

Institutional Equity Research

HeidelbergCement

Cements | India

4QFY17 Result Update | June 06, 2017

CMP (Rs)	129
Upside/ (Downside) (%)	16
Bloomberg Ticker	HEIM IN
Market Cap. (Rs bn)	29.2
Free Float (%)	31
Shares O/S (mn)	227

BUY 

Target Price: Rs150

Healthy Volume and Firm Pricing Aid Performance

HeidelbergCement India (HCIL) has reported in-line operating performance in 4QFY17 with its EBITDA coming in at Rs701mn (+9% YoY and +79% QoQ) vs. our estimate of Rs703mn. EBITDA/tonne stood at Rs580 vs. Rs579 and Rs373 in 4QFY16 and 3QFY17, respectively. EBITDA margin stood at 15.5% (-74bps YoY and +536bps QoQ). Operating cost/tonne stood at Rs3,171 (+6% YoY -5% QoQ). Power & Fuel cost/tonne and Freight cost/tonne stood at Rs966 (-3.6% YoY and -2% QoQ) and Rs552 (+8% YoY and +3% QoQ), respectively. Average NCR improved by 4.8% YoY and 1.5% QoQ to Rs3,750/tonne. Notably, there has been an exceptional gain of Rs150mn pertaining to favourable order for a doubtful capital advance, which was provided in 3QFY17. Adjusted PAT rose by 8% YoY to Rs270mn vs. our estimate of Rs259mn. Looking ahead, we expect HCIL to report improved performance on account of stable realization in central markets with no meaningful capacities coming on stream in next 12-15 months and expected pick-up in demand from UP markets owing to likely resolution of sand mining issues in current month. We marginally upgrade our EBITDA estimates by 2% and 1% for FY18E and FY19E, respectively to factor in better realization and improved operating efficiencies despite downsizing our volume estimates. **We reiterate our BUY recommendation on the stock with a revised Target Price of Rs150 (Rs140 earlier).**

Sales Volume Improves Strongly

Post subdued sales volume performance in 3QFY17 due to demonetization and planned shutdown of Damoh unit, HCIL's sales volume grew by 9% YoY and 15% QoQ to 1.21mnT aided by improved rural demand following remonetisation and better agricultural output. Notably, trade segment sales accounted for 80% of its total dispatches.

Satisfactory Operating Performance

Reported EBITDA rose by 9% YoY and 79% QoQ to Rs701mn vs. our estimate of Rs703mn. EBITDA/tonne stood at Rs580 compared to Rs579 and Rs373 in 4QFY16 and 3QFY17, respectively. Notably, HCIL's EBITDA/tonne continues to improve since 2011, when it was hovering in the range of Rs200-250/tonne. A consistent endeavour in improving operating efficiencies with supportive price environment led to improvement in operating performance.

Outlook & Valuation

With no meaningful capacity addition coming in central region in next 2-3 years, we believe HCIL would hit a sweet spot to improve its financials in ensuing years on the back of healthy demand outlook (owing to possible resolution of sand issues in UP and up-tick in government spending in MP) and supportive pricing environment. Further, visible de-leveraging of balance-sheet and healthy operating efficiencies are expected to result in improvement in return ratios.

We reiterate our BUY recommendation on the stock with an upwardly revised Target Price of Rs150 (8x FY19E EBITDA).

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	16,281	16,876	18,368	20,711
EBITDA	2,105	2,490	3,150	3,968
Net Profit	387	762	1,370	1,999
EPS (Rs)	1.7	3.4	6.0	8.8
DPS (Rs)	-	-	2.0	2.0
P/E (x)	75.6	38.4	21.3	14.6
P/B (x)	3.3	3.0	2.8	2.4
EV/EBITDA (x)	18.9	14.6	11.1	8.2
RoE (%)	4.4	8.2	13.5	17.7
Divi. Yield (%)	-	-	1.5	1.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(0.8)	13.8	21.9
Relative to Nifty	(4.8)	6.1	4.2

Shareholding Pattern (%)	Dec'16	Mar'17
Promoter	69.4	69.4
Public	30.6	30.6

1 Year Stock Price Performance



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Risks to the View

- ▶ Government's failure to revive infrastructure activity.
- ▶ Sudden and sharp up-tick in input costs.

Conference Call – Key Takeaways

- ▶ **Demand Scenario:** Cement production declined by 1.3% in FY17 mainly on account of slowdown in construction activities in 2HFY17 owing to cash crunch (following demonetization) and issues with regard to availability of sand. Industry's utilization stood at >70% (HCIL at 80%) in FY17. The Management expects demand should grow at 6-7% in FY18.
- ▶ **Demand Outlook for Central Region:** Though demand scenario in MP was stable, UP saw a consistent downfall owing to sand mining issues. However, Management stated that as the UP Government has already auctioned sand mines, it expects sand availability to improve from current month onwards, which would aid demand up-tick from the state, which consumes 30mnT per annum. Further, upcoming assembly elections in MP in 2018 will also drive demand in central markets in coming months.
- ▶ **Demand Drivers:** HCIL continued to see a decent demand from rural segment aided by better agricultural output in 2016. However, it has yet not witnessed any meaningful consumption from affordable housing programmes, though things are progressing well. Management further expects that many infrastructure projects, which are in a mobilization phase as of now, will drive demand in coming months.
- ▶ **Pricing Scenario in Central Region:** Average price in central region remained broadly flat on sequential comparison. HCIL does not expect any major correction in the monsoon. Further, there has not been any government's pressure in the region to reduce price.
- ▶ **Petcoke Usage & Cost:** Currently, petcoke usage stands at 70% as HCIL still believes petcoke is more viable than coal. Average cost of petcoke/tonne stood at Rs9,000 in 4QFY17 vs. Rs8,500 in 3QFY17. Notably, the current petcoke cost stands at Rs9,100/tonne.
- ▶ **Capacity Expansion:** HCIL is not eyeing for any expansion as of now. However, it is keen to enhance its currently capacity by 5-10% with minimal cost. It will spend Rs400-500mn for regular capex in FY18.
- ▶ **Supply in Central:** HCIL does not expect any new capacity addition for next one year in the region. However, acquisition of central units by UltraTech from Jaypee may lead to increased supply, as the former will possibly utilise the plants at 70% utilization level compared to current level of 50%.

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Exhibit 1: Quarterly Performance (Consolidated)

(Rs mn)	4QFY17	4QFY16	% yoy	3QFY17	% qoq	FY17	FY16	% yoy
Sales	4,538	3,971	14.3	3,878	17	16,876	16,281	3.7
Expenditures								
Cost of Materials Consumed	946	869	8.8	735	29	3,260	3,428	(4.9)
Change in WIP	(6.3)	(234.9)	(97.3)	128.0	(104.9)	346.6	(93.4)	(471.1)
% sales	20.7	16.0		22.2		21.4	20.5	
Employee Benefit Exps.	338	306	10.4	274	23.4	1,148	1,050	9.3
% sales	7.5	7.7		7.1		6.8	6.5	
Power & Fuel	1,169	1,112	5.1	1,035	12.9	4,293	4,520	(5.0)
% sales	25.8	28.0		26.7		25.4	27.8	
Freight	668	568	17.5	565	18.3	2,392	2,324	3.0
% sales	14.7	14.3		14.6		14.2	14.3	
Other Exps.	723	707	2.2	751	(3.7)	2,947	2,943	0.1
% sales	15.9	17.8		19.4		17.5	18.1	
Total Expenditures	3,836	3,328	15.3	3,487	10.0	14,386	14,172	1.5
Operating cost/tonne (Rs)	3,171	2,998	5.7	3,321	(4.5)	3,211	3,189	0.7
EBITDA	701	643	9.0	391	79.2	2,490	2,110	18.0
Margins	15.5	16.2		10.1		14.8	13.0	
EBITDA/tonne (Rs)	580	579	0.0	373	55.5	556	475	17.1
Depreciation	249	244	2.1	246	1.4	992	998	(0.6)
Interests	195	262	(25.5)	222	(12.0)	898	1,085	(17.2)
other Income	129	130	(1.2)	174	(25.9)	535	427	25.5
Exceptional Items	(150.6)	0.0		150.6		0.0	0.0	
PBT	536	267	100.6	(53)		1,136	454	150.4
Tax	166	19	763.5	(18)		374	100	274.6
% PBT	30.9	7.2		33		33	22	
PAT	370	248	49.3	(36)		762	354	115.3
APAT	270	248	8.8	65		762	354	115.3

Source: Company, RSec Research

Exhibit 2: Revised vs. Old Estimates

	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	4.86	4.73	(2.8)	5.40	5.13	(5.0)
Sales (Rs mn)	18,785	18,368	(2.2)	21,412	20,711	(3.3)
Realizations (Rs/tonne)	3,865	3,887	0.6	3,965	4,037	1.8
EBIDTA (Rs mn)	3,077	3,150	2.4	3,938	3,968	0.8
Margins (%)	16.4	17.2		18.4	19.2	
EBITDA/tonne (Rs)	633	667	5.3	729	773	6.1
PAT (Rs mn)	1,269	1,370	8.0	1,947	1,999	2.6

Source: RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	16,281	16,876	18,368	20,711
% yoy growth	(19.0)	3.7	8.8	12.8
Total Cost	14,176	14,386	15,217	16,744
Cost/tonne (Rs)	3,191	3,211	3,221	3,264
Cost of Materials	3,334	3,260	3,507	3,884
Employee	1,056	1,148	1,262	1,389
Power & Fuel	4,520	4,293	4,725	5,284
Freight & Forwarding	2,324	2,392	2,646	2,873
Others	2,942	3,294	3,077	3,315
EBIDTA	2,105	2,490	3,150	3,968
EBIDTA Margin (%)	12.9	14.8	17.2	19.2
Depreciation and Amortisation	940	992	1,000	988
Interest	1,088	898	659	573
Other Income	427	535	562	590
PBT	504	1,136	2,054	2,997
Tax	117	374	684	998
% Tax	23.2	32.9	33.3	33.3
Net Profit	387	762	1,370	1,999
YoY Growth (%)	(35.1)	97.0	79.8	45.9
Net Profit Margin (%)	2.4	4.5	7.5	9.7

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Balance Sheet Statement

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Share Capital	2,266	2,266	2,266	2,266
Reserves & Surplus	6,690	7,453	8,279	9,734
Total Shareholder's funds	8,957	9,719	10,545	12,000
Long Term Borrowings	6,861	5,752	4,752	3,752
Deferred Tax Liabilities (net)	749	530	530	530
Other Long Term Liabilities	192	217	231	256
Long Term Provisions	30	390	415	460
Total NC Liabilities	7,832	6,889	5,927	4,998
Short Term Borrowings	700	-	-	-
Trade Payables	1,860	1,914	2,035	2,256
Other Current Liabilities	5,069	3,443	3,659	4,057
Short Term Provisions	2,075	2,161	2,297	2,547
Total Curr Liabilities	9,704	7,518	7,991	8,860
TOTAL LIABILITIES	26,492	24,126	24,463	25,858
Gross Block	27,576	28,316	28,818	29,320
Less: Accumulated Depreciation	8,541	9,532	10,532	11,520
Net Block	19,035	18,784	18,286	17,799
CWIP	561	63	63	63
Total	19,596	18,846	18,349	17,862
Long Term Loans and Advances	649	273	290	322
Other NC Assets	275	311	331	367
Inventories	1,782	1,396	1,484	1,646
Receivables	258	126	134	148
Cash & Bank	78	142	655	1,941
ST Loans & Advances	3,027	109	116	129
Other CA	828	2,921	3,105	3,443
Total Current Assets	5,972	4,695	5,493	7,307
TOTAL ASSETS	26,492	24,126	24,463	25,858

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Cash Flow Statement

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	504	1,136	2,054	2,997
Depreciation and Obsolescence	940	992	1,000	988
Interest & Dividend Income	(145)	-	-	-
Interest and Finance Expense	1,070	898	659	573
Others	(72)	-	-	-
Operating Profit Before WC Changes	2,296	3,026	3,713	4,558
Net change in WC	401	582	188	346
Tax Paid	(133)	(593)	(684)	(998)
Net Cash from Operating activities	2,564	3,014	3,217	3,906
Purchase of fixed assets (net)	(1,217)	(242)	(502)	(502)
Others	137	-	-	-
Net Cash from Investing activities	(1,081)	(242)	(502)	(502)
Proceeds / (Repayment) of Loans (Net)	(1,717)	(1,809)	(1,000)	(1,000)
Finance Costs	(1,151)	(898)	(659)	(573)
Net Cash from Financing activities	(2,868)	(2,707)	(1,659)	(1,573)
Net Increase or decrease in Cash	(1,385)	65	1,056	1,831
Opening Cash	1,463	78	142	1,199
Closing Cash	78	142	1,199	3,029

Key Ratio

Y/E Mar	FY16	FY17E	FY18E	FY19E
Valuation Ratio (x)				
P/E	75.6	38.4	21.3	14.6
P/CEPS	22.0	16.7	12.3	9.8
P/BV	3.3	3.0	2.8	2.4
EV/EBITDA	18.9	14.6	11.1	8.2
EV/Sales	2.4	2.2	1.9	1.6
EV/tonne (USD)	108	99	95	89
Dividend Payout (%)	0.0	0.0	33.1	22.7
Dividend Yield (%)	0.0	0.0	1.5	1.5
Adj. OCF Yield	4.8	7.2	8.8	11.4
Per Share Data (Rs)				
EPS (Basic)	1.7	3.4	6.0	8.8
EPS (Diluted)	1.7	3.4	6.0	8.8
CEPS	5.9	7.7	10.5	13.2
DPS	-	-	2.0	2.0
Book Value	40	43	47	53
EBIDTA/tonne	474	556	667	773
Returns (%)				
RoCE	7.7	11.2	16.1	21.0
RoE	4.4	8.2	13.5	17.7
Turnover ratios (x)				
Asset Turnover	0.6	0.6	0.6	0.7
Inventory (days)	36	31	31	31
Receivables (days)	5	3	3	3
Payables (days)	37	42	42	42
WCC (days)	4	(9)	(9)	(9)

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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