



# LSE Securities

## UltraTech Cement - Buy

UltraTech Cement was incorporated on August 24, 2000 as L&T Cement. Now, a \$28 billion Aditya Birla Group company, it is the country's largest exporter of cement clinker. The Aditya Birla Group that operates in 25 countries across the world is the 11th largest cement producer globally, the seventh largest in Asia and the second largest in India.

UltraTech Cement has an annual capacity of 18.2 million tonnes. It manufactures and markets ordinary Portland cement, portland blast furnace slag cement and Portland pozzalana cement. It also manufactures ready mix concrete (RMC). The company has five integrated plants, six grinding units and three terminals - two in India and one in Sri Lanka.

## Management

The management of the company is led by Kumar Mangalam Birla-Chairman, SMisra is the managing Director; O P Puranmalka is the Additional Director, while other directors include Rajashree Birla, R C Bhargava, G M Dave, Y M Deosthalee, N J Jhaveri and few others. S Misra is the Managing Director of the company.

## Business Overview

UltraTech Cement is the country's largest exporter of cement clinker. The export markets span countries around the Indian Ocean, Africa, Europe and the Middle East.

Individually it is the second biggest cement producer of the country, while together with Grasim it is the largest cement producer in India.

Recently the boards of Grasim and UltraTech have approved the merger of their cement businesses. The shareholders of Samruddhi Cement (SCL), Grasim's demerged cement business would receive four shares of UltraTech (UTC) for every seven shares of SCL.

Post-merger of SCL, UTC would be the largest cement company in India, with 49.4mt capacity (including white cement) and the 10th largest in the world. Unlike pre-merger, when its market mix was concentrated in the West, East and South, it would become a pan-India player, with healthy contribution from all regions.

The company's products include ordinary Portland cement, portland pozzolana cement and portland blast furnace slag cement. The company also makes Cement as per European and Sri Lankan norms

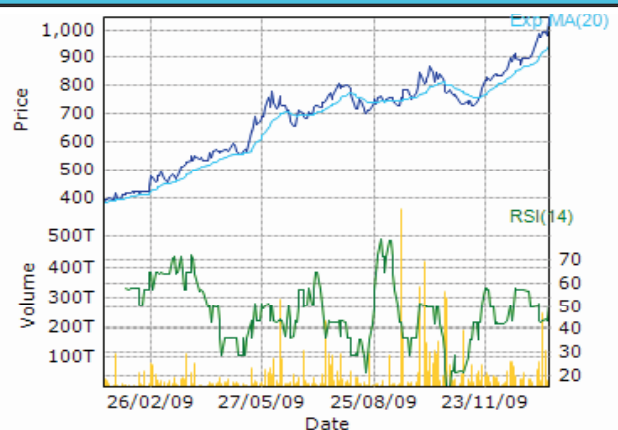
Stock Data		22/01/2010
Current Mkt Price (Rs)		913
52 Week High		1059.40
52 Week Low		381.90
Mkt Cap (Rs. in Million)		113419.08
Return in last one Month (%)		4.56

## Share Holding



54.78 Indian Promotor	21.32 Total Institutions
23.75 Total Non-Institutions	0.15 Depository Receipt

## Performance in last one year



## Y-o-Y Performance

Particulars	(Rs. in Million)		
	Mar 2009	Mar 2008	Change(%)
Net Sales	63830.80	55092.20	15.86
Other Income	1119.40	998.50	12.11
Total Expenditure	46850.50	37891.60	23.64
Operating Profit	18099.70	18199.10	-0.55
Interest	1255.10	756.70	65.86
Profits After Tax	9770.20	10076.10	-3.04
Reserve & Surplus	0.00	0.00	35.16
Reported EPS(Rs)	78.48	80.94	-3.04
Core EBITDA Margin (%)	23.71	27.36	-13.33



# LSE Securities

The company ensures a flawless operation in every stage, right from selecting raw materials to batching and mixing, transportation, placing of concrete till testing of concrete, putting together the right ingredients for perfect world class cement.

The composite plants of the company are located at Tadipatri (Andhra Pradesh), Hirmi (Chhattisgarh), Jafrabad (Gujarat), Kovaya (Gujarat) and Awarpur (Maharashtra). The grinding units of the company are located at Magdalla (Gujarat), Ginigera (Karnataka), Ratnagiri (Maharashtra), Jharsuguda (Orissa), Arakkonam (Tamil Nadu) and Durgapur (West Bengal).

## Latest result analysis

- The company has reported a decline of 17.76% in its net profit for the quarter ended December 31, 2009 to Rs 196.03 crore from the corresponding previous quarter of Rs 238.36 crore.
- The net sale of the company was marginally up by 1.96% to Rs 1669.30 crore compared to Rs 1637.14 crore.
- The total income of the company increased by marginal 1.85% to Rs 1681.76 crore compared to Rs 1,651.16 crore.
- Other income of the company decreased by 11.13% to Rs 12.46 crore compared to Rs 14.02 crore in the December 2009 quarter.
- The operating profit margin of the company fell about 280 basis points y-o-y to 24.77% in the third quarter of FY10.
- Net profit margin of the company too declined by more than 280 basis points to 11.74%.
- The company's despatches for the quarter rose 11.9% y-o-y to 4.34 million tonnes.
- The southern markets constitute close to 30% of UltraTech's total despatches and slowdown in demand was clearly visible in the December 2009 quarter.

## Industry Scenario

India has the second largest cement industry in the world, with an installed capacity of nearly 200 million tonne. The industry has witnessed rapid technological up-gradation and vibrant growth during last couple of decades. The industry is a mixture of small and large capacity cement plants, with 85% of the production coming from large plants with capacity greater than 1 MT.

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Dec 2009	Dec 2008	Change(%)
Net Sales	16693.00	16371.40	1.96
Expenditure	12682.00	11999.80	5.69
Other Income	124.60	140.20	-11.13
EBITDA	4135.60	4511.80	-8.34
Interest	262.20	359.00	-26.96
Net Profit	1960.30	2383.60	-17.76
EBITDA Margin (%)	0.25	0.28	-10.10
NPM (%)	0.12	0.15	-19.34
EPS	15.75	19.15	-17.75

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	63830.80	55092.20	15.86
Total Income	64950.20	56090.70	15.79
Total Expenditure	46850.50	37891.60	23.64
Operating Profit	18099.70	18199.10	-0.55
Profits After Tax	9770.20	10076.10	-3.04

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	1244.90	1244.90	0.00
Reserve & Surplus	34759.30	25717.30	35.16
Total Liabilities	57436.80	44374.90	29.44
Investments	10348.00	1709.00	505.50
Current Liabilities	11209.20	11530.10	-2.78
Net Current Assets	1188.40	253.30	369.17
Total Assests	57436.80	44374.90	29.44

Key Ratios		
Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	78.48	80.94
Core EBITDA Margin (%)	23.71	27.36
EBIT Margin (%)	20.77	25.18
ROA (%)	19.19	25.9
ROE (%)	31.03	45.18
ROCE (%)	29.21	40.69
Price/Book (x)	1.91	3.6
Net Sales Growth (%)	15.86	12.19
EBIT Growth (%)	-6.05	26.31
PAT Growth (%)	-3.04	28.8
Total Debt/Mcap (%)	0.31	0.18



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The last few years have seen buoyant growth in the installed capacity which has nearly doubled from 110 MTPA in 2001 to slightly over 200 MTPA by July 2008. Demand for the cement has also grown at a healthy CAGR of 8% over last four years.

Cement sector has always undertaken capacity addition ahead of demand generation. The recent global economic slowdown has clouded the demand growth for the sector. Most of the capacity addition that has been planned was envisaged in 2004-07 period of bullish growth and strong demand outlook. The slowdown in the economy has therefore raised a gap in consumption growth which will hurt the cement companies at some stage.

However, there are a number of factors which will provide support to the industry in long term. These include huge infrastructure requirement of the country and expectations of strong GDP growth in next fiscal and onwards riding on stronger-than-expected recovery in Indian economy. Indian government has committed huge investments in infrastructure heads like roads and ports etc. Construction activity in the country is picking up firmly.

Cement industry has performed well in the December quarter with despatches growing at double-digit pace and demand outlook remaining strong. Prices too have recovered in some regions in the last leg of 2009. The Industry nonetheless has been on the edge of a demand-supply mismatch for some time now as new capacity is likely to be commissioned at a pace higher than growth in demand. As a result, there remain considerable doubts on near term outlook of the sector. There is a period of painful adjustment ahead of the industry which it will have to go through at some stage. Cement has a mixed short term outlook while in the longer term the industry will continue to expand at a fast pace mapping the potential growth in Indian economy.

## Investment Rationale

Ultratech cements will be one of the top ten cement companies of the world after getting the formal approval

of merger with Grasim Cements with a combined capacity of 49.4Mt. This restructuring is sure to give a big advantage to the company on account of size, pure-play and improvement in liquidity.

Though, the merger is likely to take effect from July 1, 2010 the swap ratio has been fixed as 4 shares of Ultratech cement for 7 shares of Samruddhi and is slightly in favour of Grasim as the minority shareholders, with economic interest in cement capacities go up from 29.1mt to 29.4mt and after merger, Grasim will own 60.3% stake in the company.

The company's proposed restructuring would result in Ultratech turning into a pan-India cement player with 20% all India market share.

Ultra Tech's key markets include southern region and Maharashtra. Recent trends indicate that cement prices in some of the southern cities have shown signs of an upswing over the past few weeks, with indications of a pick-up in demand from key user segments.

The announcement of Union road transport minister Kamal Nath that the government might look at using cement instead of bitumen to construct over 18,000 km of expressways will surely boost the demand of cement in coming days.

The company expects industry demand to grow over 10% on the back of government initiatives to boost rural development, infrastructure and housing. Also it expects that the industry would witness a surplus scenario over the next 18 to 24 months resulting in a pressure on margins.

At CMP of Rs 913, the stock is trading at an EV/EBITDA of 6.01x and a P/E multiple of 9.66. We would recommend a BUY in the stock with a long term outlook and a price target of Rs 2100, keeping in view the proposed merger of the company, it will get the advantage of pan India presence, also the company's focus on higher volume growth together with cost efficiency would partially offset the impact on margins.

## Peer group comparison

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E
UltraTech Cement	200903	6383.08	1698.03	977.02	15.31	94.32	10.64
ACC	200812	7308.62	1733.17	1212.79	16.59	86.63	11.3
Ambuja Cements	200903	6183.01	1768.48	1402.27	22.68	8.05	13.75
Shree Cements	200903	2715.02	953.36	577.97	21.29	269.72	8.12



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