

October 30, 2014

Kamlesh Bagmar
kamleshbagmar@plindia.com
+91-22-66322237

Ankit Shah
ankitshah@plindia.com
+91-22-66322244

Rating	BUY
Price	Rs1,497
Target Price	Rs1,650
Implied Upside	10.2%
Sensex	27,346
Nifty	8,169

(Prices as on October 30, 2014)
Trading data

Market Cap. (Rs bn)	281.0
Shares o/s (m)	187.7
3M Avg. Daily value (Rs m)	1039

Major shareholders

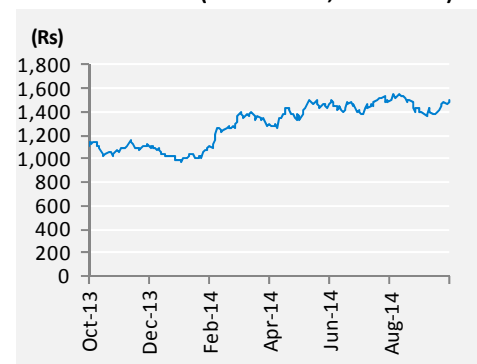
Promoters	50.30%
Foreign	18.65%
Domestic Inst.	13.82%
Public & Other	17.23%

Stock Performance

(%)	1M	6M	12M
Absolute	7.0	15.8	30.2
Relative	4.3	(6.2)	0.2

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	49.9	58.9	-15.2
2015	76.0	77.4	-1.7

Price Performance (RIC: ACC.BO, BB: ACC IN)


Source: Bloomberg

ACC reported Q3CY14 earnings, in-line-with our expectation. We continue to maintain our **BUY** rating on the stock, driven by strong outlook on demand of worst hit southern and western regions (both combined constitute 45% of ACC's total volumes) and play on improved operations.

■ **Higher-than-expected realisations negated the elevated cost:** Volumes grew 1.4% YoY to 5.62m tonnes, below our expectation of 5.71m tonnes. Company's blended realisations rose 3% QoQ (+7.7% YoY) to Rs4,879/t, above our expectation of Rs4,792. Around Rs34/t of the realisation were driven by better than expected revenues in RMC. However, higher-than-expected realisations were partially negated by higher costs. Total cost/t rose 5.2% YoY/Rs213 to Rs4,334 (PLe: Rs4,261) on account of higher-than-expected freight cost. Driven by increase in realisations higher than escalation in cost, EBITDA/t rose 34% YoY to Rs544, above our expectation of Rs532. EBITDA rose 36% YoY to Rs3.06bn (PLe; Rs3.03bn). Thanks to lower than expected tax rate (27% v/s PLe: 30%), PAT grew 62% YoY to Rs1.93bn, above our expectation of Rs1.74bn.

■ **Valuation and Outlook:** ACC would be the biggest beneficiary of an increase in all-India cement demand due to its pan-India presence and would have one of the cheapest valuations compared to its peers. The recent modernisation of Wadi and Chanda and upcoming commissioning of modernized Jamul plant should see reduction in cost and enhanced efficiencies. Stock trades at EV/T of US\$127 CY15E capacity, significantly lower compared to US\$170 of *UltraTech Cement* and *Ambuja Cement*. We maintain our **BUY** rating with TP of Rs1,650 at EV/T of US\$140 CY15E capacity of 34m tonnes.

Key financials (Y/e December)

	2012	2013	2014E	2015E
Revenues (Rs m)	111,306	109,084	116,736	133,474
Growth (%)	11.3	(2.0)	7.0	14.3
EBITDA (Rs m)	19,690	14,027	14,470	21,329
PAT (Rs m)	13,305	9,002	9,385	14,289
EPS (Rs)	70.8	47.9	49.9	76.0
Growth (%)	30.3	(32.3)	4.3	52.3
Net DPS (Rs)	30.0	30.0	27.9	38.0

Profitability & Valuation

	2012	2013	2014E	2015E
EBITDA margin (%)	17.7	12.9	12.4	16.0
RoE (%)	18.5	11.9	11.7	16.7
RoCE (%)	18.7	12.2	12.1	17.1
EV / EBITDA (x)	12.8	18.3	18.3	12.1
EV / Tonne (\$)	140.1	142.2	146.7	127.1
PE (x)	21.1	31.3	30.0	19.7
P / BV (x)	3.8	3.6	3.4	3.2
Net dividend yield (%)	2.0	2.0	1.9	2.5

Source: Company Data; PL Research

Exhibit 1: Q3CY14 Result Overview (Rs m)

Y/e Dec	Q3CY14	Q3CY13	YoY gr. (%)	Q2CY14	9MCY14	9MCY13	YoY gr. (%)
Net Sales	27,419	25,087	9.3	30,090	87,180	82,050	6.3
Raw Material	4,119	4,976	(17.2)	5,033	14,542	13,531	7.5
<i>% of Net Sales</i>	<i>15.0</i>	<i>19.8</i>		<i>16.7</i>	<i>16.7</i>	<i>16.5</i>	
Staff Costs	1,919	1,727	11.1	1,940	5,553	5,068	9.6
<i>% of Net Sales</i>	<i>7.0</i>	<i>6.9</i>		<i>6.4</i>	<i>6.4</i>	<i>6.2</i>	
Power & Fuel	6,261	5,585	12.1	6,212	18,571	17,969	3.3
<i>% of Net Sales</i>	<i>22.8</i>	<i>22.3</i>		<i>20.6</i>	<i>21.3</i>	<i>21.9</i>	
Freight	5,916	5,047	17.2	6,702	19,245	16,870	14.1
<i>% of Net Sales</i>	<i>21.6</i>	<i>20.1</i>		<i>22.3</i>	<i>22.1</i>	<i>20.6</i>	
Other Expenses	6,145	5,497	11.8	6,191	18,544	17,550	5.7
<i>% of Net Sales</i>	<i>22.4</i>	<i>21.9</i>		<i>20.6</i>	<i>21.3</i>	<i>21.4</i>	
Total Expenditure	24,359	22,832	6.7	26,077	76,455	70,987	7.7
EBITDA	3,059	2,254	35.7	4,013	10,725	11,063	(3.1)
<i>Margin (%)</i>	<i>11.2</i>	<i>9.0</i>		<i>13.3</i>	<i>12.3</i>	<i>13.5</i>	
Depreciation	1,419	1,470	(3.5)	1,401	4,210	4,288	(1.8)
Other income	1,054	1,004	5.0	884	3,055	2,987	2.3
EBIT	2,694	1,788	50.7	3,496	9,570	9,762	(2.0)
Interest	115	110	3.8	111	334	397	(15.9)
PBT	2,580	1,678	53.8	3,385	9,236	9,365	(1.4)
Extraordinary income/(expense)	-	-		-	560	399	
PBT (After EO)	2,580	1,678	53.8	3,385	9,796	9,764	0.3
Tax	684	512	33.5	984	1,532	1,678	(8.7)
<i>% PBT</i>	<i>26.5</i>	<i>30.5</i>		<i>29.1</i>	<i>15.6</i>	<i>17.2</i>	
Reported PAT	1,896	1,165	62.7	2,400	8,264	8,086	2.2
Minority interest	(0)	(0)		(1)	(2)	(1)	
Share of profit/(loss) in associates	30	24	26.3	32	94	104	(10.1)
Net profit attributable to shareholders	1,926	1,189	62.0	2,432	8,356	8,190	2.0
Adjusted profit attributable to shareholders	1,926	1,189	62.0	2,432	6,859	6,518	5.2

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e December	Q3CY14	Q3CY13	YoY gr. (%)	Q2CY14	9MCY14	9MCY13	YoY gr. (%)
Volume (m te)	5.62	5.54	1.4	6.35	18.45	18.08	2.0
Cement realisations (Rs/t)	4,707	4,275	10.1	4,492	4,508	4,311	4.6
Blended realisations/t (Cement + RMC)	4,879	4,528	7.7	4,739	4,725	4,538	4.1
EBITDA/t (Rs/t)	544	407	33.8	632	581	612	(5.0)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e December	2012	2013	2014E	2015E
Net Revenue	111,306	109,084	116,736	133,474
Raw Material Expenses	17,303	18,609	19,794	21,515
Gross Profit	94,003	90,475	96,942	111,958
Employee Cost	6,179	6,630	7,212	7,861
Other Expenses	68,134	69,819	75,260	82,768
EBITDA	19,690	14,027	14,470	21,329
Depr. & Amortization	5,689	5,838	5,939	5,988
Net Interest	1,147	517	488	534
Other Income	1,555	4,464	4,794	4,822
Profit before Tax	14,410	12,136	12,837	19,629
Total Tax	3,911	1,319	2,467	5,496
Profit after Tax	10,499	10,817	10,370	14,133
Ex-Od items / Min. Int.	(2,112)	(2,258)	(982)	160
Adj. PAT	13,305	9,002	9,385	14,289
Avg. Shares O/S (m)	188.0	188.0	188.0	188.0
EPS (Rs.)	70.8	47.9	49.9	76.0

Cash Flow Abstract (Rs m)

Y/e December	2012	2013	2014E	2015E
C/F from Operations	15,769	10,686	14,535	19,449
C/F from Investing	(3,079)	(7,283)	(14,789)	(5,971)
C/F from Financing	(10,660)	(8,609)	(8,284)	(6,636)
Inc. / Dec. in Cash	2,029	(5,206)	(8,538)	6,842
Opening Cash	29,526	31,555	25,229	20,191
Closing Cash	31,555	25,229	20,191	27,033
FCFF	12,865	8,192	10,157	(11,665)
FCFE	9,388	6,911	9,807	(11,665)

Key Financial Metrics

Y/e December	2012	2013	2014E	2015E
Growth				
Revenue (%)	11.3	(2.0)	7.0	14.3
EBITDA (%)	16.8	(28.8)	3.2	47.4
PAT (%)	30.3	(32.3)	4.3	52.3
EPS (%)	30.3	(32.3)	4.3	52.3
Profitability				
EBITDA Margin (%)	17.7	12.9	12.4	16.0
PAT Margin (%)	12.0	8.3	8.0	10.7
RoCE (%)	18.7	12.2	12.1	17.1
RoE (%)	18.5	11.9	11.7	16.7
Balance Sheet				
Net Debt : Equity	(0.4)	(0.3)	(0.2)	(0.3)
Net Wrkng Cap. (days)	(275)	(270)	(268)	(260)
Valuation				
PER (x)	21.1	31.3	30.0	19.7
P / B (x)	3.8	3.6	3.4	3.2
EV / EBITDA (x)	12.8	18.3	18.3	12.1
EV / Sales (x)	2.3	2.3	2.3	1.9
Earnings Quality				
Eff. Tax Rate	27.1	10.9	19.2	28.0
Other Inc / PBT	27.6	38.5	37.3	24.6
Eff. Depr. Rate (%)	5.5	5.5	5.4	4.2
FCFE / PAT	70.6	76.8	104.5	(81.6)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e December	2012	2013	2014E	2015E
Shareholder's Funds	73,724	78,134	82,544	88,539
Total Debt	1,631	350	—	—
Other Liabilities	5,251	5,155	5,671	6,654
Total Liabilities	80,606	83,640	88,215	95,193
Net Fixed Assets	64,397	67,936	78,847	80,773
Goodwill	—	—	—	—
Investments	1,014	867	1,011	1,169
Net Current Assets	15,195	14,837	8,357	13,251
Cash & Equivalents	30,579	25,446	16,909	23,751
Other Current Assets	23,291	26,762	27,929	30,263
Current Liabilities	38,676	37,371	36,481	40,763
Other Assets	—	—	—	—
Total Assets	80,606	83,640	88,215	95,193

Quarterly Financials (Rs m)

Y/e December	Q4CY13	Q1CY14	Q2CY14	Q3CY14
Net Revenue	26,873	29,671	30,090	27,419
EBITDA	2,627	3,653	4,013	3,059
% of revenue	9.8	12.3	13.3	11.2
Depr. & Amortization	1,550	1,390	1,401	1,419
Net Interest	(1,296)	(1,009)	(773)	(939)
Other Income	1,416	1,117	884	1,054
Profit before Tax	2,372	3,832	3,385	2,580
Total Tax	(359)	(136)	984	684
Profit after Tax	2,757	3,999	2,432	1,926
Adj. PAT	1,998	2,501	2,432	1,926

Key Operating Metrics

Y/e December	2012	2013	2014E	2015E
Volume (mn te)	24.1	23.9	24.7	26.2
Net Realisation (Rs/te)	4,376.5	4,321.8	4,432.4	4,787.0
EBITDA (Rs/ te)	816.7	586.2	586.0	812.7
RM cost (Rs/ te)	717.4	779.9	801.7	819.9
Power, Oil & Fuel (Rs/ te)	988.5	999.4	1,012.7	1,036.6
Freight Charges (Rs/ te)	921.3	967.9	1,035.6	1,087.4

Source: Company Data, PL Research.

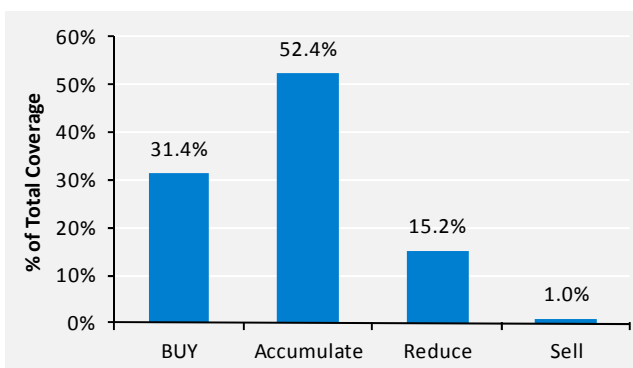


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.