

## ACC

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Under Performer

Rs153.15

## Standard & Poor

Against our estimated Reported PBT (including profit on sale of investments) of Rs391.97mn, ACC has managed PBT and Exceptional Items (but including profit on sale of investments) of Rs371.70mn.

Adjusted for write down of value of assets and provision for contingencies, PAT for the quarter is Rs202.10mn. **Adjusted for Net Exceptional Income (assuming that exceptional income for the quarter is net of capital gains tax), PAT for Q3FY03 is Rs48.6mn compared to Rs26.6mn in Q2FY03 and Rs167.90mn in Q3FY02.**

ACC's performance on a Q-o-Q basis is impressive (including EBIT of the cement division) except for the fact that **increase in stock is Rs314.80mn – the highest since Q2FY00**. Considering that cement stock (opening stock for the quarter is not available and hence only difference between production and sales is considered) is barely 50,000 tonnes, it is logical to conclude that **clinker inventory is high**. The stock represents only finished goods and WIP inventory as material and coal inventory gets adjusted under material consumption and coal consumption.

## Result Highlights

All variable cost comparisons are on per tonne basis as it varies with production but not with price realisation.

- Against PBT and Exceptional Items of Rs371.70mn, non-recurring income (including profit on sale of investments) is Rs293.10mn.
- Inventory of clinker is high as is reflected in Inc. in stock by Rs314.80mn.
- The impact of coal price hike (basic price + royalty) effective from mid-August'02 has resulted in Coal and Oil cost/tonne being higher by Rs14.4 compared to the previous quarter, which was higher on a Q-o-Q basis by Rs38.5/tonne.
- Despite captive power plants (CPP) being coal based and fuel being pass through cost, purchased power and fuel cost/tonne has declined by Rs12.6. This is because post commissioning of the Chanda CPP, the share of purchased power from the grid has declined and the differential between price of grid power and captive power has more than compensated for increase in the coal cost. Another possibility could be that Tata Power may not have included deferred tax in tariff calculations for CPPs, as was the case in the previous quarter.
- Raw Material cost/tonne (Rs326.15) is higher by Rs15.45/tonne primarily because of an increase in slag price. The Jamul and Sindry units of ACC make only slag-based blended cement. These two units account for 11.5% of ACC's production. No relief on this front is expected as the steel price continues to remain firm; this will get reflected in the slag prices also.
- **Other Expenditure has increased by Rs258.60mn on a Qo-Q basis.** This can be partly explained by higher packing cost (our estimate: Rs64.80mn). The management had factored in higher sales tax protection for its HP unit and the additional ST contributed Rs120mn (compared to the previous quarter). The ACC management confirmed this.
- Freight cost/tonne has declined by Rs6/tonne compared to the previous quarter. This is because of higher proportion of ex-factory sales in the South.

## View & Valuation

We are not revising our recurring PBT target of Rs886.33 million for FY03 though it is stretched considering that for the period ended December'03, recurring PBT is only Rs399mn and the prices in UP and Maharashtra (together accounting for 32.8% of ACC's dispatches) which are on a decline compared to the previous quarter. In UP, at least recovery is highly improbable due to the stock built up with dealers due to a virtual halt in the construction activity as a result of the cold wave.

The stock is currently trading at 9.72x and 8.2x FY03E and FY04E EV/EBIDTA, respectively. This is steep valuation. **On EV/tonne basis at US \$55, the stock may sound cheap but assets should be valued in proportion to the returns generated** and in any case, it is not up for sale. Hence, the price paid for acquisitions is no criterion. It is hard to justify a P/E of 50 for a cyclical stock with a single digit OPM on the basis of EV/tonne.

Considering the very low base, YoY growth in FY04 may appear to be impressive. But, on account of steep valuations, the upside is marginal even adjusted for growth.

We have not factored in an "Open Offer" by GACL as it will be made, if at all, only after an appeal in the Supreme Court fails because GACL just can't afford it. There is no need to discount that and factor it in the price. It may be recalled that SAT has asked SEBI to properly investigate "change in control" at ACC more than 2 years after the Mumbai High Court directed the ACC shareholders to seek redressal from SEBI. The only thing that has changed in the intervening period is that the appeal can be preferred against order of SAT only in the Supreme Court and not High Court. It needs to be remembered that unlike the Grasim-L&T case, no date for completing the investigation has been indicated by SEBI in this particular matter. Besides, SEBI had relied on opinion of the Attorney General of India that GACL has complied with Reg 12 of the Takeover Code and refer to the Bank of Rajasthan case (where the same method was used); the then SEBI chairman had granted exemption from "Open Offer" in 2002.

We maintain our **Under Performer** rating on the stock.

ACC	Rs Million				
	Q3FY03	Q3FY02	(%)	2002-03 (E)	2003-04 (E)
Net Sales	6822.80	7027.80	-2.92	30234.84	32038.40
Other Income	384.00	83.90	357.69	708.29	456.50
PBIDT (Excl. O. Income)	674.10	1008.90	-33.18	3572.28	4517.64
PBT	371.70	293.40	26.69	1162.72	1740.30
PAT	202.10	169.30	19.37	959.25	1383.54
Equity Capital	1714.90	1710.30		1714.90	1714.90
EV/EBIDTA (x)				9.72	8.17

Note: EBIDTA for FY03 is not adjusted for Non-recurring income.



**Stock Ratings    Absolute Returns**

Buy	:	> 25%
Out Performer	:	16 - 25%
Market Performer	:	0 - 15%
Under Performer	:	< 0%

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