

January 25, 2011

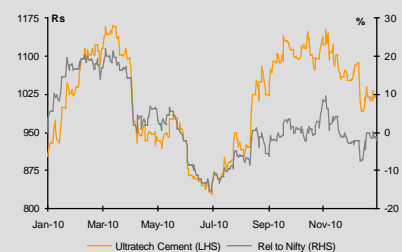
Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs1,019	Rs1,040
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,687
Sensex	18,969

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(9)	23	11
Rel. to Nifty	1	(3)	16	(2)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	UTCEM@IN
Equity Capital (Rs mn)	2740
Face Value(Rs)	10
No of shares o/s (mn)	274
52 Week H/L	1,175/820
Market Cap (Rs bn/USD mn)	279/6,117
Daily Avg Volume (No of sh)	323299
Daily Avg Turnover (US\$m)	7.9

Shareholding Pattern (%)

	D'10	S'10	J'09
Promoters	63.4	64.1	54.8
FII/NRI	15.4	12.0	11.6
Institutions	8.5	9.8	11.2
Private Corp	5.0	5.6	7.5
Public	7.8	8.5	14.9

Source: Capitaline

Ajit Motwani

ajit.motwani@emkayglobal.com
+91 22 6612 1255

Chandan Asrani

chandan.asrani@emkayglobal.com
+91 22 6612 1241

- **PAT at Rs3.19 bn (175.5% qoq) – in line. Revenues up 15.6% qoq- volumes up 5.7% qoq, realisations jump up 9.3% qoq**
- **EBITDA grew 73.6%qoq to Rs7.07 bn- in line-margins expand 640 bps qoq to 19.1%. EBITDA/t at Rs736 improves 64.2% qoq**
- **Cement offtake improves in January – prices hiked Rs10-15/bag. Sustainability of cement price over medium term remains uncertain, as demand yet to see significant pick up**
- **Stock trades at PER of 15.3X & EV/ton of USD125 on FY12E- Do not see valuation comfort, considering uncertainty on sustainability of cement prices & sharp jump in coal prices**

Revenues grow 15.6% qoq – led by 9.3% qoq jump in cement realizations

UTCL revenues (Rs37.15bn) grew 15.6% qoq, driven by 9.3% qoq improvement in blended cement realization at Rs3862/t. Cement volumes at 9.6 mnt grew at a muted pace of 1.2%yoy and 5.7%qoq due to prolonged monsoons and slower pick up in infrastructure projects. On a like to like basis, revenues grew by 0.9% yoy.

Like to Like Comparison

Rs Mn	Q3FY11	Q3FY10	YoY(%)
Net Sales	37150	36820	0.9
PBDIT	7680	10190	-24.6
PAT	3190	4990	-36.1

EBITDA up 73.6%qoq – EBITDA/t at Rs736 up 64.2%qoq

Driven by sharp increase in cement realisations EBITDA for the quarter at Rs7.07bn grew 73.6% qoq (in line with estimates of Rs6.9bn) with EBITDA margins expanding by 640 bps qoq to 19.1%. On the cost front the only significant increase was visible in freight cost, which increased 5.9%qoq to Rs757/t on account of increase in rail freight. Total cost stood at Rs3126/t, a marginal increase of 1.4% sequentially. With improved realizations and marginal increase in cost, Ultratech reported EBITDA/t of Rs736 (our estimate of Rs714/t) up 64.2%qoq. Net profit at Rs3.19bn (our estimate of Rs3.24bn) grew 175.5% qoq. However on a like to like basis, net profit declined by 36.1% yoy.

P&F cost flat QoQ – recent surge in coal prices to be visible in Q4FY11

UTCL's P&F cost for the quarter at Rs931/t remained flat qoq even though average international coal prices jumped 18% qoq (Average USD 104/t) and are currently ruling at USD130/t. We would like to highlight that UTCL has already entered into contract to import 0.2 mtpa of international coal at USD 124/t for delivery in Q4FY11. Since UTCL imports 40 % of its coal requirement from international markets, we expect the P&F cost to increase over next 2-3 quarters.

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	EV/T (USD)
Mar										
FY09	63,831	17,041	26.7	9,770	78.5	-3.0	31.0	13.0	8.0	134.5
FY10	70,497	19,711	28.0	10,932	87.8	11.9	26.6	11.6	6.4	118.0
FY11E	151,412	31,064	20.5	14,979	54.8	-37.6	19.8	18.6	9.4	130.1
FY12E	171,121	37,064	21.7	18,146	66.4	21.1	15.9	15.3	8.0	125.5

Result Table

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	16,518	19,094	17,898	32,147	37,152	124.9	15.6	87,198	51,405	69.6
Expenditure	12,682	15,067	13,841	28,069	30,075	137.1	7.1	71,985	35,699	101.6
<i>as % of sales</i>	77%	79%	77%	87%	81%			83%	69%	
Consumption of RM	2,539	3,322	2,219	4,416	4,863	91.6	10.1	11,499	6,016	91.1
<i>as % of sales</i>	15%	17%	12%	14%	13%			13%	12%	
Employee Expenses	623	660	695	1,911	1,876	201.1	-1.8	4,481	1,858	141.2
<i>as % of sales</i>	4%	3%	4%	6%	5%			5%	4%	
Power, Oil & Fuel	3,564	3,651	4,178	8,434	8,959	151.4	6.2	21,571	10,656	102.4
<i>as % of sales</i>	22%	19%	23%	26%	24%			25%	21%	
Freight & Handling	2930	3485	3586	6505	7285	148.6	12.0	17376	8841	96.5
<i>as % of sales</i>	18%	18%	20%	20%	20%			20%	17%	
Other Expenses	3027	3949	3164	6803	7091	134.3	4.2	17058	8329	104.8
<i>as % of sales</i>	18%	21%	18%	21%	19%			20%	16%	
EBITDA	3,836	4,027	4,057	4,078	7,078	84.5	73.6	15,213	15,706	-3.1
Depreciation	985	993	1016	2184	2191	122.4	0.3	5390	2888	86.7
EBIT	2,851	3,033	3,042	1,894	4,887	71.4	158.0	9,822	12,818	-23.4
Other Income	300	258	483	684	606	102.4	-11.4	1774	947	87.3
Interest	262	285	279	845	818	212.0	-3.2	1942	891	118.0
PBT	2,888	3,007	3,246	1,733	4,675	61.9	169.8	9,654	12,875	-25.0
Total Tax	928	721	819	575	1486	60.1	158.3	2880	4228	-31.9
Adjusted PAT	1960	2286	2427	1158	3190	62.7	175.5	6775	8647	-21.7
Extra ordinary items										
Reported PAT	1960	2286	2427	1158	3190	62.7	175.5	6775	8647	-21.7
(Profit)/loss from JV's/Ass/MI										
PAT after MI	1960	2286	2427	1158	3190	62.7	175.5	6775	8647	-21.7
Reported EPS	15.7	18.4	19.7	9.4	25.8	64.0	175.5	54.9	69.5	-21.0

Margins (%)						bps	bps				bps
EBIDTA	23.2	21.1	22.7	12.7	19.1	-417	637	54.4	90.5		-3614
EBIT	17.3	15.9	17.0	5.9	13.2	-411	726	11.3	24.9		-1367
EBT	17.5	15.7	18.1	5.4	12.6	-490	719	36.1	73.8		-3771
PAT	11.9	12.0	13.6	3.6	8.6	-328	498	25.7	49.6		-2385
Effective Tax rate	32.1	24.0	25.2	33.2	31.8	-36	-141	90.2	98.2		-799

*YoY figures are not comparable since Q3FY11 are post merger with Samruddhi cement

Per tonne analysis

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Cement Volumes (mn t)	5.0	5.7	5.1	9.1	9.6	90.5	5.7	23.8	14.5	64.2
Raw Material Consumed	518	454	503	519	524	1.0	0.8	518	464	11.6
Stock Adjustment	-15	130	-70	-34	-18	17.0	-46.8	-35	-49	-28.7
Purchase of Finished Goods	22	51	64	25	29	33.0	15.4	35	24	47.4
Employee Expenses	123	116	136	210	195	58.0	-7.1	188	128	46.9
Power, Oil & Fuel	706	642	816	927	931	32.0	0.5	905	734	23.3
Freight	580	613	700	715	757	30.5	5.9	729	609	19.7
Other Expenses	578	643	554	722	708	22.6	-2.0	680	550	23.8
Total Cost per tonne	2512	2648	2703	3085	3126	24.5	1.4	3020	2459	22.8
Realisation per tonne	3272	3356	3496	3533	3862	18.0	9.3	3658	3541	3.3
EBIDTA Per tonne	760	708	792	448	736	-3.2	64.2	638	1082	-41.0

Aggressive Capex plan to add 9.2 mtpa over next 3 year

UTCL has an ongoing capex plan of Rs100 bn which will be spent over the next 3 years. These include setting up of additional clinkerisation plants at Chhattisgarh and Karnataka ,along with augmenting grinding capacity, installation of waste heat recovery systems and setting up of bulk/packaging terminals across locations

Clinkerization plants at Chhattisgarh and Karnataka, will have kiln capacity of 10K tons/day at each location, entailing new cement capacity additions of 9.2 mtpa at a cost of Rs56 bn or ~USD135/t. The Chattisgarh plant will have 4 grinding units with aggregate capacity of 4.8 mtpa and a CPP of 45 MW. Whereas Karnataka plant will have 1 split grinding unit of 1.2 mtpa in addition to the mother grinding unit of 3.2 mtpa, along with CPP of 45 MW. Major equipments for these plants have already been ordered and the construction is expected to commence in Q4FY11 with expected commissioning by Q1FY14. Consequent to these additions, Ultratech total cement capacity would stand at ~ 61 mtpa.

Capex Plan

Rs Mn	Net Capex To be spent	Cash Outflow	
		FY11	FY12 & onwards
Cement Subsidiaries			
- Capacity expansion – 4.8 Mn TPA at Raipur, Chhattisgarh and 4.4 Mn. TPA at Malkhed, Karnataka	56000		
- Residual capex for earlier projects	6290		
- Material Evacuation and Logistic Infrastructure	11810		
- Thermal Power Plant (25 MW) & Waste Heat Recovery System (38 MW)	4600		
- Bricks (2 Units) & RMC Plants	1350		
- Modernisation, Upgradation and others	21510		
Cement Business Capex	101560	20690	80870

Source: Company, Emkay Research

Cement prices hiked Rs10-15/bag in January

Helped by improvement in cement offtake and season logistical bottleneck (Wagon shortage due to diversion of wagons to food grains & other crop) cement prices have witnessed a hike of Rs10-15/bag across all regions except Tamilnadu. We do expect another round of price hike in short term as the industry enters the busy construction season (January – May).

However valuations still not in comfort zone– Maintain REDUCE

Though cement prices have been hiked across all regions, we continue to believe that sustainability of cement prices remains uncertain in medium/long term as the cement demand growth FY11YTD ~5% has now emerged as bigger concern than the overcapacity in the system. Also as highlighted earlier international coal prices which have jumped to USD130/t are expected to increase cost pressures and remains key concern for UTCL. With the stock trading at PER of 15.3X, 8X EV/EBITDA and EV/ton of USD125 on FY12 numbers, we do not see valuation comfort, considering uncertainty on earnings. Maintain REDUCE.

Financials

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Sales	63,831	70,497	151,412	171,121
Growth (%)	15.9	10.4	114.8	13.0
Total Expenditure	46,873	50,827	120,393	134,105
Raw Materials Cost	6,850	9,606	9,919	11,820
Power & Fuel cost	17,270	14,309	16,638	19,478
Freight	12,211	13,729	15,027	17,221
Others	10,543	13,182	13,067	13,859
EBIDTA	17,041	19,711	31,064	37,064
Growth (%)	(1.3)	15.7	57.6	19.3
EBIDTA %	26.7	28.0	20.5	21.7
Depreciation	3,230	3,881	8,884	10,232
EBIT	13,811	15,830	22,179	26,832
EBIT Margin (%)	21.6	22.5	14.6	15.7
Other income	1,058	1,227	3,070	3,460
Interest	1,255	1,175	3,337	3,571
EBT	13,615	15,882	21,913	26,721
Tax	3,844	4,949	6,933	8,575
Effective tax rate (%)	28.2	31.2	31.6	32.1
Adjusted PAT	9,770	10,932	14,979	18,146
Growth (%)	(3.0)	11.9	37.0	21.1
Net Margin (%)	15.3	15.5	9.9	10.6
E/O items				
Reported PAT	9,770	10,932	14,979	18,146
(Profit)/loss from JV's/Ass/MI				
PAT after MI	9,770	10,932	14,979	18,146
Growth (%)	(3.0)	11.9	37.0	21.1

Cash Flow

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	13,615	15,882	18,843	23,261
Depreciation	3,230	3,881	8,884	10,232
Interest Provided	804	613	3,337	3,571
Other Non-Cash items				
Chg in working cap	-1,153	-893	15,238	7,911
Tax paid	-2,097	-3,891	-6,933	-8,575
Operating Cashflow	14,576	15,719	39,369	36,399
Capital expenditure	-8,298	-2,741	-40,530	-37,820
Free Cash Flow	6,278	12,979	-1,161	-1,421
Other income	505	582	3,070	3,460
Investments	-8,662	-6,358	0	0
Investing Cashflow	-16,454	-8,517	-37,460	-34,360
Equity Capital Raised	0	1	0	0
Loans Taken / (Repaid)	3,819	-5,223	3,000	5,000
Interest Paid	-1,174	-1,459	-3,337	-3,571
Dividend paid (incl tax)	-728	-728	-1,405	-1,405
Income from investments	-	-	-	-
Others	-	-	-	-
Financing Cashflow	1,917	-7,410	-1,742	24
Net chg in cash	38	-208	167	2,064
Opening cash position	1,007	1,045	1,747	1,914
Closing cash position	1,045	837	1,914	3,978

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	1,245	1,245	2,732	2,732
Reserves & surplus	34,759	44,822	102,284	119,025
Shareholders Funds	36,021	46,087	105,520	122,261
Secured Loans	11,758	8,542	29,895	34,895
Unsecured Loans	9,658	7,503	14,578	14,578
Loan Funds	21,416	16,045	44,473	49,473
Net Deferred Taxes	7,229	8,307	17,487	17,487
Total Liabilities	64,667	70,439	167,481	189,221
Gross Block	74,010	80,781	193,140	222,442
Less: Acc Depreciation	27,653	31,365	66,101	76,333
Net block	46,357	49,417	127,039	146,108
Capital WIP	6,773	2,594	25,082	33,600
Investment	10,348	16,696	29,082	29,082
Current Assets	13,720	14,724	27,716	31,886
Inventories	6,920	8,217	12,445	14,065
Sundry Debtors	1,939	2,158	3,733	4,219
Cash and Bank	1,045	837	1,914	3,978
Loans and Advances	3,816	3,511	9,624	9,624
Other current assets				
Current Liab & Prov	12,531	12,991	41,438	51,455
Current liabilities	11,209	11,381	37,334	47,351
Provisions	1,322	1,610	4,103	4,103
Net current assets	1,189	1,733	-13,722	-19,569
Miscellaneous Exps	0	0	0	0
Total Assets	64,667	70,439	167,481	189,221

Key Ratios

	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	26.7	28.0	20.5	21.7
Net Margin	15.3	15.5	9.9	10.6
ROCE	26.0	25.2	21.2	17.0
ROE	31.0	26.6	19.8	15.9
RoIC	39.0	32.7	27.4	22.9
Per Share Data (Rs)				
EPS	78.5	87.8	54.8	66.4
CEPS	104.4	119.0	87.3	103.9
BVPS	289.3	370.2	386.2	447.4
DPS	5.0	9.7	4.4	4.4
Valuations (x)				
PER	13.0	11.6	18.6	15.3
P/CEPS	9.8	8.6	11.7	9.8
P/BV	3.5	2.8	2.6	2.3
EV / Sales	2.1	1.8	1.9	1.7
EV / EBITDA	8.0	6.4	9.4	8.0
Dividend Yield (%)	0.5	0.9	0.4	0.4
Gearing Ratio (x)				
Net Debt/ Equity	0.6	0.3	0.4	0.4
Net Debt/EBIDTA	0.6	0.3	0.4	0.4
Working Cap Cycle (days)	-13.4	-5.2	-51.0	-62.0

Recommendation History: Ultratech Cement – UTCEM IN

Date	Reports	Reco	CMP	Target
27/10/2010	Ultratech Cement Q2FY11 Result Update	Reduce	1,100	1,040
29/07/2010	Ultratech Cement Ltd Q1FY11 Result Update	Reduce	856	880
03/05/2010	Ultratech Cement Ltd Q4FY10 Result Update	Reduce	978	960
18/01/2010	Ultratech Cement Ltd Q3FY10 Result Update	Accumulate	1,002	980

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/01/2011	Cement Sector Update			
21/01/2011	Orient Paper & Industries Q3FY11 Result Update	Buy	50	77
15/12/2010	Grasim Industries Company Update	Accumulate	2,365	2,730
31/12/2010	IRB Infrastructure Developers Event Update	Accumulate	224	304

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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