

Stable performance; b/s strengthens further...

Heidelberg Cement reported revenue growth of 14.1% YoY, mainly on the back of 14.9% YoY jump in volumes to 1.25 MT during Q4FY21. Capacity utilisation was at 80% for the quarter while for the full year it was at 72% despite pandemic vs. 87% last year. EBITDA/tonne, however, fell 8.3% YoY to ₹ 1067/t (vs. ₹ 1164/t last year) mainly on account of a sharp jump in the power & fuel costs (up 17.1% YoY to ₹ 1202/t). Higher dependence on grid power and increase in the petcoke & international coal prices led to increase in fuel cost. PBT of ₹ 130.2 crore were up 29.4% YoY due to higher other income as it included receipt of ₹ 18.6 crore towards SGST incentive from the Madhya Pradesh government. On the b/s front, the company repaid second tranche of NCD worth ₹ 125 crore. The board has proposed a final dividend of ₹ 8/share for FY21 to be paid subject to approval in the AGM.

Growth beyond FY23E to pose challenge...

HCIL expanded its capacity through debottlenecking in Imlai (Madhya Pradesh) and Jhansi (Uttar Pradesh). With the commissioning of these additional grinding capacities (Imlai: 0.5 MT; Jhansi: 0.4 MT), we expect the company to report volume CAGR of 13% in FY21-23E. However, in the absence of any major capex, growth beyond FY23E would present a challenge given the likely utilisation rate of over 91% in FY23E. We model 14.4% revenue CAGR in FY21-2E given the low base of FY21 due to pandemic while EBITDA CAGR is expected at 14.9% despite cost headwinds as the players are in a better position to pass on any increase in costs due to favourable demand supply matrix.

...but strong profitability, robust b/s remain key positive

HCIL had a weak balance sheet, which over time has strengthened with debt brought under control. Debt/EBITDA may now further reduce to 0.3x by FY23E from 1.2x in FY20. HCIL has a strong brand presence and higher share in retail trade (83% of total sales) of which 19% is in the premium segment. Thus, better realisations and controlled costs have helped the company rank among the best in industry on the EBITDA margins front (upwards of 20% since FY19). The RoCE is also among the best in industry, clocking in excess of 20% for three years led by reducing debt. With **no major capex planned** by the company, we expect debt to reduce further and return ratios to improve (27%+ RoCE, +30% RoIC), going forward.

Valuation & Outlook

Strong balance sheet, robust return ratios and higher retail presence are some key positives that have led the company to command the premium valuation (i.e. EV/t \$121/t vs. average valuation of \$105/t in the midcap space). While the volume is expected to rebound strongly in FY22E, growth beyond FY23E looks challenging due to absence of major expansion despite supportive b/s. Hence, we downgrade the stock from BUY to **HOLD** with a revised TP of ₹ 280/share (i.e. 9.5x FY23E EV/EBITDA, implying EV/t of \$138, earlier TP ₹ 265/share).

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	2109	2158	2093	2428	2758	14.8%
EBITDA	459	516	483	561	643	15.4%
EBITDA (%)	21.8	23.9	23.1	23.1	23.3	
Net Profit	220	268	315	323	392	11.6%
EPS	9.7	11.8	13.9	14.3	17.3	
EV/EBITDA	13.4	11.3	12.0	10.0	8.3	
EV/Tonne (\$)	163	155	131	127	121	
RoNW	20.5	20.4	21.1	19.6	21.0	
RoCE	21.8	22.3	20.1	23.9	27.4	

Source: Company, ICICI Direct Research

HEIDELBERGCEMENT

Stock Data

Particular	Amount
Mcap	₹ 5711 crore
Debt (FY21)	₹ 512 crore
Cash & Invest (FY21)	₹ 432 crore
EV	₹ 5791 crore
52 week H/L	₹ 175 / 122
Equity cap	₹ 226.6 crore
Face value	₹ 10

Key Highlights

- Sales volume were up by 14.9% YoY to 1.25MT.
- Capacity utilisation for FY21 stood at 72%.
- Dependence on grid power remains high at 63%. Share of green power improved to 22%.
- Repaid 2nd tranche of NCD worth ₹125 crore.
- Downgrade to HOLD with a revised target price of ₹ 285 (Earlier TP ₹ 265).

Key risks to our call

- Inability to increase cement prices further due to rise in competition may impact margins
- Higher dividend payouts or major capacity expansion, going forward, remain key upside risks to our call

Research Analyst

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	581.3	509.3	14.1	592.5	-1.9	Growth mainly led by volumes that were up 14.9% YoY to 1.25 MT
Other Incomes	33.2	17.5	89.7	14.6	127.4	
Raw Material Expenses	108.3	87.9	23.3	102.3	775.1	
Employee Expenses	37.6	34.0	10.7	32.0	17.6	
Change in stock	-17.0	-12.1	40.4	16.6	NA	
Power and fuel	150.5	111.9	34.5	141.6	6.3	Higher petcoke and intenrational coal led to spike in fuel costs. Also, higher dependence on grid power (63%) kept power & fuel cost higher
Freight	81.0	69.0	17.5	76.7	5.6	Higher fuel cost led to spike in freight cost. Lead distance was at 350 km
Others	87.2	91.9	-5.1	105.9	-17.7	
EBITDA	133.6	126.9	5.3	117.4	13.8	
EBITDA Margin (%)	23.0	24.9	-193 bps	19.8	317 bps	
Interest	9.2	16.3	-43.7	12.4	-26.1	
Depreciation	27.5	27.5	-0.2	27.8	-1.2	
PBT	130.2	100.6	29.4	91.8	41.8	
Total Tax	-9.8	34.3	-128.4	28.2	-134.6	
Reported PAT	49.0	79.0	-38.0	66.3	119.9	
Adjusted PAT	139.9	66.3	111.1	63.6	119.9	

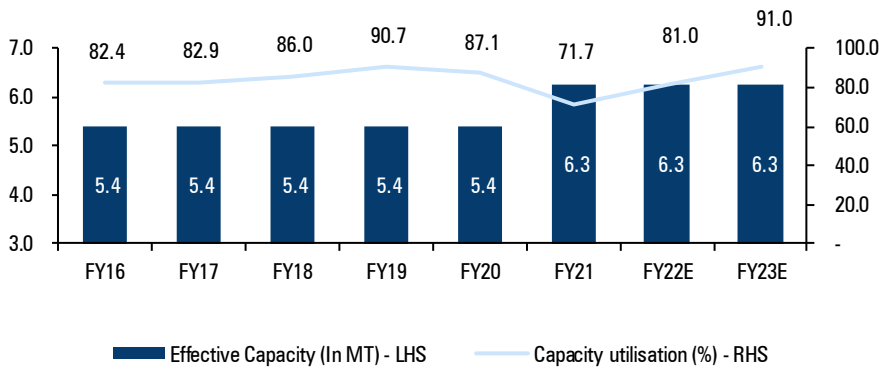
Key Metrics

Volume (MT)	1.25	1.09	14.9	1.27	-1.3
Realisation (₹)	4,643	4,672	-0.6	4,669	-0.6
EBITDA per Tonne (₹)	1,067	1,164	-8.3	925	15.3

Source: Company, ICICI Direct Research

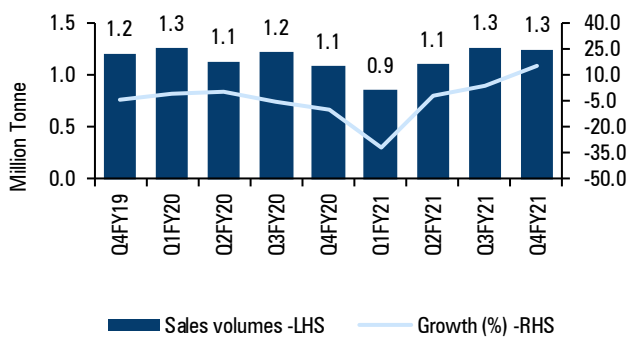
Financial Story in Charts

Exhibit 2: Capacity utilisation trend



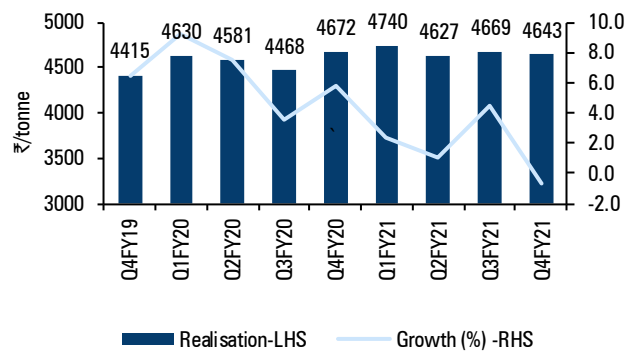
Source: Company, ICICI Direct Research

Exhibit 3: Volumes growth trend



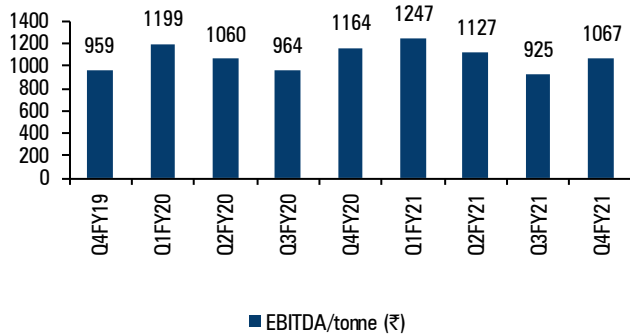
Source: Company, ICICI Direct Research

Exhibit 4: Realisations trend



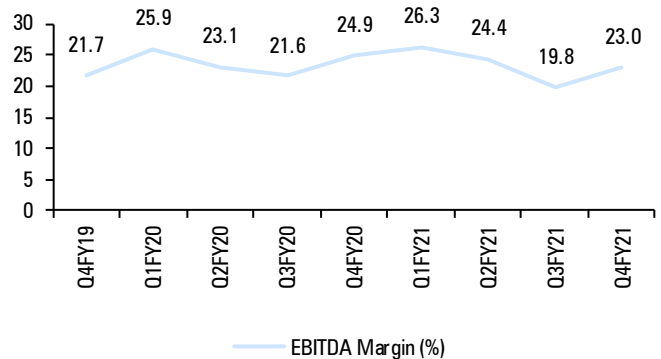
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA/t declines 8.3% YoY



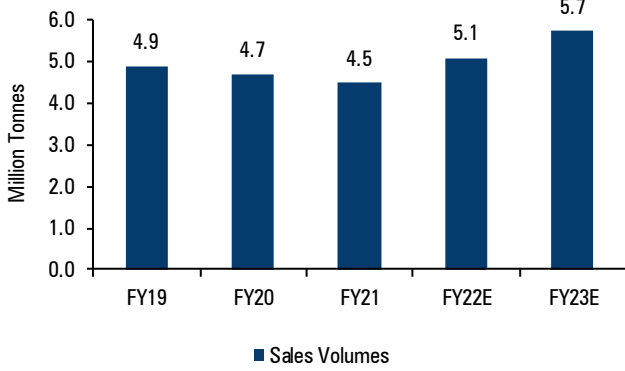
Source: Company, ICICI Direct Research

Exhibit 6: Quarterly margins trajectory



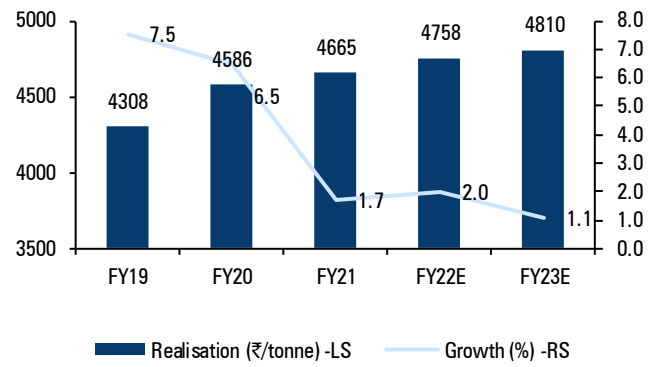
Source: Company, ICICI Direct Research

Exhibit 7: Volumes to grow at 13% CAGR over FY21-23E



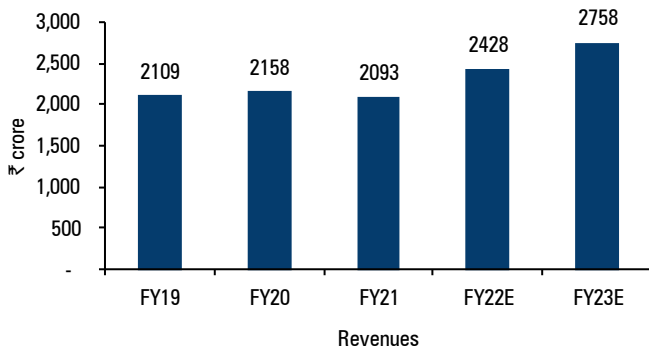
Source: Company, ICICI Direct Research

Exhibit 8: Realisations to remain higher due to favourable demand supply scenario



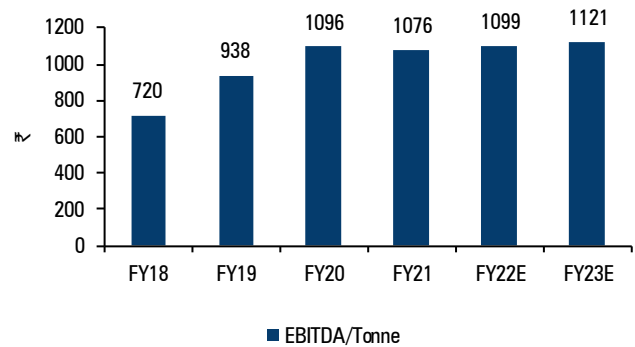
Source: Company, ICICI Direct Research

Exhibit 9: Revenues to grow at 14.8% CAGR over FY21-23E



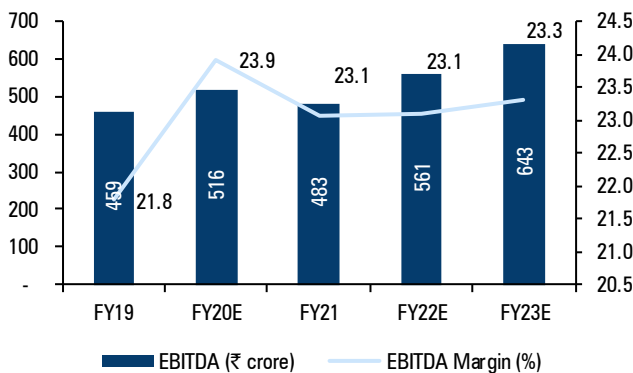
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t to cross ₹ 1100/t in FY23E post demand recovery



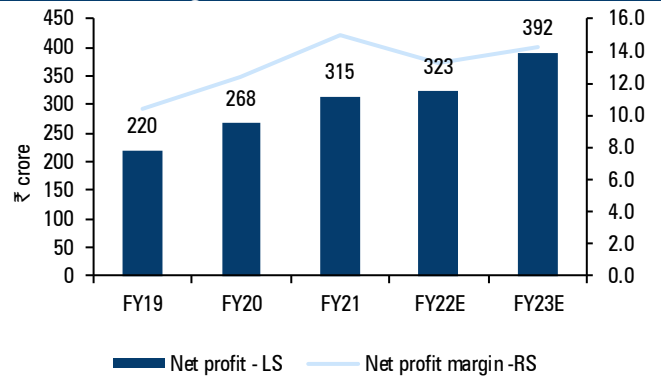
Source: Company, ICICI Direct Research

Exhibit 11: Absolute EBITDA to improve sharply



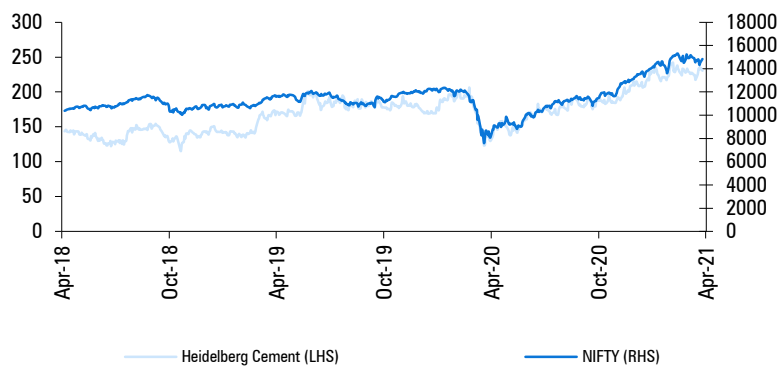
Source: Company, ICICI Direct Research

Exhibit 12: PAT to grow at 11.6% CAGR over FY21-23E



Source: Company, ICICI Direct Research

Exhibit 13: Price performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Incon	2,157.6	2,092.6	2,412.6	2,740.3
Growth (%)	2.3	-3.0	15.3	13.6
Raw material	388.7	372.4	420.9	475.7
Power & Fuel	473.6	488.0	583.1	663.7
Employees	131.2	127.3	137.5	148.5
Freight	287.9	277.3	319.4	370.3
Others	360.5	344.8	395.5	444.3
Total Operating Exp.	1,641.8	1,609.8	1,856.4	2,102.5
EBITDA	515.8	482.8	556.1	637.8
Growth (%)	12.3	-6.4	15.2	14.7
Depreciation	108.6	111.0	110.0	113.2
Interest	73.9	50.9	43.4	24.3
Other Income	64.7	70.2	75.0	80.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	398.1	391.1	477.7	580.4
Total Tax	130.0	76.3	157.6	191.5
PAT	268.1	314.9	320.0	388.8
Growth (%)	21.6	17.5	1.6	21.5
EPS (₹)	11.8	13.9	14.1	17.2

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	226.6	226.6	226.6	226.6
Reserve and Surplus	1,088.0	1,267.3	1,417.4	1,636.2
Total Shareholders funds	1,314.6	1,493.9	1,644.0	1,862.9
Total Debt	661.5	547.9	397.9	197.9
Deferred Tax Liability	190.3	193.8	193.8	193.8
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	2,166.4	2,235.5	2,235.6	2,254.5
Assets				
Gross Block	3,064.9	3,101.8	3,185.7	3,280.7
Less: Acc Depreciation	1,384.1	1,495.0	1,605.1	1,718.2
Net Block	1,680.9	1,606.8	1,580.7	1,562.5
Capital WIP	16.0	18.9	35.0	15.0
Total Fixed Assets	1,696.9	1,625.7	1,615.7	1,577.5
Investments	0.0	0.0	0.0	0.0
Inventory	145.8	160.7	183.0	177.4
Debtors	25.7	33.3	26.2	41.4
Loans and Advances	0.0	150.0	187.8	141.1
Other Current Assets	453.7	443.9	424.6	452.3
Cash	470.9	431.6	453.5	526.8
Total Current Assets	1,096.0	1,219.5	1,275.1	1,338.8
Creditors	258.4	270.6	297.8	287.8
Provisions	368.0	339.1	357.4	374.1
Total Current Liabilities	626.4	609.7	655.2	661.9
Net Current Assets	469.6	609.8	619.9	677.0
Application of Funds	2,166.4	2,235.5	2,235.6	2,254.5

Source: Company, ICICI Direct Research

Exhibit 15: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	268.1	314.9	320.0	388.8
Add: Depreciation	108.6	111.0	110.0	113.2
(Inc)/dec in Current Assets	-21.3	-162.8	-33.7	9.5
Inc/(dec) in CL and Provision:	-2.1	-16.7	45.5	6.7
CF from operating activ	353.3	246.4	441.9	518.2
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-51.4	-39.8	-100.0	-75.0
Others	45.4	-11.0	0.0	0.0
CF from investing activi	-5.9	-50.9	-100.0	-75.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-89.4	-99.1	-150.0	-200.0
Dividend paid & dividend tax	-205.0	-218.6	-170.0	-170.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	176.1	83.0	0.0	0.0
CF from financing activi	-118.3	-234.8	-320.0	-370.0
Net Cash flow	229.1	-39.2	21.9	73.2
Opening Cash	241.8	470.9	431.6	453.5
Closing Cash	470.9	431.6	453.5	526.8

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	11.8	13.9	14.1	17.2
Cash EPS	16.6	18.8	19.0	22.2
BV	58	66	73	82
DPS	7.5	8.0	7.5	0.0
Cash Per Share	20.8	19.0	20.0	23.2
Operating Ratios (%)				
EBITDA Margin	23.9	23.1	23.1	23.3
PAT Margin	12.4	15.0	13.3	14.2
Inventory days	26.5	26.7	26.0	24.0
Debtor days	4.3	5.1	4.5	4.5
Creditor days	45.4	46.1	43.0	39.0
Return Ratios (%)				
RoE	20.4	21.1	19.5	20.9
RoCE	22.3	20.1	23.7	27.3
RoIC	24.2	20.8	25.5	30.6
Valuation Ratios (x)				
P/E	21.6	18.4	18.1	14.9
EV / EBITDA	11.5	12.1	10.2	8.5
EV / Net Sales	2.7	2.8	2.4	2.0
Market Cap / Sales	2.7	2.8	2.4	2.1
Price to Book Value	4.4	3.9	3.5	3.1
Solvency Ratios				
Debt/EBITDA	1.2	1.1	0.7	0.3
Debt / Equity	0.5	0.3	0.2	0.1
Current Ratio	1.7	2.0	1.9	2.0
Quick Ratio	1.0	1.3	1.3	1.2

Source: Company, ICICI Direct Research

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