

31 May 2021

Heidelberg Cement

Focus on brand positioning and premiumisation to continue; Buy

Rating: **Buy**

Target Price: Rs313

Share Price: Rs251

The complete-lockdown-hit low-base quarter aided its Q4 volume growth; rising input costs, however, slashed Heidelberg's operating performance. Its focus remains on brand positioning and increasing the share of premium cement along with reducing the share of grid power. While the Zuari-merger evaluation and clearance of the Gujarat expansion continues, management is exploring expansion opportunities in the Central region. We retain our Buy, with a TP of Rs313 (earlier Rs288)

Lower EBITDA/ton on rising costs. On the low base, firm realisations and 15% y/y volume growth, revenue rose 14% to Rs5.8bn. However EBITDA/ton declined 8% y/y to Rs1,066 on input cost pressures, whereas EBITDA grew 5% y/y to Rs1.3bn due to healthy volume growth. A reversal of the Rs541.1m deferred tax liability, Rs148.5m accrued SGST incentive and lower interest cost pushed PAT up 111% y/y to Rs1,400m.

Less grid power dependence; exploring expansion opportunities in Central India. The company reduced its dependence on grid power to 63% (vs 66% the quarter prior). The coming 5.5MW Narsingarh solar power plant and AFR will enhance the share of green power through savings in costs. While the license and clearance process is ongoing for its Gujarat expansion, the company is exploring expansion opportunities in Central India through mine auctions, etc. It is evaluating the new mining law for the Zuari merger.

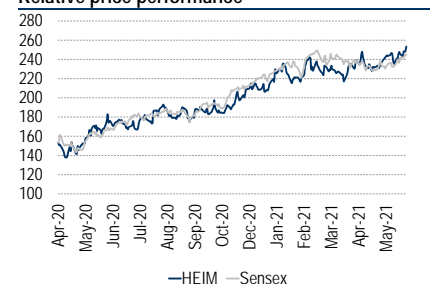
Outlook, Valuation. Management said Central India demand would fall less than in other regions in Q1 FY22 and prices would be firm enough to cover cost rises. The SGST incentive from the MP government will continue for the next few years. The B/S is healthy with negative net operating working capital and net debt free (net D/E ~0.1)x on 31st Mar'21). We expect revenue/EBITDA/PAT to clock 10%/14%/11% CAGRs over FY21-23. We retain our Buy rating, at a higher target of Rs313, 10x FY23e EV/EBITDA. **Risks:** Higher petcoke, diesel prices; demand slowdown.

Key data	HEIM IN / HEID.BO
52-week high / low	Rs258 / 159
Sensex / Nifty	51937 / 15583
3-m average volume	\$1m
Market cap	Rs57bn / \$792.4m
Shares outstanding	227m

Shareholding pattern (%)	Mar-21	Dec-20	Sep-20
Promoters	69.4	69.4	69.4
- of which, Pledged	-	-	-
Free float	30.6	30.6	30.6
- Foreign institutions	8.9	9.3	8.8
- Domestic institutions	8.0	7.1	6.7
- Public	13.8	14.3	15.1

Estimates revision (%)	FY22e	FY23e
Sales	1.3	4.3
EBITDA	0.0	6.4
PAT	6.3	15.5

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	21,094	21,576	20,927	23,050	25,417
Net profit (Rs m)	2,207	2,681	3,150	3,176	3,886
EPS (Rs)	9.7	11.8	13.9	14.0	17.1
PE (x)	18.6	12.0	16.8	17.9	14.6
EV / EBITDA (x)	9.3	6.1	10.7	9.7	7.9
EV / ton (\$)	108.5	66.9	109.4	112.4	105.1
RoE (%)	19.9	21.6	22.4	19.9	21.2
RoCE (%)	13.0	14.7	15.4	13.9	15.2
Dividend yield (%)	2.2	5.3	3.4	2.0	2.0
Net debt / equity (x)	0.2	-0.0	-0.1	-0.2	-0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Sales volumes (m tons)	4.90	4.71	4.49	4.84	5.22
Net revenues	21,094	21,576	20,927	23,050	25,417
<i>Growth (%)</i>	<i>13.4</i>	<i>2.3</i>	<i>-3.0</i>	<i>10.1</i>	<i>10.3</i>
Direct costs	11,992	11,502	11,379	12,635	13,959
SG&A	4,508	4,917	4,722	4,962	5,174
EBITDA	4,594	5,158	4,826	5,454	6,284
<i>EBITDA margins (%)</i>	<i>21.8</i>	<i>23.9</i>	<i>23.1</i>	<i>23.7</i>	<i>24.7</i>
- Depreciation	1,018	1,086	1,110	1,142	1,182
Other income	587	647	705	830	966
Interest expenses	748	739	509	331	179
PBT	3,416	3,981	3,912	4,811	5,888
<i>Effective tax rate (%)</i>	<i>35.4</i>	<i>32.7</i>	<i>19.5</i>	<i>34.0</i>	<i>34.0</i>
+ Associates / (Minorities)	-	-	-	-	-
Net income	2,207	2,681	3,150	3,176	3,886
Adjusted income	2,207	2,681	3,150	3,176	3,886
WANS	227	227	227	227	227
FDEPS (Rs / sh)	9.7	11.8	13.9	14.0	17.1
<i>FDEPS growth (%)</i>	<i>65.7</i>	<i>21.5</i>	<i>17.5</i>	<i>0.8</i>	<i>22.4</i>

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT (Adj. OI and interest)	3,577	4,072	3,716	4,312	5,888
+ Non-cash items	1,018	1,086	1,110	1,142	1,182
Oper. prof. before WC	4,594	5,158	4,826	5,454	7,071
- Incr. / (decr.) in WC	40	37	1,878	-381	-123
Others incl. taxes	740	692	729	1,636	2,002
Operating cash-flow	3,815	4,429	2,219	4,199	5,192
- Capex (tang. +intang.)	417	635	394	950	600
Free cash-flow	3,397	3,794	1,825	3,249	4,592
Acquisitions					
- Div. (incl. buyback & taxes)	1,093	2,049	1,813	1,133	1,133
+ Equity raised	-	-	-	-	-
+ Debt raised	-1,024	-1,118	-1,056	-700	-1,000
- Fin investments	-	-	-	-	-
- Misc. (CFI + CFF)	28	-702	-654	-499	-
Net cash-flow	1,253	1,330	-390	1,915	2,459

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

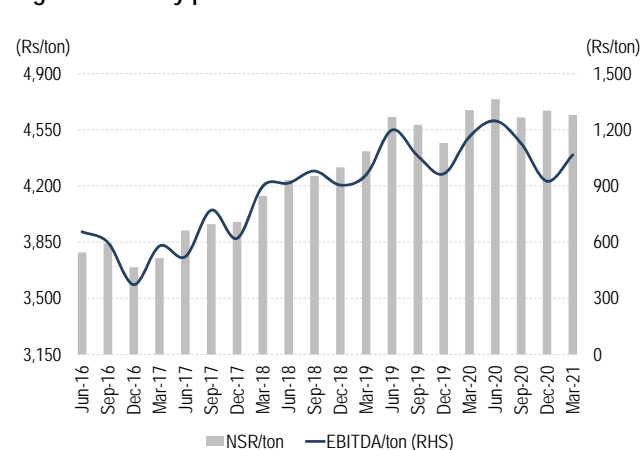
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	2,266	2,266	2,266	2,266	2,266
Net worth	11,712	13,146	14,939	16,981	19,734
Debt	5,168	4,051	2,995	2,295	1,295
Minority interest					
DTL / (Assets)	1,303	1,903	1,938	1,938	1,938
Capital employed	18,183	19,100	19,871	21,214	22,967
Net tangible assets	17,363	16,928	16,182	16,080	15,497
Net Intangible assets	6	2	2	2	2
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	172	160	189	100	100
Investments (strategic)	-	-	-	-	-
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	6,038	6,132	7,764	8,210	9,052
Cash	3,377	4,706	4,317	6,232	8,690
Current liabilities	8,772	8,829	8,583	9,409	10,376
Working capital	-2,734	-2,697	-819	-1,200	-1,323
Capital deployed	18,183	19,100	19,871	21,214	22,967
Contingent liabilities	537	315	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	18.6	12.0	16.8	17.9	14.6
EV / EBITDA (x)	9.3	6.1	10.7	9.7	7.9
EV / Sales (x)	2.0	1.5	2.5	2.3	1.9
P/B (x)	3.5	2.4	3.5	3.3	2.9
RoE (%)	19.9	21.6	22.4	19.9	21.2
RoCE (%) - after tax	13.0	14.7	15.4	13.9	15.2
DPS (Rs / sh)	4.0	7.5	8.0	5.0	5.0
Dividend payout (%) - incl. DDT	49.5	76.4	57.6	35.7	29.2
Net debt / equity (x)	0.2	-0.0	-0.1	-0.2	-0.4
WC days	-47.3	-45.6	-14.3	-19.0	-19.0
EV / ton (\$)	108.5	66.9	109.4	112.4	105.1
NSR / ton (Rs)	4,308	4,586	4,665	4,765	4,865
EBITDA / ton (Rs)	938	1,096	1,076	1,127	1,203
Volumes (m tons)	4.90	4.71	4.49	4.84	5.22
CFO : PAT %	172.9	165.2	70.5	132.2	133.6

Source: Company, Anand Rathi Research

Fig 6 – Quarterly per-ton NSR and EBITDA trends


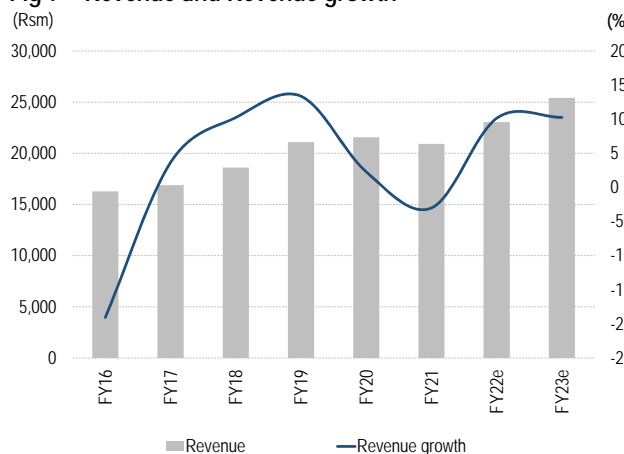
Source: Company, Anand Rathi Research

Other key highlights

Revenue growth

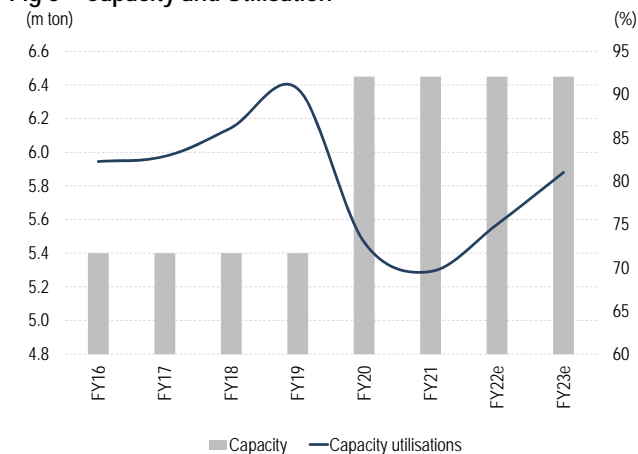
On the low base and greater demand, Heidelberg’s Q4 FY21 sales volumes grew 15% y/y to 1.25m tons. Realisation/ton was flat y/y to Rs4,643, holding revenue growth at 14% y/y to Rs5.8bn. Sales of premium cement grew 29% y/y, making up 19% of trade volumes. The company continues to sell 100% blended cement. In Q4, the trade share came down 2% to 83%. Per management, the company has maintained its market share in its operating region and started dispatches to distant regions.

Fig 7 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 8 – Capacity and Utilisation



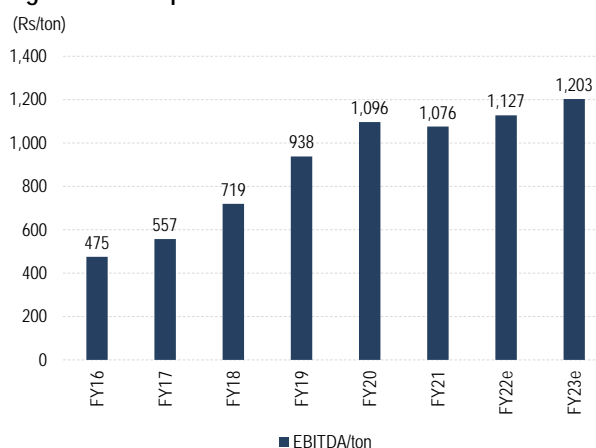
Source: Company, Anand Rathi Research

Operating performance

EBITDA grew 5% y/y to Rs1.3bn whereas EBITDA/ton slid 8.4% y/y to Rs1,066. Per-ton power & fuel costs rose 17.2% y/y; raw-material costs 7.4% y/y and freight costs 2.3% y/y. Other expenditure declined 5% y/y whereas employee cost increased 10.7% y/y on an absolute basis.

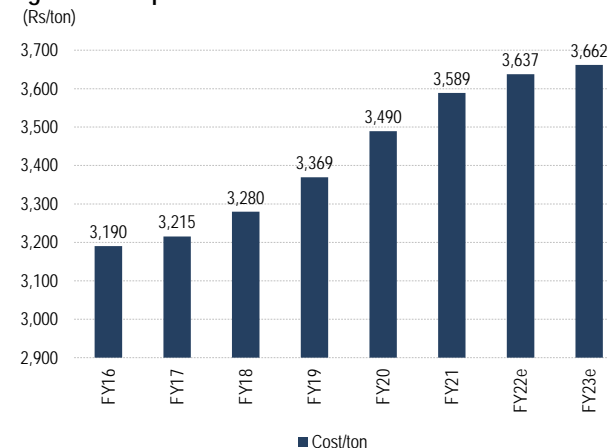
The company recognised Rs148.5m toward the SGST incentive of the government of Madhya Pradesh, which management said would continue for the coming years. The company reversed a deferred tax liability of Rs541.1m on the basis of expected realisation on adoption of the new tax regime at lower tax rates. Further, the lower interest cost aided PAT to shoot up 111% y/y to Rs1400m.

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)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	% Y/Y	% Q/Q
Sales	4,795	5,584	5,347	5,824	5,195	5,464	5,093	4,063	5,127	5,925	5,813	14.1	(1.9)
EBITDA	1,102	1,171	1,162	1,508	1,202	1,179	1,269	1,069	1,249	1,174	1,335	5.2	13.7
<i>EBITDA margins (%)</i>	<i>23.0</i>	<i>21.0</i>	<i>21.7</i>	<i>25.9</i>	<i>23.1</i>	<i>21.6</i>	<i>24.9</i>	<i>26.3</i>	<i>24.4</i>	<i>19.8</i>	<i>23.0</i>	<i>-195bps</i>	<i>314bps</i>
EBITDA per ton (Rs)	980	905	959	1,199	1,060	964	1,164	1,247	1,127	925	1,066	(8.4)	15.2
Interest	199	170	160	198	188	190	163	160	133	124	92	(43.7)	(26.1)
Depreciation	255	254	254	279	265	268	275	276	281	278	275	(0.2)	(1.3)
Other income	125	157	202	186	151	135	175	112	112	146	335	91.3	129.2
PBT	774	904	949	1,218	900	857	1,006	745	947	918	1,303	29.5	42.0
Tax	273	319	340	428	318	211	343	256	323	282	(97)	NA	NA
Adj. PAT	501	586	609	790	582	646	663	489	624	636	1,400	111.2	120.0

Source: Company, Anand Rathi Research

Fig 12 – Per-ton analysis

(Rs)	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	%Y/Y	%Q/Q
Realisation	4,262	4,316	4,415	4,630	4,581	4,468	4,672	4,741	4,627	4,669	4,643	(0.6)	(0.6)
EBITDA	980	905	959	1,199	1,060	964	1,164	1,247	1,127	925	1,066	(8.4)	15.2
Sales volumes (m tons)	1.13	1.29	1.21	1.26	1.13	1.22	1.09	0.86	1.11	1.27	1.25	14.9	(1.3)
Costs													
Raw material	782	769	872	840	795	817	806	822	789	806	866	7.4	7.4
Power & Fuel	1,068	928	1,211	966	1,010	1,028	1,026	976	1,013	1,116	1,202	17.2	7.8
Freight	592	586	682	633	579	602	633	644	582	604	647	2.3	7.1
Staff	277	206	294	250	274	284	311	314	279	252	300	(3.6)	19.2
Other expenditure	710	674	647	683	769	781	843	711	820	835	697	(17.4)	(16.5)

Source: Company, Anand Rathi Research

Fig 13 – Trade and Non-trade mix

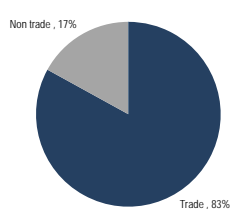


Fig 14 – Rail-Road mix

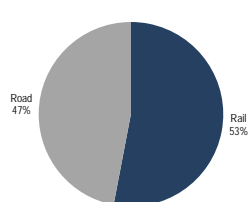
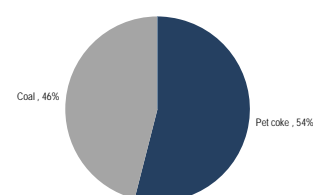


Fig 15 – Fuel mix



Source: Company

Concall highlights

Financials and Other operating highlights

- Another 22km of a belt (out of 42km) will be replaced in Q2/Q3 FY22. The company has enough clinker to address demand during the shutdown.
- The rail-road mix for the quarter was 53:47 and the lead distance was 530km. The ratio of pet-coke to coal was 54:46 (50:50 the quarter prior). The company is reducing the proportion of petcoke due to high costs, which have hit ~\$140/ton now.
- At present, 63% of the power required comes from the grid (vs. 66% the prior quarter). On completion of the AFR by Q2 FY22 (leading to 6-7% substitution of thermal power) and of the 5.5MW solar plant in Damoh, savings in power costs are expected. 80% of power required for the Ammasandra plant is met through green power; 40% of the Narsingarh (Damoh) plant through a WHRS.
- In Central India, the difference in net realisations between trade and non-trade sales is Rs400-800 a ton. In Q4, the proportion of trade sales contracted 2% y/y to 83%.
- The company applied lower income tax rates on deferred tax assets/liabilities to the extent these are expected to be realised or settled in future when it may be subjected to a lower tax rate and accordingly reversed a net deferred tax liability of Rs.541.1m in Q4 FY21 and FY21.
- In accordance the 15th Mar'21 order from the government of Madhya Pradesh, the company has appropriately accrued SGST incentive of Rs148.5m. Management talked of similar accruals in coming years.
- As approved by shareholders, it completed disbursing an inter-corporate loan of Rs1,500m to Zuari Cement, with 7.64% interest p.a.
- Higher diesel prices and dispatches to distant markets led freight costs to rise. Volumes of premium products were 19% of trade volumes, up 29% y/y. Premium product 'Mycem prices are between 'Mycem power' cement and normal cement prices.

Capex plans, Debt

- The company will incur Rs950m on maintenance/upgrading capex in FY21.
- For the ~3m-ton Gujarat expansion, management is working on clearances and licenses. This would take two years. The company is also evaluating limestone mines near its plant. This could lead to a brownfield expansion. It is currently looking at the new mining laws in connection with the merger with Zuari Cements.
- Gross cash on 31st Mar'21 was ~Rs4.3bn. The company continues to operate on negative working capital.
- In Dec'20, it repaid an NCD instalment of Rs1.25bn. The last NCD instalment of Rs1.2bn will be due in Dec'21. After that, there is no repayment liability till FY22 as repayment of interest-free loans of Rs2.4bn from the UP government will start from FY23.

Valuations

We like the Central region for its stable demand-supply dynamics. 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 smart 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

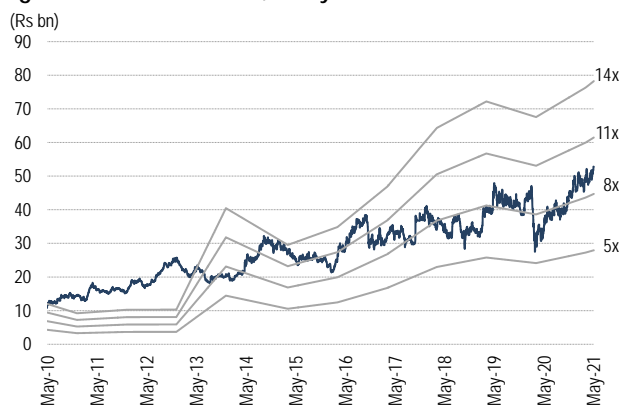
Fig 16 – Change in estimates

(Rs m)	Old		New		Variance	
	FY22e	FY23e	FY22e	FY23e	% Chg	% Chg
Sales	22,747	24,379	23,050	25,417	1.3	4.3
EBITDA	5,456	5,905	5,454	6,284	(0.0)	6.4
PAT	2,988	3,364	3,176	3,886	6.3	15.5

Source: Anand Rathi Research

We maintain a Buy on the stock, with a higher target of Rs313, based on 10x FY23e EV/EBITDA; the EV/ton is \$135. At the CMP, the stock trades at an EV/EBITDA of 8x, an EV/ton of \$105 and a PE of 14.6x FY23e.

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 (Rs)	P/E (x)		EV / EBITDA (x)		EV / ton (\$)	
		FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
Heidelberg Cement	251	17.9	14.6	9.7	7.9	112	105
Birla Corp.	1,258	18.9	15.2	9.5	7.8	80	71
Dalmia Bharat	1,757	28.7	23.8	10.6	9.1	127	111
Deccan Cement	505	5.9	6.0	3.8	4.9	42	60
India Cement	182	18.8	15.4	9.0	8.0	72	69
JK Cement	2,849	26.8	22.5	14.7	12.9	207	203
JK Lakshmi	549	14.3	11.8	7.4	6.1	77	70
Mangalam Cement	309	7.4	5.8	4.8	3.6	46	39
Orient Cement	138	9.7	8.7	5.2	5.0	53	55
Ramco Cement	965	27.3	22.7	15.5	12.8	178	162
Sanghi Industries	48	17.5	13.0	10.0	8.3	57	54
Star Cement	111	19.0	15.1	10.7	8.8	100	100
Prism Johnson	128	26.7	20.4	10.2	8.6	88	83

Source: Company, Anand Rathi Research

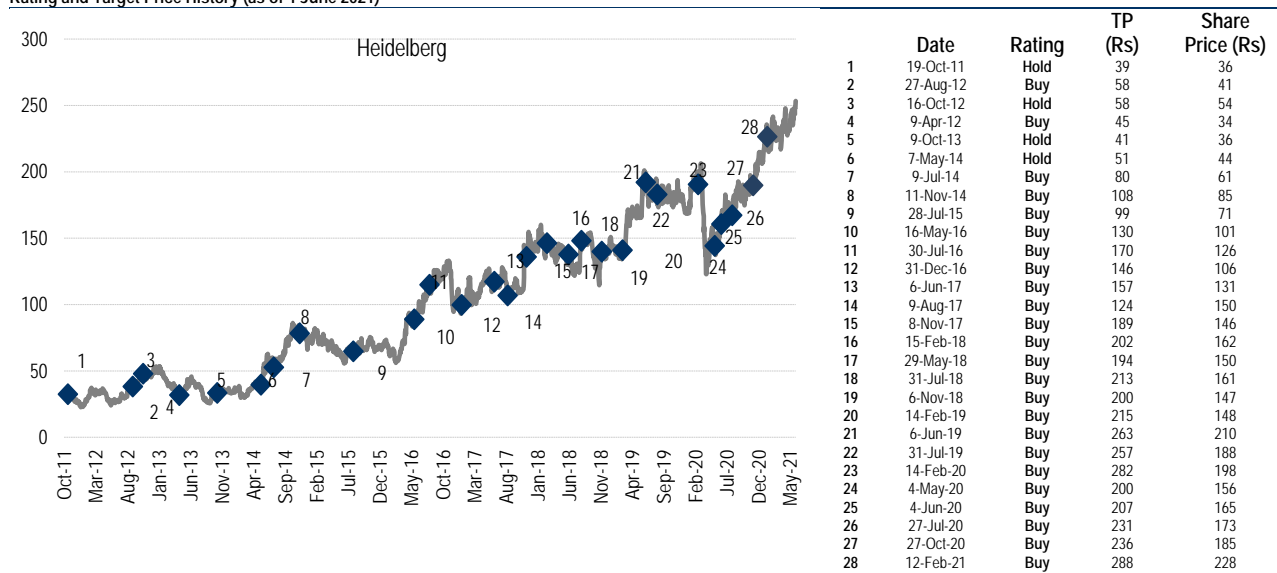
Appendix

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Rating and Target Price History (as of 1 June 2021)



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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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