

Recent price hikes drive earnings & rating upgrade

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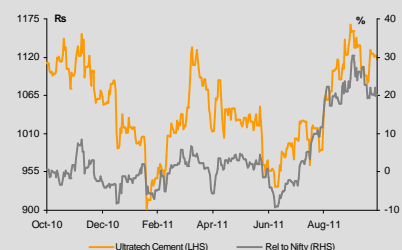
Reco	Previous Reco
Hold	Reduce
CMP	Target Price
Rs1,111	Rs1,170
EPS change FY12E/13E (%)	+4.4/+2.0
Target Price change (%)	+11.4%
Nifty	5,092
Sensex	16,936

Price Performance

(%)	1M	3M	6M	12M
Absolute	(2)	13	10	0
Rel. to Nifty	(1)	24	27	18

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	UTCEN@IN
Equity Capital (Rs mn)	2741
Face Value(Rs)	10
No of shares o/s (mn)	274
52 Week H/L	1,188/890
Market Cap (Rs bn/USD mn)	306/6,226
Daily Avg Volume (No of sh)	182867
Daily Avg Turnover (US\$m)	4.0

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	63.4	63.4	63.4
FII/NRI	16.4	16.0	15.4
Institutions	7.8	7.8	8.5
Private Corp	4.9	5.1	5.0
Public	7.6	7.8	7.8

Source: Capitaline

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- **EBITDA of Rs5.81bn (+43% yoy) below est Rs5.96bn dragged by higher freight costs (Rs 819/t up 15% yoy) & RM costs (Rs594/t, 14% yoy). Higher other income drive net profit beat**
- **Minimal sequential drop in cement prices in south (22% of UTCEN's sales) & low base drive +20% yoy jump in realization to Rs4241/t, helping 21% growth in topline**
- **Cement price already up 6% from Q2FY12 avg, led by shorter pre Diwali construction season and continued cost pressures. Despite factoring in higher costs, the momentum in price hikes has led to EPS upgrade of 3.6%/2.5%- for FY12E/13E**
- **Recent decline in petcoke price & sharp price hikes to improve UTCEN's profitability going forward. Upgrade to HOLD, revise price target to Rs1170**

Minimal drop in prices in south & low base drive 21.6% revenues growth

With cement prices holding firm in south (22% of UTCEN's sales) as opposed to sharp drop in prices in Q2FY11, UTCEN realization jumped 20% yoy to Rs4241/t helping 21% revenue 21.6% growth, despite sluggish volume growth of 1.3% (9.2mnt). The topline at Rs39.1bn came in above estimates led by higher than expected cement realization. Despite above estimates topline, UTCEN's EBITDA at Rs5.81bn (+42.6% yoy) came in below estimates (Rs5.96bn) on account of higher than estimated freight costs (up 15% yoy) & higher RM costs (up 14.4% yoy). EBITDA/t of Rs631/t jumped 41% yoy because of low base, but the same declined 48% qoq. The better than estimated net profit at Rs 2.8bn (estimates of Rs2.5 bn) was driven by higher other income and lower interest.

Aggregate cost pressure has continued, however sequential decline in P&F provide some relief

Cost pressure for quarter continued with freight costs (Rs 819/t vs est of Rs796/t, up 15% yoy) and RM costs (Rs594/t vs est of Rs560/t, up 14.4% yoy) continuing upward trend. RM costs increased due to higher costs for limestone mining (due to diesel price hike in June-11) & also because of higher RMC sales. Other expenses also increased 15% yoy due to higher inter unit clinker transfer cost & higher maintenance expenses. Hence total cost increase Rs3646/t (+17% yoy & 12% qoq) vs est of Rs3433/t. We would like to highlight that though aggregate cost pressure has continued, we notice that the pace of increase in P&F cost has decelerated. In fact sequentially P&F cost/t declined 1.5% led by lower pet coke prices, providing some relief.

Increased momentum in price hikes leading to EPS & rating upgrades

Though on an all India basis cement prices in Q2FY12 declined by 7% due to the seasonal impact the uptick in prices which started in Sept-11 has gained momentum. The hikes this time around are substantial and in quicker succession as Pre Diwali construction season is the shortest this year (~25 days vs 40-45 days). Due to this increased momentum in prices, we are revising our estimates for FY12E/13E upwards by 4.4%/2.0%. Though we believe that costs would peak out by December 2011, the industry remains exposed to the risk of proposed new mining tax as it would increase the limestone mining costs by Rs75+80/t. Further given Coal India's strong pricing power, the coal behemoth could ask for a price hike to compensate for the higher incidence of tax. Upgrade to HOLD, revise price target to Rs1170 (Rs1050 earlier)

Financial Snapshot

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	EV/T (USD)
FY10	70,497	19,711	28.0	10,932	87.8	908.9	26.6	12.7	6.9	128.8
FY11	132,099	25,424	19.2	14,042	51.2	-41.6	18.4	21.7	12.1	130.0
FY12E	177,214	37,189	21.0	20,094	73.3	43.1	17.4	15.2	8.2	129.8
FY13E	197,467	43,559	22.1	23,048	84.1	14.7	17.0	13.2	7.6	140.7

Result Table

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	FY12YTD	FY11YTD	YoY (%)
Revenue	32,147	37,152	44,901	43,654	39,098	21.6	-10.4	82,751	72,045	14.9
Expenditure	28,069	30,075	34,692	31,773	33,281	18.6	4.7	65,054	57,970	12.2
<i>as % of sales</i>	<i>87%</i>	<i>81%</i>	<i>77%</i>	<i>73%</i>	<i>85%</i>			<i>79%</i>	<i>80%</i>	
Consumption of RM	4,416	4,863	5,936	4,663	6,218	40.8	33.4	10,880	9,129	19.2
<i>as % of sales</i>	<i>14%</i>	<i>13%</i>	<i>13%</i>	<i>11%</i>	<i>16%</i>			<i>13%</i>	<i>13%</i>	
Employee Expenses	1,911	1,876	2,169	1,841	2,058	7.7	11.8	3,899	3,581	8.9
<i>as % of sales</i>	<i>6%</i>	<i>5%</i>	<i>5%</i>	<i>4%</i>	<i>5%</i>			<i>5%</i>	<i>5%</i>	
Power, Oil & Fuel	8,434	8,959	9,656	10,367	9,549	13.2	-7.9	19,916	17,350	14.8
<i>as % of sales</i>	<i>26%</i>	<i>24%</i>	<i>22%</i>	<i>24%</i>	<i>24%</i>			<i>24%</i>	<i>24%</i>	
Freight & Handling	6505	7285	8205	7691	7480	15.0	-2.8	15171	14133	7.3
<i>as % of sales</i>	<i>20%</i>	<i>20%</i>	<i>18%</i>	<i>18%</i>	<i>19%</i>			<i>18%</i>	<i>20%</i>	
Other Expenses	6803	7091	8726	7212	7977	17.2	10.6	15188	13778	10.2
<i>as % of sales</i>	<i>21%</i>	<i>19%</i>	<i>19%</i>	<i>17%</i>	<i>20%</i>			<i>18%</i>	<i>19%</i>	
EBITDA	4,078	7,078	10,210	11,881	5,816	42.6	-51.0	17,697	14,075	25.7
Depreciation	2184	2191	2267	2230	2228	2.0	-0.1	4457	4316	3.3
EBIT	1,894	4,887	7,943	9,651	3,589	89.5	-62.8	13,240	9,759	35.7
Other Income	684	606	894	658	1034	51.2	57.2	1692	1542	9.7
Interest	845	818	829	726	672	-20.5	-7.5	1398	1632	-14.4
PBT	1,733	4,675	8,008	9,583	3,951	128.0	-58.8	13,534	9,669	40.0
Total Tax	575	1486	2091	2752	1162	102.1	-57.8	3914	2934	33.4
Adjusted PAT	1158	3190	5916	6831	2789	140.9	-59.2	9620	6735	42.8
Extra ordinary items			1351	0	0			0	0	
Reported PAT	1158	3190	7268	6831	2789	140.9	-59.2	9620	6735	42.8
(Profit)/loss from JV's/Ass/MI										
PAT after MI	1158	3190	7268	6831	2789	140.9	-59.2	9620	6735	42.8
Reported EPS	4.2	11.7	21.7	25.0	10.2	140.9	-59.2	35.2	24.6	42.8

Margins (%)						bps	bps			
EBIDTA	12.7	19.1	22.7	27.2	14.9	219	-1234	21.4	19.5	185
EBIT	5.9	13.2	17.7	22.1	9.2	329	-1293	16.0	13.5	245
EBT	5.4	12.6	17.8	22.0	10.1	472	-1185	16.4	13.4	293
PAT	3.6	8.6	13.2	15.6	7.1	353	-851	11.6	9.3	228
Effective Tax rate	33.2	31.8	26.1	28.7	29.4	-378	69	28.9	30.3	-142

Per tonne analysis

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	FY12YTD	FY11YTD	YoY (%)
Cement Volumes (mn t)	9.1	9.6	10.8	9.9	9.2	1.3	-6.5	19.1	19.5	-2.1
Raw Material Consumed	519	524	529	560	588	13.2	4.9	574	525	9.3
Stock Adjustment	-34	-18	20	-88	87	-355.6	-198.9	-3	-57	-94.0
Purchase of Finished Goods	25	29	36	38	49	94.9	28.3	43	34	28.2
Employee Expenses	210	195	201	187	223	6.3	19.6	204	184	11.2
Power, Oil & Fuel	927	931	894	1051	1036	11.7	-1.5	1044	890	17.3
Freight	715	757	760	780	811	13.5	4.0	795	725	9.7
Other Expenses	722	708	772	693	816	13.0	17.7	753	673	11.8
Total Cost per tonne	3085	3126	3212	3222	3610	17.0	12.0	3410	2974	14.6
Realisation per tonne	3533	3862	4158	4427	4241	20.0	-4.2	4337	3696	17.3
EBIDTA Per tonne	448	736	945	1205	631	40.8	-47.6	928	722	28.5

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	70,497	132,099	177,214	197,467
Growth (%)	10.4	87.4	34.2	11.4
Total Expenditure	50,827	106,781	140,073	153,960
Raw Materials Cost	9,606	18,053	23,835	27,402
Power & Fuel cost	14,309	31,226	42,399	45,973
Freight	13,729	28,849	37,291	41,992
Others	13,182	28,653	36,548	38,595
EBIDTA	19,711	25,424	37,189	43,559
Growth (%)	15.7	29.0	46.3	17.1
EBIDTA %	28.0	19.2	21.0	22.1
Depreciation	3,881	7,657	9,214	9,517
EBIT	15,830	17,766	27,975	34,041
EBIT Margin (%)	22.5	13.4	15.8	17.2
Other income	1,227	2,867	3,674	3,674
Interest	1,175	2,771	2,778	4,600
EBT	15,882	17,862	28,871	33,115
Tax	4,949	3,820	8,777	10,067
Effective tax rate (%)	31.2	21.4	30.4	30.4
Adjusted PAT	10,932	14,042	20,094	23,048
Growth (%)	11.9	28.4	43.1	14.7
Net Margin (%)	15.5	10.6	11.3	11.7
E/O items				
Reported PAT	10,932	14,042	20,094	23,048
(Profit)/loss from JV's/Ass/MI				
PAT after MI	10,932	14,042	20,094	23,048
Growth (%)	11.9	28.4	43.1	14.7

Cash Flow

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	15,882	14,995	25,197	29,441
Depreciation	3,881	7,657	9,214	9,517
Interest Provided	613	2,771	2,778	4,600
Other Non-Cash items	128	0	0	0
Chg in working cap	-893	-692	6,494	1,110
Tax paid	-3,891	-3,820	-8,777	-10,067
Operating Cash flow	15,719	20,743	34,907	34,601
Capital expenditure	-2,741	-107,101	-33,372	-57,487
Free Cash Flow	12,979	-86,358	1,534	-22,885
Other income	582	2,867	3,674	3,674
Investments	-6,358	-20,608	0	5,000
Investing Cash flow	-8,517	-16,489	3,674	8,674
Equity Capital Raised	1	1,523	0	0
Loans Taken / (Repaid)	-5,223	25,401	2,858	17,000
Interest Paid	-1,459	-2,771	-2,778	-4,600
Dividend paid (incl tax)	-728	-1,911	-1,911	-1,911
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cash flow	-7,410	-4,309	-1,831	10,489
Net chg in cash	-208	-55	3,378	-3,722
Opening cash position	1,045	837	1,448	4,826
Closing cash position	837	1,448	4,826	1,103

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	1,245	2,740	2,740	2,740
Reserves & surplus	44,822	103,872	122,035	143,172
Shareholders Funds	46,087	106,660	124,824	145,961
Secured Loans	8,542	27,898	30,816	47,816
Unsecured Loans	7,503	13,548	13,489	13,489
Loan Funds	16,045	41,446	44,304	61,304
Net Deferred Taxes	8,307	17,301	17,301	17,301
Total Liabilities	70,439	165,407	186,428	224,566
Gross Block	80,781	179,423	196,657	237,933
Less: Acc Depreciation	31,365	65,420	74,634	84,151
Net block	49,417	114,003	122,023	153,781
Capital WIP	2,594	11,053	27,192	43,402
Investment	16,696	37,303	37,303	32,303
Current Assets	14,724	37,575	44,495	44,102
Inventories	8,217	19,565	21,848	24,345
Sundry Debtors	2,158	6,023	7,283	8,115
Cash and Bank	837	1,448	4,826	1,103
Loans and Advances	3,511	10,539	10,539	10,539
Other current assets				
Current Liab & Prov	12,991	34,539	44,576	49,015
Current liabilities	11,381	28,804	38,841	43,281
Provisions	1,610	5,735	5,735	5,735
Net current assets	1,733	3,036	(81)	(4,913)
Miscellaneous Exps	0	0	0	0
Total Assets	70,439	165,407	186,428	224,565

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	28.0	19.2	21.0	22.1
Net Margin	15.5	10.6	11.3	11.7
ROCE	25.2	17.5	18.0	18.4
ROE	26.6	18.4	17.4	17.0
RoIC	32.7	21.4	24.0	25.7
Per Share Data (Rs)				
EPS	87.8	51.2	73.3	84.1
CEPS	119.0	79.2	106.9	118.8
BVPS	370.2	389.2	455.5	532.6
DPS	6.0	6.0	6.0	6.0
Valuations (x)				
PER	12.7	21.7	15.2	13.2
P/CEPS	9.3	14.0	10.4	9.3
P/BV	3.0	2.9	2.4	2.1
EV / Sales	1.9	2.3	1.7	1.7
EV / EBITDA	6.9	12.1	8.2	7.6
Dividend Yield (%)	0.5	0.5	0.5	0.5
Gearing Ratio (x)				
Net Debt/ Equity	(0.0)	0.0	0.0	0.2
Net Debt/EBIDTA	(0.1)	0.1	0.1	0.6
Working Cap Cycle (days)	-5.2	-8.9	-20.0	-20.0

Recommendation History: Ultratech Cement – UTCEM IN

Date	Reports	Reco	CMP	Target
27/07/2011	Ultratech Cement Q1FY12 Result Update	Reduce	1,028	1,050
27/04/2011	Ultratech Cement Q4FY11 Result Update	Reduce	1,061	1,050
25/01/2011	Ultratech Cement Q3FY11 Result Update	Reduce	1,019	1,040
27/10/2010	Ultratech Cement Q2FY11 Result Update	Reduce	1,100	1,040

Recent Research Reports

Date	Reports	Reco	CMP	Target
19/10/2011	Cement Sector Update			
30/08/2011	Shree Cement Management Meet Update	Accumulate	1,641	2,050
12/08/2011	India Cements Q1FY12 Result Update	UR	72	UR
09/08/2011	Madras Cement Q1FY12 Result Update	Accumulate	84	100

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