

March 18, 2013

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

UltraTech Cement Ltd. (UltraTech) is a subsidiary of Grasim, a part of the Aditya Birla Group is the largest domestic cement manufacturer having pan-India presence with an installed capacity of 52 Million Tonnes Per Annum (MTPA). The company has also emerged as the largest exporter of cement and clinker from India. It is also one of India's largest producers of Ready Mix Concrete (RMC) and the nation's largest producer of white cement. UltraTech is lined up with aggressive growth plans in the cement business, which will boost the company's cement capacity by 10 MTPA to 62 MTPA.

Investor's Rationale

UltraTech has mega expansion plans worth ~₹120 bn under its kitty, which would be funded through mix of internal accruals and debt. The capex to be spent over setting up additional clinkerization plants at Chattisgarh and Karnataka along with installing waste-heat recovery systems, instituting bulk packaging terminal and setting up of ready-mix concrete plants. The capacity expansion is on track and are expected to be operational from early FY'14. On their completion, the Company's cement capacity will expand by 9.2 MTPA to total ~62 MTPA.

UltraTech reported a moderate growth of 6.4% YoY in its net sales at ₹48.57 bn in Q3FY'13 (Q3FY'12: ₹45.65 bn), driven by improvement in average cement realizations, while the domestic cement sales growth remained sluggish. However, the company witnessed marginal pressure in its net profit down by 2.6% YoY at ₹6.01 bn in Q3FY'13 impacted by a sharp fall in other income by 32.9% YoY to ₹0.96 bn coupled with a rise in tax cost by 1.4% YoY to ₹2.54 bn.

The company is also setting up captive power capacities of 70MW. Currently, UltraTech has 604MW of power capacity. With the incremental usage of captive power to meet its power requirements will help the company to sustain healthy operating margins.

Despite of surplus scenario that is expected to continue over the next three years, however, UltraTech remains confident of a long term growth with demand is expected to grow by 8% with housing, infrastructure and allied spending being the key value drivers. Further, with the upcoming general elections in 2014, the infrastructure spending is likely to get a major boost, which augurs well for the company. UltraTech being the largest domestic cement player and the firm's initiatives to raise production capacity to ~62 MTPA, would help derive the major chunk of benefit from the government's infrastructure spending.

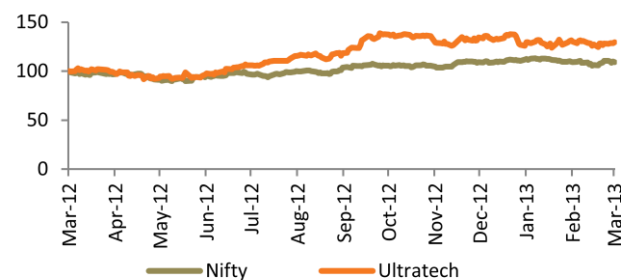
Market Data

Rating	BUY
CMP (₹)	1,923.55
Target (₹)	2,115
Potential Upside	~10.0%
Duration	Medium Term
52 week H/L (₹)	2,074.8/1,254.9
All time High (₹)	2,154
Decline from 52WH (%)	7.9
Rise from 52WL (%)	53.3
Beta	0.7
Mkt. Cap (₹ bn)	527.2
Enterprise Value (₹ bn)	561.8

Fiscal Year Ended

Y/E	FY11A	FY12A	FY13E	FY14E
Revenue (₹bn)	132.1	181.6	203.0	242.5
Net Profit(₹bn)	14.0	24.5	28.3	35.1
Share Capital (₹bn)	2.7	2.7	2.7	2.7
EPS (₹)	51.2	89.3	103.4	128.1
P/E (x)	37.5	21.6	18.6	15.0
P/BV (x)	4.9	4.1	3.4	2.8
EV/EBITDA (x)	21.4	14.1	12.3	10.1
ROCE (%)	13.9	19.7	19.7	21.3
ROE (%)	13.2	19.0	18.4	18.8

One year Price Chart



Shareholding Pattern

Shareholding Pattern	Dec'12	Sep'12	Diff.
Promoters	62.0	62.8	(0.8)
FII	20.2	20.1	0.1
DII	4.6	4.3	0.3
Others	13.2	12.8	0.4

UltraTech is India's largest cement manufacturer with an installed capacity of 52 MTPA.

UltraTech Cement ~ India's largest cement manufacturer

UltraTech is part of the US\$40 bn Aditya Birla Group and is India's largest and the world's 10th largest cement manufacturer with an installed capacity of 52 MTPA. The company was merged with Samruddhi (erstwhile cement division of Grasim) in 2010. UltraTech has also acquired a controlling stake in Dubai-based ETA Star (cement capacities of 3mtpa in the Middle East and Bangladesh) in 2010. UltraTech provides a range of products viz; Ordinary Portland Cement, Portland Blast Furnace Slag Cement, Portland Pozzalana Cement, White Cement, building products and a host of other building solutions. UltraTech is also one of India's largest producers of Ready Mix Concrete (RMC) and the nation's largest producer of white cement. It also emerged as India's largest exporter of clinker and one of the leading manufacturers of grey cement in the World. UltraTech is having 11 integrated plants, 15 grinding units, 5 terminals, 1 white cement plant and over 100 ready mix concrete plants. UltraTech strives to become a one-stop solution provider for all primary construction needs. Grasim Industries of the Aditya Birla Group has a 60.3% stake in UltraTech. The company is also having its presence in overseas markets with operations in four countries – Bahrain, UAE, Bangladesh and Sri Lanka.

The company is having a maximum capacity in the southern, western and northern regions (26%, 26% and 23%, respectively), while the eastern and northeastern region constitute 14% share and the central region is having share of 11%.

UltraTech is lined up aggressive growth plans in the cement business. The various projects that have been rolled out include clinkerisation plants through brownfield expansions at Chhattisgarh and Karnataka. Along with the above mentioned projects, the company will also consider additional grinding units, waste heat recovery systems, bulk packaging terminals and ready mix concrete plants. These projects are expected to be operational from early FY'14. On their completion, the Company's cement capacity will expand by 10 MTPA to total 62 MTPA.

Capacity Utilisation

	FY'12 (Reported)	FY'11 (Recasted)
Installed capacity (MMTPA):		
Clinker	36.20	36.20
Grey Cement	48.75	48.75
Production:		
Clinker (MMTPA)	31.31	30.80
Grey Cement (MMTPA)	39.43	38.22
Capacity Utilisation:		
Clinker capacity utilisation	87%	85%
Grey cement effective capacity utilisation	83%	82%

Mega capex plans on track

UltraTech has a capex plan of ~₹120bn. Throwing light on its capex plans, UltraTech said the on-going capex towards setting up of additional clinkerisation plants at Chhattisgarh and Karnataka is on track. These projects are expected to be operational by early FY'14. UltraTech's mega 10 MTPA capacity addition is expected to be operational by Q1FY'14. The 1 mtpa Surat grinding unit is already commissioned. Post this capex, the company's cement capacity will be augmented by 10 MTPA to 62 MTPA; captive power capacity from 529 MW to 674 MW and green power through Waste Heat Recovery from 4 MW to 69 MW. These projects are being funded through a judicious mix of internal accruals and borrowings. To support the expansion of production capacity, it is planning to raise US\$100 mn from International Finance Corporation (IFC). The proposed fund raising is to support the company's investment plan of around US\$297 mn towards clinker production capacity expansion at Ultratech's integrated cement plant in Chhattisgarh. This project will help the company to expand cement capacity in Eastern India.

Ultra Tech in its capacity expansion plan is all set to start a 2 MT grinding plant at Hooghly's Dankuni by H1FY'14 with an investment of about ₹5 bn. The plant is expected to consume about 4,000 tonnes of clinkers, 1,400 tonnes of fly ash and 350 tonnes of gypsum daily.

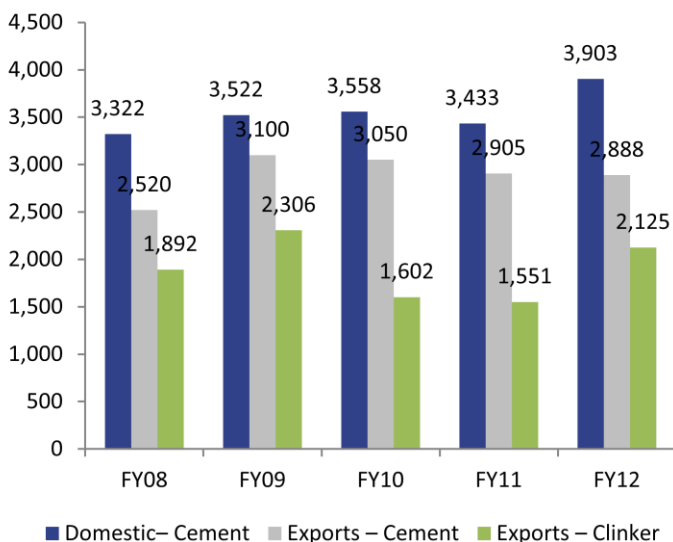
Ultratech eyes ABG's Cement plant to augment cement business

UltraTech's focused towards boosting its cement business and has again started talk to buy an incomplete 6.7 MTPA cement plant in Gujarat owned by ABG Cement. The firm has offered around ₹46.60 bn at US\$130 a tonne. The acquisition of ABG Cement will strengthen its position in Gujarat, which is witnessing healthy demand for cement. Further, it can axe its transportation cost by transporting raw material and cement via sea route if the deal go through.

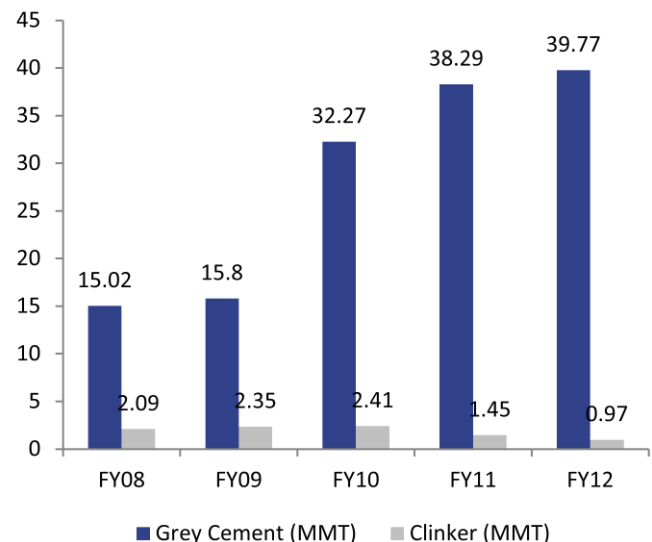
UltraTech's capacity expansion of 9.2 MTPA is on track. This will increase overall cement capacity to 62 MTPA.

UltraTech has started talks with ABG Cement group to buy the latter's incomplete 6.7 MTPA cement plant in Gujarat.

Sales realisations trend (₹/MMT)



Sales Volume Trend



UltraTech has filed an appeal before COMPAT against CCI's penalty against alleged cartelization.

UltraTech had acquired 100% stake in GKU to boost its white cement capacity.

Posted a 6.4% YoY growth in net sales backed by improvement in realization by 8.5% in Q3FY'13.

Better cost management coupled with higher realization led to an improvement in EBITDA/tonne to ~₹1,000/tonne.

CCI penalty on cement firms

The fair trade regulator Competition Commission of India (CCI) had slapped a hefty penalty of around ₹63 bn on 11 big cement manufacturers including Ultratech in June last year. The reason for imposing penalty by CCI was primarily due to involvement in price cartelisation. The CCI has imposed a penalty of ₹11.75 bn on the Company. Based on legal opinion, the company believes that it has a good case and has filed an appeal against the order before the Competition Appellate Tribunal (COMPAT) to quash it entirely and stay the penalty till the tribunal decides the matter. Accordingly, no provision has been made in the accounts for alleged cartelization. Meanwhile, UltraTech is confident of winning appeal against alleged cartelization order of CCI.

Focused to exploit the robust white cement demand growth potential in India

The company is the largest manufacturer of white cement in India. Further, to enhance its white cement capacity, the company had signed an agreement with shareholders of Gotan Lime Stone Khanij Udyog Pvt. Ltd (GKU) to acquire a 100% stake in the Rajasthan-based company. Consequently, GKU has become a wholly owned subsidiary of the Company with effect from July 2012. In FY'12, UltraTech had produced 0.55 lakh metric tonnes (LMT) of white cement and 0.37 LMT of wall care putty while, the aggregate sales volume of white cement and wall care putty was 0.93 LMT, which led to a turnover growth of 22% from ₹9.77 bn in FY'11 to ₹11.88 bn in FY'12. This reflects the company is witnessing strong demand in the domestic market.

Mixed Q3FY'13 performance

UltraTech has posted a moderate growth of 6.4% YoY in its standalone net sales at ₹48.57 bn in Q3FY'13 (Q3FY'12: ₹45.65 bn), driven by higher average cement realizations but was also impacted on sluggish domestic cement sales growth. The blended realizations (incl RMC & white cement) stood at ₹4,887/tonne up by 9.8% YoY, however was down by 3.4% sequentially led by extremely weak demand (volumes fell 2% YoY). The demand was hampered by sluggish growth of infra projects and lack of funding for many projects.

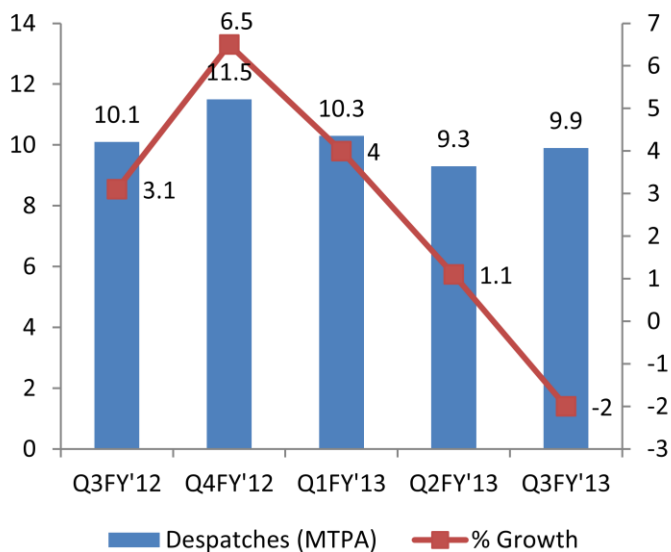
However, the company witnessed marginal pressure in its net profit down by 2.6% YoY at ₹6.01 bn in Q3FY'13 impacted by a sharp fall in other income by 32.9% YoY to ₹0.96 bn coupled with a rise in tax cost by 1.4% YoY to ₹2.54 bn. The other income in Q3FY'12 includes ₹0.67 bn of subsidy income from state investment promotion scheme (SIPS) pertaining to earlier years. However, the softening of imported coal prices that remained at US\$100/tonne levels helped to cap the downside.

Despite series of cost pressures, the company posted a muted growth in EBITDA margins to 21.5% driven by higher realizations. The EBITDA/tonne rose to ~₹1,000/tonne partly due to improvement in realisation, low power costs and other costs. On the cost front, the raw materials and logistics cost rose YoY, on account of higher railway freight and hike in diesel prices. However, the power and fuel costs were lower due to softening in coal prices. Decline in imported coal costs was partly offset by the depreciation in rupee.

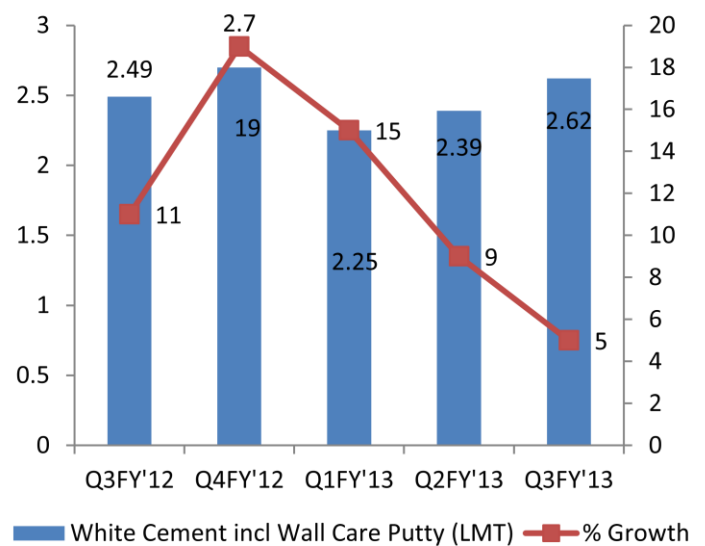
During Q3FY'13, the domestic cement sales growth of grey cement remained flat at 9.62 MMT (Q3FY'12: 9.61 MMT), while domestic cement sales growth of white cement and wall care putty was 2.62 LMT (Q3FY'12: 2.46 LMT).

₹ in mn	Q3FY'13	Q3FY'12	YoY (%)	9MFY'13	9MFY'12	YoY (%)
Total Operating Income	48,821	45,844	6.5	147,016	129,257	13.7
EBITDA	10,489	9,752	7.6	33,920	28,284	19.9
EBITDA Margin (%)	21.5	21.3	-	23.1	21.9	-
Other Income	965	1,437	(32.9)	2,059	2,269	(9.3)
Depreciation	2,388	2,236	6.8	6,994	6,694	4.5
Interest	521	281.1	85.3	1,619	1,653	(2.1)
PBT	8,545	8,672	(1.5)	27,366	22,206	23.2
Tax	2,537	2,503	1.4	8,074	6,417	25.8
PAT	6,008	6,169	(2.6)	19,292	15,789	22.2
PAT Margin %	12.1	13.0	-	12.9	12.0	-
EPS (₹)	21.9	22.5	(2.7)	70.4	57.6	22.2

Trend in Grey Cement business



Trend in White Cement business



Domestic cement industry scenario

Indian Cement industry is the second largest cement producer in the World with an installed capacity of 336.10 MT in FY'12.

Indian Cement industry is the second largest cement producer in the World after China with demand at ~224 MT and installed capacity of cement production during FY'12 was 336.10 MT. Major players in the market includes Ultratech with market share of ~18%, ACC ~11%, Ambuja ~10%, Jaypee ~8%. There are 40 players in the industry across the country. Cement industry derives its growth from the infrastructural development and the industry. The projected demand and capacity to be created during FY'13 are 265.4 MT and 349.6 MT, respectively. Going forward, 71 MT capacity is expected to go on stream between FY'13 and FY'15. Nevertheless, cement demand is slated to remain firm and rise at the CAGR of ~8% in the near future.

We expect a sharper price increase from current level on the back recovery in cement prices would provide a fillip to the cement stocks.

With recovery in demand from housing coupled with government focus towards infrastructure development proved to be positive for the company.

However, the domestic cement industry witnessed a tough phase for most of period in Q3FY'13 in terms of poor demand and poor price realization. Despite of a hike in the cement prices to hit ₹300 for a bag of 50 kg in third week of October post-monsoon, the cement demand failed to capitalize on the momentum on the back of festive season as the demand remained sluggish during the period due to lower off-take, thereby putting pressure on prices which slipped 10% to ₹270 on an average across the country. However, the cement prices have started recovering post mid-January 2013. We expect the steeper price hikes from hereon can provide further upside for cement stocks.

Besides, industry experts believe that from a three-year perspective, demand is likely to outpace supply, which would augur well for the sector. UltraTech's domestic cement sales growth of grey cement during Q3FY'13 remained flat at 9.62 MT (Q3FY'12: 9.61 MT), while that of white cement and wall care putty 2.62 LMT (Q3FY'12: 2.46 LMT).

Government focus towards infrastructure development augurs well for the company

Despite of surplus scenario that is expected to continue over the next three years, however, UltraTech remains confident of a long term growth with demand is expected to grow by 8% with housing, infrastructure and allied spending being the key value drivers. Further, the company expects the input costs to grow at par with general inflation with margins remaining range-bound. The government focus towards infrastructure development and increase spending towards construction activities should aid the cement industry to report better growth in terms of demand. According to the latest report from the working group on the industry for the 12th five-year Plan (2012-17), India would require overall cement capacity of around 480 MT. This would mean the industry will have to add another 150 MT of capacity during the period. UltraTech being the largest domestic cement player with market share of ~18% and the firm's initiatives to raise production capacity by 62 MTPA, would help derive the major chunk of benefit from the government's infrastructure spending. Around 40% of the country's cement demand comes from the real estate sector, while the remaining is driven by the infrastructure activity.

Further, with the upcoming general elections in 2014, we expect infrastructure related spending to increase and will spur up the demand.

The recent hike in fuel prices and in railway freight would lead to a potentially increase in the cement price. The government has proposed a 5.79% increase on the rail freight in the Railways Budget 2013-2014, with the companies are expected to pass on the increase in diesel prices and hikes in railway freight to the consumers. Besides, the Union Budget 2013-14 allocation funds to housing development and providing sops to home buyers, would provide an impetus to the housing sector demand and will in-turn boost demand for cement.

Balance Sheet (Standalone)

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Share Capital	2,740	2,741	2,742	2,742
Reserve and surplus	103,920	125,858	151,654	184,216
Net Worth	106,660	128,598	154,396	186,957
Long term debt	23,147	36,482	42,319	42,319
Other Long term Liabilities	22	35	42	49
Deferred tax liability	17,301	17,378	18,160	18,977
Long term provisions	1,124	1,206	1,335	1,595
Current Liabilities	51,692	45,733	32,768	36,598
Capital Employed	199,945	229,432	249,019	286,495
Fixed Assets	120,821	135,308	149,861	175,032
Investment	37,303	37,888	37,888	37,888
Loans & Advances	14,662	26,260	29,364	35,080
Current Assets	27,159	29,976	31,906	38,495
Capital Deployed	199,945	229,432	249,019	286,495

Key Ratios (Standalone)

Y/E	FY11A	FY12A	FY13E	FY14E
EBITDA Margin (%)	19.4	22.0	22.8	23.2
EBIT Margin (%)	15.6	19.9	21.0	22.0
NPM (%)	10.4	13.1	13.6	14.0
ROCE (%)	13.9	19.7	19.7	21.3
ROE (%)	13.2	19.0	18.4	18.8
EPS (₹)	51.2	89.3	103.4	128.1
P/E (x)	37.5	21.6	18.6	15.0
BVPS(₹)	389.2	469.2	563.2	681.9
P/BVPS (x)	4.9	4.1	3.4	2.8
EV/Operating Income (x)	19.5	12.4	10.9	8.8
EV/EBITDA (x)	21.4	14.1	12.3	10.1
EV/EBIT(x)	26.7	15.5	13.3	10.7

Profit & Loss Account (Standalone)

Y/E (₹million)	FY11A	FY12A	FY13E	FY14E
Net Sales	132,062	181,583	202,989	242,501
Expenses	106,465	141,622	156,717	186,210
EBITDA	25,597	39,961	46,272	56,290
EBITDA margin (%)	19.4	22.0	22.8	23.2
Other Income	2,619	5,232	6,090	8,488
Depreciation	7,657	9,026	9,685	11,547
EBIT	20,558	36,167	42,677	53,231
Interest	2,725	2,239	3,307	3,778
Profit Before Tax	17,833	33,929	39,370	49,453
Tax	3,791	9,467	11,024	14,341
Net Profit	14,042	24,462	28,346	35,111
NPM (%)	10.4	13.1	13.6	14.0

Valuation and view

With government's increased thrust on infrastructure spending, we believe that cement demand growth will reach to 8-9% by FY'14E. The company will also benefit from its planned capacity expansion to reach consolidated installed capacity of ~62 MTPA by FY'14 and aid volume growth over the next 2-3 years and will better placed among its peers. The large capacity expansion reflects strong revenue visibility for the company. However, we expect the company's volume growth at ~5% CAGR during FY'12-14E as the full impact of capacity expansion would be seen after full stabilization in FY'15E.

Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹1,923.55, which implies a P/E of ~18.6x FY'13E EPS of ₹103.4 and 15.0x on FY'14E EPS of ₹128.1 respectively.



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