

# UltraTech Cement (ULTCEM)

₹ 1010

## WHAT'S CHANGED...

PRICE TARGET .....	Unchanged
EPS (FY11E) .....	Changed from ₹ 44.9 to ₹ 46.1
EPS (FY12E) .....	Changed from ₹ 58.2 to ₹ 56.1
RATING.....	Unchanged

## Improved realisations drive margins...

UltraTech reported net sales of ₹ 3715 crore and net profit of ₹ 319 crore, which were higher than our respective estimates of ₹ 3617 crore and ₹ 289 crore. This was on account of higher than expected cement realisation. Sequentially, blended sales volume and blended realisation increased 7% each. OPM improved 417 bps QoQ to 19% (our estimate: 17%) due to better realisations and flat cost QoQ. EBITDA per tonne has increased 70% QoQ to ₹ 722 per tonne in the quarter against our estimate of ₹ 612 per tonne. Going forward, we expect the topline to improve on the back of increasing realisations and sales volume. However, rising input costs will put pressure on margins.

### ■ Volumes, realisation decline on subdued demand

Blended sales volumes (cement and clinker) increased ~7% QoQ to 9.8 million tonnes (MTPA) while blended realisation improved ~7% QoQ to ₹ 3208 per tonne. Cement volumes increased ~4% QoQ to 9.34 MTPA while clinker volumes increased ~100% QoQ to 0.46 MTPA. Volumes were impacted during the quarter on account of prolonged monsoons, political issues in the southern region and Gujjar agitation in the northern region.

### ■ EBITDA/tonne improves ~70% QoQ to ₹ 722 per tonne

The EBITDA per tonne increased ~70% QoQ to ₹ 722 per tonne as the net realisation improved ~8% QoQ. The total cost per tonne remained flat QoQ at ₹ 3069 per tonne as the increase in raw material and freight cost was negated by the decline in employees and others cost. Sequentially, the raw material cost and freight cost has increased ~3% and ~4%, respectively, while P&F cost has remained flat QoQ.

## Valuation

At the CMP of ₹ 1023, the stock is trading at 22.2x, 18.2x and 16.7x its FY11E, FY12E and FY13E earnings respectively. It is trading at an EV/EBITDA of 8.7x and 8.4x its FY12E and FY13E EBITDA, respectively. On an EV/tonne basis, the stock is trading at \$126 and \$130 its FY12E and FY13E capacities, respectively. We have valued the company at the current replacement cost of \$125 per tonne at its FY13E capacity of 51.9 MTPA. We maintain our **ADD** rating on the stock with a target price of ₹ 1038 per share.

### Exhibit 1: Financial Performance

(₹ Crore)	Q3FY11	Q3FY11E	Q3FY10	Q2FY11	QoQ (Chg %)	YoY (Chg %)
Net Sales	3715.2	3616.8	1651.8	3214.7	15.6	124.9
EBITDA	707.8	600.2	383.6	407.8	73.6	84.5
EBITDA Margin (%)	19.1	16.6	23.2	12.7	637 bps	-417 bps
Depreciation	219.1	178.5	98.5	218.4	0.3	122.4
Interest	81.8	78.6	26.2	84.5	-3.2	212.2
Other Income	60.6	75.0	30.0	68.4	-11.4	102.4
Reported PAT	319.0	288.5	196.1	115.8	175.5	62.7
EPS (₹)	11.6	10.5	7.1	4.2	175.5	62.7

Source: Company, ICICIdirect.com Research

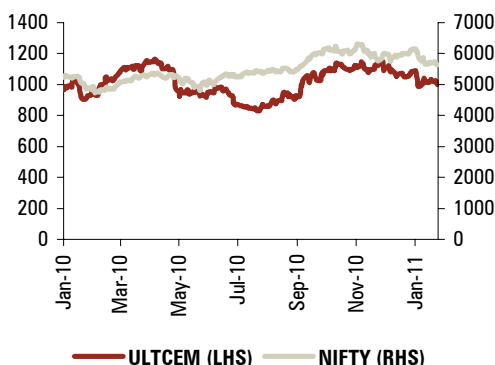
Rating matrix	
Rating	: <b>Add</b>
Target	: ₹ 1038
Target Period	: 12-15 months
Potential Upside	: 3%

Key Financials				
₹ Cr	FY10	FY11E	FY12E	FY13E
Net Sales	7054.8	13182.2	17797.7	19336.4
EBITDA	1973.3	2380.0	3403.4	3611.2
EBITDA Margin (%)	28.0	18.1	19.1	18.7
Net Profit	1093.3	1094.1	1539.6	1676.5
EPS (Rs)	86.8	46.1	56.1	61.1

Valuation summary				
	FY10	FY11E	FY12E	FY13E
PE (x)	11.8	22.2	18.2	16.7
Target PE (x)	11.3	21.2	17.4	16.0
EV to EBITDA (x)	14.1	11.9	8.7	8.4
EV/Tonne(US\$)	268	128	126	130
Price to book (x)	2.8	2.3	2.3	2.1
RoNW (%)	23.6	10.3	12.9	12.5
RoCE (%)	25.4	11.2	14.9	14.4

Stock data	
Mcap	₹ 28051 crore
Debt (FY10)	₹ 1604.5 crore
Cash & Invest(FY10)	₹ 1771.9 crore
EV	₹ 27883 crore
52 week H/L	₹ 1175 / 820
Equity cap	₹ 274.2 crore
Face value	₹ 10
MF Holding(%)	8.5
FII Holding(%)	12.2

## Price movement



Analyst's name	
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**Net sales increase ~16% QoQ; realisation up ~7% QoQ, cement volumes up~4% QoQ**

As the Q3FY11 result incorporate Samruddhi operations (merged with Samruddhi in Q2FY11), the numbers are not comparable YoY. However, on a like-to-like basis, net sales increased marginally by 0.9% to ₹ 3715.2 crore. Sequentially, net sales increased ~16% on account of ~7% QoQ increase in blended sales volume (cement & Clinker) to 9.8 MTPA and blended realisation improved ~7% QoQ to ₹ 3208 per tonne. Cement volumes increased ~4% QoQ to 9.34 MTPA while clinker volumes increased ~100% QoQ to 0.46 MTPA. As the company sells ~50% of its cement output in the southern and western region, it benefited from the improved cement prices in the regions during the quarter.

**EBITDA per tonne increases ~70% QoQ to ₹ 722 per tonne**

The EBITDA per tonne increased ~70% QoQ to ₹ 722 per tonne as the total cost per tonne remained flat QoQ while net realisation improved ~8% QoQ.

The net raw material cost (after stock adjustment) has increased ~3% QoQ to ₹ 496 per tonne on account of an increase in cost of key raw materials like slag and fly ash. The freight cost has increased ~4% QoQ to ₹ 743 per tonne on account of an increase in diesel prices and increase in railway freight charges.

Power & fuel cost has remained flat QoQ at ₹ 914 per tonne. The average fuel cost for the company in Q3FY11 was \$115 per tonne. Prices of imported coal and petcoke have increased to \$130 per tonne. The impact of this will be seen in Q4FY11. Currently, the company is using ~45% of imported coal, 35% of linkage coal, ~15% of petcoke and ~5% through e-auctions/open market.

The total cost has remained almost flat QoQ at ₹ 3069 per tonne as the increase in raw material and freight cost was negated by a decline in employees and others cost.

**Net profit increased ~176% QoQ on increased operating margin**

The net profit increased ~176% QoQ to ₹ 319 crore in Q3FY11 as against ₹ 115.8 crore in Q2FY11. On a like to like basis, the net profit declined ~36% YoY. Depreciation cost remained flat QoQ to ₹ 219.1 crore and interest cost declined ~3% QoQ to ₹ 60.6 crore.

**Exhibit 2: Like to like comparison**

₹ Cr	Q3FY11	Q3FY10	YoY
Net Sales	3715.2	3682.0	0.9
EBITDA	768.0	1019.0	-24.6
Net Profit	319.0	499.0	-36.1

Source: Company, ICICIdirect.com Research

**Exhibit 3: Per tonne analysis**

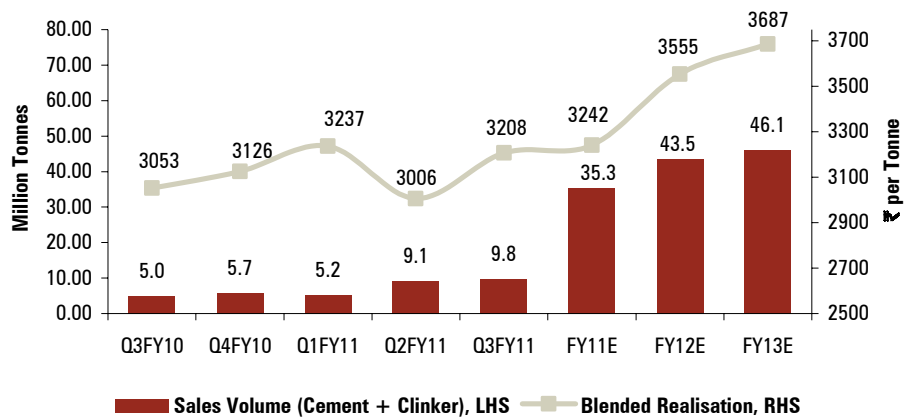
₹ per tonne	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11*	Q3FY11*
<b>Net Realisation</b>	<b>3634</b>	<b>3277</b>	<b>3373</b>	<b>3469</b>	<b>3521</b>	<b>3791</b>
Raw material	273	504	587	430	484	496
Power & Fuel	746	707	645	810	924	914
Freight	675	581	616	695	712	743
Employees	150	124	117	135	209	191
Others	682	601	698	613	745	724
<b>Total Expenditure</b>	<b>2525</b>	<b>2516</b>	<b>2662</b>	<b>2683</b>	<b>3074</b>	<b>3069</b>
<b>EBITDA/Tonne</b>	<b>1109</b>	<b>761</b>	<b>711</b>	<b>786</b>	<b>447</b>	<b>722</b>

Source: Company, ICICIdirect.com Research

\* post merger with Samruddhi Cement

Blended sales volumes increased ~7% QoQ to 9.8 MT from 9.1 MT in Q2FY11. The blended realisation has also improved ~7% QoQ to ₹ 3208 per tonne

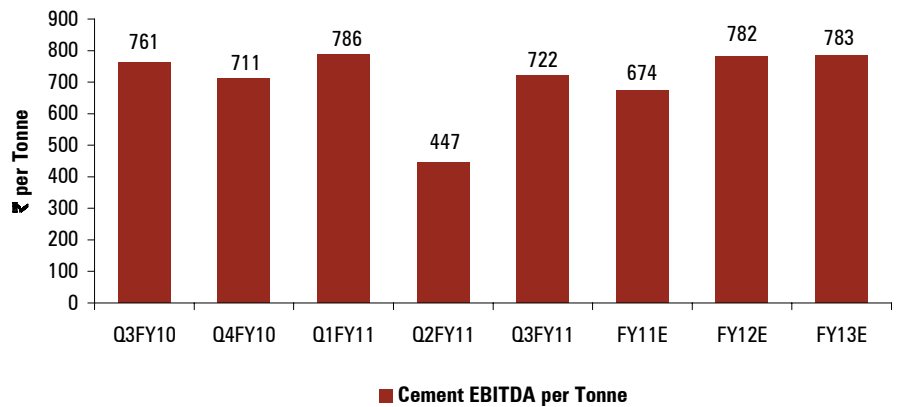
**Exhibit 4: Sales volume (MTPA) and realisation (₹ per tonne)**



Source: Company, ICICIdirect.com Research  
 Note: From Q2FY11 onwards, includes Samruddhi Cement operations

The EBITDA per tonne has increased 70% QoQ to ₹ 722 per tonne in Q3FY11 as against ₹ 424 per tonne in Q2FY11. The improvement in EBITDA per tonne was on account of increase in realisation. Total cost per tonne has remained flat QoQ

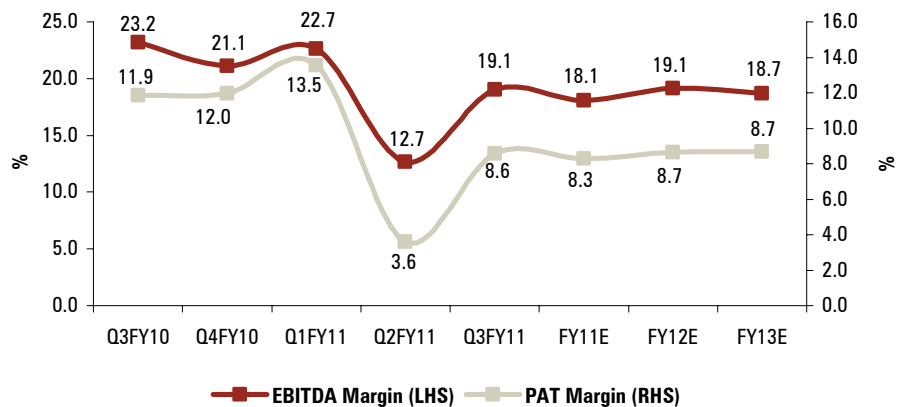
**Exhibit 5: EBITDA per tonne**



Source: Company, ICICIdirect.com Research  
 Note: From Q2FY11 onwards, includes Samruddhi Cement operations

The EBITDA margin has improved by 637 bps QoQ to 19.1% due to sequential increase in realisation. The PAT margin has improved to 8.6% during the quarter from 3.6% in Q2FY11

**Exhibit 6: EBITDA margin (%) and PAT margin (%)**



Source: Company, ICICIdirect.com Research  
 Note: From Q2FY11 onwards, includes Samruddhi Cement operations

**Capex plan**

The company has a capital outlay of ₹ 10000 crore for the next three years. This includes setting up of additional clinkerisation plants at Chhattisgarh and Karnataka along with grinding units and packaging terminals across various states. The clinker and grinding units are expected to come on stream by Q2FY14E. After these expansions of 9.2 MTPA, the company will have an installed capacity of ~61 MTPA.

**Valuations**

After the merger with Samruddhi Cement, UltraTech became the largest cement manufacturer with installed capacity of 48.9 MTPA. Moreover, after the acquisition of UAE based Star cement, its installed capacity has reached 51.9 MTPA.

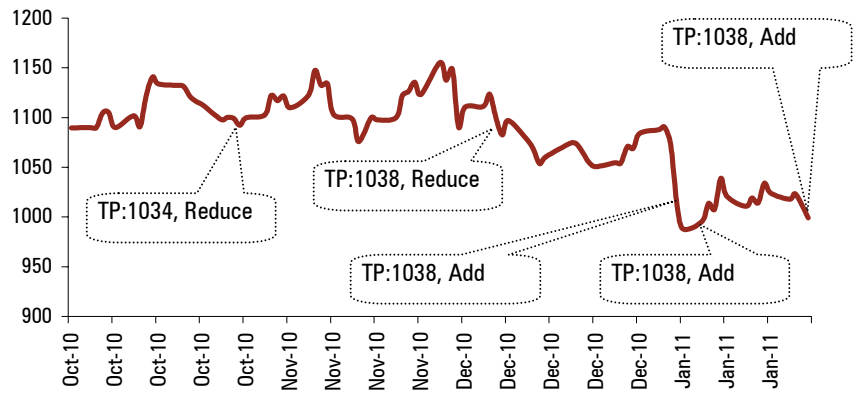
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## ICICIdirect.com coverage universe (Cement)

ACC			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ACC CMP	1019 CY08	7,308.6	64.5	15.8	10.4	24.6	26.6
MCap	19147 Target	1015 CY09	8,027.3	85.5	11.9	7.1	26.7	32.5
	% Upside	0% CY10E	7,736.2	56.4	18.1	10.4	16.0	17.9
		CY11E	8,486.2	52.8	19.3	10.9	13.9	15.4
Ambuja Cements			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GUJAMB CMP	129 CY08	6,234.7	7.4	17.3	11.0	21.9	27.7
MCap	19656 Target	128 CY09	7,076.9	8.0	16.1	9.8	20.1	27.1
	% Upside	-1% CY10E	7,480.4	8.1	16.0	9.3	17.8	23.2
		CY11E	8,284.0	8.4	15.4	8.2	16.3	22.3
UltraTech Cements			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ULTCEM CMP	1010 FY09	6,383.1	78.9	12.8	16.6	27.5	24.3
MCap	27694 Target	1038 FY10	7,054.8	86.8	11.6	13.9	23.6	25.4
	% Upside	3% FY11E	13,182.2	46.1	21.9	11.7	10.3	11.2
		FY12E	17,797.7	56.1	18.0	8.6	12.9	14.9
Shree Cement			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	SHRCM CMP	1763 FY09	2,715.0	166.1	10.6	6.6	46.0	27.1
MCap	6135 Target	UR FY10	3,632.1	194.3	9.1	4.1	34.6	22.6
	% Upside	FY11E	3,430.2	59.6	29.6	7.8	9.8	5.8
		FY12E	4,591.6	110.3	16.0	5.8	15.7	8.8
India Cements			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	INDCEM CMP	99 FY09	3,426.5	17.2	5.8	4.3	17.4	17.0
MCap	3041 Target	107 FY10	3,771.3	10.6	9.3	5.6	10.1	11.3
	% Upside	8% FY11E	3,595.0	3.7	26.6	10.5	3.3	4.1
		FY12E	4,715.8	6.4	15.4	6.6	5.4	7.6
JK Cement			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	JKCEME CMP	137 FY09	1,496.8	21.1	6.5	4.3	17.7	17.2
MCap	958 Target	UR FY10	1,826.8	32.3	4.2	4.3	22.6	17.9
	% Upside	FY11E	1,961.2	5.5	25.1	10.0	3.5	5.8
		FY12E	2,483.5	14.0	9.8	6.7	8.7	9.4
JK Lakshmi			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	JKCORP CMP	50 FY09	1,224.7	14.6	3.4	2.9	21.5	15.7
MCap	610 Target	UR FY10	1,490.5	19.7	2.5	2.0	23.6	17.7
	% Upside	FY11E	1,236.5	3.9	12.7	5.9	4.7	4.3
		FY12E	1,485.1	9.3	5.4	4.2	10.2	8.5
Orient Paper & Industries			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ORIPAP CMP	50 FY09	1,503.2	12.0	4.2	3.5	41.3	43.1
MCap	964 Target	59 FY10	1,616.5	8.2	6.1	4.5	22.5	22.5
	% Upside	17% FY11E	1,781.8	5.6	9.0	5.2	13.3	14.6
		FY12E	2,271.1	8.5	5.9	3.6	18.1	19.6
Mangalam Cement			Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	MANCEM CMP	121 FY09	563.7	37.5	3.2	2.1	33.0	35.2
MCap	323 Target	UR FY10	613.7	44.5	2.7	1.1	29.8	40.0
	% Upside	FY11E	506.9	9.8	12.4	5.3	6.4	3.8
		FY12E	619.0	15.1	8.0	4.9	9.3	5.4

Source: Company, ICICIdirect.com Research

**Exhibit 7: Recommendation History**



Source: Company, ICICIdirect.com Research

## **RATING RATIONALE**

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Add: Up to 10%;  
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## **ANALYST CERTIFICATION**

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