

Q3FY2012 Review
 Sector: Cement
 BSE Sensex: 16,739

ULTRATECH CEMENT

 Downgrade
 CMP Rs1,211
 TP Rs1,340

23 January 2012

Smart Recovery Post Monsoon

UltraTech Cement's (UTCEM) Q3FY12 results were ahead of our expectation as better realisations and an increased other income helped the company post a net profit of Rs6.2bn; 35% higher than our estimate. Pickup in demand post monsoon season led to a 10.8% and 5.8% sequential growth in volumes and realisations respectively. The increase in realisations helped negate the cost push and expand margins 605bps to 22.4% (PINCe 20.3%). Subsidy and other income boosted the reported profits.

Volumes and realisation pickup: Post monsoon season, cement demand has picked up in tandem with prices across all regions barring Southern region. UTCEM cement volumes in Q3 were up 10.8% sequentially and capacity utilisation during the period stood at 81%. However, on a YoY basis cement volume growth continues to remain subdued at ~2%. Cement realisations in the Southern region continued to be supported through production discipline and witnessed little movement. Blended cement realisations for UTCEM were up 5.8% QoQ to Rs4.5k/mt as against our estimate of Rs4.4k/mt.

Cost structure inline with estimates: Cost pressure on margins was evident as QoQ energy and freight costs increased 6% and 1.6% respectively. Coal costs were higher on account of the domestic coal price hike and depreciation of currency impacting imported coal. However, higher operating leverage and rising realisations helped the company pare the cost push and expand margins 605bps to 22.4%. With higher realisations, UTCEM delivered EBITDA per mt of Rs1,026 as against our estimate of Rs906.

Higher other income, lower interest expense: Other income both YoY and QoQ doubled to Rs765mn. Interest cost in Q3 halved due to a Rs384mn subsidy related to the SIPS. As a result net profit at Rs6.2bn beat our estimate by 35%.

Outlook: Considering the lacklustre scenario for cement demand across key sectors infrastructure and housing, we have reduced our cement volume estimates for FY12 and FY13 by 4% and 7% respectively. Realisations continue to support margins currently; however increased energy costs are expected to impact margins in FY13. We have increased FY12 margin estimate by 32bps while lowering FY13E by 65bps. Consequently, while FY12 earnings estimate is revised upwards by 15.6% to Rs81.8, while FY13 estimate is marginally increased (<1%) to Rs95.4. We also introduce FY14 earnings estimate of Rs105.8.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at 6.4x FY13E EV/EBITDA. In view of the limited upside offered, we downgrade it to an 'ACCUMULATE' rating with a revised target price of Rs1,340 (earlier Rs1,317) discounting FY13E EBITDA 7x.

KEY FINANCIALS	(Rs mn)				
	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	70,497	132,099	181,028	199,047	227,388
YoY Gr. (%)	10.4	87.4	37.0	10.0	14.2
EBITDA	20,354	26,884	41,715	48,199	54,154
EBITDA Margin (%)	28.6	20.1	22.9	24.0	23.7
Adjusted Net Profit	10,933	12,787	22,415	26,135	29,001
YoY Gr. (%)	15.2	17.0	75.3	16.6	11.0
KEY RATIOS					
Dil. EPS (Rs)	87.8	54.0	81.8	95.4	105.8
ROCE (%)	25.2	17.4	19.3	20.2	20.3
RoE (%)	26.6	16.7	19.2	18.8	17.7
PER (x)	13.8	22.4	14.8	12.7	11.4
EV/EBITDA (x)	14.8	11.4	7.5	6.4	5.5
EV/MT (USD)	135	144	148	145	119

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net Sales	44,044	39,806	46,508
YoY Gr. (%)	143.4	22.7	24.3
EBITDA	12,271	6,525	10,439
EBITDA Mar %	27.9	16.4	22.4
Adj. Net Profit	6,831	2,789	6,169
YoY Gr. (%)	181.3	140.8	99.9

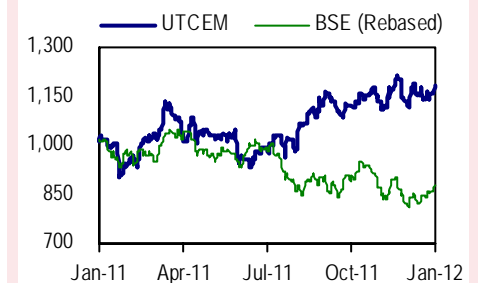
STOCK DATA

Market Cap	Rs332bn
Book Value per share	Rs450.7
Eq Shares O/S (FV Rs10)	274mn
Free Float	36.7%
Avg Traded Val. (6 mnths)	Rs186mn
52 week High/Low	Rs1234/890
Bloomberg Code	UTCEM IN
Reuters Code	UTCL.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	8.6	8.4	18.9
Relative	(1.7)	9.6	30.8

RELATIVE PERFORMANCE



Variance to PINC Estimate

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	46,508	45,406	2.4	Subsidy and realisation boosted revenue
EBITDA	10,439	9,196	13.5	
EBITDA Margin (%)	22.4	20.3	219 bps	Profitability improved on higher cement prices
Adjusted PAT	6,169	4,578	34.7	Subsidy on Interest further boosted profits

Financial Table

(Rs mn)

	Dec-11	Dec-10	YoY%	Sep-11	QoQ%	9MFY12	9MFY11	YoY%
Net Sales	46,508	37,409	24.3	39,806	16.8	130,358	87,950	48.2
EBITDA	10,439	7,334	42.3	6,525	60.0	29,235	15,967	83.1
<i>EBITDA Margins (%)</i>	<i>22.4</i>	<i>19.6</i>	<i>280 bps</i>	<i>16.4</i>	<i>610 bps</i>	<i>22.4</i>	<i>18.2</i>	<i>430 bps</i>
Other Income	765	350	118.5	325	135.1	1,358	1,021	33.0
Interest	295	818	(63.9)	672	(56.0)	1,693	1,942	(12.8)
Depreciation	2,236	2,191	2.1	2,228	0.4	6,694	5,390	24.2
PBT	8,672	4,675	85.5	3,951	119.5	22,206	9,656	130.0
Tax	2,503	1,589	57.5	1,162	115.4	6,417	2,984	115.1
Reported PAT	6,169	3,190	93.4	2,789	121.2	15,789	6,672	136.6
Adjusted PAT	6,169	3,086	99.9	2,789	121.2	15,789	6,672	136.6
Adjusted EPS (Rs)	22.5	11.3	99.9	10.2	121.2	57.6	24.3	136.6

Rs Per MT

	Dec-11	Dec-10	YoY%	Sep-11	QoQ%	9MFY12	9MFY11	YoY%
Net Realisations	4,492	3,746	19.9	4,246	5.8	4,439	3,607	23.1
Raw Material Costs	576	487	18.3	675	(14.6)	570	472	20.9
Purchase of Traded Goods	44	28	57.6	49	(10.2)	43	34	26.5
Power & Fuel Costs	1,099	897	22.5	1,037	6.0	1,059	885	19.7
Employee Expenses	219	188	16.5	224	(2.1)	209	184	13.5
Freight & Handling Expense	826	729	13.2	812	1.6	803	712	12.7
Other Expenditure	780	682	14.4	817	(4.5)	759	665	14.2
EBITDA*	1,026	734	39.7	709	44.8	995	655	52.0

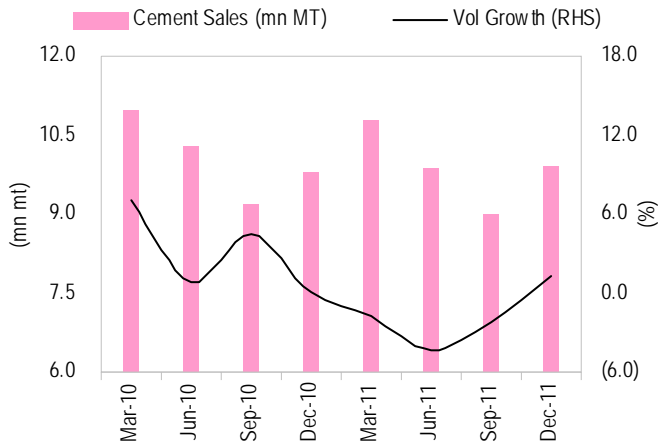
* EBITDA includes other operating Income

Proforma Volumes for UltraTech + Samruddhi

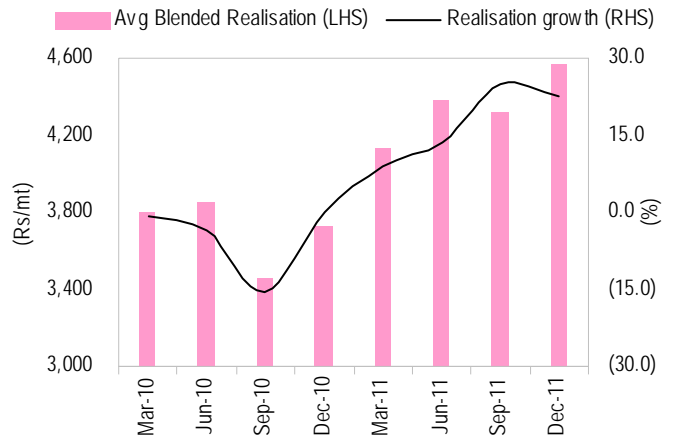
(mn MT)

	Dec-11	Dec-10	YoY%	Sep-11	QoQ%	9MFY12	9MFY11	YoY%
Cement Capacity	12.19	12.19	0.0	12.19	0.0	36.56	36.56	0.0
Cement Production	9.84	9.31	5.7	8.85	11.2	28.35	27.84	1.8
<i>Capacity Utilisation (%)</i>	<i>80.7</i>	<i>76.4</i>	<i>440 bps</i>	<i>72.6</i>	<i>810 bps</i>	<i>77.5</i>	<i>76.1</i>	<i>140 bps</i>
Total Sales	9.93	9.80	1.3	8.99	10.4	28.77	29.29	(1.8)

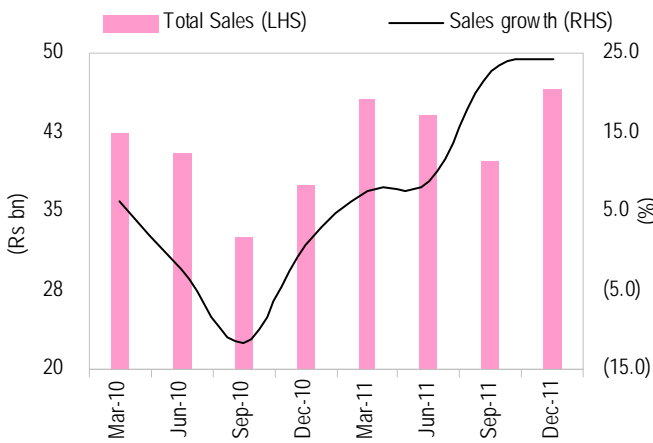
Sales Volume*



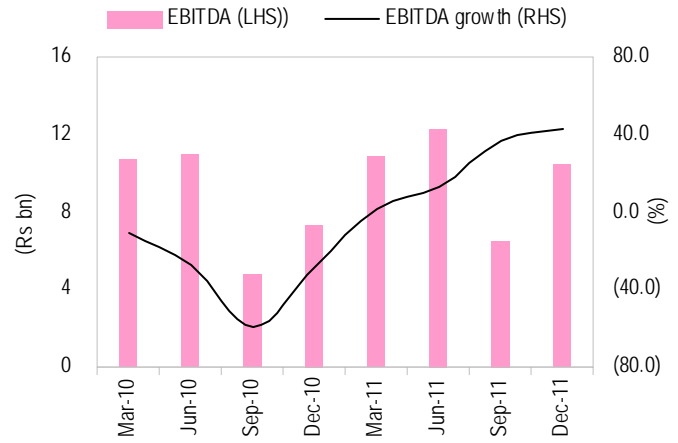
Realisation Trend*



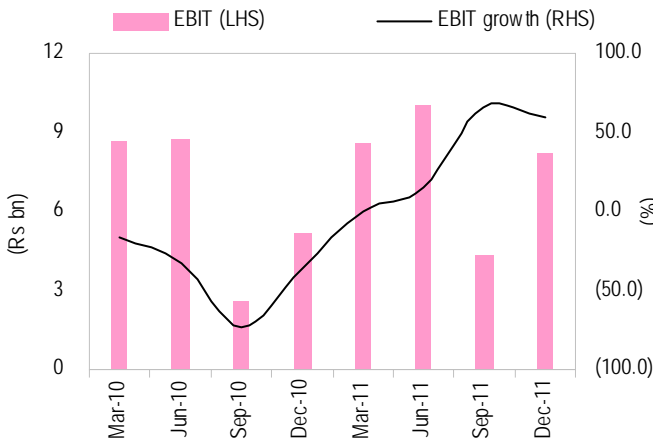
Net Sales Trend*



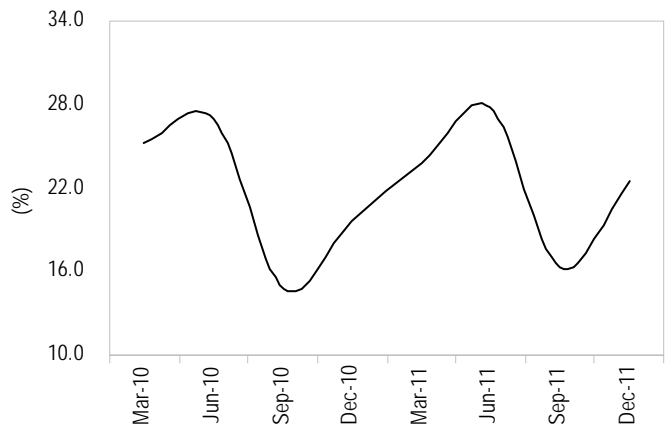
EBITDA Trend*



EBIT Trend*



EBITDA Margin Trend *



* All graphs are on a like to like basis adjusting for merger with Grasim (Samruddhi) Cement business

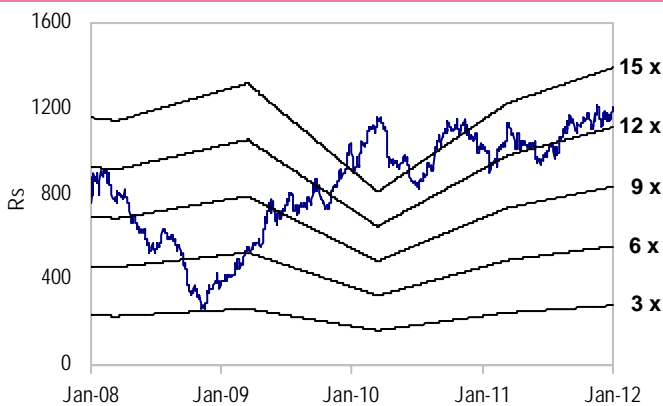
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	70,497	132,099	181,028	199,047	227,388
Growth (%)	10.4	87.4	37.0	10.0	14.2
Operating profit	19,718	25,424	40,196	46,832	52,718
Other operating income	637	1,460	1,520	1,368	1,436
EBITDA	20,354	26,884	41,715	48,199	54,154
Growth (%)	15.7	32.1	55.2	15.5	12.4
Depreciation	(3,881)	(7,657)	(9,052)	(9,608)	(11,329)
Other income	584	1,407	1,741	1,597	1,666
EBIT	17,057	20,633	34,405	40,189	44,490
Interest paid	(1,175)	(2,771)	(2,383)	(3,170)	(3,061)
PBT (before E/o items)	15,882	17,862	32,022	37,019	41,430
Tax provision	(4,949)	(5,075)	(9,607)	(10,884)	(12,429)
E/o Income / (loss)	-	1,255	-	-	-
Net profit	10,933	14,042	22,415	26,135	29,001
Adjusted net profit	10,933	12,787	22,415	26,135	29,001
Growth (%)	15.2	17.0	75.3	16.6	11.0
Diluted EPS (Rs)	87.8	54.0	81.8	95.4	105.8
Diluted EPS Growth (%)	15.2	(38.5)	51.4	16.6	11.0

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	15,882	19,117	32,022	37,019	41,430
Depreciation	3,711	34,056	9,052	9,608	11,329
Total tax paid	(3,891)	3,114	(9,844)	(10,684)	(12,179)
Chg in working capital	(875)	(940)	62	(688)	(3,545)
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	14,827	55,347	31,292	35,255	37,035
Capital expenditure	(2,592)	(12,801)	(37,497)	(27,550)	(25,200)
Chg in investments	(76)	(1,947)	-	-	-
Other investing activities	-	(46,435)	-	-	-
Cash flow from inv. (b)	(2,668)	(61,182)	(37,497)	(27,550)	(25,200)
Free cash flow (a+b)	12,160	(5,835)	(6,205)	7,705	11,835
Equity raised/(repaid)	(246)	1,543	-	-	-
Debt raised/(repaid)	(5,371)	(27)	1,758	(3,865)	(6,142)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(728)	(871)	(1,911)	(2,237)	(2,237)
Other financing activities	250	24,463	-	-	-
Cash flow from fin. (c)	(6,095)	25,107	(152)	(6,102)	(8,379)
Net chg in cash (a+b+c)	6,064	19,272	(6,357)	1,603	3,457

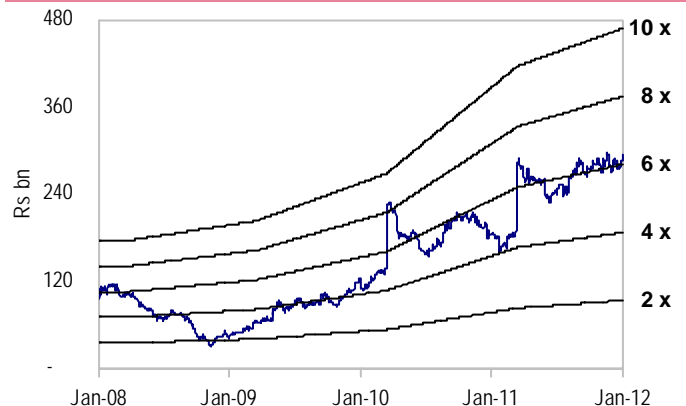
Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity capital	1,265	2,788	2,788	2,788	2,788
Reserves & surplus	44,822	103,872	124,051	147,949	173,754
Shareholders' funds	46,087	106,660	126,839	150,737	176,542
Minorities interests	-	-	-	-	-
Total Debt	16,045	41,446	43,204	39,339	33,198
Capital Employed	62,132	148,106	170,043	190,076	209,740
Net fixed assets	52,011	125,056	153,501	171,443	185,313
Cash & Cash Eq.	17,004	36,276	29,919	31,522	34,979
Net other Current Assets	896	1,600	1,649	2,337	4,923
Investments	529	2,475	2,475	2,475	2,475
Net Deferred Tax Assets	(8,307)	(17,301)	(17,501)	(17,701)	(17,951)
Total assets	62,132	148,106	170,043	190,076	209,740

Key ratios	FY10	FY11	FY12E	FY13E	FY14E
EBITDA Margin (%)	28.6	20.1	22.9	24.0	23.7
Net margin (%)	15.5	9.7	12.4	13.1	12.8
Dividend yield (%)	0.5	0.6	0.6	0.6	0.8
Net debt/Equity (x)	(0.0)	0.0	0.1	0.1	(0.0)
Net Working Capital (days)	5	13	4	3	3
Asset turnover (x)	0.9	0.9	0.8	0.8	0.9
ROCE (%)	25.2	17.4	19.3	20.2	20.3
RoE (%)	26.6	16.7	19.2	18.8	17.7
PER (x)	13.8	22.4	14.8	12.7	11.4
Price/Book (x)	3.3	2.7	2.6	2.2	1.9
EV/EBITDA (x)	14.8	11.4	7.5	6.4	5.5
EV/MT (USD)	135	144	148	145	119

P/E Band



EV/EBITDA Band



T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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