

July 22, 2010

## HOLD

Price <b>Rs 825</b>	Target Price <b>Rs 875</b>
<b>Sensex</b>	<b>17,977</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(10)	(13)	0
Rel. to Sensex	(7)	(13)	(16)	(16)

Source: Bloomberg

### Stock Details

Sector	Cement
Reuters	ACC.BO
Bloomberg	ACC@IN
Equity Capital (Rs mn)	1877
Face Value(Rs)	10
No of shares o/s (mn)	188
52 Week H/L	1,017/686
Market Cap (Rs bn/USD mn)	155/3,286
Daily Avg Volume (No of sh)	440351
Daily Avg Turnover (US\$m)	8.1

### Shareholding Pattern (%)

	Jun-10	Mar-10	Dec-09
Promoters	46.2	46.2	46.2
FII/NRI	13.2	13.0	11.5
Institutions	20.1	19.8	20.9
Private Corp	4.7	5.0	5.0
Public	15.9	16.0	16.3

Source: Capitaline

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- ACC's Q2CY10 net at Rs3.59 bn (-26.1% yoy) is in line with estimates. Topline decline of 2.9%- impacted by cement volumes (decline of 2.8% yoy). Realisations at Rs3834/t flat yoy up 1.8% qoq.
- Cost increases drag down EBIDTA (Rs5.53 bn) by 24.7%. RM costs/t up 27.5% yoy due to lower blending & higher fly ash costs. Variable expenses per tonne up by 13.9% and 9.6% qoq. EBIDTA/t at Rs1049 down 22.6% yoy 5.9% qoq.
- Downgrade CY10 earnings by 2.9% (EPS Rs66.4) & CY11 by 5% (EPS Rs75.7) on lower volumes & higher costs
- Stock trading at PER of 10.9X & EV/ton of USD84 for its CY11 numbers, reflecting emergence of some long term value (10 year average PER 13 & EV/ton of USD 110/ton). Upgrade our reco from REDUCE to HOLD – maintain target of Rs875.

### Topline decline of 2.9%- impacted by cement volumes

ACC's Revenues at Rs 20.2 bn have declined by 2.9% yoy due to lower volumes. Cement dispatches at 5.27 mnt, declined 2.8% yoy mainly on account of delays in stabilization of recently commissioned new cement plants and constraints in supply of railway wagons. Though net realizations have remained flat on yoy basis, they improved by 1.8% qoq mainly due to price improvement for the first 2 months of the quarter. However the decline in prices witnessed in June 2010 indicate pressure on prices to continue for the next few quarters.

### Increasing costs drag EBIDTA down by 24.7% - EBIDTA /t at Rs1049

On account of flattish realisation & significant increase in costs ACC's EBIDTA at Rs 5.53 bn declined 24.7% yoy, with EBITDA/t declining 22.6% yoy & 5.9% qoq to Rs 1049 (Rs1355/t in Q2CY09). EBIDTA margins contracted by a 792 bps to 27.4%. We had mentioned in our quarterly preview that the significant increase in coal & fuel cost was not fully reflected in numbers till March 2010 quarter and hence the current quarter would see significant cost inflation. The quarter saw P&F costs increasing by 8.2% yoy & 6.1% qoq to Rs 746/tonne. This increase could have been higher but for the 8% increase in captive power generation. Similarly significant increase in fly ash cost along with its acute shortage (resulting in lower blending) took ACC's RM cost /t to Rs537, up 27.5%yoy and 20.7% qoq. Higher diesel prices led to freight cost/t going up by 9% yoy to Rs512. We note that total variable costs have seen an increase of 13.9% yoy and 9.6% qoq to Rs1850/t, while the total cost at Rs 2785/t, increase 12.1% yoy & 5% qoq.

### Net profit at Rs3.59 bn down 26.1% yoy

Interest expenses for Q2CY10 were down 12%, however lower operating profit and 22.7% yoy increase in depreciation charges have resulted in a 26.1% yoy decline in ACC's net profit at Rs 3.59 bn.

### Financials

(Rsmn, Y/E Dec)	Net sales (Rsm)	EBIDTA (Rsm)	PAT (Rsm)	EPS (Rs)	EPS growth (%)	ROE (%)	PE (x)	EV/EBIDTA (x)	EV/ Tonne (USD)
<b>CY08</b>	72,829	17,332	11,639	64.6	-15.7	23.6	12.8	8.3	136.2
<b>CY09</b>	80,272	24,797	16,067	85.5	32.4	26.7	9.7	5.7	118.3
<b>CY10E</b>	82,811	19,742	12,371	65.8	-23.0	18.2	12.5	6.5	91.8
<b>CY11E</b>	91,985	22,807	14,162	75.4	14.5	18.2	10.9	5.2	84.4

## Result Table

Rs mn	Q2CY09	Q3CY09	Q4CY09	Q1CY10	Q2CY10	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>20,813</b>	<b>19,694</b>	<b>19,215</b>	<b>21,018</b>	<b>20,207</b>	<b>-2.9</b>	<b>-3.9</b>
<b>Expenditure</b>	<b>13,469</b>	<b>13,015</b>	<b>14,315</b>	<b>14,796</b>	<b>14,677</b>	<b>9.0</b>	<b>-0.8</b>
<i>as % of sales</i>	<i>64.7</i>	<i>66.1</i>	<i>74.5</i>	<i>70.4</i>	<i>72.6</i>		
Consumption of RM	2,282	2,219	2,354	2,481	2,829	23.9	14.0
<i>as % of sales</i>	<i>11.0</i>	<i>11.3</i>	<i>12.3</i>	<i>11.8</i>	<i>14.0</i>		
Stocks	-48.1	-347.9	-425.0	320.9	-483.3	904.7	-250.6
<i>as % of sales</i>	<i>(0.2)</i>	<i>(1.8)</i>	<i>(2.2)</i>	<i>1.5</i>	<i>(2.4)</i>		
Employee Cost	968	998	917	896	1063	9.8	18.7
<i>as % of sales</i>	<i>4.7</i>	<i>5.1</i>	<i>4.8</i>	<i>4.3</i>	<i>5.3</i>		
Power & Fuel	3,738	3,595	3,950	3,926	3,934	5.2	0.2
<i>as % of sales</i>	<i>18.0</i>	<i>18.3</i>	<i>20.6</i>	<i>18.7</i>	<i>19.5</i>		
Cost of traded cement	247	212	219	266	296	19.6	11.2
<i>as % of sales</i>	<i>1.2</i>	<i>1.1</i>	<i>1.1</i>	<i>1.3</i>	<i>1.5</i>		
Freight	2,547	2,548	2,672	2,753	2,700	6.0	-1.9
<i>as % of sales</i>	<i>12.2</i>	<i>12.9</i>	<i>13.9</i>	<i>13.1</i>	<i>13.4</i>		
Other expenditure	3734	3791	4628	4154	4339	16.2	4.5
<i>as % of sales</i>	<i>17.9</i>	<i>19.3</i>	<i>24.1</i>	<i>19.8</i>	<i>21.5</i>		
<b>EBITDA</b>	<b>7,344</b>	<b>6,679</b>	<b>4,900</b>	<b>6,222</b>	<b>5,530</b>	<b>-24.7</b>	<b>-11.1</b>
Depreciation	784	796	1052	935	962	22.7	2.8
<b>EBIT</b>	<b>6560</b>	<b>5883</b>	<b>3848</b>	<b>5287</b>	<b>4568</b>	<b>-30.4</b>	<b>-13.6</b>
Other Income	563	509	833	609	597	6.0	-1.9
Interest	159	136	180	127	141	-11.8	10.4
<b>PBT</b>	<b>6963</b>	<b>6256</b>	<b>4502</b>	<b>5769</b>	<b>5024</b>	<b>-27.8</b>	<b>-12.9</b>
Total Tax	2107	1900	1092	1717	1435	-31.9	-16.4
<b>Adjusted PAT</b>	<b>4856</b>	<b>4355</b>	<b>3410</b>	<b>4051</b>	<b>3589</b>	<b>-26.1</b>	<b>-11.4</b>
(Profit)/loss from JV's/Ass/MI							
<b>PAT after MI</b>	<b>4856</b>	<b>4355</b>	<b>3410</b>	<b>4051</b>	<b>3589</b>	<b>-26.1</b>	<b>-11.4</b>
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>Reported PAT</b>	<b>4856</b>	<b>4355</b>	<b>2810</b>	<b>4051</b>	<b>3589</b>	<b>-26.1</b>	<b>-11.4</b>
<b>Reported EPS</b>	<b>25.9</b>	<b>23.2</b>	<b>18.2</b>	<b>21.6</b>	<b>19.1</b>	<b>-26.1</b>	<b>-11.4</b>

Margins (%)						(bps)	(bps)
EBIDTA	35.3	33.9	25.5	29.6	27.4	-792.0	-223.9
EBIT	31.5	29.9	20.0	25.2	22.6	-891.2	-254.8
EBT	33.5	31.8	23.4	27.4	24.9	-859.3	-258.0
PAT	23.3	22.1	17.7	19.3	17.8	-557.1	-151.3
Effective Tax rate	30.3	30.4	24.3	29.8	28.6	-169.8	-120.6

## Per tonne analysis

Rs/t	Q2CY09	Q3CY09	Q4CY09	Q1CY10	Q2CY10	Change	QoQ
<b>Cement volumes</b>	<b>5.42</b>	<b>5.01</b>	<b>5.36</b>	<b>5.58</b>	<b>5.27</b>	<b>-2.8%</b>	<b>-5.6%</b>
Raw Material	421.09	442.83	439.21	444.59	536.78	27.5%	20.7%
Stocks	-8.87	-69.43	-79.30	57.51	-91.70	933.3%	-259.5%
Staff cost	178.7	199.1	171.1	160.5	201.7	12.9%	25.7%
Power & Fuel	689.7	717.5	736.9	703.5	746.4	8.2%	6.1%
Cost of traded cement	45.6	42.4	40.9	47.6	56.1	23.0%	17.8%
Freight	469.9	508.6	498.4	493.3	512.3	9.0%	3.9%
Other expenses	688.9	756.7	863.4	744.5	823.4	19.5%	10.6%
Total Cost Per tonne	2485.0	2597.8	2670.6	2651.6	2785.1	<b>12.1%</b>	<b>5.0%</b>
<b>EBIDTA/Ton</b>	<b>1354.9</b>	<b>1333.1</b>	<b>914.2</b>	<b>1115.1</b>	<b>1049.3</b>	<b>-22.6%</b>	<b>-5.9%</b>
<b>Realisation</b>	<b>3839.9</b>	<b>3930.9</b>	<b>3584.8</b>	<b>3766.7</b>	<b>3834.4</b>	<b>-0.1%</b>	<b>1.8%</b>

## Downgrade Earnings

On account of slower pick up in volumes and sharp decline in cement prices over last 2 months we are downgrading our earnings estimates for ACC by 3.8% for CY10 (EPS of Rs65.8) and 5.5% for CY11 (EPS of Rs75.4).

### CY10 earnings downgraded by 2.9%

	CY10			CY11		
	Earlier	Revised	change	Earlier	Revised	change
<b>Sales</b>	85624	81084	-5.3%	94073	90406	-3.9%
<b>EBIDTA</b>	20434	19660	-3.8%	23978	22660	-5.5%
<b>EBIDTA (%)</b>	23.9	24.2		25.5	25.1	
<b>Net Profit</b>	12855	12488	-2.9%	14982	14232.5	-5.0%
<b>EPS</b>	68.4	66.4	-2.9%	79.7	75.7	-5.0%

## Capex plans update

### Karnataka expansions stabilising - Chanda expansion nearing completion

Two new satellite grinding plant at Thondebhavi (1.6 mtpa) near Bangalore and Kudithini (1.1 mtpa) near Bellary were commissioned in Q4CY2009. These units are gradually stabilizing. These units draw clinker from the Wadi facility. The above 2 expansion are expected to give ACC the much needed boost to its volume as ACC has been severely underperforming the volume growth reported by its peers.

The major expansion project at Chanda in the state of Maharashtra, which will add 3 mtpa cement capacity together with a 25 MW CPP is nearing completion. Post the completion of this project ACC will have a capacity of 30.4 mtpa.

### Valuations reasonable post recent stock decline– Upgrade rating to HOLD

At current levels the stock is trading at PER of 12.5X for CY10 and 10.9X for CY11. On EV/ton basis the stock trades USD 92 & USD84 for its CY10 & CY11 capacity. With close to 15% decline in stock price over last 3 months, clearly there is emergence of some long term value (ACC's long term valuations are of PER 13 & EV/ton of USD 115/ton). Hence we upgrade our recommendation on the stock from REDUCE to HOLD with a price target of Rs875. However we believe that the stock might continue to underperform in the short term, and might take some time to roll over to CY11/FY12 valuations, considering that sector itself is running against the headwinds of pricing pressure (see surplus of ~ 20 mtpa in FY11 -9% of cement demand) and cost escalations (expect cost of sales to increase by ~ Rs250/ton). We await clarity on pricing discipline and cost management.

## Income Statement

Y/E, Mar (Rs. m)	CY08	CY09E	CY10E	CY11E
<b>Net Sales</b>	<b>72,829</b>	<b>80,272</b>	<b>82,811</b>	<b>91,985</b>
Growth (%)	4.2	10.2	3.2	11.1
<b>Total Expenditure</b>	<b>55,497</b>	<b>55,475</b>	<b>63,068</b>	<b>69,178</b>
Raw Materials Cost	7,991	8,915	9,558	11,177
Employee expenses	4,163	3,677	3,971	4,210
Power & Fuel cost	15,990	15,397	17,931	19,098
Freight	11,786	12,241	14,176	15,992
Others	15,567	15,246	17,432	18,702
<b>EBIDTA</b>	<b>17,332</b>	<b>24,797</b>	<b>19,742</b>	<b>22,807</b>
Growth (%)	(9.7)	43.1	(20.4)	15.5
<b>EBIDTA %</b>	<b>23.8</b>	<b>30.9</b>	<b>23.8</b>	<b>24.8</b>
Depreciation	2,942	3,421	3,801	4,313
<b>EBIT</b>	<b>14,390</b>	<b>21,376</b>	<b>15,942</b>	<b>18,493</b>
<b>EBIT Margin (%)</b>	<b>19.8</b>	<b>26.6</b>	<b>19.3</b>	<b>20.1</b>
Other income	2,887	2,411	2,493	2,493
Interest	400	843	762	755
<b>EBT</b>	<b>16,877</b>	<b>22,944</b>	<b>17,673</b>	<b>20,232</b>
Tax	5,238	6,877	5,302	6,069
Effective tax rate (%)	31.0	30.0	30.0	30.0
<b>Adjusted PAT</b>	<b>11,639</b>	<b>16,067</b>	<b>12,371</b>	<b>14,162</b>
Growth (%)	(5.0)	38.0	(23.0)	14.5
<b>Net Margin (%)</b>	<b>16.0</b>	<b>20.0</b>	<b>14.9</b>	<b>15.4</b>
(Profit)/loss from JV's/Ass/MI				
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>11,639</b>	<b>16,067</b>	<b>12,371</b>	<b>14,162</b>
E/O items	489	0	0	0
<b>Reported PAT</b>	<b>12,128</b>	<b>16,067</b>	<b>12,371</b>	<b>14,162</b>
Growth (%)	(15.7)	32.5	(23.0)	14.5

## Cash Flow

Y/E, Mar (Rs. m)	CY08	CY09E	CY10E	CY11E
<b>PBT (Ex-Other income)</b>	<b>13,990</b>	<b>20,533</b>	<b>15,180</b>	<b>17,739</b>
Depreciation	2,942	3,421	3,801	4,313
Interest Provided	400	843	762	755
Other Non-Cash items				
Chg in working cap	-672	4,859	451	1,232
Tax paid	5,238	6,877	5,302	6,069
<b>Operating Cashflow</b>	<b>14,398</b>	<b>24,347</b>	<b>16,623</b>	<b>19,707</b>
Capital expenditure	-13,253	-15,440	1,062	-5,000
<b>Free Cash Flow</b>	<b>2,803</b>	<b>942</b>	<b>17,685</b>	<b>14,707</b>
Other income	2,887	2,411	2,493	2,493
Investments	1,657	-7,966	0	0
<b>Investing Cashflow</b>	<b>-11,595</b>	<b>-23,405</b>	<b>1,062</b>	<b>-5,000</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	1,756	849	231	-3,000
Interest Paid	-400	-843	-762	-755
Dividend paid (incl tax)	-4,391	-5,051	-4,398	-4,398
Income from investments				
Others				
<b>Financing Cashflow</b>	<b>-2,635</b>	<b>-4,203</b>	<b>-4,167</b>	<b>-7,398</b>
<b>Net chg in cash</b>	<b>168</b>	<b>-3,261</b>	<b>13,518</b>	<b>7,309</b>
Opening cash position	7,435	9,842	7,464	20,982
<b>Closing cash position</b>	<b>9,842</b>	<b>7,464</b>	<b>20,982</b>	<b>28,291</b>

## Balance Sheet

Y/E, Mar (Rs. m)	CY08	CY09E	CY10E	CY11E
Equity share capital	1,879	1,879	1,879	1,879
Reserves & surplus	47,398	58,282	66,255	76,020
<b>Shareholders Funds</b>	<b>49,277</b>	<b>60,161</b>	<b>68,135</b>	<b>77,899</b>
<b>Minority Interest</b>				
Secured Loans	4,500	5,500	5,500	2,500
Unsecured Loans	320	169	400	400
<b>Loan Funds</b>	<b>4,820</b>	<b>5,669</b>	<b>5,900</b>	<b>2,900</b>
Net Deferred Taxes	3,358	3,493	3,493	3,493
<b>Total Liabilities</b>	<b>57,455</b>	<b>69,323</b>	<b>77,527</b>	<b>84,291</b>
Gross Block	58,357	68,263	83,763	88,763
Less: Acc Depreciation	23,660	26,680	30,480	34,794
<b>Net block</b>	<b>34,697</b>	<b>41,583</b>	<b>53,282</b>	<b>53,969</b>
Capital WIP	16,029	21,562	5,000	5,000
<b>Investment</b>	<b>6,791</b>	<b>14,756</b>	<b>14,756</b>	<b>14,756</b>
<b>Current Assets</b>	<b>27,596</b>	<b>22,945</b>	<b>36,663</b>	<b>45,096</b>
Inventories	7,933	7,790	8,036	8,926
Sundry Debtors	3,102	2,037	2,101	2,334
Cash and Bank	9,842	7,464	20,982	28,291
Loans and Advances	6,513	5,544	5,544	5,544
Other current assets	206.7	109.9	0	0
<b>Current Liab &amp; Prov</b>	<b>27,657</b>	<b>31,522</b>	<b>32,174</b>	<b>34,529</b>
Current liabilities	18,018	20,603	21,255	23,610
Provisions	9,639	10,919	10,919	10,919
<b>Net current assets</b>	<b>-61</b>	<b>-8,578</b>	<b>4,490</b>	<b>10,567</b>
Miscellaneous Exps	0	0	0	0
<b>Total Assets</b>	<b>57,456</b>	<b>69,324</b>	<b>77,528</b>	<b>84,293</b>

## Key Ratios

	CY08	CY09E	CY10E	CY11E
<b>Profitability (%)</b>				
EBITDA Margin	23.8	30.9	23.8	24.8
Net Margin	16.0	20.0	14.9	15.4
ROCE	32.8	37.5	25.1	25.9
ROE	23.6	26.7	18.2	18.2
RoIC	68.7	94.5	59.2	57.5
<b>Per Share Data (Rs)</b>				
EPS	64.6	85.5	65.8	75.4
CEPS	80.2	103.7	86.0	98.3
BVPS	262.3	320.1	362.5	414.5
DPS	20.0	23.0	20.0	20.0
<b>Valuations (x)</b>				
PER	12.8	9.7	12.5	10.9
P/CEPS	10.3	8.0	9.6	8.4
P/BV	3.1	2.6	2.3	2.0
EV / Sales	2.0	1.8	1.6	1.3
EV / EBITDA	8.3	5.7	6.5	5.2
Dividend Yield (%)	2.4	2.8	2.4	2.4
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.1	0.0	-0.2	-0.3
Net Debt/EBIDTA	-0.3	-0.1	-0.8	-1.1
Working Cap Cycle (days)	-35.0	-49.0	-49.0	-49.0

**Recommendation History: ACC – ACC IN**

Date	Reports	Reco	CMP	Target
22.04.2010	<a href="#">ACC Q1CY2010 Result Update</a>	Reduce	919	875
05.02.2010	<a href="#">ACC Q4CY2009 Result Update</a>	Accumulate	882	930
28.10.2009	<a href="#">ACC Q3CY2009 Result Update</a>	Buy	758	930
24.07.2009	<a href="#">ACC Q2CY2009 Result Update</a>	Buy	854	930

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
21.07.2010	<a href="#">Century Plyboards Q1FY11 Result Update</a>	Buy	62	80
01.06.2010	<a href="#">Jaiprakash Associates Q4FY10 Result Update</a>	Buy	125	175
31.05.2010	<a href="#">IVRCL Q4FY10 Result Update</a>	Buy	156	199
27.05.2010	<a href="#">BHEL Q4FY10 Result Update</a>	Hold	2255	2495

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