

In-line results, growth to continue

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Strong 3Q FY07 results, in-line with expectations

UltraTech reported 3Q FY07 profit at Rs2.1bn, up 790% YoY and 67% QoQ. Results were in-line with our expectations. Profit growth was led by a combination of strong price realizations (+36% YoY, +3% QoQ), higher volumes (+18% YoY, +22% QoQ), and lower costs (-4%) on a QoQ basis. Our conversation with the company indicates that in addition to higher domestic cement prices, export realizations were also strong, both YoY and QoQ. Overall EBITDA/ton for the quarter was ~Rs846, up 23% QoQ.

Strong FY08E earnings outlook, still early to exit

We forecast UltraTech's FY08E earnings to grow 28% YoY and believe it is still early to exit the stock. Overall, we expect the Indian cement industry to ride at least two strong seasons (Jan-Jun) of demand before supply starts to balloon. We see room for upside surprise in cement prices given forecast tight capacity utilization for the industry at ~90% over the next 12-18 months.

Maintain Buy, PO at Rs1350/sh

Our price target of Rs1350/sh puts UltraTech at an EV/EBITDA of ~10-11x FY08E. This is based on a 20-25% discount versus valuations during the previous cyclical peak for cement in FY94-96. We think the discount captures risk of valuation compression as we move towards an expected cyclical reversal in FY09E.

Capex program on track

Alongwith 3Q results, UltraTech re-iterated that its capex program is on track, especially with regard to targeted commissioning of its 4mn tpa capacity expansion in 2008. We estimate UltraTech's total capex over FY07-09E at ~Rs29bn.

Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	380	2,016	7,641	9,762	6,379
EPS	3.06	16.20	61.38	78.42	51.24
EPS Change (YoY)	-2.1%	429.8%	279.0%	27.8%	-34.7%
Dividend / Share	0.750	3.24	12.28	15.70	10.25
Free Cash Flow / Share	2.37	6.62	(14.23)	(27.12)	44.95

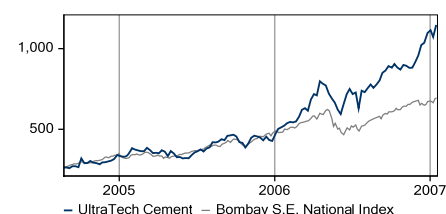
Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	375.06x	70.79x	18.68x	14.62x	22.38x
Dividend Yield	0.065%	0.283%	1.07%	1.37%	0.894%
EV / EBITDA*	45.06x	28.05x	11.50x	9.26x	11.16x
Free Cash Flow Yield*	0.207%	0.578%	-1.24%	-2.37%	3.92%

* For full definitions of *iQmethod*SM measures, see page 5.

Stock Data

Price	Rs1,147
Price Objective	Rs1,350
Date Established	8-Jan-2007
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	Rs492.25-Rs1,205
Mrkt Val / Shares Out (mn)	US\$3,218 / 124.4
Average Daily Volume	33,567
ML Symbol / Exchange	XDJNF / BSE
Bloomberg / Reuters	UTCEN IN / ULTC.BO
ROE (2007E)	49.4%
Net Dbt to Eqty (Mar-2006A)	112.6%
Est. 5-Yr EPS / DPS Growth	10.0% / 15.0%
Free Float	49.0%



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Refer to important disclosures on page 6 to 7. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM UltraTech Cement Ltd.

Key Income Statement Data (Mar)	2005A	2006A	2007E	2008E	2009E
(Rs Millions)					
Sales	26,811	32,995	46,942	53,227	51,558
Gross Profit	1,462	3,401	11,750	14,672	10,782
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	1,462	3,401	11,750	14,672	10,782
Net Interest & Other Income	(1,032)	(896)	(914)	(914)	(1,866)
Associates	0	0	0	0	0
Pretax Income	616	2,875	11,320	14,356	9,592
Tax (expense) / Benefit	(236)	(858)	(3,679)	(4,594)	(3,213)
Net Income (Adjusted)	380	2,016	7,641	9,762	6,379
Average Fully Diluted Shares Outstanding	124	124	124	124	124

Key Cash Flow Statement Data

Net Income (Reported)	380	2,016	7,641	9,762	6,379
Depreciation & Amortization	2,034	2,142	2,187	2,641	3,410
Change in Working Capital	(1,103)	(687)	(1,600)	(733)	132
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(532)	(48)	0	(57)	(484)
Cash Flow from Operations	780	3,424	8,229	11,614	9,436
Capital Expenditure	(486)	(2,600)	(10,000)	(14,990)	(3,841)
(Acquisition) / Disposal of Investments	533	0	0	0	0
Other Cash Inflow / (Outflow)	(352)	283	0	0	0
Cash Flow from Investing	(304)	(2,318)	(10,000)	(14,990)	(3,841)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(105)	(454)	(1,719)	(2,197)	(1,435)
Cash Flow from Financing	(332)	184	3,955	5,757	(4,008)
Free Cash Flow	295	824	(1,771)	(3,376)	5,596
Net Debt	14,751	14,098	17,489	23,156	19,032
Change in Net Debt	(371)	(653)	3,490	5,572	(4,160)

Key Balance Sheet Data

Property, Plant & Equipment	25,971	26,429	34,241	46,589	47,020
Other Non-Current Assets	1,848	1,848	1,848	1,848	1,848
Trade Receivables	1,720	2,065	2,869	3,237	3,171
Cash & Equivalents	563	1,854	4,137	6,424	7,975
Other Current Assets	6,094	7,318	10,168	11,473	11,238
Total Assets	36,195	39,512	53,262	69,571	71,251
Long-Term Debt	12,870	13,508	19,182	27,136	24,563
Other Non-Current Liabilities	5,817	5,770	5,770	5,713	5,229
Short-Term Debt	2,443	2,443	2,443	2,443	2,443
Other Current Liabilities	4,393	5,275	7,329	8,270	8,101
Total Liabilities	25,524	26,996	34,725	43,563	40,336
Total Equity	10,671	12,516	18,438	26,004	30,948
Total Equity & Liabilities	36,195	39,513	53,163	69,567	71,284

iQmethodSM - Bus Performance*

Return On Capital Employed	3.2%	8.0%	20.6%	19.4%	12.2%
Return On Equity	3.6%	17.4%	49.4%	43.9%	22.4%
Operating Margin	5.5%	10.3%	25.0%	27.6%	20.9%
EBITDA Margin	13.7%	17.9%	30.7%	33.7%	28.8%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	2.1x	1.7x	1.1x	1.2x	1.5x
Asset Replacement Ratio	0.2x	1.2x	4.6x	5.7x	1.1x
Tax Rate (Reported)	38.2%	29.9%	32.5%	32.0%	33.5%
Net Debt-to-Equity Ratio	138.2%	112.6%	94.9%	89.0%	61.5%
Interest Cover	1.6x	4.2x	13.4x	16.7x	6.1x

Key Metrics

* For full definitions of iQmethodSM measures, see page 5.

Company Description

UltraTech is a 51% subsidiary of Grasim and was formed in 2004 via a demerger of L&T Cement, the cement division of the engineering company Larsen & Toubro. UltraTech is one of the largest cement companies in India with annual cement capacity of 17mn tons. It has 10 cement plants in all the regions of India, except the Northern region. It is also one of the largest exporters of cement and clinker.

Stock Data

Price to Book Value 7.7x

Table 1: 3Q FY07 results summary

Yr to 31 Mar	3Q FY06A	2Q FY07A	3Q FY07A	YoY Chng	QoQ chng
Total volumes (mn tons)	3.8	3.7	4.5	18%	22%
<i>Rs mn</i>					
Net Turnover	7886	10045	12605	60%	25%
Operating costs	6,783	7501	8802	30%	17%
EBDIT	1103	2545	3802	245%	49%
<i>EBDIT margin</i>	14.0%	25.3%	30.2%		
Depreciation	515	547	571	11%	4%
Operating profit	588	1998	3231	450%	62%
Other income	71	119	167	135%	40%
EBIT	659	2117	3398	416%	61%
Interest	228	237	202	-11%	-15%
Profit before tax	431	1879	3196	642%	70%
Tax	192	605	1072	457%	77%
Recurring net profit	239	1274	2125	790%	67%
<i>Net Margin</i>	3.0%	12.7%	16.9%		
Non-recurring items					
Reported net profit	239	1274	2125	790%	67%

*3Q FY06 numbers are not re-stated for Narmada Cement merger. Source: Company

Price Objective Basis & Risk

Our price target of Rs1350/sh puts UltraTech at an EV/EBITDA of ~10-11x FY08E. This is based on a 20-25% discount versus valuations during the previous cyclical peak for cement in FY94-96. We think the discount captures risk of valuation compression as we move towards an expected cyclical reversal in FY09E.

Key risks to our positive outlook stem from 1) unforeseen cost pressures and 2) unexpected government intervention in cement pricing.

Analyst Certification

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iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	32	47.76%	Buy	7	21.88%
Neutral	31	46.27%	Neutral	7	22.58%
Sell	4	5.97%	Sell	0	0.00%

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1306	42.74%	Buy	406	31.09%
Neutral	1509	49.38%	Neutral	446	29.56%
Sell	241	7.89%	Sell	53	21.99%

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