SMART SYNC SERVICES

Heidelberg Cement Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	607	560	8.39%	524	15.84%	1548	1696	-8.73%
PBT	92	86	7%	95	-3.16%	261	297	-12.12%
PAT	64	65	-2%	62	3.23%	175	202	-13.37%

Detailed Results:

1. The company had a mixed quarter with 8% YoY rise in revenues and a 2% YoY fall in profits.
2. 9M revenues and profits remained subdued due to the poor performance in Q1.
3. The company also saw volume growth of 3.7% YoY in Q3.
4. Industry decline was 10% YoY.
5. EBITDA margin for Q3 fell 167 bps YoY to 20.3% in Q3.
6. Gross realizations rose 4.5% YoY to Rs 4669/ton.
7. EBITDA per ton fell 3.4% YoY in Q3 to Rs 947. The main drag on this number was the rise in fuel costs.
8. The company had 1 Lost Time Injury (LTI) for a contract employee.
9. Dependence on-grid power decreased to 66%.
10. The cash & cash equivalents for the company was at Rs 570.9 Cr as of 31st Dec 2020.
11. The company maintained a negative working capital.
12. Mycem power volumes were up 33% YoY in Q3. It formed 22% of trade volumes.
13. The company has provided the following points in its outlook for the near future in FY21:
    a. The expectation of further improvement post COVID.
    b. Demand recovery in housing and infrastructure segments fuelled by Govt. capital outlay.
    c. Hardening of international and domestic fuel prices.

Investor Conference Call Highlights:

1. The company has paid back Rs 125 Cr of NCDs and has pending NCDs of Rs 120 Cr which is due in Dec 2021.
2. Net cash balance for HCIL is Rs 216 Cr.
3. The company expects to do a capex of Rs 90 Cr in FY22.
4. 40% of power is from WHRS. The company is also looking to set up a 5.5 MW solar power plant.
5. Pet coke prices are at $115 and can go even higher according to the management.
6. The plant is running at 80% capacity utilization. Considering that the industry grows 9% each year, the management is confident of not requiring spare capacity for the next 2 years.

7. The company is already in the process of applying for clearances for its mining lease in Gujarat. It is also looking at places near the mines to set up a brownfield project as it does have the cash in books to do so.
8. All non-trade business is done with advance payment only to prevent any credit losses. The non-trade channel typically has lower realizations than the trade channel. Besides, the management has stated that the cost of recovery of funds is greater than the cost of sales so it tends to avoid non-trade channel.
9. The difference is around Rs 800-900. The management has stated that it is not looking to push for volumes by accepting all the lower realization orders from the non-trade channel as it will hurt the brand image and cause faster erosion of limestone reserves for the company.
10. The company has a target to reduce its carbon footprint to 500 by 2030. It is currently at 511 and the industry is at 580. But progress from 511 to 580 is going to be more difficult as it will require more sophisticated carbon capture technologies.
11. The management has added that if the law restricting the amount of fly ash is removed and the company can add 5-7% more fly ash, it can easily reach 500.
12. The management has stated that fuel consumption has gone up in Q3 mainly due to the company working line 1 which is a fuel guzzler. The company looks to keep line 1 working only for 100 days each year only in case of additional demand. All of this and the shutdown of 21 km of the conveyor belt caused costs to rise by Rs 80-90 per ton in Q3.
13. The shutdown of the conveyor belt was done to upgrade the belt. This upgradation is required to be done every 7-8 years. This process takes around 3 months per stage and is to be done in 3 stages.
14. The MAT credit reserve for HCIL is at Rs 75 Cr currently.
15. The management has stated that the EBITDA margin should come back to 23% as one-off expenses go away.
16. The management has stated that comparing HCIL to other industry players may not be fair as it is predominantly a central India player.
17. The company is aiming to keep the ratio of coal to pet coke at 50:50 going forward.
18. The company has spent Rs 7-8 Cr on alternate fuel and it will spend a further Rs 12-13 Cr in the next 7-8 months.
19. In alternate fuels, the company is looking at biomass which can be easily sourced from municipal waste. The thermal substitution at the start will be 3$ and will be brought up to 8-9%.
20. The company will be looking at another alternate fuel to substitute another 5% bringing the total substitution to 12-13% in the medium term.
21. Once the company gets all clearances for the Gujarat mines, it will be looking to set up a 3-million-ton plant there.
22. Around 80-90% of orders are supplied directly to the dealer which reduces the requirement for maintaining warehouses.
23. The company has postponed price hikes due to soft winter season.
24. The current capacity at mines should suffice for 27-28 years for the company.

Analyst's View:

Heidelberg Cement is one of the leading cement makers in South and Central India. The company has had a mixed quarter with a fall in realization and margins but volumes saw growth in Q3. The company has done well to maintain growth despite the overall industry decline YoY. The realizations were down in Q3 due to partial shutdown of the conveyor belt for upgradation and the company using Line 1 to substitute for lost capacity. 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. 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.