

RESULTS REVIEW

ACC Limited

Hold

Share Data

Market Cap	Rs. 208.1 bn
Price	Rs. 1,110.45
BSE Sensex	15,504.43
Reuters	ACC.BO
Bloomberg	ACC IN
Avg. Volume (52 Week)	0.3 mn
52-Week High/Low	Rs. 1,192/680
Shares Outstanding	187.4 mn

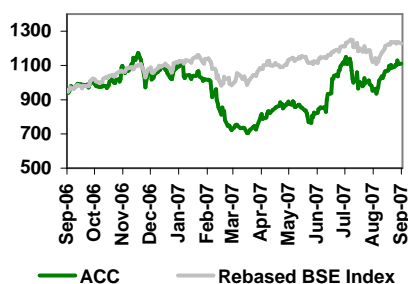
Valuation Ratios (Consolidated)

Year to 31 December	2007E	2008E
EPS (Rs.)	71.9	75.3
+/- (%)	21.3%	4.7%
PER (x)	15.4x	14.7x
EV/ tonnes (Rs.)	9,975.7	9,323.7
EV/ EBITDA (x)	10.0x	9.4x

Shareholding Pattern (%)

Promoters	43
FII's	16
Institutions	19
Public & Others	22

Relative Performance



Modest topline growth unable to arrest margin decline

ACC Limited (ACC) reported higher sales volume of 5.3 MT in the second quarter with net sales increasing 27.2% yoy to Rs. 18,679.5 mn. The Company also stated higher realization rate at Rs. 3,498/tonne. Cement and Readymade mix sales grew by 11% and 24.3% from the last quarter, respectively. The rise in sales can be attributed to the booming construction sector with the housing sector being the largest source for cement demand. On yoy basis, though EBITDA increased 16.1% to Rs. 5,444.1 mn, margins declined by 280 bps to 29.1% as a result of higher raw material and transportation costs. Net profit stood at Rs. 3,512.5 mn in Q207, an increase of 10.6% yoy.

ACC's sales are expected to grow at a CAGR of 13.5% during CY06-08E as a result of rising demand for cement. However, considering the rise in raw material costs, the impact of which is likely to reduce due to slightly higher realization rates, margins are expected to decline in CY08E as compared to CY07E.

Currently, ACC is trading at 10x and 9.4x EV/EBITDA for CY07E and CY08E, respectively. At a P/E of 15.4x for CY07E, we feel the stock is fairly valued with limited upside at the current levels. Hence, we maintain our **Hold** rating.

Key Figures (Standalone)

Quarterly Data	2Q'06	1Q'07	2Q'07	YoY%	QoQ%
(Figures in Rs. mn, except per share data)					
Net Sales	14,688	16,748	18,680	27.2%	11.5%
EBITDA	4,690	5,071	5,444	16.1%	7.4%
Net Profit	3,175	3,491	3,513	10.6%	0.6%
Margins(%)					
EBITDA	31.9%	30.3%	29.1%		
NPM	21.6%	20.8%	18.8%		
Per Share Data (Rs.)					
EPS	17.0	18.6	18.7	10.4%	0.6%

Result Highlights

Q207 witnessed higher realization rates and sales volume

ACC's net sales increased by 27.2% yoy to Rs. 18,679.5 mn which can be attributed to an increase in sales volume by 9.4% and higher realization rate by 12.9%, when compared to the same quarter last year. Cement and Readymade mix contributed Rs.17,971.1 mn (up 11% qoq) and Rs. 997.1 mn (up 24.3% qoq) to gross sales, respectively.

Steep rise in raw material costs affect margins

EBITDA increased 16.1% yoy to Rs. 5,444.1 mn and margins fell 280 bps to 29.1%. Despite improved realisation rates, steep rise in raw material prices caused the margins to decline. Other expenditure increased considerably due to higher transportation and packing costs. However, with the setup of captive power plants in the future, the Company is expected to save power and fuel costs which is likely to reduce the rate of decline in margins.

Fall in net profit margins cut short by interest income

ACC's net profit grew by 10.6% yoy to Rs. 3,512.5 mn. However, margins fell to 18.8% in Q207 from 21.6% in Q206. Net profit was positively impacted by interest income of Rs. 22.7 mn against interest expense of Rs. 147.4 mn recorded last year. Marginal tax rate for this quarter has increased to 31.3% from 26.8% in the last quarter resulting in higher tax expense.

Key Events

Capacity additions to augur growth

- Capacity expansion at Lakheri by 0.9 MT to 1.5 MT along with new 25 MW captive power plant was complete and went into commercial production in this quarter. Further, the grinding capacity at Kymore also commenced its operations. The Company also started the capacity expansion of New Wadi plant by 3 MT.
- The BOD have approved payment of interim dividend at the rate of Rs. 10 per equity share.
- ACC has received an order from a FMCG company to dispose off its products accumulated over the past years. This business segment is

expected to generate Rs. 200-300 mn. The Company will carry out the operation under the guidance of Swiss Company Holcim.

Key Risks

- Delay in execution of capacity expansion plans might affect the projected sales volume and our ratings.
- Government's initiative to freeze cement prices in future will adversely affect the realisation rates and Company's topline.
- There are concerns about the government's policy on cement import in the coming years.

Outlook and Valuation

ACC is expected to realise improved sales volume over the next two years at CAGR of 9.2% due to demand-supply mismatch in the construction sector. Realisation rates are expected to remain relatively firm in the coming years. With the commencement of captive power plants, ACC is likely to witness a decline in fuel and power costs. However, rising raw material costs will remain a major concern.

ACC is currently trading at a forward PE of 15.4x and 14.7x for CY07E and CY08E, respectively. Considering the modest earnings growth and basis the relative valuation, we believe the stock is fairly priced. Hence, we maintain our **Hold** rating on the stock.

ACC plans to increase the installed capacity to 27.5 MT by CY09

Key Figures (Consolidated)

Year to December	CY04	CY05	CY06	CY07E	CY08E	CAGR (%)
(Figures in Rs mn, except per share data)						(CY06-08E)
Sales Vol (mn tonnes)	16.0	17.5	18.9	21.0	22.5	9.2%
Net Sales	36,873	45,636	58,512	69,130	75,443	13.5%
EBITDA	6,727	7,866	16,554	20,946	22,256	16.0%
Net Profit	4,028	4,997	11,145	13,582	14,216	12.9%
Margins(%)						
EBITDA	18.2%	17.2%	28.3%	30.3%	29.5%	
NPM	10.9%	11.0%	19.0%	19.6%	18.8%	
Per Share Data (Rs.)						
EPS	21.6	26.7	59.3	71.9	75.3	12.7%
PER (x)	15.7x	20.0x	18.7x	15.4x	14.7x	

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