Q1CY10 Result Update

April 26, 2010

ACC, a leading cement player declared its Q1CY10 results. It reported consolidated revenues of Rs.2,240.4 cr up by 3.5% Y-o-Y and up 9.3% Q-o-Q. EBIDTA margins for the quarter contracted by 190 bps Y-o-Y and improved 480 bps Q-o-Q to 29.2%. Net Profit for the quarter fell by 1.6% Y-o-Y but rose by 41.3% Q-o-Q to Rs.392.9 cr.

Quarterly Financials – Consolidated

Rs.Cr.

Rs.Cr	Q1CY10	Q1CY09	% Chg	Q4CY09	% Chg	Q3CY09	% Chg
Net Sales	2240.4	2164.0	3.5%	2050.0	9.3%	2077.4	-1.3%
Other operating income	34.9	27.6	26.2%	62.2	-43.9%	36.7	69.4%
Share of earnings of associates	1.0	1.0	-2.9%	0.5	120.0%	0.6	-19.6%
Total Operating Income	2276.2	2192.6	3.8%	2112.6	7.7%	2114.7	-0.1%
Expenditure							
(Increase) / Decrease In Stock In Trade & WIP	31.8	53.1	-40.1%	-42.4	-175.0%	-34.8	22.0%
Consumption of Raw Materials	334.4	267.7	24.9%	316.8	5.5%	291.8	8.6%
Purchase of Traded Cement & Other Products	37.1	33.4	11.3%	30.8	20.6%	29.3	5.0%
Employees Cost	98.4	87.5	12.4%	99.7	-1.3%	108.2	-7.8%
Power & Fuel	394.8	414.2	-4.7%	397.6	-0.7%	362.4	9.7%
Outward Freight charges on cement	274.1	276.6	-0.9%	308.4	-11.1%	254.2	21.3%
Other Expenditure	450.3	386.5	16.5%	502.4	-10.4%	412.1	21.9%
Total Opex	1621.0	1519.0	6.7%	1613.3	0.5%	1423.2	13.4%
EBIDTA	**655.2**	**673.6**	-2.7%	**499.3**	31.2%	**691.4**	-27.8%
EBIDTA %	*29.2%*	*31.1%*		*24.4%*		*33.3%*	
Other Income	26.1	25.2	3.5%	19.5	33.3%	15.0	30.0%
Interest Exps	13.6	36.8	-63.0%	18.1	-24.6%	13.6	33.3%
Minority Interest	0.0	0.1	-60.0%	0.0	0.0%	-0.1	-122.2%
Depreciation	103.1	85.3	20.8%	114.5	-10.0%	87.6	30.6%
Profit before Tax	564.6	576.6	-2.1%	386.3	46.2%	605.4	-36.2%
PBTM %	*25.2%*	*26.6%*		*18.8%*		*29.1%*	
Tax	171.7	177.3	-3.2%	108.2	58.6%	189.9	-43.0%
Effective Tax Rate %	*30.4%*	*30.7%*		*28.0%*		*31.4%*	
Net Profit	**392.9**	**399.4**	-1.6%	**278.0**	41.3%	**415.4**	-33.1%
NPM %	*17.5%*	*18.5%*		*13.6%*		*20.0%*	
Equity Capital	187.9	187.9	0.0%	187.9	0.0%	187.9	0.0%
EPS	**20.9**	**21.3**	-1.7%	**14.8**	41.3%	**22.1**	-33.1%

(Source: Company Press Release)

Quarterly Financials – Standalone

Rs.Cr.

Particulars	Q1CY10	Q1CY09	% Chg	Q4CY09	% Chg	Q3CY09	% Chg
Sales Volume (Mn Tonne)	5.6	5.7	-1.6%	5.4	3.7%	5.1	3.6%
Realisation (Rs/Mn Tonne)	3780.2	3637.3	3.9%	3584.8	5.5%	3899.8	-5.8%
Net Sales	2101.8	2055.1	2.3%	1921.5	9.4%	1969.4	-2.4%
Other operating income	34.5	26.6	29.5%	62.4	-44.8%	36.1	73.0%
Total Operating Income	2136.3	2081.7	2.6%	1983.9	7.7%	2005.5	-1.1%
Expenditure							
(Increase) / Decrease In Stock In Trade & WIP	32.1	53.4	-39.9%	-42.5	-175.5%	-34.8	22.2%
Consumption of Raw Materials	248.1	206.0	20.4%	235.4	5.4%	221.9	6.1%
Purchase of Traded Cement & Other Products	26.6	25.3	5.1%	21.9	21.3%	21.2	3.2%
Employees Cost	89.6	79.4	12.8%	91.7	-2.3%	99.8	-8.1%
Power & Fuel	392.6	411.4	-4.6%	395.0	-0.6%	359.5	9.9%
Outward Freight charges on cement	275.3	277.8	-0.9%	267.2	3.0%	254.8	4.8%
Other Expenditure	415.4	354.5	17.2%	522.1	-20.4%	379.1	37.7%
Total Operating Expenditure	1479.6	1407.7	5.1%	1490.8	-0.8%	1301.5	14.5%
EBIDTA	**656.7**	**674.0**	-2.6%	**493.1**	33.2%	**704.0**	-30.0%
EBIDTA %	*31.2%*	*32.8%*		*25.7%*		*35.7%*	
Other Income	26.4	24.2	9.2%	20.0	31.8%	14.8	35.7%
Interest Expenses	12.7	36.8	-65.4%	18.1	-29.4%	13.5	33.7%
Depreciation	93.5	78.9	18.5%	105.2	-11.1%	79.6	32.2%
Profit before Tax	576.9	582.5	-1.0%	389.9	48.0%	625.7	-37.7%

PBTM %	*27.4%*	*28.3%*		*20.3%*		*31.8%*	
Tax	171.7	177.7	-3.4%	109.2	57.3%	190.0	-42.5%
Effective Tax Rate %	*30.5%*	*30.5%*		*28.0%*		*30.4%*	
Net Profit	**405.2**	**404.8**	0.1%	**280.7**	44.3%	**435.7**	-35.6%
NPM %	*19.3%*	*19.7%*		*14.6%*		*22.1%*	
Equity Capital	187.9	187.7	0.1%	187.7	0.1%	187.7	0.0%
EPS	**21.6**	**21.6**	0.0%	**15.0**	44.2%	**23.2**	-35.6%

(Source: Company Press Release)

Quarterly Consolidated Financials – Segmental Rs.Cr.

Particulars	Q4CY09	Q4CY08	% Chg	Q4CY09	% Chg	Q3CY09	% Chg
Segment Revenue							
- Cement	2102.0	2055.1	2.3%	1921.5	9.4%	1969.4	-2.4%
- RMC	149.4	129.8	15.2%	138.4	8.0%	117.7	17.5%
Total	2251.4	2184.8	3.0%	2059.8	9.3%	2087.1	-1.3%
Less: Inter segment revenue	20.9	20.9	0.0%	9.9	111.2%	9.7	1.3%
Net Sales	**2230.6**	**2164.0**	3.1%	**2049.9**	8.8%	**2077.4**	-1.3%
Segment Results							
- Cement	563.4	599.9	-6.1%	400.3	40.7%	625.5	-36.0%
- RMC	-8.9	-6.7	31.3%	-11.3	-22.0%	-17.3	-34.3%
Total	554.5	593.1	-6.5%	389.1	42.5%	608.1	-36.0%
Less: Interest Expenses	13.6	36.8	-63.0%	18.1	-24.6%	13.6	33.3%
Other Unallocable Expenditure/(Income)	-3.5	-4.8	-26.8%	28.4	-112.3%	-3.7	-864.2%
Add: Interest Income	20.2	15.5	0.0%	43.7	-53.8%	7.0	522.6%
PBT	**564.6**	**576.6**	-2.1%	**386.3**	46.1%	**605.3**	-36.2%
Capital Employed							
- Cement	3857.1	3149.4	22.5%	3575.4	7.9%	3545.1	0.9%
- RMC	120.1	136.1	-11.8%	125.4	-4.3%	141.0	-11.0%
Total	**3977.1**	**3285.5**	21.1%	**3700.8**	7.5%	**3686.3**	0.4%
C-W-I-P	2204.7	1906.5	15.6%	2140.0	3.0%	2145.1	-0.2%

(Source: Company Press Release)

Some of the key highlights of Q1CY10 Standalone results are as follows:

- ACC reported merely 2.3% y-o-y growth and 9.4% growth q-o-q in net sales in Q1CY10 to Rs.2,101.8 cr aided by improvement in realisations. Volumes dipped by 1.6% y-o-y (though q-o-q, they were up 5.1%) to 5.6 mn tons. Average realizations for Q1CY10 stood at Rs.3,780.2/ton, up by 3.9% y-o-y and up by 2.9% q-o-q. During the quarter, ACC's several units faced dispatch constraints due to non-availability of railway wagons, as a result of which the volumes were flat. But ACC was able to register some increase in revenues driven by price increases in some regions. Realisations improved for ACC, as it was able to pass on the rise in fuel and limestone cost and the shortage of railway wagons reduced supply and drove cement prices higher post the Union Budget.

- EBIDTA margins q-o-q improved by 550 bps to 31.2% but dipped by 160 bps y-o-y. ACC has been carrying out cost control measures so as to improve/maintain its margins. EBIDTA per tonne saw an improvement of 35.9% q-o-q due to fall in per tonne cost of other expenditure. While ACC's exposure to imported coal is limited to ~10%, the management explained that it had some low cost inventory that limited q-o-q rise in power and fuel costs. However, other expenditure rose by 19.1% y-o-y to Rs.747.2/tonne in Q1CY10. This alongwith fall in volumes resulted in ACC posting EBIDTA/tonne of Rs.1,119.2 down by 2.3% y-o-y.

Cost per tonne analysis	Q1CY10	Q1CY09	% Chg	Q4CY09	% Chg	Q3CY09	% Chg
Consumption of Raw Materials	551.7	503.8	9.5%	410.8	34.3%	412.5	-0.4%
Purchase of Traded Cement & Other Products	47.8	44.8	6.8%	41.9	14.1%	42.1	-0.4%
Employees Cost	161.1	140.5	14.6%	175.3	-8.1%	197.5	-11.2%
Power & Fuel	706.0	728.1	-3.0%	755.2	-6.5%	711.8	6.1%
Outward Freight charges on cement	495.1	491.6	0.7%	510.8	-3.1%	504.6	1.2%
Other Expenditure	747.2	627.4	19.1%	998.3	-25.2%	750.7	33.0%
Total Cost	2661.1	2491.5	6.8%	2850.4	-6.6%	2577.2	10.6%
EBIDTA	1119.2	1145.9	-2.3%	823.5	35.9%	1322.6	-37.7%

(Source: HDFC Sec)

- Interest charges for Q1CY10 were lower by 65.4% y-o-y and 29.4% q-o-q to Rs.12.7 cr. Depreciation rose by 18.5% y-o-y and fell by 11.1% q-o-q to Rs.93.5 cr. Tax rate for the quarter was 30.5%. On the back of volume degrowth, higher interest and depreciation costs, ACC reported contraction of 40 bps y-o-y in PAT margins to 19.3% in Q1CY10.

- The Bargarh expansion project has been completed in Q1CY10, raising the plant's installed capacity to 2.1 million tonnes p.a. The grinding plants at Thondebhavi and Kudithini with capacity of 1.6 mn tonnes p.a. and 1.2 mn tonnes p.a. are on track and are scheduled for completion in Q2CY10. The first phase of expansion programme at Wadi, Karnataka to add 3mn tonnes p.a. together with captive power plant capacity of 25MW is scheduled for completion in Q3CY10.

- At the end of these project expansions, ACC will have a total capacity of 30.3 mn tones from the current capacity of 26 mn tonnes.

- ACC commissioned its third wind energy farm with capacity of 2.5MW in Maharashtra at a cost of Rs.13 cr in March 2010. ACC now has a total wind power capacity of 19MW - 9MW in Tamil Nadu, 7.5MW in Rajasthan and 2.5MW in Maharashtra.

- In December 2009, ACC entered into an agreement with the promoters of Asian Concrete and Cement Pvt Ltd (Asian Cement) to acquire a 45% equity stake in the company (0.3MT grinding unit in AP, with additional 1MT being added). The transaction was completed in Q1CY10.

- ACC concluded the acquisition of Encore Cement and Additives for an undisclosed consideration in Q1CY10. Encore has 0.2 mn TPA slag based grinding capacity in AP. This acquisition will allow ACC to enter coastal AP, a new market for the company.

- As per the management, H1CY10 is expected to be reasonably good for the cement industry due to the government's focus on infrastructure and low-cost housing and also due to good retail demand from semi-urban and rural markets. Higher government support prices for agriculture, the rural employment guarantee schemes and the Rs. 60,000-crore farm loan waiver could give a good boost to the rural economy and in turn benefit ACC in terms of increase in demand from the rural areas.

- Going forward, the cement prices could remain subdued in next few quarters on the back of bunching of new capacities across the country (more so in the South). Fall in cement prices, could lead to lower realisations. The margins of cement companies are expected to be under pressure on the back of rising input costs viz., coal and gypsum and cement pricing pressures. However, the management has indicated industry demand growth to be in line with the GDP growth on the back of government's thrust on infrastructure development.

Concerns

- Additional capacities coming on stream across the country could lead to decline in cement prices and in turn lower realisations. There could also be a pressure on margins, which may have to be offset by control in costs.

- Any rise in input costs like coal, fly ash and gypsum could put pressure on margins.

Conclusion

ACC's Q1CY10 results were below street expectations especially at the operating and PAT level on account of a higher-than-expected fall in volumes and increase in expenditure. The company showed improved operating efficiencies and greater use of CPP. However, volumes and realisation growth was low.

Additional capacity coming on stream could result in a situation of oversupply and compel cement companies to reduce their prices. Also, ACC's concentration of incremental capacity in the south could be a cause of concern. However, any major delays in capacity expansion over the next two years could reduce the potential oversupply. ACC could see higher volume growth going forward due to new capacities coming on stream.

Given the situation of potential oversupply and expected pressure on margins, ACC could face tough times especially in the south. In CY10, ACC could have the benefit of higher capacity that will go on stream in stages and a higher CPP capacity (resulting in power and fuel savings). At the CMP, the stock is trading at 12.4x CY10E EPS of Rs.73.

We however feel that the fears over margin pressure in cement companies are a bit overblown especially for companies like ACC that derive almost 45% of its revenue from the northern markets.

In our earlier report dated February 15, 2010, we had stated that ACC could trade in the Rs.798-928 band in the next one quarter. Post the issue of the report, the stock touched a low of Rs.871.2 on February 16, 2010 and a high of Rs.1,017 on March 10, 2010.

Costs (including domestic coal, imported coal and others) could rise in the coming quarters. Whether cement realization will rise in line with the cost increase is a moot point. Volume growth could offset this to an extent. However, we would like to see the effect of the new capacities impacting cement prices before revising our CY10 estimates.

The stock could trade in the Rs.825-951 band over the next quarter.

Particulars (Rs in Crs)	CY07	CY08	CY09	CY10 (E)*
Operating income	7067.4	7719.7	8479.6	8515.0
PBIDT	1927.6	1665.0	2630.8	2384.1
PBIDTM (%)	27.3%	21.6%	31.0%	28.0%
Profit after Tax	1422.8	1088.6	1563.9	1371.0
PATM (%)	20.1%	14.1%	18.4%	16.1%
EPS	75.7	57.9	83.2	73.0
P/E (x)	11.9	15.6	10.8	12.4

* Quick Estimates (Source: Company, HDFC Sec Estimates)

Analyst: Sneha Venkatraman (sneha.venkatraman@hdfcsec.com)

RETAIL RESEARCH Tel: (022) 30753400 Fax: (022) 3075 3435
Corporate Office: HDFC Securities Limited, I Think Techno Campus, Bulding –B. "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Tel: (022) 30753400 Fax: (022) 30753435 Website: www.hdfcsec.com
Email: hdfcsecretailresearch@hdfcsec.com