CHOLA SECURITIES

Heidelberg Cements India Ltd (HCIL)

Sector: Cement/small cap | Earnings Update – 1QFY19

BUY

31 July 2018

Background: Heidelberg Cements (HCIL), erstwhile Mysore Cements set up by Birla group in 1958 is now a subsidiary of Heidelberg AG, the world's third largest cement manufacturer. The company manufactures portland cement through its three plants located at Ammasandra, Karnataka (0.6 MTPA), Damoh, Madhya Pradesh (2.1 MTPA) and Jhansi, Uttar Pradesh (2.7 MTPA). The company also caters to Bangalore, Mumbai and Pune apart from MP and UP. The company has increased its installed capacity to 5.4 MTPA.

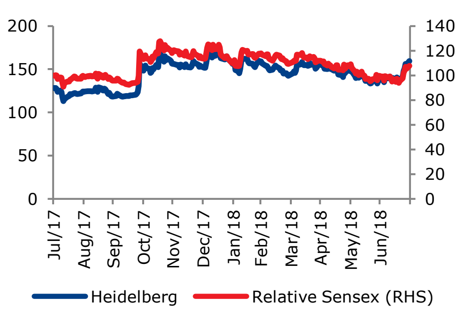
Sensex	37,606
Nifty	11,356
Price	INR 160
Target Price	INR 186
Recommendation	BUY
52 Week High/Low	INR 189/110
Bloomberg / Reuters	HEIM IN/MYCM.BO
Equity (shares in mn)	226.62
Mkt. Cap in bn	INR 36.67/ $ 0.54
Avg. Daily Vol. ('000)	300.8
Avg. Daily Vol. (mn)	INR 44.8/$0.7

Shareholding	Jun-17	Mar-18	Jun-18
Promoters (%)	69.39	69.39	69.39
FII (%)	11.57	11.63	11.74
DII (%)	6.72	5.97	5.97
Others (%)	12.32	13.01	12.90
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	18.6	21.7	23.9
EBITDA	3.4	4.2	4.8
Adj PAT	1.3	2.1	2.9
Adj EPS	5.9	9.1	12.6
% growth	76.3	53.7	38.8
PE	27.1	17.6	12.7
P/BV	3.5	3.0	2.6
EV/EBIDTA	12.0	9.1	7.7
EV/Sales	2.4	2.1	1.9
Div Yield (%)	1.2	1.3	1.4
ROE (%)	14%	19%	22%
Net Debt/Equity	0.5	0.2	0.1

Performance %	1M	3M	12M
Heidelberg	14.3	2.6	22.3
Sensex	5.8	6.6	16.0



Robust operational quarter with EBITDA per ton at historical highs

- HCIL's revenue grew by 22% YoY to INR 5.4bn due to growth in sales volume coupled with superior realizations. The company posted a 15% YoY growth in sales volume to 1.26mn ton aided by pick-up in construction activities, better sand availability in most parts of the central India especially in Uttar Pradesh. Realization per ton increased by 7% YoY (2.5% QoQ) to INR 4,287/tn. Trade and Non-trade mix of the company is currently at ~83:17.
- Raw material cost per ton grew by 2.1% YoY (0.6% QoQ) to INR 781. Power & fuel costs per ton declined by 1.1% YoY to INR 937, due to increase in power generation from WHRS by 17%YoY. Currently WHRS is contributing up to 20% of the power requirement of the company. Freight costs rose by 16% YoY to INR 657/ton due to higher diesel prices. HCIL road: rail mix is currently at~58:42, average lead distance stood at 365 km.
- HCIL's fuel mix stands at ~57% of pet coke and ~43% of domestic coal, due to raising pet coke prices. In 4QFY18 the fuel mix was at 70% of pet coke and 30% of coal.
- EBITDA rose by 78% YoY to INR 1,193 mn due to better realizations and operating cost efficiency. EBITDA margins increased by 689 bps to 22.1% in 1QFY19. EBITDA per ton for the quarter stood at INR 947 vs. INR 609 YoY. PAT stood at INR 511mn Vs INR 160mn in due to strong operating performance.
- HCIL's net debt stood at INR 3.37 bn at the end of 1QFY19, after repaying INR 0.75 bn debt. The management also indicated repayment of another INR 0.75 bn debt in 2QFY19 which will bring the debt further down to INR 2.62 bn.

Valuation: Heidelberg's capacity utilisation stood at 92% and it is expected to improve further from current high levels due to higher demand led by increase in infrastructure spending and affordable housing under Pradhan Mantri Awas Yojna. At CMP, the stock trades at EV/EBITDA of 9.1X and 7.7X of FY19 & 20E respectively. We rate the stock a BUY with a price target of INR 186 assigning a EV/EBITDA multiple of 9X FY20E.

Risks: Delay in economic turnaround, lower than expected infrastructure spending, adverse movement in coal/pet coke prices.

Results Summary 1QFY19

Y/E March (INR mn)	1QFY19	1QFY18	YoY Growth	4QFY18	QoQ Growth
Revenue	5402.1	4410.3	22%	5313.3	2%
EBIDTA	1193.4	670.6	78%	1201.7	-1%
Depreciation	254.9	249.5	2%	254.4	0%
Other Income	69.4	24.8	180%	57.6	20%
PBT	788.7	248.0	218%	832.6	-5%
Tax	277.5	87.6	217%	311.6	-11%
PAT	511.2	162.8	214%	516.1	-1%
Adjusted PAT*	511.2	160.4	219%	521.0	-2%
EBIDTA Margin	22.1%	15.2%		22.6%	
Tax Incidence	35.2%	35.3%		37.4%	
Adj PAT Margin	9.5%	3.6%		9.8%	

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