Sector Thematic

Cement

Spotting the sweet spot

We believe the north and central cement markets in India are in a sweet spot. Despite muted demand, cement prices in these regions have been buoyant, driven by troika of considerable regional consolidation, high clinker utilisation, and a limited influx of new entrants. Companies in these regions are also enjoying low input cost inflation (high PPC sales and higher usage of low cost WHRS power). We believe these benefits will continue to sweeten profitability, validating our preference for companies in these regions. We initiate coverage on two prominent names in these regions: Birla Corporation (BCORP, target price Rs 1,191) and Heidelberg Cement (HEIM, target price Rs 234) with BUY recommendations. Top picks- UltraTech and Ambuja (large caps), JK Cement and Birla Corp (mid-caps).

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INSTITUTIONAL RESEARCH

Cement

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We believe the north and central cement markets in India are in a sweet spot. Despite muted demand, cement prices in these regions have been buoyant, driven by troika of considerable regional consolidation, high clinker utilisation, and a limited influx of new entrants. Companies in these regions are also enjoying low input cost inflation (high PPC sales and higher usage of low cost WHRS power). We believe these benefits will continue to sweeten profitability, validating our preference for companies in these regions. We initiate coverage on two prominent names in these regions: Birla Corporation (BCORP, target price Rs 1,191) and Heidelberg Cement (HEIM, target price Rs 234) with BUY recommendations. Top picks- UltraTech and Ambuja (large caps), JK Cement and Birla Corp (mid-caps).

- **Dissecting industry's pricing power:** Our analysis of regional demand and supply suggests that demand is not the key driver for pricing power. During FY15-20, north/central regions witnessed a robust 4.5% price CAGR, despite a modest 3% demand CAGR. South and west regions with similar demand growth rate experienced 0% and 2% price CAGRs respectively. Concurrently, prices in east grew at a flattish rate of 1%, despite robust ~12% demand CAGR. We believe a combination of three factors explain this dichotomy better: regional capacity consolidation, clinker utilisation, and influx of new entrants.

- **North and central regions in a sweet spot:** These two regions have uniquely enjoyed the troika of massive capacity consolidation, high regional utilisation, and the absence of disturbance from new entrants in the past five years. Our analysis suggests these forces to remain mostly favourable during FY21-23E. Thus, despite a high base, we expect cement prices to continue to firm up in these regions, driving profit momentum.

- **Additional cost triggers:** Moreover, players in north and central regions are largely retail-focused and, hence, major producers of PPC (fly ash based). This has driven low input cost inflation. As cement kilns in these regions are operating at high utilisation, WHRS based low-cost electricity availability is also the highest in these regions, further boosting margins.

- **Initiate coverage two prominent names in these regions - BCORP and HEIM:** We initiate coverage with a BUY on BCROP with a target price of Rs 1,191/sh. It has built a strong retail franchise and is also working on multiple cost reduction programs, which should support its robust margin and boost cashflows. We also initiate coverage on HEIM with a BUY and a target price of Rs 234/sh. HEIM has bolstered its distribution and opex, increased capacity through low cost debottlenecking. All these have led to its industry-leading margin and highest RoE, both of which are sustainable, in our view.

- **Coverage outlook:** We roll forward valuations for our coverage universe on Sep'22E (from Jun'22E earlier), leading to target price upgrades. Post the recent fall in stock price of Shree Cement (a major player in north and central regions), we upgrade it to ADD from REDUCE earlier. We also continue to like other major sellers in north and central regions - Ambuja Cement, JK Cement, and JK Lakshmi. Top picks- UltraTech and Ambuja in the large caps, JK Cement and Birla Corp in the mid-cap space.

COMPANY	RATING	TP (Rs.)
UltraTech Cem	BUY	5,110
Shree Cement	ADD	20,900
Ambuja Cem	BUY	240
ACC	BUY	1,660
Ramco Cement	ADD	742
Dalmia Bharat	BUY	1,055
JK Cement	BUY	1,755
Birla Corp	BUY	1,191
Heidelberg Cem	BUY	234
Star Cement	BUY	125
JK Lakshmi	BUY	395
Orient Cement	BUY	100
Deccan Cement	BUY	410

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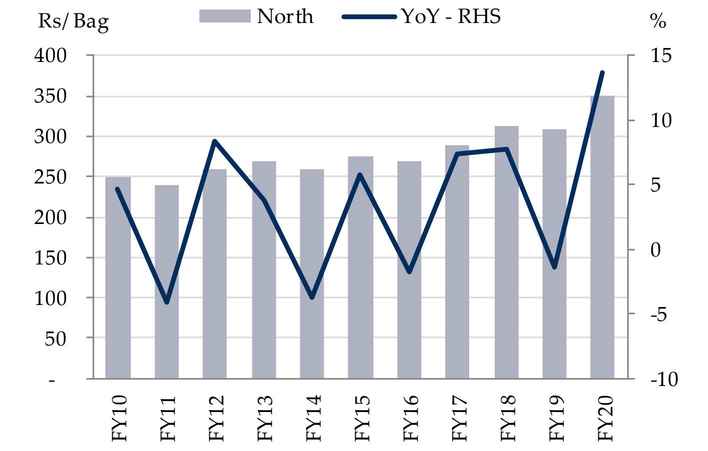
Spectacular pricing trend in north/central regions

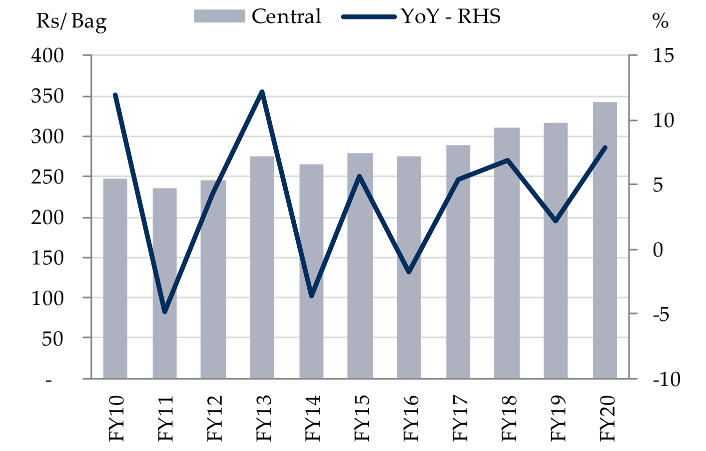
The north and central regions in India each account for about 55mn MT of cement demand. Together they account for one-third of total cement consumption in the country. Over the past five years, cement demand in north/central regions has grown at 2/4% respectively, lower than 5% demand CAGR in the rest of the country. Despite slower demand growth, cement prices in both these regions have risen steadily at ~5/4% CAGR during this period, outpacing the pan-India average price CAGR of 2%. Barring the slight moderation in FY16, cement prices across north and central regions have grown year after year.

Cement price trend in north



Source: HSIE Research

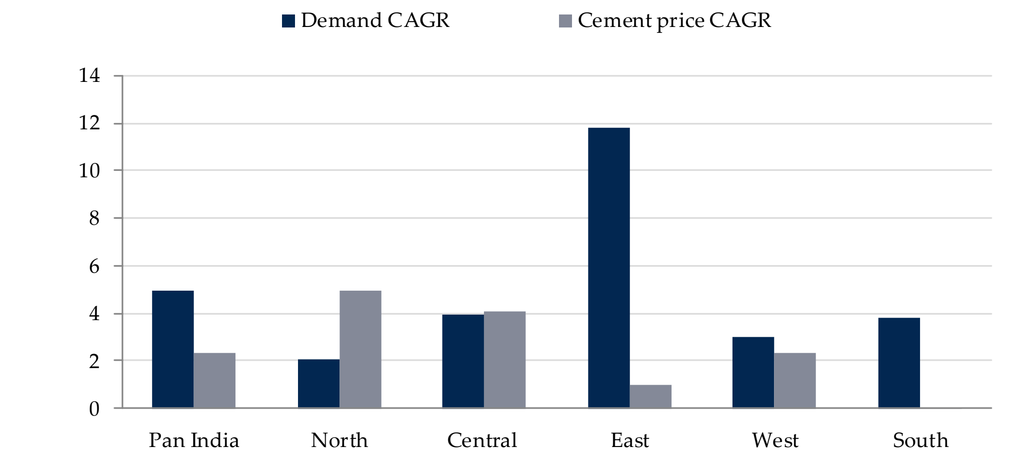
Cement price trend in central



Source: HSIE Research

We can contrast this with the east, west and south regions: the eastern part of the country recorded ~12% volume CAGR during this time, but prices rose at a modest pace of 1% CAGR. Similarly, the western part recorded a modest 3/2% demand/price CAGR, while the south recorded 4/0% demand/price CAGR.

Despite subdued demand, north-central pricing has been strong



Source: HSIE Research

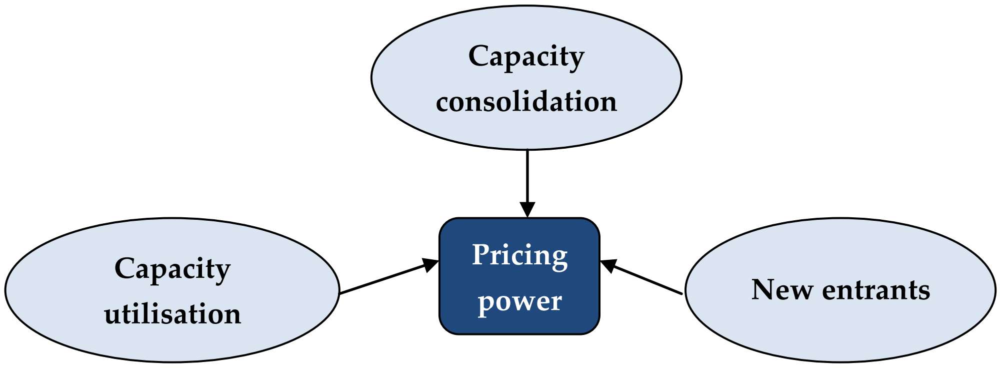
What feeds into strong pricing? Looking beyond demand

In our view, strong regional pricing power in the north and central regions despite muted demand growth can be explained by a combination of three factors: regional utilisation trend, regional capacity consolidation and the influx of new entrants.

The north and central markets have witnessed the best of all these three factors; they have had high regional utilisation, well-consolidated markets, and a limited influx of new entrants. The other regions have been less fortunate in having these three tailwinds concurrently.

Our detailed analysis of these factors suggests that overall price buoyancy would sustain in the north and central regions, going ahead.

The three factors determining pricing power for cement companies



Source: HSIE Research

Capacity consolidation firmed up across north, central regions

The past 3-4 years have seen a spurt in M&A activity in the Indian cement industry. In FY17, Birla Corp acquired Reliance Cements (6mn MT capacity, all in the central region). In the same year, Nuvoco Vistas (earlier Nirma Cement) acquired the eastern major Lafarge Cements (total 11mn MT of which 2.6mn MT in the north and rest in the east).

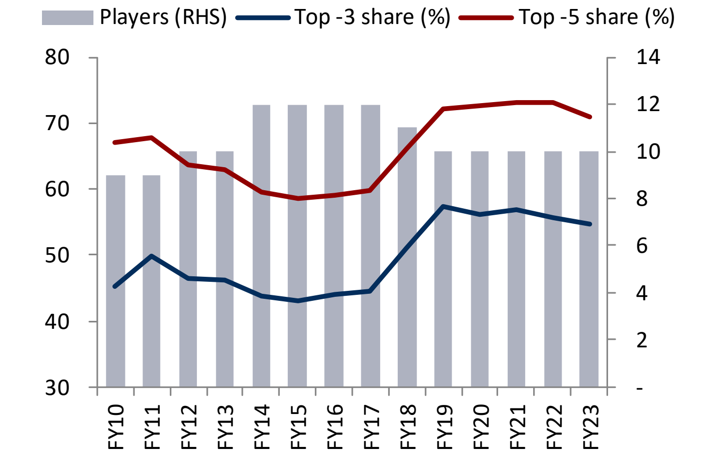
After that, at start of FY18, UltraTech acquired 19mn MT from the ailing JP Associates' cement plants across India (16mn MT across north and central regions). In FY19, UltraTech further acquired Binani Cements (6mn MT all in the north, under NCLT proceedings) and Century Textiles' cement business (4mn MT in central of the total 14.5mn MT acquired). Thus, UltraTech alone consolidated about 26mn MT of regional capacity (~16% of total installed capacity) during FY18-19.

Outside of the north and central regions, the east region benefitted from M&A activity. Century Cement's (3.4mn MT in the east) acquisition by UltraTech and Emami Cement's (8mn MT, all in the east) acquisition by Nuvoco have boosted regional consolidation in FY21.

Thus, the M&A activity has consolidated the capacity share with more prominent players in the north and central regions. The top-5 producers' capacity share in north accelerated from 59% in FY15 to 73% in FY20. Similarly, in the central region, the top-5 producers' capacity share soared from 72% in FY15 to 80% by FY20. Such high consolidation has favourably supported these companies' pricing power in these markets.

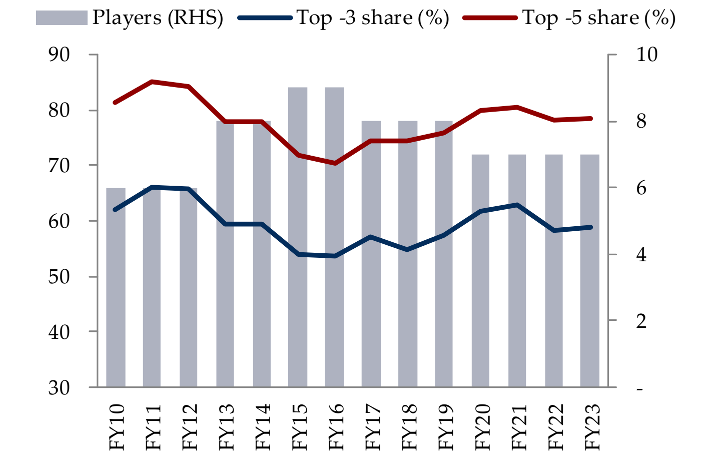
<u>Over the next three years, we estimate the more prominent players to continue to maintain their capacity share. Thus, we do not see any risk to incumbents' pricing power, even on a high base (due to the sharp price increases of the past five years).</u>

North consolidation trend



Source: Company, HSIE Research

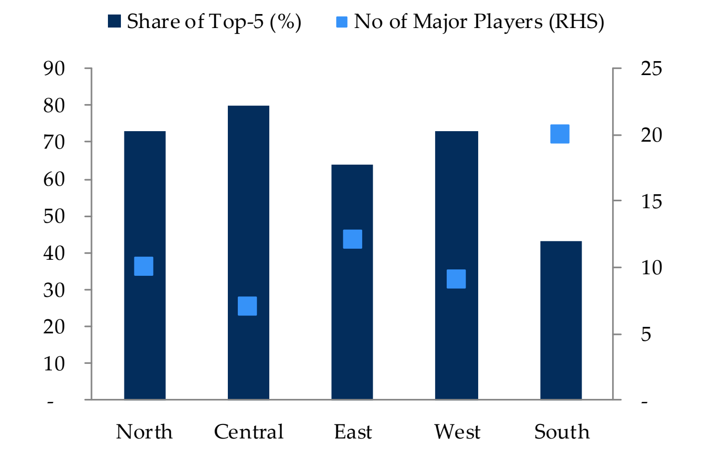
Central consolidation trend



Source: Company, HSIE Research

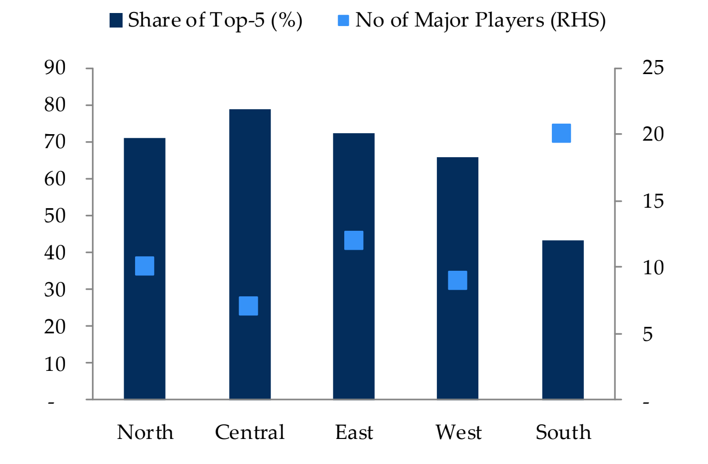
The north and central regions are expected to remain firmly consolidated over the next three years. Even in terms of active players (we classify companies with more than 2mn MT in the region as active players), the north-central region has fewer players and, hence, the impact of competition on regional pricing in these regions is lower. These factors should keep regional cement prices buoyant during FY21-23E.

Consolidation trend FY20



Source: Company, HSIE Research

Consolidation trend FY23E



Source: Company, HSIE Research

Higher regional utilisation

In the past five years, the north and central markets have recorded average grinding utilisations of 75% and 85% respectively. The combined grinding utilisation thus stands at ~80%. Factoring in the impact of a faster pace of split grinding units commissioning in the past 10 years, we estimate average clinker utilisation in these regions to be slightly north of 80%. Thus, despite the moderation in utilisation in the past five years, regional utilisation remains at a healthy level. As most plants are already operating at similar utilisation, the volume push intensity is low in these regions.

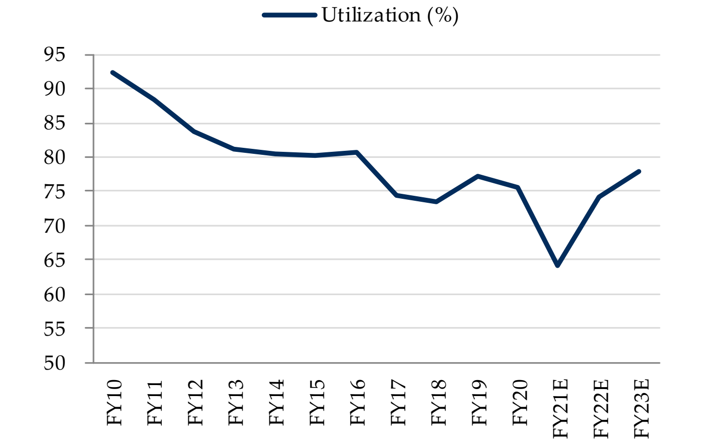
At the same time, utilisation has hovered around ~75/70/55% in the eastern/western/southern regions.

Demand Supply Matrix – North and central regions

(mn MT)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Northern region														
Capacity	51	58	66	70	73	80	88	92	95	98	98	100	102	106
Production	47	51	55	57	58	64	71	68	70	75	74	60	71	77
Utilization (%)	***92***	***89***	***84***	***81***	***80***	***80***	***81***	***74***	***74***	***77***	***76***	***60***	***69***	***73***
Demand	38	41	44	47	46	51	56	52	54	58	56	46	56	60
Demand YoY (%)	***6.3***	***6.0***	***8.1***	***6.0***	***(1.0)***	***9.5***	***10.0***	***(6.0)***	***4.0***	***6.0***	***(3.0)***	***(17.0)***	***20.0***	***7.0***
Central region														
Capacity	28	32	35	39	44	46	50	54	54	56	60	64	68	72
Production	29	31	33	36	38	42	45	43	46	49	51	42	50	54
Utilization (%)	***102***	***98***	***92***	***92***	***86***	***90***	***89***	***79***	***84***	***88***	***86***	***64***	***74***	***75***
Demand	30	34	36	40	42	46	50	49	51	55	55	46	55	59
Demand YoY (%)	***15.8***	***10.2***	***7.5***	***10.0***	***6.5***	***8.0***	***10.0***	***(2.0)***	***4.0***	***8.0***	***-***	***(17.0)***	***20.0***	***7.0***

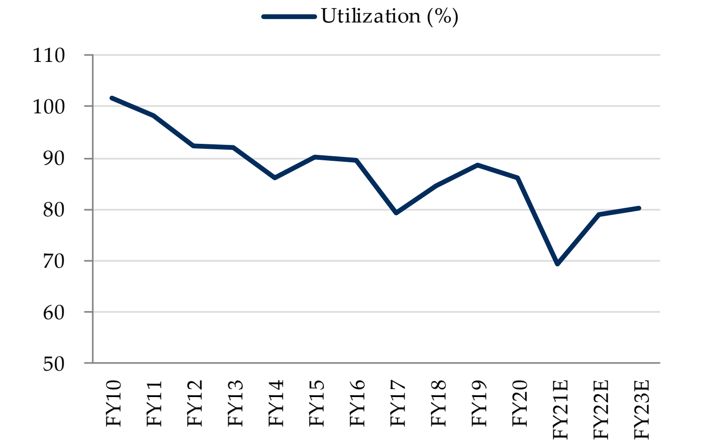
Source: Industry, HSIE Research

North utilisation trend



Source: Industry, HSIE Research

Central utilisation trend

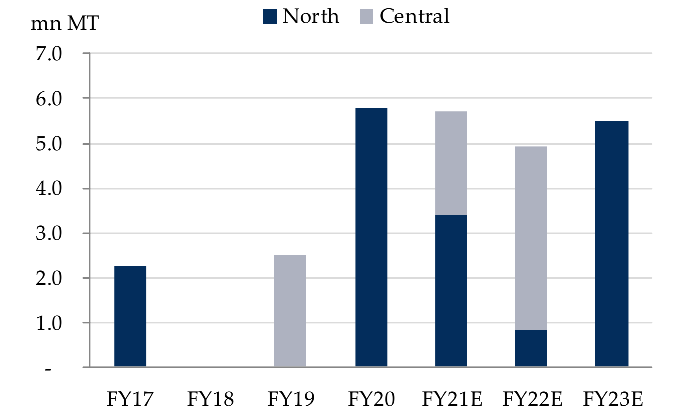


Source: Industry, HSIE Research

Expansion delays and deferments to reduce the impact on utilisation

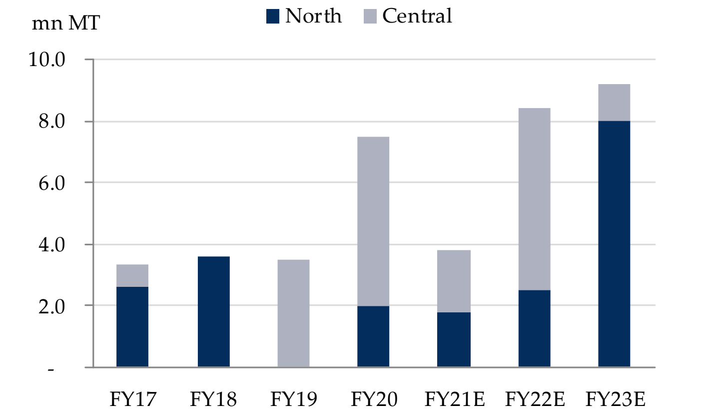
Over the past three years, ~6mn MT of capacity was added in the northern region while 10 mn MT was added in the central region, totalling 15.6mn MT. During FY21-23E, we estimate 12/9 mn MT capacity additions in the northern/central regions respectively, totalling 21mn MT.

Clinker capacity additions during FY17-23E



Source: Company, HSIE Research

Cement capacity additions during FY17-23E



Source: Company, HSIE Research

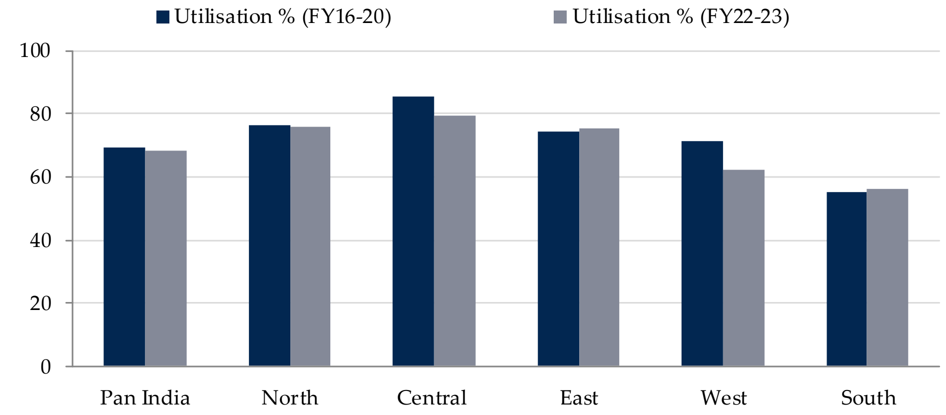
While new expansions in the north are expected to double over the next three years, we note that 4.5mn MT of expansion from Penna Cement would be operational only towards the fag end of FY23E (the project is already delayed, owing to lack of funds), thereby moderating effective supplies until FY23E.

There have been major deferments in capacity additions in these regions too, which have reduced supply pressure. UltraTech postponed its Pali expansion in Rajasthan after it acquired Binani Cements. JK Lakshmi's brownfield expansion plans (in Rajasthan) have also got pushed back as it focused on repairing its balance sheet. Even India Cements' greenfield expansion in MP is significantly delayed on account of its high leverage. Similarly, Birla Corp has deferred its brownfield grinding expansion in UP timeline by at least a year to manage cashflows.

While cement demand and utilisation is adversely impacted on account of COVID-led disruptions, we expect demand rebound to help restore utilisation, FY22 onwards. Thus, the combined grinding utilisation in north and central region would slightly moderate to ~78% during FY22-23E, implying clinker utilisation at ~80%. We concur that the slight moderation can slow down the pace of price increase (vs 5% CAGR during FY15-20) over the next three years.

We already model in slower realisation growth for our coverage universe. However, it is worth noting that regional utilisation in the north and central regions would still be the highest among all regions.

Utilisation in north and central regions expected to remain high



Source: HSIE Research

The low influx of new entrants in these regions

The incumbent manufacturers in the north and central regions are also benefitting from the absence of new entrants. In the north, no new player has entered in the past five years. In the central region, Shree Cement, Mangalam Cement, and Wonder Cement have set up capacities during this time. However, these companies had been selling in this region from the north plants and cannot be termed 'new entrants' in any true sense.

Over the next three years, Penna is expected to be a new entrant (by late FY23) in the north, as it would commission its greenfield plants across Rajasthan, Punjab and Haryana. This can subdue regional pricing power in FY24E as this new company ramps up production to snatch some market share from established players. Sagar Cements will be a new entrant in the central region after many years as it is expected to commission 1mn MT plant in FY22, although that is too small a size to increase competition in the region. Thus, during FY21-23E, impact of new entrants on regional competitive intensity in the north/central markets should remain low, in our view.

Eastern region has seen three new entrants during FY16-20, JK Lakshmi, JSW Cement and Emami Cement, which have impacted regional pricing power. Two southern players Chettinad and Sagar are expected to make a major entry in the eastern region FY22 onwards, as their plants get commissioned.

Similarly, Chettinad and Wonder Cements entered in the west region of Maharashtra during FY16-20, adding to the regional competition. Over the next three years, Shree Cement and Dalmia Bharat will ramp up their factories in Maharashtra, further intensifying competition.

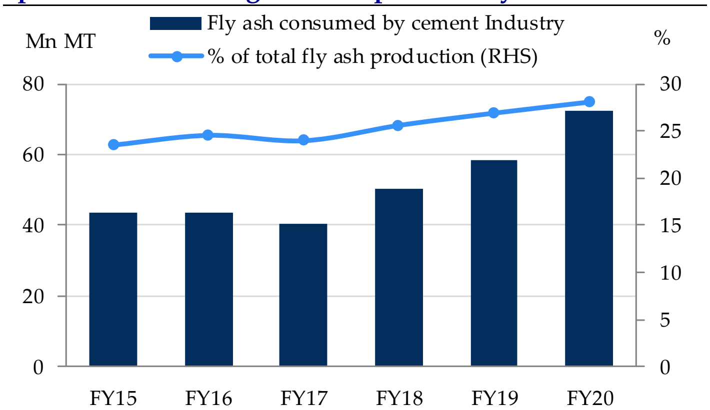
The southern region has not seen any new entrants in recent past other than Shree Cement. Further, there are no new entrants expected over the next three years. As this region is already suffering from extremely low utilisation and volatile pricing, it has not attracted new brands.

North/central regions are the largest PPC producers

In addition to the north and central regions benefitting from robust regional pricing, these regions are also leaders in fly ash based (PPC) cement production. About 75-80% of the cement produced in these regions is PPC. Over the past three years, however, fly ash sale from thermal power plants (TPPs) in east have surged, implying cement manufacturers in east and south regions would have also scaled up their fly ash usage.

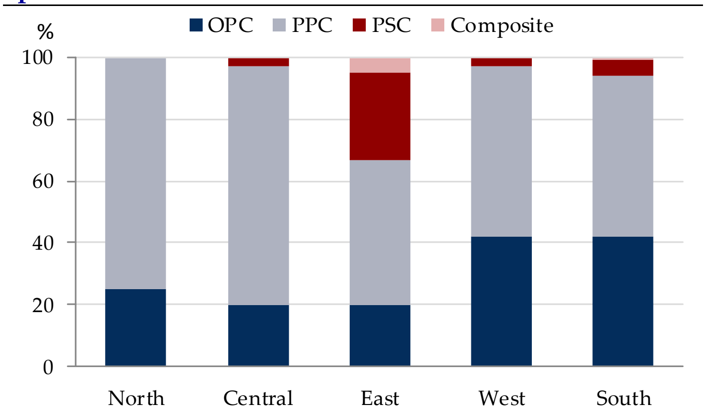
During the period FY17-20, the operational thermal power capacity in India surged at 8% CAGR. Most of these TPPs have come up in central, eastern and southern regions. This has accelerated fly ash production and consumption CAGR to 15/24% respectively.

Fly ash absorption in cement and fly ash based PPC production has surged in the past three years



Source: Industry, HSIE Research

North-central regions high on fly ash-based cement production



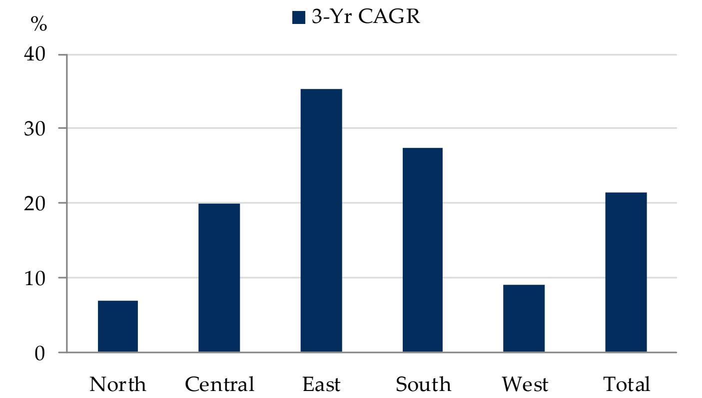
Source: Industry, HSIE Research

The cement industry (already the largest buyer of fly ash) has not been behind with its fly ash consumption growing at 20% CAGR, vs 6.5% cement production CAGR in the same period. This implies the cement industry has increased both PPC production and usage of fly ash in PPC. This is seen as a positive move as it leads to conservation of both limestone and coal (finite resources) and it would also reduce the industry's carbon footprint (lower GHG emissions on rising clinker substitution).

Most companies in the north and central regions are trade sales focussed and, hence, demand for blended cement has been strong, thereby contributing to higher profitability. Even in non-trade, companies have been successful to meet a large chunk of demand through PPC.

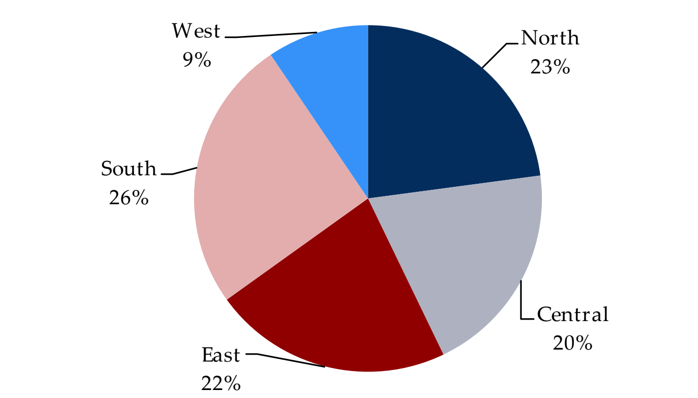
Further, increased clinker substitution with fly ash and an increase in PPC production are both margin accretive as fly ash is cheaper than clinker production cost and also reduces the electricity requirement for subsequent clinker grinding.

Fly ash production growth across various regions during FY17-20



Source: Industry, HSIE Research

Region-wise fly ash production distribution in India



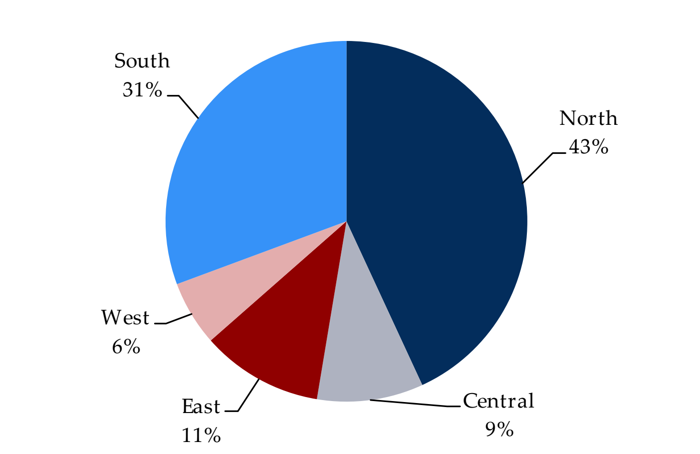
Source: Industry, HSIE Research

High usage of low-cost WHRS

The north and central regions are also major users of WHRS generated electricity. Rajasthan in northern and Madhya Pradesh in the central region have combined WHRS capacity of 336MW. They account for ~52% of the total capacity installed in India. Electricity generation from WHRS is linked to cement kiln operations. Thus, owing to more than 80% utilisation of cement kilns in these regions, WHRS generation is also the highest, leading to higher cost reductions on per MW of installations (compared to other regions).

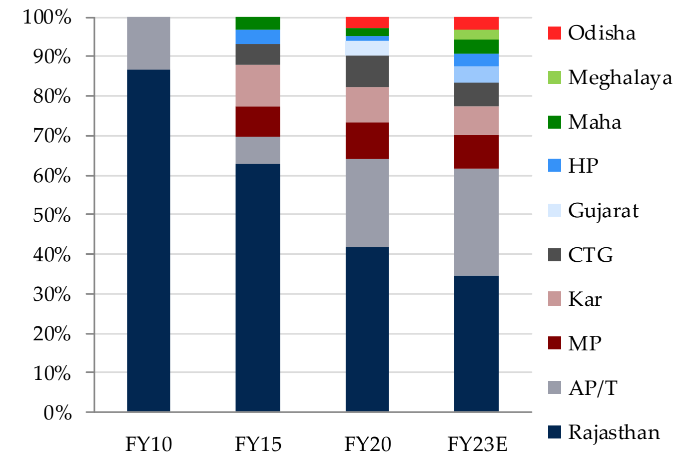
The past few years have seen a surge in WHRS installations across India, with the southern region (AP/T and Karnataka) currently accounting for ~30% of WHRS capacity in India. However, cement kiln utilisation in the southern region is the lowest (below 60%), WHRS output is lower, moderating the margin gains.

Region-wise WHRS installation break-up



Source: Industry, HSIE Research

State-wise WHRS distribution in India



Source: Industry, HSIE Research

North-central focused players in a sweet spot

Based on our assessment of various factors responsible for robust pricing in the north/central regions, we conclude that the pricing environment in these markets remains healthy. Hence regional pricing and hence profitability should sustain at elevated levels and can potentially grow further in the next three years on faster demand recovery.

Further, the manufacturers in these regions also benefit from lower raw material cost (due to clinker substitution with fly ash). Additionally, as clinker utilisation is also the highest in these regions, regional manufacturers have been able to get higher cost reduction from their WHRS generated electricity consumption.

In the exhibit below, we have populated the list of companies with major exposures to north central regions. We have also considered these companies' capacities in the adjacent Gujarat (though it is classified as part of western region) as this state actively buys cement from Rajasthan and MP and also sells cement into Rajasthan, UP and MP.

As show below, companies with large exposure to north/central markets have been continuously posting strong margin with an expansion trend. For the others either the margin expansion has been modest or have already seen margin peak out 2-3 years ago.

North central exposure of our coverage universe

Companies	FY20 Capacity (mn MT)	Exposure to north central markets (%)	EBITDA (Rs/MT)				Vol CAGR (%)
			FY17	FY18	FY19	FY20	FY17-20
UltraTech Cement	110.0	55.5	970	951	857	1,141	*15.4*
Shree Cement	43.3	61.0	1,144	1,073	1,000	1,458	*6.6*
Ambuja Cement	29.6	61.0	789	825	784	897	*3.7*
Birla Corp	15.7	82.1	580	620	680	962	*10.6*
JK Cement	14.0	78.6	483	456	420	818	*7.9*
JK Lakshmi	11.7	70.1	460	483	430	732	*4.9*
Heidelberg Cement	6.3	91.9	624	769	987	1,122	*5.1*
ACC	31.8	31.2	611	672	698	781	*7.9*
Dalmia Bharat	26.1	-	1,238	1,201	1,030	1,091	*8.0*
Ramco Cements	18.8	-	1,359	1,119	895	981	*10.2*
Orient Cement	8.0	-	321	530	487	659	*1.5*
Star Cement	3.7	-	1,472	2,001	1,570	1,337	*1.6*
Deccan Cement	2.3	-	746	581	547	544	*2.5*

Source: Company, HSIE Research

Initiate coverage on two north and central focused companies

We add to our coverage list two prominent mid-cap names in the north, central markets – Birla Corporation and Heidelberg Cement. We already have coverage on the other major players in these regions - Shree Cement, Ambuja Cements, JK Cement and JK Lakshmi. The pan India present - UltraTech has also beefed up its presence in these regions, through a series of acquisitions of JP Associates, Binani Cement and Century Cement.

Birla Corporation: We initiate coverage on Birla Corporation (BCORP) with a BUY rating and a target price of Rs 1,191/share (8.5x Sep'22E consolidated EBITDA). We like BCORP for its sizeable retail presence in the lucrative north/central regions. Further, it has been working on multiple fronts to reduce its raw materials, electricity and supply chain costs, which should help support its decade high margin of Rs 960/MT. Its Rs 29bn Capex (leading to capacity increase by 5mn MT to 21mn MT in FY23E), is spread out, keeping net D/E under 1x.

Heidelberg Cement: We initiate coverage on Heidelberg Cement (HEIM) with a BUY rating and a target price of Rs 234 (8.5x Sep'22E EBITDA). We estimate healthy pricing and demand in the central region along with HEIM's robust cost controls to bolster its unitary EBITDA from Rs 1,100/MT in FY20 to ~Rs 1,200/MT in FY22E. The recent capacity debottlenecking should drive growth for the next 3-4 years. Robust operating profits and asset sweating have buoyed HEIM's FY20 RoE to best in the industry, and we expect this to sustain.

Valuation Summary - Coverage stocks

We maintain our positive stance on the sector as a whole, owing to healthy retail sales traction seen amid COVID. The eastern, northern and central regions are in fact posting demand growth (sub 10% in the past four months) on account of robust demand in the semi-urban and rural areas. Non trade sales continue to decline, though the pace is moderating. South and west markets are still declining, on both weak retail and non-trade sales.

We maintain our estimates for coverage stocks. We have rolled forward valuations for our coverage universe on Sep'22E (from Jun'22E earlier), leading to target price upgrades. **Post the recent fall in stock price of Shree Cement (a major player in north and central regions), we upgrade it to ADD from REDUCE earlier**. We also reiterate BUYs on other major sellers in north and central regions - Ambuja Cement, JK Cement, and JK Lakshmi. We also remain positive on the other companies under coverage, owing to their strong distribution, cost controls and attractive valuations.

Top picks: UltraTech and Ambuja in the large caps. JK Cement and Birla Corp in the mid-caps.

Valuation Summary for coverage universe

Company	Mcap (Rs bn)	CMP (Rs/sh)	New Rating	Old Rating	New TP	Old TP	Val multiple (x)	EV/EBITDA (x)			EV/MT (Rs bn)		
								FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech Cement	1,134	3,929	BUY	BUY	5,110	4,915	15.0	15.5	12.6	10.9	10.77	10.13	9.81
Shree Cement	680	18,840	ADD	REDUCE	20,900	20,900	16.0	18.8	16.0	13.6	12.1	10.7	13.17
Ambuja Cement	408	205	BUY	BUY	240	230	11.0	11.3	10.2	8.4	7.71	7.67	7.35
ACC	253	1,349	BUY	BUY	1,660	1,610	10.0	10.6	8.7	7.5	6.62	6.64	5.38
Ramco Cement	167	709	ADD	ADD	742	713	12.0	17.3	12.6	10.9	10.12	9.08	8.97
Dalmia Bharat	147	763	BUY	BUY	1,055	1,005	10.0	10.7	8.6	6.9	6.32	5.03	4.43
JK Cement	118	1,525	BUY	BUY	1,755	1,635	10.0	12.3	10.4	8.4	7.50	7.53	7.47
Birla Corp	51	660	BUY	NR	1,191	NA	8.5	7.9	6.5	5.5	7.89	6.54	5.52
Heidelberg Cement	41	179	BUY	NR	234	NA	8.5	8.1	6.8	6.7	6.26	6.65	6.99
Star Cement	36	86	BUY	BUY	125	120	9.0	8.6	6.8	5.9	7.88	6.92	6.56
JK Lakshmi	29	251	BUY	BUY	395	385	8.0	7.4	6.0	5.7	3.30	3.28	3.24
Orient Cement	12	60	BUY	BUY	100	95	7.0	5.9	5.6	5.7	2.77	2.79	3.28
Deccan Cement	3.9	275	BUY	BUY	410	380	5.5	4.4	4.5	5.0	1.45	2.18	2.85

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, ^ *Target multiples are EV/EBITDA based*

Financial and operational Summary for coverage universe

	Net Sales (Rs bn)			Revenue YoY (%)			EBITDA (Rs bn)			EBITDA YoY (%)			APAT Rev (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY21E	FY21E	FY22E	FY23E
UltraTech $	352.44	426.28	468.72	(16.3)	21.0	10.0	81.85	97.02	109.33	(13.1)	18.5	12.7	30.76	41.62	52.23
Shree Cem	107.12	123.38	144.49	(10.0)	15.2	17.1	33.84	39.48	46.75	(7.9)	16.7	18.4	12.26	14.44	19.30
Ambuja Cem	100.91	115.51	130.06	(13.5)	14.5	12.6	21.44	23.68	27.44	(0.2)	10.5	15.9	13.54	14.66	17.38
ACC $	129.95	151.78	177.47	(17.0)	16.8	16.9	19.87	24.15	27.06	(17.6)	21.5	12.1	11.21	14.40	15.80
Ramco Cem	47.48	60.12	70.33	(11.6)	26.6	17.0	11.46	14.85	16.90	0.8	29.5	13.8	5.51	6.97	8.78
Dalmia Bharat $	87.71	107.59	124.74	(8.5)	22.7	15.9	17.52	20.56	24.00	(16.8)	17.3	16.8	1.38	3.65	6.52
JK Cement $	58.79	69.03	80.34	1.3	17.4	16.4	11.90	14.06	17.41	(2.0)	18.2	23.9	4.47	5.71	8.04
Birla Corp $	61.22	71.70	84.45	(11.5)	17.1	17.8	11.73	13.93	16.35	(12.2)	18.8	17.4	3.76	4.33	5.28
Heidelberg	19.70	23.79	25.84	(9.2)	20.8	8.6	4.87	6.08	6.52	(7.7)	24.8	7.2	2.31	3.25	3.36
Star Cem $	17.23	21.66	24.56	(6.5)	25.7	13.4	3.94	5.00	5.97	(0.3)	27.1	19.2	2.75	3.55	4.22
JK Lakshmi	34.30	41.41	48.54	(15.2)	20.7	17.2	5.21	6.37	8.01	(22.5)	22.3	25.7	1.61	2.24	2.80
Orient Cem	21.05	24.34	27.06	(13.1)	15.6	11.2	3.79	3.98	4.56	(1.0)	5.0	14.7	0.94	1.14	1.67
Deccan Cem	4.91	5.93	7.09	(11.6)	20.6	19.6	0.73	1.09	1.29	(6.3)	48.2	18.8	0.36	0.62	0.71

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, $ Consolidated

	Sales Vol (mn MT)			Sales Vol YoY (%)			NSR (Rs/MT)			EBITDA (Rs/MT)			Opex (Rs/MT)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech $	69.0	83.5	90.0	*(16.3)*	*21.0*	*7.8*	5,106	5,106	5,208	1,186	1,162	1,215	3,920	3,944	3,993
Shree Cem	21.9	25.3	29.0	*(12.1)*	*15.3*	*14.9*	4,712	4,752	4,858	1,529	1,553	1,602	3,183	3,199	3,256
Ambuja Cem	20.4	23.1	25.4	*(14.7)*	*13.0*	*10.0*	4,938	5,002	5,120	1,049	1,026	1,080	3,889	3,977	4,040
ACC $	24.5	28.2	32.4	*(15.3)*	*15.0*	*15.0*	4,861	4,943	5,053	780	815	795	4,080	4,128	4,258
Ramco Cem	9.6	12.0	13.8	*(14.0)*	*25.0*	*15.0*	4,877	4,938	5,031	1,160	1,197	1,190	3,717	3,741	3,841
Dalmia Bharat $	17.8	22.2	25.5	*(7.5)*	*24.5*	*14.8*	4,917	4,843	4,892	982	925	941	3,935	3,918	3,951
JK Cement $	10.6	12.3	14.1	*3.7*	*16.2*	*14.1*	5,535	5,593	5,707	1,120	1,139	1,237	4,415	4,454	4,470
Birla Corp $	12.1	14.9	18.6	*(11.6)*	*23.3*	*25.1*	4,849	4,785	4,892	961	953	965	3,888	3,833	3,927
Heidelberg	4.2	5.0	5.3	*(10.7)*	*19.0*	*7.0*	4,690	4,760	4,831	1,159	1,216	1,219	3,530	3,544	3,613
Star Cem $	2.8	3.7	4.3	*(5.4)*	*32.8*	*15.0*	5,971	5,790	5,750	1,408	1,347	1,397	4,607	4,453	4,353
JK Lakshmi	7.7	9.3	10.9	*(15.8)*	*20.6*	*16.6*	4,435	4,438	4,464	673	683	736	3,761	3,755	3,727
Orient Cem	4.8	5.6	6.1	*(18.0)*	*18.0*	*9.0*	4,421	4,333	4,420	796	708	745	3,626	3,625	3,674
Deccan Cem	1.2	1.5	1.7	*(15.0)*	*20.0*	*19.0*	4,014	4,035	4,055	600	740	739	3,415	3,294	3,316

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, $ Consolidated

	OPM (%)			RoCE (%)			RoE (%)			Net D:E (x)			Capex (Rs bn)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech $	15.3	15.9	15.2	6.4	7.6	8.8	7.6	9.5	10.9	0.3	0.2	0.1	22.00	20.00	39.50
Shree Cem	21.2	20.5	21.1	8.5	9.1	11.0	9.2	10.1	12.4	(0.3)	(0.3)	(0.3)	17.00	25.00	35.00
Ambuja Cem	20.0	19.1	19.2	6.2	6.4	7.3	6.0	6.2	7.1	(0.7)	(0.7)	(0.7)	17.50	8.50	10.00
ACC $	14.9	18.4	18.2	9.2	11.2	11.5	9.5	11.6	11.9	(0.4)	(0.3)	(0.4)	16.00	16.00	10.00
Ramco Cem	20.2	20.4	21.7	6.9	8.8	10.2	10.7	12.2	13.7	0.6	0.3	0.3	12.00	1.75	9.00
Dalmia Bharat $	15.2	15.4	16.5	2.3	3.7	5.1	1.3	3.4	5.8	0.4	0.3	0.1	12.00	5.80	8.00
JK Cement $	18.0	16.3	16.9	8.6	9.4	11.4	14.0	15.7	19.0	0.8	0.7	0.6	7.50	9.00	9.00
Birla Corp $	21.2	20.5	21.1	5.5	6.0	6.8	9.1	8.8	9.2	0.8	0.7	0.7	14.80	6.50	7.80
Heidelberg	21.2	20.5	21.1	12.6	16.2	15.1	17.0	21.8	20.2	(0.1)	0.1	0.2	0.40	5.00	5.00
Star Cem $	24.1	24.7	24.0	16.2	18.6	19.9	13.7	16.1	17.2	(0.1)	(0.1)	(0.1)	3.05	4.10	4.50
JK Lakshmi	31.6	32.0	32.4	6.9	8.1	8.6	9.0	11.4	12.7	0.5	0.6	0.8	2.00	6.00	11.00
Orient Cem	22.8	23.1	24.3	6.7	7.1	8.4	8.1	9.2	12.3	0.8	0.8	1.0	0.60	2.60	6.70
Deccan Cem	23.2	22.8	23.3	6.9	9.5	8.9	7.7	12.3	12.6	(0.1)	0.2	0.4	0.25	2.25	2.30

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY20E/21E /22E resp, $ Consolidated

Birla Corporation

Multiple triggers

We initiate coverage on Birla Corporation (BCORP) with a BUY rating and a target price of Rs 1,191/share (8.5x Sep'22E consolidated EBITDA). We like BCORP for its sizeable retail presence in the lucrative north/central regions. Further, it has been working on multiple fronts to reduce its raw materials, electricity and supply chain costs, which should help support its decade high margin of Rs 960/MT. Its Rs 29bn Capex (leading to capacity increase by 5mn MT to 21mn MT in FY23E), is spread out, keeping net D/E under 1x.

- **Strong presence in the lucrative north/central markets:** BCORP currently sells ~75% of its cement in these regions, benefitting from strong regional pricing. BCORP has also set up strong distribution, thus majorly selling in retail segment (80%). The company has increased the share of premium cement products to ~40% of its trade sales (among the highest in the industry), thus shoring up its realisation and margin.
- **Various ongoing cost reduction initiatives to bolster margin:** BCORP has increased blended cement production to 93%, thus reducing production cost. Its opex will further benefit from recent WHRS and solar power plants addition, doubling of captive coal mining, and the ongoing major supply chain rationalisation exercise. Cumulatively, these can lower its opex by ~Rs 140/MT and offset ~Rs 100/MT revenue loss from partial incentive expiration at the acquired Reliance Cements' plants. Thus, we expect unitary EBITDA to remain firm at ~Rs 950/MT level achieved in FY20.
- **Balance sheet to remain healthy despite significant Capex:** During FY20-23E, BCORP would incur total Capex of ~Rs29 bn towards 4mn MT greenfield plant in Maharashtra (FY22E), 0.6mn MT clinker debottlenecking in Rajasthan (FY22E) and 1.2mn MT SGU expansion in UP, leading to 21mn MT capacity by FY23E. Owing to the spread-out Capex, we expect net D/E to remain under 1x and net debt/EBITDA at ~2.5x during FY22-23E.
- **Valuation rerating delayed due to ownership tussle, initiate with BUY**: Despite BCORP scaling margin to the decade high of Rs 960/MT in FY20, and ongoing expansions without stressing the balance sheet, it trades at a 30% discount to its peers. As BCORP is run by professionals at the helm, with promoter Mr Harsh Lodha as a non-executive Chairman, the legal tussle has not impacted BCORP's growth story. We, thus, remain confident that the valuation gap will narrow, once balance sheet and return ratios improve further. We initiate coverage with a BUY rating and a target price of Rs 1,191, valuing it at 8.5x its Sep'22E consolidated EBITDA.

Consolidated Financial Summary

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	32,682	43,477	57,300	65,487	69,157	61,219	71,701	84,450
EBITDA	2,861	6,236	8,081	9,487	13,360	11,727	13,929	16,355
APAT	1,992	2,264	1,664	2,558	5,052	3,756	4,327	5,282
AEPS (Rs)	25.9	29.4	21.6	33.2	65.6	48.8	56.2	68.6
EV/EBITDA (x)	15.4	13.9	10.6	8.8	6.3	7.9	6.5	5.5
EV/MT (Rs bn)	4.75	5.54	5.47	5.35	5.38	5.90	4.65	4.34
P/E (x)	25.5	22.5	30.5	19.9	10.1	13.5	11.7	9.6
RoE (%)	6.9	7.3	4.9	7.2	13.2	9.1	8.8	9.2

Source: Company, HSIE Research

BUY

CMP *(as on 22 Sep 2020)*	Rs 660
Target Price	Rs 1,191
NIFTY	11,154

KEY STOCK DATA	
Bloomberg code	BCORP IN
No. of Shares (mn)	77
MCap (Rs bn) / ($ mn)	51/692
6m avg traded value (Rs mn)	209
52 Week high / low	808/372

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	12.2	30.5	10.7
Relative (%)	4.1	4.3	11.4

SHAREHOLDING PATTERN (%)	Mar-20	Jun-20
Promoters	69.39	69.39
FIs & Local MFs	8.34	8.00
FPIs	10.41	9.70
Public & Others	11.86	12.91
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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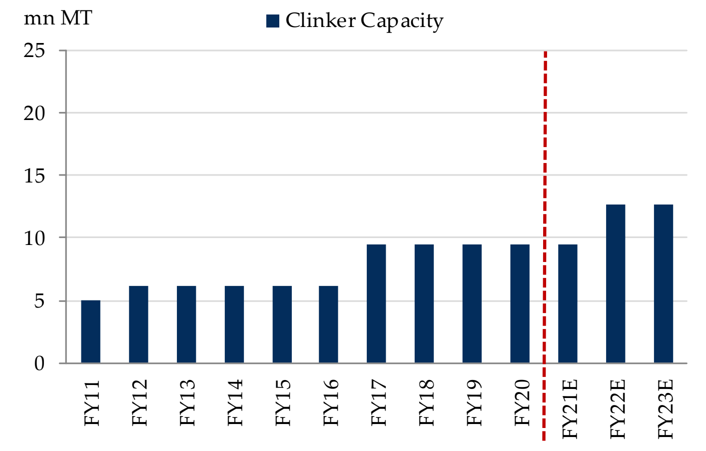
Benefits of major sales in lucrative region and brand premiumisation

Birla Corporation (BCORP) is headquartered in Kolkata and is promoted by Mr R S Lodha. The company has 15.7mn MT cement capacity spread across the states of Rajasthan, UP, MP, Maharashtra and West Bengal. The company has integrated units in Rajasthan and MP. In UP, Maharashtra and West Bengal, BCORP has split GUs. It has 9.5mn MT of clinker capacity spread across Rajasthan and Madhya Pradesh.

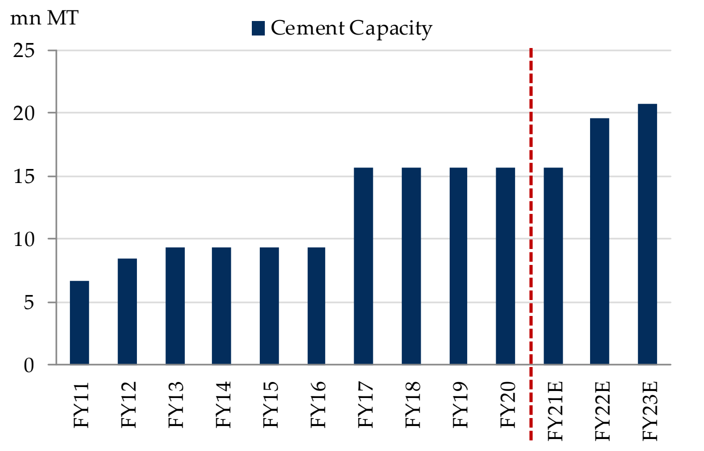
The north-central markets account for ~80% of its total installed capacity. As BCORP is expanding capacity in UP and adding a greenfield plant in Maharashtra by FY23E. Even after these expansions, north-central regions will continue to comprise 70% of its installed capacity.

Clinker expansion in Rajasthan and Greenfield addition in Maharashtra to lead to 13mn MT capacity



Source: Company, HSIE Research

Similarly, Greenfield expansion in Maharashtra and brownfield in UP lead to 21mn MT cement capacity



Source: Company, HSIE Research

In terms of sales, north-central regions account for ~75% of its total cement sales (north 20-25%, central 50-55%). In the north, BCORP sells mainly in Rajasthan. Eastern region (mainly Bihar and West Bengal) accounts for ~20% of its total sales and the west accounts for the rest 5%.

BCORP has always been a trade-focussed player. In the past 10 years, blended cement has been over 85% of its production, while in FY20 the same is hovering at 93%. Trade sales comprised 81% of total cement sales during FY19/20. In the trade segment, BCORP has been able to achieve high premiumisation. The share of premium cement sales soared to 41% (of trade sales in FY20) vs 37% YoY, thus bolstering realisation.

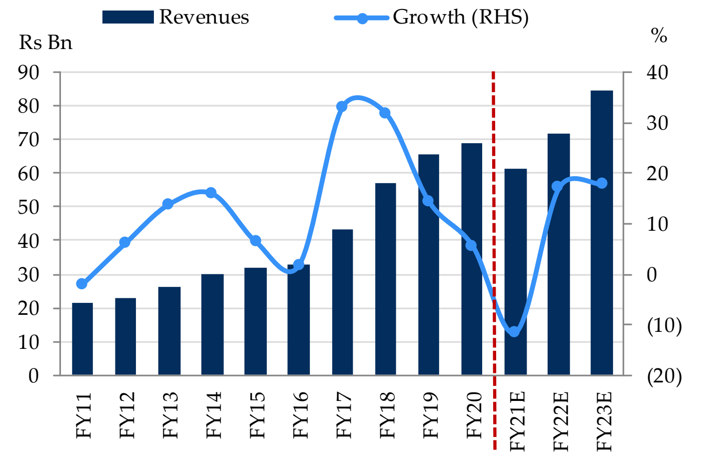
Even in the non-trade segment, BCORP meets 50% of the segmental demand through blended cement.

As per our channel checks, BCORP has a tier-1 brand presence in UP markets and sells at a modest 2-3% discount to top brands in MP and Bihar. These markets comprise ~60% of its total cement sales. In other markets, BCORP sells below tier-1 brands.

Healthy regional pricing should offset the incentive expiration impact. BCORP's revenues currently benefit from ~Rs 300/MT of GST incentives on the acquired Reliance Cement plants, which results in about Rs 130/MT of incentive income on a consolidated basis. This may reduce to ~Rs 40/MT FY22 onwards, as a major portion of incentives at Reliance Cement expires.

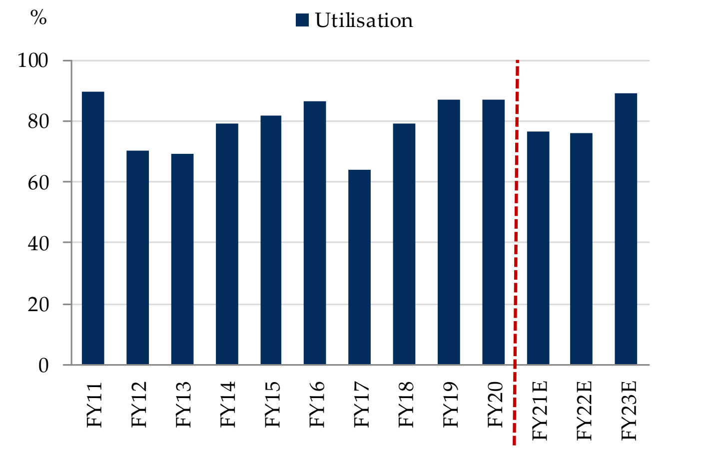
<u>Thus, despite this incentive loss, healthy pricing should drive ~0.5% NSR CAGR during FY20-23E.</u>

Demand recovery & capacity ramp-up to drive growth…



Source: Company, HSIE Research

… and boost utilisation



Source: Company, HSIE Research

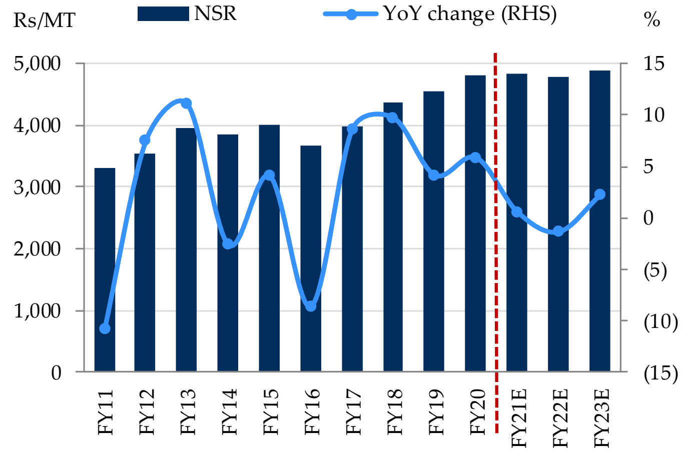
Multiple operating cost triggers

- **Sufficient limestone reserves**: BCORP has about 25 years of limestone reserves for its existing cement capacities. It has also significantly improved mechanical mining at its Chanderia mines, which reduced external limestone purchase to 20% (of its requirement in Rajasthan). The company also has large limestone reserves across India, which it has acquired along with the Reliance Cement acquisition in 2017. Thus, its limestone requirement for future expansions is secured.
- **Robust power infrastructure:** BCORP has 54 MW of CPP and 35 MW of WHRS (of this, 11 MW got commissioned in FY20). Additionally, it also commissioned 14MW of solar power plants across various locations in FY20. It is also setting up another 20MW of solar power plants through JVs to source power at a low cost. Subsequently, these will meet ~55% of its power requirements.
- Of these, WHRS and solar power account for ~25% of its electricity requirement, which is at significantly low cost to even CPP generated power cost.
- The WHRS and solar power commissioning are expected to contribute about ~Rs 800mn of annual operating cost reduction (~Rs 60/MT by FY22E vs FY20).
- **Captive coal mining**: BCORP is ramping up its captive coal mining in MP from the current run rate of 0.15mn MT per annum to 0.3 mn MT per annum in the next few years.
- **Fly ash**: BCORP has also invested in dedicated fly-ash rakes and contracted fly-ash sourcing at competitive prices in the central region. Combined with benefits from increasing captive coal supplies, this could lower the company's costs by ~Rs 30/MT.
- **Supply chain rationalisation**: BCORP has undertaken an organisation-wide supply chain improvement exercise, which is expected to contribute ~Rs ~50/MT in cost reduction FY23E onwards.
- **The upcoming expansions to further reduce operating costs**: BCORP's upcoming 3.9mn MT integrated plant in Maharashtra will have 40MW CPPs and 11MW WHRS, which will totally meet its electricity requirements at low cost. Railway siding commissioning and planned grinding expansion at Kundanganj in UP (1.2mn MT) will also increase BCORP's market reach in the central region at a lower cost.

- Thus, various cost reduction initiatives should reduce operating cost by up to ~140/MT in FY23E vs FY20, and moderate cost inflation. Subsequently, we expect BCORP opex to grow at a subdued rate of 0.7% CAGR during FY20-23E.

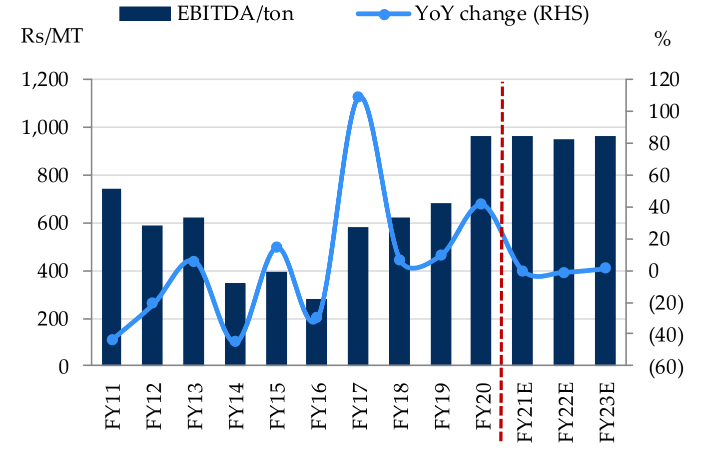
- **Margin expansion sustainable:** Robust pricing outlook and ongoing cost reduction majors should offset the incentive loss, thereby leading to the sustenance of its healthy margin at ~Rs 950/MT levels.

Strong fundamentals in north/central regions to support its buoyant realisation to sustain



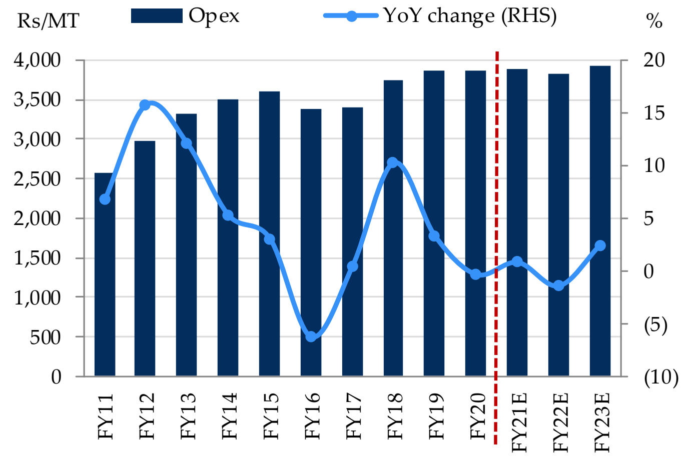
Source: Company, HSIE Research

Unitary EBITDA rebound to its decade high and should sustain on realisation and cost triggers



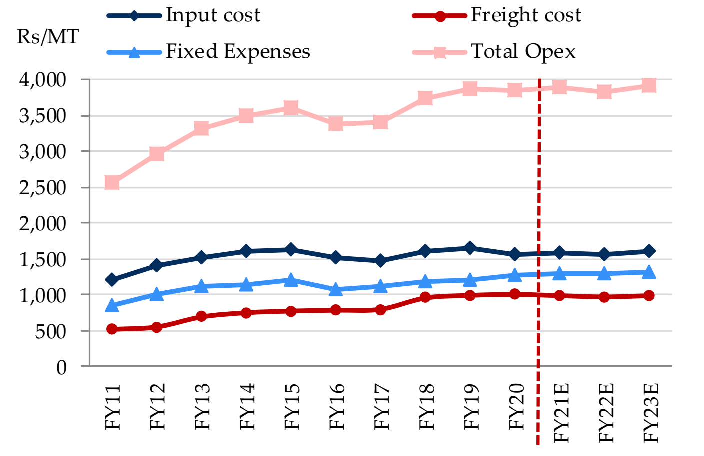
Source: Company, HSIE Research

Various ongoing cost controls measures to keep cost inflation in check



Source: Company, HSIE Research

Opex trends

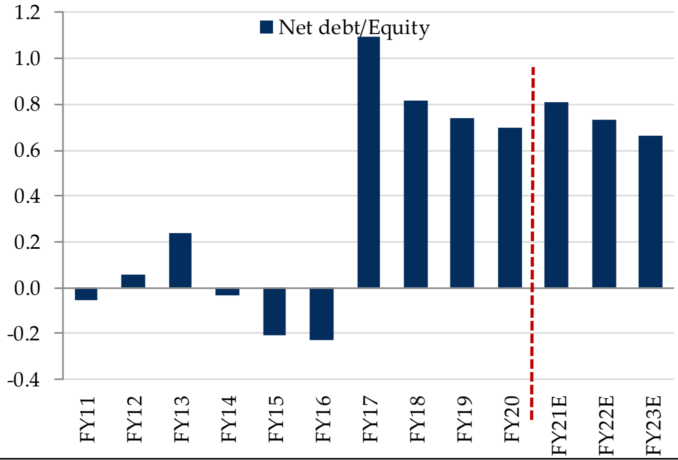


Source: Company, HSIE Research

Stable balance sheet despite ongoing expansions

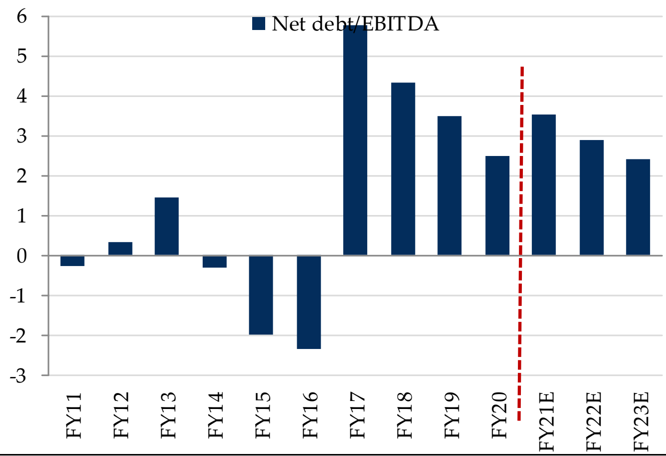
BCORP is currently working on a 3.9mn MT Greenfield integrated plant in Butibori (Maharashtra), clinker debottlenecking by 0.6mn MT in Chanderia (Rajasthan) by 1HFY22 and brown-field SGU expansion by 1.2mn MT at Kundanganj (UP) in FY23. The project cost for Maharashtra, UP and Rajasthan expansions are pegged at Rs 24.5/2.9/1.5bn respectively. Of the total project cost of Rs 29bn, BCORP has already spent ~40% until FY20. The rest will be spent majorly during FY21/22E. As BCORP has deferred its UP grinding expansion (mostly in FY23E), it will largely incur Capex for the same in FY23E. Thus, it can contain net D/E at 1x or below. Net debt/EBITDA, should cool off from 3.5x in FY21E (owing to COVID-led EBITDA loss) to 2.4x as cashflows accelerate.

Despite major Capex, net D/E metric should remain below 1x



Source: Company, HSIE Research

Owing to slow ramp-up initially, net Debt/EBITDA will take time to cool off



Source: Company, HSIE Research

DuPont analysis

In FY20, BCORP's RoE (+13.2%) rebound to its 10-year high, driven by net margin recovery on financial leverage. Asset turn, however, remained subdued at 0.7x, which moderated RoE expansion. Financial leverage is high on account of ongoing expansions. Asset turn remains subdued on account of the inorganic acquisition of Reliance Cements in 2017, and current ongoing expansions have further depressed it. In FY17, BCORP's capital employed doubled to ~Rs 100bn post-acquisition of Reliance Cement (as a 100% owned subsidiary). While this subsidiary is generating higher EBITDA than standalone BCORP, elevated depreciation and interest expense related to the same has suppressed net margin expansion on a consolidated basis.

We expect asset sweating benefits to be gradual. Even net margin recovery post-COVID impacted FY21E would be subdued during FY22/23E due to capitalisation of Maharashtra expansion. We also expect leverage to moderate during FY21-23E.

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net margin (%)	6.1	5.2	2.9	3.9	7.3	6.1	6.0	6.3
Asset turnover (x)	0.7	0.7	0.6	0.7	0.7	0.5	0.6	0.7
Leverage factor (x)	1.6	2.1	2.7	2.8	2.7	2.7	2.5	2.2
RoE (%)	**6.9**	**7.3**	**4.9**	**7.2**	**13.2**	**9.1**	**8.8**	**9.2**

Source: Company, HSIE Research

Ownership tussle has impacted valuation rerating

BCORP is an integral part of the MP Birla group of companies. The current promoter of MP Birla group - Lodhas (currently Mr Harsh Lodha, non-executive Chairman of BCORP) – have been fighting a legal ownership battle against the Birlas for the past 16 years. The case is currently lodged in the Calcutta High Court. In 2012, the court had appointed an APL Committee (committee of Administrators Pendente Lite of the estate of Priyamvada Birla), which has been overseeing the corporate decisions.

Despite the legal tussle, BCORP is being run by a non-promoter professional team. Subsequently, BCORP has been able to acquire Reliance Cement in 2016 and is further expanding capacity in central and Maharashtra markets, thus continuously addressing growth outlook. BCORP has also been able to execute various opex reduction measures, leading to healthy margins.

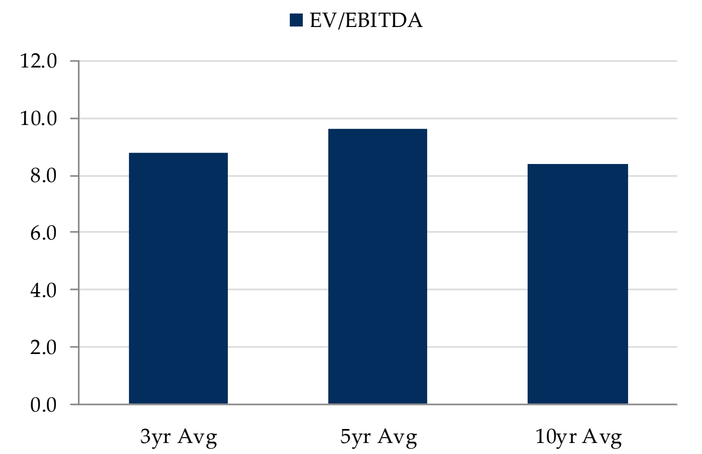
BCORP is en-route to becoming a 20mn MT franchise in FY22E, thus retaining its seventh position in the Indian cement industry (neck to neck with The Ramco Cements at the sixth spot). Further, it will continue to derive a significant chunk of its sales from the lucrative north/central regions. The Maharashtra plant is expected to cater to demand in the western part of Maharashtra. Armed with low operating cost and state incentives (~Rs300-400/MT), even this plant should deliver a similar operating margin as that in the north/central regions.

Valuations

In our view, while the ownership tussle is a sub judice matter, BCORP's operations have not suffered from this, owing to presence of a professional management team at helm. However, this has restrained valuation rerating for the company, in line with strong regional fundamentals and despite BCORP's strong distribution and cost controls bolstering margins.

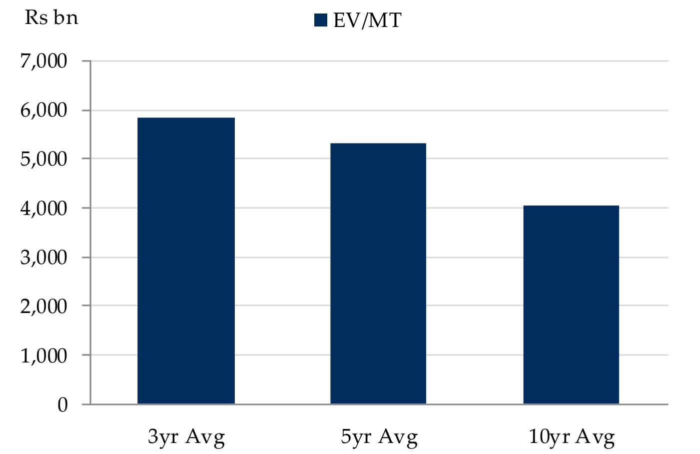
BCROP has traded at 9/9.5/8.5x forward EV/EBITDA in the past 3/5/10 years respectively. On a replacement cost basis, its 3/5/10 year averages stand at Rs 5.8/5.3/4.0bn per mn MT respectively.

BCORP's 1 yr forward EV/EBITDA long term trends



Source: Company, HSIE Research

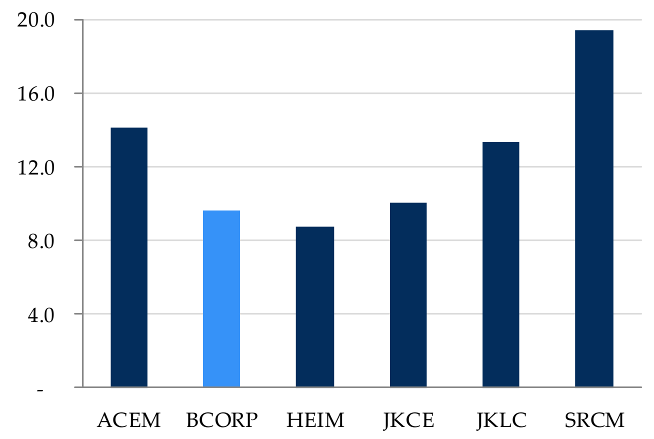
BCORP's 1 yr forward EV/MT long term trends



Source: Company, HSIE Research

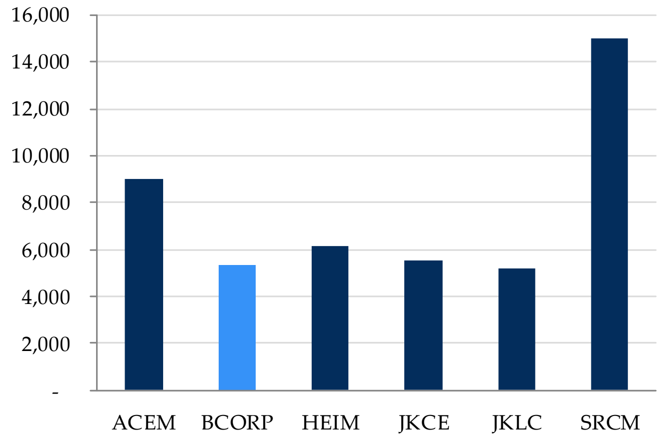
We value BCROP at 8.5x its Sep'22E EBITDA (10% discount to recent mean valuation) to factor in elevated net debt/EBITDA metrics and subdued RoCE profile. We also ascribe 50% value to its CWIP, related to ongoing Maharashtra expansions. This implies a target price of Rs 1,191/share.

EV/EBITDA comparison vs peers – BCORP trading at a deep discount



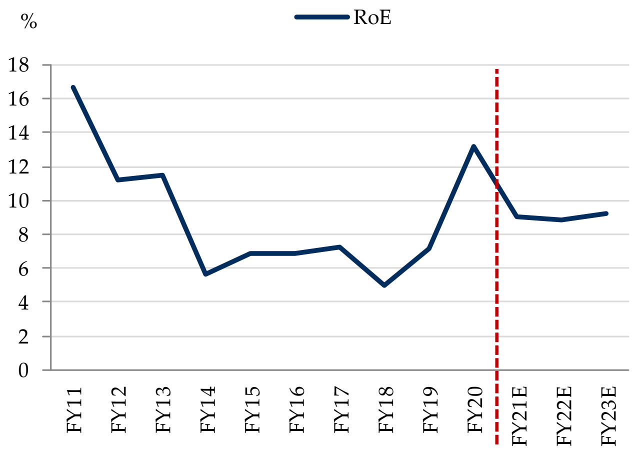
Source: Company, HSIE Research

EV/MT comparison vs peers (Rs bn/MT): Even on this parameter, it is trading at a discount



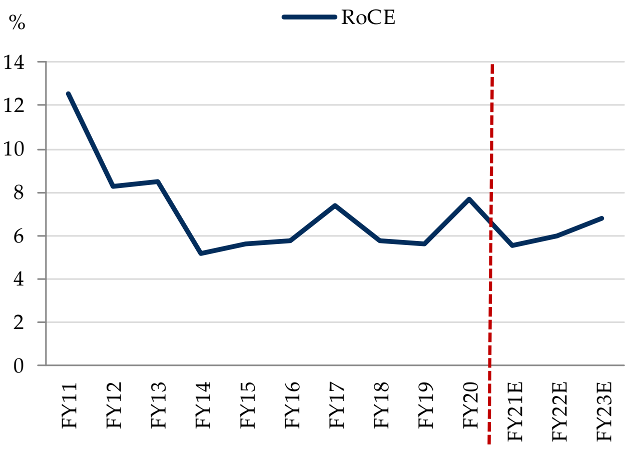
Source: Company, HSIE Research

RoE suppressed as explained in DuPont analysis



Source: Company, HSIE Research

Similarly, high capital charges have moderated RoCE expansion



Source: Company, HSIE Research

1QFY21 performance tables

Quarterly Consolidated Financial Snapshot

Particulars (Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)
Net Sales	**12,220**	**18,838**	***(35.1)***	**16,900**	***(27.7)***
Raw Materials	2,119	2,507	*(15.5)*	1,918	*10.4*
Power and Fuel	2,086	3,820	*(45.4)*	3,311	*(37.0)*
Transport	2,157	3,747	*(42.4)*	3,513	*(38.6)*
Employee	880	1,008	*(12.7)*	976	*(9.8)*
Other Exp	2,647	3,911	*(32.3)*	3,735	*(29.1)*
EBITDA	**2,331**	**3,846**	***(39.4)***	**3,446**	***(32.4)***
EBITDA margin (%)	*19.1*	*20.4*		*20.4*	
Depreciation	877	862	*1.7*	894	*(1.9)*
EBIT	**1,455**	**2,984**	***(51.3)***	**2,553**	***(43.0)***
Other Income (Including EO Items)	190	168	*13.3*	281	*(32.1)*
Interest Cost	800	960	*(16.7)*	909	*(12.1)*
PBT - Reported	**845**	**2,192**	***(61.4)***	**1,924**	***(56.1)***
Tax	188	786	*(76.2)*	-24	
Tax rate (%)	*22.2*	*35.9*		*(1.2)*	
RPAT	**658**	**1,406**	***(53.2)***	**1,947**	***(66.2)***
EO (Loss) / Profit (Net Of Tax)	-	-		-	
APAT	**658**	**1,406**	***(53.2)***	**1,947**	***(66.2)***
Adj PAT margin (%)	*5.4*	*7.5*		*11.5*	

Source: Company, HSIE Research

Quarterly Consolidated Performance Analysis

Particulars	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)
Sales vol (mn MT)	**2.42**	**3.66**	***(33.9)***	**3.30**	***(26.8)***
Rs/MT trend					
NSR	**4,921**	**4,931**	***(0.2)***	**4,884**	***0.8***
Raw materials	810	576	*40.5*	465	*74.2*
Power & fuel	864	1,045	*(17.3)*	1,003	*(13.9)*
Employee	364	276	*32.2*	296	*23.2*
Freight	893	1,025	*(12.9)*	1,065	*(16.1)*
Other Exp	1,014	971	*4.4*	1,026	*(1.2)*
Opex	**3,945**	**3,893**	***1.3***	**3,855**	***2.3***
EBITDA	**976**	**1,038**	***(5.9)***	**1,029**	***(5.2)***

Source: Company, HSIE Research

Operational summary table

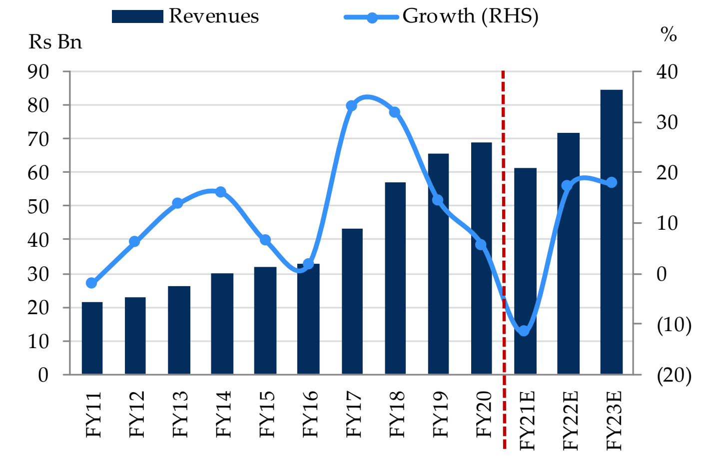
Operational Trends and Assumptions

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
Cement Cap (mn MT)	**15.7**	**15.7**	**15.7**	**15.7**	**19.6**	**20.8**
Sales Volume (mn MT)	**12.4**	**13.6**	**13.6**	**12.1**	**14.9**	**18.6**
YoY change (%)	*23.0*	*10.1*	*(0.1)*	*(11.6)*	*23.3*	*25.1*
Utilisation (%)	*79.1*	*87.0*	*87.0*	*76.9*	*76.0*	*89.5*
(Rs/ MT trend)						
NSR	**4,367**	**4,551**	**4,819**	**4,849**	**4,785**	**4,892**
YoY change (%)	*9.8*	*4.2*	*5.9*	*0.6*	*(1.3)*	*2.2*
Raw Materials	547	569	552	625	625	647
Power & Fuel	1,051	1,088	1,012	964	947	964
Freight costs	956	994	1,008	990	972	989
Employee cost	288	271	299	335	323	307
Other expenses	904	949	986	974	965	1,020
Total Opex	**3,747**	**3,870**	**3,857**	**3,888**	**3,833**	**3,927**
YoY change (%)	*10.3*	*3.3*	*(0.3)*	*0.8*	*(1.4)*	*2.5*
EBITDA per MT	**620**	**680**	**962**	**961**	**953**	**965**
YoY change (%)	*7.0*	*9.7*	*41.5*	*(0.1)*	*(0.9)*	*1.2*

Source: Company, HSIE Research

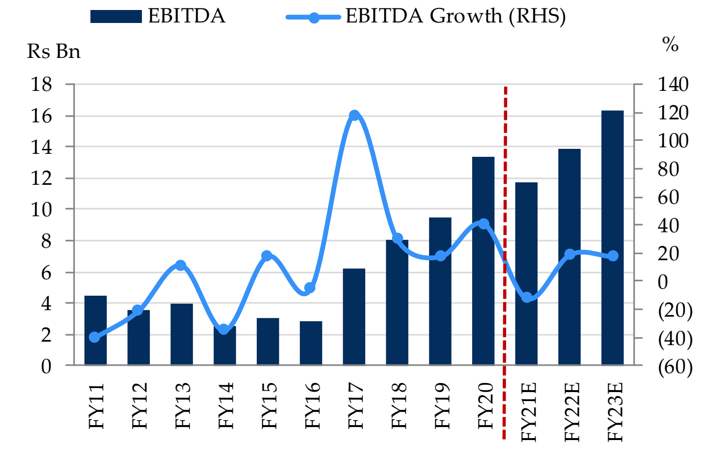
Financial summary

We expect consolidated revenues to grow at 6% CAGR during FY20-23E



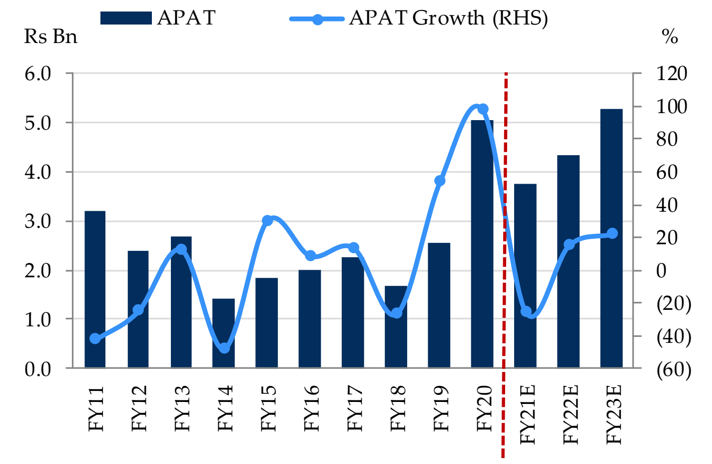
Source: Company, HSIE Research

As we estimate margins to remain stable, we expect EBITDA to grow at 7% CAGR in the same period



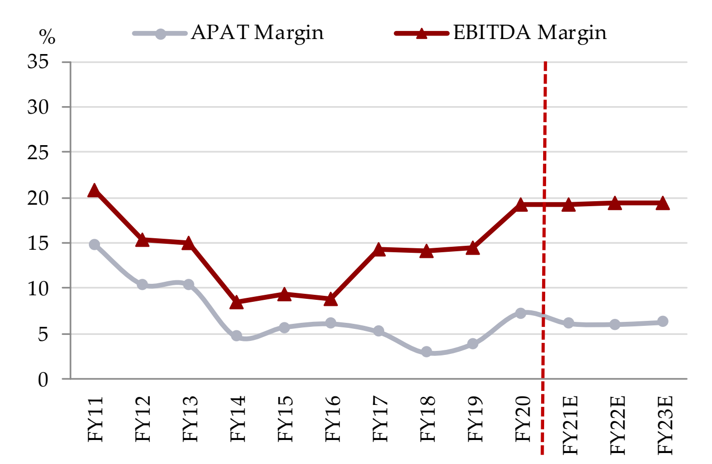
Source: Company, HSIE Research

However, expansion-led rise in capital charges should mute APAT CAGR to 1%



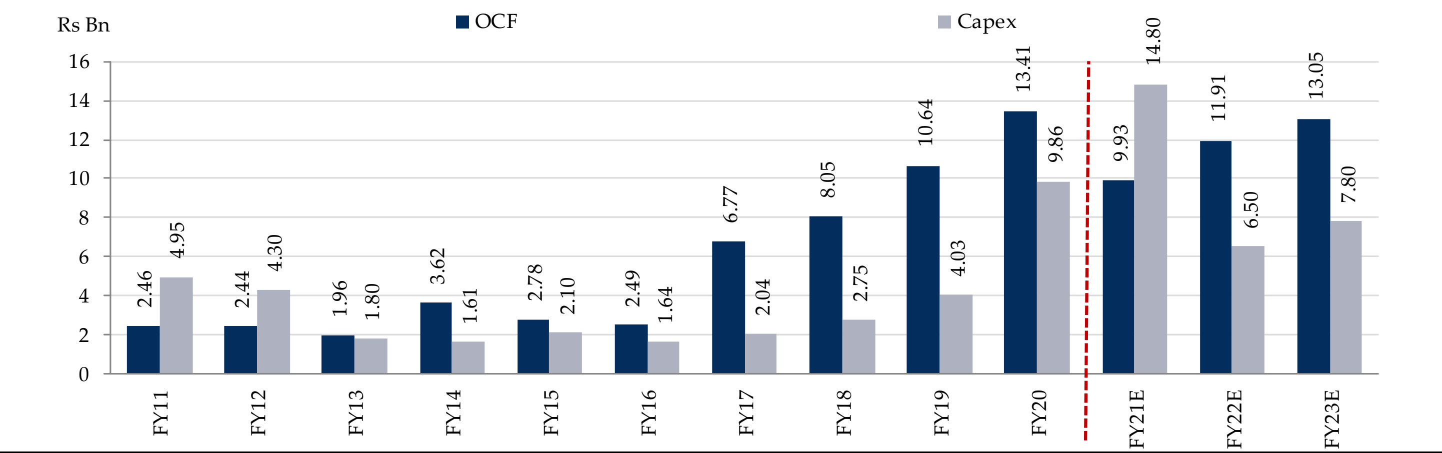
Source: Company, HSIE Research

APAT expansion is subdued on account of elevated capital charges



Source: Company, HSIE Research

Cash flow trend



Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**32,682**	**43,477**	**57,300**	**65,487**	**69,157**	**61,219**	**71,701**	**84,450**
Growth %	*1.8*	*33.0*	*31.8*	*14.3*	*5.6*	*(11.5)*	*17.1*	*17.8*
Raw Material	6,039	6,790	8,335	9,418	9,193	8,877	10,397	12,245
Power & Fuel	7,749	9,684	13,024	14,850	13,809	11,632	13,623	16,045
Freight Expense	6,314	8,043	11,856	13,559	13,745	11,938	13,982	16,468
Employee cost	2,438	3,063	3,573	3,705	4,079	4,038	4,644	5,108
Other Expenses	7,282	9,661	12,431	14,468	14,972	13,008	15,126	18,229
EBITDA	**2,861**	**6,236**	**8,081**	**9,487**	**13,360**	**11,727**	**13,929**	**16,355**
EBIDTA Margin (%)	*8.8*	*14.3*	*14.1*	*14.5*	*19.3*	*19.2*	*19.4*	*19.4*
EBITDA Growth %	*(5.2)*	*118.0*	*29.6*	*17.4*	*40.8*	*(12.2)*	*18.8*	*17.4*
Depreciation	1,488	2,555	3,322	3,391	3,519	3,664	4,323	5,065
EBIT	**1,373**	**3,681**	**4,760**	**6,096**	**9,841**	**8,063**	**9,606**	**11,290**
Other Income (Including EO Items)	1,459	1,390	615	785	851	800	700	700
Interest	823	2,768	3,776	3,705	3,877	3,496	4,125	4,445
PBT	**2,010**	**2,304**	**1,598**	**3,176**	**6,815**	**5,366**	**6,181**	**7,545**
Tax	332	108	59	618	1,763	1,610	1,854	2,264
Minority Interest	-	-	-	-	-	-	-	-
RPAT	**1,677**	**2,196**	**1,540**	**2,558**	**5,052**	**3,756**	**4,327**	**5,282**
EO (Loss) / Profit (Net Of Tax)	(315)	(68)	(125)	-	-	-	-	-
APAT	**1,992**	**2,264**	**1,664**	**2,558**	**5,052**	**3,756**	**4,327**	**5,282**
APAT Growth (%)	***8.7***	***13.6***	***(26.5)***	***53.7***	***97.5***	***(25.6)***	***15.2***	***22.1***
AEPS	**25.9**	**29.4**	**21.6**	**33.2**	**65.6**	**48.8**	**56.2**	**68.6**

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital	770	770	770	770	770	770	770	770
Reserves And Surplus	28,483	32,092	42,028	44,182	47,291	50,470	54,219	58,808
Total Equity	**29,253**	**32,862**	**42,798**	**44,952**	**48,061**	**51,240**	**54,989**	**59,578**
Minority Interest	**-**	**-**	**0**	**0**	**0**	**0**	**0**	**0**
Long-term Debt	11,385	42,336	40,652	40,239	41,983	51,483	51,483	48,483
Short-term Debt	1,428	214	653	252	837	837	837	837
Total Debt	**12,813**	**42,549**	**41,305**	**40,492**	**42,820**	**52,320**	**52,320**	**49,320**
Deferred Tax Liability	1,830	5,645	7,452	7,422	8,568	8,568	8,568	8,568
Long-term Liab+ Provisions	-	-	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**43,895**	**81,057**	**91,555**	**92,866**	**99,449**	**112,128**	**115,877**	**117,466**
APPLICATION OF FUNDS								
Net Block	20,256	63,628	73,690	72,664	73,275	72,611	97,288	99,224
Capital WIP	642	8,053	7,623	9,119	16,020	27,820	5,320	6,120
Goodwill	-	-	-	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-	-	-	-
Total Non-current Investments	1,046	2,291	2,586	2,764	1,600	1,600	1,600	1,600
Total Non-current Assets	**21,944**	**73,972**	**83,900**	**84,547**	**90,895**	**102,031**	**104,208**	**106,943**
Inventories	5,674	6,302	6,870	7,830	7,876	7,346	8,604	10,134
Debtors	942	1,325	1,914	2,622	2,504	2,143	2,653	3,378
Cash and Cash Equivalents	19,488	6,478	6,335	7,393	9,320	10,671	12,081	9,892
Other Current Assets (& Loans/adv)	4,171	8,901	11,731	10,924	11,159	11,159	11,194	11,530
Total Current Assets	**30,275**	**23,006**	**26,851**	**28,769**	**30,859**	**31,319**	**34,532**	**34,934**
Creditors	1,627	3,679	5,112	6,273	5,228	4,897	6,095	7,178
Other Current Liabilities & Provns	6,696	12,243	14,083	14,177	17,078	16,325	16,769	17,234
Total Current Liabilities	**8,323**	**15,921**	**19,195**	**20,450**	**22,306**	**21,223**	**22,863**	**24,412**
Net Current Assets	**21,952**	**7,085**	**7,656**	**8,319**	**8,554**	**10,096**	**11,669**	**10,522**
TOTAL APPLICATION OF FUNDS	**43,896**	**81,057**	**91,555**	**92,866**	**99,449**	**112,127**	**115,877**	**117,465**

Source: Company, HSIE Research

Consolidated Cash Flow

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	2,010	2,303	1,598	3,174	6,815	5,366	6,181	7,545
Non-operating & EO Items	(1,652)	(1,414)	(577)	(470)	(588)	(800)	(700)	(700)
Interest Expenses	823	2,768	3,776	3,705	3,877	3,496	4,125	4,445
Depreciation	1,488	2,555	3,322	3,391	3,519	3,664	4,323	5,065
Working Capital Change	158	1,066	481	1,309	207	(192)	(163)	(1,042)
Tax Paid	(338)	(505)	(552)	(469)	(418)	(1,610)	(1,854)	(2,264)
OPERATING CASH FLOW (a)	**2,487**	**6,773**	**8,049**	**10,641**	**13,412**	**9,925**	**11,912**	**13,049**
Capex	(1,640)	(2,041)	(2,754)	(4,030)	(9,860)	(14,800)	(6,500)	(7,800)
Free Cash Flow (FCF)	848	4,732	5,295	6,611	3,552	(4,875)	5,412	5,249
Investments	839	(8,095)	264	(1,647)	(2,083)	-	-	-
Non-operating Income	690	320	145	243	103	800	700	700
Others								
INVESTING CASH FLOW (b)	**(110)**	**(9,816)**	**(2,344)**	**(5,434)**	**(11,840)**	**(14,000)**	**(5,800)**	**(7,100)**
Debt Issuance/(Repaid)	(616)	6,102	(1,391)	(1,297)	1,860	9,500	-	(3,000)
Interest Expenses	(847)	(2,744)	(3,558)	(3,448)	(3,872)	(3,496)	(4,125)	(4,445)
FCFE	(615)	8,091	346	1,866	1,541	1,129	1,287	(2,195)
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(556)	(556)	(602)	(603)	-	(578)	(578)	(693)
FINANCING CASH FLOW (c)	**(2,019)**	**2,803**	**(5,552)**	**(5,349)**	**(2,012)**	**5,426**	**(4,702)**	**(8,138)**
NET CASH FLOW (a+b+c)	**358**	**(240)**	**153**	**(141)**	**(439)**	**1,351**	**1,410**	**(2,188)**
EO Items, Others								
Closing Cash & Equivalents	**19,274**	**19,247**	**6,630**	**6,194**	**6,953**	**10,671**	**12,081**	**9,892**

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %								
EBITDA Margin	8.8	14.3	14.1	14.5	19.3	19.2	19.4	19.4
EBIT Margin	4.2	8.5	8.3	9.3	14.2	13.2	13.4	13.4
APAT Margin	-	-	-	-	-	-	-	-
RoE	6.9	7.3	4.9	7.2	13.2	9.1	8.8	9.2
RoIC	4.4	6.5	5.3	5.3	7.7	5.5	6.1	7.0
RoCE	5.8	7.4	5.7	5.6	7.7	5.5	6.0	6.8
EFFICIENCY								
Tax Rate %	16.5	4.7	3.7	19.5	25.9	30.0	30.0	30.0
Fixed Asset Turnover (x)	1.6	1.0	0.8	0.8	0.8	0.7	0.7	0.7
Inventory (days)	63	53	44	44	42	44	44	44
Debtors (days)	11	11	12	15	13	13	14	15
Other Current Assets (days)	47	75	75	61	59	67	57	50
Payables (days)	18	31	33	35	28	29	31	31
Other Current Liab & Provns (days)	75	103	90	79	90	97	85	74
Cash Conversion Cycle (days)	28	5	8	5	(4)	(3)	(2)	3
Net Debt/EBITDA (x)	(2.3)	5.8	4.3	3.5	2.5	3.6	2.9	2.4
Net D/E	0.4	1.3	1.0	0.9	0.9	1.0	1.0	0.8
Interest Coverage	1.7	1.3	1.3	1.6	2.5	2.3	2.3	2.5
PER SHARE DATA (Rs)								
EPS	25.9	29.4	21.6	33.2	65.6	48.8	56.2	68.6
CEPS	45.2	62.6	64.7	77.3	111.3	96.4	112.3	134.4
Dividend	6.0	6.5	6.5	7.5	7.5	7.5	7.5	9.0
Book Value	379.9	426.7	449.2	477.1	517.4	558.7	714.1	773.7
VALUATION								
P/E (x)	25.5	22.5	30.5	19.9	10.1	13.5	11.7	9.6
P/Cash EPS (x)	16.1	10.7	10.5	8.5	5.9	6.8	5.9	4.9
P/BV (x)	1.7	1.5	1.2	1.1	1.1	1.0	0.9	0.9
EV/EBITDA (x)	15.4	13.9	10.6	8.8	6.3	7.9	6.5	5.5
EV/MT (Rs bn)	4.75	5.54	5.47	5.35	5.38	5.90	4.65	4.34
Dividend Yield (%)	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.4
OCF/EV (%)	5.6	7.8	9.4	12.7	15.9	10.7	13.1	14.5
FCFF/EV (%)	1.9	5.4	6.2	7.9	4.2	(5.3)	5.9	5.8
FCFE/M Cap (%)	(1.2)	15.9	0.7	3.7	3.0	2.2	2.5	(4.3)

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Heidelberg Cement

High and higher

We initiate coverage on Heidelberg Cement (HEIM) with a BUY rating and a target price of Rs 234 (8.5x Sep'22E EBITDA). We estimate healthy pricing and demand in the central region along with HEIM's robust cost controls to bolster its unitary EBITDA from Rs 1,100/MT in FY20 to ~Rs 1,200/MT in FY22E. The recent 20% capacity debottlenecking should drive growth for the next 3-4 years. Robust operating profits and asset sweating have buoyed HEIM's FY20 RoE to best in the industry, and we expect this to sustain.

- **Extensive exposure to the lucrative central market:** HEIM has mostly been a central market player with ~90% of its 6.3mn MT capacity present in this region. With healthy demand recovery in the region (amid COVID) and ramp-up from its recent expansions, we expect a moderate 11% volume decline in FY21E and 13% CAGR rebound during FY21-23E. Robust regional fundamentals should further bolster its NSR at 1.6% CAGR during FY20-23E, even on a high base, in our view.

- **Retail focus and strong cost controls drive superior margins:** HEIM makes 100% blended cement (with increasing fly ash absorption) and sells 90% in retail. Further, rising share of WHRS and low-grade limestone usages are all helping it reduce cost inflation, and bolster margin. Thus, its unitary EBITDA has doubled in the past five years to ~Rs 1,100/MT (industry-leading), and we expect it to further expand to ~Rs 1,200/MT in FY22E.

- **Near-term growth addressed, long-term being planned:** HEIM debottlenecked its grinding capacity by 20% to 6.3mn MT at the end of FY20. It is further looking to debottleneck its clinker capacity. These will boost volume growth for the next 3-4 years. A net-zero debt balance sheet currently and robust internal accruals generation should bolster its capability for major capacity expansions, going ahead. While HEIM is yet to announce any major expansion, we build in an annual Capex of ~Rs 5bn each during FY22-23E towards the same.

- **Initiate coverage with a BUY**: HEIM has built a strong retail franchise in the lucrative central region and has also been bolstering its operating efficiencies. It has prudently refrained from any significant Capex, to strengthen its balance sheet. All these have buoyed its RoE to 21.6% in FY20 (highest in the industry), which in our view is sustainable. We, thus, initiate coverage with a BUY rating and target price of Rs 234, valuing it at 8.5x its Sep'22E EBITDA.

Financial Summary

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	16,484	17,175	18,895	21,334	21,696	19,697	23,791	25,838
EBITDA	2,312	2,789	3,577	4,833	5,278	4,869	6,078	6,517
APAT	354	762	1,275	2,207	2,681	2,313	3,255	3,356
AEPS (Rs)	1.6	3.4	5.6	9.7	11.8	10.2	14.4	14.8
EV/EBITDA (x)	22.1	17.2	12.6	8.9	7.7	8.1	6.8	6.7
EV/MT (Rs bn)	9.79	9.19	8.68	8.28	6.49	6.26	6.65	6.99
P/E (x)	114.6	53.2	31.8	18.4	15.1	17.5	12.5	12.1
RoE (%)	4.0	8.2	12.7	19.9	21.6	17.0	21.8	20.2

Source: Company, HSIE Research

BUY

CMP *(as on 22 Sep 2020)*	Rs 179
Target Price	Rs 234
NIFTY	11,154

KEY STOCK DATA	
Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (Rs bn) / ($ mn)	41/552
6m avg traded value (Rs mn)	113
52 Week high / low	218/120

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.5)	17.7	(4.3)
Relative (%)	(9.6)	(8.4)	(3.5)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	69.39	69.39
FIs & Local MFs	8.34	8.00
FPIs	10.41	9.70
Public & Others	11.86	12.91
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Rajesh Ravi
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Saurabh Dugar
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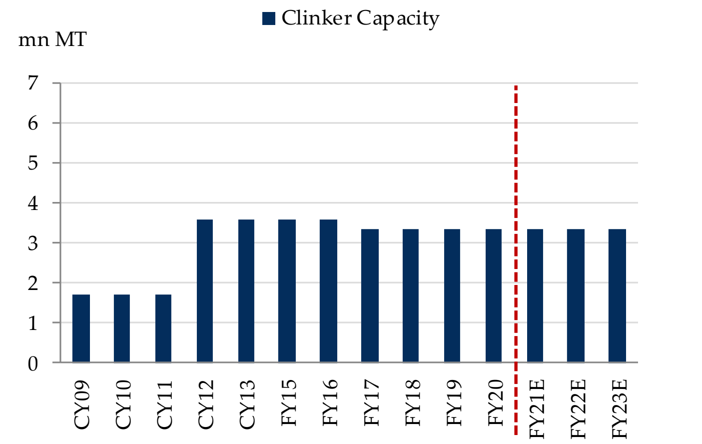
Extensive exposure to the lucrative central market

Heidelberg Cement has 6.3mn MT of installed capacity currently, with plants spread across UP, MP and Karnataka. It has mostly been a central market player, with more than 90% of its capacity currently is situated in this region. From a 3mn MT company (spread across central, west and south regions) in 2010, HEIM has grown into a 6.3mn MT company in FY20. In 2013, HEIM sold off its Maharashtra GU (0.7mn MT) to JSW Cement, while it increased its capacity by 2.9mn MT in the central region. After a gap of six years, in 4QFY20, HEIM further debottlenecked its grinding capacity at its UP and MP plants by ~0.5mn MT each.

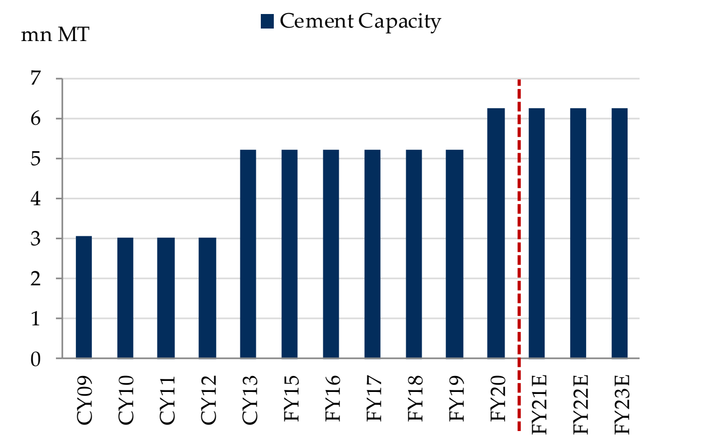
HEIM's current clinker capacity stands at 3.34mn MT (across three kilns), all situated in Damoh MP. Its 0.5mn MT clinker plant in Karnataka became non-functional FY17 onwards. Thus, for its Karnataka GU, it sources clinker externally (mostly from its sister concern – Zuari Cement).

HEIM's clinker capacity doubled in CY12 and in FY17, it shut its clinker unit in Karnataka



Source: Company, HSIE Research

After major Capex in CY11-12, it recently expanded capacity by 1mn MT to 6.3mn MT in FY20



Source: Company, HSIE Research

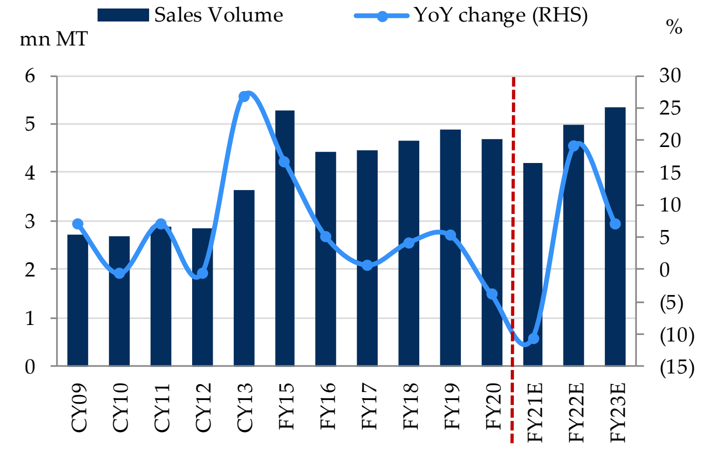
Strong retail distribution

HEIM sells under the brand name Mycem and has a strong retail franchise in the central region. Thus, over the past several years, the share of trade sales has increased to 85% in FY20. HEIM has been producing and selling 100% blended cement production during FY19/20. While it produces PPC in the central region, it produces slag cement at its Karnataka plant. HEIM has also been able to scale up brand premiumisation. From 0% premium cement sales in FY18, the share of premium cement sales (as % of trade sales) went up to 13% in FY20.

Riding on lucrative regional pricing and its strong retail positioning, HEIM's NSR has grown by 4% CAGR in the past five years. Given that regional fundamentals are expected to remain strong, we build in NSR to further buoy at 1.5% CAGR during FY20-22E.

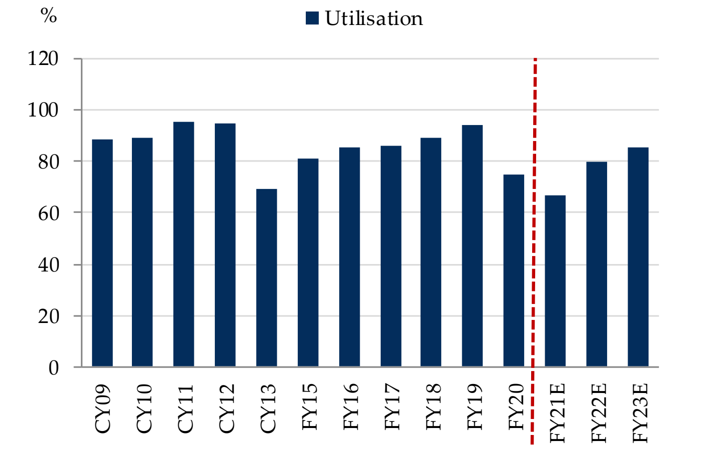
We also expect its volume to decline 11% YoY in FY21E, largely on account of poor sales in April and May'20 (COVID lockdown impact). With healthy retail demand, volume growth is picking up subsequently thus moderating FY21E sales contraction. On a low base and on full ramp up of recently commissioned capacity, we expect volumes to rebound at 13% CAGR during FY21-23E.

Capacity increase to drive volume growth for the next few years



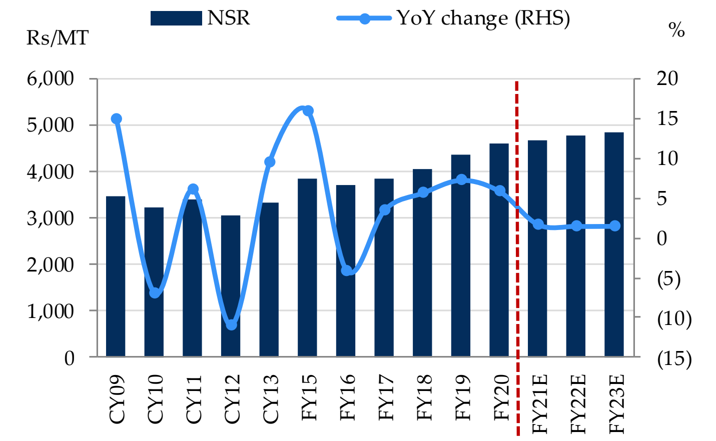
Source: Company, HSIE Research

Utilisation should also firm up as sales ramp-up



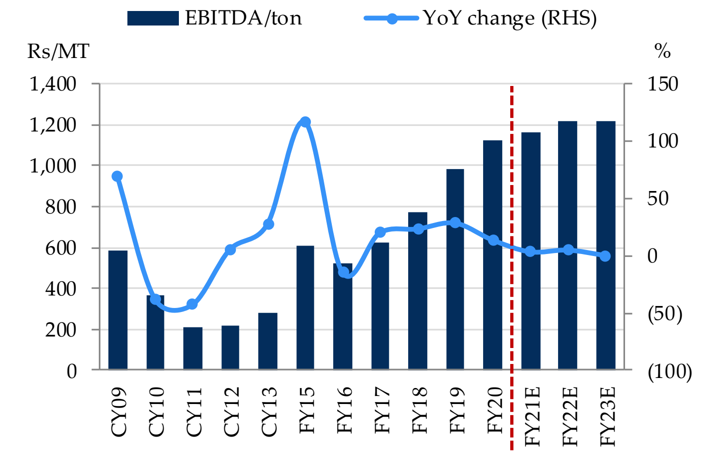
Source: Company, HSIE Research

We expect price buoyancy to sustain



Source: Company, HSIE Research

And bolster operating margin



Source: Company, HSIE Research

Various triggers driving its low opex

HEIM has been maximising the use of its low-grade limestone reserves through use of sweeteners. Thus, about one-third of its total cement produced is using low-grade limestone, thus increasing the life of mines and reducing production cost.

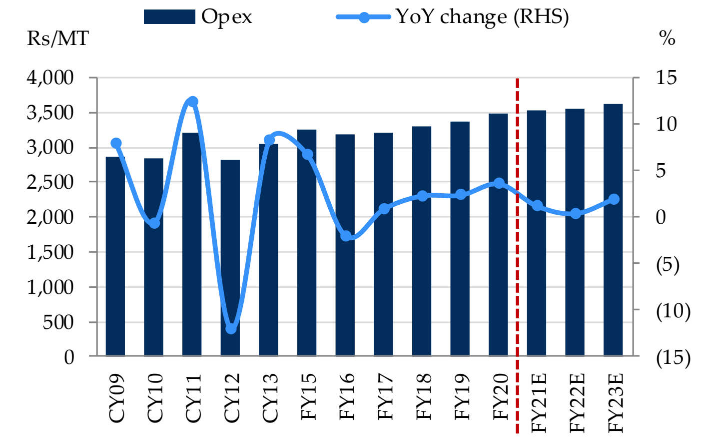
In Feb'16, HEIM commissioned 15MW WHRS at its Damoh plant in MP. The company has been able to operate this WHRS at 55-60% during FY18-20, thus reducing its dependence on grid purchase. Subsequently, low cost WHRS electricity is currently meeting ~20% of HEIM's power requirement, reducing opex. In our view, the company is saving ~Rs 400mn per annum (~Rs 80-90/MT).

As the company has scaled up to 100% blended cement production, its electricity consumption rate has reduced from 76kWh/MT in FY15 to 72.5kWh/MT in FY20 (5% improvement). At its SGU in Jhansi (UP), HEIM has increased fly ash absorption in PPC to ~34% currently vs 25% four years back. This has both freed up its clinker capacity as well as lowered its variable production cost.

HEIM's clinkerisation energy consumption is also stable at an efficient level of ~720 Kcal per MT of clinker.

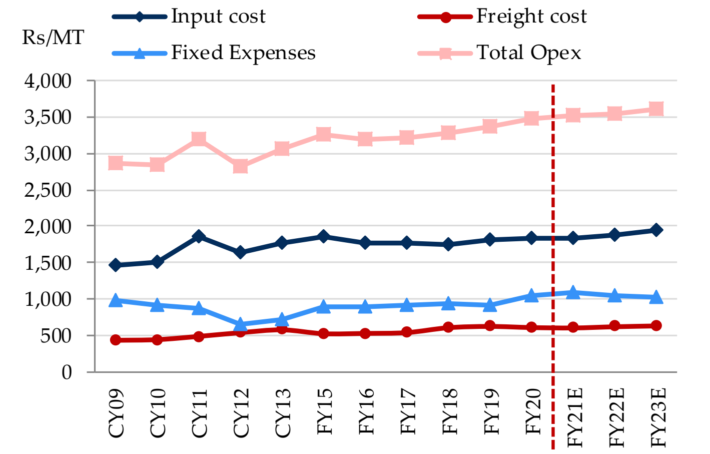
These factors, along with strong fixed cost controls, have driven its low opex CAGR of 1.5% during FY16-20, much below 4% NSR CAGR. We model in 1% opex inflation during FY20-22E.

Opex trend



Source: Company, HSIE Research

Opex break up

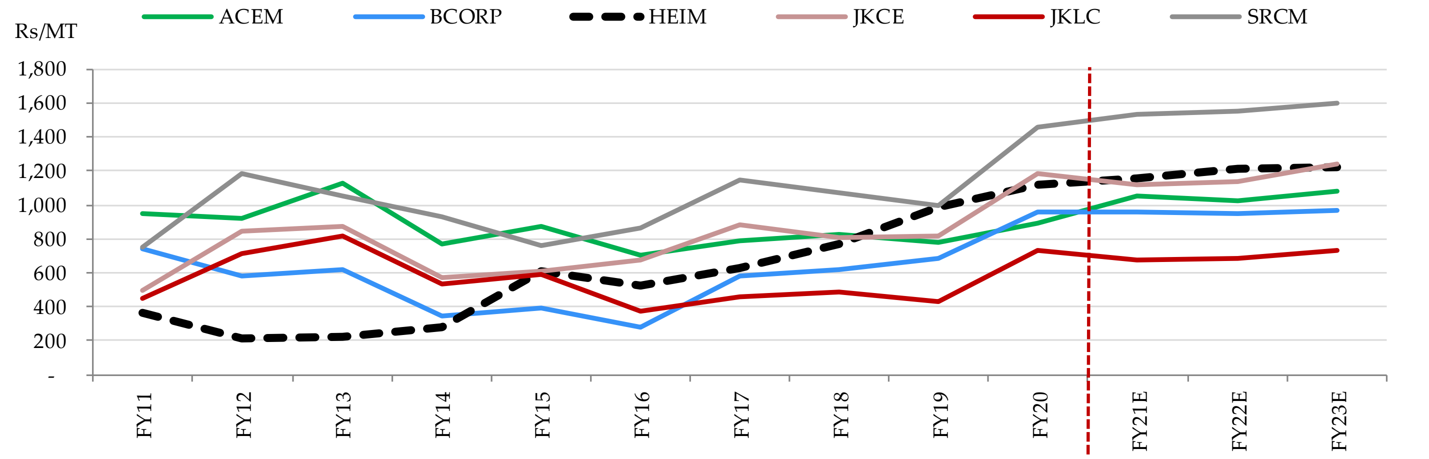


Source: Company, HSIE Research

Superior margin profile sustainable

Aided by robust regional pricing and benign opex CAGRs, the HEIM unitary margin has soared to ~Rs 1,100/MT from below Rs 500/MT five years back. Arguably, HEIM's margin is among the best in the industry. We estimate healthy pricing, lower fuel prices and its cost controls to further buoy unitary EBITDA to ~Rs 1200/MT during FY21-23E.

Unitary EBITDA comparison of Heidelberg vs regional peers

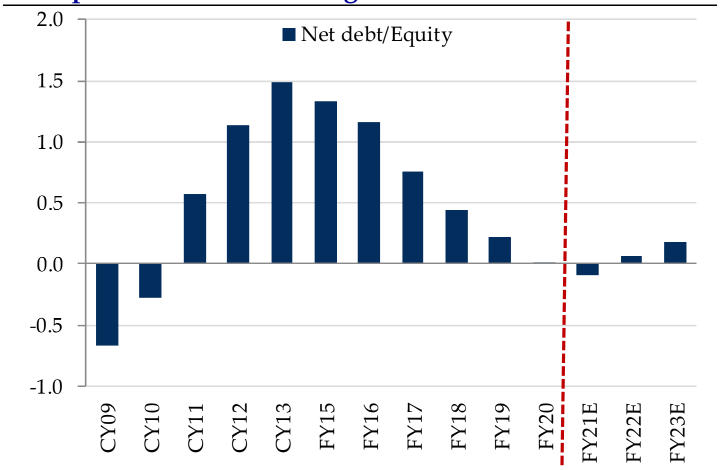


Source: Company, HSIE Research

Near-term growth addressed, long-term growth opportunity being planned

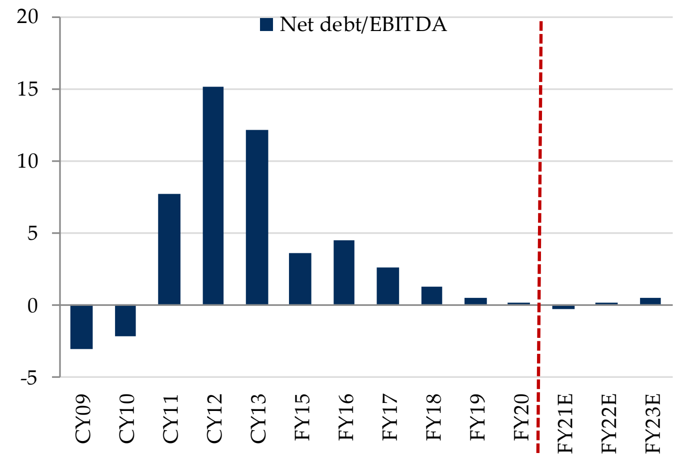
During CY11-FY16 period, HEIM's balance sheet was stretched, owing to its near doubling of capacity in CY13. As its cost structure was bloated, even operating profits were low (Rs 220-600/MT). Thus, its net debt/EBITDA remained north of 3.5x, and net D/E stood more than 1x. HEIM thus started to focus on opex reduction and asset sweating and refrained from incurring any major expansion Capex. This move subdued its volume CAGR to 2% during FY15-20. In FY20, it increased its grinding capacity by 20% through debottlenecking, which should accelerate its volume growth for the next few years. HEIM is exploring expansion opportunities in the western and central regions for long-term growth. We await more details on the same. The company is also planning to enhance its clinker capacity in Damoh through debottlenecking.

HEIM's balance sheet turned zero net debt in FY20 and is expected to remain strong



Source: Company, HSIE Research

Robust margin and utilisation also led to cool off in net debt/EBITDA

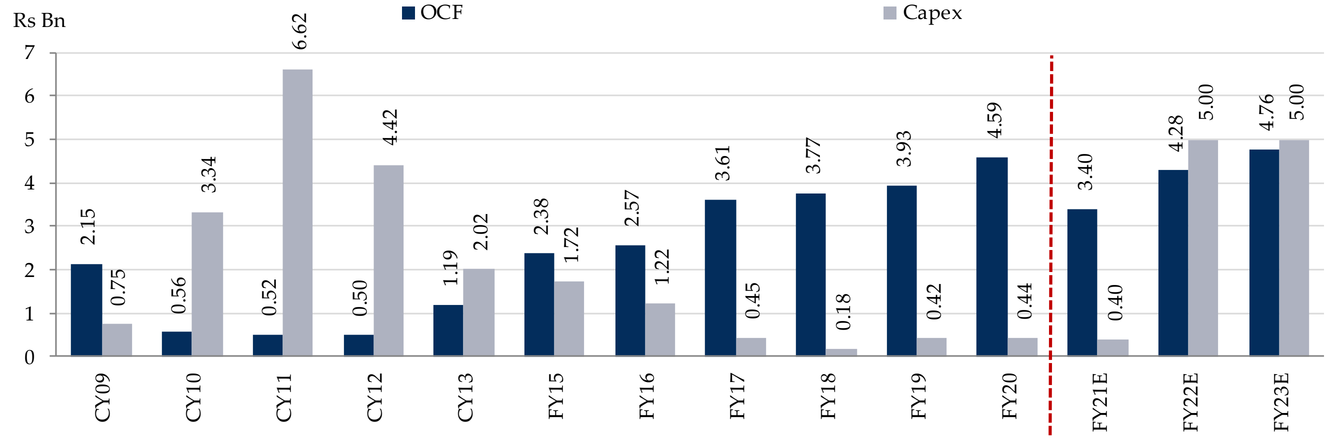


Source: Company, HSIE Research

The strong balance sheet should support future Capex

Over the past five years, asset sweating and margin expansion bolstered HEIM's OCF generation. Low Capex outgo further accelerated free cash flow generation, leading to debt and gearing reduction. Thus, net debt/EBITDA turned zero in FY20. The company is capable of taking up the next phase of expansions. We have modelled in ~Rs 5bn each of Capex during FY22-23E for the upcoming expansion. The recent grinding expansion by 1mn MT and expected clinker debottlenecking should drive volume growth until then.

We expect HEIM to start gradual Capex towards major expansion FY22E onwards



Source: Company, HSIE Research

DuPont analysis

Over the past five years, RoE expanded driven by strong margin gains, which more than offset the impact of leverage compression. Its asset turn ratio continues to hover at ~1x.

DuPont analysis of RoE profile

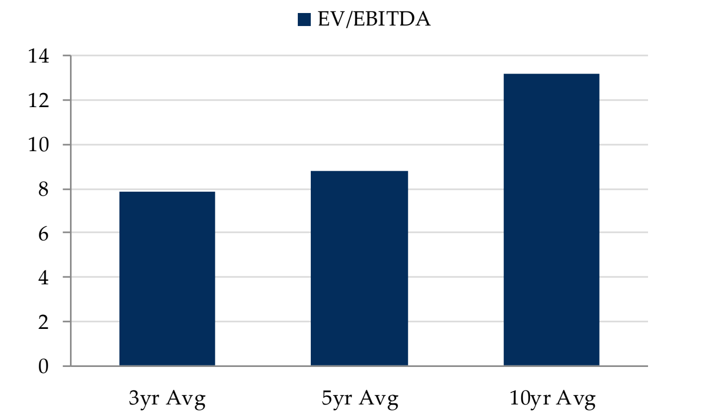
Particulars	CY16	CY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net margin (%)	2.1	4.4	6.7	10.3	12.4	11.7	13.7	13.0
Asset turnover (x)	0.7	0.8	0.9	1.0	1.0	0.9	1.1	1.0
Leverage factor (x)	2.6	2.2	2.0	1.9	1.7	1.6	1.5	1.5
RoE (%)	**4.0**	**8.2**	**12.7**	**19.9**	**21.6**	**17.0**	**21.8**	**20.2**

Source: Company, HSIE Research

Valuation

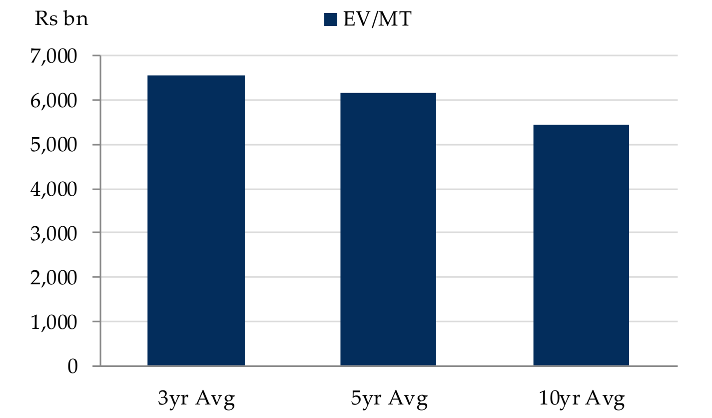
HEIM has traded at 8/9/13x forward EV/EBITDA in the past 3/5/10 years respectively. On a replacement cost basis, its 3/5/10 year averages stand at Rs6.6/6.2/5.5bn per mn MT respectively. Given that HEIM is generating industry-leading margin and return ratios, we believe the recent valuations should sustain.

Long term valuation means trend (1 yr forward)



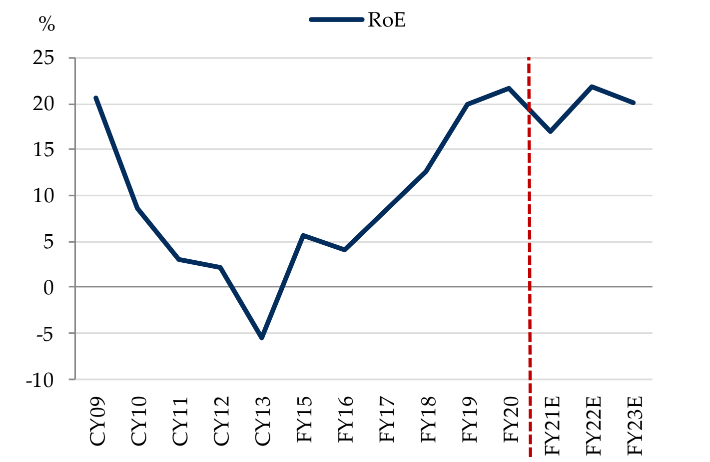
Source: Company, HSIE Research

Long term valuation means trend (1 yr forward)



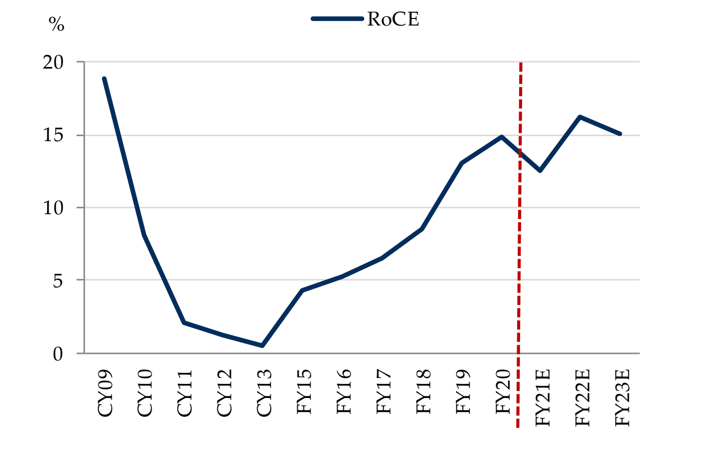
Source: Company, HSIE Research

Asset sweating and margin expansion have led to the highest RoE in the industry



Source: Company, HSIE Research

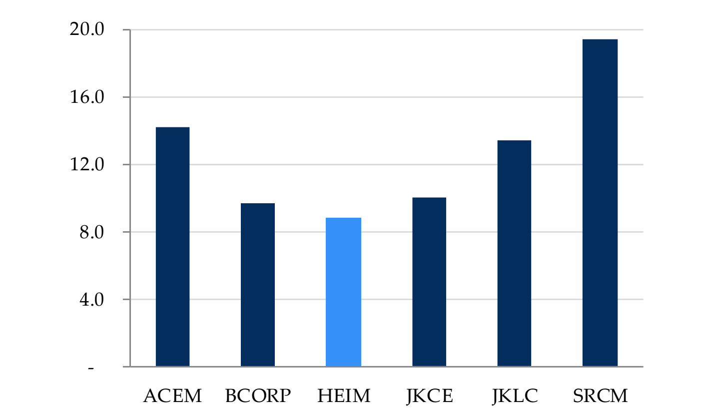
RoCE is also among the best in the industry



Source: Company, HSIE Research

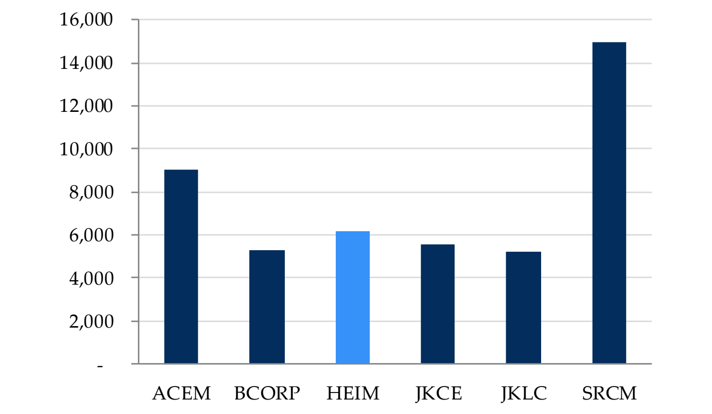
We value the company at 8.5x Sep'22E EBITDA and ascribe 25% value to CWIP (towards the next round of expansions, which we expect to be operational beyond FY24E), implying a target price of Rs 234/share. We initiate coverage with a BUY rating on the stock.

HEIM's EV/EBITDA comparison vs peers



Source: Company, HSIE Research

HEIM's EV/MT comparison vs peers



Source: Company, HSIE Research

1QFY21 performance tables

Quarterly Financial Snapshot

Particulars (Rs mn)	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)
Net Sales	**4,077**	**5,892**	***(30.8)***	**5,098**	***(20.0)***
Raw Materials	727	1,130	*(35.6)*	758	*(4.0)*
Power and Fuel	837	1,215	*(31.2)*	1,119	*(25.2)*
Transport	552	797	*(30.7)*	690	*(20.0)*
Employee	269	315	*(14.4)*	340	*(20.7)*
Other Exp	609	860	*(29.2)*	919	*(33.7)*
EBITDA	**1,083**	**1,577**	***(31.3)***	**1,273**	***(14.9)***
EBITDA margin (%)	*26.6*	*26.8*		*25.0*	
Depreciation	276	279	*(0.8)*	275	*0.4*
EBIT	**807**	**1,298**	*(37.8)*	**998**	*(19.1)*
Other Income (Including EO Items)	98	118	*(17.3)*	170	*(42.5)*
Interest Cost	160	198	*(19.3)*	163	*(1.6)*
PBT - Reported	**745**	**1,218**	***(38.8)***	**1,006**	***(25.9)***
Tax	256	428	*(40.3)*	343	*(25.5)*
Tax rate (%)	*34.3*	*35.1*		*34.1*	
RPAT	**489**	**790**	***(38.1)***	**663**	***(26.2)***
EO (Loss) / Profit (Net Of Tax)	-	-		-	
APAT	**489**	**790**	***(38.1)***	**663**	***(26.2)***
Adj PAT margin (%)	*12.0*	*13.4*		*13.0*	

Source: Company, HSIE Research

Quarterly Performance Analysis

Particulars	1QFY21	1QFY20	YoY (%)	4QFY20	QoQ (%)
Sales vol (mn MT)	**0.9**	**1.3**	***(31.9)***	**1.1**	***(21.4)***
Rs/MT trend					
NSR	**4,757**	**4,684**	***1.6***	**4,677**	***1.7***
Raw materials	849	898	*(5.5)*	695	*22.1*
Power & fuel	976	966	*1.0*	1,026	*(4.9)*
Freight	644	633	*1.7*	633	*1.8*
Employee	314	250	*25.6*	311	*0.8*
Other Exp	711	683	*4.0*	843	*(15.7)*
Opex	3,493	3,431	*1.8*	3,509	*(0.4)*
EBITDA	**1,264**	**1,253**	***0.9***	**1,168**	***8.2***

Source: Company, HSIE Research

Operational summary table

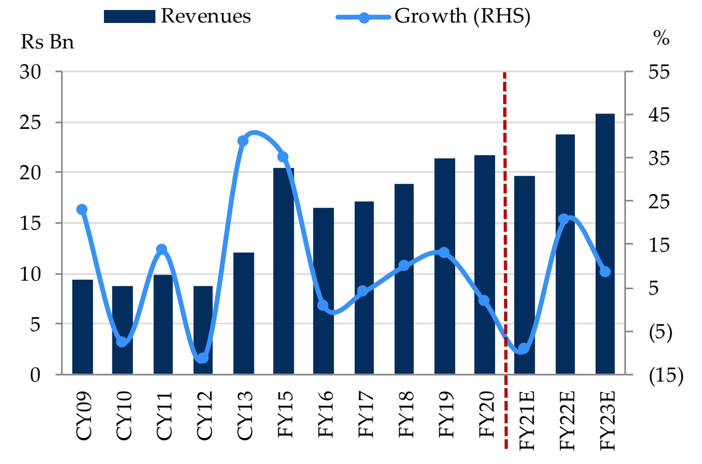
Operational Trends and Assumptions

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
Cement Cap (mn MT)	**5.2**	**5.2**	**6.3**	**6.3**	**6.3**	**6.3**
Sales Volume (mn MT)	**4.7**	**4.9**	**4.7**	**4.2**	**5.0**	**5.3**
YoY change (%)	*4.1*	*5.2*	*(3.9)*	*(10.7)*	*19.0*	*7.0*
Utilisation (%)	*89.3*	*94.0*	*75.2*	*67.1*	*79.8*	*85.4*
(Rs/ MT trend)						
NSR (1)	**4,061**	**4,356**	**4,611**	**4,690**	**4,760**	**4,831**
YoY change (%)	*5.7*	*7.3*	*5.9*	*1.7*	*1.5*	*1.5*
Raw Materials (2)	796	789	826	851	876	903
Power & Fuel (3)	954	1,031	1,007	976	1,011	1,046
Freight costs (4)	609	629	612	606	624	636
Employee cost (5)	258	253	279	325	287	281
Other expense (6)	675	668	766	772	747	747
Total Opex (7)= sum(2 thru 6)	**3,292**	**3,369**	**3,490**	**3,530**	**3,544**	**3,613**
YoY change (%)	*2.3*	*2.4*	*3.6*	*1.2*	*0.4*	*1.9*
EBITDA per MT (1-7)	**769**	**987**	**1,122**	**1,159**	**1,216**	**1,219**
YoY change (%)	*23.2*	*28.4*	*13.7*	*3.4*	*4.9*	*0.2*

Source: Company, HSIE Research

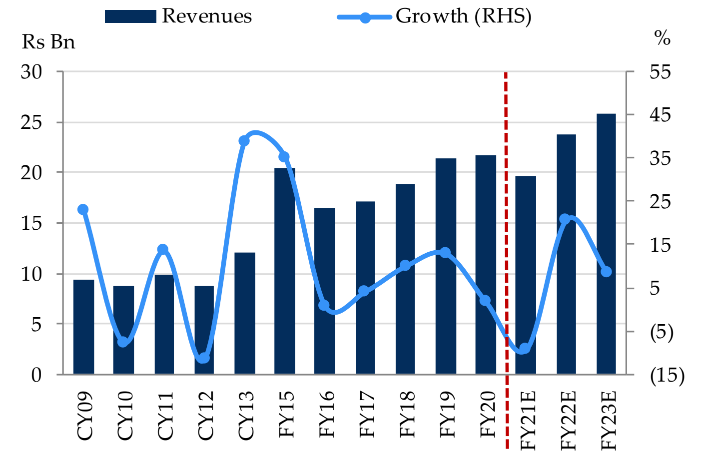
Financial summary charts

We estimate Revenue to grow at 6% CAGR during FY20-23E…



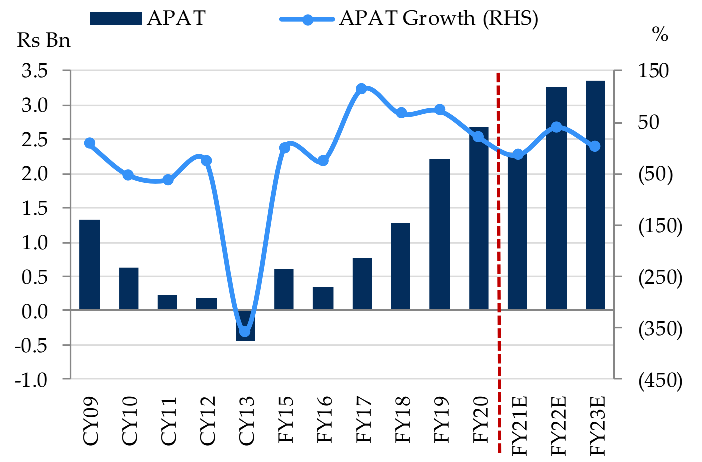
Source: Company, HSIE Research

… and EBITDA to grow at 7% CAGR during FY20-23E



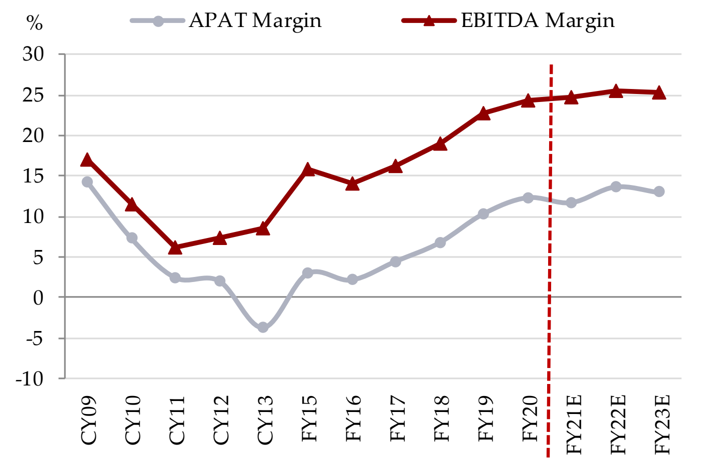
Source: Company, HSIE Research

Subsequently, stable capital charges to drive 8% APAT CAGR, in our view



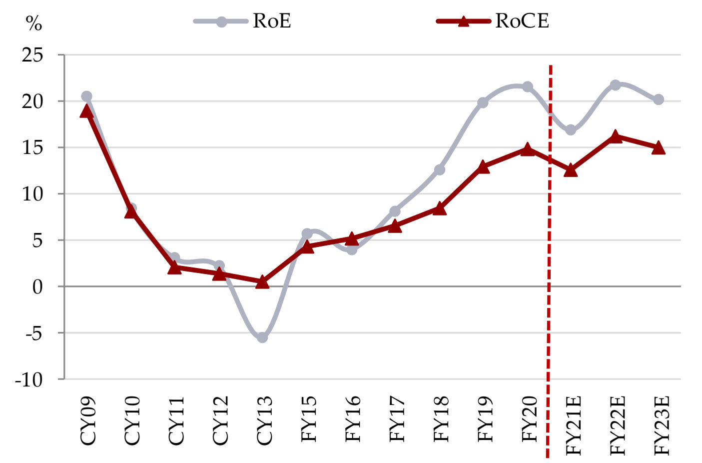
Source: Company, HSIE Research

Operating margin at multi-year high; Net margin should also recover further



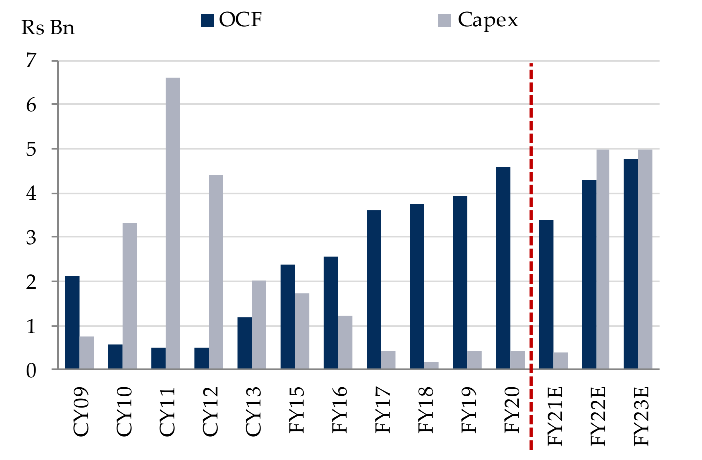
Source: Company, HSIE Research

RoE/RoCE trend



Source: Company, HSIE Research

Cash Flow trend



Source: Company, HSIE Research

Financials

Income Statement

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**16,484**	**17,175**	**18,895**	**21,334**	**21,696**	**19,697**	**23,791**	**16,484**
Growth %	*0.8*	*4.2*	*10.0*	*12.9*	*1.7*	*(9.2)*	*20.8*	*0.8*
Raw Material	3,334	3,607	3,703	3,863	3,887	3,573	4,380	3,334
Power & Fuel	4,520	4,293	4,439	5,049	4,736	4,101	5,051	4,520
Freight Expense	2,324	2,392	2,836	3,079	2,879	2,544	3,119	2,324
Employee cost	1,050	1,148	1,202	1,239	1,312	1,364	1,433	1,050
Other Expenses	2,943	2,947	3,139	3,269	3,605	3,244	3,731	2,943
EBITDA	**2,312**	**2,789**	**3,577**	**4,833**	**5,278**	**4,869**	**6,078**	**2,312**
EBIDTA Margin (%)	*14.0*	*16.2*	*18.9*	*22.7*	*24.3*	*24.7*	*25.5*	*14.0*
EBITDA Growth %	*(10.3)*	*20.6*	*28.3*	*35.1*	*9.2*	*(7.7)*	*24.8*	*(10.3)*
Depreciation	998	992	1,012	1,018	1,086	1,110	1,127	998
EBIT	**1,314**	**1,797**	**2,565**	**3,816**	**4,192**	**3,760**	**4,951**	**1,314**
Other Income (Including EO Items)	224	237	143	348	527	400	400	224
Interest	1,085	898	745	748	739	604	495	1,085
PBT	**454**	**1,136**	**1,964**	**3,416**	**3,981**	**3,556**	**4,856**	**454**
Tax	100	374	745	1,210	1,300	1,243	1,601	100
Minority Interest	-	-	-	-	-	-	-	-
RPAT	**354**	**762**	**1,219**	**2,207**	**2,681**	**2,313**	**3,255**	**354**
EO (Loss) / Profit (Net Of Tax)	-	-	(57)	-	-	-	-	-
APAT	**354**	**762**	**1,275**	**2,207**	**2,681**	**2,313**	**3,255**	**354**
APAT Growth (%)	*(25.8)*	*115.3*	*67.3*	*73.0*	*21.5*	*(13.7)*	*40.8*	*(25.8)*
AEPS	**1.6**	**3.4**	**5.6**	**9.7**	**11.8**	**10.2**	**14.4**	**1.6**

Source: Company, HSIE Research

Balance Sheet

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital	2,266	2,266	2,266	2,266	2,266	2,266	2,266	2,266
Reserves And Surplus	6,683	7,403	8,198	9,446	10,880	11,829	13,493	15,258
Total Equity	**8,949**	**9,670**	**10,464**	**11,712**	**13,146**	**14,095**	**15,759**	**17,524**
Minority Interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Long-term Debt	9,815	7,381	6,704	5,818	4,632	3,132	3,182	5,931
Short-term Debt	721	60	103	145	145	145	145	145
Total Debt	**10,536**	**7,441**	**6,807**	**5,964**	**4,777**	**3,277**	**3,327**	**6,077**
Deferred Tax Liability	419	530	835	1,303	1,903	1,903	1,903	1,903
Long-term Liab+ Provisions	-	-	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**19,904**	**17,641**	**18,106**	**18,979**	**19,826**	**19,275**	**20,989**	**25,503**
APPLICATION OF FUNDS								
Net Block	19,012	18,771	18,060	17,368	16,930	16,221	15,594	14,942
Capital WIP	561	63	81	172	160	160	4,660	9,160
Goodwill	-	-	-	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-	-	-	-
Total Non-current Investments	-	-	-	-	-	-	-	-
Total Non-current Assets	**19,572**	**18,834**	**18,140**	**17,541**	**17,090**	**16,381**	**20,254**	**24,102**
Inventories	1,782	1,396	1,269	1,674	1,458	1,379	1,665	1,809
Debtors	258	126	189	253	257	233	281	306
Cash and Cash Equivalents	78	142	2,124	3,377	4,706	4,641	2,293	2,858
Other Current Assets (& Loans/adv)	4,456	3,579	3,606	4,110	4,418	4,063	4,410	4,592
Total Current Assets	**6,574**	**5,243**	**7,188**	**9,415**	**10,838**	**10,316**	**8,650**	**9,564**
Creditors	1,860	1,914	2,266	2,778	2,584	2,364	2,855	3,101
Other Current Liabilities & Provns	4,382	4,522	4,956	5,198	5,518	5,058	5,060	5,062
Total Current Liabilities	**6,242**	**6,436**	**7,222**	**7,976**	**8,102**	**7,422**	**7,915**	**8,163**
Net Current Assets	**332**	**(1,193)**	**(35)**	**1,438**	**2,736**	**2,895**	**735**	**1,401**
TOTAL APPLICATION OF FUNDS	**19,904**	**17,641**	**18,106**	**18,979**	**19,826**	**19,275**	**20,989**	**25,503**

Source: Company, HSIE Research

Cash Flow

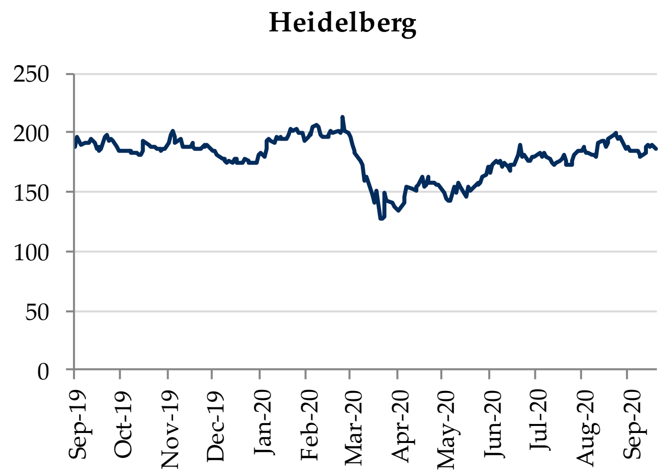
YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	454	1,136	2,077	3,416	3,981	3,552	4,851	5,002
Non-operating & EO Items	(217)	(193)	(188)	(337)	(501)	(400)	(400)	(300)
Interest Expenses	1,070	880	722	721	705	604	495	658
Depreciation	998	992	1,012	1,018	1,086	1,110	1,127	1,152
Working Capital Change	399	1,044	590	(177)	68	(223)	(188)	(102)
Tax Paid	(133)	(245)	(441)	(713)	(751)	(1,243)	(1,601)	(1,651)
OPERATING CASH FLOW (a)	**2,569**	**3,614**	**3,771**	**3,929**	**4,587**	**3,399**	**4,284**	**4,760**
Capex	(1,216)	(446)	(184)	(420)	(435)	(400)	(5,000)	(5,000)
Free Cash Flow (FCF)	1,353	3,168	3,588	3,509	4,152	2,999	(716)	(240)
Investments	-	-	(2)	(4)	(3)	-	-	-
Non-operating Income	137	44	49	160	297	400	400	300
Others								
INVESTING CASH FLOW (b)	**(1,080)**	**(402)**	**(137)**	**(263)**	**(141)**	**0**	**(4,600)**	**(4,700)**
Debt Issuance/(Repaid)	(1,724)	(2,215)	(415)	(827)	(1,320)	(1,500)	50	2,749
Interest Expenses	(1,151)	(933)	(697)	(639)	(576)	(604)	(495)	(658)
FCFE	(1,522)	21	2,477	2,043	2,256	895	(1,162)	1,851
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	-	-	(543)	(950)	(1,227)	(1,360)	(1,586)	(1,586)
FINANCING CASH FLOW (c)	**(2,875)**	**(3,147)**	**(1,655)**	**(2,417)**	**(3,123)**	**(3,464)**	**(2,032)**	**505**
NET CASH FLOW (a+b+c)	**(1,385)**	**64**	**1,980**	**1,249**	**1,323**	**(65)**	**(2,348)**	**564**
EO Items, Others								
Closing Cash & Equivalents	**78**	**142**	**2,122**	**3,373**	**4,700**	**4,641**	**2,293**	**2,858**

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %								
EBITDA Margin	14.0	16.2	18.9	22.7	24.3	24.7	25.5	25.2
EBIT Margin	8.0	10.5	13.6	17.9	19.3	19.1	20.8	20.8
APAT Margin	2.1	4.4	6.7	10.3	12.4	11.7	13.7	13.0
RoE	4.0	8.2	12.7	19.9	21.6	17.0	21.8	20.2
RoIC	4.6	5.8	8.4	13.8	16.3	14.5	17.8	15.9
RoCE	5.2	6.5	8.5	13.0	14.9	12.6	16.2	15.1
EFFICIENCY								
Tax Rate %	22.0	32.9	37.9	35.4	32.7	35.0	33.0	33.0
Fixed Asset Turnover (x)	0.9	0.8	0.9	1.0	1.0	0.9	1.1	1.1
Inventory (days)	39	30	25	29	25	26	26	26
Debtors (days)	6	3	4	4	4	4	4	4
Other Current Assets (days)	99	76	70	70	74	75	68	65
Payables (days)	41	41	44	48	43	44	44	44
Other Current Liab & Provns (days)	97	96	96	89	93	94	78	72
Cash Conversion Cycle (days)	6	(28)	(42)	(33)	(33)	(32)	(24)	(21)
Net Debt/EBITDA (x)	4.5	2.6	1.3	0.5	0.0	(0.3)	0.2	0.5
Net D/E	1.2	0.8	0.4	0.2	0.0	(0.1)	0.1	0.2
Interest Coverage	1.2	2.0	3.4	5.1	5.7	6.2	10.0	8.2
PER SHARE DATA (Rs)								
EPS	1.6	3.4	5.6	9.7	11.8	10.2	14.4	14.8
CEPS	6.0	7.7	10.1	14.2	16.6	15.1	19.3	19.9
Dividend	-	2.0	2.5	3.0	6.0	6.0	7.0	7.0
Book Value	39.5	42.7	46.2	51.7	58.0	62.2	69.5	77.3
VALUATION								
P/E (x)	114.6	53.2	31.8	18.4	15.1	17.5	12.5	12.1
P/Cash EPS (x)	30.0	23.1	18.2	12.6	10.8	11.9	9.3	9.0
P/BV (x)	4.5	4.2	3.9	3.5	3.1	2.9	2.6	2.3
EV/EBITDA (x)	22.1	17.2	12.6	8.9	7.7	8.1	6.8	6.7
EV/MT (Rs bn)	9.79	9.19	8.68	8.28	6.49	6.26	6.65	6.99
Dividend Yield (%)	-	1.1	1.4	1.7	3.4	3.4	3.9	3.9
OCF/EV (%)	5.0	7.6	8.3	9.1	11.3	8.7	10.3	10.9
FCFF/EV (%)	2.7	6.6	7.9	8.1	10.2	7.7	(1.7)	(0.5)
FCFE/M Cap (%)	(3.8)	0.1	6.1	5.0	5.6	2.2	(2.9)	4.6

Source: Company, HSIE Research

1yr Price Movement



Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Any holding in stock –No

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