

**CMP: INR 7,868**

**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 Mn)	2,271192
52w H/L (Rs)	8267/ 5,261
Avg. Yearly Vol (in 000')	449

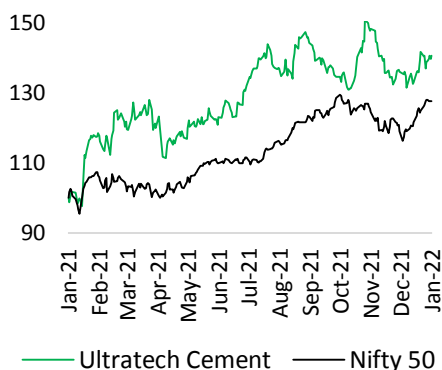
**Shareholding Pattern %**

(As on December 2021)

Promoters	59.96
Public & Others	39.94

Stock Performance (%)	1m	3m	12m
Ultratech	7.3	6.4	44.3
Nifty	7.8	-0.2	26.6

**Ultratech Vs Nifty**



Ultratech Cement Limited ( Ultratech ) delivered decent set of numbers in Q3FY22 and were above our estimates on almost all front. Net Revenue grew by 5.9% YoY, and 8.1% QoQ to INR 129849 mn in Q3FY22 above our expectation of INR 122095 mn. Healthy topline growth on YoY basis was mainly due to rise in realization. Sales volume declined by 3 % however grew by 7.4% QoQ to 23.13 MMT above our expectation of 22.1 mn tonnes. YoY decline in sales volume was mainly due to as volume across all region except north declined. Demand for urban housing was impacted due to unseasonal rains and festival season. Realization /tonne grew by 9% YoY and grew by 0.6% QOQ to INR 5614 above our expectation of INR 5525. Healthy realization growth was mainly due to increase in cement prices mostly across all regions.

EBIDTA declined by 22% YoY, and 11% QoQ to INR 24195 mn above our expectation of INR 23915 mn, EBIDTA margin de grew by 667 bps YoY and 396 bps QoQ to 18.6% EBIDTA margin contraction was mainly due to rise in Input cost mainly energy cost which rose by 39% YoY led by increase in average fuel consumption cost. Average fuel consumption cost stood at USD 151/tonne as compared to USD 67/tonne in Q3FY21.. Raw material cost increased by 7% YoY to INR 538/tonne led by increase in diesel cost and increase in input material cost. EBIDTA/tonne degrew by 19.7% YoY and 17% QOQ to INR 1046/tonne still below our estimates of INR 1082

PAT grew by by 7.9 YoY and 30.4% QoQ to INR 17101 mn above our estimate of INR 12534 mn. PAT margin expanded by 25 bps YoY and 227 bps QoQ to 13.2 % Growth in top line and decline in finance cost helped PAT margin to expand . Company had a tax refund of 760 mn in Q3FY22 as compared to tax expense of 7474 mn in Q3FY21 and INR 6371 mn in Q2FY22.

**Valuation & View:**

During the quarter, trade sales were impacted more than non-trade sales, as overall cement demand remained subdued. With the onset of the peak season and rising construction activities, cement demand is expected to revive in Q4FY22, driven by a pick-up in the government-led infrastructure and housing projects. Rural and urban demand is also expected to pick up going forward, Cost would be the key metrics to monitor. Factors such as price of coal inventory to get absorbed in next couple of quarters and price hikes will drive the visibility on earnings At CMP of INR 7868 stock is trading at a EV/EBIDTA multiple of 21(x) to its FY21 EBIDTA of INR 115420 mn We have a positive outlook on the stock. With price objective of INR 8300-8500

**Q3FY22 Concall Highlights:**

Cement demand slowed down substantially in November, 2021 as a result of the construction ban in the NCR, extended monsoons in the South and a few states in the North, sand issues in the Eastern region as well as in parts of Uttar Pradesh, and the Diwali holiday season. FY22 & FY23 will see election driven demand where demand is expected to grow at 6-8% CAGR over next decade

Capacity utilization for Q3FY22 stood at 75% whereas for Dec 21, it grew to 84%. It targets Q4 volume to grow yoy despite on high base.

Trade Sales stood at 64% and Non trade sale 36% in Q3FY22.

Disposal of other non-current asset at Nathdwara is expected to complete in Q4FY22 at 90-94m euro. Revenue from Construction chemical is expected to be `5000 mn in FY22 and targets to reach `25000 mn in next 2-3 years.

The industry will see capacity additions of 20m ton every year where bulk capacity addition will be by Ultra in FY23.

Consolidated net debt stood at `61470 mn and Net Debt / EBIDTA as at Dec 21 is 0.49x. It repaid debt of INR 34600 mn . Planned capex for FY22 is `50,000 mn and for FY23 approx 40,000 Mn including maintenance capex of approx. 15000 mn

To reduce dependence on white cement imports and to cater growing white putty market, Board approved capex of Rs.9.65bn towards modernisation and expansion of capacity at Birla White from the current 6.5 LTPA to 12.53 LTPA by FY26 in a phased manner. Out of 6.03LTPA expansion, 4.4LTPA will be Wall putty. Current Wall putty capacity is ~8.5LTPA and imports white cement of 2LTPA. Post expansion, it will have reserves for 40-50 years..

It commissioned 19MW WHRS and 53MW Solar power plants during Q3 enhancing green energy share to 16%(targets 34% by FY24) and WHRS & renewable energy capacity to 156MW & 221MW respectively.

All India cement prices have remained flat q/q in Q3FY22. With demand improving, price hikes are expected where hikes are already taken in some pockets of India in Jan. The exit Dec'21 prices were `350/bag vs `348 in Sept21.

### Q3FY22 Concall Highlights continued.

#### Demand Outlook:

Jan-22 continues to be strong month as compared to Dec-21 across segments incl rural with East likely to see a pick up

CRZ new norms would drive increased construction activity and thereby urban housing revival should drive sustained growth

Accordingly, commercial demand and urban infra which was weak before covid has also revived.

Strong infra pipeline (road, rail, metro, etc) and Gati Shakti to drive timely execution of projects .

Expect FY23/24E demand to pick up on back of general elections - Cement demand likely to grow at 6-8% CAGR over the next decade.

#### Price Movement

Price hikes taken in Oct-21 were rolled back during the quarter and thereby prices on qoq basis were flat .

Price hikes have been taken in select markets (East, part of Maharashtra, select south mkts, etc) – this is likely to be effective by end-Jan.

Further price hikes likely as underlying demand is strong and clinker utilisations are rising.

Over the long term, consolidation is rising and would drive lower weakness in prices as demand picks up.

#### Cost Outlook :

UTCEM saw P&F rise by Rs220/t qoq as avg cost of fuel consumption was at US\$151 (petcoke \$193/t (25%); imported coal US\$137/t) vs US\$120/t in 2Q22 (US\$67 in 3Q21)

UTCEM does not expect to see further increases and remain stable in 4Q22, with likely decline from 1Q23 onwards

UTCEM's long term contracts, scale advantages and other sourcing strategies to keep fuel costs in check

On track to increase green power (solar + WHRS) to 34% by FY24E (3Q22 at 15.6%)

Overall, likely decline in cost structure from Q1 onwards

## Q3 FY22 - Quarterly Performance (Consolidated)

(in Rs Mn)

## UltraTech Cement Ltd.

Rs Mn (consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>1,29,849</b>	<b>1,20,168</b>	<b>1,22,620</b>	<b>8.1%</b>	<b>5.9%</b>
Material Cost	81,867	69,232	70,449	18.3%	16.2%
Employee cost	6,429	6,795	6,102	-5.4%	5.4%
Other Expenses	17,358	16,993	15,047	2.1%	15.4%
<b>EBITDA</b>	<b>24,195</b>	<b>27,148</b>	<b>31,022</b>	<b>-10.9%</b>	<b>-22.0%</b>
<i>EBITDA margin %</i>	<i>18.6%</i>	<i>22.6%</i>	<i>25.3%</i>	<i>-396bps</i>	<i>-667bps</i>
Other Income	705	1,400	2,600	-49.6%	-72.9%
Depreciation	6,743	6,774	6,739	-0.5%	0.1%
<b>EBIT</b>	<b>18,157</b>	<b>21,774</b>	<b>26,883</b>	<b>-16.6%</b>	<b>-32.5%</b>
Finance cost	1,823	2,299	3,563	-20.7%	-48.8%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>16,334</b>	<b>19,475</b>	<b>23,320</b>	<b>-16.1%</b>	<b>-30.0%</b>
Tax Expense	-760	6,371	7,474	-111.9%	-110.2%
Effective tax rate %	-4.7%	32.7%	32.0%	-3737bps	-3670bps
<b>PAT</b>	<b>17,094</b>	<b>13,104</b>	<b>15,846</b>	<b>30.4%</b>	<b>7.9%</b>
MI & Associates	7	4	-	-	-
<b>Consolidated PAT</b>	<b>17,101</b>	<b>13,104</b>	<b>15,846</b>	<b>30.5%</b>	<b>7.9%</b>
<i>PAT margin %</i>	<i>13.2%</i>	<i>10.9%</i>	<i>12.9%</i>	<i>227bps</i>	<i>25bps</i>
<b>EPS (Rs)</b>	<b>59.2</b>	<b>45.4</b>	<b>54.9</b>	<b>30.4%</b>	<b>7.8%</b>

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

in Mn	FY18	FY19	FY20	FY21	9MFY22
<b>Revenue</b>	<b>309790</b>	<b>416090</b>	<b>424300</b>	<b>447260</b>	<b>368315</b>
<b>EBITDA</b>	<b>61450</b>	<b>73470</b>	<b>91350</b>	<b>115420</b>	<b>88570</b>
EBITDAM (%)	21.7	18.7	23.4	27.5	24%
<b>PAT</b>	<b>22220</b>	<b>24040</b>	<b>57550</b>	<b>54630</b>	<b>47205</b>
PATM (%)	7.1	5.7	13.5	12.2	12.8%
<b>EPS</b>	<b>81</b>	<b>88</b>	<b>199</b>	<b>189</b>	<b>163.8</b>
EV/EBITDA(x)	18.9	17.2	11.7	21.0	26.3

Source: Arian 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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