

Realisations upbeat; capacity constraints still persist

Heidelberg Cement reported a mixed set of numbers with the topline missing our estimates but EBITDA, PAT broadly coming in line despite witnessing volume de-growth vs. our estimates. Revenues increased 1.8% YoY to ₹ 534.7 crore (below I-direct estimate of ₹ 561.7 crore). The revenue growth was driven by 6.7% growth in realisation to ₹ 4415/t (above I-direct estimate of ₹ 4,337/t) while volume came in at 1.21 MT (vs. I-direct estimate of 1.3 MT), posting 4.6% YoY de-growth. On the margin front, EBITDA margins remained flat YoY and expanded ~80 bps QOQ to 21.7% (vs. I-direct estimate of 21.2%) supported by strong realisations growth. On an absolute level, EBITDA was at ₹ 116.2 crore, increasing 1.7% YoY (vs. I-direct estimate of ₹ 119.3 crore). Adjusted PAT increased 18% YoY from ₹ 51.6 crore to ₹ 60.9 crore (vs. I-direct estimate of ₹ 59 crore) in Q4FY19, mainly by higher other income (up 81% YoY to 20.2%).

Capacity bottlenecks to be addressed for short-term only

For FY19, Heidelberg clocked volume growth of 5.4% YoY to 4.9 MT and ended the year with capacity utilisation of 91%, thereby leaving very low room for growth. Since the clinker unit operated at 85% utilisation, the company would be undertaking expansion of its grinding capacity at Damoh unit in MP by 0.5 MT going ahead. This would provide the company with some room to grow in volume terms but concerns on growth in the longer term would remain unless a new project is announced. Hence, we model a 5% volume CAGR in FY19-21E after considering the de-bottlenecking operations, implying capacity utilisation of 92% in FY21E.

Strong cash flow generation to strengthen balance sheet

The company has been utilising cash flows from operations towards repayment of its debt. The total debt of the company had reduced from ~₹ 1236 crore in FY16 to ₹ 765 crore in FY19 while the debt/EBITDA has also improved from 5.7x in FY16 to 1.5x in FY19, which would further reduce to 0.8x in FY21E owing to strong operational cash flows being deployed towards debt repayment. Over FY19-21E, the company is expected to generate ~₹ 750 crore of operational cash flows cumulatively, thereby placing the company in a comfortable position to service its debt repayments as well as fund the capex for adding new capacity.

Valuation & Outlook

Heidelberg continues to have a strong retail presence. With firm pricing in its region led by efficient operations of Heidelberg Cement India, we maintain a positive outlook on the company's profitability. However, capacity issues for the longer term would continue to persist. Considering rich valuations, the upside, however, remains limited. Valuing the company at 9.5x FY21E EV/EBITDA, we have a **HOLD** rating with a TP of ₹ 220/share.

HEIDELBERGCEMENT

Stock Data

Particular	Amount
Mcap	₹ 4804 crore
Debt (FY19)	₹ 700 crore
Cash & Invest (FY19)	₹ 242 crore
EV	₹ 5263 crore
52 week H/L	₹ 175 / 122
Equity cap	₹ 226.6 crore
Face value	₹ 10

Key Highlights

- Capacity to be enhanced from 5.4 MT to 5.9 MT in FY20E
- Capacity constraint to keep volume growth restricted at 5% CAGR over the next two years
- Strong operational cash flows to aid debt reduction on the back of no major capex announced
- Debt/EBITDA to improve from 1.5x in FY19 to 0.8x in FY21E assuming no major capex
- Recommend **HOLD** (changed from **BUY** earlier) with a target price of ₹ 220/share

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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1688	1861	2109	2250	2396	6.6%
EBITDA	249	335	459	495	526	7.0%
EBITDA (%)	14.8	18.0	21.8	22.0	22.0	
Net Profit	72	134	220	247	284	13.6%
EPS	3.2	5.9	9.7	10.9	12.5	
EV/EBITDA	22.7	16.1	11.5	10.1	9.2	
EV/Tonne (\$)	161	153	150	142	126	
RoNW	7.4	12.8	20.5	20.1	20.2	
RoCE	10.6	14.8	21.8	24.0	24.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Net Sales	534.7	561.7	525.4	1.8	558.4	-4.3	Realisation growth of 6.7% overshadowed by 4.6% degrowth in volumes, resulting in ~2% topline growth
Other Incomes	20.2	16.3	11.2	81.0	15.7	29.0	
Raw Material Expenses	105.6	103.0	98.6	7.1	99.5	522.6	Total RM costs per tonne down 7.5% YoY
Employee Expenses	35.6	34.5	32.7	8.8	26.6	33.7	
Change in stock	-30.4	3.9	-13.3	128.0	32.1	NA	
Power and fuel	146.7	124.3	130.4	12.5	120.1	22.1	P&F costs per tonne up ~18%
Freight	82.6	86.8	86.2	-4.2	75.9	8.9	Freight costs per tonne remain flat YoY
Others	78.4	90.0	76.5	2.4	87.2	-10.2	
EBITDA	116.2	119.3	114.3	1.7	117.1	-0.8	
EBITDA Margin (%)	21.7	21.2	21.7	-2 bps	21.0	77 bps	Increase in production costs offset by better realisations thereby keeping margins stable YoY
Interest	16.0	17.0	17.2	-7.0	17.0	-5.5	
Depreciation	25.4	27.3	25.4	0.0	25.4	0.3	
PBT	94.9	91.2	82.8	14.7	90.4	5.0	
Total Tax	34.0	32.3	31.2	9.2	31.9	6.8	
Reported PAT	60.9	58.9	51.6	18.0	58.6	4.0	
Adjusted PAT	60.9	58.9	51.6	18.0	58.6	4.0	Higher other income drives PAT higher

Key Metrics

Volume (MT)	1.21	1.30	1.27	-4.6	1.29	-6.4	We believe lower demand due to Lok Sabha elections and a change in the state government in Madhya Pradesh impacted volume growth
Realisation (₹)	4,415	4,337	4,137	6.7	4,316	2.3	Strong retail presence keeps realisation higher
EBITDA per Tonne (₹)	959	921	900	6.6	905	6.1	Healthy realisations aided higher EBITDA/t

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Total Revenue	2,352.1	2,250.3	-4.3	NA	2,395.9	NA	Capacity constraints to result in revenue growth of 6.6% CAGR in FY19-21E
EBITDA	512.4	495.1	-3.4	NA	526.1	NA	
EBITDA Margin (%)	21.8	22.0	22 bps	NA	22.0	NA	
PAT	263.9	247.1	-6.4	NA	284.3	NA	PAT to grow at a higher pace led by lower finance costs on account of debt reduction
EPS (₹)	11.6	10.9	-6.4	NA	12.5	NA	

Source: Company, ICICI Direct Research

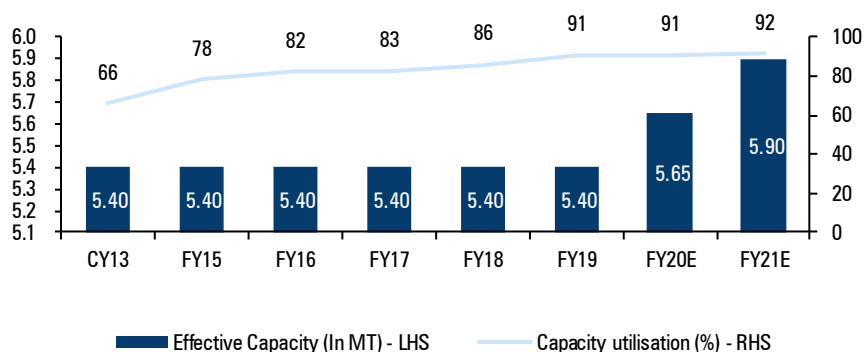
Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY17	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Volume (MT)	4.5	4.6	4.9	5.1	5.4	5.3	NA	We expect 5% volume CAGR over FY19-21E
Realisation (₹)	3,771	4,004	4,308	4,372	4,438	4,391	NA	
EBITDA/T(₹)	556	720	938	962	974	926	NA	EBITDA/t to improve led by higher realisation

Source: Company, ICICI Direct Research

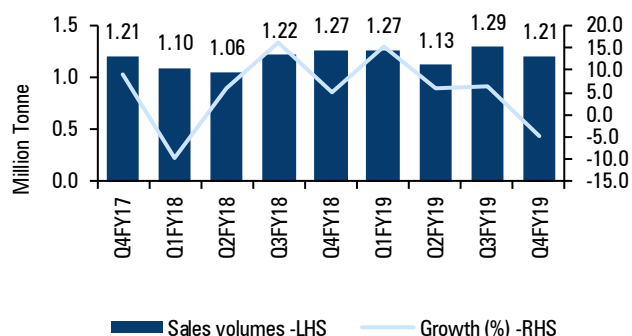
Financial Story in Charts

Exhibit 4: Capacity utilisation trend



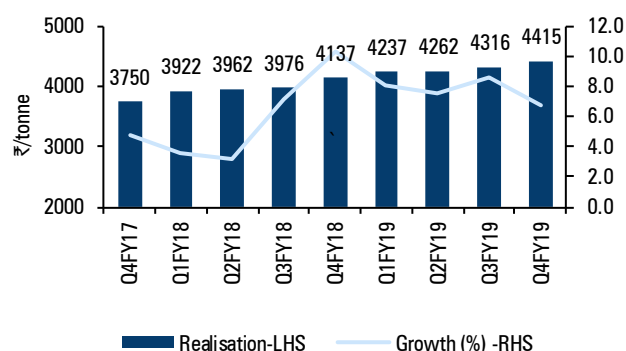
Source: Company, ICICI Direct Research

Exhibit 5: Volumes witness 4.6% YoY decline



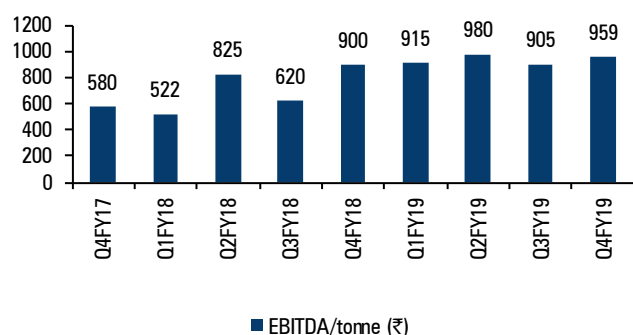
Source: Company, ICICI Direct Research

Exhibit 6: Realisations grow 6.7% YoY



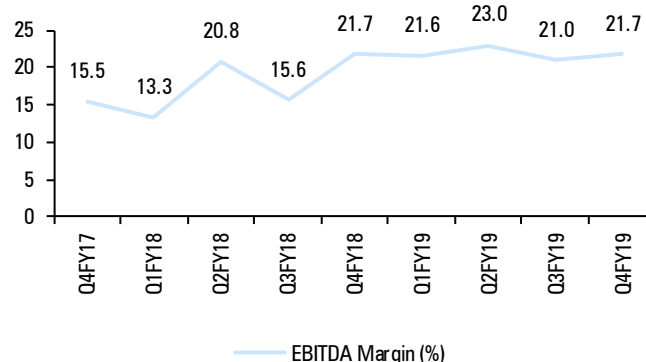
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/t increases 6.6% YoY



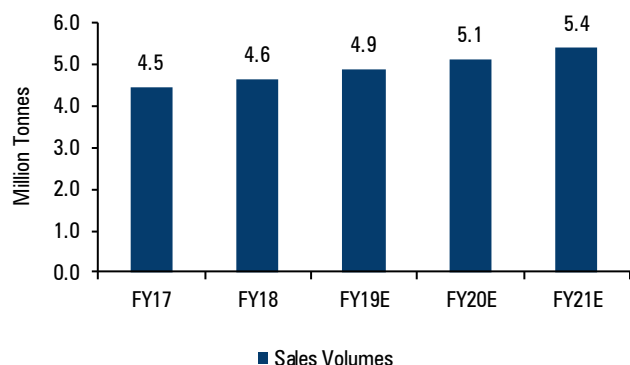
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margins remain flat YoY



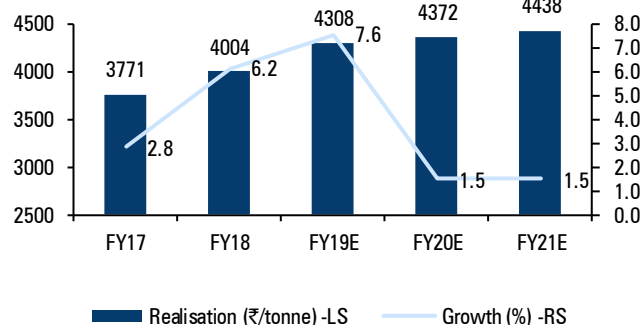
Source: Company, ICICI Direct Research

Exhibit 9: Volumes to clock 5% CAGR over FY19-21E



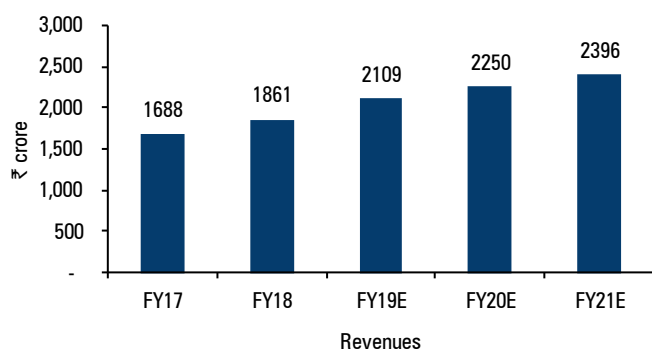
Source: Company, ICICI Direct Research

Exhibit 10: Realisations expected to grow at 1.5% CAGR in FY19-21E



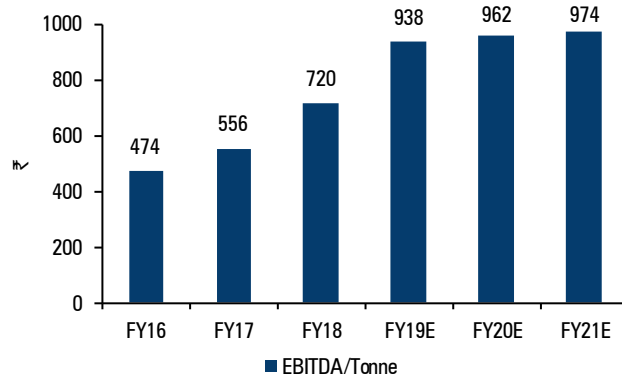
Source: Company, ICICI Direct Research

Exhibit 11: Revenues to grow at 6.6% CAGR over FY19-21E



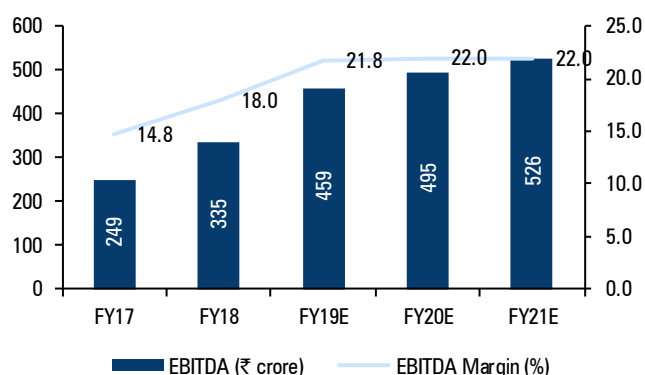
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t to improve gradually to ₹ 974/t



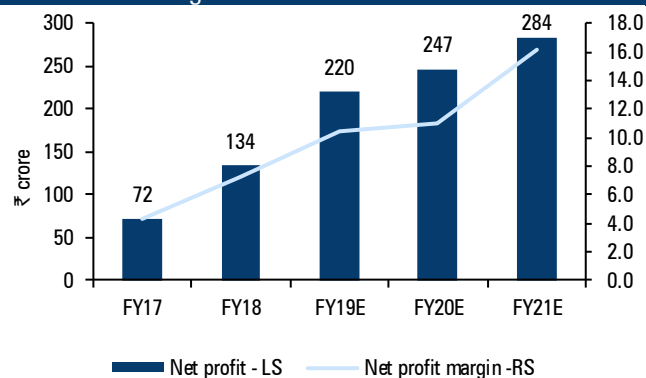
Source: Company, ICICI Direct Research

Exhibit 13: Margins to remain broadly stable over coming years



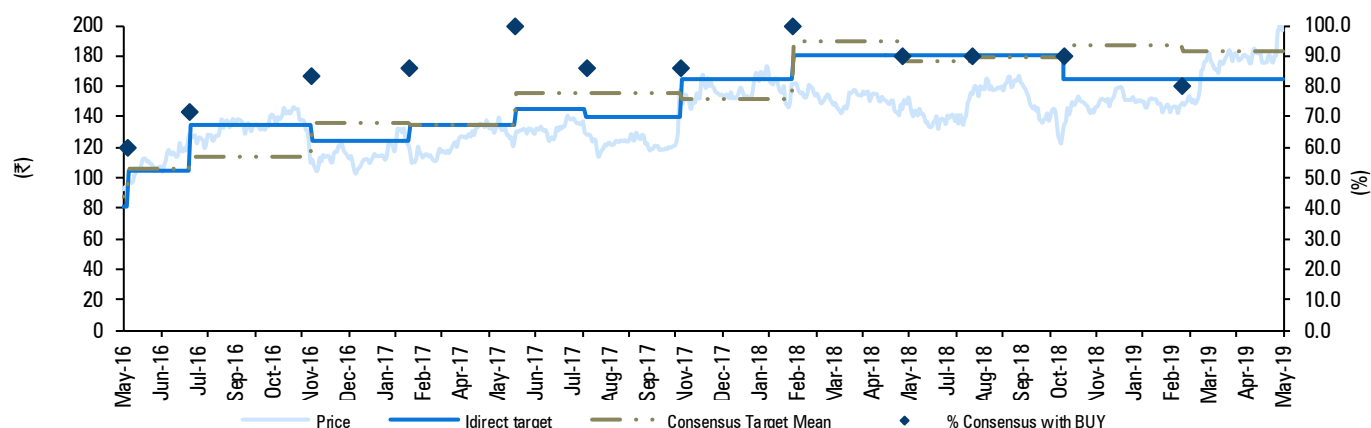
Source: Company, ICICI Direct Research

Exhibit 14: PAT to grow at 13.6% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 15: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: Top 10 Shareholders

Rank	Name	Last Filing Date	%O/S	Position (m)	Change (m)
1	HeidelbergCement AG	31-Mar-19	69%	157.2	0.0
2	Stewart Investors	31-Mar-19	4%	9.4	0.0
3	First State Investments (Singapore)	28-Feb-19	3%	6.2	0.0
4	Sundaram Asset Management Company Limited	30-Apr-19	2%	4.4	0.0
5	Caisse de Depot et Placement du Quebec	31-Mar-19	1%	3.4	0.0
6	JPMorgan Asset Management U.K. Limited	31-Jan-19	1%	3.0	0.0
7	J.P. Morgan Asset Management (Hong Kong) Ltd.	31-Mar-19	1%	3.0	0.0
8	Bajaj Group of Industries	31-Mar-19	1%	2.9	0.0
9	Alquity Investment Management Ltd.	31-Mar-19	1%	2.9	-0.2
10	Life Insurance Corporation of India	31-Mar-19	1%	2.6	-1.0

Source: Company, ICICI Direct Research

Exhibit 17: Recent Activity

Buys			Sells		
Investor name	Value (mn)	Shares (mn)	Investor name	Value (mn)	Shares (mn)
IDBI Asset Management Limited	0.4	0.2	Life Insurance Corporation of India	-2.6	-1.0
HDFC Life Insurance Company Limited	0.2	0.1	Legato Capital Management LLC	-0.6	-0.2
Axis Asset Management Company Limited	0.2	0.1	Alquity Investment Management Ltd.	-0.5	-0.2
Victory Capital Management Inc.	0.0	0.0	Dimensional Fund Advisors, L.P.	-0.2	-0.1
BNP Paribas Asset Management India Pvt. Ltd.	0.0	0.0	Sundaram Asset Management Company Limited	-0.1	0.0

Source: Company, ICICI Direct Research

Exhibit 18: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	69.39	69.39	69.39	69.39	69.39
FII	11.63	11.74	11.97	11.77	11.72
DII	5.97	5.97	6.20	6.54	6.89
Others	13.01	12.90	12.44	12.30	12.00

Source: Company, ICICI Direct Research

Financial summary

Exhibit 19: Profit and Loss Statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	1,860.7	2,109.4	2,250.3	2,395.9
Growth (%)	10.3	13.4	6.7	6.5
Raw material	370.3	386.3	414.1	447.4
Power & Fuel	443.9	504.9	540.4	583.9
Employees	120.2	123.9	132.8	142.1
Freight	283.6	307.9	333.3	356.3
Others	308.2	326.9	334.5	340.1
Total Operating Exp.	1,526.1	1,650.0	1,755.2	1,869.9
EBITDA	334.6	459.4	495.1	526.1
Growth (%)	34.4	37.3	7.8	6.3
Depreciation	101.2	101.8	103.3	105.0
Interest	74.5	74.8	62.6	44.0
Other Income	49.6	58.4	55.0	55.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	208.5	341.3	384.2	432.0
Total Tax	74.5	121.0	137.2	147.7
PAT	134.0	220.4	247.1	284.3
Growth (%)	86.1	64.5	12.1	15.1
EPS (₹)	5.9	9.7	10.9	12.5

Source: Company, ICICI Direct Research

Exhibit 21: Balance Sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	226.6	226.6	226.6	226.6
Reserve and Surplus	819.8	848.9	1,004.3	1,179.3
Total Shareholders funds	1,046.4	1,075.5	1,230.9	1,405.9
Total Debt	857.6	765.4	565.4	465.4
Deferred Tax Liability	83.5	130.3	130.3	130.3
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	1,987.5	1,971.2	1,926.6	2,001.7
Assets				
Gross Block	2,979.7	3,012.3	3,064.0	3,112.0
Less: Acc Depreciation	1,173.7	1,275.5	1,378.7	1,483.7
Net Block	1,806.0	1,736.9	1,685.3	1,628.3
Capital WIP	8.1	17.2	15.0	12.0
Total Fixed Assets	1,814.1	1,754.1	1,700.3	1,640.3
Investments	0.0	0.0	0.0	0.0
Inventory	126.9	167.4	122.3	186.2
Debtors	18.8	25.3	12.9	27.8
Loans and Advances	302.7	357.0	246.0	396.1
Other Current Assets	57.9	54.0	67.5	61.9
Cash	212.4	241.8	323.8	390.8
Total Current Assets	718.7	845.6	772.6	1,062.7
Creditors	326.5	374.5	327.1	419.9
Provisions	218.9	253.9	219.1	281.4
Total Current Liabilities	545.4	628.5	546.2	701.3
Net Current Assets	173.4	217.1	226.4	361.4
Application of Funds	1,987.5	1,971.2	1,926.6	2,001.7

Source: Company, ICICI Direct Research

Exhibit 20: Cash Flow Statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	134.0	220.4	247.1	284.3
Add: Depreciation	101.2	101.8	103.3	105.0
(Inc)/dec in Current Assets	3.8	-97.5	155.0	-223.1
Inc/(dec) in CL and Provision:	75.6	83.1	-82.3	155.1
CF from operating activities	314.5	307.8	423.1	321.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-31.9	-41.8	-49.4	-45.0
Others	46.8	41.0	0.0	0.0
CF from investing activities	14.8	-0.8	-49.4	-45.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-76.6	-86.4	-200.0	-100.0
Dividend paid & dividend tax	-68.3	-109.3	-109.3	-109.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	13.8	-82.0	17.7	0.0
CF from financing activities	-131.2	-277.6	-291.6	-209.3
Net Cash flow	198.2	29.3	82.0	67.0
Opening Cash	14.2	212.4	241.8	323.8
Closing Cash	212.4	241.8	323.8	390.8

Source: Company, ICICI Direct Research

Exhibit 22: Key Ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	5.9	9.7	10.9	12.5
Cash EPS	10.4	14.2	15.5	17.2
BV	46	47	54	62
DPS	2.5	4.0	4.0	4.0
Cash Per Share	9.4	10.7	14.3	17.2
Operating Ratios (%)				
EBITDA Margin	18.0	21.8	22.0	22.0
PAT Margin	7.2	10.4	11.0	11.9
Inventory days	26.1	25.5	23.5	23.5
Debtor days	3.1	3.8	3.1	3.1
Creditor days	56.9	60.7	56.9	56.9
Return Ratios (%)				
RoE	12.8	20.5	20.1	20.2
RoCE	14.8	21.8	24.0	24.6
RoIC	13.2	20.9	24.7	26.3
Valuation Ratios (x)				
P/E	35.9	21.8	19.4	16.9
EV / EBITDA	16.1	11.5	10.1	9.2
EV / Net Sales	2.9	2.5	2.2	2.0
Market Cap / Sales	2.6	2.3	2.1	2.0
Price to Book Value	4.6	4.5	3.9	3.4
Solvency Ratios				
Debt/EBITDA	2.4	1.5	1.0	0.8
Debt / Equity	0.8	0.7	0.4	0.3
Current Ratio	1.3	1.3	1.4	1.5
Quick Ratio	0.9	1.0	0.8	1.0

Source: Company, ICICI Direct Research

Exhibit 23: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap (₹ Cr)	EPS(₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
ACC*	1,750	1,800	HOLD	32,890	81	63	81	17.0	15.3	12.2	129	126	123	14.7	16.6	19.5	14.9	11.2	13.6
Ambuja Cem*	238	245	HOLD	47,258	8.1	7.6	8.2	23.2	19.3	17.3	155	153	149	11.4	14.5	16.6	11.3	9.7	10.7
UltraTech Cem	4,770	5,300	BUY	130,889	89	116	160	22.8	17.0	13.9	263	213	210	9.7	12.6	15.0	8.8	10.4	12.6
Shree Cement	21,600	22,040	HOLD	75,168	318	521	615	29.5	21.2	18.4	232	186	182	11.5	18.3	19.2	11.5	16.3	16.5
Heidelberg Cem	212	220	HOLD	4,804	9.7	10.9	12.5	11.5	10.1	9.2	150	142	126	21.8	24.0	24.6	20.5	20.1	20.2
India Cement	112	115	HOLD	3,441	2.3	3.6	4.8	11.0	9.7	8.9	71	76	77	4.5	5.2	5.8	1.3	2.1	2.7
JK Cement	1,060	1,150	BUY	7,413	42.0	56.1	63.7	11.0	9.9	8.6	113	110	108	12.5	13.0	13.4	11.2	13.4	13.6
JK Lakshmi Cem	393	485	BUY	4,621	6.8	17.1	21.9	13.8	9.7	8.2	73	71	68	5.2	11.8	13.2	5.2	11.8	13.2
Mangalam Cem	267	215	REDUCE	713	-3.7	13.1	16.6	23.8	12.7	11.2	52	53	52	3.2	10.6	11.2	-2.0	6.5	7.7
Star Cement	120	120	HOLD	5,030	7.1	7.9	8.9	10.7	9.7	8.5	177	174	116	18.9	18.0	18.1	17.3	16.6	16.0
Ramco Cement	820	950	BUY	19,522	20.6	29.3	32.8	20.1	15.1	12.6	198	182	153	8.0	9.9	10.9	11.2	14.3	14.4
Sagar Cement	676	800	BUY	1,379	6.7	23.2	31.0	12.4	9.5	8.6	58	58	60	6.4	9.5	10.5	1.6	5.3	6.7

Source: Company, ICICI Direct Research, *December year ending

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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