

HeidelbergCement | Trading BUY

26th June, 2018

Key Rationale

- The Company operates three plants located at Jhansi (UP), Damoh (MP) and Ammasandra (Karnataka) with an installed capacity of 5.4 MTPA. HCIL's sales volume increased by 4%. HCIL reported cement capacity utilization of 85% against industry average of 65%.
- The company reported 41% growth in net profit to Rs 52.1 crore on the back of 15% growth in top-line to Rs 531.3 crore in Q4FY18. For FY18, company reported 75% growth in net profit to Rs 133.2 crore on the back of 10% growth in top-line to Rs 1889.5 crore
- The company sales volume grew 4.8% to 12.70 lakh tonne in Q4FY18 and EBITDA increased 45% to Rs 946 per tonne. Increase in volume and realization was driven primarily by recovery in Uttar Pradesh. Hardening of Petcoke price was partially offset by higher power generation from WHR System.
- The Company recorded highest ever Sales volume, Revenue, EBITDA & EBITDA per tonne in both Q4FY18 and FY18. Company premium product volume increased to 2.5x of FY17, share of business increased to 9%; lead distance reduced to 355 Kms. Company repaid entire ECB of \$125 million; Net debt reduced to Rs 46.83 crs; Net Debt to EBITDA at 1.29x; further improvement in working capital.
- The Company plans to increase its existing capacity by up to 10% through de-bottlenecking of existing capacity, going forward. Capacity utilisation for cement stood at 92% and 85% for Q4FY18 and FY18, respectively.
- The Company expects industry to witness a demand growth of 7% in FY19 lead by increased infrastructure development activities. Sustained demand in UP (post resolution of sand crisis), favourable monsoon and pre-election spending in major states like Madhya Pradesh, Rajasthan and Chhattisgarh are likely to drive the demand in Central region

Valuation

We expect HCIL to report revenues of Rs 2040 crore for FY19. The Net Profit After Tax is expected to be Rs 173 crore. The EPS works out to Rs 7.65. The EPS of Rs FY 19 which when discounted 23 times translates to a target price of Rs 176 per share

Recommendation - BUY

CMP (Rs)	136
Target (Rs)	176
Upside (%)	29 %
Stop-loss (Rs)	114
Time Horizon	6 - 9 Months

Key Data

NSE Code	HEIDELBERG
52-week range (H/L)	190 / 109
30-day avg. volume	121,866
Market Cap (Rs. crs)	3,213
No. of shares (crs)	22.66
Face Value	10
Book Value (cons.)	49
EPS (FY-18)	3.36
P/E (x)	23.2
Sales (Rs. crs)	1889.5
Net Profit (Rs. crs)	133.2
EBITDA (Rs. crs)	363.4
ROE (%)	22.4%
Div. Yield (%)	1.6%

Price Performance (%)

	1M	3M	1Yr
Absolute	-2.5	-1.3	14
Rel. to Nifty	1.75	5.9	13.4

Shareholding Pattern (Mar-18)

Promoters	69.39%
FII's	12.21%
DII's	5.97%
Govt.	0.00%
Public & Other	12.43%

Heidelberg Cement Ltd: Margin Recovery Coupled With Strong Growth

Particulars	Quarter Ended			Year Ended		
	Mar-18	Mar-17	Var (%)	Mar-18	Mar-17	Var (%)
Total Income (net of taxes)	531.30	462.90	15	1,889.50	1,717.50	10
Operating expenses	411.20	383.60	7	1,526.10	1,438.60	6
EBITDA	120.20	79.30	52	363.40	278.90	30
EBITDA Margin (%)	22.6	17.1		19.2	16.2	
Depreciation / amortization	25.40	24.90	2	101.20	99.20	2
Other Income	5.80	3.70	57	19.90	23.70	-16
EBIT	100.50	58.10	73	282.10	203.40	39
Financial expenses	17.20	19.50	-12	74.50	89.80	-17
Exceptional Items	-	15.10		-	-	
Profit Before Tax	53.60	83.30	-36	207.70	113.60	83
Tax Expenses	31.20	16.60	88	74.50	37.40	99
Profit After Tax	52.10	37.00	41	133.20	76.20	75

Heidelberg Cement - KPI's : Improvement Across All Key performance Indicators

Particulars	Quarter Ended			Year Ended		
	Mar-18	Mar-17	Var (%)	Mar-18	Mar-17	Var (%)
Sales Volume (KT)	1,270	1,212	5	4,653	4,474	4
Gross realization (INR/t)	4,136	3,745	10	3,999	3,772	6
Total cost (INR/t)	3,236	3,166	2	3,280	3,215	2
EBITDA (INR/t)	946	654	45	781	623	25
EBITDA% of revenue	22.9%	17.5%		19.5%	16.5%	
PAT% of revenue	9.9%	8.2%		7.2%	4.5%	



Heidelberg Cement : Balance Sheet					
Particulars	31-Mar-18	31-Mar-17	Particulars	31-Mar-18	31-Mar-17
Equity & Liabilities			Assets		
Equity Share Capital	226.62	226.62	Non Current Assets	1872.00	1941.76
Other Equity	819.78	740.33	Total Current Assets	660.82	465.88
			Total Current Liabilities	857.53	751.78
Non Current liabilities	628.89	688.91	Net Current Assets	-196.71	-285.9
Total Equity & Liabilities	1675.29	1655.86	Total Assets	1675.29	1655.86

Technical Analysis



Monthly Heikin-Ashi chart of HeidelbergCement appended shows a regulation long-term uptrend from the lows of 2013 with progressive *high highs* & *higher lows*. However for the past five-months, the stock has been undergoing sideways consolidation.

In the ongoing monthly candlestick a potential 'hammer' pattern is under formation, which if is able to retain gains will signal a bullish reversal for the stock. A follow through in July would confirm the end of corrective cycle and resumption of bull-run.



On lower degree time frame, the stock chart exhibits a re-test of a triangle pattern breakout at Rs134 and is now showing strength. Although the stock trades below its 50 & 200 day moving averages, due to the sideways nature of price action lately, the efficacy of moving averages becomes low. Short-term momentum oscillator MACD has triggered a buy crossover of its moving average and is signaling an up cycle. Going by the larger uptrend and a re-test of a continuation pattern, it is recommended to Buy the stock using a stop-loss of 114 for the medium-term.

Analysts

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