Ultratech Cement (ULTCEM)

ICICI direct Research

CMP: ₹ 10839 Target: ₹ 13500 (25%) Target Period: 12 months

BUY

October 22, 2024

Company Update

Muted quarter; however outlook remains strong...

About the stock: UltraTech Cement, a part of Aditya Birla Group, is the India's largest cement manufacturer in India

- As of 30th Sept 2024, the company's total cement capacity stands at 156.1 million tonnes (mtpa), which includes 5.4 mtpa of overseas operations. Grey Cement capacity stands at 154.1 mtpa while white cement capacity (including wall putty) stands at 1.98 mtpa

Q2FY25 performance: Consolidated revenue de-grew by 2.4% YoY (-13.5% QoQ) to ₹ 15635 crores, on lower blended realisation (-6.4% YoY, -0.7% QoQ). Consolidated sales volume growth stood at 4.3% YoY (-12.9% QoQ) to ~27.8 mtpa. EBITDA declined by ~21% YoY basis (-33.6% QoQ) to ₹ 2018 crores. EBITDA/ton stood at ₹ 725/ton (-24.1 YoY, -23.8% QoQ). PAT stood at Rs 820 crores (-36.0% YoY, -51.7% QoQ)

Investment Rationale:

- **Aggressive capacity additions to drive volume growth:** Company's consolidated sales volume stood at ~27.8 mtpa in Q2FY25, grew by 4.3% YoY (better than industry growth of 0-1% YoY). Ultratech is in process of expanding its capacity to 214 mtpa by FY27 (including Kesoram's 10.75 mtpa & India Cement's 14.45 mtpa) from 156.1 mtpa at present. We expect company's volume growth would remain better than industry in the coming period, led by healthy demand, aggressive addition plan of ~73 mtpa over FY25-27E (organic+inorganic) and ramp-up of recently commissioned capacities. We expect volume to grow at a CAGR of ~10% over FY24-27E to 158.4 mtpa in FY27E from 119.1 mtpa in FY24
- **Continuous focus on operational efficiencies to further improve EBITDA/ton:** Despite benign cost structure, led by lower fuel prices and continuous operational efficiency measures, company's EBITDA/ton declined 24.1 YoY (-23.8% QoQ) to ₹ 725/ton in Q2FY25, primarily due to lower realization. Going ahead, we expect company's operational performance to improve over 2HFY25E and FY26-27E, led by improvement in realisation, further reduction in total cost/ton (management has guided for cost saving of ₹ 250-300 crores in next 2-3 years) and & positive operating leverage. Cost saving measures includes increasing share of green power (64% by FY27E from 30% at present), optimising fuel mix, logistical efficiencies and positive operating leverage

Rating and Target Price

- UltraTech Cement is strongly placed to benefit from demand pick-up and continuous focus on cost saving initiatives. With healthy volume growth and significant improvement in EBITDA/ton over FY25-27E, we expect revenue to grow 10% CAGR over FY24-27E while EBITDA & PAT are expected to grow at ~19% & ~23% CAGR respectively over the same period
- We recommend BUY on Ultratech Cement with a target price of Rs 13,500 (based on 20x EV/EBITDA on average of FY26E & FY27E)

UltraTech CEMENT The Engineer's Choice

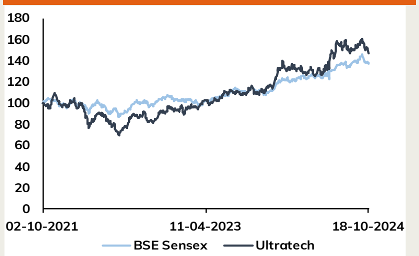
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	3,12,907
FY24 Gross Debt (₹ Crore)	10,298
FY24 Cash (₹ Crore)	6,268
EV (₹ Crore)	3,16,938
52 Week H/L (Rs)	12138 / 8148
Equity Capital	288.7
Face Value	10.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	60.0	60.0	60.0	60.0
FII	18.2	17.7	18.2	18.0
DII	13.7	14.1	13.8	14.1
Others	8.2	8.2	8.0	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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ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Revenues	44,726	52,599	63,240	70,908	16.6%	73,364	82,718	94,497	10.0%
EBITDA	11,568	11,514	10,620	12,969	3.9%	12,674	17,275	21,858	19.0%
EBITDA margin (%)	25.9	21.9	16.8	18.3		17.3	20.9	23.1	
Net Profit	5,319	7,174	5,064	7,005	9.6%	6,573	9,765	12,902	22.6%
EPS (Rs)	184.2	248.5	175.4	242.7		227.7	338.3	446.9	
P/E (x)	56.9	43.6	61.8	44.3		47.6	32.0	24.3	
EV/EBITDA (x)	27.5	27.6	29.7	24.4		25.1	18.3	14.3	
EV/ton ($)	328	319	287	261		204	191	157	
RoCE (%)	15.5	15.3	12.8	14.8		12.9	17.2	20.2	
RoE (%)	12.4	14.2	9.3	11.7		10.1	13.5	15.8	

Source: Company, ICICI Direct Research Note: EV/Ton ($) calculation for FY25E, FY26E, FY27E considers total capacity including Kesoram & India Cement

Q2FY25 Result Highlights:

- On consolidated basis, the total operating income for the quarter grew by 2.4% YoY to ₹ 15635 crores, led by decline in sales realisation by 6.4% YoY which was partially offset by volume growth of 4.3% YoY to 27.8 million tonnes. Sequentially, revenue declined by 13.5% led by lower sales volume of 12.9%, coupled with lower sales realisation of 0.7%
- EBITDA for the quarter stood at ₹ 2018 crores (~-21% YoY, -33.6% QoQ) EBITDA/ton stood at ₹ 725/ton (-24.1% YoY, -23.8 QoQ), led by decline in sales realisation
- Cost/ton stood at ₹ 4891/ton (-3% YoY, +4% QoQ), primarily driven by lower power & fuel cost
- PAT declined by 36% (-51% QoQ) to ₹ 820 crores during the quarter

Recent earnings call highlights:

- As per management estimates, Industry's volume growth during Q2FY25 have remained flattish YoY
- The management expects 7-8% volume growth for the industry in 2HFY25. For UltraTech, volume growth is expected to be in double digits
- Cement demand remained flat or remained muted across the region in Q2FY25, while October month has been slow so far because of various festival season, the rest of quarter is expected to be strong. The demand should pick 2HFY25 onwards which would improve the profitability of the company
- The management has maintained its capex guidance of ₹ 8000-9000 crores each in FY25 & FY26. They plan to invest ₹ 400-500 crores (including capex of WHRS) for Kesoram unit in next 2-3 years
- Industry is expected 30 mtpa of capacity addition each in FY25 & FY26. Ultratech's share in industry capacity addition shall be ~50%
- The management has guided for ~158/184 mtpa of capacity by FY25/FY27 (excluding acquisition of Kesoram & India Cement)
- The utilization level of cement stood at 68%, while utilization level of clinker stood at 73% in Q2FY25.
- The acquisition of Kesoram is under final stages & expected to be completed in Q4FY25
- Regarding India Cement's acquisition, UltraTech is waiting for Competition Commission of India (CCI) approval
- Average cement prices have improved to ₹ 354/bag vs ₹ 348/bag average in Q2FY25
- The company expects cost saving of ₹ 250-300/ton over the next 2-3 years
- Green power mix stood at 31.9% in Q2FY25 vs 21.8% in Q2FY24. The company aims to reach 450 MW of Waste Heat Recovery System (WHRS) by FY27 (vs 278 MW in FY24 vs 308 MW in H1FY25). The company also aims to reach 1.8 GW of renewable power by FY27 (vs 612 MW in FY24 vs 681 MW in H1FY25)
- The management expects further decline in fuel cost by 10 points to Rs 1.74 kcal vs Rs 1.84 in Q2FY25, on account of high-cost fuel contract which has almost come to an end with very little impact left in Q3FY25. Pet coke consumption stood at 54% in Q2FY25 vs 39% in Q2FY24. Going ahead, it expects further rise in pet coke in the fuel mix. Blended imported fuel consumption stood at $133/t (-18% YoY, -10% QoQ)
- Alternative fuel stood at 5% with long term target of 15% in FY27

- Lead distance stood at 388 km in Q2FY25 (vs 403 km in Q2FY24 vs 385 kms in Q1FY25). The company aims to reduce lead distance to 360 km in FY27
- Employee Cost increased during the quarter due to one-time bonus paid to employees
- The management expects operating profit to have bottomed out. It might bounce back hereon
- Trade volume stood at 68% in Q2FY25 vs 67% in Q2FY24
- Premium product mix share stood at 23% in Q2FY25 vs 15% in Q2FY24 vs 24% in Q1FY25
- Cement to Clinker ratio stood at 1.46x in Q2FY25 vs 1.44x in Q2FY24. It aims to achieve ratio of 1.57x by FY27E

Exhibit 1: Quarterly Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Operating Income	15,634.7	16,012.1	-2.4	18,069.0	-13.5	Declined due lower sales realisation on YoY basis
Other income	220.7	167.1	32.1	165.7	33.2	
Total Revenue	15,855.5	16,179.3	-2.0	18,234.7	-13.0	
Raw materials costs	2,916.5	2,494.2	16.9	3,223.9	-9.5	
Employees Expenses	913.9	812.3	12.5	738.2	23.8	
Other Expenses	2,393.1	2,055.0	16.5	2,260.2	5.9	
Total Expenditure	13,616.5	13,461.2	1.2	15,030.3	-9.4	
EBITDA	2,018.3	2,550.9	-20.9	3,038.7	-33.6	EBITDA declined due to lower operating margin, despite lower cost/ton
EBITDA margins (%)	12.9	15.9	-302 bps	16.8	-391 bps	
Interest	317.1	233.9		255.6		
Depreciation	903.9	797.8	13.3	842.5	7.3	
Tax	191.4	409.4	-53.2	447.1	-57.2	
PAT	820.0	1280.4	-36.0	1696.1	-51.7	

Source: Company, ICICI Direct Research

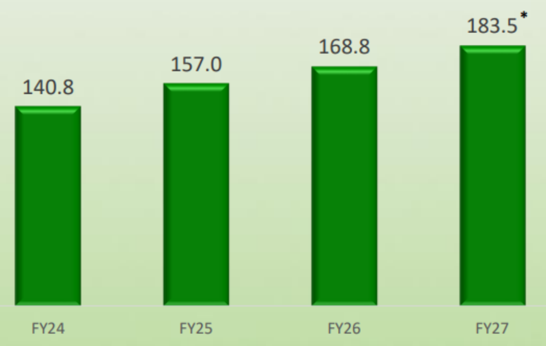
Exhibit 2: Change in estimates

	FY25E			FY26E			
Rs Crore	Old	New	Change (%)	Old	New	Change (%)	Comments
Revenue	76740.0	73364.4	-4.4	86103.0	82718.4	-3.9	
EBITDA	13690.0	12674.1	-7.4	17705.0	17275.3	-2.4	
EBITDA Margin (%)	17.8	17.3		20.6	20.9		Estimates revised downwards to factor in lower realisation
PAT	7480.0	6573.2	-12.1	10274.0	9765.0	-5.0	
EPS (Rs)	259.1	227.7	-12.1	355.9	338.3	-5.0	

Source: Company, ICICI Direct Research

Exhibit 3: Expansion plan over next 2-3 years

Grey cement capacity (Mtpa) – India



Grey Cement Capacity (Mtpa)						
Zones	FY24	Added till Oct'24	Further Plan FY25	FY26	FY27	Total
North	33.3			3.0	2.7	39.0
Central	28.4		4.5			32.9
East	27.6	3.1	1.2*	2.5	6.6	41.0
West	31.1	1.1		3.0	0.0	35.2
South	20.5	5.7	0.6	3.3	5.4	35.5
All India	**140.8**	**9.9**	**6.3**	**11.8**	**14.7**	**183.5**
Overseas	5.4					5.4
Overall	**146.2**					**188.9***

*Excluding Kesoram's Cement capacity of 10.75 MTPA and India Cements capacity of 14.45 MTPA, awaiting regulatory approvals

Spread across 70 locations across the country by FY27.

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Revenue	70,908.1	73,364.4	82,718.4	94,497.5
% Growth	*12.1*	*3.5*	*12.8*	*14.2*
Other income	617.0	678.6	624.4	574.4
Total Revenue	70,908.1	73,364.4	82,718.4	94,497.5
% Growth	*12.1*	*3.5*	*12.8*	*14.2*
Total Raw Material Costs	11,902.9	12,857.4	14,001.7	15,681.9
Employee Expenses	3,037.6	3,311.0	3,642.1	4,006.3
Other expenses	42,999.1	44,521.9	47,799.3	52,951.2
Total Operating Expenditure	57,939.6	60,690.3	65,443.1	72,639.3
Operating Profit (EBITDA)	12,968.6	12,674.1	17,275.3	21,858.1
% Growth	*22.1*	*(2.3)*	*36.3*	*26.5*
Interest	968.0	998.9	931.0	795.2
PBDT	12,617.5	12,353.8	16,968.6	21,637.3
Depreciation	3,145.3	3,594.9	3,953.9	4,441.4
PBT before Exceptional Items	9,472.2	8,759.0	13,014.7	17,195.9
Total Tax	2,418.3	2,189.7	3,253.7	4,299.0
PAT before MI	6,982.0	6,569.2	9,761.0	12,896.9
PAT	7,005.0	6,573.2	9,765.0	12,901.9
% Growth	*38.3*	*(6.2)*	*48.6*	*32.1*
EPS	242.7	227.7	338.3	446.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

₹ Crore)	FY24	FY25E	FY26E	FY27E
Profit after Tax	7,005.0	6,573.2	9,765.0	12,901.9
Depreciation	3,145.3	3,594.9	3,953.9	4,441.4
Interest	968.0	998.9	931.0	795.2
Cash Flow before WC changes	11,118.3	11,167.0	14,650.0	18,138.5
Changes in inventory	(1,717.9)	(112.2)	(1,076.3)	(1,355.4)
Changes in debtors	(411.1)	(143.8)	(563.8)	(710.0)
Changes in loans & Advances	(1.2)	(0.3)	(1.0)	(1.6)
Changes in other current assets	(130.0)	(252.7)	(280.6)	(353.4)
Net Increase in Current Assets	(3,133.7)	(421.9)	(2,062.0)	(2,941.5)
Changes in creditors	1,269.0	(136.9)	1,063.5	1,339.3
Changes in provisions	53.1	23.4	8.8	50.0
Net Inc in Current Liabilities	3,027.9	424.0	1,651.3	2,380.4
Net CF from Operating activities	11,012.6	11,169.1	14,239.3	17,577.4
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(9,488.8)	(9,000.0)	(9,000.0)	(9,000.0)
Net CF from Investing activities	(9,706.5)	(8,282.8)	(9,280.6)	(10,353.4)
Dividend and Dividend Tax	(2,020.8)	(1,963.1)	(2,742.5)	(3,608.6)
Net CF from Financing Activities	(1,663.0)	(2,705.2)	(5,073.6)	(5,803.8)
Net Cash flow	(356.9)	181.2	(114.9)	1,420.2
Opening Cash/Cash Equivalent	1,140.1	783.2	964.4	849.5
Closing Cash/ Cash Equivalent	783.2	964.4	849.5	2,269.7

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Equity Capital	288.7	288.7	288.7	288.7
Reserve and Surplus	59,938.8	64,805.8	71,828.2	81,121.6
Total Shareholders funds	60,227.5	65,094.5	72,116.9	81,410.3
Total Debt	10,298.4	10,298.4	8,898.4	7,498.4
Total Liabilities	78,886.6	83,753.7	89,376.1	97,269.5
Gross Block	69,040.5	81,823.3	90,823.3	99,823.3
Acc: Depreciation	18,914.4	22,509.3	26,463.2	30,904.6
Net Block	50,126.1	59,314.0	64,360.0	68,918.7
Capital WIP	6,782.8	3,000.0	3,000.0	3,000.0
Total Fixed Assets	68,772.5	74,177.6	79,223.7	83,782.3
Non Current Assets	8,871.1	9,153.9	9,434.5	9,787.9
Inventory	8,329.7	8,441.9	9,518.3	10,873.7
Debtors	4,278.2	4,422.0	4,985.8	5,695.7
Other Current Assets	1,948.2	2,200.9	2,481.6	2,834.9
Cash	783.2	964.4	849.5	2,269.7
Total Current Assets	17,673.6	18,276.6	20,223.8	24,585.5
Current Liabilities	8,478.3	8,341.4	9,405.0	10,744.2
Provisions	670.6	90.0	90.0	91.0
Total Current Liabilities	21,915.4	22,339.3	23,990.7	26,371.0
Net Current Assets	(4,241.8)	(4,062.7)	(3,766.9)	(1,785.5)
Total Assets	78,886.6	83,753.7	89,376.1	97,269.5

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
EPS	242.7	227.7	338.3	446.9
Cash per Share	217.1	188.8	184.8	268.6
BV	2,086.3	2,254.9	2,498.1	2,820.0
EBITDA Margin	18.3	17.3	20.9	23.1
PAT Margin	9.9	9.0	11.8	13.7
RoE	11.7	10.1	13.5	15.8
RoCE	14.8	12.9	17.2	20.2
RoIC	14.1	12.2	16.6	20.1
EV / EBITDA	24.4	25.1	18.3	14.3
P/E	44.3	47.6	32.0	24.3
EV/ton ($)	261	204	191	157
EV / Net Sales	4.5	4.3	3.8	3.3
Sales / Equity	1.2	1.1	1.1	1.2
Market Cap / Sales	4.4	4.3	3.8	3.3
Price to Book Value	5.2	4.8	4.3	3.8
Asset turnover	1.0	1.0	1.0	1.1
Debtors Turnover Ratio	17.4	16.9	17.6	17.7
Creditors Turnover Ratio	9.0	8.7	9.3	9.4
Debt / Equity	0.2	0.2	0.1	0.1
Current Ratio	0.9	0.9	1.0	1.0
Quick Ratio	0.4	0.4	0.4	0.5

Source: Company, ICICI Direct Research

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Sell: <-15%

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