SMART SYNC SERVICES

Ultratech Cement Q1FY21

Financial Results & Highlights

Brief Company Introduction

UltraTech Cement Ltd. is the largest manufacturer of grey cement, Ready Mix Concrete (RMC) and white cement in India. It is also one of the crown jewels of the Aditya Birla Group, one of India's leading Fortune 500 companies.

The company has a consolidated capacity of 117.35 Million (including Bara) Tonnes Per Annum (MTPA) of grey cement. UltraTech Cement has 23 integrated plants, 1 clinkerisation plant, 27 grinding units and 7 bulk terminals, post the Century merger. Its operations span across India, UAE, Bahrain, Bangladesh and Sri Lanka. UltraTech Cement is also India's largest exporter of cement reaching out to meet the demand in countries around the Indian Ocean and the Middle East.

In the white cement segment, UltraTech goes to market under the brand name of Birla White. It has a white cement plant with a capacity of 0.56 MTPA and 2 WallCare putty plants with a combined capacity of 0.8 MTPA. With 100+ Ready Mix Concrete (RMC) plants in 35 cities, UltraTech is the largest manufacturer of concrete in India. It also has a slew of speciality concretes that meet specific needs of discerning customers.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	7670	11194	-31.48%	10583	-27.53%
PBT	1172**	1890	-37.99%	1445*	-18.89%
PAT	806	1267	-36.39%	2906	-72.26%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	7913	11554	-31.51%	10943	-27.69%
PBT	1157**	1893	-38.88%	1462^	-20.86%
PAT	796	1281	-37.86%	3239	-75.42%

*Contains deferred tax credit of Rs 1708 Cr
^Contains deferred tax credit of Rs 2024 Cr
**Contains an exceptional item of loss of Rs 157 Cr

Detailed Results:

1. The company had a dismal quarter with consolidated revenues declining 32% YoY and PBT declining 39% YoY.
2. Effective volumes declined 22% YoY in Q1 while EBITDA/ton increased 12% YoY to Rs 1651/ton.
3. The company reduced Rs 2209 Cr of net debt to Rs 14651 Cr as of 30th June 2020.
4. Working capital turned negative with a change of Rs 789 Cr QoQ.
5. Century Cement had utilization of >70% in May & June.
6. Increased pet-coke usage to 73% vs 69% in the last quarter. Costs reduced by Rs 105/ton vs Q4FY20.

7. Century Cement achieved EBITDA/ton of > Rs 900 in Q1.
8. Ultratech Nathdwara con-core assets disposal to be completed by August 2020 and proceeds to be used to reduce company debt.
9. Operating margins improved 1% YoY to 28% in Q1FY21.
10. Net debt to EBITDA reduced to 1.44 times.
11. Retail volume share has improved 13% YoY. The penetration in rural markets has also increased by 13% YoY. Blended cement sales increased by 11% YoY and now account for 78% of sales.
12. Fixed costs were brought down by 21% YoY.
13. Changes in operating costs in Q1 is as follows:
14. Logistics: Declined 5% YoY to Rs 1116/ton. Accounts for 33% of the total operating costs.
15. Energy: Declined 11% YoY to Rs 913/ton. Accounts for 27% of total operating costs.
16. Raw Materials: Rose 2% YoY to Rs 477/ton. Accounts for 14% of total operating costs.
17. Overall variable costs reduced by 9% YoY in Q1.
18. EBITDA margins improved 4% YoY to 31% in Q1FY21.

Investor Conference Call Details:

1. Cement prices remained resilient with average prices increasing about 7% over Q4FY20.
2. Work on 1.2 million tons in brownfield expansion in Bihar and West Bengal is going on for the company.
3. The company expects to commission a 2.3 million-ton Dalla Super clinker plant in Uttar Pradesh in the next fiscal year.
4. Total capex for FY21 is expected to not exceed Rs 1500 Cr. The bulk of it is towards return-based capex projects which include the 66-megawatt WHRS projects spread across 7 plant locations.
5. Among the non-core assets of the company are a unit in Dubai and a loan outstanding to a company called 3B Fibreglass in Europe. The company is still looking for buyers for these assets.
6. The management expects a normal monsoon slowdown to take place in the industry. Utilization levels at the same time last year were at 60%.
7. The management has stated that pricing should see corrections of 4-5% due to monsoons.
8. The bulk of sales is occurring in out of urban areas and individual home builder demand is the major driver for demand currently.
9. The company expects big labour come back only after Diwali when the harvest season is over.
10. Urban real estate demand is around 30-40 million tons but this demand has suffered greatly due to the labour migration and lack of workers.
11. The company has been able to grow 30-40% YoY in MP mainly because of the low base and dealer network addition form the acquisitions of JP and Century.
12. The company will move ahead with a plan to permanently reduce overheads by a minimum of 10% going forward. Overheads for full-year is around Rs 5000 Cr in FY20.
13. The contribution from green power is expected to go up to 22-23% for the current 14% due to investment in WHRS and solar.
14. The recently concluded transaction for Ultratech which had an EV of $120 million should net the company around Rs 700 Cr. after taxes.
15. The modernization capex requirement is around Rs 750-800 Cr.
16. The average capacity utilization in Q1 was at 46% with only 60+ operating days in the quarter.
17. The exceptional item of Rs 157 Cr in Q1 was in regards to an incentive of 75% from Rajasthan Govt for expansion in Aditya Cement line 3. This incentive was exhausted in 2012 but the state govt intervened in 2019 and stated that the incentive had to be 50% and the rest needed to be paid

back to the govt. the company challenged this decision in the High Court and Supreme Court but lost in both cases and had to make the required pay-out.

18. The management maintains that at each plant after the acquisition, its goal is to be able to provide the same quality products from the new plants as from its existing plants.
19. RMC sales were at Rs 148 Cr in Q1 while White Cement sales were at Rs 250 Cr.
20. The management expects industry volumes to have declined by 33-35% in Q1.
21. The company is also expecting good demand in the East from institutional infra spending which happens typically before elections in the region.
22. Despite demand coming back slowly, the management remains cautious of the near future as there are many uncertainties that may adversely affect operations.
23. The company will start work on North Pali as it will lose the license to the mines in December 2022. Thus the company is expected to commission a facility there by October 2022.

Analyst's View:

Ultratech Cement is the biggest cement maker in India. The company has done well to acquire aging cement makers in India and integrating them and adding on to the company's ever-growing market presence and reach in the country. Despite fall in volumes in Q1, the company was able to keep efficiency high and keep increasing EBITDA/ton and EBITDA margins. The company is doing well to focus on cash conservation and cost reduction after the disruption caused by COVID-19 while looking to sell off its non-core assets to reduce debt. It remains to be seen how long will it take for demand to normalize for the industry and when will demand come back to the institutional side and urban areas where demand has fallen the most. Nonetheless, given the company's leadership position in the industry, its wide distribution network across India, and its strong brand image, Ultratech Cement remains a pivotal cement sector stock for all Indian investors.