

ACC Limited.

Margin a Bit

"Buy"

23th Sep' 13

Company update

CMP	1122
Target Price	1235-1281
Previous Target Price	NA
Upside	~10%
Change from Previous	NA

Market Data

BSE Code	500410
NSE Symbol	ACC
52wk Range H/L	1514/912
Mkt Capital (Rs Crores)	21069
Average Daily Volume (Nos.)	10534
Nifty	6012

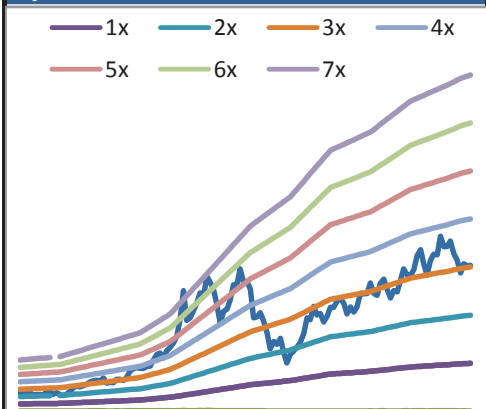
Stock Performance-%

	1M	1yr	YTD
Absolute	-0.4	-18.0	-14.0
Rel. to Nifty	-11.4	-25.0	-26.0

Share Holding Pattern-%

	2QFY13	1QFY13	4QFY12
Promoters	50.3	50.3	50.3
FII	19.5	20.0	20.0
DII	11.7	10.6	10.4
Others	18.6	19.2	19.4

1 yr Forward P/B



Source - Comapany/EastWind Research

Gradual Recovery After A Steep Fall :

The lower than expected demand growth in 1st Half of FY2013-14 (below 6%) and the continued deterioration in the macro-economic environment, we expect the demand growth of ACC cement to remain flattish in 3rd Quarter to marginally positive in Q4FY2013-14. However, the utilization levels will decline due to stabilization of supply from new capacities, owing to insufficient demand in the domestic market so as the NPM% and topline figure will come down for this fiscal.

We don't see any negative impact on Acc of the recent 25 basis points hike in the policy rate. Because company has very low debts. Meanwhile, we believe the topline sales of the company will grow by 2 % to Rs 119.1 billion in the FY13-14 as compared to Rs 116.2 billion in the last fiscal. This flat topline growth, coupled with low demand, Inflation rate, Input costs, High Interest costs, and flat housing and construction activities. Cement demand emanates from four key segments like housing accounting for 67%, construction accounting for 13%, commercial construction for 11% and the industrial sector for rest 9%. However, Acc Ltd is maintaining its contribution toward India's cement Production demand at 9.24%. Acc has been confronting severe problems on adequate demand, availability of input materials and logistic supports. Due to low debt there may be, a steep 40% yearly drop in the finance cost of the company against Rs 115cr in last FY. The crude prices and the expected hike in diesel prices would put pressure on cost side in terms of higher freight cost, and power and fuel cost. Due to low Sales the ROE% may see a level lower than the previous fiscal at the end of this year. In the 1H FY2013-14 Acc witnessed a weak demand, we believe the 2QFY2013-14 passed through a worst condition due to the Early Monsoon in addition with higher inflation rate and poor economy. But in the coming months the cement industry may face a growth of around 5% due to the 12th five year plan of govt. on infrastructure and recent election outlook.

Financials :

Acc's PAT margin faced a steep fall in 2QFY2013-14 to 8.9% against 12.3% in 1Q due to weak demand and rising input cost. PAT declined QoQ to 38% which is 259Cr against 418Cr in corresponding quarter. EBITDA fall around 29% where Operating profit Margin declined to 12.1% against 19.1%. The current economic situation support the fall in topline adding to that the early monsoon in India impact the cement demand a bit. Currently Acc stepping forward with 65-75% of its total capacity. Hoping for a rise in demand after the monsoon Acc preparing itself to enter into new markets by more qualitative product and expanding its capacity as well as market to have a better command over the forthcoming demand. we believe the pre election effect also support the demand for acc to 5% YoY. Also Ambuja's deal may bring a supportive synergy for Acc by expanding its rich over distributional channels and better logistic support.



ACC Limited.

News :

The Cabinet Committee on Investment (CCI) iron out issues that come in the way of putting infrastructure projects on stream cleared at least seven projects worth of Rs1,64,000 crore.

The government plans to spend US\$ 1 trillion on infrastructure in the 12th five year plan period (2012-17). The same during the 11th plan period was US\$ 514 bn. The focus on infrastructure development is expected to boost cement demand.

ACC Ltd is planning to invest Rs 30bn to expand its capacity, at two existing plants – Jamul in Chhattisgarh and Sindri in Jharkhand, the projects will be financed through internal accrual.

To regain its lost market in West Bengal the company is now setting up a Rs 600-crore grinding unit near Kharagpur.

Acc Ltd. Aims to enter the north coastal Andhra Pradesh market through its product “Coastal Plus” particularly suited to coastal areas as it is corrosion-proof.

The company had acquired a small cement (Encore) in the Vishakhapatnam Special Economic Zone and spent Rs.80 on it, making it a 30000ton per month.

Acc is afoot ahead to rope in franchise manufactures to produce Bricks from Fly-ash by keeping in tune with its capacity expansion in the eastern region. Truly a wide range of product Basket will give more business avenues to dealers.

Out Look :

Due to weak Demand for cement industry in the first half Acc couldn't able to achieve the expected sales pattern.we believe keeping in mind the forth coming two quarter's growth will not be able to satisfy the expected sales growth of Acc.By QE we find the ROE to be declining YoY. How ever the revenue may rise after the september quarter.Acc future plans must help the revenue to overcome the worst situations,its capacity expansion and expected synergy gain will help to maintain a stable position in the cement industry in the coming years. Cement industry has faced severe increase in input prices with a 100 per cent increase in high grade coal prices since 2010. Oil prices and freight charges are also impacting negatively. ACC will have to pass on cost burden to customers. Prices may go up 10-15 per cent depending on seasonality. Capacity expansion is under the process,it will take acc to 33 mt from 30mt production. Acc 's market share is 10% in total cement industry,vision is to double its revenue ,production capacity and market share.**However, given the lack of any triggers for re-rating in the near term, it is advisable to remain very selective. We prefer UltraTech Cement due to its strong balance sheet. We rate ACC as Neutral with target price of Rs.1235-1281.**

Financial Summary

Year end Sales December	Sales Cr	YoY %	EBIDTA Cr	YoY %	NP Cr	YoY %	EPS Rs	P/E x	P/B x	ROE %	Div Yield %
FY2009-10	8721.6		2466.2		1563.9		83.3	10.5	2.7	26.0	2.6
FY2010-11	8619.3	-1.2	1544.0	-37.4	1077.5	-31.1	57.4	18.7	3.1	16.7	2.8
FY2011-12	10428.2	21.0	1921.2	24.4	1289.8	19.7	68.7	16.5	3.0	17.9	2.5
FY2012-13	11621.5	11.4	2196.6	14.3	1049.8	-18.6	73.8	19.4	3.6	18.8	2.1
FY2013-14Exp	11905.3	2.4	2095.5	-4.6	1196.6	14.0	63.7	19.4	3.0	15.5	2.4

Source - Comapany/EastWind Research

	2009-10	2010-11	2011-12	2012-13	2013-14E
Revenue	8722	8619	10428	11621	11905
EBITDA	2466	1544	1921	2197	2096
PAT	1564	1078	1290	1050	1197
Net Worth	6016	6469	7192	7383	7724
ROE%	26.0	16.7	17.9	18.8	15.5
NPM %	17.9	12.5	12.4	11.9	10.1
OPM %	24.0	13.0	13.5	14.0	12.7
EBITDA %	28.3	17.9	18.4	18.9	17.6
P/B	2.7	3.1	3.0	3.6	3.0
CMP (INR)	872	1076	1136	1429	1235

Source - Comapany/EastWind Research

	1QFY13	2QFY13	3QFY13E	4QFY13E
Revenue	2991	2886	2683	3345
EBITDA	492	489	516	599
PAT	370	259	249	318
Net Worth	7488	7567	7646	7724
ROE%	4.9	3.4	3.3	4.1
NPM %	12.4	9.0	9.3	9.5
OPM %	11.8	12.1	13.8	13.0
EBITDA %	16.4	17.0	19.2	17.9
P/B	3.1	3.0	2.5	3.1
CMP (INR)	1237.0	1223.0	1004.1	1281.0

Source - Comapany/EastWind Research

Cost %	2009-10	2010-11	2011-12	2012-13	2013-14E
Cost Of Projects %	13.43	16.91	15.35	15.71	15.85
Employee expence %	4.73	6.03	5.61	5.44	5.83
Other Expenses %	21.58	25.23	19.84	18.99	19.90
Power and fuel Exp%	18.29	19.50	21.48	20.99	21.36
Freight Exp%	12.89	13.63	18.95	19.53	20.56

Source - Comapany/EastWind Research

Ratios	2009-10	2010-11	2011-12	2012-13	2013-14E
Market Cap	16362	20194	21334	26836	23183
EV	15608	19108	19675	26156	23183
P/E	10.46	18.74	16.54	19.37	19.37
EV/EBIDTA	6.33	12.38	10.24	11.91	11.06
Dividend Yield%	2.64	2.84	2.46	2.10	2.43
ROE%	26.00	16.66	17.93	18.76	15.49
EPS	83.30	57.39	68.70	73.78	63.74

Source - Comapany/EastWind Research