

# ACC

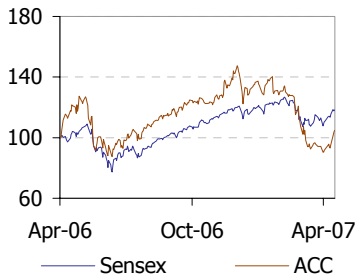
 Relative to sector: **Underperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

 No. of shares : 187mn  
 Market cap : Rs 148bn  
 52 week high/low : Rs 1,192/ Rs 625  
 Avg. daily vol. (6mth) : 1.3mn shares  
 Bloomberg code : ACC IN  
 Reuters code : ACC.BO

## Shareholding (%) Mar-07 QoQ chg

Promoters	: 38.0	2.9
FII's	: 20.1	(4.2)
MFs / UTI	: 2.7	(2.6)
Banks / FIs	: 16.2	3.1
Others	: 23.0	0.7

## VOLUME PICK UP LIKELY

ACC Limited (ACC) reported an EBITDA of Rs 5,072mn in Q1CY07, an increase of 55% YoY, primarily on account of higher realizations. While revenues rose 24.8% YoY to Rs 16.7bn, operating margin rose to 30.3% from 24.3% in Q1CY06. The depreciation charge for the quarter decreased 19% QoQ to Rs 621mn in Q1CY07. Other income declined by 34.9% QoQ to Rs 256mn in Q1CY07 and by 16.9% YoY. ACC reported adjusted pre-tax profits of Rs 4,667mn (up 67.6 YoY), while adjusted PAT grew by 40.6% YoY.

## Q1CY07 - Highlights

- Cement volumes decreased ~2.4% YoY to 4.93mn tonnes. During the quarter, some of the company's brown field expansion plants operated at lower capacities due to project related shutdowns.
- Energy costs per tonne increased by 18.4% YoY. Freight cost per tonne, during the quarter was up 31% YoY and 13% QoQ.
- EBITDA per tonne, during the quarter stood at ~Rs 1,145 per tonne as against ~Rs720 per tonne in Q1CY06.
- Effective taxation rate at 26.9% was lower than our expected tax rate of 32%.

Demand for cement in Q1CY07 grew by ~6.6% over the corresponding period last year. We expect demand to grow at ~10% p.a., inline with GDP growth, on the back of strong commercial/ industrial activity, and supported by steady residential demand. We expect cement prices to stay firm in the short to medium term, with a pick-up in construction activities and with supply lagging demand.

In our opinion, higher volumes and firm pricing would drive profits going forward. We reduce our effective tax rate assumptions from 32% to 30%. As a result we raise our CY07 EPS forecast to Rs 64.2 (earlier Rs 62.6). In our opinion, at CMP Rs 788, the stock trading at 12.3x CY07E earnings is more than fairly valued. We reiterate our sector **Underperformer** rating, with a price target of Rs 771.

## Financial summary - Standalone

Y/E Dec	Sales (Rs mn)	Adj. PAT (Rs mn)	Cons. EPS* (Rs)	EPS^ (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
CY05	42,748	3,821	-	20.5	12	26.1	17.9	18.8	15.4	9.0
CY06	58,937	10,455	-	56.0	174	14.1	33.3	40.3	8.5	15.1
CY07E	66,435	12,023	71.1	64.2	15	12.3	29.7	39.9	7.9	16.0
CY08E	69,074	12,445	65.3	66.5	4	11.9	24.6	35.1	7.6	12.4

Source: \*Consensus broker estimates Company, ENAM Research, ^ ENAM estimates on fully diluted equity

**Results update - Standalone**

(Rs mn)	Quarter ended					Y/E		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Dec-07E	Dec-06	% Chg
<b>Net Sales</b>	<b>16,748</b>	<b>13,424</b>	<b>24.8</b>	<b>16,199</b>	<b>3.4</b>	<b>66,435</b>	<b>58,937</b>	<b>12.7</b>
<b>EBITDA</b>	<b>5,072</b>	<b>3,266</b>	<b>55.3</b>	<b>4,685</b>	<b>8.2</b>	<b>19,459</b>	<b>17,135</b>	<b>13.6</b>
Other income	256	308	(16.9)	393	(34.9)	1,074	260	313.3
<b>PBIDT</b>	<b>5,328</b>	<b>3,574</b>	<b>49.1</b>	<b>5,079</b>	<b>4.9</b>	<b>20,534</b>	<b>17,395</b>	<b>18.0</b>
Depreciation	621	597	4.1	771	(19.4)	2,754	2,543	8.3
Interest	40	194	(79.4)	41	(2.9)	604	520	16.1
<b>PBT</b>	<b>4,667</b>	<b>2,784</b>	<b>67.6</b>	<b>4,267</b>	<b>9.4</b>	<b>17,176</b>	<b>14,332</b>	<b>19.8</b>
Tax	1,256	359	250.1	1,021	23.0	5,153	3,877	32.9
<b>Adjusted PAT</b>	<b>3,411</b>	<b>2,425</b>	<b>40.6</b>	<b>3,245</b>	<b>5.1</b>	<b>12,023</b>	<b>10,455</b>	<b>15.0</b>
Extra ordinary income/ (exp.)#	227	(71)	-	340	-	-	1,863	-
<b>Reported PAT</b>	<b>3,638</b>	<b>2,354</b>	<b>54.5</b>	<b>3,585</b>	<b>1.5</b>	<b>12,023</b>	<b>12,318</b>	<b>(2.4)</b>
No. of shares (mn)	188	187	-	187	-	187	187	-
EBITDA margins (%)	30.3	24.3	-	28.9	-	29.3	29.1	-
PBIDT margins (%)	31.8	26.6	-	31.4	-	30.9	29.5	-
<b>EPS - annualized (Rs.)^</b>	<b>72.7</b>	<b>51.8</b>	<b>40.5</b>	<b>69.2</b>	<b>5.0</b>	<b>64.2</b>	<b>56.0</b>	<b>14.6</b>

Source: Company, ENAM Research. # Extra-ordinary income includes income from sale of land, investments & subsidiaries ^ ENAM estimates on fully diluted basis.

**Other Highlights****New Projects / Modernisation**

The capacity expansion at Lakheri by 0.90MT to 1.50MT along with a 25MW captive power plant has commenced trial production. During the quarter the grinding augmentation project at Tikaria has started commercial operations. The augmentation of grinding capacities at Kymore, Sindri and Wadi is currently under progress and is expected to be completed by the end of CY07. Capacity expansion at Bargarh of 1.18MTPA including a captive power plant of 30MW is also progressing on schedule. The company has additionally taken up a project to expand the Wadi plant by 3.0MTPA.

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