

# UltraTech Cement

## Volume growth hits speed breaker

### Performance largely in line

UltraTech Cement's (UTCEM IN) Q3FY24 operating performance was broadly in line with our and Consensus estimates. Consolidated net sales rose ~8% YoY/5% QoQ to ~INR 165bn. EBITDA was up ~39% YoY/28% QoQ to INR 32.5bn. Reported PAT surged ~68% YoY/39% QoQ to ~INR 18bn.

### EBITDA per tonne rose ~32% YoY and ~25% QoQ

Consolidated sales volume growth moderated to ~6% YoY (versus ~20%/15% in Q1/Q2) and ~2% QoQ to ~27.3mn tonnes due to festivals, cyclone in South India, pollution curb in North India and state elections. Realization grew ~2% YoY/QoQ each to INR 6,035/tonne. Operating cost dipped ~3% YoY/2% QoQ to INR 4,936/tonne, led by lower lead distance, fall in fuel prices and operating leverage benefit. Thus, EBITDA/tonne, with other operating revenue, jumped ~32% YoY/25% QoQ to INR 1,191.

### India capacity to reach ~190mn tonnes by FY27

Ongoing capex work in phase II expansion of 24.4mn tonnes is on track and may be completed in a phased manner by FY25. Apart from that, UTCEM announced phase III expansion of ~22mn tonnes in Q3FY24, which may be completed gradually by FY27. Further, in Q3, UTCEM announced the acquisition of Kesoram Industries (KSI IN) and Burnpur Cement (BPUR IN), with capacities of 10.75mn tonnes and 0.54mn tonnes, respectively. Post completion of these projects, UTCEM's India capacity will increase to ~190mn tonnes.

### Valuation: reiterate Accumulate with a higher TP of INR 10,659

We cut FY24E/25E/FY26E EPS by ~9%/7%/1% respectively. The earnings downgrade is primarily due to demand softness in Q3FY24 and incorporation of KSI's financials. But we remain positive on the stock, long term, and view continued focus on capacity addition to bode well for UTCEM's future growth prospects, enabling it to reach its target of 200mn tonnes capacity.

Also, access to low-cost renewable power capacity and other cost savings measures bode well for future earnings. We reiterate **Accumulate** and raise our target multiple to 18x from 15.5x as visibility on meeting capacity target of 200mn tonnes has increased. Also, we roll over to December 2025E from September 2025E, with higher TP of INR 10,659 from INR 9,098 on 18x December 2025E EV/EBITDA.

## Rating: Accumulate

Target Price: INR 10,659

Upside: 6%

CMP: INR 10,094 (as on 19 January 2024)

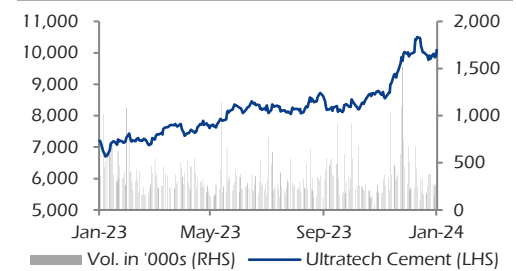
### Key data\*

Bloomberg /Reuters Code:	UTCEM IN/ ULTC.BO
Current /Dil. Shares O/S (mn)	289/289
Mkt Cap (INR bn/USD mn)	2,914/35,084
Daily Vol. (3M NSE Avg.)	337,841
Face Value (INR)	10

1 USD = INR 83.1

Note: \*as on 19 January 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	60.0	60.0	60.0	60.0
Institutional Investors	32.3	32.4	32.3	32.5
Other Investors	2.2	2.2	2.3	2.3
General Public	5.5	5.4	5.4	5.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	10.2	9.0	19.4
UltraTech Cement	18.5	21.2	40.0
ACC	12.1	26.5	(4.8)
Ambuja Cements	22.8	28.1	3.4

Source: Bloomberg

Y/E March (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Q3FY24E	Variance (%)
Net Sale	164,870	152,990	7.8	157,350	4.8	165,010	(0.1)
Operating Expenses	134,854	131,851	2.3	134,612	0.2	136,412	(1.1)
EBITDA	32,546	23,359	39.3	25,509	27.6	31,397	3.7
EBITDA Margins (%)	19.7	15.3		16.2		19.0	
Other Income	1,405	1,266	11.0	1,671	(15.9)	1,541	(8.9)
Interest	2,622	2,153	21.8	2,339	12.1	2,316	13.2
Depreciation	7,835	7,232	8.3	7,978	(1.8)	8,058	(2.8)
PBT	23,552	15,272	54.2	16,897	39.4	22,597	4.2
Tax	5,804	4,647	24.9	4,094	41.8	5,649	2.7
Effective Tax Rate (%)	24.6	30.4		24.2		25.0	
Reported PAT	17,770	10,582	67.9	12,815	38.7	16,930	5.0

### Key financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	P/E (x)	EV/ton (USD)	EV/EBITDA (x)
March											
FY23	623,376	20.6	106,199	17.0	50,714	(10.5)	175.7	9.7	57.5	278	27.7
FY24E	689,290	10.6	128,305	18.6	70,811	39.6	245.3	12.4	41.2	266	22.9
FY25E	748,714	8.6	151,959	20.3	85,493	20.7	290.1	12.3	34.8	220	19.8
FY26E	858,324	14.6	176,919	20.6	101,667	18.9	345.0	12.7	29.3	206	17.0

Note: Pricing as on 19 January 2024; Source: Company, Elara Securities Estimate

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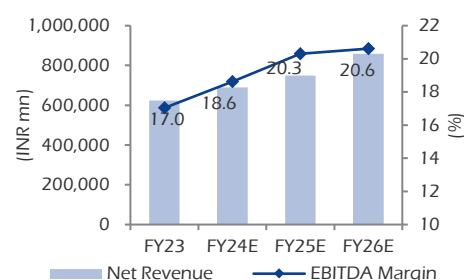
Elara Securities (India) Private Limited

### Consolidated Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenue	623,376	689,290	748,714	858,324
<b>Operating profit</b>	<b>97,175</b>	<b>118,282</b>	<b>141,638</b>	<b>165,127</b>
Add:- Other operating Income	9,024	10,023	10,321	11,793
<b>EBITDA</b>	<b>106,199</b>	<b>128,305</b>	<b>151,959</b>	<b>176,919</b>
Add:- Other Income	5,031	6,466	6,890	7,336
Less :- Depreciation & Amortization	28,880	31,225	35,458	40,066
<b>EBIT</b>	<b>82,349</b>	<b>103,547</b>	<b>123,391</b>	<b>144,189</b>
Less:- Interest Expenses	8,227	9,234	9,503	8,895
<b>PBT</b>	<b>74,163</b>	<b>94,313</b>	<b>113,888</b>	<b>135,294</b>
Less :- Taxes	23,429	23,482	28,376	33,727
<b>Reported PAT</b>	<b>50,734</b>	<b>70,831</b>	<b>85,513</b>	<b>101,567</b>
Minority Interest	(20)	(20)	(20)	101
<b>Reported PAT after Minority Interest</b>	<b>50,714</b>	<b>70,811</b>	<b>85,493</b>	<b>101,667</b>
<b>Adjusted PAT</b>	<b>50,714</b>	<b>70,811</b>	<b>85,493</b>	<b>101,667</b>
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	2,887	2,887	2,947	2,947
Reserves	540,359	599,835	781,311	817,268
Minority Interest	556	556	556	556
Borrowings	99,008	96,508	128,937	89,973
Deferred Tax (Net)	62,601	65,339	68,214	71,232
Other liabilities	19,585	20,458	21,374	22,335
<b>Total Liabilities</b>	<b>724,995</b>	<b>785,583</b>	<b>1,003,340</b>	<b>1,004,312</b>
Gross Block	706,330	751,380	877,687	947,737
Less:- Accumulated Depreciation	173,778	205,003	240,461	280,527
<b>Net Block</b>	<b>532,552</b>	<b>546,377</b>	<b>637,226</b>	<b>667,210</b>
Add:- Capital work in progress	40,349	90,354	198,359	199,364
Noncurrent investments	14,604	14,604	14,604	14,604
Net Working Capital	(51,487)	(52,888)	(58,401)	(61,251)
Cash & current investments	69,862	66,857	90,079	61,686
Other assets	119,116	120,279	121,473	122,699
<b>Total Assets</b>	<b>724,995</b>	<b>785,583</b>	<b>1,003,340</b>	<b>1,004,312</b>
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Cash profit adjusted for non-cash items	94,055	107,561	126,458	146,210
Add/Less : Working Capital Changes	(3,370)	1,401	5,513	2,850
Operating Cash Flow	90,685	108,962	131,971	149,060
Less:- Capex	(61,056)	(95,055)	(92,139)	(71,055)
Free Cash Flow	29,629	13,907	39,832	78,005
Financing Cash Flow	(16,310)	(22,215)	119,867	(112,508)
Investing Cash Flow	(10,815)	9,303	9,696	10,110
<b>Net change in Cash</b>	<b>2,504</b>	<b>995</b>	<b>169,395</b>	<b>(24,393)</b>
Ratio Analysis	FY23	FY24E	FY25E	FY26E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	20.6	10.6	8.6	14.6
EBITDA Growth	(7.8)	20.8	18.4	16.4
Adj. PAT Growth	(10.5)	39.6	20.7	18.9
EBITDA Margin	17.0	18.6	20.3	20.6
Adj. Net Margin	8.1	10.3	11.4	11.8
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.1	0.0	0.0	0.0
ROE (%)	9.7	12.4	12.3	12.7
ROCE (%)	11.7	13.7	13.8	14.4
<b>Per Share data &amp; Valuation Ratios</b>				
Adjusted EPS (INR)	175.7	245.3	290.1	345.0
EPS Growth (%)	(10.5)	39.6	18.3	18.9
DPS (INR)	38.0	38.5	39.0	39.5
P/E (x)	57.5	41.2	34.8	29.3
EV/EBITDA (x)	27.7	22.9	19.8	17.0
EV/Sales (x)	4.7	4.3	4.0	3.5
P/BV (x)	5.6	5.1	4.3	3.7
EV per tonne (USD)	278	266	220	206
Dividend Yield (%)	0.4	0.4	0.4	0.4

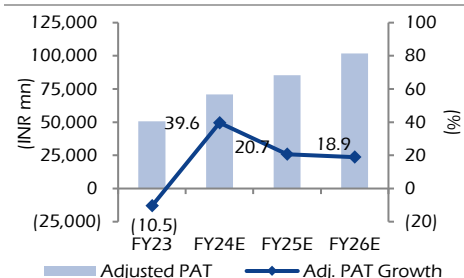
Note: Pricing as on 19 January 2024; Source: Company, Elara Securities Estimate

### Revenue & margin growth trend



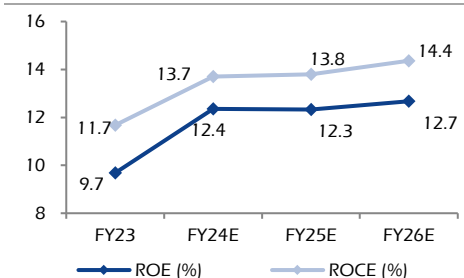
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratio



Source: Company, Elara Securities Estimate

**Other highlights**

- Q3FY24 capacity utilization improved to 77% from 75% in Q2FY24.
- Average lead distance reduced to 397kms from 413kms in Q3FY23 and 403kms in Q2FY24.
- UTCEM has commissioned solar power capacity of 26MW, bringing its total solar power capacity to 455MW in addition to waste heat recovery system (WHRS) capacity of 264MW.
- Blended fuel consumption stood at USD 150/tonne versus USD 200/tonne in Q3FY23 and USD 162/tonne in Q2FY24.
- Pet coke consumption rose to 44% in Q3FY24 versus 43% in Q3FY23 and 39% in Q2FY24.
- UTCEM aims to increase its green power share to 85% by CY30 from ~24% in Q3FY24.

**Exhibit 1: Standalone results**

Y/E March (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net sales	159,250	147,920	7.7	152,370	4.5
Operating expenses	131,334	128,632	2.1	131,668	(0.3)
% of sales	82.5	87.0		86.4	
EBITDA	30,401	21,448	41.7	23,502	29.4
EBITDA margins (%)	19.1	14.5		15.4	
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
Tax	5,856	4,616	26.9	4,155	40.9
Effective tax rate (%)	25.7	31.7		25.6	
Adjusted PAT	16,965	9,942	70.6	12,057	40.7
Reported PAT	16,965	9,942	70.6	12,057	40.7
NPM (%)	10.7	6.7		7.9	

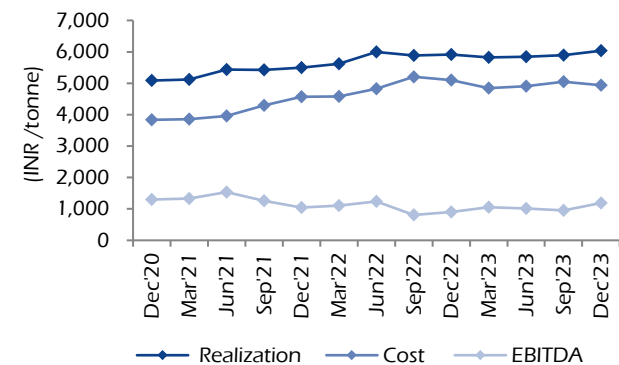
Source: Company, Elara Securities Research

**Exhibit 2: Variable cost of production falls ~3% QoQ**

Per tonne analysis	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Sales volume (mn tonnes)	27.32	25.86	5.6	26.69	2.4
<b>Realization</b>	<b>6,035</b>	<b>5,916</b>	<b>2.0</b>	<b>5,895</b>	<b>2.4</b>
Raw material cost	834	720	15.8	775	7.5
Purchase of stock in trade	138	147	(6.2)	159	(13.2)
Employee cost	281	268	4.8	304	(7.5)
Power & Fuel cost	1,529	1,884	(18.8)	1,643	(6.9)
Freight cost	1,325	1,345	(1.5)	1,316	0.7
Other expenses	828	733	13.0	846	(2.1)
<b>Total cost</b>	<b>4,936</b>	<b>5,099</b>	<b>(3.2)</b>	<b>5,044</b>	<b>(2.1)</b>
<b>EBITDA*</b>	<b>1,099</b>	<b>817</b>	<b>34.4</b>	<b>852</b>	<b>29.0</b>
Other operating revenue	93	86	7.9	104	(10.8)
<b>EBITDA</b>	<b>1,191</b>	<b>903</b>	<b>31.9</b>	<b>956</b>	<b>24.6</b>
% sale analysis	Q3FY24	Q3FY23	YoY (bp)	Q2FY24	QoQ (bp)
Raw material cost	13.8	12.2	164.2	13.2	66.6
Purchase of stock in trade	2.3	2.5	(20.1)	2.7	(41.1)
Employee cost	4.7	4.5	12.6	5.2	(49.9)
Power & fuel cost	25.3	31.9	(651.2)	27.9	(252.9)
Freight cost	22.0	22.7	(78.1)	22.3	(35.6)
Other expenses	13.7	12.4	133.7	14.3	(62.7)
<b>Total cost</b>	<b>81.8</b>	<b>86.2</b>	<b>(438.8)</b>	<b>85.5</b>	<b>(375.6)</b>
<b>EBITDA*</b>	<b>18.2</b>	<b>13.8</b>	<b>438.8</b>	<b>14.5</b>	<b>375.6</b>

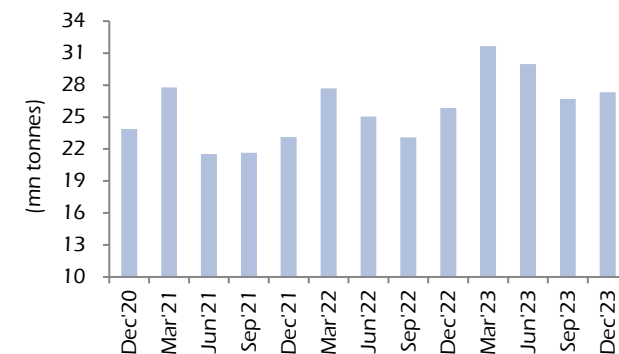
Note: \*Excluding other operating revenue; Source: Company, Elara Securities Research

**Exhibit 3: Higher price boosts margin QoQ**



Source: Company, Elara Securities Research

**Exhibit 4: Volume growth at seven-quarter low**



Source: Company, Elara Securities Research

## Exhibit 5: Phase II expansion to raise domestic cement capacity to ~157mn tonnes by FY25

Location	State	Region	Type	Project	Cement capacity (mn tonnes)	Expected timeline
Maihar	Madhya Pradesh	Central	Integrated unit	Brownfield	4.5	Q4FY25
Shahjahanpur	Uttar Pradesh	Central	Grinding unit	Greenfield	1.8	Q4FY25
Lucknow	Uttar Pradesh	Central	Bulk terminal (BT)	Greenfield	1.8	Q4FY25
Roorkee	Uttar Pradesh	Central	Grinding unit	Brownfield	1.0	Q4FY24
<b>Total-Central (excluding BT)</b>					<b>7.3</b>	
Kukurdih	Chhattisgarh	East	Integrated unit	Greenfield	2.7	Q2FY25
Durgapur	West Bengal	East	Grinding unit	Brownfield	0.6	Q3FY25
Sonar Bangla	West Bengal	East	Grinding unit	Brownfield	0.6	Q3FY25
Patratu	Jharkhand	East	Grinding unit	Greenfield	2.5	Q4FY25
<b>Total East</b>					<b>6.4</b>	
Rajpura	Punjab	North	Grinding unit	Greenfield	2.6	Q1FY25
Kotputli	Rajasthan	North	Integrated unit	Brownfield	1.8	Q1FY25
<b>Total-North</b>					<b>4.4</b>	
Karur	Tamil Nadu	South	Grinding unit	Greenfield	3.3	Q1FY25
Anantapur	Andhra Pradesh	South	Integrated unit	Brownfield	1.8	Q2FY25
Arakkonam	Tamil Nadu	South	Grinding unit	Brownfield	1.2	Q2FY25
Bengaluru	Karnataka	South	Bulk terminal (BT)	Brownfield	1.0	Commissioned
<b>Total-South (excluding BT)</b>					<b>6.3</b>	
<b>Total (excluding BT)</b>					<b>24.4</b>	

Source: Company, Elara Securities Research

## Exhibit 6: Phase III expansion – South India accounts for ~40% of capacity addition

Location	Region	Project	Cement capacity (mn tonnes)
Bihar	East	Greenfield	3.3
West Bengal	East	Greenfield	3.3
<b>Total East</b>			<b>6.6</b>
Nathdwara, Rajasthan	North	Brownfield	1.2
Aligarh, Uttar Pradesh	North	Brownfield	2.7
<b>Total-North</b>			<b>3.9</b>
Anantapur, Andhra Pradesh	South	Brownfield	2.7
Andhra Pradesh	South	Greenfield	6.0
<b>Total-South</b>			<b>8.7</b>
Hotgi, Maharashtra	West	Brownfield	2.7
<b>Total West</b>			<b>2.7</b>
<b>Total</b>			<b>21.9</b>

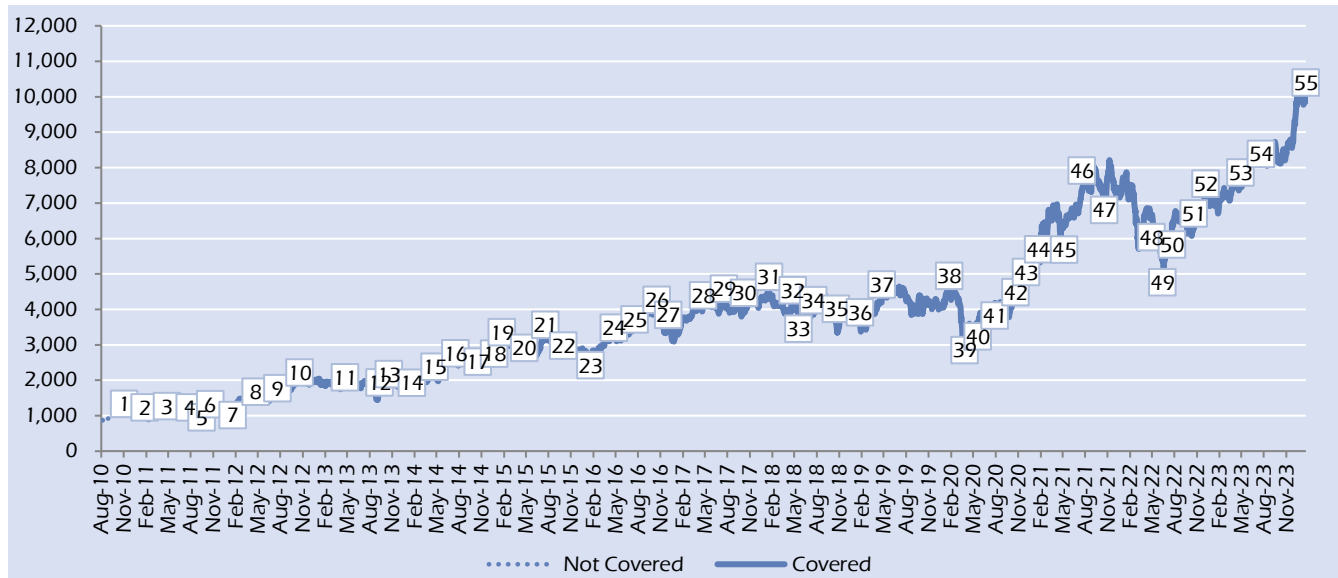
Source: Company, Elara Securities Research

## Exhibit 7: Change in estimates

(INR mn)	Previous			Revised			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Revenue	7,28,807	7,89,469	8,65,693	6,89,290	7,48,714	8,58,324	(5.4)	(5.2)	(0.9)
EBITDA	1,38,694	1,54,247	1,66,876	1,28,305	1,51,959	1,76,919	(7.5)	(1.5)	6.0
PAT	77,738	89,686	1,00,378	70,811	85,493	1,01,667	(8.9)	(4.7)	1.3
EPS (INR)	269	311	348	245	290	345	(8.9)	(6.6)	(0.8)
<b>TP (INR)</b>			<b>9,098</b>			<b>10,659</b>			<b>17.2</b>

Source: Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
38	24-Jan-2020	Accumulate	INR 5,268	INR 4,643
39	27-Mar-2020	Buy	INR 4,243	INR 3,144
40	20-May-2020	Accumulate	INR 4,175	INR 3,529
41	28-Jul-2020	Accumulate	INR 4,600	INR 4,136
42	21-Oct-2020	Buy	INR 5,546	INR 4,630
43	3-Dec-2020	Accumulate	INR 5,546	INR 4,894
44	22-Jan-2021	Accumulate	INR 6,158	INR 5,535
45	7-May-2021	Accumulate	INR 6,988	INR 6,482
46	22-Jul-2021	Accumulate	INR 8,496	INR 7,459
47	18-Oct-2021	Accumulate	INR 8,627	INR 7,399
48	29-Apr-2022	Accumulate	INR 7,754	INR 6,630
49	16-Jun-2022	Buy	INR 7,047	INR 5,305
50	22-Jul-2022	Accumulate	INR 7,537	INR 6,459
51	19-Oct-2022	Buy	INR 7,962	INR 6,398
52	6-Dec-2022	Accumulate	INR 8,325	INR 7,242
53	28-Apr-2023	Accumulate	INR 8,638	INR 7,556
54	21-July-2023	Accumulate	INR 9,098	INR 8,119
55	19-Jan-2024	Accumulate	INR 10,659	INR 10,094

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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