

Rating: BUY | CMP: Rs211 | TP: Rs235

June 6, 2019

## Q4FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	235		214	
Sales (Rs. m)	22,215	23,403	22,004	23,104
% Chng.	1.0	1.3		
EBITDA (Rs. m)	4,810	4,921	4,527	4,452
% Chng.	6.3	10.5		
EPS (Rs.)	10.7	11.3	9.9	10.1
% Chng.	7.1	12.0		

### Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	18,607	21,094	22,215	23,403
EBITDA (Rs. m)	3,346	4,556	4,810	4,921
Margin (%)	18.0	21.6	21.7	21.0
PAT (Rs. m)	1,332	2,181	2,414	2,566
EPS (Rs.)	5.9	9.6	10.7	11.3
Gr. (%)	75.5	63.8	10.7	6.3
DPS (Rs.)	2.5	4.0	3.5	3.5
Yield (%)	1.2	1.9	1.7	1.7
RoE (%)	13.2	19.7	19.4	18.3
RoCE (%)	14.0	21.9	23.1	22.4
EV/Sales (x)	2.8	2.3	2.1	1.9
EV/EBITDA (x)	15.5	10.6	9.7	8.9
PE (x)	35.9	21.9	19.8	18.6
P/BV (x)	4.6	4.1	3.6	3.2

### Key Data

HEID.BO | HEIM IN

52-W High / Low	Rs.218 / Rs.122
Sensex / Nifty	40,084 / 12,022
Market Cap	Rs.48bn / \$ 691m
Shares Outstanding	227m
3M Avg. Daily Value	Rs.122.38m

### Shareholding Pattern (%)

Promoter's	69.39
Foreign	11.72
Domestic Institution	6.89
Public & Others	12.00
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	16.3	39.6	47.9
Relative	13.0	25.8	29.2

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## Higher realisations offsets higher costs; Maintain BUY

Heidelberg cement (HEIM) reported Q4FY19 earnings in line with our estimates. Led by better than expected realisations partially offset by higher fuel costs, EBITDA/t arrived in line with our estimates at Rs959 (PLe:Rs955), up 6.6% YoY. Despite hardening of fuel prices, company managed to contain costs led by optimisation of logistics, rationalizing employee cost, other fixed overheads and higher power generation from Waste Heat Recovery System (WHRS). 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 demand outlook in Central region on the back of strong government spending in rural and affordable housing/infrastructure sector and better sentiments compared to other regions. To factor increased realisations, we upgrade our EBITDA estimates by 6.3%/10.5% for FY20e/FY21e. Led by strong outlook in Central region, quality operations and attractive valuations, we reiterate BUY with TP of Rs235 (Earlier Rs214), EV/EBITDA of 10x FY21e.

- Better than expected realisations offset high fuel cost:** Volumes fell 4.6% YoY to 1.21mn tonnes (t) (PLe:1.3m tonnes). Realisations (net of freight) rose 0.9% QoQ/Rs33/t (+8% YoY/Rs275) to Rs3,733 (PLe:Rs3,643). Cost/t (net of freight) rose 8.4% YoY/Rs215 to Rs2,773 (PLe:Rs2,688) due to high pet coke cost. Driven by better realisations, EBITDA rose 1.7% YoY to Rs1.16bn (PLe:Rs1.24bn). Led by 73% YoY increase in other income and 7% YoY fall in interest cost, PAT rose 17% YoY to Rs609mn (PLe:Rs635mn).
- Key earnings call highlights:**
  - Demand is expected to grow ~7% YoY in CY19e (13% YoY in FY19) driven by infrastructure and affordable housing. Stability in government will increase the speed of investments in infrastructure projects
  - Capacity utilisation for FY19 at 91% (86% in FY18); Jhansi (UP) unit operated at 100% utilisation level in Q4FY19
  - Actively looking for acquisition opportunities due to limited scope for major expansion
  - Will add ~0.4mn tonnes capacity through debottlenecking capex of Rs300mn of which spent Rs90mn capex in FY19 towards first phase of debottlenecking
  - Prepaid Rs1.5bn in FY19; Will prepay Rs1.25bn/Rs1.2bn in FY20e/FY21e
  - Gross Debt/Net Debt for Q4FY19 at Rs6.04bn/Rs2.7bn
  - Trade/Non-Trade sales in Q4FY19 at 85%/15% (80%/20% in 9MFY19)
  - Premium sales grew 31% YoY which constitutes >10% of trade sales

**Exhibit 1: Q4FY19 Result Overview (Rs m)**

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
<b>Net Sales</b>	<b>5,347</b>	<b>5,254</b>	<b>1.8</b>	<b>5,584</b>	<b>21,094</b>	<b>18,607</b>	<b>13.4</b>
Raw Material	752	853	(11.8)	1,316	3,864	3,703	4.4
<i>% of Net Sales</i>	<i>14.1</i>	<i>16.2</i>		<i>23.6</i>	<i>18.3</i>	<i>19.9</i>	
Staff Costs	356	327	8.8	266	1,239	1,202	3.1
<i>% of Net Sales</i>	<i>6.7</i>	<i>6.2</i>		<i>4.8</i>	<i>5.9</i>	<i>6.5</i>	
Power & Fuel	1,467	1,304	12.5	1,201	5,049	4,439	13.7
<i>% of Net Sales</i>	<i>27.4</i>	<i>24.8</i>		<i>21.5</i>	<i>23.9</i>	<i>23.9</i>	
Freight	826	862	(4.2)	796	3,117	2,836	9.9
<i>% of Net Sales</i>	<i>15.5</i>	<i>16.4</i>		<i>14.3</i>	<i>14.8</i>	<i>15.2</i>	
Other Expenses	784	765	2.4	872	3,269	3,139	4.2
<i>% of Net Sales</i>	<i>14.7</i>	<i>14.6</i>		<i>15.6</i>	<i>15.5</i>	<i>16.9</i>	
Total Expenditure	4,185	4,112	1.8	4,452	16,538	15,318	8.0
<b>EBITDA</b>	<b>1,162</b>	<b>1,143</b>	<b>1.7</b>	<b>1,133</b>	<b>4,556</b>	<b>3,289</b>	<b>38.5</b>
<i>Margin (%)</i>	<i>21.7</i>	<i>21.7</i>		<i>20.3</i>	<i>21.6</i>	<i>17.7</i>	
Depreciation	255	254	0.1	254	1,018	1,012	0.6
Other income	202	117	73.4	157	587	487	20.5
<b>EBIT</b>	<b>1,109</b>	<b>1,005</b>	<b>10.4</b>	<b>1,036</b>	<b>4,125</b>	<b>2,765</b>	<b>49.2</b>
Interest	160	172	(7.0)	170	748	745	0.4
<b>PBT</b>	<b>949</b>	<b>833</b>	<b>14</b>	<b>866</b>	<b>3,378</b>	<b>2,020</b>	<b>67.2</b>
Extraordinary income/(expense)	-	-		38	38	57	
<b>PBT (After EO)</b>	<b>949</b>	<b>833</b>	<b>14</b>	<b>904</b>	<b>3,416</b>	<b>2,077</b>	<b>64.5</b>
Tax	340	312	9	319	1,210	745	62.4
<i>% PBT</i>	<i>35.9</i>	<i>37.4</i>		<i>35.2</i>	<i>35.4</i>	<i>35.9</i>	
<b>Reported PAT</b>	<b>609</b>	<b>521</b>	<b>16.9</b>	<b>586</b>	<b>2,206</b>	<b>1,332</b>	<b>65.6</b>
<b>Adjusted PAT</b>	<b>609</b>	<b>521</b>	<b>16.9</b>	<b>561</b>	<b>2,181</b>	<b>1,295</b>	<b>68.4</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March (Rs mn)	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Volume (mn te)	1.21	1.3	(4.6)	1.3	4.9	4.7	5.3
Net Realisations (Rs/te)	4,415	4,137	6.7	4,315	4,308	4,000	7.7
EBITDA/ te (Rs/te)	959	900	6.6	875	930	707	31.6

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Net Revenues</b>	<b>18,607</b>	<b>21,094</b>	<b>22,215</b>	<b>23,403</b>
YoY gr. (%)	10.3	13.4	5.3	5.3
Cost of Goods Sold	3,703	3,864	4,234	4,579
Gross Profit	14,904	17,230	17,981	18,823
Margin (%)	80.1	81.7	80.9	80.4
Employee Cost	1,202	1,239	1,307	1,379
Other Expenses	1,920	3,269	2,275	2,379
<b>EBITDA</b>	<b>3,346</b>	<b>4,556</b>	<b>4,810</b>	<b>4,921</b>
YoY gr. (%)	34.4	36.2	5.6	2.3
Margin (%)	18.0	21.6	21.7	21.0
Depreciation and Amortization	1,012	1,018	1,053	1,074
<b>EBIT</b>	<b>2,334</b>	<b>3,538</b>	<b>3,757</b>	<b>3,847</b>
Margin (%)	12.5	16.8	16.9	16.4
Net Interest	745	748	488	349
Other Income	487	587	445	450
<b>Profit Before Tax</b>	<b>2,077</b>	<b>3,416</b>	<b>3,714</b>	<b>3,947</b>
Margin (%)	11.2	16.2	16.7	16.9
Total Tax	745	1,210	1,300	1,381
Effective tax rate (%)	35.9	35.4	35.0	35.0
<b>Profit after tax</b>	<b>1,332</b>	<b>2,206</b>	<b>2,414</b>	<b>2,566</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,332</b>	<b>2,181</b>	<b>2,414</b>	<b>2,566</b>
YoY gr. (%)	75.5	63.8	10.7	6.3
Margin (%)	7.2	10.3	10.9	11.0
Extra Ord. Income / (Exp)	-	25	-	-
<b>Reported PAT</b>	<b>1,332</b>	<b>2,206</b>	<b>2,414</b>	<b>2,566</b>
YoY gr. (%)	74.8	65.6	9.4	6.3
Margin (%)	7.2	10.5	10.9	11.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,332	2,206	2,414	2,566
<b>Equity Shares O/s (m)</b>	<b>227</b>	<b>227</b>	<b>227</b>	<b>227</b>
<b>EPS (Rs)</b>	<b>5.9</b>	<b>9.6</b>	<b>10.7</b>	<b>11.3</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>21,037</b>	<b>21,363</b>	<b>21,971</b>	<b>22,390</b>
Tangibles	21,037	21,363	21,971	22,390
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,977</b>	<b>3,995</b>	<b>5,060</b>	<b>6,134</b>
Tangibles	2,977	3,995	5,060	6,134
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>18,060</b>	<b>17,368</b>	<b>16,910</b>	<b>16,256</b>
Tangibles	18,060	17,368	16,910	16,256
Intangibles	-	-	-	-
Capital Work In Progress	85	172	-	-
Goodwill	-	-	-	-
Non-Current Investments	290	285	180	180
Net Deferred tax assets	(835)	(1,303)	(1,745)	(2,258)
Other Non-Current Assets	285	255	285	285
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,269	1,674	1,522	1,603
Trade receivables	188	253	243	256
Cash & Bank Balance	2,124	3,377	4,775	6,486
Other Current Assets	126	145	126	126
<b>Total Assets</b>	<b>25,328</b>	<b>26,955</b>	<b>27,017</b>	<b>28,235</b>
<b>Equity</b>				
Equity Share Capital	2,266	2,266	2,266	2,266
Other Equity	8,198	9,446	10,972	12,581
<b>Total Networkth</b>	<b>10,464</b>	<b>11,712</b>	<b>13,238</b>	<b>14,847</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,192	3,918	3,692	2,492
Provisions	196	197	213	225
Other non current liabilities	-	650	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,266	2,778	2,617	2,757
Other current liabilities	4,809	6,355	4,946	5,090
<b>Total Equity &amp; Liabilities</b>	<b>25,328</b>	<b>26,955</b>	<b>27,017</b>	<b>28,235</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	2,077	3,286	3,714	3,947
Add. Depreciation	1,012	1,031	1,053	1,074
Add. Interest	722	629	488	349
Less Financial Other Income	487	587	445	450
Add. Other	(114)	(170)	(220)	(220)
Op. profit before WC changes	3,697	4,776	5,035	5,151
Net Changes-WC	590	74	158	134
Direct tax	(441)	(723)	(817)	(868)
<b>Net cash from Op. activities</b>	<b>3,846</b>	<b>4,127</b>	<b>4,375</b>	<b>4,416</b>
Capital expenditures	(184)	(406)	(443)	(420)
Interest / Dividend Income	49	170	220	220
Others	-	-	-	-
<b>Net Cash from Invst. activities</b>	<b>(135)</b>	<b>(236)</b>	<b>(223)</b>	<b>(200)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(427)	(1,250)	(1,250)	(1,200)
Dividend paid	(543)	(683)	(1,093)	(956)
Interest paid	(758)	(629)	(488)	(349)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(1,729)</b>	<b>(2,562)</b>	<b>(2,831)</b>	<b>(2,506)</b>
<b>Net change in cash</b>	<b>1,982</b>	<b>1,329</b>	<b>1,322</b>	<b>1,711</b>
Free Cash Flow	3,613	3,721	3,932	3,997

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY18	FY19	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	5.9	9.6	10.7	11.3
CEPS	10.3	14.1	15.3	16.1
BVPS	46.2	51.7	58.4	65.5
FCF	15.9	16.4	17.4	17.6
DPS	2.5	4.0	3.5	3.5
<b>Return Ratio(%)</b>				
RoCE	14.0	21.9	23.1	22.4
ROIC	10.3	17.9	21.2	23.5
RoE	13.2	19.7	19.4	18.3
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.4	0.0	(0.1)	(0.3)
Net Working Capital (Days)	(16)	(15)	(14)	(14)
<b>Valuation(x)</b>				
PER	35.9	21.9	19.8	18.6
P/B	4.6	4.1	3.6	3.2
P/CEPS	20.4	15.0	13.8	13.1
EV/EBITDA	15.5	10.6	9.7	8.9
EV/Sales	2.8	2.3	2.1	1.9
Dividend Yield (%)	1.2	1.9	1.7	1.7

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

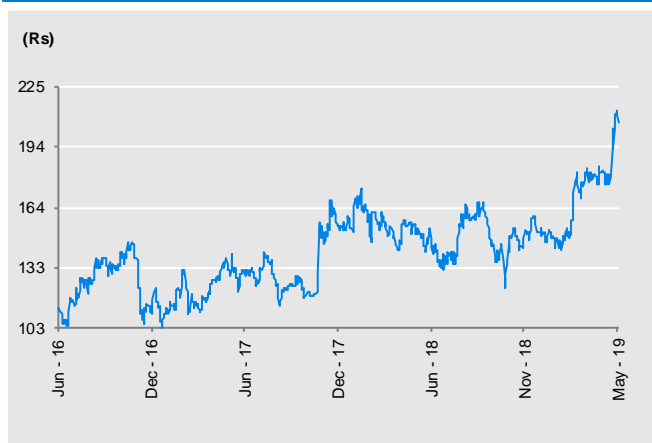
Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
<b>Net Revenue</b>	<b>5,369</b>	<b>4,795</b>	<b>5,584</b>	<b>5,347</b>
YoY gr. (%)	24.4	14.2	15.4	1.8
Raw Material Expenses	1,080	715	1,316	752
Gross Profit	4,288	4,080	4,268	4,594
Margin (%)	79.9	85.1	76.4	85.9
<b>EBITDA</b>	<b>1,160</b>	<b>1,102</b>	<b>1,133</b>	<b>1,162</b>
YoY gr. (%)	1.5	(5.0)	2.8	2.6
Margin (%)	21.6	23.0	20.3	21.7
Depreciation / Depletion	255	255	254	255
<b>EBIT</b>	<b>905</b>	<b>847</b>	<b>879</b>	<b>907</b>
Margin (%)	16.9	17.7	15.7	17.0
Net Interest	219	199	170	160
Other Income	103	125	157	202
<b>Profit before Tax</b>	<b>789</b>	<b>774</b>	<b>904</b>	<b>949</b>
Margin (%)	14.7	16.1	16.2	17.8
Total Tax	278	273	319	340
Effective tax rate (%)	35.2	35.3	35.2	35.9
<b>Profit after Tax</b>	<b>511</b>	<b>500</b>	<b>586</b>	<b>609</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>511</b>	<b>500</b>	<b>561</b>	<b>609</b>
YoY gr. (%)	218.7	69.0	76.6	16.9
Margin (%)	9.5	10.4	10.0	11.4
Extra Ord. Income / (Exp)	-	-	25	-
<b>Reported PAT</b>	<b>511</b>	<b>500</b>	<b>586</b>	<b>609</b>
YoY gr. (%)	218.7	50.4	84.4	16.9
Margin (%)	9.5	10.4	10.5	11.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>511</b>	<b>500</b>	<b>586</b>	<b>609</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY18	FY19	FY20E	FY21E
Volume (mn te)-Cement	5	5	5	5
Cement Realisation (Rs/te)	3,990	4,308	4,320	4,335
EBITDA (Rs/ te)	719	930	935	911
RM cost (Rs/ te)	774	800	823	848
Power, Oil & Fuel (Rs/ te)	963	1,031	950	944
Freight Charges (Rs/ te)	609	636	649	662

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Jun-18	BUY	180	145
2	21-Jun-18	BUY	194	134
3	10-Jul-18	BUY	180	139
4	31-Jul-18	BUY	200	159
5	05-Oct-18	BUY	200	139
6	26-Oct-18	BUY	200	130
7	07-Jan-19	BUY	200	150
8	12-Feb-19	BUY	190	145
9	05-Apr-19	BUY	214	182

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,389
2	Ambuja Cement	Hold	205	198
3	Coal India	Hold	250	223
4	Heidelberg Cement India	BUY	190	145
5	Hindalco Industries	Accumulate	245	198
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)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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