Q1FY19 – Result Update

NALANDA RESEARCH

BUY

Downside Scenario	Current Price	Price Target	Upside Scenario
	3857	4635 20%▲	

July 19, 2018

Ultratech Cement

Q1FY19 Result Update

Steady Volume Growth led by ramp up in JPA, higher demand

Ultratech maintained its high double-digit volume growth which stood at 17.5mt for the quarter, up by 33% YoY. Realization increased by 2% sequentially due to an industry-wide increase in cement prices. Net Sales rose by 28.2% YoY (-4.2% QoQ) to INR 9021cr.

Double-digit interest income growth

Although realization grew sequentially, EBITDA remained under pressure due to increasing power and fuel as well as freight costs. This was primarily due to rising petcoke prices as well as diesel costs. EBITDA/ton remained flat at INR 966 vs INR 964 sequentially .

Ultratech to be key beneficiary of demand pickup

We expect a demand growth of 8-10% (total current demand of ~290mt) in the next three years due to various infrastructure projects such as Bharatmala, BDD Chawls redevelopment project, Bullet trains etc. as well as affordable housing projects. With the commissioning of Barra grinding unit and post acquisition of Century Textiles cement assets, Ultratech's capacity will increase to 106mt. With an estimated total industry capacity of 460mt, this translates to ~23% of market share. We expect incremental industry capacity addition of about 45mt in the next 2-3 years thereby leading to a declining demand-supply gap.

Valuations

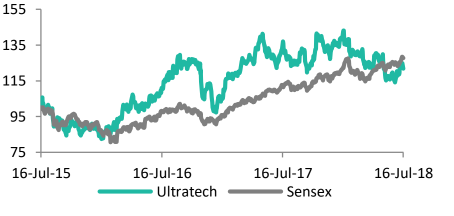
We foresee a significant pickup in cement demand in the next two to three years and expect a growth rate higher than the industry incremental capacity addition. Ultratech, being a pan-India market leader, is expected to benefit the most from the same. With an increasing number of WHRS plants commissioned, higher proportion of AFRs used, as well as greenfield and brownfield expansions at strategic locations, we expect the increasing variable costs to be rationalized. This, followed by industry-leading growth rate and high margins prompts us to maintain our BUY rating on the stock with a target price of INR4635/share (at an average of 16x FY20 EV/EBITDA and $200 FY20 EV/Ton)

Stock Details	
Industry	Cement
Sensex	36351
Nifty	10957
Bloomberg Code	UTCEM:IN
Eq. Cap. (INR. Cr.)	274.62
Face Value (INR.)	10
52-w H/L	4600/3563
Market Cap (INR. Cr.)	105646

Valuation Data

	FY18	FY19E	FY20E
OPM	19.6%	21.3%	20.5%
NPM	7.1%	9.3%	9.3%
P/E (x)	48.9	29.6	25.4
EV/EBITDA (x)	20.0	14.4	13.3
EV/Ton ($)	216	205	172

Ultratech Vs SENSEX



Shareholding Pattern

	Jun'18	Mar'18	Jun'17
Promoters	61.98	61.98	62.14
FIIs	21.19	22.27	21.89
DIIs	6.77	5.79	5.52
Retail	10.04	9.94	10.40
	100.0	100.0	100.0

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Revenue	24107	25375	31411	38199	44853
Growth%	*5%*	*5%*	*24%*	*22%*	*17%*
EBITDA	4580	5212	6145	8133	9196
Growth%	*10%*	*14%*	*18%*	*32%*	*13%*
Adjusted PAT	2138	2715	2222	3568	4155
Growth%	*8.4%*	*27.0%*	*-18.1%*	*61%*	*16%*
EPS (INR)	78.0	98.9	81.0	130	151.3
Sales Volume (MT)	47.72	48.87	59.33	70.07	79.96
EV/EBITDA	20.1	22.2	20.0	14.4	13.3
EV/Tonne	210	260	216	205	172
P/E (x)	41.4	42.8	48.9	29.6	25.4

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Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Revenue	9021	7035	9421	28.2%	-4.2%
COGS	1472	1102	1621	33.5%	-9.2%
Employee Expenses	495	405	445	22.1%	11.1%
Power and Fuel	1978	1319	2002	50%	-1.2%
Freight and Forwarding	2236	1596	2286	40.1%	-2.2%
Other Expenses	1150	980	1286	17.4%	-10.5%
Total Expenses	7331	6296	7640	16.4%	-4.0%
EBITDA	1690	1632	1781	3.6%	-5.1%
Depreciation	507	330	501	53.7%	1.2%
Other Income	73	166	106	-56.2%	-31.7%
EBIT	1256	1469	1386	-14.4%	-9.4%
Finance Cost	349	141	344	147.4%	1.2%
PBT	908	1328	1042	-31.6%	-12.8%
Exceptional Items	0	31	315		
Taxes	277	398	280	-30.5%	-1.3%
Net Profit	631	898	446	-29.7%	41.4%

- The company's net sales grew 28.2% y-o-y (from INR 7035cr in Q1FY18) and declined 4.2% q-o-q (from INR 9421cr in Q4FY18) to INR 9021cr in Q1FY19.
- EBITDA for the company stood at INR 1690cr down from INR 1781cr (-5.1% q-o-q) and up from INR 1632 cr (3.6% y-o-y) with EBITDA Margins at 18.7% as against 18.9% in Q4FY18 and 23.2% in Q1FY18. The decline in margins was primarily due to higher power and fuel costs as well as higher diesel costs.
- EBITDA/Ton for the quarter stood at INR 966 down from 1237 (-21.9% Y-o-Y) in Q1FY18 and INR 964 (0.2% Q-o-Q) in Q4FY18. Total cement volumes for the quarter stood at 17.5 mnT.
- Further, higher interest expense (up 147.4% YoY) and higher depreciation (up 53.7% YoY) lead to decline in net profit.
- Reported PAT stood at INR 631cr which was down by 29.7% Y-o-Y (from INR 891cr) and up by 41.4% Q-o-Q (from INR 446cr). PAT Margins stood at 7%, up from 4.7% in Q4FY18 and down from 12.8% in Q1FY18.

(INR/Ton)	Q1FY19	Q1FY18	Y-o-Y	Q4FY18	Q-o-Q
Realization	5155	5333	-3.3%	5101	1.1%
RM Cost	841	836	0.6%	878	-4.2%
Power and Fuel	1130	1000	13.1%	1084	4.3%
Freight and Forwarding	1278	1210	5.6%	1237	3.3%
Employee Cost	283	307	-8%	241	17.2%
Other Expenditure	657	743	-11.5%	696	-5.6%
Total Expenditure	4189	4096	2.3%	4136	1.3%
EBITDA	966	1237	-21.9%	964	0.2%

Key Concall Highlights

- Projects such as coastal roads in Mumbai, Mumbai-Nagpur Expressway, Polavaram in AP are in full swing. These are expected to commission on time as government have recently begun to impose heavy penalties to contractors for any delays.
- Currently, 40% of the company's sales come from the rural sector and the contribution is expected to increase further due to farmers' crop loan waiver as well as the recent MSP hike.
- The 1st phase of Dedicated Freight Corridor (DFC) is expected to be commissioned by the end of this year. This will significantly improve the rail wagon availability in Eastern India, thereby improving cement logistics.
- Exit prices for cement pan-India were higher than the average prices for the quarter.
- Growth rates were highest for the Central region, followed by the North region. South and Eastern markets were largely flat.
- Costs have risen sequentially due to increasing petcoke and diesel prices. Moreover, the rupee depreciation has also impacted the import bill. Exit prices for the quarter for petcoke stood at $119 and coal stood at $105.
- Coal Usage has increased to 16% over 11% yoy for the company's kilns and captive power plants.
- The recent norms of increasing the axle load will result in reduction of logistics costs.
- Five WHRS plants are being set up which will incrementally add 62MW of power.
- About INR 208cr of debt has been reduced to take the standalone net debt outstanding to INR 11799cr. Net debt-to-EBITDA currently stands at 1.75x.

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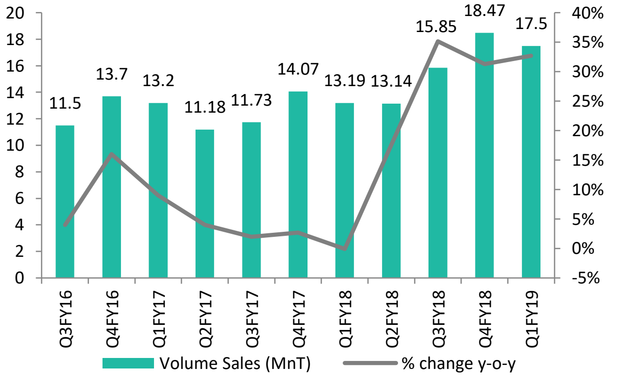
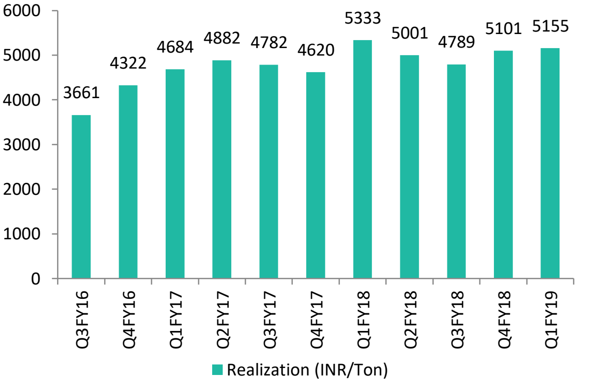
- The cost difference between JPA and ex-JPA assets currently stands at INR160/MT. The company is expecting a further cost reduction over the next two quarters to the tune of INR50/MT. JPA assets had a capacity utilization of 70-75% during the quarter.
- The Barra grinding capacity of 4mt is expected to be commissioned by Q4FY19. Pali expansion is expected to be commissioned by June 2020.
- Capital expenditure this year so far has been ~ INR 300cr. The company is expecting to spend INR 1800cr for the remaining of the year and INR 2000cr next year.
- The acquiring process of cement assets of Century Textile is expected to be completed by Q4FY19 post CCI approvals etc.
- Sand issues of all states are largely over except Rajasthan. However, sufficient sand is available through sand imports from neighbouring states.
- Average capacity utilization for the quarter of North was at 80%, Central region at 70%, East at 95%, West at 75% and South at 60%.
- Over the last three quarters, the industry has been growing at about 13-14%.

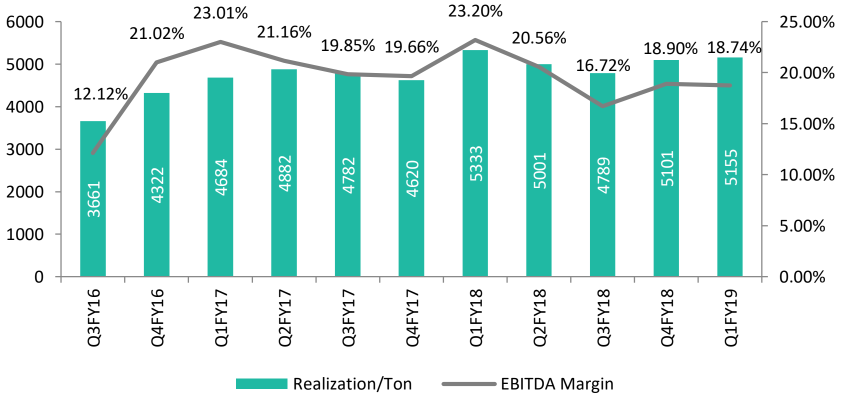
Sales Volume



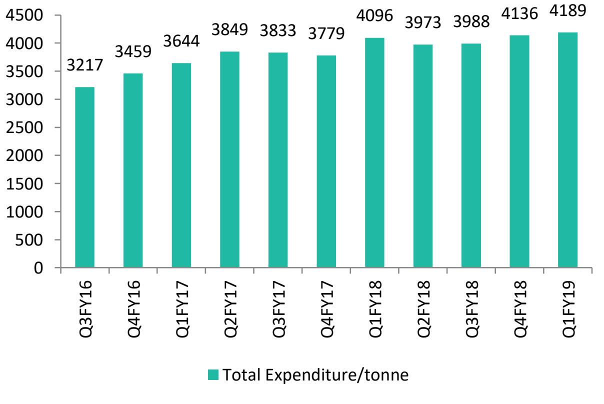
Realization/Ton



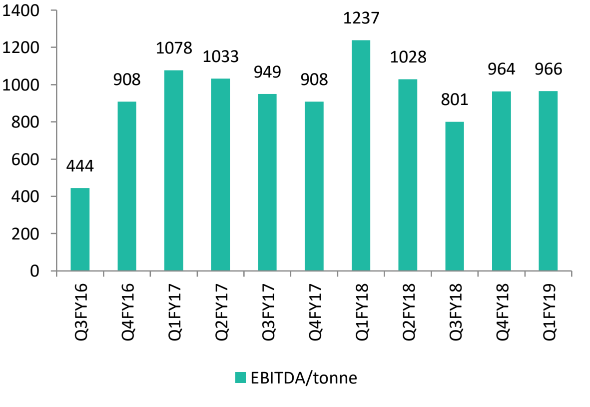
Reduction in margin as increase in cement prices is offset by rise in pet-coke and diesel prices



Increasing cost pressure due to rising pet-coke and diesel prices



EBITDA/Ton



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net sales	**24107**	**25375**	**31411**	**38199**	**44853**
COGS	3981	4493	5289	5776	6657
Employee Expenses	1342	1522	1810	1991	2390
Power and fuel	4241	4272	6334	8085	10149
Transportation cost	5935	5903	7310	9036	10517
Other Expenses	4029	3992	4561	5178	5945
EBITDA	**4580**	**5212**	**6145**	**8133**	**9196**
D&A	1289	1348	1848	2045	2148
Other income	235	648	584	600	600
EBIT	**3526**	**4512**	**4881**	**6688**	**7648**
Interest Expense	505	640	1233	1363	1445
PBT	**3021**	**3872**	**3648**	**5325**	**6201**
Tax	882	1159	1077	1757	2046
Effective tax rate	29.2%	29.9%	29.5%	33.0%	33.0%
PAT	**2138**	**2715**	**2222**	**3568**	**4155**

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	274.4	274.5	274.6	274.6	288.6
Reserves & Surplus	20462	24117	26107	29246	32902
Shareholder's Funds	**20736**	**24392**	**26381**	**29,521**	**33,191**
Minority Interest	0	10	16	16	16
Long-term borrowings	2491	6371	15863	13863	14863
Deferred Tax Liability (Net)	3227	3345	3626	3626	3626
Other long-term liabilities	8	37	7	3	3
Long term provisions	181	290	369	404	466
Non-current liabilities	5907	10043	19865	17897	18959
Short-term borrowings	2339	1079	2763	2763	2763
Trade payables	1614	1857	2504	2531	2918
Other current liabilities	6310	4670	5315	4620	5325
Short-term provisions	946	168	312	312	312
Current liabilities	11209	7775	10895	10227	11319
Total Equity and Liabilities	**37852**	**42219**	**57158**	**57662**	**63485**
Goodwill on consolidation	0	1085	1036	1036	1036
Gross Block	35997	39123	55421	58421	64435
Less: Accum. Depreciation	12034	13383	15230	17275	19425
Net Fixed Assets	23963	25740	40190	41145	45010
Non-current investments	3081	1280	1498	1498	1498
Long term loans and advances	1618	789	2965	2965	2965
Non-current Assets	28661	28893	45689	46644	50509
Current investments	2028	5411	3949	3949	3949
Inventories	2426	2401	3268	3164	3647
Trade receivables	1415	1757	2228	1884	2212
Cash and cash equivalents	2235	2249	219	1752	2867
Short-term loans and advances	1058	1472	1728	198	233
Other current assets	29	36	77	77	77
Current Assets	9191	13326	11468	11017	12976
Total Assets	**37852**	**42219**	**57158**	**57662**	**63485**

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Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
PBT	3020.6	3872.0	3648.2	5324.9	6200.9
Depreciation & Amortization	1289.0	1348.4	1847.9	2044.7	2149.7
(Incr)/Decr in Working Capital	397.6	679.0	-558.2	1349.1	308.9
Cash Flow from Operating	**4525.5**	**5005.0**	**3887.5**	**8325.0**	**8058.6**
(Incr)/ Decr in Gross PP&E	-2149.8	-1398.1	-2096.5	-3000.0	-3000.0
Cash Flow from Investing	**-3726.7**	**-2480.3**	**1857.0**	**-3000.0**	**-3000.0**
(Decr)/Incr in Debt	175.7	-221.4	9420.4	-2000.0	-2000.0
Dividend	-297.3	-311.9	-334.0	-428.1	-498.6
Finance costs	-596.2	-614.4	-1205.0	-1363.4	-1445.4
Cash Flow from Financing	**-844.0**	**-2535.0**	**-5730.2**	**-3791.5**	**-3944.0**
Incr/(Decr) in Balance Sheet Cash	-45.2	-10.3	14.4	1533.4	1114.6
Cash at the Start of the Year	82.0	90.2	58.8	218.8	1752.2
Cash at the End of the Year	**90.2**	**58.8**	**77.3**	**1752.2**	**2866.8**
Bank Balances not Included in Cash			**141.47**		

RATIOS	FY16	FY17	FY18	FY19E	FY20E
Particulars					
EBITDA/Ton	914	1039	1046	1161	1150
Sales Volume (mn tons)	50.1	50.2	58.7	70.1	80.0
Growth (%)					
Total Sales	5.1%	5.3%	23.8%	21.6%	17.4%
EBITDA	10.3%	13.8%	17.9%	32.3%	13.1%
PAT	8.4%	27.0%	-18.1%	60.6%	16.5%
Profitability (%)					
EBITDA Margin	19.0%	20.5%	19.6%	21.3%	20.5%
NPM	8.9%	10.7%	7.1%	9.3%	9.3%
RoE (%)	10.3%	11.1%	8.4%	12.1%	12.5%
RoCE (%)	13.2%	13.1%	10.6%	14.1%	14.7%
Debt Ratios					
Net Debt/EBITDA	0.74	-0.04	2.35	1.34	1.18
Net Debt/Equity	0.16	-0.01	0.55	0.37	0.33
Interest Coverage	6.98	7.05	3.96	4.91	5.29
Per share data / Valuation					
EPS (INR.)	78.0	99.1	81.0	130.2	151.6
BPS (INR.)	756.8	890.2	962.8	1077.4	1211.3
P/E (INR.)	41.4x	42.8x	48.9x	29.6x	25.4x
EV/EBITDA (x)	20.1x	22.2x	20.0x	14.4x	13.3x
EV/Ton ($)	210	260	216	205	172

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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