

UltraTech Cement

Vishal Mishra

+91 22 67069943

vishal.mishra@investsmartindia.com

Shareholding (%)

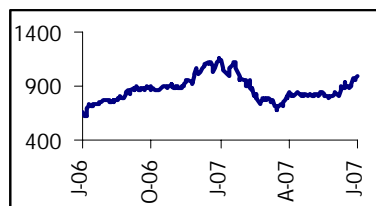
Promoters	53.1
FII's	9.2
Insurance Co.	6.4
Others	31.3

Share price performance

52-week high/low (Rs)	1250/600		
	-1m	-3m	-12m
Abs (%)	17.5	17.4	49.4
Rel* (%)	10.0	5.6	-1.6

*to Nifty

Stock chart



Higher realisation drives topline; margin expands

UltraTech Cement Ltd. (UCL) reported impressive growth in Q1FY08, buoyed by sharp increase in cement prices. Net sales during the quarter was up 15.7% YoY (due to higher realisation), while it was lower by 6.8% QoQ (due to lower domestic sales volume). Operating profit margin expanded during the quarter to 31.8%.

At Rs989, UCL is trading at a P/E and EV/EBIDTA of 12.2x and 7.6x FY08E respectively. On an EV/tonne basis, the company is trading at US\$192.9 per tonne. The current cement demand-supply scenario and capacity expansion expected going forward merit firm cement prices until Q2FY09. Subsequently, with fresh capacities becoming operational, cement prices may come under pressure. However, de-bottlenecking exercise and cost reduction initiatives being taken by the company will drive growth going forward. Hence, we maintain 'Accumulate' rating on the stock.

Key highlights of Q1FY08 results are:

- ▲ **Higher realisation drives topline growth:** During Q1FY08, UCL reported an impressive 15.7% YoY growth in net sales to Rs13.7bn. Growth was driven by 5.5% higher domestic sales volume and 10.7% higher domestic cement realisation. However, on QoQ basis, net sales were lower by 6.8% on the back of a 4.9% decline in domestic volume. Though, domestic cement realisation was higher by 2.9% to Rs3,100 per tonne. During the quarter, effective capacity utilisation stood at 104%.
- ▲ **Margin expands to 31.8%:** A 10.7% YoY increase in cement price has enabled UCL to report 10 basis points improvement in operating profit margin to 31.8%. Even on QoQ basis, operating profit margin expanded by 390 basis points. The increase was despite a 11% QoQ increase in cost of production. Due to higher coal prices, UCL's power and fuel costs increased by 22% QoQ.

Accumulate
Rs989

July 23, 2007

Market cap

Rs bn 123

US\$ mn 3,038

Avg 3m daily volume

130,548

Avg 3m daily value

US\$ Mn 3

Shares outstanding (mn)

124

Reuters

ULTC.BO/ULTRACEMCO.NS

Bloomberg

utcem IN

Sensex

15,566

Nifty

4,566

UltraTech Cement

- ▲ **Net profit at Rs2.6bn:** With operating profit increasing by 15.7% YoY and 6.1% QoQ, coupled with lower capital charges (interest and depreciation), UCL has reported 23% YoY and 12% QoQ increase in net profit to Rs2.6bn.
- ▲ **Capacity expansion plans:** UCL has outlined a capex plan of Rs33bn over the next three years. The scope of 4mn tonne project at Tadpatri, with split grinding unit, has been augmented to 4.9mn tonne. The company's captive power plants in Chhattisgarh and Gujarat are progressing as per schedule and the company expects the power plant in Gujarat to be operational by Q4FY08. UCL has also decided to set up a 33MW TPP at Awarpur in Maharashtra and is also augmenting its grinding capacity in Gujarat by 2mn tonne. The company is also setting up ready-mix concrete (RMC) plants across the country.
- ▲ **Valuation:** At Rs989, UCL is trading at a P/E and EV/EBIDTA of 12.2x and 7.6x FY08E respectively. On an EV/tonne basis, the company is trading at US\$192.9 per tonne. The current cement demand-supply scenario and capacity expansion expected going forward merit firm cement prices until Q2FY09. Subsequently, with fresh capacities becoming operational, cement prices may come under pressure. However, de-bottlenecking exercise and cost reduction initiatives being taken by the company will drive growth going forward. Hence, we maintain 'Accumulate' rating on the stock.

UltraTech Cement

Table 1. Quarterly result table

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Net Sales	13,652.7	11,803.2	15.7	14,655.2	(6.8)
Total Expenses	9,317.4	8,057.4	15.6	10,570.0	(11.9)
Inc / Dec in stock	133.2	(99.0)	(234.5)	395.6	(66.3)
Raw material	1,174.6	909.0	29.2	1,133.2	3.7
Purchase of finished goods	136.1	257.7	(47.2)	834.8	(83.7)
Power & Fuel	3,028.1	2,855.5	6.0	3,149.6	(3.9)
Staff cost	314.1	275.0	14.2	287.6	9.2
Freight	2,756.5	2,455.4	12.3	3,112.4	(11.4)
Other Expenses	1,774.8	1,403.8	26.4	1,656.8	7.1
EBIDTA	4,335.3	3,745.8	15.7	4,085.2	6.1
EBIDTA %	31.8%	31.7%		27.9%	
Other Income	268.9	134.0	100.7	194.8	38.0
Interest	201.5	225.9	(10.8)	203.4	(0.9)
Depreciation	558.6	543.5	2.8	600.6	(7.0)
PBT	3,844.1	3,110.4	23.6	3,476.0	10.6
EO Items	-	-		-	
Tax	1,250.3	1,002.0	24.8	1,160.6	7.7
PAT	2,593.8	2,108.4	23.0	2,315.4	12.0
Adjusted PAT	2,593.8	2,108.4	23.0	2,315.4	12.0
Adjusted EPS	20.8	16.9	23.0	18.6	12.0
Key Ratios (%)					
EBIDTA margin	31.8	31.7		27.9	
Interest / Sales	1.5	1.9		1.4	
Tax / PBT	32.5	32.2		33.4	
NPM	19.0	17.9		15.8	

Source: IISL research, company

Financials

Profit & Loss					Balance Sheet				
In Rs million	FY06	FY07	FY08E	FY09E	In Rs million	FY06	FY07	FY08E	FY09E
Net sales	32,994.5	49,108.3	54,804.0	59,918.4	Equity capital	1,244.0	1,244.9	1,244.9	1,244.9
YoY (%)	26.6	48.8	11.6	9.3	Preference capital	0.0	0.0	0.0	0.0
Total expenses	27,451.9	34,930.2	36,992.5	41,513.8	Reserves	9,138.7	16,392.9	25,350.3	34,472.6
Inc/dec in stock	(391.2)	325.4	0.0	0.0	Net worth	10,382.7	17,637.8	26,595.2	35,717.5
Raw material cost	2,841.1	3,929.9	4,782.3	5,581.3					
Staff costs	922.6	1,172.2	1,233.0	1,361.0	Total borrowings	14,518.3	15,786.3	15,486.3	14,486.3
Power and fuel cost	9,101.1	11,383.2	12,143.1	13,228.8	Deferred tax	5,769.6	5,602.6	5,386.8	5,166.9
Freight cost	7,630.8	10,138.6	11,440.1	13,498.4	Total liabilities	30,670.6	39,026.7	47,468.3	55,370.7
Other expenses	4,694.3	6,156.6	6,869.6	7,715.8					
EBIDTA	5,542.6	14,178.1	17,811.6	18,404.6	Gross block	46,053.8	47,847.0	57,347.0	65,847.0
YoY (%)	58.0	155.8	25.6	3.3	Less: Acc. depreciation	20,682.1	22,674.2	25,208.8	28,177.1
EBIDTA (%)	16.8	28.9	32.5	30.7	Net block	25,371.7	25,172.8	32,138.2	37,669.9
Other income	370.0	614.6	676.1	743.7	CWIP	1,410.3	6,969.5	6,969.5	6,969.5
PBIDT	5,912.6	14,792.7	18,487.6	19,148.3					
Interest	896.4	868.3	884.7	823.4	Investments	1,723.9	4,834.5	4,834.5	4,834.5
Gross profit	5,016.2	13,924.4	17,602.9	18,324.9	Current assets	7,725.2	9,601.7	12,098.9	15,423.3
Depreciation	2,160.3	2,262.5	2,534.6	2,968.3	Inventories	3,795.7	4,335.8	4,838.7	5,290.2
PBT and extra ordinary	2,855.9	11,661.9	15,068.3	15,356.6	Debtors	1,725.5	1,835.0	2,047.8	2,238.9
Extra ordinary items	0.0	0.0	0.0	0.0	Cash	616.0	895.9	2,427.4	4,859.1
PBT	2,855.9	11,661.9	15,068.3	15,356.6	Loans and advances	1,588.0	2,535.0	2,785.0	3,035.0
(-) Tax	558.3	3,839.1	4,960.5	5,055.4	Current liabilities	5,168.7	7,367.1	7,802.1	8,755.6
Tax/ PBT	19.5	32.9	32.9	32.9	Provisions	391.8	184.7	770.8	770.8
PAT	2297.6	7822.8	10107.8	10301.2	Net current assets	2,164.7	2,049.9	3,526.1	5,896.8
Adjusted net profit	2297.6	7822.8	10107.8	10301.2	Miscellaneous expenses	0.0	0.0	0.0	0.0
YoY (%)	159.5	240.5	29.2	1.9	Total assets	30,670.6	39,026.7	47,468.3	55,370.7

Key Ratios					Cash Flow				
	FY06	FY07	FY08E	FY09E	In Rs million	FY06	FY07	FY08E	FY09E
EPS (Rs)	18.5	62.8	81.2	82.7	Net profit	2,297.6	7,822.8	10,107.8	10,301.2
Adjusted EPS (Rs)	18.5	62.8	81.2	82.7	Depn and w/o	2,160.3	2,262.5	2,534.6	2,968.3
CEPS (Rs)	35.5	79.7	99.8	104.8	Deferred tax	(47.5)	(167.0)	(215.8)	(219.9)
Book value (Rs)	83.5	141.7	213.6	286.9	Change in working cap	1,872.2	394.7	55.3	60.9
Dividend per share (Rs)	1.75	4.00	8.10	8.30	Other income	(370.0)	(614.6)	(676.1)	(743.7)
Debt-equity (x)	1.4	0.9	0.6	0.4	Operating cash flow	5,912.6	9,698.4	11,805.9	12,366.9
ROCE	12.0	36.0	36.9	31.5					
ROE	21.8	55.8	45.7	33.1	Other income	370.0	614.6	676.1	743.7
					Capex	(3,939.4)	(7,352.4)	(9,500.0)	(8,500.0)
Valuations					Investments	124.0	(3,110.6)	0.0	0.0
PE (x)	53.5	15.7	12.2	11.9	Investing cash flow	(3,445.4)	(9,848.4)	(8,823.9)	(7,756.3)
Cash PE (x)	27.9	12.4	9.9	9.4					
Price/cash flows (x)	20.8	12.7	10.4	10.0	Dividend	(248.5)	(567.7)	(1,150.4)	(1,178.9)
Price/book value (x)	11.8	7.0	4.6	3.4	Fresh equity	0.0	0.9	0.0	0.0
Dividend yield	0.2	0.4	0.8	0.8	Debt	(795.5)	1,268.0	(300.0)	(1,000.0)
Market cap/sales	3.7	2.5	2.2	2.1	Financing cash flow	(1,044.0)	701.2	(1,450.4)	(2,178.9)
EV/sales (x)	4.1	2.8	2.5	2.2	Others	(1,369.8)	(271.3)	0.0	0.0
EV/EBDITA (x)	24.7	9.7	7.6	7.2	Opening cash	562.6	616.0	895.9	2,427.4
EV/tonne (USD)	182.0	188.7	192.9	159.9	Closing cash	616.0	895.9	2,427.4	4,859.1

IISL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report or may make sale or purchase or other deals in the securities from time to time or may deal in other securities of the companies/ organizations described in this report

Certification of Research Analyst

I, Vishal Mishra, hereby certify that: the views expressed in the attached research report accurately reflect my personal views about UltraTech Cement and its securities, and my compensation is not directly or indirectly, related to the specific views or recommendations expressed in the research report.

Disclaimer Clause

This report has been prepared by the Research Department of IL&FS Investsmart Securities Limited (IISL). E*TRADE Financial Corporation holds an equity interest in IISL. E*TRADE and the asterisk logo are registered trademarks of E*TRADE Financial Corporation or its subsidiaries and are used with permission.

The information and opinions contained herein have been compiled or arrived at based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This report has been produced independently of any company or companies mentioned herein, and forward looking statements, opinions and expectations contained herein are entirely those of IISL and given as part of its normal research activity and not as a Manager or Underwriter of any Offering or as an agent of the subject company (the "Company") or any other person. Accordingly if any such Company should at any time commence an Offering of securities, any decision to invest in any such Offer or invitation to subscribe for or acquire securities of any such Company must be based wholly on the information contained in the Final Prospectus issued or to be issued by any such Company in connection with any such Offer or invitation and not on the contents hereof. This document is for information purposes only and is provided on an "as is" basis. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. We are not soliciting any action based on this research report.

IISL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of the shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or would subject IISL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purpose without prior written approval of IISL.

Foreign currency denominated securities, if any, wherever mentioned are subject to exchange rate fluctuations which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs or GDRs, the values of which are influenced by foreign currencies effectively assume currency risk. Certain transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors.

This research report is for the general information and does not take into account the particular investment objectives, financial situation or needs of any individual customer, and it does not constitute a personalized recommendation of any particular security or investment strategy. Before acting on any advice or recommendation in this research report, a customer should consider whether it is suitable given the customer's particular circumstances and, if necessary, seek professional advice. Certain transactions, including those involving futures, options, and high yield securities, give rise to substantial risk and are not suitable for all investors.

E*TRADE Capital Markets, LLC, E*TRADE Canada Securities Corporation, E*TRADE Securities Limited and E*TRADE Securities (Hong Kong) Limited (together with E*TRADE Financial Corporation and collectively "E*TRADE") do not represent or endorse the accuracy or reliability of any of the information or content of the research report and reliance upon it is at your own risk. E*TRADE expressly disclaims any and all warranties, express or implied, including without limitation warranties of merchantability and fitness for a particular purpose with respect to the research report and any information in it. E*TRADE shall not be liable for any direct, indirect, incidental, punitive or consequential damages of any kind with respect to the research report.

Distribution of this report into the United States is intended to be solely to "major U.S. institutional investors" pursuant to Rule 15a-6 under the U.S. Securities Exchange Act 1934, as amended. All U.S. persons that receive this report, by their acceptance thereof, represent and agree that they are a major U.S. institutional investor and understand the risks associated in executing transactions in securities. U.S. persons wishing to obtain further information or effect transactions in any securities mentioned in the attached report should contact E*TRADE Capital Markets, LLC, 135 East 57th Street, 14th Floor, New York, NY 10022, Telephone Number- 646-840-8730, Fax - 646-840-8701.

Research, analysis, charting, reports, estimates, commentary, information, data, views, opinions, news and other content (collectively, the "Research") provided to you by E*TRADE Canada Securities Corporation ("E*TRADE Canada") is for informational purposes only. The Research provided herein by E*TRADE Canada has been prepared by IISL, but such research has been prepared independently from E*TRADE Canada and its employees. Accordingly, the Research may not have been, and no representation is made that such Research has been, prepared in accordance with Canadian disclosure requirements. Neither the Research nor the profiles of the third party research providers have been endorsed or approved by E*TRADE Canada, and E*TRADE Canada is not responsible for the content thereof or for any third party products or services. Some Research may contain financial information, but nothing in the Research constitutes a recommendation by E*TRADE Canada to buy, sell or hold any security discussed therein, and the Research neither is, nor should it be construed as, an offer or a solicitation of an offer to buy or sell securities by E*TRADE Canada. E*TRADE Canada does not provide investment advice or recommendations of any kind, nor advice regarding the suitability or profitability of any investment. You are fully responsible for any investment decisions that you make and any profits or losses that may result. Any opinions, views, advice, services or other content provided by a third party are solely those of such third party, and E*TRADE Canada neither endorses nor accepts any liability in respect thereof.

E*TRADE Securities Limited is a company registered in Scotland No. SC103238 with its principal place of business at 42nd Floor, One Canada Square, London E14 5AA, United Kingdom. Registered Office: 24 Great King Street, Edinburgh EH3 6QN, United Kingdom. E*TRADE Securities Limited is a member of the London Stock Exchange and is authorised and regulated by the Financial Services Authority.

E*TRADE Securities (Hong Kong) Limited is licensed by the Hong Kong Securities & Futures Commission under Central Entity Number: ACT 764. Registered Office: Suite 2401-12 Two Pacific Place, 88 Queensway, Admiralty, Hong Kong.