

January 25, 2019

Ultratech Cement

Q3FY19 Result Update

Infrastructure and low-cost housing continue to drive demand

Ultratech maintained its double-digit volume growth which stood at 18mt for the quarter, up by 13.2% YoY. Realization reduced by 0.6% sequentially but rose 5% YoY due to an industry-wide increase in cement prices. Net Sales rose by 19% YoY (14% QoQ) to INR 9390cr.

Input price pressures keep margin low

Although realization grew on a yoy basis, EBITDA remained under pressure due to the high power and fuel as well as freight costs. This is expected to come down in Q4FY19 as the high cost inventory was used up in the quarter. EBITDA/ton declined to INR 803 (-4.6% YoY and -3.9% QoQ).

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

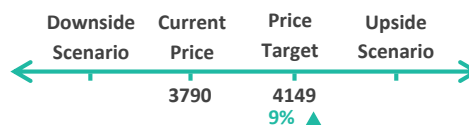
We foresee a significant pickup in cement demand in the next two to three years and expect a growth rate higher than the industry incremental capacity addition. Ultratech, being a pan-India market leader, is expected to benefit the most from the same. With an increasing number of WHRS plants commissioned, 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 rollover our target price to INR 4149/share giving an upside of 9% (at an average of 14x FY21 EV/EBITDA and \$175 FY21 EV/Ton)

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	25,375	31,411	38,107	44,313	50,699
Growth%	5%	24%	21%	16%	14%
EBITDA	5,212	6,145	7,361	7,839	8,214
Growth%	14%	18%	20%	6%	5%
Adjusted PAT	2,715	2,222	3,051	3,175	3,579
Growth%	27.0%	-18.1%	37%	4%	13%
EPS (INR)	98.9	81.0	111.1	115.7	130.4
Sales Volume (MT)	50.19	58.72	70.07	79.96	90.64
EV/EBITDA	22.2	20.0	15.7	14.8	13.5
EV/Tonne	259.8	216.3	202.8	163.5	146.5
P/E (x)	42.8	48.9	33.9	32.6	28.9

Source: Company, NSPL Research

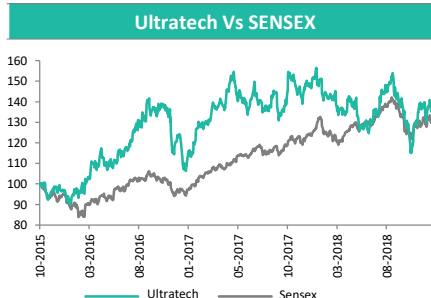
* Read last page for disclaimer & rating rationale

BUY



Market Data	
Industry	Cement
Sensex	36195
Nifty	10850
Bloomberg Code	UTCEM:IN
Eq. Cap. (INR Crores)	274.6
Face Value (INR)	10
52-w H/L	4494/3260
Market Cap (INR Crores)	100366

Valuation Data	FY18	FY19E	FY20E
OPM	19.6%	19.3%	17.7%
NPM	7.1%	8.0%	7.2%
P/E (x)	48.9	33.9	32.6
EV/EBITDA (x)	20.0	15.7	14.8
EV/Ton (\$)	216.3	202.8	163.5



Shareholding Pattern			
	Dec'18	Sep'18	Dec'17
Promoters	61.69	61.69	62.05
FIIs	20.38	20.89	22.20
DIIIs	7.62	7.24	5.7
Retail	10.31	10.18	10.05
	100.0	100.0	100.0



Q3FY19 Result Analysis

(INR Crores)	Q3FY19	Q3FY18	Q2FY19	Y-o-Y	Q-o-Q
Revenue	9390	7900	8237	18.9%	14.0%
COGS	1690	1508	1309	12.0%	29.1%
Employee Expenses	7700	6392	6928	20.5%	11.1%
Power and Fuel	534	489	533	9.1%	0.1%
Freight and Forwarding	2209	1602	1992	37.9%	10.9%
Other Expenses	2214	1869	1958	18.5%	13.1%
Total Expenses	1298	1094	1134	18.7%	14.5%
EBITDA	1445	1338	1312	8.0%	10.2%
Depreciation	557	496	536	12.3%	3.9%
Other Income	103	156	135	-33.8%	-23.3%
EBIT	992	998	911	-0.6%	8.9%
Finance Cost	415	359	354	15.6%	17.3%
PBT	577	639	557	-9.8%	3.5%
Taxes	186	182	181	2.3%	2.8%
Net Profit	390	457	376	-14.5%	3.9%

Source: Company, NSPL Research

- The company's net sales grew by 18.9% Y-o-Y (from INR 7900cr) and 14.0% Q-o-Q (from INR 8237cr) to INR 9390cr in Q3FY19.
- EBITDA for the company stood at INR 1445cr up from INR 1338cr (8% Y-o-Y) and INR 1312cr (10.2% Q-o-Q) with EBITDA Margins at 15.4% as against 16.9% in Q3FY18 and 15.9% in Q2FY19. The fall in margins was primarily due to an increase in power and fuel costs.
- P&F cost/ton stood at INR 1227, up by 21.8% YoY (from INR 1008) and down by 3.3% QoQ (from INR 1269)
- Blended EBITDA/Ton for the quarter stood at INR 803 down from INR 841 (-4.6% Y-o-Y) in Q3FY18 and INR 835 (-3.9% Q-o-Q) in Q2FY19. Total cement volumes for the quarter stood at 18mt (13.2% Y-o-Y & 14.6% Q-o-Q).
- Reported PAT stood at INR 390cr which was down by 14.5% Y-o-Y (from INR 457cr) and up by 4% Q-o-Q (from INR 376cr). PAT Margins stood at 4.2%, down from 5.8% in Q3FY18 and 4.6% in Q2FY18.

(INR/Ton)	Q3FY19	Q3FY18	Q2FY19	Y-o-Y	Q-o-Q
Realization	5216	4969	5246	5.0%	-0.6%
RM Cost	939	949	834	-1.0%	12.6%
Employee Cost	296	308	339	-3.6%	-12.7%
Power and Fuel	1227	1008	1269	21.8%	-3.3%
Freight and Forwarding	1230	1175	1247	4.7%	-1.4%
Other Expenditure	721	688	722	4.8%	-0.1%
Total Expenditure	4414	4128	4411	6.9%	0.1%
EBITDA	803	841	835	-4.6%	-3.9%

Source: Company, NSPL Research

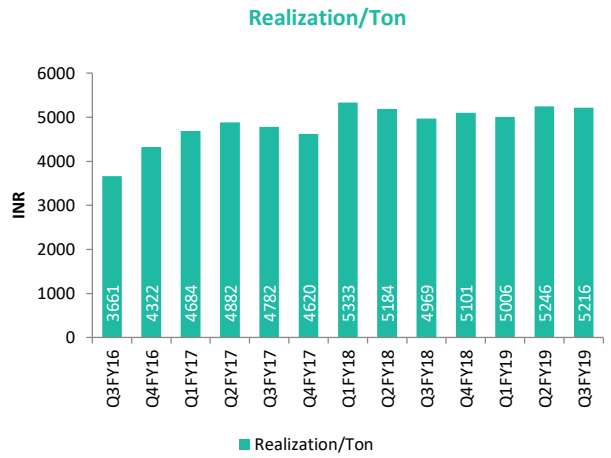
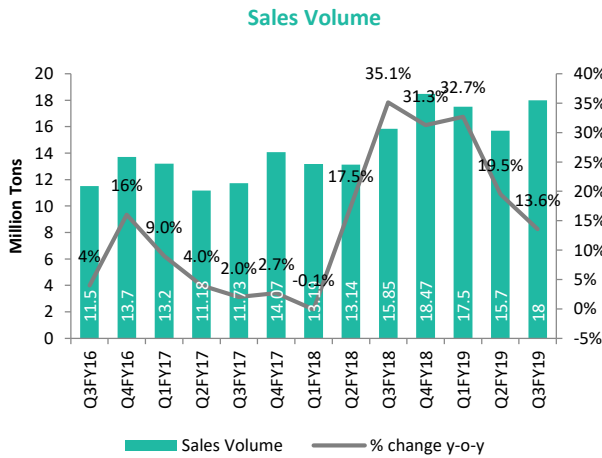
Key Concall Highlights

- The company has witnessed price correction of 1% or lesser in the Central, East and West regions during the quarter. The South witnessed a correction of 2-3% during the quarter.
- The capacity additions of Ultratech are expected to be delayed by at least a quarter. The Bara expansion of 4mt is expected to be commissioned by Q1FY21 as the JPA engineers are facing challenges with the same.
- The company expects the debt levels to go up due to the acquisition of Century Textiles' and Binani assets. This would lead to an incremental debt of INR 7500cr (consolidated basis). As per the management, a meaningful reduction in leverage would start largely from Q1FY20. Accordingly, UTCEM's standalone net debt increased to INR 17100cr in Q3FY19 vs INR 12500cr in Q2FY19.
- The company expects the annual capacity addition to be limited to 15-17mt over FY19-20E due to rising cost of new limestone mines, expensive land acquisition, increasing costs & royalties etc. However, incremental demand is expected to be 20-25mt led by strong infra & housing demand. Accordingly, industry utilisations are seeing an uptick as seen in 9MFY19.
- A major overhauling of one of the acquired plants was done in Central Region. The cost benefits are expected to reflect from Q4FY19
- Logistics costs increased following applicability of the 15% busy season surcharge by the Indian Railways. Diesel prices average consumption rate increased ~ 3% over Q2. The pet coke consumption was at peak material prices and is expected to come down in Q4.

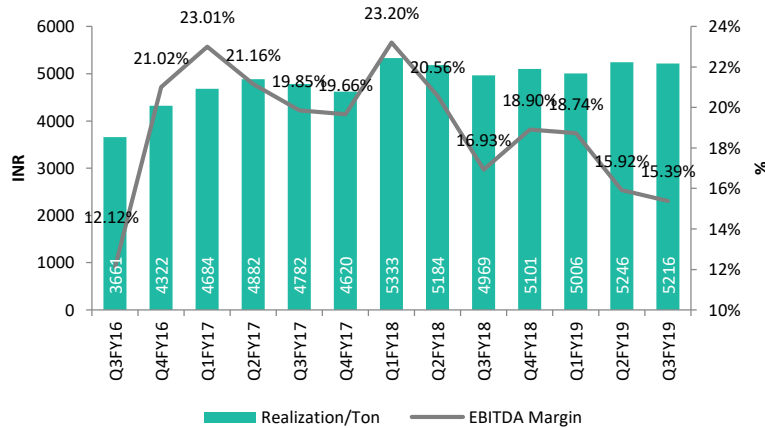


Century cement plant integration to be completed by Q1FY20

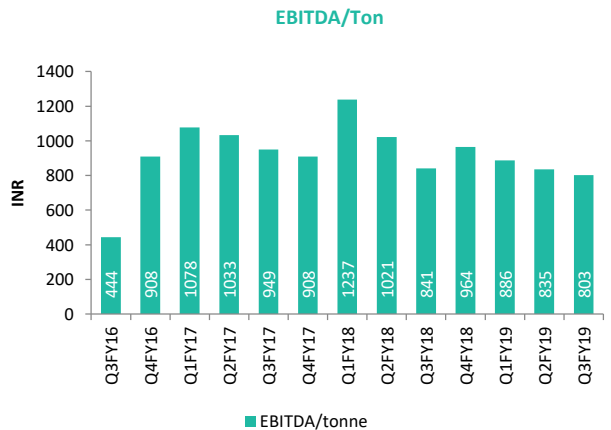
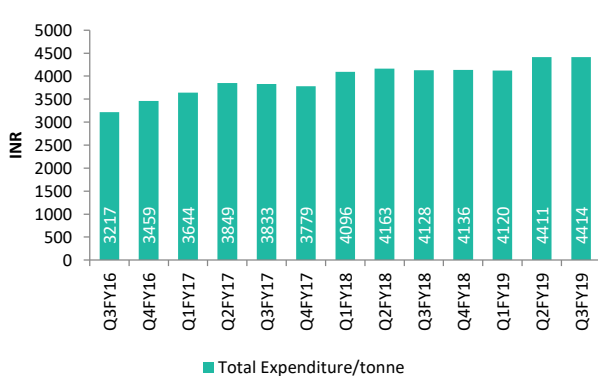
- The petition under NCLT is scheduled on 13th Feb 2019, post which the scheme will be approved by March 2019. Hence, the acquisition is expected to be completed by Q1FY20.
- Acquisition of 13.4mt of cement capacity (8.5mt clinker; 117MW thermal power) from Century textiles under the demerger scheme at an EV is INR 8621cr (including INR 3000cr of debt) implying a valuation of US\$96 on EV/ton and 17.5x on FY18 EV/EBITDA basis. The acquisition would increase Ultratech’s domestic capacity to 105.9mt (100.2mt operational) from 86.8mt currently.
- The company will invest INR 500cr over the next 3 years in order to improve plant efficiency & quality of operations. This includes INR 150cr towards land acquisition at plant in Chhattisgarh required for operationalizing limestone mines won under auction. If one has to include this capex, then the acquisition cost would be US\$102 on EV/t basis.
- The acquired assets currently operate at ~75% utilization. Revenue/EBITDA for FY18 was at INR 4306cr/INR 493cr (adjusted for one-off). EBITDA/t for FY18 was at ~INR 490/ton (INR 360/ton in Q4FY18).



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



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	25,375	31,411	38,107	44,313	50,699
COGS	4493	5289	6051	6974	7984
Employee Expenses	1522	1810	2046	2455	2946
Power and fuel	4272	6334	8422	10572	13182
Transportation cost	5903	7310	8785	10225	11707
Other Expenses	3992	4561	5442	6249	6666
EBITDA	5,212	6,145	7,361	7,839	8,214
D&A	1,348	1,848	2,045	2,255	2,273
Other income	648	584	600	600	600
EBIT	4,512	4,881	5,917	6,184	6,541
Interest Expense	640	1,233	1,363	1,445	1,199
PBT	3,872	3,648	4,553	4,739	5,342
Tax	1,159	1,077	1,503	1,564	1,763
Effective tax rate	30%	30%	33%	33%	33%
PAT	2,715	2,222	3,051	3,175	3,579

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	274.5	274.6	274.6	288.6	288.6
Reserves & Surplus	24,117	26,107	28,791	31,585	34,734
Shareholder's Funds	24,392	26,381	29,066	31,874	35,023
Minority Interest	10	16	16	16	16
Long-term borrowings	6,371	15,863	13,863	14,863	11,863
Other long-term liabilities	37	7	13	15	18
Long term provisions	290	369	424	488	559
Deferred Tax Liabilities	3,345	3,626	3,626	3,626	3,626
Non-current liabilities	10,043	19,865	17,927	18,993	16,066
Short-term borrowings	1,079	2,763	2,763	2,763	2,763
Trade payables	1,857	2,504	2,652	3,057	3,500
Other current liabilities	4,670	5,315	6,051	6,974	7,984
Short-term provisions	168	312	312	312	312
Current liabilities	7,775	10,895	11,779	13,106	14,560
Total Equity and Liabilities	42,219	57,158	58,787	63,989	65,665

Goodwill on consolidation	1,085	1,036	1,036	1,036	1,036
Gross Block	39,123	55,421	58,421	64,435	64,935
Less: Accum. Depreciation	13,383	15,230	17,275	19,530	21,803
Net Fixed Assets	25,740	40,190	41,145	44,904	43,132
Non-current investments	1,280	1,498	1,498	1,498	1,498
Long term loans and advances	789	2,965	2,965	2,965	2,965
Non-current Assets	28,893	45,689	46,644	50,403	48,631
Current investments	5,411	3,949	3,949	3,949	3,949
Inventories	2,401	3,268	3,315	3,821	4,375
Trade receivables	1,757	2,228	1,879	2,185	2,500
Cash and cash equivalents	2,249	219	833	1,211	3,451
Short-term loans and advances	1,472	1,728	2,090	2,342	2,683
Current Assets	13,326	11,468	12,143	13,586	17,035
Total Assets	42,219	57,158	58,787	63,989	65,665

Source: Company, NSPL Research

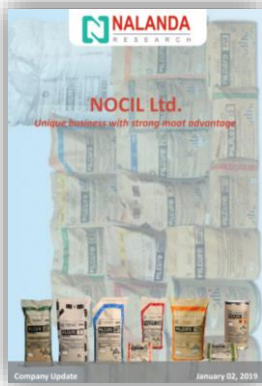


Cash Flow (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
PBT	3,872	3,302	4,553	4,739	5,342
Depreciation & Amortization	1,348	1,848	2,045	2,255	2,273
(Incr)/Decr in Working Capital	529	-1,248	885	329	317
Direct Taxes Paid	-744	-843	-1,503	-1,564	-1,763
Cash Flow from Operating	5,005	3,888	7,344	7,219	7,368
(Incr)/ Decr in Gross PP&E	-1,398	-2,097	-3,000	-6,014	-500
Cash Flow from Investing	-2,480	1,857	-3,000	-6,014	-500
(Decr)/Incr in Debt	-1,615	-4,207	-2,000	1,014	-3,000
Dividend	-312	-334	-366	-381	-429
Finance costs	-614	-1,205	-1,363	-1,445	-1,199
Cash Flow from Financing	-2,535	-5,730	-3,729	-826	-4,629
Incr/(Decr) in Balance Sheet Cash	-10	14	614	379	2,239
Cash at the Start of the Year	90	59	219	833	1,211
Cash at the End of the Year	59	77	833	1,211	3,451
Bank Balances not Included in Cash		141			

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
Particulars					
EBITDA/Ton	1038.5	1046.5	1050.5	980.4	906.2
Sales Volume (mn tons)	50.2	58.7	70.1	80.0	90.6
Growth (%)					
Total Sales	5.3%	23.8%	21.3%	16.3%	14.4%
EBITDA	13.8%	17.9%	19.8%	6.5%	4.8%
PAT	27.0%	-18.1%	37.3%	4.1%	12.7%
Profitability (%)					
EBITDA Margin	20.5%	19.6%	19.3%	17.7%	16.2%
NPM	10.7%	7.1%	8.0%	7.2%	7.1%
RoE (%)	11.1%	8.4%	10.5%	10.0%	10.2%
RoCE (%)	13.1%	10.6%	12.6%	12.2%	12.8%
Debt Ratios					
Net Debt/EBITDA	0.0	2.4	1.6	1.6	0.9
Net Debt/Equity	0.0	0.5	0.4	0.4	0.2
Interest Coverage	7.0	4.0	4.3	4.3	5.5
Per share data / Valuation					
EPS (INR.)	99.1	81.0	111.3	115.9	130.6
BPS (INR.)	890.2	962.8	1060.8	1163.3	1278.2
P/E (INR.)	42.8	48.9	33.9	32.6	28.9
EV/EBITDA (x)	22.2	20.0	15.7	14.8	13.5
EV/Ton (\$)	259.8	216.3	202.8	163.5	146.5

Source: Company, NSPL Research

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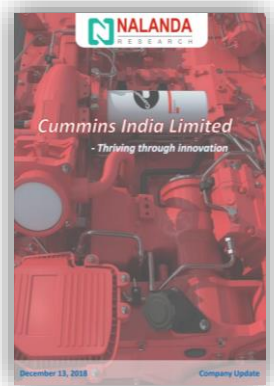
NOCIL Ltd.



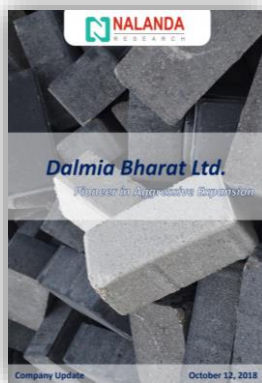
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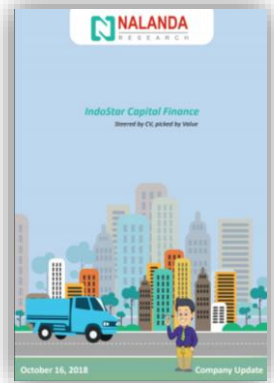
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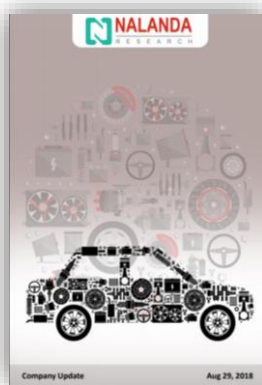
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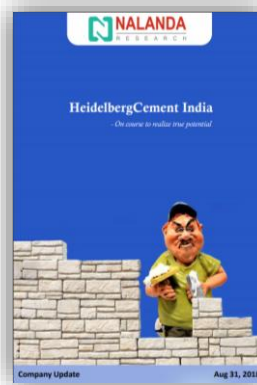
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Ultratech Cement				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
January 25, 2019	3790	4149	Buy	Buy	5% - 15%
October 22, 2018	3610	4110	Buy	Hold	0 - 5%
July 19, 2018	3857	4653	Strong Buy	Reduce	-5% - 0
				Sell	Less than -5%

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Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
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
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO