Axis Annual Analysis 2022

Heidelberg Cement India Limited

AXIS SECURITIES

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Axis Annual Analysis
01st Sept, 2022

Heidelberg Cement India Ltd
Cement

BUY
Target Price
210

Resilient Performance Amidst Challenges.

Summary

- **Robust revenue growth:** The company recorded revenue of Rs 2,297 Cr in FY22, registering an encouraging growth of 8.5% YoY. However, it reported a lower EBITDA/tonne of Rs 910 against Rs 1,129 in FY21 due to higher energy costs during the year, which was up 24% on a tonne basis YoY.
- **Improving leverage ratios led by a reduction in gross debt:** The company reduced its gross long-term debt to Rs 175 Cr in FY22 from Rs 295 Cr in FY21 by repaying debenture worth Rs 120 Cr. Consequently, its Debt/Equity ratio declined to 0.12 in FY22 from 0.20 in FY21.
- **Increasing use of green energy**: The company's utilization of green energy in the overall power consumption increased marginally to 23% in FY22 from 22% in FY21 and touched the highest level of 27% in Q4FY22. The company aims to achieve 35-40% of Green Energy use in total power consumption by FY25E.

Key Highlights

- **Excellent traction in premium product Mycem:** Premium product Mycem Power continued to receive excellent traction in FY22 as its sales increased by 14% to 0.80 mtpa from 0.70 mtpa in FY21. Premium products now account for 1/4th of the company's total sales in the trade segment (80% of total sales)
- **Elevated costs impacted profitability:** In FY22, the company's profitability de-grew by 20% as elevated costs impacted its operating performance during the year. However, its interest costs declined by 28% YoY owing to the repayment of debentures during the year.
- **Further strides in sustainability objectives:** In sync with its sustainability objectives, the company introduced AF (Alternative Fuel) in Narsingarh Line 3 starting with the consumption of biomasses from surrounding regions. The company aims to achieve a TSR (Thermal Substitution Rate) of 15%-25% via alternative fuel depending upon the fuel quality.

Key Competitive Strengths

a) Production of 100% blended cement; b) Higher percentage of trade sales; c) Strong positioning in the Central India region; d) Strong parentage of Heidelberg Cement Group; e) Robust financial position and f) Extensive sales & distribution network in its operating regions.

Strategies Implemented during the year

a) Renegotiated existing contracts; b) Bundling contracts for additional discounts; c) Higher Use of digital marketing platforms; d) Expanded annual service contracts; e) Focused on trade segment, branding and building trust; f) Improved customer relationship through data-driven insights.

Key Growth Drivers

a) Growth in Housing & Real Estate; b) Industrial Development; c) Promoting Public Infrastructure

Key Focus Areas Moving Forward

a) Continue to undertake cost optimization initiatives; b) Focus on augmenting sustainable production; c) Focus on Customer Centricity; d) Digitisation; e) Augmenting efficient logistics

Outlook & Recommendation: FY22 turned out to be a challenging year on the operational front owing to higher costs despite higher volume/revenue/realization growth YoY as overall cost increased by 9% on a tonne basis. While the company's focus on increasing the use of green energy bodes well from a cost optimization perspective, the absence of any major capacity expansion for the next three years may result in subdued volume growth as other players continue to expand.

The company is strongly positioned in its demand-accretive Central India. Moreover, its unwavering focus on selling premium cement and robust net-debt free balance sheet are expected to support the company's revenue and profitability growth moving forward. It also offers a healthy dividend yield of 5% at the CMP. We estimate Heidelberg to report Revenue/EBITDA/APAT CAGR of 11%/11%/15% from FY22-FY24E, driven by volume growth of 5% CAGR during the period. The stock is currently trading at 9.5x FY23E and 7x FY24E EV/EBITDA and we maintain a positive outlook on the company's long-term growth. We value the company at 8x FY24 EV/EBITDA to arrive at a TP of Rs 210/share, implying an upside of 10% from the CMP. **Hence, we change our rating from HOLD to BUY on the stock.**

Key Financials

(Rs Cr)	FY22	FY23E	FY24E
Net Sales	2,297	2627	2818
EBITDA	435	417	534
Net Profit	252	242	332
EPS (Rs)	11	10	15
PER (x)	16	18	13
EV/EBITDA (x)	9	9.5	7
P/BV (x)	2	2	1.8
ROE (%)	16	15	20

Source: Company, Axis Research

(CMP as of 30th Aug,2022)

CMP (Rs)	190
Upside /Downside	10
High/Low (Rs)	278/164
Market cap (Cr)	4310
Avg. daily vol. (6m) Shrs.	1,82,995
No. of shares (Cr)	22.7

Shareholding (%)

	Dec-21	Mar-22	June-22
Promoter	69.4	69.4	69.4
FIIs	5.47	5.45	6.4
MFs / UTI	6.02	6.09	5.5
Banks / FIs	0.00	0.00	0.00
Others	19.12	19.07	18.7

Financial & Valuations

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E
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P/BV (x)	2	2	1.8
ROE (%)	16	15	20

Change in Estimates (%)

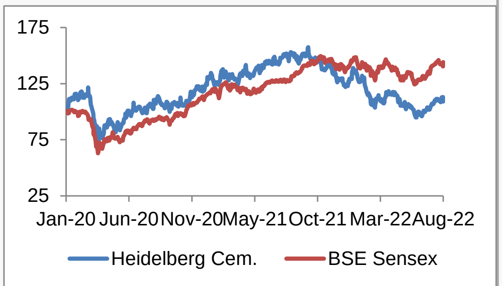
Y/E Mar	FY23E	FY24E
Sales	4	5
EBITDA	5	8
PAT	7	11

ESG disclosure Score**

Environmental Disclosure Score	15
Social Disclosure Score	39
Governance Disclosure Score	52
Total ESG Disclosure Score	29

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Company Overview

Heidelberg Cement Group – one of the world's largest integrated manufacturers of building materials, forayed into India in early 2006 to pursue growth opportunities available in the growing markets of developing countries. As a part of this growth strategy, the Group acquired a controlling stake in Mysore Cements Limited as well as Indorama Cement Limited joint venture, which in 2008 was converted into a complete acquisition. After the merger of Indorama Cement with Mysore Cements in 2009, Mysore Cements was renamed Heidelberg Cement India Ltd.

In 2009, the company undertook a brownfield capacity expansion in Central India to increase its cement manufacturing capacity from 2.1 Mn tonnes per annum (MTPA) to 5.4 MTPA. The company currently operates three plants situated at Damoh (MP), Jhansi (UP) and Ammasandra (Karnataka). Debottlenecking activities in Q4FY20 increased its grinding capacity at Imlai and Jhansi plants by 0.5 MTPA and 0.6 MTPA respectively. The aggregate cement grinding capacity of the company now stands enhanced to 6.26 MTPA.

FY21-Performance Round-up

Performance: The company reported a mixed-bag operational performance in FY22. While it recorded encouraging revenue growth, its EBITDA and PAT declined YoY due to higher input costs during the year. EBITDA Margins in FY22 stood at 19% vs. 24% in FY21 and PAT margins at 11% vs. 15% in FY21. Blended EBITDA/tonne stood at Rs 910/ against Rs 1,129/ in FY21 as cost/tonne increased by 9% at Rs 3,899, impacted by higher costs of power & fuel, which was up 24% on a per tonne basis YoY.

Unavailability of Power & Fuel impacted operational performance: The company faced challenges in procurement of coal due to a shortage of coal in the country coupled with mining disruption in South Africa and Australia. Consequently, the company had to increase its reliance on pet coke and also constantly changed the fuel mix to achieve cost optimisation. An unabated increase in the price of crude oil resulted in an increase in the cost of packaging bags and freight costs. Frequent stoppages of power plants due to shortage of coal as well as low power demand amidst lockdowns led to reduced fly ash generation. This forced the company to source fly ash from distant locations to be able to ensure uninterrupted production of Portland pozzolana cement. Blended realization, however, improved to Rs 4,808/tonne as a result of a 2% improvement in cement prices during the year.

Key operational activities during the year

- **Encouraging growth in revenues**: The company's revenue in FY22 improved by 8.5% to Rs 2,297 Cr from Rs 2,116 Cr in FY21 due to higher realization and volumes during the year. The company's volume stood at 4.78 mtpa against 4.49 mtpa in FY21, an increase of 6.5%.
- **Increasing contribution of the premium products**: The company realised higher prices for premium products over normal products. It also increased the sale of premium products to 0.80 mtpa in FY22 from 0.70 mtpa in FY21, registering a healthy increase of 14% YoY. Premium products now account for 1/4th of the company's total sales in the trade segment. The company trade sale stood at 80% and non-trade sales at 20%.
- **Growth in production volumes**: During FY22, the company produced 4.75 Mn tonnes of cement against 4.53 Mn tonnes in FY21, an increase of 5%. This was primarily on account of better demand and relaxation in the Covid-19 norms. The company's capacity utilization stood higher at 76% in FY22, against 72% in fy21.
- **Dividend**: The Board has recommended a dividend of Rs 9/share (90%) for FY22, subject to the approval of the shareholders in the ensuing AGM (The dividend paid during FY21 was Rs 8 per share).
- **Debt Reduction:** The gross long-term debt including interest-free loans received from the government of Uttar Pradesh stands reduced to Rs 190 Cr as of FY22 end against Rs 295 Cr in FY21. The Debt/Equity ratio stood at 0.12 in FY22 against 0.20 in FY21. The company repaid debenture worth Rs 125 Cr during the year.
- **Enhanced Quality**: The company's unrelenting efforts to deliver consistently high-quality cement and services to its customers have paid rich dividends by way of year-by-year enhancing customer loyalty.
- **Introduction of New product**: The company launched a new product **mycemprimo** which has received encouraging traction from the customers in its operating region. Mycemprimo was launched in the Box Bottom Bag.
- **Solar Power**: The company commissioned a 5.5 MW solar power project in a mining area in Damoh during the year. Its Jhansi plant also started to receive Solar power under a long-term power purchase agreement for c. 22-gigawatt hours per annum.
- **AFR (Alternative Fuel and Raw Materials):** The company has also taken up alternative fuels proactively to mitigate alarmingly high fuel prices and future sustainability. It commissioned the AF project in Nov'21 and started using AF having a target of 6.3% next year and 15% by 2030 with a clear vision of reducing carbon footprint. The company has invested ~Rs 195 Mn in FY22 towards the installation of the AFR system and sourcing. Renewable power at Narsingarh and Jhansi.

Exhibit 1: Trade Mix in FY21

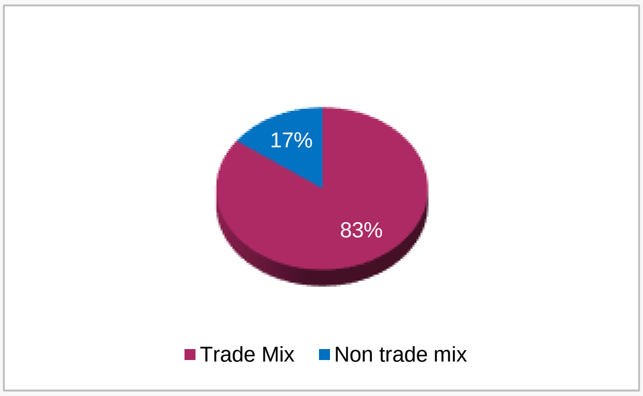
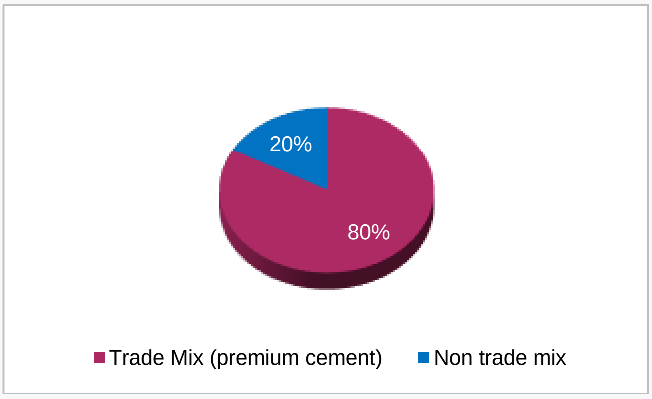


Exhibit 2: Trade Mix in FY22



Source: Company, Axis Securities

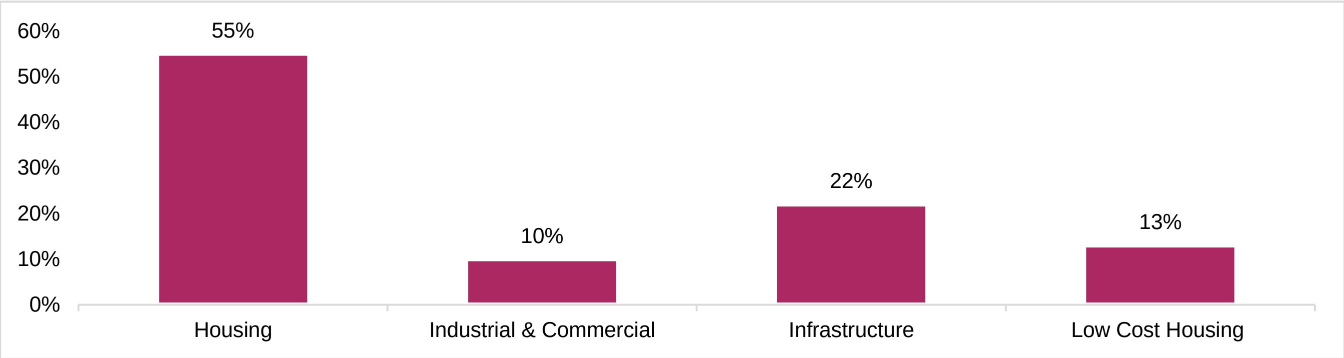
Cost Optimization Measures

- **Raw Material Cost:** Total raw material cost/tonne for the year stood at Rs 897/tonne, up 8% YoY owing to higher volume and higher cost of fuel inventory and other materials. In order to optimize the costs, the company took various initiatives such as renegotiating existing contracts, bundling contracts for additional discounts, and expanding annual service contracts.
- **Power & Fuel Cost:** The year witnessed a sharp rise in power & fuel costs owing to an unprecedented increase in the cost of imported coal and Pet Coke. The power & fuel cost increased by 24% on a tonne basis at Rs 1,345 against Rs 1087 in FY21. Besides cost inflation, higher demand and supply-chain disruption led by the pandemic and the Russia-Ukraine war created further fuel availability problems. In response, the company tried its level best to source fuel from various sources and optimized the fuel mix. It had signed a long-term solar power purchase agreement for purchasing ~22 Gigawatt Hours per annum under the 'Group Captive Scheme' and started to receive the same. To further optimise the cost, the company completed its 5.5 MW Solar Power Plant in the mining area near Damoh. Furthermore, it proactively procured alternative fuels to mitigate alarmingly high fuel prices and future sustainability. The company commissioned the AF project in Nov'21 and started using AF having a target of 6.3% next year and 15% by 2030 with a clear vision of reducing carbon footprint.
- **Freight Cost**: The company's total freight cost/tonne during the year stood flattish at Rs 619/tonne against Rs 618/tonne in FY21. It could save on freight costs despite the rise in diesel cost during the year as it transported more through rail compared to last year and maintain its lead distance at 300 kms. As always, the company's logistics division managed to strike an optimal balance between Cost and Service. For shorter distances, roadways were considered and for longer distances beyond 300 Km, railways were considered as an economical mode of transport.
- **Other Expenses:** The company's other expenses on a per tonne basis remained marginally lower during the year at Rs 764 against Rs 768 in FY21. This was primarily owing to the savings in rates and taxes during the year.

Key Growth Drivers

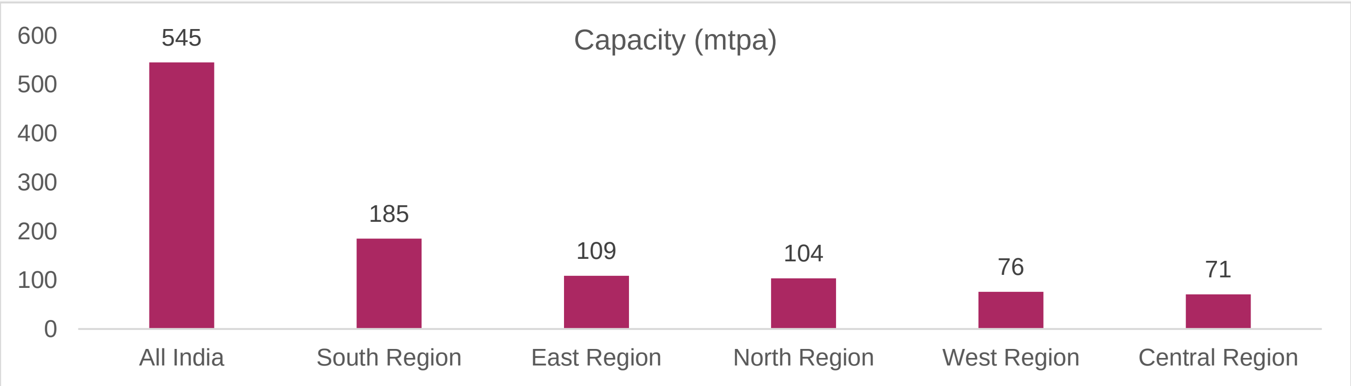
- **Housing and Real Estate:** Around 8 Mn units are to be built under Pradhan Mantri Awas Yojna in FY23, initiatives to increase farmer's income, and higher budgetary allocation for agriculture and irrigation facilities combined with a healthy rabi crop should assist demand from rural housing.
- **Public Infrastructure:** Rs 1991bn sanctioned for the development of 25,000 km expressways. PM Gatishakti Yojana in ports roads, rail, waterways, airways, mass transport systems, and logistics cargo terminals will form the backbone of the Indian supply chain. Moreover, river linking projects that will benefit 0.9 Mn hectares of agricultural land, and Rs 15 Bn allocated for infrastructure push in northeast states of India development villages in border areas are some of the programs that will increase cement demand.
- **Industrial development:** The government has allocated Rs 195 Bn for solar power, Rs 87 Mn for drinking water schemes, the opening of the defence sector for private participation with the government of India, announcement regarding the procurement of 68% of defence equipment from Indian manufacturers, investments in low carbon technology, and 280 GW solar power generation by 2030. All these investments are expected to promote indigenous manufacturing and ancillary facilities that will not only increase demand for cement but also generate employment and rising consumer spending. The company foresees a positive scenario for the cement sector.

Exhibit 3: Cement consumption trend segment-wise: Housing remains the largest cement consumer



Source: Company, Axis Securities

Exhibit 4: Cement Capacity Region Wise



Source: Company, Axis Securities

Key Strategies Moving Forward

The company's power of innovation is exhibited in resource optimisation, customer retention, process efficiencies, quality enhancement, sustainability, and cost optimisation. The tools the company's teams leverage to realise such high outcomes are Continuous Improvement initiatives, Automation, and Digitisation.

- **Digitisation**- Digitisation remains the key focus area for the company. It continues to leverage it in various operations to reduce human error and gain more efficiency. The company has implemented digitisation programs in manufacturing processes, sales and marketing, finance procurement, human relations department, and compliance tools, among others. Jobs that could be performed through Robotic Process Automation are projects in the development and implementation pipeline.
- **Focus on cost optimization –** Cost optimization remains the focus area of the company going forward. During the year, the company focused on cost optimization drive as it negotiated various contracts with vendors which resulted in cost savings for the company. The company has started to receive solar power under a power purchase agreement (signed last year for 22 Gigawatt Hours per annum under Group Captive Scheme). It has also started using AFR in its kilns to reduce power costs. The initial target for consumption of AF is around 5% Thermal Substitution Rate which will be increased to double-digit in the short to medium term.
- **Sustainable production –** Sustainable production is another focus area through which the company is planning to reduce carbon emissions. The Sustainability Commitments 2030 now includes several updated targets and an even broader range of responsibilities in corporate sustainability management. These goals will be achieved by using proven techniques and measures such as maximizing the use of alternative fuels, reducing clinker content, and improving plant efficiency.
- **Customer Centricity –** Customer delight is paramount and the company believes in providing the best product and services to its customers and that makes marketing strategy customer-centric. The company communicates and connects with them regularly to understand and address their needs. It has deployed a slew of measures such as a dedicated Customer Service Department, sensitizing and training employees to grasp and address consumer needs. On the social media front, the company has also increased its presence on popular platforms to expand its reach further as a customer-centric company. A series of customer meets throughout the year imparted knowledge on best construction practices and addressed the needs of customers and influencers.

Sales and Distribution

- The company launched Box Bottom Packaging for MyCemPrimo, which received an encouraging response from the market. Alongside this, the company is ensuring eco-friendly benefits. This new packaging alternative provides functional benefits to its customers and end-users, thus adding value to the product's premium label and also ensuring the quality of cement in the best possible manner.
- The sales team continuously strives to train its channel partners to meet customer expectations.
- Digitization received the top-most priority of the company to support the sales team with real-time market intelligence, real-time status of in-transit material, and artificial intelligence to reduce human intervention in diurnal processes at plants.

Supply Chain & Logistics

- The company has a well-structured and effective internal control system with Standard Operating Procedures laid out for all critical aspects of processes. These SOPs are periodically reviewed to remain in line with the applicable laws and contemporary industry practices. From Quarries to Shop Floor, throughout the production line, operational performance has enhanced productivity, sustainability, and competitiveness.
- Digital transformation has played a vital role throughout the value chain starting from production to logistics to customer interface. The company is improving its digital presence through various initiatives and support from its parent company. Heidelberg Group will foster further improvements in the overall supply chain going forward.
- With the shortage of fly ash due to the frequent shutdown of power plants, the company ensured its continuous availability from alternate locations by adopting flexible supply chain management.
- Logistics remains the key focus area for the company. To improve it further, it has optimized the warehousing facilities and focused on increasing sales in the markets at shorter lead distances to contain logistic costs.

Business Outlook

- The Cement industry follows the GDP trajectory. The IMF estimates the country's GDP rates to grow ~8.2% and 6.9% in FY22 and FY23 respectively. The company is taking a conservative approach of 6-7% growth in FY23, dependent on how the Covid-19 situation pans out.
- The government's spending on major Gatishakti projects, infrastructure, and affordable housing schemes are expected to be the primary growth drivers for the company. It remains hopeful that a turnaround in the economy would positively influence the cement demand moving forward.

Managerial Remuneration

- The percentage increase in the median remuneration of employees in the financial year 2021-22-7.7% (Only Staff Appraisal till 31 March 2022).
- Average increase in salaries of employees (other than managerial personnel) on CTC basis was 7.4%. Increase in managerial remuneration was also 7.0% on CTC basis. The overall increase is 7.4%.
- The company affirms that the remuneration is as per the remuneration policy of the company.

Risks & Mitigation

The company's major business risks and its mitigation strategies are as follows:

- **Economic Risk**: The warring clouds over Europe's sanctions on Russia, supply disruption of petrochemicals, shortage of spare parts and persuading India to agree to some of the sanctions are the immediate risks that we foresee in FY23. There are still global supply disruptions for critical materials - notably fuel. The company relies on advance contracts for supply and maintaining an adequate inventory of essential spare parts. The company strives to pass on the increased costs of materials to the customers to the extent possible.
- **Fuel Supply Risk:** Fuel prices are internationally rising - oil, petcoke, and imported coal due to external factors outside of India, notably war and sanctions on the major oil-producing country Russia. Due to the lowering of power demand, there was a reduction in the generation of fly ash by nearby power plants. The company is relying on advance contracts for fuel supply and stocking up on essential spare parts. It is sourcing fly ash from various smaller and far-off power plants to meet its requirements. Depending on the supply-demand situation, the additional cost of materials will be either absorbed or passed on to the consumers
- **Freight Cost Risk:** Cement is a low-value high-volume product making logistics a significant component in its overall cost. Rail and truck availability or an increase in fuel costs may swing the company's margins significantly. The company strives to appropriately balance its Rail-Road mix, which currently stands at about 54:44. Furthermore, optimizing warehousing facilities and astute measures to control logistics costs remains the key focus area for the company. It is focusing on increasing sales in the markets at shorter lead distances to contain logistics costs continuously.
- **Key Raw Material Supply Risk:** Availability of key raw materials such as Fly Ash continues to pose a significant challenge due to the frequent shutdown of power plants. The company has made all efforts to secure an adequate quantity of Fly Ash from various sources to ensure uninterrupted operations.
- **Competition Risk:** With the varying impact of the pandemic in different regions, the cement demand, too, has shown unprecedented alterations. This has led to new brands from distant regions entering new markets. The company has taken the following measures to mitigate the risk-
  - Increasing % contribution of premium products and Trade Sales.
  - Balancing growth between distant and Home markets.
  - Aligning service team to handhold the independent home builders during the various construction phases.
  - Addition of new channel partners.

Progress on Sustainability

The company is conscious of the environment and recognises that manufacturing processes need significant and systemic measures. The company follows a three-pronged approach to fulfil commitment towards sustainability-Prevention, Mitigation and Compensation. Committed to delivering on our Sustainability Goals 2030, it strives to excel in environmental protection by reducing our footprints on water, air and land, and simultaneously drive a circular economy by reducing waste, recycling and reusing materials. The company remains committed to engaging and delivering in the following key domain areas:

- Driving Economic Strength & Innovation
- Achieving excellence in Occupational Health and Safety
- Reducing Environment Footprint
- Enabling Circular Economy
- Being a Good Neighbour
- Ensuring Compliance and Transparency

All plants of the Company are ISO 14001 (Environment Management System) certified. The Company consumed ~34.93% of fly ash in producing PPC cement and ~53.15% of slag in producing PSC cement thus reducing limestone consumption, and preserving limestone reserves for posterity. During FY22 the Company generated 73,655 Mega Watt (MW) of power from Waste Heat Recovery Power Plant at Narsingarh. It has commissioned a 5.5 MW Solar Power Plant in the mining area at Damoh, Madhya Pradesh. It has also invested in alternative fuel feeding systems, another green initiative which has increased the usage of alternative fuels in the kiln.

The company has embraced a culture of conservation and integrated environmental parameters into our growth aspirations by adopting state-of-the-art technological interventions, innovative production techniques, resource optimization measures and sustainable mining practices.

Forex Analysis

- Foreign currency risk entails the risk that the fair value or future cash flows of exposure will fluctuate because of changes in the foreign exchange rates. The company's exposure to foreign exchange rates risk relates primarily to its operating or financing activities and the same are hedged in line with established risk management policies of the company.
- When a derivative is entered into for hedging, the company negotiates the terms of those derivatives to match the terms of the hedged exposure. For hedges of forecast transactions, the derivatives cover the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

Particulars (Rs Cr)	FY21	FY22	Change	Comments/Analysis*
USD	0.16	-	0%	Trade payables
EUR	5.8	4.9	-15.5%	Trade payables

Source: Company; Axis Securities.

Foreign Exchange Earnings & Outgo

Particulars (Rs Cr)	FY21	FY22	Change	Comments/Analysis*
Foreign Exchange Used Imports	6.5	6.8	4.6%	NA
Expenditure	52.4	39	-25.5%	NA

Contingent Liability Analysis

Particulars (Rs Cr)	FY21	FY22	Change	Comments/Analysis
Claims against the company not acknowledged as debt	11.8	12.7	7%	N/A
Other money for which the company is contingently liable:				
- Excise Duty / Service Tax / CENVAT Credit	4	4	0	N/A
- Sales Tax / Trade Tax / Entry Tax	10	9	-10%	N/A
Trade Tax / Sales Tax / VAT	5	5	0	N/A
Entry Tax	151	151	0	N/A
Provision taken for Cess on Captive Power	9	9	0	N/A
Rural Infrastructure and Road Development tax, Madhya Pradesh	24	27	12%	N/A
Environment protection fees, Karnataka	1	1	0	N/A
Other Litigations	20.8	21	1%	N/A

Source: Company; Axis Securities

Notes: Provisions have been made against demands raised by various authorities. All these cases are under litigation and are pending with various authorities; the expected timing of resulting out□ow of economic benefit. cannot be specified.

Related Party Transaction Analysis

Particulars (Rs Cr)	FY21	FY22	Change (%)	Comments/Analysis
Transactions with Cementrum I.B.V.:				
- Dividend paid	94	125	33	N/A
Transactions with Heidelberg Cement AG:				
- License Fee	15	16.4	9	N/A
- Group Overhead Recharge	4	2	-50	N/A
- End-user workstation charges	12	12	-	N/A
- Interest in Non-Convertible Debenture ('NCD')	22	9	-59	N/A
- NCD repaid	125	120	-	N/A
- Support service income	0.7	0.26	62	N/A
Transactions with Zuari Cement Limited				N/A
- Purchase of Clinker	32	32	-	N/A
- Sale of Clinker	2	0	-	N/A
- Support service income	7	7.5	7	N/A
- Retirement obligation for transferred employees	1	0	-	N/A
- Loan Given	150	0	-	N/A
- Interest income on Loan	8	11	37	N/A
Total compensation paid to key management personnel	5.6	5.7	17	

Source: Company; Axis Securities

Notes: The transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and interest-free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Corporate Social Responsibilities

The company's CSR contribution in FY22 stood at Rs 8 Cr against Rs 6.6 Cr in FY21. This contribution exceeds the mandatory level of 2%of net profits as provided under Section 135 of the Companies Act, 2013.

- **Skill Development Training**: In accordance with CEDMP Certified Skill Development Training under the 'Skill India' programme umbrella was provided to batches of 40 trainees for three months each. The training was imparted in three trades - Bag Making, Beauty Parlour course & Mobile Repairing. A sewing school in collaboration with Usha International has been started to provide Skill Development Training in sewing to rural women.
- **Livestock Initiatives:** To promote cattle farming as an additional source of rural livelihood, the Company has engaged BAIF Institute to provide facilities such as cattle rearing, vaccination, artificial insemination etc., to the villagers in Damoh under our Livestock Development Centre Project The Company has also taken steps for upgradation of rural veterinary hospitals.

Corporate Governance Philosophy

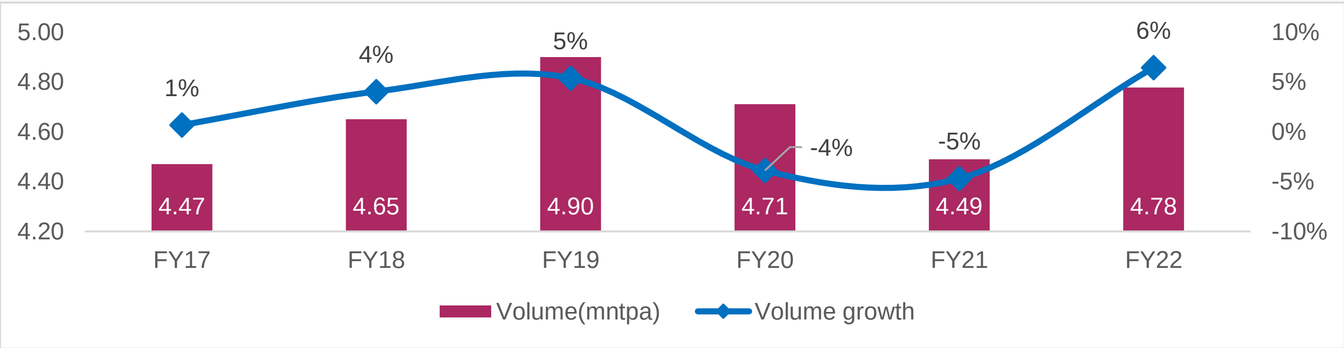
The company believes sound ethical practices, operational transparency, and timely disclosures go a long way in enhancing long-term shareholders' value while safeguarding the interest of all the stakeholders. It is this conviction that has led the company to make strong corporate governance values integral to all its operations. The company is led by a distinguished Board including competent and experienced independent directors. The company has established systems and procedures to ensure that the Board of the company is well-informed and well-equipped to fulfil its responsibilities and to provide management with the strategic direction it needs. The Board also provides a wider overview and strategic counsel.

Profitability Analysis (Rs Cr)

Particulars	FY21	FY22	Change	Comments/Analysis
Sales	2,117	2,297	8.5%	Revenue was higher owing to higher volume and realization as premium product sales improved during the year, which now forms 25% of the total trade sales (80%). We expect the company to report a revenue CAGR of 11% over FY22-FY24E, driven by better cement demand and higher realization.
Raw Materials/Others	372	428	15%	Cost escalation caused by the increase in prices of key raw materials like slags, fly ash, and fuel during the year.
Gross Profits	979	930	-5%	Declined due to higher operating costs, particularly power & fuel cost, which shot up 24% on a tonne basis during the year.
Operating Expenses	472	495	5%	Higher owing to higher volume and normalization of other expenses during the year.
Interest	51	36	-29%	Repayment of debentures and lower interest costs resulted in a decrease in the overall interest costs.
EBIT	442	371	-16%	Lower owing to higher costs sustained during the year.
PAT	315	252	-20%	Lower owing to higher cost and tax expense during the year.
EPS	14	11	-20%	EPS in line with PAT growth

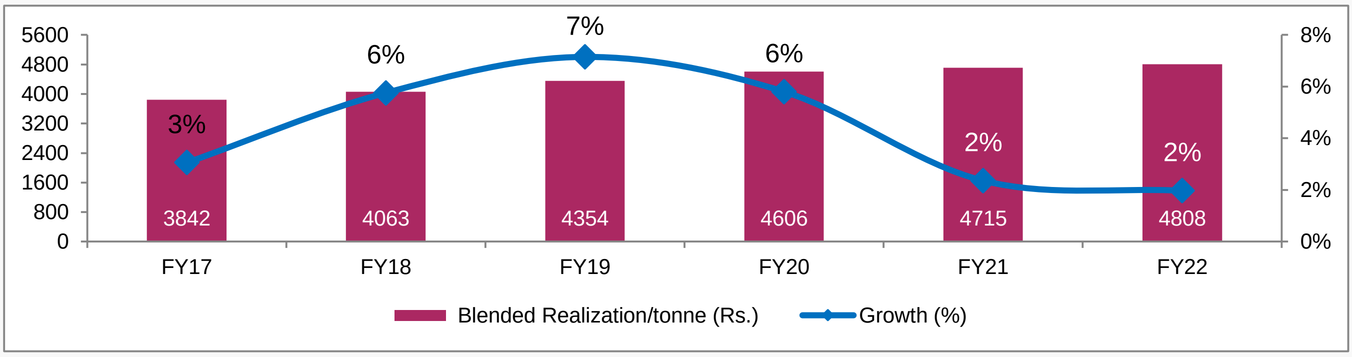
Source: Company; Axis Securities

Exhibit 4: Volume and Growth trend



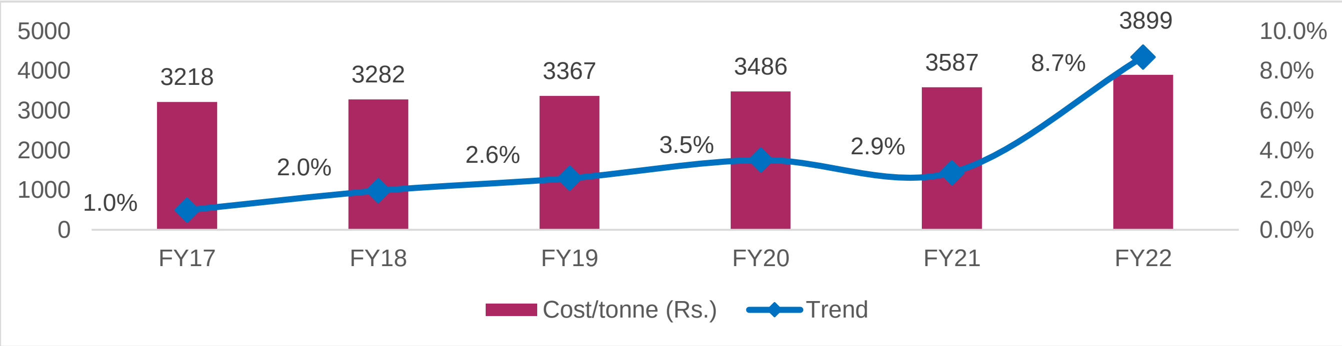
Source: Company, Axis Securities

Exhibit 5: Realization/tonne and Growth Trend



Source: Company, Axis Securities

Exhibit 6: Cost/tonne Trend



Source: Company, Axis Securities

Growth Indicators (Rs Cr)

Particulars	FY21	FY22	Change	Comments/Analysis
Revenue	2117	2297	8.5%	Revenue was higher owing to higher volume and realization as premium product sales improved during the year, which now forms ¼ of the total trade sales (80%). We expect the company to report a revenue CAGR of 11% over FY22-FY24E driven by better Cement demand and higher realization.
EBITDA	507	435	-14%	EBITDA got impacted by higher operating expenses during the year as costs escalated. We estimate EBITDA to remain under pressure in FY23 and start recovering in FY24, led by higher volume, realization, and reduction in the overall costs. We estimate an EBITDA CAGR of 11% Over FY22-FY24E.
PAT	315	252	-20%	Declined to owe to higher costs and tax expenses during the year. We estimate a PAT CAGR of 15% over FY22-FY24E, driven by higher volume, realization and lower tax as the company adopted a lower tax rate under section 115AB of the IT Act from FY23.
EPS	14	11	-20%	EPS was in line with PAT de-growth
Volume	4.49	4.78	6%	Volumes were driven by the normalization of economic activity post relaxation in Covid-19 restrictions and an increase in non-trade sales during the year. We estimate a volume CAGR of 4% over FY22-FY24E.

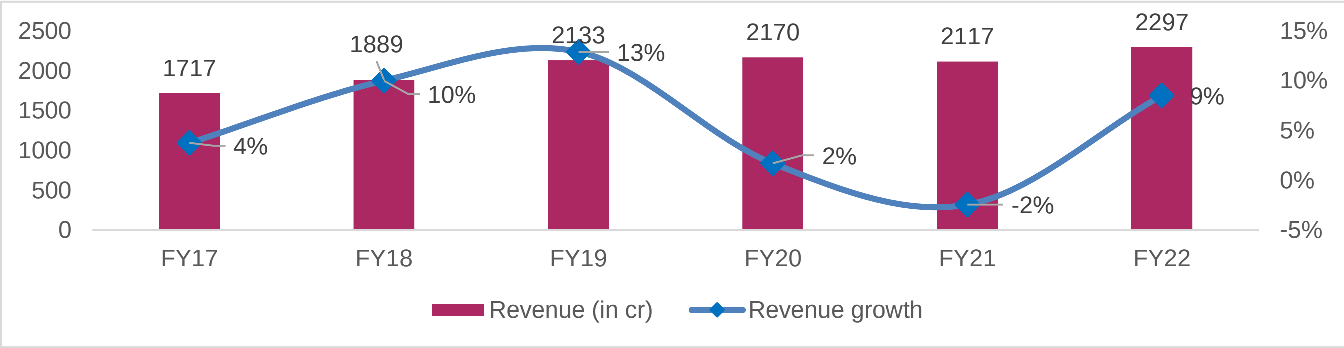
Source: Company; Axis Securities

Profitability Margins

Particulars	FY21	FY22	Change	Comments/Analysis
GPM	46.2%	40.5%	-570bps	GPM was impacted due to higher operating costs during the year. We expect GPM to remain under pressure in FY23 owing to higher costs, particularly power & fuel. GPM is gradually improving in FY24.
EBITDAM	23.9%	18.9%	-500bps	EBITDAM lowered owing to higher costs despite higher volume and realizations during the year. We estimate EBITDA to remain under pressure in FY23 and gradually improve in FY24, led by higher volumes, realizations, and a reduction in overall costs.
PATM	14.9%	11%	-400bps	Impacted owing to the sharp increase in costs and higher tax expenses during the year. We estimate PAT to remain under pressure in FY23 and improve in FY24 led by better volume, realization, and lower tax.

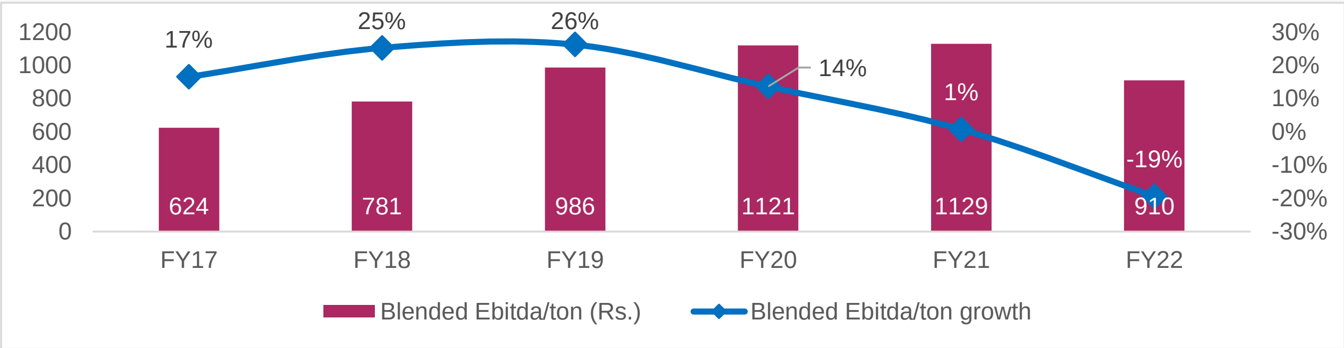
Source: Company; Axis Securities

Exhibit 7: Revenue and Revenue Growth Trend



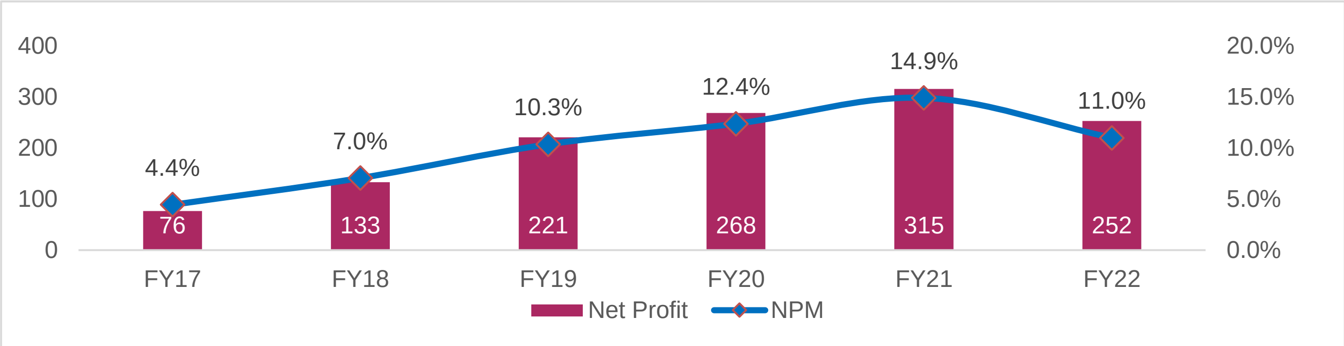
Source: Company, Axis Securities

Exhibit 8: Blended EBITDA/tonne Trend



Source: Company, Axis Securities

Exhibit 9: Net Profit and NPM Trend



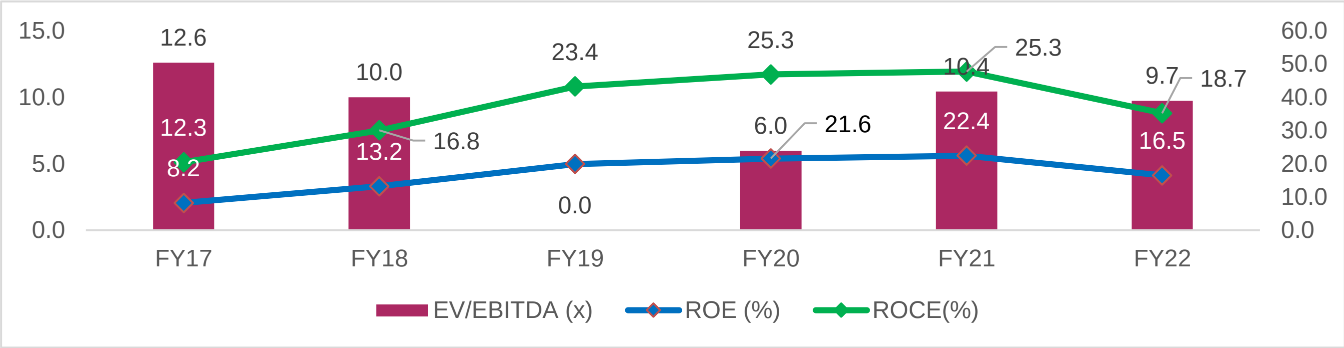
Source: Company, Axis Securities

Financial Ratios

Particulars	FY21	FY22	Change	Comments/Analysis
ROE	22.4%	16.5%	-590bps	ROE impacted owing to the lower profit during the year
ROCE	22.9%	18.7%	-420bps	ROCE was lower as EBIT dipped by 16% to Rs 371 Cr in FY22 from Rs 442 Cr in FY21.
Asset Turn	1x	1x	0	No changes in asset turn during the year.
Net Debt/Equity	-0.9x	-0.12x	-0.03x	Lowered owing to the repayment of debt.
EV/EBITDA	11x	9.7x	-1.3x	Multiple reduced owing to a fall in the market cap as higher costs impacted EBITDA.

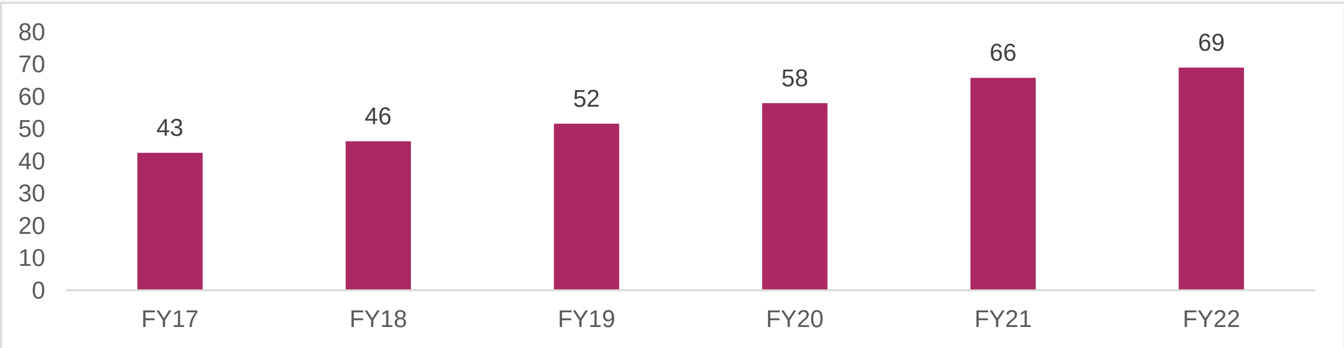
Source: Company; Axis Securities

Exhibit 10: EV/EBITDA, ROE, & ROCE Trend



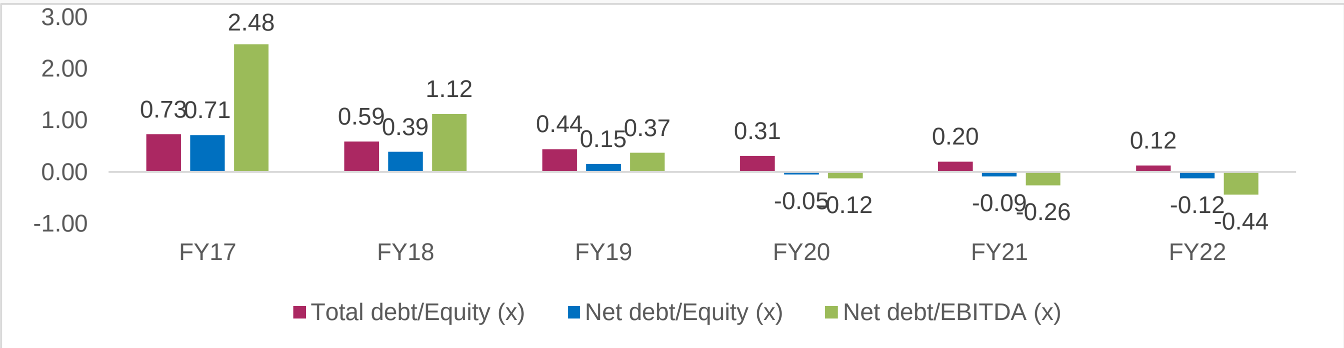
Source: Company, Axis Securities

Exhibit 11: Book Value (Rs)



Source: Company, Axis Securities

Exhibit 12: Leverage Ratio



Source: Company, Axis Securities

Key Balance Sheet Takeaways

Working Capital Management

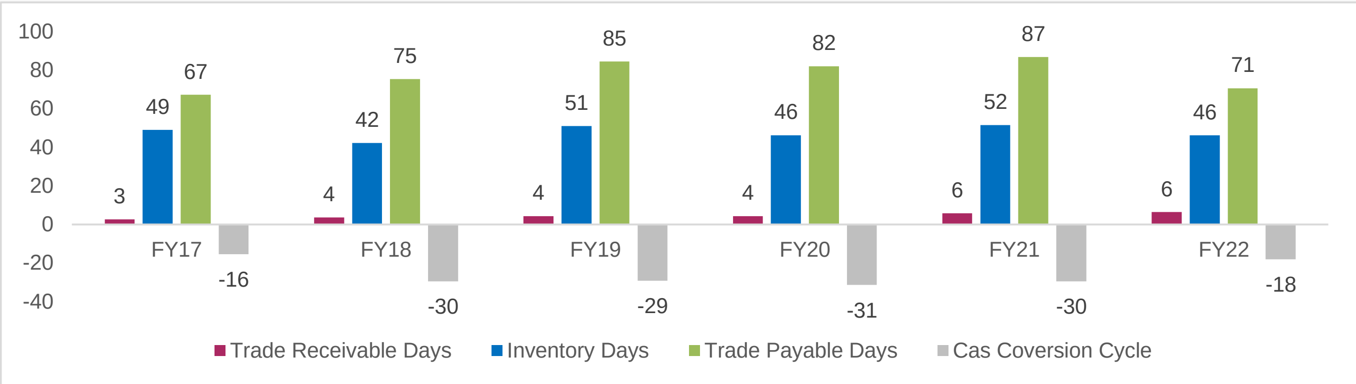
- The working capital intensity increased in FY22 as the cash conversion cycle reduced to -18 days from -30 days in FY21. This was on account of lower payable days. During the year, OCF to EBITDA conversion lowered to 69% against 87% in FY21 as working capital in absolute terms increased by Rs 78 Cr from Rs 8 Cr in FY21.
- From FY17-FY22, the company generated a total OCF of Rs 2,337 Cr and 11% of the total OCF (Rs 252 Cr) was utilized towards the company's Capex program, indicating low Capex intensity. During this period, the company declared and paid a dividend of Rs 588 Cr (25% of OCF). During FY17-FY22, the company also repaid its long-term debt obligation of 912 Cr from the CFO. While CFO remained the major source of funding for the company, it also generated an FCF of Rs 1,736 Cr during FY17-FY22, after adjusting for the finance charges. The company exhibits a sound financial position.

Cash Conversion Cycle

Particulars	FY21	FY22	Change	Comments/Analysis
Inventory Days	52	46	-6	Reduced owing to better procurement strategy applied during the year.
Trade Receivables	6	6	0	Remained flat owing to strict credit terms
Trade Payables	87	70	17	Increased owing to tightening of credit terms by suppliers.
Cash Conversion Cycle	-29	-18	-11	The combined effect of the above factors.

Source: Company; Axis Securities

Exhibit 13: Cash Conversion Cycle

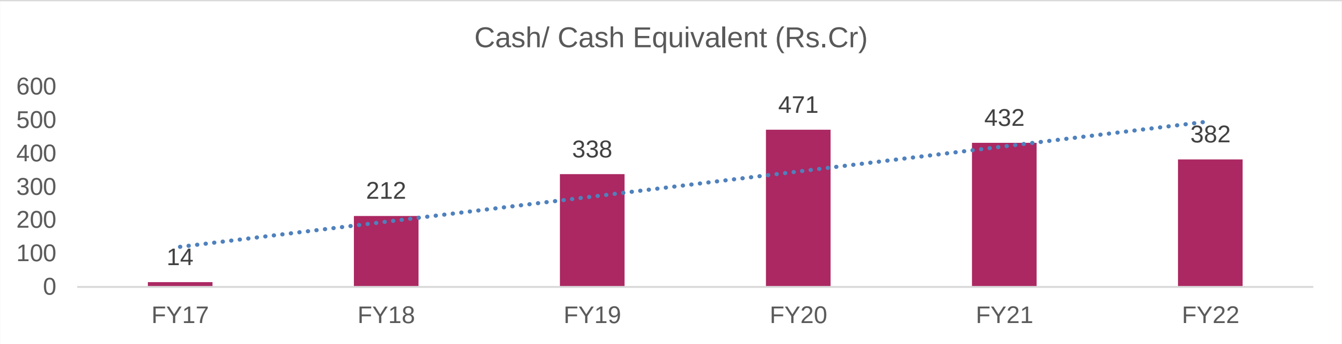


Source: Company, Axis Securities

Key Balance Sheet Takeaways (Cont...)

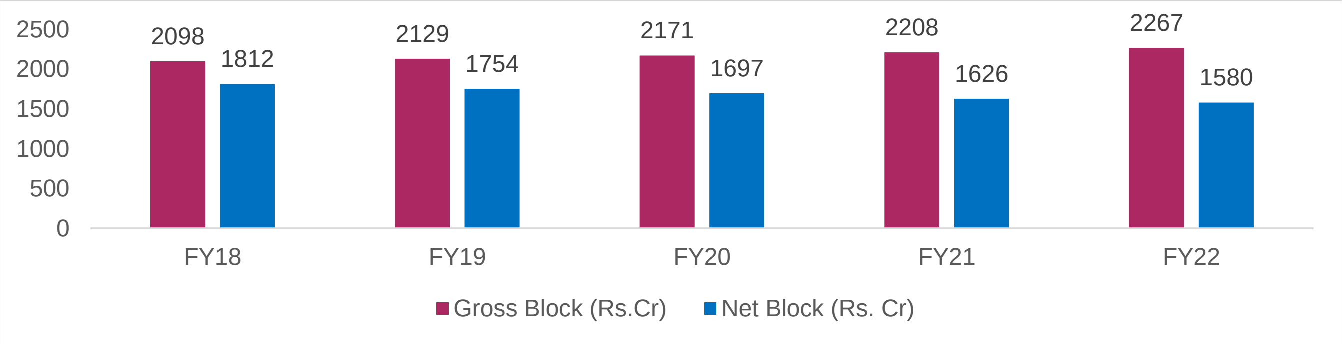
- **Debt Levels:** The company reduced its long-term debt from Rs 295 Cr to 190 Cr as it repaid debentures worth Rs 125 Cr during the Year. Its Debt/Equity ratio reduced to 0.12x from 0.20x in FY21.
- **Fixed capital formation:** The company's Gross Fixed Capital Formation improved to Rs 2,267 Cr in FY22 from Rs 2,207 Cr in FY21, an improvement of 7% as the company incurred Capex on efficiency gains.
- **Capex plans:** The company is considering the possibility of debottlenecking its clinker manufacturing capacity at the Narsingarh plant.
- **Cash & Liquidity position:** The Cash & Equivalent position stood at Rs 382 Cr as of 31st March 2022 against Rs 430 Cr in FY21, as the company repaid debenture worth Rs 125 Cr during the year. The company's liquidity position is expected to remain robust moving ahead also.

Exhibit 14: Cash & Cash Equivalent (Rs Cr)



Source: Company, Axis Securities

Exhibit 15: Gross & Net Block



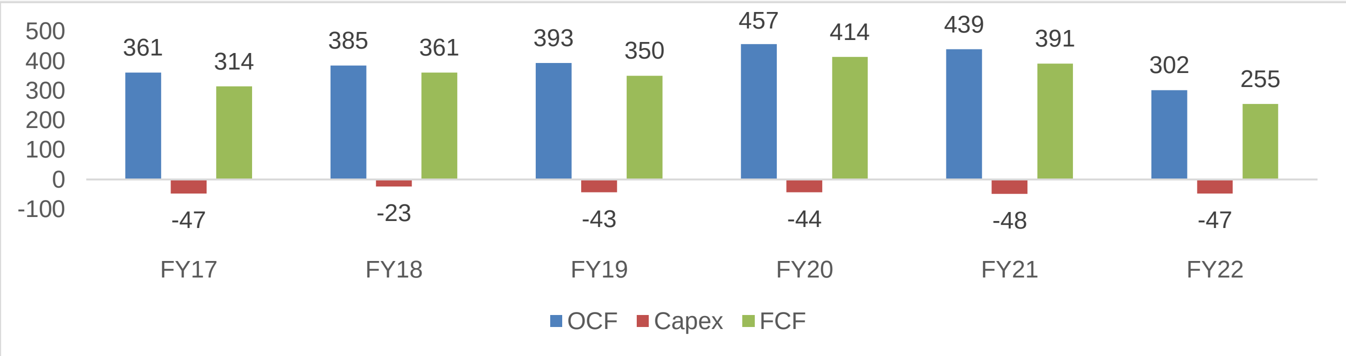
Source: Company, Axis Securities

Key Cash Flow Takeaways

Particulars (Rs Cr)	FY21	FY22	Change	Comments/Analysis
PBT	391	335	14%	Lower PBT due to an increase in costs during the year.
Non-cash expenses				
Depreciation	111	112	-	Depreciation is as per the policy of company.
Finance Cost	-48	-33	-31%	Reduction in interest cost due to repayment of debt
Others	43	46	7%	Higher owing to higher interest income during the year.
Working Capital Adjustments	-8	-78	875%	Increased owing to increase in working capital requirement.
CFO	439	301	31%	Decreased owing to lower PBT and higher WC requirement.
CFI	-173	-50	-70%	Decreased as the company provided the loan to group company Zuary Cement during the year.
CFF	-304	-328	8%	Increased owing to the higher dividend paid during the year.
Capex	-49	-47	-	Normal maintenance Capex.
Free Cash Flow generation	355	233	34%	Decreased YoY due to lower operating performance and increase in WC.

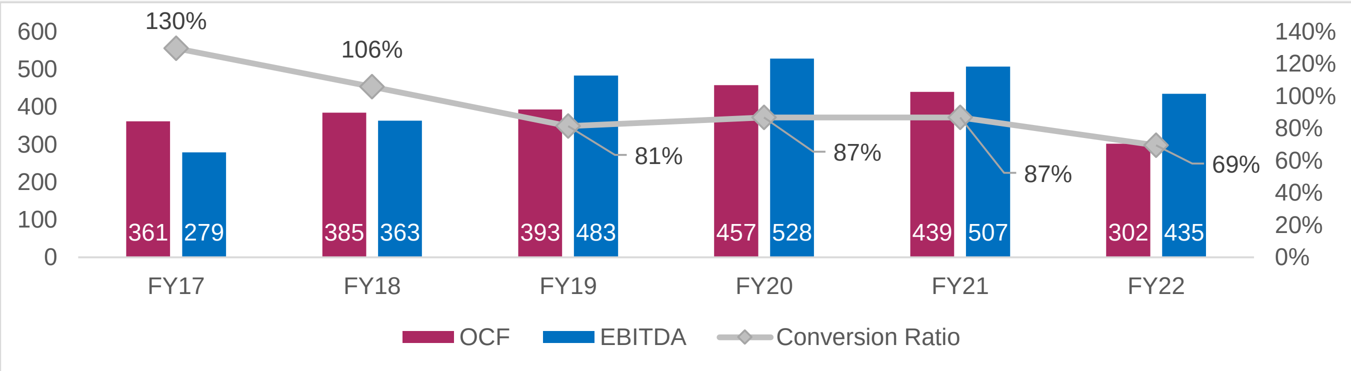
Source: Company; Axis Securities

Exhibit 16: OCF, Capex and FCF (in Cr)



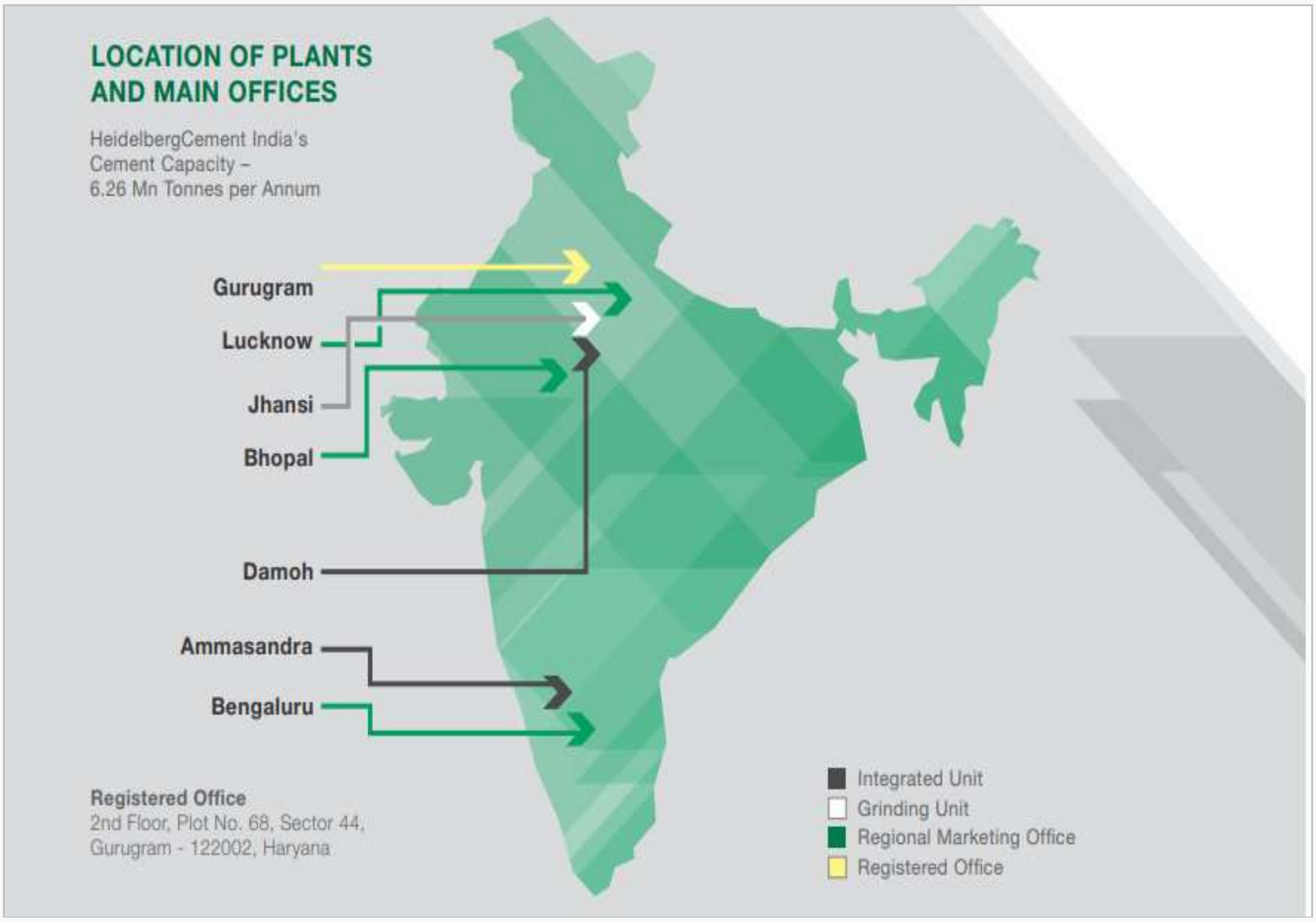
Source: Company, Axis Securities

Exhibit 17: OCF, EBITDA, and Conversion ratio trend (Cr)



Source: Company, Axis Securities

Exhibit 18: Company Plant Location



Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E
Net sales	**2297**	**2627**	**2818**
Other operating income	0	0	0
Total income	2297	2627	2818
Raw Material	429	429	450
Power & Fuel	642	929	938
Freight & Forwarding	296	329	346
Employee benefit expenses	131	138	144
Other Expenses	365	386	405
EBITDA	**435**	**417**	**534**
Other income	49	54	56
PBIDT	484	471	591
Depreciation	112	114	123
Interest & Fin Chg.	36	32	22
E/o income / (Expense)	0	0	0
Pre-tax profit	335	325	446
Tax provision	83	83	114
RPAT	252	242	332
Minority Interests	0	0	0
Associates	0	0	0
APAT after EO item	**252**	**242**	**332**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E
Total assets	2824	2917	3013
Net Block	1589	1565	1526
CWIP	27	10	10
Investments	0	0	0
Wkg. cap. (excl cash)	-51	-67	-67
Cash / Bank balance	382	453	579
Misc. Assets	877	956	965
Capital employed	2824	2917	3013
Equity capital	227	227	227
Reserves	1339	1399	1550
Minority Interests	0	0	0
Borrowings	190	160	97
Def Tax Liabilities	218	218	218
Other Liabilities and Provision	85	91	92

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar, Rs Cr	FY22	FY23E	FY24E
Profit before tax	335	325	446
Depreciation	112	114	123
Interest Expenses	33	32	22
Non-operating/ EO item	-48	-54	-56
Change in W/C	-83	16	0
Income Tax	-55	-83	-114
Operating Cash Flow	295	350	421
Capital Expenditure	-47	-107	-85
Investments	0	0	0
Others	17	71	56
Investing Cash Flow	-30	-36	-28
Borrowings	-120	-30	-63
Interest Expenses	-22	-32	-22
Dividend paid	-181	-181	-181
Others	-5	0	0
Financing Cash Flow	-33	-24	-27
Change in Cash	-61	71	126
Opening Cash	430	369	440
Closing Cash	**369**	**440**	**565**

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E Mar	FY22	FY23E	FY24E
Operational Ratios			
Sales growth	9%	14%	7%
OPM	19%	16%	19%
Op. profit growth	-19%	-7%	21%
COGS / Net sales	60%	64%	62%
Overheads/Net sales	22%	20%	19%
Depreciation / G. block	7%	7%	8%
Efficiency Ratios			
Total Asset Turnover (x)	1.01	1.11	1.15
Sales/Gross block (x)	1.01	1.11	1.15
Sales/Net block(x)	1.42	1.67	1.82
Working capital/Sales (x)	-0.07	-0.07	-0.07
Valuation Ratios			
P/BV (x)	18	18	13
EV/Ebitda (x)	2.05	1.98	1.81
EV/Sales (x)	9.73	9.63	7.16
EV/Tonne $ (x)	1.84	1.53	1.36
	91	87	83
Return Ratios			
ROE	16	15	20
ROCE	19	18	22
ROIC	21	19	32
Leverage Ratios			
Debt / equity (x)	0.12	0.10	0.05
Net debt/ Equity (x)	-0.12	-0.18	-0.27
Debt service coverage ratio (x)	1.34	2.82	7.35
Interest Coverage ratio (x)	10.20	11.27	20.97
Cash Flow Ratios			
OCF/Sales	0.13	0.13	0.15
OCF/Ebitda	0.68	0.84	0.79
OCF/Capital Employed	0.15	0.17	0.20
FCF/Sales	0.10	0.09	0.12
Payout ratio (Div/NP)	80.9	74.9	54.6
AEPS (Rs.)	11.1	10.7	14.6
AEPS Growth	-19.9	-4.0	37.1
CEPS (Rs.)	16	16	20
DPS (Rs.)	9	8	8

Source: Company, Axis Securities

Heidelberg Cement Price Chart and Recommendation History

Date	Reco	TP	Research
28-Oct-20	BUY	185	Initiating Coverage
12-Feb-21	BUY	255	Result Update
01-Jun-21	BUY	280	Result Update
26-Jul-21	HOLD	265	Result Update
28-Sep-21	HOLD	265	AAA
20-Oct-21	HOLD	260	Result Update
10-Feb-22	HOLD	200	Result Update
23-May-22	HOLD	205	Result Update
20-Jul-22	HOLD	190	Result Update
01-Sep-22	BUY	210	AAA

Source: Axis Securities

About the analyst

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Sector: cement/Infra

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Sector: Cement/Infra

Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

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