

## ACC

Rs783  
UNDERPERFORMER

## RESULT NOTE

Mkt Cap: Rs146.9bn; US\$3.2bn

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**Result:** Q1CY07

**Comment:** Marginally below estimates due to lower than expected growth in realizations

**Last report:** 5 April 2007 (Price Rs714; Recommendation: Underperformer)

## Key valuation metrics

Year end 31 Dec (Rs mn)	Net Revenues	% Change yoy	Net Profit	EPS	% Change yoy	PER (x)
FY2005	38,874	21	3,788	20.3	253	37.0
CY2005	32,034	10	2,655	19.0	(8)	40.3
CY2006	58,035	36	10,810	57.6	196	13.6
CY2007E	63,604	10	11,283	60.1	4	13.0
CY2008E	65,625	3	9,168	48.9	(19)	16.0

\* CY05 is a 9-month period ending December 31, 2005

ACC's pre-exceptional net profit at Rs3.41bn was below our estimates (Rs3.58bn), due to lower than expected growth in realizations. Q1CY07 revenues were at Rs16.75bn (up 26.2% yoy), driven by a 33.4% yoy increase in cement realizations and offset to an extent, by a 2.5% yoy decline in volumes. With the strong growth in realizations, operating margins jumped by 650bps in Q1CY07 to 30.3%, resulting in a 61% yoy growth in operating profit to Rs5.07bn. Consequently, net profit before exceptional items grew by 52.3% yoy to Rs3.41bn. ACC's earnings are expected to register a 7.5% compounded annual decline over CY06-08, due to a 7% decrease in realizations in CY08 driven by an oversupply situation in the domestic cement market. ACC currently trades at 16x CY08E earnings, 8.6x on CY08E EV/EBITDA and US\$162 on EV/ton basis, which we believe, are expensive considering the negative outlook on cement prices and profitability over the next two years. We maintain our Underperformer rating on the stock.

## RESULT HIGHLIGHTS

- ACC's Q1CY07 revenues increased by 26.2% yoy to Rs16.75bn, on the back of a 33.4% yoy rise in cement realizations to Rs3,233/ton. The strong growth in cement prices was due to a tight demand-supply situation across markets. Revenues were, however, marginally below our estimates of Rs16.87bn due to lower than estimated realizations. While gross realizations increased by ~Rs114/ton qoq during the quarter, net realizations increased only by Rs69/ton qoq as the increase in gross realizations was largely on account of an increase in excise duties in the FY08 Budget, which was passed on to consumers by ACC.
- Cement volumes decreased by 2.5% yoy to 4.9 million tons during the quarter, due to production problems at the company's Wadi plant and slow growth in sales on the back of re-branding of the company's logo and new product packaging introduced during the quarter.

	Q1CY06	Q2CY06	Q3CY06	Q4CY06	CY2006	Q1CY07
Net realisation (Rs/ton)	2,424	2,925	3,000	3,164	3,161	3,233
Volumes (million ton)	5.06	4.6	4.27	4.90	18.36	4.93
Traded Sales (million ton)	-	-	-	-	-	-
Total Volume (million ton)	5.1	4.6	4.3	4.8	18.36	4.93
Net Realisation (% chg yoy)	10.9	31.5	34.4	40.2	44.0	33.4
Volume (% chg yoy)	12.7	5.0	8.9	5.5	6.2	(2.5)

- The power and fuel costs rose by 15.9% yoy to Rs2.66bn primarily due to higher coal and liquid fuel prices, while freight costs increased by 28.6% yoy to Rs2.59bn.
- Other costs were up 42.2% yoy to Rs3.66bn on account of marketing expenses on re-branding and introducing new packaging.
- EBITDA margin improved by 650bps to 30.3% in Q1CY07 due to the sharp growth in realizations. Overall, EBITDA was below our estimates at Rs5.07bn (up 61% yoy) due to the lower than expected growth in revenues.

#### Trend in key cost per ton (Rs / ton)

Cost per ton (Rs/ton)	Q1CY06	Q2CY06	Q3CY06	Q4CY06	CY2006	Q1CY07
Raw Material Cost	321	360	358	374	412	364
Coal Cost					-	
Power Cost	453	547	522	543	530	539
Employee Cost	173	177	164	215	173	165
Freight	397	471	469	462	461	524
Purchase of cement	20	33	33	28	29	26
Other Cost	509	696	755	743	673	742
<b>Total Cost</b>	<b>1,874</b>	<b>2,284</b>	<b>2,301</b>	<b>2,366</b>	<b>2,277</b>	<b>2,361</b>

- The interest cost fell by 79.4% yoy to Rs40mn mainly due to repayment of debt out of the surplus cash from operations and the sale of stakes in and non-core businesses in previous quarters. On the other hand, other income decreased by 39.2% yoy to Rs256mn as surplus cash was utilized in repayment of debt.
- Depreciation increased by 4.6% yoy to Rs621mn in line with the increase in normal capex and commissioning of 0.31 million tons of grinding capacity at Tikaria
- The provision for tax for Q1CY07 was at Rs1.26bn, implying a tax rate of 26.9%.
- Consequently, ACC's pre-exceptional PAT has grown by 52.3% yoy to Rs3.41bn during the quarter. Adjusting for extra-ordinary items of Rs227mn (Rs27.7mn forex gain and Rs199.6mn from sale of stakes in subsidiaries/associates), reported PAT was up by 54.5% to Rs3.64bn.

#### ❑ ACC expanding its capacity by ~7mn tons over the next 2-3 years

During Q1CY07, ACC has commissioned the expansion of 0.31mn tons of grinding capacity at its Tikaria plant. Further, trial runs have commenced at the Lakheri plant, where ACC is adding 0.6mn tons along with a 25MW captive power plant. The company is also expanding capacities at Sindri (0.4mn tons), Kymore (0.5mn tons) and Wadi (1.08mn tons) which are expected to be commissioned by December 2007. In CY08, ACC plans to commission a 1.18mn tons expansion at its Bargarh plant. While a 3mn ton capacity at Wadi is expected to be commissioned in CY09. After all expansion plans, ACC's capacity is expected to increase to 27mn tons by CY09.

### ❑ Transfer of RMC business to wholly owned subsidiary

The Board of Directors of ACC have approved the sale and transfer of the company's ready-mix concrete (RMC) business to ACC Concrete Ltd., a new wholly-owned subsidiary which is being incorporated. The transfer is expected to give the RMC business the required focus, and access to resources, for implementing its growth plans. This is not expected to have any impact on consolidated revenues and earnings of the company.

### ❑ Maintain Underperformer

We are not changing our CY07 earnings estimates for ACC. We expect the cement industry to see a net surplus of 8.6mn tons in CY09 on account of large capacity additions of ~80mn tons over FY07-09, resulting in a 7-15% decline in cement prices across the country in FY09. Consequently, ACC's revenues are expected to register a CAGR of only 6.4% over CY06-08, as lower cement realizations offset the impact of volume growth. Earnings are therefore expected to register a 7.5% compounded annual decline over CY06-08. Moreover, in the medium term, the likelihood of any increase in cement prices is remote, considering the removal of custom duties, including countervailing duty and special duty on imported cement, which has made the landed cost of imported cement cheaper than domestic prices at coastal locations. ACC currently trades at 16x CY08E earnings, 8.6x on CY08E EV/EBITDA and US\$162 on EV/ton basis. We believe valuations are expensive considering the negative outlook on cement prices and profitability over the next two years. We maintain our Underperformer rating on the stock.

#### Quarterly results

Rs mn	Q1CY06	Q2CY06	Q3CY06	Q4CY06	CY06	Q1CY07	CY07E
<b>Sales</b>	<b>13,275</b>	<b>14,621</b>	<b>13,735</b>	<b>16,199</b>	<b>58,035</b>	<b>16,748</b>	<b>63,604</b>
<i>yoy chg (%)</i>	19.2	29.6	36.7	51.1	81.2	26.2	9.6
<b>Operating profit</b>	<b>3,151</b>	<b>4,556</b>	<b>3,660</b>	<b>4,685</b>	<b>16,232</b>	<b>5,071</b>	<b>17,929</b>
	90.8	113.6	161.3	197.7	213.1	61.0	10.5
Other income	421	217	215	393	1,560	256	1,288
Interest	194	147	144	41	752	40	347
Depreciation	594	579	593	771	2,543	621	2,786
<b>PBT</b>	<b>2,784</b>	<b>4,047</b>	<b>3,138</b>	<b>4,267</b>	<b>14,498</b>	<b>4,667</b>	<b>16,084</b>
Tax rate (%)	19.6	26.5	28.5	23.9	25.4	26.9	29.9
Extra Ordinary Items	116	1,082	3	340	1,541	227	-
Tax	545	1,073	894	1,021	3,688	1,256	4,802
<b>Net profit</b>	<b>2,355</b>	<b>4,056</b>	<b>2,247</b>	<b>3,585</b>	<b>12,350</b>	<b>3,638</b>	<b>11,283</b>
<i>yoy chg (%)</i>	42.3	191.0	10.4	86.2	127.0	54.5	(8.6)
<b>Pre- exceptional Profits</b>	<b>2,239</b>	<b>2,974</b>	<b>2,244</b>	<b>3,245</b>	<b>10,810</b>	<b>3,410</b>	<b>11,283</b>
<i>yoy chg (%)</i>	47.3	127.7	173.0	244.8	205.4	52.3	4.4
OPM (%)	23.7	31.2	26.6	28.9	28.0	30.3	28.2
NPM (%)	17.7	27.7	16.4	22.1	21.3	21.7	17.7
Other income/PBT	15.1	5.4	6.8	9.2	10.8	5.5	8.0
Outstanding shares (m)	186.4	186.9	187.4	187.4	187.6	187.6	187.6
EPS (Rs)	12.0	15.9	12.0	17.3	57.6	18.2	60.1
Cash EPS (Rs)	15.8	24.8	15.2	23.2	79.4	22.7	75.0
PER (x)	65.2	49.2	65.4	45.2	13.6	43.1	13.0
P/CEPS (x)	12.4	7.9	12.9	8.4	2.5	8.6	2.6

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