

# Ultratech Cement.

*Moderated but Not outdated*

**"Hold"**

24th Jan' 14

Result Update	Hold
CMP	1719
Target Price	1846
Previous Target Price	1846
Upside	7%
Change from Previous	0%

## Market Data

BSE Code	532538
NSE Symbol	ULTRACEMCO
52wk Range H/L	1405/2067
Mkt Capital (Rs Crores)	46885
Average Daily Volume (Nos.)	18754
Nifty	6346

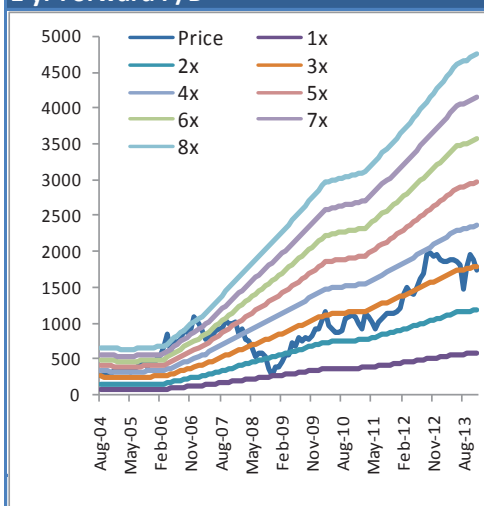
## Stock Performance-%

	1M	1yr	YTD
Absolute	-7.3	-14.8	-10.2
Rel. to Nifty	-9.0	-19.9	-14.3

## Share Holding Pattern-%

	3QFY14	2QFY14	1QFY14
Promoters	62.0	62.0	62.0
FII	21.0	20.7	20.7
DII	4.6	4.8	4.6
Others	12.4	12.6	12.7

## 1 yr Forward P/B



**Lower Realization and higher Operating Cost Impact PAT:** UltraTech's 3QFY14 Sales, EBITDA & PAT declined 1%, 24% and 39% YoY respectively to Rs4818Cr, Rs796Cr and Rs370Cr respectively. On QoQ basis, Sales, EBITDA & PAT rose 7%, 17% and 40%. While EBITDA margin contracted ~499 bps YoY it expanded 149 bps QoQ to 16.5%. EBITDA per MT at Rs788 down 24% YoY and up 10% QoQ.

**At Rs.788 /Ton Average Realization Down 1% YOY :** The benefit of lower coal prices (net of rupee devaluation) and optimization of the fuel mix led to an 6.5% yoy dip in power & fuel costs a ton. A 23.5% yoy drop in EBITDA and a 75.4% yoy rise in interest led to a 37.8% yoy fall in PAT.

**Despite of Weak Realization Ultratech has delivered QOQ margin Expansion :** Despite 24%,7%,8% YOY increase in Rawmaterial cost, freight cost and other expenses respectively, Ultratech's variable input cost increased 6%YOY and -2%QOQ . Through better cost efficiency which has been one of the key factors resulting in UltraTech's results outperforming its large cap peer group over the last 4-5 quarters. Thus We believe UltraTech will deliver QoQ margin expansion despite marginally weak realization .

**Expansion Updates :** In Jul'13 it commissioned a 3.3m-ton clinker plant in Karnataka, adding to its earlier commissioning (Mar'13) of similar capacity in Chhattisgarh. In Oct'13 it commissioned a 1.6m-ton grinding unit in Jharsuguda, Orissa, adding to its earlier commissioning (Mar'13) of similar capacity in Hotgi, Maharashtra. The balance five associated grinding units will be set up in 4QFY14 and FY15.

**Acquisition. During 2Q,** Ultratech acquired JPA's 4.8m-ton unit in Gujarat, lifting its capacity to 59m tons, while ongoing expansions would further that to 70m tons by Mar'15. The transaction, at an EV of 38bn (US\$125 a ton) is expected to be completed only by 1QFY15 given multiple approvals required.

**Depreciation rose 11% yoy** due to the commissioning of clinker capacity in Chhattisgarh, Karnataka, and grinding units in Maharashtra, Gujarat and Orissa. Other income too fell, 18% yoy, leading to a further crunch in PAT.

**Investment concerns :** Key drivers of long-term growth would continue to be housing and infrastructure development. Revival in cement demand would be key catalyst for the stock performance. cement prices and demand are expected to pick-up post election. High operating leverage, especially post commissioning of new capacities in 1QFY14, could result in volatile earnings. Cement Makers may rise cement prices due to increase in variable input costs.

Financials :	Q3FY14	Y-o-Y %	Q-o-Q %	Q3FY13	Q2FY13
Net Revenue	4818	-1.3	6.5	4883	4522
EBITDA	796	-24.2	17.1	1050	679
Depreciation	264	10.7	0.0	239	264
Interest Cost	90	73.6	1.9	52	89
Tax	139	-45.2	30.0	254	107
PAT	370	-38.5	41.6	601	261

(In Crs)

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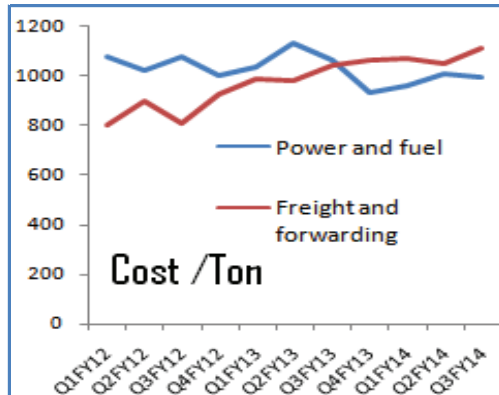
## OUTLOOK :

We are expecting Demand Growth for the rest FY14 will be 4% - 5% and for FY15 it will be in the range of 8% - 12%. Demand already revived after the monsoon, hence it reported a 4% realization growth in Q3FY14. The Ultratech's expansion plans are ramp up to become 70 mnTon cement producer in India by FY15. Its waste heat recovery plants and efficient fuel mix (usage of petcock for energy instead of coal) moderates the Cost pressure, so to make Ultratech cost efficient among large cap peers. Govt initiatives to expedite large infrastructure projects have yielded little so far and this is putting pressure in the cement makers, especially those with debt that has become expensive to service due to high interest rates. We expect lower other income to revive after the settlement of volatile interest rates by Govt in coming quarters. At present ultratech is running at 79% of its capacity utilization. The utilization level may decline due to stabilization of supply from new capacities, owing to insufficient demand in Domestic Market. Ultratech is planning to strengthen its logistic infrastructures and increase its captive power plants capacity, which will help to reduce its Operational cost.

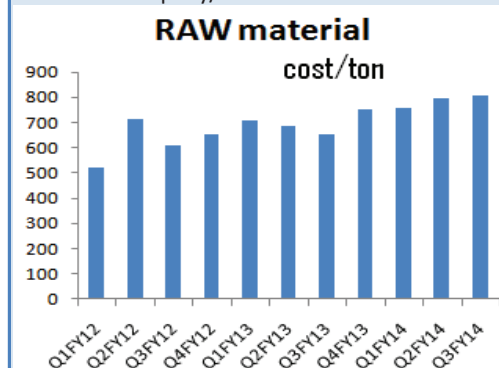
## View & Valuation :

Ultratech's Q3FY14 was in line to our estimates. The white cement Volume Growth and capacity expansions are positive in terms of fundamentals. We see the uptick of EBITDA margin and volume growth for FY15. Currently the stock valuing at 3x in 1yr forward P/B, and we cut our stance for FY15 to 2.7x. Hence we maintain our positive stance on Ultratech Cement with Target price of Rs.1846/- . As from the current level the upside is very limited(7%), we recommend "Hold" Ultratech and Buy at Dips to get handsome return.

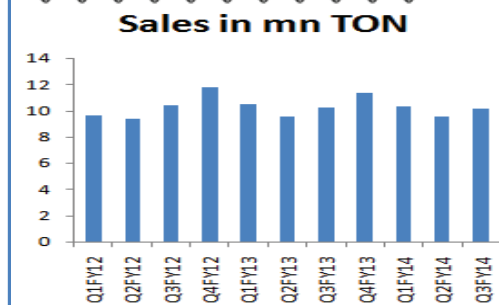
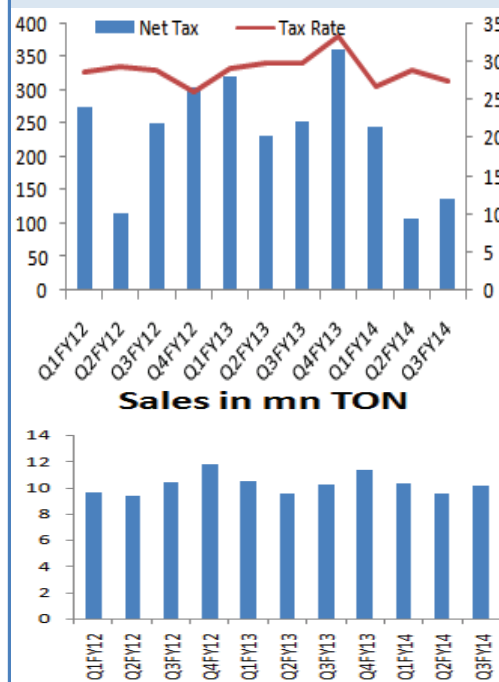
P/L PERFORMANCE	FY11	FY12	FY13	FY14E
Net Revenue from Operation	13798	19232	21319	20797
Other Income	154	371	304	346
Total Income	13952	19603	21623	21143
Power and fuel	3280	4639	4646	4315
Freight and forwarding	2881	3741	4243	4461
Expenditure	11102	15039	16480	16957
EBITDA	2696	4194	4839	3840
Depreciation	813	963	1023	1110
Interest Cost	292	256	252	325
Net Tax	384	948	1179	759
PAT	1367	2403	2678	1982
ROE%	12.8	18.7	17.6	11.7



Source - Comapany/EastWind Research

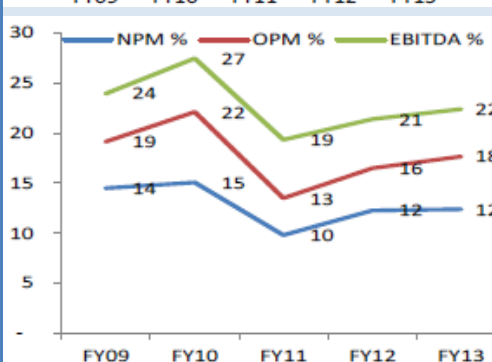
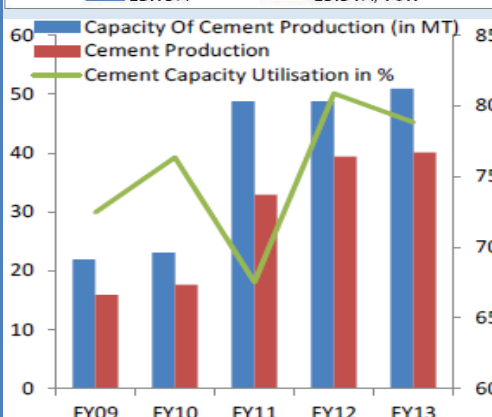
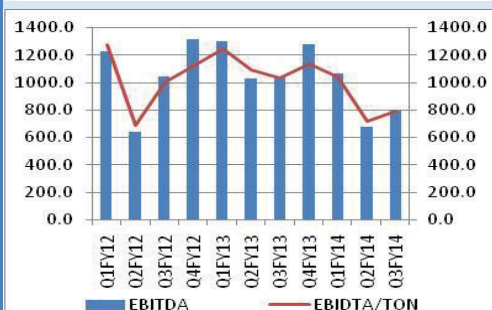
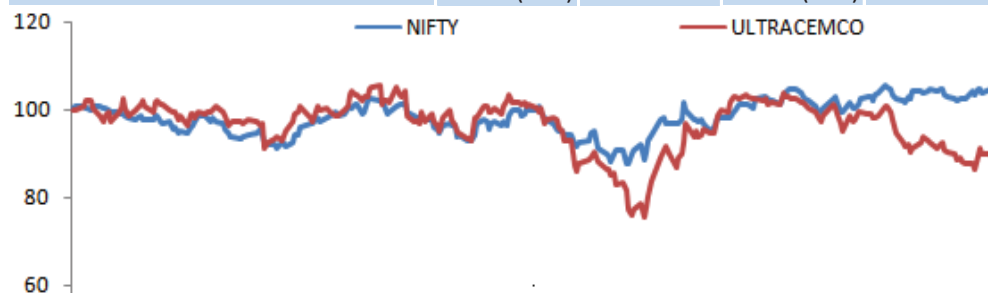


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B/S PERFORMANCE	FY10	FY11	FY12	FY13
Share capital	124	274	274	274
Reserve & Surplus	4495	10373	12550	14955
Total equity	4620	10647	12824	15230
Long-term borrowings	857	3295	4843	5169
Short-term borrowings	750	727	705	1227
Long-term provisions	32	113	121	135
Trade payables	683	1830	2207	2338
Short-term provisions	133	473	709	949
Total liabilities	8375	21630	24904	29590
Intangibles	6	39	40	62
Tangible assets	4953	12265	12729	14254
Capital work-in-progress	260	760	1940	3601
Long-term loans and advances	146	583	1544	1066
Inventories	827	2094	2198	2541
Trade receivables	210	825	1089	1376
Cash and bank balances	112	190	214	185
Short-term loans and advances	219	873	1041	1048
Total Assets	8375	21630	24904	29590
RATIOS	FY10	FY11	FY12	FY13
P/B	3.1	2.9	3.2	3.4
EPS	88.1	49.9	87.7	97.7
Debtor to Turnover%	2.9	6.0	5.7	6.5
Creditors to Turnover%	9.5	13.3	11.5	11.0
Inventories to Turnover%	1.2	1.5	1.1	1.2
EV	15890	34903	46634	57428
P/E	13.1	22.7	17.2	19.1
EV/EBIDTA	7.9	12.9	11.1	11.9
Dividend Yield%	0.5	0.5	0.5	0.5
ROCE%	15.4	8.2	11.8	11.3
Debt/Equity	0.3	0.4	0.4	0.4
Current Ratio	2.3	1.5	1.6	1.4
Cash from Operation	1673	2195	3482	4122
Cash From Investment	(843)	(2240)	(3050)	(4407)
Cash from Finance	(740)	248	(353)	715



Source - Comapany/EastWind Research