

UltraTech Cement

Performance Highlights

Quarterly results (Standalone)

Y/E March (₹ cr)	3QFY2016	2QFY2016	% chg qoq	3QFY2015	% chg yoy
Net revenue	5,747	5,621	2.2	5,490	4.7
Operating profit	1,044	928	12.5	846	23.4
OPM (%)	18.2	16.5	0.0	15.4	2.8
Net profit	509	394	29.1	364	39.6

Source: Company, Angel Research

UltraTech Cement (UltraTech)'s 3QFY2016 numbers have come in better than our expectations on the top-line and operational fronts. The company's net sales rose by 4.7% yoy to ₹5,747cr, aided by better than expected volume growth of 7.1% yoy. Blended realization was under pressure, down by 2.3% yoy, and was slightly lower than our estimate. The EBITDA increased by 23% yoy to ₹1,044cr and the same was above our estimate of ₹975cr. The EBITDA margin came in at 18.2%, also above our estimate of 17.3%, backed by strong operational efficiency. The PAT came in at ₹509cr, up 39.6% yoy, which is above our estimate of ₹435cr, driven by margin expansion.

EBITDA margin healthy at 18.2%: For 3QFY2016, UltraTech reported an EBITDA growth of 23% yoy to ₹1,044cr, as against our estimate of ₹975cr. The strong EBITDA performance was led by operational efficiency. The operating cost/tonne declined by 4.6% yoy to ₹4,055, led by 13.9% yoy decline in power & fuel cost/tonne, largely due to softening pet coke prices. Higher pet coke usage at 74% vs 65% in the sequential previous quarter helped savings in power & fuel cost. The EBITDA margin increased by 280bp yoy to 18.2% and was above our expectation of 17.3%. The blended EBITDA/tonne came in at ₹900, an increase of 16.1% yoy.

Outlook and valuation: We expect UltraTech to post a 13.6% CAGR in its top-line on back of new capacity expansion and healthy expected realization over FY2015-17 period. The company's bottom-line is expected to grow at a CAGR of 28% yoy over the same period. At the current levels, the stock is trading at 13x EV/EBITDA and at an EV/tonne of US\$165 on FY2017 capacity. **We maintain our Accumulate rating on the stock with a revised target price of ₹3,107.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	20,078	22,656	24,669	29,265
% chg	0.3	12.8	7.6	18.6
Net Profit	2,112	2,015	2,253	3,292
% chg	(20.5)	(4.6)	6.7	34.4
FDEPS (₹)	73.5	73.4	82.1	120.0
OPM	18.9	18.5	18.2	20.6
P/E(x)	37.3	37.3	33.4	22.8
P/BV(x)	4.4	4.0	3.6	3.1
RoE(%)	12.5	11.2	11.3	14.7
RoCE(%)	11.5	11.4	10.3	13.7
EV/Sales (x)	3.7	3.4	3.2	2.7
EV/EBITDA	19.8	18.4	17.6	13.0

Source: Company, Angel Research; Note: CMP as of January 25, 2016

ACCUMULATE

CMP	₹2,755
Target Price	₹3,107

Investment Period	12 Months
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Stock Info	
Sector	Cement
Market Cap (₹ cr)	75,604
Net Debt (₹ cr)	1,838
Beta	1.0
52 Week High / Low	3,399 / 2531
Avg. Daily Volume	285,287
Face Value (₹)	10
BSE Sensex	24,486
Nifty	7,436
Reuters Code	ULTC.BO
Bloomberg Code	UTCEM IN

Shareholding Pattern (%)	
Promoters	62.7
MF / Banks / Indian Fls	7.4
FII / NRIs / OCBs	18.1
Indian Public / Others	11.8

Abs. (%)	3m	1yr	3yr
Sensex	(11.0)	(15.8)	22.3
Ultratech	(6.3)	(12.9)	39.2

3-year price chart



Source: Company, Angel Research

Siddharth Purohit

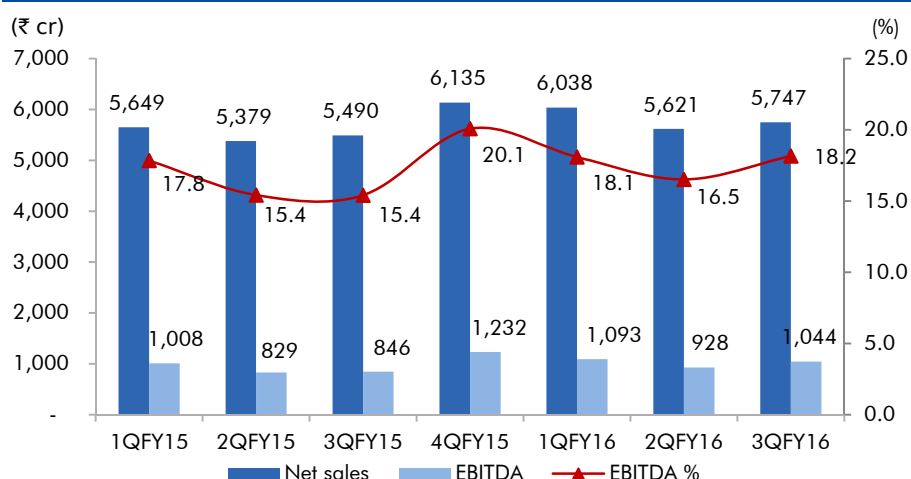
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Exhibit 1: 3QFY2016 performance (Standalone)

Y/E March (₹ cr)	3QFY2016	2QFY2016	% Chg	3QFY2015	% Chg	9MFY2016	9MFY2015	% Chg
Net sales	5,747	5,621	2.2	5,490	4.7	17,406	16,518	5.4
Net raw-material costs	800	800	0.1	741	7.9	2,543	2,423	4.9
(% of sales)	13.9	14.2		13.5		14.6	14.7	
Power & fuel	1,068	1,059	0.9	1,206	(11.4)	3,224	3,558	(9.4)
(% of sales)	18.6	18.8		22.0		18.5	21.5	
Staff costs	349	341	2.6	306	14.3	1,002	892	12.4
(% of sales)	6.1	6.1		5.6		5.8	5.4	
Freight & forwarding	1,398	1,347	3.8	1,318	6.1	4,298	3,938	9.1
(% of sales)	24.3	24.0		24.0		24.7	23.8	
Other expenses	979	1,041	(6.0)	939	4.2	2,958	2,853	3.7
(% of sales)	17.0	18.5		17.1		17.0	17.3	
Total Expenditure	4,703	4,693	0.2	4,644	1.3	14,341	13,835	3.7
Operating Profit	1,044	928	12.5	846	23.4	3,065	2,683	14.2
OPM (bps)	18.2	16.5	165bp	15.4	275bp	17.6	16.2	90bp
Interest	126	130	(3.5)	154	(18.4)	394	398	(0.8)
Depreciation	324	333	(2.8)	278	16.4	940	845	11.2
Other income	132	105	25.5	144	(8.8)	396	522	(24.1)
PBT	726	570	27.5	558	30.2	2,127	1,962	8.4
Provision for taxation	218	176	23.8	193	12.5	634	562	12.7
(% of PBT)	30.0	30.9		34.7		29.8	28.7	
Adjusted PAT	509	394	29.1	364	39.6	1,493	1,400	6.7
PATM	8.8	7.0		6.6		8.6	8.5	
EPS (₹)	18.5	14.4		13.3		54.4	51.0	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

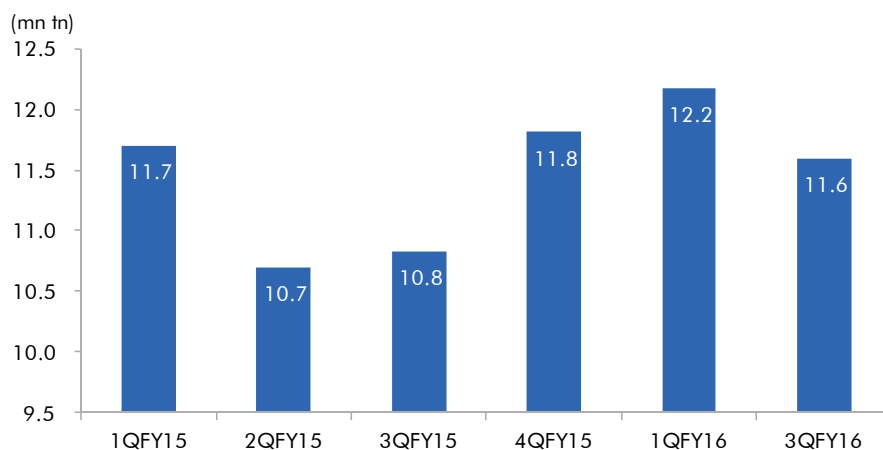
Exhibit 3: 3QFY2016 Actual vs Angel Estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net Sales	5,747	5,650	1.7
EBITDA	1044	975	7.1
EBITDA M (%)	18.2	17.3	
Net Profit	509	435	16.9

Source: Company, Angel Research

Performance highlights
Net sales up 4.7% yoy

For 3QFY2016, UltraTech's top-line rose by 4.7% yoy to ₹5,747cr, aided by 7.1% yoy increase in cement sales volume to 11.6mn tonne. The blended cement realization/tonne declined by 2.3%/1.2% yoy/qoq to ₹4,955. Sales volume of white cement and wall care putty rose by 6.6% yoy to 0.34mn tonne. The company witnessed strong growth in the East region while the North region continued to be decent. The company remains hopeful of demand recovery on back of government spending on infrastructure development and housing schemes.

Exhibit 4: Volume performance


Source: Company, Angel Research

EBITDA margin improves by 275bp yoy

The EBITDA margin for the quarter improved by 275bp yoy to 18.2% on account of healthy top-line growth and lower operating costs. Operating efficiency was led by 11.4% yoy fall in power expenses, mainly due to decline in pet coke prices. The lower input costs would be reflected in the coming quarters as well. The company consumed 74% pet coke during the quarter as against 65% consumption in 2QFY2016. Freight cost/tonne at ₹1,205 remained flat yoy, while it declined 5.5% qoq (₹1,276 in 2QFY2016) due lower diesel prices. The company intends to optimize fuel costs by increasing pet coke consumption levels to 85-90% across plants from the current levels of 74%.

Per-tonne analysis

During 2QFY2016, UltraTech's raw material cost/tonne declined marginally by 0.4% yoy. The power and fuel cost/tonne declined by 13.9% yoy, mainly due to higher pet coke consumption. Pet coke prices have corrected by 18% yoy, thus resulting in lower power & fuel cost/tonne. Freight cost/tonne remained flat yoy; it however declined by 5.5% qoq. The company's operating cost/tonne declined by 4.6% yoy to ₹4,055 during the quarter. The company's operating profit/tonne rose by 16.1% yoy to ₹900, during the quarter.

Exhibit 5: Operational performance

Particulars (₹/tonne)	3QFY2016	2QFY2016	3QFY2015	qoq chg (%)	yoy chg (%)
Net Realization/tonne	4,955	4,962	5,027	(0.1)	(1.4)
Net Raw-Material Cost/tonne	690	775	693	(11.0)	(0.4)
Power and Fuel cost/tonne	921	902	1,070	2.1	(13.9)
Freight Cost/tonne	1,205	1,276	1,206	(5.5)	(0.1)
Other Cost/tonne	844	770	905	9.5	(6.7)
Operating costs/tonne	4,055	4,064	4,252	(0.2)	(4.6)
Operating Profit/tonne	900	898	775	0.2	16.1

Source: Company, Angel Research

Investment arguments

Update on capacity addition plans: UltraTech is the largest cement company in India with its current capacity standing at 64.7mtpa. The company commissioned 1.6mtpa grinding units each in Jhajjar, Haryana and Dhankuni, West Bengal during the quarter. The acquisition of JP Associates' two plants at Bela and Sidhi district of Madhya Pradesh has been delayed due to provision in new Mines and Minerals Development and Regulation Act 2015. The new act restricts transfer of mines that were not allotted through the auction process. The Management expects the integration of the JP Associates' Madhya Pradesh units to be completed by March 2016 end. Post this acquisition, UltraTech's capacity would increase to 71.2mtpa by the end of FY2017.

Outlook and valuation:

We expect UltraTech to post a 13.6% CAGR in its top-line on back of new capacity expansion and expected healthy realization over FY2015-17. The company's bottom-line is expected to grow at a CAGR of 28% yoy over the same period. At the current levels, the stock is trading at 13x EV/EBITDA and at EV/tonne of US\$165 on FY2017E capacity. **We maintain our Accumulate rating on the stock with a revised target price of ₹3,107.**

Company Background

UltraTech became India's largest cement player on a standalone basis, with total capacity of 64.7 mtpa post the merger of Jaiprakash Associates' Gujarat's 4.8mtpa unit with itself in 1QFY2015. UltraTech also acquired a controlling stake in Dubai-based ETA Star (cement capacities of 3mtpa in the Middle East and Bangladesh) in 2010, which took its total consolidated capacity to 67.7mtpa. UltraTech is a pan-India player, with 22 cement plants spread across the country.

Profit and Loss statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	20,018	20,078	22,656	24,669	29,265
Other operating income	157	202	280	-	-
Total operating income	20,175	20,280	22,936	24,669	29,265
% chg	10.2	0.5	13.1	7.6	18.6
Total Expenditure	15,499	16,494	18,741	20,192	23,245
Net Raw Materials	2,910	3,327	3,560	3,992	4,625
Other Mfg costs	4,299	4,135	4,743	4,794	5,443
Personnel	968	1,015	1,218	1,401	1,611
Other	7,323	8,017	9,220	10,004	11,566
EBITDA	4,675	3,785	4,195	4,478	6,020
% chg	12.7	(19.0)	10.8	6.7	34.4
(% of Net Sales)	23.4	18.9	18.5	18.2	20.6
Depreciation & Amortization	945	1,052	1,133	1,354	1,545
EBIT	3,730	2,733	3,062	3,124	4,475
% chg	15.0	(26.7)	12.0	2.0	43.2
(% of Net Sales)	18.6	13.6	13.5	12.7	15.3
Interest & other Charges	210	319	547	569	547
Other Income	305	329	372	673	788
(% of PBT)	8.0	12.0	12.9	20.9	16.7
Recurring PBT	3,825	2,743	2,886	3,228	4,716
% chg	12.8	(28.3)	5.2	11.9	46.1
Extraordinary Expense/(Inc.)	-	-	-	-	-
PBT (reported)	3,825	2,743	2,886	3,228	4,716
Tax	1,170.0	631.0	871.5	974.8	1,424.0
(% of PBT)	30.6	23.0	30.2	30.2	30.2
PAT (reported)	2,655	2,112	2,015	2,253	3,292
ADJ. PAT	2,655	2,016	2,015	2,253	3,292
% chg	8.6	(24.1)	(0.1)	11.9	46.1
(% of Net Sales)	13.3	10.0	8.9	9.1	11.2
Basic EPS (₹)	97	74	73	82	120
Fully Diluted EPS (₹)	97	74	73	82	120

Balance Sheet (standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	274	274	274	274	274
Reserves & Surplus	14,961	16,823	18,583	20,653	23,609
Shareholders Funds	15,235	17,098	18,858	20,928	23,883
Total Loans	5,409	5,199	7,414	7,414	7,414
Deferred Tax Liability	1,906	2,296	2,792	2,792	2,792
Other long term liabilities	2	2	1	1	1
Long term provisions	134	138	138	138	138
Total Liabilities	22,685	24,733	29,203	31,273	34,229
APPLICATION OF FUNDS					
Gross Block	21,382	25,078	30,660	35,660	39,660
Less: Acc. Depreciation	8,260	9,206	10,339	11,693	13,238
Net Block	13,122	15,872	20,321	23,968	26,423
Capital Work-in-Progress	3,505	2,042	2,700	700	1,700
Goodwill	-	-	-	-	-
Investments	5,109	5,392	5,209	5,209	5,209
Long term loans and adv.	983	1,181	1,181	1,181	1,181
Current Assets	4,689	5,268	5,805	6,782	7,169
Cash	143	278	214	609	271
Loans & Advances	1,173	1,326	1,620	1,819	2,104
Other	3,373	3,665	3,971	4,353	4,794
Current liabilities	4,724	5,021	6,012	6,565	7,452
Net Current Assets	(35)	247	(207)	216	(283)
Mis. Exp. not written off	-	-	-	-	-
Total Assets	22,685	24,733	29,203	31,273	34,229

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	3,825	2,743	2,886	3,228	4,716
Depreciation	945	1,052	1,133	1,354	1,545
Change in Working Capital	808	(340)	391	(29)	162
Add: Interest expenses	210	319	547	569	547
Less: Other income	305	329	372	673	788
Direct taxes paid	1,170	631	872	975	1,424
Cash Flow from Operations	4,313	2,814	3,714	3,474	4,757
(Inc)/ Dec in Fixed Assets	(3,977)	(2,232)	(6,241)	(3,000)	(5,000)
(Inc)/ Dec in Investments	(1,320)	(283)	183	-	-
Other income	305	329	372	673	788
Cash Flow from Investing	(4,992)	(2,186)	(5,686)	(2,327)	(4,212)
Issue of Equity	0	0	0	-	-
Inc./ (Dec.) in loans	1,256	(209)	2,214	0	0
Dividend Paid (Incl. Tax)	289	289	297	332	486
Others	334	(4)	9	457	420
Cash Flow from Financing	633	(493)	1,908	(790)	(906)
Inc./ (Dec.) in Cash	(46)	135	(64)	358	(360)
Opening Cash balances	188	143	277	214	572
Closing Cash balances	143	277	214	572	211

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	28.3	37.3	37.3	33.4	22.8
P/CEPS	20.9	23.7	23.9	20.8	15.5
P/BV	4.9	4.4	4.0	3.6	3.1
Dividend yield (%)	0.4	0.4	0.4	0.4	0.6
EV/Sales	3.7	3.7	3.4	3.2	2.7
EV/EBITDA	15.8	19.8	18.4	17.6	13.0
EV / Total Assets	3.2	3.0	2.6	2.5	2.3
Per Share Data (₹)					
EPS (Basic)	96.8	73.5	73.4	82.1	120.0
EPS (fully diluted)	96.8	73.5	73.4	82.1	120.0
Cash EPS	131.3	115.4	114.7	131.5	176.3
DPS	10.5	10.5	10.8	12.1	17.7
Book Value	555.7	623.5	687.2	762.7	870.4
Dupont Analysis					
EBIT margin	18.5	13.5	13.3	12.7	15.3
Tax retention ratio	69.4	77.0	69.8	69.8	69.8
Asset turnover (x)	1.0	0.9	0.9	0.8	0.9
ROIC (Post-tax)	12.6	9.0	8.0	7.3	9.7
Cost of Debt (Post Tax)	3.1	4.6	6.1	5.4	5.2
Leverage (x)	0.3	0.3	0.4	0.4	0.3
Operating ROE	15.8	10.4	8.7	8.0	11.2
Returns (%)					
ROCE (Pre-tax)	18.0	11.5	11.4	10.3	13.7
Angel ROIC (Pre-tax)	26.6	17.7	16.1	13.6	17.3
ROE	18.9	12.5	11.2	11.3	14.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.0	0.9	0.8	0.7	0.8
Inventory / Sales (days)	40	42	41	43	39
Receivables (days)	16	21	20	19	17
Payables (days)	104	108	107	114	110
WC cycle (ex-cash) (days)	(2)	(2)	(4)	(6)	(6)
Solvency ratios (x)					
Net debt to equity	0.0	(0.0)	0.1	0.1	0.1
Net debt to EBITDA	0.0	(0.1)	0.5	0.4	0.3
Interest Coverage (EBIT / Int.)	17.8	8.6	5.6	5.5	8.2

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Disclosure of Interest Statement	UltraTech Cement
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	<i>Buy (> 15%)</i>	<i>Accumulate (5% to 15%)</i>	<i>Neutral (-5 to 5%)</i>
		<i>Reduce (-5% to -15%)</i>	<i>Sell (< -15)</i>