Prabhudas Lilladher

ACC

Banking on capacity additions

Event Update

April 16, 2008

Rating	Underperformer
Price	Rs806
Target Price	Rs829
Implied Upside	2.9%
Sensex	16,244

(Prices as on April 16, 2008)

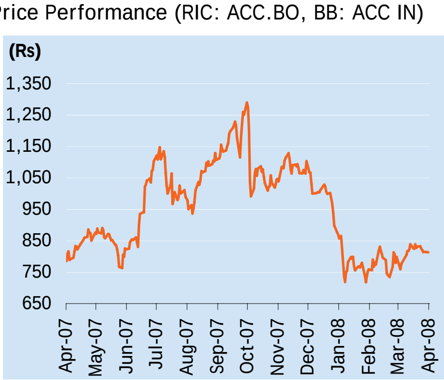
Trading Data	
Market Cap. (Rs bn)	151.4
Shares o/s (m)	187.8
Free Float	57.0%
Avg. Daily Vol ('000)	720.7
Avg. Daily Value (Rs m)	570.9

Major Shareholders	
Promoters	43.0%
Foreign	15.1%
Domestic Inst.	21.8%
Public & Others	20.0%

Stock Performance

(%)	1M	6M	12M
Absolute	1.8	(36.1)	3.6
Relative	(0.7)	(20.9)	(14.4)

Price Performance (RIC: ACC.BO, BB: ACC IN)



Source: Bloomberg

We recently organised a road show with ACC to facilitate our institutional investors to gain an insight on the sector and the company's capex plans. Key takeaways of the event are as follows:

- **Expansion plan:** The company plans to spend Rs45bn over the next four years to expand its cement and captive power plant (CPP) capacity. Post expansion, its cement capacity would increase by 8 million tonnes to 30.4 million tonnes, while CPP capacity would go up to 345MW from the existing 235MW.
- **Delays will restrict capacity addition:** ACC expects overall capacity addition to the tune of 60 million tonnes in next four years, which would be easily absorbed by demand growing at 10%. However, the company hasn't ruled out the possibility of 80 million tonne addition, which may result in a mismatch in demand and supply.
- **Pressure on margins:** The company believes that margins would remain under pressure on account of lag between price hike and cost rise. The primary reason behind the pressure would be inability of the sector as well as the company to pass on the sharp rise in coal and freight cost completely to the customer.
- **Valuation:** At current market price, the stock trades at PE of 10.8x and 11.9x CY08E and CY09E respectively, while on EV/EBITDA it trades at 5.9x and 6.8x respectively. We maintain Underperformer rating on the stock considering the massive capacity addition in the sector and persistent government intervention, which portends further downside risk to earnings.

Key financials (Y/e Dec)	CY06	CY07	CY08E	CY09E
Revenue (Rs m)	58,035	70,072	79,030	85,232
Growth (%)	*35.1*	*20.7*	*12.8*	*7.8*
EBITDA (Rs m)	16,232	19,174	20,923	19,836
PAT (Rs m)	11,028	12,798	14,039	12,712
EPS (Rs)	58.8	68.2	74.8	67.7
Growth (%)	*170.8*	*16.0*	*9.7*	*(9.5)*
Net DPS (Rs)	15.0	20.0	22.0	20.0

Source: Company Data; PL Research

Profitability & valuation	CY06	CY07	CY08E	CY09E
EBITDA margin (%)	*28.0*	*27.4*	*26.5*	*23.3*
RoE (%)	*41.8*	*35.1*	*30.3*	*23.0*
RoCE (%)	*37.6*	*37.3*	*35.2*	*28.0*
EV / sales (x)	2.5	1.9	1.6	1.6
EV / EBITDA (x)	8.8	6.9	5.9	6.8
PE (x)	13.7	11.8	10.8	11.9
P / BV (x)	4.8	3.6	3.0	2.6
Net dividend yield (%)	*1.9*	*2.5*	*2.7*	*2.5*

Source: Company Data; PL Research

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Highlights

Capex expansion

The company has chalked out capex plan of Rs45bn, which would be spent over the next four years. The outlay would include increase in cement and CPP capacity by 8 million tonnes and 110MW respectively by end of CY10. The entire capex would be funded through internal accruals. The company is also looking at acquisitions similar to Lucky Minmat and Shiva Cement, to expand its capacity and limestone reserves at reasonable valuations.

Capacity addition details

Plant location	Capacity addition (m tonne)	Power plant (MW)	Expected commissioning period
Madukkarai	0.2		2QCY08 end
New Wadi	0.6		2QCY08 end
Bargarh	1.2	35	1QCY09 end
New Wadi	3.0	50	3QCY09 mid
Chanda	3.0	25	4QCY10 mid

Source: Company, PL Research

Pressure on margins

The company believes that margins would remain under pressure due to lag between price hike and input cost rise. Industry's pricing power would be constrained by consistent capacity addition and increasing intervention by the government, resulting in lower increase in prices compared to sharp rise in input prices.

Valuation

At current market price, the stock trades at P/E of 10.8x and 11.9x CY08E and CY09E respectively, while on EV/EBITDA it trades at 5.9x and 6.8x CY08E and CY09E respectively. The industry's pricing power is expected to dilute sharply with the commissioning of massive capacity addition lined-up across regions. We expect addition of 84 million tonnes in the next two years on conservative basis, against incremental demand of 60 million tonnes, leading to a huge supply surplus situation. In addition to this, domestic coal prices, which used to be administered prices in the past, are now moving towards market determined mechanism. We maintain Underperformer rating on the stock.

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PL's Recommendation Nomenclature

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer** (OP)	:	5 to 15% Outperformance to Sensex
Market Performer (MP)	:	-5 to 5% of Sensex Movement	**Underperformer** (UP)	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly