

ACC**Strong performance drives CY17 earnings upgrade**

India Equity Research | Cement

Industry is reeling under challenges of subdued volume growth and pricing pressure, which we believe poses risks to earnings estimates of incumbents. But, ACC seems to be an exception – its impressive performances in Q3CY17 (EBITDA surged 47% YoY) and 9mCY17 (EBITDA up 24% YoY) is driving ~6% upgrade to our CY17 EBITDA estimates. Q3CY17 EBITDA, at INR4.15bn (versus our INR3.3bn estimate), was steered by: 1) Strong volume growth of 17.6% versus our 15.6% estimate, led by capacity expansion and negative base; 2) Better than expected realisation (adjusted realisation dipped ~1% QoQ versus 2% estimate; and 3) Tight leash on costs. Given the volume trajectory, we estimate Q4CY17 also to be strong. Going ahead, we remain optimistic on recovery in cement demand and prices and hence see limited risk to our CY18 estimates. Maintain 'BUY' with a target price of INR1,914 on FY19E.

Q3CY17 result: Key highlights

- Aided by negative base of 9.6% dip and ramp up of new plants at Jamul and Sindri, cement volumes rose 17.6% YoY. Factoring in 10% growth reported in 9mCY17, we expect 11% volume growth for CY17, after a hiatus of 6 years.
- While reported cement realisation rose 3% QoQ, adjusted for the impact of INR194/t due to change in commercial sales term (from ex-depot to FOR delivered basis), realisation dipped 1.2% QoQ versus our 2% estimate. Prices are currently low, but we expect recovery in ensuing months.
- Tight leash on fixed cost helped employee cost dip 8% QoQ (up 7% YoY and 11% for 9mCY17) and 'other expenses' to fall 9% QoQ (flat YoY and up 6% for 9mCY17). While variable cost/t (raw material and energy combined) rose 15% YoY (16% QoQ), we expect it to soften in Q4CY17 assuming liquidation of ~INR1.3bn inventory built up in past 2 quarters. EBITDA/t stood at INR592, up 29% YoY.

Outlook and valuations: Volume resilience persists; maintain 'BUY'

The pan-India player will be a beneficiary of the expected recovery in cement demand and prices, while resilience in volume will keep earnings momentum intact. Factoring in 6% upgrade in CY17 estimate and limited risk to CY18 EBITDA estimate, we continue to value ACC at 14x FY19E EV/EBITDA. Maintain 'BUY/SP' with a target price of INR1,914.

Financials**(INR mn)**

Year to December	Q3CY17	Q3CY16	% Chg	Q2CY17	% Chg	CY16	CY17E	CY18E
Total operating Income	31,165	24,764	25.8	34,529	(9.7)	111,583	130,075	145,566
EBITDA	4,150	2,816	47.4	6,354	(34.7)	14,170	18,659	22,367
Adjusted Profit	1,777	895	98.5	3,217	(44.8)	6,324	8,636	11,103
Diluted EPS (INR)	9.5	4.8	98.4	17.1	(44.8)	33.6	45.9	59.1
Diluted P/E (x)						53.3	39.0	30.3
EV/EBITDA (x)						22.6	17.0	13.9
ROAE (%)						7.4	9.9	12.3

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: ACC.BO, B: ACC IN)

CMP	: INR 1,792
Target Price	: INR 1,914
52-week range (INR)	: 1,870 / 1,257
Share in issue (mn)	: 187.8
M cap (INR bn/USD mn)	: 337 / 5,177
Avg. Daily Vol.BSE/NSE('000)	: 439.7

SHARE HOLDING PATTERN (%)

	Current	Q1FY18	Q4FY17
Promoters *	54.5	54.5	54.5
MF's, FI's & BK's	16.4	16.4	16.8
FII's	14.8	14.8	14.3
Others	14.3	14.3	14.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	(4.2)	0.9	(3.0)
3 months	3.7	2.8	8.4
12 months	8.3	18.6	26.9

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Other highlights

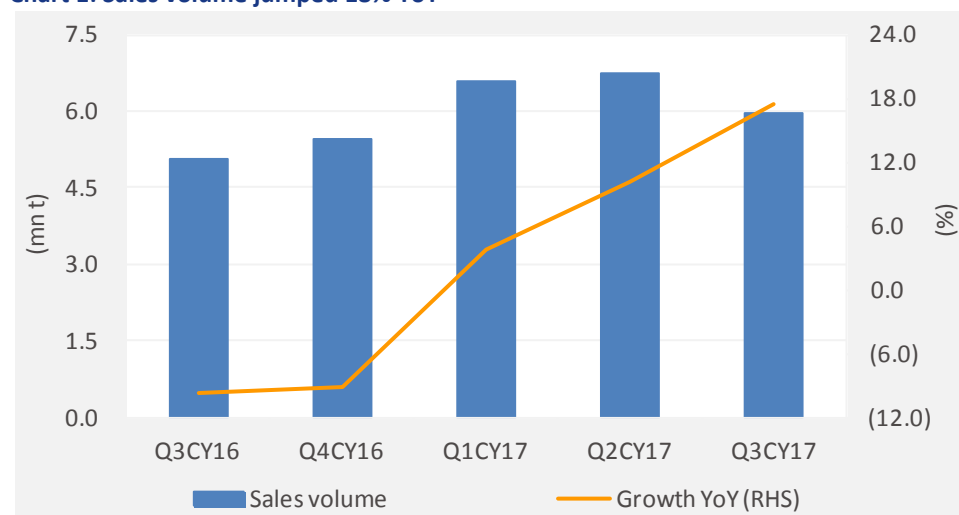
- Fuel cost for the quarter was impacted by rise in prices of pet coke, while limited availability of linkage coal led to higher consumption of costlier coal.
- Raw material price was hit by increase in the prices of slag as well as increased lead distance to source fly ash.
- Freight cost/t appears to have risen by ~4% QoQ, while adjusted for the change in commercial terms (as mentioned above), dipped 11% QoQ benefitting from no busy season surcharge on rail freight in a monsoon quarter. Cost will increase in Q4CY17 with resumption of busy surcharge.
- With other income, interest cost and tax rate being largely in line, PAT at INR1.78bn surged 98% YoY.

Table 1: Higher variable costs led to 5% increase in total cost/t (YoY)

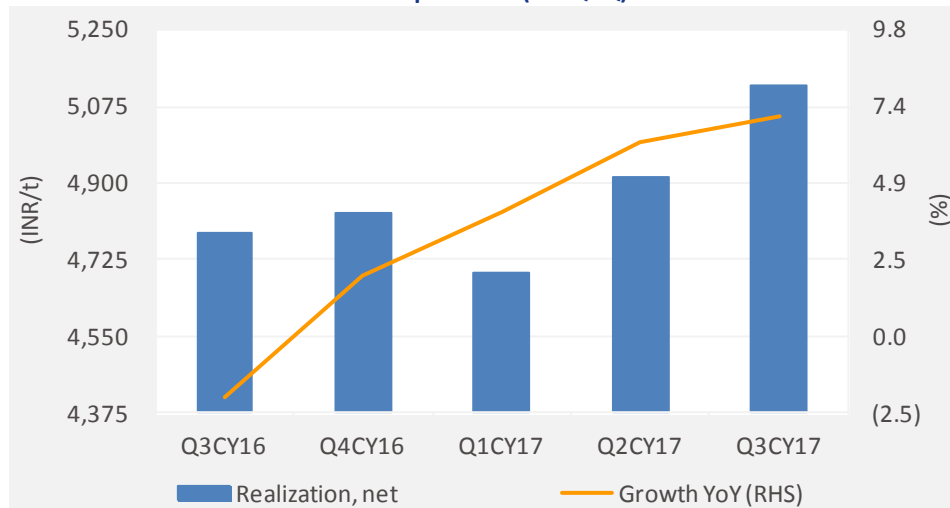
(INR/tonne)	Q3CY17	Q3CY16	% change	Q2CY17	% change
Blended Realisation, net	5,125	4,788	7.0	4,915	4.3
Raw material	747	574	30.3	596	25.4
Power	1,130	1,058	6.8	1,016	11.2
Freight	1,348	1,182	14.0	1,299	3.8
Staff	337	369	(8.6)	324	4.0
Others	971	1,147	(15.3)	946	2.7
Cost	4,533	4,329	4.7	4,180	8.4
EBITDA	592	460	28.9	735	(19.4)

Source: Company, Edelweiss research

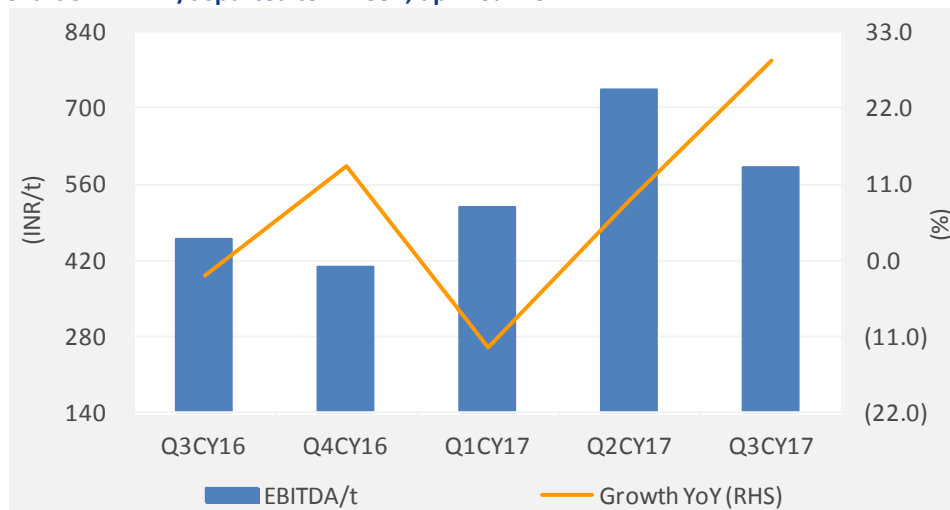
Chart 1: Sales volume jumped 18% YoY



Source: Company, Edelweiss research

Chart 2: Blended realisation moved up 7% YoY (4% QoQ)

Source: Company, Edelweiss research

Chart 3: EBITDA/t spurted to INR592, up ~29% YoY

Source: Company, Edelweiss research

Table 2: Target price retained at INR1,914

Valuation	FY19E
Assumed EV/EBITDA multiple (x)	14.0
EBITDA (INR mn)	24,016
EV (INR mn)	336,220
Less: Net debt CY17E (INR mn)	(23,477)
Mcap (INR mn)	359,697
Shares o/s (mn)	188
Value per share (INR)	1,914
Potential Upside (%)	6.8

Source: Edelweiss research

*FY19E = 3/4th of CY18E and 1/4th of CY19E.

Financial snapshot

(INR mn)

Year to December	Q3CY17	Q3CY16	% change	Q2CY17	% change	YTD17	CY17E	CY18E
Volume (million tonnes)	6.0	5.1	17.6	6.7	(11.6)	19.3	25.5	27.0
Realisation (inr/tonne)	5,125	4,788	7.0	4,915	4.3	4,905	5,098	5,394
Total operating Income	31,165	24,764	25.8	34,529	(9.7)	97,434	130,075	145,566
Raw material costs	4,455	2,908	53.2	4,018	10.9	13,122	17,664	20,263
Power and fuel	6,732	5,362	25.5	6,847	(1.7)	20,055	26,579	28,753
Freight outward	8,034	5,993	34.1	8,753	(8.2)	25,091	33,963	39,042
Staff costs	2,008	1,869	7.4	2,182	(8.0)	6,142	8,317	8,816
Other expenses	5,787	5,815	(0.5)	6,374	(9.2)	18,358	24,894	26,326
Total expenditure	27,015	21,947	23.1	28,175	(4.1)	82,768	111,416	123,199
EBITDA	4,150	2,816	47.4	6,354	(34.7)	14,666	18,659	22,367
Depreciation	1,551	1,529	1.4	1,621	(4.3)	4,823	6,841	7,199
Other income	238	269	(11.5)	260	(8.4)	855	1,469	1,643
Interest	213	221	(4.0)	225	(5.6)	689	950	950
Profit before tax	2,624	1,334	96.7	4,768	(45.0)	10,009	12,337	15,861
Tax	847	439	93.0	1,550	(45.4)	2,899	3,701	4,758
Reported net profit	1,777	895	98.5	3,217	(44.8)	7,109	8,636	11,103
Adjusted Profit	1,777	895	98.5	3,217	(44.8)	7,109	8,636	11,103
Equity capital(FV INR10)	1,880	1,879		1,880		1,880	1,880	1,880
No. of shares (mn)	188	188		188		188	188	188
Diluted EPS (INR)	9.5	4.8	98.4	17.1	(44.8)	37.8	45.9	59.1
Diluted P/E (x)							39.0	30.3
EV/EBITDA (x)							17.0	13.9
ROAE (%)							9.9	12.3

As % of net revenues

Raw material	14.3	11.7		11.6		13.5	13.6	13.9
Employee cost	6.4	7.5		6.3		6.3	6.4	6.1
Power & fuel	21.6	21.7		19.8		20.6	20.4	19.8
Freight outward	25.8	24.2		25.4		25.8	26.1	26.8
Other expenses	18.6	23.5		18.5		18.8	19.1	18.1
EBITDA	13.3	11.4		18.4		15.1	14.3	15.4
Reported net profit	5.7	3.6		9.3		7.3	6.6	7.6

Change in Estimates

	CY17E			CY18E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	130,075	126,536	2.8	145,566	140,834	3.4	Factoring in 9mCY17 performance, we have revised our forecasts for CY17.
EBITDA	18,659	17,626	5.9	22,367	22,366	0.0	
EBITDA Margin	14.3	13.9		15.4	15.9		
Adjusted PAT	8,636	7,891	9.4	11,103	11,050	0.5	
Net Profit Margin	6.6	6.2		7.6	7.8		
Capex	4,008	4,008	0.0	4,008	4,008	0.0	

Company Description

ACC is the second largest cement manufacturer in India, with current installed capacity of ~33.5mtpa. The company is a pan-India player with its plants spread across the country. Holcim Group, through direct and indirect investments (through its subsidiary Ambuja Cements), holds ~54.5% stake in the company.

Investment Theme

Being a pan-India player, ACC will be beneficiary of the expected sector upturn, led by revival in demand and slow capacity additions. Broadly, our investment thesis is driven by: (a) possible synergies with Ambuja post the restructuring to aid profitability further; (b) high operating leverage—1% volume variation is positive ~3-4% to EPS and 1% in price ~8-10% to EPS; and (c) an implied EV/t of ~USD141 (CY18E) appears reasonable versus other large peers and the positioning of industry cycle.

Key Risks

Lower than estimated demand and price hikes will impact estimates.

Significant increase in operating costs will impact estimates.

Financial Statements

Key Assumptions

Year to December	CY15	CY16	CY17E	CY18E
Macro				
GDP(Y-o-Y %)	7.9	6.6	6.8	7.4
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.5	67.1	65.0	66.0
Sector				
All Ind Cem demand (mt)	281	278	298	325
Demand growth (%)	5.2	(1.0)	7.0	9.0
Ind Capac util (%)	73.0	72.5	76.9	84.2
Ind avg price (INR/50kg)	297.0	302.7	314.4	346.2
Company				
EBITDA/ Tonne (INR)	651	616	731	829
Inst capacity (mtpa)	33	33	33	33
Capacity Utilisation (%)	71	69	76	81
Cement realiztn (INR/t)	4,992	4,851	5,098	5,394
RM cost per tonne	782	737	692	751
P&F cost per tonne	1,013	938	1,042	1,066
Freight cost per tonne	1,152	1,154	1,331	1,447
Other expenses per tonne	1,068	1,068	976	976
Total expenses per tonne	4,342	4,235	4,367	4,566
Effective tax rate (%)	24.5	25.5	30.0	30.0
Debtor days	14	16	13	12
Inventory days	61	64	59	54
Payable days	149	174	161	144

Income statement

(INR mn)

Year to December	CY15	CY16	CY17E	CY18E
Income from operations	117,968	111,583	130,075	145,566
Materials costs	18,481	16,944	17,664	20,263
Employee costs	7,699	7,783	8,317	8,816
Other Expenses	76,417	72,686	85,436	94,120
EBITDA	15,372	14,170	18,659	22,367
Depreciation	6,521	6,052	6,841	7,199
EBIT	8,851	8,118	11,818	15,168
Add: Other income	1,193.5	1,127.09	1,468.78	1,642.52
Less: Interest Expense	673	729	950	950
Profit Before Tax	7,840	8,089	12,337	15,861
Less: Provision for Tax	1,924	2,065	3,701	4,758
Reported Profit	5,916	6,024	8,636	11,103
Exceptional Items	(1,037)	(300)	-	-
Adjusted Profit	6,953	6,324	8,636	11,103
Shares o /s (mn)	188	188	188	188
Adjusted Basic EPS	37.0	33.6	45.9	59.1
Diluted shares o/s (mn)	188	188	188	188
Adj. Diluted EPS (INR)	37.0	33.6	45.9	59.1
Adjusted Cash EPS	68.2	70.6	82.3	97.4
Dividend per share (DPS)	17.0	17.0	30.0	35.0
Dividend Payout Ratio(%)	64.9	63.8	78.6	71.3

Common size metrics

Year to December	CY15	CY16	CY17E	CY18E
Operating expenses	87.0	87.3	85.7	84.6
EBITDA margins	13.0	12.7	14.3	15.4
Net Profit margins	5.9	5.7	6.6	7.6

Growth ratios (%)

Year to December	CY15	CY16	CY17E	CY18E
Revenues	0.5	(5.4)	16.6	11.9
EBITDA	2.0	(7.8)	31.7	19.9
Adjusted Profit	(40.5)	(9.1)	36.6	28.6
EPS	(40.5)	(9.1)	36.6	28.6

Balance sheet		(INR mn)			
As on 31st December	CY15	CY16	CY17E	CY18E	
Share capital	1,880	1,880	1,880	1,880	
Reserves & Surplus	82,551	84,735	86,584	89,769	
Shareholders' funds	84,430	86,614	88,464	91,649	
Short term borrowings	355	500	500	500	
Long term borrowings	1,199	1,317	1,317	1,317	
Total Borrowings	1,554	1,817	1,817	1,817	
Deferred tax (net)	4,692	5,581	5,581	5,581	
Sources of funds	90,676	94,013	95,862	99,047	
Gross Block	113,523	140,669	146,669	150,677	
Net Block	52,848	74,589	73,747	70,556	
Capital work in progress	26,695	2,608	616	616	
Intangible Assets	2	35	35	35	
Total Fixed Assets	79,545	77,232	74,399	71,208	
Non current investments	7,409	7,190	7,190	7,190	
Cash and Equivalents	12,928	18,439	22,436	28,600	
Inventories	11,886	12,238	12,907	13,213	
Sundry Debtors	4,844	4,677	4,912	5,043	
Loans & Advances	11,246	13,998	13,998	13,998	
Other Current Assets	551	602	602	602	
Current Assets (ex cash)	28,527	31,514	32,419	32,856	
Trade payable	31,339	34,300	34,520	34,745	
Other Current Liab	6,393	6,062	6,062	6,062	
Total Current Liab	37,733	40,362	40,581	40,806	
Net current assets	(9,206)	(8,848)	(8,163)	(7,951)	
Uses of funds	90,676	94,013	95,862	99,047	
BVPS (INR)	449.2	460.8	470.7	487.6	

Free cash flow		(INR mn)			
Year to December	CY15	CY16	CY17E	CY18E	
Reported Profit	5,916	6,024	8,636	11,103	
Add: Depreciation	6,521	6,052	6,841	7,199	
Interest (Net of Tax)	451	623	665	665	
Others	6,162	(4,050)	(4,662)	(6,829)	
Less: Changes in WC	4,437	(5,153)	(3,312)	(5,952)	
Operating cash flow	14,612	13,801	14,792	18,089	
Less: Capex	8,873	3,705	4,008	4,008	
Free Cash Flow	5,739	10,096	10,784	14,081	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		EV / Sales (X)	
		CY17E	CY18E	CY17E	CY18E	CY17E	CY18E
ACC	5,177	39.0	30.3	17.0	13.9	2.4	2.1
Ambuja Cement Ltd	8,584	46.9	36.5	27.1	21.9	4.8	4.2
India Cements	861	20.7	13.4	8.5	6.7	1.6	1.3
Shree Cements	9,978	36.1	25.2	23.0	15.0	5.8	4.4
UltraTech Cement	17,266	40.1	24.4	18.8	12.7	4.3	3.3
Median	-	39.0	25.2	18.8	13.9	4.3	3.3
AVERAGE	-	36.6	26.0	18.9	14.0	3.8	3.1

Source: Edelweiss research

Cash flow metrics		CY15	CY16	CY17E	CY18E
Year to December					
Operating cash flow		14,612	13,801	14,792	18,089
Investing cash flow		(9,482)	(5,391)	(4,008)	(4,008)
Financing cash flow		(6,810)	(4,212)	(6,786)	(7,918)
Net cash Flow		(1,680)	4,199	3,997	6,164
Capex		(11,643)	(4,976)	(4,008)	(4,008)
Dividend paid		(6,750)	(3,853)	(6,786)	(7,918)

Profitability and efficiency ratios

Year to December	CY15	CY16	CY17E	CY18E
ROAE (%)	8.3	7.4	9.9	12.3
ROACE (%)	11.9	10.6	14.9	18.3
Inventory Days	61	64	59	54
Debtors Days	14	16	13	12
Payable Days	149	174	161	144
Cash Conversion Cycle	(74)	(94)	(88)	(77)
Current Ratio	1.1	1.2	1.4	1.5
Gross Debt/EBITDA	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	13.1	11.1	12.4	16.0

Operating ratios

Year to December	CY15	CY16	CY17E	CY18E
Total Asset Turnover	1.3	1.2	1.4	1.5
Fixed Asset Turnover	2.2	1.8	1.8	2.0
Equity Turnover	1.4	1.3	1.5	1.6

Valuation parameters

Year to December	CY15	CY16	CY17E	CY18E
Adj. Diluted EPS (INR)	37.0	33.6	45.9	59.1
Y-o-Y growth (%)	(40.5)	(9.1)	36.6	28.6
Adjusted Cash EPS (INR)	68.2	70.6	82.3	97.4
Diluted P/E (x)	48.5	53.3	39.0	30.3
P/B (x)	4.0	3.9	3.8	3.7
EV/tonne (USD/tonne)	149	143	146	141
EV / Sales (x)	2.8	2.9	2.4	2.1
EV / EBITDA (x)	21.2	22.6	17.0	13.9
EV/EBITDA (x)+1 yr fwd.	23.0	17.2	14.1	-
Dividend Yield (%)	0.9	0.9	1.7	2.0

Additional Data

Directors Data

N S Sekhsaria	Chairman	Mr Eric Olsen	Deputy Chairman
Mr Farrokh K. Kavarana	Non-Executive and Independent Director	Mr Vijay Kumar Sharma	Non-Executive and Independent Director
Mr Arunkumar Ramanlal Gandhi	Non-Executive and Independent Director	Mrs Falguni Nayar	Non-Executive and Independent Director
Shailesh Haribhakti	Non-Executive and Independent Director	Mr. Neeraj Akhoury	Managing Director & CEO
Mr Christof Hässig	Non-Executive and Non-Independent Director	Sushil Kumar Roongta	Non-Executive and Independent Director
Ashwin Dani	Non-Executive and Independent Director	Mr Martin Kriegner	Additional Director

Auditors - S R Batliboi & Associates

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp of India	10.51	JPMorgan Chase & Co	4.47
Capital Group Companies Inc	1.60	Birla Sun Life Asset Management	1.34
Reliance Capital Trustee Co Ltd	1.12	Vanguard Group	0.90
Templeton Asset Mgmt	0.85	Blackrock	0.84
Standard Life Aberdeen Plc	0.73	SBI Funds Management	0.47

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
15 Nov 2016	Holderind Investments Ltd	Buy	7870000	1536.53
15 Nov 2016	Nomura India Investment Fund Mother Fund	Sell	986171	1538.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
16 Nov 2016	Holderind Investments Limited	Buy	7870000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ACC	BUY	SP	M	Ambuja Cement Ltd	HOLD	SU	M
Grasim Industries	BUY	SO	M	India Cements	BUY	SP	H
JK Cement	BUY	SO	M	Shree Cements	BUY	SO	M
UltraTech Cement	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Cement

ACC, Ambuja Cement Ltd, Grasim Industries, India Cements, JK Cement, Shree Cements, UltraTech Cement

Recent Research

Date	Company	Title	Price (INR)	Recos
26-Sep-17	Ambuja Cements	CY19E - a milestone year; <i>Visit Note</i>	261	Hold
24-Aug-17	Shree Cements	Market share ramp up imminent; <i>Visit Note</i>	17,166	Buy
16-Aug-17	JK Cement	Decent performance; <i>Result Update</i>	1,032	Buy

Distribution of Ratings / Market Cap

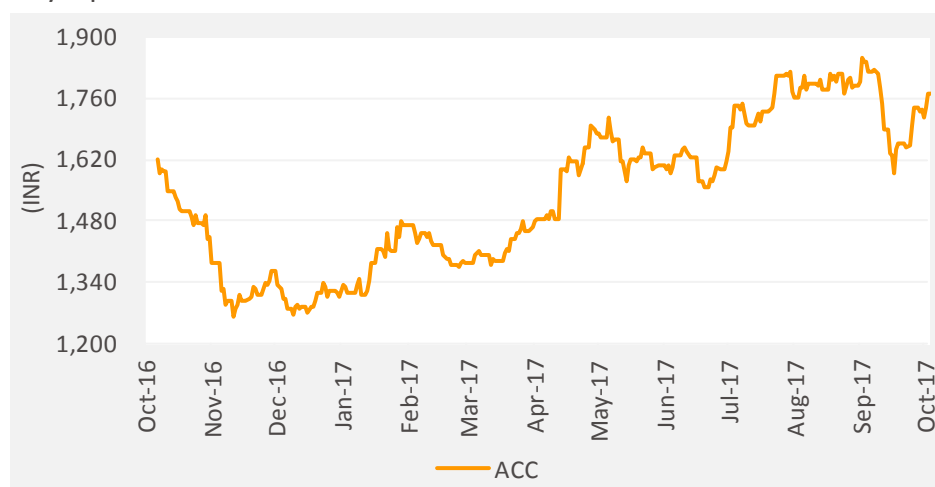
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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