

Ultratech Cement Ltd (Q1FY07)

COMPANY UNDER COVERAGE: **Ultratech  
Cement Ltd**

THEME: **Cementing Growth**

BSE CODE: **532538**

PE (Q1FY07): **35.05X**

CMP: **Rs.889.10**

52 Wk H/L: **Rs.921.40/Rs.384.50**

REFERENCE CODE:

**CA26102006/Ultratech**



**SAANS RESEARCH  
DESK  
26th October-  
2006**

Short Term: **Buy**

Medium to Long Term: **Buy**

## COMPANY ANALYSIS AND VALUATION

### KEY THEMES

#### Positives

- Largest cement producer in the country
- Largest exporter of cement clinker
- Backing of the Aditya Birla group
- Fundamentals of the economy looking solid backed up by solid growth in housing and infrastructure sectors
- Demand for cement expected to outstrip supply in the immediate future
- Average cement consumption in India is on the lower side as against the world average leaving a lot of scope for increase in consumption

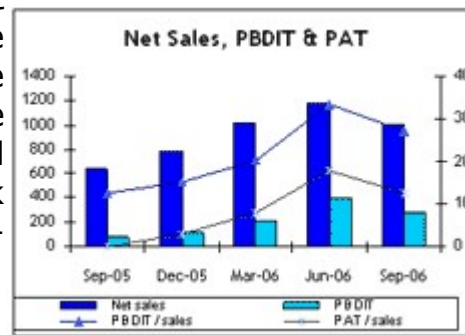
#### Negatives

- Indian exports to Sri Lanka may be affected due to protectionist policies of Sri Lanka
- Susceptible to freight rate vagaries particularly if freight rate depicts upward partiality
- Risk of overcapacity in the future
- In the long run, industry may have to face Chinese competition
- Supreme Court ban on overloading of trucks

will have an adverse bearing on transportation cost

## KEY DEVELOPMENTS

Ultratech Cement Ltd. reported an outstanding growth in net sales at Rs.1,004.54 Crore in Q2FY07 when compared to Rs.639.98 crore achieved during the corresponding quarter last year, growing by almost 57 percent. But when compared to Q1FY07 figure of Rs.1,180.32 crore, it has come down by 14.9 percent. The sequential growth was affected because Q2 normally is a slack season and results in lower off-take.



Source: SAANS Research & CMIE Data

During the quarter, the production was 30.71 lac metric tonnes (lmt) of clinker (28.24 lmt in Q2FY06) and 29.99 lmt of cement (27.13 lmt). The capacity utilization for clinker was 85 percent vs 78 percent in Q2FY06 and for cement it was 84 percent vs 69 percent in Q2FY06.



Source: SAANS Research & CMIE Data

The volume of production grew by 11% and was in line with the industry. Sales, on the other hand, showed a growth of 17% from 31.45 lmt in Q2FY06 to 36.81 lmt in Q2FY07.

As far as realisations are concerned, prices increased by 45% for the domestic market and 14% for exports.

Total expenses were at Rs.750.05 crore in Q2FY07, while the total expenses as a proportion of net sales was 74.7 percent in Q2FY07 and 68.3 percent in Q1FY07. Raw material expenses were at Rs.108.33 crore in Q2FY07, while the raw materials expenses as a proportion of net sales was 10.8 percent in Q2FY07 and 9.9 percent in Q1FY07. Power & fuel expense was at Rs.248.48 crore in Q2FY07, while the Power & fuel expense as a proportion of net sales was 24.7 percent in Q2FY07 and 24.2 percent in Q1FY07. Freight/distribution expenses were at Rs.206.21 crore in Q2FY07, while the Freight/distribution expenses as a proportion of net sales was 20.5 percent in Q2FY07 and 20.8 percent in Q1FY07.

The power and fuel costs increased due to increase in imported coal price caused by upward bias of shipping freight. Once captive power plants are set up at Gujarat & Chhattisgarh, some breakthrough can be expected in cost control of power and fuel expenses. The company is also looking at alternative fuel sources to reduce cost.



Source: SAANS Research & CMIE Data

Profit before depreciation, interest & tax (PBDIT) posted an impressive growth of 238.9 percent to Rs.273.57 crore when

compared to Rs.80.73 crore reported in Q2FY06. Quarter on Quarter PBDIT was lower by 30.9 percent from Rs.395.73 crore registered in Q1FY07. PBDIT as a proportion of net sales was 27.2 percent in Q2FY07 when compared to 12.6 percent during the corresponding quarter last year and 33.5 percent during the previous quarter.



Source: SAANS Research & CMIE Data

PAT was at Rs.127.44 crore when compared to Rs.0.08 crore reported in Q2FY06. Quarter on Quarter PAT depicted a negative trend dropping by 39.6 percent from Rs.210.84 crore registered in Q1FY07. PAT as a proportion of net sales was 12.7 percent in Q2FY07 when compared to 0.01% during the corresponding quarter last year and 17.9 percent during the previous quarter.

### Outlook & Valuation:

Ultratech Cement Ltd. has planned for a capital expenditure of Rs.1,424 crore spread over the next 3 years. Of this amount, Rs.844 crore is earmarked for putting up power plants at its Gujarat & Chhattisgarh units.



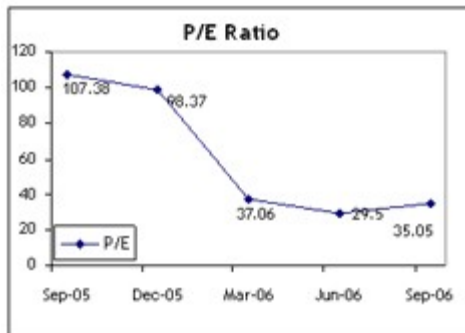
Source: SAANS Research & CMIE Data

The company is also in the process of setting up a 46 MW power plant at Tadipatri, Andhra Pradesh, at a cost of Rs.221 crore. It is investing Rs.1,050 crore for increasing the capacity of Andhra

Pradesh unit to 8 million tonnes.

The company is also looking at modernization and de-bottlenecking in order to increase efficiency.

The government has given top priority for infrastructure development that will enhance the demand for cement and other building materials. Housing sector is also growing at a rapid pace facilitated by the easy availability of finance, which will further propel the cement industry into higher route.



Source: SAANS Research & CMIE Data

Cement sector is expected to grow at 9% for the next two years with a capacity utilization figure of around 95%. Even though cement companies are in the process of creating additional capacities, the process will start yielding results only from 2009.

On the exports front too, there are positive indications as the realizations are high on the back of strong demand from Middle East.

The company is in a position to take advantage of market conditions and post healthy results by being efficient and effective. The company's performance will improve because of de-bottlenecking,

which will result in increased efficiency & cost control. Growth itself will further improve its results. We rate the stock to outperform and revise our target price to Rs.960 by end of the current financial year.

### **Share holding pattern as on 30th September 2006**

<b>Category</b>	<b>% of Share Holding</b>
Indian Promoters	52.28
Mutual Funds and UTI	2.40
Banks, Financial Institutions, Insurance Companies	5.95
FIIS	8.19
Private Corporate Bodies	13.92
Individuals	16.90
Global Depository Receipts	0.36

*Source: BSE India*

### **RELATIVE PERFORMANCE**

The scrip has appreciated by 115% during the last one year while the index has gone up by 59%. The company's share price has recorded nearly double the growth of the index.

### **KEY FINANCIALS**

## Quarterly Income Statement

Ultratech Cement Ltd (in Crore)	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
	Net sales	639.98	782.94	1,022.36	1,180.32
Other income	8.03	6.99	6.93	13.40	11.90
Non-recurring income	7.67	1.12	6.15	7.75	7.18
Expenditure	574.95	672.58	830.54	805.74	750.05
Raw materials/trdg. goods	144.32	170.97	201.48	116.67	108.33
Change in stock	(23.50)	(29.40)	31.95	(9.90)	(1.11)
Personnel cost	18.91	21.30	29.89	27.50	29.42
Power & fuel	181.92	228.89	223.90	285.55	248.48
PBDIT	80.73	118.47	204.90	395.73	273.57
Interest	22.40	22.77	22.21	22.59	23.74
PBDT	58.33	95.70	182.69	373.14	249.83
Depreciation	52.12	51.49	54.97	54.35	54.74
PBT	6.21	44.21	127.72	318.79	195.09
Total tax provisions	6.13	20.35	46.22	107.95	67.65
PAT	0.08	23.86	81.50	210.84	127.44

## Key Ratios

Ultratech Cement Ltd (In %)	Sep-05	Dec-05	Mar-06	Jun-06	Sep-06
	YOY Net sales	12.1	13.8	46.5	44.8
YOY Total expenses	16.1	6.0	24.8	21.0	30.5
YOY PBDIT	(3.0)	79.2	112.4	134.9	238.9
YOY Interest	(16.6)	(10.3)	(15.4)	2.5	6.0

YOY Depreciation	12.0	(0.6)	8.0	6.7	5.0
QOQ Net sales	(21.5)	22.3	30.6	15.5	(14.9)
QOQ Total expenses	(13.6)	17.0	23.5	(3.0)	(6.9)
QOQ PBDIT	(52.1)	46.8	73.0	93.1	(30.9)
QOQ Interest	1.6	1.7	(2.5)	1.7	5.1
QOQ Depreciation	2.3	(1.2)	6.8	(1.1)	0.7
QOQ PAT	(99.9)	29,725.0	241.6	158.7	(39.6)
PBDIT / sales	12.6	15.1	20.0	33.5	27.2
PAT / sales	0.0	3.1	8.0	17.9	12.7