

RESULT UPDATE ✓

UltraTech Cement (ULTCEM)

WHAT'S CHANGED

PRICE TARGET.....	Changed from Rs 480 to Rs 450
EPS (FY09E).....	Changed from Rs 67.9 to Rs 71
EPS (FY10E).....	Unchanged
RATING.....	Unchanged

Current Price Rs 381	Target Price Rs 450
Potential upside 18%	Time Frame 12-15 months

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Coal inventory acts as a drag...

UltraTech Cement's Q3FY09 results were above our estimates on account of higher proportion of export volumes that led to higher realisations. The net profit was down 14.7% YoY. However, on a QoQ basis, net profit has risen 45.2% due to higher volumes and receding cost pressures. Going ahead, we expect the realisations of the company to remain under pressure due to the adverse demand-supply scenario. However higher volumes and cost savings, due to sharp corrections in imported coal prices and new CPPs coming on stream, will prevent sharp erosion in profits.

Highlight of the quarter

Net sales grew 18% YoY to Rs 1630.8 crore in Q3FY09, from Rs 1382.1 crore in Q3FY08. The EBITDA margin fell by 750 bps YoY to 26.4% due to higher input cost. Thus, EBITDA reported a decline of 8% to Rs 430.8 crore. Due to higher interest and depreciation, net profit declined 14.7% YoY to Rs 238.4 crore from Rs 279.5 crore.

On a QoQ basis, net sales were up by 16.8%. The EBITDA margin improved by 510 bps due to a decline in other expenses. The net profit grew by 45.2% due to higher volumes and improvement in margin.

Valuations

At the CMP of Rs 381 per share, the stock is trading at 5.4x and 6.4x its FY09E and FY10E earnings, respectively. It is trading at an EV/tonne of \$61.5 and \$51.5 at its FY09E and FY10E capacities, respectively. We maintain our **PERFORMER** rating on the stock with a price target of Rs 450 per share.

Stock data....

Market Cap.	Rs 4742 Cr
Debt (FY08)	Rs 1740 Cr
Cash (FY08)	Rs 101 Cr
EV	Rs 6240 Cr
52 week H/L	955/250
Equity capital	Rs 124.5 Cr
Face value	Re 10
MF Holding	1.7%
FII Holding	2.9%

Price Performance (%)

	1M	3M	6M	12M
ACC	22%	-9%	-4%	-47%
Shree Cem	47%	4%	-2%	-62%
JK Cement	2%	-46%	-67%	-78%
UltraTech	43%	-16%	-25%	-57%

Source: Company, ICICIdirect.com Research

Exhibit 1: Key Financials

(Rs Crore)

	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTD FY09	FY09E	FY10E
Net Sales	1630.8	1577.7	1382.1	1396.2	18.0%	16.8%	4523.0	6214.6	6299.5
EBIDTA	430.8	344.1	468.5	296.7	-8.0%	45.2%	1173.3	1570.7	1457.7
EBIDTA Margin (%)	26.4%	21.8%	33.9%	21.3%			25.9%	25.3%	23.1%
Depreciation	80.5	82.4	58.3	80.8	38.0%	-0.3%	232.4	317.4	372.3
Interest	35.9	31.8	17.4	30.9	106.3%	16.3%	91.5	124.3	117.7
Other									
Income/Extraordinary item	20.4	19.5	20.1	27.8	1.3%	-26.7%	74.8	99.8	94.8
Reported Net Profit	238.4	182.0	279.5	164.2	-14.7%	45.2%	667.5	889.1	749.1
EPS (Rs)	19.0	14.5	22.3	13.1	-14.7%	45.2%	53.3	71.0	59.8
Valuation									
PE (x)	-	-	-	-	-	-	-	5.4	6.4
Target PE (x)	-	-	-	-	-	-	-	6.3	7.5
EV to EBIDTA (x)	-	-	-	-	-	-	-	4.2	4.1
Price to book (x)	-	-	-	-	-	-	-	1.4	1.1
RoNW (%)	-	-	-	-	-	-	-	25.4	18.0
RoCE (%)	-	-	-	-	-	-	-	27.1	21.2

Source: Company, ICICIdirect.com Research

Topline up 18% YoY

UltraTech reported an 18% YoY increase in net sales to Rs 1630.8 crore in Q3FY09 as against Rs 1382.1 crore in Q3FY08. Sales volumes (cement and clinker) grew 5.8% YoY to 4.6 million tonnes (MT) in Q3FY09 from 4.3 MT in Q3 FY08. Revenues from the RMC business surged 53% YoY to Rs 113 crore from Rs 73 crore on account of a 56% YoY increase in RMC volumes to 3.6 lakh cubic metre from 2.3 lakh cubic metre. Blended realisations improved by 11.5% YoY to Rs 3568 per tonne from Rs 3199 per tonne.

Operating margin hit due to higher input cost

On account of higher input costs, the OPM has dipped by 750 bps YoY to 26.4% from 33.9%. Thus, operating profit declined 8% YoY to Rs 430.8 crore.

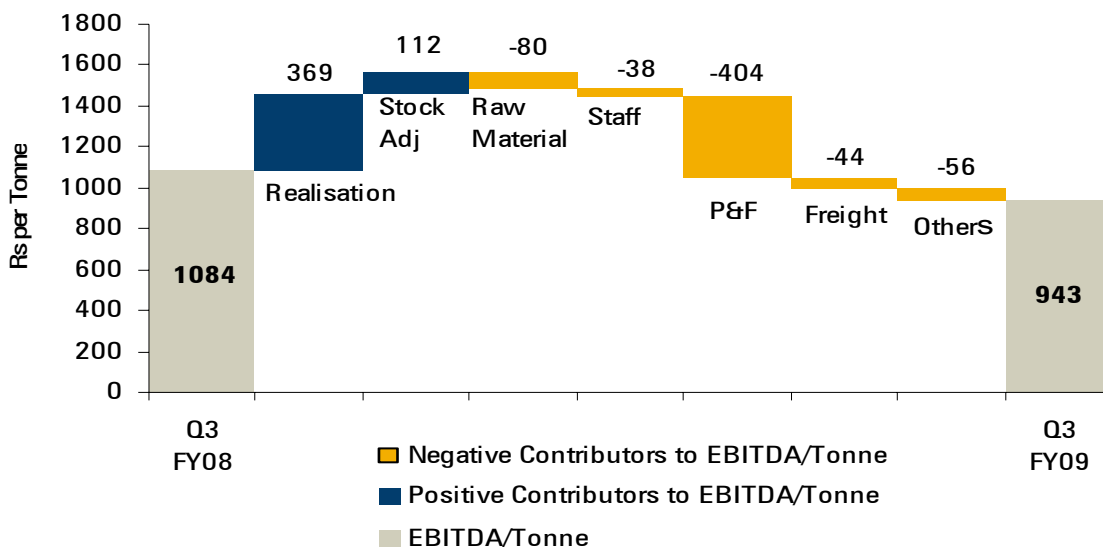
Power & fuel cost has increased by 54% YoY to Rs 1154 per tonne from Rs 750 per tonne on account of high cost coal inventories. Apart from this, the clinker inventory build-up also contributed to the increase in power cost. Employee cost surged 38% YoY to Rs 139 per tonne from Rs 101 per tonne due to annual increment being effected in Q3FY09 as compared to Q2FY08. Raw material costs jumped 25.4% YoY to Rs 394 per tonne from Rs 314 per tonne. Freight costs spurted 8% YoY to Rs 592 per tonne from Rs 548 per tonne due to increase in rail freight. Other expenses rose 12% YoY to Rs 530 per tonne from Rs 473 per tonne. However, on a QoQ basis, other expenses have declined by 19.4% due to decline in packing cost. Apart from this, the company had also incurred repairing expenses in Q2FY09.

The total cost has increased by 24.2% YoY to Rs 2626 per tonne from Rs 2115 per tonne. EBITDA per tonne has declined by 13.1% to Rs 943 per tonne from Rs 1084 per tonne.

Bottomline down 14.7% YoY

Interest cost surged 106.3% YoY to Rs 35.9 crore from Rs 17.4 crore due to the increase in total debt while depreciation increased by 38% YoY to Rs 80.5 crore from Rs 58.3 crore on account of cement and CPP capacity additions. Tax outgo declined 27.7% to Rs 96.4 crore on account of lower tax rate and profit. The effective tax rate has declined to 28.8% from 32.3% due to higher depreciation on new capacities and 80IA benefits. Thus, net profit declined 14.7% YoY to Rs 238.4 crore in Q3 FY09 from Rs 279.5 crore in Q3 FY08.

Exhibit 2: Contributors of movement in EBITDA/tonne

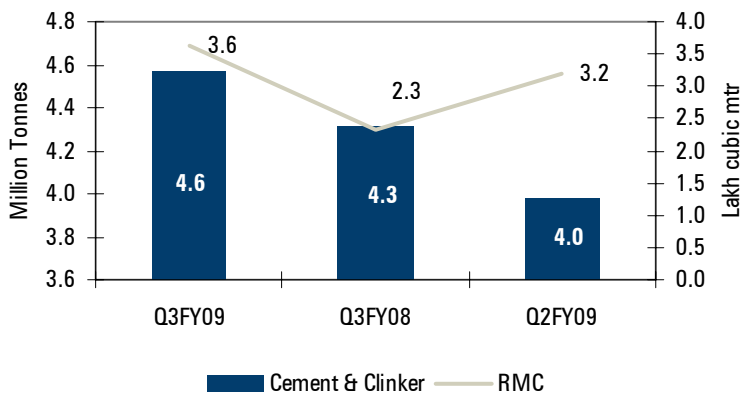


Source: Company, ICICIdirect.com Research

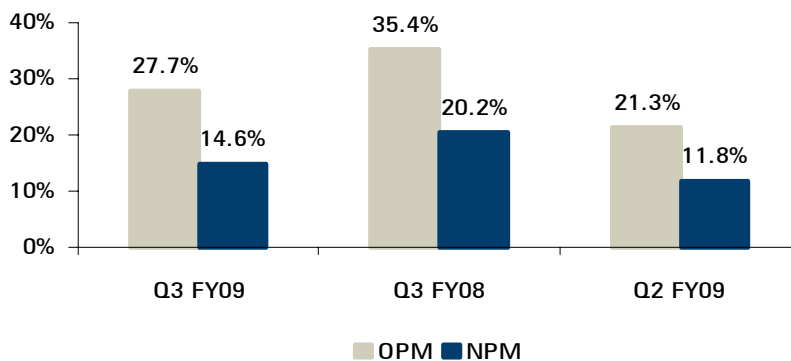
Exhibit 3: Per tonne analysis

Rs per tonne	Q3FY09	Q3FY08	Q2FY09
Realisations	3568.4	3199	3508
Stock Adjustment	-183.1	-71	-4
Raw material cost	393.9	314	402
Employee cost	139	101	128
Power and Fuel cost	1154	750	991
Freight cost	592	548	589
Other Expenditure	530	473	658
Total cost	2626	2115	2763
EBIDTA	943	1084	746

Source: Company, ICICIdirect.com Research

Exhibit 4: Cement & Clinker and RMC volumes


Source: Company, ICICIdirect.com Research

Exhibit 5: OPM & NPM


Source: Company, ICICIdirect.com Research

Capex Plan

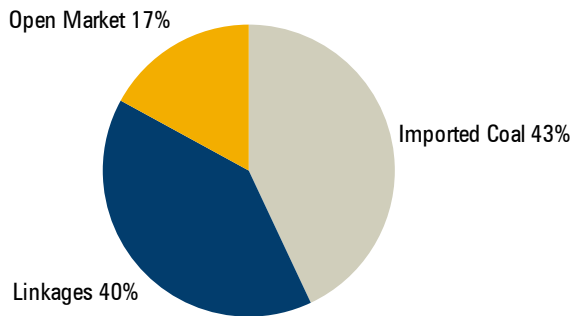
The company has started the commercial production of clinker from Andhra Pradesh Cement Works (APCW) and of cement from the cement grinding unit at Ginigera in Karnataka. Upon complete commissioning of capacity at APCW, the total capacity of the company will increase to 23.1 MT by the end of FY09. The company is also setting up thermal power plants for captive use, most of which are likely to be operational in FY09 in a phased manner. Upon commissioning of CPPs, the total captive power capacity would reach 271 MW, which will meet 80% of the power requirement of the company.

Easing cost pressure to provide some relief

Due to the global slowdown and sharp correction in crude oil, prices of international coal have also declined sharply by 53% from their peak levels. Apart from this, sea freight rates have also cooled off sharply. The benchmark Baltic Dry Index has corrected 93% from its peak.

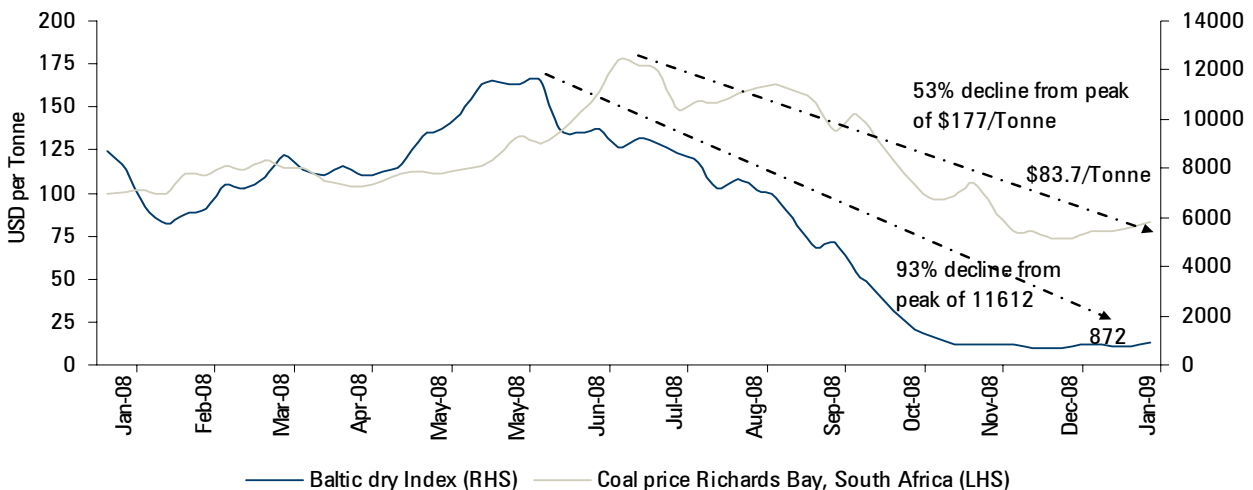
Imported coal constitutes 43% of UltraTech's total fuel requirement. The company has already consumed high cost inventory in Q3FY09. Thus, going ahead, decline in landed cost of imported coal and new CPPs coming on stream will reduce the power cost of the company.

Exhibit 6: Fuel mix



Source: Company, ICICIdirect.com Research

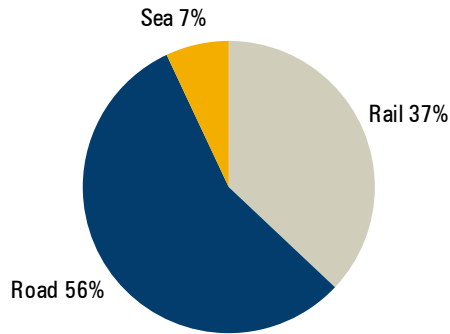
Exhibit 7: Baltic Dry Index and International Coal Prices (Richards Bay, South Africa)



Source: Bloomberg, ICICIdirect.com Research

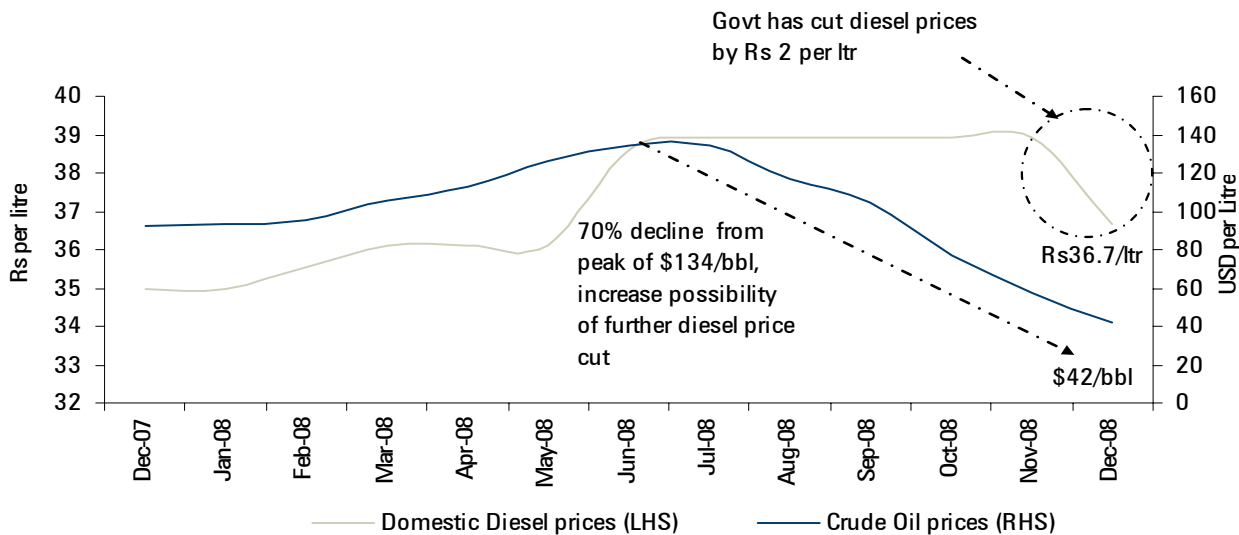
About 37% of the total volumes of the company are dispatched by rail. Indian Railways has changed the product classification for cement and coal, which has resulted in an increase of 7-8% in freight rates. Apart from this, Railways has continued to levy busy season surcharge of 7%. In December 2008, the Government had cut diesel prices by Rs 2 per litre. With crude continuing to hover at lower levels; there is a possibility of further cut in diesel prices. Thus, we have assumed flat freight cost per tonne for Q4FY09 and FY10.

Exhibit 8: Transport Mix



Source: Company, ICICIdirect.com Research

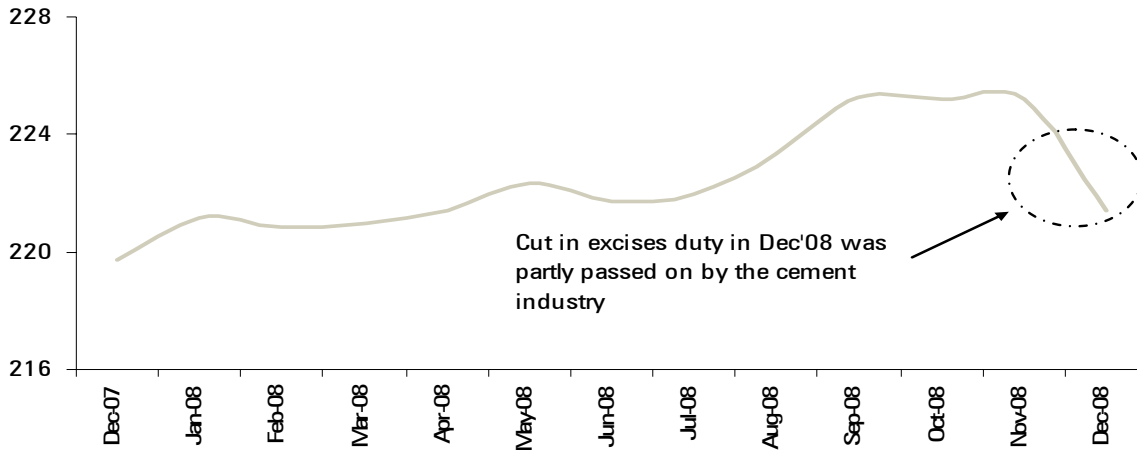
Exhibit 9: International crude oil Prices & Domestic Diesel Prices



Source: Reuters, Bloomberg, ICICIdirect.com Research

On the realisations front, we expect cement prices to remain under pressure on the back of demand-supply mismatch. We expect the demand-supply scenario to get worse as around 95 MT of fresh capacities is going to be added in the next three years. Nevertheless, the recent excise duty cut of 4% would provide some relief in the near term.

Exhibit 10: Cement WPI



Source: Bloomberg, ICICIdirect.com Research

Valuations

Historically, UltraTech has been trading at a discount to ACC despite having better return ratios. This was on account of its dependence on expensive sources of power. With new CPPs coming on stream, we believe, going ahead, the valuation gap between ACC and UltraTech will reduce.

At the CMP of Rs 381 per share, the stock is trading at 5.4x and 6.4x of its FY09E and FY10E earnings, respectively. It is trading at an EV/Tonne of \$61.5 and \$51.5 its FY09E and FY10E capacities, respectively. We maintain our **PERFORMER** rating on the stock with a price target of Rs 450 per share.

Exhibit 11: Valuations

	Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
FY08	5,509.2	80.4	4.7	3.6	37.4%	40.7%
FY09E	6,214.6	71.0	5.4	4.2	25.4%	27.1%
FY10E	6,299.5	59.8	6.4	4.1	18.0%	21.2%

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 12: Valuation table

ACC			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	ACC CMP	502 FY08	7,007.17	69.87	7.18	4.33	34.76	38.38
MCap	9427 Target	555 FY09E	7,272.09	58.37	8.60	4.90	24.26	30.30
	% Upside	11% FY10E	7,640.80	41.76	12.02	6.82	15.51	19.44
Shree Cement			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	SHRCM CMP	482 FY08	2,065.87	82.63	5.84	2.42	48.93	24.31
MCap	1678 Target	630 FY09E	2,437.80	120.10	4.02	2.20	46.97	29.30
	% Upside	31% FY10E	2,345.73	103.40	4.66	2.33	29.59	22.37
JK Cement			Sales (Rs Crore}	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
Idirect Code	JKCEM CMP	44 FY08	1,458.30	37.90	1.15	1.59	41.52	26.01
MCap	306 Target	51 FY09E	1,439.68	20.92	2.09	5.36	17.59	11.33
	% Upside	17% FY10E	2,203.87	23.64	1.85	2.96	16.86	13.22

Source: Company, ICICIdirect.com Research

Exhibit 13: Peer Valuation

Company	Ratings	EPS			P/E (x)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE(%)			RoNW(%)		
		FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
ACC	H	69.9	58.4	41.8	7.2	8.6	12.0	4.3	4.9	6.8	79.7	75.1	64.2	38.4	30.3	19.4	34.8	24.3	15.5
Ultratech	P	80.4	71.0	59.8	4.7	5.4	6.4	3.6	4.2	4.1	73.7	61.5	51.5	40.7	27.1	21.2	37.4	25.4	18.0
Shree Cem	OP	82.6	120.1	103.4	5.8	4.0	4.7	2.4	2.2	2.3	48.8	40.2	30.1	24.3	29.3	22.4	48.9	47.0	29.6
JK Cem	H	37.9	20.9	23.6	1.2	2.1	1.8	1.6	5.4	3.0	32.3	72.0	55.5	26.0	11.3	13.2	41.5	17.6	16.9
Ambuja	Unrated	8.3	8.5	7.1	8.9	8.7	10.4	4.7	5.4	5.9	111.0	108.5	97.9	39.6	31.4	22.9	30.8	25.2	18.2
India cem	Unrated	23.5	24.2	20.5	4.6	4.5	5.3	4.0	3.2	3.4	101.7	60.0	56.1	24.3	23.1	17.8	32.9	23.9	17.3

Source: Company, ICICIdirect.com Research

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Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

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