

## Cement

## Earnings revision

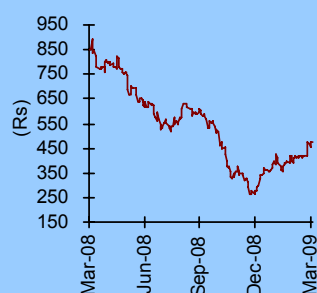
(%)	FY09E	FY10E	FY11E
Sales	↓ 2.4	↑ 3.0	↑ 3.6
EBITDA	↓ 12.1	↑ 3.9	↑ 4.6
EPS	↓ 10.2	↑ 3.9	↑ 4.6

## Shareholding pattern

	Jun '08	Sep '08	Dec '08
Promoters	54.4	54.4	54.8
Institutional investors	14.5	14.6	11.4
MFs and UTI	1.7	1.6	1.7
Insurance Cos.	7.0	7.1	7.5
FIs	5.8	5.9	2.2
Others	31.1	31.1	33.9

Source: CMIE

## Price chart



Reason for report: Recommendation change

We lower UltraTech Cement's (UTCL) FY09E earnings estimates 10.2%, mainly factoring in the delay in its 4.9mnte expansion at Tadipatri, Andhra Pradesh (AP) and owing to significant increase in the cost of imported coal. However, higher-than-expected realisations, primarily aided by strong prices in the South, are expected to partly offset fuel cost pressure. In FY10, UTCL will benefit from the steep correction in imported coal prices and the reduction in CENVAT from 12% to 8% in December '08. Consequently, we have raised FY10E earnings estimates marginally 3.9%. While the volume outlook is robust owing to the AP expansion, the stock price has recently witnessed a run-up, beating our target price of Rs475. Given the weak fundamentals of the cement sector due to likely oversupply, we believe the stock is fairly valued at current EV/te of US\$73. Consequently, we downgrade UTCL to HOLD from Buy, with a target price of Rs509/share.

- **Delay in production ramp-up in Tadipatri.** UTCL's 4.9mnte Tadipatri expansion was announced in March '08. However, while the clinkerisation unit was operational, grinding units took longer to get operational. The spit grinding unit at Karnataka has already been commissioned in Q2FY09 and the grinding unit at the mother plant is likely to be commissioned as of end-Q4FY09. Consequently, we have reduced our FY09E volume estimates from 17.3mnte to 15.9mnte.
- **Higher net realisations from excise cut.** In FY09, so far UTCL has witnessed higher-than-expected realisations, mainly due to better prices in the South. While, we expect FY10E average gross realisations to decline 5%, the Government's decision to cut excise rate from 12% to 8% would help offset the impact of pricing pressure during the year.
- **Sharp rise in fuel costs.** UTCL relies on imported coal for ~40% of its fuel requirement. Imported coal prices peaked in Q2FY09 to ~US\$190/te, after which they have softened. However, the benefit from coal price correction would accrue only Q4FY09 onwards. Hence, we have assumed 65% rise in coal costs for FY09E versus 40% earlier. For FY10E, we have assumed 22% decline in coal costs versus 5% earlier.
- **Valuations.** The stock has already exceeded our target price of Rs475. At the current EV/te of ~US\$73, we believe the stock is fairly valued given that the sectoral fundamentals remain weak. Consequently, we downgrade UTCL to HOLD from Buy with a target price of Rs509/share.

Market Cap	Rs61.7/US\$1.2bn
Reuters/Bloomberg	ULTC.BO/UTCEM IN
Shares Outstanding (mn)	124
52-week Range (Rs)	897/260
Free Float (%)	45.2
FII (%)	2.2
Daily Volume (US\$'000)	1,000
Absolute Return 3m (%)	66.3
Absolute Return 12m (%)	(41.4)
Sensex Return 3m (%)	(9.1)
Sensex Return 12m (%)	(47.9)

Year to March	2008	2009E	2010E	2011E
Revenue (Rs mn)	55,092	64,018	69,873	69,214
Net Income (Rs mn)	9,942	9,730	9,771	5,868
EPS (Rs)	79.4	77.7	78.0	46.8
% Chg YoY	26.3	(2.1)	0.4	(39.9)
P/E (x)	6.2	6.4	6.36	10.6
CEPS (Rs)	98.3	102.7	110.1	81.1
EV/E (x)	4.9	5.0	4.4	6.2
Dividend Yield	1.0	1.1	1.0	0.6
RoCE (%)	35.3	27.1	24.9	14.6
RoE (%)	44.6	30.9	24.1	12.3

Novonil Guha

novonil\_guha@isecltd.com

+91 22 6637 7385

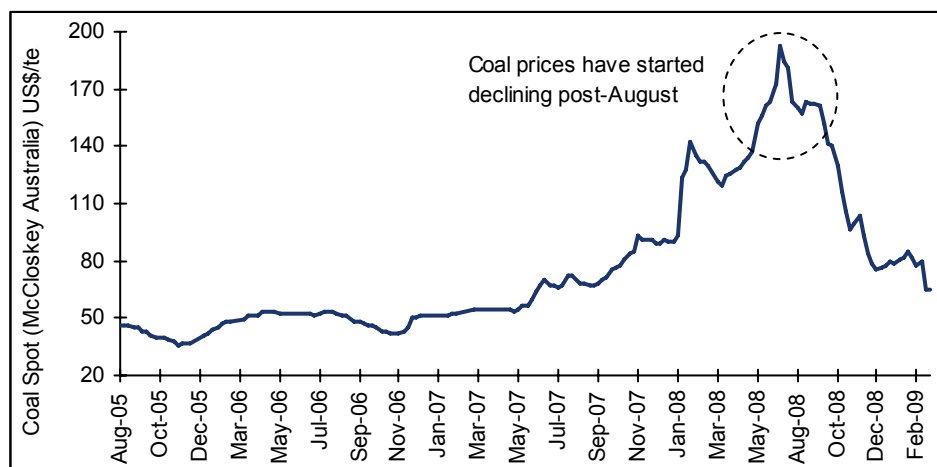
**Table 1: Earnings revision**

(Rs mn)

	FY09E			FY10E			FY11E		
	Old	Revised	% chge	Old	Revised	% chg	Old	Revised	% chg
Volume sales (mn te)	17.3	15.9	(8.3)	19.7	18.6	(5.7)	21.6	19.9	(8.0)
Avg. Realisations (Rs/te)	3,889	4,012	3.2	3,694	3,812	3.2	3,436	3,545	3.2
Revenue	65,625	64,018	(2.4)	67,823	69,873	3.0	68,591	69,214	0.9
EBITDA	19,413	17,068	(12.1)	17,625	18,316	3.9	11,917	12,340	3.6
PBT	16,167	13,608	(15.8)	14,038	14,583	3.9	8,375	8,758	4.6
PAT	10,832	9,730	(10.2)	9,406	9,771	3.9	5,611	5,868	4.6
EPS (Rs)	86.5	77.7	(10.2)	75.1	78.0	3.9	44.8	46.8	4.6

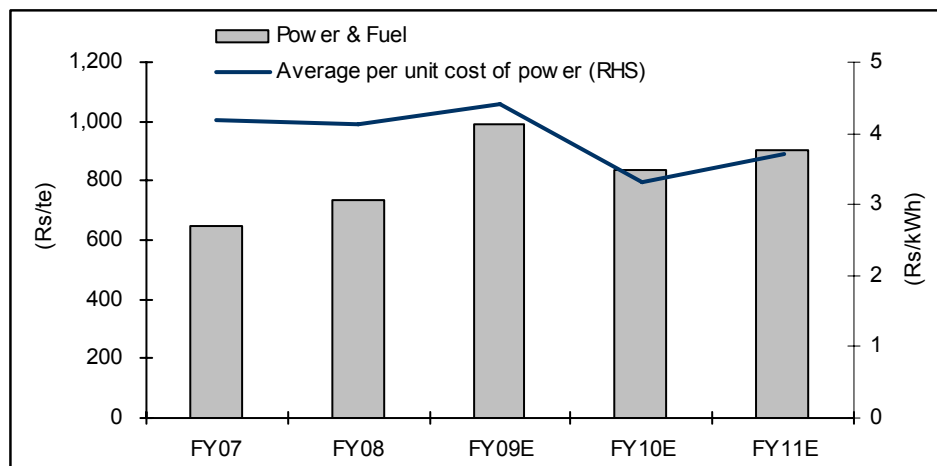
Source: I-Sec Research

**Chart 1: Steep correction in international coal prices**



Source: Bloomberg

**Chart 2: UTCL to benefit from lower international coal prices**

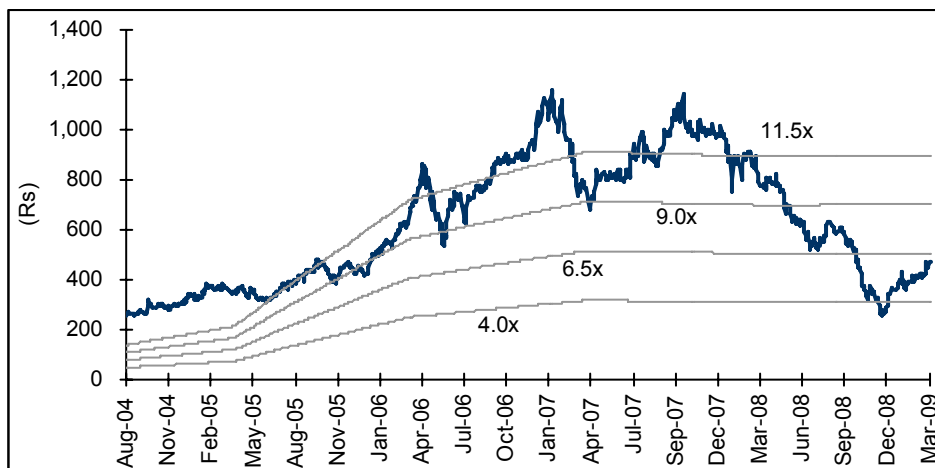


Source: I-Sec Research

### Fairly valued

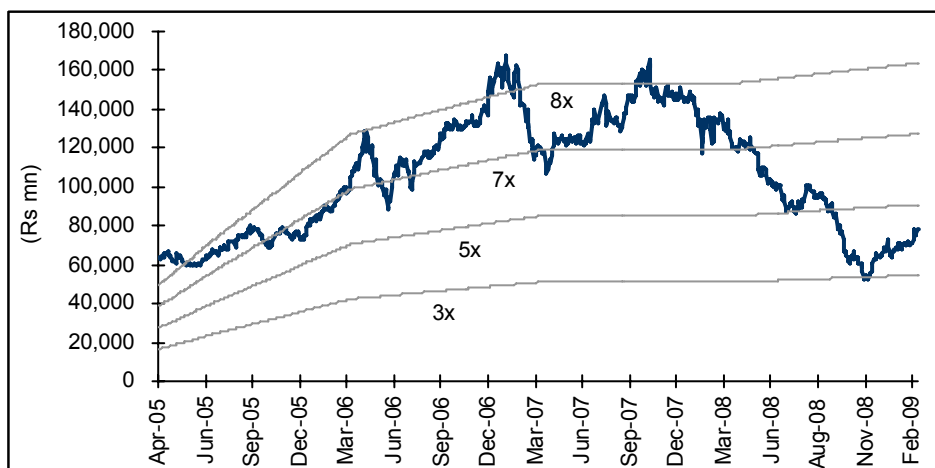
UTCL's stock price has exceeded our target price of Rs475 after the recent run-up. At present, the company is valued at an EV/te of US\$73. Our outlook on the fundamentals for the cement sector remains weak given that the large number of new capacities likely to commence supplies from beginning-FY10. We expect the sector to see pricing pressure for the next couple of years. Hence, despite expected savings from commodity price correction and better volume growth outlook for UTCL versus peers for FY10, we believe the stock is fairly valued. We downgrade UTCL to HOLD from Buy with a target price of Rs509/share.

**Chart 3: Rolling P/E bands**



Source: Bloomberg, I-Sec Research

**Chart 4: Rolling EV/E bands**



Source: Bloomberg, I-Sec Research

## Financial summary

Table 2: Profit and Loss Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Income (Sales)</b>	<b>55,092</b>	<b>64,018</b>	<b>69,873</b>	<b>69,214</b>
of which				
Exports	5,096	6,032	2,995	2,604
Domestic	49,996	57,986	66,879	66,610
<b>Operating Expenses</b>	<b>38,025</b>	<b>46,950</b>	<b>51,558</b>	<b>56,874</b>
<b>EBITDA</b>	<b>17,067</b>	<b>17,068</b>	<b>18,316</b>	<b>12,340</b>
% margin	31	27	26	18
Depreciation & Amortisation	2,372	3,132	4,021	4,290
Gross Interest	757	1,278	906	775
Other Income	999	950	1,195	1,483
Recurring PBT	14,936	13,608	14,583	8,758
Add: Extraordinaries	-	-	-	-
Less: Taxes	4,994	3,878	4,812	2,890
- Current tax	5,161	3,674	4,594	2,759
- Deferred tax	(167)	204	219	131
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>9,942</b>	<b>9,730</b>	<b>9,771</b>	<b>5,868</b>
<b>Recurring Net Income</b>	<b>9,942</b>	<b>9,730</b>	<b>9,771</b>	<b>5,868</b>

Source: Company data, I-Sec Research

Table 3: Balance Sheet

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	13,039	15,579	16,943	17,931
of which				
Cash & cash equivalents	1,007	1,158	1,274	1,401
Current Liab. & Prov.	12,786	13,078	14,997	15,505
<b>Net Current Assets</b>	<b>253</b>	<b>2,501</b>	<b>1,945</b>	<b>2,427</b>
<b>Investments of which</b>	<b>1,709</b>	<b>2,016</b>	<b>5,562</b>	<b>8,223</b>
Strategic/Group	442	242	242	243
Marketable	1,267	1,773	5,320	7,980
<b>Net Fixed Assets*</b>	<b>25,005</b>	<b>50,766</b>	<b>54,315</b>	<b>53,476</b>
of which				
Capital Work-in-Progress	22,832	4,610	2,451	2,452
<b>Total Assets</b>	<b>49,798</b>	<b>59,893</b>	<b>64,273</b>	<b>66,577</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>17,405</b>	<b>18,344</b>	<b>13,419</b>	<b>10,134</b>
<b>Deferred Tax Liability</b>	<b>5,424</b>	<b>5,628</b>	<b>5,846</b>	<b>5,978</b>
Minority Interest	-	1	2	3
Equity Share Capital	1,253	1,253	1,253	1,253
Face value per share (Rs)	10	10	10	10
Reserves & Surplus*	25,717	34,669	43,755	49,213
<b>Net Worth</b>	<b>26,970</b>	<b>35,921</b>	<b>45,008</b>	<b>50,465</b>
<b>Total Liabilities</b>	<b>49,798</b>	<b>59,893</b>	<b>64,273</b>	<b>66,577</b>

Source: Company data, I-Sec Research

Table 4: Cash Flow Statement

(Rs mn, year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Operating Cash flow</b>	<b>11,895</b>	<b>12,218</b>	<b>12,780</b>	<b>8,597</b>
Working Capital changes	837	(2,200)	708	(145)
Capital Commitments	(17,941)	(10,472)	(5,411)	(3,453)
<b>Net Operating FCF</b>	<b>(5,209)</b>	<b>(453)</b>	<b>8,077</b>	<b>4,999</b>
<b>Investing Activities</b>	<b>4,324</b>	<b>443</b>	<b>(2,352)</b>	<b>(1,177)</b>
Issue of Share Capital	8	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	1,619	939	(4,925)	(3,285)
Dividend paid	(722)	(778)	(684)	(411)
<b>Extraordinary Items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank</b>	<b>111</b>	<b>151</b>	<b>116</b>	<b>127</b>

Source: Company data, I-Sec Research

Table 5: Key Ratios

(Year ending March 31)

	FY08	FY09E	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	79.4	77.7	78.0	46.8
Diluted Recurring EPS	79.4	77.7	78.0	46.8
Diluted Recurring CEPS	98.3	102.7	110.1	81.1
Dividend per share	5.0	5.4	4.7	2.8
Book Value	215.3	286.8	359.3	402.9
<b>Growth Ratios (% YoY)</b>				
Operating Income	12.2	16.2	9.1	(0.9)
EBITDA	20.4	0.0	7.3	(32.6)
Recurring Net Income	27.1	(2.1)	0.4	(39.9)
Diluted Recurring EPS	26.3	(2.1)	0.4	(39.9)
Diluted Recurring CEPS	0.2	0.0	0.1	(0.3)
<b>Valuation Ratios (x)</b>				
P/E	6.2	6.4	6.4	10.6
P/CEPS	5.0	4.8	4.5	6.1
P/BV	2.3	1.7	1.4	1.2
EV / EBITDA	4.9	5.0	4.4	6.2
EV / Operating Income	1.5	1.3	1.1	1.1
EV / Operating FCF	6.6	8.5	5.9	9.1
<b>Operating Ratios (%)</b>				
Raw Material / Sales	11.7	9.1	13.0	13.6
SG&A / Sales	3.1	3.9	4.1	4.7
Other Income / PBT	6.7	7.0	8.2	16.9
Effective Tax Rate	33.4	28.5	33.0	33.0
NWC / Total Assets	(0.0)	0.0	0.0	0.0
Inventory (x)	5.0	4.6	4.2	4.3
Receivables (days)	11.6	11.7	12.3	13.0
Payable (days)	59.6	60.4	61.2	62.8
D/E Ratio (x)	0.8	0.7	0.4	0.3
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	17.7	15.0	13.7	8.3
RoCE	35.3	27.1	24.9	14.6
RoNW	44.6	30.9	24.1	12.3
Dividend Payout	6.3	6.9	6.0	6.0

Source: Company data, I-Sec Research

---

## CERTIFICATION

We *II, Novonil Guha, CA* analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of ICICI Securities, Inc.

### Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its > subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Novonil Guha, CA* research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its affiliates collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Novonil Guha, CA* research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

---