

BSE Sensex 19,580	S&P CNX 5,939
Bloomberg	ACC IN
Equity Shares (m)	187.9
M.Cap. (INR b)/(USD b)	252.9/4.7
52-Week Range (INR)	1,515/1,105
1,6,12 Rel. Perf. (%)	-4/-11/-12

CMP: INR1,345
TP: INR1,601
Neutral
Financials & Valuation (INR b)

Y/E Dec	2012E	2013E	2014E
Sales	111.3	125.3	143.3
EBITDA	19.7	21.3	25.9
NP	12.9	13.8	17.6
Adj. EPS (INR)	68.7	72.5	93.5
EPS Gr. (%)	31.0	20.4	36.1
BV/Sh (INR)	393	428	481
RoE (%)	17.7	17.8	20.6
RoCE (%)	17.4	18.6	21.9
Payout (%)	62.2	52.0	43.8

Valuations			
P/E (x)	19.6	18.4	14.4
P/BV (x)	3.4	3.1	2.8
EV/EBITDA (x)	11.1	9.5	7.2
EV/Ton (x)	134	124	114

- ACC's operating performance is below estimate, with EBITDA of ~INR3.17b (v/s est INR3.33b), impacted by lower-than-estimated realizations. However, higher other income and lower tax boosted reported PAT to INR2.39b (v/s est INR1.88b), a 15% YoY decline. Results are not comparable as merger for RMC business subsidiary is fully done in 4QCY12 (for CY12).
- Volumes were flat YoY (+10% QoQ) to 5.94MT (v/s est 6MT). Grey cement realizations declined by 7.5% QoQ (-0.8% YoY) to INR4,166/ton (v/s est INR4,327/ton), as ACC was aggressive on pricing to achieve year-end targets.
- Net sales (ex RMC) declined by 1% YoY (-2% QoQ) to INR24.7b (v/s est INR26.1b). RMC business revenues in 4QCY12 fell 18% YoY (-1.5% QoQ), reflecting weak activity in organized housing and infrastructure projects.
- Costs were lower than est, driven by savings on energy side (due to higher contribution of linkage coal). Total cost (ex-RMC) fell ~2.3% QoQ (+2.4% YoY).
- EBITDA fell 18% YoY (-25% QoQ) to INR3.17b (v/s est INR3.33b), translating to EBITDA margins of 10.2% (-520bp YoY, -710bp QoQ v/s est 12.8%); EBITDA/ton was INR530 (down ~INR120/ton YoY and INR250/ton QoQ v/s est INR552).
- Company indicated that royalty of 1% to Holcim would be in-lieu of technical services fees (excl IT services fees) paid to Holcim currently. Effectively, net increase in royalty would be 0.6-0.7%. The board recommended total dividend of INR30/share (incl interim dividend of INR11/share v/s CY11 INR28/share).
- We downgrade EPS for CY13E/CY14E by 9%/5% to INR72.5/93.5 respectively to factor for (a) lower volumes (8% growth) and realization (~INR9/12 per bag), (b) higher royalty (by 0.7%) and (c) merger of RMC subsidiary.
- The stock trades at 7.2x CY14E EV/EBITDA and USD114/ton. Maintain **Neutral** with a target price of INR1,601 (~9x CY14E EV/EBITDA).

Quarterly Performance (Standalone)

Y/E December	CY11				CY12				CY11	CY12	MOSL	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q *					
Cement Sales (m ton)	6.16	5.93	5.69	5.95	6.72	6.05	5.40	5.94	23.7	24.1	6.0	-1.5	
YoY Change (%)	10.4	12.5	17.8	6.1	9.1	2.0	-5.1	-0.2	11.5	1.6	1.3	-112.5	
Cement Realization	3,893	4,052	3,779	4,199	4,256	4,591	4,502	4,166	3,974	4,358	4,327	-4	
YoY Change (%)	3.4	5.7	11.5	20.3	9.3	13.3	19.1	-0.8	9.6	9.7	2.9	-128.1	
QoQ Change (%)	11.6	4.1	-6.8	11.1	1.4	7.9	-2.0	-7.5			-4.4	69.0	
Net Sales	23,982	24,030	21,500	24,987	28,602	27,778	24,310	30,989	94,296	111,305	26,091	19	
YoY Change (%)	14.1	18.9	31.3	27.6	19.3	15.6	13.1	24.0	22.2	18.0	4.3	465.0	
Total Expenditure	18,439	18,527	19,296	21,134	22,442	21,270	20,095	27,817	77,396	91,624	22,764	22	
EBITDA	5,542	5,503	2,204	3,853	6,161	6,508	4,215	3,172	16,901	19,681	3,327	-5	
Margins (%)	23.1	22.9	10.3	15.4	21.5	23.4	17.3	10.2	17.9	17.7	12.8	-19.7	
Depreciation	1,125	1,158	1,199	1,270	1,305	1,356	1,352	1,575	4,753	5,589	1,409	12	
Interest	253	271	253	192	316	301	257	273	969	1,147	261	4	
Other Income	669	771	1,561	1,023	948	1,157	975	1,468	4,226	4,923	1,054	39	
PBT before EO Item	4,834	4,845	2,312	3,414	5,487	6,009	3,581	2,792	15,404	17,869	2,712	3	
EO Income/(Expense)	0	0	0	2,280	-3,354	0	0	0	2,280	-3,354	0		
PBT after EO Item	4,834	4,845	2,312	5,693	2,134	6,009	3,581	2,792	17,684	14,515	2,712	3	
Tax	1,327	1,479	637	989	580	1,829	1,094	400	4,431	3,903	827	-52	
Rate (%)	27.5	30.5	27.5	17.4	27.2	30.4	30.6	14.3	25.1	26.9	30.5	-53.1	
Reported PAT	3,507	3,366	1,676	4,704	1,554	4,179	2,487	2,392	13,253	10,612	1,885	27	
Adjusted PAT	3,507	3,366	1,676	2,821	3,859	4,179	2,487	2,392	11,544	12,918	1,885	27	
Margins (%)	14.6	14.0	7.8	11.3	13.5	15.0	10.2	7.7	12.2	11.6	7.2	6.9	
YoY Change (%)	-13.4	-6.2	67.5	102.9	10.1	24.2	48.4	-15.2	13.9	11.9	-2.6	484.0	

E: MOSL Estimates; * Merger of RMC business from 4QCY12

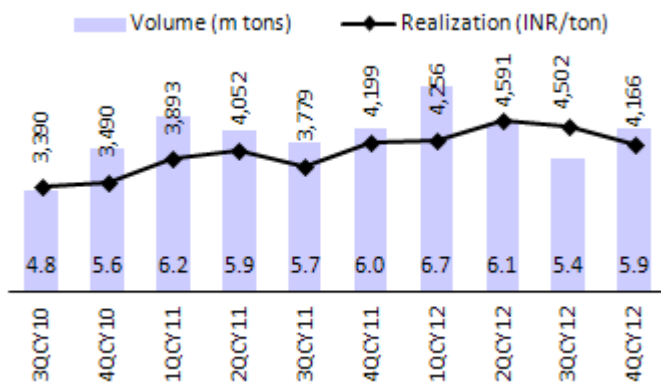
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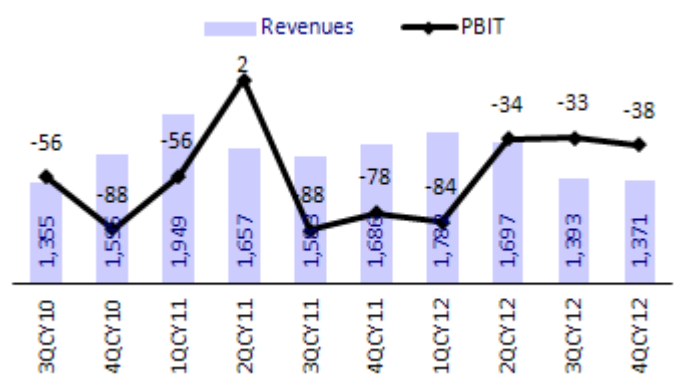
Flat volumes, lower realizations results in flat adj. revenues

- Volumes were flat YoY (+10% QoQ) to 5.94MT (v/s est 6mt).
- Grey cement realization declined by 7.5% QoQ (-0.8% YoY) to INR4,166/ton (v/s est INR4,327/ton), as ACC was aggressive on pricing to achieve year end targets.
- Net sales (ex RMC) declined by 1% YoY (-2% QoQ) to INR24.7b (v/s est INR26.1b).
- RMC business revenues in 4QCY12 de-grew by 18% YoY (-1.5% QoQ), reflecting weak activity in organized housing and infrastructure projects.

Trend in cement volumes and realizations



Trend in RMC business performance (INR m)

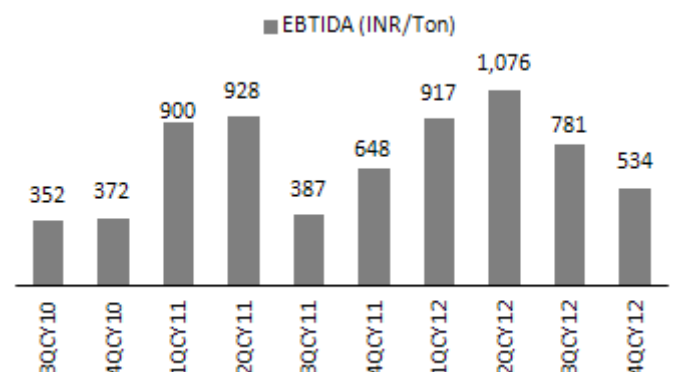
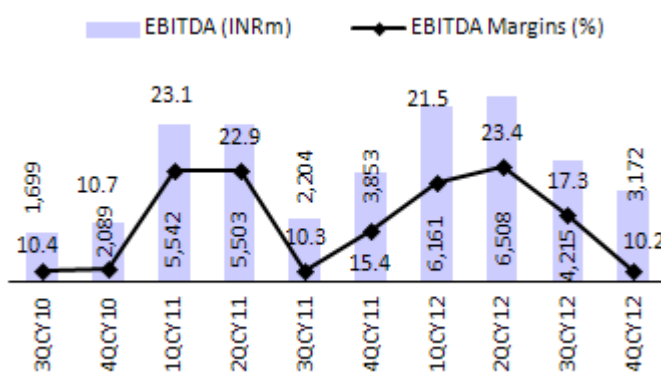


Source: Company, MOSL

Energy cost push dent profitability despite realizations being ahead of estimates

- Costs were lower than our estimates, driven by savings on energy side (due to higher contribution of linkage coal). Total cost (ex-RMC) was down ~2.3% QoQ (+2.4%YoY).
- EBITDA/ton of INR530 (down ~INR120/ton YoY and INR250/ton QoQ v/s est INR552/ton).
- EBITDA de-grew by 18% YoY (-25% QoQ) to INR3.17b (v/s est INR3.33b), translating into EBITDA margins of 10.2% (-520bp YoY, -710bp QoQ v/s est 12.8%).
- Higher other income and lower tax (due to full absorption of carried forward losses of RMC business) boosted PAT to INR2.39b(v/s est INR1.88b), a de-growth of 15% YoY (-4% QoQ).

Trend in Profitability



Source: Company, MOSL

Key performance indicator (INR/ton)

	4QCY12 *	3QCY11	YoY (%)	3QCY12	QoQ (%)
Net realization	4,166	4,199	-0.8	4,502	-7.5
Expenditure					
Raw Materials	1,243	542	129.4	511	143.2
Staff Cost	351	265	32.5	260	34.8
Power	901	981	-8.1	1,049	-14.1
Freight	1,020	830	22.8	899	13.4
Purchase of cement	94	70	34.4	56	69.0
Other Expenditure	1,074	864	24.3	946	13.5
Total cost	4,683	3,552	31.8	3,721	25.8
EBITDA	-517	648	-179.9	781	-166.3

* Incl RMC business from 4QCY12

Source: Company, MOSL

Positive outlook

- **Outlook:** "We expect demand for cement to improve in the coming year. On the costs front, we anticipate that the prices of our major inputs such as coal/ energy, slag, gypsum and freight costs may be under pressure."
- Preliminary work on the new Jamul expansion project of 5mt (net addition of 3.5mt) for USD600m has commenced with placement of orders of major plant and equipment and groundbreaking at site. The project is scheduled for completion in a phased manner by CY15.

Downgrading estimates

- We are downgrading our EPS for CY13/CY14 by 9%/5% to INR72.5/93.5 respectively, to factor in for:
 - lower volumes (8% growth v/s 10% earlier) & realization (~INR9/12 per bag)
 - higher royalty (by 0.7%)
 - merger of RMC subsidiary
- Our estimates factors in for 6%/7.5% energy cost inflation and 7.5%/5% freight cost inflation in CY13/CY14.

ACC: Revised estimates (INR b)

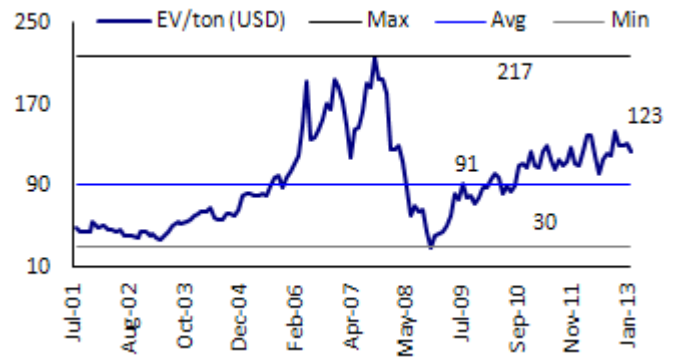
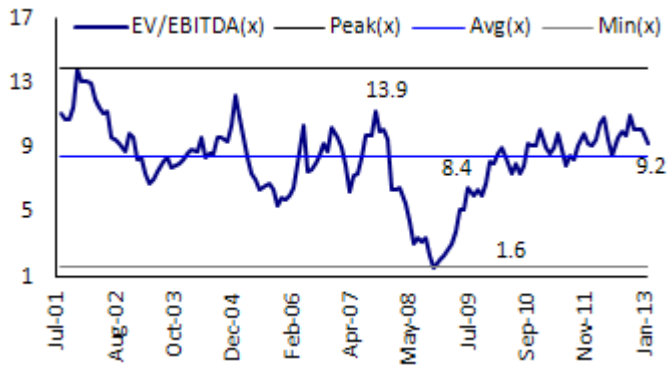
	CY13E			CY14E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	125.3	124.0	1.0	143.3	143.8	-0.3
Net Profit	13.8	15.1	-9.0	17.6	18.5	-4.8
EPS (INR)	73.2	80.4	-9.0	93.5	98.2	-4.8

Source: MOSL

Valuation and view

- Pan-India presence and very strong brand equity makes ACC one of the best proxies on Indian Cement industry.
- However, given its highest dependence on domestic linkage coal (over 60%), ACC would be worst impacted due to reduction in availability of linkage coal.
- Allotment of coal blocks in MP (in a JV with the state) and West Bengal (in a consortium) offers option value.
- The stock trades at 7.2x CY14E EV/EBITDA and USD114/ton. Maintain **Neutral** with target price of INR1,601 (~9x CY14E EV/EBITDA).

ACC: Trend in valuations



Source: Bloomberg, MOSL

ACC: an investment profile

Company description

ACC, part of Holcim group, is the largest standalone cement company in India with total capacity of 30.7m ton. It has pan-India presence with 16 plants. It is the oldest player in the Indian cement industry with ~10% market share.

Key investment argument

- Market leader with strong national presence with overall market share of ~10%.
- High sensitivity to cement prices as every INR1/bag change in cement price would change CY13E EPS by 2.4%.
- Focused on reducing power cost by setting up captive power plants and increasing usage of alternate fuels.

Key investment risks

- Very limited scope to increase production through blending as 85% of cement sold is blended.
- Cost base to trend higher as high dependence on domestic coal would necessitate shift towards imported coal as availability of domestic linkage coal reduces.

Recent development

- The Board has recommended total dividend of INR30/share (incl interim dividend of INR11/share v/s CY11 INR28/share).

Valuation and view

- The stock trades at 7.2x CY14E EV/EBITDA and USD114/ton.
- Maintain **Neutral** with target price of INR1,601 (~9x CY14E EV/EBITDA).

Sector view

- We believe we have already witnessed bottom-of-the-cycle utilization & profitability, and it should gradually improve hereon given sustainable demand drivers.
- Structural increase in cost base would necessitate higher cement prices.
- Continued revival in cement demand, witnessed in 2HFY12, would be key catalyst for the stock performance.

Comparative valuations

		ACC	Ambuja Cements	UltraTech Cement
P/E(x)	CY13E	18.4	17.7	14.9
	CY14E	14.4	15.0	13.2
P/BV(x)	CY13E	3.1	3.2	2.9
	CY14E	2.8	2.8	2.4
EV/Ton (US\$)	CY13E	124	172	158
	CY14E	114	161	156
EV/EBITDA(x)	CY13E	9.5	9.5	8.4
	CY14E	7.2	7.7	7.3

Shareholding pattern (%)

	Dec-12	Sep-12	Dec-11
Promoter	50.5	50.5	50.5
Domestic Inst	10.2	10.6	13.1
Foreign	20.6	20.2	17.8
Others	18.8	18.8	18.7

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
CY13	72.5	85.6	-15.3
CY14	93.5	97.8	-4.4

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
1,345	1,601	19.0	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E December	CY11	CY12E	CY13E	CY14E	
Net Sales	94,296	111,305	125,308	143,339	
Change (%)	22.2	18.0	12.6	14.4	
Total Expenditure	77,396	91,624	104,043	117,425	
EBITDA	16,901	19,681	21,265	25,914	
Change (%)	8.8	16.4	8.0	21.9	
Margin (%)	17.9	17.7	17.0	18.1	
Depreciation	-4,753	-5,589	-5,769	-5,760	
Int. and Fin. Charges	-969	-1,147	-1,000	-900	
Other Income - Rec.	4,226	4,923	5,150	5,850	
PBT Before EO Item	15,404	17,869	19,645	25,105	
EO Income/(Expense)	2,280	-3,354	0	0	
PBT After EO Item	17,684	14,515	19,645	25,105	
Tax	4,431	3,903	5,894	7,531	
Tax Rate (%)	25.1	26.9	30.0	30.0	
Reported PAT	13,253	10,612	13,752	17,573	
Adjusted PAT	11,544	12,918	13,752	17,573	
Change (%)	13.9	11.9	6.5	27.8	
Margin (%)	12.2	11.6	11.0	12.3	

Balance Sheet		(INR Million)			
Y/E December	CY11	CY12E	CY13E	CY14E	
Share Capital	1,879	1,880	1,880	1,880	
Reserves	70,043	71,949	78,554	88,430	
Net Worth	71,923	73,828	80,433	90,310	
Loans	5,061	850	850	850	
Deferred Tax Liability	5,184	5,169	5,464	5,840	
Capital Employed	82,167	79,848	86,747	97,000	
Gross Block	95,757	98,719	103,719	105,719	
Less: Accum. Deprn.	34,378	39,967	45,737	51,496	
Net Fixed Assets	61,378	58,752	57,982	54,223	
Capital WIP	4,353	3,000	9,000	21,000	
Investments	16,250	25,536	20,434	22,544	
Curr. Assets, Loans&Adv.	37,912	31,975	48,252	55,195	
Inventory	10,995	11,336	14,591	16,690	
Account Receivables	1,877	3,035	3,433	3,927	
Cash and Bank Balance	16,526	6,784	21,457	24,544	
Others	8,513	10,821	8,772	10,034	
Curr. Liab. and Prov.	37,726	39,415	48,922	55,961	
Account Payables	22,273	21,763	27,465	31,417	
Other Liabilities	3,723	3,811	6,008	6,872	
Provisions	11,730	13,841	15,449	17,672	
Net Current Assets	186	-7,440	-669	-766	
Application of Funds	82,167	79,848	86,747	97,000	

E: MOSL Estimates

Ratios					
Y/E December	CY11	CY12E	CY13E	CY14E	
Basic (INR)					
EPS	61.4	68.7	73.2	93.5	
Consolidated EPS	60.2	68.7	72.5	93.5	
Cash EPS	86.7	98.5	103.9	124.1	
BV/Share	382.7	392.9	428.0	480.6	
DPS	28.0	30.0	32.5	35.0	
Payout (%)	46.0	62.2	52.0	43.8	
Valuation (x)					
P/E	21.9	19.6	18.4	14.4	
Cash P/E	15.5	13.7	13.0	10.8	
EV/Sales	2.3	2.0	1.6	1.3	
EV/EBITDA	13.1	11.1	9.5	7.2	
P/BV	3.5	3.4	3.1	2.8	
Dividend Yield	2.1	2.2	2.4	2.6	
EV/ton (USD-Cap)	135	134	124	114	
Return Ratios (%)					
RoE	16.9	17.7	17.8	20.6	
RoCE	15.6	17.4	18.6	21.9	
Working Capital Ratios					
Debtor (Days)	7	10	10	10	
Asset Turnover (x)	0.9	0.7	0.7	0.7	
Leverage Ratio					
Debt/Equity (x)	0.1	0.0	0.0	0.0	

* EPS numbers are annualized.

Cash Flow Statement		(INR Million)			
Y/E December	CY11	CY12E	CY13E	CY14E	
OP/(Loss) before Tax	16,901	19,681	21,265	25,914	
Interest/Dividends Recd.	4,226	4,923	5,150	5,850	
Direct Taxes Paid	-2,863	-3,917	-5,599	-7,155	
(Inc)/Dec in WC	-4,391	-2,116	7,903	3,184	
CF from Operations	13,872	18,570	28,719	27,793	
EO Income/(Expense)	-2,280	3,354	0	0	
CF from Op. incl EO Exp.	16,152	15,217	28,719	27,793	
(inc)/dec in FA	-4,032	-1,609	-11,000	-14,000	
(Pur)/Sale of Investments	777	-9,286	5,101	-2,109	
CF from Investments	-3,255	-10,895	-5,899	-16,109	
Issue of Shares	70	-2,110	0	0	
(Inc)/Dec in Debt	-177	-4,211	0	0	
Interest Paid	-969	-1,147	-1,000	-900	
Dividend Paid	-6,095	-6,597	-7,147	-7,697	
CF from Fin. Activity	-7,171	-14,064	-8,147	-8,597	
Inc/Dec of Cash	5,725	-9,742	14,673	3,087	
Add: Beginning Balance	10,800	16,526	6,784	21,457	
Closing Balance	16,526	6,784	21,457	24,544	

N O T E S

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