Result Below Expectations; Maintain HOLD

Est. Vs. Actual for Q4FY24: Revenue – MISS; EBITDA Margin – MISS; PAT – MISS

Change in Estimates post Q4FY24 (Abs)

FY25E/FY26E: Revenue: -4%/-4%; **EBITDA:** -10%/-9%; **PAT:**-12%/-10%

Recommendation Rationale

- **Volume growth:** The company reported volume growth of 4% YoY which was lower than the industry average during the quarter. However, for FY24, the company reported volume growth of 9%. The current demand is impacted owing to election related disruption and labour shortage. However, it is expected to improve post the conclusion of general election. We therefore revise our volume growth guidance from earlier 8% to 6%. We expect the company to grow its volume at a CAGR of 8% over FY23-FY26E.
- **Lower cement prices:** The current cement prices are down by Rs 6/bag compared to Q4FY24 average cement prices. We expect them to remain subdued as Monsoon season is approaching which is traditionally a soft period for cement prices. We therfore pencil in lower cement prices for FY25.
- **Robust cement demand to drive revenue growth:** 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 expect the company to grow its Revenue/EBITDA/PAT at CAGR of 7%/21%/37% over FY23-FY26E.

Sector Outlook: Positive

Company Outlook & Guidance: We expect volume growth of 6%-7% in FY25. The housing and infrastructure sectors, major consumers of cement, are anticipated to continue driving demand. Moreover, the capacity expansion coupled with a fragmented market may lead to increased competition and potentially put pressure on cement prices

Current Valuation: 9x FY26E EV/EBITDA (Earlier Valuation: 9x FY26E EV/EBITDA)

Current TP: Rs 200/share (Earlier TP: Rs 220/share)

Recommendation: We **maintain** our **HOLD** recommendation on the stock and revise our estimates based on lower cement prices and volume growth.

Alternative BUY Ideas from our Sector Coverage: UltraTech Cement Ltd (TP-11,000/share), JK Cements Ltd (TP-4,340/share), Dalmia Bharat (TP-2,050/share), ACC (2,900/share), Shree Cement (TP29,350), Birla Corporation (TP-1800/share).

Outlook: The company is de-bottlenecking its existing clinker capacity which will support higher volume growth moving ahead. Cement demand is expected to remain robust in the long run, 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 11x and 10x FY25E/FY26E EV/EBITDA. We maintain our **HOLD** rating on the stock with a TP of Rs 200/share, implying a downside of 1% from the CMP.

Key Financials (Standalone)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	597	-2	-1	621	-4
EBITDA	89	-6	-5	101	-12
EBITDA Margin	14.9%	410bps	340bps	16.3%	(140bps)
Net Profit	48	53	37	58	-18
EPS (Rs)	2.12	53	37	2.57	-18

Source: Company, Axis Research

(CMP as of 31st May, 2024)

CMP (Rs)	203
Upside /Downside (%)	(1)
High/Low (Rs)	247/169
Market cap (Cr)	4,609
Avg. daily vol. (6m)Shrs.	4,54,000
No. of shares (Cr)	22.7

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	69.4	69.4	69.4
FIIs	3.9	4.3	4.5
MFs / UTI	5.2	6.2	7.0
Banks / FIs	0.0	0.0	0.0
Others	21.5	20.1	19.1

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,366	2,521	2,749
EBITDA	317	376	438
Net Profit	168	210	254
EPS (Rs)	7	9	11
PER (x)	27	22	18
EV/EBITDA (x)	2.2	2.1	2.0
P/BV (x)	13.1	11.0	10.9
ROE (%)	15	18	20

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-4%	-4%
EBITDA	-10%	-9%
PAT	-12%	-10%

ESG disclosure Score**

Environmental Disclosure	25
Social Disclosure Score	32
Governance Disclosure Score	84
Total ESG Disclosure Score	47
Sector Average	49

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

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Financial Performance

Heidelberg Cement reported numbers which were below our expectation but above market expectations. Volume grew by 4% (below expectations) while Revenue/EBITDA de-grew by 1%/5% (below expectations) owing to lower realization. It reported an EBITDA margin of 14.9% (vs. the expectation of 16.3%). The company reported a profit of Rs 48 Cr (Expectation Rs 58 Cr) against Rs 35 Cr in Q4FY23, implying a robust growth of 38% YoY.

The quarter's volume stood at 1.23 million tonnes per annum (mntpa), up 4% YoY. Its EBITDA/tonne stood at Rs 712, up 24% YoY. The company reported blended realization/tonne of Rs 4,838 Cr against Rs 5,076 Cr, down 5%/4% YoY/QoQ. Operating costs decreased by 8% YoY/QoQ to Rs 4,117/tonne, driving overall profitability.

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. This will increase the clinker capacity by 2 Lc tonne a year. The facility is expected to be operational in Q1FY25.
- **Gujarat Expansion:** The company is awaiting an environment certificate to proceed with the expansion program. The company aims to set up 2 mtpa Clinker and 3.2 mtpa Grinding unit in the State of Gujarat.
- **Volume:** During the quarter, the company registered a volume growth of 4% YoY. The company produces and sells 100% blended cement. The company guided for volume growth of 6% in FY25. The volume remained subdued in April and May'24, led by election-related disruptions and labour shortage. The company expects better traction in demand after the general election.
- **Pricing:** During the quarter, blended realization declined by 4%/5% to Rs 4,838 YoY/QoQ on a per tonne basis. The current cement prices are lower by Rs 6/bag than Q4FY24 average prices.
- **Trade/NonTrade:** The company trade and non-trade ratio stood at 82:18 YoY. Premium cement formed 34% of the total trade sales, up 2.2% YoY and the company expects to take the sale of premium cement to 45% of the trade sales. It also launched a new premium product – Power Shield in Dec'23 and was well received in the market.
- **Power/Fuel:** On a tonne basis, Power/Fuel cost declined by 19% YoY to Rs 1363/tonne. The company aims to use more green power in its power mix and expects green power to increase to 40% of the power mix by FY25. On a KCAL basis, fuel cost stood at Rs 1.84 during the quarter and the company expects no change in the KCAL cost. Fuel mix during the quarter was 60% pet coke, 30% coal and 10% AFR.
- **Freight:** On a per tonne basis, freight cost was lower by 4% YoY at Rs 743 /tonne and lead distance during the quarter was 375 km. During the year, rail: road mix stood at 44%:56% against 47%:53%.
- **Debt/Cash:** The current gross cash stands at Rs 532 Cr and Net Cash at Rs 395 Cr as of 31st Mar'24. The company is net debt-free.
- **Dividend:** The company announced a dividend of Rs 8/share (FV/Rs 10)
- **OCF:** The company generated OCF of Rs 350 Cr in FY24 against Rs 226 Cr in the previous year, driven by better demand leading to higher sales.

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	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	2,521	2,749	2633	2867	-4%	-4%
EBITDA	376	438	419	481	-10%	-9%
PAT	210	254	238	281	-12%	-10%

Source: Company, Axis Securities

Result Review Q4FY24

(Rs Cr)	Quarterly Performance				
	4QFY24	3QFY24	4QFY23	Chg QoQ	% Chg YoY
Net sales	597	607	602	-2%	-1%
Expenditure	508	542	533	-6%	-5%
EBITDA	89	65	69	36%	29%
Other income	14	13	13	6%	2%
Interest	9	8	7	1%	31%
Depreciation	28	27	27	3%	3%
PBT	66	43	49	54%	35%
Tax	18	11	14	58%	29%
Adjusted PAT	48	31	35.0	53%	37.7%
EBITDA margin (%)	14.9%	10.8%	11.5%	410bps	340bps
EPS (Rs)	2.12	1.39	1.54	53%	37%

Source: Company, Axis Securities

Volume/ Realization / Cost Analyses

(Rs Cr)	Quarterly Performance				
	4QFY24	3QFY24	4QFY23	Chg QoQ	% Chg YoY
Volume/mnt	1.23	1.21	1.19	2%	4%
Realization/tonne (Rs)	4838	5026	5,076	-4%	-5%
Cost/tonne (Rs)	4117	4484	4493	-8%	-8%
Raw material/tonne (Rs)	820	1173	846	-30%	-3%
Staff Cost/tonne (Rs)	364	297	333	22%	9%
Power & Fuel/tonne (Rs)	1363	1310	1692	4%	-19%
Freight/tonne (Rs)	743	735	776	1%	-4%
Other Expenses /tonne (Rs)	828	969	846	-15%	-2%
EBITDA/tonne (Rs)	721	542	583	33%	24%

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	**2238**	**2366**	**2521**	**2749**
Other operating income	0	0	0	0
Total income	2238	2366	2521	2749
Raw Material	401	462	487	526
Power & Fuel	773	670	687	742
Freight & Forwarding	312	350	376	406
Employee benefit expenses	133	153	162	172
Other Expenses	371	415	433	466
EBITDA	**249**	**317**	**376**	**438**
Other income	45	55	58	60
PBIDT	294	371	434	499
Depreciation	112	110	116	121
Interest & Fin Chg.	46	35	34	34
E/o income / (Expense)	0	0	0	0
Pre-tax profit	136	227	284	344
Tax provision	37	59	74	89
RPAT	99	168	210	254
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	**99**	**168**	**210**	**254**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	2665	2661	2750	2849
Net Block	1496	1438	1494	1482
CWIP	6	28	28	28
Investments	0	0	0	0
Wkg. cap. (excl cash)	-57	-79	-82	-88
Cash / Bank balance	492	555	576	666
Misc. Assets	727	720	735	761
Capital employed	2665	2661	2750	2849
Equity capital	227	227	227	227
Reserves	1235	1243	1272	1345
Minority Interests	0	0	0	0
Borrowings	174	111	111	111
Def Tax Liabilities	213	205	205	205
Other Liabilities and Provision	82	88	94	96

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	**136**	**227**	**284**	**344**
Depriciation	112	110	116	121
Interest Expenses	43	32	34	34
Non-operating/ EO item	-44	-54	-58	-60
Change in W/C	22	98	3	6
Income Tax	-44	-63	-74	-89
Operating Cash Flow	226	349	305	355
Capital Expenditure	-28	-74	-126	-110
Investments	0	0	0	0
Others	22	26	58	60
Investing Cash Flow	-6	-48	-68	-49
Borrowings	-34	-63	0	0
Interest Expenses	-25	-17	-34	-34
Dividend paid	-203	-158	-181	-181
Others	-4	-4	0	0
Financing Cash Flow	-27	-24	-22	-22
Change in Cash	104	60	21	90
Opening Cash	369	473	533	554
Closing Cash	**473**	**533**	**554**	**644**

Source: Company, Axis Securities

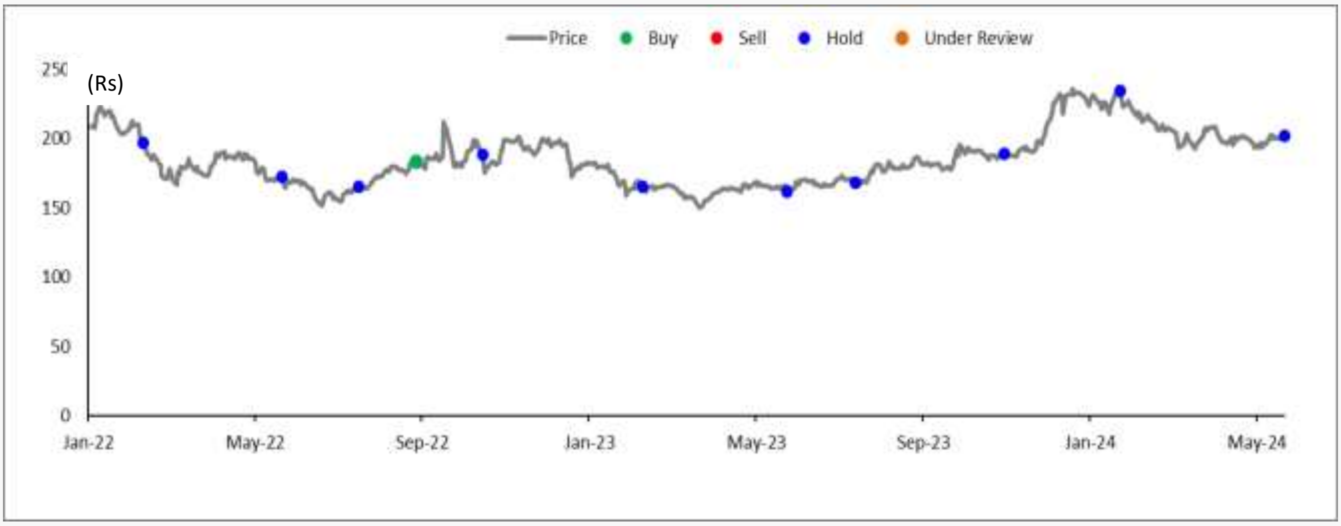
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Sales growth	-3%	6%	7%	9%
OPM	11%	13%	15%	16%
Op. profit growth	-38%	16%	12%	8%
COGS / Net sales	66%	63%	61%	61%
Overheads/Net sales	23%	24%	24%	23%
Depreciation / G. block	8%	8%	8%	8%
Efficiency Ratios				
Total Asset Turnover (x)	0.84	0.89	0.92	0.97
Sales/Gross block (x)	0.97	0.99	1.01	1.05
Sales/Net block(x)	1.45	1.61	1.72	1.85
Working capital/Sales (x)	-0.09	-0.13	-0.12	-0.11
Valuation Ratios				
P/E	46	27	22	18
P/BV (x)	2.2	2.2	2.1	2.0
EV/Ebitda (x)	17	13	11	11
EV/Sales (x)	1.9	1.8	1.6	1.7
EV/Tonne $ (x)	82	80	76	88
Return Ratios				
ROE	7	11	14	17
ROCE	10	15	18	20
ROIC	9	21	27	33
Leverage Ratios				
Debt / equity (x)	0.12	0.08	0.07	0.07
Net debt/ Equity (x)	-0.22	-0.30	-0.31	-0.35
Debt service coverage ratio (x)	1.64	4.70	5.71	6.78
Interest Coverage ratio (x)	3.95	7.53	9.30	11.05
Cash Flow Ratios				
OCF/Sales	0.10	0.15	0.12	0.13
OCF/Ebitda	0.91	1.10	0.81	0.81
OCF/Capital Employed	0.12	0.20	0.17	0.19
FCF/Sales	0.07	0.12	0.07	0.09
Payout ratio (Div/NP)	159.9	108.1	86.3	71.3
AEPS (Rs.)	4.4	7.4	9.3	11.2
AEPS Growth	-60.7	69.1	25.3	21.0
CEPS (Rs.)	9	12	14	17
DPS (Rs.)	7	8	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
01-Feb-24	HOLD	220	Result Update
03-Jun-24	HOLD	200	Result Update

Source: Axis Securities

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