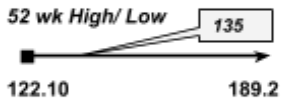


**Heidelberg Cements India Limited**

August 1st' 2018

**OVERWEIGHT**

NSE: HEIDELBERG  
BSE: 500292  
Price ~ 134.7



Target ~ Rs. 225 (67%)  
Industry ~ Cement

Growth Value Category  
Moderately Risky

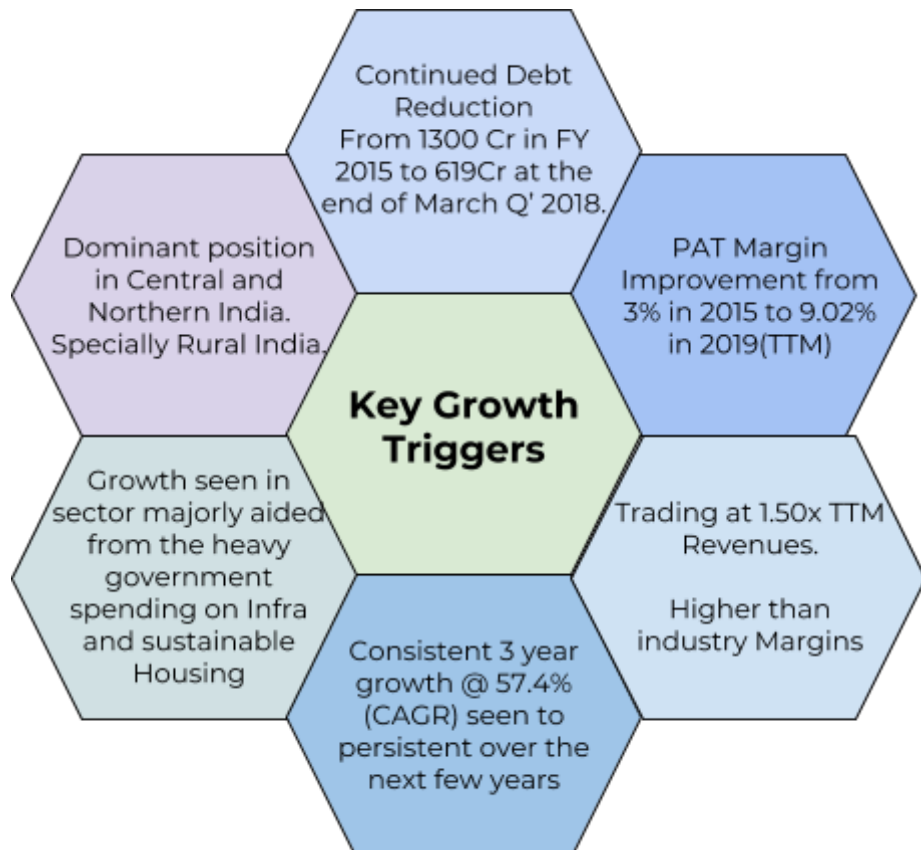
Shareholding  
Promoter ~ 69.39 %  
Public ~ 30.61 %

Avg Industry  
PE ~ 28.5x  
OPM ~ 18.54%

Company  
PE ~ 16.65x  
OPM ~ 21.43%  
ROE ~13.16%  
ROCE ~16.84%  
PEG ~0.45x  
Borrowings ~ 474Cr

HeidelbergCement India Limited (HCIL / Company) is a subsidiary of HeidelbergCement Group, Germany. The Company has its operations in Central India at Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and in Southern India at Ammasandra (Karnataka). The Company increased its capacity to 5.4 million tones p.a. through brown field expansion of its facilities in Central India in 2013.

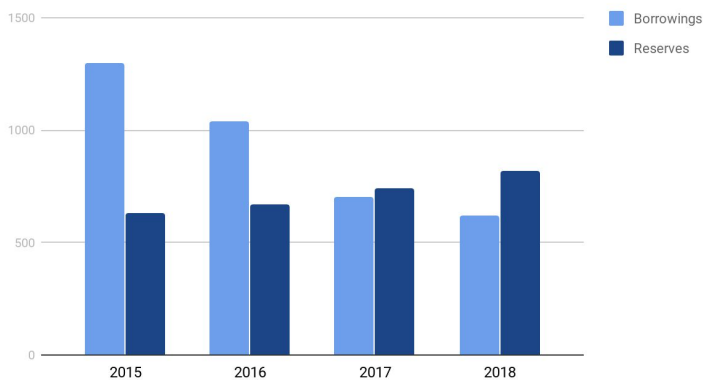
The new manufacturing capacity has enabled the Company to increase its market share in Central India i.e. Madhya Pradesh and Uttar Pradesh and in markets of Bihar, Haryana and Uttarakhand. With the help of committed sales efforts supported by quality products, the Company has carved a niche for its brand "mycem" in new markets and has further improved its brand positioning in the existing ones.



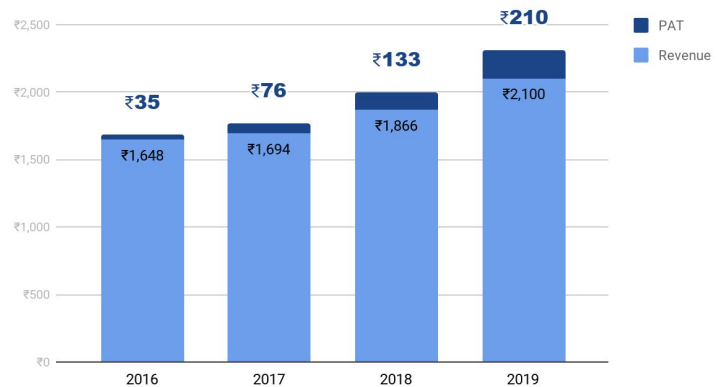
## Financials

Rs. In Crores	FY- 2016	FY- 2017	FY- 2018	FY- 2019 (E) <sup>1</sup>
<b>Sales</b>	1648	1694	1866	<b>2100</b>
<b>EBITDA</b>	231	279	363	<b>441</b>
<b>Interest</b>	108	90	74	<b>70</b>
<b>PAT</b>	35	76	133	<b>210</b>
<b>EPS</b>	1.56	3.36	5.88	<b>9.28</b>
<b>Dividend Rs/sh</b>	-	1.99	2.53	<b>4</b>
<b>Price Rs/sh</b>	80	122.16	144	<b>212</b>
<b>Trailing PE</b>	51 x	36.36 x	24.48 x	<b>16.65<sup>2</sup> x</b>

Borrowings vs Reserves



Revenue & PAT Growth



2019 data based on estimations.

1. The company reported capacity utilisation at 88% as against to an industry average of 65-70%
2. Margin expansion heavily led by debt reduction and capacity growth.
3. Strong rural growth and higher prices in markets where the company sells.
4. Over 10% volume growth in the trailing 10 months.

<sup>1</sup>FY 2019 Financials are based on expectations and proprietary calculations.

<sup>2</sup> Current PE as calculated with 136/sh price and EPS of Rs. 8.17/ sh

- Key Concerns continue to be the Crude and USD Increase, however we don't see these issues persist for more than a few quarters.

## PEER COMPARISON

It only makes sense to compare HEIDELBERG with other similar cap and market size cement companies like the following.

	<i>Shree Cem</i>	<i>STAR Cem</i>	<i>JK Cement</i>	<i>Heidelberg</i>
<b>Market Capitalisation</b>	60,133.85 Cr	4,724.70 Cr	5,384.62 Cr	<b>3082 Cr</b>
<b>Sales</b> (March' 18)	10,770	1,785	4,658.2	<b>2,048.62</b>
<b>OPM</b>	21.30%	27.24%	14.43%	<b>21.42%</b>
<b>Interest (%)<sup>3</sup></b>	8%	6.44%	33.76%	<b>17.64%</b>
<b>NET Margins</b>	9.9%	18.16%	6.08%	<b>9.03%</b>
<b>ROCE</b>	18.08%	21.01%	15.57%	<b>16.84%</b>
<b>ROE</b>	16.34%	25.22%	17.67%	<b>13.16%</b>
<b>PE</b>	49.45x	13.28x	18x	<b>16x</b>
<b>EV/EBITDA</b>	23.95x	9.62x	8.97x	<b>8.40x</b>

*The company has been reducing debt and will continue to do so, with the German parent's growing interest in the Indian Biz. We strongly believe that Heidelberg is much better positioned and valued at, to cash in on the Indian Infra and Housing boom story.*

## VALUATION

We have illustrated above how Heidelberg's important financial ratios compare with other peers. Heidelberg, may not exactly be cheaply valued but given its past growth and its growth potential we believe HEIDELBERG would

<sup>3</sup>Shown as percentage of Operating Profit.

continue to outperform peers. This is visible with the cheap **PEG ratio** of 0.36x. A PEG of 1x would factor in future growth and price the company at Rs. 377/ share. However, that would be a very aggressive target given that we can not factor in the persistence of the current growth rate of 46% per year.

	Average	Company	Estimated Price	%
PE	28.5x	16x	242.25	78 %
OPM	18.5%	21.43%		
PEG	-11.45x	0.45x <sup>4</sup>	At 1x PEG~ 377 /sh	178%
EV/EBITDA	14.28x	8.4x	231 /sh	70%
Under a no growth environment BKT should trade at ~ 170 /Sh. <sup>5</sup>				

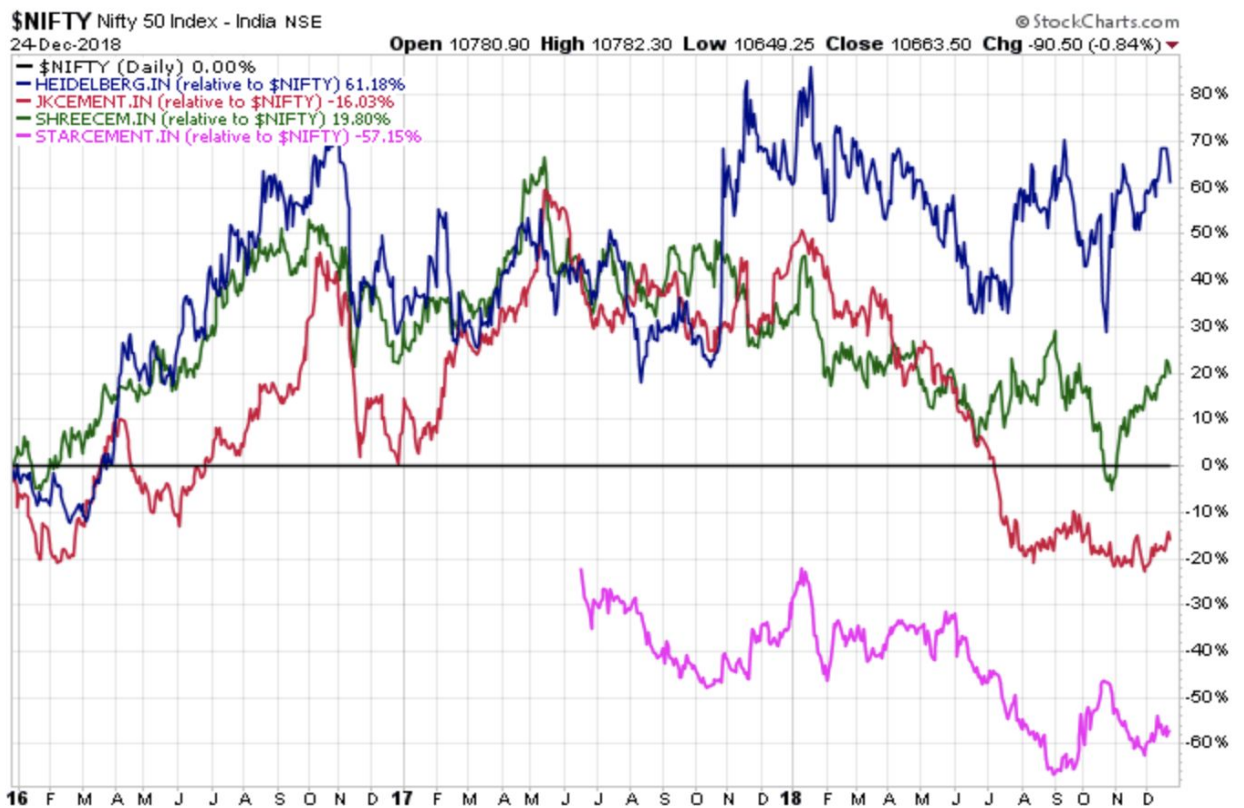


Chart updated on 24th December, to factor in the bear and correction rally of 2018 ^

Annualised, the above chart translates to Heidelberg’s stock giving a 17.35% return over Nifty per year.

<sup>4</sup> Using future growth estimates of 43%.

<sup>5</sup> Calculations have not been shown to keep the report brief.

## GOING FORWARD

We continue to be invested in the company with an overweight outlook.

Given the current trends of Cement Industry. The Cement demand is growing at close to 7% CAGR. For a country like India there is immense scope of growth in Housing and Infra. The government has been making more roads, more houses, more bridges etc than ever before. The Direct Foreign Investments would imply construction of bigger industrial units, concrete roads etc.

HEIDELBERG India is a wholly owned subsidiary of one of the worlds largest Cement Major. If things continue to strengthen in the Indian counterpart, the mother concern may soon flush in capital for expansion.

Associated Risks remain to be the uncertainties regarding CRUDE and USD. Hardening of compliance norms namely the Real Estate (Regulation and Development) Act, SOx and Nox might cause short term headwinds.