

Heidelberg Cement

Superior margin sustained

Heidelberg Cement's (HEIM) revenue fell 2% YoY to Rs 5.14bn, as sales volume fell 2% (focus on better pricing sales). However, healthy realisation and low opex further boosted EBITDA/APAT by 3/7% YoY to Rs 1.26/0.62bn. Balance sheet remains strong – with negative cash conversion of 22 days and net cash on books increasing to ~Rs 1.8bn. We continue to like HEIM for its retail presence in the lucrative central market, increased volume growth visibility, superior margin and return ratios and a net cash balance sheet. We maintain BUY with an unchanged target price of Rs 234/sh (8.5x Sep'22E EBITDA).

- Results highlights:** Sales volume fell 2% YoY to 1.11mn MT, (lower vs our expectations of 5% growth), despite its operating region reporting healthy retail demand as HEIM focused on better pricing. Even on a high base of last year, NSR firmed up 1% YoY, despite being down 2.5% QoQ (seasonal correction). Operating expenses cooled off 1% YoY (flat QoQ) due to lower fuel prices, while moderated by higher other expenses. Thus, unitary EBITDA buoyed 5% YoY to Rs 1,137/MT and drove up EBITDA/APAT. Interest expense fell 29% YoY on account of debt reduction and lower interest rates, thus boosting APAT growth. In Sep'20, its cash conversion cycle firmed up from negative 15 days to negative 22 days YoY. Amid, low Capex outgo, net cash balance rose to Rs 1.8bn from Rs 1.0bn in Mar'20.
- Outlook:** We maintain our earnings estimates. We expect the recent capacity debottlenecking and demand recovery 2HFY21-onwards to drive 4% volume CAGR during FY20-23E. Along with a strong margin, this should drive 7% EBITDA CAGR, sustaining its superior profitability. We maintain our BUY rating with an unchanged target price of Rs 234/sh (8.5x Sep'22E EBITDA).

Quarterly/Annual Financial summary

YE Mar (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Sales (mn MT)	1.11	1.13	(2.3)	0.86	29.3	4.9	4.7	4.2	5.0	5.3
NSR (Rs/MT)	4,637	4,605	0.7	4,757	(2.5)	4,356	4,611	4,690	4,760	4,831
Opex (Rs/MT)	3,500	3,522	(0.6)	3,493	0.2	3,369	3,490	3,530	3,544	3,613
EBITDA(Rs/MT)	1,137	1,083	5.0	1,264	(10.1)	987	1,122	1,159	1,216	1,219
Net Sales	5,138	5,222	(1.6)	4,077	26.0	21,334	21,696	19,697	23,791	25,838
EBITDA	1,260	1,228	2.6	1,083	16.3	4,833	5,278	4,869	6,078	6,517
APAT	624	582	7.3	489	27.5	2,207	2,681	2,313	3,255	3,356
AEPS (Rs)	2.8	2.6	7.3	2.2	27.5	9.7	11.8	10.2	14.4	14.8
EV/EBITDA (x)						9.2	8.0	8.3	7.1	6.9
EV/MT (Rs bn)						8.54	6.71	6.48	6.86	7.21
P/E (x)						19.0	15.6	18.1	12.9	12.5
RoE (%)						19.9	21.6	17.0	21.8	20.2

Source: Company, HSIE Research

BUY

CMP (as on 26 Oct 2020)	Rs 185
Target Price	Rs 234
NIFTY	11,768

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 234	Rs 234
EBITDA %	FY21E	FY22E
	-	-

KEY STOCK DATA

Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (Rs bn) / (\$ mn)	42/565
6m avg traded value (Rs mn)	110
52 Week high / low	Rs 218/120

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	6.5	16.9	(2.2)
Relative (%)	1.2	(11.3)	(5.0)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	69.39	69.39
FIs & Local MFs	8.00	6.74
FPIs	9.70	8.76
Public & Others	12.91	15.11
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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