

Weak Quarter

3rd Feb, 2015

CMP: Rs.1,510
Target Price: Rs.1,673
Recommendation: HOLD

Stock Info

| | |
|------------|--------|
| BSE Group | A |
| BSE Code | 500410 |
| NSE Symbol | ACC |
| Bloomberg | ACC.IN |
| Reuters | ACC.BO |
| BSE Sensex | 29,000 |
| NSE Nifty | 8,757 |

Market Info

| | |
|-------------------|-------------|
| Market Capital | Rs 28,392cr |
| Equity Capital | Rs 188cr |
| Avg. Trading Vol. | 3,59,900 |
| 52 Wk High/ Low | 1,592/986 |
| Face Value | 10 |

| | |
|--------------------------|------------|
| Shareholding Pattern (%) | (Dec 2014) |
| Promoters | 50.3 |
| Domestic Institutions | 15.6 |
| Foreign Institutions | 16.7 |
| Public & Others | 17.4 |

ACC's 4QCY14 operating performance came below estimates. Standalone EBITDA margins decreased by 404bps on YoY basis and stood at 8.9%. Volumes de-grew marginally by 2.4% on YoY basis and stood at 5.7mn tonnes. Realisations increased by 7.7% to Rs 4,879 per ton. However, on QoQ basis it was down marginally by 0.8%. Sharp increase in realizations on YoY basis indicates return of pricing power. We expect cement demand to increase by ~ 6-8% during next one year and realizations by ~10-12% on back of GOI emphasis on housing and infrastructure development.

ACC's witnessed 9.2% increase in its operating cost to Rs 4,526 per ton on YoY basis. Raw material cost per ton increased by 18.2% on YoY basis to Rs 906 per ton. Consequent to an order of the Supreme Court restraining mining under deemed extension of second and subsequent renewals of mining leases, limestone mining operations at Chailbasa and Bargarh plant remained suspended during the quarter resulting in the increase of Raw material cost. Selling and distribution expenses were up 10.6% on YoY basis due to higher marketing expenses. EBITDA per ton thus decreased sharply by 30.3% YoY to Rs 444 per ton.

Profit after tax increased by 16.4% YoY to Rs 324cr largely due to tax write-back of Rs 184 crs.

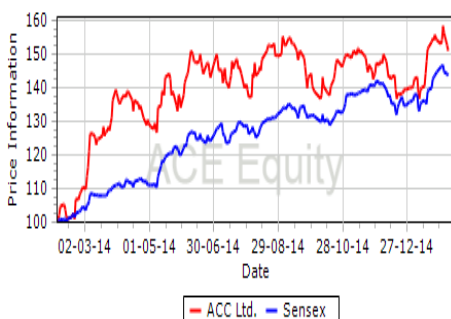
Valuations:

After new government elected to power we have started to see pricing power coming back to the manufacturers which makes us optimistic on the sector. Our optimism is based on revival in investment climate created by the current government. Going forward, we forecast ACC's margins to increase to 21.3% in CY16E. We have modeled for volume growth of 7% CAGR and realizations to increase by 12% CAGR over the next 2 years. We have valued stock on EV/EBITDA of 7.0(x) its CY16 estimates and have arrived at a fair value of Rs 1,673 per share. At CMP of Rs 1,511 the stock is available at CY16E P/E(x) and EV/EBITDA(x) of 11.8x and 6.3x, respectively at which valuations looks attractive in our view. We recommend **HOLD** rating on the stock.

Financials:

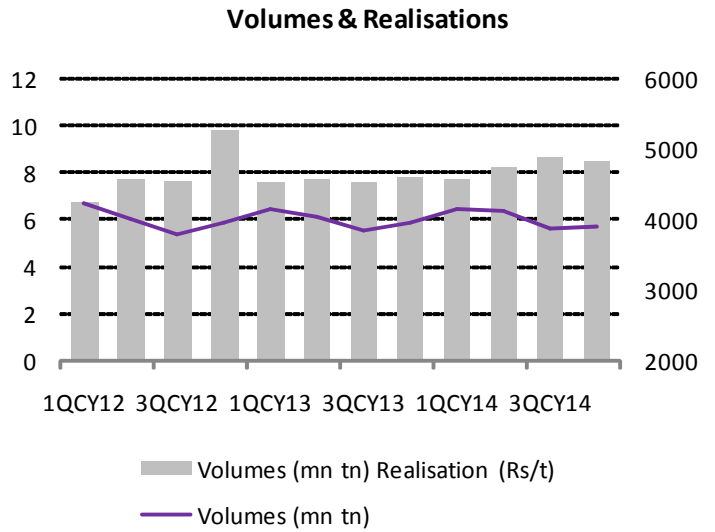
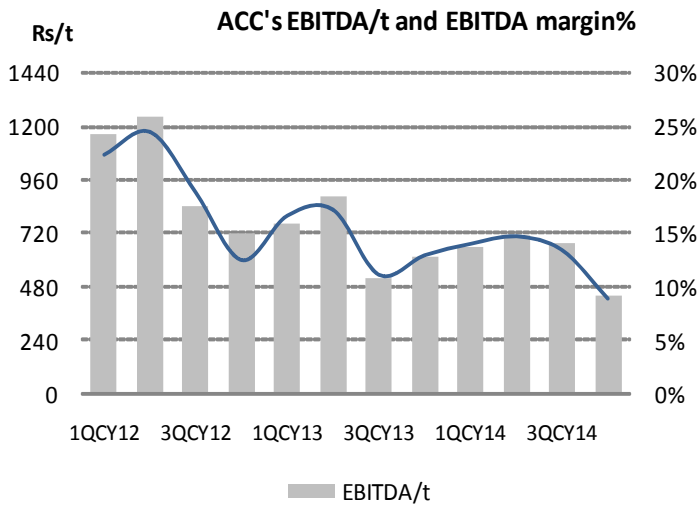
| (Rs Cr) | CY13 | CY14 | CY15E | CY16E |
|----------------|--------|--------|--------|--------|
| Net Revenue | 11,169 | 11,738 | 14,079 | 16,969 |
| EBITDA | 1,629 | 1,507 | 2,511 | 3,555 |
| Reported PAT | 1,096 | 1,168 | 1,663 | 2,406 |
| Reported EPS | 58.3 | 62.2 | 88.5 | 128.0 |
| EPS Growth (%) | 3.3 | 6.6 | 42.4 | 44.6 |
| RONW (%) | 14.0 | 14.2 | 18.7 | 25.0 |
| P/E (x) | 25.9 | 24.3 | 17.1 | 11.8 |
| EV/EBITDA (x) | 13.8 | 14.9 | 8.9 | 6.3 |

Source: - Company data, Arianth Research





| | 1QCY12 | 2QCY12 | 3QCY12 | 4QCY12 | 1QCY13 | 2QCY13 | 3QCY13 | 4QCY13 | 1QCY14 | 2QCY14 | 3QCY14 | 4QCY14 |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Volumes (mn tn) | 6.7 | 6.1 | 5.4 | 5.9 | 6.4 | 6.1 | 5.5 | 5.9 | 6.5 | 6.4 | 5.6 | 5.7 |
| Realisation (Rs/t) | 4256 | 4591 | 4561 | 5279 | 4526 | 4567 | 4528 | 4594 | 4579 | 4739 | 4879 | 4839 |
| RM | 679 | 498 | 571 | 1353 | 635 | 781 | 898 | 762 | 832 | 793 | 733 | 906 |
| Employee cost | 193 | 224 | 262 | 355 | 251 | 282 | 311 | 266 | 261 | 305 | 341 | 337 |
| Power & Fuel | 1006 | 998 | 1057 | 912 | 1009 | 967 | 1007 | 995 | 940 | 978 | 1113 | 1027 |
| Mfg Exp | 825 | 846 | 948 | 1087 | 977 | 892 | 987 | 1077 | 952 | 970 | 1088 | 1101 |
| S&D Exp | 635 | 949 | 910 | 1032 | 958 | 936 | 918 | 1044 | 1030 | 1064 | 1061 | 1155 |



Valuations:

| | CY15 | CY16 |
|------------|-------|-------|
| EV/EBITDA | 7 | 7 |
| EBITDA | 2511 | 3555 |
| EV | 17575 | 24888 |
| Net debt | -3444 | -3789 |
| CWIP | 2520 | 2772 |
| Market Cap | 23539 | 31448 |
| No shares | 18.8 | 18.8 |
| Fair value | 1252 | 1673 |
| CMP | 1511 | 1511 |
| Upside | -17% | 11% |

4QCY14 Results (Standalone)

| Rs in Crore | 4QCY14 | 4QCY13 | YOY (%) | 3QCY14 | QoQ (%) |
|-----------------------|--------|--------|---------|--------|---------|
| Net Sales | 2,838 | 2,786 | 1.9 | 2,814 | 0.8 |
| Expenditure | 2,584 | 2,425 | 6.6 | 2,436 | 6.1 |
| EBITDA | 253 | 361 | -29.9 | 379 | -33.0 |
| EBITDA Margins (%) | 8.9 | 13.0 | | 13.5 | |
| Other Income | 43 | 45 | | 45 | |
| Interest | 13 | 12 | | 11 | |
| Depreciation | 144 | 153 | | 139 | |
| PBT | 139 | 242 | -42.4 | 272 | -48.9 |
| Tax | (184) | (36) | | 67 | |
| Tax rate (%) | -132% | -15% | | 25% | |
| PAT | 324 | 278 | 16.4 | 205 | 57.9 |
| Net Profit Margin (%) | 11.4 | 10.0 | | 7.3 | |
| EPS (Rs) | 17.2 | 14.8 | 16.4 | 10.9 | 57.9 |

Source: - Company data, Arihant Research



Profit and Loss Account, Year Ending December

| Particulars, in Rs crore | CY12 | CY13 | CY14 | CY15E | CY16E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Income from Operations | 11,358 | 11,169 | 11,738 | 14,079 | 16,969 |
| YoY% | 17.6% | -1.7% | 5.1% | 19.9% | 20.5% |
| Power & Fuel Cost | 2382 | 2382 | 2442 | 2754 | 3359 |
| Employee Cost | 617 | 662 | 747 | 831 | 916 |
| Distribution Expenses | 2221 | 2316 | 2598 | 2844 | 3122 |
| Other Expenditure | 3942 | 4180 | 4444 | 5140 | 6015 |
| Total Expenditure | 9162 | 9540 | 10231 | 11568 | 13413 |
| Operating EBITDA | 2196 | 1629 | 1507 | 2511 | 3555 |
| Operating EBITDA margin % | 19 | 15 | 13 | 18 | 21 |
| Depreciation | 559 | 574 | 558 | 604 | 730 |
| Operating EBIT | 1637 | 1055 | 950 | 1907 | 2826 |
| Other Income | 265 | 224 | 268 | 282 | 339 |
| Interest | 115 | 52 | 83 | 0 | 0 |
| PBT before Excp Items | 1787 | 1227 | 1135 | 2188 | 3165 |
| Extraordinary/ Excp | 335 | 0 | 0 | 0 | 0 |
| PBT | 1451 | 1227 | 1135 | 2188 | 3165 |
| Tax Expense | 390 | 131 | -33 | 525 | 760 |
| Reported Net Profit | 1061 | 1096 | 1168 | 1663 | 2406 |
| YoY% | -19.9% | 3.3% | 6.6% | 42.4% | 44.6% |
| Effective Tax Rate | 26.9 | 10.7 | (2.9) | 24.0 | 24.0 |
| Reported EPS | 56.5 | 58.3 | 62.2 | 88.5 | 128.0 |

Balance Sheet Year Ending December

| Particulars, in Rs crore | CY12 | CY13 | CY14 | CY15E |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Liabilities + Equity | | | | |
| (a) Share capital | 188 | 188 | 188 | 188 |
| (b) Reserves and surplus | 7195 | 7637 | 8048 | 8713 |
| Shareholders' funds | 7383 | 7825 | 8236 | 8901 |
| Non-current liab & Prov | 1075 | 1003 | 652 | 1191 |
| Current liabilities | 3468 | 3266 | 3784 | 4314 |
| Total - Equity and liabilities | 11926 | 12094 | 12671 | 14406 |
| Assets | | | | |
| Non-current assets | | | | |
| Fixed assets | 5864 | 5504 | 5793 | 5219 |
| CWIP | 311 | 820 | 1720 | 2520 |
| Long Term Inv | 195 | 177 | 291 | 177 |
| Loans + Adv + Others | 564 | 867 | 856 | 469 |
| other Non-current assets | 166 | 308 | 361 | 308 |
| Current assets | 4826 | 4418 | 3651 | 5713 |
| Cash | 678 | 503 | 304 | 1427 |
| Other Current Assets | 4148 | 3915 | 3347 | 4286 |
| Total - Assets | 11926 | 12094 | 12671 | 14406 |

BS and CF for CY16 will be prepared after Annual report for CY14 is published

Cash Flow Statement, Year Ending March

| Particulars, in Rs crore | CY12 | CY13 | CY14E | CY15E |
|----------------------------------|----------------|--------------|----------------|----------------|
| Operating Activities | | | | |
| PBT | 1,451 | 1,227 | 1,135 | 2,188 |
| Add Depr | 559 | 574 | 558 | 604 |
| Others | 218 | (108) | (650) | 909 |
| Total | 2,228 | 1,693 | 1,043 | 3,701 |
| Cash Taxes | (206) | (429) | 33 | (525) |
| Changes in Working Cap | (446) | (188) | 351 | 325 |
| Cash Flow from Operations | 1,577 | 1,077 | 1,427 | 3,501 |
| Investing Activities | | | | |
| Change in investments | 258 | 96 | - | - |
| Capex | (568) | (948) | (1,200) | (1,300) |
| Cash Flow from Investing | (311) | (852) | (1,200) | (1,300) |
| Financing Activities | | | | |
| Dividends + Taxes paid | (608) | (656) | (789) | (925) |
| Change in Non Curr Liab | (457.9) | (205.0) | 362.9 | (153.3) |
| Cash Flow from Financing | (1,066) | (861) | (427) | (1,078) |
| Opening Cash | 478 | 678 | 503 | 304 |
| Changes during year | 200 | (636) | (199) | 1,123 |
| Change due to maturing CD/MF | - | 461.0 | | |
| Closing Cash | 678 | 503 | 304 | 1,427 |

Source: Company data, Arihant Research

Ratio Analysis

| | CY12 | CY13 | CY14 | CY15E |
|--------------------------------|-------------|-------------|-------------|-------------|
| Profitability | | | | |
| Operating EBITDA% | 19.3 | 14.6 | 12.8 | 17.8 |
| Operating EBIT% | 14.4 | 9.4 | 8.1 | 13.5 |
| PAT% | 9.3 | 9.8 | 10.0 | 11.8 |
| Du Pont ROAE breakup | | | | |
| PAT / Sales | 9.3 | 9.8 | 10.0 | 11.8 |
| Sales / Avg Total Fixed Assets | 0.9 | 1.0 | 1.0 | 1.3 |
| Avg Total Assets / Avg Eqty | 1.6 | 1.6 | 1.5 | 1.6 |
| ROE | 14.6% | 14.4% | 14.5% | 19.4% |
| Other Ratios | | | | |
| Current Ratio | 1.4 | 1.4 | 1.0 | 1.3 |
| Long Term Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| EPS | 56.5 | 58.3 | 62.2 | 88.5 |
| DPS | 19.0 | 19.0 | 24.0 | 30.0 |
| Dividend Payout ratio | 0.3 | 0.3 | 0.4 | 0.3 |
| P/E | 26.8 | 25.9 | 24.3 | 17.1 |
| BVPS | 392.8 | 416.3 | 438.2 | 473.6 |
| P/BV | 3.8 | 3.6 | 3.4 | 3.2 |



Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254827

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road,
Chakala, Andheri (E).
Mumbai - 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

E-5 Ratlam Kothi
Indore - 452003, (M.P.)
Tel: (91-731) 3016100
Fax: (91-731) 3016199

Stock Rating Scale

| | Absolute Return |
|------------|-----------------|
| Buy | > 20% |
| Accumulate | 12% to 20% |
| Hold | 5% to 12% |
| Neutral | -5% to 5% |
| Reduce | < -5% |

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