

UltraTech Cement | BUY

In-line quarter; JPA assets ramp-up key monitorable



Ultratech reported revenue of Rs66.3bn, 6% YoY (3.5% below JMFe) primarily on cement realisation growth of 8% YoY. Volumes were flat at 13.2MT (white cement at 0.28MT). EBITDA for the quarter grew by 10% YoY, marginally ahead than JMFe primarily on lower than expected cost escalation. EBITDA/t at Rs1,033/t vs. Rs965/t in 1QFY17, grew on account higher realisation and lower raw material cost, partially offset by increase in power /fuel costs and freight. Ultratech completed Jaiprakash asset acquisition during the quarter, which we expect to be EPS accretive by FY20. We continue to value the company at 12x EVE to arrive at a TP of Rs4,550 (Sep'18). Maintain BUY.

- Realisation drives revenue growth of 6%:** Ultratech reported revenue of Rs66.3bn in 1QFY18 growing at 6% YoY primarily driven by cement realisation growth (8% YoY). Volumes recorded a flat growth at 13.2MT (White cement at 0.28MT) with capacity utilisation at 78%. Revenue was 3.5% below JMFe on lower than expected volumes (2% below JMFe). Realisation growth was primarily on account of higher cement prices during the quarter aided by increased proportion of premium products (UBS +8.5% YoY).
- Margin expansion on higher realisation and lower raw material costs:** Company reported an EBITDA of Rs15.6bn in 1QFY18 (marginally higher than JMFe), growing at 10% YoY. EBITDA/t at Rs1,033/t (vs JMFe of Rs1,013/t) grew by 7% YoY primarily on realisation growth (Rs252/t impact) and lower raw material costs (Rs94/t impact) partially offset by higher power and fuel costs (-Rs207/t impact) – on higher petcoke/coal prices and freight costs (-Rs31/t impact) – higher diesel prices and busy season surcharge exemption for two months in 1QFY17. Impact of higher petcoke prices was softened by higher WHRS share (8% vs 6% in 1QFY17) and increase usage of AFR in kiln (3% vs 1% in 1QFY17).
- Demand remains weak during the quarter:** Management indicated sand availability issue in northern, southern and eastern regions while east is experiencing improvement on the back of increased demand from rural markets, IHB and infrastructure segment.
- Other details:** i) Ultratech completed the acquisition of Jaiprakash assets on 29th June, 2017. We expect Jaiprakash acquisition to be EPS accretive by FY20. the plants are running at 15% utilisation at present (Rs400/t EBITDA). Additionally, with acquisition, Ultratech's capacity share in central has become 30%; ii) Greenfield capacity at Dhar in Madhya Pradesh is expected to start contributing from 4QFY19 onwards. As highlighted in our report ([Ultratech - Well placed to tap demand recovery with 76MT expansion](#)), the capacity will give company the exposure to new markets of northern/central Maharashtra and southern/central MP; iii) Net debt post acquisition stands at Rs128.7bn (vs Rs24.2bn net cash) and Net debt to EBITDA stands at 1.87x.
- Maintain Buy:** We expect the RoEs to improve from 11% in FY18E to 19% by FY20E as volume improvement results in improved operating leverage. The stock is currently trading at 14/10.7x FY19/20E EVE and US\$200/189 FY19/20E EV/t. We value Ultratech at 12x times stabilised EVE to arrive at a TP of Rs4,550 (Sep'18)

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	4,550
Upside/(Downside)	5.1%
Previous Price Target	4,350
Change	4.6%

Key Data – UTCEM IN

Current Market Price	Rs4,331
Market cap (bn)	Rs1,188.9/US\$18.5
Free Float	37%
Shares in issue (mn)	274.4
Diluted share (mn)	274.4
3-mon avg daily val (mn)	Rs1,032.8/US\$1.0
52-week range	4,533/3,050
Sensex/Nifty	31,711/9,827
Rs/US\$	64.3

Price Performance

%	1M	6M	12M
Absolute	5.0	23.7	23.8
Relative*	2.8	6.3	8.3

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(Rs mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	234,402	236,157	300,013	374,848	449,559
Sales Growth (%)	3.5	0.7	27.0	24.9	19.9
EBITDA	46,265	49,690	65,378	90,362	115,369
EBITDA Margin (%)	19.5	20.8	21.6	23.9	25.4
Adjusted Net Profit	23,701	26,414	26,895	43,175	62,890
Diluted EPS (Rs.)	86.4	96.3	98.0	157.3	229.2
Diluted EPS Growth (%)	17.6	11.4	1.8	60.5	45.7
ROIC (%)	11.2	12.2	11.4	13.0	17.8
ROE (%)	11.7	11.6	10.7	15.3	18.9
P/E (x)	50.1	45.0	44.2	27.5	18.9
P/B (x)	5.5	5.0	4.5	3.9	3.3
EV/EBITDA (x)	26.9	24.7	20.5	14.3	10.7
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 18/Jul/2017

Concall highlights

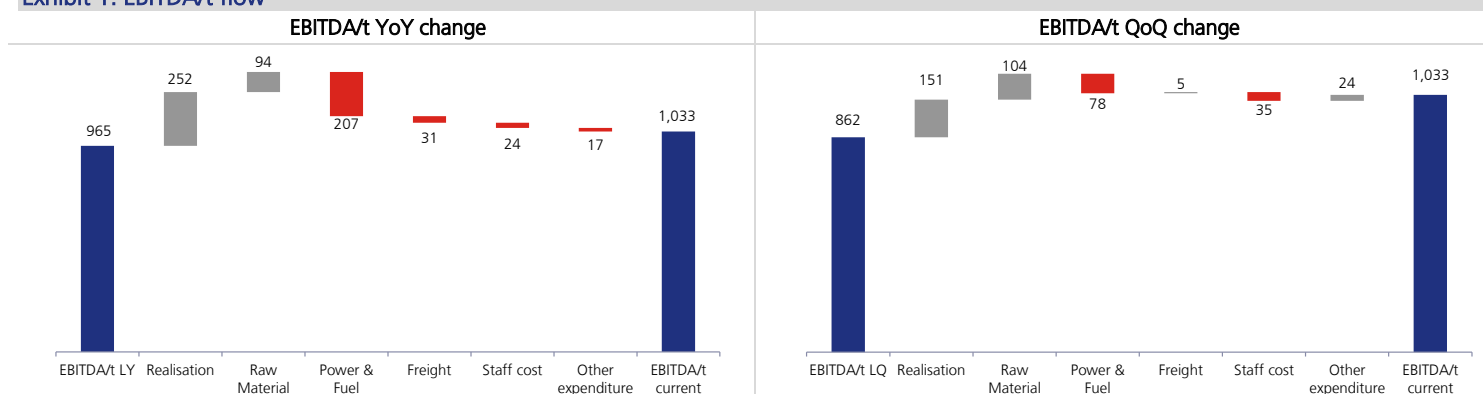
■ Jaiprakash assets

- Management expects the 4MT capacity under construction to be online by the end of FY19. The capacity is expected to be commissioned in two phases with a time interval of 6 months
- Management expects to ramp up Jaiprakash plants utilisation by 60% by FY18 and 70% by FY19 end
- Company is expecting the transaction to be cash break even by 1QFY19
- Ultratech rebranding for products from Jaiprakash plants are in process; BIS applications has been made. The company would be making changes in the plants to bring the quality levels in sync with quality from other plants. Rebranding exercise is expected to cost Rs200-300mn in Q2FY18.
- Jaiprakash brands are categorised in category B which sell at Rs15-20/bag lower than the category A brands
- Jaiprakash plants utilisation have come down from nearly 40% in Jan-Mar'17 to 15% in 1QFY18
- Blending ratio in the plants is expected to go up to 60-70%

■ Region-wise capacity utilisation for the industry

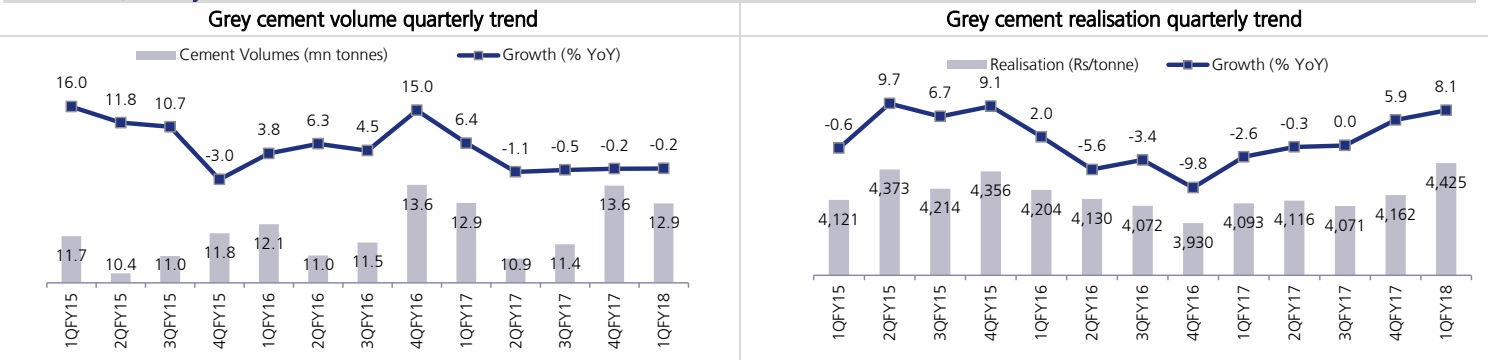
- East utilisation levels were upwards of 90%
 - North and west utilisations were upwards of 80%
 - South utilisation was at around 60%
 - And Central region utilisation was at around 70%
- Pet-coke prices are witnessing a small weakness in last 30 days. Domestic players have reduced pet-coke prices. Prices are high on the back of demand from China. **Current pet-coke price is at US\$87-90/t** coming off from highs of US\$94-95/t. Average pet-coke price for 1QFY19 stood at US\$84-85/t
 - Industry is experiencing a sand shortage to the extent of 50% decline in supply. However, management indicated improvement in the availability.
 - Cement to clinker ratio was 1.34 in 1QFY18
 - Company has passed on the benefits of GST which has resulted in marginal price decline
 - Management guided for a capital expenditure of Rs20bn each in FY18 and FY19, with majority expenditure for the on-going greenfield Dhar project in MP.
 - Cement Industry, in the NGT ruling, has been allowed the usage of pet-coke in Kiln and in Power plants.

Exhibit 1. EBITDA/t flow



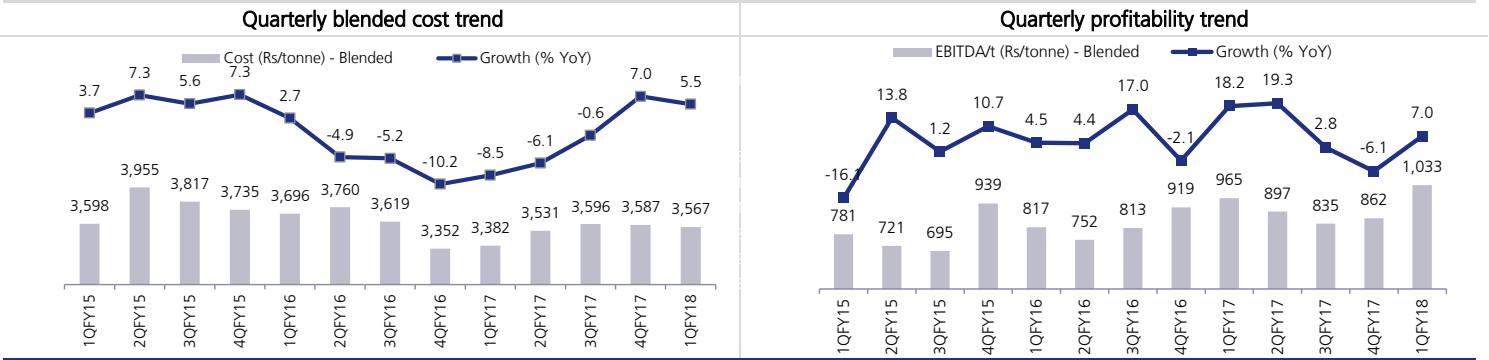
Source: Company, JM Financial

Exhibit 2. Quarterly volume and realisation trend



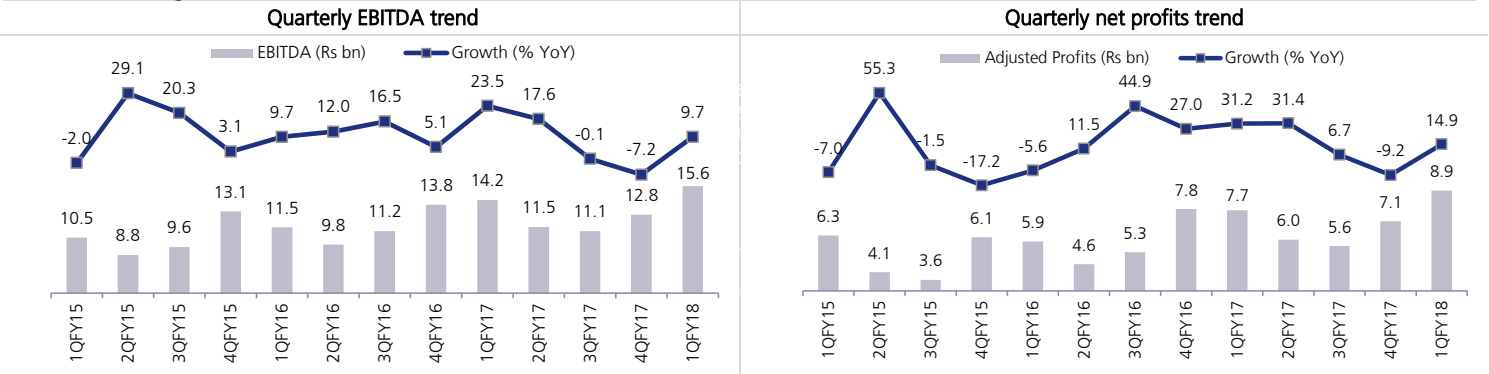
Source: Company, JM Financial

Exhibit 3. Cost and EBITDA/t trend



Source: Company, JM Financial

Exhibit 4. Earnings trend



Source: Company, JM Financial

Exhibit 5. Results in brief

	1Q FY18	1Q FY17	%YoY	4Q FY17	% QoQ	FY18E	FY17	%YoY
Sales	65,330	61,790	5.7	65,953	-0.9	300,013	237,123	26.5
Other Operating Income	935	505	85.2	0		3,000	1,805	66.2
Total Revenues	66,265	62,295	6.4	65,953	0.5	303,013	238,928	26.8
Expenditure	50,664	48,071	5.4	53,171	-4.7	237,635	189,239	25.6
EBITDA	15,601	14,224	9.7	12,782	22.1	65,378	49,689	31.6
EBITDA margin (%)	23.5	22.8	71 bps	19.4	416 bps	21.6	20.8	78 bps
Interest	1,285	1,525	-15.7	1,529	-16.0	12,730	5,714	122.8
Depreciation	3,098	3,027	2.3	3,357	-7.7	17,037	12,679	34.4
Other Income	1,652	1,504	9.8	2,401	-31.2	3,941	6,600	-40.3
PBT	12,870	11,176	15.2	10,297	25.0	39,552	37,896	4.4
Tax	3,963	3,428	15.6	2,243	76.7	12,657	10,449	21.1
% tax rate	30.8	30.7	12 bps	21.8	901 bps	32.0	27.6	
PAT (Adjusted)	8,906	7,748	14.9	8,054	10.6	26,895	27,447	-2.0
Extraordinary Inc/Exp	-75	-173		95		0	137	
Total Comprehensive Income(Reported)	8,832	7,575	16.6	8,149	8.4	26,895	27,584	-2.5
EPS (Rs)	32.5	28.2	14.9	25.8	25.6	98.0	100.0	-2.0
Grey cement volumes (mn tonnes)	12.9	12.9	-0.2	13.6	-4.8	59.6	48.8	22.1
Total volumes (mn tonnes)	14.2	14.2	-0.1	14.8	-4.2	65.0	53.7	21.0
Blended Realisation* (Rs/tonne)	4,600	4,348	5.8	4,449	3.4	4,616	4,413	4.6
EBITDA* (Rs/tonne)	1,033	965	7.0	862	19.8	960	891	7.7

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	1Q FY18	1Q FY17	%YoY	4Q FY17	% QoQ	FY18E	FY17	%YoY
Raw material	9,040	8,860	2.0	9,364	-3.5	43,174	34,678	24.5
Rs/tonne	637	623	2.1	632	0.8	664	645	2.9
Purchase of Fin. Goods	1,188	1,150	3.3	1,303	-8.8	6,020	4,836	24.5
Power/fuel cost	12,174	9,237	31.8	11,543	5.5	49,834	39,266	26.9
Rs/tonne	857	650	31.9	779	10.1	767	731	4.9
Change in stock	-681	884		841		910	745	
Total direct costs	21,720	20,130	7.9	23,050	-5.8	99,938	79,524	25.7
Rs/tonne	1,529	1,416	8.0	1,555	-1.6	1,480	1,543	-4.0
Staff cost	3,803	3,466	9.7	3,449	10.3	17,768	14,134	25.7
Rs/tonne	268	244	9.8	233	15.1	273	263	3.9
Freight	15,880	15,453	2.8	16,645	-4.6	72,772	58,453	24.5
Rs/tonne	1,118	1,087	2.8	1,123	-0.4	1,120	1,088	2.9
Other expenditure	9,261	9,021	2.7	10,027	-7.6	47,157	37,128	27.0
Rs/tonne	652	635	2.7	676	-3.6	726	691	5.0
Total expenditure	50,664	48,071	5.4	53,171	-4.7	237,635	189,239	25.6
Cost per tonne (Rs)	3,567	3,382	5.5	3,587	-0.5	3,656	3,522	3.8

Source: Company, JM Financial

Company background

- UltraTech Cement (UTCEM) is part of the US\$41bn Aditya Birla Group. UTCEM and its subsidiaries have an annual capacity of 89MT (including Jaiprakash assets of 21.2MTPA), making it among the top-10 producers of cement globally. It is also the largest manufacturer of white cement in India. It has 18 integrated plants, 25 grinding units, six bulk terminals and more than 100 RMC plants, spanning India, the UAE, Bahrain, Bangladesh and Sri Lanka. UTCEM is India's largest exporter of cement clinker reaching out to countries around the Indian Ocean, Africa, Europe and the Middle East.

Investment rationale

- Market leader with significant share in new capacity addition: The company added 17.5MT capacity in FY13–17, which is c.20% of the total capacity addition in the country during the period, thereby improving its capacity share to c.15%. The company has also aggressively ramped up its portfolio in the non-grey cement business (white cement/RMC) and is well poised for growth in these businesses as well. The company has also aggressively pursued inorganic expansion by buying 21.2MT of manufacturing capacity from Jaiprakash Associates.
- Stabilising cost pressures and operating leverage to drive profitability higher: Having completed significant organic/inorganic expansions in recent times, the volume growth is expected to be strong, which will help generate significant operating leverage over the next two years. Apart from this, significant investments in cost savings measures such as waste heat recovery plants, bulk terminals, plant modernisation and other logistical benefits from acquisition of Jaiprakash assets are expected to start yielding fruits and ramp up the profitability.
- Balance sheet remains well equipped to capitalise on acquisition opportunities: With the acquisition of Jaiprakash assets at Rs161.9bn, the net debt on the company's balance increased to Rs128.7bn (ND:Equity and ND:EBITDA as on 30th June, 2017 stood at 0.52x and 1.87x respectively). However, operating cash flow generation of Rs128bn over FY19–20 will help in the debt repayment in the next two years.

Key risks

- More-than-expected delay in recovery of cement demand after demonetisation
- Continued volatility in cement prices in the environment of subdued demand, lower utilisations and rising costs would impact profitability

Valuation

- UTCEM is currently trading at 14/10.7x FY19/20E EV/EBITDA and US\$200/189 on FY19–20E EV/t.

Exhibit 7. Volume, realisation and cost outlook

	FY16	FY17	FY18E	FY19E	FY20E
Cement Sales (mn tonnes)*	48.0	48.8	59.6	70.5	80.9
YoY Growth (%)	7.0	1.8	22.0	18.4	14.8
Cement Realisations (Rs/tonne)	4,098	4,109	4,349	4,646	4,880
YoY Growth (%)	-3.9	0.3	5.8	6.8	5.0
Power & Fuel (Rs/tonne)	872	938	991	1,041	1,087
Freight (Rs/tonne)	1,052	994	1,016	1,041	1,069
Raw Material (Rs/tonne)	475	479	499	520	542
Cement EBITDA (Rs/tonne)	795	852	934	1,119	1,260

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	234,402	236,157	300,013	374,848	449,559	
Sales Growth	3.5%	0.7%	27.0%	24.9%	19.9%	
Other Operating Income	2,686	2,757	3,000	3,748	4,496	
Total Revenue	237,088	238,914	303,013	378,597	454,054	
Cost of Goods Sold/Op. Exp	35,331	35,410	44,084	53,417	62,953	
Personnel Cost	13,431	14,134	17,768	21,529	25,363	
Other Expenses	142,061	139,681	175,783	213,289	250,369	
EBITDA	46,265	49,690	65,378	90,362	115,369	
EBITDA Margin	19.5%	20.8%	21.6%	23.9%	25.4%	
EBITDA Growth	10.3%	7.4%	31.6%	38.2%	27.7%	
Depn. & Amort.	12,970	12,679	17,037	20,188	21,088	
EBIT	33,295	37,011	48,341	70,174	94,281	
Other Income	4,807	6,600	3,941	4,516	5,092	
Finance Cost	5,117	5,714	12,730	11,197	6,887	
PBT before Excep. & Forex	32,985	37,896	39,552	63,493	92,485	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	32,985	37,896	39,552	63,493	92,485	
Taxes	9,284	11,482	12,657	20,318	29,595	
Extraordinary Inc./Loss(-)	0	-137	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	23,701	26,277	26,895	43,175	62,890	
Adjusted Net Profit	23,701	26,414	26,895	43,175	62,890	
Net Margin	10.0%	11.1%	8.9%	11.4%	13.9%	
Diluted Share Cap. (mn)	274.4	274.4	274.4	274.4	274.4	
Diluted EPS (Rs.)	86.4	96.3	98.0	157.3	229.2	
Diluted EPS Growth	17.6%	11.4%	1.8%	60.5%	45.7%	
Total Dividend + Tax	2,934	3,110	3,306	3,637	3,967	
Dividend Per Share (Rs)	9.1	9.7	10.0	11.0	12.0	

Source: Company, JM Financial

Balance Sheet		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	216,318	239,410	262,998	302,537	361,460	
Share Capital	2,744	2,745	2,744	2,744	2,744	
Reserves & Surplus	213,574	236,665	260,254	299,793	358,716	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	82,499	62,404	162,404	112,404	52,404	
Def. Tax Liab. / Assets (-)	24,320	27,736	27,736	27,736	27,736	
Total - Equity & Liab.	323,137	329,550	453,138	442,677	441,600	
Net Fixed Assets	241,031	241,101	405,955	405,766	404,678	
Gross Fixed Assets	239,116	256,741	438,631	458,631	478,631	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	12,241	24,424	41,460	61,649	82,737	
Capital WIP	14,156	8,784	8,784	8,784	8,784	
Investments	57,932	74,087	49,087	49,087	49,087	
Current Assets	83,943	77,623	72,265	79,420	96,829	
Inventories	22,776	22,250	28,768	35,944	43,108	
Sundry Debtors	14,149	12,762	16,439	20,540	24,633	
Cash & Bank Balances	22,352	22,177	6,624	2,502	8,654	
Loans & Advances	1,849	1,795	1,795	1,795	1,795	
Other Current Assets	22,817	18,639	18,639	18,639	18,639	
Current Liab. & Prov.	59,769	63,261	74,168	91,595	108,993	
Current Liabilities	0	0	0	0	0	
Provisions & Others	59,769	63,261	74,168	91,595	108,993	
Net Current Assets	24,174	14,362	-1,902	-12,175	-12,164	
Total - Assets	323,137	329,550	453,139	442,678	441,601	

Source: Company, JM Financial

Cash Flow Statement		(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	32,985	37,760	39,552	63,493	92,485	
Depn. & Amort.	12,970	12,679	17,037	20,188	21,088	
Net Interest Exp. / Inc. (-)	5,117	5,714	12,730	11,197	6,887	
Inc (-) / Dec in WCap.	5,211	4,878	711	6,151	6,141	
Others	-4,385	-6,511	-3,941	-4,516	-5,092	
Taxes Paid	-8,355	-7,307	-12,657	-20,318	-29,595	
Operating Cash Flow	43,543	47,213	53,432	76,195	91,915	
Capex	-20,595	-12,274	-181,890	-20,000	-20,000	
Free Cash Flow	22,949	34,939	-128,458	56,195	71,915	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	-16,972	-11,361	28,941	4,516	5,092	
Investing Cash Flow	-37,567	-23,635	-152,949	-15,484	-14,908	
Inc / Dec (-) in Capital	27	66	0	0	0	
Dividend + Tax thereon	-2,926	-3,085	-3,306	-3,637	-3,967	
Inc / Dec (-) in Loans	2,463	-15,337	100,000	-50,000	-60,000	
Others	-5,388	-5,470	-12,730	-11,197	-6,887	
Financing Cash Flow	-5,824	-23,826	83,964	-64,833	-70,854	
Inc / Dec (-) in Cash	152	-249	-15,553	-4,122	6,152	
Opening Cash Balance	2,006	22,352	22,177	6,624	2,502	
Closing Cash Balance	2,158	22,103	6,624	2,502	8,654	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Margin	10.0%	11.1%	8.9%	11.4%	13.9%	
Asset Turnover (x)	0.8	0.7	0.8	0.8	1.0	
Leverage Factor (x)	1.5	1.4	1.6	1.6	1.3	
RoE	11.7%	11.6%	10.7%	15.3%	18.9%	

Key Ratios

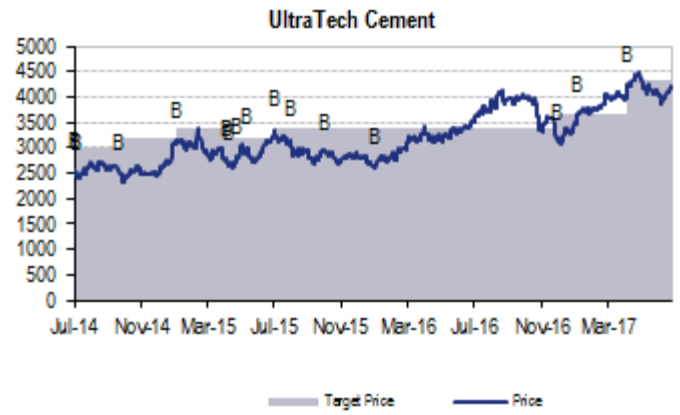
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (Rs.)	788.3	872.4	958.2	1,102.3	1,317.0
ROIC	11.2%	12.2%	11.4%	13.0%	17.8%
ROE	11.7%	11.6%	10.7%	15.3%	18.9%
Net Debt/Equity (x)	0.3	0.2	0.6	0.4	0.1
P/E (x)	50.1	45.0	44.2	27.5	18.9
P/B (x)	5.5	5.0	4.5	3.9	3.3
EV/EBITDA (x)	26.9	24.7	20.5	14.3	10.7
EV/Sales (x)	5.3	5.1	4.4	3.4	2.7
Debtor days	22	19	20	20	20
Inventory days	35	34	35	35	35
Creditor days	0	0	0	0	0

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
4-Mar-14					2,200	
25-Apr-14					2,400	9.1
21-Jul-14					3,000	25.0
24-Jul-14					3,000	0.0
10-Oct-14					3,200	6.7
23-Jan-15					3,400	6.3
22-Apr-15					3,400	0.0
26-Apr-15					3,200	-5.9
13-May-15					3,200	0.0
1-Jun-15					3,200	0.0
20-Jul-15					3,400	6.3
19-Aug-15	179.7				3,400	0.0
19-Oct-15	179.5	-0.1			3,400	0.0
20-Jan-16	160.9	-10.4			3,400	0.0
19-Dec-16	112.5	-30.1	162.5		3,670	7.9
24-Jan-17			162.5		3,670	
26-Apr-17			163.5		4,350	

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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