

India

**HOLD** (no change)

Consensus ratings\*: Buy 7 Hold 5 Sell 8

Current price:	Rs175
Target price:	Rs181
Previous target:	Rs186
Up/downside:	3.4%
InCred Research / Consensus:	-2.4%
Reuters:	HEIG.DE
Bloomberg:	HEIM IN
Market cap:	US\$546m
	Rs39,646m
Average daily turnover:	US\$0.6m
	Rs40.5m
Current shares o/s:	226.6m
Free float:	25.5%

\*Source: Bloomberg

**Key changes in this note**

- EBITDA maintained for FY24F-25F.
- Introduce FY26F estimates.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	1.1	3.1	(3.7)
Relative (%)	(5.0)	(9.0)	(20.7)

<b>Major shareholders</b>	% held
Promoter & Promoter Group	69.4
LIC of India	3.6
ICICI Pru Infra Fund	1.6

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**Analyst(s)**



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# Heidelberg Cement India Ltd

## Limited growth options; maintain HOLD

- 1QFY24 EBITDA stood at Rs929m, down 2% yoy, but 20% above our estimate, led by lower-than-expected operating costs.
- We broadly maintain our FY24F-25F EBITDA and introduce FY26F estimates. Merger with Zuari Cement and Gujarat plant expansion remain key triggers.
- Maintain HOLD rating on the stock with a Sep 2024F target price of Rs181, set at a one-year forward EV/EBITDA of 7.5x.

**Volume broadly in line with expectations while realization declines**

HeidelbergCement India or HEIM' s 1QFY24 cement volume grew by ~8% yoy to 1.2mt (implying capacity utilisation of ~75% vs 72% yoy), which was lower compared to industry growth due to capacity constraints. Blended realization was down by ~2.5% qoq and ~6.7% yoy mainly due to lower cement prices (Rs298/t) and expiry of incentives (Rs57/t) that ended after 10 years in Feb 2023. Management highlighted that average prices have been subdued and competition (like Dalmia, JKCE, Adani) is intensifying in the region of its operations. New MD's focus areas are improving efficiency and capacity utilisation. Targeting 7-8% volume growth for FY24F. The planned expansion in Gujarat is still in the process of getting environmental clearances. The capex plan of Rs700m (split in FY24F-25F) is to increase its cement/clinker capacity via debottlenecking by 0.2-0.3mt in Damoh to be executed by Dec 2024F.

**EBITDA/t at Rs772, up by Rs189 qoq while down by Rs89 yoy**

Total cost/t increased by ~7% qoq and 6% yoy to Rs4,179. Power and fuel or P&F cost/t declined by 23% yoy and 14% qoq to Rs1,462 on per Kcal basis, pet-coke cost was at Rs2.01 and Rs2.3 for coal in 1QFY24, ~15% drop on a qoq basis. Management expects coal cost to stay flattish while it sees a further fall in pet-coke cost. In 1Q, the share of green power rose to ~33% vs. 32% qoq. Freight cost/t declined by 6% qoq while rising 9% yoy. As a result, unit EBITDA stood at Rs772/t, up by Rs189 qoq but down by Rs89/t yoy.

**Strong balance sheet; merger of Zuari Cement at discussion stage**

Net cash and bank balance stood at Rs4bn as at end-Jun 2023. On the capex front, total capex to be incurred in FY24F is Rs700-750m (the company has an annual maintenance capex of Rs400-450m). The parent company, Heidelberg Materials, owns a 100% stake in South India-based 8mtpa Zuari Cement since 2017. The new MD indicated that merger of Zuari Cement is at discussion stage, and it will be considered only at an opportune time.

**Maintain HOLD rating on lack of performance in volume terms**

HEIM trades at FY24F/25F EV/EBITDA multiple of 9.5x/7.3x and EV/t of US\$71/US\$67, respectively. We fine tune our estimates and retain HOLD rating on the stock with a Sep 2024F target price of Rs181, set at 1-year forward multiple of 7.5x. **Downside risks:** Weak demand, pricing & cost pressure, and lack of visibility on the next expansion phase. **Upside risks:** Zuari Cement merger, value-accretive buyout, & better-than-expected cost control.

**Financial Summary**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	22,970	22,381	23,565	25,353	26,887
Operating EBITDA (Rsm)	4,346	2,489	3,790	4,638	5,032
Net Profit (Rsm)	2,523	992	2,019	2,675	2,989
Core EPS (Rs)	11.1	4.4	8.9	11.8	13.2
Core EPS Growth	(19.9%)	(60.7%)	103.6%	32.5%	11.7%
FD Core P/E (x)	15.72	39.98	19.64	14.82	13.26
DPS (Rs)	9.0	7.0	6.5	8.7	9.7
Dividend Yield	5.14%	4.00%	3.74%	4.96%	5.54%
EV/EBITDA (x)	8.68	14.65	9.53	7.29	6.32
P/FCFE (x)	27.00	11.77	20.71	11.39	11.58
Net Gearing	(12.3%)	(21.8%)	(23.2%)	(36.7%)	(47.2%)
P/BV (x)	2.53	2.71	2.62	2.50	2.38
ROE	16.5%	6.6%	13.6%	17.3%	18.4%
% Change In Core EPS Estimates			(0.37%)	(0.31%)	(0.29%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## Limited growth options; maintain HOLD

**Figure 1: Standalone quarterly performance (1QFY24)**

Particulars (Rs m)	1QFY24	1QFY24F	4QFY23	1QFY23	% Change		
					1QFY24F	4QFY23	1QFY23
Net sales	5,956	5,959	6,020	5,899	0%	-1%	1%
Raw materials consumed	1,113	954	1,003	893	17%	11%	25%
Freight and forwarding expenses	873	911	920	737	-4%	-5%	18%
Power and fuel cost	1,759	1,922	2,007	2,103	-9%	-12%	-16%
Employee cost	360	388	395	339	-7%	-9%	6%
Other expenses	923	1,007	1,004	876	-8%	-8%	5%
<b>Total expenditure</b>	<b>5,028</b>	<b>5,182</b>	<b>5,329</b>	<b>4,948</b>	<b>-3%</b>	<b>-6%</b>	<b>2%</b>
<b>EBITDA</b>	<b>929</b>	<b>777</b>	<b>691</b>	<b>950</b>	<b>20%</b>	<b>34%</b>	<b>-2%</b>
Depreciation	270	279	274	280	-3%	-2%	-4%
<b>EBIT</b>	<b>659</b>	<b>498</b>	<b>417</b>	<b>670</b>	<b>32%</b>	<b>58%</b>	<b>-2%</b>
Interest	91	94	65	80	-3%	40%	14%
Other Income	134	124	135	103	8%	-1%	30%
<b>PBT</b>	<b>701</b>	<b>528</b>	<b>487</b>	<b>693</b>	<b>33%</b>	<b>44%</b>	<b>1%</b>
Tax	178	148	137	177	20%	30%	1%
<b>Recurring PAT</b>	<b>523</b>	<b>380</b>	<b>350</b>	<b>516</b>	<b>38%</b>	<b>50%</b>	<b>1%</b>
Extraordinary items	0	0	0	0			
<b>Reported PAT</b>	<b>523</b>	<b>380</b>	<b>350</b>	<b>516</b>	<b>38%</b>	<b>50%</b>	<b>1%</b>
EPS (Rs)	2.3	1.7	1.5	2.3	38%	50%	1%
<b>Margins (%)</b>	<b>1QFY24</b>	<b>1QFY24F</b>	<b>4QFY23</b>	<b>1QFY23</b>	<b>Est.</b>	<b>qoq</b>	<b>yoy</b>
Gross margin	37%	36%	35%	37%	67 bp	241 bp	43 bp
EBITDA margin	16%	13%	11%	16%	255 bp	411 bp	-52 bp
EBIT margin	11%	8%	7%	11%	270 bp	413 bp	-31 bp
PBT margin	12%	9%	8%	12%	292 bp	369 bp	2 bp
PAT margin	9%	6%	6%	9%	241 bp	298 bp	3 bp
Tax rate	25%	28%	28%	26%	-261 bp	-275 bp	-15 bp
Cost items as % of sales							
Raw material + freight + P&F costs	63%	64%	65%	63%	-67 bp	-241 bp	-43 bp
Employee cost	6%	7%	7%	6%	-47 bp	-52 bp	31 bp
Other expenses	15%	17%	17%	15%	-142 bp	-119 bp	64 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

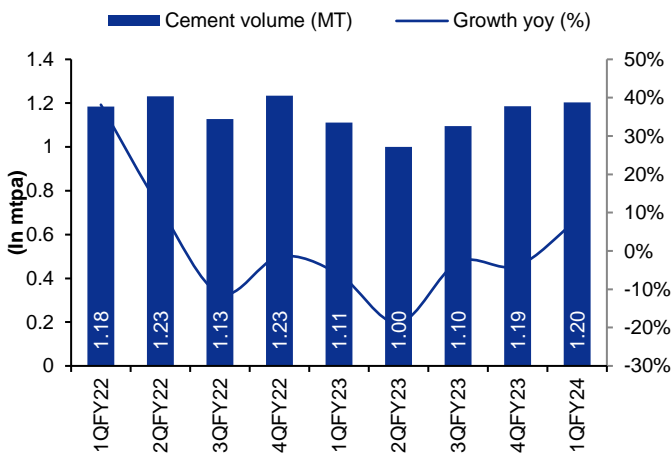
**Figure 2: 1QFY24 results on per tonne analysis**

Per tonne analysis	1QFY24	1QFY24F	4QFY23	1QFY23	% Change		
					1QFY24F	4QFY23	1QFY23
Sales volume (mt)	1.20	1.19	1.19	1.11	1%	1%	8%
Realization/t	4,951	5,025	5,076	5,305	-1.5%	-2.5%	-6.7%
EBITDA/t	772	655	583	855	18%	32%	-10%
Raw material cost/t	926	804	846	803	15%	9%	15%
P&F cost/t	1,462	1,621	1,692	1,892	-10%	-14%	-23%
Freight cost/t	725	768	776	663	-6%	-6%	9%
Employee cost/t	300	327	333	305	-9%	-10%	-2%
Other expenses/t	767	849	846	787	-10%	-9%	-3%
Cost/t	4,179	4,370	4,493	4,450	-4%	-7%	-6%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

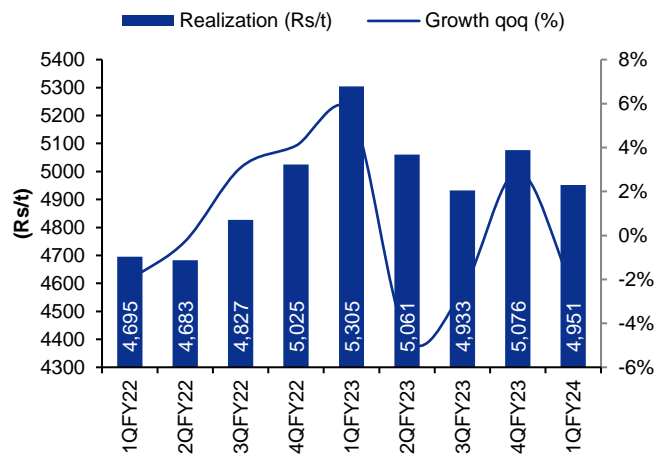
Key charts ▶

Figure 3: Cement sales volume up 8.2% yoy and 1.4% qoq



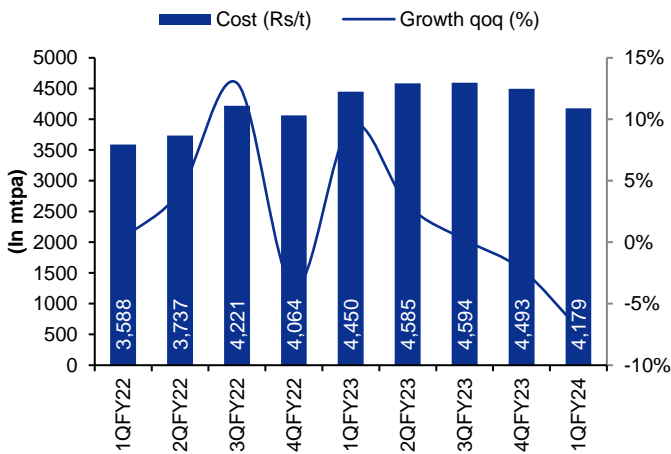
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Cement realization declines by 2.5% qoq and 6.7% yoy in 1QFY24



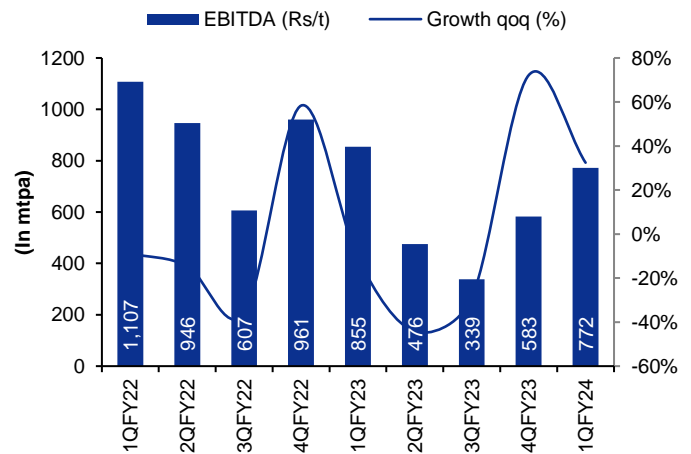
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Cost/t improves by 6% yoy and 7% qoq mainly due to lower energy cost and fixed expenses



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: EBITDA/t improves by Rs189 qoq to Rs772 on lower operating cost



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	New		Old		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	23,565	25,353	23,860	25,934	-1%	-2%
EBITDA	3,789	4,637	3,816	4,701	-1%	-1%
Recurring PAT	2,018	2,675	2,118	2,792	-5%	-4%
EPS (Rs.)	8.9	11.8	9	12	-5%	-4%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Changes in our estimates vs. Bloomberg consensus estimates

Rs. m	Incred		Consensus		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	23,565	25,353	24,453	26,561	-4%	-5%
EBITDA	3,789	4,637	3,883	4,622	-2%	0%
PAT	2,018	2,675	2,125	2,728	-5%	-2%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

**Figure 9: Key assumptions**

	FY22	FY23	FY24F	FY25F	FY26F
<b>Volume (mtpa)</b>	4.8	4.4	4.7	5.0	5.2
yoy	6%	-8%	7%	6%	5%
<b>Realization (per t)</b>	4,681	5,096	5,014	5,090	5,140
yoy	1%	9%	-2%	1%	1%
<b>Cost (per t)</b>	3,899	4,529	4,208	4,158	4,178
yoy	9%	16%	-7%	-1%	0%
<b>EBITDA (per t)</b>	910	567	806	931	962
yoy	-19%	-38%	42%	15%	3%
<b>EBITDA (Rs m)</b>	4,346	2,489	3,789	4,637	5,031
yoy	-14%	-43%	52%	22%	8%

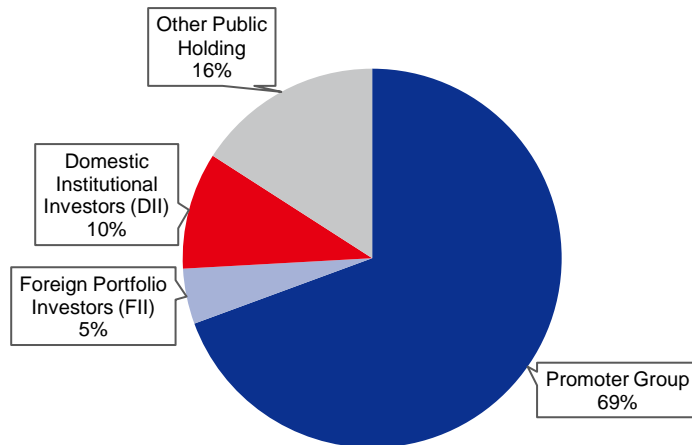
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 10: Maintain HOLD rating with a Sep 2024F target price of Rs181 set at a one-year forward EV/EBITDA of 7.5x**

Valuation	TP
Target EV/EBITDA (x)	7.5
Target EV (Rs m)	37,734
Net debt / (cash) (Rs m)	(5,827)
No. of shares (m)	227
<b>Fair value per share (Rs)</b>	<b>181</b>

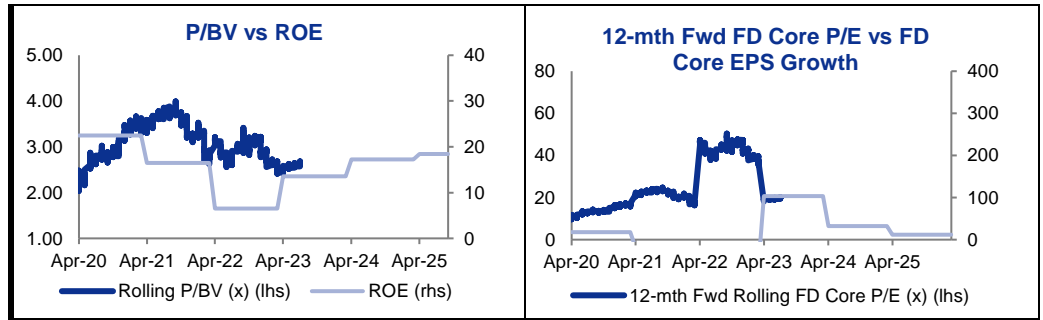
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 11: HEIM's shareholding pattern (as of end-Jun 2023)**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>22,970</b>	<b>22,381</b>	<b>23,565</b>	<b>25,353</b>	<b>26,887</b>
<b>Gross Profit</b>	<b>22,970</b>	<b>22,381</b>	<b>23,565</b>	<b>25,353</b>	<b>26,887</b>
<b>Operating EBITDA</b>	<b>4,346</b>	<b>2,489</b>	<b>3,790</b>	<b>4,638</b>	<b>5,032</b>
Depreciation And Amortisation	(1,121)	(1,123)	(1,162)	(1,180)	(1,198)
<b>Operating EBIT</b>	<b>3,225</b>	<b>1,365</b>	<b>2,628</b>	<b>3,458</b>	<b>3,835</b>
Financial Income/(Expense)	(364)	(461)	(392)	(352)	(317)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	491	453	476	485	495
<b>Profit Before Tax (pre-EI)</b>	<b>3,351</b>	<b>1,358</b>	<b>2,712</b>	<b>3,591</b>	<b>4,012</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>3,351</b>	<b>1,358</b>	<b>2,712</b>	<b>3,591</b>	<b>4,012</b>
Taxation	(829)	(366)	(693)	(915)	(1,023)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>2,523</b>	<b>992</b>	<b>2,019</b>	<b>2,675</b>	<b>2,989</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>2,523</b>	<b>992</b>	<b>2,019</b>	<b>2,675</b>	<b>2,989</b>
Recurring Net Profit	2,523	992	2,019	2,675	2,989
<b>Fully Diluted Recurring Net Profit</b>	<b>2,523</b>	<b>992</b>	<b>2,019</b>	<b>2,675</b>	<b>2,989</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>4,346</b>	<b>2,489</b>	<b>3,790</b>	<b>4,638</b>	<b>5,032</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2,325	(1,653)	(325)	476	88
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	491	453	476	485	495
Other Operating Cashflow	(4,325)	994	700	100	100
Net Interest (Paid)/Received	(364)	(461)	(392)	(352)	(317)
Tax Paid	546	439	(693)	(915)	(1,023)
<b>Cashflow From Operations</b>	<b>3,019</b>	<b>2,261</b>	<b>3,557</b>	<b>4,431</b>	<b>4,375</b>
Capex	(464)	(275)	(750)	(650)	(600)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	114	1,718	(692)	100	50
<b>Cash Flow From Investing</b>	<b>(350)</b>	<b>1,444</b>	<b>(1,442)</b>	<b>(550)</b>	<b>(550)</b>
Debt Raised/(repaid)	(1,200)	(336)	(200)	(400)	(400)
Proceeds From Issue Of Shares	(53)	(42)	(1)	(1)	(1)
Shares Repurchased					
Dividends Paid	(2,040)	(1,586)	(1,483)	(1,966)	(2,196)
Preferred Dividends					
Other Financing Cashflow	11	(702)	(300)	400	400
<b>Cash Flow From Financing</b>	<b>(3,282)</b>	<b>(2,665)</b>	<b>(1,984)</b>	<b>(1,967)</b>	<b>(2,197)</b>
Total Cash Generated	(613)	1,040	131	1,914	1,628
<b>Free Cashflow To Equity</b>	<b>1,469</b>	<b>3,369</b>	<b>1,915</b>	<b>3,481</b>	<b>3,425</b>
<b>Free Cashflow To Firm</b>	<b>3,033</b>	<b>4,166</b>	<b>2,506</b>	<b>4,233</b>	<b>4,142</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	3,821	4,920	5,050	6,965	8,592
Total Debtors	400	311	387	417	442
Inventories	1,731	1,752	1,937	2,084	2,210
Total Other Current Assets	5,890	4,145	4,242	4,437	4,705
<b>Total Current Assets</b>	<b>11,842</b>	<b>11,128</b>	<b>11,616</b>	<b>13,902</b>	<b>15,949</b>
Fixed Assets	15,618	14,904	14,492	13,962	13,365
Total Investments	48	48	48	48	48
Intangible Assets	270	58	750	650	600
Total Other Non-Current Assets	460	508	508	508	508
<b>Total Non-current Assets</b>	<b>16,396</b>	<b>15,519</b>	<b>15,798</b>	<b>15,168</b>	<b>14,521</b>
Short-term Debt	336	630	630	630	630
Current Portion of Long-Term Debt					
Total Creditors	2,645	2,630	2,483	2,666	2,805
Other Current Liabilities	5,386	5,241	5,420	6,085	6,453
<b>Total Current Liabilities</b>	<b>8,366</b>	<b>8,500</b>	<b>8,533</b>	<b>9,380</b>	<b>9,888</b>
Total Long-term Debt	1,566	1,108	908	508	108
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,653	2,424	2,824	3,324	3,824
<b>Total Non-current Liabilities</b>	<b>4,220</b>	<b>3,533</b>	<b>3,733</b>	<b>3,833</b>	<b>3,933</b>
Total Provisions					
<b>Total Liabilities</b>	<b>12,586</b>	<b>12,033</b>	<b>12,265</b>	<b>13,212</b>	<b>13,820</b>
Shareholders Equity	15,652	14,614	15,149	15,858	16,649
Minority Interests					
<b>Total Equity</b>	<b>15,652</b>	<b>14,614</b>	<b>15,149</b>	<b>15,858</b>	<b>16,649</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	8.5%	(2.6%)	5.3%	7.6%	6.0%
Operating EBITDA Growth	(14.2%)	(42.7%)	52.3%	22.4%	8.5%
Operating EBITDA Margin	18.9%	11.1%	16.1%	18.3%	18.7%
Net Cash Per Share (Rs)	8.47	14.04	15.50	25.71	34.66
BVPS (Rs)	69.07	64.48	66.84	69.97	73.46
Gross Interest Cover	8.85	2.96	6.71	9.81	12.09
Effective Tax Rate	24.7%	27.0%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	80.9%	160.0%	73.5%	73.5%	73.5%
Accounts Receivables Days	5.82	5.80	5.41	5.79	5.83
Inventory Days	26.52	28.40	28.57	28.94	29.14
Accounts Payables Days	52.43	48.39	47.19	45.36	45.69
ROIC (%)	19.7%	9.9%	18.2%	26.0%	30.5%
ROCE (%)	18.2%	8.1%	15.9%	20.5%	22.3%
Return On Average Assets	10.2%	5.3%	8.9%	10.7%	11.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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