

Result Update

CMP : INR 1420
Rating : Sell
Target : INR 1210

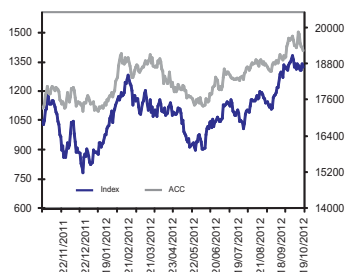
KEY DATA

Market Cap (INR bn)	266.6
Market Cap (USD mn)	4937.1
52 WK High / Low	1514 / 1083
Avg Daily Volume (BSE)	44895
Face Value (INR)	10

BSE Sensex	18793
Nifty	5717
BSE Code	500410
NSE Code	ACC
Reuters Code	ACC.BO
Bloomberg Code	ACC IN

Shareholding %	1Q	2Q	3Q
Promoters	50.0	50.0	50.0
MF/Banks/Indian FIs	12.0	12.0	11.0
FII/ NRIs/ OCBs	19.0	19.0	20.0
Indian Public	19.0	19.0	19.0

Performance Chart



PRICE PERFORMANCE (%)

	3 M	6 M	12 M
Absolute	11.5	13.0	26.3
Relative	3.4	6.2	16.0

Daryl Philip

Senior Research Analyst
 Tel. : 4000 2667
 dphilip@finquestonline.com

ACC

Volumes fall considerably but improved realization helps revenue and margins during Q3CY12

Maintain 'Sell' on ACC with revised price target of Rs 1210

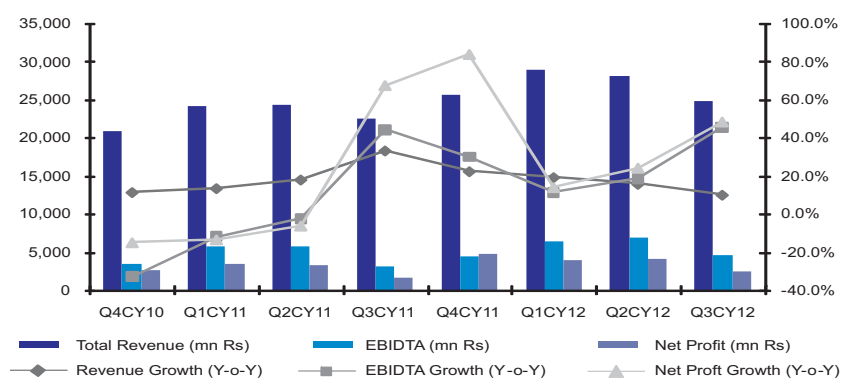
Holcim group ACC posted excellent set of numbers during Q3CY12 primarily driven by improved realization and cost matrix. The dispatches growth during the quarter though was disappointing as some of the major markets of the company witnessed slowdown due to monsoon. Overall the performance during the quarter was lower than ours as well as consensus estimates. The company sold 5.4 mn tonnes of cement which was 5% lower Y-o-Y (11% lower Q-o-Q), but the realizations witnessed sharp growth Q-o-Q. The total revenue rose 10% Y-o-Y to Rs 24.74 bn. Improved realization helped the margins despite sharp rise in freight expenses. This was primarily because the raw material cost for the company fell sharply during the quarter, while power and fuel cost also witnessed sharp fall during the quarter following easing commodity prices. The EBIDTA margin improved 460 bps Y-o-Y to 18.8% in Q3CY12. Although there are expectations that the industry would witness improvement in demand, the growth in realization or even sustaining the current realization levels would be difficult. Consequently maintaining the margins would also be difficult, given that the operating cost would increase as fuel cost and freight expenses increases further. Realization improved 19% Y-o-Y to Rs 4502 per tonne, while the total operating cost per tonne rose 9% to Rs 3701 per tonne, thus reinforcing the fact that how much realization growth has helped in margin improvement. EBIDTA per tonne as a result improved 53% Y-o-Y to Rs 855. The net profit after tax for the company in Q3CY12 came in at Rs 2.49 bn, which was 48% higher Y-o-Y and 41% lower Q-o-Q.

The demand growth for the cement industry has remained weak during the past several quarters and that has kept the capacity utilization of various plants in the country at very low levels as the industry witnessed significant capacity addition during that period. Although the macro situation has improved during the past few weeks since the government announced slew of reform measures to pump up the economy, the pricing situation continues to remain weak while the input cost scenario is also expected to worsen, thus impacting the margins. We do not see the company; or, for that matter the industry holding on to the current price levels, neither do we see margin improvement since the costs are expected to increase further due to volatile fuel prices. Two major worries for the company at this point in time are the Competition Commission of India (CCI) penalty and the Royalty payment that the company may have to make to its parent (Holcim).

Maintain our 'Sell' rating on the stock with revised target price of Rs 1210

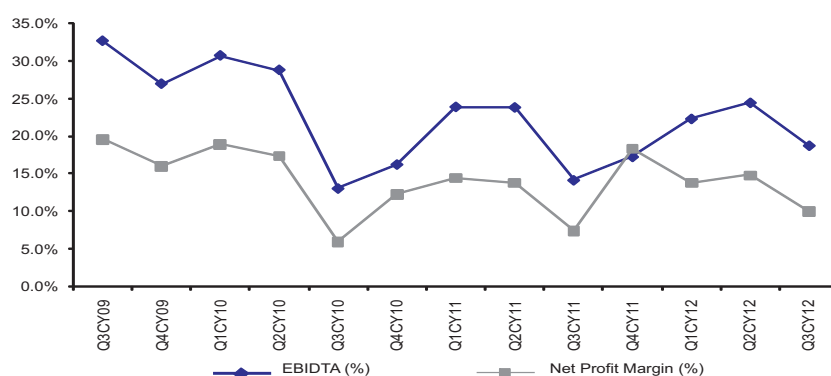
Although we see demand picking up going ahead, the realization growth would be muted or even negative. Added to these would be the cost pressure due to higher fuel and transportation cost which would impact the margins. Similarly we are concerned about the company's huge presence in the southern market where the demand still is very low. We estimate the revenue and EPS for CY12 to come in at Rs 107.18 bn (up 13.6%) and Rs 74.6 (up 5.8%). We believe that ACC's current stock price level is not justifying the valuation levels as it is not factoring in the cost pressure and the CCI penalty. The market is also ignoring the implementation challenges of the recent reform measures of the government, and so the trickle down impact of these on cement demand would not be as high as expected. Thus we maintain our 'Sell' rating on the stock with a revised target price of Rs 1210 (Enterprise Value (EV) tonne of USD 126 - 35% discount to the average EV per tonne of the previous five years, PE of 19.5x and EV/EBIDTA of 8.9x CY12E earnings). (We assign lower EV to ACC plant than the current EV of around USD 140 as many of these plants are located in the southern region where the demand is still low.) We cite imminent margin pressure due to high fuel prices, higher freight expenses, penalty by CCI, probable royalty payment to be made to Holcim and limited pricing power for the industry from these levels. At the current market price of Rs 1408 the stock is trading at PE of 23x and EV/EBIDTA of 10.4x CY12 earnings.

Revenue & Profit Growth



Source: Company, FQ Research

Profit margin trend



Source: Company, FQ Research

Comparative valuation

Company	Rating	Market Cap. (bn. Rs)	Enterprise Value (bn. Rs)	CMP (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)
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E		
ACC#	Sell	264.6	260.1	1408	1,210	74.6	85.6	18.9	16.4	3.4	3.0	10.4	8.6	137	131	5.8%	13.6%
Ambuja Cement#	Sell	315.8	300.0	206	178	10.6	11.7	19.4	17.6	3.6	3.1	10.9	9.1	179	169	299.7%	14.4%
UltraTech	Sell	550.6	565.8	2009	1,338	102.1	106.5	19.7	18.9	3.6	3.0	12.1	11.5	191	177	14.4%	11.5%
India Cement	Buy	30.1	50.9	98	110	13.6	17.6	7.2	5.6	0.8	0.7	4.4	3.8	67	64	41.5%	19.8%
Shree Cement	Sell	146.5	163.4	4078	3,390	264.8	315.5	15.9	13.3	4.0	3.1	8.3	5.8	197	161	71.1%	-3.8%

ACC & Ambuja FY13 & FY14 figures are the CY12 & CY13 figures respectively

Source: Company Reports, FQ Research

Q3CY12 Results

YE December (Rs. mn)	Q3 CY12	Q3 CY11	Y-o-Y change %	Q2 CY12	Q-o-Q change %	9M CY12	9M CY11	Y-o-Y change %
Total Revenue	24,739	22,487	10.0%	28,154	(12.1%)	81,784	71,051	15.1%
Less: Total Expenditure								
Net Raw Material consumed	2,761	3,483	(20.7%)	2,664	3.6%	8,871	9,829	(9.7%)
Employees Cost	1,405	1,382	1.6%	1,356	3.6%	4,083	3,702	10.3%
Other Expenditure	5,086	5,221	(2.6%)	5,116	(0.6%)	14,991	15,201	(1.4%)
Outward Freight Charges	4,877	3,329	46.5%	5,744	(15.1%)	16,365	10,253	59.6%
Power & Fuel	5,666	5,524	2.6%	6,039	(6.2%)	18,468	15,996	15.5%
Pur. of Traded Cement & Other Prod.	301	357	(15.8%)	352	(14.7%)	1,029	1,282	(19.7%)
Total Expenditure	20,095	19,296	4.1%	21,270	(5.5%)	63,807	56,262	13.4%
EBIDTA	4,644	3,191	45.5%	6,884	(32.5%)	17,977	14,789	21.6%
Less: Depreciation	1,352	1,199	12.7%	1,356	(0.3%)	4,014	3,483	15.3%
EBIT	3,292	1,992	65.3%	5,528	(40.4%)	13,963	11,306	23.5%
Less: Interest	257	253	1.5%	301	(14.4%)	874	777	12.4%
Add: Other income	546	574	(4.8%)	782	(30.1%)	1,987	1,461	36.0%
Extraordinary Income	0	0		0		(3,354)	0	
Profit before Tax	3,581	2,312	54.9%	6,009	(40.4%)	11,723	11,991	(2.2%)
Less: Total Tax	1,094	637	71.9%	1,829	(40.2%)	3,504	3,442	1.8%
Profit after Tax before Minority Interest	2,487	1,676	48.4%	4,179	(40.5%)	8,220	8,548	(3.8%)
Profit After Tax	2,487	1,676	48.4%	4,179	(40.5%)	8,220	8,548	(3.8%)
Adjusted Net Profit	2,487	1,676	48.4%	4,179	(40.5%)	10,662	8,548	24.7%
Shares Outstanding (mn)	188	188		188		188	188	
Reported EPS (Rs.)	13.2	8.9	48.4%	22.2	(40.5%)	43.7	45.5	(3.8%)
Adjusted EPS (Rs.)	13.2	8.9	48.4%	22.2	(40.5%)	56.7	45.5	24.7%

Margins			Bps Change		Bps Change			Bps Change
EBIDTA Margin (%)	18.8%	14.2%	458	24.5%	-568	22.0%	20.8%	117
EBIT Margin (%)	13.3%	8.9%	445	19.6%	-633	17.1%	15.9%	116
PBT Margin (%)	14.5%	10.3%	419	21.3%	-687	14.3%	16.9%	-254
NPM (%)	10.1%	7.5%	260	14.8%	-479	10.1%	12.0%	-198
NPM Excl. extra-ordinaries (%)	10.1%	7.5%	260	14.8%	-479	13.0%	12.0%	101
Effective Tax Rate (%)	30.6%	27.5%	303	30.4%	12	29.9%	28.7%	118
RM/Total Revenue	11.2%	15.5%	-433	9.5%	170	10.8%	13.8%	-299
Other Expenditure/Total Revenue	20.6%	23.2%	-266	18.2%	239	18.3%	21.4%	-306
Outward Freight Charges/Total Revenue	19.7%	14.8%	491	20.4%	-69	20.0%	14.4%	558
Power & Fuel./Total Revenue	22.9%	24.6%	-166	21.4%	145	22.6%	22.5%	7
Purchase of Traded Goods/Total Revenue	1.2%	1.6%	-37	1.3%	-4	1.3%	1.8%	-55
Employee Cost/ Total Revenue	5.7%	6.1%	-47	4.8%	86	5.0%	5.2%	-22

Source: Company Reports, FQ Research

NM-Not meaningful, NA-Not Applicable

Result Analysis

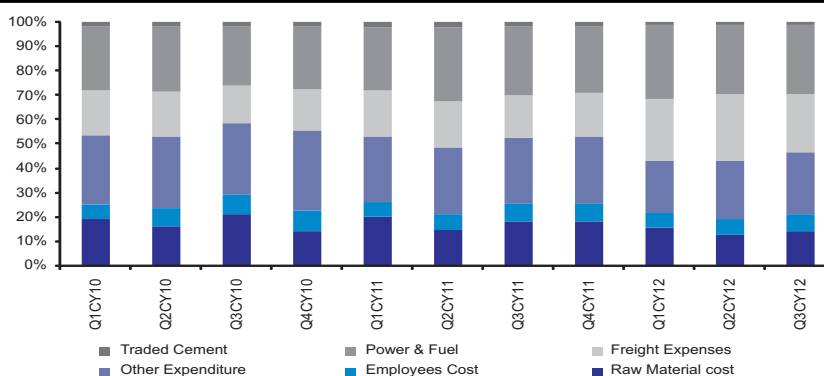
Volume growth for the company in Q3CY12 was disappointing primarily due to monsoon in the southern and the eastern regions where the company has meaningful presence. Volume fell 5% Y-o-Y (11% Q-o-Q) to 5.4 mn tonnes. However realization improvement was the saving grace for the quarter as it helped in revenue growth as well as margins. The gross realization rose 19% Y-o-Y to Rs 4502 per tonne. The total revenue in Q3CY12 rose 10% Y-o-Y (12% lower Q-o-Q) to Rs 24.74 bn.

Cost Analysis

Particulars	Q3 CY12	Q3 CY11	Y-o-Y change %	Q2 CY12	Q-o-Q change %	9M CY12	9M CY11	Y-o-Y change %
Operating Costs (Rs. Per tonne)								
Net Raw Material consumed	508	612	-16.9%	438	16.0%	487	550	-11.5%
Power & Fuel	1,043	971	7.5%	993	5.1%	1,013	895	13.2%
Personnel	259	243	6.5%	223	16.0%	224	207	8.1%
Freight & Forwarding	898	585	53.5%	945	-4.9%	898	574	56.5%
Other Expenses	937	918	2.1%	841	11.3%	822	851	-3.3%
Traded Goods	55	63	-11.8%	58	-4.5%	56	72	-21.3%
Total Expenditure	3,701	3,391	9.1%	3,498	5.8%	3,500	3,148	11.2%
EBIDTA per tonne	855	561	52.5%	1,132	-24.5%	986	828	19.2%

Source: Company Reports, FQ Research

Break-up of operational costs



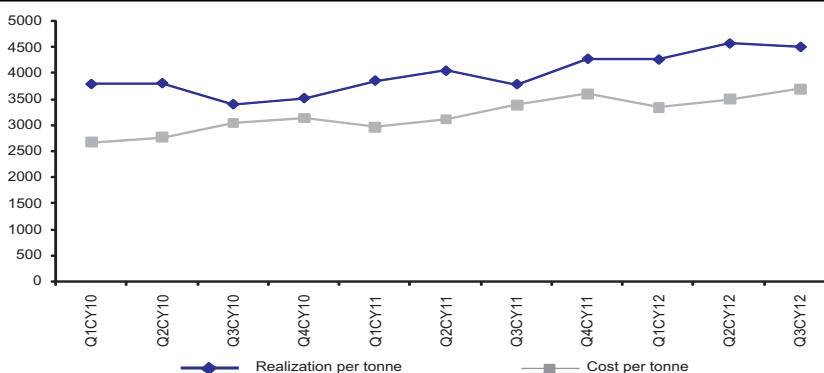
Source: Company, FQ Research

Sales Volume and realization per bag



Source: Company, FQ Research

Realization and cost per tonne



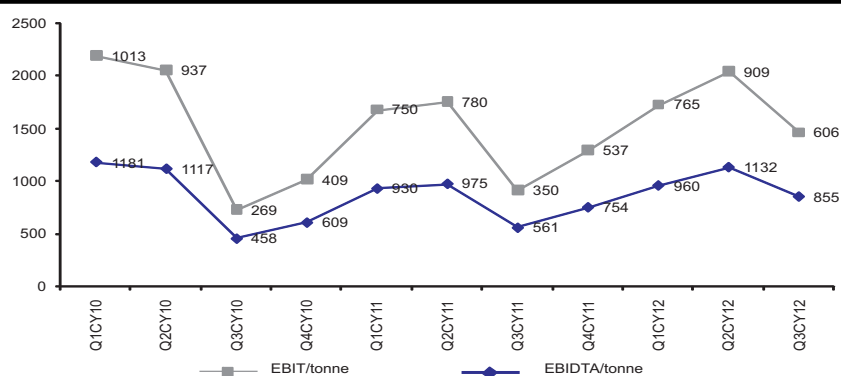
Source: Company, FQ Research

But the margins improved significantly despite higher freight expenses following higher diesel prices. Raw material cost and other operating expenses improved sharply.

- The Net raw material cost per tonne in Q3CY12 fell 17% Y-o-Y (rose 16% Q-o-Q) to Rs 508 while, as a proportion of sales, fell 430 bps Y-o-Y (rose 170 bps Q-o-Q) to 11.2%.
- Personnel expenses, as a proportion of sales, fell marginally from 6.1% in Q3 CY11 to 5.7% in Q1 FY12.
- Power & fuel costs per tonne increased 8% Y-o-Y (5% Q-o-Q) to Rs 1043 per tonne. The Power & fuel cost as a percentage of sales though were lower by 170 bps Y-o-Y (up 145 bps Q-o-Q) to 22.9%.
- Freight costs per tonne rose 54% Y-o-Y to Rs 898 while as a percentage of sales, were up 490 bps Y-o-Y to 19.7%.

We see pressure on the operational cost front as the cement prices fall going ahead.

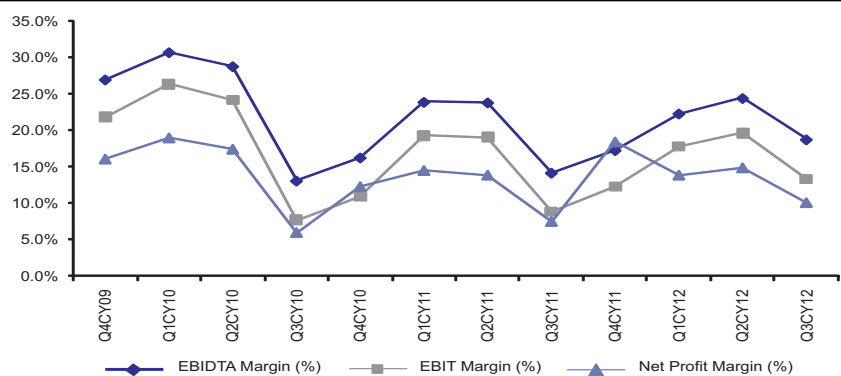
EBIDTA and EBIT tonne analysis



Source: Company, FQ Research

Margin trend

Margin Analysis



Source: Company, FQ Research

- The EBIDTA margin for the company rose 460 bps Y-o-Y (lower by 570 bps Q-o-Q) to 18.8% in Q3FY12.
- The EBIT margin improved 445 bps Y-o-Y (lower by 630 bps Q-o-Q) to 13.3%.
- The adjusted NPM improved 260 bps Y-o-Y (lower by 480 bps Q-o-Q) to 10.1%.

Management Outlook

The company expects that demand for cement will revive and help boost dispatches in the months ahead as the management is encouraged by some recent positive indications in the national economy and retain a healthy prospect for cement demand in the near term. But the cost increase may negate the demand growth benefits.

Financial summary

Profit and Loss Statement

YE December (Rs. mn)	CY10	CY11	CY12E	CY13E
Net Sales	77,173	94,387	107,177	122,119
Other Operating Income	2,585	2,216	1,485	2,442
Total Revenue	79,758	96,603	108,662	124,561
Less:				
Cost of Raw material (Net)	10,500	13,336	11,827	13,702
Employees Cost	4,619	5,257	5,534	6,228
Other Expenditure	18,649	21,256	20,367	23,667
Outward Freight Charges On Cement Etc	10,703	14,017	21,472	24,663
Power & Fuel	15,987	21,832	24,112	27,404
Pur. of Traded Cement & Other Prod.	1,176	1,698	1,352	1,495
Total Operating Expenditure	61,634	77,396	84,664	97,158
EBIDTA	18,124	19,207	23,998	27,404
Less: Depreciation	3,927	4,753	5,424	6,038
EBIT	14,198	14,454	18,573	21,365
Interest Paid	568	969	1,088	1,180
Non-operating Income	985	1,919	2,514	2,809
Extraordinary Income	0	0	(3,354)	0
Profit Before tax	14,615	15,404	16,646	22,994
Tax	3,414	2,152	4,980	6,898
Net Profit	11,200	13,253	11,665	16,096
Net Profit Excl. extra-ordinaries	11,200	13,253	14,016	16,096

Ratios

Particulars	CY10	CY11	CY12E	CY13E
Valuation Ratio (x)				
P/E	23.6	20.0	18.9	16.4
P/BV	4.1	3.7	3.4	3.0
EV / Sales	3.4	2.7	2.3	1.9
EV / EBIDTA	14.3	13.2	10.4	8.6
MCap/Sales	3.3	2.7	2.4	2.1
Leverage Ratio				
Debt-Equity	0.1x	0.1x	0.1x	0.1x
Interest Coverage	31.9x	19.8x	22.1x	23.2x
Per Share Data (Rs)				
Diluted EPS	59.6	70.5	74.6	85.6
Diluted Cash EPS	80.5	95.8	103.4	117.8
DPS	30.5	28.0	28.0	28.0
Book Value	344.2	382.7	412.3	465.5
Returns (%)				
ROE	17.0%	18.6%	18.0%	18.8%
ROCE	15.6%	17.4%	16.7%	17.3%
Dividend Payout	59.5%	46.0%	52.2%	37.9%
Du-Pont Analysis				
EBIDTA/Sales (%)	22.7%	19.9%	22.1%	22.0%
Sales/Operating assets (x)	143.8%	167.5%	188.7%	226.4%
EBIDTA/Operating Assets (%)	32.7%	33.3%	41.7%	49.8%
Operating Assets/Net Assets (x)	77.6%	74.0%	67.5%	58.1%
Net Earnings/EBIDTA (%)	61.8%	69.0%	58.4%	58.7%
Net Assets/Net Worth (x)	108.6%	109.1%	109.7%	110.7%
RoE (%)	17.0%	18.6%	18.0%	18.8%
Margins (%)				
EBIDTA margin	22.7%	19.9%	22.1%	22.0%
PBT margin	18%	16%	15%	18%
PAT margin	14.0%	13.7%	10.7%	12.9%
Growth Ratios (%)				
Net Sales	6.0%	22.3%	13.6%	13.9%
EBIDTA	(31.5%)	6.0%	24.9%	14.2%
PAT	(30.3%)	18.3%	(12.0%)	38.0%
APAT	(30.3%)	18.3%	5.8%	14.8%
Operating Cycle				
Debtors Days	8	9	10	10
Inventory Days	54	52	52	52
Creditors Days	104	98	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	75,614	85,615
Equity	64,695	71,923	77,493	87,494
Net Worth	64,695	71,923	77,493	87,494
Net Deferred tax liability/(Asset)	3,615	5,184	5,273	7,304
Total Loans	5,238	5,107	5,618	6,180
Capital Employed	73,548	82,214	88,385	100,978
Assets				
Gross Block	80,770	96,454	105,066	114,510
Less: Depreciation	29,945	34,378	39,803	45,841
Net Block	50,824	62,075	65,263	68,669
Capital WIP	15,628	4,353	5,741	6,297
Investments	17,027	16,250	20,719	23,733
Current Assets				
Inventories	9,150	10,997	12,062	13,842
Sundry Debtors	1,783	2,604	3,230	3,680
Cash and Bank Balance	9,800	16,526	21,838	34,481
Loans and Advances	6,239	5,903	7,955	9,088
Other Current Assets	561	150	674	771
Total Current Assets	27,534	36,179	45,759	61,862
Less: Current Liabilities & Provisions				
Sundry Creditors	17,539	20,783	24,123	27,683
Provisions	14,959	10,540	19,670	25,840
Other Current Liabilities	4,967	5,321	5,303	6,059
Total Current Liabilities & Provisions	37,464	36,644	49,097	59,582
Capital Applied	73,548	82,214	88,385	100,978

Cash Flow Statement

YE December (Rs. mn)	CY10	CY11	CY12E	CY13E
Cash Inflows from Operations				
Profit Before Tax	14,615	15,404	16,646	22,994
Depreciation	3,927	4,753	5,424	6,038
Less:				
Dividend Payout	6,668	6,095	6,095	6,095
Tax Paid	3,414	2,152	4,980	6,898
Operating Cash flow	8,459	11,911	10,995	16,039
Changes in Capital Structure				
Increase in Equity Share capital	(1)	0	0	0
Increase in Share premium	2	0	0	0
Increase in Other reserves	(0)	70	0	0
Increase in Others	123	1,568	90	2,031
Inc/(Dec) in Loans	(431)	(131)	511	562
Inc/(Dec) in Equity/Loans/MI	(308)	1,507	600	2,593
Adjustments				
Diff.in Depreciation	(662)	(320)	(0)	(0)
Total Inflows	7,490	13,099	11,596	18,632
Cash Outflows				
Working Capital Changes				
Inc/(Dec) in Provisions	3,459	(4,419)	9,130	6,170
Inc/(Dec) in Current Liabilities	2,866	3,598	3,323	4,316
Less:				
Inc/(Dec) in Inventory	1,360	1,847	1,065	1,780
Inc in Debtors	(254)	821	626	450
Inc/(Dec) in Loans & Advances	1,078	(337)	2,052	1,133
Inc/(Dec) in Other Current Assets	451	(411)	524	96
Inc/(Dec) in Working Capital	(3,690)	2,741	(8,186)	(7,026)
Capex/Investments				
Inc/(Dec) in Investments	2,270	(777)	4,469	3,015
Addition to Gross Block	12,507	15,684	8,612	9,445
Inc/(Dec) in Capital WIP	(5,934)	(11,275)	1,388	555
Inc/(Dec) in Fixed Assets/ Investments	8,843	3,632	14,469	13,015
Inc/(Dec) in Cash/Bank Balance	2,337	6,725	5,312	12,643
Total Outflows	7,490	13,099	11,596	18,632

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
Result Update (Q3CY12)	22-10-2012	1420	Sell	1210

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FINQUEST Securities (P) Ltd.

602 Boston House, Next to Cinemax, Suren Road, Andheri (East) Mumbai 400 093.

Tel.: 91-22-4000 2600 • Fax: 91-22-4000 2605 • Email: info@finquestonline.com

Website: www.finquestonline.com

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