

August 8, 2019

Q1FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	5,175		5,175	
Sales (Rs. m)	432,569	480,782	472,376	512,657
% Chng.	(8.4)	(6.2)		
EBITDA (Rs. m)	103,298	107,334	107,230	107,742
% Chng.	(3.7)	(0.4)		
EPS (Rs.)	184.1	194.5	172.1	183.3
% Chng.	7.0	6.1		

Key Financials - Consolidated

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	305	368	433	481
EBITDA (Rs. bn)	57	62	103	107
Margin (%)	18.7	16.8	23.9	22.3
PAT (Rs. bn)	22	24	53	56
EPS (Rs.)	80.9	88.6	184.1	194.5
Gr. (%)	(18.2)	9.5	107.8	5.6
DPS (Rs.)	10.5	11.5	11.5	11.5
Yield (%)	0.2	0.3	0.3	0.3
RoE (%)	8.8	8.9	15.8	13.5
RoCE (%)	9.8	8.3	14.2	13.0
EV/Sales (x)	4.3	3.7	3.2	2.8
EV/EBITDA (x)	23.1	22.2	13.6	12.5
PE (x)	52.4	47.9	23.0	21.8
P/BV (x)	4.4	4.1	3.1	2.8

Key Data

ULTC.BO | UTCEM IN

52-W High / Low	Rs.4,905 / Rs.3,260
Sensex / Nifty	37,327 / 11,032
Market Cap	Rs.1,165bn / \$ 16,503m
Shares Outstanding	275m
3M Avg. Daily Value	Rs.4255.78m

Shareholding Pattern (%)

Promoter's	61.68
Foreign	18.59
Domestic Institution	8.68
Public & Others	11.05
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.4)	19.2	-
Relative	0.2	16.8	1.5

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ULTRA strong show; Remains top pick in the sector

Ultratech Cement (UTCEM) reported 5% miss on our EBITDA (higher by Rs339mn due to adoption of AS116 related to operating lease accounting) estimates due to elevated maintenance costs on preponement of kiln shutdown (leading to cost higher by Rs45/t) and lower volumes. Adjusted for preponement of maintenance cost, EBITDA came in line with our estimate. However, EBITDA came ahead of consensus estimates by 6%. Led by Rs100/t QoQ reduction in cost and higher realisations, EBITDA/t of Ultratech Nathdwara (UNCL- erstwhile Binani Cement) rose 45% QoQ to Rs1,200/t. Overall EBITDA/t of Indian operations (including UNCL) rose 58% YoY/37% QoQ to Rs1,466.

Led by well-diversified regional presence, dominant size (with capacity of 112mnt and market share of 22%) and highly efficient operations, UTCEM remains the best candidate in cement sector to play Indian infrastructure and housing theme. High share of trade volumes and smooth integration of acquired assets (manifested in upgrade in margins to UTCEM levels) would provide sustainability to UTCEM's margins. We reiterate BUY with TP of Rs5,175, EV/EBITDA of 14x FY21E.

- Adjusted for maintenance costs, margins came in line with estimate:** Volumes rose 2% YoY at 17.9mnt (PLe:18.2mnt). Realisations rose 11%/Rs550 QoQ (+13%/Rs620 YoY) to Rs5,400/t above our estimates of Rs5,320. Owing to 3% YoY increase in cost against our expectation of flat levels diluted higher realisations. Impacted by preponement of maintenance costs on kiln shutdown, total cost/t (adj for AS116) came at Rs4,075 against our expectation of Rs3,950. Hence, EBITDA/t fell short of our estimates at Rs1,410 (PLe:Rs1,450), up 52% YoY/36% QoQ. EBITDA rose 55% YoY to Rs25.1bn (PLe:Rs26.4bn). Higher tax rate (33% v/s PLe:31%) further widened the miss on PAT. PAT doubled to Rs12bn v/s our/consensus estimate of Rs13.2/Rs10.8bn.
- Key con-call highlights:**
 - 1) Demand weakness in infrastructure due to delay in payments to contractors; expect normalcy in 6 months
 - 2) Realisations in July lower by 3% over Q1 average
 - 3) Expect cement demand to grow by 6% in FY20E, factoring sharp recovery from 3-4% fall in Q1FY20
 - 4) Rs20bn capex guidance for FY20e
 - 5) Greenfield plant at Pali (Rajasthan) and brownfield expansion at UNCL put on hold
 - 6) Net debt fell 5.2%/Rs10.3bn QoQ to Rs185.7bn
 - 6) Guided Net Debt/EBITDA to fall below 2x (current 2.24x) FY20 end
 - 7) 4mtpa grinding unit at Bara (UP)/2.3mtpa clinker unit at Super Dalla (UP) would be commissioned by Q3FY20e/Q1FY21e
 - 8) Received NCLT's approval for acquisition of Century cement; process for transfer of mines expected to complete by Q2FY20e;
 - 9) Trade sales grew 100bps QoQ to 66% in Q1FY20
 - 10) Industry to add 15mnt of capacity in FY20E against 12mnt added in FY19
 - 11) Premium product's volume rose 24% YoY and commands a premium of Rs50-55/bag over regular products

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March (Rs mn)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	96,480	83,548	15.5	103,340	398,546	351,058	13.5
Raw Material	17,022	13,642	24.8	21,725	59,983	62,157	(3.5)
<i>% of Net Sales</i>	<i>17.6</i>	<i>16.3</i>		<i>21.0</i>	<i>15.1</i>	<i>17.7</i>	
Staff Costs	4,876	4,684	4.1	4,611	21,571	19,260	12.0
<i>% of Net Sales</i>	<i>5.1</i>	<i>5.6</i>		<i>4.5</i>	<i>5.4</i>	<i>5.5</i>	
Power & Fuel	17,978	18,676	(3.7)	20,486	74,565	78,310	(4.8)
<i>% of Net Sales</i>	<i>18.6</i>	<i>22.4</i>		<i>19.8</i>	<i>18.7</i>	<i>22.3</i>	
Freight	21,028	22,295	(5.7)	24,258	96,773	87,823	10.2
<i>% of Net Sales</i>	<i>21.8</i>	<i>26.7</i>		<i>23.5</i>	<i>24.3</i>	<i>25.0</i>	
Other Expenses	11,546	9,804	17.8	11,790	49,488	44,283	11.8
<i>% of Net Sales</i>	<i>12.0</i>	<i>11.7</i>		<i>11.4</i>	<i>12.4</i>	<i>12.6</i>	
Total Expenditure	72,449	69,100	4.8	82,870	302,380	291,832	3.6
EBITDA	24,031	14,448	66.3	20,470	96,166	59,225	62.4
<i>Margin (%)</i>	<i>24.9</i>	<i>17.3</i>		<i>19.8</i>	<i>24.1</i>	<i>16.9</i>	
Depreciation	5,369	4,860	10.5	4,993	21,283	20,103	5.9
Other income	3,005	2,521	19.2	3,064	11,899	10,692	11.3
EBIT	21,667	12,109	78.9	18,542	86,782	49,815	74.2
Interest	3,704	3,356	10.4	3,713	15,695	14,192	10.6
PBT	17,963	8,753	105.2	14,829	71,087	35,623	99.6
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	17,963	8,753	105.2	14,829	71,087	35,623	99.6
Tax	5,976	2,769	115.8	4,654	22,393	11,066	102.4
<i>% PBT</i>	<i>33.3</i>	<i>31.6</i>		<i>31.4</i>	<i>31.5</i>	<i>31.1</i>	
Reported PAT	11,987	5,984	100.3	10,175	48,695	24,557	98.3
Adjusted PAT	11,987	5,984	100.3	10,175	48,695	24,557	98.3

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Volume (mn t)	17.9	17.5	2.2	21.3	78.1	72.5	7.7
Net Blended Realisations (Rs/t)	5,402	4,780	13.0	4,852	5,104	4,844	5.4
EBITDA/t (Rs/t)	1,346	827	62.8	961	1,231	817	50.7

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	305,412	367,747	432,569	480,782
YoY gr. (%)	21.7	20.4	17.6	11.1
Cost of Goods Sold	52,888	65,271	68,671	76,979
Gross Profit	252,524	302,476	363,899	403,803
Margin (%)	82.7	82.3	84.1	84.0
Employee Cost	18,102	20,588	23,660	27,136
Other Expenses	27,473	31,808	35,665	40,654
EBITDA	57,077	61,836	103,298	107,334
YoY gr. (%)	15.8	8.3	67.1	3.9
Margin (%)	18.7	16.8	23.9	22.3
Depreciation and Amortization	18,479	21,398	23,353	26,429
EBIT	38,598	40,438	79,945	80,905
Margin (%)	12.6	11.0	18.5	16.8
Net Interest	12,376	15,486	17,076	15,539
Other Income	10,260	10,426	12,899	15,126
Profit Before Tax	33,016	35,378	75,768	80,493
Margin (%)	10.8	9.6	17.5	16.7
Total Tax	10,770	11,068	22,513	24,236
Effective tax rate (%)	32.6	31.3	29.7	30.1
Profit after tax	22,246	24,311	53,255	56,257
Minority interest	23	(31)	110	110
Share Profit from Associate	-	-	-	-
Adjusted PAT	22,223	24,342	53,145	56,147
YoY gr. (%)	(18.1)	9.5	118.3	5.6
Margin (%)	7.3	6.6	12.3	11.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	22,223	24,342	53,145	56,147
YoY gr. (%)	(18.1)	9.5	118.3	5.6
Margin (%)	7.3	6.6	12.3	11.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	22,223	24,342	53,145	56,147
Equity Shares O/s (m)	275	275	289	289
EPS (Rs)	80.9	88.6	184.1	194.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	430,455	497,153	598,663	614,963
Tangibles	430,455	497,153	598,663	614,963
Intangibles	-	-	-	-
Acc: Dep / Amortization	43,665	64,266	87,619	114,048
Tangibles	43,665	64,266	87,619	114,048
Intangibles	-	-	-	-
Net fixed assets	386,790	432,887	511,044	500,915
Tangibles	386,790	432,887	511,044	500,915
Intangibles	-	-	-	-
Capital Work In Progress	36,168	29,544	31,594	41,969
Goodwill	10,363	28,471	28,471	28,471
Non-Current Investments	16,445	25,682	25,682	25,682
Net Deferred tax assets	(31,733)	(35,418)	(42,527)	(50,183)
Other Non-Current Assets	7,363	11,475	11,958	12,466
Current Assets				
Investments	39,491	15,165	15,165	15,165
Inventories	32,676	35,851	41,479	46,102
Trade receivables	22,206	25,314	29,628	32,930
Cash & Bank Balance	2,191	7,072	33,586	49,445
Other Current Assets	10,362	11,887	12,872	13,812
Total Assets	571,505	645,357	763,947	789,871
Equity				
Equity Share Capital	2,746	2,746	2,886	2,886
Other Equity	261,066	281,143	386,551	438,702
Total Networkth	263,812	283,890	389,437	441,588
Non-Current Liabilities				
Long Term borrowings	194,802	228,184	227,184	187,184
Provisions	1,569	1,661	1,661	1,661
Other non current liabilities	66	64	64	64
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	23,849	28,456	31,998	35,565
Other current liabilities	55,138	67,443	70,725	73,165
Total Equity & Liabilities	571,505	645,357	763,947	789,871

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	33,015	35,384	75,768	80,493
Add. Depreciation	18,479	21,398	23,353	26,429
Add. Interest	12,376	15,486	17,076	15,539
Less Financial Other Income	10,260	10,426	12,899	15,126
Add. Other	(4,010)	(4,194)	(6,548)	(8,095)
Op. profit before WC changes	59,860	68,073	109,649	114,366
Net Changes-WC	(12,554)	(9,374)	(5,045)	(3,813)
Direct tax	(8,429)	(7,101)	(15,404)	(16,580)
Net cash from Op. activities	38,877	51,599	89,200	93,974
Capital expenditures	(18,766)	(15,039)	(17,350)	(26,675)
Interest / Dividend Income	-	-	-	-
Others	37,382	27,102	6,548	8,095
Net Cash from Invst. activities	18,616	12,063	(10,802)	(18,580)
Issue of share cap. / premium	157	(775)	-	-
Debt changes	(42,069)	(41,377)	(31,000)	(40,000)
Dividend paid	(3,340)	(3,462)	(3,808)	(3,996)
Interest paid	(12,099)	(14,837)	(17,076)	(15,539)
Others	-	-	-	-
Net cash from Fin. activities	(57,351)	(60,450)	(51,884)	(59,535)
Net change in cash	142	3,211	26,515	15,859
Free Cash Flow	20,111	36,560	71,850	67,299

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	77,320	86,850	103,340	96,480
YoY gr. (%)	21.0	18.1	18.1	15.5
Raw Material Expenses	11,690	15,100	21,725	17,022
Gross Profit	65,630	71,750	81,615	79,458
Margin (%)	84.9	82.6	79.0	82.4
EBITDA	11,683	12,624	20,470	24,031
YoY gr. (%)	(7.1)	9.8	29.5	66.3
Margin (%)	15.1	14.5	19.8	24.9
Depreciation / Depletion	5,137	5,113	4,993	5,369
EBIT	6,546	7,512	15,477	18,662
Margin (%)	8.5	8.6	15.0	19.3
Net Interest	3,422	3,701	3,713	3,704
Other Income	2,586	2,521	3,064	3,005
Profit before Tax	5,710	6,331	14,829	17,963
Margin (%)	7.4	7.3	14.3	18.6
Total Tax	1,802	1,841	4,654	5,976
Effective tax rate (%)	31.6	29.1	31.4	33.3
Profit after Tax	3,908	4,491	10,175	11,987
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,908	4,491	10,175	11,987
YoY gr. (%)	(9.4)	28.7	61.0	100.3
Margin (%)	5.1	5.2	9.8	12.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,908	4,491	10,175	11,987
YoY gr. (%)	(9.4)	6.5	108.5	100.3
Margin (%)	5.1	5.2	9.8	12.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,908	4,491	10,175	11,987
Avg. Shares O/s (m)	274	274	274	274
EPS (Rs)	14.3	16.4	37.1	43.7

Source: Company Data, PL Research

Key Financial Metrics

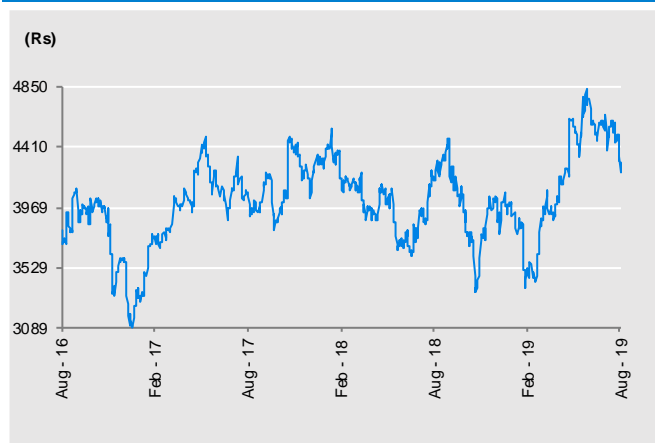
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	80.9	88.6	184.1	194.5
CEPS	148.2	166.5	265.1	286.1
BVPS	960.7	1,033.7	1,349.4	1,530.1
FCF	73.2	133.1	249.0	233.2
DPS	10.5	11.5	11.5	11.5
Return Ratio(%)				
RoCE	9.8	8.3	14.2	13.0
ROIC	7.4	6.0	10.9	10.1
RoE	8.8	8.9	15.8	13.5
Balance Sheet				
Net Debt : Equity (x)	0.6	0.7	0.5	0.3
Net Working Capital (Days)	37	32	33	33
Valuation(x)				
PER	52.4	47.9	23.0	21.8
P/B	4.4	4.1	3.1	2.8
P/CEPS	148.1	166.4	264.9	285.9
EV/EBITDA	23.1	22.2	13.6	12.5
EV/Sales	4.3	3.7	3.2	2.8
Dividend Yield (%)	0.2	0.3	0.3	0.3

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Grey Cement Vol. (mn te)	58	70	75	85
White Cement Vol. (mn te)	1	1	1	1
Clinker Sales Vol. (mn te)				
Grey Cement Real. (Rs/te)	4,380	4,393	4,722	4,687
White Cement Real. (Rs/te)	10,376	10,687	11,008	11,338
Clinker Real. (Rs/te)				
Blended EBITDA/tonne (Rs)	924	834	1,254	1,156
RM cost (Rs/ te)	688	698	673	685
Power, Oil & Fuel (Rs/ te)	1,031	1,154	965	957
Freight Chrgs. (Rs/ te)	995	998	1,008	1,028

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	5,175	4,645
2	25-Apr-19	Accumulate	4,700	4,432
3	5-Apr-19	Hold	3,725	4,190
4	25-Jan-19	Hold	3,725	3,791
5	7-Jan-19	Hold	4,040	3,927
6	21-Oct-18	Hold	3,820	3,610
7	5-Oct-18	Hold	4,000	3,944

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,800	1,567
2	Ambuja Cement	Hold	225	213
3	Coal India	Hold	265	251
4	Heidelberg Cement India	Accumulate	220	194
5	Hindalco Industries	Accumulate	220	181
6	Hindustan Zinc	Hold	225	220
7	Jindal Steel & Power	BUY	170	142
8	JK Lakshmi Cement	Accumulate	380	330
9	JSW Steel	Reduce	250	250
10	NMDC	Reduce	112	117
11	Shree Cement	Reduce	19,750	21,648
12	Steel Authority of India	Reduce	45	52
13	Tata Steel	Reduce	350	382
14	The Ramco Cements	Hold	750	738
15	Ultratech Cement	BUY	5,175	4,645

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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