

November 06, 2018

## HeidelbergCement India

### Q2FY19 Result Update

#### Pick up in realization boosts profitability

HeidelbergCement India (HCIL) reported a healthy quarter with revenue growing at 14.2% YoY to INR 486cr mainly driven by a rise in realization as well as pick up in volumes. Realization/ton was up 7.9% YoY and 0.8% QoQ to INR 4262/ton. Total cement volumes for the quarter stood at 1.125mt up by 6% YoY.

#### Strong hold on costs leads to highest ever EBITDA/ton

Despite an increase in energy and logistics costs leading to total cost/ton rising by 5% YoY, a higher realization offset these cost pressures to register a highest EBITDA/ton of INR 980, up 19% YoY and 7% QoQ. The costs were also maintained at optimum levels due to power and fuel savings arising from the WHRS plant as well as the cheap solar power that is obtained as part of the Power Purchase Agreement.

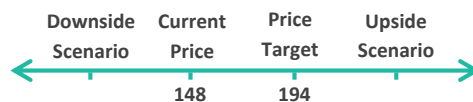
#### Debottlenecking to cater to near-term incremental demand

With capacity utilization hovering at ~90% YTD, HCIL aims to increase its capacity by 5-10% through debottlenecking. This will be done in phases, and the first phase is scheduled to be completed by the end of Q3FY19. This coupled with efficiency improvements and a 100% blended ratio will cater to incremental demand in the near-term.

#### Valuations

We remain upbeat on the demand scenario in the Central region (on the back of affordable housing and infra projects) along with a narrower demand-supply gap than other regions in India. We believe HCIL is well-placed to benefit from this demand uptick due to limited industry capacity additions in its key operating markets. Moreover, cost optimization (through WHRS and alternate fuels) coupled with a rise in proportion of premium products sold and consistent repayment of debt, prompts us to maintain our target price at INR 194/share giving an upside of 30% (at an average of 10x FY20 EV/EBITDA and \$100 FY20 EV/Ton).

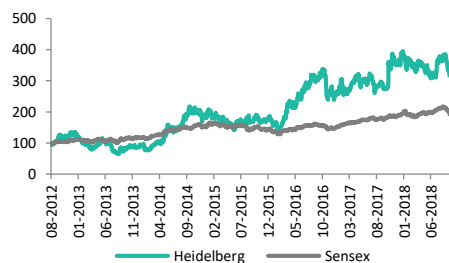
# STRONG BUY\*



Market Data	
Industry	Cement
Sensex	34951
Nifty	10524
Bloomberg Code	HEIM:IN
Eq. Cap. (INR Crores)	227
Face Value (INR)	10
52-w H/L	122/190
Market Cap (INR Crores)	3343

Valuation Data	FY18	FY19E	FY20E
OPM	19.2%	21.1%	22.3%
NPM	7.0%	10.3%	12.1%
P/E (x)	23.8	17.4	14.0
EV/EBITDA (x)	9.8	8.9	7.4
EV/Ton (\$)	101.8	107.3	95.8

#### HeidelbergCement India Vs SENSEX



#### Shareholding Pattern

	Sep'18	Jun'18	Sep'17
Promoters	69.39	69.39	62.13
FIIIs	11.97	11.74	11.71
DIIIs	6.39	6.11	6.56
Retail	12.25	12.76	12.34
	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Revenue	1648	1717	1889	2013	2180
<b>Growth%</b>	-	<b>4%</b>	<b>10%</b>	<b>7%</b>	<b>8%</b>
EBITDA	231	279	363	424	486
<b>Growth%</b>	-	<b>21%</b>	<b>30%</b>	<b>17%</b>	<b>15%</b>
Adjusted PAT	35	76	133	208	263
<b>Growth%</b>	-	<b>117%</b>	<b>75%</b>	<b>56%</b>	<b>26%</b>
EPS (INR)	1.6	3.4	5.9	9.2	11.6
Sales Volume (MT)	4.44	4.47	4.65	4.86	5.16
P/E	46.5	35.0	23.8	17.4	14.0
EV/EBITDA	11.6	12.0	9.8	8.9	7.4
EV/Ton	76.3	95.7	101.8	107.3	95.8

Source: Company, NSPL Research

\* Read last page for disclaimer &amp; rating rationale



## Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
<b>Revenue from Operations</b>	<b>486</b>	<b>426</b>	<b>540</b>	<b>14.1%</b>	<b>-10.1%</b>
COGS	71	68	108	5.7%	-33.9%
Employee Expenses	31	29	31	6.4%	1.9%
Power and Fuel	120	108	118	10.8%	1.8%
Freight and Forwarding	67	61	83	8.7%	-19.6%
Other Expenses	80	66	81	21.1%	-1.8%
Total Expenses	369	333	421	11.0%	-12.3%
<b>EBITDA</b>	<b>117</b>	<b>93</b>	<b>119</b>	<b>24.9%</b>	<b>-2.3%</b>
Depreciation	25	26	25	-0.1%	0.0%
Other Income	6	2	7	164.1%	-11.0%
<b>EBIT</b>	<b>97</b>	<b>70</b>	<b>101</b>	<b>38.7%</b>	<b>-3.5%</b>
Finance Cost	20	19	22	5.6%	-9.3%
<b>PBT</b>	<b>77</b>	<b>51</b>	<b>79</b>	<b>50.8%</b>	<b>-1.9%</b>
Taxes	27	18	28	51.3%	-1.5%
<b>Net Profit</b>	<b>50</b>	<b>33</b>	<b>51</b>	<b>50.5%</b>	<b>-2.0%</b>

Source: Company, NSPL Research

- The company's net sales grew 14% y-o-y (from INR 426cr in Q2FY18) but declined 10% q-o-q (from INR 540cr in Q1FY19) to INR 486cr in Q2FY19.
- EBITDA for the company stood at INR 117cr up from INR 93cr (25% y-o-y) but down from INR 119cr (-2.3% y-o-y) with EBITDA Margins at 24% as against 21.9% in Q2FY18 and 22.1% in Q1FY19. The rise in margins was primarily due to the benefit of higher operating leverage.
- EBITDA/Ton for the quarter stood at INR 980 (highest ever) up from INR 822 (19.2% Y-o-Y) in Q2FY18 and INR 913 (7.3% Q-o-Q) in Q1FY19.
- Reported PAT stood at INR 50cr which was up by 51% Y-o-Y (from INR 33cr) and down 2% Q-o-Q (from INR 51cr). PAT Margins stood at 10.3%, down from 7.8% in Q2FY18 and 9.5% in Q1FY19.

(INR/Ton)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Realization	4262	3962	4237	7.9%	0.8%
RM Cost	635	636	851	-0.1%	-25.3%
Power and Fuel	277	275	241	0.5%	15.0%
Freight and Forwarding	1068	1020	929	4.7%	14.9%
Employee Cost	592	576	652	2.8%	-9.2%
Other Expenditure	710	621	641	14.4%	10.8%
Total Expenditure	3282	3129	3314	4.9%	-1.0%
<b>EBITDA</b>	<b>980</b>	<b>822</b>	<b>913</b>	<b>19.2%</b>	<b>7.3%</b>

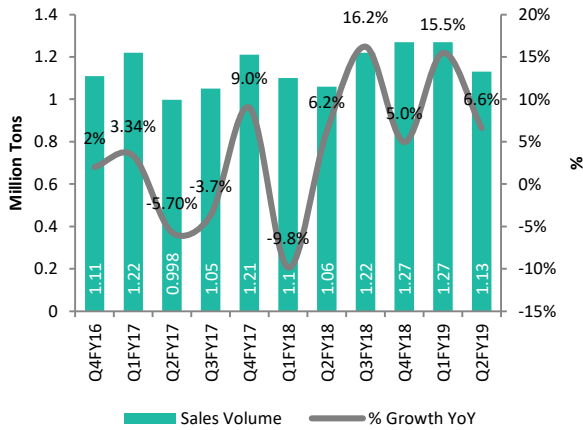
Source: Company, NSPL Research

## Key Concall Highlights

- The company achieved a capacity utilization of 82% during the quarter and YTD capacity utilization of 90%. The central region had a capacity utilization of ~75-77% during the quarter.
- Demand growth was estimated at 6-7%, with MP showing weaker demand (probably due to upcoming elections) as compared to UP. In the non-trade segment, the management is witnessing more irrigation, power and road projects under implementation.
- There is a difference of INR 200-600/ton difference between trade and non-trade sales. The company currently has 85% of its total sales coming from the trade segment.
- Work has started for debottlenecking of its plants, and the first phase is expected to be completed by mid-Dec. HCL expects an incremental capacity of 30,000 tons/month post debottlenecking.
- The company has reduced its petcoke usage from 70% to 60% currently. No cost inflation is expected in fly-ash or any other additives.
- HCL currently saves INR 40cr annually due to WHRS. WHRS now contributes to 40% of power consumption for clinker production and 20-25% of total power requirement of the company.
- The benefit from axle load norms have already been accounted for in the quarter. Since 50% of volumes are transported via rail, heightened rail charges resulted in a 2.8% increase in freight costs/ton. Since a premium is applied during the peak season, the cost reduced QoQ.



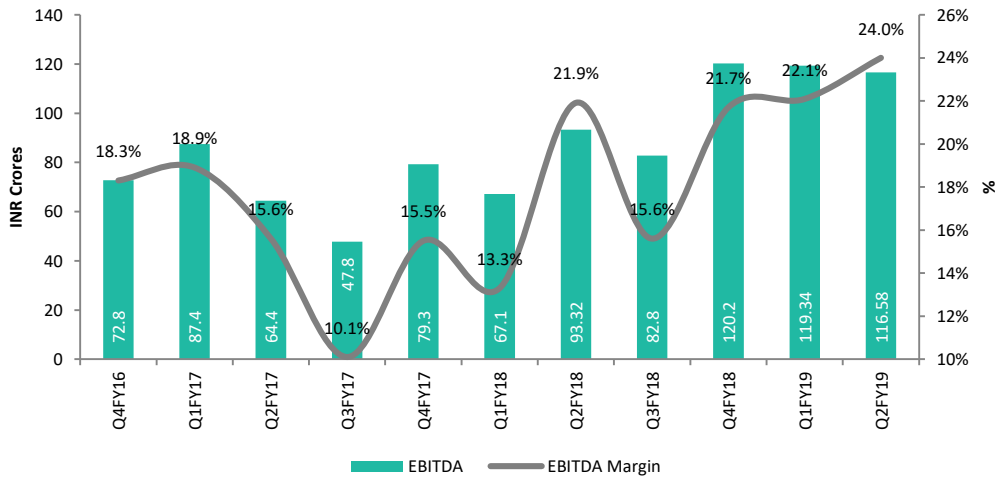
Sales Volume



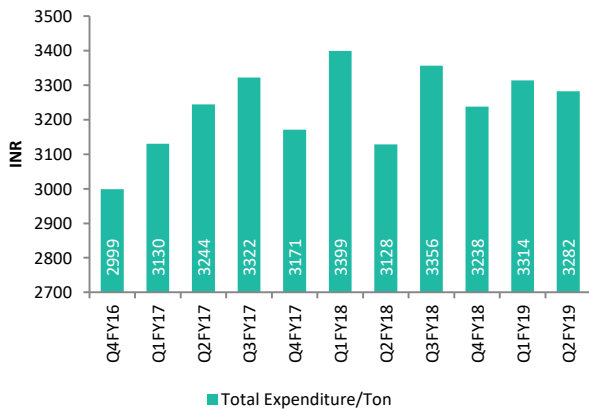
Realization/Ton



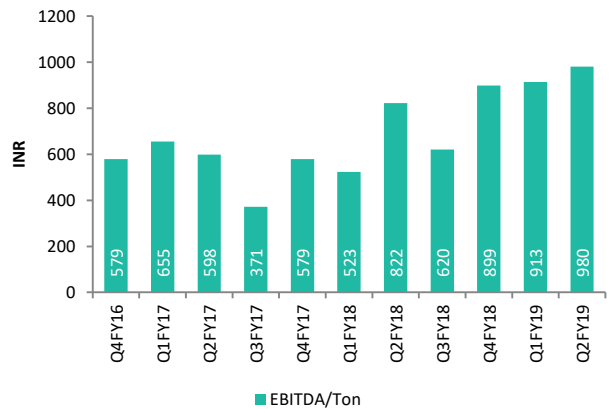
Improvement in margin due to higher operating leverage



Marginal reduction in costs due to benefit from WHRS and cost optimization..



.. leading to highest ever EBITDA/Ton



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net sales	1648.4	1717.5	1889.5	2013.0	2179.9
COGS	333.4	360.7	370.3	378.0	407.2
Employee Expenses	105.0	114.8	120.2	125.0	128.7
Power and Fuel Cost	452.0	429.3	443.9	463.0	487.7
Selling and Distribution Expenses	232.4	239.2	283.6	296.7	317.5
Other Expenses	294.3	294.7	308.2	326.1	353.1
<b>EBITDA</b>	<b>231.2</b>	<b>278.9</b>	<b>363.4</b>	<b>424.3</b>	<b>485.6</b>
D&A	99.8	99.2	101.2	103.0	104.7
Other income	22.4	23.7	19.9	21.2	23.0
<b>EBIT</b>	<b>153.8</b>	<b>203.4</b>	<b>282.1</b>	<b>342.5</b>	<b>403.9</b>
Interest Expense	108.5	89.8	74.5	44.5	27.1
<b>PBT</b>	<b>45.4</b>	<b>113.6</b>	<b>207.7</b>	<b>298.0</b>	<b>376.8</b>
Tax	10.0	37.4	74.5	90.2	114.1
<b>PAT</b>	<b>35.4</b>	<b>76.2</b>	<b>133.2</b>	<b>207.8</b>	<b>262.7</b>
EPS in INR	1.6	3.4	5.9	9.2	11.6

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	226.6	226.6	226.6	226.6	226.6
Reserves & Surplus	668.3	740.3	819.8	923.7	1055.1
<b>Shareholder's Funds</b>	<b>894.9</b>	<b>967.0</b>	<b>1046.4</b>	<b>1150.3</b>	<b>1281.7</b>
Long term borrowings	670.9	575.2	469.2	319.2	194.2
Long term provisions	19.2	21.7	19.6	22.1	24.0
Deferred tax liabilities	41.9	53.0	83.5	83.5	83.5
Other non-current liabilities	12.5	32.8	51.2	51.2	51.2
<b>Total Non-current liabilities</b>	<b>747.5</b>	<b>688.9</b>	<b>628.9</b>	<b>481.4</b>	<b>358.3</b>
Short term borrowings	70.0	0.0	0.0	0.0	0.0
Trade payables	186.0	191.4	226.6	233.0	251.0
Other current liabilities	509.0	344.3	412.0	402.6	436.0
Short-term provisions	207.2	216.1	218.9	241.6	261.6
<b>Current liabilities</b>	<b>972.2</b>	<b>751.8</b>	<b>857.5</b>	<b>877.2</b>	<b>948.6</b>
<b>Total Equity and Liabilities</b>	<b>2614.6</b>	<b>2407.6</b>	<b>2532.8</b>	<b>2508.9</b>	<b>2588.5</b>
<b>Fixed Assets</b>	<b>1897.5</b>	<b>1874.4</b>	<b>1804.4</b>	<b>1736.4</b>	<b>1666.7</b>
Capital work in progress	56.1	6.3	8.1	8.9	8.2
Intangible Assets	3.7	2.7	1.7	1.7	1.7
Long Term Loans and Advances	63.1	27.3	28.5	30.2	32.7
Other Non Current Assets	32.5	31.1	29.4	29.4	29.4
<b>Total Non-current Assets</b>	<b>2052.9</b>	<b>1941.8</b>	<b>1872.0</b>	<b>1806.6</b>	<b>1738.8</b>
Inventories	178.2	139.6	126.9	124.3	133.9
Trade receivables	25.8	12.6	18.8	22.1	23.9
Cash and cash equivalents	7.8	14.2	212.4	223.9	332.4
Short term loans & advances	85.6	29.6	12.6	30.2	32.7
Other Current Assets	264.4	269.9	290.1	301.9	327.0
<b>Total Current Assets</b>	<b>561.7</b>	<b>465.9</b>	<b>660.8</b>	<b>702.3</b>	<b>849.8</b>
<b>Total Assets</b>	<b>2614.6</b>	<b>2407.6</b>	<b>2532.8</b>	<b>2508.9</b>	<b>2588.5</b>

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
PBT	45.4	113.6	207.7	298.0	376.8
Depreciation	99.8	99.2	101.2	103.0	104.7
Operating profit after working capital changes	39.9	104.4	59.0	-10.4	32.5
Less income tax paid	-13.3	-24.5	-44.1	-90.2	-114.1
<b>Cash Flow from Operating</b>	<b>256.9</b>	<b>361.4</b>	<b>384.6</b>	<b>300.4</b>	<b>399.9</b>
(Incr)/ Decr in Gross PP&E	-124.9	-47.4	-23.2	-35.0	-35.0
<b>Cash Flow from Investing</b>	<b>-108.0</b>	<b>-40.2</b>	<b>-13.5</b>	<b>-35.0</b>	<b>-35.0</b>
(Decr)/Incr in Debt	-172.4	-221.5	-42.7	-150.0	-125.0
Finance costs	0.0	0.0	-54.3	-92.6	-115.2
<b>Cash Flow from Financing</b>	<b>-287.5</b>	<b>-314.7</b>	<b>-172.9</b>	<b>-253.9</b>	<b>-256.4</b>
<b>Incr/(Decr) in Balance Sheet Cash</b>	<b>-138.5</b>	<b>6.4</b>	<b>198.2</b>	<b>11.5</b>	<b>108.5</b>
Cash at the Start of the Year	146.3	7.8	14.2	212.4	223.9
<b>Cash at the End of the Year</b>	<b>7.8</b>	<b>14.2</b>	<b>212.4</b>	<b>223.9</b>	<b>332.4</b>

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Particulars</b>					
EBITDA/ton	520.3	623.3	780.9	872.9	941.1
Volume (mn tons)	4.44	4.47	4.65	4.86	5.16
<b>Growth (%)</b>					
Total Sales	7.5%	-21.9%	10.0%	6.5%	8.3%
EBITDA	-4.3%	-9.5%	30.3%	16.8%	14.5%
PAT	-20.8%	61.5%	74.8%	56.0%	26.4%
<b>Profitability (%)</b>					
EBITDA Margin	14.0%	16.2%	19.2%	21.1%	22.3%
NPM	2.1%	4.4%	7.0%	10.3%	12.1%
ROE	4.0%	7.9%	12.7%	18.1%	20.5%
ROCE	8.0%	12.2%	16.9%	21.7%	26.2%
<b>Per share data</b>					
EPS	1.6	3.4	5.9	9.2	11.6
BPS	39.5	42.7	46.2	50.8	56.6
<b>Valuations (x)</b>					
P/E (x)	46.5	35.0	23.8	17.7	14.0
EV/EBITDA (x)	11.6	12.0	9.8	8.9	7.4
EV/Ton (\$)	76.3	95.7	101.8	107.3	95.8
Net Debt/EBITDA	4.5	2.5	1.1	0.2	-0.3
Net Debt/Equity	1.2	0.7	0.4	0.1	-0.1
Interest Coverage	1.4	2.3	3.8	7.7	14.9

Source: Company, NSPL Research



HeidelbergCement India				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 06, 2018	148	194	Strong Buy	Buy	5% - 15%
August 31, 2018 (Company Update)	162	194	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
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Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO