

4 June 2020

## Heidelberg Cement

*Strong operating performance continues; maintaining a Buy*

On the firm pricing environment and efficient cost-optimisation, despite a 10% volume loss, Heidelberg's EBITDA and PAT grew ~9% each whereas revenue dipped ~4.7% y/y. Through debottlenecking, it expanded capacity to 6.26m tons in Q4. Its strong net-debt-free balance sheet, prudent working-capital control and strong operating-efficiency will continue to augur well. We retain our Buy recommendation, with a higher target of ₹207 (earlier ₹200).

**Firm operating performance.** The higher realisation (up 6% y/y) and cost saving from raw material/P&F/logistic cost/ton dipping 7.5%/15%/7% helped to a robust EBITDA/ton of ₹1,164 in Q4. EBITDA grew 9.2% y/y to ₹1.3bn despite a 10% volume loss, though revenue dipped only 4.7% y/y. We expect volumes to shrink 11% in FY21 and grow 9% in FY22 with EBITDA/ton of ₹916 and ₹1,034 respectively, aided by firm realisation.

**Capacity expansion update.** The company completed debottlenecking of Imlai (MP) and Jhansi (UP) by respectively 0.5m tons and 0.55m tons in Q4 FY20, leading to 6.26m ton capacity. In FY19, capacity utilisation at both plants was 94.5% and 99.6% respectively. Management talked of slow progress on the Gujarat expansion (~3m tons) to continue and debottlenecking of the clinker capacity.

**Business outlook, Valuation.** Management said prices would be firm on low volumes (a ₹10 price hike, post-lockdown). The company continues to operate at negative working capital. Besides NCDs of ₹1.25bn repaid in FY20, management spoke of repaying ₹1.25bn in FY21 and ₹1.2bn in FY22 from internal accruals. We expect a net D/E of -0.2x in FY21 (vs. -0x in FY20). Issues such as migrant labour, logistics, fly-ash availability, liquidity crunch, etc., would continue in the short run. We retain our Buy rating, at a higher target of ₹207 (9.2x FY22e EV/EBITDA). **Risks:** Higher petcoke and diesel prices, extension of the lockdown.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	18,607	21,094	21,576	19,501	21,905
Net profit (₹ m)	1,332	2,207	2,681	1,804	2,655
EPS (₹)	5.9	9.7	11.8	8.0	11.7
PE (x)	24.2	18.6	12.0	20.7	14.1
EV / EBITDA (x)	10.9	9.3	6.1	9.5	7.2
EV / ton (\$)	88.5	104.3	64.2	74.5	69.0
RoE (%)	13.2	19.9	21.6	13.4	18.1
RoCE (%)	8.6	13.0	14.7	9.6	12.6
Dividend yield (%)	1.8	2.2	5.3	2.4	2.4
Net debt / equity (x)	0.4	0.2	-0.0	-0.1	-0.2

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price: ₹207

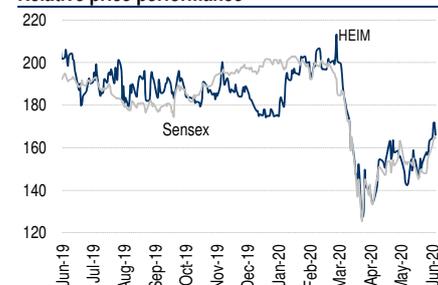
Share Price: ₹165

Key data	HEIM IN / HEID.BO
52-week high / low	₹218 / 120
Sensex / Nifty	33981 / 10029
3-m average volume	\$1.4m
Market cap	₹38bn / \$497.9m
Shares outstanding	227m

Shareholding pattern (%)	Mar-20	Dec-19	Sept-19
Promoters	69.4	69.4	69.4
- of which, Pledged	-	-	-
Free float	30.6	30.6	30.6
- Foreign institutions	10.4	9.9	10.2
- Domestic institutions	8.3	8.5	8.5
- Public	11.9	12.3	12.0

Estimates revision (%)	FY21e	FY22e
Sales	(1.6)	(0.4)
EBITDA	(0.0)	3.5
PAT	(7.3)	(0.8)

### Relative price performance



Source: Bloomberg

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	4.65	4.90	4.71	4.18	4.55
Net revenues	18,607	21,094	21,576	19,501	21,905
Growth (%)	10.3	13.4	2.3	-9.6	12.3
Direct costs	10,977	11,992	11,502	10,407	11,530
SG&A	4,284	4,508	4,917	5,264	5,671
<b>EBITDA</b>	<b>3,346</b>	<b>4,594</b>	<b>5,158</b>	<b>3,830</b>	<b>4,704</b>
EBITDA margins (%)	18.0	21.8	23.9	19.6	21.5
- Depreciation	1,012	1,018	1,086	1,116	1,144
Other income	487	587	647	580	812
Interest expenses	745	748	739	561	349
PBT	2,077	3,416	3,981	2,733	4,023
Effective tax rate (%)	35.9	35.4	32.7	34.0	34.0
+ Associates / (minorities)	-	-	-	-	-
Net income	1,332	2,207	2,681	1,804	2,655
Adjusted income	1,332	2,207	2,681	1,804	2,655
WANS	227	227	227	227	227
FDEPS (₹ / sh)	5.9	9.7	11.8	8.0	11.7
FDEPS growth (%)	74.8	65.7	21.5	-32.7	47.2

**Fig 3 – Cash-flow statement (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	2,077	3,416	3,981	2,733	4,023
+ Non-cash items	1,012	1,018	1,086	1,116	1,144
Oper. prof. before WC	3,088	4,434	5,067	3,849	5,167
- Incr. / (decr.) in WC	-1,051	40	37	1,041	-444
Others incl. taxes	444	740	692	929	1,368
Operating cash-flow	3,695	3,654	4,338	1,879	4,244
- Capex (tang. + intang.)	319	417	635	584	450
Free cash-flow	3,376	3,237	3,702	1,295	3,794
Acquisitions					
- Div. (incl. buyback & taxes)	682	1,093	2,049	1,093	1,093
+ Equity raised	-	-	-	-	-
+ Debt raised	-861	-1,024	-1,118	-1,500	-1,000
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	-149	-133	-794	-	-
Net cash-flow	1,982	1,253	1,330	-1,298	1,701

Source: Company, Anand Rathi Research

**Fig 5 – Price movement**


Source: Bloomberg

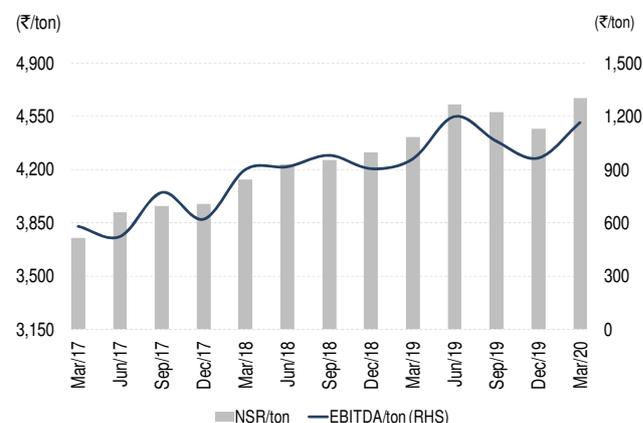
**Fig 2 – Balance sheet (₹ m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	2,266	2,266	2,266	2,266	2,266
Net worth	10,464	11,712	13,146	13,858	15,420
Debt	6,192	5,168	4,051	2,551	1,551
Minority interest					
DTL / (Assets)	835	1,303	1,903	1,903	1,903
<b>Capital employed</b>	<b>17,491</b>	<b>18,183</b>	<b>19,100</b>	<b>18,311</b>	<b>18,873</b>
Net tangible assets	18,044	17,363	16,928	16,456	15,812
Net Intangible assets	17	6	2	2	2
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	81	172	160	100	50
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	5,063	6,038	6,132	6,144	6,662
Cash	2,124	3,377	4,706	3,409	5,110
Current liabilities	7,837	8,772	8,829	7,801	8,762
Working capital	-2,774	-2,734	-2,697	-1,656	-2,100
<b>Capital deployed</b>	<b>17,491</b>	<b>18,183</b>	<b>19,100</b>	<b>18,311</b>	<b>18,873</b>
Contingent liabilities	361	537	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	24.2	18.6	12.0	20.7	14.1
EV / EBITDA (x)	10.9	9.3	6.1	9.5	7.2
EV / Sales (x)	2.0	2.0	1.5	1.9	1.5
P/B (x)	3.1	3.5	2.4	2.7	2.4
RoE (%)	13.2	19.9	21.6	13.4	18.1
RoCE (%) - after tax	8.6	13.0	14.7	9.6	12.6
DPS (₹ / sh)	2.5	4.0	7.5	4.0	4.0
Dividend payout (%) - incl. DDT	51.2	49.5	76.4	60.6	41.2
Net debt / equity (x)	0.4	0.2	-0.0	-0.1	-0.2
WC days	-54.4	-47.3	-45.6	-31.0	-35.0
EV / ton (\$)	88.5	104.3	64.2	74.5	69.0
NSR / ton (₹)	3,999	4,308	4,586	4,666	4,816
EBITDA / ton (₹)	719	938	1,096	916	1,034
Volumes (m tons)	4.65	4.90	4.71	4.18	4.55
CFO : PAT %	277.4	165.6	161.8	104.2	159.8

Source: Company, Anand Rathi Research

**Fig 6 – Quarterly per-ton NSR and EBITDA trends**


Source: Company, Anand Rathi Research

## Other key highlights

### Revenue growth

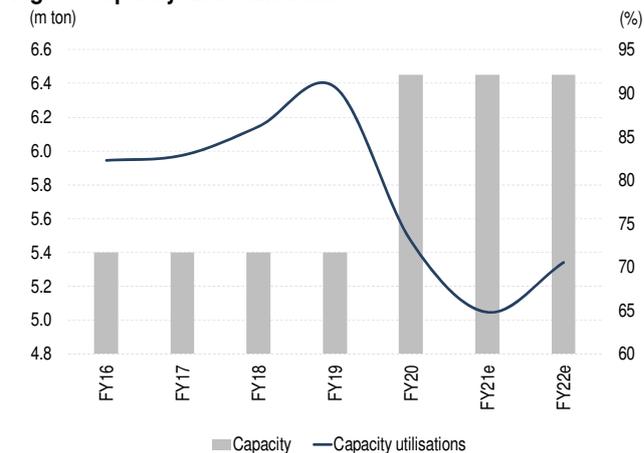
Heidelberg's Q4 revenue declined 4.7% y/y to ₹5.1bn. With no clinker sales and 10 days volumes lost due to the lockdown (~1-1.25 lakh tons), sales volumes declined 10% to 1.09m tons. However, realisations rose 5.8% y/y to ₹4,672/ton due to firm cement prices and higher premium-cement sales. The company continues to sell 100% blended cement.

**Fig 7 – Revenue and Revenue growth**



Source: Company, Anand Rathi Research

**Fig 8 – Capacity and Utilisation**



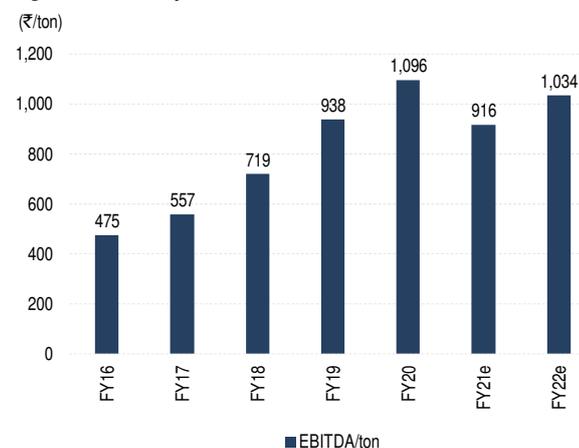
Source: Company, Anand Rathi Research

### Operating performance

EBITDA increased 9.2% y/y to ₹1,269m mainly on better realisations and savings in cost. Increasing power generation at the WHRS and savings in power & fuel cost due to lower pet-coke prices optimised costs. The per-ton raw-material cost, power & fuel cost and freight cost declined respectively 7.5%, 15.3% and 7.3% y/y. Employee cost declined 5% whereas other expenditure increased 17% y/y on an absolute basis.

The company reported ₹663m PAT (up 9% y/y) due to firm operational profits partially offset by higher interest cost (up 1.4% y/y), depreciation cost (up 8.2% y/y) and lower other income (down 13.5% y/y)

**Fig 9 – EBITDA-per-ton trend**



Source: Company, Anand Rathi Research

**Fig 10 – Cost-per-ton trend**



Source: Company, Anand Rathi Research

## Result Highlights

**Fig 11 – Quarterly trend**

(₹ m)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Y/Y	% Q/Q
Sales	4,200	4,839	5,254	5,369	4,795	5,584	5,347	5,824	5,195	5,464	5,093	(4.7)	(6.8)
EBITDA	817	754	1,143	1,160	1,102	1,171	1,162	1,508	1,202	1,179	1,269	9.2	7.6
EBITDA margins (%)	19.5	15.6	21.7	21.6	23.0	21.0	21.7	25.9	23.1	21.6	24.9	318bps	333bps
EBITDA per ton (₹)	771	620	900	915	980	905	959	1,199	1,060	964	1,164	21.3	20.7
Interest	188	186	172	219	199	170	160	198	188	190	163	1.4	(14.3)
Depreciation	255	253	254	255	255	254	254	279	265	268	275	8.2	2.9
Other income	83	167	117	103	125	157	202	186	151	135	175	(13.5)	29.8
PBT	513	483	833	789	774	904	949	1,218	900	857	1,006	6.0	17.4
Tax	181	165	312	278	273	319	340	428	318	211	343	0.8	62.5
Adj. PAT	276	318	521	511	501	586	609	790	582	646	663	8.9	2.6

Source: Company, Anand Rathi Research

**Fig 12 – Per-ton analysis**

(₹)	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	%Y/Y	%Q/Q
Realisations	3,962	3,976	4,137	4,237	4,262	4,316	4,415	4,630	4,581	4,468	4,672	5.8	4.6
EBITDA	771	620	900	915	980	905	959	1,199	1,060	964	1,164	21.3	20.7
Sales volumes (m tons)	1.06	1.22	1.27	1.27	1.13	1.29	1.21	1.26	1.13	1.22	1.09	(10.0)	(10.9)
<b>Costs</b>													
Raw material	768	760	776	777	782	769	872	840	795	817	806	(7.5)	(1.3)
Power & Fuel	1,023	829	1,027	932	1,068	928	1,211	966	1,010	1,028	1,026	(15.3)	(0.2)
Freight	578	605	679	654	592	586	682	633	579	602	633	(7.3)	5.1
Staff	276	237	258	241	277	206	294	250	274	284	311	6.0	9.7
Other expenditure	677	694	603	643	710	674	647	683	769	781	843	30.3	8.0

Source: Company, Anand Rathi Research

## Concall highlights & key updates

### ■ Input material prices and availability

Fly-ash availability has been hit as the power plants in the vicinity of cement grinding plants have been operating intermittently. For uninterrupted production, the company is sourcing fly-ash from other power plants situated at a distance.

HDPE bags, used to pack cement, are manufactured by labour-intensive units, now faced with a labour issue. So far, none of the company's vendors/contractors has expressed inability to fulfil contractual obligations besides some vendors requesting additional time to effect deliveries.

- **Logistics:** For FY20, the rail-road mix for the quarter was 54:46. /the current lead distance is ~368-370km. The company expects some constraints on availability of truck drivers, labour shortage at railway yards and delayed clearance of railway wagons. Its current level of dispatches are adequately met by trucks available in the market.

- **Sales and demand:** No clinker sales and 10 days sales lost (~100,000 to 125,000 tons) in March due to the lockdown brought overall volumes down 10% y/y to 1.09m tons. Many dealers are faced with a liquidity crunch and want to liquidate inventory before placing fresh orders.

Cement demand may be sluggish due to labour shortages in urban areas. However, areas where government spending is good, will see better demand.

The company is concentrating on increasing its share in the trade channel, with the trade-nontrade mix in FY20 at 85:15. Volumes of premium products increased to 13% of trade volumes, up 38% y/y.

- **Finance:** In FY20, the company repaid the first tranche of NCDs of ₹1.25bn. Management talked of repaying ₹1.25bn in FY21 and ₹1.2bn in FY22 from internal accruals. It has put in place additional internal controls and reporting systems to facilitate daily monitoring and review of the following aspects.

- Cash-flow including overdue outstandings from debtors;
- Inward and outward movements of materials;
- Availability of raw materials, semi-finished and finished goods at all locations.

- **Cost optimisation.** In FY20, the company's dependence on grid power dropped to 66% The pet coke-domestic coal ratio was 61:39. The company has an efficient process for changing its fuel mix within two days. The benefits of softening fuel prices will be seen in coming quarters.

Further, as a cost-optimisation measure, tenures of various annual maintenance and service contracts have been extended by two to three months without any extra costs. However, a cost rise can be seen due to the long lead distance.

### ■ Capacity expansion

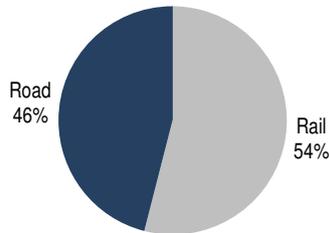
During Q4 FY20, the company completed de-bottlenecking its cement grinding capacities in Imlai (Madhya Pradesh) and Jhansi (Uttar

Pradesh). On completion of the de-bottlenecking, total cement grinding capacity would be 6.26m tons. Management spoke of maintenance capex of ₹500m and further debottlenecking clinker capacity. It will continue to progress on the Gujarat plant (~3m tons). It has deferred some scheduled repairs, which it said will not impact manufacturing operations.

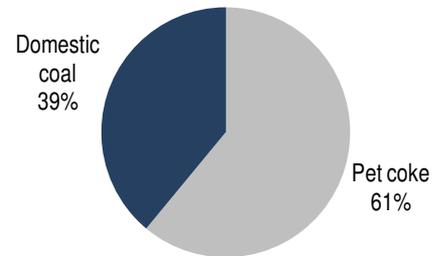
**Fig 13 – Trade and Non-trade mix (FY20)**



**Fig 14 – Rail-Road mix (FY20)**



**Fig 15 – Fuel mix (FY20)**



Source: Company, Anand Rathi Research

## Valuations

We like the Central region given its demand-supply dynamics with no major coming capacity additions. The concentrated measures to improve operational efficiencies, more power generated from the stabilised WHR plant, the increasing proportion of premium-cement volumes and greater utilisation would give the company's sound operating performance a good fillip. With GU capacity utilisation in Central India reaching 97%, the company in Q4 through de-bottlenecking expanded capacity to 6.26m tons. Its strong net-debt-free balance sheet, prudent working capital control and strong operating efficiency will continue to boost its prospects. The issues such as migrant labour, logistics, fly-ash availability, liquidity crunch, etc., would continue in the short run.

We maintain a Buy, with a higher target of ₹207, based on 9.2x FY22e EV/EBITDA; the EV/ton is \$89. At the CMP, the stock trades at an EV/EBITDA of 7x, an EV/ton of \$69 and a PE of 14x FY22e.

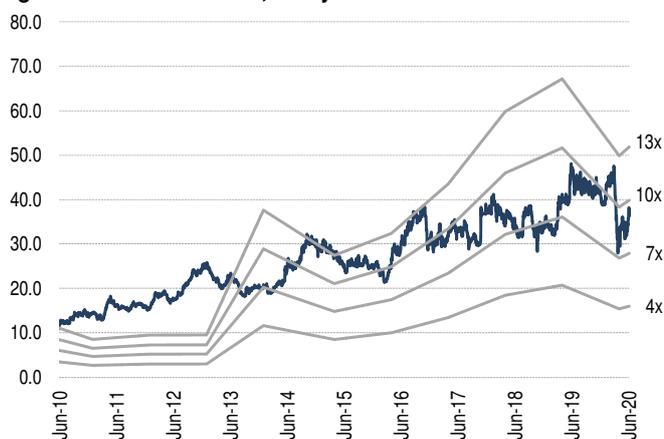
### Change in estimates

Fig 16 – Change in estimates

₹ m	Old		New		Variance	
	FY21e	FY22e	FY21e	FY22e	% chg	% chg
Sales	19,810	21,986	19,501	21,905	(1.6)	(0.4)
EBITDA	3,830	4,545	3,830	4,704	(0.0)	3.5
PAT	1,945	2,677	1,804	2,655	(7.3)	(0.8)

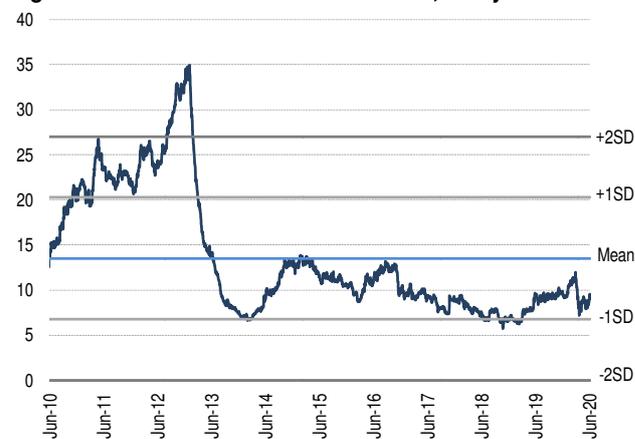
Source: Anand Rathi Research

Fig 17 – EV/EBITDA band, one-year-forward



Source: Bloomberg, Anand Rathi Research

Fig 18 – EV/EBITDA: Standard deviation, one-year-forward



Source: Bloomberg, Anand Rathi Research

### Risk

- Higher prices of pet-coke and freight
- Extension of the lockdown.

**Fig 19 – Peer comparison – Valuations**

	CMP (₹)	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
		FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Heidelberg Cement	165	20.7	14.1	9.5	7.2	75	69
Birla Corp.	514	16.2	11.6	7.5	6.2	56	47
Dalmia Bharat	562	NA	259.8	8.3	6.6	75	68
Deccan Cement	239	12.0	6.6	5.4	3.2	17	15
India Cement	131	NA	29.3	12.9	9.7	61	62
JK Cement	1,170	28.3	19.1	13.2	10.2	96	92
JK Lakshmi	239	40.2	11.9	9.4	5.3	43	37
Mangalam Cement	179	14.2	7.2	6.8	4.7	35	32
NCL Indus	64	9.7	5.1	4.9	3.3	24	20
Orient Cement	55	72.3	16.3	8.1	5.9	36	34
Ramco Cement	619	35.7	24.6	18.5	13.7	108	104
Sanghi Industries	17	NA	10.7	11.6	7.5	34	35
Prism Johnson	38	NA	23.2	9.7	7.0	46	43

Source: Anand Rathi Research

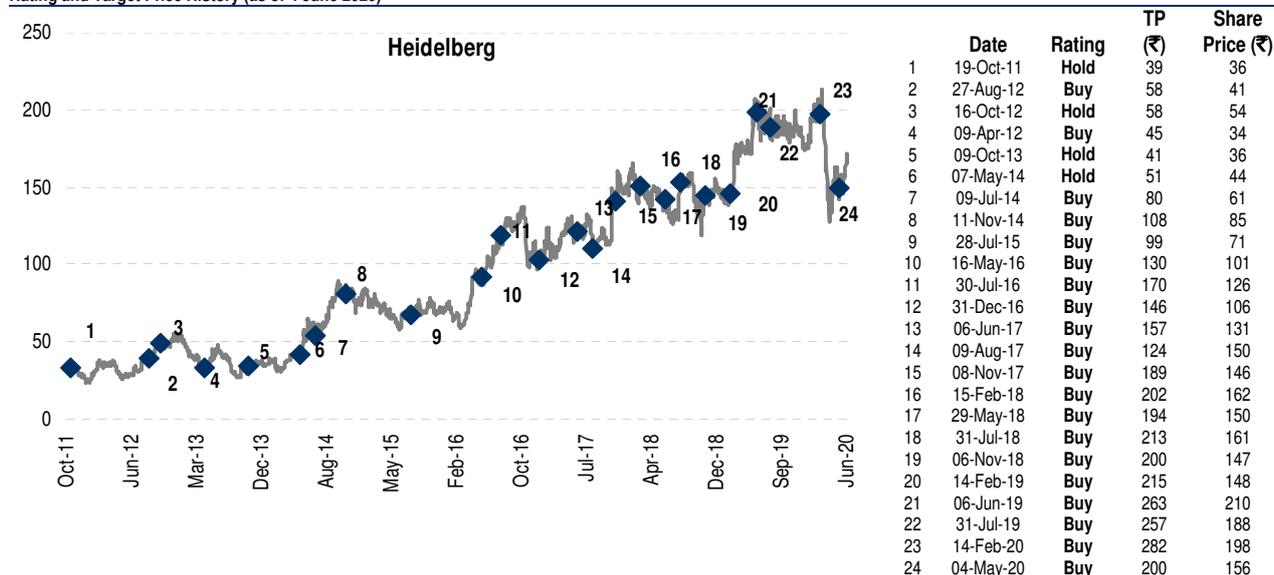
## Appendix

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