SMART SYNC SERVICES

Ultratech Cement Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	10584	12128	-12.73%	10146	4.32%	41376	40495	2.18%
PBT	1445*	1532	-5.68%	934	54.71%	5220**	3492	49.48%
PAT	2906	1057	174.93%	643	351.94%	5455	2412	126.16%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	10944	12501	-12.46%	10522	4.01%	42773	42072	1.67%
PBT	1462^	1526	-4.19%	997	46.64%	5242^^	3468	51.15%
PAT	3239	1066	203.85%	711	355.56%	5810	2400	142.08%

*Contains deferred tax credit of Rs 1708 Cr
**Contains deferred tax credit of Rs 1154 Cr
^Contains deferred tax credit of Rs 2024 Cr
^^Contains deferred tax credit of Rs 1488 Cr

Detailed Results:

1. The company had a dismal quarter with consolidated revenues declining 12% YoY and PBT declining 4% YoY.
2. Capacity utilization in Century Cement was close to 80% despite disruption from COVID-19. The pet coke usage at the plant was at 69% and the company reduced power costs in this plant by 8% QoQ. The company also booked one-time integration costs of Rs 40 Cr in Q4.

3. The company saw an increase in realization from Century of Rs 160/ton. The brand transition is completed for 65% production and the company expects 84% production to be transitioned to Ultratech brand by Q3FY21.
4. In Ultratech Nathdwara, the average EBITDA generated in Fy20 was greater than Rs 1250/ton. The company also achieved a 14% cost reduction in FY20 and generated a cash profit of greater than Rs 300 Cr in FY20 from this facility.
5. The company has incremental free reserves of Rs 2112 Cr in consolidated terms.
6. Overall average EBITDA has been at its highest at Rs 1154/ton and normalized PAT growth without the tax credit was at 56% YoY for FY20.
7. The total consolidated capacity for the company is at 114.8 tons per year.
8. The company achieved its highest ever consolidated EBITDA for the year at Rs 9930 Cr in FY20. Overall operating cash flow for FY20 was in excess of Rs 5700 Cr.
9. The consolidated debt was reduced by Rs 1765 Cr in Q4 which brings the debt reduction for FY20 to Rs 5251 Cr. India operations net debt/EBITDA as of 31st March 2020 stands at 1.55 times.
10. The Capex target for FY21 is at Rs 1000 Cr.
11. The company reduced Rs 404 Cr in working capital in Q4.
12. Sales volumes for FY20 were down 4% YoY while volumes for Q4 were down 16% YoY. The fall was mainly due to the disruption caused by COVID-19 in March.
13. In Q4, blended sales volumes grew 2% YoY at 68% while premium products grew 19% YoY.
14. The company also added 230 new stores in FY20 bringing the total up to 2145.
15. The company also achieved a 6% reduction in variable cost in Q4.
16. Changes in operating costs in Q4 is as follows:
    1. Logistics: Declined 3% YoY to Rs 1149/ton. Accounts for 33% of the total operating costs.
    2. Energy: Declined 13% YoY to Rs 914/ton. Accounts for 26% of total operating costs.
    3. Raw Materials: Rose 5% YoY to Rs 497/ton. Accounts for 14% of total operating costs.
17. Green power consumption rose to 11.6% vs 7.9% last year.
18. The increase in RM costs is mainly due to a rise in fly ash costs.
19. Consolidated and India EBITDA margins rose 5% YoY to 24% in FY20.
20. ROE for FY20 was at 10% vs 7% a year ago.
21. The board recommended a final dividend of Rs 13 per share for FY20.

Investor Conference Call Details:

1. The management believes that the greater part of demand currently is coming from retail and rural markets where pending work is to be completed before monsoons.
2. The management expects slowdown from urban construction activities for at least 2-3 months mainly due to the labour exodus from these places.
3. The management has clarified that all of the treasury surpluses of the company have been deployed in AAA liquid debt schemes and the company has zero exposure to all of the recent debt debacles like Franklin Templeton, etc.
4. The main focus for the company in FY21 is going to be conserving cash and running a negative working capital cycle is key to this.
5. The company has slowed down all expansion and Capex plans for FY21 and is limiting Capex for the year to Rs 1000 Cr most of which is expected to be maintenance CAPEX.
6. The company is also targeting a fixed cost reduction target of 10% in FY21.
7. The volume decline is mainly due to a decline in volumes from Century.

8. Excluding one-time costs, the EBITDA per ton for Century is at Rs 575. This is expected to go up to anywhere between Rs 800-900.
9. The management is aiming to bring net debt to EBITDA to 1 time going forward.
10. The capacity utilization for the company was 74% and thus the management feels that the company has enough headroom to meet any additional demand that comes back once normal business activities resume.
11. The distribution mix is at 70% road, 27% rail, and 3% ocean. The management believes that the biggest advantage of Ultratech in distribution is its dedicated fleet of transporters which account for 53% of road volumes.
12. The management has stated that in terms of geography, West India has seen the biggest fall since it has been hit the hardest by COVID-19. In terms of capacity utilization, Central India has the lowest out of all zones.
13. The Century products have been 100% branded to Ultratech in the West and South markets now.
14. The main reason for the estimation of the rise in EBITDA/ton in Century is due to the rebranding and cost reduction from WHRS implementation in all plants for Century.
15. The Q4 revenue for RMC was at Rs 555 Cr while white cement was at Rs 421 Cr. The sales volumes for white cement and putty was at 3.2 million tons.
16. The expansion in Bara for 2 million capacity has been pushed back a quarter to Q2 due to COVID-19.
17. The lead distance for Q4 was at 440 km.
18. The plants in the East zone have started operating at 90% capacity.
19. The management has clarified that receivables are at the lowest while inventory is not expected to build-up as the management aims to keep a negative working capital cycle going on.
20. The utilization at Nathdwara was at 57% in Q4. The operating EBITDA generated from this plant is Rs 1600/ton in Q4.
21. The management has refrained from providing any guidance on net debt reduction for FY21 due to the uncertainty involved with COVID-19 and the economic disruption.
22. The management believes that volumes for the next 12-18 months will be driven by rural demand coming up on account of good agricultural seasons and from the government push for infrastructure development.
23. The management has stated that the breakeven utilization for the company's plants is between 30-40% depending on location and capacity.
24. The only demand-led shutdown for the company is one grinding unit near New Delhi due to the capital being in a red zone.
25. The management has stated that fly ash availability is not an issue as power plants across the country are operating still. It is the transportation of this fly ash which could prove to be an issue.
26. Road freight for the company has remained flat for FY20.
27. The company is operating at 35-40% of total manpower right now. This opens up avenues for manpower reduction as a major cost reduction source going forward for the company.
28. The management has stated that it will take at least 2-3 years for the company to run down its MAT and move to the new tax regime.
29. The pending Capex for Bara is only Rs 120 Cr which will be part of FY21 Capex. The maintenance Capex for FY21 is estimated to be around Rs 600-700 Cr.
30. The total rural demand is estimated to be around 35% of the total industry demand.

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 Q4, the company was able to keep efficiency high and achieve its highest ever EBITDA/ton figure. The company is doing well to focus on cash conservation and cost reduction after the disruption caused by COVID-19. It remains to be seen how long will it take for demand to normalize for the industry and when will demand come back in the principal market of West India 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.

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