

Heidelberg Cements India Ltd (HCIL)

BUY

Sector: Cement /Small Cap | Earnings Update – 1QFY21

27 July 2020

Background: Heidelberg Cements (HCIL), erstwhile Mysore Cements set up by Birla group in 1958 is now a subsidiary of Heidelberg AG, the world's third largest cement manufacturer. The company manufactures portland cement brand through its three plants located at Ammasandra, Karnataka (0.6 MTPA), Damoh, Madhya Pradesh (2.1 MTPA) and Jhansi, Uttar Pradesh (2.7 MTPA). The company also caters to Bangalore, Mumbai and Pune apart from MP and UP. The company has a total installed capacity of 5.4 MTPA.

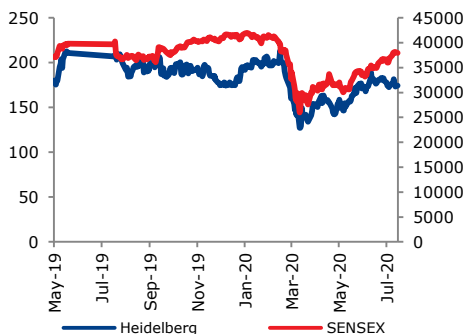
Sensex	37,965
Nifty	11,149
Price	₹ 173
Target Price (12 months)	₹ 200
Recommendation	BUY

52 Week High/Low	₹ 218/120
Bloomberg / Reuters	HEIM IN/MYCM.BO
Equity (shares in mn)	₹226.7
Mkt. Cap in mn	₹ 44,417/ \$ 631
Avg. Daily Vol. ('000)	262
Avg. Daily Vol. (mn)	₹ 72.8 /\$ 1.0

Shareholding	Jun 19	Mar 20	Jun 20
Promoters (%)	69.4	69.4	69.4
FII (%)	11.7	10.4	9.7
DII (%)	7.2	8.5	8.0
Others (%)	11.7	11.7	12.7
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	21.6	21.1	24.0
EBITDA	5.2	5.0	5.4
PAT	2.7	2.8	3.3
EPS	11.8	12.5	14.6
% growth	-19.7	6.0	16.8
P/E	14.6	13.8	11.8
P/BV	2.9	2.6	2.4
EV/EBITDA	7.0	6.7	5.7
EV/Sales	1.7	1.6	1.3
Dividend Yield	2.9	4.0	4.0
ROE	19.5	18.4	19.7

Performance(%)	1M	3M	12M
HCIL	-3.8	10.3	-16.1
SENSEX	9.0	21.2	-5.7



The pandemic led lockdowns impacted volume & realizations, however cost efficiency efforts supported margins. Recovery in rural demand to drive growth

- HCIL's revenue for 1QFY21 fell by 30.2% YoY to reach ₹ 4.1bn as against ₹ 5.8bn in 1QFY20, due to fall in volume (~32%); this was in part due to the shutdown in April. PAT dropped by 38.1% YoY to ₹ 489mn. During the quarter healthy demand recovery seen in the central region on the back of pre-monsoon work and rural housing demand going up.
- On a per tonne basis, gross realization increased by 2.4% whereas total operating cost (incl. freight) increased by 1.8% resulting in EBITDA of ₹ 1,264 per tonne as compared to ₹ 1,253 per tonne in 1QFY20.
- Concerted efforts to optimize costs supported HCIL; however, decrease in volume negatively impacted the operating leverage. On a per tonne basis, increased fixed cost is partially offset by lower raw materials and power & fuel costs.
- HCIL's net cash increased to ₹ 1.6 billion as of June 30, 2020, while company continued to operate on negative Net Working Capital
- The suspended manufacturing operations at HCIL's plant resumed in a phased manner with effect from April 20, 2020 under strict observance of guidelines issued by respective district administrations to mitigate the risk of COVID-19. The suspension of operations, together with intermittent restrictions impacted the financial performance of the Company during the quarter ending June 30, 2020.
- For FY21 the management expects the outlook to remain uncertain. Though pressure on demand continues in urban areas due to labour evacuation, the demand in rural areas is showing signs of improvement. The inward and outward logistics remain disturbed due to trucking availability putting pressure on costs however stable. Lower energy prices likely to offset near term pressure on costs.
- **Capex Update:** There is no Capex planned in near term.

Valuation: Though volume growth in near term is likely to be under pressure we expect Heidelberg to be well placed to benefit from any revival in cement demand driven by its recent capacity upgrade, strong brand presence, regional focus and higher contribution from retail segment in overall sales. Despite near term headwinds we remain optimistic on the growth prospects of HCIL, the company is done with its planned capacity augmentation and there is no major capex outlay for near-term. At CMP, the stock trades at EV/EBITDA of 5.4X FY22E. We maintain our **BUY** rating with a revised target price of ₹ 200 assuming an EV/EBITDA multiple of 7.2X FY22E.

Risks: Sharp decrease in economic activities which will lead to lower than expected GDP growth, depreciating rupee.

Results Summary 1QFY21

Y/E March (INR bn)	1QFY21	1QFY20	YoY Growth	4QFY20	QoQ Growth
Revenue	4,063	5,824	-30.2%	5,093	-20.2%
EBIDTA	1,083	1,577	-31.3%	1,273	-14.9%
Depreciation	276	279	-0.8%	275	0.4%
Other Income	98	118	-17.3%	170	-42.5%
PBT	745	1,218	-38.8%	1,006	-25.9%
Tax	256	428	-40.3%	343	-25.5%
PAT	489	790	-38.1%	663	-26.2%
Adjusted PAT	489	790	-38.1%	663	-26.2%
EBIDTA Margin	26.7%	27.1%		25.0%	
Tax Incidence	34.3%	35.1%		34.1%	
Adj PAT Margin	13.0%	11.4%		11.8%	

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Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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