

UltraTech

Performance Highlights

Quarterly results (Standalone)

Y/E March (₹ cr)	2QFY2013	1QFY2013	% Chg qoq	1QFY2012	% Chg yoy
Net sales	4,700	5,075	(7.4)	3,910	20.2
Operating profit	1,035	1,308	(20.8)	652	58.7
OPM (%)	21.9	25.7	(379)	16.4	551
Net profit	550	778	(29.3)	279	97.2

Source: Company, Angel Research

During 2QFY2013, UltraTech Cement (ULTC) posted a strong 97.2% yoy growth in its bottom-line, which was in-line with our estimate. The robust performance was on account of a substantial 20.2% yoy growth (up 1.9% sequentially) in blended realization. However, the company faced margin pressures due to the increase in raw material and freight costs. **We remain Neutral on the stock.**

OPM up by 551bp yoy: During 2QFY2013, ULTC's net sales grew by 20.2% yoy to ₹4,700cr, largely on account of better realization. The company's realization rose 20.2% yoy and 1.9% qoq to ₹5,005/tonne. The improvement in realization led the OPM to rise by 551bp yoy to 21.9%. The company's operating cost per tonne too rose by 10.9% yoy and 7.4% qoq to ₹3,932/tonne. The raw material cost per tonne rose by 22.1% yoy and 9.1% qoq to ₹763. The freight cost per tonne rose by 24.2% yoy due to increase in diesel costs and hike in railway fare. The power and fuel (P&F) cost per tonne too rose by 12.5% on a yoy basis. The steep decline in INR vs USD partly negated the fall in global coal prices, resulting in higher power and fuel costs.

Outlook and valuation: We expect ULTC to post a 14.6% and 16.6% CAGR in its top-line and bottom-line over FY2012-14, respectively. At the current levels, the stock is trading at an EV/tonne of US\$178 on FY2014 capacity, which we believe is fair. **We continue to remain Neutral on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	13,210	18,166	21,197	23,850
% chg	87.4	37.5	16.7	12.5
Net profit	1,404	2,446	2,838	3,327
% chg	28.4	74.2	16.0	17.2
FDEPS (₹)	51.2	89.3	103.5	121.4
OPM (%)	20.5	22.8	22.5	23.5
P/E (x)	39.4	22.6	19.5	16.6
P/BV (x)	5.2	4.3	3.6	3.1
RoE (%)	18.4	20.8	20.2	20.1
RoCE (%)	16.4	18.3	18.8	19.4
EV/Sales (x)	4.3	3.0	2.6	2.4
EV/Tonne (US \$)	245	223	201	178
EV/EBITDA (x)	20.9	13.3	11.3	10.1

Source: Company, Angel research

NEUTRAL

CMP	₹2,021
Target Price	-

Investment Period	-
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Stock Info	
Sector	Cement
Market Cap (₹ cr)	55,382
Net Debt	494
Beta	0.6
52 Week High / Low	2075/1057
Avg. Daily Volume	11,233
Face Value (₹)	10
BSE Sensex	18,710
Nifty	5,691
Reuters Code	ULTC.BO
Bloomberg Code	UTCEM@IN

Shareholding Pattern (%)	
Promoters	62.8
MF / Banks / Indian Fls	4.3
FII / NRIs / OCBs	20.4
Indian Public / Others	12.5

Abs. (%)	3m	1yr	3yr
Sensex	10.9	11.5	11.3
UTCEM	26.6	80.9	161.4

V Srinivasan

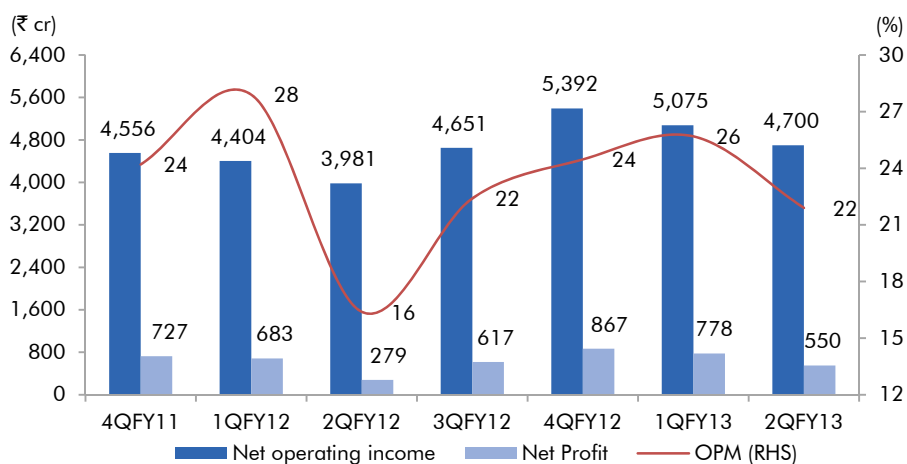
022-39357800 Ext 6831

v.srinivasan@angelbroking.com

Exhibit 1: 2QFY2013 performance (Standalone)

Y/E March (₹ cr)	2QFY2013	1QFY2013	% Chg qoq	2QFY2012	% Chg yoy	1HFY2013	1HFY2012	% Chg
Net Sales	4,700	5,075	(7.4)	3,910	20.2	9,771	8,259	18.3
Other operating Income	28	16	73.0	71	(60.7)	44	81	(45.9)
Total Operating Income	4,727	5,091	(7.1)	3,981	18.8	9,815	8,340	17.7
Net raw-material costs	652	744	(12.4)	667	(2.3)	1,396	1,176	18.7
(% of sales)	13.9	14.7		17.1		14.3	14.2	
Power & fuel	1,074	1,086	(1.1)	955	12.5	2,160	1,996	8.2
(% of sales)	22.9	21.4		24.4		22.1	24.2	
Staff costs	239	224	7.1	206	16.3	463	389	18.9
(% of sales)	5.1	4.8		4.4		9.9	8.3	
Freight & forwarding	929	1,036	(10.3)	748	24.2	1,966	1,706	15.2
(% of sales)	19.8	22.1		15.9		41.8	36.3	
Other expenses	798	693	15.2	753	6.0	1,487	1,220	21.9
(% of sales)	17.0	14.7		16.0		31.6	26.0	
Total Expenditure	3,692	3,783	(2.4)	3,328	10.9	7,472	6,487	15.2
Operating Profit	1,035	1,308	(20.8)	652	58.7	2,343	1,853	26.4
OPM (%)	21.9	25.7	(379)	16.4	551	23.9	22.2	
Interest	60	50	20.5	67	(10.7)	110	137	(20.0)
Depreciation	232	228	1.9	223	4.4	461	446	3.3
Other Income	41	69	(40.9)	33	24.9	109	83	31.5
PBT (excl. Extr. Items)	783	1,099	(28.7)	395		1,882	1,353	39.1
PBT	783	1,099	(28.7)	395	98.3	1,882	1,353	39.1
Provision for Taxation	233	320	(27.2)	116	100.8	554	391	41.5
(% of PBT)	29.8	29.2		29.4		29.4	28.9	
Reported PAT	550	778	(29.3)	279	97.2	1,328	962	38.1
PATM (%)	11.7	15.3		7.1		13.6	11.6	
EPS (₹)	20.1	28.4	(29.3)	10.2	97.2	48.5	35.1	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

Exhibit 3: 2QFY2013 Actual vs Angel Estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	4,700	4,650	1.1
Operating profit	1,035	1,022	1.3
Net profit	550	558	(1.4)

Source: Company, Angel Research

Performance highlights
Net sales up 20.2% yoy, aided by higher realization

During 2QFY2013, ULTC's net sales rose by 20.2% yoy on account of higher realization. During the quarter, the realization improved by 20.2% yoy to ₹5,005/tonne. The company's domestic volumes (including clinker and white cement) stood at 9.3mn tonne, up 1.6% yoy, in 2QFY2013. Even on a qoq basis the realization was higher by 1.9% as delayed monsoon resulted in prices remaining healthy in this seasonally weak quarter. Cement prices rose in the month of July before witnessing a decline in the month of August and September.

OPM increases despite steep increase in costs

Despite the increase in costs, the OPM rose by 551bp yoy to 21.9%. The company's operating cost per tonne too rose by 10.9% yoy and 7.4% qoq to ₹3,932/tonne. The raw material cost per tonne rose by 22.1% yoy and 9.1% qoq to ₹763. The freight costs per tonne rose by 24.2% yoy due to increase in diesel costs and hike in railway fare. The power and fuel costs per tonne too rose by 12.5% on a yoy basis. The steep decline in INR vs USD partly negated the fall in global coal prices, resulting in higher power and fuel costs.

Per tonne analysis

During 2QFY2013, ULTC's realization per tonne rose by 20.2% yoy to ₹5,005. The raw-material cost per tonne increased by 22.1% yoy. The power and fuel cost per tonne increased by 12.5% on a yoy basis. The freight cost/per tonne rose by 24.2% yoy. The company's operating profit/tonne increased by 73.2% yoy to ₹1,073 during the quarter.

Exhibit 4: Operational performance

Particulars (₹)	2QFY2013	1QFY2013	2QFY2012	chg (%) yoy	chg (%) qoq
Realization/tonne	5,005	4,913	4,164	20.2	1.9
Raw-material cost/tonne	763	700	625	22.1	9.1
P&F cost /tonne	1,144	1,051	1,017	12.5	8.8
Freight cost/tonne	990	1,003	797	24.2	(1.4)
Other costs	849	670	801	6.0	26.7
Operating costs	3,932	3,662	3,544	10.9	7.4
Operating profit/tonne	1,073	1,250	619	73.2	(14.2)

Source: Company, Angel Research

Investment arguments

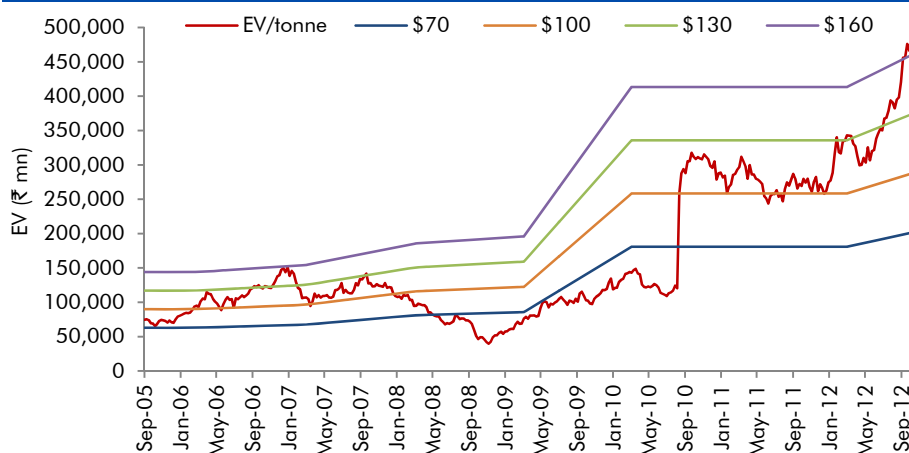
India's largest cement manufacturer: Post the merger of *Samruddhi* (erstwhile cement division of *Grasim*) with itself, ULTC is now India's largest cement player with a pan-India presence. The company has also acquired a controlling stake in Dubai-based *ETA Star*. *ETA Star*'s manufacturing facilities include a 2.3mtpa clinkerization plant and a 2.1mtpa grinding capacity in UAE, and 0.4mtpa and 0.5mtpa grinding facilities in Bahrain and Bangladesh, respectively. ULTC has a capital outlay of ₹10,400cr to be spent over setting up additional clinkerization plants at Chattisgarh and Karnataka along with grinding units and bulk packaging terminals across various states. Post these expansions, the company's total capacity is expected to increase by 10.2mtpa, which is expected to be operational by FY2014.

Pan-India presence to insulate ULTC from price volatility: ULTC has been enjoying good brand equity, which has only strengthened post *Samruddhi*'s merger along with being insulated from the wide variations in regional demand and price volatility. Post the merger, ULTC has been enjoying synergic benefits by way of superior operating efficiencies due to its large size.

Increased use of captive power to protect margins: Currently, ULTC has 504MW of power capacity. The company is planning to expand its capacity by 70MW. Increased use of captive power for its overall power requirements would help the company to maintain healthy operating margins.

Outlook and valuation: We expect ULTC to post a 14.6% and 16.6% CAGR in its top-line and bottom-line over FY2012-14, respectively. At current levels, the stock is trading at EV/tonne of US\$178 on FY2014 capacity, which we believe is fair. **We continue to remain Neutral on the stock.**

Exhibit 5: One-year forward EV/Tonne



Source: BSE, Company, Angel Research

Exhibit 6: Recommendation summary

Company	Reco	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2014E P/BV (x)	FY2014E P/E (x)	FY2012-14E EPS CAGR	FY2014E RoE (%)	EV/tonne [^] US \$
ACC*	Neutral	1,404	-	-	3.1	16.9	8.5	19.2	136
Ambuja Cements*	Neutral	203	-	-	3.5	15.7	25.7	21.1	184
India Cements	Neutral	98	-	-	0.8	8.0	12.8	10.2	63
JK Lakshmi	Neutral	126	-	-	1.0	7.1	41.7	14.6	50
Madras Cement	Neutral	187	-	-	1.6	10.2	6.2	17.0	65
Shree Cements	Neutral	4,124	-	-	3.4	15.8	20.0	23.6	138
UltraTech Cements	Neutral	2,021	-	-	3.1	16.6	16.6	20.1	204

Source: Company, Angel Research; Note: *Y/E December; ^ Computed on TTM basis

Company Background

UltraTech (ULTC) became India's largest cement player on a standalone basis, with total capacity of 48.8mtpa, post the merger of Samruddhi (erstwhile cement division of Grasim) with itself in 2010. ULTC also acquired a controlling stake in Dubai-based ETA Star (cement capacities of 3mtpa in the Middle East and Bangladesh) in 2010, which took its consolidated total capacity to 51.8mtpa. ULTC is a pan-India player, with 22 cement plants spread across the country. Of its total capacity, the southern, western and northern regions constitute the maximum share (26%, 26% and 23%, respectively), as against 14% by the eastern and northeastern region and 11% by the central region.

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net Sales	6,383	7,050	13,210	18,166	21,197	23,850
Other operating income	61	67	164	147	171	193
Total operating income	6,444	7,116	13,374	18,313	21,368	24,043
% chg	15.7	10.4	87.9	36.9	16.7	12.5
Total Expenditure	4,679	5,079	10,668	14,166	16,592	18,436
Net Raw Materials	607	1,023	1,855	2,576	2,914	3,272
Other Mfg costs	1,727	1,431	3,123	4,304	4,584	4,960
Personnel	218	251	667	831	997	1,087
Other	2,127	2,375	5,023	6,454	8,097	9,117
EBITDA	1,765	2,038	2,707	4,147	4,776	5,607
% chg	(1.0)	15.5	32.8	53.2	15.2	17.4
(% of net Sales)	28	29	20.5	22.8	22.5	23.5
Depreciation & Amortization	323	388	766	903	957	1,086
EBIT	1,442	1,650	1,941	3,245	3,820	4,521
% chg	(6.7)	14.4	17.7	67.2	17.7	18.4
(% of net Sales)	22.6	23.4	14.7	17.9	18.0	19.0
Interest & other Charges	126	118	277	224	219	232
Other Income	45	56	122	372	335	325
(% of PBT)	3	4	7	11	9	7
Recurring PBT	1,362	1,588	1,786	3,393	3,936	4,614
% chg	(9.6)	16.7	12.5	90.0	16.0	17.2
Extraordinary expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	1,362	1,588	1,786	3,393	3,936	4,614
Tax	384.4	494.9	382.0	946.7	1,098.2	1,287.4
(% of PBT)	28	31	21	28	28	28
PAT (reported)	977	1,093	1,404	2,446	2,838	3,327
Adjusted PAT	977	1,093	1,404	2,446	2,838	3,327
% chg	(3.0)	11.9	28.4	74.2	16.0	17.2
(% of Net Sales)	15.3	15.5	10.6	13.5	13.4	13.9
Basic EPS (₹)	78	88	51	89	104	121
Fully Diluted EPS (₹)	78	88	51	89	104	121
% chg	(3.0)	11.9	(41.7)	74.2	16.0	17.2

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Balance sheet (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity share capital	124	124	274	274	274	274
Reserves & surplus	3,478	4,484	10,392	12,586	14,929	17,676
Shareholders' funds	3,602	4,609	10,666	12,860	15,203	17,950
Total loans	2,142	1,605	4,125	4,119	4,579	5,039
Deferred tax liability	723	831	1,730	1,738	1,738	1,738
Other Long term liabilities	-	-	22	35	35	35
Long term provisions	-	-	112	121	121	121
Total Liabilities	6,467	7,044	16,655	18,873	21,676	24,882
APPLICATION OF FUNDS						
Gross block	7,401	8,078	17,942	19,014	21,514	27,514
Less: acc. depreciation	2,765	3,136	6,542	7,380	8,336	9,422
Net Block	4,636	4,942	11,401	11,634	13,177	18,092
Capital work-in-progress	677	259	682	1,897	4,897	1,897
Goodwill	-	-	-	-	-	-
Investments	1,035	1,670	3,730	3,789	2,489	3,589
Long term loans and adv.	-	-	562	1,462	1,462	1,462
Current Assets	1,372	1,472	3,619	4,161	4,472	5,275
Cash	104	84	145	188	194	254
Loans & advances	382	351	904	1,164	909	1,262
Other	886	1,038	2,570	2,809	3,369	3,758
Current liabilities	1,253	1,299	3,339	4,071	4,821	5,432
Net Current Assets	119	173	280	90	(349)	(157)
Misc. exp. not written off	-	-	-	-	-	-
Total Assets	6,467	7,044	16,655	18,873	21,676	24,882

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	1,362	1,588	1,786	3,393	3,936	4,614
Depreciation	323	388	766	903	957	1,086
Change in Working Capital	(113)	(90)	(93)	(541)	445	(132)
Add: Interest expenses	126	118	277	224	219	232
Less: Other income	45	56	122	372	335	325
Direct taxes paid	210	389	519	947	1,098	1,287
Cash Flow from Operations	1,442	1,559	2,095	2,659	4,124	4,187
(Inc.)/ Dec. in Fixed Assets	(823)	(259)	(1,223)	(2,286)	(5,500)	(3,000)
(Inc.)/ Dec. in Investments	(864)	(635)	(542)	(58)	1,300	(1,100)
Other income	45	56	122	372	335	325
Cash Flow from Investing	(1,641)	(838)	(1,642)	(1,973)	(3,865)	(3,775)
Issue of Equity	-	-	1	0	-	-
Inc./(Dec.) in loans	401	(537)	(1)	8	460	460
Dividend Paid (Incl. Tax)	73	87	141	426	495	580
Others	126	118	252	224	219	232
Cash Flow from Financing	203	(742)	(392)	(643)	(254)	(352)
Inc./(Dec.) in Cash	4	(21)	61	44	5	61
Opening Cash balances	101	104	84	145	188	194
Closing Cash balances	104	84	145	188	194	254

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	25.7	23.0	39.4	22.6	19.5	16.6
P/CEPS	19.3	17.0	25.5	16.5	14.6	12.5
P/BV	7.0	5.5	5.2	4.3	3.6	3.1
Dividend yield (%)	0.3	0.3	0.3	0.8	0.9	1.0
EV/Sales	4.1	3.6	4.3	3.0	2.6	2.4
EV/EBITDA	14.8	12.6	20.9	13.3	11.3	10.1
EV / Total Assets	4.1	3.6	3.4	2.9	2.5	2.3
Per Share Data (₹)						
EPS (Basic)	78.5	87.8	51.2	89.3	103.5	121.4
EPS (fully diluted)	78.5	87.8	51.2	89.3	103.5	121.4
Cash EPS	104.4	119.0	79.2	122.2	138.4	161.0
DPS	5.8	7.0	5.1	15.6	18.1	21.2
Book Value	289.3	370.2	389.2	469.2	554.7	654.9
Dupont Analysis						
EBIT margin	22.4	23.2	14.5	17.7	17.9	18.8
Tax retention ratio	71.8	68.8	78.6	72.1	72.1	72.1
Asset turnover (x)	1.1	1.1	1.1	1.0	1.1	1.0
ROIC (Post-tax)	18.4	17.0	13.0	13.3	13.7	14.1
Cost of Debt (Post Tax)	4.6	4.3	7.6	3.9	3.6	3.5
Leverage (x)	0.6	0.5	0.4	0.4	0.3	0.3
Operating ROE	26.9	22.9	15.0	16.6	16.8	17.2
Returns (%)						
ROCE (Pre-tax)	25.2	24.4	16.4	18.3	18.8	19.4
Angel ROIC (Pre-tax)	34.8	26.6	17.2	19.9	22.9	23.0
ROE	31.0	26.6	18.4	20.8	20.2	20.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.0	0.9	1.0	1.0	1.1	1.0
Inventory / Sales (days)	37	39	38	40	38	40
Receivables (days)	12	11	11	14	14	14
Payables (days)	99	92	79	95	98	101
WC cycle (ex-cash) (days)	(2)	3	3	0	(5)	(7)
Solvency ratios (x)						
Net debt to equity	0.3	(0.0)	0.0	0.0	0.1	0.1
Net debt to EBITDA	0.6	(0.1)	0.1	0.0	0.4	0.2
Interest Coverage (EBIT / Int.)	11.5	14.0	7.0	14.5	17.4	19.5

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement	UltraTech Cement
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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