

# Ultratech Cement

Refer to important disclosures at the end of this report

## Strong delivery continues

- UltraTech continued strong performance in Q3 supported by higher realization/sales volume and lower opex. Consolidated EBITDA stood at Rs30.9bn vs. estimated Rs28.8bn (Bloomberg consensus: Rs27bn) and EBITDA/ton came in at Rs1,296 vs. estimated Rs1,251.
- Key positives: 1) Domestic/consolidated sales volume growth of 14.1%/14.3% yoy; 2) RMC/White cement revenue growth of 24%/17% yoy; 3) Consolidated net debt down by Rs27bn; 4) Consolidated net debt/EBITDA at 0.84x vs. 1.7x in Mar'20. Grey cement realization was down 2.5% qoq, in line with estimates.
- Management indicated demand recovery in Tier 2/3 cities, led by a pick-up in real estate activities. Exit capacity utilization was at 85% vs. Q3 average of 80%. RoE (excluding goodwill) is at 14.1% (up 1.8pp YTD), which management expects should cross 15%.
- We raise FY21-23 EBITDA estimates by 3-7% on higher volumes. UTCEM will benefit from cost saving initiatives (reduction in lead distance, commissioning of WHRS, solar power plants, etc.) and capex plans. We expect UTCEM to become net cash positive in FY23E. UTCEM is our top large-cap pick with a Buy rating and OW stance in sector EAP.

**Higher volumes/realization and lower opex helps:** UTCEM benefitted from higher sales volume (14% yoy growth in domestic and consolidated sales volume), better realization (grey cement realization up 3.7% yoy/down 2.5% qoq) and lower costs (opex/ton down 4.3%). Management highlighted that capacity utilization stood at 80% in Q3, with Dec'20 exit utilization at 85%. Trade sales further declined 7pp qoq (64% vs. 77-78% in Q1FY21) due to a recovery in infrastructure-led demand, which is also evident from 24% yoy growth in RMC revenues. Sales volume of white cement/putty was up 12.7% yoy, leading to revenue growth of 17% yoy. Opex/ton declined due to 1) Rs74/ton yoy reduction in variable cost/ton, 2) 13.9% yoy drop in employee cost/ton and 3) 17.1% yoy drop in other expense/ton. Pet coke consumption was at 44% (USD74/ton) and imported coal consumption (USD76/ton) was at 43%. Lower opex and higher realization/sales volume led to 56.8% yoy growth in EBITDA with 6.2pp improvement in OPM. EBITDA/ton stood at Rs1,296 vs. Rs944/Rs1,343 in Q3FY20/Q2FY21. Adj. profit was up 2.2x yoy.

**Raise estimates on higher volumes; top pick in large caps:** We raise volume estimates by 2-3% for FY21-23 but reduce realization estimates by 0.8% for FY22-23. This leads to an upgrade of 3-7% in EBITDA estimates for FY21-23. We prefer UTCEM for its 1) cost saving strategies (investments in Waste Heat Recovery capacities, solar power plants, sustained fixed cost reduction guidance of Rs5-5.5bn), 2) strong scope of future capacity additions (19.5mt ongoing capacity additions and scope of 30mt+ organic capacity addition further), 3) leadership position in most of the markets where it operates, and 4) continued reduction in net debt (net cash of Rs18.8bn in FY23 vs. Rs181.2bn of net debt in FY20). Current utilization trends indicate that the industry is operating at optimum utilization in few regions at present, which if sustained, can lead to price improvements. We expect EPS to grow at a CAGR of 25.1% during FY20-23E. RoCE may improve to 16% in FY23E vs. 10.9% in FY20. We maintain Buy with a TP of Rs6,330 (14x FY23E EV/EBITDA; 10-year average multiple of 14.5x) vs. Rs6,075. Key risks: 1) steep fall in cement prices, 2) sharp decline in industry's demand growth and 3) continued increase in fuel prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Cement & Building Materials \(Page 11\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	416,088	421,248	447,442	490,566	539,910
EBITDA	73,469	92,836	110,050	115,411	129,247
EBITDA Margin (%)	17.7	22.0	24.6	23.5	23.9
APAT	25,137	37,022	54,501	60,685	72,377
EPS (Rs)	91.5	128.3	188.8	210.3	250.8
EPS (% chg)	(2.2)	40.1	47.2	11.3	19.3
ROE (%)	8.4	10.2	13.1	12.9	13.6
P/E (x)	60.5	43.1	29.3	26.3	22.1
EV/EBITDA (x)	23.8	19.2	15.5	14.3	12.2
P/BV (x)	4.5	4.1	3.6	3.2	2.8

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 5,535</b> as of (January 24, 2021)	<b>Rs 6,330 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>14.4 %</b>

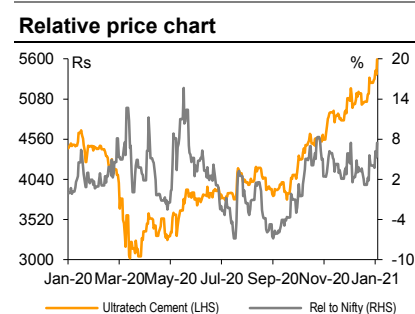
Change in Estimates	
EPS Chg FY21E/FY22E (%)	12.3/5.5
Target Price change (%)	4.2
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus		
EPS Estimates		
	FY21E	FY22E
Emkay	188.8	210.3
Consensus	164.0	198.5
Mean Consensus TP (12M)	Rs 5,795	

Stock Details	
Bloomberg Code	UTCEM IN
Face Value (Rs)	10
Shares outstanding (mn)	289
52 Week H/L	5,697 / 2,910
M Cap (Rs bn/USD bn)	1,598 / 21.89
Daily Avg Volume (nos.)	780,945
Daily Avg Turnover (US\$ mn)	53.4

Shareholding Pattern Dec '20	
Promoters	60.0%
FIIIs	16.8%
DIIIs	14.1%
Public and Others	9.1%

Price Performance				
(%)	1M	3M	6M	12M
<b>Absolute</b>	10	20	43	24
<b>Rel. to Nifty</b>	3	(1)	11	4



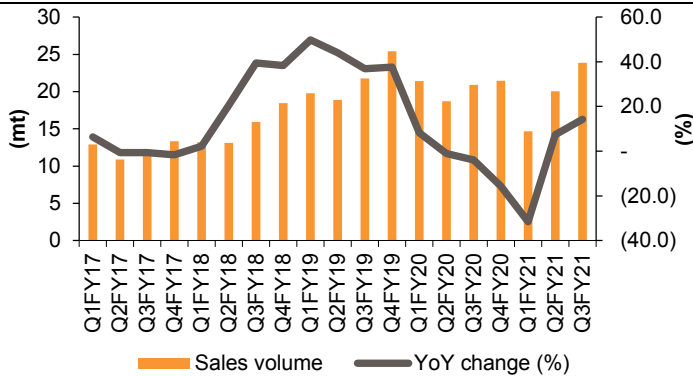
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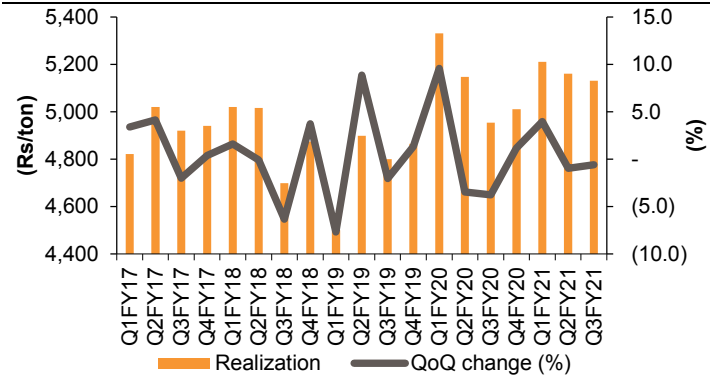
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# Story in Charts

**Exhibit 1: Sales volume up 14.3% yoy**



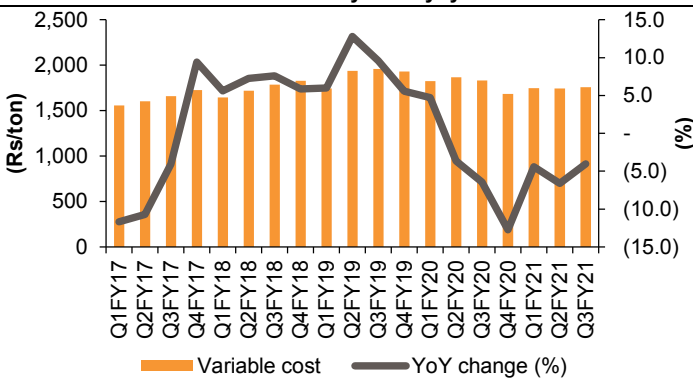
**Exhibit 2: Blended realization up 3.6% yoy; but down 0.6% qoq**



Source: Emkay Research, Company

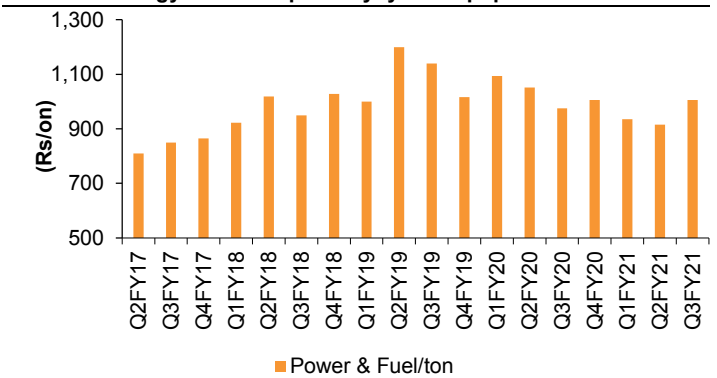
Source: Emkay Research, Company

**Exhibit 3: Variable cost/ton down by Rs74 yoy**



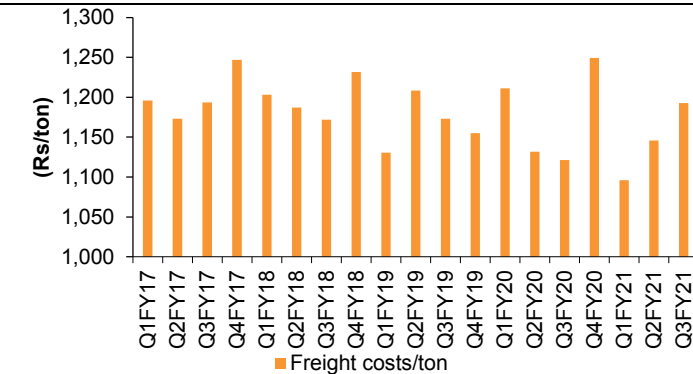
Source: Emkay Research, Company

**Exhibit 4: Energy cost/ton up 3.1% yoy/9.8% qoq**



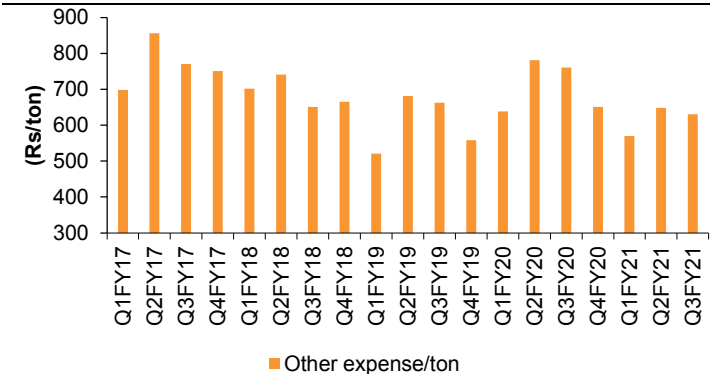
Source: Emkay Research, Company

**Exhibit 5: Freight cost/ton up 6.4% yoy/4.1% qoq**



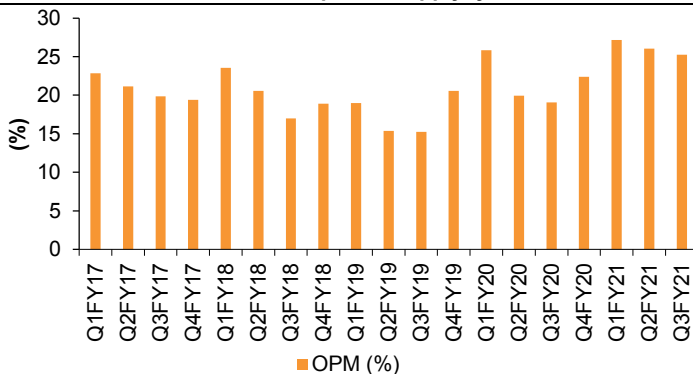
Source: Emkay Research, Company

**Exhibit 6: Other expenses/ton down 17.1% yoy/2.7% qoq**



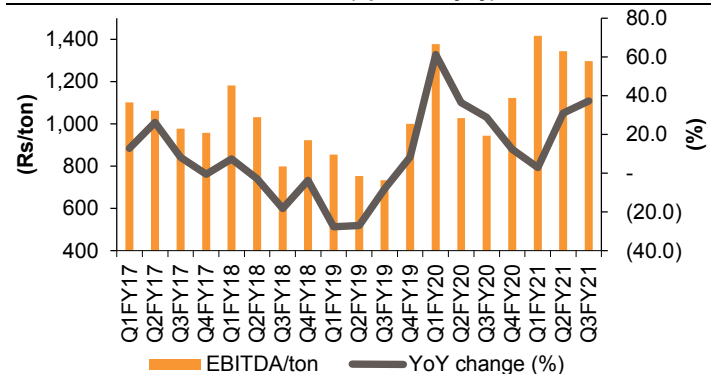
Source: Emkay Research, Company

**Exhibit 7: Consolidated OPM expands 6.2pp yoy**



Source: Company, Emkay Research

**Exhibit 8: EBITDA/ton at Rs1,296 (up 37.3% yoy)**



Source: Company, Emkay Research

**Exhibit 9: Actual vs estimates (Q3FY21)**

Consolidated (in Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	1,22,541	1,16,038	1,14,530	5.6	7.0	Led by higher volumes (14% growth vs. estimate of 10%)
EBITDA	30,943	28,773	27,000	7.5	14.6	Led by higher revenues and lower cost
EBITDA margin (%)	25.3	24.8	23.6	45bps	168bps	
Adj. PAT	15,846	13,994	12,724	13.2	24.5	Led by higher operating profit

Source: Company, Emkay Research, Bloomberg

**Exhibit 10: Quarterly results (Standalone)**

Rs mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	9MFY20	9MFY21	YoY (%)
Revenue	99,818	103,594	73,736	100,186	118,306	18.5	18.1	302,887	292,228	(3.5)
Expenditure	80,625	81,273	54,185	74,659	88,861	10.2	19.0	237,659	217,705	(8.4)
as % of sales	81%	78%	73%	75%	75%			78%	74%	
Consumption of RM	13,597	11,284	9,624	13,332	13,900	2.2	4.3	34,710	36,856	6.2
as % of sales	14%	11%	13%	13%	12%			11%	13%	
Employee Expenses	5,767	6,123	5,176	5,223	5,668	(1.7)	8.5	17,239	16,066	(6.8)
as % of sales	6%	6%	7%	5%	5%			6%	5%	
Power, Oil & Fuel	18,413	19,324	12,349	16,810	21,803	18.4	29.7	57,694	50,961	(11.7)
as % of sales	18%	19%	17%	17%	18%			19%	17%	
Freight & Handling	23,397	26,411	15,905	22,764	28,160	20.4	23.7	70,330	66,829	(5.0)
as % of sales	23%	25%	22%	23%	24%			23%	23%	
Other Expenses	19,451	18,131	11,132	16,530	19,331	(0.6)	16.9	57,685	46,993	(18.5)
as % of sales	19%	18%	15%	16%	16%			19%	16%	
EBITDA	19,193	22,321	19,552	25,527	29,445	53.4	15.3	65,227	74,524	14.3
Depreciation	6,137	5,861	5,887	6,127	6,022	(1.9)	(1.7)	18,459	18,035	(2.3)
EBIT	13,056	16,460	13,665	19,401	23,423	79.4	20.7	46,768	56,489	20.8
Other Income	1,640	2,239	2,961	1,465	2,616	59.5	78.6	5,032	7,042	39.9
Interest	4,026	3,745	3,334	3,019	3,007	(25.3)	(0.4)	12,718	9,360	(26.4)
PBT	10,670	14,954	13,292	17,846	23,033	115.9	29.1	39,082	54,171	38.6
Total Tax	2,907	2,466	3,663	5,693	7,530	159.1	32.3	12,257	16,885	37.8
Adjusted PAT	7,764	12,488	9,629	12,153	15,503	99.7	27.6	26,825	37,285	39.0
Extra ordinary items	1,332	(16,575)	(1,574)	(66)	-	n/m	n/m	1,332	(1,640)	n/m
Reported PAT	6,432	29,063	11,203	12,219	15,503	141.0	26.9	25,492	38,925	52.7
Adjusted EPS	26.9	43.3	33.4	42.1	53.7	99.7	27.6	96.3	129.2	34.1

Margins (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	bps	bps	9MFY20	9MFY21	bps
EBIDTA	19.2	21.5	26.5	25.5	24.9	566	(59)	21.5	25.5	397
EBIT	13.1	15.9	18.5	19.4	19.8	672	43	15.4	19.3	389
EBT	10.7	14.4	18.0	17.8	19.5	878	166	12.9	18.5	563
PAT	7.8	12.1	13.1	12.1	13.1	533	97	8.9	12.8	390
Effective Tax rate	27.2	16.5	27.6	31.9	32.7	545	79	31.4	31.2	(19)

Source: Company, Emkay Research

**Exhibit 11: Operating cost analysis on per ton basis**

Particulars (Rs/ton)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	9MFY20	9MFY21	YoY (%)
Cement Volumes (mt)	20.0	20.5	13.9	19.2	22.8	14.1	18.8	58.2	56.0	(3.9)
Raw Material Consumed	617	661	530	619	664	7.6	7.3	619	617	(0.4)
Stock Adjustment	63	(111)	160	75	(55)	(187.8)	(173.2)	(23)	66	(383.4)
Purchase of Finished Goods	283	245	235	237	228	(19.5)	(4.0)	302	243	(19.7)
Employee Expenses	288	298	371	272	248	(13.9)	(8.6)	296	287	(3.0)
Power, Oil & Fuel	921	942	886	875	955	3.8	9.2	991	911	(8.1)
Freight	1,170	1,287	1,141	1,185	1,234	5.5	4.1	1,208	1,194	(1.1)
Other Expenses	690	639	563	624	620	(10.2)	(0.6)	990	840	(15.2)
Total Cost	4,031	3,961	3,887	3,886	3,894	(3.4)	0.2	4,081	3,890	(4.7)
Realization (Grey Cement)	4,648	4,711	5,144	4,941	4,818	3.7	(2.5)	4,859	4,916	1.2
Realization (Blended)	4,991	5,048	5,290	5,215	5,184	3.9	(0.6)	5,201	5,221	0.4
EBIDTA	960	1,088	1,403	1,329	1,290	34.5	(2.9)	1,120	1,331	18.9

Source: Company, Emkay Research

**Exhibit 12: Quarterly results (Consolidated)**

Rs mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	9MFY20	9MFY21	YoY (%)
Revenue	103,538	107,447	76,338	103,542	122,541	18.4	18.3	313,940	302,421	(3.7)
Expenditure	83,808	83,395	55,592	76,593	91,599	9.3	19.6	245,536	223,783	(8.9)
as % of sales	80.9	77.6	72.8	74.0	74.7			78.2	74.0	
Consumption of RM	17,881	14,540	11,873	16,609	17,945	0.4	8.0	48,810	46,426	(4.9)
as % of sales	17.3	13.5	15.6	16.0	14.6			15.5	15.4	
Employee Expenses	6,200	6,550	5,604	5,636	6,102	(1.6)	8.3	18,545	17,342	(6.5)
as % of sales	6.0	6.1	7.3	5.4	5.0			5.9	5.7	
Power, Oil & Fuel	20,394	21,556	13,708	18,372	24,019	17.8	30.7	63,484	56,099	(11.6)
as % of sales	19.7	20.1	18.0	17.7	19.6			20.2	18.6	
Freight & Handling	23,438	26,786	16,059	22,983	28,485	21.5	23.9	70,534	67,526	(4.3)
as % of sales	22.6	24.9	21.0	22.2	23.2			22.5	22.3	
Other Expenses	15,894	13,964	8,348	12,994	15,047	(5.3)	15.8	44,164	36,390	(17.6)
as % of sales	15.4	13.0	10.9	12.5	12.3			14.1	12.0	
EBITDA	19,730	24,053	20,746	26,949	30,943	56.8	14.8	68,404	78,638	15.0
Depreciation	6,730	6,434	6,462	6,724	6,739	0.1	0.2	20,298	19,925	(1.8)
EBIT	13,000	17,619	14,284	20,225	24,204	86.2	19.7	48,106	58,712	22.0
Other Income	1,682	1,979	2,788	1,349	2,679	59.3	98.6	4,565	6,816	49.3
Interest	4,708	4,351	3,930	3,568	3,563	(24.3)	(0.2)	14,808	11,061	(25.3)
PBT	9,973	15,247	13,142	18,006	23,320	133.8	29.5	37,863	54,468	43.9
Total Tax	2,862	2,466	3,603	5,662	7,474	161.2	32.0	12,093	16,739	38.4
Adjusted PAT	7,111	12,781	9,539	12,344	15,846	122.8	28.4	25,770	37,729	46.4
Extra ordinary items	(1,332)	19,627	(1,574)	(3,357)	-	n/m	n/m	(1,394)	(4,931)	n/m
Reported PAT	5,779	32,408	7,965	8,987	15,846	174.2	76.3	24,376	32,798	34.5
(Profit)/loss from JV's/Ass/MI	1	-	-	-	-	n/m	n/m	2	-	(100.0)
PAT after MI	5,780	32,408	7,965	8,987	15,846	174.1	76.3	24,378	32,798	34.5
Adjusted EPS	24.6	44.2	33.0	42.8	54.9	122.8	28.3	92.6	130.7	41.2

Margins (%)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	bps	bps	9MFY20	9MFY21	bps
EBIDTA	19.1	22.4	27.2	26.0	25.3	620	(78)	21.8	26.0	421
EBIT	12.6	16.4	18.7	19.5	19.8	720	22	15.3	19.4	409
EBT	9.6	14.2	17.2	17.4	19.0	940	164	12.1	18.0	595
PAT	6.9	11.9	12.5	11.9	12.9	606	101	8.2	12.5	427
Effective Tax rate	28.7	16.2	27.4	31.4	32.0	336	61	31.9	30.7	(121)

Source: Company, Emkay Research

**Exhibit 13: Operating cost analysis on per ton basis**

Particulars (Rs/ton)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)	9MFY20	9MFY21	YoY (%)
Cement Volumes (mt)	20.9	21.4	14.7	20.1	23.9	14.3	19.0	61.0	58.6	(4.0)
Raw Material Consumed	663	671	561	665	699	5.4	5.2	672	656	(2.3)
Stock Adjustment	55	(107)	158	71	(52)	(195.4)	(173.5)	(21)	64	(401.4)
Purchase of Finished Goods	138	115	91	92	105	(23.8)	13.8	150	104	(30.6)
Employee Expenses	297	305	383	281	256	(13.9)	(9.0)	304	296	(2.6)
Power, Oil & Fuel	976	1,005	936	916	1,006	3.1	9.8	1,041	957	(8.0)
Freight	1,121	1,249	1,096	1,146	1,193	6.4	4.1	1,156	1,153	(0.3)
Other Expenses	760	651	570	648	630	(17.1)	(2.7)	724	621	(14.2)
Total Cost	4,010	3,890	3,795	3,818	3,836	(4.3)	0.5	4,025	3,819	(5.1)
Realization (Blended)	4,954	5,012	5,211	5,162	5,132	3.6	(0.6)	5,146	5,162	0.3
EBIDTA	944	1,122	1,416	1,343	1,296	37.3	(3.5)	1,121	1,342	19.7

Source: Company, Emkay Research

**Exhibit 14: Key assumptions**

Assumptions	FY18	FY19	FY20	FY21E	FY22E	FY23E
Grey Cement Sales Volume (mt)	63.3	84.6	81.0	83.9	91.0	98.3
Realization (Rs/ton)	4,344	4,080	4,244	4,481	4,536	4,629
Per ton costs						
Raw material	697	679	636	658	675	692
Employee cost	286	271	310	266	262	259
Power & Fuel	1,001	1,115	1,045	1,001	1,065	1,063
Freight	1,155	1,219	1,200	1,239	1,250	1,291
Other expense	652	619	719	629	632	619
Total Cost	3,930	4,049	4,053	4,022	4,123	4,177

Source: Company, Emkay Research

**Change in estimates**

Cement demand remains robust with a pick-up seen in demand from real estate in Tier 2/3 cities. Rural demand has surprised positively post easing of the lockdowns. Infrastructure-led demand started improving from Q2FY21, which is evident from the decline in trade volume (UTCEM indicated that trade sales were at 64% vs. 77-78% in Q1FY21). Also, RMC segment revenue increased 24% yoy in Q3 vs. a decline of 73%/15% yoy in Q1/Q2FY21. Management indicated that their exit-utilization was at 85% vs. Q3 average of 80%. Our channel checks also indicate that volume trends remain exciting in the North, Central and East regions and we believe that cement capacities in these regions are operating at 90%+ utilization at present.

We raise volume estimates by 2.6%/2.2%/1.7% for FY21/22/23, considering demand trends. We reduce realization assumption by 0.9% each for FY22/23. These changes lead to EBITDA upgrade of 6.8%/3.1%/2.8% for FY21/22/23E. Higher EBITDA upgrade for FY21 is also led by lower cost of pet coke as company has low-cost fuel inventory. We raise EPS estimates by 12.3%/5.5%/3.8% for FY21/22/23.

**Exhibit 15: Changes in estimates**

Particulars (Rs mn)	FY21E			FY22E			FY23E		
	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)	Revised	Earlier	Chg (%)
Volume (mt)	83.9	81.7	2.6	91.0	89.0	2.2	98.3	96.7	1.7
Realization (Rs/ton)	4,481	4,481	(0.0)	4,536	4,574	(0.8)	4,629	4,669	(0.8)
Sales	447,442	437,849	2.2	490,566	485,421	1.1	539,910	536,360	0.7
EBITDA	110,050	103,044	6.8	115,411	111,893	3.1	129,247	125,749	2.8
EBITDA (%)	24.6	23.5	106	23.5	23.1	48	23.9	23.4	49
Net Profit	54,501	48,543	12.3	60,685	57,527	5.5	72,377	69,742	3.8
EPS (Rs)	188.8	168.2	12.3	210.3	199.3	5.5	250.8	241.6	3.8

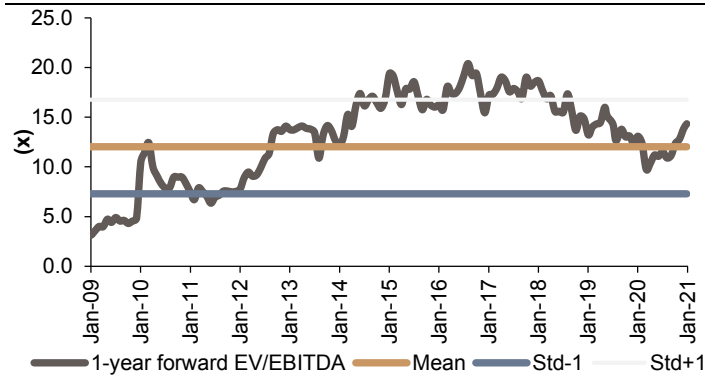
Source: Company, Emkay Research

**Exhibit 16: Peer Valuation**

Company	Rs bn Mcap	EV/EBITDA (x)			EV/Ton (USD)			P/E (x)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech Cement	1,598	15.5	14.3	12.2	195	185	174	29.3	26.3	22.1
Shree Cements	855	22.3	19.4	16.9	254	237	231	48.2	42.3	37.2
Ambuja Cements*	512	15.5	14.5	12.1	183	168	161	28.9	28.5	24.6
ACC*	319	10.6	9.3	8.6	106	104	104	23.2	20.4	18.7
Ramco Cements	191	14.0	13.7	12.0	147	138	132	22.9	23.6	20.6
JK Cement	162	13.1	12.5	11.0	147	145	142	28.7	26.2	22.0
Birla Corp	56	6.6	6.6	5.6	76	63	57	11.1	11.1	9.7
India Cements	52	10.6	9.9	8.6	72	69	66	26.8	25.1	19.5
Prism Cement	42	11.5	10.7	9.1	106	107	105	54.3	45.3	28.5
Star Cement	41	10.3	7.9	7.0	94	88	84	16.2	13.2	12.4
JK Lakshmi Cement	38	6.4	5.9	5.3	50	47	44	14.5	13.1	11.7
Orient Cement	17	5.5	5.8	5.1	44	42	39	10.3	12.3	10.5

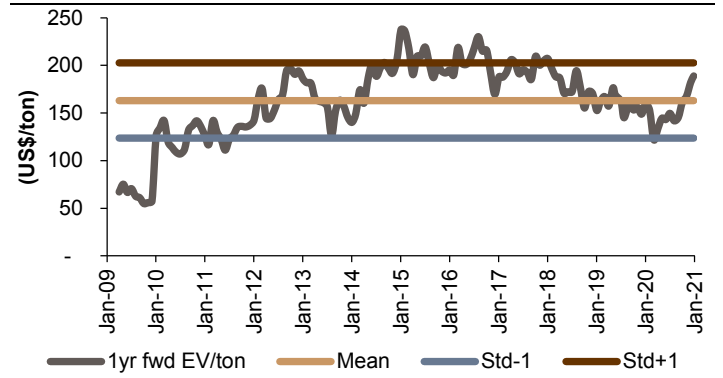
Source: Company, Emkay Research

**Exhibit 17: 1-yr forward EV/EBITDA chart**



Source: Company, Emkay Research

**Exhibit 18: 1-yr forward EV/Ton chart**



Source: Company, Emkay Research

## Concall highlights

- **Update on ESG:** UTCEM started the conference call with its stand on ESG and conveyed its achievement and plans on the same. UTCEM's score in S&P's Dow Jones Sustainability Index has improved by 9 points to 68 in FY20. UTCEM is committed to build its business in line with the Paris agreement (below 2 degree world) by FY34, which will be achieved through higher usage of green energy and lower clinker factor. Current WHRS capacity is 125MW, which will be increased to 302MW by FY24. Solar power plant capacity is at 115-120MW, which will be increased to 350MW. Green energy (WHRs and Solar power) will help the company to meet 34% of power requirements by FY24 vs. 10% in FY20. Its CSR spend stood at ~Rs1bn in 9MFY21 and has benefitted over 1.6mn people across 16 states and 502 villages. The company is taking various steps toward de-carbonization, water management, biodiversity, etc.
- **Demand trends:** There has been a pick-up in real estate demand from Tier 2/3 cities, which along with strong rural and infrastructure demand helped improve volume. Average capacity utilization for UTCEM was 80% in Q3, with exit utilization of 85% in Dec'20. The company achieved 20%+ yoy volume growth in the East and North regions in Q3. Its plant in the East region operated at 100%+ capacity, while utilization in the South was about 70%. Plants in other regions operated at 80% capacity. Higher demand in the East region was met through sourcing of materials from other regions, which led to a marginal increase in lead distance (440kms).
- **Capacity expansions:** Commissioning of Line II at Bara (2mt grinding unit) is delayed due to Covid-19 issues and is expected to be commissioned by Mar'21. However, Line 1 (2mt grinding unit) achieved capacity utilization of 70% in Q3. Other expansions (17.8mt grinding units) will be commissioned in phases by FY23 (4.7mt in FY22 and 12.8mt in FY23).
- **Fuel Usage and Costs:** Pet coke consumption was at 44% (USD74/ton) and imported coal consumption (USD76/ton) was at 43%. Pet coke price has increased to USD110 vs. USD60-65 in Jun-Jul'20. International coal prices have also increased in the last two months. UTCEM has low-cost fuel inventory and hence, impact of rising pet coke prices will be felt mostly in Q1/Q2FY22E. USD10/ton increase in pet coke price leads to Rs50/ton increase in energy cost/ton. Management expects fuel prices to ease from Jun'21.
- **Cost and performance improvement opportunities:** UTCEM believes following ongoing initiative can lead to further improvement in operating performance: 1) complete brand transition for Century assets before Q1FY22, which is at 72%; 2) commissioning of WHRS capacities; 3) new capacities in the East region will help reduction in lead distance; and 4) continued focus on improvement of clinker ratio. Management maintained its guidance of 10% sustainable fixed cost reduction (over FY20).
- **Update on Century plants:** Capacity utilization of acquired assets of Century Cement was at ~75% and volume increased 37% yoy. 72% brand transition has been completed. Production cost for these plants fell 12% yoy and there was a 7% yoy reduction in energy consumption. 45MW of WHRS capacities have been planned at Manikgarh and Maihar plants, which will further help reduce energy cost.
- **Update on UltraTech Nathdwara since takeover:** Capacity utilization has increased to 75% from 45% and EBITDA/ton increased to Rs1,500 from Rs90. Production cost has been reduced by 15% yoy. 2mt grinding unit in UAE has been consolidated.
- **RoE Improvement:** RoE (excluding Goodwill) increased to 14.1% in Q3 vs. 12.3% in Mar'20 and management expects RoE to improve to over 15% in coming quarters.
- **Gross debt and treasury management:** The board approved raising funds up to Rs30bn for re-financing of high cost debts. It has treasury surplus of Rs130bn as there has been an interest arbitrage opportunity. It recently raised Rs10bn through NCDs at a cost of merely 4.54%. The company guided that as long as arbitrage exists in debt markets, any significant reduction in gross debt level might not happen. Treasury funds are 100% deployed in risk free AAA bonds.
- **Trade/Non-trade mix:** Trade sales fell 7pp qoq to 64% due to a pick-up in infrastructure activities.
- **Updated on RMC segment:** Total RMC plants are now at 109 vs. 100 for last few years. Higher infrastructure demand will lead to higher RMC volumes. This segment helps to generate incremental margins on cement business.

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>416,088</b>	<b>421,248</b>	<b>447,442</b>	<b>490,566</b>	<b>539,910</b>
<b>Expenditure</b>	<b>342,619</b>	<b>328,413</b>	<b>337,392</b>	<b>375,154</b>	<b>410,663</b>
<b>EBITDA</b>	<b>73,469</b>	<b>92,836</b>	<b>110,050</b>	<b>115,411</b>	<b>129,247</b>
Depreciation	24,507	27,022	26,680	27,497	28,494
<b>EBIT</b>	<b>48,962</b>	<b>65,814</b>	<b>83,370</b>	<b>87,914</b>	<b>100,753</b>
Other Income	4,634	6,478	9,809	10,397	11,021
Interest expenses	17,779	19,857	14,760	10,995	7,634
<b>PBT</b>	<b>35,818</b>	<b>52,435</b>	<b>78,419</b>	<b>87,316</b>	<b>104,140</b>
Tax	10,681	15,413	23,918	26,631	31,763
Extraordinary Items	(1,139)	21,095	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>23,998</b>	<b>58,117</b>	<b>54,501</b>	<b>60,685</b>	<b>72,377</b>
<b>Adjusted PAT</b>	<b>25,137</b>	<b>37,022</b>	<b>54,501</b>	<b>60,685</b>	<b>72,377</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	2,874	2,962	2,962	2,962	2,962
Reserves & surplus	334,754	388,269	438,241	494,223	561,723
<b>Net worth</b>	<b>337,628</b>	<b>391,230</b>	<b>441,203</b>	<b>497,185</b>	<b>564,685</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>253,370</b>	<b>228,979</b>	<b>186,939</b>	<b>133,939</b>	<b>102,939</b>
Net deferred tax liability	63,994	49,060	49,060	49,060	49,060
<b>Total Liabilities</b>	<b>654,992</b>	<b>669,269</b>	<b>677,202</b>	<b>680,184</b>	<b>716,684</b>
<b>Net block</b>	<b>566,446</b>	<b>569,824</b>	<b>565,014</b>	<b>562,517</b>	<b>559,023</b>
<b>Investment</b>	<b>29,213</b>	<b>59,287</b>	<b>88,287</b>	<b>88,287</b>	<b>128,287</b>
<b>Current Assets</b>	<b>158,061</b>	<b>155,005</b>	<b>136,429</b>	<b>146,913</b>	<b>155,136</b>
Cash & bank balance	7,392	5,392	5,703	6,729	10,311
Other Current Assets	68,264	71,453	57,162	59,162	61,162
<b>Current liabilities &amp; Provision</b>	<b>110,262</b>	<b>124,042</b>	<b>124,856</b>	<b>129,859</b>	<b>138,089</b>
<b>Net current assets</b>	<b>47,799</b>	<b>30,963</b>	<b>11,574</b>	<b>17,053</b>	<b>17,047</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>654,992</b>	<b>669,269</b>	<b>677,202</b>	<b>680,184</b>	<b>716,684</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>34,685</b>	<b>52,423</b>	<b>68,610</b>	<b>76,919</b>	<b>93,119</b>
Other Non-Cash items	(3,356)	(5,869)	0	0	0
Chg in working cap	(6,957)	4,503	19,699	(4,453)	3,588
<b>Operating Cashflow</b>	<b>59,557</b>	<b>89,020</b>	<b>105,832</b>	<b>84,327</b>	<b>101,072</b>
Capital expenditure	(16,482)	(17,037)	(25,001)	(25,000)	(25,000)
<b>Free Cash Flow</b>	<b>43,075</b>	<b>71,983</b>	<b>80,831</b>	<b>59,327</b>	<b>76,072</b>
Investments	26,614	(26,266)	(29,000)	0	(40,000)
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>11,138</b>	<b>(42,094)</b>	<b>(44,192)</b>	<b>(14,603)</b>	<b>(53,979)</b>
Equity Capital Raised	52	27	0	0	0
Loans Taken / (Repaid)	(47,309)	(27,195)	(42,040)	(53,000)	(31,000)
Dividend paid (incl tax)	(3,462)	(3,800)	(4,529)	(4,703)	(4,877)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(67,568)</b>	<b>(49,911)</b>	<b>(61,329)</b>	<b>(68,698)</b>	<b>(43,511)</b>
<b>Net chg in cash</b>	<b>3,127</b>	<b>(2,985)</b>	<b>311</b>	<b>1,027</b>	<b>3,582</b>
Opening cash position	772	8,339	5,392	5,703	6,729
<b>Closing cash position</b>	<b>7,392</b>	<b>5,392</b>	<b>5,703</b>	<b>6,729</b>	<b>10,311</b>

Source: Company, Emkay Research



**Key Ratios**

<b>Profitability (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EBITDA Margin	17.7	22.0	24.6	23.5	23.9
EBIT Margin	11.8	15.6	18.6	17.9	18.7
Effective Tax Rate	29.8	29.4	30.5	30.5	30.5
Net Margin	6.0	8.8	12.2	12.4	13.4
ROCE	9.4	10.9	13.8	14.5	16.0
ROE	8.4	10.2	13.1	12.9	13.6
RoIC	9.5	10.9	14.3	15.4	17.7

<b>Per Share Data (Rs)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EPS	91.5	128.3	188.8	210.3	250.8
CEPS	180.8	221.9	281.3	305.5	349.5
BVPS	1,229.3	1,355.5	1,528.6	1,722.6	1,956.4
DPS	10.5	10.9	12.5	13.0	13.5

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
PER	60.5	43.1	29.3	26.3	22.1
P/CEPS	30.6	24.9	19.7	18.1	15.8
P/BV	4.5	4.1	3.6	3.2	2.8
EV / Sales	4.2	4.2	3.8	3.4	2.9
EV / EBITDA	23.8	19.2	15.5	14.3	12.2
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2

<b>Gearing Ratio (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Net Debt/ Equity	0.7	0.5	0.2	0.1	0.0
Net Debt/EBIDTA	3.1	2.0	1.0	0.5	(0.1)
Working Cap Cycle (days)	35.4	22.2	4.8	7.7	4.6

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	34.3	1.2	6.2	9.6	10.1
EBITDA	19.6	26.4	18.5	4.9	12.0
EBIT	13.9	34.4	26.7	5.4	14.6
PAT	7.9	142.2	(6.2)	11.3	19.3

<b>Quarterly (Rs mn)</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>
Revenue	103,538	107,447	76,338	103,542	122,541
EBITDA	19,730	24,053	20,746	26,949	30,943
<b>EBITDA Margin (%)</b>	<b>19.1</b>	<b>22.4</b>	<b>27.2</b>	<b>26.0</b>	<b>25.3</b>
PAT	5,779	32,408	7,965	8,987	15,846
<b>EPS (Rs)</b>	<b>20.0</b>	<b>112.3</b>	<b>27.6</b>	<b>31.1</b>	<b>54.9</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>
Promoters	60.2	59.7	60.0	59.9	60.0
FIs	17.6	16.5	16.1	15.3	16.8
DIs	13.0	14.2	14.6	15.4	14.1
Public and Others	9.2	9.7	9.3	9.4	9.1

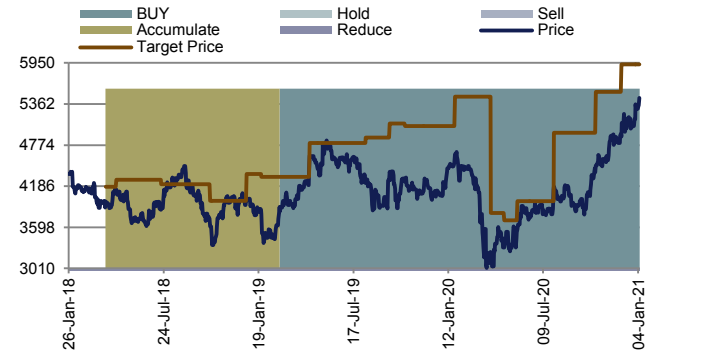
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
03-Dec-20	4,894	5,930	12m	Buy	Sanjeev Kumar Singh
21-Oct-20	4,629	5,533	12m	Buy	Sanjeev Kumar Singh
16-Oct-20	4,482	5,533	12m	Buy	Sanjeev Kumar Singh
29-Jul-20	4,181	4,949	12m	Buy	Sanjeev Kumar Singh
21-May-20	3,572	3,974	12m	Buy	Sanjeev Kumar Singh
18-May-20	3,308	3,697	12m	Buy	Sanjeev Kumar Singh
26-Apr-20	3,308	3,697	12m	Buy	Sanjeev Kumar Singh
01-Apr-20	3,141	3,801	12m	Buy	Sanjeev Kumar Singh
24-Jan-20	4,643	5,468	12m	Buy	Sanjeev Kumar Singh
20-Nov-19	4,114	5,048	12m	Buy	Sanjeev Kumar Singh
22-Oct-19	4,249	5,048	12m	Buy	Sanjeev Kumar Singh
23-Sep-19	4,391	5,083	12m	Buy	Sanjeev Kumar Singh
26-Aug-19	4,038	4,881	12m	Buy	Sanjeev Kumar Singh
09-Aug-19	4,281	4,881	12m	Buy	Sanjeev Kumar Singh
24-Jun-19	4,575	4,805	12m	Buy	Sanjeev Kumar Singh
13-Jun-19	4,570	4,805	12m	Buy	Sanjeev Kumar Singh
25-Apr-19	4,619	4,805	12m	Buy	Sanjeev Kumar Singh
14-Mar-19	3,964	4,319	12m	Buy	Sanjeev Kumar Singh
28-Feb-19	3,827	4,319	12m	Buy	Sanjeev Kumar Singh
24-Jan-19	3,791	4,319	12m	Accumulate	Sanjeev Kumar Singh
07-Jan-19	3,927	4,359	12m	Accumulate	Sanjeev Kumar Singh
27-Dec-18	3,983	4,359	12m	Accumulate	Sanjeev Kumar Singh
19-Oct-18	3,610	3,977	12m	Accumulate	Sanjeev Kumar Singh
19-Jul-18	3,857	4,214	12m	Accumulate	Sanjeev Kumar Singh
21-May-18	3,852	4,279	12m	Accumulate	Sanjeev Kumar Singh
25-Apr-18	4,135	4,279	12m	Accumulate	Sanjeev Kumar Singh
05-Apr-18	3,967	4,179	12m	Accumulate	Sanjeev Kumar Singh

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Cement & Building Materials



**Analyst: Sanjeev Kumar Singh**

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**Sector**

Cement & Building materials

**Analyst bio**

Sanjeev Kumar Singh holds an MBA and has over 10 years of experience in the Cement sector. His team currently covers 17 stocks in the Cement and Building Materials space.

**EAP sector portfolio**

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Cement &amp; Building Materials</b>	<b>2.10</b>	<b>2.10</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
ACC	0.17	0.00	-100%	-17	0.00
Ambuja Cements	0.23	0.25	9%	2	11.91
Grasim Industries	0.50	0.49	0%	0	23.54
Birla Corporation	0.00	0.04	NA	4	1.91
India Cements	0.00	0.00	NA	0	0.00
JK Cement	0.00	0.00	NA	0	0.00
JK Lakshmi Cement	0.00	0.04	NA	4	1.97
Orient Cement	0.00	0.00	NA	0	0.00
Prism Johnson	0.00	0.00	NA	0	0.00
Ramco Cements	0.13	0.14	10%	1	6.58
Shree Cements	0.29	0.28	0%	0	13.57
Star Cement	0.00	0.00	NA	0	0.00
Ultratech Cement	0.79	0.85	8%	6	40.52
Century Plyboards	0.00	0.00	NA	0	0.00
Kajaria Ceramics	0.00	0.00	NA	0	0.00
Somany Ceramics	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

**Sector portfolio NAV**

	Base					Latest
	1-Apr-19	23-Jan-20	23-Jul-20	22-Oct-20	22-Dec-20	21-Jan-21
EAP - Cement & Building Materials	100.0	106.4	90.1	106.1	111.7	121.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	103.2	87.1	103.9	110.5	119.9

\*Performance measurement base date 1<sup>st</sup> April 2019

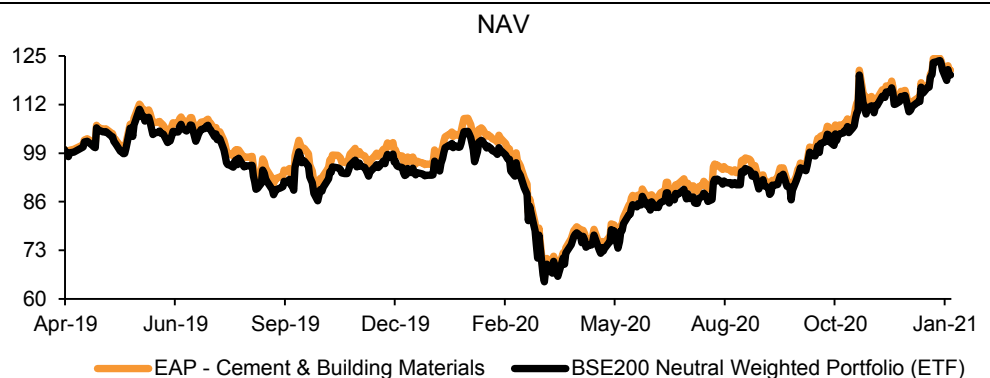
Source: Emkay Research

**Price Performance (%)**

	1m	3m	6m	12m
EAP - Cement & Building Materials	8.5%	14.2%	34.5%	13.8%
BSE200 Neutral Weighted Portfolio (ETF)	8.5%	15.4%	37.7%	16.2%

Source: Emkay Research

**NAV chart**



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 25 Jan 2021 10:39:19 (SGT)

Dissemination Date: 25 Jan 2021 10:40:19 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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