

July 20, 2022

Efficient operations, good dividend yield to keep return ratios healthy...

About the stock: Heidelberg Cement (HCIL) is a mid-sized (6.3 MT) player operating mainly in the central region. Its cement plants are located at Damoh (MP), Jhansi (UP) and Ammasandra (Karnataka)

- The company sells cement under mycem and mycem power brand
- The company has also executed a mining lease in Gujarat and is seeking environmental clearances from the government

Q1FY23 Results: Heidelberg Cement reported relatively better results for Q1FY23 that saw least margin erosion despite elevated cost pressure.

- Net revenue grew 6.1% YoY to ₹ 589.9 crore led by 13% YoY jump in realisations while volume remained soft, declining 6.1% YoY to 1.11 MT
- EBITDA margins were down 300 bps QoQ to 16.1% (747 bps YoY). Reported EBITDA/tonne of ₹ 855/t was down 22.8% YoY, 11% QoQ
- Migrated to concessional corporate tax rate of 25.2%. This also helped to arrest the fall in profitability. Net profit declined 24.9% YoY to ₹ 51.6 crore

What should investors do? Heidelberg Cements' share price has grown only 44% over the past five years (from ~₹ 125 in July 2017 to ₹ 180 in July 2022).

- Now with strong balance-sheet, the company is in a better position to withstand near term cost challenges and grow its business

Target Price & Valuation: We value HCIL at ₹ 220 i.e. 9.0x FY24E EV/EBITDA.

Key triggers for future price performance:

- HCIL has a strong brand presence and high share in retail trade (83% of total sales) of which 23% is in the premium segment
- Better realisations and controlled costs to keep margins trajectory better vs peers. RoCE is also among the best in industry, clocking in excess of 20%
- However, growth to remain a concern for the company as no major expansions are planned in the medium term. The work on proposed greenfield Gujarat expansion is set to begin from 2024
- It has good divided yield of close to ~5%. (FY22 divided was ₹ 9/share)

Alternate Stock Idea: Apart from Heidelberg Cement, in our cement sector coverage we also like another south based player Orient Cement.

- Another low cost producer, having strong balance-sheet
- BUY with a target price of ₹ 150/share

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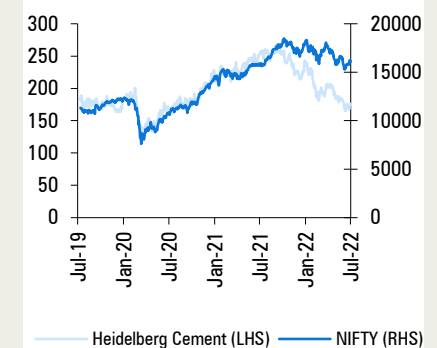
Particulars

Particular	Amount
Mcap	₹ 4124 crore
Debt (FY22)	₹ 203 crore
Cash & Invest (FY22)	₹ 382 crore
EV	₹ 3945 crore
52 week H/L	₹ 275 / 164
Equity cap	₹ 226.6 crore
Face value	₹ 10

Shareholding pattern

(%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Promoter	69.4	69.4	69.4	69.4
DII	10.2	11.1	11.0	10.8
FII	6.6	5.8	5.5	5.5
Public	13.8	13.7	14.1	14.4

Price Chart



Key risks

- Further slowdown in the demand
- Volatility in prices of key inputs like coal/petcoke

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	2109	2158	2111	2297	2.9	2441	2549	5.3
EBITDA	459	516	501	435	-1.8	360	529	10.3
EBITDA (%)	21.8	23.9	23.8	18.9		14.8	20.7	
Net Profit	220	268	315	252	4.6	213	339	15.9
EPS	9.7	11.8	13.9	11.1		9.4	14.9	
EV/EBITDA	10.0	8.3	8.4	9.1		11.2	7.3	
EV/Tonne (\$)	121	113	95	89		91	88	
RoNW	20.5	20.4	21.1	16.1		14.0	21.2	
RoCE	21.8	22.3	20.1	18.7		15.5	24.2	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volumes were at 1.11 MT (down 6.1% YoY, 9.9% QoQ). Blended realisations were up 13% YoY to ₹ 5305/tonne to offset against rising cost pressure
- Higher share of retail (83%) including 23% premium sales volume supported price hike. Capacity utilisation was at 72%
- Cost of production increased 24% YoY to ₹ 4450/tonne (up 9.5% QoQ). P&F cost saw a sharp increase of 66.4% YoY to ₹ 1892/tonne
- EBITDA/t was down 22.8% YoY to ₹ 855/tonne. On a QoQ basis, it was down only 11% supported by better realisations
- Started receiving power from 15 MW solar contract under long-term arrangement. The share of green power has now increased to 30% from 23% in FY22

Other highlights

- Road mix was at 45%. Total trade volume was 83%, of which 23% was contributed by premium sales volumes
- Cement prices – Cement prices to remain flattish in the near term due to ongoing monsoon. Average prices is around ~₹380/bag
- Fuel mix is 38% coal. Per Kcal 3.25/Kcal for coal ₹3.1/Kcal for petcoke vs. Petcoke ₹2.5/Kcal coal ₹2.3/per Kcal in Q4FY22. Expect linkage coal to start once pressure on power sector eases.
- Started receiving power from 15 MW Solar contract under long-term arrangement. Share of green power increase to 30% from 23%
- FY23 capex - ₹100 crore including de-bottlenecking. FY24 - ₹100 crore.
- Gujarat expansion – Environment clearance received in the last month only. Have mining lease with the company. Project is 2 years away to start.
- Migrated to a concessional corporate tax rate of 25.17%

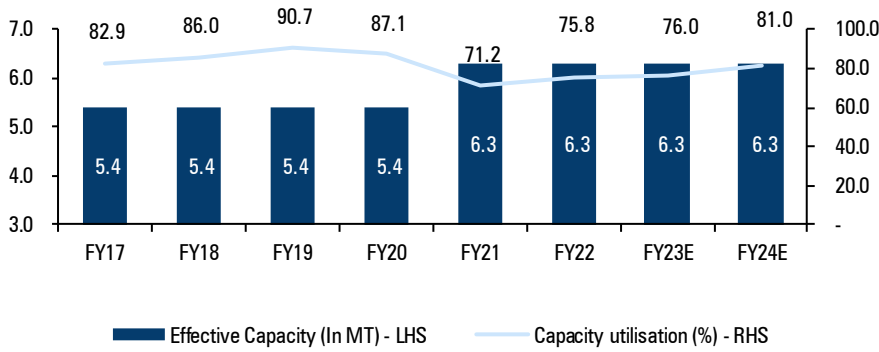
Exhibit 1: Quarterly financial summary

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	589.9	555.9	6.1	620.0	-4.9	Sales volume declined 6.1% YoY, realisations were up 13% YoY
Other Incomes	10.3	10.5	-2.4	12.4	-17.3	
Raw Material Expenses	108.2	105.3	2.8	119.2	1,992.3	
Employee Expenses	33.9	32.2	5.2	34.9	-2.9	
Change in stock	-18.8	2.8	-763.0	-15.7	NA	
Power and fuel	210.3	134.6	56.3	196.0	7.3	Per Kcal cost of coal and petcoke were at ₹ 3.25 and ₹ 3.1, respectively, vs. ₹ 2.5 and ₹ 2.3 in Q4FY22
Freight	73.7	72.7	1.4	78.0	-5.4	
Others	87.6	77.2	13.4	89.2	-1.8	
EBITDA	95.1	131.1	-27.5	118.5	-19.8	
EBITDA Margin (%)	16.1	23.6	-747 bps	19.1	-300 bps	
Interest	8.0	10.2	-21.4	5.2	54.7	
Depreciation	28.0	27.6	1.6	28.0	0.1	
PBT	69.3	103.9	-33.3	97.8	-29.1	
Total Tax	17.7	35.2	-49.6	4.2	318.7	
Reported PAT	51.6	68.7	-24.9	93.6	-44.9	
Adjusted PAT	51.6	68.7	-24.9	93.6	-44.9	
Key Metrics						
Volume (MT)	1.11	1.18	-6.1	1.23	-9.9	Capacity utilisation stood at 72%
Realisation (₹)	5,305	4,695	13.0	5,024	5.6	
EBITDA per Tonne (₹)	855	1,107	-22.8	961	-11.0	

Source: Company, ICICI Direct Research

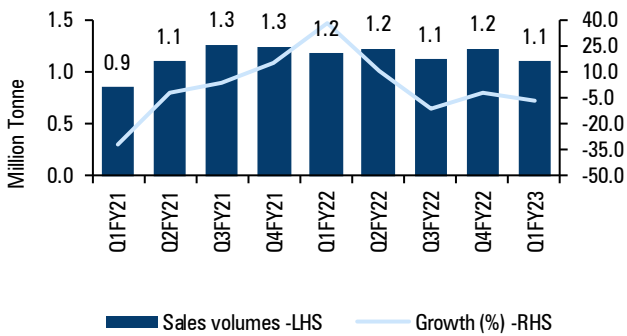
Financial Story in Charts

Exhibit 2: Capacity utilisation trend



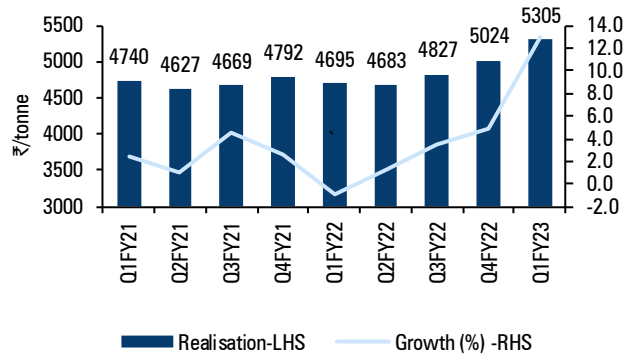
Source: Company, ICICI Direct Research

Exhibit 3: Volumes growth trend



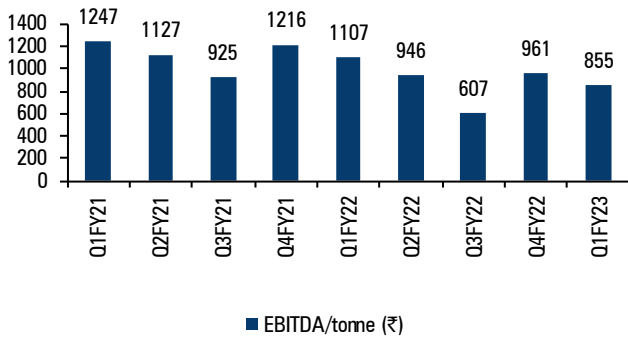
Source: Company, ICICI Direct Research

Exhibit 4: Realisations trend



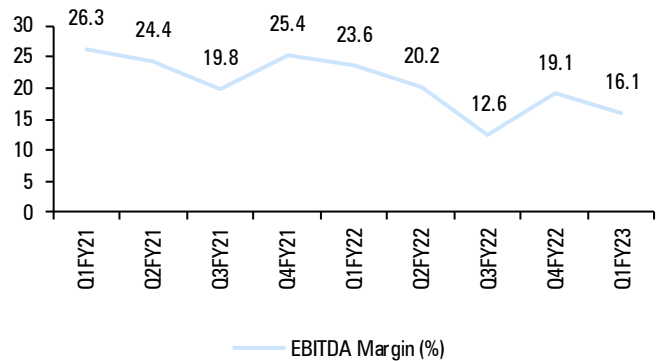
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA/t declines 22.8% YoY



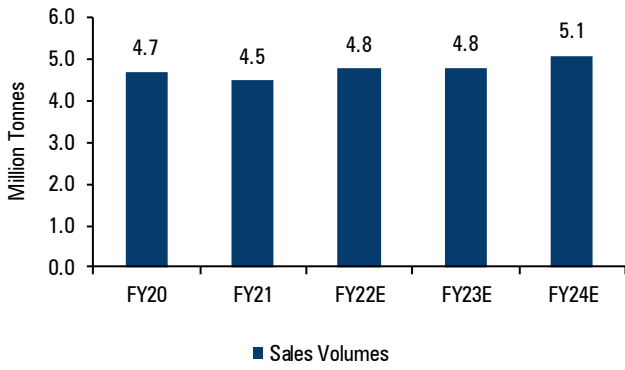
Source: Company, ICICI Direct Research

Exhibit 6: Quarterly margins trajectory



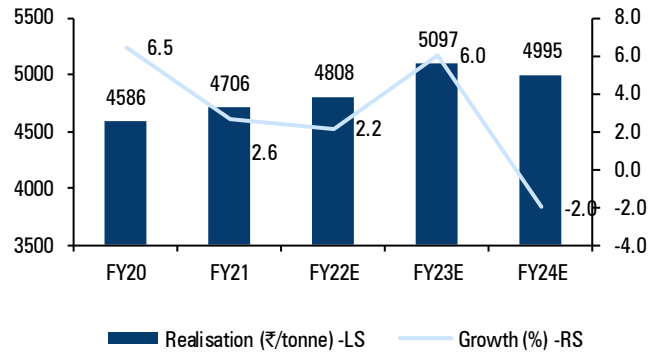
Source: Company, ICICI Direct Research

Exhibit 7: Volumes to grow at 3.4% CAGR over FY22-24E



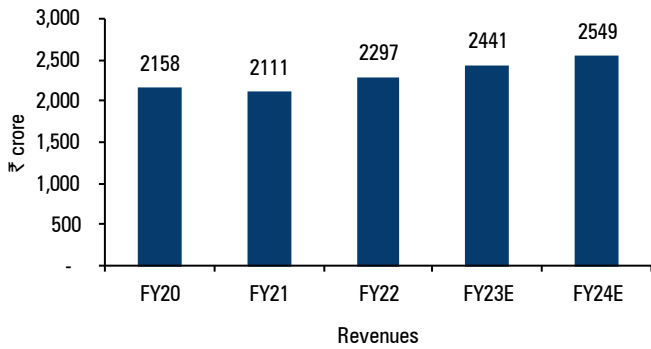
Source: Company, ICICI Direct Research

Exhibit 8: Realisations to remain higher due to elevated cost pressure in FY23



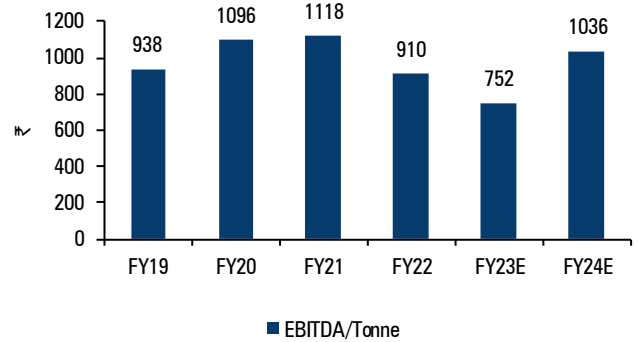
Source: Company, ICICI Direct Research

Exhibit 9: Revenues to grow at 5.3% CAGR over FY22-24E



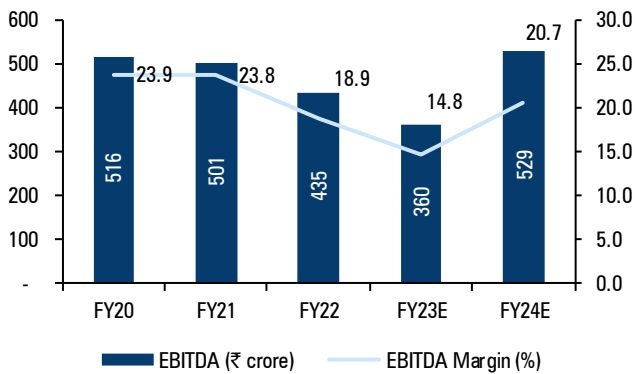
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t to cross ₹ 1000/t in FY24E post demand recovery



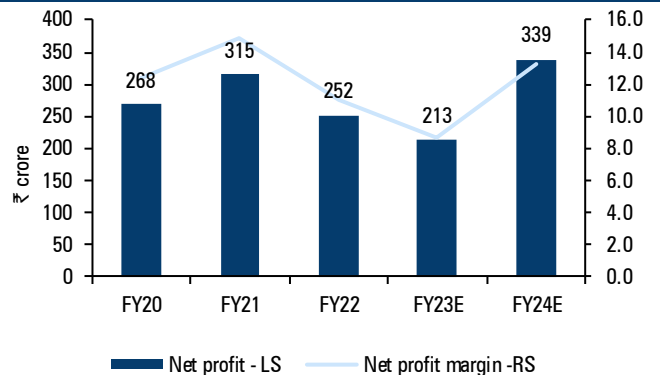
Source: Company, ICICI Direct Research

Exhibit 11: Absolute EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 12: Lower tax rate, 20% margin to help PAT grow from FY24E



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 13: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total operating Incon	2,157.6	2,111.3	2,296.9	2,441.0	2,548.9
Growth (%)	2.3	-2.1	8.8	6.3	4.4
Raw material	388.7	372.4	428.7	445.4	459.3
Power & Fuel	473.6	488.0	642.4	790.2	688.9
Employees	131.2	127.3	130.7	136.3	142.4
Freight	287.9	277.3	295.7	325.7	331.7
Others	360.5	344.8	364.9	383.1	398.0
Total Operating Exp.	1,641.8	1,609.8	1,862.4	2,080.8	2,020.3
EBITDA	515.8	501.5	434.5	360.3	528.5
Growth (%)	12.3	-2.8	-13.4	-17.1	46.7
Depreciation	108.6	111.0	112.1	112.5	114.0
Interest	73.9	50.9	36.4	8.0	8.0
Other Income	64.7	51.5	49.1	46.3	48.0
Exceptional items	0.0	0.0	0.0	0.0	0.0
PBT	398.1	391.1	335.1	286.1	454.5
Total Tax	130.0	76.3	82.8	72.9	115.9
PAT	268.1	314.9	252.3	213.1	338.6
Growth (%)	21.6	17.5	-19.9	-15.5	58.9
EPS (₹)	11.8	13.9	11.1	9.4	14.9

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	226.6	226.6	226.6	226.6	226.6
Reserve and Surplus	1,088.0	1,267.3	1,338.6	1,292.1	1,371.1
Total Shareholders funds	1,314.6	1,493.9	1,565.2	1,518.7	1,597.7
Debt & Other liabilities	661.5	547.9	500.3	460.3	397.3
Deferred Tax Liability	190.3	193.8	217.5	217.5	217.5
Minority Interest / Others	0.0	0.0	0.0	0.0	0.0
Total Liabilities	2,166.4	2,235.5	2,283.0	2,196.5	2,212.5
Assets					
Gross Block	3,064.9	3,101.8	3,168.6	3,257.6	3,257.6
Less: Acc Depreciation	1,384.1	1,495.0	1,607.1	1,719.5	1,833.6
Net Block	1,680.9	1,606.8	1,561.5	1,538.0	1,424.0
Capital WIP	16.0	18.9	27.0	41.0	85.0
Total Fixed Assets	1,696.9	1,625.7	1,588.5	1,579.0	1,509.0
Investments	0.0	0.0	4.8	4.8	4.8
Inventory	145.8	160.7	173.1	201.5	189.6
Debtors	25.7	33.3	40.0	47.0	50.8
Loans and Advances	0.0	150.0	150.0	142.9	162.9
Other Current Assets	453.7	443.9	485.0	491.4	528.1
Cash	470.9	431.6	382.4	270.1	342.2
Total Current Assets	1,096.0	1,219.5	1,230.4	1,152.8	1,273.7
Creditors	258.4	270.6	264.5	257.2	287.5
Provisions	368.0	339.1	276.2	282.9	287.5
Total Current Liabilities	626.4	609.7	540.7	540.1	575.0
Net Current Assets	469.6	609.8	689.8	612.7	698.7
Application of Funds	2,166.4	2,235.5	2,283.0	2,196.5	2,212.5

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	268.1	314.9	252.3	213.1	338.6
Add: Depreciation	108.6	111.0	112.1	112.5	114.0
(Inc)/dec in Current Assets	-21.3	-162.8	-60.1	-34.7	-48.8
Inc/(dec) in CL and Provision:	-2.1	-16.7	-69.1	-0.6	34.9
CF from operating activ	353.3	246.4	235.1	290.3	438.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-51.4	-39.8	-74.8	-103.0	-44.0
Others	45.4	-11.0	280.6	0.0	0.0
CF from investing activi	-5.9	-50.9	205.8	-103.0	-44.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-89.4	-99.1	-309.2	-40.0	-63.0
Dividend paid & dividend tax	-205.0	-218.6	-246.0	-259.6	-259.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	0.0
Others	176.1	83.0	65.0	0.0	0.0
CF from financing activi	-118.3	-234.8	-490.1	-299.6	-322.6
Net Cash flow	229.1	-39.2	-49.2	-112.3	72.1
Opening Cash	241.8	470.9	431.6	382.4	270.1
Closing Cash	470.9	431.6	382.4	270.1	342.2

Source: Company, ICICI Direct Research

Exhibit 16: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
EPS	11.8	13.9	11.1	9.4	14.9
Cash EPS	16.6	18.8	16.1	14.4	20.0
BV	58	66	69	67	71
DPS	7.5	8.0	9.0	9.5	9.5
Cash Per Share	20.8	19.0	16.9	11.9	15.1
Operating Ratios (%)					
EBITDA Margin	23.9	23.8	18.9	14.8	20.7
PAT Margin	12.4	14.9	11.0	8.7	13.3
Inventory days	26.5	26.5	26.5	28.0	28.0
Debtor days	4.3	5.1	5.8	6.5	7.0
Creditor days	45.4	45.7	42.5	39.0	39.0
Return Ratios (%)					
RoE	20.4	21.1	16.1	14.0	21.2
RoCE	22.3	20.1	18.7	15.5	24.2
RoIC	24.2	21.9	17.2	13.1	23.2
Valuation Ratios (x)					
P/E	15.4	13.1	16.3	19.4	12.2
EV / EBITDA	8.3	8.4	9.1	11.2	7.3
EV / Net Sales	2.0	2.0	1.7	1.6	1.5
Market Cap / Sales	1.9	2.0	1.8	1.7	1.6
Price to Book Value	3.1	2.8	2.6	2.7	2.6
Solvency Ratios					
Debt/EBITDA	1.2	1.0	0.5	0.5	0.2
Debt / Equity	0.5	0.3	0.1	0.1	0.1
Current Ratio	1.7	2.0	2.3	2.1	2.2
Quick Ratio	1.0	1.3	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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