

ULTRATECH CEMENT

Realisations surprise

India Equity Research | Cement



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UltraTech Cement's EBITDA/t at INR1,099 was higher than our estimate of INR852 led by 2.9% QoQ increase in realisations vs our expectation of a decline. The unexpected 9.6% QoQ increase in the power and fuel cost/t was offset by lower than expected freight and other expenditure. EBITDA at INR10.3bn was up 59% YoY while PAT at INR5.5bn surged 97% YoY. Factoring the performance in H1FY13 besides an improving cement price outlook, we are revising up our EBITDA estimates by 32% for FY13 and 33% for FY14. We are also introducing FY15 EBITDA estimates assuming 25% YoY growth. With the improving sector outlook and robust volume growth, we value the stock at 9x FY15E EV/EBITDA (vs 8x earlier) yielding us a TP of INR2,426 (INR1,403 earlier). With 20% upside potential, we upgrade our recommendation on the stock to 'BUY' from 'HOLD' earlier.

Realisation surge drives EBITDA higher

Realisations increased 2.9% QoQ while cement sales volume at 9.1mt were in line. Clinker sales at 230kt and revenue of the white cement segment at INR3.2bn were above our expectation of 150kt and INR2.8bn, respectively. Power and fuel cost/t increased by 9.6% QoQ, but its impact was offset by lower than expected freight cost (which stood flat QoQ) and lower than expected other expenditure. As a result, blended EBITDA/t at INR1,099 beat our expectation of INR852.

10mtpa capacity expansion on track to commission in Q1FY14

We estimate cement sales to outperform the industry by growing 15% each in FY14 and FY15 (implying 30% utilisation of new capacity in FY14 and 65% in FY15).

Outlook and valuations: Volume kicker; Upgrade to 'BUY'

Due to improving cement price outlook, we are revising up our FY13 and FY14 EBITDA/t estimates by 21% and 25% respectively. We are also introducing our FY15 EBITDA/t estimate with 7% YoY growth. While RoE is likely to stabilise in the 20-21% range over FY13-15E, we expect earnings growth to be higher than ACC and Ambuja Cement with benefits of capacity expansion. We value the stock at 9x FY15E EV/EBITDA yielding a price target of INR2,426/share. With 20% upside potential, we upgrade our recommendation/rating on the stock to 'BUY/Sector Out Performer' from 'HOLD/Sector Performer'.

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: ULTC.BO, B: UTCEM IN)

CMP	: INR 2,035
Target Price	: INR 2,426
52-week range (INR)	: 2,075 / 1,094
Share in issue (mn)	: 274.1
M cap (INR bn/USD mn)	: 558/ 10,332
Avg. Daily Vol.BSE/NSE('000)	: 175.4

SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters*	62.8	63.3	63.3
MF's, FI's & BK's	4.3	4.7	5.4
FII's	20.1	19.2	17.7
Others	12.8	12.7	13.5
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	9.8	(0.0)	12.3
3 months	26.4	11.2	25.6
12 months	80.0	12.7	58.9

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Financials

Year to March	Q2FY13	Q2FY12	% change	Q1FY13	% change	FY12	FY13E	FY14E
Net rev. (INR mn)	47,274	39,806	18.8	50,909	(7.1)	183,131	216,731	254,371
EBITDA (INR mn)	10,352	6,525	58.7	13,079	(20.8)	41,474	52,167	61,033
Net profit (INR mn)	5,500	2,789	97.2	7,784	(29.3)	24,462	30,913	34,850
Diluted EPS (INR)	20.1	10.2	97.2	28.4	(29.3)	89.3	112.8	127.2
Diluted P/E (x)						16.4	18.0	16.0
EV/EBITDA (x)						9.7	10.7	9.0
ROAE (%)						20.8	21.7	20.2

Table 1: Volume break-up

Volumes (mn tonnes)	Q2FY13	Q1FY13	% change	Q2FY12	% change
Domestic cement & clinker (a)	9.06	9.93	(8.8)	8.94	1.3
Cement exports (b)	0.00	0.20		0.18	
Total cement volumes (a) + (b) = (c)	9.06	10.13	(10.6)	9.12	(0.7)
Clinker exports (d)	0.23	0.18	27.8	0.14	65.5
White cement (e)	0.13	0.13	(1.5)	0.13	(2.2)
Total volumes (c) + (d) + (e)	9.42	10.44	(9.8)	9.40	0.3
White cem + putty (f)	0.24	0.23	6.2	0.22	9.1
Only white cem (g)	0.13	0.13	(1.5)	0.13	(2.2)
Only putty (f) - (g)	0.11	0.09	17.4	0.09	27.1

Source: Company, Edelweiss research

Table 2: Blended EBITDA per tonne up 58% YoY

(INR/tonne)	Q2FY13	Q2FY12	% change	Q1FY13	% change
Realisation	5,018	4,237	18.4	4,875	2.9
Raw material	692	710	(2.5)	713	(2.9)
Power	1,140	1,016	12.2	1,040	9.6
Freight	986	796	23.9	992	(0.6)
Staff	254	219	16.0	214	18.7
Others	847	801	5.7	663	27.7
Cost	3,919	3,542	10.6	3,623	8.2
EBITDA	1,099	694	58.2	1,252	(12.3)

Source: Company, Edelweiss research

Financial snapshot
(INR mn)

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Total vol (Cement + clinker + white cement)	9.4	9.4	0.3	10.4	(9.8)	41.3	43.1	48.8
Realisation (inr/tonne)	5,018	4,237	18.4	4,875	2.9	3,426	3,732	3,479
Total operating income	47,274	39,806	18.8	50,909	(7.1)	183,131	216,731	254,371
Raw material costs	6,518	6,669	(2.3)	7,444	(12.4)	25,763	30,618	36,288
Power and fuel	10,741	9,549	12.5	10,862	(1.1)	43,040	46,336	52,822
Freight outward	9,292	7,480	24.2	10,363	(10.3)	37,350	45,085	55,046
Staff costs	2,395	2,058	16.3	2,236	7.1	8,310	9,716	11,659
Other expenses	7,975	7,525	6.0	6,925	15.2	27,194	32,810	37,524
Total expenditure	36,922	33,281	10.9	37,830	(2.4)	141,657	164,564	193,339
EBITDA	10,352	6,525	58.7	13,079	(20.8)	41,474	52,167	61,033
Depreciation	2,325	2,228	4.4	2,281	1.9	9,026	9,255	12,479
Other income	406	325	24.9	688	(40.9)	3,719	3,571	3,601
Interest	600	672	(10.7)	498	20.5	2,239	2,478	2,369
Profit before tax	7,834	3,951	98.3	10,987	(28.7)	33,929	44,005	49,785
Tax	2,334	1,162	100.8	3,203	(27.2)	9,467	13,092	14,936
Core profit	5,500	2,789	97.2	7,784	(29.3)	24,462	30,913	34,850
Net profit	5,500	2,789	97.2	7,784	(29.3)	24,462	30,913	34,850
Equity capital (FV INR 10)	2,741	2,740		2,741		2,740	2,741	2,741
No. of shares (mn)	274	274		274		274	274	274
Diluted EPS (INR)	20.1	10.2	97.2	28.4	(29.3)	89.3	112.8	127.2
Market cap / rev. (x)	-	-		-		2.2	2.6	2.2
Raw material	13.8	16.8		14.6		14.1	14.1	14.3
Employee cost	5.1	5.2		4.4		4.5	4.5	4.6
Power & fuel	22.7	24.0		21.3		23.5	21.4	20.8
Freight outward (% of revenue)	19.7	18.8		20.4		20.4	20.8	21.6
Other expenses	16.9	18.9		13.6		14.8	15.1	14.8
EBITDA	21.9	16.4		25.7		22.6	24.1	24.0
Reported net profit	11.6	7.0		15.3		13.4	14.3	13.7

Change in estimates

	FY13E			FY14E			Comments
	New	Old	% change	New	Old	% change	
Revenue (INR mn)	216,731	210,914	2.8	254,371	246,159	3.3	Due to improving cement price outlook, we are revising up our FY13 and FY14 EBITDA/t estimates by 21% and 25% respectively.
EBITDA (INR mn)	52,167	44,112	18.3	61,033	50,914	19.9	
EBITDA margin (%)	24.1	20.9		24.0	20.7		
Net profit (INR mn)	30,913	23,466	31.7	34,850	26,156	33.2	
PAT margin (%)	14.3	11.1		13.7	10.6		

Company Description

UTCL, post the merger with Samruddhi Cement (demerged cement arm of Grasim Industries), has a combined cement capacity of 52 mtpa, 500 MW thermal captive power plants (that meets ~80% of requirement) with pan-India presence aggregating to market share of ~19%. Grasim, the flagship company of the AV Birla Group, is a majority shareholder in UTCL with 60.3% ownership.

Investment theme

We are turning positive on the stock due to expected gradual improvement in industry capacity utilisation from 78% in FY12 to 81% in FY15. Capacity utilisation in north is seen improving from 84% to over 92% in the same period. With improving outlook for cement prices and expected moderation in cost escalations, we estimate EBITDA/t to see steady improvement going ahead.

Key risk

Prices remain firm with no major corrections due to production discipline.

Sharp decline in power and fuel cost.

Financial Statements

Key Assumptions

Year to March		FY11	FY12	FY13E	FY14E	FY15E
Macro -	GDP(Y-o-Y %)	8.4	6.5	6.4	7.0	7.0
	Inflation (Avg)	9.9	8.8	7.0	6.0	6.0
	Repo rate (exit rate)	6.8	8.5	7.3	6.8	6.0
	USD/INR (Avg)	45.6	47.9	53.5	52.0	50.0
Sector -	All India cement demand (mn)	207	221	241	263	284
	Industry volume growth (%)	5.6	6.6	7.6	9.1	9.1
	Industry capacity utilisation (%)	79.2	77.0	77.7	77.0	81.0
	All India average price (INR/50)	244.0	266.0	305.7	322.0	337.7
Company -	Blended volumes (mn tonnes)	35	41	43	49	56
	Blended realisations(INR/tonne)	4,212.0	4,430.2	5,029.5	5,217.1	5,386.6
	Blended EBITDA/tonne (INR)	720.7	1,003.3	1,210.6	1,251.8	1,343.1

Income statement

(INR mn)

Year to March	FY11	FY12	FY13E	FY14E	FY15E
Income from operations	132,099	183,131	216,731	254,371	301,077
Materials costs	18,552	25,372	30,618	36,288	43,279
Employee costs	6,665	8,310	9,716	11,659	13,058
Total SG&A expenses	35,410	42,391	32,810	37,524	41,664
Total operating expenses	106,676	141,657	164,564	193,339	226,004
EBITDA	25,424	41,474	52,167	61,033	75,073
Depreciation & Amortization	7,657	9,026	9,255	12,479	14,675
EBIT	17,766	32,449	42,911	48,554	60,397
Other income	2,867	3,719	3,571	3,601	5,049
Interest expenses	2,771	2,239	2,478	2,369	3,049
Profit before tax	17,862	33,929	44,005	49,785	62,398
Provision for tax	5,075	9,567	13,092	14,936	18,719
Net profit	12,787	24,362	30,913	34,850	43,678
Profit After Tax	14,042	24,462	30,913	34,850	43,678
Profit after minority interest	14,042	24,462	30,913	34,850	43,678
Basic EPS (INR)	46.7	88.9	112.8	127.2	159.4
Shares outstanding (mn)	274	274	274	274	274
Diluted EPS (INR)	46.7	88.9	112.8	127.2	159.4
CEPS (INR)	74.6	121.8	146.6	172.7	212.9
Dividend per share (INR)	6.0	8.0	8.5	9.0	10.0
Dividend payout (%)	11.7	9.0	7.5	7.1	6.3

Common size metrics - as % of net revenues

Year to March	FY11	FY12	FY13E	FY14E	FY15E
Operating expenses	80.8	77.4	75.9	76.0	75.1
EBITDA margins	19.2	22.6	24.1	24.0	24.9
Net profit margins	9.7	13.3	14.3	13.7	14.5

Growth ratios (%)

Year to March	FY11	FY12	FY13E	FY14E	FY15E
Rev. growth (%)	87.4	38.6	18.3	17.4	18.4
EPS growth (%)	(46.9)	90.5	26.9	12.7	25.3

Balance sheet					(INR mn)
As on 31st March	FY11	FY12	FY13E	FY14E	FY15E
Equity capital	2,788	2,740	2,741	2,741	2,741
Reserves & surplus	103,872	125,858	154,045	186,009	226,481
Shareholders funds	106,660	128,598	156,786	188,750	229,221
Secured loans	27,898	20,121	20,121	20,121	20,121
Unsecured loans	13,548	17,996	17,996	17,996	17,996
Borrowings	41,446	38,117	38,117	38,117	38,117
Deferred tax (net)	17,301	17,378	17,378	17,378	17,378
Sources of funds	165,407	184,093	212,280	244,244	284,716
Gross block	179,423	189,258	209,980	281,470	296,470
Depreciation	65,420	73,286	82,541	95,020	109,695
Net block	114,003	115,972	127,439	186,450	186,775
Capital work in progress	11,053	31,637	50,915	14,425	14,425
Intangible assets	-	369	369	369	369
Investments	37,303	37,888	27,888	27,888	27,888
Inventories	19,565	20,359	22,631	23,678	26,205
Sundry debtors	6,023	7,660	8,462	9,781	11,835
Cash and equivalents	1,448	1,882	7,523	16,722	53,740
Loans and advances	10,539	13,590	13,590	13,590	13,590
Other current assets	12	75	-	-	-
Total current assets	37,587	43,566	52,205	63,770	105,370
Sundry creditors and others	28,804	37,132	38,329	40,450	41,903
Provisions	5,735	8,207	8,207	8,207	8,207
Total current liabilities & provisions	34,539	45,340	46,536	48,658	50,110
Net current assets	3,048	(1,774)	5,669	15,112	55,259
Uses of funds	165,407	184,093	212,280	244,244	284,716
Book value per share (INR)	389.2	469.2	572.1	688.7	836.4

Free cash flow					(INR mn)
Year to March	FY11	FY12	FY13E	FY14E	FY15E
Net profit	14,042	24,462	30,913	34,850	43,678
Depreciation	7,657	9,026	9,255	12,479	14,675
Others	(233)	(4,309)	-	-	-
Gross cash flow	21,467	29,178	40,168	47,329	58,354
Less: Changes in WC	724	(5,256)	1,802	244	3,129
Operating cash flow	20,743	34,434	38,366	47,085	55,224
Less: Capex	80,703	31,579	40,000	35,000	15,000
Free cash flow	(59,960)	2,855	(1,634)	12,085	40,224

Cash flow metrics					
Year to March	FY11	FY12	FY13E	FY14E	FY15E
Operating cash flow	20,743	34,434	38,366	47,085	55,224
Investing cash flow	(16,489)	(29,260)	(30,000)	(35,000)	(15,000)
Financing cash flow	(4,309)	(4,740)	(2,725)	(2,886)	(3,207)
Net cash flow	(55)	434	5,641	9,199	37,018
Capex	(12,169)	(31,433)	(40,000)	(35,000)	(15,000)
Dividends paid	(1,405)	(1,911)	(2,726)	(2,886)	(3,207)

Profitability & efficiency ratios

Year to March	FY11	FY12	FY13E	FY14E	FY15E
ROAE (%)	16.7	20.9	21.7	20.2	20.9
ROACE (%)	19.5	23.7	26.0	24.2	25.5
Inventory day	83	88	64	59	53
Debtors days	11	14	14	13	13
Payable days	120	145	113	100	88
Cash conversion cycle (days)	(26)	(44)	(35)	(28)	(21)
Current ratio	1.1	1.0	1.1	1.3	2.1
Debt/EBITDA	1.6	0.9	0.7	0.6	0.5
Debt/Equity	0.4	0.3	0.2	0.2	0.2
Adjusted debt/equity	0.4	0.3	0.2	0.2	0.2
Interest coverage	6.4	14.5	17.3	20.5	19.8

Operating ratios

Year to March	FY11	FY12	FY13E	FY14E	FY15E
Total asset turnover	1.1	1.0	1.1	1.1	1.1
Fixed asset turnover	1.6	1.6	1.8	1.6	1.6
Equity turnover	1.7	1.6	1.5	1.5	1.4

Valuation parameters

Year to March	FY11	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	46.7	88.9	112.8	127.2	159.4
Y-o-Y growth (%)	(46.9)	90.5	26.9	12.7	25.3
Diluted PE (x)	43.6	22.9	18.0	16.0	12.8
Price/BV (x)	5.2	4.3	3.6	3.0	2.4
EV/tonne (USD/tonne)	197	195	197	162	151
EV/Sales (x)	4.2	3.0	2.6	2.2	1.7
EV/EBITDA (x)	22.0	13.4	10.7	9.0	6.9
EV/EBITDA (x)+1 yr forward	13.5	10.7	9.2	-	-
Dividend yield (%)	0.3	0.4	0.4	0.4	0.5
Market Capitalisation	557,741	557,828	557,828	557,828	557,828

Peer comparison valuation

	CMP (INR)	Market Cap (INR bn)	PE (x)		EV/EBITDA(x)		ROE(%)	
			2013E	2014E	2013E	2014E	2013E	2014E
ACC Ltd	1,415	266	18.4	16.0	10.7	9.0	19.4	20.3
Ambuja Cement	210	319	18.5	16.0	11.0	8.8	20.4	20.8
Ultratech Cement	2,035	558	18.0	16.0	10.7	9.0	21.7	20.2
Average			18.3	16.0	10.8	8.9	20.5	20.4

Source: Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ACC	REDUCE	SU	M	Ambuja Cement Ltd	REDUCE	SU	M
Grasim Industries	BUY	SO	M	India Cements	BUY	SO	H
Shree Cements	BUY	SO	M	UltraTech Cement	HOLD	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Cement

ACC, Ambuja Cement Ltd, Grasim Industries, India Cements, Shree Cements, UltraTech Cement

Recent Research

Date	Company	Title	Price (INR)	Recos
29-Oct-12	Ambuja Cements	Stellar performance; <i>Result Update</i>	210	Buy
29-Oct-12	ACC	Robust show in a seasonally weak quarter; <i>Result Update</i>	1,415	Buy
29-Oct-12	Grasim Industries	Cement atones for weakness in VSF; <i>Result Update</i>	3,381	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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