

## Lower realization impacted profitability

**About the stock:** Ultratech, a part of Aditya Birla Group, is the India's largest cement manufacturer in India & 3<sup>rd</sup> largest cement company in the World (excluding China)

- As of 30<sup>th</sup> June, the company's total cement capacity stands at 154.9 million tonnes (mtpa) (including 5.4 mtpa of overseas operations). North region constitutes 23% of total capacity followed by west (~21%), central & east (~19% each), south (~14%) and overseas (~4%).

**Q1FY25 performance:** Revenue grew by 1.9% YoY (-11.5% QoQ) to ₹ 18069 crores. Volume growth stood at 6.6% YoY (--9% QoQ) to ~32 mtpa. EBITDA was flattish on YoY basis (-26.1% QoQ) to ₹ 3039 crores. EBITDA/ton stood at ₹ 951/ton (vs ₹ 1018 in Q1FY24) PAT was flattish on YoY basis (-24.9% QoQ) to ₹ 1696 crores

### Investment Rationale:

- Aggressive capacity additions to drive volume growth:** Company's consolidated volume growth of 6.6% to ~32 mtpa in Q1FY25 remained better than industry and was largely in-line with expectations. The company is in the process of expanding its total capacity to ~200 mtpa (including Kesoram) by FY27E from 155 mtpa at present. We believe that company will continue to grow its volume better than the industry, led by ramp-up of recent additions, demand pick-up and further expansions over FY25-26E. The company has guided for ~12% volume growth in FY25E. We estimate volume growth of ~11% CAGR over FY24-26E to 145.4 mtpa in FY26E
- Continuous focus on operational efficiencies to further improve EBITDA/ton:** Company's EBITDA/ton of ₹ 951/ton in Q1FY25 was down YoY (₹ 1018/ton in Q1FY24), primarily due to lower realization which negated the positive impact of lower cost/ton (power & fuel, & freight cost/ton). Going forward, we expect EBITDA/ton to improve to ₹ 1218/ton by FY26E on back of cost control initiatives & positive operating leverage. Management guides for cost savings of ₹ 200-300/ton in next 2-3 years, led by optimising its freight cost, reducing its power cost (by increasing its share in low cost-renewable power share to 45% in FY25 from 29.4% at present) & increase in share of alternative fuel further (~6.5% at present), further improvement in blending ratio & positive operating leverage

### Rating and Target Price

- Ultratech Cement, being a largest-cement player, is strongly positioned in terms of gaining market shares and continuous focus on operational efficiencies. We expect revenue to grow 10.2% CAGR over FY24-26 while EBITDA & PAT are expected to grow at 16.8% & 21.1% CAGR respectively over the same period
- At 18.5x EV/EBITDA on FY26E basis, stock looks fairly valued and leaves no significant room for upside. We recommend Hold on Ultratech Cement with a target price of Rs 12170 (based on 20x of FY26E EV/EBITDA)



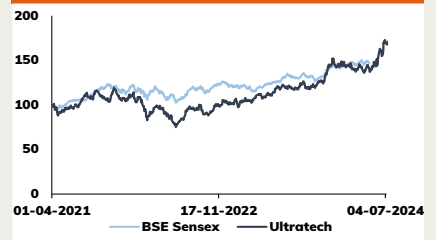
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	3,25,024
FY24 Gross Debt (₹ Crore)	10,298
FY24 Cash (₹ Crore)	6,268
EV (₹ Crore)	3,29,054
52 Week H/L (Rs)	12078 / 7941
Equity Capital	288.7
Face Value	10.0

### Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	60.0	60.0	60.0	60.0
FII	16.7	18.2	17.7	18.2
DII	15.0	13.7	14.1	13.8
Others	8.3	8.2	8.2	8.0

### Price Chart



### Key risks

- (i) Slowdown in demand (ii) Delay in capacity expansion (iii) Increase in commodity prices (iv) High competition

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## Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Revenues	44,726	52,599	63,240	70,908	16.6%	76,740	86,103	10.2%
EBITDA	11,568	11,514	10,620	12,969	3.9%	13,690	17,705	16.8%
EBITDA margin (%)	25.9	21.9	16.8	18.3		17.8	20.6	
Net Profit	5,319	7,174	5,064	7,005	9.6%	7,480	10,274	21.1%
EPS (Rs)	184.2	248.5	175.4	242.7		259.1	355.9	
P/E (x)	60.5	46.3	65.6	47.1		44.4	32.4	
EV/EBITDA (x)	28.5	28.7	30.9	25.4		24.1	18.5	
EV/ton (\$)	340	331	298	271		244	227	
RoCE (%)	15.5	15.3	12.8	14.8		14.3	17.7	
RoE (%)	12.4	14.2	9.3	11.7		11.4	14.0	

Source: Company, ICICI Direct Research

**Q1FY25 Result Highlights:**

- On consolidated basis, the total operating income for the quarter is at ₹ 18069 crores (+1.9% YoY, -11.5% QoQ) led by volume growth of 6.6% YOY (-8.9% QoQ) of 31.9 MT. However, sales realisation for the quarter stood at ₹ 5655/ton (-4.5% YoY, -2.8% QoQ). The volume growth was partially offset by lower realization resulting in lower operating income
- EBITDA for the quarter stood at ₹ 3039 crores (flattish YoY, -26.12% QoQ) due to lower margins
- EBITDA/ton stood at ₹ 951/ton (-6.6% YoY, -18.9% QoQ) primarily due to lower realization which negated the impact of lower cost/ton
- Cost/ton during the quarter was ₹ 4704/ton (-4% YoY, +1.2% QoQ), primarily driven by negative operating leverage.
- PAT during the quarter stood at ₹ 1696 crores (flattish YoY, -24.9 QoQ)

**Recent earnings call highlights:**

- As per the company estimates, industry grew by 3-3.5% in Q1FY25E & projects 7-8% growth in FY25E. Industry capacity utilization is estimated to be at ~76% in FY24
- Region wise utilization of Ultratech during Q1FY25: South & West-85-90%, East-80%, North & Central-80-85%
- Volume growth for UltraTech is expected to be better than industry in the coming periods
- Industry added 41 mtpa of cement capacity in FY24. Ultratech has a share of 32% in total cement capacity added in FY24. It plans to add 16 mtpa of capacity in FY25, which is ~40% of total planned industry capacity addition
- The company plans capex of ₹ 8000-9000 crores in FY25
- The company believes that incremental supply will always chase incremental demand in the country. They also believe there is enough cement demand to absorb all the new capacity coming in
- The company expects demand to pick-up from Q3FY25 onwards post monsoon season
- Q1FY25 saw a drop of 2.4% in cement prices & July 2024 would see a further drop of ~1.5% vs Q1FY25 average. The company expects no possibility of price improvement in the near term. However, there is a possibility of price improvement from H2FY25, if demand remains strong
- The company is committed to achieve green power share of 40-45% in FY25 & 60% in FY27 (from 29.4% at present). Cost of power from various sources: Thermal - Rs 7.3/unit, Captive power-Rs 4.3/unit, Waste Heat Recovery System- Rs 0.85-0.90/unit
- Alternate fuel consumption stood at 6.5% of overall fuel consumption. Ultratech aims to increase the share of alternate fuel further for cost saving.
- Pet coke mix stands at 37% for the quarter, but it expects to increase to 45% by FY25 for further improvement in overall fuel prices. Blended fuel consumption with calorific value of 7700 stood flat QoQ at \$149/ton
- The company has been able to reduce its lead distance by ~15 kms in Q1FY25 vs Q4FY24, resulting in saving of Rs 28/ton. It expects further reduction in logistics cost on the back of efficiency enhancement measures.
- The company expects cost saving of ₹ 250-300/ton over the next 2-3 years.
- Trade volume stood at 68% in Q1FY25 vs 65% in Q4FY24.

- Premium cement share was 24% in Q1FY25 vs 23.9% in Q4FY24. Blended cement share was 71%
- Cement to Clinker ratio stood at 1.46x in Q1FY25 vs 1.44x in Q4FY25. It aims to achieve ratio of 1.54x in medium term
- Effective date for the merger of Kesoram with Ultratech has been set at 1<sup>st</sup> April24.
- Ultratech's 22.77% stake in India Cement is to be treated as purely as non-controlling financial investment

**Exhibit 1: Quarterly Analysis**

	Q1FY25	Q4FY23E	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Operating Income	18,069.0	589.1	17,737.1	1.9	20,418.0	-11.5	Revenue was muted due to muted volume & muted realisation
Other income	165.7	50.0	173.7	-4.6	135.6	22.2	
Total Revenue	18,234.7	639.1	17,910.8	1.8	20,553.6	-11.3	
Raw materials costs	3,223.9	353.4	2,944.0	9.5	3,809.4	-15.4	
Employees Expenses	738.2	82.0	707.0	4.4	749.4	-1.5	
Other Expenses	2,393.1	121.0	2,055.0	16.5	2,260.2	5.9	
Total Expenditure	15,030.3	556.4	14,687.9	2.3	16,305.0	-7.8	
EBITDA	3,038.7	32.6	3,049.2	-0.3	4,113.0	-26.1	
EBITDA margins (%)	16.8	5.5	17.2	-37 bps	20.1	-333 bps	Margins was impacted due to lower realization
Interest	255.6	1.3	210.8		261.2		
Depreciation	842.5	9.9	749.1	12.5	814.9	3.4	
Tax	447.1	18.4	576.6	-22.5	851.9	-47.5	
PAT	1696.0	53.1	1690.2	0.3	2258.1	-24.9	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

Rs Crore	FY25E			FY26E			Comments
	Old	New	Change (%)	Old	New	Change (%)	
Revenue	77290.0	76740.3	-0.7	87079.0	86102.7	-1.1	
EBITDA	14849.0	13690.2	-7.8	18080.0	17704.7	-2.1	Revenue & EBITDA impacted due to lower realizations
EBITDA Margin (%)	19.2	17.8		20.8	20.6		
PAT	8138.0	7480.0	-8.1	10295.0	10274.1	-0.2	
EPS (Rs)	281.9	259.1	-8.1	356.6	355.9	-0.2	

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Revenue	63,240.0	70,908.1	76,740.3	86,102.7
% Growth	20.2	12.1	8.2	12.2
Other income	503.1	617.0	678.6	746.5
Total Revenue	63,240.0	70,908.1	76,740.3	86,102.7
% Growth	20.2	12.1	8.2	12.2
Total Raw Material Costs	9,715.0	11,902.9	13,082.4	14,390.6
Employee Expenses	2,739.0	3,037.6	3,402.1	3,776.3
Other expenses	40,166.2	42,999.1	46,565.7	50,231.0
Total Operating Expenditure	52,620.1	57,939.6	63,050.2	68,398.0
Operating Profit (EBITDA)	10,619.9	12,968.6	13,690.2	17,704.7
% Growth	(7.8)	22.1	5.6	29.3
Interest	822.7	968.0	947.5	883.1
PBDT	10,300.2	12,617.5	13,421.4	17,568.2
Depreciation	2,888.0	3,145.3	3,453.3	3,874.6
PBT before Exceptional Items	7,412.2	9,472.2	9,968.0	13,693.5
Total Tax	2,342.9	2,418.3	2,492.0	3,423.4
PAT before MI	5,069.4	6,982.0	7,476.0	10,270.1
PAT	5,064.0	7,005.0	7,480.0	10,274.1
% Growth	(29.4)	38.3	6.8	37.4
EPS	175.4	242.7	259.1	355.9

Source: Company, ICICI Direct Research

### Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	5,064.0	7,005.0	7,480.0	10,274.1
Depreciation	2,888.0	3,145.3	3,453.3	3,874.6
Interest	822.7	968.0	947.5	883.1
Cash Flow before WC changes	8,774.7	11,118.3	11,880.8	15,031.8
Changes in inventory	(1,016.3)	(1,717.9)	(500.7)	(1,077.3)
Changes in debtors	(795.4)	(411.1)	(347.3)	(564.3)
Changes in loans & Advances	(0.8)	(1.2)	(0.7)	(1.0)
Changes in other current assets	(207.0)	(130.0)	(354.0)	(280.9)
Net Increase in Current Assets	(1,589.8)	(3,133.7)	(1,218.5)	(2,058.1)
Changes in creditors	1,346.5	1,269.0	246.9	1,064.5
Changes in provisions	(43.6)	53.1	36.3	7.7
Net Inc in Current Liabilities	3,632.1	3,027.9	1,108.1	1,643.0
Net CF from Operating activities	10,817.0	11,012.6	11,770.4	14,616.8
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(6,223.4)	(9,488.8)	(9,000.0)	(9,000.0)
Net CF from Investing activities	(7,727.1)	(9,706.5)	(9,384.1)	(9,280.9)
Dividend and Dividend Tax	(1,092.7)	(2,020.8)	(2,165.1)	(2,742.5)
Net CF from Financing Activities	(2,308.9)	(1,663.0)	(2,855.7)	(5,025.6)
Net Cash flow	781.0	(356.9)	(469.4)	310.3
Opening Cash/Cash Equivalent	359.2	1,140.1	783.2	313.8
Closing Cash/ Cash Equivalent	1,140.1	783.2	313.8	624.1

Source: Company, ICICI Direct Research

### Exhibit 5: Balance sheet ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Equity Capital	288.7	288.7	288.7	288.7
Reserve and Surplus	54,026.4	59,938.8	65,510.5	73,042.1
Total Shareholders funds	54,315.1	60,227.5	65,799.2	73,330.8
Total Debt	9,900.8	10,298.4	10,298.4	8,898.4
Total Liabilities	72,490.1	78,886.6	84,458.4	90,590.0
Gross Block	62,249.4	69,040.5	80,323.3	89,323.3
Acc: Depreciation	15,769.1	18,914.4	22,367.7	26,242.4
Net Block	46,480.3	50,126.1	57,955.5	63,080.9
Capital WIP	4,034.9	6,782.8	4,500.0	4,500.0
Total Fixed Assets	62,429.0	68,772.5	74,319.2	79,444.6
Non Current Assets	8,215.0	8,871.1	9,255.2	9,536.0
Inventory	6,611.8	8,329.7	8,830.4	9,907.7
Debtors	3,867.0	4,278.2	4,625.4	5,189.7
Other Current Assets	1,818.3	1,948.2	2,302.2	2,583.1
Cash	1,140.1	783.2	313.8	624.1
Total Current Assets	14,896.9	17,673.6	18,422.7	20,791.1
Current Liabilities	7,209.3	8,478.3	8,725.3	9,789.8
Provisions	624.2	670.6	90.0	90.0
Total Current Liabilities	18,887.4	21,915.4	23,023.4	24,666.5
Net Current Assets	(3,990.6)	(4,241.8)	(4,600.8)	(3,875.4)
Total Assets	72,490.1	78,886.6	84,458.4	90,590.0

Source: Company, ICICI Direct Research

### Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
EPS	175.4	242.7	259.1	355.9
Cash per Share	241.7	217.1	200.9	211.6
BV	1,881.5	2,086.3	2,279.3	2,540.2
EBITDA Margin	16.8	18.3	17.8	20.6
PAT Margin	8.0	9.9	9.7	11.9
RoE	9.3	11.7	11.4	14.0
RoCE	12.8	14.8	14.3	17.7
RoIC	12.3	14.1	13.5	16.9
EV / EBITDA	30.9	25.4	24.1	18.5
P/E	65.6	47.1	44.4	32.4
EV/ton (\$)	298	271	244	227
EV / Net Sales	5.2	4.6	4.3	3.8
Sales / Equity	1.2	1.2	1.2	1.2
Market Cap / Sales	5.1	4.6	4.2	3.8
Price to Book Value	6.1	5.5	5.1	4.5
Asset turnover	1.0	1.0	1.0	1.0
Debtors Turnover Ratio	18.2	17.4	17.2	17.5
Creditors Turnover Ratio	9.7	9.0	8.9	9.3
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	0.9	0.9	1.0	1.0
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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