

## 1QCY09 Result Update

CMP: INR 679

MARKET PERFORMER

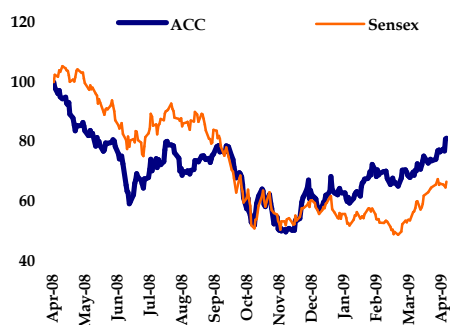
Sector View	CAUTIOUS
Company Risk	MEDIUM
BSE Sensex	11,135
S&P Nifty	3,424
<b>Bloomberg Consensus</b> (BUY/HOLD/SELL)	8 / 7 / 25
BSE Code	500410
NSE Code	ACC
Bloomberg Code	ACC IN
Reuters	ACC.BO
52 Wk High/Low (INR)	855 / 369
Equity (INR Mn)	1,877
Market Cap. (INR Mn)	1,21,560

### Shareholding Pattern (%)

Foreign	11.12
Institutions	22.14
Corporate	3.66
Government	0.21
Promoters	46.21
Public & Others	16.67

Returns (%)	Abs Perf	Relative to Sensex
1 Month	15.25	0.07
3 Months	32.24	5.90
1 Year	-18.84	14.56

### Relative Price Performance



Source: Comline Products

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Despite gloomy macro headwinds, domestic demand factors remained conducive for cement players during the last quarter. Cement industry, which was already facing the demand slowdown due to deceleration in the activity level of the major demand drivers, has recorded average 9.1% volume growth during quarter, owing to strong local infrastructure spending and individual housing demand. However, likely new capacities by the industry players over the next two years will result in a surplus scenario from 2HCY09 onwards, which would pressurize realizations and margins. GDP growth targets for the FY10 has already being moderated to around 6% and next year looks more rigorous particularly in view of estimated housing sector slowdown. The only respite would be softening cost front, which will arrest some decline in margins.

### 1QCY09 Result Highlights

- ✓ Surprised hike in realizations by 8% and healthy volume growth of 6% supported by strong industry volumes, led company's revenues to grow by 14.4% at 20,551 mn during 1QCY09.
- ✓ 11.4% decline in other expenses and cooling coal prices had softened the cost front, restricting operating cost at Rs 14,077 mn.
- ✓ Strict control over operating cost, strong realizations and Rs 197 mn credit in employee cost has augmented EBITDA margins by 484 bps at 32.4%. EBITDA was higher by 33.9% at Rs 6,704 mn during the quarter
- ✓ Despite 561% rise in interest cost owing to royalty claim and increase in effective tax rate by 260 bps, net profit for the quarter surged by 13.1% at Rs 4,047 mn keeping in mind the above positives.

### Valuation

At Rs 679, ACC is trading at P/E of 11.1x for CY09 earnings. Stock and the entire sector are running ahead of the benchmark indices over the last few months, after under performing post May'06. On a peer comparison basis, the company is trading at premium due to its size and pan India presence. We believe, stock has already factored in company's operating efficiencies and all the positives.

Overall we foresee challenging time for the company in view of intensifying competition and significant capacity expansion plans by cement players, which would make it difficult to maintain its leadership position and offload its surplus produces in near terms. We assign 'MARKETPERFORMER' rating to stock.

### Financial Summary

Description (INR Mn)	CY2007	CY2008	CY2009E
Total Income	71,859	75,973	77,644
EBITDA	19,174	17,332	20,587
Net Profit	14,386	12,128	11,524
EPS (INR)	76.6	64.6	61.3

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### Ongoing Expansion Projects

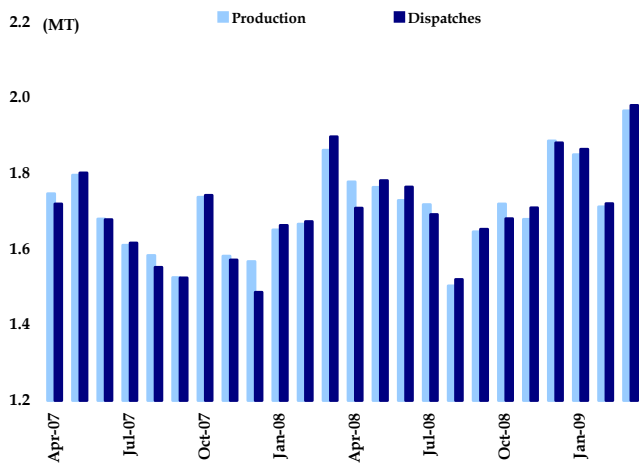
Company has planned to add up new capacity of 8MT taking its total capacity up to 30.57 MT by the end of CY10. The expansion of capacity at Bargarh, New wadi, and Chanda made progress during the quarter. Company had planned cumulative capex of Rs 36000 mn for its ongoing expansions over three years CY08-10. Capacity expansion at 1.35 MT Bargarh (Orissa) with 35 MW captive power plant is slated to be completed by mid CY09. Expansion at New Wadi 3 MT along with 50 MW captive capacities would be commissioned in phases between August 2009 and March 2010. New clinker line with a capacity of 7000 TPD and 25 MW captive power plant at Chanda (Maharashtra) is expected to be completed by mid-2010.

### Price Outlook

Cement realizations during the quarter remained firm across the regions on account of strong demand. Company’s key markets, Northern and Western regions, witnessed highest price hike of Rs 10-15 per 50 Kg. bag of cement. Prices are expected to remain firm till 2QCY09 following the demand trend. However, start up of monsoon season by end of 2QCY09 and huge capacity expansion plans in Northern region during CY09 would exert downward pressure on cement prices as going forward, consequently, margins decline in near terms remain inevitable.

### Production & Dispatches

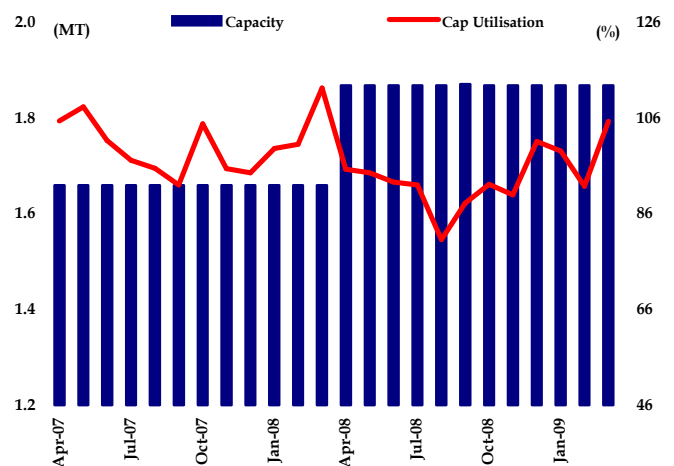
Production and dispatches during the quarter recorded firm growth of 7% and 6% respectively, owing to peak season and firm domestic demand from local infrastructure. Company’s production and dispatches remained highest in last four quarters at 5.6MT and 5.7MT for 1QCY09. However, we believe slowing real estate and uncertainty over new infra projects will put pressure on volumes in near terms.



Source: Company, Khandwala Securities

### Capacity Utilization

As most of capacity expansions ramped up by the end of Mar’09 quarter, low supply had forced cement companies to work ahead of the 100% utilization levels. Company has worked at 105% capacity utilization during Mar’09, which remained highest during the last 12 months. However, capacity utilization will remain under strain considering waning demand and massive capacity addition.



Source: Company, Khandwala Securities



## 1QCY09 Financial Results

Description (INRMn)	1QCY09 Mar-09	1QCY08 Mar-08	Y-o-Y Growth	4QCY08 Dec-08	Q-o-Q Growth
<b>Net Sales/ Income from Operation</b>	20,817	18,283	13.9%	19,610	6%
Other Income	242	331	-26.9%	712	-66%
<b>Total Income</b>	21,059	18,614	13.1%	20,322	4%
<b>Expenditure</b>					
Decrease / ( Increase ) in stock	534	489	9.2%	711	-25%
Raw material Consumed	2,060	1,966	4.8%	1,541	34%
Purchase of finished goods	253	276	-8.4%	180	40%
Employees Cost	794	793	0.1%	1,458	-46%
Power & fuel	4,114	3,287	25.1%	4,508	-9%
Freight & Handling Expenses	2,778	2,435	14.1%	2,610	6%
Other expenditure	3,545	4,002	-11.4%	4,404	-19%
<b>Total Expenditure</b>	14,077	13,248	6.3%	14,761	-5%
<b>EBITDA</b>	6,740	5,035	33.9%	4,849	39%
<b>EBITDA Margin</b>	32.4%	27.5%	4.84%	24.7%	7.6%
Depreciation & Amortisation	789	714	10.6%	768	3%
<b>PBIT</b>	6,192	4,652	33.1%	4,794	29%
Interest and finance	368	56	560.5%	120	207%
Exceptional Items	-	(366)	-100.0%	(0)	-100%
<b>PBT</b>	5,824	4,962	17.4%	4,674	25%
Total Tax	1,777	1,383	28.5%	1,315	35%
<b>Net Profit</b>	4,047	3,580	13.1%	3,359	20%
Equity Share Capital	1,879	1,878	-	1,879	
<b>Basic EPS(INR)</b>	21.5	19.1	13.0%	17.9	20%



## Financials: Income Statement

Description (INRMn)	CY2007 Dec-07	CY2008 Dec-08	CY2009E Dec-09
Net Sales/ Income from Operation	70,072	73,086	76,754
Other Income	1,787	2,887	891
<b>Total Income</b>	<b>71,859</b>	<b>75,973</b>	<b>77,644</b>
<b>Expenditure</b>			
Decrease / ( Increase ) in stock	(69)	(3)	(159)
Raw material Consumed	9,100	8,865	10,887
Employees Cost	3,527	4,130	3,908
Power & fuel	11,946	15,990	15,872
Freight & Selling Expenses	9,442	10,016	10,950
Other expenditure	16,951	16,757	14,709
Total Expenditure	50,898	55,755	56,167
<b>EBITDA</b>	<b>19,174</b>	<b>17,332</b>	<b>20,587</b>
<i>EBITDA Margin</i>	<i>27%</i>	<i>24%</i>	<i>27%</i>
Depreciation & Amortisation	3,051	2,942	4,189
<b>PBIT</b>	<b>17,172</b>	<b>16,877</b>	<b>16,430</b>
Exceptional items	(2,131)	(489)	-
Interest and finance	739	400	858
<b>PBT</b>	<b>19,303</b>	<b>17,366</b>	<b>16,430</b>
Total Tax	4,917	5,238	4,907
<b>Net Profit</b>	<b>14,386</b>	<b>12,128</b>	<b>11,524</b>
Equity Share Capital	1,878	1,879	1,879
<b>Basic and Diluted EPS(INR)</b>	<b>76.6</b>	<b>64.6</b>	<b>61.3</b>



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