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Building Materials
UTCEM IN
532538

Steep decline in volumes due to Covid-19; Demand remains the concern

RATING	NEUTRAL
CMP	3530
Price Target	4916
Potential Upside	39%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	4904/2913
Mkt Capital (Rs Cr)	101872
Free float (%)	38%
Avg. Vol 1M (,000)	25
No. of Shares (Cr)	29
Promoters Pledged %	NA

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4QFY20 Result update

- In 4QFY20, ULTRACEMCO consolidated sales de-grew by 13% YoY to Rs. 10746 cr. Impacted on account of nation-wide shut down of factories due to outbreak of COVID-19.
- The Company's consolidated sales volume stood at 21.44 MT in 4QFY20 vs. 25.43 MT in 4QFY19 with a decline of 16% YoY while the company's premium product volumes grew by 19% YoY.
- EBITDA margin improved by 219 bps to 22.7% YoY led by lower Power & fuel cost. Power cost declined by 119 bps to 19.7% YoY (as % of sales) led by decline in fuel price, increased pet coke usage and power plant efficiency whereas freight cost increased by 119 bps to 24.9% YoY (as % of sales) led by servicing long lead markets.
- The Company's PAT stood at Rs. 3242.77 cr. with PAT growth and PAT margin at 205% YoY/ 30.2% in 4QFY20 benefitted from lower income tax rates on the deferred tax assets /liabilities to the extent these are expected to be realized or settled in the future period when the company may be subjected to lower tax rate and accordingly reversed net deferred tax liability of Rs. 2,109.46 cr.

View and Valuation

ULTRACEMCO volumes remained impacted on account of nation-wide lock down due to COVID-19. However, the company has resumed its operation in 3rd week of April-20 and currently operating at 65-70% utilization. On cement demand front, the company is currently dispatching cements from all the locations barring few and are also witnessing demand from retail, rural and infrastructure projects front. Going forward, the demand may get impacted for at least 3 months due to labor unavailability, start of monsoon and unavailability of other raw materials. On realization front, the prices are expected to remain at the same level. On margin front, we expect EBITDA margin to improve led by benign Pet coke, Diesel prices along with company's emphasis to reduce variable overheads like reduced A&P and cost rationalization in other variable heads will drive margin. Thus, we remain positive considering brand equity, better performance from century cement (post transition) and existing plants will ensure growth. However, considering the current scenario of lock down and increasing rate of spread of disease, we expect demand to remain the concern. Thus, maintain our NEUTRAL rating with a target price of Rs. 4916.

Key Risks to our rating and target

- Steep fall in cement demand.
- Steep increase in Fly ash price.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20
Net Sales	25153	25375	30979	41609	42125
EBITDA	4901	5212	6145	7347	9284
EBIT	3524	3864	4297	4896	6581
PAT	2478	2715	2224	2404	5810
EPS (Rs)	90	99	94	92	212
EPS growth (%)	18%	9%	-5%	-2%	131%
ROE (%)	11%	11%	10%	9%	15%
ROCE (%)	13%	13%	10%	10%	12%
EV/EBITDA	19.1	22.0	20.6	18.3	11.9
P/B (X)	4.0	4.5	4.1	3.9	2.3
P/E (x)	36	40	42	44	15

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4QFY20 Results Better than expectation

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY %	QoQ%	FY19	FY20	YoY %
Net Sales	12371	11405	9620	10354	10746	-13.1%	3.8%	41609	42125	1%
Other Income	131	134	154	168	198	51.6%	17.7%	463	648	40%
COGS	2321	1614	1524	1788	1454	-37.4%	-18.7%	6983	6313	-10%
Gross Margin	81%	86%	84%	83%	86%	5.2%	3.7%	83%	85%	2%
Employee Cost	565	596	638	620	655	15.8%	5.6%	2291	2509	10%
Other Expenses	1420	1380	1459	1589	1397	-1.6%	-12.1%	5237	5825	11%
EBITDA	2541	2950	1918	1973	2443	-3.9%	23.8%	7347	9284	26%
EBITDA%	21%	26%	20%	19%	23%	2.2%	3.7%	18%	22%	4%
Depreciation	641	688	668	673	672	4.9%	-0.1%	2451	2702	10%
EBIT	1900	2261	1250	1300	1770	-6.8%	36.2%	4896	6581	34%
Interest	505	503	507	471	505	0.1%	7.2%	1778	1986	12%
PBT	1526	1893	896	997	1463	-4.1%	46.7%	3582	5244	46%
Exceptional Item	0	0	6	-1	0	-	-100%	0	0	-
Tax	461	612	311	286	-1777	-486%	-721%	1068	-568	-153%
PAT	1064	1281	579	712	3243	204.7%	355.5%	2404	5810	142%
PAT Margin	9%	11%	6%	7%	30%	21.6%	23.3%	6%	14%	8%

Concall Highlights

4QFY20 Result Update:

- The Company started FY21 with higher inventories and dispatches (52 locations) are continuously going up after the resumption of operation in 3rd week of April-20. The Company is dispatching cements from all the locations barring few (one or two).
- Few of the company's plants are already operating at 65-70% utilisation while clinker sales at grinding unit is also stabilizing.
- Currently, Cement demand is coming from retail, rural market and some of the infrastructure projects (National highway projects) where the work is been resumed with a view to complete before monsoon.
- In 4QFY20, cement prices saw improvement in North, Central and Western markets with average increase in realization at 2% QoQ.
- For the Company East (operating at 90%) and Central are operating at higher capacity while North & South are at moderate level while West is the most impacted region.
- Trade sales stood at 68% for 4QFY20.

Management guidance:

- Construction activity and demand are expected to slow down for next 2-3 months due to labour constraint.
- The Benefit of reduced fuel and pet coke prices will reflected in 2QFY21. Average pet coke price in 4QFY20 stood at USD 70/t v/s USD 80/t in 3QFY20.
- The Company is targeting to reduce overheads by 10% in FY21 led by lower ad spends, declining cost at plants due to shut down, lower maintenance cost, administrative expense & manpower cost etc.

Expansion Details:

- Due to COVID-19, the company has slowed down the CAPEX spend and restricted the total spend to Rs. 1000 cr. For FY21.
- The Company has slowed down the work in Cuttack unit (2.2 MT) and is expected to complete in FY22.
- The brownfield expansion in existing plant of Patliputra in Bihar (0.6MT) and Dhankoni in West Bengal (0.6 MT) are expected to get commissioned by Mar-21.
- Jajpur coal block is expected to get commissioned by Mar-21.
- The Company has restricted the work on new WHRS, while the last WHRS to get completed is at Nathdwara Plant which will take the total to 145 MW of WHRS plant (12.5% of company's power requirement).

Balance sheet update:

- Net debt of the company stood at Rs. 1596 cr. (60% of loan is variable rate loan). Reduced Net debt of more than Rs. 5000 cr. for India business in FY20.

Exhibit: Volume(Million Ton) trend

Volumes remained impacted on account of shut down of factories due to COVID-19 in last week of 4QFY20.

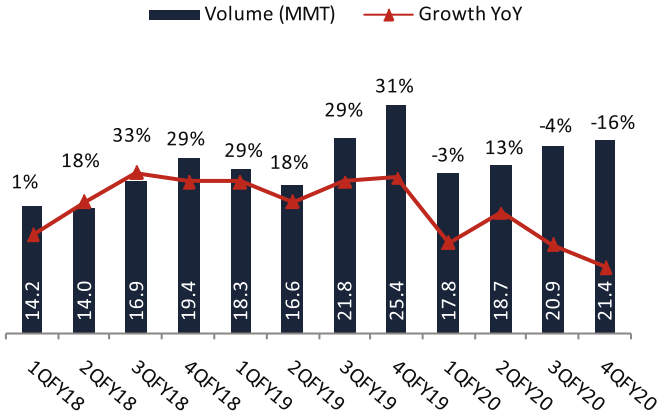


Exhibit: Blended Realization

Blend realization/ton remained improved slightly led by demand improvement in North and West.

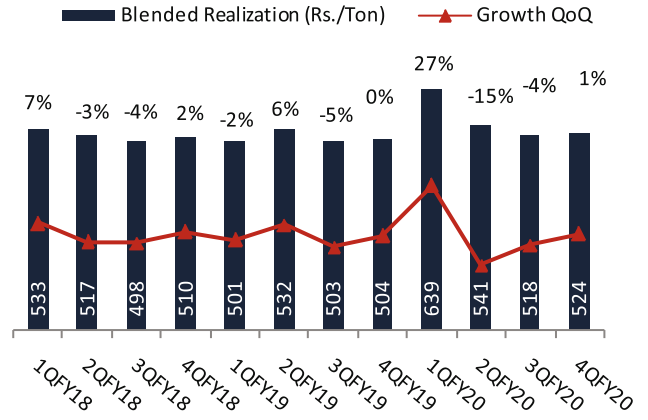


Exhibit: Revenue and revenue growth trend

Sales remained impacted on account of lower volumes due to turbulence caused by COVID-19.

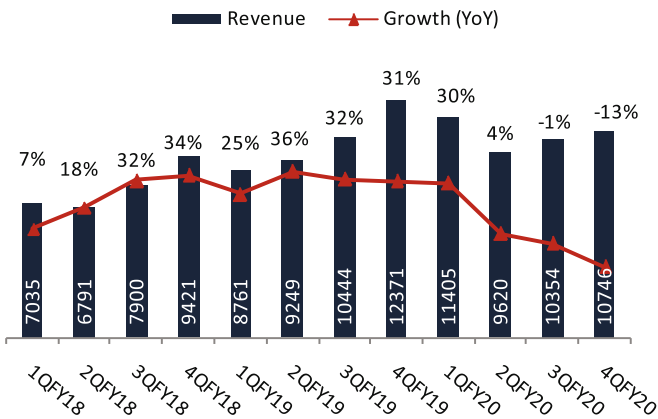


Exhibit: EBITDA margin trend

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

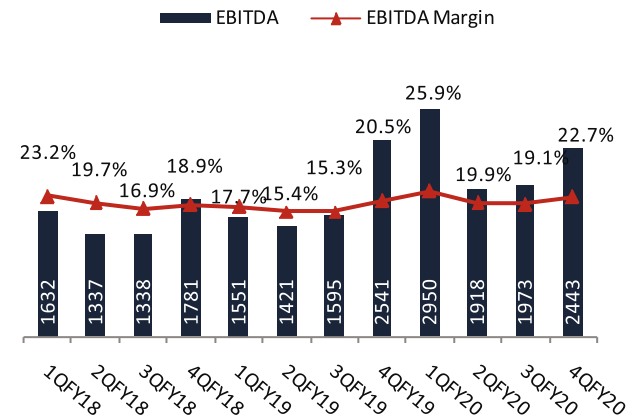


Exhibit: PAT and PAT growth trend

Higher PAT led by EBITDA improvement and lower income tax rates on the deferred tax assets /liabilities.

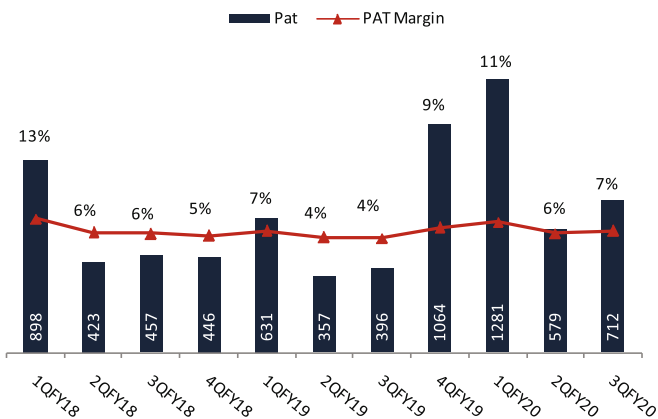
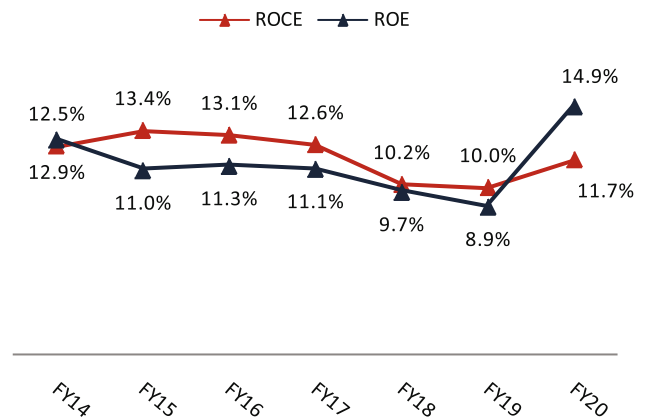


Exhibit: Return Ratios

ROE and ROCE stood at 14.9%/14% for FY20.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	274	274	274	274	275	275	275	289
Reserves	14955	16908	18767	21671	24117	26107	28088	38827
Networth	15230	17182	19041	21946	24392	26381	28362	39115
Debt	5169	6021	4993	4897	6371	15863	20650	17368
Total Capital Employed	20399	23203	24034	26842	30763	42245	49013	56483
Net Fixed Assets (incl CWIP)	17917	19311	24540	25672	25740	40190	57798	57902
Non Current Investments	1582	1133	1977	2730	1280	1498	1386	1662
Other Non Current Assets	0	0	0	696	532	2749	2810	2826
Non Current Assets	21307	22691	29266	30669	28893	45689	63583	64330
Inventory	2541	2580	2949	2455	2401	3268	4099	4148
Debtors	1376	1632	1659	1928	1757	2228	2787	2238
Cash & Bank	185	348	393	2267	2249	219	740	539
Other Current Assets	6	19	18	786	996	1060	1437	1503
Current Assets	8283	9502	8797	10534	13326	11468	12954	15007
Creditors	2312	2587	2912	1717	1849	2504	3160	3501
Provisions	949	855	1145	169	168	312	594	548
Other Current Liabilities	2579	2106	4399	3185	2392	2904	3867	3512
Curr Liabilities	5840	5548	8456	9142	7249	8575	11376	12157
Net Current Assets	2443	3954	341	1391	6076	2893	1578	2851
Total Assets	29590	32193	38063	41203	42219	57158	76537	79337

Income Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Revenue from Operation	21324	21652	24349	25153	25375	30979	41609	42125
Change (%)	15%	2%	12%	3%	1%	22%	34%	1%
Other Income	304	323	350	464	648	589	463	648
EBITDA	4839	4035	4425	4901	5212	6145	7347	9284
Change (%)	15%	-17%	10%	11%	6%	18%	20%	26%
Margin (%)	23%	19%	18%	19%	21%	20%	18%	22%
Depr & Amor.	1023	1139	1203	1377	1348	1848	2451	1986
EBIT	3816	2896	3222	3524	3864	4297	4896	6581
Int. & other fin. Cost	252	361	587	566	640	1238	1778	1986
EBT	3867	2858	2986	3421	3872	3648	3582	5244
Exp Item	0	0	0	0	0	226	0	0
Tax	1179	645	884	942	1159	1077	1068	-568
Minority Int & P/L share of Ass.	10	7	4	2	(1)	-	3	-
Reported PAT	2678	2206	2098	2478	2715	2224	2404	5810
Adjusted PAT	2678	2206	2098	2478	2715	2065	2404	5810
Change (%)	11%	-18%	-5%	18%	10%	-18%	8%	142%
Margin(%)	13%	10%	9%	10%	11%	7%	6%	14%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	18%	13%	11%	11%	11%	10%	9%	15%
ROCE	19%	12%	13%	13%	13%	10%	10%	12%
Asset Turnover	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5
Debtor Days	24	28	25	28	25	26	24	19
Inv Days	43	43	44	36	35	38	36	36
Payable Days	40	44	44	25	27	30	28	30
Int Coverage	15.1	8.0	5.5	6.2	6.0	3.5	2.8	3.3
P/E	19	27	37	36	40	42	44	15
Price / Book Value	3.4	3.5	4.1	4.0	4.5	4.1	3.9	2.3
EV/EBITDA	12	17	19	19	22	21	18	12
FCF per Share	41	(14)	47	54	110	(437)	100	244
Div Yield	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
PBT	3867	2858	2986	3421	3872	3301	3468	5242
(inc)/Dec in Working Capital	-501	80	-99	429	529	-1255	-696	450
Non Cash Op Exp	1023	1139	1203	1377	1348	1848	2451	2702
Int Paid (+)	252	361	587	566	640	1238	1778	1986
Tax Paid	-726	-669	-170	-852	-744	-843	-710	-891
others	-298	-307	-318	-417	-641	-401	-336	-587
CF from Op. Activities	3618	3462	4188	4526	5005	3888	5956	8902
(inc)/Dec in FA & CWIP	-3363	-2311	-2709	-2131	-1364	-1877	-1596	-1627
Free Cashflow	254	1151	1479	2394	3641	2011	4360	7275
(Pur)/Sale of Inv	-835	212	-865	172	-1217	1614	2,656	(2,720)
others	-188	-305	1516	-1767	100	2124	53	(19)
CF from Inv. Activities	-4387	-2403	-2058	-3727	-2480	1862	1114	-4366
inc/(dec) in NW	8	4	3	4	7	16	5	3
inc/(dec) in Debt	1335	-213	-1230	46	-1615	-4207	-4648	-2566
Int. Paid	-373	-449	-589	-596	-614	-1210	-1685	-1894
Div Paid (inc tax)	-255	-292	-294	-297	-312	-334	-346	-380
others								
CF from Fin. Activities	715	-949	-2110	-844	-2535	-5735	-6674	-4837
Inc(Dec) in Cash	-54	110	20	-45	-10	14	395	-301
Add: Opening Balance	239	239	371	135	69	63	129	445
Closing Balance	185	348	391	90	59	77	524	144

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