

October 27, 2010

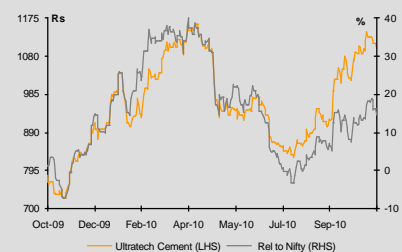
Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs1100	Rs1040
EPS change FY11E/12E (%)	-16.2/-8.3
Target Price change (%)	+18.2
Nifty	6,012
Sensex	20,005

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	32	0	42
Rel. to Nifty	6	18	(13)	16

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	1,172/700
Market Cap (Rs bn/USD mn)	301/6,785
Daily Avg Volume (No of sh)	278862
Daily Avg Turnover (US\$m)	6.3

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	64.1	54.8	54.8
FII/NRI	12.0	11.6	11.6
Institutions	9.8	11.2	11.7
Private Corp	5.6	7.5	7.2
Public	8.5	14.9	14.8

Source: Capitaline

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- **PAT at Rs1.16 bn (-79.2% qoq) – below estimates led by lower realizations & higher P&F & staff costs. Revenues decline 19.4% qoq-volumes down 12.4%, realisations down 8%**
- **Lower realizations and cost pressure dragged EBITDA down by 59% qoq. EBITDA/t at Rs448 down 53.4% qoq. Downgrade FY11 earnings by 16.2% (EPS Rs54.8)**
- **With recent cement prices hikes, expect the worst phase of profitability to be over for UTCL**
- **Upgrade target to Rs1040 (valuing UTCL at EV/EBIDTA of 8X EV/Ton of USD130. However rich valuations at PER of 16.6X & EV/ton of USD135 leaves little upside. Maintain REDUCE**

Revenues decline 19.4% qoq

UTCL revenues (Rs32.15bn) for the quarter declined 19.4% qoq, led by severe pressure on realization (blended), which was down 8% qoq to Rs3533/ton (our estimates Rs3604/t), and 12.4% qoq decline in volumes at 9.1 mt. White cement revenues stood at Rs970mn while RMC reported revenues of Rs2830mn.

Cost pressures drag EBITDA down by 59.2%- below estimates

EBITDA for the quarter at Rs4.07bn declined 59.2%qoq, below our estimates of Rs4.46bn. The quarter witnessed severe cost pressures as raw material costs per ton have increased 16.8% yoy to Rs 519/t whereas P&F per ton increased 19.8%yoy and 8% qoq to Rs 927/t(our estimate of Rs845/t). This was due to higher imported coal contract prices which rose from USD76 to USD110 increasing the cost. Employee costs increased 14.4%qoq to Rs1.9bn (our estimate of Rs1.66bn) and consequently total cost per tonne increased 7.2%qoq to Rs3085/t as against our estimate of Rs3036/t).

EBITDA/t at Rs448 down 53.4%qoq

With sharp fall in realization and escalating cost pressures, Ultratech's EBITDA/t at Rs 448 (our estimate of Rs491/t) declined 53.4%qoq. Overall EBITDA margins contracted 1237bps to 12.7%. These levels of profitability were last seen in FY2006 (EBITDA/t of Rs290).

Net Profit down 79.2%qoq

Net profit at Rs1.16bn, as against our estimate of Rs2.19bn, declined 79.2%qoq. Interest charges increased 7.4%qoq whereas depreciation increased 2.4%qoq.

Financial Snapshot

							Rs Mn			
YE-	Net	EBITDA		EPS	EPS	RoE	EV/		EV/T	
Mar	Sales	(Core)	(%)	(Rs)	% chg	(%)	P/E	EBITDA	(USD)	
FY09	63,831	17,041	26.7	9,770	78.5	-3.0	27.1	14.0	8.6	144.4
FY10	70,497	19,711	28.0	10,932	87.8	11.9	23.7	12.5	6.9	127.4
FY11E	151,720	31,109	20.5	14,974	54.8	-37.6	14.2	20.1	10.1	140.0
FY12E	170,143	37,044	21.8	18,140	66.4	21.1	14.8	16.6	8.6	135.0

Result Table

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	Q1FY11* (L to L)	QoQ (%)*	YTD'11	YTD'10	YoY (%)
Revenue	15,359	16,518	19,094	17,898	32,147	109.3	39,898	-19.4	50,045	34,887	43.4
Expenditure	10,657	12,682	15,067	13,841	28,069	163.4	29,901	-6.1	41,911	23,017	82.1
<i>as % of sales</i>	69%	77%	79%	77%	87%		75%		84%	66%	
Consumption of RM	1,157	2,539	3,322	2,219	4,416	281.8	4,712	-6.3	6,635	3,477	90.8
<i>as % of sales</i>	8%	15%	17%	12%	14%		12%		13%	10%	
Employee Expenses	646	623	660	695	1,911	195.7	1,670	14.4	2,605	1,235	110.9
<i>as % of sales</i>	4%	4%	3%	4%	6%		4%		5%	4%	
Power, Oil & Fuel	3,217	3,564	3,651	4,178	8,434	162.2	8,916	-5.4	12,612	7,092	77.8
<i>as % of sales</i>	21%	22%	19%	23%	26%		22%		25%	20%	
Freight & Handling	2862	2930	3485	3586	6505	127.3	7628	-14.7	10,091	5,911	70.7
<i>as % of sales</i>	19%	18%	18%	20%	20%		19%		20%	17%	
Other Expenses	2775	3027	3949	3164	6803	145.2	6975	-2.5	9,967	5,302	88.0
<i>as % of sales</i>	18%	18%	21%	18%	21%		17%		20%	15%	
EBITDA	4,703	3,836	4,027	4,057	4,078	-13.3	9,997	-59.2	8,135	11,870	-31.5
Depreciation	967	985	993	1016	2184	125.9	2132	2.4	3,199	1,903	68.2
EBIT	3,736	2,851	3,033	3,042	1,894	-49.3	7,865	-75.9	4,936	9,968	-50.5
Other Income	305	300	258	483	684	124.1	858	-20.3	1,167	647	80.3
Interest	299	262	285	279	845	182.9	787	7.4	1,124	628	78.8
PBT	3,742	2,888	3,007	3,246	1,733	-53.7	7,936	-78.2	4,979	9,987	-50.1
Total Tax	1234	928	721	819	575	-53.4	2359	-75.6	1,394	3,300	-57.8
Adjusted PAT	2509	1960	2286	2427	1158	-53.9	5577	-79.2	3,585	6,686	-46.4
Extra ordinary items									0	0	
Reported PAT	2509	1960	2286	2427	1158	-53.9	5577	-79.2	3,585	6,686	-46.4
(Profit)/loss from JV's/Ass/MI											
PAT after MI	2509	1960	2286	2427	1158	-53.9	5577	-79.2	3,585	6,686	-46.4
Reported EPS	20.2	15.7	18.4	19.7	9.4	-53.5	45.2	-79.2	29	54	-45.9

Margins (%)	bps						bps				
EBIDTA	30.6	23.2	21.1	22.7	12.7	-1793	25.1	-1237	16.3	34.0	-1777
EBIT	24.3	17.3	15.9	17.0	5.9	-1843	19.7	-1382	18.6	35.9	-1729
EBT	24.4	17.5	15.7	18.1	5.4	-1897	19.9	-1450	16.3	34.1	-1774
PAT	16.3	11.9	12.0	13.6	3.6	-1273	14.0	-1038	9.9	28.6	-1868
Effective Tax rate	33.0	32.1	24.0	25.2	33.2	23	29.7	347	7.2	19.2	-1200

*Note: QoQ comparison is on like to like basis

YoY figures are not comparable since Q2 nos are post merger with Samruddhi cement

Per tonne analysis

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	Q1FY11 (L to L)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Grey Cement Volumes (mn t)	4.2	5.0	5.7	5.1	9.1	118.8	10.4	-12.4	14.2	9.5	50.2
Raw Material Consumed	444	518	454	503	519	16.8	530	-2.0	465	465	0.0
Stock Adjustment	-166	-15	130	-70	-34	-79.6	-76	-55.6	-47	-67	30.6
Purchase of Finished Goods	29	22	51	64	25	-14.0	41	-39.4	39	25	57.7
Employee Expenses	155	123	116	136	210	35.2	161	30.7	183	130	40.5
Power, Oil & Fuel	773	706	642	816	927	19.8	858	8.0	887	749	18.4
Freight	688	580	613	700	715	3.9	734	-2.6	774	779	-0.7
Other Expenses	638	578	643	554	722	13.3	630	14.7	662	535	23.7
Total Cost per tonne	2562	2512	2648	2703	3085	20.4	2877	7.2	2963	2616	13.3
Realisation per tonne	3692	3272	3356	3496	3533	-4.3	3839	-8.0	3519	3684	-4.5
EBIDTA Per tonne	1130	760	708	792	448	-60.4	962	-53.4	556	1068	-47.9

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 on augmenting its grinding capacity in Gujarat, installing waste heat recovery systems and setting up of packaging terminals across locations. Also the capex plans entails setting up of clinkerization plants at Chhattisgarh and Karnataka. Consequent to these expansions total cement capacity additions will be 9.2 mtpa.

Amalgamation of Samruddhi and acquisition of ETA Star Cement

The amalgamation of Samruddhi Cement under the scheme of amalgamation has become effective from 1st August,2010. Further Ultratech Cement's wholly owned subsidiary 'UltraTech Cement Middle East Investments Limited' (UCMEIL), has completed the acquisition process of ETA star cement together with its operations in the UAE, Bahrain and Bangladesh. It has also acquired management control of ETA. ETA Star Cement's manufacturing facilities include a 2.3 mtpa clinkerisation plant and 2.1 mtpa of cement grinding capacity in the UAE, 0.4 mtpa and 0.5 mtpa of cement grinding capacity in Bahrain and Bangladesh respectively. Post the merger of Samruddhi cement and acquisition of ETA Star Cement UTCL's capacity now stands at 52 mtpa.

Downgrade earnings

On account of slower pick up in volumes, lower than expected cement realizations and severe cost pressures, we are downgrading our earnings estimates for UTCL by 16.2% for FY11 (EPS of Rs54.8) and by 8.3% for FY12 (EPS of Rs66.4)

	Earlier	Revised	change	Earlier	Revised	change
Sales	158568	151720	-4.3%	176359	170143	-3.5%
EBIDTA	34992	31109	-11.1%	39350	37044	-5.9%
EBIDTA (%)	22.1	20.5		22.3	21.8	
Net Profit	17871	14974	-16.2%	19777	18140	-8.3%
EPS	65.4	54.8	-16.2%	72.4	66.4	-8.3%

Expect worst to be over for UTCL...

As mentioned earlier UTCL Q2FY10 EBIDTA/t of Rs448 is the lowest level of profitability since FY2006. With the sector profitability reaching abysmally low levels we have seen emergence of producers understanding and pricing discipline. This is has to cement prices being hiked by Rs15-35/bag across various regions. Prices in the southern region have been hiked by close to Rs50-60/bag. With recent price taken by cement producer across country, we estimate average cement prices have reached ~Rs235-237/bag. Our FY12E numbers for Ultratech are modeled at ~Rs234/bag. Hence even if the prices decline we do not see material downgrade to estimates. Hence we believe that the worst is possibly over for UTCL, as far as profitability is concerned.

...however valuations leaves limited upside – Maintain REDUCE

We are increasing our target price for Ultratech to Rs1040 as compared to Rs880 earlier. We have valued Ultratech at an EV/ton of USD130 and EV/EBITDA of 8X. The increase in our target price is driven by rollover of valuation to FY12 numbers and marginal increase in multiples. However, with the stock trading at PER of 16.6X, 8.6X EV/EBITDA and EV/ton of USD135 on FY12 numbers, we see limited upside for the stock. Maintain REDUCE.

Financials

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Sales	63,831	70,497	151,720	79,387
Growth (%)	15.9	10.4	115.2	(47.7)
Total Expenditure	46,873	50,827	120,655	133,147
Raw Materials Cost	6,850	9,606	9,919	11,820
Power & Fuel cost	17,270	14,309	16,638	18,520
Freight	12,211	13,729	15,027	17,221
Others	10,543	13,182	13,230	13,859
EBIDTA	17,041	19,711	31,109	37,044
Growth (%)	(1.3)	15.7	57.8	19.1
EBIDTA %	26.7	28.0	20.5	46.7
Depreciation	3,230	3,881	8,884	10,232
EBIT	13,811	15,830	22,225	26,812
EBIT Margin (%)	21.6	22.5	14.6	33.8
Other income	1,058	1,227	3,007	3,468
Interest	1,255	1,175	3,337	3,571
EBT	13,615	15,882	21,896	26,709
Tax	3,844	4,949	6,921	8,569
Effective tax rate (%)	28.2	31.2	31.6	32.1
Adjusted PAT	9,770	10,932	14,974	18,140
Growth (%)	(3.0)	11.9	37.0	21.1
Net Margin (%)	15.3	15.5	9.9	22.9
E/O items				
Reported PAT	9,770	10,932	14,974	18,140
(Profit)/loss from JV's/Ass/MI				
PAT after MI	9,770	10,932	14,974	18,140
Growth (%)	(3.0)	11.9	37.0	21.1

Cash Flow

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	12,556	14,655	18,888	23,241
Depreciation	3,230	3,881	8,884	10,232
Interest Provided	1,255	1,175	3,337	3,571
Other Non-Cash items				
Chg in working cap	-803	-1,360	15,281	7,702
Tax paid	3,844	4,949	6,921	8,569
Operating Cashflow	12,197	13,453	39,140	36,074
Capital expenditure	-8,226	-2,592	-40,530	-37,820
Free Cash Flow	3,972	4,513	-1,390	-1,746
Other income	1,058	1,227	3,007	3,468
Investments		-635	0	0
Investing Cashflow	-8,226	-8,940	-40,530	-37,820
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	4,011	-5,371	3,000	5,000
Interest Paid				
Dividend paid (incl tax)	-728	-871	-1,405	-1,405
Income from investments				
Others				
Financing Cashflow	3,283	-6,242	1,595	3,595
Net chg in cash	7,255	-1,729	205	1,849
Opening cash position	1,007	1,045	837	1,952
Closing cash position	1,045	837	1,952	3,801

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	102,279	119,014
Shareholders Funds	36,021	46,087	105,515	122,250
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	167,476	189,211
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	27,787	31,605
Inventories	6,920	8,217	12,470	13,984
Sundry Debtors	1,939	2,158	3,741	4,195
Cash and Bank	1,045	837	1,952	3,801
Loans and Advances	3,816	3,511	9,624	9,624
Other current assets				
Current Liab & Prov	12,531	12,991	41,514	51,184
Current liabilities	11,209	11,381	37,410	47,081
Provisions	1,322	1,610	4,103	4,103
Net current assets	1,189	1,733	-13,727	-19,579
Miscellaneous Exps	0	0	0	0
Total Assets	64,667	70,439	167,476	189,211

Key Ratios

	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	26.7	28.0	20.5	46.7
Net Margin	15.3	15.5	9.9	22.9
ROCE	26.0	25.2	21.2	17.0
ROE	31.0	26.6	14.2	14.8
RoIC	39.0	32.7	30.7	25.2
Per Share Data (Rs)				
EPS	77.4	86.4	54.8	66.4
CEPS	103.0	117.1	87.3	103.8
BVPS	285.5	364.4	386.2	447.4
DPS	4.9	5.9	4.4	4.4
Valuations (x)				
PER	14.2	12.7	20.1	16.6
P/CEPS	10.7	9.4	12.6	10.6
P/BV	3.9	3.0	2.8	2.5
EV / Sales	2.3	2.0	2.1	1.9
EV / EBITDA	8.7	7.0	10.1	8.6
Dividend Yield (%)	0.4	0.5	0.4	0.4
Gearing Ratio (x)				
Net Debt/ Equity	0.3	0.0	0.4	0.4
Net Debt/EBIDTA	0.6	-0.1	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
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
16/10/2009	Ultratech Cement Ltd Q2FY10 Result Update	Buy	827	950

Recent Research Reports

Date	Reports	Reco	CMP	Target
21/10/2010	Ambuja Cement Q3CY10 Result Update	Hold	142	130
21/10/2010	ACC Q3CY10 Result Update	Accumulate	983	1,035
08/09/2010	Cement Sector Update			
17/08/2010	Shree Cement Q1FY11 Result Update	Accumulate	1,805	2,200

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