

Institutional Equity Research

ACC

Cement | India

2QCY17 Result Update | July 18, 2017

CMP* (Rs)	1,747
Upside/ (Downside) (%)	(6.1)
Bloomberg Ticker	ACC IN
Market Cap. (Rs bn)	328
Free Float (%)	45
Shares O/S (mn)	188

HOLD 

Target Price: Rs1,640

Strong Performance on Better Volume and Firm Realizations

ACC reported better-than-estimated performance in 2QCY17 with its EBITDA per tonne surpassing Rs700-mark for the first time in the last eight quarters and stood at Rs715 vs. our estimate of Rs684. Operating profit grew by 20% YoY and 45% QoQ to Rs4.95bn vs. our expectation of Rs4.65bn. Better-than-estimated sales volume growth (+10.1% YoY and +2.1% QoQ) and firm increase in average realizations (+6.7% YoY and +5.0% QoQ) aided operating performance. Notably, operating cost per tonne for cement rose by 3% YoY to Rs3,881 (flat on QoQ basis) mainly due to hardening of fuel prices and spike in transportation cost. However, production ramp-up from the Jamul plant and better usage of raw material and fuel-mix aided ACC to contain the cost to a considerable extent. Going forward, we foresee sales volume growth to remain stellar due to improved utilization from the newly commissioned units along with better demand outlook post monsoon. However, realizations may witness some pressure owing to GST roll-out and Government's possible intervention in the medium term. We cut our EBITDA estimate by 7% and 1% for CY17E and CY18E, respectively mainly to factor in likely pressure on realizations (as channel check suggests) in the medium term. **We maintain our HOLD recommendation on the stock with a revised Target Price of Rs1,640.**

Better Sales Volume Aids Revenue

Reported revenue stood at Rs33.1bn (+17% YoY) topping our estimate of Rs32.6bn mainly on account of better-than-expected sales volume. Sales volume for the quarter stood at 6.74mnT (+10.1% YoY). A healthy demand scenario in key markets and production ramp-up from Jamul plant enabled ACC to register stellar volume growth. We envisage ACC to record sales volume growth of 11% and 9% in CY17E and CY18E, respectively.

Healthy Operating Performance Led by Volume & Realization Up-tick

Operating profit grew by 20% YoY and 45% QoQ to Rs4.95bn vs. our expectation of Rs4.65bn. Better-than-expected sales volume growth (+10.1% YoY and +2.1% QoQ) and increase in average realization (+6.7% YoY and +5.0% QoQ) aided operating performance. Notably, operating cost per tonne for cement rose by 3% YoY to Rs3,881 (flat on QoQ basis) mainly due to hardening of fuel prices and spike in transportation cost. EBITDA per tonne stood at Rs715 compared to Rs657 and Rs497 in 2QCY16 and 1QCY17, respectively.

Valuation & Outlook

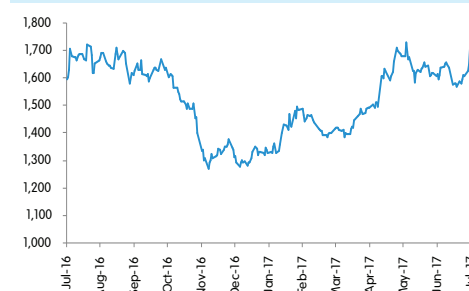
We continue to maintain our positive view on ACC due to its deep penetration in rural markets and strong brand equity. Though we cut our EBITDA estimates, we increase our target EV/EBITDA multiple from 11x to 12x on the back of a) likely merger with Ambuja Cement that may drive its valuations, b) revival in rural demand which will aid ACC due to extensive rural base and c) visible improvement in operating synergies. **Hence, we maintain our HOLD recommendation on the stock with a revised Target Price of Rs1,640.**

Key Financials (Rs mn)	CY15	CY16	CY17E	CY18E
Sales	114,328	109,364	127,381	144,020
EBITDA	11,731	11,951	16,399	24,228
APAT	6,010	5,739	9,454	14,382
EPS (Rs)	32.0	30.5	50.3	76.5
DPS (Rs)	1.7	1.7	1.7	1.7
P/E (x)	54.6	57.2	34.7	22.8
P/B (x)	3.9	3.8	3.6	3.2
EV/EBITDA (x)	26.8	26.2	19.1	12.9
RoE (%)	7.1	7.0	10.6	14.8
Div. Yield (%)	1.0	1.0	1.0	1.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	6.6	16.2	8.3
Relative to Nifty	3.2	7.7	(7.8)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	54.5	54.5
Public	45.5	45.5

1 Year Stock Price Performance

Note: * CMP as on July 17, 2017

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Risks to the View

- ▶ Government's failure to revive infrastructure projects.
- ▶ Significant surge in operating cost and dip in realizations.

Exhibit 1: Quarterly Performance

(Rs mn)	2QCY17	2QCY16	% yoy	1QCY17	% qoq	1HCY17	1HCY16	% yoy
Net Sales	33,125	28,326	16.9	30,997	6.9	64,122	57,053	12.4
(Increase)/Decrease in stock in trade	(1,022)	641	(259.5)	42	(2,516.3)	(980)	724	(235.4)
Consumption of RM	5,038	4,097	23.0	4,605	9.4	9,642	8,461	14.0
Purchase of Traded goods	3	14	(81.1)	2	28.6	5	18	(73.3)
% sales	12.1	16.8		15.0		13.5		
Employee cost	2,182	1,859	17.4	1,952	11.8	4,134	3,682	12.3
% sales	6.6	6.6		6.3		6.4	6.5	
Power & Fuel	6,847	5,222	31.1	6,477	5.7	13,323	10,894	22.3
% sales	20.7	18.4		20.9		20.8	19.1	
Freight Outward	8,753	6,539	33.9	8,304	5.4	17,058	13,871	23.0
% sales	26.4	23.1		26.8		26.6	24.3	
Other Expenditures	6,374	5,817	9.6	6,197	2.9	12,571	11,480	9.5
% sales	19.2	20.5		20.0		19.6	20.1	
Total Expenditures	28,175	24,190	16.5	27,579	2.2	55,753	49,129	13.5
Operating cost/tonne (Rs)	4,180	3,953	5.8	4,179	0.0	4,179	3,937	6.2
EBIDTA	4,951	4,136	19.7	3,418	44.8	8,369	7,924	5.6
EBIDTA per tonne (Rs)	715	657	9.0	497	44.0	607	615	(1.3)
EBIDTA Margin	14.9	14.6		11.0		13.1	13.9	
Depreciation	1,621	1,410	15.0	1,650	(1.8)	3,271	2,844	15.0
Interest	225	208	8.3	252	(10.6)	477	396	20.5
Other Income	1,663	730	127.8	1,101	51.1	2,764	1,848	49.6
PBT	4,768	3,248	46.8	2,617	82.2	7,385	6,532	13.1
Margin								
Tax Expenses	1,550	824	88.1	502	209.0	2,052	1,761	16.5
% PBT	32.5	25.4		19.2				
PAT	3,217	2,424	32.7	2,115	52.1	5,333	4,770	11.8
Net margin	9.7	8.6		6.8		8.3	8.4	
APAT	3,217	2,424	32.7	2,115	52.1	5,333	4,770	11.8
EPS (Rs)	17.1	12.9	32.8	11.3	52.2	28.4	25.4	11.8

Source: Company, RSec Research

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Exhibit 2: Revised v/s Old Estimates

Rs mn	CY17E			CY18E		
	Old	Revised	% change	Old	Revised	% change
Volume (mnT)	25.0	25.6	2.3	27.6	27.9	1.2
Realization (Rs/tonne)	4,690	4,569	(2.6)	4,877	4,752	(2.6)
Sales (Rs mn)	127,809	127,381	(0.3)	145,916	144,020	(1.3)
EBITDA (Rs mn)	17,680	16,399	(7.2)	24,412	24,228	(0.8)
EBITDA/tonne (Rs)	707	642	(9.3)	886	869	(1.9)
APAT (Rs mn)	9,646	9,454	(2.0)	13,566	14,382	6.0
EPS (Rs)	51.3	50.3	(2.0)	72.2	76.5	6.0

Source: RSec Research

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Profit & Loss

Y/E Dec (Rs mn)	CY15	CY16	CY17E	CY18E
Net Sales	114,328	109,364	127,381	144,020
% yoy growth	(0.4)	(4.3)	16.5	13.1
Total Cost	102,597	97,413	110,982	119,792
Raw Materials Cost	25,223	23,477	27,175	29,694
Employee Costs	7,699	7,783	8,770	9,772
Power & Fuel	23,941	21,571	24,974	27,803
Freight and Forwardings	27,230	26,547	30,398	31,519
Other Expenditures	18,505	18,036	19,666	21,004
EBITDA	11,731	11,951	16,399	24,228
EBITDA Margin (%)	10.3	10.9	12.9	16.8
Depreciation and Amortisation	6,521	6,052	6,818	6,984
Interest	673	729	762	835
Other Income	4,834	3,346	4,685	5,153
Exceptional Items	(1,532)	(428)	-	-
PBT	7,840	8,089	13,505	21,563
Tax	1,924	3,240	4,052	7,180
% Tax	24.5	40.1	30.0	33.3
Excep. Items	-	-	-	-
Net Profit	5,916	6,024	9,454	14,382
YoY Growth (%)	(49.4)	1.8	56.9	52.1
Net Profit Margin (%)	5.2	5.5	7.4	10.0
Adjusted Profit	6,010	5,739	9,454	14,382

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Balance Sheet

Y/E Dec (Rs mn)	CY15	CY16	CY17E	CY18E
Share Capital	1,880	1,880	1,880	1,880
Reserves & Surplus	82,513	84,697	90,309	100,850
Total Shareholder's funds	84,393	86,577	92,189	102,730
Secured Loans	-	-	-	-
Unsecured Loans	355	500	500	500
Total Debt	355	500	500	500
Deferred Tax Liability	4,692	5,581	5,581	5,581
TOTAL LIABILITIES	89,439	92,659	98,271	108,811
Gross Block	113,525	140,705	145,705	147,705
Less: Accumulated Depreciation	60,675	66,080	72,898	79,882
Net Block	52,850	74,624	72,806	67,822
CWIP	23,710	2,608	2,608	2,608
Investments	14,757	18,042	26,042	41,042
Other Non Current Assets	4,663	4,831	5,235	5,919
Inventories	11,886	12,238	13,262	14,994
Sundry Debtors	4,844	4,677	5,584	6,313
Cash & Bank	916	2,756	3,460	4,558
Other Current Assets	551	602	650	700
Loans & Advances	14,232	13,998	14,098	14,298
Total Current Assets	32,429	34,270	37,054	40,864
Current Liabilities	31,339	34,300	36,924	39,889
Provisions	7,592	7,378	8,514	9,518
Net Current Assets	(6,502)	(7,409)	(8,384)	(8,543)
Misc. Expenditure	(38)	(37)	(37)	(37)
Total Assets	89,439	92,659	98,271	108,811

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Cash Flow Statement

Y/E Dec (Rs mn)	CY15	CY16	CY17E	CY18E
PBT	7,840	8,089	13,505	21,563
Depreciation	6,521	6,052	6,818	6,984
Interest Paid	673	729	762	835
Others	1,289	(438)	-	-
Oper Cash flow before WC changes	16,322	14,431	21,084	29,382
Change in Working Capital	579	2,088	1,680	1,257
Cash Generated from Operation	16,902	16,518	22,764	30,639
Direct Tax (net)	(2,289)	(2,717)	(4,052)	(7,180)
Net Cash from Operating Activities	14,612	13,801	18,712	23,459
Purchase / Sale of Fixed Assets (net)	(11,643)	(4,976)	(5,000)	(2,000)
Purchase of Investment	(25)	(1,357)	(8,000)	(15,000)
Others	2,186	941	(404)	(684)
Net Cash in Investment activities	(9,482)	(5,391)	(13,404)	(17,684)
Proceeds/ Repay of LT Borrowings (net)	-	-	-	-
Proceed from issue of share capital	-	2	-	-
Interest Paid	(415)	(478)	(762)	(835)
Others	(6,395)	(3,736)	(3,842)	(3,842)
Net cash in Financing activities	(6,810)	(4,212)	(4,603)	(4,677)
Net incre / (decre) in cash equivalents	(1,680)	4,199	705	1,098

Key Ratio

Y/E Dec	CY15	CY16	CY17E	CY18E
Valuation Ratio (x)				
P/E	54.6	57.2	34.7	22.8
P/CEPS	26.4	27.2	20.2	15.4
P/BV	3.9	3.8	3.6	3.2
EV/EBITDA	26.8	26.2	19.1	12.9
EV/Sales	2.8	2.9	2.5	2.2
EV/tonne (USD)	160	147	147	146
Dividend Payout (%)	54.0	53.0	33.8	0.2
Dividend Yield (%)	1.0	1.0	1.0	1.0
Per Share Data (Rs)				
EPS (Basic)	32.0	30.5	50.3	76.5
EPS (Diluted)	32.0	30.5	50.3	76.5
CEPS	66.2	64.2	86.6	113.7
DPS	1.7	1.7	1.7	1.7
Book Value	449	461	490.4	546.5
EBITDA/tonne	497	520	642	869
Returns (%)				
RoCE	9.6	9.7	14.9	21.6
RoE	7.1	7.0	10.6	14.8
Turnover ratios (x)				
Asset Turnover (Gross block)	1.0	0.8	0.9	1.0
Inventory (days)	37.9	40.8	38.0	38.0
Receivables (days)	15.5	15.6	16.0	16.0
Payables (days)	64.1	80.5	78.0	80.0
WCC (days)	(10.7)	(24.1)	(24.0)	(26.0)

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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