

Soft Quarter Impacted by Seasonality; Retain BUY

Est. vs. Actual for Q2FY25: Revenue – **BEAT**; EBITDA Margin – **MISS**; PAT – **MISS**
Change in Estimates post Q2FY25 (Abs.)

FY25E/FY26E: Revenue: -1%/ 1%; EBITDA: -9%/-3%; PAT: -12%/-3%

Recommendation Rationale

- Capacity expansion on track:** The company's capacity expansion plan is progressing well. Its total grinding capacity currently stands at 150.7 mtpa in India as it commissioned 9.9 mtpa capacity till Oct 24. The company will add another 6.3 mtpa in FY25, 12 mtpa in FY26, and another 15 mtpa in FY27, taking its total Cement manufacturing capacity to 183.5 mtpa in India (excluding Kesoram's 10.75 mtpa and India Cement 14.5 mtpa). After the 2nd and 3rd phases of expansion, its total grinding capacity will increase to 189.mtpa on a consolidated basis. With expanded capacity and increasing scale, we expect the company to further consolidate its market leadership position and gain further market share from current 25% to 28%. We expect the company to grow its volume at 11% CAGR over FY24-26E.
- EBITDA margins to improve on lower cost & efficiency gain:** During the quarter, blended power and fuel costs on a per-tonne basis reduced by 16% YoY. The company expects further reduction in costs in FY25 due to the consumption of lower-cost inventory, which will positively impact its margin. Furthermore, a higher blending ratio, an increase in the sale of premium products, and consumption of higher green energy will aid in achieving higher EBITDA margins going forward. The company expects cost reduction of Rs 200/300 on a per tonne basis in the next 2-3 years. We expect the company's EBITDA margin to inch higher to 20.5% in FY26E, driven by higher volume, stable realization, and cost optimization initiatives.
- Robust cement demand to sustain:** Cement demand is expected to remain robust, with the industry projected to grow at 7%-8% CAGR over FY23-26. This will be driven by higher spending on infrastructure, affordable and rural housing, increase in private Capex, and robust real estate demand.

Sector Outlook: Positive

Company Outlook & Guidance: The management has guided for robust cement demand in the country to sustain and expects volume growth in double digits in H2FY25. Pricing remains dynamic and will be determined by market forces.

Current Valuation: 19x FY26E EV/EBITDA (Earlier Valuation: 19x FY26E EV/EBITDA).

Current TP: Rs 12,000/share (Earlier TP: Rs 12,450/share)

Recommendation: We maintain our BUY recommendation on the stock.

Alternative BUY Ideas from our Sector Coverage: Dalmia Bharat (TP-2,040/share).

Outlook: Overall industry outlook remains positive and we expect the company to grow its Volume/Revenue/EBITDA/APAT at 11%/11%/18%/21% CAGR over FY24-FY26E. This will be driven by the robust demand, improvement in prices, upcoming new capacity, ramping up of recently commissioned capacity, benefit of lower commodity prices, higher blending ratio, and increasing share of green energy.

Valuation & Recommendation: We pencil in higher growth driven by an improvement in market share and efficiency gains as Cement industry gets consolidated. The current valuation is at 19% premium to its past 10-years average multiple of 16x. The stock is currently trading at 24x and 18x FY25E/FY26E EV/EBITDA. We maintain our BUY rating on the stock with a TP of Rs 12,000/share, implying an upside potential of 10% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	15,635	-13	-2	15,373	2%
EBITDA	2,018	-34	-21	2,342	-14%
EBITDA Margin	12.9%	(390bps)	(300bps)	15.2%	(230bps)
Net Profit	820	-52	-36	1034	-21%
EPS (Rs)	28.4	-52	-36	35.8	-21%

Source: Company, Axis Securities Research

 (CMP as of 21st Oct, 2024)

CMP (Rs)	10,870
Upside /Downside (%)	10%
High/Low (Rs)	12077/941
Market cap (Cr)	3,14,143
Avg. daily vol. (6m)Shrs.	4,00,000
No. of shares (Cr)	28.9

Shareholding (%)

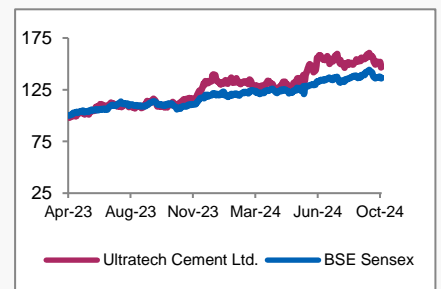
	Mar-24	June-24	Sept-24
Promoter	60.0	60.0	60.0
FIIs	17.7	18.2	18.0
MFs / UTI	12.2	11.8	11.6
Banks / FIs	0.1	0.0	0.1
Others	10.0	10.0	10.3

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	70,908	74,453	87,422
EBITDA	12,968	13,157	18,065
Net Profit	7,147	6,999	10,440
EPS (Rs)	248	242	362
PER (x)	44	45	30
P/BV (x)	5.2	4.8	4.2
EV/EBITDA (x)	25	24	17
ROE (%)	12%	11%	14%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-1%	1%
EBITDA	-9%	-3%
PAT	-12%	-3%

Relative performance


Source: Ace Equity

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Financial Performance

UTCL reported a mixed set of numbers during the quarter. Volume/Revenue was marginally above expectation while EBITDA, EBITDA margin, and PAT was below expectation owing to lower realization, higher other expenses, depreciation and inventory adjustment during the quarter. The revenue and volume grew by 2%/4% respectively (above expectation), while EBITDA/APAT was de-grew by 21%/36% YoY. The company reported a profit of Rs 820 Cr against Rs 1,281 Cr in Q2FY24 (below expectations).

The company recorded an EBITDA margin of 12.9% (vs. our estimates of 15.2%) against 15.9% YoY. The quarter's volume stood at 27.84 million tonnes per annum (mntpa) (Grey & White Cement), up 4% YoY. UTCL's EBITDA/tonne stood at Rs 725, down 24% YoY, and it reported blended realization/tonne of Rs 5,616, down 6%/1% YoY/QoQ. The company's cost/tonne increased by 4% QoQ to Rs 4,891 while it was lower by 3% YoY.

Key Concall Highlights

- Capacity Expansion:** The company's capacity expansion plan is progressing well. Its total grinding capacity currently stands at 156.1 mtpa in India, following the commissioning of 9.9 mtpa in till Oct'24. The company plans to add further 6.3 mtpa in FY25, 12 mtpa in FY26, and another 15 mtpa in FY27, bringing its total cement manufacturing capacity to 183.5 mtpa in India, excluding Kesoram's 10.75 mtpa and India Cement 14.45 mtpa. After the 2nd and 3rd phases of expansion, its total grinding capacity will increase to 189 mtpa. This expansion is expected to further consolidate its market leadership position and gain additional market share.
- Volume:** The company has guided for double-digit volume growth in H2FY25, driven by better demand across its operating regions, including a positive shift in rural demand along with sustained infrastructure and real estate demand. During the quarter, it registered a volume growth of 4% YoY. The trade and non-trade mix for the quarter stood at 67.5%/32.5%. Premium cement constituted 23.4% of overall trade sales, up 8% YoY. During the quarter blended cement mix was 70% and CC ratio at 1.46.
- Pricing:** Grey cement prices were lower by 8.5%/3% YoY/QoQ, as most regions experienced a decline in cement prices. Blended realization during the quarter was down by 1%. Current prices are higher by Rs 7/ bag compared to Q2FY25 prices. The management expects Cement prices to be better than H1FY25 prices.
- Power/Fuel:** During the quarter, power and fuel costs on a per-tonne basis were lower by 16% YoY. The pet coke consumption mix stood at 54%, and blended fuel consumption cost was \$133 per tonne. Lower by 10%/18% QoQ/YoY. On KCAL basis fuel cost stood at Rs 1.84, compared to Rs 2.0 in Q1FY25. The fuel mix included 57% pet coke, with the balance being coal and renewable energy/AFR. The company expects a sequential decline in fuel costs in the coming quarter and anticipates major benefits from Q4FY25 onwards.
- WHRS & Renewable Energy:** At present, the company's total Waste Heat Recovery System (WHRS) and renewable energy capacity stand at 308 MW and 681 MW, respectively. The company aims to double its renewable power capacity by FY27 and is also increasing its WHRS capacity to 450 MW from the current 308 MW. All these capacities are expected to come online by FY27, doubling the share of green power in total power consumption. This will result in significant savings in overall power and fuel costs moving forward. Currently, the share of green power in overall power consumption stands at 32%, with the company aiming to increase this to 85% by FY30.
- Freight:** During the quarter, freight cost decreased to Rs 1287/tonne down 2% QoQ/YoY. Lead distance was 388 km, compared to 385 km in Q1FY25. On a YoY basis, lead distance reduced from 402 km to 38 km due to sustainable internal efficiency. The company aims to further reduce lead distance by 10 km moving forward.
- Other Expenses:** On a QoQ basis, cost increased by 13% per tonne to Rs 850/tonne due to higher plant maintenance and negative operating leverage. These costs are expected to normalize in the ensuing quarter.
- RMC:** At present, the total number of RMC plants stands at 321. The company expects healthy growth in the RMC business moving ahead. During the quarter, RMC volume growth was robust at 19% YoY, reaching 3.01 million sq meters.
- OCF/Capex:** During H1FY25 the company generated OCF of Rs 2,826 cr vs Rs 3,357 previous year. The total capex incurred in H1FY25 stood at Rs 4450 cr. The company expects to incur a Capex of Rs 8,000-9000 Cr in FY25 and FY26, covering both growth and maintenance capex.
- Debt/Cash:** The current gross debt stands at Rs 15922 Cr, cash/cash equivalent at Rs 7,130 Cr, and net debt at Rs 8,792 Cr. On a QoQ basis, gross and net debt have increased.

Key Risks to our Estimates and TP

- Lower realization and demand in its key market and delay in capacity expansion.
- Higher input costs may impact margins.

Change in Estimates

	New		Old		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	74453	87422	75336	86910	-1%	1%
EBITDA	13157	18065	14385	18694	-9%	-3%
PAT	6999	10440	7997	10789	-12%	-3%

Source: Company, Axis Securities Research

Result Review Q2FY25

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg QoQ	% Chg YoY
Net sales	15635	18070	16012	-13%	-2%
Expenditure	13616	15030	13461	-9%	1%
EBITDA	2018	3039	2551	-34%	-21%
Other income	221	166	167	33%	32%
Interest	317	256	234	24%	36%
Depreciation	904	843	798	7%	13%
PBT	1018	2107	1686	-52%	-40%
Tax	191	447	409	-57%	-53%
Adjusted PAT	820	1697	1281	-52%	-36%
EBITDA margin (%)	12.9%	16.8%	15.9%	(390bps)	(300bps)
EPS (Rs)	28.4	58.8	44.4	-52%	-36%

Source: Company, Axis Securities Research

Volume/ Realization / Cost Analyses

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	% Chg QoQ	% Chg YoY
Volume/mnt	27.84	31.95	26.69	-13%	4%
Realisation/tonne (Rs)	5616	5656	5999	-1%	-6%
Cost/tonne (Rs)	4891	4704	5044	4%	-3%
Raw material/tonne (Rs)	1048	1009	935	4%	12%
Staff Cost/tonne (Rs)	328	231	304	42%	8%
Power & Fuel/tonne (Rs)	1378	1406	1643	-2%	-16%
Freight/tonne (Rs)	1287	1309	1316	-2%	-2.2%
Other Expenses /tonne (Rs)	849	749	846	13%	0%
EBITDA/tonne (Rs)	725	951	956	-24%	-24%

Source: Company, Axis Securities Research

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	63240	70908	74453	87422
Other operating income	0	0	0	0
Total income	63240	70908	74453	87422
Raw Material	9715	11903	13381	15187
Power & Fuel	18491	18283	17785	19919
Freight & Forwarding	14009	15881	16834	19191
Employee benefit expenses	2739	3038	3292	3555
Other Expenses	7666	8836	10004	11505
EBITDA	10620	12968	13157	18065
Other income	503	617	716	787
PBIDT	11123	13585	13874	18852
Depreciation & Amortisation	2888	3145	3554	3916
Interest & Fin Chg.	823	968	1153	941
E/o income / (Expense)	0	-72	0	0
Associates	4	22	16	16
Pre-tax profit	7416	9566	9183	14011
Tax provision	2343	2418	2185	3573
Minority Interests	9	-1	2	2
APAT	5083	7147	6999	10440
Other Comprehensive Income	0	0	0	0
APAT after Comprehensive Income	5083	7147	6999	10440

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	91387	100802	106223	116088
Net Block	59584	62906	67765	73028
CWIP	4035	6783	6783	6783
Investments	5837	5485	5885	8385
Wkg. cap. (excl cash)	9329	11825	12000	13638
Cash / Bank balance	1150	783	777	1009
Misc. Assets	11452	13021	13014	13246
Capital employed	91387	100802	106223	116088
Equity capital	289	289	289	289
Reserves	54036	59939	65202	73906
Minority Interests	56	56	58	60
Borrowings	11058	11403	11203	11203
DefTax Liabilities	6260	6448	6448	6448
Other Liabilities and Provision	19689	22668	23024	24183

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	7416	9422	9183	14011
Depreciation	2888	3145	3554	3916
Interest Expenses	823	968	1153	941
Non-operating/ EO item	-597	-506	-716	-787
Change in W/C	-337	-481	187	-710
Income Tax	1124	1651	2185	3573
Operating Cash Flow	9069	10898	11175	13798
Capital Expenditure	-6200	-9006	-8413	-9179
Investments	-1808	55	-400	-2500
Others	821	162	716	787
Investing Cash Flow	-7187	-8788	-8097	-10893
Borrowings	826	440	0	0
Interest Expenses	-702	-853	-1153	-941
Dividend paid	-1091	-1094	-1732	-1732
Others	-664	-417	-200	0
Financing Cash Flow	-1631	-1926	-3085	-2673
Change in Cash	250	184	-7	232
Opening Cash	121	370	554	547
Closing Cash	370	554	547	779

Source: Company, Axis Securities Research

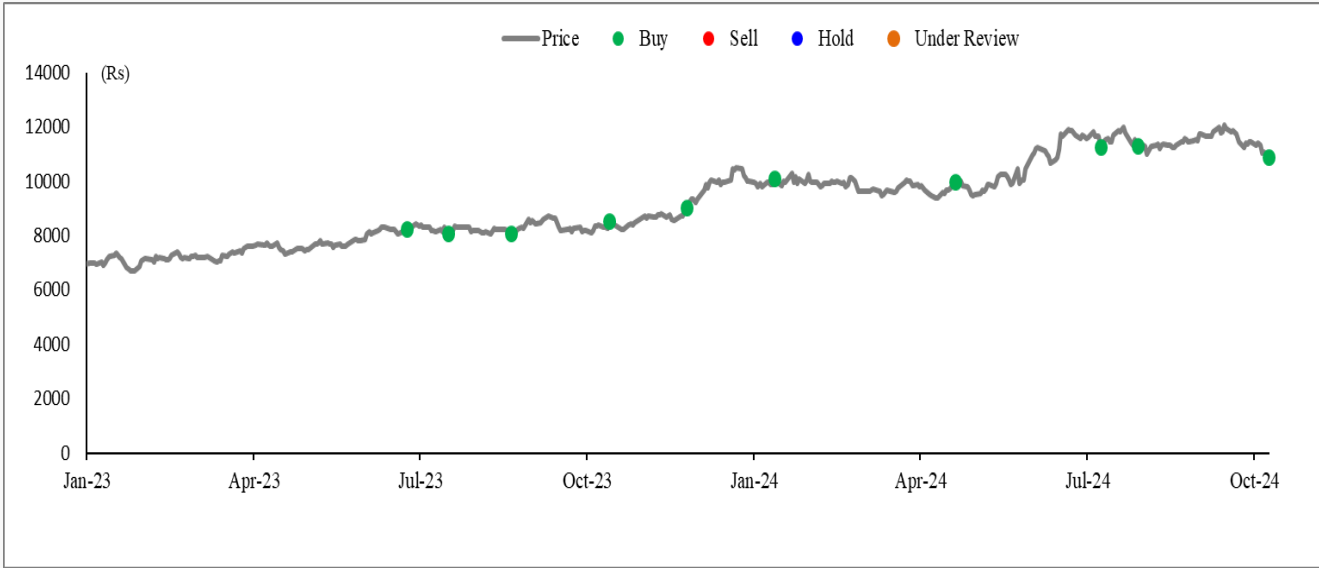
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Gross profit margin	33%	35%	36%	38%
EBITDA margin	17%	18%	18%	21%
PAT margin	8%	10%	9%	12%
Depreciation / G. block	4.5%	4.5%	4.6%	4.5%
Growth Indicator				
Sales growth	20%	12%	5%	17%
Volume growth	12%	13%	9%	14%
EBITDA growth	-8%	22%	1%	37%
PAT growth	-29%	39%	-1%	49%
Efficiency Ratios				
Sales/Gross block (x)	1.01	1.02	0.96	1.005
Sales/Net block(x)	1.02	1.06	1.03	1.133
Working capital/Sales (x)	-0.05	-0.06	-0.05	-0.008
Valuation Ratios				
PE (x)	57	44	45	30
P/BV (x)	5.3	5.2	4.8	4.2
EV/Ebitda (x)	27	25	24	17
EV/Sales (x)	4.6	4.5	4.3	3.6
MCap/ Sales (x)	4.5	4.4	4.2	3.6
EV/Tonne \$	264	259	214	204
Return Ratios				
ROE	9%	12%	11%	14%
ROCE	13%	15%	13%	18%
ROIC	14%	16%	15%	20%
Leverage Ratios				
Debt / equity (x)	0.2	0.2	0.2	0.2
Net debt/ Equity (x)	0.1	0.1	0.1	0.0
Net debt/Ebitda	0.4	0.4	0.3	0.1
Interest Coverage ratio (x)	10	11	9	16
Cash Flow Ratios				
OCF/Sales	14%	15%	15%	16%
OCF/Ebitda	85%	84%	85%	76%
FCF/Sales	5%	3%	4%	5%
FCF/EBITDA	27%	15%	21%	26%
OCF/Capital Employed	14%	15%	15%	17%
Payout ratio (Div/NP) (%)	22%	28%	25%	17%
AEPS (Rs.)	175	248	242	362
AEPS Growth (%)	-30%	41%	-2%	49%
CEPS (Rs.)	276	357	366	497
DPS (Rs.)	38	70	60	60

Source: Company, Axis Securities Research

UltraTech Cement Price Chart and Recommendation History



Date	Reco	TP	Research
30-Jun-23	BUY	9,350	Initiating Coverage
24-Jul-23	BUY	9,520	Result Update
28-Aug-23	BUY	9,520	Result Update
20-Oct-23	BUY	9,680	Result Update
02-Dec-23	BUY	10,850	Company Update
22-Jan-24	BUY	11,100	Result Update
30-Apr-24	BUY	11,100	Result Update
22-Jul-24	BUY	12,400	Result Update
12-Aug-24	BUY	12,450	AAA
22-Oct-24	BUY	12,000	Result Update

Source: Axis Securities Research

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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.