

Neutral

ACC Ltd



Industry: Materials - Construction Materials

Industry View: Positive

Result Update

“Volumes to pick up CY11E onwards”

Third consecutive disappointing quarter featured by dismal volumes & lower realizations. ACC's Q3CY10 volumes declined by 3.7% YoY due to shut down of Wadi II clinker plant for major part in Q3CY10 & also due to heavy monsoons & floods in the areas of ACC's operations. The volumes for 9MCY10 witnessed a drop of 3% YoY. Net Sales for Q3CY10 & 9MCY10 de-grew by 15% & 4% YoY respectively. Higher gypsum, coal and other raw material price vis-à-vis last year resulted in 79% & 35.5% YoY decline in net profit for Q3CY10 & 9MCY10, translating into an EPS of ₹.4.6 & ₹. 44.1 for Q3CY10 & 9MCY10 respectively.

Downgrading Estimates for CY10E & CY11E and introducing CY12E Estimates.

	CY10E			CY11E			CY12E
	NEW	OLD	% Chg	NEW	OLD	% Chg	
Volume (MT)	20.9	21.5	(3)	22.6	23.1	(2)	24.6
Net Realization (₹./Ton)	3,668	3,696	(1)	3,705	3,696	0	3,780
Net Sales (₹ mn)	82701	85961	(4)	90885	92238.6	(1)	101117
EBITDA (₹mn)	18111	22244	(19)	19990	22091.0	(10)	21731
EPS (₹.)	58.8	73.0	(20)	60.4	71.0	(15)	64.8

The 3 MT Wadi II clinker plant is nearing completion & will be commissioned by end Q4CY10 taking total cement capacity to 30.5 MT in CY11E. Post the completion of the entire planned capacity addition, the only challenge faced by ACC for the next 2 years; is capacity ramp up and achieving good volume growth. We expect ACC to post a good 8.5% CAGR volume growth for the next 2 years.

Outlook & Valuation

With the stability in the economy & aggressive infrastructure plans laid down by GoI, a double-digit growth in the cement demand is inevitable, which would re-rate the sector from NEUTRAL to POSITIVE.

Given the visibility of cement demand post monsoons, **we upgrade ACC from UNDERPERFORMER to NEUTRAL and introduce CY12E earnings with 12-month price target of ₹.992.** At our price target, the stock would trade at an EV/TON of USD 135 & EV/EBITDA of 8.6x CY12E.

Stock Data

Current Market Price (₹)	1,024
Target Price (₹)	992
Potential upside (%)	(3)
Reuters	ACC.BO
Bloomberg	ACC IN

What's Changed

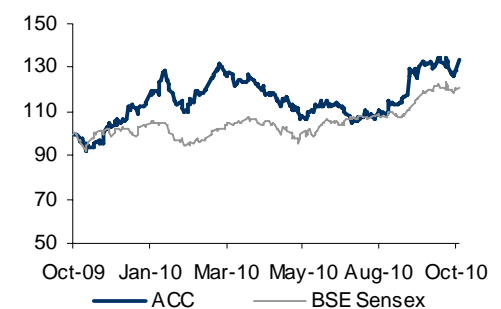
12 month PriceTarget	₹.780 to ₹992
C2010e EPS	From ₹.73 to ₹.58.8
C2011e EPS	From ₹.71 to ₹.60.4

Key Data

Market Cap (₹.bn)	192
52-Week Range (₹)	1,018 / 940
Avg. Daily Trading Value (₹.mn)	73
Promoters (%)	46
FII Holding (%)	13
DII Holding (%)	20
Public & Others Holding (%)	21

Y/E Dec (₹.mn.)	CY09	CY10E	CY11E	CY12E
Revenues	84,796	82,701	90,885	101,117
EBITDA (%)	29.0	21.9	22.0	21.5
PAT Margins (%)	18.4	13.4	12.5	12.1
EPS	83.2	58.8	60.4	64.8
EPS Growth	50%	-29%	3%	7%
PE(x)	12.3	17.4	16.9	15.8
EV/EBITDA	7.7	10.8	9.8	8.9
EV/TON (USD)	147	138	142	141
ROCE	32%	20%	19%	19%
ROE	27%	17%	16%	16%
Dividend yield	2%	2%	2%	2%

Relative Price Performance



One Year Indexed

(%)	1 Month	3 Months	12 Months
Absolute	1.4	21	35
BSE Relative	0.4	8	11

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Result Table (Consolidated)

(₹.mn)	9MCY10	9MCY09	YoY (%)	Q3CY10	Q3CY09	YoY (%)	Q2CY10	QoQ (%)
Cement (A)	57598	61057	(5.7)	16372	19694	(16.9)	20205	(19.0)
Ready Mix (B)	4487	3744	19.8	1355	1177	15.1	1637	(17.2)
Net Sales (A+B)	61664	64296	(4.1)	17592	20774	(15.3)	21669	(18.8)
Total Exp	48309	44040	9.7	15941	14232	12.0	16159	(1.3)
EBITDA	13355	20256	(34.1)	1651	6541	(74.8)	5510	(70.0)
<i>EBITDA (%)</i>	<i>21.7</i>	<i>31.5</i>	<i>-980 BPS</i>	<i>9.4</i>	<i>31.5</i>	<i>-2210 BPS</i>	<i>25.4</i>	<i>-1604 BPS</i>
Depreciation	3080	2587	19.1	1002	876	14.4	1047	(4.2)
EBIT	10275	17669	(41.8)	649	5665	(88.5)	4463	(85.5)
Interest	442	663	(33.3)	164	136	21.2	142	16.0
Other Income	2044	1635	25.1	815	522	56.1	610	33.6
PBT	11877	18641	(36.3)	1300	6052	(78.5)	4932	(73.6)
Tax Expense	3591	5786	(37.9)	437	1898	(77.0)	1437	(69.6)
PAT	8286	12856	(35.5)	862	4153	(79.2)	3495	(75.3)
<i>PAT (%)</i>	<i>13.4</i>	<i>20.0</i>	<i>-660 BPS</i>	<i>4.9</i>	<i>20.0</i>	<i>-1509 BPS</i>	<i>16.1</i>	<i>-1123 BPS</i>
EPS	44.1	68.4		4.6	22.1		18.6	

Cost Analysis

(₹/TON)	9MCY10	9MCY09	YoY (%)	Q3CY10	Q3CY09	YoY (%)	Q2CY10	QoQ (%)
Volumes (MT)	15.69	16.17	(3.0)	4.83	5.01	(3.6)	5.27	(8.3)
Net Realization	3671	3776	(2.8)	3390	3931	(13.8)	3834	(11.6)
Total Cost	2814	2509	12.1	3038	2598	16.9	2785	9.1
<i>Raw Material</i>	<i>575</i>	<i>458</i>	<i>25.4</i>	<i>686</i>	<i>416</i>	<i>64.9</i>	<i>501</i>	<i>36.8</i>
<i>Power & Fuel</i>	<i>731</i>	<i>708</i>	<i>3.3</i>	<i>748</i>	<i>718</i>	<i>4.3</i>	<i>746</i>	<i>0.3</i>
<i>Employee</i>	<i>200</i>	<i>171</i>	<i>17.0</i>	<i>243</i>	<i>199</i>	<i>22.1</i>	<i>202</i>	<i>20.5</i>
<i>Freight</i>	<i>491</i>	<i>487</i>	<i>0.9</i>	<i>467</i>	<i>509</i>	<i>(8.2)</i>	<i>512</i>	<i>(8.9)</i>
<i>Other Cost</i>	<i>816</i>	<i>685</i>	<i>19.2</i>	<i>894</i>	<i>757</i>	<i>18.1</i>	<i>823</i>	<i>8.5</i>
Operating Profit	857	1267	(32.3)	352	1333	(73.6)	1049	(66.5)

Financial Summary

Income statement

(₹mn.)	CY09	CY10E	CY11E	CY12E
Total Revenues	84,796	82,701	90,885	101,117
Raw Material Cost	12,681	15,806	17,196	19,420
Power & Fuel Cost	15,509	15,408	17,243	19,547
Employee Cost	4,012	4,553	5,021	5,528
Other Exp	27,971	28,823	31,435	34,890
EBITDA	24,623	18,111	19,990	21,731
<i>EBITDA Margin(%)</i>	<i>29.0</i>	<i>21.9</i>	<i>22.0</i>	<i>21.5</i>
Depreciation	3,731	4,250	5,250	5,950
EBIT	20,891	13,861	14,740	15,781
<i>EBIT Margin(%)</i>	<i>24.6</i>	<i>16.8</i>	<i>16.2</i>	<i>15.6</i>
Interest	844	600	650	700
Other Income	2458.6	2750.0	3000.0	3250.0
PBT	22,507	16,011	17,090	18,331
<i>PBT Margin(%)</i>	<i>26.5</i>	<i>19.4</i>	<i>18.8</i>	<i>18.1</i>
Tax	6867.9	4963.4	5725.2	6140.9
PAT	15639	11048	11365	12190
<i>PAT Margins (%)</i>	<i>18.4</i>	<i>13.4</i>	<i>12.5</i>	<i>12.1</i>

Key Ratios

	CY09	CY10E	CY11E	CY12E
Per Share Data ₹)				
Adj. EPS	83.2	58.8	60.4	64.8
CEPS	103.0	81.4	88.4	96.5
BVPS	312.2	335.9	367.1	402.6
DPS	23.0	23.0	25.0	25.0
Growth Ratios(%)				
Total revenues	10%	-2%	10%	11%
EBITDA	50%	-26%	10%	9%
EPS Growth	50%	-29%	3%	7%
Valuation Ratios (X)				
FE	12.3	17.4	16.9	15.8
PCEPS	9.9	12.6	11.6	10.6
P/BV	3.3	3.0	2.8	2.5
EV/Sales	2.2	2.4	2.1	1.9
EV/EBITDA	7.7	10.8	9.8	8.9
EV/TON (USD)	147	138	142	141
Operating Ratios (Days)				
Inventory days	70	55	62	80
Receivable Days	12	14	16	18
Payables day	94	88	85	85
Net Debt/Equity (x)	-	-	-	-
Profitability Ratios (%)				
ROCE	32	20	20	19
ROE	27	17	16	16
Dividend payout	32	39	41	39
Dividend yield	2	2	2	2

Balance sheet

(₹mn.)	CY09	CY10E	CY11E	CY12E
SOURCES OF FUNDS				
Equity Share Capital	1,880	1,880	1,880	1,880
Reserves & Surplus	56,819	61,269	67,134	73,825
Total Networth	58,699	63,149	69,015	75,705
Total debt	5,669	5,670	5,670	5,670
Minority Interest	24	24	24	24
Net Deferred Tax Liability	3,546	3,500	3,000	2,500
Total Liabilities	67,939	72,343	77,709	83,899
APPLICATION OF FUNDS				
Net Fixed Assets	65,359	74,534	71,784	68,334
Investments	11,921	9,000	13,000	17,000
Current Assets	23,302	19,624	24,547	33,748
Inventories	7,861	6,797	8,466	12,189
Sundry Debtors	2,739	3,172	3,984	4,987
Cash and Bank	7,544	2,721	3,133	4,660
Loan, Advances & others	5,157	6,933	8,964	11,912
Current Liab & Prov	32,653	30,815	31,623	35,183
Current liabilities	21,724	19,939	21,165	23,548
Provisions	10,929	10,876	10,458	11,635
Net Current Assets	-9,351	-11,191	-7,076	-1,435
Miscellaneous expenses	10	-	-	-
Total Assets	67,939	72,343	77,709	83,899

Cash Flow

(₹mn.)	CY09	CY10E	CY11E	CY12E
PBT	22,507	16,011	17,090	18,331
Depreciation	3,731	4,250	5,250	5,950
Interest	844	600	650	700
Chng in working capital	7,961	1,840	(4,115)	(5,641)
Tax paid	4,942	4,963	5,725	6,141
Other operating activities	(765)	(2,750)	(3,000)	(3,250)
CF from operations (a)	23,743	10,164	10,562	11,476
Capital expenditure	(15,473)	(15,000)	(3,000)	(3,000)
Chng in investments	(6,943)	2,921	(4,000)	(4,000)
Other investing activities	848	-	-	-
CF from investing (b)	(21,567)	(12,079)	(7,000)	(7,000)
Free cash flow (a+b)	2,175	(1,915)	3,562	4,476
Equity raised/(repaid)	19	-	-	-
Inc/dec in borrowings	849	1	-	-
Dividend paid (incl. tax)	4,359	5,060	5,500	5,500
Other financing activities	(1,055)	2,150	2,350	2,550
CF from financing (c)	(4,546)	(2,909)	(3,150)	(2,950)
Net chng in cash (a+b+c)	(2,371)	(4,823)	412	1,526
Closing cash & cash equi.	7,544	2,721	3,133	4,660

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