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**Shareholding (%)**

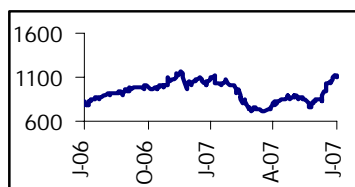
Promoters	35.2
FII's	24.3
MFs	5.2
Banks/FI's	12.3
Others	12.8

**Share price performance**

52-week high/low (Rs)	1195/678		
	-1m	-3m	-12m
Abs (%)	-8.1	-17.6	-26.4
Rel* (%)	1.6	-0.2	7.0

\*to Nifty

**Stock chart**



**Volumes up; QoQ margin impacted**

ACC Ltd. has reported 11.5% QoQ and 27.8% YoY growth in net sales, buoyed by higher volume and cement prices. However, margin for Q2CY07 was impacted due to higher input costs. On YoY basis, net profit declined 13.4% as April-June 2006 quarter included profit from sale of land and Mancherial Works.

The current cement demand-supply scenario and capacity expansion expected going forward merit firm cement prices until Q2FY09. However, subsequently, with fresh cement capacities becoming operational, cement prices may come under pressure. We have upgraded our forecasts in view of the cement price freeze becoming ineffective. At the current price, based on our revised forecasts, ACC is trading at an EV/EBIDTA of 10.4x and EV/tonne of US\$221.9x CY07E. The stock thus is not only fairly priced but we believe that there are cement stocks available at more attractive valuations as compared to ACC. We thus recommend a 'Reduce' rating on the stock.

- ▲ **Volumes up 9.4% QoQ:** ACC has reported 27.8% YoY and 11.5% QoQ growth during the current quarter. While higher cement prices led to sharp increase in topline on YoY basis, QoQ growth was driven by higher cement volumes. Revenue in cement business was higher by 11% QoQ, on the back of 9.4% growth in cement volumes and 1.4% growth in net cement realisation. Revenue from the RMC business provided further fillip to the topline by growing 24.3% QoQ.
- ▲ **QoQ margin declines:** While firm cement prices, and higher share of sale of blended cement helped improve profitability; the same was offset by a sharp increase in input costs and losses suffered by the RMC business. Operating profit margin thus declined by 120bps QoQ to 29.1%. Operating profit for the company thus stood at Rs5.44bn, up 7.3% QoQ.
- ▲ **Net profit at Rs3.5bn:** During the quarter, despite higher operating profit, ACC reported 3.4% QoQ and 13.4% YoY decline in net profit. Net profit was lower YoY, as profit for April-June 2007 quarter included revenue from sale of land to the tune of Rs1.4bn and sale of Mancherial Works for Rs380mn. On the other hand, QoQ decline in net profit is in view of higher tax provisions, which increased QoQ from 25.7% to 31.3%, thus impacting bottomline.

**Reduce**

**Rs1147**

July 19, 2007

**Market cap**

Rs bn 215  
US\$ bn 5

**Avg 3m daily volume**

1,157,389

**Avg 3m daily value**

USD mn 26

**Shares outstanding (mn)**

187

**Reuters**

ACC.BO/ACC.NS

**Bloomberg**

ACC IN

**Sensex**

15,550

**Nifty**

4,562

## ACC

- ▲ **Expansion plans:** ACC's capacity expansions are progressing as per schedule. While the capacity expansion (by 0.9mn tonne to 1.5mn tonne), along with captive power plant (25MW) at Lakheri and grinding augmentation project at Kymore, have commenced commercial production during the current quarter; grinding augmentation project at Sindri and Wadi, and the 1.18mn tonne expansion (along with the setting up of 30MW power plant) at Bargarh is progressing as per schedule. The company has also taken up the expansion of its new Wadi plant by 3mn tonne during the quarter.
- ▲ **Transfer of RMC business; sale of ACC Nihon Casting:** ACC's RMC business has been incurring losses. With a view to provide it with more focus and better access to resources, the company has approved transfer of its RMC business to a wholly-owned subsidiary, ACC Concrete. This apart, the company has also sold its wholly-owned subsidiary, ACC Nihon Castings Ltd. for Rs300mn.
- ▲ **Projections revised:** During the quarter, the government's decision to freeze cement prices has proved to be ineffective. Thus, we have upgraded our forecasts for CY07E and CY08E to account for this change. During CY07E and CY08E, we expect ACC's net revenue and profit to grow by 20.4% and 18.7% respectively.
- ▲ **Valuation:** The current cement demand-supply scenario and capacity expansion expected going forward merit firm cement prices until Q2FY09. However, subsequently, with fresh cement capacities becoming operational, cement prices may come under pressure. At the current price, based on our revised projections, While the current cement demand-supply scenario justifies firm prices until Q1FY09, we believe with fresh capacity additions becoming operational, cement prices will subsequently come under pressure. ACC is trading at an EV/EBIDTA of 10.4x and EV/tonne of US\$221.9x CY07E. The stock thus is not only fairly priced but we believe that there are cement stocks available at more attractive valuations as compared to ACC. We thus recommend a 'Reduce' rating on the stock.

*Table 1. Quarterly result table*

Rs mn	Apr-June07	Apr-June06	YoY (%)	Jan-Mar07	QoQ (%)
Sale of cement (mn tonnes)	5.34	4.63	15.3	4.88	9.4
Net sales	18,679.5	14,620.8	27.8	16,748.3	11.5
Total expenditure	13,235.5	10,064.6	31.5	11,676.9	13.3
Inc/Dec in stock in trade	404.0	(509.8)	(179.2)	34.7	1,064.3
Consumption of raw materials	2,040.3	1,667.9	22.3	1,794.4	13.7
Staff Costs	938.9	818.2	14.8	815.8	15.1
Power & Fuel	2,865.2	2,532.0	13.2	2,658.3	7.8
Freight charges	2,529.6	2,180.0	16.0	2,586.5	(2.2)
Excise duties (Net)	252.9	373.8	(32.3)	400.7	(36.9)
Other expenditure	4,204.6	3,002.5	40.0	3,386.5	24.2
EBIDTA	5,444.0	4,556.2	19.5	5,071.4	7.3
Other Income	283.0	155.5	82.0	283.9	(0.3)
PBIDT	5,727.0	4,711.7	21.5	5,355.3	6.9
Interest	(22.7)	147.4	(115.4)	39.9	(156.9)
Gross Profit	5,749.7	4,564.3	26.0	5,315.4	8.2
Depreciation	633.4	579.4	9.3	621.2	2.0
Profit Before Tax & Exceptional Items	5,116.3	3,984.9	28.4	4,694.2	9.0
Exceptional Items	0.0	1,463.9	-	199.6	-
PBT	5,116.3	5,448.8	(6.1)	4,893.8	4.5
Provision for Tax	1,603.9	1,393.0	15.1	1,256.3	27.7
PAT	3,512.4	4,055.8	(13.4)	3,637.5	(3.4)
Equity	1,875.9	1,872.3	0.2	1,873.7	0.1
Reported EPS	18.7	21.7	(13.6)	19.4	(3.6)
Adjusted EPS	18.7	13.8	35.3	18.3	2.0
Important Ratios (%)					
EBIDTA Margin	29.1	31.2		30.3	
Interest/Sales	(0.1)	1.0		0.2	
Tax/PBT	31.3	25.6		25.7	
NPM	18.8	27.7		21.7	

Source: IISL research, company

Table 2. Segmental results

	Apr-June07	Apr-June06	YoY (%)	Jan-Mar07	QoQ (%)
<b>Segment Revenue</b>					
Cement	17,971.1	13,822.5	30.0	16,191.1	11.0
Other Products	0.0	354.3	(100.0)	2.2	(100.0)
Ready Mix Cement	997.1	721.5	38.2	802.0	24.3
Total Segment Revenue	18,968.2	14,898.3	27.3	16,995.3	11.6
Less Inter Segment Revenue	(288.7)	(277.5)	4.0	0.0	-
Net Sales	18,679.5	14,620.8	27.8	16,995.3	9.9
<b>Segment EBIT</b>					
Cement	5,426.3	4,244.7	27.8	5,068.4	7.1
Other Products	0.0	102.0	(100.0)	0.0	-
Ready Mix Cement	(89.7)	35.9	(349.9)	(48.2)	86.1
Total Segment Results	5,336.6	4,382.6	21.8	5,020.2	6.3
Less net un-allocable expenditure	243.0	1,213.6	(80.0)	86.5	180.9
Total EBIT	5,093.6	3,169.0	60.7	4,933.7	3.2
<b>EBIT/ Sales (%)</b>					
Cement	30.2	30.7		31.3	
Other Products	-	28.8		0.0	
Ready Mix Cement	(9.0)	5.0		(6.0)	
<b>Total Segment Results</b>	<b>28.1</b>	<b>29.4</b>		<b>29.5</b>	

Source: IISL research, company

## Financials

### Profit & Loss

In Rs million	CY05	CY06	CY07E	CY08E
Net sales	32,034.1	58,034.8	69,890.7	76,114.3
YoY (%)	(17.9)	81.2	20.4	8.9
Total expenses	26,839.7	41,802.6	49,232.4	56,206.9
Inc/dec in stock	(452.6)	303.0	0.0	0.0
Raw material cost	5,027.0	6,748.7	7,178.0	7,753.7
Staff cost	1,900.5	3,180.2	3,561.8	3,989.2
Power and fuel cost	6,698.6	9,726.6	10,617.3	11,916.6
Freight cost	5,247.0	8,457.7	9,437.2	10,644.6
Other expenses	8,419.2	13,386.4	18,438.0	21,902.7
EBIDTA	5,194.4	16,232.2	20,658.2	19,907.4
YoY (%)	(16.0)	212.5	27.3	(3.6)
EBIDTA (%)	16.2	28.0	29.6	26.2
Other income	957.9	1,328.8	1,374.9	1,443.2
PBIDT	6,152.3	17,561.0	22,033.1	21,350.6
Interest	637.6	520.3	103.3	65.3
Gross profit	5,514.7	17,040.7	21,929.8	21,285.3
Depreciation	1,643.7	2,542.5	2,740.5	3,136.4
PBT and extra ordinary	3,871.0	14,498.2	19,189.4	18,148.9
Extra ordinary items	(75.0)	1,696.8	300.0	0.0
PBT	3,796.0	16,195.0	19,489.4	18,148.9
(-) Tax	1,399.4	3,818.1	4,872.3	4,537.2
Tax/ PBT	36.9	23.6	25.0	25.0
PAT	5,441.8	12,376.9	14,617.0	13,611.7
Adjusted net profit	3,091.9	12,318.4	14,617.0	13,611.7
YoY (%)	(3.7)	298.4	18.7	(6.9)

### Key Ratios

	CY05	CY06	CY07E	CY08E
EPS (Rs)	39.1	65.9	77.8	72.5
Adjusted EPS (Rs)	22.2	65.6	77.8	72.5
CEPS (Rs)	50.9	79.5	92.4	89.2
Book value (Rs)	115.2	167.4	223.0	274.9
Dividend per share (Rs)	8.0	15.0	19.5	18.1
Debt-equity (x)	0.6	0.3	0.1	0.1
ROCE	12.9	37.6	40.9	33.7
ROE	22.1	46.7	39.9	29.1

### Valuations

PE (x)	51.6	17.5	14.7	15.8
Cash PE (x)	22.5	14.4	12.4	12.9
Price/cash flows (x)	29.2	13.6	12.7	13.7
Price/book value (x)	10.0	6.9	5.1	4.2
Dividend yield	0.7	1.3	1.7	1.6
Market cap/sales	6.6	3.7	3.1	2.8
EV/sales (x)	7.0	3.8	3.1	2.7
EV/EBDITA (x)	43.0	13.7	10.4	10.5
EV/tonne (USD)	273.3	260.5	221.9	202.6

### Balance Sheet

In Rs million	CY05	CY06	CY07E	CY08E
Equity capital	1,855.4	1,877.6	1,877.6	1,877.6
Preference capital	0.0	0.0	0.0	0.0
Reserves	19,512.1	29,551.6	39,993.8	49,730.4
Net worth	21,367.5	31,429.2	41,871.4	51,608.0
Total borrowings	11,761.7	9,159.8	5,409.8	2,909.8
Deferred tax	3,003.8	3,207.2	3,207.2	3,207.2
Total liabilities	36,133.0	43,796.2	50,488.4	57,725.0
Gross block	46,286.4	48,162.5	55,662.5	63,162.5
Less: Acc. depreciation	17,222.9	18,937.6	21,678.1	24,814.5
Net block	29,063.5	29,224.9	33,984.4	38,348.0
CWIP	2,156.8	4,734.2	3,734.2	2,734.2
Investments	2,937.5	9,693.9	9,693.9	9,693.9
Current assets	14,211.6	15,403.9	21,311.4	26,794.5
Inventories	6,009.5	6,241.3	7,516.3	8,185.6
Debtors	1,991.7	2,139.6	2,576.7	2,806.1
Cash	1,027.9	1,543.2	5,464.6	9,761.3
Loans and advances	5,182.5	5,479.8	5,753.8	6,041.5
Current liabilities	12,300.5	15,270.1	18,245.0	19,855.1
Provisions	3,167.7	5,022.8	6,176.4	6,076.8
Net current assets	1,911.1	133.8	3,066.4	6,939.4
Miscellaneous expenses	64.1	9.4	9.4	9.4
Total assets	36,133.0	43,796.2	50,488.4	57,725.0

### Cash Flow

In Rs million	CY05	CY06	CY07E	CY08E
Net profit	5,441.8	12,376.9	14,617.0	13,611.7
Depn and w/o	1,643.7	2,542.5	2,740.5	3,136.4
Deferred tax	700.0	(51.7)	0.0	0.0
Change in working cap	457.2	2,292.6	988.8	423.7
Other income	(957.9)	(1,328.8)	(1,374.9)	(1,443.2)
Operating cash flow	7,284.8	15,831.5	16,971.4	15,728.6
Other income	957.9	1,328.8	1,374.9	1,443.2
Capex	(4,151.8)	(6,700.0)	(6,500.0)	(6,500.0)
Investments	329.4	0.0	0.0	0.0
Investing cash flow	(2,864.5)	(5,371.2)	(5,125.1)	(5,056.8)
Dividend	(1,683.1)	(3,203.2)	(4,174.8)	(3,875.1)
Fresh equity	10.0	0.0	0.0	0.0
Debt	(3,329.0)	(1,250.0)	(3,750.0)	(2,500.0)
Financing cash flow	(5,002.1)	(4,453.2)	(7,924.8)	(6,375.1)
Others	1,036.5	0.0	0.0	0.0
Opening cash	573.2	1,027.9	1,543.2	5,464.6
Closing cash	1,027.9	7,035.0	5,464.6	9,761.3

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