

# UltraTech Cement

## Performance Update

### Quarterly Summary:

| Y/E March (₹ cr) | Q3FY20 | Q3Y19  | % yoy  | Q2FY20 | % qoq    |
|------------------|--------|--------|--------|--------|----------|
| Revenue          | 10,354 | 10,444 | (0.9)  | 9,620  | 7.6      |
| EBITDA           | 1,973  | 1,595  | 23.7   | 1,918  | 2.9      |
| OPM (%)          | 19.1   | 15.3   | 380bps | 19.9   | (80 bps) |
| Adjusted PAT     | 711    | 394    | 81     | 579    | 23       |

Source: Company, Angel Research

**Robust performance in muted demand environment:** In Q3FY20, consolidated revenue declined by 1% while EBITDA and PAT grew by 23.7% and 81% YoY respectively. Operating margin also improved by 3.8% YoY to 19.1% due to better realizations & cost control. Sales volume declined by 4% YoY to 20.9mn tonne. EBITDA/tonne increased by 35.5% YoY to ₹1004.

**Favorable Cost trends (excluding Century Cement):** Logistics cost as well as energy cost declined 5% and 15% YoY to ₹1108 and ₹941 per tonne respectively. Raw material cost and other cost (excluding Sabka Vishwas charge) increased by 2% and 6% YoY to ₹941 and ₹707 per tonne respectively. During the quarter ₹133cr. was incurred for one time settlement against contingent and other disputed liabilities of ₹832cr. of Sabka Vishwas Scheme.

**Expansion Plan:** 3.4 mtpa grinding capacity expansions in the Eastern markets and Dalla SuperUnit, which is a 2.3 mtpa clinker plant are expected to be commission by March 2021. The Phase-II of Bara is expected to be commissioned by September 2020.

**Outlook and Valuation:** We are positive on the long term prospects of the Company given ramp up from acquired capacities, pricing discipline in the industry and benign energy & freight costs. We maintain our "Buy" recommendation on UltraTech by valuing it at 13x FY22E EV/EBITDA to arrive at a target price of ₹5373.

### Key Financials

| Y/E March (₹ cr) | FY18     | FY19     | FY20E    | FY21E    | FY22E    |
|------------------|----------|----------|----------|----------|----------|
| Net Sales        | 30,978.6 | 37,379.2 | 43,687.9 | 47,182.0 | 51,811.7 |
| % chg            | 22.1     | 20.7     | 16.9     | 8.0      | 9.8      |
| Net Profit       | 2,224.6  | 2,431.1  | 4,001.4  | 5,109.3  | 6,175.3  |
| % chg            | -18.0    | 9.3      | 64.6     | 27.7     | 20.9     |
| EBITDA (%)       | 19.8     | 18.2     | 22.6     | 23.6     | 24.0     |
| EPS (Rs)         | 80.9     | 88.7     | 138.6    | 177.0    | 214.0    |
| P/E (x)          | 55.4     | 50.6     | 32.4     | 25.3     | 21.0     |
| P/BV (x)         | 4.7      | 4.3      | 3.5      | 3.1      | 2.7      |
| RoE (%)          | 8.75     | 8.89     | 12.18    | 12.88    | 13.77    |
| RoCE (%)         | 10.92    | 9.58     | 13.31    | 14.59    | 16.67    |
| EV/EBITDA        | 23.6     | 22.1     | 14.8     | 12.7     | 10.9     |
| EV/Sales         | 4.7      | 4.0      | 3.3      | 3.0      | 2.6      |

Source: Company, Angel Research (Valuation done as on 30/01/20)

## BUY

|                   |           |
|-------------------|-----------|
| CMP               | ₹4486     |
| Target Price      | ₹5373     |
| Investment Period | 12 months |

### Stock Info

|                           |           |
|---------------------------|-----------|
| Sector                    | Cement    |
| Market Cap (₹ cr)         | 129,474   |
| Net Debt (₹ cr)           | 86,225    |
| Beta                      | 1.3       |
| 52 Week High / Low        | 4905/3365 |
| Avg. Daily Monthly Volume | 633,517   |
| Face Value (₹)            | 10        |
| BSE Sensex                | 40,913    |
| Nifty                     | 12,035    |
| Reuters Code              | ULTC.NS   |
| Bloomberg Code            | UTCEM:IN  |

### Shareholding Pattern (%)

|                         |      |
|-------------------------|------|
| Promoters               | 60.2 |
| MF / Banks / Indian Fls | 13.1 |
| FII / NRIs / OCBs       | 17.6 |
| Indian Public / Others  | 9.1  |

| Abs. (%)         | 3m  | 1yr  | 3yr  |
|------------------|-----|------|------|
| Sensex           | 1.5 | 14.9 | 46.9 |
| UltraTech Cement | 8.9 | 31.6 | 22.4 |

### Price Chart



Source: Company, Angel Research

### Research Analyst

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**Q3FY20 Performance**

| Y/E March (₹ cr)                           | Q3FY20         | Q3Y19          | % yoy       | Q2FY20        | % qoq       | FY2020E        | FY2019         | % chg       |
|--------------------------------------------|----------------|----------------|-------------|---------------|-------------|----------------|----------------|-------------|
| <b>Net Sales</b>                           | <b>10353.8</b> | <b>10444.1</b> | <b>-0.9</b> | <b>9620.5</b> | <b>7.6</b>  | <b>43687.9</b> | <b>37379.2</b> | <b>16.9</b> |
| Cost of Materials Consumed                 | 1788.1         | 1779.7         | 0.5         | 1523.8        | 17.3        | 6944.1         | 6527.1         | 6.4         |
| <b>(% of Sales)</b>                        | <b>17.3</b>    | <b>17.0</b>    |             | <b>15.8</b>   |             | <b>15.9</b>    | <b>17.5</b>    |             |
| Employee Benefit Expense                   | 620.0          | 597.1          | 3.9         | 638.4         | -2.9        | 2487.4         | 2058.8         | 20.8        |
| <b>(% of Sales)</b>                        | <b>6.0</b>     | <b>5.7</b>     |             | <b>6.6</b>    |             | <b>5.7</b>     | <b>5.5</b>     |             |
| Power & Fuel                               | 2039.4         | 2480.0         | -17.8       | 1965.8        | 3.7         | 8934.2         | 8427.9         | 6.0         |
| <b>(% of Sales)</b>                        | <b>19.7</b>    | <b>23.7</b>    |             | <b>20.4</b>   |             | <b>20.5</b>    | <b>22.5</b>    |             |
| Freight & Forwarding Expense               | 2343.8         | 2552.1         | -8.2        | 2115.5        | 10.8        | 9609.9         | 8846.7         | 8.6         |
| <b>(% of Sales)</b>                        | <b>22.6</b>    | <b>24.4</b>    |             | <b>22.0</b>   |             | <b>22.0</b>    | <b>23.7</b>    |             |
| Other Expenses                             | 1589.4         | 1440.6         | 10.3        | 1459.0        | 8.9         | 5900.8         | 4730.5         | 24.7        |
| <b>(% of Sales)</b>                        | <b>15.4</b>    | <b>13.8</b>    |             | <b>15.2</b>   |             | <b>13.5</b>    | <b>12.7</b>    |             |
| <b>Total Expenditure</b>                   | <b>8380.8</b>  | <b>8849.6</b>  | <b>-5.3</b> | <b>7702.4</b> | <b>8.8</b>  | <b>33876.5</b> | <b>30591.0</b> | <b>10.7</b> |
| <b>Operating Profit</b>                    | <b>1973.0</b>  | <b>1594.5</b>  | <b>23.7</b> | <b>1918.1</b> | <b>2.9</b>  | <b>9811.4</b>  | <b>6788.2</b>  | <b>44.5</b> |
| OPM margin                                 | 19.1           | 15.3           |             | 19.9          |             | 22.5           | 18.2           |             |
| Interest                                   | 470.8          | 478.4          | -1.6        | 507.1         | -7.2        | 1869.2         | 1548.5         | 20.7        |
| Depreciation                               | 673.0          | 638.1          | 5.5         | 668.4         | 0.7         | 2761.5         | 2139.8         | 29.1        |
| Other Income                               | 168.2          | 112.4          | 49.6        | 153.7         | 9.4         | 540.0          | 438.0          |             |
| <b>PBT (excl. Ext Items)</b>               | <b>997.3</b>   | <b>590.4</b>   | <b>68.9</b> | <b>896.2</b>  | <b>11.3</b> | <b>5720.7</b>  | <b>3537.9</b>  | <b>61.7</b> |
| Exceptional item (Income)/Expense          | 0.0            | 0.0            | 0.0         | 6.2           | 0.0         | 0.0            | 0.0            |             |
| Share of profit/ (loss) of associates & JV | 0.1            | 0.2            |             | -0.2          |             |                |                |             |
| <b>PBT (incl. Ext Items)</b>               | <b>997.4</b>   | <b>590.6</b>   | <b>68.9</b> | <b>889.8</b>  | <b>12.1</b> | <b>5720.7</b>  | <b>3537.9</b>  | <b>61.7</b> |
| <b>(% of Sales)</b>                        | <b>9.6</b>     | <b>5.7</b>     |             | <b>9.2</b>    |             | <b>13.1</b>    | <b>9.5</b>     |             |
| Provision for Taxation                     | 286.2          | 196.8          |             | 311.3         |             | 1773.4         | 1106.8         |             |
| Taxation pertaining to earlier years       | 0.0            | 0.0            |             | 0.0           |             | 0.0            | 0.0            |             |
| <b>(% of PBT)</b>                          | <b>28.7</b>    | <b>33.3</b>    |             | <b>35.0</b>   |             | <b>31.0</b>    | <b>31.3</b>    |             |
| <b>Reported PAT</b>                        | <b>711.3</b>   | <b>393.8</b>   | <b>80.6</b> | <b>578.6</b>  | <b>22.9</b> | <b>3947.3</b>  | <b>2431.1</b>  | <b>62.4</b> |
| <b>Adjusted PAT</b>                        | <b>711.3</b>   | <b>393.8</b>   |             | <b>578.6</b>  |             | <b>3947.3</b>  | <b>2431.1</b>  |             |
| <b>PATM</b>                                | <b>6.9</b>     | <b>3.8</b>     |             | <b>6.0</b>    |             | <b>9.0</b>     | <b>6.5</b>     |             |

Source: Company, Angel Research

**Concall Highlights:** Signs of demand revival were visible in some parts during the latter part of Q3FY20. Phase-I of 2 mtpa Bara grinding unit has been commissioned in January 2020. Company sold 0.6 MMT units in Bangladesh for EV of \$30mn. UltraTech Nathdwara has become PBT accretive. Nathdwara is consistently operating at 60% utilization and generating ₹1500 plus EBIDTA/tonne. Cement prices dropped by 4% QoQ. Company has clarified that it has not bid for Emami cement plant.

**Further debt reduction:** Net debt stood at ₹22,111cr. at the start of F.Y. which was reduced by ₹1,492cr. in H1FY20. Net debt is further reduced by ₹1,994cr. during the quarter to ₹18,625cr.

**Downside risks to our estimates**

- Muted demand.
- Reduced Infrastructure spends by Government.
- Capacity addition at faster pace.
- Delay in synergy benefits from inorganic expansion.

**Consolidated Profit & Loss Statement**

| Y/E March (₹ cr)                     | FY2019        | FY2020E       | FY2021E       | FY2022E       |
|--------------------------------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                       | 37,379        | 43,688        | 47,182        | 51,812        |
| % chg                                | 20.7          | 16.9          | 8.0           | 9.8           |
| <b>Total Expenditure</b>             | <b>30,591</b> | <b>33,826</b> | <b>36,054</b> | <b>39,378</b> |
| Cost of Materials Consumed           | 6,527         | 6,945         | 7,650         | 8,482         |
| Employee Benefit Expense             | 2,059         | 2,487         | 2,686         | 2,921         |
| Power & Fuel                         | 8,428         | 8,553         | 9,146         | 10,043        |
| Freight & Forwarding Expense         | 8,847         | 9,610         | 10,378        | 11,397        |
| Other Expenses                       | 4,731         | 6,230         | 6,194         | 6,535         |
| <b>EBITDA</b>                        | <b>6,788</b>  | <b>9,862</b>  | <b>11,128</b> | <b>12,433</b> |
| % chg                                | 10.5          | 45.3          | 12.8          | 11.7          |
| (% of Net Sales)                     | 18.2          | 22.6          | 23.6          | 24.0          |
| Depreciation & Amortisation          | 2,140         | 2,751         | 2,976         | 3,029         |
| <b>EBIT</b>                          | <b>4,648</b>  | <b>7,110</b>  | <b>8,152</b>  | <b>9,404</b>  |
| % chg                                | 8.2           | 53.0          | 14.7          | 15.4          |
| (% of Net Sales)                     | 12.4          | 16.3          | 17.3          | 18.2          |
| Interest & other Charges             | 1,549         | 1,851         | 1,297         | 925           |
| Other Income                         | 438           | 540           | 550           | 470           |
| (% of PBT)                           | 12.4          | 9.3           | 7.4           | 5.3           |
| <b>Recurring PBT</b>                 | <b>3,538</b>  | <b>5,799</b>  | <b>7,405</b>  | <b>8,950</b>  |
| % chg                                | (3.0)         | 63.9          | 27.7          | 20.9          |
| Exceptional Items                    | -             | -             | -             | -             |
| <b>Tax</b>                           | 1,107         | 1,798         | 2,295         | 2,774         |
| Current & deferred tax               | 1,107         | 1,798         | 2,295         | 2,774         |
| Taxation pertaining to earlier years | -             | -             | -             | -             |
| (% of PBT)                           | 31.3          | 31.0          | 31.0          | 31.0          |
| <b>PAT (reported)</b>                | <b>2,431</b>  | <b>4,001</b>  | <b>5,109</b>  | <b>6,175</b>  |
| <b>ADJ. PAT</b>                      | <b>2,431</b>  | <b>4,001</b>  | <b>5,109</b>  | <b>6,175</b>  |
| % chg                                | (5.4)         | 64.6          | 27.7          | 20.9          |
| (% of Net Sales)                     | 6.5           | 9.2           | 10.8          | 11.9          |
| <b>Basic EPS (Rs)</b>                | <b>88.7</b>   | <b>138.6</b>  | <b>177.0</b>  | <b>214.0</b>  |
| <b>Fully Diluted EPS (Rs)</b>        | <b>88.7</b>   | <b>138.6</b>  | <b>177.0</b>  | <b>214.0</b>  |
| % chg                                | 9.7           | 56.3          | 27.7          | 20.9          |

Source: Company, Angel Research

**Consolidated Balance Sheet**

| Y/E March (₹ cr)            | FY2019        | FY2020E       | FY2021E       | FY2022E       |
|-----------------------------|---------------|---------------|---------------|---------------|
| <b>SOURCES OF FUNDS</b>     |               |               |               |               |
| Equity Share Capital        | 275           | 289           | 289           | 289           |
| Reserves & Surplus          | 28,114        | 37,040        | 41,715        | 47,421        |
| <b>Shareholders Funds</b>   | <b>28,389</b> | <b>37,329</b> | <b>42,004</b> | <b>47,710</b> |
| Minority Interest           | 12            | 11            | 10            | 10            |
| Total Debt                  | 22,818        | 18,318        | 14,118        | 9,000         |
| Other Liabilities           | 172           | 190           | 209           | 225           |
| Net Deferred tax            | 3,542         | 4,325         | 5,324         | 5,324         |
| <b>Total Liabilities</b>    | <b>54,934</b> | <b>60,172</b> | <b>61,665</b> | <b>62,270</b> |
| <b>APPLICATION OF FUNDS</b> |               |               |               |               |
| Gross Block                 | 49,715        | 58,178        | 59,678        | 60,278        |
| Less: Acc. Depreciation     | 6,427         | 8,278         | 9,575         | 10,500        |
| <b>Net Block</b>            | <b>43,289</b> | <b>49,901</b> | <b>50,451</b> | <b>50,921</b> |
| Capital Work-in-Progress    | 1,122         | 900           | 800           | 600           |
| Goodwill on Consolidation   | 2,847         | 2,847         | 2,847         | 2,847         |
| Non current Investments     | 1,405         | 1,500         | 1,550         | 1,600         |
| Other non-current assets    | 4,106         | 4,800         | 5,500         | 5,600         |
| <b>Current Assets</b>       | <b>11,755</b> | <b>11,248</b> | <b>12,609</b> | <b>13,791</b> |
| Investment                  | 1,516         | 1,540         | 1,570         | 1,520         |
| Inventories                 | 3,585         | 3,800         | 4,030         | 4,380         |
| Sundry Debtors              | 2,531         | 2,753         | 2,973         | 3,265         |
| Cash & Bank Balance         | 707           | 741           | 1,220         | 1,761         |
| Loans & Advances            | 3,415         | 2,415         | 2,815         | 2,865         |
| Current liabilities         | 9,590         | 11,024        | 12,091        | 13,089        |
| <b>Net Current Assets</b>   | <b>2,165</b>  | <b>225</b>    | <b>518</b>    | <b>702</b>    |
| <b>Total Assets</b>         | <b>54,934</b> | <b>60,172</b> | <b>61,665</b> | <b>62,270</b> |

Source: Company, Angel Research

### Consolidated Cash Flow

| Y/E March (₹ cr)             | FY2019     | FY2020E     | FY2021E     | FY2022E   |
|------------------------------|------------|-------------|-------------|-----------|
| Net Profit                   | 3,538      | 5,799       | 7,405       | 8,950     |
| Depreciation                 | 2,140      | 2,751       | 2,976       | 3,029     |
| Interest                     | 1,454      | 1,851       | 1,297       | 925       |
| Change in Working Capital    | (937)      | 1,642       | (934)       | (287)     |
| Others                       | (325)      | -           | -           | -         |
| Taxes paid                   | (710)      | (1,015)     | (1,296)     | (2,774)   |
| Cash Flow from Operations    | 5,160      | 11,028      | 9,448       | 9,841     |
| (Inc.)/ Dec. in Fixed Assets | (1,504)    | (2,100)     | (3,426)     | (3,299)   |
| (Inc.)/ Dec. in Investments  | 2,749      | (659)       | (630)       | (470)     |
| Cash Flow from Investing     | 1,245      | (2,759)     | (4,056)     | (3,769)   |
| Issue of Equity              | 5          | -           | -           | -         |
| Inc./(Dec.) in borrowings    | (4,138)    | (7,018)     | (4,200)     | (5,118)   |
| Dividend(includind DDt)      | (346)      | (400)       | (435)       | (469)     |
| Interest paid                | (1,484)    | (1,851)     | (1,297)     | (925)     |
| Others                       | (83)       | 540         | 550         | 470       |
| Cash Flow from Financing     | (6,045)    | (8,729)     | (5,382)     | (6,043)   |
| Inc./(Dec.) in Cash          | 360        | (459)       | 10          | 30        |
| Opening Cash balances        | 77         | 437         | (22)        | (12)      |
| <b>Closing Cash balances</b> | <b>437</b> | <b>(22)</b> | <b>(12)</b> | <b>18</b> |

Source: Company, Angel Research

### Key Ratios

| Y/E March                  | FY2019  | FY2020E | FY2021E | FY2022E |
|----------------------------|---------|---------|---------|---------|
| <b>Valuation Ratio (x)</b> |         |         |         |         |
| P/E (on FDEPS)             | 50.6    | 32.4    | 25.3    | 21.0    |
| P/CEPS                     | 24.9    | 17.2    | 14.3    | 14.1    |
| P/BV                       | 4.3     | 3.5     | 3.1     | 2.7     |
| EV/Sales                   | 4.0     | 3.3     | 3.0     | 2.6     |
| EV/EBITDA                  | 22.1    | 14.8    | 12.7    | 10.9    |
| EV / Total Assets          | 10.1    | 11.8    | 10.1    | 8.9     |
| <b>Per Share Data (Rs)</b> |         |         |         |         |
| EPS (Basic)                | 88.7    | 138.6   | 177.0   | 214.0   |
| EPS (fully diluted)        | 88.7    | 138.6   | 177.0   | 214.0   |
| Cash EPS                   | 179.9   | 261.1   | 314.8   | 318.9   |
| DPS                        | 10.5    | 11.5    | 12.5    | 13.5    |
| Book Value                 | 1,033.7 | 1,293.4 | 1,455.4 | 1,653.1 |
| <b>Returns (%)</b>         |         |         |         |         |
| ROE                        | 8.9     | 12.2    | 12.9    | 13.8    |
| ROCE                       | 9.6     | 13.3    | 14.6    | 16.7    |
| Angel ROIC (Pre tax)       | 11.4    | 15.5    | 16.9    | 19.5    |

Source: Company, Angel Research (Valuation done as on 30/01/20)

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|-------------------------------------------------------------------------------------------------|-------------------------|
| 1. Financial interest of research analyst or Angel or his Associate or his relative             | No                      |
| 2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives | No                      |
| 3. Served as an officer, director or employee of the company covered under Research             | No                      |
| 4. Broking relationship with company covered under Research                                     | No                      |

**Ratings (Based on Expected Returns:  
Over 12 months investment period)**

*Buy (> 15%)*

*Accumulate (5% to 15%)*

*Reduce (-5% to -15%)*

*Hold (Fresh purchase not recommended)*

*Neutral (-5 to 5%)*

*Sell (< -15%)*