

ACC Ltd

BUY

CMP Rs1,330

Target Rs1,532

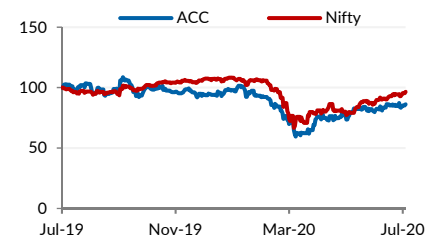
Upside 15%

Highlights	<ul style="list-style-type: none"> ✓ Led by COVID inflicted lockdown measures with April 2020 being a washout month for the industry, we had expected volumes for Q2CY20 to de-grow by 33.6% y/y to 4.78 MT (official volumes have not been disclosed by the company). ✓ Net sales for the quarter came in at Rs 26.02 bn (-37.3% y/y) - 3.5%/5.1% miss to consensus/YES-Sec est. respectively. ✓ However, ACC delivered exceptional operating performance. On the back of strong pricing tailwinds especially for the Southern exposure of ACC and optimization of freight and misc. expenses, company posted an EBITDA of Rs 5.25 bn (-32.9% y/y) - 19%/9% above consensus/YES-Sec est. respectively. ✓ Operating margins stood at 20.2% (+132 bps y/y) vs. our est. of 17.6%. ✓ PAT for the quarter was Rs 2.7 bn, which declined by 40.5% y/y.
Our View	<ul style="list-style-type: none"> ✓ We have raised EBITDA estimates by 29.3%/6.1% for CY20E/CY21E respectively due to robust pricing scenario and phenomenal pick-up of demand post relaxation of lockdown measures. ✓ Outgo towards capex has been muted for ACC - at Rs 1.76 bn for H1CY20. Accordingly, we have cut our capex estimates for CY20-CY21 period from Rs 40 bn to Rs 25 bn and expect expansion of 5.9 MTPA capacity to be commissioned by CY22-23E. Accordingly, we expect net cash of ACC to increase from Rs 46.5 bn to Rs 57.1 bn over CY19-CY21E.
Valuation	<ul style="list-style-type: none"> ✓ Currently ACC is trading at EV/EBITDA of ~8.4x and EV/te of \$82 on CY21E. Taking an average of EV/EBITDA and DCF derived values, we have a target of Rs 1,532/share (implied EV/EBITDA multiple of 10x on CY21E). We have a BUY rating for the stock.
Risk to our call	<ul style="list-style-type: none"> ✓ In a scenario of second wave of COVID, our volume and pricing estimates would be severely hampered.

Stock data (as on July 20, 2020)

Nifty:	11,022
52 Week h/l (Rs)	1709 / 895
Market cap (Rs/USD mn)	249720 / 3333
Outstanding Shares (mn)	188
6m Avg t/o (Rs mn):	1,507
Div yield (%):	1.1
Bloomberg code:	ACC IN
NSE code:	ACC

Stock performance



	1M	3M	1Y
Absolute return	4.5%	14.5%	-12.8%

Shareholding pattern (As of June'20 end)

Promoter	54.53%
FII+DII	28.82%
Others	16.50%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,532	1,357

Δ in earnings estimates

Rs bn	CY20E	CY21E
EBITDA (New)	21.2	23.1
EBITDA (Old)	16.4	21.7
% change	29.3	6.1

Exhibit 1: Result table (consolidated)

Y/e 31 Dec (Rs mn)	Q2 CY20	Q1 CY20	q/q (%)	Q2 CY19	y/y (%)
Revenue	26,022	35,017	(25.7)	41,498	(37.3)
EBITDA	5,254	5,865	(10.4)	7,830	(32.9)
EBITDA Margin (%)	20.2	16.7	344 bps	18.9	132 bps
Other Income	513	559	(8.3)	535	(4.1)
Depreciation	1,627	1,580	3.0	1,469	10.8
EBIT	4,140	4,844	(14.5)	6,897	(40.0)
Interest	131	106	23.3	199	(34.3)
PBT	4,031	4,761	(15.3)	6,726	(40.1)
Tax	1,322	1,531	(13.7)	2,170	(39.1)
Reported PAT	2,710	3,230	(16.1)	4,557	(40.5)

Source: Company, YES Sec - Research

KUNAL SHAH

Lead Analyst

kunal.shah@ysil.in

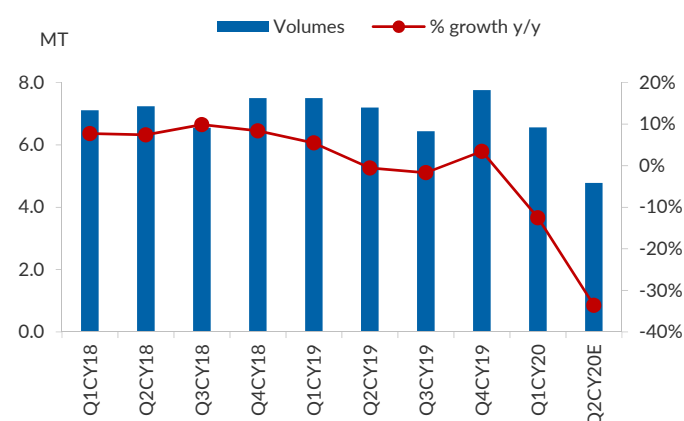
+91 22 3347 9670



AMAR AMBANI, Sr. President, Head of Research

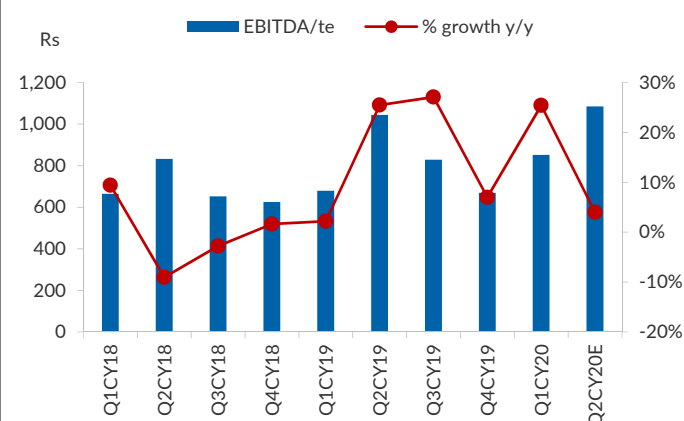
amar.ambani@ysil.in | +91 22 3347 7430

Exhibit 2: Expect volumes to have de-grown by ~34% y/y to 4.78 MT



Source: Company, YES Sec – Research

Exhibit 3: Strong pricing tailwinds and cost optimization led to big beat on EBITDA/te



Source: Company, YES Sec – Research

Exhibit 4: Revision in estimates (consolidated)

	CY20E		% change	CY21E		% change
	Revised	Old		Revised	Old	
Cement Volumes (MT)	24.56	24.56	(0.0)	29.59	29.59	(0.0)
Net sales (Rs mn)	131,758	125,769	4.8	158,981	156,307	1.7
EBITDA (Rs mn)	21,162	16,363	29.3	23,059	21,742	6.1
Realization/te (Rs)	5,146	4,912	4.8	5,146	5,059	1.7
EBITDA/te (Rs)	826	639	29.3	746	704	6.0

Source: Company, YES Sec – Research

FINANCIALS

Exhibit 5: Income statement (Consolidated)

Y/e 31 Dec (Rs mn)	CY17	CY18	CY19	CY20E	CY21E
Revenues	132,851	148,016	156,576	131,758	158,981
Growth (%)	20.9	11.4	5.8	(15.9)	20.7
EBITDA	19,124	20,481	24,128	21,162	23,059
EBITDA margin (%)	14.4	13.8	15.4	16.1	14.5
Growth (%)	29.4	7.1	17.8	(12.3)	9.0
Depreciation	6,436	6,032	6,064	6,225	6,739
Other income	1,289	1,427	3,184	4,046	3,913
EBIT	13,977	15,876	21,248	18,983	20,232
EBIT margin (%)	10.5	10.7	13.6	14.4	12.7
Interest	985	878	863	863	863
PBT	12,991	14,998	20,385	18,120	19,370
Tax	3,856	(105)	6,750	4,530	4,842
Net profit	9,245	15,206	13,775	13,590	14,527
NPAT margin (%)	7.0	10.3	8.8	10.3	9.1
EPS (Rs)	49.2	81.0	73.4	72.4	77.4
Growth (%)	40.4	64.5	(9.4)	(1.3)	6.9

Source: Company, YES Sec – Research

Exhibit 6: Balance sheet (Consolidated)

Y/e 31 Dec (Rs mn)	CY17	CY18	CY19	CY20E	CY21E
Equity Share Capital	1,880	1,880	1,880	1,880	1,880
Reserves	91,679	103,439	113,558	124,554	136,309
Total Shareholders' Funds	93,587	105,349	115,469	126,466	138,220
Non-current liabilities					
Long term borrowings	-	-	-	-	-
Deferred Tax liabilities	5,516	6,746	6,557	6,557	6,557
Long Term Provision	1,428	1,403	2,351	2,351	2,351
Current liabilities					
Short term borrowings	-	-	-	-	-
Trade payables	18,137	19,263	14,750	11,910	14,802
Other current liabilities	29,277	27,526	31,999	31,999	31,999
Total equity and liabilities	148,457	160,560	171,360	179,517	194,163
Non-current assets					
PPE	72,245	70,352	69,769	66,034	67,295
CWIP	2,693	3,978	4,457	6,967	18,967
Current assets					
Current Investments	-	-	-	-	-
Inventories	14,048	16,794	11,419	9,221	11,460
Trade receivables	6,660	8,674	6,267	5,273	6,363
Cash and cash equivalents	25,597	29,332	44,925	57,498	55,556
Other bank balances	1,689	1,638	1,552	1,552	1,552
Total assets	148,457	160,560	171,360	179,517	194,163

Source: Company, YES Sec – Research

Exhibit 7: Cash Flow statement (Consolidated)

Y/e 31 Dec (Rs mn)	CY17	CY18	CY19	CY20E	CY21E
PBT	12,991	14,998	20,385	18,120	19,370
Depreciation & Amortization	6,436	6,032	6,064	6,225	6,739
(Incr)/Decr in Working Capital	(907)	(3,906)	2,699	352	(437)
Taxes	(2,191)	(5,279)	(4,471)	(4,530)	(4,842)
Cash from ops.	15,545	11,175	22,547	21,030	21,693
(Incr)/ Decr in PP&E	(5,349)	(5,197)	(5,490)	(5,000)	(20,000)
Interest received	697	920	1,772	0	0
Cash Flow from Investing	(3,796)	(3,644)	(3,217)	(5,000)	(20,000)
(Decr)/Incr in Borrowings	0	0	0	0	0
Dividend	(3,842)	(3,396)	(3,170)	(2,594)	(2,773)
Cash Flow from Financing	(4,258)	(3,805)	(3,737)	(3,457)	(3,635)
Incr/(Decr) in cash	7,491	3,726	15,593	12,573	(1,943)
Cash and cash equivalents at beginning of year	18,096	25,597	29,332	44,925	57,498
Cash and cash equivalents at end of year	25,597	29,332	44,925	57,498	55,556

Source: Company, YES Sec – Research

Exhibit 8: Ratios (Consolidated)

Y/e 31 Dec	CY17	CY18	CY19	CY20E	CY21E
ROE (%)	9.9	9.5	11.9	10.7	10.5
ROCE (%)	14.9	15.1	18.4	15.0	14.6
Net debt to equity (x)	(0.3)	(0.3)	(0.4)	(0.5)	(0.4)
Net debt to EBITDA (x)	(1.4)	(1.5)	(1.9)	(2.8)	(2.5)
Interest coverage (x)	14.2	18.1	24.6	22.0	23.5
EV/EBITDA (x)	12.3	13.2	8.5	9.1	8.4
EV/te (\$)	105	116	87	82	83

Source: Company, YES Sec – Research

Exhibit 9: Operating Metrics (consolidated)

Per te (in Rs)	CY17	CY18	CY19	CY20E	CY21E
Cement volumes (MT)	26.2	28.4	28.9	24.6	29.6
Net realization	4,892	5,022	5,198	5,146	5,146
Raw Material cost	724	791	903	857	883
Employee cost	302	300	288	304	283
Power and fuel cost	1,000	1,018	1,040	936	992
Freight cost	1,264	1,355	1,338	1,379	1,420
Other expenses	896	863	828	842	821
EBITDA	704	695	801	826	746

Source: Company, YES Sec – Research

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YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Tel: +91-22-71123123 | Email: research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

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