



UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,330	UTCEM IN
	REUTERS CODE
S&P CNX: 2,846	ULTC.BO

19 January 2009

Buy

Previous Recommendation: Buy

Rs381

Equity Shares (m)	124.5	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
52-Week Range	948/250	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	14/2/-6	03/07A	49,105	7,823	62.8	240.5	6.1	2.7	55.8	43.0	1.2	4.1
M.Cap. (Rs b)	47.4	03/08A	55,092	10,076	80.9	28.8	4.7	1.8	45.2	40.7	1.1	3.6
M.Cap. (US\$ b)	1.0	03/09E	63,791	9,443	75.9	-6.3	5.0	1.3	30.1	28.8	1.0	3.8
		03/10E	68,289	7,563	60.8	-19.9	6.3	1.1	19.3	20.7	0.9	3.9

UltraTech Cement's 3QFY09 results are above our estimates with EBITDA margin of 26.4% and PAT of Rs2.38b, driven by higher realizations and lower cost.

- Revenues in 3QFY09 are up by 18% YoY to Rs16.3b, driven by 17% YoY growth in cement business and 50% growth in RMC business. Cement volumes grew by 4.6% to 4.57MT, whereas realizations improved by 1.5% QoQ (~11.8% YoY) to Rs3,398/ton. Cement business growth was driven entirely by domestic volumes growth of 11.8% and improvement in export realizations of ~1.5% QoQ.
- EBITDA margins at 26.4% improved by 510bp QoQ (but declined 750bp YoY), benefiting from higher realizations and cost savings in form of other expenditure (maintenance shutdown expenditure in 2QFY09, as well as lower packing and other costs). Lower than estimated depreciation at Rs805m due to delay in capitalization of expansion further boosted PAT to Rs2.4b (~14.7% decline).
- While imported coal prices have declined by 60% from the peak, UTCEM would only benefit from lower imported coal prices from 4QFY09. It imports about 40% of its coal requirement, and hence would save about Rs6-8/bag.
- We are revising our estimates upwards for FY09E by 9.9% (to Rs75.9), but maintain our FY10E EPS. Increase in FY09E EPS is driven by better than estimated 3QFY09 estimates driven by higher realizations and cost savings. The stock trades at 5x FY09E EPS, 3.8x FY09E EV/EBITDA and US\$57/ton. Maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

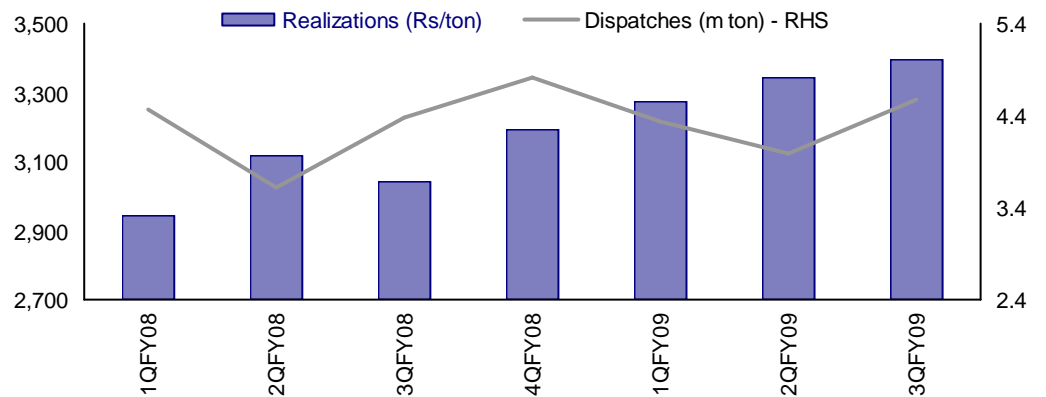
Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales (m ton)	4.47	3.62	4.37	4.82	4.34	3.98	4.57	5.30	17.28	18.19
YoY Change (%)	0.4	0.4	-2.7	-4.6	-2.9	10.2	4.6	9.9	-2.3	5.3
Realization (Rs/ton)	2,946	3,119	3,039	3,193	3,271	3,346	3,398	3,357	3,075	3,344
YoY Change (%)	11.4	12.7	9.4	11.4	11.0	7.3	11.8	5.1	11.7	8.8
QoQ Change (%)	2.8	5.9	-2.6	5.1	2.5	2.3	1.5	-1.2		
Net Sales	13,600	11,676	13,802	16,017	14,960	13,962	16,308	18,562	55,092	63,791
YoY Change (%)	15.2	16.2	9.5	9.3	10.0	19.6	18.2	15.9	12.2	15.8
Total Expenditure	9,222	8,366	9,126	11,132	10,501	10,995	12,000	13,468	37,892	46,964
EBITDA	4,378	3,310	4,676	4,885	4,458	2,967	4,308	5,094	17,201	16,827
Margins (%)	32.2	28.3	33.9	30.5	29.8	21.3	26.4	27.4	31.2	26.4
Depreciation	559	581	583	650	711	808	805	1,046	2,372	3,370
Interest	222	203	186	193	247	309	359	422	757	1,337
Other Income	247	259	222	270	266	278	204	202	999	950
PBT after EO Expense	3,844	2,786	4,129	4,312	3,766	2,129	3,348	3,828	15,070	13,070
Tax	1,250	927	1,334	1,483	1,116	487	964	1,060	4,994	3,627
Rate (%)	32.5	33.3	32.3	34.4	29.6	22.9	28.8	27.7	33.1	27.8
Reported PAT	2,594	1,859	2,795	2,829	2,650	1,642	2,384	2,768	10,076	9,443
Adj PAT	2,594	1,859	2,795	2,829	2,650	1,642	2,384	2,768	10,076	9,443
YoY Change (%)	23.0	45.8	31.5	22.2	2.2	-11.7	-14.7	-2.2	28.8	-6.3

E: MOSL Estimates; Qly results do not add up to full year results due to recasting

Higher realizations, ramp-up in RMC business drive revenue growth

Revenues in 3QFY09 are up by 18% YoY to Rs16.3b, driven by 17% YoY growth in cement business and 50% growth in RMC business. Cement volumes grew by 4.6% to 4.57MT, whereas realizations improved by 1.5% QoQ (~11.8% YoY) to Rs3,398/ton. Cement business growth was driven entirely by domestic volumes growth of 11.8% and improvement in export realizations of ~1.5% QoQ.

TREND IN DISPATCHES & REALIZATIONS

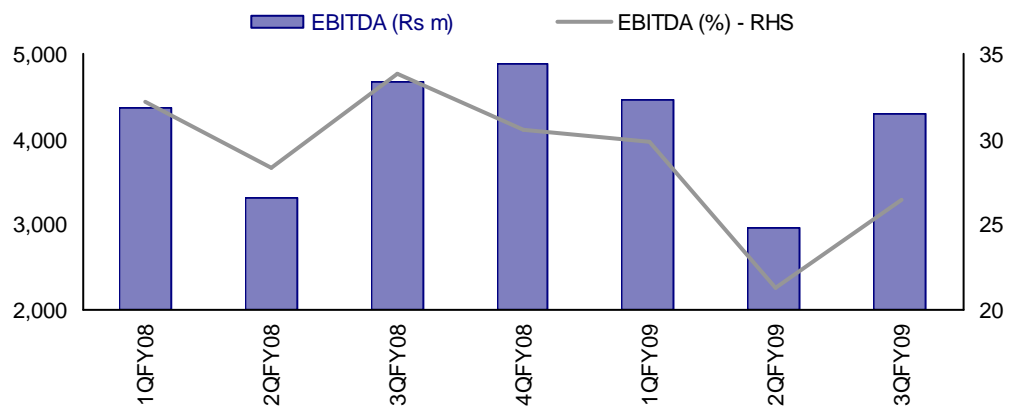


Source: Company/MOSL

Cost savings drive sequential improvement in margin

EBITDA margins at 26.4% improved by 510bp QoQ (but declined 750bp YoY), benefiting from higher realizations and cost savings in form of other expenditure (maintenance shutdown expenditure in 2QFY09, as well as lower packing and other costs).

TREND IN EBITDA



Source: Company/MOSL

Power & fuel cost witnessed peak during the quarter, as it extinguished high cost imported coal inventory during the quarter and consequently did not benefit from lower imported coal prices. Lower than estimated depreciation at Rs805m due to delay in capitalization of expansion further boosted PAT to Rs2.4b (~14.7% decline).

INCOME STATEMENT (RS/TON)

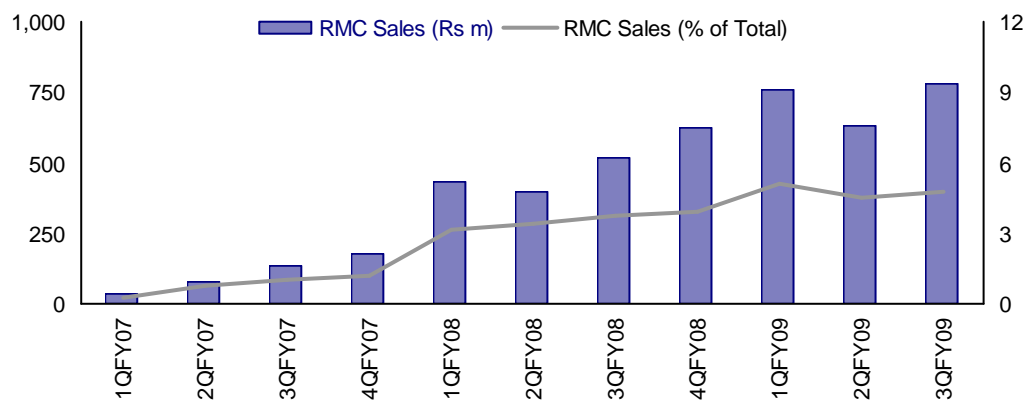
TREND IN PER UNIT COST (RS/TON)	3QFY09	3QFY08	YoY (%)	2QFY09	QoQ (%)
Realization	3,568	3,158	13.0	3,505	1.8
RM Cost	211	250	-15.8	397	-46.9
Power & Fuel	1,154	741	55.7	991	16.5
Staff Cost	139	97	43.4	127	9.1
Freight & Forwarding	592	538	10.2	588	0.7
Other Expenditure	530	462	14.7	657	-19.4
Total Expenditure	2,626	2,088	25.7	2,760	-4.9
EBITDA	943	1,070	-11.9	745	26.5

Source:Company/MOSL

RMC business rapidly scaling up

UltraTech's nascent RMC business is scaling up rapidly. During 3QFY09, RMC volumes grew by 55% to 0.36m cu mtr and revenues grew by 50% to Rs1.1b. RMC business contribution to revenues increased to 5% (from 4% in 3QFY08).

RMC BUSINESS GROWING RAPIDLY



Source:Company/MOSL

Although RMC business enjoys small margin of around 3-5%, it enhances UltraTech's presence in the value chain. This forward integration would help the company to directly reach consumer, there by eliminating intermediates and save on margins paid to them. The company is aggressively investing in RMC business, with plans to expand from 22 plants to 39 plants by March' 09.

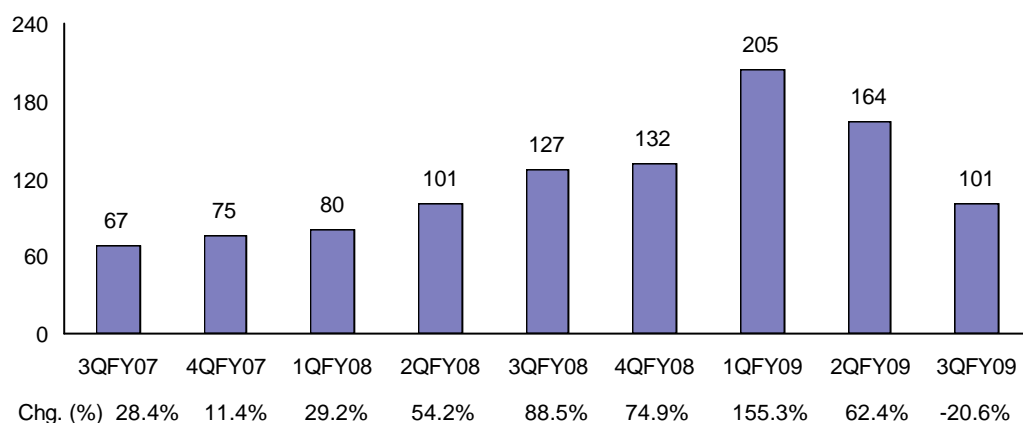
Decline in imported coal prices to benefit from 4QFY09

While imported coal prices have declined by 60% from the peak, UTCCEM would only benefit from lower imported coal prices from 4QFY09. UltraTech imports about 40% of

its coal requirement, and hence would save about Rs6-8/bag. Further, 92MW multi-fuel CPP at Gujarat, which would now use imported coal due to non-availability of lignite, would also result in savings of Rs1.25-1.5/unit (vs Rs0.6/KwH savings estimated in 2QFY09 at higher imported coal prices).

TREND IN IMPORTED COAL PRICES (US\$/TON, AUSTRALIA-CIF)

PERIOD	US\$/TON	CHG. (%)
FY07	68	0.0
FY08	110	62.8
FY09YTD	157	52.3
3QFY09	101	-20.6



Source: Company/MOSL

Grinding unit at AP to commence operations in 4QFY09

UltraTech's grinding unit at Tadpatri (AP) would commence operations in 4QFY09 (vs earlier expectation of 3QFY09), while its mother kiln unit and split grinding unit at Karnataka has already commenced operations in 2QFY09. Also, 96MW CPP are expected to commence operations during 4QFY09, with first phase (~96MW) having already commenced operations in 1HFY09.

CAPEX PROGRAM

	LOCATION	CAPACITY	CAPEX (RS B)	STATUS
Cement (brownfield)	Andhra Pradesh	4.9 MT incl 50MW CPP	16.1	Kiln started operations in 2QFY09, grinding unit by 4QFY09
Cement (grinding unit)	Gujarat	2 MT	3.7	FY11
Captive Power Plants	Gujarat	92 MW		1st phase commenced operations in 1HFY09, 2nd phase in 4QFY09
Captive Power Plants	Chattisgarh	50 MW	11	1st phase commenced operations in 1HFY09, 2nd phase in 4QFY09
Captive Power Plants	Maharashtra	33 MW		Orders not yet placed
RMC Plants		3.6 Mn Cu Ltrs	1.1	By March 2009
Waste Heat Recovery Systems	Mutiple Locations	25MW	2.5	NA
Extension of the jetty	Gujarat			FY11
Bulk Terminal	Mumbai			NA
Modernization			7.7	NA
Total			42.1	

Source: Company/MOSL

Revising estimates upwards

We are revising our estimates upwards for FY09E by 9.9% (to Rs75.9), but maintain our FY10E EPS. Increase in FY09E EPS is driven by better than estimated 3QFY09 estimates driven by higher realizations and cost savings.

REVISED FORECAST (RS M)

	FY09E			FY10E		
	REV	OLD	CHG (%)	REV	OLD	CHG (%)
Net Sales	63,791	63,575	0.3	68,289	68,048	0.4
Net Profit	9,443	8,591	9.9	7,563	7,561	0.0
EPS (Rs)	75.9	69.0	9.9	60.8	60.7	0.0

Source: Company/MOSL

Valuation and view

With commissioning of new capacity and CPP, earning power of UltraTech's assets is expected to improve considerably, which would act as re-rating catalyst resulting in narrowing valuation discount as against its peers. Valuations at 5x FY09E EPS, 3.8x FY09E EV/EBITDA and US\$57/ton are attractive relative to its peers considering significant cost saving triggers and discount in valuations. **Maintain Buy** with target price of Rs542 (~5x FY09 EV/EBITDA).

UltraTech Cement: an investment profile

UltraTech Cemco, the erstwhile cement division of L&T Ltd, is controlled by Grasim, a part of the Aditya Birla Group. It is the second largest cement company in India with a total cement capacity of 23m ton with a significant presence in the western and southern markets. It is the largest exporters of cement and clinker from India.

Key investment argument

- Second largest cement company with pan-India presence.
- Potential to increase throughput without incurring major capex by increasing utilization and blending, along with locational advantage, gives it the flexibility to either export or sell in the domestic market.
- Focused management under Grasim's parentage to drive operating efficiencies and cost rationalization on operational integration.

Key investment risks

- High operating leverage could result in volatile earnings.
- Being largest exporter of cement (~20% of dispatches), UltraTech's earnings are more sensitive to export realizations.

COMPARATIVE VALUATIONS

		ULTRATECH	ACC	GACL
P/E (x)	FY09E	5.0	8.7	9.5
	FY10E	6.3	12.6	12.7
P/BV (x)	FY09E	1.3	1.9	2.0
	FY10E	1.1	1.8	2.0
EV/Sales (x)	FY09E	1.0	1.0	1.5
	FY10E	0.9	1.2	1.7
EV/EBITDA (x)	FY09E	3.8	4.4	5.2
	FY10E	5.0	8.7	9.5

SHAREHOLDING PATTERN (%)

	DEC-08	SEP-08	DEC-07
Promoter	54.8	54.4	54.1
Domestic Inst	9.2	8.7	8.7
Foreign	2.9	6.6	8.9
Others	33.1	30.3	28.4

Recent development

- Would commission Andhra Pradesh grinding unit in 4QFY09.

Valuation and view

- The stock quotes at 5x FY09E EPS and 3.8x FY09E EV/EBITDA.
- Valuations do not fully reflect improving operating performance and organic volume growth visibility at a low cost of expansion. Maintain Buy with target price of Rs542 (5x FY09E EV/EBITDA).

Sector view

- Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth
- Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HCY09
- Imports not a significant threat, due to infrastructural bottlenecks

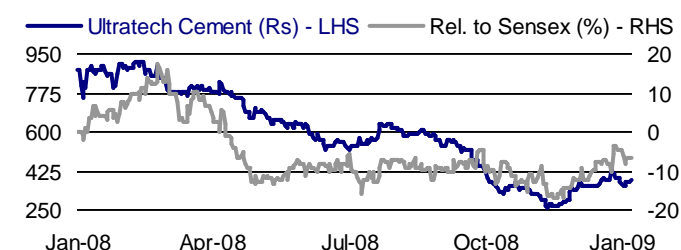
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	75.9	71.9	5.6
FY10	60.8	60.5	0.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
381	542	42.3	Buy

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED PROFORMA INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Net Sales	32,995	49,105	55,092	63,791	68,289
Change (%)	22.2	48.8	12.2	15.8	7.1
Total Expenditure	27,452	34,927	37,892	46,964	52,495
EBITDA	5,543	14,178	17,201	16,827	15,794
Margin (%)	16.8	28.9	31.2	26.4	23.1
Depreciation	2,160	2,263	2,372	3,370	4,586
Int. and Finance Charges	896	868	757	1,337	1,626
Other Income - Rec.	370	615	999	950	850
PBT	2,856	11,662	15,070	13,070	10,432
Extra Ordinary Expense/(Inco	0	0	0	0	0
PBT after EO expense	2,856	11,662	15,070	13,070	10,432
Tax	558	3,839	4,994	3,627	2,869
Tax Rate (%)	19.5	32.9	33.1	27.8	27.5
Reported PAT	2,298	7,823	10,076	9,443	7,563
Adj PAT	2,298	7,823	10,076	9,443	7,563
Change (%)	1,080.1	240.5	28.8	-6.3	-19.9
Margin (%)	7.0	15.9	18.3	14.8	11.1

CONSOLIDATED PROFORMA BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Equity Share Capital	1,245	1,245	1,245	1,245	1,245
Reserves	9,138	16,393	25,725	34,492	41,514
Net Worth	10,383	17,638	26,970	35,737	42,759
Minority Interest	0	0	0	0	0
Deferred liabilities	5770	5603	5424	6502	7441
Loans	14,518	15,786	17,405	20,000	18,250
Capital Employed	30,671	39,027	49,798	62,239	68,450
Gross Block	46,054	47,847	49,726	83,726	99,726
Less: Accum. Deprn.	20,682	22,674	24,721	28,091	32,677
Net Fixed Assets	25,372	25,173	25,005	55,635	67,049
Capital WIP	1,410	6,970	22,832	6,500	1,500
Investments	1,724	4,835	1,709	1,800	1,800
Curr. Assets	7,725	9,602	13,039	12,625	14,039
Inventory	3,796	4,336	6,098	6,117	6,548
Account Receivables	1,726	1,835	2,166	2,185	2,339
Cash and Bank Balance	616	896	1,007	1,527	2,159
Others	1,588	2,535	3,768	2,796	2,993
Curr. Liability & Prov.	5,561	7,552	12,786	14,321	15,938
Account Payables	5,169	7,367	11,530	12,867	14,382
Provisions	392	185	1,256	1,454	1,556
Net Current Assets	2,165	2,050	253	-1,696	-1,899
Misc Expenditure	0	0	0	0	0
Appl. of Funds	30,671	39,027	49,798	62,239	68,450

E: MOSL Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
EPS	18.5	62.8	80.9	75.9	60.8
Cash EPS	35.8	81.0	100.0	102.9	97.6
BV/Share	83.4	141.7	216.6	287.1	343.5
DPS	1.8	4.0	5.0	4.6	3.7
Payout (%)	10.8	7.3	7.2	7.2	7.2
Valuation (x)					
P/E		6.1	4.7	5.0	6.3
Cash P/E		4.7	3.8	3.7	3.9
P/BV		2.7	1.8	1.3	1.1
EV/Sales		1.2	1.1	1.0	0.9
EV/EBITDA		4.1	3.6	3.8	3.9
EV/Ton (Cap-US\$)		70	70	57	55
Dividend Yield (%)		1.1	1.3	1.2	1.0
Return Ratios (%)					
RoE	22.8	55.8	45.2	30.1	19.3
RoCE	15.0	43.0	40.7	28.8	20.7
Working Capital Ratios					
Asset Turnover (x)	1.1	1.3	1.1	1.0	1.0
Debtor (Days)	19	14	14	13	13
Inventory (Days)	42	32	40	35	35
Leverage Ratio					
Debt/Equity	1.4	0.9	0.6	0.6	0.4

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Op. Profit/(Loss) before Tax	5,543	14,536	17,852	16,827	15,794
Interest/Dividends Recd.	370	300	390	950	850
Direct Taxes Paid	-606	-4,172	-4,803	-2,549	-1,930
(Inc)/Dec in WC	290	767	703	2,469	835
CF from Operations	5,597	11,431	14,142	17,698	15,550
CF from Operating incl	5,597	11,431	14,142	17,698	15,550
(inc)/dec in FA	-408	-7,645	-17,931	-17,669	-11,000
(Pur)/Sale of Investments	-1,724	-3,110	3,123	-91	0
CF from investments	-2,132	-10,755	-14,808	-17,760	-11,000
Issue of Shares	-1,444	0	0	0	0
(Inc)/Dec in Debt	-861	1,312	1,667	2,595	-1,750
Interest Paid	-896	-892	-890	-1,337	-1,626
Dividend Paid	-249	-816	0	-676	-542
CF from Fin. Activity	-3,450	-396	776	582	-3,917
Inc/Dec of Cash	14	280	111	520	632
Add: Beginning Balance	602	616	896	1,007	1,527
Closing Balance	616	896	1,007	1,527	2,159



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UltraTech Cement

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