

Institutional Equity Research

HeidelbergCement India

Cements | India

3QFY18 Result Update | February 12, 2018

CMP* (Rs)	162
Upside/ (Downside) (%)	27
Bloomberg Ticker	HEIM IN
Market Cap. (Rs bn)	37
Free Float (%)	31
Shares O/S (mn)	227

BUY 

Target Price: Rs205

Higher Sales Volume Drives Performance; Maintain BUY

Led by higher-than-expected sales volume and higher average NCR, HeidelbergCement India (HCIL) has reported a healthy performance in 3QFY18. Despite a surge in operational cost, its EBITDA grew by 93% YoY to Rs754mn vs. our estimate of Rs722mn. Its sales volume grew by a strong 16% YoY and 15% QoQ to 1.22mnT owing to improved demand in Central markets led by pick-up in construction activities following improved sand/aggregates availability. While average NCR stood at Rs3,976/tonne (+7.6% YoY and +0.3% QoQ), EBITDA/tonne came in at Rs620 vs. Rs373 and Rs825 in 3QFY17 and 2QFY18, respectively. Operating cost/tonne surged by 1% YoY and 7% QoQ to Rs3,356 owing to significant spike in freight and input cost. We believe that demand recovery in central region owing to improved sand availability and increase in government's spending will continue to aid HCIL for healthy volumes, going forward. Further, visible up-tick in realisation is also expected to ensure margin expansion. **Marginally increasing our FY18E EBITDA estimates by 1% to factor in higher volume, we maintain our BUY recommendation on the stock with a revised Target Price of Rs205 (from Rs170 earlier).**

Robust Growth in Sales Volume

Sales volume grew by 16% YoY and 15% QoQ to 1.22mnT mainly due to: (a) low base; (b) improved sand availability; and (c) increase in government's spending in UP. Further, the Management highlighted that the demand continued to remain healthy in Jan'18, as construction works – especially in rural and IHB segments, which were withheld due to sand crisis – are supporting demand. Looking ahead, we expect HCIL's volume to remain healthy in coming quarters as well.

Decent Operational Performance despite Cost Pressure

Despite a surge in operational cost, its EBITDA grew by 93% YoY to Rs754mn marginally ahead of our estimate of Rs722mn. While operating cost/tonne rose by 7% QoQ due to higher input and freight cost, a reduction in power and fuel cost/tonne (led by WHRS) aided HCIL to contain any further rise in operating cost. EBITDA/tonne came in at Rs620 vs. Rs373 and Rs825 in 3QFY17 and 2QFY18. Considering the recent spike in average realisation in its key markets, we expect its operational performance to improve further in current quarter. PAT came in at Rs318mn as against net loss of Rs36mn in 3QFY17.

Outlook & Valuation

Notably, with no meaningful capacity addition coming in the central region in next 2-3 years (except capacity ramp-up at UltraTech's newly acquired capacity) along with visible pick-up in demand led by rise in construction activities in UP following resolution of sand issues, we believe that HCIL would hit a sweet spot to gain traction in ensuing years. Further, visible de-leveraging of balance-sheet (repaid US\$20mn in YTD) and healthy operating efficiencies are expected to result in improvement in return ratios. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs205 (9x FY20 EBITDA).**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	16,876	18,414	20,774	22,454
EBITDA	2,490	3,125	4,068	4,695
Net Profit	762	1,268	2,011	2,509
EPS (Rs)	3.4	5.6	8.9	11.1
DPS (Rs)	-	2.0	2.0	4.0
P/E (x)	48.2	28.9	18.3	14.6
P/B (x)	3.8	3.5	3.1	2.8
EV/EBITDA (x)	17.5	13.5	9.8	7.9
RoE (%)	8.2	12.6	18.1	20.0
Divi. Yield (%)	-	1.2	1.2	2.5

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(1.9)	8.6	32.6
Relative to Nifty	(0.6)	6.6	12.8

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

1 Year Stock Price Performance



Note: * CMP as on February 12, 2018

Research Analyst: Binod Modi

Contact: 022 3320 1097

Email: binod.modi@relianceada.com

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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 – Central Region:** The region witnessed a robust demand growth of ~12% during the quarter mainly due to improved sand availability and low base, while capacity utilisation stood at ~74% (currently capacity utilisation stands at 88%). Further, the Management highlighted that the demand continued to remain healthy in Jan'18, as construction works – especially in rural and IHB segments, which were withheld due to sand crisis – are supporting demand. Further, there has been a spike in the government's spending in Uttar Pradesh, which is resulting in healthy consumption.
- ▶ **Pricing Scenario:** There has been a price hike of ~Rs200/tonne in Jan'18 in its key markets. HCIL expects the prices to increase further in coming weeks to pass on recent spike in fuel cost.
- ▶ **Reduction in Power & Fuel Cost:** Unlike other cement companies, there has been significant decline in power and fuel cost/tonne mainly owing to: (a) stabilisation and optimisation of WHRS; and (b) operations at the maximum load. Further, blended cost/unit for power stood at Rs6.25/unit with 20% share from WHRS. As per the Management, the average generation cost from WHRS comes at Rs0.5/unit vis-à-vis Rs5-6/unit from grid.
- ▶ **Fuel Cost:** Average petcoke cost/tonne stood at Rs9,500 for 3QFY18. As per the Management, with a further hike in the prices in Jan'18, the current cost is almost at par with domestic coal.
- ▶ **Capacity Expansion:** Though HCIL is not actively looking at increasing its capacity, it intends to go for de-bottlenecking process with minimum cost, which can lead to additional 7% capacity. As per HCIL, it can add up additional capacity in a period of 5-6 months once it starts working on. Further, it also intends to set up 5MW renewable energy (Solar) plant.
- ▶ **Net Debt:** HCIL's net debt currently stands at Rs5.0bn – including Rs1.7bn non-interest bearing loans taken from the UP Government – compared to Rs6.9bn in FY17.

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Exhibit 1: Quarterly Performance

(Rs mn)	3QFY18	3QFY17	% yoy change	2QFY18	% qoq change	9MFY18	9MFY17	% yoy change
Sales	4,839	3,878	24.8	4,200	15.2	13,352	12,338	8.2
Expenditures								
Cost of Materials Consumed	925	735	25.9	814	13.6	2,581	2,314	11.5
Change in WIP	281	128	119.7	(138)	(303.3)	269	353	(23.7)
% sales	24.9	22.2		16.1		21.3	21.6	
Employee Benefit Exps.	288	274	5.1	293	(1.5)	874	809	8.0
% sales	6.0	7.1		7.0		6.5	6.6	
Power & Fuel	1,009	1,035	(2.5)	1,084	(7.0)	3,135	3,124	0.3
% sales	20.8	26.7		25.8		23.5	25.3	
Freight	737	565	30.5	613	20.3	1,974	1,724	14.4
% sales	15.2	14.6		14.6		14.8	14.0	
Other Exps.	845	751	12.5	660	27.9	2,317	2,224	4.2
% sales	17.5	19.4		15.7		17.4	18.0	
Tota Expenditures	4,084	3,487	17.1	3,326	22.8	11,150	10,550	5.7
Operating cost/tonne (Rs)	3,356	3,321	1.1	3,137	7.0	3,302	3,228	2.3
EBITDA	754	391	92.8	874	(13.7)	2,203	1,789	23.1
Margins	15.6	10.1	550.0	20.8	(25.1)	16.5	14.5	200.0
EBITDA/tonne (Rs)	620	373	66.3	825	(24.8)	652	547	19.2
Depreciation	253	246	2.8	255	(0.9)	757	742	2.0
Interests	186	222	(16.0)	188	(1.1)	572	703	(18.6)
other Income	167	174	(3.6)	82.5	102.8	371	407	(8.9)
Exceptional Items	0.0	150.6		0.0		0.0	150.6	
PBT	483	(53)		513	(6.0)	1,244	600	107.3
Tax	165	(18)		181	(8.6)	433	208	107.9
% PBT	34.2	33.0		35.2		34.8	34.7	
PAT	318	(36)		333	(4.6)	811	392	106.9

Exhibit 2: Revised vs. Old Estimates

	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	4.6	4.6	0.6	5.0	5.0	-
Sales (Rs mn)	18,509	18,414	(0.5)	21,004	20,774	(1.1)
Realizations (Rs/tonne)	4,032	3,987	(1.1)	4,182	4,137	(1.1)
EBITDA (Rs mn)	3,095	3,125	1.0	4,064	4,068	0.1
Margins (%)	16.7	17.0		19.3	19.6	
EBITDA/tonne (Rs)	674	677	0.3	809	810	0.1
PAT (Rs mn)	1,248	1,268	1.6	2,008	2,011	0.2

Source: RSec Research

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Exhibit 3: Cost Per Tonne

Rs/tonne	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18
Cement Volumes (mn t)	1.11	1.22	1.00	1.05	1.21	1.10	1.06	1.22
Raw Material Consumed	571	961	632	822	776	880	638	991
Staff Cost	277	218	270	261	280	267	276	237
Power & fuel for generation	1,002	842	1,062	986	966	947	1,023	829
Freight & Forwarding	512	513	533	538	552	567	578	605
Other Expenditure	637	596	747	715	597	738	623	694
Total Cost per tonne	2,999	3,130	3,244	3,321	3,171	3,400	3,137	3,356
Realisation per tonne	3,578	3,785	3,842	3,693	3,750	3,922	3,962	3,976
EBIDTA per tonne	579	655	598	373	580	522	825	620

Source: Company, RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
Net Sales	16,876	18,414	20,774	22,454
% yoy growth	3.7	9.1	12.8	8.1
Total Cost	14,386	15,289	16,706	17,759
Cost/tonne (Rs)	3,215	3,310	3,327	3,390
Cost of Materials	3,607	3,695	4,098	4,445
Employee	1,148	1,228	1,351	1,486
Power & Fuel	4,293	4,342	4,862	5,173
Freight & Forwarding	2,392	2,679	2,913	3,038
Others	2,947	3,345	3,482	3,617
EBITDA	2,490	3,125	4,068	4,695
EBITDA Margin (%)	14.8	17.0	19.6	20.9
Depreciation and Amortisation	992	987	946	968
Interest	898	745	641	526
Other Income	535	509	534	561
PBT	1,136	1,902	3,015	3,762
Tax	374	633	1,004	1,253
% Tax	32.9	33.3	33.3	33.3
Net Profit	762	1,268	2,011	2,509
YoY Growth (%)	115.1	66.4	58.5	24.8
Net Profit Margin (%)	4.5	6.9	9.7	11.2

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Balance Sheet Statement

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
Share Capital	2,266	2,266	2,266	2,266
Reserves & Surplus	7,404	8,128	9,595	11,017
Total Shareholder's funds	9,670	10,394	11,861	13,283
Long Term Borrowings	5,752	4,752	3,752	2,752
Deferred Tax Liabilities (net)	530	530	530	530
Other Long Term Liabilities	217	231	257	283
Long Term Provisions	390	415	461	509
Total NC Liabilities	6,889	5,928	5,000	4,074
Short Term Borrowings	-	-	-	-
Trade Payables	1,914	2,127	2,362	2,606
Other Current Liabilities	3,443	3,664	4,069	4,488
Short Term Provisions	2,161	2,300	2,554	2,817
Total Curr Liabilities	7,518	8,091	8,985	9,911
TOTAL LIABILITIES	24,077	24,414	25,846	27,268
Gross Block	20,751	21,251	21,751	22,251
Less: Accumulated Depreciation	1,980	2,967	3,914	4,882
Net Block	18,771	18,284	17,838	17,370
CWIP	63	63	63	63
Total	18,834	18,347	17,900	17,432
Long Term Loans and Advances	273	291	323	356
Other NC Assets	311	331	368	405
Inventories	1,396	1,486	1,650	1,821
Receivables	126	134	148	164
Cash & Bank	142	638	1,917	3,185
ST Loans & Advances	296	315	350	386
Other CA	2,699	2,873	3,190	3,519
Total Current Assets	4,659	5,445	7,255	9,073
Total Assets	24,077	24,414	25,846	27,268

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Cash Flow Statement

Y/E Mar (Rs mn)	FY17	FY18E	FY19E	FY20E
PBT	1,136	1,902	3,015	3,762
Adjustments for:				
Depreciation and Obsolescence	992	987	946	968
Interest & Dividend Income	(32)	-	-	-
Interest and Finance Expense	880	745	641	526
Others	(161)	-	-	-
Operating Profit Before Working Capital Changes	2,815	3,634	4,602	5,256
Net change in WC	1,044	284	365	379
Tax Paid	(245)	(633)	(1,004)	(1,253)
Net Cash from Operating activities	3,614	3,285	3,964	4,382
Purchase of fixed assets (net)	(446)	(500)	(500)	(500)
Others	44	-	-	-
Net Cash from Investing activities	(402)	(500)	(500)	(500)
Proceeds / (Repayment) of Loans (Net)	(2,215)	(1,000)	(1,000)	(1,000)
Finance Costs	(933)	(745)	(641)	(526)
Dividend Paid	-	(544)	(544)	(1,088)
Net Cash from Financing activities	(3,147)	(2,289)	(2,185)	(2,613)
Net Increase or decrease in Cash	64	496	1,279	1,268
Opening Cash	78	142	638	1,917
Closing Cash	142	638	1,917	3,185

Key Ratio

Y/E Mar	FY17	FY18E	FY19E	FY20E
Valuation Ratio (x)				
P/E	48.2	28.9	18.3	14.6
P/CEPS	20.9	16.3	12.4	10.6
P/BV	3.8	3.5	3.1	2.8
EV/EBITDA	17.5	13.5	9.8	7.9
EV/Sales	2.6	2.3	1.9	1.6
EV/tonne (USD)	119	115	109	101
Dividend Payout (%)	0.0	35.7	22.5	36.1
Dividend Yield (%)	0.00	1.23	1.23	2.47
Adj. OCF Yield	7.3	6.9	9.0	10.5
Per Share Data (Rs)				
EPS (Basic)	3.4	5.6	8.9	11.1
EPS (Diluted)	3.4	5.6	8.9	11.1
CEPS	7.7	10.0	13.0	15.3
DPS	-	2.0	2.0	4.0
Book Value	43	46	52	59
EBITDA/tonne	557	677	810	896
Returns (%)				
RoCE	11.3	16.0	21.9	25.5
RoE	8.2	12.6	18.1	20.0
Turnover ratios (x)				
Asset Turnover	0.8	0.9	1.0	1.0
Inventory (days)	31	31	31	31
Receivables (days)	3	3	3	3
Payables (days)	42	44	44	44

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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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