ANANDRATHI

India I Equities

Cement

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

6 June 2019

Heidelberg Cement

Rating: **Buy**

Target Price: ₹263

Share Price: ₹210

Firm realisation to aid growth; maintaining a buy

Aided by strong price environment and concentrated efforts towards cost optimisation, company reported strong performance. Its shorter lead distances, an increasing share of premium cement volumes and higher utilization will continue to aid the company to good performance. We retain our Buy recommendation, with a higher target of ₹263 based on 10x FY21e EV/EBITDA.

Utilisation remain high. Running at 90% + capacity utilisation, volumes for the quarter decline by 4.6% y/y to 1.21 m tons due to lost of 8-9 days sale at Jhansi as company achieved licensed operating limit due to mounting demand during the year. Through debottlenecking management guided to increase capacity to 5.9m tons and expect industry to grow at 7% during CY19.We expect revenue to grow at 7% backed by 4% volume CAGR over FY19-21 and stable price environment.

Strong operating performance. Improved realisation, higher contribution of premium cement and cost optimisation efforts resulted in company to report its highest EBITDA/ton of ₹938 in FY19 (vs ₹719 in FY18) which management guided to be sustainable. Despite increase of 6.7% in overall cost/ton owing to increased coal/petcoke and fly ash prices, EBITDA/ton for the quarter grew to ₹959/ton (vs ₹905 a quarter prior and ₹900 a year earlier). We expect EBITDA/ton to reach to ₹1071/ ton in FY21.

Outlook & Valuations. The company repaid entire ECB of ₹1,500m during FY19. Net D/E stood at 0.2x as on Mar'19 (vs 0.4x as on Mar'18) which we expect further to reduce with no major capacity expansion plan. However company guided to increase the capacity by acquisition. Backed by strong operating performance, we expect company's return ratio to improve and FCF generation and further PAT to grow at CAGR of 20% over FY19-21.We maintain our Buy rating, at a target of ₹263 (at 10x FY21e EV/EBITDA) **Risks:** Higher prices of pet-coke and diesel.

Key financials (YE Mar)	FY17	FY18	FY19	FY20e	FY21e
Sales (₹ m)	16,876	18,607	21,094	23,071	24,320
Net profit (₹ m)	762	1,332	2,207	2,743	3,187
EPS (₹)	3.4	5.9	9.7	12.1	14.1
PE (x)	37.1	24.2	18.6	17.4	14.9
EV / EBITDA (x)	14.1	10.9	9.4	8.9	7.9
EV / ton ($)	97.2	100.4	119.0	126.0	113.6
RoE (%)	8.2	13.2	19.9	21.9	22.4
RoCE (%)	5.4	8.6	13.1	15.5	17.4
Dividend yield (%)	1.6	1.8	2.2	2.0	2.3
Net debt/equity (x)	0.7	0.4	0.2	-0.0	-0.2

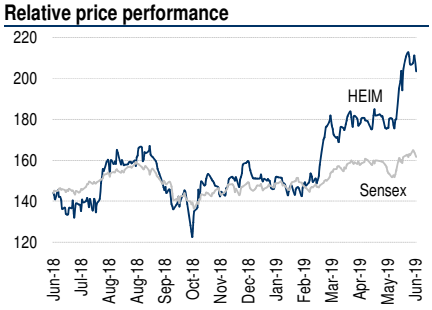
Source: Company, Anand Rathi Research

Key data	HEIM IN / HEID.BO
52-week high / low	₹218 / 122
Sensex / Nifty	39530 / 11844
3-m average volume	$0.4m
Market cap	₹48bn / $689.7m
Shares outstanding	227m

Shareholding pattern (%)	Mar '19	Dec'18	Sept '18
Promoters	69.4	69.4	69.4
- of which, Pledged	-	-	-
Free float	30.6	30.6	30.6
- Foreign institutions	11.7	11.8	12.0
- Domestic institutions	6.9	6.5	6.2
- Public	12.0	12.3	12.4

Estimates revision (%)	FY20e	FY21e
Sales	0.7	1.2
EBITDA	0.2	2.9
PAT	0.3	5.7

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Sales volumes (m tons)	4.5	4.7	4.9	5.2	5.3
Net revenues	16,876	18,607	21,094	23,071	24,320
Growth (%)	3.7	10.3	13.4	9.4	5.4
Direct costs	10,291	10,977	11,992	12,948	13,562
SG&A	4,095	4,284	4,508	4,832	5,073
EBITDA	**2,490**	**3,346**	**4,594**	**5,292**	**5,685**
EBITDA margins (%)	14.8	18.0	21.8	22.9	23.4
- Depreciation	992	1,012	1,018	1,120	1,140
Other income	535	487	587	484	484
Interest expenses	898	745	748	500	200
PBT	1,136	2,077	3,416	4,156	4,829
Effective tax rate (%)	32.9	35.9	34.0	34.0	34.0
+ Associates / (minorities)					
Net Income	762	1,332	2,207	2,743	3,187
Adjusted income	762	1,332	2,207	2,743	3,187
WANS	227	227	227	227	227
FDEPS (₹/ sh)	3.4	5.9	9.7	12.1	14.1
FDEPS growth (%)	115.3	74.8	65.7	24.3	16.2

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
Share capital	2,266	2,266	2,266	2,266	2,266
Net worth	9,670	10,464	11,712	13,299	15,143
Debt	7,053	6,192	5,418	2,418	918
Minority interest					
DTL/(assets)	530	835	1,303	1,303	1,303
Capital employed	**17,253**	**17,491**	**18,433**	**17,020**	**17,364**
Net tangible assets	18,744	18,044	17,352	16,830	16,174
Net Intangible assets	27	17	17	17	17
Goodwill	-	-	-	-	-
CWIP (tang. &intang.)	63	81	172	100	100
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	5,101	5,063	6,038	6,565	7,142
Cash	142	2,124	3,377	2,730	3,616
Current liabilities	6,824	7,837	8,522	9,221	9,685
Working capital	-1,723	-2,774	-2,484	-2,656	-2,542
Capital deployed	**17,253**	**17,491**	**18,433**	**17,020**	**17,364**
Contingent liabilities	366	361	-	-	-

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
PBT	1,136	2,077	3,416	4,156	4,829
+ Non-cash items	992	1,012	1,018	1,120	1,140
Oper. prof. before WC	2,128	3,088	4,434	5,276	5,969
- Incr./(decr.) in WC	-1,832	-1,051	290	-172	114
Others incl. taxes	242	444	740	1,413	1,642
Operating cash-flow	3,718	3,695	3,404	4,035	4,213
- Capex (tang. + intang.)	253	319	417	526	484
Free cash-flow	3,465	3,376	2,987	3,509	3,729
Acquisitions					
- Div.(incl. buyback & taxes)	546	682	1,091	1,156	1,343
+ Equity raised	-	-	-	-	-
+ Debt raised	-3,337	-861	-774	-3,000	-1,500
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	-482	-149	-131	0	-0
Net cash-flow	64	1,982	1,253	-647	886

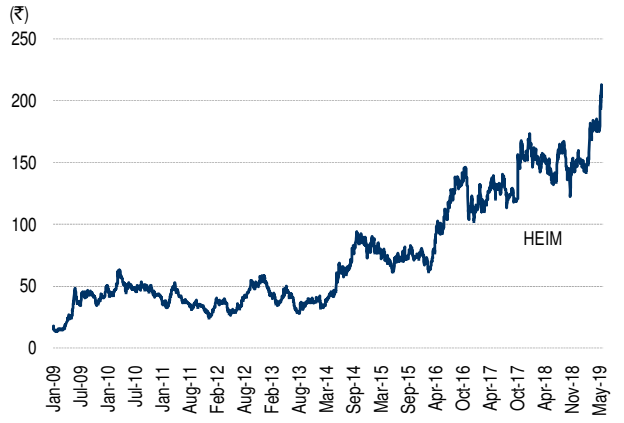
Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20e	FY21e
P/E (x)	37.1	24.2	18.6	17.4	14.9
EV / EBITDA (x)	14.1	10.9	9.4	8.9	7.9
EV / sales (x)	2.1	2.0	2.0	2.0	1.8
P/B (x)	2.9	3.1	3.5	3.6	3.1
RoE (%)	8.2	13.2	19.9	21.9	22.4
RoCE (%) - after tax	5.4	8.6	13.1	15.5	17.4
DPS (₹ / sh)	2.0	2.5	4.0	4.2	4.9
Dividend payout (%) - incl. DDT	71.6	51.2	49.5	42.1	42.1
Net debt / equity (x)	0.7	0.4	0.2	-0.0	-0.2
WC days	-37.3	-54.4	-43.0	-42.0	-38.2
EV / ton ($)	97.2	100.4	119.0	126.0	113.6
NSR / ton (₹)	3,772	3,999	4,308	4,430	4,580
EBITDA / ton (₹)	557	719	938	1,016	1,071
Volumes (m tons)	4.47	4.65	4.90	5.21	5.31
CFO : PAT %	487.9	277.4	154.3	147.1	132.2

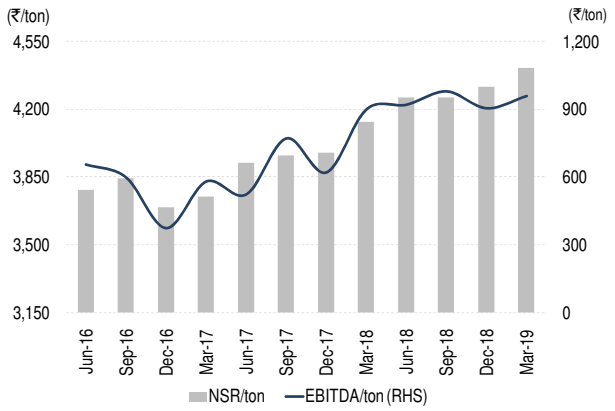
Source: Company, AnandRathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trend



Source: Company, Anand Rathi Research

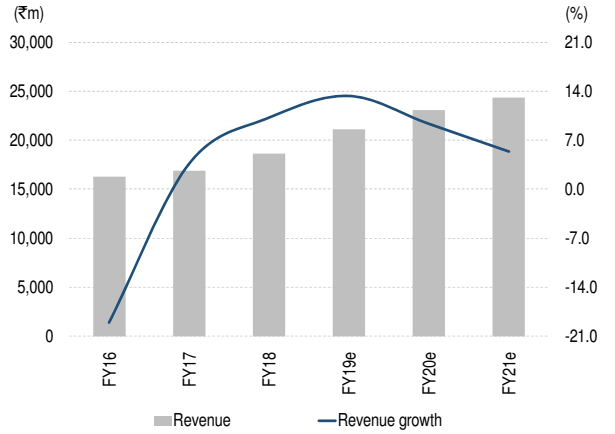
Other key highlights

Revenue growth

On the good pickup in construction in its key market (UP) and with demand and higher utilisation in most parts of Central India, Heidelberg's volumes in FY19 increased 5.2% y/y to 4.9m tons and realisation grew by 7.7% y/y. The Company operated at a capacity utilization of 90%.

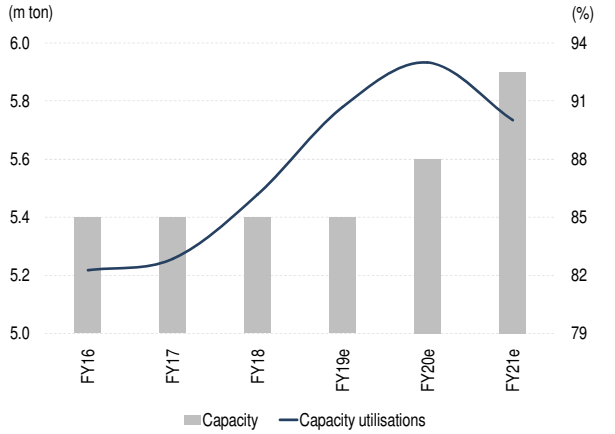
Volumes for the quarter decline by 4.6% y/y to 1.21m tons due to lost of 8-9 days sale at Jhansi as company achieved licensed operating limit due to mounting demand during the year. However realisation remain firm and grew by 6.7% y/y to `4415/ton leading to revenue growth of 1.8% y/y to `5.3bn

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



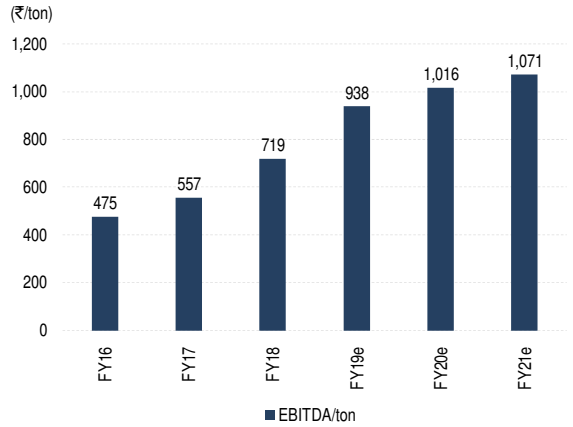
Source: Company, Anand Rathi Research

Operating performance

EBITDA of Rs. 1,162mn saw a slight increase of 1.7% y/y and EBITDA/ton went up by 6.6% y/y (up 6% q/q) to `959/ton mainly on account of better realizations and freight cost/ton was flat y/y. Despite the increase of power & fuel cost/ton by 17.9% y/y on account of usage of high priced petcoke (due to stoppage of petcoke supply from Reliance Industries) and raw material cost per ton was up 12.3% y/y. However, through concentred efforts across various aspects of cost including consumption parameters contributed to operational performance.

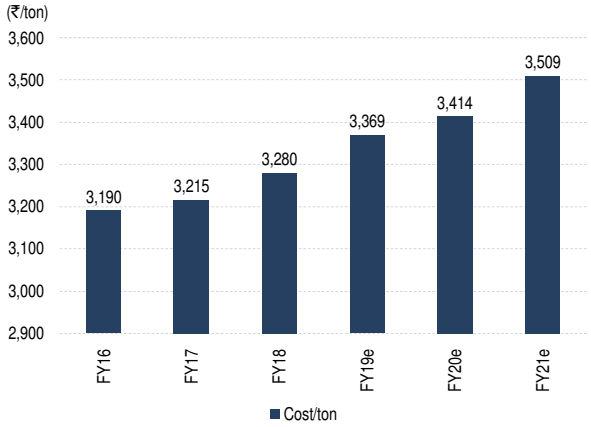
Company reported highest ever quarterly PAT of `609m (up 16.9% y/y) due to good operational profits and savings in interest expense (down by 7% y/y) and increase in other income (up by 73.4% y/y).

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly trend

(₹ m)	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	% Y/Y	% Q/Q
Sales	3,842	3,878	4,538	4,314	4,200	4,839	5,254	5,369	4,795	5,584	5,347	1.8	(4.3)
EBITDA	598	391	701	575	817	754	1,143	1,160	1,102	1,171	1,162	1.7	(0.8)
EBITDA margins (%)	15.6	10.1	15.5	13.3	19.5	15.6	21.7	21.6	23.0	21.0	21.7	-2bps	77bps
EBITDA per ton (₹)	598	373	580	522	771	620	900	920	980	905	959	6.6	6.1
Interest	235	222	195	198	188	186	172	219	199	170	160	(7.0)	(5.5)
Depreciation	250	246	249	250	255	253	254	255	255	254	254	-	0.3
Other income	136	174	129	121	83	167	117	103	125	157	202	73.4	29.0
PBT	250	(53)	536	248	513	483	833	789	774	904	949	14.0	5.0
Tax	85	(18)	166	88	181	165	312	278	273	319	340	9.2	6.8
Adj. PAT	165	115	220	160	276	318	521	511	501	586	609	16.9	4.0

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	%Y/Y	%Q/Q
Realisations	3,842	3,693	3,750	3,922	3,962	3,976	4,137	4,261	4,262	4,316	4,415	6.7	2.3
EBITDA	598	373	580	522	771	620	900	920	980	905	959	6.6	6.1
Sales volumes (m tons)	1.00	1.05	1.21	1.10	1.06	1.22	1.27	1.26	1.13	1.29	1.21	(4.6)	(6.4)
Costs													
Raw material	728	700	781	765	768	760	776	781	782	769	872	12.3	13.4
Power & Fuel	1,062	986	966	947	1,023	829	1,027	937	1,068	928	1,211	17.9	30.5
Freight	533	538	552	567	578	605	679	657	592	586	682	0.5	16.4
Staff	270	261	280	267	276	237	258	242	277	206	294	14.1	42.9
Other expenditure	747	715	597	738	677	694	603	646	710	674	647	7.4	(4.0)

Source: Company, Anand Rathi Research

Change in estimates

To factor in the FY19 performance and coming better demand and pricing context in the Central region and the company's improving operating performance, we have altered our FY20 and FY21 estimates:revenue up0.7% and 1.2% respectively and EBITDA 0.2% and 2.9%. PAT, to we raise 0.3% and 5.7% due to the enhanced operating performance and lower interest cost because of the de-leveraging.

Fig 13 – Change in estimates

	Old		New		Variance	
(₹ m)	FY20e	FY21e	FY20e	FY21e	%chg	%chg
Sales	22,913	24,026	23,071	24,320	0.7	1.2
EBITDA)	5,281	5,526	5,292	5,685	0.2	2.9
PAT	2,736	3,016	2,743	3,187	0.3	5.7
Realisation/ton(₹)	4,420	4,540	4,430	4,580	0.2	0.9
EBITDA/ton(₹)	1,019	1,044	1,016	1,071	(0.3)	2.5
Volumes(m tons)	5.2	5.3	5.2	5.3	0.5	0.4

Source: Anand Rathi Research

Concall highlights

Key operational highlights

- Volume for the quarter declined by 4.6% y/y to 1.21m ton due to loss of 8-9 days sale at Jhansi on as company achieved licensed operating limit due to mounting demand during the year.
- The company is focused on increasing its share in the trade segment with the trade-nontrade mix in Q4 FY19 at 85:15.
- Interest cost include provision related to interest demand.
- In Q4 FY19, volumes of premium products increased to 10% of trade volumes, up 31% y/y.
- Company generates 68-69m units of power through WHRS.
- Price difference between coal and petcoke is `50/ton
- During the quarter, capacity utilisation was~90%.
- The pet coke-domestic coal ratio was 60:40. The company has an efficient process to change the fuel mix in a two-day interval.
- The rail-road mix for the quarter was 46:54.

Fig 14 – Trade and Non-trade mix

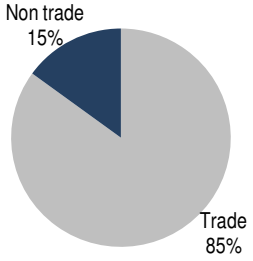


Fig 15 – Rail-Road mix

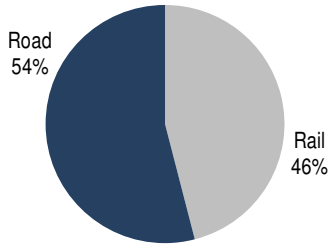
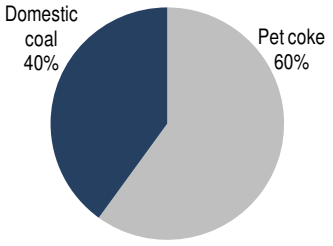


Fig 16 – Fuel mix



Source: Company, Anand Rathi Research

Volumes and capacity

- The company expects to increase capacity 10% through de-bottlenecking i.e. 0.4m ton in phases manner.
- Company repaid entire ECB of ₹ 1,500m during FY19 and received interest free loan of ₹ 687 from UP Govt
- With the current limestone reserves, there are no major expansion plans for the coming years.

Industry

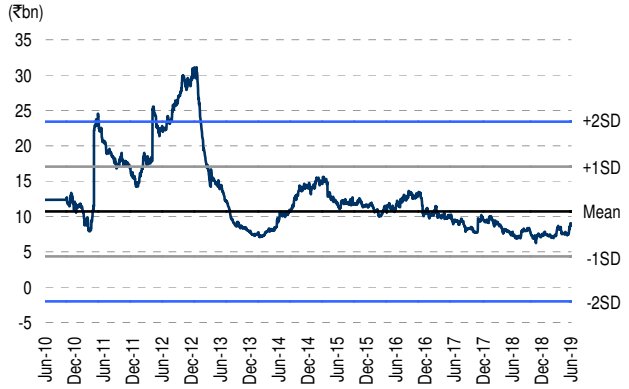
- Capacity utilisation in the cement industry in FY19 was 70%.
- With the pick-up in infrastructure activity, the company expects cement demand to grow 7% in CY19, in step with demand increasing in the coming quarters with stronger demand in U.P.
- The company expects no cost inflation for fly-ash or other additives.

Valuations

We expect further growth in volumes and demand,boosted by the pick-up in infrastructure activity in the Central region. We also like this region given its favourable demand-supply dynamics.

We maintain a Buy, with a revised target of ₹263, based on 10x FY21e EV/EBITDA; the EV/ton is $144. We have lowered our multiple in line with the fall in the broader markets. At the CMP, the stock trades at an EV/EBITDA of 7.9x, an EV/ton of $113.7 and a PE of 14.9x FY20e.

Fig 17 –Twelve-month-forward EV/EBITDA: Mean and Standard deviation



Source: Bloomberg, Anand Rathi Research

Fig 18 –Peer comparison-Valuations

	CMP	P/E(x)		EV/EBITDA(x)		EV/ton($)	
	(₹)	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Heidelberg Cement	210	17.4	15.2	8.9	7.9	126	114
Birla Corp.	656	18.1	16.6	8.4	8.0	71	71
Dalmia Bharat	1164	46.9	40.2	11.3	10.1	142	103
Deccan Cement	405	9.3	7.9	4.4	3.3	32	27
India Cement	102	16.5	12.7	7.8	7.2	59	59
JK Cement	1034	20.6	18.3	11.9	9.9	98	95
JK Lakshmi	379	25.0	15.8	10.7	8.1	69	63
Mangalam Cement	275	42.1	13.0	11.5	7.2	45	44
NCL Indus	146	8.7	6.9	4.9	3.9	44	40
Orient Cement	119	20.3	15.5	8.6	7.6	72	78
Ramco Cement	808	27.6	19.9	16.5	12.4	190	157
Sagar Cement	684	19.9	13.8	9.0	7.6	59	45
Sanghi Industries	66	53.8	30.8	14.1	9.7	101	49

Source: Bloomberg, Anand Rathi Research

Risk

- Higher freight prices due to the hike in prices of diesel.

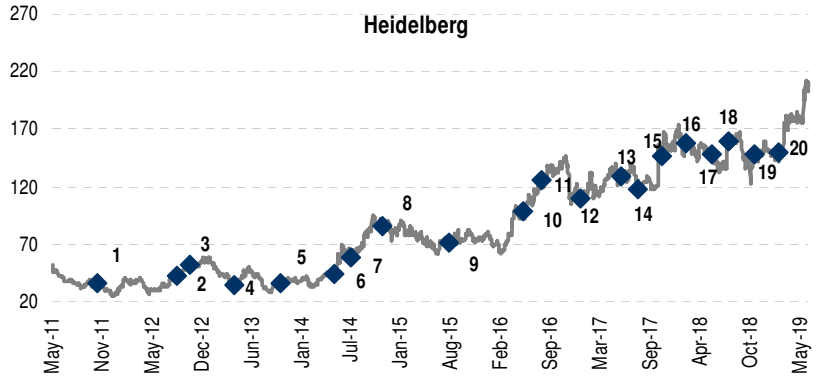
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 6 June 2019)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Oct-11	Hold	39	36
2	27-Aug-12	Buy	58	41
3	16-Oct-12	Hold	58	54
4	09-Apr-12	Buy	45	34
5	09-Oct-13	Hold	41	36
6	07-May-14	Hold	51	44
7	09-Jul-14	Buy	80	61
8	11-Nov-14	Buy	108	85
9	28-Jul-15	Buy	99	71
10	16-May-16	Buy	130	101
11	30-Jul-16	Buy	170	126
12	31-Dec-16	Buy	146	106
13	06-Jun-17	Buy	157	131
14	09-Aug-17	Buy	124	150
15	08-Nov-17	Buy	189	146
16	15-Feb-18	Buy	202	162
17	29-May-18	Buy	194	150
18	31-Jul-18	Buy	213	161
19	06-Nov-18	Buy	200	147
20	14-Feb-19	Buy	215	148

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Ratings Guide (12 months)

	Buy	Hold	Sell
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