

EBITDA Miss On Lower Realization; Maintain HOLD

Est. Vs. Actual for Q2FY24: Revenue – **BEAT**; EBITDA Margin – **MISS**; PAT – **MISS**

Change in Estimates post Q2FY24 (Abs)

FY24E/FY25E: Revenue: 0%/0%; EBITDA: 1%/2%; PAT: 1%/3%

Recommendation Rationale

- **Robust Volume Growth:** The company reported volume growth of 16% YoY and it seems that it regained its market share loss to other players in the central region which forms more than 90% of its volume. We expect the company to grow its volume by 10% in FY24.
- **Realization impacted:** On a YoY/QoQ basis, the company's realization dipped by 4%/1% as prices could not be sustained owing to higher competitive intensity. Prices have improved and are trending higher compared to Q2FY24 exit prices which should support profitability moving ahead.
- **Performance likely to improve in FY24:** Cement demand in the country remains robust on account of higher government thrust on creating the infrastructure of the country, developing low-cost and affordable housing, and robust real estate demand. We await to see further improvement in the company's performance in FY24.

Sector Outlook: **Positive**

Company Outlook & Guidance: Expect volume growth of 9-10% in FY24.

Current Valuation: 8x FY25E EV/EBITDA (Earlier Valuation: 8x FY25E EV/EBITDA)

Current TP: Rs 180/share (Earlier TP: Rs 165/share)

Recommendation: We maintain our **HOLD** recommendation on the stock

Alternative BUY Ideas from our Sector Coverage: UltraTech Cement Ltd (TP- 9,680/share, ACC Ltd (TP-2460/share), JK Lakshmi (TP- 880/share)

Financial Performance

Heidelberg Cement reported a mixed set of numbers while Volume/Revenue were higher than our expectations. The company's EBITDA/PAT/Margins were below our expectations on account of lower realization and higher other expenses costs during the quarter. Its Volume/Revenue/EBITDA/PAT grew by 16%/12%/46%/410% YoY. It reported an EBITDA margin of 12.3% (vs. the expectation of 14.9%). The company reported a profit of Rs 36 Cr (Expectation Rs 40 Cr) against Rs 7 Cr in Q2FY23.

The quarter's volume stood at 1.16 million tonnes per annum (mntpa), up 16% YoY. Its EBITDA/tonne stood at Rs 599, down 22% QoQ, but up 26% YoY and it reported blended realization/tonne of Rs 4,883 Cr against Rs 5,061 Cr, down 4%/1% YoY/QoQ. Operating cost declined by 7% YoY at Rs 4,284/tonne.

Outlook:

During the quarter, the realization dip was more than expected while the volume growth was encouraging. The company is de-bottlenecking its existing clinker capacity which shall support higher volume growth moving ahead. Prices have also improved and are higher by 3%-4% compared to Q2FY24 exit prices, which should support higher profitability. Cement demand is expected to remain robust, driven by higher government spending on infra and housing and robust real estate demand. We await to see further improvement in the overall performance moving ahead.

Valuation & Recommendation

The stock is currently trading at 10x and 8x FY24E/FY25E EV/EBITDA. We maintain our **HOLD** rating on the stock with a TP of Rs 180/share, implying a downside of 5% from the CMP.

Key Financials (Standalone)

| (Rs Cr) | Q2FY24 | QoQ (%) | YoY (%) | Axis Est. | Variance % |
|---------------|--------|----------|---------|-----------|------------|
| Net Sales | 566 | -5 | 12 | 529 | 7% |
| EBITDA | 69 | -25 | 46 | 79 | 12% |
| EBITDA Margin | 12.3% | (330bps) | 310bps | 14.9% | (260ps) |
| Net Profit | 36 | -32 | 410 | 40 | 11% |
| EPS (Rs) | 1.58 | -32 | 410 | 1.78 | 11% |

Source: Company, Axis Research

(CMP as of 06th Nov 2023)

| | |
|---------------------------|----------|
| CMP (Rs) | 189 |
| Upside /Downside (%) | (5) |
| High/Low (Rs) | 212/153 |
| Market cap (Cr) | 4,289 |
| Avg. daily vol. (6m)Shrs. | 4,54,000 |
| No. of shares (Cr) | 22.7 |

Shareholding (%)

| | Dec-22 | Mar-23 | Sep-23 |
|--------------|--------|--------|--------|
| Promoter | 69.4 | 69.4 | 69.4 |
| FII's | 4.8 | 4.8 | 3.9 |
| MFs / UTI | 6.3 | 6.5 | 5.2 |
| Banks / FI's | 0 | 0 | 0.0 |
| Others | 19.46 | 19.4 | 21.5 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY23 | FY24E | FY25E |
|-----------------|-------|-------|-------|
| Net Sales | 2,238 | 2,392 | 2,612 |
| EBITDA | 249 | 361 | 438 |
| Net Profit | 99 | 199 | 255 |
| EPS (Rs) | 4 | 9 | 11 |
| PER (x) | 43 | 22 | 17 |
| EV/EBITDA (x) | 15.9 | 10.6 | 8.5 |
| P/BV (x) | 2.2 | 2.2 | 2.1 |
| ROE (%) | 10 | 17 | 20 |

Change in Estimates (%)

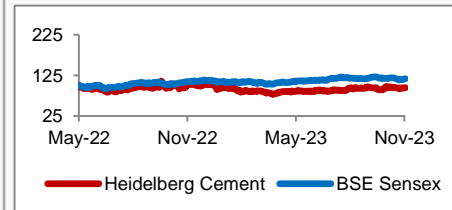
| Y/E Mar | FY24E | FY25E |
|---------|-------|-------|
| Sales | 0% | 0% |
| EBITDA | 1% | 2% |
| PAT | 1% | 3% |

ESG disclosure Score**

| | |
|----------------------------|----|
| Environmental Disclosure | 25 |
| Social Disclosure Score | 32 |
| Governance Disclosure | 84 |
| Total ESG Disclosure Score | 47 |
| Sector Average | 46 |

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 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

Uttam K Srimal

Research Analyst
email: Uttamkumar.srimal@axissecurities.in

ShikhaDoshi

Research Analyst
email: shikha.doshi@axissecurities.in

Key Result Highlights

- **Capacity Expansion:** The company is debottlenecking to increase its clinker capacity at a capital cost of Rs 70 Cr at its MP plant which will support higher volume growth moving ahead..
- **Volume:** During the quarter, the company registered a volume growth of 16% YoY. The company produces and sells 100% blended cement. **The capacity utilization during the quarter stood at 78%.**
- **Pricing:** During the quarter, blended realization declined by 4%/1% to Rs 4.883 YoY/QoQ on a tonne basis. The current cement prices are higher than Q2FY24 exit prices.
- **Power/Fuel:** On a tonne basis, Power/Fuel cost was lower by 24%/1% YoY/QoQ.
- **Freight:** On a per tonne basis, freight cost was lower by 2% at Rs 710/tonne QoQ owing to lower fuel prices
- **OCF/Capex:** In H1FY24, the company generated OCF of Rs 216 Cr against Rs 85 Cr in the last year. It spent Rs 6 Cr on Capex in H1FY24. The company's Capex guidance for FY24 stands at Rs 75 Cr, including Rs 35 Cr on clinker capacity de-bottlenecking. Total Capex on de-bottlenecking would be Rs 70 Cr, which will spill over to FY25 as well.
- **Debt/Cash:** The current gross cash stands at Rs 532 Cr and Net Cash at Rs 331 Cr as of 30th Sept'23. The company is net debt-free.

Key Risks to our Estimates and TP

- Lower realization and demand in its key market and delay in capacity expansion.
- Higher input costs may impact margins.

Change in Estimates

| | New | | Old | | % Change | |
|--------|-------|-------|-------|-------|----------|-------|
| | FY24E | FY25E | FY24E | FY25E | FY24E | FY25E |
| Sales | 2,392 | 2,612 | 2,402 | 2638 | 0% | 0% |
| EBITDA | 361 | 438 | 359 | 429 | 1% | 2% |
| PAT | 199 | 255 | 196 | 249 | 1% | 3% |

Source: Company, Axis Securities

Result Review Q2FY24

| (Rs Cr) | Quarterly Performance | | | | |
|-------------------|-----------------------|--------|--------|----------|-----------|
| | 2QFY24 | 1QFY24 | 2QFY23 | Chg QoQ | % Chg YoY |
| Net sales | 566 | 596 | 506 | -5% | 12% |
| Expenditure | 497 | 503 | 458 | -1% | 8% |
| EBITDA | 69 | 93 | 48 | -25% | 46% |
| Other income | 14 | 13 | 11 | 7% | 30% |
| Interest | 9 | 9 | 21 | -6% | -58% |
| Depreciation | 27 | 27 | 28 | 0% | -4% |
| PBT | 48 | 70 | 10 | -31% | 392% |
| Tax | 12 | 18 | 3 | -30% | 346% |
| Adjusted PAT | 35.8 | 52 | 7.0 | -32% | 410.7% |
| EBITDA margin (%) | 12.3% | 15.6% | 9.4% | (330bps) | 310bps |
| EPS (Rs) | 1.58 | 2.30 | 0.31 | -32% | 410% |

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

| (Rs Cr) | Quarterly Performance | | | | |
|----------------------------|-----------------------|--------|--------|---------|-----------|
| | 2QFY24 | 1QFY24 | 2QFY23 | Chg QoQ | % Chg YoY |
| Volume/mnt | 1.16 | 1.20 | 1.00 | -4% | 16% |
| Realization/tonne (Rs) | 4883 | 4951 | 5,061 | -1% | -4% |
| Cost/tonne (Rs) | 4284 | 4179 | 4585 | 3% | -7% |
| Raw material/tonne (Rs) | 930 | 926 | 890 | 0% | 5% |
| Staff Cost/tonne (Rs) | 310 | 300 | 318 | 3% | -2% |
| Power & Fuel/tonne (Rs) | 1445 | 1462 | 1895 | -1% | -24% |
| Freight/tonne (Rs) | 710 | 725 | 680 | -2% | 4% |
| Other Expenses /tonne (Rs) | 890 | 767 | 803 | 16% | 11% |
| EBITDA/tonne (Rs) | 599 | 772 | 476 | -22% | 26% |

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

| Y/E March | FY22 | FY23 | FY24E | FY25E |
|---------------------------|-------------|-------------|-------------|-------------|
| Net sales | 2297 | 2238 | 2392 | 2612 |
| Other operating income | 0 | 0 | 0 | 0 |
| Total income | 2297 | 2238 | 2392 | 2612 |
| Raw Material | 429 | 401 | 439 | 474 |
| Power & Fuel | 642 | 773 | 693 | 741 |
| Freight & Forwarding | 296 | 312 | 344 | 371 |
| Employee benefit expenses | 131 | 133 | 149 | 156 |
| Other Expenses | 365 | 371 | 407 | 431 |
| EBITDA | 435 | 249 | 361 | 438 |
| Other income | 49 | 45 | 52 | 52 |
| PBIDT | 484 | 294 | 413 | 490 |
| Depreciation | 112 | 112 | 112 | 123 |
| Interest & Fin Chg. | 36 | 46 | 34 | 24 |
| E/o income / (Expense) | 0 | 0 | 0 | 0 |
| Pre-tax profit | 335 | 136 | 268 | 343 |
| Tax provision | 83 | 37 | 69 | 87 |
| RPAT | 252 | 99 | 199 | 255 |
| Minority Interests | 0 | 0 | 0 | 0 |
| Associates | 0 | 0 | 0 | 0 |
| APAT after EO item | 252 | 99 | 199 | 255 |

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

| Y/E March | FY22 | FY23 | FY24E | FY25E |
|---------------------------------|-------------|-------------|-------------|-------------|
| Total assets | 2824 | 2665 | 2686 | 2780 |
| Net Block | 1589 | 1496 | 1456 | 1411 |
| CWIP | 27 | 6 | 6 | 6 |
| Investments | 0 | 0 | 0 | 0 |
| Wkg. cap. (excl cash) | -51 | -57 | -54 | -57 |
| Cash / Bank balance | 382 | 492 | 553 | 675 |
| Misc. Assets | 877 | 727 | 726 | 745 |
| Capital employed | 2824 | 2665 | 2686 | 2780 |
| Equity capital | 227 | 227 | 227 | 227 |
| Reserves | 1339 | 1235 | 1252 | 1326 |
| Minority Interests | 0 | 0 | 0 | 0 |
| Borrowings | 234 | 174 | 111 | 111 |
| Def Tax Liabilities | 218 | 213 | 213 | 213 |
| Other Liabilities and Provision | 81 | 82 | 88 | 90 |

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

| Y/E March | FY22 | FY23 | FY24E | FY25E |
|----------------------------|------------|------------|------------|------------|
| Profit before tax | 335 | 136 | 268 | 343 |
| Depreciation | 112 | 112 | 112 | 123 |
| Interest Expenses | 33 | 43 | 34 | 24 |
| Non-operating/ EO item | -48 | -44 | -52 | -52 |
| Change in W/C | -83 | 22 | 66 | 4 |
| Income Tax | -55 | -44 | -69 | -87 |
| Operating Cash Flow | 295 | 226 | 358 | 354 |
| Capital Expenditure | -47 | -28 | -72 | -78 |
| Investments | 0 | 0 | 0 | 0 |
| Others | 17 | 22 | 52 | 52 |
| Investing Cash Flow | -30 | -6 | -20 | -26 |
| Borrowings | -120 | -34 | -63 | 0 |
| Interest Expenses | -22 | -25 | -34 | -24 |
| Dividend paid | -181 | -203 | -181 | -181 |
| Others | -5 | -4 | 0 | 0 |
| Financing Cash Flow | -33 | -27 | -28 | -21 |
| Change in Cash | -61 | 104 | 61 | 122 |
| Opening Cash | 430 | 369 | 473 | 534 |
| Closing Cash | 369 | 473 | 534 | 656 |

Source: Company, Axis Securities

Ratio Analysis

(%)

| Y/E March | FY22 | FY23E | FY24E | FY25E |
|---------------------------------|-------|-------|-------|-------|
| Operational Ratios | | | | |
| Sales growth | 9% | -3% | 7% | 9% |
| OPM | 19% | 11% | 15% | 17% |
| Op. profit growth | -19% | -38% | 32% | 12% |
| COGS / Net sales | 60% | 66% | 62% | 61% |
| Overheads/Net sales | 22% | 23% | 23% | 22% |
| Depreciation / G. block | 7% | 8% | 8% | 9% |
| Efficiency Ratios | | | | |
| Total Asset Turnover (x) | 0.81 | 0.84 | 0.89 | 0.94 |
| Sales/Gross block (x) | 1.01 | 0.97 | 1.01 | 1.06 |
| Sales/Net block(x) | 1.42 | 1.45 | 1.62 | 1.82 |
| Working capital/Sales (x) | -0.07 | -0.09 | -0.12 | -0.11 |
| Valuation Ratios | | | | |
| P/E | 15 | 43 | 22 | 17 |
| P/BV (x) | 2.1 | 2.2 | 2.2 | 2.1 |
| EV/Ebitda (x) | 9 | 16 | 11 | 8 |
| EV/Sales (x) | 1.6 | 1.8 | 1.6 | 1.4 |
| EV/Tonne \$ (x) | 80 | 86 | 83 | 74 |
| Return Ratios | | | | |
| ROE | 16 | 7 | 14 | 17 |
| ROCE | 19 | 10 | 17 | 20 |
| ROIC | 21 | 9 | 24 | 32 |
| Leverage Ratios | | | | |
| Debt / equity (x) | 0.15 | 0.12 | 0.07 | 0.07 |
| Net debt/ Equity (x) | -0.09 | -0.22 | -0.30 | -0.36 |
| Debt service coverage ratio (x) | 1.34 | 1.64 | 6.30 | 7.68 |
| Interest Coverage ratio (x) | 10.20 | 3.95 | 8.94 | 15.16 |
| Cash Flow Ratios | | | | |
| OCF/Sales | 0.13 | 0.10 | 0.15 | 0.14 |
| OCF/Ebitda | 0.68 | 0.91 | 0.99 | 0.81 |
| OCF/Capital Employed | 0.15 | 0.12 | 0.20 | 0.20 |
| FCF/Sales | 0.10 | 0.07 | 0.12 | 0.11 |
| Payout ratio (Div/NP) | 80.9 | 159.9 | 91.2 | 71.0 |
| AEPS (Rs.) | 11.1 | 4.4 | 8.8 | 11.3 |
| AEPS Growth | -19.9 | -60.7 | 100.5 | 28.5 |
| CEPS (Rs.) | 16 | 9 | 14 | 17 |
| DPS (Rs.) | 9 | 7 | 8 | 8 |

Source: Company, Axis Securities

Heidelberg Cement Price Chart and Recommendation History



| Date | Reco | TP | Research |
|-----------|------|-----|---------------|
| 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 |
| 14-Feb-23 | HOLD | 155 | Result Update |
| 31-May-23 | HOLD | 165 | Result Update |
| 21-Jul-23 | HOLD | 165 | Result Update |
| 07-Nov-23 | HOLD | 180 | Result Update |
| | | | |

Source: Axis Securities

About the analyst



Analyst: UttamKSimal

Email: uttamkumar.simal@axissecurities.in

Sector: Cement/Infra

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

About the analyst



Analyst: ShikhaDoshi

Email: shikha.doshi@axissecurities.in

Sector: Cement/Infra

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

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