

Current	Previous
<b>CMP : Rs 3511</b>	
<b>Rating : HOLD</b>	<b>Rating : HOLD</b>
<b>Target : Rs 3695</b>	<b>Target : Rs 3806</b>

(NR-Not Rated)

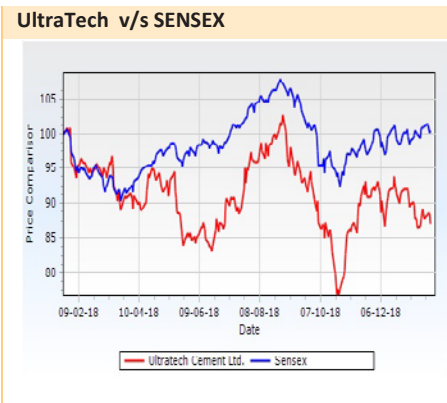
STOCK INFO	
INDEX	
BSE	532528
NSE	ULTRACEMCO
Bloomberg	UTCEM IN
Reuters	ULTC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Mn)	2746
Mkt Cap (Rs Mn)	964,156
52w H/L (Rs)	4490 /3264
Avg Weekly Vol (BSE+NSE)	1240240

SHAREHOLDING PATTERN	%
(As on December, 2018)	
Promoters	61.7
Public & Others	38.3

Source: ACE Equity, Arihant Research

Stock Performance (%)	3m	6m	12m
UltraTech	11.9	-8.4	-11.5
SENSEX	6.3	-1.7	0.1

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

**UltraTech reported mixed set of Q3 numbers. Revenue increased 18.9% YoY to Rs 93.8bn ahead of our estimate of Rs 90.9bn, EBITDA rose 8% YoY to Rs 14.4bn (estimate Rs 13bn), while PAT was down 13.7% YoY at Rs 3.9bn (estimate Rs 5.7bn), due to lower other income and higher interest and depreciation costs. PAT figure is not directly comparable due to the impact of higher debt from Binani Cement acquisition (in November 2018). EBITDA margins at 15.4%, has seen contraction of 154bps YoY due to rise in fuel costs. Cost pressure was partly offset by enhanced efficiencies. We expect UltraTech to benefit from moderation in pet coke and crude prices from Q4FY19 onwards. Maintain Hold with TP of Rs 3695**

### Q3FY19 Operational Highlights

- For Q3FY19 UltraTech's realisations grew 4.4% YoY to Rs 5246/t, though on sequential basis realisation was mostly flat (0.6% QoQ). Domestic sales volume increased by 13.2% YoY to 17.1mt.
- UltraTech witnessed strong volume growth in Q3FY19, however lower realisation on QoQ basis, and high operational costs owing to higher fuel prices and logistics costs, impacted Ultratech's performance in Q3FY19.

### Update on Binani Cement acquisition

The acquisition of Binani Cement, now renamed as UltraTech Nathdwara Cement Ltd (UNCL) was funded through a mix of debt and internal accruals (Rs 45bn debt + Rs 34bn internal accruals). While deciding on the transfer pricing, it will be on cost + margin basis and out of Rs 45bn debt, Rs 27bn debt will be in the books of UNCL. Before acquisition Binani's capacity utilisation was at 50% level which the management is expecting to increase to 80% level by Q4FY20 by internal efficiency. UltraTech management expects Binani (UNCL) to breakeven at PBT level by Q4FY20E.

### Valuations

After factoring in Q3FY19 results and listening to the management commentary in its post result conference call, we have revised our estimates for FY19E and FY20E, and have introduced FY21E estimates. We have valued the stock using EV/EBITDA multiple and have ascribed EV/EBITDA multiple of 15x to its FY21E estimates, and arrived at fair value of Rs 3695/- per share. We maintain our **'HOLD'** rating on the stock.

### Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)	EV/EBITDA (x)
FY18	314108	61452	22222	80.9	19.6	8.4	43.4	18.2
FY19E	360938	61359	20190	73.5	17.0	7.0	47.8	18.9
FY20E	412335	74220	27975	101.9	18.0	8.3	34.5	16.3
FY21E	458104	87040	36854	134.2	19.0	9.5	26.2	14.4

Source: Company, Arihant Research

## Q3FY19 and 9MFY19 Financial Performance

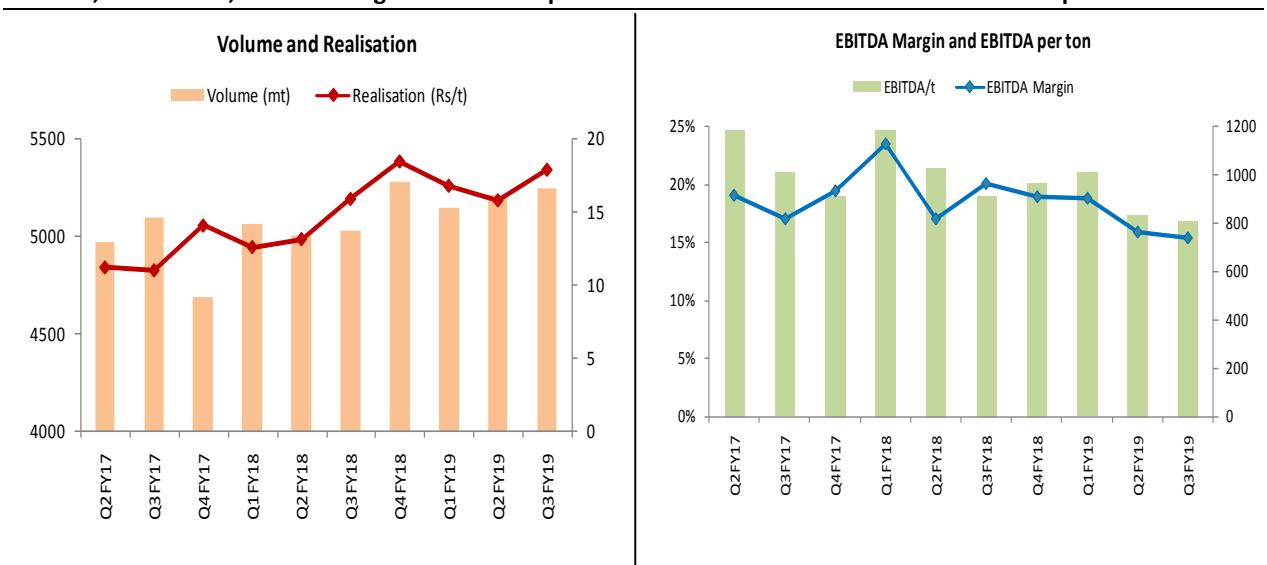
Rs Mn (consolidated)	Q3FY19	Q2FY19	Q3FY18	Q-o-Q	Y-o-Y	9MFY19	9MFY18	Y-o-Y
<b>Net Revenue</b>	<b>93,896</b>	<b>82,369</b>	<b>79,004</b>	<b>14.0%</b>	<b>18.9%</b>	<b>2,65,267</b>	<b>2,16,883</b>	<b>22.3%</b>
Material Cost	61,130	52,587	49,796	16.2%	22.8%	1,70,576	1,30,243	31.0%
Employee cost	5,337	5,329	4,892	0.1%	9.1%	15,613	13,648	14.4%
Other Expenses	12,981	11,336	10,940	14.5%	18.7%	34,608	29,348	17.9%
<b>EBITDA</b>	<b>14,449</b>	<b>13,117</b>	<b>13,376</b>	<b>10.2%</b>	<b>8.0%</b>	<b>44,471</b>	<b>43,644</b>	<b>1.9%</b>
<i>EBITDA margin %</i>	<i>15.4%</i>	<i>15.9%</i>	<i>16.9%</i>	<i>-54</i>	<i>-154</i>	<i>16.8%</i>	<i>20.1%</i>	<i>-336</i>
Other Income	1,033	1,348	1,562	-23.3%	-33.8%	3,108	4,774	-34.9%
Depreciation	5,565	5,357	4,957	3.9%	12.3%	15,989	13,470	18.7%
<b>EBIT</b>	<b>9,917</b>	<b>9,108</b>	<b>9,981</b>	<b>8.9%</b>	<b>-0.6%</b>	<b>31,589</b>	<b>34,948</b>	<b>-9.6%</b>
Finance cost	4,152	3,539	3,593	17.3%	15.6%	11,177	8,884	25.8%
Exceptional Item	-	-	-	-	-	-	-315	-
<b>PBT</b>	<b>5,765</b>	<b>5,569</b>	<b>6,389</b>	<b>3.5%</b>	<b>-9.8%</b>	<b>20,413</b>	<b>25,750</b>	<b>-20.7%</b>
Tax Expense	1,862	1,811	1,821	2.8%	2.3%	6,443	7,966	-19.1%
Effective tax rate %	32.3%	32.5%	28.5%	-22	380	31.6%	30.9%	63
<b>PAT</b>	<b>3,903</b>	<b>3,758</b>	<b>4,568</b>	<b>3.9%</b>	<b>-14.6%</b>	<b>13,970</b>	<b>17,784</b>	<b>-21.4%</b>
MI & Associates	34	11	-5			55	-24	
<b>Consolidated PAT</b>	<b>3,937</b>	<b>3,768</b>	<b>4,563</b>	<b>4.5%</b>	<b>-13.7%</b>	<b>14,025</b>	<b>17,761</b>	<b>-21.0%</b>
<i>PAT margin %</i>	<i>4.2%</i>	<i>4.6%</i>	<i>5.8%</i>	<i>-38</i>	<i>-158</i>	<i>5.3%</i>	<i>8.2%</i>	<i>-290</i>
<b>EPS (Rs)</b>	<b>14.3</b>	<b>13.7</b>	<b>16.6</b>	<b>4.5%</b>	<b>-13.7%</b>	<b>51.1</b>	<b>64.7</b>	<b>-21.0%</b>

Source: Company, Arianth Research

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Volumes (Mt)	11.5	13.2	12.6	11.2	11.0	14.1	12.6	13.1	15.9	18.5	16.8	15.8	17.9
Realisation (Rs)	5104	4719	4683	4966	5095	4689	5057	5001	5026	5277	5140	5213	5246
EBITDA Margin (%)	19.0%	22.8%	22.6%	19.0%	17.0%	19.4%	23.5%	17.0%	20.0%	18.9%	18.8%	15.9%	15.4%
EBITDA (Rs/t)	1020	1078	1191	1187	1011	909	1183	1028	909	964	1007	830	807

Source: Company, Arianth Research

## Volume, Realisation, EBITDA margin and EBITDA per ton metrics of Ultratech Cement over the quarters



Source: Company, Arianth Research

## Q3FY19 Conference Call Highlights

- 9-10% demand growth expected in Q4FY19
- 21% YoY increase in diesel price impacted costs
- Century Cement acquisition in 2017 has been mostly integrated and the plants are now running in line with existing operations (78% capacity utilization)
- When Binani was acquired, EBITDA was Rs 100 per ton and utilization at 50%
- Binani was funded through 40% internal accruals and 60% debt (Rs 27bn debt)
- Price increases been taken in institutional segment, and market structure has changed for the cement market
- In near term, prices remained stable, and company expects price to go up going forward
- Earlier company expected price to increase in Oct-Dec 2018 period, but that did not happen, due to some demand slowdown, company is hoping in Jan – Feb 2019 price might increase
- Except south, capacity utilisation in other parts of india is stable, and in January 2019 some price increases has taken place
- Low cost housing some demand increase has been seen, but not in affordable segment
- New construction has seen some improvement in Tier 1 cities like Mumbai, Gurgaon etc, but in affordable segment, not luxury segment, luxury segment showing huge unsold inventory
- On Binani acquisition company are taking transfer pricing opinion whether it will be cost plus or something else, has not been decided yet, but if it is cost plus basis then it will take into account the interest cost also as it has been funded 60:40 debt
- By Q4FY20 Binani could be PBT breakeven, but before that PBT hit will be there for Binani
- There was Rs 25-30 difference in marketing prices of Binani cement and Ultratech (before acquisition) and Binani did not use pet coke.
- 80% utilization level will be achieved in Binani by Q4FY20
- UAE plant operating at full capacity, management focus is first to consummate the Century deal, then breaking even the Binani deal, then looking into overseas UAE and China assets
- All the three states which faced Assembly Election, saw demand slowdown due to election. Company expecting the same for other states also during general election
- Annual capex guidance is Rs 10-12bn

## Valuations

Rs Mn	FY19E	FY20E	FY21E
EV/EBITDA (x)	18.9	16.3	15.0
EBITDA	61359	74220	87040
EV	1159852	1208527	1305597
Debt	213635	263615	313595
Cash	17938	19243	22747
Market Cap	964156	964156	1014750
No shares	275	275	275
CMP (Rs)	3511	3511	3511
Target (Rs)			3,695
Upside (%)			5.2%

## Financials (Consolidated)

## Income Statement

Y/E March (Rs Mn)	FY18	FY19E	FY20E	FY21E
<b>Revenues</b>	3,14,108	3,60,938	4,12,335	4,58,104
Change (%)	23.8%	14.9%	14.2%	11.1%
<b>Total Expenses</b>	2,52,656	2,99,578	3,38,115	3,71,064
<b>EBITDA</b>	61,452	61,359	74,220	87,040
Other Income	5,837	4,331	6,185	6,872
Depreciation	18,479	21,656	23,915	25,196
Interest	12,328	15,159	16,493	16,034
<b>PBT</b>	<b>36,482</b>	<b>28,875</b>	<b>39,996</b>	<b>52,682</b>
Extra-ordinary	3,467	0	0	0
<b>PBT after ext-ord.</b>	33,015	28,875	39,996	52,682
Tax	10,770	8,663	11,999	15,805
Rate (%)	32.6%	30.0%	30.0%	30.0%
<b>PAT</b>	<b>22,245</b>	<b>20,213</b>	<b>27,998</b>	<b>36,877</b>
<b>MI &amp; Associates</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>
<b>Consolidated PAT</b>	<b>22,222</b>	<b>20,190</b>	<b>27,975</b>	<b>36,854</b>
Change (%)	-18.1%	-9.1%	38.6%	31.7%

Source: Company, Arianth Research

## Balance Sheet

Y/E March (Rs Mn)	FY18	FY19E	FY20E	FY21E
<b>Sources of Funds</b>				
Share Capital	2,746	2,746	2,746	2,746
Reserves & Surplus	2,61,066	2,85,677	3,34,298	3,85,196
<b>Net Worth</b>	<b>2,63,812</b>	<b>2,88,423</b>	<b>3,37,044</b>	<b>3,87,942</b>
<b>Loan Funds</b>	<b>1,58,635</b>	<b>2,13,635</b>	<b>2,63,615</b>	<b>3,13,595</b>
MI, Deferred Tax & other Liabilities	36,490	36,490	36,490	36,490
<b>Capital Employed</b>	<b>4,58,936</b>	<b>5,38,547</b>	<b>6,37,148</b>	<b>7,38,026</b>
<b>Application of Funds</b>				
Net Block	3,42,190	4,56,376	5,56,376	6,56,376
CWIP	45,526	15,103	15,103	15,103
Other Non-current Assets	10,363	10,363	10,363	10,363
Deferred Tax Assets	1,498	1,231	1,231	1,231
<b>Net Fixed Assets</b>	<b>3,99,577</b>	<b>4,83,073</b>	<b>5,83,073</b>	<b>6,83,073</b>
<b>Investments</b>	<b>47,713</b>	<b>42,713</b>	<b>40,713</b>	<b>38,713</b>
Debtors	22,280	29,666	33,891	37,652
Inventories	32,676	34,610	39,539	43,928
Cash & Bank Balance	2,188	17,938	19,243	22,747
Loans & Advances & other CA	39,227	34,610	39,539	43,928
<b>Total Current Assets</b>	<b>96,370</b>	<b>1,16,825</b>	<b>1,32,212</b>	<b>1,48,255</b>
Current Liabilities	78,194	1,03,831	1,18,617	1,31,783
Provisions	6,529	232	232	232
<b>Net Current Assets</b>	<b>11,646</b>	<b>12,762</b>	<b>13,362</b>	<b>16,240</b>
<b>Total Assets</b>	<b>4,58,936</b>	<b>5,38,547</b>	<b>6,37,148</b>	<b>7,38,026</b>

Source: Company, Arianth Research

**Cash Flow Statement**

Y/E March (Rs Mn)	FY18	FY19E	FY20E	FY21E
<b>PBT</b>	<b>36,482</b>	<b>28,875</b>	<b>39,996</b>	<b>52,682</b>
Depreciation	18,479	21,656	23,915	25,196
Interest & others	6,513	10,851	10,331	9,185
Cash flow before WC changes	61,475	61,382	74,243	87,063
<b>(Inc)/dec in working capital</b>	<b>-19,474</b>	<b>14,635</b>	<b>704</b>	<b>627</b>
Operating CF after WC changes	42,000	76,017	74,947	87,690
Less: Taxes	-10,770	-8,663	-11,999	-15,805
<b>Operating Cash Flow</b>	<b>31,230</b>	<b>67,355</b>	<b>62,948</b>	<b>71,885</b>
(Inc)/dec in F.A + CWIP	-1,24,862	-99,733	-1,00,000	-1,00,000
(Pur)/sale of investment	9,149	5,000	2,000	2,000
<b>Cash Flow from Investing</b>	<b>-1,15,713</b>	<b>-94,733</b>	<b>-98,000</b>	<b>-98,000</b>
<b>Free Cash Flow (FCF)</b>	<b>-99,085</b>	<b>-32,645</b>	<b>-37,052</b>	<b>-28,115</b>
Loan raised/(repaid)	94,926	55,000	49,980	49,980
Equity raised	1	0	0	0
Interest & others	-27,404	-8,843	-10,826	-16,675
Dividend	-3,340	-3,028	-2,797	-3,685
<b>Cash Flow from Financing Activities</b>	<b>64,183</b>	<b>43,129</b>	<b>36,357</b>	<b>29,619</b>
<b>Net inc/(dec) in cash</b>	<b>-20,300</b>	<b>15,750</b>	<b>1,305</b>	<b>3,504</b>
Opening balance of cash	22,488	2,188	17,938	19,243
Closing balance of cash	2,188	17,938	19,243	22,747

Source: Company, Arianth Research

**Key Ratios**

Y/E March	FY18	FY19E	FY20E	FY21E
<b>Per share (Rs)</b>				
EPS	80.9	73.5	101.9	134.2
CEPS	148.2	152.4	189.0	226.0
BVPS	960.7	1050.3	1227.4	1412.7
DPS	12.2	11.0	10.2	13.4
Div. Payout (%)	15.0%	15.0%	10.0%	10.0%
<b>Valuation (x)</b>				
P/E	43.4	47.8	34.5	26.2
P/CEPS	23.7	23.0	18.6	15.5
P/BV	3.7	3.3	2.9	2.5
EV/EBITDA	18.2	18.9	16.3	14.4
Dividend Yield (%)	0.3%	0.3%	0.3%	0.4%
<b>Return Ratio (%)</b>				
EBIDTA Margin	19.6%	17.0%	18.0%	19.0%
PAT Margin	7.1%	5.6%	6.8%	8.0%
ROE	8.4%	7.0%	8.3%	9.5%
ROCE	9.4%	7.4%	7.9%	8.4%
<b>Leverage Ratio (x)</b>				
Total D/E	0.6	0.7	0.8	0.8
Net D/E	0.6	0.7	0.7	0.7
<b>Turnover Ratios</b>				
Asset Turnover (x)	0.7	0.7	0.6	0.6
Receivable Days	26	30	30	30
Payable days	98	105	105	105

Source: Company, Arianth Res

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**Stock Rating Scale**

	<b>Absolute Return</b>
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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