

Better Operational efficiency and sustained savings drives margin expansion

CMP: Rs 1,579

Rating: HOLD

Target Price: Rs 1,724

Stock Info

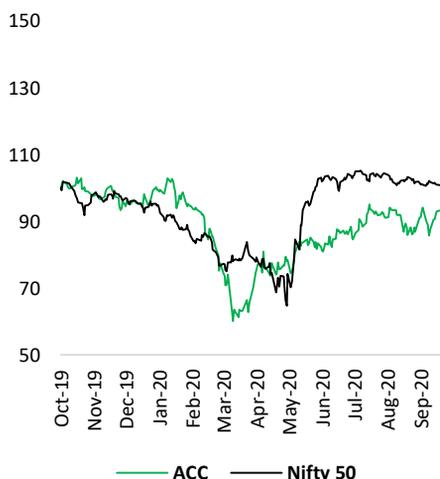
BSE	500410
NSE	ACC
Bloomberg	ACC IN
Reuters	ACC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Cr)	188
Mkt Cap (Rs Cr)	29,649
52w H/L (Rs)	1,622 / 895
Avg Yearly Vol (in 000')	42.11

Shareholding Pattern %

(As on September 2020)

Promoters	54.53
FII	6.60
DII	25.61
Public & Others	13.26

ACC Ltd. Vs Nifty



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Despite Covid-19 headwinds, Indian economy is witnessing early signs of recovery. In ACC, this recovery has been reflected in Q3 CY20 results where volumes and sales have bounced back to prior year levels. Cement sales volume increased by 1% to 6.49 million tonnes in Q3CY20 as compared to 6.44 million tonnes in Q3CY19. However, Net Sales during the quarter remained flat at Rs 3,537 cr compared to Rs 3,528 cr last year. Realization grew by 3% YOY in Q3CY20 due to lower raw material cost. EBIDTA in Q3CY20 stood at Rs 671 cr as compared to 557 cr in Q3CY19 showing an increase of 20.5% YOY. EBIDTA margin expanded by 318 bps YoY to 19% in Q3CY20. Margin expansion was primarily driven by cost reduction plans and operational efficiency. Operational efficiency and cost reduction plans have helped in reducing operating cost per ton for cement. Increase in Operating profit has also helped the bottom line to grow by 20% YoY to Rs 364 cr in Q3CY20. and PAT margin has expanded by 171 bps YoY to 10.3% in Q3CY20.

Q3CY20 Operational Highlights

RMX volumes continue to be under pressure due to slow down in construction activities in metros and declined with 43% YoY to 0.46 mn cu mtr. in Q3FY20. ACC's volume growth was highest in Central market followed by East and North, while growth in south was flattish YoY and West witnessed YoY decline. The raw material costs fell significantly for the company during the quarter to Rs 384 cr. (down 26% YoY), thereby benefitting the company to improve operating profit despite flattish topline growth. Reduction in other expenses and Employee benefit expenses helped margin expansion. Other expenses declined by 19% YOY to Rs 490 cr. While employee benefit expenses declined by 10.4% YOY to Rs 206 cr. Freight expense continued to benefit from increasing rate of combined operation with Ambuja Cement under Master Supply Agreement which has gained traction since last 2 quarters post shuffle of management between ACC & Ambuja.

Valuation & View The Government's thrust on infrastructure development, increased spending through measures aimed at reviving the rural economy and a sharper focus on the affordable housing segment is expected to drive strong resurgence of cement demand and bring growth opportunities for the cement sector going forward which will benefit the company in turn. ACC is also planning to expand its capacity most of which should get commissioned by CY22. This should address key concerns regarding potential market share loss due to capacity constraints and will help the company to maintain its market share going ahead at 8.5%. We continue to maintain our positive view on ACC owing to its deep penetration in rural markets and strong focus on premium products. At CMP of Rs 1579 the stock is trading at a EV/EBIDTA multiple of 10.4x to its CY19 EBIDTA of Rs 2413 cr. Considering pickup in demand for cement, operational efficiency maintained by the company and debt free status of the company, we value the stock at EV/EBIDTA multiple 16.5x to its CY21E EBIDTA of Rs 2287 cr to arrive at a target price of Rs 1724 and maintain Hold rating on the stock.

Q3 CY20 - Quarterly Performance (Consolidated)

(in Rs Cr)

Rs Cr (consolidated)	Q3CY20	Q2CY20	Q3CY19	Q-o-Q	Y-o-Y	9M CY20	9M CY19	Y-o-Y
Net Revenue	3,537	2,602	3,528	35.9%	0.3%	9,641	11,597	-16.9%
Operating Costs	2,170	1,557	2,133	39.4%	1.7%	5,879	7,208	-18.4%
Employee cost	206	177	230	16.4%	-10.4%	591	633	-6.6%
Other Expenses	490	343	608	42.9%	-19.4%	1,388	1,884	-26.3%
EBITDA	671	525	557	27.8%	20.5%	1,783	1,872	-4.8%
<i>EBITDA margin %</i>	<i>19.0%</i>	<i>20.2%</i>	<i>15.8%</i>	<i>-121bps</i>	<i>318bps</i>	<i>18.5%</i>	<i>16.1%</i>	<i>+183bps</i>
Depreciation	161	163	151	-1.2%	6.6%	481	446	7.8%
EBIT	510	362	406	40.9%	25.6%	1,302	1,426	-8.7%
Other Income	46	51	51	-9.8%	-9.8%	153	261	-41.4%
Finance cost	16	13	16	23.1%	0.0%	40	57	-29.8%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	540	400	441	35.0%	22.4%	1,415	1,630	-13.2%
Tax Expense	177	132	141	34.1%	25.5%	462	535	-13.6%
<i>Effective tax rate %</i>	<i>32.8%</i>	<i>33.0%</i>	<i>32.0%</i>	<i>-22bps</i>	<i>80bps</i>	<i>32.7%</i>	<i>32.8%</i>	<i>+17bps</i>
PAT	363	268	300	35.4%	21.0%	953	1,095	-13.0%
MI & Associates	1	2	3	-55.2%	-65.2%	5	9	-44.4%
Consolidated PAT	364	270	303	34.7%	20.2%	958	1,104	-13.2%
<i>PAT margin %</i>	<i>10.3%</i>	<i>10.4%</i>	<i>8.6%</i>	<i>-9bps</i>	<i>171bps</i>	<i>9.9%</i>	<i>9.5%</i>	<i>+229bps</i>
EPS (Rs)	19.40	14.40	16.10	34.7%	20.5%	50.9	58.7	-13.3%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Valuations	CY21E
EV/EBITDA	16.5
EBITDA	2287
EV	37736
Net Debt	-5317
Market Cap	32419
No shares	18.8
Fair value	1724
CMP	1579
Upside	9.2%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Financials (Consolidated)

Profit and Loss Account (Year Ending December)				
Particulars (Rs Cr)	CY18	CY19	CY20E	CY21E
Income from Operations	14,802	15,658	14,092	15,571
YoY Change (%)	4.2%	5.8%	-10.0%	10.5%
Power & Fuel Cost	3001	3134	2748	3036
Employee Cost	884	866	779	919
Distribution Expenses	3993	4032	3664	4049
Other Expenditure incl. RM	4876	5213	4839	5280
Total Expenditure	12754	13245	12030	13284
EBITDA	2048	2413	2062	2287
Depreciation	603	606	646	672
EBIT	1445	1806	1416	1615
Other Income	143	318	398	498
Interest	88	86	78	86
PBT before Excp Items	1500	2039	1736	2027
Extraordinary/ Excp	0	0	0	0
PBT	1500	2039	1736	2027
Tax Expense	-11	675	437	510
Net Profit	1521	1378	1299	1517
YoY Change (%)	64.5%	-9.4%	-5.7%	16.8%

Balance Sheet (Year Ending December)				
Particulars (Rs Cr)	CY18	CY19	CY20E	CY21E
Liabilities + Equity				
(a) Share capital	188	188	188	188
(b) Reserves and surplus	10347	11359	11797	12313
Shareholders' funds	10535	11547	11985	12501
Non-current liab & Prov	815	891	883	933
Current liabilities	4706	4698	4884	5141
Total - Equity and liabilities	16056	17136	17752	18574
Assets				
Non-current assets	9372	9601	10276	10951
Fixed assets	7433	7423	7946	8469
Goodwill + Intangibles	53	50	50	50
Long Term Inv	104	116	148	180
Loans & Adv	169	144	244	344
other Non-current assets	1612	1869	1889	1909
Current assets	6684	7535	7476	7452
Cash	2933	4493	5542	5317
Other Current Assets	3751	3042	1933	2135
Total - Assets	16056	17136	17752	18574

Cash Flow Statement (Year Ending December)				
Particulars (Rs Cr)	CY18	CY19	CY20E	CY21E
Operating Activities				
PBT	1,500	2,053	1,736	2,027
Add Depreciation	603	606	646	672
Others	(171)	(227)	(191)	(182)
Total	1,933	2,432	2,192	2,517
Taxes	11	(447)	(437)	(510)
Changes in Working Capital	(30)	270	1,057	54
Cash Flow from Operations	1,914	2,255	2,811	2,061
Investing Activities				
Change in investments	938	(322)	(461)	(461)
Capex	(1,595)	-	(550)	(550)
Cash Flow from Investing	(657)	(322)	(1,011)	(1,011)
Financing Activities				
Dividends + Taxes paid	(1,004)	(317)	(742)	(1,325)
Other Financing Activites	121	-	(8)	50
Cash Flow from Financing	(883)	(317)	(751)	(1,275)
Opening Cash	2,560	2,933	4,493	5,542
Changes during year	374	1,559	1,050	(226)
Closing Cash	2,933	4,492	5,542	5,317

Ratio Analysis				
	CY18	CY19	CY20E	CY21E
Profitability				
EBITDA (%)	13.8%	15.4%	14.6%	14.7%
EBIT (%)	9.8%	11.5%	10.0%	10.4%
PAT (%)	10.3%	8.8%	9.2%	9.7%
Du Pont ROAE Analysis				
PAT / Sales	10.3	8.8	9.2	9.7
Sales / Avg Total Fixed Assets	1.0	0.9	0.8	0.9
Avg Total Assets / Avg Equity	1.6	1.5	1.5	1.5
ROAE %	14.4%	11.9%	10.8%	12.1%
Other Ratios				
Current Ratio	1.4	1.6	1.5	1.4
Debt / Equity	0.0	0.0	0.0	0.0
EPS	81	73	69	81
DPS	16	18	17	20
Valuation				
P/E	19.5	21.5	17.8	15.3
EV/EBITDA	13.1	10.4	11.7	10.7
P/BV	2.8	2.6	1.9	1.9

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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