

31 July 2018

Heidelberg Cement

Growing strong; retaining our Buy rating

Backed by volume off take and better realisations, Heidelberg, a Central India cement manufacturer, reported the highest ever quarterly revenue. The improving demand-supply environment in its key region, its better operating performance, deleveraging exercise and stabilised WHR plant would help it to post a strong performance and higher return ratios. We retain our Buy, with a target of ₹213 based on 10x FY20e EV/EBITDA.

Strong revenue growth. Increasing construction activity and price discipline in its key operating region drove Heidelberg's volumes 15% and realisations 9% in Q1FY19. With the boost in government expenditure on infra and no significant capacity addition in the Central region, we expect utilisation to touch 97% by FY20, leading to revenue clocking a 10% CAGR over FY18-20.

Operationally efficient. Aided by increased WHR power consumption and economic power sourcing along with increased coal consumption, Heidelberg countered rising pet-coke prices, reporting EBITDA/ton of ₹920 (up 76.2% y/y) in Q1 FY19. Further, with the expected savings from the increase in truck load capacity and various cost checking measures, we expect EBITDA/ton to touch ₹929 by FY20 (vs. ₹719 in FY18).

Outlook. With its concentrated efforts on consumption parameters, increasing share of premium cement and deleveraging exercise, we expect the RoE and RoCE to improve to 21% and 24% respectively by FY20. With no capex planned so far for the next two years and better working capital, we expect the net D/E to fall to 0x by FY20 (vs. 0.4x in FY18) and profit to register a 40% CAGR over FY18-20.

Valuations. We maintain a Buy, revising our target to ₹213, based on 10x FY20e EV/EBITDA; the EV/ton is \$135. At the CMP, the stock trades at an EV/EBITDA of 7.6x, an EV/ton of \$101.8 and a PE of 14x FY20e. **Risks:** Higher prices of pet-coke and diesel.

Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	16,281	16,876	18,607	20,967	22,523
Net profit (₹m)	354	762	1,332	2,144	2,619
EPS (₹)	1.6	3.4	5.9	9.5	11.6
PE (x)	51.9	37.1	24.2	17.0	13.9
EV / EBITDA (x)	13.6	14.1	10.8	8.9	7.6
EV / ton (\$)	79.3	97.2	99.8	108.2	101.8
RoE (%)	4.0	8.2	13.2	19.3	21.0
RoCE (%)	4.1	5.4	8.7	13.0	15.8
Dividend yield (%)	-	1.6	1.8	2.1	2.5
Net debt / equity (x)	1.2	0.7	0.4	0.2	0.0

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: ₹213

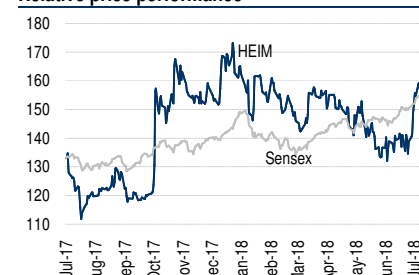
Share Price: ₹161

Key data	HEIM IN / HEID.BO
52-week high / low	₹190 / 109
Sensex / Nifty	37339 / 11279
3-m average volume	\$0.5m
Market cap	₹36 bn/ \$518.6m
Shares outstanding	227m

Shareholding pattern (%)	Jun '18	Mar '18	Dec '17
Promoters	69.4	69.4	69.4
- of which, Pledged	-	-	-
Free float	30.6	30.6	30.6
- Foreign institutions	11.7	11.6	11.3
- Domestic institutions	6.0	6.0	6.3
- Public	12.9	13.0	13.0

Estimates revision (%)	FY19e	FY20e
Sales	1.8	1.9
EBITDA	9.4	9.4
PAT	12.8	12.2

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Sales volumes (m tons)	4.4	4.5	4.7	5.0	5.2
Net revenues	16,281	16,876	18,607	20,967	22,523
Growth (%)	-19.0	3.7	10.3	12.7	7.4
Direct costs	10,178	10,291	10,977	11,843	12,695
SG&A	3,993	4,095	4,284	4,736	4,959
EBITDA	2,110	2,490	3,346	4,388	4,869
EBITDA margins (%)	13.0	14.8	18.0	20.9	21.6
- Depreciation	998	992	1,012	1,100	1,100
Other income	427	535	487	500	500
Interest expenses	1,085	898	745	540	300
PBT	454	1,136	2,077	3,248	3,969
Effective tax rate (%)	22.0	32.9	35.9	34.0	34.0
+ Associates / (minorities)					
Net Income	354	762	1,332	2,144	2,619
Adjusted income	354	762	1,332	2,144	2,619
WANS	227	227	227	227	227
FDEPS (₹ / sh)	1.6	3.4	5.9	9.5	11.6
FDEPS growth (%)	NA	115.3	74.8	61.0	22.2

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	454	1,136	2,077	3,248	3,969
+ Non-cash items	998	992	1,012	1,100	1,100
Oper. prof. before WC	1,452	2,128	3,088	4,348	5,069
- Incr. / (decr.) in WC	-1,368	-1,832	-1,250	623	-200
Others incl. taxes	113	242	444	1,104	1,349
Operating cash-flow	2,707	3,718	3,894	2,621	3,919
- Capex (tang. + intang.)	1,382	253	319	500	500
Free cash-flow	1,325	3,465	3,575	2,121	3,419
Acquisitions					
- Div. (incl. buyback & taxes)	-	546	682	903	1,104
+ Equity raised	-	-	-	-	-
+ Debt raised	-2,596	-3,337	-1,060	-2,500	-2,000
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	113	-482	-149	-	-
Net cash-flow	-1,385	64	1,982	-1,282	316

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

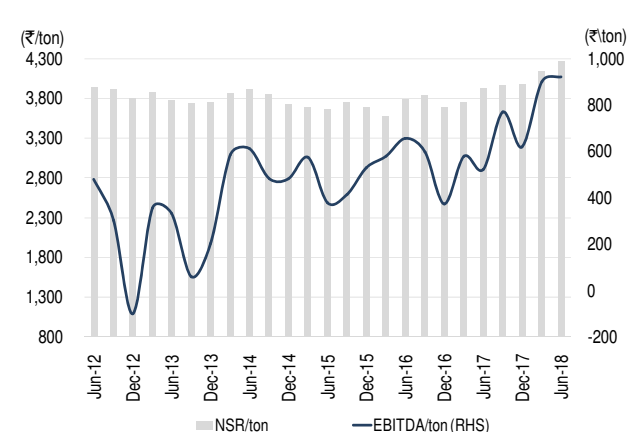
Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	2,266	2,266	2,266	2,266	2,266
Net worth	8,949	9,670	10,464	11,704	13,220
Debt	10,390	7,053	5,994	3,494	1,494
Minority interest					
DTL / (assets)	419	530	835	835	835
Capital employed	19,759	17,253	17,293	16,033	15,549
Net tangible assets	18,975	18,744	18,044	17,425	16,825
Net Intangible assets	37	27	17	17	17
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	561	63	81	100	100
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	6,496	5,101	5,063	6,150	6,750
Cash	78	142	2,124	842	1,158
Current liabilities	6,387	6,824	8,036	8,500	9,300
Working capital	109	-1,723	-2,973	-2,350	-2,550
Capital deployed	19,759	17,253	17,293	16,033	15,549
Contingent liabilities	2,867	366	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	51.9	37.1	24.2	17.0	13.9
EV / EBITDA (x)	13.6	14.1	10.8	8.9	7.6
EV / sales (x)	1.8	2.1	1.9	1.9	1.6
P/B (x)	2.1	2.9	3.1	3.1	2.8
RoE (%)	4.0	8.2	13.2	19.3	21.0
RoCE (%) - after tax	4.1	5.4	8.7	13.0	15.8
DPS (₹ / sh)	-	2.0	2.5	3.3	4.0
Dividend payout (%) - incl. DDT	-	71.6	51.2	42.1	42.1
Net debt / equity (x)	1.2	0.7	0.4	0.2	0.0
WC days	2.4	-37.3	-58.3	-40.9	-41.3
EV / ton (\$)	79.3	97.2	99.8	108.2	101.8
NSR / ton (₹)	3,665	3,772	3,999	4,175	4,300
EBITDA / ton (₹)	475	557	719	874	929
Volumes (m tons)	4.44	4.47	4.65	5.02	5.24
CFO : PAT %	764.8	488.0	292.4	122.3	149.6

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trend


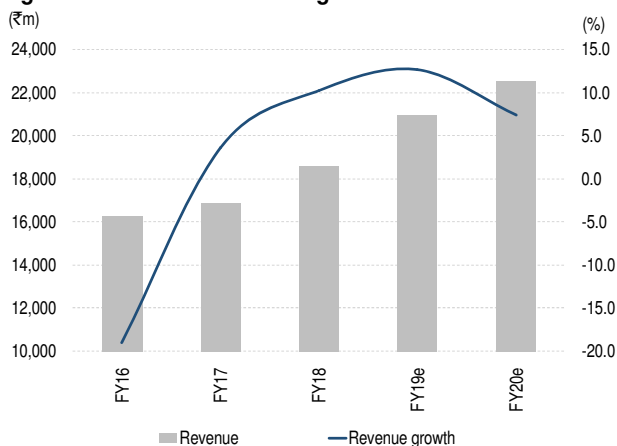
Source: Company, Anand Rathi Research

Other key highlights

Revenue growth

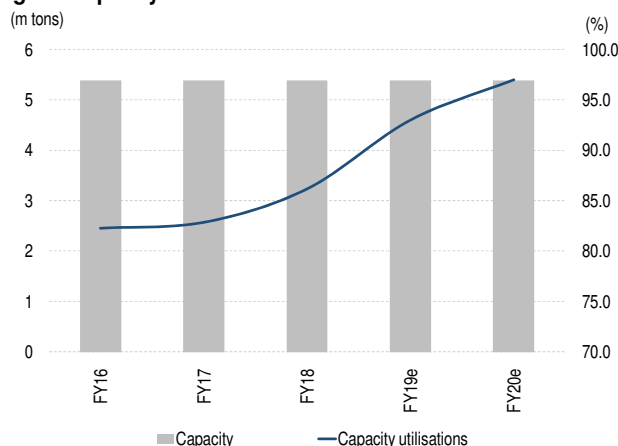
Of Heidelberg’s cement dispatches, ~90% goes to central India (MP, UP, Bihar), the rest to the south (Karnataka, Cochin, north Kerala). With construction activities improving in its key market (UP) and low base yoy (sand availability issue), the volume for the quarter increased by 14.5% yoy to 1.26m ton. Realisation grew by 8.6% yoy aided by firm prices in Central region during the quarter.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



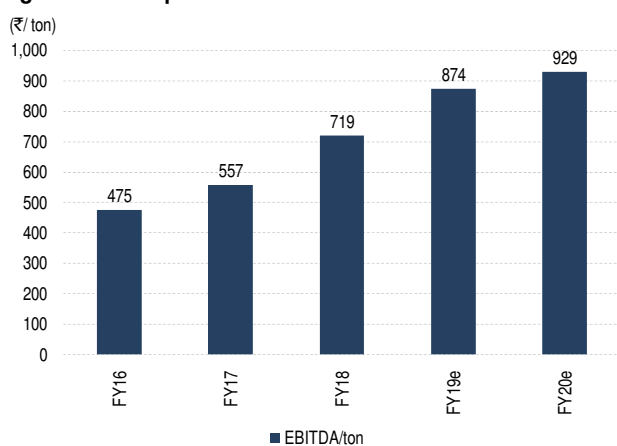
Source: Company, Anand Rathi Research

Operating performance

Higher realisations & being cost efficient (due to its WHRS plant and conveyor belt), its continuous efforts toward cost optimization led it to report EBITDA/ton of ₹920/ton, up 76% yoy. Increased consumption of WHRS generated power along with economic power sourcing led Power & fuel cost/ton to decline by 1.1% yoy. High diesel prices resulted in freight cost per ton to rise by 16% yoy.

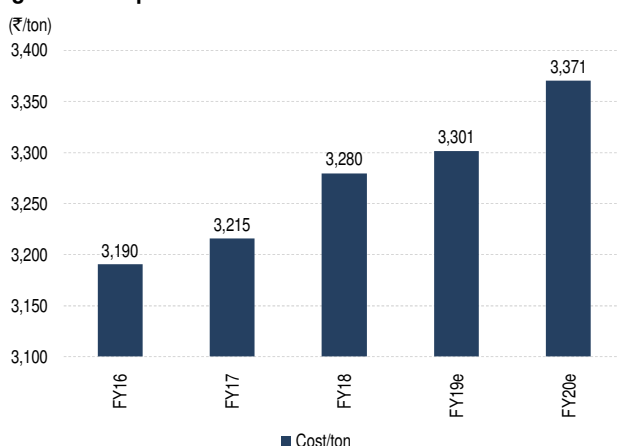
During the quarter, the co started sourcing renewable (solar) power for Karnataka plant under 25 years PPA (fixed pricing for first 10 years) which is 30-35% discount to current Grid tariff prices and accounts for ~50% of total requirement of Karnataka plant.

Fig 9 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 10 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Result Highlights

Fig 11 – Quarterly Trend

(₹ m)	Q1 FY19	Q4 FY18	Q3 FY18	Q2 FY18	Q1 FY18	FY18	FY19e	FY20e
Sales	5,369	5,254	4,839	4,200	4,314	18,607	20,967	22,523
EBITDA	1,160	1,143	754	817	575	3,346	4,388	4,869
EBITDA margin (%)	21.6	21.7	15.6	19.5	13.3	18.0	20.9	21.6
EBITDA per ton (₹)	920	900	620	771	522	719	874	929
Interest	219	172	186	188	198	745	540	300
Depreciation	255	254	253	255	250	1,012	1,100	1,100
Other income	103	117	167	83	121	487	500	500
PBT	789	833	483	513	248	2,077	3,248	3,969
Tax	278	312	165	181	88	745	1,104	1,349
Adj. PAT	511	521	318	276	160	1,332	2,144	2,619

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(₹ / ton)	Q1 FY19	Q4 FY18	Q3 FY18	Q2 FY18	Q1 FY18	FY18e	FY19e	FY20e
Realization	4,261	4,137	3,976	3,962	3,922	3,999	4,175	4,300
EBITDA	920	900	620	771	522	719	874	929
Sales volumes (m tons)	1.26	1.27	1.22	1.06	1.10	4.65	5.02	5.24
Costs								
Raw material	781	776	760	768	765	766	797	829
Power & fuel	937	1,027	829	1,023	947	954	973	993
Freight	657	679	605	578	567	609	628	640
Staff	242	258	237	276	267	258	268	267
Other expenditure	646	603	694	677	738	662	675	680

Source: Company, Anand Rathi Research

Change in estimates

To factor in the coming better demand and pricing context in the Central region and the company's improving operating performance, we have altered our FY19 and FY20 estimates: revenue up 1.8% and 1.9% respectively and EBITDA by 9.4% each. Further we increase our FY19e and FY20e PAT respectively 12.8% and 12.2% due to the enhanced operating performance and lower interest cost because of the de-leveraging.

Fig 13 – Change in estimates

(₹ m)	Old		New		Variance	
	FY19e	FY20e	FY19e	FY20e	% chg	% chg
Sales	20,590	22,104	20,967	22,523	1.8	1.9
EBITDA)	4,011	4,450	4,388	4,869	9.4	9.4
PAT	1,900	2,334	2,144	2,619	12.8	12.2
Realisation / ton (₹)	4,100	4,220	4,175	4,300	1.8	1.9
EBITDA / ton (₹)	799	849	874	929	9.4	9.4
Volumes (m tons)	5.0	5.2	5.0	5.2	0.0	(0.0)

Source: Anand Rathi Research

Concall highlights

Key operational highlights

- The company's trade-nontrade mix in Q1 FY19 was 83:17.
- Lead distance in Q1 FY19 was 365km.
- In Q1 FY19, volumes of premium product increased 2% y/y (11% of trade volumes).
- During Q1 FY19, the WHR plant contributed 20% of the power required.
- The company incurred a maintenance shutdown cost of ~₹40m-50m.
- During the quarter, capacity utilisation was ~92%.
- Pet-coke cost was ~₹11,500 a ton, up 5% q/q.
- The pet coke-domestic coal ratio was 58:42.
- The rail-road mix for the quarter was 55:45.

Fig 14 – Trade and Non-trade mix

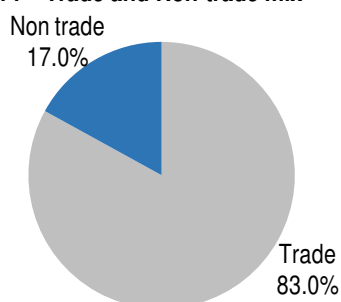


Fig 15 – Rail-Road mix

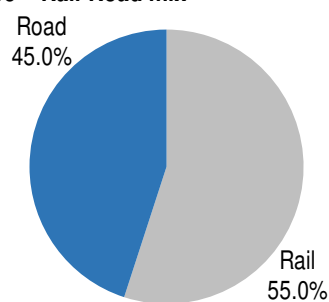
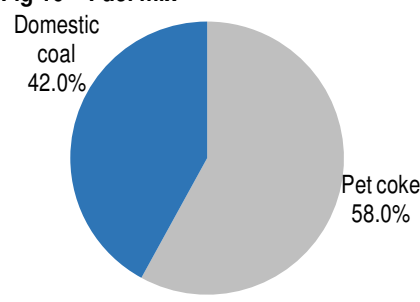


Fig 16 – Fuel mix



Source: Company, Anand Rathi Research

Volumes and capacity

- The company expects to increase capacity 10% through de-bottlenecking.
- During the quarter, company repaid debt of ~₹750m. On 30th Jun'18, its net debt stood at ₹3.37bn.
- Management guided to FY19 maintenance capex of ₹500m.

Industry

- Management expects savings of ₹10/ton from the increase in truck load capacity
- It plans to acquire coal mines in Gujarat through e-auction by next year
- Capacity utilisation in the cement industry in the quarter was 65-70%.
- With the pick-up in infrastructure activity, the company expects demand in the Central region to grow 6-7%, in step with demand increasing in the coming quarter

Valuations

We expect further growth in volumes and demand, boosted by the pick-up in infrastructure activity in the Central region. We also like this region given its favourable demand-supply dynamics. We maintain a Buy, with a revised target of ₹213, based on 10x FY20e EV/EBITDA; the EV/ton is \$135. At the CMP, the stock trades at an EV/EBITDA of 8x, an EV/ton of \$101.8 and a PE of 14x FY20e.

Fig 17 – Twelve-month-forward EV/EBITDA: Mean and Standard deviation



Source: Bloomberg, Anand Rathi Research

Fig 18 – Peer comparison - Valuations

	CMP (₹)	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
		FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Heidelberg Cement	161	17.0	13.9	8.9	7.6	108	102
Birla Corp.	782	27.0	19.0	9.1	7.7	89	86
Dalmia Bharat	2,605	32.1	24.0	11.1	8.5	148	120
Deccan Cement	448	13.0	10.1	6.1	4.7	38.7	35.4
India Cement	117	15.0	11.0	7.0	6.0	61	59
JK Cement	771	14.9	14.3	8.7	8.7	98	81
JK Lakshmi	335	21.2	12.4	10.2	7.3	72	66
Mangalam Cement	253	17.9	12.2	8.5	6.2	40	36
NCL Indus	168	9.9	7.0	5.7	4.3	50	44
Orient Cement	128	22.9	17.1	9.2	7.9	73	73
Ramco Cement	714	26.0	21.8	15.5	13.0	199	200
Sagar Cement	812	24.8	12.4	10.1	6.6	58	50
Sanghi Industries	95	20.9	14.9	12.1	10.9	114	127

Source: Bloomberg, Anand Rathi Research

Risk

- Higher freight prices due to the hike in prices of diesel.

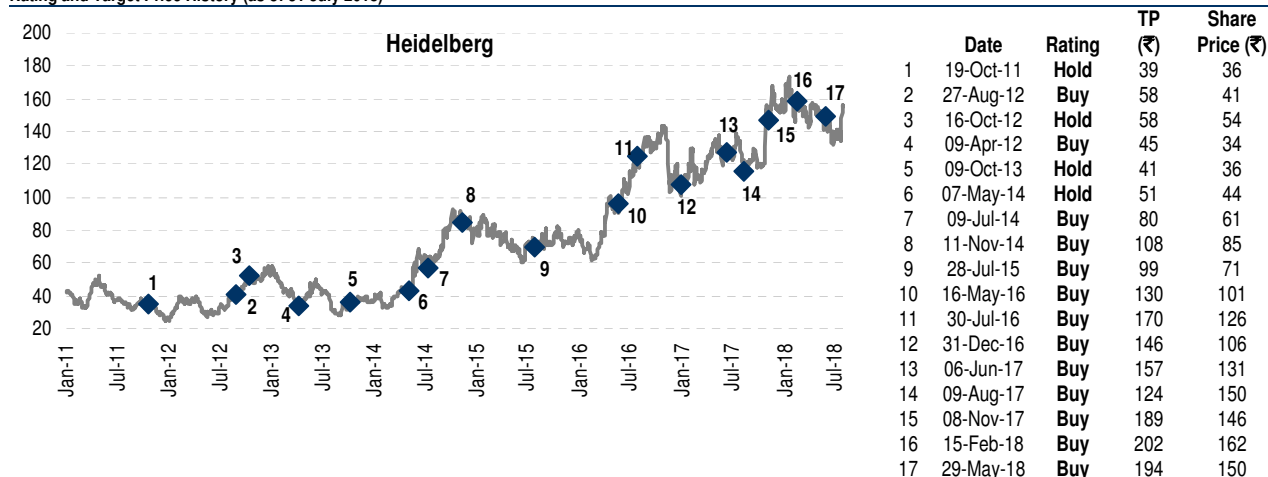
Appendix

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