

HeidelbergCement India Ltd

Bloomberg Code: HEIM IN

India Research - Stock Broking

BUY

Consistent Performance Yet Another Quarter

Strong Demand in Central region and better operational efficiency has aided company's performance: The topline of the company was up by 15% on YoY basis, i.e. from Rs. 5639 Mn in Q3FY19 as compared to Rs. 4912 Mn in Q3FY18. EBITDA of the company stood at Rs. 1225 Mn as compared Rs. 828 Mn in Q3FY18. The bottomline of the company had also improved from Rs. 318 Mn in Q3FY18 to Rs. 586 Mn in Q3FY19. The performance of the company remained sustainable though there was rise in raw material price and power & fuel cost. Freight cost got reduced due to railway freight rebate on account of higher volume.

Higher Capacity utilization has driven volumes: The capacity utilization of the company in Q3FY19 stood at 93%, against the industry average of 80% to 85% capacity utilization and the company continues to sell 100% blended cement. And the company's (Mycem power) premium product volume increased by 4% YoY basis.

The company has Sustainable business model: The company's road-rail mix stood at 53:47, and average lead distance stood at 380 Km. The Company's fuel mix stood at 61% of pet coke and 39% of domestic coal. Currently, WHRS (Waste Heat recovery system) fulfills 30% to 35% of the power requirement of the company.

Valuation and Risks

The company is operating with an installed cement manufacturing capacity of 5.4 MTPA. The company has sustainable business model wherein the company is also taking various measures for uninterrupted operations and cost reduction, which clearly states that the margins shall be in intact. HeidelbergCement India Ltd is currently trading at EV/EBITDA of 6.16x of FY20E. We maintain the '**BUY**' rating valuing at 7.7x EV/EBITDA (5 years average forward multiple) on FY20E EBITDA for the target price of Rs.189, representing an upside of 24%, for next 12 to 15 months. Key risks are increase in raw material cost and power & fuel cost.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Net Sales	16484	17175	18895	21772	22241
EBITDA	2312	2789	3634	5145	5714
EBITDA Margin (%)	14.0	16.2	19.2	23.6	25.7
Net Profit	280	720	1336	2434	2916
EPS (Rs.)	1.2	3.2	5.9	10.7	12.9
RoE (%)	4.0	8.2	13.2	13.5	24.3
PE (x)	65.7	39.2	24.1	14.1	11.8

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

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Recommendation (Rs.)

CMP (as on Feb 21, 2019)	152
Target Price	189
Previous Target Price	159
Upside (%)	24

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	34785 / 489
52-wk High/Low (Rs.)	175 / 121
3M Avg. daily value (Rs. mn)	19.1
Beta (x)	1.3
Sensex/Nifty	35898 / 10790
O/S Shares(mn)	226.6
Face Value (Rs.)	10.0

Shareholding Pattern (%)

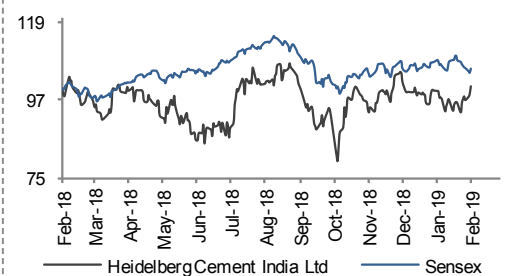
Promoters	69.0
FII's	12.0
DII's	6.0
Others	13.0

Stock Performance (%)

	1M	3M	6M	12M
Absolute	1	7	(3)	(2)
Relative to Sensex	3	6	4	(7)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

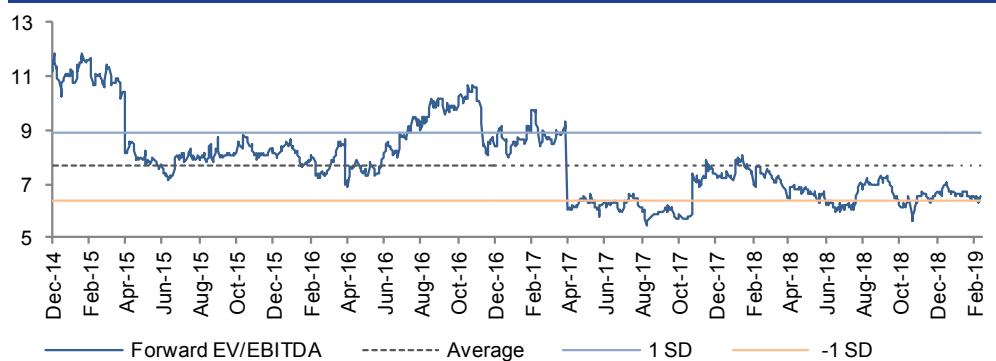
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Exhibit 2: Q3FY19

YE Mar (Rs. Mn)	Q3FY19	Q2FY19	QoQ%	Q3FY18	YoY%
Turnover	5639	4859	16.1	4912	14.8
Expenditure	4414	3693	19.5	4084	8.1
EBITDA	1225	1166	5.1	828	47.9
Depreciation	254	255	(0.5)	253	0.3
Interest	170	199	(14.7)	186	(8.9)
Other Income	102	62	65.4	94	9.3
PBT	904	774	16.8	483	87.3
Tax	319	273	16.6	(165)	(292.9)
PAT	586	501	16.9	318	84.4
EBITDA Margin (%)	21.7	24.0	(227) bps	16.9	487 bps
EBIT Margin (%)	17.2	18.8	(152) bps	11.7	552 bps
Net Profit Margin (%)	10.4	10.3	8 bps	6.5	392 bps

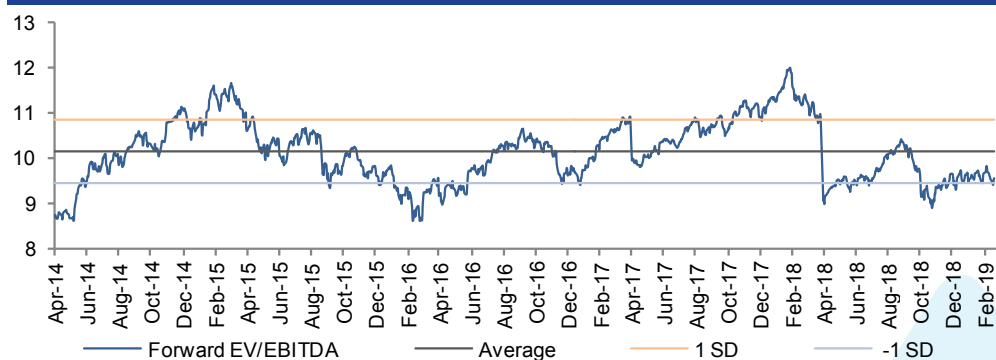
Source: Company, Karvy Research

Exhibit 3: 10 year Forward P/BV - The India Cements Ltd



Source: Bloomberg, Karvy Research

Exhibit 4: Nifty 5 year Forward EV/EBITDA



Source: Bloomberg, Karvy Research

Financials

Exhibit 5: Income Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	16484	17175	18895	21772	22241
Growth (%)	(19.4)	4.2	10.0	15.2	2.2
Operating Expenses	14172	14386	15261	16627	16527
EBITDA	2312	2789	3634	5145	5714
Growth (%)	(28.2)	20.6	30.3	41.6	11.1
Depreciation & Amortization	998	992	1012	1030	1058
EBIT	1314	1797	2622	4115	4656
Other income	224	237	199	325	149
Interest Expenses	1085	898	745	783	789
PBT	454	1136	2077	3658	4016
Tax	100	374	745	1235	1101
Adjusted PAT	280	720	1336	2434	2916
Growth (%)	(53.0)	157.4	85.5	82.2	19.8

Source: Company, Karvy Research

Exhibit 6: Balance Sheet

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
Cash & Cash Equivalents	78	142	2122	2096	4609
Trade receivables	222	126	188	205	203
Inventory	1782	1396	1269	1361	1331
Loans & Advances	891	296	128	150	244
Investments	957	584	579	735	762
Net Block	19572	18834	18140	18205	18156
Other current assets	2644	2699	2902	3152	3436
Total Assets	26146	24076	25328	25904	28741
Current Liabilities	9262	6955	7679	8289	9128
Debt	6709	5752	4692	4499	3942
Other Liabilities	1226	1700	2493	2374	2710
Total Liabilities	17197	14407	14864	15162	15780
Shareholders Equity	2266	2266	2266	2266	2266
Reserves & Surplus	6683	7403	8198	8476	10876
Total Networth	8949	9670	10464	10742	13142
Total Networth & Liabilities	26146	24076	25328	25904	28922

Source: Company, Karvy Research

Exhibit 7: Cash Flow Statement

YE Mar (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	454	1136	2077	2435	4007
Depreciation	998	992	1012	1054	1058
Net Interest flow	924	848	671	858	839
Tax Paid	(133)	(245)	(441)	(533)	(560)
Inc/dec in Net WC	399	1044	590	(25)	115
Others	(72)	(161)	(63)	(58)	329
Cash flow from operating activities	2569	3614	3846	3731	5789
Inc/dec in capital expenditure	(1249)	(474)	(232)	(637)	(450)
Others	169	71	95	121	149
Cash flow from investing activities	(1080)	(402)	(137)	(516)	(301)
Inc/dec in borrowings	(1724)	(2215)	(427)	(1650)	(1406)
Dividend paid	0	0	(543)	(679)	(679)
Interest paid	(1151)	(933)	(758)	(910)	(889)
Cash flow from financing activities	(2875)	(3147)	(1729)	(3239)	(2974)
Net change in cash	(1385)	64	1980	(49)	2513

Source: Company, Karvy Research

Exhibit 8: Key Ratios

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EBITDA Margin (%)	14.0	16.2	19.2	23.6	25.7
EBIT Margin (%)	8.0	10.5	13.9	18.9	20.9
Net Profit Margin (%)	2.1	4.4	7.0	11.1	13.1
Dividend Payout Ratio (%)	-	-	33.9	23.3	19.4
Net Debt/Equity (x)	0.8	0.6	0.3	0.2	(0.1)
RoE (%)	4.0	8.2	13.2	13.5	24.3
RoCE (%)	7.8	11.6	17.1	27.1	28.8

Source: Company, Karvy Research


Exhibit 9: Valuation Parameters

YE Mar	FY16	FY17	FY18	FY19E	FY20E
EPS (Rs.)	1.2	3.2	5.9	10.7	12.9
DPS (Rs.)	-	-	2.0	2.5	2.5
BVPS (Rs.)	41.5	45.2	50.1	50.3	60.2
PE (x)	65.7	39.2	24.1	14.1	11.8
P/BV (x)	2.0	2.8	2.8	3.0	2.5
EV/EBITDA (x)	11.1	12.1	9.6	7.5	6.2
EV/Sales (x)	1.6	2.0	1.8	1.8	1.6

Source: Company, Karvy Research; *Represents multiples for FY16 - FY18 are based on historic market price

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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