ANANDRATHI

India I Equities

Cement
Company Update
Change in Estimates ☑ Target ☑ Reco ☐

27 October 2020

Heidelberg Cement

Focus on premium positioning; maintaining a Buy

Rating: **Buy**
Target Price: Rs236
Share Price: Rs185

With its greater focus on prices and to improve its premium positioning, Heidelberg's volumes declined 2.3% y/y, leading to revenue falling 1.3% y/y. Higher realisations and cost optimisation, however, pushed up EBITDA/ton 6.4% y/y. The proposed loan to Zuari will generate higher other income and enable utilisation of MAT credit for the next 1.5-2 years. The net-debt-free balance sheet and negative working capital are positives, though we are concerned about slowing volume growth. We retain our Buy, with a target of Rs236 (earlier Rs231)

The focus on prices and premium positioning led to volumes dipping 2.3% y/y to 1.1m tons; NSR/ton, though, rose 1% y/y to Rs4,627. Management aims at the share of premium cement volumes rising to 20% (13% in Q2 FY21) and to introduce the premium brand `Greencem'. Demand improvement is expected, post-Diwali, with realisations rising a further ~Rs100/ton. Management said FY21 industry volumes would fall 10-12% and grow in double digits in FY22 on the low base. For Heidelberg, we expect volumes to shrink 9% in FY21 and grow 10% in FY22.

Cost optimisation to check rising input cost. Higher realisation and low-cost inventory helped EBITDA/ton grow 6.4% y/y to Rs1,127, and EBITDA 4% y/y. On rising pet-coke/diesel prices and deteriorating quality of domestic coal, management talked of further optimising the fuel mix, introducing international coal, rationalising logistics. The start of the AFR feeder system in Damoh and the solar power plant would optimise costs. We expect Rs1,110/1,173 EBITDA/ton in FY21/22 (vs Rs1,096 in FY20).

Outlook, Valuation. With no major capex planned, the company passed a special resolution to loan Zuari Cement Rs1,500m to set up a WHRS. The environmental study for the expansion at Gujarat will take 1-2 years. From the ongoing debottlenecking, clinker capacity will increase by 0.2m-0.25m tons. We retain our Buy rating, at a higher target of Rs236, 9x FY22e EV/EBITDA. **Risk:** Higher petcoke, diesel prices, demand slowdown.

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (Rs m)	18,607	21,094	21,576	20,227	22,675
Net profit (Rs m)	1,332	2,207	2,681	2,421	3,103
EPS (Rs)	5.9	9.7	11.8	10.7	13.7
PE (x)	24.2	18.6	12.0	17.3	13.5
EV / EBITDA (x)	10.9	9.3	6.1	8.7	6.9
EV / ton ($)	92.1	108.5	66.9	87.7	81.1
RoE (%)	13.2	19.9	21.6	17.5	20.0
RoCE (%)	8.6	13.0	14.7	12.6	14.3
Dividend yield (%)	1.8	2.2	5.3	2.2	2.2
Net debt / equity (x)	0.4	0.2	-0.0	-0.0	-0.2

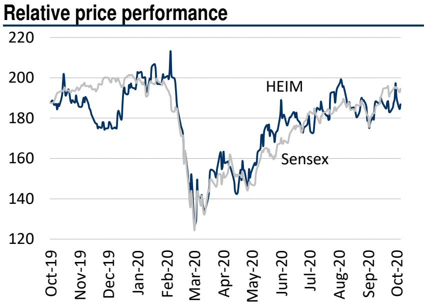
Source: Company, Anand Rathi Research

Key data	HEIM IN / HEID.BO
52-week high / low	Rs218 / 120
Sensex / Nifty	40522 / 11889
3-m average volume	$1.2m
Market cap	Rs42bn / $574.4m
Shares outstanding	227m

Shareholding pattern (%)	Sep-20	Jun-20	Mar-20
Promoters	69.4	69.4	69.4
- of which, Pledged	-	-	-
Free float	30.6	30.6	30.6
- Foreign institutions	8.8	9.7	10.4
- Domestic institutions	6.7	8.0	8.3
- Public	15.1	12.9	11.9

Estimates revision (%)	FY21e	FY22e
Sales	3.1	3.3
EBITDA	7.5	3.9
PAT	9.8	2.3

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Sales volumes (m tons)	4.65	4.90	4.71	4.29	4.71
Net revenues	18,607	21,094	21,576	20,227	22,675
Growth (%)	*10.3*	*13.4*	*2.3*	*-6.3*	*12.1*
Direct costs	10,977	11,992	11,502	10,730	12,113
SG&A	4,284	4,508	4,917	4,737	5,039
EBITDA	**3,346**	**4,594**	**5,158**	**4,761**	**5,524**
EBITDA margins (%)	*18.0*	*21.8*	*23.9*	*23.5*	*24.4*
- Depreciation	1,012	1,018	1,086	1,116	1,148
Other income	487	587	647	602	794
Interest expenses	745	748	739	578	468
PBT	2,077	3,416	3,981	3,669	4,702
Effective tax rate (%)	*35.9*	*35.4*	*32.7*	*34.0*	*34.0*
+ Associates / (Minorities)					
Net income	1,332	2,207	2,681	2,421	3,103
Adjusted income	1,332	2,207	2,681	2,421	3,103
WANS	227	227	227	227	227
FDEPS (Rs / sh)	5.9	9.7	11.8	10.7	13.7
FDEPS growth (%)	*74.8*	*65.7*	*21.5*	*-9.7*	*28.2*

Fig 2 – Balance sheet (Rs 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	14,475	16,485
Debt	6,192	5,168	4,051	2,751	2,751
Minority interest					
DTL / (Assets)	835	1,303	1,903	1,903	1,903
Capital employed	**17,491**	**18,183**	**19,100**	**19,128**	**21,139**
Net tangible assets	18,044	17,363	16,928	16,472	15,924
Net Intangible assets	17	6	2	2	2
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	81	172	160	100	100
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	5,063	6,038	6,132	7,426	7,890
Cash	2,124	3,377	4,706	3,385	6,479
Current liabilities	7,837	8,772	8,829	8,257	9,257
Working capital	-2,774	-2,734	-2,697	-831	-1,367
Capital deployed	**17,491**	**18,183**	**19,100**	**19,128**	**21,139**
Contingent liabilities	361	537	315	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT (Adj. OI and Interest)	2,334	3,577	4,072	3,645	4,376
+ Non-cash items	1,012	1,018	1,086	1,116	1,148
Oper. prof. before WC	3,346	4,594	5,158	4,761	5,524
- Incr. / (decr.) in WC	-1,051	40	37	1,866	-535
Others incl. taxes	444	740	692	1,247	1,599
Operating cash-flow	3,952	3,815	4,429	1,648	4,461
- Capex (tang. + intang.)	319	417	635	600	600
Free cash-flow	3,633	3,397	3,794	1,048	3,861
Acquisitions					
- Div.(incl. buyback & taxes)	682	1,093	2,049	1,093	1,093
+ Equity raised	-	-	-	-	-
+ Debt raised	-861	-1,024	-1,118	-1,300	-
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	108	28	-702	-24	-326
Net cash-flow	1,982	1,253	1,330	-1,321	3,094

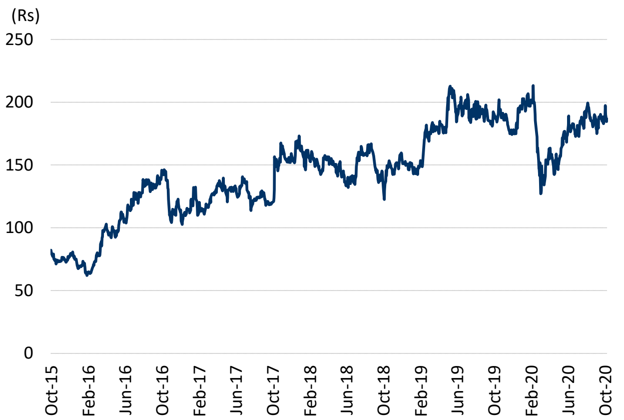
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	24.2	18.6	12.0	17.3	13.5
EV / EBITDA (x)	10.9	9.3	6.1	8.7	6.9
EV / Sales (x)	2.0	2.0	1.5	2.0	1.7
P/B (x)	3.1	3.5	2.4	2.9	2.5
RoE (%)	13.2	19.9	21.6	17.5	20.0
RoCE (%) - after tax	8.6	13.0	14.7	12.6	14.3
DPS (₹ / sh)	2.5	4.0	7.5	4.0	4.0
Dividend payout (%) - incl. DDT	51.2	49.5	76.4	45.1	35.2
Net debt / equity (x)	0.4	0.2	-0.0	-0.0	-0.2
WC days	-54.4	-47.3	-45.6	-15.0	-22.0
EV / ton ($)	92.1	108.5	66.9	87.7	81.1
NSR / ton (Rs)	3,999	4,308	4,586	4,716	4,816
EBITDA / ton (Rs)	719	938	1,096	1,110	1,173
Volumes (m tons)	4.65	4.90	4.71	4.29	4.71
CFO : PAT %	296.7	172.9	165.2	68.1	143.7

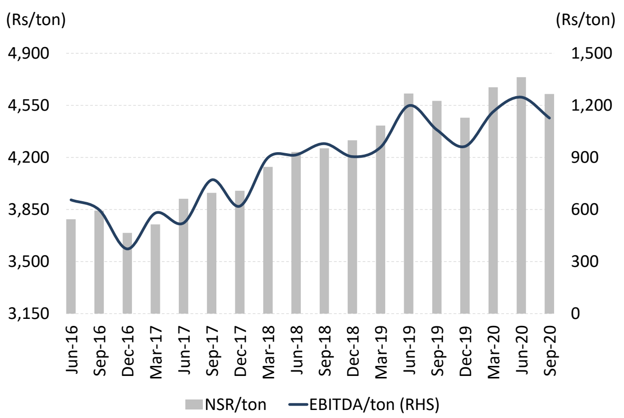
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



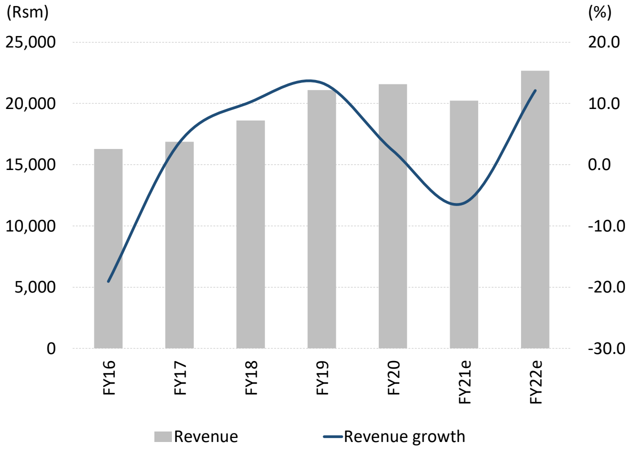
Source: Company, Anand Rathi Research

Other key highlights

Revenue growth

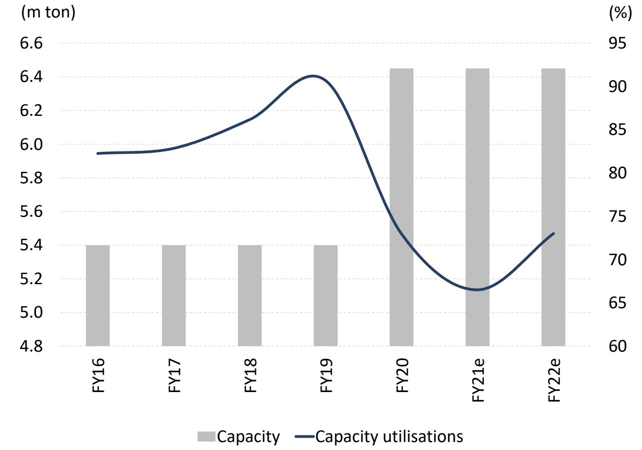
Heidelberg's Q2 FY21 volumes falling 2.3% y/y to 1.1m tons led to its revenue slipping 1.3% y/y to Rs5bn. Realisations, however, rose 1% y/y to Rs4,627/ton because of firm cement prices and more sales of premium cement (up 20% y/y). The company continues to sell 100% blended cement. Management talked of focusing on prices, increasing the share of premium cement and increasing NSR/ton by Rs50 in Oct. H2 FY21 volumes are expected to be flat y/y, whereas prices would increase further backed by expected greater demand, post-Diwali.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



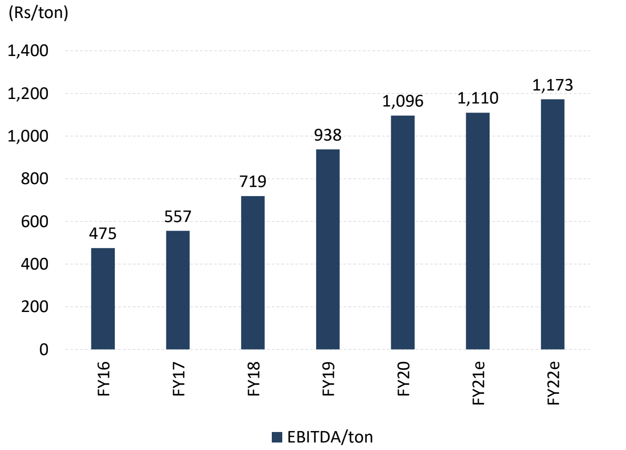
Source: Company, Anand Rathi Research

Operating performance

EBITDA rose 4% y/y to Rs1.2bn. Because of the better realisations and cost savings, EBITDA/ton came at Rs1,127 (up 6.4% y/y). Per-ton raw material cost slipped 0.8% y/y whereas power & fuel and freight costs were flat y/y. Other expenditure increased 4% y/y on an absolute basis. Pet-coke prices are 10% higher than coal. Raw materials (flyash) may have to be sourced from further on disruption of the thermal power plant (UP) which management said would be offset by price hikes. Management talked of adding international coal in coming years due to deteriorating quality of domestic coal. A sustainable mix of coal and petcoke is 50:50 (Q2 FY21 ~59:41).

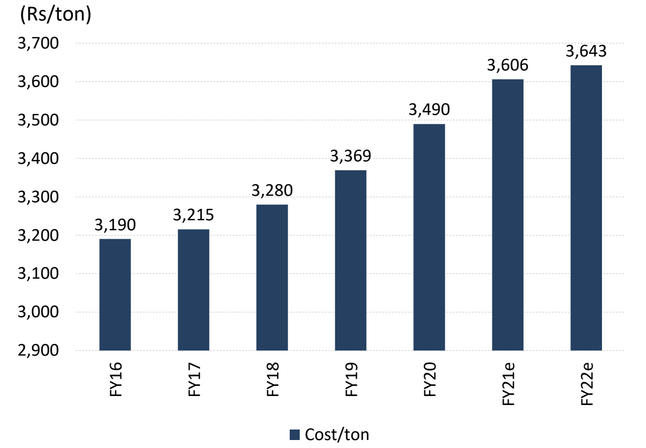
On the higher operating profit and lower interest cost (down 29% y/y), PAT was up 7% y/y to Rs624m, though partially offset by falling other income (down 26% y/y) and higher depreciation cost (up 6% y/y).

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

(Rs m)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Sales	5,254	5,369	4,795	5,584	5,347	5,824	5,195	5,464	5,093	4,063	5,127	*(1.3)*	*26.2*
EBITDA	1,143	1,160	1,102	1,171	1,162	1,508	1,202	1,179	1,269	1,069	1,249	*3.9*	*16.8*
EBITDA margins (%)	*21.7*	*21.6*	*23.0*	*21.0*	*21.7*	*25.9*	*23.1*	*21.6*	*24.9*	*26.3*	*24.4*	*123bps*	*-195bps*
EBITDA per ton (Rs)	900	915	980	905	959	1,199	1,060	964	1,164	1,247	1,127	*6.4*	*(9.6)*
Interest	172	219	199	170	160	198	188	190	163	160	133	*(29.2)*	*(16.6)*
Depreciation	254	255	255	254	254	279	265	268	275	276	281	*6.2*	*1.7*
Other income	117	103	125	157	202	186	151	135	175	112	112	*(25.9)*	*(0.2)*
PBT	833	789	774	904	949	1,218	900	857	1,006	745	947	*5.2*	*27.1*
Tax	312	278	273	319	340	428	318	211	343	256	323	*1.3*	*26.2*
Adj. PAT	521	511	501	586	609	790	582	646	663	489	624	*7.3*	*27.5*

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(Rs)	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	%Y/Y	%Q/Q
Realisation	4,137	4,237	4,262	4,316	4,415	4,630	4,581	4,468	4,672	4,741	4,627	*1.0*	*(2.4)*
EBITDA	900	915	980	905	959	1,199	1,060	964	1,164	1,247	1,127	*6.4*	*(9.6)*
Sales volumes (m tons)	1.27	1.27	1.13	1.29	1.21	1.26	1.13	1.22	1.09	0.86	1.11	*(2.3)*	*29.3*
Costs													
Raw material	776	777	782	769	872	840	795	817	806	822	789	*(0.8)*	*(4.0)*
Power & Fuel	1,027	932	1,068	928	1,211	966	1,010	1,028	1,026	976	1,013	*0.3*	*3.8*
Freight	679	654	592	586	682	633	579	602	633	644	582	*0.4*	*(9.7)*
Staff	258	241	277	206	294	250	274	284	311	314	279	*1.8*	*(11.3)*
Other expenditure	603	643	710	674	647	683	769	781	843	711	820	*6.6*	*15.3*

Source: Company, Anand Rathi Research

Fig 13 – Trade and Non-trade mix

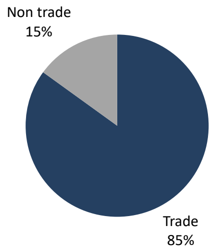


Fig 14 – Rail-Road mix

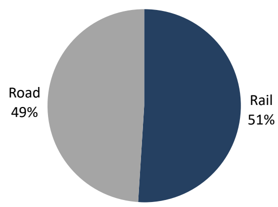
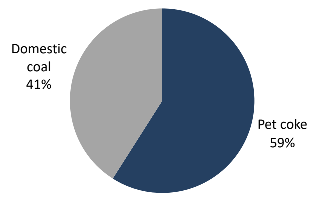


Fig 15 – Fuel mix



Source: Company

Concall highlights

Financials and Other operating highlights

- To keep prices from falling and to improve its premium position, Heidelberg curtailed its Q2 FY21 sales volumes 2.3% y/y. This led to its realisation/ton growing only 1% y/y.
- Fly-ash availability has been hit as power plants in the vicinity of the cement grinding plants have been operating intermittently. For uninterrupted production, the company sourced fly-ash from other power plants situated at a distance, resulting in higher costs.
- The rail-road mix for the quarter was 51:49 where the share of roads increased 485bps y/y.
- The ratio of pet-coke to domestic coal was 59:41(vs 62:38 in Q1 FY21). Pet-coke prices are currently 10% higher than those of coal.
- The company now has a contract for domestic coal purchase. Management said it would add international coal in coming years due to deteriorating quality of domestic coal. The sustainable mix for coal & pet-coke is 50:50.
- The company's current mix of power is 60% from the grid, 25% from the WHRS and 15% from a bilateral power agreement with a third party.
- On completion of the AFR leading to 6-7% thermal power substitution and the 5MW solar power plant, power cost savings are expected.
- The company continues to focus on increasing its share in the trade channel, with the trade-nontrade mix in Q2 FY21 at 85:15 (FY20 85:15, Q1 FY21 89:11).
- Volumes of premium products were 13% of trade volumes, up 20% y/y. Management plans to launch another premium brand `Greencem' and targets its premium share to reach 20% in coming years. Premium cement fetches Rs10-12/bag higher prices.

Capex plans, Debt

- For FY21/22, no major capex except for environmental clearances for the Gujarat expansion/maintenance capex/AFR feeder system in Damoh and a cooler (~Rs150m-160m) for line III.
- Debottlenecking of clinker (line III) is ongoing, and will increase clinker capacity by 200,000-250,000 tons. For the Gujarat expansion, management will start environmental studies, which will take 1-2 years and will then apply for environmental clearances. Then, it will take 3-3.5 years to set up the plant.
- Gross cash on 30th Sep'20 was ~Rs5.7bn. The company continues to operate on negative working capital.
- In Dec'20 it had NCD repayment liability of Rs1.25bn. After that, there is no repayment liability till FY22 as repayment of interest-free loans from the UP government will start from FY23.

Outlook

- Management expects FY21 industry demand to decline 10-12% and grow in double digits in FY22 on a low base. In the next three years, management expects industry to grow 5%-6%.

- Demand in Oct has been soft due to four holidays and is expected to pick up, post-Diwali. However, prices have risen. The NSR has increased by Rs50/ton at the company level and management further expect an increase of Rs100/ton, post-Diwali.
- The company is currently operating at 80% capacity, which management said would improve. It also said it would conduct a logistic-optimisation exercise.
- The company passed a special resolution to give a Rs1,500m term loan to Zuari Cement to set up a WHRS. The entire loan would be disbursed in tranches on or before 31st Mar'21. The tenure will be two years from the date of drawn of each tranche. The interest rate will be 275bps over and above the G-Sec yield for three years on the date of disbursement, ie, 7% and will be fixed. Interest will be payable quarterly. There will be no option for a rollover. This would result in income of Rs240m-250m and the company will be able to utilise MAT credit for the next 1.5-2 years. The current MAT credit available is Rs850m. Till Sep'20, the company had not paid any advances to Zuari.

Valuations

We like the Central region given its demand-supply dynamics with no major coming capacity additions. The pronounced steps 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 the GU's capacity utilisation in Central India touching 97%, through de-bottlenecking the company expanded operational capacity in Q4 FY20 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.

Change in estimates

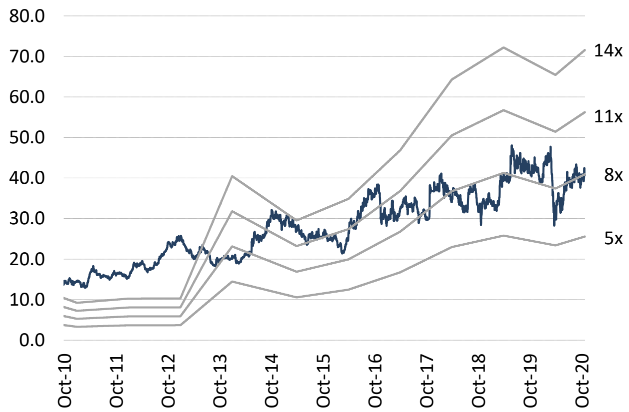
Fig 16 – Change in estimates

	Old		New		Variance	
(Rs m)	FY21e	FY22e	FY21e	FY22e	% Chg	% Chg
Sales	19,627	21,951	20,227	22,675	*3.1*	*3.3*
EBITDA	4,431	5,318	4,761	5,524	*7.5*	*3.9*
PAT	2,204	3,034	2,421	3,103	*9.8*	*2.3*

Source: Anand Rathi Research

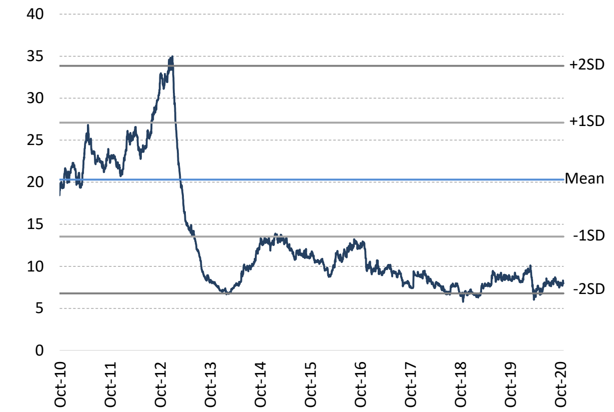
We maintain a Buy, with a higher target of Rs236, based on 9x FY22e EV/EBITDA; the EV/ton is $106. At the CMP, the stock trades at an EV/EBITDA of 6.9x, an EV/ton of $81 and a PE of 13.5x FY22e.

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 freight costs and prices of pet-coke.
- Demand slowdown.

Fig 19 – Peer comparison – Valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / ton ($)	
	(₹)	FY21e	FY22e	FY21e	FY22e	FY21e	FY22e
Heidelberg Cement	185	17.3	13.5	8.7	6.9	88	81
Birla Corp.	646	16.4	12.8	8.1	7.0	65	54
Dalmia Bharat	833	36.7	30.7	8.7	7.7	109	97
Deccan Cement	320	9.9	7.1	4.9	3.2	25	21
India Cement	119	NA	28.5	12.3	9.4	60	60
JK Cement	1,860	31.1	25.3	15.2	12.8	145	140
JK Lakshmi	281	17.6	11.5	7.4	5.4	49	42
Mangalam Cement	196	14.2	8.0	6.9	4.9	38	35
NCL Indus	138	14.1	12.3	6.7	6.1	43	45
Orient Cement	65	23.3	11.6	7.1	5.4	40	37
Ramco Cement	762	36.3	25.0	20.6	15.8	146	136
Sanghi Industries	27	NA	9.6	12.2	7.6	43	41
Star Cement	85	16.4	12.7	9.3	7.2	77	78
Prism Johnson	74	NA	33.3	15.7	9.7	71	68

Source: Anand Rathi Research

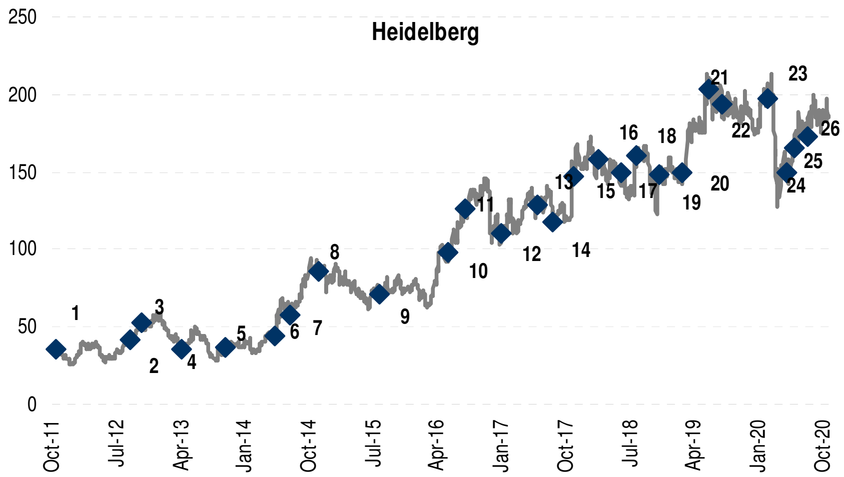
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 27 October 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	19-Oct-11	Hold	39	36
2	27-Aug-12	Buy	58	41
3	16-Oct-12	Hold	58	54
4	09-Apr-12	Buy	45	34
5	09-Oct-13	Hold	41	36
6	07-May-14	Hold	51	44
7	09-Jul-14	Buy	80	61
8	11-Nov-14	Buy	108	85
9	28-Jul-15	Buy	99	71
10	16-May-16	Buy	130	101
11	30-Jul-16	Buy	170	126
12	31-Dec-16	Buy	146	106
13	06-Jun-17	Buy	157	131
14	09-Aug-17	Buy	124	150
15	08-Nov-17	Buy	189	146
16	15-Feb-18	Buy	202	162
17	29-May-18	Buy	194	150
18	31-Jul-18	Buy	213	161
19	06-Nov-18	Buy	200	147
20	14-Feb-19	Buy	215	148
21	06-Jun-19	Buy	263	210
22	31-Jul-19	Buy	257	188
23	14-Feb-20	Buy	282	198
24	04-May-20	Buy	200	156
25	04-Jun-20	Buy	207	165
26	27-Jul-20	Buy	231	173

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Ratings Guide (12 months)	Buy	Hold	Sell
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