

RESULTS

REVIEW

UltraTech Cement Ltd.

Rich valuation overlooks strong performance

REDUCE

Analyst

Siddhant Kumar

+91-22-4322 1129

siddhant.kumar@idbicapital.com

Nifty: 5,598; Sensex: 18,431

CMP	Rs2,010
Target Price	Rs1,746
Potential Upside/Downside	(13)%

Key Stock Data

Sector	Cement
Bloomberg / Reuters	UTCEM IN/ULTC.BO
Shares o/s (mn)	274
Market cap. (Rs mn)	551,000
Market cap. (US\$ mn)	10,221
3-m daily average vol.	15,280

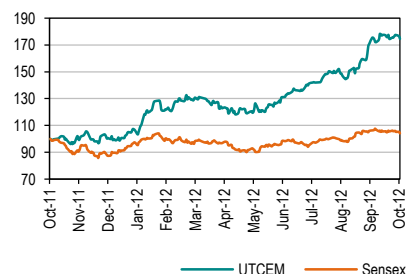
Price Performance

52-week high/low	Rs2,075/1,094		
	-1m	-3m	-12m
Absolute (%)	0	23	74
Rel to Sensex (%)	2	15	70

Shareholding Pattern (%)

Promoters	62.8
FII/IRIs/OCBs/GDR	22.9
MFs/Banks/FIs	4.3
Non Promoter Corporate	3.2
Public & Others	6.8

Relative to Sensex



Source: Capitaline

Summary

UltraTech delivered satisfactory performance in Q2FY13 driven by strong Net realization per tonne growth (up 18% YoY vs. IDBlest. of 14%). The company has benefitted the most from the sustained pricing environment despite headwinds to cement demand. Cost escalation continues with very little improvement on account of stable international coal prices. Freight costs continue to be inflationary with diesel price hike of Rs5/lt (and erstwhile Rail freight hike of ~20%). Factoring a stable pricing environment and escalating costs, we revise our FY12-14E EBITDA CAGR to ~17% (vs. 14% earlier) and PAT CAGR to ~9% (vs. 7% earlier). We retain our target EV/EBITDA multiple at 8.5x and our TP stands revised to Rs1,746. Downgrade to REDUCE.

Key Highlights

- Net realization per tonne surprises**
 Cement prices held ground over Q2FY13 due to weak monsoons. Net realization per tonne of Rs5,054/t was ahead of IDBlest. of Rs4,865/t and changed ~18%/1% YoY/QoQ. We revise our full-year estimate of growth in Net realization per tonne to 14.5% from 5% earlier given the sustainable pricing environment. We leave our FY14 assumption largely intact at 6%.
- Dispatch growth remains weak**
 The company has ~26% capacity exposure to the South and demand in the region remains largely sluggish (with AP being the drag). Total Cement (Grey, White, Putty) dispatch for the quarter stood at 9.3mn tonnes (vs. IDBlest. of 9.68mn tonnes) registering a weak growth of 1.5% YoY.
- Costs continue to escalate without relief from stable international coal prices**
 Freight cost per tonne stood 22% higher YoY and was affected by the recent diesel price hike of ~Rs5/litre (and erstwhile rail freight hike of ~20%). We expected some improvement in Q2FY13 in the Energy cost per tonne on account of stable international coal prices and Rupee appreciation but these costs were up 11%/8% YoY/QoQ.
- Revise FY13/FY14 estimates**
 Our FY13/FY14E Net sales, EBITDA, Adj. PAT numbers stand altered by 6.5%/5.3%, 14.4%/4.7% and 16.9%/3.8% respectively. We factor resilient cement prices over Q2FY13 and higher than anticipated cost push.
- Outlook and Valuation**
 Factoring the above, our EBITDA CAGR over FY12-14E stands changed to ~17% (vs. 14% previously). The stock currently trades at 10x FY14E EBITDA. We value the company at 8.5x FY14E EBITDA given the macro headwinds and the supply-demand mismatch. Downgrade to REDUCE.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	132,204	25,424	19.2	12,787	46.7	42.4	21.5	16.7	15.1
FY12	182,055	40,007	22.0	24,462	89.3	22.2	13.7	20.8	17.6
FY13E	213,462	50,876	23.8	28,106	102.6	19.3	10.8	19.9	18.7
FY14E	235,256	54,440	23.1	29,326	107.0	18.5	10.0	17.6	16.7

Source: Company; IDBI Capital Research

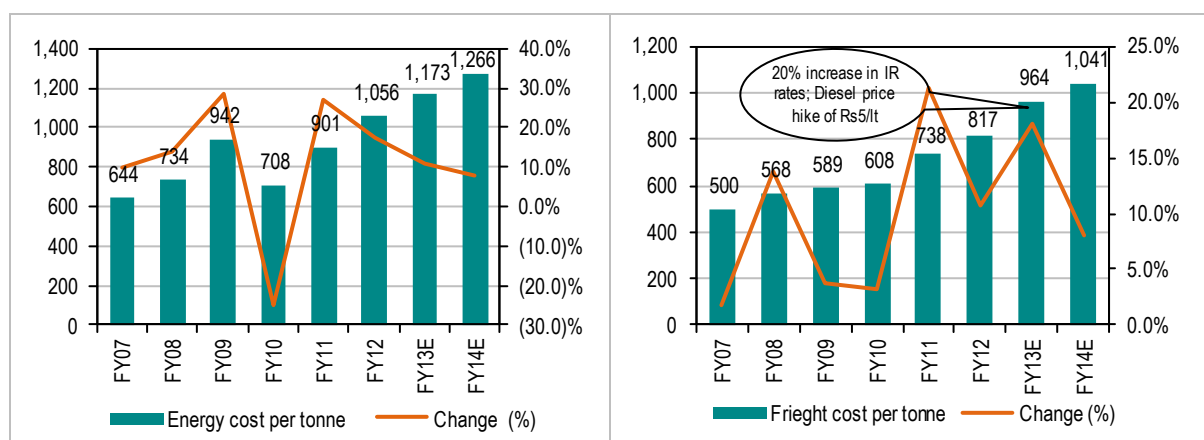
Table: Volumes and realization

(Rs per tonne)

	Q2FY12	Q1FY13	Q2FY13	YoY Chg	QoQ Chg
Sales (mn tonnes)	9.16	10.17	9.30	2%	(9)%
Cement & clinker	8.94	9.94	9.06	1%	(9)%
White cement and wall care putty	0.22	0.23	0.24	9%	6%
Net realization per tonne	4,269	4,992	5,054	18%	1%
Expenditure per tonne	3,634	3,722	3,971	9%	7%
Consumption of Raw Materials	679	676	641	(6)%	(5)%
Purchase of Traded Goods	49	56	60	23%	8%
Employees Cost	225	220	258	15%	17%
Power & Fuel	1,043	1,069	1,155	11%	8%
Freight & Handling Expenses	817	1,020	999	22%	(2)%
Other Expenditure	822	681	858	4%	26%
EBITDA per tonne	635	1,271	1,083	71%	(15)%

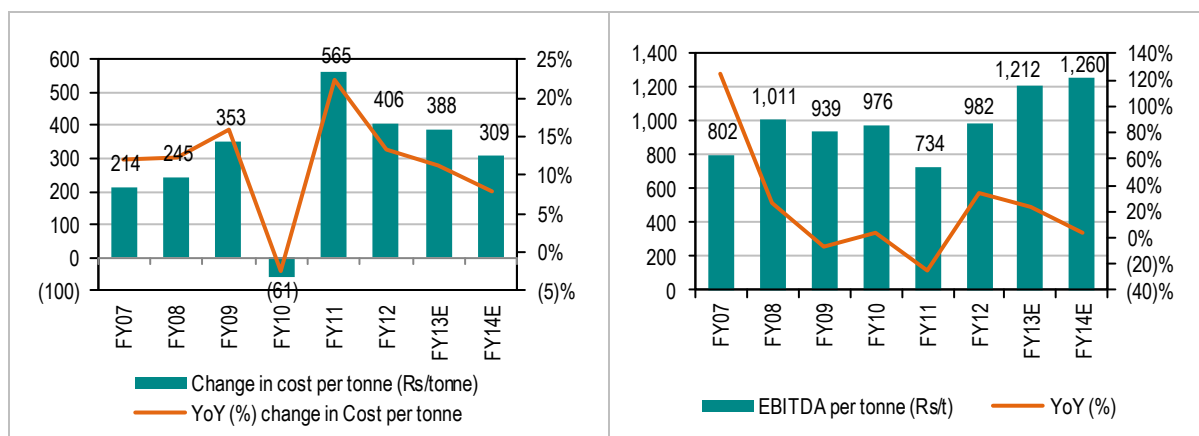
Source: Company; IDBI Capital Research

Figure: Energy and Freight cost per tonne



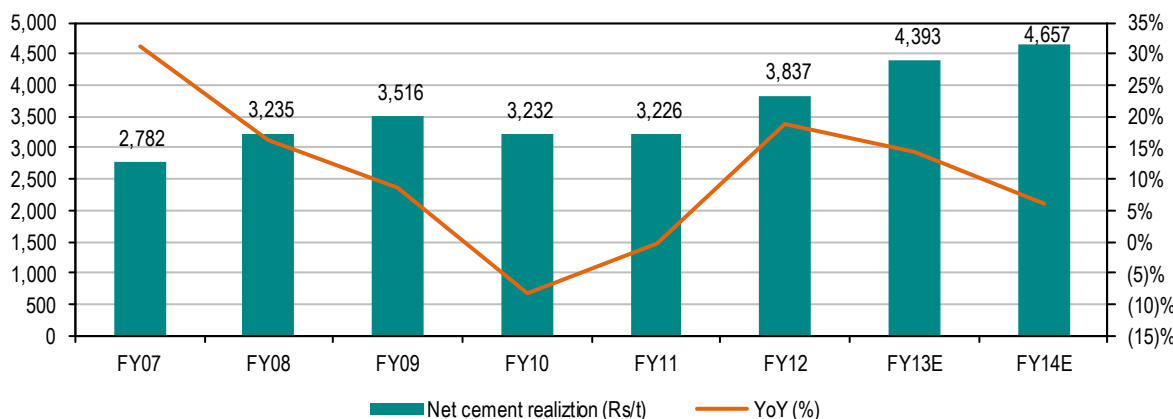
Source: Company; IDBI Capital Research

Figure: Change in Cost and EBITDA per tonne



Source: Company; IDBI Capital Research

Figure: Net realization per tonne



Source: Company; IDBI Capital Research

Company Background

UltraTech is the largest cement producer under a single parentage in India. With an annual capacity of ~52mtpa, it produces and markets Ordinary Portland cement, Portland Blast Furnace Slag cement, Portland Pozzolana cement, Ready Mix Concrete, White cement and Wall care putty. The Company has 11 integrated plants, 1 white cement plant, one clinkerisation plant in UAE, 15 grinding units – 11 in India, 2 in UAE, 1 each in Bahrain and Bangladesh and five terminals – 4 in India and 1 in Sri Lanka. UltraTech is the country's largest exporter of cement and clinker. The export markets span countries around the Indian Ocean, Africa and the Middle East.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net sales	132,204	182,055	213,462	235,256
Growth (%)	87.4	37.7	17.3	10.2
Operating expenses	(106,781)	(142,048)	(162,586)	(180,816)
EBITDA	25,424	40,007	50,876	54,440
Growth (%)	28.9	57.4	27.2	7.0
Depreciation	(7,657)	(9,026)	(10,655)	(11,887)
EBIT	17,766	30,981	40,220	42,552
Interest paid	(2,771)	(2,239)	(4,238)	(5,363)
Other income	2,867	5,186	3,604	4,115
Pre-tax profit	19,117	33,929	39,586	41,304
Tax	(5,075)	(9,467)	(11,480)	(11,978)
Effective tax rate (%)	26.5	27.9	29.0	29.0
Net profit	14,042	24,462	28,106	29,326
Adjusted net profit	12,787	24,462	28,106	29,326
Growth (%)	17.0	91.3	14.9	4.3
Shares o/s (mn nos)	274	274	274	274

Balance Sheet

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Net fixed assets	125,056	135,308	159,653	182,765
Investments	2,475	3,530	3,530	3,530
Other non-curr assets	-	-	-	-
Current assets	72,415	90,594	119,592	127,198
Inventories	19,565	20,359	22,913	25,256
Sundry Debtors	6,023	7,660	6,903	7,909
Cash and Bank	1,448	1,882	14,899	7,875
Marketable Securities	34,828	34,357	49,357	59,357
Loans and advances	10,539	26,260	25,445	26,725
Total assets	199,946	229,432	282,776	313,494
Shareholders' funds	106,660	128,598	153,332	179,139
Share capital	2,788	2,791	2,791	2,791
Reserves & surplus	103,872	125,807	150,540	176,347
Total Debt	41,446	41,509	71,509	71,509
Secured loans	27,898	21,584	51,584	51,584
Unsecured loans	13,548	19,925	19,925	19,925
Other liabilities	17,301	17,378	17,378	17,378
Curr Liab & prov	34,539	41,947	40,558	45,469
Current liabilities	28,804	33,740	34,430	38,037
Provisions	5,735	8,207	6,128	7,432
Total liabilities	93,286	100,834	129,444	134,355
Total equity & liabilities	199,946	229,432	282,776	313,494
Book Value (Rs)	389	469	559	654

Cash Flow Statement

(Rs mn)

Year-end: March	FY11	FY12	FY13E	FY14E
Pre-tax profit	17,862	33,929	39,586	41,304
Depreciation	34,056	8,376	10,655	11,887
Tax paid	3,918	(9,390)	(11,480)	(11,978)
Chg in working capital	(704)	(10,807)	(2,371)	282
Other operating activities	(34,389)	12,326	2,359	2,984
Cash flow from operations (a)	20,743	34,434	38,749	44,479
Capital expenditure	(107,101)	(18,629)	(35,000)	(35,000)
Chg in investments	(1,947)	(1,055)	-	-
Other investing activities	111,219	(10,047)	1,042	1,292
Cash flow from investing (b)	(16,489)	(29,260)	(48,958)	(43,708)
Equity raised/(repaid)	1,523	3	-	-
Debt raised/(repaid)	25,401	63	30,000	-
Dividend (incl. tax)	(1,911)	(2,548)	(3,373)	(3,519)
Chg in minorities	-	-	-	-
Other financing activities	(28,656)	(2,258)	(4,238)	(5,363)
Cash flow from financing (c)	(3,643)	(4,740)	22,389	(8,882)
Net chg in cash (a+b+c)	611	434	12,180	(8,111)

Financial Ratios

Year-end: March	FY11	FY12	FY13E	FY14E
Adj. EPS (Rs)	46.7	89.3	102.6	107.0
Adj. EPS growth (%)	(46.9)	91.3	14.9	4.3
EBITDA margin (%)	19.2	22.0	23.8	23.1
Pre-tax margin (%)	14.5	18.6	18.5	17.6
ROE (%)	16.7	20.8	19.9	17.6
ROCE (%)	15.1	17.6	18.7	16.7
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.9	0.8	0.8	0.8
Leverage factor (x)	1.9	1.8	1.8	1.8
Net margin (%)	9.7	13.4	13.2	12.5
Net Debt / Equity (x)	0.0	0.0	0.0	0.0
Working Capital & Liquidity ratio				
Inventory days	54	41	39	39
Receivable days	17	15	12	12
Payable days	98	87	77	77

Valuation

Year-end: March	FY11	FY12	FY13E	FY14E
PER (x)	42.4	22.2	19.3	18.5
Price/Book value (x)	5.1	4.2	3.5	3.0
PCE (x)	26.5	16.2	14.0	13.2
EV/Net sales (x)	4.1	3.0	2.6	2.3
EV/EBITDA (x)	21.5	13.7	10.8	10.0
Dividend Yield (%)	0.3	0.4	0.5	0.5



Notes

Sonam H. Udasi – Head Research	(91-22) 4322 1375	sonam.udasi@idbicapital.com
Dealing	(91-22) 6637 1150	dealing@idbicapital.com

Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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Equity Research Desk

3rd Floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 4322 1212; Fax: (91-22) 2285 0785; Email: info@idbicapital.com

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Compliance Officer: Christina Fernandes; Email: compliance@idbicapital.com; Telephone: (91-22) 4322 1212

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