

UltraTech Cement

It's Showtime!!

CEMENT: Management Meet Update

We recently met the Management of UltraTech Cement (UltraTech). **We found the Management much confident of delivering better operating numbers than its closest peers in forthcoming quarters.** Given that UltraTech has been the most aggressive major on capex front in the past few years amongst all cement majors, we believe, very shortly we will see UltraTech gearing up on its capacity utilizations and triggering off its volumes to higher levels. Notably, UltraTech is rare and only cement major to have ~70mn tonnes p.a. capacity in its own books (FY16) **with an extremely strong balance sheet and negligible debt.** We firmly believe, UltraTech should command much better valuation premium than current levels. We are upgrading our price target to **Rs2,798/- (+25% from current levels).** At our revised price target, UltraTech will trade at a valuation of US\$ 199/tonne (premium of ~33% to current replacement cost @ US\$ 150/tonne). Also, it is interesting to note that most of the cement capacities of UltraTech are newer than capacities of other cement majors and hence are likely to be relatively more efficient (on account of better technology). UltraTech remains our Top Pick in the large cap cement space. We list down below some of the key takeaways from this Management Meet.

- UltraTech remains certain of outperforming closest peers on operating parameters. **UltraTech has reiterated that it will continue to keep its focus on triggering off volumes** given its huge capacity additions over the past few years. This was very clearly also visible in the results for quarter ending March 2014 when UltraTech reported 10% volume growth vis-à-vis ~1-2% volume growth of closest peers. **On a conservative basis, UltraTech remains confident of delivering 8% volume growth YoY for FY15.** Notably, the two new kilns of UltraTech of 10,000 TPD each are operating at capacity utilization of ~69%. This mean additional ~6mn tonnes of cement volumes are likely to flow in only from these two kilns (+13% volume growth).
- Outlook on realisations remain positive. UltraTech expects realisations to remain firm but bound to increase slowly and steadily, given the cost-push of the industry. At below Rs1000/tonne EBITDA, UltraTech believes the operating environment will be extremely difficult (including Peers). Any revival in demand is very likely to result in improving cement prices. UltraTech believes current cement prices are base level prices for the industry, whatever the behavior of players and scenario may be. Though the industry players can increase volumes by 15-20% from current levels, **the bandwidth to play around with cement prices is now limited to 5-7%** (from current levels) for most players in the industry.
- Capex is likely to see a significant slowdown in the sector. UltraTech believes as on date the visible capacity additions in its opinion are only 34mn tonnes p.a. of new capacity (pan-India). **In the best case scenario, it is unlikely that more than 50mn tonnes of new capacities will get added.** This in turn means that with expected 7-8% demand growth, utilizations are bound to improve for the industry.

Maintain BUY

UTCEM IN | CMP RS 2,240

Target Rs 2,798 (+25%)

Company Data

O/S Shares (Mn) :	274
Market Cap (Rs bn) :	604
Market Cap (USD bn) :	9.9
52 - Wk Hi/Low (Rs) :	2275 / 1405
Liquidity 3m (USD mn) :	5.6
Face Value (Rs) :	10

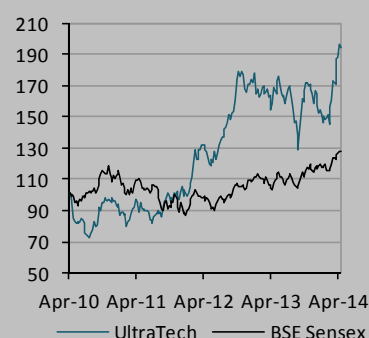
Share Holding Pattern, %

Promoters :	62.0
FII / NRI :	23.7
FI / MF :	4.6
Non Promoter Corp. Holdings :	3.4
Public & Others :	6.4

Price Performance, %

	1mth	3mth	1yr
Absolute	-0.5	34.5	13.7
Rel to BSE	-5.8	17.6	-7.0

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY14E	FY15E	FY16E
Net Sales	214,437	268,219	320,505
EBIDTA	38,264	56,545	67,889
Net Profit	22,060	33,943	43,292
EPS, Rs	80.4	123.8	157.9
PER, x	27.8	18.1	14.2
EV/EBIDTA, x	17.2	11.6	9.0
P/BV, x	3.6	3.1	2.6
ROE, %	12.8	16.9	18.1
Debt/Equity, %	40.8	34.9	9.0

Source: PhillipCapital India Research Est.

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Industry consolidation, push for Infrastructure from the new Government and very limited capacity addition will mean definitive uptick to capacity utilizations.

Targeting a reduction of 25kms in its lead distance over the next two years given the logistical advantages with its widespread of locations.

Acquisition of Jaypee's Gujarat unit to be completed by end of Q1FY15.

- Industry consolidation, push for Infrastructure from the new Government and very limited capacity addition will mean definitive uptick to capacity utilizations. UltraTech remains unmoved by consolidation of Holcim and Lafarge and believes this is unlikely to impact their strategy in any manner whatsoever.
- Pattern of UltraTech's despatches is largely unchanged. UltraTech's current zonal mix is at North - 32%, West - 32%, East - 18% and South – 19%. UltraTech believes, going forward this pattern is likely to continue to remain the way it is, given the current even spread of UltraTech's pan-India production base. Notably, UltraTech is targeting a reduction of 25kms in its lead distance over the next two years given the logistical advantages with its widespread of locations. Currently UltraTech despatches 34%, 62% and 3% of its production by Rail, Road and Ship, respectively.
- Focus on cost reduction initiatives continues to deliver favorable outcomes. Given the rising cost of fuel, UltraTech has successfully increased its linkage coal mix to 19% of fuel mix (16% earlier) and decreased pet coke to 52% (54% earlier). Pet coke prices went up significantly in Q4FY14 and continue to remain at similar levels currently. UltraTech remains confident of its fuel procurement abilities and hence remains unbothered of change in policies (if any) of local suppliers. Alternative fuel is now at 3% of total fuel requirements of UltraTech.
- Acquisition of Jaypee's Gujarat unit to be completed by end of Q1FY15. Confirmation on cost structure of this unit and its operating parameters to come in only after its operations get integrated into the existing operations of UltraTech which may be a couple of months away from now. Management is confident of favorable results from Jaypee's unit within a quarter of the completion of the deal. The unit currently operates at ~50% capacity utilizations which will be scaled up to better utilization levels very shortly.
- UltraTech believes most of its limestone mines have the requisite approvals and foresees no concern on mining issues. The company believes given the size of the capacity and its scale of operations it has enough flexibility to move clinker from one site to another, in case if any such need arises.

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Net sales	211,561	214,437	268,219	320,505
Growth, %	11	1	25	19
Total income	211,561	214,437	268,219	320,505
Raw material expenses	-28,944	-32,776	-38,110	-44,785
Employee expenses	-9,958	-12,201	-15,798	-20,848
Other Operating expenses	-125,895	-131,196	-157,766	-186,983
EBITDA (Core)	46,764	38,264	56,545	67,889
Growth, %	16.1	(18.2)	47.8	20.1
Margin, %	22.1	17.8	21.1	21.2
Depreciation	-10,234	-11,390	-12,825	-14,603
EBIT	36,530	26,874	43,720	53,286
Growth, %	16.1	(18.2)	47.8	20.1
Margin, %	22.1	17.8	21.1	21.2
Interest paid	-2,523	-3,610	-6,317	-4,133
Other Non-Operating Income	4,666	5,312	6,321	6,616
Pre-tax profit	38,672	28,576	43,724	55,768
Tax provided	-11,791	-6,448	-9,866	-12,584
Profit after tax	26,881	22,128	33,858	43,184
Others (Minorities, Associates)	-103	-68	85	108
Net Profit	26,777	22,060	33,943	43,292
Growth, %	12.1	(17.6)	53.9	27.5
Net Profit (adjusted)	26,777	22,060	33,943	43,292
Unadj. shares (m)	274	274	274	274
Wtd avg shares (m)	274	274	274	274

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Cash & bank	1,848	3,485	3,485	3,485
Debtors	13,763	16,321	20,414	24,393
Inventory	25,407	25,804	32,275	38,567
Loans & advances	21,142	24,640	30,819	36,827
Total current assets	62,160	70,249	86,993	103,272
Investments	47,146	48,811	48,811	48,811
Gross fixed assets	230,765	256,093	292,104	332,104
Less: Depreciation	-87,604	-98,994	-111,819	-126,422
Add: Capital WIP	36,011	36,011	40,000	1,000
Net fixed assets	179,173	193,111	220,286	206,682
Non-current assets	7,337	9,665	9,665	9,665
Total assets	295,814	321,835	365,755	368,430
Current liabilities	26,307	47,094	58,779	70,113
Provisions	10,840	9,942	12,436	14,860
Total current liabilities	37,146	57,036	71,215	84,973
Non-current liabilities	106,372	92,980	93,198	44,459
Total liabilities	143,519	150,016	164,412	129,432
Paid-up capital	2,742	2,742	2,742	2,742
Reserves & surplus	149,554	169,077	198,600	236,255
Shareholders' equity	152,296	171,819	201,342	238,998
Total equity & liabilities	295,814	321,835	365,755	368,430

Source: Company, PhillipCapital India Research Estimates

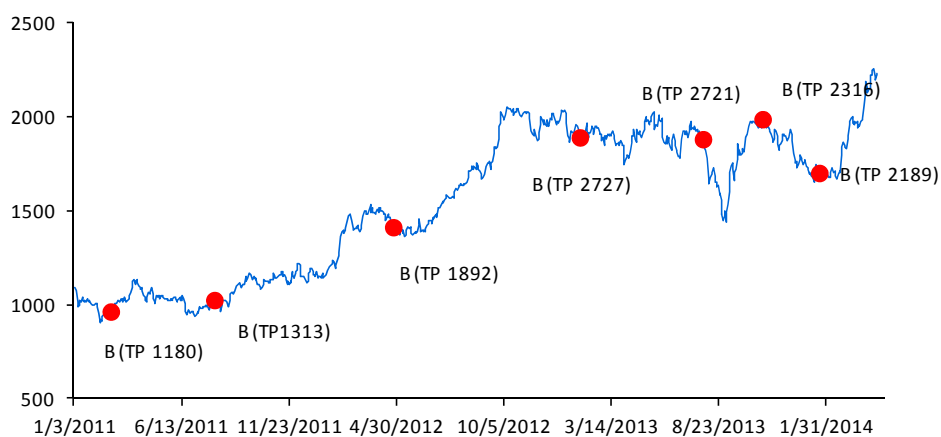
Cash Flow

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Pre-tax profit	38,672	28,576	43,724	55,768
Depreciation	10,234	11,390	12,825	14,603
Chg in working capital	-17,929	11,110	-2,566	-2,520
Total tax paid	-10,116	-2,556	-9,866	-12,584
Cash flow from operating activities	20,861	48,519	44,117	55,267
Capital expenditure	-42,306	-25,328	-40,000	-1,000
Chg in investments	3,210	-1,665	0	0
Other investing activities	161	350	0	0
Cash flow from investing activities	-38,935	-26,643	-40,000	-1,000
Free cash flow	-18,074	21,876	4,117	54,267
Equity raised/(repaid)	1	1	0	0
Debt raised/(repaid)	20,783	-17,285	218	-48,738
Dividend (incl. tax)	-2,888	-2,888	-4,419	-5,637
Cash flow from financing activities	17,793	-20,240	-4,117	-54,267
Net chg in cash	-281	1,637	0	0

Valuation Ratios & Per Share Data

	FY13	FY14E	FY15E	FY16E
Per Share data				
EPS (INR)	97.7	80.4	123.8	157.9
Growth, %	12.0	(17.6)	53.9	27.5
Book NAV/share (INR)	555.5	626.5	734.2	871.5
FDEPS (INR)	97.7	80.4	123.8	157.9
CEPS (INR)	135.0	122.0	170.5	211.1
CFPS (INR)	66.0	166.0	137.8	177.4
DPS (INR)	9.0	9.0	13.8	17.6
Return ratios				
Return on assets (%)	10.5	7.9	11.1	12.5
Return on equity (%)	17.6	12.8	16.9	18.1
Return on capital employed (%)	11.7	9.0	13.1	15.1
Turnover ratios				
Asset turnover (x)	1.1	1.0	1.2	1.3
Sales/Total assets (x)	0.8	0.7	0.8	0.9
Sales/Net FA (x)	1.3	1.2	1.3	1.5
Working capital/Sales (x)	0.2	0.1	0.1	0.1
Working capital days	58.7	33.5	33.7	33.8
Liquidity ratios				
Current ratio (x)	2.4	1.5	1.5	1.5
Quick ratio (x)	1.4	0.9	0.9	0.9
Interest cover (x)	14.5	7.4	6.9	12.9
Dividend cover (x)	10.9	8.9	9.0	9.0
Total debt/Equity (%)	57.4	40.8	34.9	9.0
Net debt/Equity (%)	39.5	14.0	12.1	(10.2)
Valuation				
PER (x)	22.9	27.8	18.1	14.2
PEG (x) - y-o-y growth	1.9	(1.6)	0.3	0.5
Price/Book (x)	4.0	3.6	3.1	2.6
Yield (%)	0.4	0.4	0.6	0.8
EV/Net sales (x)	3.2	3.1	2.4	1.9
EV/EBITDA (x)	14.5	17.2	11.6	9.0
EV/EBIT (x)	14.5	17.2	11.6	9.0

Recommendation History



Source: PhillipCapital India Research

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