



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

## UltraTech Cement Ltd

19 October 2023

## Sanguine about demand growth

## RESULT UPDATE

Sector: Cement Rating: BUY  
CMP: Rs 8,514 Target Price: Rs 9,816

## Stock Info

Sensex/Nifty	65,629/ 19,624
Bloomberg	UTCEM IN
Equity shares (mn)	289
52-wk High/Low	Rs.8,750/ 6,524
Face value	Rs.10
M-Cap	Rs.2,458Bn/ USD 30Bn
3-m Avg traded value	USD 32Mn

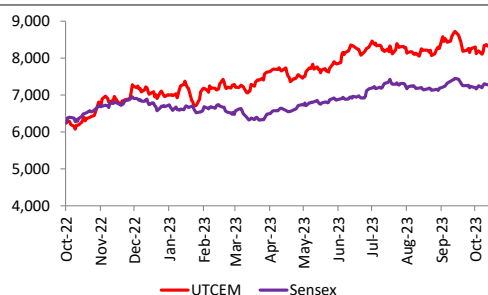
## Financial Snapshot (Rs bn)

Y/E Mar	FY23	FY24E	FY25E
Sales	632	712	782
EBITDA	106	140	164
PAT	51	79	95
EPS (Rs)	175.6	273.0	329.5
PE (x)	48.5	31.2	25.8
EV/EBITDA (x)	23.4	17.8	14.9
RoE (%)	9.7	13.7	14.8
RoCE (%)	12.0	15.3	16.8
Dividend yield (%)	0.6	0.7	0.7

## Shareholding pattern (%)

	Sep-23	Jun-23	Mar-23
Promoter	60.0	60.0	60.0
-Pledged			
FII	17.2	16.3	14.8
DII	15.2	16.1	16.9
Others	7.6	7.6	8.3

## Stock Performance (1-year)



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UTCEM's Q2FY24 revenue was in line with our expectations while EBITDA/APAT was 6.3%/10.8% below our estimates. Domestic volumes grew 15% and total volumes grew ~16% YoY to 26.7mmt, clocking capacity utilization of 75%. Net sales realization (NSR) at Rs 5,999/tonne (tn) was down by 0.2% YoY but was up 1.3% QoQ, in line with our estimate. Consolidated EBITDA came at Rs25.5bn, up by 36.8% YoY (-16.8% QoQ). Blended EBITDA/tn rose 18.4% YoY to Rs. 956 led by lower P&F expenses, partially offset by one-off expenses of ~Rs700 mn (employee expense of ~Rs 400-500mn and other maintenance costs). Trade Volumes stood at 57% of the total sales. Blended fuel consumption of ~USD 162/t compared to USD 178/t in Q1 FY24. The share of blended cement stood at 70%. The Clinker Conversion ratio has consistently improved and now stands at 1.44. The company is looking to complete phase II of capacity expansion by June'25 which would add 24.4mmt (22.6mmt phase II & 1.8 slag mills) to reach 159.7mtpa. Also, phase III of expansion is expected to be announced soon to bring the capacity to ~200mtpa. We keep our estimates unchanged and forecast a strong 11%/24%/37% CAGR in revenue/EBITDA/PAT over FY23-25E on the back of a 10% CAGR in grey cement sales volume. We raise our TP to Rs 9,816 from Rs9247 as we increase our EV/EBITDA multiple to 17x from earlier 16x on the back of a strong demand environment. We maintain BUY on the stock.

**Phase II Capex in full swing while phase III to be announced soon:** Most locations are doing very well in terms of on-ground execution and the company is confident of meeting the stated timelines. 5.5 mtpa capacity has already been commissioned during FY24TD, following a 12.4 mtpa capacity addition during FY23. The company added 2.5mtpa capacity in the current quarter (1.3 mtpa in West Bengal and 1.2mtpa debottlenecking in Magdalla grinding unit, Gujarat). Phase II is expected to be completed by Jun'25 to take a total capacity of 159.7mtpa. The company will start Phase 3 of expansion soon to ensure continuous supply of capacity to cater to the high growth potential of the Indian Cement Industry. The company sounded quite upbeat on the demand scenario and expects higher utilization to continue in coming quarters. UTCEM is looking to spend Rs55-60 bn in FY24 to fund the expansion plan.

**Valuation & outlook:** UTCEM is the largest player commanding close to 25% of Indian market share with industry leading margins. The company is consistently increasing its share of blended cement and premium products, while simultaneously improving cost efficiency. This is apparent in its clinker high cement to clinker ratio which is up 2% YoY to 1.44. The company achieved further reduction in lead distance on the back of a strong network of ~1,100 warehouses and ~280 railway sidings which now stands at 403kms (428kms in Q2FY23). The company's balance sheet is amongst the strongest in the industry with positive OCF/FCF. Its net debt has also reduced considerably from Rs222bn in FY19 to Rs45bn in Q2FY24 despite continuous expansion. We remain optimistic on the company as capacity expansion in demand accretive regions, fortified balance sheet and strong distribution network continue to work in favor of the company. Although the recent increase in petcoke and coal price may have a minor negative impact on margin with a lag of two quarters. **We maintain a BUY on the company with a revised TP of Rs9,816 based on 17x EV/EBITDA on FY25E.**

Investors are advised to refer through disclosures made at the end of the research report.

## Concall key takeaways

### Pricing Scenario:

Management reported that prices are holding steady so far and expects the momentum to continue which can bring in better realizations in Q3. From the quarter average prices, all India prices have been up close to 5% in both trade as well as non-trade segments. **In comparison with June exit prices, the prices in East 7-8%, Maharashtra is up 7- 8%, South 5-6%, and North 6-7% while Central remains flattish.**

### Volume and Demand:

Expected growth in the Eastern region to remain subdued at 4-5% where Ultratech has grown higher than industry. Pan India volume growth may be close to 9-11%. Witnessed volume improvement in White Cement & Putty segment.

### Capacity Expansion:

The company has already begun its Phase II Expansion of 22.6mtpa which is expected to be completed around June 2025. The company is also adding 3 slag mills (1.8mtpa) by the same time frame. This will take the capacity up to 159.65mtpa in India. The company spent Rs25.4bn on capex this quarter and expects total spending of Rs.6-7bn for the full year. The company will commence Phase 3 expansion once it gets the board approval before the end of this calendar year.

### Input Costs:

The company commissioned 30 MW of WHRS capacity during the second quarter. Green power now contributes 22% of the total power requirement and the company aims to increase this share to 50-60% by FY25-26. Energy cost was lower by 10% YoY, while raw material cost rose 4% on account of an increase in the cost of fly ash and slag. Cost curve expected to remain southbound in the quarters to come.

### Balance Sheet:

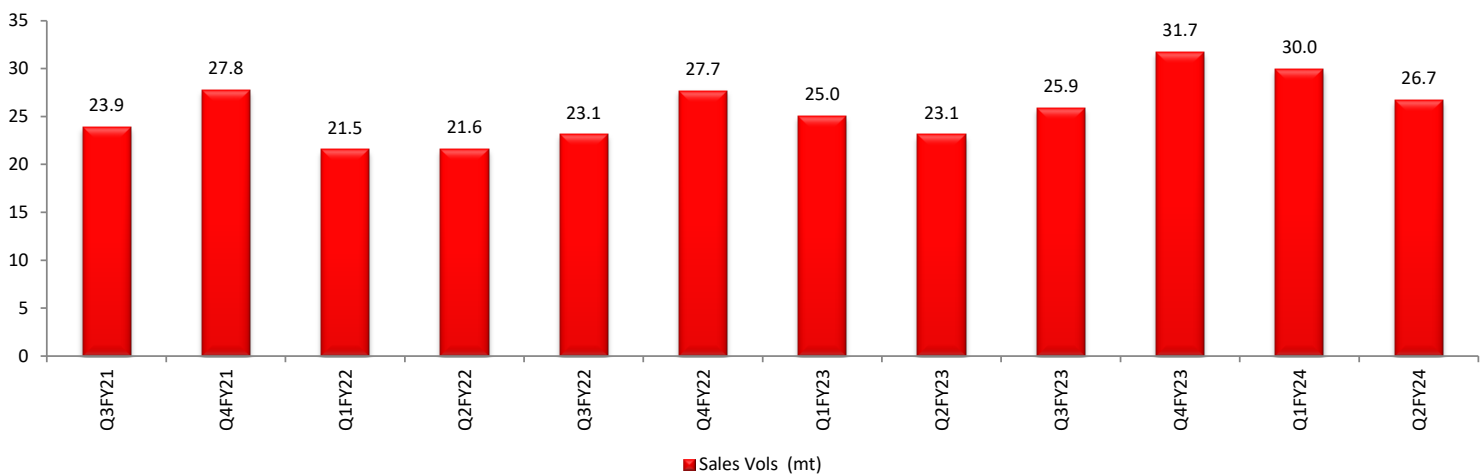
The company is carrying low-cost fuel inventory to benefit from when the fuel prices bottomed out. This has caused the company to carry 60 days of inventory vs the usual 45 days. However, this is expected to normalize by Mar'24. The company continues to be a negative working capital company. Net debt has increased to Rs43 bn from Rs25 bn at the end of Q1.

## Exhibit 1: Result snapshot

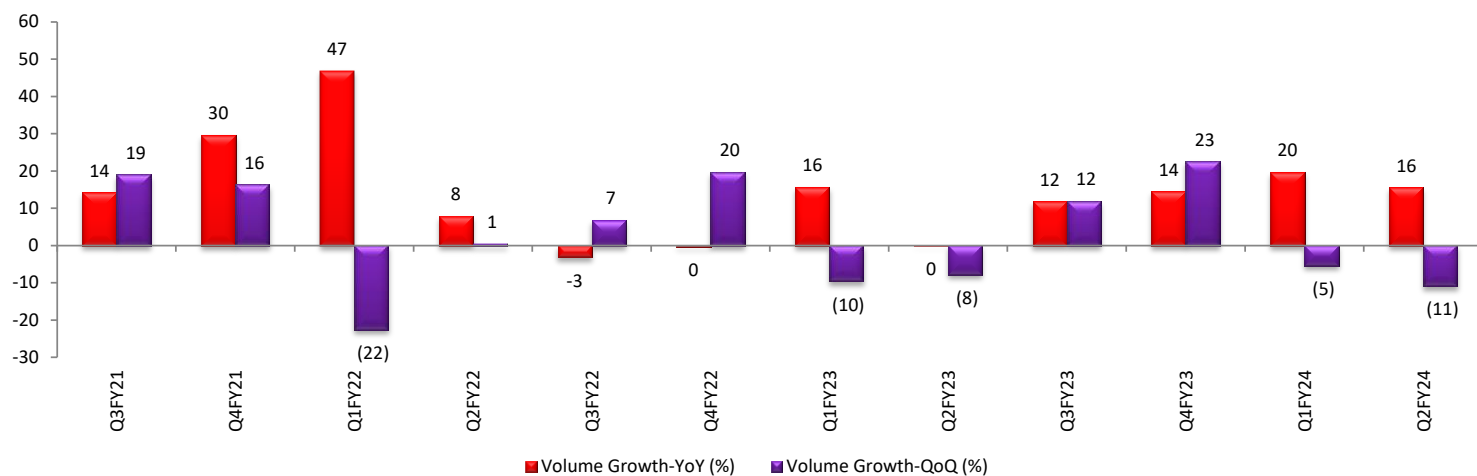
Particulars (Rs bn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ(%)	Our Estimates	Deviation (%)
Revenue (incl. OOI)	160.1	138.9	177.4	15.3	(9.7)	159.7	0.3
EBITDA	25.5	18.6	30.5	36.8	(16.3)	27.2	(6.3)
EBITDA Margin (%)	15.9	13.4	17.2	251bps	(126)bps		
PBT	16.9	11.0	22.7	53.2	(25.5)		
Tax	4.1	3.4	5.8	18.8	(29.0)		
Effective Tax Rate (%)	24.2	31.2	25.4	(700)bps	(121)bps		
Recurring PAT	12.8	7.6	16.9	68.8	(24.2)	14.4	(10.9)
Extord. Items	-	-	-	-	-		
Reported PAT	12.8	7.6	16.9	69.6	(24.1)	14.4	(10.9)
PAT Margin (%)	8.0	5.4	9.5	256bps	(152)bps		
Blended Realisation (Rs/ton)	5,999	6,014	5,920	(0.2)	1.3		
Total volumes (mt)	27	23	30	15.5	(10.9)		
Capacity Utilisation (%)	81	80	94	95bps	(1383)bps		
Blended EBITDA (Rs/ton)	956	807	1,018	18.4	(6.1)		
Per ton cost (Rs)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ(%)		
Raw Material Cost	935	873	983	7.0	(4.9)		
Staff Cost	304	299	236	1.7	29.0		
Power and Fuel Cost	1,643	1,861	1,629	(11.7)	0.8		
Freight Cost	1,316	1,318	1,369	(0.1)	(3.9)		
Other Expenditure	846	856	686	(1.2)	23.3		
Total Cost	5,044	5,207	4,903	(3.1)	2.9		

Source: Company, Systematix Institutional Research

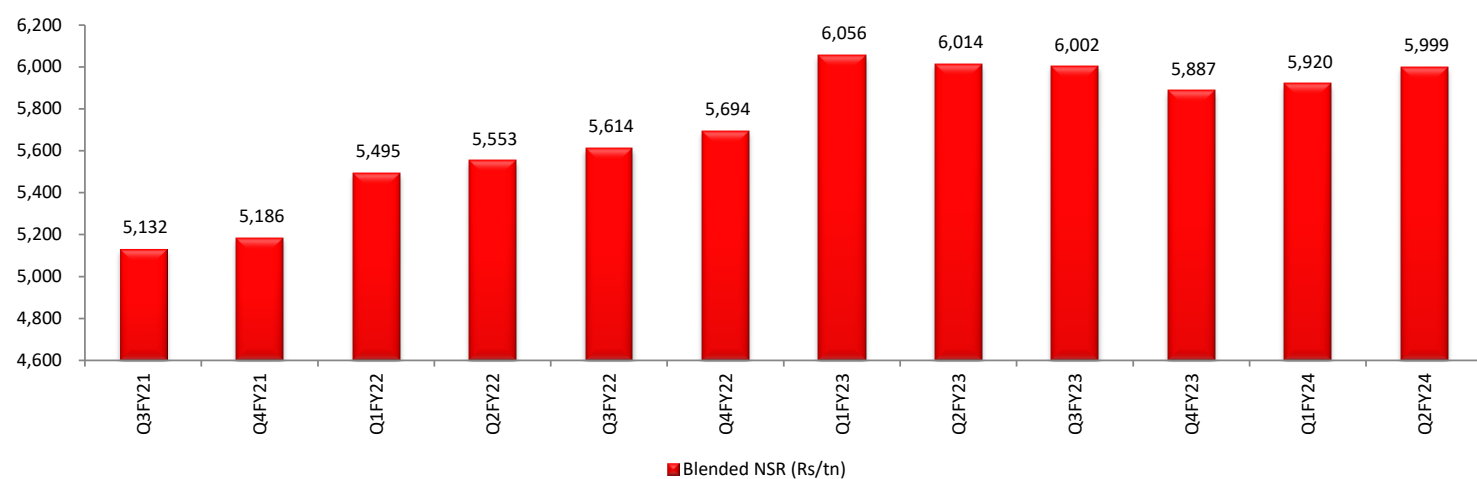
## Exhibit 2: Quarterly sales volumes



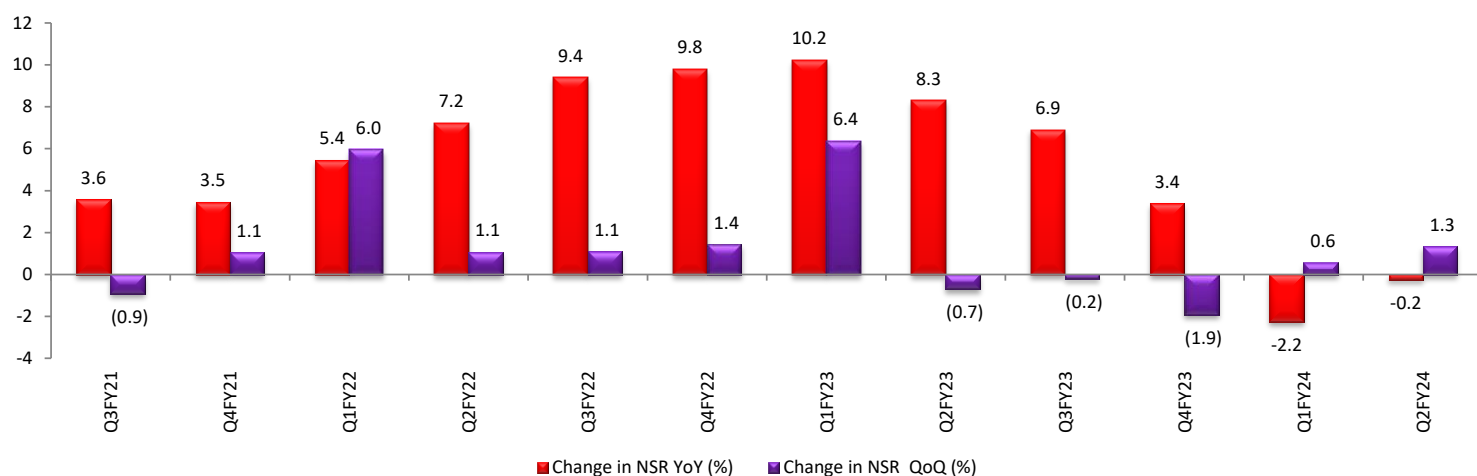
Source: Company, Systematix Institutional Research

**Exhibit 3: Change in volumes YoY and QoQ**

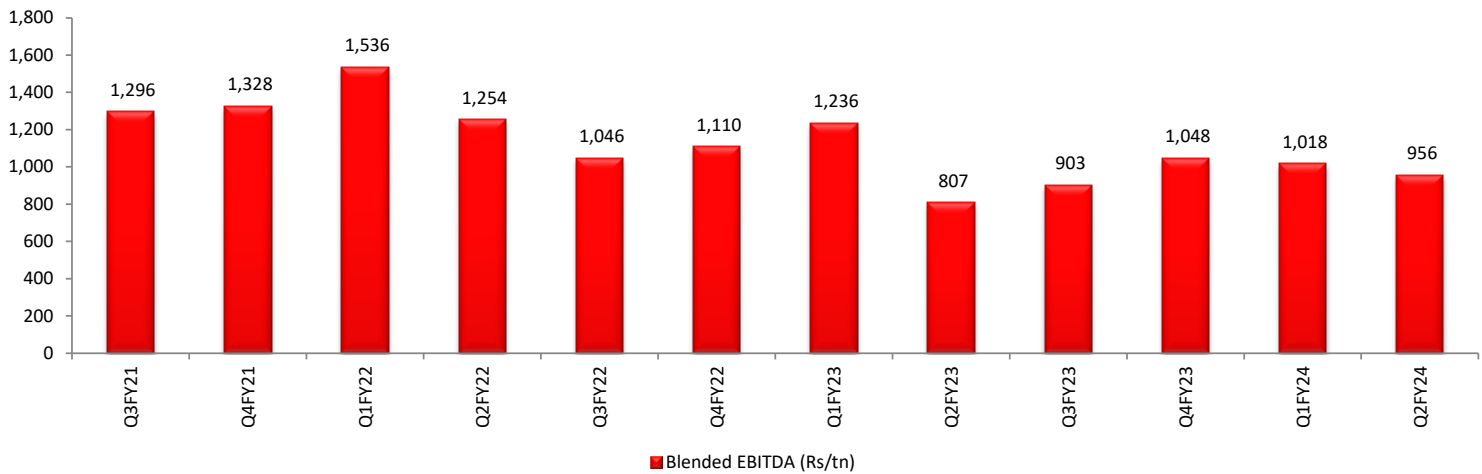
Source: Company, Systematix Institutional Research

**Exhibit 4: Quarterly NSR**

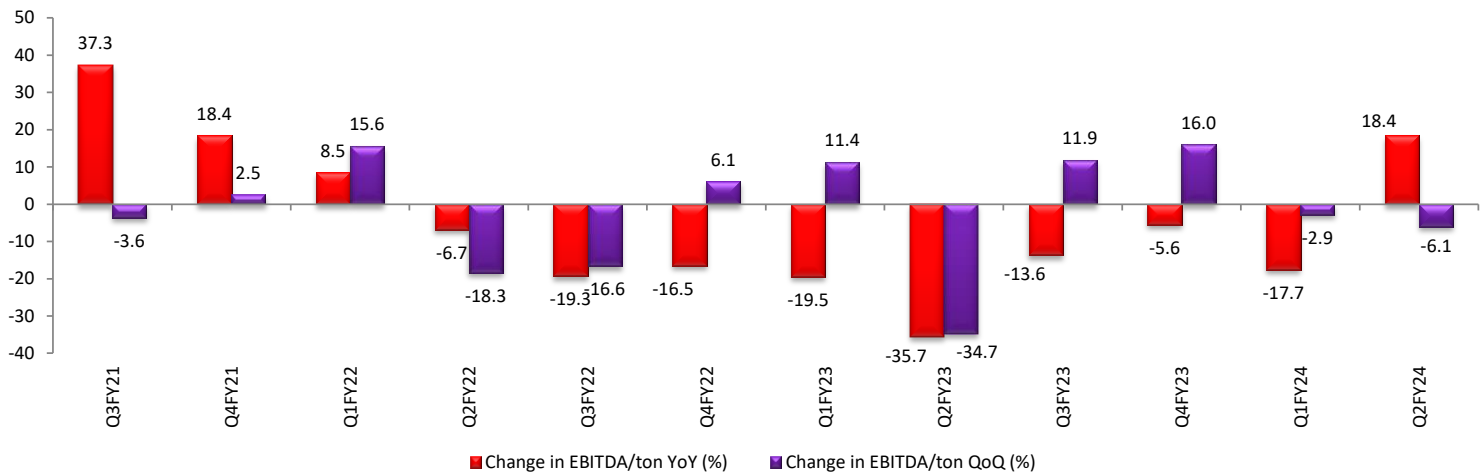
Source: Company, Systematix Institutional Research

**Exhibit 5: Change in NSR YoY and QoQ**

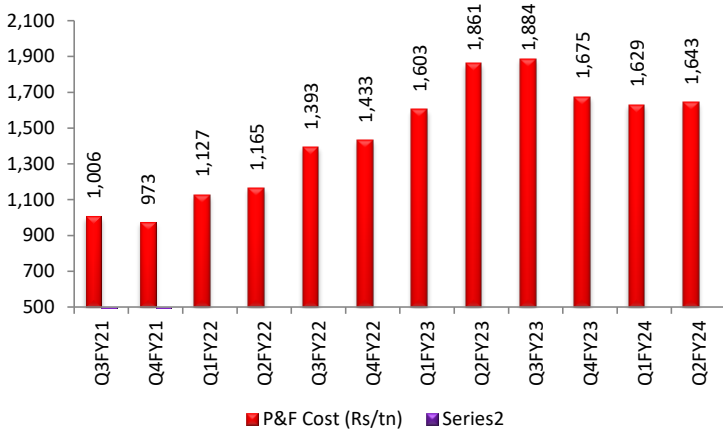
Source: Company, Systematix Institutional Research

**Exhibit 6: Blended EBITDA/tn rose mainly due to lower PF cost**

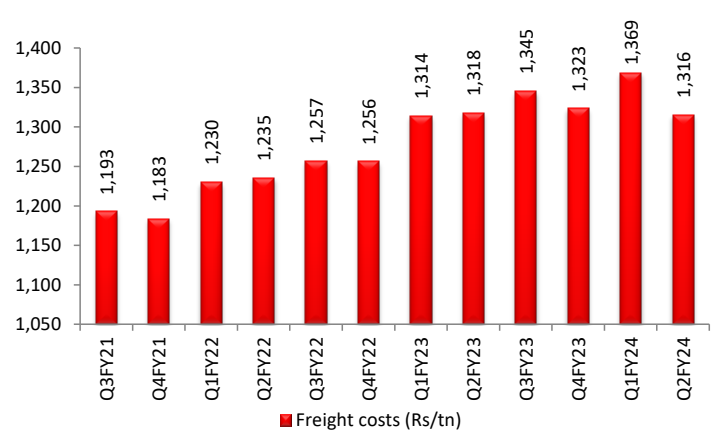
Source: Company, Systematix Institutional Research

**Exhibit 7: Blended EBITDA/tn improved by 18.4% YoY and declined 6.1% QoQ**

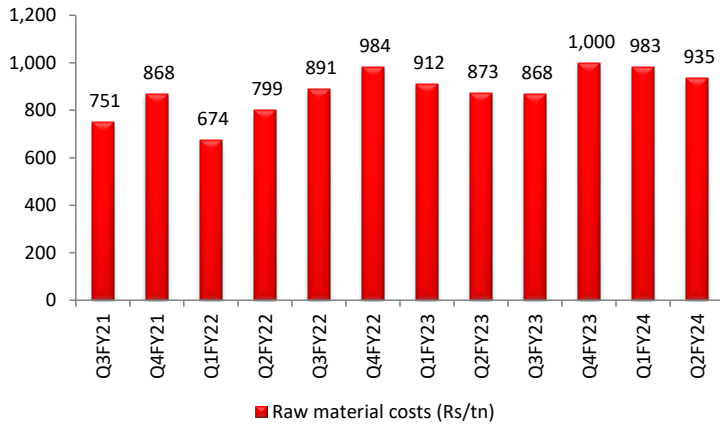
Source: Company, Systematix Institutional Research

**Exhibit 8: P&F Cost/tn down by 11.7% YoY and 0.8% QoQ**

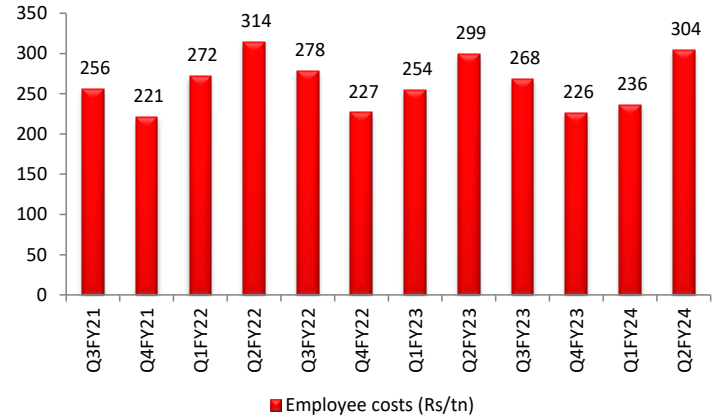
Source: Company, Systematix Institutional Research

**Exhibit 9: Freight Cost/tn down by 0.1% YoY and 3.9% QoQ**

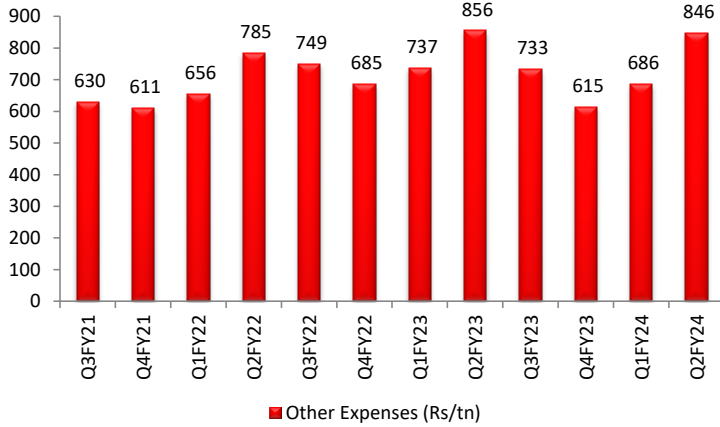
Source: Company, Systematix Institutional Research

**Exhibit 10: RM Cost/tn increased 7.0% YoY and declined 4.9% QoQ**

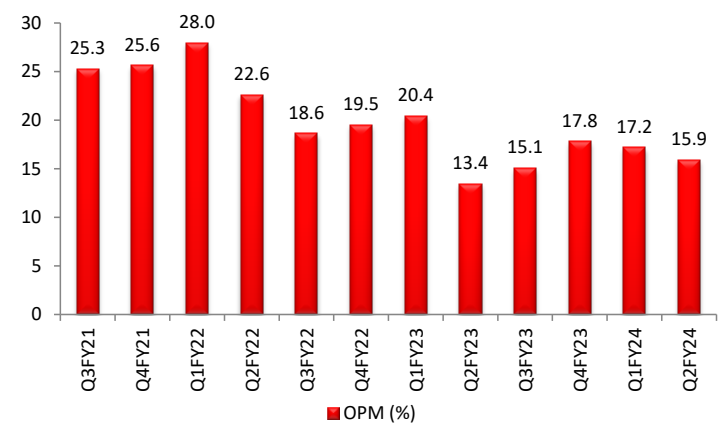
Source: Company, Systematix Institutional Research

**Exhibit 11: Employee Cost/tn rose 1.7% YoY and 29.0% QoQ**

Source: Company, Systematix Institutional Research

**Exhibit 12: Other expenses/tn fell 1.2% YoY but were up 23.3% QoQ**

Source: Company, Systematix Institutional Research

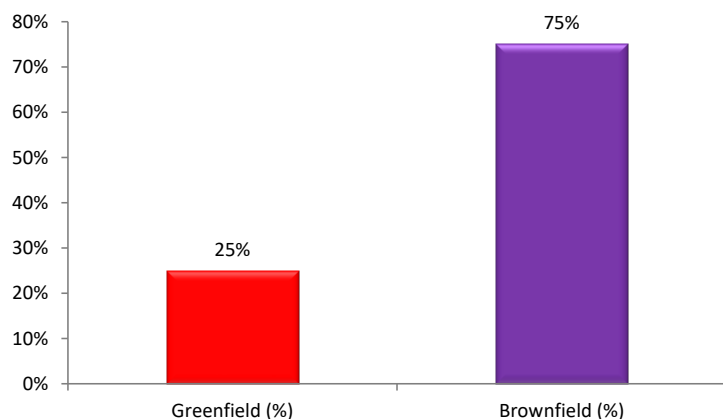
**Exhibit 13: Margin stood at 15.9% in Q2FY24 vs 13.4% in Q2FY23**

Source: Company, Systematix Institutional Research

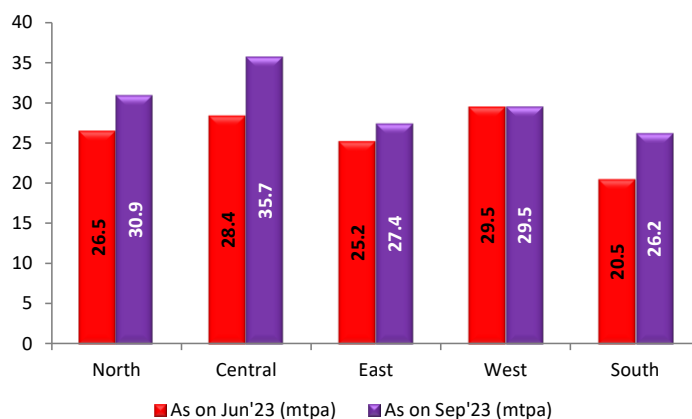
**Exhibit 14: Phase I capacity (19.9mtpa) expansion status**

Location	Regions	Capacity (mtpa)	Status
Patliputra, Bihar	East	0.6	Comissioned in FY22
Dankuni, West Bengal	East	0.6	Comissioned in FY22
Bara, Uttar Pradesh	Central	2.0	Comissioned in FY22
Dalla, Uttar Pradesh	Central	1.3	Comissioned in Q2FY23
Dhule, Maharashtra	West	1.8	Comissioned in Q3FY23
Pali, Rajasthan	North	1.9	Comissioned in Q3FY23
Dhar II, Madhya Pradesh	Central	1.8	Comissioned in Q3FY23
Hirmi, Chhattisgarh	East	1.3	Comissioned in Q4FY23
Cuttack, Odisha	East	2.8	Comissioned in Q4FY23
Jharsuguda II, Odisha	East	1.5	Comissioned in Q4FY23
Patliputra II, Bihar	East	2.2	Comissioned in 1QFY24
Neem ka Thana, Rajasthan	North	0.8	Comissioned in 1QFY24
Sonar Bangla II, West Bengal	East	1.3	Comissioned in 2QFY24

Source: Company, Systematix Institutional Research

**Exhibit 15: Phase I expansion ~75% brownfield expansion**

Source: Company, Systematix Institutional Research

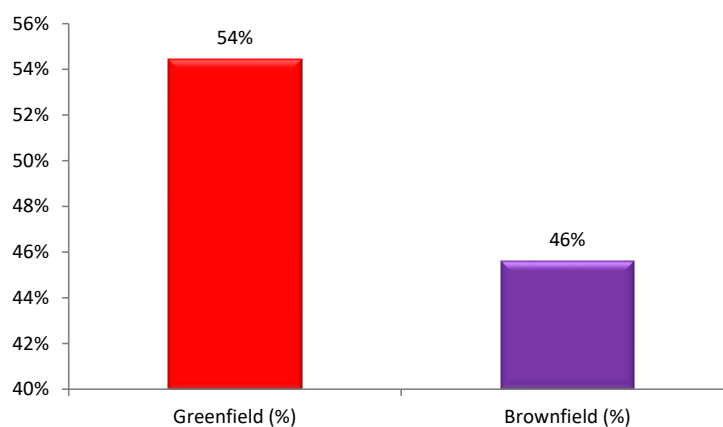
**Exhibit 16: Change in regional mix after Phase I expansion (Jun'23)**

Source: Company, Systematix Institutional Research

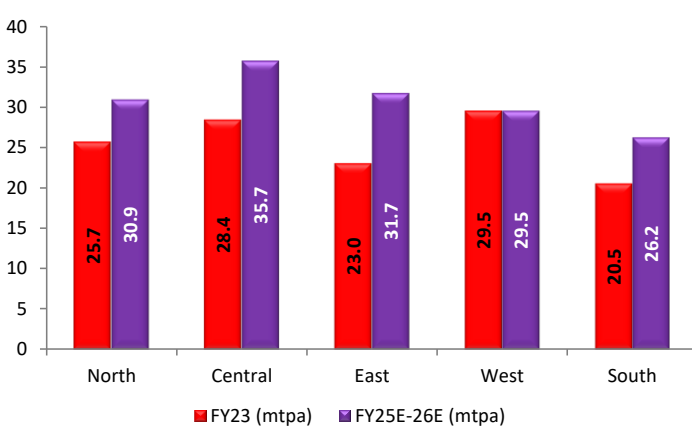
**Exhibit 17: Phase II (22.6mtpa) capacity expansion to be completed by mid FY26E at a capex of ~USD 76/tn**

Cement capacity expansion plan details		
Location	Regions	Capacity (mtpa)
Rajpura, Punjab (GU) - G	North	2.6
Kotputli, Rajasthan (IU) - B	North	1.8
APCW, Andhra Pradesh (IU) - B	South	1.8
Karur, Tamil Nadu (GU) - G	South	2.7
Arakkonam, Tamil Nadu (GU) - B	South	1.2
Maihar, Madhya Pradesh (IU) - B	Central	4.5
Roorkee, Uttarakhand (GU) - B	Central	1.0
West UP, Uttar Pradesh (GU) - B	Central	1.8
Kukurdih, Chhattisgarh (IU) - G	East	2.7
Ramgarh, Jharkhand (GU) - G	East	2.5
Note: GU-Grinding Unit, G-Greenfield, IU-Integrated Unit, B-Brownfield		
Bulk terminal expansion plan details		
Location	Regions	Capacity (mtpa)
Bangalore, Karnataka (BT) - B	South	1.0
East UP, Uttar Pradesh (BT) - B	Central	1.8
Note: BT-Bulk Terminal, B-Brownfield		

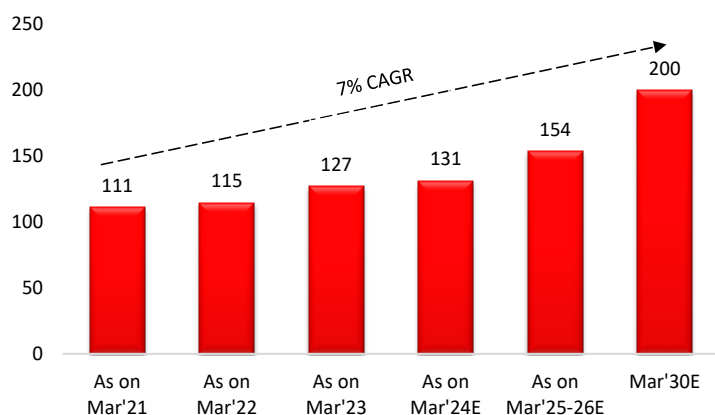
Source: Company, Systematix Institutional Research

**Exhibit 18: Phase II - green field (54%) and brownfield (46%)**

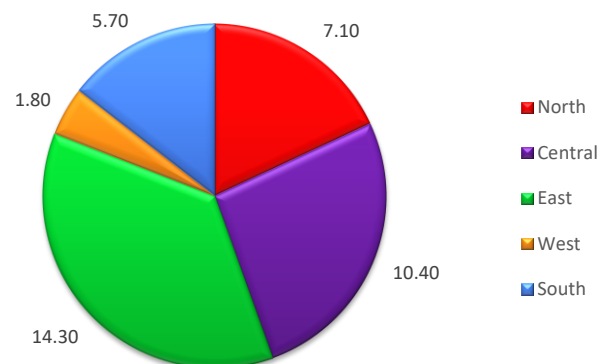
Source: Company, Systematix Institutional Research

**Exhibit 19: Regional mix change after Phase II (22.6mtpa; FY25-26)**

Source: Company, Systematix Institutional Research

**Exhibit 20: Targets 200mtpa gray cement capacity in India by Mar'30 Exhibit 21: Major capacity (mtpa) additions in demand-rich regions**

Source: Company, Systematix Institutional Research



Source: Company, Systematix Institutional Research

**Exhibit 22: UltraTech valued on EV/EBITDA (FY25E)**

	EBITDA	Multiple	Enterprise Value
	(Rs bn)	(X)	(Rs bn)
Cons. EBITDA	164	17	2,793
Less: net debt / (cash)			(7)
Add: CWIP			34
Equity value			2,834
Target price per share			9,816

Source: Company, Systematix Institutional Research

**Exhibit 23: Key assumption table**

Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Cement sales volume (mt)	85	81	85	101	106	118	128
Grey cement Realisation (Rs/tn)	4,080	4,233	4,751	5,005	5,089	5,165	5,268
Blended Realisation (Rs/ton)	4,917	5,236	5,274	5,193	5,983	6,017	6,118
EBITDA (incl. other income) (Rs/tn)	868	1,141	1,364	1,137	1,005	1,179	1,285
Per ton cost							
Raw material	825	804	836	786	919	952	989
Employee cost	271	311	277	250	259	262	267
Power & Fuel	1,115	1,051	982	1,198	1,749	1,609	1,569
Freight	1,219	1,201	1,184	1,156	1,325	1,325	1,305
Other expense	619	727	630	665	725	689	703
Total Cost	4,049	4,095	3,910	4,056	4,978	4,837	4,833

Source: Company, Systematix Institutional Research



# FINANCIALS

## Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	4,47,258	5,25,990	6,32,400	7,12,002	7,82,284
Growth (%)	5.4	17.6	20.2	12.6	9.9
<b>Total Expenditure</b>	<b>3,31,579</b>	<b>4,10,845</b>	<b>5,26,201</b>	<b>5,72,441</b>	<b>6,17,994</b>
<b>EBIDTA</b>	<b>1,15,679</b>	<b>1,15,145</b>	<b>1,06,199</b>	<b>1,39,561</b>	<b>1,64,290</b>
Growth (%)	25.1	(0.5)	(7.8)	31.4	17.7
EBIDTA %	25.9	21.9	16.8	19.6	21.0
Depreciation	27,002	27,148	28,880	31,881	35,075
<b>EBIT</b>	<b>88,677</b>	<b>87,998</b>	<b>77,319</b>	<b>1,07,680</b>	<b>1,29,215</b>
<b>EBIT Margin (%)</b>	<b>19.8</b>	<b>16.7</b>	<b>12.2</b>	<b>15.1</b>	<b>16.5</b>
Other income	7,342	5,078	5,031	5,036	5,046
Interest	14,857	9,447	8,227	7,368	7,108
<b>EBT</b>	<b>81,162</b>	<b>83,629</b>	<b>74,122</b>	<b>1,05,347</b>	<b>1,27,154</b>
Tax	25,387	11,901	23,429	26,548	32,043
Effective tax rate (%)	31.3	14.2	31.6	25.2	25.2
<b>Adjusted PAT</b>	<b>55,775</b>	<b>71,728</b>	<b>50,694</b>	<b>78,800</b>	<b>95,111</b>
Growth (%)	53.1	28.6	(29.3)	55.4	20.7
<b>Net Margin (%)</b>	<b>12.5</b>	<b>13.6</b>	<b>8.0</b>	<b>11.1</b>	<b>12.2</b>
<b>PAT after MI</b>	<b>53,189</b>	<b>71,745</b>	<b>50,640</b>	<b>78,795</b>	<b>95,106</b>
Growth (%)	(7.5)	34.9	(29.4)	55.6	20.7

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity share capital	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	4,38,918	5,01,435	5,40,915	6,00,551	6,76,499
<b>Shareholders Funds</b>	<b>4,41,804</b>	<b>5,04,322</b>	<b>5,43,802</b>	<b>6,03,438</b>	<b>6,79,386</b>
Net Deferred Taxes	60,407	60,332	62,601	62,601	62,601
<b>Total Liabilities</b>	<b>7,07,089</b>	<b>6,66,683</b>	<b>7,05,411</b>	<b>7,63,515</b>	<b>8,34,050</b>
Gross Block	6,11,123	6,37,518	7,06,521	7,77,188	8,55,150
Less: Acc Depreciation	1,19,205	1,45,144	1,74,024	2,05,905	2,40,980
<b>Net block</b>	<b>4,91,918</b>	<b>4,92,374</b>	<b>5,32,497</b>	<b>5,71,283</b>	<b>6,14,171</b>
Capital WIP	16,867	47,847	40,404	36,988	33,525
<b>Investment</b>	<b>1,21,781</b>	<b>63,358</b>	<b>72,770</b>	<b>73,770</b>	<b>75,270</b>
<b>Current Assets</b>	<b>2,31,270</b>	<b>2,34,700</b>	<b>2,68,199</b>	<b>2,85,330</b>	<b>3,34,696</b>
Inventories	40,180	55,956	66,118	58,521	64,297
Sundry Debtors	25,717	30,716	38,670	38,038	41,793
Cash and Bank	20,076	3,592	11,496	17,976	40,962
Loans and Advances	2,818	2,902	169	174	179
Other current assets	1,42,479	1,41,534	1,51,746	1,70,621	1,87,463
<b>Current Liab &amp; Prov</b>	<b>1,54,747</b>	<b>1,71,595</b>	<b>2,08,459</b>	<b>2,03,855</b>	<b>2,23,611</b>
Miscellaneous Exps	0	0	0	0	0
<b>Total Assets</b>	<b>7,07,089</b>	<b>6,66,683</b>	<b>7,05,411</b>	<b>7,63,515</b>	<b>8,34,050</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>PBT (Ex-Other income)</b>	<b>78,576</b>	<b>83,644</b>	<b>74,163</b>	<b>1,00,311</b>	<b>1,22,108</b>
Depreciation	27,002	27,148	28,880	31,881	35,075
Interest Provided	14,857	9,447	8,227	7,368	7,108
Other Non-Cash items	-5,785	-7,127	-5,892	0	0
Chg in working cap	23,289	-4,730	-3,450	-15,255	-6,623
Tax paid	-12,910	-15,549	-11,243	-26,548	-32,043
<b>Operating Cashflow</b>	<b>1,25,029</b>	<b>92,832</b>	<b>90,685</b>	<b>97,758</b>	<b>1,25,624</b>
Capital expenditure	-18,414	-56,062	-61,056	-67,250	-74,500
<b>Free Cash Flow</b>	<b>1,06,615</b>	<b>36,771</b>	<b>29,629</b>	<b>30,508</b>	<b>51,124</b>
Other income	1,146	1,129	-5,934	5,036	5,046
Investments	-71,322	77,502	-4,881	-1,000	-1,500
<b>Investing Cashflow</b>	<b>-70,176</b>	<b>78,632</b>	<b>-10,815</b>	<b>4,036</b>	<b>3,546</b>
Equity Capital Raised	138	-782	-1,018	0	0
Loans Taken / (Repaid)	-25,149	-1,03,286	3,270	-1,533	-5,413
Interest Paid	-14,805	-10,262	-7,649	-7,368	-7,108
Dividend paid (incl tax)	-3,748	-10,650	-10,913	-19,163	-19,163
<b>Financing Cashflow</b>	<b>-43,565</b>	<b>-1,24,979</b>	<b>-16,310</b>	<b>-28,064</b>	<b>-31,683</b>
<b>Net chg in cash</b>	<b>-7,125</b>	<b>-9,577</b>	<b>2,504</b>	<b>6,480</b>	<b>22,987</b>
Opening cash position	27,201	13,169	8,992	11,496	17,976
<b>Closing cash position</b>	<b>20,076</b>	<b>3,592</b>	<b>11,496</b>	<b>17,976</b>	<b>40,962</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Profitability (%)</b>					
EBITDA Margin	25.9	21.9	16.8	19.6	21.0
Net Margin	12.5	13.6	8.0	11.1	12.2
ROCE	13.9	13.6	12.0	15.3	16.8
ROE	13.4	15.2	9.7	13.7	14.8
RoIC	10.7	13.7	9.3	13.3	14.7
<b>Per Share Data (Rs)</b>					
EPS	193.2	248.5	175.6	273.0	329.5
CEPS	286.8	342.5	275.6	383.4	451.0
BVPS	1,530.6	1,747.1	1,883.7	2,090.3	2,353.3
DPS	37.0	38.0	45.0	55.0	55.0
<b>Valuations (x)</b>					
PER	44.1	34.3	48.5	31.2	25.8
EV/EBITDA	21.9	21.8	23.4	17.8	14.9
P/BV	5.6	4.9	4.5	4.1	3.6
EV / Sales	5.7	4.8	3.9	3.5	3.1
<b>Gearing Ratio (x)</b>					
Net Debt/ Equity	0.2	0.1	0.1	0.0	(0.0)
Net Debt/EBIDTA	0.7	0.4	0.3	0.2	(0.0)
Working Cap Cycle (days)	-63.0	-58.5	-60.4	-50.4	-50.4

Source: Company, Systematix Institutional Research

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