

# Heidelberg Cement India Ltd.

Sensx: 18675

CMP: INR 54

Target – INR 64



## Cement

HCIL came out with steady set of numbers which were almost in-line with our estimates on the back of improved operational performance. While the topline was in-line with our estimates at INR 2563 mn (+23.1% YoY), bottomline was marginally below our expectations at INR 75 mn against our expectations of INR 81 mn. Realisation during the last quarter improved by 19.5% YoY outpacing the 7.8% increase in operating cost/tn, which resulted in sharp improvement in EBIDTA margin. We recommend a BUY on the stock with a target of INR 64.

### Volume & Price driven growth

HCIL reported a healthy revenue growth of 23.1% YoY to INR 2563 mn, led by volume growth of 3.1% to 0.65 mt coupled with 19.5% improvement in cement realisations to INR 3931/tn. HCIL like all other cement players managed to witness sharp improvement in realisations largely due to delayed monsoons, resulting in shorter period of seasonal decline in prices. Demand is expected to improve going forward with the commencement of construction activities post monsoon season, which will result in recovery in cement prices.

### Sharp improvement in margins

HCIL has reported sharp improvement in EBIDTA margins to 8.3% on the back of firm cement prices. Freight cost increased by 6.4% to INR 500/tn due to the recent 5-7% increase and levy of service tax on rail freight. Power & Fuel cost increased by 10.3% to INR 1141/tn largely due to ~18% surge in power tariffs to INR 6.5/unit (expected to remain elevated for next 2-3 quarters). However with realisations outpacing total costs, EBIDTA/tn improved to INR 317 in Q3CY12.

### New capacities on track

HCIL's new additional clinker & grinding capacities of 1.9 mtpa & 2.9 mtpa respectively are all set to commence operations from Dec 2012 onwards, which will increase its total cement and clinker capacity to 6.0 mtpa and 3.1 mtpa. This expansion is well timed as it will enable the company to increase its market share and enjoy the economies of scale. The company plans to sell the additional output in the markets of UP, MP, Bihar, Delhi and NCR.

### Conveyor belt to reduce transportation cost

HCIL has commissioned its new conveyor belt in Oct 2012 for transportation of limestone from mine to its plant (~20 km), the benefits of which will be largely seen from CY13. This coupled with change in rail road mix from 63:37 to 50:50 would result in savings of ~INR 75-100/ton.

### Demand in Central region to improve

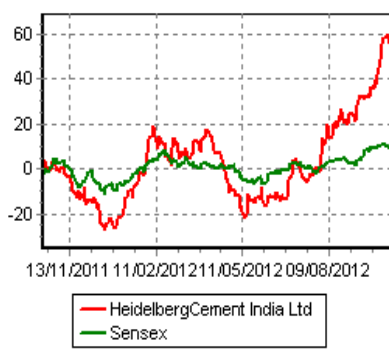
HCIL derives ~65% of its volumes from the central region. We expect demand in central region to grow at CAGR of more than 10% (All India demand CAGR 8%) aided by higher growth in MP due to state elections next year. Additionally UP is also likely to witness improvement in demand as the newly elected government is showing increased interest in infrastructure spending. The company is targeting to increase its market share in MP & UP to 12% & 9% respectively (currently ~7-8%) post the expansion.

### Outlook & Valuation

Well timed capacity addition and presence in high growth central region of UP & MP places HCIL on a superlative growth path. Doubling of cement capacity, increased usage of pet coke from 20% to 35% along with conveyer belt & change in rail road mix will lead to economies of scale. With majority of capex plans almost over, return ratios are expected to improve. Currently the stock is trading at P/BV of 1.3x & EV/EBIDTA of 7.6x its CY13E earnings and EV/tonne of INR 2282 its CY13E capacity. We recommend a BUY on the stock with a revised target of INR 64 based on FY13E EV/tonne of INR 2750.

Shareholding (%)	June-12
Promoters	68.55
FII's	6.22
DIIS	3.76
Others	21.47

### Relative Price Performance

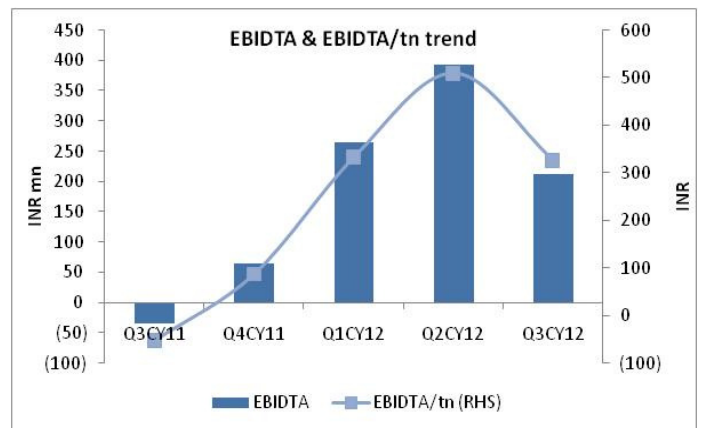
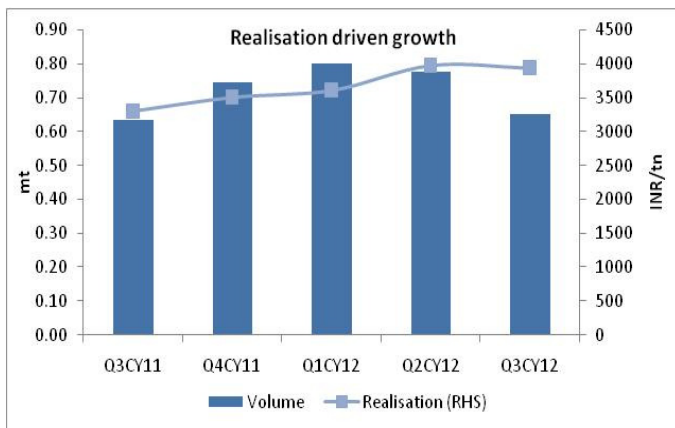


Key Data	
BSE Code	500292
NSE Code	HEIDELBERG
Bloomberg Code	HEIM IN
Reuters Code	HEID.BO
Shares Outstanding (mn)	226.62
Face Value	10
Mcap (INR bn)	12.21
52 Week H/L	56.40/25.05
2W Avg. Qty, BSE/ NSE	421610
Free Float (INR mn)	3.84
Beta	0.85

INR mn	CY10	CY11	CY12E	CY13E
Net Sales	8655	9827	12381	17445
Growth (%)	-7.57%	13.53%	26.00%	40.90%
EBIDTAM (%)	11.43%	6.15%	9.22%	9.20%
Adj. PAT	630	292	525	717
Growth (%)	-54.70%	-53.65%	80.05%	36.52%
Adj. EPS (INR)	2.78	1.29	2.32	3.16
P/E (x)	15.42	19.69	23.25	17.03
P/BV (x)	1.26	0.70	1.41	1.30
EV/EBIDTA (x)	5.80	13.41	12.19	7.61
Net D/E (x)	(0.28)	0.57	0.45	0.16
RoACE (%)	13.17	3.89	5.31	7.44
RoAE (%)	8.29	3.65	6.24	7.94

## Quarterly Financials

Particulars (INR mn)	Q3CY12	Q2CY12	Q1CY12	Q4CY11	Q3CY11	YoY Chg	QoQ Chg	9MCY12	9MCY11	YoY Chg
Net Sales	2563	3074	2877	2605	2082	23.13%	-16.63%	8514	7393	15.17%
Total Expenditure	2351	2680	2611	2540	2115	11.13%	-12.29%	7641	6682	14.35%
Cost of goods sold	582	785	771	811	619	-5.98%	-25.89%	2137	1930	10.72%
Employee Expenses	230	216	215	221	192	19.82%	6.42%	662	565	17.23%
Power, Oil & Fuel	765	776	783	620	654	16.82%	-1.53%	2324	1972	17.85%
Freight & Forwarding Ex	335	405	403	364	297	12.65%	-17.23%	1142	1013	12.78%
Other Expenses	439	498	439	524	352	24.60%	-11.74%	1376	1202	14.40%
EBIDT	213	395	266	65	(33)	538.74%	-46.10%	874	711	22.87%
<i>EBIDTM</i>	<i>8.30%</i>	<i>12.84%</i>	<i>9.25%</i>	<i>2.50%</i>	<i>-1.60%</i>	<i>990 bps</i>	<i>(454 bps)</i>	<i>10.26%</i>	<i>9.62%</i>	<i>64 bps</i>
Interest	23	32	20	11	10	133.00%	-26.27%	75	27	174.73%
PBDT	189	363	246	54	(43)	337.41%	-47.82%	799	684	16.81%
Depreciation	78	78	77	85	77	1.03%	0.64%	233	229	1.70%
Tax	36	93	55	(13)	(39)	192.33%	-61.02%	184	145	26.73%
<i>Current Tax</i>	<i>36</i>	<i>93</i>	<i>55</i>	<i>(13)</i>	<i>(39)</i>	<i>192.33%</i>	<i>-61.02%</i>	<i>184</i>	<i>145</i>	<i>26.73%</i>
APAT	75	193	114	(18)	(82)	192.03%	-61.03%	382	310	23.34%
<i>APATM</i>	<i>2.93%</i>	<i>6.27%</i>	<i>3.97%</i>	<i>-0.69%</i>	<i>-3.92%</i>	<i>685 bps</i>	<i>(334 bps)</i>	<i>4.49%</i>	<i>4.19%</i>	<i>30 bps</i>
EPS	0.33	0.85	0.50	(0.08)	(0.36)	-192.03%	-61.03%	1.69	1.37	23.34%
Equity	2266	2266	2266	2266	2266			2266	2266	
<b>Operational performance</b>										
Volumes (mn tn)	0.65	0.77	0.80	0.74	0.63	3.08%	-13.42%	2.22	2.18	2.13%
Realisations (INR/tn)	3931	3973	3600	3497	3291	19.45%	-3.71%	3827	3394	12.77%
EBIDTA/tonne (INR)	326	510	333	88	-53	519.67%	-37.75%	393	326	20.31%



## Financials

### Income Statement

Y/E March (INR mn)	CY10	CY11	CY12E	CY13E
Net Sales	8655	9827	12381	17445
% Growth	-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 Optg. Exps.	7666	9222	11240	15841
EBIDTA (excl OI)	989	605	1142	1605
% Growth	-37.98%	-38.87%	88.77%	40.58%
EBITDA Margin %	11.43%	6.15%	9.22%	9.20%
Dep./Amortization	289	314	434	532
EBIT	701	291	708	1073
EBIT Margin %	8.10%	2.96%	5.72%	6.15%
Interest Expense	42	38	138	237
Other Income	301	171	185	195
EBT	960	424	755	1030
Tax Expenses	327	132	230	313
PAT	633	292	525	717
Exceptional	4	0	0	0
APAT	630	292	525	717
% Growth	-54.70%	-53.65%	80.05%	36.52%
APAT Margin %	7.3%	3.0%	4.2%	4.1%

### Balance Sheet

Y/E March (INR mn)	CY10	CY11	CY12E	CY13E
<b>SOURCES OF FUNDS</b>				
Share Capital	2266	2266	2266	2266
Reserves	5566	5890	6411	7118
Total Net worth	7833	8156	8677	9385
Total Debt	0	7769	9000	7000
<b>Total Liabilities</b>	<b>7833</b>	<b>15925</b>	<b>17677</b>	<b>16385</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	8081	9028
Total Current Liabilities	4085	5300	4731	6974
Net Current Assets	548	1697	3350	2054
Net Deferred Tax	(301)	(331)	(298)	(263)
<b>Total Assets</b>	<b>7833</b>	<b>15925</b>	<b>17677</b>	<b>16385</b>

### Key Ratios

Y/E March	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
DPS	0.00	0.00	0.00	0.00
BVPS	33.80	35.99	38.29	41.41
<b>Return Ratios</b>				
RoACE (%)	13.17	3.89	5.31	7.44
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	1.71	1.29
Interest Cover Ratio	23.79	12.03	6.49	5.34
<b>Efficiency Ratios</b>				
Total asset turnover	1.14	0.83	0.74	1.02
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	23.25	17.03
P / BV	1.26	0.70	1.41	1.30
Market Cap / Sales	0.98	0.58	0.99	0.70
EV/EBIDTA	5.80	13.41	12.19	7.61

### Cash Flow

Y/E March (INR mn)	CY10	CY11	CY12E	CY13E
<b>EBT</b>	<b>960</b>	<b>424</b>	<b>755</b>	<b>1030</b>
Depreciation	289	314	434	532
Interest	42	38	138	237
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)	(237)
<b>Cash from investments (b)</b>	<b>(4109)</b>	<b>(7248)</b>	<b>(638)</b>	<b>(737)</b>
Inc./Dec. in capital	0	0	0	0
Inc./Dec. in debts	(20)	7769	1231	(2000)
Dividend paid	(4)	0	0	0
Interest paid	(42)	(38)	(138)	(237)
Others	129	174	252	352
<b>Financial cash flow (c)</b>	<b>62</b>	<b>7905</b>	<b>1345</b>	<b>(1885)</b>
Opening cash balance	4954	2195	3107	5052
Cash Flow during the year (a+b+c)	(2759)	912	1945	469
<b>Closing cash balance</b>	<b>2195</b>	<b>3107</b>	<b>5052</b>	<b>5521</b>

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| 1. Analyst ownership of the stock            | - | No |
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