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Q3FY21 result review and earnings revision

Cement

Target price: Rs6,700

Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	↑ 1.8	↑ 3.4	↑ 4.5
EBITDA	↑ 2.2	↑ 5.5	↑ 7.6
PAT	↑ 5.6	↑ 10.5	↑ 12.8

Target price revision

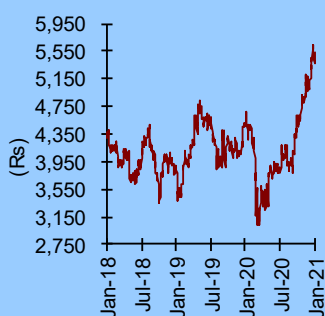
Rs6,700 from Rs5,725

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	60.0	59.9	60.0
Institutional investors	30.7	30.7	30.9
MFs and others	10.6	10.5	9.4
FIs/Insurance	4.0	4.9	4.7
FPI	16.1	15.3	16.8
Others	9.3	9.4	9.1

Source: NSE

Price chart



Research Analysts:

Krupal Maniar, CFA

krupal.maniar@icicisecurities.com
+91 22 6637 7254

Dharmesh Shah

shah.dharmesh@icicisecurities.com
+91 22 6637 7480

UltraTech Cement

BUY

Maintained

Earnings upgrade continues; ripe for rerating

Rs5,580

UltraTech Cement's (UTCEM) Q3FY21 consolidated EBITDA at Rs31bn (up 56% YoY) with EBITDA/te at Rs1,296/te was significantly higher than our / consensus estimates. Execution was robust across all parameters: industry-leading volume growth of 14% YoY (I-Sec: +11.5% YoY), grey cement realisation decline of only 1.3% QoQ (I-Sec: 3% QoQ), EBITDA/te up 37% YoY and net debt down by Rs27bn QoQ to Rs94bn. We believe UTCEM is likely to rerate as it continues to gain market share with improved profitability / RoCEs and turn net debt free by FY23E. Factoring-in the Q3FY21 beat, we increase our FY22E-FY23E EBITDA by 6-8% and raise our target price to Rs6,700/share (earlier: Rs5,725) based on 13x FY23E EV/E on half-yearly rollover. Maintain BUY. Key risks: lower than expected demand / pricing growth, and any regulatory intervention.

- ▶ **Q3FY21 capacity utilisation up 11% YoY to 80%** with the company operating at 85% utilisation in Dec'20. While East operated at >100% utilisation and South at 70%, the figure for rest of the regions was 80%. UTCEM's volumes grew 14% YoY / 19% QoQ to 22.43mte with North and East posting >20% YoY growth. Century volumes grew by a strong 37% YoY and both Century and Binani assets worked at 75% utilisation. Share of non-trade volumes increased to 36% in Q3FY21 from 31% in Q2FY21 and 33% in Q3FY20 implying 40% QoQ and 25% YoY growth. This suggests pick-up in infrastructure spend and improvement in urban housing demand, especially in tier-2&3 cities. RMC revenues too grew 43% QoQ and 24% YoY to Rs6.2bn while white-cement/putty revenues were up 17% YoY at Rs5.4bn. White cement/putty volumes grew 13% YoY with realisation increasing 4-5% YoY and QoQ.
- ▶ **India operations revenue increased 19% YoY to Rs117bn (I-Sec: Rs112bn).** Grey cement realisation rose 4.5% YoY (declined only 1.3% QoQ) vs our estimate of 3% QoQ rise aided by higher prices in South and West, despite increase in non-trade volumes. Diversified market mix is aiding UTCEM to report strong EBITDA growth as it benefits from both higher volume growth in North and East and better prices from South and West. EBITDA increased 49% YoY to Rs30.3bn (I-Sec: Rs26.2bn) with EBITDA/te up 30% YoY at Rs1,328/te (I-Sec: Rs1,168/te).
- ▶ **UTCEM to become debt-free by FY23E** as it is likely to generate FCF of Rs70bn-75bn p.a. Consolidated net debt declined by Rs27bn QoQ to Rs94bn (Rs74bn in 9MFY21) on strong FCF generation post capex of Rs4bn and working capital release of Rs8bn in Q3FY21. We factor-in capex of Rs75bn over FY22E-FY23E.
- ▶ **Parent company Grasim announced plan to enter into paints business** with capex of Rs50bn over the next three years. Grasim intends to leverage *Birla White* brand and white cement/putty distribution network of UTCEM for paints. Management mentioned the company does not have any plan to hive off its white cement and wall putty business in the near term and any transaction with Grasim will be on arm's length basis.

Market Cap	Rs1598bn/US\$21.9bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	ULTC.BO/UTCEM IN	Revenue (Rsmn)	4,21,248	4,37,851	5,11,199	5,60,769
Shares Outstanding (mn)	288.6	EBITDA (Rs mn)	94,166	1,11,174	1,29,753	1,45,966
52-week Range (Rs)	5651/3018	Net Income (Rs mn)	38,384	55,482	69,261	81,851
Free Float (%)	40.1	% Chg YoY	50.0	44.5	24.8	18.2
FII (%)	16.8	P/E (x)	42.0	29.0	23.3	19.7
Daily Volume (US\$'000)	44,162	CEPS (Rs)	226.6	284.8	338.2	388.7
Absolute Return 3m (%)	19.9	EV/E (x)	18.9	15.3	12.7	10.8
Absolute Return 12m (%)	24.0	Dividend Yield	0.2	0.3	0.3	0.3
Sensex Return 3m (%)	20.7	RoCE (%)	8.6	11.3	13.4	15.3
Sensex Return 12m (%)	20.4	RoE (%)	11.4	13.3	14.6	15.1

Please refer to important disclosures at the end of this report

- **Market share gains to continue with improved profitability:** UTCEM would be adding 19.5mnte capacities (18% of domestic capacities) in the fast-growing markets of East, Central and North regions to be commissioned in a staggered manner by FY23E. Given that >70% of these expansions are brownfield with average capex of US\$60/te, these assets are expected to enjoy healthy RoCE of 15% (vs 11.5% in FY20) led by better profitability.
- **Sharp focus on cost reduction & efficiencies:** UTCEM is targeting 10% fixed-cost savings (Rs5.5bn p.a. or Rs60/te) in FY21. Besides, the company is setting up 177MW WHRS by Mar'24 taking its total WHRS capacity to 302MW. Additionally, it plans to increase solar & wind power capacity from 99MW to >350MW. Accordingly, its green power share is set to increase to 34% (WHRS 26%, solar 8%) by FY24E.

Other key takeaways

- **Raw material costs were stable YoY** on improved clinker to cement conversion ratio and stable raw material prices (e.g. flyash, gypsum, etc.), while the same has declined 1% QoQ as fly ash prices fell 2% QoQ.
- **Power and fuel cost/te declined 3% YoY** as green power share in the power mix increased by 200bps YoY to 13% and power consumption declined 2% YoY – although it has increased by 2% QoQ with 5% increase in petcoke prices. Management mentioned that high-cost petcoke / coal inventory is likely to impact in Q1FY22 and fuel costs are expected to stabilise by Q2FY22E.
- **Freight cost/te increased by 5% YoY** with diesel prices higher by ~10% YoY. It has increased 3% QoQ with lower clinker to cement ratio, change in market mix and increase in lead distance to 440km.
- **Other expenses/te declined 10% YoY** on lower fixed-costs and better operating leverage, while it remained flat QoQ.
- **Century (CENT) assets operated at 75% utilisation in Q3FY21** with production cost declining 12% YoY. Management mentioned that ~84% of the production would be transitioned to UTCEM brand (vs 72% in Q3FY21) by Q1FY22. UTCEM would be setting up a 45MW WHRS, which would result in further cost savings.
- **UltraTech Nathdwara (Binani assets) operated at 75% utilisation in Q3FY21** with production cost declining 15% YoY and EBITDA/te of >Rs1,500/te. UTCEM would be setting up a 22MW WHRS, which would further result in cost savings. 2mnte grinding unit in the UAE, which was earlier held for sale has been consolidated retrospectively.
- **Q3FY21 consolidated revenues increased 18% YoY to Rs121bn** as total volumes increased 14% YoY to 23.9mnte. Consolidated EBITDA increased 56% YoY to Rs31bn with EBITDA/te increasing 37% YoY to Rs1,296/te. Adjusted PAT more than doubled YoY to Rs16bn.
- **We factor-in consolidated volume CAGR at 8.4%** over FY20-FY23E and expect consolidated EBITDA/te to increase from Rs1,144/te in FY20 (Rs1,352/te in 9MFY21) to Rs1,392/te by FY23E. With improved growth, profitability and return ratios, UTCEM is ripe for rerating, in our view.

Key takeaways from management conference call

On demand

- UTCEM capacity utilisation increased 11% YoY to ~80% in Q3FY21.
- East region is likely to have operated at ~100%, South at 70% while other regions have likely operated at ~80% in Q3FY21, as per management.
- Management expects demand to outstrip incremental supply in coming years.

Chart 1: State-wise / Region-wise performance

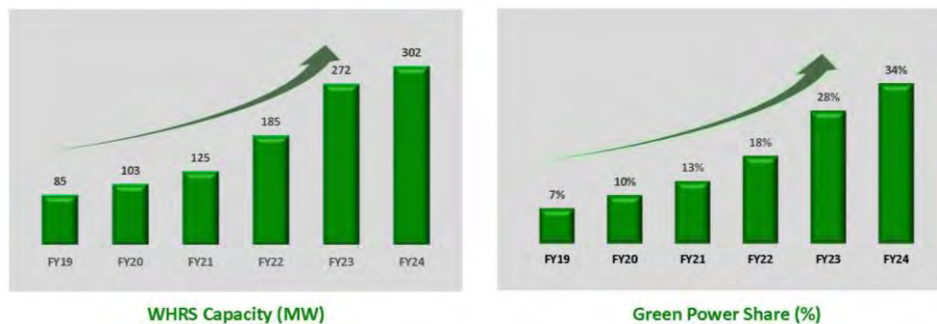
State/Region wise performance						Key drivers
State/Region	Vol. Gr.	I	R	H	C	
North	↑	●	●	●	●	<ul style="list-style-type: none"> • IHB segment is witnessing increase in demand led by Rural Housing • Infrastructure segment registered positive growth
Central	↑	●	●	●	●	<ul style="list-style-type: none"> • IHB demand continues to be robust • Infrastructure segment registered positive growth
West	↑	●	●	●	●	<ul style="list-style-type: none"> • IHB segment is witnessing an increase in demand led by Rural Housing • Infrastructure segment registered positive growth
East	↑	●	●	●	●	<ul style="list-style-type: none"> • Strong Rural housing demand • Infrastructure segment registered positive growth
South	↑	●	●	●	●	<ul style="list-style-type: none"> • Infrastructure segment registered positive growth

Source: Company data, I-Sec research

On cost

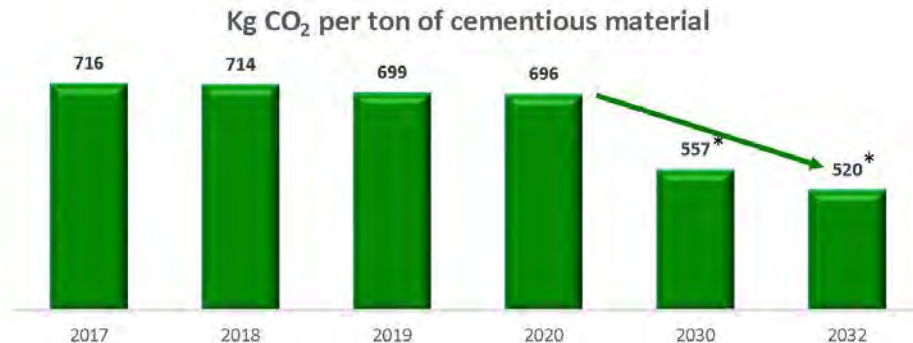
- UTCEM is targeting 10% fixed-cost savings (Rs5.5bn p.a. or Rs60/te) in FY21.
- Besides, the company is setting up 177MW WHRS by Mar'24 taking its total WHRS capacity to 302MW. Additionally, it plans to increase solar and wind power capacity from 99MW to >350MW. Accordingly, its green power share is set to increase to 34% (WHRS 26%, solar 8%) by FY24E.

Chart 2: Green power share to increase to 34% by FY24E



Source: Company data, I-Sec research

Chart 3: Specific consumption norms are improving



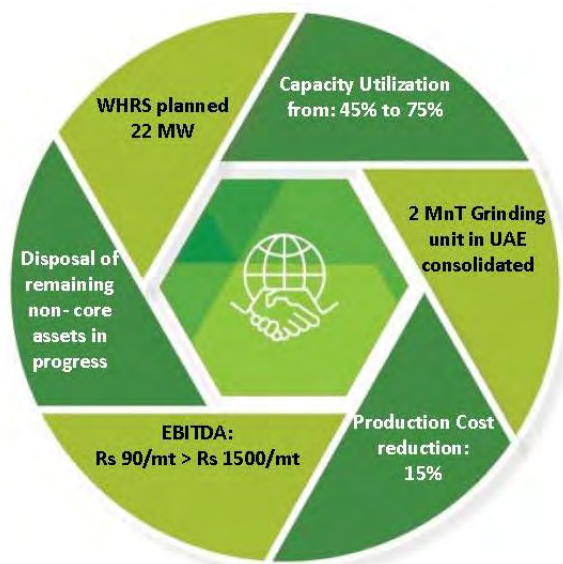
Source: Company data, I-Sec research

On capacity expansion

- UTCEM recently announced capacity expansion of 12.8mnte (12% of current capacities) in the fast-growing markets of East, Central and North regions to be commissioned in a staggered manner by FY23E.
- 2.3mnte Dalla clinker unit is likely to be commissioned by Q4FY22E.

On UNCL

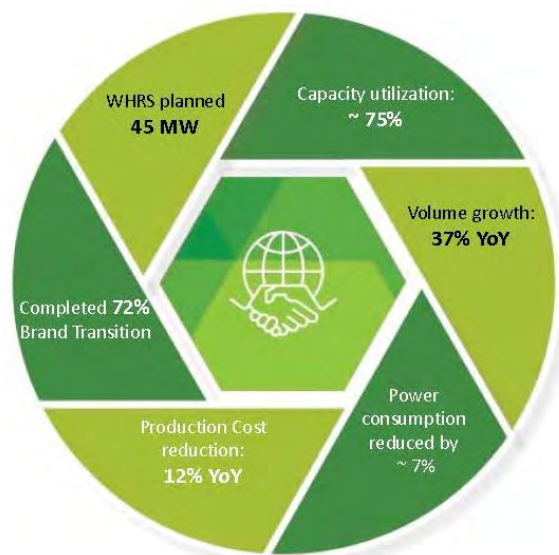
Chart 4: UltraTech Nathdwara – since takeover



Source: Company data, I-Sec research

On cement assets of Century

Chart 5: Century Cement assets – integration efforts continued



Source: Company data, I-Sec research

On net debt

Chart 6: Net debt declined by Rs27bn QoQ in Q3FY21

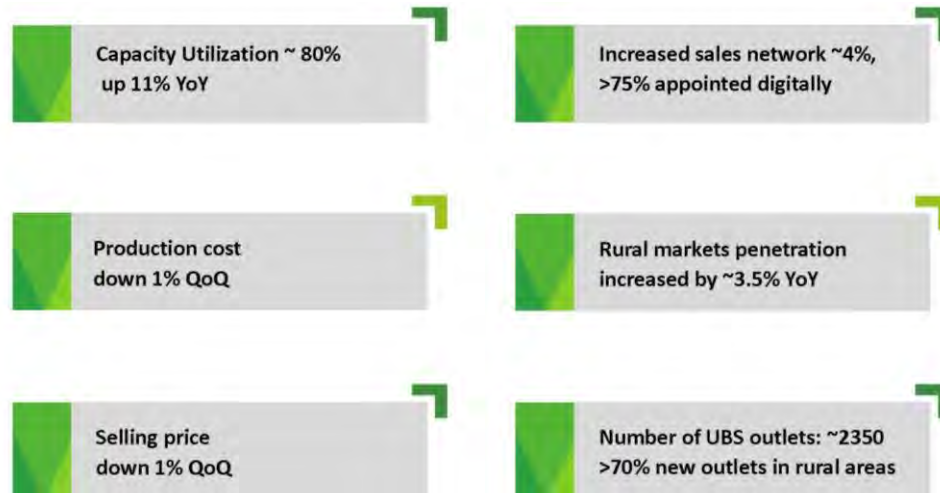


Source: Company data, I-Sec research

- Effective Working Capital Management : Q3 release : Rs 780 Crs
- Capex Spends : Q3 : Rs 391 Crs
- Net Debt Reduction YTD: Rs 7424 Crs
- Consolidated Net Debt/EBITDA reduced : 0.84x v/s 1.87x YoY

Q3FY21 performance

Chart 7: Q3FY21 – Key performance drivers



Source: Company data, I-Sec research

Table 1: Q3FY21 result review – consolidated

(Rs mn, year ending March 31)

	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	Q3FY21E	% chg
Volume sales (mnte)	23.9	20.9	14.3	20.1	19.0	23.3	2.5
Net realisation (Rs)	5,085	4,910	3.6	5,100	(0.3)	4,944	2.9
Net sales	1,21,440	1,02,610	18.4	1,02,310	18.7	1,15,235	5.4
Other operating income	1,101	1,783	(38.3)	1,561	(29.5)	1,422	(22.6)
Raw materials	17,945	18,478	(2.9)	16,758	7.1	18,944	(5.3)
Personnel cost	6,102	6,223	(1.9)	5,663	7.8	5,828	4.7
Power & fuel	24,019	20,535	17.0	18,450	30.2	23,199	3.5
Freight cost	28,485	23,457	21.4	22,996	23.9	26,922	5.8
Other expenses	15,047	15,918	(5.5)	13,028	15.5	15,001	0.3
Total expenses	91,599	84,611	8.3	76,895	19.1	89,895	1.9
Total cost/te	3,836	4,048	(5.3)	3,833	0.1	3,857	(0.5)
EBITDA	30,943	19,783	56.4	26,977	14.7	26,762	15.6
EBITDA/te	1,296	947	36.9	1,345	(3.6)	1,148	12.8
Interest	3,563	4,720	(24.5)	3,579	(0.4)	3,533	0.9
Depreciation	6,739	6,780	(0.6)	6,771	(0.5)	6,758	(0.3)
Other Income	2,679	1,682	59.3	1,349	98.6	2,018	32.8
Recurring pre-tax income	23,320	9,964	134.0	17,976	29.7	18,490	26.1
Extraordinary income/(expense)	-	(1,330)		6		-	
Taxation	7,474	2,862	161.2	5,662	32.0	5,547	34.7
Minority interest	3	(8)		6		(6)	
Reported net income	15,843	5,780	174.1	12,314	28.7	12,949	22.4
Recurring net income	15,843	7,110	122.8	12,309	28.7	12,949	22.4

Source: Company data, I-Sec research

Table 2: Q3FY21 result review – India

(Rs mn, year ending March 31)

	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	Q3FY21E	% chg
Volume sales (mnte)	22.8	20.0	14.1	19.2	18.8	22.4	2.0
Net realisation (Rs)	5,126	4,900	4.6	5,133	(0.1)	4,987	2.8
Net sales	1,16,980	98,000	19.4	98,610	18.6	1,11,593	4.8
EBITDA	30,300	20,390	48.6	26,570	14.0	26,150	15.9
EBITDA/te	1,328	1,020	30.2	1,383	(4.0)	1,168	13.6

Source: Company data, I-Sec research

Table 3: Per-tonne analysis – India business and consolidated

(Rs/te)	India			Consolidated		
	Q3FY21	Q3FY20	% YoY	Q3FY21	Q3FY20	% YoY
Blended realisation	5,126	4,900	4.6	5,085	4,910	3.6
Raw materials consumed	712	829	(14.1)	751	884	(15.0)
Staff costs	255	296	(13.7)	256	298	(14.2)
Power & fuel	1,007	972	3.6	1,006	983	2.4
Freight cost	1,241	1,177	5.4	1,193	1,122	6.3
Other expenses	639	708	(9.6)	630	762	(17.3)
Total cost/te	3,854	3,981	(3.2)	3,836	4,048	(5.3)
Other operating income/te	56	100	(44.3)	46	85	(46.0)
EBITDA/te	1,328	1,020	30.2	1,296	947	36.9

Source: Company data, I-Sec research

Table 4: Per tonne estimate – consolidated

(Rs/te)	FY19	FY20	FY21E	FY22E	FY23E
Net realisation	4,815	5,038	5,087	5,208	5,297
Raw material consumed	855	767	787	811	824
Staff costs	270	305	275	258	246
Power & fuel	1,103	1,029	1,002	1,046	1,059
Freight	1,158	1,181	1,162	1,179	1,198
Others	619	691	610	630	627
Total operating expenses	4,005	3,973	3,836	3,925	3,954
Other operating income	79	79	55	52	49
EBITDA/te	889	1,144	1,306	1,335	1,392

Source: Company data, I-Sec research

Table 5: Key assumptions

	FY19	FY20	FY21E	FY22E	FY23E
Volumes (mn te)					
Existing	70.1	64.3	66.1	75.5	81.6
CENT*	-	9.4	9.8	11.5	12.3
White Cement	1.4	1.3	1.3	1.4	1.5
UNCL^	1.2	3.7	4.1	4.7	5.1
UTCEM – India	72.7	78.8	81.4	93.1	100.6
ETA Star & other subsidiaries	3.7	3.6	3.8	4.1	4.3
Consolidated	76.4	82.3	85.2	97.2	104.9
EBITDA (Rs mn)					
Existing (including White Cement)	65,446	83,774	95,611	1,11,316	1,25,610
CENT*	-	3,980	8,323	10,106	11,198
UNCL^	558	4,366	5,026	5,997	6,664
UTCEM- India	66,004	92,120	1,08,960	1,27,419	1,43,472
ETA Star & other subsidiaries	1,877	2,046	2,214	2,334	2,494
Consolidated	67,881	94,166	1,11,174	1,29,753	1,45,966
EBITDA (Rs/te)					
Existing (including White Cement)	915	1,277	1,417	1,446	1,511
CENT*	-	423	845	881	907
UNCL^	475	1,169	1,237	1,279	1,300
UTCEM- India	908	1,170	1,339	1,368	1,426
ETA Star & other subsidiaries	510	573	586	576	577
Consolidated	889	1,144	1,306	1,335	1,392

Source: I-Sec research *w.e.f. FY20; ^w.e.f. 20th Nov'18**Table 6: Performance trend and assumptions**

('000 te)	FY19	FY20	FY21E	FY22E	FY23E
Capacity	1,00,060	1,14,760	1,18,160	1,24,860	1,37,660
Consolidated sales volumes	76,380	82,330	85,153	97,190	1,04,897
Capacity utilisation (%)	82	77	73	80	80
Growth (%)	18.2	7.8	3.4	14.1	7.9
Blended realisation (Rs/te)	4,815	5,038	5,087	5,208	5,297
Growth (%)	0.4	4.6	1.0	2.4	1.7

Source: Company data, I-Sec research

Table 7: Earnings revision

(Rs mn)

(Rs mn)	FY21E			FY22E			FY23E		
	Revised	Earlier	% chg	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	4,37,851	4,30,140	1.8	5,11,199	4,94,538	3.4	5,60,769	5,36,445	4.5
EBITDA	1,11,174	1,08,805	2.2	1,29,753	1,23,017	5.5	1,45,966	1,35,686	7.6
PAT	55,482	52,543	5.6	69,261	62,669	10.5	81,851	72,533	12.8

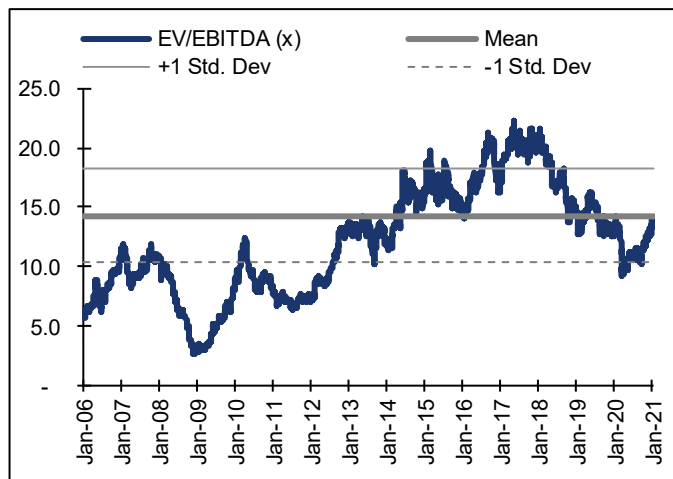
Source: Company data, I-Sec research

Table 8: Valuations based on 13x FY23E EV/E

Target EV/ EBITDA multiple (x)	13
Target EV (Rs mn)	1,897,561
Net debt / (cash) (Rs mn)	(35,428)
Target value (Rs mn)	1,932,989
No. of shares (mn)	289
Target price per share (Rs)	6,700

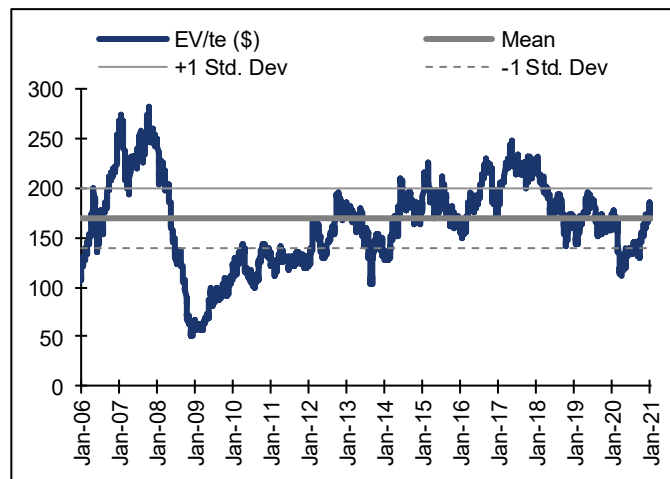
Source: Company data, I-Sec research

Chart 8: Rolling EV/EBITDA



Source: I-Sec research

Chart 9: Rolling EV/te



Source: I-Sec research

Financial summary (consolidated)

Table 9: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	4,14,760	4,33,147	5,06,171	5,55,616
Other operating income	6,488	4,704	5,028	5,153
Operating Expenses	3,27,083	3,26,677	3,81,446	4,14,803
EBITDA	94,166	1,11,174	1,29,753	1,45,966
% margin	22.4	25.4	25.4	26.0
Depreciation & Amortisation	27,022	26,732	28,364	30,370
Gross Interest	19,857	14,635	13,827	12,852
Other Income	6,478	9,431	11,359	14,139
Recurring PBT	53,765	79,238	98,921	1,16,883
Add: Extraordinaries	19,765	(1,568)	-	-
Less: Taxes	15,413	23,771	29,676	35,065
Less: Minority Interest	(32)	(16)	(16)	(16)
Net Income (Reported)	58,148	53,914	69,261	81,834
Recurring Net Income	38,384	55,482	69,261	81,851

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	1,15,992	1,83,264	2,39,619	2,96,265
Current Liab. & Prov.	1,24,042	1,36,349	1,46,207	1,53,576
Net Current Assets	(8,051)	46,914	93,413	1,42,689
Investments of which	59,287	59,287	59,287	59,287
Strategic/Group	4,300	4,300	4,300	4,300
Marketable	54,987	54,987	54,987	54,987
Net Fixed Assets*	5,46,413	5,35,603	5,43,189	5,54,943
Capital Work-in-Progress	9,095	6,511	6,861	7,261
Goodwill	62,525	62,525	62,525	62,525
Total Assets	6,69,269	7,10,841	7,65,275	8,26,705
of which Cash & cash equiv.	64,679	1,31,152	1,81,853	2,36,707
Liabilities				
Borrowings	2,28,979	2,21,979	2,11,979	1,96,979
Deferred Tax Liability	49,060	48,063	48,159	48,255
Minority Interest	75	59	43	27
Equity Share Capital	2,886	2,886	2,886	2,886
Face value per share (Rs)	10	10	10	10
Reserves & Surplus*	3,88,269	4,37,853	5,02,207	5,78,558
Net Worth	3,91,230	4,40,799	5,05,137	5,81,471
Total Liabilities	6,69,269	7,10,841	7,65,275	8,26,705

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Mar-20	Jun-20	Sep-20	Dec-20
Net sales	105,790	75,630	102,310	121,440
% growth (YoY)	(13.1)	(32.6)	7.8	18.4
Recurring EBITDA*	24,427	20,746	26,949	30,943
Margin (%)	23.1	27.4	26.3	25.5
Other income	1,979	2,788	1,349	2,679
Recurring Net Income	11,333	9,548	12,338	15,843

Source: Company data ; *including other operating income

Table 12: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	65,275	71,053	85,392	96,109
Working Capital changes	4,503	12,316	4,126	5,411
Capital Commitments	(17,037)	(12,416)	(35,350)	(40,400)
Net Operating FCF	52,740	70,953	54,168	61,119
Investing Activities	(26,266)	9,431	11,359	14,139
Issue of Share Capital	27	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(25,655)	(7,000)	(10,000)	(15,000)
Dividend paid	(3,800)	(4,329)	(4,907)	(5,484)
Extraordinary Items	-	(1,568)	-	-
Chg. in Cash & Bank	(2,985)	66,473	50,700	54,854

Source: Company data, I-Sec research

Table 13: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic)	201	187	240	284
Diluted Recurring EPS	133	192	240	284
Diluted Recurring CEPS	227	285	338	389
Dividend per share	13	15	17	19
Book Value	1,355	1,527	1,750	2,015
Growth Ratios (% YoY)				
Operating Income	12.7	3.9	16.8	9.7
EBITDA	38.7	18.1	16.7	12.5
Recurring Net Income	57.7	44.5	24.8	18.2
Diluted Recurring EPS	50.0	44.5	24.8	18.2
Diluted Recurring CEPS	36.0	25.7	18.7	14.9
Valuation Ratios (x)				
P/E	42.0	29.0	23.3	19.7
P/CEPS	24.6	19.6	16.5	14.4
P/BV	4.1	3.7	3.2	2.8
EV / EBITDA	18.9	15.3	12.7	10.8
EV / te (US\$)	212	198	180	157
EV / Operating Income	4.2	3.9	3.2	2.8
Operating Ratios (%)				
Raw Material / Sales	23	23	23	23
Other expenses / Sales	56	53	52	52
Other Income / PBT	12	12	11	12
Effective tax rate	29	30	30	30
Inventory (x)	5.4	4.9	5.5	5.7
Receivables (days)	22	19	17	17
Payable (days)	29	34	34	35
D/E (x)	0.6	0.3	0.2	0.0
Profitability Ratios (%)				
Rec. Net Income Margins	9.0	12.4	13.3	14.2
RoCE	8.6	11.3	13.4	15.3
RoNW	11.4	13.3	14.6	15.1
Dividend Payout	9.8	7.8	7.1	6.7

Source: Company data, I-Sec research

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