

22 October 2024

India | Equity Research | Q2FY25 results review

## UltraTech Cement

Cement

### In the proving ground

UltraTech Cement's (UTCEM) focus on increasing its capacity/market share and enhancing efficiency remains heartening. However, in Q2FY25, the sectoral pangs of subdued demand and weak prices got the better of the industry leader. EBITDA at INR 20.2bn slipped 21% YoY/34% QoQ tracking – 1) meek ~3% YoY domestic volume growth (though superior to our industry forecast of it being flat); and 2) weak realisations, down ~3% QoQ. Blended EBITDA/t stood at a multi-quarter low of INR 725, down 24%, both on a YoY and QoQ basis. Despite assuming recovery (we pencil-in an EBITDA/t of INR 1,051 in H2FY25), the odds of elevated competitive intensity are forcing our hand to chop FY25E/FY26E EBITDA forecast by ~8%/4%. We continue to value the industry leader at 16x FY26E EV/EBITDA and maintain **HOLD** with a revised TP of INR 10,555 (INR 11,046 earlier).

### Q2FY25 EBITDA margins plunge to a multi-quarter low

EBITDA margins at 12.9% (down 300bps YoY/390bps QoQ) were at a multi-quarter low due to: 1) **weak volumes** – up 2.7% YoY in India and up 4.3% YoY at a consolidated level; 2) **meek realisations** – down 2.9% QoQ/8.3% YoY for the grey segment in India and down 0.7% QoQ/6.4% YoY at a blended level; and 3) **low operating leverage** – as fixed cost/t rose 20% QoQ (up 2% YoY) with staff cost rising 13% YoY (24% QoQ) due to impact of annual increments and bonus payouts. Talking about positives, UTCEM's: 1) green power mix increased from 29% in Q1FY25 to 32%; 2) average fuel cost/t eased from USD 149 to USD 133 as share of pet coke rose to 54%, from 37% in the previous quarter. However, the savings could not avert a 4% QoQ rise in overall cost/t. Blended EBITDA/t stood at INR 725, down 24%, both on a YoY/QoQ basis.

### Recovery in H2FY25, yet an earnings downgrade

Assuming recovery in demand and prices, we forecast UTCEM's volumes to rise ~10% and EBITDA/t to INR 1,051 in H2FY25 (vs. INR 846 in H1FY25). However, factoring in the odds of sustained competitive intensity, we lower our FY25E EBITDA by ~8%. We also trim our FY26E EBITDA by ~4% despite assuming ~INR 160/t benefit (from Q2FY25 levels) of falling fuel prices and increasing share of green power. Our revised EBITDA/t stands at INR 956 for FY25E and INR 1,252 for FY26E. Given the sectoral challenges, we see limited scope to revise upwards our valuation multiple of 16x FY26E EV/EBITDA. We maintain **HOLD** with a revised TP of INR 10,555 (INR 11,046 earlier).

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	6,32,400	7,09,081	7,31,789	8,34,617
EBITDA	1,06,199	1,29,686	1,23,048	1,77,278
EBITDA (%)	16.8	18.3	16.8	21.2
Net Profit	50,599	70,550	61,001	99,461
EPS (INR)	175.3	244.4	211.3	344.5
EPS % Chg YoY	(29.6)	39.4	(13.5)	63.0
P/E (x)	62.0	44.5	51.4	31.5
EV/EBITDA (x)	29.8	24.4	25.9	17.8
RoCE (%) (Post Tax)	8.3	10.7	8.9	13.1
RoE (%)	9.7	12.4	9.9	14.5

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#### Market Data

Market Cap (INR)	3,138bn
Market Cap (USD)	37,323mn
Bloomberg Code	UTCEM IN
Reuters Code	ULTC.BO
52-week Range (INR)	12,138 /8,148
Free Float (%)	39.0
ADTV-3M (mn) (USD)	44.2

Price Performance (%)	3m	6m	12m
Absolute	(3.5)	16.1	28.5
Relative to Sensex	(4.1)	5.0	4.4

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.4)	(1.6)
EBITDA	(7.7)	(3.8)
EPS	(12.6)	(5.9)

#### Previous Reports

29-07-2024: [Company Update](#)

20-07-2024: [Q1FY25 results review](#)

### Other highlights

- Domestic grey cement volumes, at 25.75mn tonnes, rose 2.7% YoY while those including exports and sales from overseas operations were up 4.3% YoY to 27.39mn tonnes.
- For Q2FY25, domestic realisation slipped 2.9% QoQ (being the third consecutive quarter of a decline) while blended realisation fell ~0.7% QoQ.
- RMC revenue jumped 20% YoY (down 6% QoQ) to INR 13.97bn.
- White cement sales rose 7% YoY to 450kt; however, realisation plunged 17% YoY/14% QoQ due to aggressive competition in the white-putty business.
- Other operating income stood at INR 3.3bn vs. INR 1.7bn in Q1FY25 and INR 2.8bn in Q2 last year due to increase in incentives.
- On an absolute basis, staff cost rose 13% YoY (up 24 QoQ) due to annual increments and bonus payouts. Other expenses surprised – falling ~1% QoQ, but being up just 5% YoY.

### Q2FY25: Conference call takeaways

#### Demand/volume

- As per UTCEM, industry is expected to report flat YoY volume growth in Q2FY25 on the back of prolonged and intense monsoon season coupled with post-election slowdown.
- Management pins hopes on the robust government infrastructure spending and upswing in the urban real estate cycle in H2FY25 for better demand. Further, improved reservoir water levels augurs well for agriculture and should result in good growth in the rural markets.
- Overall, UTCEM expects double-digit YoY growth and 7–8% for the industry in H2FY25.
- During Q2FY25, cement/clinker capacity utilisation stood at 68%/73%.
- UTCEM estimates 30mtpa capacity addition each in FY25 and FY26; In FY25, UTCEM's share in industry capacity addition shall be ~50%.
- Industry could see lower capacity additions over the next two years due to delay in capacity commissioning for a few cement players.
- Trade volume share stood at 68% in Q2FY25, which is flat QoQ.
- Premium cement share was 23.4% in Q2FY25 vs. 24% in Q1FY25.

#### Pricing

- Spot cement prices have improved to INR 354/bag vs. average of INR 348/bag in Q2FY25.

#### Cost

- UTCEM's cement to clinker (CC) ratio stood at 1.46x in Q2FY25 vs. flat QoQ and 1.44x in Q2FY24; it aims to achieve ratio of 1.54x in the medium term.
- In Q2FY25, blended imported fuel consumption (CV: 7,500) stood at USD 133/t, which is lower by 10% QoQ and 18% YoY.
- Share of pet coke in overall fuel mix rose sharply to 54% in Q2FY25 vs. 37% in Q1FY25. Going ahead, UTCEM expects further rise of pet coke in the fuel mix.

- Fuel consumption cost stood at INR 1.84/Kcal in Q2FY25. UTCEM expects marginal fuel cost savings (~INR 0.10) in ensuing quarters on the back of depletion of high-cost fuel inventory and higher pet coke usage.
- However, UTCEM has cautioned on the sharp rise in input fuel costs, in case of any unfavorable global events.
- Higher employee costs in Q2FY25 were due to one-time extra bonuses paid to employees.
- Lead distance marginally increased from 385kms in Q1FY25 to 388kms in Q2FY25. UTCEM aims to reduce the lead distance to 360kms by FY27.
- In Q2FY25, green power mix increased to 32% vs. 29.4% in Q1FY25. UTCEM aims to achieve 1.8GW of green power capacity by FY27 (681MW currently).

### Capex

- Capex cash outflow guidance remains unchanged at ~INR 80–90bn over FY25 and FY26 each.
- UTCEM aims to commission its upcoming capacities as per guidance and is on-track to achieve ~157/184mtpa of domestic capacity by FY25/FY27 (excl. capacities of India cements and Kesoram Industries).
- Status update on the acquisition, as follows:
  - NCLT hearings are scheduled on 25 Oct'24 for Kesoram Industries (Kesoram) and 12 Nov'24 for UTCEM. The deal will likely consummate in H2FY25, in UTCEM's view.
  - For India Cements, UTCEM is awaiting CCI's approvals, which will be followed by the launch of open offer.
- UTCEM plans to invest INR 4–5bn (WHRS etc.) over two years on Kesoram Industries, in order to upgrade its profitability levels to UTCEM's standards.

### Miscellaneous

- UTCEM's limestone reserves are estimated at ~10bn tonnes.
- In Q2FY25, soft putty prices resulted in 11% YoY decline in white cement revenues. However, prices have stabilised in the current quarter.
- Higher other operating income in Q2FY25 was on the back of incentive income from plant.
- Kesoram's Q2FY25 volume stood at 1.7mn tonnes and EBITDA/t at ~INR 264.

### Exhibit 1: Q2FY25 result review – consolidated

Particulars (INR mn)	Q2FY25	Q2FY24	YoY %	Q1FY25	QoQ %	Q2FY25E	% var
Volume sales (mn.t)	27.8	26.7	4.3	32.0	(12.9)	27.5	1.2
Blended realisation (INR/t)	5,616	5,999	(6.4)	5,656	(0.7)	5,646	(0.5)
<b>Net sales</b>	<b>1,56,347</b>	<b>1,60,121</b>	<b>(2.4)</b>	<b>1,80,696</b>	<b>(13.5)</b>	<b>1,55,298</b>	<b>0.7</b>
Raw materials	29,165	24,942	16.9	32,239	(9.5)	26,680	9.3
Personnel cost	9,139	8,123	12.5	7,382	23.8	8,129	12.4
Power & fuel	38,377	43,853	(12.5)	44,937	(14.6)	39,194	(2.1)
Freight cost	35,835	35,118	2.0	41,813	(14.3)	35,481	1.0
Other expenses	23,649	22,577	4.8	23,931	(1.2)	24,930	(5.1)
<b>Total expenses</b>	<b>1,36,165</b>	<b>1,34,612</b>	<b>1.2</b>	<b>1,50,303</b>	<b>(9.4)</b>	<b>1,34,415</b>	<b>1.3</b>
<b>Total cost/t</b>	<b>4,891</b>	<b>5,044</b>	<b>(3.0)</b>	<b>4,704</b>	<b>4.0</b>	<b>4,887</b>	<b>0.1</b>
<b>EBITDA</b>	<b>20,183</b>	<b>25,509</b>	<b>(20.9)</b>	<b>30,393</b>	<b>(33.6)</b>	<b>20,883</b>	<b>(3.4)</b>
<b>EBITDA/t (INR)</b>	<b>725</b>	<b>956</b>	<b>(24.1)</b>	<b>951</b>	<b>(23.8)</b>	<b>759</b>	<b>(4.5)</b>
Interest	3,171	2,339	35.6	2,556	24.1	2,576	23.1
Depreciation	9,039	7,978	13.3	8,425	7.3	8,440	7.1
Other Income	2,207	1,671	32.1	1,657	33.2	1,682	31.2
<b>Recurring pre-tax income</b>	<b>10,180</b>	<b>16,863</b>	<b>(39.6)</b>	<b>21,069</b>	<b>(51.7)</b>	<b>11,550</b>	<b>(11.9)</b>
Extraordinary income/(expense)	0	0	NA	0	NA	0	NA
Taxation	1,928	4,059	(52.5)	4,117	(53.2)	2,945	(34.5)
<b>Reported net income</b>	<b>8,252</b>	<b>12,804</b>	<b>(35.6)</b>	<b>16,952</b>	<b>(51.3)</b>	<b>8,605</b>	<b>(4.1)</b>
<b>Recurring net income</b>	<b>8,252</b>	<b>12,804</b>	<b>(35.6)</b>	<b>16,952</b>	<b>(51.3)</b>	<b>8,605</b>	<b>(4.1)</b>

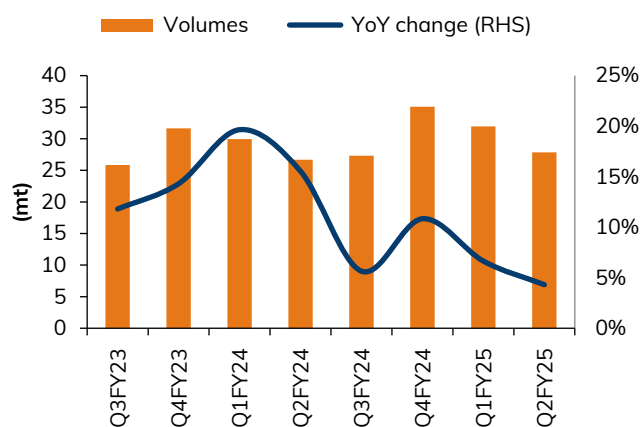
Source: I-Sec research, Company data

### Exhibit 2: Per-tonne analysis – Consolidated

(INR/t)	Q2FY25	Q2FY24	YoY %	Q1FY25	QoQ %
Sales volume (mn.t)	27.8	26.7	4.3	32.0	(12.9)
<b>Blended NSR</b>	<b>5,616</b>	<b>5,999</b>	<b>(6.4)</b>	<b>5,656</b>	<b>(0.7)</b>
Raw materials	1,048	935	12.1	1,009	3.8
Power & fuel	1,378	1,643	(16.1)	1,406	(2.0)
Freight	1,287	1,316	(2.2)	1,309	(1.6)
Employee	328	304	7.9	231	42.1
Other expenses	849	846	0.4	749	13.4
<b>Total Operating costs</b>	<b>4,891</b>	<b>5,044</b>	<b>(3.0)</b>	<b>4,704</b>	<b>4.0</b>
<b>EBITDA</b>	<b>725</b>	<b>956</b>	<b>(24.1)</b>	<b>951</b>	<b>(23.8)</b>

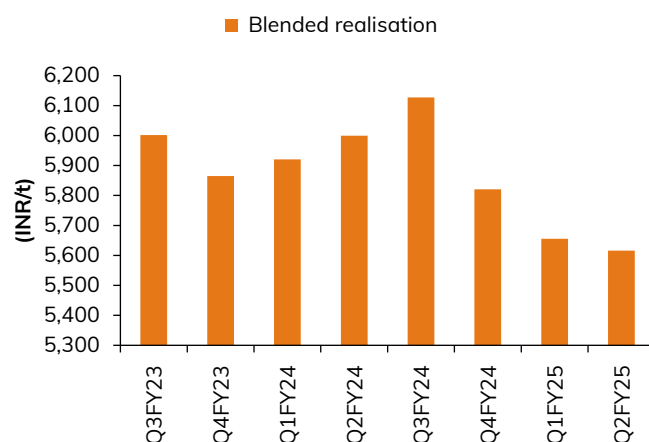
Source: I-Sec research, Company data

### Exhibit 3: Quarterly volumes trend



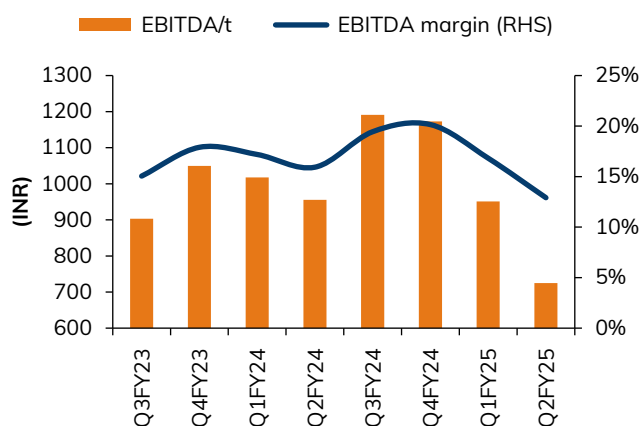
Source: I-Sec research, Company data

### Exhibit 4: Quarterly realisation trend



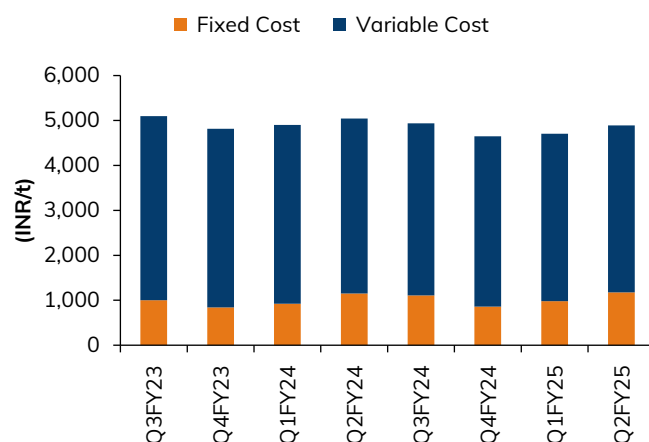
Source: I-Sec research, Company data

### Exhibit 5: Quarterly margin trend



Source: I-Sec research, Company data

### Exhibit 6: Break-up of total cost



Source: I-Sec research, Company data

### Exhibit 7: Per-tonne estimate – consolidated

(INR/t)	FY22	FY23	FY24	FY25E	FY26E
<b>Blended realisation</b>	<b>5,596</b>	<b>5,986</b>	<b>5,956</b>	<b>5,684</b>	<b>5,895</b>
Raw material consumed	847	920	1,000	996	970
Staff costs	270	259	255	258	258
Power & fuel	1,291	1,750	1,536	1,403	1,317
Freight	1,246	1,326	1,334	1,304	1,309
Others	717	726	742	767	789
<b>Total operating expenses</b>	<b>4,371</b>	<b>4,981</b>	<b>4,867</b>	<b>4,729</b>	<b>4,643</b>
<b>EBITDA</b>	<b>1,225</b>	<b>1,005</b>	<b>1,089</b>	<b>956</b>	<b>1,252</b>

Source: I-Sec research, Company data

### Exhibit 8: Performance trend and assumptions

Particulars	FY22	FY23	FY24	FY25E	FY26E
Capacity (Grey Cement) (mtpa)	120	133	140	163	175
Grey Cement sales volumes (mn.t)	93	104	117	127	139
Capacity utilisation (%)	77	78	84	78	80
Grey Cement- Volume Growth (%)	8.8	12.4	12.7	8.2	10.0
Blended realisation (INR/t)	5,596	5,986	5,956	5,684	5,895
NSR - Growth (%)	8.1	7.0	(0.5)	(4.6)	3.7

Source: I-Sec research, Company data

### Exhibit 9: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	7,31,789	7,42,151	(1.4)	8,34,617	8,47,957	(1.6)
EBITDA	1,23,048	1,33,355	(7.7)	1,77,278	1,84,226	(3.8)
PAT	61,041	69,854	(12.6)	99,501	1,05,696	(5.9)

Source: I-Sec research

**Exhibit 10: Valuations based on 16x Mar'26E EV/E**

Particulars (INR mn)	FY26E
Assumed EV/EBITDA multiple (x) (A)	16.0
Consolidated EBITDA incl. Kesoram Industries (B)	1,87,134
Enterprise Value (C) = (A) x (B)	29,94,144
Less: Consolidated net debt incl. Kesoram Industries (D) ^	37,829
Value of stake in India Cements (E)	1,53,765
M-cap (F) = (C) - (D)+ (E)	31,10,080
Shares o/s post Kesoram Inds deal (mn) (G)	294.7
<b>Value per share (INR) (F) / (G)</b>	<b>10,555</b>

Source: I-Sec research, Company data, ^ incl. ~INR 21bn debt from Kesoram Inds deal but excl. ~INR 19bn paid for 22.77% ICEM stake purchase in June 2024

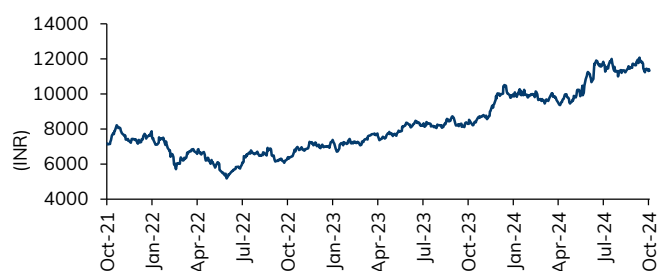
**Key risks**

- Sharp further uptick in cement prices and/or a major decline in fuel cost are key upside earnings risks.
- Sharp fall/reversal of recent hikes in cement prices and/or major surge in fuel prices are key downside risks.

**Exhibit 11: Shareholding pattern**

%	Mar'24	Jun'24	Sep'24
Promoters	60.0	60.0	60.0
Institutional investors	32.5	32.8	32.6
MFs and others	12.2	11.8	11.6
FIs/Banks	0.1	0.0	0.2
Insurance	1.8	2.3	2.3
FIIIs	18.4	18.7	18.5
Others	7.5	7.2	7.4

Source: Bloomberg

**Exhibit 12: Price chart**


Source: Bloomberg

## Financial Summary (Consolidated)

### Exhibit 13: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	6,32,400	7,09,081	7,31,789	8,34,617
<b>Operating Expenses</b>	<b>5,26,201</b>	<b>5,79,396</b>	<b>6,08,742</b>	<b>6,57,338</b>
EBITDA	1,06,199	1,29,686	1,23,048	1,77,278
<b>EBITDA Margin (%)</b>	<b>16.8</b>	<b>18.3</b>	<b>16.8</b>	<b>21.2</b>
Depreciation & Amortization	28,880	31,453	36,306	39,349
EBIT	77,319	98,232	86,741	1,37,929
Interest expenditure	8,227	9,680	11,281	9,241
Other Non-operating Income	5,031	6,170	6,420	4,816
Recurring PBT	74,122	94,722	81,881	1,33,504
<b>Profit / (Loss) from Associates</b>	-	-	-	-
<b>Less: Taxes</b>	<b>23,429</b>	<b>24,183</b>	<b>20,890</b>	<b>34,054</b>
Less: Minority Interest	94	(10)	(10)	(10)
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>50,640</b>	<b>70,050</b>	<b>61,041</b>	<b>99,501</b>
<b>Net Income (Adjusted)</b>	<b>50,599</b>	<b>70,550</b>	<b>61,001</b>	<b>99,461</b>

Source Company data, I-Sec research

### Exhibit 14: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,14,718	2,35,214	2,03,801	2,37,320
of which cash & cash eqv.	69,862	69,090	33,664	58,390
Total Current Liabilities & Provisions	1,95,116	2,23,314	2,25,136	2,31,364
<b>Net Current Assets</b>	<b>19,602</b>	<b>11,900</b>	<b>(21,336)</b>	<b>5,956</b>
Investments	37,592	36,322	55,347	55,347
Net Fixed Assets	4,64,803	5,01,350	6,20,043	6,65,694
ROU Assets	-	-	-	-
Capital Work-in-Progress	65,770	87,770	22,770	27,770
Total Intangible Assets	1,30,987	1,30,987	1,30,987	1,30,987
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
<b>Total Assets</b>	<b>7,18,753</b>	<b>7,68,329</b>	<b>8,07,812</b>	<b>8,85,755</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,12,351</b>	<b>1,12,351</b>	<b>1,02,351</b>	<b>92,351</b>
<b>Deferred Tax Liability</b>	<b>62,601</b>	<b>62,601</b>	<b>62,601</b>	<b>62,601</b>
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	2,887	2,887	2,887	2,887
Reserves & Surplus	5,40,359	5,89,944	6,39,438	7,27,391
<b>Total Net Worth</b>	<b>5,43,245</b>	<b>5,92,831</b>	<b>6,42,325</b>	<b>7,30,278</b>
Minority Interest	556	546	536	525
<b>Total Liabilities</b>	<b>7,18,753</b>	<b>7,68,329</b>	<b>8,07,812</b>	<b>8,85,755</b>

Source Company data, I-Sec research

### Exhibit 15: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	1,67,400	2,04,189	1,80,696	1,56,347
% growth (YoY)	7.9	10.0	1.9	(2.4)
EBITDA	32,546	41,139	30,393	20,183
Margin %	19.4	20.1	16.8	12.9
Other Income	1,405	1,356	1,657	2,207
Adjusted Net Profit	17,748	22,586	16,952	8,252

Source Company data, I-Sec research

### Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>94,055</b>	<b>1,01,493</b>	<b>97,337</b>	<b>1,38,840</b>
Working Capital Changes	(3,370)	6,929	(2,190)	(2,566)
Capital Commitments	(61,056)	(90,000)	(90,000)	(90,000)
<b>Free Cashflow</b>	<b>29,629</b>	<b>18,422</b>	<b>5,147</b>	<b>46,274</b>
Other investing cashflow	(10,815)	4,788	20,974	-
Cashflow from Investing Activities	(71,871)	(85,212)	(69,026)	(90,000)
Issue of Share Capital	47	-	-	-
Interest Cost	(7,016)	-	-	-
Inc (Dec) in Borrowings	4,529	-	(10,000)	(10,000)
Dividend paid	(10,913)	(20,208)	(11,548)	(11,548)
Others	(2,958)	-	-	-
Cash flow from Financing Activities	(16,310)	(20,208)	(21,548)	(21,548)
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,504</b>	<b>3,002</b>	<b>4,574</b>	<b>24,726</b>
Closing cash & balance	11,496	14,242	18,816	43,542

Source Company data, I-Sec research

### Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	175.3	244.4	211.3	344.5
Adjusted EPS (Diluted)	175.3	244.4	211.3	344.5
Cash EPS	275.3	353.3	337.1	480.8
Dividend per share (DPS)	38.0	70.0	40.0	40.0
Book Value per share (BV)	1,881.8	2,053.5	2,225.0	2,529.6
Dividend Payout (%)	21.7	28.6	18.9	11.6
<b>Growth (%)</b>				
Net Sales	20.2	12.1	3.2	14.1
EBITDA	(7.8)	22.1	(5.1)	44.1
EPS (INR)	(29.6)	39.4	(13.5)	63.0
<b>Valuation Ratios (x)</b>				
P/E	62.0	44.5	51.4	31.5
P/CEPS	39.5	30.8	32.2	22.6
P/BV	5.8	5.3	4.9	4.3
EV / EBITDA	29.8	24.4	25.9	17.8
EV / t (USD)	302.6	270.2	233.7	215.7
Dividend Yield (%)	0.3	0.6	0.4	0.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	84.6	83.2	82.5	83.5
EBITDA Margins (%)	16.8	18.3	16.8	21.2
Effective Tax Rate (%)	31.6	25.7	25.5	25.5
Net Profit Margins (%)	8.0	9.9	8.3	11.9
NWC / Total Assets (%)	2.7	1.5	(2.6)	0.7
Net Debt / Equity (x)	0.0	0.0	0.1	0.0
Net Debt / EBITDA (x)	0.3	0.2	0.4	0.1
<b>Profitability Ratios</b>				
RoCE (%) (Post Tax)	8.3	10.7	8.9	13.1
RoE (%)	9.7	12.4	9.9	14.5
RoIC (%)	11.1	14.5	11.2	14.9
Fixed Asset Turnover (x)	1.4	1.5	1.3	1.3
Inventory Turnover Days	53	59	65	63
Receivables Days	20	21	22	20
Payables Days	57	62	66	65

Source Company data, I-Sec research



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