

22 July 2009

BUY

 Price **Rs776** Target Price **Rs832**

 Sensex **15,062**
Price Performance

(%)	1M	3M	6M	12M
Absolute	16	36	99	44
Rel. to Sensex	12	(1)	20	32

Source: Capitaline

Stock Details

Sector	Cement
Reuters	ULTC.BO
Bloomberg	UTCEM@IN
Equity Capital (Rs mn)	1245
Face Value (Rs)	10
No of shares o/s (mn)	124
52 Week H/L (Rs)	801/250
Market Cap (Rs bn/USD mn)	97/2,003
Daily Avg Vol (No of shares)	372052
Daily Avg Turnover (US\$ mn)	5.5

Shareholding Pattern (%)

	Jun'09	Mar'09	Dec'08
Promoters	54.8	54.8	54.8
FII/NRI	6.5	3.0	2.9
Institutions	14.9	8.9	9.2
Private Corp	8.8	17.6	17.4
Public	15.1	15.7	15.7

Source: Capitaline

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Ultratech Cement Ltd.

Q1FY10 results sharply ahead of expectations

Result Update

Ultratech Cement Ltd (UTCL) Q1FY10 net profit at Rs4.17 bn is sharply ahead of our expectation (Rs3.4 bn) primarily on account of better than expected cement realizations and lower other expenditure. Revenues for the quarter increased by 30.5% yoy to Rs19.52 bn driven by 24.4% increase in volumes (5.31 mt) while realization increased by 5% yoy or Rs174/ton to Rs3678/ton (our expectation Rs3561). Benefiting from a 60% drop in international coal prices and benefits derived from commissioning of its CPP capacities power & fuel UTCL's EBIDTA for the quarter improved by a whopping 61% yoy to Rs7.17 bn while its EBIDTA margins stood at 36.7% registering a massive 690 bps improvement on a yoy basis and 800 bps qoq. The benefits of lower cost (lower by Rs132/tonne yoy) and higher prices (higher by Rs174/tonne) flowed down to EBIDTA and consequently UTCL's reported it's highest ever EBIDTA/tonne for the quarter of Rs1350 i.e. a yoy increase of Rs306/tonne or 29.3%. Net Profit for the quarter was up 57.6% yoy to Rs4.17bn. UTCL, which imports 45% of its coal requirements, has bought close to 0.5 million of coal at USD 52-53FOB South Africa for delivery in July September. Consequently we expect that power and fuel cost still has some room for improvement. On account of better than expected cement realization and lower prices of international coal we are upgrading our EPS estimates by 22% to Rs94.3/share. At CMP of Rs775, the stock is trading at 8.2x FY10E earnings and USD90 EV/ton. We maintain our BUY recommendation with a revised price target of Rs832. We have valued UTCL on average of 10X PER and USD 100 for its FY2010 and FY2011 numbers.

Result Highlights

- Ultratech Cement Ltd (UTCL) Q1FY10 net profit at Rs4.17 bn is sharply ahead of our expectation (Rs3.4 bn) primarily on account of better than expected cement realizations and lower other expenditure.
- Revenues for the quarter increased by 30.5% yoy to Rs19.52 bn driven by 24.4% increase in volumes (5.31 mt) while realization increased by 5% yoy or Rs174/ton to Rs3678/ton (our expectation Rs3561). On a qoq basis also UTCL benefited from price hike in late March and April 2009 and consequentially net realizations per ton have improved by Rs201/ton to Rs3654 per ton
- Driven by benefits of prices and significant cost moderations, EBIDTA for the quarter improved by a whopping 61% yoy to Rs7.17 bn while its EBIDTA margins stood at 36.7% registering a massive 690 bps improvement on a yoy basis and 800 bps qoq.
- Benefiting from a 60% drop in international coal prices and benefits derived from commissioning of its CPP capacities, UTCL's power & fuel cost/tonne witnessed yoy decline of 20%. UTCL, which imports 45% of its coal requirements, has bought close to 0.5 million of coal at USD 52-53 FOB South Africa for delivery in July September. Consequently we expect that power and fuel cost still has some room for improvement.

Key Financials

	Net sales (Rsm)	EBIDTA (Rsm)	EBIDTA (%)	PAT (Rsm)	EPS (Rs)	EPS growth (%)	ROCE (%)	PE (x)	EV/EBIDTA (x)	EV/Ton (USD)
FY07	49,108	14,174	28.9	7,819	62.8	240.3	43.0	12.3	7.5	138.5
FY08	55,092	17,200	31.2	10,076	80.4	28.1	40.7	9.6	6.5	152.4
FY09E	63,831	17,066	26.7	9,772	77.5	(3.7)	29.2	10.0	6.3	100.5
FY10E	69,285	21,451	31.0	11,898	94.3	21.8	29.5	8.2	4.9	91.1
FY11E	72,265	18,996	26.3	10,141	80.4	(14.8)	22.3	9.6	5.3	87.8

- The profitability for the quarter was also helped by 4.5% yoy and 21% qoq decline in other expenditure on account of lower (by Rs250 mn) maintenance expenses.
- The benefits of lower cost (lower by Rs132/tonne yoy) and higher prices (higher by Rs174/tonne) flowed down to EBIDTA and consequently UTCL's reported it's highest ever EBIDTA/tonne for the quarter of Rs1350 i.e. a yoy increase of Rs306/tonne or 29.3%.
- Interest expense and depreciation charge increased by 33.4% and 31.6% yoy on account of commissioning of grinding unit at Ginigera, Karnataka, expansion of Andhra Pradesh Clinker Unit and commissioning of additional CPPs.
- Net Profit for the quarter is up 57.6% yoy to Rs4.17bn.

Result Table

Rs million	Q1FY09	Q1FY10	Change (yoy)	FY09	FY10E
Net Sales	14959.8	19527.8	30.5%	63830.8	69285.4
Total Expenditure	10501.2	12360.3	17.7%	46766.7	47834.6
Raw Material Consumed	1672	2266.3	35.5%	6849.6	7689.2
Stock Adjustment	-627	54.2	-108.6%	-887.6	-401.9
Purchase of Finished Goods	7.9	114.4	1348.1%	195.0	195.0
Employee Expenses	467.5	589.1	26.0%	2176.7	2395.0
Power, Oil & Fuel	3859	3833.3	-0.7%	17129.8	14728.4
Freight & Handling	2551.4	3049	19.5%	10710.8	11656.3
Other Expenses	2570.4	2454	-4.5%	10592.4	11572.7
EBITDA	4458.6	7167.5	60.8%	17064.1	21450.8
EBIDTA (%)	29.80%	36.70%	28.60%	26.7%	31.0%
Other Income	266	342.2	28.6%	1035.6	1027.1
Interest	247.2	329.7	33.4%	1255.1	1606.2
EBDT	4477.4	7180	60.4%	16844.6	20871.7
Depreciation	711.3	935.8	31.6%	3230.0	3874.9
PBT	3766.1	6244.2	65.8%	13614.6	16996.8
Tax	1115.8	2066.6	85.2%	3844.4	5099.0
APAT	2650.3	4177.6	57.6%	9770.2	11897.7
EPS (Rs)	21.3	33.6	57.6%	77.4	94.3

Per tonne analysis

Rs/tonne	Q1FY09	Q1FY10	Change (yoy)
Raw Material Consumed	392	427	9.0%
Stock Adjustment	-147	10	-107.0%
Purchase of Finished Goods	2	22	1064.5%
Employee Expenses	109	111	1.3%
Power, Oil & Fuel	904	722	-20.1%
Freight	598	574	-3.9%
Other Expenses	602	462	-23.2%
Total Cost per tonne	2459	2328	-5.3%
Realisation per tonne	3503	3678	5.0%
EBIDTA Per tonne	1044	1350	29.3%

Capex Update

With the completion of last phase of capacity expansion at Andhra Pradesh Cement Works (APCW) UTCL's capacity now stands at 23.1 mn tonnes. Also UTCL's CPP capacity now stands at 236MW with 192MW added during FY09. This makes UTCL 80% self sufficient in terms of its power requirements, benefits of which is expect to flow in FY2010.

UTCL has planned a capex of around Rs. 2,0 bn over next two years. Out of this Rs1.5 bn is for setting up of a 25MW Thermal Power Plant at its Unit in Awarpur, Maharashtra and Rs7.5 bn on additional grinding and evacuation facility at its Unit in Gujarat and bulk cement terminal at Mumbai. This expansion will increase UTCL cement capacity by 2.3 million tonnes and result in significant value addition as the company will now be using the surplus 2 million tonne clinker (which it exports) to manufacture cement.

Further UTCL plans to set up 11 MW of Waste Heat Recovery Systems across Units for generating power out of waste gases.

Valuation and View

On account of better than expected cement realization and lower prices of international coal we are upgrading our EPS estimates by 22% to Rs94.3/share. At CMP of Rs775, the stock is trading at 8.2x FY10E earnings and USD90 EV/ton. We maintain our BUY recommendation with a revised price target of Rs832. We have valued UTCL on average of 10X PER and USD 100 for its of FY2010 and FY2011 numbers.

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