

Highest ever EBITDA/t; capacity issues persist...

Heidelberg Cement reported strong Q1FY20 results with volumes displaying resilience to soft demand. Revenues increased 8.5% to ₹ 582.4 crore (above I-direct estimates of ₹ 510 crore) contributed entirely by realisations growing 9.3% YoY to ₹ 4630/t. While we expected volumes to decline to 1.14 MT. They broadly remained flat at 1.26 MT. The company clocked an EBITDA/t of ₹ 1200/t for the quarter (vs. I-direct estimate of ₹ 848/t) while margins expanded 430 bps YoY to 25.9% on the back of strong realisations. EBITDA witnessed 30% YoY growth to ₹ 151 crore (above I-direct estimate of ₹ 96.8 crore) led by margin expansion. PAT jumped 54% YoY to ₹ 79 crore piggybacking on a strong operational performance and higher other income.

Quarter witnesses highest ever EBITDA margins

Heidelberg Cement operates in the central region where prices have remained strong and steady in recent times. During the quarter, average cement prices in the central region increased more than 9%. Heidelberg, with high share of trade sales, aided by its positioning as a top tier brand, witnessed similar growth in average realisations (9.3% YoY). Further savings on the P&F front were contributed by WHRMS aided by stabilisation in fuel prices further aided in controlling costs. For FY19-21E, we model 2.3% CAGR in realisations and expect margins to improve marginally and stabilise over the next two years around 22%.

Balance sheet to grow stronger led by strong cash flows

While the company is operating at ~90% utilisation levels with some plans for de-bottlenecking over FY20E and FY21E, we believe growth would remain challenging considering the capacity constraints. Thus, we model in 5.1% volume and 7.6% revenue CAGR in FY19-21E. However, looking at the flip side, with no major capex plans announced, the company should be able to utilise the steady cash flows from its 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. This would further reduce to 0.7x in FY21E led by debt repayment. Over FY19-21E, the company is expected to generate ₹ 770 crore of operational cash flows cumulatively. This would place the company in a comfortable position to service its debt repayments as well as fund the capex for adding new capacities.

Valuation & Outlook

Heidelberg continues to have a strong retail presence and very low exposure towards government projects. While we maintain a positive outlook on the company's profitability, capacity issues for the longer term would continue to persist. We have a **HOLD** rating on the stock valuing the company at ~9x FY21E EV/EBITDA, implying a target price of ₹ 220/share.

HEIDELBERGCEMENT

Stock Data

Particular	Amount
Mcap	₹ 4396 crore
Debt (FY19)	₹ 700 crore
Cash & Invest (FY19)	₹ 242 crore
EV	₹ 4855 crore
52 week H/L	₹ 175 / 122
Equity cap	₹ 226.6 crore
Face value	₹ 10

Key Highlights

- Capacity bottlenecks to keep volume growth under check. We expect 5.1% CAGR over FY19-21E
- EBITDA margins to remain stable around 22%
- Leverage at comfortable level of 1.5x FY19 EV/EBITDA. Further, no major capex announced should aid debt reduction on the back of strong cash flows
- Maintain HOLD with 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	2272	2441	7.6%
EBITDA	249	335	459	510	545	8.9%
EBITDA (%)	14.8	18.0	21.8	22.4	22.3	
Net Profit	72	134	220	257	298	16.3%
EPS	3.2	5.9	9.7	11.3	13.1	
EV/EBITDA	21.1	14.9	10.6	8.9	8.0	
EV/Tonne (\$)	149	142	138	130	114	
RoNW	7.4	12.8	20.5	20.7	20.8	
RoCE	10.6	14.8	21.8	24.7	25.2	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Net Sales	582.4	510.4	536.9	8.5	534.7	8.9	Realisation growth of 9.3% drives revenue growth partly offset by marginal volume de-growth
Other Incomes	18.6	13.8	10.3	80.8	20.2	-7.9	
Raw Material Expenses	105.7	93.6	98.4	7.3	105.6	559.5	
Employee Expenses	31.5	32.0	30.6	2.9	35.6	-11.7	
Power and fuel	121.5	136.8	118.0	2.9	146.7	-17.1	Consumption of high cost inventory in Q4FY19 leads to significant reduction in P&F costs QoQ
Freight	79.7	77.0	82.8	-3.8	82.6	-3.6	Freight costs per tonne reduced 3.3% YoY
Others	86.0	74.2	81.4	5.6	78.4	9.7	
EBITDA	150.9	96.8	116.0	30.1	116.2	29.9	
EBITDA Margin (%)	25.9	19.0	21.6	430 bps	21.7	417 bps	Higher realisations lead margin expansion
Interest	19.8	15.6	21.9	-9.6	16.0	23.7	
Depreciation	27.9	25.8	25.5	9.3	25.4	9.5	
PBT	121.8	69.1	78.9	54.4	94.9	28.3	
Total Tax	42.8	24.7	27.8	54.2	34.0	25.7	
Reported PAT	79.0	44.4	51.1	54.6	60.9	29.8	
Adjusted PAT	79.0	44.4	51.1	54.6	60.9	29.8	Strong operational performance and higher other income drive PAT 54% higher

Key Metrics

Volume (MT)	1.26	1.14	1.27	-0.7	1.21	3.9	Liquidity issues and elections keep demand soft during quarter
Realisation (₹)	4,630	4,472	4,237	9.3	4,415	4.9	High retail presence and strong pricing environment drive realisation growth
EBITDA per Tonne (₹)	1,199	848	915	31.0	959	25.0	Healthy realisations aid 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	2,250.3	2,272.4	1.0	2,395.9	2,440.9	1.9	Capacity constraint to result in revenue growth of 5.1% CAGR in FY19-21E
EBITDA	495.1	510.1	3.0	526.1	544.7	3.5	
EBITDA Margin (%)	22.0	22.4	45 bps	22.0	22.3	36 bps	Margins to expand supported by stable production costs
PAT	247.1	256.7	3.9	284.3	297.9	4.8	
EPS (₹)	10.9	11.3	3.9	12.5	13.1	4.8	

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	5.1	5.4	We expect ~5% volume CAGR over FY19-21E
Realisation (₹)	3,771	4,007	4,308	4,415	4,512	4,372	4,438	
EBITDA/T(₹)	556	720	938	991	1,007	962	974	EBITDA/t to reach ₹ 1000/t in FY21E

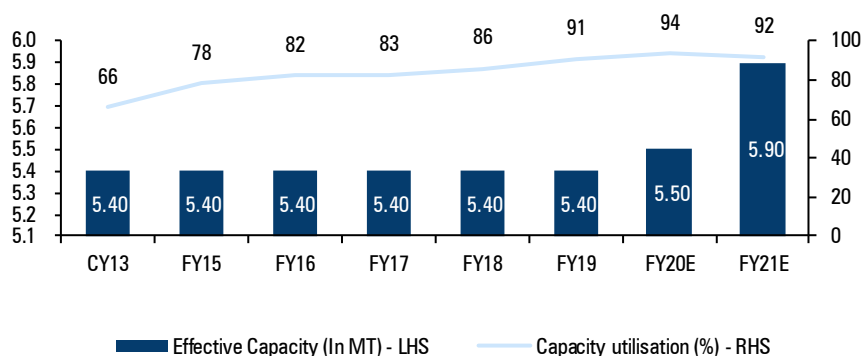
Source: Company, ICICI Direct Research

Conference Call key takeaways

- During the quarter, softness was witnessed in demand, especially from government projects. However, the company's low exposure to these projects helped it to witness volume de-growth. The marginally lower volumes were on account of higher clinker sales made during Q1FY19, which were absent in Q1FY20 sales
- The company's product mix includes only blended cement with share of trade sales in the total pie at 86%. Mycem Power (premium cement) witnessed positive traction during the quarter, growing 53% YoY and forming 13% of trade sales
- For its plant in Karnataka, the company purchases ~25000 tonne of clinker quarterly
- The company's lead distance was at ~400 km with 45% of volumes being transported via roads
- P&F costs were significantly lower QoQ on account of high cost inventory consumption of petcoke in Q4FY19. With petcoke prices stabilising, a further reduction in P&F costs is expected in Q2FY20E. WHRMS suffices for ~16% of the company's power requirement
- By CY20 end, capacity debottlenecking would be completed. The company's current capacity was at 3.5 MT for clinker and grinding capacity would increase to 5.9 post de-bottlenecking operations. Heidelberg has ~10% market share in Central India
- The company intends to set up a new plant in Gujarat. However, there are no material developments on that side as approvals have not yet been received
- With additional cash being deposited with banks, interest income from the same boosted other income

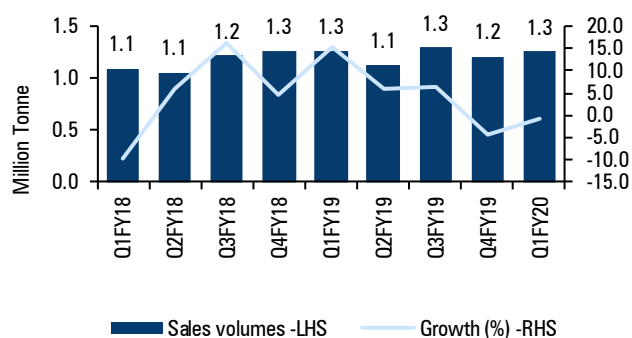
Financial Story in Charts

Exhibit 4: Capacity utilisation trend



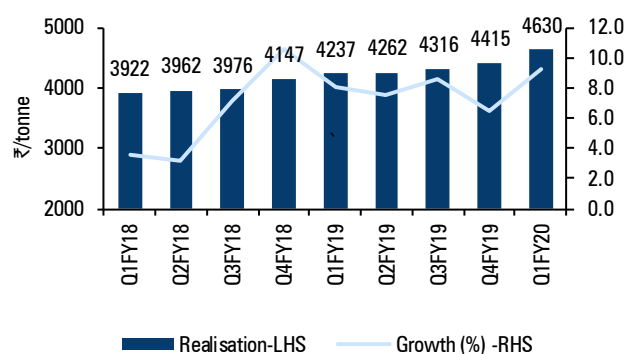
Source: Company, ICICI Direct Research

Exhibit 5: Volumes marginally decline 0.7% YoY



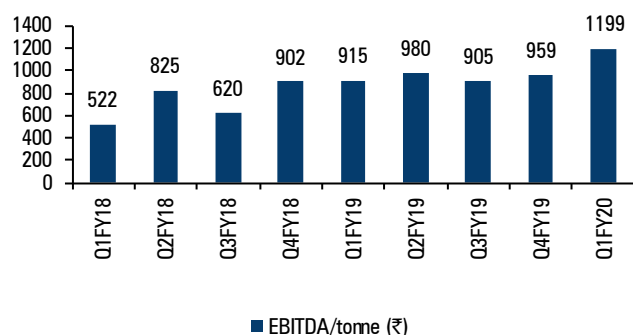
Source: Company, ICICI Direct Research

Exhibit 6: Realisations grow 9.3% YoY



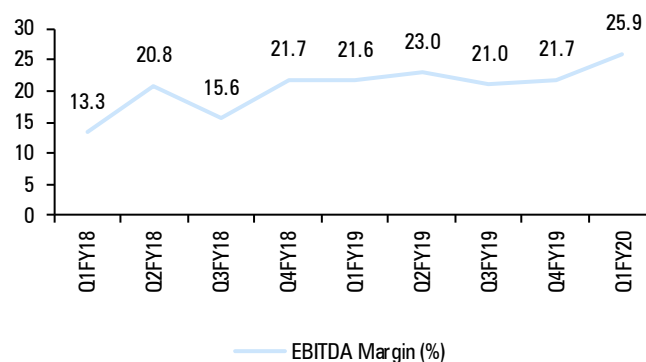
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/t increases 31% YoY



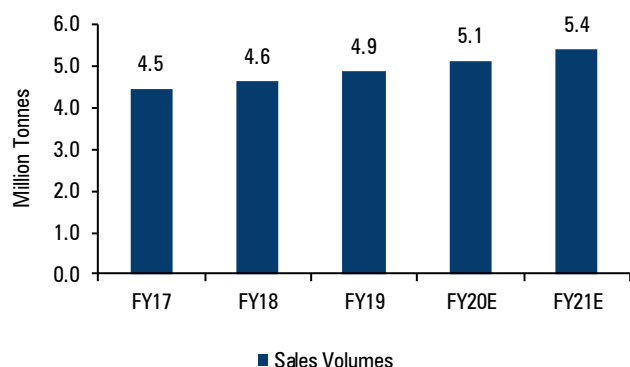
Source: Company, ICICI Direct Research

Exhibit 8: Highest margins clocked during quarter



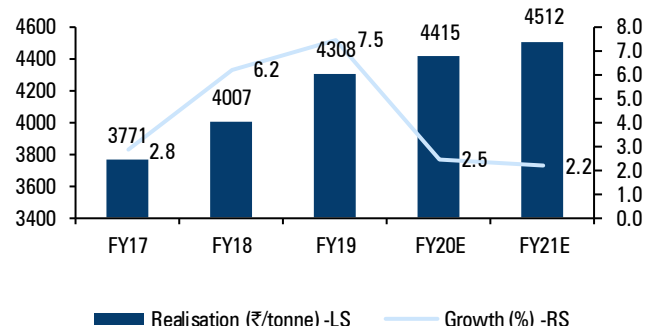
Source: Company, ICICI Direct Research

Exhibit 9: Volumes to grow at 5.1% CAGR over FY19-21E



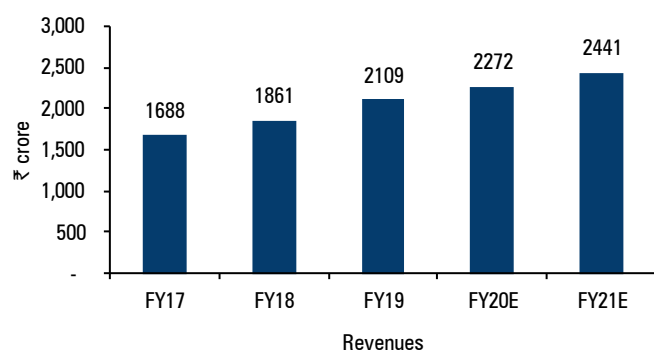
Source: Company, ICICI Direct Research

Exhibit 10: Realisations to cross ₹ 4500/t in FY21E



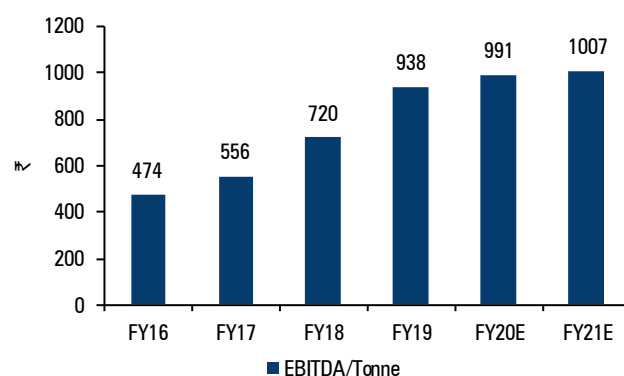
Source: Company, ICICI Direct Research

Exhibit 11: Revenues to grow at 7.6% CAGR over FY19-21E



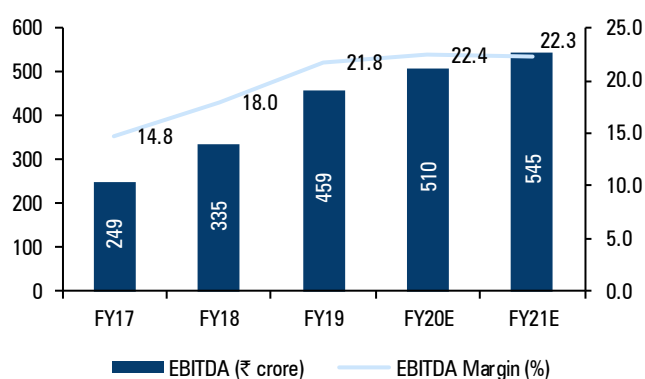
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t to cross ₹ 1007/t by FY21E



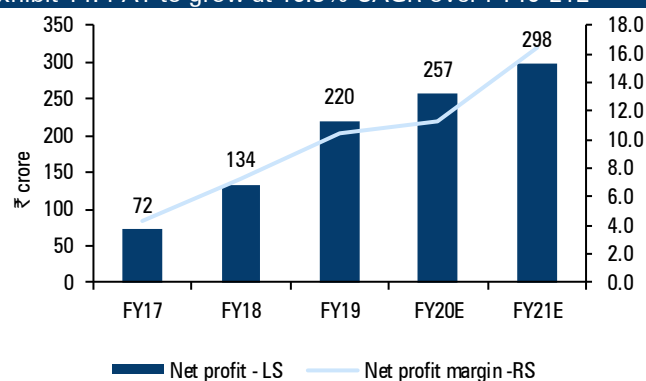
Source: Company, ICICI Direct Research

Exhibit 13: Margins to remain broadly stable



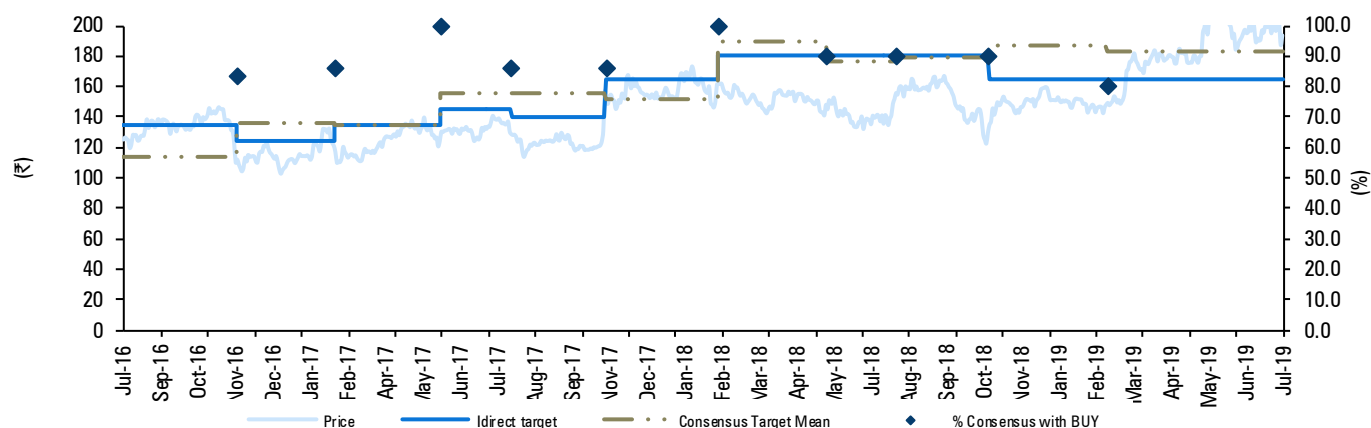
Source: Company, ICICI Direct Research

Exhibit 14: PAT to grow at 16.3% 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	30-Jun-19	69%	157.2	0.0
2	Stewart Investors	30-Jun-19	4%	8.8	-0.5
3	First State Investments (Singapore)	30-Sep-18	3%	6.1	0.0
4	Sundaram Asset Management Company Limited	30-Jun-19	2%	4.5	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	30-Apr-19	1%	3.0	0.0
7	J.P. Morgan Asset Management (Hong Kong) Ltd.	30-Jun-19	1%	3.0	0.0
8	Bajaj Group of Industries	30-Jun-19	1%	2.9	0.0
9	Alquity Investment Management Ltd.	30-Apr-19	1%	2.8	-0.1
10	Life Insurance Corporation of India	30-Jun-19	1%	2.6	-0.1

Source: Company, ICICI Direct Research

Exhibit 17: Recent Activity

Buys			Sells		
Investor name	Value (mn)	Shares (mn)	Investor name	Value (mn)	Shares (mn)
HDFC Life Insurance Company Limited	0.2	0.1	Stewart Investors	-1.5	-0.5
First State Investments (U.K.) Ltd	0.1	0.0	Life Insurance Corporation of India	-0.2	-0.1
Allianz Global Investors GmbH	0.0	0.0	Alquity Investment Management Ltd.	-0.2	-0.1
Connor, Clark & Lunn Investment Management Ltd	0.0	0.0	IDBI Asset Management Limited	-0.1	-0.1
BlackRock Institutional Trust Company, N.A.	0.0	0.0	Mahindra Asset Management Company Pvt. Ltd.	0.0	0.0

Source: Company, ICICI Direct Research

Exhibit 18: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	69.39	69.39	69.39	69.39	69.39
FII	11.74	11.97	11.77	11.72	11.68
DII	5.97	6.20	6.54	6.89	7.08
Others	12.90	12.44	12.30	12.00	11.85

Source: Company, ICICI Direct Research

Financial summary

Exhibit 19: Profit and Loss Statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	1,860.7	2,109.4	2,272.4	2,440.9
Growth (%)	10.3	13.4	7.7	7.4
Raw material	370.3	386.3	427.9	463.3
Power & Fuel	443.9	504.9	525.0	568.3
Employees	120.2	123.9	131.2	137.9
Freight	283.6	307.9	333.3	357.0
Others	308.2	326.9	344.8	369.7
Total Operating Exp.	1,526.1	1,650.0	1,762.3	1,896.2
EBITDA	334.6	459.4	510.1	544.7
Growth (%)	34.4	37.3	11.0	6.8
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	399.3	450.7
Total Tax	74.5	121.0	142.5	152.8
PAT	134.0	220.4	256.7	297.9
Growth (%)	86.1	64.5	16.5	16.0
EPS (₹)	5.9	9.7	11.3	13.1

Source: Company, ICICI Direct Research

Exhibit 21: Balance Sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	226.6	226.6	226.6	226.6
Reserve and Surplus	819.8	848.9	1,014.0	1,202.5
Total Shareholders funds	1,046.4	1,075.5	1,240.6	1,429.2
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	1,936.3	2,024.9
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	125.2	189.1
Debtors	18.8	25.3	13.3	28.2
Loans and Advances	302.7	357.0	252.0	402.2
Other Current Assets	57.9	54.0	68.7	63.1
Cash	212.4	241.8	334.7	415.2
Total Current Assets	718.7	845.6	793.8	1,097.8
Creditors	326.5	374.5	334.0	427.0
Provisions	218.9	253.9	223.8	286.1
Total Current Liabilities	545.4	628.5	557.7	713.2
Net Current Assets	173.4	217.1	236.1	384.6
Application of Funds	1,987.5	1,971.2	1,936.3	2,024.9

Source: Company, ICICI Direct Research

Exhibit 20: Cash Flow Statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	134.0	220.4	256.7	297.9
Add: Depreciation	101.2	101.8	103.3	105.0
(Inc)/dec in Current Assets	3.8	-97.5	144.6	-223.4
Inc/(dec) in CL and Provision:	75.6	83.1	-70.7	155.4
CF from operating activities	314.5	307.8	433.9	334.9
(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	92.9	80.6
Opening Cash	14.2	212.4	241.8	334.7
Closing Cash	212.4	241.8	334.7	415.2

Source: Company, ICICI Direct Research

Exhibit 22: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	5.9	9.7	11.3	13.1
Cash EPS	10.4	14.2	15.9	17.8
BV	46	47	55	63
DPS	2.5	4.0	4.0	4.0
Cash Per Share	9.4	10.7	14.8	18.3
Operating Ratios (%)				
EBITDA Margin	18.0	21.8	22.4	22.3
PAT Margin	7.2	10.4	11.3	12.2
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	20.7	20.8
RoCE	14.8	21.8	24.7	25.2
RoIC	13.2	20.9	25.6	27.5
Valuation Ratios (x)				
P/E	32.8	19.9	17.1	14.8
EV / EBITDA	14.9	10.6	8.9	8.0
EV / Net Sales	2.7	2.3	2.0	1.8
Market Cap / Sales	2.4	2.1	1.9	1.8
Price to Book Value	4.2	4.1	3.5	3.1
Solvency Ratios				
Debt/EBITDA	2.4	1.5	1.0	0.7
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*	1,580	1,765	HOLD	29,695	81	73	83	15.1	12.3	10.6	120	117	113	14.7	18.5	19.6	14.9	12.7	13.7
Ambuja Cem*	213	205	HOLD	42,294	8.1	7.5	7.9	20.6	17.4	16.5	140	138	135	11.4	14.9	16.1	11.3	10.0	10.6
UltraTech Cem	4,460	5,300	BUY	122,382	89	157	160	21.5	15.9	13.0	248	199	196	9.7	12.4	14.7	8.8	13.5	12.2
Shree Cement	21,200	22,040	HOLD	73,776	318	521	615	29.0	20.8	18.1	227	181	178	11.5	18.3	19.2	11.5	16.3	16.5
Heidelberg Cem	197	220	HOLD	4,464	9.7	10.9	12.6	10.7	9.4	8.5	140	132	117	21.8	24.0	24.6	20.5	20.1	20.3
India Cement	95	115	HOLD	2,918	2.3	3.6	4.8	10.2	9.0	8.2	65	70	72	4.5	5.2	5.8	1.3	2.1	2.7
JK Cement	983	1,150	BUY	6,874	42.0	66.7	63.7	10.3	8.3	8.1	106	102	102	12.5	14.6	13.2	11.2	15.6	13.3
JK Lakshmi Cem	333	485	BUY	3,919	6.8	23.3	21.9	12.1	7.3	6.8	64	63	56	5.2	15.4	12.7	5.2	15.4	12.7
Mangalam Cem	229	215	REDUCE	611	-3.7	7.3	4.7	21.0	8.4	9.9	46	43	47	3.2	8.8	7.7	-2.0	3.8	2.4
Star Cement	107	120	HOLD	4,485	7.1	7.9	8.9	9.5	8.6	7.5	157	155	103	18.9	18.0	18.1	17.3	16.6	16.0
Ramco Cement	745	950	BUY	17,737	20.6	29.3	32.8	18.3	13.9	11.6	181	167	140	8.0	9.9	10.9	11.2	14.3	14.4
Sagar Cement	650	800	BUY	1,326	6.7	24.4	30.4	12.0	8.8	8.2	56	57	61	6.4	9.5	9.6	1.6	5.1	5.5

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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