

Industry **Building Materials**
 Bloomberg **HEIM IN**
 BSE CODE **500292**

Subdued urban demand and labor unavailability may impact volumes further

| RATING | NEUTRAL |
|------------------|---------|
| CMP | 166 |
| Price Target | 190 |
| Potential Upside | 14% |

| | |
|-----------------|---|
| Rating Change | ↔ |
| Estimate Change | ↔ |
| Target Change | ↔ |

| STOCK INFO | |
|---------------------|---------|
| 52wk Range H/L | 218/120 |
| Mkt Capital (Rs Cr) | 3765 |
| Free float (%) | 31% |
| Avg. Vol 1M (,000) | 40 |
| No. of Shares (Crs) | 23 |
| Promoters Pledged % | NA |

4QFY20 Result update

- In 4QFY20, Heidelberg revenue declined by 6.2% YoY to Rs. 510 cr. on account of volume de-growth of -9.7% YoY to 1.09 MT impacted due to standstill of operation due to nation-wide lockdown and no clinker sales in current quarter vs. corresponding previous quarter.
- Blended realization per ton on QoQ basis improved by 4% QoQ to Rs. 4672/ ton led by increase in cement price per bag in a range of Rs. 10-12/bag in 4QFY20.
- Gross margin declined by 102 bps to 85.1% YoY while EBITDA margin improved by 199 bps to 25% YoY led by steep decline in power & fuel and freight expenses.
- Power & fuel and freight expense (as a % of sales) declined by 504 bps/192 bps to 21.9%/13.5% YoY while other expense increased on account of increased by 360 bps to 18% YoY.
- PAT grew by 8.9% YoY to Rs. 66 cr. with PAT margin at 13%.
- Capacity Update-The debottlenecking projects at Imlai and Jhansi plants have been duly completed within the scheduled timelines and the grinding capacity of these plants stand enhanced to 2.50 MTPA and 3.25 MTPA respectively. The aggregate cement grinding capacity of the Company stands enhanced to 6.26 MTPA.

View and Valuation

HEIDELBERG volume de-grew by 9.7% YoY to 1.09 MT with revenue de-growth of 6.2% YoY impacted due to lockdown and no clinker sales in current quarter vs. 4QFY19. As of now company's all plants and warehouses are operational and have started dispatching cements. However, demand remains the concern though there is demand coming from rural area cement demand in urban remains the concern due to migration of labors due to Covid-19. On pricing front cement prices are expected to remain for at-least some time. On margin front the company's emphasis on cost optimization at operational level will ensure margin expansion. On capacity front, the company's capacity has now reached to 6.26 MTPA which will ensure no further volume loss. Thus, considering the current scenario of low demand from urban, man power unavailability which may prevail due to migration of labors, dependency on other raw materials we maintain our NEUTRAL rating with a target price of Rs. 190.

Key Risks to our rating and target

- Decline in cement prices.
- Decline in rural demand.
- Further increase in prices of fly ash and other key raw materials like gypsum.

RESEARCH ANALYST

GAZAL NAWAZ

gazal.nawaz@narnolia.com

Fig in Rs Cr

| KEY FINANCIAL/VALUATIONS | FY16 | FY17 | FY18 | FY19 | FY20 |
|--------------------------|------|------|------|------|------|
| Net Sales | 1648 | 1717 | 1889 | 2133 | 2170 |
| EBITDA | 231 | 279 | 363 | 483 | 528 |
| EBIT | 131 | 180 | 262 | 382 | 419 |
| PAT | 35 | 76 | 133 | 221 | 268 |
| EPS (Rs) | 2 | 3 | 6 | 10 | 12 |
| EPS growth (%) | -41% | 115% | 75% | 66% | 21% |
| ROE (%) | 4% | 8% | 13% | 19% | 20% |
| ROCE (%) | 2% | 5% | 9% | 14% | 17% |
| EV/EBITDA | 10.5 | 11.6 | 9.6 | 8.7 | 5.7 |
| P/B (X) | 2.0 | 2.8 | 3.1 | 3.5 | 2.5 |
| P/E (x) | 49.7 | 35.2 | 24.2 | 18.8 | 12.0 |

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

4QFY20 Results Better than expectation

Fig in Rs Cr

| FINANCIALS | 4QFY19 | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | YoY% | QoQ% | FY19 | FY20 | YoY% |
|------------------|--------|--------|--------|--------|--------|-------|--------|------|------|-------|
| Net Sales | 543 | 589 | 522 | 548 | 510 | -6.2% | -7.1% | 2133 | 2170 | 1.7% |
| Other Income | 11 | 12 | 12 | 11 | 17 | 48.3% | 49.0% | 35 | 53 | 51% |
| COGS | 75 | 113 | 101 | 99 | 76 | 0.7% | -23.4% | 386 | 389 | 0.6% |
| Gross Margin | 86% | 81% | 81% | 82% | 85% | -1.0% | 3.2% | 82% | 82% | 0.2% |
| Employee Cost | 36 | 31 | 31 | 35 | 34 | -4.6% | -2.3% | 124 | 131 | 5.9% |
| Other Expenses | 78 | 86 | 87 | 95 | 92 | 17.3% | -3.8% | 327 | 360 | 10% |
| EBITDA | 125 | 158 | 123 | 120 | 127 | 1.9% | 6.1% | 483 | 528 | 9.2% |
| EBITDA% | 23% | 27% | 24% | 22% | 25% | 2.0% | 3.1% | 23% | 24% | 1.7% |
| Depreciation | 25 | 28 | 26 | 27 | 28 | 8.2% | 2.9% | 102 | 109 | 6.7% |
| EBIT | 99 | 130 | 96 | 93 | 100 | 0.3% | 7.1% | 382 | 419 | 9.9% |
| Interest | 16 | 20 | 19 | 19 | 16 | 1.4% | -14.3% | 75 | 74 | -1.2% |
| PBT | 95 | 122 | 90 | 86 | 101 | 6.0% | 17.4% | 342 | 398 | 16.5% |
| Exceptional Item | - | - | - | - | - | - | - | - | - | - |
| Tax | 34 | 43 | 32 | 21 | 34 | 0.8% | 62.5% | 121 | 130 | 7.5% |
| PAT | 61 | 79 | 58 | 65 | 66 | 8.9% | 2.6% | 221 | 268 | 21.5% |
| PAT Margin | 11% | 13% | 11% | 12% | 13% | 1.8% | 1.2% | 10% | 12% | 2.0% |

Concall highlights

- The Company's volumes remained impacted due to nation-wide lockdown and no clinker sale in 4QFY20 which existed in corresponding previous quarter.
- Mycem Power (premium cement) witnessed positive traction during the quarter while witnessed volume growth of 38% and contributed to the extent of 13% of trade volumes in FY20.
- The Company's dependence on grid power reduced to 66%. (Sourced cheaper power to the extent of 34%) as of FY20.
- For FY20, company's capacity utilisation stood at 87%.
- In Mar-20, the cement prices have improved significantly to the extent of Rs. 10-12/ bag.

FY21 Outlook:

- The Company expects reduction in demand in urban due to labour unavailability while rural demand is showing improvement.
- On pricing front as per management, the cement prices has firmed up and will stay firm for some time.
- Management expects liquidity crunch in channels in coming months due to Covid-19.
- In Logistics front, reduced availability of truck drivers will impact inward and outward logistics and also reduced availability of manpower at railway yards may impact turnaround of rolling stock.
- The Company is focussing on optimizing its operational and capital expenditures.
- Normal CAPEX will be incurred for FY20 to the extent of Rs. 50 cr. While will also spend some money for expansion at Gujarat (3 MT) in FY21.

Exhibit: Cement volume (Million Ton) trend

Vol. remained impacted led by nation-wide lockdown and no clinker sales which existed in corres. prev quarter.

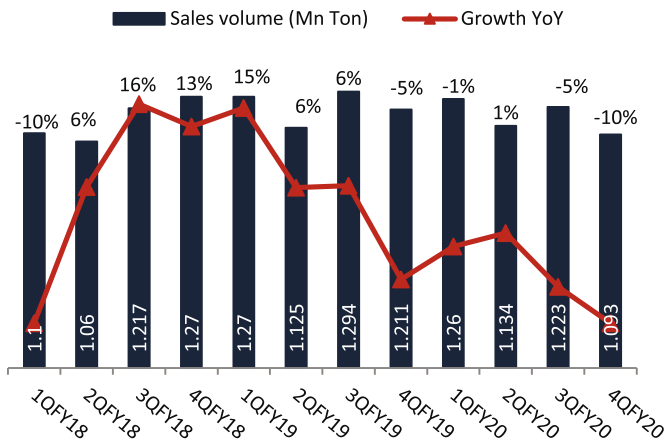


Exhibit: Cement Realization (Rs./Ton) trend

Realization increased on QoQ basis as the cement prices increased by Rs. 10-12/bag in 4QFY20.

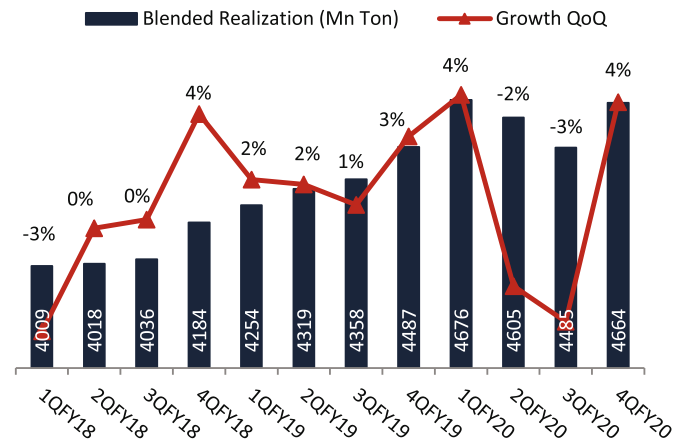


Exhibit: Power & Fuel cost (Rs./Ton) trend

P & f cost reduction driven by lower pet-coke prices, higher WHRS power generation and shutdown of operations.

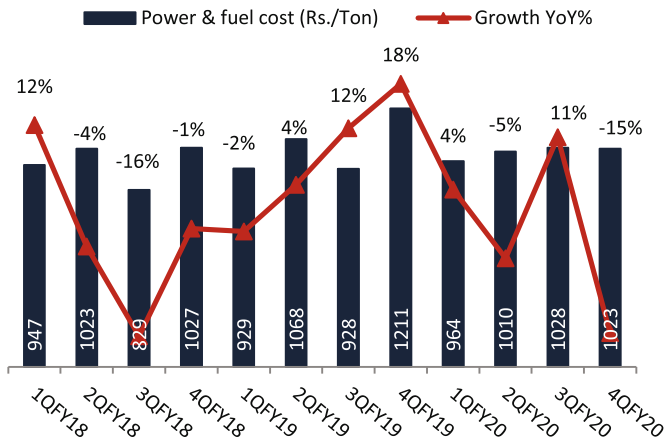


Exhibit: Freight cost (Rs./Ton) trend

Freight cost reduction led by shut down of operation in the last week of quarter.

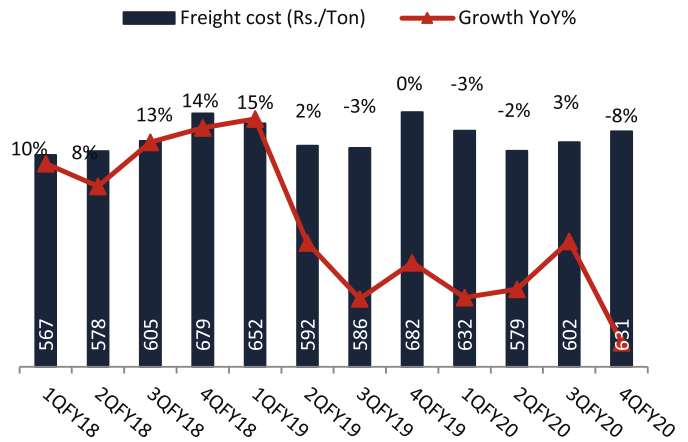


Exhibit: EBITDA and EBITDA margin%

EBITDA margin expansion remained impacted due to higher other expense and employee expense.

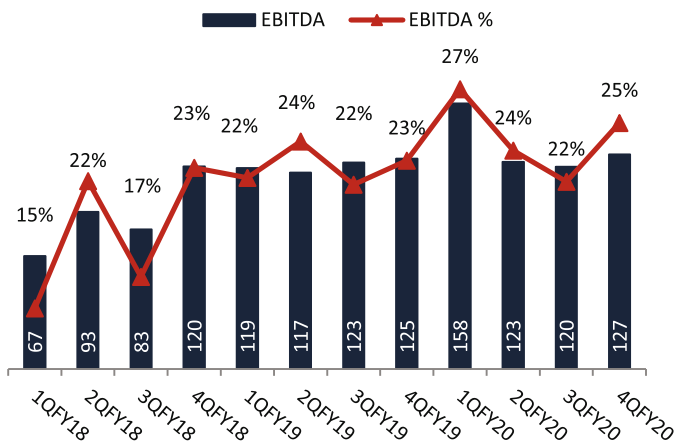
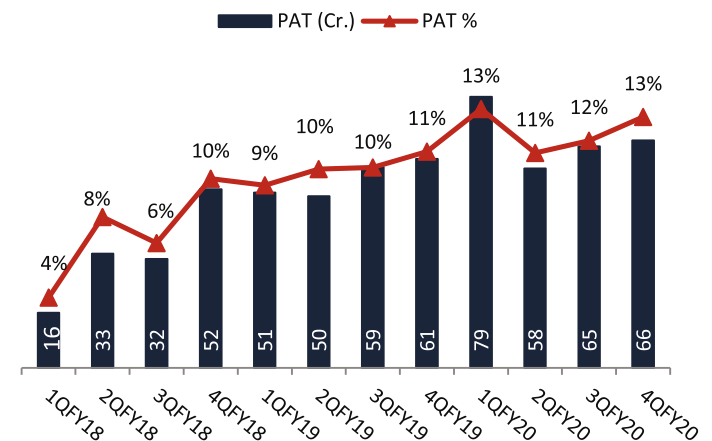


Exhibit: PAT and PAT margin%

PAT stood at Rs. 66 cr. With PAT margin at 13%.



Financial Details

Balance Sheet

Fig in Rs Cr

| Y/E March | CY13 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Share Capital | 227 | 227 | 227 | 227 | 227 | 227 | 227 |
| Reserves | 607 | 640 | 668 | 740 | 820 | 945 | 1088 |
| Networth | 833 | 867 | 895 | 967 | 1046 | 1171 | 1315 |
| Debt | 1357 | 925 | 741 | 575 | 469 | 392 | 280 |
| Total Capital Employed | 2190 | 1792 | 1636 | 1542 | 1516 | 1563 | 1595 |
| Net Fixed Assets (incl CWIP) | 1954 | 1919 | 1957 | 1883 | 1814 | 1754 | 1709 |
| Non Current Investments | - | - | - | - | - | - | - |
| Other Non Current Assets | 199 | 39 | 33 | 31 | 29 | 25 | 31 |
| Non Current Assets | 2184 | 2093 | 2053 | 1942 | 1872 | 1808 | 1769 |
| Inventory | 199 | 191 | 178 | 140 | 127 | 167 | 146 |
| Debtors | 31 | 19 | 26 | 13 | 19 | 25 | 26 |
| Cash & Bank | 114 | 146 | 8 | 14 | 212 | 338 | 470 |
| Other Current Assets | 231 | 347 | 350 | 299 | 303 | 357 | 383 |
| Current Assets | 575 | 703 | 562 | 466 | 661 | 887 | 1024 |
| Creditors | 190 | 191 | 186 | 191 | 227 | 278 | 258 |
| Provisions | 151 | 191 | 207 | 216 | 219 | 234 | 267 |
| Other Current Liabilities | 202 | 553 | 509 | 344 | 412 | 401 | 403 |
| Curr Liabilities | 544 | 934 | 902 | 752 | 858 | 913 | 929 |
| Net Current Assets | 31 | -231 | -341 | -286 | -197 | -26 | 95 |
| Total Assets | 2759 | 2796 | 2615 | 2408 | 2533 | 2696 | 2793 |

Income Statement

Fig in Rs Cr

| Y/E March | CY13 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue from Operation | 1,209 | 2,044 | 1,648 | 1,717 | 1,889 | 2,133 | 2,170 |
| Change (%) | - | 69% | -19% | 4% | 10% | 13% | 2% |
| Other Income | 7 | 14 | 22 | 24 | 20 | 35 | 12 |
| EBITDA | 102 | 322 | 231 | 279 | 363 | 483 | 528 |
| Change (%) | - | 216% | -28% | 21% | 30% | 33% | 9% |
| Margin (%) | 8% | 16% | 14% | 16% | 19% | 23% | 24% |
| Depr & Amor. | 89 | 138 | 100 | 99 | 101 | 102 | 109 |
| EBIT | 13 | 185 | 131 | 180 | 262 | 382 | 419 |
| Int. & other fin. Cost | 106 | 139 | 108 | 90 | 74 | 75 | 74 |
| EBT | -85 | 60 | 45 | 114 | 208 | 342 | 398 |
| Exp Item | - | (60.31) | - | 0 | 0 | 0 | 0 |
| Tax | -40 | 60 | 10 | 37 | 74 | 121 | 130 |
| Minority Int & P/L share of Ass. | - | - | - | - | - | - | - |
| Reported PAT | -45 | 60 | 35 | 76 | 133 | 221 | 268 |
| Adjusted PAT | -45 | 60 | 35 | 76 | 133 | 221 | 268 |
| Change (%) | - | -231% | -41% | 115% | 75% | 66% | 21% |
| Margin(%) | -4% | 3% | 2% | 4% | 7% | 10% | 12% |

Financial Details

Key Ratios

| Y/E March | CY13 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|--------------------|------|------|------|------|------|------|------|
| ROE | -5% | 7% | 4% | 8% | 13% | 19% | 20% |
| ROCE | -2% | 3% | 2% | 5% | 9% | 14% | 17% |
| Asset Turnover | 0.4 | 0.7 | 0.6 | 0.7 | 0.7 | 0.8 | 0.8 |
| Debtor Days | 9 | 3 | 6 | 3 | 4 | 4 | 4 |
| Inv Days | 60 | 34 | 39 | 30 | 25 | 29 | 25 |
| Payable Days | 57 | 34 | 41 | 41 | 44 | 48 | 43 |
| Int Coverage | 0 | 1 | 1 | 2 | 4 | 5 | 6 |
| P/E | (19) | 28 | 50 | 35 | 24 | 19 | 12 |
| Price / Book Value | 1.0 | 1.9 | 2.0 | 2.8 | 3.1 | 3.5 | 2.5 |
| EV/EBITDA | 20 | 8 | 10 | 12 | 10 | 9 | 6 |
| FCF per Share | 18.1 | 18.0 | 16.8 | 18.0 | 18.0 | 19.2 | 22.2 |
| Div Yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.4% | 1.1% |

Cash Flow Statement

Fig in Rs Cr

| Y/E March | CY13 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| PBT | -81 | 120 | 45 | 114 | 208 | 342 | 398 |
| (inc)/Dec in Working Capital | 18 | -71 | 40 | 104 | 59 | -18 | 7 |
| Non Cash Op Exp | 89 | 138 | 100 | 99 | 101 | 102 | 109 |
| Int Paid (+) | 102 | 135 | 107 | 88 | 72 | 72 | 71 |
| Tax Paid | -2 | -11 | -13 | -25 | -44 | -71 | -75 |
| others | -7 | -74 | -22 | -19 | -11 | -34 | -50 |
| CF from Op. Activities | 119 | 238 | 257 | 361 | 385 | 393 | 459 |
| (inc)/Dec in FA & CWIP | -202 | -172 | -122 | -45 | -18 | -42 | -44 |
| Free Cashflow | -83 | 65 | 135 | 317 | 366 | 351 | 415 |
| (Pur)/Sale of Inv | - | - | - | - | - | - | - |
| others | 7 | 179 | 17 | 7 | 10 | 16 | 29 |
| CF from Inv. Activities | -195 | 7 | -105 | -37 | -9 | -26 | -14 |
| inc/(dec) in Debt | 239 | -64 | -172 | -221 | -43 | -83 | -125 |
| Int. Paid | -122 | -147 | -115 | -93 | -76 | -64 | -59 |
| Div Paid (inc tax) | 0 | 0 | 0 | 0 | -54 | -95 | -123 |
| CF from Fin. Activities | 117 | -212 | -287 | -315 | -173 | -242 | -307 |
| Inc(Dec) in Cash | 41 | 33 | -135 | 9 | 203 | 126 | 138 |
| Add: Opening Balance | 73 | 114 | 146 | 8 | 14 | 212 | 337 |
| Closing Balance | 114 | 147 | 11 | 17 | 217 | 338 | 475 |

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

| | |
|-----------------------------------------------------------|-----|
| Analyst's ownership of the stocks mentioned in the Report | NIL |
|-----------------------------------------------------------|-----|

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.