



2016

ULTRATECH CEMENT



**ACCUMULATE ULTRATECH
CEMENT
CMP 3227**

THESIS –

WHY DO WE LIKE ULTRATECH?

- 1) Market Leader in Cement**
- 2) Cement sectors is the first to breakout out of a bear market (Technically)**
- 3) Increase in Market share despite tough times in the Industry over last 10 years**
- 4) Indian Infrastructure Story key beneficiary**

Cement stock in recent 2 weeks have been buzzing with large volumes. The likelihood of this been just a technical rally is diminishing by every passing day. This sector is the first sector to clearly breakout out of a bear market increasing odds of cement being the leader of the next bull market. There are only two sectors to play, the INDIAN INFRASTRUCTURE growth story i.e. Road Companies and Cement. Since Majority of Road Companies have either corporate governance issues (you cannot win Road contracts from the government in India without Bribing) or broken balance sheet, the markets have made it clear that they want to invest in a cleaner sector like cement where there is no corporate governance issues involved.

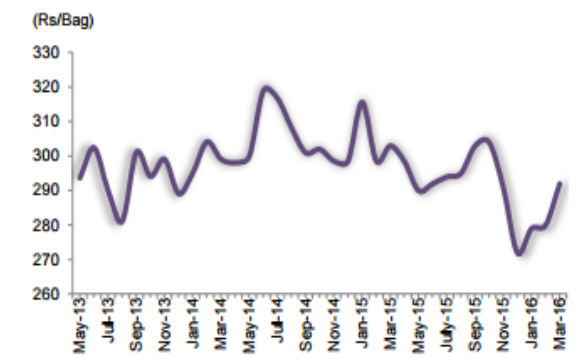
UltraTech cement is say relatively safe bet as it's the market leader and has grown at 24% CAGR in last 10 years outperforming the industry growth. We don't see outsized returns in this stock but we expect UltraTech to beat the Index comfortable for next 2 years. Cement may be the leader of the next bull run as its not affected by global factors but it's too early to say that. We will have to look at it quarter after quarter.

About Cement Industry: Key Points

- 1) Cement is a commodity which isn't easily transportable hence the prices in region will depend upon the location of the factory. There can be variability of price between 2 regions by as much as 40-50%.
- 2) The total Industry capacity is 390 Million Tonnes (MT) but the utilization is 277 MT (71%)
- 3) The Industry has been going through an extremely tough time due to drop in Infrastructure execution in last 4-5 years. The fortunes of the Industry are changing especially due to large road projects being executed.
- 4) The highways building pace has reached 20 km a day at present from a mere 11-12 Km a day when the Narendra Modi government took over and by May 2016 it is likely to reach 30 km a day. The numbers itself talk about the growth which has already picked up and has a room to expand further.
- 5) In India 33% of Cement demand comes from Infrastructure, and 67% comes from Housing. The opportunities remain large in both segments as there are 60 million houses to be constructed till 2022 in government housing for all schemes.

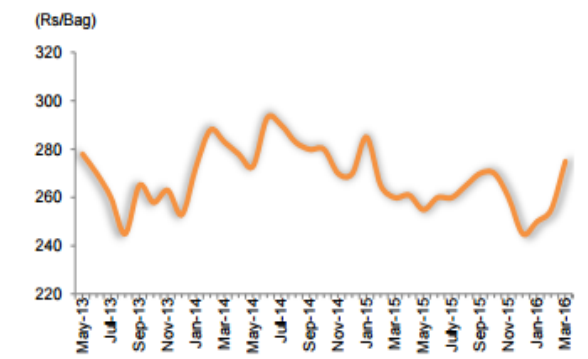
- 6) Currently, the total cement industry has capacity of 390 MT which is expected to grow to 421 MT by FY17. This capacity increase cannot come overnight, as they will take time to commission them. So the companies having low capacity utilization will benefit the most.
- 7) Below Chart Shows variation of prices among region and how prices have fared over last 2 years.

Fig 1 - All India



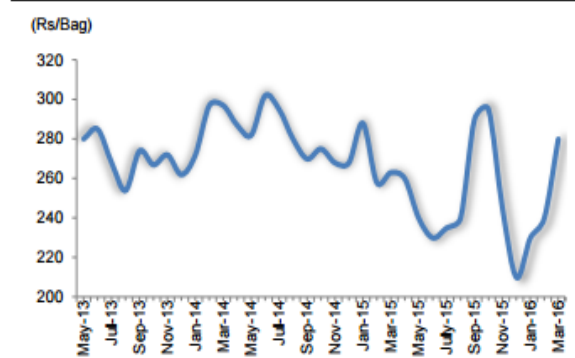
Source: RCML Research

Fig 2 - Central India



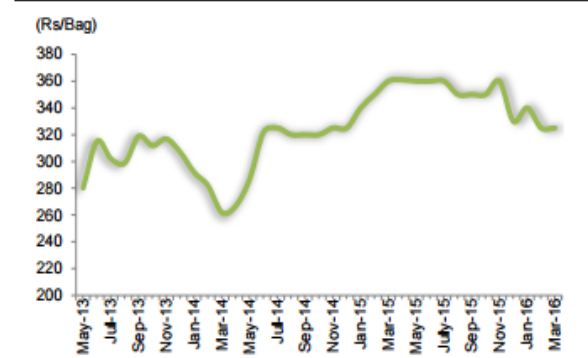
Source: RCML Research

Fig 3 - North India



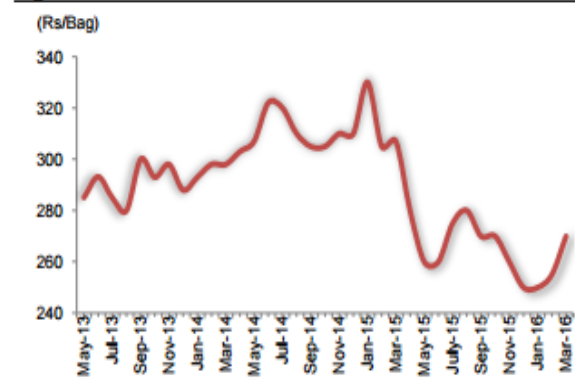
Source: RCML Research

Fig 4 - South India



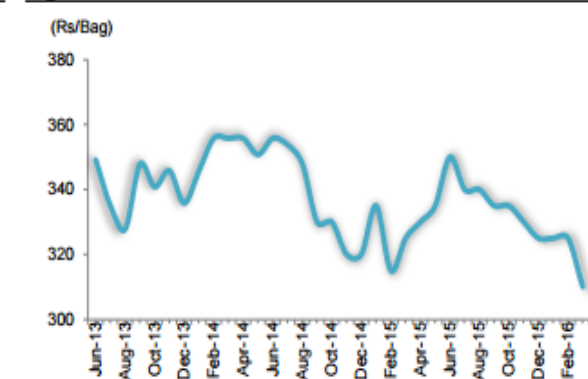
Source: RCML Research

Fig 5 - West India



Source: RCML Research

Fig 6 - East India



Source: RCML Research

About UltraTech: Key points

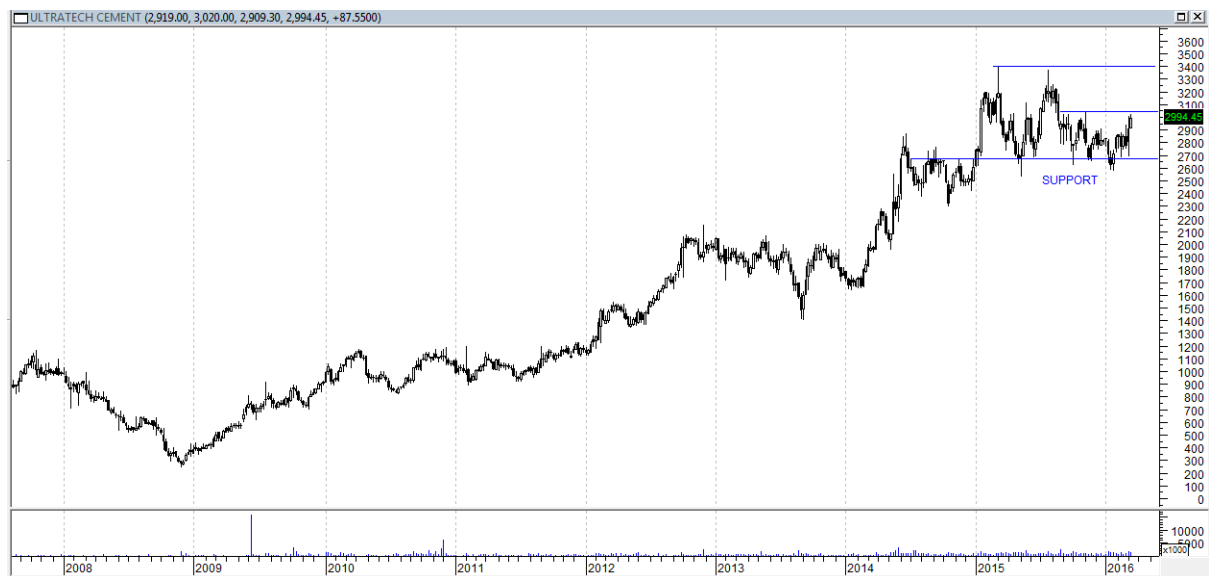
- 1) Ultra tech is clearly a market leader with Capacity of 90 MT (after acquisition of JP cement) in this segment with not only because it has huge capacity but it is efficiently managed even in the bad times. As we know that cement industry was on the bottom of the cycle due to sluggish demand in infra and housing, now there are clear signs of the cycle turning around. Historically, the company which manages to work efficiently shall be the first one to head upwards in good times. The nearest competitor ACC has 1/3 capacity of UltraTech i.e. about 30MT.
- 2) Capacity wise Ultra tech is the fourth largest player globally and market leader with 23% market share in India.
- 3) UltraTech acquired JP Cement's at extremely reasonable valuation which makes it the undisputed leader for at least one decade. [Click here to know more](#)

Valuation & Financials

Ultratech cement	Mar'11	Mar'12	Mar'13	Mar'14	Mar'15
Return on Capital Employed	14%	14%	13%	10%	9%
Net Sales (Rs. Cr.)	13798	19232	21324	21652	24349
Y-o-Y Gr. Rt.	NA	39%	11%	2%	13%
Adjusted EPS (Rs.)	49	81	91	73	69
Y-o-Y Gr. Rt.	NA	66%	12%	-20%	-7%
Book Value per Share (Rs.)	388	468	555	626	694
Adjusted Net Profit	1347	2231	2506	2012	1883
Net Op. Cash Flow (Rs. Cr.)	1993	3383	3618	3455	4190
Return on Equity (%)	18	19	18	12	10
Operating Profit Margin (%)	20	22	23	19	18
Net Profit Margin (%)	10	12	12	9	8
Debt to Equity	0.52	0.46	0.48	0.43	0.52
Working Capital Days	68	87	91	95	95
Cash Conversion Cycle	6	5	6	11	9

- 1) The Company's ROCE has declined from 29% in 2007 to 9% in 2015. We believe that going forward it will revert to 18-20% in next 3 years.
- 2) Operating Margins are a function of capacity utilization. We expect capacity utilization to improve towards 80% going forward with increase in demand from housing.
- 3) The Company's Debt to equity will increase as Rs. 13,500 crore debt will be taken over as part of JP deal.

Technical –



UltraTech is clearly in a bull market of its own. 2500-2600 is strong support for the stock. We believe that going forward 3400 will be taken once before Q1 2016 results in July 2015 and it will head towards 4000 by end of 2016.

Conclusion – We believe UltraTech can compound can above 25-30% for next 2-3 Years. Adding this to the portfolio will reduce portfolio beta though it won't be a superstar. This stock is suggested to be bought for clients with low risk appetite.

Analyst ownership of the stock: No

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