ULTRATECH CEMENT LIMITED RESEARCH

EQUITY RESEARCH — October 01, 2007

RESULTS REVIEW

Share Data

Market Cap	Rs. 132.0 bn
Price	Rs. 1,060.25
BSE Sensex	17,328.62
Reuters	ULTC.BO
Bloomberg	UTCEM IN
Avg. Volume (52 Week)	0.04 mn
52-Week High/Low	Rs. 1,204.9/662.3
Shares Outstanding	124.5 mn

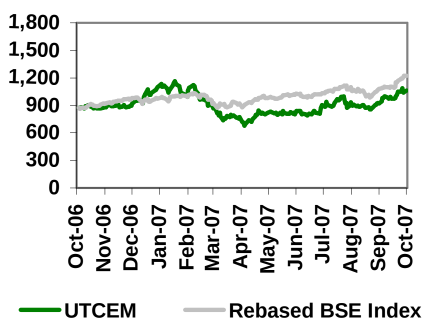
Valuation Ratios (Consolidated)

Year to 31 March	FY08E	FY09E
EPS (Rs.)	76.0	84.1
+/- (%)	20.8%	10.7%
PER (x)	13.9x	12.6x
EV/ tonnes (Rs.)	8,772.2	8,170.9
EV/ EBITDA (x)	8.5x	7.7x

Shareholding Pattern (%)

Promoters	53
FIIs	9
Institutions	8
Public & Others	29

Relative Performance



UltraTech Cement Limited — Hold

Improved realisation rate offset volume decline

UltraTech Cement Limited (UltraTech) reported modest results with sales at Rs. 13,653 mn driven by sales volume of 3.9 MT which was low in comparison to industry leaders Ambuja Cements and ACC. Average realisation rate was higher for the quarter at Rs. 3,500.7/tonne. On a yoy basis, EBITDA increased by 15.7% to Rs. 4,335 mn while margins remained flat. This was due to rise in raw material, power & fuel costs, and other expenses. Net profit improved to Rs. 2,594 mn, an increase of 23% yoy due to phenomenal increase in other income.

UltraTech's sales are expected to grow at a CAGR of 12.6% during FY07-FY09E because of higher realization rate and expected surge in demand from South India. Considering the rising demand, the Company revised its capacity addition plan from 4 MT to 4.9 MT. However, despite UltraTech's effort to improve efficiency and reduce costs, raw material and power costs continue to remain a major concern.

Currently, UltraTech is trading at 8.5x and 7.7x EV/EBITDA for FY08E and FY09E, respectively. At a P/E of 16.8x for FY07, the stock is fairly valued and hence, we maintain **Hold**.

Result Highlights

UltraTech's net sales increased by 15.7% yoy to Rs. 13,653 mn though, on qoq basis sales fell by 6.8%. Sequentially, sales volume fell from 5 MT to 3 MT and hence even a higher realisation rate could not help net sales from declining.

Key Figures (Standalone)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	11,803	14,655	13,653	15.7%	(6.8%)
EBITDA	3,746	4,085	4,335	15.7%	6.1%
Net Profit	2,108	2,315	2,594	23.0%	12.0%
Margins(%)					
EBITDA	31.7%	27.9%	31.8%		
NPM	17.9%	15.8%	19.0%		
Per Share Data (Rs.)					
EPS	16.9	18.6	20.8	23.0%	12.0%

Please see the end of the report for disclaimer and disclosures.

Increasing presence in RMC segment

On a yoy basis, average realisation rate increased by 32.1% to Rs. 3,500.7/tonne. It is expected to increase further as cement prices are likely to rise by Rs. 3 per 50 kg bag in the next quarter despite the monsoon season. UltraTech also plans to improve its presence in the Ready-mix (RMC) segment, considering the impressive growth prospects offered. It has planned a capex of Rs. 840 mn to increase RMC plants by 19 from 7 plants.

Rising raw material and power cost affect margins

EBITDA increased by 15.7% yoy to Rs. 4,335.3 mn however margins grew by meagre 10 bps. The Company has been facing higher power costs because of rise in coal and liquid fuel prices. Raw material costs were higher due to increase in inward freight costs and increased procurement cost of fly ash. As a result, UltraTech has planned to set up captive power plants to save on power & fuel costs.

Reduction in interest expense and increase in other income

UltraTech's net profit grew by 23% yoy on account of increase in other income by 100.7% to Rs. 268.9 mn. Margins improved by 110 bps as a result of lower depreciation and interest expense. The Company has got AA+/Stable/P1+ rating from CRISIL that enables UltraTech to borrow at lower interest rates and hence reduce interest expense.

Capex plan of Rs. 33,000 mn to augment cement production capacity and captive power generation

The Company has planned a capital expenditure of Rs. 33,000 mn over the next three years to expand capacities and setup captive power plants to improve efficiency and reduce costs.

Key Events

- Captive power plant in Gujarat will be commissioned in a phased manner by the last quarter of the current financial year.
- Cement capacity expansion in Andhra Pradesh has been revised from 4 MT p.a. to 4.9 MT p.a.
- A split grinding unit will be setup in Karnataka.
- A captive power plant of 33 MW will be setup in Awarpur and the capacity of grinding unit in Gujarat shall be enhanced by 2 MT p.a.

Key Risks

- Government's initiative to freeze domestic cement prices in the future will adversely affect the realisation rates and the Company's topline.
- Delay in capacity expansion is likely to affect the Company's ability to capture estimated demand and thus improve topline.

Outlook and Valuation

Successive capacity additions likely to reverse the demand-supply mismatch situation

UltraTech is expected to improve sales volume to 18 MT by FY09, at a CAGR of 8.8% driven by demand from infrastructure and real estate sector. Overall demand for cement is expected to grow at a CAGR of 10-11% over FY07-10; however, subsequent capacity expansion across the industry and cement imports is likely to ease demand supply mismatch and might create a surplus situation.

Currently, rising raw material and fuel costs remains a concern. With the setup of captive power plants, fuels costs are expected to fall but the effect is likely to be observed in FY09. Sales volume is expected to improve in the next quarter resulting in better sales along with higher realisation rate.

UltraTech is trading at a forward PE of 13.9x and 12.6x for FY08E and FY09E, respectively. Based on the relative valuation, we believe the stock is fairly priced and hence maintain **Hold**.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Sales volume (in MT)	12.5	14.2	15.2	16.7	18.0	8.8%
Net Sales	27,010	33,840	49,687	57,526	62,995	12.6%
EBITDA	3,722	5,748	14,316	17,223	19,024	15.3%
Net Profit	610	2,317	7,834	9,465	10,474	15.6%
Margins(%)						
EBITDA	13.8%	17.0%	28.8%	29.9%	30.2%	
NPM	2.3%	6.8%	15.8%	16.5%	16.6%	
Per Share Data (Rs.)						
EPS	4.9	18.6	62.9	76.0	84.1	15.6%
PER (x)	72.2x	36.8x	16.8x	13.9x	12.6x	

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