Sharekhan by BNP PARIBAS

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Stock Update

Result Update

UltraTech Cement Ltd

Operating de-leverage dents Q2; Positive Outlook for H2 stays

Cement	Sharekhan code: ULTRACEMCO
Reco/View: Buy ↔	CMP: Rs. 10,869
Price Target: Rs. 13,000 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Summary

- We maintain BUY on UltraTech with an unchanged PT of Rs. 13,000, considering its strong growth outlook over the next three years.
- Standalone revenue stayed in-line, although volume growth marginally lagged for Q2FY2025. Operational profitability miss was led by operating de-leverage.
- Management has retained its double-digit volume growth guidance for H2FY2025 along with improvement in profitability. Focus on operational efficiencies over the next three years stays.
- Capacity expansion plans remain on track to achieve 200mtpa global capacities by FY2027. Acquisition of Kesoram and India cements to conclude by FY2025-end.

UltraTech Cement (UltraTech) reported broadly in-line standalone revenue at Rs. 14,905 crore (down 3.9% y-o-y) for Q2FY2025, led by muted volume growth of 3% y-o-y, while blended realisations were lower 6.7% y-o-y. Lower volumes can be attributed to the election period and elongated monsoon period. Blended standalone EBITDA/tonne stood at Rs. 732 (down 20.1% y-o-y), 4% lower than our estimate of Rs. 765/tonne mainly on account of increased other expenses (higher plant maintenance and impact of operating de-leverage). Overall, standalone operating profit (down 17.8% y-o-y) at Rs. 1,933 crore came in 6% lower than our expectation and adjusted net profit (down 33.9% y-o-y) at Rs. 797 crore came in 10% lower than our estimates. Management has retained its double-digit volume growth target for H2FY2025, led by expected pick-up in government spending on infrastructure projects, sustained demand from urban housing, and pick-up in rural demand post good monsoons. The company continues to focus on efficiency improvement parameters (increase in WHRS, RE and alternate fuel usage, improvement in clinker conversion ratio, and reduction in lead distance among others by FY2027). With the completion of the ongoing expansion projects across India by FY2027 and receipt of statutory approvals for the acquisitions of Kesoram Cement (10.75 mtpa) and The India Cements (14.45 MTPA), UltraTech's total cement capacity will surpass 200 mtpa (including overseas capacities) from 156.1 mtpa currently.

Key positives

- Blended realisations, although lower 6.7% y-o-y and 0.6% q-o-q, at Rs. 5,642 came in higher than our estimate.
- Management has reiterated its double-digit volume growth guidance for H2FY2025 and its efficiency improvement programme over three years.

Key negatives

- Domestic sales volume growth of 3% y-o-y came in lower than our estimate of 4.5% y-o-y. Blended EBITDA/tonne at Rs. 732 was 4% lower than our estimate owing to higher other expenses.
- Consolidated net debt increased by Rs. 3,310 crore to Rs. 8,792 crore.

Management Commentary

- Management targets double-digit volume growth for H2FY2025 along with improvement in operational profitability.
- Cement prices during August exit stood at Rs. 347 per bag, Q2 average was Rs. 348 per bag, while currently it is Rs. 354 per bag.
- The company would be commissioning 8 mtpa capacities in H2FY2025, taking its domestic cement capacity to 157 mtpa by FY2025 and further to 184 mtpa by FY2027. Capex for FY2025 is estimated at Rs. 8,000-9,000 crore and management expects similar run-rate for next year.

Revision in estimates – We have marginally lowered our standalone net earnings estimates for FY2025-FY2027, factoring higher other expense, interest, and depreciation.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 13,000: UltraTech is well poised to benefit from a strong demand environment, led by government spending on infrastructure and rising demand from the housing sector. The company remains on track concerning its capacity expansion plans through organic and inorganic routes. Industry consolidation and structural demand drivers provide operational profitability growth tailwinds. However, improved pricing environment remains a key monitorable in the medium term. The stock is currently trading at an EV/EBITDA of 19.7x/15.8x its FY2026E/FY2027E earnings, respectively, which we believe provides further room for upside. Hence, we maintain our BUY rating on the stock, with an unchanged price target (PT) of Rs. 13,000.

Key Risks

A weak macro environment leading to lower cement demand and pressure on cement prices would negatively affect profitability.

Valuation (Standalone) Rs cr

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	68,641	72,645	83,833	95,338
OPM (%)	19.4%	18.0%	20.0%	21.5%
Adjusted PAT	6,977	6,413	8,652	11,203
% YoY growth	40.9%	-8.1%	34.9%	29.5%
Adjusted EPS (Rs.)	241.7	222.1	299.7	388.1
P/E (x)	45.0	48.9	36.3	28.0
P/B (x)	5.3	4.9	4.4	3.9
EV/EBITDA (x)	24.7	25.4	19.7	15.8
RoNW (%)	12.4%	10.4%	12.8%	14.7%
RoCE (%)	11.8%	10.0%	12.0%	13.7%

Source: Company; Sharekhan estimates

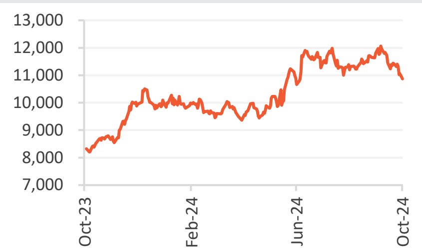
Company details

Market cap:	Rs. 3,13,797 cr
52-week high/low:	Rs. 12,138/8,148
NSE volume: (No of shares)	3.0 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

Shareholding (%)

Promoters	60.0
FII	18.5
DII	14.4
Others	7.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.2	-5.6	13.6	30.6
Relative to Sensex	-4.8	-6.4	3.4	4.9

Sharekhan Research, Bloomberg