

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

**CMP: Rs 3,561**

**Rating: ACCUMULATE**

**Target Price: Rs 4,007**

**Stock Info**

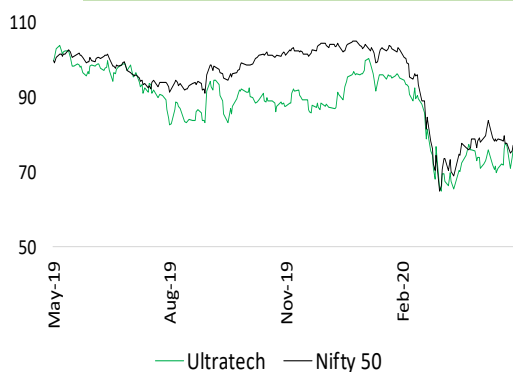
BSE	532528
NSE	ULTRACEMCO
Bloomberg	UTCEM IN
Reuters	ULTC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Cr)	275
Mkt Cap (Rs Cr)	1,03,082
52w H/L (Rs)	4,905 / 2,910
Avg. Yearly Vol (in 000')	563

**Shareholding Pattern %**

(As on March, 2020)

Promoters	59.7
FII	16.5
DII	14.2
Public & Others	9.6

**Ultratech Vs Nifty**



Source: Arihant Research, NSE

Ultratech witnessed slowdown in Q4FY20 with the advent of Corona virus and nation-wide lockdown. Consolidated revenue stood at Rs 10,746 Cr, a decline of 13.1% YoY/up 3.8% QoQ, EBITDA stood at Rs 2,443 Cr, shrinking by 3.9% YoY/increasing by 23.8% QoQ and PAT at Rs 3,243 Cr increasing significantly because of deferred tax accounted for the adoption of new corporate tax rates. The sharp decline in revenue could be attributed to the overall macro slowdown and an ultimate nation-wide lockdown brought upon by Covid-19 pandemic. The consolidated sales of cement by volume decreased to 21.44 million tonnes for Q4 FY20, a fall of 16% over Q4FY19, while annual sales volumes also fell to 82.33 million tonnes, a 4% fall over last year. The cement major was on the right track to reduce its long term debt levels and very healthy level of reserves to overcome the Covid crisis stronger than most other cement players.

**Q4CY20 Operational Highlights**

**The increased realizations make up somewhat for the fall in volumes:** The company's realizations went past Rs 5000 per tonne for the quarter, which helped it maintain high margins with EBITDA margins at 22.7% for Q4FY20.

**Capex expansion of plants:** The company has completed the capex for the plant in Ultratech Nathdwara of 6.25 mtpa during Q4FY20. About 65% of the sales volumes from acquired plant of Century Cement were distributed under the Ultratech brand. 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 due to the pandemic and the upcoming monsoon season when the demand is thin, the management is working on a plan to put a cost-efficiency plan in action soon.

**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 and economies of scale. At CMP of Rs 3,561 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 have revised our forecasts for the near future downwards. However, We continue to value the stock at 15.0x EV/EBITDA multiple of its FY22E estimates, which yields a revised target price of Rs 4,007 and downgrade to ACCUMULATE rating.

**Concall Highlights:**

(i) Due to COVID-19, the company has slowed down the CAPEX spend and has restricted the total spend to INR 1000 Cr for FY21.

(ii) The company is targeting to reduce overheads by 10% in FY21 led by lower ad spends, low maintenance cost, administrative expenses and manpower cost

(iii) The benefit of reduced fuel and pet coke will reflect in Q2FY21. Average pet coke price in Q4FY20 stood at USD 70/t (vs USD 80/t) in Q3FY20

(iv) Construction activity and demand are expected to slow down for next 2-3 months due to labor constraint (v) Few of the companies are operating at 65-70% utilization while clinker sales at grinding units are stabilizing

(v) The number of UBS outlets stood at ~2145 (230 stores added during the year). The UBS outlets contributed to 7% of sales.

(vi) It has reduced net debt of more than INR 5,000 Cr for Indian business in FY20. The company has achieved a net debt/ EBITDA of 1.7x (TTM) vs 2.83x in Mar-19

(vii) Net working capital stood at INR 700 Cr.

(viii) The company has restricted the work on new WHRS while the last WHRS to get completed is at Nathdwara plant which will take the total to 145 MW of WHRS plant (12.5% of company's power requirement)

(ix) The company has targeted a capex of INR 1,000 Cr for FY21E (vs INR 1,604 capex spend in FY20).

## Q4 FY20 - Quarterly Performance (Consolidated)

(in Rs Mn)

Particulars	Q4FY20	Q3FY20	Q4FY19	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>107,456</b>	<b>103,538</b>	<b>123,706</b>	<b>3.8%</b>	<b>-13.1%</b>
Material Cost	62,507	61,713	78,441	1.3%	-20.3%
Employee cost	6,550	6,200	5,655	5.6%	15.8%
Other Expenses	13,973	15,894	14,200	-12.1%	-1.6%
<b>EBITDA</b>	<b>24,427</b>	<b>19,730</b>	<b>25,410</b>	<b>23.8%</b>	<b>-3.9%</b>
<i>EBITDA margin %</i>	<i>22.7%</i>	<i>19.1%</i>	<i>20.5%</i>	<i>368bps</i>	<i>219bps</i>
Other Income	1,979	1,682	1,503	17.7%	31.7%
Depreciation	6,724	6,730	6,409	-0.1%	4.9%
<b>EBIT</b>	<b>19,682</b>	<b>14,681</b>	<b>20,504</b>	<b>34.1%</b>	<b>-4.0%</b>
Finance cost	5,048	4,708	5,046	7.2%	0.1%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>14,634</b>	<b>9,973</b>	<b>15,458</b>	<b>46.7%</b>	<b>-5.3%</b>
Tax Expense	-17,774	2,862	4,605	-721.1%	-485.9%
Effective tax rate %	-121.5%	28.7%	29.8%	-15015bps	-15125bps
<b>PAT</b>	<b>32,408</b>	<b>7,111</b>	<b>10,853</b>	<b>355.7%</b>	<b>198.6%</b>
MI & Associates	19	8	-12		
<b>Consolidated PAT</b>	<b>32,428</b>	<b>7,119</b>	<b>10,841</b>	<b>355.5%</b>	<b>199.1%</b>
<i>PAT margin %</i>	<i>30.2%</i>	<i>6.9%</i>	<i>8.8%</i>	<i>2330bps</i>	<i>2141bps</i>
<b>EPS (Rs)</b>	<b>112.4</b>	<b>24.7</b>	<b>37.9</b>	<b>355.6%</b>	<b>196.6%</b>

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

Valuations (Rs Mn)	FY22E
EV/EBITDA (x)	15.0
EBITDA	89723
EV	1345845
Debt	252695
Cash	7326
Market Cap	1100477
No shares	275
CMP (Rs)	3561
Target (Rs)	4,007
<b>Upside (%)</b>	<b>12.5%</b>

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

## Key Financials

### Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	373,792	421,248	418,826	472,226
<i>Change (%)</i>	19.0%	12.7%	-0.6%	12.8%
<b>Total Expenses</b>	305,911	328,413	339,249	382,503
<b>EBITDA</b>	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
<b>PBT</b>	<b>35,378</b>	<b>52,435</b>	<b>48,165</b>	<b>54,306</b>
Extra-ordinary	0	0	0	0
<b>PBT after ext-ord.</b>	<b>35,378</b>	<b>52,435</b>	<b>48,165</b>	<b>54,306</b>
Tax	11,068	-5,682	12,123	16,292
<i>Rate (%)</i>	31.3%	-10.8%	25.2%	30.0%
<b>PAT</b>	<b>24,310</b>	<b>58,117</b>	<b>36,042</b>	<b>38,014</b>
<b>MI &amp; Associates</b>	<b>-12</b>	<b>32</b>	<b>23</b>	<b>33</b>
<b>Consolidated PAT</b>	<b>24,322</b>	<b>58,085</b>	<b>36,019</b>	<b>37,981</b>
<i>Change (%)</i>	9.5%	138.8%	-38.0%	5.4%

### Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>34,685</b>	<b>52,423</b>	<b>48,165</b>	<b>54,306</b>
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
<b>(Inc)/dec in working capital</b>	<b>(6,957)</b>	<b>4,503</b>	<b>(33)</b>	<b>732</b>
Operating CF after WC changes	66,658	97,935	88,727	90,487
Less: Taxes	7,101	8,914	12,123	(16,292)
<b>Operating Cash Flow</b>	<b>59,557</b>	<b>89,020</b>	<b>76,604</b>	<b>74,196</b>
(Inc)/dec in F.A + CWIP	11,138	(42,094)	(40,000)	(39,999)
(Pur)/sale of investment	0	0	0	0
<b>Cash Flow from Investing</b>	<b>11,138</b>	<b>(42,094)</b>	<b>(40,000)</b>	<b>(39,999)</b>
<b>Free Cash Flow (FCF)</b>	<b>70,695</b>	<b>46,927</b>	<b>36,604</b>	<b>34,197</b>
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)
<b>Cash Flow from Financing Activities</b>	<b>(67,568)</b>	<b>(49,911)</b>	<b>(32,907)</b>	<b>(32,033)</b>
<b>Net inc /(dec) in cash</b>	<b>3,127</b>	<b>(2,985)</b>	<b>3,697</b>	<b>2,163</b>
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
<b>Sources of Funds</b>				
Share Capital	2,746	2,886	2,746	2,746
Reserves & Surplus	334,760	388,269	401,778	418,412
<b>Net Worth</b>	<b>337,507</b>	<b>391,155</b>	<b>404,525</b>	<b>421,158</b>
<b>Loan Funds</b>				
<b>MI, Deferred Tax &amp; other Liabilities</b>	<b>69,189</b>	<b>54,148</b>	<b>56,855</b>	<b>59,698</b>
<b>Capital Employed</b>	<b>649,884</b>	<b>669,387</b>	<b>704,095</b>	<b>733,551</b>
<b>Application of Funds</b>				
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
<b>Net Fixed Assets</b>	<b>610,596</b>	<b>614,132</b>	<b>645,471</b>	<b>665,087</b>
<b>Investments</b>	<b>29,213</b>	<b>59,287</b>	<b>38,730</b>	<b>38,730</b>
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
<b>Total Current Assets</b>	<b>125,565</b>	<b>119,953</b>	<b>140,048</b>	<b>143,534</b>
Current Liabilities	107,820	116,086	110,282	101,459
Provisions	7,671	7,898	9,873	12,341
<b>Net Current Assets</b>	<b>10,075</b>	<b>(4,031)</b>	<b>19,894</b>	<b>29,735</b>
<b>Total Assets</b>	<b>649,884</b>	<b>669,387</b>	<b>704,095</b>	<b>733,551</b>

### Key Ratios

Y/E March	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>				
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%
<b>Valuation (x)</b>				
P/E	48.4	20.3	32.7	31.1
P/CEPS	25.8	13.9	20.0	18.4
P/BV	4.2	3.8	2.9	2.8
EV/EBITDA	22.0	15.8	17.7	16.0
Dividend Yield (%)	0.3%	0.7%	0.5%	0.5%
<b>Return Ratio (%)</b>				
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%
<b>Leverage Ratio (x)</b>				
Total D/E	0.8	0.8	0.6	0.6
Net D/E	0.8	0.6	0.3	0.4
<b>Turnover Ratios</b>				
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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