

Ultratech Cement

BSE SENSEX	S&P CNX
29,943	9,307
Bloomberg	UTCEM IN
Equity Shares (m)	274.4
M.Cap.(INRb)/(USDb)	1,161.6 / 17.4
52-Week Range (INR)	4260 / 3050
1, 6, 12 Rel. Per (%)	5/0/13
Avg Val, INRm	1105
Free float (%)	37.8

CMP: INR4,234 TP: INR4,928 (+16%)
Buy

Results above estimates led by focus on cost control

- **Muted volume growth:** 4QFY17 revenue increased 3% YoY to INR65.95b (est. of INR63.92b). Grey cement volumes were flat YoY at 13.68mt, with capacity utilization of the group in excess of 81%.
- **Margin beat led by strong cost control:** Blended realization fell 2% QoQ to INR4689/t due to weak white cement realizations. Grey cement realizations were flat QoQ due to strong price hikes in Feb/March-17. However, strong control over key costs like power & fuel (P&F) and freight helped mitigate the impact of rising input costs (unitary cost -1% QoQ to 3,780/t). Cost measures were mainly toward power, resulting in lower P&F cost. Also, freight cost rise was restricted by the ramp-up of grinding units. EBITDA thus fell 7% YoY to INR12.78b (est. of INR10.6b; reported EBITDA was much higher than estimate as it includes other operating income), translating into EBITDA/ton of INR921 (-INR42/t QoQ; -INR56/t YoY) and margin of 19.4% (-2.1pp YoY; -0.5pp QoQ).
- **FY17 performance:** Grey cement volumes grew at a muted 2% YoY to 48.8mt due to weak volumes in 2HFY17. Revenues rose 1% YoY to INR238b as blended realizations were lower by 1% YoY. Blended EBITDA/t stood at INR1,004 (+6% YoY), led by cost savings (cost/t down 2% QoQ to INR3,822). Hence, EBITDA rose by 7% YoY to INR49.7b and PAT by 11% YoY to INR26.37b.
- **Valuation view:** Even in tough times post demonetization, UTCEM's strong focus on market share gains and cost efficiency helped it deliver above-estimate results. We believe that UTCEM is a strong bet on the cycle upturn, and that asset creation success should ease near-term concerns for long-term investors. We factor in 6% volume CAGR and 20% EBITDA CAGR over FY17-19. We value UTCEM at INR4,928 (EV/t of USD240, incl. JPA's capacity).

Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	238.9	266.0	297.9
EBITDA	49.7	59.5	71.0
PAT	26.4	33.3	43.6
EPS (INR)	96.1	121.4	159.1
Gr. (%)	11.3	26.3	31.1
BV/Sh (INR)	840.0	943.9	1,079.7
RoE (%)	12.0	13.6	15.7
RoCE (%)	10.4	11.6	13.4
P/E (x)	44.0	34.9	26.6
P/BV (x)	5.0	4.5	3.9

Estimate change



TP change



Rating change



Quarterly Performance (Consolidated)

Y/E March	FY16				FY17				FY16	FY17E	FY18E	FY17	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE					
Sales (m ton)	12.14	10.80	11.47	13.70	12.91	10.87	11.40	13.68	48.1	48.9	51.7	13.56	1
YoY Change (%)	3.8	4.3	4.4	16.0	6.3	0.6	-0.6	-0.2	7.2	1.6	5.9	-0.3	
Blended Realn.(INR/ton) *	4,794	4,969	4,787	4,545	4,687	4,827	4,781	4,689	4,799	4,762	5,014	4,589	2
YoY Change (%)	17.1	15.2	15.5	4.3	-2.2	-2.9	-0.1	3.2	-2.4	-0.8	5.3	0.7	
QoQ Change (%)	10.0	3.7	-3.7	-5.1	3.1	3.0	-0.9	-1.9				-2.1	
Net Sales	59,476	55,270	56,520	64,023	61,823	53,966	56,091	65,953	237,088	238,914	266,042	63,927	3
EBITDA	10,939	9,212	10,366	13,770	13,723	10,938	11,135	12,782	46,266	49,690	59,827	10,601	21
Margins (%)	18.4	16.7	18.3	21.5	22.2	20.3	19.9	19.4	19.5	20.8	22.5	16.6	
Depreciation	2,852	3,352	3,259	3,515	3,027	3,139	3,156	3,357	12,970	12,679	12,669	3,080	
Interest	1,399	1,319	1,273	1,126	1,525	1,367	1,293	1,529	5,117	5,714	4,798	1,225	
Other Income	1,770	1,945	1,676	1,402	2,006	2,335	970	2,401	4,807	6,600	5,500	1,500	
PBT before EO expense	8,459	6,485	7,510	10,531	11,177	8,767	7,655	10,297	32,986	37,896	47,860	7,796	-17
Rate (%)	28.6	29.5	29.7	25.9	30.7	31.4	26.4	32.2	28.1	30.4	30.0	26	
Adj PAT	6,040	4,574	5,280	7,808	7,749	6,011	5,634	6,976	23,702	26,372	33,297	5,737	22
YoY Change (%)	-3.4	11.5	44.9	27.0	28.3	31.4	6.7	-10.7	17.6	11.3	26.3	-15.8	

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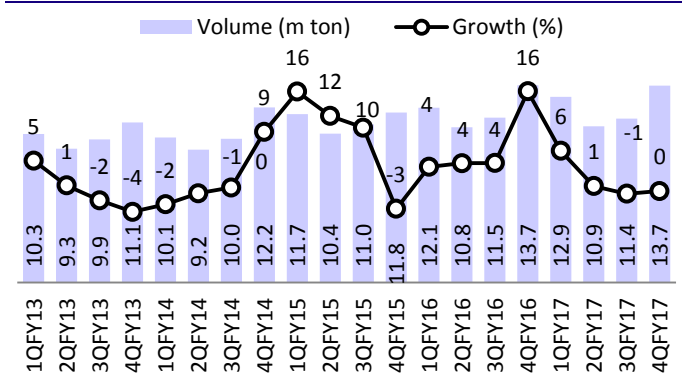
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Volume growth muted due to high base

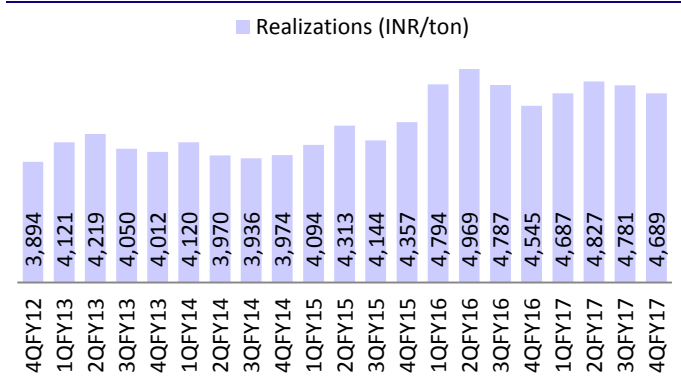
- UTCEM’s 4QFY17 domestic cement volume was flat YoY at 13.35mt (est. -1% YoY) due to high base. White cement volumes at 386mt remained flat YoY.
- Pricing decline was lower than expectation at INR13/t QoQ (up 5% YoY), due to sharp price hikes in month of March/Feb-17. Exit prices of March-17 were higher as compared to average prices of 4QFY17, indicating strong profitability, going forward.
- Cement revenue at INR46.3b (+5% YoY) was led by realization improvement, while RMC and white cement revenues declined 9% and 8% YoY, respectively. Hence, total revenue at INR65.96b increased 3% YoY.

Exhibit 1: Cement volume flat YoY



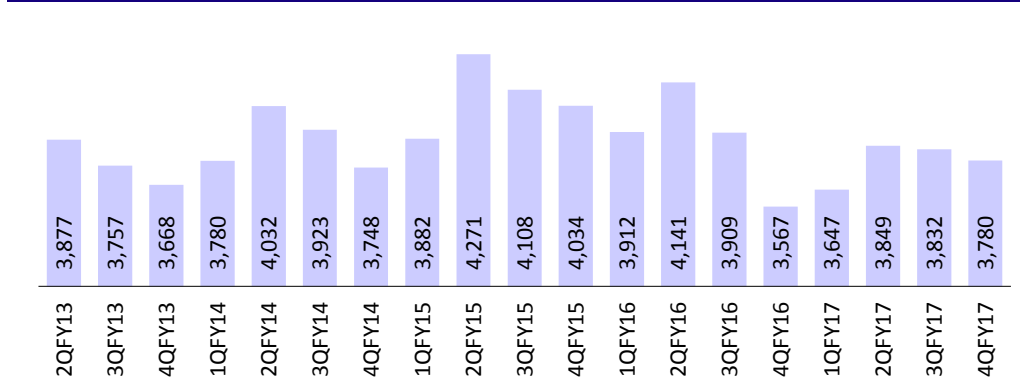
Source: Company, MOSL

Exhibit 2: Grey cement realizations declined marginally QoQ



Source: Company, MOSL

Exhibit 3: Total Costs per Tonne declined QoQ due to positive operating leverage

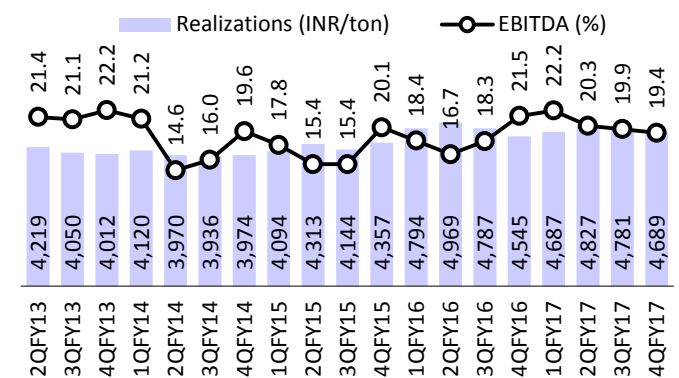


Source: MOSL, Company

Cost savings negate the impact of higher freight and fuel charges

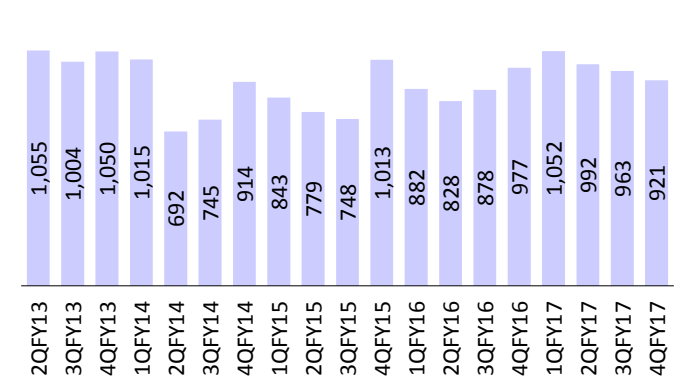
- UTCEM reported 0.4pp QoQ decline in margins at 19.4% (+1.9pp YoY), led by significant improvement in unitary costs despite cost escalation in fuel prices and freight charges.
- UTCEM’s unitary cost was down 1% QoQ on account of (a) savings in energy cost led by improved consumption norm and improved efficiency of captive power plants (b) Freight cost increase was restricted to 2% QoQ despite strong increase in diesel prices led by ramp up of split grinding units.
- Consequently, EBITDA declined 7%YoY to INR 12.7b (v/s est of INR10.6b), leading into EBITDA/ton of INR921 (-INR41 QoQ) as we believe profitability from white cement was impacted adversely.
- Tax rate stood lower at 32% vs 26% in 4QFY16.
- Hence adj.PAT stood at INR6.98b which declined 11% YoY.

Exhibit 4: Margin expansion led by cost savings



Source: Company, MOSL

Exhibit 5: Trend in EBITDA/ton (INR)



Source: Company, MOSL

Exhibit 6: Trend in key operating parameters

INR/Ton	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Realization	4,689	4,545	3.2	4,781	-1.9
RM Cost	818	799	2.3	787	3.9
Power & Fuel	821	722	13.7	826	-0.6
Staff Cost	245	240	2.2	311	-21.1
Freight & Forwarding	1,183	1,162	1.8	1,160	2.0
Other Expenditure	713	644	10.6	748	-4.7
Total Expenditure	3,780	3,567	6.0	3,832	-1.4
EBITDA	921	977	-5.7	963	-4.3

Source: Company, MOSL

Financials and Valuations

Income Statement								(INR Million)
Y/E March	2013	2014	2015	2016	2017	2018E	2019E	
Net Sales	199,991	200,779	226,565	237,088	238,914	266,042	297,900	
Change (%)	10.1	0.4	12.8	4.6	0.8	11.4	12.0	
EBITDA	44,946	36,160	39,153	46,266	49,690	59,535	71,022	
Margin (%)	22.5	18.0	17.3	19.5	20.8	22.4	23.8	
Depreciation	9,454	10,523	11,331	12,970	12,679	12,669	13,755	
EBIT	35,492	25,637	27,822	33,296	37,011	46,865	57,266	
Int. and Finance Charges	2,097	3,192	5,475	5,117	5,714	4,798	4,146	
Other Income - Rec.	4,620	5,310	6,515	4,807	6,600	5,500	7,500	
PBT	38,015	27,755	28,863	32,986	37,896	47,568	60,620	
EO Expense/(Income)	0	-956	0	0	137	0	0	
PBT after EO expense	38,015	28,711	28,863	32,986	37,760	47,568	60,620	
Tax	11,700	7,266	8,715	9,284	11,482	14,270	16,974	
Tax Rate (%)	30.8	25.3	30.2	28.1	30.4	30.0	28.0	
Reported PAT	26,315	21,445	20,147	23,702	26,277	33,297	43,646	
Adj PAT	26,315	20,731	20,147	23,702	26,372	33,297	43,646	
Change (%)	9.4	-21.2	-2.8	17.6	11.3	26.3	31.1	
Margin (%)	13.2	10.3	8.9	10.0	11.0	12.5	14.7	

Balance Sheet							
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Equity Share Capital	2,742	2,742	2,744	2,744	2,744	2,744	2,744
Reserves	149,606	168,233	185,833	204,617	227,706	256,221	293,492
Net Worth	152,348	170,975	188,576	207,360	230,449	258,965	296,235
Deferred liabilities	19059	22958	27920	32274	35689	35689	37811
Loans	54,085	51,993	74,142	76,607	71,607	71,607	66,607
Capital Employed	225,493	245,927	290,638	316,241	337,745	366,261	400,653
Goodwill					0	0	0
Gross Block	213,822	250,778	318,741	354,478	364,478	359,478	364,478
Less: Accum. Deprn.	82,599	92,059	109,267	122,237	134,916	147,585	161,340
Net Fixed Assets	131,224	158,718	209,475	224,483	229,562	211,893	203,138
Capital WIP	35,054	20,384	20,737	15,000	15,000	40,000	60,000
Investments	51,087	53,917	52,088	51,081	29,500	29,500	29,500
Curr. Assets	56,723	64,489	69,850	87,956	122,593	142,449	166,779
Inventory	23,505	23,684	27,514	24,261	24,873	27,697	30,198
Debtors	10,172	12,810	12,032	14,149	13,091	13,120	13,875
Cash & Bank Bal	1,427	2,775	2,139	22,351	58,447	74,663	95,773
Others	21,619	25,220	28,165	27,195	26,182	26,969	26,933
Curr. Liability & Prov.	48,595	51,614	61,511	62,280	58,910	57,582	58,764
Creditors	37,903	41,884	48,481	51,013	49,092	48,106	48,970
Provisions	10,692	9,730	13,030	11,267	9,818	9,475	9,794
Net Current Assets	8,128	12,875	8,339	25,677	63,683	84,868	108,015
Appl. of Funds	225,493	245,927	290,638	316,241	337,745	366,261	400,653

Financials and Valuations

Ratios							
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Basic (INR)							
EPS	96.0	75.6	73.4	86.4	96.1	121.4	159.1
Cash EPS	130.5	114.0	114.7	133.7	142.3	167.5	209.2
BV/Share	556	623	687	756	840	944	1,080
DPS	9.0	9.0	9.0	9.5	10.0	15.0	20.0
Payout (%)	11.0	13.5	14.2	12.8	12.1	14.4	14.6
Valuation (x)							
P/E	44.1	56.0	57.7	49.0	44.0	34.9	26.6
Cash P/E	32.5	37.2	36.9	31.7	29.7	25.3	20.2
P/BV	7.6	6.8	6.2	5.6	5.0	4.5	3.9
EV/Sales	5.6	5.7	5	5	4.7	4.1	3.5
EV/EBITDA	25.1	31.4	29.6	24.9	22.7	18.3	14.7
EV/Ton (Cap-USD)	328	312	279	258	254	244	234
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.2	0.4	0.5
Return Ratios (%)							
RoIC	18.1	12.3	9.8	10.3	10.7	13.8	18.1
RoE	18.7	12.8	11.2	12.0	12.0	13.6	15.7
RoCE	14.7	10.8	9.9	10.0	10.4	11.6	13.4
Working Capital Ratios							
Fixed Asset Turnover (x)	1.1	1.2	1.4	1.5	1.5	1.4	1.2
Debtor (Days)	19	23	19	22	20	18	17
Creditor (Days)	69	76	78	79	75	66	60
Inventory (Days)	43	43	44	37	38	38	37
Wkg. Capital Turnover (Days)	15	23	13	40	97	116	132
Leverage Ratio							
Current Ratio	1.2	1.2	1.1	1.4	2.1	2.5	2.8
Interest Cover Ratio	16.9	8.0	5.1	6.5	6.5	9.8	13.8
Debt/Equity	0.4	0.3	0.4	0.4	0.3	0.3	0.2

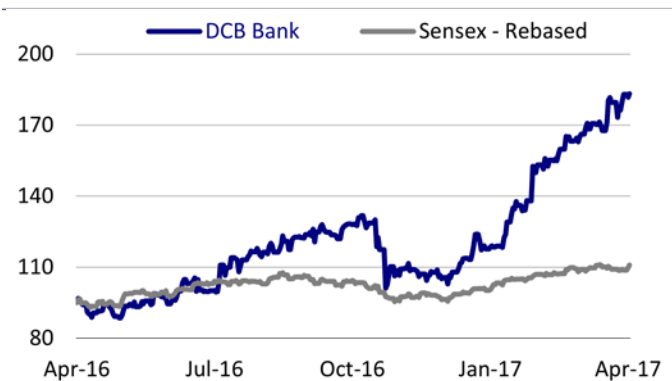
Cash Flow Statement							
(INR Million)							
Y/E March	2013	2014	2015	2016	2017	2018E	2019E
Op. Profit/(Loss) before Tax	46,244	36,160	39,153	46,266	49,690	59,535	71,022
Interest/Dividends Recd.	566	5,310	6,515	4,807	6,600	5,500	7,500
Direct Taxes Paid	-7,165	-3,367	-3,753	-4,930	-8,067	-14,270	-14,852
(Inc)/Dec in WC	-3,887	-3,399	3,900	2,875	-1,911	-4,968	-2,038
CF from Operations	35,759	34,704	45,815	49,017	46,311	45,797	61,632
EO expense	32	-956	0	0	137	0	0
CF from Operating incl EO Exp.	35,727	35,660	45,815	49,017	46,174	45,797	61,632
(inc)/dec in FA	-32,676	-23,348	-62,440	-22,242	-17,758	-20,000	-25,000
Free Cash Flow	3,051	12,312	-16,625	26,776	28,416	25,797	36,632
(Pur)/Sale of Investments	-10,349	-2,830	1,829	1,006	21,581	0	0
CF from investments	-43,025	-26,178	-60,611	-21,235	3,823	-20,000	-25,000
Issue of Shares	79	69	323	-1,889	0	0	0
(Inc)/Dec in Debt	12,557	-2,092	22,149	2,465	-5,000	0	-5,000
Interest Paid	-3,268	-3,192	-5,475	-5,117	-5,714	-4,798	-4,146
Dividend Paid	-2,539	-2,887	-2,869	-3,029	-3,188	-4,782	-6,376
CF from Fin. Activity	6,829	-8,102	14,128	-7,569	-13,902	-9,580	-15,522
Inc/Dec of Cash	-469	1,380	-668	20,212	36,095	16,217	21,109
Add: Beginning Balance	1,896	1,427	2,775	2,139	22,351	58,447	74,663
Closing Balance	1,427	2,775	2,139	22,351	58,447	74,663	95,773

Corporate profile

Company description

UltraTech Cement, the erstwhile cement division of L&T Ltd, is a subsidiary of Grasim, a part of the Aditya Birla Group. Post merger of Grasim's cement business, it is the largest cement company in India with a total cements capacity of 61.5mt (by 1QFY16) with a pan-India presence. It is the largest exporters of cement and clinker from India. Post merger, it would be the largest cement company in India and 10th largest in the world.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Mar-17	Dec-16	Mar-16
Promoter	62.2	62.3	62.5
DII	5.6	6.3	7.1
FII	21.9	20.8	19.0
Others	10.4	10.6	11.4

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation of India-ULIF0032009	2.2
Oppenheimer Developing Markets Fund	1.5
Europacific Growth Fund	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Kumar Mangalam Birla	Chairman
O P Puranmalka	Managing Director
Dilip Gaur	Deputy Managing Director
S K Chatterjee	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Kumar Mangalam Birla	Adesh Gupta
O P Puranmalka	Rajashree Birla
Dilip Gaur	S Rajgopal*
G M Dave*	Arun Adhikari*
S B Mathur*	Rajiv Dube
R C Bhargava*	Renuka Ramnath*
D D Rathi	Sukanya Kripalu*

*Independent

Exhibit 6: Auditors

Name	Type
G P Kapadia & Co	Statutory
BSR & Co LLP	Statutory
N D Birla & Co	Cost Auditor
N I Mehta & Co	Cost Auditor

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	96.1	23.1	316.6
FY18	121.4	29.0	319.1
FY19	159.1	33.9	370.0

Source: Bloomberg

NOTES

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