

Rating: BUY | CMP: Rs130 | TP: Rs200

October 26, 2018

Q2FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	200		200	
Sales (Rs. m)	21,158	22,378	20,724	22,202
% Chng.			2.1	0.8
EBITDA (Rs. m)	4,605	4,836	4,294	4,618
% Chng.			7.2	4.7
EPS (Rs.)	9.6	10.9	8.7	10.3
% Chng.			10.3	6.1

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	16,876	18,607	21,158	22,378
EBITDA (Rs. m)	2,490	3,346	4,605	4,836
Margin (%)	14.8	18.0	21.8	21.6
PAT (Rs. m)	759	1,332	2,180	2,465
EPS (Rs.)	3.3	5.9	9.6	10.9
Gr. (%)	114.5	75.5	63.7	13.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	8.2	13.2	19.4	19.3
RoCE (%)	8.3	14.0	21.5	22.7
EV/Sales (x)	2.1	1.8	1.5	1.2
EV/EBITDA (x)	14.6	10.0	6.7	5.7
PE (x)	38.7	22.1	13.5	11.9
P/BV (x)	3.0	2.8	2.5	2.2

Key Data

HEID.BO | HEIM IN

52-W High / Low	Rs.190 / Rs.122
Sensex / Nifty	33,690 / 10,125
Market Cap	Rs.29bn / \$ 401m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.82.29m

Shareholding Pattern (%)

Promoter's	69.39
Foreign	11.97
Domestic Institution	6.20
Public & Others	12.44
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.7)	(13.9)	4.9
Relative	(3.9)	(11.8)	2.8

Kamlesh Bagmar

kamleshbagmar@plindia.com | 91-22-66322237

Amit Khimesra

amitkhimesra@plindia.com | 91-22-66322244

In line with estimates, Strong outlook drives the rare earnings upgrade in the sector

Heidelberg cement (HEIM) reported Q2FY19 earnings in line with our estimates. It reported highest ever EBITDA/t of Rs979 (PLe:Rs985), up 27% YoY/7% QoQ. HEIM maintained its strong hold on costs with increase limited to 3% despite steep increase in energy and logistics costs. Increase in power generation from Waste Heat Recovery (WHR) plant and optimization of lead distance helped contain the cost and improve Net sales realisations. HEIM expects further savings in energy cost with the start of power supply from other sources at cheaper rates. Market has apprehensions on HEIM's volume growth due to absence of capacity expansion. However, we believe that it can easily show volume growth in the range of 4-5% for next couple of years on the back of debottlenecking and efficiency improvements.

Demand outlook remains upbeat on Central region on the back of strong govt spending on low cost housing/infrastructure sector and better sentiments compared to other regions. With the increase in region's price levels and stable costs, we upgrade our earnings estimates for FY19e/FY20e by 7%/5%. Led by strong outlook on Central region, quality operations and attractive valuations, we reiterate BUY with TP of Rs200, EV/EBITDA of 9x FY20e.

- Limited increase in costs and better prices helped margins to expand:** Volumes grew 6% YoY to 1.13m tonnes (t), in line with our estimates. Volume growth was driven by low base and better availability of construction material in Central India specially in UP. Realisations (net of freight) rose 2% QoQ/Rs87/t (+9% YoY/Rs295) to Rs3,670 (PLe:Rs3,674). Cost/t (net of freight) rose 3.3% YoY/Rs85 to Rs2,690 (PLe:Rs2,689). EBITDA rose 35% YoY to Rs1.10bn (PLe:Rs1.11bn). PAT rose 69% YoY to Rs500mn (PLe:Rs493mn).

Exhibit 1: Q1FY19 Result Overview (Rs mn)

Y/e March (Rs mn)	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Net Sales	4,795	4,200	14.2	5,369	10,164	8,514	19.4
Raw Material	715	676	5.8	1,080	1,795	1,644	9.2
<i>% of Net Sales</i>	<i>14.9</i>	<i>16.1</i>		<i>20.1</i>	<i>17.7</i>	<i>19.3</i>	
Staff Costs	311	293	6.4	306	617	586	5.2
<i>% of Net Sales</i>	<i>6.5</i>	<i>7.0</i>		<i>5.7</i>	<i>6.1</i>	<i>6.9</i>	
Power & Fuel	1,201	1,084	10.8	1,180	2,382	2,126	12.0
<i>% of Net Sales</i>	<i>25.1</i>	<i>25.8</i>		<i>22.0</i>	<i>23.4</i>	<i>25.0</i>	
Freight	666	613	8.7	828	1,494	1,237	20.8
<i>% of Net Sales</i>	<i>13.9</i>	<i>14.6</i>		<i>15.4</i>	<i>14.7</i>	<i>14.5</i>	
Other Expenses	799	717	11.5	814	1,614	1,529	5.5
<i>% of Net Sales</i>	<i>16.7</i>	<i>17.1</i>		<i>15.2</i>	<i>15.9</i>	<i>18.0</i>	
Total Expenditure	3,693	3,382	9.2	4,209	7,902	7,122	11.0
EBITDA	1,102	818	34.8	1,160	2,262	1,392	62.5
<i>Margin (%)</i>	<i>23.0</i>	<i>19.5</i>		<i>21.6</i>	<i>22.3</i>	<i>16.3</i>	
Depreciation	255	255	(0.1)	255	510	505	1.0
Other income	125	83	51.9	103	228	203	12.2
EBIT	972	645	50.8	1,008	1,980	1,091	81.5
Interest	199	188	5.6	219	418	386	8.3
PBT	774	457	69	789	1,562	705	121.7
Extraordinary income/(expense)	-	57		-	-	57	
PBT (After EO)	774	513	51	789	1,562	761	105.2
Tax	273	181	51	278	551	268	105.3
<i>% PBT</i>	<i>35.3</i>	<i>35.2</i>		<i>35.2</i>	<i>35.2</i>	<i>35.2</i>	
Reported PAT	500	333	50.4	511	1,012	493	105.1
Adjusted PAT	500	296	69.0	511	1,012	457	121.6

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March (Rs mn)	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Volume (mn te)	1.1	1.1	5.8	1.3	2.4	2.2	10.5
Net Realisations (Rs/te)	4,262	3,951	7.9	4,237	4,249	3,933	8.0
EBITDA/ te (Rs/te)	979	769	27.3	915	946	643	47.1

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	16,876	18,607	21,158	22,378
YoY gr. (%)	3.7	10.3	13.7	5.8
Cost of Goods Sold	3,607	3,703	4,044	4,332
Gross Profit	13,270	14,904	17,114	18,046
Margin (%)	78.6	80.1	80.9	80.6
Employee Cost	1,148	1,202	1,268	1,337
Other Expenses	1,902	1,920	2,173	2,286
EBITDA	2,490	3,346	4,605	4,836
YoY gr. (%)	18.0	34.4	37.6	5.0
Margin (%)	14.8	18.0	21.8	21.6
Depreciation and Amortization	992	1,012	1,028	1,044
EBIT	1,499	2,334	3,577	3,792
Margin (%)	8.9	12.5	16.9	16.9
Net Interest	898	745	615	445
Other Income	535	487	391	445
Profit Before Tax	1,136	2,077	3,353	3,792
Margin (%)	6.7	11.2	15.8	16.9
Total Tax	374	745	1,174	1,327
Effective tax rate (%)	32.9	35.9	35.0	35.0
Profit after tax	762	1,332	2,180	2,465
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	759	1,332	2,180	2,465
YoY gr. (%)	114.5	75.5	63.7	13.1
Margin (%)	4.5	7.2	10.3	11.0
Extra Ord. Income / (Exp)	3	-	-	-
Reported PAT	762	1,332	2,180	2,465
YoY gr. (%)	115.3	74.8	63.7	13.1
Margin (%)	4.5	7.2	10.3	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	762	1,332	2,180	2,465
Equity Shares O/s (m)	227	227	227	227
EPS (Rs)	3.3	5.9	9.6	10.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	20,751	21,037	21,417	21,716
Tangibles	20,751	21,037	21,417	21,716
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,980	2,977	4,005	5,049
Tangibles	1,980	2,977	4,005	5,049
Intangibles	-	-	-	-
Net fixed assets	18,771	18,060	17,412	16,668
Tangibles	18,771	18,060	17,412	16,668
Intangibles	-	-	-	-
Capital Work In Progress	221	85	-	-
Goodwill	-	-	-	-
Non-Current Investments	153	290	180	180
Net Deferred tax assets	(530)	(835)	(1,271)	(1,764)
Other Non-Current Assets	273	285	285	285
Current Assets				
Investments	-	-	-	-
Inventories	1,396	1,269	1,449	1,533
Trade receivables	126	188	232	245
Cash & Bank Balance	142	2,124	3,372	4,918
Other Current Assets	296	126	126	126
Total Assets	24,076	25,328	25,998	26,931
Equity				
Equity Share Capital	2,266	2,266	2,266	2,266
Other Equity	7,403	8,198	9,694	11,339
Total Networth	9,670	10,464	11,961	13,605
Non-Current Liabilities				
Long Term borrowings	7,053	6,192	4,692	3,192
Provisions	217	196	207	218
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,914	2,266	2,493	2,636
Other current liabilities	4,303	4,809	4,809	4,950
Total Equity & Liabilities	24,076	25,328	25,998	26,931

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	1,136	2,077	3,353	3,792
Add. Depreciation	992	1,012	1,028	1,044
Add. Interest	880	722	615	445
Less Financial Other Income	535	487	391	445
Add. Other	(193)	(114)	(170)	(220)
Op. profit before WC changes	2,815	3,697	4,826	5,061
Net Changes-WC	1,044	590	83	164
Direct tax	(245)	(441)	(738)	(834)
Net cash from Op. activities	3,614	3,846	4,171	4,391
Capital expenditures	(446)	(184)	(295)	(300)
Interest / Dividend Income	44	49	170	220
Others	-	-	-	-
Net Cash from Inv. activities	(402)	(135)	(125)	(80)
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,215)	(427)	(1,500)	(1,500)
Dividend paid	-	(543)	(683)	(820)
Interest paid	(933)	(758)	(615)	(445)
Others	-	-	-	-
Net cash from Fin. activities	(3,147)	(1,729)	(2,798)	(2,765)
Net change in cash	64	1,982	1,248	1,546
Free Cash Flow	3,140	3,613	3,876	4,091

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	4,839	5,254	5,369	4,795
YoY gr. (%)	24.8	15.8	24.4	14.2
Raw Material Expenses	1,206	853	1,080	715
Gross Profit	3,633	4,402	4,288	4,080
Margin (%)	75.1	83.8	79.9	85.1
EBITDA	754	1,143	1,160	1,102
YoY gr. (%)	(7.7)	51.5	1.5	(5.0)
Margin (%)	15.6	21.7	21.6	23.0
Depreciation / Depletion	253	254	255	255
EBIT	502	888	905	847
Margin (%)	10.4	16.9	16.9	17.7
Net Interest	186	172	219	199
Other Income	167	117	103	125
Profit before Tax	483	833	789	774
Margin (%)	10.0	15.8	14.7	16.1
Total Tax	165	312	278	273
Effective tax rate (%)	34.2	37.4	35.2	35.3
Profit after Tax	318	521	511	500
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	318	521	511	500
YoY gr. (%)	387.4	95.7	218.7	69.0
Margin (%)	6.6	9.9	9.5	10.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	318	521	511	500
YoY gr. (%)	(987.2)	40.7	218.7	50.4
Margin (%)	6.6	9.9	9.5	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	318	521	511	500
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

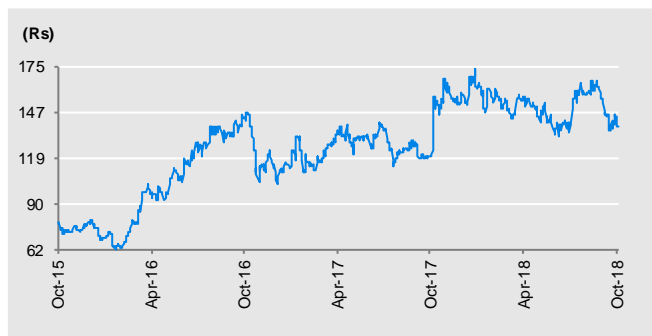
Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	3.3	5.9	9.6	10.9
CEPS	7.7	10.3	14.2	15.5
BVPS	42.7	46.2	52.8	60.0
FCF	13.9	15.9	17.1	18.1
DPS	-	-	-	-
Return Ratio(%)				
RoCE	8.3	14.0	21.5	22.7
ROIC	5.6	10.3	17.5	20.9
RoE	8.2	13.2	19.4	19.3
Balance Sheet				
Net Debt : Equity (x)	0.7	0.4	0.1	(0.1)
Net Working Capital (Days)	(8)	(16)	(14)	(14)
Valuation(x)				
PER	38.7	22.1	13.5	11.9
P/B	3.0	2.8	2.5	2.2
P/CEPS	7.7	10.3	14.2	15.5
EV/EBITDA	14.6	10.0	6.7	5.7
EV/Sales	2.1	1.8	1.5	1.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Volume (mn te)-Cement	4	5	5	5
Cement Realisation (Rs/te)	3,772	3,990	4,250	4,322
EBITDA (Rs/ te)	557	719	925	934
RM cost (Rs/ te)	734	774	812	837
Power, Oil & Fuel (Rs/ te)	967	963	935	939
Freight Charges (Rs/ te)	535	609	628	647

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	27-Oct-17	BUY	180	156
2	17-Nov-17	BUY	180	166
3	13-Dec-17	BUY	180	166
4	10-Jan-18	BUY	190	164
5	8-Feb-18	BUY	195	161
6	12-Feb-18	BUY	195	162
7	15-Mar-18	BUY	195	154
8	13-Apr-18	BUY	195	155
9	23-May-18	BUY	194	144
10	12-Jun-18	BUY	180	145

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,540
2	Ambuja Cement	Hold	210	201
3	Coal India	BUY	340	273
4	Heidelberg Cement India	BUY	200	139
5	Hindalco Industries	Accumulate	308	252
6	Hindustan Zinc	Accumulate	315	289
7	Jindal Steel & Power	BUY	290	191
8	JK Lakshmi Cement	Hold	359	298
9	JSW Steel	BUY	450	378
10	NMDC	Accumulate	138	115
11	Shree Cement	Hold	18,100	16,384
12	Steel Authority of India	Hold	81	69
13	Tata Steel	BUY	780	560
14	The Ramco Cements	Hold	735	638
15	Ultratech Cement	Hold	3,820	3,610

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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