Stock Update

Roadmap laid out for acquired assets; Upgrade to Buy with a revised PT of Rs. 4,330

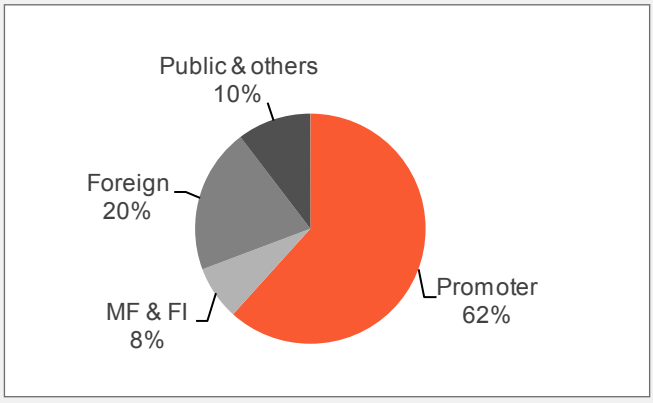
UltraTech Cement

Reco: Buy | CMP: Rs3,790

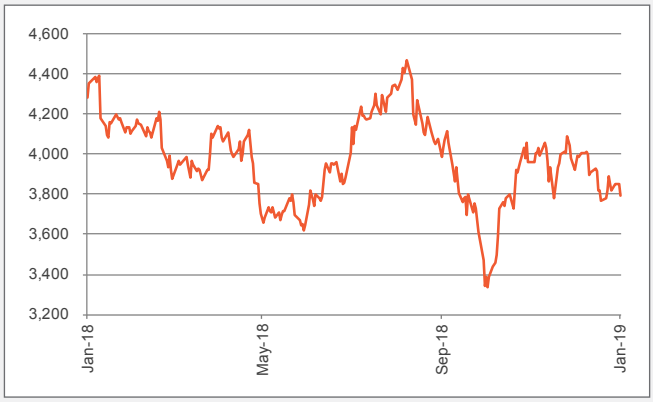
Company details

Price target:	Rs4,330
Market cap:	Rs104,094 cr
52-week high/low:	Rs4490/3264
NSE volume: (No of shares)	3.1 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	-3.4	15.2	-4.0	-11.7
Relative to Sensex	-4.4	7.7	-2.8	-12.8

Key points

- **Operationally in-line performance as strong growth in volume and realisation gets largely offset by lower margins:** UltraTech Cement (UltraTech) reported an 18% y-o-y increase in its standalone revenue to Rs. 8,813 crore during Q3FY2019. Growth was led by 13% y-o-y volume growth and a 4.4% y-o-y increase in realisation. Volume growth was healthy despite 15 days construction ban in NCR, lower demand in festive season and election period in few states. EBITDA per tonne declined by 3% y-o-y to Rs. 777 because of increased power and fuel cost per tonne (up 19% y-o-y, led by higher petcoke price) and freight cost per tonne (up 3.6% y-o-y, led by higher diesel cost). Consequently, operating profit grew by 9.5% y-o-y to Rs. 1,390 crore. Lower other income (down 20.1% y-o-y), higher depreciation (up 7.8% y-o-y) and interest cost (up 6.6% y-o-y) negated the benefit of lower effective tax rate (29.1% y-o-y in Q3FY2019 vs. 30.1% in Q3FY2018), resulting in lower growth of 6.5% y-o-y in net profit to Rs. 449 crore.

- **Focus on turnaround of Binani Cement's assets at par with UltraTech:** UltraTech would be integrating UltraTech Nathdwara Cement Limited (UNCL, Binani Cement Assets) by Q1FY2020 with equity infusion of Rs. 3,400 crore and debt of Rs. 4,500 crore (Rs. 1,800 crore funded by UltraTech standalone and the balance by UNCL). Currently, the assets are operating at 60% capacity utilisation, which management targets to increase to 80% by FY2020-end. Assets which had much lower profitability (Rs. 193 EBITDA/tonne as of FY2017) will be improved by better pricing and savings in manufacturing and logistics costs. Management expects EBITDA/tonne to come at par with UltraTech by Q4FY2020-end. Further, management expects to achieve PBT breakeven by Q4FY2020. We have built in conservative estimates for UNCL during FY2020-FY2021.

- **Century's assets built in standalone financials from FY2020:** UltraTech expects to complete the transfer of Century's cement assets by Q1FY2020. Currently, the assets are operating at 75% capacity utilisation. The acquisition will be adding Rs. 3,000 crore debt in its standalone operations with equity dilution of ~5%. We have inculcated the acquisition of Century's cement assets in our standalone estimates and have diluted equity for FY2020-FY2021. UltraTech will be incurring capex of Rs. 500 crore on the assets over couple of years.

- **Outlook – Expect increasing capacity utilisation to sustain along with likely improvement in cement prices:** As per industry estimates,

about 17MT/18MT/16MT capacity additions are expected during FY2019/FY2020/FY2021. However, incremental demand is expected to be 25MT per year. Hence, the industry is expected to improve upon capacity utilisation going ahead (average ~75% capacity utilisation across India barring south). Additionally, cement prices have remained flat over the trailing one year on account of change in sales mix (increasing non-trade sales) and higher competitive intensity. However, cement prices are likely to inch up with increasing utilisation going ahead.

- **Valuation – Upgrade to Buy with a revised PT of Rs. 4,330:** We move our representation from standalone estimates to consolidated, factoring the acquisition of Century's assets (in standalone operations) and consolidation of its wholly owned subsidiary, UNCL. We also introduce consolidated FY2021E estimates in this note. Further, we roll forward our valuation multiple to FY2021 consolidated estimates. Hence, our price target (PT) stands revised to Rs. 4,330. We upgrade our rating on the stock to Buy.

Valuations (Consolidated) Rs cr

Particulars	FY18	FY19E	FY20E	FY21E
Net sales	31411	35791	46905	52832
YoY growth (%)	24%	14%	31%	13%
EBITDA	6145	6234	8118	9319
EBITDA margin (%)	20%	17%	17%	18%
Net profit	2569	1719	2734	3534
YoY growth (%)	-5.4%	-33.1%	59.0%	29.2%
Shares in issue (cr)	27.5	27.5	28.9	28.9
EPS (Rs.)	93.5	62.6	94.7	122.5
P/E (x)	40.5	60.5	40.0	31.0
P/B (x)	3.9	3.7	3.6	3.3
EV/EBITDA (x)	19.0	19.3	15.4	13.3
EV/sales (x)	3.7	3.4	2.7	2.4
RoCE (%)	8.9%	6.1%	7.9%	9.0%
RoNW (%)	10.1%	6.3%	9.4%	11.1%

Results (Standalone) Rs cr

Particulars	Q3FY2019	Q3FY2018	% yoy	Q2FY2019	% qoq
Net Sales	8,812.7	7,471.0	18.0%	7,856.7	12.2%
Operating Profit	1,390.1	1,269.1	9.5%	1,293.1	7.5%
Other Income	124.4	155.6	-20.1%	133.8	-7.1%
EBDITA	1,514.5	1,424.7	6.3%	1,426.9	6.1%
Interest	370.1	347.2	6.6%	342.2	8.2%
Depreciation	511.3	474.4	7.8%	513.7	-0.5%
PBT	633.1	603.1	5.0%	571.0	10.9%
Tax	184.1	181.6	1.4%	180.2	2.2%
Adj.PAT	449.1	421.5	6.5%	390.8	14.9%
Margins			**Bps**		**Bps**
OPM	15.8%	17.0%	-121	16.5%	-68
PATM	5.1%	5.6%	-55	5.0%	12
Tax Rate	29.1%	30.1%	-104	31.6%	-248

Per tonne analysis (Volume including clinker sales and white cement) Rs per tonne

Particulars	Q3FY2019	Q3FY2018	% yoy	Q2FY2019	% qoq
Volume (mt)	**17.90**	**15.85**	**12.9%**	**15.80**	**13.3%**
Blended Realisation (per tonne)	**4,923**	**4,714**	**4.4%**	**4,973**	**-1.0%**
Cost break-up per tonne					
Total raw-material cost	844	840	0.5%	740	14.0%
Employee expenses	275	292	-5.7%	319	-13.6%
Power and fuel	1,133	952	19.0%	1,194	-5.1%
Freight	1,218	1,176	3.6%	1,232	-1.2%
Other expenses	676	653	3.5%	670	1.0%
Total cost per tonne	**4,147**	**3,913**	**6.0%**	**4,154**	**-0.2%**
EBIDTA per tonne	**777**	**801**	**-3.0%**	**818**	**-5.1%**

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;