

Industry
Bloomberg
BSE CODE

Building Materials
HEIM IN
500292

RATING	ACCUMULATE
CMP	187
Price Target	212
Potential Upside	13%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	218/138
Mkt Capital (Rs Cr)	4246
Free float (%)	31%
Avg. Vol 1M (,000)	23
No. of Shares (Crs)	23
Promoters Pledged %	NA

RESEARCH ANALYST

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Volumes remained impacted due to extended monsoon and demand slowdown

2QFY20 Result update

- In 2QFY20, Heidelberg posted mixed set of numbers; Revenue increased by 7.5% YoY to Rs. 522 cr. (vs. expect. of Rs. 510 cr.) led by volume growth of 0.8% YoY to 1.134 MT (vs. expect. of Rs. 1.11 MT). The Ongoing capacity constraints, extended monsoon and lower infrastructure activities restricted volume growth for the company.
- Blended realization per ton remained impacted on QoQ basis by 1.5% QoQ to Rs. 605/ton mainly impacted on account lower cement prices due to seasonality.
- Gross margin declined by 463 bps to 80.7% YoY on account of high input prices like prices of Fly ash on account of higher procurement cost for fly ash and other inputs like Gypsum prices increased marginally while EBITDA margin despite higher GM contraction declined by 48 bps to 23.5% YoY due to reduction in employee expense and logistic cost.
- Other income increased to Rs. 12 cr. in 2QFY20 vs. Rs. 6 cr. in 2QFY19 due to the increased amount of fixed deposits.
- PAT grew by 16.1% YoY to Rs. 58 cr. on account of higher other income while PAT margin stood at 11.1%. The company is in process of evaluating the new corporate tax regime and hence, continued to be under old tax regime in 2QFY20.
- The company's product mix includes only blended cement with share of trade sales in the total pie at 88%. Mycem Power (premium cement) witnessed positive traction during the quarter, with volume growth of 29% YoY and contributes to the extent of 11% of trade volumes.

View and Valuation

HEIDELBERG posted volume growth of 0.8% YoY with 7.5% YoY sales growth. The prevailing macroeconomic scenario such as extended monsoon, floods in various parts of India, sand issues, lower infrastructure activities and capacity constraints impacted volumes but demand pickup in coming months in central India (wherein the company has major exposure) led by sand availability and demand from tier-1 & tier-2 cities will favor volumes. The cement prices are expected to remain stable in coming months while on margin front the company's emphasis on power procurement from third party which is less costly than Grid power and saving from reduced pet coke is also expected to come in coming quarters driven by change in fuel mix will ensure margin expansion. Going forward, the company is looking forward for capacity expansion post completion of debottlenecking process. Hence, after considering the above statements we remain positive on the stock and continue to maintain ACCUMULATE rating with a target price of Rs.212.

Key Risks to our rating and target

- Decline in the cement prices
- Further increase in prices of fly ash and other key raw materials like gypsum.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1717	1889	2133	2291	2315
EBITDA	279	363	483	542	545
EBIT	180	262	382	438	438
PAT	76	133	221	315	327
EPS (Rs)	3	6	10	14	14
EPS growth (%)	115%	75%	66%	43%	4%
ROE (%)	8%	13%	19%	23%	21%
ROCE (%)	5%	9%	14%	19%	19%
EV/EBITDA	11.6	9.6	8.7	7.6	7.2
P/B (X)	2.8	3.1	3.5	3.2	2.8
P/E (x)	35.2	24.2	18.8	13.5	13.0

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2QFY20 Results

Mixed numbers

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	486	564	543	589	522	7.5%	-11.4%	1889	2133	12.9%
Other Income	6	10	11	12	12	101.6%	5.3%	20	35	75%
COGS	71	132	75	113	101	41.3%	-10.6%	370	386	4.3%
Gross Margin	85%	77%	86%	81%	81%	-4.6%	-0.2%	80%	82%	1.5%
Employee Cost	31	27	36	31	31	-0.3%	-1.3%	120	124	3.1%
Other Expenses	80	87	78	86	87	9.0%	1.4%	308	327	6%
EBITDA	117	123	125	158	123	5.3%	-22.1%	363	483	33.0%
EBITDA%	24%	22%	23%	27%	24%	-0.5%	-3.2%	19%	23%	3.4%
Depreciation	25	25	25	28	26	3.9%	-5.0%	101	102	0.6%
EBIT	91	97	99	130	96	5.8%	-25.8%	262	382	45.5%
Interest	20	17	16	20	19			74	75	0.4%
PBT	77	90	95	122	90	16.3%	-26.1%	208	342	64.5%
Exceptional Item	-	-	-	-	-			-	-	-
Tax	27	32	34	43	32	16.5%	-25.6%	74	121	62.4%
PAT	50	59	61	79	58	16.1%	-26.4%	133	221	65.7%
PAT Margin	10%	10%	11%	13%	11%	0.8%	-2.3%	7%	10%	3.3%

Concall Highlights:

Management Strategy & Guidance

- The Management expects cement prices to remain soft in Oct-19, take up in mid Nov-19, some more increase in prices in 1st week of dec-19, slight decrease in price in 2nd week of dec-19 due to winters and then remain flat while expects volumes to increase in coming months led by tier-1 & tier-2 cities.
- The Management expects cement demand to pick up in Nov & Dec with the availability of sand.
- The Company will not compromise pricing to attract volumes for its premium product (MYCEM).
- The Management expects freight cost to increase in coming quarter on account of supply to distant markets due to lack of demand in home market.
- The Pet coke and coal consumption cost stood at Rs. 1.34/kcal & Rs. 1.22/kcal as of Oct-19 while the benefit of reduced Pet coke price is expected to come in coming quarters.
- The Management expects the saving of Rs. 40-50/ ton from power & Fuel in coming quarter by altering fuel mix.
- Debottlenecking process is running as per planned schedule. However, the third phase of debottlenecking may extend till Mar-21. Post that the company may look for expansion.
- The Company is emphasizing on increasing the power supply from third party (cheaper source than grid power) & WHRS plant from Grid power.
- The Management expects good quantum of sand coming into the markets of central India by 10-Nov-19.
- The lead distance for the company stood at 430km in 2QFY20 and has started to increase till 3QFY20 but will retrieve by Nov-Dec, 19.

2QFY20 Result update:

- The price difference in trade and Non trade for the company stood at Rs. 400 (on an average) at Institutional level (vs. Rs. 800 in the market)
- Raw material cost increased on account of higher procurement cost for fly ash (because some of company's power plant was not operating and had to procure from distant market) and other inputs like Gypsum prices increased marginally.
- Power and fuel cost increased on account of tariff increase in both MP (in Aug-19 to the extent of 7.5%) and UP (in the month of Aug & Sep-19 to the extent of 5%).
- The price difference between the blended and premium cement stood Rs. 30/bag (at retail level) while differential at EBITDA level is in a range of Rs. 5-10/bag.
- Net debt has gone up to Rs. 118.6 cr. in 2QFY20 vs. Rs. 80 cr. in 1QFY20.
- Rail & Road volume share stood at 56:44. Rail has increased on account of off season discount given by railway.
- The Company did not sell clinker during 1HFY20 vs. 70000 tons in FY19.
- Clinker capacity stood at 3.5MT for 2QFY20.
- The Total CAPEX for 2nd & 3rd phase of debottlenecking will be Rs. 13 cr. each incurred by FY21.

Exhibit: Cement volume (Million Ton) trend

Cement volumes remained impacted on account of extended monsoon and lower demand.

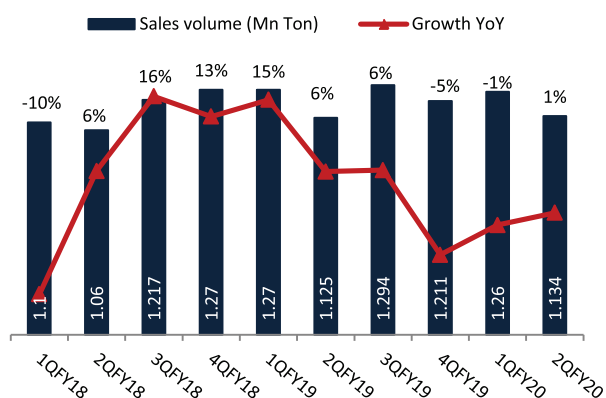


Exhibit: Cement Realization(Rs./Ton) trend

Realization remained impacted due to decline in cement prices led by lower infra activities due to monsoon.

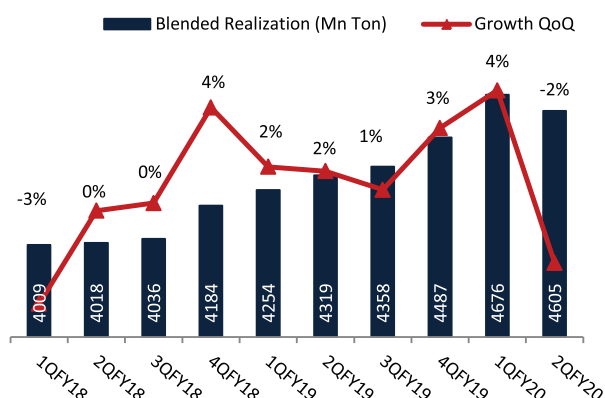


Exhibit: Power & Fuel cost (Rs./Ton) trend

Power & fuel cost increased on QoQ basis by 4.7% while reduced on YoY basis by 5%.

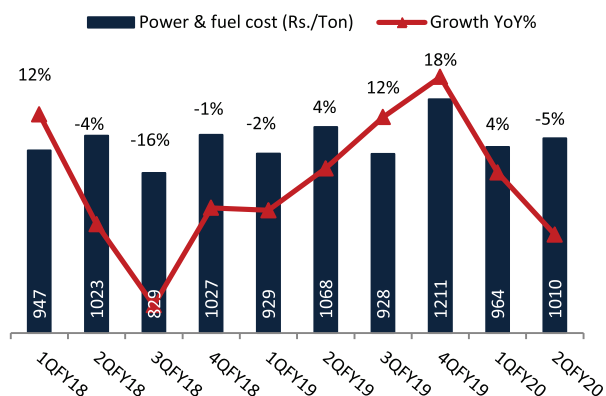


Exhibit: Freight cost (Rs./Ton) trend

The decline in freight cost was partially used to absorb increased RM and power & fuel prices.

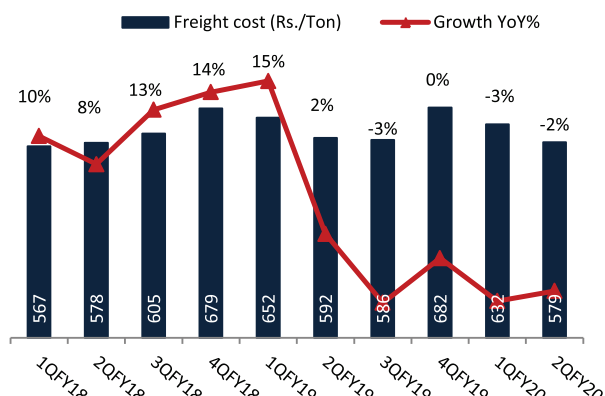


Exhibit: EBITDA and EBITDA margin%

EBITDA margin declined due to higher RM prices and Power & fuel prices.

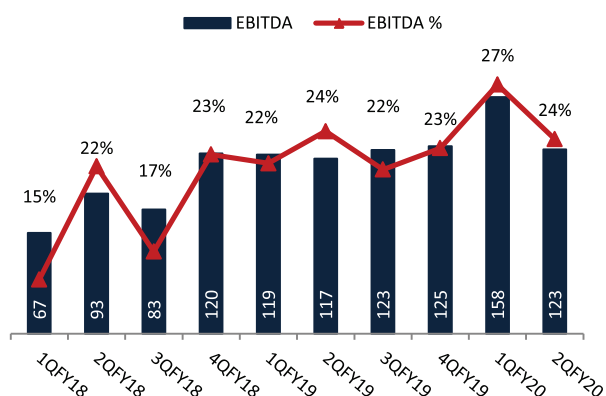
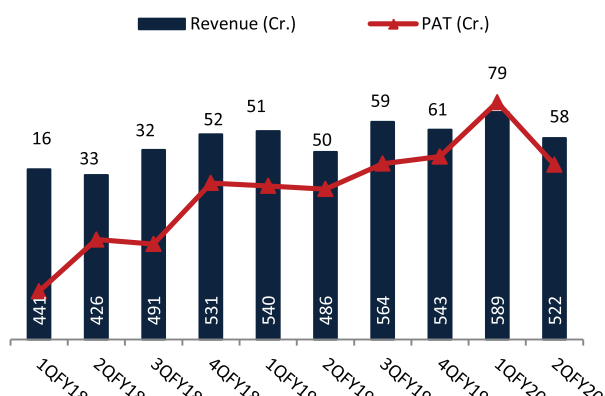


Exhibit: Revenue & PAT Trend

Revenue remained impacted due to lower vol. & Realization; PAT remained impacted due to low margins.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	CY13	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	227	227	227	227	227	227	227	227
Reserves	607	640	668	740	820	945	1123	1308
Networth	833	867	895	967	1046	1171	1350	1535
Debt	1357	925	741	575	469	392	267	190
Total Capital Employed	2190	1792	1636	1542	1516	1563	1617	1725
Net Fixed Assets (incl CWIP)	1954	1919	1957	1883	1814	1754	1774	1749
Non Current Investments								
Other Non Current Assets	199	39	33	31	29	25	25	25
Non Current Assets	2184	2093	2053	1942	1872	1808	1828	1803
Inventory	199	191	178	140	127	167	180	182
Debtors	31	19	26	13	19	25	27	27
Cash & Bank	114	146	8	14	212	338	398	535
Other Current Assets	231	347	350	299	303	357	383	387
Current Assets	575	703	562	466	661	887	989	1132
Creditors	190	191	186	191	227	278	298	301
Provisions	151	191	207	216	219	234	251	254
Other Current Liabilities	202	553	509	344	412	401	431	435
Curr Liabilities	544	934	902	752	858	913	981	991
Net Current Assets	31	-231	-341	-286	-197	-26	8	141
Total Assets	2759	2796	2615	2408	2533	2696	2817	2935

Income Statement

Fig in Rs Cr

Y/E March	CY13	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,209	2,044	1,648	1,717	1,889	2,133	2,291	2,315
Change (%)		69%	-19%	4%	10%	13%	7%	1%
Other Income	7	14	22	24	20	35	35	35
EBITDA	102	322	231	279	363	483	542	545
Change (%)		216%	-28%	21%	30%	33%	12%	0%
Margin (%)	8%	16%	14%	16%	19%	23%	24%	24%
Depr & Amor.	89	138	100	99	101	102	105	106
EBIT	13	185	131	180	262	382	438	438
Int. & other fin. Cost	106	139	108	90	74	75	51	36
EBT	-85	60	45	114	208	342	421	437
Exp Item	-	(60.31)	-	0	0	0	0	-
Tax	-40	60	10	37	74	121	106	110
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	-45	60	35	76	133	221	315	327
Adjusted PAT	-45	60	35	76	133	221	315	327
Change (%)		-231%	-41%	115%	75%	66%	43%	4%
Margin(%)	-4%	3%	2%	4%	7%	10%	14%	14%

Financial Details

Key Ratios

Y/E March	CY13	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	-5%	7%	4%	8%	13%	19%	23%	21%
ROCE	-2%	3%	2%	5%	9%	14%	19%	19%
Asset Turnover	0.4	0.7	0.6	0.7	0.7	0.8	0.8	0.8
Debtor Days	9	3	6	3	4	4	4	4
Inv Days	60	34	39	30	25	29	29	29
Payable Days	57	34	41	41	44	48	48	48
Int Coverage	0	1	1	2	4	5	9	12
P/E	(19)	28	50	35	24	19	14	13
Price / Book Value	1.0	1.9	2.0	2.8	3.1	3.5	3.2	2.8
EV/EBITDA	20	8	10	12	10	9	8	7
FCF per Share	18.1	18.0	16.8	18.0	18.0	19.2	27.5	24.5
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	1.1%	1.1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	CY13	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	-81	120	45	114	208	342	421	437
(inc)/Dec in Working Capital	18	-71	40	104	59	-18	27	4
Non Cash Op Exp	89	138	100	99	101	102	105	106
Int Paid (+)	102	135	107	88	72	72	51	36
Tax Paid	-2	-11	-13	-25	-44	-71	-106	-110
others	-7	-74	-22	-19	-11	-34	0	0
CF from Op. Activities	119	238	257	361	385	393	498	474
(inc)/Dec in FA & CWIP	-202	-172	-122	-45	-18	-42	-125	-81
Free Cashflow	-83	65	135	317	366	351	373	392
(Pur)/Sale of Inv								
others	7	179	17	7	10	16	0	0
CF from Inv. Activities	-195	7	-105	-37	-9	-26	-125	-81
inc/(dec) in Debt	239	-64	-172	-221	-43	-83	-125	-77
Int. Paid	-122	-147	-115	-93	-76	-64	-51	-36
Div Paid (inc tax)	0	0	0	0	-54	-95	-137	-142
CF from Fin. Activities	117	-212	-287	-315	-173	-242	-313	-255
Inc(Dec) in Cash	41	33	-135	9	203	126	61	137
Add: Opening Balance	73	114	146	8	14	212	338	398
Closing Balance	114	147	11	17	217	338	398	535

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