KARVY STOCK BROKING

Cement

April 24, 2017

India Research

ACC

QUARTERLY REVIEW

Bloomberg: ACC IN
Reuters: ACC.BO

SELL

Lower costs led better than expected margins

ACC's Q1CY17 operational performance better than our & consensus estimates, led by higher than expected volumes and lower than expected fixed costs. EBITDA of Rs 3.42 bn (-9% YoY) was 18% higher than our estimate of Rs 2.88 bn. Volume growth of 4% YoY was better than expectations. EBITDA/t stood at Rs 518/t (-13% YoY), came higher than our estimate of Rs 447/t led by lower fixed costs. Going ahead, we increase CY17E/18E estimates to factor in better Q1CY17 performance. CY17-18E is expected to see increase in profitability (on a low base of CY16) with EBITDA CAGR of 24% led by pick-up in volumes & margin improvement. However, valuation at 13.9x EV/EBITDA CY18E looks expensive and factors in most of the positives. Maintain Sell.

Volume grew 4% YoY; EBITDA/t declines 13% YoY

Net sales at Rs 30.99 bn was in-line with our estimate of Rs 30.96 bn. It increased by 8% YoY as the volume increased by 4% YoY to 6.6 mt and blended realisation improved 4% YoY (to Rs 4696/t). Though sales volume was muted at 4% YoY, it came better than estimates benefitting from commissioning of new cement plant in Chhattisgarh. Realisation declined 2.8% QoQ as the cement prices in South/East regions remained lower during Q1CY17. EBITDA declined 9.4% YoY to Rs 3.42 bn, primarily driven by higher operating costs. The total operating cost of Rs 4696/t increased 6.5% YoY led by increase in energy cost and freight cost. EBITDA/tonne declined 12.7% YoY to Rs 518/ton (vs. estimate of Rs 447/ton). Thus, due to decline in margins, Adj. PAT declined by 10% YoY to Rs 2.11 bn, which came higher than our estimate of Rs 1.41 bn (led by better than expected operational performance and higher other income).

Outlook and Valuation

We increase CY17E/18E EBITDA by 2.4%/2.7% to factor in better margins during Q1CY17. CY16 EBITDA remained flat YoY as the lower volumes (-2.7% YoY) offset the impact of lower costs (-2.5% YoY). Going ahead, we estimate EBITDA CAGR of 23.6% over CY16-18E (led by 6.4% volume CAGR and margin improving to Rs 701/t in CY18E from Rs 520/t in CY16). Volume growth will be driven by Jamul capacity expansion & pick-up in demand. Current valuations at 19.7x/13.9x CY17E/CY18E EV/EBITDA looks expensive and factors in most of the positives (like improvement in margins and strong balance sheet). We maintain Sell on ACC with a revised TP of Rs1552 (based on 14.5x CY18E EV/EBITDA).

Key Financials

Y/E Dec (Rs mn)	CY13	CY14	CY15	CY16	CY17E	CY18E
Net Sales	108,891	114,811	114,328	109,364	120,204	137,875
EBITDA	13,683	12,501	11,731	11,951	13,124	18,256
EBITDA margin (%)	12.6	10.9	10.3	10.9	10.9	13.2
PAT	8,790	8,591	7,447	6,452	7,168	11,019
EPS (Rs)	46.8	45.7	39.6	34.3	38.1	58.6
RoE (%)	11.6	10.7	8.9	7.5	8.2	12.1
RoCE (%)	16.3	14.2	11.3	10.2	11.2	16.3
P/E (x)	32.0	32.7	37.7	43.6	39.2	25.5
EV/EBITDA (x)	18.6	21.0	22.6	21.8	19.7	13.9
EV/Tonne ($)	128	132	118	116	115	111

Source: Company, Karvy Stock Broking

Recommendation

CMP:	Rs1,495
Target Price:	Rs1,552
Previous Target Price:	Rs1,510
Upside (%)	4%

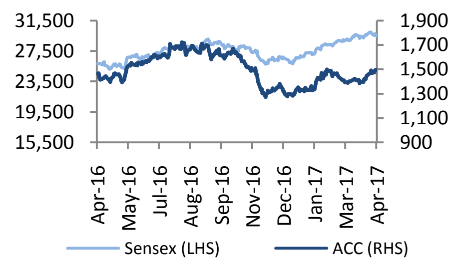
Stock Information

Market Cap. (Rs bn / US$ mn)	284/4,380
52-week High/Low (Rs)	1,738/1,257
3m ADV (Rs mn /US$ mn)	543/8.4
Beta	0.9
Sensex/ Nifty	29,414/9,139
Share outstanding (mn)	188

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	6.5	11.4	2.7	12.9
Rel. to Sensex	7.3	3.2	(9.9)	2.2

Performance



Source: Bloomberg

Earning Revision

(%)	CY17E	CY18E
Revenue	↓ 0.1	↓ 0.1
EBITDA	↑ 2.4	↑ 2.7
EPS	↑ 5.1	↑ 4.8

Source: Karvy Stock Broking

Analysts Contact

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Exhibit 1: Quarterly Performance

Rs mn	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	YoY (%)	QoQ (%)	CY16	CY15	YoY (%)
Revenue	**28,727**	**28,698**	**24,706**	**26,346**	**30,997**	7.9	17.7	**108,477**	**114,328**	-5.1
Expenditure	**24,953**	**24,607**	**22,458**	**24,116**	**27,579**	10.5	14.4	**96,134**	**102,597**	-6.3
as % of sales	*86.9*	*85.7*	*90.9*	*91.5*	*89.0*			*88.6*	*89.7*	
Consumption of RM	4,364	4,097	3,615	3,797	4,605	5.5	21.3	15,873	17,398	-8.8
as % of sales	*15.2*	*14.3*	*14.6*	*14.4*	*14.9*			*14.6*	*15.2*	
Stocks	87	641	-712	160	44			175	0	
as % of sales	*0.3*	*2.2*	*-2.9*	*0.6*	*0.1*			*0.2*	*0.0*	
Employee Cost	1,823	1,874	1,929	1,995	1,952	7.1	-2.2	7,621	7,699	-1.0
as % of sales	*6.3*	*6.5*	*7.8*	*7.6*	*6.3*			*7.0*	*6.7*	
Power & Fuel	5,672	5,222	5,362	5,315	6,477	14.2	21.9	21,571	23,941	-9.9
as % of sales	*19.7*	*18.2*	*21.7*	*20.2*	*20.9*			*19.9*	*20.9*	
Freight	7,332	6,539	5,993	6,683	8,304	13.3	24.3	26,547	27,230	-2.5
as % of sales	*25.5*	*22.8*	*24.3*	*25.4*	*26.8*			*24.5*	*23.8*	
Other expenditure	5,676	6,001	6,076	6,167	6,197	9.2	0.5	23,919	25,246	-5.3
as % of sales	*19.8*	*20.9*	*24.6*	*23.4*	*20.0*			*22.1*	*22.1*	-0.1
EBITDA	**3,774**	**4,092**	**2,247**	**2,231**	**3,418**	-9.4	53.2	**12,344**	**11,731**	5.2
Depreciation	1,434	1,410	1,529	1,679	1,650	15.1	-1.7	6,051.6	6,521	-7.2
EBIT	**2,340**	**2,682**	**718**	**552**	**1,768**	-24.5	220.2	**6,292**	**5,210**	20.8
Other Income	1,131	686	744	934	1,101	-2.7	17.8	3,495	4,834	-27.7
Interest	188	183	197	209	252	33.9	20.3	778	673	15.5
PBT	**3,283**	**3,185**	**1,265**	**1,277**	**2,617**	-20.3	104.9	**9,010**	**9,371**	-3.9
Total Tax	937	806	424	44	502	-46.5	1,042.8	2,211	1,924	14.9
Adjusted PAT	**2,346**	**2,378**	**841**	**1,233**	**2,115**	-9.9	71.5	**6,799**	**7,447**	-8.7
PAT after MI	**2,346**	**2,378**	**841**	**1,233**	**2,115**	-9.9	71.5	**6,799**	**7,447**	-8.7
Extra ordinary items	**0**	**0**	**0**	**-428**	**0**			-428.1	-1,532	-72.1
Reported PAT	**2,346**	**2,378**	**841**	**805**	**2,115**	-9.9	162.8	**6,370**	**5,916**	7.7
Adjusted EPS	**12.5**	**12.7**	**4.5**	**6.6**	**11.3**	-9.9	71.5	36.2	39.7	-8.9

Source: Company, Karvy Stock Broking

Exhibit 2: Margins

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	13.1	14.3	9.1	8.5	11.0	-211	256	11.4	10.3	112
EBIT	8.1	9.3	2.9	2.1	5.7	-244	361	5.8	4.6	124
EBT	11.4	11.1	5.1	4.8	8.4	-299	360	8.3	8.2	11
PAT	8.2	8.3	3.4	4.7	6.8	-134	214	6.3	6.5	-25
Effective Tax rate	28.5	25.3	33.5	3.4	19.2	-937	1573	24.5	20.5	401

Source: Karvy Stock Broking, Company

Exhibit 3: Per tonne analysis

Rs/t	Q1CY16	Q2CY16	Q3CY16	Q4CY16	Q1CY17	YoY (%)	QoQ (%)	CY16	CY15	YoY (%)
Cement volumes	**6.36**	**6.12**	**5.07**	**5.45**	**6.60**	3.8	21.1	**23.0**	**23.6**	-2.7
Realisation	**4,517**	**4,689**	**4,873**	**4,834**	**4,696**	4.0	-2.8	**4,716**	**4,838**	-2.5
Raw Material	700	774	572	726	704	0.7	-3.0	698	736	-5.2
Staff cost	287	306	381	366	296	3.2	-19.2	331	326	1.7
Power & Fuel	892	853	1,058	975	981	10.0	0.6	938	1,013	-7.4
Freight	1,153	1,068	1,182	1,226	1,258	9.1	2.6	1,154	1,152	0.2
Other expenses	892	1,019	1,237	1,131	939	5.2	-17.0	1,059	1,114	-5.0
Total Cost Per tonne	**3,923**	**4,021**	**4,430**	**4,425**	**4,179**	6.5	-5.6	**4,180**	**4,342**	-3.7
EBIDTA/Ton	**593**	**669**	**443**	**409**	**518**	-12.7	26.5	**537**	**496**	8.1

Source: Company, Karvy Stock Broking

EBITDA/ton declines 13% YoY to Rs 518/t

Net realisation declined 2.8% on QoQ basis as the lower pricing in South & East regions were negated by firm pricing in North & Central markets. Cement volumes increased ~4% YoY to 6.6 mt, benefitting from volumes from the new Jamul unit and pick-up in demand in Mar-17. Total cost increased 6.5%YoY basis to Rs 4179/t, as the freight cost & energy costs (which make a large part of total operating cost) has been higher and offset the impact of operating leverage benefits.

Capex Update

ACC has commissioned grinding unit of 1.35 mt at Sindri (Jharkhand) in Oct 2016. The associated clinker line of 2.79 mt & cement grinding unit of 1.1 mt at Jamul (Chhattisgarh) were commissioned in July/Sept 2016. Post this; the cement capacity has reached to 33.4 mt.

Change in estimates

We broadly maintain our CY17E/CY18E revenue estimates (as we factor in slightly better volumes and marginal lower realisations). EBITDA estimates of CY17E/18E have been revised upwards by 2.4%/2.7% due to upward revision in EBITDA/ton estimates by ~2% each. Accordingly, CY17E/18E PAT estimates are revised upwards by 5.1%/4.8%.

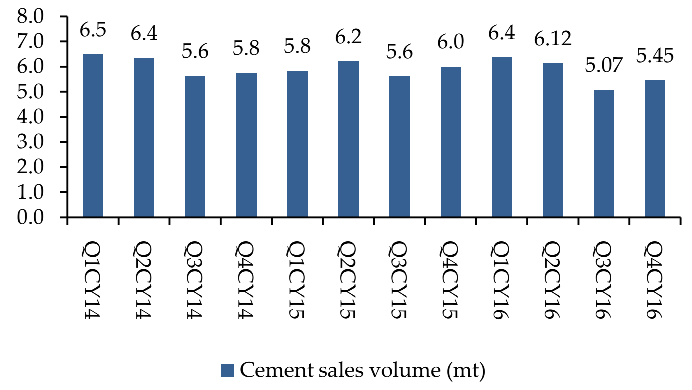
We now expect volume CAGR of 6.4% during CY16-18E (lower than industry average), which will be driven by capacity expansions at Jamul/Sindri & pick-up in demand across the selling regions. We expect EBITDA/ton of Rs 701 by CY18E from Rs 520/t in CY16 (led by improvement in realisation and moderation in costs) with EBITDA CAGR of 24% over CY16-18E.

Exhibit 4: Change in Estimate

	CY17E			CY18E		
Rs Mn	**Earlier**	**Revised**	**change**	**Earlier**	**Revised**	**change**
Sales	120,354	120,204	-0.1%	138,047	137,875	-0.1%
EBIDTA	12,811	13,124	2.4%	17,770	18,256	2.7%
EBIDTA (%)	10.6	10.9		12.9	13.2	
Net Profit	6,817	7,168	5.1%	10,518	11,019	4.8%
EPS	36.3	38.1	5.1%	55.9	58.6	4.8%

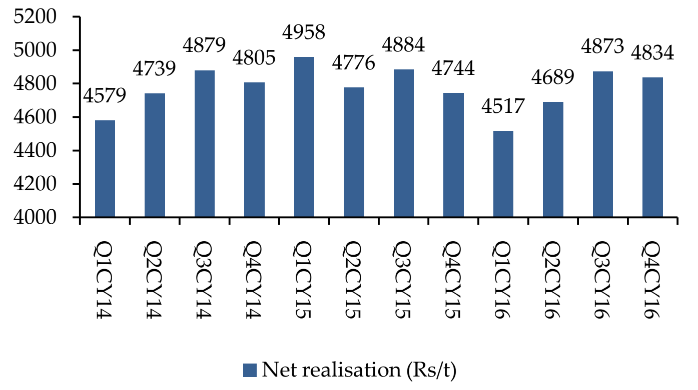
Source: Karvy Stock Broking, Company

Exhibit 5: Quarterly trend of cement volume



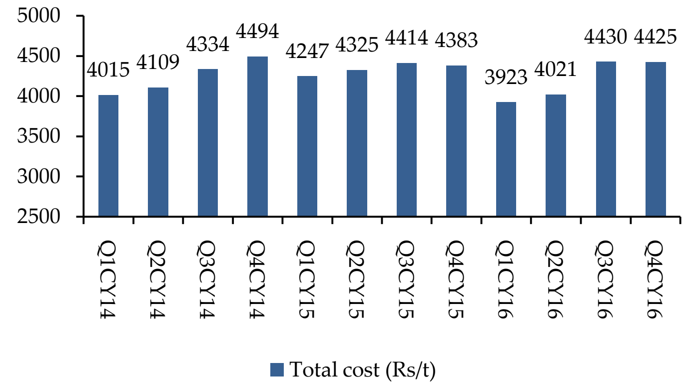
Source: Company, Karvy Stock Broking

Exhibit 6: Quarterly trend of net realisation



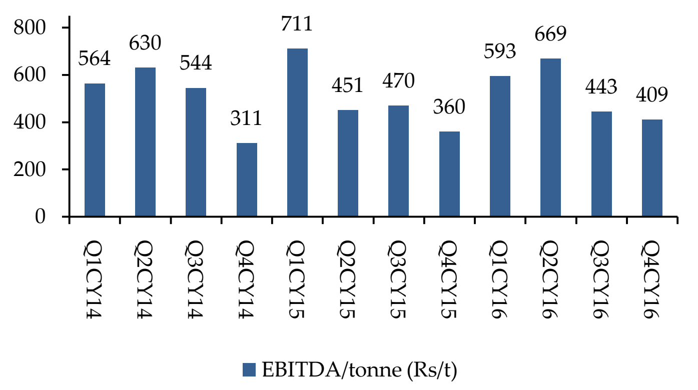
Source: Company, Karvy Stock Broking

Exhibit 7: Quarterly trend of total cost/tonne



Source: Company, Karvy Stock Broking

Exhibit 8: Quarterly trend of EBITDA/tonne



Source: Company, Karvy Stock Broking

Exhibit 9: Change in Target Price

	Revised	Previous
Target EV/EBITDA (x)	14.5	14.5
CY18E EBITDA (Rs mn)	18,256	17,770
Target EV (Rs mn)	264,707	257661
CY18E Net debt (Rs mn)	(27,028)	(26,176)
Target Mcap (Rs mn)	291,735	283,837
NoS (mn)	188.0	187.99
Target Price (Rs/Share)	**1,552**	**1510**

Source: Karvy Stock Broking, Company

Exhibit 10: Profit & Loss statement

Y/E Mar Rs mn	CY13	CY14	CY15	CY16	CY17E	CY18E
Revenue	108,891	114,811	114,328	109,364	120,204	137,875
% growth	(2)	5	(0)	(4)	10	15
Operating expenditure	95,208	102,310	102,597	97,413	107,080	119,619
EBITDA	13,683	12,501	11,731	11,951	13,124	18,256
% growth	(28)	(9)	(6)	2	10	39
Other Income	5,462	5,254	4,834	3,346	4,183	5,020
Depreciation	5,740	5,576	6,521	6,052	6,746	7,430
EBIT	13,405	12,180	10,044	9,246	10,561	15,845
Interest	1,136	828	673	729	742	751
Exceptional items	2,167	3,092	(1,532)	(428)	-	-
PBT	12,270	11,352	9,371	8,517	9,819	15,094
Tax	3,479	2,761	1,924	2,065	2,651	4,075
Reported PAT	10,958	11,683	5,915	6,024	7,168	11,019
Adjusted PAT	8,790	8,591	7,447	6,452	7,168	11,019
% growth	(25)	(2)	(13)	(13)	11	54

Source: Company, Karvy Stock Broking

Exhibit 11: Balance sheet

Y/E Mar Rs mn	CY13	CY14	CY15	CY16	CY17E	CY18E
Cash & Cash equivalents	5,034	3,043	916	2,756	3,140	3,486
Trade receivables	3,972	4,107	4,844	4,677	5,141	5,897
Inventories	11,215	12,556	11,886	12,238	13,173	15,110
Loans & Advances	12,262	12,395	14,232	13,998	14,820	16,998
Other assets	195	145	551	602	602	602
Investments	21,940	15,730	14,757	18,042	20,042	24,042
Fixed Assets	66,318	78,737	81,222	82,063	80,317	77,887
Deffered tax assets (Liabilities)	(5,073)	(5,356)	(4,692)	(5,581)	(5,581)	(5,581)
Total Assets	**115,863**	**121,358**	**123,716**	**128,793**	**131,653**	**138,440**
Current Liabilities & Provisions	37,265	39,002	38,931	41,679	41,958	45,152
Other liabilities	-	-	-	-		
Debt	350	-	355	500	500	500
Total Liabilities	37,615	39,002	39,286	42,179	42,458	45,653
Shareholder's equity	1,880	1,880	1,880	1,880	1,880	1,880
Reserves & Surplus	76,369	80,477	82,550	84,735	87,315	90,907
Shareholder's funds	78,248	82,356	84,430	86,614	89,195	92,787
Total Equity & Liabilities	**115,863**	**121,358**	**123,716**	**128,793**	**131,653**	**138,440**

Source: Karvy Stock Broking, Company

Exhibit 12: Cash flow statement

Y/E Mar Rs mn	CY13	CY14	CY15	CY16	CY17E	CY18E
PAT	10,958	11,683	5,915	6,024	7,168	11,019
Add: Depn	5,740	5,576	6,521	6,052	6,746	7,430
Change in WC	(5,746)	178	(2,380)	2,746	(1,942)	(1,676)
Cash Flow from operations	**10,951**	**17,436**	**10,056**	**14,822**	**11,972**	**16,773**
Capex	(8,382)	(17,995)	(9,006)	(6,892)	(5,000)	(5,000)
Change in Investments	3,595	6,210	973	(3,285)	(2,000)	(4,000)
Deff tax liab	(96)	283	(664)	890	-	-
Cash Flow from Investing	**(4,883)**	**(11,502)**	**(8,697)**	**(9,287)**	**(7,000)**	**(9,000)**
Change in equity	-	-	-	0	-	-
Change in debt	(1,280)	(350)	355	145	-	-
Dividend paid	(6,617)	(7,575)	(3,713)	(3,713)	(4,587)	(7,427)
Others	80	-	(127)	(127)	-	-
Cash flow from financing	**(7,817)**	**(7,926)**	**(3,485)**	**(3,694)**	**(4,587)**	**(7,427)**
Net cash Flow	**(1,750)**	**(1,991)**	**(2,127)**	**1,840**	**385**	**346**
cash at the beginning	6,784	5,034	3,043	916	2,756	3,140
Cash at the end	5,034	3,043	916	2,756	3,140	3,486

Source: Company, Karvy Stock Broking

Exhibit 13: Ratios

Y/E Mar %	CY13	CY14	CY15	CY16	CY17E	CY18E
EBITDA margin	12.6	10.9	10.3	10.9	10.9	13.2
EBIT margin	12.3	10.6	8.8	8.5	8.8	11.5
Net profit margin	8.1	7.5	6.5	5.9	6.0	8.0
Dividend payout ratio	64.1	74.3	42.9	49.5	55.1	58.0
Net debt/equity (x)	(0.3)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Interest/EBIT (x)	0.1	0.1	0.1	0.1	0.1	0.0
RoCE	16.3	14.2	11.3	10.2	11.2	16.3
RoE	11.6	10.7	8.9	7.5	8.2	12.1

Source: Company, Karvy Stock Broking

Exhibit 14: Valuations

Y/E Mar	CY13	CY14	CY15	CY16	CY17E	CY18E
EPS	46.8	45.7	39.6	34.3	38.1	58.6
DPS	30.0	34.0	17.0	17.0	21.0	34.0
BVPS	416.3	438.2	449.2	460.7	474.5	493.6
P/E (x)	32.0	32.7	37.7	43.6	39.2	25.5
EV/EBITDA (x)	18.6	21.0	22.6	21.8	19.7	13.9
P/BV (x)	3.6	3.4	3.3	3.2	3.2	3.0
EV/Tonne (USD)	128.0	131.9	118.2	116.0	114.9	111.3

Source: Karvy Stock Broking, Company

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

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Disclosures Appendix

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