NSSPL RESEARCH

ACC Ltd

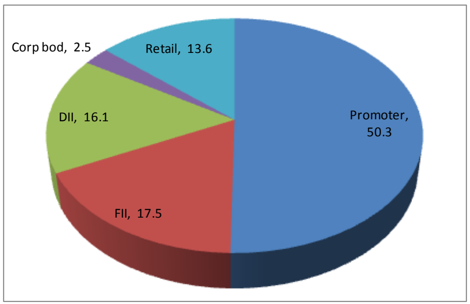
HOLD

BSE Code	500410
NSE Code	ACC
Bloomberg Code	ACC:IN
Current Price	1572
Target Price	1530
Mcap ₹ bn	295.5
Mcap US$ bn	4.8
52 wk H/L	1774/1261
Face Value	10
2 wk avg vol (000)	544

Financial Snapshot

₹ mn	CY14	CY15E	CY16E
Net sales	117382	124609	140190
% ch	*5.10*	*6.16*	*12.50*
EBIDTA	15073	20495	26036
%ch	*-7.46*	*35.97*	*27.04*
PAT	11683	11394	13808
%ch	6.62	-2.48	21.19
EPS	62.2	60.6	73.5
BV	438.2	459.2	484.7
P/E	25.3	25.9	21.4
P/CEPS	17.0	15.5	14.0
EV/EBIDTA	18.4	13.5	10.5
EV/tonne US$	144.0	144.3	134.1

Shareholding Pattern



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Higher realizations with lower volumes seems unsustainable

ACC reported results with a very mixed outlook, sales volumes declined YoY by 10% which was partially offset by the higher realizations. On the EBIDTA side we saw margins were much higher but if we adjust for the one of income during the quarter the EBIDTA margin increase was limited. The profits however came in much lower as the company undertook an exceptional expense a non cash expense of higher depreciation. Overall the only bright spot in the results could be the higher margins driven by higher prices and lower costs. This we believe could be unsustainable if demand does not see a major revival during Q2 CY15E. Given the current situation with the land bill reform still hanging in the ballets we believe this financial year could be another wash out for the industry and ACC likewise.

Volume decline a major negative: ACC during Q1CY15E reported a decline in volumes of 10.2% over the previous year. The January to March quarter is the best quarter for the cement industry with highest infra activity. Given this poor performance during the quarter we believe volume growth for the current year now looks relatively difficult. The land bill still lies in limbo as opposition don't seem to relent which is only pushing infrastructure projects back. With limited scope of increased demand during Q2 and Q3 being the monsoons we don't see any indicator for any uptick in demand and hence volumes could remain subdued for the current year of the companies operations.

Realizations Increase: Cement companies have kept cement price high and even increased in certain parts of India. This comes as a bit of a surprise and volumes don't support this with there being a situation of oversupply in the markets. Keeping prices at the higher point might be a difficult task and we believe cement prices should move down over the next couple months and remain at lower levels through the monsoons. With the CCI already imposing a penalty for cartelization in the past the current price increases could once again raise a flag for the CCI to inspect.

Operating margins increase: Even with the decline volumes we saw EBIDTA margins increase during the quarter on the back of higher realizations. The costs too increased during the quarter which came in as a little bit of a surprise. With diesel rates declining and international coal prices lower we could see some rationalization in costs going forward. This is a bright spot in the near term as any lowering of realizations would not affect margins negatively as costs too could decline.

One of benefit and costs offset each other: ACC had to large one off items which almost cancelled themselves off at the PBT levels. During the quarter the company won a judgment in their favour which allowed them to register a income of ₹1.40bn against the Jharkand government for concession that were promised to them. Going forward we would see these benefits on a yearly basis till they were promised. Also during the quarter the company took a one time extra depreciation cost to the tune of ₹1.53bn for assets against their useful life.

Net profit lower on tax write backs reduce: Although we saw a big decline in the PAT during the quarter this was due to benefits of tax write back from previous years being lower. With the company reporting healthy profitability tax rates would rise as per estimates keeping net profits muted for the current year.

Valuations

At the current price the stock is trading at a P/E of 25.9x and 21.4x and on a P/CEPS of 15.5x and 14.0x while on the EV/EBIDTA it trades at 13.5x and 10.5x for CY15E and CY16E respectively. On an EV/tonne basis the stock trades at $134.1 its CY16E which is marginally above replacement cost. Valuations at present are pegged at reasonable levels and we believe when the cement demand witness an uptick we will see valuations improve as well then. However given our view that cement demand will not see any uptick during the next 6 months and we could see some pricing pressure we would continue to retain our old valuation multiple of 15x CY15E earning which seem reasonable. Based on this we retain our target price of ₹1530 based on our revised numbers post the current quarter numbers and exceptional items. Although the target is lower than the current price we believe the demand for cement will rebound and that will lead to valuation increase and in view of that we remain positive on the company and retain our HOLD recommendation.

Financials

In Rs million	CY13	CY14	CY15E	CY16E
Net sales	111,689	117,382	124,609	140,190
YoY (%)	*(1.7)*	*5.1*	*6.2*	*12.5*
Total expenses	95,402	102,310	104,114	114,154
EBIDTA	16,288	15,073	20,495	26,036
YoY (%)	*(25.8)*	*(7.5)*	*36.0*	*27.0*
EBIDTA (%)	14.6	12.8	16.4	18.6
Other income	2,238	2,683	3,020	1,498
PBIDT	18,526	17,755	23,515	27,534
Depreciation	5,740	5,576	6,160	7,228
PBIT	12,786	12,180	17,354	20,306
Interest	517	828	0	0
Extra-Ordinary exp	0	0	1,530	0
PBT	12,270	11,352	15,824	20,306
YoY (%)	*(15.5)*	*(7.5)*	*39.4*	*28.3*
(-) Tax	1,312	(331)	4,431	6,498
Tax/ PBT	10.7	(2.9)	28.0	32.0
PAT	10,958	11,683	11,394	13,808
YoY (%)	*3.3*	*6.6*	*(2.5)*	*21.2*
Net Profit (%)	9.8	10.0	9.1	9.8

In Rs million	CY13	CY14	CY15E	CY16E
Equity capital	1,880	1,880	1,880	1,880
Reserves	76,369	80,477	84,427	89,214
Net worth	78,248	82,356	86,307	91,093
Total borrowings	0	0	0	0
Non Current Liabilities	10,031	6,515	11,195	11,763
Current Liabilities	32,656	37,842	34,095	36,848
Total liabilities	**120,936**	**126,713**	**131,597**	**139,704**
Net block	55,040	55,984	54,824	76,741
CWIP	8,196	19,146	24,146	5,000
Investments	21,940	15,730	14,730	18,730
Current assets	24,009	23,691	25,734	27,070
Inventories	11,215	12,556	13,329	14,996
Debtors	3,972	4,107	5,121	5,761
Cash	5,034	3,043	3,300	2,329
other current assets	3,789	3,985	3,985	3,985
Non Current Assets	11,751	12,163	12,163	12,163
Misc expenses	0	0	0	0
Total assets	**120,936**	**126,713**	**131,597**	**139,704**

Cash Flow

In Rs million	CY13	CY14	CY15E	CY16E
Net profit	10,958	11,683	11,394	13,808
Depn and w/o	5,740	5,576	6,160	7,228
Deferred tax	(151)	139	0	0
Other income	(2,238)	(2,683)	(3,020)	(1,498)
Change in working cap	(2,460)	3,514	(5,534)	446
Operating cash flow	**11,848**	**18,229**	**9,000**	**19,984**
Other income	2,238	2,683	3,020	1,498
Capex	(6,891)	(16,462)	(10,000)	(10,000)
Investments	3,595	6,210	1,000	(4,000)
Change in non current	(1,830)	(4,875)	(4,211)	4,680
Investing cash flow	**(2,888)**	**(12,444)**	**(10,191)**	**(7,822)**
Dividend	(6,590)	(7,575)	(7,443)	(9,022)
Debt	(850)	0	0	0
Equity	0	0	0	0
Financing cash flow	**(7,440)**	**(7,575)**	**(7,443)**	**(9,022)**
Others	0	0	0	0
Net change in cash	**1,520**	**(1,790)**	**(8,634)**	**3,141**

Key Ratios

	CY13	CY14	CY15E	CY16E
EPS (Rs)	58.3	62.2	60.6	73.5
CEPS (Rs)	88.0	92.6	101.5	111.9
Book value (Rs)	416.3	438.2	459.2	484.7
DPS (Rs)	30.0	34.0	33.0	40.0
Debt-equity (x)	0.0	0.0	0.0	0.0
ROCE	16.7	15.2	20.6	22.9
ROE	14.4	14.5	13.5	15.6
Valuations				
PE (x)	27.0	25.3	25.9	21.4
Cash PE (x)	17.9	17.0	15.5	14.0
Price/book value (x)	3.8	3.6	3.4	3.2
Dividend yield	1.9	2.2	2.1	2.5
EV/Tonne$	144.3	144.0	144.3	134.1
EV/sales (x)	2.4	2.4	2.2	2.0
EV/EBDITA (x)	16.5	18.4	13.5	10.5

Disclaimer

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