

ACC Ltd

Results disappoint, heading towards better pricing and volume growth –Maintain Buy

ACC's Q4CY10 results were below our as well as consensus estimates. While topline inched up by 1.9% YoY to Rs 19.5bn, net profits fell sharply by 35% to Rs 1.8bn due to lower realisations and rising overheads. EBITDA/tonne declined to Rs 501 from Rs 790 in Q4CY09, while improving by Rs 148/t sequentially. We have lowered our earnings estimates by 8%/4.9% for CY11E/CY12E to factor in higher fuel costs. Accordingly, we have revised our target price to Rs 1,120 (from Rs 1,180 earlier) but maintain our BUY rating on the stock. We believe the stock could see some downward pressure in the near term on account of this quarter's lower-than-expected results. However, this would be an opportune time for investors to accumulate the stock on dips.

Topline inches up 1.9% YoY: ACC's topline moved up by 1.9% YoY to Rs 19.6bn in Q4CY10, owing to a 2.8% increase in volumes, while realisations declined by 0.9%. The company's realisations took a hit on account of its higher presence in central and eastern region (accounting for 40% of its total capacity) which saw lower prices.

EBITDA margin contracts 806bps YoY, improves 393bps sequentially: ACC's EBITDA margin declined by 806bps to 14.3% YoY on account of lower realisations and higher power & fuel costs and freight expenses. EBITDA/t stood at Rs 501, a decline of Rs 289/t YoY. On a sequential basis, however, the sharp jump in prices in the southern region led to a 393bps improvement in margins. We expect margins to improve sequentially in Q1CY11 as realisations in the central & eastern regions have increased sharply in Jan'11.

Adj. net profit plunges 35% YoY: ACC reported a net profit decline of 12% YoY to Rs 2.5bn. However, adjusted net profit fell 35% YoY after adjusting for the following: (a) an extraordinary income of Rs 644mn towards write-back of provisions of earlier years for sales tax subsidy, (b) Rs 820mn for netting of taxes pertaining to earlier years and (c) Rs 712mn for provisions made under other expenses for change in methodology for identifying obsolescence of spare parts.

Estimates trimmed; Maintain BUY: We have pared our CY11 and CY12 earnings estimates by 8%/4.9% to factor in the higher fuel costs. However, based on our target EV/EBITDA multiple of 8x one-year forward, we arrive at a revised price target of Rs 1,120 and maintain our BUY rating on the stock. We believe any decline in the stock on account this quarter's subdued performance is an opportunity to accumulate it, as volume pick-up and price hike benefits are likely ahead.

Financial highlights

(Rs mn)	CY09	CY10	CY11E	CY12E
Revenue	80,272	77,173	86,569	97,980
Growth (%)	9.8	(3.9)	12.2	13.2
Adj net income	16,067	10,447	12,175	14,624
Growth (%)	39.3	(35.0)	16.5	20.1
FDEPS (Rs)	85.5	55.6	64.8	77.9
Growth (%)	39.3	(35.0)	16.5	20.1

Profitability and return ratios

(%)	CY09	CY10	CY11E	CY12E
EBITDA margin	30.9	21.1	22.1	23.8
EBIT margin	26.6	16.0	16.9	18.7
Adj PAT margin	20.0	13.5	14.1	14.9
ROE	29.4	16.5	17.5	18.7
ROIC	27.9	14.8	16.9	20.4
ROCE	27.8	15.8	16.8	18.1

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 984	Rs 1120	BUY	HIGH

BSE	NSE	BLOOMBERG
500410	ACC	ACC IN

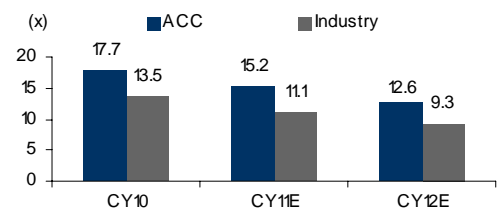
Company data

Market cap (Rs mn / US\$ mn)	184,791/4,051
Outstanding equity shares (mn)	187.8
Free float (%)	51.8
Dividend yield (%)	2.0
52-week high/low (Rs)	1134/700
2-month average daily volume	449,759

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
ACC	984	(8.3)	(9.6)	19.9
Sensex	18,449	(10.3)	(9.9)	1.8

P/E comparison



Valuation matrix

(x)	CY09	CY10	CY11E	CY12E
P/E @ CMP	11.5	17.7	15.2	12.6
P/E @ Target	13.1	20.1	17.3	14.4
EV/EBITDA @ CMP	6.5	9.9	8.4	6.9





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	19,576	20,427	(4.2)
EBITDA	2,800	3,661	(23.5)
Adj net income	1,806	2,255	(19.9)
FDEPS (Rs)	9.6	12.0	(19.9)

Source: RCML Research

Results disappoints on lower realizations, higher overhead

Fig 2 - Quarterly performance

(Rs mn)	Q4CY10	Q4CY09	% Chg YoY	Q3CY10	% Chg QoQ
Revenue	19,576	19,215	1.9	16,372	19.6
Expenditure	16,776	14,918	12.5	14,673	14.3
Operating profit	2,800	4,297	(34.8)	1,699	64.8
Other income	1,554	824	88.5	809	92.1
Interest	137	181	(23.9)	162	(15.4)
Depreciation	1,119	1,052	6.4	911	22.9
PBT	3,098	3,889	(20.3)	1,435	115.8
Tax	647	1,092	(40.7)	435	48.8
PAT	1,806	2,797	(35.4)	1,000	80.5
EBITDA margin (%)	14.3	22.4	(806bps)	10.4	393bps
FDEPS (Rs)	9.6	14.9	(35.4)	5.3	80.5

Source: Company, RCML Research

Toplines inches up 1.9% YoY on marginally higher volumes, lower realizations

EBITDA margins nosedives 806bps due to lower realizations, higher power and fuel costs

Fig 3 - Revised estimates

Key parameters (Rs mn)	CY11E			CY12E		
	Old	New	% Chg	Old	New	% Chg
Revenue	83,712	86,569	3.4	95,654	97,980	2.4
EBITDA margin (%)	26.8	22.1	(466bps)	27.8	23.8	(404bps)
Net profit	13,235	12,175	(8.0)	15,375	14,624	(4.9)
FDEPS (Rs)	70.5	64.8	(8.0)	81.9	77.9	(4.9)

Source: RCML Research

Estimates pared to factor in higher fuel costs



Standalone financials

Profit and Loss statement

Y/E Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Revenues	80,272	77,173	86,569	97,980
<i>Growth (%)</i>	9.8	(3.9)	12.2	13.2
EBITDA	24,797	16,251	19,122	23,317
<i>Growth (%)</i>	43.1	(34.5)	17.7	21.9
Depreciation & amortisation	3,421	3,927	4,477	4,960
EBIT	21,376	12,325	14,645	18,357
<i>Growth (%)</i>	51.3	(42.3)	18.8	25.3
Interest	843	568	729	725
Other income	2,411	3,569	3,542	3,726
EBT	22,944	15,326	17,457	21,358
Income taxes	6,877	4,235	5,283	6,734
Effective tax rate (%)	30.0	27.6	30.3	31.5
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	16,067	11,091	12,175	14,624
Adjustments	-	645	-	-
Adjusted net income	16,067	10,447	12,175	14,624
<i>Growth (%)</i>	39.3	(35.0)	16.5	20.1
Shares outstanding (mn)	187.8	187.8	187.8	187.8
FDEPS (Rs) (adj)	85.5	55.6	64.8	77.9
<i>Growth (%)</i>	39.3	(35.0)	16.5	20.1
DPS (Rs)	23.0	23.0	23.0	23.0

Cash flow statement

Y/E Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Net income + Depreciation	19,488	15,018	16,652	19,583
Non-cash adjustments	1,782	(66)	156	158
Changes in working capital	2,500	(4,153)	1,239	696
Cash flow from operations	23,770	10,799	18,046	20,437
Capital expenditure	(15,154)	(5,000)	(5,000)	(7,000)
Change in investments	(7,958)	-	-	(4,000)
Other investing cash flow	442	-	-	-
Cash flow from investing	(22,669)	(5,000)	(5,000)	(11,000)
Issue of equity	19	-	-	-
Issue/repay debt	849	-	-	-
Dividends paid	(4,359)	(3,993)	(4,549)	(4,780)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	(2,391)	1,776	8,468	4,615
Closing cash & cash eq	7,462	9,233	17,691	22,306

Economic Value Added (EVA) analysis

Y/E Dec	CY09	CY10	CY11E	CY12E
WACC (%)	10.7	10.7	10.7	10.7
ROIC (%)	27.9	14.8	16.9	20.4
Invested capital (Rs mn)	57,955	60,401	60,366	63,017
EVA (Rs mn)	9,972	2,483	3,750	6,094
EVA spread (%)	17.2	4.1	6.2	9.7

Balance sheet

Y/E Dec (Rs mn)	CY09	CY10	CY11E	CY12E
Cash and cash eq	7,462	9,339	17,691	22,306
Accounts receivable	2,037	1,691	2,372	3,221
Inventories	7,790	9,347	9,978	11,660
Other current assets	5,654	5,654	5,654	5,654
Investments	14,756	14,756	14,756	18,756
Gross fixed assets	68,263	94,825	99,825	106,825
Net fixed assets	41,583	64,218	64,741	66,782
CWIP	21,562	-	-	-
Intangible assets	-	-	-	-
Deferred tax assets, net	(3,493)	(3,613)	(3,763)	(3,913)
Other assets	-	-	-	-
Total assets	97,351.9	101,393	111,431	124,467
Accounts payable	16,350	16,069	17,788	19,059
Other current liabilities	4,253	4,253	4,253	4,753
Provisions	10,919	9,394	10,778	12,461
Debt funds	5,669	5,639	5,610	5,580
Other liabilities	-	-	-	-
Equity capital	1,878	1,878	1,878	1,878
Reserves & surplus	58,284	64,321	71,441	81,011
Shareholder's funds	60,162	66,046	73,170	82,738
Total liabilities	97,353.8	101,393	111,431	124,467
BVPS (Rs)	320.4	352.5	400.4	451.4

Financial ratios

Y/E Dec	CY09	CY10	CY11E	CY12E
Profitability & Return ratios (%)				
EBITDA margin	30.9	21.1	22.1	23.8
EBIT margin	26.6	16.0	16.9	18.7
Net profit margin	20.0	13.5	14.1	14.9
ROE	29.4	16.5	17.5	18.7
ROCE	27.8	15.8	16.8	18.1
Working Capital & Liquidity ratios				
Receivables (days)	12	9	9	10
Inventory (days)	52	51	52	53
Payables (days)	101	97	92	90
Current ratio (x)	1.1	1.3	1.6	1.8
Quick ratio (x)	0.1	0.1	0.1	0.1
Turnover & Leverage ratios (x)				
Gross asset turnover	1.3	0.9	0.9	0.9
Total asset turnover	0.9	0.8	0.8	0.8
Interest coverage ratio	25.4	21.7	20.1	25.3
Adjusted debt/equity	0.1	0.1	0.1	0.1
Valuation ratios (x)				
EV/Sales	2.0	2.1	1.9	1.6
EV/EBITDA	6.5	9.9	8.4	6.9
P/E	11.5	17.7	15.2	12.6
P/BV	3.1	2.8	2.5	2.2



Quarterly trend

Particulars	Q4CY09	Q1CY10	Q2CY10	Q3CY10	Q4CY10
Revenue (Rs mn)	19,215	21,018	20,207	16,372	19,576
YoY growth (%)	1.9	2.3	(2.9)	(16.9)	1.9
QoQ growth (%)	(2.4)	9.4	(3.9)	(19.0)	19.6
EBITDA (Rs mn)	4,297	6,222	5,530	1,699	2,800
EBITDA margin (%)	22.4	29.6	27.4	10.4	14.3
Adj net income (Rs mn)	2,797	4,051	3,589	1,000	1,806
YoY growth (%)	(6.7)	0.1	(26.2)	(77.0)	(35.4)
QoQ growth (%)	(35.8)	44.8	(11.4)	(72.1)	80.5

DuPont analysis

(%)	CY08	CY09	CY10	CY11E	CY12E
Tax burden (Net income/PBT)	69.4	70.0	68.2	69.7	68.5
Interest burden (PBT/EBIT)	117.6	107.3	124.4	119.2	116.3
EBIT margin (EBIT/Revenues)	19.3	26.6	16.0	16.9	18.7
Asset turnover (Revenues/Avg TA)	98.6	89.8	77.7	81.4	83.1
Leverage (Avg TA/Avg equitiy)	163.3	163.4	157.3	152.5	151.0
Return on equity	25.4	29.4	16.5	17.5	18.7

Company profile

Holcim owned ACC is the country's largest cement player with a total capacity of 21.7mn MT. The company intends to scale up its capacity to 27mn MT and 30mn MT by CY09E and CY10E respectively, It currently enjoys a market share of ~12% with a strong pan-India presence. Capacities are spread across north (26%), central (30%), east (10%), south (29%) and west (5%) India.

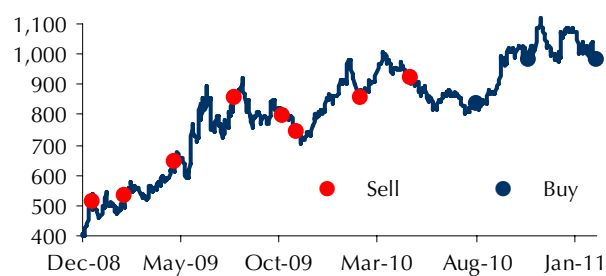
Shareholding pattern

(%)	Jun-10	Sep-10	Dec-10
Promoters	46.2	46.2	48.2
FIs	13.2	15.4	15.9
Banks & FIs	20.2	18.1	16.1
Public	20.4	20.2	19.8

Recommendation history

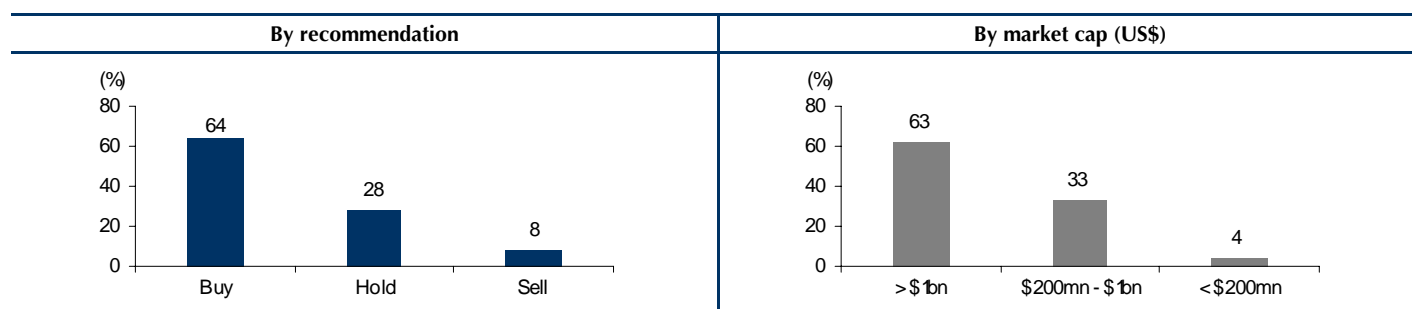
Date	Event	Reco price	Tgt price	Reco
16-Dec-08	Company Update	514	430	Sell
5-Feb-09	Results Review	530	416	Sell
22-Apr-09	Results Review	653	595	Sell
24-Jul-09	Results Review	854	796	Sell
6-Oct-09	Quarterly Preview	794	801	Sell
29-Oct-09	Results Review	746	704	Sell
4-Feb-10	Results Review	857	819	Sell
22-Apr-10	Results Review	919	844	Sell
4-Aug-10	Company Update	825	1,060	Buy
21-Oct-10	Results Review	983	1,180	Buy
3-Feb-11	Results Review	984	1,120	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Religare Capital Markets Ltd

4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

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