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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

## UltraTech Cement Ltd

20 January 2024

## Strong results and a robust outlook enhances optimism

## RESULT UPDATE

Sector: Cement

Rating: BUY

CMP: Rs 10,118

Target Price: Rs 12,000

## Stock Info

Sensex/Nifty	71,818/ 21,666
Bloomberg	UTCEM IN
Equity shares (mn)	289
52-wk High/Low	Rs.10,522/ 6,605
Face value	Rs.10
M-Cap	Rs.2,895Bn/ USD 33Bn
3-m Avg traded value	USD 32Mn

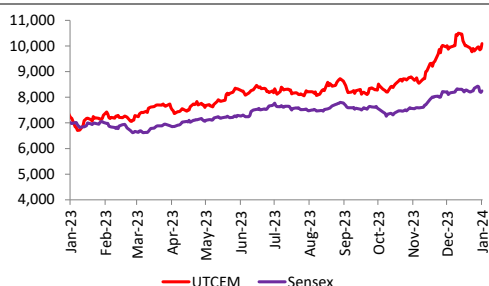
## Financial Snapshot (Rs bn)

Y/E Mar	FY24E	FY25E	FY26E
Sales	712	805	885
EBITDA	140	166	187
PAT	79	97	111
EPS (Rs)	273.0	334.4	383.1
PE (x)	37.0	30.2	26.4
EV/EBITDA (x)	21.0	17.5	15.3
RoE (%)	13.7	15.1	15.3
RoCE (%)	15.3	17.1	17.7
Dividend yield (%)	0.5	0.6	0.6

## Shareholding pattern (%)

	Dec-23	Sep-23	Jun-23
Promoter	60.0	60.0	60.0
-Pledged			
FII	18.2	16.7	15.8
DII	13.7	15.0	16.0
Others	8.1	8.3	8.2

## Stock Performance (1-year)



UTCEM's Q3FY24 revenue/EBITDA/APAT were in line with our expectations. Domestic volumes grew 5% and total volumes grew ~6% YoY to 27.3mmt, clocking capacity utilization of 82%. Net sales realization (NSR), which is one of the best in the industry stood at Rs 6,127/tonne (tn) up 2.1% YoY and QoQ. Consolidated EBITDA came at Rs32.5bn, up by 39.3% YoY (27.6% QoQ). Blended EBITDA/tn rose a staggering 31.9% YoY to Rs. 1,191 led by continual reduction in power and fuel expenses. Trade Volumes improved to 64% of rural sales. Blended fuel consumption of ~USD 150/t compared to USD 162/t in Q2 FY24. The share of blended cement stood at 70%. The company is looking to complete phase II of capacity expansion by mid-FY26E. Also, phase III of expansion has been announced to bring the capacity to ~200mtpa. We forecast a strong 12%/21%/30% CAGR in revenue/EBITDA/PAT over FY23-26E on the back of a 12% CAGR in grey cement sales volume combined with more headroom for cost optimization. We raise our TP marginally upwards to Rs12,000 from earlier Rs11,937 based on the EV/EBITDA multiple to 18x on the back of robust performance on all fronts. We maintain BUY on the stock.

**Phase III Capex announced while phase II in full swing:** The company has a current capacity of 133mmt which will go up to 157mmt by FY25 under its Phase II expansion plan. The company has already begun placing orders for critical technology for its Phase III expansion plan. Most locations are doing very well in terms of on-ground execution and the company is confident of meeting the stated timelines. Major capacity addition of 7.3mmt in Central and 6.4mmmt in East regions which are demand accretive. Further, the company is looking to add 21.9mmt of capacity in phase III of which 9.3mmt will be brownfield and 12.6mmt will be greenfield expansion. The company also has plans to set up bulk terminals in Gujarat, Karnataka, Assam, Tamil Nadu, and Maharashtra. UTCEM is looking to spend Rs 90bn (prev. Rs55-60 bn) in FY24 to fund the expansion plan.

**Valuation & outlook:** UTCEM has consistently delivered on all fronts including capacity expansion, margins and costs. The company expects a further dip of 5%-6% in power & fuel cost in the coming two quarters. Its new product development and focus on technological upgradation will give further boost to its operational efficiencies. In addition, the company achieved further reduction in lead distance through its robust network which now stands at 397kms (413kms in Q3FY23). We like Ultratech for its price discipline, strong balance sheet and strategic mammoth expansion. We maintain a BUY on the company with a TP of Rs12,000 based on 18x EV/EBITDA on FY26E.

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

## Concall key takeaways

### Pricing Scenario:

Demand for cement in the country continues to remain strong, higher demand will lead to improvement in pricing, the management informed the demand has gained traction from mid-December and when the capacity utilization crosses 85% there will be strong pricing environment in the market. Pricing gains during the quarter were largely surrendered towards the end of December exit.

### Volume and Demand:

The company expects volume growth of 3-4% in Q4FY24, as per management the bigger point is that any project which has been initiated will go on, and they see substantial construction activities across the country. The traded volumes stood at 64% while blended was around 68%. Q3 is a festive season, which is generally subdued due to absenteeism of workers. State elections in four major states, Chhattisgarh, Madhya Pradesh, Telangana, Rajasthan; fiscal challenges in the states of Bihar, Jharkhand, West Bengal affected demand. There were floods in Tamil Nadu, cyclone in Andhra and aggregate shortages in some parts of the country, NGT-related construction ban in NCR since last quarter, which still continues and severe weather condition disrupting demand in North-South regions.

### Capacity Expansion:

All the expansion plans as guided by the management are on track and some are ahead of the schedule, rise in cement consumption in the country shall well help to easily absorb the upcoming capacity. 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. Orders have already been placed for critical technology items. Civil work has commenced on a few sites. They are confident that the plants will be commissioned as per schedule. This year, capex will be around Rs90 bn. Next year also we could see our cash flows on CapEx being around INR9,000 crores.

### Input Costs:

The company achieved a fuel cost of 2.1 per kcal in Q3FY24 against 2.2 per kcal in Q2FY24. Blended cost of fuel consumed, net of moisture was \$150. Use of domestic fuel, which is around 6% of total fuel consumption, and maximum energy is from imported coal and pet coke. Expect to see a further reduction in fuel costs in the foreseeable future. With 455MW of renewable energy and 264MW of WHRS, they are now at about 24% of non-fossil fuel-based power. And work is in progress to nearly double this percentage by the end of FY'25.

### Kesoram Acquisition:

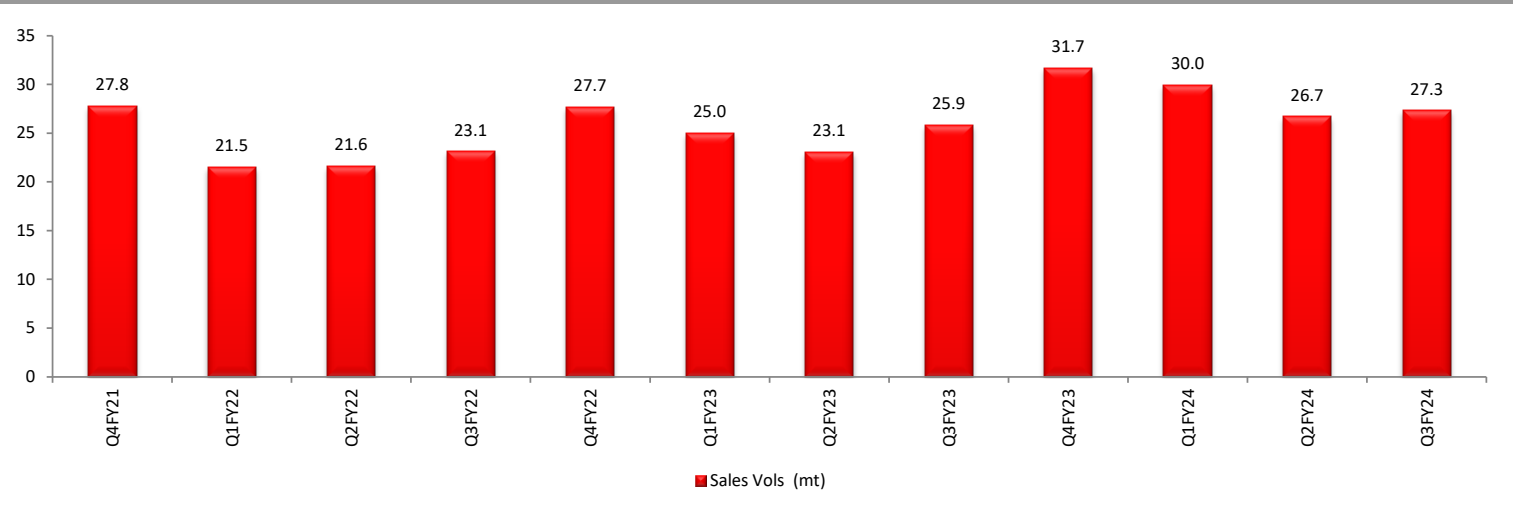
Done with filing of the scheme with the stock exchanges, CCI applications should be filed shortly, perhaps by the end of this month. Two NCLTs process will be later than the CCI approval which is namely Mumbai for Ultratech, and Kolkata for Kesoram. The effective date of merger has been kept as 1 April, '24. Hence, as and when the merger gets completed, the numbers will be consolidated with retrospective effect, once all regulatory approvals are in place.

Exhibit 1: Result snapshot

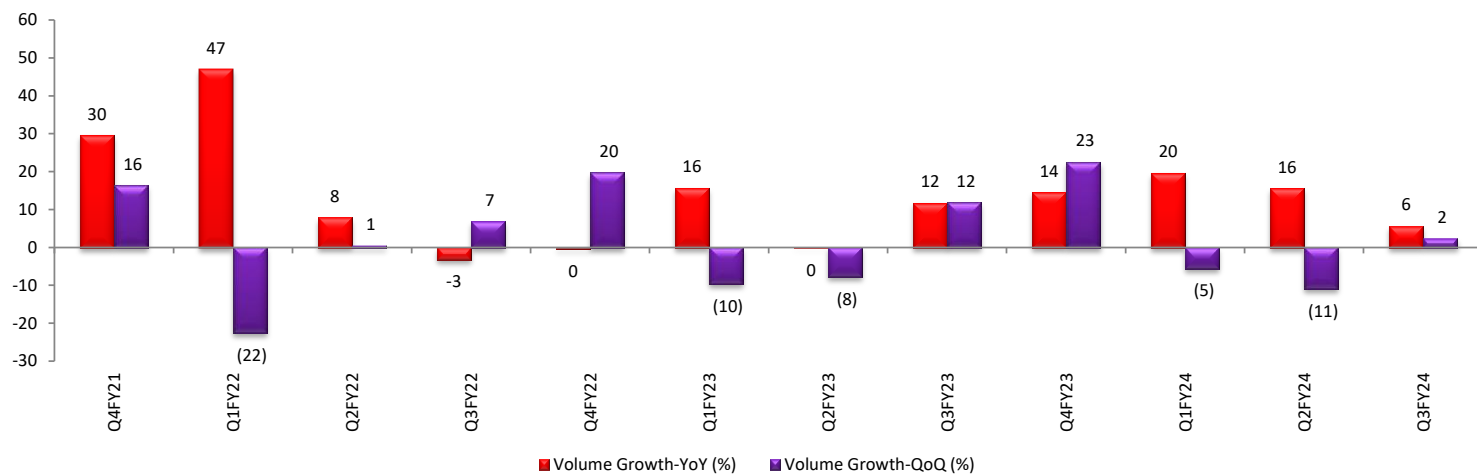
Particulars (Rs bn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ(%)	Our Estimates	Deviation (%)
Revenue (incl. OOI)	167.4	155.2	160.1	7.9	4.5	168.5	(0.6)
EBITDA	32.5	23.4	25.5	39.3	27.6	32.0	1.9
EBITDA Margin (%)	19.4	15.1	15.9	439bps	351bps		
PBT	23.6	15.3	16.9	54.2	39.4		
Tax	5.8	4.6	4.1	24.9	41.8		
Effective Tax Rate (%)	24.6	30.4	24.2	(578)bps	42bps		
Recurring PAT	17.7	10.6	12.8	67.0	38.6	17.3	2.6
Extord. Items	-	-	-	-	-		
Reported PAT	17.8	10.6	12.8	67.9	38.7	17.3	2.7
PAT Margin (%)	10.6	6.8	8.0	380bps	261bps		
Blended Realisation (Rs/ton)	6,127	6,002	5,999	2.1	2.1		
Total volumes (mt)	27.32	25.86	26.69	5.6	2.4		
Capacity Utilisation (%)	82	90	84	(766) bps	(165)bps		
Blended EBITDA (Rs/ton)	1,191	903	956	31.9	24.6		
Per ton cost (Rs)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ(%)		
Raw Material Cost	972	868	983	12.0	(1.1)		
Staff Cost	281	268	236	4.8	19.3		
Power and Fuel Cost	1,529	1,884	1,629	(18.8)	(6.1)		
Freight Cost	1,325	1,345	1,369	(1.5)	(3.2)		
Other Expenditure	828	733	686	13.0	20.7		
Total Cost	4,936	5,099	4,903	(3.2)	0.7		

Source: Company, Systematix Institutional Research

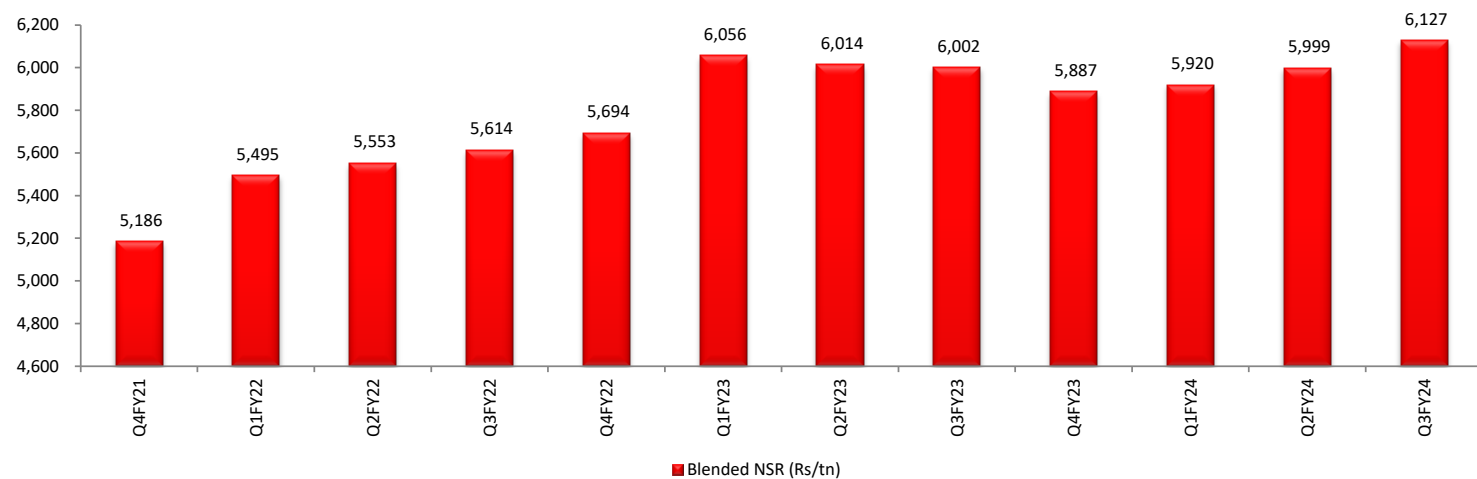
Exhibit 2: Quarterly sales volumes



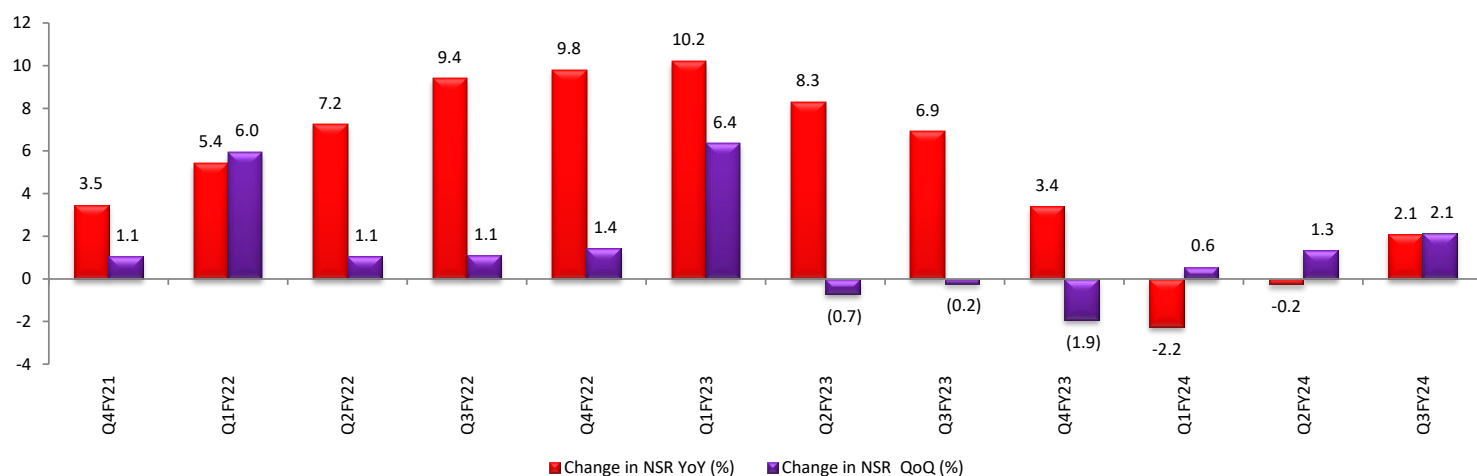
Source: Company, Systematix Institutional Research

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

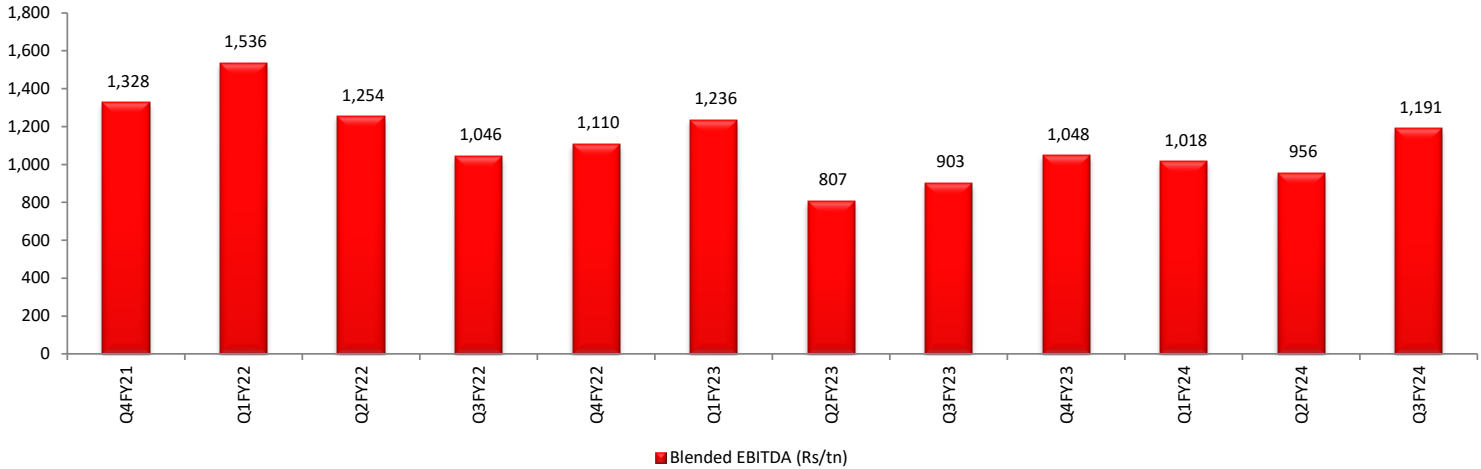
Source: Company, Systematix Institutional Research

**Exhibit 4: Quarterly NSR**

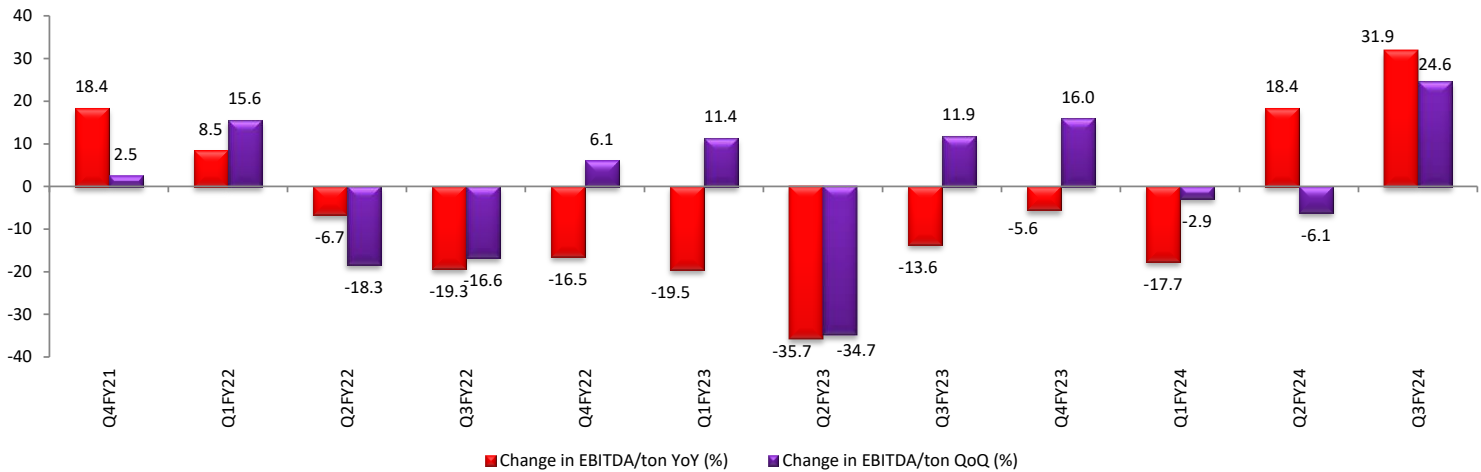
Source: Company, Systematix Institutional Research

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

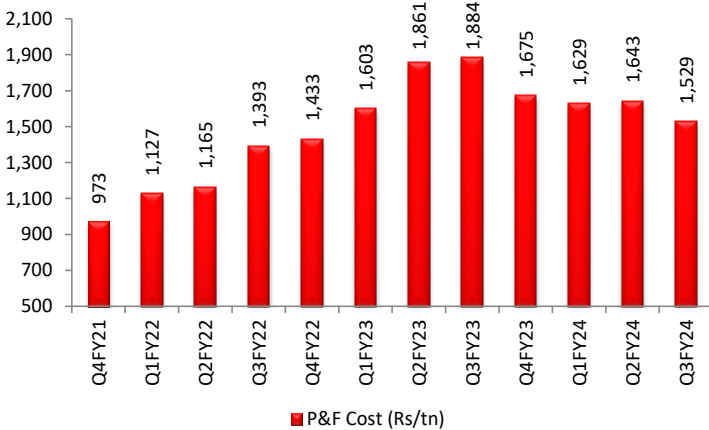
Source: Company, Systematix Institutional Research

**Exhibit 6: Blended EBITDA/tn increased QoQ led by improved cost efficiency**

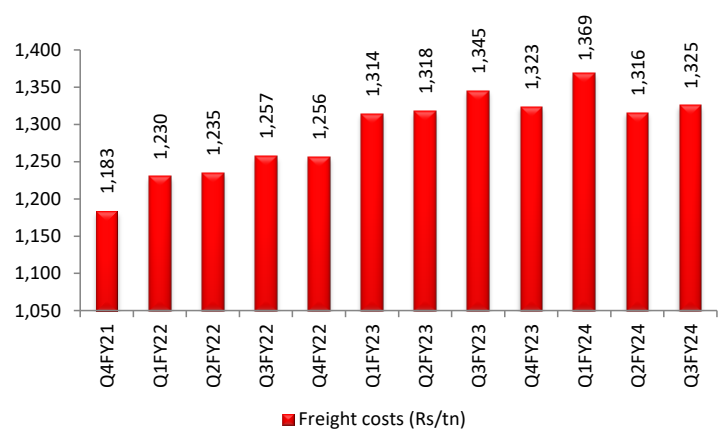
Source: Company, Systematix Institutional Research

**Exhibit 7: Blended EBITDA/tn rose 31.9% YoY and by 24.6% QoQ**

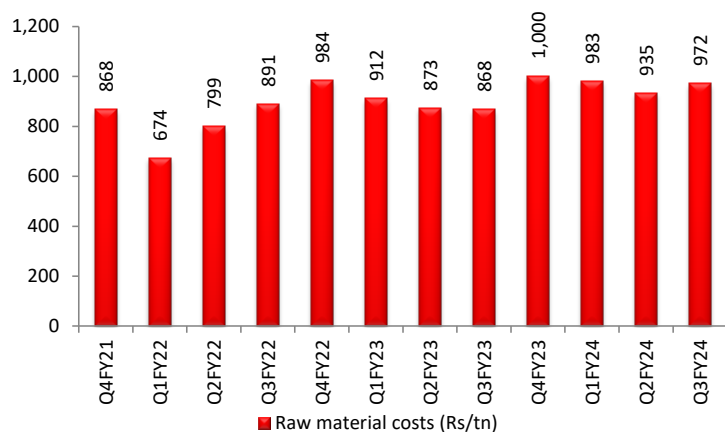
Source: Company, Systematix Institutional Research

**Exhibit 8: P&F Cost/tn marginally down by 18.8% YoY**

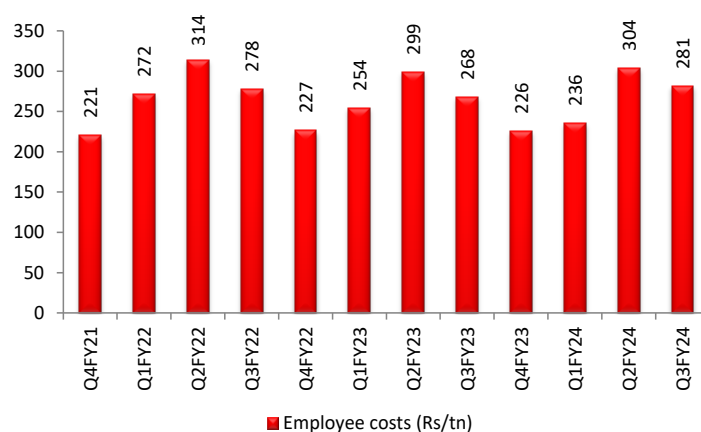
Source: Company, Systematix Institutional Research

**Exhibit 9: Freight Cost/tn down by 1.5% YoY**

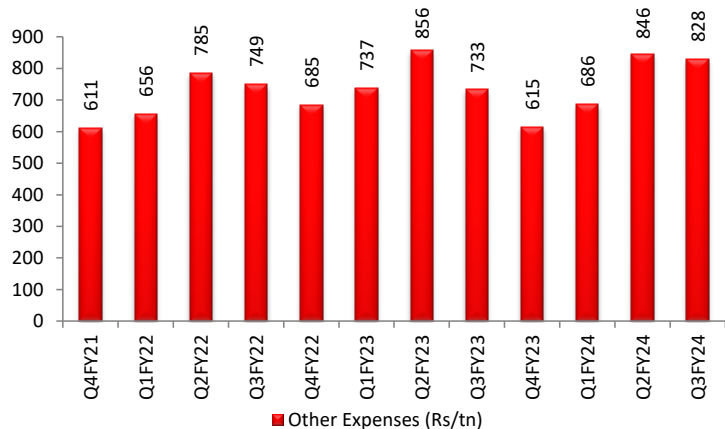
Source: Company, Systematix Institutional Research

**Exhibit 10: RM Cost/tn increased 12.0% YoY**

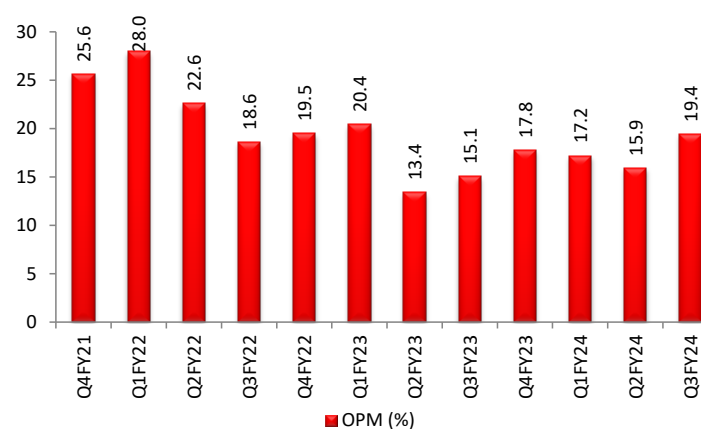
Source: Company, Systematix Institutional Research

**Exhibit 11: Employee Cost/tn fell by 4.8% YoY**

Source: Company, Systematix Institutional Research

**Exhibit 12: Other expenses/tn rose 13.0% YoY**

Source: Company, Systematix Institutional Research

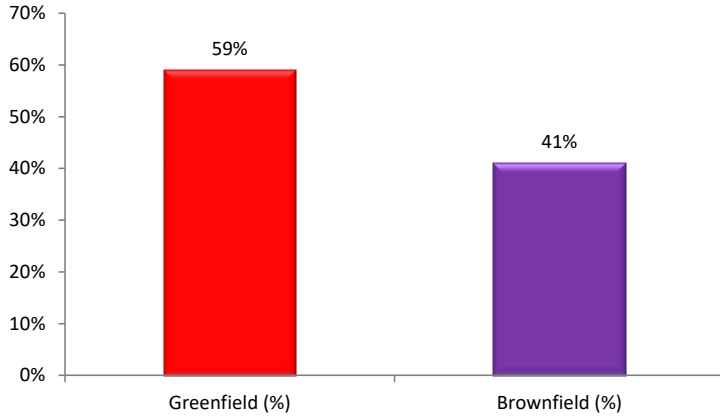
**Exhibit 13: Margin stood at 19.4% in Q3FY24 vs 15.1% in Q3FY23**

Source: Company, Systematix Institutional Research

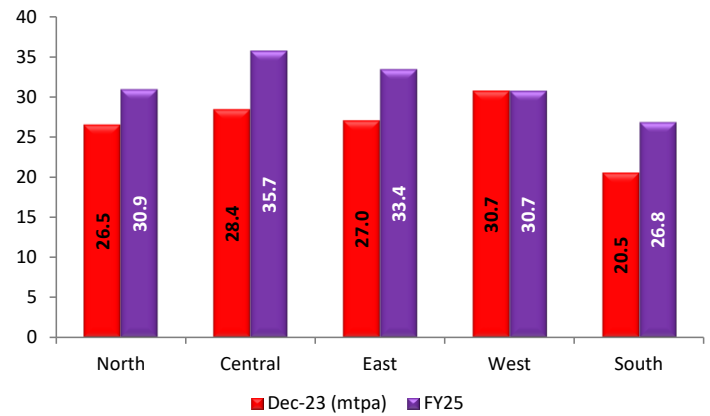
**Exhibit 14: Phase II (24.4mtpa) capacity expansion to be completed by mid FY26E**

Location	Unit	Project	Cement Capacity (MTPA)	Expected
<b>Capacity as at Dec-23</b>			133.0	Timeline
Bangalore, Karnataka	BT	B	1.0	Commissioned
Roorkee, Uttar Pradesh	GU	B	1.0	Q4 FY24
Kotputli, Rajasthan	IU	B	1.8	Q1 FY25
Rajpura, Punjab	GU	G	2.6	
Karur, Tamil Nadu	GU	G	3.3	
Kukurdi, Chhattisgarh	IU	G	2.7	Q2 FY25
APCW, Andhra Pradesh	IU	B	1.8	
Arakkonam, Tamil Nadu	GU	B	1.2	
Sonar Bangla, West Bengal	GU	B	0.6	Q3 FY25
Durgapur, West Bengal	GU	B	0.6	Q3 FY25
Lucknow, Uttar Pradesh	BT	G	1.8	Q4 FY25
Shahjahanpur, Uttar Pradesh	GU	G	1.8	
Maihar, Madhya Pradesh	IU	B	4.5	
Patratu, Jharkhand	GU	G	2.5	
<b>Total Cement Capacity by FY25</b>			157.4	

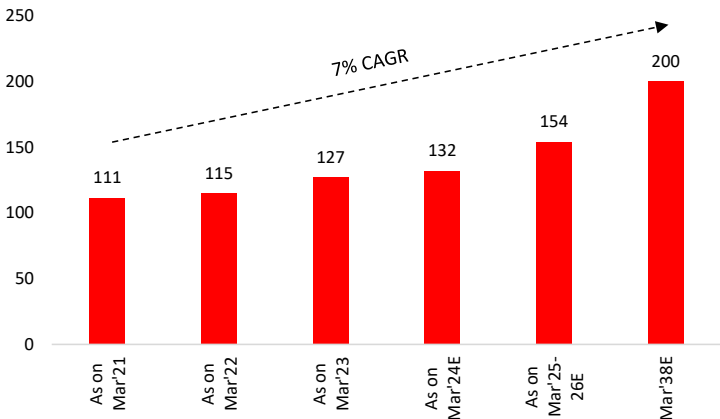
Source: Company, Systematix Institutional Research

**Exhibit 15: Phase II - green field (59%) and brownfield (41%)**

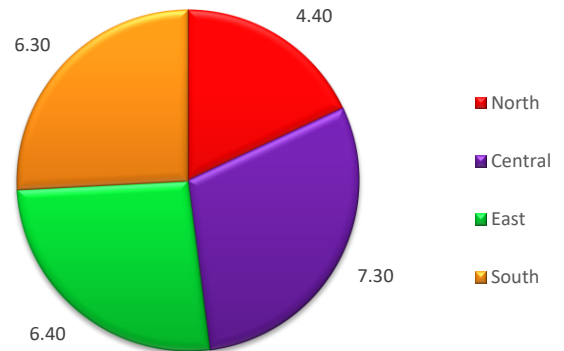
Source: Company, Systematix Institutional Research

**Exhibit 16: Regional mix change after Phase II (24.4mtpa; FY25-26)**

Source: Company, Systematix Institutional Research

**Exhibit 17: Targets 200mtpa capacity in India by Mar'28**

Source: Company, Systematix Institutional Research

**Exhibit 18: Major capacity (mtpa) additions in demand-rich regions**

Source: Company, Systematix Institutional Research

**Exhibit 19: UltraTech valued on EV/EBITDA (FY26E)**

	EBITDA	Multiple	Enterprise Value
	(Rs bn)	(X)	(Rs bn)
Cons. EBITDA	187	18	3,370
Less: net debt / (cash)			(47)
Add: CWIP			56
Equity value			3,473
Target price per share			12,029 (~12,000)

Source: Company, Systematix Institutional Research

**Exhibit 20: Key assumption table**

Particulars	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cement sales volume (mt)	81	85	101	106	118	132	145
Grey cement Realisation (Rs/tn)	4,233	4,751	5,005	5,089	5,165	5,268	5,321
Blended Realisation (Rs/ton)	5,236	5,274	5,193	5,983	6,017	6,090	6,126
EBITDA (incl. other income) (Rs/tn)	1,141	1,364	1,137	1,005	1,179	1,257	1,295
<b>Per ton cost</b>							
Raw material	804	836	786	919	952	989	1,027
Employee cost	311	277	250	259	262	267	272
Power & Fuel	1,051	982	1,198	1,749	1,609	1,569	1,529
Freight	1,201	1,184	1,156	1,325	1,325	1,305	1,285
Other expense	727	630	665	725	689	703	717
<b>Total Cost</b>	<b>4,095</b>	<b>3,910</b>	<b>4,056</b>	<b>4,978</b>	<b>4,837</b>	<b>4,833</b>	<b>4,831</b>

Source: Company, Systematix Institutional Research



# FINANCIALS

## Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>5,25,990</b>	<b>6,32,400</b>	<b>7,12,002</b>	<b>8,05,328</b>	<b>8,85,375</b>
Growth (%)	17.6	20.2	12.6	13.1	9.9
<b>Total Expenditure</b>	<b>4,10,845</b>	<b>5,26,201</b>	<b>5,72,441</b>	<b>6,39,134</b>	<b>6,98,153</b>
<b>EBIDTA</b>	<b>1,15,145</b>	<b>1,06,199</b>	<b>1,39,561</b>	<b>1,66,194</b>	<b>1,87,222</b>
Growth (%)	(0.5)	(7.8)	31.4	19.1	12.7
EBIDTA %	21.9	16.8	19.6	20.6	21.1
Depreciation	27,148	28,880	31,881	35,075	37,870
<b>EBIT</b>	<b>87,998</b>	<b>77,319</b>	<b>1,07,680</b>	<b>1,31,120</b>	<b>1,49,352</b>
<b>EBIT Margin (%)</b>	<b>16.7</b>	<b>12.2</b>	<b>15.1</b>	<b>16.3</b>	<b>16.9</b>
Other income	5,078	5,031	5,036	5,046	5,056
Interest	9,447	8,227	7,368	7,108	6,561
<b>EBT</b>	<b>83,629</b>	<b>74,122</b>	<b>1,05,347</b>	<b>1,29,058</b>	<b>1,47,847</b>
Tax	11,901	23,429	26,548	32,523	37,257
Effective tax rate (%)	14.2	31.6	25.2	25.2	25.2
<b>Adjusted PAT</b>	<b>71,728</b>	<b>50,694</b>	<b>78,800</b>	<b>96,535</b>	<b>1,10,589</b>
Growth (%)	28.6	(29.3)	55.4	22.5	14.6
<b>Net Margin (%)</b>	<b>13.6</b>	<b>8.0</b>	<b>11.1</b>	<b>12.0</b>	<b>12.5</b>
<b>PAT after MI</b>	<b>71,745</b>	<b>50,640</b>	<b>78,795</b>	<b>96,530</b>	<b>1,10,584</b>
Growth (%)	34.9	(29.4)	55.6	22.5	14.6

Source: Company, Systematix Institutional Research

## Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	5,01,435	5,40,915	6,00,551	6,76,181	7,64,123
<b>Shareholders Funds</b>	<b>5,04,322</b>	<b>5,43,802</b>	<b>6,03,438</b>	<b>6,79,068</b>	<b>7,67,010</b>
Net Deferred Taxes	60,332	62,601	62,601	62,601	62,601
<b>Total Liabilities</b>	<b>6,66,683</b>	<b>7,05,411</b>	<b>7,63,515</b>	<b>8,33,732</b>	<b>9,12,511</b>
Gross Block	6,37,518	7,06,521	7,77,188	8,55,150	9,07,300
Less: Acc Depreciation	1,45,144	1,74,024	2,05,905	2,40,980	2,78,850
<b>Net block</b>	<b>4,92,374</b>	<b>5,32,497</b>	<b>5,71,283</b>	<b>6,14,171</b>	<b>6,28,450</b>
Capital WIP	47,847	40,404	36,988	33,525	55,875
<b>Investment</b>	<b>63,358</b>	<b>72,770</b>	<b>73,770</b>	<b>75,270</b>	<b>76,770</b>
<b>Current Assets</b>	<b>2,34,700</b>	<b>2,68,199</b>	<b>2,85,330</b>	<b>3,40,691</b>	<b>4,03,772</b>
Inventories	55,956	66,118	58,521	66,191	72,771
Sundry Debtors	30,716	38,670	38,038	43,024	47,301
Cash and Bank	3,592	11,496	17,976	38,311	71,348
Loans and Advances	2,902	169	174	179	185
Other current assets	1,41,534	1,51,746	1,70,621	1,92,985	2,12,168
<b>Current Liab &amp; Prov</b>	<b>1,71,595</b>	<b>2,08,459</b>	<b>2,03,855</b>	<b>2,29,924</b>	<b>2,52,355</b>
Miscellaneous Exps	0	0	0	0	0
<b>Total Assets</b>	<b>6,66,683</b>	<b>7,05,411</b>	<b>7,63,515</b>	<b>8,33,732</b>	<b>9,12,511</b>

Source: Company, Systematix Institutional Research

## Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>PBT (Ex-Other income)</b>	<b>83,644</b>	<b>74,163</b>	<b>1,00,311</b>	<b>1,24,012</b>	<b>1,42,791</b>
Depreciation	27,148	28,880	31,881	35,075	37,870
Interest Provided	9,447	8,227	7,368	7,108	6,561
Other Non-Cash items	-7,127	-5,892	0	0	0
Chg in working cap	-4,730	-3,450	-15,255	-8,957	-7,613
Tax paid	-15,549	-11,243	-26,548	-32,523	-37,257
<b>Operating Cashflow</b>	<b>92,832</b>	<b>90,685</b>	<b>97,758</b>	<b>1,24,714</b>	<b>1,42,352</b>
Capital expenditure	-56,062	-61,056	-67,250	-74,500	-74,500
<b>Free Cash Flow</b>	<b>36,771</b>	<b>29,629</b>	<b>30,508</b>	<b>50,214</b>	<b>67,852</b>
Other income	1,129	-5,934	5,036	5,046	5,056
Investments	77,502	-4,881	-1,000	-1,500	-1,500
<b>Investing Cashflow</b>	<b>78,632</b>	<b>-10,815</b>	<b>4,036</b>	<b>3,546</b>	<b>3,556</b>
Equity Capital Raised	-782	-1,018	0	0	0
Loans Taken / (Repaid)	-1,03,286	3,270	-1,533	-5,413	-9,163
Interest Paid	-10,262	-7,649	-7,368	-7,108	-6,561
Dividend paid (incl tax)	-10,650	-10,913	-19,163	-20,905	-22,647
<b>Financing Cashflow</b>	<b>-1,24,979</b>	<b>-16,310</b>	<b>-28,064</b>	<b>-33,425</b>	<b>-38,371</b>
<b>Net chg in cash</b>	<b>-9,577</b>	<b>2,504</b>	<b>6,480</b>	<b>20,335</b>	<b>33,037</b>
Opening cash position	13,169	8,992	11,496	17,976	38,311
<b>Closing cash position</b>	<b>3,592</b>	<b>11,496</b>	<b>17,976</b>	<b>38,311</b>	<b>71,348</b>

Source: Company, Systematix Institutional Research

## Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
<b>Profitability (%)</b>					
EBITDA Margin	21.9	16.8	19.6	20.6	21.1
<b>Per Share Data (Rs)</b>					
EPS	248.5	175.6	273.0	334.4	383.1
CEPS	342.5	275.6	383.4	455.9	514.3
BVPS	1,747.1	1,883.7	2,090.3	2,352.2	2,656.9
DPS	38.0	45.0	55.0	60.0	65.0
<b>Valuations (x)</b>					
PER	40.6	57.5	37.0	30.2	26.4
EV/EBITDA	25.7	27.7	21.0	17.5	15.3
P/BV	5.8	5.4	4.8	4.3	3.8
EV / Sales	5.6	4.7	4.1	3.6	3.2
EV / EBITDA	25.7	27.7	21.0	17.5	15.3
Dividend Yield (%)	0.4	0.4	0.5	0.6	0.6
<b>Gearing Ratio (x)</b>					
Net Debt/ Equity	0.1	0.1	0.0	(0.0)	(0.1)
EV/Tonne (Con)	325	271	260	239	227

Source: Company, Systematix Institutional Research

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