

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

## Economic slowdown impacted volumes

RATING	BUY
CMP	4641
Price Target	5335
Potential Upside	15%

Rating Change	↔
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	4904/3340
Mkt Capital (Rs Cr)	133950
Free float (%)	38%
Avg. Vol 1M (,000)	15
No. of Shares (Crs)	27
Promoters Pledged %	NA

## RESEARCH ANALYST

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### 3QFY20 Result update

- ULTRATECH posted mixed set of numbers in 3QFY20; consolidated sales de-grew by 0.9% YoY to Rs. 10354 cr. majorly impacted by decline in volumes in South, North and Central regions on account of economic slowdown.
- The Company's consolidated sales volume stood at 20.90 MT in 3QFY20 vs. 21.76 MT in 3QFY19 impacted due to lower demand on account of economic slowdown, lower government spends, construction ban by NGT and severe winters in some parts.
- The Company's premium product which contributes to the extent of 13.5% of trade sales volume grew by 40% YoY.
- Gross margin declined by 23 bps to 82.7% YoY led by increase in fly ash price on account of shut of power plant while EBITDA margin improved significantly by 378 bps to 19.1% YoY led by led by lower Power & fuel and freight cost.
- Power cost declined by 405 bps 19.7% YoY (as % of sales) led by decline in pet coke price and power plant efficiency whereas freight cost declined by 180 bps to 22.6% YoY (as % of sales) led by reduction in diesel prices and extension of period (till June 2020) for exemption of busy season surcharge by railway.
- The Company's PAT stood at Rs. 712 cr. with PAT growth and PAT margin at 79.6% YoY/ 6.9% in 3QFY20. PAT increased due to higher other income received by the company on account of profit on divestment of entire share in Ultratech cement middle east investment ltd to Heidelberg cement Bangladesh ltd to the extent of Rs. 8.96 cr. in 3QFY20.

### View and Valuation

ULTARTECH volumes as well as realization remained impacted due to overall economic slowdown, winters in some parts of India and reduced construction activity. However, management envisaged government initiatives like rural housing demand, traction from real estate, PMAY, PMGSY and restart of irrigation projects are expected to drive demand. On realization front, cement prices has already seen some correction in East, South and Western markets led by improvement in demand sentiments since dec-19. On margin front, we expect EBITDA margin 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, better performance from century cement (post transition) and Nathdwara plant & existing plants will ensure growth. Thus, the stock is currently trading at EV/EBITDA of 14.1 times and we retain our BUY rating on this stock with a target price of Rs. 5335.

### Key Risks to our rating and target

- Further economic slow down.
- Steep increase in Fly ash price.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	25375	30979	37379	42733	45135
EBITDA	5212	6145	6788	9352	10060
EBIT	3864	4297	4648	6798	7595
PAT	2715	2224	2432	3957	4701
EPS (Rs)	99	94	89	144	171
EPS growth (%)	9%	-5%	-5%	63%	19%
ROE (%)	11%	10%	9%	12%	13%
ROCE (%)	13%	10%	10%	13%	14%
BV	22.0	20.6	19.5	15.6	14.1
P/B (X)	4.5	4.1	3.9	4.0	3.6
P/E (x)	40	42	46	32	27

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## 3QFY20 Results Mixed Numbers

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	10444	10905	11405	9620	10354	-0.9%	7.6%	30979	37379	21%
Other Income	112	126	134	154	168	49.6%	9.4%	589	438	-26%
COGS	1780	2093	1614	1524	1788	0.5%	17.3%	5289	6527	23%
Gross Margin	83%	81%	86%	84%	83%	-0.2%	-1.4%	83%	83%	0%
Employee Cost	597	502	596	638	620	3.9%	-2.9%	1810	2059	14%
Other Expenses	1441	1278	1380	1459	1589	10.3%	8.9%	4090	4731	16%
EBITDA	1595	2332	2950	1918	1973	23.7%	2.9%	6145	6788	10%
EBITDA%	15%	21%	26%	20%	19%	3.8%	-0.9%	20%	18%	-2%
Depreciation	638	547	688	668	673	5.5%	0.7%	1848	2140	16%
EBIT	956	1785	2261	1250	1300	35.9%	4.0%	4297	4648	8%
Interest	478	435	503	507	471	-1.6%	-7.2%	1238	1549	25%
PBT	590	1477	1893	896	997	68.9%	11.3%	3648	3538	-3%
Exceptional Item	-3	-	-	6	-1	-74.6%	-110.9%	226	0	-
Tax	197	463	612	311	286	45%	-8%	1077	1107	3%
PAT	396	1014	1281	579	712	79.6%	23.1%	2224	2432	9%
PAT Margin	4%	9%	11%	6%	7%	3.1%	0.9%	7%	7%	-1%

## Concall Highlights

### Macro:

- The average cement price declined by ~4% qoq ; Cement prices corrected in East, South and Western markets led by improvement in demand sentiments in dec-19.
- The Management expects demand in Andhra Pradesh to pick up led by restart of several irrigation projects (Polavaram dam).
- Management expects demand from real estate to increase and has seen the 25% growth in real estate in top 8 cities led by housing units in 2HCY19 while unsold inventory reduced by 13% in CY19 vs. Cy18.

### Capacity expansion:

- The brownfield expansion will be in existing plant of Patliputra in bihar(0.6MT) and Dhankoni in West Bengal(0.6 MT) and Green field grinding unit will be setup in Odisha Cuttack (2.2 MT) for a total capex of Rs. 9.4 bn.

### Nathdwara and Century Plant:

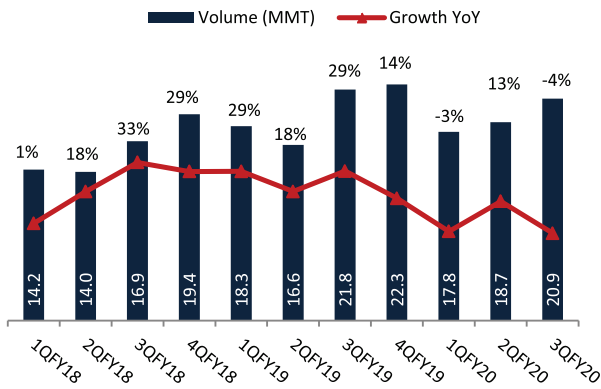
- The Company's Nathdwara plant generated EBITDA in excess of Rs. 1500/ ton at capacity utilization 60% with production cost in line with Ultratech existing plant. Thus is expected to improve further with commissioning of 10.5MW WHRS plant by Mar-21.
- Century Cement capacity to the extent of 2.4MT capacity in Chhattisgarh (Baikunth plant) will continue under Birla gold for some time and may put another line for the same.
- The capacity utilization of century in 3QFY20 stood at 79% , has already achieved 55% brand transition as of now and expects the same to reach 80% with EBITDA of Rs. 1000/ton by Sep-20 led by synergies in operation, manufacturing and overhead cost.
- The Management expects complete cost alignment of century plant with Ultratech by the end of transition.

### Guidance:

- The Company has started witnessing cement demand improvement in Eastern regions, Telangana, Tamil nadu, Maharashtra, Rajasthan and MP led by restart of Infrastructure activities.
- Average pet coke price during the quarter stood at USD 80/t v/s Q2 FY20 USD 91/t while Spot prices of pet coke and US coal stood at USD 70/t and USD 80/t on landed price basis. Hence the benefit of reduced prices will be reflected in 1QFY21.
- Fuel prices are not expected to significantly reduce further on account of IMO regulation.
- The Company targets the total WHRS plant to be at 141 MW, currently has 103 MW WHRS plant as of 3QFY20.

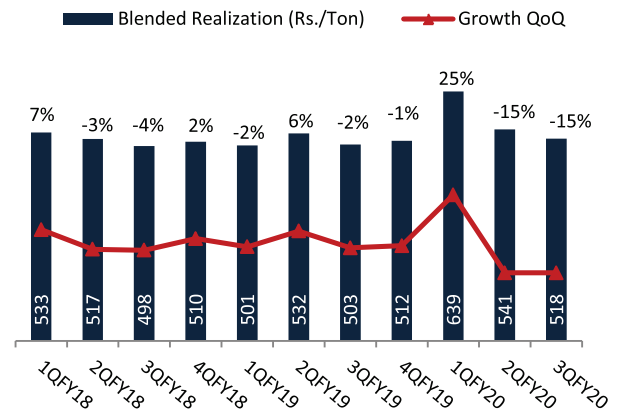
## Exhibit: Volume(Million Ton) trend

Sales remained impacted due to lower volumes driven by demand slowdown and lower government spends.



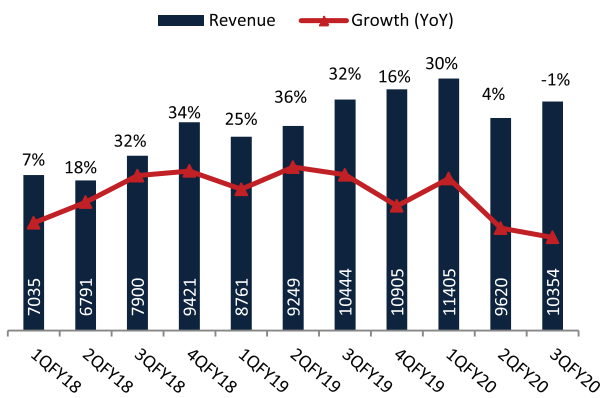
## Exhibit: Blended Realization

Blend realization/ton remained impacted on qoq due to decline in cement prices due to demand slowdown.



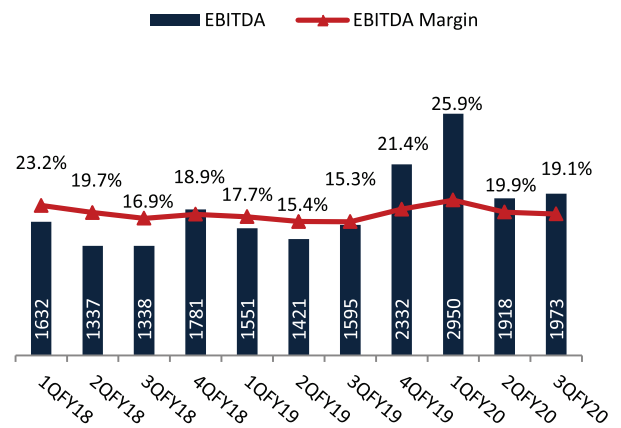
## Exhibit: Revenue and revenue growth trend

Sales remained impacted on account of lower volumes from North, Central and South led by demand slowdown.



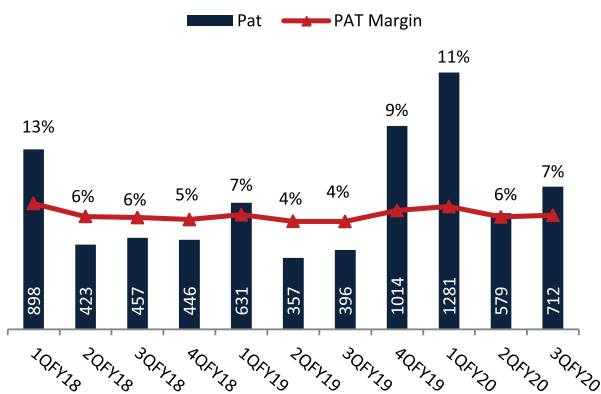
## Exhibit: EBITDA margin trend

EBITDA expansion was led by lower freight and Power & fuel cost.



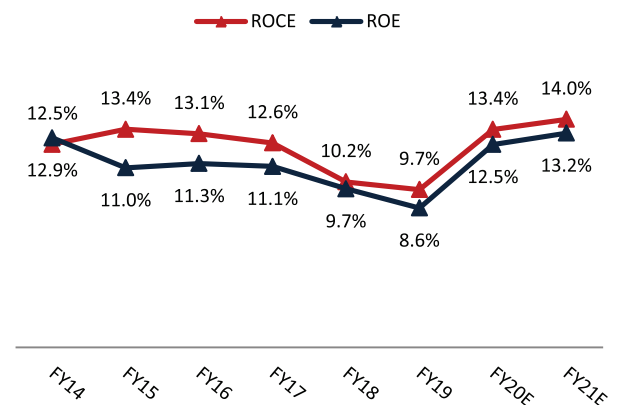
## Exhibit: PAT and PAT growth trend

PAT remained high on account of EBITDA improvement, higher other income and lower tax.



## Exhibit: Return Ratios

ROE and ROCE is expected to be at 13.2%/14% for FY20E/FY21E.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	274	274	274	275	275	275	275	275
Reserves	16908	18767	21671	24117	26107	28114	31463	35427
<b>Networth</b>	<b>17182</b>	<b>19041</b>	<b>21946</b>	<b>24392</b>	<b>26381</b>	<b>28388</b>	<b>31737</b>	<b>35702</b>
Debt	6021	4993	4897	6371	15863	19551	19016	18481
Total Capital Employed	23203	24034	26842	30763	42245	47939	50754	54183
<b>Net Fixed Assets (incl CWIP)</b>	<b>19311</b>	<b>24540</b>	<b>25672</b>	<b>25740</b>	<b>40190</b>	<b>44411</b>	<b>44172</b>	<b>43640</b>
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	52523	51991
<b>Inventory</b>	<b>2580</b>	<b>2949</b>	<b>2455</b>	<b>2401</b>	<b>3268</b>	<b>3585</b>	<b>4099</b>	<b>4329</b>
Debtors	1632	1659	1928	1757	2228	2531	2894	3057
Cash & Bank	348	393	2267	2249	219	707	3116	6377
Other Current Assets	19	18	786	996	1060	1189	1359	1435
Current Assets	9502	8797	10534	13326	11468	11755	15529	19402
<b>Creditors</b>	<b>2587</b>	<b>2912</b>	<b>1717</b>	<b>1849</b>	<b>2504</b>	<b>2846</b>	<b>3253</b>	<b>3436</b>
Provisions	855	1145	169	168	312	451	516	545
Other Current Liabilities	2106	4399	3185	2392	2904	3366	3848	4064
Curr Liabilities	5548	8456	9142	7249	8575	9644	11025	11645
<b>Net Current Assets</b>	<b>3954</b>	<b>341</b>	<b>1391</b>	<b>6076</b>	<b>2893</b>	<b>2111</b>	<b>4504</b>	<b>7758</b>
<b>Total Assets</b>	<b>32193</b>	<b>38063</b>	<b>41203</b>	<b>42219</b>	<b>57158</b>	<b>64536</b>	<b>68052</b>	<b>71394</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>21652</b>	<b>24349</b>	<b>25153</b>	<b>25375</b>	<b>30979</b>	<b>37379</b>	<b>42733</b>	<b>45135</b>
Change (%)	2%	12%	3%	1%	22%	21%	14%	6%
Other Income	323	350	464	648	589	438	451	696
<b>EBITDA</b>	<b>4035</b>	<b>4425</b>	<b>4901</b>	<b>5212</b>	<b>6145</b>	<b>6788</b>	<b>9352</b>	<b>10060</b>
Change (%)	-17%	10%	11%	6%	18%	10%	38%	8%
Margin (%)	19%	18%	19%	21%	20%	18%	22%	22%
Depr & Amor.	1139	1203	1377	1348	1848	2140	2554	2466
<b>EBIT</b>	<b>2896</b>	<b>3222</b>	<b>3524</b>	<b>3864</b>	<b>4297</b>	<b>4648</b>	<b>6798</b>	<b>7595</b>
Int. & other fin. Cost	361	587	566	640	1238	1549	1514	1477
<b>EBT</b>	<b>2858</b>	<b>2986</b>	<b>3421</b>	<b>3872</b>	<b>3648</b>	<b>3538</b>	<b>5735</b>	<b>6814</b>
Exp Item	0	0	0	0	226	0	0	0
Tax	645	884	942	1159	1077	1107	1778	2112
Minority Int & P/L share of Ass.	7	4	2	(1)	-	-	-	-
Reported PAT	2206	2098	2478	2715	2224	2432	3957	4701
<b>Adjusted PAT</b>	<b>2206</b>	<b>2098</b>	<b>2478</b>	<b>2715</b>	<b>2065</b>	<b>2432</b>	<b>3957</b>	<b>4701</b>
<b>Change (%)</b>	<b>-18%</b>	<b>-5%</b>	<b>18%</b>	<b>10%</b>	<b>-18%</b>	<b>9%</b>	<b>63%</b>	<b>19%</b>
Margin(%)	10%	9%	10%	11%	7%	7%	9%	10%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13%	11%	11%	11%	10%	9%	12%	13%
ROCE	12%	13%	13%	13%	10%	10%	13%	14%
Asset Turnover	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
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	4.5	5.1
P/E	27	37	36	40	42	46	32	27
Price / Book Value	3.5	4.1	4.0	4.5	4.1	3.9	4.0	3.6
EV/EBITDA	17	19	19	22	21	19	16	14
FCF per Share	(14)	47	54	110	(437)	71	213	(80)
Div Yield	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	2858	2986	3421	3872	3301	3538	5735	6814
(inc)/Dec in Working Capital	80	-99	429	529	-1255	-937	16	7
Non Cash Op Exp	1139	1203	1377	1348	1848	2140	2554	2466
Int Paid (+)	361	587	566	640	1238	1549	1514	1477
Tax Paid	-669	-170	-852	-744	-843	-710	-1778	-2112
others	-307	-318	-417	-641	-401	-419	0	0
<b>CF from Op. Activities</b>	<b>3462</b>	<b>4188</b>	<b>4526</b>	<b>5005</b>	<b>3888</b>	<b>5160</b>	<b>8042</b>	<b>8651</b>
(inc)/Dec in FA & CWIP	-2311	-2709	-2131	-1364	-1877	-1504	-2316	-1933
Free Cashflow	1151	1479	2394	3641	2011	3656	5726	6718
(Pur)/Sale of Inv	212	-865	172	-1217	1614	2656	-	-
others	-305	1516	-1767	100	2124	54	-	-
<b>CF from Inv. Activities</b>	<b>-2403</b>	<b>-2058</b>	<b>-3727</b>	<b>-2480</b>	<b>1862</b>	<b>1206</b>	<b>-2316</b>	<b>-1933</b>
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	-1514	-1477
Div Paid (inc tax)	-292	-294	-297	-312	-334	-346	-620	-737
others	-	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>-949</b>	<b>-2110</b>	<b>-844</b>	<b>-2535</b>	<b>-5735</b>	<b>-5962</b>	<b>-2669</b>	<b>-2749</b>
Inc(Dec) in Cash	110	20	-45	-10	14	404	3057	3969
<b>Add: Opening Balance</b>	<b>239</b>	<b>371</b>	<b>135</b>	<b>69</b>	<b>63</b>	<b>116</b>	<b>707</b>	<b>3116</b>
Closing Balance	348	391	90	59	77	520	3764	7084

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