

Early signs of revival; better realization from acquired assets & operationalizing of new capex to drive growth

CMP: Rs 4,643

Rating: Accumulate

Target Price: Rs 5,204

Stock Info

BSE	532528
NSE	ULTRACEMCO
Bloomberg	UTCEM IN
Reuters	ULTC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Mn)	2,746
Mkt Cap (Rs Mn)	1,339,981
52w H/L (Rs)	3,332 / 4,905
Avg Yearly Vol (in 000')	517

Shareholding Pattern %

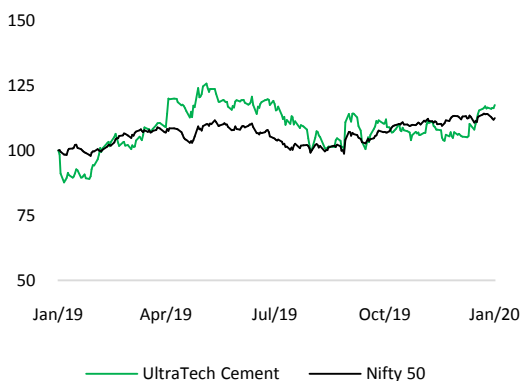
(As on Dec, 2019)

Promoters	60.19
FII	17.60
DII	13.13
Public & Others	9.08

Stock Performance (%)

	3m	6m	12m
UltraTech Cement	6.5	-0.3	17.7
Nifty	5.0	7.5	12.5

UltraTech Cement Vs Nifty



Ultratech Cement came out with stable set of numbers in Q3FY20 missing most of our estimates marginally. Consolidated revenue stood at Rs 1,03,538 mn, registering a growth of -0.9% YoY/+7.6% QoQ, EBITDA stood at Rs 19,730 mn, increasing by +23.7% YoY/+2.9% QoQ and consolidated PAT at Rs 7,119 mn, increasing by +79.6% YoY/+12.9% QoQ. The company has been able to check its energy costs which declined by 15% YoY as the sales volume also declined against last year. The costs therefore came down while cost of fly ash still increased by 5%YoY. A seasonally strong third quarter should have boosted profitability for the quarter had the whole economic scenario not been under clouds.

Q3FY20 Operational Highlights

Ultratech registered a volume de-growth of 3% YoY in its domestic sales to 19.4 MT against 19.9 MT in Q2FY19. The fall in volume growth was due to the lack of seasonal growth in the third quarter which did not happen in the current year due to an economic slowdown across all sectors. Cost improvements from energy expenses de-grew & fall in logistics cost, all came along in boosting the bottom-line for the quarter.

UltraTech's consolidated EBITDA margins for the quarter stood at 19.1% for Q3FY20. EBITDA per tonne stood at Rs 1,004 per tonne compared to Rs 741 per tonne last year, boosted by falling pet coke prices.

During the quarter, the company reported a one-time expense of Rs 133 Cr under the Sabka Vishwas Scheme against all pending contingent liabilities offered by the Government of India. Net debt of the company reduced to Rs 18,625 Cr by Q3FY20, compared with Rs 20,619 Cr at the end of September quarter.

The management mentioned of capacity addition of around 3.4 million MTPA by the end of March 2021 with orders placed for expansion of three units at Dankuni, Patliputra and Cuttack for Rs 940 Cr. On the acquired Century Textiles assets, the EBITDA per tonne stood at Rs 267 per tonne despite a healthy 79% capacity utilization. However, the management is hopeful of uplifting the operating profits (EBITDA) per tonne for these assets to Rs 1,000 per tonne by end of FY21.

Outlook and Valuations

Cement prices which have been falling over the last 7 months have been seen picking up very recently with government announcements of investments of 102 lakh Cr in the infrastructure development in the next 5 years. At CMP of Rs 4,643 per share, Ultratech is trading at an EV/EBITDA of 20.2x and 17.2x its FY20E and FY21E estimates respectively. Factoring smoother synergies coming in the acquired assets and an improving demand of cement, we assign an EV/EBITDA multiple to 19x its FY21E estimates to arrive at a target price of Rs 5,204. We maintain our 'Accumulate' rating on the stock.

Financial Performance

Particular							
	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	EV/EBITDA (x)
(Rs Mn)							
FY18	3,14,108	61,452	22,222	80.9	19.6	8.4	22.2
FY19	3,73,792	67,881	24,347	88.7	18.2	8.6	28.7
FY20E	4,12,335	74,220	27,975	101.9	18	9	18.9
FY21E	4,58,104	87,040	36,854	134.2	19	10.6	16.1

Q3 FY20 - Quarterly Performance (Consolidated)

(in Rs Mn)

Particulars	Q3FY20	Q2FY20	Q3FY19	Q-o-Q	Y-o-Y	9MFY20	9MFY19	Y-o-Y
Net Revenue	1,03,538	96,205	1,04,441	7.6%	-0.9%	3,13,792	2,92,382	7.3%
Material Cost	61,713	56,050	68,119	10.1%	-9.4%	1,82,557	1,88,908	-3.4%
Employee cost	6,200	6,384	5,971	-2.9%	3.9%	18,545	17,262	7.4%
Other Expenses	15,894	14,590	14,406	8.9%	10.3%	44,282	38,168	16.0%
EBITDA	19,730	19,181	15,945	2.9%	23.7%	68,409	48,043	42.4%
<i>EBITDA margin %</i>	<i>19.1%</i>	<i>19.9%</i>	<i>15.3%</i>	<i>-88bps</i>	<i>379bps</i>	<i>21.8%</i>	<i>16.4%</i>	<i>537bps</i>
Other Income	1,682	1,475	1,124	14.0%	49.6%	4,498	3,345	34.5%
Depreciation	6,730	6,684	6,381	0.7%	5.5%	20,298	18,098	12.2%
EBIT	14,681	13,972	10,688	5.1%	37.4%	52,609	33,290	58.0%
Finance cost	4,708	5,071	4,784	-7.2%	-1.6%	14,808	12,733	16.3%
Exceptional Item	-	-	-	-	-	-	-1,139	-
PBT	9,973	8,901	5,904	12.0%	68.9%	37,801	19,418	94.7%
Tax Expense	2,862	3,113	1,968	-8.1%	45.4%	12,093	6,075	99.0%
Effective tax rate %	28.7%	35.0%	33.3%	-628bps	-464bps	32.0%	31.3%	70bps
PAT	7,111	5,788	3,936	22.9%	80.7%	25,709	13,343	92.7%
MI & Associates	8	3	28			12	49	
Consolidated PAT	7,119	5,791	3,964	22.9%	79.6%	25,721	13,392	92.1%
<i>PAT margin %</i>	<i>6.9%</i>	<i>6.0%</i>	<i>3.8%</i>	<i>86bps</i>	<i>308bps</i>	<i>8.2%</i>	<i>4.6%</i>	<i>362bps</i>
EPS (Rs)	24.7	20.1	13.2	22.9%	87.5%	89.2	46.1	93.5%

Source: Company, Arianth Research

Q3 FY20 – Key Concall Highlights

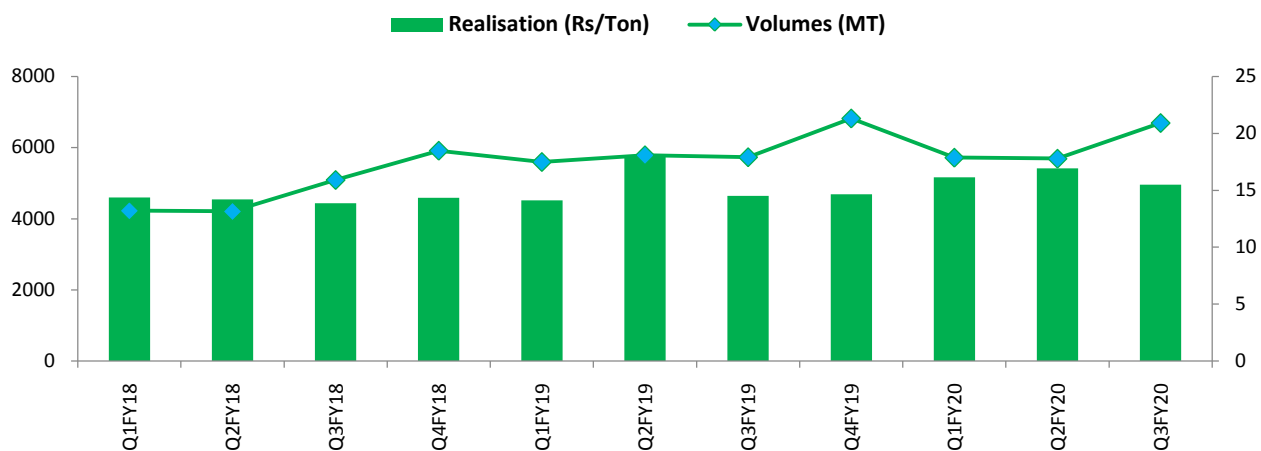
- UltraTech's performance in terms of sales volume spread across the geography clearly shows some respite with growth in the eastern states and western region while decline was reflected from the southern, northern and central states of India. We believe the economic slowdown has not hit the eastern states because of smaller business base in these states.
- The average cement prices came down by 4% sequentially hitting the realization per tonne. However, with the real estate demand growing in the top 8 cities from the housing sector, the management expects the prices of cement picking up from Q4FY20.
- The acquired assets of Century Textiles to improve their operational metrics with management expectations of EBITDA per tonne rising to Rs 1,000 per tonne by end of FY21.
- Capex till Dec 2019 was Rs 1,150 Cr and would go to Rs 1,600 Cr for the full year FY20. The company has placed orders for capacity expansion of its existing plants in Dankuni, Pataliputra and Cuttack by 3.4 million MT to be completed by FY21 end at a cost of Rs 940 Cr. The company completed the sale of grinding unit in Bangladesh of 6 lakh mt at a price of USD 3.02 Cr.
- While the company expects the pet coke prices to remain stable or low as it was during Q3FY20, the benefits of it to cancel out on account of increase in freight charges under the new international maritime amended laws prohibiting the use of sub-refined crude oil being replaced by refined diesel.
- The management has big expectations of revival, especially from the government of Andhra Pradesh where several large infrastructure projects will restart in the coming quarters.

Operational Metrics

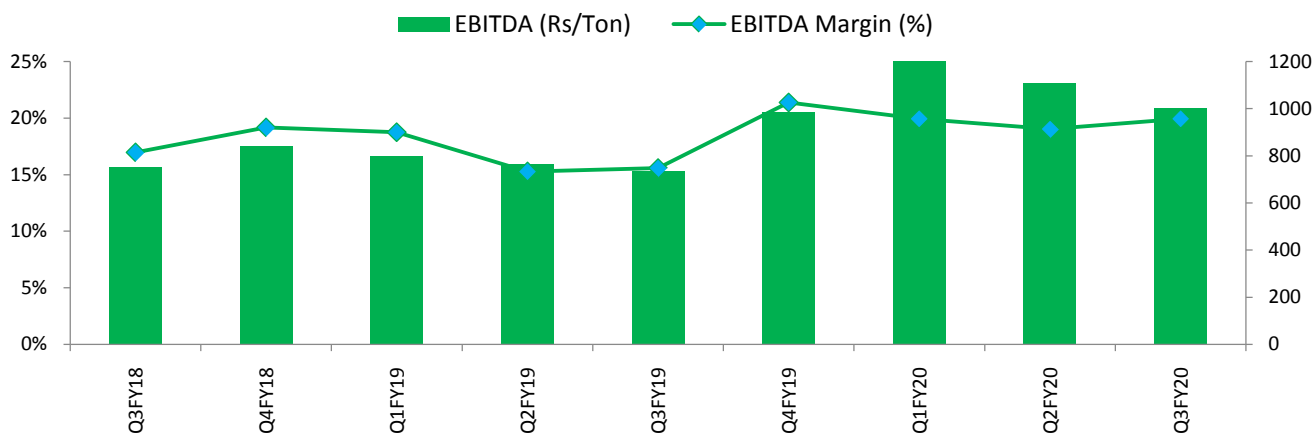
Particulars	Q3FY19	Q2FY20	Q3FY20
Volumes (MT)	17.9	17.8	20.9
Realisation (Rs/Ton)	4644	5414	4954
Growth (%)	4.7%	-6.3%	6.7%
EBITDA Margin (%)	15.6%	19.1%	19.9%
EBITDA (Rs/Ton)	798	1145	1004

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

Volume and Realisation



EBITDA Margin and EBITDA/Ton



Valuations (Rs Mn)	FY19	FY20E	FY21E
EV/EBITDA (x)	22.0	20.2	19.0
EBITDA	67881	74220	87040
EV	1490837	1496781	1653756
Debt	222755	232735	242715
Cash	7072	11107	18137
Net Debt	215683	221627	224578
Market Cap	1275154	1275154	1429178
No shares	275	275	275
CMP (Rs)	4643	4643	4643
Target (Rs)			5,204
Upside (%)			12.1%

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

Income Statement

Particulars (Rs Mn)	FY18	FY19	FY20E	FY21E
Revenues	3,14,108	3,73,792	4,12,335	4,58,104
<i>Change (%)</i>	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
<i>Rate (%)</i>	32.6%	31.3%	30.0%	30.0%
PAT	22,245	24,310	27,998	36,877
MI & Associates	23	-12	23	23
Consolidated PAT	22,222	24,322	27,975	36,854
<i>Change (%)</i>	-18.1%	9.5%	15.0%	31.7%

Source: Company, Arianth 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, Arianth Research

Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
PBT	36,482	35,378	39,996	52,682
Depreciation	18,479	21,398	23,915	25,196
Interest & others	6,513	11,093	10,331	9,185
Cash flow before WC changes	61,475	67,869	74,243	87,063
(Inc)/dec in working capital	6,246	-11,431	-12,368	627
Operating CF after WC changes	67,721	56,438	61,875	87,690
Less: Taxes	-10,770	-11,068	-11,999	-15,805
Operating Cash Flow	56,951	45,370	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	3,164	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	-33,896	-31,904	-29,307
Dividend	-3,340	-3,158	-3,916	-5,528
Cash Flow from Financing Activities	92,100	-568	-25,841	-24,855
Net inc /(dec) in cash	-20,297	4,874	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, Arianth 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, Arianth Research

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880