

Industry **Building Materials**  
Bloomberg **UTCEM IN**  
BSE CODE **532538**

## Company's demand outlook cautious as infrastructural activities slow-down expected ahead of general elections

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>3420</b>
<b>Price Target</b>	<b>4336</b>
<b>Potential Upside</b>	<b>27%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↓

### Stock Info

52wk Range H/L	4599/3525
Mkt Capital (Rs Cr)	92442
Free float (%)	38%
Avg. Vol 1M (,000)	325
No. of Shares (Cr)	27.5
Promoters Pledged %	0%

### Research Analyst

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### Q3FY19 result update

- ❑ Consolidated revenue grew by 17 % YoY to Rs.9390 Cr where as the PAT declined by 15% YoY to 390Cr. PAT is impacted by lower other income and higher interest cost.
- ❑ Total cement volume has grown by 15% YoY to 19.04 Million Tons on account of increased demand from low cost housing schemes post monsoon season. Management has reduced its volume guidance for upcoming quarters to 7-8% from earlier guidance of double digit growth.
- ❑ Revenue from white cement is Rs. 500 Cr and RMC was Rs.521 Cr. Demand for white cement and wall putty increases before festive month.
- ❑ Conso. blended realization has improved by 2% on YoY basis but declined by -2% on sequential basis. This is because Prices in south dropped by 2-3%, while price in east dropped by 1-2% in Q3 FY19. However, the company is continuously making efforts to improve its sales in non-trade segment which results in YoY improvement in realizations.
- ❑ EBITDA margin has improved by 40 bps YoY to 15.4 % in the last quarter. This improvement is primarily led by marginal improvement in realizations on YoY basis
- ❑ Company has acquired Binani Cement for Rs. 7900 Cr. and renamed it as UNCL. Post this acquisition company's standalone capacity stand augmented to 94.75 MTPA from existing 88.5 MTPA.
- ❑ Company has integrated assets of UNCL in standalone books with effect from 10th December 2018. In 20 days of Q3 FY19, UNCL has contributed 1 lakh Ton of grey cement with EBITDA of Rs. 100/Ton. Currently UNCL is at PBT loss. Ultratech management expects UNCL to be EPS accretive by Q4 FY20.

### View and valuation:

In long term Cement demand scenario is likely to pick up on the back of increase in housing activities led by strong demand traction panning out in low-cost housing projects like Pradhan Mantri Awaas Yojana (PMAY) and housing project of Rs.1-1.5 Cr. However demand from infrastructural sector is likely to remain subdued on the back of election year. Management is cautiously guiding 7-8% volume growth in FY20 vs earlier guidance of double digit growth. On the margins front, cement companies were facing margins pressure in last few quarters due to higher coal, pet coke and diesel prices but in the last quarter crude price has corrected sharply which will help the company to improve its power, fuel and freight cost in upcoming quarter (provided crude price remains at current level). Company's recent acquisitions Jaypee and Binani are taking some time to be fully integrated and synergies to flow in. Additionally, Company has taken debt to finance its recent acquisition which suppressing the bottom line. **Though, we are positive on this stock in long run and maintain our BUY rating with revised target of Rs.4336/share.**

### Key Risk to our Estimates:

- ❑ Slow down in pick of volume demand.
- ❑ Price rise of pet coke, coal, and diesel.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	25153	25375	31411	36281	38677
EBITDA	4901	5212	6145	5958	7000
EBIT	3524	3864	4297	3659	4644
PAT	2478	2715	2222	2038	2829
EPS (Rs)	90	99	94	74	103
EPS growth (%)	18%	9%	-5%	-21%	39%
ROE (%)	11%	11%	10%	7%	9%
ROCE (%)	13%	13%	10%	8%	10%
BV	800	889	961	1023	1110
P/B (X)	4	4	4	3	3
P/E (x)	36	40	42	46	33

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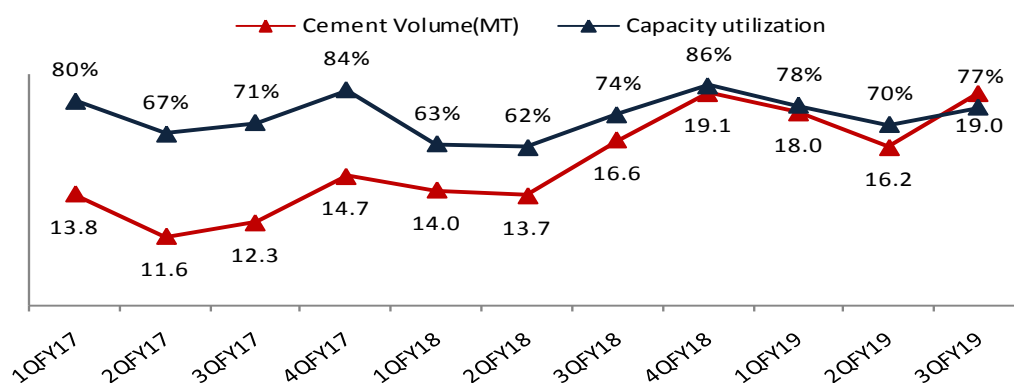
3Q FY 19

Results below expectation

Improved EBITDA margins

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	8019	9421	8761	8151	9390	17.1%	15.2%	25374.9	31410.8	23.8%
Other Income	156	106	212	220	103	-33.8%	-53.1%	648	584	-9.9%
COGS	1508	1621	1472	1309	1690	12.0%	29.1%	4473.58	5250.46	17.4%
Gross Margin	81.2%	82.8%	83.2%	83.9%	82.0%	0.8%	-1.9%	82%	83%	0.9%
Employee Cost	489	445	495	533	534	9.1%	0.1%	1522	1810	18.9%
Other Expenses	1213	1286	1029	1134	1298	7.0%	14.5%	3992	4561	14.3%
EBITDA	1338	1781	1551	1226	1445	8.0%	17.8%	5212	6145	17.9%
EBITDA%	16.7%	18.9%	17.7%	15.0%	15.4%	-1.3%	0.3%	21%	20%	-1.0%
Depreciation	496	501	507	536	557	12.3%	3.9%	1348	1848	37.0%
EBIT	842	1280	1045	691	888	5.5%	28.7%	3864	4297	11.2%
Interest	359	344	349	354	415	15.6%	17.3%	640	1233	93%
PBT	639	1042	908	557	577	-9.8%	3.5%	3872	3648	-5.8%
Exceptional	-	315	0	-	-			-	0	
Tax	182	280	277	181	186	2.3%	2.8%	1159	1077	-7.0%
PAT	457	446	631	376	390	-14.5%	3.9%	2715	2222	-18%
PAT Margin	6%	5%	7%	5%	4%	-1.5%	-0.5%	11%	7%	-3.6%

\*Consolidated fig.



### Strong demand panning out in rural low income housing space

Strong traction is witnessed in rural housing and low income housing scheme like Pradhan Mantri Awaas Yojana. Under this scheme target is to complete one crore houses by March 31, 2019, and 2.95 crore pucca houses by 2022. The centre has extended the Credit Link Subsidy Scheme (CLSS) on home loans for the Middle Income Group (MIG) under the PMAY (Urban) till March 2020. Further government effort to improve farm income by increasing MSP of major crops is likely to benefit farmers mainly in the states like Uttar Pradesh, Madhya Pradesh and Gujarat. However demand from running infrastructural projects is resumed from Q3 FY19, post monsoon season but new infra projects are likely to be delayed due to general elections in 2019. Considering demand scenario in both housing and infrastructure sector, demand of cement is likely to grow to the tune of 7-8% in upcoming quarters.

### Flat realization impacts revenue

In Q3 FY19 Prices in south dropped by 2-3%, while those in east dropped by 1-2%. There is surplus of cement supply in North region of the country where as the demand is growing at a slow pace restricting prices to go up. However the company is focusing to increase sales from non-trade segment as realization in non-trade segment is higher as compared to trade segment. Absence of dealer's commission and lower packaging cost helps the company to get higher margins in non-trade segment.

### Lower operating costs

Sharp decline in the crude oil price has resulted in fall in pet coke prices and diesel prices on sequential basis. However Pet coke price has increased by 8% on YoY basis in Q3 FY19, company imports almost 38% of its total requirement. Expects power cost to come down by 2-2.5% and freight cost to come down by 1-1.5% in Q4 FY19

## Key Management Highlights:

### Demand

- Strong traction is witnessed in rural housing and low income housing scheme like Pradhan Mantri Awaas Yojana launched by our Prime Minister.
- Demand in infrastructure sector is likely to impact for next 6-9 months due to general elections.
- In Q3, industry cement demand has grown by 9-10% and management expects cement demand to grow by 7% in FY20 from earlier guidance of double digit growth.
- Housing demand in tier 1 cities like Gurugram, Bangalore, Mumbai is strong. In housing range of 1-1.5 Cr demand is picking up where as in luxury houses demand is weak.

### Price:

- Prices in south dropped by 2-3%, while those in east dropped by 1-2% in Q3 FY19.
- Cement price has been increased in Jan in North regions where as in other regions price remains almost flat.

### Power, freight cost:

- Petcoke prices increased by 8% YoY, company imports 38% of its total requirement. Expects power cost to come down by 2-2.5% and freight cost to come down by 1-1.5% in Q4 FY19.
- UNCL will help the company to improve its freight cost by reducing lead distance.

### UNCL update:

- Binani cement name changed to UltraTech Nathdwara Cement Ltd(UNCL), following the company's acquisition
- Cement of UNCL is sold by Ultratech brand and cement is procured from UNCL which is shown as trading goods.
- In Q3, UNCL was integrated on 10 Dec 2018, and sold 1 lakh Tons of Cement.
- EBITDA contribution by UNCL is Rs.100/Ton in Ultratech books. Management expects UNCL to be EPS accretive from Q4 FY20.
- Capacity utilization of UNCL is 50% at the time of acquisition.
- Ultratech has issued equity of Rs.3400 Cr and raised debt of Rs.4500 Cr for this acquisition. The debt of Rs.1800Cr will be reflected in Ultratech consolidated books and Rs.2700 Cr will be shown in UNCL books.

### Century textile acquisition:

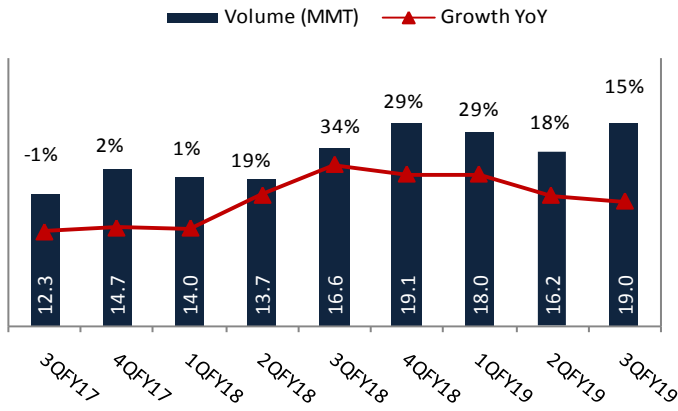
- For Century Cement, admission of petition with National Company Law Tribunal(NCLT) will be filed in Feb 2019, post which transfer of limestone mines will be completed. The deal is likely to be closed by march 2019.
- Company is working on transfer of mines of CTIL to Ultratech.

### Others:

- Other expenses include one time maintenance cost of 11 Kilns (assets of Japjee cement)at a total cost of Rs. 138 Cr.
- Capex for FY20 is around Rs. 1200 Cr(including UNCL). Additional capex of Rs.500 Cr for CTIL and annual maintenance capex Rs. 1300 Cr.
- The Bara grinding unit is likely to be commissioned by June 2020

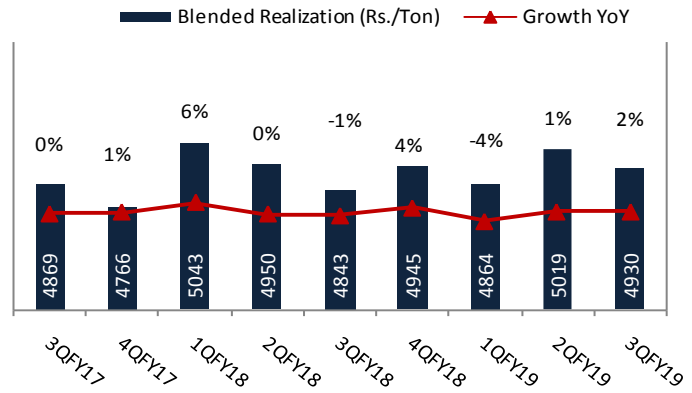
## Exhibit: Volume trend

Volume has picked up post monsoon season on back of pick up in low cost housing sector



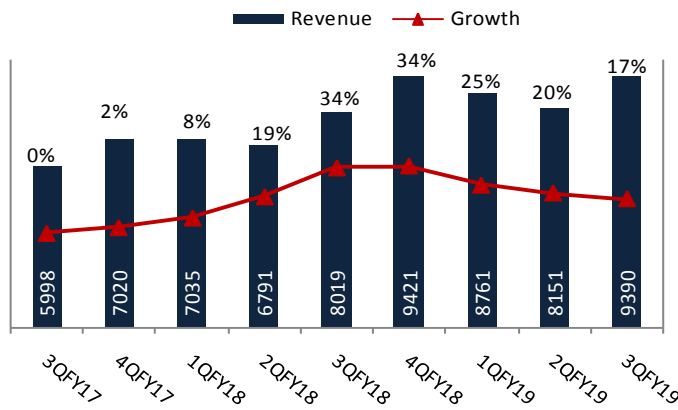
## Exhibit: Blended Realization trend

Realization remains almost flat on YoY basis due to weakness in demand



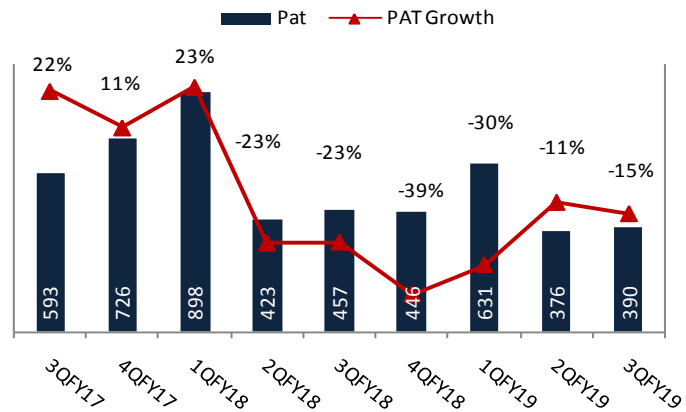
## Exhibit: Revenue and Revenue Growth

Strong revenue growth post monsoon season and demand from low income housing sector



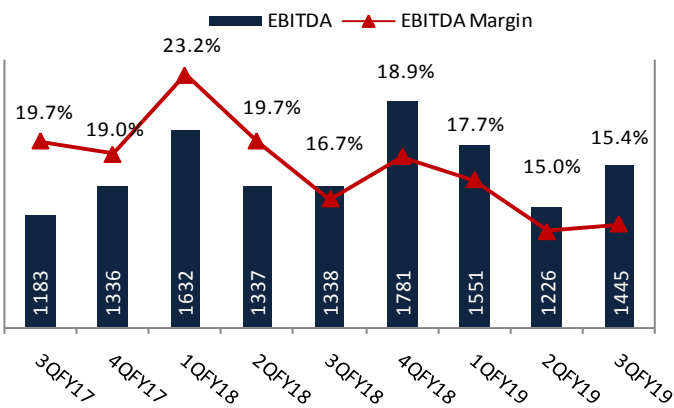
## Exhibit: PAT and PAT growth

PAT grows on account of strong revenue growth and small improvement in EBITDA margins



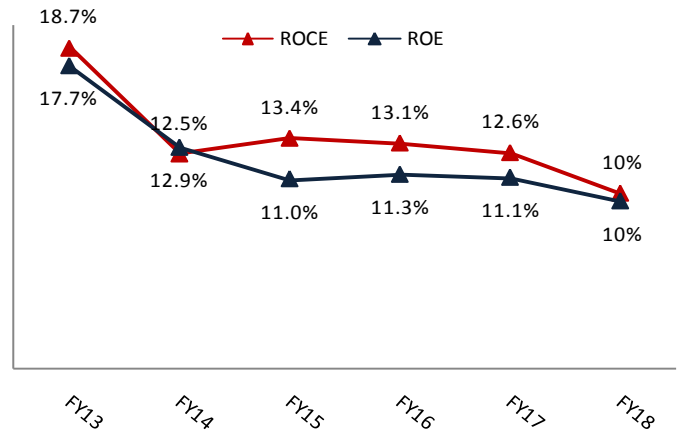
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Margins improved sequentially on the back of lower power and freight cost on sequential basis



## Exhibit: ROE and ROCE Trend

ROE and ROCE tends to decline on the back of lower margins and PAT growth



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	274	274	274	274	275	275	275	275
Reserves	14955	16908	18767	21671	24117	26107	27825	30211
<b>Networth</b>	<b>15230</b>	<b>17182</b>	<b>19041</b>	<b>21946</b>	<b>24392</b>	<b>26381</b>	<b>28100</b>	<b>30486</b>
Debt	5169	6021	4993	4897	6371	15863	17663	17063
Total Capital Employed	20399	23203	24034	26842	30763	42245	45763	47549
<b>Net Fixed Assets (incl CWIP)</b>	<b>17917</b>	<b>19311</b>	<b>24540</b>	<b>25672</b>	<b>25740</b>	<b>40190</b>	<b>42581</b>	<b>42875</b>
Non Current Investments	1582	1133	1977	2730	1280	1498	1498	1498
Other Non Current Assets	0	0	0	696	532	2749	2749	2749
Non Current Assets	21307	22691	29266	30669	28893	45689	48080	48374
<b>Inventory</b>	<b>2541</b>	<b>2580</b>	<b>2949</b>	<b>2455</b>	<b>2401</b>	<b>3268</b>	<b>3774</b>	<b>4023</b>
Debtors	1376	1632	1659	1928	1757	2228	2573	2743
Cash & Bank	185	348	393	2267	2249	219	1543	3132
Other Current Assets	6	19	18	786	996	1060	1225	1306
Current Assets	8283	9502	8797	10534	13326	11468	13926	16071
<b>Creditors</b>	<b>2312</b>	<b>2587</b>	<b>2912</b>	<b>1717</b>	<b>1849</b>	<b>2504</b>	<b>2892</b>	<b>3083</b>
Provisions	949	855	1145	169	168	312	361	385
Other Current Liabilities	2579	2106	4399	3185	2392	2904	3354	3575
Curr Liabilities	5840	5548	8456	9142	7249	8575	9905	10559
<b>Net Current Assets</b>	<b>2443</b>	<b>3954</b>	<b>341</b>	<b>1391</b>	<b>6076</b>	<b>2893</b>	<b>4020</b>	<b>5512</b>
<b>Total Assets</b>	<b>29590</b>	<b>32193</b>	<b>38063</b>	<b>41203</b>	<b>42219</b>	<b>57158</b>	<b>62006</b>	<b>64446</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>21324.1</b>	<b>21652.2</b>	<b>24349</b>	<b>25153.2</b>	<b>25374.9</b>	<b>31410.8</b>	<b>36281.5</b>	<b>38676.9</b>
Change (%)	15%	2%	12%	3%	1%	24%	16%	7%
Other Income	303.59	322.72	350.08	463.8	648.12	583.72	803.94	772.18
<b>EBITDA</b>	<b>4839</b>	<b>4035</b>	<b>4425</b>	<b>4901</b>	<b>5212</b>	<b>6145</b>	<b>5958</b>	<b>7000</b>
Change (%)	15%	-17%	10%	11%	6%	18%	-3%	17%
Margin (%)	23%	19%	18%	19%	21%	20%	16%	18%
Depr & Amor.	1023	1139	1203	1377	1348	1848	2299	2355
<b>EBIT</b>	<b>3816</b>	<b>2896</b>	<b>3222</b>	<b>3524</b>	<b>3864</b>	<b>4297</b>	<b>3659</b>	<b>4644</b>
Int. & other fin. Cost	252	361	587	566	640	1233	1532	1487
Other Income	304	323	350	464	648	584	804	772
<b>EBT</b>	<b>3867</b>	<b>2858</b>	<b>2986</b>	<b>3421</b>	<b>3872</b>	<b>3648</b>	<b>2931</b>	<b>3929</b>
Exp Item	-	-	-	0	-	0	-	-
Tax	<b>1179.14</b>	<b>645</b>	<b>884</b>	<b>942</b>	<b>1159</b>	<b>1077</b>	<b>893</b>	<b>1100</b>
Minority Int & P/L share of Ass.	<b>10.34</b>	<b>6.75</b>	<b>3.77</b>	<b>1.58</b>	<b>-1.41</b>	<b>2.29</b>	<b>0</b>	<b>0</b>
Reported PAT	2678	2206	2098	2478	2715	2222	2038	2829
<b>Adjusted PAT</b>	<b>2678</b>	<b>2206</b>	<b>2098</b>	<b>2478</b>	<b>2715</b>	<b>2222</b>	<b>2038</b>	<b>2829</b>
Change (%)	<b>11%</b>	<b>-18%</b>	<b>-5%</b>	<b>18%</b>	<b>10%</b>	<b>-18%</b>	<b>-8%</b>	<b>39%</b>
Margin(%)	13%	10%	9%	10%	11%	7%	6%	7%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	18%	13%	11%	11%	11%	10%	7%	9%
ROCE	19%	12%	13%	13%	13%	10%	8%	10%
Asset Turnover	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Debtor Days	24	28	25	28	25	26	26	26
Inv Days	43	43	44	36	35	38	38	38
Payable Days	40	44	44	25	27	29	29	29
Int Coverage	15.1	8.0	5.5	6.2	6.0	3.5	2.4	3.1
P/E	19	27	37	36	40	42	46	33
Price / Book Value	3.4	3.5	4.1	4.0	4.5	4.1	3.3	3.1
EV/EBITDA	12	17	19	19	22	21	19	16
FCF per Share	41	(14)	47	54	110	(437)	55	154
Div Yield	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	3867	2858	2986	3421	3872	3301	2931	3929
(inc)/Dec in Working Capital	-501	80	-99	429	529	-1248	198	97
Non Cash Op Exp	1023	1139	1203	1377	1348	1848	2299	2355
Int Paid (+)	252	361	587	566	640	1233	1532	1487
Tax Paid	-726	-669	-170	-852	-744	-843	-893	-1100
others	-298	-307	-318	-417	-641	-404	0	0
<b>CF from Op. Activities</b>	<b>3618</b>	<b>3462</b>	<b>4188</b>	<b>4526</b>	<b>5005</b>	<b>3887</b>	<b>6066</b>	<b>6769</b>
(inc)/Dec in FA & CWIP	-3363	-2311	-2709	-2131	-1364	-1877	-4690	-2650
Free Cashflow	254	1151	1479	2394	3641	2011	1377	4119
(Pur)/Sale of Inv	-835	212	-865	172	-1217	1614	-1	0
others	-188	-305	1516	-1767	100	2120	0	0
<b>CF from Inv. Activities</b>	<b>-4387</b>	<b>-2403</b>	<b>-2058</b>	<b>-3727</b>	<b>-2480</b>	<b>1857</b>	<b>-4691</b>	<b>-2650</b>
inc/(dec) in NW	8	4	3	4	7	16	0	0
inc/(dec) in Debt	1335	-213	-1230	46	-1615	-4207	1800	-600
Int. Paid	-373	-449	-589	-596	-614	-1205	-1532	-1487
Div Paid (inc tax)	-255	-292	-294	-297	-312	-334	-319	-443
others								
<b>CF from Fin. Activities</b>	<b>715</b>	<b>-949</b>	<b>-2110</b>	<b>-844</b>	<b>-2535</b>	<b>-5730</b>	<b>-51</b>	<b>-2530</b>
Inc(Dec) in Cash	-54	110	20	-45	-10	14	1325	1589
<b>Add: Opening Balance</b>	<b>239</b>	<b>239</b>	<b>371</b>	<b>135</b>	<b>69</b>	<b>63</b>	<b>219</b>	<b>1543</b>
Closing Balance	185	348	391	90	59	77	1543	3132

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**Disclosure of Interest Statement-**

Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com), [www.bseindia.com](http://www.bseindia.com).

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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