

Institutional Equities
 India Research

ACC
QUARTERLY REVIEW

 Bloomberg: ACC IN
 Reuters: ACC.BO

BUY

Cost pressure & weak realization dents profitability in 4QCY12; Better days ahead

ACC reported standalone sales, EBITDA & PAT growths of +24%, -10% & -1% YoY during 4QCY12. The top-line growth was mainly bloated by the amalgamation impact of the ACC Concrete financials for the full year being added in the fourth quarter in the standalone financials. Adjusted for non cement business, net sales, EBITDA declined & PAT grew +4%, -12% and +5% YoY. For the full year, net sales, EBITDA & PAT rose 13%, 18% & 23% YoY. Operational results disappointed us as the cement EBITDA came in 10% below our estimates.

Higher employee costs, freight cost & sales promotion impact profitability:

Cement sales volume rose 10% QoQ while realisation dipped 4% QoQ. However, EBITDA per MT declined 24% QoQ to Rs657 per MT (our est Rs719) as operating costs surged QoQ. Adjusted off for concrete sales, employee cost shot up ~30% QoQ and transportation cost surged by 17% QoQ much ahead of sales volume growth of 10% QoQ. Other expenses rose by 13% QoQ in-line with sales volume growth implying higher discounts & other promotional expenses during the quarter to boost sales. Thereafter, lower taxes boosted the cement PAT +5% YoY.

Maintain BUY recommendation on improving return ratios: We trim our CY13E sales volume estimates by ~3% YoY as we factor in ACC's volume growth should only marginally improve YoY during CY13-14E. As ACC has no new capacity additions in CY13-14E, it will lag industry growth of 7-9% during these two years. However, we expect the demand improvement should help the cement majors including ACC to register realization growths ahead of the cost pressure thereby helping its EBITDA/PAT CAGR of 17%/20% and its RoE/RoCEs expansion by ~450bps during CY11-14E. We lower our CY13E EBITDA & PAT estimates by 11% & 13% and introduce CY14E estimates. *We re-iterate BUY with a TP of Rs1602 (earlier Rs1730) valuing the company at 9x its Jun'14E EBITDA (replacement cost of US\$170 per MT).* **Key triggers:** Pick-up in demand & prices over next six months.

Financial Summary (Standalone)

Y/E Dec (Rs mn)	CY10	CY11	CY12P	CY13E	CY14E
Net Sales	79,758	95,986	113,600	127,384	142,266
EBITDA	18,124	18,590	21,956	26,340	30,244
EBITDA margin (%)	22.7	19.4	19.3	20.7	21.3
PAT (Rs)	10,380	10,355	12,859	15,360	17,910
EPS (Rs)	55.2	55.1	68.4	81.7	95.3
RoE (%)	16.6	15.2	17.4	19.2	20.0
RoCE (%)	14.8	14.1	15.9	17.5	18.5
P/E (x)	22.8	22.8	18.4	15.4	13.2
EV/EBITDA (x)	11.2	11.2	9.3	7.4	6.1

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs1,258
Target Price:	Rs1,602
Upside (%)	27%

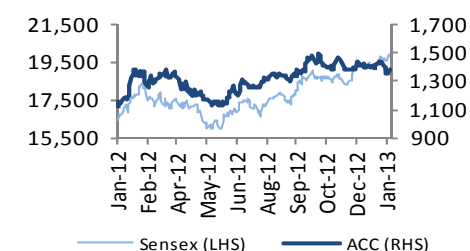
Stock Information

Market Cap. (Rs bn / US\$ mn)	236/4,399
52-week High/Low (Rs)	1,545/1,104
3m ADV	Rs396/ US\$4
Beta	0.8
Sensex/Nifty	19,461/5,898
Share outstanding (mn)	188

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(7.6)	(13.4)	2.0	(12.2)
Rel. to Sensex	(6.6)	(16.9)	(14.8)	(12.3)

Performance



Source: Bloomberg, Karvy Institutional Research

Analysts Contact

Rajesh Kumar Ravi
 022 6184 4313
 rajesh.ravi@karvy.com

Quarterly Performance Analysis

Exhibit 2: ACC's Q4CY12 and Full year financial performance trends

Financials (Rs mn)	Dec-11	Sep-12	Dec-12	YoY (%)	QoQ (%)	CY11	CY12	YoY (%)
Net Sales	25,552	24,739	31,796	24.4	28.5	95,986	113,580	18.3
Total Expenditure	21,134	20,095	27,817	31.6	38.4	77,396	91,623	18.4
Raw Materials	8,364	7,847	13,763	64.5	75.4	13,121	17,843	36.0
Power and Fuel	5,837	5,666	5,355	(8.3)	(5.5)	21,833	23,822	9.1
Employee	1,575	1,405	2,084	32.3	48.3	5,304	6,167	16.3
Transport	4,941	4,877	6,057	22.6	24.2	17,625	22,422	27.2
Others	5,140	5,086	6,379	24.1	25.4	19,512	21,370	9.5
EBITDA	4,418	4,644	3,979	(9.9)	(14.3)	18,590	21,956	18.1
<i>EBITDA margins (%)</i>	<i>17.3</i>	<i>18.8</i>	<i>12.5</i>	<i>(478)</i>	<i>(626)</i>	<i>19.4</i>	<i>19.3</i>	<i>(4)</i>
Other Income	458	546	661	44.4	21.0	1,919	2,648	38.0
Depreciation	1,270	1,352	1,575	24.0	16.5	4,753	5,589	17.6
EBIT	3,605	3,838	3,064	(15.0)	(20.2)	15,756	19,015	20.7
<i>EBIT margins (%)</i>	<i>14.1</i>	<i>15.5</i>	<i>9.6</i>	<i>(447)</i>	<i>(588)</i>	<i>16.4</i>	<i>16.7</i>	<i>33</i>
Interest	192	257	273	42.2	6.1	969	1,147	18.3
Taxes	989	1,094	400	(59.6)	(63.5)	4,228	5,010	18.5
Net Profits	2,425	2,487	2,392	(1.3)	(3.8)	10,560	12,859	21.8
<i>PAT margins (%)</i>	<i>9.5</i>	<i>10.1</i>	<i>7.5</i>	<i>(197)</i>	<i>(253)</i>	<i>11.0</i>	<i>11.3</i>	<i>32</i>
EPS (Rs)	12.9	13.2	12.7	(1.3)	(3.8)	56.2	68.5	21.8

Source: Company, Karvy Institutional Research

Exhibit 3: Key Financials & operational trend (Stand-alone) - with the amalgamation impact of ACC Concrete removed

Adjusted Operational data (Rs mn)	Dec-11	Sep-12	Dec-12	YoY (%)	QoQ (%)	Dec-11	Dec-12	YoY (%)
Sales	25,552	24,739	26,460	3.6	7.0	95,986	108,244	12.8
Opex	21,134	20,095	22,559	6.7	12.3	77,396	86,365	11.6
EBITDA	4,418	4,644	3,901	(11.7)	(16.0)	18,590	21,879	17.7
<i>OPM (%)</i>	<i>17.3</i>	<i>18.8</i>	<i>14.7</i>	<i>(255)</i>	<i>(403)</i>	<i>19.4</i>	<i>19.3</i>	<i>(4)</i>
PAT	2,425	2,487	2,537	4.6	2.0	10,560	13,004	23.1
PAT margin (%)	9.5	10.1	9.6	10	(46)	11.0	11.3	32
Sales volume (mn MT)	5.9	5.4	5.9	0.8	10.0	23.7	24.25	2.1
Net sales realization (Rs/MT)	4,242	4,502	4,319	1.8	(4.1)	3,974	4,385	10.3
Opex (Rs/MT)	3,588	3,721	4,683	30.5	25.8	3,260	3,778	15.9
EBITDA (Rs/MT)	750	860	670	(10.7)	(22.1)	783	905	15.6

Source: Company, Karvy Institutional Research

Key operational assumptions & estimates

We factor in 4% volume growth during CY13-14E period which is slightly better than its CY12E growth but lower than our industry growth expectations of 7-9% during the same period. However, we believe price discipline should sustain thereby helping the company pass on the rising transport cost pressure to the consumers. We do not factor in large volatility in fuel prices over the next two years.

Exhibit 4: Whilst ACC's volume growth should lag industry growth, supply discipline should help cost pass through thereby helping profit growths

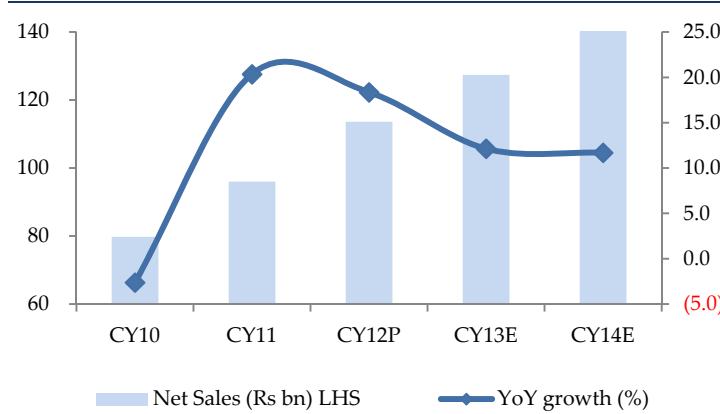
ACC	CY10	CY11	CY12P	CY13E	CY14E
Sales Volume (mn mt)	21.1	23.5	24.3	25.3	26.3
YoY Growth (%)	(1.7)	11.6	3.0	4.3	4.0
(Per mt)					
Net sales realisation	3,678	4,050	4,386	4,727	5,097
YoY Growth (%)	(2.5)	10.1	8.3	7.8	7.8
Raw material cost	487	531	736	760	831
YoY Growth (%)	8.4	9.1	38.6	3.3	9.3
Power and Fuel cost	758	927	983	1,029	1,095
YoY Growth (%)	5.7	22.4	6.1	4.6	6.4
Freight cost	576	708	791	848	906
YoY Growth (%)	17.4	22.8	11.8	7.2	6.8
Employee cost	219	223	254	260	268
YoY Growth (%)	27.8	2.0	13.9	2.4	2.8
Other Expenses	884	903	1,015	1,096	1,158
YoY Growth (%)	16.5	2.2	12.4	8.0	5.6
Opex	2,920	3,287	3,559	3,772	4,033
YoY Growth (%)	13.1	12.5	8.3	6.0	6.9
EBITDA	859	789	905	1,041	1,149
YoY Growth (%)	(30.2)	(8.1)	14.7	15.0	10.4

Source: Company, Karvy Institutional Research

Maintain BUY recommendation on improving return ratios: We trim our CY13E sales volume estimates by ~3% YoY as we factor in ACC's volume growth should only marginally improve YoY during CY13-14E. As ACC has no new capacity additions in CY13-14E, it will lag industry growth of 7-9% during these two years. However, we expect the demand improvement should help the cement majors including ACC to register realization growths ahead of the cost pressure (led by rise in royalty cost & higher freight cost) thereby helping its EBITDA/PAT CAGR of 17%/20% and its return ratios expansion by ~450bps during CY11-14E.

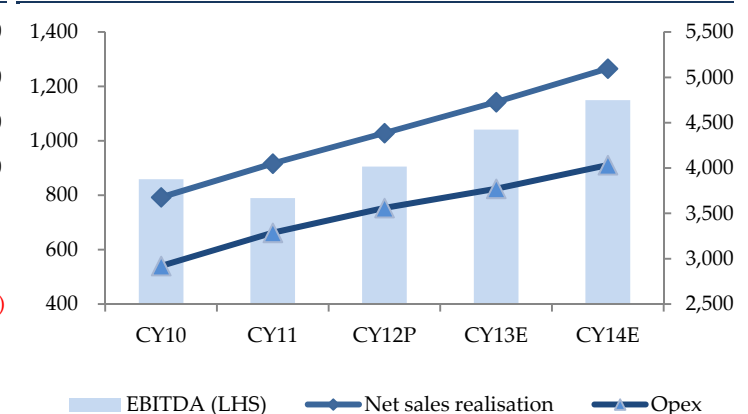
We have amalgamated the ACC concrete P&L. We have factored in zero EBITDA contribution from the concrete business in the standalone financials. However, the concrete business is strategic advantage as it helps ACC boost its non trade sales network. We lower our CY13E EBITDA & PAT estimates by 11% & 13% and introduce CY14E estimates. *We re-iterate BUY with a TP of Rs1602 (earlier Rs1730) valuing the company at 9x its Jun'14E EBITDA (replacement cost of US\$170 per MT).* **Key triggers:** Pick-up in demand & prices over next six months.

Exhibit 5: We expect Revenue CAGR of 12% during CY12-14E period driven by higher realization growth



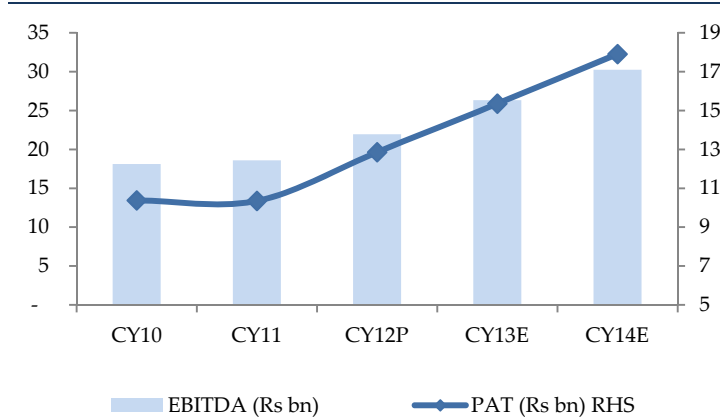
Source: Company, Karvy Institutional Research

Exhibit 6: Higher realization should drive better operational performance during CY13-14E periods



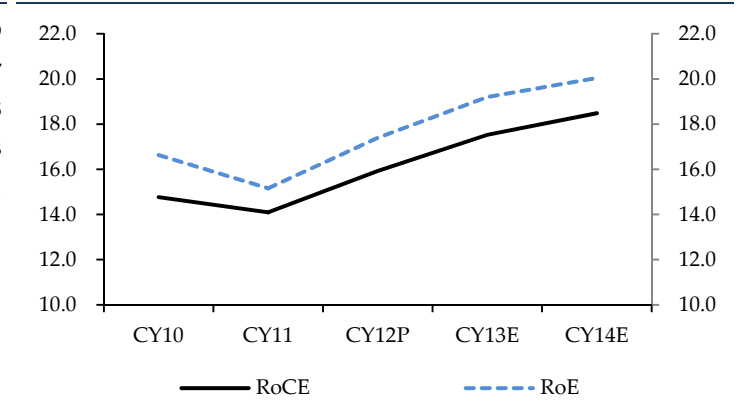
Source: Company, Karvy Institutional Research

Exhibit 7: EBITDA & PAT CAGR of 17% & 20% respectively during CY11-14E periods



Source: Company, Karvy Institutional Research

Exhibit 8: Return ratios (%) should expand led by rising EBITDA per MT during CY12-14E



Source: Company, Karvy Institutional Research

Exhibit 9: Profit & Loss Statement (Standalone)

Y/E Dec (Rs mn)	CY10	CY11	CY12P	CY13E	CY14E
Net Revenues	79,758	95,986	113,600	127,384	142,266
<i>% growth</i>	(2.6)	20.3	18.4	12.1	11.7
Operating expenditure	61,634	77,396	91,644	101,043	112,022
EBITDA	18,124	18,590	21,956	26,340	30,244
<i>% growth</i>	(31.5)	2.6	18.1	20.0	14.8
Depreciation	3,927	4,753	5,589	6,362	6,949
EBIT	14,198	13,837	16,368	19,978	23,295
Interest expenditure	568	969	1,147	1,080	1,132
Other income	985	1,919	2,648	3,045	3,423
PBT	14,615	14,787	17,869	21,943	25,586
Tax	4,234	4,432	5,010	6,583	7,676
Adjusted PAT / Net profit	10,380	10,355	12,859	15,360	17,910
<i>% growth</i>	(35.4)	(0.2)	24.2	19.4	16.6
EBITDA/mt (Rs)	859	789	905	1,041	1,149

Source: Company, Karvy Institutional Research

Exhibit 10: Balance Sheet (Standalone)

Y/E Dec (Rs mn)	CY10	CY11	CY12P	CY13E	CY14E
Cash & liquid investments	22,876	28,324	32,329	36,935	46,901
Debtors	1,783	2,604	3,112	3,490	3,898
Inventory	9,150	10,997	11,336	14,658	16,370
Loans & advances	6,239	5,903	6,200	6,200	6,200
Investments	3,951	4,451	8,037	8,037	8,037
Gross Block	80,770	96,454	102,414	110,374	120,334
Net Block	50,824	62,075	62,447	64,044	67,055
CWIP	15,628	4,353	6,000	9,000	9,000
Miscellaneous	2,285	1,895	2,033	2,792	2,914
Total assets	112,736	120,603	131,493	145,156	160,376
Current liabilities & provisions	37,464	36,644	43,565	49,171	53,986
Debt	5,238	5,107	5,061	5,014	4,765
Other liabilities	5,339	6,929	6,929	6,929	6,929
Total liabilities	48,041	48,680	55,555	61,114	65,680
Shareholders' equity	1,880	1,880	1,880	1,880	1,880
Reserves & surpluses	62,815	70,043	74,059	82,162	92,816
Total networth	64,695	71,923	75,938	84,042	94,696
Total networth & liabilities	112,736	120,603	131,493	145,156	160,376

Source: Company, Karvy Institutional Research

Exhibit 11: Cash Flow Statement (Standalone)

Y/E Dec (Rs mn)	CY10	CY11	CY12P	CY13E	CY14E
PBT	14,615	14,787	17,869	21,943	25,586
Depreciation	3,927	4,753	5,589	6,362	6,949
Interest	568	969	1,147	1,080	1,132
Tax paid	(760)	(4,164)	(7,544)	(5,010)	(6,583)
(Incr) / decr in net WC	1,036	781	3,039	(1,086)	1,480
Other income	(985)	(1,558)	(2,648)	(3,045)	(3,423)
Other non cash items	953	(412)	-	-	-
Cash flow from operating activities	19,354	15,157	17,452	20,245	25,140
(Incr) / decr in capital expenditure	(8,468)	(4,079)	(7,607)	(10,960)	(9,960)
(Incr) / decr in investments	(589)	(139)	(15,376)	(5,000)	(5,000)
Others	935	1,575	2,648	3,045	3,423
Cash flow from investing activities	(8,123)	(2,642)	(20,335)	(12,915)	(11,537)
Incr / (decr) in borrowings	(431)	(131)	(47)	(47)	(249)
Issuance of equity	1	-	-	-	-
Dividend paid	(5,002)	(6,825)	(3,710)	(6,597)	(7,256)
Interest paid	(781)	(728)	(1,147)	(1,080)	(1,132)
Cash flow from financing activities	(6,214)	(7,683)	(4,903)	(7,723)	(8,638)
Net change in cash	5,017	4,831	(7,786)	(393)	4,966

Source: Company, Karvy Institutional Research

Exhibit 12: Key Ratios

Y/E Dec (%)	CY10	CY11	CY12P	CY13E	CY14E
EBITDA margin	22.7	19.4	19.3	20.7	21.3
EBIT margin	19.7	16.7	17.0	18.4	19.1
Net profit margin	13.5	11.0	11.5	12.3	12.8
Dividend payout ratio	64.2	58.9	51.3	47.2	40.5
Net debt: equity	(0.3)	(0.32)	(0.4)	(0.4)	(0.4)
Working capital turnover	(3.9)	(5.6)	(4.9)	(5.3)	(5.3)
Gross block turnover	1.1	1.1	1.1	1.2	1.2
RoCE	14.8	14.1	15.9	17.5	18.5
RoIC	23.0	23.3	28.7	33.9	37.8
RoE	16.6	15.2	17.4	19.2	20.0

Source: Company, Karvy Institutional Research

Exhibit 13: Valuation Parameters

Y/E Dec	CY10	CY11	CY12P	CY13E	CY14E
EPS (Rs)	55.2	55.1	68.4	81.7	95.3
DPS (Rs)	30.5	28.0	30.0	33.0	33.0
Book value per share (Rs)	344	383	404	447	504
P/E (x)	22.8	22.8	18.4	15.4	13.2
P/BV (x)	3.7	3.3	3.1	2.8	2.5
EV/EBITDA (x)	11.2	11.2	9.3	7.4	6.1
EV/Sales (x)	2.6	2.2	1.8	1.6	1.3
EV/mt(USD)	135	139	135	130	124

Source: Company, Karvy Institutional Research

Institutional Equities Team

Rangachari Muralikrishnan	Head – Institutional Equities / Research / Strategy	+91-22 61844301	muralikrishnan@karvy.com
K. Anant Rao	Head - Sales-Trading & Derivatives	+91-22 61844303	k.anantrao@karvy.com
Uday Raval	Karvy Inc. USA	+1 212 2674334	udayr@karvy.com

INSTITUTIONAL RESEARCH

Analysts	Industry / Sector	Desk Phone	Email ID
Amey Chalke	Pharmaceuticals	+91 -22 61844325	amey.chalke@karvy.com
Dwaipayan Poddar	Chief Technical Strategist	+91-22 61844372	dwaipayan.poddar@karvy.com
Hatim Broachwala, CFA	Banking	+91-22 61844329	hatim.broachwala@karvy.com
Kruti Shah	Economist	+91-22 61844320	kruti.shah@karvy.com
Manoj Kumar Manish	Derivatives and Quant Analyst	+91-22 61844327	manojkumar.m@karvy.com
Maruti Kadam	Automobiles / Metals & Mining	+91-22 61844326	maruti.kadam@karvy.com
Mitul Shah	Automobiles	+91-22 61844312	mitul.shah@karvy.com
Naveen Trivedi	FMCG	+91-22-61844316	naveen.trivedi@karvy.com
Paresh Jain	BFSI	+91-22 61844324	paresh.jain@karvy.com
Parikshit Kandpal	Infra / Real Estate / Strategy	+91-22 61844311	parikshit.kandpal@karvy.com
Rahul Sharma	Pharmaceuticals	+91-22 61844310	rahul.sharma@karvy.com
Rahul Singh	MidCap	+91-40-44857911	rahulsingh@karvy.com
Rajesh Kumar Ravi	Cement & Logistics	+91-22 61844313	rajesh.ravi@karvy.com
Rupesh Sankhe	Power/Capital Goods	+91-22 61844315	rupesh.sankhe@karvy.com
Vinay Nair	Oil & Gas	+91-22 61844319	vinaynair@karvy.com

INSTITUTIONAL SALES

Dinesh Bajaj	Sales	+91-22 61844341	dinesh.bajaj@karvy.com
R. Sriram	Sales	+91-22 61844340	sriram.rangarajan@karvy.com
Shabbir Dahodwala	Sales (USA)	+1-212-2674334	shabbir@karvy.com
Tejash Gandhi	Sales	+91-22 61844345	tejash.gandhi@karvy.com

INSTITUTIONAL SALES TRADING & DEALING

Bhavesh Gandhi	Institutional Dealer	+91-22 61844368 /69	bhavesh.gandhi@karvy.com
Prashant Oza	Institutional Dealer	+91-22 61844370 /71	prashant.oza@karvy.com
Parag Shah	Sales Trader	+91-22 61844364 /65	parag.shah@karvy.com
Sriram Jagdish	Sales Trader	+91-22 61844366 /67	sriram.jagdish@karvy.com
Gurdarshan Singh Kharbanda	Sales Trader	+91-22-61844368 / 69	gurdarshansingh.k@karvy.com

PRODUCTION

Asim Kumar Mohapatra	Editor	+91-22 61844318	asim.mohapatra@karvy.com
Vijayalaxmi L. Moolya	Production	+91-22 61844328	vijayalaxmi.m@karvy.com

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

For further enquiries please contact:

research@karvy.com

Tel: +91-22-6184 4300

Disclosures Appendix

Analyst certification

The following analyst(s), who is (are) primarily responsible for this report, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

The information and views presented in this report are prepared by Karvy Stock Broking Limited. The information contained herein is based on our analysis and upon sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Karvy nor Karvy Stock Broking nor any person connected with any associate companies of Karvy accepts any liability arising from the use of this information and views mentioned in this document.

The author, directors and other employees of Karvy and its affiliates may hold long or short positions in the above mentioned companies from time to time. Every employee of Karvy and its associate companies are required to disclose their individual stock holdings and details of trades, if any, that they undertake. The team rendering corporate analysis and investment recommendations are restricted in purchasing/selling of shares or other securities till such a time this recommendation has either been displayed or has been forwarded to clients of Karvy. All employees are further restricted to place orders only through Karvy Stock Broking Ltd. This report is intended for a restricted audience and we are not soliciting any action based on it. Neither the information nor any opinion expressed herein constitutes an offer or an invitation to make an offer, to buy or sell any securities, or any options, futures nor other derivatives related to such securities.

Karvy Stock Broking Limited

Institutional Equities

Office No. 702, 7th Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.