

CMP: INR 7397

Outlook : Positive

Stock Info

BSE	532528
NSE	ULTRACEMCO
Bloomberg	UTCEM IN
Reuters	ULTC.BO
Sector	Cement
Face Value (INR)	10
Equity Capital (INR)	2890
Mkt Cap (Rs Cr)	2135418
52w H/L (Rs)	8070/ 4638
Avg. Yearly Vol (in 000')	569

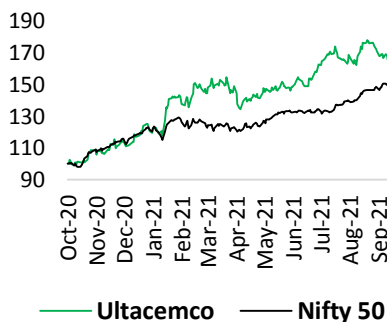
Shareholding Pattern %

(As on Sep, 2021)

Promoters	59.96
Public & Others	39.95

Stock Performance (%)	3m	6m	12m
Ultratech	0.8	39.9	65.09
Nifty	16.0	26.4	57.09

Ultratech Vs Nifty



Ultratech Cement Limited (Ultratech) delivered decent set of numbers in Q2FY22 on YoY basis and were above our estimates on almost all front. Net Revenue grew by 15.7% YoY, and 1.6% QoQ to INR 120168 mn in Q2FY22 above our expectation of INR 110878 mn. Good topline growth on YoY basis was mainly due to rise in sales volume and rise realization Sales volume grew by 12.7 % and 0.5% QoQ to 21.64 MMT above our expectation of 20 mn tonnes . Healthy growth in sales volume was mainly due to healthy demand in rural housing and infrastructure segment mainly in north west and south region Realization /tonne grew by 2.6% YoY and grew by 1.1% QOQ to INR 5553 above our expectation of INR 5435. Healthy realization growth was mainly due to increase in cement prices mostly across all regions.

EBIDTA grew mutedly by 0.6% YoY, however declined 18% QoQ to INR 27148 mn above our expectation of INR 26200 mn, EBIDTA margin de grew by 338 bps YoY and 537 bps QoQ to 22.6% EBIDTA margin contraction was mainly due to rise in Input cost mainly energy cost which rose by 17% YoY amid rise in coal and petcoke price . EBIDTA/tonne degrew by 10.7% YoY and 18.3% QOQ to INR 1254/tonne still above our estimates of INR 1200

PAT grew by by 12.3 YoY and declined by 22.9% QoQ to INR 13104 mn below our estimate of INR 13,290mn. PAT margin contracted by 33 bps YoY and 347 bps QoQ to 10.9 % Poor operating performance and muted topline growth QoQ put pressure on PAT margin on QoQ basis.

Valuation & View:

Ultratech has been witnessing better than the industry's growth over the years, which is expected to sustain, going forward as well owing to huge capacity addition plan by FY23E (19.5mnT).Further, OCF generation has been quite healthy in the recent years mainly supported by steady Realization and cost deflation, Net Debt/EBIDTA has reduced from peak of 3.55(x) to 0.47(x)and is expected to improve further. Improvement in balance sheet despite new capacity addition is likely to result improvement in RoCE going ahead, At CMP of INR 7397 stock is trading at a EV/EBIDTA multiple of 17.3(x) to its FY21 EBIDTA of INR 115420 mn We have a positive outlook on the stock.,

Concall Highlights:

Expansion: Capacity expansion programme of 19.5mnT (11.4mnT clinker) is moving as per schedule and on course to complete by FY23E. It has secured environmental clearance from Ministry of Environment, Forest & Climate Change (MEFCC) for its Dalla clinker plant (2.3mnT), which is to be commissioned by Mar'22. UTCEM has commissioned 1.2mnT GU in Oct'21. It will commission 3.2mnT in FY22E (including Bara Phase II – 2mnT) and 16.2mnT in FY23E. Capex was pegged at Rs40-50bn and Rs30bn for FY22E and FY23E, respectively. Further, it has also started expansion of Wall Putty plant, which is to be completed by 2QFY23E. Further, 1mnT annual capacity Vicharpur coal block is likely to start soon, which is almost 8-10% of its total fuel demand.

Industry Capacity Addition: Industry's capacity addition for FY22E is estimated 25-30mnT and expects sizeable addition in FY23E also. However, it foresees slowdown in capacity addition from FY24E onwards due to non-availability of limestone mines. Further, cost to set up greenfield capacity has grown around 15-20% due to rise in input cost, which will also be a roadblock for new expansions.

Demand and Pricing: Demand momentum remained steady in 1HFY22 despite heavy rains in various parts of the country. Continued traction in infrastructure demand along with pickup urban real estate and commercial segment supported cement volumes. Notably, UTCEM expects demand to grow 6-8% in 2HFY22 despite high base and expects supply shortage to repeat in various pockets post Chhath festival. Further, UTCEM has taken price hike of ~Rs10-15/bag from 7th Oct'21 (completely absorbed) to pass on cost increase and current price has almost reached to pre-monsoon level. However, UTCEM states that ~10% price hike is needed from 2QFY22 low to pass on entire cost inflation and therefore further price hike cannot be ruled out.

Fuel Costs and Mix: Average fuel cost for 2QFY22 stood at US\$120/tonne (flat on QoQ) aided by low cost inventory and smart contracting, while steep QoQ jump in fuel cost/tonne is mostly on account on maintenance shutdown and higher power consumption. However, UTCEM guides ~Rs200/tonne QoQ jump in power & fuel in 3QFY22E. Notably, spot price currently stands over US\$200/tonne, which can impact cost upto Rs500/tonne. Petcoke usage accounted for 19%, while AFR accounted for 4.4% and 15-20% domestic coal. It stated that at current price there is no spread left between petcoke and imported coal.

Q2 FY22 - Quarterly Performance (Consolidated)

(in Rs Mn)

UltraTech Cement Ltd.

Rs Mn (consolidated)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Net Revenue	1,20,168	1,18,298	1,03,871	1.6%	15.7%
Material Cost	69,232	65,261	58,204	6.1%	18.9%
Employee cost	6,795	5,848	5,663	16.2%	20.0%
Other Expenses	16,993	14,114	13,028	20.4%	30.4%
EBITDA	27,148	33,075	26,976	-17.9%	0.6%
<i>EBITDA margin %</i>	<i>22.6%</i>	<i>28.0%</i>	<i>26.0%</i>	<i>-537bps</i>	<i>-338bps</i>
Other Income	1,400	2,049	1,349	-31.7%	3.8%
Depreciation	6,774	6,598	6,771	2.7%	0.0%
EBIT	21,774	28,526	21,554	-23.7%	1.0%
Finance cost	2,299	3,261	3,579	-29.5%	-35.8%
Exceptional Item	-	-	-642	-	-
PBT	19,475	25,265	17,333	-22.9%	12.4%
Tax Expense	6,371	8,269	5,662	-23.0%	12.5%
Effective tax rate %	32.7%	32.7%	32.7%	-2bps	5bps
PAT	13,104	16,996	11,671	-22.9%	12.3%
MI & Associates	-	4	-	-	-
Consolidated PAT	13,104	17,000	11,671	-22.9%	12.3%
<i>PAT margin %</i>	<i>10.9%</i>	<i>14.4%</i>	<i>11.2%</i>	<i>-347bps</i>	<i>-33bps</i>
EPS (Rs)	45.4	59.0	45.4	-23.1%	0.0%

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

in Mn	FY18	FY19	FY20	FY21
Revenue	309790	416090	424300	447260
EBITDA	61450	73470	91350	115420
EBITDAM (%)	21.7	18.7	23.4	27.5
PAT	22220	24040	57550	54630
PATM (%)	7.1	5.7	13.5	12.2
EPS	81	88	199	189
EV/EBIDTA(x)	18.9	17.2	11.7	17.3

Source: Arihant 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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