

# Ultratech Cement Ltd

BUY

CMP Rs 6,482

Target Rs 7,540

Upside 16%

## Our View:

- ✓ Ultratech delivered strong set of nos. for the quarter with volume/EBITDA growth of ~30%/43% y/y respectively. Q4FY21 performance was a healthy beat as compared to our estimates with volumes at 27.78 MT (+6% vs our est.) while EBITDA came in at Rs 36.9 bn (+14% vs our est). Although realization/te was in-line with our expectations, lower than expected fixed costs translated into operational outperformance. Along with robust P&L performance, company reduced net debt by Rs 105.3 bn during FY21.
- ✓ Company is on its course to increase its capacity by ~19.5 MTPA over FY21-FY24E. However, despite the expected capex both on capacity addition and maintenance, we expect company's balance sheet to further deleverage on account of strong OCF. We expect balance sheet to be nearly cash rich by FY23E. Due to strong positioning of balance sheet, company has increased dividend payout from 13% in FY18 to 20% in FY21 with renewed dividend policy of 15-25% payout. Further, company would prefer to reserve cash on balance sheet for any inorganic opportunities in future.
- ✓ Going ahead, although our volume estimates remain largely intact, we upgrade our EBITDA estimates by 14.3%/16.4% for FY22E/FY23E respectively. This is primarily on the back of 1. savings from the new MMDR act which would translate into Rs 2bn+ benefits, 2. revised guidance of company on fixed costs and 3. better pricing outlook as compared to our previous expectations. Accordingly, we factor in volume/EBITDA CAGR of 9.7%/7.3% over FY21-FY23E.
- ✓ We estimate deleveraging drive to continue with net debt/EBITDA set to decline from 0.66x to ~0.07x over FY21-FY23E. After prolonged period of weak return ratios for the industry as a whole, we expect the same to pick up as we expect ROCE of Ultratech to improve from 15% currently to 18% by FY23E.
- ✓ At CMP, Ultratech is trading at EV/EBITDA of ~14x on FY23E. We assign an EV/EBITDA multiple of 16x on FY23E and arrive at TP of Rs 7,540/share with potential upside of 16% (previous TP of Rs 6,373). **We maintain our BUY rating on the stock.**
- ✓ **Key Risk:** Further lockdowns across states due to second wave of COVID would hamper volume growth and timelines of capex commissioning

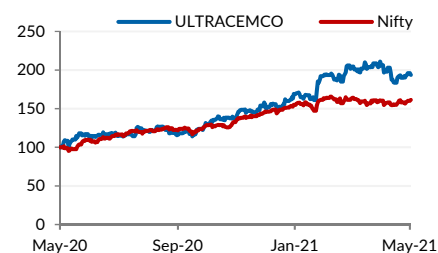
## Exhibit 1: Result table

Y/e 31 Mar (Rs mn)	Q4FY21	Q3FY21	qoq(%)	Q4FY20	yoy (%)
Revenue	144,056	122,620	17.5	108,545	32.7
Operating Profit	36,904	31,022	19.0	25,758	43.3
OPM (%)	25.6	25.3	32 bps	23.7	189 bps
Other Income	603	2,600	(76.8)	1,997	(69.8)
Depreciation	6,980	6,739	3.6	6,780	3.0
Interest	3,772	3,563	5.9	5,060	(25.5)
PBT	26,390	23,320	13.2	14,594	80.8
Tax	8,649	7,474	15.7	(17,774)	-
PAT	17,752	15,843	12.0	32,402	(45.2)

Source: Company, YES Sec - Research

Nifty	14,942
52 Week h/l (Rs)	7056 / 3276
Market cap (Rs/USD mn)	1848277 / 25198
Outstanding Shares	289
6m Avg t/o (Rs mn):	4,168
Div yield (%):	0.2
Bloomberg code:	UTCEM IN
NSE code:	ULTRACEMCO

## Stock performance



	1M	3M	1Y
Absolute return	-6.2%	0.2%	94.3%

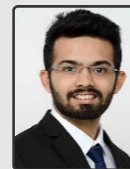
## Shareholding pattern (As of March'21 end)

Promoter	59.91%
FII+DII	30.68%
Others	8.72%

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	7.540	6.373

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## CON-CALL HIGHLIGHTS

- ✓ **Demand** across all geographies witnessed an uptick during the quarter due to increase in demand for IHB, Infrastructure growth and pickup in urban real estate. Although April and May has witnessed slowdown in demand due to second wave of COVID, company expects it to be a near term problem with no serious implications over long term. Management remains confident that Indian cement industry is poised for strong growth in coming years and Ultratech will continue to outperform.
- ✓ **Capacity utilizations** for Ultratech during the quarter stood at 93%. Capacity utilization in East was ~100%+, South was marginally below 90% and in other regions utilization were above 90%. Nathdwara assets operated at 85% for the quarter while Century's utilization stood at 90%+.
- ✓ **Capital allocation:** Renewed dividend policy of 15-25% pay-out along with priority to make balance sheet cash rich. Company would want to hold ~Rs 100 bn of liquidity on books to take advantage of favorable inorganic opportunities wherein company would be looking at targets ex-West. Further, company expects RMC business and building products portfolio to act as a prominent driver of growth in the future.
- ✓ Under the new **MMDR act**, company would enjoy benefits of Rs 2bn+ and none of the leases of Ultratech has lapsed.
- ✓ In terms of **costs**, although prices of pet-coke and coal are on the rise, company expects it to start declining in second half of CY21. Consumption of pet-coke & imported coal in fuel mix was ~30% & 60% respectively. For FY22E, fixed costs would remain flattish as compared to FY21 at ~Rs 55 Bn. Further, WHRS would account for ~20-25% of power consumption for the company by FY24E.
- ✓ **Capex:** Super Dalla clinker expansion (2.3 MTPA) would commence production from Jan-March 2022 feeding into clinker requirements of Central and Eastern operations. Company has guided for capex of ~Rs 40-50bn/Rs 30bn for FY22E/FY23 respectively.

## Exhibit 2: Per tonne analysis (blended)

Per te (in Rs)	Q4FY21	Q3FY21	qoq(%)	Q4FY20	yoy (%)
Cement volumes (MT)	27.78	23.88	16.3	21.44	29.6
Net realization	5,186	5,135	1.0	5,063	2.4
Raw Material cost	868	751	15.5	712	21.9
Employee cost	221	256	(13.6)	307	(28.0)
Power and fuel cost	973	1,006	(3.2)	996	(2.3)
Freight cost	1,183	1,193	(0.8)	1,251	(5.4)
Other expenses	611	630	(3.0)	595	2.8
<b>EBITDA</b>	<b>1,328</b>	<b>1,299</b>	<b>2.3</b>	<b>1,201</b>	<b>10.6</b>

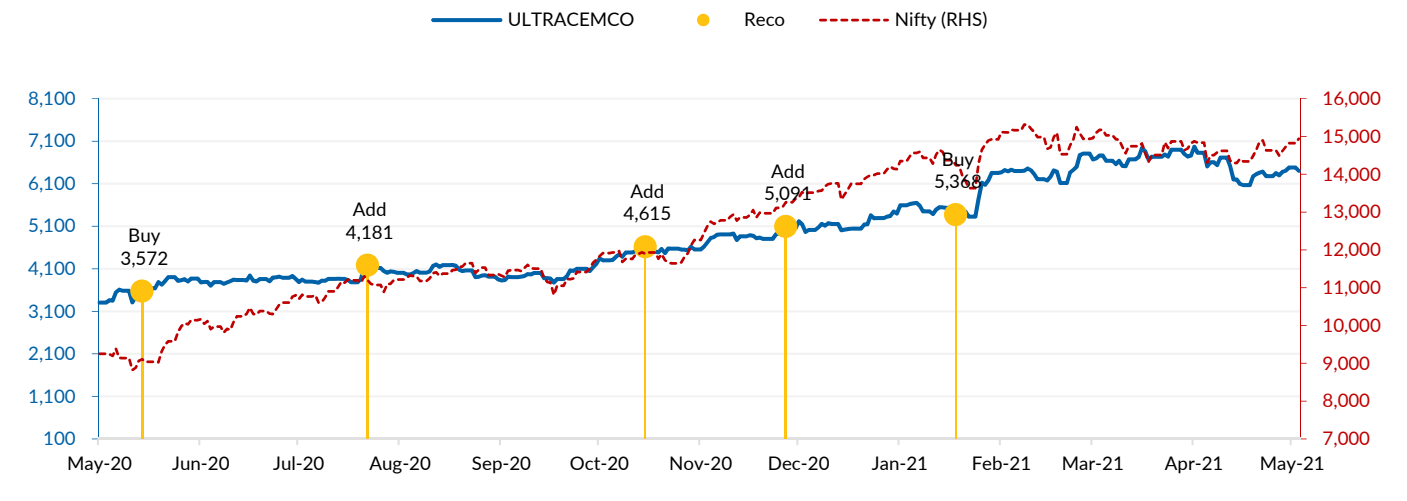
Source: Company, YES Sec - Research

## Exhibit 3: Financial Summary

Y/e 31 Mar (In Rs mn)	FY20A	FY21A	FY22E	FY23E
Cement volumes (MT)	82.3	86.4	95.2	104.0
Revenues	424,299	447,258	502,299	562,353
EBITDA	93,779	115,679	120,219	133,166
EBITDA/te (Rs)	1,139	1,339	1,262	1,280
CFI	(41,924)	(88,590)	(36,500)	(39,770)
Net debt	181,144	75,864	54,105	9,709
Net debt/Equity (x)	0.46	0.17	0.11	0.02
Net debt/EBITDA (x)	1.93	0.66	0.45	0.07
ROE (%)	9.5	12.0	13.5	13.9
ROCE (%)	11.8	14.8	16.5	18.0
EV/EBITDA (x)	11.9	16.8	16.0	14.1

Source: Company, YES Sec - Research

## Recommendation Tracker



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