

UltraTech Cement

BSE SENSEX

65,931

S&P CNX

19,783



Bloomberg	UTCEM IN
Equity Shares (m)	288
M.Cap.(INRb)/(USDb)	2514 / 30.2
52-Week Range (INR)	8871 / 6604
1, 6, 12 Rel. Per (%)	2/5/20
12M Avg Val (INR M)	2586

Financial Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	712	761	841
EBITDA	132	156	181
Adj. PAT	74	90	108
EBITDA Margin (%)	19	20	22
Adj. EPS (INR)	257	313	376
EPS Gr. (%)	47	22	20
BV/Sh. (INR)	2,101	2,369	2,700

Ratios

Net D:E	(0.0)	(0.1)	(0.2)
RoE (%)	12.9	14.0	14.8
RoCE (%)	12.2	13.2	14.2
Payout (%)	17.5	14.4	14.6

Valuations

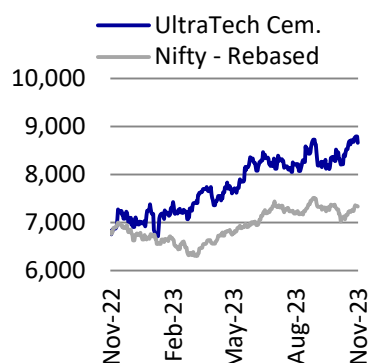
P/E (x)	33.8	27.8	23.2
P/BV (x)	4.1	3.7	3.2
EV/EBITDA(x)	18.8	15.5	13.0
EV/ton (USD)	222	191	171
Div. Yield (%)	0.5	0.5	0.6
FCF Yield (%)	2.2	2.9	4.1

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	60.0	60.0	60.0
DII	15.2	16.1	17.5
FII	17.3	16.5	14.7
Others	7.5	7.5	7.9

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR8,708

TP: INR10,100 (+16%)

Buy

Scaling new heights!

Well positioned to capture the growing cement demand

- UltraTech Cement (UTCEM) is breaking new ground with a target to increase its domestic grey cement capacity to ~182mtpa by FY27E. The company's capacity CAGR of 9.5% over FY23-27E is considered encouraging given the higher base. With these expansions, UTCEM maintains its leadership position in the industry.
- Cement demand remained strong post Covid-19, reporting a CAGR of ~9% over FY21-23. We believe that demand improvement was fueled by increased government spending on infrastructure development, low-cost housing schemes, and a strong demand from urban housing and real estate sector. We believe demand momentum would remain robust and estimate a 7-8% CAGR during FY23-28 to 575mt by FY28 (1.5x from 390mt in FY23).
- The company is also focusing on improving and prioritizing its ESG goals. It is continuously increasing its use of alternative raw materials, which has led to a reduction in the clinker factor to 69.4% currently from 70.9% in FY23. Further, UTCEM is investing heavily in renewable energy, and increasing its WHRS/other renewable (Solar and Wind) capacities to 465MW/1.5GW by FY27E. The aim is to increase the share of green energy to over 60% by end-FY27, from around 22% currently.
- We estimate 10%/19%/29% CAGR in consol. revenue/EBITDA/adjusted PAT over FY23-26, driven by higher sales volume, cost savings, lower interest, and tax expenses (by opting the new tax regime from FY24). We estimate its ROE/ROCE to improve to 15%/14% in FY26 vs. 10%/9% in FY23, aided by low-cost expansion. The company's improving earnings and return ratios, as well as leadership position warrant higher multiples for the stock, which currently trades at 15.5x/13.0x FY25E/FY26E EV/EBITDA. **We value the stock at 16x Sep'25E EV/EBITDA to arrive at our TP of INR10,100. Reiterate BUY.**

Phase – III expansion announcement on expected lines

- Recently, UTCEM announced a Phase – III expansion of grinding capacity by 21.9mtpa, comprising a mix of brownfield and Greenfield projects. Capex for this expansion stands at INR130b, which translates into a capex/t of USD72/t. This expansion will be commissioned in a phased manner from FY26.
- Further, work on Phase – II of the 24.4mtpa expansion (including 1.8mtpa of slag capacity), is on full swing. Management expects the work to be completed as per schedule. Upon completion of the Phase II & III expansions, the company's domestic grey cement capacity will increase to ~182mtpa by FY27, delivering a CAGR of 9.5% over FY23-27E.
- UTCEM's timely capacity expansion and increase in capacity utilization has helped the company gain considerable market share. UTCEM's domestic grey cement capacity/volume CAGR at 9%/11% over FY15-24E exceeded that of the industry (at 5% each). As a result, UTCEM's market share has spiked to ~26% in FY24E from ~16% in FY15. We expect the company to further expand its market share underpinned by capacity expansions.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Demand momentum to continue; estimate 7-8% CAGR over FY23-28

- Cement demand remained strong post-Covid and reported a CAGR of ~9% over FY21-23. We believe that demand improvement was fueled by increased government spending on infrastructure development, low-cost housing schemes, and a strong demand from urban housing and real estate sector.
- We believe that the strong demand momentum will continue driven by government-led infrastructure projects and housing schemes, individual housing segments, and a strong recovery in the real estate sector. The Road sector is likely to contribute more to this growth, as both the Ministry of Road Transport and Highways and the National Highways Authority of India (NHAI) have posted a 25% and 14% YoY growth in their total outlays, respectively. Demand will further be supported by an increase in industrial and commercial construction activities.
- We estimate a 7-8% CAGR in demand during FY23-28 to 575mt by FY28 (1.5x from 390mt in FY23). With increased government spending towards infrastructure development, the share of infrastructure in cement demand is estimated to jump to ~29% in the long-term from ~24% in FY23. The share of residential construction would reduce to ~62% (from 67%), and industrial & commercial's share would remain the same at ~9%.

Focused on improving and prioritizing the ESG goals

- UTCCEM is continuously increasing the use of alternative raw materials, which has led to a reduction in the clinker factor to 69.4% at present from 70.9% in FY23. The company's blended cement share stood at 70% vs. 69% in FY23.
- The company is investing heavily in renewable energy. It is increasing its WHRS capacity to 465MW by FY27E (currently at 262MW). It is participating in a hybrid solar-wind project, which will help increase other renewables capacity to 1.5GW by FY27E. Upon completion of these projects, green energy will meet more than 60% of total power requirements (25% from WHRS and 35% from other renewable energy) with increased capacity (it targets to achieve 34% green energy share by FY24-end from 22% at present).
- The company has achieved a water positivity rate of 4.55x and is targeting 5.0x by FY24E. UTCCEM aims to reduce Scope 1 and Scope 2 carbon emissions by 27% and 69%, respectively, by FY32 (FY17 being the base year). The company has achieved a 12% reduction in specific Scope 1 net carbon emissions to 557Kg/t of cementitious products in FY23.

Top of the pack; reiterate BUY

- We estimate UTCCEM's consolidated volume to report ~10% CAGR over FY23-26. We further estimate its EBITDA/t at INR1,110/INR1,210/INR1280 in FY24/FY25/FY26 vs. INR1,005 in FY23 (EBITDA/t was at INR1,225 in FY22).
- UTCCEM's net debt increased to INR49b as of Sep'23 from INR27b in Mar'22, due to higher capex and dividend payout. However, we estimate its net debt to reduce in 2HFY24 due to improvement in profitability and reduction in working capital. UTCCEM has been generating strong cash flows (estimated cumulative OCF at INR406b over FY23-26), which will support its robust capex plan.
- **The stock trades at 15.5x/13.0x FY25E/FY26E EV/EBITDA. We value UTCCEM at 16x Sep'25E EV/EBITDA to arrive at our TP of INR10,100. We maintain our BUY rating on the stock.**

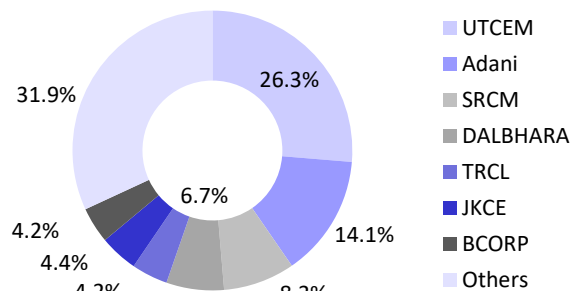
Story in charts

Exhibit 1: Region-wise capacity (mtpa) and capacity share currently

Region	Cement Capacity currently	Regional mix (%)	Industry capacity	Capacity share in the industry (%)
North	26.5	20	~113	23
Central	28.4	22	~83	36
East	26.4	20	~138	18
West	30.8	23	~82	37
South	20.5	15	~180	11
All India	132.5		~596	22

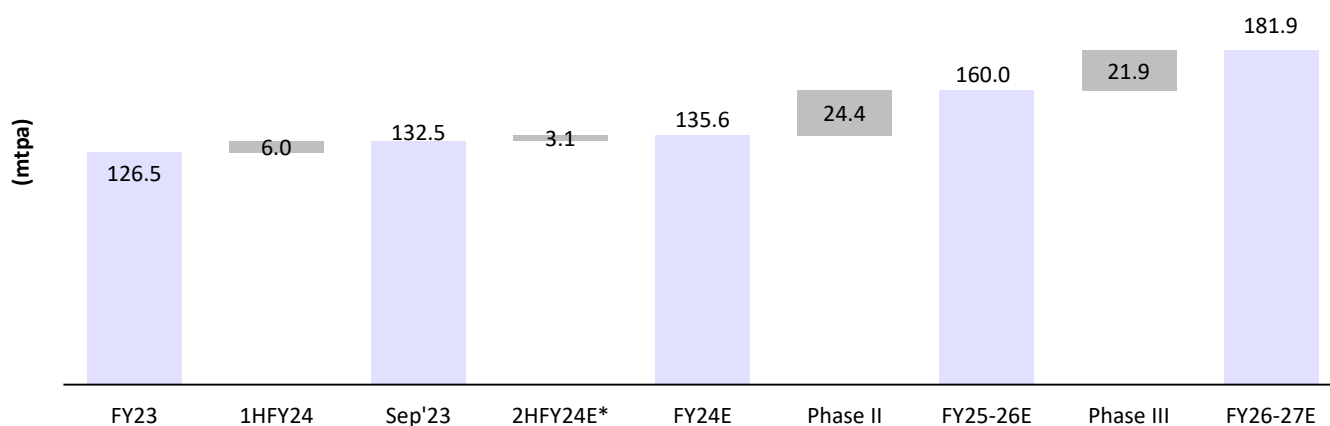
Source: Company, MOFSL

Exhibit 2: Market share is estimated at ~26% in FY24



Source: Company, MOFSL; Industry

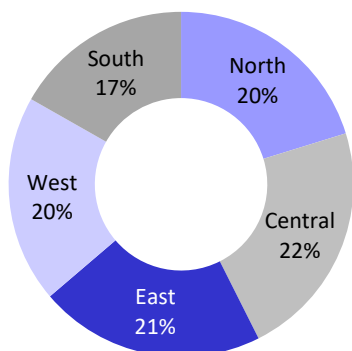
Exhibit 3: Domestic grey cement capacity CAGR is estimated at 9.5% over FY23-27



Source: MOFSL, Company; Note: capacity shown is India operation Gray Cement capacity, *expansion in 2HFY24E is through debottlenecking

Exhibit 4: UTCEM's regional capacity mix post-phase-II...

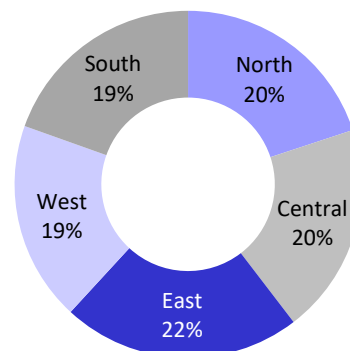
FY25-26E



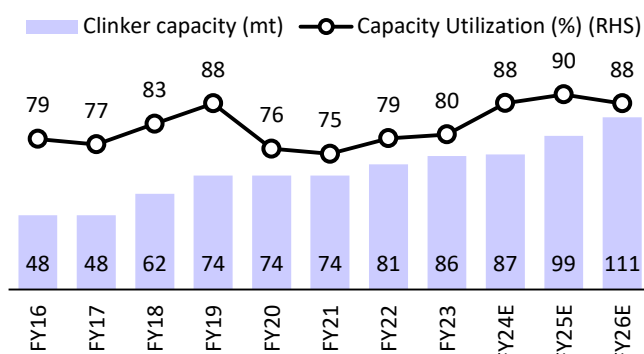
Source: MOFSL, Company, *based on installed cement capacity

Exhibit 5: ...and phase-III expansions

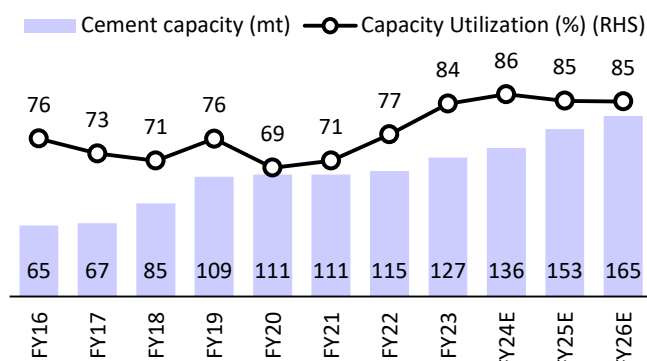
FY26-27E



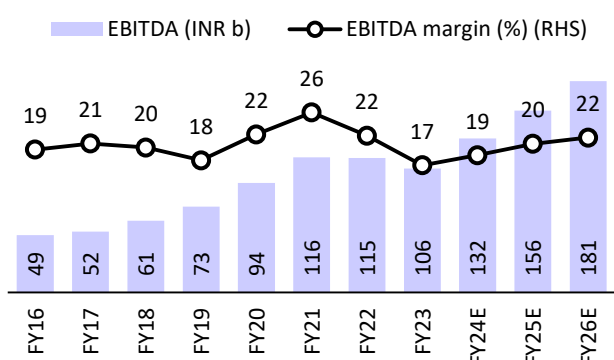
Source: MOFSL, Company, *based on installed cement capacity

Exhibit 6: Estimate clinker capacity utilization to improve

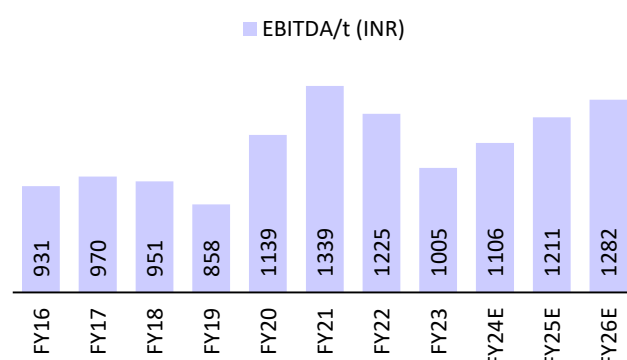
Source: MOFSL, Company

Exhibit 7: Cement capacity utilization remains high

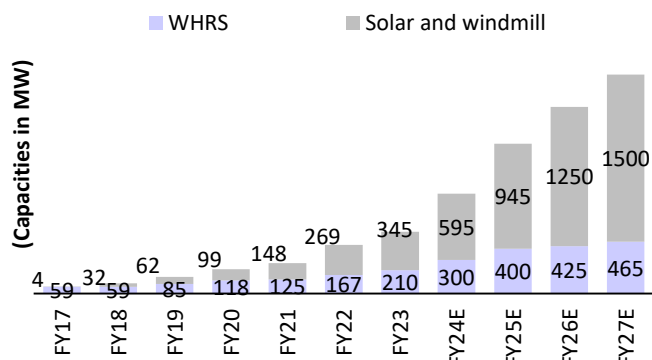
Source: MOFSL, Company

Exhibit 8: Estimate 19% EBITDA CAGR over FY23-26

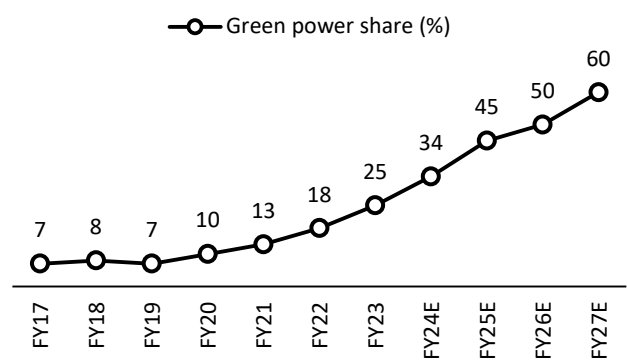
Source: MOFSL, Company

Exhibit 9: Estimate EBITDA/t to improve

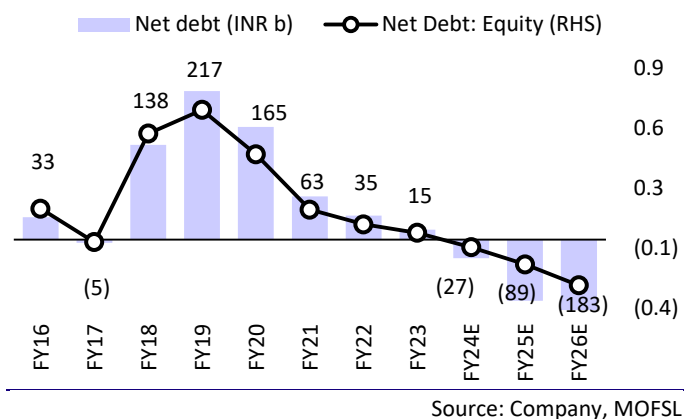
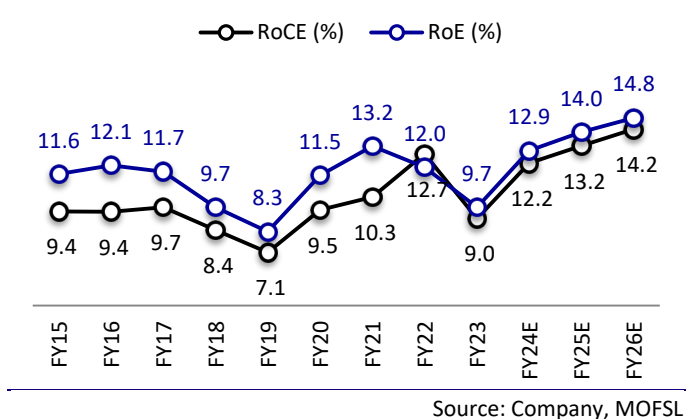
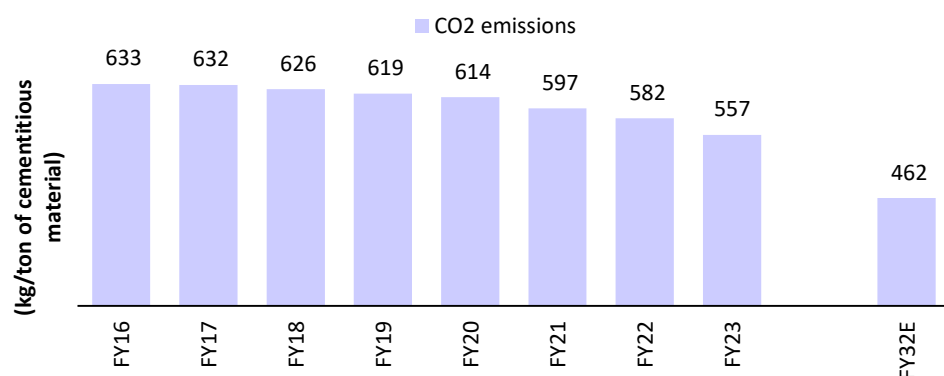
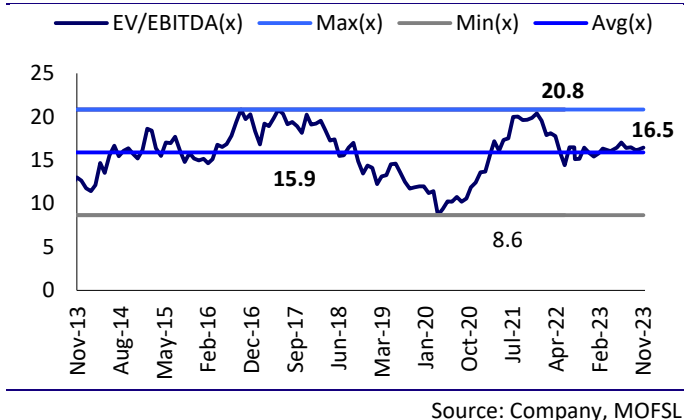
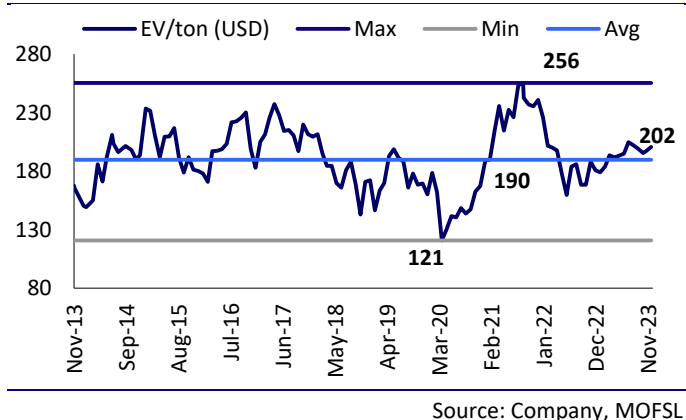
Source: MOFSL, Company

Exhibit 10: Increasing green power portfolio...

Source: MOFSL, Company

Exhibit 11: ...to drive higher green power share

Source: MOFSL, Company

Exhibit 12: Estimate UTCEM to be net cash in FY24**Exhibit 13: Return ratios to improve over FY24-26E****Exhibit 14: Aims to reduce carbon emissions by 17% between FY23 and FY32E****Exhibit 15: One-year forward EV/EBITDA ratio trend****Exhibit 16: One-year forward EV/t trend**

Financials and valuations

Consolidated Income Statement

	(INR m)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	4,16,088	4,24,299	4,47,258	5,25,988	6,32,400	7,12,405	7,61,190	8,40,589
Change (%)	34.3	2.0	5.4	17.6	20.2	12.7	6.8	10.4
Raw Materials	69,831	65,181	70,858	79,650	97,150	1,19,322	1,30,425	1,47,514
Employees Cost	22,911	25,199	23,530	25,347	27,390	30,331	32,975	36,164
Other Expenses	2,49,877	2,40,141	2,37,191	3,05,848	4,01,662	4,30,643	4,41,848	4,75,834
Total Expenditure	3,42,619	3,30,520	3,31,579	4,10,845	5,26,201	5,80,296	6,05,247	6,59,511
As a percentage of Sales	82.3	77.9	74.1	78.1	83.2	81.5	79.5	78.5
EBITDA	73,469	93,779	1,15,679	1,15,144	1,06,199	1,32,110	1,55,943	1,81,077
Margin (%)	17.7	22.1	25.9	21.9	16.8	18.5	20.5	21.5
Depreciation	24,507	27,227	27,002	27,148	28,880	31,531	36,541	39,495
EBIT	48,962	66,552	88,677	87,996	77,319	1,00,579	1,19,402	1,41,583
Int. and Finance Charges	17,779	19,917	14,857	9,447	8,227	8,731	6,052	5,064
Other Income	4,634	6,511	7,342	5,078	5,031	7,292	7,022	8,104
PBT bef. EO Exp.	35,818	53,146	81,162	83,627	74,122	99,140	1,20,371	1,44,623
EO Items	-1,139	19,788	-2,607	0	0	0	0	0
PBT after EO Exp.	34,679	72,934	78,555	83,627	74,122	99,140	1,20,371	1,44,623
Total Tax	10,681	15,413	25,387	11,901	23,429	24,668	29,897	36,042
Tax Rate (%)	30.8	21.1	32.3	14.2	31.6	24.9	24.8	24.9
Minority Interest	-37	-32	-34	-118	54	140	140	140
Reported PAT	24,035	57,553	53,202	71,844	50,640	74,332	90,335	1,08,441
Adjusted PAT	24,823	41,946	54,967	56,665	50,640	74,332	90,335	1,08,441
Change (%)	1.1	69.0	31.0	3.1	-10.6	46.8	21.5	20.0
Margin (%)	6.0	9.9	12.3	10.8	8.0	10.4	11.9	12.9

Consolidated Balance Sheet

	(INR m)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	2,746	2,886	2,887	2,887	2,887	2,887	2,887	2,887
Total Reserves	3,34,738	3,88,269	4,38,860	5,01,466	5,40,359	6,03,720	6,81,064	7,76,514
Net Worth	3,37,484	3,91,155	4,41,747	5,04,353	5,43,245	6,06,607	6,83,951	7,79,401
Minority Interest	122	75	57	-31	556	696	836	976
Total Loans	2,53,370	2,28,979	2,04,878	1,02,028	99,008	79,008	69,008	54,008
Deferred Tax Liabilities	63,856	49,120	60,407	60,332	62,601	72,099	83,599	97,487
Capital Employed	6,54,832	6,69,329	7,07,089	6,66,683	7,05,411	7,58,410	8,37,394	9,31,872
Gross Block	5,71,407	6,02,798	6,14,319	6,41,922	7,10,926	7,77,641	8,59,369	9,11,111
Less: Accum. Deprn.	68,172	95,399	1,22,401	1,49,549	1,78,428	2,09,959	2,46,501	2,85,996
Net Fixed Assets	5,03,235	5,07,400	4,91,918	4,92,374	5,32,497	5,67,681	6,12,868	6,25,116
Goodwill on Consolidation	62,989	62,525	62,199	62,502	63,293	63,293	63,293	63,293
Capital WIP	11,486	9,095	16,867	47,847	40,404	34,277	14,277	14,277
Current Investment	15,165	42,437	1,08,939	49,633	58,366	58,366	58,366	58,366
Non-current Investment	14,048	16,850	12,842	13,725	14,604	14,604	14,604	14,604
Curr. Assets, Loans, and Adv.	1,58,335	1,44,307	1,59,034	1,71,938	2,04,460	2,41,649	3,00,983	3,92,222
Inventory	40,990	41,483	40,180	55,956	66,118	75,319	80,232	88,230
Account Receivables	27,870	22,383	25,717	30,716	38,670	44,845	47,539	51,923
Cash and Bank Balance	7,397	5,392	20,076	3,592	11,496	33,533	85,482	1,64,561
Loans and Advances	82,079	75,049	73,061	81,674	88,175	87,953	87,730	87,507
Curr. Liability and Prov.	1,10,548	1,19,152	1,52,307	1,71,595	2,08,459	2,21,708	2,27,246	2,36,255
Account Payables	31,671	35,014	46,993	58,628	72,093	82,767	88,435	97,659
Other Current Liabilities	71,206	76,240	96,441	1,04,309	1,28,080	1,30,648	1,30,510	1,30,289
Provisions	7,671	7,898	8,873	8,658	8,286	8,293	8,300	8,307
Net Current Assets	47,787	25,155	6,727	343	-3,999	19,942	73,737	1,55,967
Deferred Tax assets	121	60	72	164	66	66	67	68
Net Assets held for sale	0	5,808	7,526	95	180	180	180	180
Appl. of Funds	6,54,832	6,69,329	7,07,089	6,66,683	7,05,411	7,58,410	8,37,394	9,31,872

Source: Company, MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	90.4	145.3	190.4	196.3	175.4	257.5	312.9	375.6
Cash EPS	179.6	239.7	284.0	290.3	275.4	366.7	439.5	512.4
BV/Share	1,228.8	1,355.2	1,530.4	1,747.2	1,881.8	2,101.2	2,369.2	2,699.8
DPS	10.5	11.5	37.0	38.0	38.0	45.0	45.0	55.0
Payout (%)	14.0	9.1	19.4	19.4	21.7	17.5	14.4	14.6
Valuation (x)								
P/E ratio	96.3	59.9	45.7	44.3	49.6	33.8	27.8	23.2
Cash P/E ratio	48.5	36.3	30.7	30.0	31.6	23.7	19.8	17.0
P/BV ratio	7.1	6.4	5.7	5.0	4.6	4.1	3.7	3.2
EV/Sales ratio	6.3	6.3	5.8	4.8	4.0	3.5	3.2	2.8
EV/t (USD)	288	291	280	269	241	222	191	171
EV/EBITDA ratio	35.5	28.5	22.3	22.1	23.8	18.8	15.5	13.0
Dividend Yield (%)	0.1	0.1	0.4	0.4	0.4	0.5	0.5	0.6
FCF per share	156.9	249.4	369.4	127.4	102.6	188.6	256.2	360.4
Return Ratios (%)								
RoE	8.3	11.5	13.2	12.0	9.7	12.9	14.0	14.8
RoCE	7.1	9.5	10.3	12.7	9.0	12.2	13.2	14.2
RoIC	6.4	8.5	10.2	13.4	9.1	12.3	13.7	15.5
Working Capital Ratios								
Inventory (Days)	36	36	33	39	38	39	38	38
Debtor (Days)	24	19	21	21	22	23	23	23
Creditor (Days)	28	30	38	41	42	42	42	42
Leverage Ratio (x)								
Current Ratio	1.4	1.2	1.0	1.0	1.0	1.1	1.3	1.7
Interest Coverage Ratio	2.8	3.3	6.0	9.3	9.4	11.5	19.7	28.0
Net Debt/Equity ratio	0.7	0.5	0.2	0.1	0.1	0.0	-0.1	-0.2

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	34,685	52,423	78,576	83,627	74,122	99,140	1,20,371	1,44,623
Depreciation	24,507	27,022	27,002	27,148	28,880	31,531	36,541	39,495
Interest and Finance Charges	17,779	19,917	14,857	9,447	8,227	8,731	6,052	5,064
Direct Taxes Paid	-7,101	-8,914	-12,910	-15,549	-11,243	-15,171	-18,398	-22,154
(Inc.)/Dec. in WC	-6,957	4,503	23,264	-4,730	-3,370	-1,904	-1,847	-3,150
CF from Operations	62,913	94,949	1,30,789	99,943	96,617	1,22,327	1,42,720	1,63,876
Others	-3,352	-5,929	-5,785	-7,110	-5,932	-7,292	-7,022	-8,104
CF from Operations incl. EO	59,561	89,020	1,25,004	92,832	90,685	1,15,035	1,35,699	1,55,772
(Inc.)/Dec. in FA	-16,482	-17,037	-18,389	-56,062	-61,056	-60,588	-61,729	-51,742
Free Cash Flow	43,079	71,983	1,06,615	36,771	29,629	54,446	73,970	1,04,031
(Pur.)/Sale of Investments	26,614	-26,266	-70,949	76,888	-13,642	0	0	0
Others	1,007	1,210	774	1,744	2,827	7,292	7,022	8,104
CF from Investments	11,138	-42,094	-88,565	22,570	-71,871	-53,296	-54,707	-43,638
Issue of Shares	52	27	70	44	47	0	0	0
Inc./(Dec.) in Debt	-46,482	-26,663	-25,149	-1,12,232	-3,632	-20,000	-10,000	-15,000
Interest Paid	-16,854	-19,445	-14,805	-2,227	-1,894	-8,731	-6,052	-5,064
Dividend Paid	-3,462	-3,800	-3,748	-10,650	-10,913	-10,970	-12,991	-12,991
Others	-827	-31	68	87	81	0	0	0
CF from Fin. Activity	-67,572	-49,911	-43,565	-1,24,979	-16,310	-39,701	-29,043	-33,055
Inc./Dec. in Cash	3,127	-2,985	-7,125	-9,577	2,504	22,037	51,949	79,080
Opening Balance	1,286	8,377	27,201	13,169	8,992	11,496	33,533	85,482
Closing Balance	4,412	5,392	20,076	3,592	11,496	33,533	85,482	1,64,561

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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