

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

Demand to be driven by rural and infrastructure projects

RATING	ACCUMULATE
CMP	4136
Price Target	4400
Potential Upside	6%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	4753/2913
Mkt Capital (Rs Cr)	120298
Free float (%)	38%
Avg. Vol 1M (,000)	20
No. of Shares (Cr)	29
Promoters Pledged %	NA

RESEARCH ANALYST

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1QFY21 Result update

- In 1QFY21, ULTRACEMCO consolidated sales de-grew by 33% YoY to Rs. 7634 cr. Impacted on account of nation-wide shut down of factories in the month of April due to outbreak of COVID-19.
- The Company's consolidated sales volume stood at 14.65 MT in 1QFY21 vs. 18.80 MT in 1QFY20 with a decline of 22% YoY.
- The Company's blended realization on standalone basis improved by ~5% QoQ on account of demand pick up in East, North, Central, Tamil Nadu and Kerala markets while witnessed slowdown in Andhra, Western India, Karnataka, Telangana markets.
- EBITDA margin improved by 135 bps to 27.2% YoY led by lower Power & fuel and freight cost. Power cost declined by 256 bps to 18% YoY (as % of sales) led by decline in fuel price, increased pet coke usage and power plant efficiency whereas freight cost declined by 168 bps to 21% YoY (as % of sales) led by savings from lower railway freight, higher rail % and synergies with acquired plants.
- The Company's PAT stood at Rs. 796.31 cr. with PAT de-growth of 37.8% YoY and PAT margin at 10.4% in 1QFY21.

View and Valuation

ULTRACEMCO volumes remained impacted on account of nation-wide lock down amidst pandemic. On cement demand front, the company is witnessing demand from retail, rural and infrastructure projects front while demand from urban remained impacted due to rising number of COVID-19 cases. 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, higher share of green power, higher dependence on railway, synergies with century plants 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, demand will remain the concern with vertical lockdowns in many states, advent of monsoon, challenges in labor availability and unavailability of other raw materials. Thus, maintain our ACCUMULATE rating with a target price of Rs. 4400.

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	FY17	FY18	FY19	FY20	FY21E
Net Sales	25375	30979	41609	42125	38643
EBITDA	5212	6145	7347	9284	8606
EBIT	3864	4297	4896	6581	5712
PAT	2715	2224	2404	5810	3269
EPS (Rs)	99	94	92	212	119
EPS growth (%)	9%	-5%	-2%	131%	-44%
ROE (%)	11%	10%	9%	15%	9%
ROCE (%)	13%	10%	10%	12%	11%
EV/EBITDA	22.0	20.6	18.3	11.9	14.7
P/B (X)	4.5	4.1	3.9	2.3	3.1
P/E (x)	40	42	44	15	35

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1QFY21 Results

Better than expectation

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	11420	9620	10354	10745	7634	-33.2%	-29.0%	41609	42125	1%
Other Income	135	154	168	198	279	107.0%	40.9%	463	648	40%
COGS	1569	1524	1788	1454	1187	-24.3%	-18.3%	6983	6313	-10%
Gross Margin	86%	84%	83%	86%	84%	-1.8%	-2.0%	83%	85%	2%
Employee Cost	596	638	620	655	560	-6.0%	-14.4%	2291	2509	10%
Other Expenses	1368	1459	1589	1396	835	-39.0%	-40.2%	5237	5825	11%
EBITDA	2949	1918	1973	2443	2075	-29.7%	-15.1%	7347	9284	26%
EBITDA%	26%	20%	19%	23%	27%	1.3%	4.4%	18%	22%	4%
Depreciation	688	668	673	672	646	-6.1%	-3.9%	2451	2702	10%
EBIT	2261	1250	1300	1770	1428	-36.8%	-19.3%	4896	6581	34%
Interest	503	507	471	505	393	-21.8%	-22.1%	1778	1986	12%
PBT	1893	896	997	1463	1314	-30.6%	-10.2%	3582	5244	46%
Exceptional Item	0	6	-1	0	157	-	-	0	0	-
Tax	612	311	286	-1777	360	-41%	-120%	1068	-568	-153%
PAT	1281	579	712	3243	796	-37.8%	-75.4%	2404	5810	142%
PAT Margin	11%	6%	7%	30%	10%	-0.8%	-19.7%	6%	14%	8%

Concall Highlights

- The Cement industry witnessed demand pick up in East, North, Central, Tamil nadu and Kerala markets while witnessed slowdown in Andhra, Western India, Karnataka, Telangana markets.
- As per the Company demand in Odisha is picking up its development activities as a part of rehabilitation program while demand in West Bengal will continue on the back of elections and are also witnessing new projects in North India.
- The cement industry has not seen any additional capacity across the industry during the quarter.
- As per the company in 1QFY21 demand was driven by Individual home buyers led by labours going back to their home towns.
- The Company's retail share has increased to all time high at 78% in 1QFY21.
- Average cement price increased by 7% QoQ during the quarter.
- The Company has a loan of Rs. 1700 cr. in overseas companies at a cost of 1.5%.
- The Average capacity utilisation for the quarter stood at 46%.

Management guidance:

- As per the company, the macros will continue to remain volatile considering vertical lock downs in many states.
- The Company expects moderate pick up in cement demand post Diwali with labours going back to urban.
- The Company expects cash flows from rural to continue growing on back of good monsoon, lower number of COVID-19 cases and good crop season coupled with government initiatives to uplift infrastructure.
- The Company is not expecting any further benefit in reduction of fuel cost and will work on internal efficiency.
- The Company do not expect further release in working capital.
- The Company may integrate its Dubai unit (Non-core asset) and start operating it as part of own capacity if they could not find the buyer and will wait till this quarter.
- The Incremental reduction in P&F cost will be small amount but will be sustainable.
- The brownfield expansion in existing plant of Patliputra in Bihar (0.6MT) and Dhankoni in West Bengal (0.6 MT) are going on and will start in early of FY22.
- The 2.3MT clinker plant in UP will be commissioned in next fiscal year and the company is in process of getting approvals from the government.
- Expected CAPEX for FY21-Rs. 1500 cr. which will include 66MW WHRS projects spread across 7 plants, Railway sidings, Phase 2 of Bara grinding unit, Bulk terminal near Panvel and will also include usual maintenance and modernisation CAPEX.

Exhibit: Volume (Million Ton) trend

Volumes remained impacted on account of shut down of factories due to COVID-19 in April-20.

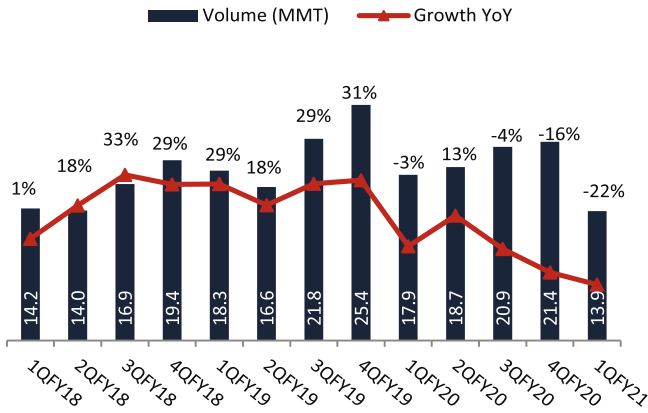


Exhibit: Blended Realization

Realization/ton increase led by demand improvement in North, East, Central, Tamil Nadu and Kerala.

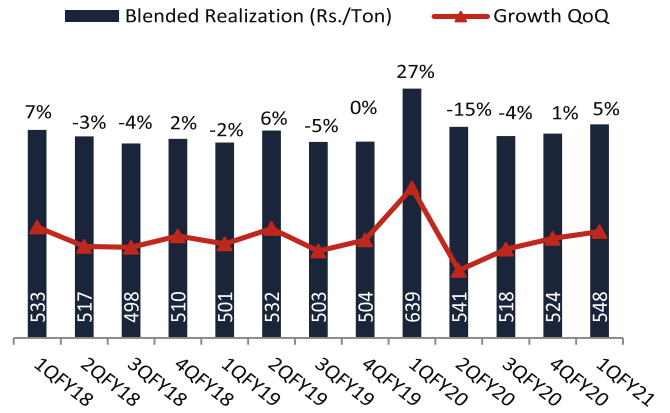


Exhibit: Revenue and revenue growth trend

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

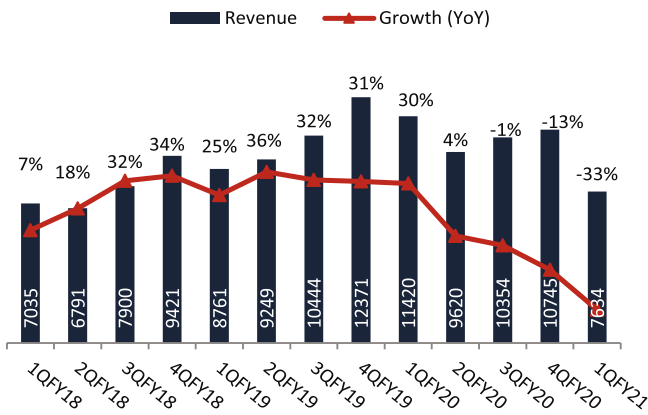


Exhibit: EBITDA margin trend

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

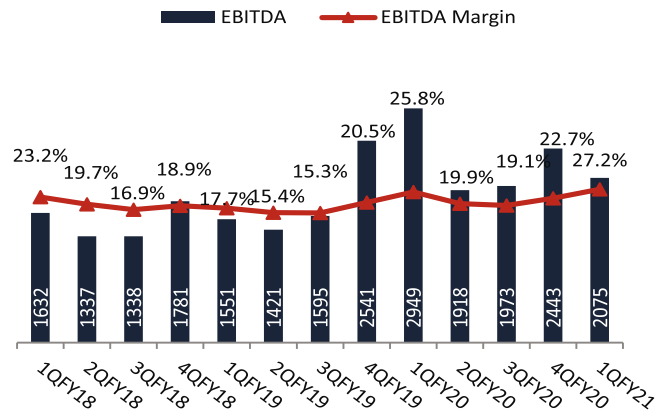
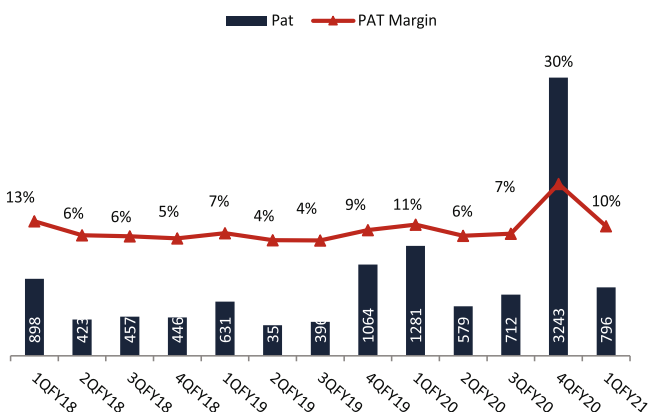


Exhibit: PAT and PAT growth trend

PAT stood at Rs. 796 cr. With a PAT margin at 10.4% in 1QFY21.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	274	274	274	275	275	275	289	275
Reserves	16908	18767	21671	24117	26107	28088	38827	36305
Networth	17182	19041	21946	24392	26381	28362	39115	36580
Debt	6021	4993	4897	6371	15863	20650	17368	16833
Total Capital Employed	23203	24034	26842	30763	42245	49013	56483	53413
Net Fixed Assets (incl CWIP)	19311	24540	25672	25740	40190	57798	57902	47714
Non Current Investments	1133	1977	2730	1280	1498	1386	1662	1662
Other Non Current Assets	0	0	696	532	2749	2810	2826	2826
Non Current Assets	22691	29266	30669	28893	45689	63583	64330	54119
Inventory	2580	2949	2455	2401	3268	4099	4148	3805
Debtors	1632	1659	1928	1757	2228	2787	2238	2053
Cash & Bank	348	393	2267	2249	219	740	539	6585
Other Current Assets	19	18	786	996	1060	1437	1503	1379
Current Assets	9502	8797	10534	13326	11468	12954	15007	19433
Creditors	2587	2912	1717	1849	2504	3160	3501	3212
Provisions	855	1145	169	168	312	594	548	503
Other Current Liabilities	2106	4399	3185	2392	2904	3867	3512	3222
Curr Liabilities	5548	8456	9142	7249	8575	11376	12157	11152
Net Current Assets	3954	341	1391	6076	2893	1578	2851	8281
Total Assets	32193	38063	41203	42219	57158	76537	79337	73551

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	21652	24349	25153	25375	30979	41609	42125	38643
Change (%)	2%	12%	3%	1%	22%	34%	1%	-8%
Other Income	323	350	464	648	589	463	648	812
EBITDA	4035	4425	4901	5212	6145	7347	9284	8606
Change (%)	-17%	10%	11%	6%	18%	20%	26%	-7%
Margin (%)	19%	18%	19%	21%	20%	18%	22%	22%
Depr & Amor.	1139	1203	1377	1348	1848	2451	1986	2894
EBIT	2896	3222	3524	3864	4297	4896	6581	5712
Int. & other fin. Cost	361	587	566	640	1238	1778	1986	1787
EBT	2858	2986	3421	3872	3648	3582	5244	4737
Exp Item	0	0	0	0	226	0	0	0
Tax	645	884	942	1159	1077	1068	-568	1469
Minority Int & P/L share of Ass.	7	4	2	(1)	-	3	-	-
Reported PAT	2206	2098	2478	2715	2224	2404	5810	3269
Adjusted PAT	2206	2098	2478	2715	2065	2404	5810	3269
Change (%)	-18%	-5%	18%	10%	-18%	8%	142%	-44%
Margin(%)	10%	9%	10%	11%	7%	6%	14%	8%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	13%	11%	11%	11%	10%	9%	15%	9%
ROCE	12%	13%	13%	13%	10%	10%	12%	11%
Asset Turnover	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Debtor Days	28	25	28	25	26	24	19	19
Inv Days	43	44	36	35	38	36	36	36
Payable Days	44	44	25	27	30	28	30	30
Int Coverage	8.0	5.5	6.2	6.0	3.5	2.8	3.3	3.2
P/E	27	37	36	40	42	44	15	35
Price / Book Value	3.5	4.1	4.0	4.5	4.1	3.9	2.3	3.1
EV/EBITDA	17	19	19	22	21	18	12	15
FCF per Share	(14)	47	54	110	(437)	100	244	(58)
Div Yield	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.3%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	2858	2986	3421	3872	3301	3468	5242	4737
(inc)/Dec in Working Capital	80	-99	429	529	-1255	-696	450	616
Non Cash Op Exp	1139	1203	1377	1348	1848	2451	2702	2894
Int Paid (+)	361	587	566	640	1238	1778	1986	1787
Tax Paid	-669	-170	-852	-744	-843	-710	-891	-1469
others	-307	-318	-417	-641	-401	-336	-587	0
CF from Op. Activities	3462	4188	4526	5005	3888	5956	8902	8565
(inc)/Dec in FA & CWIP	-2311	-2709	-2131	-1364	-1877	-1596	-1627	7294
Free Cashflow	1151	1479	2394	3641	2011	4360	7275	15859
(Pur)/Sale of Inv	212	-865	172	-1217	1614	2,656	(2,720)	-
others	-305	1516	-1767	100	2124	53	(19)	-
CF from Inv. Activities	-2403	-2058	-3727	-2480	1862	1114	-4366	7294
inc/(dec) in NW	4	3	4	7	16	5	3	0
inc/(dec) in Debt	-213	-1230	46	-1615	-4207	-4648	-2566	-535
Int. Paid	-449	-589	-596	-614	-1210	-1685	-1894	-1787
Div Paid (inc tax)	-292	-294	-297	-312	-334	-346	-380	-518
others								
CF from Fin. Activities	-949	-2110	-844	-2535	-5735	-6674	-4837	-2840
Inc(Dec) in Cash	110	20	-45	-10	14	395	-301	13019
Add: Opening Balance	239	371	135	69	63	129	445	147
Closing Balance	348	391	90	59	77	524	144	13166

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