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EVALUATING THE FINANCIAL HEALTH OF ULTRATECH (CEMENT) LIMITED: A CASE STUDY EXAMINATION

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ABSTRACT

UltraTech Cement Limited exhibited robust operational performance in the second quarter of fiscal year 2022, characterized by significant revenue growth propelled by increased volume and blended realization. This growth trajectory is sustained by strong demand from critical sectors such as infrastructure, agriculture, and urban housing. Our analysis anticipates UTCEM to maintain this momentum, with projected Compound Annual Growth Rates (CAGR) of 11.6% in consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and 18.6% in adjusted Profit After Tax (PAT) from fiscal year 2021 to 2024. Factors including increased sales volume and realization, coupled with lower interest expenses, are expected to drive this growth. The company's enhanced earnings, Return on Equity (RoE), and leverage position support a higher valuation for its stock, which currently trades at multiples indicating market optimism regarding its future performance. Overall, UltraTech Cement Limited's strong operational performance and promising growth prospects position it as a key player in the cement industry, poised for sustained value creation for its shareholders.

Keywords:* *Operational Performance, Revenue Growth, Stock Valuation, Market Optimism, Cement Industry, Value Creation.

Introduction:

Finance management is very crucial in a company since without it, the organisation would not be able to thrive. It displays the wealth of the shareholder. Finance management issues will have an impact on the organization's overall performance, even if other departments are running smoothly. It is critical to examine financial features with its own data from the previous year and compare them in order to conduct a survey analysis. As a result, this study is an attempt to assess the company's financial performance.

Financial statements reveal a lot about a company's financial health and potential earnings. Financial analysis is the process of analysing and reviewing financial statements in order to make decisions. Financial analysis assists stakeholders in evaluating an organization's financial performance and making sound investment decisions. The balance sheet shows an organization's assets and liabilities. All types of organisations are required to prepare financial statements under numerous rules and enactments. The financial statement includes information on the classification and valuation of all assets and liabilities, as well as whether or not a company has adequate assets to pay off its external debts. It also demonstrates whether the company is financially viable and has sufficient stability to weather the financial crisis.

This study examines Ultra Tech Ltd’s financials in depth in order to assess the company's efficiency and performance. For the purpose of examining patterns, the study focused on Ultra Tech Ltd’s historical and current performance during a five-year period.

Relevance of the study

Because finance is believed to be the means of support for a corporate organisation, studying its financial performance becomes important. As a result, the researcher has chosen this topic to investigate the financial accounts. Finance is one of the primary fundamentals of all types of fiscal behaviour in today's materialistic economy. It is the master solution, providing access to all sources involved in industrialization and merchandising behaviour. The main goal of this research is to examine financial statements and interpret their findings using ratios that span multiple financial periods. Financial statements are made for the purpose of displaying a monthly appraisal or statement on the growth by management, and they include the position of money in the business as well as the conclusion achieved during the phase under investigation.

Literature Review

Value vs. growth stock investing continues to be an important decision for investors (seeChan and Lakonishok [2004] and Petkova, Ralitsa, and Zhang [2005]). In this paper, we examine the behavior of value and growth stocks during short-term market declines. The basic economic framework of consumption smoothing suggests that the behavior of assets during times of crisis, when wealth is decreasing across the board, is more important than what happens when times are good (Yogo [2006]). Thus, examining these conditions should be particularly illuminating for the practitioner of value investing Value vs. growth stock investing continues to be an important decision for investors (seeChan and Lakonishok [2004] and Petkova, Ralitsa, and Zhang [2005]). In this paper, we examine the behavior of value and growth stocks during short-term market declines. The basic economic framework of consumption smoothing suggests that the behavior of assets during times of crisis, when wealth is decreasing across the board, is more important than what happens when times are good (Yogo [2006]). Thus, examining these conditions should be particularly illuminating for the practitioner of value investing Value vs. growth stock investing continues to be an important decision for investors (seeChan and Lakonishok [2004] and Petkova, Ralitsa, and Zhang [2005]). In this paper, we examinethe behavior of value and growth stocks during short-term market declines. The basic economic framework of consumption smoothing suggests that the behavior of assets during times of crisis, when wealth is decreasing across the board, is more important than what happens when times are good (Yogo [2006]). Thus, examining these conditions should be particularly illuminating for the practitioner of value investing.

According to traditional finance theory, asset prices are expected to align with the present value of their anticipated future cash flows in an efficient market (Brzeszczy´nski et al., 2015). However, recent research has cast doubt on the applicability of the Efficient Market Hypothesis (EMH) to real-life stock markets (Woo et al., 2020). This skepticism primarily stems from the persistent presence of market anomalies (Guo et al., 2017b).

The EMH posits that asset prices accurately reflect all available information concerning the underlying security's intrinsic value. Consequently, changes in stock market prices are driven solely by the emergence of new information regarding the fundamental worth of the asset (Zhang, 2008). However, behavioral finance acknowledges deviations from rationality among investors due to sentiments, and it explores how these deviations may influence asset prices, market outcomes, and investor behavior (Zhang, 2008; Shi et al., 2020).

Moreover, arbitrage opportunities are constrained by various costs, including transaction costs, which could hinder arbitrageurs from capitalizing on market mispricing caused by irrational investor behavior (Shleifer, 2000).

The literature explores the Efficient Market Hypothesis (EMH) and its relevance to real-life stock markets. Traditional finance theory suggests that asset prices should align with the present value of expected future cash flows in an efficient market. However, recent research has raised concerns about the validity of EMH, citing the presence of persistent market anomalies.

Behavioral finance offers an alternative perspective, acknowledging deviations from rationality among investors due to sentiments. It examines how these deviations may impact asset prices, market outcomes, and investor behavior.

Furthermore, the literature highlights the constraints on arbitrage opportunities, such as transaction costs, which may prevent arbitrageurs from exploiting market mispricing caused by irrational investor behavior.

Objective of the Study

The study focused on the financial position review of the UltraTech cement company, so the following objective are follows:

- To discuss the growth and performance of the company with consider of financial statement.
- To measure the expected stock position in future of the company.

Method of the study

Sampling

Convenience method followed in the study. On the base of the large market capitalisation in the cement industry in India, selected UltraTech LTD.

Time frame

Selected period of the study is five years form 2016-17 to 2021

Data collection

Secondary source of data collection method used in the study. Date are to be collected from the company's annual financial report which available in company's own site.

Data analysis

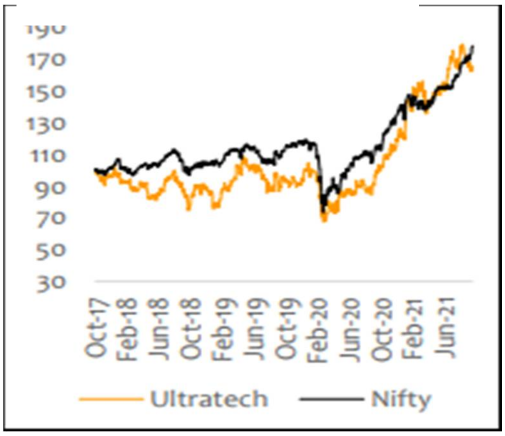
The data is compiled and tabulated with the help of MS Excel. Besides charts are also used to presenting the data using Excel. The techniques used in analysis are:

1. Comparative Study of Balance sheet and Income Statement
2. Common size Balance sheet and Income Statement
3. Ratio Analysis
4. Trend Analysis

Company information

In India, UltraTech Cement Ltd. is the leading producer of grey cement, ready-mix concrete (RMC), and white cement. It is also one of the world's leading cement producers. It is the world's third largest cement producer outside of China, with a consolidated grey cement capacity of 116.75 MTPA, and the only one (outside of China) with more than 100 MTPA of cement manufacturing capacity in a single country. UltraTech Cement owns and operates 18 integrated plants, one clinkerisation facility, 25 grinding units, and seven bulk terminals. It has activities in India, the United Arab Emirates, Bahrain, Bangladesh, and Sri Lanka. UltraTech Cement is also India's largest cement exporter, catering to the needs of countries in the Indian Ocean region and the Middle East. Grasim Industries Ltd owns UltraTech Cement, which is a subsidiary of the company. Dakshin Cements Limited, Harish Cement Limited, Gotan Limestone KhaujUdyog Private Limited, Bhagwati Limestone Company Private Limited, UltraTech Cement Lanka (Pvt.) Ltd., UltraTech Cement Middle East Investments Limited, PT UltraTech Mining Indonesia, and PT UltraTech Investments Indonesia are some of UltraTech's subsidiaries.

Figure 1



Source: BSE

Company details	
Market cap:	Rs. 2,13,542 cr
52-week high/low:	Rs. 8,071 / 4,369
NSE volume: (No of shares)	5.9 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

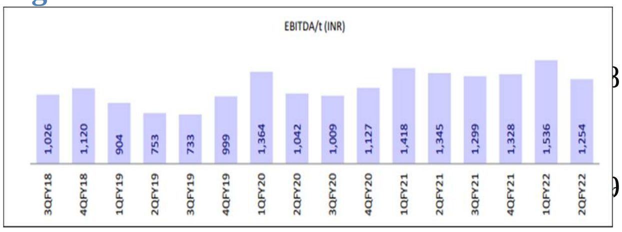
Stock gave a 3 year return of 112.34% as compared to Nifty 100 which gave a return of 69.16%. (as of last trading session) Figure 2

Consolidated Income Statement					
Y/E March	FY17	FY18	FY19	FY20	FY21
Total Income from Operations	253,749	309,786	416,088	424,299	447,258
Change (%)	0.9	22.1	34.3	2.0	5.4
Raw Materials	44,926	52,888	69,831	65,181	70,858
Employees Cost	15,223	18,102	22,911	25,199	23,530
Other Expenses	141,476	177,344	249,877	240,141	237,191
Total Expenditure	201,625	248,335	342,619	330,520	331,579
As a percentage of Sales	79.5	80.2	82.3	77.9	74.1
EBITDA	52,124	61,452	73,469	93,779	115,679
Margin (%)	20.5	19.8	17.7	22.1	25.9
Depreciation	13,484	18,479	24,507	27,227	27,002
EBIT	38,640	42,972	48,962	66,552	88,677
Int. and Finance Charges	6,401	12,376	17,779	19,917	14,857
Other Income	6,481	5,886	4,634	6,511	7,342
PBT bef. EO Exp.	38,721	36,482	35,818	53,146	81,162
EO Items	0	-3,466	-1,139	19,788	-2,607
PBT after EO Exp.	38,721	33,016	34,679	72,934	78,555
Total Tax	11,586	10,770	10,681	15,413	25,387
Tax Rate (%)	29.9	32.6	30.8	21.1	32.3
Minority Interest	-14	24	-37	-32	-34
Reported PAT	27,149	22,222	24,035	57,553	53,202
Adjusted PAT	27,149	24,557	24,823	41,946	54,967
Change (%)	9.6	-9.5	1.1	69.0	31.0
Margin (%)	10.7	7.9	6.0	9.9	12.3

Source: company, author's calculation

In the second quarter of the fiscal year 2022, UltraTech delivered steady operational performance. The company witnessed a notable 15.3 percent year-over-year increase in standalone revenue, reaching Rs. 11,548 crore. This growth was fueled by a 4.7 percent year-over-year rise in volume, alongside a 10.1 percent increase in blended realization. Additionally, the quarterly sequential increase of 2.7 percent in blended realization was supported by higher other operating income. UltraTech's growth trajectory is sustained by robust demand from the infrastructure and agricultural sectors, as well as a surge in demand for urban housing.

Figure 3 Trend in EBITDA/t



Source: company, authors

According to our analysis, we anticipate UTCEM to achieve a Compound Annual Growth Rate (CAGR) of 11.6% in consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA), and an 18.6% CAGR in adjusted Profit After Tax (PAT) from fiscal year 2021 to 2024. This growth trajectory is expected to be driven by increased sales volume and realization, coupled with lower interest expenses. The company's enhanced earnings and Return on Equity (RoE), along with improving leverage, justify a higher valuation for its stock. Currently, the stock trades at multiples of 14.9x and 12.6x for fiscal years 2021 and 2022, respectively, based on Enterprise Value (EV) to EBITDA ratio. This represents an increase compared to the average one-year forward EV/EBITDA ratio of 14.3x observed over the last decade.

Findings

1. UltraTech's operational performance in the second quarter of fiscal year 2022 was steady.
2. Standalone revenue experienced a significant 15.3 percent year-over-year increase, amounting to Rs. 11,548 crore.
3. This revenue growth was driven by a 4.7 percent year-over-year rise in volume and a 10.1 percent increase in blended realization.
4. Additionally, there was a quarterly sequential increase of 2.7 percent in blended realization, supported by higher other operating income.
5. UltraTech's growth trajectory is sustained by robust demand from infrastructure, agriculture, and urban housing sectors.
6. UTCEM is expected to achieve a Compound Annual Growth Rate (CAGR) of 11.6% in consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and an 18.6% CAGR in adjusted Profit After Tax (PAT) from fiscal year 2021 to 2024.
7. This growth is anticipated to be driven by increased sales volume and realization, along with lower interest expenses.
8. The company's improved earnings, Return on Equity (RoE), and leverage position justify a higher valuation for its stock.
9. Currently, the stock trades at multiples of 14.9x and 12.6x for fiscal years 2021 and 2022, respectively, based on Enterprise Value (EV) to EBITDA ratio, indicating an increase compared to the average one-year forward EV/EBITDA ratio observed over the last decade.

Conclusion

In conclusion, UltraTech Cement Limited demonstrated robust operational performance in the second quarter of fiscal year 2022, marked by significant revenue growth driven by increased volume and blended realization. The company's growth trajectory remains supported by strong demand from key sectors such as infrastructure, agriculture, and urban housing.

Looking ahead, our analysis suggests that UTCEM is poised for continued growth, with anticipated Compound Annual Growth Rates (CAGR) of 11.6% in consolidated Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) and 18.6% in adjusted Profit After Tax (PAT) from fiscal year 2021 to 2024. This growth is expected to be propelled by factors including increased sales volume and realization, alongside lower interest expenses.

Furthermore, the company's improved earnings, Return on Equity (RoE), and leverage position justify a higher valuation for its stock. Currently, UltraTech Cement's stock trades at multiples reflecting an increase compared to historical averages, indicating market confidence in its future performance.

Overall, UltraTech Cement Limited's strong operational performance and promising growth prospects position it as a key player in the cement industry, with potential for sustained value creation for its shareholders.

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