

UltraTech Cement (UTCEM IN)

No material impact of demonetisation visible; remains strong...

INDIA | CEMENT | Quarterly Update

23 January 2017

UltraTech Q3 earnings surprises positively

- ✓ EBITDA beats our estimates / consensus by 8%/14%. Consolidated volume decline of mere 1% vs. expected 5% was the biggest surprise.
- ✓ Blended realisations fell only 2% qoq despite demonetisation. Demonetisation has made cement manufacturers pause price hikes – the only major negative for the sector.
- ✓ Cost looks steady. Opex/tonne flat qoq, -3% yoy despite power & fuel cost increase of 5% qoq.
- ✓ EBITDA/tonne at Rs 879 beat our estimate by 3%.
- ✓ Consolidation of Jaypee to be done before the end of Q1FY18. New capex of 3.5mn tonnes announced in central India, in line with UltraTech's strategy to remain a long-term market leader and keep its bargaining power intact.
- ✓ FY18 will be a busy year for UltraTech, as it will remain tied up in the integration of all of Jaypee's capacities and aligning operating parameters of these new capacities to its existing ones. UltraTech remains a play on FY19 and beyond. Given the cost-push and marginal volume disappointments (with some impact of demonetisation in the near term in pockets ex-south and west India), we revise our price target to Rs 4,400 vs. Rs 4,600 earlier. We continue to value UltraTech at 15x FY19 EV/EBITDA, implying a target of EV/tonne valuation of US\$ 205 vs. current US\$ 170.

Key highlights: Operating earnings surprise positively despite demonetisation. UltraTech beats consensus by 14% at the operating level despite all negative sentiments. Consolidation will remain the only key focus area and we expect sustained rerating driven by slow and steady improvement in operating parameters at the consolidated level.

Conference call takeaways

- ✓ Management sounds positive on demand revival, especially southern India (Andhra Pradesh and Telangana).
- ✓ Commentary on cement prices remains positive, says the worst is over. Prices should only improve from current levels, especially given the cost-push.
- ✗ Increase in pet coke / fuel prices will hurt in Q4.
- ✓ New capacity announcements as and when demand revives cannot be ruled out. Until Q2 we sensed the management remained conservative, but now we feel it may not shy away from capex, ensuring its bargaining power remains intact in the longer term.
- ✓ Consolidation of Jaypee to be completed by Q4/Q1.

Outlook and valuation: UltraTech has a structural long-term earnings support because of its focus on gaining market share through capex and consolidation. It continues to remain the best structural fit in the industry and will gain the most with improvement in cement prices.

BUY (Maintain)

CMP RS 3,470

TARGET RS 4,400 (+27%)

COMPANY DATA

O/S SHARES (MN) :	274
MARKET CAP (RSBN) :	948
MARKET CAP (USDBN) :	13.9
52 - WK HI/LO (RS) :	4130 / 2582
LIQUIDITY 3M (USDMN) :	21.1
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Sep 16	Jun 16	Mar 16
PROMOTERS :	62.3	62.3	62.5
FII / NRI :	20.7	20.1	19.07
FI / MF :	6.1	6.9	7.03
NON PRO :	0.9	0.9	0.84
PUBLIC & OTHERS :	9.4	10.4	10.6

Key Financials

Rs mn	FY16	FY17E	FY18E
Net Sales	252,806	279,403	352,815
EBIDTA	46,195	54,309	69,379
Net Profit	22,866	28,669	29,712
EPS, Rs	83.3	104.5	108.3
PER, x	41.6	33.2	32.1
EV/EBIDTA, x	21.7	18.0	16.9
P/BV, x	4.5	4.0	3.6
ROE, %	10.9	12.2	11.4

CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY18E	FY19E	FY18E	FY19E
Revenue	353	476	-1%	-1%
EBITDA	69	93	-9%	-1%
Core PAT	30	43	-17%	-7%
EPS (Rs)	109	155	-17%	-7%

Vaibhav Agarwal (+ 9122 6667 9967)
vagarwal@phillipcapital.in

(Rs bn)	Q3FY17	Q3FY16	yoy growth	Q2FY17	qoq growth %	vs. expectations %	Comments
Revenue	59,271	61,084	-3%	57,089	4%	4%	
Volumes (mnt)	12.65	12.74	-1%	12.00	5%	4%	Volume decline of only 1% was the biggest surprise
Blended Realisations (Rs/tonne)	4,685	4,795	-2%	4,757	-2%	0%	
Total Expenditure	48,156	49,957	-4%	45,532	6%	4%	
Expenditure (Rs/tonne)	3,807	3,921	-3%	3,794	0%		
EBITDA	11,116	11,127	0%	11,556	-4%	8%	EBITDA beats consensus estimates by 14%
EBITDA (Rs/tonne)	879	873	1%	963	-9%	4%	
EBITDA Margin	18.8%	18.2%		20.2%	-7%		
Depreciation	3,359	3,517	-4%	3,342	1%		
Interest Cost	1,438	1,394	3%	1,496	-4%		
Other Income	1,689	1,326	27%	2,219	-24%		
PBT	8,007	7,542	6%	8,938	-10%		
PAT	2,061	2,200	-6%	2,801	-26%		
EPS, Rs	5,946	5,331	12%	6,143	-3%	21%	

Q3FY17 results

(Rs mn)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Net Sales	59,512	61,084	68,505	65,378	57,089	59,271
Volumes, mn tonnes	11.83	12.74	14.89	14.07	12.00	12.65
Total Expenditure	49,549	49,957	54,805	51,143	45,532	48,156
Raw Material Consumed	9,579	9,748	10,837	9,790	8,925	9,719
Stock Adjustment	(813)	(577)	333	1,074	(801)	(483)
Employee Expenses	3,658	3,749	3,664	3,729	3,839	3,922
Power, Oil & Fuel	11,485	11,497	11,127	9,887	9,647	10,641
Freight & Handling Expenses	13,530	14,071	16,539	15,617	12,854	13,746
Purchase of Finished Goods	1,181	1,103	1,229	1,228	1,204	1,233
Other Expenses	10,930	10,365	11,077	9,818	9,865	9,377
EBITDA	9,963	11,127	13,699	14,235	11,556	11,116
EBITDA Margin	16.7%	18.2%	20.0%	21.8%	20.2%	18.8%
Depreciation	3,517	3,517	3,765	3,228	3,342	3,359
EBIT	6,446	7,610	9,935	11,007	8,214	7,756
Interest	1,456	1,394	1,269	1,798	1,496	1,438
Other Income	1,070	1,326	1,080	2,029	2,219	1,689
PBT	6,059	7,542	9,746	11,238	8,938	8,007
Total Tax	1,788	2,200	2,515	3,440	2,801	2,061
Tax Rate	30%	29%	26%	0%	0%	0%
PAT	4,270	5,331	7,230	7,801	6,143	5,946
EPS	15.6	19.4	26.3	28.4	22.4	21.7

Source: Company, PhillipCapital India Research

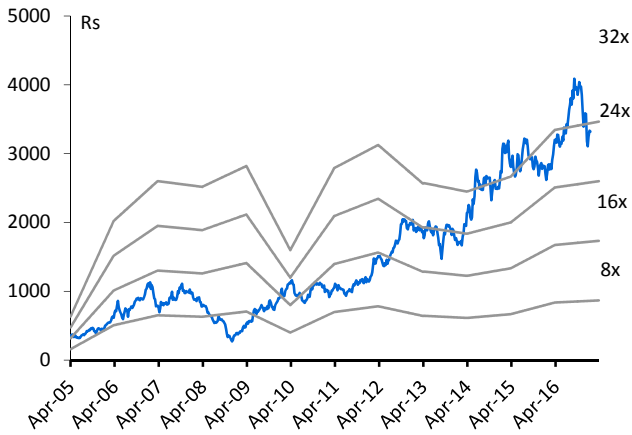
Per-tonne analysis, blended

(Rs) – Blended on consolidated volumes	Q3FY17	Q3FY16	YoY, %	Q2FY17	QoQ, %
Total Volumes	12.65	12.74	-1%	12.00	5%
Net Realization	4685	4795	-2%	4757	-2%
Total operating expenses	3807	3921	-3%	3794	0%
Raw Material Consumed	768	765	0%	744	3%
Stock Adjustment	-38	-45		-67	
Employee Expenses	310	294	5%	320	-3%
Power, Oil & Fuel	841	902	-7%	804	5%
Freight & Handling Expenses	1087	1104	-2%	1071	1%
Other Expenses	839	900	-7%	922	-9%
EBITDA	879	873	1%	963	-9%

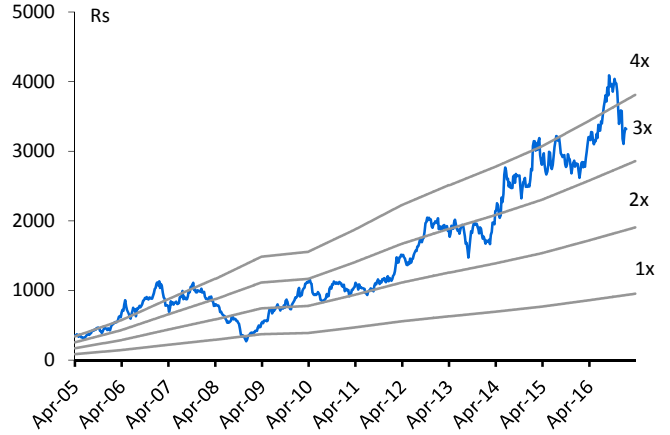
Source: Company, PhillipCapital India Research

One-year forward band charts

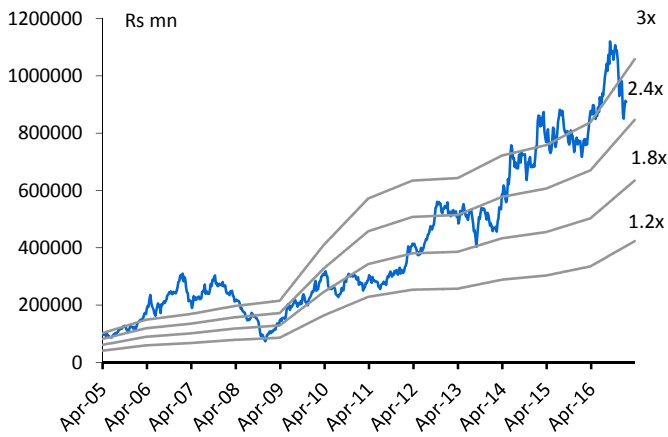
PE



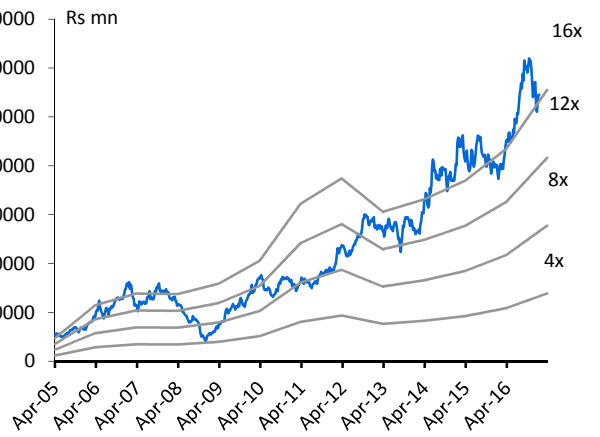
P/BV



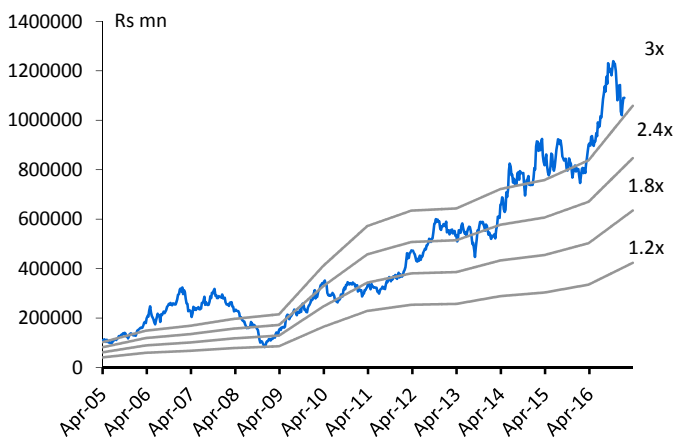
Mkt cap/sales



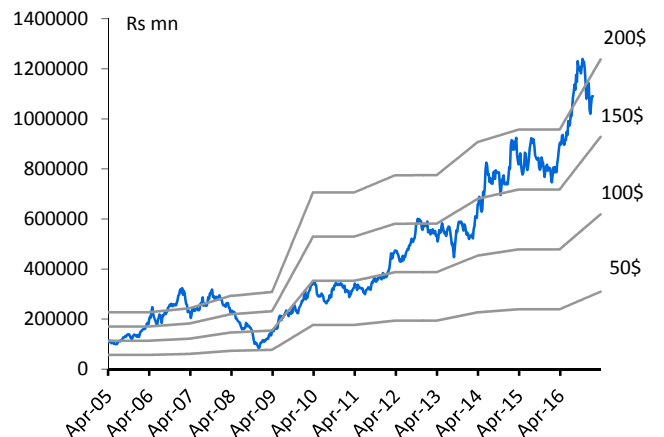
EV/EBITDA



EV/sales



EV/tonne



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Net sales	252,806	279,403	352,815	475,590
Growth, %	5	11	26	35
Total income	252,806	279,403	352,815	475,590
Raw material expenses	-39,854	-44,140	-54,839	-73,074
Employee expenses	-14,433	-17,535	-26,582	-44,050
Other Operating expenses	-152,324	-163,419	-202,015	-265,738
EBITDA (Core)	46,195	54,309	69,379	92,728
Growth, %	11.5	17.6	27.7	33.7
Margin, %	18.3	19.4	19.7	19.5
Depreciation	-13,684	-16,069	-22,210	-26,550
EBIT	32,511	38,240	47,169	66,178
Growth, %	10.7	17.6	23.4	40.3
Margin, %	12.9	13.7	13.4	13.9
Interest paid	-5,599	-5,374	-12,975	-18,865
Other Non-Operating Income	4,895	7,988	8,252	9,358
Pre-tax profit	31,806	40,853	42,446	56,671
Tax provided	-8,925	-12,256	-12,734	-14,168
Profit after tax	22,882	28,597	29,712	42,503
Others (Minorities, Associates)	-16	72	0	0
Net Profit	22,866	28,669	29,712	42,503
Growth, %	9.0	25.4	3.6	43.1
Net Profit (adjusted)	22,866	28,669	29,712	42,503
Unadj. shares (m)	274	274	274	274
Wtd avg shares (m)	274	274	274	274

Balance Sheet

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Cash & bank	22,721	22,721	22,721	22,721
Debtors	19,266	23,422	36,970	49,835
Inventory	26,154	31,796	48,181	58,452
Loans & advances	28,739	34,939	48,531	65,420
Total current assets	96,880	112,878	156,403	196,427
Investments	44,276	44,276	44,276	44,276
Gross fixed assets	360,060	389,841	604,841	639,962
Less: Depreciation	-124,711	-140,781	-162,990	-189,540
Add: Capital WIP	20,000	0	10,000	5,000
Net fixed assets	255,349	249,060	451,851	455,422
Non-current assets	11,062	11,062	11,062	11,062
Total assets	407,567	417,277	663,592	707,188
Current liabilities	81,112	89,558	112,993	152,203
Provisions	11,537	12,750	16,101	21,703
Total current liabilities	92,649	102,308	129,093	173,907
Non-current liabilities	104,335	79,529	273,234	235,074
Total liabilities	196,984	181,837	402,327	408,980
Paid-up capital	2,744	2,744	2,744	2,744
Reserves & surplus	207,839	232,695	258,520	295,463
Shareholders' equity	210,584	235,440	261,264	298,207
Total equity & liabilities	407,567	417,277	663,592	707,188

Source: Company, PhillipCapital India Research Estimates

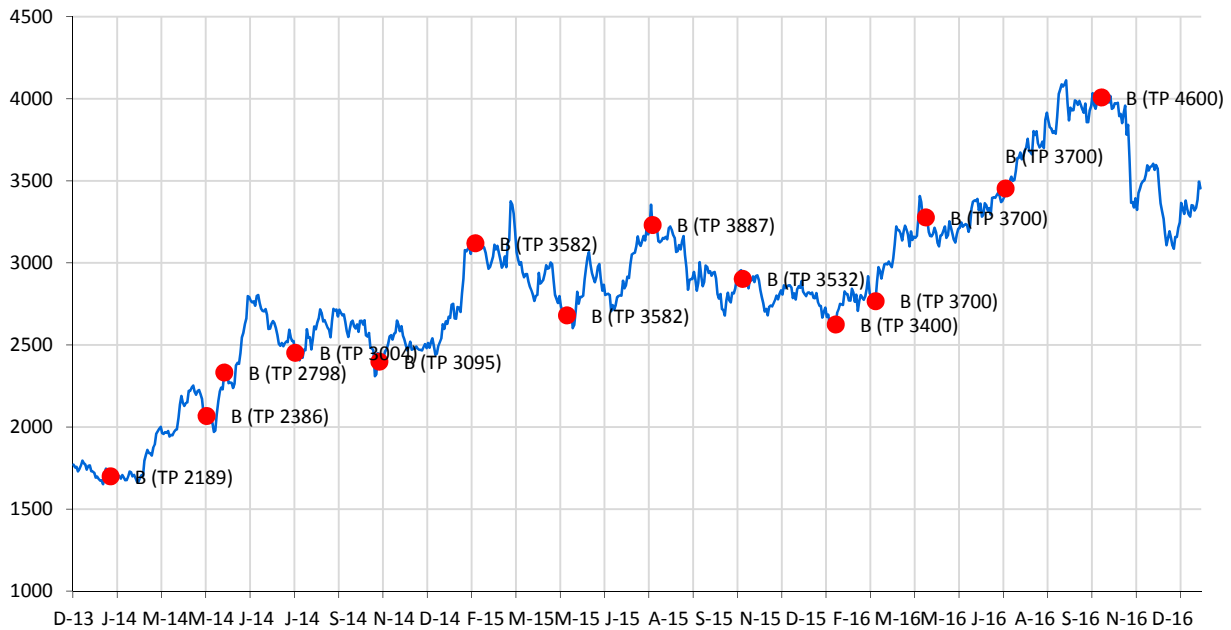
Cash Flow

Y/E Mar, Rs mn	FY16	FY17e	FY18e	FY19e
Pre-tax profit	31,806	40,853	42,446	56,671
Depreciation	13,684	16,069	22,210	26,550
Chg in working capital	6,931	-6,339	-16,740	4,789
Total tax paid	-4,568	-12,256	-12,734	-14,168
Cash flow from operating activities	47,853	38,328	35,182	73,842
Capital expenditure	-23,635	-9,781	-225,000	-30,121
Chg in investments	904	0	0	0
Other investing activities	357	0	74	106
Cash flow from investing activities	-22,374	-9,781	-224,926	-30,015
Free cash flow	25,479	28,547	-189,744	43,827
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	-3,617	-24,806	193,705	-38,160
Dividend (incl. tax)	-3,051	-3,813	-3,962	-5,667
Cash flow from financing activities	-6,684	-28,547	189,743	-43,827
Net chg in cash	18,795	0	0	0

Valuation Ratios

	FY16	FY17e	FY18e	FY19e
Per Share data				
EPS (INR)	83.3	104.5	108.3	154.9
Growth, %	9.0	25.4	3.6	43.1
Book NAV/share (INR)	767.3	857.9	952.0	1,086.6
FDEPS (INR)	83.3	104.5	108.3	154.9
CEPS (INR)	133.2	163.0	189.2	251.6
CFPS (INR)	158.5	110.6	98.1	235.0
DPS (INR)	9.5	11.9	12.3	17.6
Return ratios				
Return on assets (%)	6.7	7.8	7.0	7.9
Return on equity (%)	10.9	12.2	11.4	14.3
Return on capital employed (%)	8.4	9.8	8.6	9.8
Turnover ratios				
Asset turnover (x)	1.0	1.1	1.0	1.0
Sales/Total assets (x)	0.6	0.7	0.7	0.7
Sales/Net FA (x)	1.0	1.1	1.0	1.0
Working capital/Sales (x)	(0.0)	0.0	0.1	0.0
Working capital days	(10.0)	0.8	21.4	16.5
Liquidity ratios				
Current ratio (x)	1.2	1.3	1.4	1.3
Quick ratio (x)	0.9	0.9	1.0	0.9
Interest cover (x)	5.8	7.1	3.6	3.5
Dividend cover (x)	8.8	8.8	8.8	8.8
Total debt/Equity (%)	34.2	20.1	92.3	68.0
Net debt/Equity (%)	23.5	10.4	83.6	60.4
Valuation				
PER (x)	41.6	33.2	32.1	22.4
PEG (x) - y-o-y growth	4.7	1.3	8.8	0.5
Price/Book (x)	4.5	4.0	3.6	3.2
Yield (%)	0.3	0.3	0.4	0.5
EV/Net sales (x)	4.0	3.5	3.3	2.4
EV/EBITDA (x)	21.7	18.0	16.9	12.2
EV/EBIT (x)	30.8	25.5	24.8	17.1

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles	IT Services	Pharma & Speciality Chem
Dhawal Doshi (9122) 6667 9769	Vibhor Singhal (9122) 6667 9949	Surya Patra (9122) 6667 9768
Nitesh Sharma, CFA (9122) 6667 9965	Shyamal Dhruve (9122) 6667 9992	Mehul Sheth (9122) 6667 9996
Banking, NBFCs	Infrastructure	Strategy
Manish Agarwalla (9122) 6667 9962	Vibhor Singhal (9122) 6667 9949	Naveen Kulkarni, CFA, FRM (9122) 6667 9947
Pradeep Agrawal (9122) 6667 9953	Deepak Agarwal (9122) 6667 9944	Aashima Mutneja (9122) 6667 9764
Paresh Jain (9122) 6667 9948	Logistics, Transportation & Midcap	Telecom
Consumer & Retail	Vikram Suryavanshi (9122) 6667 9951	Naveen Kulkarni, CFA, FRM (9122) 6667 9947
Naveen Kulkarni, CFA, FRM (9122) 6667 9947	Media	Manoj Behera (9122) 6667 9973
Jubil Jain (9122) 6667 9766	Manoj Behera (9122) 6667 9973	Technicals
Preeyam Tolia (9122) 6667 9950	Metals	Subodh Gupta, CMT (9122) 6667 9762
Cement	Dhawal Doshi (9122) 6667 9769	Production Manager
Vaibhav Agarwal (9122) 6667 9967	Yash Doshi (9122) 6667 9987	Ganesh Deorukhkar (9122) 6667 9966
Economics	Mid-Caps & Database Manager	Editor
Anjali Verma (9122) 6667 9969	Deepak Agarwal (9122) 6667 9944	Roshan Sony 98199 72726
Engineering, Capital Goods	Oil & Gas	Sr. Manager – Equities Support
Jonas Bhutta (9122) 6667 9759	Sabri Hazarika (9122) 6667 9756	Rosie Ferns (9122) 6667 9971
Vikram Rawat (9122) 6667 9986		

Sales & Distribution

Ashvin Patil (9122) 6667 9991	Sales Trader
Shubhangi Agrawal (9122) 6667 9964	Dilesh Doshi (9122) 6667 9747
Kishor Binwal (9122) 6667 9989	Suniil Pandit (9122) 6667 9745
Bhavin Shah (9122) 6667 9974	
Ashka Mehta Gulati (9122) 6667 9934	Execution
Archan Vyas (9122) 6667 9785	Mayur Shah (9122) 6667 9945

Corporate Communications

Zarine Damania (9122) 6667 9976
Bharati Ponda (9122) 6667 9943

Contact Information (Regional Member Companies)

SINGAPORE: Phillip Securities Pte Ltd 250 North Bridge Road, #06-00 RafflesCityTower, Singapore 179101 Tel : (65) 6533 6001 Fax: (65) 6535 3834 www.phillip.com.sg	MALAYSIA: Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3, Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel (60) 3 2162 8841 Fax (60) 3 2166 5099 www.poems.com.my	HONG KONG: Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel (852) 2277 6600 Fax: (852) 2868 5307 www.phillip.com.hk
JAPAN: Phillip Securities Japan, Ltd 4-2 Nihonbashi Kabutocho, Chuo-ku Tokyo 103-0026 Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141 www.phillip.co.jp	INDONESIA: PT Phillip Securities Indonesia ANZTower Level 23B, Jl Jend Sudirman Kav 33A, Jakarta 10220, Indonesia Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809 www.phillip.co.id	CHINA: Phillip Financial Advisory (Shanghai) Co. Ltd. No 550 Yan An East Road, OceanTower Unit 2318 Shanghai 200 001 Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940 www.phillip.com.cn
THAILAND: Phillip Securities (Thailand) Public Co. Ltd. 15th Floor, VorawatBuilding, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921 www.phillip.co.th	FRANCE: King & Shaxson Capital Ltd. 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017 www.kingandshaxson.com	UNITED KINGDOM: King & Shaxson Ltd. 6th Floor, Candlewick House, 120 Cannon Street London, EC4N 6AS Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835 www.kingandshaxson.com
UNITED STATES: Phillip Futures Inc. 141 W Jackson Blvd Ste 3050 The Chicago Board of TradeBuilding Chicago, IL 60604 USA Tel (1) 312 356 9000 Fax: (1) 312 356 9005	AUSTRALIA: PhillipCapital Australia Level 10, 330 Collins Street Melbourne, VIC 3000, Australia Tel: (61) 3 8633 9800 Fax: (61) 3 8633 9899 www.phillipcapital.com.au	SRI LANKA: Asha Phillip Securities Limited Level 4, Millennium House, 46/58 Navam Mawatha, Colombo 2, Sri Lanka Tel: (94) 11 2429 100 Fax: (94) 11 2429 199 www.ashaphillip.net/home.htm

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013
 Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

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