

UltraTech Cement

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR9,962 **TP: INR11,500 (+15%)** **Buy**

Resilient performance amid pricing pressure

Cost savings of INR200-300/t likely over the next three years

- UltraTech Cement (UTCEM)'s 4QFY24 operating performance was above our estimates (9% beat on EBITDA), primarily fueled by lower-than-estimated Opex/t. EBITDA stood at INR41.1b (est. INR37.6b), and EBITDA/t came in at INR1,173 (est. INR1,069). Adj. PAT stood at INR23.1b (est. INR20.6b).
- Management expects cement demand to grow ~7-9% YoY in FY25 after a 9.5% growth in FY24. It expects fuel consumption costs to drop to USD130/t over the next three quarters from USD150/t currently. It anticipates Opex to continue declining, and savings should be around INR200-300/t over the next three years driven by higher blending ratio, higher usage of WHRS and renewable energy, alternate fuel, and a reduction in lead distance.
- We largely maintain our estimates and reiterate our **BUY** rating on the stock, given its: a) leadership position in the industry, b) robust expansion plans without leveraging the balance sheet, and c) structural cost improvement measures. We value UTCEM at 18x FY26E EV/EBITDA to arrive at our TP of INR11,500.

Sales volume rises 11% YoY; OPM expands 2.3pp YoY to ~20%

- UTCEM's consolidated revenue/EBITDA/PAT stood at INR204b/INR41.1b/INR23.1b (up 9%/up 24%/up 39% YoY and in line/up 9%/up 12% vs. our estimates). Consolidated sales volume grew 11% YoY to 35.1mt. RMC/white cement revenue grew 37%/8% YoY during the quarter.
- Grey cement realization declined 4% YoY and 6% QoQ (~1% below estimate). Blended realization declined 1% YoY (in line with our estimates as lower grey cement realization was offset by higher-than-estimated RMC/white cement revenue). Opex/t was down 4% YoY (~2% below our estimate), led by an 8% decline in variable costs. Freight cost/t was flat YoY, while other expense/t was up 5%. EBITDA/t was up 12% YoY to INR1,173 and OPM surged 2.3pp YoY to 20% in 4QFY24. Depreciation/interest expenses rose 7%/36% YoY and other income grew 12% YoY. PAT (adjusted for INR720m of stamp duty on business combination) grew 39% YoY to INR23.1b.
- In FY24, UTCEM's revenue was up 12% YoY to INR709b, led by ~13% volume growth and ~1% decline in realization. EBITDA grew ~22% YoY to INR130b and OPM jumped 150bp to 18.3%. EBITDA/t was up 8% YoY to INR1,089. Adj. PAT grew 39% YoY to INR70.6b.

Highlights from the management commentary

- Management expects the industry to see high-single-digit growth (~7-9% YoY in FY25). UTCEM will grow ahead of the industry and expects to add ~15-17mtpa capacity in FY25. Cement price to remain stable or improve in FY25.
- The average fuel cost was INR2.03/kcal and should continue to come down in FY25. It has some high price contracts that will get exhausted by Dec'24.
- Capex is pegged at INR95b in FY25. It received single window clearance for expansion in the Northeast and has started due diligence of identified mines. Clarity on its Northeast plan will be shared within FY25.

Bloomberg	UTCEM IN
Equity Shares (m)	288
M.Cap.(INRb)/(USDb)	2876.7 / 34.5
52-Week Range (INR)	10526 / 7434
1, 6, 12 Rel. Per (%)	1/2/7
12M Avg Val (INR M)	2937

Financial Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	709	754	847
EBITDA	130	148	175
Adj. PAT	71	83	100
EBITDA Margin (%)	18	20	21
Adj. EPS (INR)	244	288	345
EPS Gr. (%)	39	18	20
BV/Sh. (INR)	2,086	2,329	2,620

Ratios

Net D:E	0.0	(0.0)	(0.1)
RoE (%)	12.3	13.1	14.0
RoCE (%)	11.5	12.3	13.2
Payout (%)	28.6	15.6	15.9

Valuations

P/E (x)	40.8	34.6	28.8
P/BV (x)	4.8	4.3	3.8
EV/EBITDA(x)	22.3	19.3	16.1
EV/ton (USD)	246	218	199
Div. Yield (%)	0.7	0.5	0.6
FCF Yield (%)	0.7	1.6	2.3

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	60.0	60.0	60.0
DII	14.3	13.8	17.1
FII	18.4	18.9	15.4
Others	7.3	7.3	7.5

FII Includes depository receipts

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Valuation and view

- We estimate consolidated volume CAGR at ~9% over FY24-26 and EBITDA/t to be at INR1,150/INR1,240 in FY25/FY26 (vs. INR1,005/INR1,089 in FY23/FY24).
- The stock trades at 19x/16x FY25E/FY26E EV/EBITDA (vs. its long-term average EV/EBITDA of 16x). The company's improving earnings, return ratios, strong balance sheet, and leadership position in the industry warrant higher multiples. We value UTCEM at 18x FY26E EV/EBITDA to arrive at our TP of INR11,500. We reiterate our **BUY** rating on the stock.

Consolidated quarterly performance

	(INR b)											
	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE	(%)	
Net sales	151.6	138.9	155.2	186.6	177.4	160.1	167.4	204.2	632.4	709.1	204.4	(0)
YoY change (%)	28.2	15.6	19.5	18.4	17.0	15.3	7.9	9.4	20.2	12.1	9.5	
Total expenditure	120.7	120.3	131.9	153.4	146.9	134.6	134.9	163.1	526.2	579.4	166.8	(2)
EBITDA	30.9	18.7	23.4	33.2	30.5	25.5	32.5	41.1	106.2	129.7	37.6	9
Margin (%)	20.4	13.4	15.0	17.8	17.2	15.9	19.4	20.1	16.8	18.3	18.4	173
Depreciation	7.0	7.1	7.2	7.6	7.5	8.0	7.8	8.1	28.9	31.5	7.9	3
Interest	2.2	2.0	2.2	1.9	2.1	2.3	2.6	2.6	8.2	9.7	2.8	(7)
Other income	1.1	1.5	1.3	1.2	1.7	1.7	1.4	1.4	5.0	6.2	1.2	14
PBT before EO expense	22.9	11.0	15.2	24.9	22.6	16.9	23.5	31.7	74.1	94.7	28.1	13
'Extra-Ord expense	-	-	-	-	-	-	-	0.72	-	0.72	-	
PBT after EO Expense	22.9	11.0	15.2	24.9	22.6	16.9	23.5	31.0	74.1	94.0	28.1	10
Tax	7.1	3.4	4.6	8.2	5.8	4.1	5.8	8.5	23.4	24.2	7.3	17
Prior period tax adjustment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Rate (%)	31.0	31.2	30.5	33.0	25.5	24.3	24.7	27.5	31.6	25.7	25.9	
Reported PAT	15.8	7.6	10.6	16.7	16.9	12.8	17.7	22.5	50.7	69.8	20.8	8
Minority interest	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.2	0.2	
Adj. PAT	15.9	7.6	10.6	16.7	16.9	12.8	17.8	23.1	50.7	70.6	20.6	12
YoY change (%)	-6.7	-42.5	-9.7	12.7	6.3	69.6	67.9	38.7	-10.6	39.2	23.7	

Key operating parameters

Income Statement (INR/t)	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY23	FY24	FY24	Var.
											4QE	(%)
Volume (mt)	25.0	23.1	25.9	31.7	30.0	26.7	27.3	35.1	105.7	119.0	35.2	(0)
Change (YoY %)	16.3	6.7	11.8	14.4	19.6	15.5	5.6	10.8	12.4	12.6	11.2	
Realization (including RMC)	6,056	6,014	6,002	5,893	5,920	5,999	6,127	5,821	5,983	5,957	5,804	0
Change (YoY %)	10.2	8.3	6.9	3.5	-2.2	-0.2	2.1	-1.2	6.9	-0.4	-1.5	
RM cost	912	873	868	1,001	983	935	972	1,086	919	1,000	960	13
Power and fuel	1,603	1,861	1,884	1,676	1,629	1,643	1,529	1,379	1,749	1,536	1,503	(8)
Staff cost	254	299	268	226	236	304	281	214	259	255	230	(7)
Freight and forwarding	1,314	1,318	1,345	1,325	1,369	1,316	1,325	1,325	1,325	1,334	1,380	(4)
Other expenditure	737	855	733	615	686	846	828	644	725	742	663	(3)
Total expenditure	4,820	5,206	5,099	4,844	4,903	5,044	4,936	4,648	4,978	4,867	4,736	(2)
EBITDA	1,236	808	903	1,049	1,018	956	1,191	1,173	1,005	1,089	1,069	10
YoY change (%)	(19.5)	(35.6)	(13.6)	(5.5)	(17.7)	18.3	31.9	11.8	(18.0)	8.4	1.9	

Sources: Company reports, MOFSL estimates



Highlights from the management commentary

Industry capacity additions and demand in FY24

- In FY24, 40mt of new capacities got commissioned and UTCEM's share was ~33%. Cement consumption in India increased to 425mt in FY24 v/s 388mt in FY23 and incremental supply was lower than incremental demand as capacities get commissioned in phases throughout the year. The industry's capacity utilization improved 2pp YoY to 71% in FY24 and UTCEM had a notably higher capacity utilization of ~85%. In 4Q, capacity utilization for UTCEM was ~98%.
- The industry growth should have been at 7-8% YoY in 4QFY24. The West markets grew in double-digits while all other markets witnessed a demand growth between 6-9% YoY in the quarter. For FY24, Central India's growth was less than 10%; while other markets witnessed high double-digits growth. There have been marginal improvements in cement prices in a few markets of South, East, and Maharashtra in Apr'24.
- The East remains the fastest growing market with huge amount of IHB/retail demand which in turn, is leading to higher capacity addition in the region.

Demand and pricing outlook

- GDP is estimated to grow between 6.5-6.8% in FY25 and would help industry growth which should be better than industry growth rate. The highway construction pace has been robust at 34-35Km/day in FY24 and NHAI incurred its highest ever capex in the year. The company has 0.13m+ channel partners.
- There may be some moderation in demand in FY25, but industry should see high-single-digit growth (7-9% YoY in FY25). The company will grow ahead of the industry and expects to add ~15-17mtpa capacity in FY25.
- Realization dropped ~6% QoQ; though; in a longer period, realization has increased at 3.5% CAGR in last five years. Cement price should remain stable or improve in FY25. Higher volumes led to increased competition and to a decline in prices. The industry was looking at better cash flows and was not concerned about prices declines.

Operational highlights

- Opex will continue to come down and savings should be between INR200-300/t over the next three years. The savings would be through: a) higher blending ratio (1.44x in 4QFY24) as demand for composite cement is increasing, b) higher usage of WHRS and renewable energy – 60% by FY27 vs. 24% now. Cost of WHRS/RE is 90%/40% lower than thermal power plant; c) higher usage of alternate fuel – 5-6% as of now and will increase to 15% at the least; d) reduction in lead distance; and e) operating leverage with increase in sales volumes. The industry profitability should also improve going forward.
- Average fuel cost was INR2.03/kcal in 4Q and should continue to come down in FY25. Blended fuel cost should gradually come down to USD130/t in the next three quarters vs. consumption cost of USD150/t in 4QFY24. The company has some high price contracts that will get exhausted by Dec'24. Trade volumes were at 65% in 4Q. Incentives stood at INR60/t in 4Q.

Expansion and debt position

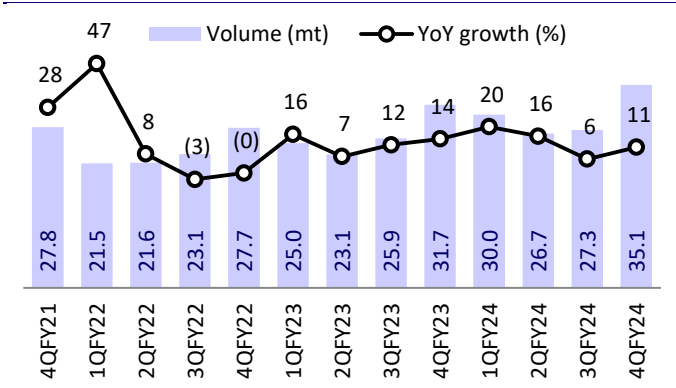
- Organic plans are on track and it has kept expansion of 2.7mtpa at Hotgi grinding unit on hold, considering the acquisition of Kesoram's cement plants. CCI approval has been received for Kesoram and the company is waiting approvals from SEBI and stock exchanges. Later, it will file the scheme with NCLT and this acquisition is expected to be completed by Mar'25. Kesoram's debt has been refinanced and cost of debt is down by ~50% to 11.5%, but remains higher than UTCEM's cost of borrowing of ~8%.
- Capex was at INR91.9b in FY24 vs. INR63.0b in FY23 and FY25 capex is estimated to be INR95b. The company has received single window clearance for expansion in the Northeast and has started due diligence of identified mines. Clarity on its Northeast plan will be shared within FY25.
- Net debt stood at INR27.8b vs. INR27.0b in FY23. The target is to be net cash positive by FY25-end, excluding Kesoram debt. Including Kesoram, net debt should be at INR15-20b at FY25-end.
- Inorganic opportunities will be considered and the company would look for profitable growth opportunities. There will be more opportunities for consolidation for the company even in the South region.

Other highlights

- Focus has been on growth in the RMC business and it has 307 RMC plants across the country. RMC plants consumed 2.5mt of cement for UTCEM.
- UTCEM has the largest retail footprint in the country with over 3,900+ UBS stores. In 4Q, 15% of its sales were through these stores.

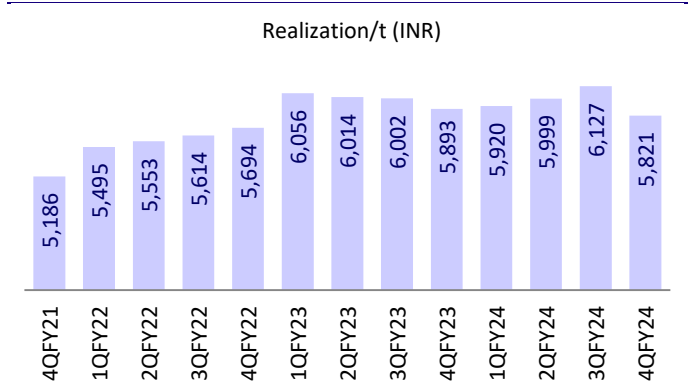
Story in charts

Exhibit 1: Sales volume grew 11% YoY



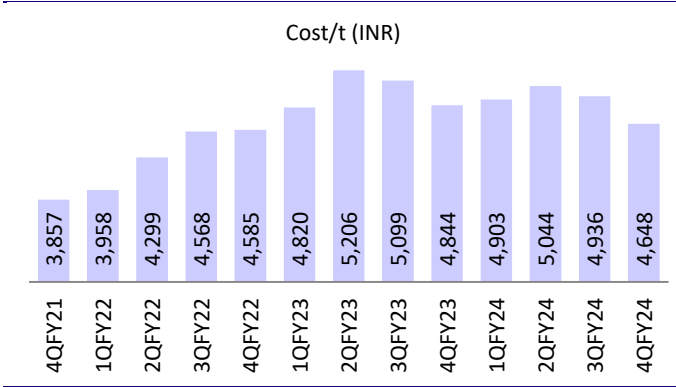
Sources: Company reports, MOFSL

Exhibit 2: Blended realization declined 1%/5% YoY/QoQ



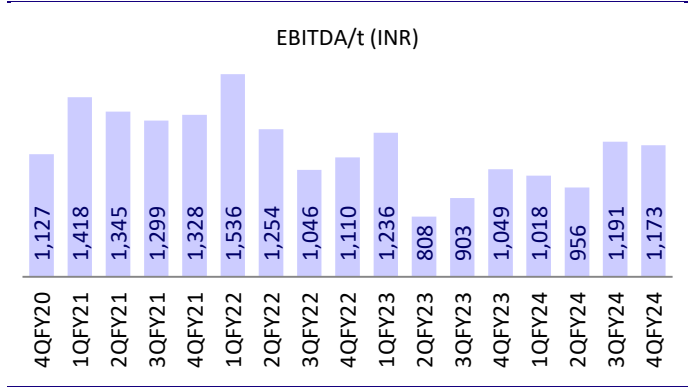
Sources: Company reports, MOFSL

Exhibit 3: Opex/t declined 4% YoY



Sources: Company reports, MOFSL

Exhibit 4: EBITDA/t grew 12% YoY



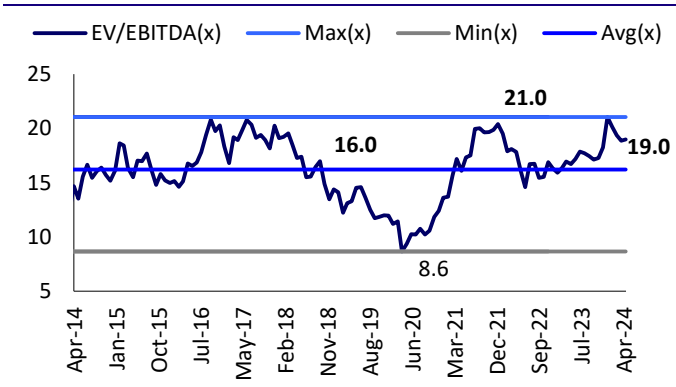
Sources: Company reports, MOFSL

Exhibit 5: Trends in key operating parameters

INR/t	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Realization	5,821	5,893	-1%	6,127	-5%
RM cost	1,086	1,001	8%	972	12%
Power and fuel	1,379	1,676	-18%	1,529	-10%
Staff cost	214	226	-6%	281	-24%
Freight and forwarding	1,325	1,325	0%	1,325	0%
Other expenditure	644	615	5%	828	-22%
Total expenditure	4,648	4,844	-4%	4,936	-6%
EBITDA	1,173	1,049	12%	1,191	-2%

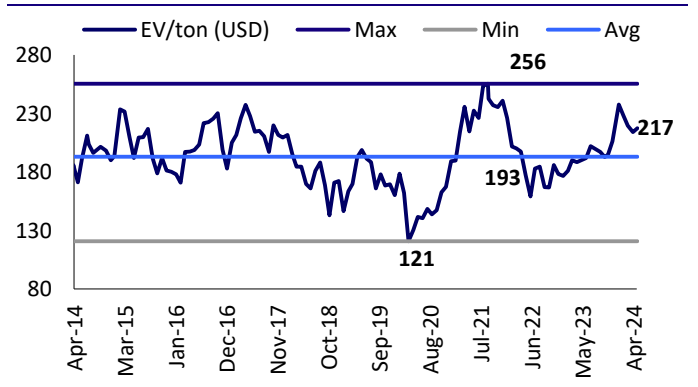
Sources: Company reports, MOFSL

Exhibit 6: One-year forward EV/EBITDA (x) trend



Sources: Company reports, MOFSL

Exhibit 7: One-year forward EV/t trend



Sources: Company reports, MOFSL

Financials and valuations

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	90.4	145.3	190.4	196.3	175.4	244.5	288.2	345.5
Cash EPS	179.6	239.7	284.0	290.3	275.4	353.4	407.5	488.6
BV/Share	1,228.8	1,355.2	1,530.4	1,747.2	1,881.8	2,086.2	2,329.5	2,619.9
DPS	10.5	11.5	37.0	38.0	38.0	70.0	45.0	55.0
Payout (%)	14.0	9.1	19.4	19.4	21.7	28.6	15.6	15.9
Valuation (x)								
P/E	110.2	68.5	52.3	50.8	56.8	40.8	34.6	28.8
Cash P/E	55.5	41.6	35.1	34.3	36.2	28.2	24.4	20.4
P/BV	8.1	7.4	6.5	5.7	5.3	4.8	4.3	3.8
EV/Sales	7.1	7.2	6.6	5.5	4.6	4.1	3.8	3.3
EV/t (USD)	324	327	316	304	274	246	218	199
EV/EBITDA	40.2	32.4	25.4	25.3	27.2	22.3	19.3	16.1
Dividend Yield (%)	0.1	0.1	0.4	0.4	0.4	0.7	0.5	0.6
FCF per share	156.9	249.4	369.4	127.4	102.6	69.7	156.2	231.2
Return Ratios (%)								
RoE	8.3	11.5	13.2	12.0	9.7	12.3	13.1	14.0
RoCE	7.1	9.5	10.3	12.7	9.0	11.5	12.3	13.2
RoIC	6.4	8.5	10.2	13.4	9.1	11.8	12.8	14.0
Working Capital Ratios								
Inventory (Days)	36	36	33	39	38	43	40	40
Debtor (Days)	24	19	21	21	22	22	22	22
Creditor (Days)	28	30	38	41	42	44	44	44
Leverage Ratio (x)								
Current Ratio	1.4	1.2	1.0	1.0	1.0	1.0	1.0	1.1
Interest Coverage Ratio	2.8	3.3	6.0	9.3	9.4	10.1	11.9	16.3
Net Debt/Equity ratio	0.7	0.5	0.2	0.1	0.1	0.1	0.0	-0.1

Consolidated Cash Flow Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	34,685	52,423	78,576	83,627	74,122	94,002	1,11,033	1,33,015
Depreciation	24,507	27,022	27,002	27,148	28,880	31,453	34,444	41,329
Interest and Finance Charges	17,779	19,917	14,857	9,447	8,227	9,680	9,561	8,203
Direct Taxes Paid	-7,101	-8,914	-12,910	-15,549	-11,243	-16,505	-17,168	-20,529
(Inc.)/Dec. in WC	-6,957	4,503	23,264	-4,730	-3,370	-4,811	10,014	3,073
CF from Operations	62,913	94,949	1,30,789	99,943	96,617	1,13,819	1,47,884	1,65,091
Others	-3,352	-5,929	-5,785	-7,110	-5,932	-4,844	-6,719	-7,592
CF from Operations incl. EO	59,561	89,020	1,25,004	92,832	90,685	1,08,975	1,41,165	1,57,499
(Inc.)/Dec. in FA	-16,482	-17,037	-18,389	-56,062	-61,056	-88,841	-96,081	-90,740
Free Cash Flow	43,079	71,983	1,06,615	36,771	29,629	20,135	45,084	66,759
(Pur.)/Sale of Investments	26,614	-26,266	-70,949	76,888	-13,642	-653	0	0
Others	1,007	1,210	774	1,744	2,827	1,612	6,719	7,592
CF from Investments	11,138	-42,094	-88,565	22,570	-71,871	-87,881	-89,362	-83,148
Issue of Shares	52	27	70	44	47	19	0	0
Inc./(Dec.) in Debt	-46,482	-26,663	-25,149	-1,12,232	-3,632	-6,240	-10,000	-15,000
Interest Paid	-16,854	-19,445	-14,805	-2,227	-1,894	-2,252	-9,561	-8,203
Dividend Paid	-3,462	-3,800	-3,748	-10,650	-10,913	-10,944	-12,991	-15,878
Others	-827	-31	68	87	81	161	0	0
CF from Fin. Activity	-67,572	-49,911	-43,565	-1,24,979	-16,310	-19,257	-32,552	-39,081
Inc./Dec. in Cash	3,127	-2,985	-7,125	-9,577	2,504	1,838	19,251	35,270
Opening Balance	1,286	8,377	27,201	13,169	8,992	11,496	13,334	32,584
Closing Balance	4,412	5,392	20,076	3,592	11,496	13,334	32,584	67,854

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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