



# Quick Insight

## Heidelbergcement India Ltd.

# HEIDELBERGCEMENT

**Industry** Cement & Cement Products

**CMP** ₹228

**M Cap** ₹51,826mn

**Buy Range** ₹220-230

**Target** ₹273-285

**Recommendation** Accumulate on dips

### Highlights

- Faster demand recovery and price sustenance in Central India
- Large global promoter may help company grow inorganically with expansion in newer geographies
- Cost rationalization initiatives and higher realization aid margin expansion
- Lower D/E, good return ratios provides comfort

### Company Background

Heidelberg Cement Ltd is subsidiary of Heidelberg Cement Group, Germany having major operations in Central India. The company manufactures and sells cement in India under its brand "Mycem cement" and has a total installed capacity of ~6.3mn MTPA at Ammasandra (Karnataka), Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and Raigad (Maharashtra). Company sells close to 90-95% of the PPC and PSC (grades of cement) in the central region and the remaining in the western and southern regions.

### Why we like the company?

Higher concentration of blended cement in its portfolio

10-20% market share in Central India

Consistent YoY increase in EBITDA per ton

Healthy balance Sheet and strong return ratios

### Investment Argument

- **Faster demand recovery and price sustenance in Central India is positive for the company** – Company derives about 80-90% of its revenues from the Central India. Demand has been improving Q-o-Q basis, benefitting companies such as Heidelberg Cement, further with government's focus on infrastructure development announced in budget and company's expansion strategy, we believe it will augur well for the company.
- **Large global promoter may help company grow inorganically with expansion in newer geographies** – With a global major as its parent, Heidelberg Cement Ltd is better placed to seize on any opportunity (organic/inorganic) available in the market. Organic expansion by adding new capacity in the region may not yield benefits to the existing industry players as the demand supply scenario, the operating rates and prices are all dependent on the same. In such circumstances, inorganic growth through acquisitions, mergers and re-organization may be value accretive for industry players as operating efficiency of capacity would be improved.
- **Cost rationalization initiatives and higher realization aid margin expansion** – Company's cost reduction initiatives such as setting up waste heat recovery plant, changing fuel mix and improved pricing structure helped expand operating margins from ~13% in FY16 to ~24% in FY20. We expect demand is recovering and would continue to inch up post FY21E on the back of resumption of government projects. We believe its strong presence in Central India and recent capacity addition of ~1.0mn tonne would limit YoY fall in volume in FY21E while healthy prices in Central India (especially taken by company), higher exposure to retail segment and focus on premiumization to help realizations would better operating margins.

	FY16	FY17	FY18	FY19	FY20	9MFY21
EBITDA Margin	13.0%	14.8%	18.0%	22.7%	24.3%	23.8%
EBITDAper tonne	475	557	719	987	1122	1116

- **Lower D/E, good return ratios provide comfort** – Company improved D/E from 1x to 0.2x and return ratios- ROE from 8% to 20% and ROCE-10% to 26% from FY17 to FY20 on the back of improved operating margins, better working capital management and higher fixed cost absorptions. We believe, company's increasing cash pile, strong return ratios and lower leverage coupled with backing from global major makes it an attractive stock.

Nifty	15,118.9
Sensex	51,324.7
<b>Key Stock Data</b>	
CMP	₹228
Market Cap	₹51,826mn
52W High/Low	244.4/120.0
Shares o/s (mn)	227
<b>Shareholding pattern (%) Dec'20</b>	
Promoter Holding	69.4
FII	10.1
DII	6.4
Public	14.1

Source: Company Data, Way2Wealth Research

Particulars	FY18	FY19	FY20
Net Sales	18607	21334	21696
EBITDA	3346	4833	5278
EBITAM%	18.0%	21.7%	24.3%
PAT	1332	2207	2681
PATM%	7.2%	10.3%	12.4%
EPS (₹)	5.88	9.74	11.83
ROE (%)	12.7%	18.8%	20.4%
ROCE (%)	15.4%	24.4%	26.3%
P/E (x)	38.9	23.5	19.3
EV/EBITDA (x)	16.3	10.8	9.5

Source: Company Data, Way2Wealth Research

	FY16	FY17	FY18	FY19	FY20
Net D/E (x)	0.7	0.6	0.3	0.1	-0.1
ROE (%)	4.0%	7.9%	12.7%	18.8%	20.4%
ROCE(%)	6.8%	9.7%	15.4%	24.4%	26.3%

- **Q3FY21 witnessed marginal disruption, better performance expected henceforth** – Heidelberg Cement's top-line grew 9% Y-o-Y & ~16% Q-o-Q to ₹5953mn led by both higher sales volumes and sales realizations. EBITDA stood flat YoY basis to ₹1202mn from ₹1260mn and ₹1200mn in Q2FY21 and Q3FY20 respectively as input cost inflated due to annual maintenance work at one of its plant. EBITDA margin stood at 20.2% in Q3FY21 vs 24.5% & 21.9%. According to management, EBITDA margin would have been closer to 23% if the shutdown were not there. PAT declined by 1.5% YoY to ₹636mn due to higher tax expense, partially offset by lower finance costs.

### Key Risks

Continued Slowdown in cement demand in its key markets, inability to sustain realizations and 2nd or 3rd wave of COVID-19 in India.

### View

Despite one-off expenses incurred in the quarter, company reported better performance in 9MFY21. With the revival in cement demand and better positioning in demand accretive Central region its key market, capacity expansion plans, increasing sell of premium cement, net debt free balance sheet and recent budget announcement w.r.t infrastructure development, we believe the company is well positioned to grow its revenue and profitability going forward. **At CMP of ₹228 Heidelberg Cements Ltd is trading at ~9.5x FY20 EV/EBITDA which is at justified given its strong historical performance over past years and thus recommend investors to Accumulate the stock on dips.**

## Financials

(₹mn)					
Particulars	Q3FY21	Q2FY21	Q3FY20	Y-o-Y	Q-o-Q
<b>Net Sales</b>	<b>5,953</b>	<b>5,138</b>	<b>5,485</b>	<b>8.5%</b>	<b>15.9%</b>
RMC	1,189	894	989	20.2%	33.0%
Employee Cost	320	309	347	-8.0%	3.6%
P&F Cost	1,416	1,122	1,257	12.6%	26.2%
Freight & Forwarding exp	767	645	736	4.2%	19.0%
Other expense	1,059	908	955	10.9%	16.6%
Total Expenses	4,751	3,878	4,285	10.9%	22.5%
<b>EBITDA</b>	<b>1,202</b>	<b>1,260</b>	<b>1,200</b>	<b>0.2%</b>	<b>-4.6%</b>
<b>EBITDA Margin</b>	<b>20.2%</b>	<b>24.5%</b>	<b>21.9%</b>	<b>-168bps</b>	<b>-432bps</b>
Depreciation	278	281	267.50	4.0%	-1.0%
<b>EBIT</b>	<b>924</b>	<b>979</b>	<b>932</b>	<b>-0.9%</b>	<b>-5.6%</b>
<b>EBIT Margin</b>	<b>15.5%</b>	<b>19.0%</b>	<b>17.0%</b>	<b>-147bps</b>	<b>-353bps</b>
Interest	124	133	190	-34.7%	-7.1%
Other income	118	101	114	3.2%	16.3%
<b>PBT</b>	<b>918</b>	<b>947</b>	<b>857</b>	<b>7.1%</b>	<b>-3.0%</b>
Tax	282	323	211	33.5%	-12.7%
<b>PAT</b>	<b>636</b>	<b>624</b>	<b>646</b>	<b>-1.5%</b>	<b>2.0%</b>
<b>PAT Margin</b>	<b>10.7%</b>	<b>12.1%</b>	<b>11.8%</b>	<b>-108bps</b>	<b>-146bps</b>
EPS (₹)	2.80	2.75	2.85	-1.5%	2.0%

Source: Company Data, Way2Wealth Research

(₹mn)					
Particulars	Q3FY21	Q2FY21	Q3FY20	Y-o-Y	Q-o-Q
Sales Volumes (mn MT)	1.27	1.11	1.22	3.8%	14.5%
Sales Realization (₹/ton)	4,691	4637	4485	4.6%	1.2%
EBITDA (₹/ton)	947	1137	981	-3.4%	-16.7%
Total Cost (₹/ton)	3744	3500	3504	6.9%	7.0%

Source - Company Data, Way2Wealth Research

## Technical View

After posting a low of around 118 during late March, 2020; HEIDELBERG has been in a protracted up trend. In that optimism, stock managed to cross its swing high resistance of around 211 and hit an record all-time high of 243.70. Of late, stock slipped into consolidation, as a result we are seeing a formation of “Bullish Cup & Handle” formation on daily chart. The said pattern needs confirmation in terms of breaking its neckline which is peg near 244. The probable target of said pattern comes near 273. Looking at the daily as well as weekly chart, the “Higher Top Higher Bottom” formation remains intact as long as stock trades above 213 on a daily closing basis. On a weekly chart, stock is trading and consistently holding its 20-MA. Considering the above evidences, we maintain our bullish and believe that once stock managed to cross its all-time high of 244 another fresh round of up move can be seen towards 273 – 285 levels respectively. Any decisive move below 213 may trigger profit booking in that case possibility of correction towards 195 – 190 can't be ruled out.



20<sup>th</sup> February 2021**Disclaimer**

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Name of the Security	Heidelbergcement India Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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