

Q4CY10 Result Update

ACC Ltd (ACC IN)

February 4, 2011

Cost pressures erode the margins...

Buy (CMP: ₹985)

Market Cap ₹185bn; USD: 4.1bn

ACC reported a marginal topline growth of 2% Y-o-Y to ₹19.6bn during Q4CY10, inline with our estimates. Volume has seen a growth of 4.7%, whereas blended realization declined by 2.7% on yearly basis. The Company's EBIDTA margin has seen a sharp correction (11.2% v/s 22.4%), which has been a major setback for the quarter. The margin has significantly declined because of the sharp increase in the costs of Raw Materials, Power & Fuel and Freight. EBIDTA per tonne stood at ₹390 against ₹803 seen during Q4CY09 whereas there has been an improvement in EBIDTA per tonne on sequential basis (₹390 v/s ₹331). ACC has an adjusted net of tax credit amounting ₹820 mn related to previous year and hence tax expenditure during the quarter has been negative by ₹173 mn. Net profit stood at ₹2.56bn way above our expectation of ₹2.2bn mainly due to the tax written back during the quarter. We are not changing our estimates for CY11E and CY12E and maintain our positive stance on the stock with an "Accumulate" rating and our one year target price is ₹1122/share.

Revenue inline with expectation

ACC has reported a revenue growth of 2% on yearly basis to ₹19.6bn during Q4CY10, which is inline with our estimates of ₹19.7bn. ACC's volume grew by 4.7% Y-o-Y to 5.6 mnT. While the company's blended realization declined by 2.7% on a yearly basis despite an improvement in Southern realization in Q4CY10. The decline in realization is mainly on account of their presence in Central and Eastern part, where realizations started to improve from mid December. ACC's 40% of the capacities lie in the Central and Eastern parts.

Margins declined severely on Y-o-Y

ACC has witnessed a decline of 1120 bps on Y-o-Y to 11.2% during Q4CY10. The severe decline is mainly caused by a sharp increase in the Raw Material, Power & Fuel and Freight costs. However, EBIDTA margin has improved by 140 bps on sequential basis mainly led by 3% jump in realization during the period. EBIDTA per tonne of ACC stood at ₹390 during the quarter against ₹803 and ₹331 seen during Q4CY09 and Q3CY10 respectively.

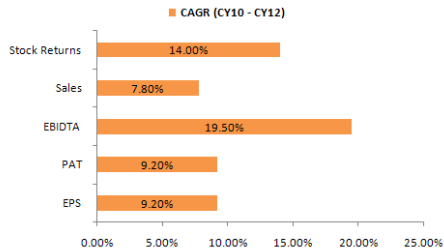
Capacities outlook / update

ACC has commenced a trial production of its new clinker line (integrated plant) in Chanda, Maharashtra from Nov'10, which will ultimately take its total cement capacities from 27.1 mnT to 20.1 mnT, once it is fully operational. It is expected to ramp up in H1CY11. In addition to this, a 25 MW of CPP has also been commissioned during the year in Chanda, which will enable Chanda plant to meet its power requirements.

Valuation and Outlook

We believe commercialization of new capacities along with pick up in infrastructure activities will drive a volume growth of 9% over CY10-CY12E for ACC. Further the recent price hike will certainly augur well for ACC in terms of improvement in margins. We keep our estimates unchanged and maintain our "Accumulate" rating on the stock with a 12 Months price target of ₹1122/share. We have valued the stock based on an equal weightage of EV per tonne and EV/EBIDTA. At CMP, the stock is trading at 7.8x and 6.8x of CY11E and CY12E respectively on EV/EBIDTA, whereas on EV/tonne basis, it is trading at US\$118 and US\$111 of CY11E and CY12E respectively.

Industry Cement

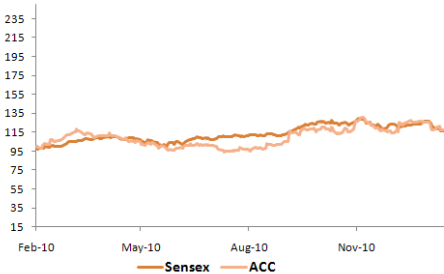


Price	985
Target Price	1122
Expected share price return	14%
Expected dividend yield	1.0%
Expected total return	15%

Market Data

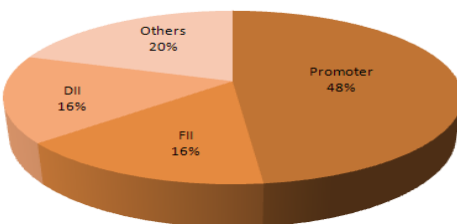
Market Cap.	₹185bn/ US\$4.1bn
Share Cap. (Rs. mn)	1879
52 Wk High/Low	1133 / 700
Avg. Vol. (Weekly)	608160

(Price Performance (RIC: ACC.BO, BB: ACC IN))



Shareholding Pattern

(As on 31st Dec 2010) (%)



Financials (₹ Mn)	FY10	FY11E	FY12E
Net Sales	77173	86141	89653
EBIDTA	15,540	20,624	22,184
PBT	14,615	17,628	19,119
PAT	11,200	12,320	13,363
EPS (Rs.)	59.6	65.6	71.1
EBIDTA Margin (%)	20.1%	23.9%	24.7%
PAT margin (%)	14.5%	14.3%	14.9%
Price/Earnings (x)	16.5	15.0	13.9
EV/EBIDTA	10.8	7.8	6.8
ROE (%)	17.7%	17.6%	17.2%
ROCE (%)	21.0%	23.0%	22.7%

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Table 1: Q4CY10 & CY10 Result Table

Rs mn	Q4CY10	Q3CY09	% change	CY10	CY09	% change
Net Sales	19,576.3	19,214.6	1.9%	77,173.3	80,272.0	-3.9%
Total Income	19576.3	19214.6	1.9%	77173.3	80272.0	-3.9%
(Increase)/Decrease in stock in trade	-1,064.1	-425.0		-565.8	-287.4	
Consumption of RM	3,429.0	2,354.1	45.7%	11,232.0	8,915.1	26.0%
Purchase of Traded goods	356.9	219.2	62.8%	1,176.3	931.6	26.3%
% sales	13.9%	11.2%		15.3%	11.9%	
Employee cost	1,485.9	1,017.0	46.1%	4,618.9	3,677.2	25.6%
% sales	7.6%	5.3%		6.0%	4.6%	
Power & Fuel	4,512.5	3,949.6	14.3%	15,986.7	15,396.5	3.8%
% sales	23.1%	20.6%		20.7%	19.2%	
Cost per bag	40.2	36.8	9.2%	37.5	35.8	
Freight Outward	2,994.9	2,571.6	16.5%	10,703.0	10,544.1	1.5%
% sales	15.3%	13.4%		13.9%	13.1%	
				1,120.0		
Other Expenditures	5,672.5	5,221.2	8.6%	18,482.4	16,291.3	13.4%
% sales	29.0%	27.2%		23.9%	20.3%	
Total Expenditures	17387.7	14907.6	16.6%	61633.5	55468.4	11.1%
EBIDTA	2188.6	4307.0	-49.2%	15539.7	24803.6	-37.3%
EBIDTA per tonne (Rs)	390.1	803.5		729.9	1152.6	
Margin	11.2%	22.4%		20.1%	30.9%	
EBIDTA per tonne (Rs)	390.1	803.5		729.9	1,152.6	
Depreciation	1,119.3	1,051.9	6.4%	3,926.8	3,420.9	14.8%
Interest	137.3	180.5	-24.0%	567.8	843.0	-32.6%
Other Income	1,454.2	824.4	76.4%	3,569.3	2,404.2	48.5%
PBT	2386.2	3898.9	-38.8%	14614.5	22943.9	-36.3%
Margin	12.2%	20.3%		18.9%	28.6%	
Tax Expenses	-172.8	1,091.7	-115.8%	3,414.4	6,876.6	-50.3%
% PBT	-7.2%	28.0%		23.4%	30.0%	
PAT	2559.0	2807.2	-8.8%	11200.1	16067.3	-30.3%
Net margin	13.1%	14.6%		14.5%	20.0%	
EPS (Rs)				59.7	85.6	

Source: Company and Systematix Institutional Research

PROFIT & LOSS STATEMENT

Rs mn	CY08	CY09	CY10	CY11E	CY12E
Net Sales	72,829	80,272	77,173	86,141	89,653
% yoy growth	3.9%	10.2%	-3.9%	11.6%	4.1%
Total Cost	55,497	55,475	61,634	65,518	67,470
EBIDTA	17,332	24,797	15,540	20,624	22,184
EBIDTA Margin (%)	23.8%	30.9%	20.1%	23.9%	24.7%
Depreciation and Amortisation	2,942	3,421	3,927	5,013	5,163
Interest	400	843	568	601	591
Other Income	2,887	2,411	3,569	2,619	2,689
PBT	16,877	22,944	14,615	17,628	19,119
Tax	5,238	6,877	3,414	5,308	5,756
% Tax	31.0%	30.0%	23.4%	30.1%	30.1%
Excep. Items	489	-	-	-	-
Net Profit	12,128	16,067	11,200	12,320	13,363
YoY Growth (%)	-16%	32%	-30%	10%	8%
Net Profit Margin (%)	16.7%	20.0%	14.5%	14.3%	14.9%

Source: Company, Systematix Institutional Research

BALANCE SHEET

Rs mn	CY08	CY09	CY10	CY11E	CY12E
Share Capital	1,879	1,879	1,879	1,879	1,879
Reserves & Surplus	47,398	58,283	64,431	71,699	80,011
Total Shareholder's funds	49,277	60,162	66,310	73,578	81,890
Secured Loans	4,500	5,500	5,600	5,500	5,400
Unsecured Loans	320	169	220	225	225
Total Debt	4,820	5,669	5,820	5,725	5,625
Deferred Tax Liability	3,358	3,493	3,421	3,421	3,421
Stockist's deposits (unsecured)	-	-	-	-	-
TOTAL LIABILITIES	57,455	69,324	75,551	82,724	90,936
Gross Block	58,357	68,263	93,263	100,263	103,263
Less: Accumulated Depreciation	23,660	26,680	30,607	35,620	40,783
Net Block	34,697	41,583	62,656	64,643	62,480
CWIP	16,029	21,562	2,000	1,000	1,000
Investments	6,791	14,756	15,886	17,128	18,495
Inventories	7,933	7,790	8,457	9,440	9,825
Sundry Debtors	3,102	2,037	2,537	2,832	3,684
Cash & Bank	9,842	7,464	10,775	16,861	24,265
Other Current Assets	207	110	150	180	180
Loans & Advances	6,513	5,544	5,744	5,944	6,144
Total Current Assets	27,596	22,945	27,663	35,258	44,098
Current Liabilities	18,018	20,603	21,702	24,152	23,984
Provisions	9,639	10,919	10,952	11,152	11,152
Net Current Assets	(61)	(8,578)	(4,990)	(47)	8,962
Misc. Expenditure	-	-	(1)	(1)	(1)
Total Assets	57,456	69,324	75,551	82,724	90,936

Source: Company, Systematix Institutional Research

CASH FLOW

Rs mn	CY08	CY09	CY10	CY11E	CY12E
PBT	16,877	22,944	14,615	17,628	19,119
Depreciation	2,942	3,421	3,927	5,013	5,163
Interest Paid	400	843	568	601	591
Others	-710	-792	0	0	0
Operating Cash flow before WC changes	19,509	26,416	19,109	23,243	24,873
Change in Working Capital	758	2,504	-276	1,143	-1,605
Cash Generated from Operation	20,267	28,920	18,833	24,385	23,268
Direct Tax (net)	-3,184	-4,941	-3,486	-5,308	-5,756
Net Cash from Operating Activities	17,083	23,979	15,347	19,077	17,512
Purchase / Sale of Fixed Assets (net)	-13,762	-15,154	-5,438	-6,000	-3,000
Purchase of Investment	-39,450	-47,884	-1,129	-1,242	-1,367
Others	41,508	41,226	0	0	0
Net Cash in Investment activities	-11,704	-21,812	-6,567	-7,242	-4,367
Proceeds/ Repayment of LT Borrowings (net)	1,917	849	151	-95	-100
Proceed from issue of share capital	14	19	0	0	0
Interest Paid	-403	-1,054	-568	-601	-591
Others	-4,499	-4,359	-5,052	-5,052	-5,052
Net cash in Financing activities	-2,971	-4,546	-5,469	-5,748	-5,742
Net increase / (decrease) in cash and cash equivalents	2,408	-2,379	3,311	6,087	7,404

Source: Company, Systematix Institutional Research

RATIOS

Y/E March	FY08	FY09	FY10	FY11E	FY12E
EBITDA Margin (%)	23.8%	30.9%	20.1%	23.9%	24.7%
PAT Margin (%)	16.7%	20.0%	14.5%	14.3%	14.9%
EPS (Rs)	64.6	85.6	59.6	65.6	71.1
% growth yoy	-15.8%	32.4%	-30.4%	10.0%	8.5%
Price/Earnings (x)	15.2	11.5	16.5	15.0	13.9
EV/EBITDA (x)	10.1	6.9	10.8	7.8	6.8
EV / Sales (x)	2.4	2.1	2.2	1.9	1.7
ROE (%)	26.7%	29.4%	17.7%	17.6%	17.2%
ROCE (%)	32.3%	37.5%	21.0%	23.0%	22.7%
Debt / Equity (x)	0.10	0.09	0.09	0.08	0.07
Book Value	262.3	320.1	352.8	391.5	435.7
Price / Book Value (x)	3.8	3.1	2.8	2.5	2.3

Source: Company, Systematix Institutional Research

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BUY (B)	The stock's total return is expected to exceed 20% over the next 12 months.
ACCUMULATE (A)	The stock's total return is expected to be within 10-20% over the next 12 months.
HOLD (H)	The stock's total return is expected to be within 0-10% over the next 12 months.
SELL (S)	The stock's is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

Industry Views

ATTRACTIVE (AT)	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

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