

UltraTech Cement

Estimate change	↔
TP change	↑
Rating change	↔

CMP: INR8,519 TP: INR10,090 (+18%) Buy

Cost decline and recent price hikes to improve margins

Phase-II expansion progressing well; likely to complete by 1HFY26

- UTCEM's 2QFY24 operating performance was above our estimates (6% beat on EBITDA), primarily led by higher RMC revenue and other op. income. EBITDA stood at INR25.5b (est. INR24.2b) and EBITDA/t came in at INR956 (est. INR905). Profit stood at INR12.8b (est. INR12b).
- The management reiterated its long-term capacity target of 200mtpa, which implies ~7% capacity CAGR. Phase II expansion is at full swing and likely to be completed by 1HFY26. Post completion of this expansion, its cement capacity will increase to ~160mtpa vs. 132.65mtpa currently. The next phase of expansion plan should be finalized in CY23.
- We largely maintain our estimates and reiterate our **BUY** rating on the stock, given its: a) leadership position in the industry, b) robust expansion plans without leveraging the balance sheet, and c) structural cost improvement measures. We value UTCEM at 16x Sep'25E (earlier FY25E) EV/EBITDA to arrive at our revised TP of INR10,090 (earlier INR9,600).

Grey cement realization declined 2% YoY; EBITDA/t stood at INR956

- Consolidated revenue/EBITDA/PAT stood at INR160b/INR25.5b/INR12.8b (up 15%/up 37%/up 70% YoY and up 3%/up 6%/up 6% vs. our estimates). Consolidated sales volume grew 16% YoY to 26.7mt. RMC/white cement revenue grew 31%/9% YoY during the quarter.
- Grey cement realization was down 2% YoY (flat QoQ). Blended realization was flat 2% YoY (up 3% vs. estimates due to higher RMC/white cement revenue). Opex/t was down 3% YoY (up 2% from estimates), led by a 6%/1% decline in variable/other expenses. Freight cost/t was flat YoY. Employee cost was up ~18% YoY due to increments and one-time bonus. EBITDA/t was up 18% YoY and OPM surged 2.5pp YoY to 16% in 2QFY24.
- In 1HFY24, revenue was up 16% YoY, led by ~17% volume growth. EBITDA grew ~13% YoY, while OPM was down 50bp to 16.6%. EBITDA/t was down 4% YoY due to lower realization.

Highlights from the management commentary

- Cement prices have increased in the past few months. Currently, all-India prices are up 7%-8% as compared to Jun'23-exit. Price increases are holding well as of now, but sustainability of these price hikes should be monitored.
- Fuel consumption cost stood at USD162/t vs. USD178 in 1Q. Avg. fuel cost stood at INR2.18/kcal vs. INR2.34 in 1Q. It is carrying fuel inventory of 60days.
- Capex stood at INR43.4b in 1HFY24. Annual capex is projected to be in the range of INR60-70b in FY24/25. Consolidated net debt stood at INR49b vs. INR27b as of Mar'23.

Bloomberg	UTCEM IN
Equity Shares (m)	288
M.Cap.(INRb)/(USD\$)	2459.2 / 29.5
52-Week Range (INR)	8751 / 6250
1, 6, 12 Rel. Per (%)	1/2/21
12M Avg Val (INR M)	2616

Financial Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	712	761	841
EBITDA	132	156	181
Adj. PAT	74	90	108
EBITDA Margin (%)	19	20	22
Adj. EPS (INR)	256	311	374
EPS Gr. (%)	46	21	20
BV/Sh. (INR)	2,093	2,360	2,679

Ratios

Net D:E	(0.0)	(0.1)	(0.2)
RoE (%)	12.9	14.0	14.8
RoCE (%)	12.2	13.2	14.2
Payout (%)	17.5	14.4	14.7

Valuations

P/E (x)	33.2	27.3	22.8
P/BV (x)	4.1	3.6	3.2
EV/EBITDA(x)	18.4	15.2	12.6
EV/ton (USD)	225	187	177
Div. Yield (%)	0.5	0.5	0.6
FCF Yield (%)	2.2	3.0	4.2

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	60.0	60.0	60.0
DII	16.1	17.1	18.2
FII	16.5	15.4	13.2
Others	7.5	7.5	8.6

FII Includes depository receipts

Valuation and view

- We estimate consolidated volume CAGR at ~10% over FY23-26 and EBITDA/t to be at INR1,106/INR1,212/INR1283 in FY24/25/26 (vs. INR1,005 in FY23).
- The stock trades at 15.2x/12.6x FY25E/FY26E EV/EBITDA (vs. its 10-year one-year average EV/EBITDA of 15.7x). We value UTCEM at 16x Sep'25E (earlier FY25E) EV/EBITDA to arrive at a revised TP of INR10,090 (earlier INR9,600). We reiterate our **BUY** rating on the stock.

Consolidated quarterly performance

												(INR b)
	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net sales	151.6	138.9	155.2	186.6	177.4	160.1	171.5	203.4	632.4	712.4	155.8	3
YoY change (%)	28.2	15.6	19.5	18.4	17.0	15.3	10.5	9.0	20.2	12.7	12.2	
Total expenditure	120.7	120.3	131.9	153.4	146.9	134.6	139.5	159.4	526.2	580.3	131.7	2
EBITDA	30.9	18.7	23.4	33.2	30.5	25.5	32.1	44.0	106.2	132.1	24.2	6
Margin (%)	20.4	13.4	15.0	17.8	17.2	15.9	18.7	21.6	16.8	18.5	15.5	42
Depreciation	7.0	7.1	7.2	7.6	7.5	8.0	7.9	8.1	28.9	31.5	7.6	5
Interest	2.2	2.0	2.2	1.9	2.1	2.3	2.3	2.0	8.2	8.7	2.0	17
Other income	1.1	1.5	1.3	1.2	1.7	1.7	1.7	1.8	5.0	6.9	1.8	(5)
PBT before EO expense	22.9	11.0	15.2	24.9	22.6	16.9	23.6	35.6	74.1	98.7	16.3	3
'Extra-Ord expense	-	-	-	-	-	-	-	-	-	-	-	
PBT after EO Expense	22.9	11.0	15.2	24.9	22.6	16.9	23.6	35.6	74.1	98.7	16.3	3
Tax	7.1	3.4	4.6	8.2	5.8	4.1	5.7	9.0	23.4	24.6	4.2	(2)
Prior period tax adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Rate (%)	31.0	31.2	30.5	33.0	25.5	24.3	24.3	25.2	31.6	24.9	25.5	
Reported PAT	15.8	7.6	10.6	16.7	16.9	12.8	17.9	26.7	50.7	74.2	12.2	5
Minority interest	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	
Adj. PAT	15.9	7.6	10.6	16.7	16.9	12.8	17.9	26.5	50.7	74.1	12.1	6
YoY change (%)	-6.7	-42.5	-9.7	12.7	6.3	69.6	68.7	59.3	-10.6	46.2	60.4	

Key operating parameters

Income Statement (INR/t)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY23	FY24E	FY24	Var.
											2QE	(%)
Volume (mt)	25.0	23.1	25.9	31.7	30.0	26.7	28.0	34.8	106.2	119.4	26.7	-
Change (YoY %)	16.3	6.7	11.8	14.4	19.6	15.5	8.3	9.8	12.9	12.5	15.5	
Realization (including RMC)	6,056	6,014	6,002	5,893	5,920	5,999	6,126	5,848	5,957	5,965	5,839	3
Change (YoY %)	10.2	8.3	6.9	3.5	-2.2	-0.2	2.1	-0.8	6.5	0.1	-2.9	
RM cost	912	873	868	1,001	983	935	933	1,116	919	999	975	(4)
Power and fuel	1,603	1,861	1,884	1,676	1,629	1,643	1,583	1,304	1,742	1,527	1,539	7
Staff cost	254	299	268	226	236	304	271	217	258	254	280	9
Freight and forwarding	1,314	1,318	1,345	1,325	1,369	1,316	1,385	1,288	1,320	1,337	1,338	(2)
Other expenditure	737	855	733	615	686	846	809	658	722	742	801	6
Total expenditure	4,820	5,206	5,099	4,844	4,903	5,044	4,981	4,583	4,961	4,859	4,933	2
EBITDA	1,236	808	903	1,049	1,018	956	1,145	1,266	996	1,106	905	6
YoY change (%)	(19.5)	(35.6)	(13.6)	(5.5)	(17.7)	18.3	26.8	20.6	(18.6)	11.0	12.1	

Sources: Company reports, MOFSL estimates



Highlights from the management commentary

Demand and pricing outlook

- Cement demand remained strong across regions. However, there was a slight decline in demand in the East during September, attributable to heavy rains. Its volume in the East has been better than the industry. Industry demand is expected to grow between 9% and 11% YoY in FY24. Nevertheless, demand growth in the eastern region is estimated to be lower at around 4%-5%.
- Cement prices have increased in the past few months. Currently, all-India prices are 7-8% higher vs. Jun'23-exit. 2QFY24 average price was up only 1-1.5% as compared to 1Q average. Current prices as compared to Jun'23-exit is up 7-8% in east/Maharashtra, 6-7% in North, and ~5% in South, while it is flat in the Central region. The price increases are holding well as of now, but sustainability of these price hikes should be monitored.

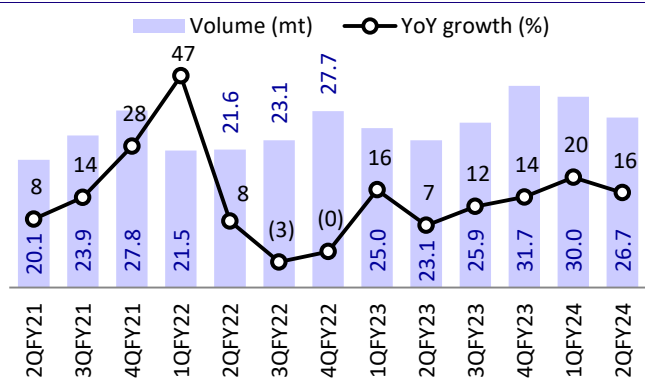
Operational highlights

- The C:C (clinker to cement conversion) ratio improved 2% YoY (flat QoQ) to 1.44x. Its blended cement share stood at 70% vs. 71%/70% in 2QFY23/1QFY24. Trade sales share stood at ~67% vs. 68% in 1QFY24. Premium cement share was up 3% YoY to 21.7%.
- The company commissioned 30MW of WHRS and 83MW of renewable power (RE) capacity taking total WHRS/RE capacity to 262MW/429MW. It keeps on investing in WHRS and green power and targets to increase green power share to 60% by FY26.
- In 2Q, fuel consumption cost stood at USD162/t vs. USD178/t in 1QFY24. It is currently carrying inventory of 60days and expects to bring down the inventory to normal levels of 45days by Mar'24-end.
- Fuel mix for 2Q was 39% imported pet coke (vs. 42% in 1QFY24), 51% imported coal, 6% domestic coal, and the rest AFR. Average fuel cost stood at INR2.18/kcal vs. INR2.34/kcal in 1Q.
- Lead distance (including inter-clinker transportation) stood at 403km vs. 410km in 1QFY24. Lead distance is expected to decline further post completion of Phase-II expansion (24.4mtpa). Lead distance for outward dispatches of cement was 270km vs. 281km in 4Q.
- White cement volume rose 11% YoY to 0.42mt, whereas revenue grew 9% YoY to INR5.9b. RMC revenue increased 31% YoY to INR11.6b.
- High maintenance cost (as 24 kilns were under maintenance) and one-time bonus to employees (INR400m) led to higher cost by ~INR700 during the quarter.

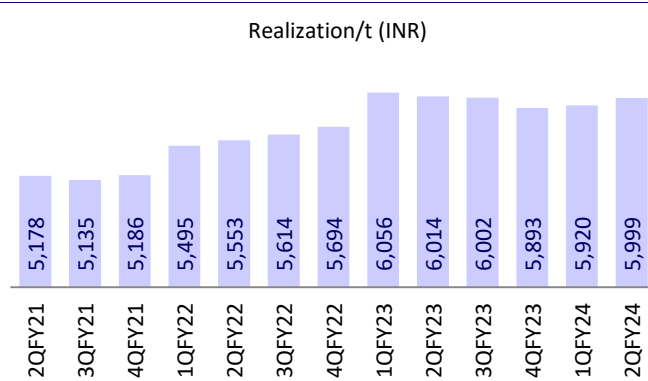
Expansion and debt position

- In addition to the ongoing capacity expansion of 22.6mtpa in Phase-II, the company plans to increase capacity by 4mtpa through debottlenecking and add 1.8mtpa of slag capacity. Therefore, the total expansion under Phase-II, including bottlenecking, will be 28.4mtpa, bringing the total cement capacity to 159.65 mtpa by 1HFY26. The company will announce further capex plan before the end of CY23.
- Capex stood at INR43.4b in 1HFY24. It maintains capex guidance of INR60-70b each in FY24/25. Working capital increased by INR6b due to higher coal inventory. However, it continues to operate at negative working capital.
- Consolidated net debt stood at INR49b vs. INR27b as of Mar'23.

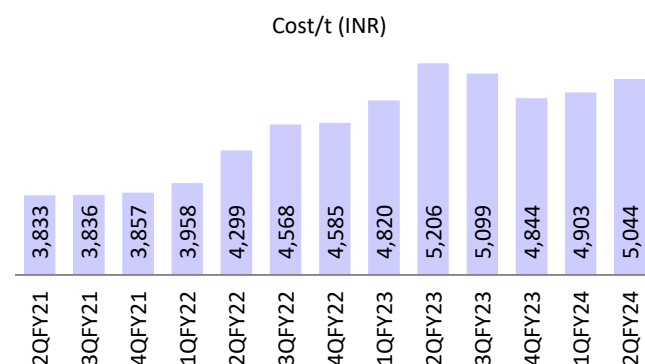
Story in charts

Exhibit 1: Sales volume grew 16% YoY


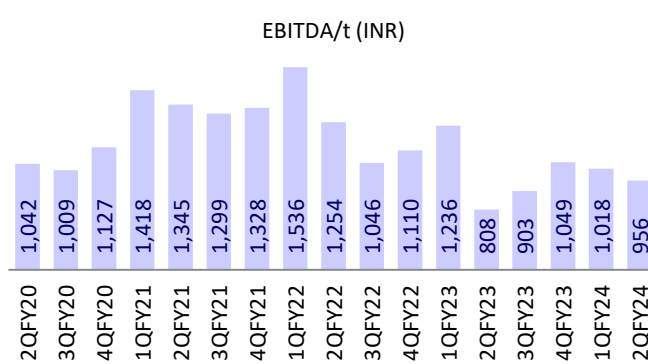
Sources: Company reports, MOFSL

Exhibit 2: Blended realization was flat YoY and up 1% QoQ


Sources: Company reports, MOFSL

Exhibit 3: OPEX/t declined 3% YoY


Sources: Company reports, MOFSL

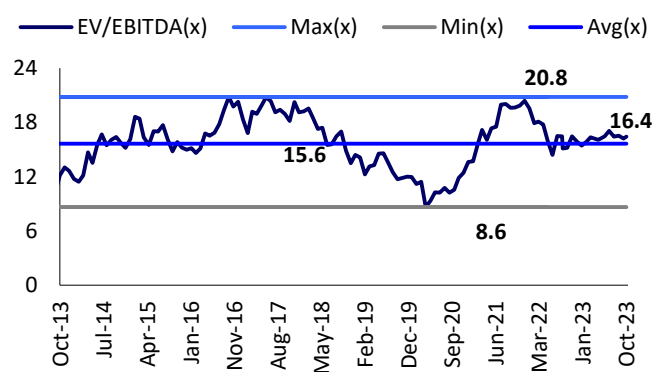
Exhibit 4: EBITDA/t grew 18% YoY


Sources: Company reports, MOFSL

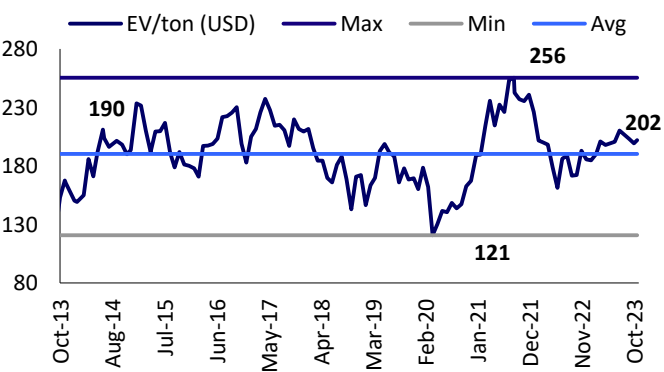
Exhibit 5: Trends in key operating parameters

INR/t	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)
Realization	5,999	6,014	0%	5,920	1%
RM cost	935	873	7%	983	-5%
Power and fuel	1,643	1,861	-12%	1,629	1%
Staff cost	304	299	2%	236	29%
Freight and forwarding	1,316	1,318	0%	1,369	-4%
Other expenditure	846	855	-1%	686	23%
Total expenditure	5,044	5,206	-3%	4,903	3%
EBITDA	956	808	18%	1,018	-6%

Sources: Company reports, MOFSL

Exhibit 6: One-year forward EV/EBITDA (x) trend


Sources: Company reports, MOFSL

Exhibit 7: One-year forward EV/t trend


Sources: Company reports, MOFSL

Financials and valuations

Consolidated Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	4,16,088	4,24,299	4,47,258	5,25,988	6,32,400	7,12,422	7,61,209	8,40,609
Change (%)	34.3	2.0	5.4	17.6	20.2	12.7	6.8	10.4
Raw Materials	69,831	65,181	70,858	79,650	97,150	1,19,322	1,30,425	1,47,514
Employees Cost	22,911	25,199	23,530	25,347	27,390	30,332	32,977	36,166
Other Expenses	2,49,877	2,40,141	2,37,191	3,05,848	4,01,662	4,30,686	4,41,825	4,75,717
Total Expenditure	3,42,619	3,30,520	3,31,579	4,10,845	5,26,201	5,80,340	6,05,227	6,59,396
As a percentage of Sales	82.3	77.9	74.1	78.1	83.2	81.5	79.5	78.4
EBITDA	73,469	93,779	1,15,679	1,15,144	1,06,199	1,32,082	1,55,982	1,81,213
Margin (%)	17.7	22.1	25.9	21.9	16.8	18.5	20.5	21.6
Depreciation	24,507	27,227	27,002	27,148	28,880	31,531	36,541	39,495
EBIT	48,962	66,552	88,677	87,996	77,319	1,00,551	1,19,440	1,41,718
Int. and Finance Charges	17,779	19,917	14,857	9,447	8,227	8,731	6,052	5,064
Other Income	4,634	6,511	7,342	5,078	5,031	6,907	6,430	7,286
PBT bef. EO Exp.	35,818	53,146	81,162	83,627	74,122	98,726	1,19,818	1,43,940
EO Items	-1,139	19,788	-2,607	0	0	0	0	0
PBT after EO Exp.	34,679	72,934	78,555	83,627	74,122	98,726	1,19,818	1,43,940
Total Tax	10,681	15,413	25,387	11,901	23,429	24,562	29,755	35,867
Tax Rate (%)	30.8	21.1	32.3	14.2	31.6	24.9	24.8	24.9
Minority Interest	-37	-32	-34	-118	54	140	140	140
Reported PAT	24,035	57,553	53,202	71,844	50,640	74,024	89,923	1,07,933
Adjusted PAT	24,823	41,946	54,967	56,665	50,640	74,024	89,923	1,07,933
Change (%)	1.1	69.0	31.0	3.1	-10.6	46.2	21.5	20.0
Margin (%)	6.0	9.9	12.3	10.8	8.0	10.4	11.8	12.8

Consolidated Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	2,746	2,886	2,887	2,887	2,887	2,887	2,887	2,887
Total Reserves	3,34,738	3,88,269	4,38,860	5,01,466	5,40,359	6,01,392	6,78,324	7,70,379
Net Worth	3,37,484	3,91,155	4,41,747	5,04,353	5,43,245	6,04,279	6,81,211	7,73,266
Minority Interest	122	75	57	-31	556	696	836	976
Total Loans	2,53,370	2,28,979	2,04,878	1,02,028	99,008	79,008	69,008	54,008
Deferred Tax Liabilities	63,856	49,120	60,407	60,332	62,601	72,057	83,502	97,322
Capital Employed	6,54,832	6,69,329	7,07,089	6,66,683	7,05,411	7,56,040	8,34,557	9,25,572
Gross Block	5,71,407	6,02,798	6,14,319	6,41,922	7,10,926	7,77,641	8,59,369	9,11,111
Less: Accum. Deprn.	68,172	95,399	1,22,401	1,49,549	1,78,428	2,09,959	2,46,501	2,85,996
Net Fixed Assets	5,03,235	5,07,400	4,91,918	4,92,374	5,32,497	5,67,681	6,12,868	6,25,116
Goodwill on Consolidation	62,989	62,525	62,199	62,502	63,293	63,293	63,293	63,293
Capital WIP	11,486	9,095	16,867	47,847	40,404	34,277	14,277	14,277
Current Investment	15,165	42,437	1,08,939	49,633	58,366	58,366	58,366	58,366
Non-current Investment	14,048	16,850	12,842	13,725	14,604	14,604	14,604	14,604
Curr. Assets, Loans, and Adv.	1,58,335	1,44,307	1,59,034	1,71,938	2,04,460	2,39,282	2,98,149	3,85,925
Inventory	40,990	41,483	40,180	55,956	66,118	75,320	80,234	88,232
Account Receivables	27,870	22,383	25,717	30,716	38,670	44,846	47,540	51,924
Cash and Bank Balance	7,397	5,392	20,076	3,592	11,496	31,162	82,645	1,58,261
Loans and Advances	82,079	75,049	73,061	81,674	88,175	87,953	87,730	87,507
Curr. Liability and Prov.	1,10,548	1,19,152	1,52,307	1,71,595	2,08,459	2,21,710	2,27,248	2,36,257
Account Payables	31,671	35,014	46,993	58,628	72,093	82,769	88,437	97,662
Other Current Liabilities	71,206	76,240	96,441	1,04,309	1,28,080	1,30,647	1,30,510	1,30,288
Provisions	7,671	7,898	8,873	8,658	8,286	8,293	8,300	8,307
Net Current Assets	47,787	25,155	6,727	343	-3,999	17,572	70,901	1,49,668
Deferred Tax assets	121	60	72	164	66	66	67	68
Net Assets held for sale	0	5,808	7,526	95	180	180	180	180
Appl. of Funds	6,54,832	6,69,329	7,07,089	6,66,683	7,05,411	7,56,040	8,34,557	9,25,572

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	90.4	145.3	190.4	196.3	175.4	256.4	311.5	373.9
Cash EPS	179.6	239.7	284.0	290.3	275.4	365.6	438.1	510.7
BV/Share	1,228.8	1,355.2	1,530.4	1,747.2	1,881.8	2,093.2	2,359.7	2,678.5
DPS	10.5	11.5	37.0	38.0	38.0	45.0	45.0	55.0
Payout (%)	14.0	9.1	19.4	19.4	21.7	17.5	14.4	14.7
Valuation (x)								
P/E	94.2	58.6	44.7	43.4	48.5	33.2	27.3	22.8
Cash P/E	47.4	35.5	30.0	29.3	30.9	23.3	19.4	16.7
P/BV	6.9	6.3	5.6	4.9	4.5	4.1	3.6	3.2
EV/Sales	6.1	6.2	5.6	4.7	3.9	3.4	3.1	2.7
EV/t (USD)	283	285	274	263	237	225	187	177
EV/EBITDA	34.8	28.0	21.8	21.7	23.3	18.4	15.2	12.6
Dividend Yield (%)	0.1	0.1	0.4	0.4	0.4	0.5	0.5	0.6
FCF per share	156.9	249.4	369.4	127.4	102.6	188.7	256.7	361.2
Return Ratios (%)								
RoE	8.3	11.5	13.2	12.0	9.7	12.9	14.0	14.8
RoCE	7.1	9.5	10.3	12.7	9.0	12.2	13.2	14.2
RoIC	6.4	8.5	10.2	13.4	9.1	12.3	13.7	15.5
Working Capital Ratios								
Inventory (Days)	36	36	33	39	38	39	38	38
Debtor (Days)	24	19	21	21	22	23	23	23
Creditor (Days)	28	30	38	41	42	42	42	42
Leverage Ratio (x)								
Current Ratio	1.4	1.2	1.0	1.0	1.0	1.1	1.3	1.6
Interest Coverage Ratio	2.8	3.3	6.0	9.3	9.4	11.5	19.7	28.0
Net Debt/Equity ratio	0.7	0.5	0.2	0.1	0.1	0.0	-0.1	-0.2

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	34,685	52,423	78,576	83,627	74,122	98,726	1,19,818	1,43,940
Depreciation	24,507	27,022	27,002	27,148	28,880	31,531	36,541	39,495
Interest and Finance Charges	17,779	19,917	14,857	9,447	8,227	8,731	6,052	5,064
Direct Taxes Paid	-7,101	-8,914	-12,910	-15,549	-11,243	-15,106	-18,311	-22,048
(Inc.)/Dec. in WC	-6,957	4,503	23,264	-4,730	-3,370	-1,905	-1,847	-3,150
CF from Operations	62,913	94,949	1,30,789	99,943	96,617	1,21,977	1,42,254	1,63,300
Others	-3,352	-5,929	-5,785	-7,110	-5,932	-6,907	-6,430	-7,286
CF from Operations incl. EO	59,561	89,020	1,25,004	92,832	90,685	1,15,071	1,35,824	1,56,015
(Inc.)/Dec. in FA	-16,482	-17,037	-18,389	-56,062	-61,056	-60,588	-61,729	-51,742
Free Cash Flow	43,079	71,983	1,06,615	36,771	29,629	54,482	74,095	1,04,273
(Pur.)/Sale of Investments	26,614	-26,266	-70,949	76,888	-13,642	0	0	0
Others	1,007	1,210	774	1,744	2,827	6,907	6,430	7,286
CF from Investments	11,138	-42,094	-88,565	22,570	-71,871	-53,682	-55,299	-44,456
Issue of Shares	52	27	70	44	47	0	0	0
Inc./(Dec.) in Debt	-46,482	-26,663	-25,149	-1,12,232	-3,632	-20,000	-10,000	-15,000
Interest Paid	-16,854	-19,445	-14,805	-2,227	-1,894	-8,731	-6,052	-5,064
Dividend Paid	-3,462	-3,800	-3,748	-10,650	-10,913	-12,991	-12,991	-15,878
Others	-827	-31	68	87	81	0	0	0
CF from Fin. Activity	-67,572	-49,911	-43,565	-1,24,979	-16,310	-41,722	-29,043	-35,942
Inc./Dec. in Cash	3,127	-2,985	-7,125	-9,577	2,504	19,667	51,482	75,616
Opening Balance	1,286	8,377	27,201	13,169	8,992	11,496	31,162	82,645
Closing Balance	4,412	5,392	20,076	3,592	11,496	31,162	82,645	1,58,261

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