

Institutional Equity Research

HeidelbergCement India

Cements | India

4QFY19 Result Update | June 05, 2019

CMP* (Rs)	211
Upside/ (Downside) (%)	16
Bloomberg Ticker	HEIM IN
Market Cap. (Rs bn)	48
Free Float (%)	31
Shares O/S (mn)	227

BUY 

Target Price: Rs245

Dismal Volume Plays Spoilsport; EBITDA/tonne Remains Upbeat

HEIM has reported soft performance despite healthy EBITDA/tonne because of subdued sales volume (-4.6% YoY). While EBITDA grew marginally by 2% YoY to Rs1.16bn, it was below our estimate of Rs1.28bn, EBITDA/tonne (excluding other operating income) was better than expectations at Rs959 (estimate was Rs950) as against Rs900 in 4QFY18 and Rs905 in 3QFY19. Sales volume declined by 4.6% YoY and 6.4% QoQ at 1.21mnT due of closure of Jhansi plant towards the end of Mar'19, while average realisation improved by 2.3% QoQ and 6.7% YoY to Rs4415/tonne. While input cost/tonne declined sequentially by ~5%, there has been a sharp jump in freight cost/tonne sequentially due of absence of railway rebate. While pricing scenario continues to look upbeat in the Central region, which will aid HEIM to report better operational performance in the subsequent quarters. However, there is still no development in terms of capacity expansion programme of the company (barring 0.3mnT via debottlenecking), which would continue to be a major drag for the stock and unlikely to result in any re-rating in the stock. **Marginally tweaking our estimates mainly to factor in soft volume and higher realisations, we maintain our BUY recommendation on the stock with a revised Target Price of Rs245 (from Rs250 earlier).**

Plant Closure led to Soft Sales Volume

HEIM reported sales volume de-growth of 4.6% YoY and 6.4% QoQ to 1.21mnT below the expectations mainly due to closure of Jhansi GU for last 8 days in Mar'19 as plant has already surpassed its rated capacity production level. Notably, volume growth for FY19 stood at 5.4% YoY to 4.9mnT underperforming industry's growth of 13%. Trade segment sales volume improved to 85% in FY19 with 100% blended cement and Mycem Power (premium product) registered a growth of 31% YoY and formed 10% of total trade cement sales volume. Going forward, we expect HEIM to continue to underperform due to capacity constraint in case the central markets continue to see healthy demand traction.

Operating Efficiencies Continue to be Healthy

While lower sales volume impacted its operating profit in absolute level as EBITDA at Rs1.16bn was below our expectations of Rs1.28bn, its operating performance unitary basis was slightly ahead of our expectations. EBITDA/tonne stood at higher than expectations at Rs959 vs. Rs900 in 4QFY18 and Rs905 in 3QFY19. Operating cost/tonne stood at Rs3456 (+6.7% YoY and +1.3% QoQ). We expect EBITDA/tonne at Rs1005 for FY20 and Rs1058 for FY21.

Outlook & Valuation

HEIM's robust performance in FY19 is attributable to healthy sales volume, superior realisation and cost saving measures. Looking ahead, we expect visible de-leveraging of balance-sheet (net debt at mere Rs1.8bn currently) and healthy operating efficiencies to result in the best return ratios vis-à-vis its comparable peers. Expecting HEIM to sort out the capacity constraint issues in due course, **we maintain our BUY recommendation on the stock with a revised Target Price of Rs245 (9x FY21 EBITDA).**

Quarterly Performance (Rs mn)	4QFY19	4QFY18	% yoy	3QFY19	% qoq
Sales	5,346.5	5,254.3	1.8	5,584.4	(4.3)
Total Expenditures	4,184.8	4,111.6	1.8	4,413.9	(5.2)
Operating cost/tonne (Rs)	3,456	3,237	6.7	3,411	1.3
Input cost/tonne (Rs)	1,832	1,698	7.9	1,945	(5.8)
EBITDA	1,161.7	1,142.7	1.7	1,170.5	(0.8)
PBT	949.3	832.6	14.0	904.1	5.0
Tax	340.3	311.6	9.2	318.5	6.8
PAT	609.0	521.0	16.9	585.6	4.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	16.2	33.8	47.8
Relative to Nifty	12.5	24.4	34.7

Shareholding Pattern (%)	Mar-19	Dec-18
Promoter	69.4	69.4
Public	30.6	30.6

Key Financials (Rs mn)	FY19	FY20E	FY21E
Sales	21,094	22,472	24,176
EBITDA	4,594	5,081	5,644
Net Profit	2,207	2,776	3,278
P/E (x)	21.7	17.2	14.6
P/B (x)	4.1	3.5	3.0
EV/EBITDA (x)	10.8	9.2	7.7
RoE (%)	19.9	21.9	22.0

Change of Estimates (% change)	FY20E	FY21E
Volume	(4.5)	(4.0)
Sales	(2.1)	(1.2)
Realizations	2.5	2.8
EBITDA	0.4	(2.8)
EBITDA/tonne	5.1	1.2
PAT	5.4	2.1

1 Year Stock Price Performance



Note: * CMP as on May 04, 2019

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Concall Highlights

- **Demand and Capacity Utilisation:** Demand growth for the industry in FY19 stood at 13%, while industry's capacity utilisation stood at 70%. HEIM's capacity utilisation (cement) for FY19 was at 90% with 100% for blended cement. While there has been slowdown in sales volume in last two months because of General Elections disruption, HEIM expects FY20 to equally be good for demand growth.
- **Cement Clinker Ratio Maintained at 1.72x:** Clinker utilisation was at 85% with production at 2.9mnT, while cement production at 4.8mnT and clinker sales at 0.07mnT; cement clinker (CC) ratio remained flat YoY at 1.72.
- **Pricing Outlook in Central Region:** HEIM cited that pricing in its key markets continued to remain high and it does not expect any significant reversal hereon. It further stated its sustained demand environment can result average price in Central region to surpass Rs400/bag. HEIM believes ideal price for cement in India should be at Rs435 to make any cement plant viable.
- **Reason for Decline in Sales Volume:** Production Stoppage in Jhansi GU (2.8mnT) for last 8-10 days of Mar'19 was the prime reason for volume decline. It stated that its Jhansi GU had already crossed the limit of rated capacity and therefore for regulatory reason it had to keep the plant shut.
- **Expansion of Capacity Expansion Programme:** HEIM has not yet made any visible progress for capacity expansion programme. It continued to maintain the status that it is looking for inorganic expansion opportunities and it is targeting stressed assets in India across all the regions. It is comfortable with 5-7mnT capacity big ticket acquisition, but we believe such opportunities are not available barring few ones likes Jaypee's residual capacity and ABG Cement.
- **Debottlenecking Status:** Having increased its cement capacity by 0.1mnT in Dec'18 quarter, it is likely to enhance it further by 0.1mnT in current quarter to 5.6mnT and to 5.7mnT in FY21. It has already spent Rs90mn for phase one 0.1mnT out of the total estimated cost of Rs300mn for total 0.3mnT expansion.
- **Sales Mix and Premium Cement (Mycem Power):** Trade sales accounted for 85% in FY19 against 80%. Premium cement volume grew by 31% YoY in FY19 and formed 10% of total traded sales.
- **WHRS, Fuel Cost and Capex:** HEIM generated 69mn units through WHRS in FY19, which was sufficient for 35% of total power requirements for clinker production. Coal cost stood at Rs1.2/Kcal and Petcoke cost at Rs1.6/kcal in FY19. It is likely to incur a capex of Rs600mn (including Rs100mn for debottlenecking) in FY20.

Risks to the View

- Capacity constraints.
- Government's failure to revive infrastructure activity.
- Further up-tick in input cost.

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Exhibit 1: Quarterly Performance

	4QFY19	4QFY18	% yoy chg	3QFY19	% qoq chg
Sales	5,346.5	5,254.3	1.8	5,584.4	(4.3)
Expenditures					
Cost of Materials Consumed	1,055.9	985.8	7.1	994.9	6.1
Change in WIP	(303.5)	(133.1)	128.0	321.1	(194.5)
% sales	14.1	16.2		23.6	
Employee Benefit Exps.	356.0	327.1	8.8	266.2	33.7
% sales	6.7	6.2		4.8	
Power & Fuel	1,466.6	1,304.2	12.5	1,201.0	22.1
% sales	27.4	24.8		21.5	
Freight	826.3	862.4	(4.2)	758.6	8.9
% sales	15.5	16.4		13.6	
Other Exps.	783.5	765.2	2.4	872.1	(10.2)
% sales	14.7	14.6		15.6	
Tota Expenditures	4,184.8	4,111.6	1.8	4,413.9	(5.2)
Operating cost/tonne (Rs)	3,456	3,237	6.7	3,411	1.3
Input cost/tonne (Rs)	1,832	1,698	7.9	1,945	(5.8)
EBIDTA	1,161.7	1,142.7	1.7	1,170.5	(0.8)
Margins	21.7	21.7		21.0	
EBIDTA/tonne (Rs)	959	900	6.6	905	6.1
Depreciation	254.4	254.4	-	253.6	0.3
Interests	160.2	172.3	(7.0)	169.6	(5.5)
other Income	202.2	116.6	73.4	156.8	29.0
Exceptional Items	0.0	0.0		0.0	
PBT	949.3	832.6	14.0	904.1	5.0
Tax	340.3	311.6	9.2	318.5	6.8
% PBT	35.8	37.4		35.2	
PAT	609.0	521.0	16.9	585.6	4.0
APAT	609.0	521.0	16.9	585.6	4.0

Source: Company, RSec Research

Exhibit 2: Revised vs. Old Estimates

	FY20E			FY21E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	5.29	5.05	(4.5)	5.56	5.33	(4.0)
Sales (Rs mn)	22,959	22,472	(2.1)	24,482	24,176	(1.2)
Realizations (Rs/tonne)	4,340	4,446	2.5	4,407	4,533	2.8
EBIDTA (Rs mn)	5,059	5,081	0.4	5,806	5,644	(2.8)
Margins (%)	22.0	22.6		23.7	23.3	
EBITDA/tonne (Rs)	956	1,005	5.1	1,045	1,058	1.2
PAT (Rs mn)	2,633	2,776	5.4	3,211	3,278	2.1

Source: RSec Research

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Exhibit 3: Cost Per Tonne Summary

Rs/tonne	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Cement Volumes (mn t)	1.00	1.05	1.21	1.10	1.06	1.22	1.27	1.27	1.13	1.29	1.21
Raw Material Consumed	632	822	776	880	638	991	671	853	635	1,017	621
Staff Cost	270	261	280	267	276	237	258	241	277	206	294
Power & fuel for generation	1,062	986	966	947	1,023	829	1,027	932	1,068	928	1,211
Freight & Forwarding	533	538	552	567	578	605	679	654	592	586	682
Other Expenditure	747	715	597	738	623	694	603	643	710	674	647
Total Cost per tonne	3,244	3,321	3,171	3,400	3,137	3,356	3,237	3,322	3,282	3,411	3,456
Realisation per tonne	3,842	3,693	3,750	3,922	3,962	3,976	4,137	4,237	4,262	4,316	4,415
EBIDTA per tonne	598	373	580	522	825	620	900	915	980	905	959

Source: Company, RSec Research

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Profit & Loss Statement

Y/E Mar (Rs mn)	FY18	FY19	FY20E	FY21E
Net Sales	18,607	21,094	22,472	24,176
% yoy growth	10.3	13.4	6.5	7.6
Total Cost	15,261	16,500	17,391	18,532
Cost/tonne (Rs)	3,284	3,369	3,441	3,474
Cost of Materials	3,703	3,863	4,027	4,292
Employee	1,202	1,239	1,338	1,472
Power & Fuel	4,439	5,049	5,368	5,721
Freight & Forwarding	2,836	3,079	3,274	3,489
Others	3,082	3,269	3,384	3,557
EBITDA	3,345	4,594	5,081	5,644
EBITDA Margin (%)	18.0	21.8	22.6	23.3
Depreciation and Amortisation	1,012	1,018	1,019	1,047
Interest	745	748	632	540
Other Income	487	587	841	985
PBT	2,076	3,416	4,271	5,043
Tax	745	1,210	1,495	1,765
% Tax	35.9	35.4	35.0	35.0
Net Profit	1,331	2,207	2,776	3,278
YoY Growth (%)	74.7	65.8	25.8	18.1
Net Profit Margin (%)	7.2	10.5	12.4	13.6

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Balance Sheet Statement

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
Share Capital	2,266	2,266	2,266	2,266
Reserves & Surplus	8,191	9,446	11,406	13,868
Total Shareholder's funds	10,457	11,712	13,672	16,134
Long Term Borrowings	4,692	3,918	2,918	1,918
Deferred Tax Liabilities (net)	835	1,303	1,303	1,303
Other Long Term Liabilities	196	197	217	232
Long Term Provisions	566	691	758	812
Total NC Liabilities	6,289	6,110	5,197	4,265
Trade Payables	2,266	2,778	3,049	3,264
Other Current Liabilities	4,018	4,013	4,404	4,715
Short Term Provisions	2,189	2,342	2,570	2,752
Total Curr Liabilities	8,473	9,133	10,023	10,732
TOTAL LIABILITIES	25,219	26,955	28,892	31,131
Gross Block	21,053	21,378	21,978	22,578
Less: Accumulated Depreciation	2,992	4,010	5,029	6,076
Net Block	18,061	17,369	16,950	16,503
CWIP	81	172	172	172
Total	18,142	17,541	17,122	16,675
Long Term Loans and Advances	285	285	313	335
Other NC Assets	294	255	280	300
Current Assets				
Current Investments	-	-	1,500	3,000
Inventories	1,269	1,674	1,837	1,967
Receivables	188	253	278	298
Cash & Bank	2,013	3,376	3,643	4,362
ST Loans & Advances	126	172	189	202
OTHER CA	2,901	3,398	3,729	3,992
Total Current Assets	6,497	8,874	11,176	13,821
Total Assets	25,219	26,955	28,892	31,131

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Cash Flow Statement

Y/E Mar (Rs mn)	FY18	FY19E	FY20E	FY21E
PBT	2,076	3,416	4,271	5,043
Adjustments for:				
Depreciation and Obsolescence	1,012	1,018	1,019	1,047
Interest & Dividend Income	-	-	-	-
Interest and Finance Expense	745	748	632	540
Operating Profit Before Working Capital Changes	3,833	5,182	5,923	6,629
Net change in WC	1,147	(187)	388	309
Tax Paid	(440)	(741)	(1,495)	(1,765)
Net Cash from Operating activities	4,540	4,254	4,815	5,174
Purchase of fixed assets (net)	(320)	(417)	(600)	(600)
Net Cash from Investing activities	(320)	(417)	(600)	(600)
Proceeds / (Repayment) of Loans (Net)	(1,060)	(774)	(1,000)	(1,000)
Finance Costs	(745)	(748)	(632)	(540)
Investment (net)	-	-	(1,500)	(1,500)
Divident Paid	(544)	(952)	(816)	(816)
Net Cash from Financing activities	(2,348)	(2,474)	(3,948)	(3,855)
Net Increase or decrease in Cash	1,871	1,363	267	718
Opening Cash	142	2,013	3,376	3,643
Closing Cash	2,013	3,376	3,643	4,362

Key Ratio

Y/E Mar	FY18	FY19E	FY20E	FY21E
Valuation Ratio (x)				
P/E	35.9	21.7	17.2	14.6
P/CEPS	20.4	14.8	12.6	11.1
P/BV	4.6	4.1	3.5	3.0
EV/EBIDTA	15.5	10.8	9.2	7.7
EV/Sales	2.8	2.4	2.1	1.8
EV/tonne (USD)	138	129	119	109
Dividend Payout (%)	34.0	35.9	24.5	20.7
Dividend Yield (%)	0.95	1.66	1.42	1.42
Adj. OCF Yield	7.9	7.3	8.7	9.7
Per Share Data (Rs)				
EPS (Basic)	5.9	9.7	12.3	14.5
EPS (Diluted)	5.9	9.7	12.3	14.5
CEPS	10.3	14.2	16.7	19.1
DPS	2.0	3.5	3.0	3.0
Book Value	46	52	60	71
EBIDTA/tonne	720	938	1,005	1,058
Returns (%)				
RoCE	16.9	24.8	28.2	30.1
RoE	13.2	19.9	21.9	22.0
Turnover ratios (x)				
Asset Turnover	0.9	1.0	1.0	1.1
Inventory (days)	26	31	31	31
Receivables (days)	4	5	5	5
Payables (days)	47	51	51	51

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Date	Reco	CMP	TP
12-Feb-19	BUY	146	250
05-Nov-18	BUY	148	220
30-Jul-18	BUY	160	210
28-May-18	BUY	151	200
12-Feb-18	BUY	162	205
7-Nov-17	BUY	145	170
8-Aug-17	BUY	125	140
6-Jun-17	BUY	129	150

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Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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