

Ultratech Cement Limited

Industry Building Materials
Bloomberg UTCEM IN
BSE CODE 532538

Higher volumes and realization from Premium products drives profitability

RATING	BUY
CMP	4250
Price Target	5195
Potential Upside	22%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	4904/3264
Mkt Capital (Rs Cr)	116735
Free float (%)	38%
Avg. Vol 1M (,000)	27
No. of Shares (Cr)	27
Promoters Pledged %	NA

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2QFY20 Result Update

- ❑ ULTRATECH posted mixed set of numbers in 2QFY20; Consolidated sales grew by 4% YoY to Rs. 9620 cr. led by retail sales volume (grew by ~5.6% YoY), premiumization, improved product mix and higher realization from cement in YoY basis.
- ❑ The Company's consolidated sales volume stood at 18.69 MT in 2QFY20 vs. 18.88 MT in 2QFY19 mainly impacted due to lower demand led by extended monsoon and floods condition in various parts of India.
- ❑ The Company's premium product which contributes to the extent of 10% of trade sales volume grew by 30% YoY while white cement volume stood at 3.18 lakh tons (vs. 3.16 lakh ton in 2QFY19) and revenue stood at Rs. 423 cr. in 2QFY20 vs. Rs. 466 cr. in 2QFY19.
- ❑ Gross margin declined by 78 bps to 84.2% YoY led by higher cost due to higher share of premium products and increase in fly ash price.
- ❑ EBITDA margin improved significantly by 457 bps to 19.9% YoY led by lower power, freight cost and employee cost. Power cost has declined by 405 bps 20.4% YoY (as % of sales) led by decline in pet coke price and power plant efficiency whereas freight cost declined by 267 bps to 22% YoY (as % of sales) led by benefit from axle load relaxation and reduction in diesel prices.
- ❑ The Company's PAT stood at Rs. 579 cr. with PAT growth and PAT margin at 62.1% YoY and 6% in 2QFY20. Tax (as % of PBT) stood at 32.8% YoY in 2QFY20.

View and Valuation

ULTRATECH volumes remained impacted due to general economic slowdown, extended monsoon, floods condition in many region and reduced construction activity. Despite volume stress, revenue grew by 4% YoY led by higher realization from premium product portfolio (grew by 30% YoY in 2QFY20), improved product mix and increased prices of cement. Going forward, good monsoon, government initiatives like rural housing demand, reduction in corporate tax rate and continuous traction from PMAY & PMGSY are expected to drive demand. From Company's front, focus to drive volumes of premium product, regular capacity expansion through organic as well inorganic ways and proactive nature management will help in driving top line. On margin front, we expect margins to improve led by benign Pet coke, Diesel prices along with company's cost saving measures is expected to drive margin expansion. Thus, we remain positive considering capacity expansion in eastern market, commissioning of Bara unit post repair, better performance from century cement (newly acquired) & existing plants and higher focus on premium segment will ensure growth. Thus, the stock is currently trading at EV/EBITDA of 14.8 times and we retain our BUY rating on this stock.

Key Risks to our rating and target

- ❑ Further slow down in pick of volume demand.
- ❑ Steep increase in Raw material prices.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	25375	30979	37379	43135	46884
EBITDA	5212	6145	6788	9157	9537
EBIT	3864	4297	4648	6828	7209
PAT	2715	2224	2432	4394	4847
EPS (Rs)	99	94	89	160	176
EPS growth (%)	9%	-5%	-5%	81%	10%
ROE (%)	11%	10%	9%	14%	13%
ROCE (%)	13%	10%	10%	13%	13%
EV/EBITDA	22.0	20.6	19.5	14.8	13.7
P/B (X)	4.5	4.1	3.9	3.6	3.2
P/E (x)	40	42	46	27	24

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2QFY20 Results Mixed Numbers

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	Fig in Rs Cr		
								FY18	FY19	YoY %
Net Sales	9249	9337	10905	11405	9620	4.0%	-15.6%	30979	37379	21%
Other Income	143	105	126	134	154	7.6%	14.6%	589	438	-26%
COGS	1393	1653	2093	1614	1524	9.4%	-5.6%	5289	6527	23%
Gross Margin	85%	82%	81%	86%	84%	-0.8%	-1.7%	83%	83%	0%
Employee Cost	604	529	502	596	638	5.7%	7.1%	1810	2059	14%
Other Expenses	1285	1290	1278	1380	1459	13.5%	5.7%	4090	4731	16%
EBITDA	1421	1453	2332	2950	1918	35.0%	-35.0%	6145	6788	10%
EBITDA%	15%	16%	21%	26%	20%	4.6%	-5.9%	20%	18%	-2%
Depreciation	624	550	547	688	668	7.1%	-2.9%	1848	2140	16%
EBIT	797	904	1785	2261	1250	56.8%	-44.7%	4297	4648	8%
Interest	416	412	435	503	507	21.8%	0.8%	1238	1549	25%
PBT	524	596	1477	1893	896	71.2%	-52.6%	3648	3538	-3%
Exceptional	-	0	-	-	6	-	-	226	0	-
Tax	168	186	463	612	311	86%	-49%	1077	1107	3%
PAT	357	410	1014	1281	579	62.1%	-54.8%	2224	2432	9%
PAT Margin	4%	4%	9%	11%	6%	2.2%	-5.2%	7%	7%	-1%

Concall Highlights:

Macro:

- The average cement price declined by 5-6% with the highest drop of 8% in eastern and southern markets, 1-2% drop in western market and lowest drop in Northern market.
- Housing sector, Individual home builder market has not shown any recovery, NHAI led projects has seen major slowdown while PMAY and PMGSY are continuing spends and are leading the revival of demand.
- The Management is still waiting to see sharp pickup in infrastructure projects on the back of Samruddhi Expressway and Bharatmala road projects, Mumbai and Delhi International Airports expected to commence work by Q4 FY20a nd Increased DA for government.

CAPEX PLAN:

- The CAPEX up to Rs. 30 cr-Rs.40 cr. will be required for bringing 3 plants of century cement up to the standards of ultratech and will get done by Mar-20.
- The Total CAPEX at company level is expected to be at Rs. 2000 cr. for both FY20 and FY21.

Major expected CAPEX for 2QFY20 includes:

- Bara Grinding Unit-Rs. 170 cr.
- WHRS expansion-5 ongoing and Rs. 170 cr. is yet to be incurred.
- Bicharpur coal block-Rs. 200 cr.
- Bulk terminal near Panvel - Rs. 75 cr
- Wall Putty project-Rs.75 cr
- Usual Modernisation CAPEX-Rs. 700 cr.

WHRs Capacity

- For Company, 3 WHRS capacity have been commissioned in 2QFY20 and are under stabilization, 1 plant is under execution which will take up the total WHRS to 131 MW with 10 plants by Sep-20.The 11th WHRS has been approved by board to be set up at Nathdwara plant of 10.5 MW.
- If no further big investment is made then the company may come out of MAT regime during FY22.

Expansion Plan in Eastern Market

- The board has approved the investment to add 3.4 MT in Eastern markets constituted by 2 brownfield expansion and 1 Green field grinding unit.
- The brownfield expansion will be in existing plant of Patliputra in bihar and Dhankoni in West Bengal and Green field grinding unit will be setup in Odisha and the chinker requirement will be met with existing capacity(from Central India clinker plant) and is expected to get commissioned by Jan- Mar,21.

Exhibit: Volume(Million Ton) trend

Sales remained impacted due to lower volumes driven by monsoon, floods and demand slowdown.

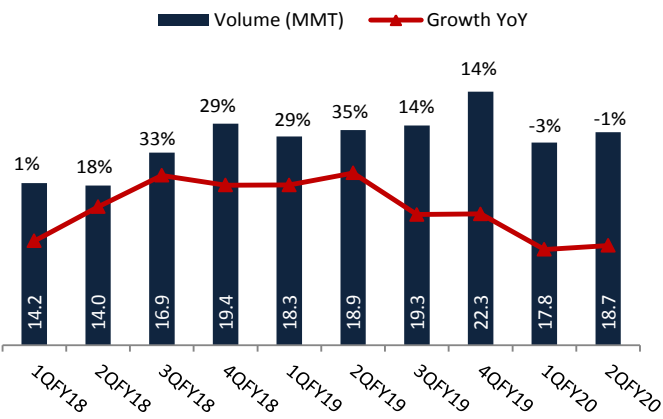


Exhibit: Blended Realization

Blended Realization remained impacted on QoQ basis due to decline in cement prices due to demand slowdown.

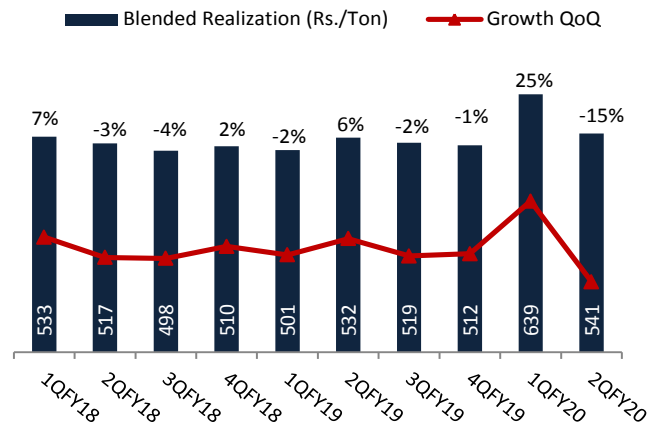


Exhibit: Revenue and revenue growth trend

Sales grew by 4% YoY led by higher realization on YoY basis and premiumization.

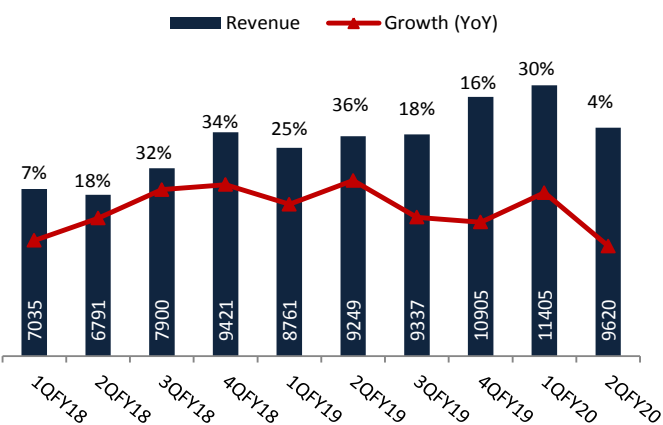


Exhibit: EBITDA margin trend

EBITDA expansion was led by product mix, lower freight cost and premiumization.

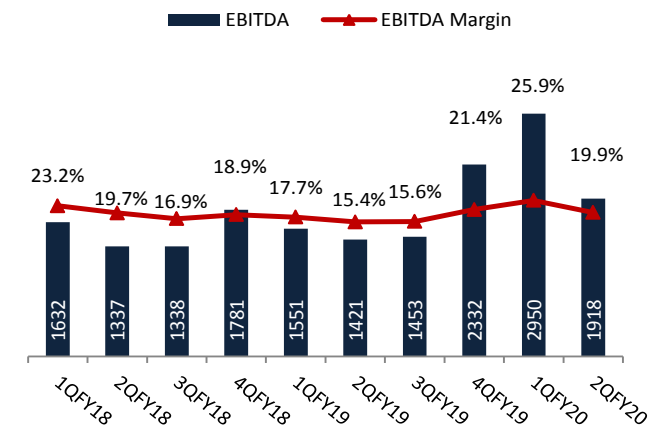


Exhibit: PAT and PAT growth trend

PAT remained high on account of higher realization from companies premium product and EBITDA improvement.

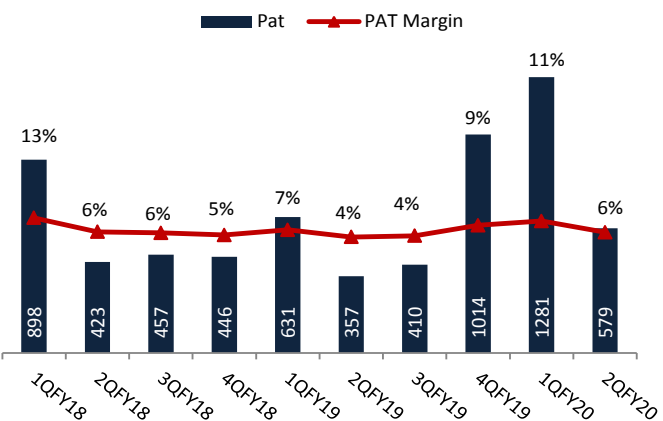
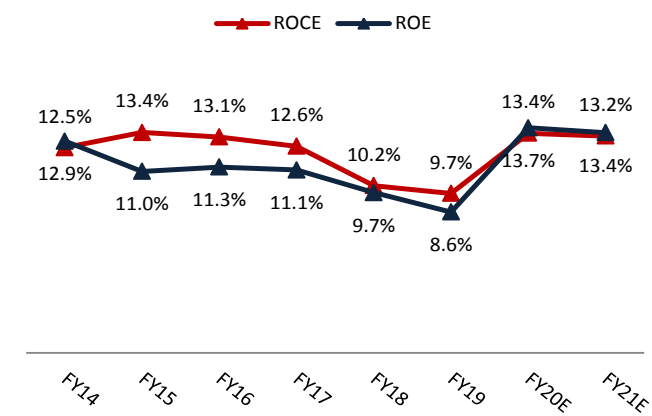


Exhibit: Return On Equity

ROE and ROCE is expected to be at 13.2%/13.4% for FY20E/FY21E.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY20E
Share Capital	274	274	274	275	275	275	275	275
Reserves	16908	18767	21671	24117	26107	28114	31831	35919
Networth	17182	19041	21946	24392	26381	28388	32106	36193
Debt	6021	4993	4897	6371	15863	19551	19016	18481
Total Capital Employed	23203	24034	26842	30763	42245	47939	51122	54675
Net Fixed Assets (incl CWIP)	19311	24540	25672	25740	40190	44411	44689	44425
Non Current Investments	1133	1977	2730	1280	1498	1386	1386	1386
Other Non Current Assets	0	0	696	532	2749	2815	2815	2815
Non Current Assets	22691	29266	30669	28893	45689	52781	53040	52776
Inventory	2580	2949	2455	2401	3268	3585	4137	4497
Debtors	1632	1659	1928	1757	2228	2531	2921	3175
Cash & Bank	348	393	2267	2249	219	707	3197	7025
Other Current Assets	19	18	786	996	1060	1189	1372	1491
Current Assets	9502	8797	10534	13326	11468	11755	15713	20497
Creditors	2587	2912	1717	1849	2504	2846	3284	3569
Provisions	855	1145	169	168	312	451	521	566
Other Current Liabilities	2106	4399	3185	2392	2904	3366	3884	4222
Curr Liabilities	5548	8456	9142	7249	8575	9644	11129	12096
Net Current Assets	3954	341	1391	6076	2893	2111	4584	8401
Total Assets	32193	38063	41203	42219	57158	64536	68753	73273

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY20E
Revenue from Operation	21652	24349	25153	25375	30979	37379	43135	46884
Change (%)	2%	12%	3%	1%	22%	21%	15%	9%
Other Income	323	350	464	648	589	438	580	972
EBITDA	4035	4425	4901	5212	6145	6788	9157	9537
Change (%)	-17%	10%	11%	6%	18%	10%	35%	4%
Margin (%)	19%	18%	19%	21%	20%	18%	21%	20%
Depr & Amor.	1139	1203	1377	1348	1848	2140	2328	2328
EBIT	2896	3222	3524	3864	4297	4648	6828	7209
Int. & other fin. Cost	361	587	566	640	1238	1549	1536	1703
EBT	2858	2986	3421	3872	3648	3538	5873	6478
Exp Item	0	0	0	0	226	0	0	0
Tax	645	884	942	1159	1077	1107	1478	1630
Minority Int & P/L share of Ass.	7	4	2	(1)	-	-	-	-
Reported PAT	2206	2098	2478	2715	2224	2432	4394	4847
Adjusted PAT	2206	2098	2478	2715	2065	2432	4394	4847
Change (%)	-18%	-5%	18%	10%	-18%	9%	81%	10%
Margin(%)	10%	9%	10%	11%	7%	7%	10%	10%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY20E
ROE	13%	11%	11%	11%	10%	9%	14%	13%
ROCE	12%	13%	13%	13%	10%	10%	13%	13%
Asset Turnover	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.7
Debtor Days	28	25	28	25	26	25	25	25
Inv Days	43	44	36	35	38	35	35	35
Payable Days	44	44	25	27	30	28	28	28
Int Coverage	8.0	5.5	6.2	6.0	3.5	3.0	4.4	4.2
P/E	27	37	36	40	42	46	27	29
Price / Book Value	3.5	4.1	4.0	4.5	4.1	3.9	3.6	3.9
EV/EBITDA	17	19	19	22	21	19	15	16
FCF per Share	(14.1)	46.6	54.1	109.8	(437.1)	71.0	221.2	(80.1)
Div Yield	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY20E
PBT	2858	2986	3421	3872	3301	3538	5873	6478
(inc)/Dec in Working Capital	80	-99	429	529	-1255	-937	17	11
Non Cash Op Exp	1139	1203	1377	1348	1848	2140	2328	2328
Int Paid (+)	361	587	566	640	1238	1549	1536	1703
Tax Paid	-669	-170	-852	-744	-843	-710	-1478	-1630
others	-307	-318	-417	-641	-401	-419	0	0
CF from Op. Activities	3462	4188	4526	5005	3888	5160	8276	8890
(inc)/Dec in FA & CWIP	-2311	-2709	-2131	-1364	-1877	-1504	-2606	-2064
Free Cashflow	1151	1479	2394	3641	2011	3656	5670	6826
(Pur)/Sale of Inv	212	-865	172	-1217	1614	2656	0	0
others	-305	1516	-1767	100	2124	54	0	0
CF from Inv. Activities	-2403	-2058	-3727	-2480	1862	1206	-2606	-2064
inc/(dec) in NW	4	3	4	7	16	5	0	0
inc/(dec) in Debt	-213	-1230	46	-1615	-4207	-4138	-535	-535
Int. Paid	-449	-589	-596	-614	-1210	-1484	-1536	-1703
Div Paid (inc tax)	-292	-294	-297	-312	-334	-346	-689	-760
others								
CF from Fin. Activities	-949	-2110	-844	-2535	-5735	-5962	-2760	-2998
Inc(Dec) in Cash	110	20	-45	-10	14	404	2910	3828
Add: Opening Balance	239	371	135	69	63	116	707	3197
Closing Balance	348	391	90	59	77	520	3617	7025

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