



## UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 17,614	UTCEM IN
	REUTERS CODE
S&P CNX: 5,184	ULTC.BO

22 October 2007

Buy

Previous Recommendation: Buy

Rs1,019

Equity Shares (m)	124.5
52-Week Range	1,205/662
1,6,12 Rel. Perf. (%)	-8/0/-22
M.Cap. (Rs b)	126.9
M.Cap. (US\$ b)	3.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	49,108	7,823	62.8	240.5	16.2	7.2	55.8	43.0	2.8	9.6
03/08E	58,650	10,694	85.9	36.7	11.9	4.6	47.3	40.5	2.5	7.9
03/09E	68,245	12,776	102.6	19.5	9.9	3.2	38.1	39.2	2.0	6.0

UltraTech Cement's 2QFY08 results were below our expectations, impacted by lower volumes and higher cost-push. However, higher other income boosted PAT growth.

- Revenues grew 17% YoY to Rs11.7b, with realizations increasing 11.5% YoY (~4.4% QoQ) to Rs3,087/ton, while volumes remained flat at 3.6m ton. Volumes were impacted by a 1-week shutdown at its Gujarat plant due to heavy rains in the last week of September.
- EBITDA increased 29% YoY to Rs3.3b. EBITDA margins expanded 280bp YoY (declined 370bp QoQ) to 28.1%. Margins would have been higher but for higher staff cost (up 53.5% YoY) and higher other expenditure (up Rs218/ton QoQ) due to maintenance shutdown. Higher other income (up 117% YoY, driven by treasury income) boosted PAT by 46% YoY to Rs1.9b.
- UltraTech's capex program to add 7m ton cement capacity (brownfield) and 175MW captive power plant (at existing plants) is on schedule for commencement from 4QFY08.

We are revising our EPS estimates downwards by 2.3% for FY08 to Rs85.9 and by 3.6% for FY09 to Rs102.6 to factor in lower volumes (in FY08), higher staff cost and higher power & fuel cost. Given the high operating leverage (price change of ~Re1/bag changes our FY08E EPS by 2.4%), improving operating efficiencies and organic growth visibility at a low cost of expansion, valuations at 9.9x FY09E EPS and 6x FY09E EV/EBITDA appear reasonable. Maintain **Buy**.

### QUARTERLY PERFORMANCE

(Rs Million)

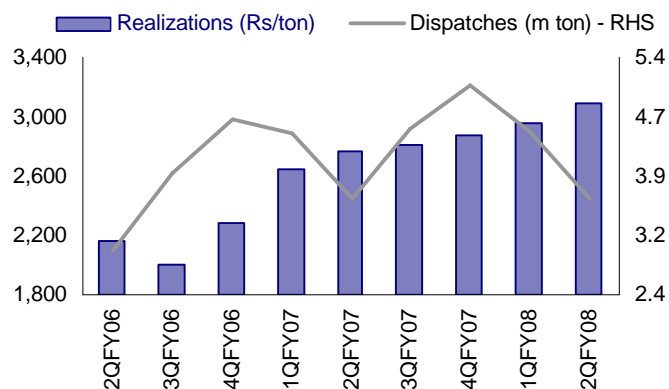
Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales (m ton)	4.45	3.60	4.49	5.04	4.47	3.61	4.65	5.31	17.67	18.04
YoY Change (%)	11.5	22.0	14.0	8.9	0.4	0.4	3.6	5.3	13.4	2.1
Realization (Rs/ton)	2,645	2,768	2,807	2,872	2,958	3,087	3,147	3,207	2,755	3,106
YoY Change (%)	33.0	27.6	40.3	25.4	11.9	11.5	12.1	11.7	30.1	12.7
QoQ Change (%)	15.5	4.7	1.4	2.3	3.0	4.4	1.9	1.9		
<b>Net Sales</b>	<b>11,803</b>	<b>10,045</b>	<b>12,605</b>	<b>14,655</b>	<b>13,653</b>	<b>11,734</b>	<b>15,380</b>	<b>17,883</b>	<b>49,108</b>	<b>58,650</b>
YoY Change (%)	48.8	57.0	59.8	38.2	15.7	16.8	22.0	22.0	48.8	19.4
Total Expenditure	8,057	7,501	8,802	10,570	9,317	8,439	10,532	11,862	34,930	40,150
<b>EBITDA</b>	<b>3,746</b>	<b>2,545</b>	<b>3,802</b>	<b>4,085</b>	<b>4,335</b>	<b>3,296</b>	<b>4,847</b>	<b>6,022</b>	<b>14,178</b>	<b>18,500</b>
Margins (%)	31.7	25.3	30.2	27.9	31.8	28.1	31.5	33.7	28.9	31.5
Depreciation	544	547	571	601	559	581	590	860	2,263	2,589
Interest	226	237	202	203	202	188	210	251	868	850
Other Income	134	119	167	195	269	258	175	198	615	900
<b>PBT after EO Expense</b>	<b>3,110</b>	<b>1,879</b>	<b>3,196</b>	<b>3,476</b>	<b>3,844</b>	<b>2,786</b>	<b>4,222</b>	<b>5,109</b>	<b>11,662</b>	<b>15,961</b>
Tax	1,002	605	1,072	1,161	1,250	927	1,393	1,696	3,839	5,267
Rate (%)	32.2	32.2	33.5	33.4	32.5	33.3	33.0	33.2	32.9	33.0
<b>Reported PAT</b>	<b>2,108</b>	<b>1,274</b>	<b>2,125</b>	<b>2,315</b>	<b>2,594</b>	<b>1,859</b>	<b>2,829</b>	<b>3,412</b>	<b>7,823</b>	<b>10,694</b>
<b>Adj PAT</b>	<b>2,108</b>	<b>1,274</b>	<b>2,125</b>	<b>2,315</b>	<b>2,594</b>	<b>1,859</b>	<b>2,829</b>	<b>3,412</b>	<b>7,823</b>	<b>10,694</b>
YoY Change (%)	251.3	-	790.8	75.3	23.0	45.8	33.2	47.4	240.5	36.7

E: MOST Estimates; Qly results do no add up to full year results due to recasting

**Higher realizations drive revenue growth**

Revenues grew 17% YoY in 2QFY08 to Rs11.7b, with realizations increasing 11.5% YoY (~4.4% QoQ) to Rs3,087/ton, while volumes remained flat at 3.6m ton. Volumes were adversely impacted by a 1-week shutdown at its Gujarat plant due to heavy rains in the last week of September. Increase in realizations was also aided by an improvement in market mix in favor of the domestic market (~87% of dispatches v/s 77% in 2QFY07).

TREND IN DISPATCHES AND REALIZATIONS

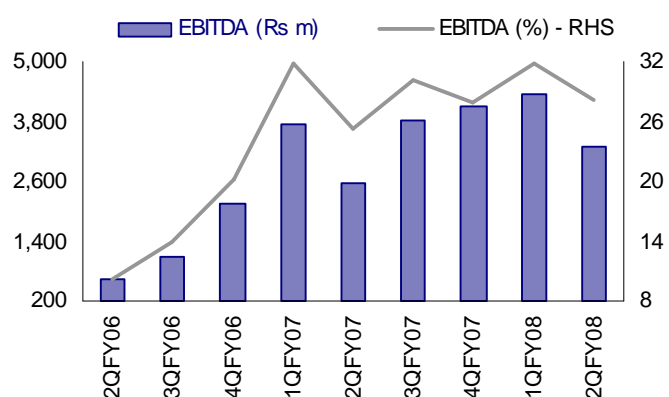


Source: Company/Motilal Oswal Securities

Also, its nascent RMC business continued to scale up rapidly, with revenues of Rs580m (v/s Rs80m in 2QFY07).

Cost-push restricts margin expansion and profit growth EBITDA increased 29% YoY to Rs3.3b. EBITDA margins expanded 280bp YoY (declined 370bp QoQ) to 28.1%.

TREND IN EBITDA



Source: Company/Motilal Oswal Securities

Margins would have been higher but for lower volumes and higher cost push. Production was impacted by flooding at its Gujarat plant, resulting in a week of production loss. Further, higher staff cost (up 53.5% YoY) due to salary hikes and higher other expenditure (up Rs218/ton QoQ) due to maintenance shutdown resulted in cost inflation. Higher other income (up 117% YoY, driven by treasury income) boosted PAT by 46% YoY to Rs1.9b.

TREND IN PER UNIT COST (RS/TON)

	2QFY08	YOY (%)	QOQ (%)
Realization	3,248	16.4	6.3
RM Cost	250	-16.3	-22.5
Power & Fuel	712	3.2	5.2
Staff Cost	125	52.9	77.9
Freight	552	10.7	2.9
Other Exp.	696	35.4	45.7
<b>Total Cost</b>	<b>2,336</b>	<b>12.1</b>	<b>12.0</b>
<b>EBITDA</b>	<b>912</b>	<b>29.0</b>	<b>-6.0</b>

Source: Company/Motilal Oswal Securities

**Capex to drive earnings**

UltraTech's is investing Rs40b to add around 7m ton cement capacity, 175MW captive power plant (at existing plants) and augment RMC capacity. This capex program is on schedule, with the CPP and 4.9m ton capacity (at Andhra Pradesh) expected to commence operations from 4QFY08. Although it is a late entrant, UltraTech is investing aggressively in the RMC business by setting up RMC plants at various locations. This capex program would not only drive volume growth but also result in significant cost savings.

CAPEX SCHEDULE

	LOCATION	CAPACITY	CAPEX (RS B)	COMMEN CEMENT BY
Cement (brownfield)	Andhra Pradesh	4.9 MT	16.1	4QFY08
Cement (grinding unit)	Gujarat	2 MT	3.7	FY10
Captive Power Plants	Gujarat	92 MW	11	4QFY08 onwards
Captive Power Plants	Chattisgarh	50 MW		2QFY09
Captive Power Plants	Maharashtra	33 MW		3QFY10
RMC Plants		3.6 M Cu Ltrs	1.1	
Modernization			7.7	
<b>Total</b>			<b>39.6</b>	

Source: Motilal Oswal Securities

### Revising estimates

We are revising our EPS estimates downwards by 2.3% for FY08 to Rs85.9 and by 3.6% for FY09 to Rs102.6 to factor in lower volumes (in FY08), higher staff cost and higher power & fuel cost. However, higher other income would dilute the impact of cost inflation.

#### REVISED FORECAST (RS M)

	FY08E			FY09E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	58,650	57,245	2.5	68,245	67,185	1.6
Net Profit	10,694	10,942	-2.3	12,776	13,246	-3.6
EPS (Rs)	85.9	87.9	-2.3	102.6	106.4	-3.6

Source: Motilal Oswal Securities

### Valuation and view

With the commissioning of its CPP, the earning power of UltraTech's assets should improve considerably. This would act as a re-rating catalyst, resulting in a narrowing of the valuation discount vis-à-vis its peers. Given the high operating leverage (price change of ~Re1/bag changes our FY08E EPS by 2.4%), improving operating efficiencies and organic growth visibility at a low cost of expansion, valuations at 9.9x FY09E EPS and 6x FY09E EV/EBITDA appear attractive. We believe that valuations do not fully reflect improving operating performance and organic growth visibility at a low cost of expansion. We maintain **Buy** with a target price of Rs1,384 (~8x FY09E EV/EBITDA).

## UltraTech Cement: an investment profile

### Company description

UltraTech Cemco, the erstwhile cement division of L&T Ltd, is controlled by Grasim, a part of the Aditya Birla Group. It is the second largest cement company in India with a total cement capacity of 18m ton with a significant presence in the western and southern markets. It is the largest exporters of cement and clinker from India.

### Key investment argument

- ✎ Second largest cement company with pan-India presence.
- ✎ Potential to increase throughput without incurring major capex by increasing utilization and blending, along with locational advantage, gives it the flexibility to either export or sell in the domestic market.
- ✎ Focused management under Grasim's parentage to drive operating efficiencies and cost rationalization on operational integration.

### Key investment risks

- ✎ High operating leverage could result in volatile earnings.
- ✎ Being largest exporter of cement (~20% of dispatches), UltraTech's earnings are more sensitive to export realizations.

### Recent development

- ✎ Nil.

### Valuation and view

- ✎ The stock quotes at 9.9x FY09E EPS and 6x FY09E EV/EBITDA.
- ✎ Valuations do not fully reflect improving operating performance and organic growth visibility at a low cost of expansion. Maintain **Buy** with target price of Rs1,384 (8x FY09E EV/EBITDA).

### Sector view

- ✎ Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth.
- ✎ Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HFY09.
- ✎ Uncertainty on cement prices, due to government intervention, is expected to prevail in the near term.

#### COMPARATIVE VALUATIONS

		ULTRATECH	ACC	GACL
P/E (x)	FY08E	11.9	13.6	13.9
	FY09E	9.9	12.2	12.8
P/BV (x)	FY08E	4.6	4.5	4.2
	FY09E	3.2	3.5	3.4
EV/Sales (x)	FY08E	2.5	2.5	3.4
	FY09E	2.0	2.1	3.0
EV/EBITDA (x)	FY08E	7.9	8.6	9.2
	FY09E	6.0	7.4	8.2

#### SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	53.7	53.1	52.3
Domestic Inst	7.8	8.5	8.4
Foreign	10.3	10.1	9.2
Others	28.1	28.4	30.2

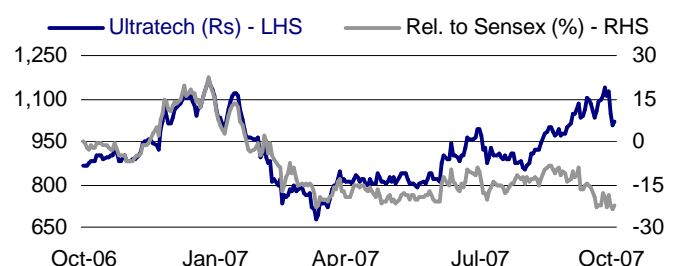
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY08	85.9	75.8	13.3
FY09	102.6	83.8	22.4

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,019	1,384	35.8	Buy

#### STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED PROFORMA INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Net Sales</b>	<b>27,010</b>	<b>32,995</b>	<b>49,108</b>	<b>58,650</b>	<b>68,245</b>
Change (%)	17.8	22.2	48.8	19.4	16.4
Total Expenditure	23,448	27,452	34,930	40,150	45,409
<b>EBITDA</b>	<b>3,562</b>	<b>5,543</b>	<b>14,178</b>	<b>18,500</b>	<b>22,836</b>
Margin (%)	13.2	16.8	28.9	31.5	33.5
Depreciation	2,485	2,160	2,263	2,589	3,668
Int. and Finance Charges	1,093	896	868	850	1,100
Other Income - Rec.	227	370	615	900	1,000
<b>PBT</b>	<b>211</b>	<b>2,856</b>	<b>11,662</b>	<b>15,961</b>	<b>19,069</b>
Extra Ordinary Expense/(Inco)	776	0	0	0	0
<b>PBT after EO expense</b>	<b>-565</b>	<b>2,856</b>	<b>11,662</b>	<b>15,961</b>	<b>19,069</b>
Tax	-44	558	3,839	5,267	6,293
Tax Rate (%)	7.8	19.5	32.9	33.0	33.0
<b>Reported PAT</b>	<b>-521</b>	<b>2,298</b>	<b>7,823</b>	<b>10,694</b>	<b>12,776</b>
<b>Adj PAT</b>	<b>195</b>	<b>2,298</b>	<b>7,823</b>	<b>10,694</b>	<b>12,776</b>
Change (%)	2.7	1080.1	240.5	36.7	19.5
Margin (%)	0.7	7.0	15.9	18.2	18.7

CONSOLIDATED PROFORMA BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	1,244	1,245	1,245	1,245	1,245
Reserves	8,493	9,138	16,393	26,333	38,194
<b>Net Worth</b>	<b>9,737</b>	<b>10,383</b>	<b>17,638</b>	<b>27,578</b>	<b>39,439</b>
Minority Interest	41	0	0	0	0
Deferred liabilities	5817	5770	5603	5842	6033
Loans	15,380	14,518	15,786	22,000	14,000
<b>Capital Employed</b>	<b>30,974</b>	<b>30,671</b>	<b>39,027</b>	<b>55,420</b>	<b>59,472</b>
Gross Block	46,831	46,054	47,847	69,847	79,847
Less: Accum. Deprn.	18,794	20,682	22,674	25,263	28,931
<b>Net Fixed Assets</b>	<b>28,038</b>	<b>25,372</b>	<b>25,173</b>	<b>44,584</b>	<b>50,916</b>
Capital WIP	497	1,410	6,970	5,000	2,000
Investments	0	1,724	4,835	2,500	2,500
<b>Curr. Assets</b>	<b>7,207</b>	<b>7,725</b>	<b>9,898</b>	<b>11,257</b>	<b>13,021</b>
Inventory	3,335	3,796	4,336	5,222	6,077
Account Receivables	1,745	1,726	1,835	2,169	2,524
Cash and Bank Balance	602	616	1,192	1,053	1,148
Others	1,525	1,588	2,535	2,812	3,272
<b>Curr. Liability &amp; Prov.</b>	<b>4,767</b>	<b>5,561</b>	<b>7,552</b>	<b>7,921</b>	<b>8,965</b>
Account Payables	4,520	5,169	7,367	7,700	8,709
Provisions	247	392	185	221	257
<b>Net Current Assets</b>	<b>2,440</b>	<b>2,165</b>	<b>2,050</b>	<b>3,336</b>	<b>4,056</b>
Misc Expenditure	0	0	0	0	0
<b>Appl. of Funds</b>	<b>30,974</b>	<b>30,671</b>	<b>39,027</b>	<b>55,420</b>	<b>59,472</b>

E: M O S t Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>1.5</b>	<b>18.5</b>	<b>62.8</b>	<b>85.9</b>	<b>102.6</b>
Cash EPS	214	35.8	810	106.7	132.1
BV/Share	78.3	83.4	141.7	221.5	316.8
DPS	0.8	1.8	4.0	5.2	6.3
Payout (%)	-20.5	10.8	7.3	7.1	7.2
<b>Valuation (x)</b>					
P/E		55.2	16.2	11.9	9.9
Cash P/E		28.5	12.6	9.6	7.7
P/BV		12.2	7.2	4.6	3.2
EV/Sales		4.2	2.8	2.5	2.0
EV/EBITDA		25.1	9.6	7.9	6.0
EV/Ton (Cap-US\$)		208	209	206	153
Dividend Yield (%)		0.2	0.4	0.5	0.6
<b>Return Ratios (%)</b>					
RoE	1.8	22.8	55.8	47.3	38.1
RoCE	5.1	15.0	43.0	40.5	39.2
<b>Working Capital Ratios</b>					
Asset Turnover (x)	0.9	1.1	1.3	1.1	1.1
Debtor (Days)	24	19	14	14	14
<b>Leverage Ratio</b>					
Debt/Equity	1.6	1.4	0.9	0.8	0.4

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Op. Profit/(Loss) before Tax	3,562	5,543	14,178	18,500	22,836
Interest/Dividends Recd.	227	370	615	900	1,000
Direct Taxes Paid	-169	-606	-4,006	-5,028	-6,102
(Inc)/Dec in WC	-1,144	290	691	-1,425	-625
<b>CF from Operations</b>	<b>2,477</b>	<b>5,597</b>	<b>11,477</b>	<b>12,948</b>	<b>17,110</b>
EO expense	776	0	0	0	0
<b>CF from Operating incl I</b>	<b>1,701</b>	<b>5,597</b>	<b>11,477</b>	<b>12,948</b>	<b>17,110</b>
(inc)/dec in FA	-254	-408	-7,623	-20,031	-7,000
(Pur)/Sale of Investments	0	-1,724	-3,111	2,335	0
<b>CF from investments</b>	<b>-254</b>	<b>-2,132</b>	<b>-10,733</b>	<b>-17,696</b>	<b>-7,000</b>
Issue of Shares	189	-1,444	0	0	0
(Inc)/Dec in Debt	-283	-861	1,268	6,214	-8,000
Interest Paid	-1,093	-896	-868	-850	-1,100
Dividend Paid	-107	-249	-568	-754	-915
<b>CF from Fin. Activity</b>	<b>-1,294</b>	<b>-3,450</b>	<b>-168</b>	<b>4,610</b>	<b>-10,015</b>
<b>Inc/Dec of Cash</b>	<b>153</b>	<b>14</b>	<b>576</b>	<b>-139</b>	<b>95</b>
Add: Beginning Balance	448	602	616	1,192	1,053
<b>Closing Balance</b>	<b>602</b>	<b>616</b>	<b>1,192</b>	<b>1,053</b>	<b>1,148</b>



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**UltraTech Cement**

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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