

ULTRATECH CEMENT Ltd.**BUY****Choice****EBITDA/t to improve with cost reduction initiatives**

UTCEM's consolidated Q2FY25 volumes stands at 27.8mnt, up 4.3% YoY but down 12.9% QoQ, with driven by revenues declining by 2.45% YoY to INR156.4bn. Cement demand was affected by elections and monsoons. UltraTech achieved 68% capacity utilization for Q2FY25. EBITDA/t was INR725/t, down 24.1/23.8% YoY/QoQ due to higher employee and other costs. PAT for the quarter stood at INR8.3bn, down 35.4% YoY and 51.2% QoQ. EPS for the quarter was INR28.4.

- **Robust Capex & Expansion plans:** The company intends to allocate around INR 90,000mn for Capex in the current financial year. This investment will cover growth, routine, and maintenance Capex. The company aims to increase its grey cement capacity to 157.0mtpa by FY25E. UltraTech has a strong expansion strategy focused on the East and South regions. In the East, the current capacity of 27.6mtpa is set to rise to 41mtpa by FY27E. Similarly, the South's capacity of 20.5mtpa is expected to grow to 35.5mtpa by FY27E. A 0.6mtpa grinding unit at Karur, Tamil Nadu, is scheduled for commissioning in Q3FY25E. Additional expansions include 0.6mtpa each at Sonar Bangla and Durgapur, West Bengal, along with a 4.5mtpa unit at Mahir, Madhya Pradesh, all expected to be operational by Q4FY25E. Furthermore, the company plans to add 9.1mtpa in H2FY25E, 11.8mtpa in FY26E, and 20.1mtpa in FY27E, bringing the total cement capacity to 183.5mtpa by FY27E.
- **Cost Reduction plan on track-** The company aims to achieve cost savings of INR300/t over the next three years by focusing on reducing power and fuel expenses through increased use of Waste Heat Recovery Systems (WHRS) and renewable energy. As of FY24-end, the company's WHRS capacity stood at 278 MW, which has now expanded to 308 MW, with a target of 450 MW by FY27E. Renewable energy capacity, initially at 612 MW at the start of the year, has grown to 681 MW, with the company aiming to reach 1.8 GW by FY27E. Additionally, the clinker conversion ratio is expected to improve from 1.44 to 1.54 by FY27E. The use of alternative fuels will also increase, rising from 5% in FY24 to 15% by FY27E. The company is working to optimize logistics, targeting a reduction in lead distance from the current 388 km to 360 km by FY27E. These initiatives are projected to help reduce the company's overall cost per tonne by INR300/t.
- **Prices and Demand is expected to improve-** Net sales realization for the quarter stood at INR5,616/t, reflecting a decline of 6.4% YoY and 0.7% QoQ. However, management indicated that prices are showing signs of recovery, with an upward trend observed from August to September and stability from September to October. The company reported an increase in prices from INR347 at the end of August to INR354 currently, signaling gradual improvement. Management expects demand to strengthen in H2FY25E as new infrastructure projects gain momentum, which should further support pricing. The company remains optimistic about the market environment, expecting steady performance driven by infrastructure-led demand.

Valuation and Outlook: In anticipation of rising demand, UltraTech is well-positioned for growth, driven by the government's strong focus on infrastructure development. The government's cumulative investment outlay is projected to rise to approximately INR 75 trillion over the next five years, a 1.66x increase compared to INR 47 trillion invested over the previous five years. Additionally, the housing sector continues to perform robustly, with new launches registering double-digit growth consistently over the past three years. This favorable environment provides a solid foundation for UltraTech to capitalize on expanding market opportunities and infrastructure-led demand. As per our FY27E estimates, we are expecting Revenue/EBITDA/PAT to grow at a CAGR of 5.8%/16.0%/19.2% respectively over FY24-FY27E. We assign a EV/EBITDA multiple of 20.0x on Sep- FY27 EBITDA ascribing a target price of INR12,262, maintaining our rating to **BUY**.

Financial Snapshot

Quarter end: March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	6,32,400	7,09,081	7,21,707	7,75,655	8,39,421
EBITDA (INR Mn.)	1,06,199	1,29,686	1,33,383	1,60,926	2,02,517
EBITDA Margins (%)	16.8	18.3	18.5	20.7	24.1
PAT	50,640	70,050	75,274	90,849	1,18,692
PAT Margins (%)	8.0	9.9	10.4	11.7	14.1
EPS	175.5	242.7	260.8	314.8	411.2

Source: Company, CEBPL

Oct 22, 2024	
CMP (Rs.)	10,869
Target Price (Rs.)	12,262
Potential Upside (%)	12.8

*CMP as on Oct 21st 2024**Company Info**

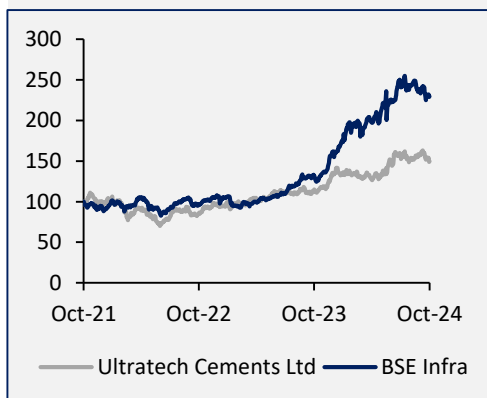
BB Code	UTCEM IN EQUITY
ISIN	INE481G01011
Face Value (Rs.)	10
52 Week High (Rs.)	12,138.3
52 Week Low (Rs.)	8,148.3
Mkt Cap (Rs bn.)	3,137.9
Mkt Cap (\$ bn.)	37.3
Shares o/s (Mn.)/F.Float	288.7/39
FY24 EPS (Rs.)	242.7
FY27E EPS(Rs.)	411.2

Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	59.99	59.98	59.96
FII's	17.95	18.15	17.74
DII's	14.08	13.83	14.15
Public	7.98	8.04	8.15

Relative Performance (%)

YTD	3Y	2Y	1Y
BSEINFRA	129.6	137.0	73.9
UTCEM	49.5	74.4	33.6

Rebased Price Performance**Bharat Kumar Kudikyala, Analyst**

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Sequential Operating Performance

Operating Metrics INR/t	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Blended Realisation	5,920	5,999	6,127	5,821	5,656	5,616
Raw Material Cost	854	880	917	809	866	923
Employee Cost	236	304	281	214	231	328
Power & Fuel Cost	1,629	1,643	1,529	1,379	1,406	1,378
Freight & Handling Expense	1,369	1,316	1,325	1,325	1,309	1,287
Other Expenses	686	846	828	644	749	849
Total Costs	4,903	5,044	4,936	4,648	4,704	4,891
EBITDA	1,018	956	1,191	1,173	951	725

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q2FY25

Ultratech (INR Mn.)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ (%)	CEBPL Est.	Dev. (%)
Volumes	27.8	26.69	4.3	31.95	(12.9)	29.9	(6.8)
Revenues	1,56,347	1,60,121	(2.4)	1,80,696	(13.5)	1,63,882	(4.6)
RM Cost	25,696	23,485	9.4	27,672	(7.1)	-	-
Power and Fuel Cost	38,377	43,853	(12.5)	44,937	(14.6)	-	-
Freight Exp	35,835	35,118	2.0	41,813	(14.3)	-	-
EBITDA (INR Mn.)	20,183	25,509	(20.9)	30,393	(33.6)	24,944	(19.1)
EBITDA Margin (%)	12.9	15.9	(302)bps	16.8	(391)bps	15.2	(231)bps
Depreciation	9,039	7,978	13.3	8,425	7.3	-	-
EBIT (INR Mn.)	11,144	17,531	(36.4)	21,967	(49.3)	16,957	(34.3)
EBIT Margin (%)	7.1	10.9	(382)bps	12.2	(503)bps	10.3	(322)bps
Interest	2207	1671	32.1	1657	33.2	-	-
Other Income	3171	2339	35.6	2556	24.1	-	-
PBT	10166	16,863	-39.7	21,394	(52.5)	-	-
Tax	1914	4094	(53.2)	4471	(57.2)	-	-
PAT (INR Mn.)	8,252	12,769	(35.4)	16,923	(51.2)	12,421	(33.6)
Basic EPS (INR)	28.4	44.4	(36.0)	58.8	(51.7)	43.0	-

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
NSR /t	5,616	5,999	(6.4)	5,656	(0.7)
Cement Cost /t	4,891	5,044	(3.0)	4,704	4.0
EBITDA/t	725	956	(24.1)	951	(23.8)

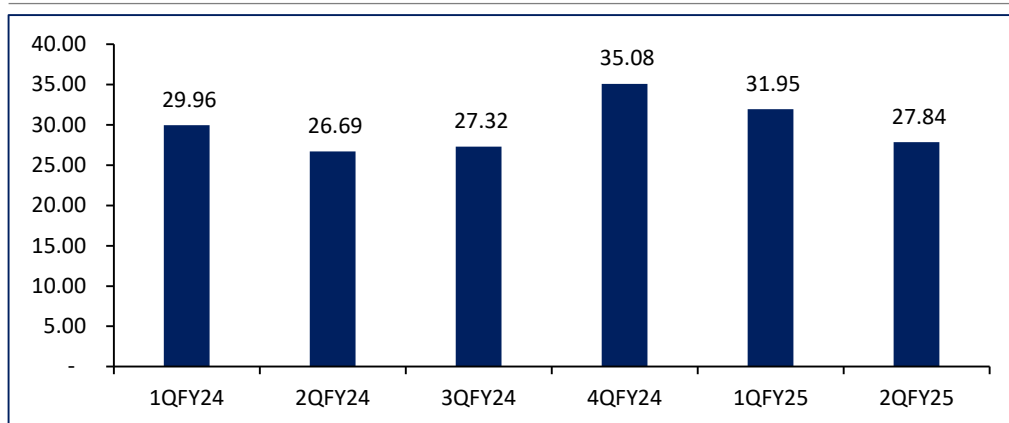
Source: Company, CEBPL

Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	Old	New	Dev. (%)	Old	New	Dev. (%)	New
Revenues	7,62,702	7,21,707	(5.4)	8,61,603	7,75,655	(10.0)	8,39,421
Gross Profit Margin (%)	84	83.5	(96)bps	84.6	81.7	(289)bps	82.1
EBITDA	1,51,541	1,33,383	(12.0)	1,77,318	1,60,926	(9.2)	2,02,517
EBITDA Margin (%)	19.9	18.5	(139)bps	20.6	20.7	17 bps	24.1
EPS	295.2	260.8	(11.6)	338.5	314.8	(7.0)	411.2

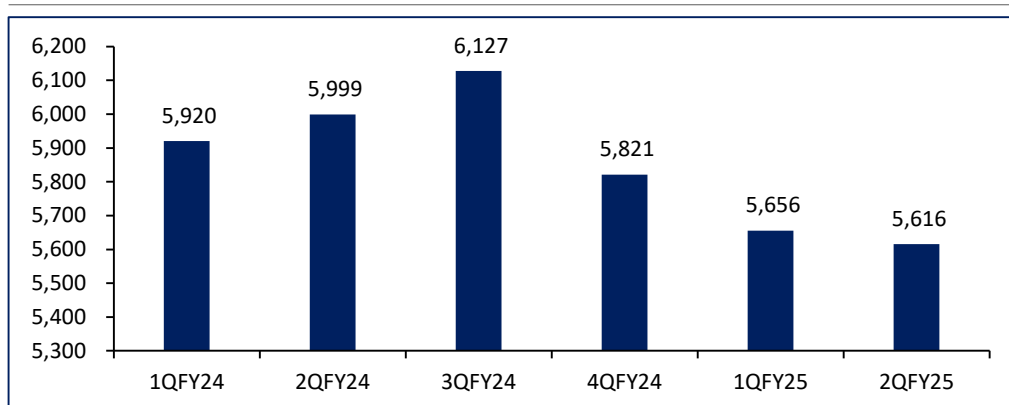
Source: Company, CEBPL

Sales Volume (MT)



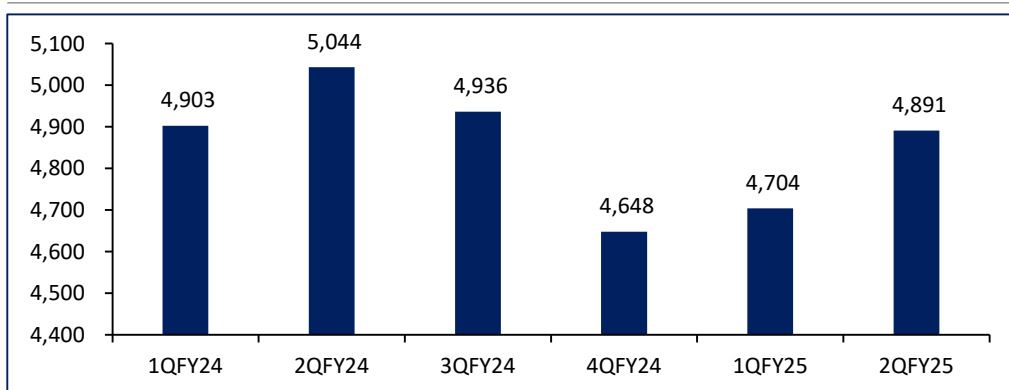
Source: Company, CEBPL

Sales Realisation INR per Tonne



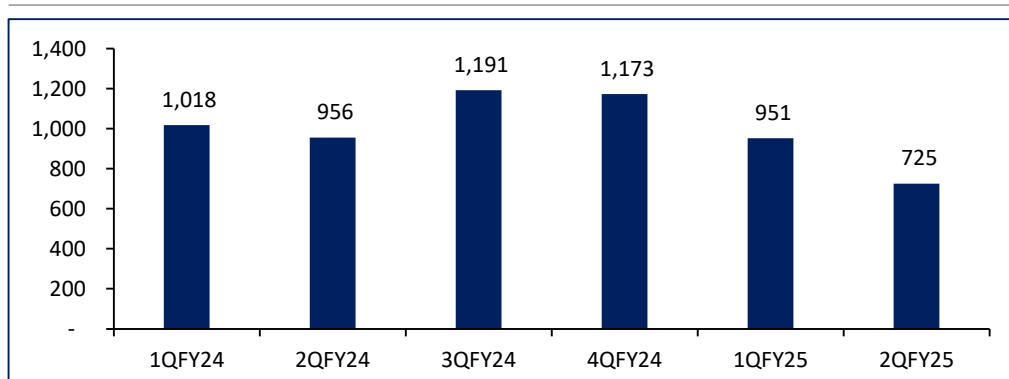
Source: Company, CEBPL

Total Costs per Tonne



Source: Company, CEBPL

EBITDA per Tonne



Source: Company, CEBPL

Management Call - Highlights

- The company plans to implement a minor capital expenditure program, estimated at INR 4,000–5,000mn over the next two years, aimed at enhancing Kesoram's performance to match that of UltraTech.
- While payments to capital expenditure creditors may have risen, the company does not anticipate any negative impact on its operating cash flow (OCF).
- RAK White, a white cement manufacturer, became a subsidiary of UltraTech as of July 10 this year, and its results are now included in UltraTech's consolidated financial statements.
- Kesoram's cement business is in the final stages of acquisition, with NCLT hearings set for October 25 and November 12. The transaction is anticipated to be completed in Q4FY25E.
- The acquisition of India Cements is pending approval from the Competition Commission of India (CCI), after which an open offer will be made.
- The company does not anticipate reducing prices; rather, it expects demand to increase, resulting in double-digit growth in H2FY25E.
- October is anticipated to be slow due to festivals such as Diwali, Dussehra, and Durga Puja.
- The company is optimistic about demand growth in southern markets, driven by upcoming development projects like the Amaravati city project in Andhra Pradesh.
- The trade and non-trade shares were 67.5% and 32.5%, respectively. The distribution among Rail, Road, and Sea was 71%, 27%, and 2%. Direct sales accounted for 55.3%, while depot sales represented 44.7%.

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	6,32,400	7,09,081	7,21,707	7,75,655	8,39,421
Gross profit	5,35,250	5,90,052	6,02,358	6,33,478	6,88,768
EBITDA	1,06,199	1,29,686	1,33,383	1,60,926	2,02,517
Depreciation	28,880	31,453	31,948	36,323	40,698
EBIT	82,349	1,04,402	1,08,080	1,31,340	1,68,614
Other income	5,031	6,170	6,646	6,737	6,796
Interest expense	8,227	9,680	12,069	9,722	9,722
PAT	50,640	70,050	75,274	90,849	1,18,692
EPS (INR)	175.5	242.7	260.8	314.8	411.2

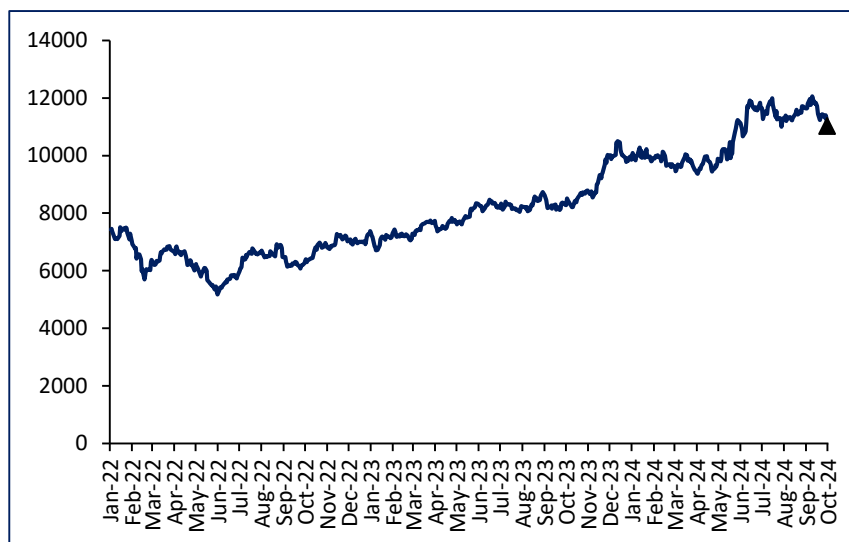
Balance Sheet (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Tangible fixed assets	5,95,790	6,28,776	6,96,470	7,85,147	8,69,448
Capital Work in Progress	40,349	67,828	61,045	45,000	50,000
Investments	72,970	82,490	82,490	82,490	82,848
Cash & Cash equivalents	11,496	7,832	5,000	5,390	7,671
Loans & Advances and Other Assets	88,476	1,00,510	1,00,420	1,02,308	1,07,058
Net Working Capital	32,696	41,296	41,865	44,804	50,595
Total assets	8,41,776	9,28,731	9,87,289	10,65,138	11,67,621
Shareholder's funds	5,43,802	6,02,834	6,65,038	7,42,260	8,43,148
Borrowings	62,601	64,478	64,478	64,478	64,478
Total Debt	99,008	1,02,984	1,02,984	1,02,984	1,02,984
Other Liabilities & Provisions	1,36,365	1,58,435	1,54,789	1,55,416	1,57,011
Total equity & liabilities	8,41,776	9,28,731	9,87,289	10,65,138	11,67,621
Capital Employed	6,23,070	6,76,302	7,36,920	8,06,633	8,95,688
Invested Capital	5,71,225	6,00,642	6,70,875	7,56,243	8,38,017

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from Operations	90,685	1,08,975	1,20,326	1,68,459	1,82,619
Cash flows from Investing	(71,871)	(87,881)	(80,000)	(1,25,000)	(1,25,000)
Cash flows from financing	(16,310)	(19,257)	(33,701)	(31,353)	(31,353)

Ratio Analysis 8	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios (%)					
Revenues	20.2	12.1	1.8	7.5	8.2
Gross Profit	19.9	10.2	2.1	5.2	8.7
EBITDA	(7.8)	22.1	2.9	20.6	25.8
EBIT	(31.0)	38.3	7.5	20.7	30.6
Margin Ratios (%)					
Gross Profit Margin	84.6	83.2	83.5	81.7	82.1
EBITDA Margin	16.8	18.3	18.5	20.7	24.1
EBIT Margin	8.0	9.9	10.4	11.7	14.1
Profitability (%)					
Return on equity	9.3	11.6	11.3	12.2	14.1
Return on invested capital	9.4	12.3	12.0	12.4	14.5
Return on capital employed	13.2	15.4	14.7	16.3	18.8
Valuation					
OCF / IC (%)	15.9	18.1	17.9	22.3	21.8
EV / EBITDA (x)	29.7	24.3	23.6	19.6	15.6
EV/IC (x)	5.5	5.2	4.7	4.2	3.8

Source: Company, CEBPL

Historical recommendations and target price: UTCEM



Ultratech Cement Ltd.

1.	21-01-2022	ADD,	Target Price, 7,724
2.	02-05-2022	NEUTRAL,	Target Price, 7,538
3.	25-07-2022	ADD,	Target Price, 7,299
4.	21-10-2022	ADD,	Target Price 7,177
5.	23-01-2023	ADD,	Target Price 7,397
6.	29-04-2023	NEUTRAL,	Target Price 7,776
7.	22-07-2023	NEUTRAL,	Target Price 8,384
8.	20-10-2023	ADD,	Target Price 8,940
9.	20-01-2024	ADD,	Target Price 11,205
10.	29-04-2024	BUY,	Target Price 10,940
11.	20-07-2024	BUY,	Target Price 12,225
12.	22-10-2024	BUY,	Target Price 12,262

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
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SELL	The security expected to show Below 0% next 12 months

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