

Ultratech Cement Ltd. ₹ 2688*The Cement King!***Buy**

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Company Background

UltraTech Cement Ltd. is the largest manufacturer of grey cement, Ready Mix Concrete (RMC) and white cement in India. It is also one of the leading cement producers globally. The company has an installed capacity of 64 Million Tonnes Per Annum (MTPA) of grey cement. UltraTech Cement has 12 integrated plants, 1 clinkerisation plant, 16 grinding units and 6 bulk terminals. Its operations span across India, UAE, Bahrain, Bangladesh and Sri Lanka. UltraTech Cement is also India's largest exporter of cement reaching out to meet the demand in countries around the Indian Ocean and the Middle East. With 97 Ready Mix Concrete (RMC) plants in 35 cities, UltraTech is the largest manufacturer of concrete in India.

Key Highlights

- ➔ The company reported a Net Sales of Rs. 61.3 bn in Quarter Ended March 2015 as compared to Rs. 58.3 bn in the corresponding period of the previous year. These figures take into account the acquisition spree done by company in the last year and project the growth possible in the next year.
- ➔ Holcim and Lafarge, the world's two largest cement companies, will be wrapping up their merger by the first half of 2015 both the companies are preparing to sell assets worth \$6.9 billion in several countries including India to win regulatory approval, and Ultratech has every reason to take keen interest in looking at what is on the offer because the Birla group is the only industry house which has enough funds and keen desire to acquire these assets. Recently the CCI cleared the merger with riders asking Lafarge to divest 2 cement plants - with a combined capacity of 5.15 MTPA.
- ➔ Ultratech plans to add 20 MTPA to its current capacity in the next three years, for which a few M&A's will be necessary to maintain its industry leadership. Further the Aditya Birla group is set to receive the cement businesses of all Birla group companies such as Mangalam Cement and Vasavadatta Cement and would plan a single brand consolidation in near future. Century's cement business may also be in the line and it will be just a matter of time before the group would reach 100 MTPA capacity.

Key Financials

Year Ended 31 st	Mar 12	Mar 13	Mar 14
Revenue (INR mn)	1,87,596.5	2,05,437.0	2,07,725.9
Rev. growth (%)	38.0	9.5	1.1
EBITDA (INR mn)	45,976.9	50,514.9	43,040.4
Net profit (INR mn)	24,461.9	26,554.3	21,444.7
Shares outstanding (mn)	8.0	8.0	8.0
EPS (INR)	3,073.1	3,336.0	2,694.1
EPS growth (%)	38,313.8	8.6	(19.2)
P/E (x)	0.5	0.6	0.8
RONW (%)	20.3	18.3	11.8
ROCE (%)	15.0	13.7	8.9

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Info Codes

Reuters	: ULTC.BO
Bloomberg	: UTCEM@IN
NSE	: ULTRACEMCO
BSE	: 532538

Market Data

52 Wk Range (₹)	: 1953 / 3399
Shares in Issue (mn)	: 8.0
Mkt. Cap (₹ bn)	: 741.4
BSE 2 Wk Avg Vol	: 14000

Share Holding Pattern (%)

Promoters	: 61.69
FII's	: 19.32
DII's	: 5.86
Others	: 13.13

Investment Theme

Ultratech has very aggressive plans for its future. It is currently manufacturing leader in the industry and has a capacity utilization well above industry average. Not only in cement, the company also has a firm leadership position in readymix concrete. It is currently on the lookout of at least 20 MTPA capacity expansions in the next 3 years and has already geared up financially for the same. It is keenly interested to buyout the 5.15 MTPA capacity sale ordered by the CCI to Lafarge and Holcim. Further the group on a whole is also expected to inherit Vasavdatta and Mangalam cement from the BK Birla legacy which may be consolidated with Ultratech in due course to enhance focus on a single Brand. The group is also preparing to hive off the cement division of Century after planned capacity expansion. This will turn Ultratech into a cement giant

Undoubtedly the leader!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 12	Mar 13	% Chg	Mar 14	% Chg
Total Sales + Excise	206011.2	228574.5	10.95	229365.2	0.35
Other Income	4261.7	3849.2	(9.68)	5624.6	46.12
Change in Stocks	(203.3)	1348.4	(763.26)	(1058.4)	(178.49)
Raw Material Con.	26094.2	31005.8	18.82	31988.6	3.17
Employee Exp.	8352.9	9733.2	16.52	10224.2	5.04
Indirect Taxes	23726.7	28172.4	18.74	28400.0	0.81
Other Exp.	105984.3	114439.7	7.98	120388.1	5.20
Operating Exp.	164361.4	182002.7	10.73	192059.3	5.53
Operating Profit	41649.8	46571.8	11.82	37305.9	(19.90)
Total Interest	2922.5	2768.9	(5.26)	3807.1	37.50
Gross Profit	42989.0	47652.1	10.85	39123.4	(17.90)
Net Dep.	8960.2	9359.8	4.46	10412.7	11.25
Total Taxation	9566.9	11738.0	22.69	7266.0	(38.10)
Net Profit/Loss	24461.9	26554.3	8.55	21444.7	(19.24)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 11	Mar 12	Mar 13	Mar 14
SOURCES OF FUNDS	1,48,106.6	1,70,126.9	2,06,433.6	2,22,968.3
Equity Share capital	2,740.4	2,740.7	2,741.8	2,742.4
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,03,920.0	1,25,857.5	1,49,606.4	1,68,232.7
Long Term Loans	34,301.9	38,857.2	45,241.9	46,278.3
Short Term Loans	7,144.3	2,671.5	8,843.5	5,714.9
USES OF FUNDS	1,48,106.6	1,70,126.9	2,06,433.6	2,22,968.3
Gross Block	1,79,422.7	1,90,138.4	2,13,822.2	2,50,777.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	65,420.2	73,796.6	82,598.6	92,059.3
Net Block	1,14,002.5	1,16,341.8	1,31,223.6	1,58,718.4
Capital Work in Progress	6,818.3	18,966.3	35,053.7	20,416.3
Investments	37,303.2	37,887.7	51,087.2	53,916.7
Current Assets	43,451.0	57,723.0	58,415.4	66,296.0
Less : Current Liabilities	53,468.4	60,791.9	69,346.3	76,379.1
Total Net Current Assets	(10,017.4)	(3,068.9)	(10,930.9)	(10,083.1)
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	2,475.3	2,613.7	4,203.1	5,508.7
Mkt Val. Quoted Investments	34,827.9	27,159.6	32,073.0	38,046.0
Contingent Liabilities	42,204.7	58,926.8	60,922.6	73,150.9
Dividend (%)	60	80	90	90

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 14	Sep 14	Dec 14	Mar 15
Net Sales	56920.9	54293.4	56014.4	62133.0
Cost Of Sales	46416.0	45523.0	46441.1	49031.3
Operating Profit	10504.9	8770.4	9573.3	13101.7
Recurring Income	2131.1	741.4	328.0	517.3
Adjusted PBDIT	12636.0	9511.8	9901.3	13619.0
Financial Expenses	1002.2	1433.5	1539.8	1499.0
Depreciation	2645.0	3023.6	2783.1	2879.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	8988.8	5054.7	5578.4	9240.6
Tax Charges	2733.1	954.2	1934.7	3093.2
Adjusted PAT	6255.7	4100.5	3643.7	6147.4
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	6255.7	4100.5	3643.7	6147.4

52 Week Index Relative Percentage Appreciation



Ultratech vs SENSEX

Risks Associated

The Cement Industry is capital intensive in nature. In the execution of large projects which are highly capital intensive in nature, there could be exposure to time and cost overruns. The Cement Industry is becoming intensely competitive with the foray of new entrants and some of the existing players adopting inorganic growth strategies. Availability of fuel at reasonable rates is one of the main concerns of the Company as it uses large quantities of coal annually to meet its kiln and captive power generation requirements. The overall cement demand growth in India continues to be at creepy phase, while the cost inflation is only expected to worsen given that companies are under severe pressure to raise prices going ahead. Further increase in fuel (petrol and diesel) costs is expected to hike the freight expenses of the cement companies sharply. The cement prices across the country are currently quoting at all time high levels. Thus the flexibility to pass on the cost increase from here on appears limited and could pressurize the margins going ahead. At some point we believe that there would be government intervention to control prices. The regulatory uncertainty with regard to the investigation by Competition Commission of India (CCI) on cartelization charges by cement major is another major overhang. Though the sector faces a lot of cost worries and regulations the over all Cement demand expected to grow at ~8-9 % per annum in foreseeable future on the back of ~7 % GDP growth. Low Indian Per capita consumption and higher Infrastructure growth leaves a bigger room for industry growth.



In a Nutshell

Ultratech has demonstrated its growth potential and aggressiveness very well in the past few years. It is currently the market leader in India with a 64MTPA capacity. Further it has planned M&A's of around 20 MTPA in the next 3 years. The current Lafarge and Holcim merger may also allow it to acquire nearly 5 MTPA of capacity. The overall group may also get stake of Vasavdatta Cement & Mangalam Cement from the BK Birla inheritance and the hive off of the cement division of Century may be soon taking place. All this would further enhance the capacity of the group and if a consolidation of companies occurs may even make Ultratech stronger in days to come. Ultratech has still the best capacity utilization in the industry and in the time of the existing market slump is positioning itself for a revival of demand. The new government at the Centre is expected to revive investment in infrastructure and encourage construction and housing sector. This would, inter alia, give a flip-up to the morbid cement industry. Ultratech is all set to seize the opportunities that will be thrown up in such a scenario. The company is also being benefitted with additional steps like taking possession of the Bicharpur coal mines in Madhya Pradesh, setting up of a cement terminal at the MBPT allotted land, acquiring and setting up inhouse thermal and green power infrastructure, etc. All this will benefit the company in the days to come.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months	Reduce : Expected to depreciate up to 10% over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months	Sell : Expected to depreciate 10% or more over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days	Trade Sell : Expected to depreciate more than 10% over 45-days

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