

January 23, 2012

Reco	Previous Reco
Reduce	Hold
CMP	Target Price
Rs1,214	Rs1,150
EPS change FY12E/13E (%)	0/-3.9%
Target Price change (%)	-1.7%
Nifty	5,049
Sensex	16,739

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	8	21	17
Rel. to Nifty	0	9	35	33

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	UTCEM@IN
Equity Capital (Rs mn)	2741
Face Value(Rs)	10
No of shares o/s (mn)	274
52 Week H/L	1,234/890
Market Cap (Rs bn/USD mn)	332/6,579
Daily Avg Volume (No of sh)	156355
Daily Avg Turnover (US\$m)	3.6

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	63.4	63.4	63.4
FII/NRI	17.9	16.4	16.0
Institutions	7.2	7.8	7.8
Private Corp	4.3	4.9	5.1
Public	7.3	7.6	7.8

Source: Capitaline

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- An in line quarter with EBITDA of Rs9.6bn (+36% yoy)- APAT of Rs51 bn (+60% yoy) Report net of Rs6.17bn boosted by subsidies led one-offs
- P&F costs continue to haunt- INR depreciation impacting imported coal prices & higher E-auction prices resulted in 8.7% sequential increase in P&F cost
- CIL's new pricing mechanism effectively a coal price hike of 28%- CIL to review prices of some grades- However we factor in 20% hike in coal prices & cut FY13 EPS by 3.9%
- Cement demand remains sluggish (12M rolling avg growth at 5.4%). UTCEM's rich valuation (PER of 14.4X & EV/t USD138) fully captures positives & ignores co's limited FCF generation & subdued return ratios. Downgrade to REDUCE

Sharp increase in cement prices drive 23.1% revenues growth

With cement prices improving 13% yoy for Q3FY12, UTCEM cement realization jumped 19% yoy (Rs4518/t) helping 23% revenue growth, despite subdued volume growth of 3.8% yoy. The topline at Rs45.7bn as well as EBITDA at Rs9.6bn (+36.3% yoy) came in line with estimates. The sharp increase in realization helped recovery in EBITDA/t which at Rs953/t grew 31% yoy & 54% qoq. APAT at Rs5.1 bn which grew 60% yoy (94% qoq) also came in-line (est Rs5.0 bn). The reported net profit at Rs6.2bn includes one-offs like capital & interest subsidies under State Investment Promotion Scheme.

Aggregate cost contained, P&F cost continue its inflationary trend

Though aggregate cost pressure was contained during the quarter (as total Cost increased just 0.6% qoq to Rs3564/t) P&F costs continued on inflationary uptrend as it increased 8.7% qoq to Rs1105/t. P&F costs increased primarily due to INR depreciation (impacting the cost for imported coal) & higher e-auction coal prices (E auction coal was diverted to power companies in October). Hike in surcharges by railways in Oct-11 led to freight costs jumping 11% yoy Rs830/t. RM costs (Rs601/t, +16.3% yoy) continued its upward trend due to higher costs for limestone mining (diesel price hike in June-11).

P&F costs remain a concern, CIL's new pricing system effectively a hike

With sharp rise in imported coal cost & CIL's price hike in March-11, UTCEM P&F cost has increased 57% over last 8 quarter. Even after such a steep increase, it continues to remain a concern as CIL's new pricing method (Pricing on Gross Calorific Value (GCV) compared to Useful Heat Value (UHV)) with effect from Jan-12 is effectively a 28% coal price hike. This would increase sector P&F costs by ~Rs90/ton intensifying cost headwinds further. CIL recently said that it would review prices of certain grades under the new pricing system to provide some breather to the industry. However we factor in 20% increase in coal prices and cut FY13 earnings by 3.9% (EPS of Rs80.8).

Rich valuation factors positives, downgrade to REDUCE

Sharp price hikes has ensured recovery in UTCEM's profitability with normalized level of EBITDA/t of ~Rs950. However cement demand remains sluggish (12M rolling average growth at 5.4%) raising question on medium to long term sustainability of price hikes. Under such a scenario UTCEM's current valuation (PER of 15X & EV/t USD131) fully captures any possible positives & ignores UTCEM's limited FCF generation due to a massive Rs110 bn capex, & subdued return ratios. Downgrade to REDUCE.

Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE		EV/	EV/T	
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	(USD)
FY10	70,497	19,711	28.0	10,932	87.8	828.8	26.6	13.8	7.6	140.8
FY11	132,099	25,424	19.2	14,042	51.2	-41.6	18.4	23.7	13.2	142.0
FY12E	177,214	37,189	21.0	20,094	73.3	43.1	17.4	16.6	8.4	133.0
FY13E	201,739	42,930	21.3	22,155	80.8	10.3	16.4	15.0	7.5	135.5

Result Table

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	FY12YTD	FY11YTD	YoY (%)
Revenue	37,152	44,901	43,654	39,098	45,719	23.1	16.9	1,28,470	1,09,197	17.6
Expenditure	30,075	34,692	31,773	33,281	36,069	19.9	8.4	1,01,123	88,045	14.9
<i>as % of sales</i>	81%	77%	73%	85%	79%			79%	81%	
Consumption of RM	4,863	5,936	4,663	6,218	5,865	20.6	-5.7	16,746	13,992	19.7
<i>as % of sales</i>	13%	13%	11%	16%	13%			13%	13%	
Employee Expenses	1,876	2,169	1,841	2,058	2,226	18.7	8.2	6,125	5,457	12.2
<i>as % of sales</i>	5%	5%	4%	5%	5%			5%	5%	
Power, Oil & Fuel	8,959	9,656	10,367	9,549	11,186	24.9	17.1	31,102	26,309	18.2
<i>as % of sales</i>	24%	22%	24%	24%	24%			24%	24%	
Freight & Handling	7285	8205	7691	7480	8403	15.3	12.3	23573	21418	10.1
<i>as % of sales</i>	20%	18%	18%	19%	18%			18%	20%	
Other Expenses	7091	8726	7212	7977	8389	18.3	5.2	23578	20869	13.0
<i>as % of sales</i>	19%	19%	17%	20%	18%			18%	19%	
EBITDA	7,078	10,210	11,881	5,816	9,649	36.3	65.9	27,347	21,153	29.3
Depreciation	2191	2267	2230	2228	2236	2.1	0.4	6694	6507	2.9
EBIT	4,887	7,943	9,651	3,589	7,413	51.7	106.6	20,653	14,646	41.0
Other Income	606	894	658	1034	1554	156.4	50.3	3246	2148	51.1
Interest	818	829	726	672	295	-63.9	-56.0	1693	2450	-30.9
PBT	4,675	8,008	9,583	3,951	8,672	85.5	119.5	22,206	14,344	54.8
Total Tax	1486	2091	2752	1162	2503	68.5	115.4	6417	4420	45.2
Adjusted PAT	3190	5916	6831	2789	6169	93.4	121.2	15789	9925	59.1
Extra ordinary items		1351	0	0	0			0	0	
Reported PAT	3190	7268	6831	2789	6169	93.4	121.2	15789	9925	59.1
(Profit)/loss from JV's/Ass/MI										
PAT after MI	3190	7268	6831	2789	6169	93.4	121.2	15789	9925	59.1
Reported EPS	11.7	21.7	25.0	10.2	22.6	93.4	121.2	57.8	36.3	59.1

Margins (%)						bps	bps			
EBIDTA	19.1	22.7	27.2	14.9	21.1	205	623	21.3	19.4	192
EBIT	13.2	17.7	22.1	9.2	16.2	306	704	16.1	13.4	266
EBT	12.6	17.8	22.0	10.1	19.0	638	886	17.3	13.1	415
PAT	8.6	13.2	15.6	7.1	13.5	491	636	12.3	9.1	320
Effective Tax rate	31.8	26.1	28.7	29.4	28.9	-291	-55	28.9	30.8	-191

Per tonne analysis

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q2FY12	YoY (%)	QoQ (%)	FY12YTD	FY11YTD	YoY (%)
Cement Volumes (mn t)	9.8	10.8	10.0	9.4	10.1	3.8	7.8	29.5	29.3	0.5
Raw Material Consumed	517	529	554	577	601	16.3	4.1	577	521	10.9
Stock Adjustment	-18	20	-87	85	-21	19.3	-125.0	-9	-44	-78.2
Purchase of Finished Goods	29	36	38	48	44	54.7	-7.9	43	32	35.2
Employee Expenses	192	201	184	219	220	14.3	0.4	208	186	11.7
Power, Oil & Fuel	919	894	1039	1017	1105	20.3	8.7	1055	897	17.6
Freight	747	760	771	797	830	11.1	4.2	799	730	9.5
Other Expenses	699	772	685	801	785	12.3	-2.1	756	679	11.3
Total Cost per tonne	3085	3212	3184	3544	3564	15.5	0.6	3429	3002	14.2
Realisation per tonne	3811	4158	4374	4164	4518	18.6	8.5	4356	3723	17.0
EBIDTA Per tonne	726	945	1190	619	953	31.3	53.9	927	721	28.6

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	70,497	132,099	177,214	201,739
Growth (%)	10.4	87.4	34.2	13.8
Total Expenditure	50,827	106,781	140,073	158,861
Raw Materials Cost	9,606	18,053	23,835	27,259
Power & Fuel cost	14,309	31,226	42,399	50,722
Freight	13,729	28,849	37,291	41,809
Others	13,182	28,653	36,548	39,071
EBIDTA	19,711	25,424	37,189	42,930
Growth (%)	15.7	29.0	46.3	15.4
EBIDTA %	28.0	19.2	21.0	21.3
Depreciation	3,881	7,657	9,214	9,517
EBIT	15,830	17,766	27,975	33,412
EBIT Margin (%)	22.5	13.4	15.8	16.6
Other income	1,227	2,867	3,674	3,674
Interest	1,175	2,771	2,778	4,600
EBT	15,882	17,862	28,871	32,486
Tax	4,949	3,820	8,777	10,331
Effective tax rate (%)	31.2	21.4	30.4	31.8
Adjusted PAT	10,932	14,042	20,094	22,155
Growth (%)	11.9	28.4	43.1	10.3
Net Margin (%)	15.5	10.6	11.3	11.0
E/O items				
Reported PAT	10,932	14,042	20,094	22,155
(Profit)/loss from JV's/Ass/MI				
PAT after MI	10,932	14,042	20,094	22,155
Growth (%)	11.9	28.4	43.1	10.3

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	15,882	14,995	25,197	28,812
Depreciation	3,881	7,657	9,214	9,517
Interest Provided	613	2,771	2,778	4,600
Other Non-Cash items	128	0	0	0
Chg in working cap	-893	-692	6,494	1,344
Tax paid	-3,891	-3,820	-8,777	-10,331
Operating Cash flow	15,719	20,743	34,907	33,943
Capital expenditure	-2,741	-107,101	-33,372	-57,487
Free Cash Flow	12,979	-86,358	1,534	-23,544
Other income	582	2,867	3,674	3,674
Investments	-6,358	-20,608	0	5,000
Investing Cash flow	-8,517	-16,489	3,674	8,674
Equity Capital Raised	1	1,523	0	0
Loans Taken / (Repaid)	-5,223	25,401	2,858	17,000
Interest Paid	-1,459	-2,771	-2,778	-4,600
Dividend paid (incl tax)	-728	-1,911	-1,911	-1,911
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cash flow	-7,410	-4,309	-1,831	10,489
Net chg in cash	-208	-55	3,378	-4,381
Opening cash position	1,045	837	1,448	4,826
Closing cash position	837	1,448	4,826	445

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	1,245	2,740	2,740	2,740
Reserves & surplus	44,822	103,872	122,035	142,280
Shareholders Funds	46,087	106,660	124,824	145,068
Secured Loans	0	0	0	0
Unsecured Loans	8,542	27,898	30,816	47,816
Loan Funds	7,503	13,548	13,489	13,489
Net Deferred Taxes	16,045	41,446	44,304	61,304
Total Liabilities	8,307	17,301	17,301	17,301
	70,439	165,407	186,428	223,673
Gross Block	80,781	179,423	196,657	237,933
Less: Acc Depreciation	31,365	65,420	74,634	84,151
Net block	49,417	114,003	122,023	153,781
Capital WIP	2,594	11,053	27,192	43,402
Investment	16,696	37,303	37,303	32,303
Current Assets	14,724	37,575	44,495	44,146
Inventories	8,217	19,565	21,848	24,872
Sundry Debtors	2,158	6,023	7,283	8,291
Cash and Bank	837	1,448	4,826	445
Loans and Advances	3,511	10,539	10,539	10,539
Other current assets				
Current Liab & Prov	12,991	34,539	44,576	49,952
Current liabilities	11,381	28,804	38,841	44,217
Provisions	1,610	5,735	5,735	5,735
Net current assets	1,733	3,036	(81)	(5,806)
Miscellaneous Exps	0	0	0	0
Total Assets	70,439	165,407	186,428	223,673

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	28.0	19.2	21.0	21.3
Net Margin	15.5	10.6	11.3	11.0
ROCE	25.2	17.5	18.0	18.1
ROE	26.6	18.4	17.4	16.4
RoIC	32.7	21.4	24.0	25.3
Per Share Data (Rs)				
EPS	87.8	51.2	73.3	80.8
CEPS	119.0	79.2	106.9	115.6
BVPS	370.2	389.2	455.5	529.4
DPS	6.0	6.0	6.0	6.0
Valuations (x)				
PER	13.8	23.7	16.6	15.0
P/CEPS	10.2	15.3	11.3	10.5
P/BV	3.3	3.1	2.7	2.3
EV / Sales	2.1	2.5	1.8	1.6
EV / EBITDA	7.6	13.2	8.4	7.5
Dividend Yield (%)	0.5	0.5	0.5	0.5
Gearing Ratio (x)				
Net Debt/ Equity	(0.0)	0.0	0.0	0.2
Net Debt/EBIDTA	(0.1)	0.1	0.1	0.7
Working Cap Cycle (days)	-5.2	-8.9	-20.0	-20.0

Recommendation History: Ultratech Cement – UTCEM IN

Date	Reports	Reco	CMP	Target
20/10/2011	Ultratech Cement Q2FY12 Result Update	Hold	1,111	1,170
27/07/2011	Ultratech Cement Q1FY12 Result Update	Reduce	1,028	1,050
27/04/2011	Ultratech Cement Q4FY11 Result Update	Reduce	1,061	1,050
25/01/2011	Ultratech Cement Q3FY11 Result Update	Reduce	1,019	1,040

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/01/2012	Cement Sector Update			
20/01/2012	Aban Offshore Company Update	Accumulate	440	485
06/01/2012	GMR Infrastructure Event Update	UR	23	UR
17/11/2011	Ashoka Buildcon Initiating Coverage	Buy	240	337

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