HEIDELBERGCEMENT

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HCIL:SECTL:SE:2020-21 26th March 2021

BSE Ltd.
Listing Department
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai - 400001

Scrip Code:500292

National Stock Exchange of India Ltd
Listing Department,
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex, Bandra (E)
Mumbai - 400 051

Trading Symbol: Heidelberg

Dear Sir,

Sub: Intimation of Reaffirmation of Credit Rating
Re: Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

This is to inform that India Ratings and Research Pvt. Ltd., (credit rating agency) has on 26th March 2021 reaffirmed the Long-Term Issuer Rating of HeidelbergCement India Limited as "Ind AA+" (with stable outlook). The credit rating in respect of 10.4% Non-Convertible Debentures has also been reaffirmed as "Ind AA+" (with stable outlook).

A copy of communication received from India Ratings and Research Pvt. Ltd. in this regard is enclosed.

This is for your information and records.

Thanking you,

Yours Faithfully,
For HeidelbergCement India Ltd.

Rajesh Relan

Rajesh Relan
Legal Head & Company Secretary

ISO 14001
TÜV SÜD
ISO 9001 OHSAS 18001

HeidelbergCement India Limited

Issuer Credit Research

Ratings

Long-Term Issuer Rating	IND AA+
Long-Term Unsecured Bond	IND AA+

Outlooks

Long-Term Issuer Rating	Stable
Long-Term Unsecured Bond	Stable

Financial Data

HeidelbergCement India Limited

Particulars	FY20	FY19
Revenue (INR million)	21,696	21,334
Operating EBITDA (INR million)	5,278	4,833
Operating EBITDA margin (%)	24.3	22.7
Interest expense	739	748
Gross interest coverage (x)	7.1	6.5

Source: HCIL, Ind-Ra

Analysts

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Analytical Approach: India Ratings and Research (Ind-Ra) continues to factor in the strong support available to HeidelbergCement India Limited (HCIL) from its ultimate parent, HeidelbergCement AG (HCAG), while arriving at the rating, owing to the strong strategic, operational and legal linkages between the entities.

Key Rating Drivers

Strong Linkages with Parent: The ratings reflect HCIL's continued strong strategic, operational and legal linkages with its ultimate parent, HCAG. The strong legal linkages stem from HCAG's 69.4% shareholding in HCIL and the presence of a centralised treasury, as the debt is initially raised in HCAG's books and is then downstreamed to the Indian entity. The company's strong legal linkage with HCAG is evident from the fact that its working capital facilities are carved out of HCAG's global limits and have a cross-default provision. Also, HCAG's bond documents have cross-default provisions on thresholds of EUR50 million-100 million. As a part of the centralised treasury, in 2013, HCAG infused INR1,500 million into HCIL in the form of external commercial borrowings, which had been fully repaid as of August 2018, and INR3,700 million through a qualified foreign investors transaction.

HCAG maintains a close watch over HCIL's treasury and operational activities and has appointed directors on HCIL's board. The operational linkages are strengthened by the fact that the companies are in the same line of business and also by HCAG's focus on expanding its cement business in emerging markets. While HCIL caters to the central region of the country, HCAG's other Indian subsidiary, Zuari Cement Ltd ('IND AA+'/Stable), which is also in the same line of business, caters to the southern region. This gives HCAG considerable geographical diversification within India. HCIL receives technical support from the HeidelbergCement group, through which it has been able to improve its operational performance. In return, HCIL pays license fees to the group.

Improved Standalone Credit and Operational Profile: HCIL continued to be net cash positive at end-1HFY21, with net debt of negative INR1,614 million (FY20: negative INR656 million, FY19: positive INR1,792 million), driven by strong cash flow generation, resulting from an improvement in EBITDA/tonne, efficient working capital management, and lower capex, resulting from the low-cost debottlenecking exercise undertaken by the company. Consequently, HCIL's adjusted net leverage (net debt/trailing twelve months EBITDA) remained negative in 1HFY21 (FY20: negative net leverage; FY19: 0.37x; FY18: 1.12x), while the interest coverage (EBITDA/interest expense) improved to 8.0x (FY20: 7.1x, FY19: 6.5x; FY18: 4.9x).

In the absence of any major debt-led capex, stable profitability and robust cash flows, Ind-Ra expects HCIL's credit metrics to remain strong over the medium term. The company's EBITDA/tonne declined modestly to INR1,096/tonne during 9MFY21 (FY20: INR1,122/tonne; FY19: INR987/tonne; FY18: INR781/tonne), mainly led by an increase in the power and fuel cost and one-off shut down expense incurred during 3QFY21, offsetting the impact of increased sales realisation of INR4,674 (INR4,586; INR4,308; INR3,999). The realisations rose owing to higher sales of premium cement and a favourable demand-supply situation in central India. The improvement in realisations was also driven by operating efficiencies (including blending ratios), lead distances and power purchase cost per unit optimisation through the use of low-cost external sources/waste heat recovery/solar power and energy consumption in the kiln, which resulted in a stable cost/tonne.

The company is also eligible for state goods and services tax incentive, which aids the overall EBITDA; at FYE19, the company had cumulative value added tax and state goods and services tax incentives receivable of INR631 million. These benefits are applicable for 10 years and will expire in FY23. These factors helped the company's overall return on capital employed improve to 25% in FY20 (FY19: 23%).

Decline in Volume amid Lockdown; Recovery Seen from 2QFY21: HCIL's sales volume declined 10% yoy to 3.23 million tonnes (mt) during 9MFY21, mainly because demand in the central and southern regions was affected by the nationwide lockdown especially in 1HFY21. Consequently, HCIL's revenue declined by 8% yoy to INR15,114 in 9MFY21 (FY20: INR21,696 million) and the EBITDA declined by 11% yoy to INR3,545 million (INR5,278 million). However, HCIL's sales volumes increased by 4% yoy to 1.27 million tonnes in 3QFY21 (1QFY21: 0.86mt; 2QFY21: 1.11mt), backed by signs of recovery in most markets post the lockdown. Ind-Ra expects cement demand to be robust over the medium term in the central region of the country on account of the government's continued thrust on infrastructure, the pick-up in the individual home building space, and the limited capacity addition in the region.

Capacity Expansion through Debottlenecking: HCIL expanded its capacities through debottlenecking in Imlai (Madhya Pradesh) and Jhansi (Uttar Pradesh) located in central India. With the commissioning of these additional grinding capacities (Imlai: 0.5mmt; Jhansi: 0.55mmt), HCIL set to report growth in volumes. The company spent INR207 million on these projects using internal accruals. Post the normalisation of operations, Ind-Ra expects the debottlenecking projects to improve HCIL's overall operational efficiency and profitability over the medium term. The management does not envisage the need for setting up an additional clinker capacity, given that the existing capacities are running at close to 85% utilisation.

Liquidity Indicator- Adequate: HCIL consistently generated positive cash flow from operations (CFO) and free cash flow (FCF) over FY16-1HFY21 due to strong operating profitability and a comfortable net working capital cycle (1HFY21: negligible, FY20: nine days, FY19: four days). The company's average debtor days remained low at six in 1HFY21 (FY20: four days), given the higher proportion of trade sales (close to 85%). HCIL's average utilisation of the working capital limits was 68% for the 12 months ended September 2020. It had high cash and cash equivalent of INR5,737 million as of September 2020.

HCIL had a gross debt of INR4,796 million at FYE20, of which an interest-free loan from the government of Uttar Pradesh amounted to INR2,346 million, and non-convertible debentures (NCDs) from the group accounted for INR2,450 million. The company repaid INR1,250 million towards NCDs and has scheduled repayment of INR1,200 million for FY22 towards NCDs, and INR2,346 million from FY23 towards the government of Uttar Pradesh's interest-free loan. Ind-Ra expects the company's liquidity to remain strong over the medium term, backed by robust profitability, a stable working capital cycle and continued support from the parent. Given the overall experience of HCAG in India and adequate liquidity available in HCIL, the company might consider inorganic expansion for capacity growth.

Exposure to Industry Cyclicality: HCIL's EBITDA/tonne remains vulnerable to the company's ability to maintain its operating parameters amid the inherent cyclical trends in the demand and supply of cement. However, Ind-Ra has maintained a stable outlook on the cement sector for FY22. The agency expects cement demand to grow 13%-14% yoy in FY22, on the back of three consecutive favourable monsoons, government spending on infrastructure and affordable housing schemes.

Applicable Criteria

Corporate Rating Methodology April 2020

Rating Sensitivities

Positive: Improvements in the linkages between HCIL and HCAG will be positive for HCIL's ratings.

Negative: Any developments that could lead to deterioration in the linkages between HCAG and HCIL will be negative for HCIL's ratings.

Debt Structure

HCIL's debt is on a reducing trend (FY20: INR4,051 million, FY19: INR5,168 million, FY18: INR6,192 million), and long-term in nature. In absence of any concrete capex plans, the agency expects the debt to further reduce over the medium term on account of debt repayments.

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Key Rating Issues

Parent Support

HCIL's shareholding is held by a step-down subsidiary of HCAG. HCAG carries cross default provisions on its INR3,700 million NCDs so that any default on a material debt by its subsidiaries is also considered as a default on HCAG's bonds. The HCAG group generally follows a group-wide common treasury policy.

Indicating strong strategic support, HCIL's board of directors has following representatives from HCAG:

- Kevin Gerard Gluskie (Member of Managing Board – HCAG)
- Soek Peng Sim (Finance Director – HeidelbergCement APAC Region)

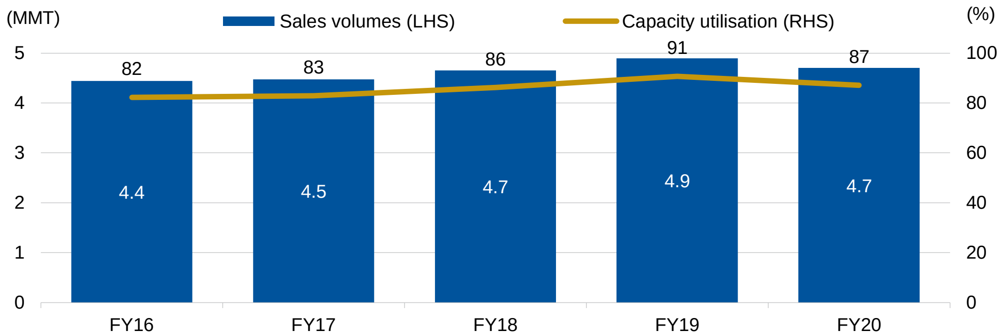
The strategic importance is further reflected by HCAG's track record of supporting its Indian operations when needed. HCAG had provided a corporate guarantee to the term loans of HCIL in the past, which were replaced by the debentures subscribed by the parent itself. HCAG had also provided an INR1.5 billion of external commercial borrowing and USD125 million of external commercial borrowing for the expansion of HCIL's facility during FY10-FY13, in addition to a qualified foreign investor issuance of INR3,700 million.

Capacity Utilisation

HCIL's capacity utilisation remained above 80% over FY16-FY20, on back of a healthy demand scenario in the central region. Capacity utilisations came under pressure during 9MFY21 as demand in the central and southern regions was affected by the nationwide lockdown. However, utilisations improved sequentially in 2QFY21 and 3QFY21 and Ind-Ra expects utilisations to remain healthy over a medium term.

Figure 1

Capacity Utilisation



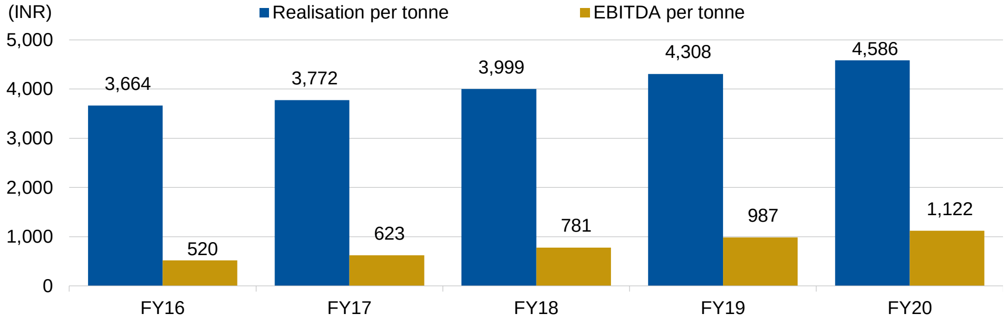
Source: HCIL, Ind-Ra

Improvement in Realisations and EBITDA/tonne

HCIL's EBITDA/tonne improved consistently over FY16-FY20 except a modest decline during 9MFY21. This improvement in the EBITDA/tonne was majorly aided by a consistent rise in realisations to INR4,586/tonne during FY20 (FY19: INR4,308/tonne, FY18: INR3,999/tonne, FY17: INR3,772/tonne, FY16: INR3,664/tonne).

Figure 2

Realisation and EBITDA per tonne



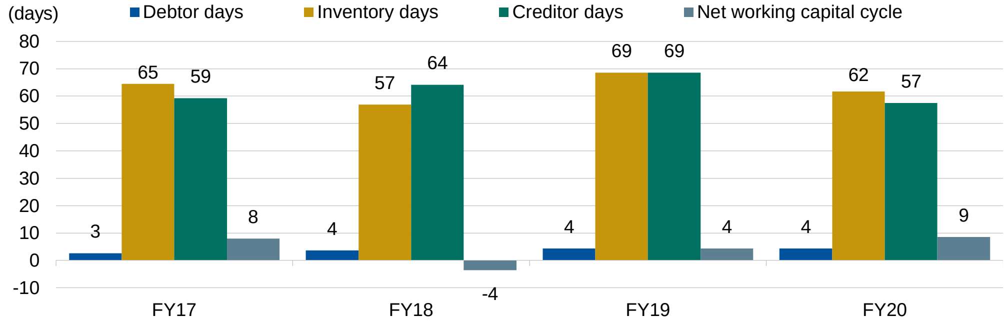
Source: HCIL, Ind-Ra

Low Working Capital Cycle

HCIL sells 80%-85% of its produce through trade channels and only 15%-20% through non-trade channels from the facilities of Ammasandra and Damoh-Jhansi, leading to low debtor days. The trade channels transactions are on cash basis while for non-trade customers sales, a credit period of 30-60 days is provided, based on their relations with them. The company maintains an inventory of 60 days and avails a credit period of around 60 days from its suppliers. This along with the strategy of making majority of sales on a cash basis helps HCIL to maintain a short working capital cycle.

Figure 3

Working Capital Cycle



Source: HCIL, Ind-Ra

Company Profile

HCIL is a subsidiary of HCAG, Germany. In central India, the company operates in Damoh (Madhya Pradesh) and Jhansi (Uttar Pradesh). In southern India, it operates in Ammasandra (Karnataka). The combined capacity of its manufacturing facilities in Madhya Pradesh, Uttar Pradesh and Karnataka is 6.26 million tonnes per annum

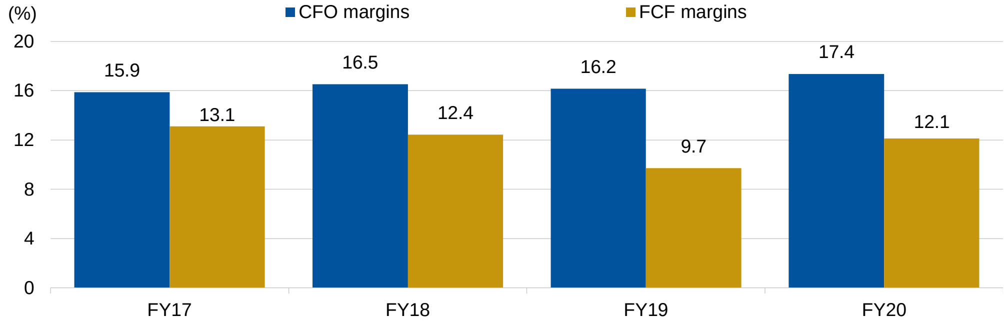
Financial Analysis

Cash Flows

HCIL has been consistently reporting positive CFO and FCF over FY16-FY20. The agency expects the CFO to range between 15%-20% and the FCF to be positive over the medium term on account of a stable working capital cycle as well as profitability with no major capex plans.

Figure 4

Cash Flow Margins



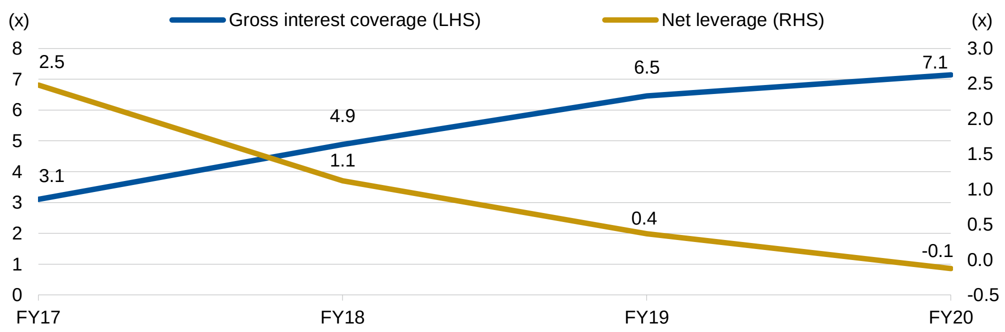
Source: HCIL, Ind-Ra

Credit Metrics

HCIL's turned net cash positive during FY20. Ind-Ra expects HCIL to maintain healthy credit metrics over the medium term.

Figure 5

Credit Metrics



Source: HCIL, Ind-Ra

Capital Structure

Figure 6

Capital Structure

(INR million)	FY20	FY19	FY18
NCDs (Unsecured)	1,200	2,450	3,700
Indian rupee loan from Uttar Pradesh Government (Secured)	1,601	1,468	992
Total long-term borrowings	**2,801**	**3,918**	**4,692**
Working capital loan from bank	-	-	-
Current maturity of long-term debt	1,250	1,250	1,500
Total short-term borrowings	**1,250**	**1,250**	**1,500**
Total debt			
Share capital	2,266	2,266	2,266
Reserves & surplus	10,880	9,446	8,198
Total shareholders fund	**13,146**	**11,712**	**10,464**

Source: HCIL, Ind-Ra

Figure 7

Annual Peer Comparison of Key Listed Sector Companies - FY20

Company	Capacity (MTPA)	Sale volume (MT)	Utilization (%)	EBITDA (INR million)	Realization (INR/tonne)	Overall costs (INR/tonne)	EBITDA (INR/tonne)	Net leverage (x)	Interest coverage (x)
Ultratech	111.4	78.8	71	90,810	5,069	4,004	1,153	1.8	4.7
Shree	40.4	24.9	62	36,745	4,776	3,302	1,474	-0.1	12.9
ACC	33.4	28.9	86	24,095	5,311	4,585	834	-1.9	28.0
Ambuja	29.7	24.0	81	21,489	4,870	3,973	897	-1.4	27.1
Dalmia	26.5	19.3	73	21,060	5,015	3,923	1,092	1.3	4.8
Birla Corp	15.6	13.6	87	13,360	4,847	4,109	984	2.5	3.4
JK Cement	14.0	9.8	70	11,815	5,590	4,381	1,209	2.2	4.4
Ramco	18.7	11.2	60	11,366	4,718	3,777	1,015	2.6	15.9
JK Lakshmi	13.3	11.1	84	7,981	3,923	3,205	717	1.9	3.5
India Cement	15.6	11.0	71	5,852	4,589	4,058	531	5.2	1.7
Prism	7.0	5.7	82	5,392	4,494	3,604	890	3.4	2.1
Heidelberg	6.3	4.7	75	5,278	4,586	3,464	1,122	-0.1	7.1
Star	4.3	3.0	69	3,951	6,238	4,901	1,337	-0.7	42.3
Orient	8.0	5.8	73	3,829	4,176	3,515	660	3.1	3.1
Mangalam	4.0	2.8	69	1,994	4,466	3,741	725	1.9	3.2
Sanghi	4.1	2.0	48	1,929	4,495	3,518	977	6.4	2.5
Sagar	5.8	3.1	54	1,855	3,753	3,161	592	2.6	3.0
NCL	2.7	1.9	69	1,394	5,047	4,297	750	1.9	4.5
Deccan	2.3	1.5	66	783	3,761	3,231	530	-0.4	11.6

Note: Ultratech: Ultratech Cements Ltd (IND AAA/Stable), Shree: Shree Cement Ltd, ACC: ACC Ltd, Ambuja: Ambuja Cements Ltd, Dalmia: Dalmia Cement (Bharat) Limited (IND AA+/Stable), Birla Corp: Birla Corporation Limited (IND AA/Stable), JK Cement: J. K. Cement Ltd, India Cement: India Cements Ltd, Prism: Prism Johnson Ltd (IND A+/Stable), HeidelbergCement India Limited (IND AA+/Stable), Star: Star Cement Ltd, Orient: Orient Cement Ltd, Mangalam: Mangalam Cement ltd, Sanghi: Sanghi Industries Ltd (IND A/Negative), Sagar: Sagar Cements Ltd (IND A-/Stable), NCL: Nuvoco Vistas Corporation Limited (IND AA/Stable), Deccan: Deccan Cements Ltd
Source: Ind-Ra, Company reports

Figure 8

Cost Comparison (INR/tonne) of Key Listed Sector Companies- FY20

Company	Raw material	Power & Fuel	Freight & Forwarding	Other expenses	Employee cost
Ultratech	730	1,029	1,228	714	304
Shree	308	942	1,046	713	293
ACC	942	1,084	1,402	859	299
Ambuja	470	1,079	1,291	852	281
Dalmia	905	901	982	641	350
Birla Corp	677	1,017	1,196	918	300
JK Cement	881	1,032	1,056	1,012	400
Ramco	780	938	1,016	715	329
JK Lakshmi	701	885	768	543	308
India Cement	818	1,229	1,052	918	317
Prism	531	1,227	976	615	278
Heidelberg	826	1,007	612	766	279
Star	1,360				428
Orient	350	1,020	1,196	683	267
Mangalam	518	1,223	1,204	401	396
Sanghi	363	1,095	1,310	505	244
Sagar	726	987	715	526	207
NCL	1,401	1,479	915	275	227
Deccan	339	1,308	844	554	186

Source: Ind-Ra, Company reports

Details of Rated Debt Instruments

Figure 9

Long Term Loans/Facilities

Particulars	Ratings/Outlook	Amount (INR million)
Long-term unsecured NCDs[a]	IND AA+/Stable	2,450
Total		**2,450**

Note: [a]INR1,200 million outstanding as on 26 March 2021
Source: HCIL, Ind-Ra

Annexure 1

Figure 10

Historical Financial Information HeidelbergCement India Limited

	FY20	FY19	FY18	FY17
Summary income statement				
Gross revenues (+)	21,696	21,334	18,895	17,175
Revenue growth (%)	1.7	12.9	10	4.2
Operating EBITDA (before income from associates)	5,278	4,833	3,634	2,789
Operating EBITDA margin (%)	24.3	22.7	19.2	16.2
Operating EBITDAR	5,278	4,833	3,634	2,789
Operating EBITDAR margin (%)	24.3	22.7	19.2	16.2
Operating EBIT	4,192	3,816	2,622	1,797
Operating EBIT margin (%)	19.3	17.9	13.9	10.5
Gross interest expense	739	748	745	898
Pretax income	3,981	3,416	2,077	1,136
Net income	2,681	2,207	1,332	762
Summary balance sheet				
Cash & equivalents	4,706	3,377	2,124	142
Working capital	-870	-1,170	-1,223	-812
Accounts receivable	257	253	188	126
Inventory	1,458	1,674	1,269	1,396
Accounts payable	2,584	3,097	2,680	2,334
Total debt with equity credit	4,051	5,168	6,192	7,053
Short-term debt	1,250	1,250	1,500	1,301
Long-term senior secured debt	0	0	0	0
Long-term senior unsecured debt	0	0	0	0
Long-term subordinated debt	0	0	0	0
Other debt	2,801	3,918	4,692	5,752
Equity credit	0	0	0	0
Total adjusted debt with equity credit	4,051	5,168	6,192	7,053
Summary cash flow statement				
Operating EBITDA	5,278	4,833	3,634	2,789
Cash interest	-739	-748	-758	-933
Cash tax	-751	-713	-441	-245
Other items before FFO	-7	-16	63	27
Funds flow from operations	4,226	3,626	2,546	1,681
Change in working capital	68	-177	590	1,044
Cash flow from operations	4,293	3,450	3,136	2,725
Total Non-operating/non-recurring cash flow	0	0	0	0
Capital expenditures	-435	-427	-232	-474
Common dividends	-1,227	-950	-543	0
Free cash flow (x)	2,631	2,073	2,361	2,251
Free cash flow margin (%)	12.1	9.7	12.5	13.1
Net acquisitions & divestitures	0	7	49	28
Other cash flow items	0	0	0	0
Cash flow from investing	-435	-420	-184	-446
Net debt proceeds	-1,118	0	0	0
Net equity proceeds	0	0	0	0
Cash flow from financing	-1,302	197	433	1,122
Total change in cash	1,330	2,277	2,843	3,401
Coverage ratios (x)				
FFO interest coverage	6.12	5.49	4.29	2.76
FFO fixed charge coverage	6.12	5.49	4.29	2.76
Operating EBITDAR/gross interest expense + rents	7.15	6.46	4.88	3.11
Operating EBITDAR/net interest expense + rents	17.94	10.09	5.12	3.14
Operating EBITDA/gross interest expense	7.15	6.46	4.79	2.99
Leverage ratios (x)				
Total adjusted debt/operating EBITDAR	0.77	1.07	1.7	2.53
Total adjusted net debt/operating EBITDAR	-0.12	0.37	1.12	2.48
Total debt with equity credit/operating EBITDA	0.77	1.07	1.7	2.53
FFO adjusted leverage	0.9	1.26	1.9	2.74
FFO adjusted net leverage	-0.15	0.44	1.25	2.69

Source: HCIL, Ind-Ra

The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings and Research has been compensated for the provision of the ratings.

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