

23 April 2007

Reduce

Price Target Price

Rs 809 **Rs 800****Sensex - 13,928****Price Performance**

(%)	1M	3M	6M	12M
Absolute	3	(28)	(7)	2
Rel. to Sensex	(2)	(27)	(16)	(12)

Source: Bloomberg

Stock Details

Sector	Cement
Reuters	ULTC.BO
Bloomberg	UTCEM@IN
Equity Capital (Rs mn)	1245
Face Value (Rs)	10
52 Week H/L (Rs)	1205/501
Market Cap (Rs bn)	100.7
Daily Avg Vol (No of shares)	150727
Daily Avg Turnover (US\$ mn)	3.1

Shareholding Pattern (%)

(31st Mar.'07)

Promoters	53.0
FII/NRI	10.3
Institutions	8.0
Private Corp	13.6
Public	15.1

Source: Capitaline

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Ultratech Cement

Results

Below expectations

Ultratech Cements Ltd (UTCL) Q42007 net profit at Rs2.31 billion is below our expectations primarily because of higher than expected freight cost and lower than expected margins on account of higher clinker sales. Revenues for the quarter grew by a very healthy 43.3% to Rs14.65 billion driven by 32% improvement in cement realisation and 9% growth in cement volumes. Operating profit for the quarter though grew by a 113%, the same was below expectations for the reasons mentioned above. Consequently the OPMs though up by 911 bps on a yoy basis, declined by 230 bps to 27.9% for the quarter. Net profit for the quarter stood at Rs2.31 billion up 184% yoy and the same was below expectations. At the current market price of Rs809, UTCL is trading at 11.5x its FY2008 earnings and 10.5x its FY2009 earnings. On EV per tonne basis the stock quotes at USD 148 for FY2008 and USD 116 for FY2009. The valuations though not significantly expensive do not provide much head room on account of significant capacity additions of 70 million tonnes lined up by the industry over next two year. This we believe would disturb the demand supply equation and would weaken pricing power of cement producers. Moreover with UTCL amongst the most leveraged company to cement prices the company's earnings in a downturn scenario would suffer the most. We expect UTCL earnings to register a 11% CAGR over FY2007-09E. We maintain our REDUCE rating on the stock with a price target of Rs800.

Result Highlights HFCL and Qualcomm signs deal to manufacture CDMA handsets

- Ultratech Cements (UTCL) Q42007 net profit at Rs2.31 billion is below our expectations primarily because of higher than expected freight cost and lower than expected margins on account of higher clinker sales. Clinker sales during the quarter formed 12% of the total sales as compared to 4% during Q4FY2006. As margins in clinker sales are lower as compared to cement, the overall margins were subdued on sequential basis. The OPMs also took a hit as freight cost jumped 45% yoy and 11% QoQ as dispatches through road were higher as compared to dispatches through railways.
- UTCL net revenues for the quarter grew by a healthy 43.3% to Rs14.65 billion driven by 32% improvement in cement realisation (Cement realisation stood at Rs2908 per tonne) and 9% growth in cement volumes. The volume growth was a result of better utilisation which stood at 113% as compared to 102% for Q4FY2006.
- Operating profit for the quarter though grew by a 113%, the same was below expectations primarily because of higher than expected freight cost. Freight cost per tonne jumped 45% yoy and 11% QoQ as dispatches through road were higher as compared to dispatches through railways. The power and fuel cost jumped 29% yoy as coal as well as diesel and furnace oil prices increased. UTCL raw material cost jumped significantly by 36% primarily because of higher fuel cost which is used as input in mining equipment and also because of higher freight cost. The raw material cost jumped even as UTCL increased the share of blended cement sales from 51% to 60%.
- Consequently the OPMs though up by 911 bps on a yoy basis, declined by 230 bps to 27.9%.
- Other income jumped 181% as company utilised surplus cash for high yield investments.
- The net profit for the quarter at Rs2.31 billion jumped 184% yoy and the same was below expectations.

Q42007 and FY2007 developments

UTCL has lined up mega capex plan of Rs14.24 bn. This plan entails setting up of a 92 MW multi fuel CPP at its Pipavav plant to replace high cost power generated by Naptha based power plant and a 46 MW CPP at its Chattisgarh plant which will replace the power purchased through grid. The Pipavav plant is expected to get commissioned by March 2008 and the Chattisgarh plant by June 2008. The new 4 mn tonne plant at Tadpatri Andhra Pradesh (AP) would also commission in March 2008.

In line with strategy of other cement manufacturers, UTCL is also setting up RMC plants to capture the potential of this construction material.

UTCL blended cement project at AP has been granted CERs by the UNFCC. Another project where in UTCL will be utilising the clinker cooler waste gases to generate power has been completed and is in the final stages of validation and verification by UNFCC for granting of CERs.

Valuations

As mentioned earlier UTCL results are below expectations. However we are not changing our earnings estimates for UTCL as the capacity utilisation is ahead of our expectations and the higher freight cost for the quarter is just an aberration. At the current market price of Rs809, UTCL is trading at 11.5x its FY2008 earnings and 10.5x its FY2009 earnings. On EV per tonne basis the stock quotes at USD 148 for FY2008 and USD 116 for FY2009. The valuations though not significantly expensive do not provide much head room on account of significant capacity additions of 70 million tonnes lined up by the industry over next two year. This we believe would disturb the demand supply equation and would weaken pricing power of cement producers. Moreover with UTCL amongst the most leveraged company to cement prices the company's earnings in a downturn scenario would suffer the most. We expect UTCL earnings to register a decline of 11% CAGR over FY2007-09E. We maintain our REDUCE rating on the stock with a price target of Rs800.

Results Table

Rs millions	Q407	Q406	VAR [%]	FY2007	FY2006	VAR [%]
Net Sales	14655.2	10223.6	43.3	49107.9	32548.4	50.9
Total Expenditure	10570	8305.4	27.3	34929.5	27384.8	27.6
Raw Material Consumed	1133.2	764.3	48.3	3928.2	2709.7	45.0
Stock Adjustment	395.6	319.5	23.8	325.4	-345.1	-194.3
Purchase of Finished Goods	834.8	1250.5	-33.2	1823.6	3795	-51.9
Employee Expenses	287.6	298.9	-3.8	1172.2	856.3	36.9
Power, Oil & Fuel	3149.6	2239	40.7	11383.2	8443.2	34.8
Freight & Handling	3112.4	2382.1	30.7	10138.6	7411.4	36.8
Other Expenses	1656.8	1051.1	57.6	6158.3	4514.3	36.4
Operating Profit	4085.2	1918.2	113.0	14177.7	5163.6	174.6
Other Income	194.8	69.3	181.1	614.6	331.3	85.5
PBIDT	4280	1987.5	115.3	14792.3	5494.9	169.2
Interest	203.4	222.1	-8.4	868.3	894.3	-2.9
PBDT	4076.6	1765.4	130.9	13924	4600.6	202.7
Depreciation	600.6	549.7	9.3	2262.5	2095.1	8.0
PBT	3476	1215.7	185.9	11661.5	2505.5	365.4
Tax	1160.6	400.7	189.6	3839.1	850.9	351.2
PAT	2315.4	815	184.1	7822.4	1654.6	372.8
Provisions & Write Offs						
Reported PAT						
EPS (Rs)	18.60	6.55		62.84	13.29	
Equity	1244.9	1244.9		1244.9	1244.9	
Total Income	14850.0	10292.9		49722.5	32879.7	
Margins						
OPM's (%)	27.9%	18.8%	9.11%	28.9%	15.9%	13.01%
EBIDTA (%)	28.8%	19.3%	9.51%	29.7%	16.7%	13.04%
EBDT (%)	27.5%	17.2%	10.30%	28.0%	14.0%	14.01%
PBT (%)	23.4%	11.8%	11.60%	23.5%	7.6%	15.83%
PAT(%)	15.6%	7.9%	7.67%	15.7%	5.0%	10.70%
Tax rate (%)	33.4%	33.0%	0.43%	32.9%	34.0%	-1.04%

Per Tonne Analysis

Rs per tonne	Q407	Q406	VAR [%]	FY2007	FY2006	VAR [%]
Raw Material Consumed	225	165	36.21%	222	173	28.75%
Stock Adjustment	78	69	13.75%	18	-22	-183.74%
Purchase of Finished Goods	166	270	-38.67%	103	242	-57.32%
Employee Expenses	57	65	-11.61%	66	55	21.57%
Power, Oil & Fuel	625	484	29.23%	644	538	19.73%
Freight	618	514	20.03%	574	472	21.49%
Other Expenses	329	227	44.80%	349	288	21.15%
Total Cost per tonne	2097	1794	16.91%	1977	1745	13.28%
Realisation per tonne	2908	2208	31.69%	2780	2074	33.99%
EBIDTA Per tonne	811	414	95.65%	803	329	143.86%

Income Statement					Balance Sheet				
Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E	Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E
Net Sales	33028	49108	50829	57246	Equity share capital	1244.9	1244.9	1244.9	1244.9
Growth (%)	26.8	48.7	3.5	12.6	Stock option outstanding				
Total Expenditure	27486	34930	34102	38437	Share Application Money				
Growth (%)	18.3	27.1	-2.4	12.7	Reserves & surplus	9137.8	16940.9	25043.6	34038.8
Raw Materials Expenses	5476	6077	4638	5684	Networth	10382.7	18185.8	26288.5	35283.7
% of sales	16.6	12.4	9.1	9.9	Deferred tax liability	5769.6	5769.6	5769.6	5769.6
Employee cost	904	1172	1404	1614	Secured Loans	12219.3	12219.3	12219.3	12219.3
% of sales	2.7	2.4	2.8	2.8	Unsecured Loans	2299.0	1750.0	1000.0	0.0
Power & Fuel cost	9113	11383	11432	11423	Loan Funds	14518.3	13969.3	18219.3	12219.3
% of sales	27.6	23.2	22.5	20.0	Total Liabilities	30670.6	37924.7	50277.4	53272.6
Freight Charges	7631	10139	10150	12079	Gross Block	46053.8	48953.8	51853.8	73483.8
% of sales	23.1	20.6	20.0	21.1	Less: Depreciation	20682.1	23129.8	25722.5	29029.3
Admin & Other expenses	4363	6158	6479	7637	Net block	25371.7	25824.0	26131.3	44454.5
% of sales	13.2	12.5	12.7	13.3	Capital work in progress	1410.3	6830.0	18880.0	500.0
EBIDTA	5542	14178	16726	18809	Investment	1723.9	1723.9	1723.9	1723.9
Growth (%)	96.7	155.8	18.0	12.4	Current Assets	7725.2	11512.6	12010.9	16082.6
EBIDTA %	16.8	28.9	32.9	32.9	Inventories	3795.7	5876.4	6266.6	7057.7
Other income	370	615	500	500	Sundry debtors	1725.5	3264.7	3481.4	3921.0
Interest	896	868	1190	1100	Cash & bank balance	616.0	783.5	674.9	3515.9
Depreciation	2160	2263	2593	3307	Loans & advances	1588.0	1588.0	1588.0	1588.0
EBT	2856	11662	13444	14902	Other assets				
Tax	570	3839	4571	5067	Current liabilities & Prov	5560.5	7965.8	8468.7	9488.4
EAT	2286	7823	8873	9835	Current liabilities	5168.7	7574.0	8076.9	9096.6
Growth (%)	-399.2	242.2	13.4	10.8	Provisions	391.8	391.8	391.8	391.8
EAT (%)	6.9	15.9	17.5	17.2	Net current assets	2164.7	3546.8	3542.2	6594.1
E/O items	0.0	0.0	0.0	0.0	Miscellaneous expenditure	0.0	0.0	0.0	0.0
Reported PAT	2298	7823	8873	9835	Total Assets	30670.6	37924.7	50277.4	53272.6

Source : Company, Emkay Research

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Cash Flow					Ratios				
Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E	Mar end (Rs mn)	FY06	FY07E	FY08E	FY09E
Net Profit after Tax	2298.2	7823.1	8873.0	9835.5	EPS	18.5	62.8	71.3	79.0
Add : Depreciation	2160.3	2262.5	2592.7	3306.8	CEPS	35.8	81.0	92.1	105.6
Add : Misc exp w/off					Book Value Per Share	83.4	146.1	211.2	283.4
Add : intangibles w/off					Dividend Per Share	1.75	4.0	5.5	6.0
changes in debtors	-119.2	-1539.2	-216.7	-439.5	PER	43.8	12.9	11.4	10.2
changes in inventories	-430.5	-2080.7	-390.1	-791.2	P/CEPS	22.6	10.0	8.8	7.7
changes in creditors	782.1	2405.3	502.9	1019.7	P/B (X)	9.7	5.5	3.8	2.9
changes in L & A	107.8	0.0	0.0	0.0	EV/EBIDTA	20.4	7.9	6.7	5.7
changes in provisions	69.3				EV/Sales	3.4	2.3	2.2	1.9
Net changes in WC	409.5	-1214.5	-104.0	-211.0	M-Cap/EBIDTA	18.2	7.1	6.0	5.4
C.F from Operating activities	4868.0	8871.1	11361.7	12931.2	M-Cap/sales	3.0	2.1	2.0	1.8
Capital expenditure	-3650.0	-7594.3	-14950.0	-3250.0	EV/Tonne (USD)	154.5	153.5	148.2	116.5
Investments	-124.0	0.0	0.0	0.0	Financial ratios				
C.F-3774.0	-7594.3	-14950.0	-3250.0		RoCE	13.2%	50.3%	52.9%	51.7%
Borrowings	-795.5	-549.0	4250.0	-6000.0	RoNW	22.1%	43.0%	33.8%	27.9%
dividend paid	-245.1	-560.2	-770.3	-840.3	Net debt/ Equity (x)	1.3	0.7	0.7	0.2
Issue of shares					Total Debt/Equity (x)	1.4	0.8	0.7	0.3
C.F	-1040.6	-1109.2	3479.7	-6840.3	Dividend yield	0.22%	0.49%	0.68%	0.74%
changes in cash	53.4	167.6	-108.6	2840.9					
Opening balance	562.6	616.0	783.5	674.9					
Closing balance	616.0	783.6	674.9	3515.9					
Reconciliation	0.0	0.0	0.0	0.0					
Cash	616.0	783.5	674.9	3515.9					
Free Cash flow	1094.0	1276.8	-3588.3	9681.2					

Source : Company, Emkay Research

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