

# Ultratech Cement

## Performance Update

### Quarterly Summary:

Y/E March (₹ cr)	Q2FY20	Q2Y19	% yoy	Q1FY20	% qoq
Revenue	9,620	9,249	4.0	11,405	(15.6)
EBITDA	1,918	1,421	35.0	2,950	(35.0)
OPM (%)	19.9	15.4	450bps	25.9	(600 bps)
Adjusted PAT	579	356	63	1,281	(55)

Source: Company, Angel Research (All the above numbers are inclusive of Century cement).

**Century Cement merged with Ultratech:** In Q2FY20, consolidated revenue, EBITDA, PAT grew by 4%, 35% and 62.6% YoY respectively (including impact of Century Cement in both the quarters). Operating margin also improved by 5% YoY due to better realizations & cost control. Company reported ₹1055 EBITDA/tonne compared to ₹776 EBITDA/tonne in Q2FY19.

**Favourable Cost trends & debt reduction:** Logistics cost declined 8% YoY to ₹1,111. Energy cost as well as raw materials costs also declined by 9% & 2% YoY to ₹1003 & ₹495 respectively. Consolidated net debt had decreased by ₹1,492 cr. to ₹20,619 compared to Mar'19. Net debt/EBITDA as of sept'19 is 2.0x.

**Increase in Capacity:** The board has approved 3.4mt capacity expansion in Eastern India to be completed by Q4FY21 at a capex of ₹940cr. During Jan-March period Ultratech's plants runs at 110% of capacity in eastern India.

**Century Cement:** Century Cement utilization dropped to 48% for the quarter as compared to 64% in Q2FY19. Utilization ratio decreased as there was plant shutdown for 16 days. Management guided that within next 12 months Century should be in line with Ultratech utilization ratio & EBITDA/tonne. Management guided out of 14.6 MMTPA capacity of Century, 12.6 will be sold in the name of Ultratech by upcoming December 2019.

**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. Synergy benefit is yet to play out for the inorganic expansion of JP associates, Binani & Century cement. We maintain our "Buy" recommendation on Ultratech by valuing it at 15x FY21E EV/EBITDA to arrive at a target price of ₹4984.

### Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
Net Sales	30,978.6	37,379.2	43,916.1	47,482.1
% chg	22.1	20.7	17.5	8.1
Net Profit	2,224.6	2,431.1	4,050.9	4,670.3
% chg	-18.0	9.3	66.6	15.3
EBITDA (%)	19.8	18.2	22.3	22.7
EPS (Rs)	80.9	88.7	140.4	161.8
P/E (x)	51.5	47.0	29.7	25.8
P/BV (x)	6.0	5.2	4.7	4.3
RoE (%)	8.75	8.89	12.32	11.83
RoCE (%)	10.92	9.58	12.57	12.65
EV/EBITDA	22.1	20.8	14.2	12.5
EV/Sales	4.4	3.8	3.2	2.8

Source: Company Valuation as on closing price as on 01/11/2019

Note: FY20E & FY21E numbers includes Century Cement for full F.Y.

## BUY

CMP	₹4177
Target Price	₹4984
Investment Period	12 months

### Stock Info

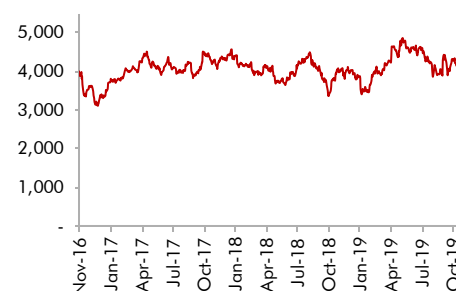
Sector	Cement
Market Cap (₹ cr)	120,142
Net Debt (₹ cr)	20,619
Beta	1.4
52 Week High / Low	4905/3261
Avg. Daily Monthly Volume	543,727
Face Value (₹)	10
BSE Sensex	40,165
Nifty	11,890
Reuters Code	ULTC.NS
Bloomberg Code	UTCEM:IN

### Shareholding Pattern (%)

Promoters	61.7
MF / Banks / Indian FIs	11.9
FII / NRIs / OCBs	17.9
Indian Public / Others	8.5

Abs. (%)	3m	1yr	3yr
Sensex	3.8	16.5	44.0
Ultratech Cement	(4.2)	19.0	4.7

### Price Chart



Source: Company, Angel Research

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**Exhibit 1: Q2FY20 Performance**

Y/E March (₹ cr)	Q2FY20	Q2Y19	% yoy	Q1FY20	% qoq	FY2020E	FY2019	% chg
<b>Net Sales</b>	<b>9620.5</b>	<b>9249.3</b>	<b>4.0</b>	<b>11404.9</b>	<b>-15.6</b>	<b>43916.1</b>	<b>37379.2</b>	<b>17.5</b>
Cost of Materials Consumed	1523.8	1393.0	9.4	1614.4	-5.6	7061.0	6527.1	8.2
<b>(% of Sales)</b>	<b>15.8</b>	<b>15.1</b>		<b>14.2</b>		<b>16.1</b>	<b>17.5</b>	
Employee Benefit Expense	638.4	603.8	5.7	596.0	7.1	2436.5	2058.8	18.3
<b>(% of Sales)</b>	<b>6.6</b>	<b>6.5</b>		<b>5.2</b>		<b>5.5</b>	<b>5.5</b>	
Power & Fuel	1965.8	2265.0	-13.2	2344.6	-16.2	9084.6	8427.9	7.8
<b>(% of Sales)</b>	<b>20.4</b>	<b>24.5</b>		<b>20.6</b>		<b>20.7</b>	<b>22.5</b>	
Freight & Forwarding Expense	2115.5	2281.0	-7.3	2520.3	-16.1	9816.5	8846.7	11.0
<b>(% of Sales)</b>	<b>22.0</b>	<b>24.7</b>		<b>22.1</b>		<b>22.4</b>	<b>23.7</b>	
Other Expenses	1459.0	1285.3	13.5	1379.6	5.8	5704.9	4730.5	20.6
<b>(% of Sales)</b>	<b>15.2</b>	<b>13.9</b>		<b>12.1</b>		<b>13.0</b>	<b>12.7</b>	
<b>Total Expenditure</b>	<b>7702.4</b>	<b>7828.1</b>	<b>-1.6</b>	<b>8454.9</b>	<b>-8.9</b>	<b>34103.6</b>	<b>30591.0</b>	<b>11.5</b>
<b>Operating Profit</b>	<b>1918.1</b>	<b>1421.2</b>	<b>35.0</b>	<b>2950.0</b>	<b>-35.0</b>	<b>9812.5</b>	<b>6788.2</b>	<b>44.6</b>
OPM margin	19.9	15.4		25.9		22.3	18.2	
Interest	507.1	416.4	21.8	502.8	0.9	1715.1	1548.5	10.8
Depreciation	668.4	624.0	7.1	688.4	-2.9	2766.6	2139.8	29.3
Other Income	153.7	142.8	7.6	134.2	14.6	540.0	438.0	
<b>PBT (excl. Ext Items)</b>	<b>896.2</b>	<b>523.6</b>	<b>71.2</b>	<b>1893.0</b>	<b>-52.7</b>	<b>5870.8</b>	<b>3537.9</b>	<b>65.9</b>
Exceptional item (Income)/Expense	6.2	0.0	0.0	0.0	0.0	0.0	0.0	
Share of profit/ (loss) of associates & JV	-0.2	0.4		0.4				
<b>PBT (incl. Ext Items)</b>	<b>889.8</b>	<b>523.6</b>	<b>69.9</b>	<b>1893.0</b>	<b>-53.0</b>	<b>5870.8</b>	<b>3537.9</b>	<b>65.9</b>
<b>(% of Sales)</b>	<b>9.2</b>	<b>5.7</b>		<b>16.6</b>		<b>13.4</b>	<b>9.5</b>	
Provision for Taxation	311.3	167.7		611.8		1819.9	1106.8	
Taxation pertaining to earlier years	0.0	0.0		0.0		0.0	0.0	
<b>(% of PBT)</b>	<b>35.0</b>	<b>32.0</b>		<b>32.3</b>		<b>31.0</b>	<b>31.3</b>	
<b>Reported PAT</b>	<b>578.6</b>	<b>355.9</b>	<b>62.6</b>	<b>1281.2</b>	<b>-54.8</b>	<b>4050.9</b>	<b>2431.1</b>	<b>66.6</b>
<b>Adjusted PAT</b>	<b>578.6</b>	<b>355.9</b>		<b>1281.2</b>		<b>4050.9</b>	<b>2431.1</b>	
PATM	6.0	3.8		11.2		9.2	6.5	

Source: Company, Angel Research

Note: Except FY19 all numbers includes Century Cement for full F.Y.

**Downside risks to our estimates**

- Demand not picking up as expected.
- Reduced Infrastructure spends by Government.
- Increase in supply.
- Delay in synergy benefits from inorganic expansion.

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
<b>Revenue</b>	30,978.6	37,379.2	43,916.1	47,482.1
% chg	22.1	20.7	17.5	8.1
<b>Total Expenditure</b>	<b>24,833.5</b>	<b>30,591.0</b>	<b>34,103.6</b>	<b>36,699.3</b>
Cost of Materials Consumed	5,288.8	6,527.1	7,061.0	7,634.4
Employee Benefit Expense	1,810.2	2,058.8	2,436.5	2,608.5
Power & Fuel	6,334.1	8,427.9	9,084.6	9,822.3
Freight & Forwarding Expense	7,310.0	8,846.7	9,816.5	10,405.5
Other Expenses	4,090.4	4,730.5	5,704.9	6,228.7
<b>EBITDA</b>	<b>6,145.1</b>	<b>6,788.2</b>	<b>9,812.5</b>	<b>10,782.8</b>
% chg	17.9	10.5	44.6	9.9
(% of Net Sales)	19.8	18.2	22.3	22.7
Depreciation & Amortisation	1,847.9	2,139.8	2,766.6	3,046.1
<b>EBIT</b>	<b>4,297.2</b>	<b>4,648.4</b>	<b>7,045.9</b>	<b>7,736.6</b>
% chg	11.2	8.2	51.6	9.8
(% of Net Sales)	13.9	12.4	16.0	16.3
Interest & other Charges	1,237.6	1,548.5	1,715.1	1,518.0
Other Income	588.6	438.0	540.0	550.0
(% of PBT)	16.1	12.4	9.2	8.1
<b>Recurring PBT</b>	<b>3,648.2</b>	<b>3,537.9</b>	<b>5,870.8</b>	<b>6,768.6</b>
% chg	(5.8)	(3.0)	65.9	15.3
Exceptional Items	(346.6)	-	-	-
<b>Tax</b>	1,077.0	1,106.8	1,819.9	2,098.3
Current & deferred tax	1,077.0	1,106.8	1,819.9	2,098.3
Taxation pertaining to earlier years	-	-	-	-
(% of PBT)	29.5	31.3	31.0	31.0
<b>PAT (reported)</b>	<b>2,224.6</b>	<b>2,431.1</b>	<b>4,050.9</b>	<b>4,670.3</b>
<b>ADJ. PAT</b>	<b>2,571.2</b>	<b>2,431.1</b>	<b>4,050.9</b>	<b>4,670.3</b>
% chg	(5.2)	(5.4)	66.6	15.3
(% of Net Sales)	8.3	6.5	9.2	9.8
<b>Basic EPS (Rs)</b>	<b>80.9</b>	<b>88.7</b>	<b>140.4</b>	<b>161.8</b>
<b>Fully Diluted EPS (Rs)</b>	<b>80.8</b>	<b>88.7</b>	<b>140.4</b>	<b>161.8</b>
% chg	(18.3)	9.7	58.3	15.3

Source: Company, Angel Research

Note: FY20E & FY21E numbers includes Century Cement for full F.Y.

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	274.6	274.6	288.6	288.6
Reserves & Surplus	26,106.6	28,114.3	37,089.5	41,325.8
<b>Shareholders Funds</b>	<b>26,381.2</b>	<b>28,388.9</b>	<b>37,378.1</b>	<b>41,614.4</b>
Minority Interest	16.0	12.2	10.9	10.2
Total Debt	19,480.2	22,818.4	23,536.4	19,836.4
Other Liabilities	191.7	172.5	189.7	208.7
Net Deferred tax	3,173.3	3,541.8	4,187.6	4,932.2
<b>Total Liabilities</b>	<b>49,242.4</b>	<b>54,933.7</b>	<b>65,302.6</b>	<b>66,601.7</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	43,045.5	49,715.3	58,778.3	60,678.3
Less: Acc. Depreciation	4,366.5	6,426.6	8,141.7	9,659.8
<b>Net Block</b>	<b>38,679.0</b>	<b>43,288.7</b>	<b>50,636.6</b>	<b>51,018.6</b>
Capital Work-in-Progress	1,511.2	1,122.1	1,180.0	1,210.0
Goodwill on Consolidation	1,036.3	2,847.1	2,847.1	2,847.1
Non current Investments	1,497.9	1,405.3	1,500.0	1,550.0
Other non-current assets	2,955.5	4,105.7	4,800.0	5,500.0
<b>Current Assets</b>	<b>11,461.2</b>	<b>11,754.7</b>	<b>15,341.8</b>	<b>16,576.7</b>
Investment	3,949.0	1,516.0	3,700.0	3,750.0
Inventories	3,267.6	3,585.1	3,830.8	4,102.3
Sundry Debtors	2,220.6	2,531.4	2,767.3	2,992.0
Cash & Bank Balance	219.1	707.2	928.7	1,217.4
Loans & Advances	1,804.9	3,415.0	4,115.0	4,515.0
Current liabilities	7,898.7	9,589.9	11,002.9	12,100.7
<b>Net Current Assets</b>	<b>3,562.5</b>	<b>2,164.8</b>	<b>4,338.9</b>	<b>4,476.0</b>
<b>Total Assets</b>	<b>49,242.4</b>	<b>54,933.7</b>	<b>65,302.6</b>	<b>66,601.7</b>

Source: Company, Angel Research

Note: FY20E & FY21E numbers includes Century Cement for full F.Y.

**Exhibit 3: Consolidated Cash Flow**

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net Profit	3,301.5	3,538.4	5,870.8	6,768.6
Depreciation	1,847.9	2,139.8	2,766.6	3,046.1
Interest	1,171.5	1,454.1	1,715.1	1,518.0
Change in Working Capital	(1,255.4)	(937.4)	(951.9)	(758.2)
Others	(334.9)	(324.9)	-	-
Taxes paid	(842.9)	(710.1)	(1,174.2)	(1,353.7)
Cash Flow from Operations	3,887.7	5,159.9	8,226.5	9,220.9
(Inc.)/ Dec. in Fixed Assets	(1,876.6)	(1,503.9)	(2,100.0)	(3,458.1)
(Inc.)/ Dec. in Investments	3,742.3	2,749.1	(2,818.7)	(650.0)
Cash Flow from Investing	1,865.7	1,245.2	(4,918.7)	(4,108.1)
Issue of Equity	15.7	5.2	-	-
Inc./(Dec.) in borrowings	6,479.7	(4,137.7)	(1,800.0)	(3,700.0)
Dividend(includind DDt)	(334)	(346)	(400)	(435)
Interest paid	(1,210)	(1,484)	(1,715)	(1,518)
Others	(10,687)	(83)	540	550
Cash Flow from Financing	(5,735.1)	(6,045.0)	(3,375.1)	(5,102.8)
Inc./(Dec.) in Cash	18.4	360.1	(67.3)	10.0
Opening Cash balances	58.8	77.2	437.2	370.0
<b>Closing Cash balances</b>	<b>77.2</b>	<b>437.2</b>	<b>370.0</b>	<b>380.0</b>

Source: Company, Angel Research

Note: FY20E & FY21E numbers includes Century Cement for full F.Y.

**Exhibit 4: Key Ratios**

Y/E March	FY2018	FY2019	FY2020E	FY2021E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	51.5	47.0	29.7	25.8
P/CEPS	25.8	23.2	16.1	14.2
P/BV	6.0	5.2	4.7	4.3
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	4.4	3.8	3.2	2.8
EV/EBITDA	22.1	20.8	14.2	12.5
EV / Total Assets	9.6	9.4	7.5	6.7
<b>Per Share Data (Rs)</b>				
EPS (Basic)	80.9	88.7	140.4	161.8
EPS (fully diluted)	80.8	88.7	140.4	161.8
Cash EPS	161.4	179.9	258.6	293.2
DPS	10.0	10.5	11.5	12.5
Book Value	693.9	799.7	888.6	960.7
<b>Returns (%)</b>				
ROE	8.8	8.9	12.3	11.8
ROCE	10.9	9.6	12.6	12.6
Angel ROIC (Pre tax)	14.4	11.4	14.9	15.2

Source: Company, Angel Research (Valuation done as on 1/11/19)

Note: FY20E & FY21E numbers includes Century Cement for full F.Y.

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<b>Disclosure of Interest Statement</b>	<b>Inox Leisure</b>
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

<b>Ratings (Based on Expected Returns: Over 12 months investment period)</b>	<i>Buy (&gt; 15%)</i>	<i>Accumulate (5% to 15%)</i>	<i>Neutral (-5 to 5%)</i>
		<i>Reduce (-5% to -15%)</i>	<i>Sell (&lt; -15%)</i>
		<i>Hold (Fresh purchase not recommended)</i>	