

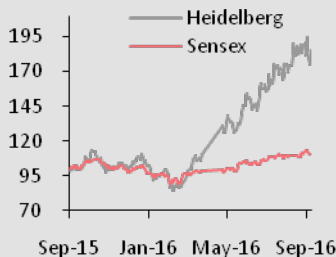
Sector: CEMENT

Analyst:
Saurabh Rathi
saurabh.rathi@indiainfoline.com
Stock Data

Sensex:	28,412
52 Week h/l (Rs):	145/ 60
Market cap (Rs Cr) :	3,021
Bloomberg code:	HEIM IN
BSE code:	500292
NSE code:	HEIDELBERG
FV (Rs):	10
Div yield (%):	NA

Shareholding Pattern

	Dec-16	Mar-16	Jun-16
Promoters	69.39	69.39	69.39
DII+FII	17.53	17.53	17.53
Individuals	13.08	13.08	13.08

Source: www.bseindia.com
Share Price Trend

Prices as on 16/09/2016
Strengthen demand outlook & better monsoon to drive volumes

We expect the cement industry demand to remain robust over FY16-18E. Factors like government infra spending, initiative such as "Housing for All" and normal monsoon to support demand. The pre-election spending in Uttar Pradesh & Madhya Pradesh to accelerate the cement demand in HCIL's target regions. The company's target markets (UP, MP, Bihar and Karnataka) have registered satisfactory monsoon after two consistent deficit years. This bodes well for the rural housing demand and HCIL's cement volumes. We estimate the HCIL's cement sales volumes to register ~7.8% CAGR over FY16-18E to ~ 5.2 mmt.

Improving utilization levels & cost rationalisation measures to aid margins

HCIL's capacity utilization has improved from ~83% in FY16 to ~85% in Q1FY17. We believe the utilization levels will further improve to ~89% & ~96% in FY17E & FY18E respectively. Insignificant cement capacity addition in the central region and improved demand outlook in its target markets are the key triggers to drive utilization levels. Besides, it has commissioned ~12 MW WHR (waste heat recovery plant) in February 2016, which accounts for ~30% of its power demand. HCIL to save Rs ~60/Mt of power cost from this WHR plant. Besides, HCIL is using petcoke in the region of 60-70% of total fuel (15-30% cheaper than coal). We believe the lower power & fuel cost, rising utilization level & improving realisations to drive EBITDA margins. We expect the EBITDA/Mt to witness a CAGR of ~23.9% over FY16-FY18E.

Negligible capacity addition in Central region to aid pricing power

Central India region (~90% of HCIL's volume) is expected to witness healthy volumes and realisation growth. Bettered demand outlook and absence of significant capacity addition will aid this growth. Besides in FY16, its market share improved in central India, and it achieved a volume growth of ~5.1% (yoy). Stabilisation of new capacity & revival in demand will provide HCIL the pricing power in the central region. We expect realisation to remain elevated over the next few years. We have factored in ~3.9% realisation of CAGR over FY16-FY18E.

Outlook & Valuation

We believe an improving demand outlook in central India augurs well for HCIL owing to the following reasons 1) insignificant capacity addition over the last few years in company's target markets 2) improved cement demand led by infra & rural spending 3) upcoming election spending in UP & MP markets 4) rising utilisation & cost rationalisation measures taken by the company. Moreover, minimum capex & de-leveraging plans (over next 2 years) through strong cash flows to strengthen balance sheet. We expect PAT CAGR of ~112% over FY16-FY18E. With robust demand scenarios in its markets, improving operating margins and superior return ratios, we believe the company deserves higher EV/EBITDA multiple. The stock is trading attractively at 8.2x FY18E EV/EBITDA multiple. We recommend BUY on the stock with one year target price of Rs 166, based on 10x FY18E EV/EBITDA multiple.

Financial Summary

Rs Cr.	FY14	FY15	FY16	FY17E	FY18E
Revenue	1,393	2,044	1,655	1,861	2,071
EBITDA	115	322	238	360	424
OPM%	8.2	15.8	14.4	19.3	20.5
PAT	-41	60	39	117	173
EPS Rs	-1.8	2.6	1.7	5.2	7.6
P/BV(x)	3.6	3.5	3.4	3.0	2.5
EV/EBITDA(x)	37.1	13.0	17.2	10.6	8.2
ROE %	-4.9	6.8	4.3	11.6	14.6

Recommendation Parameters for Fundamental Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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For Research related queries, write at research@indiainfoline.com

For Sales and Account related information, write to customer care: cs@indiainfoline.com or call on 91-22 4007 1000