

UltraTech Cement

28 December 2018

Reuters: ULTC.BO; Bloomberg: UTCEM IN

Dominant Position To Continue, But Short-term Pain Likely

We interacted with the management of UltraTech Cement (UTCEM) recently to understand its overall business plan and the strategy to ramp up newly acquired assets of Binani Cement. The key takeaways from the meeting are: a) The ramp-up of acquired assets of Jaiprakash Associates (JPA) will continue from the current ~72% (1HFY19) capacity utilisation to ~80%/85% (FY19), implying volume push by UTCEM. b) The efficiency gap between UTCEM and JPA assets has been bridged further and technically speaking is only marginal now at ~Rs30/tn (excluding statutory charges). c) The 3.5mt greenfield expansion at Pali is on track and is likely to be commissioned by FY21. d) Binani Cement assets ramp-up will be faster as the acquired assets currently are operating at 55% of their capacity, but the incremental pressure on volume will continue. Further, this will help UTCEM to consolidate its position by synergising the acquired assets and its own assets in North Rajasthan that will help logistic cost savings e) The company has nominal capital expenditure plan of Rs20bn each in the next two years (FY20/FY21). We believe UTCEM will continue to focus on supply push to gain overall capacity utilisation upwards of 80% and preference on the pricing front will follow only after achieving the targeted capacity utilisation. With implementation of cost-efficiency measures, structural cost escalation will be controlled, but input cost inflation will impact the margins as higher dispatches and infrastructure sector-driven demand implies limited pricing gains. Factoring in the same, we have revised downwards our earnings estimates by ~5%/4%/2% for FY19/FY20/FY21, respectively. We have valued the stock at ~Rs12.0bn/mt based on replacement costs (September 2020 estimated capacity). Accordingly, we have retained Accumulate rating on UTCEM with a revised target price of Rs4,076 (from Rs3,968 earlier). At our target price, the stock trades at EV/EBITDA of 15.5x one-year forward earnings.

JPA assets capacity utilisation expected to reach target in FY19: The capacity utilisation of acquired assets from JPA is likely to hit the targeted 80% (currently ~72%) by the end of FY19. This implies continued volume push by UTCEM in 4QFY19. The seasonal demand will also help it to match the supply push. The production cost differential between JPA assets and UTCEM assets is now ~Rs35/tn excluding statutory costs including Rs70/tn of the acquired mines. Further, the additional freight costs at Himachal Pradesh facility of Rs30/tn will continue because of region-specific problems.

New capacity addition at Pali on track; no new capital expenditure planned for FY20/FY21: The 3.5mt Pali (Rajasthan) expansion is on track and is expected to be commissioned in FY21 as scheduled. This will further consolidate UTCEM's position in northern region. Barring new capacity addition, UTCEM has no incremental capex plan for FY20/FY21, barring nominal capex of Rs20bn each for the next two years. The company is in the process of acquiring clearances for further ~5mt brownfield expansion, but this will be commissioned post FY21.

Binani Industries asset acquisition to expand UTCEM's reach in northern region and aid cost savings: The newly acquired Binani Industries' domestic cement assets in Rajasthan will help UTCEM to consolidate its strength in northern region and help to increase its presence in north Gujarat market. It will help the company to increase its presence in northern region (24% contribution from 21% currently) and in western region (27% from 24% currently). These are remunerative markets and hence will help UTCEM's earnings accretion in the medium term. Further, synergies from its own assets and acquired assets from Binani Industries will help UTCEM to rationalise its logistic costs, thereby limiting cost escalation.

Earnings revision and outlook: UTCEM will gain structural strength post its organic and inorganic growth in the recent past following its effect in the next two years (Binani Industries and Century Textiles cement assets and new unit at Pali). However, the transition of acquired assets (non-premium brands) into premium brands and volume surge to increase capacity utilisation implies limited gains in the short term. Factoring in the same, we expect EBITDA margin to be range-bound ~18% in FY19E/FY20E/FY21E. Cost synergies and a greater presence in remunerative markets (northern and western regions) will limit any decline in EBITDA. However, the incremental interest cost burden and depreciation will impact its earnings. Factoring in the same, we have revised downward our FY19/FY20/FY21 EPS estimates by ~5%/4%/2% to Rs85/Rs106/129, respectively. We have factored in the full impact of Century Textiles' cement assets in FY20, but only a marginal impact of the expansion at Pali unit in Rajasthan in our FY21 earnings estimate. We continue to value the stock at Rs12bn/mt based on replacement costs (September 2020E capacity). We have assigned a 33% premium to replacement costs of Rs9bn/mt (to factor in white cement segment), given UTCEM's premium position in most regions, its cost efficiency and size which will help drive the pricing favourably. Accordingly, we have retained Accumulate rating on UTCEM with a revised target price of Rs4,076 (from Rs3,968 earlier). At our target price, the stock trades at EV/EBITDA of 15.5x September 2020E earnings.

ACCUMULATE

Sector: Cement

CMP: Rs3,982

Target Price: Rs4,076

Upside: 2%

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Key Data

Current Shares O/S (mn)	274.6
Mkt Cap (Rsbn/US\$bn)	1093.7/15.6
52 Wk H / L (Rs)	4,600/3,260
Daily Vol. (3M NSE Avg.)	354,396

Price Performance (%)

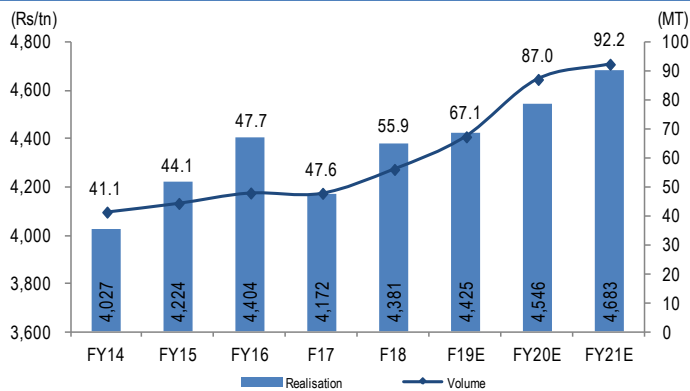
	1 M	6 M	1 Yr
UltraTech Cement	(0.5)	7.0	(6.9)
Nifty Index	1.2	2.6	3.7

Source: Bloomberg

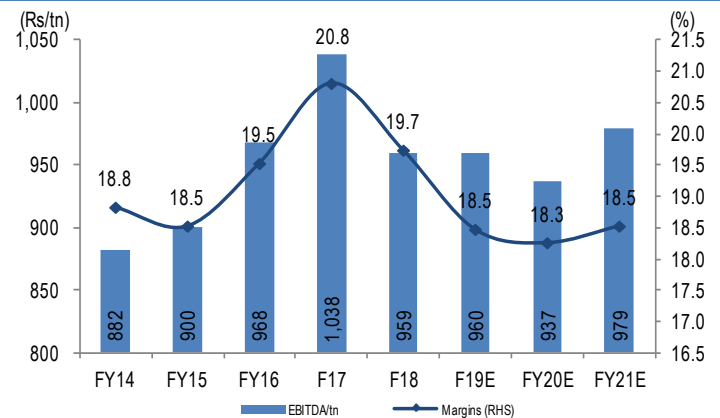
Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	238,914	293,626	355,308	457,938	499,117
Growth (%)	12.8	4.6	0.8	22.9	21.0
EBITDA margin (%)	20.8	19.7	18.5	18.3	18.5
Adjusted net profit	25,036	24,576	23,231	30,628	37,310
Versus consensus (%)	-	-	(13.9)	(18.6)	(19.9)
EPS (Rs)	91.2	89.6	84.7	106.2	129.4
growth (%)	5.6	(1.8)	(5.5)	31.8	21.8
P/E (x)	43.6	44.5	47.0	37.5	30.8
P/B (x)	4.6	4.3	3.9	3.7	3.4
EV/EBITDA (x)	21.4	20.6	18.7	15.8	14.0
D/E (x)	(0.1)	0.5	0.5	0.7	0.6
RoE (%)	0.2	0.3	0.2	0.3	0.2
RoCE (%)	11.2	9.9	8.7	10.4	11.5
Dividend yield (%)	13.3	12.2	9.8	10.9	11.2

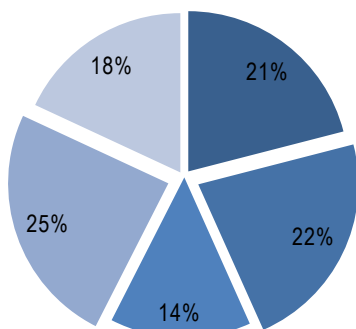
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Volume gain from newly acquired assets


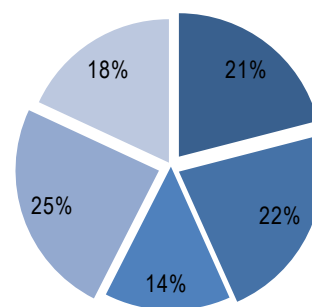
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Margins to be range-bound due to pricing and cost pressure


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: UTCEM to gain volume share in lucrative markets post organic and inorganic expansion
UTCL Mix


■ North ■ Central ■ East ■ West ■ South

UTCL Cap. post-acquisition


■ North ■ Central ■ East ■ West ■ South

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Our revised estimates

(Rsmn)	Old			New			Deviation (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net sales	355,196	435,224	477,404	355,308	457,938	499,117	-	5.2	4.5
Operating profit	65,627	78,307	85,823	65,738	83,731	92,579	0.2	6.9	7.9
Net profit	24,552	31,823	38,186	23,231	30,628	37,310	(5.4)	(3.8)	(2.3)
EPS (Rs)	89.47	110.34	132.41	84.7	106.2	129.4	(5.4)	(3.8)	(2.3)
Target price (Rs)			3,968			4,076			
Rating			Accumulate			Accumulate			

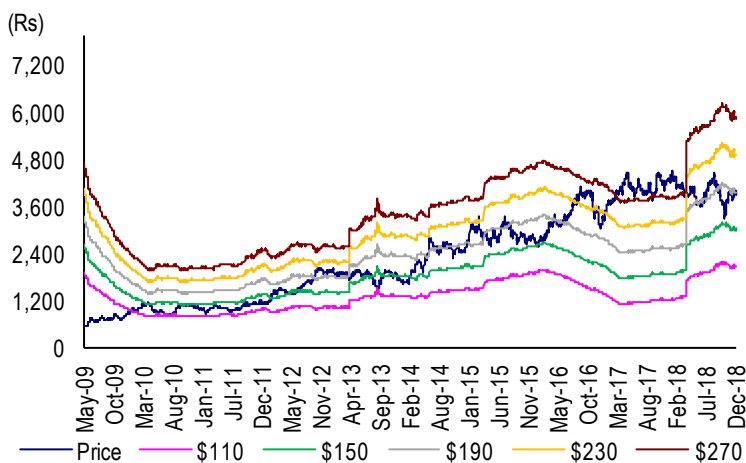
Source: Nirmal Bang Institutional Equities Research

Exhibit 6: One-year forward EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: One-year forward EV/tn



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 8: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	238,914	293,626	355,308	457,938	499,117
Growth (%)	0.8	22.9	21.0	28.9	9.0
Operating expenses	(189,225)	(239,068)	(289,914)	(374,558)	(406,897)
EBITDA	49,743	58,833	65,738	83,731	92,571
Growth (%)	7.4	18.3	11.7	27.4	10.6
Depreciation & amortisation	(12,679)	(17,636)	(23,837)	(26,952)	(26,309)
EBIT	42,233	47,144	48,627	63,732	73,457
Other income	5,168	5,947	6,726	6,953	7,187
Interest paid	(5,714)	(11,863)	(16,415)	(21,709)	(22,823)
Extraordinary/exceptional items	-	-	-	-	-
PBT	37,760	35,281	32,213	42,023	50,634
Tax	(11,482)	(10,706)	(8,981)	(11,394)	(13,324)
Effective tax rate (%)	(30)	(30)	(28)	(27)	(26)
Net profit	26,277	24,576	23,231	30,628	37,310
Minority interest	-	-	-	-	-
Reported net profit	26,277	24,576	23,231	30,628	37,310
Non-recurring items	1,241	-	-	-	-
Adjusted net profit	25,036	24,576	23,231	30,628	37,310
Growth (%)	5.6	(1.8)	(5.5)	31.8	21.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Cash & bank balances	22,177	1,993	62,448	8,160	16,270
Other current assets	114,472	132,799	143,305	194,833	234,406
Investments	15,060	16,401	7,398	7,398	7,398
Net fixed assets	240,611	386,311	422,701	519,794	517,380
Goodwill & intangible assets	484	537	762	912	1,112
Other non-current assets	-	-	-	-	-
Total assets	392,805	538,040	636,614	731,097	776,565
Current liabilities	73,133	84,776	95,102	97,839	100,092
Borrowings	52,532	165,728	227,661	288,813	294,479
Other non-current liabilities	27,736	31,741	34,441	37,641	41,091
Total liabilities	153,401	282,244	357,203	424,292	435,661
Share capital	2,745	2,746	2,746	2,886	2,886
Reserves & surplus	236,660	256,484	276,665	303,919	338,019
Shareholders' funds	239,405	255,796	279,411	306,805	340,905
Minority interest	-	-	-	-	-
Total equity & liabilities	392,805	538,040	636,614	731,097	776,565

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Pre-tax profit	37,760	35,281	32,213	42,023	50,634
Depreciation	(95,918)	17,021	23,837	26,952	26,309
Chg in working capital	26,754	(20,482)	(23,286)	(27,116)	(17,156)
Total tax paid	(20,723)	(6,701)	1,219	(8,194)	(9,874)
Other operating activities	-	-	-	-	-
Operating CF	(52,128)	25,120	33,982	33,665	49,913
Capital expenditure	94,305	(162,773)	(60,453)	(124,195)	(24,095)
Chg. in investments	(23,006)	12,458	24,002	(22,000)	(20,000)
Other investing activities	-	-	-	-	-
Investing CF	71,300	(150,316)	(36,451)	(146,195)	(44,095)
FCF	19,172	(125,196)	(2,468)	(112,530)	5,818
Equity raised/(repaid)	1	(3,433)	-	-	-
Debt raised/(repaid)	(24,074)	113,195	61,933	61,152	5,666
Dividend (incl. tax)	(3,803)	(3,863)	(2,444)	(3,050)	(3,374)
Other financing activities	8,386	(887)	3,434	140	-
Financing CF	(19,491)	105,012	62,923	58,242	2,291
Net chg. in cash & bank bal.	(319)	(20,184)	60,455	(54,288)	8,110
Closing cash & bank bal.	22,177	1,993	62,448	8,160	16,270

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

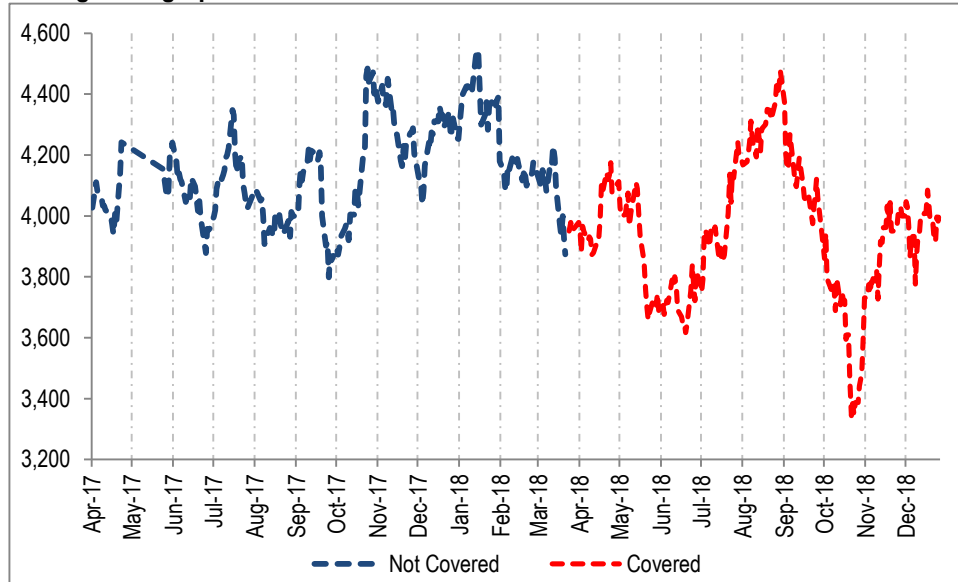
Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Profitability and return ratios (%)					
EBITDAM	20.8	19.7	18.5	18.3	18.5
EBITM	17.7	16.1	13.7	13.9	14.7
NPM	10.5	8.4	6.5	6.7	7.5
RoE	11.2	9.9	8.7	10.4	11.5
RoCE	13.3	12.2	9.8	10.9	11.2
RoIC	12.6	10.7	8.4	9.2	9.4
Per share data (Rs)					
O/s shares	274.4	274.4	274.4	288.4	288.4
EPS	91.2	89.6	84.7	106.2	129.4
FDEPS	91.2	89.6	84.7	106.2	129.4
CEPS	137.4	153.8	171.5	199.7	220.6
BV	872.5	932.2	1,018.3	1,063.8	1,182.0
DPS	9.5	12.0	9.5	10.0	9.5
Valuation ratios (x)					
PE	43.6	44.5	47.0	37.5	30.8
P/BV	4.6	4.3	3.9	3.7	3.4
EV/EBITDA	21.4	20.6	18.7	15.8	14.0
EV/Sales	4.4	4.1	3.5	2.9	2.6
Other key ratios					
D/E (x)	(0.1)	0.5	0.5	0.7	0.6
DSO (days)	19	21	22	23	24
DuPont analysis - RoE					
NPM (%)	10.5	8.4	6.5	6.7	7.5
Asset turnover (x)	0.6	0.6	0.6	0.7	0.7
Leverage factor (x)	1.7	1.9	2.2	2.3	2.3
RoE (%)	11.2	9.9	8.7	10.4	11.5

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Accumulate	3,852	4,302
22 May 2018	Accumulate	3,852	4,302
6 June 2018	Accumulate	3,676	4,166
20 July 2018	Accumulate	3,857	4,107
22 October 2018	Accumulate	3,609	3,968
28 December 2018	Accumulate	3,892	4,076

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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