

Rating: BUY | CMP: Rs146 | TP: Rs190

February 12, 2019

Q3FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	190		200	
Sales (Rs. m)	22,004	23,104	22,224	23,335
% Chng.	(1.0)	(1.0)		
EBITDA (Rs. m)	4,527	4,452	4,747	4,683
% Chng.	(4.6)	(4.9)		
EPS (Rs.)	9.9	10.1	10.6	10.8
% Chng.	(6.0)	(6.2)		

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	18,607	21,158	22,004	23,104
EBITDA (Rs. m)	3,346	4,635	4,527	4,452
Margin (%)	18.0	21.9	20.6	19.3
PAT (Rs. m)	1,332	2,199	2,253	2,290
EPS (Rs.)	5.9	9.7	9.9	10.1
Gr. (%)	75.5	65.1	2.5	1.6
DPS (Rs.)	2.5	3.0	3.5	3.5
Yield (%)	1.7	2.1	2.4	2.4
RoE (%)	13.2	19.6	17.7	16.3
RoCE (%)	14.0	21.6	20.8	20.1
EV/Sales (x)	2.0	1.6	1.4	1.3
EV/EBITDA (x)	11.1	7.4	7.0	6.5
PE (x)	24.9	15.1	14.7	14.5
P/BV (x)	3.2	2.8	2.5	2.2

Key Data

HEID.BO | HEIM IN

52-W High / Low	Rs.175 / Rs.122
Sensex / Nifty	36,154 / 10,831
Market Cap	Rs.33bn / \$ 468m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.35.13m

Shareholding Pattern (%)

Promoter's	69.39
Foreign	11.77
Domestic Institution	6.54
Public & Others	12.30
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(0.1)	(10.7)	(9.5)
Relative	(0.5)	(6.5)	(14.2)

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Higher realisations led the beat; Maintain BUY

Heidelberg cement (HEIM) reported strong set of Q3FY19 earnings. Led by better than expected realisations, EBITDA/t beat our estimates by over 9% at Rs875 (PLe:Rs800), up 41% YoY. HEIM maintained its strong hold on costs with increase limited to 2.5% YoY despite steep increase in pet coke and diesel costs. Optimisation of logistics, rationalization of employee cost and other fixed overheads, increase in share of power from Waste heat recovery (WHR) plant helped contain the cost. 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 through debottlenecking of capacity by 0.3mn-0.4mn tonnes and efficiency improvements.

We remain positive on the demand outlook in Central region on the back of strong govt spending on rural and affordable housing/infrastructure sector and better sentiments compared to other regions. Led by strong outlook on Central region, quality operations and attractive valuations, we reiterate BUY with TP of Rs190, EV/EBITDA of 9x FY21e.

- Better than expected realisations drove the show:** Volumes grew 6.3% YoY to 1.29mn tonnes (t), in line with our estimates. Realisations (net of freight) rose 0.8% QoQ/Rs30/t (+9.8% YoY/Rs330) to Rs3,700 (PLe:Rs3,573). Cost/t (net of freight) rose 2.7% YoY/Rs75 to Rs2,825 (PLe:Rs2,772) due to higher fuel cost. Adjusting for one-time rebate of Rs38mn accounted in freight cost, EBITDA rose 50% YoY to Rs1.13bn (PLe:Rs1.04bn). Led by better operating performance and lower Interest cost, PAT rose 77% YoY to Rs561mn (PLe:Rs480mn).
- Key earnings call highlights:**
 - Demand is expected to grow 7% YoY in CY19
 - Capacity utilisation for Q3FY19 at 93%; will increase to 100% going forward
 - Actively looking for acquisition opportunities as there is limited scope for major expansion given the low limestone reserves
 - Will add 0.3-0.4m tonnes capacity through debottlenecking in three phases (~100kt/phase); Rs250mn capex to be spent on the project
 - Completed the 1st phase of debottlenecking at capex of Rs70mn in the quarter
 - Gross Debt/Net Debt for Q3FY19 at Rs6.05bn/Rs2.3bn
 - Ammasandra plant started sourcing solar power through 25 year PPA at price 30-35% lower cost than grid rate of Rs7/unit
 - Coal/Petcoke cost for Q3FY19 remained flat QoQ at Rs1.46/Rs1.5 per man calories
 - Trade/Non-Trade sales at 80%/20% in 9MFY19
 - Rs500/t higher realisations in Trade sales v/s Non-Trade

Exhibit 1: Q3FY19 Result Overview (Rs m)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	5,584	4,839	15.4	4,795	15,748	13,352	17.9
Raw Material	1,316	1,206	9.1	715	3,111	2,850	9.2
<i>% of Net Sales</i>	23.6	24.9		14.9	19.8	21.3	
Staff Costs	266	288	(7.6)	311	883	874	1.0
<i>% of Net Sales</i>	4.8	6.0		6.5	5.6	6.5	
Power & Fuel	1,201	1,009	19.1	1,201	3,583	3,135	14.3
<i>% of Net Sales</i>	21.5	20.8		25.1	22.8	23.5	
Freight	796	737	8.1	666	2,291	1,974	16.1
<i>% of Net Sales</i>	14.3	15.2		13.9	14.5	14.8	
Other Expenses	872	845	3.2	799	2,486	2,374	4.7
<i>% of Net Sales</i>	15.6	17.5		16.7	15.8	17.8	
Total Expenditure	4,452	4,084	9.0	3,693	12,353	11,206	10.2
EBITDA	1,133	754	50.1	1,102	3,394	2,146	58.1
<i>Margin (%)</i>	20.3	15.6		23.0	21.6	16.1	
Depreciation	254	253	0.3	255	763	757	0.8
Other income	157	167	(6.3)	125	385	371	3.9
EBIT	1,036	669	54.9	972	3,016	1,760	71.4
Interest	170	186	(8.9)	199	588	572	2.7
PBT	866	483	79	774	2,428	1,188	104.5
Extraordinary income/(expense)	38	-		-	38	57	
PBT (After EO)	904	483	87	774	2,466	1,244	98.2
Tax	319	165	93	273	869	433	100.6
<i>% PBT</i>	35.2	34.2		35.3	35.2	34.8	
Reported PAT	586	318	84.4	500	1,597	811	97.0
Adjusted PAT	561	318	76.6	500	1,573	774	103.1

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March (Rs mn)	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Volume (mn te)	1.29	1.2	6.3	1.1	3.7	3.4	9.0
Net Realisations (Rs/te)	4,315	3,976	8.5	4,262	4,272	3,948	8.2
EBITDA/ te (Rs/te)	875	620	41.2	979	921	635	45.1

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	18,607	21,158	22,004	23,104
YoY gr. (%)	10.3	13.7	4.0	5.0
Cost of Goods Sold	3,703	4,044	4,332	4,685
Gross Profit	14,904	17,114	17,672	18,419
Margin (%)	80.1	80.9	80.3	79.7
Employee Cost	1,202	1,268	1,337	1,411
Other Expenses	1,920	2,173	2,286	2,423
EBITDA	3,346	4,635	4,527	4,452
YoY gr. (%)	34.4	38.5	(2.3)	(1.6)
Margin (%)	18.0	21.9	20.6	19.3
Depreciation and Amortization	1,012	1,028	1,046	1,061
EBIT	2,334	3,607	3,481	3,390
Margin (%)	12.5	17.0	15.8	14.7
Net Interest	745	615	460	318
Other Income	487	391	445	451
Profit Before Tax	2,077	3,383	3,467	3,523
Margin (%)	11.2	16.0	15.8	15.2
Total Tax	745	1,184	1,213	1,233
Effective tax rate (%)	35.9	35.0	35.0	35.0
Profit after tax	1,332	2,199	2,253	2,290
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	1,332	2,199	2,253	2,290
YoY gr. (%)	75.5	65.1	2.5	1.6
Margin (%)	7.2	10.4	10.2	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,332	2,199	2,253	2,290
YoY gr. (%)	74.8	65.1	2.5	1.6
Margin (%)	7.2	10.4	10.2	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,332	2,199	2,253	2,290
Equity Shares O/s (m)	227	227	227	227
EPS (Rs)	5.9	9.7	9.9	10.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	21,037	21,438	21,759	22,086
Tangibles	21,037	21,438	21,759	22,086
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,977	4,005	5,051	6,112
Tangibles	2,977	4,005	5,051	6,112
Intangibles	-	-	-	-
Net fixed assets	18,060	17,433	16,708	15,973
Tangibles	18,060	17,433	16,708	15,973
Intangibles	-	-	-	-
Capital Work In Progress	85	-	-	-
Goodwill	-	-	-	-
Non-Current Investments	290	180	180	180
Net Deferred tax assets	(835)	(1,275)	(1,725)	(2,183)
Other Non-Current Assets	285	285	285	285
Current Assets				
Investments	-	-	-	-
Inventories	1,269	1,449	1,507	1,582
Trade receivables	188	232	241	253
Cash & Bank Balance	2,124	3,375	4,875	6,280
Other Current Assets	126	126	126	126
Total Assets	25,328	26,021	26,899	27,724
Equity				
Equity Share Capital	2,266	2,266	2,266	2,266
Other Equity	8,198	9,714	11,147	12,481
Total Networkth	10,464	11,980	13,413	14,747
Non-Current Liabilities				
Long Term borrowings	6,192	4,692	3,442	2,192
Provisions	196	207	218	230
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,266	2,493	2,592	2,722
Other current liabilities	4,809	4,809	4,942	5,083
Total Equity & Liabilities	25,328	26,021	26,899	27,724

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	2,077	3,383	3,467	3,523
Add. Depreciation	1,012	1,028	1,046	1,061
Add. Interest	722	615	460	318
Less Financial Other Income	487	391	445	451
Add. Other	(114)	(170)	(220)	(220)
Op. profit before WC changes	3,697	4,856	4,752	4,683
Net Changes-WC	590	83	141	129
Direct tax	(441)	(744)	(763)	(775)
Net cash from Op. activities	3,846	4,195	4,131	4,037
Capital expenditures	(184)	(316)	(322)	(326)
Interest / Dividend Income	49	170	220	220
Others	-	-	-	-
Net Cash from Invst. activities	(135)	(146)	(102)	(106)
Issue of share cap. / premium	-	-	-	-
Debt changes	(427)	(1,500)	(1,250)	(1,250)
Dividend paid	(543)	(683)	(820)	(956)
Interest paid	(758)	(615)	(460)	(318)
Others	-	-	-	-
Net cash from Fin. activities	(1,729)	(2,798)	(2,529)	(2,525)
Net change in cash	1,982	1,251	1,500	1,406
Free Cash Flow	3,613	3,879	3,809	3,710

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	5,254	5,369	4,795	5,584
YoY gr. (%)	15.8	24.4	14.2	15.4
Raw Material Expenses	853	1,080	715	1,316
Gross Profit	4,402	4,288	4,080	4,268
Margin (%)	83.8	79.9	85.1	76.4
EBITDA	1,143	1,160	1,102	1,133
YoY gr. (%)	51.5	1.5	(5.0)	2.8
Margin (%)	21.7	21.6	23.0	20.3
Depreciation / Depletion	254	255	255	254
EBIT	888	905	847	879
Margin (%)	16.9	16.9	17.7	15.7
Net Interest	172	219	199	170
Other Income	117	103	125	157
Profit before Tax	833	789	774	904
Margin (%)	15.8	14.7	16.1	16.2
Total Tax	312	278	273	319
Effective tax rate (%)	37.4	35.2	35.3	35.2
Profit after Tax	521	511	500	586
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	521	511	500	561
YoY gr. (%)	95.7	218.7	69.0	76.6
Margin (%)	9.9	9.5	10.4	10.0
Extra Ord. Income / (Exp)	-	-	-	25
Reported PAT	521	511	500	586
YoY gr. (%)	40.7	218.7	50.4	84.4
Margin (%)	9.9	9.5	10.4	10.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	521	511	500	586
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

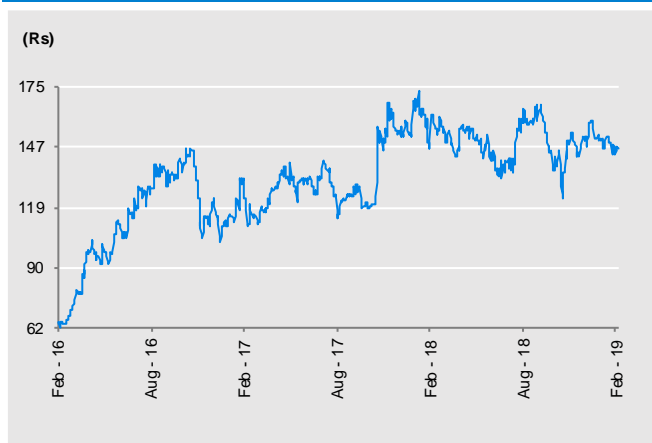
Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	5.9	9.7	9.9	10.1
CEPS	10.3	14.2	14.6	14.8
BVPS	46.2	52.9	59.2	65.1
FCF	15.9	17.1	16.8	16.4
DPS	2.5	3.0	3.5	3.5
Return Ratio(%)				
RoCE	14.0	21.6	20.8	20.1
ROIC	10.3	17.6	19.0	20.8
RoE	13.2	19.6	17.7	16.3
Balance Sheet				
Net Debt : Equity (x)	0.4	0.1	(0.1)	(0.3)
Net Working Capital (Days)	(16)	(14)	(14)	(14)
Valuation(x)				
PER	24.9	15.1	14.7	14.5
P/B	3.2	2.8	2.5	2.2
P/CEPS	14.1	10.3	10.0	9.9
EV/EBITDA	11.1	7.4	7.0	6.5
EV/Sales	2.0	1.6	1.4	1.3
Dividend Yield (%)	1.7	2.1	2.4	2.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Volume (mn te)-Cement	5	5	5	5
Cement Realisation (Rs/te)	3,990	4,250	4,250	4,250
EBITDA (Rs/ te)	719	931	874	819
RM cost (Rs/ te)	774	812	837	862
Power, Oil & Fuel (Rs/ te)	963	935	939	944
Freight Charges (Rs/ te)	609	622	634	647

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-Mar-18	BUY	195	154
2	13-Apr-18	BUY	195	155
3	23-May-18	BUY	194	144
4	12-Jun-18	BUY	180	145
5	21-Jun-18	BUY	194	134
6	10-Jul-18	BUY	180	139
7	31-Jul-18	BUY	200	159
8	5-Oct-18	BUY	200	139
9	26-Oct-18	BUY	200	130
10	7-Jan-19	BUY	200	150

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,389
2	Ambuja Cement	Hold	220	218
3	Coal India	Hold	262	235
4	Heidelberg Cement India	BUY	200	150
5	Hindalco Industries	Accumulate	280	209
6	Hindustan Zinc	Hold	275	268
7	Jindal Steel & Power	BUY	230	129
8	JK Lakshmi Cement	Hold	320	305
9	JSW Steel	BUY	360	279
10	NMDC	Reduce	86	95
11	Shree Cement	Hold	16,800	15,918
12	Steel Authority of India	Hold	50	53
13	Tata Steel	BUY	780	469
14	The Ramco Cements	Hold	600	574
15	Ultratech Cement	Hold	3,725	3,791

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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