

April 30, 2010

Rating	Reduce
Price	Rs1,019
Target Price	Rs851
Implied Upside	(-) 16.4%
Sensex	17,497

(Prices as on April 29, 2010)

**Trading Data**

Market Cap. (Rs bn)	126.8
Shares o/s (m)	124.5
Free Float	45.22%
3M Avg. Daily Vol ('000)	228.4
3M Avg. Daily Value (Rs m)	243.1

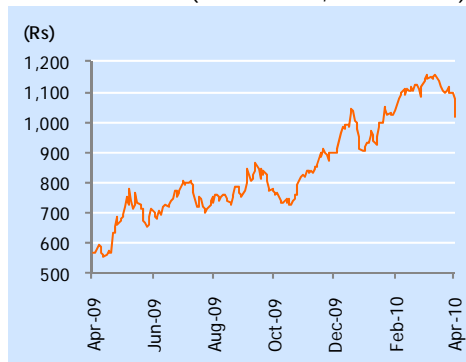
**Major Shareholders**

Promoters	54.78%
Foreign	10.93%
Domestic Inst.	11.70%
Public & Others	22.59%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(10.5)	34.0	79.5
Relative	(9.3)	25.0	26.0

Price Performance (RIC:ULTC.BO, BB:UTCEM IN)



Source: Bloomberg

- **Earnings marginally below expectation but completely missing quality:** UltraTech Cement (UltraTech) reported PAT of Rs2.3bn, marginally below our estimate of Rs2.4bn. However, the performance on EBITDA level was below our expectation by a wide margin of 13%. Underperformance was primarily led by higher-than-expected other expenses on account of higher repairs & maintenance cost (Rs200m) associated with extended shutdown at Tadapatri unit and publicity cost (Rs230m). Net revenue grew by 2.6% on the back of 4.8% volume growth and 2% cut in realisation. EBITDA at Rs4.0bn fell short of our expectation of Rs4.6bn. The gap between our expectation and reported numbers on EBITDA level was reduced to mere Rs124m on PAT level due to lower-than-expected tax rate.
- **Acquisition of Star Cement, a negative for medium term:** Management approved the acquisition of UAE-based ETA Star Cement at an enterprise value of Rs17bn or US\$127 per tonne. It has 2.3 mtpa clinkerisation plant and 2.1mtpa cement unit in the UAE and 0.4mtpa and 0.5mtpa of cement capacity in Bahrain and Bangladesh, respectively. Cement industry in UAE is facing severe oversupply, with utilisation rates expected at below 60% level for CY10 and CY11. Demand came-off sharply by 16% to 18m tonnes in CY09 and it is expected to slide further at double-digit rate in CY10 due to a sharp meltdown in the construction sector. ~47% of the total projects to the tune of US\$968bn (at the end of CY09) were put on hold. Situation seems further grim on UAE's cement capacity which would increase from 34m tonnes at the end of CY09 to 41m tonnes during CY10. This would translate into a massive surplus of 20m tonnes in CY10. We see marginal returns on investment over the medium term.
- **Valuation:** The acquisition is expected to further suppress the returns on capital, when already the existing tough sector conditions in the domestic operations compressed the returns significantly. At CMP, stock trades at P/E of 14.4x and 15.5x FY11E and FY12E, respectively, while on EV/EBITDA, it trades at 7.6x and 7.7x FY11E and FY12E, respectively. Valuations remain in the expensive territory, clearly overlooking the oversupply situation in the sector. We maintain 'Reduce' on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	65,636	71,751	158,380	167,916
Growth (%)	16.7	9.3	120.7	6.0
EBITDA (Rs m)	17,185	19,847	38,959	37,028
PAT (Rs m)	9,781	10,952	19,438	18,029
EPS (Rs)	78.6	88.0	70.9	65.8
Growth (%)	(3.7)	12.0	(19.4)	(7.2)
Net DPS (Rs)	5.0	6.0	6.0	6.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	26.2	27.7	24.6	22.1
RoE (%)	31.0	27.1	17.0	15.1
RoCE (%)	18.6	17.6	13.0	12.7
EV / sales (x)	2.1	1.9	1.9	1.7
EV / EBITDA (x)	8.0	6.4	7.6	7.7
EV / Tonne (US\$)	129.2	126.2	135.1	129.1
PE (x)	13.0	11.6	14.4	15.5
P / BV (x)	3.5	2.7	2.4	2.3
Net dividend yield (%)	0.5	0.6	0.6	0.6

Source: Company Data; PL Research

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**Q4FY10 Result Overview (Standalone)**

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	19,094	18,601	2.6	16,518	70,548	63,831	10.5
Raw Material	3,614	2,559	41.2	2,649	9,976	6,157	62.0
<i>% of Net Sales</i>	<i>18.9</i>	<i>13.8</i>	<i>-</i>	<i>16.0</i>	<i>14.1</i>	<i>9.6</i>	<i>-</i>
Staff Costs	660	566	16.6	623	2,507	2,177	15.2
<i>% of Net Sales</i>	<i>3.5</i>	<i>3.0</i>	<i>-</i>	<i>3.8</i>	<i>3.6</i>	<i>3.4</i>	<i>-</i>
Power & Fuel	3,651	4,053	(9.9)	3,564	14,210	17,130	(17.0)
<i>% of Net Sales</i>	<i>19.1</i>	<i>21.8</i>	<i>-</i>	<i>21.6</i>	<i>20.1</i>	<i>26.8</i>	<i>-</i>
Freight	3,485	3,109	12.1	2,930	12,325	10,711	15.1
<i>% of Net Sales</i>	<i>18.3</i>	<i>16.7</i>	<i>-</i>	<i>17.7</i>	<i>17.5</i>	<i>16.8</i>	<i>-</i>
Other Expenses	3,657	2,984	22.6	2,917	11,800	10,592	11.4
<i>% of Net Sales</i>	<i>19.2</i>	<i>16.0</i>	<i>-</i>	<i>17.7</i>	<i>16.7</i>	<i>16.6</i>	<i>-</i>
Total Expenditure	15,067	13,271	13.5	12,682	50,818	46,767	8.7
EBITDA	4,026	5,331	(24.5)	3,836	19,730	17,064	15.6
<i>Margin (%)</i>	<i>21.1</i>	<i>28.7</i>	<i>-</i>	<i>23.2</i>	<i>28.0</i>	<i>26.7</i>	<i>-</i>
Depreciation	993	906	9.6	985	3,881	3,230	20.1
Other income	258	287	(10.1)	300	1,208	1,036	16.6
EBIT	3,291	4,712	(30.2)	3,151	17,057	14,870	14.7
Interest	285	340	(16.3)	262	1,175	1,255	(6.4)
PBT	3,007	4,372	(31.2)	2,888	15,882	13,615	16.7
Tax	721	1,277	(43.5)	928	4,949	3,844	28.7
<i>% PBT</i>	<i>24.0</i>	<i>29.2</i>	<i>-</i>	<i>32.1</i>	<i>31.2</i>	<i>28.2</i>	<i>-</i>
Reported PAT	2,285	3,095	(26.1)	1,960	10,932	9,770	11.9

**Operating parameters (Standalone)**

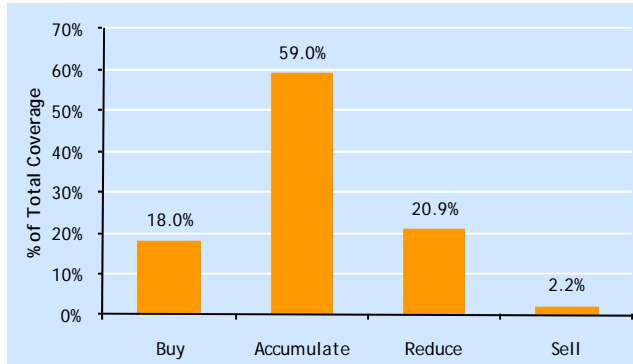
Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Volume (mn te)	5.7	5.4	4.8	5.0	20.2	18.4	9.6
Net Blended Realisations (Rs/te)	3,350	3,419	(2.0)	3,277	3,491	3,461	0.9
Net domestic cement Realisation (Rs/te)	3,325	3,527	(5.7)	3,252	3,509	3,469	1.2
EBITDA/ te (Rs/te)	706	980	(27.9)	761	976	925	5.5

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### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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