

UltraTech Cement

BSE SENSEX
71,595

S&P CNX
21,783

CMP: INR9,946

TP: INR12,000 (+21%)

Buy



Bloomberg	UTCEM IN
Equity Shares (m)	288
M.Cap.(INRb)/(USDb)	2871.2 / 34.6
52-Week Range (INR)	10526 / 6991
1, 6, 12 Rel. Per (%)	-1/12/17
12M Avg Val (INR M)	2801

Financials & Valuations (INR b)

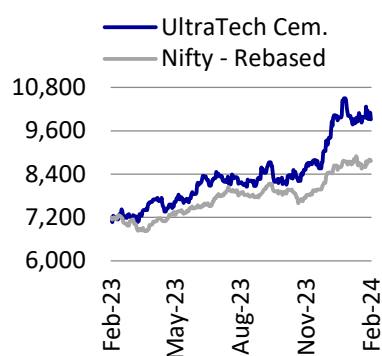
Y/E MARCH	FY24E	FY25E	FY26E
Net Sales	705.1	761.9	844.4
EBITDA	127.8	154.7	180.8
PAT	69.9	88.1	105.8
EPS (INR)	242.1	305.1	366.4
GR. (%)	38.0	26.0	20.1
BV/Sh (INR)	2,078.8	2,338.9	2,650.4
Ratios			
ROE (%)	12.2	13.8	14.7
RoCE (%)	11.5	12.8	13.8
Valuations			
P/E (X)	41.1	32.6	27.1
P/BV (X)	4.8	4.3	3.8
EV/EBITDA (X)	22.7	18.6	15.5
Div Yield (%)	0.5	0.5	0.6

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	60.0	60.0	60.0
DII	13.8	15.2	17.6
FII	18.9	17.3	14.8
Others	7.3	7.5	7.7

FII Includes depository receipts

Stock's performance (one-year)



Valuation premium supported by growth plans

Enough organic growth opportunities to reach 200mtpa capacity target

- UltraTech Cement (UTCEM) valuations have experienced a re-rating, aided by its timely capacity additions, increased market share, cost-saving initiatives, and strong balance-sheet. UTCEM is the market leader with an installed domestic grey cement capacity of ~136mtpa and a market share of ~26%.
- In our previous report [Scaling new heights!](#), we have highlighted that the company's robust expansion plan and leadership position warrant a higher valuation multiple. We continue to believe in the company's ability to gain market share, driven by its extensive operations, nationwide presence, and robust brand equity. We estimate the company's volume CAGR at ~10% over FY23-26 vs. ~7% for the industry. Further, we estimate UTCEM capacity utilization at ~84-85% over FY24-26 vs. ~71-72% for the industry.
- The company's sustainability initiatives towards energy transition, circular economy, decarbonisation, water, biodiversity and mines management, augur well for the business growth and profitability improvement.
- We estimate 10%/19%/28% 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 expansions. The company's improving earnings, return ratios, and leadership position warrant higher multiples for the stock, which currently trades at 18.6x/15.5x FY25E/FY26E EV/EBITDA. **We value the stock at 18x FY26E EV/EBITDA to arrive at our TP of INR12,000. We reiterate our BUY rating on the stock.**

Growth plans drive valuation re-rating

- UTCEM continued its growth journey through brownfield and greenfield expansions across regions to maintain its leadership position. UTCEM's domestic grey cement capacity stood at 136mtpa. In the last decade, the company added ~82mtpa of grey cement capacity (capacity CAGR stood at ~10% over FY14-24E), of which ~49mtpa (~60%) was through acquisitions.
- The company is expanding capacity under Phase II (24.4mtpa) and Phase III (21.9mtpa) to reach ~180mtpa by FY27 through organic routes. Apart from that, the company explores inorganic growth opportunities, and in Dec'23, it announced acquisition of the cement business of Kesoram Industries (KSI). KSI has a cement grinding capacity of 10.75mtpa (included surplus grinding capacity of 2.25mtpa). The transaction is likely to complete in 2HFY25E. The management highlighted the effective date of merger to be 1st Apr'24. We have not yet factored in the acquisition of KSI cement asset in our estimates. After the completion of these organic expansions and acquisitions, its grey cement capacity will increase to ~190mtpa by FY27E (capacity CAGR to be 11% over FY23-27E vs. 7% estimated for the industry over the same period).

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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.

- Management in the recent earnings concall also highlighted that the company has enough organic opportunities to reach capacity target of 200mtpa in the medium term. We believe the company's low-cost (all Phase - I, II and III expansions entail capex of ~USD70/t) robust capacity expansion has led to the valuation re-rating.

Sustainability initiatives toward business growth

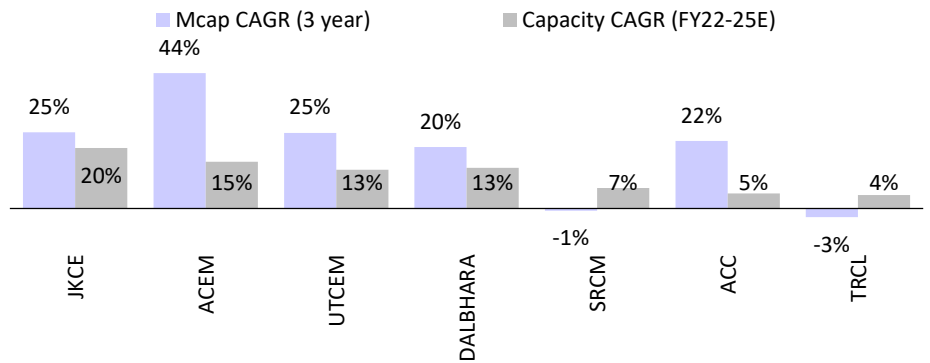
- The company's key sustainability initiatives include decarbonization, reduction of air emissions (SOx, NOx, Dust, etc.), water conservation, biodiversity preservation, and responsible mines management. We believe these initiatives augur well for the business growth as well as profitability improvement.
- The company is developing pre and co-processing facilities and infrastructure to enhance the focus on alternative fuel and raw materials. It reduced clinker factor to ~70% from ~72% in FY22. The company will launch new products and variants for blended multi-component cement to further reduce clinker factor.
- The company is investing in renewable energy (WHRS, Solar, and Wind). It has 44 kilns in operation, out of which, 29 kilns (~66%) are equipped with WHRS and work is in progress on five more kilns (~11%). The company's WHRS capacity has grown to 264MW, more than three times in the last five years. The share of power generated from WHRS in its total power requirement increased to ~16% vs. ~8% in FY19. It targets to increase WHRS capacity to 465MW by FY27E and its share in total power requirement to ~26%. Apart from that, it is participating in a hybrid solar-wind project, which will help increase other renewables capacity (RE) to 1.5GW by FY27E (from 455MW). The share of other RE in total power requirement is likely to increase to ~34% by FY27E from ~8% currently. The company has a long-term target (by FY30E) of increasing its share of WHRS and other RE (combined) to ~85%.
- The company has achieved a water positivity rate of 4.55x and is targeting 5.0x by FY24E. UTCEM 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.

Valuation re-rating deservedly; reiterate BUY

- UTCEM's steady capacity expansion plans, along with the scope for further organic growth opportunities, support valuation re-rating. We estimate UTCEM capacity utilization to be at the optimum level of ~84-85% and consol. volume CAGR at ~10% FY23-26. We further estimate its EBITDA/t at INR1,090/INR1,220/INR1,300 in FY24/FY25/FY26 vs. INR1,005 in FY23 (EBITDA/t was at INR1,225 in FY22). We have not yet factored in the acquisition of KSI cement asset in our estimates.
- UTCEM's net debt increased to INR55b as of Dec'23 from INR27b in Mar'23, due to higher capex and dividend payouts. Capex is pegged at INR90b for FY24/FY25 each and INR70b for FY26. With 9MFY24 capex reaching INR69.2b, we anticipate a reduction in net debt to INR32b/INR2b by FY24/FY25-end, supported by enhanced operating cash flow generation (resulting from improved profitability and working capital release).
- **The company's improving earnings, return ratios, strong balance-sheet and leadership position in the industry warrant higher multiples for the stock. UTCEM is currently trading at 18.6x/15.5x FY25E/FY26E EV/EBITDA. We value the stock at 18x FY26E EV/EBITDA to arrive at our TP of INR12,000. We reiterate our BUY rating on the stock.**

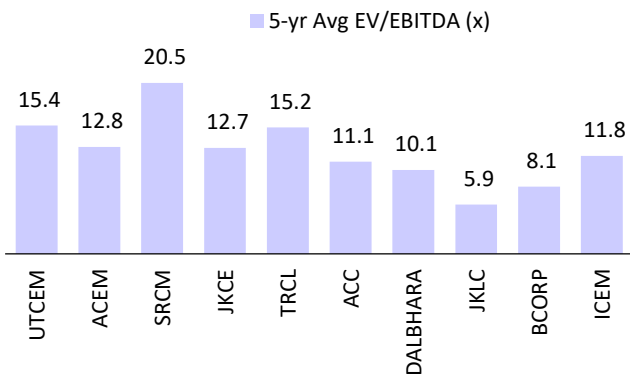
Story in charts

Exhibit 1: Capacity CAGR vs. market cap growth largely indicates higher value creation by companies with higher capacity addition



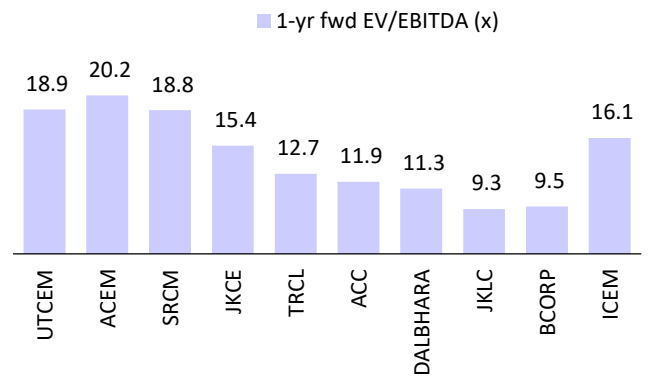
Source: Company, MOFSL

Exhibit 2: Five-year average EV/EBITDA ratio trend



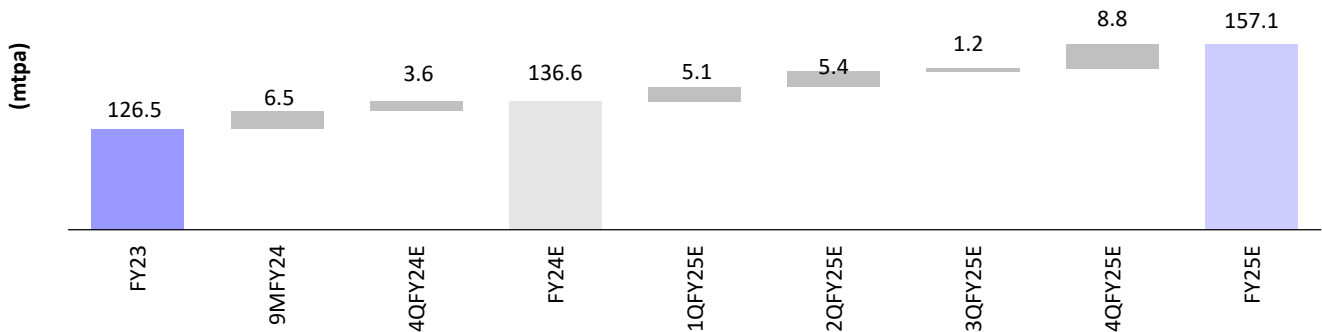
Source: MOFSL, Company,

Exhibit 3: One-year forward EV/EBITDA ratio trend



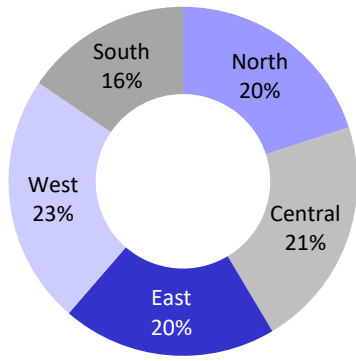
Source: MOFSL, Company,

Exhibit 4: UTCEM's Phase – II capacities expected timelines for commissioning



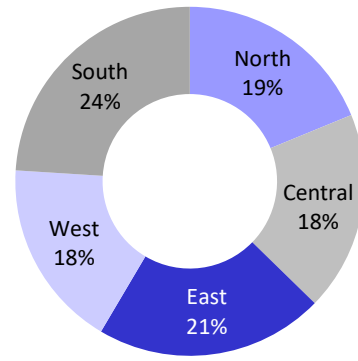
Source: MOFSL, Company

Exhibit 5: UTCEM’s regional capacity mix by Dec’23



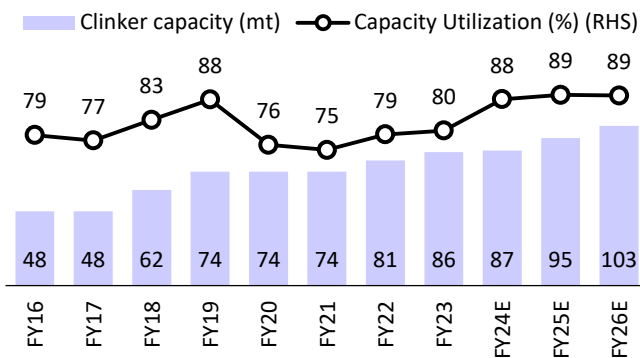
Source: MOFSL, Company, *based on installed cement capacity

Exhibit 6: UTCEM’s regional capacity mix by FY27-end



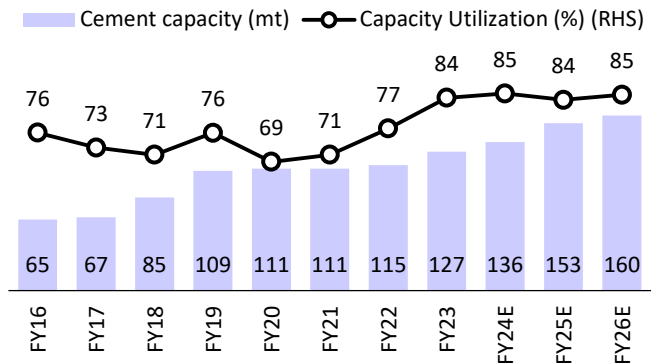
Source: MOFSL, Company, estimate Phase II and III expansions and KSI cement asset acquisition will be completed by FY27-end

Exhibit 7: Estimate clinker capacity utilization to improve



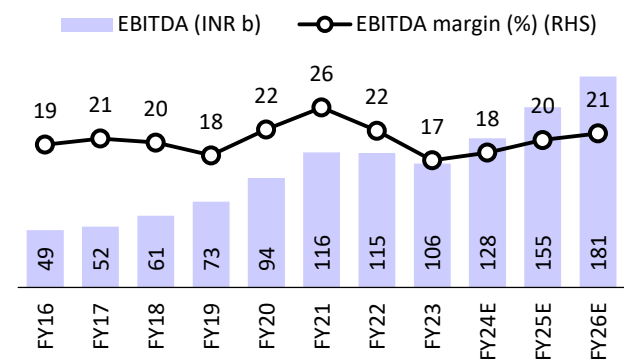
Source: MOFSL, Company; Note: in our estimates, we have not yet factored in KSI cement asset acquisition

Exhibit 8: Cement capacity utilization remains high



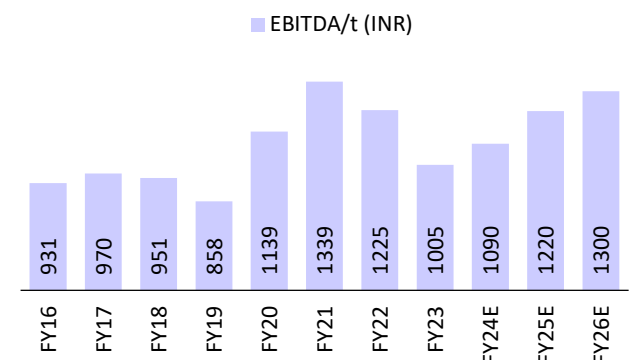
Source: MOFSL, Company; Note: in our estimates, we have not yet factored in KSI cement asset acquisition

Exhibit 9: Estimate 19% EBITDA CAGR over FY23-26



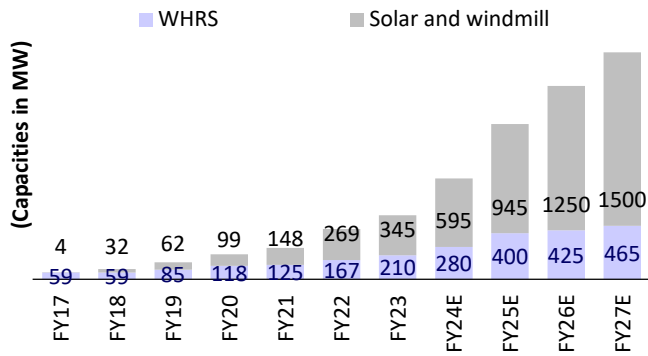
Source: MOFSL, Company

Exhibit 10: Estimate EBITDA/t to improve



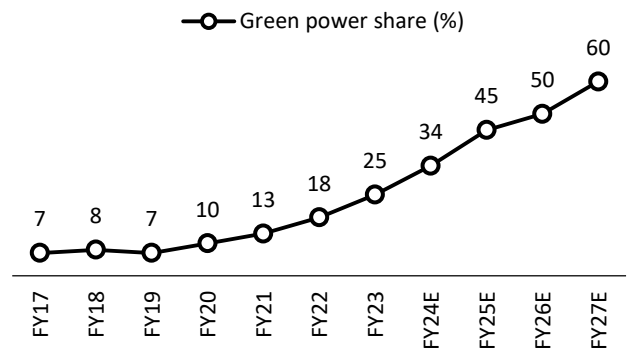
Source: MOFSL, Company

Exhibit 11: Increasing green power portfolio...



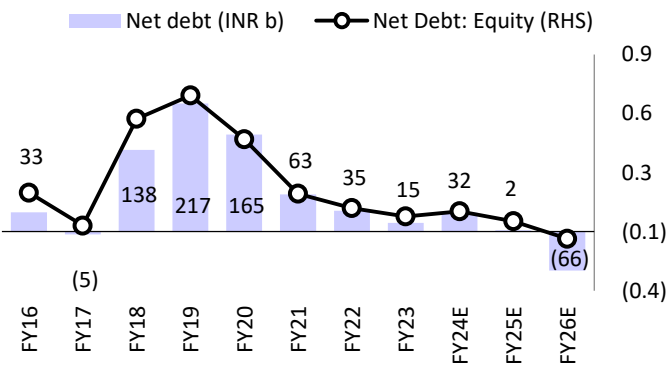
Source: MOFSL, Company

Exhibit 12: ...to drive higher green power share



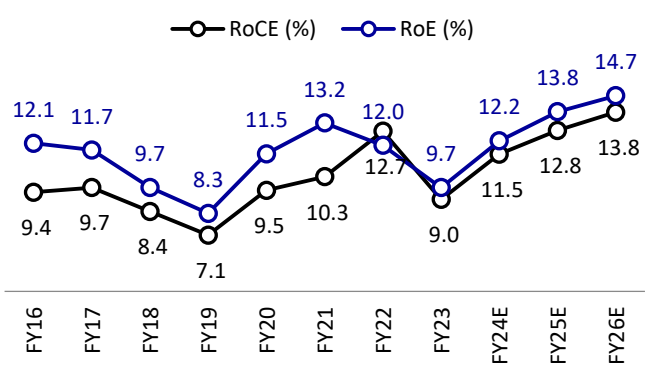
Source: MOFSL, Company

Exhibit 13: Estimate UTCM to be net cash in FY26



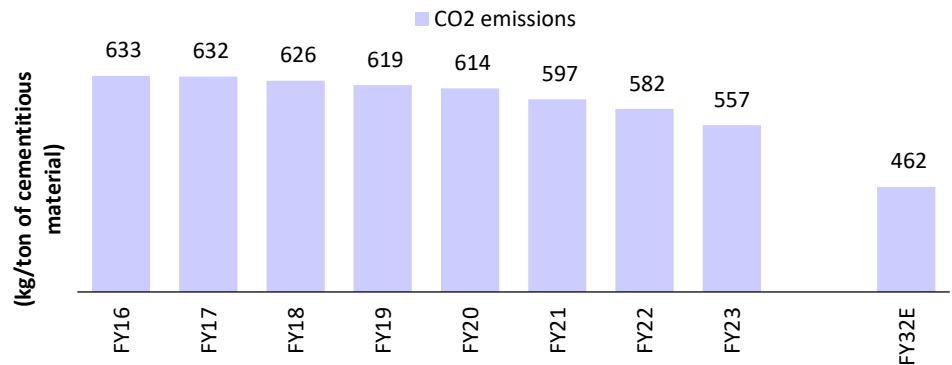
Source: Company, MOFSL

Exhibit 14: Return ratios to improve over FY24-26E



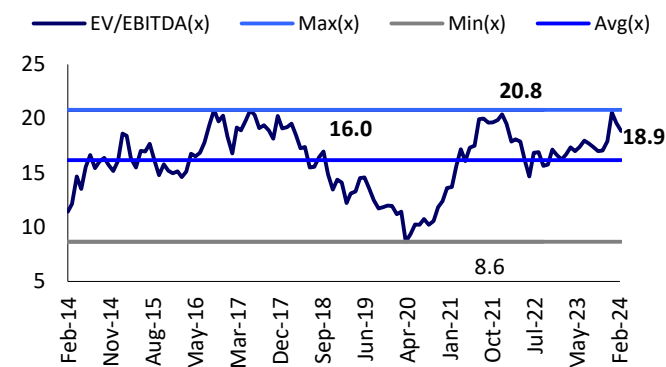
Source: Company, MOFSL

Exhibit 15: Aims to reduce carbon emissions by 17% between FY23 and FY32E



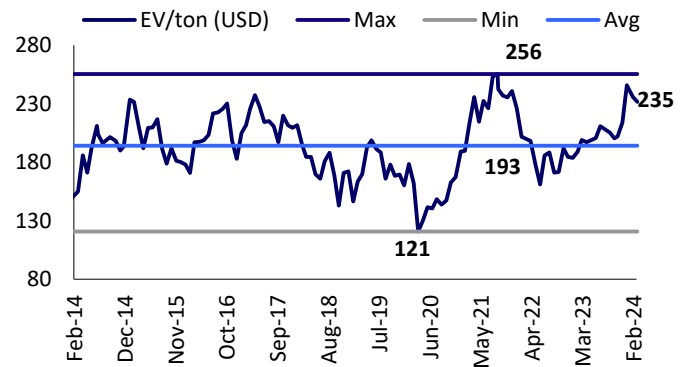
Source: Company, MOFSL

Exhibit 16: One-year forward EV/EBITDA ratio trend



Source: Company, MOFSL

Exhibit 17: One-year forward EV/t trend



Source: Company, MOFSL

Financials and Valuation

Income Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Net Sales	4,24,299	4,47,258	5,25,988	6,32,400	7,05,148	7,61,854	8,44,388	
change%	2.0	5.4	17.6	20.2	11.5	8.0	10.8	
Gross Profit	2,73,950	2,93,088	3,24,966	3,50,337	4,07,235	4,56,764	5,16,025	
Gross margin%	64.6	65.5	61.8	55.4	57.8	60.0	61.1	
Total Expense	3,30,520	3,31,579	4,10,845	5,26,201	5,77,331	6,07,198	6,63,539	
EBITDA	93,779	1,15,679	1,15,144	1,06,199	1,27,816	1,54,656	1,80,849	
EBITDA Margin%	22.1	25.9	21.9	16.8	18.1	20.3	21.4	
Depreciation	27,227	27,002	27,148	28,880	31,225	36,463	41,009	
EBIT	66,552	88,677	87,996	77,319	96,591	1,18,193	1,39,840	
Interest and finance charge	19,917	14,857	9,447	8,227	9,870	7,963	6,999	
other income	6,511	7,342	5,078	5,031	6,907	7,430	8,185	
PBT Before EO	53,146	81,162	83,627	74,122	93,628	1,17,660	1,41,026	
PBT after EO	72,934	78,555	83,627	74,122	93,628	1,17,660	1,41,026	
Total Tax	15,413	25,387	11,901	23,429	23,603	29,442	35,096	
Tax Rate%	21.1	32.3	14.2	31.6	25.2	25.0	24.9	
Minority Interest	(32)	(34)	(118)	54	140	140	140	
Reported PAT	57,553	53,202	71,844	50,640	69,885	88,078	1,05,790	
Adjusted PAT	41,946	54,967	56,665	50,640	69,885	88,078	1,05,790	
change%	50.0	47.8	28.7	(29.5)	38.0	26.0	20.1	
margin%	9.9	12.3	10.8	8.0	9.9	11.6	12.5	

E: MOFSL estimates

Balance Sheet								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Equity Share Capital	2,886	2,887	2,887	2,887	2,887	2,887	2,887	
Total Reserves	3,88,269	4,38,860	5,01,466	5,40,359	5,97,252	6,72,340	7,62,252	
Networth	3,91,155	4,41,747	5,04,353	5,43,245	6,00,139	6,75,227	7,65,139	
Other Liability + Def Tax Liabilities	2,78,039	2,65,213	1,62,197	1,61,543	1,75,691	1,77,059	1,75,572	
Minority Interest	75	57	(31)	556	696	836	976	
Capital Employed	6,69,269	7,07,017	6,66,519	7,05,345	7,76,527	8,53,122	9,41,688	
Gross Block	6,02,798	6,14,319	6,41,922	7,10,926	8,07,141	8,98,869	9,80,611	
Less: Accum Dep	95,399	1,22,401	1,49,549	1,78,428	2,09,654	2,46,117	2,87,126	
Fixed Asset (Net Block)	5,07,400	4,91,918	4,92,374	5,32,497	5,97,487	6,52,752	6,93,485	
CWIP	9,095	16,867	47,847	40,404	34,277	32,277	22,277	
Goodwill	62,525	62,199	62,502	63,293	63,293	63,293	63,293	
Total Investment	59,287	1,21,781	63,358	72,970	64,470	64,470	64,470	
Curr. Assets Loans & Advances	1,44,723	1,46,484	1,68,442	1,93,144	2,18,920	2,28,235	2,42,058	
Inventory	41,483	40,180	55,956	66,118	77,198	83,306	92,261	
Account Receivables	22,383	25,717	30,716	38,670	44,589	48,019	53,110	
Cash and Bank	5,392	20,076	3,592	11,496	7,716	27,714	80,597	
Loans and Advances	80,857	80,587	81,770	88,356	97,133	96,910	96,687	
Current Liab and Provision	1,19,152	1,52,307	1,71,595	2,08,459	2,09,636	2,15,620	2,24,493	
Account Payables	35,014	46,993	58,628	72,093	72,264	78,076	86,534	
Other current liabilities	76,240	96,441	1,04,309	1,28,080	1,29,079	1,29,244	1,29,652	
Provision	7,898	8,873	8,658	8,286	8,293	8,300	8,307	
Net Current Assets	25,571	(5,823)	(3,153)	(15,315)	9,284	12,615	17,566	
Application of Funds	6,69,269	7,07,017	6,66,519	7,05,345	7,76,527	8,53,122	9,41,688	

E: MOFSL estimates

Financials and Valuation

Ratios							
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	145.3	190.4	196.3	175.4	242.1	305.1	366.4
Cash EPS	239.7	284.0	290.3	275.4	350.2	431.4	508.5
Book Value	1355.2	1530.4	1747.2	1881.8	2078.8	2338.9	2650.4
DPS	11.5	37.0	38.0	38.0	45.0	45.0	55.0
Payout (incl. div. text)	9.1	19.4	19.4	21.7	18.6	14.7	15.0
Valuation (X)							
P/E	49.9	54.0	40.0	56.7	41.1	32.6	27.1
Cash P/E	41.5	35.0	34.3	36.1	28.4	23.1	19.6
Price/ Book Value	7.3	6.5	5.7	5.3	4.8	4.3	3.8
EV/Sales	7.2	6.6	5.5	4.6	4.1	3.8	3.3
EV/EBITDA	32.4	25.4	25.2	27.2	22.7	18.6	15.5
Div Yield (%)	0.1	0.4	0.4	0.4	0.5	0.5	0.6
Profitability Ratios (%)							
ROE%	11.5	13.2	12.0	9.7	12.2	13.8	14.7
ROCE%	9.5	10.3	12.7	9.0	11.5	12.8	13.8
Turnover Ratios (%)							
Asset Turnover (x)	0.6	0.6	0.8	0.9	1.0	0.9	0.9
Debtors (No. of days)	19	21	21	22	23	23	23
Inventory (No. of days)	36	33	39	38	40	40	40
Creditors (No. of days)	30	38	41	42	37	37	37
Leverage Ratios (%)							
Net Debt/ Equity (x)	0.5	0.2	0.1	0.1	0.1	0.0	(0.1)

E: MOFSL estimates

Cash Flow Statement								(INR Million)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	
Adj EBITDA	93,779	1,15,679	1,15,144	1,06,199	1,27,816	1,54,656	1,80,849	
Non Cash Op. Exp (Inc)	5,583	4,756	5,078	5,031	6,907	7,430	8,185	
(Inc)/Dec in Wkg Cap	4,503	23,264	(4,730)	(3,370)	(24,599)	(3,332)	(4,950)	
Tax Paid	(8,914)	(12,910)	(15,549)	(11,243)	(14,455)	(18,074)	(21,583)	
Other Operating Activites	(5,929)	(5,785)	(7,110)	(5,932)	(6,907)	(7,430)	(8,185)	
CF. From Op Activity	89,020	1,25,004	92,832	90,685	88,763	1,33,251	1,54,316	
(Inc)/Dec in FA & CWIP	(17,037)	(18,389)	(56,062)	(61,056)	(90,089)	(89,729)	(71,742)	
Free Cashflows	71,983	1,06,615	36,771	29,629	(1,326)	43,522	82,574	
(Pur)/ Sale of inv	(26,266)	(70,949)	76,888	(13,642)	8,500	-	-	
others	1,210	774	1,744	2,827	6,907	7,430	8,185	
CF. From Inv Activity	(42,094)	(88,565)	22,570	(71,871)	(74,682)	(82,299)	(63,557)	
(Inc)/ Dec in net worth	27	70	44	47	-	-	-	
(Inc)/dec in Debt	(26,663)	(25,149)	(1,12,232)	(3,632)	5,000	(10,000)	(15,000)	
Interest Paid	(19,445)	(14,805)	(2,227)	(1,894)	(9,870)	(7,963)	(6,999)	
Dividend Paid (Incl.tax)	(3,800)	(3,748)	(10,650)	(10,913)	(12,991)	(12,991)	(15,878)	
CF. From Fin Activity	(49,911)	(43,565)	(1,24,979)	(16,310)	(17,861)	(30,954)	(37,877)	
(Inc)/dec in cash	(2,985)	(7,125)	(9,577)	2,504	(3,780)	19,998	52,883	
Add: Opening Balance	8,377	27,201	13,169	8,992	11,496	7,716	27,714	
Closing Balance	5,392	20,076	3,592	11,496	7,716	27,714	80,597	

E: MOFSL estimates

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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