

CEMENT: Management Meet Update

We recently met with the Management of UltraTech Cement Ltd. (UltraTech) to take an update on their views / outlook with regards to the company and the industry. Following are some of the key takeaways from our meeting.

- The biggest positive which we could sense from our meeting is that the Management sounded confident of a demand revival from FY15E onwards. UltraTech as on date is a 52.5mn tonnes p.a. capacity and is likely to reach 70mn tonnes p.a. capacity by 1QFY16. The management remains confident of delivering growth and performance better than the overall industry in the longer term and gain market share gainer on a consistent basis. The overall volume growth guidance for the industry is at an average growth of 8% over the next 3 fiscals. Management sounded confident of volume recovery from January 2014 onwards.
- The two new clinker lines of 3.3mn tonnes p.a. each have been commissioned and capitalised. As on date, capacity utilisations for new capacities (the said kilns) have been ramped to reasonable levels while older capacities are still being operated at much higher utilisations. Hence it is just a matter of time that we will see volumes of UltraTech growing. It is to be noted even at 50% capacity utilisation, two kilns of 3.3mn tonne each are capable of delivery incremental cement volumes to the tune of +4mn tonnes p.a. (~+10% volume growth on volume base of 40 mn tonnes).
- On realisation front, the Management sounded much clear that current levels of realisation in certain regions of the country are unviable for long term sustainability of business. With demand growth expected to revive FY15E onwards, prices are bound to improve from current levels. Though price growth may not be very significant in near future but average prices for the industry as a whole are likely to become more stable. Industry will definitely look forward to pass on the whole of cost push from here on.
- On cost front, they were pretty confident of maintaining cost at current levels. On the contrary, as and when the two new kilns of 3.3mn tonnes each attain higher capacity utilisations, they expect the opex/tonne to correct from current levels.
- On fuel, UltraTech has increased its usage of pet coke by 15% on YoY basis (39% to 54%). UltraTech seems not to be bothered much on constraints of pet coke supply from Reliance as they believe the potential of US Gulf to supply pet coke to this region is huge. Increased usage of Waste Heat Power (also considering further investments in this) will help UltraTech reduce its power cost. On logistics perspective, UltraTech has reduced its lead distance by ~1% at 425kms (429kms YoY; 430kms QoQ). The company looks forward to bring down its lead distance by another 25kms (~5%) in next two years of time. Increased usage of sea transportation from West coast of the country will also help UltraTech on this front.
- From Q4FY14 perspective, the management is confident of seeing an improvement in operating performance of the industry, as a whole.
- As on date the Net Debt:Equity of UltraTech is at 0.0x. Even with the Jaypee transaction going through, UltraTech believes the Net Debt:Equity will be at 0.3x (transaction is likely to be completed in 1QFY15).

BUY

UTCEMIN | CMP RS 1,686

Target Rs 2,189 (+29%)

Company Data

| | |
|-------------------------|-------------|
| O/S Shares (Mn) : | 274 |
| Market Cap (Rs bn) : | 462 |
| Market Cap (USD bn) : | 7.3 |
| 52 - Wk Hi/Lo (Rs) : | 2066 / 1405 |
| Liquidity 3m (USD mn) : | 6.9 |
| Face Value (Rs) : | 10 |

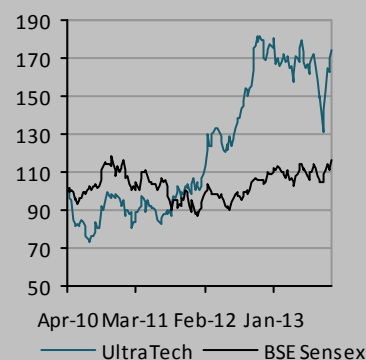
Share Holding Pattern, %

| | |
|-------------------------------|------|
| Promoters : | 62.0 |
| FII / NRI : | 23.5 |
| FI / MF : | 4.6 |
| Non Promoter Corp. Holdings : | 3.5 |
| Public & Others : | 6.4 |

Price Performance, %

| | 1mth | 3mth | 1yr |
|------------|------|-------|-------|
| Absolute | -3.1 | -14.4 | -10.6 |
| Rel to BSE | -0.1 | -11.9 | -13.1 |

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

| Rs mn | FY14E | FY15E | FY16E |
|--------------|---------|---------|---------|
| Net Sales | 229,854 | 270,893 | 323,945 |
| EBIDTA | 40,682 | 57,575 | 69,626 |
| Net Profit | 21,234 | 28,929 | 37,817 |
| EPS, Rs | 77.4 | 105.5 | 137.9 |
| PER, x | 21.8 | 16.0 | 12.2 |
| EV/EBIDTA, x | 13.5 | 9.6 | 7.4 |
| P/BV, x | 2.7 | 2.3 | 2.0 |
| ROE, % | 12.4 | 14.7 | 16.4 |

Source: PhillipCapital India Research Est.

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Financials

Income Statement

| Y/E Mar, Rs mn | FY13 | FY14E | FY15E | FY16E |
|---------------------------------|----------------|----------------|----------------|----------------|
| Net sales | 211,561 | 229,854 | 270,893 | 323,945 |
| Growth, % | 11 | 9 | 18 | 20 |
| Total income | 211,561 | 229,854 | 270,893 | 323,945 |
| Raw material expenses | -28,950 | -33,172 | -38,479 | -44,909 |
| Employee expenses | -9,963 | -12,213 | -15,815 | -20,875 |
| Other Operating expenses | -125,885 | -143,787 | -159,024 | -188,534 |
| EBITDA (Core) | 46,764 | 40,682 | 57,575 | 69,626 |
| Growth, % | 16.1 | (13.0) | 41.5 | 20.9 |
| Margin, % | 22.1 | 17.7 | 21.3 | 21.5 |
| Depreciation | -10,234 | -11,229 | -13,689 | -15,310 |
| EBIT | 36,530 | 29,453 | 43,886 | 54,316 |
| Growth, % | 16.1 | (13.0) | 41.5 | 20.9 |
| Margin, % | 22.1 | 17.7 | 21.3 | 21.5 |
| Interest paid | -2,523 | -6,281 | -10,481 | -9,062 |
| Other Non-Operating Income | 4,666 | 5,843 | 6,125 | 6,420 |
| Pre-tax profit | 38,672 | 29,016 | 39,529 | 51,675 |
| Tax provided | -11,791 | -7,834 | -10,673 | -13,952 |
| Profit after tax | 26,881 | 21,181 | 28,856 | 37,723 |
| Others (Minorities, Associates) | -103 | 53 | 72 | 94 |
| Net Profit | 26,777 | 21,234 | 28,929 | 37,817 |
| Growth, % | 12.1 | (20.7) | 36.2 | 30.7 |
| Net Profit (adjusted) | 26,777 | 21,234 | 28,929 | 37,817 |
| 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 | 1,848 | 1,848 | 1,848 |
| Debtors | 13,763 | 14,953 | 17,623 | 21,074 |
| Inventory | 25,407 | 27,603 | 32,532 | 38,903 |
| Loans & advances | 21,142 | 22,970 | 27,072 | 32,373 |
| Total current assets | 62,160 | 67,375 | 79,074 | 94,198 |
| Investments | 47,146 | 47,146 | 47,146 | 47,146 |
| Gross fixed assets | 230,765 | 288,162 | 320,222 | 360,222 |
| Less: Depreciation | -87,604 | -98,832 | -112,521 | -127,831 |
| Add: Capital WIP | 36,011 | 32,060 | 40,000 | 1,000 |
| Net fixed assets | 179,173 | 221,389 | 247,701 | 233,391 |
| Non-current assets | 7,337 | 7,337 | 7,337 | 7,337 |
| Total assets | 295,814 | 343,246 | 381,257 | 382,071 |
| Current liabilities | 26,307 | 28,461 | 33,340 | 39,646 |
| Provisions | 10,840 | 11,777 | 13,879 | 16,598 |
| Total current liabilities | 37,146 | 40,237 | 47,219 | 56,244 |
| Non-current liabilities | 106,372 | 131,729 | 136,897 | 94,879 |
| Total liabilities | 143,519 | 171,966 | 184,116 | 151,123 |
| Paid-up capital | 2,742 | 2,743 | 2,743 | 2,743 |
| Reserves & surplus | 149,554 | 168,537 | 194,398 | 228,205 |
| Shareholders' equity | 152,296 | 171,280 | 197,141 | 230,948 |
| Total equity & liabilities | 295,814 | 343,246 | 381,257 | 382,071 |

Source: Company, PhillipCapital India Research Estimates

Cash Flow

| Y/E Mar, Rs mn | FY13 | FY14E | FY15E | FY16E |
|--|----------------|----------------|----------------|----------------|
| Pre-tax profit | 38,672 | 29,016 | 39,529 | 51,675 |
| Depreciation | 10,234 | 11,229 | 13,689 | 15,310 |
| Chg in working capital | -17,929 | -2,124 | -4,718 | -6,099 |
| Total tax paid | -10,116 | -7,834 | -10,673 | -13,952 |
| Cash flow from operating activities | 20,861 | 30,287 | 37,827 | 46,933 |
| Capital expenditure | -42,306 | -53,446 | -40,000 | -1,000 |
| Chg in investments | 3,210 | 0 | 0 | 0 |
| Other investing activities | 131 | 0 | 0 | 0 |
| Cash flow from investing activities | -38,965 | -53,446 | -40,000 | -1,000 |
| Free cash flow | -18,104 | -23,159 | -2,173 | 45,933 |
| Equity raised/(repaid) | 1 | 1 | 0 | 0 |
| Debt raised/(repaid) | 20,783 | 25,357 | 5,168 | -42,018 |
| Dividend (incl. tax) | -2,857 | -2,252 | -3,067 | -4,010 |
| Cash flow from financing activities | 17,823 | 23,159 | 2,173 | -45,933 |
| Net chg in cash | -281 | 0 | 0 | 0 |

Valuation Ratios & Per Share Data

| | FY13 | FY14E | FY15E | FY16E |
|--------------------------------|-------|--------|-------|-------|
| Per Share data | | | | |
| EPS (INR) | 97.7 | 77.4 | 105.5 | 137.9 |
| Growth, % | 12.0 | (20.7) | 36.2 | 30.7 |
| Book NAV/share (INR) | 555.5 | 624.5 | 718.8 | 842.1 |
| FDEPS (INR) | 97.7 | 77.4 | 105.5 | 137.9 |
| CEPS (INR) | 135.0 | 118.4 | 155.4 | 193.7 |
| CFPS (INR) | 66.0 | 89.1 | 115.6 | 147.7 |
| DPS (INR) | 9.0 | 7.1 | 9.6 | 12.6 |
| Return ratios | | | | |
| Return on assets (%) | 10.5 | 7.9 | 9.9 | 11.4 |
| Return on equity (%) | 17.6 | 12.4 | 14.7 | 16.4 |
| Return on capital employed (%) | 11.7 | 8.7 | 10.8 | 12.6 |
| Turnover ratios | | | | |
| Asset turnover (x) | 1.1 | 1.0 | 1.0 | 1.1 |
| Sales/Total assets (x) | 0.8 | 0.7 | 0.7 | 0.8 |
| Sales/Net FA (x) | 1.3 | 1.1 | 1.2 | 1.3 |
| Working capital/Sales (x) | 0.2 | 0.2 | 0.2 | 0.2 |
| Working capital days | 58.7 | 58.9 | 59.1 | 59.4 |
| Liquidity ratios | | | | |
| Current ratio (x) | 2.4 | 2.4 | 2.4 | 2.4 |
| Quick ratio (x) | 1.4 | 1.4 | 1.4 | 1.4 |
| Interest cover (x) | 14.5 | 4.7 | 4.2 | 6.0 |
| Dividend cover (x) | 10.9 | 11.0 | 11.0 | 11.0 |
| Total debt/Equity (%) | 57.4 | 65.8 | 59.8 | 32.9 |
| Net debt/Equity (%) | 39.5 | 49.9 | 46.0 | 21.0 |
| Valuation | | | | |
| PER (x) | 17.3 | 21.8 | 16.0 | 12.2 |
| PEG (x) - y-o-y growth | 1.4 | (1.1) | 0.4 | 0.4 |
| Price/Book (x) | 3.0 | 2.7 | 2.3 | 2.0 |
| Yield (%) | 0.5 | 0.4 | 0.6 | 0.7 |
| EV/Net sales (x) | 2.5 | 2.4 | 2.0 | 1.6 |
| EV/EBITDA (x) | 11.2 | 13.5 | 9.6 | 7.4 |
| EV/EBIT (x) | 11.2 | 13.5 | 9.6 | 7.4 |

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