

**ULTRATECH CEMENT Ltd.****BUY****Choice**

Capacity expansion plan on track; EBITDA to improve by cost reduction initiatives

UTCEM's consolidated Q1FY25 volumes were INR31.95mnt, down 8.9% QoQ but up 6.6% YoY. Sales volumes aligned with our estimates, resulting in revenues of INR180.7bn, a decrease of 11.5% QoQ but an increase of 1.9% YoY. However, cement demand was affected by elections and floods. UltraTech achieved 85% capacity utilization for Q1FY25. EBITDA/t was INR951/t, down 18.9% QoQ and 6.5% YoY due to lower realization. PAT for the quarter stood at INR16.9bn, down 24.9% QoQ but up 0.3% YoY. EPS for the quarter was INR58.9.

- **Revised cost reduction guidance 300/t in next 3 years:** The company aims to achieve cost savings of INR300/t over the next three years, with detailed guidance including INR80/t from increasing green power share, INR30/t from higher alternative fuel share, INR60/t from reducing the clinker factor and increasing blended cement share, INR100/t from logistics cost savings through larger operations and optimization, and INR40/t from other operational efficiencies including positive operating leverage. Additionally, a 15km reduction in lead distance compared to the previous quarter has resulted in a INR45/t logistics cost benefit. Management anticipates further reductions in lead distance as the plant network grows from 59 to over 70 locations by the end of the current growth phase.
- **Robust Capex & Expansion plans on track:** The company plans to allocate approximately INR90,000mn for Capex over the current and upcoming fiscal years. This budget includes growth Capex, routine Capex, and maintenance Capex. Projections indicate a significant increase in the company's grey cement capacity to 157.0mtpa by the estimated FY25E. UltraTech has a robust capacity expansion plan in the East and South. Currently, the total capacity in the East stands at 27.6mtpa, with plans to increase it to 41mtpa by FY27E. The capacity in the South stands at 20.5mtpa, with plans to increase it to 35.5mtpa by FY27E. A brownfield expansion at Arakkonam, Tamil Nadu, with a capacity of 1.2mtpa, is expected to be commissioned in Q3FY25E. Another brownfield expansion at Maihar, MP, with a capacity of 4.5mtpa, is expected to be commissioned in Q4FY25E. Additionally, the company plans to add 16.2mtpa of capacity in FY25E, 11.8mtpa in FY26E, and 20.1mtpa in FY27E, bringing the total capacity to 183.5mtpa by FY27E.
- **Expanding footprint in South:** UltraTech Cement has made a ~23% financial investment in India Cements at INR 267 per share, valuing India Cements at approximately \$90 per tonne. The acquisition of a stake in India Cements by UltraTech Cement presents multiple strategic synergies, including increased market share and geographical diversification, particularly in South India. This consolidation can drive significant operational efficiencies through economies of scale, optimized supply chains, and reduced overhead costs. Financially, the combined entity will benefit from improved metrics and greater bargaining power. These significant acquisitions by leading cement group may lead to the deferment of greenfield capacities, positively affecting demand-supply dynamics. Additionally, this may result in better pricing discipline moving forward.

**Valuation and Outlook:** In anticipation of increased demand, Ultratech is poised for growth, spurred by the government's emphasis on infrastructure investment. The company plans to seize this opportunity by embarking on ambitious capacity expansion projects, capitalizing on the strong demand environment, and expecting substantial volume increases. Additionally, Ultratech is committed to cost optimization and is strategically positioned to gain a larger market share. Management has projected double-digit volume growth for FY25E. As per our FY26E estimates, we are expecting Revenue/EBITDA/PAT to grow at a CAGR of 10.5%/17.3%/18.6% respectively over FY24-FY26E. We assign a EV/EBITDA multiple of 20.0x (modified) ascribing a target price of INR12,225, maintaining our rating to **BUY**.

**Financial Snapshot**

Quarter end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn.)	5,25,988	6,32,399	7,09,081	7,65,882	8,66,311
EBITDA (INR Mn.)	1,15,144	1,06,200	1,29,689	1,50,477	1,78,422
EBITDA Margins (%)	21.9	16.8	18.3	19.6	20.6
PAT	71,744	50,737	70,037	84,443	98,522
PAT Margins (%)	13.6	8.0	9.9	11.0	11.4
EPS	248.5	175.7	242.8	292.5	341.3

Source: Company, CEBPL

July 20, 2024

CMP (Rs.)	11,268
Target Price (Rs.)	12,225
Potential Upside (%)	8.5

**Company Info**

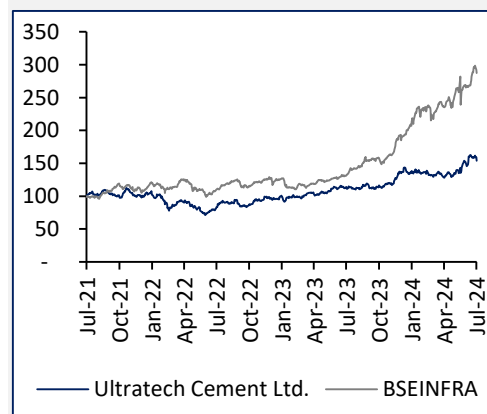
BB Code	UTCEM IN EQUITY
ISIN	INE481G01011
Face Value (Rs.)	10
52 Week High (Rs.)	12,078.2
52 Week Low (Rs.)	7,940.6
Mkt Cap (Rs bn.)	3,253.1
Mkt Cap (\$ bn.)	38.9
Shares o/s (Mn.)/F.Float	288.7/40
FY24 EPS (Rs.)	242.8
FY26E EPS(Rs.)	341.3

**Shareholding Pattern (%)**

	Jun-24	Mar-23	Dec-23
Promoters	59.98	59.96	59.96
FII's	18.15	17.74	18.20
DII's	13.83	14.14	13.68
Public	8.04	8.16	8.16

**Relative Performance (%)**

YTD	3Y	2Y	1Y
BSEINFRA	187.2	161.3	117.6
UTCEM	54.1	85.3	35.3

**Rebased Price Performance****Ashutosh Murarka, Associate**

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## Sequential Operating Performance

Operating Metrics INR/t	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Blended Realisation	5,887	5,920	5,999	6,127	5,821	5,656
Raw Material Cost	841	854	880	917	809	866
Employee Cost	226	236	304	281	214	231
Power & Fuel Cost	1,675	1,629	1,643	1,529	1,379	1,406
Freight & Handling Expense	1,323	1,369	1,316	1,325	1,325	1,309
Other Expenses	615	686	846	828	644	749
Total Costs	4,839	4,902	5,043	4,936	4,648	4,704
<b>EBITDA</b>	<b>1,048</b>	<b>1,018</b>	<b>956</b>	<b>1,191</b>	<b>1,173</b>	<b>951</b>

Source: Company, CEBPL

## CEBPL Estimates vs Actual for Q1FY25

Ultratech (INR Mn.)	Q1FY25	Q1FY24	YoY(%)	Q4FY24	QoQ (%)	CEBPL Est.	Dev. (%)
Volumes	31.95	29.96	6.6	35.08	(8.9)	31.75	0.6
Revenues	1,80,696	1,77,371	1.9	2,04,189	(11.5)	1,79,802	0.5
RM Cost	27,672	25,595	8.1	28,387	(2.5)		
Power and Fuel Cost	44,937	48,812	(7.9)	48,388	(7.1)		
Employee Cost	7,382	7,069	4.4	7,494	(1.5)		
Freight Exp	41,813	41,007	2.0	46,472	(10.0)		
EBITDA (INR Mn.)	30,392	30,494	(0.3)	41,139	(26.1)	32,659	(6.9)
EBITDA Margin (%)	16.8	17.2	(37)bps	20.1	(333)bps	18.2	(134)bps
Depreciation	8,425	7,490	12.5	8,149	3.4		
EBIT (INR Mn.)	23,624	24,741	(4.5)	34,345	(31.2)	26,276	(10.1)
EBIT Margin (%)	13.1	13.9	(87)bps	16.8	(375)bps	14.6	(154)bps
Interest	2,556	2,107	21.3	2,612	(2.1)		
Other Income	1,657	1,737	(4.6)	1,356	22.2		
PBT	21,423	22,671	(5.5)	31,105	(31.1)		
Tax	4,471	5,770	(22.5)	8,519	(47.5)		
PAT (INR Mn.)	16,952	16,901	0.3	22,585	(24.9)	17,563	(3.5)
Basic EPS (INR)	58.9	58.6		78.35	(24.9)	60.8	

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
NSR /t	5,656	5,920	(4.5)	5,821	(2.8)
Cement Cost /t	4,704	4,902	(4.0)	4,648	1.2
EBITDA/t	951	1,018	(6.5)	1,173	(18.9)

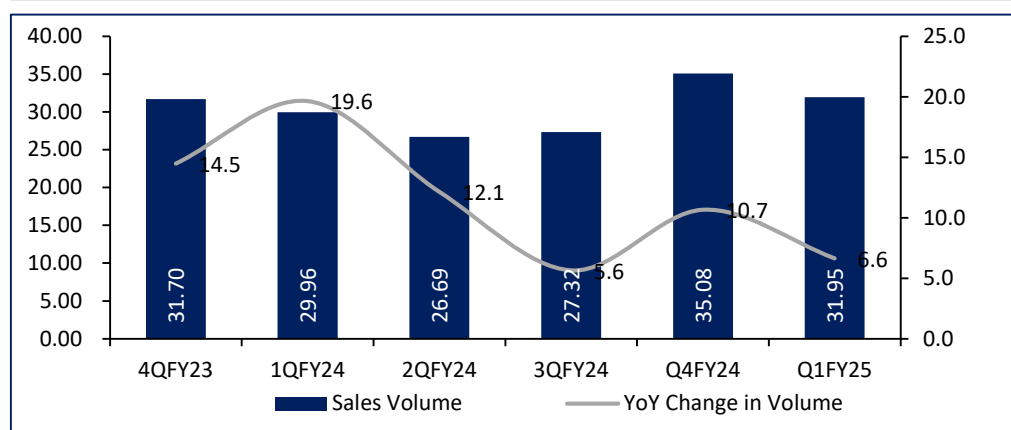
Source: Company, CEBPL

## Change in estimates

Income Statement (INR Mn.)	FY25E			FY26E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	7,07,170	7,65,882	8.3	7,71,741	8,66,311	12.3
Gross Profit Margin (%)	85.0	84.4	(28) bps	85.2	84.6	(68) bps
EBITDA	1,25,900	1,50,477	19.5	1,52,126	1,78,422	17.3
EBITDA Margin (%)	17.8	19.6	184 bps	19.7	20.6	88 bps
EPS	226.6	293.0	29.1	274.0	341.0	24.4

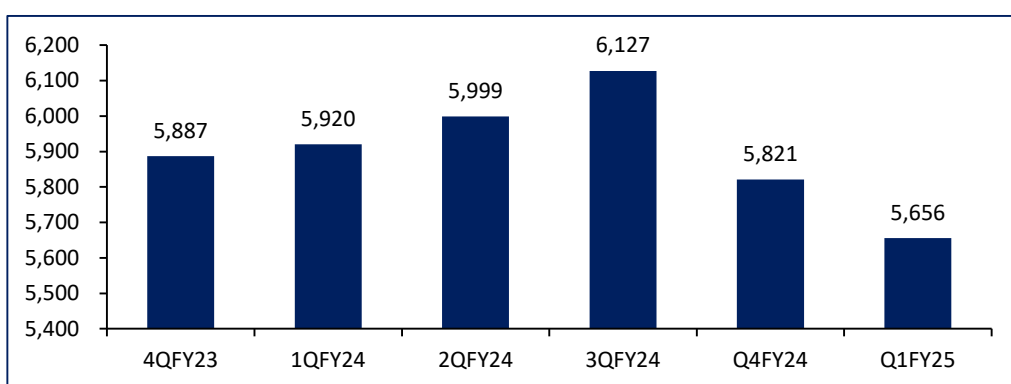
Source: Company, CEBPL

## Sales Volume (MT) &amp; YoY Growth (%)



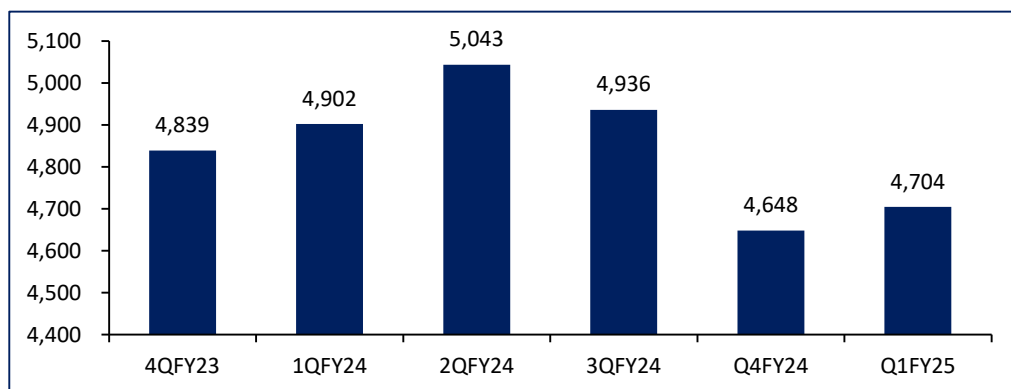
Source: Company, CEBPL

## Sales Realisation INR per Tonne



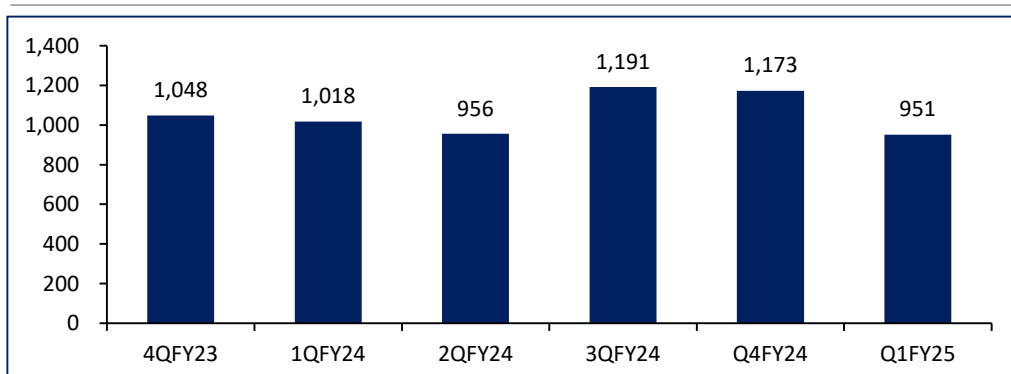
Source: Company, CEBPL

## Total Costs per Tonne



Source: Company, CEBPL

## EBITDA per Tonne



Source: Company, CEBPL

## Management Call - Highlights

- UltraTech Q1 saw rural growth of approximately 9%. While the Infrastructure sector experienced a slower pace, it is anticipated to gain momentum in the upcoming quarters. At the state level, the company observed new or revitalized construction activities particularly in Bihar and Andhra Pradesh.
- The company successfully concluded an open offer for black and white cement in the UAE, solidifying its majority position at 54% in the company. Additionally, it received regulatory approvals from the Competition Commission of India (CCI) for the amalgamation of Kesoram Cement's assets.
- Capacity utilization across the country averaged around 85% in Q1, with regions like South and West operating at 85-86%, and East at 80%. The company has been progressively increasing its use of alternate fuels, with 1.5 million tons utilized across 14 out of 47 kilns in operation, achieving an alternate fuel consumption rate of 6.5% in Q1 to reduce its carbon footprint.
- Ultratech Cement utilized 33.6 million tons of Fly ash and Slag, significantly surpassing the capacities of other players in the country. Cement prices experienced softening, with a 2.4% decline in realization in Q1, and further softness observed in July.
- Ultratech Cement made a non-controlling financial investment in India Cement but has no plans to increase its stake or involve itself in the operations. The company remains on track with its expansion initiatives, including Greenfield projects in Andhra Pradesh, aiming to achieve 60% clinker capacity by FY26-27E.
- While Ultratech Cement does not have a specific target for clinker ratio, it emphasizes enhancing efficiency and reducing costs through various measures. The company continues to focus on ramping up its capacity of Waste Heat Recovery Systems (WHRS), commissioning 23 MW WHRS this quarter and ending with a total of 301 WHRS.
- The lead distance for the quarter marginally decreased to 385km compared to 400 km in the previous quarter, indicating ongoing efforts to optimize logistics and improve operational efficiency.

## Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
<b>Revenue</b>	<b>5,25,988</b>	<b>6,32,399</b>	<b>7,09,081</b>	<b>7,65,882</b>	<b>8,66,311</b>
Gross profit	4,46,338	5,35,250	5,90,054	6,46,568	7,32,589
<b>EBITDA</b>	<b>1,15,144</b>	<b>1,06,200</b>	<b>1,29,689</b>	<b>1,50,477</b>	<b>1,78,422</b>
Depreciation	27,148	28,879	31,452	32,041	38,497
<b>EBIT</b>	<b>87,996</b>	<b>77,320</b>	<b>98,237</b>	<b>1,18,436</b>	<b>1,39,925</b>
Other income	5,078	5,031	6,169	5,389	6,630
Interest expense	9,447	8,227	9,679	9,718	11,148
<b>PAT</b>	<b>71,744</b>	<b>50,737</b>	<b>70,037</b>	<b>84,443</b>	<b>98,522</b>
EPS (INR)	248.5	175.7	242.8	292.5	341.3

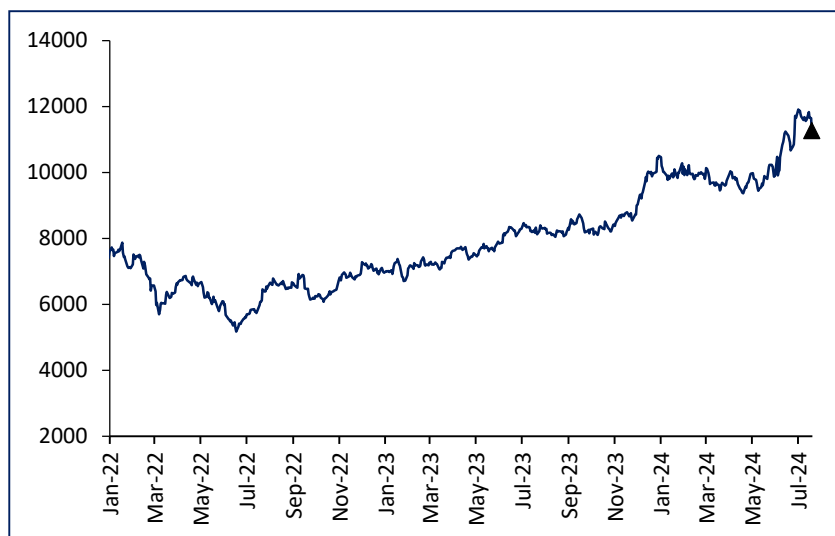
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	5,54,950	6,14,286	6,48,631	7,42,653	8,38,006
Capital Work in Progress	47,773	40,349	67,828	54,938	60,432
Investments	13,724	14,603	27,642	31,511	35,923
Cash & Cash equivalents	53,225	69,861	62,680	66,272	72,620
Loans & Advances and Other Assets	81,934	69,981	75,160	99,565	1,16,952
Net Working Capital	28,044	32,695	41,296	40,621	54,302
<b>Total assets</b>	<b>7,79,650</b>	<b>8,41,775</b>	<b>9,23,236</b>	<b>10,35,560</b>	<b>11,78,235</b>
Shareholder's funds	5,04,353	5,43,245	6,02,275	6,97,725	7,96,247
Borrowings	60,332	62,601	64,478	68,929	77,968
Total Debt	1,02,028	99,008	1,02,984	1,07,983	1,11,483
Other Liabilities & Provisions	1,12,936	1,36,921	1,53,499	1,60,923	1,92,538
<b>Total equity &amp; liabilities</b>	<b>7,79,650</b>	<b>8,41,775</b>	<b>9,23,236</b>	<b>10,35,560</b>	<b>11,78,235</b>
Capital Employed	6,06,381	6,42,253	7,05,259	8,05,708	9,07,730
Invested Capital	5,05,383	5,32,043	5,74,751	6,84,498	7,74,677

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	92,832	90,684	1,08,975	98,877	1,06,486
Cash flows from Investing	22,570	(71,871)	(87,881)	(80,000)	(1,25,000)
Cash flows from financing	(1,24,979)	(16,309)	(19,257)	(9,718)	(15,148)

Ratio Analysis 8	FY22	FY23	FY24	FY25E	FY26E
<b>Growth Ratios (%)</b>					
Revenues	17.7	20.2	12.1	8.0	13.1
Gross Profit	18.6	19.9	10.2	9.6	13.3
EBITDA	(0.4)	(7.8)	22.1	16.0	18.6
EBIT	(0.8)	(12.1)	27.1	20.6	18.1
<b>Margin Ratios (%)</b>					
Gross Profit Margin	84.9	84.6	83.2	84.4	84.6
EBITDA Margin	21.9	16.8	18.3	19.6	20.6
EBIT Margin	16.7	12.2	13.9	15.5	16.2
<b>Profitability (%)</b>					
Return on equity	14.2	9.3	11.6	12.1	12.4
Return on invested capital	17.4	14.5	17.1	17.3	18.1
Return on capital employed	14.5	12.0	13.9	14.7	15.4
<b>Valuation</b>					
OCF / IC (%)	18.4	17.0	19.0	14.4	13.7
EV / EBITDA (x)	20.0	22.2	22.3	19.2	16.2
EV/IC (x)	4.6	4.4	5.0	4.2	3.7

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

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<b>REDUCE</b>	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
<b>SELL</b>	The security expected to show Below 0% next 12 months

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