

HeidelbergCement India Limited

(Formerly Mysore Cements Limited)

HEIDELBERGCEMENT

mycem



Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

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Stock Idea

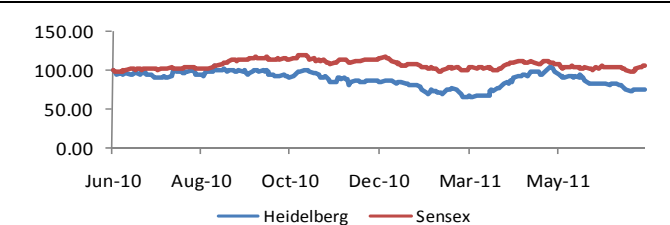
HeidelbergCement India Ltd

Recommendation	Not Rated
CMP (07/07/2011)	Rs. 39
Sector	Cement

Stock Details

BSE Code	500292
NSE Code	HEIDELBERG
Bloomberg Code	HEIM IN
Market Cap (Rs. crs)	886
Free Float (%)	31.5%
52- wk HI/Lo	55/32
Avg. volume BSE/ NSE (Monthly)	33,581
Face Value	Rs.10
Dividend payout (FY 2010)	0%
Shares o/s (Crs)	22.6

Relative Performance	1Mth	3Mth	1Yr
Heidelberg	-10.6%	-13.3%	-21.7%
Sensex	1.9%	-3.1%	7.9%



Shareholding Pattern (31/03/2011)

Promoters Holding	68.5%
Institutional (Incl. FII)	5.7%
Mutual Funds	3.9%
Public & others	21.9%

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Snapshot

HeidelbergCement India Ltd (HCIL), was earlier known as Mysore Cement Ltd, and was set up by the SK Birla Group in 1958. After taking over the controlling stake from Birla's in July 2006, Heidelberg group's capabilities and global experience in the cement business brought about a major transformation in HCIL in 2007. HCIL has a clinker capacity of 1.6 mn tones per annum and cement manufacturing capacity of 3.1 mn tones per annum. Post acquisition, now HCIL has a robust unleveraged balance sheet, which we believe will help the company in future expansion plans

➤ Strong support from the parent company and 'MNC' status

Heidelberg Cement AG is a MNC which ranks third in cement & fourth in ready-mixed concrete worldwide. We believe that HCIL has an edge over its competitors as it has backing of strong brand of its parent company.

➤ Complete turnaround of business post acquisition

Post acquisition by Heidelberg AG, HCIL started reporting net profit from CY07 onwards and improvement in operational efficiencies resulted into high cash generation

➤ Capacity expansion:

HCIL is doubling its cement capacity to 6mt p.a by March 2012 to be funded via a mix of debt and internal accruals from present installed capacity of 3.1 mt per annum.

➤ Debt free company:

HCIL is currently a debt free company. It has net cash position of Rs 219 crs at the end of CY10.

➤ Negative of cement industry priced in:

We believe the over capacity and recent decline in cement prices has already been factored in the stock prices. Any improvement in the off take of cement and cement prices post monsoon can act as positive trigger for the upward movement of stock prices.

Valuation & Recommendation

We believe that the increase in capacity will enable the company to operate at a higher utilization rate. Moreover, the support from the parent company which ranks amongst top three players globally and the MNC status will also result in increase in value of the company. Although the stock looks costly on EV/EBITDA basis as compared to its peers the asset value of the company is at an attractive level. The stock is trading at an EV/tonne of US\$48.1 on expanded capacity. We recommend BUY on the stock with 20%-25% return in next 6 to 9 months.

Year	Net Sales (Rs. Crs)	Growth %	EBITDA (Rs. Crs)	Margin %	PAT (Rs. Crs)	Margin %	EPS (Rs.)	P/E (x)	P/BV (x)
CY 2007	595	43.5%	103	17.4%	98	16.4%	6.2	6.12	1.47
CY 2008	760	27.9%	88	11.5%	125	16.4%	7.9	4.81	1.35
CY 2009	936	23.2%	160	17.1%	134	14.3%	5.9	6.44	1.14
CY 2010	866	-7.6%	100	11.5%	63	7.3%	2.8	13.57	0.97

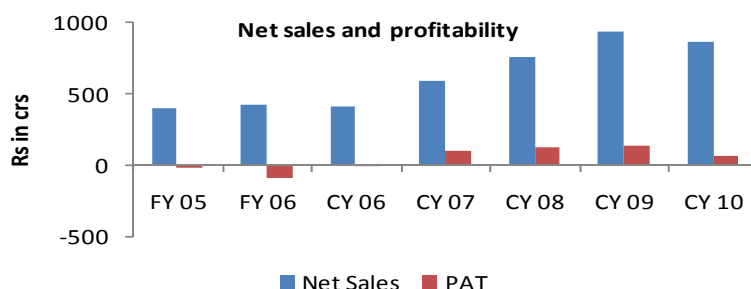
Investment Rationale
➤ Strong support from the parent company and 'MNC' status

Heidelberg Cement AG is a Multinational which does business across 40 countries worldwide. Globally it ranks third in cement & fourth in ready-mixed concrete. HCIL enjoys goodwill in the market backed by strong brand name of Heidelberg AG which makes it a trust worthy name. We believe that HCIL has an edge over its competitors as it has strong support from its parent's company in terms of financial muscle and technology. This is evident from the fact that HCIL is currently a debt free company compared to Rs 306 crs debt prior to acquisition.

➤ Complete turnaround of the loss making business post acquisition

In July 2006, after taking over the company from the Birla's, Heidelberg AG infused Rs 360 crore by way of preferential allotment of ~6.65 crs shares at a price of Rs 54 per share. In 2008, HeidelbergCement group merged Indorama Cement with Mysore Cement. Indorama Cement was a profitable unit and it helped to clear the business losses of Mysore Cement. In the year, 2009 HeidelbergCement wrote off all business losses on the books, thereby strengthening its balance sheet over the period.

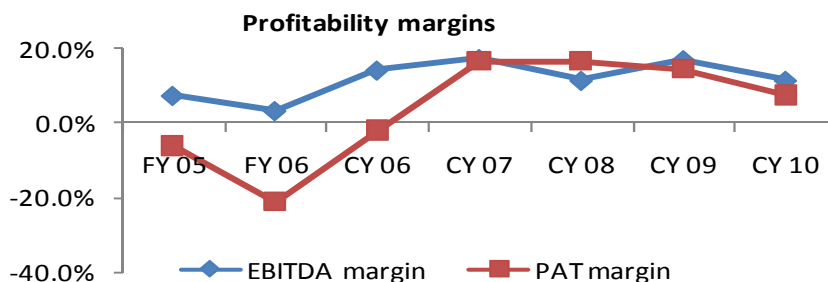
Post acquisition, the company started reporting net profit from CY07 onwards against net loss of Rs 90 crs in FY06. The increase in operational efficiencies resulted into high cash generation and net cash and equivalents of Rs 219 crs by the end of CY10 as against net debt of Rs 302 crore in FY06.



Source: Company data, Nirmal Bang Research

Income Statement (Rs in crs)	FY 05	FY 06	CY 06 (9m)	CY 07	CY 08	CY 09	CY 10
Net sales	396.1	424.2	414.4	594.6	760.2	936.4	865.5
Total expenditure	366.4	409.7	355.2	491.3	672.6	776.7	765.6
EBITDA	29.7	14.5	59.2	103.3	87.6	159.7	99.9
Other income	7	10	5.1	12.5	44.5	45.2	29.1
Depreciation	20.3	19.3	12.2	14.5	21.4	25.8	28.9
Interest cost	40.6	41.6	16.8	3	4.1	4.4	4.2
PBT	-24.2	-36.4	35.3	98.3	106.6	174.7	95.9
Exceptional income	0	-52.8	-7.7	0	0	0	0
Tax	0.6	0.8	36.5	0.7	-17.9	40.7	32.7
PAT	-24.8	-90	-8.9	97.6	124.5	134	63.3
EBITDA margin (%)	7.5%	3.4%	14.3%	17.4%	11.5%	17.1%	11.5%
PAT margin (%)	-6.3%	-21.2%	-2.1%	16.4%	16.4%	14.3%	7.3%

Source: Company data, Nirmal Bang Research



Source: Company data, Nirmal Bang Research

Balance Sheet (Rs in crs)	FY 05	FY 06	CY 06 (9m)	CY 07	CY 08	CY 09	CY 10
Equity Capital	96.2	103.7	171.5	171.5	240.1	240.1	226.6
Reserves and Surplus	-84.6	-168.7	99.2	193.1	369.8	496.1	556.6
Total debt	305.8	306.3	0	0	10	2	0.0
Total liabilities	317.4	241.3	270.7	364.6	619.9	738.2	783.3
Net block including CWIP	229.4	201.8	182.7	188.1	329.8	375.1	758.6
Investments	59.9	9.3	0.1	0.1	0.1	0.1	0.0
Cash	2.9	4.1	65.3	180.7	337.8	495.4	219.5
Net current assets excluding cash	-11.1	-10.1	22.7	-4.4	-47.8	-115.9	-164.7
Deferred tax	36.3	36.2	0	0	0	-16.5	-30.1
Total Assets	317.4	241.3	270.8	364.5	619.9	738.2	783.3

Source: Company data, Nirmal Bang Research

➤ **Capacity expansion:**

HCIL is doubling its cement capacity to 6mt by March 2012 to be funded via a mix of debt and internal accruals. The Company's present installed capacity is 3.07 MTPA. The Company has planned expansion projects at its Damoh & Jhansi units, which will double the company's cement production capacity. The company has outlined a total capex plan of Rs 1,100-1,200 crs for the expansion of clinker and grinding capacities which will be funded via debt and internal accruals.

Out of the total funds required for the expansion, HCIL has already done capex of approximately Rs 400 crore in CY10 through its internal accruals. The balanced capex of Rs 800 crore would be funded through debt and internal accruals. We believe the company would raise net debt upto Rs 450-550 crs for the expansion purpose.

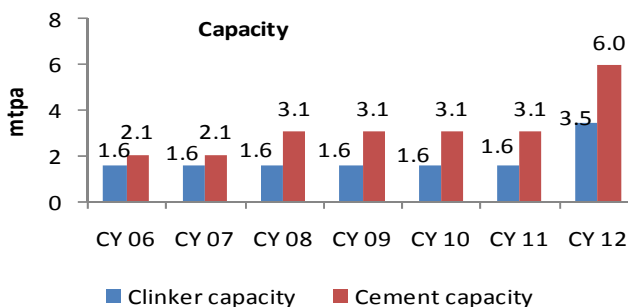
Stock Idea

HeidelbergCement India Ltd

Capacity expansion plans (mn tonnes per annum)		
	Current	Future
Clinker capacity		
Ammasandra	0.4	0.4
Damoh	1.2	3.1
Total	1.6	3.5
Cement capacity		
Ammasandra	0.6	0.6
Damoh	1.0	2.0
Jhansi	0.8	2.7
Dolvi	0.7	0.7
Total	3.1	6.0

Source: Company data, Nirmal Bang Research

In addition to these, HCIL will be setting up a conveyor belt from limestone mines to the clinkerisation unit. This would help company to reduce its freight cost in the near future.



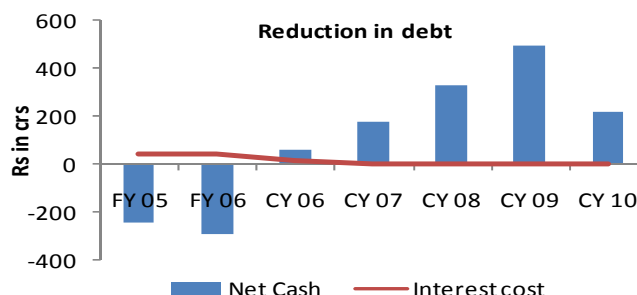
Source: Company data, Nirmal Bang Research

➤ **Debt free company:**

Out of the total funds of Rs 1100-1200 crs required for the expansion, HCIL has already done capex of approximately Rs 400 crore in CY10 through its internal accruals. HCIL is currently a debt free company and has net cash position of Rs 219 crs at the end of CY10 after incurring Rs 400 crs on capex. This shows that the company has a strong cash position as compared to its Indian counterparts.

Market cap	Rs 850 crs
Capex from internal accrual	Rs 400 crs
Cash balance	Rs 219 crs
Debt	NIL

Source: Company data, Nirmal Bang Research

Stock Idea
HeidelbergCement India Ltd


Source: Company data, Nirmal Bang Research

➤ **Attractive asset value:**

HCIL is available at an attractive asset value of US\$48.1 per tonne including expanded capacity which is at a discount to the replacement cost of US\$80 per tonne. We believe that the stock is available at an attractive asset value as compared to its Indian counterparts.

➤ **Negative of cement industry priced in:**

We believe the over capacity and recent decline in cement prices has already been factored in the stock prices. Any improvement in the off take of cement and cement prices post monsoon can act as trigger for the upward movement of stock prices.

Peer comparison:

	Heidelberg	JK Cement	Birla Corp	JK Lakshmi
Sales (Rs crs)	869.5	2083	2124	1319
EBITDA (Rs crs)	80	264	380	145
EBITDA margin	9.1%	12.7%	17.9%	11.0%
EPS (Rs crs)	2.2	8.3	40.55	4.63
EV (Rs crs)*	1300	1704	2100	942
EV/EBITDA	7.90	6.45	5.52	6.49
EV/tonne *	48.1	50.5	77.6	44.1
P/E	17.59	13.01	8.16	9.59
P/BV	1.12	0.69	1.24	0.53
Capacity (mn tonnes)	3.1	7.5	6.01	4.75

* EV and EV/tonne of Heidelberg is calculated based on expanded capacity

Source: Company data, Nirmal Bang Research

Although the stock looks costly on EV/EBITDA and P/E basis, it looks attractive on asset value basis.

Outlook

The current scenario for cement is not very attractive, given the decline in cement prices and muted demand. Moreover, results of quarter ending June 2011 will see the full impact of coal price increases in both international and domestic market which will have negative impact on the company's margins. Currently the cement industry is going through a seasonally weak period due to monsoons. However, the stock has corrected sharply from the high of Rs 55.8 in September 2010 to Rs 37.5 in July 2011. We feel that the stock will see a strong support at the levels of Rs 35. Moreover, the cement prices will show improvement post monsoon season which can trigger an up move in the stock. We believe that there is very limited downside to the stock at current levels.

Cement demand growth is likely to pick up in the second half of FY12E driven by uptick in housing and infrastructure activities. We believe that the increase in capacity by the company will enable it to operate at a higher utilization rate and increase its volume which will help in protecting the margins. Moreover, the support from the parent company which ranks amongst top three players globally will also result in increase in value of the company. Given these factors we believe that the stock is available at an attractive value at current levels and offers potential upside from current levels. The stock is currently trading at an EV/tonne of US\$48.1 on expanded capacity. We recommend BUY on the stock with 20%-25% return in next 6 to 9 months.

Risks and Concerns

Delay In Capacity Expansion

HCIL has outlaid an expansion plan to double its capacity which will be operational by March 2012. Any delay in execution of the plan can impact the performance of the company.

Increasing Raw Material price

A significant increase in the energy cost on a global basis can have a direct impact on the company's profitability.

Economic slowdown

The demand for cement is directly dependent on the GDP growth in the country. Slowdown in the economy can impact the infrastructure spending which can lead to a decline in cement demand.

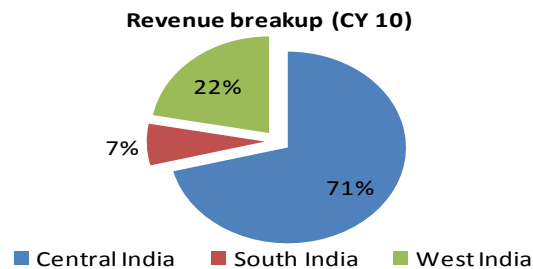
Company background

Heidelberg Cement AG is a Multinational founded in 1873; spread over 40 countries across the world, and has an aggregate cement manufacturing capacity of 110 mn tonnes spread over 98 grinding plants.

Heidelberg Cement India Ltd (HCIL), which was earlier known as Mysore Cement Ltd, was set up by the SK Birla Group in 1958. HCIL is a subsidiary of Cementrum I BV (incorporated under the laws of The Netherlands, which is 100% controlled by Heidelberg Cement AG). After taking over the controlling stake from Birla's in July 2006, Heidelberg group's capabilities and global experience in the cement business brought a major transformation in HCIL in 2007 after the acquisition.

HCIL manufactures and sells Portland Pozzolana Cement (PPC) through its four manufacturing facilities which are located at Ammasandra in Karnataka (0.6 mn tonnes), Damoh in Madhya Pradesh (1.0 mn tonnes), Jhansi in Uttar Pradesh (0.8 mn tonnes) and Dolvi in Maharashtra (0.7 mn tonnes). The Dolvi unit is a result of the acquisition of Indo Rama Cement in April 2008. HCIL has large presence in Central India (approx 71% of dispatch) followed by West (22%) and South India (7%).

HCIL has a clinker capacity of 1.6 mn tones per annum and manufacturing capacity of 3.1 mn tones per annum. Post acquisition, HCIL has unleveraged balance sheet, which we believe promises good future expansion plans.



Source: Company data, Nirmal Bang Research

Stock Idea

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Note

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