

Weak Quarter

CMP: Rs.1,432
Target Price: Rs.1,387
Recommendation: Reduce

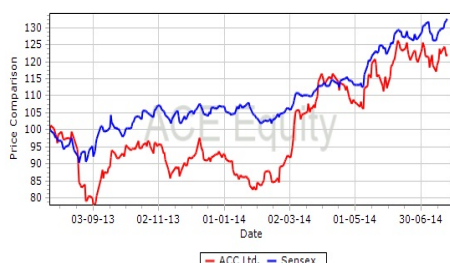
Stock Info

BSE Group	A
BSE Code	500410
NSE Symbol	ACC
Bloomberg	ACC.IN
Reuters	ACC.BO
BSE Sensex	26,096
NSE Nifty	7,784

Market Info

Market Capital	Rs 26,877cr
Equity Capital	Rs 188cr
Avg. Trading Vol.	3,49,020
52 Wk High/ Low	1,524/912
Face Value	10

Shareholding Pattern (%)	(June 2014)
Promoters	50.3
Domestic Institutions	12.8
Foreign Institutions	19.7
Public & Others	17.2



25-07-2014

ACC's 2QCY14 operating performance came below estimates. Standalone EBITDA margins declined by 250bps on YoY basis and stood at 14.7%. Volumes grew by 3.8% on YoY basis and stood at 6.4mn tonnes. We expect demand to increase by 8-10% in second half on back of GOI emphasis on housing and infrastructure development.

ACC's witnessed increase in its operating cost. Raw material cost per ton inched up by 2.3% on YoY basis and stood at Rs 696 per ton. While other manufacturing cost increased by 8.7%. Power & fuel and freight cost increased by 1.1% and 13.6% respectively. Effectively, operating cost increased by 6.5% and stood at Rs 4,109 per ton. EBITDA per ton thus declined 6.1% YoY to Rs 710 per ton.

Profit after tax declined by 6% YoY to Rs 241cr

Valuations:

ACC continues to post weak operating performance. Although we expect revival in investment cycle over long term, however, over short to medium term issues like weak demand and excess capacity will continue to hit earnings of the company. Going forward, we forecast ACC's margins to increase to 16%. We have modeled for volume growth of 5% CAGR and realizations to increase by 8% CAGR over the next 2 years. We have valued stock on EV/EBITDA of 9.0(x) its CY15 estimates and have arrived at a fair value of Rs 1,387 per share. At CMP of Rs 1,460 the stock is available at CY15E P/E(x) and EV/EBITDA(x) of 18.3x and 9.4x, respectively at which valuations looks expensive in our view. We recommend **REDUCE** rating on the stock.

Financials:

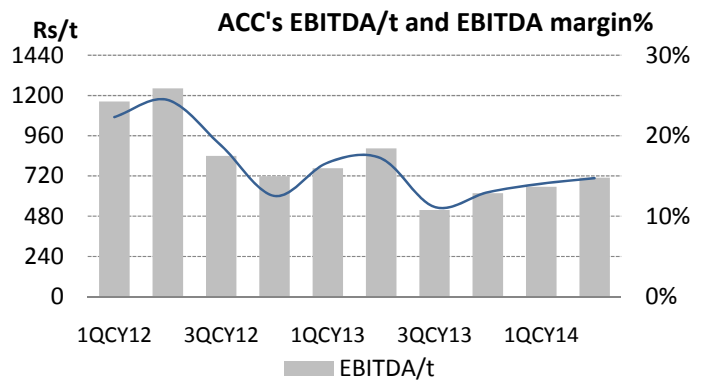
(Rs Cr)	CY12	CY13	CY14E	CY15E
Net Revenue	11358	11169	11807	13828
EBITDA	2196	1629	1852	2258
Reported PAT	1061	1096	1231	1467
Reported EPS	56	58	65	78
EPS Growth (%)	-19.9	3.3	12.3	19.2
RONW (%)	14.4	14.0	14.9	16.6
P/E (x)	25.3	24.5	21.8	18.3
EV/EBITDA (x)	9.6	13.0	11.4	9.4

Source: - Company data, Arihant Research



	1QCY12	2QCY12	3QCY12	4QCY12	1QCY13	2QCY13	3QCY13	4QCY13	1QCY14	2QCY14
Realisation (Rs/t)	4256	4591	4561	5279	4526	4567	4528	4594	4579	4739
RM	679	498	571	1353	635	781	898	762	832	778
Employee cost	193	224	262	355	251	282	311	266	261	305
Power & Fuel	1006	998	1057	912	1009	967	1007	995	940	978
Mfg Exp	825	846	948	1087	977	892	987	1077	952	970
S&D Exp	635	949	910	1032	958	936	918	1044	1030	1064

Figures for 4QCY12 not comparable because of amalgamation of ACC concrete and ennore cement with ACC Ltd



Valuations:

	CY14	CY15
EV/EBITDA	9	9
EBITDA	1852	2258
EV	16670	20325
Net debt	-2940	-3216
CWIP	1720	2520
Market Cap	21330	26061
No shares	18.8	18.8
Fair value	1135	1387
CMP	1430	1430
Upside	-21%	-3%

2QCY14 Results (Standalone)

Rs in Crore	2QCY14	2QCY13	YOY (%)	1QCY14	QoQ (%)
Net Sales	3060	2851	7	3027	1.1
Expenditure	2609	2361	11	2602	0
EBITDA	451	490	-8	425	6
EBITDA Margins (%)	14.7	17.2		14.0	
Other Income	37	35	5	107	-65
Interest	11	18	-38	11	3
Depreciation	138	141	-2	137	1
PBT	339	367	-8	385	-12
Tax	98	109	-10	-14	
Tax rate (%)	29%	30%	-	-4%	-
PAT	241	258	-6	399	-40
Net Profit Margin (%)	8%	9%	-	13%	-
EPS (Rs)	12.8	13.7	-6	21.2	-40

Source: - Company data, Arihant Research



Profit and Loss Account, Year Ending December				
Particulars, in Rs crore	CY12	CY13	CY14 E	CY15E
Income from Operations	11,358	11,169	11,807	13,828
YoY%	17.6%	-1.7%	5.7%	17.1%
Power & Fuel Cost	2382	2382	2416	2948
Employee Cost	617	662	697	761
Distribution Expenses	2221	2316	2444	2862
Other Expenditure	3942	4180	4398	4999
Total Expenditure	9162	9540	9955	11570
Operating EBITDA	2196	1629	1852	2258
Operating EBITDA margin %	19	15	16	16
Depreciation	559	574	481	604
Operating EBIT	1637	1055	1371	1654
Other Income	265	224	248	277
Interest	115	52	0	0
PBT before Excp Items	1787	1227	1619	1931
Extraordinary/ Excp	335	0	0	0
PBT	1451	1227	1619	1931
Tax Expense	390	131	389	463
Reported Net Profit	1061	1096	1231	1467
YoY%	-19.9%	3.3%	12.3%	19.2%
Effective Tax Rate	26.9	10.7	24.0	24.0
Reported EPS	56.5	58.3	65.5	78.1

Balance Sheet Year Ending December				
Particulars, in Rs crore	CY12	CY13	CY14 E	CY15E
Liabilities + Equity				
(a) Share capital	188	188	188	188
(b) Reserves and surplus	7195	7637	8087	8634
Shareholders' funds	7383	7825	8275	8822
Non-current liab & Prov	1075	1003	1090	1179
Current liabilities	3468	3266	3633	4143
Total - Equity and liabilities	11926	12094	12998	14144
Assets				
Non-current assets				
Fixed assets	5864	5504	5323	5219
CWIP	311	820	1720	2520
Long Term Inv	195	177	177	177
Loans + Adv + Others	564	867	567	469
other Non-current assets	166	308	308	308
Current assets	4826	4418	4904	5452
Cash	678	503	923	1199
Other Current Assets	4148	3915	3981	4252
Total - Assets	11926	12094	12998	14144

Ratio Analysis				
	CY12	CY13	CY14 E	CY15E
Profitability				
Operating EBITDA%	19.3	14.6	15.7	16.3
Operating EBIT%	14.4	9.4	11.6	12.0
PAT%	9.3	9.8	10.4	10.6
Du Pont ROAE breakup				
PAT / Sales	9.3	9.8	10.4	10.6
Sales / Avg Total Fixed Assets	0.9	1.0	1.1	1.3
Avg Total Assets / Avg Eqty	1.6	1.6	1.6	1.6
ROE	0.1	0.1	0.2	0.2
Other Ratios				
Current Ratio	1.4	1.4	1.3	1.3
Long Term Debt / Equity	0.0	0.0	0.0	0.0
EPS	56.5	58.3	65.5	78.1
DPS	19.0	19.0	24.0	30.0
Dividend Payout ratio				
	0.3	0.3	0.4	0.4
P/E	25.3	24.5	21.8	18.3
BVPS	392.8	416.3	440.3	469.4
P/BV	3.6	3.4	3.2	3.0

Source: - Company data, Arihant Research



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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