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Company update and
earnings revision

Cement

Target price: Rs8,000

Earnings revision

(%)	FY21E	FY22E	FY23E
Sales	↑ 0.6	↑ 3.5	↑ 3.5
EBITDA	↑ 1.7	↑ 2.1	↑ 3.0
PAT	↑ 2.4	↑ 2.8	↑ 3.7

Target price revision

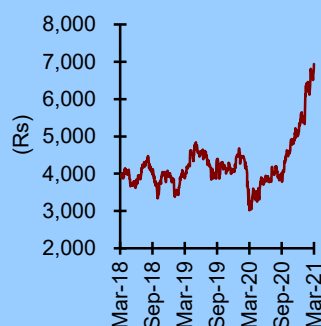
Rs8,000 from Rs6,700

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



UltraTech Cement

BUY

Maintained

Rs6,939

Preferred play on demand revival

We expect UltraTech Cement (UTCEM) to be the key beneficiary of likely strong demand revival over the next few years given its low clinker utilisation, diversified market mix and significant non-trade presence vs peers. Announced expansion of ~20mnte would drive strong volume growth and with strong OCF generation of >Rs110bn p.a., the company may further accelerate its growth plans. Costs/te could further reduce by Rs100/te by FY24E (our estimate) led by various cost efficiencies and RoCE is likely to expand by ~400bps over FY21-23E. Factoring-in higher volumes, we raise our FY22E-FY23E EBITDA by 2-3%, which takes it 12-13% ahead of consensus. We believe UTCEM may rerate (valuation discount vs SRCM may narrow to 10-12% vs historical average of 20-25%) as it continues to gain market share with improved profitability / RoCEs. Hence, we raise our target multiple to 15x FY23E EV/E (earlier: 13x) and raise our target price to Rs8,000/sh (earlier: Rs6,700). Maintain BUY. Key risks: lower demand / pricing.

- ▶ **Company may post strong 35-40% YoY EBITDA growth in Q4FY21E** (vs 25-30% YoY growth for industry) led by >25% YoY volume growth (vs ~20% YoY industry growth). Diversified market mix vis-à-vis peers allows UTCEM to trade-off price in one market (say gain market share in North / Central) and compensate it by better prices in another market (say South / West) and yet improve overall profitability.
- ▶ **Market share gains likely to continue** for UTCEM given large unutilised capacities of acquired entities, especially in high-growth North and Central regions where many of its peers may be facing capacity constraints. UTCEM also has large non-trade exposure (~35%) and stands to benefit from likely pickup in infrastructure spend and better urban housing demand, especially in tiers-2&3 cities. Non-trade volumes grew by a strong 40% QoQ and 25% YoY, and RMC revenues too grew 43% QoQ and 24% YoY, in Q3FY21 for the company. UTCEM is likely to operate at high effective utilisation of ~83% over FY22-23E and post 9-10% volume CAGR over FY20-FY23E despite its large size vs our estimate of 6-7% industry volume CAGR.
- ▶ **Volume growth to remain strong beyond FY23E too.** UTCEM's plan to add ~20mnte capacities (~18% of domestic capacities) over the next 2-3 years in the high growth / utilisation markets of East, Central and North markets would ensure faster ramp-up and higher volume growth. 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.
- ▶ **UTCEM to become debt-free by end-FY22E and likely to generate OCF of >Rs110bn p.a.** This may allow the company to accelerate its growth via both organic / inorganic routes. Historically, acquisitions have been integral to UTCEM's growth story with the company enjoying strong track record in turning around acquisitions. We expect UTCEM to post revenue, EBITDA and PAT CAGRs of 12%, 17% and 30% respectively over FY20-FY23E.

Market Cap	Rs2,003bn/US\$27.7bn	Year to March	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	ULTC.BO/UTCEM IN	Revenue (Rsmn)	4,21,248	4,35,634	5,23,968	5,75,483
Shares Outstanding (mn)	288.6	EBITDA (Rs mn)	94,166	1,13,065	1,32,505	1,50,318
52-week Range (Rs)	6946/2913	Net Income (Rs mn)	38,384	56,806	71,187	84,880
Free Float (%)	40.1	% Chg YoY	50.0	48.0	25.3	19.2
FII (%)	16.8	P/E (x)	52.2	35.3	28.1	23.6
Daily Volume (US\$'000)	57,415	CEPS (Rs)	226.6	289.4	344.9	399.3
Absolute Return 3m (%)	37.8	EV/E (x)	23.1	18.5	15.3	13.0
Absolute Return 12m (%)	127.9	Dividend Yield	0.2	0.2	0.3	0.3
Sensex Return 3m (%)	7.9	RoCE (%)	8.6	11.5	13.8	15.5
Sensex Return 12m (%)	94.8	RoE (%)	11.4	13.6	15.0	15.5

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- Cost/te can further reduce by Rs100/te (our estimate) by FY24E:** UTCEM is on track to achieve 10% fixed-cost savings (Rs5.5bn p.a., or Rs65/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 currently to >350MW by FY24E. Accordingly, its green power share is set to increase to 34% (WHRS 26%, solar 8%) by FY24E and provide cost savings of ~Rs4.5bn, or ~Rs40/te. Setting up of additional grinding units, especially in East, increasing the blending ratio from 1.34x currently to ~1.4x and better operating leverage via higher volume growth can provide additional cost saving of Rs30-40/te, in our view. Besides, UTCEM may not be required to pay additional limestone mining royalty of Rs64/te on acquired assets of JPA / Century owing to recent MMRD Act amendment (benefit of ~Rs1.5bn p.a.). Hence, overall cost/te can further reduce by Rs100/te by FY24E. Company may choose lower effective tax rate of 25% (vs 30% currently) either from FY22E or FY23E at it exhausts available MAT credit and accumulated losses of acquired entities. This would further improve its RoCE by another 100bps by FY23E.

Table 1: UTCEM to post industry-leading 12% volume CAGR over FY17-23E

(mn-te)

Volumes	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY17-20 CAGR	FY20-23E CAGR	FY17-23E CAGR
ACC	23.2	26.6	28.4	28.9	26.2	30.4	32.2	8%	4%	6%
ACEM	21.6	23.0	24.3	24.1	22.7	26.6	28.5	4%	6%	5%
UTCEM*	53.4	64.6	76.4	82.3	85.5	100.2	108.1	16%	9%	12%
SRCM*	20.6	22.5	28.7	28.7	30.2	36.0	39.9	12%	12%	12%
TRCL	8.3	9.3	11.1	11.2	9.9	12.0	13.7	10%	7%	9%
JKLC	7.9	9.4	11.1	10.0	10.7	12.5	13.4	8%	10%	9%
JKCE	8.2	9.4	10.2	10.2	11.9	14.3	15.4	8%	14%	11%
ICEM	11.0	11.2	12.4	11.0	8.8	10.3	11.2	0%	0%	0%
DALBHARA	15.3	17.0	18.7	19.3	20.9	24.9	27.1	8%	12%	10%

*Consolidated; Source Company data, I-Sec research

Table 2: UTCEM to post industry-leading 19% EBITDA CAGR over FY17-23E

(Rs mn)

EBITDA	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY17-20 CAGR	FY20-23E CAGR	FY17-23E CAGR
ACC	14,207	18,782	21,185	24,128	24,946	29,542	33,035	19%	11%	15%
ACEM	16,827	18,951	18,915	21,489	26,489	30,610	35,908	8%	19%	13%
UTCEM	52,124	61,452	67,881	94,166	1,13,065	1,32,505	1,50,318	22%	17%	19%
SRCM	25,001	24,208	28,973	37,591	40,646	50,326	58,646	16%	16%	16%
TRCL	11,894	10,997	10,664	11,474	15,524	18,124	20,763	-1%	22%	10%
JKLC	3,697	4,318	4,536	7,981	9,043	10,191	11,117	29%	12%	19%
JKCE	7,261	7,875	8,345	12,134	15,991	18,719	21,037	19%	20%	19%
ICEM	8,882	6,960	6,649	6,365	8,105	8,690	9,575	-11%	15%	1%
DALBHARA	18,940	20,360	19,420	21,060	28,119	30,122	32,677	4%	16%	10%

Source: Company data, I-Sec research

Table 3: UTCEM's ROCE to improve by 400bps over FY21-23E

ROCE (%)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
ACC	7.9	10.3	11.2	11.7	11.7	12.8	13.0
ACEM	7.7	7.4	6.6	8.0	11.4	11.5	12.1
UTCEM	11.8	7.6	6.8	8.6	11.5	13.8	15.5
SRCM	18.9	14.1	12.8	12.8	15.4	17.7	18.9
TRCL	12.3	9.9	8.7	8.2	9.2	10.9	12.3
JKLC	8.4	7.7	8.2	14.1	15.4	15.6	15.0
JKCE	7.2	9.8	8.5	11.0	13.2	13.8	13.6
ICEM	(1.8)	5.2	4.4	3.6	2.1	10.0	5.0
DALBHARA	1.9	4.3	4.7	2.9	6.0	7.1	7.5

Source: Company data, I-Sec research

Table 4: Per tonne estimate – consolidated

(Rs/te)	FY19	FY20	FY21E	FY22E	FY23E
Net realization	4,815	5,038	5,093	5,230	5,324
Raw material consumed	855	767	783	797	811
Staff costs	270	305	277	253	241
Power & fuel	1,103	1,029	989	1,078	1,091
Freight	1,158	1,181	1,179	1,212	1,226
Others	619	691	599	617	612
Total operating expenses	4,005	3,973	3,831	3,963	3,986
Other operating income	79	79	55	52	49
EBITDA/te	889	1,144	1,322	1,323	1,391

Source: Company data, I-Sec research

Table 5: Key assumptions

	FY19	FY20	FY21E	FY22E	FY23E
Volumes (mn te)					
Existing	70.1	64.3	66.5	78.0	84.2
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	4.6	4.9
Consolidated	76.4	82.3	85.5	100.2	108.1
EBITDA (Rs mn)					
Existing (including White Cement)	65,446	83,774	97,090	1,13,323	1,29,155
CENT*	-	3,980	8,323	10,106	11,198
UNCL [^]	558	4,366	5,438	6,480	7,197
UTCEM- India	66,004	92,120	1,10,850	1,29,908	1,47,549
ETA Star & other subsidiaries	1,877	2,046	2,214	2,596	2,768
Consolidated	67,881	94,166	1,13,065	1,32,505	1,50,318
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	1,339	1,382	1,404
UTCEM- India	908	1,170	1,356	1,359	1,429
ETA Star & other subsidiaries	510	573	586	566	570
Consolidated	889	1,144	1,322	1,323	1,391

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	85,539	1,00,180	1,08,083
Capacity utilisation (%)	82	77	78	82	82
Growth (%)	18.2	7.8	3.9	17.1	7.9
Blended realisation (Rs/te)	4,815	5,038	5,093	5,230	5,324
Growth (%)	0.4	4.6	1.1	2.7	1.8

Source: Company data, I-Sec research

Table 7: Earnings revision

(Rs mn)	FY21E			FY22E			FY23E		
	Revised	Earlier	% chg	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	4,40,338	4,37,851	0.6	5,28,996	5,11,199	3.5	5,80,635	5,60,769	3.5
EBITDA	1,13,065	1,11,174	1.7	1,32,505	1,29,753	2.1	1,50,318	1,45,966	3.0
PAT	56,806	55,482	2.4	71,187	69,261	2.8	84,897	81,851	3.7

Source: Company data, I-Sec research

Table 8: Valuations based on 15x FY23E EV/E

Target EV/ EBITDA multiple (x)	15
Target EV (Rs mn)	22,54,764
Net debt / (cash) (Rs mn)	(54,655)
Target value (Rs mn)	23,09,419
No. of shares (mn)	289
Target price per share (Rs)	8,000

Source: Company data, 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	4,35,634	5,23,968	5,75,483
Exports	17,588	17,520	21,590	23,251
Domestic	3,97,172	4,18,114	5,02,378	5,52,232
Other operating income	6,488	4,704	5,028	5,153
Operating Expenses	3,27,083	3,27,274	3,96,491	4,30,318
EBITDA	94,166	1,13,065	1,32,505	1,50,318
% margin	22.4	25.7	25.0	25.9
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	81,129	1,01,673	1,21,234
Add: Extraordinaries	19,765	(1,568)	-	-
Less: Taxes	15,413	24,339	30,502	36,370
Less: Minority Interest	(32)	(16)	(16)	(16)
Net Income (Reported)	58,148	55,238	71,187	84,880
Recurring Net Income	38,384	56,806	71,187	84,897

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	1,91,982	2,57,890	3,20,395
of which Cash & cash equiv.	5,392	82,716	1,35,978	1,96,647
Current Liab. & Prov.	1,24,042	1,36,820	1,51,650	1,59,043
Net Current Assets	(8,051)	55,162	1,06,240	1,61,352
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	7,19,089	7,78,102	8,45,369
of which Cash & cash equiv.	64,679	1,42,003	1,95,265	2,55,934
Liabilities				
Borrowings	2,28,979	2,21,979	2,11,979	1,96,979
Deferred Tax Liability	49,060	54,987	57,736	60,623
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	4,39,177	5,05,457	5,84,853
Net Worth	3,91,230	4,42,122	5,08,387	5,87,767
Total Liabilities	6,69,269	7,19,089	7,78,102	8,45,369

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	72,377	87,318	99,155
Working Capital changes	4,503	14,919	2,108	5,390
Capital Commitments	(17,037)	(12,416)	(35,350)	(40,400)
Net Operating FCF	52,740	74,880	54,077	64,144
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)
Others	(31)	5,911	2,733	-
Extraordinary Items	-	(1,568)	-	-
Chg. in Cash & Bank	(2,985)	77,324	53,262	60,669

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	191	247	294
Diluted Recurring EPS	133	197	247	294
Diluted Recurring CEPS	227	289	345	399
Dividend per share	13	15	17	19
Book Value	1,355	1,532	1,761	2,036
Growth Ratios (% YoY)				
Operating Income	12.7	4.5	20.1	9.8
EBITDA	38.7	20.1	17.2	13.4
Recurring Net Income	57.7	48.0	25.3	19.2
Diluted Recurring EPS	50.0	48.0	25.3	19.2
Diluted Recurring CEPS	36.0	27.7	19.2	15.8
Valuation Ratios (x)				
P/E	52.2	35.3	28.1	23.6
P/CEPS	30.6	24.0	20.1	17.4
P/BV	5.1	4.5	3.9	3.4
EV / EBITDA	23.1	18.5	15.3	13.0
EV / te (US\$)	259	242	222	194
EV / Operating Income	5.2	4.7	3.8	3.4
EV / Operating FCF	N.A.	27.9	37.4	30.4
Operating Ratios (%)				
Raw Material / Sales	23	22	22	22
Other expenses / Sales	56	53	53	52
Other Income / PBT	12	12	11	12
Effective tax rate	29	30	30	30
NWC / Total Assets	(0)	(0)	(0)	(0)
Inventory (x)	5.4	5.1	5.7	5.6
Receivables (days)	22	19	17	17
Payable (days)	29	34	33	35
D/E (x)	0.6	0.3	0.2	0.0
Profitability Ratios (%)				
Rec. Net Income Margins	9.0	12.6	13.2	14.3
RoCE	8.6	11.5	13.8	15.8
RoNW	11.4	13.6	15.0	15.5
Dividend Payout	9.8	7.6	6.9	6.5

Source: Company data, I-Sec research

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