

ACC Ltd.**₹ 1036****Making Network Work****Accumulate**

Jan 17, 2014

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

- ➔ Preliminary work at Jamul expansion project has commenced and is scheduled for completion in a phased manner in 2015, the project comprises a new clinkering line of 2.79 mn tn capacity & grinding facility of 1.10 mn tn.
- ➔ ACC is also establishing two other grinding plants in Eastern India, which will together enhance ACC's capacity by 5 mn tn of cement per annum. The total estimated cost of this expansion is Rs 3300 crore and shall be funded through internal accruals.
- ➔ 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.
- ➔ Steps have been initiated to consolidate the Company's RMX business through increased volumes from its existing assets. Vigorous efforts are being made to extend the customer base and leveraging the Company's vast cement network.

Key Financials

Year Ended 31 st	Dec 10	Dec 11	Dec 12
Revenue (INR mn)	80,870.9	100,018.9	116,089.2
Rev. growth (%)	(1.71)	23.68	16.07
EBITDA (INR mn)	20,688.1	23,664.1	21,744.0
Net profit (INR mn)	11,209.4	13,267.5	10,611.9
Shares outstanding (mn)	187.8	187.8	187.8
EPS (INR)	59.7	70.7	56.5
EPS growth (%)	(30.24)	18.36	(20.02)
P/E (x)	18.0	16.1	25.3
RONW (%)	15.6	14.4	18.1
ROCE (%)	14.4	13.4	17.3

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Info Codes

Reuters	: ACC.BO
Bloomberg	: ACC@IN
NSE	: ACC
BSE	: 500410

Market Data

52 Wk Range (₹)	: 1385 / 912
Shares in Issue (mn)	: 187.8
Mkt. Cap (₹ bn)	: 193.41
BSE 2 Wk Avg Vol	: 22000

Share Holding Pattern (%)

Promoters	: 50.30
DII's	: 12.91
FII's	: 19.99
Others	: 16.80

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.

Sustainable Development

Financial Statements

Income Statement

(₹ mn)

Year end	Dec 10	Dec 11	% Chg	Dec 12	% Chg
Total Sales + Excise	86092.9	105045.9	22.01	125071.7	19.06
Other Income	3535.9	6315.3	78.61	1110.9	(82.41)
Change in Stocks	565.8	943.9	66.83	(200.2)	(121.21)
Raw Material Con.	11178.8	11763.4	5.23	16385.5	39.29
Employee Exp.	4622.6	5330.1	15.31	6166.5	15.69
Indirect Taxes	10580.1	12528.1	18.41	14856.1	18.58
Other Exp.	43171.4	59075.2	36.84	66895.5	13.24
Operating Exp.	68987.1	87752.9	27.20	104503.8	19.09
Operating Profit	17105.8	17293.0	1.09	20567.9	18.94
Total Interest	1014.5	1210.8	19.35	1892.6	56.31
Gross Profit	19627.2	22397.5	14.11	19786.2	(11.66)
Net Dep.	4176.3	4697.2	12.47	5523.6	17.59
Total Taxation	4241.5	4432.8	4.51	3650.7	(17.64)
Net Profit/Loss	11209.4	13267.5	18.36	10611.9	(20.02)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Dec 09	Dec 10	Dec 11	Dec 12
SOURCES OF FUNDS	65,831.4	69,933.1	77,030.0	75,458.6
Equity Share capital	1,879.4	1,879.5	1,879.5	1,879.5
Share Application Money	0.8	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	58,282.0	62,815.4	70,043.2	71,948.5
Long Term Loans	5,669.2	5,138.9	5,107.3	880.6
Short Term Loans	0.0	99.3	0.0	750.0
USES OF FUNDS	65,831.4	69,933.1	77,030.0	75,458.6
Gross Block	68,262.7	80,769.5	96,453.7	102,187.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	26,679.8	29,945.1	34,378.4	43,549.1
Net Block	41,582.9	50,824.4	62,075.3	58,638.7
Capital Work in Progress	21,562.1	15,628.0	3,656.3	3,113.0
Investments	14,756.4	17,026.7	16,249.5	25,535.5
Current Assets	24,535.5	38,908.2	39,671.5	34,139.9
Less : Current Liabilities	36,605.5	52,454.2	44,622.6	45,968.5
Total Net Current Assets	(12,070.0)	(13,546.0)	(4,951.1)	(11,828.6)
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	3,225.2	3,714.6	16,013.0	25,299.0
Mkt Val. Quoted Investments	11,490.5	13,267.4	119.0	95.3
Contingent Liabilities	10,508.9	6,679.5	7,352.2	30,564.9
Dividend (%)	230	305	280	300

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	31,795.60	29,560.70	28,509.90	25,696.80
Cost Of Sales	27,817.00	24,643.10	23,617.30	22,833.00
Operating Profit	3,978.60	4,917.60	4,892.60	2,863.80
Recurring Income	660.80	1,025.70	350.10	412.20
Adjusted PBDIT	4,639.40	5,943.30	5,242.70	3,276.00
Financial Expenses	272.70	108.10	178.60	110.40
Depreciation	1,575.00	1,382.90	1,387.20	1,443.70
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	2,791.70	4,452.30	3,676.90	1,721.90
Tax Charges	399.50	1,483.60	1,086.00	513.50
Adjusted PAT	2,392.20	2,968.70	2,590.90	1,208.40
Non Recurring Items	0.00	1,408.30	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	2,392.20	4,377.00	2,590.90	1,208.40

52 Week Index Relative Percentage Appreciation



ACC vs SENSEX

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. Though the sector faces a lot of cost worries and regulations the overall Cement demand is expected to grow at ~8-9% per annum in the 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.

In a Nutshell

ACC (ACC Limited) is India's foremost manufacturer of cement and concrete. 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's operations are spread throughout the country with 17 modern cement factories, more than 40 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 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. The company proposes to develop four coal blocks in Madhya Pradesh and one in West Bengal to secure its raw material requirements. Operations of the state-of-the-art kiln at Wadi and the cement grinding plants at Kudithini and Thondebhavi have also stabilized. The new clinkering unit at Chanda in Maharashtra also stabilized its operations. 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. This route of sustainable development will take ACC far in the long run.

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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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