

28 April 2008

HOLD

Price Target Price
Rs783 Rs765

Sensex **17,126**

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	4	(27)	(6)
Rel. to Sensex	(10)	5	(19)	(22)

Source: Capitaline

Stock Details

Sector	Cement
Reuters	ACC.BO
Bloomberg	ACC@IN
Equity Capital (Rs mn)	1876
Face Value (Rs)	10
No of shares o/s (mn)	188
52 Week H/L	1,315/615
Market Cap (Rs bn/USD mn)	147/3,664
Daily Avg Vol. (No of shares)	642859
Daily Avg Turnover (US\$m)	12.6

Shareholding Pattern (%)

	M'08	D'07	S'07
Promoters	43.0	43.0	43.0
FII/NRI	16.3	19.3	19.7
Institutions	20.9	17.8	17.3
Private Corp	2.8	3.1	3.1
Public	17.0	16.8	16.9

Source: Capitaline

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ACC Ltd.**Q1CY2008 results – In line with expectations**Result
Update

ACC Q1CY2008 pre-exceptional net profit at Rs3.29 billion is in line with our expectations of Rs3.31 bn. However the result does not include the results of its RMC business which was transferred to its 100% subsidiary ACC concrete. On a like to like basis the pre -exceptional net profit of Rs3.09 bn (-10.1% yoy) is below our expectation. Net revenues on a like to like basis stood at Rs19.20 billion for Q1CY2008 and the same grew by 14.6% yoy. Cement volumes during the quarter grew by a decent 9.5% whereas cement realization improved by just 4.7% yoy. Reported operating profit for the quarter declined by 7.2% yoy to Rs 4.7 bn as OPMs at 26.2% registered a fall of a massive 407 bps yoy. The OPMS declined on account of 19% increase in raw material and 14% increase in power and fuel cost per ton. Other income for the quarter grew by 131% depreciation increased by 14.9% yoy. ACC's pre-exceptional net profit declined 4.3% yoy to Rs3.29 bn. However adjusting for the Rs0.2 bn loss incurred by the RMC business the net profit at Rs3.09 bn declined by 10% yoy. We are not changing our earnings estimates for ACC. At current levels the stock is trading at 11.6X its CY2008 earnings and EV/Ton of USD 143 for its CY2008 capacity. The valuations even though reasonable does not provide enough headroom keeping in mind significant capacity additions of 60-70 million tonnes lined up by the industry over next two year. The capacity addition we believe would disturb the demand supply equation and would weaken pricing power of cement producers. Also the mounting cost pressures are likely to put pressures on OPMs resulting in negative earnings CAGR of 11% from CY2007-09E. We maintain our HOLD rating on the stock with a price target of Rs765.

Result Highlights

- ACC has reported standalone financials for Q1CY08. W.e.f. January 1st, 2008, ACC transferred its RMC business to a wholly-owned subsidiary ACC Concreted Ltd for a consideration of Rs1 bn. for the current quarter, ACC Concrete has reported revenues of Rs1.24 bn and net loss of Rs0.20 bn.
- Net revenues on a like to like basis stood at Rs19.20 billion for Q1CY2008 and the same grew by 14.6% yoy. The increase in revenues was on back of 9.5% yoy growth in cement volumes and 4.7% yoy growth in cement realizations
- Also the growth in cement realization could have been higher but for a major increase in state and centre level taxes and duties. The net sales for the quarter were also impacted by introduction of VAT by the state of Uttar Pradesh from January 2008. The company said that the net sales for the quarter were lower by Rs275.6 mn on account of this fact. Also increase in excise duty on clinker of Rs.100 per tonne and change in excise duty rate for bulk and institutional cement sales, from Rs. 400 per ton to 14% ad valorem have impacted company's revenues. Also on the state levels Himachal Pradesh increased additional goods tax on cement by Rs5 per tonne of cement to Rs. 45 per and the state Gujarat of has increase rate of VAT from 12.5% to 15%. Such sharp increase in duties and taxes is clearly reflected in the numbers for the quarter as the duties and taxes per tonne of cement have increased 29% yoy.
- Reported operating profit for the quarter declined by 7.2% yoy to Rs 4.7 bn as OPMs at 26.2% registered a fall of a massive 407 bps yoy. The OPMS declined on account of 19% increase in raw material and 14% increase in power and fuel cost per ton. The total cost increased by 12% yoy and the increase is primarily on account of 31% increase in cost of coal and also significant jump in prices of Gypsum. The increase in input costs has been steady and with the company's inability to fully pass on these costs we believe that operating margins will be under pressure going forward.

- Other income for the quarter grew by 131% yoy to Rs651 mn while depreciation increased by 14.9% yoy to Rs714 mn.
- ACC's pre-exceptional net profit declined 4.3% yoy to Rs3.29 bn. However adjusting for the Rs0.2 bn loss incurred by the RMC business the net profit at Rs3.09 bn declined by 10% yoy. Reported profit at Rs3.57 bn which includes gain on sale of ACC investment in ACC machinery declined by 1.7% yoy.
- We are not changing our earnings estimates for ACC. At current levels the stock is trading at 11.6X its CY2008 earnings and EV/Ton of USD 143 for its CY2008 capacity. The valuations even though reasonable does not provide enough headroom keeping in mind significant capacity additions of 60-70 million tonnes lined up by the industry over next two year. The capacity addition we believe would disturb the demand supply equation and would weaken pricing power of cement producers. Also the mounting cost pressures are likely to put pressures on OPMs resulting in negative earnings CAGR of 11% from CY2007-09E. We maintain our HOLD rating on the stock with a price target of Rs765.

Results Table

(Rs million)	Q1CY08A	Q1CY08 Adjusted*	Q1CY2007	Change	Adjusted Growth
Net Sales	17957.5	19200.7	16748.3	7.2%	14.6%
Total Expenditure	13250.9		11676.3	13.5%	
Operating profit	4706.6		5072.0	-7.2%	
Other Income	656.2		283.9	131.1%	
PBIDT	5362.8		5355.9	0.1%	
Interest	55.7		39.9	39.6%	
PBDT	5307.1		5316.0	-0.2%	
Depreciation	713.5		621.2	14.9%	
PBT	4593.6		4694.8	-2.2%	
Tax	1302.3		1256.3	3.7%	
PAT before extra ordinary item	3291.3	3091.5	3438.5	-4.3%	-10.1%
Extra-ordinary Items	365.7	365.7	199.6	83.2%	
Tax on extra ordinary item	80.5	80.5			
Reported PAT	3576.5	3376.7	3638.1	-1.7%	-7.2%
EPS	17.5	16.5	18.3	-4.4%	
EPS after extra ordinaries	19.0	18.0	19.4	-1.8%	-7.3%
Margins					
OPMs	26.2%		30.3%		
EBIDTA	29.9%		32.0%		
EBDT	29.6%		31.7%		
PBT(%)	25.6%		28.0%		
PAT	18.3%		20.5%		
Tax rate	28.4%		26.8%		

*Note: The adjusted numbers are arrived at by adding reported numbers of the RMC business.

Per tonne analysis

Per tonne analysis	Q1CY08A	Q1CY2007	Var(%)
Raw Material	454.48	381.12	19.2%
Staff cost	146.85	148.56	-1.2%
Power & Fuel	608.76	533.43	14.1%
Cost of traded cement	51.15	25.75	98.6%
Freight	450.91	509.08	-11.4%
Excise Duty	54.46	81.24	-33.0%
Other expenses	687.3	687.67	-0.1%
Total Cost Per tonne	2453.9	2367.5	3.7%
EBIDTA/Ton	871.6	1028.4	-15.2%
Realisation	3325.5	3395.8	-2.1%

ACC to have capacity of 23 mtpa by end CY2008

During the year ACC completed three smaller capacity augmentation programs, i.e. Tikaria - 0.31 mtpa, Lakheri - 0.90 mtpa and Kymore - 0.50 mtpa. Post this ACC capacity stand at 21.62 mtpa. The capacity expansion at Bargarh for 1.18 mtpa together with a 30 MW Captive Power Plant is expected to get operational by the end of CY2008. This coupled with a small expansion of 0.22 mtpa at Madukkarai will take ACC capacity to 23 mtpa by end CY2008.

Greenfield project at New Wadi to commence production by mid CY2009

The work on the 3 mtpa expansion at New Wadi Plant in Karnataka along with two split grinding plants in the state is expected to go on stream by mid CY2009.

ACC to set up new plant of 3 mtpa at Chanda, Maharashtra - capacity of 29 mtpa by CY2010

In order to increase in the Vidharbha and Maharashtra ACC is to set up a new 3 mtpa and a 25 MW CPP at Chanda in the state of Maharashtra. The total outlay on this project is estimated to be Rs.14.5 bn and the project is scheduled to come on stream in CY2010. By the end of this project ACC will have a capacity of 29 mtpa by the end of CY2010.

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