ACC

Buy

DART — DOLAT ANALYSIS & RESEARCH THEMES — IN-DEPTH• PRECISE• ACTIONABLE

Result Update

CMP	Rs 1,563
Target / Upside	Rs 1,966 / 26%
NIFTY	11,873

Scrip Details

Equity / FV	Rs 1,880mn / Rs 10
Market Cap	Rs 293bn
	USD 4bn
52-week High/Low	Rs 1,591/ 895
Avg. Volume (no)	1,076,710
Bloom Code	ACC IN

Price Performance	1M	3M	12M
Absolute (%)	9	19	1
Rel to NIFTY (%)	5	10	(2)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	54.5	54.5	54.5
MF/Banks/FIs	21.0	18.4	25.6
FIIs	7.8	8.1	6.6
Public / Others	16.6	19.0	13.3

Valuation (x)

	CY20E	CY21E	CY22E
P/E	21.8	18.0	16.2
EV/EBITDA	10.3	8.7	7.3
ROE (%)	11.2	12.3	12.3
RoACE (%)	11.0	12.1	12.2

Estimates (Rs mn)

	CY20E	CY21E	CY22E
Revenue	139,123	160,043	181,678
EBITDA	24,676	28,639	32,513
PAT	13,441	16,268	18,084
EPS (Rs.)	71.6	86.6	96.3

View: Better show continues, attractive valuation; maintain Buy

- Results were above estimates on all fronts.
- ACC posted 0.3%/ 20.6%/ 21.0% YoY growth in revenue/ EBITDA/ PAT to Rs35.4 bn/ Rs6.7 bn/ Rs3.6 bn in Q3CY20 led by 0.8% YoY volume growth coupled with 3.8% YoY realization growth (-2.7% QoQ).
- We expect 5.1%/ 10.5%/ 12.8% revenue/ EBITDA/ APAT CAGR over CY19-22E led by -11.6%/ 12.6%/ 12.2% volume growth and 3.2%/ 1.5%/ 1.0% cement realization growth in CY20E/ CY21E/ CY22E.
- We increase our revenue/ EBITDA/ PAT estimates by 3.8%/ 8.6%/ 7.4% for CY20E. We broadly maintain CY21E estimates and introduce CY22E. Considering ACC's healthy cash flow & RoE, net cash position, and 5.9mtpa (17.7% increase) capacity expansion, current valuation of 10.3x/ 8.7x/ 7.3x CY20E/ CY21E/ CY22E EV/EBITDA provides comfort which is 23%/ 35%/ 38% discount to 1yr Fwd EV/EBITDA of 3/ 5/ 10 years. We rollover to Sept'22E vs. Dec'21E. Thus, we maintain BUY with an upward revised TP of Rs1,966 (10x Sept'22E EV/EBITDA).

EBITDA/tn up 19.6%/ -5.4% YoY/ QoQ

Higher than anticipated realization (+3.8% YoY/ -2.7% QoQ to Rs5,148/tn), higher than expected volume (+0.8% YoY/ +35.2% QoQ to 6.49 mt) and lower than expected operating cost/ tn (-4.3% YoY/ +2.1% QoQ to Rs4,417/tn) helped ACC to report 19.6% YoY growth in EBITDA/tn to Rs1,033 (-5.4% QoQ). Power & Fuel cost stood at Rs970/ tn (-20.3% YoY/ +1.9% QoQ) and freight cost stood at Rs1,331/ tn (-10.2% YoY/ +5.9% QoQ).

Volume uptick of 3.1x QoQ in RMC segment

Though ACC's RMC segment witnessed volume de-growth of 43.2% YoY to 0.46mn.m^3 during Q3CY20, it increased by 210.8% QoQ due to gradual opening of lockdown in urban centres (affected by covid-19). RMC revenue de-grew 41.3% YoY to Rs2.0 bn (5.6% of total revenue vs. 2.4% in Q2CY20.

Q3CY20 Result (Rs Mn)

Particulars	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)
Revenue	35,373	35,276	0.3	26,008	36.0
Total Expense	28,666	29,713	(3.5)	20,764	38.1
EBITDA	6,707	5,563	20.6	5,244	27.9
Depreciation	1,600	1,504	6.4	1,618	(1.1)
EBIT	5,108	4,060	25.8	3,626	40.8
Other Income	449	508	(11.6)	502	(10.6)
Interest	160	163	(1.5)	131	22.4
EBT	5,397	4,406	22.5	3,998	35.0
Tax	1,766	1,406	25.6	1,318	34.0
RPAT	3,631	3,001	21.0	2,680	35.5
APAT	3,631	3,001	21.0	2,680	35.5
			(bps)		(bps)
Gross Margin (%)	38.6	39.4	(85)	40.0	(147)
EBITDA Margin (%)	19.0	15.8	319	20.2	(120)
NPM (%)	10.3	8.5	176	10.3	(4)
Tax Rate (%)	32.7	31.9	82	33.0	(25)
EBIT Margin (%)	14.4	11.5	293	13.9	50

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Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	35,373	31,764	11.4	+12.0%/ +1.4% higher/ higher than estimated volume/ realization
EBITDA (Rs mn)	6,707	5,634	19.0	+1.4%/ -2.0% higher/ lower than estimated realization/ cost
EBITDA%	19.0	17.7	122	
PAT (Rs mn)	3,631	3,080	17.9	Led by better operating performance

Source: Company, DART

Exhibit 2: Change in estimates – Upgrade CY20E, broadly maintain CY21E and introduce CY22E estimates

(Rs mn)	CY20E			CY21E			CY22E		
	New	Old	% change	New	Old	% change	New	Old	%change
Net revenues	1,39,123	1,34,072	3.8	1,60,043	1,54,719	3.4	1,81,678	-	-
EBIDTA	24,676	22,732	8.6	28,639	27,580	3.8	32,513	-	-
EBIDTA margin (%)	17.7	17.0	78	17.9	17.8	7	17.9	-	-
Adj. Net Profit	13,441	12,511	7.4	16,268	15,657	3.9	18,084	-	-
EPS (`)	71.6	66.6	7.4	86.6	83.4	3.9	96.3	-	-

Source: DART, Company

5.9MTPA Capacity addition plan augurs well

ACC announced clinker capacity addition of 3mtpa and grinding capacity addition of 5.9mtpa during 4QCY18. The expansion plan includes 3mtpa clinker capacity and 1mtpa cement capacity as part of greenfield integrated plant at Ametha, District Katni, MP, expansion of the existing GU at Tikaria, UP (capacity of 1.6mtpa) and a third GU in UP (cement capacity 2.2mtpa). The company also plans to set up additional cement grinding of 1.1mtpa at the existing location at Sindri, Jharkhand. These plants are expected to be operational within next 3 years which will support volume growth. ACC plans to spend to Rs30 bn capex on these capacity additions.

Exhibit 3: ACC per ton matrix

(Rs)	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)	9MCY20	9MCY19	YoY (%)
Cement Volumes (MT)	6.49	6.44	0.8	4.80	35.2	17.85	21.14	(15.6)
Cement realization (Rs)	5,148	4,958	3.8	5,289	(2.7)	5,037	4,968	1.4
RMC Volumes	0.5	0.8	(43.2)	0.1	210.8	1.5	2.6	(40.8)
RMC realization/m3	4,273	4,134	3.4	4,205	1.6	4,217	4,206	0.3
Cement EBITDA	1,033	864	19.6	1,093	(5.4)	998	884	12.9
Operating cost	4,417	4,614	(4.3)	4,326	2.1	4,403	4,601	(4.3)
Raw Material cost	1,048	619	69.4	1,040	0.7	927	837	10.8
Employee expenses	316	356	(11.1)	367	(13.9)	330	299	10.6
Power and Fuels	970	1,217	(20.3)	952	1.9	1,020	1,131	(9.8)
Freight expenses	1,331	1,483	(10.2)	1,257	5.9	1,352	1,448	(6.6)
Other expenses	752	939	(20.0)	709	6.1	774	887	(12.8)

Source: Company, DART

Exhibit 4: ACC's cost as a % of Net Sales

Particulars	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)	9MCY20	9MCY19	YoY (%)
Raw Material Cost	19.2	11.3	793	19.2	2	17.2	15.3	191
Employee Expenses	5.8	6.5	(69)	6.8	(97)	6.1	5.4	67
Power and Fuels	17.8	22.2	(443)	17.6	22	18.9	20.6	(174)
Freight Expenses	24.4	27.1	(265)	23.2	122	25.0	26.4	(136)
Other expenses	13.8	17.2	(335)	13.1	71	14.3	16.2	(184)

Source: Company, DART

Exhibit 5: Segmental Details (Rs mn)

Segment Revenue	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)	9MCY20	9MCY19	YoY (%)
Cement	33,731	32,327	4.3	25,496	32.3	90,757	1,06,610	(14.9)
Ready Mix Concrete	1,966	3,349	(41.3)	622	215.9	6,486	10,937	(40.7)
Total	35,696	35,675	0.1	26,118	36.7	97,244	1,17,547	(17.3)
Less Intersegment Revenue	323	399	(19.1)	110	194.4	845	1,583	(46.6)
Net Sales	**35,373**	**35,276**	**0.3**	**26,008**	**36.0**	**96,399**	**1,15,964**	**(16.9)**
Segment Result EBIT								
Cement	5,380	4,001	34.5	4,033	33.4	13,349	13,885	(3.9)
EBIT margin (%)	15.9	12.4	357	15.8	0.8	14.7	13.0	168.4
Ready mix concrete	(284)	88	-	(391)	-	(313)	652	-
EBIT margin (%)	(14.5)	2.6	-	(62.9)	-	(4.8)	6.0	-
Total	**5,095**	**4,089**	**24.6**	**3,641**	**39.9**	**13,036**	**14,537**	**(10.3)**

Source: Company, DART

Exhibit 6: Valuation

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	10.0
Sept'22E EBITDA	31,545
EV	3,15,446
Less: Sept'22E Net Debt	(53,667)
Mcap	3,69,113
Shares o/s	188
Value/share	1,966
CMP (Rs)	1,563
Upside (%)	25.8

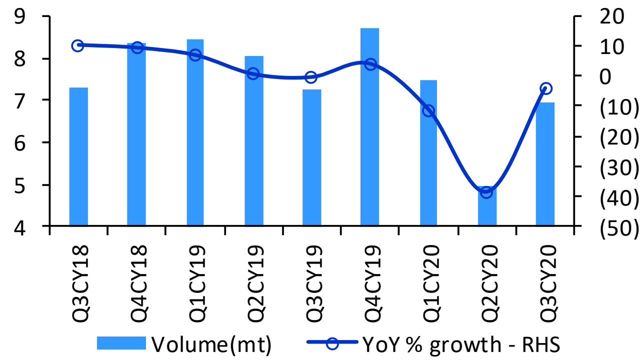
Source: Company, DART

Exhibit 7: Income statement (Standalone)

Rs mn	Q3CY20	Q3CY19	YoY (%)	Q2CY20	QoQ (%)	9MCY20	9MCY19	YoY (%)
Revenue from Operations	**34,675**	**34,644**	**0.1**	**25,203**	**37.6**	**94,208**	**1,13,733**	**(17.2)**
Other Operating Income	698	631	10.6	805	(13.3)	2,190	2,230	(1.8)
Total Revenue	**35,373**	**35,276**	**0.3**	**26,008**	**36.0**	**96,399**	**1,15,964**	**(16.9)**
Raw Material Cost	6,801	3,984	70.7	4,994	36.2	16,549	17,692	(6.5)
Employee Expenses	2,052	2,290	(10.4)	1,762	16.4	5,898	6,315	(6.6)
Power and Fuel	6,295	7,840	(19.7)	4,570	37.7	18,204	23,913	(23.9)
Freight Cost	8,638	9,548	(9.5)	6,034	43.2	24,129	30,606	(21.2)
Other expenses	4,881	6,050	(19.3)	3,404	43.4	13,809	18,749	(26.4)
Total Expenditure	**28,666**	**29,713**	**(3.5)**	**20,764**	**38.1**	**78,589**	**97,275**	**(19.2)**
PBIDT (Excl. OI)	**6,707**	**5,563**	**20.6**	**5,244**	**27.9**	**17,810**	**18,689**	**(4.7)**
Other Income	449	508	(11.6)	502	(10.6)	1,498	2,552	(41.3)
Depreciation	1,600	1,504	6.4	1,618	(1.1)	4,788	4,430	8.1
EBIT	**5,557**	**4,568**	**21.7**	**4,129**	**34.6**	**14,520**	**16,811**	**(13.6)**
Interest	160	163	(1.5)	131	22.4	397	570	(30.4)
PBT	**5,397**	**4,405**	**22.5**	**3,998**	**35.0**	**14,123**	**16,241**	**(13.0)**
Tax	1,766	1,406	25.6	1,318	34.0	4,613	5,344	(13.7)
RPAT	**3,631**	**3,000**	**21.0**	**2,680**	**35.5**	**9,510**	**10,897**	**(12.7)**
Adjustment	0	0		0		0	-995	
APAT	**3,631**	**3,000**	**21.0**	**2,680**	**35.5**	**9,510**	**9,902**	**(4.0)**
Adj. EPS (Rs)	**19.3**	**16.0**	**21.0**	**14.3**	**35.5**	**50.6**	**52.7**	**(4.0)**
			bps		**bps**			**bps**
EBIDTA Margin (excl. O.I.)	19.0	15.8	319	20.2	(120)	18.5	16.1	236
Tax Rate (%)	32.7	31.9	82	33.0	(25)	32.7	32.9	(24)
NPM (%)	10.3	8.5	176	10.3	(4)	9.9	8.5	133

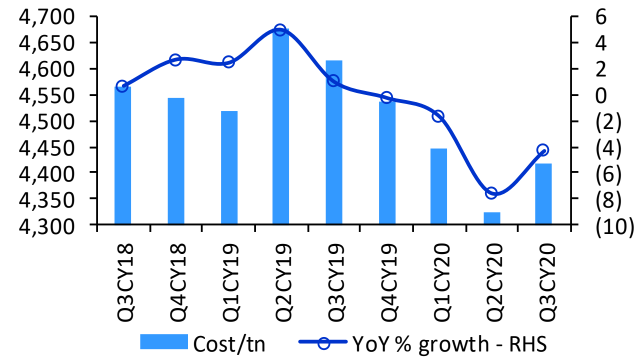
Source: DART, Company

Exhibit 8: Volume (mt)



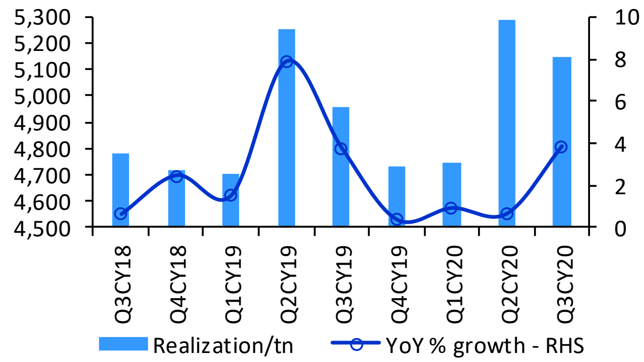
Source: Company, DART

Exhibit 9: Cost/tn (Rs)



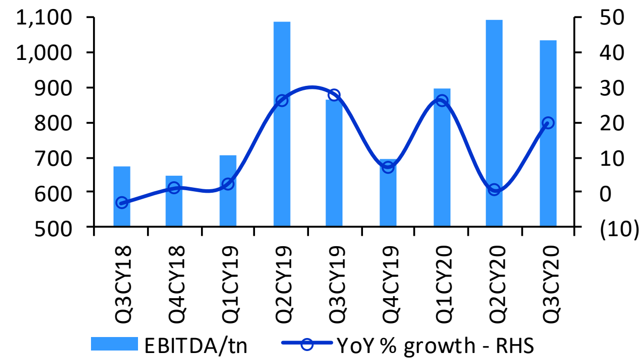
Source: Company, DART

Exhibit 10: Realization/tn (Rs)



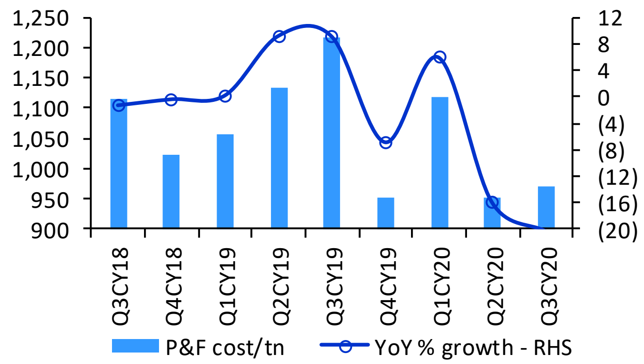
Source: Company, DART

Exhibit 11: EBITDA/tn (Rs)



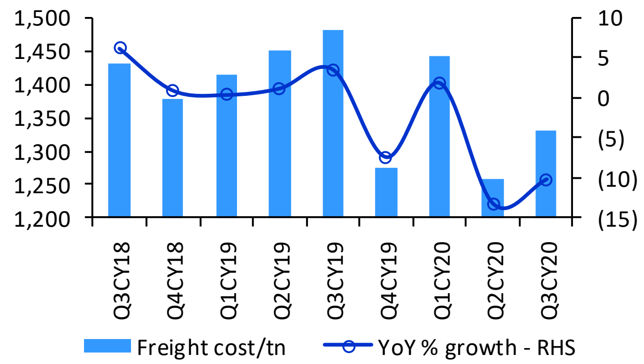
Source: Company, DART

Exhibit 12: Power & fuel cost/tn (Rs)



Source: Company, DART

Exhibit 13: Freight cost/tn (Rs)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
Revenue	**156,567**	**139,123**	**160,043**	**181,678**
Total Expense	**132,472**	**114,447**	**131,404**	**149,165**
COGS	27,206	24,525	28,309	32,234
Employees Cost	8,640	8,132	9,158	10,325
Other expenses	96,626	81,791	93,937	106,606
EBIDTA	**24,095**	**24,676**	**28,639**	**32,513**
Depreciation	6,030	6,503	6,742	8,017
EBIT	**18,065**	**18,173**	**21,897**	**24,496**
Interest	862	543	549	554
Other Income	3,112	1,992	1,892	1,892
Exc. / E.O. items	0	0	0	0
EBT	**20,315**	**19,621**	**23,240**	**25,834**
Tax	6,726	6,181	6,972	7,750
RPAT	13,589	13,441	16,268	18,084
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**13,589**	**13,441**	**16,268**	**18,084**

Balance Sheet

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
Sources of Funds				
Equity Capital	1,880	1,880	1,880	1,880
Minority Interest	0	0	0	0
Reserves & Surplus	113,333	123,605	137,241	152,693
Net Worth	**115,213**	**125,485**	**139,121**	**154,573**
Total Debt	0	0	0	0
Net Deferred Tax Liability	6,422	6,422	6,422	6,422
Total Capital Employed	**121,635**	**131,907**	**145,543**	**160,995**
Applications of Funds				
Net Block	**69,914**	**69,411**	**68,669**	**91,651**
CWIP	4,353	14,353	25,353	5,353
Investments	2,302	2,376	2,733	2,725
Current Assets, Loans & Advances	**94,252**	**89,661**	**99,965**	**120,109**
Inventories	11,410	14,103	15,785	17,421
Receivables	6,284	8,386	8,770	9,955
Cash and Bank Balances	45,381	39,094	43,116	57,184
Loans and Advances	314	463	560	636
Other Current Assets	30,863	27,616	31,734	34,913
Less: Current Liabilities & Provisions	**49,186**	**43,894**	**51,176**	**58,844**
Payables	14,710	13,071	15,036	17,421
Other Current Liabilities	34,476	30,824	36,140	41,423
sub total				
Net Current Assets	45,066	45,767	48,788	61,265
Total Assets	**121,635**	**131,907**	**145,543**	**160,995**

E – Estimates

Important Ratios

Particulars	CY19A	CY20E	CY21E	CY22E
(A) Margins (%)				
Gross Profit Margin	82.6	82.4	82.3	82.3
EBIDTA Margin	15.4	17.7	17.9	17.9
EBIT Margin	11.5	13.1	13.7	13.5
Tax rate	33.1	31.5	30.0	30.0
Net Profit Margin	8.7	9.7	10.2	10.0
(B) As Percentage of Net Sales (%)				
COGS	17.4	17.6	17.7	17.7
Employee	5.5	5.8	5.7	5.7
Other	61.7	58.8	58.7	58.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	21.0	33.5	39.9	44.2
Inventory days	27	37	36	35
Debtors days	15	22	20	20
Average Cost of Debt				
Payable days	34	34	34	35
Working Capital days	105	120	111	123
FA T/O	2.2	2.0	2.3	2.0
(D) Measures of Investment				
AEPS (Rs)	72.4	71.6	86.6	96.3
CEPS (Rs)	104.5	106.2	122.5	139.0
DPS (Rs)	15.0	14.0	14.0	14.0
Dividend Payout (%)	20.7	19.6	16.2	14.6
BVPS (Rs)	613.5	668.2	740.8	823.1
RoANW (%)	12.3	11.2	12.3	12.3
RoACE (%)	12.4	11.0	12.1	12.2
RoAIC (%)	22.8	21.5	22.4	23.8
(E) Valuation Ratios				
CMP (Rs)	1563	1563	1563	1563
P/E	21.6	21.8	18.0	16.2
Mcap (Rs Mn)	293,446	293,446	293,446	293,446
MCap/ Sales	1.9	2.1	1.8	1.6
EV	248,065	254,352	250,330	236,262
EV/Sales	1.6	1.8	1.6	1.3
EV/EBITDA	10.3	10.3	8.7	7.3
P/BV	2.5	2.3	2.1	1.9
Dividend Yield (%)	1.0	0.9	0.9	0.9
(F) Growth Rate (%)				
Revenue	5.8	(11.1)	15.0	13.5
EBITDA	17.8	2.4	16.1	13.5
EBIT	25.0	0.6	20.5	11.9
PBT	35.9	(3.4)	18.4	11.2
APAT	35.1	(1.1)	21.0	11.2
EPS	35.1	(1.1)	21.0	11.2

Cash Flow

(Rs Mn)	CY19A	CY20E	CY21E	CY22E
CFO	11,181	22,484	13,749	27,221
CFI	(3,678)	(3,283)	(15,323)	(20,220)
CFF	(4,411)	(3,742)	(4,713)	(2,979)
FCFF	6,004	17,079	(2,251)	10,221
Opening Cash	26,902	30,003	45,381	39,094
Closing Cash	30,003	45,381	39,094	43,116

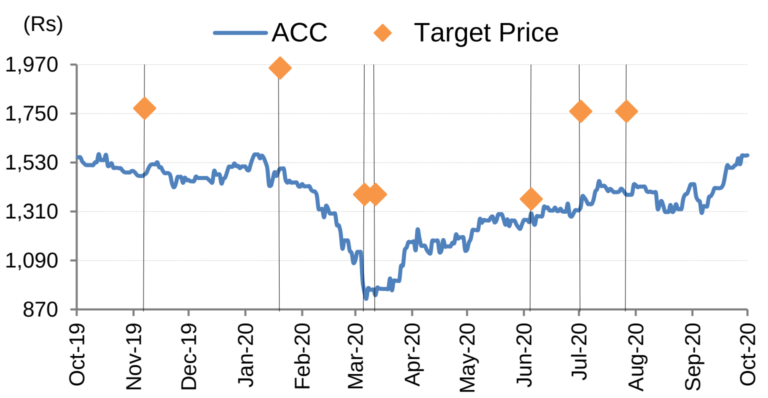
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	1,774	1,477
Feb-20	Accumulate	1,955	1,503
Mar-20	Buy	1,387	948
Mar-20	Buy	1,387	934
Jun-20	Accumulate	1,366	1,302
Jul-20	Buy	1,760	1,330
Aug-20	Buy	1,760	1,385

*Price as on recommendation date

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