Ultratech Cement Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	12092	10143	19.22%	10165	18.96%	29927	30784	-2.78%
PBT	2303	934	146.57%	1778	29.53%	5253	3775	39.15%
PAT	1550	643	141.06%	1209	28.21%	3565	2549	39.86%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	12522	10608	18.04%	10522	19.01%	30994	32019	-3.20%
PBT	2331	997	133.80%	1462*	59.44%	4967**	3723	33.41%
PAT	1585	711	122.93%	896	76.90%	3274	2515	30.18%

*Contains exceptional item loss of Rs 336 Cr
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Detailed Results:

1. The company had a very good quarter with consolidated revenues rising 18% YoY and PBT & PAT rising 134% YoY and 123% YoY respectively.
2. Sales volumes grew 14% YoY in Q23 while operating EBITDA/ton increased 30% YoY to Rs 1330/ton.
3. Operating margins improved 5% YoY to 26%.
4. Capacity utilization in Q3 was at 75% in Century. Power consumption was reduced by 7% and production cost was reduced by 12% YoY. 72% brand transition was completed.

5. In UltraTech Nathdwara, the plant is working at 45-75% capacity utilization. Production costs reduced by 15% YoY while EBITDA/ton was consistent at > Rs 1500/ton.
6. The company reduced Rs 2696 Cr of net debt in Q3.
7. Capacity utilization was at near 80% for the company. Selling price was down 1% QoQ. Production costs were down 1% QoQ.
8. The company increased rural penetration by 3.5% YoY.
9. Consolidated volume growth was at 14% YoY in Q3 and it fell by 4% YoY in 9MFY21.
10. Fixed costs were brought down by 4% YoY.
11. Changes in operating costs in Q3 is as follows:
    a. Logistics: Up 5% YoY to Rs 1178/ton. Accounts for 33% of the total operating costs.
    b. Energy: Down 3% YoY to Rs 952/ton. Accounts for 27% of total operating costs.
    c. Raw Materials: Flat YoY at Rs 501/ton. Accounts for 14% of total operating costs.
    d. Overall variable costs increased by 1% YoY in Q3.
12. Diesel Price higher by ~10% YoY which led to logistics costs rising 5% YoY.
13. Energy cost reduction of 3% YoY mainly due to an increase in green power from 11% last year to 13% currently and reduced power consumption by 2%.
14. Absolute EBITDA grew 60% YoY. Consolidated EBITDA margins improved 7% YoY to 28% in Q3FY21.
15. Net debt to EBITDA was at 0.73 times and net debt to equity was at 0.19 times.

<u>Investor Conference Call Details:</u>

1. Capacity utilization was 85% in December.
2. Rebranding of Century should be done be Q2FY22 at the latest.
3. Net debt stands at Rs 7973 Cr while current gross debt is at Rs 21000 Cr.
4. ROE without goodwill has reached 14.1% and is expected to rise above 15% with new projects coming in.
5. RMC is gaining good momentum for Ultratech. RMC generates incremental margins over cement and is also a high ROCE opportunity for Ultratech.
6. Net sales of white cement segment are up 15% in Q3. This was driven by good volume performance and a strong price/mix with growth broad-based across categories and regions.
7. White Cement grew about 13% while putty grew 18% in Q3.
8. The company introduced new variants of Fragrance Putty which resulted in incremental growth in Putty segment.
9. The management is not concerned about the entry of the parent Birla Group in the paints segment and is focussed on the cement sector only.
10. The company is indeed looking to raise debt to refinance some of its existing debt at lower rates and take advantage of an opportunity for interest arbitrage.
11. The Waste Heat Recovery System project is in full swing and is expected to get over by 3-4 months from its intended date.
12. Pet coke prices are indeed at the high end currently and are not expected to rise much further.
13. North & East zone have both grown more than 20% for the industry.
14. The capacity utilization in South zone was in 70s while for the rest of India it was in the 80s.
15. The management feels that demand will continue to outstrip incremental supply for the next 3-4 years for the cement industry.
16. RMC sales were at Rs 620 Cr & white cement sales were at Rs 538 Cr in Q3.
17. The company has to do minimal capex on distribution network as the transportation is entirely outsourced and acquiring dealers is easy for the company given its brand.

18. 64% of sales were from trade channel.
19. The company is seeing non-trade segment coming back well with the rise in urban real estate.
20. The increase in pet coke prices will be reflected marginally in the next 2 quarters.
21. The lead distance currently is close to 440 km. This has gone up mainly because the East zone was working at 100% capacity and the company had to source from other zones to service additional demand in the East zone.
22. The company has no plans to hive off the white cement business at this point.
23. The growth in RMC is directly linked to the rise in urban demand.
24. White cement volumes sold in Q3 were at 3.9 lac tons.
25. The management is insistent that the company will not be taking part in the paints business as the target customer set for the cement business and paints business are different. The distributor for Ultratech may start selling paints from Grasim but this will not involve Ultratech in any way.
26. The total power generating capacity of Ultratech is 1100-1200 MW.

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. Ultratech has had a phenomenal quarter with sales growth of 19% and profit growth exceeding 100% YoY. The company is doing well to focus on cash conservation and cost reduction while maintaining its steady pace of debt repayment. It has also been restarting all the projects postponed by COVID and expects the Century brand transition to be completed in the next 2 quarters. It remains to be seen how long will uptick for infra and urban real estate will last and whether there is something in store for the infra and real estate sector in the upcoming Union Budget. 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.