

ACC Ltd

₹ 1467

Most Mature in the Sector**Accumulate**

Nov 09, 2012

Company Background

ACC Limited (ACC) is among India's leading manufacturers of cement established in 1936. Formerly called "The Associated Cement Companies Limited," ACC has a countrywide network of modern cement plants, sales offices, dealers and retailers. In the 75 years of its existence, ACC has been a pioneer and trend-setter in cement and sustainable development. ACC is India's foremost manufacturer of cement and concrete. ACC's operations are spread throughout the country with 16 modern cement factories, more than 50 Ready mix concrete plants, 21 sales offices, and several zonal offices. It has a workforce of about 9,000 persons and a countrywide distribution network of over 10,000 dealers. ACC has rich experience in mining, being the largest user of limestone. As the largest cement producer in India, it is one of the biggest customers of the domestic coal industry, of Indian Railways, and a considerable user of the country's road transport network services for inward and outward movement of materials and products.

Key Highlights

- ➔ Company's wholly owned subsidiary company, ACC Concrete Ltd, Encore Cement & Additives Pvt. Ltd. was amalgamated with the Company.
- ➔ To meet the demand for cement in the Eastern Region, the Company will set up a new clinker production facility of 2.79 MTPA and allied grinding facility at Jamul. ACC plans to spend ₹ 33 bn to increase its capacity by 4 mn tn by 2015. The funding would be through internal accruals. The existing clinkering & grinding lines at Jamul will be phased out. ACC is also planning decentralized grinding stations which will use clinker produced at Jamul. The project will be implemented in a phased manner & scheduled to complete by Q1 2015.
- ➔ The company proposes to develop four coal blocks in Madhya Pradesh and one in West Bengal to secure its raw material requirements.
- ➔ Going ahead, power and fuel cost will be lower for the company, as it currently has 85% self sufficiency in its power requirement with a 361MW captive power plant (CPP) and access to the highest coal linkage in the industry along with few captive coal blocks.

Key Financials

Year Ended 31 st	Dec 09	Dec 10	Dec 11
Revenue (INR mn)	82,274.0	80,870.9	100,018.9
Rev. growth (%)	8.95	(1.71)	23.68
EBITDA (INR mn)	27,703.9	20,641.7	23,621.4
Net profit (INR mn)	16,067.3	11,209.4	13,267.5
Shares outstanding (mn)	187.7	187.8	187.8
EPS (INR)	85.6	59.7	70.7
EPS growth (%)	32.44	(30.24)	18.36
P/E (x)	10.2	18.0	16.1
RONW (%)	28.2	15.6	14.4
ROCE (%)	25.7	14.4	13.4

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Previous Report

Date of Circulation	: Jun 15, 2012
Recommended at	: 1216
Target Price	: 1338
Target reached on	: Aug 08, 2012

Market Data

52 Wk Range (₹)	: 1515 / 1083
Shares in Issue (mn)	: 187.8
Mkt. Cap (₹ bn)	: 272.34.
BSE 2 Wk Avg Vol	: 23000

Share Holding Pattern (%)

Promoters	: 50.30
DII's	: 10.70
FII's	: 19.62
Others	: 19.38

Investment Theme

ACC aims to sustain the growth trend, of key deliverables like capacity utilization, energy efficiency, maintenance, quality, safety & cost competitiveness. It wishes to raise the bar in performance through continuous improvements in operation processes, comprehensive maintenance and high safety standards. In spite of availability and rising prices challenges, highest coal linkage provides competitive edge over other industry players. Captive Coal Blocks ensures cheaper coal sourcing in future. ACC is investing in WHRB for low cost power generation. ACC has 361 MW Thermal Power and 19 MW of Wind Farm, Higher Proportion of Blended Cement production, Well established AFR Program and Continuous Improvement/ Modernization of assets. Sustainable Development is the key priority in all its operations.

More Efficient Everyday !

Financial Statements

Income Statement

(₹ mn)

Year end	Dec 09	Dec 10	% Chg	Dec 11	% Chg
Total Sales + Excise	88031.7	86092.9	(2.20)	104919.3	21.87
Other Income	2032.4	3535.9	73.98	6441.9	82.19
Change in Stocks	287.4	565.8	96.87	943.9	66.83
Raw Material Con.	9015.4	11178.8	24.00	14425.3	29.04
Employee Exp.	3916.8	4622.6	18.02	5256.9	13.72
Indirect Taxes	8817.4	10580.1	19.99	12437.4	17.55
Other Exp.	40898.0	43171.4	5.56	56564.1	31.02
Operating Exp.	62360.2	68987.1	10.63	87739.8	27.18
Operating Profit	25671.5	17105.8	(33.37)	17179.5	0.43
Total Interest	1046.3	1014.5	(3.04)	1210.8	19.35
Gross Profit	26657.6	19627.2	(26.37)	22410.6	14.18
Net Dep.	3701.0	4176.3	12.84	4710.3	12.79
Total Taxation	6889.3	4241.5	(38.43)	4432.8	4.51
Net Profit/Loss	16067.3	11209.4	(30.23)	13267.5	18.36

4 Years Balance Sheet

(₹ mn)

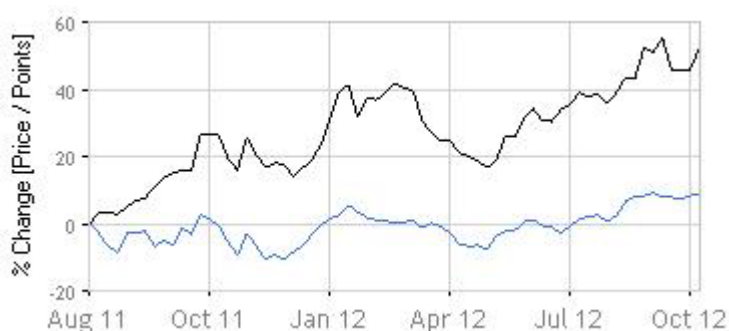
Balance Sheet as on 31 st	Dec 08	Dec 09	Dec 10	Mar 11
SOURCES OF FUNDS	54,097.6	65,831.4	69,933.1	77,030.0
Equity Share capital	1,878.8	1,879.4	1,879.5	1,879.5
Share Application Money	0.0	0.8	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	47,398.5	58,282.0	62,815.4	70,043.2
Secured Loans	4,500.0	5,500.0	5,099.3	5,000.0
Unsecured Loans	320.3	169.2	138.9	107.3
USES OF FUNDS	54,097.6	65,831.4	69,933.1	77,030.0
Gross Block	58,356.7	68,262.7	80,769.5	96,453.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	23,659.7	26,679.8	29,945.1	34,378.4
Net Block	34,697.0	41,582.9	50,824.4	62,075.3
Capital Work in Progress	16,028.6	21,562.1	15,628.0	4,353.2
Investments	6,790.8	14,756.4	17,026.7	16,249.5
Current Assets	28,945.8	24,535.5	38,908.2	51,556.5
Less : Current Liabilities	32,364.6	36,605.5	52,454.2	57,204.5
Total Net Current Assets	(3,418.8)	(12,070.0)	(13,546.0)	(5,648.0)
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	2,013.8	3,225.2	3,714.6	10,073.0
Mkt Val. Quoted Investments	4,659.2	11,490.5	13,267.4	6,059.0
Contingent Liabilities	18,998.2	10,508.9	6,679.5	7,942.8
Dividend (%)	200	230	305	280

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	25,552.0	28,890.9	28,153.9	24,739.2
Cost Of Sales	211,33.8	22441.7	21270	20095.1
Operating Profit	4,418.2	6449.2	6883.9	4644.1
Recurring Income	457.7	659.7	781.5	546.2
Adjusted PBDIT	4,875.9	7108.9	7665.4	5190.3
Financial Expenses	191.8	316.2	300.5	257.1
Depreciation	1,270.4	1305.4	1356.3	1352.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	3,413.7	5487.3	6008.6	3581.1
Tax Charges	989.0	579.8	1,829.3	1,094.4
Adjusted PAT	2424.7	4907.5	4179.3	2,486.7
Non Recurring Items	2,279.7	(3,353.8)	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	4,704.4	1,553.7	4,179.3	2,486.7

52 Week Index Relative Percentage Appreciation



ACC vs SENSEX

Points to Ponder

India has the 2nd largest cement industry in the world with demand at ~224 MT (world ~3570 MT) in 2011 & capacity ~290 MT (world ~4100 MT). Cement demand expected to grow at ~8-9 % per annum in foreseeable future on the back of ~7 % GDP growth. Low Indian Per capita consumption and higher Infrastructure growth leaves a bigger room for industry growth.

Risks Associated

The Cement Industry is capital intensive in nature. In the execution of large projects which are highly capital intensive in nature, there could be exposure to time and cost overruns. The Cement Industry is becoming intensely competitive with the foray of new entrants and some of the existing players adopting inorganic growth strategies. Availability of fuel at reasonable rates is one of the main concerns of the Company as it uses large quantities of coal annually to meet its kiln and captive power generation requirements. The overall cement demand growth in India continues to be at a creeping phase, while the cost inflation is only expected to worsen given that CIL is under severe pressure to raise prices going ahead. Further increase in fuel (petrol and diesel) costs is expected to hike the freight expenses of the cement companies sharply. The cement prices across the country are currently quoting at all time high levels. Thus the flexibility to pass on the cost increase from here on appears limited and could pressurize the margins going ahead. At some point we believe that there would be government intervention to control prices. The regulatory uncertainty with regard to the investigation by Competition Commission of India (CCI) on cartelization charges by cement major is another major overhang.

In a Nutshell

Over the years, ACC became the premier name in cement. It led the way in adoption of new technologies. Since inception in 1936, the company has been a trendsetter and important benchmark for the cement industry in many areas of cement and concrete technology. ACC has a unique track record of innovative research, product development and specialized consultancy services. The company's various manufacturing units are backed by a central technology support services centre - the only one of its kind in the Indian cement industry. Operations of the state-of-the-art kiln at Wadi and the cement grinding plants at Kudithini and Thondebhavi stabilized during 2011. The new clinkering unit at Chanda in Maharashtra also stabilized its operations during the year. The cement mill at Chanda was successfully commissioned during the year under review and commercial operations have commenced in January 2012 after appropriate ramping up. In 1947, India's first indigenous cement plant was built by the company at Chaibasa. ACC commissioned the country's first million ton kiln at Wadi in 1982, and recently erected the world's largest cement kiln with a daily capacity of 12,500 tons. From a production capacity of one million tons per annum in 1936, ACC have achieved a capacity of 30 million tons. ACC also set many trends in the cement industry. One of the most significant was the introduction of blended cements. Using industrial waste like slag and fly ash helped lower greenhouse emission and conserve mineral wealth. Today Indian cement industry is comparable to the best in the world in terms of lowest carbon dioxide emissions.

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Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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