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# HeidelbergCement India

**HOLD****Maintained****Rs177**

## Volumes continue to disappoint

HeidelbergCement India's (HEIM) Q1FY23 EBITDA of Rs950mn (down 27.5% YoY) was below our / consensus estimates owing to lower-than-expected volumes. Volumes declined 10% QoQ and 6% YoY as company attempts to pass-on substantial (10% QoQ and 24% YoY) cost increases via realisation growth of 10% QoQ and 13% YoY. EBITDA/te declined 23% YoY but rose 8% QoQ to Rs855/te (I-Sec: Rs876/te). Central region – key market for HEIM – is likely to see 20% capacity additions (13-14mnte) over FY23-24 which may put pressure on HEIM's near term volumes / profitability, in our view. Factoring in lower volumes, we trim our FY23E-FY24E EBITDA by 1-6% and reduce our target price to Rs184/sh (earlier: Rs189/sh), based on 7x FY24E EV/E. Maintain HOLD. Key downside risk: Pricing weakness. Key upside risk: Cost pressures easing quickly.

- **Revenue grew 6% YoY at Rs5.9bn** as 13% YoY rise in realisation was offset by 6% YoY dip in volumes to 1.11mnte, implying 71% utilisation. On a QoQ basis, volumes declined 10% as company focused on higher trade sales and better realisation (up 10% QoQ to Rs5,242/te). Our channel checks suggest current cement prices in central regions are similar to Jun'22-exit prices that are 2% lower than average Q1FY23 prices.
- **EBITDA/te declined 23% YoY to Rs855/te (I-Sec: Rs876/te)** on higher cost inflation in fuels. Total cost/te increased 24% YoY and 9.5% QoQ to Rs4,450/te. Raw material plus power and fuel costs increased 32% YoY and 11% QoQ to Rs2,695/te owing to a sharp cost inflation in power and fuel costs. Freight cost/te was up 8% YoY and 5% QoQ on higher diesel prices (up 11% YoY and 6.6% QoQ). Other expenses/te were up 21% YoY and 9% QoQ as lower volumes resulted in lower absorption of fixed costs. Adjusted PAT was down 25% YoY to Rs516mn.
- **Volumes may remain range bound over FY22-24E:** No major expansion seems planned in the short term as the proposed greenfield Gujarat expansion is still awaiting environmental clearance and land acquisition is pending. We factor volumes to remain almost flat over FY22-24E in the range of 4.7-4.9mnte (75-80% utilisation) and expect EBITDA/te to fall from Rs1,129/te in FY21 and Rs867/te in FY22 to Rs741/te in FY23 before rising to Rs1,060/te in FY24E.
- **Company started receiving solar power** under its long term power purchase agreement for the Jhansi plant. The contracted capacity is 15MW and the company is expected to receive 22GWh of solar power annually. Consequently, its overall share of green power increased to 30%, up 700bps QoQ. Net cash increased to Rs2.24bn in Jun'22 from Rs1.34bn in Mar'22. HEIM has moved to a concessional income tax regime from FY23 and shall apply corporate tax of 25.2% going forward.

Market Cap	Rs40.2bn/US\$503mn
Reuters/Bloomberg	HEID.BO/HEIM IN
Shares Outstanding (mn)	226.6
52-week Range (Rs)	276/165
Free Float (%)	30.6
FII (%)	6.2
Daily Volume (US\$'000)	576
Absolute Return 3m (%)	(12.4)
Absolute Return 12m (%)	(30.6)
Sensex Return 3m (%)	(4.0)
Sensex Return 12m (%)	3.8

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	20,927	22,426	23,956	25,204
EBITDA (Rs mn)	5,066	4,140	3,468	5,211
Net Income (Rs mn)	2,608	2,317	1,914	3,298
% Chg YoY	(2.7)	(11.2)	(17.4)	72.4
P/E (x)	15.4	17.3	21.0	12.2
CEPS (Rs)	16.4	15.2	13.5	19.7
EV/E (x)	7.5	9.2	10.6	6.7
Dividend Yield	4.5	5.1	4.5	5.6
RoCE (%)	15.0	12.9	10.7	17.0
RoE (%)	18.6	15.1	12.2	20.3

### Q1FY23 result review and earnings revision

## Cement

Target price: Rs184

### Earnings revision

(%)	FY23E	FY24E
Sales	↓ 4.9	↓ 3.3
EBITDA	↓ 6.3	↓ 1.4
PAT	↓ 5.6	↑ 2.6

### Target price revision

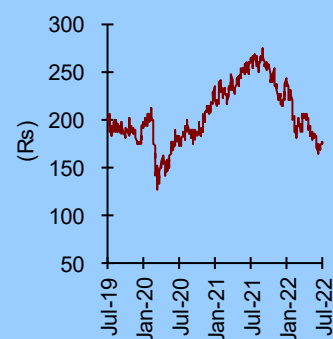
Rs184 from Rs189

### Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	69.4	69.4	69.4
Institutional investors	16.8	16.4	16.1
MFs and other	6.1	6.0	6.1
Insurance Cos.	4.1	4.1	3.8
FIs	6.6	6.3	6.2
Others	13.9	14.2	14.5

Source: BSE

### Price chart



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**Table 1: Q1FY23 result review**

(Rs mn, year ending March 31)

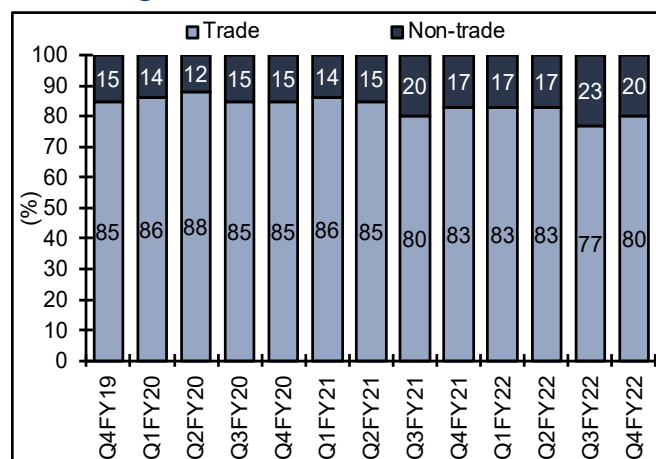
	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	I-Sec estimates	Variance
Volume including clinker (mnte)	1.11	1.18	(6.1)	1.23	(9.9)	1.20	(7.0)
Avg. realisation (Rs/te)	5,242	4,648	12.8	4,754	10.3	5,135	2.1
<b>Net Sales</b>	<b>5,829</b>	<b>5,504</b>	<b>5.9</b>	<b>5,867</b>	<b>(0.6)</b>	<b>6,140</b>	<b>(5.1)</b>
Other operating income	70	56	25.9	127	(45.1)	-	NA
Raw Materials	893	1,081	(17.4)	1,035	(13.7)	1,103	(19.0)
Personnel Cost	339	322	5.2	349	(2.9)	332	2.1
Power and Fuel cost	2,103	1,346	56.3	1,960	7.3	2,107	(0.2)
Freight cost	737	727	1.4	780	(5.4)	800	(7.9)
Other Expenses	876	772	13.4	892	(1.8)	835	4.9
<b>Total Expenses</b>	<b>4,948</b>	<b>4,249</b>	<b>16.5</b>	<b>5,015</b>	<b>(1.3)</b>	<b>5,177</b>	<b>(4.4)</b>
<b>EBITDA</b>	<b>950</b>	<b>1,311</b>	<b>(27.5)</b>	<b>980</b>	<b>(3.0)</b>	<b>1,048</b>	<b>(9.3)</b>
<b>EBITDA/te</b>	<b>855</b>	<b>1,107</b>	<b>(22.8)</b>	<b>794</b>	<b>7.7</b>	<b>876</b>	<b>(2.5)</b>
Interest	80	102	(21.4)	52	54.7	51	57.2
Depreciation	280	276	1.6	280	0.1	280	0.1
Other income	103	105	(2.4)	124	(17.3)	121	(15.1)
Exceptional income/(expense)	-	-		206		-	
Taxation	177	352	(49.7)	42	318.4	218	(18.8)
<b>Reported net Income</b>	<b>516</b>	<b>687</b>	<b>(24.8)</b>	<b>936</b>	<b>(44.9)</b>	<b>620</b>	<b>(16.8)</b>
<b>Recurring net income</b>	<b>516</b>	<b>687</b>	<b>(24.8)</b>	<b>730</b>	<b>(29.3)</b>	<b>620</b>	<b>(16.8)</b>
<b>Ratios (%)</b>			<b>bps</b>		<b>bps</b>		<b>bps</b>
EBITDA margin	16.3%	23.8%	(751)	16.7%	(39)	17.1%	(76)
Net profit margin	8.9%	12.5%	(362)	12.4%	(359)	10.1%	(125)

Source: Company data, I-Sec research

**Table 2: Historical quarterly analysis on per-tonne basis**

(Rs/te)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net realisation</b>	<b>4,648</b>	<b>4,624</b>	<b>4,754</b>	<b>4,754</b>	<b>5,242</b>
Raw materials consumed	913	790	1,062	839	803
Power & fuel	1,137	1,290	1,357	1,588	1,892
Freight cost	614	613	617	632	663
Staff cost	272	267	273	283	305
Other expenses	652	777	912	722	787
<b>Total costs/te</b>	<b>3,588</b>	<b>3,737</b>	<b>4,221</b>	<b>4,064</b>	<b>4,450</b>
Other operating income	47	59	73	103	63
<b>EBITDA/te</b>	<b>1,107</b>	<b>946</b>	<b>607</b>	<b>794</b>	<b>855</b>

Source: Company data, I-Sec research

**Chart 1: HEIM's share of trade sales has remained in the range of 80-85%**

Source: Company data, I-Sec research

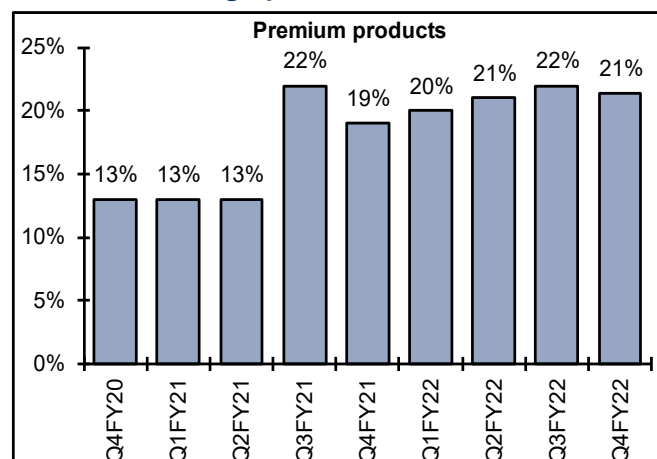
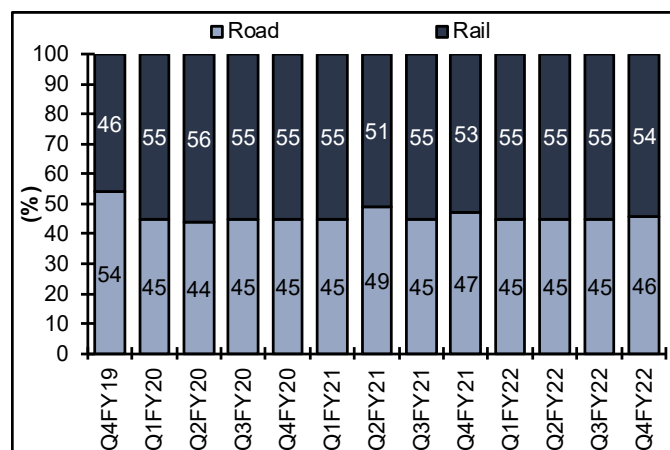
**Chart 2: Share of premium products' contribution has been inching up**

Chart 3: Road despatches are stable around ~45%



Source: Company data, I-Sec research

Chart 4: Share of petcoke likely to increase in Q1FY23 owing to lower prices vs coal

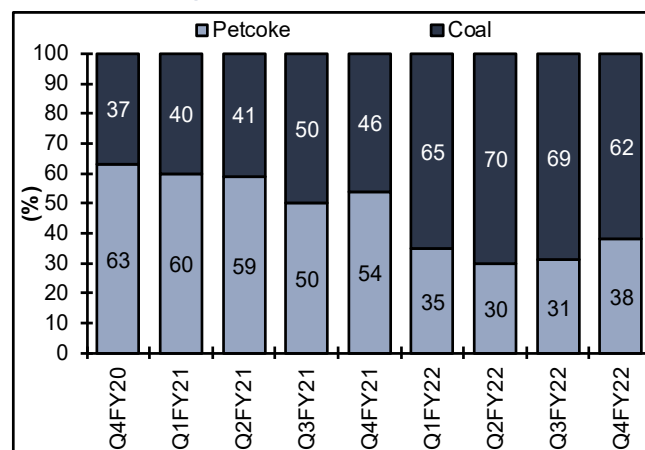


Table 3: Per-tonne estimates

(Rs/te)

	FY20	FY21	FY22	FY23E	FY24E
<b>Net realisation</b>	<b>4,586</b>	<b>4,665</b>	<b>4,695</b>	<b>5,117</b>	<b>5,127</b>
Raw material consumed	826	830	897	861	879
Power & fuel	1,007	1,088	1,345	1,829	1,481
Freight	612	618	619	662	676
Employees	279	284	274	290	290
Others	766	769	764	795	802
<b>Total operating expenses</b>	<b>3,490</b>	<b>3,589</b>	<b>3,899</b>	<b>4,438</b>	<b>4,129</b>
Other operating income	25	54	71	61	61
<b>EBITDA/tonne</b>	<b>1,122</b>	<b>1,129</b>	<b>867</b>	<b>741</b>	<b>1,060</b>

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

(mnte)

	FY20	FY21	FY22	FY23E	FY24E
<b>Capacity</b>	<b>5.4</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>
Production	4.7	4.5	4.8	4.7	4.9
Capacity utilisation (%)	87	72	76	75	79
<b>Sales</b>	<b>21,576</b>	<b>20,927</b>	<b>22,426</b>	<b>23,956</b>	<b>25,204</b>
Growth (%)	2.3	(3.0)	7.2	6.8	5.2
<b>Realisation (Rs/te)</b>	<b>4,586</b>	<b>4,665</b>	<b>4,695</b>	<b>5,117</b>	<b>5,127</b>
Growth (%)	6.5	1.7	0.6	9.0	0.2

Source: Company data, I-Sec research

Table 5: Earnings revision

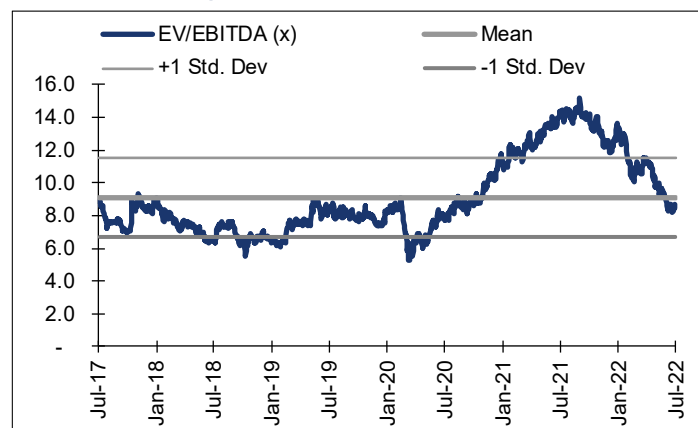
(Rs mn)	FY23E			FY24E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	23,956	25,196	(4.9)	25,204	26,059	(3.3)
EBITDA	3,468	3,702	(6.3)	5,211	5,287	(1.4)
PAT	1,914	2,027	(5.6)	3,298	3,216	2.6

Source: Company data, I-Sec research

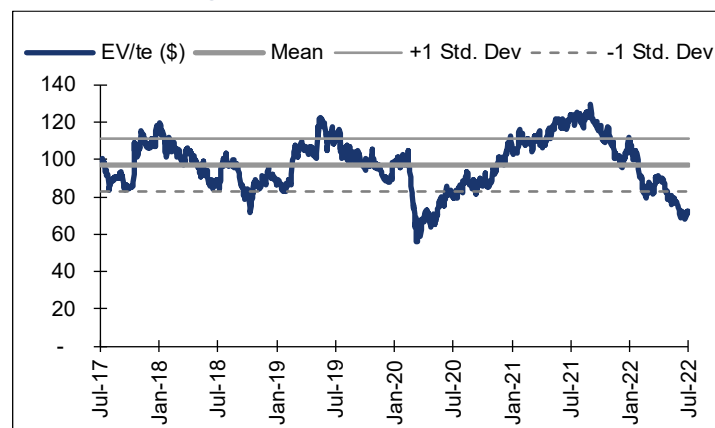
**Table 6: Valuations based on 7x FY24E EV/E***(Rs.mn)*

Target EV/ EBITDA multiple (x)	7
Target EV (Rs mn)	36,478
Net debt / (cash) (Rs mn)	(5,275)
<b>Target value (Rs mn)</b>	<b>41,753</b>
No. of shares (mn)	227
<b>Target price per share (Rs)</b>	<b>184</b>

Source: I-Sec research

**Chart 5: Rolling EV/EBITDA**

Source: I-Sec research

**Chart 6: Rolling EV/te**

Source: I-Sec research

## Financial summary (standalone)

**Table 7: Profit and loss statement**
*(Rs mn, year ending March 31)*

	FY21	FY22	FY23E	FY24E
<b>Operating Income (Sales)</b>	<b>20,927</b>	<b>22,426</b>	<b>23,956</b>	<b>25,204</b>
<b>Operating Expenses</b>	<b>16,100</b>	<b>18,624</b>	<b>20,774</b>	<b>20,294</b>
<b>EBITDA</b>	<b>5,066</b>	<b>4,140</b>	<b>3,468</b>	<b>5,211</b>
% margin	24.2	18.5	14.5	20.7
Depreciation & Amortisation	1,110	1,121	1,143	1,166
Gross Interest	509	364	292	233
Other Income	465	491	535	615
<b>Recurring PBT</b>	<b>3,912</b>	<b>3,145</b>	<b>2,569</b>	<b>4,427</b>
Add: Extra ordinaries	541	-	-	-
Less: Taxes	1,304	829	655	1,129
<b>Net Income (Reported)</b>	<b>3,150</b>	<b>2,317</b>	<b>1,914</b>	<b>3,298</b>
<b>Recurring Net Income</b>	<b>2,608</b>	<b>2,317</b>	<b>1,914</b>	<b>3,298</b>

Source: Company data, I-Sec research

**Table 8: Balance sheet**
*(Rs mn, year ending March 31)*

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	12,081	12,350	13,428	14,965
Current Liab. & Prov.	8,083	8,508	8,786	8,900
<b>Net Current Assets</b>	<b>3,998</b>	<b>3,842</b>	<b>4,642</b>	<b>6,065</b>
<b>Investments of which</b>	-	-	-	-
Strategic/Group	-	-	-	-
Marketable	-	-	-	-
<b>Net Fixed Assets</b>	<b>16,374</b>	<b>15,888</b>	<b>15,359</b>	<b>14,807</b>
of which				
Capital Work-in-Progress	189	270	284	298
<b>Total Assets</b>	<b>20,371</b>	<b>19,730</b>	<b>20,001</b>	<b>20,872</b>
of which cash & cash equivalents	5,817	3,869	4,778	6,187
<b>Liabilities</b>				
<b>Borrowings</b>	<b>3,495</b>	<b>1,902</b>	<b>1,572</b>	<b>912</b>
<b>Deferred Tax Liability</b>	<b>1,938</b>	<b>2,175</b>	<b>2,675</b>	<b>3,175</b>
Equity Share Capital	2,266	2,266	2,266	2,266
Face value per share (Rs)	10	10	10	10
Reserves & Surplus	12,673	13,386	13,487	14,519
<b>Net Worth</b>	<b>14,939</b>	<b>15,652</b>	<b>15,753</b>	<b>16,785</b>
<b>Total Liabilities</b>	<b>20,371</b>	<b>19,730</b>	<b>20,001</b>	<b>20,872</b>

Source: Company data, I-Sec research

**Table 9: Quarterly trend**
*(Rs mn, year ending Mar 31)*

	Sep-21	Dec-21	Mar-22	Jun-22
Net sales	5,692	5,363	5,867	5,829
% growth (YoY)	11.0	(9.5)	0.9	5.9
Recurring EBITDA	1,165	684	980	950
Margin (%)	20.5	12.8	16.7	16.3
Other income	139	123	124	103
Extraordinaries Inc / (Loss)	-	-	-	-
<b>Recurring Net Income</b>	<b>596</b>	<b>304</b>	<b>730</b>	<b>516</b>

Source: Company data, I-Sec research

**Table 10: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY21	FY22	FY23E	FY24E
<b>Operating Cashflow</b>	<b>4,197</b>	<b>3,807</b>	<b>3,142</b>	<b>4,475</b>
Working Capital changes	(8)	(782)	(12)	(140)
Capital Commitments	(456)	(464)	(614)	(614)
<b>Net Operating FCF</b>	<b>3,734</b>	<b>2,560</b>	<b>2,517</b>	<b>3,720</b>
<b>Investing Activities</b>	<b>(1,505)</b>	<b>(166)</b>	<b>535</b>	<b>615</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(1,250)	(1,200)	(330)	(661)
Dividend paid	(1,355)	(1,807)	(1,813)	(2,266)
Others	-	-	0	(0)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash &amp; Bank</b>	<b>(376)</b>	<b>(613)</b>	<b>909</b>	<b>1,409</b>

Source: Company data, I-Sec research

**Table 11: Key ratios**
*(Year ending March 31)*

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	13.9	10.2	8.4	14.6
Diluted Recurring EPS	11.5	10.2	8.4	14.6
Diluted Recurring CEPS	16.4	15.2	13.5	19.7
Dividend per share	8.0	9.0	8.0	10.0
Book Value	66	69	70	74
<b>Growth Ratios (% YoY)</b>				
Operating Income	(3.0)	7.2	6.8	5.2
EBITDA	(4.0)	(18.3)	(16.2)	50.3
Recurring Net Income	(2.7)	(11.2)	(17.4)	72.4
Diluted Recurring EPS	(2.7)	(11.2)	(17.4)	72.4
Diluted Recurring CEPS	(1.3)	(7.6)	(11.1)	46.1
<b>Valuation Ratios (x)</b>				
P/E	15.4	17.3	21.0	12.2
P/CEPS	10.8	11.7	13.1	9.0
P/BV	2.7	2.6	2.5	2.4
EV / EBITDA	7.5	9.2	10.6	6.7
EV / te (US\$)	76	76	74	70
EV / Operating Income	1.8	1.7	1.5	1.4
EV / Operating FCF	20.2	27.4	11.8	8.0
<b>Operating Ratios (%)</b>				
Raw Material / Sales	17.8	19.1	16.8	17.1
Other expenses / Sales	29.7	29.5	28.5	28.8
Other Income / PBT	11.9	15.6	20.8	13.9
Effective Tax Rate	29.3	26.3	25.5	25.5
NWC / Total Assets	(0.1)	(0.0)	(0.0)	(0.0)
Inventory (x)	6.3	7.1	7.7	6.7
Receivables (days)	5	6	6	7
Payable (days)	60	52	47	48
D/E Ratio (x)	0.4	0.3	0.3	0.2
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	12.2	10.1	7.8	12.8
RoCE	15.0	12.9	10.7	17.0
RoNW	18.6	15.1	12.2	20.3
Dividend Payout	69.5	88.0	94.7	68.7

Source: Company data, I-Sec research

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