

Healthy margin leads to better profitability!

ACC Ltd surprised positively with margin expansion of 313 bps YoY leading to better profitability during Q2CY20. While revenues, volumes declined, they were broadly in line with our estimates. Sales volumes declined 33.7% YoY to 4.8 MT (in line with I-direct estimate: 4.85 MT) due to the Covid-19 induced nationwide lockdown. RMC volumes also declined sharply by 83% YoY to 0.15 million. Sales realisations dipped 3.3% YoY to ₹ 5421/tonne (vs. I-direct estimate: ₹ 5383/t). As a result, operating revenue for the quarter degrew 36% YoY to ₹ 2602 crore (vs. I-direct estimate: ₹ 2611.3 crore). Despite low volume offtake, margins for the quarter improved 313 bps YoY to 20.2% (vs. I-direct estimate: 13.4%). EBITDA/t for the quarter was at ₹ 1095/tonne (vs. I-direct estimate: ₹ 719/tonne), up 14.4% YoY. Better operating performance led the company to report net profit of ₹ 271 crore, far ahead of our estimated net profit of ₹ 167 crore.

Market share falls consistently in past five years; new capacities to help gain lost ground, to some extent

Over the past five years, the company has lost market share to other large players with no major new capacities coming up during this period either through the greenfield or M&A route. While industry capacity grew at 7% CAGR, the company managed to increase their capacity from 30.5MT to 33.4% ie. At CAGR of 2% during this period. As a result, the company's production share declined from 14% in FY14 to 11% in FY20. To address this growth concern, the company is adding 5.9MT new cement capacities with total capex of ₹3000 crore. This would be majorly funded through internal accruals. However, the new capacity would likely to come on stream only by end of CY21E. We thus model a volume CAGR of 3% over CY19-21E and expect revenues to grow at 2.4% CAGR over the same period.

Higher CoP vs. peers stays key concern but comfort on B/S front

ACC with capacity of 33.4 MT and the oldest cement company remains susceptible to volatility in margins due to its high cost of production (CoP). The company closed CY19 with CoP remaining higher by over 15% than the industry average CoP of ~₹ 3960/tonne. Higher fuel consumption, RM costs are key areas, which need focus to drive efficiency. While CoP remains high, the company's balance sheet is among the strongest in the industry with positive FCF generation and a debt free position. Return ratios RoCE, RoIC are also expected to stay marginally above 10% in CY20E and stage a healthy bounce back in CY21E.

Valuation & Outlook

While this quarterly performance remained healthy on the margins front, the structural issues with respect to CoP need to be addressed for sustenance of healthy margins in the long run. On the positive side, strong B/S and improved cash flow remain key positives. Post the recent rally in the stock price, we now downgrade the stock to **HOLD** with a revised target price of ₹ 1,450/share (valuing at 10x CY21E EV/EBITDA implying an EV/t of ~\$85).

Key Financial Summary

₹ crore	CY17	CY18	CY19	CY20E	CY21E AGR (CY19-CY21E)	
Net Sales	12931	14478	15343	13585	16419	3.4%
EBITDA	1558	1724	2098	2002	2471	8.5%
EBITDA Margins (%)	12.1	11.9	13.7	14.7	15.0	
Adjusted Net Profit	924	1020	1378	1207	1533	5.5%
EPS (₹)	49.2	54.3	73.3	64.2	81.6	
EV/EBITDA	15.1	13.4	10.2	11.1	9.0	
EV/tonne (\$)	102	98	92	95	81	
RoNW	9.9	9.7	11.9	9.7	11.2	
RoCE	14.0	14.2	17.4	14.0	16.4	
RoIC	13.1	14.6	21.0	17.9	22.7	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Mcap	₹ 26118 crore
Debt (CY19)	₹ 0 crore
Cash & Invest (CY19)	₹ 4651 crore
EV	₹ 21467 crore
52 week H/L	₹ 1768 / 1265
Equity cap	₹ 187.8 crore
Face value	₹ 10

Key Highlights

- Revenue decline driven by 34% drop in cement volumes owing to nationwide lockdown
- Lower freight & fuel costs aid margin expansion
- New capacities (5.9 MT) to get commissioned by CY21E
- Expect revenue CAGR of 3.4% in CY19-21E
- Profitability to see gradual recovery
- Downgrade from BUY to HOLD rating with revised target price of ₹ 1,450

Research Analysts

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Exhibit 1: Variance Analysis

	Q2CY20	Q2CY20E	Q2CY19	YoY(%)	Q1CY20	QoQ(%)	Comments
Net Sales	2,602.0	2,611.3	4,059.3	-35.9	3,433.0	-24.2	Lower offtake due to Covid-19 and nationwide lockdown caused 34% dip in volumes
Other Incomes	51.3	50.0	144.0	-64.4	124.6	-58.8	Last year's other income included interest on income tax refunds and reversal of provisions
Raw Material Expense	499.5	436.6	657.4	-24.0	-206.2	-342.2	
Employee Expenses	176.4	195.9	203.5	-13.3	209.0	-15.6	
Power and fuel	457.2	499.6	816.6	-44.0	734.4	-37.7	Higher proportion of low cost coal and improved thermal efficiency led to fall in power cost during the quarter
Freight	600.7	693.7	1,039.8	-42.2	941.5	-36.2	
Others	342.7	436.6	649.5	-47.2	554.9	-38.2	Stricter control in discretionary spend and some rationalisation led to cost savings
EBITDA	525.4	348.9	692.5	-24.1	517.8	1.5	
EBITDA Margin (%)	20.2	13.4	17.1	313 bps	15.1	511 bps	
Interest	13.1	17.4	19.9	-34.3	10.6	23.3	
Depreciation	162.7	139.0	146.9	10.8	158.0	3.0	
PBT	400.9	242.5	669.8	-40.1	473.9	-15.4	
Total Tax	132.2	78.3	217.0	-39.1	153.1	-13.7	
Adjusted PAT	271.0	166.5	455.7	-40.5	323.0	-16.1	
Key Metrics							
Volume (MT)	4.80	4.85	7.24	-33.7	6.56	-26.8	Lower offtake due to Covid-19 and nationwide lockdown
Realisation (₹)	5,421	5,383	5,607	-3.3	5,233	3.6	
EBITDA per Tonne (₹)	1,095	719	956	14.4	789	38.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY20E			CY21E		
	Old	New	% Change	Old	New	% Change
Revenue	13,412.5	13,584.8	1.3	16,101.0	16,419.5	2.0
EBITDA	1,639.7	2,001.8	22.1	1,955.5	2,471.0	26.4
EBITDA Margin (%)	12.2	14.7	251 bps	12.1	15.0	290 bps

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	CY17	CY18	CY19P	CY20E	CY21E	CY20E	CY21E
Volume (MT)	26.2	28.4	28.9	26.2	30.6	26.2	30.6
Realisation (₹)	4,932	5,030	5,309	5,181	5,373	5,063	5,240
EBITDA per Tonne (₹)	594	535	726	756	809	493	598

Source: Company, ICICI Direct Research

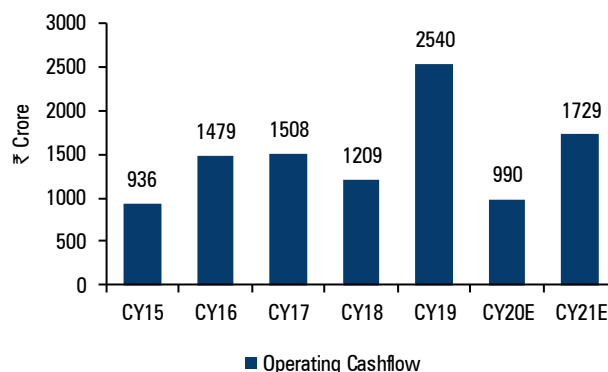
Financial story in charts

Exhibit 4: Capacity addition plans

Capacity	MT
Existing	33.4
Planned capacity addition:	
Uttar Pradesh (2 Grinding units)	2.2
Tikaria Unit, UP (Brownfield)	1.6
Ametha, MP (Integrated unit with 3 MT Clinker capacity)	1.0
Sindri (brownfield)	1.0
Total	5.8
Total capacity by CY21E (MT)	39.2

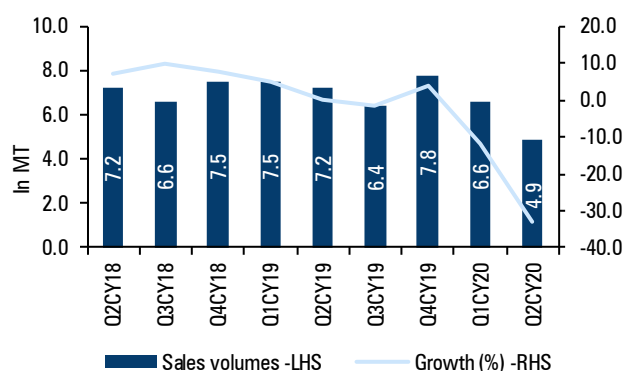
Source: Company, ICICI Direct Research

Exhibit 5: Operating cash flows sufficient to fund expansion



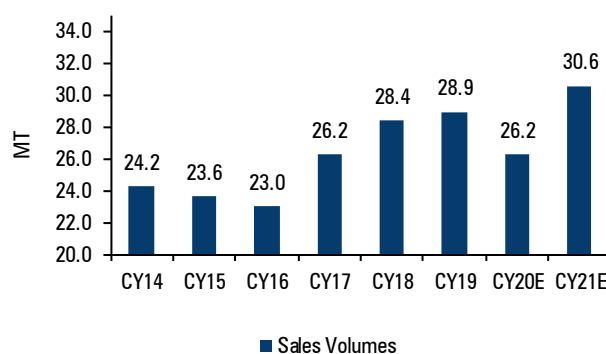
Source: Company, ICICI Direct Research

Exhibit 6: Volumes decline 33.7% YoY in Q2CY20



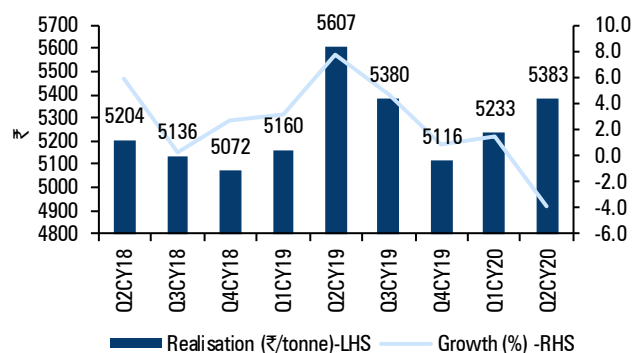
Source: Company, ICICI Direct Research

Exhibit 7: Volumes to grow at 2.8% CAGR in CY19-21E



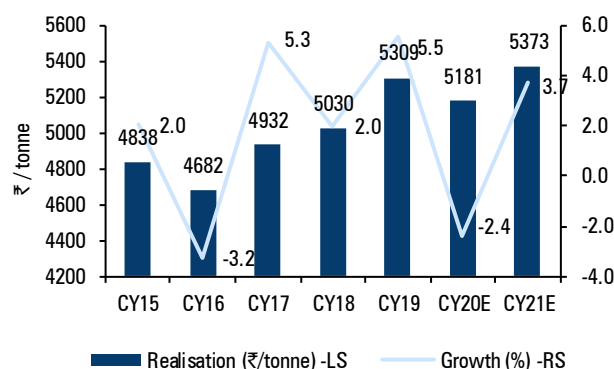
Source: Company, ICICI Direct Research

Exhibit 8: Realisations decline 3.3% YoY in Q2CY20



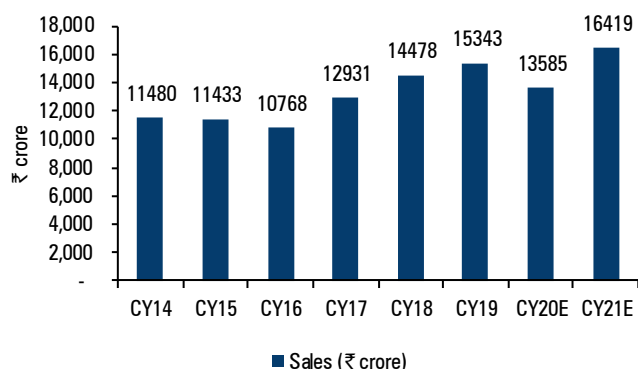
Source: Company, ICICI Direct Research

Exhibit 9: Expected realisations to bounce-back from CY21E



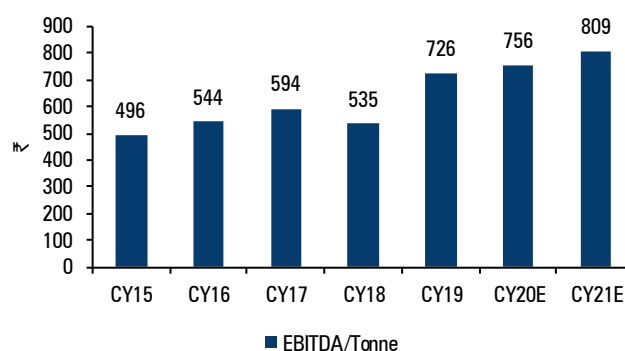
Source: Company, ICICI Direct Research

Exhibit 10: Expect revenue CAGR of 3.4% over CY19-21E



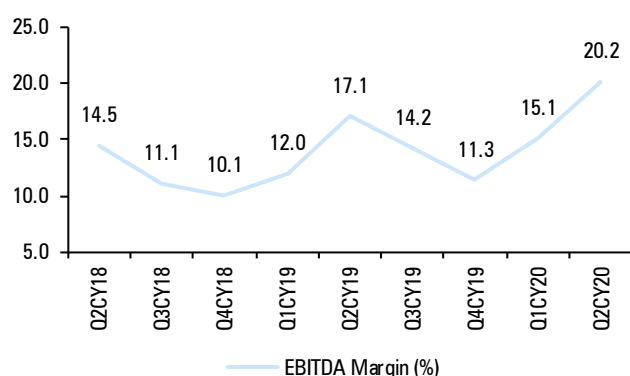
Source: ICICI Direct Research, Company

Exhibit 11: EBITDA/t to witness gradual recovery



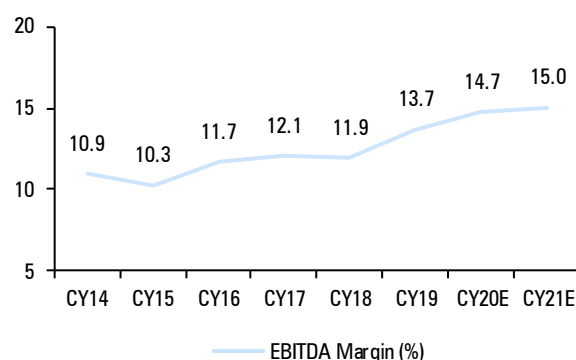
Source: ICICI Direct Research, Company

Exhibit 12: Best margins recorded over past nine quarters



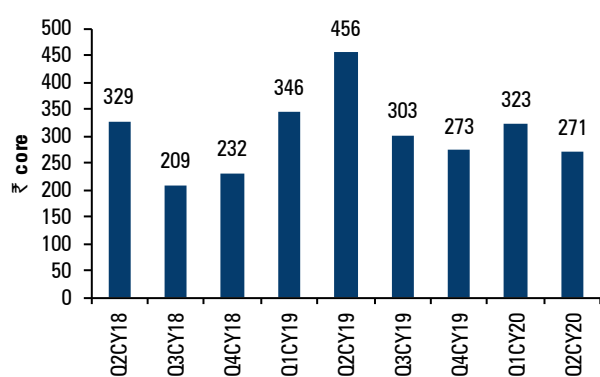
Source: Company, ICICI Direct Research

Exhibit 13: Margins to witness gradual recovery from CY21E



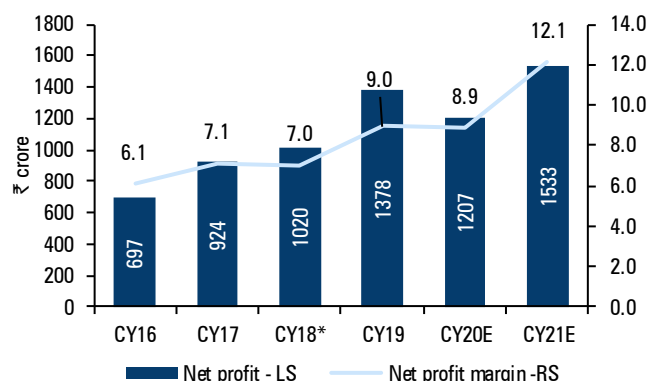
Source: Company, ICICI Direct Research

Exhibit 14: Quarterly PAT trend



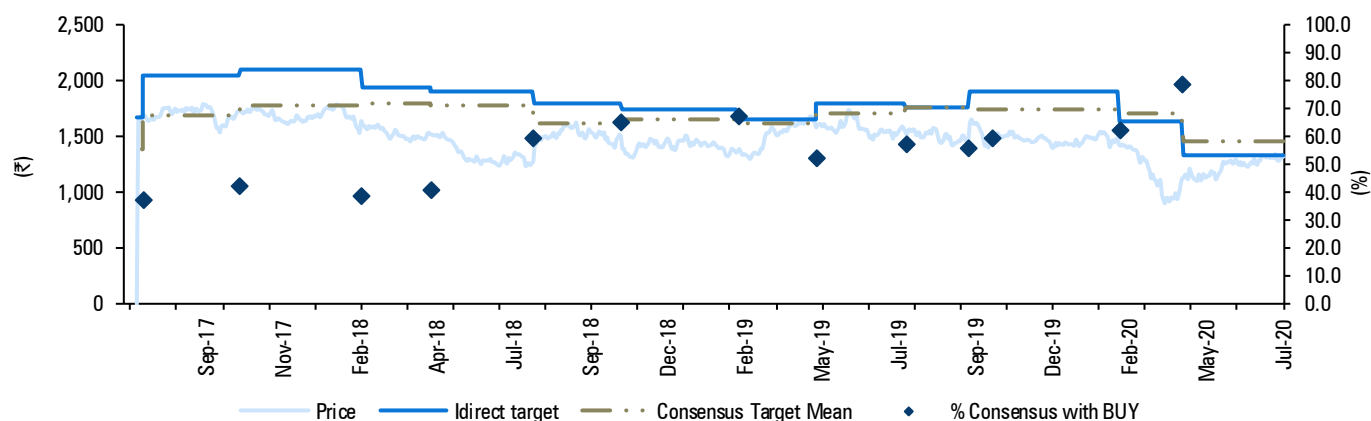
Source: Company, ICICI Direct Research

Exhibit 15: Annual PAT to bounce-back from CY21E



Source: Company, ICICI Direct Research

Exhibit 16: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 17: Top 10 shareholders

Rank	Investor Name	Filing Date	% O/S Position (m)	Change (mn)
1	Ambuja Cement India	31-Mar-20	50.1 93.98m	(0.00)m
2	Life Insurance Corp	31-Mar-20	5.2 9.75m	(0.93)m
3	Holderind Invsts Ltd	31-Mar-20	4.5 8.41m	0.00m
4	Franklin Resources	17-Jul-20	3.7 6.85m	0.00m
5	Aditya Birla Sun Lif	30-Jun-20	2.0 3.78m	(0.05)m
6	Icici Prudential Lif	31-Mar-20	1.2 2.33m	2.33m
7	Icici Prudential Ass	30-Jun-20	1.1 2.11m	0.32m
8	Jpmorgan Chase & Co	31-Mar-20	0.9 1.75m	(0.72)m
9	Vanguard Group	30-Jun-20	0.9 1.59m	(0.03)m
10	Dsp Blackrock Invest	30-Jun-20	0.8 1.51m	(0.10)m

Source: Company, ICICI Direct Research

Exhibit 18: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	54.53	54.53	54.53	54.53	54.53
FII	8.66	9.26	8.60	7.79	8.14
DII	22.15	21.10	21.22	21.03	20.68
Others	14.66	15.11	15.65	16.65	16.65

Source: Company, ICICI Direct Research

Financial summary

Exhibit 19: Profit and loss statement ₹ crore				
(Year-end March)	CY18	CY19	CY20E	CY21E
Total operating Income	14,477.5	15,343.1	13,584.8	16,419.5
Growth (%)	12.0	6.0	-11.5	20.9
Raw material	2332.5	2718.9	2348.2	2838.2
Power & Fuel	3000.8	3134.0	2577.5	3049.2
Employees	883.6	866.1	777.3	848.6
Freight	3992.8	4032.1	3667.2	4461.9
Others	2543.8	2493.7	2212.8	2750.5
Total Operating Exp.	12,753.5	13,244.8	11,582.9	13,948.5
EBITDA	1,724.0	2,098.3	2,001.8	2,471.0
Growth (%)	10.6	21.7	-4.6	23.4
Depreciation	603.2	606.4	613.2	632.8
Interest	87.8	86.3	58.4	65.3
Other Income	466.8	632.9	451.8	501.5
Exceptional items	0.0	0.0	0.0	0.0
PBT	1,499.8	2,038.5	1,782.1	2,274.4
Total Tax	-10.5	675.0	584.3	750.5
PAT	1,520.7	1,377.5	1,207.0	1,533.2
Adjusted PAT	1,020.0	1,377.5	1,207.0	1,533.2
Growth (%)	10.3	35.1	-12.4	27.0
Reported EPS (₹)	80.9	73.3	64.2	81.6

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement ₹ crore				
(Year-end March)	CY18	CY19	CY20E	CY21E
Profit after Tax	1,520.7	1,377.5	1,207.0	1,533.2
Add: Depreciation	603.2	606.4	613.2	632.8
(Inc)/dec in Current Assets	-895.9	469.3	462.2	-3,681.4
Inc/(dec) in CL and Prov.	-19.0	86.9	-1,292.5	3,244.8
CF from operating activiti	1,209.0	2,540.1	989.8	1,729.4
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-540.7	-592.9	-1,500.0	-1,350.0
Others	113.9	-30.8	0.0	0.0
CF from investing activiti	-426.7	-623.7	-1,500.0	-1,350.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-70.0	0.0	0.0	0.0
Dividend paid & dividend tax	-332.3	-310.1	-307.8	-329.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-12.3	-55.5	0.0	0.0
CF from financing activiti	-414.6	-365.7	-307.8	-329.8
Net Cash flow	367.6	1,550.8	-817.9	49.7
Opening Cash	2,729.4	3,097.0	4,647.8	3,829.8
Closing Cash	3,097.0	4,647.8	3,829.8	3,879.5

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet ₹ crore				
(Year-end March)	CY18	CY19	CY20E	CY21E
Liabilities				
Equity Capital	188.0	188.0	188.0	188.0
Reserve and Surplus	10,343.9	11,355.8	12,255.0	13,458.4
Total Shareholders funds	10,531.9	11,543.8	12,443.0	13,646.4
Total Debt	0.0	0.0	0.0	0.0
Other Liabilities	677.6	658.9	658.9	658.9
Total Liabilities	11,209.5	12,202.7	13,101.8	14,305.3
Assets				
Gross Block	14,755.3	15,300.3	15,746.0	16,296.0
Less: Acc Depreciation	7,682.7	8,289.1	8,902.3	9,535.1
Net Block	7,072.6	7,011.2	6,843.7	6,760.8
Capital WIP	397.8	445.7	1,500.0	2,300.0
Total Fixed Assets	7,470.4	7,456.8	8,343.7	9,060.8
Investments + Goodwill	119.7	131.8	131.8	131.8
Debtors	867.4	626.7	638.8	1,070.6
Other assets	2,810.6	3,120.6	2,177.4	5,047.1
Misc assets	11.6	10.5	9.0	14.5
Cash	3,097.0	4,647.8	3,829.8	3,879.5
Total Current Assets	8,465.9	9,547.4	8,267.3	11,998.4
Creditors	4,496.4	4,331.9	3,111.8	5,885.1
Provisions	350.0	601.5	529.0	1,000.5
Total Current Liabilities	4,846.5	4,933.3	3,640.8	6,885.6
Net Current Assets	3,619.5	4,614.1	4,626.5	5,112.8
Application of Funds	11,209.5	12,202.7	13,101.8	14,305.3

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
(Year-end March)	CY18	CY19	CY20E	CY21E
Per share data (₹)				
EPS	80.9	73.3	64.2	81.6
Cash EPS	113.0	105.6	96.9	115.3
BV	560.5	614.4	662.2	726.3
DPS	15.0	14.0	14.0	15.0
Cash Per Share	164.8	247.4	203.8	206.5
Operating Ratios (%)				
EBITDA Margin	11.9	13.7	14.7	15.0
PAT Margin	10.5	9.0	8.9	9.3
Inventory days	38.9	33.6	37.0	40.0
Debtor days	19.3	17.8	17.0	19.0
Creditor days	109.7	105.0	100.0	100.0
Return Ratios (%)				
RoE	9.7	11.9	9.7	11.2
RoIC	14.6	21.0	17.9	22.7
Valuation Ratios (x)				
P/E	17.2	19.0	21.6	17.0
EV / EBITDA	13.4	10.2	11.1	9.0
EV / Net Sales	1.6	1.4	1.6	1.4
Market Cap / Sales	1.8	1.7	1.9	1.6
Price to Book Value	2.5	2.3	2.1	1.9
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.7	1.9	2.3	1.7
Quick Ratio	1.1	1.0	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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