

October 19, 2023

RESULT REPORT Q2 FY24 | Sector: Cement

UltraTech Cement

Expansion strategy remains on track

Result Synopsis

UltraTech Cement (UTCEM) reported revenue/EBITDA growth of +15/37% y/y supported by +16% y/y volume growth in Q2FY24. Surprisingly, the NSR was flat y/y and a 3% y/y decline in total cost/te resulted in EBITDA/te of Rs956, up by +18 y/y during the quarter. Adj. PAT grew by +70% y/y to Rs12.8bn on account of healthy profitability. As of Q2FY24, UTCEM's total grey cement capacity in India reached 132.5MTPA with its phase-I expansion, still utilization is at ~83% in H1FY24. Therefore, to maintain the production headroom and retain the market share, UTCEM plans to add 4MPTA through debottlenecking. The phase-II expansion of 24.4MTPA and the pending debottlenecking of 2.8MTPA will enhance the console cement capacity to 165MTPA by FY25E (v/s 137.9MTPA as of Q2FY24). UTCEM further aims to improve the C:C ratio (currently 1.44x) to generate additional volumes, as a result we believe UTCEM to deliver overall volume growth of ~10% CAGR over FY24-26E.

We continue to like UTCEM for its market leadership with a +20% share across India with robust growth plans and aggressive green energy investment for improving its green power share, which is supported by Strong B/S. Ongoing Phase-II expansion of 24.4MTPA will ensure UTCEM capacity growth rate of ~8% CAGR above the industry average of 5% CAGR over FY24-26E. Management aspires to improve its green energy share to ~60% by FY26E with a WHRS/Renewable combined capacity of 1.25GW (v/s currently 22%) will be margin accretive in the long run. Supported by healthy profitability (est. EBITDA of Rs1150-1200/te for FY24-26E), we expect a free cash flow generation of Rs150bn post the CAPEX outlay of Rs180bn over FY24-26E. Additionally, it will further aid UTCEM to fund its future expansion target of 200MTPA by FY30. At CMP, stock trades at 16/14x EV/EBITDA on FY25/26. We rolled forward to FY26 estimate and arrived at TP of Rs9572 with an ADD rating, valuing the stock at 16x EV/EBITDA on FY26E.

Result Highlights

- Reported volume of 26.7MT up by +16% y/y and declined by 11% q/q in Q2FY24.
- Surprisingly, NSR came flat y/y (2% above YSECe) and +1% q/q, translating to revenue of Rs160bn (v/s YSECe 155bn) up by +15% y/y.
- Total cost/te declined by 3% y/y on account of eased fuel cost, although RM cost/te surged by +7% y/y because of increase in fly ash, slag & gypsum prices.
- Additionally, total cost/te increased by 3% q/q due to higher plant maintenance and increase in employee costs coupled with seasonal negative operating leverage.
- EBITDA came in at Rs25.5bn (Rs956/te +18% y/y) up by +37% y/y on account of strong volume and eased cost with sustained NSR.
- Adj. PAT came in-line to Rs12.8bn (+70% y/y) on account of healthy profitability.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	160,121	155,704	151,476	2.8	5.7	Overall Performance came as anticipated
EBITDA	25,509	26,685	25,882	(4.4)	(1.4)	
Margin (%)	15.9	17.1	17.1	-121 bps	-116 bps	
Adj. PAT	12,815	13,079	13,758	(2.0)	(6.9)	

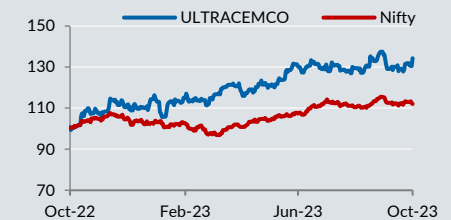
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 8,519
Target Price	: Rs 9,572
Potential Return	: +12%

Stock data (as on Oct 19, 2023)

Nifty	19,625
52 Week h/l (Rs)	8751 / 6082
Market cap (Rs/USD mn)	2386383 / 28711
Outstanding Shares (mn)	288
6m Avg t/o (Rs mn):	2,563
Div yield (%)	0.5
Bloomberg code:	UTCEM IN
NSE code:	ULTRACEMCO

Stock performance



	1M	3M	1Y
Absolute return	-1.3%	2.3%	33.1%

Shareholding pattern (As of Sep'23 end)

Promoter	60.0%
FII+DII	32.5%
Others	7.5%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	9,572	8,539

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	686,885	738,908	833,180
Growth	8.6	7.6	12.8
EBITDA	132,720	150,635	170,996
Margin	19.3	20.4	20.5
Adj PAT	72,318	85,002	97,309
Growth	42.5	17.5	14.5
EPS	251	294	337
ND/EBITDA	0.5	0.2	(0.2)
ROE	12.6	13.3	13.5
ROCE	14.0	15.0	15.7
EV/EBITDA	19.0	16.5	14.2

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Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	y/y (%)	q/q (%)	FY23	FY22	y/y (%)
Net Revenue	138,927	155,209	186,624	177,371	160,121	15.3	(9.7)	632,400	525,988	20.2
Total Expenses	120,261	131,851	153,399	146,879	134,612	11.9	(8.4)	526,201	410,845	28.1
COGS	20,177	22,437	31,711	29,440	24,942	23.6	(15.3)	97,150	79,650	22.0
Employee Expenses	6,912	6,942	7,164	7,070	8,123	17.5	14.9	27,390	25,347	8.1
Power & fuel	42,961	48,731	53,089	48,812	43,853	2.1	(10.2)	184,913	121,373	52.4
Freight Exp	30,437	34,794	41,954	41,008	35,118	15.4	(14.4)	140,092	117,123	19.6
Other Expenses	19,774	18,947	19,480	20,550	22,577	14.2	9.9	76,657	67,929	12.8
EBITDA	18,666	23,359	33,225	30,492	25,509	36.7	(16.3)	106,199	115,144	(7.8)
EBITDA (%)	13.4	15.0	17.8	17.2	15.9	249 bps	-126 bps	16.8	21.9	-510 bps
D&A	7,079	7,232	7,617	7,491	7,978	12.7	6.5	28,880	27,148	6.4
Other Income	1,463	1,266	1,215	1,737	1,671	14.3	(3.8)	5,031	5,078	(0.9)
Interest Expense	2,003	2,153	1,914	2,108	2,339	16.8	11.0	8,227	9,447	(12.9)
Exceptional/EO items	-	-	-	-	-	-	-	-	-	-
Share JV/Associates	(15)	33	15	37	35	(334.2)	(5.7)	40	17	137.1
EBT	11,032	15,272	24,924	22,668	16,897	53.2	(25.5)	74,122	83,627	(11.4)
Tax	3,445	4,647	8,223	5,766	4,094	18.8	(29.0)	23,429	11,901	96.9
Reported PAT	7,587	10,626	16,701	16,902	12,804	68.8	(24.2)	50,734	71,743	(29.3)
Less: Minority Interest	30	44	42	18	(11)	(136.0)	(160.5)	94	(101)	(193.9)
Adj. PAT	7,557	10,582	16,660	16,885	12,815	69.6	(24.1)	50,640	71,844	(29.5)

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis (Console)

Particulars (Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	y/y (%)	q/q (%)	FY23	FY22	y/y (%)
Total Volumes (MMT)	23.1	25.9	31.7	30.0	26.7	15.5	(10.9)	105.7	94.0	12.5
NSR/te (Blended)	6,014	6,002	5,887	5,920	5,999	(0.2)	1.3	5,982	5,596	6.9
RM/te	873	868	1,000	983	935	7.0	(4.9)	919	847	8.4
Employees/te	299	268	226	236	304	1.7	29.0	259	270	(3.9)
Power/te	1,860	1,884	1,675	1,629	1,643	(11.7)	0.8	1,749	1,291	35.5
Freight/te	1,318	1,345	1,323	1,369	1,316	(0.1)	(3.9)	1,325	1,246	6.3
Others/te	856	733	615	686	846	(1.2)	23.3	725	723	0.3
Opex/te (Blended)	5,206	5,099	4,839	4,903	5,044	(3.1)	2.9	4,978	4,371	13.9
EBITDA/te (Blended)	808	903	1,048	1,018	956	18.3	(6.1)	1,005	1,225	(18.0)

Source: Company, YES Sec

Exhibit 4: Segmental Revenue-Mix (Console)

Particulars (Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	y/y (%)	q/q (%)	FY23	FY22	y/y (%)
Total Grey Cement Revenue [#]	117,120	131,800	163,340	155,010	137,270	17.2	(11.4)	450,190	389,270	15.6
RMC Revenue	8,830	10,010	11,380	12,330	11,610	31.5	(5.8)	26,410	18,730	41.0
White Cement Revenue	5,400	5,750	6,640	5,900	5,870	8.7	(0.5)	19,550	17,790	9.9
Overseas Revenue	4,600	5,770	6,160	5,550	6,000	30.4	8.1	22,320	19,540	14.2
Console Revenue*	135,957	152,990	184,360	175,190	157,350	15.7	(10.2)	517,079	442,393	16.9
Other Operating Revenue	2,970	2,219	2,264	2,180	2,770	(6.7)	27.1	8,910	4,865	83.2
Net Revenue	138,927	155,209	186,624	177,371	160,121	15.3	(9.7)	632,400	525,988	20.2

Source: Company, YES Sec, note: * net inter segmental sales / # includes export sales.

KEY CON-CALL HIGHLIGHTS

- Demand in 2QFY24 was strong and backed by govt impetus for infra development aided the volume growth of +15% y/y, despite the erratic monsoon impacting the cement dispatches across the region, resulting in volume dip sequentially.
- Rural sales were at 63% of trade sales and the rural market for UTCEM continues to remain robust grew by 15% during the quarter. Trade mix was at 67% in Q2FY24 v/s 68% in Q1FY24
- Management stated that the demand in East grew by +4-5% y/y, while the rest of markets grew by +9-11% y/y.
- For UTCEM, current prices in East and Maharashtra grew by +7-8% as compared to Jun'23 exit, whereas south grew by 5-6% and north prices grew by 3-4% against Jun'23 exit. While the central market prices were flat against Jun'23 exit.
- Pan-India avg. prices in Oct'23 grew by 5-7% compared to avg Q2FY24 and management expects prices to sustain because of the incremental fuel cost inflation.
- Clinker conversion ratio improved to 1.44x compared to 1.41x in Q2FY23.
- In H1FY24, UTCEM spent ~43bn under guided CAPEX of 60-70bn for FY24E.
- Other Costs increased by Rs300mn due to higher maintenance cost caused by annual plant maintenance shutdown during the quarter. Further, company distributed bonus of Rs400mn to the employees causing one off expenses in Q2FY24.
- Blended fuel consumption (CV: 7500) was at \$162/te in Q2FY24 against \$178/t in Q1FY24 and \$194/t in Q4FY23. Pet coke (\$138/te) share was at 39% in Q2FY24 as compared to 42% Q1FY24 v/s 52% in Q4FY23, declined due to unavailability. Rest 51% imported coal & 6% linkage coal and 4% alternative fuel (expected to reach 10% by the end of FY24).
- On Kcal/kg, Energy cost was at Rs2.18kcal/kg in Q2FY24 against Rs2.34kcal/kg in Q1FY24 v/s Rs2.5kcal/kg in Q4FY23 and is expected to see downward trajectory on account of low-cost inventories.
- UTCEM achieved a total grey cement capacity of 132.45MTPA in India with phase-I expansion and debottlenecking as of Q2FY24. To maintain the production headroom and retain the market share, UTCEM plans to carry out debottlenecking of 4MTPA of which 1.2MTPA (Magdalla, Gujarat) got commissioned and 2.8MTPA is under planning.
- Company revised the Phase-II expansion plan to 24.4MTPA (earlier 22.6MTPA) by adding 1.8MTPA. With the completion of all the ongoing and announced expansion, the India grey cement will reach to 159.65MTPA.
- UTCEM commissioned 30MW of WHRS capacity and 83MW of renewable, taking the total WHRS capacity to 262MW and renewable energy capacity to 429MW. Management targets to achieve 300MW of WHRS by the end of FY24
- By FY26, management plans to reach a green energy capacity of 1.25GW, which will aid to fulfill ~60% (25% WHRS & 35% RE) of total power requirement (incl. expanded capacity). UTCEM will take RE capacity to ~648MW (388MW wind / 260MW solar).
- Phase-III expansion will be announced in the subsequent quarter, which will target to achieve the overall capacity of 200MTPA by FY30 (mix of greenfield and brownfield).

INVESTMENT RATIONALE

India's Largest Cement Producer:

UTCCEM the largest India player, holds +20% of the PAN India capacity share with a total cement capacity of 132.5MTPA (excl. overseas capacity of 5.4MTPA) as of Sep'23. On average, +20% of UTCCEM capacities are in each region, which makes UTCCEM a well-diversified player in India. UTCCEM dominates the West/Central/North/East market by holding ~22/32/35/20% of capacity share, while in the South, UTCCEM holds a significant share of ~10% (as of Jun'23). By FY26E, ongoing phase-II capex, UTCCEM's India grey cement capacity will increase to 159.65MTPA which will increase the east share to ~22% (v/s ~22% PAN-India shares). This production dominance enables UTCCEM to be a price leader in the industry and enjoy premium prices among its peers, which translates into strong NSR and thereby profitability. Therefore, looking at the incremental capacity, we expect a volume growth of +10% CAGR over FY24-26E.

Next phase of expansion/market-share growth

In the last decade, UTCCEM capacity growth has outperformed the industry growth, by growing at ~9% CAGR v/s industry at ~6% CAGR over FY12-22. Additionally, UTCCEM has ongoing phase-II capacity addition of 24.4MTPA at a CAPEX of ~Rs129bn (Capex/te for this expansion works out to ~US\$76) by FY25E. With the completion of these expansion plans, UTCCEM will dominate the domestic grey cement market with a production capacity of 159.65MTPA (excl. overseas capacity of 5.4MTPA) by FY25E.

Increasing green-power share (60% by FY26E):

UTCCEM focused on improving efficiency by using higher renewable energy that would aid to lower the fuel cost and improve the cost competitiveness of UTCCEM. Currently the green power (Solar + WHRS) capacity is at 645MW (as of Jun'23, holds ~22% of the power capacity share). By FY26E, UTCCEM planned to increase its green power capacity to 1.25GW (+60% of the capacity share; WHRS 25% & RE 35%). Additionally, UTCCEM is committed to increasing its thermal substitution rate through the usage of higher alternate fuels. As of Sep'23, AFR's share stands at 4%, whereas management expected to achieve 10% by year-end.

Strong B/S to back the robust capex plan:

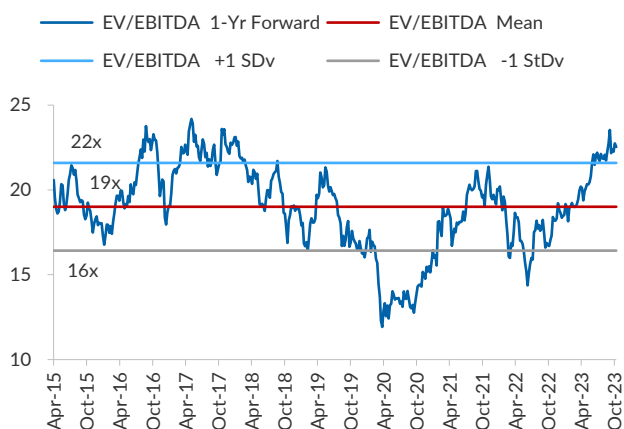
Supported by the strong profitability (expected EBITDA of Rs1150-1200/te over FY24-26E), we expect a free cash flow generation of Rs150bn post the CAPEX outlay of Rs180bn (for ongoing 24.4MTPA of expansion and others) over FY24-26E. Further, it will aid UTCCEM to fund its future expansion plans and deleverage the B/S.

Exhibit 5: Annual Operational Performance Estimates (Console)

Particulars (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Total Volumes (MMT)	94.0	105.7	115.0	125.5	140.5
Utilization (%)	75%	78%	82%	77%	86%
Cement Realization/te	5,139	5,526	5,533	5,450	5,516
Net Realization/te (Blended)	5,596	5,982	5,975	5,890	5,928
RM/te	847	919	926	942	978
Power/te	1,291	1,749	1,476	1,299	1,291
Freight/te	1,246	1,325	1,387	1,404	1,411
Employees/te	270	259	262	264	271
Others/te	723	725	770	779	760
Opex/te (Blended)	4,371	4,978	4,821	4,689	4,712
EBITDA/te (Blended)	1,225	1,005	1,155	1,201	1,217

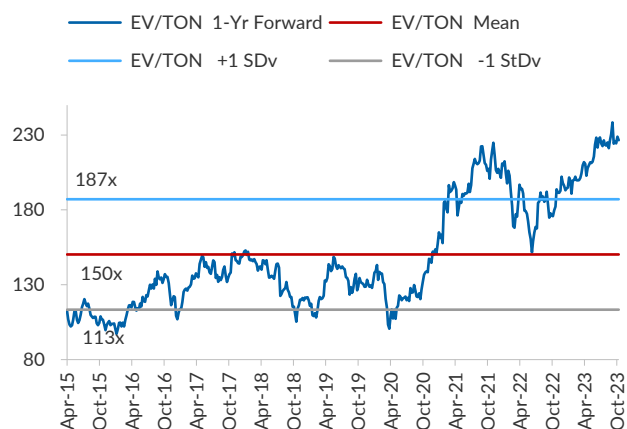
Source: Company, YES Sec

Exhibit 6: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 7: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Balance Sheet (Console)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	2,887	2,887	2,887	2,887	2,887
Reserves	501,466	540,359	601,129	674,583	760,344
Net worth	504,353	543,245	604,016	677,469	763,231
Other LT Liabilities	12,863	13,343	13,343	13,343	13,343
LT provision.	6,178	6,242	6,242	6,242	6,242
Minority interest	(31)	556	556	556	556
Long-term Borrowing	53,030	53,564	48,564	23,564	13,564
Deferred tax liabilities. (net)	60,332	62,601	62,601	62,601	62,601
Current Liabilities					
Trades Payables	58,628	72,093	65,465	66,733	72,372
Short-term Borrowing	48,998	45,444	62,439	69,054	76,735
Other current liabilities	91,445	114,737	102,701	102,701	102,701
Short Term Provision	2,480	2,044	2,044	2,044	2,044
Total Liabilities	838,278	913,870	967,972	1,024,309	1,113,390
Assets					
Total Net Block	480,588	520,594	568,759	604,324	625,222
CWIP & Other Assets	122,135	115,600	94,810	84,810	84,810
Investments	13,724	14,604	14,604	14,604	14,604
Other Non-current Asset	46,773	55,578	55,578	55,578	55,578
Deferred tax asset (net)	164	66	66	66	66
Current Assets					
Inventories	55,956	66,118	66,941	71,902	81,209
Trades Receivables	30,716	38,670	36,188	39,109	43,122
Other current assets	84,562	91,068	91,068	91,068	91,068
Short Term Loans & advances	69	77	69	69	69
Cash & Bank Balances	3,592	11,496	39,891	62,780	117,644
Total Assets	838,278	913,870	967,972	1,024,309	1,113,390

Source: Company, YES Sec

Exhibit 9: Income statement (Console)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	525,988	632,400	686,885	738,908	833,180
EBITDA	115,144	106,199	132,720	150,635	170,996
D&A	27,148	28,880	32,835	35,435	40,101
EBIT	87,996	77,319	99,885	115,200	130,895
Interest Expense	9,447	8,227	8,925	8,145	8,231
Other Income	5,078	5,031	5,464	6,281	7,082
Exceptional/EO items	-	-	-	-	-
EBT	83,627	74,122	96,424	113,335	129,746
Tax	11,901	23,429	24,106	28,334	32,436
Share of Profit/(Loss) in JV/Associates	17	40	-	-	-
Reported PAT	71,743	50,734	72,318	85,002	97,309
Less: Minority Interest	(101)	94	-	-	-
Adj. PAT	71,844	50,640	72,318	85,002	97,309

Source: Company, YES Sec

Exhibit 10: Cash Flow (Console)

Y/e 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E
Cash flow from operation	164,045	91,304	88,157	113,822	129,730
Profit before tax	83,745	74,068	96,424	113,335	129,746
Depreciation	27,148	28,880	32,835	35,435	40,101
Tax paid	(11,901)	(23,429)	(24,106)	(28,334)	(32,436)
Working capital Δ	65,154	11,691	(16,995)	(6,615)	(7,681)
Other operating items	(101)	94	-	-	-
Cash flow from Investing Activities	(68,317)	(71,058)	(60,209)	(61,000)	(61,000)
Capital expenditure	(58,887)	(62,351)	(60,209)	(61,000)	(61,000)
Change in other non-current assets	(9,430)	(8,707)	-	-	-
Free cash flow	105,158	28,953	27,948	52,822	68,730
Cash flow from Financing activities	(112,212)	(12,342)	448	(29,933)	(13,867)
Equity raised	1,832	(871)	-	-	-
Investments	(882)	(879)	-	-	-
Debt financing/disposal	(102,849)	(3,021)	11,995	(18,385)	(2,319)
Dividends paid	(10,969)	(10,970)	(11,548)	(11,548)	(11,548)
Other items	657	3,399	-	-	-
Net Δ in cash	(16,484)	7,904	28,395	22,889	54,863

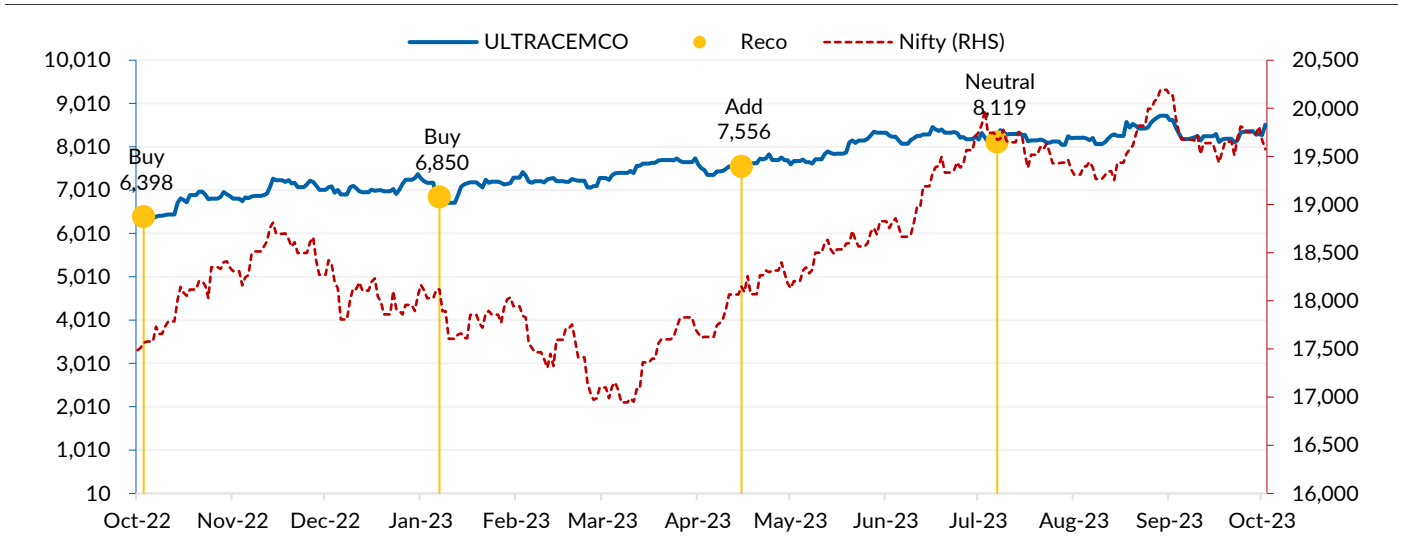
Source: Company, YES Sec

Exhibit 11: Ratio Analysis (Console)

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Revenue	17.6	20.2	8.6	7.6	12.8
EBITDA	(0.5)	(7.8)	25.0	13.5	13.5
EBT	6.5	(11.4)	30.1	17.5	14.5
Adj. PAT	34.9	(29.3)	42.5	17.5	14.5
EPS	28.3	(30.9)	42.5	17.5	14.5
Profitability ratios (%)					
EBITDA (%)	21.9	16.8	19.3	20.4	20.5
EBIT (%)	17.7	13.0	15.3	16.4	16.6
PAT (%)	13.6	8.0	10.5	11.5	11.7
ROCE	13.2	11.9	14.0	15.0	15.7
ROE	15.2	9.7	12.6	13.3	13.5
ROA	13.6	9.0	12.3	13.8	15.3
Per share ratios (Rs)					
EPS	254	176	251	294	337
DPS	38	38	40	40	40
Cash EPS	343	276	364	417	476
BVPS	1,747	1,882	2,092	2,347	2,644
Payout (%)					
Dividend payout	14.9	21.6	16.0	13.6	11.9
Tax payout	14.2	25.0	25.0	25.0	25.0
Liquidity ratios					
Inventory days	64	72	72	72	72
Payable days	67	63	63	63	63
Receivables days	20	20	20	20	20
Leverage ratios (x)					
Interest Coverage	9.9	10.0	11.8	14.9	16.8
Net D/E	0.2	0.2	0.1	0.0	(0.0)
Net Debt/EBITDA	0.9	0.8	0.5	0.2	(0.2)

Source: Company, YES Sec

Recommendation Tracker



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