

HSIE Results Daily

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Results Reviews

- **JK Cement:** We maintain our REDUCE rating on JK Cement (JKCE), with a revised TP of INR 2,755 (11x Mar-25E consolidated EBITDA). In Q4FY23, JKCE reported 16% YoY consolidated volume growth led by the fast ramp-up of Panna IU in the central region. Consolidated unitary EBITDA recovered ~INR 150/MT QoQ on fuel cost reduction and op-lev gains. Fuel cost is expected to further cool off in FY24E, driving margin recovery. The upcoming expansions in UP and MP will increase grey cement capacity to 24mn MT in FY25E.
- **KNR Constructions:** KNR reported revenue/EBITDA/APAT of INR 11.8/2.1/1.3bn, beating our estimates on all fronts. It guided for FY24 revenue at INR 40bn+, with an EBITDA margin of 14-16% (better margin in H2FY24 vs. H1FY24). For FY23, it won projects worth INR 20.4bn vs. its guidance of INR 50bn and guided for an FY24 order inflow (OI) of INR 40-45bn. The order book (OB) as of Mar'23 stands at INR 88.7bn (~2.4x FY23 revenue). Given the aggressive competition, the company is looking at projects from different segments like state highways, metro, railways and irrigation. The balance HAM equity requirement is INR 4.4bn as of Mar'23, of which INR 2.6/1.6bn will be infused in FY24/25. With INR 0.4bn in Q4FY23, it incurred a capex of INR 1.4bn in FY23 and guided for a similar amount for FY24. The NWC days stood at 67 vs. 53 as of Dec'22. The irrigation receivables as of Mar'23 stood at INR 5bn vs. INR 6.5bn as of Dec'22. At the standalone level, KNR continues to enjoy a strong net cash position. We cut our estimates to factor in lower inflows and margins. We maintain BUY with a reduced TP of INR 318/sh (18x Mar-25E EPS, HAM 1x P/BV).
- **NOCIL:** Our BUY recommendation on NOCIL with a TP of INR 280 is premised on (1) a ramp-up in capacity utilisation and (2) expansion of margin with a focus on specialised rubber chemicals. Q4 EBITDA/PAT were 7/14% above our estimates, owing to a 6% rise in revenue, lower-than-expected employee cost and other expenses, offset by higher-than-expected raw material cost.
- **Heidelberg Cement:** We maintain our REDUCE rating on Heidelberg Cement (HEIM), with an unchanged target price of INR 160/share (7x Mar-25E EBITDA). In the absence of any major planned expansion for the next few years, we expect HEIM to continue to lose market share. In Q4FY23, volume fell 4% YoY (the sixth consecutive quarter of YoY decline). While unit EBITDA recovers ~INR 245/MT QoQ (from its nine-year low) to INR 583/MT, it remains weak and is down INR 380/MT YoY.
- **Deccan Cements:** We maintain our ADD rating on Deccan Cements (DCL), with a lower target price of INR 450/sh (6x its Mar-25E EBITDA). DCL reported an all-around weak performance in Q4FY23 owing to subdued volume, realisation and elevated opex. Its revenue grew by 5% YoY in Q4FY23. However, higher fuel prices led to a decline in EBITDA by 15% YoY. Further, lower EBITDA along with higher capital charges and tax rates led to a steep decline in APAT by 48% YoY. DCL is working on a 2mn MT integrated capacity increase by FY25E-end. Capex more than doubled YoY in FY23 to INR 2.28bn (picked up in H2FY23). We expect volume growth to pick up from FY26 onwards (remain muted during FY24/25).

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JK Cement

Healthy volume ramp-up; margins remain sub-par

We maintain our REDUCE rating on JK Cement (JKCE), with a revised TP of INR 2,755 (11x Mar-25E consolidated EBITDA). In Q4FY23, JKCE reported 16% YoY consolidated volume growth led by the fast ramp-up of Panna IU in the central region. Consolidated unitary EBITDA recovered ~INR 150/MT QoQ on fuel cost reduction and op-lev gains. Fuel cost is expected to further cool off in FY24E, driving margin recovery. The upcoming expansions in UP and MP will increase grey cement capacity to 24mn MT in FY25E.

- **Q4FY23 performance:** Grey cement volume rose 17/13% YoY/QoQ to 4.14mn MT, led by a ramp-up of its central India capacity. NSR improved by 1% QoQ. As per our estimates, unit EBITDA recovered ~INR 170/MT QoQ to ~INR 600/MT (down ~INR 200/MT YoY). Despite achieving high utilization and healthy trade sales (69% share), high 40%+ green power consumption and 13% TSR, the operating margin remains sub-par, in our view. Segmental EBITDA recovered ~55% QoQ (on a low base, but down ~15% YoY) to ~INR 2.5bn (70% EBITDA share). White/Putty (w/p) volumes rose 7/9% YoY/QoQ to 0.52 mn MT. Segmental EBITDA rose ~15/5% QoQ/YoY to INR 1bn. Segmental EBITDA margin remained flattish at ~16% QoQ (down 200bps YoY, our estimation as the company doesn't disclose the same).
- **FY23 cash flows:** FY23 consolidated volume rose 16% YoY (grey +17%. w/p +7%). However, EBITDA fell 13% YoY (grey down ~20% YoY, w/p down ~2% YoY). Despite lower EBITDA, FY23 OCF jumped 57% YoY to INR 13.8bn on strong inventory management. The company spent INR 18.7bn towards expansions and paint business acquisition. Net debt increased ~50% YoY to INR 37bn, increasing its net debt to EBITDA to 2.8x vs 1.9x YoY.
- **Capex update and outlook:** JKCE will incur a total Capex of ~INR 12-14/7-8bn in FY24/25E towards ongoing expansions. Fuel costs are expected to cool off in FY24E, boosting margins. The company expects to deliver ~15%+ grey cement volume offtake in FY24E on the ramp-up of central plants. Factoring in strong Q4FY23 result, we marginally increase our FY24/25E EBITDA estimates by 1/4% respectively.

Consolidated quarterly/annual financial summary

| YE Mar (INR bn) | Q4 FY23 | Q4 FY22 | YoY (%) | Q3 FY23 | QoQ (%) | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------|------------|------------|------------|------------|------------|-------|-------|-------|--------|--------|
| Sales (mn MT) | 4.7 | 4.0 | 15.7 | 4.1 | 12.8 | 12.0 | 14.0 | 16.2 | 18.5 | 21.0 |
| NSR (INR/MT) | 5,967 | 5,844 | 2.1 | 5,900 | 1.1 | 5,485 | 5,718 | 6,013 | 5,912 | 5,999 |
| EBITDA (INR/MT) | 751 | 955 | (21.4) | 599 | 25.3 | 1,310 | 1,079 | 813 | 1,007 | 1,076 |
| Net Sales | 27.78 | 23.51 | 18.1 | 24.36 | 14.0 | 66.06 | 79.91 | 97.20 | 109.56 | 126.27 |
| EBITDA | 3.50 | 3.84 | (9.0) | 2.47 | 41.3 | 15.78 | 15.08 | 13.14 | 18.66 | 22.64 |
| APAT | 1.12 | 2.01 | (44.2) | 0.39 | 188.0 | 7.49 | 7.13 | 4.26 | 6.56 | 10.07 |
| AEPS (INR) | 24.8 | 6.8 | 267.2 | 33.0 | (24.7) | 96.9 | 92.3 | 55.2 | 84.9 | 130.4 |
| EV/EBITDA(x) | | | | | | 16.5 | 17.8 | 21.2 | 15.1 | 12.4 |
| EV/MT (INR bn) | | | | | | 13.4 | 13.7 | 10.9 | 11.0 | 9.5 |
| P/E (x) | | | | | | 32.7 | 34.4 | 57.5 | 37.4 | 24.3 |
| RoE (%) | | | | | | 22.3 | 17.8 | 9.5 | 13.3 | 18.0 |

Source: Company, HSIE Research; Operating trends are on a blended basis (grey cement+ white/putty)

Consolidated Estimates revision summary

| INR bn | FY24E Old | FY24E Revised | Change % | FY25E Old | FY25E Revised | Change % |
|-----------|-----------|---------------|----------|-----------|---------------|----------|
| Net Sales | 107.83 | 109.56 | 1.6 | 121.69 | 126.27 | 3.8 |
| EBITDA | 18.41 | 18.66 | 1.4 | 21.84 | 22.64 | 3.7 |
| APAT | 6.21 | 6.56 | 5.6 | 8.98 | 10.07 | 12.2 |

Source: Company, HSIE Research

REDUCE

CMP (as on 30 May 23) INR 3,178

Target Price INR 2,755

NIFTY 18,634

| KEY CHANGES | OLD | NEW |
|-------------------|-----------|-----------|
| Rating | REDUCE | REDUCE |
| Price Target | INR 2,545 | INR 2,755 |
| EBITDA revision % | FY24E 1.4 | FY25E 3.7 |

KEY STOCK DATA

| | |
|------------------------------|-----------------|
| Bloomberg code | JKCE IN |
| No. of Shares (mn) | 77 |
| MCap (INR bn) / (\$ mn) | 245/3,002 |
| 6m avg traded value (INR mn) | 344 |
| 52 Week high / low | INR 3,290/2,004 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|------|-----|------|
| Absolute (%) | 14.9 | 3.2 | 31.0 |
| Relative (%) | 8.1 | 3.4 | 18.4 |

SHAREHOLDING PATTERN (%)

| | Dec-22 | Mar-23 |
|-----------------|--------|--------|
| Promoters | 45.83 | 45.83 |
| FIs & Local MFs | 21.86 | 22.47 |
| FPIs | 15.88 | 15.55 |
| Public & Others | 16.43 | 16.16 |
| Pledged Shares | - | - |

Source : BSE

Pledged shares as % of total shares

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KNR Constructions

Order inflows to drive further rerating

KNR reported revenue/EBITDA/APAT of INR 11.8/2.1/1.3bn, beating our estimates on all fronts. It guided for FY24 revenue at INR 40bn+, with an EBITDA margin of 14-16% (better margin in H2FY24 vs. H1FY24). For FY23, it won projects worth INR 20.4bn vs. its guidance of INR 50bn and guided for an FY24 order inflow (OI) of INR 40-45bn. The order book (OB) as of Mar'23 stands at INR 88.7bn (~2.4x FY23 revenue). Given the aggressive competition, the company is looking at projects from different segments like state highways, metro, railways and irrigation. The balance HAM equity requirement is INR 4.4bn as of Mar'23, of which INR 2.6/1.6bn will be infused in FY24/25. With INR 0.4bn in Q4FY23, it incurred a capex of INR 1.4bn in FY23 and guided for a similar amount for FY24. The NWC days stood at 67 vs. 53 as of Dec'22. The irrigation receivables as of Mar'23 stood at INR 5bn vs. INR 6.5bn as of Dec'22. At the standalone level, KNR continues to enjoy a strong net cash position. We cut our estimates to factor in lower inflows and margins. We maintain BUY with a reduced TP of INR 318/sh (18x Mar-25E EPS, HAM 1x P/BV).

- **Q4FY23 financial performance:** Revenue: INR 11.8bn (+16.3/+41.6% YoY/QoQ, a 13.7% beat). EBITDA: INR 2.1bn (+1.9/+35.8% YoY/QoQ, a 9.8% beat). EBITDA margin: 18% (-255/77bps YoY/QoQ), lower than our estimate of 19.1%, mainly due to higher input and raw material prices, partly offset by lower employee expenses and better utilization of overheads. Taxes: INR 449mn (-33.9/-46.6% YoY/QoQ), including INR 8.4mn towards IT search tax provisions. APAT: INR 1.3bn (+22.2/+54.7% YoY/QoQ, 14.4% beat). KNR guided for FY24 revenue of INR 40bn+, with EBITDA margins at 14-16%.
- **Stable OB; all eyes on FY24 execution:** For FY23, it won projects worth INR 20.4bn vs. its guidance of INR 50bn and guided for an FY24 OI of INR 40-45bn. The OB as of Mar'23 stands at INR 88.7bn (~2.4x FY23 revenue). Captive (HAM project) works constitute 50% of the OB whereas state/central government/other orders constitute 36/11/3%. Geographically, the OB is diversified in southern India with AP & Telangana/Kerala/Karnataka/TN contributing 37/35/15/14%. Business segment-wise, HAM/other roads/irrigation account for 50/27/23% of the OB. Given the aggressive competition, the company is looking at projects from different segments like state highways, metro, railways and irrigation.
- **Robust net cash position:** At the standalone level, the gross/net debt (cash) stood at INR NIL/(2)bn as of Mar'23 vs. NIL/(INR1.2)bn as of Dec'22. With a strong collection in irrigation, receivables as of Mar'23 stood at INR 5bn vs. INR 6.5bn as of Dec'22), and payment-related issues seem to be getting resolved. This will help alleviate concerns over the irrigation segment and speed up the segment's execution.

Standalone Financial Summary (INR Mn)

| Particulars | 4QFY23 | 4QFY22 | YoY (%) | 3QFY23 | QoQ (%) | FY22 | FY23 | FY24E | FY25E |
|---------------|--------|--------|---------|--------|---------|--------|--------|--------|--------|
| Net Sales | 11,756 | 10,107 | 16.3 | 8,302 | 41.6 | 32,726 | 37,438 | 39,781 | 44,029 |
| EBITDA | 2,119 | 2,080 | 1.9 | 1,560 | 35.8 | 6,777 | 7,217 | 7,419 | 8,079 |
| APAT | 1,286 | 1,052 | 22.2 | 832 | 54.7 | 3,592 | 4,011 | 4,321 | 4,673 |
| EPS (INR) | 4.6 | 3.7 | 22.2 | 3.0 | 54.7 | 12.77 | 14.26 | 15.36 | 16.62 |
| P/E (x) | | | | | | 19.1 | 17.1 | 15.9 | 14.7 |
| EV/EBITDA (x) | | | | | | 9.9 | 9.2 | 8.6 | 7.4 |
| RoE (%) | | | | | | 17.5 | 16.1 | 14.7 | 13.6 |

Source: Company, HSIE Research

Standalone Estimate Change Summary

| Particulars | FY24E | | | FY25E | | |
|-------------|--------|--------|----------|--------|--------|----------|
| | New | Old | Chg. (%) | New | Old | Chg. (%) |
| Revenues | 39,781 | 41,181 | (3.4) | 44,029 | 45,579 | (3.4) |
| EBITDA | 7,419 | 7,824 | (5.2) | 8,079 | 8,614 | (6.2) |
| EBITDA (%) | 18.7 | 19.0 | (35.0) | 18.4 | 18.9 | (55.0) |
| APAT | 4,321 | 4,628 | (6.6) | 4,673 | 5,043 | (7.3) |

Source: Company, HSIE Research

BUY

| | |
|-----------------------|---------|
| CMP (as on 30 May 23) | INR 244 |
| Target Price | INR 318 |
| NIFTY | 18,634 |

| KEY CHANGES | OLD | NEW |
|--------------|---------------|---------------|
| Rating | BUY | BUY |
| Price Target | INR 341 | INR 318 |
| EPS Change % | FY24E -6.6 | FY25E -7.3 |

KEY STOCK DATA

| | |
|------------------------------|-------------|
| Bloomberg code | KNRC IN |
| No. of Shares (mn) | 281 |
| MCap (INR bn) / (\$ mn) | 69/838 |
| 6m avg traded value (INR mn) | 86 |
| 52 Week high / low | INR 281/203 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|--------|-------|--------|
| Absolute (%) | (4.8) | (6.9) | (0.1) |
| Relative (%) | (11.6) | (6.7) | (12.7) |

SHAREHOLDING PATTERN (%)

| | Dec-22 | Mar-23 |
|-----------------|--------|--------|
| Promoters | 51.09 | 51.09 |
| FIs & Local MFs | 34.85 | 34.37 |
| FPIs | 5.83 | 5.93 |
| Public & Others | 8.23 | 8.61 |
| Pledged Shares | - | - |

Source: BSE

Pledged shares as % of total shares

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NOCIL

Demand uptick witnessed in Q4

Our BUY recommendation on NOCIL with a TP of INR 280 is premised on (1) a ramp-up in capacity utilisation and (2) expansion of margin with a focus on specialised rubber chemicals. Q4 EBITDA/PAT were 7/14% above our estimates, owing to a 6% rise in revenue, lower-than-expected employee cost and other expenses, offset by higher-than-expected raw material cost.

- **Financial performance:** Revenue grew 21% QoQ to INR 3.9bn, owing to a rise in overall volumes on the back of demand recovery. Export volumes also recovered on a sequential basis. EBITDA grew 34% sequentially to INR 0.5bn, with EBITDA margin coming in at 12.5% (+125/-1,141bps QoQ/YoY), owing to a higher operating leverage, in spite of increased raw material prices.
- **Key con call takeaways:** (1) In FY23, volume declined by 4% YoY, whereas realisation grew 7% YoY. Domestic market volume grew by 6% YoY in FY23, whereas the export market volume declined by 21% YoY, owing to the global recessionary scenario. (2) The company's plants operated at an average capacity utilisation of 68% in Q4, and 62% in FY23. (3) There is no major Capex planned by the company for FY24/25, but only maintenance Capex and a debottlenecking Capex to increase current plant capacity by 5-10%.
- **Change in estimates:** We cut our FY24/25E EPS estimates by 8.3/2.7% to INR 9.8/13.7 to factor in increased and volatile raw material costs and the overall performance in FY23.
- **DCF-based valuation:** Our price target is INR 280 (WACC 12%, terminal growth 4%). The stock is trading at 16x FY25E EPS.

Financial summary (standalone)

| INR mn | Q4 FY23 | Q3 FY23 | QoQ (%) | Q4 FY22 | YoY (%) | FY21 | FY22 | FY23P | FY24E | FY25E |
|--------------|------------|------------|------------|------------|------------|-------|--------|--------|--------|--------|
| Net Sales | 3,927 | 3,257 | 20.6 | 4,627 | (15.1) | 9,247 | 15,713 | 16,166 | 17,278 | 19,869 |
| EBITDA | 490 | 366 | 34.0 | 1,105 | (55.7) | 1,269 | 2,829 | 2,490 | 2,672 | 3,573 |
| APAT | 284 | 188 | 51.3 | 685 | (58.6) | 865 | 1,759 | 1,487 | 1,626 | 2,276 |
| AEPS (INR) | 1.7 | 1.1 | 51.3 | 4.1 | (58.6) | 5.2 | 10.6 | 8.9 | 9.8 | 13.7 |
| P/E (x) | | | | | | 41.4 | 20.4 | 24.1 | 22.0 | 15.7 |
| EV/EBITDA(x) | | | | | | 27.3 | 12.6 | 13.5 | 12.3 | 9.1 |
| RoE (%) | | | | | | 7.1 | 13.0 | 10.0 | 10.2 | 13.3 |

Source: Company, HSIE Research

Change in estimates (standalone)

| Y/E Mar | FY24E Old | FY24E New | % Ch | FY25E Old | FY25E New | % Ch |
|-------------------|-----------|-----------|-------|-----------|-----------|-------|
| EBITDA (INR mn) | 2,874 | 2,672 | (7.0) | 3,656 | 3,573 | (2.3) |
| Adj. EPS (INR/sh) | 10.6 | 9.8 | (8.3) | 14.0 | 13.7 | (2.7) |

Source: Company, HSIE Research

BUY

| | |
|-----------------------|---------|
| CMP (as on 30 May 23) | INR 215 |
| Target Price | INR 280 |
| NIFTY | 18,634 |

| KEY CHANGES | OLD | NEW |
|--------------|---------|---------|
| Rating | BUY | BUY |
| Price Target | INR 276 | INR 280 |
| | FY24E | FY25E |
| EPS % | -8.3% | -2.7% |

KEY STOCK DATA

| | |
|------------------------------|-------------|
| Bloomberg code | NOCIL IN |
| No. of Shares (mn) | 167 |
| MCap (INR bn) / (\$ mn) | 36/437 |
| 6m avg traded value (INR mn) | 88 |
| 52 Week high / low | INR 295/199 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|-------|-------|--------|
| Absolute (%) | (2.6) | (9.2) | (15.3) |
| Relative (%) | (9.4) | (9.0) | (27.8) |

SHAREHOLDING PATTERN (%)

| | Dec-22 | Mar-23 |
|-----------------|--------|--------|
| Promoters | 33.84 | 33.84 |
| FIs & Local MFs | 4.76 | 5.51 |
| FPIs | 5.29 | 5.39 |
| Public & Others | 56.11 | 55.26 |
| Pledged Shares | 3.79 | 3.53 |

Source: BSE

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Heidelberg Cement

Market share loss continues; margin remains muted

We maintain our REDUCE rating on Heidelberg Cement (HEIM), with an unchanged target price of INR 160/share (7x Mar-25E EBITDA). In the absence of any major planned expansion for the next few years, we expect HEIM to continue to lose market share. In Q4FY23, volume fell 4% YoY (the sixth consecutive quarter of YoY decline). While unit EBITDA recovers ~INR 245/MT QoQ (from its nine-year low) to INR 583/MT, it remains weak and is down INR 380/MT YoY.

- **Q4FY23 performance:** Volume fell 4% YoY (a sixth consecutive quarter of YoY decline) and market share loss continues: on a 5-year basis, volume contracted at 1.4% CAGR! Volume rose a modest 8% QoQ in the peak demand quarter. **Utilisation stood at 76%** vs 79/70% YoY/QoQ. NSR rose 3% QoQ on better pricing in the central region, leading to a +1% YoY. Unit EBITDA recovered ~INR 245/MT QoQ (from its nine-year low) to INR 583/MT (still weak and down INR 380/MT YoY), led by both realisation gain and opex contraction. Opex fell 2% QoQ but remained 11% higher YoY. While input cost cooled off INR 150/MT, freight cost went up INR 60/MT QoQ. During FY23, volume declined 8% YoY to an 8-year low of 4.4mn MT, a steep market share loss as it has not expanded capacities.
- **Outlook:** While we expect HEIM volumes to recover from FY24 onwards, we estimate its market share loss to continue, as other players expand in HEIM's core markets. It is undertaking 0.2/0.3mn MT clinker/grinding debottlenecking expected in FY24E. It is also pursuing a greenfield IU (3/2mn MT of cement/ clinker) expected to be commissioned by FY27E. We expect subdued volume growth in the absence of any major expansion for the next four years. In FY25, the group may look to merge HEIM with its sister concern Zuari Cement. Factoring in the weak performance, we trimmed our FY24/FY25E EBITDA estimates by 5/2% respectively.

Quarterly/annual financial summary

| YE Mar (INR bn) | Q4 FY23 | Q4 FY22 | YoY (%) | Q3 FY23 | QoQ (%) | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------|------------|------------|------------|------------|------------|-------|-------|-------|-------|-------|
| Sales (mn MT) | 1.19 | 1.23 | (3.9) | 1.10 | 8.3 | 4.49 | 4.78 | 4.39 | 4.66 | 4.94 |
| NSR (INR/MT) | 5,076 | 5,025 | 1.0 | 4,933 | 2.9 | 4,718 | 4,808 | 5,095 | 5,044 | 5,094 |
| Opex (INR/MT) | 4,493 | 4,064 | 10.6 | 4,594 | (2.2) | 3,589 | 3,899 | 4,528 | 4,222 | 4,207 |
| EBITDA (INR/MT) | 583 | 961 | (39.3) | 339 | 72.2 | 1,129 | 910 | 566 | 822 | 887 |
| Net Sales | 6.02 | 6.20 | (2.9) | 5.40 | 11.5 | 21.17 | 22.97 | 22.38 | 23.49 | 25.14 |
| EBITDA | 0.69 | 1.19 | (41.7) | 0.37 | 86.5 | 5.07 | 4.35 | 2.49 | 3.83 | 4.38 |
| APAT | 0.35 | 0.94 | (62.6) | 0.06 | 526.7 | 3.15 | 2.52 | 0.99 | 2.13 | 2.65 |
| AEPS (INR) | 1.5 | 4.1 | (62.6) | 0.2 | 526.7 | 13.9 | 11.1 | 4.4 | 9.4 | 11.7 |
| EV/EBITDA (x) | | | | | | 7.3 | 8.4 | 14.1 | 8.8 | 7.5 |
| EV/MT (INR bn) | | | | | | 5.95 | 5.82 | 5.62 | 5.14 | 5.00 |
| P/E (x) | | | | | | 12.1 | 15.1 | 38.4 | 17.9 | 14.4 |
| RoE (%) | | | | | | 22.4 | 16.5 | 6.6 | 14.3 | 16.5 |

Source: Company, HSIE Research

Estimates revision

| INR bn | FY24E Old | FY24E Revised | Change % | FY25E Old | FY25E Revised | Change % |
|-----------|-----------|---------------|----------|-----------|---------------|----------|
| Net Sales | 23.7 | 23.5 | -0.8 | 25.3 | 25.1 | -0.8 |
| EBITDA | 4.0 | 3.8 | -5.3 | 4.5 | 4.4 | -1.8 |
| APAT | 2.3 | 2.1 | -6.6 | 2.7 | 2.6 | -1.9 |

Source: Company, HSIE Research

REDUCE

| | |
|-----------------------|---------|
| CMP (as on 30 May 23) | INR 168 |
| Target Price | INR 160 |
| NIFTY | 18,634 |

| KEY CHANGES | OLD | NEW |
|-------------------|----------------|----------------|
| Rating | REDUCE | REDUCE |
| Price Target | INR 160 | INR 160 |
| EBITDA revision % | FY24E (5.3) | FY25E (1.8) |

KEY STOCK DATA

| | |
|------------------------------|-------------|
| Bloomberg code | HEIM IN |
| No. of Shares (mn) | 227 |
| MCap (INR bn) / (\$ mn) | 38/466 |
| 6m avg traded value (INR mn) | 34 |
| 52 Week high / low | INR 233/153 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|-------|--------|--------|
| Absolute (%) | (2.2) | (17.8) | (7.9) |
| Relative (%) | (9.0) | (17.6) | (20.5) |

SHAREHOLDING PATTERN (%)

| | Dec-22 | Mar-23 |
|-----------------|--------|--------|
| Promoters | 69.39 | 69.39 |
| FIs & Local MFs | 11.06 | 11.26 |
| FPIs | 4.81 | 4.77 |
| Public & Others | 14.74 | 14.58 |
| Pledged Shares | - | - |

Source : BSE

Pledged shares as % of total shares

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Deccan Cements

Weak performance on all parameters

We maintain our ADD rating on Deccan Cements (DCL), with a lower target price of INR 450/sh (6x its Mar-25E EBITDA). DCL reported an all-around weak performance in Q4FY23 owing to subdued volume, realisation and elevated opex. Its revenue grew by 5% YoY in Q4FY23. However, higher fuel prices led to a decline in EBITDA by 15% YoY. Further, lower EBITDA along with higher capital charges and tax rates led to a steep decline in APAT by 48% YoY. DCL is working on a 2mn MT integrated capacity increase by FY25E-end. Capex more than doubled YoY in FY23 to INR 2.28bn (picked up in H2FY23). We expect volume growth to pick up from FY26 onwards (remain muted during FY24/25).

- **Q4FY23 performance:** Deccan Cement reported an all-around weak performance in Q4FY23 owing to subdued volume, realisation and elevated opex. Its revenue grew by 5% YoY. However, higher fuel prices led to a decline in EBITDA by 15% YoY. Further, lower EBITDA along with higher capital charges and tax rates led to a steep decline in APAT by 48% YoY. It reported +6/-6% volume YoY/QoQ in Q4 (in the absence of volume published by DCL, we have assumed the volume for Q4FY23). NSR decreased by 1% QoQ due to weak pricing in the south and remained 1% lower YoY. Opex remained flattish QoQ as the cool-off in fuel prices was offset by an op-lev loss. Unit EBITDA declined ~INR 60/MT QoQ to INR 455/MT QoQ on account of lower realisation and weak volume.
- **Capex update and outlook:** DCL's expansion (1.4mn MT clinker/ 2mn MT grinding) is expected to be completed by the FY25 end. Capex more than doubled YoY in FY23 to INR 2.28bn (picked up in H2FY23). We expect volume growth to pick up from FY26E onwards (remain muted during FY24/25E). Factoring in weak performance in Q4FY23, we cut our EBITDA estimates for FY24/25E by 3.4/0.4% respectively. We maintain our ADD rating with a lower target price of INR 450/sh (6x Mar-25E EBITDA).

Quarterly/annual financial summary

| YE Mar (INR mn) | Q4 FY23 | Q4 FY22 | YoY (%) | Q3 FY23 | QoQ (%) | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------|------------|------------|------------|------------|------------|-------|-------|-------|-------|-------|
| Sales Vol (mn MT) | 0.45 | 0.42 | 6.0 | 0.48 | (6.2) | 1.8 | 1.8 | 1.8 | 1.8 | 2.1 |
| NSR (INR/MT) | 4,362 | 4,393 | (0.7) | 4,408 | (1.0) | 4,237 | 4,318 | 4,391 | 4,479 | 4,546 |
| Opex (INR/MT) | 3,905 | 3,824 | 2.1 | 3,885 | 0.5 | 3,254 | 3,437 | 3,845 | 3,688 | 3,706 |
| EBITDA (INR/MT) | 457 | 569 | (19.7) | 523 | (12.6) | 983 | 881 | 546 | 791 | 840 |
| Net Sales | 1,959 | 1,862 | 5.2 | 2,111 | (7.2) | 7,580 | 7,918 | 7,815 | 8,211 | 9,584 |
| EBITDA | 205 | 241 | (14.9) | 250 | (18.1) | 1,759 | 1,616 | 972 | 1,450 | 1,771 |
| APAT | 99 | 188 | (47.5) | 122 | (18.6) | 1,151 | 1,062 | 493 | 753 | 652 |
| AEPS (INR) | 7.1 | 13.5 | (47.5) | 8.7 | (18.6) | 82.2 | 75.8 | 35.2 | 53.8 | 46.5 |
| EV/EBITDA (x) | | | | | | 2.7 | 3.1 | 7.1 | 6.1 | 6.2 |
| EV/MT (INR bn) | | | | | | 2.15 | 2.25 | 3.07 | 3.93 | 2.59 |
| RoE (%) | | | | | | 5.5 | 6.0 | 13.0 | 8.5 | 9.8 |

Source: Company, HSIE Research. Volume for Q4FY23 is assumed.

Consolidated Estimates revision summary

| INR mn | FY24E Old | FY24E Revised | Change % | FY25E Old | FY25E Revised | Change % |
|-----------|--------------|------------------|-------------|--------------|------------------|-------------|
| Net Sales | 8,414 | 8,211 | -2.4 | 9,821 | 9,584 | -2.4 |
| EBITDA | 1,501 | 1,450 | -3.4 | 1,779 | 1,771 | -0.4 |
| APAT | 734 | 753 | 2.5 | 603 | 652 | 8.2 |

Source: Company, HSIE Research

ADD

CMP (as on 30 May 23) INR 456

Target Price INR 450

NIFTY 18,634

| KEY CHANGES | OLD | NEW |
|-------------------|----------------|----------------|
| Rating | ADD | ADD |
| Price Target | INR 455 | INR 450 |
| EBITDA revision % | FY24E (3.4) | FY25E (0.4) |

KEY STOCK DATA

| | |
|------------------------------|-------------|
| Bloomberg code | DECM IN |
| No. of Shares (mn) | 14 |
| MCap (INR bn) / (\$ mn) | 6/78 |
| 6m avg traded value (INR mn) | 5 |
| 52 Week high / low | INR 588/388 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|-------|--------|--------|
| Absolute (%) | 2.8 | (11.4) | (5.0) |
| Relative (%) | (4.0) | (11.2) | (17.6) |

SHAREHOLDING PATTERN (%)

| | Dec-22 | Mar-23 |
|-----------------|--------|--------|
| Promoters | 56.24 | 56.25 |
| FIs & Local MFs | 0.49 | 0.49 |
| FPIs | 8.97 | 9.28 |
| Public & Others | 34.30 | 33.98 |
| Pledged Shares | - | - |

Source : BSE

Pledged shares as % of total shares

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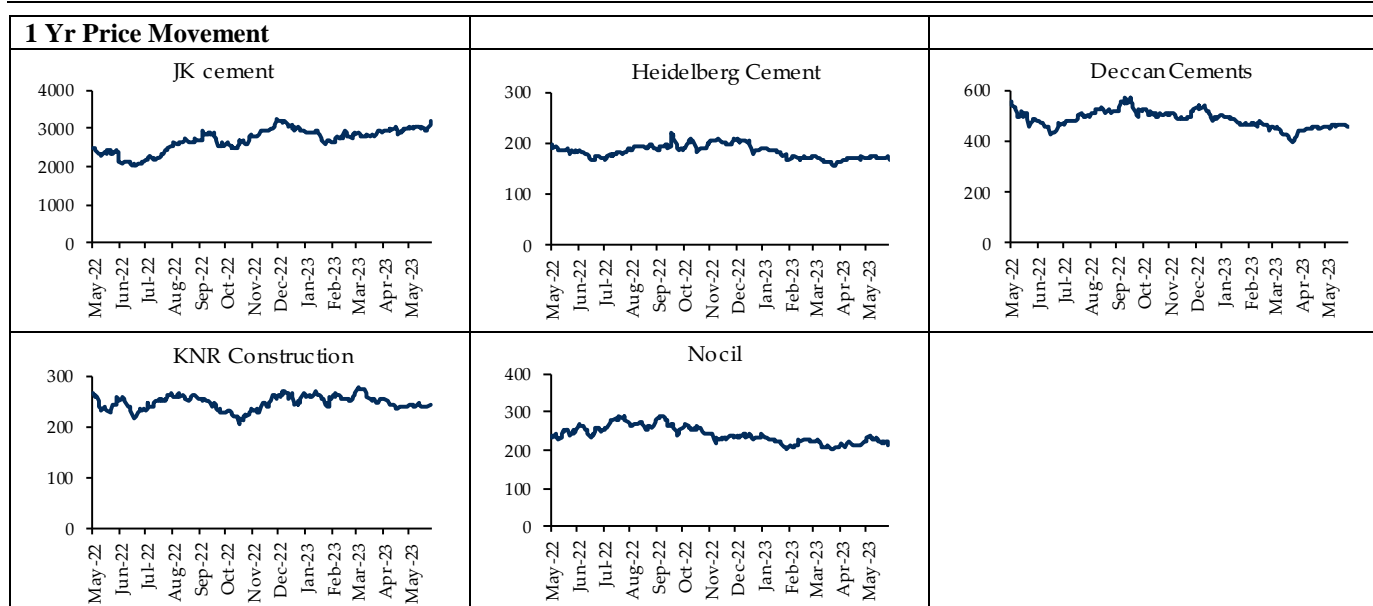
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Rating Criteria

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

Disclosure:

| Analyst | Company Covered | Qualification | Any holding in the stock |
|-------------------|--|---------------|--------------------------|
| Rajesh Ravi | JK Cement, Heidelberg Cement, Deccan Cements | MBA | NO |
| Keshav Lahoti | JK Cement, Heidelberg Cement, Deccan Cements | CA | NO |
| Parikshit Kandpal | KNR Constructions | CFA | NO |
| Manoj Rawat | KNR Constructions | MBA | NO |
| Nikhil Kanodia | KNR Constructions | MBA | NO |
| Nilesh Ghuge | NOCIL | MMS | NO |
| Harshad Katkar | NOCIL | MBA | NO |
| Rutvi Chokshi | NOCIL | CA | NO |
| Akshay Mane | NOCIL | PGDM | NO |



Disclosure:

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