

UltraTech Cement

Strong volumes and cost reduction outlook

We upgrade UltraTech Cement (UTCEM) to a BUY with a revised target price of INR 12,500/share (17x FY27E consolidated EBITDA). The company is poised to deliver 13% consolidated volume CAGR, led by recent acquisitions and ongoing expansions. Further, various ongoing cost reduction projects and falling fuel prices should bolster UTCEM's consolidated unit EBITDA to INR 1,278/MT in FY27E (~INR 200/MT improvement over FY24), despite a sharp fall in realisation in FY25E and consolidation of low-margin acquired assets. Cement demand has started to recover Q3FY25 onwards, which should aid UTCEM's strong volume growth and drive pricing recovery FY26E onwards. The company recently announced a foray into cables & wire (C&W) to strategically expand its building products division, with a Capex of INR 18bn to operationalize a 3.5-4mn km capacity plant by Dec-26E. Given that the C&W segment is both a high-growth and high-RoCE industry, it should be neutral/marginally positive for UTCEM, in our view. UTCEM expects full segmental ramp-up by FY31E along with ambitious ~25% RoCE by then.

- **Cement demand has picked up in H2FY25; UTCEM continues to grow faster:** After a flattish H1FY25, cement demand registered ~5% YoY growth in Q3FY25 on ramp-up in infrastructure and construction activities and is expected to grow at ~5-6% in Q4FY25. UTCEM continues to gain market share and grew at 11% YoY in Q3. Even during 9MFY25, UTCEM grew at 7% YoY, almost double the pace of industry growth.
- **Organic and inorganic expansions to keep volume growth high:** UTCEM is expanding its cement capacity by a whopping 68mn MT during FY25-27E, which includes 26mn MT of inorganic India Cements (ICEM) and Kesoram Ind in FY25 and 42mn MT of organic expansions (spread across the three years), leading to a 13% consolidated capacity CAGR, reaching 216mn MT by FY27E-end. Thus, we estimate UTCEM's consolidated volumes will grow at 13% CAGR, in line with its capacity additions. We estimate UTCEM's organic volumes will grow at 9% CAGR and the rest should come from the acquired Kesoram (FY25 onwards) and ICEM (Q4FY25 onwards).
- **Opex reduction by > INR 550/MT during FY24-27E:** UTCEM's unit opex is set to reduce by more than INR 550/MT (ex-ICEM and Kesoram) by FY27E. Of this, we estimate ~INR 220/MT from falling fuel prices during FY25/26E, ~INR 150/MT from reduction in lead distance, ~INR 80/MT from rising share of low-cost green power (mix of WHRS and renewables), and ~INR 60/MT from reduction in clinker consumption ratio. Additionally, the increase in AFR consumption and op-lev gains are expected to add INR 30/MT each to opex reduction. We expect these to more than offset the impact of a sharp fall in cement pricing during FY25E and impact of lower profitability of ICEM and Kesoram. Thus, we estimate consolidated unit EBITDA to expand to INR 1,278/MT in FY27E from INR 1,089/925 per MT in FY24/25E respectively. We expect margins for both Kesoram and ICEM to see a turnaround over the next 2-3 years under UTCEM.
- **Foray into the Cables & Wires segment:** In our view, UTCEM's announced foray into the C&W segment (revenue FY28 onwards) is a neutral to marginally positive event, in our view. C&W is a high-growth and high-RoCE segment and UTCEM can capitalize on its distribution network including its UBS platform as well as non-trade client relationships to strategically expand its building product portfolio.

BUY

CMP (as on 28 Feb 2025)	INR 10,128
Target Price	INR 12,500
NIFTY	22,125

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	INR 12,100	INR 12,500
EBITDA revision %	FY25E (1.2)	FY26E (1.7)

KEY STOCK DATA

Bloomberg code	UTCEM IN
No. of Shares (mn)	289
MCap (INR bn) / (\$ mn)	2,924/33,413
6m avg traded value (INR mn)	3,662
52 Week high / low	INR 12,145/9,250

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.6)	(10.4)	2.4
Relative (%)	(1.3)	0.7	1.4

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	59.99	60.12
FIs & Local MFs	14.19	15.16
FPIs	18.47	17.48
Public & Others	7.35	7.24
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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- Estimates revisions and outlook:** We have incorporated Kesoram (wef 1st April 2024) and ICEM (wef 24th Dec 2024) in UTCCEM's financials. We have also built in the announced Capex for C&W foray in FY26/27E. Subsequently, we have lowered FY25/26E consolidated EBITDA estimates by 1/2% respectively (dented by lower margins for acquired assets) but have increased FY27E EBITDA estimates by 3% factoring in the benefits from various cost reductions efforts. We expect the C&W segment to become operational wef the start of FY28E. Thus, we increase our target price to INR 12,500/sh (17x its FY27E consolidated EBITDA). Post the recent fall in the stock prices, valuation has turned attractive and hence we upgrade to BUY.

Key operational assumptions

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cement Cap (mn MT)	118.2	118.3	121.5	134.3	148.1	189.5	201.3	216.0
Sales Volume (mn MT)	82.5	86.4	94.0	105.7	119.1	136.8	157.8	172.7
<i>YoY change (%)</i>	(3.8)	4.7	8.8	12.5	12.6	14.8	15.4	9.4
<i>Utilisation (%)</i>	69.8	73.1	77.4	78.7	80.4	72.2	78.4	79.9
(Rs/ MT trend)								
NSR	5,142	5,175	5,595	5,981	5,954	5,627	5,638	5,717
<i>YoY change (%)</i>	6.0	0.6	8.1	6.9	(0.4)	(5.5)	0.2	1.4
Raw Materials	790	820	847	919	999	1,019	1,050	1,050
Power & Fuel	1,032	964	1,291	1,749	1,535	1,397	1,257	1,169
Freight costs	1,179	1,162	1,246	1,325	1,334	1,307	1,268	1,230
Employee cost	305	272	270	259	255	249	244	240
Other expense	698	618	716	725	742	730	759	749
Total Opex	4,005	3,836	4,370	4,976	4,865	4,702	4,578	4,439
<i>YoY change (%)</i>	0.3	(4.2)	13.9	13.9	(2.2)	(3.4)	(2.6)	(3.0)
EBITDA per MT	1,137	1,338	1,225	1,004	1,089	925	1,060	1,278

Source: Company, HSIE Research; Kesoram incorporated wef Q1FY25; India Cements wef Q4FY25

Consolidated estimates revision summary

INR Bn	FY25E New	FY26E New	FY27E New	FY25E Old	FY26E Old	FY27E Old	FY25E Chg %	FY26E Chg %	FY27E Chg %
Net Sales	769.6	889.5	987.1	737.7	904.2	999.9	4.3	(1.6)	(1.3)
EBITDA	126.5	167.2	220.7	127.9	170.1	213.5	(1.2)	(1.7)	3.4
APAT	57.2	81.4	120.9	66.1	86.4	117.6	(13.4)	(5.8)	2.8
AEPS	194.2	276.3	410.3	224.3	293.2	399.0	(13.4)	(5.8)	2.8

Source: Company, HSIE Research

Various projects underway to reduce opex by INR 300/MT+ during FY24-27E

UTCEM is working to increase its cement-to-clinker (CC) ratio to 1.54x by FY27 from 1.44x in FY24, leading to savings of ~INR 60/MT. It is aggressively adding both WHRS and solar power capacities to bolster share of low-cost green power. WHRS capacity will nearly double to 511MW and renewable power capacity will more than treble to 2GW by FY27E-end. Thus, the share of green power will expand to 33% in FY25E vs 10/24% in FY20/24 and further double to 62% in FY27E. These will reduce opex by ~INR 80/MT. Even on the logistics front, UTCEM is continuously tightening and lowering its lead distance. It has already brought down the lead distance to ~375km in FY25 from 425/400km in FY22/24 and is confident of reducing it further by ~5-6% (to ~350km) by FY27E with an increase in its capacity spread (from upcoming expansions and recent acquisitions). With an average freight cost of ~INR 3 per ton per km (PTPK), this would imply total cost reductions by ~INR 150/MT during FY24-27E, of which INR 70/MT is already realized in FY25. UTCEM is also increasing its AFR usage to 15% from 5% currently, which can potentially save another ~INR 30/MT and similar savings are expected to come from op-lev gains. Thus, UTCEM's cement opex should fall by more than INR 300/MT in FY27E over FY24.

Fuel prices moderation to further reduce unit opex

Average fuel cost peaked out in FY23 at INR 2.45/mnCal (from INR 1.55/1.2 in FY22/FY21) on surge in imported coal and pet coke prices. However, it started to cool off in FY24 and it continues to fall in FY25E. Thus, its fuel cost reduced to INR 2.15/mnCal in FY24 and is on track to further fall to ~INR 1.8/mnCal in FY25E. We estimate the average cost to further cool off to ~INR ~1.7/mnCal in FY26E, if fuel prices remain stable around current levels. Thus, its unitary fuel cost should cool off by ~INR 170/50 per MT during FY25/26E. Overall, we estimate UTCEM's unit opex (ex of Kesoram and ICEM) to reduce by more than INR 550/MT during FY24-27E, helping cushion the impact of consolidation of mainly India Cements, whose opex is much higher than UTCEM's currently.

Margin scale-up for India Cements and Kesoram Industries

The acquired assets Kesoram Industries and ICEM are currently operating extremely low margins, with ICEM delivering operating losses. With UTCEM getting full control of both these entities, we estimate margin profile for both these entities will improve. During FY23/24, UTCEM's grey NSR exceeded Kesoram and India Cements by ~INR 400/250 per MT respectively. With a steeper fall in cement prices in the south during FY25E, the gap expanded to almost ~INR 700/MT. We estimate the NSR differential to narrow to ~INR 500/MT by FY27E. We also estimate these companies' operating costs to benefit from economies of scale under UTCEM and with investments in green power infrastructure. Thus, we estimate significant improvement in margin for Kesoram (from ~INR 290/MT in FY25 to ~INR 950/MT in FY27E) and ICEM (from operating loss of INR 650/MT in FY25E to EBITDA of ~INR 500/MT in FY27E). UTCEM's (ex Kesoram and ICEM) margin should expand to INR 1,290/MT in FY27E from ~INR 960/MT in FY25E, in our view. Thus, consolidated unitary EBITDA should expand to INR 1,278/MT in FY27E from INR 925/MT in FY25E, in our view.

Unitary EBITDA break up for UTCEM and recently acquired assets

	FY23	FY24	FY25E*	FY26E	FY27E
UTCEM (Grey)*	954	1,031	910	1,100	1,290
Kesoram	508	528	293	667	948
India Cements	-212	86	-650	-2	491
UTCEM consol	1,004	1,089	925	1,060	1,278

Source: Company, HSIE Research; * UTCEM grey margin excluding Kesoram and India Cements; In Consol - Kesoram incorporated wef Q1FY25; India Cements wef Q4FY25

Foray in high-growth and high-profitability Wires & Cables segment

On 25th Feb 2025, UTCCEM's announced that it will be setting up a Cables & Wire (C&W) factory in Gujarat for a total investment of INR 18bn and expects this to be operational by Dec-26. The C&W industry is a high growth segment growing at 12-14% CAGR with combined market size of ~INR 800-900bn (Wires INR 250-300bn, 13-14% CAGR and Cables 500-700bn, ~12% CAGR). This industry operates at ~3-5x gross asset turn, and with working capital (ranging from 1 to 3 months), asset-turn works out to be ~2-3x, which is much ahead of < 1x asset turn for cement industry. Segmental EBIT margin for most players in W&C segment is > 6%. While this is lower than cement players generating > 8-9%, higher asset turns for C&W lead to superior RoCE of >15% for most C&W players vs only a few cement companies managing to deliver a similar return ratio.

UTCCEM clarified that it will not be investing in any other segment over the next five years and even in the C&W segment, the next round of Capex would happen when it is close to full ramp-up of the announced project (expected in FY31E). UTCCEM guided that it will be targeting a 60:40 sales split between wires and cables. Within cables, it will initially manufacture low-tension cables. Also, as against the normal trend of ~3 months working capital for C&W players, UTCCEM would strive to keep its working capital low to negative. It also intends to achieve an ambitious 25% RoCE in this segment by FY31E (full ramp-up).

Given it is a very small capital allocation (2% of its total capital employed) and healthy metrics for the C&W segment, we view this investment to have a neutral to marginally positive impact for UTCCEM. We also believe this foray is a strategic move to expand its building products profile, which it is already selling as a trader currently through its UltraTech's Building Solutions (UBS) platform.

Large expansions during FY25-27E; a mix of inorganic, brownfield, and greenfield

ICEM became a subsidiary wef 24th Dec 2024 and will start contributing to volumes Q4FY25 onwards. The Kesoram acquisition will be also completed in Mar-25 and its volume/financials and UTCCEM will include its financials wef Q1FY25. These two acquisitions (combined capacity of 26mn MT) would account for ~12% of UTCCEM's consolidated volumes. Thus, UTCCEM will be adding 41mn MT cement capacity in FY25E, of which 26mn MT is inorganic (ICEM and Kesoram Industries), 6mn MT greenfield expansion and the rest 9mn MT brownfield. In FY26, it will be adding another 12mn MT (~7.6mn MT green field and 4.2mn MT brownfield). In FY27E, it will commission another 15mn MT (comprising 9.3mn MT greenfield and 5.4mn MT brownfield). Thus, UTCCEM's consolidated capacity is growing at 13% CAGR during FY24-27E to 216mn MT by FY27E-end. We estimate the company to incur a total Capex outgo of INR ~408bn during FY25-27E towards these expansions, green power infrastructure, maintenance capex and towards the planned foray in C&W segment.

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	6,32,400	7,09,081	7,69,554	8,89,463	9,87,073
Growth %	20.2	12.1	8.5	15.6	11.0
Raw Material	97,150	1,19,029	1,39,433	1,65,662	1,81,304
Power & Fuel	1,84,913	1,82,833	1,91,077	1,98,368	2,01,901
Freight Expense	1,40,092	1,58,807	1,78,734	1,99,986	2,12,302
Employee cost	27,390	30,376	34,021	38,444	41,519
Other Expenses	76,657	88,351	99,837	1,19,804	1,29,388
EBITDA	1,06,199	1,29,686	1,26,454	1,67,200	2,20,660
EBITDA Margin (%)	16.8	18.3	16.4	18.8	22.4
EBITDA Growth %	(7.8)	22.1	(2.5)	32.2	32.0
Depreciation	28,880	31,453	43,967	46,063	49,975
EBIT	77,319	98,233	82,487	1,21,137	1,70,684
Other Income (Including EO Items)	5,031	6,170	7,660	8,004	7,833
Interest	8,227	9,680	16,113	19,893	15,922
PBT	74,122	94,722	74,034	1,09,248	1,62,595
Tax	23,429	24,183	17,028	27,858	41,462
Minority Int	54	(231)	(231)	(20)	232
RPAT	50,640	70,050	57,237	81,410	1,20,901
EO (Loss) / Profit (Net Of Tax)	-	(720)	-	-	-
APAT	50,640	70,770	57,237	81,410	1,20,901
APAT Growth (%)	(10.6)	39.8	(19.1)	42.2	48.5
AEPS	175.4	245.1	194.2	276.3	410.3
AEPS Growth %	(10.6)	39.8	(20.8)	42.2	48.5

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital	2,887	2,887	2,947	2,947	2,947
Reserves And Surplus	5,40,359	5,99,388	6,98,910	7,64,038	8,60,759
Total Equity	5,43,245	6,02,275	7,01,856	7,66,984	8,63,705
Minority Int	556	559	329	309	541
Long-term Debt	63,671	62,499	1,92,499	1,72,499	1,22,499
Short-term Debt	46,907	51,531	51,531	51,531	51,531
Total Debt	1,10,577	1,14,030	2,44,030	2,24,030	1,74,030
Deferred Tax Liability	62,536	64,429	64,429	64,429	64,429
Long-term Liab+ Provisions	9,478	9,150	9,394	9,528	10,005
TOTAL SOURCES OF FUNDS	7,26,393	7,90,442	10,20,037	10,65,280	11,12,709
APPLICATION OF FUNDS					
Net Block	5,32,497	5,65,321	8,09,829	8,53,516	9,11,871
Capital WIP	40,404	68,112	38,112	57,112	36,112
Goodwill	63,293	63,455	63,455	63,455	63,455
Other Non-current Assets	55,578	51,858	53,490	56,165	58,973
Total Non-current Investments	8,760	9,689	17,449	17,449	17,449
Total Non-current Assets	7,00,532	7,58,435	9,82,336	10,47,697	10,87,860
Inventories	66,118	83,297	88,499	1,02,288	1,13,513
Debtors	38,670	42,782	47,712	53,368	59,224
Cash and Cash Equivalents	75,705	80,632	80,039	65,276	78,898
Other Current Assets (& Loans/adv)	32,779	42,825	42,825	44,966	47,214
Total Current Assets	2,13,272	2,49,536	2,59,075	2,65,898	2,98,850
Creditors	72,093	84,783	88,499	1,02,288	1,13,513
Other Current Liabilities & Provns	1,15,318	1,32,746	1,32,874	1,46,027	1,60,487
Total Current Liabilities	1,87,411	2,17,529	2,21,373	2,48,315	2,74,001
Net Current Assets	25,861	32,007	37,702	17,583	24,849
TOTAL APPLICATION OF FUNDS	7,26,393	7,90,442	10,20,037	10,65,280	11,12,709

Source: Company, HSIE Research

Consolidated Cash Flow

YE Mar (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	74,163	94,222	74,034	1,09,248	1,62,595
Non-operating & EO Items	(5,792)	(5,064)	(7,660)	(8,004)	(7,833)
Interest Expenses	8,227	9,680	16,113	19,893	15,922
Depreciation	28,880	31,453	43,967	46,063	49,975
Working Capital Change	(3,549)	(4,811)	(7,676)	2,815	4,024
Tax Paid	(11,243)	(16,505)	(17,028)	(27,858)	(41,462)
OPERATING CASH FLOW (a)	90,685	1,08,975	1,01,750	1,42,157	1,83,222
Capex	(61,056)	(88,841)	(2,12,443)	(1,08,750)	(87,330)
Free Cash Flow (FCF)	29,629	20,135	(1,10,693)	33,407	95,892
Investments	(13,642)	(653)	-	-	-
Non-operating Income	2,827	1,612	7,660	8,004	7,833
INVESTING CASH FLOW (b)					
Debt Issuance/(Repaid)	(71,871)	(87,881)	(2,04,783)	(1,00,746)	(79,497)
Interest Expenses	2,636	1,047	1,30,000	(20,000)	(50,000)
FCFE	(7,016)	(8,535)	(16,113)	(19,893)	(15,922)
Share Capital Issuance	25,250	12,647	3,194	(6,485)	29,970
Dividend	(1,018)	(825)	-	-	-
FINANCING CASH FLOW (c)	(10,913)	(10,944)	(11,447)	(16,282)	(24,180)
NET CASH FLOW (a+b+c)	(16,310)	(19,257)	1,02,440	(56,175)	(90,103)
Closing Cash & Equivalents	2,504	1,838	(593)	(14,763)	13,622

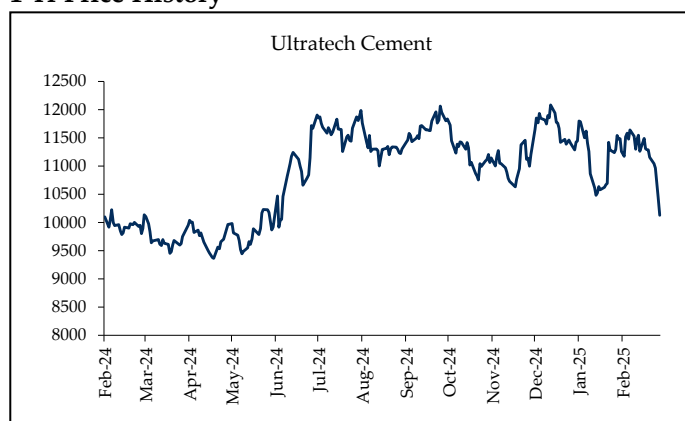
Source: Company, HSIE Research

Key Ratios

	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY %					
EBITDA Margin	16.8	18.3	16.4	18.8	22.4
EBIT Margin	12.2	13.9	10.7	13.6	17.3
APAT Margin	8.0	10.0	7.4	9.2	12.2
RoE	9.7	12.3	8.8	11.1	14.8
RoIC (pre-tax)	13.1	15.7	10.7	13.1	17.6
RoCE (pre-tax)	11.7	13.8	10.0	12.4	16.4
EFFICIENCY					
Tax Rate %	31.6	25.5	23.0	25.5	25.5
Fixed Asset Turnover (x)	0.9	0.9	0.8	0.8	0.8
Inventory (days)	38	43	42	42	42
Debtors (days)	22	22	23	22	22
Other Current Assets (days)	51	49	46	41	39
Payables (days)	42	44	42	42	42
Other Current Liab & Provns (days)	72	73	67	64	63
Cash Conversion Cycle (days)	(2)	(3)	1	(0)	(2)
Net Debt/EBITDA (x)	0.3	0.3	1.3	0.9	0.4
Net D/E	0.1	0.1	0.2	0.2	0.1
Interest Coverage	9.4	10.1	5.1	6.1	10.7
PER SHARE DATA (Rs)					
EPS	175.4	245.1	194.2	276.3	410.3
CEPS	275.4	354.1	343.5	432.6	579.9
Dividend	38.0	70.0	38.8	55.3	82.1
Book Value	1,884	2,088	2,383.0	2,604.0	2,933.0
VALUATION					
P/E (x)	58.9	42.2	52.1	36.7	24.7
P/Cash EPS (x)	37.5	29.4	29.5	23.4	17.5
P/BV (x)	5.5	5.0	4.3	3.9	3.5
EV/EBITDA (x)	28.2	23.0	24.3	18.3	13.6
EV/MT (Rs bn)	22.33	20.15	16.21	15.18	13.90
Dividend Yield (%)	0.4	0.7	0.4	0.5	0.8
OCF/EV (%)	3.0	3.7	3.3	4.7	6.1
FCFF/EV (%)	1.0	0.7	(3.6)	1.1	3.2
FCFE/M Cap (%)	1.0	0.7	(3.7)	1.1	3.2

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Riddhi Shah, MBA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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