

Heidelberg Cement

5 June 2020

Reuters: HEID.NS; Bloomberg: HEIM:IN

Strong pricing aids EBITDA growth

Heidelberg Cement (HEIM) reported good set of numbers for 4QFY20 with revenue of Rs5.1bn down 6.2% YoY and EBITDA of Rs. 1.3bn up 1.9% YoY. Realization was better with 4.2% YoY uptick at Rs. 4,677/mt. Operating cost/mt increased by 1.5% YoY as drop in freight and power & fuel cost was offset by higher raw material and other expenses. EBITDA/mt, as a result, came in at Rs1,168 which was up by 13.3% YoY. Current EBITDA/mt is the second best in the history of the company. The company is currently selling 100% blended cement and more than 85% of its total sales are in trade segment which will keep efficiency parameters higher. Only blemish on the cost structure is the high-power costs which the company has tried to control in the absence of captive power plant through waste heat recovery system. The dependence on grid power is still high at 66%. HEIM has completed its capex which will lead to additional volumes of 1.05 mn mt at extremely low capex cost which will further boost its return ratios. While the current capacity is enough to show volume growth for next 2 years, we believe that sustained capacity growth is missing despite healthy balance sheet which will lead to market share loss over longer term. While the management indicated that they will look at clinker capacity addition in future, we believe that it will take at least four to five years for that to come to fruition. We have not changed our estimates for the company yet and we maintain our Accumulate rating on the company. The stock is currently trading at 8.6x FY21 EV/EBITDA multiple which we believe is fair given the size of the company.

Volume growth impacted due to COVID induced lockdown: HEIM reported 10% decline in volumes at 1.09 mn mt. As the company lost the most productive last 10 days of March due to shut down, the volume decline was sharper as it lost 1.25 to 1.5 lakh ton of sales during that period. The company also didn't sell any clinker which also impacted its overall volumes. Capacity utilization for the company this year was 87% compared to 91% last year. The management has not indicated its current utilization levels; however, they did mention that April was a complete washout. Cement realization for the company were strong with 4.3% QoQ increase. Currently the cement realization is higher by Rs10/bag in its market. HEIM's premium product sales contributed 13% of total sales which is expected to increase to 15% soon.

Brownfield capex completed: During 4QFY20, the company completed de-bottlenecking of its cement grinding units in Imlai (Madhya Pradesh) (+0.5 mn mt) and Jhansi (Uttar Pradesh) (+0.55 mn mt) for a total cost of Rs. 207mn. Post which the capacity of the company stood at 6.26 mn mt. Both Imlai and Jhansi units operated at >95% capacity utilization in FY19 and this capex will allow growth in these markets.

NCD repayment as per plans: The company has repaid first tranche of NCDs worth Rs1.25bn this year. As per the repayment plans, the company is expected to repay Rs1.25 bn in FY21 and another Rs1.2bn in FY22. Gross debt as of FY20 is Rs2.8bn vs Rs3.9bn in FY19 whereas the net cash for FY20 is Rs1.9bn.

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	5,434	5,485	5,098	(6.2)	(7.1)
Operating Expenses	4,185	4,285	3,824	(8.6)	(10.7)
EBITDA	1,249	1,200	1,273	1.9	6.1
EBITDA Margin (%)	23.0	21.9	25.0	199bps	310bps
Other Income	115	114	170	48.3	49.0
Interest Costs	160	190	163	1.4	(14.3)
Depreciation	254	268	275	8.2	2.9
PBT	949	857	1,006	6.0	17.4
Tax	340	211	343	0.8	62.5
Reported PAT	609	646	663	8.9	2.6
Exceptional Items	-	-	-	-	NA
Adjusted PAT	609	646	663	8.9	2.6
NPM (%)	11.2	11.8	13.0	180bps	123bps
EPS (Rs.)	2.7	2.9	2.9	8.8	2.6

Source: Company, Nirmal Bang Institutional Equities Research

Asiamoney Brokers Poll 2020:
<https://euromoney.com/brokers>

ACCUMULATE

Sector: Cement

CMP: Rs166

Target Price: Rs172

Upside: 4%

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Key Data

Current Shares O/S (man)	226.6
Mkt Cap (Rsbm/US\$b)	37.6/497.9
52 Wk H / L (Rs)	218/120
Daily Vol. (3M NSE Avg.)	657,890

Price Performance (%)

	1 M	6 M	1 Yr
Heidelberg Cement	11.3	(9.9)	(21.3)
Nifty Index	7.9	(16.7)	(16.6)

Source: Bloomberg

Exhibit 1: Detailed financials (Standalone)

Y/E March (Rsmm)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	5,434	5,485	5,098	(6.2)	(7.1)	21,334	21,696	1.7
Expenditure								
Chg. in stock	(304)	(10)	(121)	(60.2)	1,133.7	(52)	51	NA
RM consumption	1,056	999	879	(16.8)	(12.1)	3,915	3,836	(2.0)
Purchase of traded goods	-	-	-	-	-	-	-	-
Employee cost	356	347	340	(4.6)	(2.3)	1,239	1,312	5.9
Freight, packing etc.	826	736	690	(16.6)	(6.3)	3,079	2,879	(6.5)
Power and fuel	1,467	1,257	1,119	(23.7)	(11.0)	5,049	4,736	(6.2)
Other exp	784	955	919	17.3	(3.8)	3,269	3,605	10.3
Operating Expenses	4,185	4,285	3,824	(8.6)	(10.7)	16,500	16,418	(0.5)
EBITDA	1,249	1,200	1,273	1.9	6.1	4,833	5,278	9.2
EBITDA Margin (%)	23.0%	21.9%	25.0%	199bps	310bps	22.7%	24.3%	167bps
Other Income	115	114	170	48.3	49.0	348	527	51.4
Interest Costs	160	190	163	1.4	(14.3)	748	739	(1.2)
Depreciation	254	268	275	8.2	2.9	1,018	1,086	6.7
PBT	949	857	1,006	6.0	17.4	3,416	3,981	16.5
Tax	340	211	343	0.8	62.5	1,210	1,300	7.5
Reported PAT	609	646	663	8.9	2.6	2,207	2,681	21.5
Exceptional Items	-	-	-	-	-	-	-	-
Adjusted PAT	609	646	663	8.9	2.6	2,207	2,681	21.5
NPM (%)	11.2%	11.8%	13.0%	180bps	123bps	10.3%	12.4%	201bps
EPS (Rs.)	2.7	2.9	2.9	8.8	2.6	9.7	11.8	21.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational data

Operational Data	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Volume (mn mt)	1.21	1.22	1.09	(10.0)	(10.9)	4.90	4.71	(3.9)
Cement Realization (Rs/mt)	4,487	4,485	4,677	4.2	4.3	4,356	4,611	5.9
Operating Costs (Rs/mt)	3,456	3,504	3,509	1.5	0.1	3,369	3,490	3.6
EBITDA (Rs/mt)	1,031	981	1,168	13.3	19.1	987	1,122	13.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs

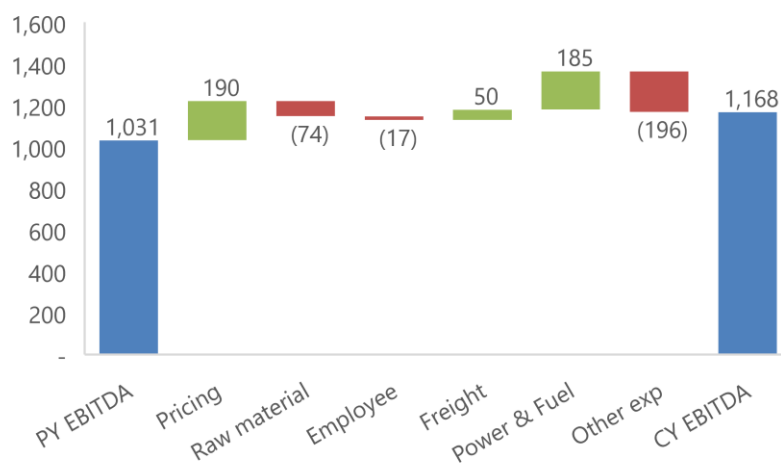
Costs/mt (Rs)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	YoY (%)	QoQ (%)
RM consumption	671	853	635	1,017	621	898	890	809	695	11.9	(14.1)
Employee cost	258	241	277	206	294	250	274	284	311	6.0	9.7
Freight Cost	679	654	592	586	682	633	579	602	633	(7.3)	5.1
Power and fuel	1,027	932	1,068	928	1,211	966	1,010	1,028	1,026	(15.3)	(0.2)
Other exp	603	643	710	674	647	683	769	781	843	30.3	8.0
Op exp /mt	3,237	3,322	3,282	3,411	3,456	3,431	3,522	3,504	3,509	1.5	0.1
EBITDA/mt	946	942	1,036	947	1,031	1,253	1,083	981	1,168	13.3	19.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key Financial Summary

Y/E March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenues	17,175	18,895	21,334	21,502	19,835	22,251
YoY (%)	4.2	10.0	12.9	0.8	(7.8)	12.2
EBITDA	2,789	3,634	4,833	5,065	4,136	4,761
EBITDA (%)	16.2	19.2	22.7	23.6	20.9	21.4
Adj. PAT	762	1,332	2,207	2,474	2,025	2,566
YoY (%)	115.3	74.8	65.7	12.1	(18.2)	26.7
FDEPS (Rs)	3.4	5.9	9.7	10.9	8.9	11.3
ROE (%)	8.2	13.2	19.9	19.8	14.7	17.0
EV/EBITDA	12.0	9.9	7.5	6.3	8.6	6.9
EV/mt (\$)	92.5	102.9	95.6	78.7	73.3	68.3
P/E (x)	34.9	23.8	15.5	13.0	18.6	14.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: YoY Movement in EBITDA/mt


Source: Company, Nirmal Bang Institutional Equities Research

4QFY20 Conference call highlights

Demand and price: Post some relaxation in lockdown, the company has seen marginal uptick in rural demand whereas there was a drop in urban demand due to labour migration. It also expects a reduction in demand from private spending which will be compensated by government spending. Prices have remained firm throughout 4QFY20 and currently have increased by Rs. 10-12/bag as compared to 4QFY20. However, the company is cautious about high prices as that will attract more competition.

Costs: In 4QFY20, the company reaped the benefits of lower input costs and it also reduced its dependence on grid power to 66% of total requirement. However, currently the freight costs have increased due to higher lead distance and lower availability of truck drivers.

Debt: Gross debt as of FY20 was Rs.2.8bn vs Rs. 3.9bn in FY19 whereas the net debt for FY20 was Rs. - 1.9bn. In 4QFY20, the company repaid first tranche of NCDs worth Rs. 1.25bn. Debt repayment schedule for FY21, FY22 and beyond FY22 is Rs. 1.25bn, Rs. 1.2bn and Rs. 2.35bn, respectively.

Capex: The company has no major plan of capex except for maintenance capex which will be Rs. 0.5bn for FY21. However, the company is still looking out for some acquisition.

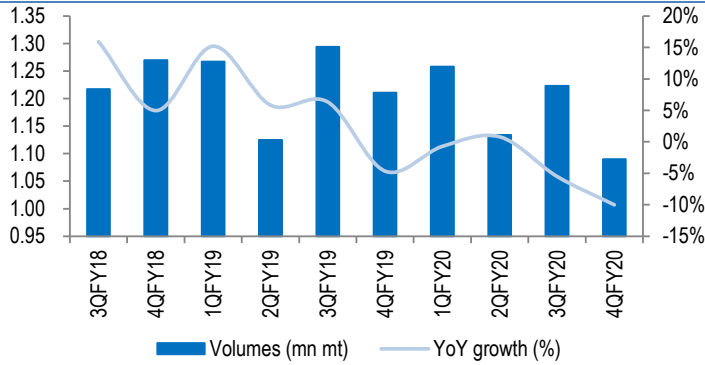
Trade sales: Trade sales for 4QFY20 was 85% which increased by 36bps YoY.

Rail and Road Mix: Rail and road mix for 4QFY20 was 46% and 54%, respectively.

Fuel Mix: Coal and petcoke mix for the quarter was 39% and 61%, respectively

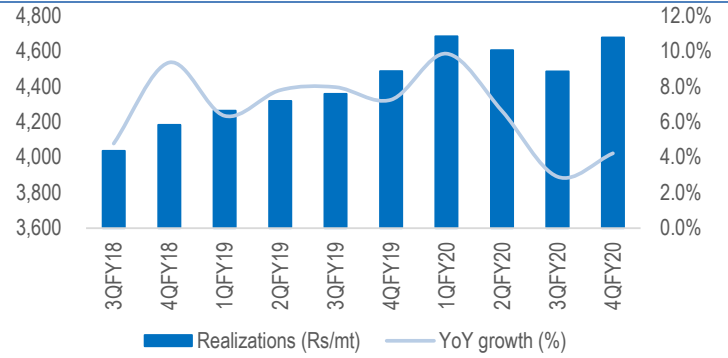
Lead Distance: Lead distance was 368-370kms

Exhibit 6: Volume down by 10% YoY



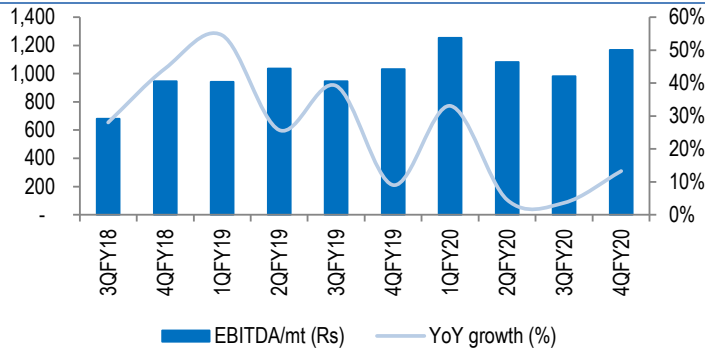
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Realization up by 4.2% YoY



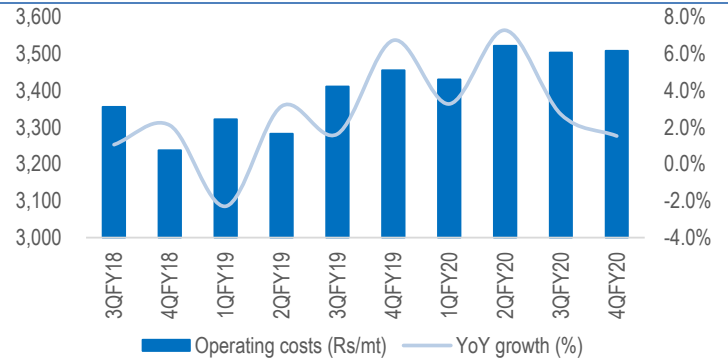
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA was up 19.1% QoQ



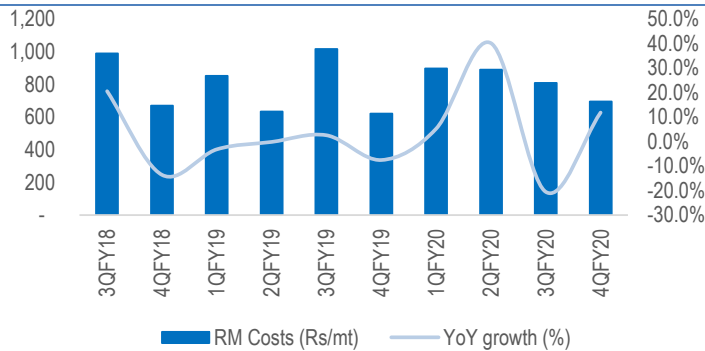
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Operating cost increased 1.5% YoY



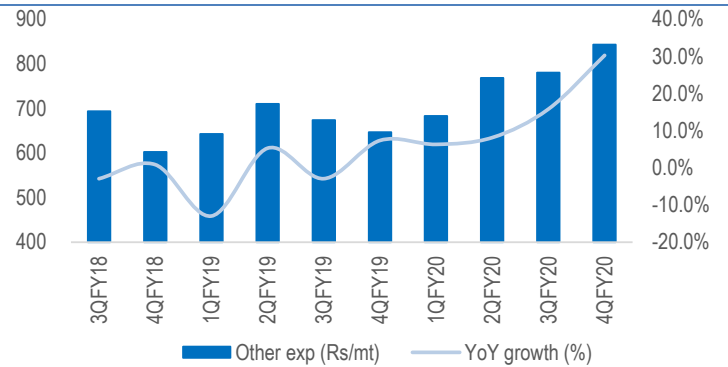
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: RM cost were up by 11.9% YoY



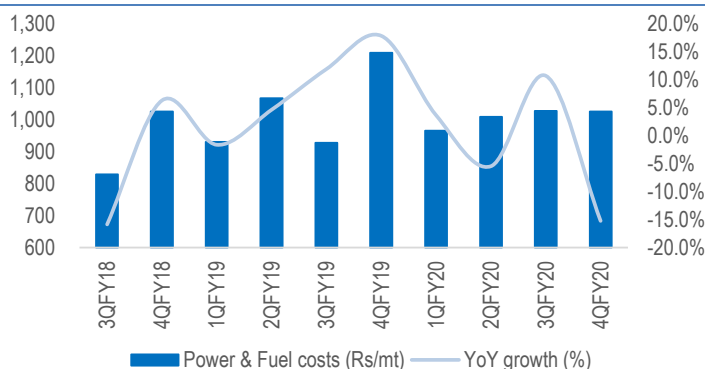
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Other expenses up by 30.3% YoY



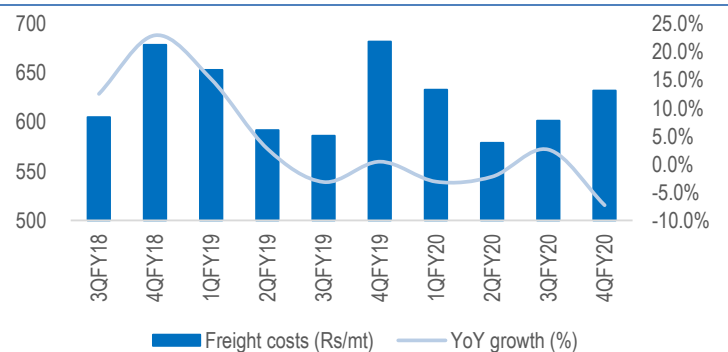
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Power & Fuel cost down by 15.3% YoY



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Freight cost down by 7.3% YoY

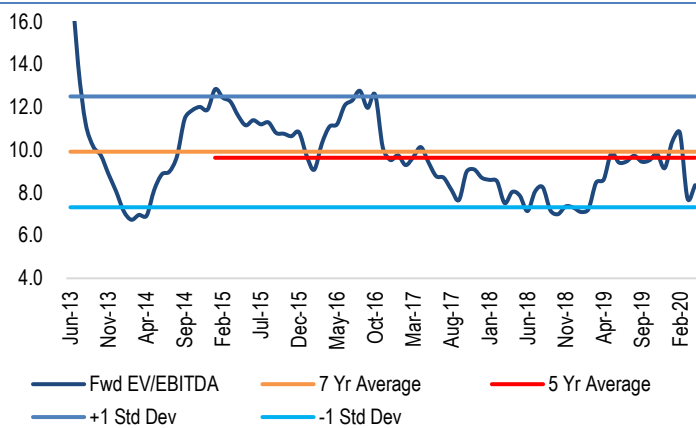


Source: Company, Nirmal Bang Institutional Equities Research

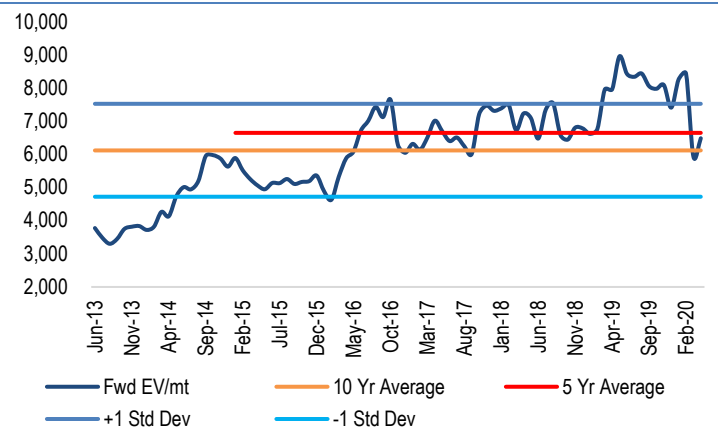
Exhibit 14: Valuation summary

Particulars	(Rs)
Sep 21 EBITDA	4,448
Target multiple (x)	8.0
Enterprise value	35,586
Less: Net debt	(3,473)
Equity value	39,059
No of shares (mn)	226.6
Value per share (Rs)	172
CMP (Rs)	166
Upside / (downside) %	4%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Rolling valuation charts


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 16: Income statement

YE March, Rsmn	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	18,895	21,334	21,502	19,835	22,251
Raw Material Consumed	3,630	3,863	4,122	3,916	4,441
Power & Fuel Cost	4,439	5,049	4,751	4,423	4,968
Employee Cost	1,202	1,239	1,299	1,363	1,429
Freight and Forwarding	2,836	3,079	2,987	2,781	3,123
Other expenses	3,155	3,269	3,277	3,216	3,529
Total Expenditure	15,261	16,500	16,437	15,699	17,490
Operating profit	3,634	4,833	5,065	4,136	4,761
Operating profit margin (%)	19%	23%	24%	21%	21%
Other Income	199	348	415	498	602
Interest	745	748	610	432	301
Depreciation	1,012	1,018	1,040	1,067	1,089
PBT	2,077	3,416	3,830	3,135	3,973
Exceptional items	-	-	-	-	-
PBT post exc items	2,077	3,416	3,830	3,135	3,973
Tax	745	1,210	1,356	1,110	1,407
Tax rate (%)	36%	35%	35%	35%	35%
PAT	1,332	2,207	2,474	2,025	2,566
EPS (Rs)	5.9	9.7	10.9	8.9	11.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

YE March	FY18	FY19	FY20E	FY21E	FY22E
Growth (%)					
Sales	10.0	12.9	0.8	(7.8)	12.2
Operating Profits	30.3	33.0	4.8	(18.3)	15.1
Net Profits	74.8	65.7	12.1	(18.2)	26.7
Leverage (x)					
Net Debt: Equity	0.39	0.15	(0.01)	(0.16)	(0.29)
Interest Cover(x)	4.88	6.46	8.31	9.58	15.80
Total Debt/EBITDA	1.70	1.07	0.76	0.36	0.20
Profitability (%)					
OPM	19.2	22.7	23.6	20.9	21.4
NPM	7.0	10.3	11.5	10.2	11.5
ROE	13.2	19.9	19.8	14.7	17.0
ROCE	18.5	25.6	27.1	23.2	27.2
Turnover ratios (x)					
GFAT	0.9	1.0	1.0	0.9	1.0
Debtors Turnover(x)	121	97	83	73	78
WC days	47	42	49	51	43
Valuation (x)					
P/E	23.8	15.5	13.0	18.6	14.7
P/B	3.0	2.9	2.4	2.6	2.4
EV/EBIDTA	9.9	7.5	6.3	8.6	6.9
EV/mt (\$)	102.9	95.6	78.7	73.3	68.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance Sheet

YE March, Rsmn	FY18	FY19	FY20E	FY21E	FY22E
Equity Capital	2,266	2,266	2,266	2,266	2,266
Reserves and Surplus	8,198	9,446	10,970	12,044	13,660
Networth	10,464	11,712	13,236	14,310	15,926
Total Debt	4,692	3,918	2,668	1,468	968
Deferred tax liability	835	1,303	1,303	1,303	1,303
Other non-current liabilities	762	889	931	975	1,022
Trade Payables	2,266	2,778	2,465	2,443	2,763
Other Current Liabilities	6,309	6,355	6,452	5,172	5,553
Total Current Liabilities	8,575	9,133	8,917	7,615	8,317
Total liabilities	25,328	26,955	27,055	25,673	27,537
Net Block	18,060	17,368	16,945	16,378	15,689
CWIP	81	172	50	50	50
Investment	368	341	358	376	394
Other non-current assets	211	200	200	200	200
Inventories	1,269	1,674	1,627	1,463	1,690
Sundry Debtors	188	253	266	279	293
Cash and Bank	2,124	3,377	4,005	3,743	5,639
Other current assets	3,027	3,570	3,606	3,185	3,581
Total Current Assets	6,608	8,874	9,503	8,670	11,204
Total Assets	25,328	26,955	27,055	25,673	27,537

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Cash flow statement

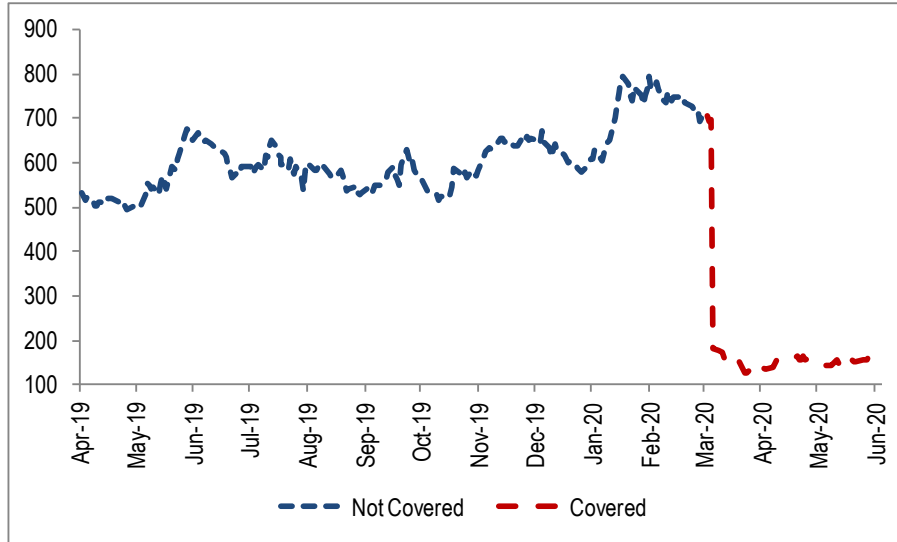
YE March, Rsmn	FY18	FY19	FY20E	FY21E	FY22E
Profit before tax	2,077	3,416	3,830	3,135	3,973
Add: Depreciation	1,012	1,018	1,040	1,067	1,089
Add: Interest Exp	745	748	610	432	301
CFO b4 WC	3,833	5,182	5,480	4,633	5,363
Net change in Working capital	1,090	(455)	(217)	(730)	63
Tax paid	(745)	(1,210)	(1,356)	(1,110)	(1,407)
Net cash from operations	4,178	3,517	3,907	2,793	4,020
Capital expenditure	(319)	(418)	(494)	(500)	(400)
Sale of investments	-	-	-	-	-
Net cash from investing	(314)	(379)	(511)	(518)	(419)
Issue of shares	-	-	-	-	-
Increase in debt	(1,060)	(774)	(1,250)	(1,200)	(500)
Dividends paid incl. tax	(543)	(950)	(950)	(950)	(950)
Interest paid	(745)	(748)	(610)	(432)	(301)
Net cash from financing	(1,882)	(1,885)	(2,767)	(2,537)	(1,705)
Net Cash	1,982	1,253	628	(262)	1,896
Opening Cash	142	2,124	3,377	4,005	3,743
Closing Cash	2,124	3,377	4,005	3,743	5,639

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 March 2020	BUY	201	251
13 April 2020	Accumulate	154	172
5 June 2020	Accumulate	166	172

Rating track graph



DISCLOSURES

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ACCUMULATE -5% to 15%

SELL < -5%

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