

# Ultratech Cement Ltd.

March 04, 2025

**BUY**

**CMP: 10,338 | Target Price: INR 12,160 | Potential Upside: 17.6%**

Change in Estimates	✓
Change in Target Price	✓
Change in Recommendation	✗

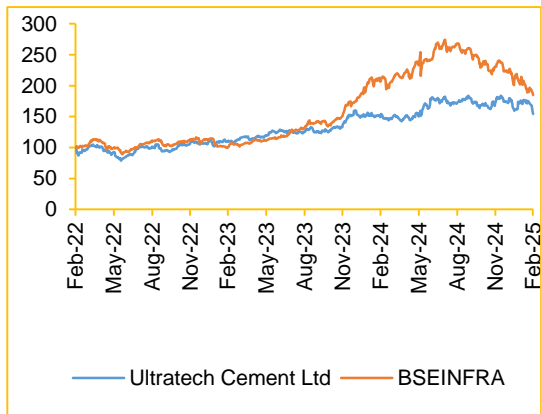
<b>Company Info</b>	
BB Code	UTCEM IN EQUITY
Face Value (INR)	10.0
52 W High/Low (INR)	9,250/12,143
Mkt Cap (Bn)	INR 2,984.5 / \$34.2
Shares o/s (Mn)	288.7
3M Avg. Daily Volume	3,147,48

<b>Change in CEBPL Estimates</b>						
	FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	824.4	775.7	6.3	899.2	839.4	7.1
EBITDA	1563	160.9	(2.9)	186.2	178.2	4.5
EBITDAM %	19.0	20.7	(179)bps	20.7	21.2	(49)bps
PAT	85.6	90.8	(5.8)	106.2	110.7	(4.0)
EPS	290.4	308.4	(5.8)	360.8	375.8	(4.0)

<b>Key Financials</b>					
	FY23	FY24	FY25E	FY26E	FY27E
Revenue	632.4	709.1	748.8	824.3	899.2
YoY (%)	20.2	12.1	5.6	10.1	9.1
EBITDA	106.2	129.7	127.3	156.3	186.2
EBITDAM %	16.8	18.3	17.0	19.0	20.7
Adj PAT	50.6	70.1	66.5	85.6	106.3
EPS	175.5	242.7	225.6	290.4	360.8
RoE %	9.3	11.6	10.2	12.0	13.3
ROCE %	12.4	14.5	12.0	14.2	15.8
PE(x)	57.6	41.7	44.8	34.8	28.0
EV/EBITDA	27.6	22.6	23.4	19.1	16.1

<b>Shareholding Pattern (%)</b>			
	Dec-24	Sep-24	Jun-24
Promoters	60.00	59.99	59.98
FIIIs	16.98	17.95	18.15
DIIIs	15.15	14.08	13.83
Public	7.87	7.98	8.04

<b>Relative Performance (%)</b>			
<b>YTD</b>	<b>3Y</b>	<b>2Y</b>	<b>1Y</b>
BSE Infra	84.6	84.8	(10.7)
UTCEM Ltd.	54.2	39.5	3.3



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## Cables & Wires Foray: A small sigh of relief; much more needed!

### Executive summary

#### C&W foray is a welcome move, could have been a bigger bet

Ultratech Cement (UTCEM) announced its foray into the cables & wires (C&W) industry with an investment of INR 18bn. C&W industry is an attractive space to enter into in our view given early teen growth rates and higher than cement sector RoCE of the incumbents. UTCEM and the larger Birla parentage have all the necessary ingredients to make this foray a success and outperform the incumbents in potential RoCE, in our view. The C&W foray is a welcome move but insignificant in the overall scheme of things for UTCEM (it is indeed a significant development from the incumbent C&W players' point of view though). UTCEM should/could have made a bigger foray into the space given its solid balance sheet, strong and pan India BPD footprint, execution capabilities, unparalleled experience in selling to B2C home building space and institutional/government projects in the infra B2B space.

#### UTCEM's capital allocation strategy needs to be less conservative

We have always been concerned about Ultratech's capital allocation challenges given it has limited growth options in the Cement industry, and overgrowth is detrimental to the sector and itself. Due to lack of attractive investment opportunities, UTCEM has deleveraged its balance sheet over the years, although it is not optimal from a return profile point of view. The concern we have is UTCEM's suboptimal capital structure from an RoE point of view – its balance sheet strength is underutilised, diluting higher RoE potential. We strongly believe the paints business foray was an opportunity missed to its group company some time back, given the paints sector's adjacency to cement business.

#### Negative stock price reaction initially was a knee jerk one

Although the initial stock price reaction to this C&W foray announcement was negative (overall market sentiment was weak too), we believe it is a knee-jerk reaction only, and this foray is going to be value accretive to shareholders in the long run.

#### Core cement business is solid as always

UTCEM is well positioned to deliver in its core area, i.e., the cement sector. We forecast FY25/26/27E volume of 131.0/142.7/154.2 Mnt, EBITDA/t of 972/1,095/1,208 and EBITDA of INR 127.3/156.3/186.2 Bn.

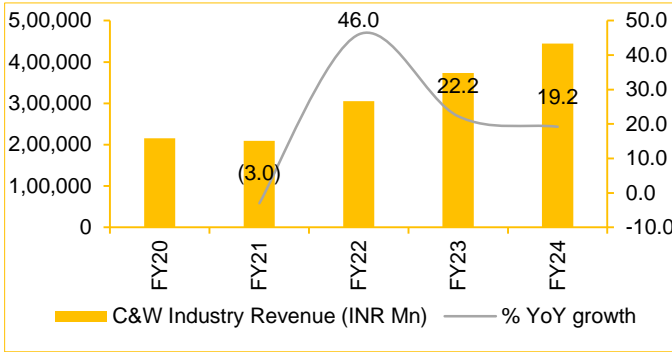
**Valuation:** We have valued UTCEM using EV/EBITDA methodology. Based on our EV/EBITDA approach on the cement business, applying a multiple of **20x (FY27E)**, we arrive at a valuation of **INR12,160 per share**, implying a **17.6% upside** from the current levels.

Given UTCEM's focus on robust expansion plans, cost saving projects, entering into new lucrative ventures, we are constructive on the company.

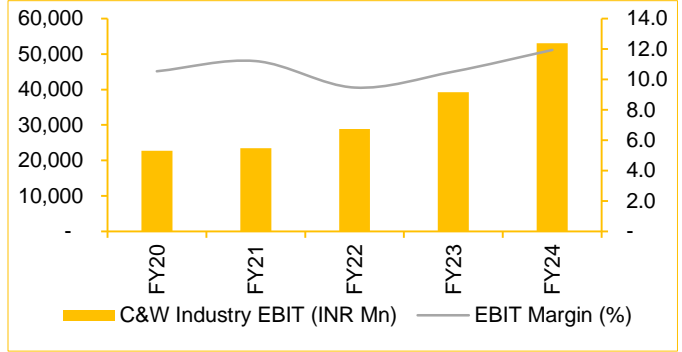
**C&W industry overview**

C&W industry annual revenue size is ~INR 1trn (FY26E) as per our analysis and UTCEM expectations, where organised players dominate with a ~70% market share and is well concentrated with top 5 players market share being ~50%. RoCE profile is attractive (FY21 -24 average of 20%+). Over FY20-25E the top 6 players in the industry have grown at 13-14% , and UTCEM management expects these growth rates to continue for several structural reasons like increasing urbanisation trend, growing incomes, infra creation, etc in India, and an export opportunity exists as well. We have no reason to believe that these growth rates would moderate.

**C&W industry revenue s have been growing consistently**

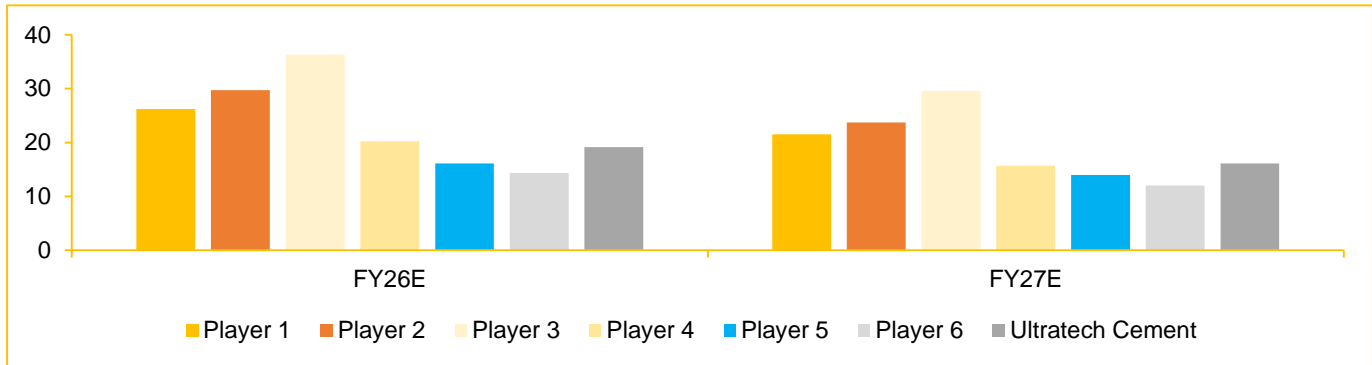


**C&W Industry EBIT margins in early teens**



Source: Company Data, CEBPL

**UTCEM trades at an EV/EBITDA multiple which is lower than C/W industry market leaders**



Source: BBG Consensus, CEBPL

**C&W industry foray is EPS/value accretive, foray into high RoCE adjacencies much needed**

This cable & wires INR 18bn foray, although small (~2% of its current capital employed, targets 6-7% share of the C&W market in FY30) in the context of UTCEM's scheme of things, is a welcome step and in the right direction.

UTCEM targets an annual revenue of INR ~90bn when the plant is fully utilized (~FY30/31 in our view), implying an asset turnover of ~5x, which is a reasonable assumption in our view. UTCEM expects EBITDA margins to be in line with industry incumbents in the range of 12-14%. Under these assumptions, the asset RoCE at peak utilization would be ~20%+.

This asset is return accretive to the shareholders as per our calculations is 19%. In terms of the RoE profile, it ranks ahead of other alternative opportunities vis a vis 1) greenfield cement plant 2) brownfield cement plant 3) inorganic acquisition 4) deleveraging. We would have been more constructive if the foray was bigger where UTCEM targeted ~20% + of market share. We would also have liked to hear from management that they wouldn't shy away from entering into other industries (adjacencies or otherwise) if the return profile is better than the cement sector. UTCEM's parent's foray into the paints industry with a INR100 Bn outlay some time ago was an opportunity foregone by UTCEM. Paints are integral to the construction eco-system, high RoCE business and UTCEM's exemplary footprint in the construction/infra space would have been a nice asset to have under its stable.

**C&W foray would be EPS accretive as per our calculations**

FY30E	Cement Only	Cement + C&W	Comment
Revenue (INR Mn)	11,67,047	12,75,947	This is going to be an EPS accretive transaction
EBITDA (INR Mn)	3,44,503	3,59,531	
PAT (INR Mn)	2,23,847	2,34,932	
EPS	760	798	

Source: Company, CEBPL

## C&amp;W foray RoE is much higher than other alternatives UTCEM has in its core cement business

Particulars (INR Mn)	Greenfield Cement Expansion	Brownfield Cement Expansion	Inorganic Expansion	Cables & Wires	Debt Repayment
Capacity (MT)	1	1	1		
Capex	6,000	4,000	5,500	18,000	18000
Working Capital	350	300	325	9,000	2000
Total	6,350	4,300	5,825	27,000	20,000
Equity: Debt (x)	100:0	100:0	100:0	100:0	NA
Volume (MT)	0.9	0.9	0.9		
Revenue	5,000	4,800	4,000	90,000	
EBITDA	1,200	1,000	750	9,000	
EBITDA Margin (%)	24.0%	20.8%	18.8%	10.0%	
Depreciation	318	215	291	1,350	
EBIT	883	785	459	7,650	
Interest	-	-	-	-	
PBT	883	785	459	7,650	2000
Tax	25	25	25	25	25
PAT	662	589	344	5,738	1,500
ROE %	10.4%	13.7%	5.9%	21.3%	7.5%

Source: Company, CEBPL

### Capital allocation needs to be less conservative , RoE expansion is key

We continue to be concerned about UTCEM's balance sheet, which has little net debt and would continue to become a cash heavy structure in the years to come as we expect UTCEM's cash generation will outpace its ability to add profitable cement capacity. Yes, it is a good problem to have though. Even at this stage, we believe UTCEM's lack of sufficient leverage on balance sheet downgrades its return profile. More such forays, into adjacencies or otherwise are much needed in our view so that the balance sheet strength and the group credit profile is better utilised so that the RoE profile improves.

### Solid core business cash flow generation would outpace core business capex needs

Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	90,685	1,08,976	79,409	1,22,353	1,35,501
Capex	(62,001)	(90,056)	(95,609)	(95,778)	(1,06,939)
FCF	28,684	18,920	(16,200)	26,575	28,562

Source: Company, CEBPL

### Is this foray valuation accretive to UTCEM? Yes it is, but to unlock full value might have to be demerged in future

The large 3 C&W players trade at a 1yr fwd EV/EBITDA multiple of ~25x (based on BBG consensus), which is well above UTCEM's 1yr fwd EV/EBITDA multiple of ~15x as per our estimates. UTCEM's C&W venture could potentially be higher RoCE generating vs the incumbents, and hence it could potentially command a higher multiple than the incumbents and of course, a multiple higher than UTCEM's core cement business. However, under UTCEM's stable, given this asset's lack of significant relevance in the overall scheme of things, C&W EBITDA would be clubbed under UTCEM's overall EBITDA and the street may value UTCEM basis this consolidated EBITDA and assign a cement business multiple to the C&W EBITDA stream too.

However, if UTCEM eventually grows this business and demerges it, it would then be a nice value unlocking event for the UTCEM shareholders at that point in time in the future in our view, where the market would assign it the high multiple that it deserves.

### What should the stock price reaction be to this development (C&W foray)? Ideally positive, but practically neutral

C&W foray is clearly return/EPS accretive in our view. The C&W sector enjoys higher valuations multiples too vs the Cement industry for the right reasons – higher growth and returns (both). Ideally, the stock price reaction should have been positive to this development, although practically it is a neutral event at this stage as we opine in above point

## Assumptions &amp; Valuation Discussion

## UTCEM's Assumptions Table

Particulars	FY24	FY25E	FY26E	FY27E
Total cement capacity (MT)	140.8	182.8	194.0	209.3
Sales Volume (Mnt)	119.1	131.0	142.7	154.2
Realization	5,956	5,718	5,775	5,833
EBITDA/t	1,089	972	1,095	1,208

Source: Company, CEBPL

## EV/EBITDA based TP derivation

We have valued UTCEM using EV/EBITDA methodology. Based on our EV/EBITDA approach on the cement business, applying a multiple of **20x (FY27E)**, we have added back the C&W foray investment and we arrive at a valuation of **INR12,160 per share**.

	Current	FY27E
EBITDA	1,29,686	1,86,201
EV/EBITDA	23.2	20.0
EV	30,14,254	37,24,020
Debt	1,02,984	1,68,220
Cash	7,832	8,129
C&W Investment		18,000
MCap	29,19,103	35,81,930
Shares o/s	289	295
Price	<b>10,338</b>	<b>12,160</b>
Upside		17.6%

Source: Company, CEBPL

## DCF valuation (INR/sh) sensitivity analysis to Wacc and Terminal growth rate

Meanwhile, we have also calculated the **DCF-based valuation of the cement and C&W business**. Considering a WACC of **10.8%** and a terminal growth rate of **3%**, this yields a fair value of **INR12,086 per share**

Sensitivity Analysis						
WACC	Terminal Growth Rate					
	2.00%	2.50%	3.00%	3.50%	4.00%	
12,086	12,236	13,002	13,881	14,899	16,092	
9.80%	11,492	12,161	12,922	13,795	14,806	
10.30%	10,831	11,421	<b>12,086</b>	12,842	13,709	
10.80%	10,242	10,764	11,350	12,010	12,761	
11.30%	9,712	10,178	10,697	11,278	11,934	
11.80%						

Source: Company, CEBPL

## Management Call - Highlights

### New Venture in Wires & Cables

- UTCEM is investing INR18,000 Mn in a new wires and cables plant in Bharuch, Gujarat.
- The facility, with a 35–40 lakh km capacity, is expected to commence operations by December 2026.
- The investment is funded through debt and internal accruals, with no plans to exceed INR20,000 Mn in this segment over two years.

### Revenue & Profitability Targets

- UTCEM aims for 5-6x revenue on its total investment, targeting INR90,000 Mn from wires and paints.
- The company is targeting a 20% ROCE and a 25% IRR while maintaining industry-standard EBITDA margins.

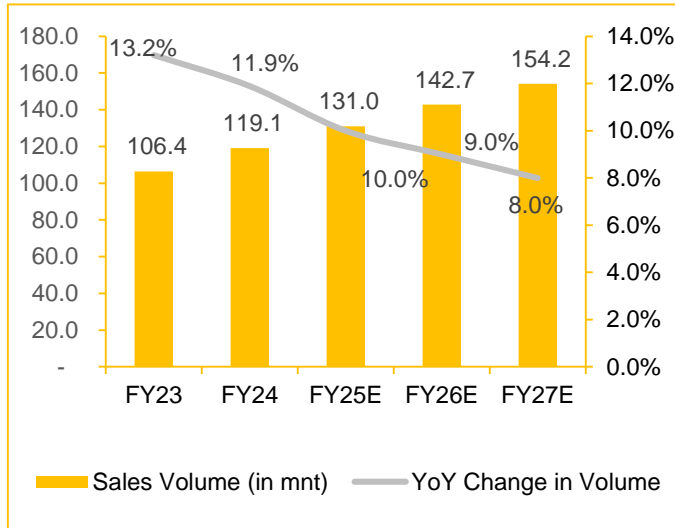
### Cement Business Remains Core Focus

- Cement capacity expansion from 140.8 mtpa in FY24 to 209.3 mtpa by FY27 (CAGR of 14.1%).
- Increased FY25 CAPEX from INR80,000 Mn to INR90,000 Mn, with an additional INR90,000 Mn planned for FY26.
- Targeting net debt-free status by FY30, with FY25 capacity reaching 182.8 mtpa (28% of industry capacity).

### Share Swap with Kesoram

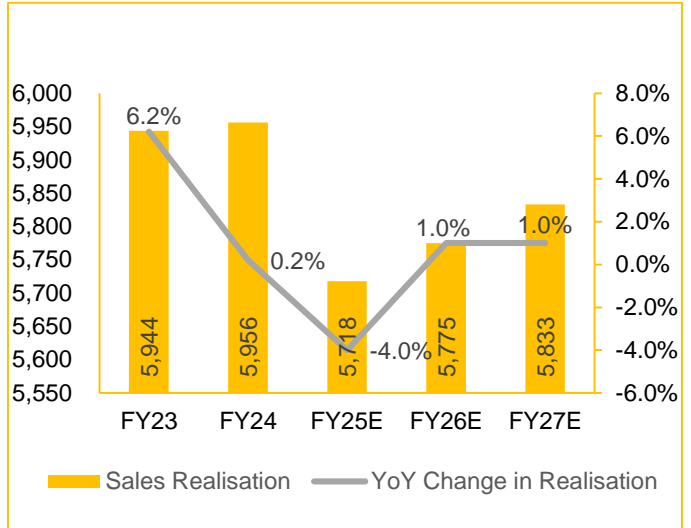
- Announced a 1:52 share swap with Kesoram, effective from 1st March 2025.

**Volume expected to grow by 10% in FY25**



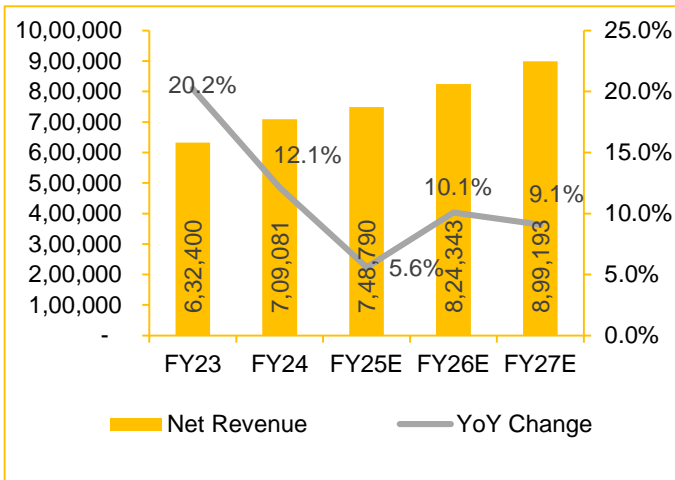
Source: Company, CEBPL

**Realisation is expected to degrow by 4% in FY25**



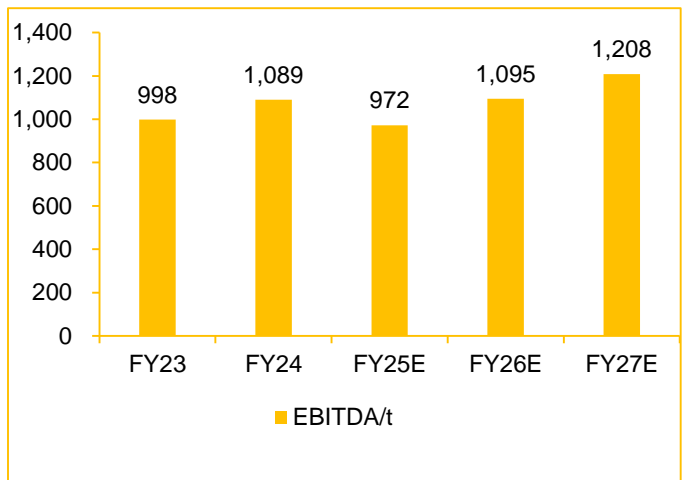
Source: Company, CEBPL

**Revenue expected to grow by 8.2% CAGR over FY24-FY27**



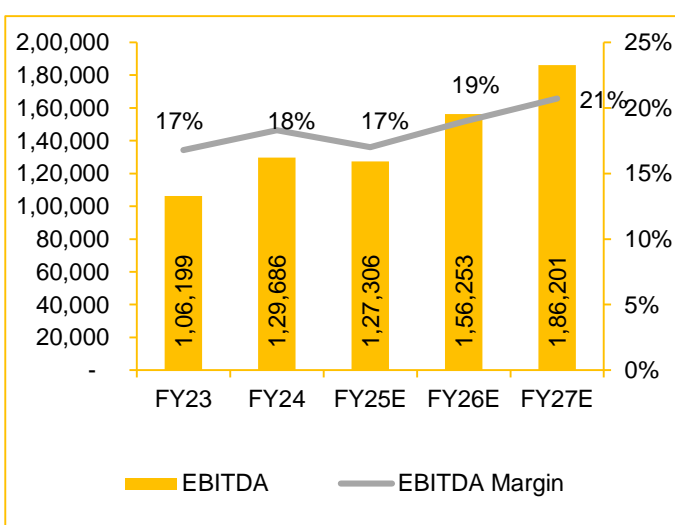
Source: Company, CEBPL

**Cost reduction initiatives lead to increase in EBITDA/t**



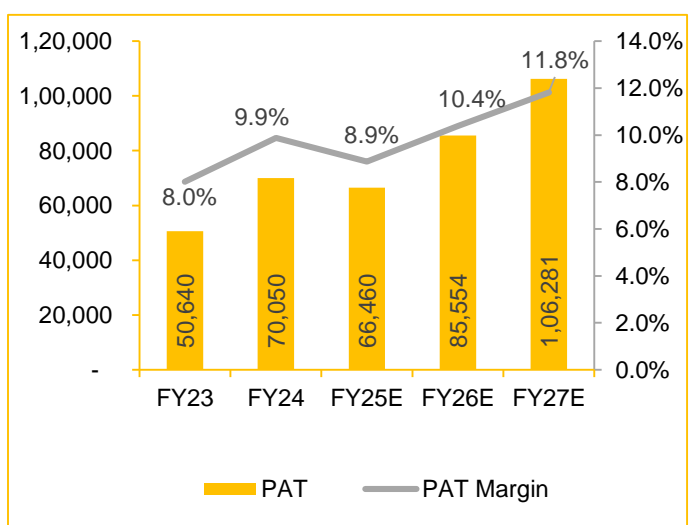
Source: Company, CEBPL

**EBITDA expected to grow at a CAGR of 12.8% over FY24-27**



Source: Company, CEBPL

**PAT is expected to grow at a CAGR of 14.9% over FY24-27**



Source: Company, CEBPL

## Income Statement (Consolidated in INR Mn.)

Particular	FY23	FY24	FY25E	FY26E	FY27E
Revenue	6,32,400	7,09,081	7,48,790	8,24,343	8,99,193
Gross profit	5,35,250	5,90,052	6,06,520	6,59,474	7,19,355
EBITDA	<b>1,06,199</b>	<b>1,29,686</b>	<b>1,27,306</b>	<b>1,56,253</b>	<b>1,86,201</b>
Depreciation	28,880	31,453	32,370	35,835	39,685
EBIT	<b>77,319</b>	<b>98,233</b>	<b>94,936</b>	<b>1,20,418</b>	<b>1,46,516</b>
Other Income	5,031	6,170	7,488	8,243	9,891
Interest Expenses	8,227	9,680	13,752	14,130	14,130
Exceptional Item	40	(500)	298	-	-
PAT	50,640	70,050	66,460	85,554	1,06,281
EPS (INR)	175	243	226	290	361

Source: Company, CEBPL

## Balance Sheet (Consolidated in INR Mn.)

Balance Sheet (Rs. Mn.)	FY23	FY24	FY25E	FY26E	FY27E
Tangible Fixed Assets	5,95,790	6,28,776	6,95,406	7,58,571	8,28,886
Capital Work in Progress	40,349	67,828	64,436	61,214	58,154
Investments	72,970	82,490	82,490	82,490	82,490
Cash & Cash Equivalents	11,496	7,832	17,995	14,319	8,129
Loans & Advances and Other Assets	88,476	95,016	95,016	95,016	95,016
Net Working Capital	32,696	41,296	65,647	72,271	83,760
<b>Total assets</b>	<b>8,41,776</b>	<b>9,23,237</b>	<b>10,20,990</b>	<b>10,83,881</b>	<b>11,56,435</b>
Shareholder's Funds	5,43,802	6,02,834	6,48,673	7,13,607	7,99,267
Borrowings	99,008	1,02,984	1,63,720	1,68,220	1,68,220
Deferred Tax	62,601	64,478	61,254	60,029	57,027
Other Liabilities & Provisions	1,36,365	1,52,941	1,47,343	1,42,025	1,31,920
<b>Total Equity &amp; Liabilities</b>	<b>8,41,776</b>	<b>9,23,237</b>	<b>10,20,990</b>	<b>10,83,881</b>	<b>11,56,435</b>
Capital Employed	6,23,070	6,76,302	7,89,474	8,49,360	9,25,657
Invested Capital	5,71,225	6,00,642	7,07,042	7,73,827	8,58,374

Source: Company, CEBPL

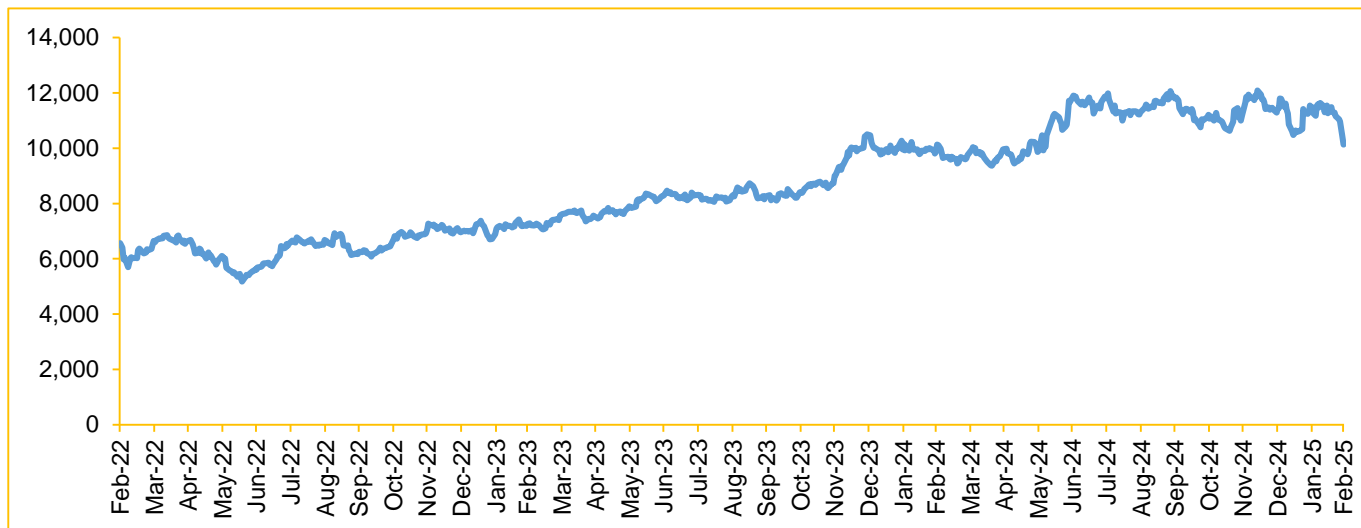
Cash Flows (INR Mn.)	FY23	FY24	FY25E	FY26E	FY27E
CFO	90,685	1,08,976	79,409	1,22,353	1,35,501
Capex	(62,001)	(90,056)	(95,609)	(95,778)	(1,06,939)
FCF	28,684	18,920	(16,200)	26,575	28,562
CFI	(71,871)	(87,881)	(95,609)	(95,778)	(1,06,939)
CFF	(16,310)	(19,257)	26,363	(30,251)	(34,751)

Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Ratios (%)</b>					
Revenue	20.2	12.1	5.6	10.1	9.1
EBITDA	(7.8)	22.1	(1.8)	22.7	19.2
<b>Margin ratios (%)</b>					
EBITDA	16.8	18.3	17.0	19.0	20.7
PAT	8.0	9.9	8.9	10.4	11.8
<b>Performance Ratios (%)</b>					
OCF/EBITDA (X)	0.9	0.8	0.6	0.8	0.7
OCF/IC	15.9	18.1	11.2	15.8	15.8
ROE	9.3	11.6	10.2	12.0	13.3
ROCE	12.4	14.5	12.0	14.2	15.8
<b>Turnover Ratios (Days)</b>					
Inventory	38	43	48	48	48
Debtor	22	22	24	24	26
Payables	42	44	40	40	40
Cash Conversion Cycle	19	21	32	32	34
<b>Financial Stability ratios (x)</b>					
Net debt to Equity	0.2	0.2	0.2	0.2	0.2
Net debt to EBITDA	0.8	0.7	1.1	1.0	0.9
Interest Cover	9.4	10.1	6.9	8.5	10.4
<b>Valuation metrics</b>					
Fully diluted shares (Mn)	289	289	295	295	295
Price (INR)	10,337	10,337	10,337	10,337	10,337
Market Cap(INR Mn)	29,83,465	29,83,465	30,45,073	30,45,073	30,45,073
PE(x)	58.9	42.6	45.8	35.6	28.7
EV (INR Mn)	29,98,008	29,96,127	31,08,309	31,16,485	31,22,674
EV/EBITDA (x)	28.2	23.1	24.4	19.9	16.8
Price to BV (x)	5.5	4.9	4.7	4.3	3.8
EV/IC (x)	5.2	5.0	4.4	4.0	3.6
EV/OCF	33.1	27.5	39.1	25.5	23.0

Source: Company, CEBPL



## Historical recommendations and Target Price: Ultratech Cement Limited



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BUY	The security is expected to generate upside of 15% or more over the next 12 months
HOLD	The security is expected to show upside or downside returns by 14% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months

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