

# Heidelberg Cement India

Sensex: 16877

CMP: INR 33

Target: INR 50



Cement

Heidelberg Cement came out with strong set of numbers on the back of improved realisations and better cost control measures. While the topline was inline with our estimates at INR 3050 mn (+22.6% YoY & +7.3% QoQ), bottomline exceeded our expectations by registering a YoY growth of 46.4% to INR 193 mn. Realisation during the last quarter improved by 15.1% YoY outpacing the 11.5% increase in operating cost/tn, which resulted in 283 bps improvement in EBIDTA margin to 12.1%. HCIL is all set to commission its additional 2.9 mtpa capacity from September 2012 onwards. We retain our BUY rating on the stock with a target of INR 50/share.

## Volume & Price driven growth

HCIL reported a healthy revenue growth of 22.6% YoY to INR 3050 mn, led by volume growth of 6.5% to 0.77 mt coupled with 15.1% improvement in cement realisations to INR 3941/tn. Strong demand in Central & Western region enabled the company to operate at almost full capacity utilisation levels (93% in Q2CY11). Going forward we expect HCIL to clock volume CAGR of 29% over CY11 - CY13E led by increased capacity from Sept 2012.

## Sharp improvement in margins

EBIDTA margins expanded by 283 bps YoY & 398 bps on QoQ basis to 12.1% led by firm cement prices. Freight cost increased by only 3.7% QoQ to INR 523/tn, due to shift in rail:road mix from 49:51 to 61:39. (June Quarter witnessed full impact of the ~20% increase in rail freight announced in March 2012). Power & Fuel cost increased at a slower pace by 2.3% QoQ to INR 1003/tn due to optimization of power consumption.

EBIDTA/tn improved by 50.2% YoY & 64.9% QoQ to INR 478 in Q2CY11. Net profit rose by 46.4% YoY & 68.6% QoQ to INR 193 mn.

## New capacities on track

HCIL's new additional capacity of 1 mtpa grinding unit in Damoh (MP) & 1.9 mtpa grinding unit in Jhansi (UP) remains on track and is all set to commission operations from September 2012. This expansion is well timed as it will enable the company to maintain its market share and enjoy the economies of scale. HCIL is also setting

up a conveyor belt from limestone mines to the clinkerisation unit (20 kms), which will lead to ~30% savings in transportation cost.

## Increasing usage of pet coke

HCIL has increased its usage of pet coke from 20% of its total fuel requirement in CY11 (balance 80% through linkage coal/imported coal) to ~35% in the last quarter due to decline in prices of pet coke.

## Banking on central region to drive growth

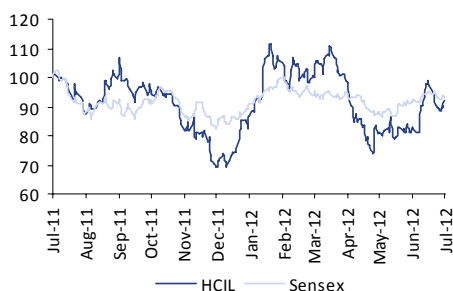
HCIL is focussing on central region to drive growth. We expect the central region to outperform the industry with an estimated demand growth of ~10% in CY12. MP has witnessed a YoY growth of 22% in the last quarter and we expect this growth momentum to sustain due to state elections due next year. While currently it sells ~65% of its total production in this region, HCIL expects this share to increase to 85% post expansion.

## Outlook & Valuation

We remain positive on the cement sector and HCIL which has strong foothold in Central & Western India is well placed to benefit from the growth opportunities in these regions. Increasing cement capacity, savings on transportation front and higher utilisation levels places HCIL on a superlative growth path. At the CMP of INR 33, the stock trades at P/BV of 0.8x & EV/EBIDTA of 5.0x its CY13E earnings and EV/tonne of \$34 (CY13E capacity). We have changed our estimates to factor in improving margins and retain our BUY rating on the stock with a target of INR 50/share.

Shareholding (%)	Mar-12
Promoters	68.55
FII's	7.28
DII's	3.80
Others	20.37

## Relative Price Performance



Key Data	
BSE Code	500292
NSE Code	HEIDELBERG
Bloomberg Code	HEIM IN
Reuters Code	HEID.BO
Shares O/S (mn)	226.62
Face Value	10
Mcap (INR bn)	7.54
52 Week H/L	42/25
2W Avg. Qty, NSE	60143
Free Float (INR bn)	2.37
Beta	0.85

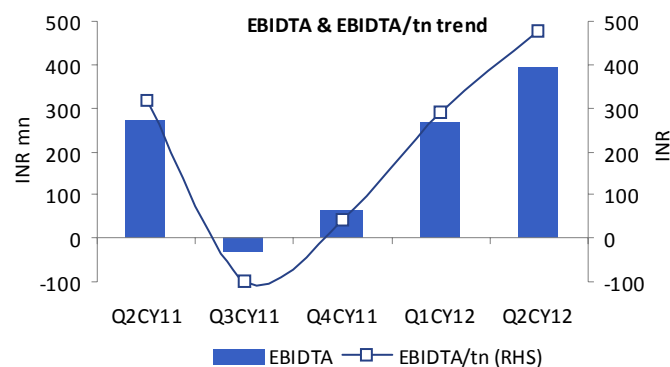
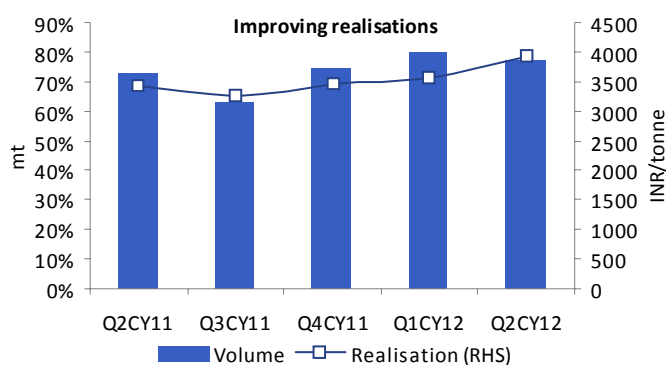
	INR mn	CY10	CY11	CY12E	CY13E
Net Sales		8655	9827	12381	17445
Growth (%)		-7.57%	13.53%	26.00%	40.90%
EBITDA Margin %		11.43%	6.15%	9.22%	9.20%
APAT		630	292	525	717
Growth (%)		-54.70%	-53.65%	80.00%	36.54%
EPS		2.78	1.29	2.32	3.16
P/E		15.42	19.69	14.35	10.51
P/BV		1.26	0.70	0.87	0.80
EV/EBIDTA		5.80	13.41	8.66	5.01
Net Debt-Equity		(0.28)	0.57	0.45	0.16
RoACE (%)		13.17	3.89	5.83	9.20
RoAE (%)		8.29	3.65	6.24	7.94

**Quarterly Financials**

Particulars (INR mn)	Q2CY12	Q1CY12	Q4CY11	Q3CY11	Q2CY11	YoY Chg	QoQ Chg	H1CY12	H1CY11	YoY Chg
Net Sales	3050	2842	2570	2051	2488	22.60%	7.30%	5892	5206	13.19%
Other Operating Income	25	35	35	31	40	-38.04%	-28.70%	59	106	-44.03%
Total Income	3074	2877	2605	2082	2527	21.65%	6.87%	5951	5311	12.05%
Total Expenditure	2680	2611	2540	2115	2256	18.77%	2.65%	5291	4567	15.84%
Cost of goods sold	785	771	811	533	645	21.74%	1.88%	1556	1312	18.60%
Employee Expenses	216	215	221	192	191	13.54%	0.56%	432	372	15.90%
Power, Oil & Fuel	776	783	620	654	671	15.73%	-0.89%	1560	1318	18.37%
Freight & Forwarding Expenses	405	403	364	297	335	20.89%	0.47%	807	715	12.83%
Other Expenses	498	439	524	438	415	19.76%	13.33%	937	850	10.16%
EBIDT	395	266	65	(33)	271	45.61%	48.23%	661	744	-11.21%
EBIDTM	12.13%	8.15%	1.19%	-3.14%	9.30%	283 bps	398 bps	10.21%	12.27%	(206 bps)
Interest	32	20	11	10	9	259.09%	57.21%	52	17	198.84%
PBDT	363	246	54	(43)	262	38.44%	47.50%	609	727	-16.21%
Depreciation	78	77	85	77	76	2.24%	1.04%	155	152	2.05%
Tax	93	55	(13)	(39)	55	69.60%	68.67%	148	184	-19.79%
APAT	193	114	(18)	(82)	132	46.43%	68.59%	307	392	-21.58%
APATM	6.32%	4.02%	-0.70%	-3.98%	5.29%	103 bps	230 bps	5.21%	7.52%	(231 bps)
EPS	0.85	0.50	(0.08)	(0.36)	0.58	46.43%	68.59%	1.35	1.73	-21.58%

**Operational performance**

Volumes (mn tn)	0.77	0.80	0.74	0.63	0.73	6.51%	-3.16%	1.57	1.55	1.75%
Realisations (INR/tn)	3941	3557	3450	3242	3424	15.11%	10.79%	3746	3367	11.25%
EBIDTA/tonne (INR)	478	290	41	-102	318	50.19%	64.89%	383	413	-7.39%



Source: Company, SPA Research

## Financials

### Income Statement

Y/E December (INR mn)	CY10	CY11	CY12E	CY13E
Net Sales	8655	9827	12381	17445
<i>Growth (%)</i>	-7.57%	13.53%	26.00%	40.90%
Cost of goods sold	2114	2340	2923	4021
Power & Fuel Cost	1946	2592	3332	4928
Selling & Dist Exp	762	1377	1486	1884
Total Expenditure	7666	9222	11240	15841
EBIDTA (without OI)	989	605	1142	1605
<i>Growth (%)</i>	-37.98%	-38.87%	88.77%	40.58%
<i>EBITDA Margin %</i>	11.43%	6.15%	9.22%	9.20%
Depreciation	289	314	434	532
EBIT	701	291	708	1073
<i>EBIT Margin %</i>	8.10%	2.96%	5.72%	6.15%
Interest Expenses	42	38	138	238
Other Income	301	171	185	195
EBT	960	424	755	1030
Tax Expenses	327	132	229	313
PAT	633	292	525	717
Exceptional/Extraordinary Items	4	0	0	0
APAT	630	292	525	717
<i>Growth (%)</i>	-54.70%	-53.65%	80.00%	36.54%
<i>APAT Margin (%)</i>	7.3%	3.0%	4.2%	4.1%

### Key Ratios

Y/E December	CY10	CY11	CY12E	CY13E
<b>Per Share Data (INR)</b>				
Adjusted EPS	2.78	1.29	2.32	3.16
CEPS	4.65	2.80	4.38	5.67
BVPS	33.80	35.99	38.29	41.41
<b>Return Ratios</b>				
RoACE (%)	13.17	3.89	5.83	9.20
RoAE (%)	8.29	3.65	6.24	7.94
<b>Balance Sheet Ratios</b>				
Net Debt-Equity Ratio	(0.28)	0.57	0.45	0.16
Current Ratio	1.13	1.32	1.07	0.79
Interest Cover Ratio	23.79	12.03	6.48	5.34
<b>Efficiency Ratios</b>				
Total asset turnover	1.14	0.83	0.81	1.27
Inventory Days	32	36	38	36
Debtors Days	10	9	9	8
Creditors Days	75	78	80	80
<b>Valuations</b>				
P/E	15.42	19.69	14.35	10.51
P/BV	1.26	0.70	0.87	0.80
Market Cap / Sales	0.98	0.58	0.61	0.43
EV/EBIDTA	5.80	13.41	8.66	5.01

### Balance Sheet

Y/E December (INR mn)	CY10	CY11	CY12E	CY13E
<b>SOURCES OF FUNDS</b>				
Share Capital	2266	2266	2266	2266
Reserves	5566	5890	6411	7118
Total Networth	7833	8156	8677	9384
Secured Loans	0	7769	6000	3500
Total Debt	0	7769	6000	3500
<b>Total Liabilities</b>	<b>7833</b>	<b>15925</b>	<b>14677</b>	<b>12884</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	3305	3476	14125	14093
Capital Work in Progress	4282	11083	500	500
Total Current Assets	4633	6997	5081	5527
Total Current Liabilities	4085	5300	4731	6974
Net Current Assets	548	1697	349	(1446)
Net Deferred Tax	(301)	(331)	(298)	(263)
<b>Total Assets</b>	<b>7833</b>	<b>15925</b>	<b>14677</b>	<b>12884</b>

### Cash Flow

Y/E December (INR mn)	CY10	CY11	CY12E	CY13E
EBT	960	424	755	1030
Depreciation	289	314	434	532
Interest	42	38	138	238
Inc./Dec. in working capital	489	(237)	292	1764
Tax paid	(190)	(113)	(196)	(278)
Other Income	(301)	(171)	(185)	(195)
<b>Cash from operations (a)</b>	<b>1288</b>	<b>255</b>	<b>1238</b>	<b>3091</b>
Inc./Dec. in investments	1	0	0	0
Change in Fixed Assets	(374)	(408)	(11083)	(500)
Change in CWIP	(3694)	(6801)	10583	0
Others	(42)	(38)	(138)	(238)
<b>Cash from investments (b)</b>	<b>(4109)</b>	<b>(7248)</b>	<b>(638)</b>	<b>(738)</b>
Inc./Dec. in capital	0	0	0	0
Inc./Dec. in debts	(20)	7769	(1769)	(2500)
Dividend paid	(4)	0	0	0
Interest paid	(42)	(38)	(138)	(238)
Others	129	174	252	353
<b>Financial cash flow (c)</b>	<b>62</b>	<b>7905</b>	<b>(1655)</b>	<b>(2385)</b>
Opening cash balance	4954	2195	3107	2052
<b>Cash Flow during the year (a+b+c) (2759)</b>	<b>912</b>	<b>(1055)</b>	<b>(31)</b>	
Closing cash balance	2195	3107	2052	2021

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