



Weakest Quarter; Downgrade To SELL

Est. Vs. Actual for Q2FY25: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**

Change in Estimates post Q2FY25 (Abs)

FY25E/FY26E: Revenue: -4%/-6%; EBITDA: -14%/-12%; PAT: -20%/-16%

Recommendation Rationale

- **Volume de-growth:** The company reported a volume de-growth of 15% YoY, which was below expectations. Consequently, the volume growth guidance is revised from 4% to -1%. The company is expected to achieve a volume growth CAGR of 5% over FY23-FY26E.
- **Decline in EBITDA margin:** As a result of volume de-growth, lower realization YoY, and the impact of negative operating leverage, EBITDA margin declined by 660bps YoY. We therefore pencil in a lower margin for FY25/FY26 and revise our estimate downward.

Sector Outlook: Positive

Company Outlook & Guidance: The housing and infrastructure sectors, major consumers of cement, are expected to continue driving demand. However, capacity expansion in a fragmented market may lead to increased competition, potentially exerting pressure on cement prices.

Current Valuation: 9x FY26E EV/EBITDA (Earlier Valuation: 9.5x FY26E EV/EBITDA)

Current TP: Rs 190/share (Earlier TP: Rs 215/share)

Recommendation: We change our recommendation from **HOLD** to **SELL**.

Alternative BUY Ideas from our Sector Coverage: UltraTech Cement Ltd (TP-12,000/share), Dalmia Bharat (TP-2,040/share), Ambuja Cements (TP-675/share), Birla Corporation (TP-Rs 1390/share)

Financial Performance

Heidelberg Cement reported disappointing results for the quarter, experiencing a 15% decline in volume that fell short of expectations. Revenue and EBITDA decreased by 19% and 46% YoY, respectively, primarily driven by lower realizations and negative operating leverage. The net profit stood at Rs 11 Cr, below the expected Rs 21 Cr, and down 69% YoY from Rs 36 Cr in Q2FY24.

The quarter's volume was recorded at 0.98 million tonnes per annum (mntpa), reflecting a 15% YoY decrease. EBITDA per tonne declined by 36% YoY to Rs 380. The blended realization per tonne was Rs 4,689, marking a 4% reduction YoY, with little change QoQ. Operating costs rose by 1% YoY and 7% QoQ, reaching Rs 4,308/tonne.

Outlook: The company reported its lowest volume in the last 16 quarters, as soft demand and heightened competitive intensity significantly impacted volume growth. Although the company is actively de-bottlenecking its existing clinker capacity, which is anticipated to facilitate higher volume growth in the future, we remain cautious. We will await meaningful improvements in its operating performance before making any further assessments.

Valuation & Recommendation

The stock is currently trading at 11x FY26E EV/EBITDA. We change our rating on the stock from **HOLD** to **SELL** with a TP of Rs 190/share, implying a downside of 11% from the CMP.

Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance %
Net Sales	461	-13	-19	509	-9%
EBITDA	37	-52	-46	50	-24%
EBITDA Margin	8.1%	(660bps)	(420bps)	9.7%	(160bps)
Net Profit	11	-72	-69	21	-46%
EPS (Rs)	0.49	-72	-69	0.91	-46%

Source: Company, Axis Securities Research

(CMP as of 28th October 2024)

CMP (Rs)	214
Upside /Downside (%)	(11)
High/Low (Rs)	258/184
Market cap (Cr)	4,838
Avg. daily vol. (6m)Shrs.	4,50,000
No. of shares (Cr)	22.7

Shareholding (%)

	Mar-24	June-24	Sept-24
Promoter	69.4	69.4	69.4
FII	4.5	4.4	3.1
MFs / UTI	7.0	7.1	8.2
Banks / FI	0.0	0.0	0.0
Others	19.1	19.1	19.3

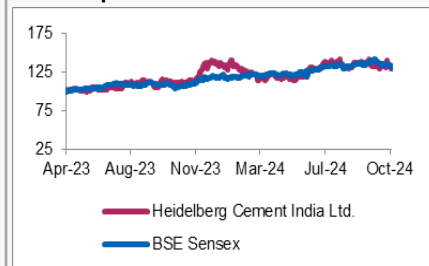
Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,366	2,279	2,529
EBITDA	317	286	396
Net Profit	168	141	220
EPS (Rs)	7	6	10
PER (x)	31	36	23
EV/EBITDA (x)	2.2	2.2	2.2
P/BV (x)	13.9	15.6	11.1
ROE (%)	15	13	19

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	-4%	-6%
EBITDA	-14%	-12%
PAT	-20%	-16%

Relative performance



Source: Ace Equity

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Key Result Highlights

- **Capacity Expansion:** The company is debottlenecking its clinker capacity at its MP plant with a capital cost of Rs 70 Cr, aimed at increasing clinker capacity by 2 Lc tonnes annually. This facility is expected to become operational in Q4FY25.
- The Company signed a Manufacturing Tie-up Arrangement with HimalayaHeight Cement Private Limited on 16 July 2024 and started buying cement from their Bhabhua Grinding Plant in Bihar at the end of Aug 2024.
- **Volume:** The company reported a volume de-growth of 15% YoY. It produces and sells 100% blended cement.
- **Pricing:** Blended realization declined by 4% YoY and flattish QoQ, reaching Rs 4,689 per tonne.
- **Power/Fuel:** Power/fuel costs decreased by 7% YoY to Rs 1,351 per tonne. The company has started receiving Wind-Solar hybrid power under a long-term agreement at its Narsingarh clinker plant and Imlai grinding plant, with green power share increasing to 38%. The company aims to increase this to 40% by FY25.
- **Freight:** Freight costs were reduced by 3% YoY to Rs 690 per tonne due to improved route planning.
- **Debt/Cash:** As of 30th Sept 2024, the company reported a cash and bank balance of Rs 410 Cr. The company remains net debt-free.

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	2,279	2,529	2382	2679	-4%	-6%
EBITDA	286	396	334	452	-14%	-12%
PAT	141	220	178	263	-20%	-16%

Source: Company, Axis Securities

Result Review Q2FY25

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	Chg QoQ	% Chg YoY
Net sales	461	532	566	-13%	-19%
Expenditure	424	454	497	-7%	-15%
EBITDA	37	78	69	-52%	-46%
Other income	13	12	14	5%	-10%
Interest	9	9	9	0%	-1%
Depreciation	26	28	27	-6%	-2%
PBT	15	53	48	-72%	-68%
Tax	4	14	12	-70%	-68%
Adjusted PAT	11	40	36	-72%	-69%
EBITDA margin (%)	8.1%	14.7%	12.3%	(660bps)	(420bps)
EPS (Rs)	0.49	1.76	1.58	-72%	-69%

Source: Company, Axis Securities Research

Volume/ Realization / Cost Analyses

(Rs Cr)	Quarterly Performance				
	Q2FY25	Q1FY25	Q2FY24	Chg QoQ	% Chg YoY
Volume/mnt	0.98	1.13	1.16	-13%	-15%
Realization/tonne (Rs)	4689	4710	4,883	0%	-4%
Cost/tonne (Rs)	4308	4019	4284	7%	1%
Raw material/tonne (Rs)	869	771	930	13%	-6%
Staff Cost/tonne (Rs)	384	349	310	10%	24%
Power & Fuel/tonne (Rs)	1351	1277	1445	6%	-7%
Freight/tonne (Rs)	690	724	710	-5%	-3%
Other Expenses /tonne (Rs)	1015	899	890	13%	14%
EBITDA/tonne (Rs)	381	691	599	-45%	-36%

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	2238	2366	2279	2529
Other operating income	0	0	0	0
Total income	2238	2366	2279	2529
Raw Material	401	462	437	467
Power & Fuel	773	670	626	664
Freight & Forwarding	312	350	332	359
Employee benefit expenses	133	153	163	173
Other Expenses	371	415	436	471
EBITDA	249	317	286	396
Other income	45	55	54	56
PBIDT	294	371	339	451
Depreciation	112	110	115	119
Interest & Fin Chg.	46	35	34	34
E/o income / (Expense)	0	0	0	0
Pre-tax profit	136	227	191	298
Tax provision	37	59	49	77
RPAT	99	168	141	220
Minority Interests	0	0	0	0
Associates	0	0	0	0
APAT after EO item	99	168	141	220

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	2665	2661	2649	2707
Net Block	1496	1438	1483	1465
CWIP	6	28	28	28
Investments	0	0	0	0
Wkg. cap. (excl cash)	-57	-79	-74	-76
Cash / Bank balance	492	555	510	570
Misc. Assets	727	720	702	722
Capital employed	2665	2661	2649	2707
Equity capital	227	227	227	227
Reserves	1235	1243	1203	1242
Minority Interests	0	0	0	0
Borrowings	174	111	111	111
Def Tax Liabilities	213	205	205	205
Other Liabilities and Provision	82	88	90	92

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Profit before tax	136	227	191	298
Depreciation	112	110	115	119
Interest Expenses	43	32	34	34
Non-operating/ EO item	-44	-54	-54	-56
Change in W/C	22	98	-6	3
Income Tax	-44	-63	-49	-77
Operating Cash Flow	226	349	230	321
Capital Expenditure	-28	-74	-114	-101
Investments	0	0	0	0
Others	22	26	54	56
Investing Cash Flow	-6	-48	-60	-46
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	-45	60
Opening Cash	369	473	533	488
Closing Cash	473	533	488	548

Source: Company, Axis Securities Research

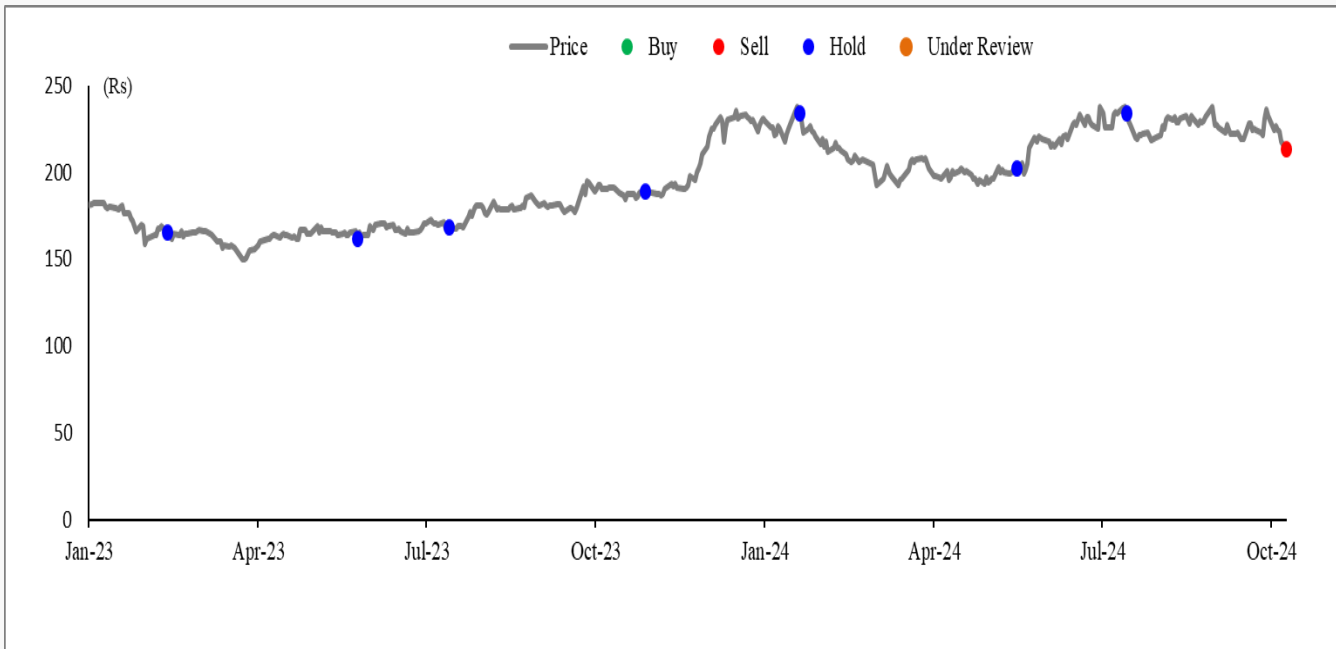
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Operational Ratios				
Sales growth	-3%	6%	-4%	11%
OPM	11%	13%	13%	16%
Op. profit growth	-38%	16%	-9%	29%
COGS / Net sales	66%	63%	61%	59%
Overheads/Net sales	23%	24%	26%	25%
Depreciation / G. block	8%	8%	8%	8%
Efficiency Ratios				
Total Asset Turnover (x)	0.84	0.89	0.86	0.93
Sales/Gross block (x)	0.97	0.99	0.91	0.98
Sales/Net block(x)	1.45	1.61	1.56	1.72
Working capital/Sales (x)	-0.09	-0.13	-0.13	-0.12
Valuation Ratios				
P/E	52	31	36	23
P/BV (x)	2.2	2.2	2.2	2.2
EV/Ebitda (x)	19	14	16	11
EV/Sales (x)	2.2	1.9	2.0	1.7
EV/Tonne \$ (x)	93	85	82	81
Return Ratios				
ROE	7	11	10	15
ROCE	10	15	13	19
ROIC	9	21	18	28
Leverage Ratios				
Debt/equity (x)	0.12	0.08	0.08	0.08
Net debt/ Equity (x)	-0.22	-0.30	-0.28	-0.31
Debt service coverage ratio (x)	1.64	4.70	4.04	5.96
Interest Coverage ratio (x)	3.95	7.53	6.58	9.72
Cash Flow Ratios				
OCF/Sales	0.10	0.15	0.10	0.13
OCF/Ebitda	0.91	1.10	0.81	0.81
OCF/Capital Employed	0.12	0.20	0.13	0.18
FCF/Sales	0.07	0.12	0.05	0.09
Payout ratio (Div/NP)	159.9	108.1	128.3	82.2
AEPS (Rs.)	4.4	7.4	6.2	9.7
AEPS Growth	-60.7	69.1	-15.7	56.0
CEPS (Rs.)	9	12	11	15
DPS (Rs.)	7	8	8	8

Source: Company, Axis Securities Research

Heidelberg Cement Price Chart and Recommendation History



Date	Reco	TP	Research
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
01-Aug-24	HOLD	215	Result Update
29-Oct-24	SELL	190	Result Update

Source: Axis Securities Research

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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.