

BUY
 TP: Rs 11,510 | ▲ 15%

ULTRATECH CEMENT

| Cement

| 22 January 2024

Cost efficiencies in focus; raise to BUY

- Cost savings of 3% YoY boosted Q3 earnings despite slow volumes (+5%) and flat realisations
- EBITDA margin climbed 450bps YoY to 18.8% and EBITDA/t surged to Rs 1,188 from ~Rs 900 a year ago aided by cost efficiencies
- Raise to BUY from HOLD with a revised TP of Rs 11,510 (vs. Rs 9,396) set a 16x FY26E EV/EBITDA (vs. 15x on FY25E)

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Muted volume and realisation growth: UTCEM reported slow 8% YoY (+4% QoQ) revenue growth to Rs 161.7bn in Q3FY24 as a result of moderate volume growth and flat realisations. Domestic grey cement volumes grew 5% YoY (+1% QoQ) to 25.6mn tonnes, with capacity utilisation at ~77% vs. ~75% in the year-ago quarter. Realisations stayed flat YoY and QoQ at Rs 5,564/t owing to a mix of election and festive season-led demand sluggishness in major states.

Cost savings remain a highlight... Operating cost/tonne declined 3% YoY (-2% QoQ) in Q3 to Rs 5,134/t aided by softening fuel and logistics costs. Fuel cost fell 18% YoY (-6% QoQ) to Rs 1,490/t, with blended fuel consumption cost down 25% (-7% QoQ) to US\$ 150/t. Management expects a further 7-8% reduction in Q4FY24. Logistics cost/t stayed flat YoY at Rs 1,396/t (+2% QoQ) owing to lower lead distance and operating efficiencies. Other expenditure grew 20% YoY (flat QoQ) to Rs 21.4bn, including preponed maintenance cost pertaining to Q4FY24.

...lending impetus to margins: EBITDA increased 42% YoY (+29% QoQ) to Rs 30.4bn and margins jumped 450bps YoY (+365bps QoQ) to 18.8%. Helped largely by cost savings, EBITDA/t climbed 34% YoY (+28% QoQ) to Rs 1,188/t.

Expansion on track, phase-III unlocked: UTCEM's phase-II expansion of 24.4mt is on schedule, which will take capacity to 157.4mt by FY25. Management has also announced a detailed phase-III expansion plan to add 21.9mt by FY27 (clinker capacity addition expected at 10-12mt). Capex guidance for FY24 is now ~Rs 90bn.

Upgrade to BUY: UTCEM's capex plans put it on a strong growth trajectory with continued capacity leadership in all major regions. We estimate that ongoing cost efficiencies focused on cheaper power and logistics optimisation will boost earnings. We cut FY24/FY25 EPS estimates by 3%/6% amid election and global uncertainties, while introducing FY26 forecasts, baking in a brisk FY23-FY26 EBITDA/PAT CAGR of 26%/32%. Factoring in effective cost management, healthy growth and a strong balance sheet, we now value the stock at 16x FY26E EV/EBITDA (vs. 15x on FY25E) to arrive at a new TP of Rs 11,510 (Rs 9,396) and upgrade UTCEM from HOLD to BUY.

Key changes

Target	Rating
▲	▲

Ticker/Price	UTCEM IN/Rs 9,997
Market cap	US\$ 35.1bn
Free float	40%
3M ADV	US\$ 38.4mn
52wk high/low	Rs 10,526/Rs 6,604
Promoter/FPI/DII	60%/15%/17%

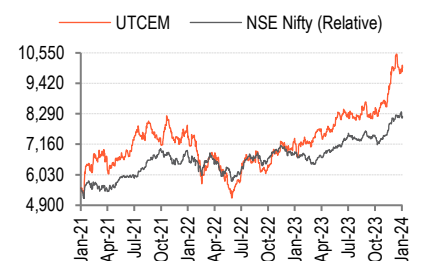
Source: NSE | Price as of 20 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,04,626	6,54,026	7,49,381
EBITDA (Rs mn)	99,312	1,33,015	1,67,224
Adj. net profit (Rs mn)	49,169	67,904	91,888
Adj. EPS (Rs)	170.3	235.2	318.3
Consensus EPS (Rs)	170.3	257.0	324.0
Adj. ROAE (%)	9.6	12.2	14.7
Adj. P/E (x)	58.7	42.5	31.4
EV/EBITDA (x)	28.6	21.4	17.1
Adj. EPS growth (%)	(24.7)	38.1	35.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Earnings call highlights

Parameter	Q3FY24	Q2FY24	Our view
Volumes and Realisations	<p>Domestic volumes grew 5% YoY and utilisation stood at 77% in Q3FY24. The white cement and RMC segments have grown 13% and 29% YoY respectively and overall trade volumes stood at 64%.</p> <p>Prices across India were mixed bag, effectively staying flat YoY in 3QFY24.</p>	<p>Domestic volumes grew 15% YoY and utilisation stood at 75% in Q2. The white cement and RMC segments increased by 9% and 31% YoY respectively and overall trade volumes were at 67%.</p> <p>Prices across India were up 7-8% on an average during Q2. Given the current pressure on cost, management expects prices to sustain in Q3.</p>	<p>An erratic monsoon, construction bans in parts of North India, upcoming elections in major states and the festive season affected normal construction activity. Revival in the white cement segment provided some respite.</p>
Margins	<p>Per tonne raw material cost rose 5.6% YoY (+2.3% QoQ) while logistics cost dipped 1.3% YoY (+1.6% QoQ) during Q3FY24. Fuel cost stood at Rs 2.05/kcal, pet coke price was at US\$ 126/t and blended fuel consumption cost stood at US\$ 130/t. Management expects fuel cost to further reduce by 7-8% in Q4FY24.</p>	<p>Per tonne raw material cost increased 3% YoY (-5.6% QoQ) while logistics cost decreased by 0.3% YoY (-2.9% QoQ). Fuel cost stood at Rs 2.1/kcal, pet coke price was at US\$ 138/t and blended fuel consumption cost stood at US\$ 162/t. Management expects fuel cost to decline in Q3FY24.</p>	<p>Management indicated that savings on power costs can augment margins further in 4Q. Revival in pricing will further cushion margins.</p>
Capacity	<p>Management indicated that its phase-II capacity expansion of 24.4mt is on schedule.</p> <p>Phase-III expansion of 21.9mt by FY27 was announced in Q3FY24. Clinker capacity addition in this phase is expected at 10-12mt.</p> <p>Total capacity will rise to 179.3mt by FY27 post phase-III including organic and inorganic addition.</p>	<p>UTCem added 2.5mt of capacity during Q2 (including ~1.2mt through debottlenecking), raising its cement capacity to ~132.4mt.</p> <p>The company will add 22.6mt of capacity along with three slag mills (aggregating 1.8mt) by Jun'25, as per its phase-II growth plans.</p> <p>Total capacity post phase-II will rise to ~159.65mt.</p>	<p>Capacity expansion plans are on schedule. The phase-III plan suggests that capacity/volume market share will be maintained till FY28-FY29.</p>
Capex	<p>Capex guidance for FY24 has exceeded the initial plan and now stands at ~Rs 90bn, with a similar sum guided for FY25. Capex apportioned for phase-III expansion is ~Rs 60bn (excluding maintenance capex of Rs 10bn-20bn). This includes the outlay for inorganic growth following the acquisition of Kesoram Industries' cement assets.</p>	<p>Capex till H1FY24 totalled ~Rs 45bn out of the Rs 60bn-70bn guided by management for FY24. Capex during Q2FY24 was Rs 25.4bn and has been largely used for expansion plans. Net debt increased by Rs 22.1bn during the quarter.</p>	<p>A healthy performance despite aggressive organic and inorganic capex with sharp oversight on spending have been highlights of the quarter and are expected to remain so over the medium term.</p>
Green energy	<p>Green energy formed 24% of UTCem's total power consumption in Q3FY24. Management expects this share to double by FY25 with a target to reach 60% by FY27 (of which solar energy share is targeted at ~34% and WHRS share at ~26%).</p>	<p>Green energy formed 22% of UTCem's total power consumption as on H1FY24. Management expects to raise this share to 50-60% by FY25-FY26.</p>	<p>Spikes in conventional energy cost are likely to be muted following the shift towards alternate fuels. This benefit will be over and above the cost efficiency contributed by green power.</p>
Other key points	<p>UTCem acquired Kesoram's cement business during Q3FY24 and expects the merger to become effective from 1 Apr 2024.</p> <p>Other expenditure in Q3FY24 amounted to ~Rs 21.4bn which includes maintenance cost preponed from Q4FY24.</p> <p>Incentives for incremental capacity additions are available in the states of Rajasthan, Bihar and Uttar Pradesh.</p>	<p>Other operating income increased by Rs 100mn as a result of incentives received.</p>	<p>With the contribution of new organic and inorganic business units, we expect UTCem's balance sheet to remain strong and strengthen further in the next couple of years.</p>

Source: Company, BOBCAPS Research | RMC: Ready Mix Concrete, WHRS: Waste Heat Recovery System, AFR: Alternate Fuel & Raw Material

Fig 2 – Key quarterly metrics

Parameter	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Volumes (mn mt)	25.6	24.3	5.5	25.2	1.3
Cement realisations (Rs/mt)	5,564	5,511	1.0	5,455	2.0
Operating costs (Rs/mt)*	5,134	5,304	(3.2)	5,217	(1.6)
EBITDA/t (Rs)	1,188	884	34.4	931	27.6

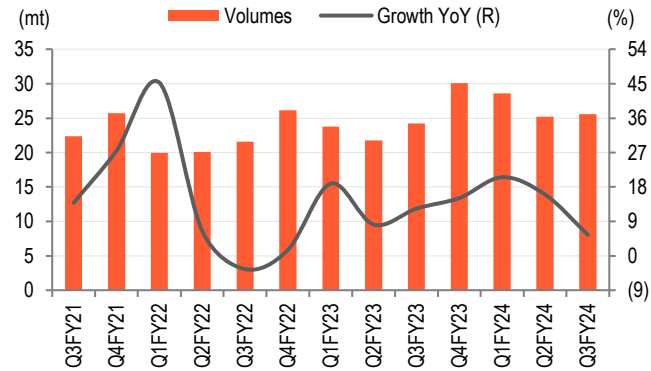
Source: Company, BOBCAPS Research | *Aggregate cost

Fig 3 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	161,735	150,080	7.8	155,170	4.2
Expenditure					
Change in stock	(2,307)	(3,477)	(33.7)	(2,246)	2.7
Raw material	22,628	21,715	4.2	21,837	3.6
Purchased products	8,592	7,790	10.3	8,373	2.6
Power & fuel	38,107	43,928	(13.3)	40,029	(4.8)
Freight	35,697	34,294	4.1	34,661	3.0
Employee costs	7,208	6,485	11.1	7,598	(5.1)
Other expenses	21,409	17,897	19.6	21,415	(0.0)
Total Operating Expenses	131,334	128,632	2.1	131,668	(0.3)
EBITDA	30,401	21,448	41.7	23,502	29.4
EBITDA margin (%)	18.8	14.3	451bps	15.1	365bps
Other Income	1,914	1,582	21.0	2,088	(8.3)
Interest	2,369	1,937	22.3	2,100	12.8
Depreciation	7,124	6,535	9.0	7,279	(2.1)
PBT	22,821	14,558	56.8	16,211	40.8
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	22,821	14,558	56.8	16,211	40.8
Tax	5,856	4,616	26.9	4,155	40.9
Reported PAT	16,965	9,942	70.6	12,057	40.7
Adjusted PAT	16,965	9,942	70.6	12,057	40.7
NPM (%)	10.5	6.6	386bps	7.8	272bps
Adjusted EPS (Rs)	58.8	34.4	70.6	41.8	40.7

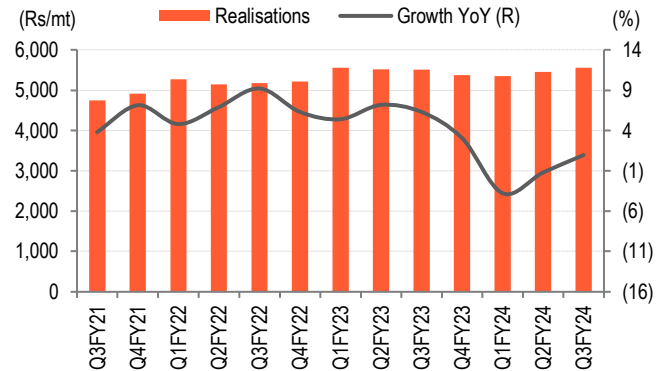
Source: Company, BOBCAPS Research

Fig 4 – Volume growth muted in Q3FY24 due to festivities, elections & monsoons



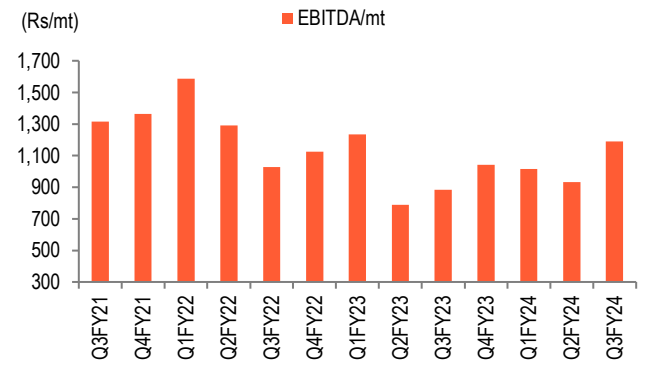
Source: Company, BOBCAPS Research

Fig 5 – Realisation flat as pressure to push volumes mounts in second half of 3Q



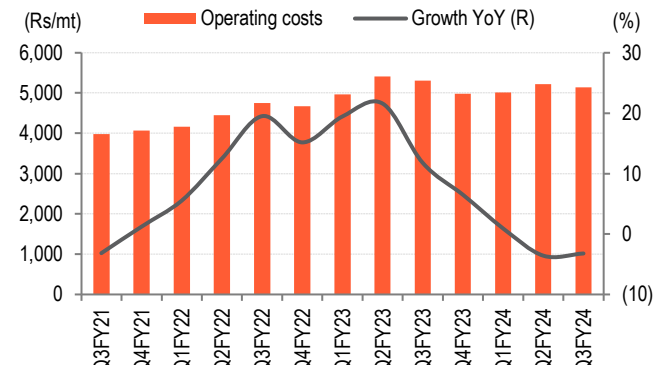
Source: Company, BOBCAPS Research

Fig 6 – Cost savings boost EBITDA/tonne



Source: Company, BOBCAPS Research

Fig 7 – Commendable cost savings; trend likely to sustain



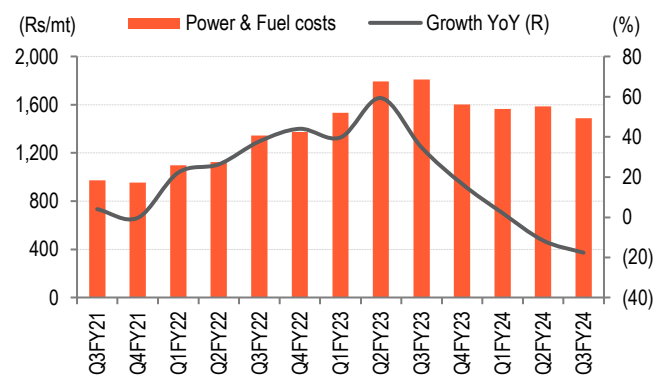
Source: Company, BOBCAPS Research

Fig 8 – Optimal freight utilisation keeps cost in check



Source: Company, BOBCAPS Research

Fig 9 – Softer fuel cost supports energy cost savings



Source: Company, BOBCAPS Research

Valuation methodology

UTCEM's capex plans through to FY27 place it on a strong growth path and should help the company maintain capacity leadership in all the major markets despite competitive pressure. Ongoing cost efficiencies focused on low-cost power and optimal logistics management are likely to boost earnings, even as its position as capacity leader offers added levers to enhance realisations and margins. The acquisition of Kesoram Industries' cement assets will also consolidate its presence in the states of Telangana and Maharashtra, although we await more clarity.

We trim our FY24/FY25 EPS estimates by 3%/6% amid the upcoming elections in India and the global overhang on energy supplies and costs. At the same time, we introduce our FY26 forecasts, baking in a brisk EBITDA/PAT CAGR of 26%/32% for the company over FY23-FY26.

Factoring in effective cost management, healthy growth and a strong balance sheet, we now value the stock at 16x FY26E EV/EBITDA (vs. 15x on FY25E) to arrive at a revised TP of Rs 11,510 (Rs 9,396), and upgrade UTCEM from HOLD to BUY. At our TP, the stock trades at a replacement cost of Rs 212bn/mt, a premium of ~2.5x to the industry.

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	654,026	749,381	881,430	667,249	770,626	NA	(2.0)	(2.8)	NA
EBITDA	133,015	167,224	198,673	135,942	175,458	NA	(2.2)	(4.7)	NA
Adj PAT	67,904	91,888	113,368	69,937	98,050	NA	(2.9)	(6.3)	NA
Adj EPS (Rs)	235.2	318.3	392.8	242.3	339.7	NA	(2.9)	(6.3)	NA

Source: BOBCAPS Research

Fig 11 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	103.13	107.71	122.39	143.81
Realisations (Rs/mt)	5,149	5,304	5,410	5,491
Operating costs (Rs/mt)	4,984	4,925	4,841	4,827
EBITDA/mt (Rs)	873	1139	1273	1,295

Source: Company, BOBCAPS Research

Fig 12 – Valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	16
EBITDA	1,98,673
Target EV	32,66,974
Total EV	32,66,974
Net debt	(55,349)
Target market capitalisation	33,22,323
Target price (Rs/sh)	11,510
Weighted average shares (mn)	288.7

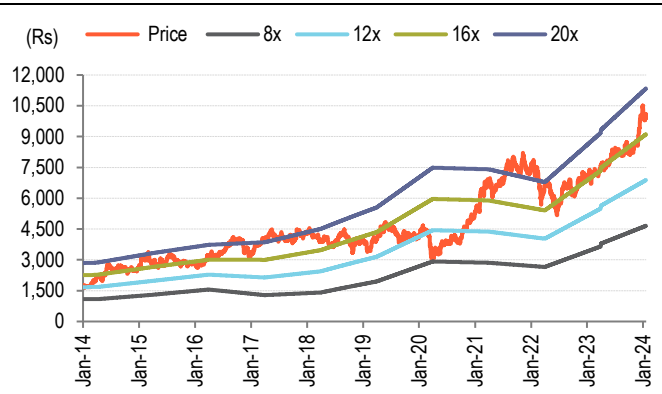
Source: BOBCAPS Research

Fig 13 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
UTCEM IN	BUY	11,510	28.6	21.4	17.1	228.8	226.7	192.8	9.6	12.2	14.7	12.0	16.0	19.0
ACEM IN	HOLD	449	18.0	10.8	8.9	286	215	204	9.3	9.5	10.1	9.2	13.8	14.6

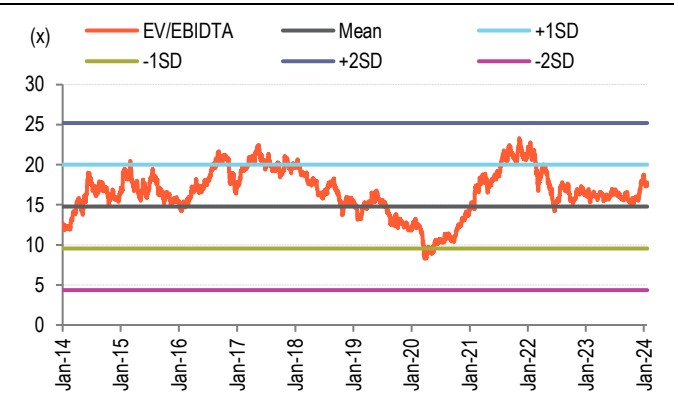
Source: BOBCAPS Research

Fig 14 – P/E 1Y fwd: Healthy performance to back premium valuations



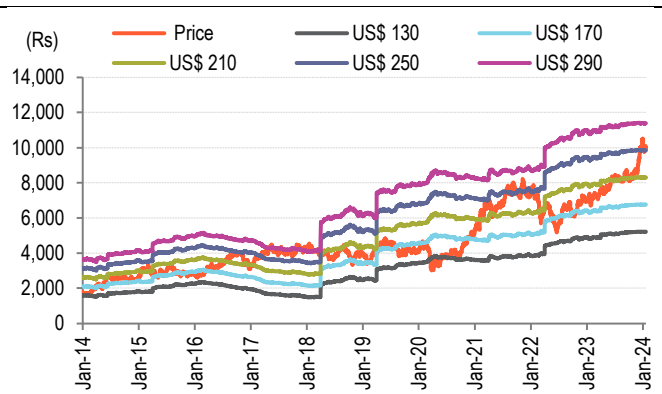
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Valuations unlikely to soften given UTCEM’s strong leadership position



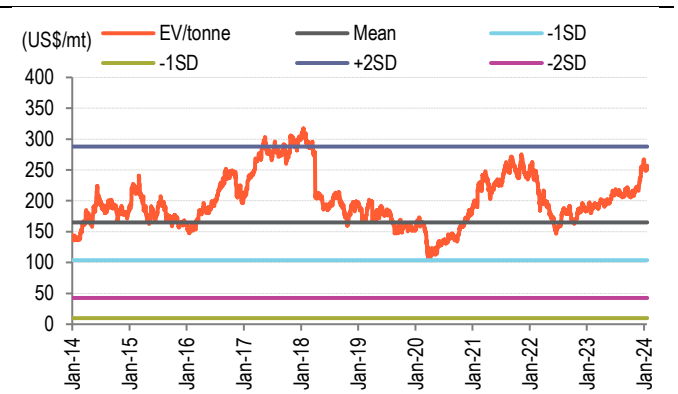
Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – Replacement cost: Commands a reasonable premium due to size and efficiencies



Source: Company, Bloomberg, BOBCAPS Research

Fig 17 – EV/t: UTCEM is likely to continue to command a premium



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Delays in the implementation of capex plans can hamper growth.
- Increasing competitive intensity and the negative impact on cement sector pricing can be detrimental for the industry and UTCEM, though the impact on the company could be relatively lower due to its leadership position.
- Energy cost spikes due to global uncertainties could dampen profitability.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ambuja Cements	ACEM IN	13.1	541	449	HOLD
Dalmia Bharat	DALBHARA IN	5.0	2,208	2,286	HOLD
JK Cement	JKCE IN	3.8	3,992	3,578	HOLD
JK Lakshmi Cement	JKLC IN	1.3	893	551	SELL
Orient Cement	ORCMNT IN	0.7	267	128	SELL
Shree Cement	SRCM IN	12.1	27,594	24,792	HOLD
Star Cement	STRCEM IN	0.9	176	159	HOLD
The Ramco Cements	TRCL IN	2.7	957	661	SELL
Ultratech Cement	UTCEM IN	35.1	9,997	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 20 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	4,97,294	6,04,626	6,54,026	7,49,381	8,81,430
EBITDA	1,09,364	99,312	1,33,015	1,67,224	1,98,673
Depreciation	(24,568)	(26,192)	(29,335)	(33,736)	(35,254)
EBIT	90,915	80,014	1,10,993	1,42,582	1,73,857
Net interest inc./(exp.)	(7,983)	(7,550)	(8,125)	(8,570)	(9,832)
Other inc./(exp.)	6,118	6,894	7,313	9,094	10,438
Exceptional items	5,352	0	0	0	0
EBT	88,284	72,464	1,02,868	1,34,012	1,64,025
Income taxes	(17,618)	(23,295)	(34,965)	(42,124)	(50,658)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	70,666	49,169	67,904	91,888	1,13,368
Adjustments	5,352	0	0	0	0
Adjusted net profit	65,314	49,169	67,904	91,888	1,13,368

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	97,164	1,13,015	1,20,220	1,32,620	1,51,362
Other current liabilities	49,400	68,224	70,160	76,240	78,320
Provisions	8,175	7,779	8,259	8,774	9,327
Debt funds	1,06,874	1,01,440	56,221	70,226	1,11,957
Other liabilities	52,299	54,758	58,348	59,598	61,048
Equity capital	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	4,89,820	5,26,482	5,83,578	6,64,660	7,65,869
Shareholders' fund	4,92,706	5,29,369	5,86,465	6,67,546	7,68,756
Total liab. and equities	8,06,617	8,74,584	8,99,672	10,15,004	11,80,769
Cash and cash eq.	56,853	72,802	47,588	99,025	1,67,305
Accounts receivables	27,068	32,422	35,519	41,210	50,887
Inventories	51,625	60,842	66,261	76,435	92,319
Other current assets	1,05,963	1,03,368	1,06,057	1,15,283	1,26,811
Investments	63,074	72,602	71,397	71,397	71,397
Net fixed assets	4,30,850	4,69,216	4,56,841	4,94,893	5,65,059
CWIP	46,191	38,072	90,000	90,000	80,000
Intangible assets	24,993	25,260	26,010	26,760	26,991
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	8,06,617	8,74,584	8,99,672	10,15,004	11,80,769

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	58,914	99,263	99,245	1,20,777	1,34,359
Capital expenditures	(55,697)	(55,845)	(69,638)	(72,538)	(95,651)
Change in investments	58,463	(17,905)	19,205	(16,000)	(20,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	2,766	(73,750)	(50,433)	(88,538)	(1,15,651)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(66,361)	(5,434)	(45,219)	14,005	41,730
Interest expenses	7	8	9	10	10
Dividends paid	(10,670)	(10,927)	(10,807)	(10,807)	(12,158)
Other financing cash flows	(816)	(1,579)	0	0	0
Cash flow from financing	(77,848)	(17,940)	(56,026)	3,198	29,572
Chg in cash & cash eq.	(16,167)	7,573	(7,214)	35,438	48,280
Closing cash & cash eq.	56,853	72,803	47,588	99,025	1,67,305

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	244.8	170.3	235.2	318.3	392.8
Adjusted EPS	226.3	170.3	235.2	318.3	392.8
Dividend per share	37.0	37.9	32.0	32.0	36.0
Book value per share	1,706.9	1,833.9	2,031.8	2,312.6	2,663.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.6	4.7	4.4	3.8	3.3
EV/EBITDA	25.6	28.6	21.4	17.1	14.6
Adjusted P/E	44.2	58.7	42.5	31.4	25.5
P/BV	5.9	5.5	4.9	4.3	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	80.0	67.9	66.0	68.6	69.1
Interest burden (PBT/EBIT)	91.2	90.6	92.7	94.0	94.3
EBIT margin (EBIT/Revenue)	18.3	13.2	17.0	19.0	19.7
Asset turnover (Rev./Avg TA)	61.7	71.9	73.7	78.3	80.3
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.6	1.5	1.5
Adjusted ROAE	14.3	9.6	12.2	14.7	15.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	16.5	21.6	8.2	14.6	17.6
EBITDA	(0.3)	(9.2)	33.9	25.7	18.8
Adjusted EPS	18.6	(24.7)	38.1	35.3	23.4
Profitability & Return ratios (%)					
EBITDA margin	21.6	16.2	20.0	22.0	22.3
EBIT margin	18.3	13.2	17.0	19.0	19.7
Adjusted profit margin	13.1	8.1	10.4	12.3	12.9
Adjusted ROAE	14.3	9.6	12.2	14.7	15.8
ROCE	13.9	12.0	16.0	19.0	20.0
Working capital days (days)					
Receivables	20	20	20	20	21
Inventory	38	37	37	37	38
Payables	89	80	83	82	80
Ratios (x)					
Gross asset turnover	0.9	1.0	1.0	1.0	1.1
Current ratio	1.6	1.4	1.3	1.5	1.8
Net interest coverage ratio	11.4	10.6	13.7	16.6	17.7
Adjusted debt/equity	0.2	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

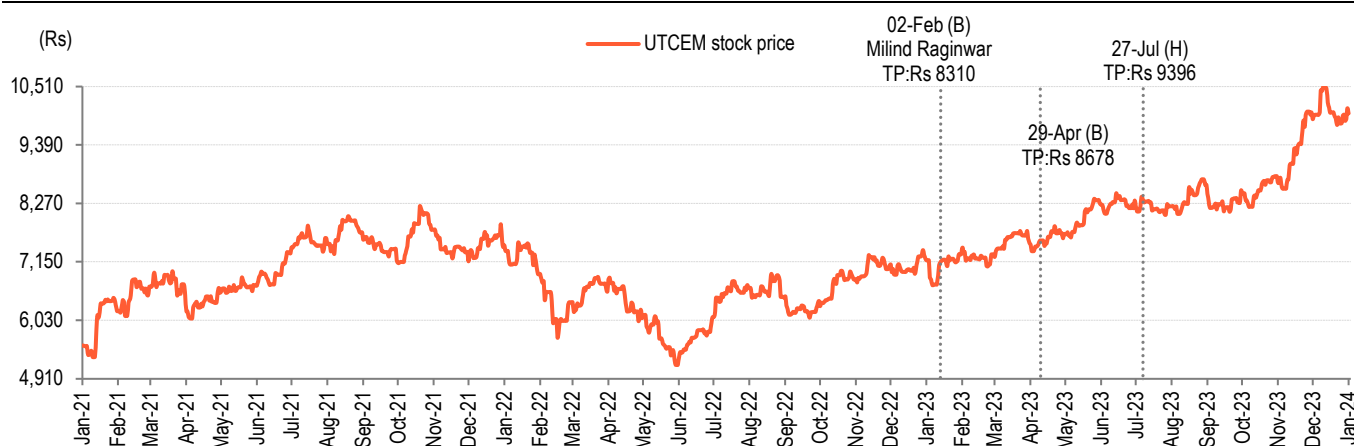
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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