

ACC (ACC)

₹ 1305

WHAT'S CHANGED...

PRICE TARGET.....	Unchanged
EPS (CY13E).....	Changed from ₹ 79.4 to ₹ 77.4
EPS (CY14E).....	₹ 107.6
RATING.....	Changed from Hold to Buy

Margin pressure remains...

ACC's Q4CY12 result was below our estimates on account of lower than expected cement EBITDA of ₹ 535/tonne (vs. I-direct estimate: ₹ 752/tonne). It remained lower on account of higher freight cost and inventory (stock) adjustment of ₹ 170/tonne. During the quarter, the company amalgamated two wholly-owned arms.

ACC Concrete and Encore Cement's CY12 numbers have Q4CY12 financials. Hence, results are strictly not comparable YoY. The consolidated topline grew ~1.9% YoY to ₹ 2691.5 crore (our estimate: ₹ 2690.1 crore ex RMC business) while PAT grew ~3.8% YoY to ₹ 251.2 crore (our estimate: ₹ 258.3 crore ex RMC). Performances of the cement division were in line with our estimates with sales volumes and realisations of 5.91 MT (I-direct estimate: 5.91 MT) and ₹ 4554/tonne (I-direct estimate: 4552/tonne), respectively. Sequentially, cement volumes increased 8.8% due to the end of monsoons. However, realisations remained weak due to muted demand led by lower pick-up in infra activities in south and east regions. As a result, EBITDA/tonne also remained lower by 16.6% YoY and 31.2% QoQ to ~₹ 535/tonne. However, we expect demand to pick up gradually, going forward, with a pick-up in infra and construction activities. We expect volume growth at ~7.6% CAGR over CY12-14E to 27 MT in CY14E. On the margins front, we expect an EBITDA/tonne of ₹ 887/tonne in C312E and ₹ 1114/tonne in CY14E against ₹ 832/tonne in CY11. The stock valuation has also come down to ₹ 134/tonne on CY14E capacity, which we feel is a good entry level given its diversified presence in India. Hence, we have revised our rating on ACC from HOLD to BUY and maintain target price of ₹ 1,520.

Valuations compelling post correction, upgrade to BUY

We expect cement volume CAGR of ~7.6% during CY12-14E as we believe demand would start picking up during CY13 with a pick-up in infra activities. However, utilisation rates are expected to improve progressively during CY13E, CY14E. We assume realisation CAGR of ~6.5% during CY12-14E. Thus, we expect topline and bottomline growth of ~13% and ~8% CAGR, respectively during the period. Stock valuation has also come down to ₹ 134/tonne on CY14E capacity, which we feel is a good entry level for long term investment given its diversified presence in India. Hence, we revise our rating to BUY with a target price of ₹ 1520.

Exhibit 1: Financial Summary

(₹ Crore)	Q4CY12	Q4CY12E	Q4CY11	Q3CY12	QoQ (Chg %)	YoY (Chg %)
Net Sales	2691.5	2690.1	2642.4	2542.4	5.9	1.9
EBITDA	316.1	444.6	381.5	422.2	-25.1	-17.1
EBITDA Margin (%)	11.7	16.5	14.4	16.6	-486 bps	-269 bps
Depreciation	143.3	135.4	135.6	143.5	-0.2	5.7
Interest	27.2	30.1	19.1	25.8	5.2	42.4
Other Income	142.5	116.0	103.5	97.4	46.3	37.8
Adjusted PAT	251.2	258.3	463.2	241.9	3.8	-45.8
EPS (₹)	13.4	13.7	24.6	12.9	3.8	-45.8

Source: Company, ICICIdirect.com Research

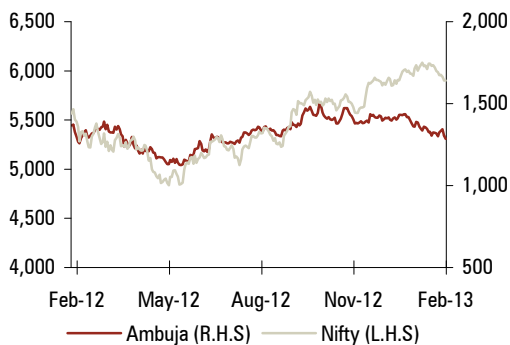
Rating matrix	
Rating	: Buy
Target	: ₹ 1520
Target Period	: 12-15 months
Potential Upside	: 16%

Key Financials				
	CY11	CY12	CY13E	CY14E
Net Sales	10003.0	11130.6	11929.2	14298.4
EBITDA	1687.1	1969.0	2252.8	3113.1
EBITDA Margin (%)	16.9	17.7	18.9	21.8
Net Profit	1301.8	1297.1	1454.1	2021.0
EPS (₹)	69.3	69.0	77.4	107.6

Valuation summary				
	CY11	CY12	CY13E	CY14E
PE (x)	18.8	18.9	16.9	12.1
Target PE (x)	21.9	22.0	19.6	14.1
EV to EBITDA (x)	13.2	10.9	9.6	6.7
EV/Tonne(US\$)	142	138	138	134
Price to book (x)	3.5	3.3	2.8	2.4
RoNW (%)	18.7	14.4	16.5	19.9
RoCE (%)	15.7	18.8	19.4	24.6

Stock data	
Mcap	₹ 24521 crore
Debt (CY12)	₹ 85 crore
Cash & Invest (CY12)	₹ 3055 crore
EV	₹ 21551 crore
52 week H/L	₹ 1515 / 1101
Equity cap	₹ 187.8 crore
Face value	₹ 10
MF Holding(%)	10.7
FII Holding(%)	19.6

Price movement



Analyst's name

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Net sales increase on higher realisation

Net sales have increased mere ~1.9% YoY to ₹ 2691.5 crore in Q4CY12 on the back of 2.5% YoY increase in realisations to ₹ 4554/tonne. Cement sales volumes declined ~0.7% YoY to 5.9 million tonnes (MT) due to sluggish demand in the southern and eastern region. Sequentially, sales growth also remained subdued despite the end of the monsoon season due to ~2.7% fall in realisation on account of muted demand.

Also, total cost increased ~5.8% YoY to ₹ 4019/tonne primarily on account of an increase in freight and employees cost. Freight cost has increased ~11.8% YoY to ₹ 937/tonne on account of an increase in railway freight tariff rates and diesel prices. The power & fuel cost on the other hand declined ~10.1% YoY to ₹ 889/tonne. This could be mainly on account of low production during the quarter as there has also been low inventory build up this quarter. This, in turn, led to stock adjustment of ₹ 170/tonne during this quarter. Sequentially, the cost also increased ~2.9% QoQ mainly due to higher employees & freight costs, which were increased on account of lower volume during the quarter.

With higher cost increase than revenues, the EBITDA/tonne declined ~16.6% YoY (~₹ 641/tonne) to ₹ 535/tonne.

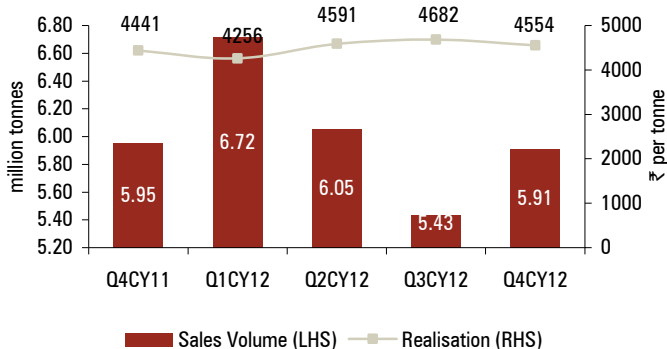
The cost per tonne increased ~5.8% YoY to ₹ 4019/tonne, which led to EBITDA/tonne decline of ~16.6% YoY (~₹ 641/tonne to ₹ 535/tonne)

Exhibit 2: Per tonne analysis

₹ per tonne	Q4CY12	Q4CY11	YoY (%)	Q3CY12	QoQ (%)
Sales Volume (mtpa)	5.9	6.0	-0.7	5.4	8.8
Net Realisation	4554	4441	2.5	4682	-2.7
Total Expenditure	4019	3800	5.8	3905	2.9
Stock Adjustment	170	58	192.6	-70	NA
Raw material	678	640	6.0	691	-1.9
Power & Fuel	889	988	-10.1	1051	-15.4
Employees	310	284	8.9	275	12.6
Freight	937	838	11.8	914	2.5
Others	1037	992	4.6	1044	-0.7
EBITDA	535	641	-16.6	777	-31.2

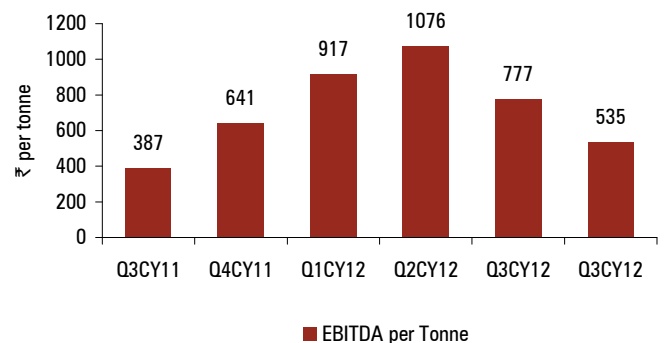
Source: Company, ICICIdirect.com Research

Exhibit 3: Sales volume & realisation trend (Quarterly)



Source: Company, ICICIdirect.com Research

Exhibit 4: EBITDA/tonne trend (Quarterly)



Source: Company, ICICIdirect.com Research

Valuations

We expect cement sales volumes to grow at ~7.6% CAGR (CY12-14E) to 27.9 MT in CY14E from 24.1 MT in CY12. The realisation is expected to improve at ~6.5% CAGR during CY12-14E on the back of a progressive improvement in utilisation rates. We estimate an EBITDA of ₹ 887/tonne in CY13E and ₹ 1114/tonne in CY14E from ₹ 832/tonne in CY12.

At the CMP of ₹ 1305, the stock is trading at 16.9x and 12.1x its CY13E and CY14E earnings, respectively. The stock is trading at an EV/EBITDA of 9.6x and 6.7x CY13E and CY14E EBITDA, respectively. On an EV/tonne basis, stock valuations have come down to ₹ 134/tonne on CY14E capacity, which we feel is a good entry level for long term investment given its diversified presence in India. We have valued the stock at \$145/tonne at CY14E capacity of 30.5 MTPA, in line with the current replacement cost. Hence, we revise our rating to **BUY** with a target price of ₹ 1520/share.

Exhibit 5: Assumptions

₹ per tonne	CY10	CY11	CY12	CY13E	CY14E
Sales Volume (mtpa)	21.3	23.7	24.1	25.4	27.9
Net Realisation	3630	4043	4509	4696	5118
Total Expenditure	2899	3324	3678	3809	4004
Stock Adjustment	-27	-40	8	0	0
Raw material	528	630	593	525	551
Power & Fuel	752	922	985	1072	1125
Employees	217	227	249	271	318
Freight	503	642	912	990	1030
Others	925	943	930	951	980
EBITDA per Tonne	731	719	832	887	1114

Source: Company, ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	CY11	CY12	CY13E	CY14E
Total operating Income	10,003.0	11,130.6	11,929.2	14,298.4
Growth (%)	29.6	11.3	7.2	19.9
Raw material	1397.9	1449.1	1333.7	1540.0
Power & Fuel	2187.4	2375.8	2723.3	3142.9
Employees	539.4	600.0	689.1	888.2
Freight	1524.1	2198.8	2515.0	2876.4
Others	2238.3	2243.0	2415.2	2737.8
Total Operating Exp.	7,887.1	8,866.7	9,676.4	11,185.4
EBITDA	2,115.9	2,263.9	2,252.8	3,113.1
Growth (%)	36.2	7.0	-0.5	38.2
Depreciation	510.0	568.9	528.7	594.2
Interest	96.9	114.6	34.9	35.7
Other Income	426.1	490.9	388.0	404.0
Exceptional items	0.0	335.4	0.0	0.0
PBT	1,935.1	1,735.9	2,077.3	2,887.2
Total Tax	215.5	391.1	623.2	866.2
PAT	1,719.7	1,344.8	1,454.1	2,021.0
Adjusted PAT	1,301.8	1,297.1	1,454.1	2,021.0
Growth (%)	27.4	-0.4	12.1	39.0
Adjusted EPS (₹)	69.3	69.0	77.4	107.6

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	CY11	CY12P	CY13E	CY14E
Liabilities				
Equity Capital	187.9	187.9	187.9	187.9
Reserve and Surplus	6,791.6	7,184.5	8,633.9	9,955.0
Total Shareholders funds	6,979.6	7,372.4	8,821.9	10,142.9
Total Debt	506.1	85.0	85.0	85.0
Deferred Tax Liability	523.8	522.6	522.6	522.6
Total Liabilities	8,009.5	7,980.0	9,429.5	10,750.5
Assets				
Gross Block	9,733.8	9,215.5	10,365.5	11,640.5
Less: Acc Depreciation	3,437.8	3,437.8	3,966.5	4,560.7
Net Block	6,295.9	5,777.7	6,399.0	7,079.8
Capital WIP	435.3	435.3	435.3	435.3
Total Fixed Assets	6,731.3	6,213.0	6,834.3	7,515.1
Investments	1,195.0	2,377.2	2,377.2	2,377.2
Inventory	1,112.7	1,134.4	1,273.9	1,612.8
Debtors	265.7	302.8	350.9	432.6
Loans and Advances	797.0	1,056.5	1,567.9	2,149.7
Other Current Assets	31.1	28.9	35.3	41.6
Cash	1,645.5	677.7	698.9	1,326.8
Total Current Assets	3,851.9	3,200.3	3,927.0	5,563.4
Creditors	2,357.7	2,180.4	2,395.2	3,089.1
Provisions	1,176.3	1,384.1	1,077.8	1,390.1
Total Current Liabilities	3,534.0	3,564.5	3,473.0	4,479.3
Net Current Assets	318.0	-364.2	454.0	1,084.2
Application of Funds	8,009.5	7,980.0	9,429.5	10,750.5

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	CY11	CY12	CY13E	CY14E
Profit after Tax	1,301.8	1,059.3	1,454.1	2,021.0
Add: Depreciation	510.0	568.9	528.7	594.2
(Inc)/dec in Current Assets	-433.1	-316.1	-705.5	-1,008.5
Inc/(dec) in CL and Prov.	-212.5	30.5	-91.5	1,006.2
CF from operating activities	1,166.2	1,342.6	1,185.8	2,612.9
(Inc)/dec in Investments	507.7	-1,182.3	0.0	0.0
(Inc)/dec in Fixed Assets	-596.0	-50.6	-1,150.0	-1,275.0
Others	397.0	10.1	-10.0	-10.0
CF from investing activities	308.7	-1,222.9	-1,160.0	-1,285.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-17.7	-421.1	0.0	0.0
Dividend paid & dividend tax	-617.0	0.0	0.0	0.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-174.7	-666.5	-4.6	-700.0
CF from financing activities	-809.4	-1,087.6	-4.6	-700.0
Net Cash flow	665.4	-967.8	21.2	627.9
Opening Cash	980.1	1,645.5	677.7	698.9
Closing Cash	1,645.5	677.7	698.9	1,326.8

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	CY11	CY12	CY13E	CY14E
Per share data (₹)				
EPS	69.3	69.0	77.4	107.6
Cash EPS	96.4	86.6	105.5	139.2
BV	371.4	392.3	469.5	539.8
DPS	28.0	0.0	0.0	0.0
Cash Per Share	87.6	36.1	37.2	70.6
Operating Ratios (%)				
EBITDA Margin	16.9	17.7	18.9	21.8
PAT Margin	13.0	9.5	12.2	14.1
Inventory days	37.0	36.8	36.8	36.8
Debtor days	8.1	9.3	10.0	10.0
Creditor days	84.1	74.4	70.0	70.0
Return Ratios (%)				
RoE	18.7	14.4	16.5	19.9
RoCE	15.7	18.8	19.4	24.6
RoIC	18.0	21.2	21.2	25.9
Valuation Ratios (x)				
P/E	18.8	23.2	16.9	12.1
EV / EBITDA	13.2	10.9	9.6	6.7
EV / Net Sales	2.2	1.9	1.8	1.5
Market Cap / Sales	2.5	2.2	2.1	1.7
Price to Book Value	3.5	3.3	2.8	2.4
Solvency Ratios				
Debt/EBITDA	0.3	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.1	0.9	1.1	1.2
Quick Ratio	0.6	0.7	0.9	0.9

Source: Company, ICICIdirect.com Research

Company Description

ACC Limited (ACC) is engaged in the manufacture of cement. The company is also engaged in the manufacture of ready mixed concrete. During the year ended December 31, 2012, ACC sold 240.1 lakh tonnes of cement and 2.41 lakh tonnes of clinker. The company has grinding plants in Karnataka and a clinkering line in Maharashtra. ACC's subsidiaries include ACC Mineral Resources Ltd, Lucky Minmat Ltd, Bulk Cement Corporation (India) Ltd, National Limestone Company Pvt Ltd and Encore Cement and Additives Pvt Ltd. The company is a subsidiary of Ambuja Cement India Pvt Ltd. During the year ended December 31, 2011, ACC acquired a 40% stake in Akaash Manufacturing Company Pvt Ltd. In October 2012, the company got amalgamated with ACC Concrete Ltd. In November 2012, its subsidiary Encore Cement and Additives Pvt Ltd were amalgamated with it.

Exhibit 6: Recommendation History



Source: Company, ICICIdirect.com Research

Exhibit 7: Recent Releases

Date	Event	CMP	Target Price	Rating
17-Feb-12	Q4CY12 Result Update	1366	1337	HOLD
20-Apr-12	Q1CY13 Result Update	1227	1337	HOLD
27-Jul-12	Q2CY13 result Update	1294	1378	HOLD
19-Oct-12	Q3CY13 result Update	1408	1520	HOLD

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Cement)

Company	CMP (₹)	TP(₹)	EPS (₹)			P/E (x)			EV/EBITDA (x)			EV/Tonne (\$)			RoNW (%)			RoCE (%)		
			FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
ACC*	1305	1520	69.0	77.4	107.6	23.2	16.9	12.1	10.9	9.6	6.7	138	138	134	14.4	16.5	19.9	18.8	19.4	24.6
Ambuja*	190	205	9.7	9.6	13.3	19.6	19.7	14.3	10.5	9.5	6.7	178	162	147	15.2	15.3	16.4	18.0	21.4	21.0
UltraTech	1884	2110	89.2	95.5	94.7	21.6	20.1	20.3	13.1	11.6	10.6	191	197	164	14.7	14.2	16.9	20.9	17.7	21.9
Shree Cem	4455	4725	181.3	256.2	284.5	25.5	17.9	15.9	8.6	8.7	6.7	172	168	135	22.6	26.4	23.3	19.0	25.1	24.6
India Cem	85	110	9.6	7.5	11.7	10.2	13.6	8.3	5.5	5.4	4.4	58	59	56	7.2	5.2	8.0	9.5	9.1	11.1
JK Cem	317	365	26.0	33.2	36.7	12.5	9.6	8.6	5.8	5.5	5.7	70	75	86	11.6	13.5	13.2	14.2	14.7	14.3
Orient Pap	73	80	11.0	7.0	13.8	6.6	10.4	5.3	5.1	7.0	3.8	57	53	46	19.0	11.5	18.5	17.0	9.8	18.8
JK Lakshmi	136	158	12.4	17.1	19.6	10.8	7.8	6.8	6.7	5.3	4.8	77	87	58	9.3	15.6	15.4	8.4	11.0	10.0
Mangalam	151	210	21.1	38.5	39.6	8.4	4.6	4.5	4.8	4.4	3.4	44	43	39	13.0	19.9	17.4	13.8	15.7	16.3
Heidelberg	47	69	1.3	1.9	1.5	39.6	26.4	35.1	26.8	18.0	9.6	101	55	57	3.6	5.1	3.7	1.8	3.6	7.3

Source: Company, ICICIdirect.com Research * Year ending December

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Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;

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Hold: Up to +/-10%;

Sell: -10% or more;



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