10		
<b>Consolidated PAT</b>	<b>12,078</b>	<b>10,131</b>	<b>6,327</b>	<b>19.2%</b>	<b>90.9%</b>
<i>PAT margin %</i>	<i>11.9%</i>	<i>9.3%</i>	<i>7.1%</i>	<i>+258bps</i>	<i>+476bps</i>
<b>EPS (Rs)</b>	<b>44.0</b>	<b>36.9</b>	<b>23.0</b>	<b>19.2%</b>	<b>90.9%</b>

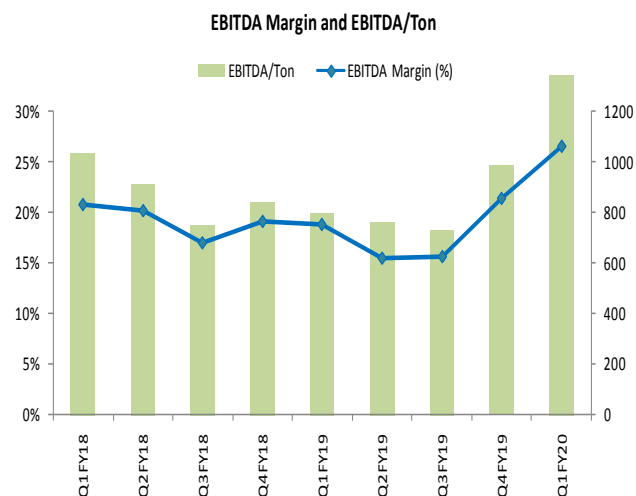
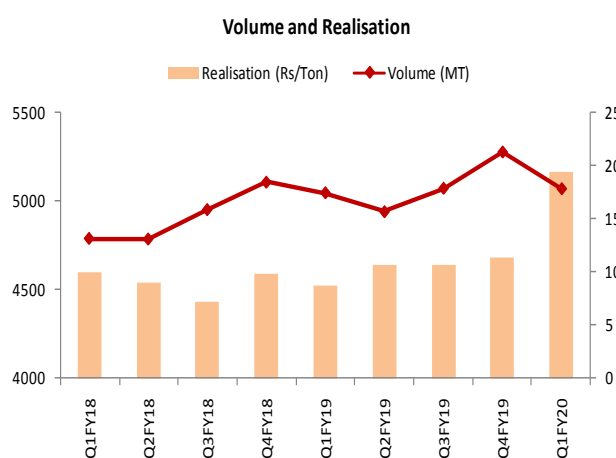
Source: Company, Aриhant Research

## Per Ton Analysis

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Volumes (MT)	13.2	13.1	15.9	18.5	17.5	15.7	17.9	21.3	17.9
Realisation (Rs/Ton)	4600	4544	4434	4589	4521	4644	4644	4686	5169
Growth (%)	5.8%	2.6%	0.1%	3.2%	-1.7%	2.2%	4.7%	2.1%	14.3%
EBITDA Margin (%)	20.7%	20.1%	17.0%	19.2%	18.8%	15.5%	15.6%	21.4%	26.6%
EBITDA (Rs/Ton)	1033	915	753	842	799	764	733	988	1346

Source: Company, Aриhant Research

## Volume, Realisation, EBITDA Margin and EBITDA/Ton metrics of Ultratech Cement over the Quarters



Source: Company, Aриhant Research

**Q1FY20 Conference Call Highlights**

- Pet coke price has come down 25% from peak and is now hovering around US\$ 75-80/Ton, which is significantly lower than average price of US\$ 95/Ton incurred in Q1FY20.
- The continuous fall in prices will have a positive rub on effect on the margin and will reflect in subsequent quarters' profit. At present around 78% of Ultratech's pet coke requirements are being met from imports.
- Capacity utilization has improved across all segments which has helped the company to improve its pricing, which has been reflected in PAT numbers for this quarter.
- Ultratech received NCLT order to take over cement assets of Century Textiles. The company is waiting for other regulatory approvals for complete takeover of the Century assets and expect it to happen in this quarter itself (Q2FY20).
- Nathdwara Cements (earlier Binani Cement) – integration is complete, achieved an EBITDA/ton in excess of Rs 1200, achieved PBT breakeven in record time, within two quarters of acquisition.
- The company will incur a capex of Rs 20bn in FY20, which will be spent on regular maintenance as well as on account of WHR projects, Bicharpur coal terminal, Putty cement plant and bulk terminals.

**Valuations**

Rs Mn	FY19	FY20E	FY21E
EV/EBITDA (x)	20.3	18.6	19.0
EBITDA	67881	74220	87040
EV	1378234	1384179	*1653756
Debt	222755	232735	242715
Cash	7072	11107	18137
Net Debt	215683	221627	224578
Market Cap	1162551	1162551	1429178
No of shares	275	275	275
CMP (Rs)	4233	4233	4233
Target (Rs)			5,204
<b>Upside</b>			<b>22.9%</b>

\*EV on basis of target EV/EBITDA multiple of 19x

## Consolidated Financials

## Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	3,14,108	3,73,792	4,12,335	4,58,104
Change (%)	23.8%	19.0%	10.3%	11.1%
<b>Total Expenses</b>	2,52,656	3,05,911	3,38,115	3,71,064
<b>EBITDA</b>	61,452	67,881	74,220	87,040
Other Income	5,837	4,381	6,185	6,872
Depreciation	18,479	21,398	23,915	25,196
Interest	12,328	15,486	16,493	16,034
<b>PBT</b>	<b>36,482</b>	<b>35,378</b>	<b>39,996</b>	<b>52,682</b>
Extra-ordinary	3,467	0	0	0
<b>PBT after ext-ord.</b>	33,015	35,378	39,996	52,682
Tax	10,770	11,068	11,999	15,805
Rate (%)	32.6%	31.3%	30.0%	30.0%
<b>PAT</b>	<b>22,245</b>	<b>24,311</b>	<b>27,998</b>	<b>36,877</b>
<b>MI &amp; Associates</b>	<b>23</b>	<b>-37</b>	<b>23</b>	<b>23</b>
<b>Consolidated PAT</b>	<b>22,222</b>	<b>24,347</b>	<b>27,975</b>	<b>36,854</b>
Change (%)	-18.1%	9.6%	14.9%	31.7%

Source: Company, Arihant Research

## Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>				
Share Capital	2,746	2,746	2,746	2,746
Reserves & Surplus	2,61,066	2,81,143	3,07,567	3,43,989
<b>Net Worth</b>	<b>2,63,812</b>	<b>2,83,890</b>	<b>3,10,313</b>	<b>3,46,735</b>
<b>Loan Funds</b>	<b>1,86,269</b>	<b>2,22,755</b>	<b>2,32,735</b>	<b>2,42,715</b>
MI, Deferred Tax & other Liabilities	36,772	40,289	40,289	40,289
<b>Capital Employed</b>	<b>4,86,853</b>	<b>5,46,933</b>	<b>5,83,337</b>	<b>6,29,739</b>
<b>Application of Funds</b>				
Net Block	3,86,790	4,32,887	4,52,887	4,92,887
CWIP	15,112	11,221	11,221	11,221
Other Non-current Assets	37,047	56,618	56,618	56,618
Deferred Tax Assets	1,498	1,396	1,396	1,396
<b>Net Fixed Assets</b>	<b>4,40,447</b>	<b>5,02,123</b>	<b>5,22,123</b>	<b>5,62,123</b>
<b>Investments</b>	<b>60,477</b>	<b>38,730</b>	<b>38,730</b>	<b>38,730</b>
Debtors	22,206	25,314	28,242	31,377
Inventories	32,676	35,851	39,539	43,928
Cash & Bank Balance	2,191	7,072	11,107	18,137
Loans & Advances & other CA	13,508	36,267	57,088	54,574
<b>Total Current Assets</b>	<b>70,581</b>	<b>1,04,505</b>	<b>1,35,976</b>	<b>1,48,016</b>
Current Liabilities	78,123	92,252	1,07,320	1,12,957
Provisions	6,529	6,172	6,172	6,172
<b>Net Current Assets</b>	<b>-14,071</b>	<b>6,081</b>	<b>22,484</b>	<b>28,887</b>
<b>Total Assets</b>	<b>4,86,853</b>	<b>5,46,933</b>	<b>5,83,337</b>	<b>6,29,739</b>

Source: Company, Arihant Research

**Cash Flow Statement**

Y/E March (Rs Mn)	FY18	FY19E	FY20E	FY21E
<b>PBT</b>	<b>36,482</b>	<b>35,378</b>	<b>39,996</b>	<b>52,682</b>
Depreciation	18,479	21,398	23,915	25,196
Interest & others	6,513	11,068	10,331	9,185
Cash flow before WC changes	61,475	67,845	74,243	87,063
<b>(Inc)/dec in working capital</b>	<b>6,246</b>	<b>-11,431</b>	<b>-12,368</b>	<b>627</b>
Operating CF after WC changes	67,721	56,414	61,875	87,690
Less: Taxes	-10,770	-11,068	-11,999	-15,805
<b>Operating Cash Flow</b>	<b>56,951</b>	<b>45,346</b>	<b>49,876</b>	<b>71,885</b>
(Inc)/dec in F.A + CWIP	-1,65,732	-61,676	-20,000	-40,000
(Pur)/sale of investment	-3,615	21,748	0	0
<b>Cash Flow from Investing</b>	<b>-1,69,347</b>	<b>-39,928</b>	<b>-20,000</b>	<b>-40,000</b>
<b>Free Cash Flow (FCF)</b>	<b>-87,550</b>	<b>3,139</b>	<b>29,876</b>	<b>31,885</b>
Loan raised/(repaid)	1,22,561	36,486	9,980	9,980
Equity raised	1	0	0	0
Interest & others	-27,121	-33,865	-31,904	-29,307
Dividend	-3,340	-3,158	-3,916	-5,528
<b>Cash Flow from Financing Activities</b>	<b>92,100</b>	<b>-537</b>	<b>-25,841</b>	<b>-24,855</b>
<b>Net inc /(dec) in cash</b>	<b>-20,297</b>	<b>4,881</b>	<b>4,036</b>	<b>7,030</b>
Opening balance of cash	22,488	2,191	7,072	11,107
Closing balance of cash	2,191	7,072	11,107	18,137

Source: Company, Aриhant Research

**Key Ratios**

Y/E March	FY18	FY19	FY20E	FY21E
<b>Per share (Rs)</b>				
EPS	80.9	88.7	101.9	134.2
CEPS	148.2	166.6	188.9	225.9
BVPS	960.7	1033.7	1129.9	1262.5
DPS	12.2	11.5	14.3	20.1
Div. Payout (%)	15.0%	13.0%	14.0%	15.0%
<b>Valuation (x)</b>				
P/E	52.3	47.7	41.6	31.5
P/CEPS	28.6	25.4	22.4	18.7
P/BV	4.4	4.1	3.7	3.4
EV/EBITDA	21.9	20.3	18.6	15.9
Dividend Yield (%)	0.3%	0.3%	0.3%	0.5%
<b>Return Ratio (%)</b>				
EBIDTA Margin	19.6%	18.2%	18.0%	19.0%
PAT Margin	7.1%	6.5%	6.8%	8.0%
ROE	8.4%	8.6%	9.0%	10.6%
ROCE	8.8%	8.5%	8.6%	9.8%
<b>Leverage Ratio (x)</b>				
Total D/E	0.7	0.8	0.8	0.7
Net D/E	0.7	0.8	0.7	0.6
<b>Turnover Ratios</b>				
Asset Turnover (x)	0.6	0.7	0.7	0.7
Receivable Days	26	25	25	25
Payable days	98	96	95	90

Source: Co, Aриhant Research

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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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