

Stock Update

Turnaround of acquired asset - A near-term hangover

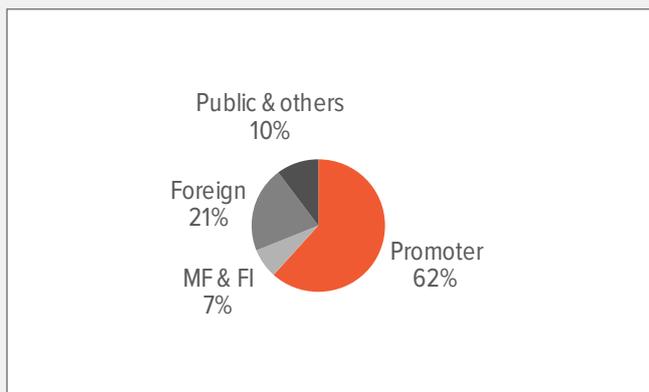
UltraTech Cement

Reco: Hold | CMP: Rs3,998

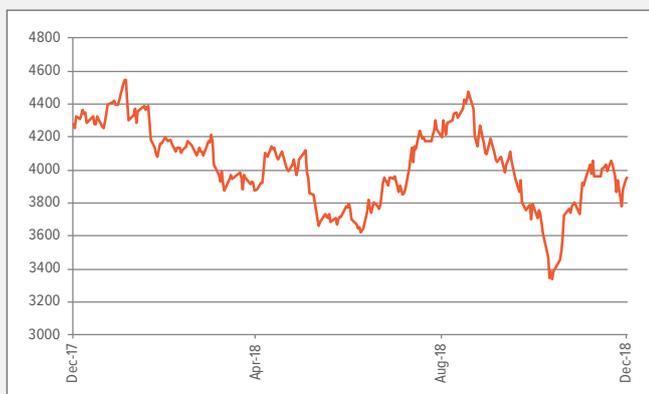
Company details

Price target:	Rs4,065
Market cap:	Rs1,09,806 cr
52-week high/low:	Rs4,594/3,264
NSE volume: (No of shares)	3.3 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Sharekhan code:	ULTRACEMCO
Free float: (No of shares)	10.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.1	-3.6	4.2	-7.4
Relative to Sensex	0.9	1.0	2.8	-15.8

Key points

- UltraTech to consolidate Binani Cement Assets:** UltraTech Cement (UltraTech) renamed Binani Cement Limited (BCL) to UltraTech Nathdwara Cement Limited (UNCL) with effect from December 13, 2018, which paves the way for consolidation of UNCL with UltraTech. The acquisition will cost Rs. 8,025 crore (60% to be debt funded), adding 8.55MT cement capacity of BCL at \$132/tonne. However, it comes with an option of adding another 5MT Brownfield expansion, taking the acquisition cost to \$100/tonne (which is lower than the replacement cost of ~\$140/tonne). Post acquisition, UltraTech's cement capacity is slated to increase to 109.4MT and thermal power capacity is expected to reach 1052MW (from 982MW). However, net debt of UltraTech is expected to increase to Rs. 22,831 crore.
- Salient benefits of the acquisition:** The acquisition of BCL will make UltraTech one of the strongest players in the northern region with enhanced capacity of ~24MT. As UltraTech's northern assets are already operating at 80-85% capacity utilisation, the acquisition will aid in improving market share. Further, BCL has huge limestone reserves, which can aid in further Brownfield expansion of 5MT with combined reserve life of 35-40 years with no additional royalty payment. Further, proximity of 6.25MT capacity in Rajasthan near UltraTech's existing plant locations in Rajasthan and Gujarat is likely to aid in synergistic benefits in logistics and procurement.
- An earnings dilutive deal:** BCL's domestic capacity of 6.25MT operated at 57% utilisation during FY2017 with EBITDA/tonne of just Rs. 193, which is much lower compared to that of UltraTech (Rs. 818/tonne during Q2FY2019). Further, due to high leverage, even after aligning BCL's profitability with UltraTech's, at the consolidated level, the deal is likely to remain net earnings dilutive for the initial years. We have not factored in BCL's acquisition in our financials as we await for the roadmap from the management for improvement in profitability of BCL.
- Valuation – Downgrade to Hold with unchanged PT of Rs. 4,065:** BCL's acquisition is likely to

bring near-term uncertainties and challenges for UltraTech in aligning the operational performance of BCL with itself. Moreover, expected slowdown in the infrastructure sector, especially roads due to the upcoming general elections, poses as a near-term hiccup for the industry. Further, UltraTech's stock price has run-up by ~11% since our last update dated October 19, 2018, which fairly factors in the strong volume growth in recent quarters and

likely benefit from reduction in power and fuel costs (on account of the decline in petcoke prices). Hence, we downgrade the stock to Hold (from Buy) with unchanged price target (PT) of Rs. 4,065.

- ♦ **Risk:** Downward revision of GST rate for cement from 28% is a key upside for the sector in general and UltraTech in particular. Stability in petcoke prices could help improvement in profitability.

Valuations (Standalone)

Particulars	Rs cr			
	FY17	FY18	FY19E	FY20E
Net sales	23,891	29,790	35,930	41,207
YoY growth (%)	0.8	24.7	20.6	14.7
EBITDA	5,629	6,374	7,120	8,335
EBITDA margin (%)	23.6	21.4	19.8	20.2
Net profit	2,641	2,348	2,439	3,356
YoY growth (%)	11.4	-11.1	3.9	37.6
Shares in issue (cr)	27.4	27.4	27.4	27.4
EPS (Rs.)	96.4	85.7	89.0	122.5
P/E (x)	41.5	46.7	44.9	32.7
P/B (x)	4.6	4.2	3.9	3.5
EV/EBITDA (x)	21.4	20.5	17.7	14.8
EV/sales (x)	4.4	4.1	3.3	2.8
RoCE (%)	10.1	8.6	7.6	9.3
RoNW (%)	11.6	9.4	9.0	11.3

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