

Q3CY2011 Review
 Sector: Cement
 BSE Sensex: 17,481

ACC

 Maintain HOLD
 CMP Rs1,184
 TP Rs1,144

Cost Pressures Evident; Margins At Eight Year Low

ACC reported a disappointing performance in Q3CY11 with quarterly margins slumping to an eight year low. The ramp-up of new capacities and a low base aided in a 19% volume growth to 5.6mn mt. Realisations were up 10% YoY to Rs3.8k/mt and were inline with estimates. However, the company witnessed significant cost pressures and resultantly margins contracted a whopping 1,210bps QoQ to 11.8% (PINCe 18.3%). Adjusted profit although up 24.3% YoY, declined 70% sequentially to Rs1.25bn. ACC took a sales tax write back of Rs617mn (Rs432mn net) for the quarter. As a result the company reported a net profit of Rs1.7bn.

Double digit volume growth: The ramp-up of the new capacities in CY11 has aided ACC post a double digit volume amidst the demand slowdown that has plagued the cement industry. The ramp-up along with a low base of last year aided the company post a 19.1% volume growth to 5.6mn mt. The capacity utilisation during the quarter was at 74%.

Realisations in line with estimates: Realisations across the country except the Southern region declined with the onset of the monsoons. During the quarter, realisations declined 5% sequentially to Rs3.8k/mt. On a YoY basis realisations were up 10.3%. The growth in both volumes as well as realisations helped ACC post a net revenue growth of 29.5% to Rs21.9bn, inline with estimates.

Cost pressures across all fronts: A sharp increase in input costs as well as overheads was seen during the quarter. The supply disruptions on linkage coal and soaring cost of fuels led to a sharp 28% YoY increase in power and fuel cost per mt. Freight cost per mt too was up 23.9% YoY. Employee expenses and other expenditure rose 18% and 21% respectively. As a result, margins were lower than even Q3CY10 wherein cement prices had witnessed significant decline. On a YoY basis, EBITDA per mt was flat at Rs460.

Outlook: Given the industry leading volume performance in 9MCY11, we have marginally (~1%) increased our volume estimates for CY11 and CY12. We have also increased realisations for CY11 by ~2%. However, given the below par margin performance during the quarter and continued cost pressures especially on the coal front, we have downgraded margins for CY11 and CY12 by 230bps. Consequently our earnings estimate for CY11 and CY12 are lowered by 5.5% to Rs59.9 and Rs69.6 respectively. We also introduce CY13 earnings estimate of Rs79.1.

VALUATIONS AND RECOMMENDATION

The stock is currently trading at 8.3x CY12E EV/EBITDA and EV/mt of USD127. We maintain our 'HOLD' recommendation on the stock with a target price of Rs1,144 (earlier Rs1,156), discounting CY12E EV/EBITDA 8x.

KEY FINANCIALS (STANDALONE)					
	(Rs mn)				
	CY09	CY10	CY11E	CY12E	CY13E
Net Sales	80,272	77,173	92,598	103,774	115,789
YoY Gr. (%)	10.2	(3.9)	20.0	12.1	11.6
EBITDA	26,466	18,508	19,353	21,886	24,166
EBITDA Margin (%)	32.3	23.2	20.3	20.6	20.4
Adjusted Net Profit	16,067	11,200	11,262	13,086	14,873
YoY Gr. (%)	38.0	(30.3)	0.6	16.2	13.7
KEY RATIOS					
Dil. EPS (Rs)	85.5	59.6	59.9	69.6	79.1
ROCE (%)	36.7	20.8	21.2	22.9	23.7
RoE (%)	29.4	17.9	16.7	17.7	18.3
PER (x)	13.8	19.9	19.8	17.0	15.0
EV/EBDITA (x)	7.9	11.0	10.0	8.3	7.1
EV/EBDITA (x)	167	157	134	127	119

01 November 2011

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Sales	24,235	24,329	21,870
YoY Gr. (%)	13.4	18.0	29.5
EBITDA	5,796	5,802	2,574
EBITDA Mar %	23.9	23.8	11.8
Adj. Net Profit	3,507	3,366	1,244
YoY Gr. (%)	(13.4)	(6.2)	24.3

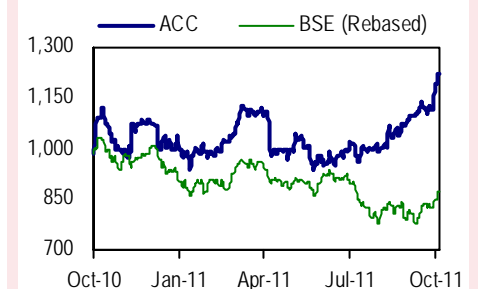
STOCK DATA

Market Cap	Rs223bn
Book Value per share	Rs320.1
Eq Shares O/S (FV Rs10)	187.9mn
Free Float	50%
Avg Traded Val. (6 mnths)	Rs292mn
52 week High/Low	Rs1230/917
Bloomberg Code	ACC IN
Reuters Code	ACC.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	7.8	16.9	12.0
Relative	1.6	21.5	26.1

RELATIVE PERFORMANCE



Variance to PINC Estimate

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	21,870	21,824	0.2	Inline with estimates
Adjusted EBITDA	2,574	3,991	(35.5)	
EBITDA Margin (%)	11.8	18.3	-652 bps	Higher than expected coal cost and overhead burden
Adjusted PAT	1,244	2,224	(44.1)	Below par margins undermines net profits

Financial Table (Standalone)

(Rs mn)	Sep-11	Sep-10	YoY%	Jun-11	QoQ%	9MCY11	9MCY10	YoY %
Net Sales	21,870	16,885	29.5	24,329	(10.1)	70,434	58,869	19.6
EBITDA	2,574	2,212	16.4	5,802	(55.6)	14,172	14,723	(3.7)
<i>EBITDA Margins (%)</i>	<i>11.8</i>	<i>13.1</i>	<i>-130bps</i>	<i>23.8</i>	<i>-1210bps</i>	<i>20.1</i>	<i>25.0</i>	<i>-490bps</i>
Other Income	574	296	93.8	472	21.6	1,461	743	96.7
Interest	253	162	56.1	271	(6.5)	777	431	80.6
Depreciation	1,199	911	31.7	1,158	3.5	3,483	2,807	24.0
PBT	1,695	1,435	18.1	4,845	(65.0)	11,374	12,228	(7.0)
Tax	452	435	3.8	1,479	(69.5)	3,257	3,587	(9.2)
Reported PAT	1,676	1,000	67.5	3,366	(50.2)	8,548	8,641	(1.1)
Adj. PAT	1,244	1,000	24.3	3,366	(63.0)	8,116	8,641	(6.1)
Adj. EPS (Rs)	6.6	5.3	24.3	17.9	(63.0)	43.2	46.0	(6.1)

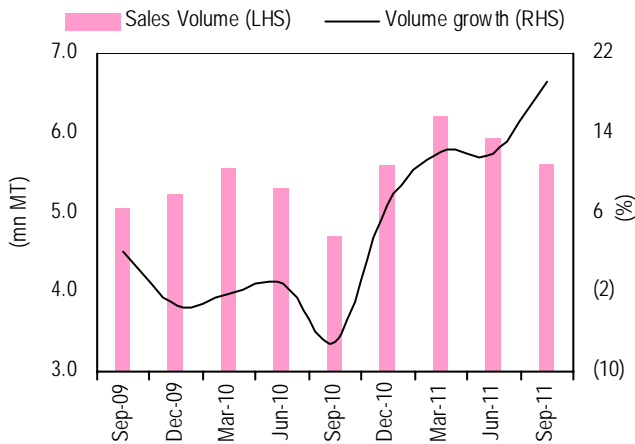
Volume (mn MT)

	Sep-11	Sep-10	YoY%	Jun-11	QoQ%	9MCY11	9MCY10	YoY %
Cement Capacity	7.52	6.50	15.7	7.52	0.0	22.55	19.30	16.8
Cement Production	5.58	4.63	20.5	5.95	(6.2)	17.75	15.56	14.1
<i>Capacity Utilisation (%)</i>	<i>74.2</i>	<i>71.2</i>		<i>79.1</i>		<i>78.7</i>	<i>80.6</i>	
Total Cement Sales	5.61	4.71	19.1	5.95	(5.7)	17.79	15.59	14.1

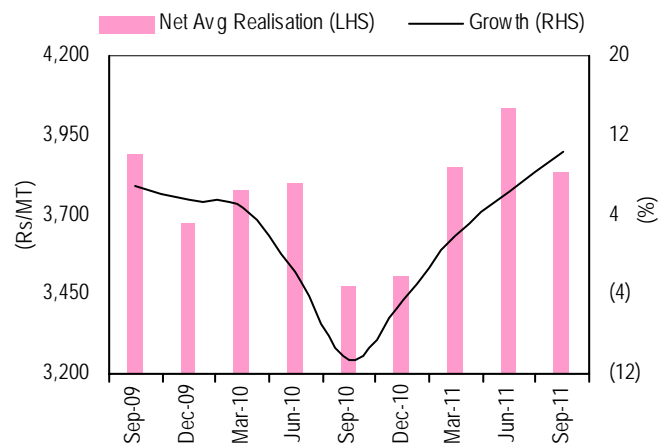
Rs Per MT

	Sep-11	Sep-10	YoY%	Jun-11	QoQ%	9MCY11	9MCY10	YoY %
Net Avg. Realisations	3,832	3,476	10.3	4,039	(5.1)	3,907	3,694	5.8
Raw Material Costs	684	703	(2.7)	530	29.2	625	579	7.9
Power & Fuel Costs	985	768	28.3	956	3.0	899	736	22.2
Employee Expenses	246	249	(1.1)	201	22.5	208	201	3.6
Freight Costs	593	479	23.9	585	1.4	576	494	16.6
Other Expenditure	931	916	1.6	842	10.6	854	822	4.0
EBITDA	459	470	(2.3)	975	(52.9)	797	944	(15.6)

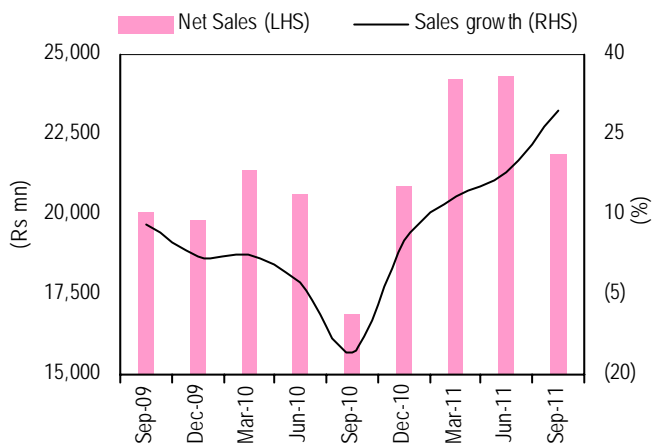
Volume trend



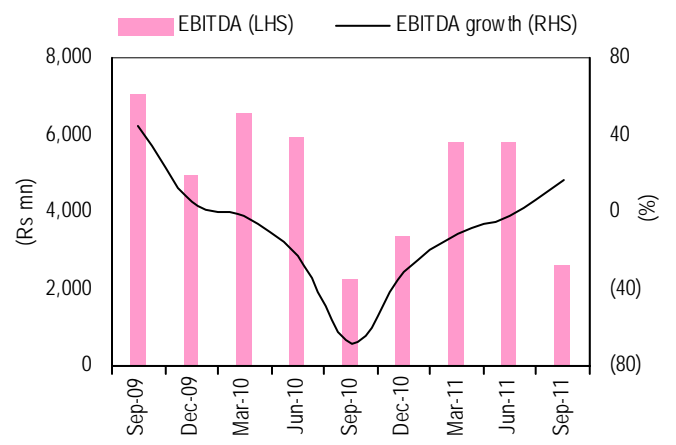
Realisation trend



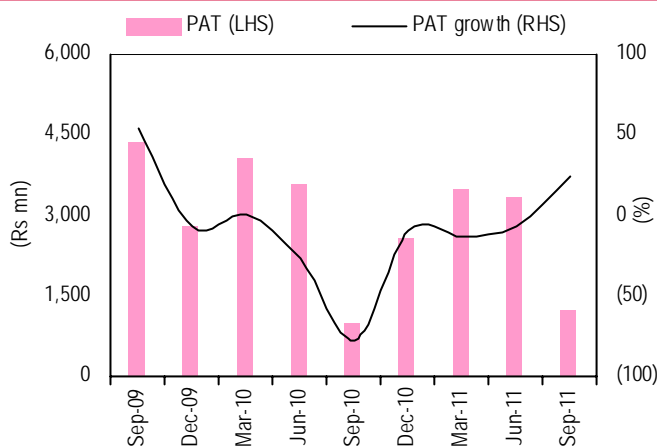
Net sales trend



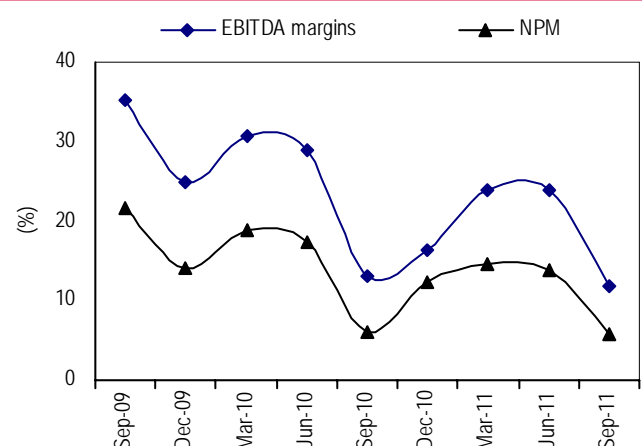
Operating profit trend



Net profit trend



Profitability Trend



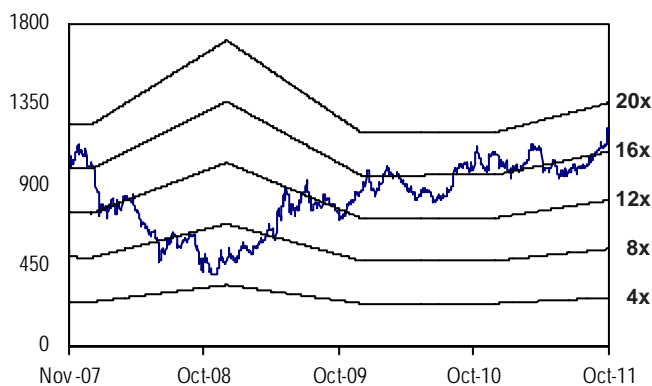
Income Statement	CY09	CY10	CY11E	CY12E	CY13E
Net Sales	80,272	77,173	92,598	103,774	115,789
<i>Growth (%)</i>	10.2	(3.9)	20.0	12.1	11.6
Operating profit	24,829	15,924	16,770	19,653	21,710
Other operating income	1,637	2,585	2,583	2,232	2,456
EBITDA	26,466	18,508	19,353	21,886	24,166
<i>Growth (%)</i>	38.7	(30.1)	4.6	13.1	10.4
Depreciation	(3,421)	(3,927)	(4,702)	(4,810)	(4,955)
Other income	742	601	1,970	2,260	2,599
EBIT	23,787	15,182	16,621	19,336	21,810
Interest paid	(843)	(568)	(980)	(905)	(862)
PBT (before E/o items)	22,944	14,615	15,642	18,431	20,948
Tax provision	(6,877)	(3,414)	(4,380)	(5,345)	(6,075)
E/o Income / (loss)	-	-	-	-	-
Net profit	16,067	11,200	11,262	13,086	14,873
Adjusted net profit	16,067	11,200	11,262	13,086	14,873
<i>Growth (%)</i>	38.0	(30.3)	0.6	16.2	13.7
Diluted EPS (Rs)	85.5	59.6	59.9	69.6	79.1
<i>Diluted EPS Growth (%)</i>	38.0	(30.3)	0.6	16.2	13.7

Cash Flow Statement	CY09	CY10	CY11E	CY12E	CY13E
Pre-tax profit	22,944	14,615	15,642	18,431	20,948
Depreciation	3,020	3,265	4,702	4,810	4,955
Total tax paid	(3,966)	(156)	(4,230)	(5,195)	(5,925)
Chg in working capital	2,702	(79)	4,123	687	874
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	24,700	17,645	20,236	18,733	20,851
Capital expenditure	(15,440)	(6,572)	(2,882)	(1,700)	(2,700)
Chg in investments	(1,211)	(489)	-	-	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(16,651)	(7,062)	(2,882)	(1,700)	(2,700)
Free cash flow (a+b)	8,050	10,584	17,354	17,033	18,151
Equity raised/(repaid)	19	1	-	-	-
Debt raised/(repaid)	849	(431)	(47)	(47)	(47)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(4,392)	(5,035)	(7,205)	(5,977)	(6,521)
Other financing activities	(150)	-	-	-	-
Cash flow from fin. (c)	(3,674)	(5,466)	(7,252)	(6,025)	(6,568)
Net chg in cash (a+b+c)	4,376	5,118	10,102	11,008	11,584

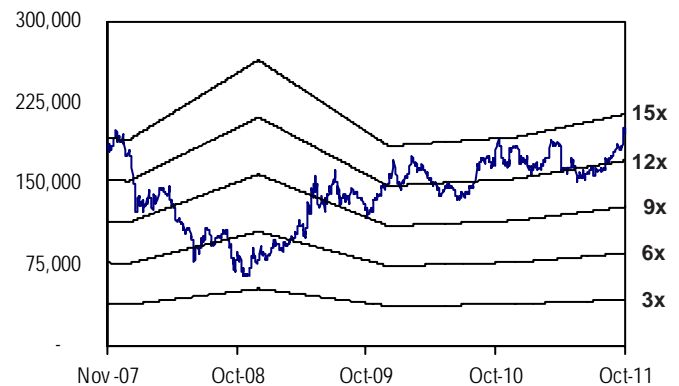
Balance Sheet	CY09	CY10	CY11E	CY12E	CY13E
<i>Equity capital</i>	1,879	1,880	1,880	1,880	1,880
<i>Reserves & surplus</i>	58,283	62,815	68,644	75,209	83,562
Shareholders' funds	60,162	64,695	70,523	77,089	85,441
Minorities interests	-	-	-	-	-
Total Debt	5,669	5,238	5,191	5,143	5,096
Capital Employed	65,831	69,933	75,714	82,232	90,537
Net fixed assets	63,145	66,452	64,633	61,523	59,268
Cash & Cash Eq.	18,759	23,876	33,978	44,986	56,570
Net other Current Assets	(16,041)	(20,731)	(23,083)	(24,313)	(25,186)
Investments	3,462	3,951	3,951	3,951	3,951
Net Deferred Tax Assets	(3,493)	(3,615)	(3,765)	(3,915)	(4,065)
Total assets	65,832	69,933	75,714	82,232	90,537

Key ratios	CY09	CY10	CY11E	CY12E	CY13E
EBITDA Margin (%)	32.3	23.2	20.3	20.6	20.4
Net margin (%)	20.0	14.5	12.2	12.6	12.8
Dividend yield (%)	1.9	2.6	2.1	2.5	2.5
Net debt/Equity (x)	(0.2)	(0.3)	(0.4)	(0.5)	(0.6)
Net Working Capital (days)	(48)	(35)	(63)	(63)	(61)
Asset turnover (x)	0.9	0.7	0.8	0.8	0.8
ROCE (%)	36.7	20.8	21.2	22.9	23.7
RoE (%)	29.4	17.9	16.7	17.7	18.3
PER (x)	13.8	19.9	19.8	17.0	15.0
Price/Book (x)	3.7	3.4	3.2	2.9	2.6
EV/EBITDA (x)	7.9	11.0	10.0	8.3	7.1
EV/ton (USD/MT)	167	157	134	127	119

P/E Band



EV/EBITDA Band



T E A M

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