



## Accumulate

Price	Rs825
Target Price	Rs880
Investment Period	12 months

### Stock Info

Sector	Cement
Market Cap (Rs cr)	10,304
Beta	0.5
52 WK High / Low	886/249
Avg. Daily Volume	41,233
Face Value (Rs)	10

BSE Sensex	17,223
Nifty	5,114

BSE Code	532538
NSE Code	ULTRACEMCO
Reuters Code	ULTC.BO
Bloomberg Code	UTCEM@IN

### Shareholding Pattern (%)

Promoters	54.8
MF/Banks/Indian FIs	24.2
FII/ NRIs/ OCBs	6.0
Indian Public/others	15.0

Abs.	3m	1yr	3yr
Sensex (%)	13.4	68.5	35.5
UTCL (%)	7.0	123.8	(6.6)

### Rupesh Sankhe

Tel: 022 – 4040 3800 Ext: 319  
E-mail: rupeshd.sankhe@angeltrade.com

### V Srinivasan

Tel: 022 – 4040 3800 Ext: 330  
E-mail: V.Srinivasan@angeltrade.com

## Performance Highlights

- Higher Realisations aid Top-line growth:** Ultratech Cement (ULTC) posted a Top-line growth of 10.4% yoy to Rs1,541cr (Rs1,396cr) for 2QFY2010, which was in-line with our estimate. The Top-line was driven primarily by 5.6% yoy higher realisations which stood at Rs3,704/tonne (Rs3,507/tonne). The company's volumes too grew by 4.5% yoy during the quarter and stood at 4.16 mn tonnes (3.98 mn tonnes). For 1HFY2010, the company's Top-line grew by 20.6% to Rs3,527cr.
- Increased use of captive power boosts operating margins:** On the Operating front, ULTC reported an increase of 925bp yoy in its EBITDA Margin to 30.5% (21.3%), mainly due to a decline in power costs because of an increase in the captive power capacity and a decline in the prices of imported coal. The Power cost per tonne fell by 23% yoy to Rs760/tonne (Rs991/tonne). Hence, the company's EBITDA/tonne for cement improved to Rs1,129/tonne (Rs746/tonne). For 1HFY2010, the company's operating profit grew by 58% to Rs470cr.
- Bottom-line grows by 53%:** ULTC's Net Profit grew by a substantial 52.8% yoy to Rs250.9cr (Rs164.2cr) during the quarter. The significant growth in Net Profit came in due to a superior operational performance. For 1HFY2010, the company's Net Profit grew by 55.8% yoy to Rs668.7cr.
- Capex of Rs2,000cr planned over the next two years:** The company has a capital outlay of around Rs2,000cr to be spent over the next two years. This is for setting up a 25MW thermal power plant at its unit in Awarpur, Maharashtra, an additional grinding and evacuation facility at its unit in Gujarat, and Waste Heat Recovery Systems across units for generating power out of waste gases.

### Key Financials (Standalone)

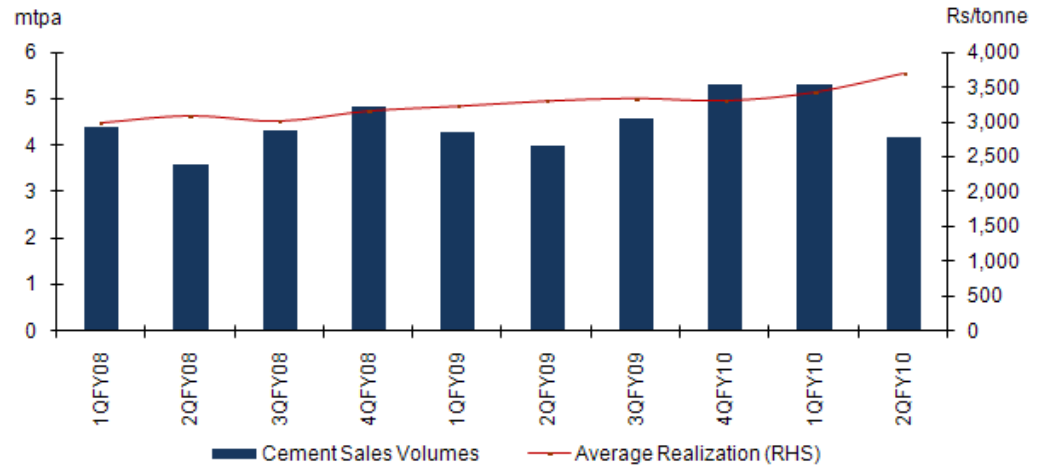
Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>Net Sales</b>	<b>5,509</b>	<b>6,383</b>	<b>7,202</b>	<b>7,226</b>
% chg	12.2	15.9	13.0	0.3
<b>Net Profit</b>	<b>1,008</b>	<b>977</b>	<b>1,218</b>	<b>1,017</b>
% chg	28.8	(3.0)	25.0	(16.5)
OPM (%)	31.3	26.7	29.7	25.3
<b>FDEPS (Rs)</b>	<b>80.9</b>	<b>78.5</b>	<b>97.8</b>	<b>81.7</b>
P/E (x)	9.6	9.9	8.4	10.1
P/BV (x)	3.6	2.7	2.3	2.1
RoE (%)	45.2	31.0	27.8	20.3
RoCE (%)	23.9	17.9	25.1	19.5
EV/Sales (x)	2.1	1.9	1.6	1.5
EV/tonne (US \$/t)	146	120	104	90
EV/EBITDA (x)	6.5	7.1	5.4	5.9

Source: Company, Angel Research

**Realisations rise by 5.6%**

ULTC's average price realisation increased 5.6% yoy to Rs3,704/tonne (Rs3,507/tonne) during the quarter. High Cement prices during the quarter, due to strong cement dispatch growth, aided the company's blended realisations. The lower power costs helped the company in increasing its profits substantially during the quarter.

**Exhibit 1: Cement Volumes and Realisations**



Source: Company. Angel Research

**Capacity augmented to 23.1mtpa**

ULTC's total cement capacity was augmented to 21.9mn tonnes in FY2009, from 18.2mn tonnes in FY2008. During 1HFY2010, the company commissioned residual cement capacity of 1.2mtpa at its Andhra Pradesh Cement Works. Currently, the company's total installed capacity stands at 23.1mtpa.

**Corporate Development**

Recently, in a significant move, Grasim Industries, which holds a 55% stake in ULTC, has decided to transfer its stand-alone cement business to its another subsidiary, Samruddhi Cements. After the transfer of the cement assets, Samruddhi is expected to be merged with Ultratech, which would result in the creation of India's largest Cement manufacturer, with a capacity in excess of 49mtpa by the end of FY2011E. Ultratech has constituted a committee to consider the proposal for the merger of both the companies.

**Exhibit 2: 2QFY2010 Performance**

Y/E March (Rs cr)	2QFY2010	2QFY2009	% chg	1HFY2010	1HFY2009	% chg
<b>Net Sales</b>	<b>1,541</b>	<b>1,396</b>	<b>10.4</b>	<b>3,527</b>	<b>2,925</b>	<b>20.6</b>
Consumption of Raw Material	127.8	158.2	(19.2)	371.3	263.5	40.9
(% of Net Sales)	8.3	11.3	-	10.5	9.0	-
Power and Fuel	316.2	394.5	(19.8)	699.6	780.4	(10.4)
(% of Net Sales)	20.5	28.3	-	19.8	26.7	-
Staff Costs	63.5	50.8	25.0	122.4	97.5	25.5
(% of Net Sales)	4.1	3.6	-	3.5	3.3	-
Freight & Forwarding	286.1	234.3	22.1	591.0	489.4	20.7
(% of Net Sales)	18.6	16.8	-	16.8	16.7	-
Other expenses	277.2	261.7	5.9	522.6	518.8	0.7
(% of Net Sales)	18.0	18.7	-	14.8	17.7	-
Total Expenditure	1,071	1,100	(2.6)	2,306.8	2,149.6	7.3
<b>Operating Profit</b>	<b>470</b>	<b>296.7</b>	<b>58.4</b>	<b>1,219.9</b>	<b>775.4</b>	<b>57.3</b>
OPM (%)	30.5	21.3	-	34.6	26.5	-
Interest	29.9	30.9	(3.3)	62.8	55.6	13.0
Depreciation	96.7	80.8	19.7	190.2	151.9	25.2
Other Income	30.8	27.8	10.6	31.8	21.6	47.1
Profit before Tax	374.3	212.9	75.8	998.7	589.5	69.4
Current Tax	123.4	48.7	153.1	330.0	160.3	105.9
(% of PBT)	33.0	22.9	-	33.0	27.2	-
<b>Profit after Tax</b>	<b>250.9</b>	<b>164.2</b>	<b>52.8</b>	<b>668.7</b>	<b>429.2</b>	<b>55.8</b>
PAT Margin	16.3	11.8	-	19.0	14.7	-
<b>EPS (Rs)</b>	<b>20.2</b>	<b>13.2</b>	<b>52.8</b>	<b>53.7</b>	<b>34.5</b>	<b>55.8</b>

Source: Company, Angel Research

## Outlook and Valuation

We expect the Cement Sector to add around 76mtpa of capacity over FY2010-12E. Such a large capacity addition is expected to eventually create an oversupply situation in the market, as demand is not expected to catch up in the short term. Nonetheless, on a positive note, a stable government at the Centre is expected to boost infrastructure spending in the country; moreover, the ongoing recovery in Real Estate activities has considerably mitigated the concerns on the demand front. However, all-India capacity utilisation is expected to drop to 78% in FY2010, from around 85% in FY2009. The likely merger between Samruddhi and UltraTech is expected to be positive for the latter, as it would become the largest cement player in the country. We have increased our EPS estimates for Ultratech by 3.7 % and 3.8% for FY2010E and FY2011E, respectively.

### Exhibit 3: Revised Estimates

Rs cr	Old		New		% chg	
	FY2010	FY2011	FY2010	FY2011	FY2010	FY2011
Sales	7107.0	7343.0	7202.0	7226.0	1.3	(1.6)
EBITDA (%)	30.1	25.1	29.7	25.3	(1.3)	0.8
PAT	1174.0	980.0	1218.0	1017.0	(3.7)	3.8
EPS (Rs)	94.3	78.7	97.8	81.7	(3.7)	3.8

Source: Angel Research

At the CMP of Rs 825, ULTC is trading at an EV/EBITDA of 5.4x and 5.9x its FY2010E and FY2011E EBITDA, and an EV/tonne of US \$104/tonne and US \$90/tonne on FY2010E and FY2011E capacities, respectively. On the valuation front, we have valued Ultratech at an EV/tonne of US \$100 to arrive at a fair value of Rs880, which is at a discount to the valuations of majors like ACC (EV of US \$105/tonne) and Gujarat Ambuja (EV of US \$117/tonne), after considering their return ratios and operational performance. **Hence, we upgrade the stock from Neutral to Accumulate.**



**Research Team Tel: 4040 3800**

**E-mail: [research@angeltrade.com](mailto:research@angeltrade.com)**

**Website: [www.angeltrade.com](http://www.angeltrade.com)**

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<b>Ratings (Returns):</b>	<b>Buy (&gt; 15%)</b> <b>Reduce (-5% to -15%)</b>	<b>Accumulate (5% to 15%)</b> <b>Sell (&lt; -15%)</b>	<b>Neutral (-5% to 5%)</b>
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