

## About the company:

Mysore Cements Limited (MCL) was incorporated in the year 1958. Heidelbergcement group acquired control of Mysore Cements Ltd in August 2006. In April, 2009 name of the company was changed from “Mysore Cements Limited” to “HeidelbergCement India Limited” The company manufactures Portland cement, Clinker and GGBS at its four locations i.e. Ammasandra (Karnataka), Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and Raigad (Maharashtra). The “Mycem” brand of HCIL is well-established in the market.

## Investment Rational:

HeidelbergCement India Limited had diversified regional presence with in three regions Central, West and South India. Net Revenue split of CA2010 were 71% from Central, 22% from West and 7% from south India which insulate the company from unfavorable regional risk of Demand & Supply.

HCIL’s present installed capacity is 3.09 MTPA. In order to achieve the 15:15 vision (15 MT company by 2015) HCIL is undertaking expansion plan at Damoh & Jhansi units which will make HCIL a 6 MT company by Mar.2012.

HCIL has a robust unleveraged balance sheet with cash & bank balance of Rs.219.48 Cr.as on Dec.31, 2010 which augurs well for its capacity expansion plan of approx. Rs 1345Cr.

## Valuation & Outlook:

Cement industry is continuously facing short term pain due to adverse Demand & Supply scenario but it can be considered as Long term gain over short term pain. We expect demand will be remain strong in Central & Western region well backed by Rural, Govt. Expenditure followed by good monsoon and lower new capacity addition in comparison of South region. At CMP Rs.37, HeidelbergCement is trading at 4.84 E.V./EBIDTA of CA2010 and Rs.1996.79 E.V./Tonne.(at 55.62% discount against expected replacement cost of Rs.4500/Tonnes).

Thus, we recommend **BUY to HeidelbergCement India Limited** for a **target of Rs. 60** through Replacement Cost analysis with a view of 12-15 months with a **potential upside of more than 59%**.

Price Rs : 37	TP Rs. : 60
NSE Code	HEIDELBERG
BSE Code	500292
ISIN Code	INE578A01017
Industry	Cement & Cement products

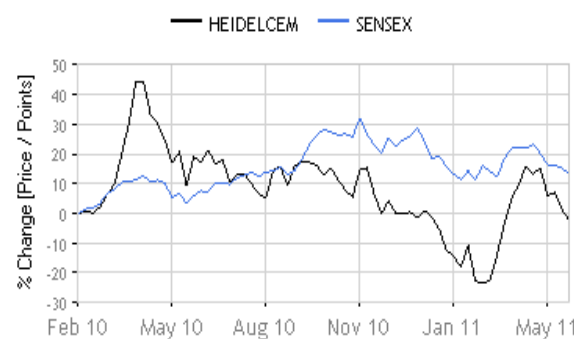
## Key Share Data:

Face Value	Rs. 10
52 Week H/L	Rs. 58 / 32.25
Equity Cap.(Cr.)	Rs. 226.62
Market Cap.(Cr.)	Rs. 838.42
Book Value	Rs. 34. 56
EPS(TTM)	Rs. 2.16
P/E	Rs. 17.10
Industry P/E Ratio	Rs. 17.85

## Share Holding Pattern as on 31Mar, 2011

Promoter	68.55
FII	5.63
DII	3.95
Bodies Corp.	5.45
Others	16.42
Total	100.00

## Stock Performance with Sensex



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## HeidelbergCement India Ltd.-Brief History:

- Incorporated in Year 1958 as Mysore Cements Ltd.
- First plant at Ammasandra with a capacity of 1 lakh t p.a. commissioned in 1962.
- Capacity of Ammasandra unit doubled to 2 lakh t p.a. in 1966 and further to 4 lakh t p.a. in 1968.
- In 1978 capacity at Ammasandra further increased to 6 lakh t p.a.
- Green field 5 lakh t p.a. plant set up at Damoh, Madhya Pradesh in 1983 .Capacity of this unit enhanced to 1 million t p.a. in 1989.
- Another green field 5 lakh t p.a. grinding unit set up at Jhansi in 1989.
- HeidelbergCement Group acquired control of Mysore Cements Ltd. in August 2006.
- Pursuant to the merger of Indorama Cement Ltd. into and with Mysore Cements Ltd w.e.f 1st April 2008, the total capacity of the merged entity has increased to 3.07 million t p.a.
- The name of the company has also been changed to HeidelbergCement India Ltd.

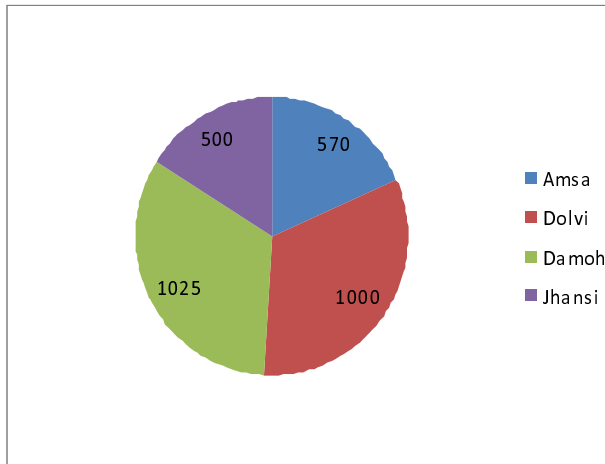
## HeidelbergCement AG –Brief Introduction:

HeidelbergCement AG is a multi national company founded in 1873.At present it is operating in more than 40 countries across the world with 110MTPA cement capacity. HeidelbergCement AG is the global market leader in aggregates and a prominent player in the fields of cement, concrete and other downstream activities, making it one of the world's largest manufacturers of building materials. In 2010, Group turnover amounted to EUR 11.8 billion.

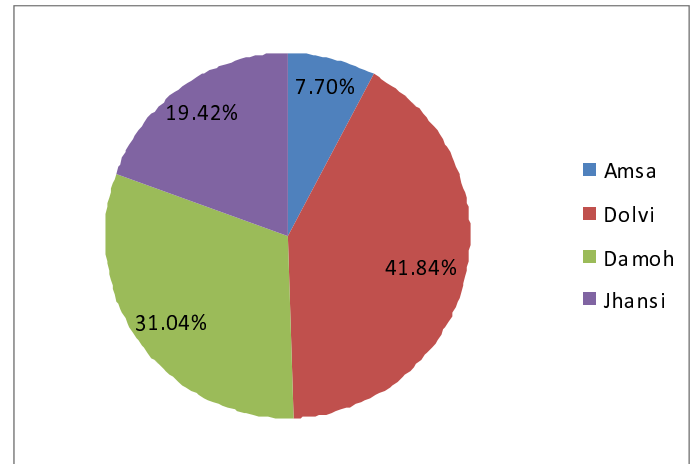
## Share holding more than 1% as on Mar, 2011

S.No.	Name of the Shareholder	No. of Shares	% of Total Shares
A	Promoters	155,340,196	68.55
B	Public	13,397,810	5.91
1	Central India General Agents Ltd	6,134,583	2.71
2	Life Insurance Corporation of India	3,608,764	1.59
3	Somerset Emerging Markets Small Cap Fund LIC	3,654,463	1.61
	Total	168,738,006	74.46

**Plant Detail –Cement Capacity (000 MTPA):**

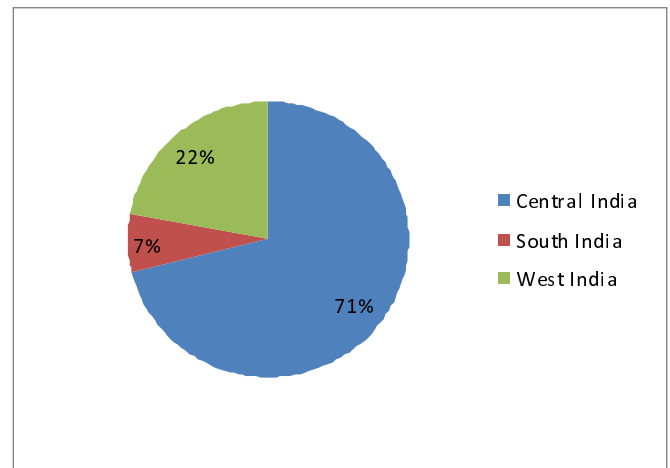
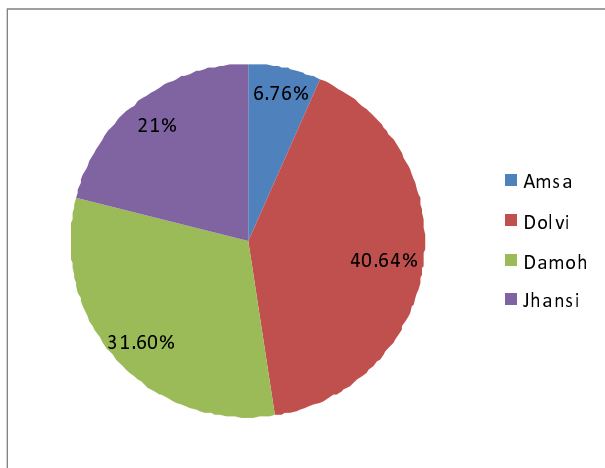


**Plant Detail – Cement Production Mix (%):**



HCIL has four cement manufacturing plants across the India with total installed capacity 3.09 MTPA. It helps to HCIL to cater the demand across different regions. HCIL had capacity utilization at 85.43% which is far better than industry average capacity utilization 75% as on Dec.31, 2010.

**Sale Mix breaks up with in Plant & Regions as on CA2010:**



HCIL has good sale mix thought the geography of India which insulate the company from unfavorable demand & supply scenario in particular one region. It will help to HCIL to grab the available opportunities across over India which provides HCIL to pan India Company status.

## Future Capacity Expansion Plans:

HCIL plans to expand its clinker capacity from 1.2MTPA to 3.1MTPA at Narsingarh plant, Damoh, Madhya Pradesh with Cement grinding capacity from 1MTPA to 2MTPA at Imlai, Damoh and from 0.8MTPA to 2.7MTPA at Jhansi, Uttar Pradesh. These expanded capacities are likely to commence in Mar.2012.

<b>Installed Capacity ( MTPA)</b>	<b>Current Capacity</b>	<b>Capacity as on 2012E*</b>
Damoh Clinker	1.2	3.1
Damoh Grinding	1.0	2.0
Jhansi Grinding	0.8	2.7
<b>Total Clinker</b>	<b>1.55</b>	<b>3.45</b>
<b>Total Cement</b>	<b>3.09</b>	<b>6.00</b>

Note: \* Analyst Estimated

## Key Risk to our assumptions:

- Cyclical nature of Industry
- Increase in cost of raw materials
- Fluctuations in FOREX

## Cement Industry in India:

The Cement industry is one of the core sector and main growth drivers of rapidly growing Indian Economy. Cement consumption has increased at a CAGR of around 10% from 2004-05 to 2009-10 mainly driven by development happened in infra structure and housing segment. At present also Central & State governments are likely to invest huge amount to develop the basic infra structure of various sectors like ports, Airports, Roads, Power plants and social development schemes like Indira Gandhi Awas Yojana and NERGA which are augur well for the demand of cement in India .

India has low per capita consumption of Cement around 210Kg is well behind the global average per capita consumption of 430Kg it offer a huge growth potential in long term. According to Cement Manufacturing Association of India, Cement industry is likely to add approx 30MTPA new capacity which will help to cross the mark of 300MTPA cement capacity in India. Though over capacity in Industry are likely to affect short term Demand & Supply scenario but it can be considered as a Long term gain over short term pain.

**Annual Results:**

Particulars	Rs.in Cr.		
	CA2008A	CA2009A	CA2010A
Gross Revenue	886.98	1040.27	985.37
Net Revenue	806.46	981.84	894.54
Expenditure	673.36	776.64	766.61
EBIDTA	133.1	205.20	127.93
Depreciation	21.37	25.81	28.85
Interest	4.1	4.40	4.21
Profit before tax	143.43	174.75	95.95
Tax	17.90	40.71	32.65
Profit after tax	125.53	134.04	63.30
Equity Cap.(Fv. Rs 10)	226.62	226.62	226.62
EPS	5.54	5.91	2.79

**Balance Sheet:**

Sources of funds	Rs.in Cr.		
	CA2008A	CA2009A	CA2010A
Share capital	240.11	240.11	226.62
Reserve & Surplus	451.73	496.10	556.63
Loan funds	10.00	2.00	0
Deferred Tax liability		16.47	30.12
Total	701.84	754.68	813.37
<b>Application of funds</b>			
Gross block	851.58	913.18	949.45
Less : Depreciation	579.04	599.60	622.13
Net block	272.53	313.58	327.32
Capital work in progress	54.73	57.58	427.96
Net Fixed Assets	327.27	371.16	755.28
Investment	0.12	0.12	0
Net Current Assets	374.46	383.40	58.09
Total	701.84	754.68	813.37

**Ratio:**

Particulars	CA2008	CA2009	CA2010
Sale Growth %	35.30%	17.38	-5.27
EBIDTA Growth %	15	54.16	-37.65
NPM Growth %	28.55	7.2	-52.98
EPS	5.54	5.85	2.79
CEPS	6.48	7.05	4.07
EBIDTA margins %	15.01	19.70	12.98
PAT margins %	14.15	12.89	6.42
P/Book Value	1.19	1.60	1.07
P/E	6.44	8.71	13.25
E.V./EBIDTA	3.61	3.23	4.84
E.V./Sales	0.54	0.64	0.63
RoNW %	18.51	18.55	8.08
RoA %	38.36	36.11	8.34
RoCE %	18.24	18.50	8.08

**Replacement Cost Analysis on CY 2010 valuation**

	Unit	Amount
Replacement Cost	Tonne	4500
Less: Discount due to oversupply in Cyclical Industry		20%
New E.V./Tonnes	Tonne	3600
Less: Discount to Large player in Industry		20%
New E.V./Tonnes	Tonne	2700
Less: Discount due to Old plant expenses		10%
New E.V./Tonnes	Tonne	2250
Total Installed Capacity of HCIL	MTPA	3.09
Assigned E.V. to HCIL	Rs.in Cr	695.25
Less: Long term Debt	Rs.in Cr	-
Add: Cash & Bank balance	Rs.in Cr	219.49
Add: Work in progress	Rs.in Cr	427.96
Derived MKT cap. Of HCIL	Rs.in Cr	1342.70
No. of Equity Share	Share in Cr.	22.66
<b>Derived value per share of HCIL</b>		<b>59.25</b>

***Arch Finance Limited (Member: NSE & BSE, NSDL & CDSL)***

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DP: CDSL –IN-DP-CDSL-406-2007; NSDL IN-DP-NSDL-284-2007; Mutual fund: 48283  
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