Heidelberg Cement Fund

Market Capital:	₹ 5,218.90 Cr.
Enterprise Value:	₹ 5,153.34 Cr.
No. Of Shares:	₹22.66 Cr.
Div. Yield:	₹3.08%

52 Week High:	₹ 255.95
52 Week Low:	₹ 145.85
Face Value:	₹ 10

Heidelberg Cement India Ltd. Buy

We recommend a Buy position on Heidelberg Cement India Ltd. with a medium to long-term view owing to Strong demand in the overall industry, with a push in Infrastructure and Housing, Capacity expansion, Better Operational and Cost efficiency and backed with Strong Financials.

Investment Hypothesis

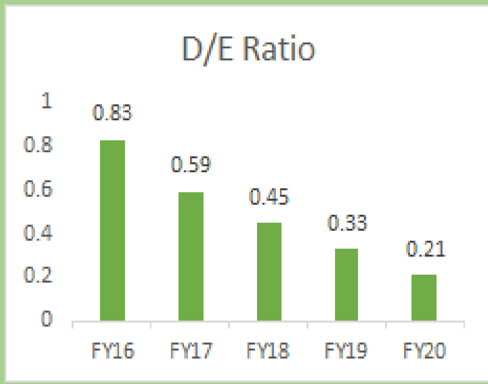
Strong demand in overall industry with push in Infrastructure and Housing:

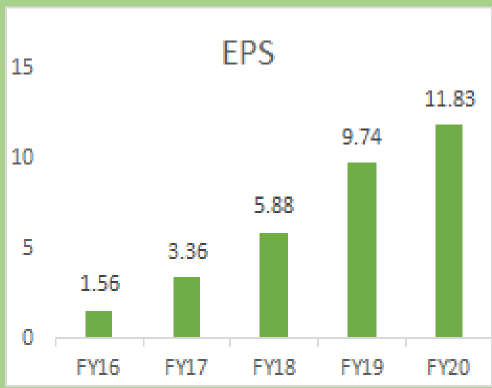
Heidelberg Cements has seen Improvement in macro environment, economic activities and sentiments post COVID pandemic. In FY20, despite COVID challenges at the end, the Company reported its highest ever profitability and also proposed a higher dividend during the year. HCIL has its major presence in the Central region of India contributing to 85% of its revenues. The Central India market is growing at 7% CAGR since FY10. Cement demand in FY21E is estimated at 50 mtpa and 59 mtpa in FY23E in the region. Incremental demand from FY21E - FY23E to be around 9 mtpa which implies a growth CAGR of 9% during this period and Incremental cement supply in FY21E - FY23E is estimated at around 7 mtpa which implies growth CAGR of 4.6%.

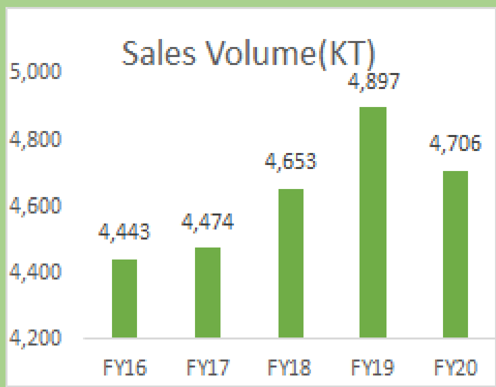
Given the Government's push in the Infrastructure and Housing sector with plans of massive investments in coming years, there Increased demand for the Cement industry. Also, After the announcement of the budget, we expect infra demand to revive and complement the already strong rural demand. This can potentially create large order inflows from Infra and Housing sector companies.

Since incremental demand is expected to outpace incremental supply, HCIL with a strong brand image and presence in the region can absorb increased production.

Charts, Projects, Financials, Hold and Buy status







Shareholding Pattern

Shareholding %	March 2020	March 2019	March 2018
Promoters	69.4%	69.4%	69.4%
Promoter's Pledged	0.00%	0.00%	0.00%
FII's	10.4%	11.7%	11.6%
Dll's	8.5%	7.0%	6.1%
Public	11.7%	11.9%	12.9%
Others	0.0%	0.0%	0.0%
Total	100%	100%	100%

Consolidated (cr)	FY2020	FY2019	FY2018
Sales	2,169.62	2,133.35	1,889.47
Profit	268.06	220.66	133.18
EBIT	471	416	282
Basic EPS	11.83	9.74	5.88
ROE (%)	20.39	18.84	12.72
ROCE (%)	25.31	23.36	16.84
D/E (%)	0.21	0.33	0.45
Asset Turnover Ratio (%)	77.68	79.14	74.59
P/E (%)	11.99	18.64	24.22
P/B (%)	2.45	3.50	3.08
EV/EBITDA (%)	5.22	8.02	9.08
P/S (%)	1.48	1.92	1.71

Capacity expansion:

The company has done well to expand its capacity through completion of debottlenecking projects in FY 2019-20. The grinding capacity of Imlai and Jhansi plants have been enhanced by 0.5 Million Tonnes Per Annum (MTPA) and 0.55 MTPA respectively during FY 2020-21. The aggregate cement grinding capacity of the Company now stands enhanced to 6.26 MTPA as of the end of FY 2020-21. The Company is also considering the debottlenecking of its Narsingarh plant, which will further increase the production capacity of the firm. The capacity expansion through debottlenecking has come at a time for the company as the cement manufacturing capacity of the company was stagnant since the last 5 years at 5.40 mtpa. There was concern related to future growth of the company as the current capacity utilization level touched above 90% in the central region. With this extended capacity, growth concern for the company will recede for the next two years . Since these expansions have taken place in the (1.05 mtpa) in the Central region, which is its key market, the gain in market share is imminent. The ramping up of these extended capacities will happen gradually, boosting the volume and revenue growth for the company going forward. The cost of these expansions has been met internally due to the strong financial position of the company. The clinker manufacturing capacity of the company stands at 3.5 mtpa and the company has also shown the plans to debottleneck the same to enhance the clinker production going forward. Thus, With the extended capacity and better incremental demand environment going forward, the company is all set to grow.

Operational and Cost efficiency:

The Company's capacity utilization stood at 86.9% inFY2019-20, as against the industry average of 67%. Company has undertaken various Optimization and debottlenecking programs at its plants which has resulted in increased operational efficiency which is visible in the increase in EBITDA margins of the company over the years. At the Imlai plant, the existing separator system of Cement Mill 1 which was established in 1981 was upgraded with a third generation, latest model separator having better efficiency and particle size distribution. With this upgrade, the production rate increased by 20 tons per hour and specific power consumption decreased by 0.95 units/tonne. The new design Apron Belt Conveyor (ABC) of 400 tph

> To help maintain its margins, the company is considering increasing the prices of its products to keep in check with increasing fuel prices.

was installed at the Jhansi plant to increase the material feed rate in loading hoppers. With the increased feed rate, more quantity can be loaded and engagement of payloaders minimized which has resulted in an increase in efficiency. Also, At the Narsingarh plant, Addition of new efficient production line, Installation of Waste Heat Recovery Power Plant, reducing idling hours have resulted in both increase of the production and energy efficiency. To help maintain its margins, the company is considering increasing the prices of its products to keep in check with increasing fuel prices. Capacity stabilization and better operational efficiency would help the company sustain an increase in demand from Q4FY21 onwards.

Strong Financials:

Company has robust financial strength and has been continuously deleveraging the Balance sheet with high return ratios and healthy margins which has resulted in Healthy Cash flows. Sales have grown 1.2% over the past 5 years with EBITDA margins growing from 15.2% to 26.1% and PAT margins growing from 2.1% to 12.1% in that period. The company repaid the second tranche of NCDs worth Rs1.25bn in Dec'20. For CY21, Rs1.2bn worth of debt will be repaid. As of 31st Dec,'20, the total gross debt and net cash stood at Rs3.5bn and Rs2.2bn, respectively. The return ratios of the company are one of the best in the industry within the comparable peers. Average OPM of 5 years is at 19.82% compared to that current OPM is at 26.76% which shows over the period management has been working over increasing their OPM. Current ratio and Quick ratio are above its 5 years average which shows company's ability to pay off their liabilities .ROE and ROCE of the company stands at 22% and 26% respectively in FY20 which is expected to increase on account of increased efficiency in its plants. Thus, the Company is well placed to support its growth in future given its strong financial profile and ample liquidity to support its operations and expansion plans.

Sector Overviews

India is the second-largest cement producer in the world and accounted for over 8% of the global installed capacity as of 2019. India's overall cement production capacity was nearly 545 million tonnes (MT) in FY20. Of the total capacity, 98% lies with the private sector and the rest with the public sector. The demand of the cement industry is expected to reach 550–600 MT per annum (MTPA) by 2025 because of the expanding demand of different sectors, i.e., housing, commercial construction, and industrial construction. FDI inflow in industry related to manufacturing of Cement & Gypsum products reached US$ 5.3 billion between April 2000 and June 2019. India's export of cement, clinker and asbestos increased at a CAGR of 1.68% between FY16–FY20 and stood at US$ 1.98 billion in FY20. Cement demand is closely linked to the overall economic growth, particularly the housing and infrastructure sector In Union Budget 2020-21, the Government of India has extended benefits under Section 80 - IBA of the Income Tax Act till March 31, 2020 to promote affordable housing in India. The Union Budget has allocated Rs 139 billion (US$ 1.93 billion) for Urban Rejuvenation Mission: AMRUT and Smart Cities Mission. Government's infrastructure push combined with housing for all, Smart Cities Mission and Swachh Bharat Abhiyan is going to boost cement demand in the country. The move is expected to boost the demand for cement from the housing segment. As per Union Budget 2019-20, Government planned to upgrade 1,25,000 km of road length over the next five years. An outlay of Rs 27,500 crore (US$ 3.93 billion) has been allotted under Pradhan Mantri Awas Yojana in the Union Budget 2020-21. The interest rate for the Pradhan Mantri Awas Yojana scheme starts at 6.05% p.a. and can be availed for a tenure of up to 20 years.

The move is expected to boost the demand for cement from the housing segment.

With the growing infrastructure expenditure and increasing industrial base, India is set to witness significant growth in its Gross Domestic Product (GDP) resulting in favorable outcomes for the cement industry in the coming years. The production of cement in India is expected to reach 410.21 Mn tons by FY 2024, expanding at a compound annual growth rate (CAGR) of ~3.83% during the FY 2019-FY 2024 period, owing to rising demand from the government and housing contractors.The sector has been posting positive growth in recent times. Production has been increasing since 2008. However, the production of cement has been increasing at a decreasing rate since 2012. From 2012 till now, the CAGR is 5% while CAGR since 2008 was 6%.

This implies that the years from 2012 to 2015 were years of poor cement demand, low production and weak prices.

Companies Overviews

HeidelbergCement India Limited is a subsidiary of HeidelbergCement Group, Germany. HeidelbergCement India Limited, earlier known as Mysore Cements Limited (MCL), currently has 3 plants operational at Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and Ammasandra (Karnataka) with an installed cement manufacturing capacity of 6.26 MTPA (Million Tonnes Per Annum). The name of the company was changed from 'Mysore Cements Limited' to 'HeidelbergCement India Limited' w.e.f. April 16, 2009, consequent to the issue of fresh Certificate of Incorporation by the Registrar of Companies, Karnataka. The company took a major decision to set-up an eco-efficient Waste Heat Recovery based Power Generation Plant at its clinkerisation unit at Narsingarh, District Damoh (M.P.). The proposed plant envisages production of approximately 12 MW of power for captive consumption from the waste heat generated from all three clinkerisation lines at Narsingarh. It will substitute grid power thus reducing power cost per ton of clinker. To ensure a reliable and responsible supplier qualification, Heidelberg Cements collaborated with Avetta. Avetta is a global assurance programme provider that has been monitoring the safety, qualification and social responsibility of companies for more than 15 years. They inform, train and assist suppliers in complying with Code of Conduct and sustainability requirements. This support allows them to reliably assess and evaluate their suppliers with respect to their sustainable supply chain standards.

Related to
Industry

Housing & real Estate

According to the data released by the Department for Promotion of Industry and Internal Trade Policy (DPIIT), construction is the third-largest sector in terms of FDI inflow. FDI in the sector (including construction development and construction activities) stood at US$ 42.97 billion between April 2000 and September 2020. The Government of India along with the governments of respective States has taken several initiatives to encourage development in the sector. The Smart City Project, with a plan to build 100 smart cities, is a prime opportunity for real estate companies. Real estate developers, in meeting the growing need for managing multiple projects across cities, are also investing in centralised processes to source material and organise manpower and hiring qualified professionals in areas like project management, architecture and engineering. The growing flow of FDI in Indian real estate is encouraging increased transparency. Indian real estate is expected to attract a substantial amount of FDI in the next two years with US$ 8 billion capital infusion by FY22.

Public Infrastructure

The sector is highly responsible for propelling India's overall development and enjoys intense focus from the Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads, and urban infrastructure development. The infrastructure sector has become the biggest focus area for the Government of India. India plans to spend US$ 1.4 trillion on infrastructure during 2019-23 to have a sustainable development of the country. The Government has suggested investment of Rs. 5,000,000 crore (US$ 750 billion) for railways infrastructure from 2018-30. India and Japan have joined hands for infrastructure development in India's Northeast states and are also setting up an India-Japan Coordination Forum for Development of Northeast to undertake strategic infrastructure projects for the region

Coal

200-450kg of coal is needed to produce 1 tonne of cement. Cement is critical to the construction industry – mixed with water and gravel it forms concrete, a key construction material. A grey pebble-like material formed with the help of coal, comprises special compounds that give cement its binding properties. Clinker is mixed with gypsum and ground to a fine powder to make cement. Coal combustion products (CCPs), such as Fly Ash also play an important role in cement manufacture and in the construction industry generally. China's coal output rose last year to its highest since 2015, despite Beijing's climate change pledge to reduce consumption of the dirty fossil fuel and months of disruption at major coal mining hubs. To stabilise the sky-rocketing coal prices, which hit their highest level since late 2011, Beijing urged miners to boost output. In dec 2020, China's energy administration approved six coal mining projects, with projected combined annual production of 15.3 million tonnes, in the northwestern region of Xinjiang.

Limestone

The global limestone market size was valued at USD 73.02 billion in 2019 and is expected to grow at a compound annual growth rate (CAGR) of 4.4% from 2020 to 2027. Increasing infrastructural developments across the world are anticipated to increase the demand for limestone during the coming years. Demand for limestone was expected to flourish across the end-use industries at a high growth rate until the introduction of COVID-19 in 2020, which disrupted the entire global economy. The construction segment was the largest end-use segment with a volume share of over 80.0% in 2019 and is expected to maintain its lead over the forecast period on account of rising infrastructural developments across the globe. Limestone is extensively used as a construction material as it adds both beauty and strength to the architecture of a project, hence it is preferred by architects and builders over the past many years. It is used in concrete and cement, road base, and railroad ballast. For its application in the construction industry, the material is produced in various finishes, including brown, red, pink, cream, gold, and black, however, the pure limestone is nearly white in color.

Rubber Waste

The obtainment of lightweight cement-based material by adding rubber crumbs was partly due to the lack of aggregates replaced by the rubber. Another cause could be the large voids created by the rubber particles inside the cement paste, leading to higher porosity. The increase in porosity leads to an increase in air trapped in the mixture. These first results on the fresh state show that the incorporation in cement composites of rubber aggregates, obtained from waste tires, can be a suitable solution in order to decrease weight in some engineering manufactures.

Bitumen

The Government of India has decided to adopt cement instead of bitumen for the construction of all new road projects on the grounds that cement is more durable & cheaper to maintain than bitumen in the long run.

Peer Comparison

Company	MCAP	P/B	P/E	EPS	ROE(%)	ROCE(%)	P/S	EV/EBITA
Birla Corporation Limited	9,693.82	2.01	22.62	55.65	9.11	11.60	2.04	15.17
Orient Cement Limited	2,838.46	2.17	13.25	10.45	8.07	11.08	1.77	7.08
The Ramco Cement Limited	22,945.01	4.19	32.11	29.37	12.85	12.26	4.21	18.30
Heidelberg Cement	5,519.16	4.08	22.88	10.65	21.57	27.70	2.54	10.28

Birla Corporation Limited

Revenue:
Rs 6,778 Cr
Production capacity:
15.5 MTPA
Employees:
5,776
Market Share:
3.2 %

The Company is primarily engaged in the manufacturing of cement as its core business activity. It has a significant presence in the jute goods industry as well. The company produces one of the best quality cements in India.

The Cement Division of Birla Corporation Limited manufactures varieties of cement, including Ordinary Portland Portland_Cement (OPC), 43 & 53 grades, fly ash-based Portland Pozzolana Cement (PPC), Portland Slag Cement (PSC), low- alkali Portland cement and Sulphate Resistant Cement (SRC).
Considering factors such as market potential, proximity to fly-ash sources, availability of tax incentives etc. the setting up of three grinding/blending units in Madhya Pradesh, one grinding unit in Bihar, one blending unit in Uttar Pradesh and another blending unit in Jharkhand has been approved by the Board of Directors during the year. The company is in the process of acquiring land and obtaining various government clearances for the above projects.

The Company has acquired 100% shares of Reliance Cement Company Private Limited (Reliance Cement), a subsidiary of Reliance Infrastructure Limited (RIL). After this acquisition, Reliance Cement has become a wholly-owned material subsidiary of the company. The entire cement business of RIL has been acquired for an Enterprise Value of Rs. 4,800 crores. This acquisition provides with the ownership of high-quality assets, taking its total capacity from 10 MTPA to 15.5 MTPA.

A key alarming factor for the company is its solvency ratios.

Revenue:
Rs 2,750 Cr
Production capacity:
8 MTPA
Employees:
1500
Market Share:
1.6 %

Orient Cement Ltd

Established in 1979, Orient Cement was formerly, a part of Orient Paper & Industries. It was demerged in the year 2012 and since then, it has emerged as one of the fastest-growing and leading cement manufacturers in India.
In 2015, Orient Cement started commercial production at its integrated cement plant located at Chittapur, Gulbarga, Karnataka. With a total capacity of 8 MTPA, they serve Maharashtra, Telangana, Andhra Pradesh, Karnataka and parts of Madhya Pradesh, Tamil Nadu, Kerala, Gujarat, and Chhattisgarh.
The Company is primarily engaged in the manufacture and sale of Cement and manufacturing facilities at present are located at Devapur in Telangana, Jalgaon in Maharashtra and Chittapur in Karnataka. The Company's new green field integrated cement plant at Chittapur in Karnataka has commenced commercial production w.e.f. 26th September 2015.
During the year 2017, the Company automated systems to identify quality deviations and address them with speed and precision. It strengthened quality norms enforced through central monitoring and cement labs across its manufacturing plants. Further, the Company commissioned a concrete lab at its Chittapur plant to showcase its product efficacy through its use in concrete.
During FY2018-19, the Company launched its premium cement, Birla.A1 StrongCrete and is seeing good traction from customers due to its superior characteristics.

The Ramco Cements Limited

The main product of the company is Portland cement, manufactured in eight state-of-the-art production facilities that include Integrated Cement plants and Grinding units with a current total production capacity of 16.45 MTPA. The company is the fifth largest cement producer in the country.
It is the most popular cement brand in South India. The company also produces Ready Mix Concrete and Dry Mortar products and operates one of the largest wind farms in the country.

Revenue:
Rs 5,310 Cr
Production capacity:
16 MTPA
Employees:
3034
Market Share:
3 %

Risks and Concerns

01 Macroeconomic risks

Cement industry being a cyclical one, is susceptible to changes in domestic and global macro conditions and sometimes can significantly affect the company.

02 Fuel Risk

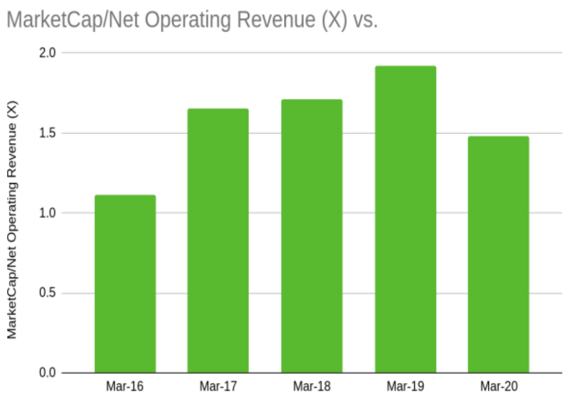
Cement manufacturing being an energy intensive process, changes in supply demand dynamics of fuel prices and other inputs may cause some pressure on the margins of the company. Also, As Logistics also include a significant component of the total cost, Transport availability and high fuel prices could also elevate the costs levels.

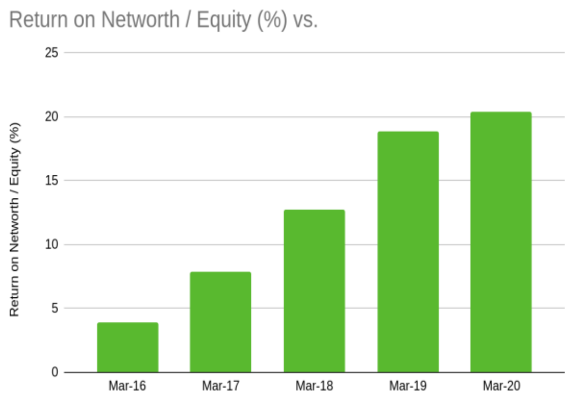
03 Input Materials

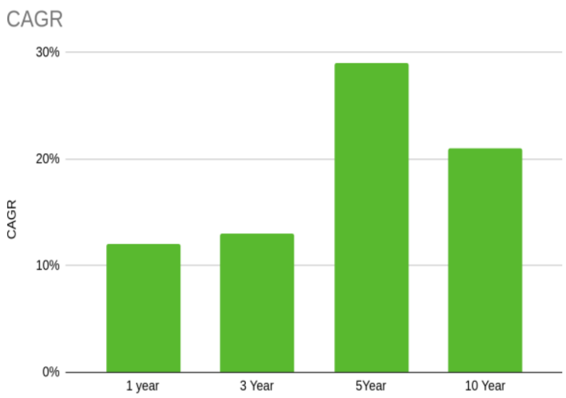
Any changes in availability of input materials as Fly ash, Coal etc could lead to production challenges.

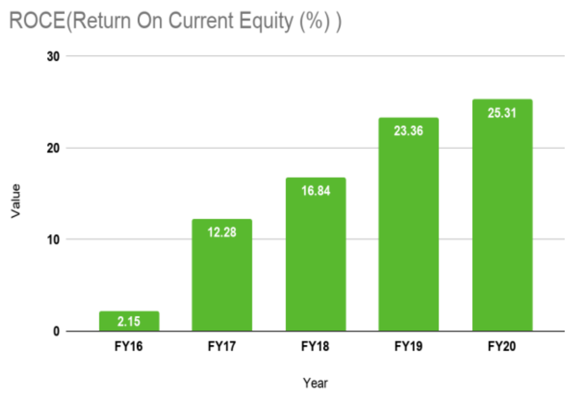
04 High Competition

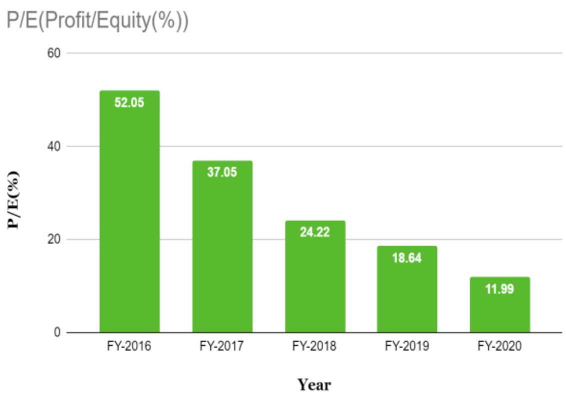
With many mid-level players gaining market share and with the presence of some established Large peers, the Industry will remain highly competitive which could lead to pressure on prices of products.

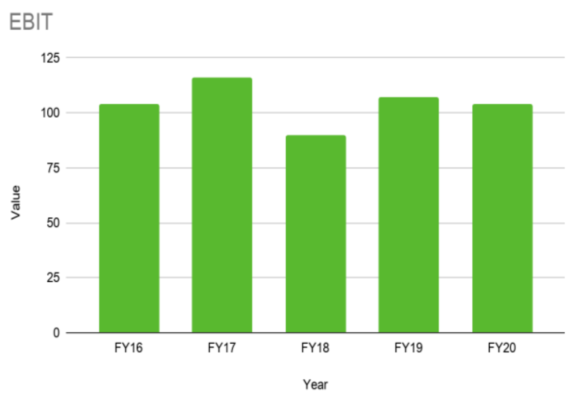

MarketCap/Net Operating Revenue (X) vs.
MarketCap/Net Operating Revenue (X)
2.0
1.5
1.0
0.5
0.0
Mar-16
Mar-17
Mar-18
Mar-19
Mar-20

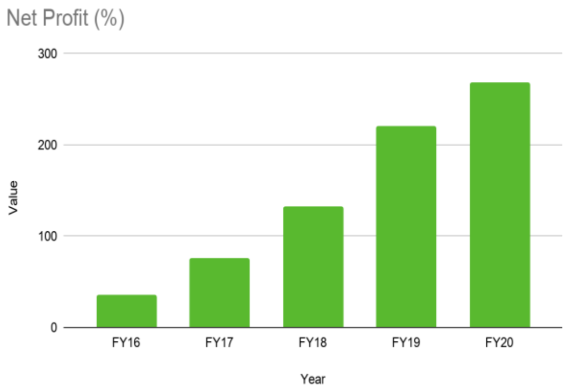

Return on Networth / Equity (%) vs.
Return on Networth / Equity (%)
25
20
15
10
5
0
Mar-16
Mar-17
Mar-18
Mar-19
Mar-20

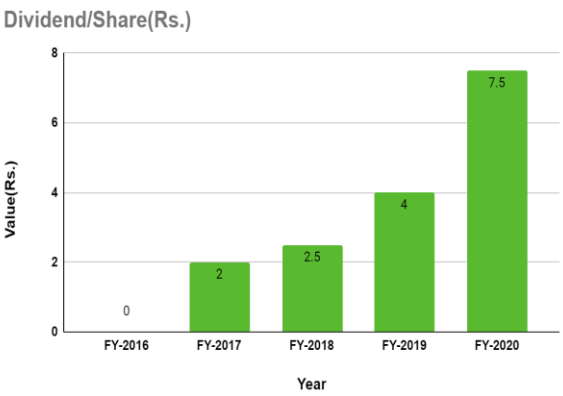

CAGR
CAGR
30%
20%
10%
0%
1 year
3 Year
5Year
10 Year

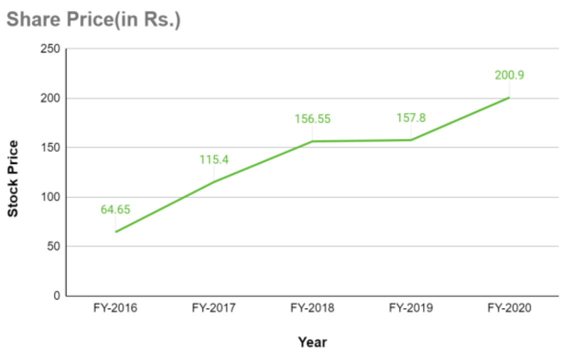

ROCE(Return On Current Equity (%))
Value
30
20
10
0
2.15
12.28
16.84
23.36
25.31
FY16
FY17
FY18
FY19
FY20
Year


P/E(Profit/Equity(%))
P/E(%)
60
40
20
0
52.05
37.05
24.22
18.64
11.99
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year


EBIT
Value
125
100
75
50
25
0
FY16
FY17
FY18
FY19
FY20
Year


Net Profit (%)
300
200
100
0
Value
FY16
FY17
FY18
FY19
FY20
Year


Dividend/Share(Rs.)
8
6
4
2
0
Value(Rs.)
0
2
2.5
4
7.5
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year


Share Price(in Rs.)
250
200
150
100
50
0
Stock Price
64.65
115.4
156.55
157.8
200.9
FY-2016
FY-2017
FY-2018
FY-2019
FY-2020
Year


Share Price(in Rs.)
250
200
150
100
50
0
Share Price
1/1/2018 0:00:00
1/1/2019 0:00:00
1/1/2020 0:00:00
Year

Summing Up:

We recommend a Buy position on Heidelberg Cement India Ltd. with a medium to long-term view owing to following-

- Strong demand in the overall industry along with push in Infrastructure and Housing
- Capacity expansion
- Better Operational
- Cost efficiency
- Strong Financials

After looking at sector growth from recent years, and policies that the government has made recently, we expect a high growth in the cement sector.
The following industries are directly or indirectly related to cement sector:

- Housing & real Estate
- Public Infrastructure
- Coal
- Limestone
- Rubber Waste
- Bitumen

Any major change in these sectors will strongly affect the growth of cement industry. Heidelberg cements is strongly placed to face the competition and its management is constantly trying to come up with new policies to take its growth further.

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