

- **Net Sales increases by 24.8% yoy to Rs16.7bn**
- **Operating profit increases by 55.3% yoy to Rs5.1bn**
- **OPM increases by 600 bps to 30.3%**
- **Cement realization per ton increases by 26% to Rs3432**
- **Net Profit increases by 51.9% to Rs3.4bn**

Financials Highlights (Standalone)

Period to	03/07	03/06	Growth	CY06	CY07P	CY08P
(Rs mn)	(3)	(3)	(%)	(12)	(12)	(12)
Net Sales	16,748	13,424	24.8	58,035	66,560	68,624
Expenditure	(11,677)	(10,159)	14.9	(41,803)	(47,348)	(50,423)
% of Net Sales	69.7	75.7	-	72.0	71.1	73.5
Operating Profit	5,071	3,266	55.3	16,232	19,212	18,200
% of Net Sales	30.3	24.3	-	28.0	28.9	26.5
Other Income	284	333	(15)	1,315	1,334	1,400
Interest	(40)	(194)	(79.4)	(520)	(347)	(333)
Depreciation	(621)	(597)	4.1	(2,543)	(2,575)	(2,993)
PBT	4,694	2,809	67.1	14,484	17,624	16,275
Tax	(1256)	(545)	130.3	(3,877)	(4,498)	(4,231)
% of PBT	26.8	19.4	-	26.8	25.5	26.0
PAT before EO	3,438	2,263	51.9	10,608	13,126	12,043
% of Net Sales	20.5	16.9	-	18.3	19.7	17.5
Exceptional/Prior Period Items	200	91	119.3	1,711	200	0
Adjusted PAT	3,638	2,354	54.5	12,318	13,326	12,043
Adjusted EPS (Rs)	18.3	12.0	-	56.5	69.9	64.1
PE @ CMP 788	-	-	-	14.0	11.3	12.3

Negative volume growth for Q1FY07

ACC reported a negative volume growth for the quarter on yoy basis to 4.9 mn ton, down by 1%. However on qoq basis the volumes were up by 1.4%. The volume growth was negative as plants were shutdown for project related maintenance. We revise down our full year volume growth from 7% to 4% for CY07 to adjust de-growth in Q1FY07 and lower demand growth expectation in the country, due to inflation pressures and interest rate hikes and maintain volume growth of 5% for CY08. Commencing grinding capacity of 0.3 mn ton at Tikaria and forthcoming 1 mn ton capacity at Lakheri are expected to improve volume growth.

Cement realization improves in peak construction season

Cement prices across the zones has increased from January 2007 by around 9%, partially to offset the excise duty hike of 6% on cement prices. Per ton blended cement realization including RMC has gone up yoy by 26% to Rs3432 and on qoq basis the same has gone up by 3.7%. We estimate the full year realization to be at Rs3442 per ton. We expect the average realization to come down by 2% for CY08 for ACC, as major capacities are expected to trickle in by Q4CY08 only. The risks to our estimates are imports materializing more than expected and capacities coming on schedule.

Margins grow yoy but struggling to maintain pace

Operating margins has grown yoy by 600 bps to 30.3%, as realisations improved strongly on yoy basis and outpaced cost increases. Strong yoy growth on realization would start tapering from Q2CY07 and estimated to fall below upsides on cost front. We expect this to put pressure on margin front.

Valuations

We expect cement realization to remain flat over next one year with a negative bias, due to continuous activeness by the Government to bring down the prices. There are signs of housing growth tapering which may lead to demand growth slowdown and put additional pressure for slowdown in prices. We expect margin pressure from Q2CY07 on qoq basis for ACC as cost growth outpaces realization growth. ACC's CMP of Rs788 discounts our estimated EPS of Rs69.9 and Rs64.1 for CY07 and CY08 by 11.3x and 12.3x. We value ACC at 12x of CY08 EPS of Rs64.1 which gives a fair value of Rs769. Maintain SELL.

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