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HeidelbergCement India

REDUCE

Downgrade from HOLD

Underwhelming performance

Rs169

HeidelbergCement India's (HEIM) Q3FY23 EBITDA of Rs371mn (down 46% YoY) was significantly below our / consensus estimates owing to lower-than-expected volumes and realisations. Volumes declined 3% YoY (up ~10% QoQ) as the company witnessed volume loss of 10 days during the quarter due to warehousing issues and intense competitive pressures. Total cost/te increased by 9% YoY (flat QoQ) against 2% YoY rise (down 2% QoQ) in realisations resulting in EBITDA/te declining 44%/29% YoY/QoQ to Rs339/te (I-Sec: Rs555/te). HEIM may see pressure on near-term volumes / profitability as the key market of Central India is likely to add ~6mtpa capacity (~9% CAGR in supply) between FY22-FY25E against ~7% CAGR in demand. Factoring-in market share loss and slow pace of price hikes, we cut our FY23E-FY24E EBITDA by 16-21% and reduce our target price to Rs153/sh (earlier: Rs186/sh), based on 7x FY24E EV/E. Downgrade to REDUCE (from *Hold*). Key upside risks: Significant and sustainable price hikes.

► **Revenues flat YoY at Rs5.3bn** as 2% YoY rise in realisation was offset by 3% YoY dip in volumes to 1.1mnte, implying 70% utilisation. HEIM has seen market share loss in the past three quarters due to intense competitive pressures and internal warehousing issues. We see further market share loss for HEIM as demand will likely be driven by non-trade segment while HEIM has been strong in the trade segment (~76% trade sales share). Pricing has been flat in current quarter (Q4) till date vs Dec'22-exit.

► **EBITDA/te declined 44% YoY to Rs339/te (I-Sec: Rs555/te)** on higher cost inflation in fuel. However, unit power and fuel cost declined 17% QoQ at Rs1,572/te as fuel consumption cost dipped to Rs2.85/kcal in Q3FY23. As per management, HEIM may see mid to high single-digit QoQ dip in unit energy costs in Q4FY23. Freight cost/te was up 15%/5% YoY/QoQ likely due to levy of busy season surcharge by Indian Railways. Other expenses/te were up 3%/17% YoY/QoQ as HEIM undertook kiln maintenance shutdown in Q3FY23 resulting in higher consumables.

► **Volumes may see marginal growth in FY24E:** HEIM plans to debottleneck its Damoh clinker/grinding units by 0.2/0.3mtpa respectively in FY24E while the proposed greenfield Gujarat expansion is still awaiting statutory clearances and may take ~4 years to complete. Hence we estimate 5% volume growth in FY24E and forecast EBITDA/te to fall from Rs867/te in FY22 to Rs642/te in FY23E before rising to Rs954/te in FY24E.

► **HEIM preferred bidder in limestone block:** Company has been declared a preferred bidder for ~60mt limestone mine block at Sukha Satpara adjoining its existing Patharia mines in Central India at 100.5% premium. As per management, this block will augment its limestone reserves (~25 years of residual reserves) and likely aid further expansion. HEIM has a capex budget of Rs550mn-600mn for FY24.

Q3FY23 result review; TP,
rating and earnings
revision

Cement

Target price: Rs153

Earnings revision

(%)	FY23E	FY24E
Sales	↓ 6.4	↓ 5.2
EBITDA	↓ 21.3	↓ 16.2
PAT	↓ 39.4	↓ 25.8

Target price revision

Rs153 from Rs186

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	69.4	69.4	69.4
Institutional investors	16.5	14.3	14.9
MFs and other	5.5	5.4	6.3
FIs/ Banks	0.8	0	0
Insurance Cos.	3.8	3.8	3.8
FII	6.4	5.1	4.8
Others	14.1	16.3	15.7

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	40.9	45.1	4.2
Environment	18.6	22.0	3.4
Social	20.3	29.6	9.4
Governance	83.6	83.6	0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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Market Cap	Rs38.3bn/US\$462mn
Reuters/Bloomberg	HEID.BO/HEIM IN
Shares Outstanding (mn)	226.6
52-week Range (Rs)	220/165
Free Float (%)	30.6
FII (%)	4.8
Daily Volume (US\$'000)	1,381
Absolute Return 3m (%)	(18.2)
Absolute Return 12m (%)	(13.2)
Sensex Return 3m (%)	(0.8)
Sensex Return 12m (%)	6.8

Year to Mar	FY21	FY22	FY23E	FY24E
Revenue (Rs mn)	20,927	22,426	21,922	23,363
EBITDA (Rs mn)	5,066	4,140	2,819	4,400
Net Income (Rs mn)	2,608	2,317	1,212	2,470
% Chg YoY	(2.7)	(11.2)	(47.7)	103.9
P/E (x)	14.7	16.5	31.6	15.5
CEPS (Rs)	16.4	15.2	10.3	15.9
EV/E (x)	7.1	8.8	12.6	7.8
Dividend Yield	4.7	5.3	4.7	5.9
RoCE (%)	15.0	12.9	8.0	14.3
RoE (%)	18.6	15.1	7.9	16.3

Please refer to important disclosures at the end of this report

Table 1: Q3FY23 result review

(Rs mn, year ending March 31)

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	I-Sec estimates	Variance
Volume including clinker (mn te)	1.10	1.13	(2.9)	1.00	9.5	1.16	(5.8)
Avg. realisation (Rs/te)	4,867	4,754	2.4	4,988	(2.4)	4,982	(2.3)
Net Sales	5,329	5,363	(0.6)	4,988	6.8	5,789	(7.9)
Other operating income*	72	82	(12.2)	72	-	82	(12.2)
Raw Materials	1,224	1,197	2.2	890	37.6	1,061	15.4
Personnel Cost	279	308	(9.4)	318	(12.2)	323	(13.7)
Power and Fuel cost	1,721	1,531	12.4	1,895	(9.2)	2,089	(17.6)
Freight cost	779	697	11.9	680	14.7	789	(1.2)
Other Expenses	1,027	1,028	(0.1)	803	27.9	964	6.6
Total Expenses	5,030	4,761	5.7	4,585	9.7	5,226	(3.7)
EBITDA	371	684	(45.8)	476	(22.1)	645	(42.5)
EBITDA/te	339	607	(44.2)	476	(28.8)	555	(39.0)
Interest	109	99	10.2	207	(47.3)	84	29.7
Depreciation	287	283	1.5	281	2.2	281	2.2
Other income	106	123	(14.2)	110	(4.2)	134	(21.2)
Exceptional income/(expense)	-	-	-	-	-	-	-
Taxation	24	121	(80.0)	28	(13.3)	118	(79.4)
Reported net Income	56	304	(81.7)	70	(20.4)	296	(81.1)
Recurring net income	56	304	(81.7)	70	(20.4)	296	(81.1)
Ratios (%)							
EBITDA margin	7.0	12.8		9.5		11.1	
Net profit margin	1.0	5.7		1.4		5.1	

Source: Company data, I-Sec research, *Other operating income is assumed

Table 2: Historical quarterly analysis on per-tonne basis

(Rs/te)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net realisation	4,754	4,754	5,233	4,988	4,867
Raw materials consumed	1,062	839	803	890	1,118
Power & fuel	1,357	1,588	1,892	1,895	1,572
Freight cost	617	632	663	680	712
Staff cost	273	283	305	318	255
Other expenses	912	722	787	803	938
Total costs/te	4,221	4,064	4,450	4,585	4,594
Other operating income	73	103	72	72	66
EBITDA/te	607	794	855	476	339

Source: Company data, I-Sec research

Table 3: Per-tonne estimates

(Rs/te)	FY20	FY21	FY22	FY23E	FY24E
Net realisation	4,586	4,665	4,695	4,988	5,063
Raw material consumed	826	830	897	920	938
Power & fuel	1,007	1,088	1,345	1,701	1,429
Freight	612	618	619	693	704
Employees	279	284	274	285	285
Others	766	769	764	817	824
Total operating expenses	3,490	3,589	3,899	4,417	4,180
Other operating income	25	54	71	71	71
EBITDA/tonne	1,122	1,129	867	642	954

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

(mn te)

	FY20	FY21	FY22	FY23E	FY24E
Capacity	5.4	6.3	6.3	6.3	6.3
Production	4.7	4.5	4.8	4.4	4.6
Capacity utilisation (%)	87	72	76	70	74
Sales	21,576	20,927	22,426	21,922	23,363
Growth (%)	2.3	(3.0)	7.2	(2.2)	6.6
Realisation (Rs/te)	4,586	4,665	4,695	4,988	5,063
Growth (%)	6.5	1.7	0.6	6.3	1.5

Source: Company data, I-Sec research

Table 5: Earnings revision

(Rs mn)	FY23E			FY24E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenues	21,922	23,424	(6.4)	23,363	24,644	(5.2)
EBITDA	2,819	3,581	(21.3)	4,400	5,254	(16.2)
PAT	1,212	1,998	(39.4)	2,470	3,330	(25.8)

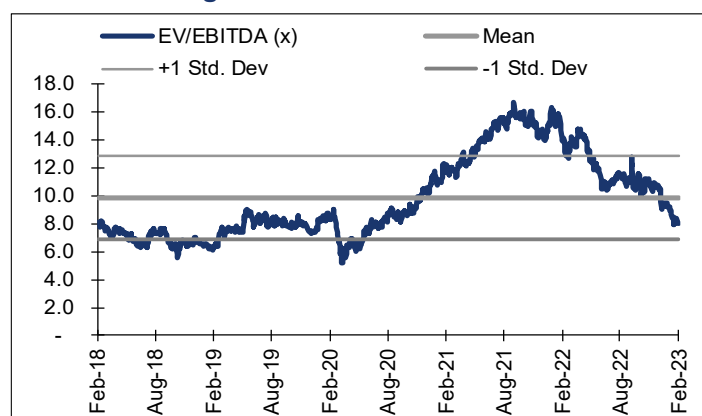
Source: Company data, I-Sec research

Table 6: Valuations based on 7x FY24E EV/E

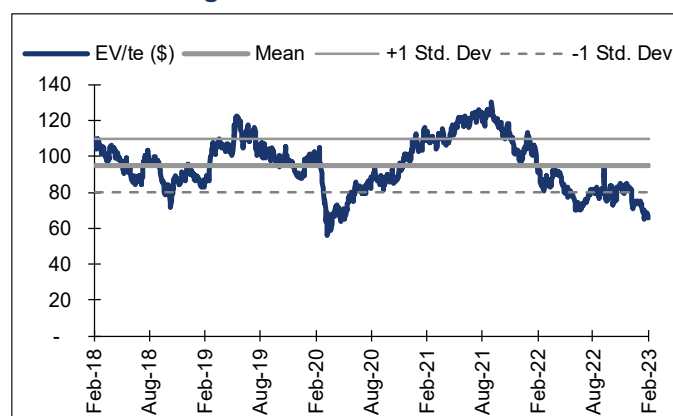
(Rs.mn)

Target EV/ EBITDA multiple (x)	7.0
Target EV (Rs mn)	30,803
Net debt / (cash) (Rs mn)	(3,920)
Target value (Rs mn)	34,724
No. of shares (mn)	227
Target price per share (Rs)	153

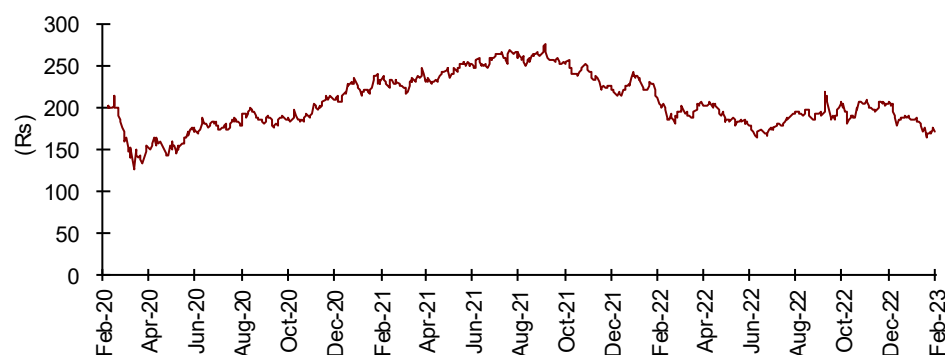
Source: I-Sec research

Chart 5: Rolling EV/EBITDA

Source: I-Sec research

Chart 6: Rolling EV/te

Source: I-Sec research

Price chart

Source: Bloomberg

Financial summary (standalone)

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

	FY21	FY22	FY23E	FY24E
Operating Income (Sales)	20,927	22,426	21,922	23,363
Operating Expenses	16,100	18,624	19,413	19,288
EBITDA	5,066	4,140	2,819	4,400
% margin	24.2	18.5	12.9	18.8
Depreciation & Amortisation	1,110	1,121	1,133	1,144
Gross Interest	509	364	481	385
Other Income	465	491	432	466
Recurring PBT	3,912	3,145	1,637	3,338
Add: Extra ordinaries	541	-	-	-
Less: Taxes	1,304	829	426	868
Net Income (Reported)	3,150	2,317	1,212	2,470
Recurring Net Income	2,608	2,317	1,212	2,470

Source: Company data, I-Sec research

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

	FY21	FY22	FY23E	FY24E
Assets				
Total Current Assets	12,081	12,350	12,719	13,470
Current Liab. & Prov.	8,083	8,508	8,590	8,767
Net Current Assets	3,998	3,842	4,130	4,703
Investments of which	-	-	-	-
Strategic/Group	-	-	-	-
Marketable	-	-	-	-
Net Fixed Assets	16,374	15,888	15,169	14,639
of which				
Capital Work-in-Progress	189	270	284	298
Total Assets	20,371	19,730	19,299	19,342
of which cash & cash equivalents	5,817	3,869	4,225	4,832
Liabilities				
Borrowings	3,495	1,902	1,572	912
Deferred Tax Liability	1,938	2,175	2,675	3,175
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	12,785	12,989
Net Worth	14,939	15,652	15,051	15,255
Total Liabilities	20,371	19,730	19,299	19,342

Source: Company data, I-Sec research

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

	Mar-22	Jun-22	Sep-22	Dec-22
Net sales	5,867	5,829	4,988	5,329
% growth (YoY)	0.9	5.9	(12.4)	(0.6)
Recurring EBITDA	980	950	476	371
Margin (%)	16.7	16.3	9.5	7.0
Other income	124	103	110	106
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	730	516	70	56

Source: Company data, I-Sec research

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

	FY21	FY22	FY23E	FY24E
Operating Cashflow	4,197	3,807	2,533	3,774
Working Capital changes	(8)	(782)	(53)	(92)
Capital Commitments	(456)	(464)	(414)	(614)
Net Operating FCF	3,734	2,560	2,067	3,068
Investing Activities	(1,505)	(166)	432	466
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	-	-	-	-
Chg. in Cash & Bank	(376)	(613)	356	607

Source: Company data, I-Sec research

Table 11: Key ratios
(Year ending March 31)

	FY21	FY22	FY23E	FY24E
Per Share Data (Rs)				
EPS(Basic)	13.9	10.2	5.3	10.9
Diluted Recurring EPS	11.5	10.2	5.3	10.9
Diluted Recurring CEPS	16.4	15.2	10.3	15.9
Dividend per share	8.0	9.0	8.0	10.0
Book Value	66	69	66	67
Growth Ratios (% YoY)				
Operating Income	(3.0)	7.2	(2.2)	6.6
EBITDA	(4.0)	(18.3)	(31.9)	56.1
Recurring Net Income	(2.7)	(11.2)	(47.7)	103.9
Diluted Recurring EPS	(2.7)	(11.2)	(47.7)	103.9
Diluted Recurring CEPS	(1.3)	(7.6)	(31.8)	54.2
Valuation Ratios (x)				
P/E	14.7	16.5	31.6	15.5
P/CEPS	10.3	11.1	16.3	10.6
P/BV	2.6	2.4	2.5	2.5
EV / EBITDA	7.1	8.8	12.6	7.8
EV / te (US\$)	69	70	69	66
EV / Operating Income	1.7	1.6	1.6	1.5
EV / Operating FCF	19.2	26.1	14.4	9.3
Operating Ratios (%)				
Raw Material / Sales	17.8	19.1	18.4	18.5
Other expenses / Sales	29.7	29.5	30.3	30.2
Other Income / PBT	11.9	15.6	26.4	14.0
Effective Tax Rate	29.3	26.3	26.0	26.0
NWC / Total Assets	(0.1)	(0.0)	(0.0)	(0.0)
Inventory (x)	6.3	7.1	7.4	6.9
Receivables (days)	5	6	7	7
Payable (days)	60	52	49	48
D/E Ratio (x)	0.4	0.3	0.3	0.3
Profitability Ratios (%)				
Rec. Net Income Margins	12.2	10.1	5.4	10.4
RoCE	15.0	12.9	8.0	14.3
RoNW	18.6	15.1	7.9	16.3
Dividend Payout	69.5	88.0	149.6	91.7

Source: Company data, I-Sec research

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