25 February 2010

Heidelberg Cement India Ltd.

ARCH RECOMMENDATION
Short Term : Hold.

CMP
43.25

INVESTMENT PERIOD
9-12 Months

NSE Code	HEIDELBERG
BSE Code	500292
ISIN Code	INE578A01017

Key Share Data:

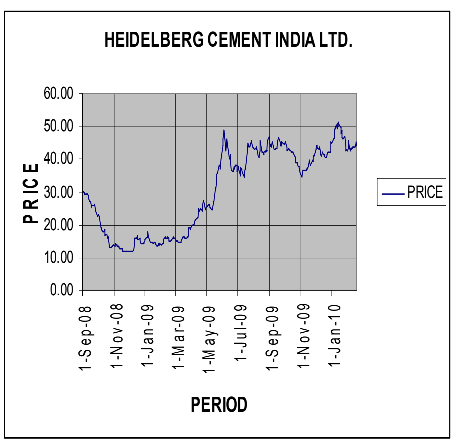
Face *Value*	*Rs.10*
Book Value	31.00
Equity Cap.	226.62 Cr.
Market Cap.	980.13 Cr.
52 WK H/L	51.90 / 14.05
EPS	5.85
P/E Ratio	7.40
Industry P/E	10.59

Share Holding Pattern (Dec09)

Promoters	68.55%
FII	1.53%
DII	3.75%
Others	26.17%

Performance	3M	6M	12M
HCIL	11.00	2.50	168.00
Nifty	-5.00	6.90	77.00

Price chart (From Sep, 08)



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About the Company

Heidelberg Cement India Ltd. (formerly known as Mysore Cement Ltd.) is formed after amalgamation of Indorama Cement Ltd. and Heidelberg Cement India Pvt. Ltd. into and with Mysore Cement Ltd. in 2008. Heidelberg Cement India Limited (Mysore Cement Ltd.) a Heidelberg Cement Group Company, was promoted in 1958 by a Karnataka based industrialist in technical and financial collaboration with Kaisers of USA as a Public Limited Company. The company operates only in one segment i.e. Cement.

Heidelberg Cement India Strengths:

- HCIL's 68.55% stake is held by Cementrum I.B.V. (A 100% subsidiary of Heidelberg Cement AG.) Heidelberg Cement Global is the Third Largest MNC Cement manufacturer in the world which recorded EUR 11.1 billion i.e. US $ 15 billion sales turnover in Group preliminary results of 2009.
- Synergy advantages in operations, increase in the managerial efficiencies, access to better financial resources, while pooling the technical, distribution and marketing skills of its MNC parent Heidelberg Cement AG.
- Gross Sales in 2009 increased by 8% to Rs.1040 Cr. and Net Sales increased by 13% to Rs. 936Cr. and Cement volume grew moderately by 2% over last year.
- EBITDA increased by 41% to Rs. 205 Cr. for FY09.
- Profit before tax is Rs. 175Cr. reflecting an increase of 49% over last year.
- The company had absorbed all the past accumulated losses and unabsorbed depreciation during 2009 and paid Income Tax for the first time after a gap of nearly 15 years which reflects continuosly improving Financial position of the company.
- **HCIL is a Zero-Debt company with net Cash Balance of Rs.493 Cr. as on 31st December 2009.i.e.cash per share is Rs. 21.75 , indicating Very strong Financial position of the company.**

- Received the Environmental clearance for the proposed expansion of Cement grinding capacity at Imali Unit, Madhya Pradesh from 1 MTPA to 2 MTPA and Jhansi Unit in U.P. from capacity of 0.8MTPA to 2.7MTPA. and Clinker manufacturing capacity from 1.2 MTPA to 3.1 MTPA at Narsingarh, Damoh. in M.P.

- HCIL produces international quality Cement under the Brand name of "MYCEM". HCIL is spreading its wings across the country with providing better quality products and services using plants setup in high potential areas of country.

- It produces environment friendly products that contribute towards sustainable development by upgrading the plant efficiency and employing modern methods and latest technologies.

Share Holding Pattern (From Dec.2008 to Dec.2009):

Particulars	Dec, 09(%)	Sep, 09 (%)	June, 09(%)	Mar, 09(%)	Dec, 08(%)
Promoters	68.55	68.55	68.55	68.55	54.89
FII	1.53	1.43	1.40	1.62	2.39
DII	3.75	3.78	3.73	4.05	5.60
Bodies Corp.	8.90	9.14	9.02	8.41	12.08
Non Inst.Incl.Retail	17.27	17.10	17.30	17.37	25.04

(Source: BSE)

Share Holders holding 1% or more of Equity as at 31st December'2009

Sr.No.	Name of Share Holders	No. of Shares	% of Holding
1	Cementrum I.B.V.(Promoters)	155340196	68.55
2	Central India General Agents Ltd (Birla Group)	5934583	2.62
3	L.I.C of India	3608764	1.59
4	Dalmia Cement Bharat Ltd.	2788960	1.23
	Total	167672503	73.99

(Source: (NSE)

Products Range:

S.N.	Products	Detail
1	Cements	Portland Slag cement, Portland Pozzolana cement
2	Clinker	Solid raw material
3	GGBS	Ground granulated blast furnace slag

HCIL Production, Despatches and Capacity Utilization Variance:

Particulars	Jan ,2010	Dec. ,2009	Growth (MOM)%
Production(MT)	0.269	0.217	+23
Despatches(MT)	0.261	0.233	+12
Capacity Uti (%)	104.6	84.3	+24

Cement Industry Performance:

India is the second largest producer of cement in the world after China. The cement industry in India, without showing any signs of recession, continues to expand rapidly, attracting large capacity addition by major players over the past few months. Cement industry has recorded 7.8% growth since the last 10 years and it is expected to grow by approx.8-10% on the given expected GDP growth of 7 to 8 % in 2009-10 and beyond.

Production and Despatch figures of cement for the current year:

(Million tonnes)

Description	Jan-10	Dec-09	Jan-09	2009-2010	2008-2009	(+/-) %
				(Apr-Jan)		
Cement Production	14.54	14.03	12.67	130.67	115.52	+13.1
Cément Despatches	14.53	14.26	12.66	129.97	115.07	+11.2

(Source: CMA)

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HCIL Results at a Glance:

Particular	31st Dec 2008 (Cr.)	31st Dec2009(Cr.)
Gross Sales	886.98	1040.24
Less: Excise Duty	125.68	103.85
Net Sales /Income from Operation	761..30	936.39
Other Operating Income	45.16	45.21
Total Income	806.46	981.60
PBIDT	133.10	204.96
Interest	4.10	4.40
PBDT	129.00	200.56
Depreciation	21.37	25.81
PBT	107.63	174.75
Tax	(17.90)	40.71
PAT	125.53	134.04
EPS	5.56	5.85
Equity	226.62	226.62

(Source: BSE)

Results comparison with peers (on TTM Basis)

Particular	Heidelberg(Jan.-Dec.09)	Prism(Jan.-Dec,09)	Sanghi Ind.(Jan.-Dec,09)
Sales/Revenue	981.60	983.88	708.76
Interest	4.40	3.08	77.72
PBDT	200.56	340.97	111.51
Depreciation	25.81	32.88	81.83
PBT	174.75	308.09	29.68
Tax	40.71	106.71	6.28
PAT	134.04	201.38	23.40
Equity	**226.62**	**298.25**	**219.98**
EPS	5.85	6.75	1.06
CMP (Rs).	43.25	49.80	28.50
Book Value (Rs).	31	26.00	29.6
Price /Book Value	1.40	1.92	0.96
Market Cap.	980.13	1485.28	626.95
Cement Capacity(MTPA)	**3.10**	**2.00**	**2.60**

(**Source: BSE**)

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Valuation &View:

At present Cement Industry is doing well with production and despatches growing by well over 10% +. Central and States are likely to invest huge funds on the development of Infrastructure across various sectors like Ports, Airports, Roads, Power Plants including major expansions in Hydro Power sector etc which has positive correlation for the Cement Industry ,. as also Construction and Housing sector on the back of low housing Finance availability, which is also a major consumer of cement augurs well for the Demand of cement in India .

Heidelberg is trading at Rs 43.25, with a P/E ratio of 7.40 (EPS Rs.5.85) which compares favourably with industry P/E of 10.59. PBIDT of company is Rs.204.96 Cr. far batter than last year's annual PBIDT of Rs. 133.10Cr. Since the company has wiped of all the past losses it may return to Dividend list from this year onwards with strong parentage of **Heidelberg Cement AG, HCIL is likely to do much better in the times to come.**

For the short term considering its poor Q4 results (Oct.-Dec.2009) We recommend HOLD on the stock at its CMP of Rs.43.25 till more clarity about its short term performance emerges from its results for the Q1 (Jan.-March'2010) are declared along with the Annual Report for the year 2009 is out.

But from **Medium to Long Term Investment point of view, we advice BUY at Every DIP in the market with a 9-12 months price target of Rs. 65+ considering:-**

- **Strong Parentage** of Heidelberg Cement AG.
- **Zero Debt Company** with Rs.**21.75 Cash Balance** per share enabling it to complete the proposed Expansion Plans with minimal debt.
- **With effective MCAP and EV of Rs. 487** crores only (980 Cr.Less 493 crore of cash balance) on a capacity of 3**.10 MTPA of cement looks very Attractive** with the current Replacement cost values for the same capacity standing **at approx.Rs.1200 to 1500 Crores**.
- With all the past losses wiped off it has **paid Income tax of Rs.41** crores in 2009. From Now onwards in the present year 2010 **it may Return to Dividend paying List after a Long Gap.**
- **No Dilution of Equity : Expansion to get completed** mostly from Internal accruals which will result in Return on Equity and EPS to Go UP in the Future.
- **Major Thrust on Sustainable growth in 2010** by its Parent will result in more efficicency led Gains to HCIL and it may also get Carbon Credits on these initiatives in the times to come. (Heidelberg AG has just released its **Sustainability Report 2009 : Foundations**)

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