SMART SYNC SERVICES

Ultratech Cement Q2FY21

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	10165	9446	7.61%	7670	32.53%	17835	20640	-13.59%
PBT	1778	951	86.96%	1172	51.71%	2950	2841	3.84%
PAT	1209	639	89.20%	806	50.00%	2014	1906	5.67%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	10489	9762	7.45%	7913	32.55%	18402	21302	-13.61%
PBT	1465*	890**	64.61%	1157	26.62%	2622***	2783	-5.79%
PAT	899	579	55.27%	796	12.94%	1695	1860	-8.87%

*Contains exceptional item loss of Rs 336 Cr
**Contains exceptional item loss of Rs 157 Cr
***Contains exceptional item loss of Rs 493 Cr

Detailed Results:

1. The company had a decent quarter with consolidated revenues rising 7.5% YoY and PBT & PAT rising 65% YoY and 55% YoY respectively.
2. Effective volumes grew 20% YoY in Q2 while operating EBITDA/ton increased 30% YoY to Rs 1387/ton.
3. Operating margins improved 6% YoY to 27%.
4. Capacity utilization in Q2 was at 68% in Century. Increased pet-coke usage to 74% vs 73% in the last quarter. Variable Costs reduced by 12% YoY.

5. In UltraTech Nathdwara, the plant is working at 60% capacity utilization. Production costs reduced by 17% YoY while EBITDA/ton was consistent at > Rs 1500/ton.
6. The company reduced Rs 2519 Cr of net debt to Rs 12132 Cr as of 30th Sep 2020.
7. Consolidated volume growth was at 19% YoY in Q2 and it fell by 3% YoY in H1.
8. The penetration in rural markets has also increased by 5% YoY. Blended cement sales increased by 3% YoY and now account for 71% of sales.
9. Fixed costs were brought down by 14% YoY.
10. Changes in operating costs in Q1 is as follows:
    1. Logistics: Up 1% YoY to Rs 1140/ton. Accounts for 33% of the total operating costs.
    2. Energy: Down 9% YoY to Rs 937/ton. Accounts for 27% of total operating costs.
    3. Raw Materials: Up 3% YoY to Rs 505/ton. Accounts for 15% of total operating costs.
    4. Overall variable costs reduced by 6% YoY in Q2.
11. Diesel Price higher by ~14% YoY which led to logistics costs rising 1% YoY.
12. Energy cost reduction of 9% YoY mainly due to an increase in green power from 9% last to 13% currently.
13. Absolute EBITDA grew 35% YoY. Consolidated EBITDA margins improved 6% YoY to 28% in Q2FY21.
14. Net debt to EBITDA was at 1.11 times and net debt to equity was at 0.27 times.

Investor Conference Call Details:

1. Over 50% of the rural districts have shown growth over their past few performances. Migrant Labour is coming back to cities.
2. Tier 1 towns are seeing opening up of real estate markets.
3. Housing demand is definitely showing green shoots with cheap housing loans driving the demand.
4. Eastern and Central markets are running at near full capacity with solid demand.
5. Due to pet coke prices rising to $100, most of the cement industry is switching to alternate high calorific value coal.
6. Century Cement has been fully integrated. The company is now looking to invest in 20 megawatts of WHRS at Maihar and Manikgarh, 2 of the units of Century, which will result in further cost reduction and improvement in EBITDA/ton. These projects are scheduled to get commissioned by March '22.
7. Most of the company's capex plans, in West Bengal, Bihar, and the greenfield Cuttack plant, have gotten delayed due to COVID-19. These are expected to be completed in FY22.
8. The management expects the company to reach debt to EBITDA of 1 time by the end of FY21.
9. Despite industry decline, the company has managed to increase its sales volumes mainly due to better internal coordination and the ability to service all orders that came in for them.
10. The management expects the company to maintain a higher growth pace than the industry going forward.
11. There was a reduction of 14% in overhead costs in H1. Around 4% of this is expected to go away as it represented ad spending which will increase as compared to Q1 when all marketing activity was suspended.
12. The company is gaining market share in white cement. Total revenues from RMC were about Rs 434 Cr. White cement was around the same figure. The management has stated that it is difficult to gauge market share in RMC due to widespread market fragmentation.
13. The company will not be doing higher dividend pay-out as the management expects the cement industry to grow fast and the company will require additional cash to be able to outpace industry growth.

14. The company I seeing improvement in Gujarat demand after a very long time.
15. The company has already started using international coal as a substitute for expensive pet coke.
16. The company is not reducing the credit period but it is also not allowing any extra slack in it.
17. The management expects to maintain negative working capital in H2 as well.
18. The management is confident that it will not see any shortage of clinker in the East India units and can even resort to transporting volumes from South units to cover additional demand if the need arises.
19. Capacity utilization had risen to 75% in the month of September.
20. White cement volume in Q2 was at 330,000 tonnes.
21. Capex spending in H1 was at Rs 450 Cr. The total capex for Fy21 is expected to be at Rs 1200-1300 Cr. The reduction from the targeted Rs 1500 Cr is mainly due to labour shortage at most project sites.
22. The company will start work on the 3.5 million tonne Pali unit next year. this unit is expected to be commissioned by Oct-Dec '22.
23. The rural market has helped pick up much of the slack from the decline in urban markets for the company.
24. The management expects volume growth for the industry to be positive despite the massive decline in Q1.
25. The company is expected to have capacity utilization of around 80-85% in October.
26. The West Zone has been the lowest growth market YoY for the company. The company has managed to see some marginal growth in the South zone despite industry decline in the region.
27. 71% of volumes for the company come from retail. Around 35-40% of these volumes come from rural markets.

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 a fall in volumes in Q1, the company was able to bounce back quickly and achieve volume growth in Q2 despite industry decline. The company is doing well to focus on cash conservation and cost reduction after the disruption caused by COVID-19 while maintaining its pace of debt repayment. 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.