Heidelberg Cement Q4FY21

Financial Results & Highlights

Introduction

HeidelbergCement India Limited is is a subsidiary of HeidelbergCement Group, Germany. The Company has its operations in Central India at Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and in Southern India at Ammasandra (Karnataka).

Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	615	527	16.70%	607	1.32%	2163	2222	-2.66%
PBT	130	101	29%	92	41.30%	391	398	-2%
PAT	140*	66	112%	64	118.75%	315	268	17.54%

*Contains negative tax charge of Rs 9.6 Cr

Detailed Results:

1. The company had a great quarter with 17% YoY rise in revenues and a 112% YoY rise in profits.
2. FY21 revenues remained subdued due to the poor performance in Q1 while profits rose on the back of good Q4.
3. Capacity utilization for FY21 was at 72%. Dependence on grid power reduced to 63%, while share of green power was at >22%.
4. EBITDA/ton for FY21 was at Rs 1129 which was up 1% YoY.
5. The company also saw volume growth of 14.9% YoY in Q4.
6. EBITDA margin for Q4 rose 117 bps YoY to 26.2% in Q4 and fell 25 bps in FY21 to 24.2%.
7. Gross realizations fell 0.6% YoY to Rs 4643/ton in FY21.
8. EBITDA per ton rose 4% YoY in Q4 to Rs 1215.
9. The cash & cash equivalents for the company was at Rs 430.3 Cr as of 31st Mar 2021 which exceeds the debt for the company making it net debt free.
10. The Board recommended a final dividend of Rs 8 per share for FY21.

Investor Conference Call Highlights:

1. The company repaid the 2nd tranche of NCD of Rs 125 Cr. The third and final tranche is expected to be paid in December 2021.
2. HCIL is operating on negative operating working capital.
3. The management states that capacity utilization looks lower compared to FY20 due to a rise in overall capacity to 6.26 MTPA.
4. Both power and fuel costs have risen in FY21 with petcoke rising from $60-70 a year ago to $142 currently.
5. Premium Cement saw 29% growth YoY while it accounted for 19% for sales volumes.
6. Trade sales accounted for 83% of total sales in FY21.
7. The OLBC belt replacement project is expected to go as per plans with the company amassing enough clinker to service market needs during the plant shutdown period.
8. Demand resilience remains stronger in the central zone than in other zones.
9. Prices have gone up universally because of rising fuel and coal prices.

10. The management states that the non-trade portion has fallen as the company directly rejects low-margin proposals and only does business here with advanced payment without any credit.
11. The market share gain for HCIL is mainly on the back of improving brand positioning and power and relying on increasing premium products on the trade sales channel.
12. The company is also seeing some unsatisfied demand in the price segment of Mycem Cement which is priced between normal cement and Mycem Power.
13. To reduce the impact of market volatility, HCIL is training its channel partners to do business on advanced payment with their consumers and reduce extending credit.
14. The company is now covering 62% of its power needs from the grid. It is working on a 5MW solar power plant which is expected to replace the grid power.
15. The company is looking to expand in Gujarat as there are very few avenues for M&A in MP currently. The company is serious about pursuing this expansion, but it will take time to complete as the required licenses alone take 2 years to get.
16. The other expenses have fallen QoQ mainly due to higher expenses incurred in Q3 due to the plant shutdown. There was not much change in RM costs and the fall in material expenses in Q4 was mainly due to the movement of inventory from Q3 to Q4.
17. Other expenses are expected to stay near current levels of Rs 90-95 Cr per quarter.
18. Capex for the year is planned to be at Rs 95 Cr. The lead distance currently is 350 km.
19. The loan to Zuari Cement is at an interest rate of 7.64%.
20. The change in lead distance was mainly due to diesel costs and the company wanting to go to places where it did not sell to get a little higher price.
21. The demand trend has remained stable, but business has remained subdued in the 2nd wave of COVID due to a much greater loss of life as compared to last year.
22. Q4 saw rise in employee costs mainly due to a one-time increment to salaries.

Analyst's View:

Heidelberg Cement is one of the leading cement makers in South and Central India. The company has had a great quarter with a rise in realization and margins, and volumes in Q4. The company has done well to maintain high margins and EBITDA/ton despite rising fuel and petcoke prices YoY. The company has also amassed enough clinker to cover for any business needs during the 2nd phase of the OLBC belt laying and plant shutdown. It remains to be seen whether the company will be able to match the competition which is operating in a much larger addressable market as compared to HCIL and what challenges it will face when expanding out of the Central Zone. Nonetheless, given the strong brand image of the company, the efficient utilization of its plants, and the pricing power it has, Heidelberg Cement India can prove to be a pivotal cement sector stock going forward.