

Stable results, century asset merger dented PAT; synergies from Binani and Century merger will take time to reflect in numbers, downgrade to Accumulate with revised TP of Rs 4887

Current	Previous
CMP: Rs 4295	
Rating: Accumulate	Rating: Buy
Target: Rs 4887	Target: Rs 5204

(NR-Not Rated)

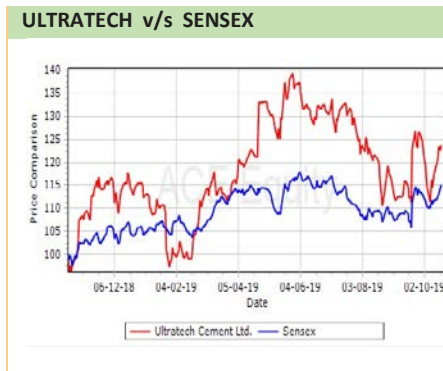
Stock Info	
INDEX	
BSE	532528
NSE	ULTRACEMCO
Bloomberg	UTCEM IN
Reuters	ULTC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Mn)	2746
Market Cap (Rs Mn)	11,79,579
52w H/L (Rs)	4905/3260
Avg Weekly Vol (BSE+NSE)	2,438,110

Shareholding Pattern	%
(As on Sept, 2019)	
Promoters	61.7
Public & Others	38.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ULTRATECH CEMENT	-6.7	1.1	15.1
SENSEX	1.0	0.4	13.0

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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Ultratech came out with stable set of numbers in Q2FY20, mostly in line with our estimate except a miss on the PAT front. Consolidated revenue stood at Rs 96,205 mn, which was above our estimate of Rs 92,775 mn, registering a growth of +4% YoY/-15.6% QoQ. EBITDA for Q2FY20 stood at Rs 19,181 mn, which was a tad below our estimate of Rs 19,483 mn, registering a growth of +34.9% YoY/-35% QoQ. In Q2FY20, Ultratech reported a consolidated PAT of Rs 5,791 mn, which was below our estimate of Rs 8,350 mn, registering a growth of +62.2% YoY/-54.8% QoQ. We are bullish on Ultratech from longer term perspective however to factor in overall subdued demand environment in near term, downgrade the stock from Buy to Accumulate with a revised target price of Rs 4887.

Q2FY20 Operational Highlights

- For the quarter Ultratech registered a volume de-growth of 1.7% YoY in its sales to 17.77 MT against 18.07 MT in Q2FY19. The fall in volume was due to ~25% YoY decline in volume of Century Cement Assets, which were incorporated in Ultratech's consolidated numbers from this quarter. Fall in Century Cement volume was due to flood and extended monsoon in key markets and also due to annual plant shutdown.
- EBITDA margin expanded 450bps YoY to 19.9%, which was below our estimate of 21%. Though on QoQ basis margin saw a decline of 600bps mainly due to high base of last quarter as well as due to correction in cement prices over the last few months, which dented overall profitability on sequential basis.
- During the quarter, due to extended monsoon and overall subdued construction activity, cement demand declined ~2.5% YoY on an average across the country, barring northern region which witnessed a growth of around 4-5% YoY. Eastern and Southern regions also witnessed decline in demand to the tune of 3-4% YoY followed by Western and Central regions. Overall cement prices declined around 5-6% in Q2FY20.

Outlook and Valuations

Cement prices have seen some correction in last few months due to seasonal factors like slow industrial activity during extended monsoon. At CMP of Rs 4295, Ultratech is trading at an EV/EBITDA of 18.9x and 16.1x its FY20E and FY21E estimates respectively. Factoring in stable result we have kept our FY20E/21E estimates intact, however to factor in overall subdued demand environment, decreased our target EV/EBITDA multiple to 18x its FY21E estimates from 19x, to arrive at a target price of Rs 4887. **'Accumulate'**.

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	22.2
FY19	373,792	67,881	24,347	88.7	18.2	8.6	28.7
FY20E	412,335	74,220	27,975	101.9	18.0	9.0	18.9
FY21E	458,104	87,040	36,854	134.2	19.0	10.6	16.1

Source: Company, Arihant Research

Q2FY20 and H1FY20 Financial Performance

Rs Mn (consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	96,205	1,14,049	92,493	-15.6%	4.0%	2,10,254	1,87,941	11.9%
Material Cost	56,050	64,793	59,390	-13.5%	-5.6%	1,20,843	1,20,789	0.0%
Employee cost	6,384	5,960	6,038	7.1%	5.7%	12,344	11,292	9.3%
Other Expenses	14,590	13,798	12,853	5.7%	13.5%	28,388	23,762	19.5%
EBITDA	19,181	29,498	14,212	-35.0%	35.0%	48,679	32,098	51.7%
<i>EBITDA margin %</i>	<i>19.9%</i>	<i>25.9%</i>	<i>15.4%</i>	<i>-593bps</i>	<i>+457bps</i>	<i>23.2%</i>	<i>17.1%</i>	<i>+607bps</i>
Other Income	1,537	1,342	1,428	14.6%	7.6%	2,879	2,221	29.6%
Depreciation	6,684	6,884	6,240	-2.9%	7.1%	13,568	11,717	15.8%
EBIT	14,034	23,956	9,400	-41.4%	49.3%	37,990	22,602	68.1%
Finance cost	5,071	5,029	4,164	0.8%	21.8%	10,100	7,949	27.1%
Exceptional Item	-62	-	-	-	-	-62	-1,139	-
PBT	8,901	18,927	5,236	-53.0%	70.0%	27,828	13,514	105.9%
Tax Expense	3,113	6,118	1,678	-49.1%	85.6%	9,231	4,107	124.7%
<i>Effective tax rate %</i>	<i>35.0%</i>	<i>32.3%</i>	<i>32.0%</i>	<i>+265bps</i>	<i>+293bps</i>	<i>33.2%</i>	<i>30.4%</i>	<i>+278bps</i>
PAT	5,788	12,809	3,558	-54.8%	62.7%	18,597	9,407	97.7%
MI & Associates	3	1	11			4	21	
Consolidated PAT	5,791	12,811	3,569	-54.8%	62.3%	18,602	9,428	97.3%
<i>PAT margin %</i>	<i>6.0%</i>	<i>11.2%</i>	<i>3.9%</i>	<i>-521bps</i>	<i>+216bps</i>	<i>8.8%</i>	<i>5.0%</i>	<i>+383bps</i>
EPS (Rs)	21.1	46.6	13.0	-54.8%	62.2%	67.7	34.3	97.3%

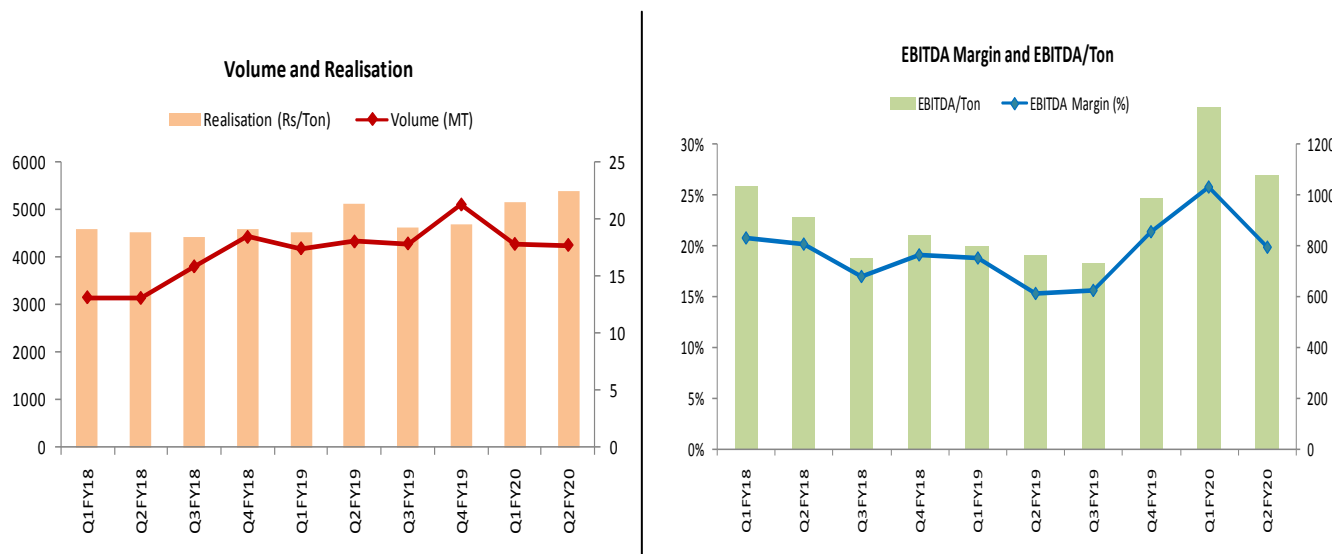
Source: Company, Arianth Research

Per Ton Analysis

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Volumes (MT)	13.2	13.1	15.9	18.5	17.5	18.1	17.9	21.3	17.9	17.8
Realisation (Rs/Ton)	4600	4544	4434	4589	4521	5119	4644	4686	5169	5414
Growth (%)	5.8%	2.6%	0.1%	3.2%	-1.7%	2.2%	4.7%	2.1%	14.3%	5.8%
EBITDA Margin (%)	20.7%	20.1%	17.0%	19.2%	18.8%	15.4%	15.6%	21.4%	25.9%	19.9%
EBITDA (Rs/Ton)	1033	915	753	842	799	764	733	988	1346	1079

Source: Company, Arianth Research

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



Source: Company, Arianth Research

Q2FY20 Conference Call Highlights

- Average pet coke price during the quarter has fallen to US\$ 91/Ton against US\$ 95/Ton in Q1FY20, this fall in pet coke prices has resulted in savings to the tune of ~4% during the quarter. If the pet coke prices continue to remain at this level or fall further then it will have a positive rub on effect on the margin and will reflect in subsequent quarters' profit.
- Ultratech is focusing more on premium products to sustain the topline growth and to this effect the board has already approved a capex plan of Rs 9400 mn. This capex will be also be spent on increasing its grinding capacities in the states of West Bengal and Bihar to the tune of 0.6 mtpa each, while the company is also planning to build a new grinding unit in the state of Odisha of 2.2 mt capacity.
- For FY20E and FY21E the company is having a capex plan of ~Rs 20bn, which includes regular capex spend as well as capex for expansion. In FY20E, the company is targeting to use capex spend on the following,---
a) Bicharpur Coal block, b) 5 WHRS plants, c) Bara GU, d) Bulk terminal near Panvel, e) capex for modernization across plants and f) Wall care Putty project.
- In this quarter the company has included the numbers of Century Cement assets in its financials and has restated the earlier quarters' financials to reflect the century asset merger. The company management has given a guidance of 60-65% capacity utilisation for Century Cement Assets and expects its Century Assets to clock an EBITDA/Ton of Rs 500 in next 6 months. Further in next one year time, the capacity utilization of Century Assets will be in sync with the utilization level of Ultratech.

Valuations

Rs Mn	FY19	FY20E	FY21E
EV/EBITDA (x)	20.6	18.9	19.0
EBITDA	67881	74220	87040
EV	1395262	1401206	*1566716
Debt	222755	232735	242715
Cash	7072	11107	18137
Net Debt	215683	221627	224578
Market Cap	1179579	1179579	1342139
No of shares	275	275	275
CMP (Rs)	4295	4295	4295
Target (Rs)			4,887
Upside			13.8%

*EV on basis of target EV/EBITDA multiple of 18x

Consolidated Financials

Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Revenues	3,14,108	3,73,792	4,12,335	4,58,104
Change (%)	23.8%	19.0%	10.3%	11.1%
Total Expenses	2,52,656	3,05,911	3,38,115	3,71,064
EBITDA	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
PBT	36,482	35,378	39,996	52,682
Extra-ordinary	3,467	0	0	0
PBT after ext-ord.	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%
PAT	22,245	24,311	27,998	36,877
MI & Associates	23	-37	23	23
Consolidated PAT	22,222	24,347	27,975	36,854
Change (%)	-18.1%	9.6%	14.9%	31.7%

Source: Company, Arihant Research

Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Share Capital	2,746	2,746	2,746	2,746
Reserves & Surplus	2,61,066	2,81,143	3,07,567	3,43,989
Net Worth	2,63,812	2,83,890	3,10,313	3,46,735
Loan Funds	1,86,269	2,22,755	2,32,735	2,42,715
MI, Deferred Tax & other Liabilities	36,772	40,289	40,289	40,289
Capital Employed	4,86,853	5,46,933	5,83,337	6,29,739
Application of Funds				
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
Net Fixed Assets	4,40,447	5,02,123	5,22,123	5,62,123
Investments	60,477	38,730	38,730	38,730
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
Total Current Assets	70,581	1,04,505	1,35,976	1,48,016
Current Liabilities	78,123	92,252	1,07,320	1,12,957
Provisions	6,529	6,172	6,172	6,172
Net Current Assets	-14,071	6,081	22,484	28,887
Total Assets	4,86,853	5,46,933	5,83,337	6,29,739

Source: Company, Arihant Research

Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19E	FY20E	FY21E
PBT	36,482	35,378	39,996	52,682
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
(Inc)/dec in working capital	6,246	-11,431	-12,368	627
Operating CF after WC changes	67,721	56,414	61,875	87,690
Less: Taxes	-10,770	-11,068	-11,999	-15,805
Operating Cash Flow	56,951	45,346	49,876	71,885
(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
Cash Flow from Investing	-1,69,347	-39,928	-20,000	-40,000
Free Cash Flow (FCF)	-87,550	3,139	29,876	31,885
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
Cash Flow from Financing Activities	92,100	-537	-25,841	-24,855
Net inc /(dec) in cash	-20,297	4,881	4,036	7,030
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
Per share (Rs)				
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%
Valuation (x)				
P/E	53.1	48.4	42.2	32.0
P/CEPS	29.0	25.8	22.7	19.0
P/BV	4.5	4.2	3.8	3.4
EV/EBITDA	22.2	20.6	18.9	16.1
Dividend Yield (%)	0.3%	0.3%	0.3%	0.5%
Return Ratio (%)				
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%
Leverage Ratio (x)				
Total D/E	0.7	0.8	0.8	0.7
Net D/E	0.7	0.8	0.7	0.6
Turnover Ratios				
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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