

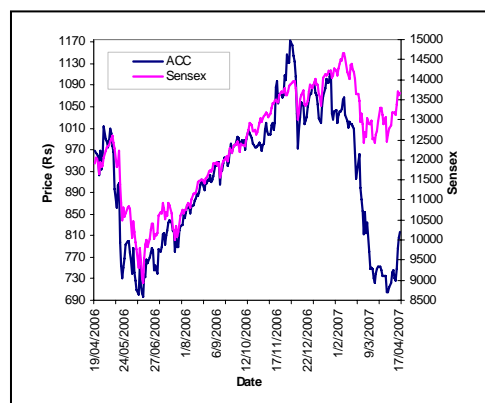
ACC
Neutral
CMP: Rs 788
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Sector	Cement
Market Cap (Rs cr)	14,765
Beta	1.0
52 WK High / Low	1,192 / 625
Avg Daily Volume	469199
Face Value (Rs)	10
BSE Sensex	13,536
Nifty	3,998

BSE Code	500410
NSE Code	ACC
Reuters Code	ACC.BO
Bloomberg Code	ACC@IN

Shareholding Pattern (%)

Promoters	38.0
MF/Banks/Indian FIs	18.9
FII/ NRIs/ OCBs	20.6
Indian Public	22.5

Share Price Vs Sensex

Q1CY2007 Result Update
Performance Highlights

- Volumes take a backseat:** ACC's Q1CY2007 performance was in-line with our estimates. It reported a Net Sales growth of 24.8% to Rs 1,674.8cr (Rs 1,342.4cr) for the first quarter ended March 2007. This growth came about despite the ~1% de-growth witnessed in volume sales during the quarter to 4.9 MTPA. This could be attributed to the lower production during Q1CY2007 (down ~1% YoY) as some of the company's plants at various sites, where brownfield capacity expansions are being executed, were shut down owing to project related reasons.
- Higher cement realisations take charge:** As noted above, while the volume sales during the quarter were a tad lower on the YoY basis, improvement in cement realisations helped the company report the healthy Topline growth. Net cement realisations per bag for the company during Q1CY2007 were higher by ~27% at Rs 166 as compared to Rs 131 per bag during Q1CY2006. The Ready Mix Concrete business, which contributed to ~5% of the company's Topline, registered a growth of 12.2% YoY to Rs 80.2cr.
- Operating Margins leapfrog:** Operating Margins for ACC during the quarter rose to 30.3% from 24.3% in Q1CY2006 despite higher input costs. The latter was mainly on account of a significant increase in Power & Fuel costs and Other Expenditure. However, the gains from higher cement realisations far outweighed the rise in costs, helping shore up the operating margins. This led to the company reporting a 55.3% YoY jump in Operating Profits to Rs 507.1cr (Rs 326.6cr).
- Net profit up 54.5% YoY:** Despite a 15% YoY fall in Other Income and a significantly higher Tax incidence at 26.8% of PBT as compared to 19.4% during Q1CY2006, ACC reported a Net Profit growth of 54.5% YoY to Rs 343.8cr (Rs 226.3cr). This was aided by the 79% reduction in Interest expenses and the 119% increase in Extraordinary Income to Rs 20cr, the latter being on account of profit from divestment of erstwhile subsidiary, Everest Industries.

Exhibit 1: Key Financials

Y/E December (Rs cr)	CY2005* [^]	CY2006	CY2007E	CY2008E
Net Sales	3,203.4	5,803.5	6,974.5	6,946.8
% chg	(17.9)	81.2	20.2	(0.4)
Net Profit	544.2	1,231.8	1,337.8	1,016.3
% chg	43.8	126.4	8.6	(24.0)
EPS	29.0	65.7	71.4	54.2
EBITDA Margin (%)	16.2	28.0	29.5	23.9
P/E (x)	26.9	12.0	11.0	14.5
P/CEPS (x)	20.6	9.9	9.0	10.8
ROE (%)	25.1	42.6	35.2	22.3
ROCE (%)	15.5	32.4	30.3	20.0
P/BV (x)	6.0	4.4	3.5	3.0
EV/Sales (x)	4.8	2.6	2.1	2.1
EV/EBITDA (x)	29.0	9.1	7.1	8.8
EV/Tonne (US\$)	198	181	167	167

Source: Company; Angel Research; * Nine-months ending December 2005; ^ Net Profit includes Profit from sale of Investments

ACC on an expansion spree

Grinding augmentation project at Tikaria has gone into commercial production during the current quarter (Q2CY2007). The project at Lakheri for expansion of capacity from 0.9 MTPA to 1.5 MTPA and setting up 25 MW Captive Power Plant (CPP) has commenced trial production. ACC is taking up expansion of Bargarh Cement Works from 0.96 MTPA to 2.14 MTPA and setting up 30 MW CPP at a capital outlay of Rs 537cr. Further, projects for augmentation of grinding capacities at Kymore, Sindri and Wadi are in progress. Apart from this, the company has embarked on its 3 MTPA expansion plan at Wadi at a cost of Rs 1,480cr. This plant is expected to be commissioned in CY2009.

Outlook

The cement industry recorded a growth of 6.6% YoY during Q1CY2007. Healthy demand for cement on the back the strong growth being witnessed in the housing and infrastructure sectors has helped keep the demand-supply balance in favour of the manufacturers, thus helping cement prices to hold forte.

However, in wake of the adverse developments during the quarter pertaining to the freeze on cement prices for 1-year even if input costs were to rise and the scrapping of import duties on cement, thus making its import cheaper in certain markets in the country, has come as a harsh blow for the Indian cement industry. While the import of cement into the country in significant quantities is unlikely to get materialized owing to logistics and storage limitations, it would nonetheless put pressure on cement manufacturers to refrain from raising prices.

While we expect the industry and ACC to continue to do well on the volumes front, the above adverse developments will keep a cap on the profits of the company in the absence of the pricing power. Further, considering that cement supply would start to catch up from CY2008 onwards, we expect cement prices to come under pressure, which will have a negative impact on the profitability of cement companies.

Valuation

At the CMP of Rs 788, ACC trades at 14.5x CY2008E EPS, 8.8x EV/EBITDA and EV/Tonne of US\$ 167. In view of the negatives surrounding the sector and the stretched valuations of the company in this backdrop, **we maintain our Neutral view on the stock.**

Exhibit 2: Financial Performance

Y/E December (Rs cr)	CY07/CY06		% chg	CY06	% chg	CY06	CY05	% chg
	Q1	Q4	(QoQ)		Q1			(YoY)
Net Sales	1,674.8	1619.9	3.4	1,342.4	24.8	5,803.5	4,334.1	33.9
Total Expenditure	1,167.7	1,151.4	1.4	1,015.9	14.9	4,180.3	3,625.6	15.3
Operating Profits	507.1	468.5	8.2	326.6	55.3	1,623.2	708.5	129.1
OPM (%)	30.3	28.9	-	24.3	-	28.0	16.3	-
Interest	4.0	4.1	(2.9)	19.4	(79.4)	52.0	84.1	(38.2)
Depreciation	62.1	77.1	(19.4)	59.7	4.1	254.3	212.2	19.8
Other Income	28.4	58.0	(51.1)	33.3	(14.8)	131.5	111.6	17.8
Profit Before Tax	469.4	445.4	5.4	280.9	67.1	1,448.4	523.8	176.5
Tax	125.6	102.1	23.0	54.5	130.3	387.7	113.6	241.4
(% of PBT)	26.8	22.9	-	19.4	-	26.8	21.7	-
Profit after Tax	343.8	343.2	0.2	226.3	51.9	1,060.8	410.2	158.6
(% of Net Sales)	20.5	21.2	-	16.9	-	18.3	9.5	-
Extraordinary Exp/(Inc)	20.0	15.3	30.9	9.1	119.3	171.1	299.5	(42.9)
Net Profit	363.8	358.5	1.5	235.4	54.5	1,231.8	709.7	73.6
Equity Capital	18.8	18.7		18.7		18.8	18.7	
EPS	19.4	19.1		12.6		65.7	38.0	

Source: Company



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