

July 31, 2019

Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	220		220	
Sales (Rs. m)	22,592	23,365	22,592	23,365
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,326	5,035	5,326	5,035
% Chng.	-	-	-	-
EPS (Rs.)	12.1	11.6	12.1	11.6
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	18,607	21,094	22,592	23,365
EBITDA (Rs. m)	3,346	4,556	5,326	5,035
Margin (%)	18.0	21.6	23.6	21.6
PAT (Rs. m)	1,332	2,181	2,747	2,638
EPS (Rs.)	5.9	9.6	12.1	11.6
Gr. (%)	75.5	63.8	25.9	(4.0)
DPS (Rs.)	2.5	4.0	3.5	3.5
Yield (%)	1.3	2.1	1.8	1.8
RoE (%)	13.2	19.7	21.7	18.3
RoCE (%)	14.0	21.9	26.0	22.6
EV/Sales (x)	2.6	2.1	1.9	1.7
EV/EBITDA (x)	14.3	9.7	8.0	7.8
PE (x)	32.9	20.1	16.0	16.6
P/BV (x)	4.2	3.7	3.2	2.9

Key Data

HEID.BO | HEIM IN

52-W High / Low	Rs.218 / Rs.122
Sensex / Nifty	37,481 / 11,118
Market Cap	Rs.44bn/ \$ 638m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.105.92m

Shareholding Pattern (%)

Promoter's	69.39
Foreign	11.68
Domestic Institution	7.08
Public & Others	11.85
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.7)	30.8	20.8
Relative	4.3	26.5	21.3

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Lower costs led the beat; Maintain Accumulate

Heidelberg cement (HEIM) reported strong earnings with 6%/12% beat on ours/consensus PAT estimates. Beat was primarily driven by lower than expected costs and better than expected volume growth. Unitary EBITDA rose 31% YoY to Rs1,200 (PLe:Rs1,133). Exhaustion of capacity remains Achilles heel for HEIM. To address the same, it is expanding capacity by 0.5mnt through debottlenecking which would support 4-5% YoY growth in volumes for next couple of years. In addition, it is also exploring inorganic route to expand volumes.

Despite exhausted capacity, HEIM maintained its strong earnings growth trajectory on the back of steep increase in margins. Led by better outlook on Central region, quality operations and attractive valuations, we maintain Accumulate with TP of Rs220, EV/EBITDA of 9x FY21e.

- **Lower than expected costs drove the show:** Volumes fell marginally by 0.7% YoY to 1.26mnt (PLe:1.2mnt). Realisations (net of freight) rose 7% QoQ/Rs264/t (+12% YoY/Rs413) to Rs4,000, short of our estimate of Rs4,037. Led by lower than expected energy cost, cost/t (net of freight) rose 5% YoY/Rs130 to Rs2,800 (PLe:Rs2,904). Hence, EBITDA rose 30% YoY to Rs1.5bn (PLe:Rs1.36bn). Led by 81% YoY higher other income (due to higher treasury) and strong operating performance, PAT rose 55% YoY to Rs790mn (PLe:Rs747mn).
- **Key earnings call highlights:** 1) Demand is expected to grow 6-7% YoY in CY19E and the growth would largely come from Tier-II/III cities 2) Demand in UP is fairly good; However, demand in MP (especially in western MP) contracted due to lower government spends and slow construction activities 3) Premium products volume rose 53% YoY; constitutes 13% (11% in Q1FY19) of total sales and commands a premium of Rs30/bag over its normal products 4) Maintained capex guidance of Rs500mn for FY20e 5) Prepaid Rs1.25bn debt in Q1FY19; Net Debt fell 70% QoQ to Rs797mn 6) Pet coke prices fell by 8%-12% YoY to Rs10,500/t in Q1FY20 7) Trade sales rose 200-300bps YoY (flat QoQ) to 85-86% in Q1FY20 8) Rs700/t higher realisations in Trade sales v/s Non-Trade 9) No new capacity addition in Central India in coming year

Exhibit 1: Q1FY20 Result Overview (Rs m)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	5,824	5,369	8.5	5,347	22,592	21,094	7.1
Raw Material	1,130	1,080	4.5	752	4,113	3,864	6.5
<i>% of Net Sales</i>	<i>19.4</i>	<i>20.1</i>		<i>14.1</i>	<i>18.2</i>	<i>18.3</i>	
Staff Costs	315	306	2.9	356	1,307	1,239	5.5
<i>% of Net Sales</i>	<i>5.4</i>	<i>5.7</i>		<i>6.7</i>	<i>5.8</i>	<i>5.9</i>	
Power & Fuel	1,215	1,180	2.9	1,467	5,043	5,049	(0.1)
<i>% of Net Sales</i>	<i>20.9</i>	<i>22.0</i>		<i>27.4</i>	<i>22.3</i>	<i>23.9</i>	
Freight	797	828	(3.8)	826	3,243	3,117	4.0
<i>% of Net Sales</i>	<i>13.7</i>	<i>15.4</i>		<i>15.5</i>	<i>14.4</i>	<i>14.8</i>	
Other Expenses	860	814	5.6	784	3,560	3,269	8.9
<i>% of Net Sales</i>	<i>14.8</i>	<i>15.2</i>		<i>14.7</i>	<i>15.8</i>	<i>15.5</i>	
Total Expenditure	4,316	4,209	2.5	4,185	17,266	16,538	4.4
EBITDA	1,509	1,160	30.1	1,162	5,326	4,556	16.9
<i>Margin (%)</i>	<i>25.9</i>	<i>21.6</i>		<i>21.7</i>	<i>23.6</i>	<i>21.6</i>	
Depreciation	279	255	9.3	255	1,053	1,018	3.5
Other income	186	103	80.8	202	442	587	(24.8)
EBIT	1,416	1,008	40.5	1,109	4,715	4,125	14.3
Interest	198	219	(9.6)	160	488	748	(34.8)
PBT	1,218	789	54.4	949	4,227	3,378	25.1
Extraordinary income/(expense)	-	-		-	-	38	
PBT (After EO)	1,218	789	54.4	949	4,227	3,416	23.8
Tax	428	278	54.2	340	1,479	1,210	22.3
<i>% PBT</i>	<i>35.1</i>	<i>35.2</i>		<i>35.9</i>	<i>35.0</i>	<i>35.4</i>	
Reported PAT	790	511	54.6	609	2,747	2,206	24.5
Adjusted PAT	790	511	54.6	609	2,747	2,181	25.9

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March (Rs mn)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Volume (mn te)	1.26	1.3	(0.7)	1.2	5.0	4.9	2.0
Net Realisations (Rs/te)	3,996	3,584	11.5	3,733	4,523	4,308	5.0
EBITDA/ te (Rs/te)	1,199	915	31.0	959	1,066	930	14.6

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	18,607	21,094	22,592	23,365
YoY gr. (%)	10.3	13.4	7.1	3.4
Cost of Goods Sold	3,703	3,864	4,113	4,449
Gross Profit	14,904	17,230	18,478	18,917
Margin (%)	80.1	81.7	81.8	81.0
Employee Cost	1,202	1,239	1,307	1,379
Other Expenses	1,920	3,269	2,229	2,331
EBITDA	3,346	4,556	5,326	5,035
YoY gr. (%)	34.4	36.2	16.9	(5.5)
Margin (%)	18.0	21.6	23.6	21.6
Depreciation and Amortization	1,012	1,018	1,053	1,074
EBIT	2,334	3,538	4,273	3,961
Margin (%)	12.5	16.8	18.9	17.0
Net Interest	745	748	488	349
Other Income	487	587	442	447
Profit Before Tax	2,077	3,416	4,227	4,059
Margin (%)	11.2	16.2	18.7	17.4
Total Tax	745	1,210	1,479	1,421
Effective tax rate (%)	35.9	35.4	35.0	35.0
Profit after tax	1,332	2,206	2,747	2,638
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,332	2,181	2,747	2,638
YoY gr. (%)	75.5	63.8	25.9	(4.0)
Margin (%)	7.2	10.3	12.2	11.3
Extra Ord. Income / (Exp)	-	25	-	-
Reported PAT	1,332	2,206	2,747	2,638
YoY gr. (%)	74.8	65.6	24.5	(4.0)
Margin (%)	7.2	10.5	12.2	11.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,332	2,206	2,747	2,638
Equity Shares O/s (m)	227	227	227	227
EPS (Rs)	5.9	9.6	12.1	11.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	21,037	21,363	21,971	22,390
Tangibles	21,037	21,363	21,971	22,390
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,977	3,995	5,060	6,134
Tangibles	2,977	3,995	5,060	6,134
Intangibles	-	-	-	-
Net fixed assets	18,060	17,368	16,910	16,256
Tangibles	18,060	17,368	16,910	16,256
Intangibles	-	-	-	-
Capital Work In Progress	85	172	-	-
Goodwill	-	-	-	-
Non-Current Investments	290	285	180	180
Net Deferred tax assets	(835)	(1,303)	(1,812)	(2,339)
Other Non-Current Assets	285	255	285	285
Current Assets				
Investments	-	-	-	-
Inventories	1,269	1,674	1,547	1,600
Trade receivables	188	253	248	256
Cash & Bank Balance	2,124	3,377	5,198	6,971
Other Current Assets	126	145	126	126
Total Assets	25,328	26,955	27,470	28,717
Equity				
Equity Share Capital	2,266	2,266	2,266	2,266
Other Equity	8,198	9,446	11,305	12,987
Total Network	10,464	11,712	13,571	15,253
Non-Current Liabilities				
Long Term borrowings	6,192	3,918	3,692	2,492
Provisions	196	197	213	225
Other non current liabilities	-	650	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,266	2,778	2,661	2,753
Other current liabilities	4,809	6,355	4,955	5,089
Total Equity & Liabilities	25,328	26,955	27,470	28,717

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	2,077	3,286	4,227	4,059
Add. Depreciation	1,012	1,031	1,053	1,074
Add. Interest	722	629	488	349
Less Financial Other Income	487	587	442	447
Add. Other	(114)	(170)	(220)	(220)
Op. profit before WC changes	3,697	4,776	5,548	5,262
Net Changes-WC	590	74	180	109
Direct tax	(441)	(723)	(930)	(893)
Net cash from Op. activities	3,846	4,127	4,798	4,478
Capital expenditures	(184)	(406)	(443)	(420)
Interest / Dividend Income	49	170	220	220
Others	-	-	-	-
Net Cash from Invst. activities	(135)	(236)	(223)	(200)
Issue of share cap. / premium	-	-	-	-
Debt changes	(427)	(1,250)	(1,250)	(1,200)
Dividend paid	(543)	(683)	(1,093)	(956)
Interest paid	(758)	(629)	(488)	(349)
Others	-	-	-	-
Net cash from Fin. activities	(1,729)	(2,562)	(2,831)	(2,506)
Net change in cash	1,982	1,329	1,745	1,773
Free Cash Flow	3,613	3,721	4,355	4,059

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	4,795	5,584	5,347	5,824
YoY gr. (%)	14.2	15.4	1.8	8.5
Raw Material Expenses	715	1,316	752	1,130
Gross Profit	4,080	4,268	4,594	4,695
Margin (%)	85.1	76.4	85.9	80.6
EBITDA	1,102	1,133	1,162	1,509
YoY gr. (%)	34.8	50.1	1.7	30.1
Margin (%)	23.0	20.3	21.7	25.9
Depreciation / Depletion	255	254	255	279
EBIT	847	879	907	1,230
Margin (%)	17.7	15.7	17.0	21.1
Net Interest	199	170	160	198
Other Income	125	157	202	186
Profit before Tax	774	904	949	1,218
Margin (%)	16.1	16.2	17.8	20.9
Total Tax	273	319	340	428
Effective tax rate (%)	35.3	35.2	35.9	35.1
Profit after Tax	500	586	609	790
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	500	561	609	790
YoY gr. (%)	69.0	76.6	16.9	54.6
Margin (%)	10.4	10.0	11.4	13.6
Extra Ord. Income / (Exp)	-	25	-	-
Reported PAT	500	586	609	790
YoY gr. (%)	50.4	84.4	16.9	54.6
Margin (%)	10.4	10.5	11.4	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	500	586	609	790
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

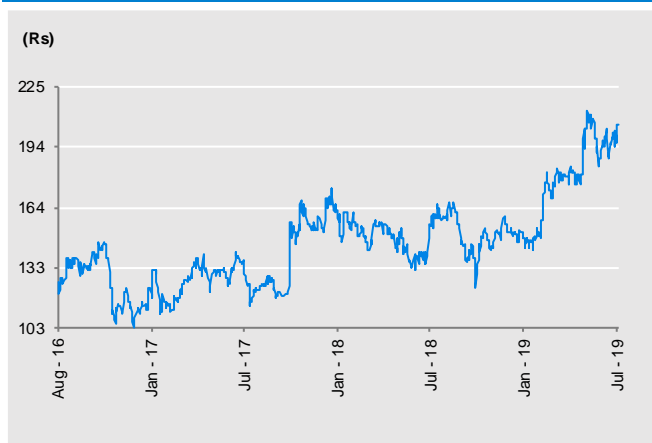
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	5.9	9.6	12.1	11.6
CEPS	10.3	14.1	16.8	16.4
BVPS	46.2	51.7	59.9	67.3
FCF	15.9	16.4	19.2	17.9
DPS	2.5	4.0	3.5	3.5
Return Ratio(%)				
RoCE	14.0	21.9	26.0	22.6
ROIC	10.3	17.9	24.7	24.4
RoE	13.2	19.7	21.7	18.3
Balance Sheet				
Net Debt : Equity (x)	0.4	0.0	(0.1)	(0.3)
Net Working Capital (Days)	(16)	(15)	(14)	(14)
Valuation(x)				
PER	32.9	20.1	16.0	16.6
P/B	4.2	3.7	3.2	2.9
P/CEPS	18.7	13.7	11.5	11.8
EV/EBITDA	14.3	9.7	8.0	7.8
EV/Sales	2.6	2.1	1.9	1.7
Dividend Yield (%)	1.3	2.1	1.8	1.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Volume (mn te)-Cement	5	5	5	5
Cement Realisation (Rs/te)	3,990	4,308	4,523	4,455
EBITDA (Rs/ te)	719	930	1,066	960
RM cost (Rs/ te)	774	800	823	848
Power, Oil & Fuel (Rs/ te)	963	1,031	1,010	1,004
Freight Charges (Rs/ te)	609	636	649	662

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	220	204
2	6-Jun-19	BUY	235	211
3	5-Apr-19	BUY	214	182
4	12-Feb-19	BUY	190	145
5	7-Jan-19	BUY	200	150
6	26-Oct-18	BUY	200	130
7	5-Oct-18	BUY	200	139

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,800	1,567
2	Ambuja Cement	Hold	225	213
3	Coal India	Hold	265	251
4	Heidelberg Cement India	Accumulate	220	204
5	Hindalco Industries	Accumulate	230	207
6	Hindustan Zinc	Hold	225	220
7	Jindal Steel & Power	BUY	170	142
8	JK Lakshmi Cement	Accumulate	401	333
9	JSW Steel	Reduce	250	250
10	NMDC	Reduce	112	117
11	Shree Cement	Reduce	19,750	21,648
12	Steel Authority of India	Reduce	45	52
13	Tata Steel	BUY	600	495
14	The Ramco Cements	Hold	820	790
15	Ultratech Cement	BUY	5,175	4,645

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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