

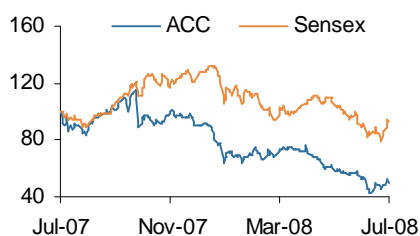
ACC Ltd (Q2 CY08)

July 25, 2008
Stock data

Sensex:	14,777
CMP (Rs):	560
52 Week h/l (Rs):	1,290/472
Market cap (Rs cr)	10,505
6m Avg vol BSE&NSE ('000 nos):	213
No of o/s shares (mn):	188
FV (Rs):	10
Bloomberg code:	ACC IN
Reuters code:	ACC.BO
BSE code:	500410
NSE code	ACC

Shareholding pattern

March 2008	(%)
Promoters	43.0
FII & institutions	31.7
Non promoter corp hold	3.5
Public & others	21.8

Share price trend


- ↗ Slow down in core business led to drop in net sales by 3.1% yoy
- ↗ OPM slips to 23.2%, down 640bps yoy due to 40% surge in fuel and power cost
- ↗ PAT was down by 26.2% yoy to Rs2.7bn in Q2 CY08, below expectation

Muted volume growth drags revenue

Despite marginal increase in aggregate volumes, (mere 1.6% yoy) revenue for ACC witnessed a dip of 3.1% yoy in Q2 CY08 to Rs17.9bn on back of lower realization. Volumes remained flat due to lower availability of cement from two plants and bottlenecks in dispatch due to agitation in Rajasthan. The realization for the current was lower due to price softening during the six weeks cement export ban last quarter. The capacity utilization for ACC dropped to 94.7% in Q2 CY08 v/s 104.9% in Q2 CY07.

Financial highlights

Period to (Rs mn)	Q2 CY08 (3)	Q2CY07 (3)	Growth (%)
Net sales	17,858	18,427	(3.1)
Expenditure	(13,720)	(12,983)	5.7
Operating profit	4,138	5,444	(24.0)
Other income	472	283	66.7
Interest	(108)	23	(576.5)
Depreciation	(724)	(633)	14.3
PBT	3,778	5,117	(26.2)
Tax	(1,185)	(1,604)	(26.1)
PAT	2,594	3,513	(26.2)
Exceptional items	123	0	-
APAT	2,717	3,513	(22.7)
OPM (%)	23.2	29.5	(6.4)
Equity	1,879	1,876	-
EPS (Rs) Annualized	58	75	-
P/E (x)	9		-

Source: BSE, Company

Cost pressure led to a dip in EBITDA margins by 640bps

Rising power and fuel cost (41% increase yoy) coupled with increase in freight and other expenditure led to decrease in operating margins by 640bps. The surge in coal, fly ash, power and gypsum (~24% in last quarter) resulted in unexpected increase in input cost for the company. However, utilization of previous quarter inventory arrested the fall in operating margins to a certain extent. PAT was down 26.2% yoy due to significant drop in operating margins and increase in interest cost. However, one time exceptional income on sale of land provided some respite.

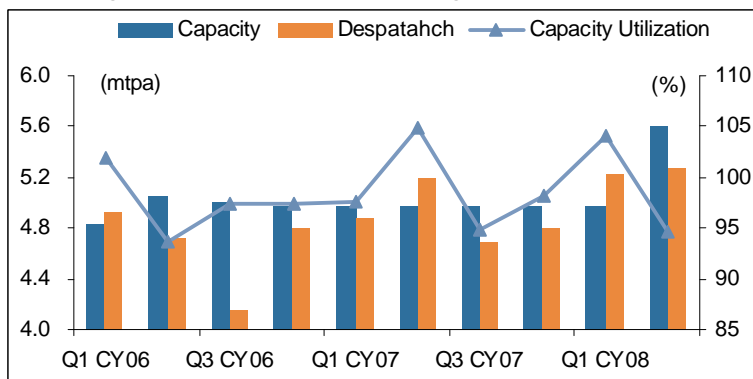
Cost Analysis

Period	Q2 CY08	Q2 CY07	Inc/Dec
As % of net sales	(3)	(3)	
Raw Materials	11.7	14.8	(3.1)
Staff	5.5	5.1	0.4
Power and fuel	22.4	15.5	6.9
Freight and handling	14.6	13.7	0.9
Other expenditure	22.6	21.3	1.4
Total expenditure	76.8	70.5	6.4

India Infoline Research Team

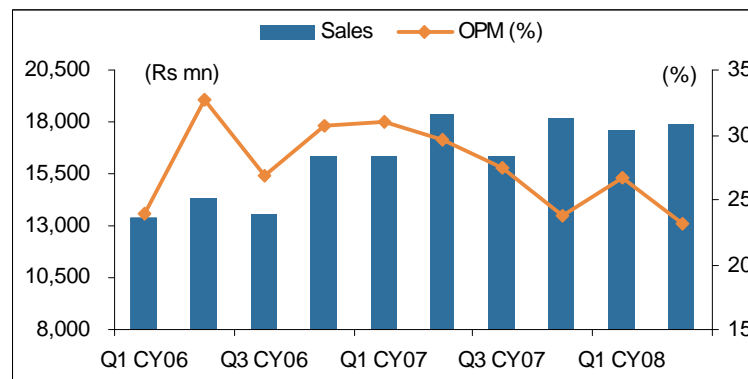
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Capacity, dispatch and capacity utilization trend



Source: Company

Sales and OPM trend



Source: Company

Major expansion plans running on schedule

ACC is enhancing its cement and clinker capacity at various locations to increase its total capacity to 30mtpa by CY10. The company recently, commenced operation at New Wadi and Madukkarai plant. We expect the Bargarh 1.2mtpa plant to be delayed and start production by Q1CY09. Other major expansion at New Wadi and Chanda is expected to go on-stream in Q3CY09 and Q1CY10 respectively. The company, in order to have regular power supplies and economize cost, is adding 117MW of captive power plant capacity by CY10.

Outlook

We expect margins to remain muted for next couple of quarters due to significant cost pressure. Outlook for the cement sector seems to be sluggish with rise in input cost, new capacity addition and no major price hike visible in near term.

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