

14 February 2013

## Heidelberg Cement

*Subdued quarter; recovery pinned on new capacity; Hold*

Rating: **Hold**

Target Price: ₹51

Share Price: ₹44

### Key takeaways

**Realizations rose 10% yoy and dipped 3% qoq** to ~₹3,810 a ton. Volumes dipped 9% yoy (and rose 3% qoq) to 0.67m tons. The drop in realizations stemmed from the overall drop in cement prices in the Central region. During 1QCY13, cement prices have improved from December lows.

**EBITDA loss of ₹90/ton.** Heidelberg Cement suffered an EBITDA loss of ₹90 per ton vs profit of ₹310 qoq and ₹60 yoy, chiefly due to lower volumes and overall cost pressures. Power & fuel costs rose 37% yoy due to the state grid's tariff increase, chiefly UP. However, the increasing use of low-cost petcoke checked fuel-cost rises. Freight cost also increased, 16% yoy (on the hike in diesel prices and in rail freight). We expect profitability to improve from 1QCY13, led by better prices and cost savings from the commissioning of the new unit. For CY12, the company clocked an EBITDA per ton of ₹265, a slight improvement over CY11's ₹230.

**Capacity at 6m tons during 1QCY13.** Grinding capacity in Jhansi, UP, was enhanced from 0.8m tons to 2.7m tons and began commercial production from 16 Jan'13. At Damoh, MP, trial runs have begun at the grinding plant (from 1.2m tons to 2.2m tons) and at the clinker unit (from 1.2m tons to 3.1m tons) and commercial production is expected to start during 1QCY13. After these expansions, cement capacity will stand enhanced to 6m tons.

**Our take.** On lower-than-expected volumes and higher costs, Heidelberg's reported EBITDA registered a loss of ₹90 per ton (we expected a profit of ₹250). Costs continued to rise, with the major push from an increase in the power tariff and in freight. Consequent on the disappointing 4QCY12 results, we lower our CY13/14 earnings estimates 36%/23%. We maintain our Hold rating due to the limited upside, and lower our target to ₹51 from ₹58 earlier. Our target of ₹51 is based on 6.5x EV/EBITDA of Jun'14; the implied PE is 8.9x and EV/ton is US\$59. **Risks:** Cement-price decline, or commissioning/ramp-up delay at the new unit.

Key data	HEIM IN / HEID.BO
52-week high / low	₹60 / ₹26
Sensex / Nifty	19645 / 5947
3-m average volume	US\$0.1m
Market cap	₹10.0bn / US\$181m
Shares outstanding	226.6m

Shareholding pattern (%)	Dec '12	Sep '12	Jun '12
Promoters	68.6	68.6	68.6
- of which, Pledged	-	-	-
Free Float	31.4	31.4	31.4
- Foreign Institutions	5.3	3.8	5.5
- Domestic Institutions	6.3	5.7	3.9
- Public	19.9	21.9	22.0

Estimates revision (%)	CY12	CY13e	CY14e
Sales	-	(8.8)	(2.9)
EBITDA	-	(25.9)	(15.7)
EPS	-	(36.1)	(23.4)
Target Multiple (x)	-	-	5.3

Financials (YE: Dec)	CY13e	CY14e
Sales (₹m)	16,534	20,496
Net profit (₹m)	918	1,602
EPS (₹)	4.1	7.1
Growth (%)	197.8	74.5
PE (x)	10.9	6.2
EV/EBITDA (x)	7.6	4.9
EV/ton (US\$)	56.4	51.7
RoE (%)	10.5	16.4
RoCE (%)	9.2	13.8
Net gearing (%)	94	67

Source: Anand Rathi Research

Quarterly results (YE: Dec)	4QCY11	4QCY12	% yoy	CY11	CY12	% yoy
Sales (₹m)	2,582	2,568	(0.6)	9,880	11,040	11.7
EBITDA (₹m)	43	(59)	(237.3)	658	772	17.4
EBITDA margin (%)	1.6	(2.3)	(393)bps	6.7	7.0	34bps
EBITDA per ton (₹)	57	(87)	(252.6)	228	267	15.0
Interest (₹m)	11	30	173.0	39	105	173.5
Depreciation (₹m)	85	82	(3.5)	314	315	0.3
Other income(₹m)	23	62	173.5	118	105	(11.6)
PBT (₹m)	(31)	(109)	252.8	424	457	7.7
Tax (₹m)	(13)	35	(374.4)	132	148	12.4
PAT (₹m)	(18)	(144)	702.2	292	308	5.7

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
Net revenues	8,655	9,880	11,040	16,534	20,496
Revenue growth (%)	(7.6)	14.1	11.7	49.8	24.0
- Op. expenses	7,666	9,222	10,267	14,109	17,008
<b>EBIDTA</b>	<b>989</b>	<b>658</b>	<b>772</b>	<b>2,425</b>	<b>3,488</b>
EBITDA margin (%)	11.4	6.7	7.0	14.7	17.0
- Interest expenses	42	39	105	700	700
- Depreciation	289	314	315	634	720
+ Other income	301	118	105	222	222
- Tax	326	132	148	394	687
Effective tax rate (%)	34.0	31.1	32.5	30.0	30.0
Reported PAT	633	292	308	918	1,602
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	0	0	0	0	0
Adjusted PAT	633	292	308	918	1,602
Adj. FDEPS (₹/share)	2.8	1.3	1.4	4.1	7.1
Adj. FDEPS growth (%)	(52.8)	(53.9)	5.7	197.8	74.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
Share capital	2,266	2,266	2,266	2,266	2,266
Reserves & surplus	5,566	5,890	6,200	6,959	8,282
Net worth	7,660	7,999	8,336	9,115	10,438
Minority interest	-	-	-	-	-
Total Debt	-	7,769	10,308	9,858	8,858
Def. tax liab. (net)	301	331	378	628	1,078
<b>Capital employed</b>	<b>8,134</b>	<b>16,256</b>	<b>19,152</b>	<b>19,711</b>	<b>20,484</b>
Net fixed assets	7,586	14,559	18,914	19,600	19,880
Investments	-	-	-	-	-
- of which, Liquid	-	-	-	-	-
Net working capital	(1,647)	(1,410)	(493)	(1,200)	(1,250)
Cash and bank balance	2,195	3,107	732	1,311	1,854
<b>Capital deployed</b>	<b>8,134</b>	<b>16,256</b>	<b>19,152</b>	<b>19,711</b>	<b>20,484</b>
Net debt	(2,195)	4,662	9,576	8,547	7,004
WC days	(59)	(56)	(31)	(19)	(22)
Book value (₹/sh)	34	35	37	40	46

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

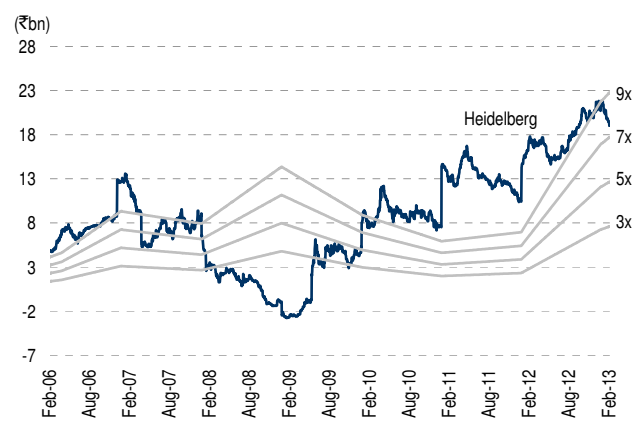
Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
PAT	633	292	308	918	1,602
+ Non-cash items	425	344	362	884	1,170
Cash profit	1,058	635	670	1,803	2,772
- Incr./Decr. in WC	(488)	237	917	(707)	(50)
Operating cash-flow	1,546	399	(247)	2,509	2,822
- Capex	4,124	7,287	4,669	1,320	1,000
Free cash-flow	(2,578)	(6,888)	(4,917)	1,189	1,822
- Dividend	-	-	-	160	279
+ Equity raised	(163)	31	2	-	0
+ Debt raised	(20)	7,769	2,539	(450)	(1,000)
- Investments	(1)	-	-	-	-
- Misc. items	-	-	-	(0)	-
Net cash-flow	(2,759)	912	(2,375)	579	543
+ Op. cash & bank bal.	4,954	2,195	3,107	732	1,311
Cl. cash & bank bal.	2,195	3,107	732	1,311	1,854

Source: Company, Anand Rathi Research

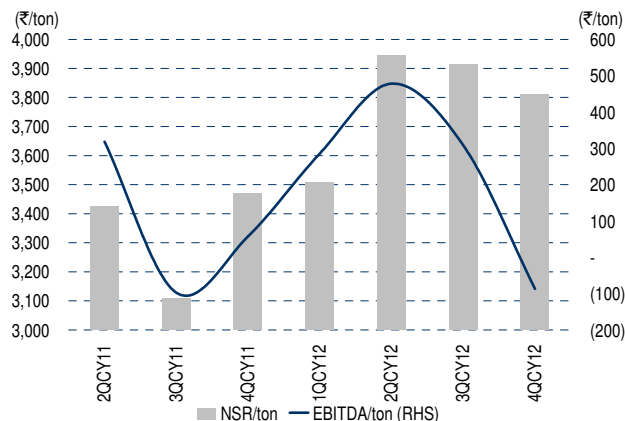
**Fig 4 – Ratio analysis @ ₹44**

Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
P/E (x)	15.9	34.2	32.3	10.9	6.2
P/B (x)	1.3	1.2	1.2	1.1	1.0
P/CEPS (x)	9.5	15.7	14.9	5.5	3.6
EV/EBITDA (x)	7.9	22.2	25.3	7.6	4.9
EV/Ton (US\$)	46.1	86.7	59.6	56.4	51.7
RoE (%)	8.6	3.7	3.8	10.5	16.4
RoCE (%)	8.9	2.8	2.6	9.2	13.8
Net Debt / Equity (x)	(0.3)	0.6	1.1	0.9	0.7
Interest Coverage (x)	16.6	8.9	4.3	2.6	4.0
DPS (₹)	-	-	-	0.6	1.1
Dividend yield (%)	-	-	-	1.4	2.4
Dividend payout (%)	-	-	-	15.0	15.0
NSR/ton (₹)	3,217	3,431	3,820	4,050	4,200
EBITDA/ton (₹)	368	228	267	594	715
Volumes (m tons)	2.7	2.9	2.9	4.1	4.9

Source: Company, Anand Rathi Research

**Fig 5 – EV/EBITDA band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Quarterly per-ton NSR and EBITDA trend**


Source: Company, Anand Rathi Research

## Result highlights

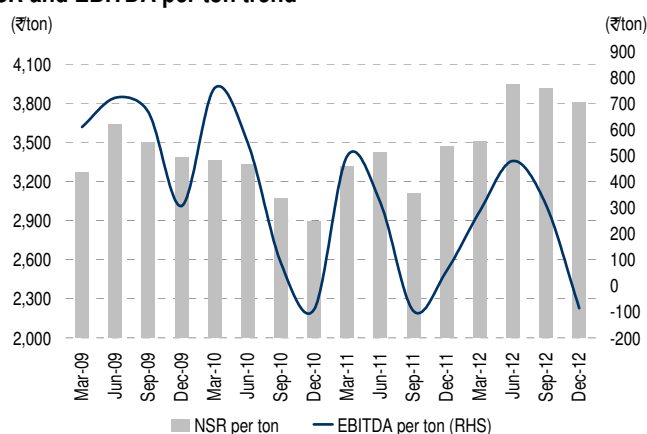
Fig 7 – Per-ton analysis

(₹)	Dec-12	Dec-11	% Chg	Sep-12	% Chg
Realization per ton	3,810	3,468	9.9%	3,914	-2.6%
<b>EBITDA per ton</b>	<b>(87)</b>	<b>57</b>	<b>-251.7%</b>	<b>309</b>	<b>-128.1%</b>
Sales Volumes (m tons)	0.67	0.74	-9.5%	0.65	3.4%
<b>Costs</b>					
Raw Material per ton	1,070	906	18.0%	1,109	-3.5%
Power & Fuel per ton	1,125	823	-51.6%	1,176	-66.2%
Freight per ton	574	497	15.5%	513	11.8%
Staff per ton	398	293	35.7%	354	12.3%
Other Expenditure per ton	758	695	9.1%	676	12.3%

Source: Company, Anand Rathi Research

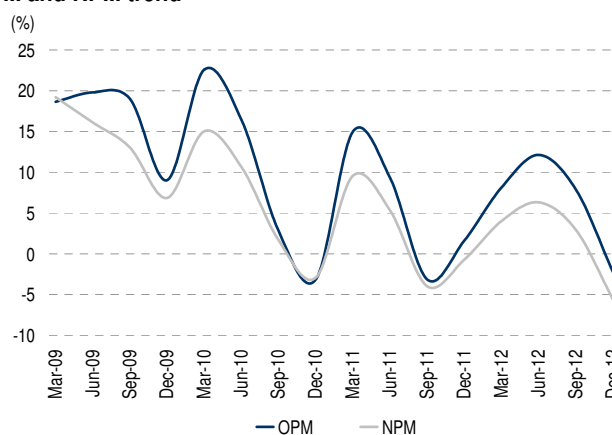
Heidelberg's realizations increased 10% yoy (and dipped 3% qoq) to ~₹3,810 a ton. Volumes dipped 9% yoy (and rose 3% qoq) to 0.67m tons. The drop in realizations stemmed from the overall drop in cement prices in the Central region. During 1QCY13, cement prices improved over the December lows.

Fig 8 – NSR and EBITDA per ton trend



Source: Company, Anand Rathi Research

Fig 9 – OPM and NPM trend

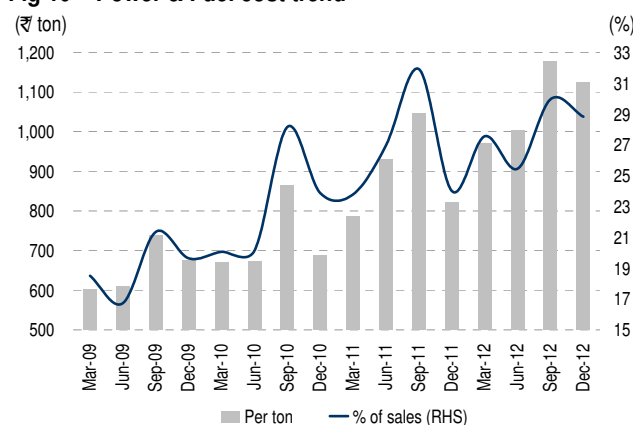


Source: Company, Anand Rathi Research

Heidelberg posted an EBITDA loss of ₹90 per ton vs profit of ₹310 qoq and ₹57 yoy, chiefly due to lower volumes and overall cost pressures. Power & fuel costs rose 37% yoy due to the increase in tariffs by the state

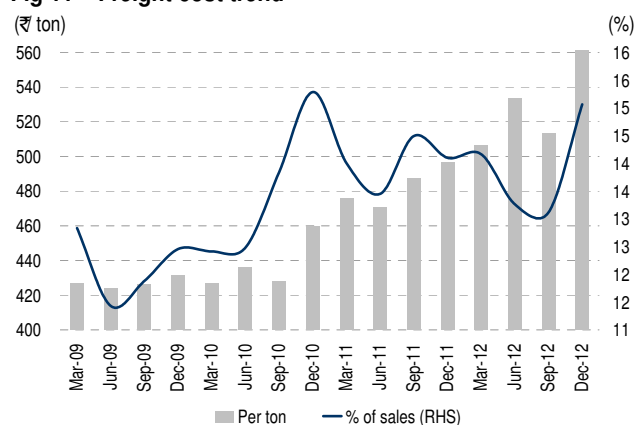
grids, mainly UP. However, the increasing use of low-cost petcoke kept fuel-cost rises in control. Freight costs also increased, 16% yoy, due to the diesel-price hike and that in rail freight. We expect profitability to improve from 1QCY13, led by better prices and cost savings on the commissioning of the new unit. For CY12, the company clocked an EBITDA per ton of ₹265, a slight improvement over CY11's ₹230. For CY13 and CY14 we estimate an EBITDA per ton of ₹595 and ₹715 respectively. For CY13 and CY14 we estimate volumes of 4.1m tons and 4.9m tons respectively compared to 2.9m tons in CY12, implying a 30% CAGR over CY12-14. The rise in volumes would result from availability of new capacities in UP and MP.

**Fig 10 – Power & Fuel cost trend**



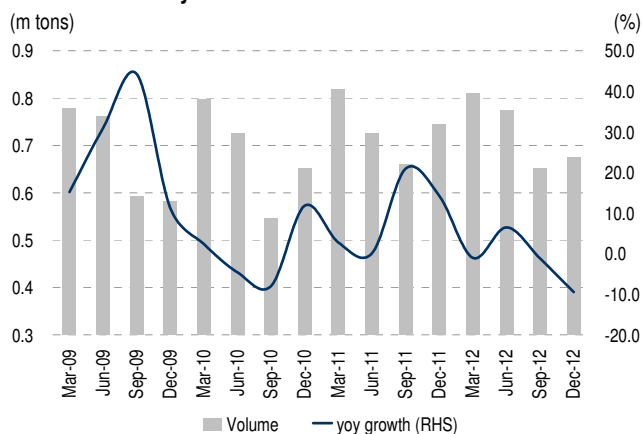
Source: Company, Anand Rathi Research

**Fig 11 – Freight cost trend**



Source: Company, Anand Rathi Research

**Fig 12 – Volume trend: Grey Cement**



Source: Company, Anand Rathi Research

**Capacity at 6m tons during 1QCY13**

Heidelberg enhanced its grinding capacity in Jhansi, UP from 0.8m tons to 2.7m tons and started commercial production from 16<sup>th</sup> Jan'13. Trial runs have started at the grinding plant (expansion from 1.2m tons to 2.2m tons) and clinker unit in Damoh, MP (expansion from 1.2m tons to 3.1m tons) and the commercial production is expected to start during 1QCY13. Post this expansion, its cement capacity will stand at 6m tons. We expect a 50% utilization rate for the new capacity in CY13 and a 65% utilization rate for the new capacity in CY14.

**Concall highlights**

- Total volumes sold in CY12 were 2.89m tons (flat yoy)
- The company was unable to pass on the hike in costs in 4QCY12 and hence suffered an EBITDA loss.
- Following the rise in prices, current realisations and profitability should be better than in 4QCY12.
- For all the expansions, peak debt would be ₹9.5bn, at an average 10.4% interest rate.
- Power tariffs for most states have risen (UP 44%, Maharashtra 25%, MP 7.5% and Karnataka 5.5%)
- During CY12, the company paid royalty of ₹170m (1.66% of revenues) to parent Heidelberg. The royalty amount has been capped at ₹170m per annum.
- The current petcoke to coal mix is 37:63. The company wishes to increase it to 50:50.
- In 4QCY12, the Central region operated at full capacity.
- The company estimates cement consumption in India in CY12 grew 7% yoy. Capacity of 15m tons was added in CY12 and all-India capacity now stands at 330m tons.

## Valuations

Consequent on Heidelberg’s disappointing 4QCY12 results, we reduce our CY13 and CY14 earnings estimates respectively 36% and 23%. We maintain our Hold rating due to the restricted upside, and lower our target to ₹51 (from ₹58 earlier). Our target of ₹51 is based on 6.5x EV/EBITDA of Jun’14; the implied PE is 8.9x and EV/ton is US\$59.

**Fig 13 – Twelve-month-forward EV/EBITDA: Mean & Standard Deviation**



Source: Bloomberg, Anand Rathi Research

### Risks:

- Ramp-up or delay in commissioning the new unit.
- Drop in cement prices.

## Appendix

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