

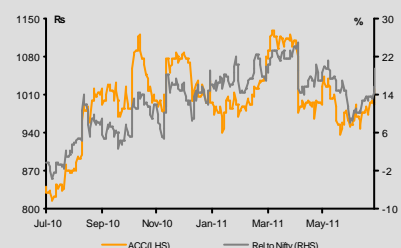
July 28, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs1,020	Rs1,100
EPS change CY 11E/12E (%)	-6.0 / -4.2
Target Price change (%)	-3.7
Nifty	5,488
Sensex	18,210

Price Performance (%)	1M	3M	6M	12M
Absolute	6	(8)	(2)	21
Rel. to Nifty	7	(2)	0	19

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	ACC@IN
Equity Capital (Rs mn)	1877
Face Value(Rs)	10
No of shares o/s (mn)	188
52 Week H/L	1,143/808
Market Cap (Rs bn/USD mn)	192/4,352
Daily Avg Volume (No of sh)	41946
Daily Avg Turnover (US\$m)	0.9

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	50.3	49.3	48.2
FII/NRI	15.7	15.3	15.9
Institutions	15.2	15.5	16.1
Private Corp	4.0	4.9	4.7
Public	14.9	15.1	15.1

Source: Capitaline

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- Q2CY11 EBIDTA at Rs5.5 bn, better than est (Rs5.2) led by higher realizations- Higher exit prices for Q1CY11 sustained in April & pushed quarter avg realizations to Rs4052/t (+5.7% yoy, 4.1% qoq) v/s est of Rs3956
- EBITDA/t at Rs928 (+3% qoq). Effect of domestic coal price hikes visible -P&F cost at Rs959/t +24% qoq. Total cost increase 4.4% qoq to Rs3124/t, negatively surprised us
- Cement demand remain sluggish -prices down ~Rs20/bag from April-11 peaks. New mining tax could be another blow -could increase limestone & coal cost. However ACC's healthy volumes (+12.5% yoy for Q2) to help contain margin decline
- Downgrade CY11E/12E earnings by 6%/4.2% to factor high cost pressures. Valuation at PER of 14.7X & EV/ton of USD113 on CY12E- Maintain HOLD with revised TP of Rs1100

Volumes +12.5% yoy- higher realizations (+5.7% yoy) drive better than expected EBITDA – EBITDA/t at Rs928 (+3.1% sequentially)

ACC Q1CY11 volume growth of 12.5% (5.93 mnt) coupled with higher than estimated realizations helped post EBITDA of Rs5.5bn better than est. of Rs5.2bn. Realizations (Rs4052/t est. of Rs3956/t) improved 5.7% yoy as the effect of higher exit prices of Q1CY11 sustained till mid- May leading to higher than expected prices for the quarter. Consequently EBITDA/t at Rs928 (+3.1% qoq) came in better than est. of Rs871/t. APAT of Rs3.36bn came in slightly above est. of Rs3.24bn, though down 6.2%yoy.

Effect of 30%+ hike in domestic coal prices visible, P&F cost up 24% qoq- cost pressure surprise negatively

ACC's total cost per tonne increased 12.2% yoy and 4.4% qoq to Rs3124 which negatively surprised us. Power and fuel costs increased by 29% yoy and 24% qoq to Rs959/t (vs est of Rs887/t) reflecting the 30%+ increase in domestic coal prices taken in March,2011 along with the imported coal prices increasing 30% yoy. RM cost at Rs643/t,+20% yoy 7.3% qoq, continued its upward trend as Gypsum & Fly ash prices increased further. Also freight costs increased by 14.6% yoy to Rs587/t (vs est of Rs565/t) driven by higher rail freight charges & increase in diesel prices. Led by higher than expected cost pressures we lower our earnings estimates for ACC by 6% for CY11E (EPS of Rs58.8) and by 4.2% for CY12E (EPS of Rs70). Subsequently we lower our TP to Rs1100 (Rs1140 earlier).

Stock trades at PER of 14.7X & EV/ton of USD113 on CY12E- 10% discount to Ambuja- Maintain hold

With the monsoon season impacting momentum of construction activities we see cement prices coming under pressure (already down Rs20/bag from its April-11 peaks). The proposed new mining tax could be another blow to cement companies as it would increase the limestone mining costs by Rs75-80/t. Further given Coal India's strong pricing power, the coal behemoth could ask for a price hike to compensate for the higher incidence of tax. This could result in downside risks to the profitability of cement producers. However ACC's healthy volumes (+12.5% yoy for Q2) will help contain its margin decline. Valuation at PER of 14.7X & EV/ton of USD113 on CY12E though not cheap are still at ~10% discount to Ambuja Cement – Maintain HOLD.

Financial Snapshot

Y/E	Rs Mn									
	Net sales	EBIDTA (Rs Mn)	PAT (%)	EPS (Rs Mn)	EPS Chg (%)	ROE (%)	PE (x)	EV/EBIDTA	EV/T (USD)	
Dec										
CY09	80,272	24,797	30.9	16,067	85.5	38.0	29.4	11.9	7.2	149
CY10	77,173	15,540	20.1	11,200	59.6	-30.3	17.9	17.1	11.1	123
CY11E	92,474	17,918	19.4	11,044	58.8	-1.4	16.2	17.4	9.3	118
CY12E	104,241	21,061	20.2	13,149	70.0	19.1	17.4	14.6	7.5	113

Result Table

Rs mn	Q2CY10	Q3CY10	Q4CY10	Q1CY11A	Q2CY11	YoY (%)	QoQ (%)	YTD'CY11	YTD'CY10	YoY(%)
Revenue	20,207	16,372	19,576	23,982	24,030	18.9	0.2	48,012	41,225	16.5
Expenditure	14,677	14,673	16,776	18,439	18,527	26.2	0.5	36,966	29,473	25.4
<i>as % of sales</i>	72.6	89.6	85.7	76.9	77.1			77.0	71.5	
Consumption of RM	2,829	2,493	3,429	3,692	3,813	34.8	3.3	7,505	5,310	41.3
<i>as % of sales</i>	14.0	15.2	17.5	15.4	15.9			15.6	12.9	
Stocks	-483.3	560.6	-964.1	-64.2	-1,094.5	126.5	1604.6	-1,158.7	-162.4	613.6
<i>as % of sales</i>	(2.4)	3.4	(4.9)	(0.3)	(4.6)			(2.4)	(0.4)	
Employee Cost	1063	1174	1486	1123	1197	12.6	6.6	2320	1959	18.4
<i>as % of sales</i>	5.3	7.2	7.6	4.7	5.0			4.8	4.8	
Power & Fuel	3,934	3,615	4,513	4,785	5,687	44.6	18.9	10,471	7,859	33.2
<i>as % of sales</i>	19.5	22.1	23.1	20.0	23.7			21.8	19.1	
Cost of traded cement	296	258	357	490	435	47.0	-11.3	925	562	64.7
<i>as % of sales</i>	1.5	1.6	1.8	2.0	1.8			1.9	1.4	
Freight	2,700	2,255	2,995	3,443	3,482	29.0	1.1	6,924	5,453	27.0
<i>as % of sales</i>	13.4	13.8	15.3	14.4	14.5			14.4	13.2	
Other expenditure	4339	4316	4961	4972	5008	15.4	0.7	9980	8494	17.5
<i>as % of sales</i>	21.5	26.4	25.3	20.7	20.8			41.6	41.2	0.8
EBITDA	5,530	1,699	2,800	5,542	5,503	-0.5	-0.7	11,045	11,752	-6.0
Depreciation	962	911	1119	1125	1158	20.4	2.9	2283	1897	20.4
EBIT	4568	789	1681	4417	4345	-4.9	-1.6	8762	9855	-11.1
Other Income	597	709	910	669	771	29.1	15.2	1440	1206	19.4
Interest	141	162	137	253	271	92.5	7.1	524	268	95.4
PBT	5024	1335	2453	4833	4845	-3.6	0.2	9678	10793	-10.3
Total Tax	1435	435	647	1327	1479	3.0	11.4	2806	3152	-11.0
Adjusted PAT	3589	900	1806	3507	3366	-6.2	-4.0	6872	7641	-10.1
(Profit)/loss from JV's/Ass/MI								0	0	
PAT after MI	3589	900	1806	3507	3366	-6.2	-4.0	6872	7641	-10.1
Extra ordinary items	0	100	753	0	0			0	0	
Reported PAT	3589	1000	2559	3507	3366	-6.2	-4.0	6872	7641	-10.1
Reported EPS	19.1	4.8	9.6	18.7	17.9	-6.2	-4.0	36.6	40.7	-10.1

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	27.4	10.4	14.3	23.1	22.9	-446	-21	23.0	28.5	-550
EBIT	22.6	4.8	8.6	18.4	18.1	-453	-34	18.2	28.5	-1026
EBT	24.9	8.2	12.5	20.2	20.2	-470	1	20.2	2.9	1723
PAT	17.8	5.5	9.2	14.6	14.0	-376	-62	14.3	26.2	-1187
Effective Tax rate	28.6	32.6	26.4	27.5	30.5	196	307	29.0	22.2	675

Per tonne analysis

Rs/t	Q2CY10	Q3CY10	Q4CY10	Q1CY11A	Q2CY11	YoY (%)	QoQ (%)	YTD'CY11	YTD'CY10	YoY(%)
Cement volumes	5.27	4.83	5.61	6.16	5.93	12.5	-3.7	12.09	10.85	11.4
Raw Material	537	516	611	599	643	19.8	7.3	621	489	26.8
Stocks	-92	116	-172	-10	-185	101.3	1670.8	-96	-15	540.4
Staff cost	202	243	265	182	202	0.0	10.7	192	181	6.3
Power & Fuel	746	748	804	777	959	28.5	23.5	866	724	19.6
Cost of traded cement	56	53	64	80	73	30.6	-7.9	76	52	47.8
Freight	512	467	534	559	587	14.6	5.1	573	503	14.0
Other expenses	823	894	884	807	845	2.6	4.6	826	783	5.5
Total Cost Per tonne	2785	3038	2990	2993	3124	12.2	4.4	3058	2716	12.6
EBIDTA/Ton	1049	352	499	900	928	-11.6	3.1	914	1083	-15.7
Realization	3834	3390	3490	3893	4052	5.7	4.1	3971	3800	4.5

Financials

Income Statement

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Net Sales	80,272	77,173	92,474	104,241
Growth (%)	10.2	(3.9)	19.8	12.7
Total Expenditure	55,475	61,634	74,556	83,180
Raw Materials Cost	8,915	11,232	14,290	16,474
Employee Expenses	3,677	4,619	5,081	5,335
Power & Fuel cost	15,397	16,103	21,092	23,864
Freight & Handling	10,544	10,703	13,600	15,121
Others	16,943	18,977	20,493	22,385
EBITDA	24,797	15,540	17,918	21,061
Growth (%)	43.1	(37.3)	15.3	17.5
EBITDA margin (%)	30.9	20.1	19.4	20.2
Depreciation	3,421	3,927	4,639	5,084
EBIT	21,376	11,613	13,279	15,977
EBIT margin (%)	26.6	15.0	14.4	15.3
Other Income	2,411	3,569	3,235	3,235
Interest expenses	843	568	936	666
PBT	22,944	14,615	15,577	18,546
Tax	6,877	3,414	4,533	5,397
Effective tax rate (%)	30.0	23.4	29.1	29.1
Adjusted PAT	16,067	11,200	11,044	13,149
Growth (%)	38.0	(30.3)	(1.4)	19.1
Net Margin (%)	20.0	14.5	11.9	12.6
(Profit)/loss from JVs/Ass/MI				
Adj. PAT After JVs/Ass/MI	16,067	11,200	11,044	13,149
E/O items	0	0	0	0
Reported PAT	16,067	11,200	11,044	13,149
Growth (%)	32.5	(30.3)	(1.4)	19.1

Cash Flow

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
PBT (Ex-Other income)	20,533	11,045	12,343	15,311
Depreciation	3,421	3,927	4,639	5,084
Interest Provided	77	568	936	666
Other Non-Cash items	-26	976	0	0
Chg in working cap	2,504	4,690	-648	1,120
Tax paid	-4,941	-3,414	-4,533	-5,397
Operating Cashflow	23,979	17,791	12,736	16,784
Capital expenditure	-15,154	-6,573	-3,872	-7,500
Free Cash Flow	8,825	11,218	8,864	9,284
Other income	857	3,569	3,235	3,235
Investments	-7,516	-2,270	0	0
Investing Cashflow	-21,812	1,299	3,235	3,235
Equity Capital Raised	19	0	0	0
Loans Taken / (Repaid)	849	-431	1,854	-2,046
Interest Paid	-1,054	-568	-936	-666
Dividend paid (incl tax)	-4,359	-6,668	-4,398	-4,398
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-4,546	-7,667	-3,480	-7,110
Net chg in cash	-2,379	4,851	8,620	5,409
Opening cash position	9,842	7,464	10,800	19,420
Closing cash position	7,464	10,800	19,420	24,829

Balance Sheet

Y/E, Dec (Rs. mn)	CY09	CY10	CY11E	CY12E
Equity share capital	1,879	1,879	1,879	1,879
Reserves & surplus	58,282	62,815	69,462	78,214
Net worth	60,161	64,695	71,342	80,093
Minority Interest				
Secured Loans	5,500	5,099	7,000	5,000
Unsecured Loans	169	139	93	46
Loan Funds	5,669	5,238	7,093	5,046
Net deferred tax liability	3,493	3,615	3,615	3,615
Total Liabilities	69,323	73,548	82,049	88,755
Gross Block	68,263	80,770	95,270	100,270
Less: Depreciation	26,680	29,945	34,584	39,668
Net block	41,583	50,824	60,686	60,602
Capital work in progress	21,562	15,628	5,000	7,500
Investment	14,756	17,027	17,027	17,027
Current Assets	22,945	27,534	37,903	44,997
Inventories	7,790	9,150	10,964	12,359
Sundry debtors	2,037	1,783	2,280	2,570
Cash & bank balance	7,464	10,800	19,420	24,829
Loans & advances	5,544	5,239	5,239	5,239
Other current assets	109.9	561.2	0	0
Current lia & Prov	31,522	37,464	38,566	41,371
Current liabilities	20,603	20,940	22,042	24,847
Provisions	10,919	16,525	16,525	16,525
Net current assets	-8,578	-9,931	(663)	3,626
Misc. exp	0	0	0	0
Total Assets	69,324	73,548	82,049	88,755

Key Ratios

Y/E, Dec	CY09	CY10	CY11E	CY12E
Profitability (%)				
EBITDA Margin	30.9	20.1	19.4	20.2
Net Margin	20.0	14.5	11.9	12.6
ROCE	37.5	21.3	21.2	22.5
ROE	29.4	17.9	16.2	17.4
RoIC	84.9	41.7	37.6	39.9
Per Share Data (Rs)				
EPS	85.5	59.6	58.8	70.0
CEPS	103.7	80.5	83.4	97.0
BVPS	320.1	344.2	379.6	426.2
DPS	23.0	30.4	20.0	20.0
Valuations (x)				
PER	11.9	17.1	17.4	14.6
P/CEPS	9.8	12.7	12.2	10.5
P/BV	3.2	3.0	2.7	2.4
EV / Sales	2.2	2.2	1.8	1.5
EV / EBITDA	7.2	11.1	9.3	7.5
Dividend Yield (%)	2.3	3.0	2.0	2.0
Gearing Ratio (x)				
Net Debt/ Equity	-0.3	-0.3	-0.4	-0.5
Net Debt/EBITDA	-0.1	-0.4	-0.7	-0.9
Working Cap Cycle (days)	-49.0	-47.3	-34.7	-34.7

Recommendation History: ACC – ACC IN

Date	Reports	Reco	CMP	Target
26/04/2011	ACC Q1CY11 Result Update	Hold	1,123	1,140
04/02/2011	ACC Q4CY10 Result Update	Accumulate	986	1,035
21/10/2010	ACC Q3CY10 Result Update	Accumulate	983	1,035
22/07/2010	ACC Q2CY10 Result Update	Hold	825	875

Recent Research Reports

Date	Reports	Reco	CMP	Target
27/07/2011	Ultratech Cement Q1FY12 Result Update	Reduce	1,028	1,050
22/07/2011	Century Plyboards Q1FY12 Result Update	Buy	72	84
21/07/2011	IRB Infrastructure Q1FY12 Result Update	Buy	185	250
13/06/2011	Cement Sector Update			

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