ACC

SELL

INDUSTRY	CEMENT
CMP *(as on 17 Jul 17)*	**Rs 1,747**
Target Price	**Rs 1,459**
Nifty	9,916
Sensex	32,075
KEY STOCK DATA	
Bloomberg/Reuters	ACC IN
No. of Shares (mn)	188
MCap (Rs bn) / ($ mn)	328/5,099
6m avg traded value (Rs mn)	625

STOCK PERFORMANCE (%)			
52 Week high / low	**Rs 1,738 / 1,173**		
	3M	6M	12M
Absolute (%)	(5.7)	(14.7)	14.0
Relative (%)	(8.7)	(16.6)	(2.6)

SHAREHOLDING PATTERN (%)	
Promoters	54.53
FIs & Local MFs	16.23
FPIs	14.78
Public & Others	14.46

Source : BSE

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East capex drives volume growth

ACC's numbers were inline (EBITDA/t at Rs 704/t vs estimated Rs 699/t, 7.7% YoY, 48.0% QoQ). The company witnessed double-digit volume growth (6.74 mT, 10.1% YoY) for the first time since 3QCY11, led by capacity addition in the East (4 mTPA, commissioned by 3QCY16). Strong pricing (Rs 4,509/t, 5.7% YoY, 5.7% QoQ) also aided growth, as overall costs remained flattish QoQ (Rs 3,805/t, 5.3% YoY). Other operating income surprised (Rs 1.4bn, ~2x YoY), driving the earnings beat (Rs 3.2bn, 35.3% YoY, 52.1% QoQ, est Rs 2.85bn)

2QCY17 results are ACC's best since 2QCY12. However, its costs remain one of the highest in the industry, led by legacy operations. With no capacity addition scheduled, volume growth will taper after 1HCY18, as the expansion in the East gets factored in. Valuations at 15.6/12.1x CY17/18E EV/EBITDA remain expensive, especially given low return ratios (~15% RoE/RoCE in CY18E). We remain cautious (TP: Rs 1,459, 10x June 2019 EBITDA, US112/t)

Highlights of the quarter

- Petcoke proportions stabilised at 65% (45% YoY, flat QoQ). This drove P&F costs higher (19.0% YoY), as petcoke prices have doubled YoY. ACC has also indicated restricted availability of both fly-ash and slag, a factor that weighs on both raw material and freight costs. Receivables (Rs 9.24bn, 72.4% vs Dec-16, 48% YoY) and inventories (Rs 14.5bn, 18.8% vs Dec-16, 17.4% YoY) expanded sharply in 2QCY17, both likely to be driven by the expansion in the East.
- **Near-term outlook:** Cement prices continue to remain strong, with adjustments made owing to GST (~3-4% or Rs10-15) in most regions. However, demand is likely to dip now, given the strong onset of monsoon. Continuing issues with sand availability in some key states (UP, Punjab, Tamil Nadu) will further weigh on demand.

Financial Summary (Standalone)

(Rs mn)	2QCY17	2QCY16	*YoY (%)*	1QCY17	*QoQ (%)*	CY15	CY16	CY17E	CY18E	CY19E
Net Sales	33,125	28,698	*15.4*	30,997	*6.9*	114,328	109,364	123,267	140,399	155,703
EBITDA	4,951	4,092	*21.0*	3,418	*44.9*	15,372	14,170	19,880	24,964	29,967
PAT	3,217	2,424	*35.3*	2,115	*52.1*	6,051	6,452	10,840	14,714	18,681
Diluted EPS (Rs)	17.1	12.7	*35.3*	11.3	*52.1*	32.2	34.3	57.7	78.3	99.4
P/E (x)						54.4	54.6	30.3	22.4	17.6
EV / EBITDA (x)						20.5	21.9	15.6	12.1	9.8
RoE (%)						7.1	6.6	11.2	14.8	18.2

Source: Company, HDFC sec Inst Research

One of the strongest quarters in recent times.

Sharp expansion in other operating income, likely inclusion of one-offs

Double-digit volume growth (6.74 mT, 10.1% YoY) for the first time after 3QCY11, led by capacity addition in the East (4 mTPA, commissioned by 3QCY16)

Strong pricing (Rs 4,509/t, 5.7% YoY, 5.7% QoQ) aided growth too

Quarterly Financials Snapshot

(Rs mn)	2QCY17	2QCY16	YoY (%)	1QCY17	QoQ (%)
Net Sales	**33,125**	**28,326**	***16.9***	**30,997**	***6.9***
Cement	**30,394**	**25,914**	***17.3***	**28,147**	***8.0***
RMC	2,732	2,412	*13.3*	2,850	*(4.2)*
Power & Fuel	6,847	5,222	*31.1*	6,477	*5.7*
Freight Expenses	8,753	6,539	*33.9*	8,305	*5.4*
RM Costs	5,041	4,112	*22.6*	4,607	*9.4*
Employee costs	2,182	1,859	*17.4*	1,952	*11.8*
Changes to inventory	-1,022	641	*(259.5)*	42	*(2,516.3)*
Other Operating Expenses	6,374	5,817	*9.6*	6,197	*2.9*
EBITDA	**4,951**	**4,136**	***19.7***	**3,418**	***44.9***
Other operating income	1,404	474		744	
Other Income	260	256		357	
Interest Cost	225	208		252	
Depreciation	1,621	1,410		1,650	
PBT	4,768	3,248	*46.8*	2,617	*82.2*
Tax	1,550	824		502	
E/o	0	0		0	
RPAT	3,217	2,424	*32.7*	2,115	*52.1*
Adjustments	0	0		0	
APAT	3,217	2,424	*32.7*	2,115	*52.1*

Source: Company, HDFC sec Inst Research,

Per Tonne Analysis

Per tonne data	2QCY17	2QCY16	YoY (%)	1QCY17	QoQ (%)
Volumes (mT)	6.7	6.1	*10.1*	6.6	*2.1*
Realisations (Rs/T)	4,509	4,234	*6.5*	4,265	*5.7*
P&F costs (Rs/T)	1,016	853	*19.0*	981	*3.5*
Freight costs (Rs/T)	1,299	1,068	*21.5*	1,258	*3.2*
RM costs (Rs/T)	748	672	*11.3*	698	*7.1*
Employee costs (Rs/t)	324	304	*6.6*	296	*9.5*
Other costs (Rs/t)	794	1,055	*(24.7)*	945	*(16.0)*
Cement EBITDA/T (Rs/t)	**704**	**661**	***6.5***	**476**	***48.0***
Cement division costs (Rs/t)	**3,805**	**3,573**	***6.5***	**3,789**	***0.4***

Source: Company, HDFC sec Inst Research
Cement realisations: (Cement segment revenues *less* Inter-Segment Revenues *less* Other Operating Income *less* Excise) *per tonne*
Cement EBITDA/t calculated using EBITDA of Rs 205mn for RMC

ACC remains pricey despite continued underperformance

Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EV/EBITDA (x)		P/E (x)		EV/T (US$)	
					FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Ultratech Cement	1,194.1	4,348	SELL	3,380	14.3	13.2	28.1	24.6	222	229
Shree Cement	631.0	18,111	SELL	14,565	22.6	15.5	53.0	34.5	262	238
Ambuja Cement[1]	527.0	266	SELL	200	15.5	11.6	38.5	27.3	173	166
ACC[1]	**328.8**	**1,747**	**SELL**	**1,459**	**15.6**	**12.1**	**30.3**	**22.4**	**143**	**133**
Ramco Cements	166.6	700	SELL	690	13.7	12.1	22.8	20.6	205	196
Birla Corp	72.0	935	NEU	1,005	12.8	11.0	40.6	27.3	120	114
Orient Cement	31.7	155	NEU	165	11.4	8.2	43.0	14.6	71	68
Sanghi Industries	20.9	95	BUY	98	6.8	4.7	12.4	7.8	95	85
Deccan Cements	8.1	1,155	BUY	1,468	6.9	5.0	17.3	13.3	54	50

Note: Prices as of Jul 17, 2017, close. US$: INR = 65
[1]December YE

Key Assumptions

	CY15	CY16	CY17E	CY18E	CY19E
Cement & Clinker Volumes (mn t)	23.7	23.2	24.7	26.8	28.4
Blended Realisations (Rs/t)	4,419	4,281	4,581	4,810	5,050
P&F Cost/Tonne (Rs/t)	1,002	924	1,013	1,027	1,040
Raw Material Cost/Tonne (Rs/t)	646	588	647	653	674
Freight Cost/Tonne (Rs/t)	923	917	935	1,000	1,070
EBITDA/tone	472	484	624	753	879

Source: Company, HDFC sec Inst Research

We have revised our estimates downward by 6.1/11.4%, mainly led by weaker pricing estimates

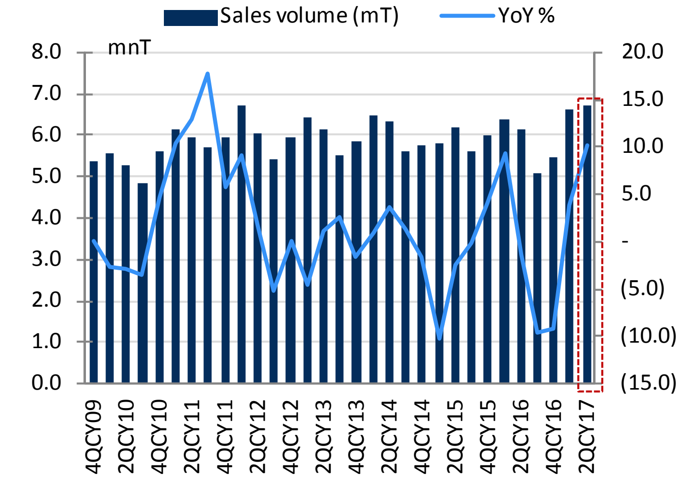
Changes In Estimates

	OLD		New		% Change	
	CY17E	CY18E	CY17E	CY18E	CY17E	CY18E
Volumes (mT)	24.7	27.6	24.7	26.8	*(0.1%)*	*(2.8%)*
Realisations (Rs/T)	4,709	4,944	4,581	4,810	*(2.7%)*	*(2.7%)*
Revenues (Rs mn)	127,463	148,988	123,267	140,399	*(3.3%)*	*(5.8%)*
EBITDA (Rs mn)	21,179	28,188	19,880	24,964	*(6.1%)*	*(11.4%)*
PAT (Rs mn)	11,812	17,144	10,840	14,714	*(8.2%)*	*(14.2%)*

Source: Company, HDFC sec Inst Research

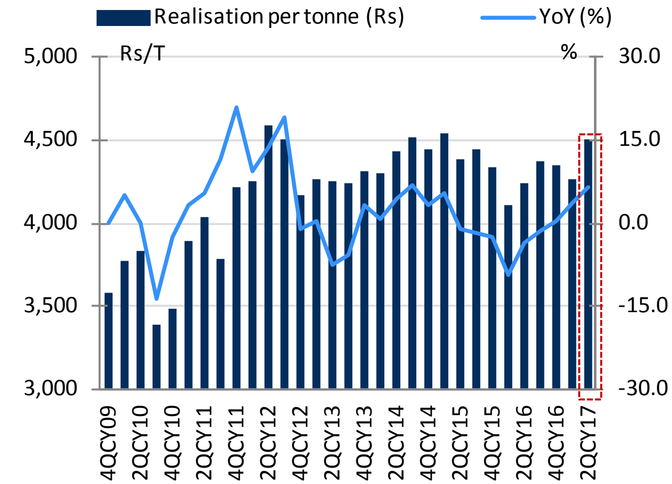
EBITDA/t at Rs 704, led by improved realisations and volume growth

Volume Growth Driven By Capacity Addition



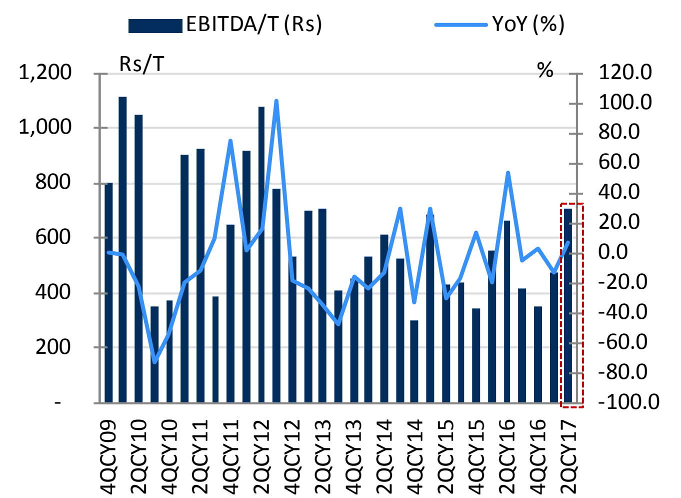
Source: Company, HDFC sec Inst Research

Realisations Improved QoQ



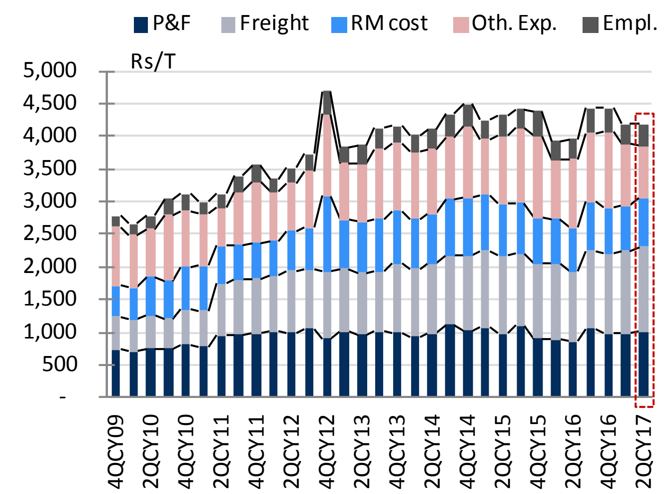
Source: Company, HDFC sec Inst Research

EBITDA/t At Rs 704



Source: Company, HDFC sec Inst Research

Other Expenses Declined QoQ



Source: Company, HDFC sec Inst Research

Income Statement

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
Net sales	**114,328**	**109,364**	**123,267**	**140,399**	**155,703**
Growth %	***(0.4)***	***(4.3)***	***12.7***	***13.9***	***10.9***
Material Expenses	79,099	74,181	83,371	93,501	102,669
Employee Expenses	7,699	7,783	8,172	8,581	9,010
SG&A Expenses	7,202	6,858	7,626	8,604	9,475
Other operating expenses	8,596	8,591	7,884	8,605	8,641
Operating profits	**11,732**	**11,951**	**16,214**	**21,108**	**25,907**
Operating Profit Margin (%)	***10.3***	***10.9***	***13.2***	***15.0***	***16.6***
Other operating income	3,641	2,219	3,666	3,855	4,060
EBITDA	**15,372**	**14,170**	**19,880**	**24,964**	**29,967**
EBITDA %	***13.4***	***13.0***	***16.1***	***17.8***	***19.2***
EBITDA Growth %	***2.0***	***(7.8)***	***40.3***	***25.6***	***20.0***
Depreciation	6,521	6,052	6,820	7,060	7,299
EBIT	**8,852**	**8,118**	**13,059**	**17,904**	**22,668**
Other Income (including EO items)	(338)	699	1,451	1,714	2,240
Interest	673	729	57	0	0
PBT	**7,840**	**8,089**	**14,453**	**19,618**	**24,908**
Tax	1,924	2,065	3,613	4,905	6,227
RPAT	**5,916**	**6,024**	**10,840**	**14,714**	**18,681**
EO (Loss) / Profit (Net Of Tax)	(134)	(428)	-	-	-
APAT	**6,051**	**6,452**	**10,840**	**14,714**	**18,681**
APAT Growth (%)	***(48.2)***	***6.6***	***68.0***	***35.7***	***27.0***
Adjusted EPS (Rs.)	**32.2**	**34.3**	**57.7**	**78.3**	**99.4**
EPS Growth (%)	***(48.2)***	***6.6***	***68.0***	***35.7***	***27.0***

Source: Company, HDFC sec Inst Research, Standalone numbers displayed
Note: CY16 as per Indian GAAP, IndAS restated numbers not reflected

Balance Sheet

As at December (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
SOURCES OF FUNDS					
Share Capital	1,880	1,880	1,880	1,880	1,880
Reserves	82,552	84,735	88,714	94,114	100,969
Total Shareholders Funds	**84,431**	**86,615**	**90,593**	**95,993**	**102,849**
Total Debt	**355**	**500**	**0**	**0**	**0**
Deferred Taxes	4,692	5,582	5,582	5,582	5,582
Long Term Provisions & Others	1,199	1,317	1,317	1,317	1,317
TOTAL SOURCES OF FUNDS	**90,676**	**94,013**	**97,491**	**102,891**	**109,747**
APPLICATION OF FUNDS					
Net Block	52,850	74,624	72,803	70,744	68,445
CWIP	26,695	3,551	3,551	3,551	3,551
Investments	2,746	2,359	2,359	2,359	2,359
LT Loans and Advances	12,411	13,515	13,515	13,515	13,515
Total Non-current Assets	**94,702**	**94,049**	**92,229**	**90,169**	**87,870**
Inventories	11,886	12,238	12,416	15,664	15,477
Debtors	4,844	4,677	4,805	5,995	5,538
Other Current Assets	3,050	3,972	3,972	3,972	3,972
Cash & Equivalents	13,928	19,439	19,837	26,965	34,842
Total Current Assets	**33,707**	**40,325**	**41,029**	**52,596**	**59,829**
Creditors	8,741	12,569	7,975	12,082	10,161
Other Current Liabilities & Provns	28,992	27,792	27,792	27,792	27,792
Total Current Liabilities	**37,733**	**40,362**	**35,768**	**39,874**	**37,954**
Net Current Assets	**(4,026)**	**(37)**	**5,262**	**12,721**	**21,875**
TOTAL APPLICATION OF FUNDS	**90,676**	**94,013**	**97,491**	**102,891**	**109,747**

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending Dec (Rs mn)	CY15	CY16	CY17E	CY18E	CY19E
Reported PBT	7,840	8,089	14,453	19,618	24,908
Non-operating & EO items	338	(699)	(1,451)	(1,714)	(2,240)
Interest expenses	673	729	57	0	0
Depreciation	6,521	6,052	6,820	7,060	7,299
Working Capital Change	(375)	1,906	(4,900)	(332)	(1,277)
Tax paid	(2,289)	(2,065)	(3,613)	(4,905)	(6,227)
OPERATING CASH FLOW (a)	**12,708**	**14,011**	**11,366**	**19,727**	**22,463**
Capex	(12,177)	(6,079)	(5,000)	(5,000)	(5,000)
Free cash flow (FCF)	531	7,932	6,366	14,727	17,463
Investments	164	386	0	0	0
Non-operating Income	(338)	699	1,451	1,714	2,240
INVESTING CASH FLOW (b)	**(12,351)**	**(4,994)**	**(3,549)**	**(3,286)**	**(2,760)**
Debt Issuance/(Repaid)	(309)	1,035	(500)	0	0
Interest expenses	(673)	(729)	(57)	0	0
FCFE	(451)	8,239	5,809	14,727	17,463
Share Capital Issuance	0	0	0	0	0
Dividend	(3,841)	(3,842)	(6,862)	(9,314)	(11,825)
FINANCING CASH FLOW (c)	**(4,824)**	**(3,536)**	**(7,419)**	**(9,314)**	**(11,825)**
NET CASH FLOW (a+b+c)	**(4,467)**	**5,482**	**399**	**7,128**	**7,877**
EO Items/Others	1,532				
Closing Cash & Equivalents	**13,929**	**19,409**	**19,837**	**26,965**	**34,842**

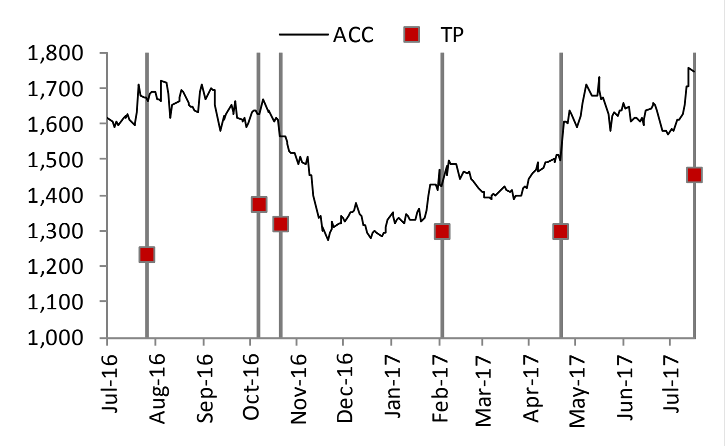
Source: Company, HDFC sec Inst Research

Key Ratios

	CY15	CY16	CY17E	CY18E	CY19E
PROFITABILITY (%)					
EBITDA Margin	13.4	13.0	16.1	17.8	19.2
APAT Margin	5.3	5.9	8.8	10.5	12.0
RoE	7.1	6.6	11.2	14.8	18.2
Core RoCE	5.8	6.4	10.2	15.1	20.1
RoCE	9.1	8.1	12.3	15.8	18.5
EFFICIENCY					
Tax Rate (%)	24.5	25.5	25.0	25.0	26.0
Asset Turnover (x)	1.0	1.0	1.1	1.2	1.4
Inventory (days)	39	40	37	37	37
Debtors (days)	14	16	14	14	14
Payables (days)	26	36	30	26	26
Cash Conversion Cycle (days)	27	21	20	24	24
Debt/EBITDA (x)	0.0	0.0	0.0	-	-
Net D/E	(0.16)	(0.22)	(0.22)	(0.28)	(0.34)
Interest Coverage	11.3	9.4	192.0	-	-
PER SHARE DATA					
EPS (Rs/sh)	32.2	34.3	57.7	78.3	99.4
CEPS (Rs/sh)	66.2	64.2	94.0	115.8	138.2
DPS (Rs/sh)	17.0	18.1	30.4	41.3	52.4
BV (Rs/sh)	449.2	460.8	482.0	510.7	547.2
VALUATION					
P/E	54.4	54.6	30.3	22.4	17.6
P/BV	3.9	3.8	3.6	3.4	3.2
EV/EBITDA	20.5	21.9	15.6	12.1	9.8
OCF/EV (%)	4.0%	4.5%	3.7%	6.5%	7.6%
FCF/EV (%)	0.2%	2.6%	2.1%	4.9%	5.9%
FCFE/Market Cap (%)	(1.0%)	(0.1%)	2.5%	1.8%	4.5%
Dividend Yield (%)	1.0	1.0	1.7	2.4	3.0

Source: Company, HDFC sec Inst Research
NM: Not Meaningful

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
27-Jul-16	1,676	SELL	1,235
7-Oct-16	1,630	SELL	1,376
22-Oct-16	1,566	SELL	1,321
6-Feb-17	1,424	SELL	1,300
22-Apr-17	1,495	SELL	1,300
18-Jul-17	1,747	SELL	1,459

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

We, **Ankur Kulshrestha, PGDBM & Meera Midha, IDM**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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