

Results disappoint- Cost pressures increase

February 4, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs986	Rs1035
EPS change CY11E/12E (%)	-16.7/-
Target Price change (%)	NA
Nifty	5,527
Sensex	18,449

Price Performance

(%)	1M	3M	6M	12M
Absolute	(8)	(9)	21	12
Rel. to Nifty	2	1	19	(0)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	ACC@IN
Equity Capital (Rs mn)	1877
Face Value(Rs)	10
No of shares o/s (mn)	188
52 Week H/L	1,133/700
Market Cap (Rs bn/USD mn)	185/4,056
Daily Avg Volume (No of sh)	432079
Daily Avg Turnover (US\$m)	9.9

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	48.2	46.2	46.2
FII/NRI	15.9	15.4	13.2
Institutions	16.1	18.1	20.1
Private Corp	4.7	4.8	4.7
Public	15.1	15.4	15.9

Source: Capitaline

Ajit Motwani

ajit.motwani@emkayglobal.com
+91 22 6612 1255

Chandan Asrani

chandan.asrani@emkayglobal.com
+91 22 6612 1241

- **APAT at Rs1.8bn (-47%yoy) sharply below est of Rs2.6bn led by lower realizations & higher RM & staff costs. Revenue up 1.9% yoy - volumes +4.7%yoy, realizations down 2.7% yoy**
- **Costs increases drag EBITDA to Rs2.8bn (-43%yoy). EBITDA/t at Rs499 (-45%yoy). Key negative surprises -RM cost/t (+18%qoq), staff cost(+27%qoq) & OE(+15%qoq)**
- **Downgrade CY11 earnings by 16.7%. Cement offtake improves in Jan. Prices hiked across regions. Sustainability remains uncertain, as demand yet to see significant pick up**
- **Valuation at PER of 16.6X& EV/ton of USD112, though not cheap, looks reasonable considering ACC's CY11E RoCE of ~21.2% & FCF of Rs77/share. Maintain ACCUMULATE**

Revenue up 1.9% yoy- volumes +4.7%, realizations down 2.7%

ACC's Q4CY11 revenues grew 1.9% yoy (19.6% qoq) to Rs19.58 bn – below estimates of Rs20.22 bn – on account of lower cement realizations. Volumes grew 4.7% yoy (15.5% qoq) to 5.6 mt. Realizations though down 2.7% yoy (Rs 3508/t), improved by 2.9% sequentially as ACC's key Southern and western markets witnessed price hikes.

Increasing costs drag EBITDA down by 43%- below estimates

With continued cost pressures on account of higher RM, Energy & freight cost, ACC's Q4CY11 EBITDA at Rs2.8 bn declined by 43%yoy, sharply lower than our estimates (Rs4.17 bn). EBITDA/t at Rs499/t declined 45% yoy, however up 42% qoq with EBITDA margins contracting 1120bps yoy at 14.3%.

Key Variable costs up 13% qoq

With sharp increase in coal prices, fly ash cost & higher freight charges, ACC's key variable cost at Rs2013/t increased 12.8% qoq. We remain concerned on cost pressure as the recent sharp increase in international coal prices is yet to reflect in the P&F costs. P&F costs would increase further lead by Coal India's planned price hike for linkage coal (expected somewhere in Q2CY11)

Key costs that negatively surprised us are

- RM cost at Rs611/t (+18.4% qoq)- due to higher clinker purchases, higher fly ash and gypsum costs
- Staff costs at Rs1.48bn (+26.6% qoq) due to increased provisioning for employee benefits
- Other expenditure (which are largely fixed exp) at ~ Rs5 bn up 14.9% qoq

APAT at Rs1.81 bn down 47% yoy

ACC's pre-exceptional net profit at Rs1.81 bn declined by 47% yoy. Reported profits at Rs2.56 bn includes Rs644 mn of write back of provisions, Rs820 mn of tax expenses credit relating to earlier years and an extraordinary expense of Rs71.16 of provision made for spare part obsolescence.

Consolidated Financial Snapshot

Rs Mn

Y/E Dec	Net sales	EBIDTA (Rs m)	PAT (Rs m)	EPS (Rs)	EPS growth (%)	ROE (%)	PE (x)	EV/EBIDTA(x)	EV/Tonne (USD)
CY08	80,272	24,797	16,067	85.5	32.4	29.4	11.5	7.0	143.4
CY09	77,173	16,250	10,347	59.6	-30.3	16.6	16.5	10.2	118.4
CY10E	86,782	17,345	11,148	59.3	-0.5	16.4	16.6	9.1	111.6
CY11E	97,340	19,912	12,912	68.7	15.8	17.1	14.3	7.4	104.8

Result Table

Rs mn	Q4CY09	Q1CY10	Q2CY10	Q3CY10	Q4CY10	YoY (%)	QoQ (%)	CY10	CY09	YoY (%)
Revenue	19,215	21,018	20,207	16,372	19,576	1.9	19.6	77,173	80,272	-3.9
Expenditure	14,315	14,796	14,677	14,673	16,776	17.2	14.3	60,922	54,875	11.0
<i>as % of sales</i>	<i>74.5</i>	<i>70.4</i>	<i>72.6</i>	<i>89.6</i>	<i>85.7</i>			<i>78.9</i>	<i>68.4</i>	
Consumption of RM	2,354	2,481	2,829	2,493	3,429	45.7	37.5	11,232	8,915	26.0
<i>as % of sales</i>	<i>12.3</i>	<i>11.8</i>	<i>14.0</i>	<i>15.2</i>	<i>17.5</i>			<i>14.6</i>	<i>11.1</i>	
Stocks	-425.0	320.9	-483.3	560.6	-964.1	126.8	-272.0	-565.8	-287.4	96.9
<i>as % of sales</i>	<i>(2.2)</i>	<i>1.5</i>	<i>(2.4)</i>	<i>3.4</i>	<i>(4.9)</i>			<i>(0.7)</i>	<i>(0.4)</i>	
Employee Cost	917	896	1063	1174	1486	62.0	26.6	4619	3677	25.6
<i>as % of sales</i>	<i>4.8</i>	<i>4.3</i>	<i>5.3</i>	<i>7.2</i>	<i>7.6</i>			<i>6.0</i>	<i>4.6</i>	
Power & Fuel	3,950	3,926	3,934	3,615	4,513	14.3	24.8	15,987	15,396	3.8
<i>as % of sales</i>	<i>20.6</i>	<i>18.7</i>	<i>19.5</i>	<i>22.1</i>	<i>23.1</i>			<i>20.7</i>	<i>19.2</i>	
Cost of traded cement	219	266	296	258	357	62.8	38.4	1,176	932	26.3
<i>as % of sales</i>	<i>1.1</i>	<i>1.3</i>	<i>1.5</i>	<i>1.6</i>	<i>1.8</i>			<i>1.5</i>	<i>1.2</i>	
Freight	2,672	2,753	2,700	2,255	2,995	12.1	32.8	10,703	10,544	1.5
<i>as % of sales</i>	<i>13.9</i>	<i>13.1</i>	<i>13.4</i>	<i>13.8</i>	<i>15.3</i>			<i>13.9</i>	<i>13.1</i>	
Other expenditure	4628	4154	4339	4316	4961	7.2	14.9	17771	15698	13.2
<i>as % of sales</i>	<i>24.1</i>	<i>19.8</i>	<i>21.5</i>	<i>26.4</i>	<i>25.3</i>			<i>23.0</i>	<i>19.6</i>	
EBITDA	4,900	6,222	5,530	1,699	2,800	-42.9	64.8	16,251	25,397	-36.0
Depreciation	1052	935	962	911	1119	6.4	22.9	3927	3421	14.8
EBIT	3848	5287	4568	789	1681	-56.3	113.2	12325	21976	-43.9
Other Income	833	609	597	709	910	9.1	28.3	2825	2413	17.0
Interest	180	127	141	162	137	-23.6	-15.4	568	619	-8.2
PBT	4502	5769	5024	1335	2453	-45.5	83.7	14582	23770	-38.7
Total Tax	1092	1717	1435	435	647	-40.7	48.8	4234	6877	-38.4
Adjusted PAT	3410	4051	3589	900	1806	-47.0	100.6	10347	16894	-38.8
(Profit)/loss from JV's/Ass/MI										
PAT after MI	3410	4051	3589	900	1806	-47.0	100.6	10347	16894	-38.8
Extra ordinary items	-600	0	0	100	753			853	-376	
Reported PAT	2810	4051	3589	1000	2559	-8.9	155.8	11200	16069	-30.3
Reported EPS	18.2	21.6	19.1	4.8	9.6	-47.0	100.6	55.2	90.1	-38.8

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	25.5	29.6	27.4	10.4	14.3	-1120	393	21.1	31.6	-1058
EBIT	20.0	25.2	22.6	4.8	8.6	-1144	377	16.0	27.4	-1141
EBT	23.4	27.4	24.9	8.2	12.5	-1090	438	18.9	29.6	-1072
PAT	17.7	19.3	17.8	5.5	9.2	-852	373	13.4	21.0	-764
Effective Tax rate	24.3	29.8	28.6	32.6	26.4	212	-619	29.0	28.9	11

Per tonne analysis

Rs/t	Q4CY09	Q1CY10	Q2CY10	Q3CY10	Q4CY10	YoY (%)	QoQ (%)	CY10	CY09	YoY (%)
Cement volumes	5.36	5.58	5.27	4.83	5.61	4.7	16.1	21.29	21.52	-1.1
Raw Material	439	445	537	516	611	39.2	18.4	528	414	27.3
Stocks	-79	58	-92	116	-172	116.7	-248.0	-27	-13	99.0
Staff cost	171	161	202	243	265	54.8	9.0	217	171	27.0
Power & Fuel	737	703	746	748	804	9.2	7.5	751	715	5.0
Cost of traded cement	41	48	56	53	64	55.6	19.1	55	43	27.6
Freight	498	493	512	467	534	7.1	14.3	503	490	2.6
Other expenses	863	745	823	894	884	2.4	-1.0	835	729	14.4
Total Cost Per tonne	2671	2652	2785	3038	2990	12.0	-1.6	2862	2550	12.2
EBIDTA/Ton	914	1115	1049	352	499	-45.4	41.9	763	1180	-35.3
Realization	3585	3767	3834	3390	3490	-2.7	2.9	3625	3730	-2.8
Variable cost	1715	1689	1852	1785	2013	17.4	12.8	1836	1663	10.4
Fixed cost	1035	905	1025	1137	1149	11.1	1.1	1052	900	16.8

Capex plans update

Chanda plant commissioned – capacity now at 30 mntpa

A 25 MW captive power plant was commissioned at Wadi in October 2010 while a second unit also of 25 MW is scheduled to be completed in Q1CY11. The new clinkering line of capacity 7000 tonnes per day at Chanda in Maharashtra commenced trial production in November 2010, which would result in additional cement capacity of about 3mntpa. The unit will ramp up production in H1CY11. The project also included a captive power plant of 25MW capacity which has also been commissioned this quarter and would enable Chanda to meet its entire power requirement. With the commissioning of these projects at Wadi and Chanda, the total installed capacity of ACC has now increased to about 30 mnt per annum.

Cement prices hiked Rs15-20/bag in Jan- Feb

Helped by improvement in cement offtake and season logistical bottleneck (Wagon shortage due to diversion of wagons to food grains & other crop) cement prices have witnessed a series of hikes (Rs8-10/bag in January and a Rs10/bag hike in February) across all regions. With recent price hikes taken by cement producer across the country, we estimate average cement prices have reached ~Rs240-245/bag. Our CY11E numbers for ACC (EPS of Rs59.3) are modeled at Rs242/bag.

Downgrade FY11E Earnings

On account of increasing input & other costs, we are downgrading our earnings estimates for ACC by 16.7% for CY11 (EPS of Rs59.3). We are introducing CY12 estimates with EPS of Rs68.7.

Rs mn	CY11E			CY12E
	Earlier	Revised	change	Introduced
Sales	86424	86782	0.41%	97340
EBIDTA	21527	17345	-19.42%	19912
EBIDTA (%)	24.9	20.0		20.5
Net Profit	13386	11148	-16.72%	12912
EPS	71.2	59.3	-16.72%	68.7

Maintain ACCUMULATE

Though cement prices have been hiked across all regions, we continue to believe that sustainability of cement prices remains uncertain in medium/long term as the cement demand growth FY11YTD ~5% has now emerged as bigger concern than the overcapacity in the system. ACC's at PER of 16.6X, 9.1X EV/EBITDA and EV/ton of USD112 on CY11 numbers, though not cheap, looks reasonable considering that ACC's would still generate CY11E RoCE of ~21.2% (close to 1.4X cost of capital). ACC's free cash generation of Rs77/share and cash & cash equivalents of Rs198/share for CY11 could further provide downside support to the stock. Maintain ACCUMULATE with price target of Rs1035.

Financials

Income Statement

Y/E, Mar (Rs. m)	CY09	CY10	CY11E	CY12E
Net Sales	80,272	77,173	86,782	97,340
Growth (%)	10.2	(3.9)	12.5	12.2
Total Expenditure	55,475	60,923	69,436	77,427
Raw Materials Cost	8,915	11,232	13,498	15,436
Employee expenses	3,677	4,619	4,688	5,064
Power & Fuel cost	15,397	15,990	19,067	21,723
Freight	12,241	12,448	14,341	16,043
Others	15,246	16,633	17,841	19,162
EBIDTA	24,797	16,250	17,345	19,912
Growth (%)	43.1	(34.5)	6.7	14.8
EBIDTA %	30.9	21.1	20.0	20.5
Depreciation	3,421	3,926	4,387	4,699
EBIT	21,376	12,324	12,959	15,213
EBIT Margin (%)	26.6	16.0	14.9	15.6
Other income	2,411	2,825	3,306	3,531
Interest	843	568	563	558
EBT	22,944	14,582	15,702	18,187
Tax	6,877	4,234	4,554	5,274
Effective tax rate (%)	30.0	29.0	29.0	29.0
Adjusted PAT	16,067	10,347	11,148	12,912
Growth (%)	38.0	(35.6)	7.7	15.8
Net Margin (%)	20.0	13.4	12.8	13.3
(Profit)/loss from JV's/Ass/MI				
Adjusted PAT After JV's/Ass/MI	16,067	10,347	11,148	12,912
E/O items	0	853	0	0
Reported PAT	16,067	11,200	11,148	12,912
Growth (%)	32.5	(30.3)	(0.5)	15.8

Cash Flow

Y/E, Mar (Rs. m)	CY09	CY10	CY11E	CY12E
PBT (Ex-Other income)	20,533	11,757	12,396	14,656
Depreciation	3,421	3,926	4,387	4,699
Interest Provided	77	568	563	558
Other Non-Cash items	-26	976	0	0
Chg in working cap	2,504	4,690	2,205	1,417
Tax paid	-4,941	-4,234	-4,554	-5,274
Operating Cashflow	23,979	17,682	14,997	16,056
Capital expenditure	-15,154	-7,172	-3,872	-5,000
Free Cash Flow	8,825	10,509	11,125	11,056
Other income	857	2,825	3,306	3,531
Investments	-7,516	-2,270	0	0
Investing Cashflow	-21,812	555	3,306	3,531
Equity Capital Raised	19	0	0	0
Loans Taken / (Repaid)	849	-431	-46	-46
Interest Paid	-1,054	-568	-563	-558
Dividend paid (incl tax)	-4,359	-6,729	-4,398	-4,398
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-4,546	-7,727	-5,007	-5,002
Net chg in cash	-2,379	3,337	9,424	9,585
Opening cash position	9,842	7,464	10,800	20,224
Closing cash position	7,464	10,800	20,224	29,809

Balance Sheet

Y/E, Mar (Rs. m)	CY09	CY10	CY11E	CY12E
Equity share capital	1,879	1,879	1,879	1,879
Reserves & surplus	58,282	62,753	69,504	78,019
Shareholders Funds	60,161	64,632	71,383	79,898
Minority Interest				
Secured Loans	5,500	5,115	5,115	5,115
Unsecured Loans	169	123	76	30
Loan Funds	5,669	5,238	5,192	5,145
Net Deferred Taxes	3,493	3,615	3,615	3,615
Total Liabilities	69,323	73,486	80,190	88,659
Gross Block	68,263	81,369	95,869	100,869
Less: Acc Depreciation	26,680	30,606	34,992	39,691
Net block	41,583	50,764	60,877	61,178
Capital WIP	21,562	15,628	5,000	5,000
Investment	14,756	17,027	17,027	17,027
Current Assets	22,945	27,533	36,087	46,965
Inventories	7,790	9,150	8,422	9,446
Sundry Debtors	2,037	1,783	2,202	2,470
Cash and Bank	7,464	10,800	20,224	29,809
Loans and Advances	5,544	5,239	5,239	5,239
Other current assets	109.9	561.249	0	0
Current Liab & Prov	31,522	37,464	38,799	41,509
Current liabilities	20,603	20,940	22,274	24,984
Provisions	10,919	16,525	16,525	16,525
Net current assets	-8,578	-9,931	-2,712	5,456
Miscellaneous Exps	0	0	0	0
Total Assets	69,323	73,486	80,190	88,659

Key Ratios

	CY09	CY10	CY11E	CY12E
Profitability (%)				
EBITDA Margin	30.9	21.1	20.0	20.5
Net Margin	20.0	13.4	12.8	13.3
ROCE	37.5	21.2	21.2	22.2
ROE	29.4	16.6	16.4	17.1
RoIC	84.9	44.4	38.1	40.7
Per Share Data (Rs)				
EPS	85.5	59.6	59.3	68.7
CEPS	103.7	80.5	82.7	93.7
BVPS	320.1	343.9	379.8	425.1
DPS	23.0	30.6	20.0	20.0
Valuations (x)				
PER	11.5	16.5	16.6	14.3
P/CEPS	9.5	12.2	11.9	10.5
P/BV	3.1	2.9	2.6	2.3
EV / Sales	2.1	2.2	1.8	1.5
EV / EBITDA	7.0	10.2	9.1	7.4
Dividend Yield (%)	2.3	3.1	2.0	2.0
Gearing Ratio (x)				
Net Debt/ Equity	-0.3	-0.3	-0.4	-0.5
Net Debt/EBIDTA	-0.1	-0.3	-0.9	-1.2
Working Cap Cycle (days)	-49.0	-49.0	-49.0	-49.0

Recommendation History: ACC – ACC IN

Date	Reports	Reco	CMP	Target
21/10/2010	ACC Q3CY10 Result Update	Accumulate	983	1,035
22/07/2010	ACC Q2CY10 Result Update	Hold	825	875
22/04/2010	ACC Q1CY2010 Result Update	Reduce	919	875
05/02/2010	ACC Q4CY2009 Result Update	Accumulate	882	930

Recent Research Reports

Date	Reports	Reco	CMP	Target
31/01/2011	Jaiprakash Associates Q3FY11 Result Update	Buy	84	110
31/01/2011	Shree Cement Q3FY11 Result Update	Accumulate	1,660	1,960
28/01/2011	IRB Infrastructure Q3FY11 Result Update	Accumulate	214	304
27/01/2011	Grasim Industries Q3FY11 Result Update	Accumulate	2,359	2,730

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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