

## Heidelberg Cement

### Subdued quarter; margins to improve in Q3FY23

**Heidelberg Cement India (HEIM)** reported lower-than-expected EBITDA of Rs476mn (CentrumE: Rs621mn), down 50% QoQ. EBITDA/t at Rs476, was down 44% QoQ. This resulted primarily due to lower volume and realization/t on account of monsoon led weak demand. The raw material cost/t and freight cost/t inched up 11% and 2.5% QoQ respectively while power and fuel cost/t remained flat QoQ. Overall CoP was up 3% QoQ. HEIM increased petcoke share in fuel mix which will help to reduce cost in H2FY23. We reduce FY23 and FY24 EBITDA by 2% and 3.6% to factor in lower volume, realization and higher cost. We value HEIM at 7.5x FY24E EV/EBITDA and arrive at a fair value of Rs187 (Earlier: Rs202). We downgrade the stock to Reduce from ADD.

#### Net sales were down 14% QoQ on account of lower volume and realisation

Net sales, at Rs5bn, was down 14% QoQ/down 12% YoY on account of lower volume and realization/t during the quarter. Blended cement prices decreased (down 4.6% QoQ/up 8% YoY to Rs5,061/t) for HEIM due to seasonally weak demand. Demand in Uttar Pradesh and Madhya Pradesh was affected due to weather related issues (heavy rains and flooding in UP), leading to ~10% QoQ/~19% YoY fall in volume in Q2FY23 to 1.0mt. HEIM took price hike of Rs5-6/bag in late September and early October.

#### CoP higher by 3% QoQ; EBITDA/t of Rs476

Operating cost was up 3% (Rs135/t) QoQ to Rs4,585/t primarily due to increase in raw material cost. Power & Fuel cost stood flat QoQ at Rs1,895/t. As pet coke becomes cheaper than coal and availability is also high, HEIM used 69% petcoke in its fuel mix. Logistics cost was up 2.5% QoQ to Rs680/t. The increase in cost, lower volume and realization/t resulted in 50% QoQ fall in EBITDA during the quarter. As a result, EBITDA/t decreased sharply by Rs379 (44% QoQ) to Rs476.

#### A step head in greenfield capacity in Gujarat

Management is trying to add 0.3mtpa clinker and 0.5mtpa grinding capacity via debottlenecking and project is expected to be completed by April 2023. It has received Mining Lease and environment clearances to set up greenfield cement capacity in Gujarat and has applied to receive Terms of Reference (ToR) which is expected to receive by June 2023. Post statutory clearances and after that, capex will start on setting up the phase 1 of 3.5mtpa plant which will take further 2 years to complete.

#### Margins to improve in Q3FY23; Downgrade to Reduce

We expect margins to improve in Q3FY23 due to price hike and lower fuel cost. Management's focus remains and does not expect to sell its cement business in India. HEIM has a strong balance sheet with cash of Rs2.2bn and interest free debt. It is working on expansion but at initial stage and will come by FY26 only. We recommend ADD with a target price of Rs187, valuing it at 7.5x FY24E EV/EBITDA.

#### Financial and valuation summary

YE Mar (Rs mn)	2QFY23A	2QFY22A	YoY (%)	1QFY23A	QoQ (%)	FY22A	FY23E	FY24E
Revenues	5,061	5,765	(12.2)	5,899	(14.2)	22,675	24,323	27,913
EBITDA	476	1,165	(59.1)	951	(49.9)	4,346	3,791	5,141
EBITDA margin (%)	9.4	20.2	-	16.1	-	18.9	15.4	18.2
Adj. Net profit	70	596	(88.2)	516	(86.4)	2,523	2,156	3,278
Adj. EPS (Rs)	0.3	2.6	(88.2)	2.3	(86.4)	11.1	9.5	14.5
EPS growth (%)					(19.9)	(14.5)	52.0	
PE (x)					17.4	20.4	13.4	
EV/EBITDA (x)					9.4	10.7	7.7	
PBV (x)					2.8	2.8	2.6	
RoE (%)					16.5	13.7	20.0	
RoCE (%)					16.3	13.6	19.2	

Source: Company, Centrum Broking

#### Result Update

India I Cement

19 October, 2022

#### REDUCE

Price: Rs196

Target Price: Rs187

Forecast return: -5%

#### Market Data

Bloomberg:	HEIM IN
52 week H/L:	261/164
Market cap:	Rs44.3bn
Shares Outstanding:	226.6mn
Free float:	30.6%
Avg. daily vol. 3mth:	7,31,579

Source: Bloomberg

#### Changes in the report

Rating:	Reduce; downgrade from ADD
Target price:	Rs187; down 7.3%
EPS:	FY23E EPS: Rs9.5; down 19.2% FY24E EPS: Rs14.5; down 9.0%

Source: Centrum Broking

#### Shareholding pattern

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	69.4	69.4	69.4	69.4
FII	6.4	5.5	5.5	5.8
DII	9.3	9.9	10.1	10.2
Public/other	15.0	15.3	15.0	14.6

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Actual Q2FY23	Centrum Q2FY23	Variance (%)
Revenue	5,061	5,788	-13%
EBITDA	476	621	-23%
EBITDA margin (%)	9.4	10.7	-132bps
Adj. PAT	70	271	-74%
Diluted EPS	0.3	1.2	-74%

Source: Bloomberg, Centrum Broking



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	24,614	27,277	-9.8	28,247	28,860	-2.1
EBITDA	3,791	4,439	-14.6	5,141	5,479	-6.2
EBITDA margin (%)	15.4	16.3		18.2	19.0	
Adj. PAT	2,156	2,669	-19.2	3,278	3,603	-9.0
Diluted EPS (Rs)	9.5	11.8	-19.2	14.5	15.9	-9.0

Source: Centrum Broking

### Heidelberg Cement versus NIFTY Midcap 100

	1m	6m	1 year
HEIM IN	0.7	(2.9)	(21.2)
NIFTY Midcap 100	(1.9)	2.8	(3.9)

Source: Bloomberg, NSE

### Key assumptions

(Rs/t)	FY21	FY22	FY23E	FY24E
Volume (mt)	4.5	4.8	4.7	5.5
Realisation	4,665	4,747	5,175	5,075
Power & Fuel cost	1,088	1,345	1,850	1,650
Freight cost	618	619	644	629
EBITDA	1,129	910	807	935

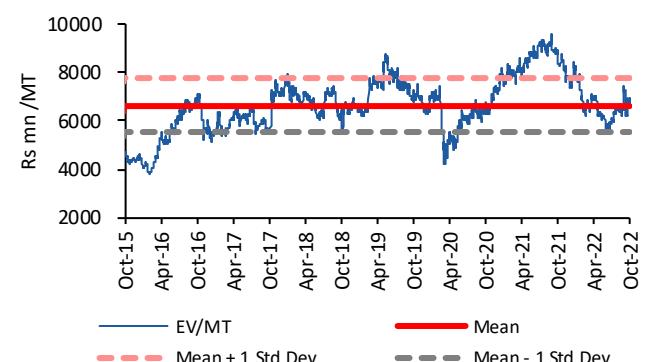
Source: Centrum Broking

### Valuations

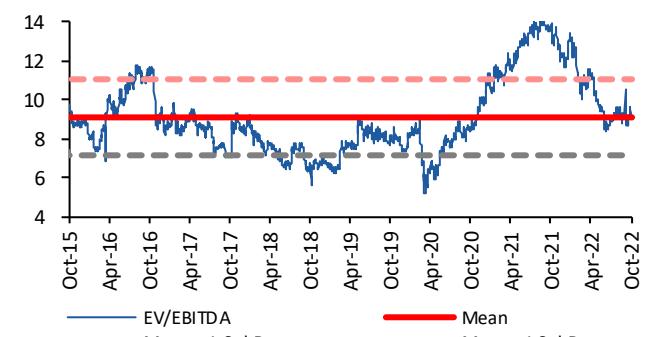
We value HEIM at 7.5x FY24E EV/EBITDA and arrive at a fair value of Rs187. We change our rating to Reduce

Valuations	Rs/share
(Rs mn)	FY24E
EBITDA	5,141
Multiple (x)	7.5
Total EV	38,561
Average Net Debt	-3,834
Target M Cap	42,394
no. of shares (mn)	227
TP (Rs/share)	187

### 1 year forward EV/MT



### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

### Peer comparison

Company	Mkt Cap Rs mn	CAGR FY21-FY24E (%)			EBITDA Margin(%)			EV/EBITDA (x)			FY23 EV/t (USD)	RoE (%)			ROCE (%)		
		Rev	EBIDTA	PAT	FY22	FY23E	FY24E	FY22	FY23E	FY24E		FY22	FY23E	FY24E	FY22	FY23E	FY24E
Orient Cement	25,321	9.7	4.8	-1.6	21.7	16.4	19.8	5.4	5.8	6.0	44	18.6	13.8	13.9	15.1	11.5	10.3
<b>Heidelberg Cement</b>	<b>43,964</b>	<b>10.9</b>	<b>8.8</b>	<b>14.0</b>	<b>18.9</b>	<b>15.4</b>	<b>18.2</b>	<b>9.4</b>	<b>10.7</b>	<b>7.7</b>	<b>82</b>	<b>16.5</b>	<b>13.7</b>	<b>20.0</b>	<b>16.3</b>	<b>13.6</b>	<b>19.2</b>
Star Cement	44,436	12.4	22.1	-1.2	15.5	16.7	18.4	8.8	9.8	9.7	97	11.6	9.8	9.3	11.9	9.5	8.4

Source: Company, Centrum Broking

## Concall Highlights

### Prices

- Blended prices decreased 4.6% QoQ to Rs5061/t though remained higher by 8% YoY on account of lower base. HEIM took price hike of Rs5-6/bag in late September and early October. The demand is expected to see inch up in November and December from subdued last 6 months on account of festive demand and supported by lower commodity prices. Hence can see further hike in prices.

### Volume

- HEIM witnessed weakness in demand in Uttar Pradesh and Madhya Pradesh due to weather related issues (heavy rains and flooding in UP), leading to ~10% QoQ/~19% YoY fall in volume in Q2FY23 to 1.0mt. Management expect to recover lost volume in 2HFY23 and guides flat YoY growth in FY23.
- Trade sales stood at 83% while Non trade sales at 27%

### Power & Fuel

- As pet coke becomes cheaper than coal, HEIM used 69% petcoke in its fuel mix.
- The share of green power increased from ~30% in Q1FY23 to ~34% in Q2FY23.
- Fuel cost is expected to marginally lower QoQ benefitting from lower prices in Q3FY23.

### Capex

- Management guided FY23 capex of Rs500mn. Management is adding 0.3mtpa clinker and 0.5mtpa grinding capacity via debottlenecking and project is expected to be completed by April 2023. It has received Mining Lease and environment clearances to set up greenfield cement capacity in Gujarat and has applied to receive Terms of Reference (ToR). It is expected by June 2023 to receive the statutory clearances and after that, capex will start on setting up the plant which will take further 2 years to complete phase 1 of 3.5mtpa capacity.

### Others

- HEIM continues to operate on negative net operating working capital
- Lead distance at 350km (Q1: 360-375km)
- Net debt stood at Rs109mn
- ~Rs15bn of loan given to Zuari Cement is expected to receive back in H2FY23.

**Exhibit 1: Quarterly financials**

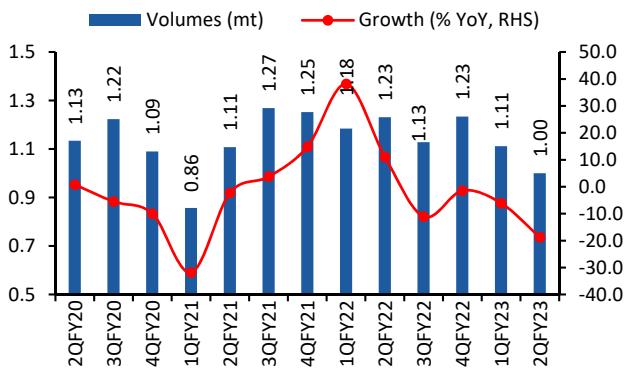
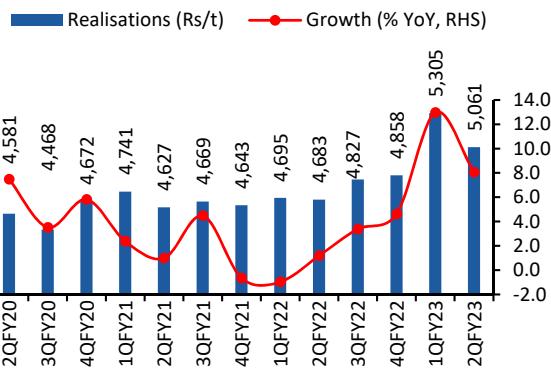
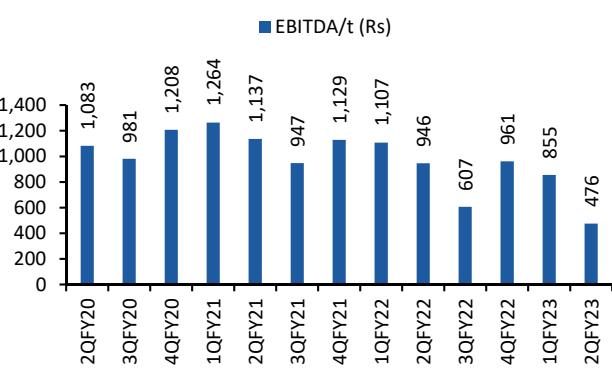
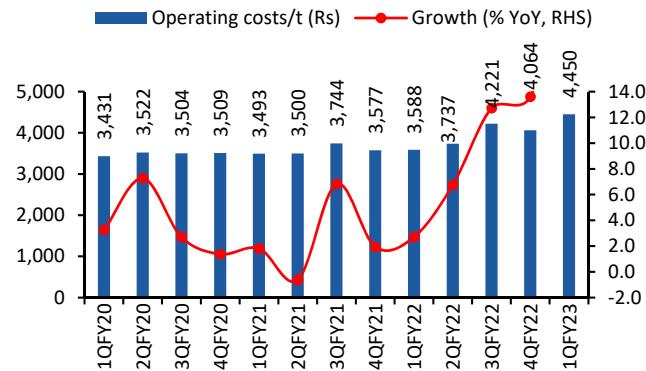
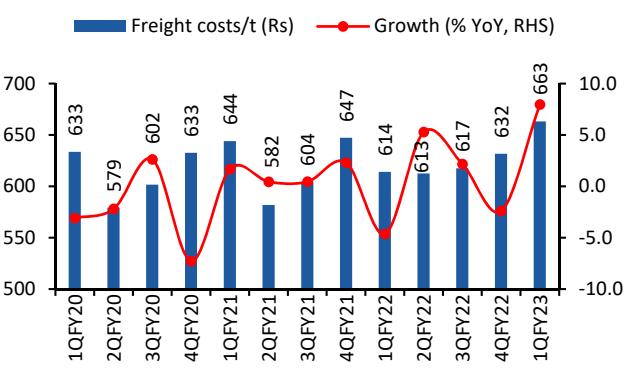
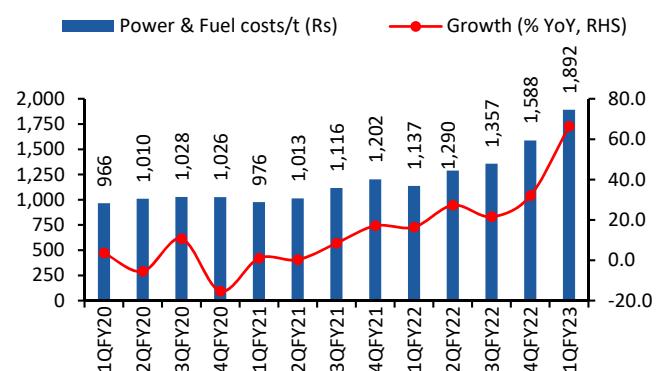
(Rs mn)	2QFY23	2QFY22	YoY %	1QFY23	QoQ %
<b>Net Sales</b>	<b>5,061</b>	<b>5,765</b>	<b>-12.2</b>	<b>5,899</b>	<b>-14.2</b>
<b>Expenditure</b>					
Change in stock	-44	-167	-73.5	-188	-76.5
Raw material	934	1,140	-18.1	1,082	-13.7
purchased products	0	0		0	
Employee costs	318	328	-3.3	339	-6.3
Power & Fuel	1,895	1,588	19.3	2,103	-9.9
Freight	680	754	-9.9	737	-7.8
Other exp	803	957	-16.1	876	-8.3
<b>Total Operating Expenses</b>	<b>4,585</b>	<b>4,600</b>	<b>-0.3</b>	<b>4,948</b>	<b>-7.3</b>
<b>EBITDA</b>	<b>476</b>	<b>1,165</b>	<b>-59.1</b>	<b>950</b>	<b>-49.9</b>
EBITDA margin (%)	9.4	20.2	-53.5	16.1	-41.6
Other Income	110	139	-20.6	103	7.3
Interest	207	112	84.3	80	158.3
Depreciation	281	282	-0.2	280	0.5
PBT	98	909	-89.2	693	-85.9
Non-recurring items	0	0		0	
PBT (after non recurring items)	98	909	-89.2	693	-85.9
Tax	28	314	-91.1	177	-84.2
Reported PAT	70	596	-88.2	516	-86.4
<b>Adjusted PAT</b>	<b>70</b>	<b>596</b>	<b>-88.2</b>	<b>516</b>	<b>-86.4</b>
NPM (%)	1.4	10.3	-86.6	8.7	-84.2
<b>Adjusted EPS (Rs)</b>	<b>0.3</b>	<b>2.6</b>	<b>-88.2</b>	<b>2.3</b>	<b>-86.4</b>

Source: Centrum Broking, Company Data;.

**Exhibit 2: Key operating metrics**

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	QoQ %	YoY %
<b>Sales volume (mt)</b>	<b>1.23</b>	<b>1.13</b>	<b>1.23</b>	<b>1.11</b>	<b>1.00</b>	<b>-10.1</b>	<b>-18.8</b>
<b>per tonne basis (Rs/t)</b>							
Cement realisations	4,683	4,827	4,858	5,305	5,061	-4.6	8.1
Consumption of Raw Material	790	1,062	839	803	890	10.7	12.6
Power & Fuel	1,290	1,357	1,588	1,892	1,895	0.2	46.9
Freight & Handling	613	617	632	663	680	2.5	11.0
Other expenditure	777	912	722	787	803	2.0	3.3
Total cost	3,737	4,221	4,064	4,450	4,585	3.0	22.7
<b>EBITDA</b>	<b>946</b>	<b>607</b>	<b>961</b>	<b>855</b>	<b>476</b>	<b>-44.3</b>	<b>-49.7</b>

Source: Centrum Broking, Company Data;.

**Exhibit 3: Volumes down by 19% YoY****Exhibit 4: Realization/t increases by 8% YoY****Exhibit 5: EBITDA/t declines by 50% YoY****Exhibit 6: Rising coal cost led to 23% YoY increase in CoP****Exhibit 7: Logistic cost up 11% YoY due to higher diesel prices****Exhibit 8: Power cost inches up ~47% YoY**

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenues</b>	<b>21,576</b>	<b>20,927</b>	<b>22,675</b>	<b>24,323</b>	<b>27,913</b>
Operating Expense	11,502	11,379	13,668	15,858	17,265
Employee cost	1,312	1,273	1,307	1,346	1,386
Others	3,605	3,448	3,649	3,619	4,455
<b>EBITDA</b>	<b>5,278</b>	<b>5,066</b>	<b>4,346</b>	<b>3,791</b>	<b>5,141</b>
Depreciation & Amortisation	1,086	1,110	1,121	1,128	1,128
<b>EBIT</b>	<b>4,192</b>	<b>3,956</b>	<b>3,225</b>	<b>2,663</b>	<b>4,013</b>
Interest expenses	739	509	364	320	320
Other income	0	0	0	0	0
<b>PBT</b>	<b>3,981</b>	<b>3,912</b>	<b>3,351</b>	<b>2,882</b>	<b>4,382</b>
Taxes	1,300	763	829	726	1,104
Effective tax rate (%)	32.7	19.5	24.7	25.2	25.2
<b>PAT</b>	<b>2,681</b>	<b>3,150</b>	<b>2,523</b>	<b>2,156</b>	<b>3,278</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>2,681</b>	<b>3,150</b>	<b>2,523</b>	<b>2,156</b>	<b>3,278</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>2,681</b>	<b>3,150</b>	<b>2,523</b>	<b>2,156</b>	<b>3,278</b>
Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Growth (%)</b>					
Revenue	2.3	(3.0)	8.4	7.3	14.8
EBITDA	9.2	(4.0)	(14.2)	(12.8)	35.6
Adj. EPS	21.5	17.5	(19.9)	(14.5)	52.0
<b>Margins (%)</b>					
Gross	82.5	83.3	82.4	84.2	84.3
EBITDA	24.3	23.9	18.9	15.4	18.2
EBIT	19.3	18.7	14.0	10.8	14.2
Adjusted PAT	12.4	14.9	11.0	8.8	11.6
<b>Returns (%)</b>					
ROE	21.6	22.4	16.5	13.7	20.0
ROCE	20.1	21.8	16.3	13.6	19.2
ROIC	19.9	22.0	15.5	12.6	19.7
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	1.0	0.9	1.0	1.0	1.2
Debtors	4	5	6	6	5
Inventory	26	26	27	26	24
Creditors	85	85	71	62	62
Net working capital	16	14	61	60	63
<b>Solvency (x)</b>					
Net debt-equity	(0.1)	(0.2)	(0.1)	(0.2)	(0.3)
Interest coverage ratio	7.1	10.0	11.9	11.8	16.1
Net debt/EBITDA	(0.4)	(0.5)	(0.4)	(0.9)	(0.9)
<b>Per share (Rs)</b>					
Adjusted EPS	11.8	13.9	11.1	9.5	14.5
BVPS	58.0	65.9	69.1	69.6	75.0
CEPS	16.6	18.8	16.1	14.5	19.4
DPS	4.5	6.0	9.0	9.0	9.0
Dividend payout (%)	38.0	43.2	80.9	94.6	62.2
<b>Valuation (x)</b>					
P/E	16.4	14.0	17.4	20.4	13.4
P/BV	3.3	2.9	2.8	2.8	2.6
EV/EBITDA	5.7	9.9	9.4	10.7	7.7
Dividend yield (%)	2.3	3.1	4.6	4.6	4.6

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	2,266	2,266	2,266	2,266	2,266
Reserves & surplus	10,880	12,673	13,386	13,502	14,740
Shareholders fund	13,146	14,939	15,652	15,768	17,006
Minority Interest	0	0	0	0	0
Total debt	2,801	1,745	1,902	1,902	1,902
Non Current Liabilities	788	653	478	478	478
Def tax liab. (net)	1,903	1,938	2,175	2,175	2,175
<b>Total liabilities</b>	<b>18,638</b>	<b>19,274</b>	<b>20,208</b>	<b>20,324</b>	<b>21,562</b>
Gross block	21,829	22,066	22,619	23,169	23,719
Less: acc. Depreciation	(4,901)	(5,884)	(7,005)	(8,133)	(9,261)
Net block	16,928	16,182	15,615	15,037	14,459
Capital WIP	160	189	270	720	1,620
Net fixed assets	17,090	16,374	15,888	15,760	16,082
Non Current Assets	597	2,119	508	596	625
Investments	0	0	0	0	0
Inventories	1,458	1,607	1,731	1,729	1,920
Sundry debtors	257	333	400	380	422
Cash & Cash Equivalents	4,706	4,317	3,821	5,152	6,320
Loans & advances	0	0	0	0	0
Other current assets	3,821	3,705	5,890	5,616	6,072
Trade payables	2,584	2,706	2,645	2,771	3,079
Other current liab.	4,034	4,274	3,150	3,839	4,249
Provisions	2,672	2,200	2,236	2,298	2,553
Net current assets	951	782	3,812	3,967	4,854
<b>Total assets</b>	<b>18,638</b>	<b>19,274</b>	<b>20,208</b>	<b>20,324</b>	<b>21,562</b>
Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	3,981	3,912	3,351	2,882	0
Depreciation & Amortisation	1,086	1,110	1,121	1,128	0
Net Interest	0	0	0	0	0
Net Change – WC	68	(8)	(782)	1,086	253
Direct taxes	(751)	(672)	(546)	(726)	(1,104)
<b>Net cash from operations</b>	<b>4,384</b>	<b>4,343</b>	<b>3,143</b>	<b>4,370</b>	<b>(851)</b>
Capital expenditure	(435)	(485)	(471)	(1,000)	(1,450)
Acquisitions, net	0	(1,500)	0	0	0
Investments	0	0	0	0	0
Others	294	253	121	0	0
<b>Net cash from investing</b>	<b>(141)</b>	<b>(1,732)</b>	<b>(350)</b>	<b>(1,000)</b>	<b>(1,450)</b>
<b>FCF</b>	<b>4,243</b>	<b>2,611</b>	<b>2,793</b>	<b>3,370</b>	<b>(2,301)</b>
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(1,250)	(1,250)	(1,200)	0	0
Dividend paid	(1,227)	(1,355)	(1,807)	(2,040)	(2,040)
Interest paid	(591)	(363)	(221)	0	0
Others	(70)	(70)	(53)	0	0
<b>Net cash from financing</b>	<b>(3,138)</b>	<b>(3,038)</b>	<b>(3,282)</b>	<b>(2,040)</b>	<b>(2,040)</b>
Net change in Cash	1,105	(427)	(489)	1,330	(4,341)

Source: Company, Centrum Broking

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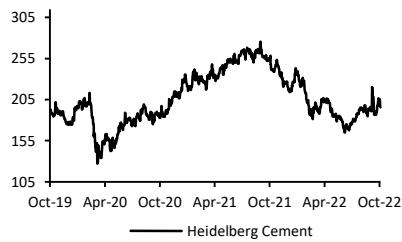
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#### Heidelberg Cement



Source: Bloomberg

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