

## ULTRACEMCO NEUTRAL

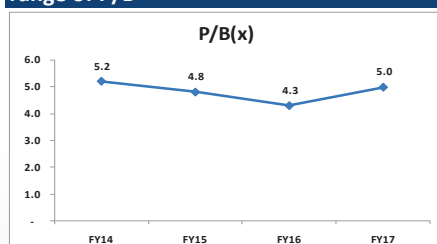
26-Apr-17

INDUSTRY - CEMENT  
BSE Code - 532538  
NSE Code - ULTRACEMCO  
NIFTY - 9307

### Company Data

CMP	4,235
<b>Target Price</b>	<b>4260</b>
Previous Target Price	
<b>Upside</b>	<b>1%</b>
52wk Range H/L	4260/3050
Mkt Capital (Rs Cr)	1,16,249
Av. Volume (,000)	235

ULTRACEMCO is trading at its higher range of P/B

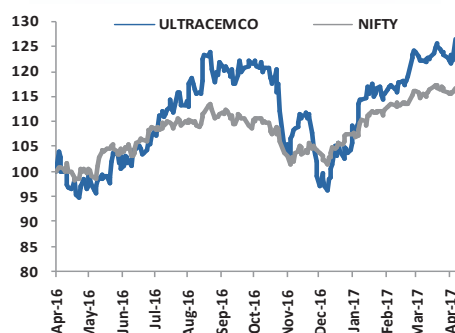


### Share Holding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	62.2	62.3	62.3
Public	37.8	37.8	37.8
Total	100.0	100.1	100.1

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	4.3	10.0	29.9
Rel.to Nifty	3.1	6.5	14.4



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### Key Highlights of the Report:

- ✓ The EBITDA margin contracted by 186bps YoY from 18.9% to 17.04% led by 155bps increase in Power & Fuel cost and 83bps increase in other expenses.
- ✓ The company reported 20% QoQ growth in sales volume in 4QFY17 due to low base, demand recovery and capacity additions.
- ✓ White cement and wall care putty volumes were at 3.86 lakh tonnes against 3.85 lakh tonnes in same quarter last year. Grey Cement volumes increased 0.2% to 13.35 MT against 13.32 MT YoY.
- ✓ Presently company is trading at 4.5x times of FY18E book value of Rs 950. Considering a slightly stretch valuation we hold Neutral view on this stock with TP of Rs 4260.

Financials/Valuation	FY14	FY15	FY16	FY17	FY18E
Net Sales	21,652	24,349	28,392	28,646	25,941
EBITDA	4,035	4,425	4,901	5,212	5,010
EBIT	2,896	3,222	3,524	3,864	4,002
PAT	2,206	2,098	2,478	2,715	3,023
EPS (Rs)	76	73	84	94	110
EPS growth (%)	-21%	-3%	15%	11%	17%
ROE (%)	13%	11%	11%	13%	13%
ROCE (%)	14%	14%	13%	16%	19%
BV	624	687	756	850	950
P/B (X)	5.2	4.8	4.3	5.0	4.5
EV/Ton (Cap-USD)	240	217	200	194	183

### Acquisition of JP Associates

- ✓ The company is in process to acquire 21.1 MT of cement capacity. It is at its last stage. All approval is done. **Once completed it will have capacity expansion of:**
  - ◆ 6.5 MT in UP and Uttarakhand (Infrastructure development will pick up momentum)
  - ◆ 5 MT in Coastal Andhra Pradesh (well positioned)
  - ◆ 4.9 MT in Central India
  - ◆ 5 MT in Himachal Pradesh
- ✓ The company is setting up 3.5 MTPA integrated cement plant at Dhar, Madhya Pradesh is on track and commercial production is expected to commence from Q4FY19. During the year, it has commissioned grinding units in Maharashtra and Bihar.
- ✓ With this expansion and the acquisition of cement plants of Jaiprakash Associates, company's cement capacity will stand augmented to 95.4 MTPA, including its overseas operations in FY19.

It includes Rs.138 crore of provisions which is no longer required.

## Quarterly Performance

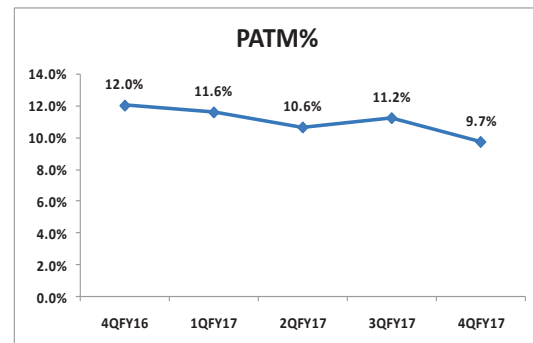
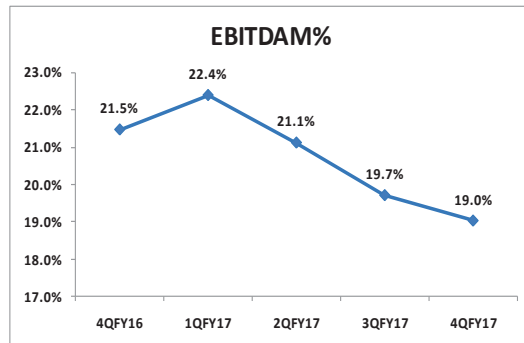
Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	7,700	7,400	6,446	6,690	7,924	3%	18%	28,392	28,646	1%
Other Income	141	151	159	97	241	71%	147%	464	648	40%
COGS	1,244	1,209	931	1,047	1,308	5%	25%	4,418	4,493	2%
Employee Cost	365	373	384	392	373	2%	-5%	1,445	1,522	5%
Other Expenses	979	982	987	938	1,066	9%	14%	3,837	3,972	4%
EBITDA	1,464	1,475	1,219	1,182	1,336	-9%	13%	4,901	5,212	6%
Depreciation	379	323	334	336	356	-6%	6%	1,377	1,348	-2%
Interest	128	180	150	144	167	30%	16%	566	640	13%
PBT	1,097	1,124	894	800	1,054	-4%	32%	3,421	3,872	13%
Tax	279	344	280	206	329	18%	59%	942	1,159	23%
PAT	819	763	614	673	682	-17%	1%	2,478	2,715	10%

- ✓ Reported Net sales for the quarter stood at Rs 7924 Cr (Up 3% YoY) as compared to Rs 7700 Cr in 4QFY16, and Rs 6690 Cr (Up 18% QoQ) in 3QFY17.
- ✓ Other income for the quarter stood at Rs 241 Cr (71% up YoY & 147% up QoQ). It includes Rs 138 Cr of provisions which is no longer required. This provision was related to royalty on limestone for AP for last several years for conversion factor.
- ✓ On the volume front, white cement and wall care putty volumes were at 3.86 lakh tonnes against 3.85 lakh tonnes in same quarter last year. Grey Cement volumes increased 0.2% to 13.35 MT against 13.32 MT YoY.
- ✓ Other expenses for the quarter was Rs 1066 Cr (Up14% QoQ) driven by sales volume (20% up sequentially). The YoY growth of 9% was due to variable expenses.
- ✓ Tax rate for the quarter stood 329 Cr as compared to Rs 279 Cr in the same quarter of the previous year. Expected tax rate for FY18 is 32%.
- ✓ PAT for the quarter declined 17% QoQ to Rs 682 Cr as compared to Rs 819 Cr in the same quarter of the previous year.

## Margins Dissatisfied

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	81.8%	81.7%	83.9%	82.5%	81.4%	0%	-1%	84%	84%	0%
EBITDA Margin	21.5%	22.4%	21.1%	19.7%	19.0%	-2%	-1%	17%	18%	1%
PAT Margin	12.0%	11.6%	10.6%	11.2%	9.7%	-2%	-2%	9%	9%	1%

- ✓ Gross Margin declined by 39bps YoY to 81.4% from 81.8% due to inflation in input prices.
- ✓ The EBITDA margin contracted by 186bps YoY from 18.9% to 17.04% led by 155bps increase in Power & Fuel cost and 83bps increase in other expenses.
- ✓ PAT margin deteriorated by 230bps on the back of higher tax provisioning of 577bps (31.2% Vs 25.4%).



## View & Valuation

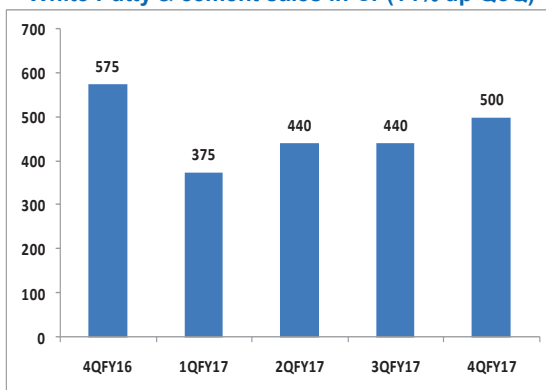
Major negative came from contraction in EBITDA margin which declined by 186bps YoY led by rise in power and fuel cost. Although management's tone was bullish and is expecting above than industry growth going forward but we need to see how management maintains margins going forward. On the other hand, company clocked better volume growth (20% QoQ) in this quarter but it will be too early to draft conclusions based on that, so we will be watchful about volume growth in upcoming quarters to get more clearer view. Presently company is trading at 4.5x times of FY18E book value of Rs 950. Considering a slightly stretch valuation we hold Neutral view on this stock with TP of Rs 4260.

## Concall Highlights:

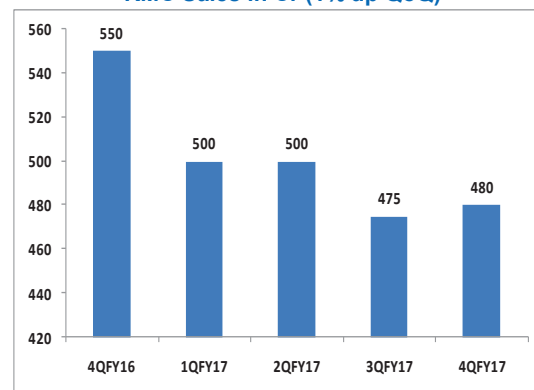
- ✓ Housing sector has started coming back (Correction in prices of real estate sector, reduction in interest rate has also made housing finance attractive, 1st home buyer are getting in investment mode again).
- ✓ Infrastructure segment continues to grow at robust. However overall demand driver remained to be small (contributing 20% of overall demand). Roads (3-4%) growing robustly. Irrigation picking up, Metro, Rail, Inland waterways picking up.
- ✓ **Region Split :**
  - Tamil Nadu, Kerala : Due to Drought it remain under pressure. Also political uncertainties there. Not positive.
  - Western market : Demand seen, volume picking up.
  - North Market : Slow demand, Pressure of liquidity crisis followed by eastern market.
  - Rural market up due to good monsoon, good crops, Pay commission disbursement.
- ✓ Affordable Housing Scheme: Very positive move for cement industry.
- ✓ **Commitment of Zero debt:** The year ended with negative debt of 2004 Cr and cash surplus of 2004 Cr. Robust Working capital Management and prudence capex plan has helped to achieve the goal. Helped in reducing leverage position from day 1 of acquisition.
- ✓ Indian economy to grow 70% in coming years. Cement industry to sustained this growth and ultratech is well positioned to take advantage of this growth.
- ✓ Capex for Dhar project : 2600 Cr.

- ✓ **Sales break up** : For 4QFY17 White cement: 500 Cr Ready concrete mix: 480 Cr and For FY17 White cement: 1700 Cr Ready concrete Mix: 2000 Cr.
- ✓ JP Associates operating at 42% of capacity utilization. Target for 1st 12 months is to cross 60% utilization and for next 12 months is to cross 75% utilization.
- ✓ Expected Tax rate for FY18 is 32%.
- ✓ Andhra Pradesh & Telangana can show double digit growth.
- ✓ Ultratech to grow higher than industry growth.
- ✓ **Incremental capacity for next 3 Years : 40MT**
  - North : In FY17 it is 145 MT will be reaching to 160 MT by FY21
  - South : In FY17 it is 147 MT will be reaching to 155 MT by FY21
  - East : In FY17 it is 72 MT will be reaching to 88 MT by FY21
  - West : In FY17 it is 54 MT will be reaching to 65 MT by FY21

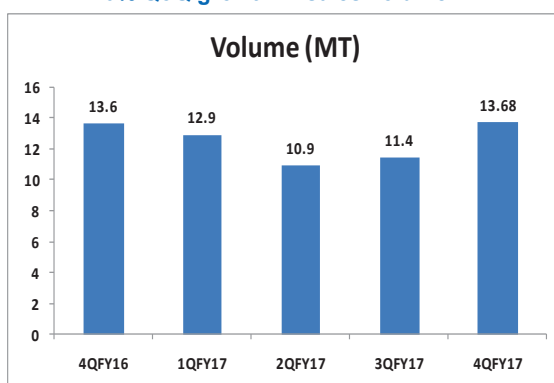
**White Putty & cement sales in Cr (14% up QoQ)**



**RMC Sales in Cr (1% up QoQ)**



**20% QoQ growth in sales volume**



**Realization declined 2% sequentially**

