

# Heidelberg Cement India Ltd

Sensex: 17849

CMP: INR 38

Target Price: INR 61



Cement

Heidelberg Cement came out with lower than expected set of numbers on the back of sharp rise in input costs. Although topline increased by 36% YoY & 25% QoQ to INR 2570 mn, HCIL recorded a net loss of INR 18 mn in Q4CY11. Strong demand in Central & western region enabled the company to operate at 97% capacity utilisation levels. Its expansion plans remains on track and HCIL is all set to double its cement capacity to 6 mtpa by H1CY12. We introduce CY13 estimates and maintain a BUY rating on the stock with a target price of INR 61/share.

## Volume & Realisation driven growth

HCIL reported a revenue growth of 36% YoY & 25% QoQ to INR 2570 mn on the back of 14% YoY increase in sales volumes to 0.74 mn tn (18% QoQ) & 19% YoY improvement in realisations to INR 3450/tn. Volume growth was led by pick up in demand post monsoons, thereby enabling the company to hike prices.

Revenue grew by 14% in CY11 aided by 9% growth in volumes to 2.92 mn tn & 4% improvement in realisations to INR 3361/tn. Going forward we expect HCIL to clock volume CAGR of 29% over CY11 - CY13E led by increased capacity from H2CY12.

## Favourable Regional Exposure - CAUT of 97%

Robust demand in its key markets of Central & Western India resulted in capacity utilization of ~97% in Q3FY12 as against 74% utilization of cement sector on pan India basis. While pan India cement demand growth was ~6% in 9MFY12, demand remained robust in the Western and Central regions that grew by ~17% and 8% YoY respectively.

## Cost pressure denting profitability

EBITDA grew at slower than expected pace to INR 65 mn in Q4CY11, due to sharp increase in input costs. Power & Fuel cost increased by 21% YoY to INR 832/tn due to price hikes by Coal India. Freight cost continued to spike up on the back of an increase in diesel prices and railway freight rates. EBIDTA/tn stood at INR 41 as against loss of INR 91 in Q4CY10 & INR 102 in Q3CY11.

In addition to increase in operating costs, 13% surge in depreciation expenses resulted in net loss of INR 18 mn in Q4CY11 as against loss of INR 55 mn & INR 82 mn in Q4CY10 & Q3CY11 respectively.

## Expansion plans on track

Its expansion plans of setting up 1 mtpa grinding unit in Damoh (MP) & 1.9 mtpa grinding unit in Jhansi (UP) remains on track and are scheduled to go on stream by the end of Q2CY12. It is also setting up a conveyor belt from limestone mines to the clinkerisation unit, which will lead to reduced freight cost. HCIL has already incurred a capex of ~INR 10.5 bn on these plans and will further incur ~INR 0.5-1.0 bn in CY12.

## '15:15' vision on course

HCIL continues to work on its '15:15' vision wherein it has envisaged being a 15 mt company by 2015. The company is looking at both organic and inorganic route to achieve this target. It has ready buyout targets in some pockets of India and it is currently in talks with them, though nothing has been fructified yet.

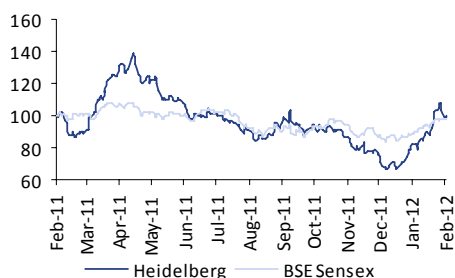
## Outlook & Valuation

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, higher utilisation levels, parental support from third largest cement company globally, deleveraged balance sheet and superlative return ratios presents attractive investment opportunity.

Subsequent to dismal performance registered by HCIL, we have reduced our CY12E EPS estimates to INR 1.31. Further, we have introduced CY13E estimates and maintain our BUY rating on the stock with a target price of INR 61/share. At the CMP of INR 38, the stock trades at CY13E P/BV of 0.9x & PE of 13.3x and EV/tonne of US\$42 its CY13E capacity.

Shareholding (%)	Dec-11
Promoters	68.55
FII's	7.17
DII's	3.81
Others	20.47

## Relative Price Performance

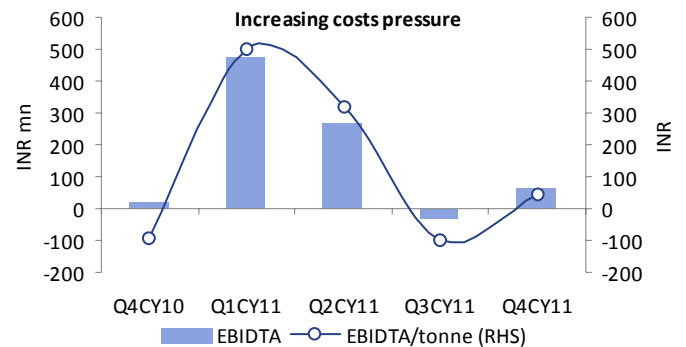
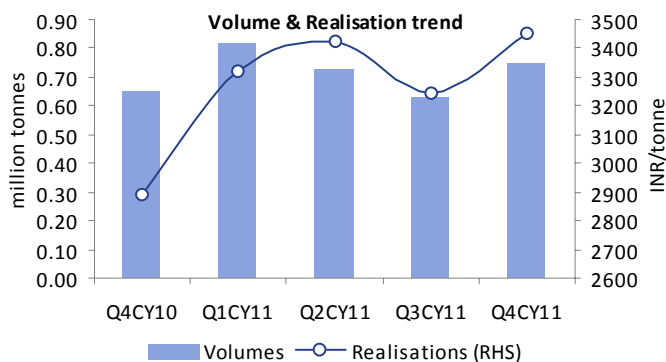


Key Data	
BSE Code	500292
NSE Code	HEIDELBERG
Bloomberg Code	HEIM IN
Reuters Code	HEID.BO
Shares O/S (mn)	226.62
Face Value	10
Mcap (INR bn)	8.55
52 Week H/L	54/25
2W Avg. Qty, NSE	282228
Free Float (INR bn)	2.69
Beta	0.77

INR mn	CY10	CY11	CY12E	CY13E
Net Sales	8655	9827	12338	17398
Growth (%)	-7.57%	13.53%	25.56%	41.01%
EBITDA Margin %	11.43%	6.15%	7.17%	9.61%
APAT	630	292	297	646
Growth (%)	-54.70%	-53.65%	1.79%	117.39%
EPS	2.78	1.29	1.31	0.00
P/E	15.42	19.69	28.80	13.25
P/BV	1.26	0.70	1.01	0.94
EV/EBIDTA	5.80	13.41	11.93	6.12
Net Debt-Equity	(0.28)	0.57	0.50	0.32
RoACE (%)	13.17	3.89	4.19	9.87
RoAE (%)	8.29	3.65	3.58	7.37

**Quarterly Result**

Particulars (INR mn)	Q4CY10	Q1CY11	Q2CY11	Q3CY11	Q4CY11	YoY Chg	QoQ Chg	CY10	CY11	YoY Chg
<b>Gross Sales</b>	<b>2152</b>	<b>3110</b>	<b>2857</b>	<b>2359</b>	<b>2941</b>	<b>36.65%</b>	<b>24.68%</b>	<b>9854</b>	<b>11266</b>	<b>14.34%</b>
Excise Duty	268	392	369	308	371	38.08%	20.36%	1198	1440	20.15%
<b>Net Sales</b>	<b>1884</b>	<b>2718</b>	<b>2488</b>	<b>2051</b>	<b>2570</b>	<b>36.45%</b>	<b>25.33%</b>	<b>8655</b>	<b>9827</b>	<b>13.53%</b>
Other Operating Income	81	66	40	31	35	-57.16%	11.94%	290	171	-40.93%
Other Income	0	0	0	0	0			11	0	
Total Income	1965	2784	2527	2082	2605	32.59%	25.13%	8956	9998	11.63%
Total Expenditure	1943	2311	2256	2115	2540	30.72%	20.08%	7666	9222	20.29%
Cost of goods sold	548	560	543	533	705	28.76%	32.24%	2114	2340	10.70%
Employee Expenses	175	182	191	192	221	26.23%	14.93%	647	786	21.46%
Power, Oil & Fuel	450	647	671	654	620	37.85%	-5.27%	1946	2592	33.18%
Selling & Administrative Expenses	288	381	335	297	364	26.42%	22.51%	1154	1377	19.27%
Other Expenses	483	542	518	438	630	30.48%	43.77%	1805	2127	17.86%
<b>PBIDT</b>	<b>22</b>	<b>473</b>	<b>271</b>	<b>(33)</b>	<b>65</b>	<b>200.46%</b>	<b>295.80%</b>	<b>1290</b>	<b>776</b>	<b>-39.84%</b>
PBIDTM	-3.15%	14.99%	9.30%	-3.14%	1.19%	433 bps	432 bps	11.43%	6.15%	528 bps
Interest	18	9	9	10	11	-39.67%	11.00%	42	38	-8.79%
PBDT	3	465	262	(43)	54	1539.39%	224.94%	1248	738	-40.89%
Depreciation	75	76	76	77	85	12.88%	9.82%	289	314	8.84%
PBT	(72)	389	186	(121)	(31)	57.08%	74.40%	960	424	-55.84%
Tax	(17)	129	55	(39)	(13)	-24.56%	-67.01%	327	132	-59.60%
<b>APAT</b>	<b>(55)</b>	<b>260</b>	<b>132</b>	<b>(82)</b>	<b>(18)</b>	<b>67.21%</b>	<b>77.94%</b>	<b>633</b>	<b>292</b>	<b>-53.90%</b>
APATM	-2.91%	9.56%	5.29%	-3.98%	-0.70%	221 bps	328 bps	7.31%	2.97%	(434 bps)
<b>EPS</b>	<b>(0.24)</b>	<b>1.15</b>	<b>0.58</b>	<b>(0.36)</b>	<b>(0.08)</b>	<b>67.21%</b>	<b>77.94%</b>	<b>2.79</b>	<b>1.29</b>	<b>-53.90%</b>
<b>Operational performance</b>										
Volumes (mn tn)	0.65	0.82	0.73	0.63	0.74	14.38%	17.77%	2.69	2.92	8.65%
Realisations (INR/tn)	2892	3317	3424	3242	3450	19.30%	6.42%	3217	3361	4.49%
EBIDTA/tonne (INR)	(91)	497	318	(102)	41	-144.97%	140.28%	368	207	-43.73%



**Financials**
**Income Statement**

Y/E December (INR mn)	CY10	CY11	CY12E	CY13E
Net Sales	8655	9827	12338	17398
<i>Growth (%)</i>	-7.57%	13.53%	25.56%	41.01%
Cost of goods sold	2114	2340	2949	4075
Power & Fuel Cost	1946	2592	3254	4640
Selling & Dist Exp	762	1377	1419	1740
Total Expenditure	7666	9222	11454	15726
EBIDTA (without OI)	989	605	884	1672
<i>Growth (%)</i>	-37.98%	-38.87%	46.20%	89.14%
<i>EBITDA Margin %</i>	11.43%	6.15%	7.17%	9.61%
Depreciation	289	314	433	534
EBIT	701	291	451	1138
<i>EBIT Margin %</i>	8.10%	2.96%	3.66%	6.54%
Interest Expenses	42	38	207	356
Other Income	301	171	185	195
EBT	960	424	429	977
Tax Expenses	327	132	132	331
PAT	633	292	297	646
Exceptional/Extraordinary Items	4	0	0	0
APAT	630	292	297	646
<i>Growth (%)</i>	-54.70%	-53.65%	1.79%	117.39%
<i>APAT Margin (%)</i>	7.3%	3.0%	2.4%	3.7%

**Key Ratios**

Y/E December	CY10	CY11	CY12E	CY13E
<b>Per Share Data (INR)</b>				
Adjusted EPS	2.78	1.29	1.31	2.85
CEPS	4.65	2.67	3.52	5.25
BVPS	33.80	35.99	37.28	40.09
<b>Return Ratios</b>				
RoACE (%)	13.17	3.89	4.19	9.87
RoAE (%)	8.29	3.65	3.58	7.37
<b>Balance Sheet Ratios</b>				
Net Debt-Equity Ratio	(0.28)	0.57	0.50	0.32
Current Ratio	1.13	1.32	1.02	0.72
Interest Cover Ratio	23.79	12.03	3.08	3.74
<b>Efficiency Ratios</b>				
Total asset turnover	1.14	0.83	0.81	1.29
Inventory Days	32	36	35	32
Debtors Days	10	9	9	8
Creditors Days	75	78	71	73
<b>Valuations</b>				
P/E	15.42	19.69	28.80	13.25
P/BV	1.26	0.70	1.01	0.94
Market Cap / Sales	0.98	0.58	0.69	0.49
EV/EBIDTA	5.80	13.41	11.93	6.12

**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	6183	6819
Total Networth	7833	8156	8449	9085
Secured Loans	0	7769	6000	3500
Unsecured Loans	0	0	0	0
Total Debt	0	7769	6000	3500
<b>Total Liabilities</b>	<b>7833</b>	<b>15925</b>	<b>14449</b>	<b>12585</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	3305	3272	14126	14092
Capital Work in Progress	4282	11287	500	500
Investments	0	0	0	0
Total Current Assets	4633	6997	4801	4471
Total Current Liabilities	4085	5300	4715	6225
Net Current Assets	548	1697	86	(1753)
Net Deferred Tax	(301)	(331)	(263)	(254)
<b>Total Assets</b>	<b>7833</b>	<b>15925</b>	<b>14449</b>	<b>12585</b>

**Cash Flow**

Y/E December (INR mn)	CY10	CY11	CY12E	CY13E
EBT	960	424	429	977
Depreciation	289	314	433	534
Interest	42	38	207	356
Inc./Dec. in working capital	489	(237)	311	657
Tax paid	(190)	(132)	(64)	(322)
Other Income	(301)	(171)	(185)	(195)
<b>Cash from operations (a)</b>	<b>1288</b>	<b>236</b>	<b>1131</b>	<b>2007</b>
Inc./Dec. in investments	1	0	0	0
Change in Fixed Assets	(374)	(282)	(11287)	(500)
Change in CWIP	(3694)	(7006)	10787	0
Others	(42)	(38)	(207)	(356)
<b>Cash from investments (b)</b>	<b>(4109)</b>	<b>(7326)</b>	<b>(707)</b>	<b>(856)</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)	(207)	(356)
Others	129	271	252	523
<b>Financial cash flow (c)</b>	<b>62</b>	<b>8002</b>	<b>(1724)</b>	<b>(2333)</b>
Opening cash balance	4954	2195	3107	1808
<b>Cash Flow during the year (a+b+c)</b>	<b>(2759)</b>	<b>912</b>	<b>(1299)</b>	<b>(1182)</b>
Closing cash balance	2195	3107	1808	626

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