



UltraTech Cement

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,365	UTCEM IN
	REUTERS CODE
S&P CNX: 4,092	ULTC.BO

18 July 2008

Buy

Previous Recommendation: Buy

Rs540

Equity Shares (m)	124.5
52-Week Range	1,165/510
1,6,12 Rel. Perf. (%)	-1/-7/-32
M.Cap. (Rs b)	67.2
M.Cap. (US\$ b)	1.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	49,105	7,823	62.8	240.5	8.6	3.8	55.8	43.0	1.6	5.4
03/08A	55,092	10,076	80.9	28.8	6.7	2.5	45.2	40.7	1.5	4.8
03/09E	65,093	10,338	83.0	2.6	6.5	1.8	32.5	33.8	1.2	4.0
03/10E	70,571	10,729	86.2	3.8	6.3	1.4	25.8	31.3	1.0	3.6

Operating performance for 1QFY09 was in line with our expectation. EBITDA margins were 29.8% v/s our estimate of 29.9%; EBITDA was Rs4.45b. Lower than estimated depreciation and lower tax provisioning boosted PAT to Rs2.65b.

Revenues grew 10% YoY to Rs15b, driven by 5% growth in cement business and 163% growth in RMC business. Cement volumes declined 4.5% to 4.27MT reflecting the ban on exports for six weeks; realizations increased 9.9% YoY (~3.5% QoQ) to Rs3,238/ton. Improvement in market mix (in favor of domestic market) and product mix (in favor of cement sales) led to higher realizations. EBITDA margins declined 200bp YoY and 70bp QoQ to 29.8%, impacted by higher energy and other costs.

UltraTech's nascent RMC business is scaling up rapidly. In 1QFY09, RMC volumes grew 134% to 0.37m cubic meters and revenues grew 163% to Rs1.1b. RMC business' revenue contribution increased to 7.6% (from 5.8% in 4QFY08 and 3.2% in 1QFY08).

The board has approved fresh capex of Rs10b for setting up 25MW Waste Heat Recovery Systems across various units (Rs2.5b), additional investment in RMC business, extension of the jetty in Gujarat and bulk terminal at Mumbai.

Given the high operating leverage, improving operating efficiencies and growth visibility at a low cost of expansion, valuations at 6.5x FY09E EPS, 4x FY09E EV/EBITDA and US\$78/ton are attractive relative to peers. We maintain **Buy** with a revised target price of Rs837 (6x FY09E EV/EBITDA), an upside of 55%.

QUARTERLY PERFORMANCE

(Rs Million)

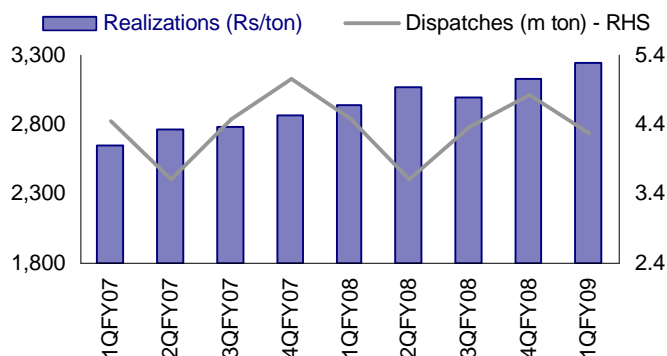
Y/E MARCH	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Sales (m ton)	4.47	3.62	4.37	4.82	4.27	3.90	5.20	5.67	17.28	19.04
YoY Change (%)	0.4	0.4	-2.7	-4.6	-4.5	7.9	19.0	17.7	-2.3	10.2
Realization (Rs/ton)	2,946	3,066	2,991	3,130	3,238	3,138	3,138	3,132	3,034	3,159
YoY Change (%)	11.4	10.8	7.7	9.2	9.9	2.4	4.9	0.1	10.2	4.1
QoQ Change (%)	2.8	4.1	-2.4	4.6	3.5	-3.1	0.0	-0.2		
Net Sales	13,600	11,664	13,821	16,017	14,960	13,439	17,591	19,103	55,092	65,093
YoY Change (%)	15.2	16.1	9.7	9.3	10.0	15.2	27.3	19.3	12.2	18.2
Total Expenditure	9,222	8,439	9,137	11,132	10,501	9,573	12,509	13,803	37,892	46,387
EBITDA	4,378	3,226	4,685	4,885	4,458	3,866	5,082	5,299	17,201	18,706
Margins (%)	32.2	27.7	33.9	30.5	29.8	28.8	28.9	27.7	31.2	28.7
Depreciation	559	581	583	650	711	890	970	976	2,372	3,547
Interest	222	188	174	193	247	325	341	343	757	1,256
Other Income	247	258	201	270	266	220	200	179	999	865
PBT after EO Expense	3,844	2,716	4,129	4,312	3,766	2,871	3,971	4,160	15,070	14,768
Tax	1,250	927	1,334	1,483	1,116	861	1,191	1,262	4,994	4,430
Rate (%)	32.5	34.1	32.3	34.4	29.6	30.0	30.0	30.3	33.1	30.0
Reported PAT	2,594	1,789	2,795	2,829	2,650	2,010	2,780	2,898	10,076	10,338
Adj PAT	2,594	1,789	2,795	2,829	2,650	2,010	2,780	2,898	10,076	10,338
YoY Change (%)	23.0	40.3	31.5	22.2	2.2	12.4	-0.5	2.4	28.8	2.6

E: MOST Estimates; Qly results do no add up to full year results due to recasting

Higher realizations drive revenue growth...

Revenues grew 10% YoY in 1QFY09 to Rs15b, driven by 5% YoY growth in cement business and 163% growth in RMC business. Cement volumes declined 4.5% to 4.27MT, reflecting the ban on exports for six weeks, whereas realizations increased 9.9% YoY (~3.5% QoQ) to Rs3,238/ton. Improvement in market mix (in favor of domestic market) and product mix (in favor of cement sales) led to higher realizations.

TREND IN DISPATCHES & REALIZATIONS

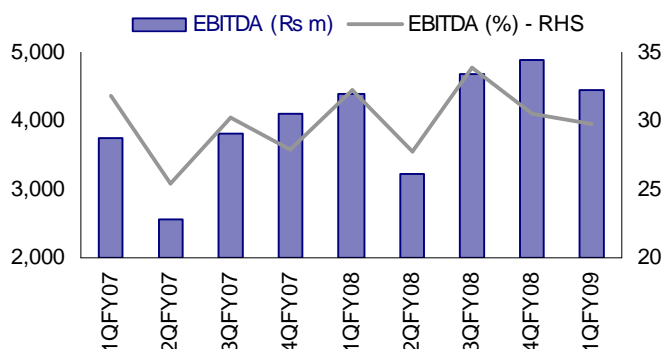


Source: Company/ Motilal Oswal Securities

...but cost push restricts profitability

EBITDA margins declined 200bp YoY and 70bp QoQ to 29.8%, impacted by higher energy and other costs. Energy cost inflation (~10% QoQ) was on account of spiraling imported coal cost (~45% imported coal), whereas other expenditure (~26% QoQ) was higher due to higher stores & spares and higher inter-unit transfers. However, EBITDA per ton improved to Rs1,044, up 6.6% YoY and 3% QoQ.

TREND IN EBITDA



Source: Company/ Motilal Oswal Securities

Lower than estimated depreciation at Rs711m (the company did not provide depreciation on new kiln in Andhra Pradesh and 23MW CPP in Gujarat) and lower tax provisioning at 29.6% of PBT (v/s 32.5% in 1QFY08 and our estimate of 33.4%), boosting PAT to Rs2.65b (~2.2% growth).

INCOME STATEMENT (RS/TON)

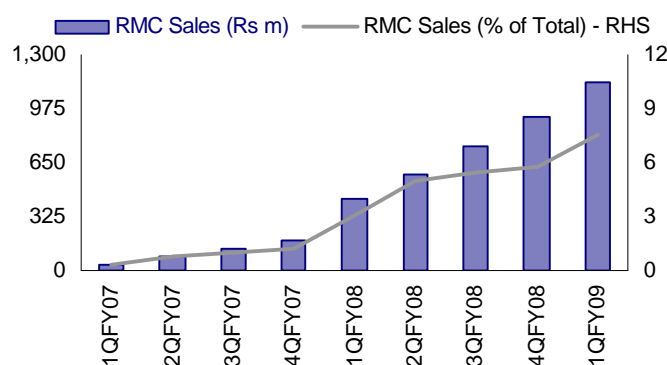
	1QFY09	YOY (%)	QOQ (%)
Realization	3,503	15.2	5.4
RM Cost	247	-23.6	-33.8
Power & Fuel	904	33.4	18.0
Staff Cost	109	56.9	2.7
Freight & Forwarding	598	11.7	2.0
Other Expenditure	602	31.5	25.8
Total Expenditure	2,459	19.2	6.5
EBITDA	1,044	6.6	3.0

Source: Company/ Motilal Oswal Securities

RMC business scaling up rapidly

UltraTech's nascent ready mix concrete (RMC) business is scaling up rapidly. In 1QFY09, RMC volumes grew 134% to 0.37m cubic meters and revenues grew 163% to Rs1.1b. The RMC business' revenue contribution increased to 7.6% (from 5.8% in 4QFY08 and 3.2% in 1QFY08). However, being in investment mode, it still does not contribute to profits.

RMC BUSINESS GROWING RAPIDLY



Source: Company/ Motilal Oswal Securities

Though margins are low (3-5%) in the RMC business, it enhances UltraTech's presence in the value chain. It would enable the company to directly reach the consumer, thereby eliminating intermediates and enabling savings on the margins paid to them. UltraTech is aggressively investing in the RMC business, with plans to expand from 22 plants

to 39 plants by March 2009. Five of these plants commissioned operations during 1QFY09.

Capex program on track

UltraTech's capex program is on track, with the kiln at its Andhra Pradesh plant and 46MW CPP (of 92MW) in Gujarat commissioning operations. However, there was no contribution either from the kiln or from the CPP in 1QFY09. These are likely to contribute from 2QFY09. Brownfield expansion in Andhra Pradesh, with supporting grinding units is likely to commence operations in 2QFY09. Also, 92MW CPP in Gujarat is expected to be fully operational during CY08, whereas 50MW CPP in Chhattisgarh is expected to be operational by 3QFY09. Further, the board has approved capex of Rs10b for setting up 25MW Waste Heat Recovery Systems across various units (Rs2.5b), additional investment in RMC business, extension of the jetty in Gujarat and bulk terminal at Mumbai. While capacity addition will drive volume growth of 11% CAGR (FY08-10E), CPP would drive cost savings/dilute impact of energy cost push.

CAPEX PROGRAM

	LOCATION	CAPACITY
Cement (brownfield)	Andhra Pradesh	4.9 MT incl 50MW CPP
Cement (grinding unit)	Gujarat	2 MT
Captive Power Plants	Gujarat	92 MW
Captive Power Plants	Chattisgarh	50 MW
Captive Power Plants	Maharashtra	33 MW
RMC Plants		3.6 Mn Cu Ltrs
Waste Heat	Mutiple Locations	25MW
Recovery Systems		
Extension of the jetty	Gujarat	
Bulk Terminal	Mumbai	

Source: Company/ Motilal Oswal Securities

Valuation and view

We are maintaining our EPS estimates at Rs83 for FY09 and Rs86.2 for FY10. With commissioning of new capacity and CPP, the earning power of UltraTech's assets should improve considerably. This would act as a re-rating catalyst, narrowing the valuation discount vis-à-vis peers. Given the high operating leverage (~Re1/bag changes our FY09E EPS by 2.6%), improving operating efficiencies and growth visibility at a low cost of expansion, valuations at 6.5x FY09E EPS, 4x FY09E EV/EBITDA and US\$78/ton are attractive relative to peers. We are revising our target EV/EBITDA multiple from 8x to 6x, to reflect the challenging macro-environment for the cement industry. We maintain **Buy**, with a revised target price of Rs837 (6x FY09E EV/EBITDA), an upside of 55%.

UltraTech Cement: an investment profile

Company background

UltraTech Cement, the erstwhile cement division of L&T, is controlled by Grasim, a part of the Aditya Birla Group. It is the second largest cement company in India with a total cement capacity of 23m ton. It has a significant presence in the western and southern markets. It is the largest exporter of cement and clinker from India.

Key investment argument

- ✎ Second largest cement company with pan-India presence.
- ✎ Potential to increase throughput without incurring major capex by increasing utilization and blending, along with locational advantage, gives it the flexibility to either export or sell in the domestic market.
- ✎ Focused management under Grasim's parentage to drive operating efficiencies and cost rationalization on operational integration.

Key investment risks

- ✎ High operating leverage could result in volatile earnings.
- ✎ Being the largest exporter of cement (~20% of dispatches), UltraTech's earnings are more sensitive to export realizations.

COMPARATIVE VALUATIONS

		ULTRATECH	ACC	GACL
P/E (x)	FY09E	6.5	8.6	10.5
	FY10E	6.3	9.5	11.0
P/BV (x)	FY09E	1.8	2.0	2.3
	FY10E	1.4	1.8	2.1
EV/Sales (x)	FY09E	1.2	1.2	1.7
	FY10E	1.0	1.1	1.7
EV/EBITDA (x)	FY09E	4.0	4.6	5.8
	FY10E	3.6	5.3	6.3

SHAREHOLDING PATTERN (%)

	JUN-08	MAR-08	JUN-07
Promoter	54.4	54.4	53.1
Domestic Inst	8.7	8.8	8.5
Foreign	6.5	7.5	10.1
Others	30.4	29.3	28.4

Recent development

- ✎ Commissioned 23MW, second phase of 92MW CPP, at Gujarat in 1QFY09

Valuation and view

- ✎ The stock quotes at 6.5x FY09E EPS and 4x FY09E EV/EBITDA.
- ✎ Valuations do not fully reflect improving operating performance and organic growth visibility at a low cost of expansion. Maintain Buy with target price of Rs837 (6x FY09E EV/EBITDA).

Sector view

- ✎ Strong GDP growth, coupled with sustainable demand drivers, augurs well for cement demand growth.
- ✎ Although significant capacity addition has already been announced, real impact of these capacities would be felt only in 2HCY09.
- ✎ Imports not a significant threat, due to infrastructural bottlenecks.

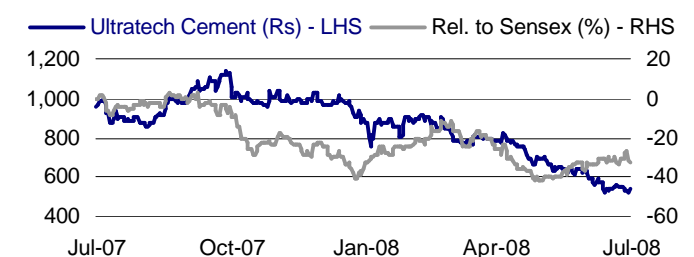
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY09	83.0	83.5	-0.6
FY10	86.2	76.5	12.7

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
540	837	55.1	Buy

STOCK PERFORMANCE (1 YEAR)



CONSOLIDATED PROFORMA INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Net Sales	32,995	49,105	55,092	65,093	70,571
Change (%)	22.2	48.8	2.2	18.2	8.4
Total Expenditure	27,452	34,927	37,892	46,387	51,667
EBITDA	5,543	14,178	17,201	18,706	18,904
Margin (%)	16.8	28.9	31.2	28.7	26.8
Depreciation	2,160	2,263	2,372	3,547	3,911
Int. and Finance Charges	896	868	757	1,256	665
Other Income - Rec.	370	615	999	865	1,000
PBT	2,856	11,662	15,070	14,768	15,328
Extra Ordinary Expense/(Inco	0	0	0	0	0
PBT after EO expense	2,856	11,662	15,070	14,768	15,328
Tax	558	3,839	4,994	4,430	4,598
Tax Rate (%)	19.5	32.9	33.1	30.0	30.0
Reported PAT	2,298	7,823	10,076	10,338	10,729
Adj PAT	2,298	7,823	10,076	10,338	10,729
Change (%)	1,080.1	240.5	28.8	2.6	3.8
Margin (%)	7.0	15.9	18.3	15.9	15.2

CONSOLIDATED PROFORMA BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Equity Share Capital	1,245	1,245	1,245	1,245	1,245
Reserves	9,138	16,393	25,725	35,323	45,284
Net Worth	10,383	17,638	26,970	36,568	46,529
Minority Interest	0	0	0	0	0
Deferred liabilities	5,770	5,603	5,424	5,265	5,100
Loans	14,518	15,786	17,405	14,000	5,000
Capital Employed	30,671	39,027	49,798	55,832	56,629
Gross Block	46,054	47,847	49,726	74,726	81,726
Less: Accum. Deprn.	20,682	22,674	24,721	28,268	32,180
Net Fixed Assets	25,372	25,173	25,005	46,458	49,546
Capital WIP	1,410	6,970	22,832	2,000	1,000
Investments	1,724	4,835	1,709	2,500	2,500
Curr. Assets	7,725	9,602	13,039	15,254	15,099
Inventory	3,796	4,336	6,098	6,242	6,767
Account Receivables	1,726	1,835	2,166	2,675	2,900
Cash and Bank Balance	616	896	1,007	3,484	2,339
Others	1,588	2,535	3,768	2,853	3,094
Curr. Liability & Prov.	5,561	7,552	12,786	10,380	11,517
Account Payables	5,169	7,367	11,530	8,896	9,909
Provisions	392	185	1,256	1,483	1,608
Net Current Assets	2,165	2,050	253	4,875	3,582
Misc Expenditure	0	0	0	0	0
Appl. of Funds	30,671	39,027	49,798	55,832	56,629

E: MOST Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
EPS	18.5	62.8	80.9	83.0	86.2
Cash EPS	35.8	81.0	100.0	111.5	117.6
BV/Share	83.4	141.7	216.6	293.7	373.8
DPS	18	4.0	5.0	5.1	5.3
Payout (%)	10.8	7.3	7.2	7.2	7.2
Valuation (x)					
P/E		8.6	6.7	6.5	6.3
Cash P/E		6.7	5.4	4.8	4.6
P/BV		3.8	2.5	1.8	1.4
EV/Sales		1.6	1.5	1.2	1.0
EV/EBITDA		5.4	4.8	4.0	3.6
EV/Ton (Cap-US\$)		113	107	79	71
Dividend Yield (%)		0.7	0.9	0.9	1.0
Return Ratios (%)					
RoE	22.8	55.8	45.2	32.5	25.8
RoCE	15.0	43.0	40.7	33.8	31.3
Working Capital Ratios					
Asset Turnover (x)	11	13	11	12	12
Debtor (Days)	19	14	14	15	15
Leverage Ratio					
Debt/Equity	14	0.9	0.6	0.4	0.1
CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Op. Profit/(Loss) before Tax	5,543	14,536	17,852	18,706	18,904
Interest/Dividends Recd.	370	300	390	865	1,000
Direct Taxes Paid	-606	-4,172	-4,803	-4,589	-4,763
(Inc)/Dec in WC	290	767	703	-2,144	147
CF from Operations	5,597	11,431	14,142	12,838	15,288
EO expense	0	0	0	0	0
CF from Operating incl I	5,597	11,431	14,142	12,838	15,288
(inc)/dec in FA	-408	-7,645	-17,931	-4,168	-6,000
(Pur)/Sale of Investments	-1,724	-3,110	3,123	-791	0
CF from investments	-2,132	-10,755	-14,808	-4,959	-6,000
Issue of Shares	-1,444	0	0	0	0
(Inc)/Dec in Debt	-861	1,312	1,667	-3,405	-9,000
Interest Paid	-896	-892	-890	-1,256	-665
Dividend Paid	-249	-816	0	-740	-768
CF from Fin. Activity	-3,450	-396	776	-5,401	-10,433
Inc/Dec of Cash	14	280	111	2,477	-1,145
Add: Beginning Balance	602	616	896	1,007	3,484
Closing Balance	616	896	1,007	3,484	2,339



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UltraTech Cement

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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