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TECHNOFUNDA REPORT

HEIDELBERG CEMENT INDIA LTD.



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Mangal Keshav Securities Ltd.
TechnoFunda Report

PROFILE:

Heidelberg Cement India Ltd (HCIL) is one of the leading producers of building materials worldwide. The core products of the company include cement, ready mixed concrete, aggregates and related activities. The company markets their products under the brand name "Mycem". The company's flagship product is Portland Pozzolana Cement. PPC is manufactured by inter-grinding well-burnt OPC Clinker with gypsum and pozzolanic materials like power-station fly ash or silicious earth.

FUNDAMENTAL VIEW

INDUSTRY PROSPECTS:

India's installed cement capacity as of **Dec 2018** stands at **480 Mn Tonne**. Cement industry has grown at the rate of 15% in the calendar year 2018 and by 18% in Q3 FY19. Given the ongoing major programs like PMAY (*Pradhan Mantri Awas Yojana*) and focus on infrastructure development, the management is expecting demand of cement to grow at 7-9% by the end of FY20. Growth is expected from government-led infrastructure & a boost from pre-election spending (*states as well as centre*). Demand in the central India regions has largely been stable with increasing demand coming from government projects, which is likely to continue. The dealers are expecting a price hike in March. On the margin front, the cement industry is benefiting from lower energy prices along with higher cement prices which should benefit margins in the coming quarters. Energy prices exerted severe pressure during most of 2018 but have cooled-off (*although volatility remains*) as pet coke/diesel prices are down 10-12% from their peaks.

COMPANY PROSPECTS:

A few factors affecting cement prices apart from demand-supply equation include (i) Brand Value (*price difference between premium and non-premium products is Rs.30/bag*) - premium brands command a premium, (ii) large part of cement manufacturing cost are variable (*freight, power & fuel, etc*), (iv) in general retail fetches better realizations compared to institutional & finally, (iv) industry behavior and discipline also seem to play a critical role. Pricing in Central India also depends upon the pricing in the adjoining areas, so until price has not increased in those areas it is difficult to take price hike in Central India. Company only manufactures **100% blended Portland Pozzolana Cement (PPC)** cement and hence does not supply to government projects which require OPC which is seen in one of the best working capital cycles in the industry.

Heidelberg's **net debt stands at Rs. 231 Cr** and gross debt at Rs. 600 Cr as on 31 Dec 2018. No green field project is under planning, however, the company is on the lookout for any acquisition. Acquisition-led growth is better in terms of cash flow management as any green field project at top of the cycle can bring additional risk and further stress on cash flows due to slower commissioning compared to acquisitions.

Current capacity utilization is at 93% which is helping to achieve higher margins. The company is carrying out "*debottlenecking*" process over its grinding units in 3 phases. First phase is already completed. Post this process grinding capacity is likely to go up by 0.3MTPA. Capex planned for this process is Rs. 25 Cr out of which Rs. 7.5 Cr is already done.

FINANCIAL PERFORMANCE SNAPSHOT:

DESCRIPTION	Mar-15	Mar-16	Mar-17	Mar-18
PBIDTM (%)	14.17	13.24	15.11	19.54
EBITM (%)	10.91	8.03	10.16	14.38
PATM (%)	2.51	1.85	3.81	6.79
ROA (%)	2.13	1.30	3.03	5.39
ROE (%)	7.09	4.03	8.19	13.23
ROCE (%)	11.94	7.52	11.28	16.90

Company has continually improved its margins over past three years; this can be accredited to above industry capacity utilization levels, strong focus only into premium product and better cost management. This has translated to above average Returns on Equity compared to industry.

VALUATION COMFORT:

Heidelberg currently trades at 8.9x EV/ EBITDA compared to Industry average of 10.7x and 19.35x TTM PE compared to Industry average of 30.3x.

CONCERNS:

- Steep increase in crude prices: fuel prices, diesel cost, packaging costs etc.
- General elections may delay the speed of infrastructure growth for couple of months
- Hardening of compliance norms: SOx and Nox
- Upcoming rise in employee costs after the MoU signed between the CMA and trade unions.

TECHNICAL VIEW**BROADER VIEW:**

- The stock of Heidelberg Cement has been trading in an uptrend since second half of 2014
- Recently since November 2017, the stock is seen trading in a range of 135 to 175
- During the February 15th 2019 week, the stock took support at 140 mark and reversed giving three consecutive weekly upticks breaching 175 mark on closing basis
- Thereafter, the stock consolidated for three consecutive weeks and has now started heading northwards yet again.

NEAR TERM VIEW:

- The stock has broken multiple top at 175 levels on March 06 and hit near 185. The stock corrected for profit booking up to 38.2% retracement of the prior upward rally from 140 to 185
- The stock had taken supported of 50,100 and 200 days EMA levels in 140-150 zone
- The stock has bounced back from March 22, breaching 185 and is currently trailing at those levels. Meanwhile it also formed a Flag pattern on the daily time frame and gave a breakout at 174 levels on March 22
- The recent rally from 140 till date is supported by a reasonable volume built-up. Moreover, the 14-period RSI too broke out of its multiple resistance zone of 67-68 and is quoting near 70 levels.

ACTION:

- Considering the major range breakout at 175 on medium term basis and the Flat pattern breakout at 174 on near term basis we expect further upside of at least 35-40 points from the current levels.



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