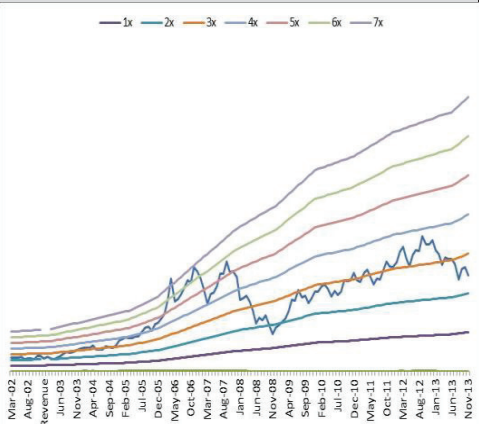


Company update			
CMP	1040		
Target Price	1234		
Previous Target Price	NA		
Upside	18%		
Change from Previous	NA		
Market Data			
BSE Code	500410		
NSE Symbol	ACC		
52wk Range H/L	1454/912		
Mkt Capital (Rs Crores)	19542		
Average Daily Volume (Nos.)	9771		
Nifty	5989		
Stock Performance-%			
	1M	1yr	YTD
Absolute	-0.4	-18.0	-14.0
Rel. to Nifty	-11.4	-25.0	-26.0
1 yr Forward P/B			
	3QFY13	2QFY13	1QFY12
Promoters	50.3	50.3	50.3
FII	20.9	19.5	20.0
DII	11.9	11.7	10.6
Others	16.9	18.6	19.2
1 yr Forward P/B			
			
Source - Comapany/EastWind Research			

ACC's Q3CY13 results were impacted mainly by high cost pressure coupled with poor off take in demand. The consolidated topline (including RMC business) declined marginally by 1.3% YoY to 2508.6 Cr (our estimate: 2,600.3 Cr). Operating margins fell YoY to 9.0% on account of high raw material & employee costs. As a result, net profit for the quarter declined sharply by 50.9% YoY to 118.9 Cr. Comparing with our estimates, **the performance of the cement division remained subdued with sales volumes and realizations of 5.54 MT and 4528/ton**, respectively. On the cost side, the **Raw Material cost increased 27% YoY to 789/ton**. Employee cost also increased sharply by 13.1% to 311/ton. Power & fuel costs fell 4.1% YoY to 1,007/ton, aided by a fall in international coal prices during the quarter. With higher cost increase coupled with lower revenues, the **EBITDA/ton for the quarter declined sharply by 47.7% to 407/ton**. Revenues from the RMC segment declined marginally by 1.5% QoQ to 162.4 Cr. The OPM fell by 763bp yoy to 11.1%, primarily due to a steep fall in realization and increase in raw material and freight costs.

Despite moderate growth in dispatches and substantial savings on fuel costs, ACC saw their profits sink in the July September period mainly due to sharp drop in cement prices and freight cost. **In the North, supply shortages of sand restricted construction activity. Overall, the extended monsoon in some parts of the country and drying-up of orders from infrastructure projects are also reasons for lower growth.**

After September the cement price has corrected 30 to 40 per bag to touch 275 level. We believe in festive seasons the cement price can be go up to 300/50-kg bag. In South India, a market where price discipline is usually observed, prices dropped as players tried hard to drive better volumes. But **off take was muted over the state agitation in the Telangana region, which brought construction activities to a standstill in Andhra Pradesh**, the largest market in the South.

Though international coal price have dropped sharply, **ACC still facing heat from high prices of input such as limestone, gypsum, fly ash.** Acc saw its cost of material consumed rise to 20% of sales, up from 14 % in corresponding quarter last year

The railways have introduced a busy-season surcharge of 15 per cent in September and many road transporters, too, are said to have increased transport charges. Therefore, a revival in profit growth now hinges mainly on better realizations.

Orders from infrastructure projects cleared by the Cabinet Committee on Investments recently may also take time to flow in. The profit picture for cement companies may not look up in a hurry. Cost pressure is likely to continue for cement players in the near term.

The company is **replacing the existing facilities at Jamul, Chhattisgarh with a clinker plant with an annual production capacity of 2.8 MT and local grinding capacity of 1.1 MT** of cement. At the same time, ACC plans to expand the grinding capacity at Sindri, Jharkhand to 1.35 MT of cement while a new plant with annual capacity of 2.7 MT is scheduled to be built in Kharagpur. **Construction plans at both these locations are progressing well.** With the commissioning of these, the company's total cement production capacity will increase to 35 MT from existing 30 MT by FY15F

Around **51% of ACC's total capacity is located in states where either cement supply is less than demand or, if it is more, the excess can economically be supplied to nearby supply-deficit states. Hence, all its capacities can rationally achieve higher utilization.** Its entire south India plant capacity is in Karnataka and Tamil Nadu, where the demand-supply dynamics are far better than that in Andhra Pradesh.

ACC Limited.

Going ahead, we expect power & fuel cost to be lower for the company, as it currently has 85% self-sufficiency in its power requirement with a 361MW captive power plant (CPP), and access to the highest coal linkage in the industry along with few captive coal blocks

We expect ACC to register a 5.8% yoy growth in its top-line Revenue over CY2013-14. FY13E is going to remain a challenging year due to slowdown in demand, rise in cost pressure and inability to fully pass on the hike to consumers. Considering this, we expect CY13E EBITDA to decline 25% YoY to 618/ton. However, we expect the EBITDA/ton to improve in CY14E with higher growth in realization/ton than the growth in cost. Ambuja Cements which would become the holding company of ACC post the completion of its deal with Holcim has indicated that it would acquire an additional 10% stake in ACC, which would be favorable for ACC's stock price. **We recommend "Buy" on the stock with a target price of 1,234.**

	FY10	FY11	FY12	FY13E	FY14E
SALES VOLUME	21.3	23.7	24.1	24.1	27.6
NET REALIZATION	3630	4043	5466	4577	4942
TOTAL EXPENDITURE	2899	3324	3741	4082	4325
RAW MATERIAL	1397	1572	1784	1997	2209
POWER FUEL	1610	2199	2384	2384	2384
EMPLOYEE	498	574	618	618	618
FREIGHT	1126	1940	2219	2219	2219
OTHERS	2084	2031	2157	2157	2157

Source - Comapany/EastWind Research

	FY11	FY12	FY13E	FY14E
PE	16.7	16.8	20.8	16.9
EV to EBITDA	11.5	9.5	12.9	9.1
EV/Ton	108	106	110	109
P/B	3.1	3.6	2.6	2.5
ROCE	15.2	12.3	10.7	16.5

Source - Comapany/EastWind Research