

Institutional Equity Research

HeidelbergCement India

Cements | India

1QFY18 Result Update | August 08, 2017

CMP* (Rs)	125
Upside/ (Downside) (%)	12
Bloomberg Ticker	HEIM IN
Market Cap. (Rs bn)	28.3
Free Float (%)	31
Shares O/S (mn)	227

BUY 

Target Price: Rs140

Subdued Performance on Low Volume

A dismal demand scenario in the key UP market and planned shutdown for maintenance activities led HeidelbergCement India (HCIL) to report a subdued performance in 1QFY18. EBITDA declined by 28% YoY and 18% QoQ to Rs575mn vs. our estimate of Rs712mn, while EBITDA margin declined by 399bps YoY and 214bps QoQ to 13.3%. EBITDA/tonne stood at Rs522 in 1QFY18 compared to Rs655 and Rs580 in 1QFY17 and 4QFY17, respectively. Operating cost/tonne rose by 9% YoY and 7% QoQ to Rs3,400, as Power & Fuel cost/tonne and Freight cost/tonne stood at Rs947 (+12.5% YoY and -2% QoQ) and Rs567 (+11% YoY and +3% QoQ), respectively. However, other expenditure/tonne surged by 24% YoY owing to additional Rs90mn expenditure towards maintenance activities. Looking ahead, we expect HCIL to report improved performance owing to stable realisation in the central markets (with no meaningful capacities coming on stream in next 12-15 months) and expected pick-up in demand in the UP market on the back of improved sand availability post monsoon. **Though we downgrade our EBITDA estimates by 13% and 6% for FY18E and FY19E, respectively to factor in dismal volumes, we reiterate our BUY recommendation on the stock with a revised Target Price of Rs140 (from Rs150 earlier).**

Sand Shortage Led to Dismal Volume

An acute sand shortage in Uttar Pradesh impacted demand in the central region, which resulted in 10% YoY and 9% QoQ decline in HCIL's sales volume to 1.1mnT. However, average NCR improved by 3.6% YoY and 4.6% QoQ to Rs3,922/tonne. The Management expects sand availability to improve post monsoon as the sand issue has already been sorted out, which along with pent up demand will lead to better volume growth.

Low Volume & Cost Pressure Drag Operating Performance

Dismal sales volume and higher operational cost due to higher fuel and incremental maintenance cost (Rs90mn) impacted HCIL's operational performance. Thus, EBITDA de-grew by 28% YoY and 18% QoQ to Rs575mn. EBITDA/tonne stood at Rs522 in 1QFY18 compared to Rs655 and Rs580 in 1QFY17 and 4QFY17, respectively. Going forward, we expect operating performance to improve on the back of firm realisation, no further maintenance cost in FY18 and improving utilisation. PAT came in at Rs160mn (-39% YoY) vs. our expectation of Rs250mn.

Outlook & Valuation

With no meaningful capacity addition coming in the central region in next 2-3 years, we believe that HCIL would hit a sweet spot to improve its financials in ensuing years on the back of healthy demand outlook (owing to 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. **Hence, we reiterate our BUY recommendation on the stock with a revised Target Price of Rs140 (8x FY19E EBITDA).**

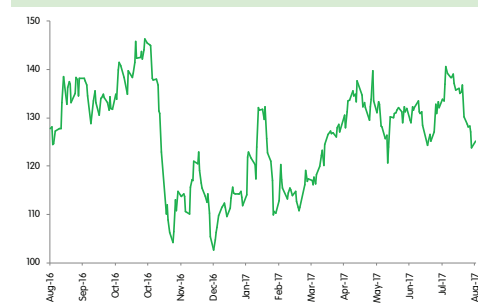
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	16,281	16,876	17,722	20,370
EBITDA	2,105	2,490	2,741	3,750
Net Profit	387	762	1,097	1,854
EPS (Rs)	1.7	3.4	4.8	8.2
DPS (Rs)	-	-	2.0	2.0
P/E (x)	73.2	37.2	25.8	15.3
P/B (x)	3.2	2.9	2.8	2.4
EV/EBITDA (x)	18.4	14.2	12.5	8.6
RoE (%)	4.4	8.2	11.0	17.0
Divi. Yield (%)	-	-	1.6	1.6

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(7.5)	(8.2)	(4.2)
Relative to Nifty	(10.7)	(15.3)	(19.2)

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

1 Year Stock Price Performance



Note: * CMP as on Aug 08, 2017

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Risks to the View

- ▶ Government's failure to revive infrastructure activity.
- ▶ Further up-tick in input cost.

Conference Call – Key Takeaways

- ▶ **Demand Scenario:** Demand scenario was impacted in the Central region due to acute sand shortage in Uttar Pradesh (30mnT annual consumption market). Though the issue was sorted out in Jun'17 following auction of sand mines by the government, monsoon hurt sand mining activities and hence the availability. Expecting improved sand availability post monsoon, the Management believes UP to register >6-7% growth in rest months of FY18.
- ▶ **Pricing Outlook:** Pricing trend still appears to be strong in its key markets. Currently, the average price is higher on sequential comparison. HCIL does not expect any meaningful correction in prices. Notably, it does not expect UltraTech to disturb the pricing environment once it increases production in the acquired units.
- ▶ **Volume Growth:** Expecting the recent volume de-growth to be compensated in coming months, the Management looks forward to marginal improvement in sales volume in current fiscal. The Management further stated that HCIL is getting many enquiries for affordable housing projects in UP and MP, which has really started getting traction.
- ▶ **Other Expenditures:** Planned shutdown in Line-III due to maintenance activities led to an incremental expenditure to the tune of Rs90mn. However, as the Management does not expect this cost to reoccur in FY18, it looks forward to better margins.
- ▶ **Power & Fuel Cost:** HCIL's Power & Fuel cost/tonne rose by 13% YoY owing to 6% YoY rise in power tariff in MP and 40% YoY rise in petcoke prices to Rs9,000/tonne. However, current average price is prevailing at the same level. HCIL does not expect any further up-swing in fuel prices.
- ▶ **New Expansion:** Though HCIL is not actively looking at increasing its capacity, it intends to go for de-bottlenecking process (can lead to additional 5-10% capacity), provided demand scenario improves. Further, it also intends to set up 5MW renewable energy (Solar) plant shortly.
- ▶ **Rail-Road & Product Mix:** 50:50 is rail road mix, while 100% PPC is produced.

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Exhibit 1: Quarterly Performance (Consolidated)

	1QFY18	1QFY17	% yoy	4QFY17	% qoq	FY17	FY16	% yoy
Sales	4,314	4,618	(6.6)	4,538	(4.9)	16,876	16,281	3.7
Expenditures								
Cost of Materials Consumed	842	851	(1.1)	946	(11.0)	3,260	3,428	(4.9)
Change in WIP	126	321	(60.7)	(6.3)	(2,104.8)	347	(93)	(471.1)
% sales	22.4	25.4		20.7		21.4	20.5	
Employee Benefit Exps.	294	266	10.5	338.2	(13.2)	1,148	1,050	9.3
% sales	6.8	5.8		7.5		6.8	6.5	
Power & Fuel	1,042	1,027	1.4	1,168.5	(10.9)	4,293	4,520	(5.0)
% sales	24.1	22.2		25.8		25.4	27.8	
Freight	624	626	(0.4)	667.8	(6.5)	2,392	2,324	3.0
% sales	14.5	13.6		14.7		14.2	14.3	
Other Exps.	812	727	11.7	722.6	12.4	2,947	2,943	0.1
% sales	18.8	15.7		15.9		17.5	18.1	
Tota Expenditures	3,740	3,819	(2.1)	3,836	(2.5)	14,386	14,172	1.5
Operating cost/tonne (Rs)	3,400	3,130	8.6	3,171	7.2	3,211	3,189	0.7
EBITDA	575	799	(28.1)	701.3	(18.1)	2,490	2,110	18.0
Margins	13.3	17.3		15.5		14.8	13.0	
EBITDA/tonne (Rs)	522	655	(20.3)	580	(9.9)	556	475	17.1
Depreciation	250	247	1.2	249	0.0	992	998	(0.6)
Interests	198	246	(19.7)	195	1.5	898	1,085	(17.2)
other Income	121	97	24.6	129	(6.0)	535	427	25.5
Exceptional Items	0.0	0.0		(151)		0.0	0.0	
PBT	248	403	(38.5)	536	(53.7)	1,136	454	150.4
Tax	88	141	(37.7)	166	(47.2)	374	100	274.6
% PBT	35.3	34.9		30.9		32.9	22.0	
PAT	160	263	(38.9)	370		762	354	115.3
APAT	160	263	(38.9)	270		762	354	115.3

Source: Company, RSec Research

Exhibit 2: Revised vs. Old Estimates

	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	4.73	4.54	(4.0)	5.13	5.02	(2.1)
Sales (Rs mn)	18,368	17,722	(3.5)	20,711	20,370	(1.6)
Realizations (Rs/tonne)	3,887	3,906	0.5	4,037	4,056	0.5
EBIDTA (Rs mn)	3,150	2,741	(13.0)	3,968	3,750	(5.5)
Margins (%)	17.2	15.5		19.2	18.4	
EBIDTA/tonne (Rs)	667	604	(9.4)	773	747	(3.5)
PAT (Rs mn)	1,370	1,097	(19.9)	1,999	1,854	(7.2)

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	17,722	20,370
% yoy growth	(19.0)	3.7	5.0	14.9
Total Cost	14,176	14,386	14,981	16,620
Cost/tonne (Rs)	3,191	3,211	3,302	3,309
Cost of Materials	3,334	3,260	3,367	3,802
Employee	1,056	1,148	1,262	1,389
Power & Fuel	4,520	4,293	4,537	5,173
Freight & Forwarding	2,324	2,392	2,541	2,812
Others	2,942	3,294	3,274	3,445
EBITDA	2,105	2,490	2,741	3,750
EBITDA Margin (%)	12.9	14.8	15.5	18.4
Depreciation and Amortisation	940	992	1,000	988
Interest	1,088	898	658	572
Other Income	427	535	562	590
PBT	504	1,136	1,645	2,780
Tax	117	374	548	926
% Tax	23.2	32.9	33.3	33.3
Net Profit	387	762	1,097	1,854
YoY Growth (%)	(35.1)	97.0	44.0	69.0
Net Profit Margin (%)	2.4	4.5	6.2	9.1

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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	8,006	9,316
Total Shareholder's funds	8,957	9,719	10,272	11,583
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	227	249
Long Term Provisions	30	390	407	448
Total NC Liabilities	7,832	6,889	5,915	4,979
Short Term Borrowings	700	-	-	-
Trade Payables	1,860	1,914	1,997	2,199
Other Current Liabilities	5,069	3,443	3,592	3,955
Short Term Provisions	2,075	2,161	2,255	2,483
Total Curr Liabilities	9,704	7,518	7,845	8,637
TOTAL LIABILITIES	26,492	24,126	24,032	25,199
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	285	314
Other NC Assets	275	311	325	357
Current Assets				
Inventories	1,782	1,396	1,457	1,604
Receivables	258	126	131	144
Cash & Bank	78	142	324	1,435
ST Loans & Advances	3,027	109	114	126
Other CA	828	2,921	3,048	3,356
Total Current Assets	5,972	4,695	5,074	6,665
TOTAL ASSETS	26,492	24,126	24,032	25,199

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Cash Flow Statement

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	504	1,136	1,645	2,780
Depreciation and Obsolescence	940	992	1,000	988
Interest & Dividend Income	(145)	-	-	-
Interest and Finance Expense	1,070	898	658	572
Others	(72)	-	-	-
Operating Profit Before WC Changes	2,296	3,026	3,303	4,340
Net change in WC	401	582	130	315
Tax Paid	(133)	(593)	(548)	(926)
Net Cash from Operating activities	2,564	3,014	2,885	3,729
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)	(658)	(572)
Dividend Paid	-	-	(544)	(544)
Net Cash from Financing activities	(2,868)	(2,707)	(2,202)	(2,116)
Net Increase or decrease in Cash	(1,385)	65	181	1,112
Opening Cash	1,463	78	142	324
Closing Cash	78	142	324	1,435

Key Ratio

Y/E Mar	FY16	FY17E	FY18E	FY19E
Valuation Ratio (x)				
P/E	73.2	37.2	25.8	15.3
P/CEPS	21.3	16.2	13.5	10.0
P/BV	3.2	2.9	2.8	2.4
EV/EBITDA	18.4	14.2	12.5	8.6
EV/Sales	2.4	2.1	1.9	1.6
EV/tonne (USD)	106	97	93	88
Dividend Payout (%)	0.0	0.0	41.3	24.4
Dividend Yield (%)	0.00	0.00	1.60	1.60
Adj. OCF Yield	5.0	7.5	7.9	11.1
Per Share Data (Rs)				
EPS (Basic)	1.7	3.4	4.8	8.2
EPS (Diluted)	1.7	3.4	4.8	8.2
CEPS	5.9	7.7	9.3	12.5
DPS	-	-	2.0	2.0
Book Value	40	43	45	51
EBITDA/tonne	474	556	604	747
Returns (%)				
RoCE	7.7	11.2	13.7	20.1
RoE	4.4	8.2	11.0	17.0
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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