

# HeidelbergCement India

13 February 2019

Reuters: HEID.NS; Bloomberg: HEIM IN

## Consistent Stellar Performance; Upgrade To Buy

HeidelbergCement India (HEIM) reported a strong performance in 3QFY19 driven by higher realisation which was up ~8.5% YoY/flat QoQ at Rs4,316/tn (better than our estimate) because of higher trade sales and contribution from premium products (~9% in total sales). This was accompanied by volume gain of ~6% YoY at 1.29mnmt backed by strong demand in Uttar Pradesh (UP), HEIM's key market, as Madhya Pradesh (MP) took a breather because of assembly elections. Effectively, revenues grew ~15% YoY to ~Rs5.58bn (above our estimate). Commendably, operating costs stayed flat YoY at Rs3,411/tn following cost control measures by HEIM with focus on energy (contribution from waste heat recovery system or WHRS) and logistics expenditure (Rs38mn railway rebate). Effectively, EBITDA grew ~59% YoY to ~Rs1.22bn driven by realisation gains and controlled cost inflation (9MFY19 EBITDA grew 55% YoY). EBITDA margin jumped by 600bps YoY from 15.7% in 3QFY18 to 21.7% in 3QFY19 (primarily driven by realisation gain). The robust performance led HEIM to report EBITDA/mt of Rs947, up ~50% YoY but down 9% QoQ (below our estimate of Rs1,066/tn). This is the third consecutive quarter of EBITDA/tn hovering ~Rs1,000 for HEIM. With no surprises in depreciation and lower interest expenses, APAT doubled YoY from Rs276mn to Rs586mn in 3QFY19. HEIM had a consistent strong performance for the past four quarters. The presence in relatively better pricing regions like Central India, focus on retail segment sales (trade segment) and cost benefits from the combination of effective measures taken by HEIM and synergies of scale will continue to guard its earnings. We still believe HEIM has limited headroom for incremental cement despatches as it moves upwards of 90% capacity utilisation and may only retain its existing market share (even lose market share), and the realisation gain that helps cost inflation pass-through will continue to be stronger and guard HEIM's earnings. This has prompted us to revise our EPS estimates upwards for FY19/FY20/FY21 to Rs9.8/Rs11.5/Rs12.8, respectively, (Rs8.1/Rs10.2/Rs11.5, respectively, earlier). Factoring in the same and assigning the replacement cost valuation of Rs7.5bn/mnmt (taking away the 12% discount assigned earlier) based on September 2020E forward capacity, we have arrived at a fair value for HEIM that encourages us to upgrade the rating on the stock to Buy (from Accumulate earlier) with a revised target price (TP) of Rs177 (from Rs151 earlier). At our TP, the stock trades at EV/EBITDA of 6.7x September 2020E earnings.

**Better markets and focus on trade segment helps realisation gain:** Realisation rose ~8% YoY to Rs4,316/tn on account of continued healthy demand in its key market of UP as the election season slowed MP market relatively. HEIM has a bigger presence in trade segment sales (~83%) with better contribution from premium products (9%-10%). Volume rose 6.3% YoY to 1.29mnmt backed by UP market. 3QFY19 capacity utilisation (CU) nearly touched the optimum for HEIM which will restrict further aggressive volume growth.

**Operating cost inflation restricted:** Overall operating costs were flat YoY/up ~4% QoQ at Rs3,211/tn. This restricted cost inflation was largely because of reduction in logistics cost by ~3%, and aggressive control of other expenditure that declined 3% to Rs872mn. Energy costs (combined with inventory-adjusted raw material costs) inflated 7% YoY because of a prudent fuel mix (lower pet-coke usage) and contribution from the waste heat recovery system (~20% of total requirement). Further, logistics costs rose only 2.5%, (because of railway rebate of Rs38mn) and prudent lead distance management. Effectively, this helped EBITDA margin to pose handsome gains, hovering at 21.7% compared with 15.7% in 3QFY18.

Y/E March (Rsmn)	3QFY19	3QFY18	YoY %	2QFY19	QoQ %
<b>Net sales</b>	<b>5,639</b>	<b>4,912</b>	<b>14.8</b>	<b>4,859</b>	<b>16.1</b>
Operating expenses	4,414	4,141	6.6	3,693	19.5
<b>EBITDA</b>	<b>1,225</b>	<b>772</b>	<b>58.8</b>	<b>1,166</b>	<b>5.1</b>
<b>EBITDA margin (%)</b>	<b>21.7</b>	<b>15.7</b>	<b>602bps</b>	<b>24.0</b>	<b>(227bps)</b>
Other income	102	94	9.3	62	65.4
Interest costs	170	186	(8.9)	199	(14.7)
Depreciation	254	253	0.3	255	(0.5)
PBT	904	426	112.2	774	16.8
Non-recurring items	-	57	(100.0)	-	-
PBT (after non-recurring items)	904	483	87.3	774	16.8
Tax	319	165	92.9	273	16.6
Reported PAT	586	318	84.4	501	16.9
<b>Adjusted PAT</b>	<b>586</b>	<b>261</b>	<b>124.4</b>	<b>501</b>	<b>16.9</b>
<b>NPM (%)</b>	<b>10.4</b>	<b>5.3</b>	<b>507bps</b>	<b>10.3</b>	<b>8bps</b>
<b>Adjusted EPS (Rs)</b>	<b>2.6</b>	<b>1.2</b>	<b>124.4</b>	<b>2.2</b>	<b>16.9</b>

Source: Company, Nirmal Bang Institutional Equities Research

## BUY

Sector: Cement

CMP: Rs147

Target Price: Rs177

Upside: 20%

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### Key Data

Current Shares O/S (mn)	226.6
Mkt Cap (Rsbn/US\$m)	33.2/469.3
52 Wk H / L (Rs)	175/122
Daily Vol. (3M NSE Avg.)	130,939

### Price Performance (%)

	1 M	6 M	1 Yr
HeidelbergCement	0.0	(7.3)	(9.4)
Nifty 50 Index	0.3	(4.6)	2.8

Source: Bloomberg

**Our estimates stand revised upwards:** We still believe HEIM has limited headroom for incremental cement despatches as it moves upwards of 90% capacity utilisation and may only retain its existing market share (even lose market share) and the realisation gain that helps cost inflation pass-through will continue to be stronger and guard HEIM's earnings. This has prompted us to revise our EPS estimates upwards for FY19/FY20/FY21 to Rs9.8/Rs11.5/Rs12.8, respectively (from Rs8.1/Rs10.2/Rs11.5, respectively, earlier). The presence in relatively better regions like central region, focus on retail sales (trade segment) and cost benefits from the combination of effective measures taken by HEIM and synergies of scale will continue to guard earnings.

**Outlook:** Factoring in the same and assigning replacement cost valuation of Rs7.5bn/mnmt (taking away the 12% discount assigned earlier) based on September2020E capacity, we have arrived at a fair value for HEIM that encourages us to upgrade our rating on the the stock to Buy (from Accumulate earlier) with a revised target price of Rs177 (from Rs151 earlier). At our TP, the stock trades at EV/EBITDA of 6.7x September 2020E earnings.

## Key conference-call takeaways

- HEIM's management indicated that 9% of total trade sales came from premium products in 3QFY19. HEIM's 85% of sales came from trade segment (80% in 9MFY19).
- The current fuel mix includes 60% pet coke and 40% linkage coal. However, the coal-linkage contract is highly limited. HEIM has shifted largely to the e-auction route for procuring coal which will increase costs. The total lead distance remained unchanged at ~380km.
- The total contribution of waste heat recovery unit in total power consumption was ~20% (30% of clinkerisation unit) which is nearly at its peak. Residual power is purchased from the grid.
- HEIM claimed that the company can add ~5% capacity with refurbishment/de-bottlenecking. The headroom in capacity utilisation and capacity addition through de-bottlenecking will help HEIM to take care of incremental demand.
- The total outstanding debt is ~Rs6bn and net debt is ~Rs2.3bn. The company has limited capital expenditure plan with Rs250mn likely to be incurred in the next two years. HEIM has gone for Rs70mn capex in FY19 in the first phase of de-bottlenecking.

## Exhibit 1: Operational details

(Rs)	3QFY19	3QFY18	YoY %	2QFY19	QoQ %	3QFY19E	Deviation %
Volume (mnmt)	1.29	1.22	6.3	1.13	15.0	1.28	1.3
Cement realisations (Rs/mt)	4,316	3,976	8.5	4,262	1.3	4,242	1.7
Operating costs (Rs/mt)*	3,411	3,402	0.3	3,282	3.9	3,211	6.2
EBITDA (Rs/mt)	947	634	49.3	1,036	(8.6)	1,066	(11.2)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Detailed quarterly financials

(Rsmn)	3QFY19	3QFY18	YoY %	2QFY19	QoQ %	3QFY19E	Deviation %
<b>Net sales</b>	<b>5,639</b>	<b>4,912</b>	<b>14.8</b>	<b>4,859</b>	<b>16.1</b>	<b>5,466</b>	<b>3.2</b>
<b>Expenditure</b>							
Change in stock	321.1	281.2	14.2	(165.5)	(294.0)	(55.0)	(683.8)
Raw material costs	995	925	7.6	880	13.1	997	(0.2)
Purchased products	-	-	-	-	-	-	-
Power & fuel expenses	1,201	1,009	19.1	1,201	-	1,319	(8.9)
Freight costs	759	737	3.0	666	13.9	728	4.1
Employee costs	266	288	(7.6)	311	(14.5)	313	(15.0)
Other expenses	872	901	(3.2)	799	9.1	801	8.9
Total operating expenses	4,414	4,141	6.6	3,693	19.5	4,103	7.6
<b>EBITDA</b>	<b>1,225</b>	<b>772</b>	<b>58.8</b>	<b>1,166</b>	<b>5.1</b>	<b>1,363</b>	<b>(10.1)</b>
<b>EBITDA margin (%)</b>	<b>21.7</b>	<b>15.7</b>	<b>602bps</b>	<b>24.0</b>	<b>(227bps)</b>	<b>24.9</b>	<b>(321bps)</b>
Other income	102	94	9.3	62	65.4	55	85.8
Interest costs	170	186	(8.9)	199	(14.7)	201	(15.6)
Depreciation	254	253	0.3	255	(0.5)	265	(4.3)
PBT	904	426	112.2	774	16.8	952	(5.0)
Non-recurring items	-	57	-	-	-	-	-
PBT (after non-recurring items)	904	483	87.3	774	16.8	952	(5.0)
Tax	319	165	92.9	273	16.6	319	(0.1)
Tax rate (%)	35	34	3.0	35	(0.2)	34	5.2
Reported PAT	586	318	84.4	501	16.9	633	(7.5)
<b>Adjusted PAT</b>	<b>586</b>	<b>261</b>	<b>124.4</b>	<b>501</b>	<b>16.9</b>	<b>633</b>	<b>(7.5)</b>
<b>NPM (%)</b>	<b>10.4</b>	<b>5.3</b>	<b>507bps</b>	<b>10.3</b>	<b>8bps</b>	<b>11.6</b>	<b>(120bps)</b>
<b>Adjusted EPS (Rs)</b>	<b>2.6</b>	<b>1.2</b>	<b>124.4</b>	<b>2.2</b>	<b>16.9</b>	<b>2.8</b>	<b>(7.5)</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Trend in operating costs/mt

Costs per mt (Rs)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ %
Raw material costs	632	822	775	880	638	991	671	853	635	1,017	2.6	60.1
Power and fuel exp.	1,062	986	964	947	1,023	829	1,027	932	1,068	928	12.0	(13.1)
Freight costs	533	538	551	567	578	605	679	654	592	586	(3.2)	(1.0)
<b>Total costs per mt</b>	<b>3,244</b>	<b>3,321</b>	<b>3,165</b>	<b>3,400</b>	<b>3,191</b>	<b>3,402</b>	<b>3,237</b>	<b>3,322</b>	<b>3,282</b>	<b>3,411</b>	<b>0.3</b>	<b>3.9</b>

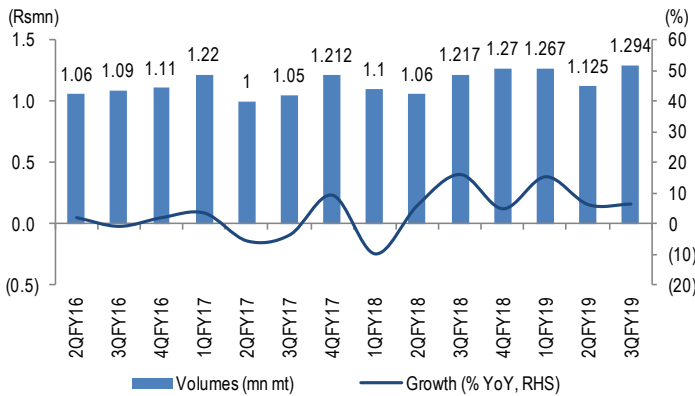
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Change in our estimates

(Rsmn)	Old estimate			New estimate			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net sales	20,718	22,798	24,136	21,632	23,225	24,588	4.4	1.9	1.9
Operating profit	4,446	5,196	5,580	4,971	5,623	6,032	11.8	8.2	8.1
Net profit	1,835	2,317	2,602	2,220	2,601	2,905	21.0	12.3	11.6
EPS (Rs)	8.1	10.2	11.5	9.8	11.5	12.8	21.0	12.3	11.6
<b>Target price (Rs)</b>		<b>151</b>			<b>177</b>				
<b>Rating</b>		<b>Accumulate</b>			<b>Buy</b>				

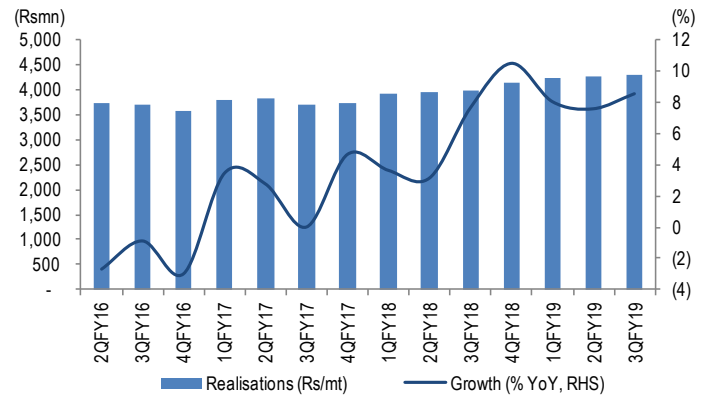
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Volume gains largely from UP market**



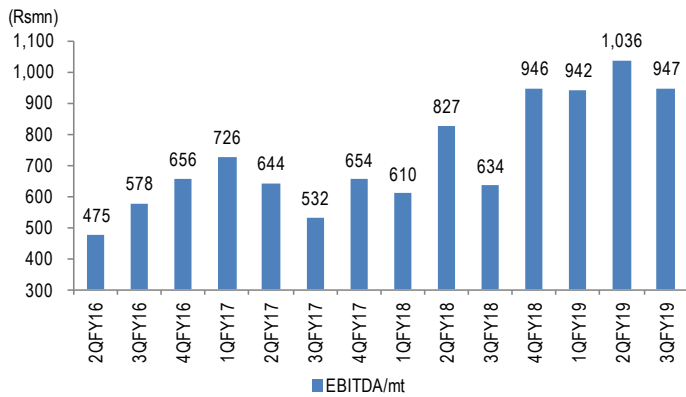
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Higher retail and premium product sales boost realisation**



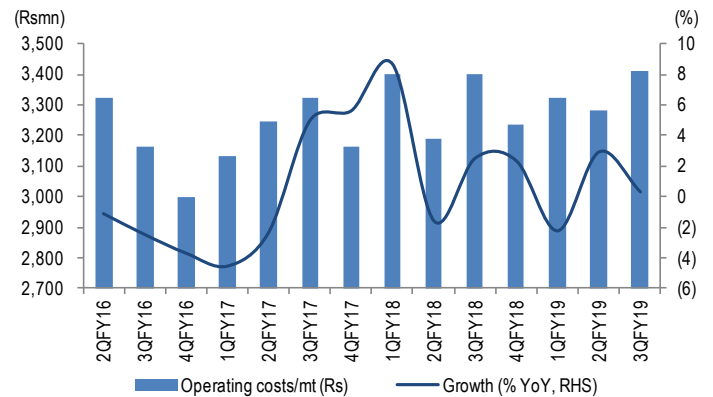
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Cost inflation check and realisation gain boosts EBITDA/tn**



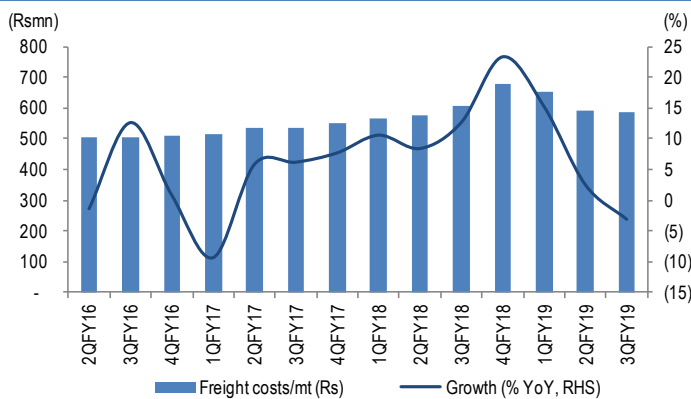
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Cost inflation controlled in a challenging environment**



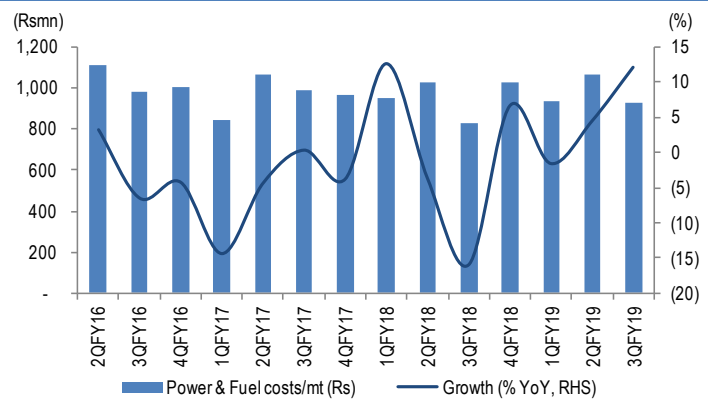
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Logistics costs under control on higher volume**



Source: Company, Nirmal Bang Institutional Equities Research

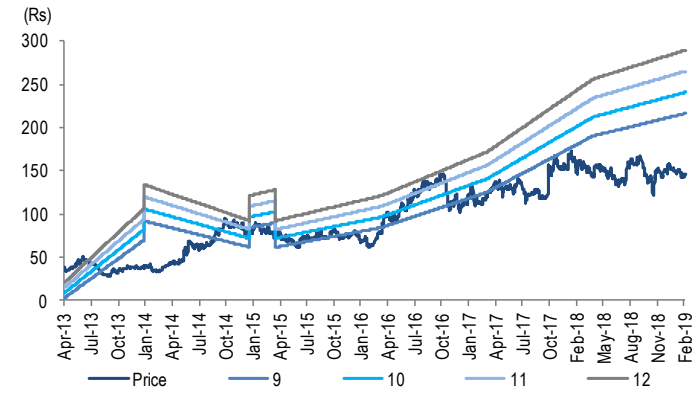
**Exhibit 10: Cost efficiency and WHRS contribution helps limit energy cost inflation**



Source: Company, Nirmal Bang Institutional Equities Research

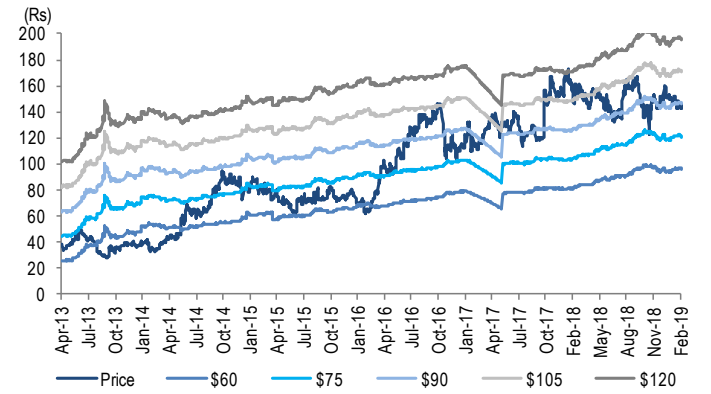
## Exhibit 11: Valuation charts

### EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

### EV/tn



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 12: Income statement

Year Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net sales</b>	<b>16,876</b>	<b>18,567</b>	<b>21,632</b>	<b>23,225</b>	<b>24,588</b>
Growth (%)	3.7	10.0	16.5	7.4	5.9
Operating expenses	(14,386)	(15,376)	(16,999)	(17,950)	(18,914)
<b>EBITDA</b>	<b>2,789</b>	<b>3,519</b>	<b>4,971</b>	<b>5,623</b>	<b>6,032</b>
Growth (%)	20.6	26.2	41.3	13.1	7.3
Depreciation & amortisation	(992)	(1,012)	(1,023)	(1,055)	(1,060)
<b>EBIT</b>	<b>2,034</b>	<b>2,707</b>	<b>4,092</b>	<b>4,694</b>	<b>5,100</b>
Other income	237	199	144	127	127
Interest paid	(898)	(745)	(766)	(784)	(763)
Extraordinary/exceptional items	-	-	-	-	-
<b>PBT</b>	<b>1,136</b>	<b>2,076</b>	<b>3,326</b>	<b>3,911</b>	<b>4,336</b>
Tax	(374)	(745)	(1,106)	(1,310)	(1,431)
Effective tax rate (%)	(33)	(36)	(33)	(34)	(33)
<b>Net profit</b>	<b>762</b>	<b>1,331</b>	<b>2,220</b>	<b>2,601</b>	<b>2,905</b>
Minority interest	-	-	-	-	-
<b>Reported net profit</b>	<b>762</b>	<b>1,331</b>	<b>2,220</b>	<b>2,601</b>	<b>2,905</b>
Non-recurring items	-	114	-	-	-
<b>Adjusted net profit</b>	<b>762</b>	<b>1,217</b>	<b>2,220</b>	<b>2,601</b>	<b>2,905</b>
Growth (%)	115.3	59.7	82.4	17.1	11.7

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 14: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Cash & bank balances	142	2,124	5,313	6,026	6,801
Other current assets	5,101	5,063	7,244	7,974	8,499
Investments	-	-	-	-	-
Net fixed assets	18,834	18,140	17,810	18,787	20,055
Goodwill & intangible assets	-	-	-	-	-
Other non-current assets	(530)	(835)	(919)	(1,010)	(1,111)
<b>Total assets</b>	<b>23,546</b>	<b>24,493</b>	<b>29,449</b>	<b>31,777</b>	<b>34,243</b>
Current liabilities	7,797	8,722	10,484	10,989	11,516
Borrowings	6,080	5,307	6,847	6,637	6,237
Other non-current liabilities	-	-	-	-	-
<b>Total liabilities</b>	<b>13,877</b>	<b>14,029</b>	<b>17,331</b>	<b>17,626</b>	<b>17,753</b>
Share capital	2,266	2,266	2,266	2,266	2,266
Reserves & surplus	7,404	8,198	9,851	11,885	14,224
<b>Shareholders' funds</b>	<b>9,670</b>	<b>10,464</b>	<b>12,118</b>	<b>14,152</b>	<b>16,490</b>
Minority interest	-	-	-	-	-
<b>Total equity &amp; liabilities</b>	<b>23,547</b>	<b>24,493</b>	<b>29,449</b>	<b>31,777</b>	<b>34,243</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 13: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Pre-tax profit	1,136	2,076	3,326	3,911	4,336
Depreciation	988	997	1,023	1,055	1,060
Chg. in working capital	(722)	963	(419)	(225)	2
Total tax paid	(264)	(440)	(1,022)	(1,218)	(1,330)
Other operating activities	(26)	-	-	-	-
<b>Operating CF</b>	<b>1,113</b>	<b>3,596</b>	<b>2,908</b>	<b>3,522</b>	<b>4,068</b>
Capital expenditure	(249)	(303)	(693)	(2,032)	(2,327)
Chg. in investments	-	-	-	-	-
Other investing activities	-	-	-	-	-
<b>Investing CF</b>	<b>(249)</b>	<b>(303)</b>	<b>(693)</b>	<b>(2,032)</b>	<b>(2,327)</b>
<b>FCF</b>	<b>864</b>	<b>3,293</b>	<b>2,215</b>	<b>1,490</b>	<b>1,741</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	(784)	(773)	1,540	(210)	(400)
Dividend (incl. tax)	-	(453)	(567)	(567)	(567)
Other financing activities	(16)	(84)	-	-	-
<b>-Financing CF</b>	<b>(800)</b>	<b>(1,310)</b>	<b>973</b>	<b>(777)</b>	<b>(967)</b>
<b>Net chg. in cash &amp; bank bal.</b>	<b>64</b>	<b>1,982</b>	<b>3,188</b>	<b>714</b>	<b>774</b>
<b>Closing cash &amp; bank bal.</b>	<b>142</b>	<b>2,124</b>	<b>5,313</b>	<b>6,026</b>	<b>6,801</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 15: Key ratios

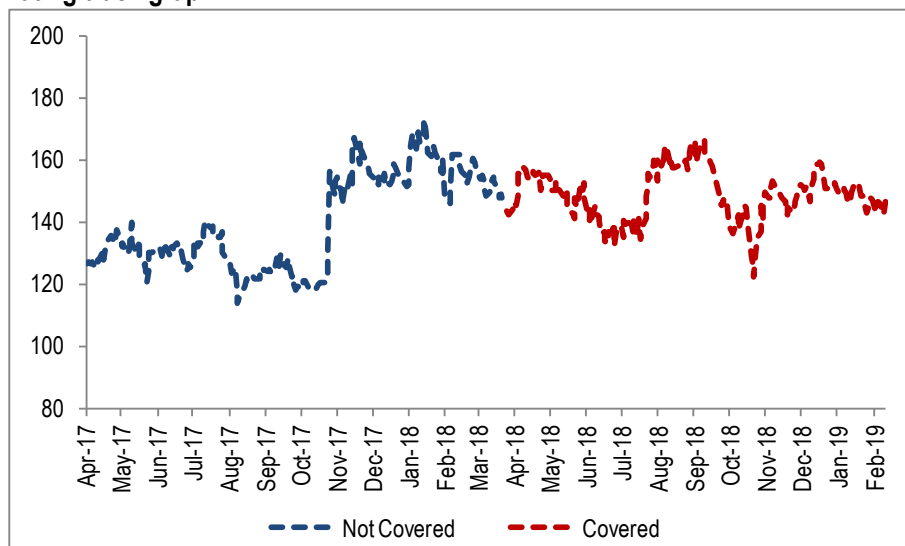
Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
<b>Profitability and return ratios (%)</b>					
EBITDAM	16.2	18.6	22.6	23.9	24.2
EBITM	11.8	14.3	18.6	19.9	20.4
NPM	4.5	6.6	10.3	11.2	11.8
RoE	8.2	12.1	19.7	19.8	19.0
RoCE	12.9	17.2	23.6	23.6	23.4
RoIC	8.5	11.3	18.8	20.6	20.8
<b>Per share data (Rs)</b>					
O/s shares	226.6	226.6	226.6	226.6	226.6
EPS	3.4	5.4	9.8	11.5	12.8
FDEPS	3.4	5.4	9.8	11.5	12.8
CEPS	7.7	9.8	14.3	16.1	17.5
BV	42.7	46.2	53.5	62.4	72.8
DPS	-	2.0	2.5	2.5	2.5
<b>Valuation ratios (x)</b>					
P/E	43.7	27.4	15.0	12.8	11.5
P/BV	3.4	3.2	2.7	2.4	2.0
EV/EBITDA	14.1	10.4	7.0	6.0	5.4
EV/Sales	2.3	2.0	1.6	1.5	1.3
<b>Other key ratios</b>					
D/E (x)	0.6	0.3	0.1	-	-
DSO (days)	3	4	9	9	9
<b>DuPont analysis - RoE</b>					
NPM (%)	4.5	6.6	10.3	11.2	11.8
Asset turnover (x)	0.7	0.8	0.8	0.8	0.7
Leverage factor (x)	2.6	2.4	2.4	2.3	2.2
RoE (%)	8.2	12.1	19.7	19.8	19.0

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Sell	153	126
28 May 2018	Sell	149	130
31 July 2018	Sell	159	141
2 November 2018	Accumulate	144	151
13 February 2019	Buy	147	177

## Rating track graph



## DISCLOSURES

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### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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