



## HOLD

## Margin declined, expected to rebound

BSE Code	500410
NSE Code	ACC
Bloomberg Code	ACC:IN
Current Price	1577
Target Price	1542
Mcap ₹ bn	296.4
Mcap US\$ bn	4.9
52 wk H/L	1591/992
Face Value	10
2 wk avg vol (000)	546

ACC revenue for the quarter was above our estimates however the margins were much lower than expectations. It delivered a revenue growth of 1.6% YoY which was on the back of higher realizations of cement. For the full year the revenue growth was at 5.1% which was largely on the back of higher realizations. The operating margins for the quarter were the lowest in the last 8 quarters; this was due to higher power and freight costs and also due to shutdown of mining operations at two locations reducing access to cheaper raw materials. All of these trends have seen a reversal during the past couple months and we believe operating margins should have bottomed out at the current time. The profit growth was higher than an expectation which was largely due to tax credits and reversal from previous years.

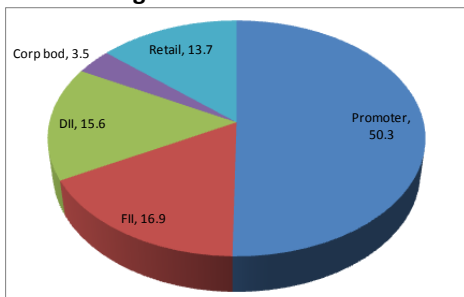
## Financial Snapshot

₹ mn	CY13	CY14	CY15E
Net sales	111689	117382	124254
% ch	-1.66	5.10	5.85
EBIDTA	16288	15073	22848
%ch	-25.82	-7.46	51.59
PAT	10958	11683	13194
%ch	3.26	6.62	12.94
EPS	58.3	62.2	70.2
BV	416.3	442.5	473.1
P/E	27.0	25.4	22.5
P/CEPS	17.9	17.2	15.3
EV/EBIDTA	16.5	18.2	12.0
EV/tonne US\$	147.2	150.1	149.6

**Volume growth revival keeps getting delayed:** We have been optimistic that cement demand would revive with new policies; however we have been disappointed at the end of every quarter now. The government budget is round the corner and there is hope for some good investment plans from the government. We would like to take a cautious view at the moment as the government also wants to maintain its fiscal budget which means investments could be pushed further. In addition the real estate sector which is the largest user of cement is facing a oversupply in many regions and we may see a slowdown of projects given large inventories at builders end. Although we are hopeful demand for cement would revive it could be a much longer wait for the same.

**Realizations remain firm:** Although cement realizations were higher YoY by 3.2% it was lower by 1.6% sequentially. As mentioned demand has not seen any major uptick over the past couple quarter. With lots of spare capacities in the cement industry we don't see any player able to push prices up in the near term to increase margins. Cement realizations for ACC were higher by 4% for CY14 which was largely to offset increase in costs of production and distribution. Although we believe it would not be easy to increase prices we don't see any price cuts either given profitability has been so much lower.

## Shareholding Pattern



**Operating margins bottomed out:** During Q4 CY14E we saw operating margins lower by 400bps over the previous year and 450bps sequentially. The decline in operating margins was due to two primary reasons, the first was higher freight costs which were due to the ever increasing fuel prices, this however has reversed now with a drastic cut in crude prices which have allowed for price cuts in diesel which will eventually be passed on benefiting cement companies. The Second was due to the forced shutdown of mining in Chaibasa and Bargarh plants which reduced access to low cost limestone. However these mines have now been regularized and as production starts we will see the benefits of these trickling into the margins. Based on these factors we believe margins have bottomed out and we expect them to see an uptick starting Q1 CY15E.

**Expansion plans progressing well:** The expansion plans of ACC are progressing well, Although there will be no capacity addition in CY15E there will be some new capacity in CY16E. This bodes well for them as they would be able to increase volumes through higher utilization rates and then progressively increase volumes through the new plants and higher utilizations when demand growth would see some acceleration.

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**Mining suspension at two units:** ACC has received notices to suspend limestone mining at 2 of its units, Chaibasa and Bargarh cement plants. This has led to the suspension of clinker manufacturing at these units in the near term. These mines have not been regularized and production from these are expected to start during the current quarter.

**Valuations:**

ACC at present is trading at a P/E 25.4x and 22.5x, a P/BV of 3.6x and 3.3x, P/CEPS of 17.2x and 15.3x and an EV/EBIDTA of 18.2x and 12.0x its CY14 and CY15E earnings respectively. On an EV/Tonne too it is trading at US\$149.6 their CY15E earnings which is above replacement cost. With expectation of revival in demand for cement we had upgraded our target price on a P/CEPS basis since the company was debt free and profitability is expected to grow. We continue to believe a 15x P/CEPS CY15E would be justifiable, we have further upped our profit levels in view of the lower diesel prices which will lower freight costs. Based on the new earnings and our retained target multiple we arrive at a price target which is marginally higher at ₹1542 which we believe to be the fair price over the next 12 months. Since our target price is marginally below the market price we retain our HOLD recommendation as we believe over the longer term cement demand will revive if the investments are to grow and with interest rates expected to decline giving a boost to both housing and infrastructure.

**Financials**

**Profit & Loss**

In Rs million	CY12	CY13	CY14E	CY15E
Net sales	113,580	111,689	117,382	124,254
YoY (%)	17.6	(1.7)	5.1	5.9
Total expenses	91,624	95,402	102,310	101,405
EBIDTA	21,956	16,288	15,073	22,848
YoY (%)	14.3	(25.8)	(7.5)	51.6
EBIDTA (%)	19.3	14.6	12.8	18.4
Other income	2,648	2,238	2,683	1,609
PBIDT	24,604	18,526	17,755	24,458
Depreciation	5,589	5,740	5,576	6,132
PBIT	19,015	12,786	12,180	18,326
Interest	1,147	517	828	0
Extra-Ordinary exp	3,354	0	0	0
PBT	14,515	12,270	11,352	18,326
YoY (%)	(5.8)	(15.5)	(7.5)	61.4
(-) Tax	3,903	1,312	(331)	5,131
Tax/ PBT	26.9	10.7	(2.9)	28.0
PAT	10,612	10,958	11,683	13,194
YoY (%)	(19.9)	3.3	6.6	12.9
Net Profit (%)	9.3	9.8	10.0	10.6

**Cash Flow**

In Rs million	CY12	CY13	CY14E	CY15E
Net profit	10,612	10,958	11,683	13,194
Depn and w/o	8,943	5,740	5,576	6,132
Deferred tax	(741)	(151)	0	0
Other income	(2,648)	(2,238)	(2,683)	(1,609)
Change in working cap	(286)	(2,460)	(6,377)	869
<b>Operating cash flow</b>	<b>15,880</b>	<b>11,848</b>	<b>8,199</b>	<b>18,586</b>
Other income	2,648	2,238	2,683	1,609
Capex	(5,191)	(6,891)	(9,804)	(12,000)
Investments	(9,286)	3,595	4,000	1,000
Change in non current	0	(1,830)	(4,875)	506
<b>Investing cash flow</b>	<b>(11,829)</b>	<b>(2,888)</b>	<b>(7,996)</b>	<b>(8,884)</b>
Dividend	(6,546)	(6,590)	(6,766)	(7,443)
Debt	(4,211)	(850)	0	0
Equity	0	0	0	0
<b>Financing cash flow</b>	<b>(10,757)</b>	<b>(7,440)</b>	<b>(6,766)</b>	<b>(7,443)</b>
Others	(1,205)	0	0	0
<b>Net change in cash</b>	<b>(7,910)</b>	<b>1,520</b>	<b>(6,563)</b>	<b>2,259</b>

**Balance Sheet**

In Rs million	CY12	CY13	CY14E	CY15E
Equity capital	1,880	1,880	1,880	1,880
Reserves	71,949	76,369	81,286	87,037
Net worth	73,828	78,248	83,165	88,917
Total borrowings	850	0	0	0
Non Current Liabilities	10,552	10,031	10,537	10,596
Current Liabilities	34,032	32,656	27,703	29,544
<b>Total liabilities</b>	<b>119,262</b>	<b>120,936</b>	<b>121,405</b>	<b>129,056</b>
Net block	58,639	55,040	54,464	53,332
CWIP	3,113	8,196	13,000	20,000
Investments	25,536	21,940	17,940	16,940
Current assets	24,675	24,009	24,251	27,034
Inventories	11,336	11,215	11,786	12,476
Debtors	3,035	3,972	4,824	5,106
Cash	6,784	5,034	3,852	5,662
other current assets	3,521	3,789	3,789	3,789
Non Current Assets	7,300	11,751	11,751	11,751
Misc expenses	0	0	0	0
<b>Total assets</b>	<b>119,262</b>	<b>120,936</b>	<b>121,405</b>	<b>129,056</b>

**Key Ratios**

	CY12	CY13	CY14E	CY15E
EPS (Rs)	56.5	58.3	62.2	70.2
CEPS (Rs)	82.3	88.0	91.8	102.8
Book value (Rs)	392.8	416.3	442.5	473.1
DPS (Rs)	30.0	30.0	30.0	33.0
Debt-equity (x)	0.0	0.0	0.0	0.0
ROCE	25.1	16.7	15.1	21.3
ROE	14.6	14.4	14.5	15.3

**Valuations**

PE (x)	27.9	27.0	25.4	22.5
Cash PE (x)	19.2	17.9	17.2	15.3
Price/book value (x)	4.0	3.8	3.6	3.3
Dividend yield	1.9	1.9	1.9	2.1
EV/Tonne\$	144.8	147.2	150.1	149.6
EV/sales (x)	2.3	2.4	2.3	2.2
EV/EBDITA (x)	12.1	16.5	18.2	12.0

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