

Retail Equity Research

UltraTech Cement Limited

Cement

BSE CODE: 532538

NSE CODE: ULTRACEMCO

Bloomberg CODE: UTCEM:IN

SENSEX: 34,208

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 3,844 TARGET Rs. 4,030 RETURN 5%
(Closing: 18-06-20) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Outlook remains challenging

UltraTech Cement Ltd. is the largest cement manufacturer in India, and is involved in production of grey cement, white cement, and Ready Mix Concrete (RMC). It has 22 operational integrated plants, 23 grinding units, and 6 bulk terminals with a consolidated capacity of 114.8mtpa.

- Consolidated revenue fell 13.1% YoY in Q4FY20 on lower volumes.
- EBITDA declined 1.2% YoY, while adj. PAT rose 6.2% after adjusting for income tax rate changes.
- Management declared dividend of Rs. 13/share. Separately, FY21 capex guided at Rs. 1,000cr and overheads to reduce by 10%.
- Given demand uncertainty in real estate markets and infrastructure projects amidst challenging environment, we downgrade our rating to HOLD with a revised TP of Rs. 4,030 based on ~13x FY22 EV/EBITDA.

Topline impacted by COVID-19

Q4FY20 revenue fell 13.1% YoY to Rs. 10,746cr (+3.8% QoQ) due to drop in volumes. Total sales volume decreased by 15.7% YoY to 21.4mt, affected by slowdown in construction activities amid COVID-19. However, realizations increased 3.0% YoY to Rs. 5,012/t. Also, EBITDA/t improved 17.2% YoY to Rs. 1,232/t, primarily aided by lower per unit cost of materials (-28.1% YoY to Rs. 656/t) and power & fuel costs (-2.8% YoY to Rs. 988/t, due to extension for exemption of busy season surcharge and drop in fuel prices). While EBITDA margin improved 300bps YoY to 24.6%, overall EBITDA fell 1.2% YoY to Rs. 2,641cr, primarily impacted by lower revenue. Reported PAT rose ~3x YoY to Rs. 3,243cr in Q4FY19 and adj. PAT was up 6.2% YoY to Rs. 1,131cr after adjusting the gain of deferred tax liabilities reversal from change in income tax rate. Also, the company has reported one-time improvement cost of Rs. 40cr in 4QFY20.

Key concall highlights

- The company has restricted its annual capex guidance for FY21 to Rs. 1,000cr.
- Management targets to reduce 10% of overheads in FY21 as part of its fixed cost reduction initiative.
- Century Cement EBITDA/t is expected to reach ~Rs800-900 in the upcoming quarter (Rs575 in Q4FY20) with the cost efficiencies..
- The company has resumed manufacturing activities and dispatching of cement after the government approval. It is expecting demand from retail & rural markets and infrastructure projects to pick up gradually.

Capacity expansion

Century's asset operations reached at 83% in Q4FY20 despite the COVID-19 impact and is expected to reach more than 90% in future. It has reduced cost by ~Rs. 200 per tonne under its cost improvement programs. The brownfield capacity expansion West Bengal and Bihar grinding units may get commissioned by the end of this year. The Bicharpur coal block will meet requirements of Maihar plant in MP and will get commissioned in FY21.

Valuation

We expect market to remain challenging in the medium-term amidst COVID-19 pandemic. There is uncertainty in demand in real estate markets and infrastructure projects post-the lockdown due to low supply of labors. We are cautious on the stock and hence downgrade our rating to HOLD with a revised target price of Rs. 4,030 based on ~13x FY22E EV/EBITDA.

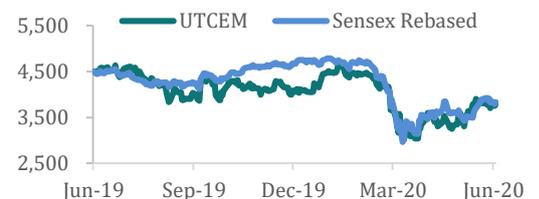
Company Data

Market Cap (cr)	Rs. 109,831
Enterprise Value (cr)	Rs. 129,566
Outstanding Shares (cr)	28.8
Free Float	38.0%
Dividend Yield	0.3%
52 week high	Rs. 4,753
52 week low	Rs. 2,913
6m average volume (lacs)	0.2
Beta	1.3
Face value	Rs. 10

Shareholding %	Q2FY20	Q3FY20	Q4FY20
Promoters	61.7	60.2	60.1
FII's	17.9	17.6	16.5
MFs/Insti	12.1	13.1	14.2
Public	5.9	6.3	6.2
Others	2.5	2.8	3.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	7.8%	-6.2%	-14.3%
Absolute Sensex	9.6%	-19.0%	-14.0%
Relative Return*	-1.8%	12.8%	-0.3%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	42,125	38,965	45,395
Growth (%)	1.2	(7.5)	16.5
EBITDA	9,931	8,116	9,876
EBITDA Margin (%)	23.6	20.8	21.8
Adj. PAT	3,703	2,854	4,290
Growth (%)	47.1	(22.9)	50.3
Adj. EPS	128.4	99.0	148.7
Growth (%)	40.0	(22.9)	50.3
P/E	25.4	38.5	25.6
P/B	2.4	2.6	2.4
EV/EBITDA	11.7	16.0	12.8
ROE (%)	14.9	6.9	9.5
D/E	0.6	0.5	0.4

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Revenue	10,746	12,371	(13.1)	10,354	3.8	42,125	41,609	1.2
EBITDA	2,641	2,672	(1.2)	2,141	23.3	9,931	7,810	27.2
EBITDA margins	24.6	21.6	300bps	20.7	390bps	23.6	18.8	480bps
Depreciation	672	641	4.9	673	(0.1)	2,702	2,451	10.3
EBIT	1,968	2,031	(3.1)	1,468	34.1	7,229	5,360	34.9
Interest	505	505	0.1	471	7.2	1,986	1,778	11.7
Other Income	-	-	-	-	-	-	-	-
Exceptional Items	-	-	-	-	-	-	(114)	n.m.
PBT	1,462	1,526	(4.2)	997	46.6	5,242	3,468	51.1
Tax	(1,777)	461	(485.9)	286	(721.1)	(568)	1,068	(153.2)
Share of profit from Associate	(1)	0	n.m.	0	n.m.	(1)	1	n.m.
Minority Interest	(3)	1	(338.0)	(1)	404.5	4	(3)	(220.4)
Reported PAT	3,243	1,064	204.7	712	355.5	5,815	2,404	141.9
Adjustments	(2,112)	-	-	-	-	(2,112)	114	n.m.
Adjusted PAT	1,131	1,064	6.2	712	58.8	3,703	2,517	47.1
No. of shares	28.9	27.5	5.1	28.8	-	28.9	27.5	5.1
EPS (Rs.)	39.2	37.2	5.4	24.7	58.8	128.4	91.7	40.0

Per Tonne Analysis

Rs. per tonne	Q4FY20	Q4FY19	YoY Growth %	Q3FY20	QoQ Growth %	FY20	FY19	YoY Growth %
Cement Volume (MT)	21.4	25.4	(15.7)	20.9	2.6	82.3	85.7	(3.9)
Cost of materials consumed	656	913	(28.1)	856	(23.3)	767	815	(5.9)
Employee Expenses	305	222	37.4	297	3.0	305	267	14.0
Power & Fuel	988	1,017	(2.8)	976	1.2	1,029	1,101	(6.6)
Freight & forwarding	1,249	1,155	8.2	1,121	11.4	1,181	1,204	(1.9)
Other expenses	559	507	10.3	680	(17.7)	629	557	12.9
Total expenses	3,780	3,814	(0.9)	3,930	(3.8)	3,910	3,945	(0.9)
Realisation (inc. RMC)	5,012	4,865	3.0	4,954	1.2	5,117	4,857	5.3
EBITDA	1,232	1,051	17.2	1,024	20.2	1,206	912	32.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	48,791	53,670	38,965	45,395	(20.1)	(15.4)
EBITDA	10,874	11,805	8,116	9,876	(25.4)	(16.3)
Margins (%)	22.3	22.0	20.8	21.8	(145bps)	(19bps)
Adj. PAT	4,936	5,868	2,854	4,290	(42.2)	(26.9)
EPS	171.1	203.4	99.0	148.7	(42.1)	(26.9)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	32,305	41,609	42,125	38,965	45,395
% change	12.8	28.8	1.2	(7.5)	16.5
EBITDA	6,428	7,810	9,931	8,116	9,876
% change	9.7	21.5	27.2	(18.3)	21.7
Depreciation	1,848	2,451	2,702	2,582	2,658
EBIT	4,580	5,360	7,229	5,533	7,218
Interest	1,233	1,778	1,986	1,781	1,578
Other Income	(46)	(113)	(1)	1	1
PBT	3,301	3,468	5,242	3,753	5,640
% change	(14.7)	5.1	51.1	(28.4)	50.3
Tax	1,077	1,068	(568)	901	1,354
Tax Rate (%)	32.6	30.8	(10.8)	24.0	24.0
Reported PAT	2,177	2,404	5,815	2,854	4,290
Adj*	45	114	(2,112)	-	-
Adj PAT	2,222	2,517	3,703	2,854	4,290
% change	(18.1)	13.3	47.1	(22.9)	50.3
No. of shares (cr)	27.5	27.5	28.8	28.8	28.8
Adj EPS (Rs.)	80.9	91.7	128.4	99.0	148.7
% change	(18.1)	13.3	40.0	(22.9)	50.3
DPS (Rs.)	10.5	11.5	13.0	12.9	19.3
CEPS (Rs.)	148.2	180.9	222.0	188.5	240.8

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	4,025	4,854	8,517	5,437	6,948
Non-cash adj.	593	630	(268)	665	510
Changes in W.C	(731)	471	654	(480)	(319)
C.F. Operation	3,887	5,956	8,902	5,622	7,139
Capital exp.	(1,877)	(1,596)	(1,627)	(966)	(1,816)
Change in inv.	1,627	2,770	(2,648)	30	32
Other invest.CF	2,107	(61)	66	-	-
C.F - Investment	1,857	1,114	(4,209)	(936)	(1,784)
Issue of equity	16	(76)	(0)	-	-
Issue/repay debt	(4,207)	(4,648)	(2,716)	(2,500)	(3,240)
Dividends paid	(334)	(346)	(380)	(372)	(558)
Other finance.CF	(1,205)	(1,687)	(1,894)	(1,781)	(1,578)
C.F - Finance	(5,730)	(6,757)	(4,991)	(4,653)	(5,376)
Chg. in cash	14	313	(298)	33	(21)
Closing cash	77	441	147	179	159

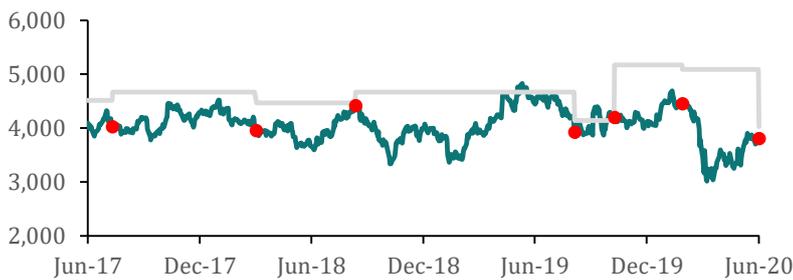
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	77	441	147	179	159
Accounts Receivable	2,228	2,787	2,238	2,728	2,951
Inventories	3,268	4,099	4,148	4,226	4,935
Other Cur. Assets	5,896	4,534	7,398	8,898	10,398
Investments	1,498	1,405	1,685	1,691	1,698
Gross Fixed Assets	43,949	47,258	48,885	49,852	51,667
Net Fixed Assets	35,638	44,643	45,113	43,360	42,361
CWIP	1,510	1,149	910	1,046	1,203
Intangible Assets	4,079	12,006	11,880	11,992	12,107
Def. Tax (Net)	9	12	6	7	7
Other Assets	2,955	5,462	5,813	6,370	6,927
Total Assets	57,158	76,537	79,337	80,497	82,746
Current Liabilities	8,575	11,865	12,646	12,993	13,772
Provisions	341	173	242	337	471
Debt Funds	18,647	24,319	22,408	19,908	16,668
Other Liabilities	3,197	6,418	4,918	5,655	6,502
Equity Capital	275	275	289	289	289
Reserves & Surplus	26,107	33,476	38,827	41,309	45,041
Shareholder's Fund	26,381	33,751	39,115	41,598	45,330
Minority Interest	16	12	8	5	2
Total Liabilities	57,158	76,537	79,337	80,497	82,746
BVPS (Rs.)	961	1,229	1,356	1,442	1,571

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	19.9	18.8	23.6	20.8	21.8
EBIT margin (%)	14.2	12.9	17.2	14.2	15.9
Net profit mgn.(%)	6.7	5.8	13.8	7.3	9.5
ROE (%)	8.3	7.1	14.9	6.9	9.5
ROCE (%)	10.2	9.2	11.7	9.0	11.6
W.C & Liquidity					
Receivables (days)	25.2	24.4	19.4	25.6	23.7
Inventory (days)	192.9	214.2	239.8	244.6	248.2
Payables (days)	153.7	165.2	202.4	207.7	211.3
Current ratio (x)	1.0	0.8	0.8	0.9	1.0
Quick ratio (x)	0.6	0.3	0.4	0.4	0.4
Turnover & Leverage					
Gross asset T.O (x)	0.9	0.9	0.9	0.8	0.9
Total asset T.O (x)	0.7	0.6	0.5	0.5	0.6
Int. coverage ratio (x)	3.7	3.0	3.6	3.1	4.6
Adj. debt/equity (x)	0.7	0.7	0.6	0.5	0.4
Valuation					
EV/Sales (x)	3.9	3.2	2.8	3.3	2.8
EV/EBITDA (x)	19.8	17.3	11.7	16.0	12.8
P/E (x)	48.8	44.2	25.4	38.5	25.6
P/BV (x)	4.1	3.3	2.4	2.6	2.4

Recommendation Summary



Dates	Rating	Target
27-Jul-17	BUY	4,669
19-Mar-18	BUY	4,464
28-Aug-18	HOLD	4,669
21-Aug-19	HOLD	4,140
25-Oct-19	BUY	5,170
13-Feb-20	BUY	5,090
19-June-20	HOLD	4,030

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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