

Heidelberg Cement

Weak volume and a nine-year low margin!

We maintain our REDUCE rating on Heidelberg Cement (HEIM), with a lower target price of INR 160/share (7x Mar-25E EBITDA). In the absence of any major planned expansion for the next four years, we expect the subdued volume growth and market share loss to continue, as other players are expanding in HEIM's core markets. HEIM reported weak results in Q3FY23 due to continued volume decline (down 3% YoY) and NSR falling 2.5% QoQ. Unit EBITDA declined ~INR 135/MT QoQ to INR 339/MT (9-year low) entirely due to lower realisation, as opex stood flat QoQ.

- **Q3FY23 performance:** Volume de-grew 3% YoY (market share loss continues: 3-yr CAGR: -4%). Volume rose 10% QoQ on a low base. NSR fell 2.5% QoQ on weak pricing in the central, leading to a modest 2% YoY. Unit EBITDA declined ~INR 135/MT QoQ to INR 339/MT (nine-year low) entirely due to lower realisation, as opex stood flat QoQ. While input cost cooled off INR 100/MT, higher freight (+INR 30/MT QoQ) and fixed expenses (other expenses rose steeply 28% QoQ in absolute terms) negated the gain. Mr. Jamshed Cooper has taken early retirement (Mar-23). He will be replaced by Mr. Joydeep Mukherjee, who recently joined its sister concern Zuari Cement in Nov-22 as CEO designate India (LinkedIn profile). He will assume the MD role w.e.f. Apr-23. He has worked with Hindalco (10 years till 2007), ACC (8.5 years: west and south zones Jun 2007- Dec 2015), Prism (3.5 years, tiles division till May 19), and RR Kabel (3.5 years, till Nov 2022).
- **Outlook:** We expect subdued volume growth and loss in market share to continue, as other players expand in HEIM's core markets. Energy costs is expected to decline 10% QoQ in Q4. It is undertaking 0.2/0.3mn MT clinker/grinding debottlenecking by FY24E. The Gujarat greenfield IU expansion of 3/2mn MT of cement/ clinker is expected in FY27E. In the next 1.5 years, it is expected to merge with Zuari. Factoring in the weak performance, we trimmed our FY23/FY24/FY25E EBITDA estimates by 6/10/12% respectively. We have lowered our capex estimates and cut our EBITDA multiple to 7x vs 8x earlier on continued market share loss.

Quarterly/annual financial summary

YE Mar (INR bn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
Sales (mn MT)	1.10	1.13	(2.9)	1.00	9.5	4.49	4.78	4.47	4.73	5.02
NSR (INR/MT)	4,933	4,827	2.2	5,061	(2.5)	4,718	4,808	5,049	4,998	5,048
Opex (INR/MT)	4,594	4,221	8.8	4,585	0.2	3,589	3,899	4,456	4,142	4,157
EBITDA (INR/MT)	339	607	(44.2)	476	(28.8)	1,129	910	593	857	891
Net Sales	5.40	5.45	(0.8)	5.06	6.7	21.17	22.97	22.55	23.66	25.34
EBITDA	0.37	0.68	(45.8)	0.48	(22.1)	5.07	4.35	2.65	4.06	4.47
APAT	0.06	0.30	(81.7)	0.07	(20.4)	3.15	2.52	1.00	2.29	2.71
AEPS (INR)	0.2	1.3	(81.7)	0.3	(20.4)	13.9	11.1	4.4	10.1	12.0
EV/EBITDA (x)						8.5	8.5	13.7	8.6	7.9
EV/MT (INR bn)						6.87	5.88	5.78	5.31	5.38
P/E (x)						13.9	15.2	38.4	16.7	14.1
RoE (%)						22.4	16.5	6.3	14.2	15.6

Source: Company, HSIE Research

Change in estimates

INR bn	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Net Sales	22.9	22.6	-1.3	24.7	23.7	-4.1	26.9	25.3	-5.9
EBITDA	2.8	2.6	-6.3	4.5	4.1	-9.8	5.1	4.5	-11.6
APAT	1.2	1.0	-17.0	2.7	2.3	-14.7	3.2	2.7	-15.2

Source: Company, HSIE Research

REDUCE

CMP (as on 15 Feb 2023)	INR 169
Target Price	INR 160
NIFTY	18,016

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 180	INR 160
EBITDA revision %	FY23E (6.3)	FY24E (9.8)

KEY STOCK DATA

Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (INR bn) / (\$ mn)	38/462
6m avg traded value (INR mn)	114
52 Week high / low	INR 233/155

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(18.2)	(13.4)	(17.1)
Relative (%)	(17.3)	(16.5)	(22.5)

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	69.39	69.39
FIs & Local MFs	11.27	11.06
FPIs	5.16	4.81
Public & Others	14.18	14.74
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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