

UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,686	UTCEM IN
	REUTERS CODE
S&P CNX: 2,940	ULTC.BO

25 January 2006

Neutral
Previous Recommendation: Neutral
Rs521

Equity Shares (Rs m)	124.4
52-Week Range	525/311
1,6,12 Rel. Perf. (%)	16/8/5
M.Cap. (Rs b)	64.8
M.Cap. (US\$ b)	1.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/05A	27,759	575	4.6	235.0	112.8	6.8	5.8	6.9	2.8	20.6
03/06E	33,362	1,476	11.9	156.8	43.9	6.1	14.6	13.2	2.3	14.5
03/07E	37,834	3,237	26.0	119.4	20.0	4.9	27.3	24.4	1.9	9.5

Operating profit was below our expectation on account of lower-than-expected volumes and cost-pressure. EBITDA was Rs1.1b versus our estimate of Rs1.3b. Recurring PAT of Rs239m was lower than our projection of Rs417m.

- Revenues were up 18.6% to Rs7.8b driven by growth in realization (up 27.1% to Rs2,055 per ton). On account of significant decline in clinker export, volumes (cement + clinker) declined by 6.6% to 3.8m ton. Cement sales increased 3.6% to 3.4m ton while clinker sales declined 49% to 0.41m ton.
- UTCEM witnessed significant increase in cost of goods sold per bag - up 11.6% to Rs65 per bag from Rs58. The cost increase was driven by change in product mix and higher fuel cost.
- On account of the sharp increase in realization, EBITDA was up significantly by 69% to Rs1.1b. EBITDA margins increased by 421bp to 14.1% and EBITDA per ton increased by Rs130 to Rs290.
- PBT was Rs431m against losses of Rs7m.
- On account of higher-than-expected cost-push we are downgrading UltraTech Cemco's FY06 consolidated EBITDA estimate to Rs5.3b from Rs5.6b and FY06 EPS estimate by 12% to Rs11.9 from Rs13.6. The stock trades at an FY07E PER of 20x and EV per ton US\$93. We maintain our **Neutral** view on the stock.

STANDALONE QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY05				FY06E				FY05	FY06E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Sales (m ton)	3.68	3.34	4.08	4.07	3.85	3.09	3.81	4.35	15.17	15.10
YoY Change (%)		-			4.5	-7.5	-6.6	7.0	10.4	-0.5
Realization (Rs/ton)	1,845	1,710	1,616	1,661	2,117	2,053	2,055	2,256	1,705	1,992
YoY Change (%)					14.7	20.1	27.1	35.8	4.1	16.9
Net Sales	6,797	5,711	6,599	6,754	8,150	6,345	7,829	9,812	25,861	32,136
YoY Change (%)					19.9	11.1	18.6	45.3	14.9	24.3
Total Expenditure	5,764	4,768	5,947	5,626	6,658	5,591	6,726	7,730	22,104	26,705
EBITDA	1,033	943	652	1,128	1,492	754	1,104	2,082	3,757	5,432
Margins (%)	15.2	16.5	9.9	16.7	18.3	11.9	14.1	21.2	14.5	16.9
Depreciation	542	466	518	509	509	521	515	555	2,034	2,100
Interest	284	269	254	263	221	224	228	230	1,069	902
Other Income	-15	49	50	129	111	81	70	-2	212	260
PBT before EO expense	192	258	-70	485	874	90	431	1,295	866	2,690
Extra-Ord expense	0	183	125	893	0	105	0	0	1,202	105
PBT after EO expense	192	75	-195	-408	874	-15	431	1,295	-336	2,585
Tax	80	98	-84	-458	273	-15	192	453	-365	903
Rate (%)	41.6	37.8	43.3	112.2	31.3	-17.1	44.6	35.0	108.5	35.0
Reported PAT	112	-23	-110	50	600	1	239	842	29	1,681
Adj PAT	112	168	-45	315	600	60	239	842	563	1,749
YoY Change (%)					434	-64	-627	167	45	211

E: MOST Estimates

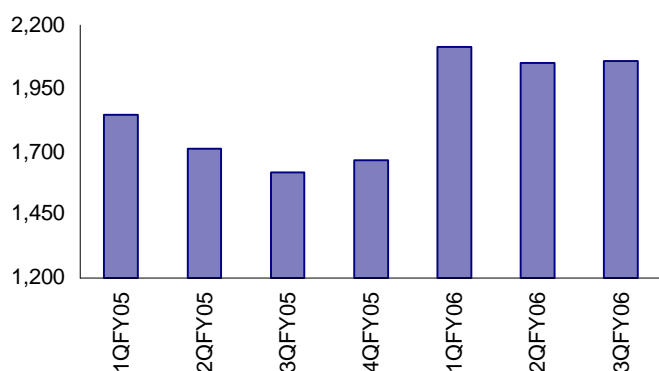
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Higher realizations drive revenue growth

Ultratech Cemco's 3QFY06 standalone revenues were up 18.6% to Rs7.8b driven by realization growth (up 27.1% to Rs2,055 per ton) mainly on account of firm cement prices, change in accounting policy (ex-factory realization includes freight realization) and change in product mix.

Cement realizations in the domestic market were up 18% while that in export were up by 14.9%. Clinker export realizations were also up 15.7%.

CEMENT REALIZATIONS: UP SHARPLY



Source: Company/Motilal Oswal Securities

On account of significant decline in clinker export as well as restricted dispatches from the cement plant at Andhra Pradesh and Arakonam, volumes (cement+ clinker) declined by 6.6% to 3.8m ton. Cement sales increased by 3.6% to 3.4m ton while clinker sales declined by 49% to 0.41m ton. The company has been continuously shifting its clinker export to cement export, which led to sharp growth of 76% in cement exports.

TREND IN DISPATCHES (M. TON)

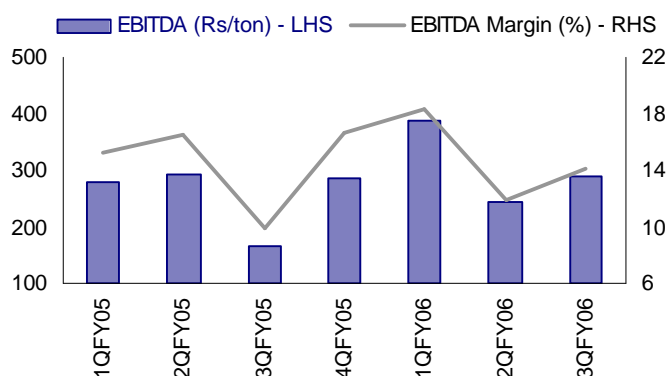
VOLUMES	3QFY06	3QFY05	VAR(%)
Domestic Cement Sales	3.03	3.07	-1.3
Cement Export	0.37	0.21	76.2
Clinker Export	0.41	0.80	-48.8
Total Dispatches	3.81	4.08	-6.6

Source: Company/Motilal Oswal Securities

Freight and fuel cost-push results in significant increase in operating cost

The cost of goods sold per bag has significantly increased — up 11.6% to Rs65 per bag from Rs58. This increase was largely driven by change in product mix (the shift from clinker export to cement export) and higher fuel cost (up 29% to Rs600 per ton). Freight cost has also moved up 58% to Rs472 per ton.

TREND IN EBITDA



Source: Company/Motilal Oswal Securities

On account of a sharp increase in realization, EBITDA moved up significantly by 69% to Rs1.1b. EBITDA margins for the quarter increased by 421bp to 14.1%, which is much lower than the comparable realization increase of 14% as operating cost per ton has moved up significantly. EBITDA per ton increased by Rs130 to Rs290.

Capex for modernization and cost cutting

The company has reiterated that its capex plan will be Rs9.9b, which includes a lignite-based captive plant (capex, Rs5.4b). Going forward the company would be focusing on reducing three main cost components i.e. power (a lignite-based power plant is planned to be set up by January 2008 and a co-generation plant in Andhra Pradesh), fuel (company has started bidding for captive coal and lignite mines and use of alternate fuel) and logistics.

Valuation and view

On account of higher-than-expected cost-push, we are downgrading our FY06 earnings estimate to factor in the higher-than-anticipated cost-push. We have downgraded our EBITDA estimate to Rs5.3b from Rs5.6b and FY06E EPS by 12% to Rs11.9. We expect UltraTech's revenues and

earnings to grow at CAGR of 16.7% and 137% respectively over FY05 – FY07. We note that in spite of the sharp earnings growth, the stock is trading at an FY07E PER of 20x and 9.5x EV/EBITDA. Considering its high cost structure and stretched earnings valuation we maintain our **Neutral** view.

UltraTech Cement: an investment profile

Company description

Ultratech Cemco, the erstwhile cement division of L&T Ltd, is controlled by Grasim, part of the Aditya Birla Group. It is the second largest cement company in India with total cement capacity of 17m ton with a significant presence in the Western and Southern markets of India. It is the largest exporter of cement and clinker from India.

Key investment arguments

- Potential to increase throughput without incurring major capex by increasing utilization and blending, along with a locational advantage gives it 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

- Significant exposure to supply excess markets of West and South (~80% of capacity) which are vulnerable to price war.
- High operating leverage coupled with exposure to supply-excess regions could result in volatile earnings.
- Increase in naphtha prices would impact its profitability as it uses naphtha as feedstock for its captive power plant at its Pipava plant (~31% of capacity).

Recent development

- The company has merged its subsidiary, Narmada Cement with itself

Valuation and view

- The stock quotes at 20x FY07E PER and 9.5x FY07E EV/EBITDA
- Rich valuations leave little upside; we maintain **Neutral**.

Sector view

- Volume expected to grow by 8%, driven by continuous momentum in housing and infrastructure projects
- Improved demand-supply dynamics due to limited capacity addition in previous years. However, greenfield capacity addition can disturb the tight demand-supply scenario.
- Near-term outlook for the sector remains positive but longer-term prospects will be determined by the sector's allocation of cash flow

COMPARATIVE VALUATIONS

		ULTRATECH	ACC	GACL
P/E(x)	FY06E	43.9	22.7	21.6
	FY07E	20.0	18.0	16.9
P/BV(x)	FY06E	6.1	4.7	5.0
	FY07E	4.9	4.1	4.3
EV/Sales(x)	FY06E	2.3	2.6	3.5
	FY07E	1.9	2.3	3.0
EV/EBITDA(x)	FY06E	14.5	14.7	11.4
	FY07E	9.5	10.7	9.0

SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	51.1	51.1	51.1
Domestic Institutions	9.9	9.6	13.2
FII's/FDIs	8.3	8.3	7.9
Others	30.8	31.0	27.8

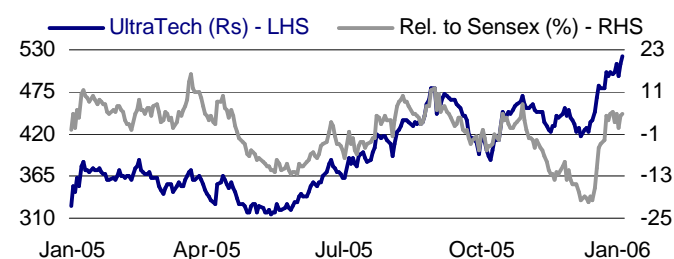
EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	11.9	14.2	-16.1
FY07	26.0	21.0	23.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
521	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED PROFORMA INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Net Sales	22,920	27,759	33,362	37,834	38,910
Change (%)		21.1	20.2	13.4	2.8
Total Expenditure	19,686	23,931	28,081	30,159	31,866
EBITDA	3,234	3,828	5,281	7,675	7,044
Margin (%)	14.1	13.8	15.8	20.3	18.1
Depreciation	2,475	2,310	2,376	2,460	2,633
Int. and Finance Charges	1,185	1,093	860	510	510
Other Income - Rec.	440	211	200	220	220
PBT	15	637	2,245	4,925	4,121
Extra Ordinary Expense/(Inco	0	1202	0	0	0
PBT after EO expense	15	-565	2,245	4,925	4,121
Tax	-158	-44	754	1,655	1,385
Tax Rate (%)	-1091	7.8	33.6	33.6	33.6
Reported PAT	173	-521	1,491	3,270	2,737
Adj PAT	173	587	1,491	3,270	2,737
Change (%)		240.1	153.8	19.4	-16.3
Less: Minority Interest	12	13	15	33	27
Net Profit	172	575	1,476	3,237	2,709

CONSOLIDATED PROFORMA BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Equity Share Capital	1,244	1,244	1,244	1,244	1,244
Reserves	9,295	8,493	9,507	12,035	13,752
Net Worth	10,539	9,737	10,751	13,279	14,996
Deferred liabilities	6030	5661	6244	7521	8591
Loans	15,662	14,663	12,192	8,575	9,001
Capital Employed	32,231	30,061	29,187	29,376	32,588
Gross Block	47,355	48,355	50,652	51,852	57,852
Less: Accum. Deprn.	16,867	20,128	22,504	24,964	27,597
Net Fixed Assets	30,488	28,227	28,148	26,887	30,255
Capital WIP	277	850	500	500	500
Investments	0	299	299	299	299
Curr. Assets	6,012	6,534	7,112	8,712	8,948
Inventory	2,690	2,662	2,742	3,421	3,518
Account Receivables	1,816	1,901	2,102	2,799	2,878
Cash and Bank Balance	448	450	440	420	420
Others	1,058	1,521	1,828	2,073	2,132
Curr. Liability & Prov.	4,868	6,016	7,040	7,190	7,581
Account Payables	4,503	5,573	6,540	6,623	6,997
Provisions	366	443	500	568	584
Net Current Assets	1,143	518	73	1,522	1,367
Misc Expenditure	322	167	167	167	167
Appl. of Funds	32,231	30,061	29,186	29,376	32,588

E: MOST Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Basic (Rs)					
EPS	1.4	4.6	11.9	26.0	21.8
Cash EPS	213	23.2	31.0	45.8	42.9
BV/Share	82.1	76.9	85.1	105.4	119.2
DPS	0.5	0.8	3.3	5.0	7.0
Payout (%)	40.6	-20.4	30.9	21.7	36.3
Valuation (x)					
P/E		112.8	43.9	20.0	23.9
Cash P/E		22.5	16.8	11.4	12.1
P/BV		6.8	6.1	4.9	4.4
EV/Sales		2.8	2.3	1.9	1.9
EV/EBITDA		20.6	14.5	9.5	10.4
EV/Ton (Cap-US\$)		103	100	95	90
Dividend Yield (%)		0.1	0.6	1.0	1.3
Return Ratios (%)					
RoE	1.7	5.8	14.6	27.3	19.4
RoCE	4.6	6.9	13.2	24.4	20.4
Working Capital Ratios					
Asset Turnover (x)	0.7	0.9	1.1	1.3	1.2
Debtor (Days)	24	21	20	23	23
Leverage Ratio					
Debt/Equity	15	15	12	0.7	0.6

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Oper. Profit/(Loss) before Tax	3,234	3,828	5,281	7,675	7,044
Interest/Dividends Recd.	440	211	200	220	220
Direct Taxes Paid	6,188	-325	-172	-377	-315
(Inc)/Dec in WC	-695	627	436	-1,470	155
CF from Operations	9,167	4,341	5,745	6,048	7,104
EO expense	0	1,202	0	0	0
CF from Operating incl EO	9,167	3,139	5,745	6,048	7,104
(inc)/dec in FA	-33,240	-621	-1,947	-1,200	-6,000
(Pur)/Sale of Investments	0	-299	0	0	0
CF from investments	-33,240	-920	-1,947	-1,200	-6,000
Issue of Shares	10,114	-19	-15	-33	-27
(Inc)/Dec in Debt	15,662	-999	-2,472	-3,617	426
Interest Paid	-1,185	-1,093	-860	-510	-510
Dividend Paid	-70	-106	-461	-709	-993
CF from Fin. Activity	24,521	-2,218	-3,808	-4,868	-1,104
Inc/Dec of Cash	448	2	-10	-20	0
Add: Beginning Balance	0	448	450	440	420
Closing Balance	448	450	440	420	420



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UltraTech Cement

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| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |

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