

Strong profitability despite weak volumes...

Heidelberg Cement India (HCIL) reported a better-than-expected performance, especially on the profitability front. Revenues fell 4.7% YoY to ₹ 509.3 crore, led by a 10% dip in volumes. Owing to suspension of operations in the ending days of March, volumes dipped 10% YoY to 1.09 MT. However, realisations stayed elevated, increasing 5.8% YoY to ₹ 4,672/t. Higher realisations were on the back of healthy price environment prevailing in the central region. This led to further expansion in EBITDA margins, which improved to 24.8% in the quarter, up 318 bps YoY. EBITDA/t increased 21% YoY to ₹ 1,164. On an absolute basis, EBITDA rose 9.2% YoY to ₹ 126.9 crore while PAT increased 8.9% YoY to ₹ 66.3 crore. The board has proposed a final dividend of ₹ 6/share for FY20 that will be paid subject to approval in the AGM.

Pandemic poses headwinds; revenues to recover from FY22E

Cement companies lost significant business owing to lockdown in April. While volume offtake has shown pace on the back of strong rural demand, it remains lower YoY. While operations have resumed, companies are facing logistics challenges, which is a key challenge. Demand has been healthy in the central region currently led by pre-monsoon works and rural housing. However, we expect HCIL to see its volumes decline 7.5% YoY to 4.4 MT in FY21E. Realisations are also expected to slip as the current pent-up demand subsides. Despite weakness in FY21E, we model 3.6% CAGR on volumes over FY20-22E with strong recovery expected in FY22E. Also, realisations CAGR is expected to be marginally positive at 0.2%. Revenue CAGR over the same period is expected at 3.6%

Strong profitability, robust balance sheet strong positives

HCIL had a weak balance sheet, which over time has strengthened with debt brought under control. Debt/EBITDA may reduce to 0.5x by FY22E. HCIL has a strong brand presence and higher share in retail trade. Thus, better realisations, investments in CPP and WHRMS to rationalise costs has helped the company rank among the best in industry on the EBITDA margins front (upwards of 20% since FY19). RoCE is also among the best in industry, clocking in excess of 20% for two years led by reducing debt. With **no major capex planned** by the company and sufficient headroom for growth led by the de-bottlenecking operations, we expect debt to reduce further and return ratios to improve (25%+ RoCE and RoIC), going forward.

Valuation & Outlook

HCIL is one of the companies that ticks all the right boxes – healthy profitability, strong balance sheet, robust return ratios and strong retail presence. While minor hiccups in the form of de-growth are expected in FY21, the company is expected to rebound strongly in FY22. We maintain our **BUY** rating and upgrade our target price to ₹ 200/share, (9x FY22E EV/EBITDA, implying an EV/t of \$105).

Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1861	2109	2158	1926	2323	3.8%
EBITDA	335	459	516	388	511	-0.5%
EBITDA (%)	18.0	21.8	23.9	20.2	22.0	
Net Profit	134	220	268	197	288	3.6%
EPS	5.9	9.7	11.8	8.7	12.7	
EV/EBITDA	12.9	9.1	7.5	10.0	7.4	
EV/Tonne (\$)	114	111	101	89	87	
RoNW	12.8	20.5	20.4	16.6	22.1	
RoCE	14.8	21.8	22.3	19.0	26.2	

Source: Company, ICICI Direct Research

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Stock Data

Particular	Amount
Mcap	₹ 3716 crore
Debt (FY20)	₹ 611 crore
Cash & Invest (FY20)	₹ 242 crore
EV	₹ 4086 crore
52 week H/L	₹ 175 / 122
Equity cap	₹ 226.6 crore
Face value	₹ 10

Key Highlights

- EBITDA margins for Q4FY20 at second highest levels in over a decade
- Logistical challenges to impact performance in Q1FY21 and beyond
- Leverage levels lower since 2010 for the company. Healthy balance sheet to help sail through this rough tide
- Maintain BUY with target price of ₹ 200 (earlier ₹ 190)

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Net Sales	509.3	534.7	-4.7	546.4	-6.8	Volume decline drags revenues lower, cushioned by higher realisations
Other Incomes	17.5	20.2	-13.5	13.5	29.8	
Raw Material Expenses	87.9	105.6	-16.8	99.9	363.4	
Employee Expenses	34.0	35.6	-4.6	34.7	-2.3	
Change in stock	-12.1	-30.4	-60.2	-1.0	NA	
Power and fuel	111.9	146.7	-23.7	125.7	-11.0	P&F costs decline 15.3% YoY on a per tonne basis led by softening of petcoke prices YoY
Freight	69.0	82.6	-16.6	73.6	-6.3	
Others	91.9	78.4	17.3	95.5	-3.8	
EBITDA	126.9	116.2	9.2	117.9	7.6	
EBITDA Margin (%)	24.9	21.7	318 bps	21.6	333 bps	Higher realisations lead margin expansion
Interest	16.3	16.0	1.4	19.0	-14.3	
Depreciation	27.5	25.4	8.2	26.8	2.9	
PBT	100.6	94.9	6.0	85.7	17.4	
Total Tax	34.3	34.0	0.8	21.1	62.5	
Reported PAT	66.3	60.9	8.9	64.6	2.6	
Adjusted PAT	66.3	60.9	8.9	64.6	2.6	

Key Metrics

Volume (MT)	1.09	1.21	-10.0	1.22	-10.9	Volumes decline as company suspended operations in the last week of March
Realisation (₹)	4,672	4,415	5.8	4,468	4.6	Realisations in central India remained firm
EBITDA per Tonne (₹)	1,164	959	21.3	964	20.7	Higher realisations lead to higher profitability

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Total Revenue	1,909.0	1,926.0	0.9	2,263.0	2,323.5	2.7	
EBITDA	370.0	388.4	5.0	474.0	510.8	7.8	
EBITDA Margin (%)	19.4	20.2	78 bps	20.9	22.0	104 bps	

Source: Company, ICICI Direct Research

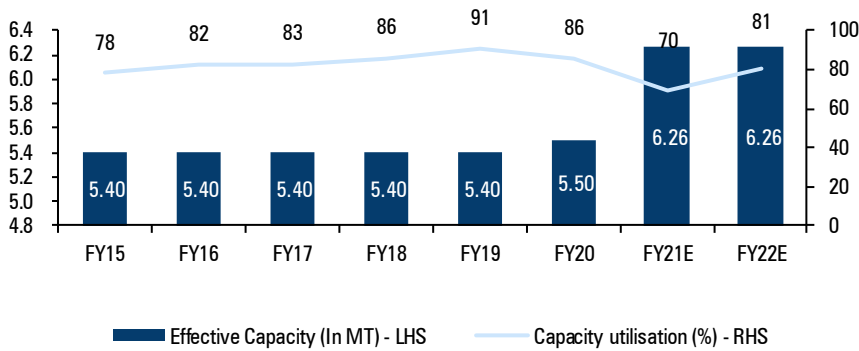
Exhibit 3: Assumptions

	Current			Earlier				Comments
	FY18	FY15	FY20E	FY21E	FY22E	FY21E	FY22E	
Volume (MT)	4.6	5.3	4.7	4.4	5.0	4.4	5.0	We expect ~3.6% volume CAGR over FY20-22E
Realisation (₹)	4,007	3,809	4,586	4,425	4,602	4,387	4,562	
EBITDA/T(₹)	720	547	1,096	892	1,012	850	956	EBITDA/t to cross ₹1000/t in FY22E

Source: Company, ICICI Direct Research

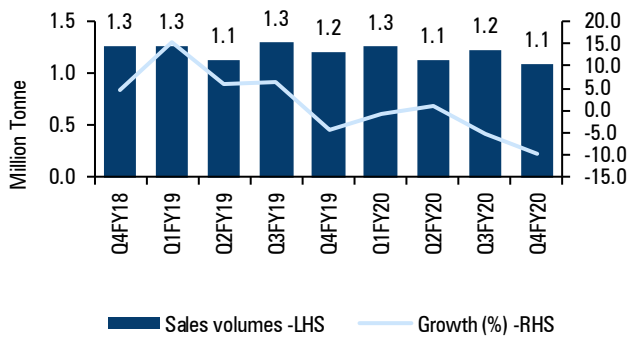
Financial Story in charts

Exhibit 4: Capacity utilisation trend



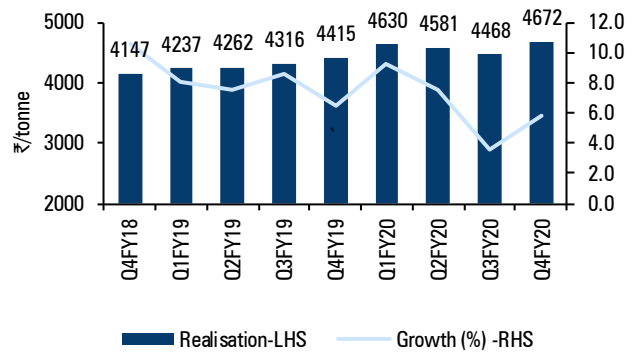
Source: Company, ICICI Direct Research

Exhibit 5: Volumes decline 10% YoY during Q4FY20



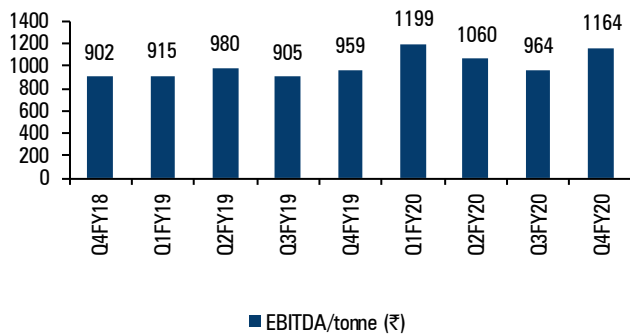
Source: Company, ICICI Direct Research

Exhibit 6: Realisations grow 5.8% YoY



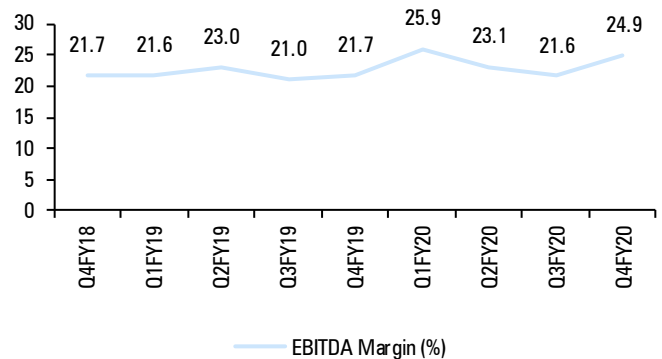
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/t increases 21% YoY



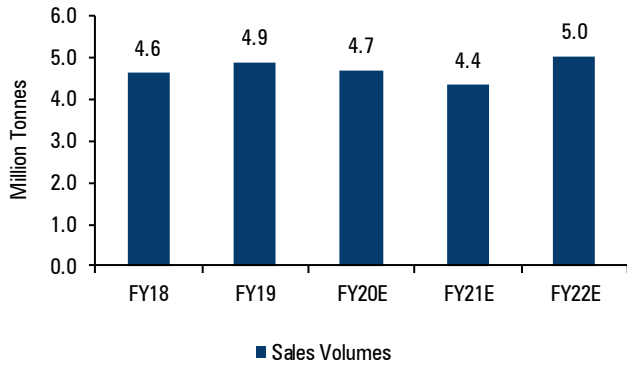
Source: Company, ICICI Direct Research

Exhibit 8: Highest margins clocked in Q4 in past three years



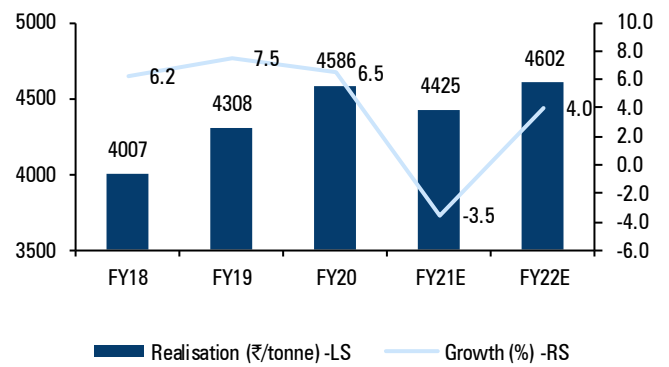
Source: Company, ICICI Direct Research

Exhibit 9: Volumes to grow at 3.6% CAGR over FY20-22E



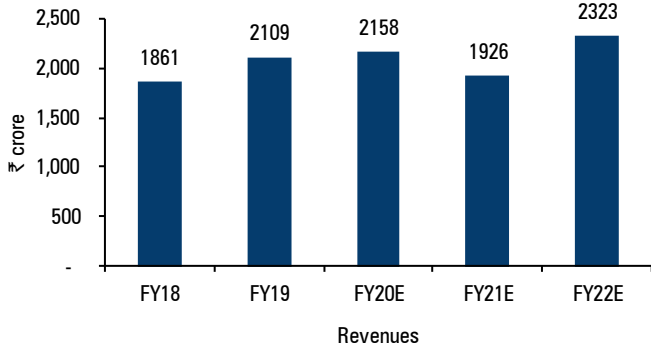
Source: Company, ICICI Direct Research

Exhibit 10: Realisations to cross ₹ 4600/t in FY22E



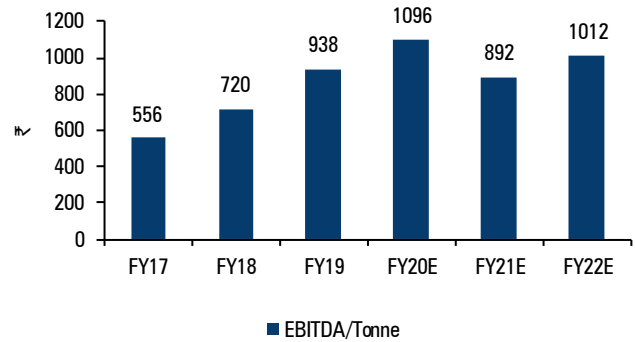
Source: Company, ICICI Direct Research

Exhibit 11: Revenues to grow at 3.8% CAGR over FY20-22E



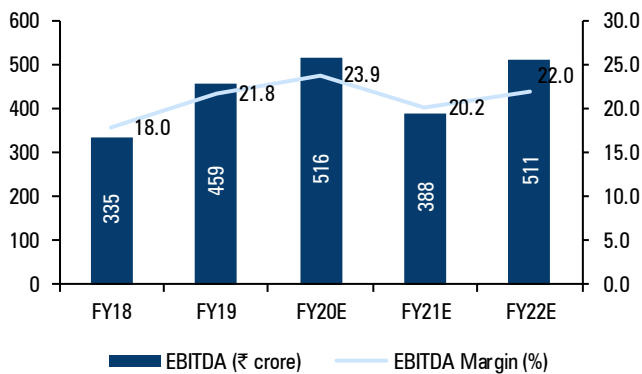
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t to cross ₹ 1000/t again in FY22E post demand recovery



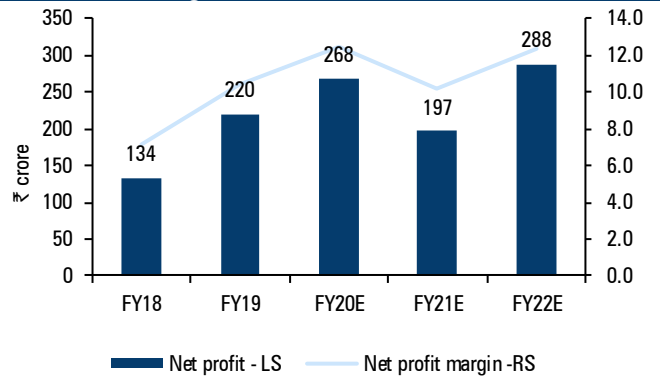
Source: Company, ICICI Direct Research

Exhibit 13: Absolute EBITDA to come down before recovery



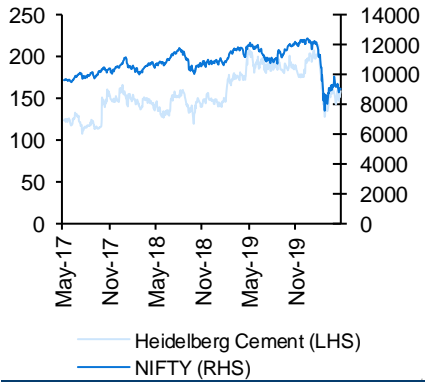
Source: Company, ICICI Direct Research

Exhibit 14: PAT to grow at 3.6% CAGR over FY20-22E



Source: Company, ICICI Direct Research

Exhibit 15: Price performance vs. Nifty



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating Incon	2,109.4	2,157.6	1,926.0	2,323.5
Growth (%)	13.4	2.3	-10.7	20.6
Raw material	386.3	388.7	372.1	441.7
Power & Fuel	504.9	473.6	422.2	514.9
Employees	123.9	131.2	131.2	141.7
Freight	307.9	287.9	272.0	323.1
Others	326.9	360.5	340.1	391.3
Total Operating Exp.	1,650.0	1,641.8	1,537.6	1,812.7
EBITDA	459.4	515.8	388.4	510.8
Growth (%)	37.3	12.3	-24.7	31.5
Depreciation	101.8	108.6	105.8	108.3
Interest	74.8	73.9	45.2	28.7
Other Income	58.4	64.7	56.0	56.0
Exceptional items	0.0	0.0	0.0	0.0
PBT	341.3	398.1	293.4	429.8
Total Tax	121.0	130.0	96.8	141.8
PAT	220.4	268.1	196.6	288.0
Growth (%)	64.5	21.6	-26.7	46.5
EPS (₹)	9.7	11.8	8.7	12.7

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Liabilities				
Equity Capital	226.6	226.6	226.6	226.6
Reserve and Surplus	848.9	1,088.0	956.2	1,074.2
Total Shareholders funds	1,075.5	1,314.6	1,182.9	1,300.9
Total Debt	765.4	661.5	461.5	311.5
Deferred Tax Liability	130.3	190.3	190.3	190.3
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	1,971.2	2,166.4	1,834.6	1,802.6
Assets				
Gross Block	3,012.3	3,064.9	3,158.9	3,208.9
Less: Acc Depreciation	1,275.5	1,384.1	1,489.9	1,598.1
Net Block	1,736.9	1,680.9	1,669.1	1,610.8
Capital WIP	17.2	16.0	12.0	12.0
Total Fixed Assets	1,754.1	1,696.9	1,681.1	1,622.8
Investments	0.0	0.0	0.0	0.0
Inventory	167.4	145.8	128.6	164.2
Debtors	25.3	25.7	7.0	32.4
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	411.1	453.7	432.3	404.2
Cash	241.8	470.9	261.9	206.3
Total Current Assets	845.6	1,096.0	829.8	807.1
Creditors	277.8	258.4	322.0	250.9
Provisions	350.7	368.0	354.2	376.4
Total Current Liabilities	628.5	626.4	676.2	627.3
Net Current Assets	217.1	469.6	153.6	179.8
Application of Funds	1,971.2	2,166.4	1,834.7	1,802.6

Source: Company, ICICI Direct Research

Exhibit 17: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	220.4	268.1	196.6	288.0
Add: Depreciation	101.8	108.6	105.8	108.3
(Inc)/dec in Current Assets	-97.5	-21.3	57.2	-32.9
Inc/(dec) in CL and Provision:	83.1	-2.1	49.8	-49.0
CF from operating activ	307.8	353.3	409.4	314.4
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-41.8	-51.4	-90.0	-50.0
Others	41.0	45.4	0.0	0.0
CF from investing activi	-0.8	-5.9	-90.0	-50.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-86.4	-89.4	-200.0	-150.0
Dividend paid & dividend tax	-109.3	-205.0	-170.0	-170.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-82.0	176.1	-158.4	0.0
CF from financing activi	-277.6	-118.3	-528.3	-320.0
Net Cash flow	29.4	229.1	-209.0	-55.6
Opening Cash	212.4	241.8	470.9	261.9
Closing Cash	241.8	470.9	261.9	206.3

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	9.7	11.8	8.7	12.7
Cash EPS	14.2	16.6	13.3	17.5
BV	47	58	52	57
DPS	4.0	7.5	7.5	7.5
Cash Per Share	10.7	20.8	11.6	9.1
Operating Ratios (%)				
EBITDA Margin	21.8	23.9	20.2	22.0
PAT Margin	10.4	12.4	10.2	12.4
Inventory days	25.5	26.5	26.0	23.0
Debtor days	3.8	4.3	3.1	3.1
Creditor days	52.3	45.4	55.0	45.0
Return Ratios (%)				
RoE	20.5	20.4	16.6	22.1
RoCE	21.8	22.3	19.0	26.2
RoIC	20.9	24.2	18.1	25.4
Valuation Ratios (x)				
P/E	17.0	13.9	19.0	13.0
EV / EBITDA	9.1	7.5	10.0	7.4
EV / Net Sales	2.0	1.8	2.0	1.6
Market Cap / Sales	1.8	1.7	1.9	1.6
Price to Book Value	3.5	2.8	3.2	2.9
Solvency Ratios				
Debt/EBITDA	1.5	1.2	1.1	0.5
Debt / Equity	0.7	0.5	0.3	0.2
Current Ratio	1.3	1.7	1.2	1.3
Quick Ratio	1.0	1.0	0.8	1.0

Source: Company, ICICI Direct Research

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