

Ultratech Cement Ltd

- ✧ Top-line at Rs. 6,135cr disappoints on lower than expected dispatches.
- ✧ Operational efficiency was higher than our estimate on account of saving arising from lower RM and other overhead.
- ✧ Higher interest outgo (up 103% yoy) drags PBIT; marginally higher than our estimate.
- ✧ Effective tax rate stood at 33.5% (as against 14.2% in Q4 FY14) translating into PAT de-growth of 26.6% yoy.
- ✧ Upgrade Ultratech to Accumulate as we now factor in FY17 earnings

Result table*

(Rs cr)	Q4 FY15	Q4 FY14	% yoy	Q3 FY15	% qoq
Net sales	6,135	5,832	5.2	5,490	11.8
Other Oper. Income	78	128	(39.2)	112	(30.3)
Material costs	(966)	(973)	(0.7)	(876)	10.3
Personnel costs	(327)	(235)	38.9	(306)	6.9
Power and fuel costs	(1,185)	(1,187)	(0.2)	(1,206)	(1.7)
Freight cost	(1,461)	(1,365)	7.0	(1,318)	10.9
Other overheads	(964)	(928)	3.9	(939)	2.7
Operating profit	1,310	1,271	3.1	957	36.9
OPM (%)	21.1	21.3	(24 bps)	17.1	400 bps
Depreciation	(288)	(278)	3.4	(278)	3.5
Interest	(150)	(74)	102.7	(154)	(2.6)
Other income	52	58	(10.4)	33	57.7
PBT	924	976	(5.4)	558	65.6
Tax	(309)	(138)	123.5	(193)	59.9
Effective tax rate (%)	33.5	14.2	1930 bps	34.7	-121 bps
Adjusted PAT	615	838	(26.6)	364	68.7
Adj. PAT margin (%)	10.0	14.4	(435 bps)	6.6	338 bps

Source: Company, India Infoline Research, *Standalone numbers

Revenue falls short of expectations on back of lower dispatches

UCL revenues grew 5.2%yoy to Rs. 6,135cr below our estimates of Rs. 6,348cr. Dispatch volumes for UCL (white and grey cement) stood at 12.2mtpa a drop of 3% yoy. Volume de-growth was on account of unseasonal rains and slowdown of construction activity in rural areas.

The underperformance on top-line was offset by improvement in blended realizations (up ~8.2%yoy and 3.8% qoq on account of a 14% qoq increase in Southern cement prices). Cement prices have seen wild swings particularly in North over the last one month. We expect cement prices barring South to be under pressure for the next one quarter.

Rating: Accumulate

Target: Rs2,886

CMP: Rs2,707

Upside: 6.6%

Sector: Cement

Sector view: Positive

Sensex: 27,437

52 Week h/l (Rs): 3398 / 1951

Market cap (Rscr) : 74,797

6m Avg vol ('000Nos): 257

Bloomberg code: UTCEM IS

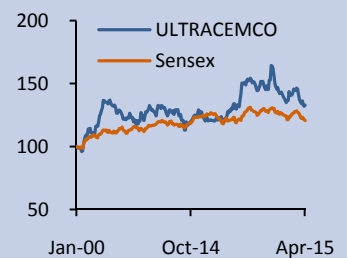
BSE code: 532538

NSE code: ULTRACEMCO

FV (Rs): 10

Prices as on 26 Apr, 2015

Share price trend



Share holding pattern

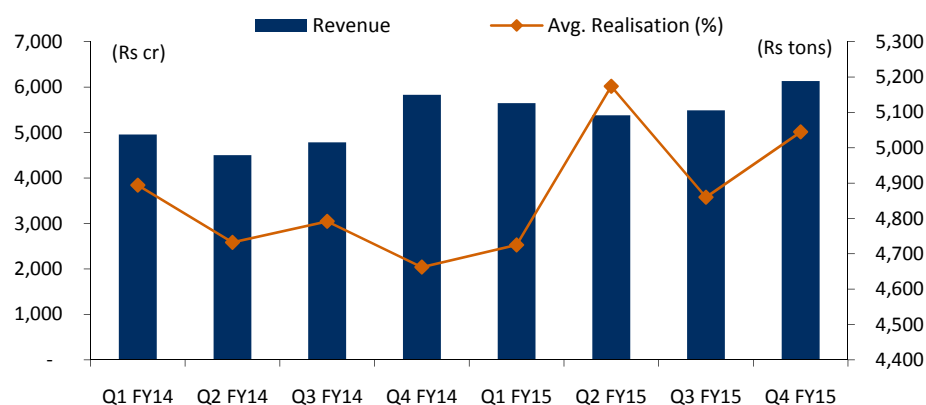
	Sep-14	Dec-14	Mar-15
Promoters	61.7	61.7	61.7
Institutions	25.6	25.4	25.2
Others	12.7	12.9	13.1

Research Analyst:

Hemant Nahata

research@indiainfoline.com

April 27, 2015

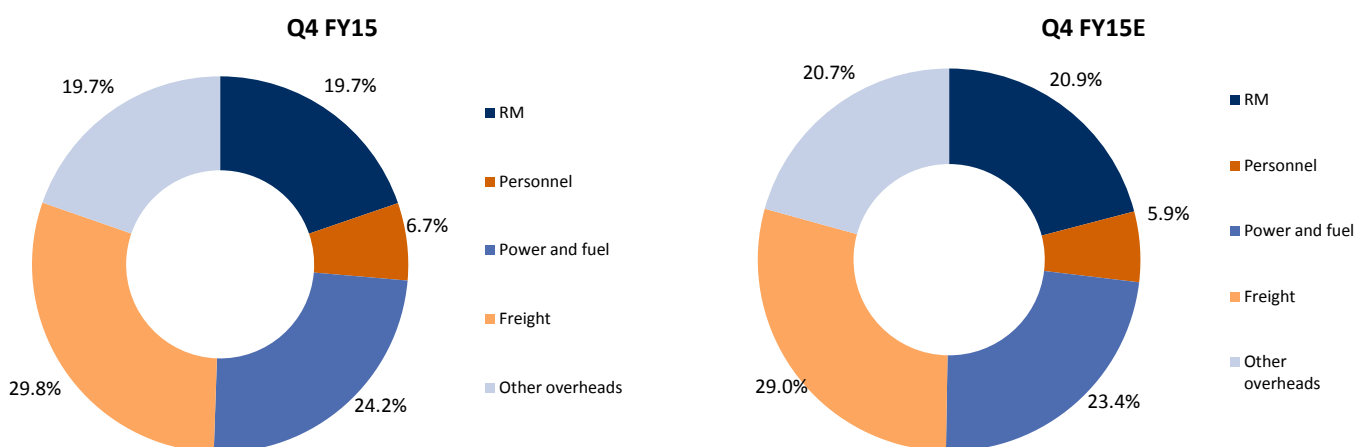
Revenue and blended realisation trend


Source: Company, India Infoline Research

Positively surprised by improvement in operational efficiency

Operating margins for UCL stood at 21.1% a jump of 400bps on sequential basis. Margin were higher on account of savings arising from a) Power and fuel cost (Rs 974/ton as against Rs 1,114/ton previous quarter on account of lower pet coke prices), b) Other overhead (Rs 793/ton as against Rs 868/ton previous quarter and c) Raw material cost (Rs 795/ton as against Rs810/ton in Q4 FY15).

Higher interest outgo (up 103% yoy) was higher due to recent acquisition of JP unit and commissioning of new units. PAT at Rs. 615cr down 26.6%yoy as effective tax rate stood at 33.5% as against 14.2% in Q4 FY14.

Cost Analysis - Q2 FY15 Vs Q2 FY15 Estimate


Source: Company, India Infoline Research

Cost analysis

As a % of net sales	Q4 FY15	Q4 FY14	bps yoy	Q3 FY15	bps qoq
Material costs	15.6	16.3	(77.7)	15.6	(8.7)
Personnel Costs	5.3	3.9	131.2	5.5	(19.7)
Power and fuel costs	19.1	19.9	(84.7)	21.5	(245.9)
Freight cost	23.5	22.9	60.1	23.5	(0.9)
Other overheads	15.5	15.6	(4.9)	16.8	(124.3)
Total costs	78.9	78.7	24.0	82.9	(399.6)

Trades at 16x PER FY17 earnings; upgrade to *Accumulate*

Uptick in southern region is most likely to boost realization for UCL for the next quarter. Prices are likely to remain subdued pan-India barring South on account of slowdown in rural off-take, extreme weather condition and slowdown in new infrastructure project on account of nearing monsoon season. However, it's unlikely to make a major dent in UCL's realizations.

UCL balance sheet continues to be strong supporting its ongoing expansion plans. We believe operational efficiency will improve in FY16 and FY17 on back of softening in power and fuel prices. Return ratios, which were on downward spiral, are likely to improve in the next two years. We upgrade UCL to Accumulate as we roll over our earnings estimates from FY16 to FY17.

Financial Summary

Y/e 31 Mar (Rs cr)	FY14E	FY15E	FY16E	FY17E
Revenues	20,280	22,936	26,247	30,782
Yoy growth (%)	-	13.1	14.4	17.3
Operating profit	3,818	4,195	6,123	8,154
OPM (%)	18.8	18.3	23.3	26.5
Pre-exceptional PAT	2,145	2,015	3,192	4,525
Reported PAT	2,145	2,015	3,192	4,525
Yoy growth (%)	(91.9)	(6.1)	58.5	41.7
EPS (Rs)	78.2	73.4	116.3	164.9
P/E (x)	34.6	36.9	23.3	16.4
Price/Book (x)	4.3	3.9	3.4	2.9
EV/EBITDA (x)	20.6	19.2	13.0	9.5
Debt/Equity (x)	0.3	0.3	0.3	0.3
RoE (%)	2.5	11.2	15.7	18.9
RoCE (%)	2.4	13.1	17.3	21.4

Source: Company, India Infoline Research

Company Background

Ultratech Cement the largest cement player in India with current installed capacity at 70mtpa. The company has presence across the five regions and caters to almost every key market in India. Ultratech plans to take its total capacity to 71mtpa by FY16. The company has made acquisition UAE by acquiring ETA Star Cement in the year 2011. The company has currently acquired JPA Bela and Sidhi plant which has combined clinker capacity of 5.3mtpa with thermal power plant capacity of 180MW.

'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

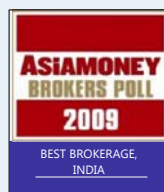
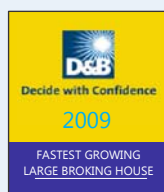
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011.

Other awards



Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

India Infoline Group (hereinafter referred as IIFL) is engaged in diversified financial services business including equity broking, DP services, merchant banking, portfolio management services, distribution of Mutual Fund, insurance products and other investment products and also loans and finance business. India Infoline Ltd ("hereinafter referred as IIL") is a part of the IIFL and is a member of the National Stock Exchange of India Limited ("NSE") and the BSE Limited ("BSE"). IIL is also a Depository Participant registered with NSDL & CDSL, a SEBI registered merchant banker and a SEBI registered portfolio manager. IIL is a large broking house catering to retail, HNI and institutional clients. It operates through its branches and authorised persons and sub-brokers spread across the country and the clients are provided online trading through internet and offline trading through branches and Customer Care.

Terms & Conditions and Other Disclosures:-

- This research report ("Report") is for the personal information of the authorised recipient(s) and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without IIL's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to current and historical information, but IIL does not guarantee the accuracy or completeness of the data in the Report. Accordingly, IIL or any of its connected persons including its directors or subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in this publication.
- Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by IIFL and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.
- The Report also includes analysis and views of our research team. The Report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed in the Report are our current opinions as of the date of the Report and may be subject to change from time to time without notice. IIL or any persons connected with it do not accept any liability arising from the use of this document.
- Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report may take professional advice before acting on this information.

- e) IIL has other business segments / divisions with independent research teams separated by 'chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.
- f) This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIL and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this Report may come are required to inform themselves of and to observe such restrictions.
- g) As IIL along with its associates, are engaged in various financial services business and so might have financial, business or other interests in other entities including the subject company/ies mentioned in this Report. However, IIL encourages independence in preparation of research report and strives to minimize conflict in preparation of research report. IIL and its associates did not receive any compensation or other benefits from the subject company/ies mentioned in the Report or from a third party in connection with preparation of the Report. Accordingly, IIL and its associates do not have any material conflict of interest at the time of publication of this Report.
- h) As IIL and its associates are engaged in various financial services business, it might have:-
 - (a) received any compensation (except in connection with the preparation of this Report) from the subject company in the past twelve months; (b) managed or co-managed public offering of securities for the subject company in the past twelve months; (c) received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) engaged in market making activity for the subject company.
- i) IIL and its associates collectively do not own (in their proprietary position) 1% or more of the equity securities of the subject company/ies mentioned in the report as of the last day of the month preceding the publication of the research report.
- j) The Research Analyst/s engaged in preparation of this Report or his/her relative
 - (a) does not have any financial interests in the subject company/ies mentioned in this report; (b) does not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) does not have any other material conflict of interest at the time of publication of the research report.
- k) The Research Analyst/s engaged in preparation of this Report:-
 - (a) has not received any compensation from the subject company in the past twelve months; (b) has not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) has not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) has not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the research report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

We submit that no material disciplinary action has been taken on IIL by any regulatory authority impacting Equity Research Analysis.

A graph of daily closing prices of securities is available at <http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, www.bseindia.com and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart).

Published in 2015. © India Infoline Ltd 2015

India Infoline Limited (Formerly "India Infoline Distribution Company Limited"), CIN No.: U99999MH1996PLC132983, Corporate Office – IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel, Mumbai – 400013 Tel: (91-22) 4249 9000 .Fax: (91-22) 40609049, Regd. Office – IIFL House, Sun Infotech Park, Road No. 16V, Plot No. B-23, MIDC, Thane Industrial Area, Wagle Estate, Thane – 400604 Tel: (91-22) 25806650. Fax: (91-22) 25806654 E-mail: mail@indiainfoline.com Website: www.indiainfoline.com, Refer www.indiainfoline.com for detail of Associates.

National Stock Exchange of India Ltd. SEBI Regn. No. : INB231097537/ INF231097537/ INE231097537, Bombay Stock Exchange Ltd. SEBI Regn. No.:INB011097533/ INF011097533/ BSE-Currency, MCX Stock Exchange Ltd. SEBI Regn. No.: INB261097530/ INF261097530/ INE261097537, United Stock Exchange Ltd. SEBI Regn. No.: INE271097532, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA00000623, SEBI RA Regn.-: INH000000248.

For Research related queries, write to: Amar Ambani, Head of Research at research@indiainfoline.com

For Sales and Account related information, write to customer care: cs@indiainfoline.com or call on 91-22 4007 1000