Heidelberg Cement Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	526.8	554.9	-5.06%	559.9	-5.91%	2222.4	2168.2	2.50%
PBT	100.6	94.9	6.01%	85.7	17.39%	398	341.6	16.51%
PAT	66.3	60.9	8.87%	64.6	2.63%	268	220.7	21.43%

Detailed Results:

1. The company had a modest quarter with a 5% YoY drop in revenues and a 9% YoY rise in profits.
2. FY20 for the company was good with 2.5% revenue growth YoY and 21.4% profit growth YoY.
3. The company also saw a volume decline of 10% YoY in Q4. Overall volumes for FY20 fell 3.9% YoY.
4. EBITDA margin for Q4 rose 164 bps YoY to 25% in Q4. FY20 margins rose 155 bps YoY to 24.5%.
5. Capacity utilization remains above 90%. Clinker capacity utilization is at 85%.
6. EBITDA per ton also improved 13.2% YoY in Q4 to Rs 1168 and 13.6% YoY in FY20 to Rs 1122.
7. Industry utilization is expected to be 66%. Utilization for the company was at 87% for FY20.
8. The company reduced its dependence on grid power to 66% in FY20.
9. Mycem power volumes were up 38% YoY in FY20.
10. Central India plants of Imlai and Jhansi running at >95% utilization.
11. Fitch reaffirmed the company rating at AA+.
12. The company completed the debottlenecking projects in Imlai and Jhansi The company now has a final capacity after expansion to be 6.26 million tons per year.
13. The company announced a final dividend of Rs 6 per share for FY20 bringing the total dividend given out for the year ta Rs 7.5 per share.
14. Insights from the company for FY21 going forward:
    1. Demand reduction in urban areas due to labour exodus and rural demand showing improvement.
    2. Working capital -Liquidity crunch in the channel network.
    3. Reduced availability of truck drivers impacting inward and outward logistics.
    4. Lower energy prices may sustain in the short term.
    5. Input raw materials may have to be sourced from longer leads.
    6. Reduced availability of manpower at railway yards may impact the turnaround of rolling stock.
    7. Optimization of operational and capital expenditures.

Investor Conference Call Highlights:

1. In clinker, the company is at the utilization of 80-83% in FY20.
2. Blended cement volumes were at 13% of total volumes.
3. The company had 86% of volumes sold through trade signifying the company's focus on staying retail-driven.
4. As mentioned above, the management expects liquidity crunch to take place in the channel. Reduced availability of trucks and drivers and labour shortage are to be expected going forward.
5. Urban demand has suffered but rural demand is coming up gradually for the company and the industry.
6. Pricing for the company's products is expected to stay firm going forward as the management believes that the company will not suffer in case of a price war due to its resilient brand image.
7. As of now, the company does not have any plans for any new expansions.
8. The management believes that the company's EBITDA gains over the past few years is sustainable mainly on the back of the company's brand image which enables it to command significant pricing power.
9. The management is confident that the company can run at full capacity despite all the operating constraints forced on by COVID-19.
10. The management expects Capex for the year to be around Rs 50 Cr which will be mainly replacement on account of depreciation.
11. The production at the Gujarat plant is expected to be around 3 million tons.
12. The management has stated that fixed costs for Q4 were indeed up YoY but they had declined QoQ. The YoY increase is mainly due to an increase in promotional activities and additional CSR done in Q4.
13. The company is looking to institute debottlenecking in the clinker plant for clinker capacity enhancement in FY21.
14. The company does expect a reduction of demand from small private projects but the demand from big projects like irrigation etc is expected to endure. All in all, given the Indian government's push for infrastructure, the mobilization is expected to take at least 7-8 months post announcement.
15. Most of the issued NCD is expected to be repaid by FY22 and the government portion of the debt is to be repaid from FY23 onwards.
16. There are some ongoing issues with the bag suppliers as making these bags requires a lot of manual labour and most of the labour has migrated. But the management is optimistic that the situation should normalize in the next 15-20 days.
17. The company is waiting on clarification on the change made in the GST incentive made by the MP government.

18. The volume loss from 10 days of no production in March is around 1.25-1.5 lac tons.

19. In terms of the situation of labour migration, the management expects the situation to improve from Diwali onwards.

20. The increase in gross realization in Q4 was 5.8% YoY.

21. The company is still carrying some MAT credit and it will switch on to the new tax regime once this credit runs out in FY21.

Analyst's View:

Heidelberg Cement is one of the leading cement makers in South and Central India. The company has had a good year so far with good improvement in realization and margins even while it saw a slight fall in volumes for FY20. The company managed to do this mainly on the back of its established brand image in the retail market. Even though the industry has been deemed essential by the government, the cement industry is expected to continue to face issues like liquidity crunch, increase in the procurement cycle, labour shortage and the company is no exception to it. It remains to be seen how the company will be able to rise above the issues plaguing the industry and differentiate itself from the rest of the pack. 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.

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