

# Heidelberg Cement (HEICEM)

₹ 148

## Firm pricing environment; costs stabilising...

- Heidelberg Cement reported a strong set of Q3FY19 numbers, beating our estimates on all fronts. Revenues increased 15.4% YoY to ₹ 558.4 crore (above I-direct estimate of ₹ 539.8 crore) led by a 6.3% rise in volumes and 8.5% growth in realisations
- The EBITDA margin increased 537 bps YoY to 21% (vs. I-direct estimate: 20.5%) mainly led by healthy realisations. EBITDA/tonne increased 46% YoY to ₹ 905/t (vs. I-direct estimate of ₹ 870/t)
- Adjusted PAT increased 81.6% YoY from ₹ 32.9 crore to ₹ 59.8 crore (vs. I-direct estimate of ₹ 53.9 crore) in Q3FY19 mainly led by a better operating performance

### Limited capacity addition in central region to drive utilisation, pricing

In the central region where Heidelberg Cement India has an exposure of ~94% of its sales, a pick-up in construction activity coupled with better sand availability in Uttar Pradesh drove cement volumes in H1FY19. Going forward, a hike in minimum support prices and higher infra spend are expected to keep cement demand robust. Consequently, we expect revenues to increase at 12.4% CAGR in FY18-20E.

### Strong retail presence to keep realisations high

Heidelberg is a 100% blended product company with >80% of its sales from the trade segment, where prices are ~8-10% higher than non-trade segment. This helps the company keep its realisations higher over other players.

### Strong cash flows to help reduce debt, increase dividend payments...

Over FY19E and FY20E, the company is expected to generate ~₹ 510 crore of free cash flows. With limited capex (due to no major capacity addition), we expect a significant portion of these cash flows to be used to pare down the debt, which is currently at ~₹ 605 crore. This will enable the company to reduce its leverage significantly over FY18-20E from 0.8x D/E in FY18 to 0.3x D/E in FY20E.

### Capacity overhang to limit volume growth from FY20E onwards...

The company is expected to end FY19E at a utilisation level of ~93%. Heidelberg has undertaken a three-phase de-bottlenecking programme, wherein each phase can add 0.1 MT to the grinding capacity. However, even post the entire de-bottlenecking operations of its capacity by 0.3 MT (can go up to 0.4 MT), its capacity utilisation levels are expected to stay elevated at ~94% in FY20E. This leaves very little room for further growth. Though the management is looking for expansion, it does not have any concrete plan. The key concern is limestone availability.

### Scope for further margin expansions; maintain BUY

The company has consistently put up a good performance over the past year led by a healthy pricing environment, higher presence in the trade segment along with steps taken by the management to lower the power cost through WHRS. With firm pricing in the central region along with a decline in prices of major fuels like petcoke, we expect a healthy margin trajectory to continue, going forward, as well. Consequently, we maintain our **BUY** rating with a target price of ₹ 165 [i.e. valuing at 8x FY20E EV/EBITDA (@20% discount to its peers), \$125/tonne on capacity of 5.4 MT]. As the company is expected to reach its peak utilisation levels by FY20E, growth would moderate, going forward, unless it is addressed with the new capacity.

| Rating matrix    |                |
|------------------|----------------|
| Rating           | : Buy          |
| Target           | : ₹ 165        |
| Target Period    | : 15-18 months |
| Potential Upside | : 12%          |

| What's Changed? |                               |
|-----------------|-------------------------------|
| Target          | Unchanged                     |
| EPS FY19E       | Changed from ₹ 9.0 to ₹ 10.5  |
| EPS FY20E       | Changed from ₹ 10.6 to ₹ 11.6 |
| Rating          | Unchanged                     |

| Quarterly Performance |        |        |         |        |          |
|-----------------------|--------|--------|---------|--------|----------|
|                       | Q3FY19 | Q3FY18 | YoY (%) | Q2FY19 | QoQ (%)  |
| Revenue               | 558.4  | 483.9  | 15.4    | 479.5  | 16.5     |
| EBITDA                | 117.1  | 75.4   | 55.2    | 110.2  | 6.2      |
| EBITDA (%)            | 21.0   | 15.6   | 537 bps | 23.0   | -203 bps |
| PAT                   | 59.8   | 32.9   | 81.6    | 50.1   | 19.3     |

| Key Financials |        |        |        |        |
|----------------|--------|--------|--------|--------|
|                | FY17   | FY18   | FY19E  | FY20E  |
| Net Sales      | 1687.6 | 1860.7 | 2173.0 | 2352.1 |
| EBITDA         | 249.0  | 334.6  | 478.8  | 512.4  |
| Net Profit     | 72.0   | 134.0  | 238.4  | 263.9  |
| EPS (₹)        | 3.2    | 5.9    | 10.5   | 11.6   |

| Valuation summary |      |      |       |       |
|-------------------|------|------|-------|-------|
|                   | FY17 | FY18 | FY19E | FY20E |
| PE (x)            | 46.3 | 24.9 | 14.0  | 12.6  |
| Target PE (x)     | 51.9 | 27.9 | 15.7  | 14.2  |
| EV to EBITDA (x)  | 16.8 | 11.7 | 7.8   | 6.9   |
| EV/Tonne(US\$)    | 129  | 121  | 116   | 110   |
| Price to book (x) | 3.4  | 3.2  | 2.8   | 2.4   |
| RoNW (%)          | 7.4  | 12.8 | 19.8  | 19.1  |
| RoCE (%)          | 10.6 | 14.8 | 22.9  | 25.5  |

| Stock data           |               |
|----------------------|---------------|
| Particular           | Amount        |
| Mcap                 | ₹ 3331 crore  |
| Debt (FY18)          | ₹ 787 crore   |
| Cash & Invest (FY18) | ₹ 212 crore   |
| EV                   | ₹ 3906 crore  |
| 52 week H/L          | ₹ 175 / 122   |
| Equity cap           | ₹ 226.6 crore |
| Face value           | ₹ 10          |

| Price performance (%) |      |       |       |       |
|-----------------------|------|-------|-------|-------|
|                       | 1M   | 3M    | 6M    | 12M   |
| Heidelberg Cem        | 1.1  | -1.3  | -6.3  | -8.4  |
| India Cement          | -7.7 | -12.1 | -25.4 | -50.4 |
| JK Cement             | -1.2 | -0.3  | -8.0  | -32.7 |
| JK Lakshmi Cem        | 4.8  | 12.9  | -5.0  | -28.8 |
| Sagar Cement          | -9.5 | -14.4 | -23.1 | -41.1 |

| Research Analyst |                                  |
|------------------|----------------------------------|
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## Variance analysis

|                       | Q3FY19 | Q3FY19E | Q3FY18 | YoY (%) | Q2FY19 | QoQ (%)  | Comments                                                                                                           |
|-----------------------|--------|---------|--------|---------|--------|----------|--------------------------------------------------------------------------------------------------------------------|
| Net Sales             | 558.4  | 539.8   | 483.9  | 15.4    | 479.5  | 16.5     | Robust demand in the central region aided by healthy realisations drives revenues                                  |
| Other Incomes         | 16.9   | 16.3    | 17.9   | -5.5    | 12.5   | 34.9     |                                                                                                                    |
| Raw Material Expenses | 99.5   | 104.8   | 92.5   | 7.6     | 88.0   | 400.5    |                                                                                                                    |
| Employee Expenses     | 26.6   | 33.7    | 28.8   | -7.6    | 31.1   | -14.5    |                                                                                                                    |
| Change in stock       | 32.1   | 6.4     | 28.1   | 14.2    | -16.6  | NA       |                                                                                                                    |
| Power and fuel        | 120.1  | 129.3   | 100.9  | 19.1    | 120.1  | 0.0      | Higher cost of petcoke as well as coal resulted in higher power costs per tonne, which was limited by use of WHRMS |
| Freight               | 75.9   | 72.7    | 73.7   | 3.0     | 66.6   | 13.9     | Freight cost reduced due to one-time Railway freight rebate                                                        |
| Others                | 87.2   | 82.6    | 84.5   | 3.2     | 79.9   | 9.1      |                                                                                                                    |
| EBITDA                | 117.1  | 110.5   | 75.4   | 55.2    | 110.2  | 6.2      |                                                                                                                    |
| EBITDA Margin (%)     | 21.0   | 20.5    | 15.6   | 537 bps | 23.0   | -203 bps | Healthy realisations helped overshadow cost inflation and resulted in EBITDA margins expansion                     |
| Interest              | 17.0   | 17.7    | 18.6   | -8.9    | 19.9   | -14.7    |                                                                                                                    |
| Depreciation          | 25.4   | 25.9    | 25.3   | 0.3     | 25.5   | -0.5     |                                                                                                                    |
| PBT                   | 91.6   | 83.1    | 49.4   | 85.4    | 77.4   | 18.4     |                                                                                                                    |
| Total Tax             | 31.9   | 29.3    | 16.5   | 92.9    | 27.3   | 16.6     |                                                                                                                    |
| Reported PAT          | 50.1   | 53.9    | 16.3   | 207.7   | 51.6   | 19.3     |                                                                                                                    |
| Adjusted PAT          | 59.8   | 53.9    | 32.9   | 81.6    | 50.1   | 19.3     | Increase in PAT led by growth in operating profits                                                                 |
| <b>Key Metrics</b>    |        |         |        |         |        |          |                                                                                                                    |
| Volume (MT)           | 1.29   | 1.27    | 1.22   | 6.3     | 1.13   | 15.0     | State elections had an impact on volumes                                                                           |
| Realisation (₹)       | 4,316  | 4,250   | 3,976  | 8.5     | 4,262  | 1.3      | Pricing environment continues to remain healthy in the central region during Q3                                    |
| EBITDA per Tonne (₹)  | 905    | 870     | 620    | 45.9    | 980    | -7.7     | Healthy realisations aided higher EBITDA/t                                                                         |

Source: Company, ICICI Direct Research

## Change in estimates

| (₹ Crore)         | FY19E   |         |          | FY20E   |         |          | Comments                                                                    |
|-------------------|---------|---------|----------|---------|---------|----------|-----------------------------------------------------------------------------|
|                   | Old     | New     | % Change | Old     | New     | % Change |                                                                             |
| Total Revenue     | 2,101.3 | 2,173.0 | 3.4      | 2,272.0 | 2,352.1 | 3.5      | Revival in rural economy and normal monsoon to drive demand in coming years |
| EBITDA            | 441.9   | 478.8   | 8.4      | 479.3   | 512.4   | 6.9      |                                                                             |
| EBITDA Margin (%) | 21.0    | 22.0    | 101 bps  | 21.1    | 21.8    | 69 bps   | Higher utilisation to aid margin expansion                                  |
| PAT               | 205.0   | 238.4   | 16.3     | 240.5   | 263.9   | 9.7      | Reduction in debt to drive profitability                                    |
| EPS (₹)           | 9.0     | 10.5    | 16.3     | 10.6    | 11.6    | 9.7      |                                                                             |

Source: Company, ICICI Direct Research

## Assumptions

|                      | Current |       |       |       |       | Earlier |       | Comments                                                |
|----------------------|---------|-------|-------|-------|-------|---------|-------|---------------------------------------------------------|
|                      | FY16    | FY17  | FY18  | FY19E | FY20E | FY19E   | FY20E |                                                         |
| Volume (MT)          | 4.4     | 4.5   | 4.6   | 5.0   | 5.3   | 4.9     | 5.2   | We expect volumes to grow at a CAGR of 7% over FY18-20E |
| Realisation (₹)      | 3,667   | 3,771 | 4,004 | 4,307 | 4,419 | 4,263   | 4,391 |                                                         |
| EBITDA per Tonne (₹) | 474     | 556   | 720   | 949   | 963   | 896     | 926   | EBITDA/tonne is expected to cross ₹ 960/t by FY20E      |

Source: Company, ICICI Direct Research

## Conference call highlights

- In Q3FY19, the company witnessed ~93% capacity utilisation post completion of phase-I of de-bottlenecking operations. The demand was impacted by elections in Madhya Pradesh. Also, the management expects a short-term slowdown for the cement industry on account of general elections
- Total 85% of volumes were attributable to the trade segment. Premium products form 10% of trade sales. Premium products do not offer significantly higher margins but are aimed towards creating a brand position
- Post the completion of the balance two phases, the capacity would get enhanced by 0.3 MT and can go up to 0.4 MT (including 0.1 MT from phase-I)
- The company is a 100% blended product company with the product mix being ~95% PPC (sold in the central region) with the balance PSC (sold in the south)
- During the quarter, cost of coal and petcoke were 1.46/kcal and 1.5/kcal, respectively, with the fuel mix being 47% coal and 53% petcoke. Total 35% of the power requirement can be met at its clinker plant using WHRMS
- For the Karnataka GU, the company sources more than 50% of power requirement from long term PPA of renewable power and the clinker from market purchases
- Lead distance has not changed substantially during the quarter and is at ~380 km. Freight costs per tonne were lower for the quarter on account of receipt of one-time railway freight rebate of ₹ 3.8 crore during the quarter
- Net debt at the end of quarter was at ₹ 231 crore whereas gross debt was at ~ ₹ 605 crore
- The management expect 7% growth for FY20E while yearly maintenance capex has been slated at ~₹ 50 crore per year

## Company Analysis

### Substantial portion of company's revenues from central region

Heidelberg Cement India sells ~94% of total cement volumes in the central region, a favourable region in India, considering the demand-supply scenario. The company sells the rest of the volume in the western and southern regions. Its share in the central region had gone up from 75% to over 94% led by capacity expansion in CY13. With no major capacity addition, we believe it will likely remain a central regional player.

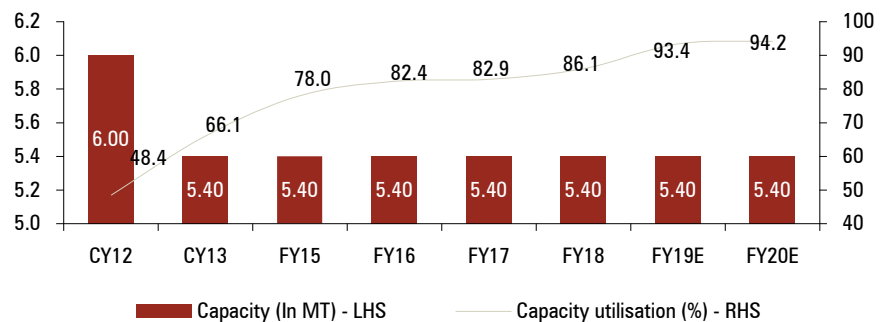
### Improving macro to keep utilisation healthy

The government's focus on construction of roads (83,677 km to be built over the next five years) and affordable housing (~2.2 crore houses to be built over the next two or three years) bodes well for cement demand. This, coupled with low pace of new capacity addition in the central region, is expected to keep utilisation healthy. Further, consolidation of cement capacity in the region is expected to bring pricing discipline in the region. Consequently, we expect realisation to remain elevated over the next couple of years.

### Cost efficiency to drive margins...

The company doubled its cement capacity to 6 MT from 3 MT in CY13 at a total capex of ₹ 1,570 crore. However, due to subdued demand, these major expansions took a heavy toll on its profitability with the company reporting a net loss of ₹ 41 crore in CY13 (vs. net profit of ₹ 31 crore in CY12) led by high interest and depreciation. However, with improving utilisation along with stabilisation of new capacity, its margins have improved. Further, the 12 MW WHRS commissioned by the company is expected to help the company to reduce power cost. Consequently, we expect margins to improve over the coming years.

#### Exhibit 1: Revival in demand to drive utilisation

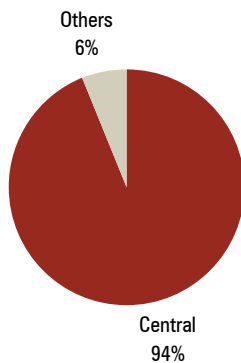


Source: Company, ICICI Direct Research

### Large global promoter

Heidelberg's Indian operations have the support of the rich experience of the German promoter (Heidelberg AG), a Germany-based company, which is one of the world's largest cement manufacturers with consolidated revenue of over €15 billion in 2016. Thus, we believe, would provide huge potential to grow inorganically over the longer run.

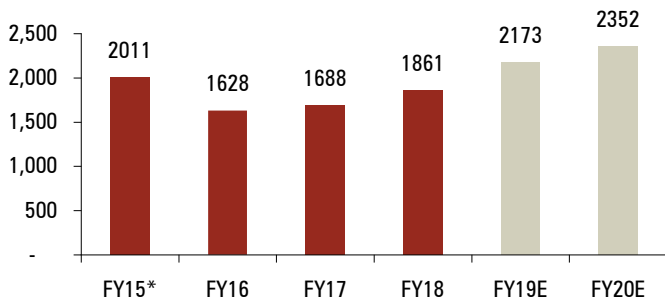
### Regional presence



### Improvement in realisation and utilisation to drive revenues

Utilisation had improved from 66.1% in CY13 to 86% in FY18. Going forward, we expect utilisation to further improve to ~94% (post addition of 0.3 MT through de-bottlenecking efforts) in FY20E. We expect volumes to grow at a CAGR of 7% in FY18-20E led by increased rural demand. Further, we expect pricing to stay at elevated levels in the central region. Consequently, we expect sales to increase at a CAGR of 12.4% over FY18-20E led by healthy realisations.

**Exhibit 2: Expect revenue to grow at CAGR of 12.4% over FY18-20E**



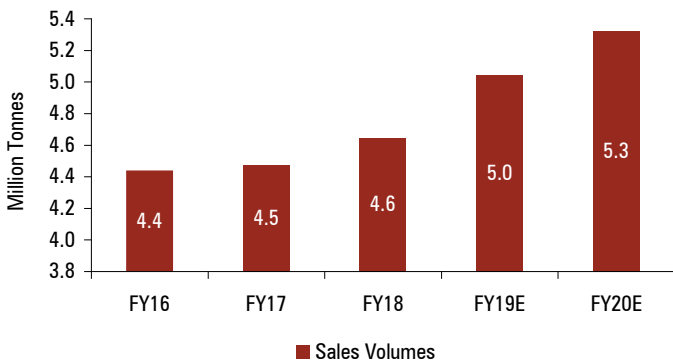
Source: Company, ICICI Direct Research \*15 months period

**Exhibit 3: Cement capacity**

|                           | State          | Region  | MT         |
|---------------------------|----------------|---------|------------|
| Ammasandra, Tumkur        | Karnataka      | South   | 0.7        |
| Village Imlai, Damoh      | Madhya Pradesh | Central | 2.0        |
| Village Madora, Jhansi    | Uttar Pradesh  | Central | 2.7        |
| Gadab, Taluka Pen, Raigad | Maharashtra    | West    | 0.7        |
| <b>Total Capacity</b>     |                |         | <b>5.4</b> |

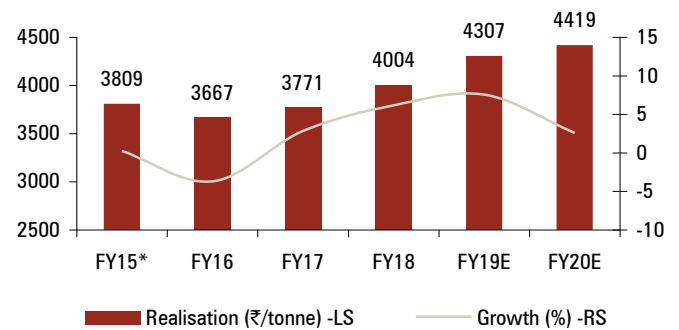
Source: Company, ICICI Direct Research

**Exhibit 4: Volume expected at 5.3 MT by FY20E**



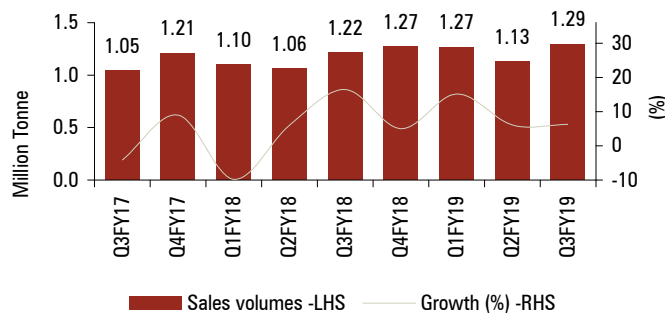
Source: Company, ICICI Direct Research

**Exhibit 5: Realisation to cross ₹ 4400/t in FY20E**



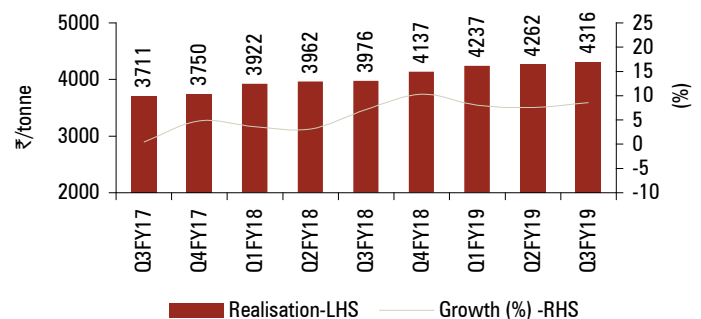
Source: Company, ICICI Direct Research

**Exhibit 6: Q3FY19 volumes up 6.3% YoY led by improved sand availability**



Source: Company, ICICI Direct Research

**Exhibit 7: Q3FY19 realisation increases 8.5% YoY**

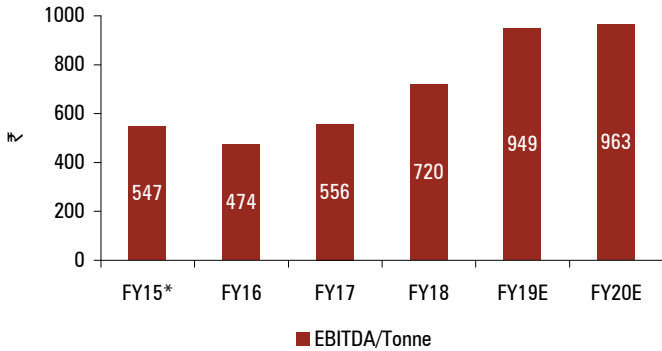


Source: Company, ICICI Direct Research

### Margins to improve to 21.8% by FY20E

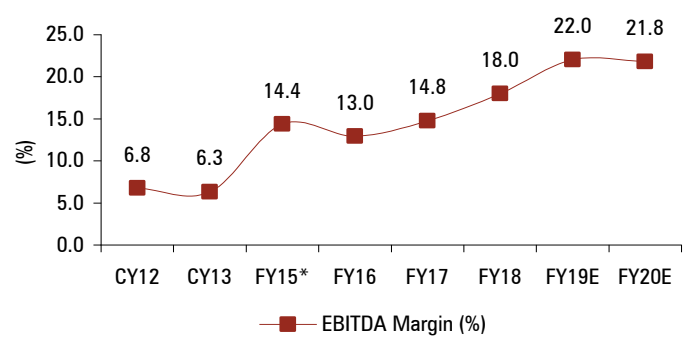
Higher utilisation and steps like overhead belt conveyor & WHRMS will drive cost downwards, going forward. Consequently, despite input cost headwinds, we expect margins to improve further to 21.8 % by FY20E.

**Exhibit 8: Expect EBITDA/tonne of ₹963/tonne in FY20E**



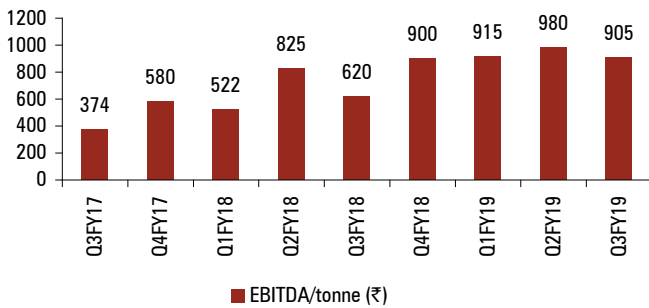
Source: Company, ICICI Direct Research

**Exhibit 9: Margins to improve led by improvement in utilisation**



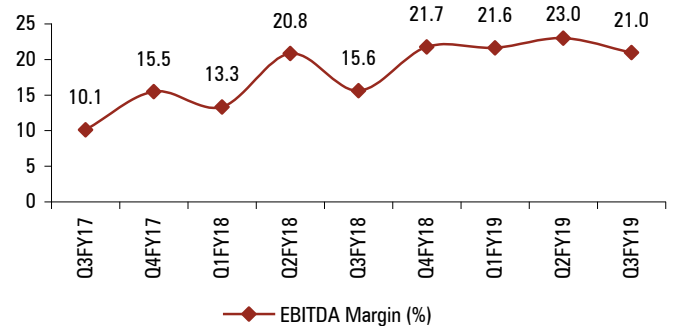
Source: Company, ICICI Direct Research

**Exhibit 10: Q3FY19 EBITDA per tonne at ₹905 (up ~ 46% YoY)**



Source: Company, ICICI Direct Research

**Exhibit 11: Q3FY19 margins expand 537 bps YoY to 21%**

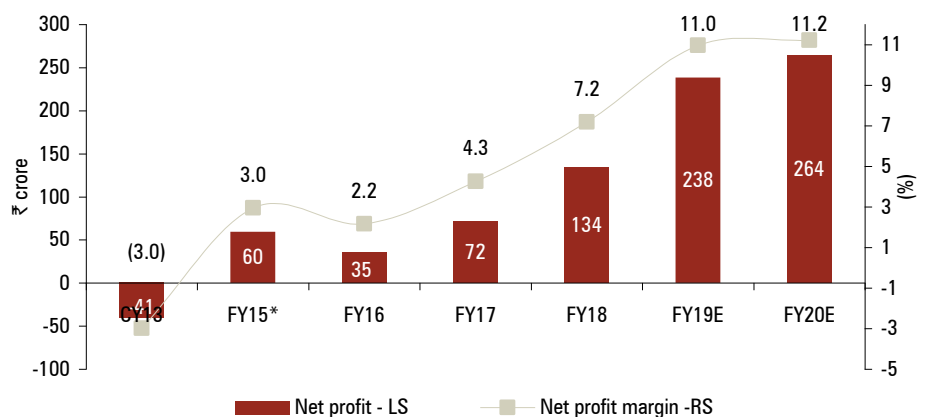


Source: Company, ICICI Direct Research

### Net profit to more than double over FY18-20E

After witnessing a loss in CY13, mainly due to higher interest cost on debt due to expansion, we expect the company to report a 40.3% profit CAGR over FY18-20E mainly led by higher operating margins and lower debt.

**Exhibit 12: Profitability trend**



Source: Company, ICICI Direct Research

## Outlook and valuations

The company has consistently put up a good performance over the past year led by healthy pricing environment, higher presence in trade segment along with steps taken by the management to lower the power cost through WHRS. With firm pricing in the central region along with a decline in prices of major fuels like petcoke, we expect the healthy margin trajectory to continue, going forward, as well. Consequently, we maintain our **BUY** rating with a target price of ₹ 165 [i.e. valuing at 8x FY20E EV/EBITDA (@ 20% discount to its peers), \$125/tonne on capacity of 5.4 MT]. As the company is expected to reach its peak utilisation levels by FY20E, growth may moderate, going forward, unless it is addressed with the new capacity.

### Exhibit 13: Assumptions

| ₹ per tonne         | FY15* | FY16 | FY17E | FY18 | FY19E | FY20E |
|---------------------|-------|------|-------|------|-------|-------|
| Sales Volume (mtpa) | 5.3   | 4.4  | 4.5   | 4.6  | 5.0   | 5.3   |
| Net Realisation     | 3809  | 3667 | 3771  | 4004 | 4307  | 4419  |
| Total Expenditure   | 3262  | 3193 | 3215  | 3284 | 3358  | 3456  |
| Stock Adjustment    | -52   | -21  | 77    | 29   | 58    | 60    |
| Raw material        | 841   | 772  | 728   | 767  | 781   | 804   |
| Power & Fuel        | 1065  | 1018 | 959   | 955  | 969   | 998   |
| Employees           | 253   | 238  | 256   | 259  | 247   | 252   |
| Freight             | 519   | 523  | 535   | 610  | 627   | 646   |
| Others              | 636   | 663  | 659   | 663  | 677   | 697   |
| EBITDA per Tonne    | 547   | 474  | 556   | 720  | 949   | 963   |

Source: Company, ICICI Direct Research \* 15 months

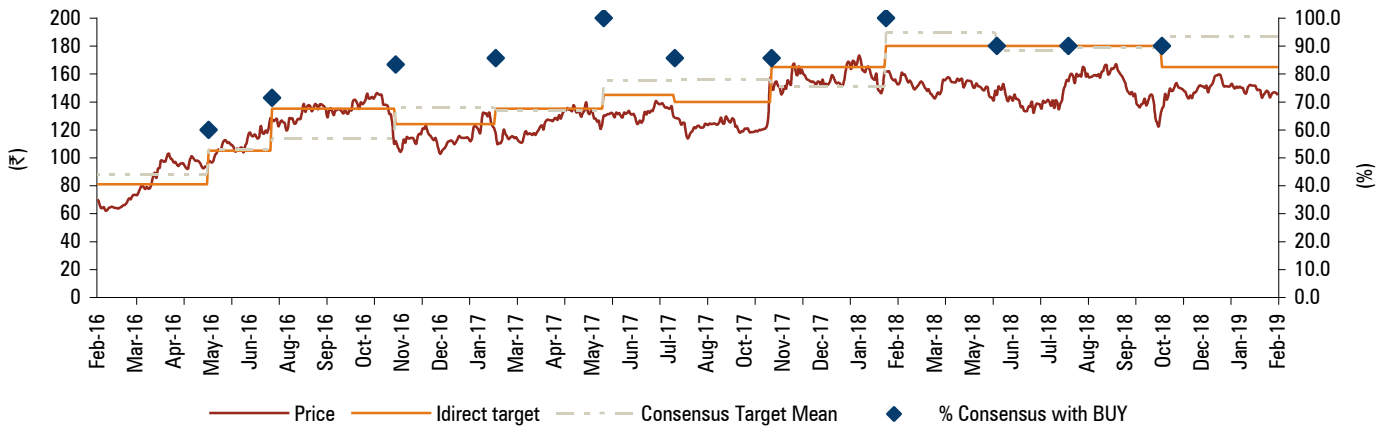
### Exhibit 14: Assumptions

|       | Sales<br>(₹ cr) | Growth<br>(%) | EPS<br>(₹) | Growth<br>(%) | PE<br>(x) | EV/Tonne<br>(\$) | EV/EBITDA<br>(x) | RoNW<br>(%) | RoCE<br>(%) |
|-------|-----------------|---------------|------------|---------------|-----------|------------------|------------------|-------------|-------------|
| FY17  | 1,687.6         | 3.7           | 3.2        | 103.5         | 46.3      | 129              | 16.8             | 7.4         | 10.6        |
| FY18  | 1860.7          | 10.3          | 5.9        | 86.1          | 24.9      | 121              | 11.7             | 12.8        | 14.8        |
| FY19E | 2173.0          | 16.8          | 10.5       | 77.9          | 14.0      | 116              | 7.8              | 19.8        | 22.9        |
| FY20E | 2352.1          | 8.2           | 11.6       | 10.7          | 12.6      | 110              | 6.9              | 19.1        | 25.5        |

Source: Company, ICICI Direct Research



### Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

### Key events

| Date   | Event                                                                                                                                                                                                                                                                                                  |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| May-08 | Board approves amalgamation of Indorama Cement and Heidelberg Cement India with Mysore Cements. Total capacity of the merged entity stands at 3.07 MTPA                                                                                                                                                |
| Jul-08 | The Securities and Appellate Tribunal (SAT) dismisses the Securities and Exchange Board of India's (Sebi) directive on the structure of Heidelberg's open offer for Mysore Cement shares, which involved a non-compete fee for promoters. Thus, it clears the way for an open offer                    |
| Oct-09 | The board of HeidelbergCement India approves setting up of an expansion project at its plants at Damoh (Madhya Pradesh) and Jhansi (Uttar Pradesh) to increase cement production capacity from the existing 1.8 MTPA to 4.7 MTPA                                                                       |
| Jun-10 | The board of HeidelbergCement India approves increasing the cement production at Raigad unit of the company in Maharashtra by 0.625 MTPA                                                                                                                                                               |
| Feb-13 | HeidelbergCement India successfully completes and commissions the expansion project at Damoh (MP). This comprises increase of clinker manufacturing capacity at its unit Narsingarh, district Damoh from 1.2 to 3.1 MTPA and increase of cement capacity at Imlai, district Damoh from 1.0 to 2.0 MTPA |
| Feb-13 | Board approves setting up of a waste heat recover based power generation plant at its clinkerisation unit at Narsingarh, district Damoh (MP). The proposed plant will produce approximately 12.15 MW of power                                                                                          |
| Jan-14 | HeidelbergCement India Ltd completes the sale and transfer of its cement grinding facility at Raigad, Maharashtra to JSW Steel on a slump sale basis in accordance with business transfer agreement executed between the company and JSW Steel on October 5, 2013                                      |
| Feb-16 | Commissions 12 MW WHRMS                                                                                                                                                                                                                                                                                |

Source: Company, ICICI Direct Research

### Top 10 Shareholders

| Rank | Name                                          | Latest Filing Date | % O/S | Position (m) | Change (m) |
|------|-----------------------------------------------|--------------------|-------|--------------|------------|
| 1    | HeidelbergCement AG                           | 31-Dec-18          | 69%   | 157.2        | 0.0        |
| 2    | Stewart Investors                             | 31-Dec-18          | 4%    | 9.4          | 0.2        |
| 3    | First State Investments (Singapore)           | 31-Dec-18          | 3%    | 6.2          | 0.0        |
| 4    | Sundaram Asset Management Company Limited     | 31-Dec-18          | 2%    | 4.4          | 0.0        |
| 5    | Life Insurance Corporation of India           | 31-Dec-18          | 2%    | 3.6          | 0.0        |
| 6    | Caisse de Depot et Placement du Quebec        | 31-Dec-18          | 1%    | 3.4          | 0.6        |
| 7    | Alquity Investment Management Ltd.            | 31-Oct-18          | 1%    | 3.3          | -0.3       |
| 8    | J.P. Morgan Asset Management (Hong Kong) Ltd. | 31-Dec-18          | 1%    | 3.0          | 0.0        |
| 9    | Bajaj Group of Industries                     | 31-Dec-18          | 1%    | 2.9          | 0.0        |
| 10   | Dimensional Fund Advisors, L.P.               | 31-Dec-18          | 1%    | 2.3          | 0.0        |

Source: Reuters, ICICI Direct Research

### Shareholding Pattern

| (in %)   | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 69.39  | 69.39  | 69.39  | 69.39  | 69.39  |
| FII      | 11.33  | 11.63  | 11.74  | 11.97  | 11.77  |
| DII      | 6.32   | 5.97   | 5.97   | 6.20   | 6.54   |
| Others   | 12.96  | 13.01  | 12.90  | 12.44  | 12.30  |

### Recent Activity

| Buys                                          |            |        | Sells                                       |            |        |
|-----------------------------------------------|------------|--------|---------------------------------------------|------------|--------|
| Investor name                                 | Value (mn) | Shares | Investor name                               | Value (mn) | Shares |
| Caisse de Depot et Placement du Quebec        | 1.3        | 0.6    | Alquity Investment Management Ltd.          | -0.5       | -0.3   |
| Stewart Investors                             | 0.4        | 0.2    | Mahindra Asset Management Company Pvt. Ltd. | -0.5       | -0.3   |
| IDFC Asset Management Company Private Limited | 0.2        | 0.1    | Legato Capital Management LLC               | -0.5       | -0.2   |
| Taurus Asset Management Co. Ltd.              | 0.1        | 0.0    | Mellon Investments Corporation              | 0.0        | 0.0    |
| BNP Paribas Asset Management India Pvt. Ltd.  | 0.0        | 0.0    | BlackRock Advisors (UK) Limited             | 0.0        | 0.0    |

Source: Reuters, ICICI Direct Research



## Financial summary

| Profit and loss statement |         | ₹ Crore |         |         |  |
|---------------------------|---------|---------|---------|---------|--|
| (Year-end March)          | FY17    | FY18    | FY19E   | FY20E   |  |
| Total operating Income    | 1,687.6 | 1,860.7 | 2,173.0 | 2,352.1 |  |
| Growth (%)                | 3.7     | 10.3    | 16.8    | 8.2     |  |
| Raw material              | 360.7   | 370.3   | 423.2   | 459.9   |  |
| Power & Fuel              | 429.3   | 443.9   | 488.7   | 531.1   |  |
| Employees                 | 114.8   | 120.2   | 124.5   | 134.0   |  |
| Freight                   | 239.2   | 283.6   | 316.3   | 343.8   |  |
| Others                    | 294.7   | 308.2   | 341.4   | 371.0   |  |
| Total Operating Exp.      | 1,438.6 | 1,526.1 | 1,694.2 | 1,839.6 |  |
| EBITDA                    | 249.0   | 334.6   | 478.8   | 512.4   |  |
| Growth (%)                | 18.0    | 34.4    | 43.1    | 7.0     |  |
| Depreciation              | 99.2    | 101.2   | 103.6   | 107.5   |  |
| Interest                  | 89.8    | 74.5    | 75.7    | 64.5    |  |
| Other Income              | 49.4    | 49.6    | 56.0    | 70.0    |  |
| Exceptional items         | 0.0     | 0.0     | 0.0     | 0.0     |  |
| PBT                       | 109.4   | 208.5   | 355.4   | 410.4   |  |
| Total Tax                 | 37.4    | 74.5    | 117.0   | 146.5   |  |
| PAT                       | 72.0    | 134.0   | 238.4   | 263.9   |  |
| Growth (%)                | 103.5   | 86.1    | 77.9    | 10.7    |  |
| EPS (₹)                   | 3.2     | 5.9     | 10.5    | 11.6    |  |

Source: ICICI Direct Research \* FY15 was 15months and FY16 is 12 months hence there is higher decline in sales

| Balance sheet              |         | ₹ Crore |         |         |  |
|----------------------------|---------|---------|---------|---------|--|
| (Year-end March)           | FY17    | FY18    | FY19E   | FY20E   |  |
| <b>Liabilities</b>         |         |         |         |         |  |
| Equity Capital             | 226.6   | 226.6   | 226.6   | 226.6   |  |
| Reserve and Surplus        | 740.3   | 819.8   | 976.2   | 1,158.1 |  |
| Total Shareholders funds   | 967.0   | 1,046.4 | 1,202.8 | 1,384.7 |  |
| Total Debt                 | 917.9   | 857.6   | 667.6   | 467.6   |  |
| Deferred Tax Liability     | 53.0    | 83.5    | 83.5    | 83.5    |  |
| Minority Interest / Others | 0.0     | 0.0     | 0.0     | 0.0     |  |
| Total Liabilities          | 1,937.9 | 1,987.5 | 1,953.9 | 1,935.8 |  |
| <b>Assets</b>              |         |         |         |         |  |
| Gross Block                | 2,949.6 | 2,979.7 | 3,092.8 | 3,234.1 |  |
| Less: Acc Depreciation     | 1,072.5 | 1,173.7 | 1,277.3 | 1,384.8 |  |
| Net Block                  | 1,877.1 | 1,806.0 | 1,815.5 | 1,849.3 |  |
| Capital WIP                | 6.3     | 8.1     | 5.0     | 2.0     |  |
| Total Fixed Assets         | 1,883.4 | 1,814.1 | 1,820.5 | 1,851.3 |  |
| Investments                | 0.0     | 0.0     | 0.0     | 0.0     |  |
| Inventory                  | 139.6   | 126.9   | 147.0   | 155.9   |  |
| Debtors                    | 12.6    | 18.8    | 18.1    | 21.8    |  |
| Loans and Advances         | 299.5   | 302.7   | 314.4   | 316.0   |  |
| Other Current Assets       | 58.4    | 57.9    | 66.0    | 61.1    |  |
| Cash                       | 14.2    | 212.4   | 174.1   | 168.3   |  |
| Total Current Assets       | 524.3   | 718.7   | 719.6   | 723.1   |  |
| Creditors                  | 253.7   | 326.5   | 351.0   | 382.4   |  |
| Provisions                 | 216.1   | 218.9   | 235.2   | 256.2   |  |
| Total Current Liabilities  | 469.8   | 545.4   | 586.1   | 638.5   |  |
| Net Current Assets         | 54.5    | 173.4   | 133.4   | 84.5    |  |
| Application of Funds       | 1,937.9 | 1,987.5 | 1,953.9 | 1,935.8 |  |

Source: Company, ICICI Direct Research

| Cash flow statement            |        | ₹ Crore |        |        |  |
|--------------------------------|--------|---------|--------|--------|--|
| (Year-end March)               | FY17   | FY18    | FY19E  | FY20E  |  |
| Profit after Tax               | 72.0   | 134.0   | 238.4  | 263.9  |  |
| Add: Depreciation              | 99.2   | 101.2   | 103.6  | 107.5  |  |
| (Inc)/dec in Current Assets    | 139.5  | 3.8     | -39.1  | -9.3   |  |
| Inc/(dec) in CL and Provisions | 28.5   | 75.6    | 40.8   | 52.4   |  |
| CF from operating activities   | 339.2  | 314.5   | 343.7  | 414.5  |  |
| (Inc)/dec in Investments       | 0.0    | 0.0     | 0.0    | 0.0    |  |
| (Inc)/dec in Fixed Assets      | -25.3  | -31.9   | -110.0 | -138.4 |  |
| Others                         | 33.9   | 46.8    | 0.0    | 0.0    |  |
| CF from investing activities   | 8.7    | 14.8    | -110.0 | -138.4 |  |
| Issue/(Buy back) of Equity     | 0.0    | 0.0     | 0.0    | 0.0    |  |
| Inc/(dec) in loan funds        | -341.4 | -76.6   | -190.0 | -200.0 |  |
| Dividend paid & dividend tax   | -53.0  | -68.3   | -82.0  | -82.0  |  |
| Inc/(dec) in Sec. premium      | 0.0    | 0.0     | 0.0    | 0.0    |  |
| Others                         | 53.0   | 13.8    | 0.0    | 0.0    |  |
| CF from financing activities   | -341.4 | -131.2  | -272.0 | -282.0 |  |
| Net Cash flow                  | 6.4    | 198.2   | -38.3  | -5.8   |  |
| Opening Cash                   | 7.8    | 14.2    | 212.4  | 174.1  |  |
| Closing Cash                   | 14.2   | 212.4   | 174.1  | 168.3  |  |

Source: Company, ICICI Direct Research

| Key ratios                  |      | ₹ Crore |       |       |  |
|-----------------------------|------|---------|-------|-------|--|
| (Year-end March)            | FY17 | FY18    | FY19E | FY20E |  |
| <b>Per share data (₹)</b>   |      |         |       |       |  |
| EPS                         | 3.2  | 5.9     | 10.5  | 11.6  |  |
| Cash EPS                    | 7.6  | 10.4    | 15.1  | 16.4  |  |
| BV                          | 43   | 46      | 53    | 61    |  |
| DPS                         | 2.0  | 2.5     | 3.0   | 0.0   |  |
| Cash Per Share              | 0.6  | 9.4     | 7.7   | 7.4   |  |
| <b>Operating Ratios (%)</b> |      |         |       |       |  |
| EBITDA Margin               | 14.8 | 18.0    | 22.0  | 21.8  |  |
| PAT Margin                  | 4.3  | 7.2     | 11.0  | 11.2  |  |
| Inventory days              | 34.4 | 26.1    | 23.0  | 23.5  |  |
| Debtor days                 | 4.1  | 3.1     | 3.1   | 3.1   |  |
| Creditor days               | 52.7 | 56.9    | 56.9  | 56.9  |  |
| <b>Return Ratios (%)</b>    |      |         |       |       |  |
| RoE                         | 7.4  | 12.8    | 19.8  | 19.1  |  |
| RoCE                        | 10.6 | 14.8    | 22.9  | 25.5  |  |
| RoIC                        | 7.8  | 13.2    | 21.2  | 22.9  |  |
| <b>Valuation Ratios (x)</b> |      |         |       |       |  |
| P/E                         | 46.3 | 24.9    | 14.0  | 12.6  |  |
| EV / EBITDA                 | 16.8 | 11.7    | 7.8   | 6.9   |  |
| EV / Net Sales              | 2.5  | 2.1     | 1.7   | 1.5   |  |
| Market Cap / Sales          | 2.0  | 1.8     | 1.5   | 1.4   |  |
| Price to Book Value         | 3.4  | 3.2     | 2.8   | 2.4   |  |
| <b>Solvency Ratios</b>      |      |         |       |       |  |
| Debt/EBITDA                 | 3.5  | 2.4     | 1.2   | 0.8   |  |
| Debt / Equity               | 0.9  | 0.8     | 0.5   | 0.3   |  |
| Current Ratio               | 1.1  | 1.3     | 1.2   | 1.1   |  |
| Quick Ratio                 | 1.1  | 0.9     | 0.9   | 0.9   |  |

Source: Company, ICICI Direct Research

## ICICI Direct Research coverage universe (Cement)

| Company        | CMP    |        | Rating | M Cap<br>(₹ Cr) | EPS (₹) |       |       | EV/EBITDA (x) |       |       | EV/Tonne (\$) |       |       | RoCE (%) |       |       | RoE (%) |       |       |
|----------------|--------|--------|--------|-----------------|---------|-------|-------|---------------|-------|-------|---------------|-------|-------|----------|-------|-------|---------|-------|-------|
|                | (₹)    | TP(₹)  |        |                 | FY18    | FY19E | FY20E | FY18          | FY19E | FY20E | FY18          | FY19E | FY20E | FY18     | FY19E | FY20E | FY18    | FY19E | FY20E |
| ACC*           | 1,371  | 1,650  | Buy    | 25,767          | 35.0    | 49.2  | 80.9  | 19.1          | 14.8  | 12.8  | 117           | 105   | 103   | 10.7     | 14.0  | 14.7  | 8.1     | 9.9   | 14.9  |
| Ambuja Cement* | 206    | 231    | Buy    | 40,894          | 6.3     | 6.4   | 8.1   | 13.8          | 13.3  | 10.9  | 135           | 136   | 135   | 11.3     | 12.5  | 15.9  | 8.6     | 10.0  | 10.5  |
| UltraTech Cem  | 3,472  | 4,150  | Buy    | 95,272          | 89.6    | 81.8  | 113.1 | 18.6          | 17.4  | 12.7  | 204           | 190   | 178   | 10.0     | 9.7   | 12.6  | 9.5     | 8.1   | 10.2  |
| Shree Cement   | 15,610 | 16,900 | Hold   | 54,323          | 397.8   | 396.0 | 611.1 | 22.6          | 20.3  | 14.9  | 236           | 197   | 171   | 15.3     | 13.2  | 19.3  | 15.6    | 14.0  | 18.2  |
| Heidelberg Cem | 148    | 165    | Buy    | 3,354           | 5.9     | 10.5  | 11.6  | 11.7          | 7.9   | 7.0   | 121           | 117   | 111   | 14.8     | 22.9  | 25.5  | 12.8    | 19.8  | 19.1  |
| India Cement   | 80     | 85     | Hold   | 2,471           | 3.3     | 2.4   | 3.7   | 8.1           | 9.2   | 8.9   | 60            | 63    | 69    | 5.1      | 4.5   | 5.0   | 1.9     | 1.4   | 2.1   |
| JK Cement      | 690    | 759    | Hold   | 4,825           | 48.9    | 36.9  | 58.2  | 8.7           | 10.0  | 8.4   | 79            | 79    | 81    | 14.6     | 11.1  | 13.2  | 16.7    | 11.1  | 15.4  |
| JK Lakshmi Cem | 301    | 335    | Buy    | 3,543           | 7.1     | 5.4   | 10.4  | 12.3          | 12.4  | 9.9   | 62            | 58    | 57    | 8.8      | 8.1   | 10.6  | 5.8     | 4.2   | 7.6   |
| Mangalam Cem   | 196    | 239    | Hold   | 523             | 4.3     | -2.8  | 7.0   | 9.9           | 17.5  | 9.5   | 36            | 38    | 38    | 7.2      | 2.7   | 6.8   | 2.2     | -1.5  | 3.6   |
| Star Cement    | 88     | 90     | Hold   | 3,689           | 7.9     | 7.5   | 7.0   | 7.6           | 7.5   | 7.0   | 180           | 164   | 160   | 21.6     | 19.3  | 19.1  | 22.4    | 18.1  | 14.8  |
| Ramco Cement   | 610    | 750    | Buy    | 14,523          | 23.5    | 23.2  | 27.8  | 14.1          | 14.4  | 11.7  | 157           | 151   | 127   | 10.4     | 8.9   | 10.1  | 13.7    | 12.5  | 13.6  |
| Sagar Cement   | 583    | 700    | Buy    | 1,189           | 12.9    | 15.1  | 21.3  | 10.6          | 10.1  | 8.5   | 62            | 53    | 34    | 8.1      | 8.3   | 9.5   | 3.4     | 3.8   | 5.1   |

Source: Company, ICICI Direct Research

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