Ultratech Cement

1QFY2009 Result Update

NEUTRAL

Price	**Rs540**
Target Price	**-**
Investment Period	**-**

Stock Info	
Sector	Cement
Market Cap (Rs cr)	6,722
Beta	0.8
52 WK High / Low	1,165 /510
Avg. Daily Volume	32980
Face Value (Rs)	10
BSE Sensex	13,635
Nifty	4,092
BSE Code	532538
NSE Code	ULTRACEMCO
Reuters Code	ULTC.BO
Bloomberg Code	UTCEM@ IN

Shareholding Pattern (%)	
Promoters	54.4
MF/Banks/Indian FIs	8.9
FII/ NRIs/ OCBs	6.6
Indian Public/others	30.1

Abs.	**3m**	**1yr**	**3yr**
Sensex (%)	(17.3)	(10.9)	85.6
UTCL (%)	(31.1)	(43.6)	46.0

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Performance Highlights

- **Topline grew 9.6% yoy:** Ultratech Cement (ULTC) posted a yoy Top-line growth of 9.6% yoy to Rs1,496cr (Rs1,365cr) for 1QFY2009, which was in-line with our expectation. Topline growth was mainly on account of an increase in the average realization for cement and increase in revenues from the RMC division. Average cement realization for ULTC grew 7.9% yoy to Rs3,234/tonne (Rs2,996/tone). Revenues from the RMC division increased by a hefty 145% yoy to Rs115cr. However cement volumes de-grew by 3% yoy to 4.27 million tones (mt) during the quarter from 4.4mt in 1QFY2008. Volumes were affected by a six-week government ban on cement exports and ULTC is a major exporter of cement from India.
- **Margins take a hit:** On the Operating front, ULTC reported a decline in margins of 200bp to 29.8% (31.8%). This was mainly due to the increase in input costs like coal, freight, fly ash, etc. during the quarter. Also, ULTC was not able to pass on the incremental costs to consumers due to government intervention in the backdrop of rising inflation. Staff costs, which increased by a considerable 49% yoy, contributed the most to margin contraction. Power & Fuel and other expenses, which increased by 28% and 45% respectively also added to the fall in margins. Coal, which is a major input for power as well as clinker manufacturing, witnessed its price increasing to US $150-160/tonne from US $70/tonne last year.
- **Bottomline posts only marginal growth:** Despite a reasonable Top-line growth, ULTC's Net Profit grew by a mere 2% yoy to Rs265cr, as against our expectation of Rs267cr for the quarter. Higher Interest and Depreciation costs added to the sluggish bottomline growth. Interest costs were higher by 23% yoy at Rs24.7cr and Depreciation charges increased by 27% yoy. However, the company's Tax provisioning during the quarter was lower on the yoy basis, helping the company avoid a de-growth for the quarter.

Key Financials (Standalone)

Y/E March (Rs cr)	**FY2007**	**FY2008**	**FY2009E**	**FY2010E**
Net Sales	**4,910.8**	**5,509.2**	**6,334.8**	**6,549.8**
% chg	*48.8*	*12.2*	*15.0*	*3.4*
Net Profit	**782.3**	**1,007.6**	**1,173.2**	**1,092.6**
% chg	*240.5*	*28.8*	*16.4*	*(6.9)*
OPM (%)	28.9	31.2	30.6	28.9
FDEPS(Rs)	**62.8**	**80.9**	**94.2**	**87.8**
P/E(x)	8.6	6.7	5.7	6.2
P/BV(x)	3.8	2.5	1.8	1.4
RoE(%)	55.8	45.2	36.2	25.4
RoCE(%)	24.1	23.8	22.4	17.8
EV/Sales	1.7	1.5	1.3	1.2
EV/tonne (US $/t)	115.0	109.4	83.4	79.3
EV/EBITDA	5.8	4.9	4.2	4.1

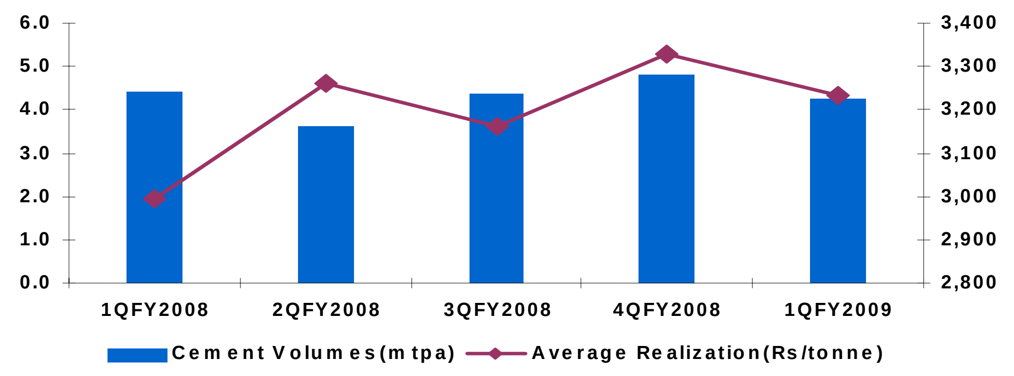
Source: Company, Angel Research

Realizations affected due to export ban and government intervention

The average price realization for ULTC increased by 7.9% yoy to Rs3,234/tonne during the quarter from Rs2,996/tonne in the same period last year. It must be recollected that the Government had banned export of cement on April 11, 2008, as a move to check the rising price of cement in the domestic market. This was subsequently relaxed on May 27, 2008, as the government allowed export of cement through Gujarat ports, including Mundra and Pipavav.

Due to the export ban for six weeks, ULTC's volumes got affected and fell by 3% yoy to 4.27mt (4.4mtpa) in 1QFY2009.

Exhibit 1: Cement Volumes and Realizations

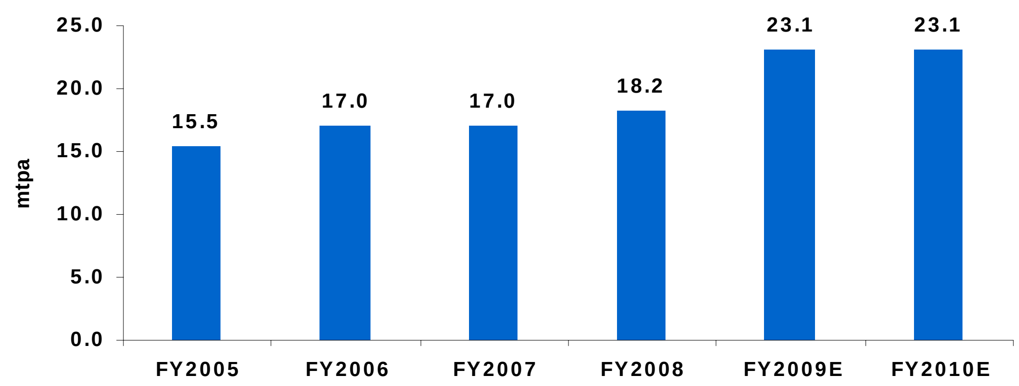


Source: Company, Angel Research

Capacity Expansions well on track

ULTC's capacity expansion plans are well on track. The company has increased its cement capacity by 1.2mtpa through De-bottlenecking to 18.2mtpa in FY2008. It is also expanding its capacity by 3.6mtpa with the help of brownfield expansions at Tadpatri (Andhra Pradesh) and split grinding unit of 1.3mtpa capacity to be set up at Ginigera (Karnataka). This expansion is expected to be fully operational by Q2FY2009. After the expansions, ULTC's cement capacity will be 23.1mtpa, an increase of almost 36% from 17mtpa in FY2007.

Exhibit 2: Capacity ramp up



Source: Company, Angel Research

Huge Power Capacity additions to save costs

Out of 92MW power capacity being set up at Gujarat Cement Works, the first two phases aggregating 46MW have already commenced operations. The remaining two streams of 23MW each will be fully operational in 2HFY2009.

The company is also setting up 135MW power capacity at APCW, Hirmi Cement Works in Chhattisgarh (HCW) and Awarpur Cement Works in Maharashtra (ACW). This is expected to be commissioned by 2HFY2009. Upon commissioning, ULTC's total power capacity would be 270MW, sufficient to cater to nearly 80% of its power requirements.

Capex Plans

Towards all of these capex plans, the company has already spent Rs2,150cr. It is planning to further spend nearly Rs2,000cr during the next two years and same would be funded through internal accruals.

The Ultratech Cement board approved a capex of Rs1,000cr for setting up new facilities across the country. Of this, Rs250cr would be spent on setting up waste heat recovery systems of 25MW across units of the company for generating power out of waste gases. The remaining funds will be invested in additional RMC plants, extension of jetty in Gujarat, new port terminals and other schemes for improving productivity. The extension of the Gujarat jetty and the new port terminal will need Rs470cr and will provide logistical support to the company for domestic and export markets.

Outlook and Valuation

We expect cement companies to go through challenging times due to pressure on cement prices and rising input costs. New capacities which are expected to come on stream would put pressure on cement prices going forward. Raw material costs like coal and freight are rising and players are not able to increase prices due to government intervention, which does not augur well for the company's financials.

However, we expect cement consumption in India to continue to grow at 8-9% for the next 3-4 years with the GDP growth expected to be at 7-5-8% in next couple of years. Also higher allocation for housing and infrastructure by government and private players will boost cement demand in India. Nonetheless, expected capacity additions of 80-85mtpa over the next couple of years, is bound to cause disturb the cement industry's dynamics and put pressure on cement prices.

At the CMP of Rs540, ULTC is trading at an EV/EBIDTA of 4.2x and 4.1x FY2009E and FY2010E EBIDTA and EV/tonne of US$84/tonne and US$80/tonne on FY2009E and FY2010E capacities. Even though valuations have been at the lower range of their historical band, an imminent downturn in cement cycle might not lead to a re-rating of multiples in the medium term. Hence, we believe that, upside for the stock would be limited considering the expected surplus in the cement industry leading to a collapse in the pricing power for cement players amidst the raw material cost push. **We maintain our Neutral view on the stock.**

Exhibit 3: 1QFY2009 Performance

Y/E March (Rs cr)	1QFY2009	1QFY2008	% chg	FY2008	FY2007	% chg
Net Sales	**1,496.0**	**1,365.3**	***9.6***	**5,509.2**	**4,910.8**	***12.2***
Net Raw Material Cost	105.3	144.4	*(27.1)*	523.8	608.0	*(13.8)*
(% of Net Sales)	*7.0*	*10.6*		*9.5*	*12.4*	
Power& Fuel	385.9	302.8	*27.4*	1,253.3	1,138.3	*10.1*
(% of Net Sales)	*25.8*	*22.2*		*22.7*	*23.2*	
Staff Costs	46.8	31.4	*48.8*	171.6	117.2	*46.3*
(% of Net Sales)	*3.1*	*2.3*		*3.1*	*2.4*	
Freight & Forwarding	255.1	275.7	*(7.4)*	969.3	1,013.9	*(4.4)*
(% of Net Sales)	*17.1*	*20.2*		*17.6*	*20.6*	
Other expenses	257.0	177.5	*44.8*	871.3	615.7	*41.5*
(% of Net Sales)	*17.2*	*13.0*		*15.8*	*12.5*	
Total Expenditure	**1,050.1**	**931.7**	***12.7***	**3,789.2**	**3,493.0**	***8.5***
Operating Profits	**445.8**	**433.5**	***2.8***	**1,720.1**	**1,417.8**	***21.3***
OPM (%)	*29.8*	*31.8*		*31.2*	*28.9*	
Interest	24.7	20.2	*22.7*	75.7	86.8	*(12.9)*
Depreciation	71.1	55.9	*27.3*	237.2	226.3	*4.9*
Other Income	26.6	26.9	*(1.1)*	99.9	61.5	*62.5*
Profit before Tax	**376.6**	**384.4**	***(2.0)***	**1,507.0**	**1,166.2**	***29.2***
Current Tax	111.6	125.0	*(10.8)*	499.4	383.9	*30.1*
(% of PBT)	*29.6*	*32.5*		*33.1*	*32.9*	
Profit after Tax	**265.0**	**259.4**	***2.2***	**1,007.6**	**782.3**	***28.8***
PAT Margin (%)	*17.7*	*19.0*		*18.3*	*15.9*	
EPS (Rs)	**21.3**	**20.8**	***2.1***	**80.9**	**62.8**	***28.8***

Source: Company, Angel Research

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Ratings (Returns) :	**Buy (Upside > 15%)**	**Accumulate (Upside upto 15%)**	**Neutral (5 to -5%)**
	Reduce (Downside upto 15%)	**Sell (Downside > 15%)**	