

Industry **Building Materials**
 Bloomberg **HEIM IN**
 BSE CODE **500292**

Volumes remained impacted due to slowdown in Southern market

RATING	ACCUMULATE
CMP	197
Price Target	210
Potential Upside	7%

Rating Change	↔
Estimate Change	↔
Target Change	↑

STOCK INFO	
52wk Range H/L	218/145
Mkt Capital (Rs Cr)	4456
Free float (%)	31%
Avg. Vol 1M (,000)	43
No. of Shares (Crs)	23
Promoters Pledged %	NA

3QFY20 Result update

- In 3QFY20, Heidelberg revenue declined by 2.7% YoY to Rs. 548 cr. on account of volume de-growth of 5.5% YoY mainly due to de-growth in Southern region and no clinker sales in current quarter vs. corresponding previous quarter.
- Blended realization per ton on QoQ basis by 2.6% QoQ to Rs. 4485/ ton mainly impacted on account lower cement prices in southern markets.
- Gross margin improved by 530 bps to 82% YoY on account of benign input prices while EBITDA margin expanded by 15 bps to 21.9% YoY restricted on account of higher employee, other expense and Power & Fuel expense.
- Employee expense increased by 161 bps on account of retirement benefit provisions while Power & Fuel expense increased by 163 bps on account of change in inventory which is been apportioned in Power & Fuel cost during the quarter.
- PAT grew by 10.3% YoY to Rs. 65 cr. on account of lower tax while PAT margin stood at 11.8%.
- Mycem Power (premium cement) continued to witness positive traction during the quarter, with volume growth of 53% YoY and contributes to the extent of 16% of trade volumes.

View and Valuation

HEIDELBERG volume de-grew by 5.5% YoY with revenue de-growth of 2.7% YoY impacted due to de-growth in South and no clinker sales in current quarter vs. 3QFY19. Going forward, with the completion of debottlenecking process which the company is undertaking will increase the company's total capacity to 6.26 MTPA which will reduce capacity constraint (as the company has already reached its highest utilization). On pricing front the company is currently witnessing uptick in cement prices in central India which is favor cement realization. On margin front the company's emphasis on power procurement from third party which is less costly than Grid power, emphasis on WHRS driven by change in fuel mix will ensure margin expansion. Hence, after considering positive statement from management with regard to stable cement prices in central India, demand from housing sector, premiumization and capacity expansion post debottlenecking will drive profitability in long run while slowdown in south may affect volumes in short term. Thus, we remain positive on the stock and continue to maintain ACCUMULATE rating with a target price of Rs.210.

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	2203	2253
EBITDA	279	363	483	507	565
EBIT	180	262	382	404	464
PAT	76	133	221	273	339
EPS (Rs)	3	6	10	12	15
EPS growth (%)	115%	75%	66%	24%	24%
ROE (%)	8%	13%	19%	21%	22%
ROCE (%)	5%	9%	14%	17%	20%
EV/EBITDA	11.6	9.6	8.7	8.3	7.0
P/B (X)	2.8	3.1	3.5	3.4	2.9
P/E (x)	35.2	24.2	18.8	16.3	13.2

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3QFY20 Results

Numbers below expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	564	543	589	522	548	-2.7%	5.0%	1889	2133	12.9%
Other Income	10	11	12	12	11	11.7%	-8.3%	20	35	75%
COGS	132	75	113	101	99	-24.8%	-2.0%	370	386	4.3%
Gross Margin	77%	86%	81%	81%	82%	5.3%	1.3%	80%	82%	1.5%
Employee Cost	27	36	31	31	35	30.5%	11.9%	120	124	3.1%
Other Expenses	87	78	86	87	95	9.5%	9.6%	308	327	6%
EBITDA	123	125	158	123	120	-2.1%	-2.3%	363	483	33.0%
EBITDA%	22%	23%	27%	24%	22%	0.2%	-1.6%	19%	23%	3.4%
Depreciation	25	25	28	26	27	5.5%	1.1%	101	102	0.6%
EBIT	97	99	130	96	93	-4.0%	-3.2%	262	382	45.5%
Interest	17	16	20	19	19			74	75	0.4%
PBT	90	95	122	90	86	-5.2%	-4.8%	208	342	64.5%
Exceptional Item	-	-	-	-	-			-	-	-
Tax	32	34	43	32	21	-33.8%	-33.7%	74	121	62.4%
PAT	59	61	79	58	65	10.3%	11.1%	133	221	65.7%
PAT Margin	10%	11%	13%	11%	12%	1.4%	0.6%	7%	10%	3.3%

Concall highlights

Management Strategy & Guidance

- The Management expects overall India market to grow by 5% with central India growing at 4% led by demand from housing segment while infrastructure segment is expected to remain subdued.
- No green field project is under plan, but company is looking for acquisition.
- Pricing in Central India is stable and increase in prices is possible.
- Availability of sand is no longer an issue while sand prices may go up on account of monsoon.

2QFY20 Result update:

- Volumes remained impacted due to clinker sale in 3QFY19 which did not existed in current quarter and de-growth in Southern region (Ammasandra plant).
- Mycem Power (premium cement) witnessed positive traction during the quarter, with volume growth of 53% YoY and contributes to the extent of 16% of trade volumes.
- The lead distance for the company stood in a range of 360-370 km in 3QFY20.
- The Company's WHRS and clinker capacity utilization stood at 95% and 85% for 3QFY20.
- The management targets to reach at a market share of 20-25% in premium segment.
- The Company's dependence on grid power reduced to 65%. (Sourced cheaper power to the extent of 35%)
- The power sourced from outside is 25% cheaper and is being used for UP and Ammasandra unit.
- The Company has repaid NCD of Rs. 125 cr. in 3QFY20; Cash and cash equivalent exceeded the net debt of the company as of 3QFY20.
- Employee cost remained higher on account of increase in retirement benefit provisions made in current quarter and will stabilize in coming quarter.
- For the Company 45% volumes come from road and de-grew by 2% YoY.
- The debottlenecking projects will increase the production capacity to 6.26 MTPA (by Mar-20) which will improve operational efficiency and profitability.
- Market share of the company in Central India stood at ~10% in 3QFY20

Exhibit: Cement volume (Million Ton) trend

Vol. remained impacted led by clinker sales which existed in corres. prev quarter and de-growth in Southern market.

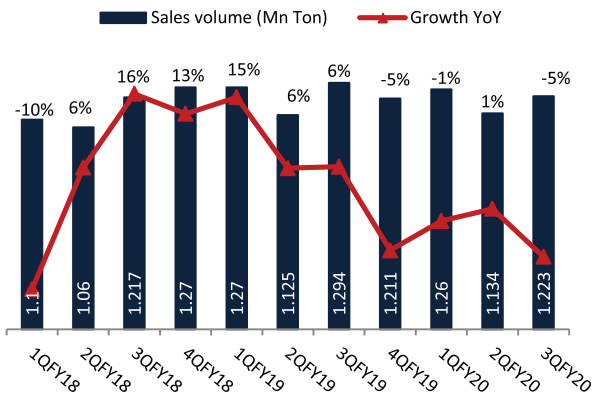


Exhibit: Cement Realization(Rs./Ton) trend

Realization remained impacted due to lower cement prices in South India.

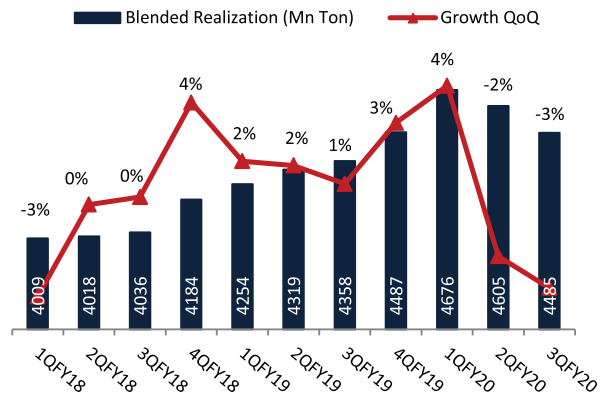


Exhibit: Power & Fuel cost (Rs./Ton) trend

P & f cost on QoQ basis increased by 1.8% due to lower Pet-coke prices and higher WHRS power generation..

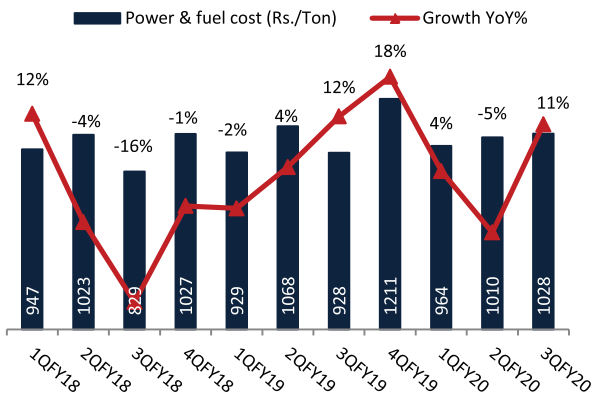


Exhibit: Freight cost (Rs./Ton) trend

Freight cost increased by 3%/4% on YoY and QoQ basis.

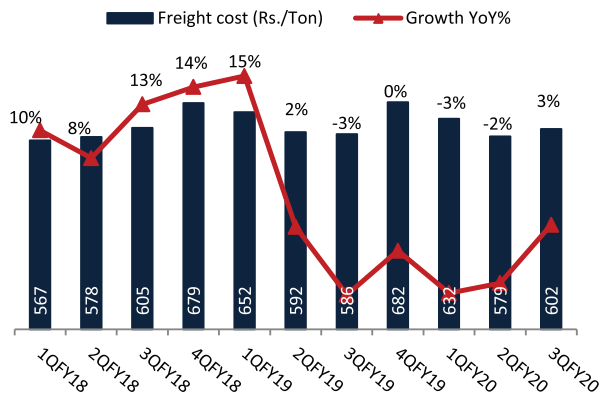


Exhibit: EBITDA and EBITDA margin%

EBITDA margin expansion remained impacted due to higher other expense and employee expense.

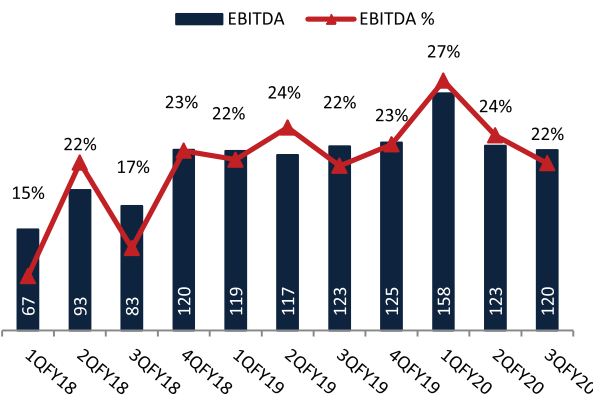
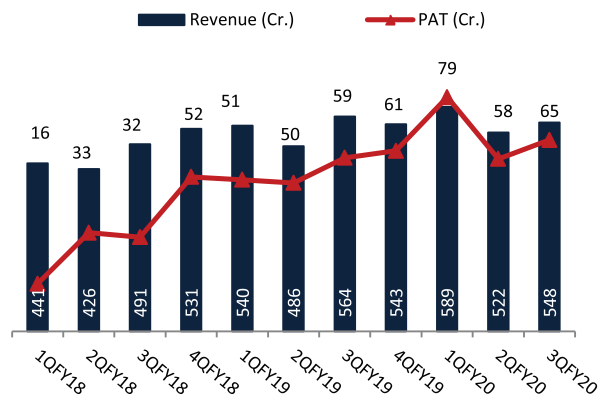


Exhibit: Revenue & PAT Trend

Revenue remained impacted due to lower vol. & Realization; PAT growth was driven by lower tax.



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	1099	1291
Networth	833	867	895	967	1046	1171	1326	1518
Debt	1357	925	741	575	469	392	273	175
Total Capital Employed	2190	1792	1636	1542	1516	1563	1599	1693
Net Fixed Assets (incl CWIP)	1954	1919	1957	1883	1814	1754	1688	1626
Non Current Investments								
Other Non Current Assets	199	39	33	31	29	25	29	29
Non Current Assets	2184	2093	2053	1942	1872	1808	1745	1684
Inventory	199	191	178	140	127	167	133	136
Debtors	31	19	26	13	19	25	33	34
Cash & Bank	114	146	8	14	212	338	508	654
Other Current Assets	231	347	350	299	303	357	392	424
Current Assets	575	703	562	466	661	887	1066	1248
Creditors	190	191	186	191	227	278	287	293
Provisions	151	191	207	216	219	234	242	247
Other Current Liabilities	202	553	509	344	412	401	414	424
Curr Liabilities	544	934	902	752	858	913	943	965
Net Current Assets	31	-231	-341	-286	-197	-26	123	283
Total Assets	2759	2796	2615	2408	2533	2696	2811	2932

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	2,203	2,253
Change (%)		69%	-19%	4%	10%	13%	3%	2%
Other Income	7	14	22	24	20	35	39	47
EBITDA	102	322	231	279	363	483	507	565
Change (%)		216%	-28%	21%	30%	33%	5%	11%
Margin (%)	8%	16%	14%	16%	19%	23%	23%	25%
Depr & Amor.	89	138	100	99	101	102	103	101
EBIT	13	185	131	180	262	382	404	464
Int. & other fin. Cost	106	139	108	90	74	75	63	40
EBT	-85	60	45	114	208	342	380	470
Exp Item	-	(60.31)	-	0	0	0	0	-
Tax	-40	60	10	37	74	121	106	132
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	-45	60	35	76	133	221	273	339
Adjusted PAT	-45	60	35	76	133	221	273	339
Change (%)		-231%	-41%	115%	75%	66%	24%	24%
Margin(%)	-4%	3%	2%	4%	7%	10%	12%	15%

Financial Details

Key Ratios

Y/E March	CY13	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	-5%	7%	4%	8%	13%	19%	21%	22%
ROCE	-2%	3%	2%	5%	9%	14%	17%	20%
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	6	6
Inv Days	60	34	39	30	25	29	22	22
Payable Days	57	34	41	41	44	48	48	48
Int Coverage	0	1	1	2	4	5	6	12
P/E	(19)	28	50	35	24	19	16	13
Price / Book Value	1.0	1.9	2.0	2.8	3.1	3.5	3.4	2.9
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	24.1	22.5
Div Yield	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	1.1%	1.0%

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	380	470
(inc)/Dec in Working Capital	18	-71	40	104	59	-18	21	-14
Non Cash Op Exp	89	138	100	99	101	102	103	101
Int Paid (+)	102	135	107	88	72	72	63	40
Tax Paid	-2	-11	-13	-25	-44	-71	-106	-132
others	-7	-74	-22	-19	-11	-34	40	5
CF from Op. Activities	119	238	257	361	385	393	500	471
(inc)/Dec in FA & CWIP	-202	-172	-122	-45	-18	-42	-37	-40
Free Cashflow	-83	65	135	317	366	351	464	431
(Pur)/Sale of Inv								
others	7	179	17	7	10	16	0	0
CF from Inv. Activities	-195	7	-105	-37	-9	-26	-37	-40
inc/(dec) in Debt	239	-64	-172	-221	-43	-83	-119	-98
Int. Paid	-122	-147	-115	-93	-76	-64	-63	-40
Div Paid (inc tax)	0	0	0	0	-54	-95	-118	-147
CF from Fin. Activities	117	-212	-287	-315	-173	-242	-300	-285
Inc(Dec) in Cash	41	33	-135	9	203	126	164	146
Add: Opening Balance	73	114	146	8	14	212	338	508
Closing Balance	114	147	11	17	217	338	501	654

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