ACC

BSE SENSEX	S&P CNX
17,481	5,258
Bloomberg	ACC IN
Equity Shares (m)	188.0
52-Week Range (INR)	1,230/917
1,6,12 Rel. Perf. (%)	2/16/32
M.Cap. (INR b)	222.5
M.Cap. (USD b)	4.5

CMP:INR1,184 TP:INR1,227 Neutral

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR.(%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (USD)
12/09A	80,272	16,399	87.2	39.0	-	-	30.0	34.5	-	-
12/10A	77,173	10,065	53.6	-38.6	22.7	3.4	16.1	16.3	12.9	132
12/11E	94,904	11,211	59.7	11.4	19.5	3.1	15.8	17.1	10.7	127
12/12E	112,759	15,160	80.7	35.2	14.2	2.8	19.0	21.1	7.7	120

ACC's operating standalone performance was below estimate with EBITDA of INR2.2b (v/s est INR3.15b) and PAT of INR1.23b (v/s est INR1.82b), impacted by lower volumes and higher cost.

Key takeaways:

- Volumes grew by 17.8% YoY (-4% QoQ) to 5.69mt (v/s est 5.77mt). Realization declined by 7% QoQ (+11.5% YoY) to INR3,779/ton (v/s est INR3,772/ton).
- Net sales improved by 31% YoY (-10% QoQ) to INR21.5b (v/s est INR21.8b); Adj PAT grew by 46% YoY (-64% QoQ) to INR1.23b (v/s est INR1.82b).
- EBITDA declined by 60% QoQ (+30% YoY) at INR2.2b (v/s est INR3.15b), translating into EBITDA/ton of INR387 v/s INR928 in 2QCY11 (v/s est INR546). Costs were higher than estimates driven by 33% QoQ increase in RM cost/ ton.
- It has written back sales tax of INR617m pertaining to prior period, which boosted reported PAT to INR1.68b.
- Its RMC business subsidiary continues to make loss, with PBIT loss of INR78m (v/s INR88m in 2QCY11 v/s INR88m in 3QCY10).
- We are downgrading our EPS for CY11 by 5.5% to INR59.7, but maintain CY12 EPS at INR80.7. The stock trades at 14.2x CY12 EPS, 7.7x EV/EBITDA and USD120/ton. Maintain **Neutral** with target price of INR1,227 (~8x CY12E EV/EBITDA).

Quarterly Performance (Standalone) (INR Million)

Y/E December	CY10				CY11				CY10	CY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Cement Sales (m ton)	5.58	5.27	4.83	5.61	6.16	5.93	5.69	6.28	21.3	24.1
YoY Change (%)	-2.6	-2.8	-3.6	4.7	10.4	12.5	17.8	11.9	-1.1	13.0
Cement Realization	3,767	3,834	3,390	3,490	3,893	4,052	3,779	4,045	3,625	3,945
YoY Change (%)	5.0	-0.1	-13.8	-2.7	3.4	5.7	11.5	15.9	-2.8	8.8
QoQ Change (%)	5.1	1.8	-11.6	2.9	11.6	4.1	-6.8	7.0		
Net Sales	**21,018**	**20,207**	**16,372**	**19,576**	**23,982**	**24,030**	**21,500**	**25,393**	**77,173**	**94,904**
YoY Change (%)	2.3	-2.9	-16.9	1.9	14.1	18.9	31.3	29.7	-3.9	23.0
Total Expenditure	14,796	14,677	14,673	17,488	18,439	18,527	19,296	20,659	61,634	76,920
EBITDA	**6,222**	**5,530**	**1,699**	**2,089**	**5,542**	**5,503**	**2,204**	**4,734**	**15,540**	**17,984**
Margins (%)	29.6	27.4	10.4	10.7	23.1	22.9	10.3	18.6	20.1	18.9
Depreciation	935	962	911	1,119	1,125	1,158	1,199	1,236	3,927	4,719
Interest	127	141	162	137	253	271	253	252	568	1,030
Other Income	609	497	581	1,138	669	771	944	1,116	2,825	3,500
PBT before EO Item	**5,769**	**4,924**	**1,207**	**1,970**	**4,834**	**4,845**	**1,695**	**4,362**	**13,870**	**15,735**
EO Income/(Expense)	0	0	228	1,337	0	0	617	0	1,565	617
PBT after EO Item	**5,769**	**4,924**	**1,435**	**3,306**	**4,834**	**4,845**	**2,312**	**4,362**	**15,435**	**16,352**
Tax	1,717	1,435	435	647	1,327	1,479	637	1,259	4,234	4,701
Rate (%)	29.8	29.1	30.3	19.6	27.5	30.5	27.5	28.9	27.4	28.8
Reported PAT	**4,051**	**3,489**	**1,000**	**2,659**	**3,507**	**3,366**	**1,676**	**3,103**	**11,200**	**11,651**
Adjusted PAT	**4,051**	**3,489**	**842**	**1,584**	**3,507**	**3,366**	**1,229**	**3,103**	**10,065**	**11,211**
Margins (%)	19.3	17.3	5.1	8.1	14.6	14.0	5.7	12.2	13.0	11.8
YoY Change (%)	0.1	-28.1	-80.7	-49.7	-13.4	-3.5	46.0	95.9	-38.6	11.4

E: MOSL Estimates

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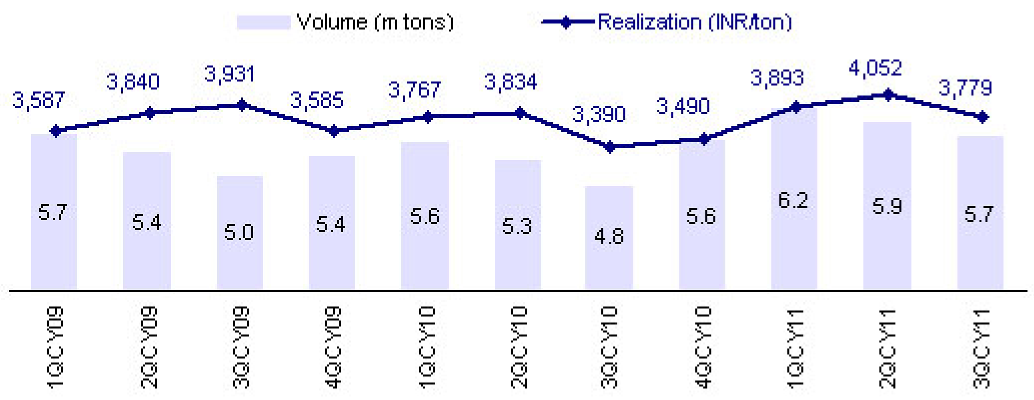
Strong volumes drive revenues

- ACC's 3QCY11 volumes grew by 17.8% YoY (-4% QoQ) to 5.69mt (v/s est 5.77mt), driven by ramp-up of new capacities at Wadi and Chanda.
- Realization improved by 11.5% YoY (-6.8% QoQ) to INR3,779/ton (v/s est INR3,772/ton).
- As a result net sales grew by 31% YoY (-10.5% QoQ) to INR24b.
- ACC Concrete, a 100% subsidiary, revenues grew 17% YoY to INR1.58b.

Trend in volumes and realizations

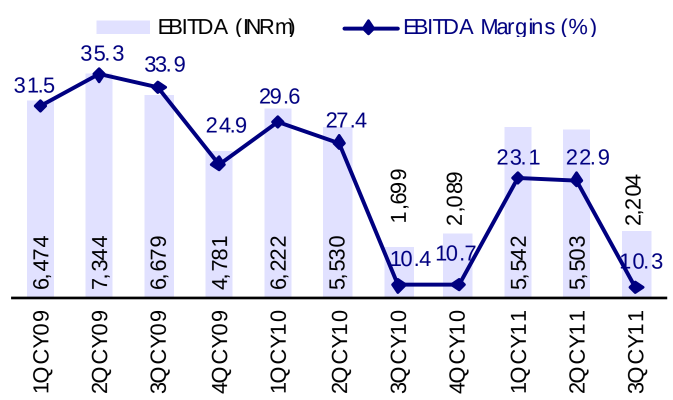


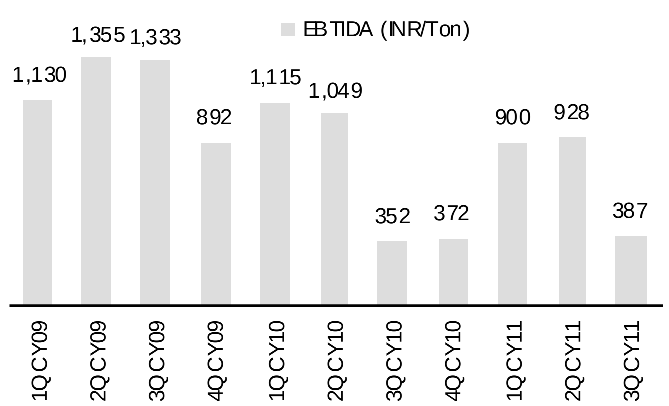
Source: Company/MOSL

Lower realizations, higher cost hurt profitability

- EBITDA declined by 60% QoQ (+30% YoY) at INR2.2b (v/s est INR3.15b), translating into EBITDA/ton of INR387 v/s INR928 in 2QCY11 (v/s est INR546).
- Costs were higher than estimates driven by 33% QoQ increase in RM cost/ton on account higher cost of gypsum, fly ash and higher freight on clinker transfer.
- It has written back sales tax of INR617m pertaining to prior period, which boosted reported PAT to INR1.68b. However, adjusted PAT grew by 46% YoY to INR1.22b.

Trend in EBITDA





Source: Company/MOSL

Key performance indicator (INR/ton)

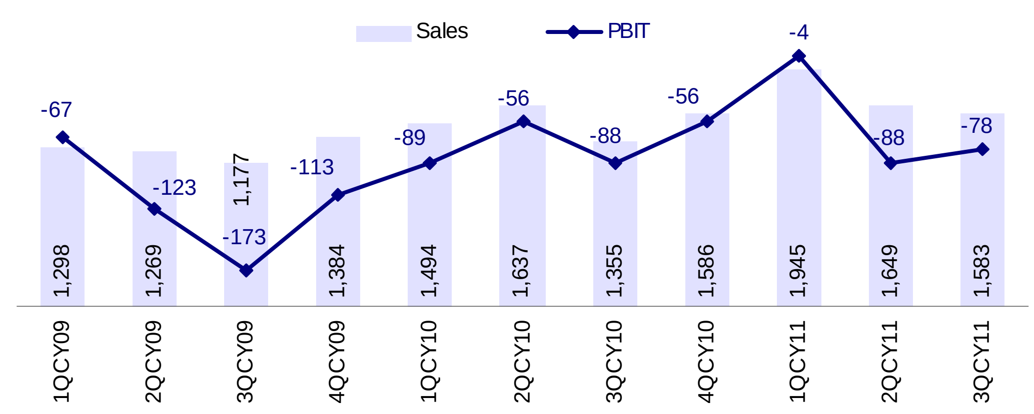
	3QCY11	3QCY10	YoY (%)	2QCY11	QoQ (%)
Net realization	**3,779**	**3,390**	**11.5**	**3,893**	**-2.9**
Expenditure					
Raw Materials	612	632	-3.2	589	3.9
Staff Cost	243	243	0.0	182	33.3
Power	971	748	29.7	777	25.0
Freight	585	467	25.3	559	4.7
Purchase of cement	63	53	17.5	80	-21.1
Other Expenditure	918	894	2.7	807	13.7
Total cost	**3,391**	**3,038**	**11.6**	**2,993**	**13.3**
EBITDA	**387**	**352**	**10.1**	**900**	**-56.9**

Source: Company/MOSL

RMC business continues to be loss making

- ACC's 100% RMC subsidiary witnessed widening of PBIT loss to INR78m (v/s INR88m in 2QCY11 v/s INR88m in 3QCY10).
- RMC revenues grew by 17% YoY to NR1.58b (4% QoQ decline).
- RMC business had aggressively invested in building the business, but slow down in volumes has impacted profitability.
- The company has taken several initiatives to turnaround RMC business, and focus in now on profitability rather than growth, as reflected in deferring of all expansion plans.

Trend in RMC business performance (INR m)



Source: MOSL

Outlook

"A pick-up in demand for cement is likely post monsoon with a similar impact on our despatches in the coming months; though we do not expect it to be very robust in view of concerns about a slowdown in economic growth. However in the long term we maintain a positive outlook for cement as we believe the fundamentals of the economy remain strong. The supply of domestic coal, our principal source of energy, has been grim, affecting cement as well as the power sector. The overall outlook for coal in terms of both availability and pricing is not favorable."

Valuation and view

- We are downgrading our EPS for CY11 by 5.5% to INR59.7, but maintain CY12 EPS at INR80.7. We are factoring in for volume growth of 13% in CY11 and 12% in CY12 for ACC. We are modeling in for realization improvement of INR12/bag QoQ in 4QCY11 and improvement of INR12/bag in CY12 over CY11 (+INR10/bag over 4QCY11 or similar to 1QCY12 realizations).
- After two years of muted volume growth, ACC will post robust volume growth of ~12% CAGR over the next two years, driven by new capacities.
- Allotment of coal blocks in MP (in a JV with the state) and West Bengal (in a consortium) offers option value.
- However, valuation at 14.2x CY12E EPS, 7.7x CY11E EV/ EBITDA and USD120/ ton (~30mt capacity) appears fair. Maintain **Neutral** with target price of INR1,227 (~8x CY12E EV/EBITDA).

ACC: an investment profile

Company description

ACC, part of Holcim group, is the largest standalone cement company in India with total capacity of 30m ton. It has pan-India presence with 16 plants. It is the oldest player in the Indian cement industry with ~10% market share.

Key investment argument

- Market leader with strong national presence with overall market share of 10%.
- High sensitivity to cement prices as every Re1/bag increase in cement price would increase CY11E EPS by 3%.
- Focused on reducing power cost by setting up captive power plants.

Key investment risks

- Very limited scope to increase production through blending as 85% of cement sold is blended.
- Limited scope to saving cost, as location restricts usage of imported coal to ~15%

Sector view

- Although sector would continue to be plagued by over-capacity at least till Dec-11 and expect volatility in cement prices and cement companies' performance over next 6-9 months.
- However, we believe we have already witnessed bottom-of-the-cycle utilization & profitability, and it should gradually improve hereon given sustainable demand drivers.
- Next 6-9 months to witnessed increased level of volatility in cement prices

Recent development

- Nil

Valuation and view

- Valuations at 14.2x CY12E EPS, 7.7x CY11E EV/EBITDA and US$120/ton (~30mt capacity) appears fair.
- Maintain **Neutral** with target price of INR1,227 (~8x CY12E EV/EBITDA).

Comparative valuations

		ACC	Ambuja Cements	UltraTech Cement
P/E(x)	CY11E	19.5	19.9	14.1
	CY12E	14.2	14.8	11.2
P/BV(x)	CY11E	3.1	3.0	2.5
	CY12E	2.8	2.6	2.1
EV/Ton (US$)	CY11E	127	159	128
	CY12E	120	153	101
EV/EBITDA(x)	CY11E	10.7	11.3	7.8
	CY12E	7.7	8.4	6.2

Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	50.5	50.5	46.4
Domestic Inst	14.5	15.2	18.1
Foreign	16.6	15.7	15.4
Others	18.5	18.8	20.1

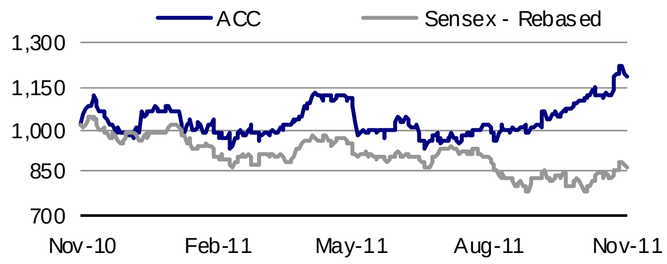
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
CY11	59.7	59.5	0.6
CY12	80.7	68.3	18.1

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
1,184	1,227	3.6	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement (INR Million)

Y/E December	CY08	CY09	CY10	CY11E	CY12E
Net Sales	**72,829**	**80,272**	**77,173**	**94,904**	**112,759**
Change (%)	5.8	10.2	-3.9	23.0	18.8
Total Expenditure	55,497	54,995	61,634	76,920	89,152
EBITDA	**17,332**	**25,277**	**15,540**	**17,984**	**23,608**
Change (%)	-9.7	45.8	-38.5	15.7	31.3
Margin (%)	23.8	31.5	20.1	18.9	20.9
Depreciation	-2,942	-3,421	-3,927	-4,719	-5,256
Int. and Fin. Charges	-400	-843	-568	-1,030	-750
Other Income - Rec.	2,887	2,404	2,825	3,500	3,750
PBT Before EO Item	**16,877**	**23,418**	**13,870**	**15,735**	**21,352**
EO Income/(Expense)	489	-474	1,565	617	0
PBT After EO Item	**17,366**	**22,944**	**15,435**	**16,352**	**21,352**
Tax	5,238	6,877	4,234	4,701	6,192
Tax Rate (%)	30.2	30.0	27.4	28.8	29.0
Reported PAT	**12,128**	**16,067**	**11,200**	**11,651**	**15,160**
Adjusted PAT	**11,787**	**16,399**	**10,065**	**11,211**	**15,160**
Change (%)	-7.9	39.1	-38.6	11.4	35.2
Margin (%)	16.2	20.4	13.0	11.8	13.4

Balance Sheet (INR Million)

Y/E December	CY08	CY09	CY10	CY11E	CY12E
Share Capital	1,879	1,880	1,880	1,880	1,880
Reserves	47,399	58,282	62,815	68,969	78,081
Net Worth	**49,277**	**60,162**	**64,695**	**70,848**	**79,961**
Loans	4,820	5,669	5,238	3,000	3,000
Deferred Tax Liability	3,358	3,493	3,615	3,861	4,181
Capital Employed	**57,456**	**69,324**	**73,548**	**77,709**	**87,142**
Gross Block	58,357	68,263	81,431	100,059	106,059
Less: Accum. Depn.	23,660	26,680	30,607	35,325	40,581
Net Fixed Assets	**34,697**	**41,583**	**50,824**	**64,734**	**65,478**
Capital WIP	16,029	21,562	15,628	3,000	3,000
Investments	6,791	14,756	17,027	24,133	33,940
Curr. Assets, Loans&A	**27,352**	**22,562**	**27,533**	**28,744**	**34,152**
Inventory	7,933	7,790	9,150	10,400	12,357
Account Receivables	3,102	2,037	1,783	2,600	3,089
Cash and Bank Balance	9,842	7,464	10,800	9,100	10,813
Others	6,475	5,271	5,801	6,643	7,893
Curr. Liab. and Prov.	**27,413**	**31,139**	**37,464**	**42,902**	**49,429**
Account Payables	14,340	16,334	17,730	19,501	23,170
Other Liabilities	3,434	3,305	3,209	3,900	4,634
Provisions	9,639	11,500	16,525	19,501	21,625
Net Current Assets	**-61**	**-8,578**	**-9,931**	**-14,158**	**-15,277**
Application of Funds	**57,456**	**69,324**	**73,548**	**77,709**	**87,142**

E: MOSL Estimates

Ratios

Y/E December	CY08	CY09	CY10	CY11E	CY12E
Basic (INR)					
EPS	**62.7**	**87.2**	**53.6**	**59.7**	**80.7**
Consolidated EPS	**57.9**	**84.7**	**52.0**	**60.9**	**83.5**
Cash EPS	78.4	105.4	74.4	84.8	108.6
BV/Share	262.2	320.1	344.3	377.0	425.5
DPS	20.0	23.0	30.5	25.0	27.5
Payout (%)	37.3	30.9	66.6	49.0	39.9
Valuation (x)					
P/E			22.7	19.5	14.2
Cash P/E			15.9	14.0	10.9
EV/Sales			2.6	2.0	1.6
EV/EBITDA			12.9	10.7	7.7
P/BV			3.4	3.1	2.8
Dividend Yield			2.6	2.1	2.3
EV/ton (US$-Cap)			132	127	120
Return Ratios (%)					
RoE	26.0	30.0	16.1	15.8	19.0
RoCE	27.3	34.5	16.3	17.1	21.1
Working Capital Ratios					
Debtor (Days)	16	9	8	10	10
Asset Turnover (x)	1.3	1.2	1.0	0.8	0.8
Leverage Ratio					
Debt/Equity (x)	0.1	0.1	0.1	0.0	0.0

* EPS numbers are annualized.

Cash Flow Statement (INR Million)

Y/E December	CY08	CY09	CY10	CY11E	CY12E
OP/(Loss) before Tax	19,021	25,277	15,540	17,984	23,608
Interest/Dividends Recd.	1,164	2,404	2,825	3,500	3,750
Direct Taxes Paid	-3,184	-6,742	-4,112	-4,456	-5,872
(Inc)/Dec in WC	758	6,138	4,690	2,527	2,831
CF from Operations	**17,759**	**27,077**	**18,943**	**19,555**	**24,317**
EO Income/(Expense)	489	-474	1,565	-617	0
CF from Op. incl EO Ex	**18,247**	**26,604**	**20,507**	**20,172**	**24,317**
(inc)/dec in FA	-13,762	-15,840	-7,234	-6,000	-6,000
(Pur)/Sale of Investments	894	-7,966	-2,270	-7,106	-9,808
CF from Investments	**-12,868**	**-23,806**	**-9,505**	**-13,106**	**-15,808**
Issue of Shares	14	-123	40	0	0
(Inc)/Dec in Debt	1,756	849	-431	-2,238	0
Interest Paid	-403	-843	-568	-1,030	-750
Dividend Paid	-4,339	-5,059	-6,707	-5,357	-5,892
CF from Fin. Activity	**-2,971**	**-5,177**	**-7,666**	**-8,625**	**-6,642**
Inc/Dec of Cash	**2,408**	**-2,379**	**3,336**	**-1,559**	**1,867**
Add: Beginning Balance	7,435	9,842	7,464	10,800	9,100
Closing Balance	**9,842**	**7,464**	**10,800**	**9,100**	**10,813**

N O T E S

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