

October 22, 2018

# Ultratech Cement

## Q2FY19 Result Update

### Steady Volume Growth led by infrastructure demand

Ultratech maintained its high double-digit volume growth which stood at 15.7mt for the quarter, up by 20% YoY. Realization increased by 3.7% sequentially due to an industry-wide increase in cement prices. Net Sales rose by 20% YoY (-7% QoQ) to INR 8151cr.

### Input price pressures keep margin low

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 declined 12% sequentially to INR 781.

### 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 capacity 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. However, near-term input cost pressures as well as delay in Barra project prompts us to reduce our target price to INR 4110/share giving an upside of 14% (at an average of 14x FY20 EV/EBITDA and \$175 FY20 EV/Ton)

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	24107	25375	31411	38199	44853
<b>Growth%</b>	<b>5%</b>	<b>5%</b>	<b>24%</b>	<b>22%</b>	<b>17%</b>
EBITDA	4580	5212	6145	8133	9196
<b>Growth%</b>	<b>10%</b>	<b>14%</b>	<b>18%</b>	<b>32%</b>	<b>13%</b>
Adjusted PAT	2138	2715	2222	3568	4155
<b>Growth%</b>	<b>8.4%</b>	<b>27.0%</b>	<b>-18.1%</b>	<b>61%</b>	<b>16%</b>
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	13.5	12.0
EV/Ton	210	260	216	193	155
P/E (x)	41.4	42.8	48.9	27.7	23.8

Source: Company, NSPL Research

\* Read last page for disclaimer & rating rationale

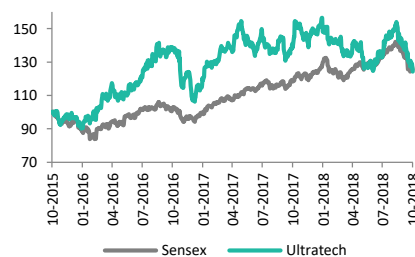
# BUY

Downside Scenario	Current Price	Price Target	Upside Scenario
	3610	4110	
		14%▲	

Market Data	
Industry	Cement
Sensex	34316
Nifty	10304
Bloomberg Code	UTCCEM:IN
Eq. Cap. (INR Crores)	274.6
Face Value (INR)	10
52-w H/L	4600/3563
Market Cap (INR Crores)	99125

Valuation Data	FY18	FY19E	FY20E
OPM	19.6%	21.3%	20.5%
NPM	7.1%	9.3%	9.3%
P/E (x)	48.9	27.7	23.8
EV/EBITDA (x)	20.0	13.5	12.0
EV/Ton (\$)	216	193	155

### Ultratech Vs SENSEX



### Shareholding Pattern

	Sep'18	Jun'18	Sep'17
Promoters	61.69	61.98	62.13
FIs	20.89	21.19	22.14
DIs	7.21	6.77	5.55
Retail	10.21	10.06	10.18
	100.0	100.0	100.0



## Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
<b>Net Sales</b>	8151	6791	8761	20.0%	-7.0%
COGS	1309	1057	1472	23.9%	-11.0%
Employee Expenses	533	470	495	13.3%	7.7%
Power and Fuel	1992	1411	1978	41.1%	0.7%
Freight and Forwarding	1958	1559	2236	25.5%	-12.5%
Other Expenses	1134	956	1029	18.6%	10.1%
<b>Total Expenses</b>	<b>6925</b>	<b>5454</b>	<b>7210</b>	<b>27.0%</b>	<b>-3.9%</b>
<b>EBITDA</b>	<b>1226</b>	<b>1337</b>	<b>1551</b>	<b>-8.3%</b>	<b>-20.9%</b>
Depreciation	536	522	507	2.7%	5.7%
Other Income	220	213	212	3.6%	3.9%
<b>EBIT</b>	<b>911</b>	<b>1028</b>	<b>1256</b>	<b>-11.4%</b>	<b>-27.5%</b>
Finance Cost	354	388	349	-8.8%	1.6%
<b>PBT</b>	<b>557</b>	<b>640</b>	<b>908</b>	<b>-13.0%</b>	<b>-38.7%</b>
Taxes	181	216	277	-16.2%	-34.6%
<b>Net Profit</b>	<b>376</b>	<b>424</b>	<b>631</b>	<b>-11.3%</b>	<b>-40.5%</b>

Source: Company, NSPL Research

- The company's net sales grew 20% y-o-y (from INR 6791cr in Q2FY18) but declined 7% q-o-q (from INR 8761cr in Q1FY19) to INR 8151cr in Q2FY19.
- EBITDA for the company stood at INR 1226cr down from INR 1337cr (-8.3% y-o-y) and INR 1551cr (-21% y-o-y) with EBITDA Margins at 15% as against 19.7% in Q2FY18 and 17.7% in Q1FY19. 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 781 down from INR 1021 (-23.5% Y-o-Y) in Q1FY18 and INR 886 (-12% Q-o-Q) in Q1FY19. Total cement volumes for the quarter stood at 15.7mt.
- Reported PAT stood at INR 376cr which was down by 11.3% Y-o-Y (from INR 424cr) and 40.5% Q-o-Q (from INR 631cr). PAT Margins stood at 4.6%, down from 6.2% in Q2FY18 and 7.2% in Q1FY19.

(INR/Ton)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Realization	5192	5184	5006	0.2%	3.7%
RM Cost	834	807	841	3.4%	-0.8%
Power and Fuel	339	359	283	-5.5%	20.1%
Freight and Forwarding	1269	1077	1130	17.8%	12.2%
Employee Cost	1247	1190	1278	4.7%	-2.4%
Other Expenditure	722	730	588	-1.1%	22.8%
Total Expenditure	4411	4163	4120	5.9%	7.1%
<b>EBITDA</b>	<b>781</b>	<b>1021</b>	<b>886</b>	<b>-23.5%</b>	<b>-11.9%</b>

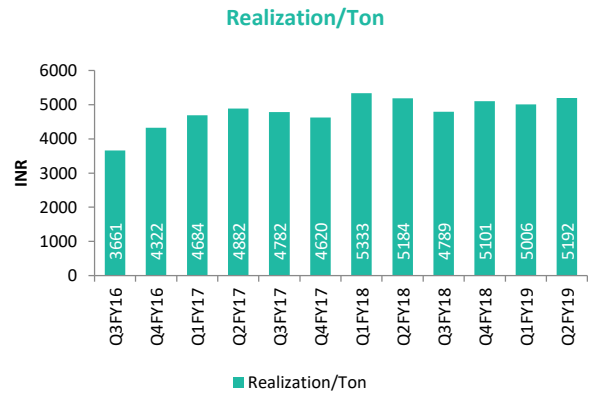
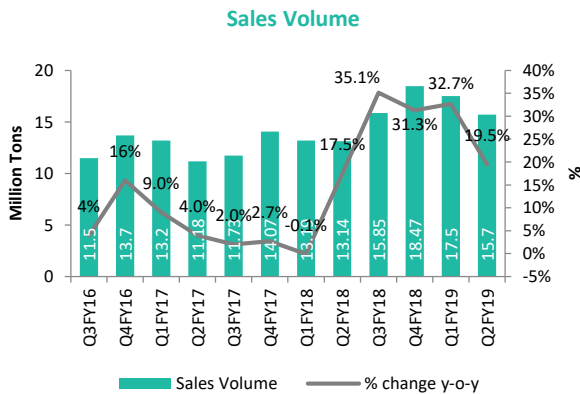
Source: Company, NSPL Research

## Key Concall Highlights

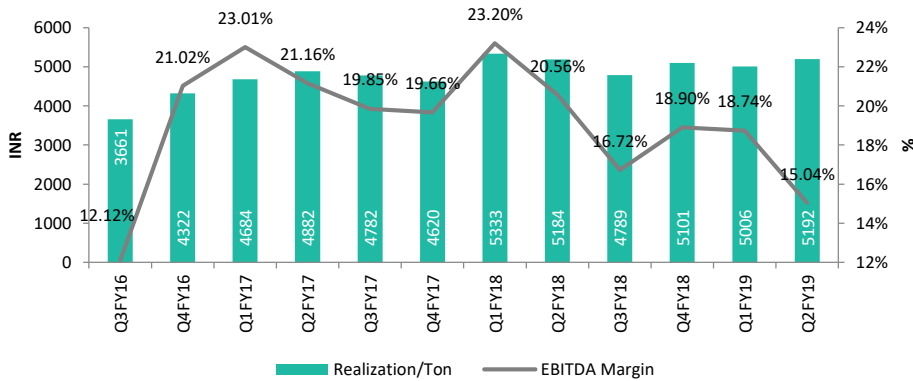
- The company has begun to witness price improvements in South, Central and Gujarat. Prices have been increased by ~4% in the North, South and Central regions. Going forward, the company expects to see further improvement in prices post Diwali
- Demand growth has remained positive over the last four quarters, and this has continued this quarter, with rural sales volume growing by 15%.
- The 1<sup>st</sup> 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.
- Ultratech has reduced the price gap between retail and institutional sales as higher demand is coming from the non-trade segment.
- A new type of composite cement was launched in September, and also 200 retail outlets were added in the quarter to take the total number to 1760 outlets.
- Costs have risen sequentially due to increasing energy and logistics costs. Moreover, the rupee depreciation has also impacted the import bill as 30% of the costs for the industry is linked to the dollar. Prices of pet-coke has gradually tapered down from the peak of 122\$ to about 108\$.
- Road freight has come down by ~7.5% due to axle load norms. Since some states like Karnataka and Tamil nadu has not yet modified their norms, the full benefit of this is expected to come in Q4FY19.
- Manufacturing costs is expected to increase by INR 1-2/bag in the next quarter



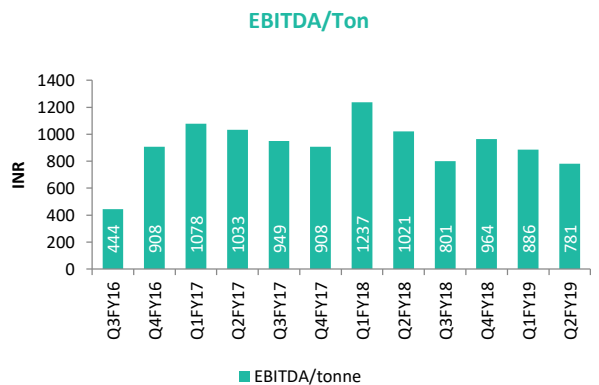
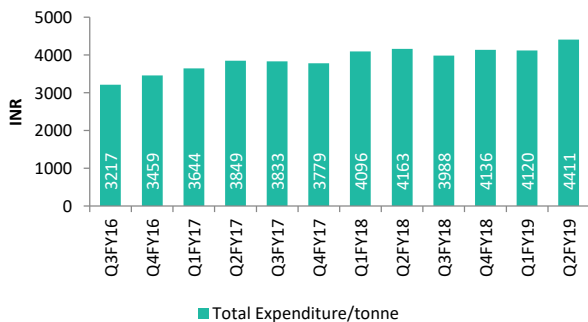
- The company has commissioned 2 WHRS plants of 13MW each (in MP and Chattisgarh) taking its total WHRS capacity to 85 MW (8% of total power requirement). Solar and wind power together contributes 55MW of power. The company aims to achieve 121MW of WHRS power by FY20 and increase the proportion of renewable and WHRS power to 20% of total by FY22.
- The cost difference between JPA and ex-JPA assets currently stands at INR135/ton. The company is expecting a further cost reduction over the next quarter to the tune of INR35/ton. The next step of cost reduction is to install a WHRS plant which will require a capex of INR 200-300cr. JPA assets had a capacity utilization of 55-60% during the quarter.
- The commissioning of Barra grinding capacity of 4mt has been delayed and is now expected to be commissioned by June 2019. Pali expansion is expected to be commissioned by Sept or December 2020 (if Binani doesn't start operations fast enough).
- Average capacity utilization for the quarter of North was at 75-80%, Central region at 55-60%, East at 80-85%, West at 65-70% and South at 65-70%.
- Rail:road mix was at 75:25 and trade mix was at 66:34 vs 68% last quarter and 71% in Q2FY18. Blended ratio is 65% vs 67% in Q2FY18.
- Standalone net debt/EBITDA level currently stands at 2x. Peak levels were at 2.3x, and it might reach those levels if Binani acquisition comes through.
- There are a few accounting changes which has been reflected by the company in this quarter's results. Fiscal incentives have been recorded in other income and sales and other promotional activities are adjusted in sales and not recorded in expenses.



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



### Increasing cost pressure due to rising input costs



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
<b>Net sales</b>	<b>24107</b>	<b>25375</b>	<b>31411</b>	<b>38199</b>	<b>44853</b>
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
<b>EBITDA</b>	<b>4580</b>	<b>5212</b>	<b>6145</b>	<b>8133</b>	<b>9196</b>
D&A	1289	1348	1848	2045	2148
Other income	235	648	584	600	600
<b>EBIT</b>	<b>3526</b>	<b>4512</b>	<b>4881</b>	<b>6688</b>	<b>7648</b>
Interest Expense	505	640	1233	1363	1445
<b>PBT</b>	<b>3021</b>	<b>3872</b>	<b>3648</b>	<b>5325</b>	<b>6201</b>
Tax	882	1159	1077	1757	2046
Effective tax rate	29.2%	29.9%	29.5%	33.0%	33.0%
<b>PAT</b>	<b>2138</b>	<b>2715</b>	<b>2222</b>	<b>3568</b>	<b>4155</b>

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
<b>Shareholder's Funds</b>	<b>20736</b>	<b>24392</b>	<b>26381</b>	<b>29,521</b>	<b>33,191</b>

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
<b>Non-current liabilities</b>	<b>5907</b>	<b>10043</b>	<b>19865</b>	<b>17897</b>	<b>18959</b>
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
<b>Current liabilities</b>	<b>11209</b>	<b>7775</b>	<b>10895</b>	<b>10227</b>	<b>11319</b>
<b>Total Equity and Liabilities</b>	<b>37852</b>	<b>42219</b>	<b>57158</b>	<b>57662</b>	<b>63485</b>

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
<b>Non-current Assets</b>	<b>28661</b>	<b>28893</b>	<b>45689</b>	<b>46644</b>	<b>50509</b>
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
<b>Current Assets</b>	<b>9191</b>	<b>13326</b>	<b>11468</b>	<b>11017</b>	<b>12976</b>
<b>Total Assets</b>	<b>37852</b>	<b>42219</b>	<b>57158</b>	<b>57662</b>	<b>63485</b>

Source: Company, NSPL Research

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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
<b>Cash Flow from Operating</b>	<b>4525.5</b>	<b>5005.0</b>	<b>3887.5</b>	<b>8325.0</b>	<b>8058.6</b>
(Incr)/ Decr in Gross PP&E	-2149.8	-1398.1	-2096.5	-3000.0	-3000.0
<b>Cash Flow from Investing</b>	<b>-3726.7</b>	<b>-2480.3</b>	<b>1857.0</b>	<b>-3000.0</b>	<b>-3000.0</b>
(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
<b>Cash Flow from Financing</b>	<b>-844.0</b>	<b>-2535.0</b>	<b>-5730.2</b>	<b>-3791.5</b>	<b>-3944.0</b>
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
<b>Cash at the End of the Year</b>	<b>90.2</b>	<b>58.8</b>	<b>77.3</b>	<b>1752.2</b>	<b>2866.8</b>
<b>Bank Balances not Included in Cash</b>			<b>141.47</b>		

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Particulars</b>					
EBITDA/Ton	914	1039	1046	1161	1150
Sales Volume (mn tons)	50.1	50.2	58.7	70.1	80.0
<b>Growth (%)</b>					
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%
<b>Profitability (%)</b>					
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%
<b>Debt Ratios</b>					
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
<b>Per share data / Valuation</b>					
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	27.7x	23.8x
EV/EBITDA (x)	20.1x	22.2x	20.0x	13.5x	12x
EV/Ton (\$)	210	260	216	193	155

Source: Company, NSPL Research

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Ultratech Cement				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 22, 2018	3610	4110	Buy	Buy	5% - 15%
July 19, 2018	3857	4653	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> <li>NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F &amp; O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI</li> <li>SEBI Registration Number: INH000004617</li> </ul>
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO