

In line with expectations

23 April 2007

Reduce

Price
Rs115

Sensex - 13,897

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	(21)	(5)	(2)
Rel. to Sensex	1	(19)	(13)	(15)

Source: Bloomberg

Stock Details

Sector	Cement
Reuters	GACM.BO
Bloomberg	ACEM@IN
Equity Capital (Rs mn)	3041
Face Value	2
52 Week H/L (Rs)	150/77
Market Cap (Rs bn)	175.1
Daily Avg Vol (No of shares)	8733590
Daily Avg Turnover (US\$ mn)	24.4

Shareholding Pattern (%)

(31st Mar.'07)

Promoters	32.6
FII/NRI	37.1
Institutions	15.7
Private Corp	2.3
Public	12.3

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ACL's Q1CY2007 pre-exceptional net profit at Rs4.03 billion is in line with our expectations. Net revenues at Rs14.33 billion for Q1CY2007, grew by 33%, driven by 29% growth in cement realisations and 4% increase in cement volumes. With improvement in cement realisation ACL's operating profit grew by a huge 52% to Rs5.63 billion as OPMs showed a decent improvement of 490 bps. ACL's pre-exceptional net profit grew by 51% to Rs4.03 billion. The reported net profit which includes gain of Rs2.4 billion made on sale of 11.26% stake in its associate ACIL, stood at Rs5.9 billion grew by 82% yoy. We are not changing our earnings estimates for ACL. At current levels the stock is trading at 12.2X its CY2008 earnings and EV/Ton of USD 188 for its CY2008 capacity. The valuations do not provide much head room on account of significant capacity additions of 70 million tonnes lined up by the industry over next two year. This we believe would disturb the demand supply equation and would weaken pricing power of cement producers. We maintain our REDUCE rating on the stock with a price target of Rs100.

Result Highlights

- ACL's Q1CY2007 pre-exceptional net profit at Rs4.03 billion is in line with our expectations. Net revenues at Rs14.33 billion for Q1CY2007, grew by 33%, driven by 29% growth in cement realisations (Cement realisations for the quarter stood at Rs3304 per tonne) and 4% increase in cement volumes. The muted volume growth clearly shows the that the company is facing capacity constraints. Gross cement realisations improved by almost Rs150 per tonne, however on a net basis the same stood at improved by Rs78 per tonne as the balance Rs71 per tonne was on account on hike in excise duty per tonne.
- With improvement in cement realisation ACL's operating profit grew by a huge 52% to Rs5.63 billion as OPMs showed a decent improvement of 490 bps.
- On the cost front, the trend of rising cost continued as the total cost per tonne of cement increased by almost 19% to Rs2006 per tonne. The cost increases were primarily because of 24% increase in cost of raw material consumed and 39% increase in freight cost.
- ACL's power and fuel cost rose by only 4.6% yoy to Rs534 per tonne as the company commissioned a 30MW thermal power plant at its Gujarat unit, replacing the furnace oil based CPPs in use there.
- Hence out of the total increase of Rs734 in cement realisation per ton, Rs414 went to EBIDTA (EBIDTA per ton of Rs1298 up 47% yoy) and Rs320 went to increase in cost per ton.
- ACL's other income for the quarter (adjusted for one time extraordinary income on sale of ACIL) increased by 20% as the company utilised surplus cash for investments. Also the surplus cash was used to pay off debt which in turn meant that interest charge for the quarter declined by a huge 84%.
- The surplus cash apart from strong operational cash flow was boosted by sale of stake in its associate ACIL through which ACL realised Rs5.26 billion and made a gain of Rs2.4 billion. Further, in terms of the agreement, the ACL will sell its remaining stake by April 30, 2007 for a consideration of Rs5.35 billion and the rest by April 30, 2008 for a consideration of Rs5.88 billion.

- ACL's pre-exceptional net profit grew by 51% to Rs4.03 billion. The reported net profit which includes gain of Rs2.4 billion made on sale of 11.26% stake in its associate ACIL, stood at Rs5.9 billion, grew by 82% yoy.
- At current levels the stock is trading at 12.2X its CY2008 earnings and EV/Ton of USD 188 for its CY2008 capacity. The valuations do not provide much head room on account of significant capacity additions of 70 million tonnes lined up by the industry over next two year. This we believe would drag utilisation levels to 84% and disturb the demand supply equation and would weaken pricing power of cement producers. We maintain our REDUCE rating on the stock with a price target of Rs100.

Result Table**(Rsmn)**

	Q107	Q106	Change (%)
Gross Sales	16062.6	12146.7	32.2
Excise Duty	1724.2	1388.9	24.1
Net Sales	14338.4	10757.8	33.3
Total Expenditure	8706.7	7058.1	23.4
Raw Material Consumed	951	738.2	28.8
Stock adjustments	103.7	37	180.3
Staff Cost	502.1	450.3	11.5
Power & fuel for generation	2319	2138.9	8.4
Freight & Forwarding			
on sales	2392.3	1581	51.3
on inter unit clinker transfer	383.6	333.4	15.1
Other Expenditure	2055	1779.3	15.5
Operating Profit	5631.7	3699.7	52.2
Other Income	256.5	213	20.4
PBIDT	5888.2	3912.7	50.5
Interest	17.9	109.4	-83.6
PBDT	5870.3	3803.3	54.3
Depreciation	598	566.2	5.6
PBT	5272.3	3237.1	62.9
Total tax	1241.85	570.5	117.7
Pre-exceptional profit	4030.45	2666.6	51.1
Extra-ordinary Items	2407.5	657	266.4
Tax on extraordinary item	529.65	79	570.4
Reported Profit After Tax	5908.3	3244.6	82.1
EPS (Pre-exceptional)	2.67	1.77	
EPS (Reported)	3.92	2.15	
Margins			
OPMs (%)	39.3	34.4	
EBIDTA (%)	41.1	36.4	
EBDT (%)	40.9	35.4	
EBT (%)	36.8	30.1	
EAT (%)	28.1	24.8	
Tax Rate (%)	23.6	17.6	

Per tonne analysis

	Q107	Q106	Change (%)
Cement Volumes (in million tonnes)	4.34	4.186	4
Raw Material Consumed	219.1	176.3	24
Stock adjustments	23.9	8.8	170
Staff Cost	115.7	107.6	8
Power & fuel for generation	534.3	511.0	5
Freight & Forwarding			
on sales	551.2	377.7	46
on inter unit clinker transfer	88.4	79.6	11
Other Expenditure	473.5	425.1	11
Total Cost per tonne	2006.2	1686.1	19
Gross Realisation	3701.1	2901.7	28
Excise duty	397.3	331.8	20
Realisation per tonne	3303.8	2569.9	29
EBIDTA per tonne	1297.6	883.8	47

Income Statement					Balance Sheet				
Dec end (Rs mn)	CY06*	CY07E	CY08E	CY09E	Dec end (Rs mn)	CY06*	CY07E	CY08E	CY09E
Net Sales	62686	55514	61070	62386	Equity share capital	3013.1	3013.1	3013.1	3013.1
Growth (%)	141.4	-11.4	10.0	2.2	Stock option outstanding				
Total Expenditure	41305	34100	37913	40499	Share Application Money				
Growth (%)	119.5	-17.4	11.2	6.8	Reserves & surplus	30953.3	39652.2	48908.1	57499.5
Raw Materials Expenses	4519	3459	3982	4382	Networth	33966.4	42665.3	51921.2	60512.6
% of sales	7.2	6.2	6.5	7.0	Net Deferred tax liability	3807.9	3807.9	3807.9	3807.9
Employee cost	2547	2400	2640	2904	Secured Loans	3547.0	2347.0	2347.0	0.0
% of sales	4.1	4.3	4.3	4.7	Unsecured Loans	6190.4	2111.8	4111.8	111.8
Power & Fuel cost	16375	9963	10710	11074	Loan Funds	9737.4	4458.8	6458.8	111.8
% of sales	26.1	17.9	17.5	17.8	Total Liabilities	47511.7	50932.0	62187.9	64432.3
Freight Charges	2078	1615	1862	1968	Gross Block	44352.8	51302.8	60902.8	76102.8
% of sales	3.3	2.9	3.0	3.2	Less: Depreciation	20816.5	23509.9	26707.3	30702.7
Admin & Other expenses	15786	16663	18719	20171	Net block	23536.3	27792.9	34195.5	45400.1
% of sales	25.2	30.0	30.7	32.3	Capital work in progress	6250.0	9600.0	15200.0	1000.0
EBIDTA	21382	21413	23157	21887	Investment	11760.5	11760.5	11760.5	11760.5
Growth (%)	198.9	0.1	8.1	-5.5	Current Assets	14027.8	10423.8	10438.2	15858.2
EBIDTA %	34.1	38.6	37.9	35.1	Inventories	7635.0	6083.7	6692.6	6836.8
Other income	1130	800	900	1000	Sundry debtors	1482.6	1064.6	1171.2	1196.4
Interest	795	401	517	9	Cash & bank balance	3326.9	1692.2	991.1	6241.7
Depreciation	3257	2693	3197	3995	Loans & advances	1583.3	1583.3	1583.3	1583.3
EBT	18460	19118	20343	18882	Other assets				
Tax	3420	5736	6103	5665	Current liabilities & Prov	8133.7	8716.0	9477.1	9657.4
EAT	15040	13383	14240	13218	Current liabilities	7021.9	7604.6	8365.7	8546.0
Growth (%)	226.7	-11.0	6.4	-7.2	Provisions	1111.8	1111.4	1111.4	1111.4
EAT (%)	24.0	24.1	23.3	21.2	Net current assets	5894.1	1707.8	961.1	6200.8
E/O items	0.0	0.0	0.0	0.0	Miscellaneous expenditure	70.8	70.8	70.8	70.8
Reported PAT	15040	13383	14240	13218	Total Assets	47511.7	50932.0	62187.9	64432.3

Source : Company, Emkay Research

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Cash Flow					Ratios				
Dec end (Rs mn)	CY06*	CY07E	CY08E	CY09E	Dec end (Rs mn)	CY06*	CY07E	CY08E	CY09E
Net Profit after Tax	15039.8	13382.9	14239.8	13217.5	EPS	10.0	8.9	9.5	8.8
Add : Depreciation	3256.5	2693.4	3197.4	3995.4	CEPS	12.1	10.7	11.6	11.4
Add : Misc exp w/off					Book Value Per Share	22.5	28.3	34.5	40.2
Add : intangibles w/off					Dividend Per Share	3.5	3.1	3.3	3.1
changes in debtors	-1024.2	418.0	-106.6	-25.2	PER	11.5	12.9	12.2	13.1
changes in inventories	-4465.0	1551.3	-608.9	-144.2	P/CEPS	9.5	10.8	9.9	10.1
changes in creditors	4131.8	582.7	761.1	180.2	P/B (X)	5.1	4.1	3.3	2.9
changes in L & A	-198.6	0.0	0.0	0.0	EV/EBIDTA	7.6	7.4	6.9	6.8
Net changes in WC	-1556.0	2552.0	45.7	10.8	EV/Sales	2.6	2.8	2.6	2.4
C.F. Operating activities	16740.3	18628.3	17482.9	17223.7	M-Cap/EBIDTA	8.1	8.1	7.5	7.9
Capital expenditure	-12329.7	-10300.4	-15200.0	-1000.0	M-Cap/sales	2.8	3.1	2.8	2.8
Investments		0.0	0.0	0.0	EV/Tonne (USD)	224.8	195.3	188.2	150.8
C.F. Investing activities	-12329.7	-10300.4	-15200.0	-1000.0	Financial ratios				
Free Cash flow	4410.5	8327.9	2282.9	16223.7	RoCE	46.9%	43.0%	39.5%	31.7%
Borrowings	-1537.1	-5278.6	2000.0	-6347.0	RoNW	44.3%	31.4%	27.4%	21.8%
dividend paid	-5263.9	-4684.0	-4983.9	-4626.1	Net debt/ Equity (x)	0.19	0.06	0.11	-0.10
Issue of shares	4852.0				Total Debt/Equity (x)	0.29	0.10	0.12	0.00
C.F. Financing activities	-1949.0	-9962.6	-2983.9	-10973.1	Dividend yield	3.04%	2.70%	2.88%	2.67%
changes in cash	2461.5	-1634.7	-701.1	5250.6					
Opening balance	865.3	3326.9	1692.2	991.1					
Closing balance	3326.8	1692.2	991.1	6241.7					

* 18 months period

Source : Company, Emkay Research

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