

UltraTech Cement | BUY

Stable operational performance despite JP overheads

Ultratech reported revenue of INR65bn, 20% YoY primarily on 18% YoY volume growth at 13.14mnT as it accounted for JP assets during the quarter. Realisations were stable on sequential basis indicating faster completion in the rebranding exercise of the acquired units. EBITDA for the quarter grew by 17% YoY with EBITDA/t at INR907/t vs. INR897/t in 2QFY17, grew marginally as stable realisation and cost controls offset the increase in power/fuel and freight costs. While the acquisition is earnings dilutive at present, we expect it to be EPS accretive by FY20 as operations ramp up on demand uptick. We continue to value the company at 12x EVE to arrive at a TP of Rs4,550 (Sep'18). Maintain BUY.

- Ramp up in JP assets drive revenues:** Ultratech reported revenue of Rs65bn in 2QFY18 growing at 20% YoY primarily driven by a volume growth (+18% YoY) as the JP plants started contributing to the sales. Realisations for the quarter were stable sequentially (+4% YoY). Revenue was 5% ahead of JMFe primarily on higher than expected volumes (3% ahead of JMFe); indicating steady ramp up in the JP operations. Additionally, realisation trend for the quarter was further boosted by the completion of JP assets' rebranding exercise. Realisation growth is aided by increased proportion of premium products (UBS +9% YoY) and change in the sales pattern (FOR from ex-works post GST)
- Stable operating margins despite JP ramp up:** Company reported an EBITDA of Rs13.5bn in 2QFY18 growing at 17% YoY. EBITDA/t at Rs907/t grew marginally YoY primarily on realisation growth (Rs170/t impact), lower raw material costs (Rs60/t impact) and other expenses (Rs77/t impact) partially offset by higher power and fuel costs (-Rs222/t impact) – on higher petcoke/coal prices and freight costs (-Rs54/t impact) – higher diesel prices and change in the sales pattern to FOR terms. However, exemption of the busy season surcharge offset the freight cost escalation sequentially. Impact of higher petcoke prices (USD 95/t) was softened by higher WHRS share (8%) and increase usage of AFR in kiln (3% vs 2% in 2QFY17). We were positively surprised by the low overhead costs reported despite one-off costs incurred on JP assets to improve quality and quantum.
- Other details:** i) Ultratech completed the acquisition of Jaiprakash assets on 29th June, 2017. We expect Jaiprakash acquisition to be EPS accretive by FY20. Additionally, with acquisition, Ultratech's capacity share in central has become 30%; ii) Company expects to be cash breakeven by 1QFY19; iii) Management expects JP Super/Bara units (2.3MT clinker/4MT grinding) to be commissioned in Sept'18; iii) Net debt as on Sep'17 stands at Rs136bn (vs Rs129bn as on Jun'17)
- Maintain Buy:** We expect the RoEs to increase from 11% in FY18E to 19% by FY20E as volume improvement results in improved operating leverage. The stock is currently trading at 12.9/9.5x FY19/20E EVE and US\$189/178 FY19/20E EV/t. We value Ultratech at 12x times EVE to arrive at a TP of Rs4,550 (Sep'18). Key monitorable will be demand uptick and operations ramp up in JP assets.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	4,550
Upside/(Downside)	11.3%
Previous Price Target	4,550
Change	0.0%

Key Data – UTCEM IN

Current Market Price	INR4,089
Market cap (bn)	INR1,122.7/US\$17.3
Free Float	37%
Shares in issue (mn)	274.4
Diluted share (mn)	274.4
3-mon avg daily val (mn)	INR944.1/US\$14.5
52-week range	4,533/3,050
Sensex/Nifty	32,609/10,234
INR/US\$	64.9

Price Performance

%	1M	6M	12M
Absolute	-2.9	2.2	1.9
Relative*	-3.9	-7.8	-14.0

* To the BSE Sensex

Financial Summary					(INR 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 (INR)	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)	47.3	42.5	41.7	26.0	17.8
P/B (x)	5.2	4.7	4.3	3.7	3.1
EV/EBITDA (x)	25.5	23.4	19.5	13.6	10.1
Dividend Yield (%)	0.2	0.2	0.2	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 17/Oct/2017

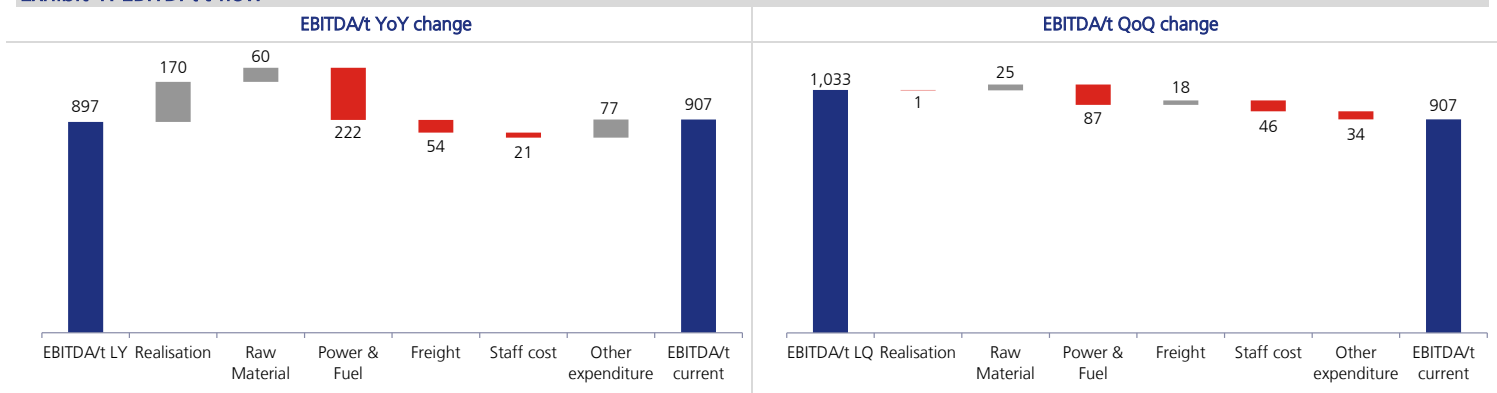
JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Other concall highlights

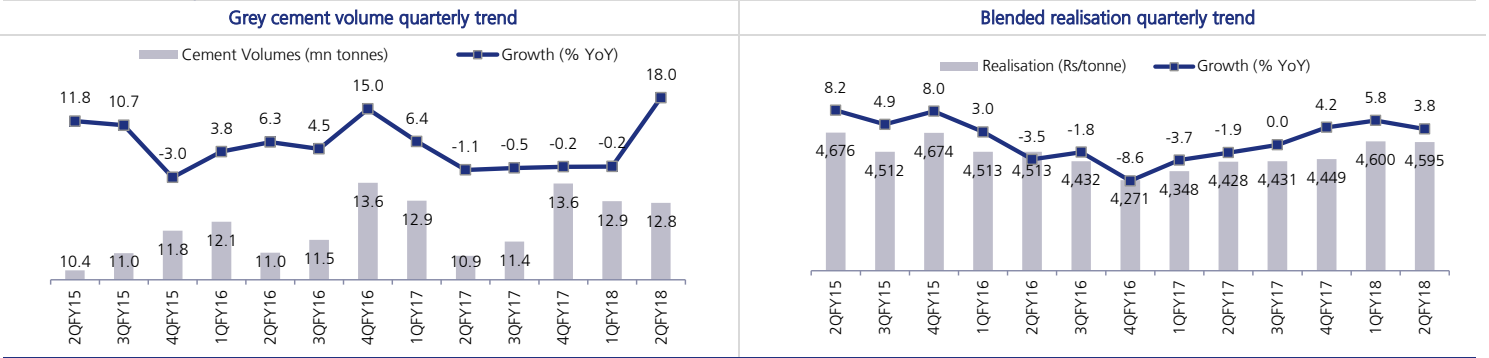
- RMC revenues stood at INR4,400mn and White cement revenue stood at INR 4,150mn
- Average petcoke prices for the quarter stood at USD90/t (currently at USD105/t)
 - Management indicated that in some regions the domestic coal is cheaper than petcoke
- Management expects the demand uptick from
 - Maharashtra – Demand from infra projects like Trans-harbour link (work to start from Oct'17), JNPT port renovation
 - Gujarat – Western rail freight corridor
 - Rajasthan – Road projects, demand on account of Swacch Bharat initiatives by the government
 - MP – Rajgarh district rehabilitation
 - Haryana – Rural demand and road projects
- Under PMAY government plans to complete 10 mn of 25 sq mt houses by FY19. (10-15mt of additional demand for cement)
- Management indicated that some pits have been opened in Bihar for sand mining in Oct'17 and the supply is expected to improve in eastern UP and Bihar
- Regionwise utilisation;
 - North – 60-70%
 - Central – 50%
 - East – 70%
 - South – 50%
 - West – 70%
- White cement and Putty have been growing at 18% CAGR over last seven years and demand is still looking strong for the segment
- Company is putting up a 4LMT of wall care putty capacity at an investment of INR19.4bn which is expected to be commissioned during 2QFY20

Exhibit 1. EBITDA/t flow



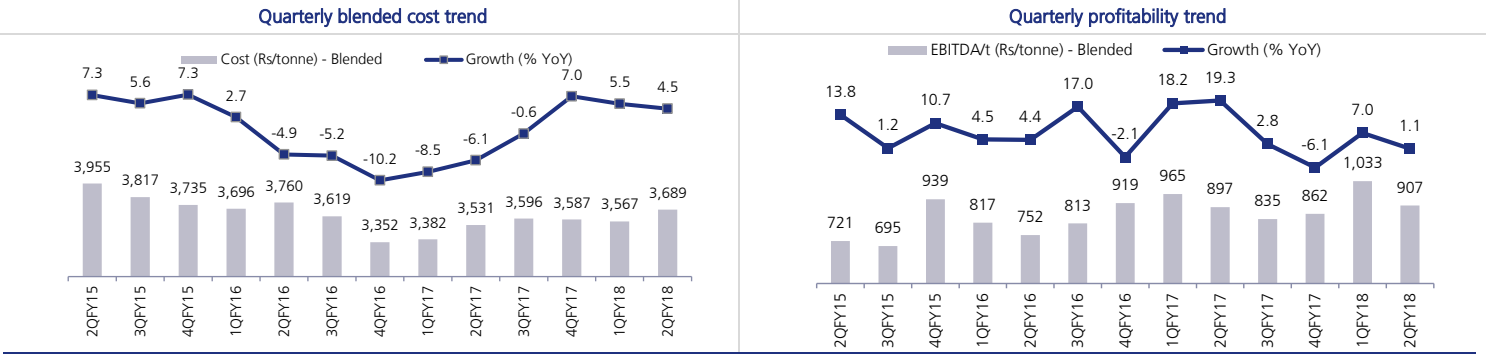
Source: Company, JM Financial

Exhibit 2. Quarterly volume and realisation trend



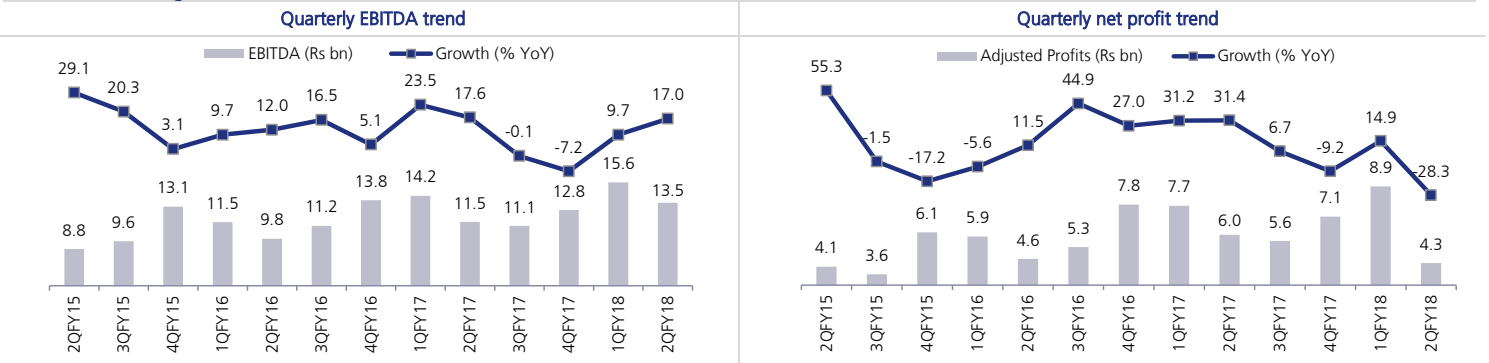
Source: Company, JM Financial

Exhibit 3. Cost and EBITDA/t trend



Source: Company, JM Financial

Exhibit 4. Earnings trend



Source: Company, JM Financial

Exhibit 5. Results in brief

	2Q FY18	2Q FY17	%YoY	1Q FY18	% QoQ	1H FY18E	1H FY17	%YoY	FY18E	FY17	%YoY
Sales	65,033	53,979	20.5	65,330	-0.5	130,363	115,769	12.6	300,013	237,123	26.5
Other Operating Income	680	610	11.4	935	-27.2	1,615	1,115	44.8	3,000	1,805	66.2
Total Revenues	65,713	54,589	20.4	66,265	-0.8	131,978	116,884	12.9	303,013	238,928	26.8
Expenditure	52,200	43,041	21.3	50,664	3.0	102,864	91,112	12.9	237,635	189,239	25.6
EBITDA	13,513	11,548	17.0	15,601	-13.4	29,114	25,772	13.0	65,378	49,689	31.6
EBITDA margin (%)	20.6	21.2	-59 bps	23.5	-298 bps	22.1	22.0	1 bps	21.6	20.8	78 bps
Interest	3,759	1,367	175.0	1,285	192.5	5,043	2,891	74.4	12,730	5,714	122.8
Depreciation	4,988	3,139	58.9	3,098	61.0	8,086	6,166	31.1	17,037	12,679	34.4
Other Income	1,680	1,725	-2.6	1,652	1.7	3,332	3,228	3.2	3,941	6,600	-40.3
PBT	6,447	8,767	-26.5	12,870	-49.9	19,317	19,944	-3.1	39,552	37,896	4.4
Tax	2,135	2,757	-22.6	3,963	-46.1	6,098	6,185	-1.4	12,657	10,449	21.1
% tax rate	33.1	31.4	167 bps	30.8	232 bps	31.6	31.0		32.0	27.6	
PAT (Adjusted)	4,312	6,011	-28.3	8,906	-51.6	13,219	13,759	-3.9	26,895	27,447	-2.0
Extraordinary Inc/Exp	-93	-25		-75		0	0		0	137	
Total Comprehensive Income(Reported)	4,220	5,986	-29.5	8,832	-52.2	13,219	13,759	-3.9	26,895	27,584	-2.5
EPS (Rs)	15.7	21.9	-28.3	32.4	-51.6	48.2	50.1	-3.9	98.0	100.0	-2.0
Grey cement volumes (mn tonnes)	12.8	10.9	18.0	12.9	-0.5	25.7	23.8	8.1	59.6	48.8	22.1
Total volumes (mn tonnes)	14.2	12.2	16.1	14.2	-0.4	28.4	26.4	7.4	65.0	53.7	21.0
Realisation* (Rs/tonne)	4,595	4,428	3.8	4,600	-0.1	4,598	4,385	4.9	4,616	4,413	4.6
EBITDA* (Rs/tonne)	907	897	1.1	1,033	-12.2	970	934	3.8	960	891	7.7

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	2Q FY18	2Q FY17	%YoY	1Q FY18	% QoQ	1H FY18E	1H FY17	%YoY	FY18E	FY17	%YoY
Raw material	8,960	7,927	13.0	9,040	-0.9	18,000	16,787	7.2	43,174	34,678	24.5
Rs/tonne	633	650	-2.6	637	-0.5	635	636	-0.2	664	645	2.9
Purchase of Fin.Goods	1,781	1,187	50.1	1,188	50.0	2,969	2,336	27.1	6,020	4,836	24.5
Power/fuel cost	13,348	8,797	51.7	12,174	9.6	25,521	18,034	41.5	49,834	39,266	26.9
Rs/tonne	943	722	30.7	857	10.0	900	683	31.8	767	731	4.9
Change in stock	-1,588	-493		-681		-2,269	392		910	745	
Total direct costs	22,501	17,419	29.2	21,720	3.6	44,221	37,549	17.8	99,938	79,524	25.7
Rs/tonne	1,590	1,429	11.3	1,529	4.0	1,480	1,543	-4.0	1,480	1,543	-4.0
Staff cost	4,440	3,572	24.3	3,803	16.8	8,242	7,038	17.1	17,768	14,134	25.7
Rs/tonne	314	293	7.1	268	17.2	291	267	9.0	273	263	3.9
Freight	15,553	12,749	22.0	15,880	-2.1	31,432	28,202	11.5	72,772	58,453	24.5
Rs/tonne	1,099	1,046	5.1	1,118	-1.7	1,109	1,068	3.8	1,120	1,088	2.9
Other expenditure	9,707	9,301	4.4	9,261	4.8	18,968	18,322	3.5	47,157	37,128	27.0
Rs/tonne	686	763	-10.1	652	5.2	669	694	-3.6	726	691	5.0
Total expenditure	52,200	43,041	21.3	50,664	3.0	102,864	91,112	12.9	237,635	189,239	25.6
Cost per tonne (Rs)	3,689	3,531	4.5	3,567	3.4	3,628	3,451	5.1	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 Rs136bn. 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 12.9/9.5x FY19/20E EV/EBITDA and US\$189/178 on FY19-20E EV/t.

Exhibit 7. Volumes, realisation and cost outlook

	FY16	FY17E	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	794	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 EBIDTA (Rs/tonne)	795	852	934	1,119	1,260

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement						(INR 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%	
Deprn. & 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 (INR)	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 (INR)	9.1	9.7	10.0	11.0	12.0	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	32,985	37,760	39,552	63,493	92,485	
Deprn. & 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

Balance Sheet						(INR 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: Deprn. & 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

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 (INR)	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)	47.3	42.5	41.7	26.0	17.8
P/B (x)	5.2	4.7	4.3	3.7	3.1
EV/EBITDA (x)	25.5	23.4	19.5	13.6	10.1
EV/Sales (x)	5.0	4.9	4.2	3.2	2.6
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

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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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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