

# Heidelberg Cement India (HEIM IN)

Rating: BUY | CMP: Rs156 | TP: Rs190 | Mcap: Rs35.3bn / US\$548.2m

**Heidelberg Cement (HEIM), one of the largest players in the Central region, has witnessed a significant improvement in its operations over the last couple of years with the completion of its expansion-cum-modernisation program. Despite continued shortage of sand in UP and Bihar, HEIM registered growth of 6.5% YoY in volumes on the back of strong retail network and movement to far markets. Demand is expected to rebound strongly in its key markets like UP in coming months as shortage of sand has started easing with the auction and resumption of mining licenses. We continue to maintain that Central region holds the best outlook among the regions on the back of strong demand outlook and limited capacity addition. Region's average prices has started moving upward with the acquisition of JPA's plants by Ultratech (UTCEM) and is expected to upgrade further with the stabilisation of UTCEM's market share.**

**Consolidation and absence of capacity addition would drive pricing power:** Average capacity utilization in the Central region is currently ~80%. With no capacity addition planned in this region in the next couple of years, utilization is expected to rise, leading to better pricing power. We expect HEIM to reach utilization of 97% by FY18. Exit of weak players like JP and Reliance Cement, with the sale of aggregate 13mn tonnes in the region, would also improve pricing discipline.

**Higher margins drive earnings upgrade:** We increase our realisation estimates for FY18e/FY19e by 1.1%/1.5% with shift in player dynamics and lower taxes under GST. Factoring enhanced energy efficiency and availability of higher input credit under the GST, we reduce our cost/t estimate by 1%/0.2% for FY18e/FY19e. This drove upgrade in our EBITDA/t estimate by 12%/9.5% to Rs677/766 in FY18e/FY19e.

Our BUY thesis on HEIM remains intact given the strong outlook on region and attractive valuations. Reiterate BUY with revised TP of Rs190 EV/EBITDA of 11x FY19e.

## Key Financials (Rs m)

Y/e March	FY15	FY16	FY17	FY18E	FY19E
Revenue (Rs m)	20,112	16,281	16,876	17,985	21,144
Growth (%)	69.5	(19.0)	3.7	6.6	17.6
EBITDA (Rs m)	2,891	2,110	2,490	3,070	3,910
PAT (Rs m)	295	393	759	1,113	1,792
EPS (Rs)	1.3	1.7	3.3	4.9	7.9
Growth (%)	NA	NA	93.1	46.7	61.0
Net DPS (Rs)	0.0	0.0	2.0	2.0	2.0

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY15	FY16	FY17	FY18E	FY19E
EBITDA margin (%)	14.4	13.0	14.8	17.1	18.5
RoE (%)	3.5	4.4	8.2	11.2	16.4
RoCE (%)	5.6	5.4	7.5	9.7	13.6
EV / sales (x)	2.3	2.8	2.5	2.3	1.8
EV / EBITDA (x)	16.2	21.6	17.0	13.3	9.8
PER (x)	NA	89.9	46.5	31.7	19.7
P / BV (x)	4.1	3.9	3.7	3.4	3.1
Net dividend yield (%)	-	-	1.3	1.3	1.3

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	0.6	20.6	27.4
Relative to Sensex	0.6	14.4	3.6

### Income Statement (Rs m)

Y/e March	FY15	FY16	FY17	FY18E	FY19E
<b>Net Revenue</b>	<b>20,112</b>	<b>16,281</b>	<b>16,876</b>	<b>17,985</b>	<b>21,144</b>
Direct Expenses	10,797	7,855	7,899	9,015	10,547
<i>% of Net Sales</i>	<i>53.7</i>	<i>48.2</i>	<i>46.8</i>	<i>50.1</i>	<i>49.9</i>
Employee Cost	1,337	1,050	1,148	1,239	1,339
<i>% of Net Sales</i>	<i>6.6</i>	<i>6.5</i>	<i>6.8</i>	<i>6.9</i>	<i>6.3</i>
SG&A Expenses	3,682	2,324	2,392	3,330	3,868
<i>% of Net Sales</i>	<i>18.3</i>	<i>14.3</i>	<i>14.2</i>	<i>18.5</i>	<i>18.3</i>
Other Expenses	1,405	2,943	2,947	1,330	1,481
<i>% of Net Sales</i>	<i>7.0</i>	<i>18.1</i>	<i>17.5</i>	<i>7.4</i>	<i>7.0</i>
<b>EBITDA</b>	<b>2,891</b>	<b>2,110</b>	<b>2,490</b>	<b>3,070</b>	<b>3,910</b>
<i>Margin (%)</i>	<i>14.4</i>	<i>13.0</i>	<i>14.8</i>	<i>17.1</i>	<i>18.5</i>
Depreciation	1,375	938	992	1,031	1,054
<b>PBIT</b>	<b>1,515</b>	<b>1,171</b>	<b>1,499</b>	<b>2,040</b>	<b>2,856</b>
Interest Expenses	1,389	1,085	898	741	571
<b>PBT</b>	<b>1,198</b>	<b>513</b>	<b>1,136</b>	<b>1,743</b>	<b>2,716</b>
Total tax	603	120	374	593	923
<i>Effective Tax rate (%)</i>	<i>50.3</i>	<i>23.4</i>	<i>32.9</i>	<i>34.0</i>	<i>34.0</i>
<b>PAT</b>	<b>595</b>	<b>393</b>	<b>762</b>	<b>1,151</b>	<b>1,792</b>
Extraordinary Gain/(Loss)	300	-	3	37	-
<b>Adjusted PAT</b>	<b>295</b>	<b>393</b>	<b>759</b>	<b>1,113</b>	<b>1,792</b>

Source: Company Data, PL Research

### Balance Sheet (Rs m)

Y/e March	FY15	FY16	FY17	FY18E	FY19E
Share Capital	2,266	2,266	2,266	2,266	2,266
Reserves & Surplus	6,449	6,683	7,403	8,008	9,255
Shareholder's Fund	8,716	8,949	9,670	10,274	11,521
Preference Share Capital	-	-	-	-	-
Total Debt	12,986	10,390	7,053	6,053	4,053
Other Liabilities (net)	29	30	62	62	62
Deferred Tax Liability	652	419	530	748	992
<b>Total Liabilities</b>	<b>22,384</b>	<b>19,789</b>	<b>17,315</b>	<b>17,137</b>	<b>16,629</b>
Gross Block	25,686	20,005	20,751	21,325	21,687
Less: Depreciation	7,749	993	1,980	3,011	4,065
Net Block	17,938	19,012	18,771	18,314	17,622
Capital Work in Progress	1,530	732	221	-	-
Cash & Cash Equivalent	1,463	78	142	684	1,065
Total Current Assets	8,729	6,403	5,085	5,830	6,603
Total Current Liabilities	5,814	6,357	6,762	7,007	7,596
Net Current Assets	2,916	45	(1,677)	(1,176)	(994)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>22,384</b>	<b>19,789</b>	<b>17,315</b>	<b>17,137</b>	<b>16,629</b>

Source: Company Data, PL Research