

Result Update

CMP : INR 1226
Rating : Sell
Target : INR 1150

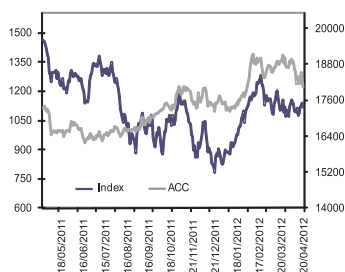
KEY DATA

Market Cap (INR bn)	230
Market Cap (USD mn)	4423
52 WK High / Low	1421 / 917
Avg Daily Volume (BSE)	42997
Face Value (INR)	10

BSE Sensex	17374
Nifty	5291
BSE Code	500410
NSE Code	ACC
Reuters Code	ACC.BO
Bloomberg Code	ACC IN

Shareholding %	3Q	4Q	1Q
Promoters	50.0	50.0	50.0
MF/Banks/Indian FIs	14.0	13.0	12.0
FII/ NRIs/ OCBs	17.0	18.0	19.0
Indian Public	19.0	19.0	19.0

Performance Chart



PRICE PERFORMANCE (%)

	3 M	6 M	12 M
Absolute	6.7	10.0	10.2
Relative	2.9	7.4	21.6

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ACC

Net profit growth impacted by one time additional depreciation charges due to change in method of providing depreciation on captive power plants...Muted Q-o-Q realization growth is a major concern

Downgrade ACC to 'Sell' from 'Hold' with a price target of Rs 1150

Poor sequential growth in realization resulted in ACC's revenue coming in marginally lower than our estimate for Q1CY12. The total revenue came in at Rs 28.89 bn (+19.2% Y-o-Y, +13.1% Q-o-Q) as compared to our estimate of Rs 30.33 bn. The cement dispatches for Q1CY12 rose 8% Y-o-Y (15% Q-o-Q) to 6.7 mn tonnes. While the volumes increase was primarily due to additional capacity stabilization, the lack of growth in prices at a time when there is significant inflationary pressure on cost is a major worry. January to June period is usually the peak season for the cement industry when the prices witnesses firm growth. But the lack of it in Q1CY12 amplifies the fact that the prices have reached the peak. The realization per tonne only rose marginally to Rs 4256 per tonne. The increase in price of coal by Coal India (CIL) after their recent wage hike and higher freight expenses caused by rising fuel prices and railway wagon cost had its impact on the margins during the quarter under review. The EBIDTA margin came in at 22.3% in Q1CY12 (159 bps lower Y-o-Y, 503 bps higher Q-o-Q). The cost per tonne in Q1CY12 rose 12.8% Y-o-Y to Rs 3340 although it was lower by 7.4% Q-o-Q as a result the EBIDTA per tonne only rose by 3.2% Y-o-Y to Rs 960.

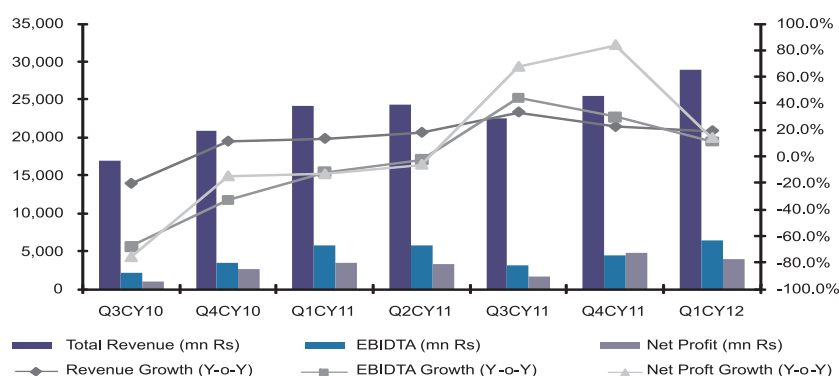
The overall cement demand growth in India continues to be at creepy phase, while the cost inflation is only expected to worsen given that CIL is under severe pressure to raise prices going ahead. Further increase in fuel (petrol and diesel) costs is expected to hike the freight expenses of the cement companies sharply. The cement prices across the country are currently quoting at all time high levels. Thus the flexibility to pass on the cost increase from here on appears limited and could pressurize the margins going ahead. At some point we believe that there would be government intervention to control prices. The regulatory uncertainty with regard to the investigation by Competition Commission of India (CCI) on cartelization charges by cement major is another major overhang.

The net profit after tax for the company in Q1CY12 came in at Rs 1.55 bn, which was 55.7% lower Y-o-Y and 67% Q-o-Q. This was primarily due to a one time additional depreciation charges of Rs 3.35 bn caused due to change in method of providing depreciation on captive power plants from straight line method (SLM) to written down value (WDV) method with retrospective effect. The adjusted net profit as a result came in at Rs 3.99 bn (+14% Y-o-Y, 15.1% Q-o-Q). Adjusted EPS for the quarter came in at Rs 21.3.

Downgrade to sell...

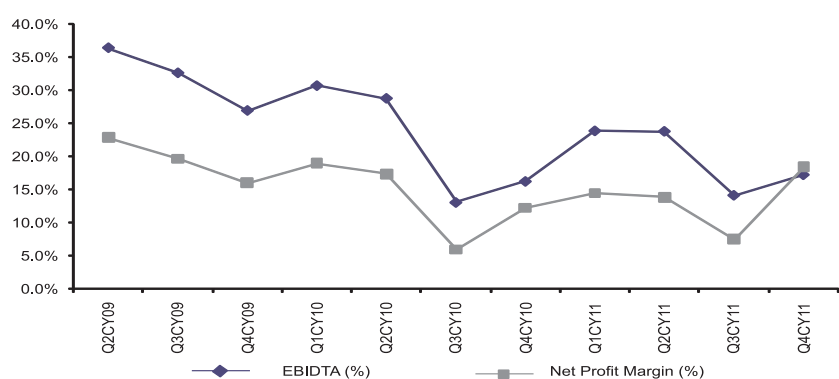
We continue to believe that the cement demand growth will improve going ahead and that would improve the demand supply dynamics. The company's pan India presence will help in ramping up volume growth especially from the south and the western region as demand here improves. Nevertheless the room to increase price on the back of healthy demand would be absent, thus we are concerned about the pricing growth and margins going forward. We believe that at some point there would be government intervention in some form or the other to control or even reduce price while the investigation pertaining to cartelization by CCI present incremental uncertainty. Considering the pricing and margin pressure going ahead we are lowering our net sales and EPS estimates for CY12 from Rs 110.95 bn and Rs 87.6 to Rs 110.5 bn and Rs 84 respectively. We had initiated coverage on the stock on 23rd November 2011, with a one year price target of Rs 1278. The target was achieved on 6th February 2012 after that we had lowered our rating to hold with a new price target of Rs 1420, which too was achieved on 10th February 2012. While we continue to be positive on the cement industry macro, we believe that the current price of ACC is not factoring in the risk related to further increase in coal price by CIL and potential penalty arising out of the investigation by CCI. Besides going ahead as we enter the monsoon season we would witness some fall in realization especially in the western and the southern region. We revise our rating from 'Hold' to 'Sell' with a new target price of Rs 1150 (EV per tonne of USD 118 - 35% discount to the average EV per tonne of the previous five years, PE of 13.7x and EV/EBIDTA of 8x CY12E earnings). We cite imminent margin pressure due to coal price increase by CIL, higher freight expenses due to rising fuel prices, probable penalty from CCI investigation and limited pricing power for the industry from these levels. At the current market price of Rs 1226 the stock is trading at PE of 14.6x and EV/EBIDTA of 8.4x CY12 earnings.

Revenue & Profit Growth



Source: Company, FQ Research

Profit margin trend



Source: Company, FQ Research

Comparative valuation

Company	Rating	CMP (Rs)	Market Cap. (bn. Rs)	Enterprise Value (bn. Rs)	Target Price (Rs)	EPS (Rs)		P/E (x)		P/BV (x)		EV/EBIDTA (x)		EV/Tonne (US\$)		Annual EPS Growth (%) (FY13E/FY12E)	Annual Sales Growth (%) (FY13E/FY12E)
						FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E		
ACC	Sell	1226	234	229	1150	84	98	15	12	2.9	2.5	8	6	127	114	17%	11%
Ambuja Cement	Sell	161	246	229	170	10	13	17	13	2.8	2.4	9	6	148	133	33%	9%
UltraTech*	Hold	1461	400	416	1274	78	90	19	16	3.2	2.7	11	9	187	157	15%	18%
India Cement*	Buy	95	29	50	110	11	14	9	7	0.8	0.7	6	4	66	64	31%	19%
Shree Cement*	Buy	2840	99	116	2417	84	169	34	17	4.4	3.5	10	7	226	203	102%	24%

ACC & Ambuja FY12 & FY13 figures are the CY12 & CY13 figures respectively

* Ratings will be reviewed after the Q4FY12 results

Source: Company Reports, FQ Research

Q1CY12 Results

YE December (Rs. mn)	Q1 CY12	Q1 CY11	Y-o-Y change %	Q4 CY12	Q-o-Q change %	12M CY11	12M CY10	Y-o-Y change %
Total Revenue	28,891	24,235	19.2%	25,552	13.1%	96,603	79,758	21.1%
Less: Total Expenditure								
Net Raw Material consumed	4,188	3,627	15.5%	3,805	10.1%	13,633	10,666	27.8%
% of total revenue	14.5%	15.0%	-47	14.9%	-40	14.1%	13.4%	74
Employees Cost	1,300	1,123	15.7%	1,555	(16.4%)	5,257	4,619	13.8%
% of total revenue	4.5%	4.6%	-13	6.1%	-159	5.4%	5.8%	-35
Other Expenditure	5,547	4,972	11.6%	5,757	(3.7%)	20,959	18,482	13.4%
% of total revenue	19.2%	20.5%	-131	22.5%	-333	21.7%	23.2%	-148
Outward Freight Charges	4,268	3,443	24.0%	3,764	13.4%	14,017	10,703	31.0%
% of total revenue	14.8%	14.2%	57	14.7%	4	14.5%	13.4%	109
Power & Fuel	6,763	4,785	41.4%	5,836	15.9%	21,832	15,987	36.6%
% of total revenue	23.4%	19.7%	367	22.8%	57	22.6%	20.0%	256
Pur. of Traded Cement & Other Prod.	376	490	(23.2%)	416	(9.6%)	1,698	1,176	44.3%
% of total revenue	1.3%	2.0%	-72	1.6%	-33	1.8%	1.5%	28
Total Expenditure	22,442	18,440	21.7%	21,135	6.2%	77,397	61,634	25.6%
EBIDTA	6,448	5,795	11.3%	4,417	46.0%	19,206	18,123	6.0%
Less: Depreciation	1,305	1,125	16.0%	1,270	2.8%	4,753	3,927	21.0%
EBIT	5,143	4,670	10.1%	3,147	63.4%	14,453	14,197	1.8%
Less: Interest	316	253	25.0%	192	64.9%	969	568	70.7%
Add: Other income	660	415	58.8%	458	44.1%	1,919	985	94.9%
Extraordinary Income	(3,354)	0		0		0	0	
Profit before Tax	2,133	4,833	(55.9%)	3,413	(37.5%)	15,403	14,614	5.4%
Less: Total Tax	580	1,327	(56.3%)	(1,291)	(144.9%)	2,152	3,414	(37.0%)
Profit after Tax before Minority Interest	1,553	3,506	(55.7%)	4,704	(67.0%)	13,252	11,199	18.3%
Profit After Tax	1,553	3,506	(55.7%)	4,704	(67.0%)	13,252	11,199	18.3%
Adjusted Net Profit	3,996	3,507	14.0%	4,704	(15.1%)	13,253	11,200	18.3%
Shares Outstanding (mn)	188	188		188		188	188	
Reported EPS (Rs.)	8.3	18.7	(55.7%)	25.0	(67.0%)	70.5	59.6	18.3%
Adjusted EPS (Rs.)	21.3	18.7	14.0%	25.0	(15.1%)	70.5	59.6	18.3%

Margins			Bps Change		Bps Change		Bps Change
EBIDTA Margin (%)						19.9%	-284
EBIT Margin (%)	22.3%	23.9%	-159	17.3%	503	15.0%	-284
PBT Margin (%)	17.8%	19.3%	-147	12.3%	549	15.9%	-238
NPM (%)	7.4%	19.9%	-1256	13.4%	-597	13.7%	-32
NPM Excl. extra-ordinaries (%)	5.4%	14.5%	-909	18.4%	-1303	13.7%	-32
Effective Tax Rate (%)	13.8%	14.5%	-64	18.4%	-458	14.0%	-940

Source: Company Reports, FQ Research

NM-Not meaningful, NA-Not Applicable

Result Analysis

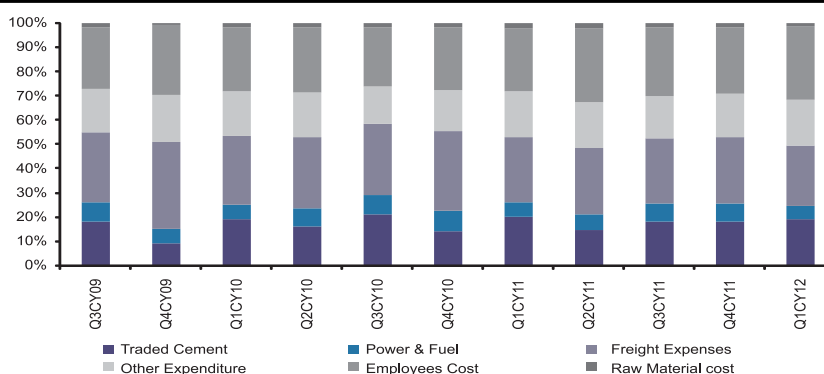
Volume growth for the company in Q1CY12 continued to post healthy growth while the realization growth disappointed during the quarter. Volume increased 8% Y-o-Y (15% Q-o-Q) to 6.7 mn tonnes, while the gross realization rose 11% Y-o-Y growth to Rs 4256 per tonne, although the sequential realization growth was flat. The total revenue in Q1CY12 rose 19% Y-o-Y (13% Q-o-Q) to Rs 28.89 bn marginally lower than our estimate of Rs 30.3 bn.

Cost Analysis

Particulars	Q1 CY12	Q1 CY11	Y-o-Y change %	Q4 CY11	Q-o-Q change %	12M CY11	12M CY10	Y-o-Y change %
Operating Costs (Rs. Per tonne)								
Net Raw Material consumed	623	582	7.0%	649	-4.0%	575	501	14.7%
Power & Fuel	1,006	768	31.0%	996	1.0%	920	751	22.5%
Personnel	193	180	7.3%	265	-27.1%	222	217	2.1%
Freight & Forwarding	635	553	14.9%	642	-1.1%	591	503	17.5%
Other Expenses	825	798	3.4%	983	-16.0%	883	868	1.7%
Traded Goods	56	79	-28.8%	71	-21.2%	72	55	29.5%
Total Expenditure	3,340	2,960	12.8%	3,606	-7.4%	3,262	2,895	12.7%
EBIDTA per tonne	960	930	3.2%	754	27.3%	809	851	-4.9%

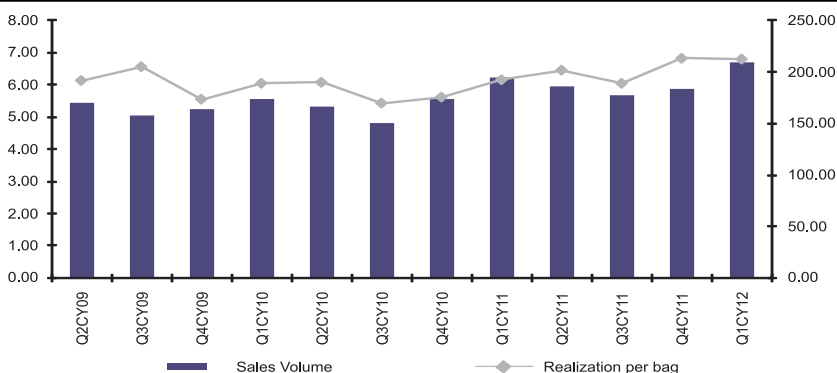
Source: Company Reports, FQ Research

Break-up of operational costs



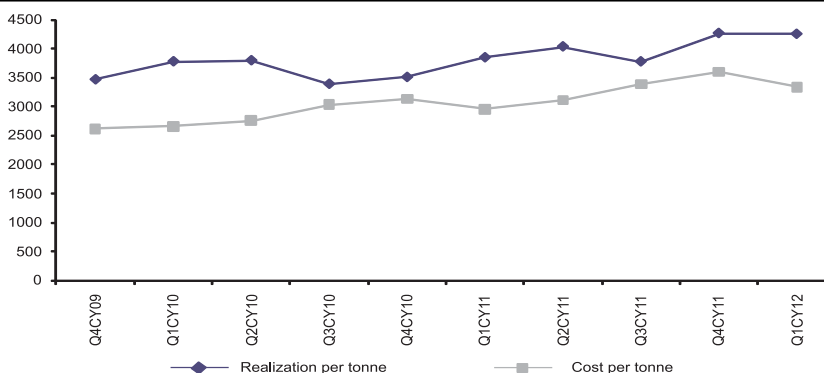
Source: Company, FQ Research

Sales Volume and realization per bag



Source: Company, FQ Research

Realization and cost per tonne



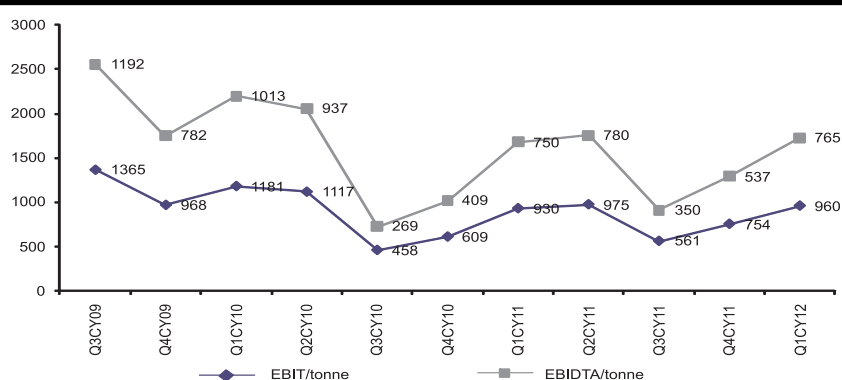
Source: Company, FQ Research

Poor sequential growth in realization impacted the margins as the company witnessed significant cost pressure during Q1CY12.

- The Net raw material cost per tonne in Q1CY12 rose 7% to Rs 623 while, as a proportion of sales, fell 47 bps Y-o-Y (fell 40 bps Q-o-Q) to 14.5%.
- Personnel expenses, as a proportion of sales, fell marginally from 4.6% in Q1 CY11 to 4.5% in Q1 FY12.
- Power & fuel costs per tonne increased sharply by 31% to Rs 1006 due to hike in coal cost by CIL and higher cost of imported coal. The Power & fuel cost as a percentage of sales, were up 367 bps Y-o-Y to 23.4%.
- Freight costs per tonne rose 15% to Rs 635 while as a percentage of sales, were up 57 bps Y-o-Y to 14.7%.

We believe that operating costs for the company will only increase going ahead as CIL looks to further increase coal cost. Poor flexibility to increase price will impact the margins for the company.

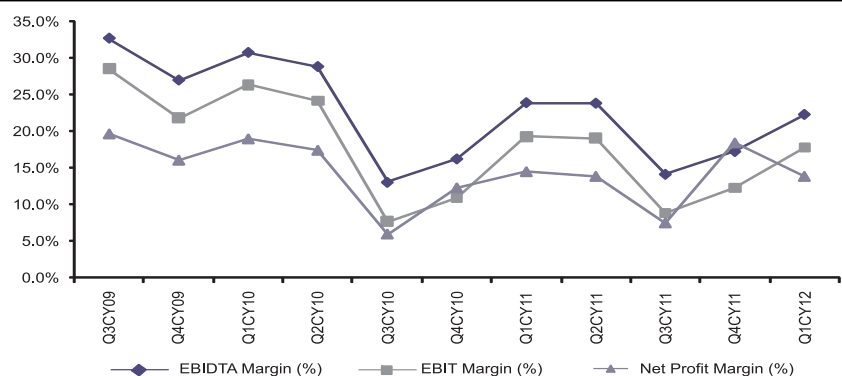
EBIDTA and EBIT tonne analysis



Source: Company Reports, FQ Research

Margin trend

Margin Analysis



Source: Company Reports, FQ Research

- The EBIDTA margin for the company fell 159 bps Y-o-Y (improved 503 bps Q-o-Q) to 22.3% in Q1FY12.
- The EBIT margin fell 147 bps Y-o-Y (improved 549 bps Q-o-Q) to 17.8%.
- The adjusted NPM fell 64 bps Y-o-Y (fell 458 bps Q-o-Q) to 13.8%.

Other Developments

The company plans to spend Rs 33 bn to increase its capacity by 4 mn tonnes by 2015. The company is planning to set up new clinker production facility of 2.79 mn tonnes in Chhattisgarh and three grinding units in Jamul, Shindri (Jharkhand) and Kharagpur (West Bengal). Company also approved amalgamation of ACC Concrete a wholly owned subsidiary with itself with effect from 1st January 2012.

Financial summary

Profit and Loss Statement

YE December (Rs. mn)	CY10	CY11	CY12E	CY13E
Net Sales	77,173	94,539	110,507	122,906
Other Operating Income	2,585	2,064	1,927	2,458
Total Revenue	79,758	96,603	112,434	125,364
Less:				
Cost of Raw material (Net)	10,666	13,633	15,576	16,924
Employees Cost	4,619	5,257	5,868	6,268
Other Expenditure	18,482	20,959	23,903	26,452
Outward Freight Char. on Cement Etc.	10,703	14,017	16,384	17,488
Power & Fuel	15,987	21,832	24,064	25,073
Pur. of Traded Cement & Other Prod.	1,176	1,698	1,379	1,504
Total Operating Expenditure	61,634	77,396	87,173	93,710
EBIDTA	18,124	19,207	25,261	31,654
Less: Depreciation	3,927	4,753	5,450	6,606
EBIT	14,198	14,454	19,811	25,048
Interest Paid	568	969	987	1,062
Non-operating Income	985	1,919	2,298	2,458
Extraordinary Income	0	0	(3,354)	0
Profit Before tax	14,615	15,404	17,769	26,444
Tax	3,414	2,152	4,489	7,933
Net Profit	11,200	13,253	13,280	18,511
Net Profit Excl. extra-ordinaries	11,200	13,253	15,787	18,511

Ratios

Particulars	CY10	CY11	CY12E	CY13E
Valuation Ratio (x)				
P/E	20.6	17.4	14.6	12.4
P/BV	3.6	3.2	2.9	2.5
EV / Sales	2.9	2.3	1.9	1.6
EV / EBIDTA	12.4	11.4	8.4	6.0
MCap/Sales	2.9x	2.4x	2.0x	1.8x
Leverage Ratio				
Debt-Equity	0.1x	0.1x	0.1x	0.1x
Interest Coverage	31.9x	19.8x	25.6x	29.8x
Per Share Data (Rs)				
Diluted EPS	59.6	70.5	84.0	98.5
Diluted Cash EPS	80.5	95.8	113.0	133.6
DPS	30.5	30.5	30.5	30.5
Book Value	344.2	382.7	417.8	480.9
Returns (%)				
ROE	17.0%	18.5%	20.1%	21.1%
ROCE	15.6%	17.3%	18.6%	19.2%
Dividend Payout	59.5%	50.3%	50.2%	36.0%
Du-Pont Analysis				
EBIDTA/Sales (%)	22.7%	19.9%	22.5%	25.3%
Sales/Operating assets (x)	145.1%	168.5%	195.7%	244.1%
EBIDTA/Operating Assets (%)	33.0%	33.5%	44.0%	61.6%
Operating Assets/Net Assets (x)	76.9%	73.6%	67.1%	53.0%
Net Earnings/EBIDTA (%)	61.8%	69.0%	62.5%	58.5%
Net Assets/Net Worth (x)	108.6%	108.7%	108.9%	110.4%
RoE (%)	17.0%	18.5%	20.1%	21.1%
Margins (%)				
EBIDTA margin	22.7%	19.9%	22.5%	25.3%
PBT margin	18%	16%	16%	21%
PAT margin	14.0%	13.7%	11.8%	14.8%
Growth Ratios (%)				
Net Sales	6.0%	22.5%	16.9%	11.2%
EBIDTA	(31.5%)	6.0%	31.5%	25.3%
PAT	(30.3%)	18.3%	0.2%	39.4%
APAT	(30.3%)	18.3%	19.1%	17.3%
Operating Cycle				
Debtors Days	8	9	10	10
Inventory Days	54	52	52	52
Creditors Days	95	114	104	104

Balance Sheet

YE December (Rs. mn)	CY10	CY11	CY12E	CY13E
Liabilities				
Equity Capital	1,880	1,880	1,880	1,880
Reserves & Surplus	62,815	70,043	76,655	88,498
Equity	64,695	71,923	78,535	90,378
Net Worth	64,695	71,923	78,535	90,378
Net Deferred tax liability/(Asset)	3,615	5,184	4,753	8,400
Total Loans	5,238	5,107	5,618	6,180
Capital Employed	73,548	82,213	88,905	104,958
Assets				
Gross Block	80,770	96,773	105,385	114,830
Less: Depreciation	29,945	34,698	40,148	46,754
Net Block	50,824	62,075	65,237	68,076
Capital WIP	15,628	4,353	5,741	6,297
Investments	17,027	16,249	21,310	24,053
Current Assets				
Inventories	9,150	10,997	12,419	13,350
Sundry Debtors	1,783	2,604	3,330	3,704
Cash and Bank Balance	10,800	16,526	22,832	45,363
Loans and Advances	5,239	5,902	8,001	9,446
Other Current Assets	561	150	678	801
Total Current Assets	27,534	36,180	47,262	72,665
Less: Current Liabilities & Provisions				
Sundry Creditors	15,973	24,078	24,838	26,701
Provisions	16,525	10,540	20,473	33,134
Other Current Liabilities	4,967	2,026	5,334	6,297
Total Current Liabilities & Provisions	37,464	36,644	50,645	66,132
Capital Applied	73,548	82,213	88,905	104,958

Cash Flow Statement

YE December (Rs. mn)	CY10	CY11	CY12E	CY13E
Cash Inflows from Operations				
Profit Before Tax	14,615	15,404	17,769	26,444
Depreciation	3,927	4,753	5,450	6,606
Less:				
Dividend Payout	6,668	6,668	6,668	6,668
Tax Paid	3,414	2,152	4,489	7,933
Operating Cash flow	8,459	11,338	12,062	18,449
Changes in Capital Structure				
Increase in Equity Share capital	(1)	0	0	0
Increase in Share premium	2	643	0	0
Increase in Others	123	1,568	(431)	3,647
Inc/(Dec) in Loans	(431)	(131)	511	562
Inc/(Dec) in Equity/Loans/MI	(308)	2,080	80	4,209
Adjustments				
Diff.in Depreciation	(662)	0	0	0
Total Inflows	7,490	13,418	12,141	22,659
Cash Outflows				
Working Capital Changes				
Inc/(Dec) in Provisions	5,025	(5,984)	9,932	12,661
Inc/(Dec) in Current Liabilities	1,301	5,164	4,069	2,826
Less:				
Inc/(Dec) in Inventory	1,360	1,847	1,422	931
Inc in Debtors	(254)	821	726	374
Inc/(Dec) in Loans & Advances	78	663	2,099	1,445
Inc/(Dec) in Other Current Assets	451	(411)	528	122
Inc/(Dec) in Working Capital	(4,690)	3,741	(9,226)	(12,615)
Capex/Investments				
Inc/(Dec) in Investments	2,270	(778)	5,061	2,742
Addition to Gross Block	12,507	16,004	8,612	9,445
Inc/(Dec) in Capital WIP	(5,934)	(11,275)	1,388	555
Inc/(Dec) in Fixed Assets/ Investments	8,843	3,951	15,061	12,742
Inc/(Dec) in Cash/Bank Balance	3,337	5,726	6,306	22,531
Total Outflows	7,490	13,418	12,141	22,659

Recommendation Summary

Event	Date	Price	Rating	Target
Initiating Coverage	23-11-2011	1140	Buy	1278
Result Update (Q4CY11)	13-02-2012	1344	Hold	1420
Result Update (Q1CY12)	20-04-2012	1226	Sell	1150

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