

UltraTech Cement

Performance highlights

Y/E Mar (₹ cr)	3QFY2012	2QFY2012	% Chg qoq	3QFY2011	% Chg yoy
Net sales	4,572	3,910	16.9	3,715	23.1
Operating profit	1,044	652	60.0	733	42.3
OPM (%)	22.4	16.4	605bp	19.6	284bp
Net profit	617	279	121.2	319	93.4

Source: Company, Angel Research

During 3QFY2012, UltraTech Cement (ULTC) posted strong 93.4% yoy growth in its bottom line on account of substantial 16.4% yoy growth (up 6% sequentially) in blended realization. Domestic dispatches (incl. clinker and white cement) rose by 6.2% yoy to 9.97mn tonnes. During the quarter, ULTC's bottom line was boosted by ₹66.6cr of subsidies relating to previous years in terms of state investment promotion scheme. **We remain Neutral on the stock.**

OPM up by 284bp yoy: During 3QFY2012, ULTC's net sales grew by 23.1% yoy to ₹4,572cr, primarily on account of higher realization. The company's blended realization improved by 16.4% yoy to ₹4,313/tonne. However, the company faced margin pressure on account of higher power and fuel (P&F) and freight costs. Per tonne P&F costs rose on account of costlier domestic and imported coal. While the cost of domestic coal was higher on a yoy basis due to price hike carried out by Coal India in February 2011, imported coal costs increased because of INR depreciation. Despite cost pressures, strong realizations resulted in a 284bp yoy expansion in OPM to 22.4%

Outlook and valuation: We expect ULTC to post a 22.4% CAGR in its top line over FY2011-13, aided by higher volumes (also FY2011 financials included only nine months of Samruddhi's operations). Going ahead, we expect ULTC to face cost pressures due to the new calorific value-based pricing system introduced by Coal India. At current levels, the stock is trading at EV/EBITDA of 7.3x on FY2013 estimates, which we believe is fair. Hence, **we continue to maintain our Neutral recommendation on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net Sales	7,050	13,210	18,021	19,806
% chg	10.4	87.4	36.4	9.9
Net Profit	1,093	1,404	2,037	2,267
% chg	11.9	28.4	45.1	11.3
OPM (%)	28.9	20.5	21.7	21.7
FDEPS(₹)	87.8	51.2	74.3	82.7
P/E(x)	13.9	23.8	16.4	14.7
P/BV(x)	3.3	3.1	2.7	2.3
RoE(%)	26.6	18.4	17.7	17.1
RoCE(%)	24.4	16.5	17.4	17.5
EV/Sales (x)	2.2	2.6	1.8	1.6
EV/EBITDA	7.6	12.7	8.4	7.3

Source: Company, Angel Research; Note: FY2010 and FY2011 financials do not include the full impact of Samruddhi's merger

NEUTRAL

CMP	₹1,218
Target Price	-

Investment Period	-
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Stock Info	
Sector	Cement
Market Cap (Rs cr)	33,376
Beta	0.5
52 Week High / Low	1,281/890
Avg. Daily Volume	10116
Face Value (Rs)	10
BSE Sensex	16,996
Nifty	5,127
Reuters Code	ULTC.BO
Bloomberg Code	UTCEM@IN

Shareholding Pattern (%)	
Promoters	63.4
MF / Banks / Indian Fls	10.6
FII / NRIs / OCBs	19.0
Indian Public / Others	7.1

Abs. (%)	3m	1yr	3yr
Sensex	0.3	(11.3)	95.9
Ultra Tech	7.8	19.7	208.2

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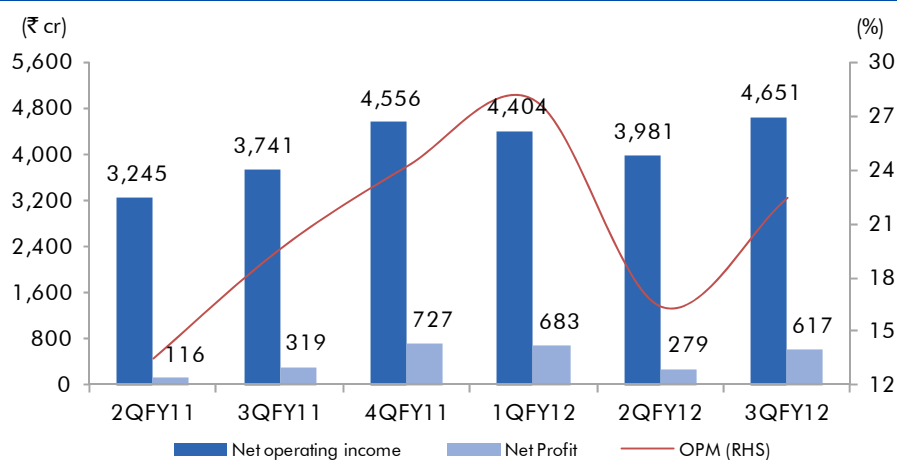
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Exhibit 1: 3QFY2012 performance (Standalone)

Y/E March (₹ cr)	3QFY2012	2QFY2012	% Chg qoq	3QFY2011	% Chg yoy	9MFY2012	9MFY2011	% Chg
Net Sales	4,572	3,910	16.9	3,715	23.1	12,847	10,920	17.6
Other operating Income	79	71	11.4	26	208.0	189	89	112.5
Total Operating Income	4,651	3,981	16.8	3,741	24.3	13,036	11,009	18.4
Net raw-material costs	631	667	(5.3)	514	22.8	1,802	1,493	20.7
(% of sales)	13.8	17.1		13.8		14.0	13.7	
Power & fuel	1,119	955	17.1	896	24.9	3,114	2,638	18.0
(% of sales)	24.5	24.4		24.1		24.2	24.2	
Staff costs	223	206	8.2	188	18.7	613	547	11.9
(% of sales)	4.9	4.5		4.1		4.8	5.0	
Freight & forwarding	840	748	12.3	728	15.3	2,357	2,142	10.1
(% of sales)	18.4	16.4		15.9		18.3	19.6	
Other expenses	794	753	5.5	681	16.6	2,226	1,984	12.2
(% of sales)	17.4	16.5		14.9		17.3	18.2	
Total Expenditure	3,607	3,328	8.4	3,007	19.9	10,112	8,804	14.9
Operating Profit	1,044	652	60.0	733	42.3	2,923	2,204	32.6
OPM (%)	22.4	16.4	605bp	19.6	284bp	22.4	20.0	240bp
Interest	30	67	(56.0)	82	(63.9)	169	245	(30.9)
Depreciation	224	223	0.4	219	2.1	669	651	2.9
Other Income	76	33	135.1	35	118.5	136	126	7.9
PBT	867	395	119.5	468		2,221	1,434	54.8
Provision for Taxation	250	116	115.4	149	68.5	642	442	45.2
(% of PBT)	28.9	29.4		31.8		28.9	30.8	
Reported PAT	617	279	121.2	319	93.4	1,579	992	59.1
PATM (%)	13.5	7.1		8.6		12.3	9.1	
EPS (₹)	22.5	10.2		11.6		57.6	36.2	

Source: Company, Angel Research

Exhibit 2: Financial performance


Source: Company, Angel Research

Exhibit 3: 3QFY2012 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	4,572	4,180	9.4
Operating profit	1,044	763	36.7
Net profit	617	352	75.2

Source: Company, Angel Research

Performance highlights
Net sales up 23.1% yoy, aided by higher realization

During 3QFY2012, ULTC's net sales rose by 23.1% yoy on account of higher blended realization. During the quarter, realization improved by 16.4% yoy to ₹4,313/tonne. The company's domestic dispatches (incl. clinker and white cement) stood at 9.97mn tonnes, up 6.2% yoy, in 3QFY2012.

Strong realization results in OPM expansion, despite cost pressures

ULTC faced margin pressure on account of higher P&F and freight costs. P&F costs rose on account of costlier and imported coal. During the quarter, while the cost of domestic coal was higher on yoy basis due to price hike carried out by Coal India in February 2011, imported coal costs increased on account of INR depreciation. Despite cost pressures, strong realization resulted in a 284bp yoy expansion in OPM to 22.4%.

Per tonne analysis

During 3QFY2012, ULTC's blended realization per tonne rose by 16.4% yoy to ₹4,313. Raw-material cost per tonne rose by 16.2% yoy. P&F cost per tonne rose by 18.1% yoy on account of increased coal prices, both domestically and internationally. Domestic fuel costs were higher on a yoy basis due to the price hike by Coal India during February 2011. During 3QFY2012, although global coal prices were flat on yoy USD terms, the substantial depreciation in INR made imported coal expensive. Freight cost/per tonne rose by 9.1% yoy. The company's operating profit/tonne increased by 28.9% yoy to ₹910.

Exhibit 4: Operational performance

Particulars (₹)	3QFY2012	2QFY2012	3QFY2011	chg (%) yoy	chg (%) qoq
Realization/tonne	4,313	4,069	3,706	16.4	6.0
Raw-material cost/tonne	616	611	530	16.2	0.8
P&F cost /tonne	1,055	994	894	18.1	6.2
Freight cost/tonne	793	778	727	9.1	1.8
Other costs	749	783	680	10.3	(4.3)
Operating profit/tonne	910	605	706	28.9	50.4

Source: Company, Angel Research

Investment arguments

India's largest cement manufacturer: Post the merger of *Samruddhi* (erstwhile cement division of *Grasim*) with itself, ULTC is now India's largest cement player with a pan-India presence. The company has also acquired a controlling stake in Dubai-based *ETA Star*. *ETA Star*'s manufacturing facilities include a 2.3mtpa clinkerization plant and a 2.1mtpa grinding capacity in UAE, and 0.4mtpa and 0.5mtpa grinding facilities in Bahrain and Bangladesh, respectively. In addition, ULTC has a capital outlay of ₹11,000cr to be spent over the next three years for setting up additional clinkerization plants at Chattisgarh and Karnataka along with grinding units and bulk packaging terminals across various states. Post these expansions, the company's total capacity is expected to increase by 9.2mtpa, which is expected to be operational by FY2014.

Pan-India presence to insulate ULTC from price volatility: ULTC has been enjoying good brand equity, which has only strengthened post *Samruddhi*'s merger along with being insulated from the wide variations in regional demand and price volatility. Post the merger, ULTC has been enjoying synergic benefits by way of superior operating efficiencies due to its larger size.

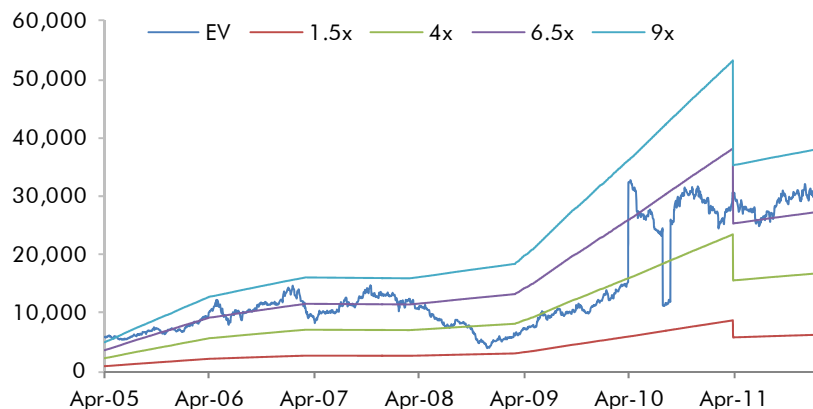
Increased use of captive power to protect margins: Currently, ULTC has 504MW of power capacity. The company is planning to expand its capacity by 70MW. Increased use of captive power for its overall power requirements would help the company to maintain healthy operating margins.

Outlook and valuation: We expect ULTC to post a 22.4% CAGR in its top line over FY2011-13, aided by higher volumes (also FY2011 financials included only nine months of *Samruddhi*'s operations). At current levels, the stock is trading at EV/EBITDA of 7.3x on FY2013E, which we believe is fair. Hence, **we continue to maintain our Neutral recommendation on the stock.**

Exhibit 5: Change in estimates

(₹ cr)	FY2012E			FY2013E		
	Earlier	Revised	Var. (%)	Earlier	Revised	Var. (%)
Net Sales	17,319	18,021	4.1	19,411	19,806	2.0
Operating Exp	13,727	14,316	4.3	15,342	15,736	2.6
Operating Profit	3,755	3,911	4.2	4,252	4,297	1.1
Depreciation	909	909	0.0	976	976	0.0
PBT	2,711	2,911	7.4	3,140	3,239	3.2
Tax	813	873	7.4	942	972	3.2
PAT	1,898	2,037	7.3	2,198	2,267	3.2

Source: Angel Research

Exhibit 6: One-year forward EV/Ebitda


Source: Company, Angel Research

Exhibit 7: Recommendation summary

Company	Reco	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR	FY2013E RoCE (%)	FY2013E RoE (%)
ACC*	Neutral	1,176	-	-	2.8	17.4	6.4	20.9	16.7
Ambuja Cements*	Neutral	160	-	-	2.7	17.4	6.9	20.4	16.5
India Cements	Neutral	78	-	-	0.7	8.5	165.3	7.2	8.0
JK Lakshmi	Acc.	46	51	11.6	0.5	5.9	53.9	7.5	8.3
Madras Cement	Neutral	113	-	-	1.1	7.4	31.1	12.8	16.5
Shree Cements	Neutral	2,237	-	-	3.0	18.0	29.6	15.0	18.2
UltraTech Cements	Neutral	1,218	-	-	2.3	14.7	27.1	17.5	17.1

Source: Company, Angel Research; Note: *Y/E December

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net Sales	5,509	6,383	7,050	13,210	18,021	19,806
Other operating income	62	61	67	164	206	227
Total operating income	5,571	6,444	7,116	13,374	18,228	20,033
% chg	13.4	15.7	10.4	87.9	36.3	9.9
Total Expenditure	3,789	4,679	5,079	10,668	14,316	15,736
Net Raw Materials	510	607	1,023	1,855	2,478	2,762
Other Mfg costs	1,253	1,727	1,431	3,123	4,573	4,984
Personnel	172	218	251	667	806	887
Other	1,854	2,127	2,375	5,023	6,459	7,103
EBITDA	1,782	1,765	2,038	2,707	3,911	4,297
% chg	25.7	(1.0)	15.5	32.8	44.5	9.9
(% of net Sales)	32	28	29	20.5	21.7	21.7
Depreciation & Amortization	237	323	388	766	909	976
EBIT	1,545	1,442	1,650	1,941	3,002	3,321
% chg	29.6	(6.7)	14.4	17.7	54.7	10.6
(% of net Sales)	28.0	22.6	23.4	14.7	16.7	16.8
Interest & other Charges	76	126	118	277	230	223
Other Income	37	45	56	122	139	141
(% of PBT)	2	3	4	7	5	4
Recurring PBT	1,507	1,362	1,588	1,786	2,911	3,239
% chg	32.5	(9.6)	16.7	12.5	62.9	11.3
Extraordinary expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	1,507	1,362	1,588	1,786	2,911	3,239
Tax	499.4	384.4	494.9	382.0	873.2	971.8
(% of PBT)	33	28	31	21	30	30
PAT (reported)	1,007	977	1,093	1,404	2,037	2,267
Adjusted PAT	1,007	977	1,093	1,404	2,037	2,267
% chg	33.8	(3.0)	11.9	28.4	45.1	11.3
(% of Net Sales)	18.3	15.3	15.5	10.6	11.3	11.4
Basic EPS (₹)	81	78	88	51	74	83
Fully Diluted EPS (₹)	81	78	88	51	74	83
% chg	33.8	(3.0)	11.9	(41.7)	45.1	11.3

Balance sheet (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity share capital	124	124	124	274	274	274
Reserves & surplus	2,573	3,478	4,484	10,392	12,074	13,946
Shareholders' funds	2,697	3,602	4,609	10,666	12,348	14,220
Total loans	1,741	2,142	1,605	4,145	3,795	4,155
Deferred tax liability	542	723	831	1,730	1,730	1,730
Total Liabilities	4,980	6,467	7,044	16,541	17,873	20,105
APPLICATION OF FUNDS						
Gross block	4,973	7,401	8,078	17,942	19,142	20,542
Less: acc. depreciation	2,472	2,765	3,136	6,542	7,451	8,427
Net Block	2,500	4,636	4,942	11,401	11,691	12,115
Capital work-in-progress	2,283	677	259	1,105	1,905	3,505
Goodwill						
Investments	171	1,035	1,670	3,730	3,730	3,730
Current Assets	1,304	1,372	1,472	3,757	4,880	5,551
Cash	101	104	84	145	352	462
Loans & advances	377	382	351	1,054	1,139	1,281
Other	826	886	1,038	2,559	3,390	3,808
Current liabilities	1,279	1,253	1,299	3,454	4,334	4,797
Net Current Assets	25	119	173	304	546	754
Misc. exp. not written off	-	-	-	-	-	-
Total Assets	4,980	6,467	7,044	16,541	17,873	20,105

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	1,507	1,362	1,588	1,786	2,911	3,239
Depreciation	237	323	388	766	909	976
Change in Working Capital	120	(113)	(90)	(93)	(34)	(98)
Add: Interest expenses	76	126	118	277	230	223
Less: Other income	37	45	56	122	139	141
Direct taxes paid	480	210	389	519	873	972
Cash Flow from Operations	1,422	1,442	1,559	2,095	3,004	3,228
(Inc.)/ Dec. in Fixed Assets	(1,774)	(823)	(259)	(1,223)	(2,000)	(3,000)
(Inc.)/ Dec. in Investments	313	(864)	(635)	(542)	-	-
Other income	37	45	56	122	139	141
Cash Flow from Investing	(1,424)	(1,641)	(838)	(1,642)	(1,861)	(2,859)
Issue of Equity	-	-	-	1	-	-
Inc./(Dec.) in loans	162	401	(537)	(1)	(350)	360
Dividend Paid (Incl. Tax)	73	73	87	141	355	395
Others	76	126	118	252	230	223
Cash Flow from Financing	13	203	(742)	(392)	(935)	(258)
Inc./(Dec.) in Cash	11	4	(21)	61	207	110
Opening Cash balances	90	101	104	84	145	352
Closing Cash balances	101	104	84	145	352	462

Key ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	15.1	15.5	13.9	23.8	16.4	14.7
P/CEPS	12.2	11.7	10.2	15.4	11.3	10.3
P/BV	5.6	4.2	3.3	3.1	2.7	2.3
Dividend yield (%)	0.5	0.5	0.6	0.4	1.1	1.2
EV/Sales	2.7	2.5	2.2	2.6	1.8	1.6
EV/EBITDA	8.4	9.2	7.6	12.7	8.4	7.3
EV / Total Assets	3.0	2.5	2.2	2.1	1.8	1.6
Per Share Data (₹)						
EPS (Basic)	80.9	78.5	87.8	51.2	74.3	82.7
EPS (fully diluted)	80.9	78.5	87.8	51.2	74.3	82.7
Cash EPS	100.0	104.4	119.0	79.2	107.5	118.3
DPS	5.8	5.8	7.0	5.1	13.0	14.4
Book Value	216.6	289.3	370.2	389.2	450.6	518.9
Dupont Analysis						
EBIT margin	27.7	22.4	23.2	14.5	16.5	16.6
Tax retention ratio	66.9	71.8	68.8	78.6	70.0	70.0
Asset turnover (x)	1.3	1.1	1.1	1.1	1.1	1.1
ROIC (Post-tax)	23.8	18.4	17.0	13.1	12.4	12.5
Cost of Debt (Post Tax)	3.0	4.6	4.3	7.6	4.1	3.9
Leverage (x)	0.7	0.6	0.5	0.4	0.3	0.3
Operating ROE	39.2	26.9	22.9	15.1	15.3	15.1
Returns (%)						
ROCE (Pre-tax)	34.8	25.2	24.4	16.5	17.4	17.5
Angel ROIC (Pre-tax)	54.1	34.8	26.6	17.7	19.4	20.9
ROE	45.2	31.0	26.6	18.4	17.7	17.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.1	1.0	0.9	1.0	1.0	1.0
Inventory / Sales (days)	34	37	39	38	45	50
Receivables (days)	13	12	11	11	14	16
Payables (days)	98	99	92	81	99	106
WC cycle (ex-cash) (days)	1	(2)	3	3	4	4
Solvency ratios (x)						
Net debt to equity	0.5	0.3	(0.0)	0.0	(0.0)	(0.0)
Net debt to EBITDA	0.8	0.6	(0.1)	0.1	(0.1)	(0.0)
Interest Coverage (EBIT / Int.)	20.4	11.5	14.0	7.0	13.0	14.9

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1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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