

INITIATING COVERAGE

ACC Limited

Hold

Share Data

Market Cap	Rs. 175.81 bn
Price	Rs. 938.3
BSE Sensex	14806.51
Reuters	ACC.BO
Bloomberg	ACC IN
Avg. Volume (52 Week)	0.34 mn
52-Week High/Low	Rs. 1192/680
Shares Outstanding	187.37 mn

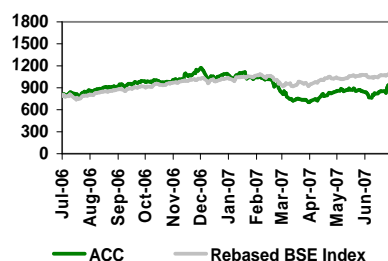
Valuation Ratios

Year to 31 December	2007E	2008E
EPS (Rs.)	67.9	73.3
+/- (%)	3.0%	7.9%
PER (x)	13.8x	12.8x
EV/ tonnes (Rs.)	8,749.1	8,176.8
EV/ EBITDA (x)	9.0x	8.3x

Shareholding Pattern (%)

Promoters	38
FII's	20
Institutions	19
Public & Others	23

Relative Performance



Strong foundation but no temptation

ACC Limited (ACC) is India's foremost manufacturer of cement and ready mix concrete, with a countrywide network of factories and marketing offices. ACC's efficient manufacturing capabilities and robust distribution network have placed it in a unique position to satisfy the increasing demand for cement, due to developments in the housing and infrastructure sectors. The company has planned to increase its capacity to 27.5 MTPA by 2009, to accommodate the demand which will arise from the projected capex of \$456 bn by the government during the 11th Plan. The company is also developing captive power units to reduce power consumption so that it can more cost-effectively meet the aforementioned demand. However, due to the recent price surge (17.5% in the last 15 trading sessions) on the back of positive sentiments along with the FM's statement of no price freeze on cement we initiate coverage with a Hold.

Key Figures

Year to December	CY04	CY05	CY06	CY07E	CY08E	CAGR (%)
(Figures in Rs mn, except per share data) (FY06-09E)						
Sales Vol (mn tonnes)	16.0	17.5	18.9	20.3	21.7	7.2%
Net Sales	36,873	45,636	58,512	65,721	72,431	11.3%
EBITDA	6,727	7,866	16,554	19,683	21,467	13.9%
Net Profit	4,182	5,058	11,154	12,824	13,836	11.4%
Margins(%)						
EBITDA	18.2%	17.2%	28.3%	29.9%	29.6%	
NPM	10.9%	11.0%	19.0%	19.5%	19.1%	
Per Share Data (Rs.)						
EPS	21.6	37.2	65.9	67.9	73.3	5.4%
PER (x)	43.5x	25.2x	14.2x	13.8x	12.8x	

- We expect ACC to report net profit CAGR of 11.4% for CY06-08E driven by increasing demand for cement, which the company will be able to meet with expansion in its production capacity.
- ACC is trading at 9x and 8.3x EV/EBITDA and at EV/Tonnes of Rs. 8,749.1 and Rs. 8,176.8 for CY07E and CY08E.
- We feel that the company is fairly valued considering the recent surge in the stock price. With limited downside we initiate coverage with a Hold with six months perspective.

Government has projected capex of \$456 bn for infrastructure development in the 11th Plan

Rationale

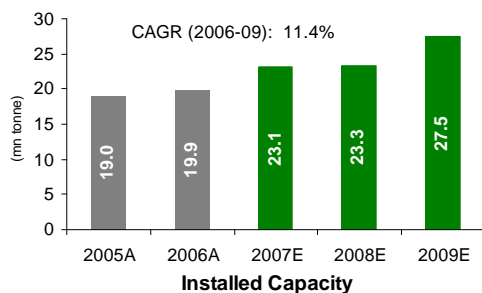
Infrastructure and housing development to drive demand in future

India's road, port, airport and railway sectors are set to get a bolster shot over the next five years with government planning to scale up investment levels. The government projects a total fund flow of \$456 bn in the 11th plan (2007-2012) with investments in road, port, airport and railway to be around Rs. 767,884 cr vis-à-vis Rs. 211,699 cr in 10th five year plan. ACC being the largest cement manufacturer with installed capacity of 19.9 MTPA for CY06 and ongoing capacity expansion plans will be the biggest beneficiary of the robust growth in the infrastructure sector.

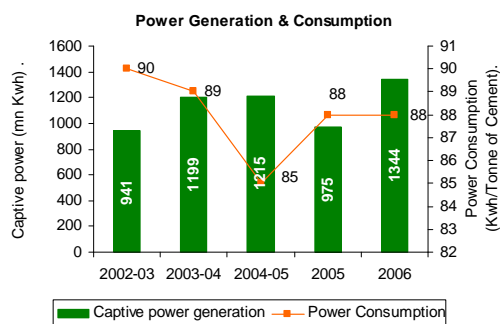
Capacity expansion plan to back ACC future growth

Owing to the expected growth in cement industry, ACC has been implementing capacity expansion plans with a target to reach with 27.5 MTPA of capacity by 2009. The company's key projects are as under:

- *Gagal Unit II:* recently completed the augmentation of clinkering and cement grinding, increasing the capacity of the plant to 4.4 MTPA
- *Lakheri Cement:* recently completed expansion and modernization of the cement plant along with the installation of a new 25 MW captive power plant
- *Madukkarai:* augmentation of cement grinding capacity by 0.22 MTPA; planned to be completed by 2008
- *Bargarh:* expansion of cement plant, with the establishment of a 30 MW captive power plant, raising the capacity to 2.14 MTPA; planned to be completed by 2008
- *New Wadi Plant:* augmentation of clinkering capacity at the plant with a 50 MW captive power plant, increasing the plant capacity by 3 MTPA; planned to be completed by 2009



These projects will enable ACC to cater to the varied requirements of the cement market and also would help in maintaining its distinct position across all parts of the country.

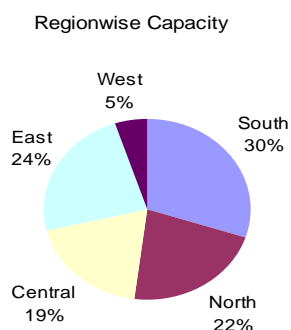


Reliance on inhouse power captive units to increase efficiency

Power cost accounts for nearly 30% of total manufacturing expenses. In order to reduce this cost, ACC has been relying more on captive power generation, rather than, buying state supplied power. The company has planned to install captive power units with capacity of 30 MW at Bargarh Cement Works, 50 MW at Wadi Cement Works, 25 MW at Lakheri Cement Works and 15 MW at Chaibasa Cement Works. Reliance on these power captive units would enable the company to keep its margins intact.

Well spread geographic presence throughout India

Cement, being a regional product, requires a well distributed and geographically diversified infrastructure. ACC operates 14 modern cement factories, 19 ready mix concrete plants, a bulk cement handling terminal, 19 sales units and 54 zonal offices. ACC's countrywide supply chain is an enviable marketing and distribution network that comprises 194 warehouses, more than 9,000 dealers and 50,000 retail outlets. It provides the company with opportunity to benefit from region-wise growth in five zones of Indian cement industry.



ACC-Gujarat Ambuja Cements has a combined capacity of 33.5 MTPA

Holcim's plan to build on GACL and ACC Synergy

Holcim, which indirectly owns about 38% in the company through Ambuja Cement India, plans to combine some of the best practices and processes in Gujarat Ambuja (GACL) and ACC. This will enable both the companies to eliminate duplication and wasteful processes. Synergy with GACL and Holcim will provide ACC with cost efficiency and market opportunity in Western India markets, where GACL has a strong presence.

Key Risks

Slow down of growth in GDP

We have estimated future sales figures on the assumption that the growth in cement demand will be able to match GDP growth rate of 8% and the company will be able to maintain its market share. We have also assumed that the cement prices will rise at least by the inflation rate of 4-5%. Any decline on the above said parameters will have adverse impact on the projections.

Delay in expansion plan may adversely effect its revenue projection

ACC has been aggressively implementing capacity expansion plan (which include installation of captive power units) in order to become cost efficient and capable for meeting future cement demand. Any delay in the commencement of these projects will lead to increase in the manufacturing cost and thus may significantly effect the revenue projections.

Outlook

The cement sector is expected to witness strong production and consumption growth of 8% during CY07 in line with the economic growth because of the strong co-relation with GDP and the increased activity in the construction sector. Future drivers of cement demand growth in India would be increased spending on road and housing projects.

ACC in the medium term is expected to grow by around 8%, resulting in taking ACC's cement production to 22 MTPA by 2008

Overall, from the demand perspective, the fundamentals look bright, and cement demand for ACC in the medium term is expected to grow by around 8%, resulting in taking ACC's cement production to 22 MTPA by 2008.

We estimate the revenues of ACC to increase from Rs. 58.5 bn in CY06 to Rs. 72.4 bn in CY08E reflecting a CAGR of 11.3%. The Company's EBITDA margins are expected to improve by 135 bps over CY06-08E. Based on EV/EBITDA of 9x for CY07E, ACC seems to be fairly valued by the markets. We initiate coverage with a Hold with six months perspective.

Company Background

Established in 1936 through the merger of ten cement companies, ACC Limited is India's foremost manufacturer of cement, blended cement, bulk cement and ready mix concrete with a countrywide network of factories and marketing offices in India. ACC also provides project engineering and consultancy services to cement manufacturers in Saudi Arabia, Nigeria, Sudan and United Arab Emirates. The company's products are marketed through a network of 19 Sales Units, 54 Area Offices, and 194 warehouses in India.

ACC operates 14 modern cement factories and 19 ready mix concrete plants with a total installed capacity of approximately 19.9 MTPA.

In 2005, Holcim Group of Switzerland, the second largest cement manufacturer worldwide, forayed into Indian markets with the acquisition of majority stake in Ambuja Cement India Ltd, which at the time held 13.8 % of the total equity shares in ACC. Holcim simultaneously made an open offer to ACC shareholders, through Holdcem Cement Pvt. Limited and ACIL, to acquire a majority shareholding in ACC. Currently, Holcim holds over 38% indirect stake in the company.

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