

## Volume Growth Still Lagging; Downgrade to HOLD

Heidelberg Cement's reported Revenue/EBITDA/APAT de-growth of 12%/59%/88% during the quarter on account of volume de-growth of 19% YoY and higher input costs. The company reported a volume of 1 million tonnes per annum (mtpa) against 1.23 mtpa YoY. The company performance was below our as well as street expectations on all fronts.

The company reported EBITDA margins of 9.4% vs. 20.2% YoY (lower than our expectation of 14%) owing to elevated costs during the quarter. EBITDA margin declined by 1080bps YoY owing to higher power/fuel costs which were up 47% on a per tonne basis and on account of interest provision of Rs 10 Cr during the quarter. The company reported EBITDA/tonne of Rs 476, down 50% YoY (Q2FY22 – Rs 946/tonne) owing to elevated costs during the quarter. Blended realization/tonne came in at Rs 5,119 against Rs 4,683, up 9% on a YoY basis. The company reported an APAT of Rs 7 Cr against Rs 60 Cr in Q2FY22, down 88% YoY. APAT was also impacted by higher interest provisioning pertaining to certain litigation.

## Management Concall Highlights

### Volume & Pricing

- The company's volume got impacted due to heavy monsoon in its key operating areas, especially MP and UP to a certain extent. While demand was poor in Aug'22, it slightly improved in Sep'22. The company expects demand to pick up post-Diwali. It refrained from giving any volume growth guidance for the rest of the year. The company does not see the upcoming capacity to disturb demand momentum as Central India is expected to grow at 8% over the next few years and the region has the capacity to absorb additional production. Currently, Central India is a 55-mtpa market.
- Post-monsoon, the company undertook a few price hikes in small portions. However, major price hikes are expected post-Diwali as demand momentum picks up with the increase in construction activities.

### Capacity Expansion & Capex

**Debottlenecking to increase its clinker capacity:** The company is debottlenecking to increase its clinker capacity by 0.30 mtpa at its MP plant which will increase grinding capacity by 0.45-0.50 mtpa by FY24.

**The expansion plan of the Gujarat plant is on track** but it is progressing a little slow on account of the delay in getting environmental clearances and other licenses. It is expected to be received in FY24 and will take another 24 months thereafter for the construction to complete. The plant is expected to get operational in FY27 with a 3.5 mtpa capacity in the first phase. The total estimated Capex is 200 Mn euros.

**Capex of Rs 50 Cr in FY23:** The company guided for a Capex of Rs 50 Cr in FY23, including Capex on debottlenecking and Rs 55-60 Cr in FY24.

### Outlook & Valuation

- The company is strongly positioned in its home market—Central India, which is demand-accretive and pricing is more stable compared to other regions. It has also been able to increase the sale of premium cement to 55% of trade sales by introducing the premium brand MYCEM PRIMO. The company expects input cost pressure to soften moving forward. It expects its capacity utilization to improve as demand improves moving forward.
- We expect the company to register Revenue/EBITDA/APAT CAGR of 7%/7%/9% respectively over FY22-FY24E and volume growth of 3% CAGR over the same period. We await to see better capacity utilization and sustainability of the same along with improved demand. **The stock is currently trading at 12x FY23E and 7.5x FY24E EV/EBITDA. We value the company at 8x FY24 EV/EBITDA to arrive at a TP of Rs 195/share, implying a downside of 0% from the current level. Hence we change our rating from BUY to HOLD.**

### Key Financials

(Rs Cr)	FY22	FY23E	FY24E
Net Sales	2,297	2,384	2,686
EBITDA	435	344	496
Net Profit	252	177	302
EPS (Rs)	11	8	13
PER (x)	16	25	15
EV/EBITDA (x)	9	12	7.5
P/BV (x)	2	2.1	1.9
ROE (%)	16	11	19

Source: Company, Axis Research

CMP as of Oct 18, 2022)

CMP (Rs)	196
Upside / (Downside (%))	0
High/Low (Rs)	261/164
Market cap (Cr)	4086
Avg. daily vol. (6m) Shrs.	505560
No. of shares (Cr)	22.7

### Shareholding (%)

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

### Financial & Valuations

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### Change in Estimates (%)

	FY23E	FY24E
Revenue	-9	-7
EBITDA	-17	-7
Net profit	-27	-9

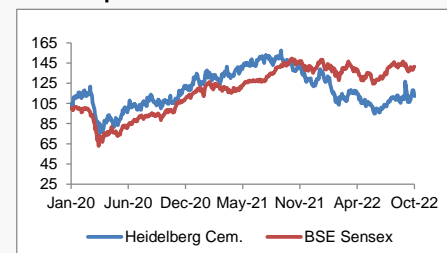
### ESG disclosure Score\*\*

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

Source: Bloomberg, Scale: 0.1-100

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

### Relative performance



Source: Capitaline, Axis Securities

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## **Management Concall Highlights (Cond...)**

### **Trade Mix**

- During the quarter, the trade and non-trade mix stood at 83:17 and was maintained sequentially, which helped in higher blended realization which was up 9% YoY. While the company sells 100% blended cement, premium cement constituted 55% of the trade sales in Q2FY23 growing at 114% YoY. The company's focus on increasing the share of premium cement in the overall trade mix augurs well and will help it sustain margins moving forward as input cost subsidies.

### **Capacity Utilization**

- The capacity utilization during the quarter was 70% against 78% in Q2FY22.

### **Freight**

- On a YoY basis, per tonne freight cost was higher by 11% at Rs 680/tonne. On a QoQ basis, it was up 2%. During the quarter, the road/rail mix was 50:50 while the lead distance during the quarter was 350KM.

### **Power /Fuel**

- On a sequential basis, Power & Fuel costs remained flat on a tonne basis however on a YoY basis it was up 47% on a tonne basis. The pet coke and coal prices that have softened will impact margins positively moving ahead. The company's fuel mix stood at 31% coal and the balance consisted of pet coke and AFR during the quarter. The high pet coke/Coal price is a concern for the industry as a whole.
- The company started receiving Solar Power under its long-term power purchase agreement for the Jhansi plant. The contracted capacity is 15 Mega Watt and the Company is expected to receive 22 Gigawatt Hours of solar power annually. As a result of an increase in green power across various plants, the Company's overall share of green power increased to **34%** from 30% in Q1FY23.

### **Other Expenses**

- Other expenses during the quarter were marginally higher by 3% on a tonne basis YoY owing to lower absorption of fixed costs caused by lower volume and normalization of other expenditures.

### **Net-Debt Position**

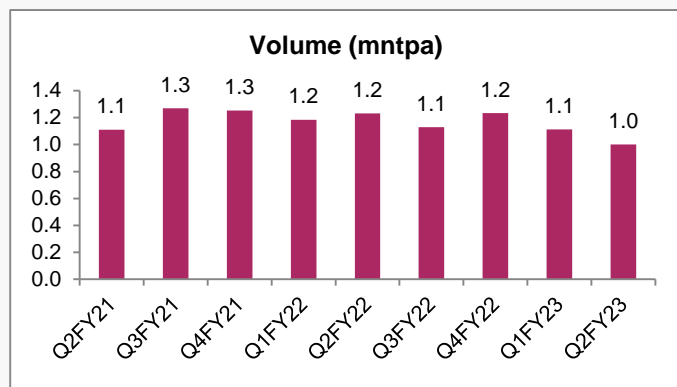
- Total cash in the books as of 30th Sept '22 stood at Rs 224 Cr. Total debt at Rs 234 Cr, and net debt stood at Rs 10 Cr. The company paid a dividend of Rs 204 Cr @ Rs 9/per share.

### **OCF & Working Capital**

- During H1FY23 the company generated OCF of Rs 85 Cr against Rs 204 Cr last year down by 58% on the back of lower profitability and higher provisioning for interest. The working capital requirement also increased from Rs 14 Cr to Rs 29 Cr compared to the last year.

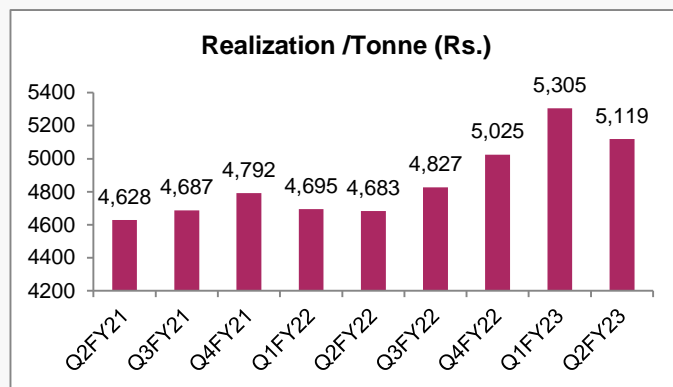
## Story in Charts

**Exhibit 1: Volume Trend**

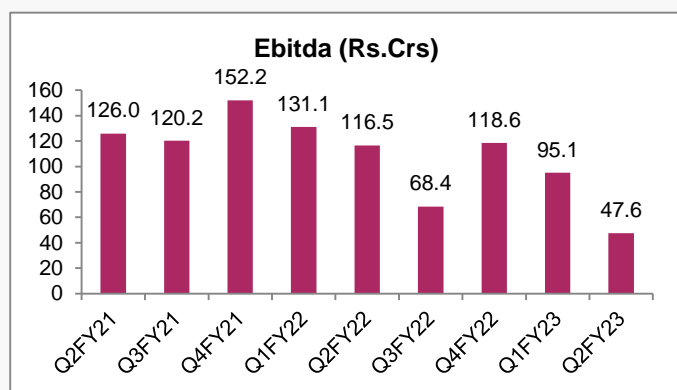


Source: Company, Axis Securities

**Exhibit 2: Realization Trend**

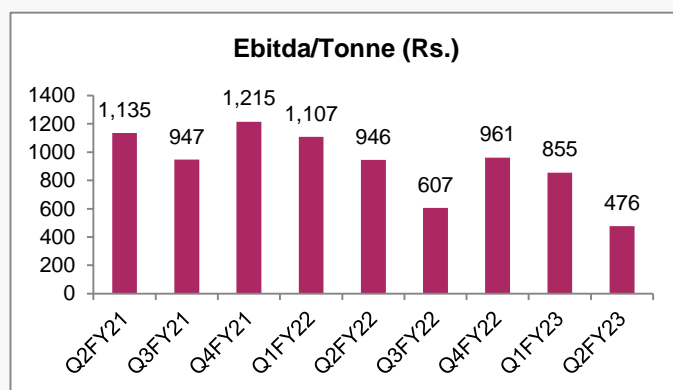


**Exhibit 3: EBITDA Trend**

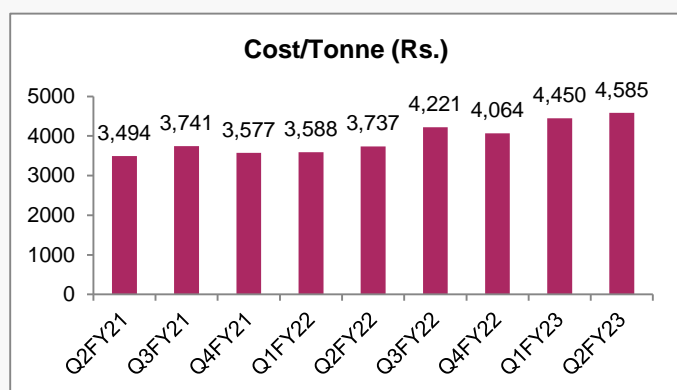


Source: Company, Axis Securities

**Exhibit 4: Trend in EBITDA/Tonne**

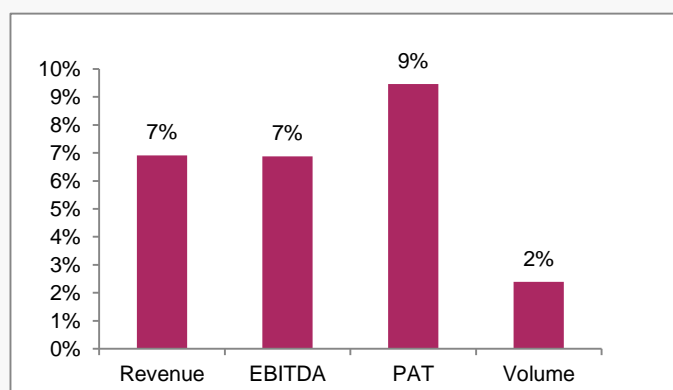


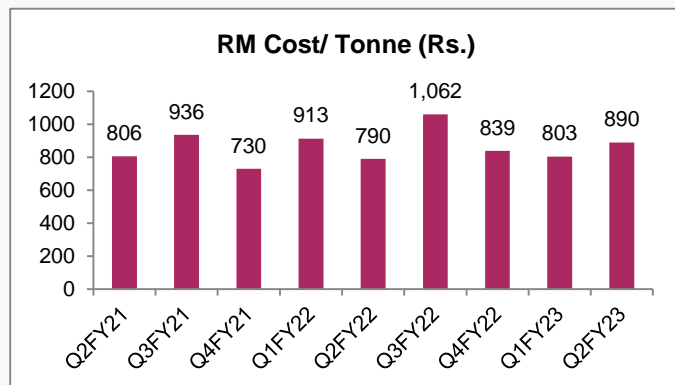
**Exhibit 5: Trend in Cost /Tonne**



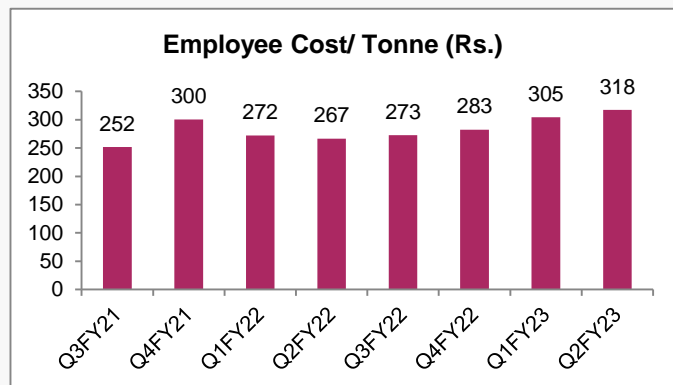
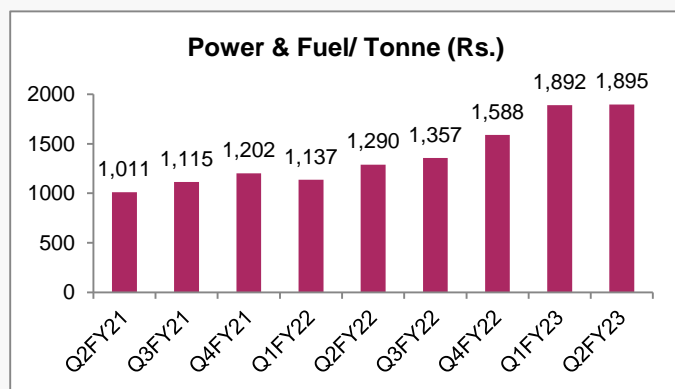
Source: Company, Axis Securities

**Exhibit 6: CAGR (FY22-24E)**

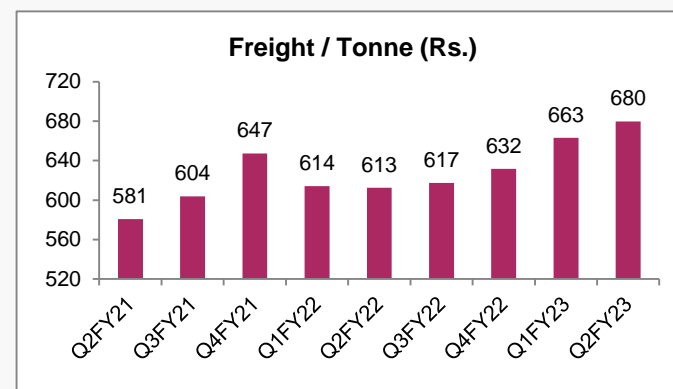
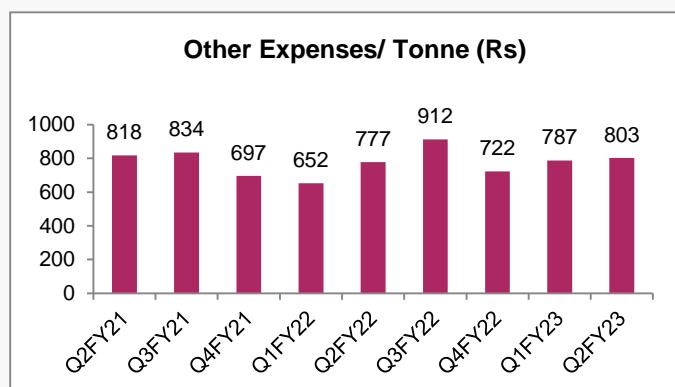


**Exhibit 7: Trend in RM Cost**


Source: Company, Axis Securities, Source: Company, Axis Securities

**Exhibit 8: Staff Cost**

**Exhibit 9: Power & Fuel Cost**


Source: Company, Axis Securities, Source: Company, Axis Securities

**Exhibit 10: Freight Cost**

**Exhibit 11: Other Expenses**


Source: Company, Axis Securities,

**Q2FY23 Result Comparative**
**(Rs Cr)**

<b>(Rs Cr)</b>	<b>2QFY23</b>	<b>1QFY23</b>	<b>ChgQoQ</b>	<b>2QFY22</b>	<b>% ChgYoY</b>
Net sales	506	590	-14%	576	-12%
Expenditure	458	495	-7%	460	0%
EBITDA	48	95	-50%	116	-59%
Other income	11	10	7%	77	-86%
Interest	21	8	158%	11	84%
Depreciation	28	28	0%	28	0%
PBT	10	69	-86%	154	-94%
Tax	3	18	-84%	31	-91%
PAT	7	52	-86%	60	-88%
EBITDA margin (%)	9.4%	16.1%	(670bps)	20.2%	(1080bps)
EPS (Rs)	0.31	2.28	-86%	2.63	-88%

Source: Company, Axis Securities

**Volume/ Realization/Cost Analyses**
**(Rs Cr)**

<b>(Rs Cr)</b>	<b>2QFY23</b>	<b>1QFY23</b>	<b>ChgQoQ</b>	<b>2QFY22</b>	<b>% ChgYoY</b>
Volume (mntpa)	1.00	1.11	-10%	1.23	-19%
Realisation/tonne (Rs)	5119	5305	-4%	4,683	9%
Cost/tonne (Rs)	4585	4450	3%	3737	23%
Raw materia/tonne (Rs)	890	803	11%	790	13%
Staff Cost/tonne (Rs)	318	305	4%	267	19%
Power & Fuel/tonne (Rs)	1895	1892	0%	1290	47%
Freight/tonne (Rs)	680	663	2%	613	11%
Other Expenses (Rs)	803	787	2%	777	3%
<b>EBITDA/tonne</b>	<b>476</b>	<b>855</b>	<b>-44%</b>	<b>946</b>	<b>-50%</b>

Source: Company, Axis Securities

**Actual/ Axis Estimates**

<b>(Rs cr)</b>	<b>Actual</b>	<b>Estimated</b>	<b>% Variance</b>	<b>Consensus</b>	<b>% Variance</b>
Net sales	506	624	-19%	591	-14%
EBITDA	48	88	-46%	74	-35%
EBITDA margin	9.4%	14.1%	(470bps)	12.4%	(300bps)
Adj net income	7	47	-85%	37	-81%

Source: Company, Axis Securities

## Financials

### Profit & Loss

(RsCr)

Y/E March	FY22	FY23E	FY24E
<b>Net sales</b>	<b>2297</b>	<b>2384</b>	<b>2626</b>
Other operating income	0	0	0
Total income	2297	2384	2626
Raw Material	429	413	446
Power & Fuel	642	816	808
Freight & Forwarding	296	309	334
Employee benefit expenses	131	135	142
Other Expenses	365	367	400
<b>EBITDA</b>	<b>435</b>	<b>344</b>	<b>496</b>
Other income	49	50	53
PBIDT	484	394	549
Depreciation	112	112	121
Interest & Fin Chg.	36	43	22
E/o income / (Expense)	0	0	0
Pre-tax profit	335	238	406
Tax provision	83	61	103
<b>RPAT</b>	<b>252</b>	<b>177</b>	<b>302</b>
Minority Interests	0	0	0
Associates	0	0	0
<b>APAT after EO item</b>	<b>252</b>	<b>177</b>	<b>302</b>

Source: Company, Axis Securities

### Balance Sheet

(RsCr)

Y/E March	FY22	FY23E	FY24E
<b>Total assets</b>	<b>2824</b>	<b>2800</b>	<b>2867</b>
Net Block	1589	1533	1490
CWIP	27	10	10
Investments	0	0	0
Wkg. cap. (excl cash)	-51	-61	-60
Cash / Bank balance	382	391	490
Misc. Assets	877	927	937
<b>Capital employed</b>	<b>2824</b>	<b>2800</b>	<b>2867</b>
Equity capital	227	227	227
Reserves	1339	1312	1432
Minority Interests	0	0	0
Borrowings	190	160	97
DefTax Liabilities	218	218	218
Other Liabilities and Provision	85	88	89

Source: Company, Axis Securities

**Cash Flow**
**(Rs Cr)**

	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
<b>Profit before tax</b>	335	238	406
Depreciation	112	112	121
Interest Expenses	33	43	22
Non-operating/ EO item	-48	-50	-53
Change in W/C	-83	10	-1
Income Tax	-55	-61	-103
<b>Operating Cash Flow</b>	295	293	392
Capital Expenditure	-47	-73	-79
Investments	0	0	0
Others	17	67	53
<b>Investing Cash Flow</b>	-30	-7	-26
Borrowings	-120	-30	-63
Interest Expenses	-22	-43	-22
Dividend paid	-181	-204	-181
Others	-5	0	0
<b>Financing Cash Flow</b>	-33	-28	-27
Change in Cash	-61	9	99
Opening Cash	430	369	378
Closing Cash	<b>369</b>	<b>378</b>	<b>477</b>

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY22	FY23E	FY24E
<b>Operational Ratios</b>			
Sales growth	9%	4%	10%
OPM	19%	14%	19%
Op. profit growth	-19%	-18%	32%
COGS / Net sales	60%	65%	60%
Overheads/Net sales	22%	21%	21%
Depreciation / G. block	7%	7%	8%
<b>Efficiency Ratios</b>			
Total Asset Turnover (x)	1.01	1.02	1.09
Sales/Gross block (x)	1.01	1.02	1.09
Sales/Net block(x)	1.42	1.53	1.74
Working capital/Sales (x)	-0.07	-0.08	-0.07
<b>Valuation Ratios</b>			
P/BV (x)	18	25	15
EV/EBITDA (x)	2.05	2.09	1.94
EV/Sales (x)	9.78	12.24	7.70
EV/Tonne \$ (x)	1.85	1.77	1.46
	92	91	83
<b>Return Ratios</b>			
ROE			
ROCE	16	11	19
ROIC	19	15	22
	21	14	29
<b>Leverage Ratios</b>			
Debt / equity (x)	0.12	0.10	0.06
Net debt/ Equity (x)	-0.12	-0.15	-0.24
Debt service coverage ratio (x)	1.34	2.22	6.73
Interest Coverage ratio (x)	10.20	6.49	19.19
<b>Cash Flow Ratios</b>			
OCF/Sales	0.13	0.12	0.15
OCF/EBITDA	0.68	0.85	0.79
OCF/Capital Employed	0.15	0.15	0.20
FCF/Sales	0.10	0.09	0.12
<b>Payout ratio (Div/NP)</b>			
	80.9	115.2	60.0
AEPS (Rs)	11.1	7.8	13.3
AEPS Growth	-19.9	-29.8	70.7
CEPS (Rs)	16	13	19
DPS (Rs)	9	9	8

Source: Company, Axis Securities



## Heidelberg Cement PriceChart and Recommendation History



Date	Reco	TP	Research
28-Oct-20	BUY	185	Initiating Coverage
12-Feb-21	BUY	255	Result Update
01-Jun-21	BUY	280	Result Update
26-Jul-21	HOLD	265	Result Update
28-Sep-21	HOLD	265	AAA
20-Oct-21	HOLD	260	Result Update
10-Feb-22	HOLD	200	Result Update
23-May-22	HOLD	205	Result Update
20-Jul-22	HOLD	190	Result Update
01-Sep-22	BUY	210	AAA
19-Oct-22	HOLD	195	Result Update

Source: Axis Securities

#### About the analyst



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Sector: Cement/Infra

Analyst Bio: Uttam K Simal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research

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

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