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20 YEARS

Udaipur Cement Works Ltd.

Quick small/Midcap Funda Momentum Picks

Medium to High risk

Key points:

- These picks are based on fundamentals and issued when momentum is seen in them. These stocks may not have enough liquidity and depth and may go from circuit to circuit (either up or down). In the interest of timeliness, detailed financial projections are not prepared.
- Small allocation of investible surplus may be put in such stocks and spread your surplus among several such stocks.
- Once the risk appetite in the market reduces, such stocks could face the pressure of selling irrespective of fundamentals or valuations.
- Entry and exit into these stocks have to be carefully timed.
- These stocks have inherent value in them and their expected rate of growth could be faster than their peers. Their current valuations may not reflect these and hence considering the current market conditions, a buy report has been issued.
- It is possible that the street may take time to recognize these or there may be adverse developments in the interim. Hence proper exit strategies have to be worked out in advance (that may include stoploss or trailing stoploss).

02-August-2021

RETAIL RESEARCH

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Red flag level*	Time Horizon
Cement	Rs.40.8	Buy in the 39-42 band & add more on dips to Rs 35	Rs. 48	Rs. 56	Rs.29.5	1- 2 quarters

*Investor may sell 60-65% of their holding on first target being achieved and later keep a stop loss of first target for balance holding, in case the second target takes time to be achieved. Investor may also maintain Rs.29.5 as red flag level below which investment position needs to be reviewed, including the possibility to exit

HDFC Scrip Code	UDACEMEQNR
BSE Code	530131
NSE Code	NA
Bloomberg	UCW:IN
CMP July 30, 2021	40.8
Equity Capital (Rs cr)	125
Face Value (Re)	4.0
Equity Share O/S (cr)	31.1
Market Cap (Rs cr)	1271
Book Value (Rs)	6.0
Avg. 52 Wk Volumes	26,285
52 Week High	42.00
52 Week Low	10.05

Share holding Pattern % (June, 2021)	
Promoters	72.54
Institutions	0.32
Non Institutions	27.14
Total	100.0

Retail Research Risk Rating:

		Red*

*** Refer at the end for explanation on Risk Ratings**

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Our Take:

Udaipur Cement Works Ltd. (UCWL) was incorporated in 1993 as a part of JK Lakshmi cement (JKCL) which has ~39 years of experience to operate in cement industry. It is a key cement player in the Rajasthan. It has 1.60 MTPA of cement capacity, 1.50 MTPA of clinker capacity. Further volume growth will be driven by increase in capacity - cement to 2.20 MTPA by Sept-2021 and 4.7 MTPA by FY24-25; clinker to 1.50 MTPA by Sept-2021 and 3.0 MTPA by FY24-25.

We expect COVID-led lockdown and slowdown in the economy to lead to subdued growth in volumes for UCWL in FY22E but buoyant cement prices and aggressive control on variable costs are likely to drive EBITDA growth. The industry has high dependence on real estate and infra, which are likely to be impacted by the pandemic. The key growth drivers of demand are likely to be rural housing, Pradhan Mantri Awas Yojana (rural), Pradhan Mantri Gram Sadak Yojana and increased spending on infrastructure development.

Valuations & Recommendation:

We expect the company to benefit from 1) strong promoter pedigree- JK Lakshmi Cement Ltd (credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by JK Lakshmi Cement Limited), 2) Consistent capacity expansion from 0.63MTPA in FY13 to current 1.6MTPA. It recently completed its balancing Project whereby its Clinker Capacity stands increased from 1.2 MTPA to 1.5 MTPA and Its Cement capacity from 1.6 MTPA to 2.2 MTPA 3) stable utilization, and 4) industry triggers like higher realizations.

Cement companies are valued (EV/T or EV/EBITDA) based on their capacities, regional diversification, and Balance Sheet strength. Smaller companies are generally valued lower because of regional concentration, limited scale of operations, lower pricing power; however, stocks get re-rated post announcing growth plans, successfully executing expansions and forays into new markets, thus reducing concentration risk on earnings.

We think UCWL can post 21% CAGR (over FY21-FY23E) in net sales to Rs.1074.5 cr, 29% CAGR in EBITDA to Rs. 246 cr and 39% CAGR in PAT to Rs.106 cr.

We believe the base case fair value of the stock is Rs.48 (FY23E EV/T of $125 and FY23E EV/EBITDA of 8.3) and the bull case fair value is Rs.56 (FY23E EV/T of $140 and FY23E EV/EBITDA of 9.3). Investors can buy the stock at the CMP (FY23E EV/T of $111 and FY23E EV/EBITDA of 7.4) and add on dips to Rs.35 (FY23E EV/T of $100 and FY23E EV/EBITDA of 6.7).

Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21
Total Operating Income	3057	2141	43%	2936	4%	579	686	735
EBITDA	228	180	27%	311	-27%	40	125	149
APAT	74	48	54%	132	-44%	-41	16	55
Diluted EPS (Rs)	0.77	0.5	54%	1.39	-45%	-1.3	0.5	1.8
RoE-%						-21.2	8.8	25.6
P/E (x)						-31.2	81.9	23.1
EV/EBITDA						59.5	19.0	16.0

(Source: Company, HDFC sec)

Triggers

- The company is a 72.5% subsidiary of strong cement major, JK Lakshmi Cement (JKCL). JKCL has cement capacity of 13.3 Million tonne per annum (MTPA) has a strong presence in northern and western markets of India. Also, JKCL has ~39 years of experience in cement. UCWL works closely with its parent JKCL in terms of common procurement of Raw material/fuel (driving synergies) and cross sell Cement and Clinker volumes between each other.
- UCWL has an integrated cement manufacturing unit with installed cement production capacity of 1.6 MTPA. Currently the company has clinker capacity of 1.20 MTPA. Clinker Capacity has been enhanced from 1.20 Million Tonnes to 1.50 Million Tonnes and the Cement Capacity from 1.60 Million Tonnes to 2.20 Million Tonnes in Q1FY22. This will lead to volume growth in the balance period of FY22.
- The company in Oct 2020 announced an expansion project for setting up an additional clinker capacity of 1.50 MTPA and an additional cement grinding capacity of 2.50 MTPA along with a Waste Heat Recovery plant of 7 MW at existing location in Udaipur.

The project is estimated to be set up at a cost of ~Rs. 1,400 cr, which is to be funded through a debt-equity ratio of 2.5:1 and was expected to be commissioned by Oct-Dec 2023 (likely to get delayed by a couple of months). This capacity expansion will help to fuel further growth from FY25 onwards. Post the expansion the total clinker capacity will stand at 3MTPA and cement capacity will be 4.7MTPA. The Company has received Environmental Clearance for the Project and other clearances like approval from the Airport Authority of India, Rajasthan State Pollution Control Board etc. were in process.

- The company sources 48%+ of its power requirement from renewable sources of energy. It has a 6 MW Waste Heat Recovery System and a 10 MW Solar Power Plant. Further capacity addition of WHR will improves profitability. The company has installed a 6 km long Over Land Belt Conveyor (OLBC) to source raw material from its captive mine to the manufacturing plant that further adds value in gaining cost and environmental efficiency.
- With the blend of modern technology and rich legacy, UCWL manufactures world class cement under the brand name-Platinum Heavy Duty Cement. The cement is made using latest superior PSD Technology which provides a wide array of benefits to the consumers like 10% more volume, high initial strength, superior workability and fast setting. During this pandemic year its Manufacturing/R&D team also developed one of the best premium products i.e. Platinum Supremo that it launched in March 2021.
- During FY21, the Company's Cement Production & Sales stood at 9.64 and 9.66 Lakh tonnes respectively. Additionally, it sold 5.81 Lakh tonnes of Platinum Heavy Duty Cement through trading activities and 4.89 Lakh tonnes of clinker. Thereby, it recorded an all-time High Sales of Rs. 737.66 Crores, showing a jump of 7% over sales of Rs. 686.88 Crores achieved in the previous Financial Year.
- UCWL has been working very aggressively on various operational efficiency improvement levers. FY21 has seen significant uptick in improvement in its and product mix besides improvement in its supply chain efficiency.
- Cement demand is picking up again June 2021 onwards. Good demand and increased consolidation is helping the industry to pass on cost inflation. Fuel cost continues to rise unabated – pet coke prices are up 11% QoQ and ~85% YoY. Imported coal prices are up 15-22% QoQ (~75% YoY). Even diesel prices have shot up 6/28% QoQ/YoY.
- Post the recent amendment in mining MMDR Act, doors are open for merger of UCWL with the parent JKLC, but only in next 1-3 years. Differential tax regime of both companies, - JKCL continues to operate at old tax regime, while UCWL has shifted to new Tax regime – could delay the merger.

Concerns

- The company has a high debt/equity ratio of 2.1x with lower interest coverage of 2.2x in FY21. Expansion plan of the company will require it to raise debt which may weaken financial strength.
- With a large capex planned for the future, the company remains exposed to project execution risk, which would be substantially funded through debt.
- Its realizations and profitability get impacted by the extant demand and supply, which are inherent risks associated with the cement industry. The cement industry is likely to add 78mnT cement capacity over FY21-FY24E. However Northern region followed by Central region is expected to remain very well-placed in terms of maintaining better-than-the-industry's average capacity utilization.
- The company is exposed to any adverse volatility in the prices of the commodities, fuel, power and freight costs. Inability to pass on price can affect adversely on profitability.

Company Background:

Udaipur Cement Works Limited, (formerly known as JK Udaipur Udyog Ltd) was incorporated as a public limited company on 15th March 1993. The company presently is a subsidiary of, JK Lakshmi Cement Ltd. UCWL manufactures world class cement under the brand name-Platinum Heavy Duty Cement.

Financials

Income Statement

(Rs Cr)	FY18	FY19	FY20	FY21
Net Revenue	**376**	**579**	**686**	**735**
Growth (%)	341.6	54.0	18.4	7.2
Operating Expenses	355	539	561	586
EBITDA	**21**	**40**	**125**	**149**
Growth (%)	**511.3**	**88.7**	**213.0**	**19.0**
EBITDA Margin (%)	**5.6**	**6.9**	**18.2**	**20.2**
Other Income	0.7	1.2	1.1	2.6
Depreciation	30.3	33.9	33.8	33.4
EBIT	**-9**	**7**	**92**	**118**
Interest	67.4	68.5	65.0	53.8
Exceptional Items	2.7	3.7	0.0	-6.9
PBT	**-73**	**-58**	**27**	**57**
Tax	-29.8	-16.9	11.8	2.1
PAT	**-43**	**-41**	**16**	**55**
Growth (%)	**833.3**	**-16.6**	**-138.1**	**254.4**
EPS	-1.6	-1.3	0.5	1.8

Balance Sheet

As at March	FY18	FY19	FY20	FY21
SOURCE OF FUNDS				
Share Capital	**118.1**	**124.6**	**124.6**	**124.6**
Reserves	-3	-5	9	64
Preference Capital	102	49	50	58
Shareholders' Funds	**217**	**168**	**184**	**247**
Long Term Debt	482	451	334	523
Long Term Provisions & Others	33	24	25	22
Total Source of Funds	**732**	**643**	**543**	**792**
APPLICATION OF FUNDS				
Net Block	756	730	704	718
Non-Current Investments	9	9	9	9
Deferred Tax Assets (net)	54	71	59	57
Long Term Loans & Advances	6	7	11	8
Total Non-Current Assets	**825**	**817**	**784**	**793**
Current Investments	0	0	25	93
Inventories	39	41	68	51
Trade Receivables	4	3	7	1
Short term Loans & Advances	10	9	11	9
Cash & Equivalents	1	1	1	13
Other Current Assets	12	11	22	16
Total Current Assets	**65**	**65**	**134**	**182**
Short-Term Borrowings	7	3	0	0
Trade Payables	11	33	41	40
Other Current Liab & Provisions	139	202	332	143
Short-Term Provisions	2	1	1	0
Total Current Liabilities	**159**	**239**	**375**	**183**
Net Current Assets	-94	-174	-241	-1
Total Application of Funds	**732**	**643**	**543**	**792**

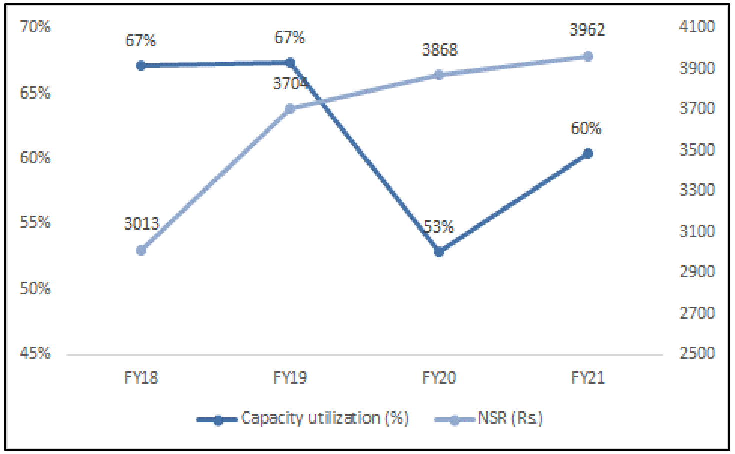
Cash Flow Statement

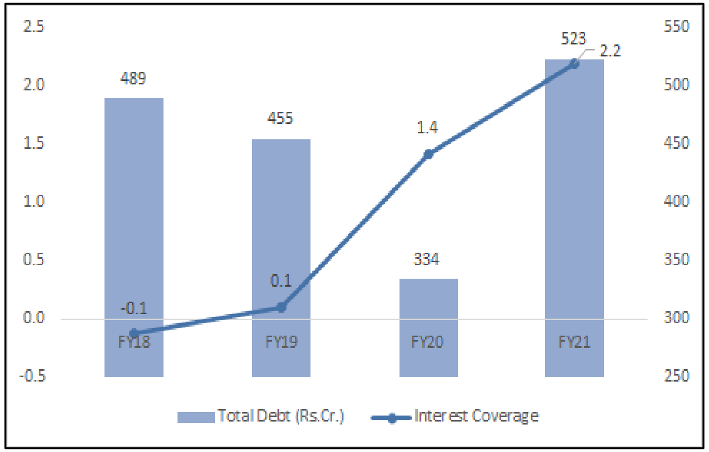
(Rs Cr)	FY18	FY19	FY20	FY21
Reported PBT	-76	-61	27	64
Adjustment	99	105	98	78
Working Capital Change	1	22	-13	45
Tax Paid	0	0	0	0
OPERATING CASH FLOW (a)	**24**	**66**	**113**	**187**
Capex	-31	-8	-10	-49
dec in Fixed Asset	0	0	0	0
Free Cash Flow	-7	58	103	139
Investments	0	0	-25	-66
Non-operating income	0	0	0	1
INVESTING CASH FLOW (b)	**-30**	**-7**	**-34**	**-114**
Debt Issuance / (Repaid)	17	-4	-5	9
Interest Expenses	-61	-56	-73	-71
FCFE	-50	-1	25	77
Share Capital Issuance	0	0	0	0
Dividend	0	0	0	0
Other financial Activity	50	0	0	0
FINANCING CASH FLOW (c)	**7**	**-60**	**-78**	**-62**
CHANGES IN CASH BALANCE (a+b+c)	**1**	**-1**	**0**	**11**
Opening cash Balance	**1**	**1**	**1**	**1**
Closing cash Balance	**1**	**0**	**1**	**13**

Key Ratios

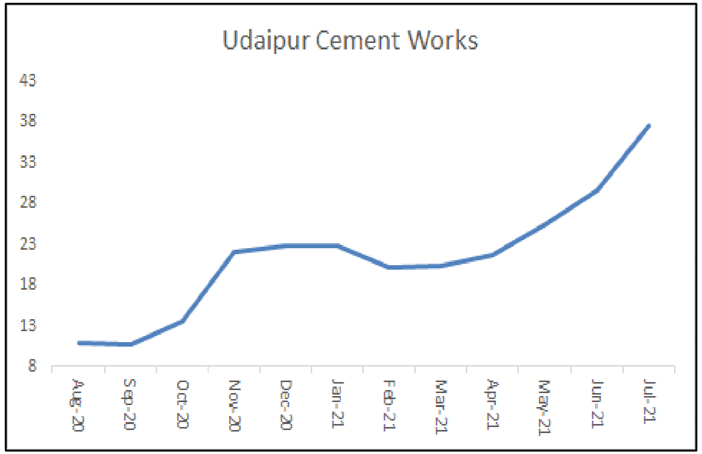
	FY18	FY19	FY20	FY21
Profitability (%)				
EBITDA Margin	5.6	6.9	18.2	20.2
EBIT Margin	-2.3	1.2	13.5	16.0
APAT Margin	-13.0	-7.0	2.3	7.5
RoE	-22.3	-21.2	8.8	25.6
RoCE	-1.2	1.1	17.8	15.3
Solvency Ratio				
D/E	2.3	2.7	1.8	2.1
Interest Coverage	-0.1	0.1	1.4	2.2
PER SHARE DATA				
EPS	44.6	-1.4	0.5	1.9
CEPS	-0.6	-0.2	1.6	2.8
BV	4	4	4	6
Dividend	0.0	0.0	0.0	0.0
Turnover Ratios (days)				
Debtor days	4	2	4	0
Inventory days	40	25	29	29
Creditors days	12	15	24	25
Working Capital Days	32	12	8	5
VALUATION				
P/E	-26.0	-31.2	81.9	23.1
P/BV	10.5	10.7	9.5	6.7
EV/EBITDA	112.2	59.5	19.0	16.0
Dividend Yield	0.0	0.0	0.0	0.0
Dividend Payout	0.0	0.0	0.0	0.0

Charts





One Year Price Chart



(Source: Company, HDFC sec)

HDFCSec Retail Research Rating description

Green rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Blue Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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Any holding in stock – No

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