

ACC

Poised for performance

Muted performance in CY2012: ACC, India's third largest cement manufacturer, has been one of the underperformers in the industry, posting a volume growth of just ~1.6% in CY2012. The company witnessed higher raw material, freight, and power & fuel costs (on a per-tonne basis), although the same were offset by the steep price hikes, executed by the company during the year. Thus, the company's EBITDA/tonne stood at ₹913, up 14.1% yoy, despite the merger of the low-margin RMC business, during CY2012.

Expect reasonable pick-up in volumes in CY2013: ACC is a pan-India player and has operations in all the five regions of the country. We expect a reasonable improvement in the dispatches growth rate, although we do not estimate it to enter a high growth trajectory or exceed the industry growth rate. We expect the company's volume to grow at a CAGR of ~4.5% over CY2012-14 (volume CAGR for CY2010-12 is at 6.4%).

Capacity addition of 5mtpa expected by 2015: The expansion project comprises of setting up a 2.79mtpa clinker unit and a 1.1mtpa grinding unit at Jamul (Chattisgarh) with two other split grinding units in the eastern region. The new plant is expected to be operational by CY2015.

Outlook and Valuation: We expect ACC to post an 8.9% and 15.0% growth in its top-line and bottom-line over CY2012-14. The company has a strong balance sheet with a negative net debt position. ACC, which has a net operating cash inflow of ₹1,800cr is expected to fund its expansion through internal accruals. At the CMP, ACC is trading at an EV/tonne of US\$106 on TTM basis (lower than the replacement cost of US\$120/tonne) and at a substantial 39% discount to Ultratech. ACC's CY2012 RoE of 19.3% is similar to Ultratech's FY2013E RoE (inspite of the superior EBITDA/tonne of Ultratech) and is expected to improve going ahead. Thus, we believe the huge discount on ACC stock is unjustified **and hence recommend a Buy on the stock with a target price of ₹1,361. We recommend a switch from UltraTech to ACC.**

Key Financials (Standalone)

Y/E Dec (₹ cr)	CY2011	CY2012	CY2013E	CY2014E
Net Sales	9,439	11,129	11,955	13,208
% chg	22.3	17.9	7.4	10.5
Net Profit	1,304	1,404	1,478	1,856
% chg	16.4	7.7	5.3	25.6
EBITDA (%)	20.1	19.8	21.0	22.4
EPS (₹)	69.4	74.7	78.7	98.8
P/E (x)	16.4	15.2	14.5	11.5
P/BV (x)	3.0	2.9	2.6	2.3
RoE (%)	19.1	19.3	19.0	21.4
RoCE (%)	17.7	19.0	21.5	24.6
EV/Sales (x)	2.0	1.7	1.5	1.3
EV/tonne (US \$)	118	105	101	94
Installed capacity (mtpa)	30	30	30	30
EV/EBITDA (x)	9.9	8.4	7.2	5.7

Source: Company, Angel Research

BUY

CMP	₹1,139
Target Price	₹1,361

Investment Period	12 Months
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Stock Info

Sector	Cement
Market Cap (₹ cr)	21,383
Net Debt (₹ cr)	(2,148)
Beta	0.8
52 Week High / Low	1515/1105
Avg. Daily Volume	25,445
Face Value (₹)	10
BSE Sensex	18,358
Nifty	5,568
Reuters Code	ACC.BO
Bloomberg Code	ACC@IN

Shareholding Pattern (%)

Promoters	50.3
MF / Banks / Indian Fls	10.5
FII / NRIs / OCBs	20.4
Indian Public / Others	18.9

Abs. (%)	3m	1yr	3yr
Sensex	(6.6)	7.4	4.1
ACC	(16.3)	(9.6)	21.5

V Srinivasan

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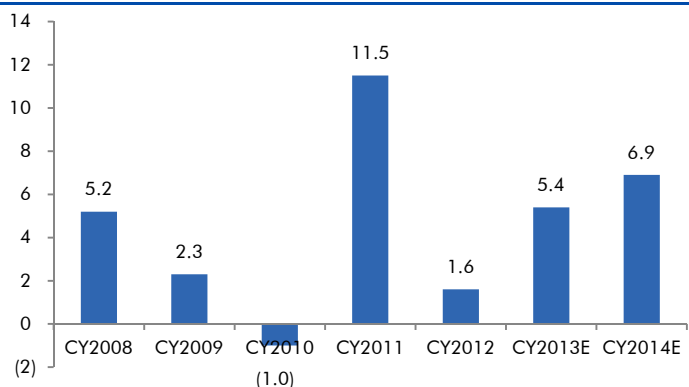
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A muted CY2012

Company an underperformer in terms of volumes

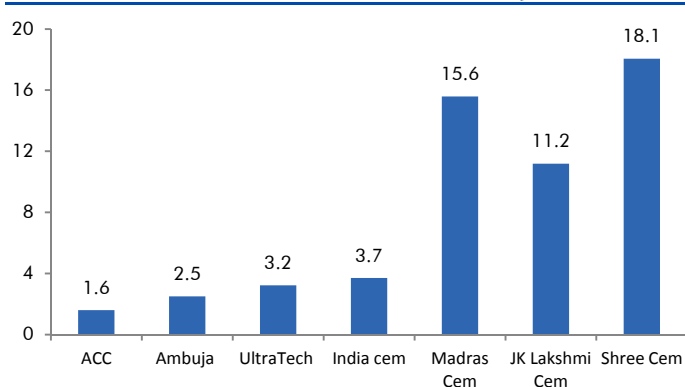
ACC was an underperformer in its industry in CY2012, posting a volume growth of just ~1.6%. Its weak performance during the year followed an 11.5% yoy dispatch growth in CY2011.

Exhibit 1: Dispatches growth



Source: Company, Angel Research

Exhibit 2: Dispatches growth in CY2012 (ACC vs Peers)

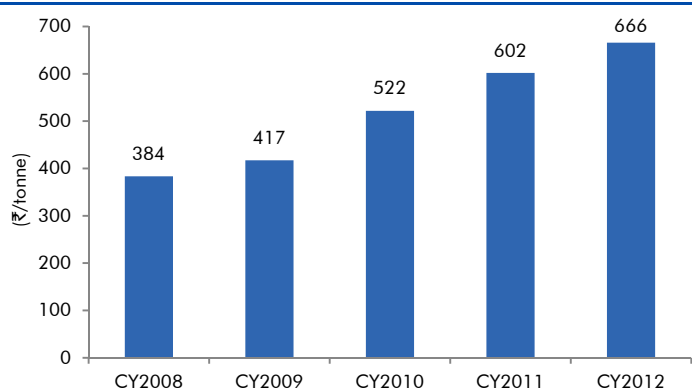


Source: Company, Angel Research

Substantial cost pressure

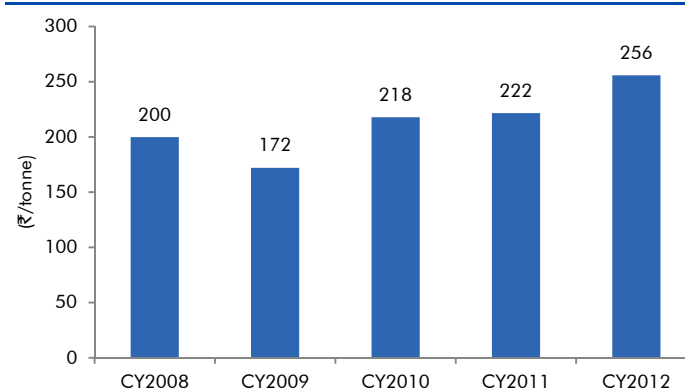
ACC faced significant cost pressure during the year, with all major cost heads such as raw material, freight, and power & fuel, increasing on a per-tonne basis. The raw material cost/tonne rose by 10.7% due to increase in prices of gypsum and fly-ash. Freight cost / tonne too rose by 16% on a yoy basis due to an increase in the price of diesel and imposition of surcharge by the railways. Power & fuel costs / tonne too rose on account of a 13.6% yoy increase in power tariff, and higher consumption of imported coal due to short receipt of linkage coal.

Exhibit 3: Raw material cost/tonne up 10.7% in CY12



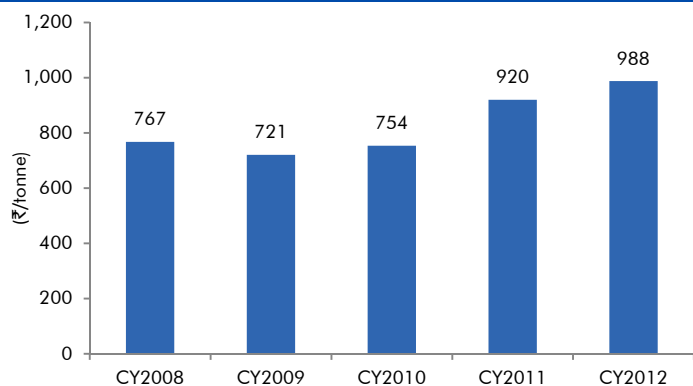
Source: Company, Angel Research

Exhibit 4: Employee cost/tonne up 15.3% in CY12



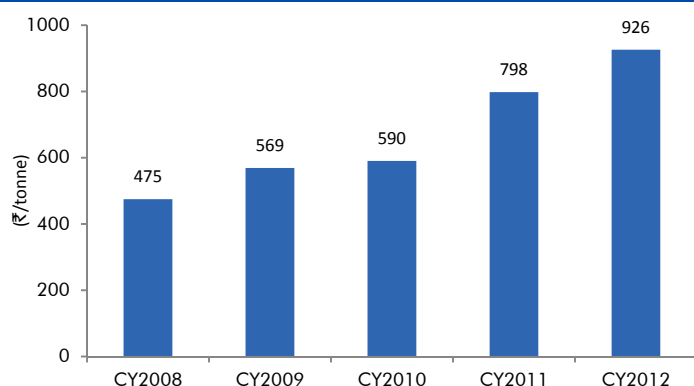
Source: Company, Angel Research

Exhibit 5: Power and fuel cost/tonne up 7.4% in CY2012



Source: Company, Angel Research

Exhibit 6: Freight cost/tonne up 16% in CY2012

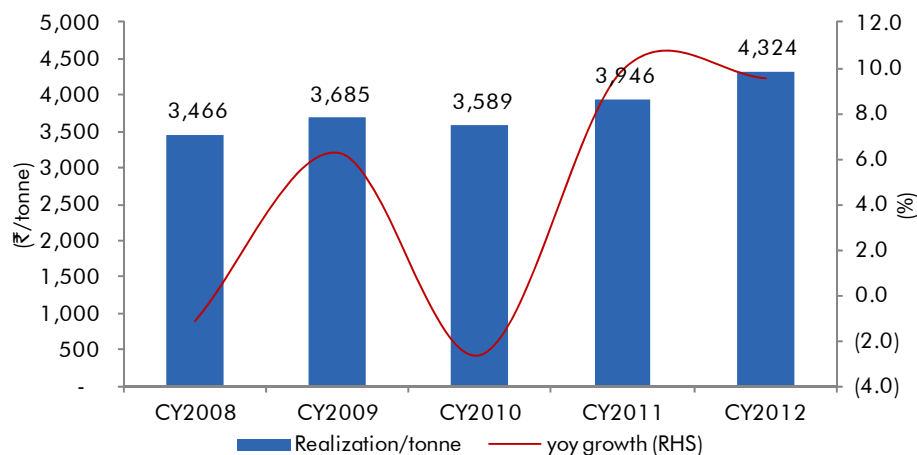


Source: Company, Angel Research; Note: CY2011 and CY2012 freight included cost of transfer of raw material

..... which however, was offset by price hikes

Despite a 16% increase in operating cost/tonne, ACC's EBITDA/tonne rose by 14.1%, as a 9.6% growth in realization offset the cost pressures. ACC benefitted from a healthy pricing scenario which prevailed till 3QCY2012.

Exhibit 7: Realization up 9.6% in CY2012



Source: Company, Angel Research

Volumes to post reasonable improvement

While the country's cement demand is expected to be muted in the near term, we expect a pick-up in demand from 2HFY2014, aided by an anticipated reduction in interest rates. Lower interest rates are expected to boost cement demand from the housing, and infrastructure sectors.

ACC is a pan-India player and has operations in all the five regions of the country. We expect a reasonable improvement in the dispatches growth rate, although we do not estimate it to enter a high growth trajectory or exceed the industry growth rate. We expect the company's volume to grow at a CAGR of ~4.5% over CY2012-14 (volume CAGR for CY2010-12 is at 6.4%). Realization is expected to grow at a CAGR of 4.2% over CY2012-14.

Increase in capacity by 5MTPA planned

ACC, which currently has a capacity of 30mtpa, has chalked out plans for increasing its capacity further by 5mtpa. The new capacity would come up in the eastern region. The expansion project comprises setting up a 2.79mtpa clinker unit, and a 1.1mtpa grinding unit at Jamul (Chattisgarh), with 2 other split grinding units in the eastern region. In this context, ACC has already placed orders for major plant and equipment, and has commenced ground breaking at the site.

Outlook and Valuation

We expect ACC to post an 8.9% and 15.0% growth in its top-line and bottom-line respectively, over CY2012-14. The company has a strong balance sheet with a negative net debt position. The company which has a net operating cash inflow of ₹1,800cr, is expected to fund its expansions through internal accruals.

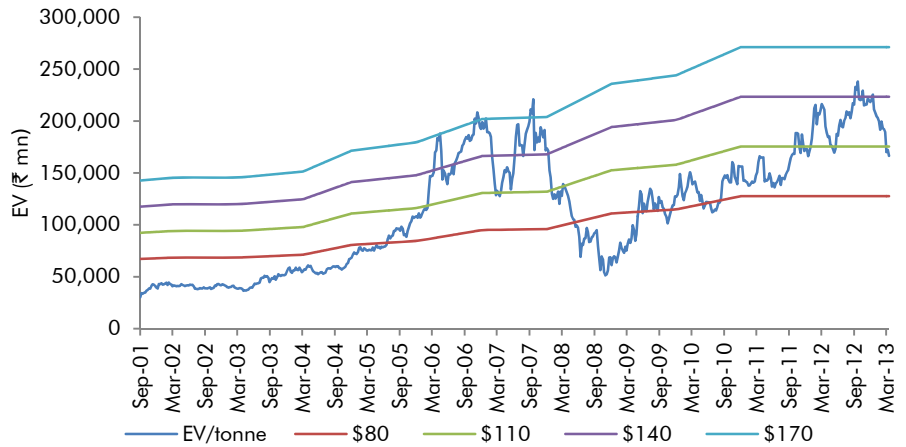
At the CMP, ACC is trading at an EV/tonne of US\$106 on TTM basis (lower than the replacement cost of US\$120/tonne) and at a substantial 39% discount to Ultratech. ACC's CY2012 RoE of 19.3% is similar to Ultratech's FY2013E RoE (inspite of the superior EBITDA/tonne of Ultratech) and is expected to improve going ahead. Thus, we believe the huge discount on ACC stock is unjustified **and hence recommend a Buy on the stock with a target price of ₹1,361. We recommend a switch from UltraTech to ACC.**

Exhibit 8: Recommendation summary

Company	Reco	CMP (₹)	Tgt. Price (₹)	Upside (%)	FY2015E P/BV (x)	FY2015E P/E (x)	FY2013-15E EPS CAGR	FY2015E RoE (%)	EV/tonne ^ US \$
ACC*	Buy	1,139	1,361	19.5	2.3	11.5	15.0	21.4	106
Ambuja Cements*	Neutral	175	-	-	2.6	14.1	10.3	19.2	145
India Cements	Neutral	84	-	-	0.7	7.7	24.6	8.8	63
JK Lakshmi	Buy	88	143	61.7	0.6	4.0	13.9	15.8	34
Madras Cement	Neutral	233	-	-	1.6	8.3	24.6	21.3	88
Shree Cements#	Neutral	4,029	-	-	2.4	10.7	12.5	25.2	128
UltraTech Cements	Neutral	1,859	-	-	2.5	15.1	12.5	17.9	175

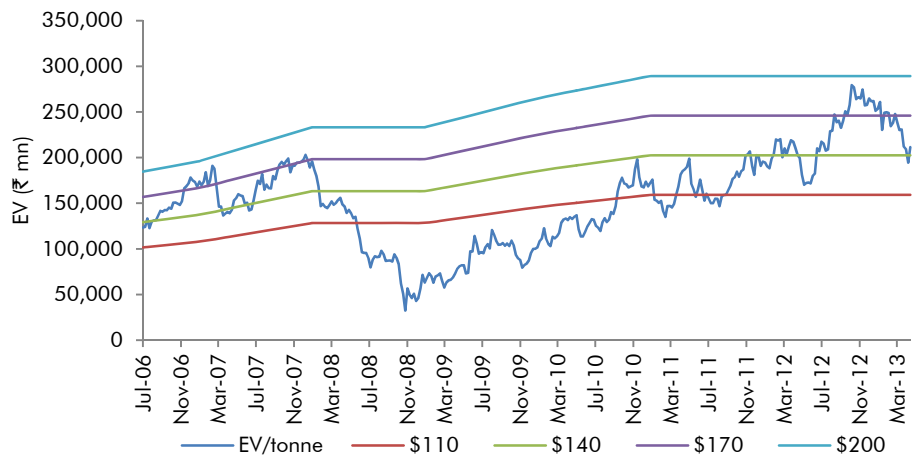
Source: Company, Angel Research; Note: *Y/E December, #Y/E June ; ^ Computed on TTM basis

Exhibit 9: ACC: EV/tonne band



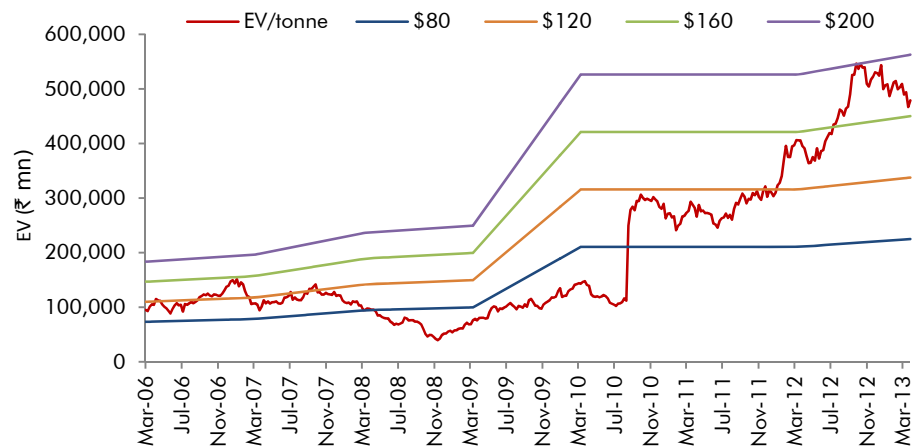
Source: BSE, Company, Angel Research

Exhibit 10: Ambuja: EV/tonne band



Source: BSE, Company, Angel Research

Exhibit 11: Ultratech: EV/tonne band



Source: BSE, Company, Angel Research

Profit & loss statement (Standalone)

Y/E Dec. (₹ cr)	CY09	CY10	CY11	CY12	CY13E	CY14E
Total Operating Income	8,191	7,976	9,660	11,356	12,182	13,435
% chg	12.5	(2.6)	21.1	17.6	7.3	10.3
Total Expenditure	5,547	6,163	7,761	9,154	9,677	10,471
Net Raw Materials	956	1,168	1,503	1,784	1,908	2,053
Other Mfg costs	1,540	1,599	2,183	2,382	2,408	2,588
Personnel	368	462	526	617	647	686
Other	2,684	2,935	3,549	4,370	4,714	5,144
EBITDA	2,644	1,812	1,899	2,203	2,505	2,964
% chg	52.6	(31.5)	4.8	16.0	13.7	18.3
(% of Net Sales)	32.9	23.5	20.1	19.8	21.0	22.4
Depreciation & Amortisation	342	393	475	559	573	545
EBIT	2,302	1,420	1,424	1,644	1,931	2,419
% chg	60.0	(38.3)	0.3	15.5	17.5	25.3
(% of Net Sales)	28.7	18.4	15.1	14.8	16.2	18.3
Interest & other Charges	84	57	97	115	84	79
Other Income	77	98	192	265	295	238
(% of PBT)	3.3	6.7	12.6	18.2	13.8	9.2
Recurring PBT	2,294	1,461	1,519	1,794	2,143	2,578
% chg	32.1	(36.3)	3.9	18.1	19.4	20.3
Extraordinary Expense/(Inc.)	-	-	-	335	-	-
PBT (reported)	2,294	1,461	1,519	1,459	2,143	2,578
Tax	688	341	215	390	664	722
(% of PBT)	30.0	23.4	14.2	26.8	31.0	28.0
Adjusted PAT	1,607	1,120	1,304	1,404	1,478	1,856
% chg	32.5	(30.3)	16.4	7.7	5.3	25.6
(% of Net Sales)	20.0	14.5	13.8	12.6	12.4	14.1
Basic EPS (₹)	85.5	59.6	69.4	74.7	78.7	98.8
Fully Diluted EPS (₹)	85.5	59.6	69.4	74.7	78.7	98.8
% chg	32.4	(30.3)	16.4	7.7	5.3	25.6

Note: Some of the figures from CY2011 onwards are reclassified; hence not comparable with previous year numbers

Balance sheet (Standalone)

Y/E Dec. (₹ cr)	CY09	CY10	CY11	CY12	CY13E	CY14E
SOURCES OF FUNDS						
Equity Share Capital	188	188	188	188	188	188
Reserves & Surplus	5,828	6,282	7,004	7,195	7,982	8,971
Shareholders' Funds	6,016	6,469	7,192	7,383	8,170	9,159
Total Loans	567	524	511	163	138	113
Deferred Tax Liability	349	362	518	517	517	517
Other long term liab	-	-	372	381	381	381
Long term provisions	-	-	123	157	157	157
Total Liabilities	6,932	7,355	8,717	8,601	9,363	10,327
APPLICATION OF FUNDS						
Gross Block	6,826	8,077	9,645	10,219	10,484	10,749
Less: Acc. Depreciation	2,668	2,995	3,438	4,355	4,928	5,473
Net Block	4,158	5,082	6,208	5,864	5,556	5,276
Capital Work-in-Progress	2,156	1,563	366	311	1,046	1,781
Goodwill	-	-	-	-	-	-
Investments	1,476	1,703	1,625	2,554	2,555	2,655
Long term loans and adv.			448	564	564	564
Current Assets	2,256	2,753	3,343	2,634	2,967	3,429
Cash	708	980	1,653	678	499	750
Loans & Advances	554	624	388	489	584	705
Other	994	1,149	1,302	1,466	1,884	1,974
Current liabilities	3,114	3,746	3,273	3,325	3,325	3,378
Net Current Assets	(858)	(993)	70	(692)	(358)	51
Misc. Exp. not written off	-	-	-	-	-	-
Total Assets	6,932	7,355	8,717	8,601	9,363	10,327

Note: Some of the figures from CY2011 onwards are reclassified; hence not comparable with previous year numbers

Cash flow statement (Standalone)

Y/E Dec. (₹ cr)	CY09	CY10	CY11	CY12	CY13E	CY14E
Profit before tax	2,294	1,461	1,519	1,459	2,143	2,578
Depreciation	342	393	475	559	573	545
Interest expense	84	57	97	115	84	79
Change in Working Capital	575	407	(391)	(294)	(514)	(157)
Less: Other income	77	98	192	265	295	238
Direct taxes paid	727	395	416	206	664	722
Others	-	-	258	335		
Cash Flow from Operations	2,492	1,825	1,350	1,703	1,327	2,085
(Inc)/ Dec in Fixed Assets	(1,544)	(657)	(432)	(552)	(1,000)	(1,000)
(Inc)/ Dec in Investments	(797)	(227)	78	(929)	(1)	(100)
Other income	77	98	192	265	295	238
Cash Flow from Investing	(2,264)	(786)	(162)	(1,216)	(706)	(862)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	85	(43)	(13)	(339)	(25)	(25)
Dividend Paid (Incl. Tax)	505	667	609	625	691	868
Others	(420)	(710)	(622)	(964)	(716)	(893)
Cash Flow from Financing	84	57	(107)	497	84	79
Inc./(Dec.) in Cash	(276)	272	672	(974)	(180)	251
Opening Cash balances	984	708	980	1,653	678	499
Closing Cash balances	708	980	1,653	678	499	750

Key ratios

Y/E Dec.	CY09	CY10	CY11	CY12	CY13E	CY14E
Valuation Ratio (x)						
P/E (on FDEPS)	13.3	19.1	16.4	15.2	14.5	11.5
P/CEPS	11.0	14.2	12.0	13.2	10.4	8.9
P/BV	3.6	3.3	3.0	2.9	2.6	2.3
Dividend yield (%)	2.0	2.7	2.5	2.5	2.8	3.5
EV/Sales	2.2	2.3	2.0	1.7	1.5	1.3
EV/EBITDA	6.8	10.0	9.9	8.4	7.2	5.7
EV / Total Assets	2.6	2.5	2.2	2.2	1.9	1.6
Per Share Data (₹)						
EPS (Basic)	85.5	59.6	69.4	74.7	78.7	98.8
EPS (fully diluted)	85.5	59.6	69.4	74.7	78.7	98.8
Cash EPS	103.7	80.5	94.7	86.6	109.2	127.8
DPS	23.0	30.5	28.0	28.7	31.7	39.8
Book Value	320.1	344.2	382.7	392.8	434.7	487.3
DuPont Analysis (%)						
EBIT margin	28.1	17.8	14.7	14.5	15.9	18.0
Tax retention ratio	70.0	76.6	85.8	73.2	69.0	72.0
Asset turnover (x)	1.8	1.6	1.8	1.9	1.9	1.9
ROIC (Post-tax)	35.1	21.4	22.3	20.4	21.1	24.7
Returns (%)						
ROCE (Pre-tax)	36.3	19.9	17.7	19.0	21.5	24.6
Angel ROIC (Pre-tax)	90.8	49.8	34.8	32.5	37.4	46.5
ROE	29.4	17.9	19.1	19.3	19.0	21.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.3	1.1	1.1	1.1	1.2	1.3
Inventory / Sales (days)	35	39	38	36	40	42
Receivables (days)	11	9	7	8	9	9
Payables (days)	193	203	165	132	125	117
WC cycle (ex-cash) (days)	(57)	(81)	(67)	(47)	(33)	(21)
Solvency ratios (x)						
Net debt to equity	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net debt to EBITDA	(0.5)	(1.0)	(1.2)	(1.1)	(1.0)	(1.0)
Interest Coverage (EBIT / Int.)	27.3	25.0	14.7	14.3	23.0	30.7

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Disclosure of Interest Statement

ACC

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):

Buy (> 15%)

Reduce (-5% to -15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)

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