

ACC Ltd.



ACC Ltd.

Volume recovery & cost reduction improves margins

CMP INR 1,580	Target INR 1,815	Potential Upside 15.0%	Market Cap (INR Cr) INR 29,694	Recommendation BUY	Sector Cement
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Result Highlights of Q3CY20

- ACC Ltd.'s revenue in Q3CY20 rose 35.9% QoQ (flat YoY) to INR 3,537 Cr. Steller QoQ growth was supported by volume growth in both the segments of Cement & RMX. Realization were stable YoY as well as QoQ.
- EBITDA for the quarter was up by 20.5% YoY (up 27.8% QoQ) to INR 671 Cr. EBITDA margin came in at 19.4%, an improvement of 328bps YoY (-148bps QoQ). Expansion in EBITDA margin was led by operational efficiency and cost reduction initiatives.
- Net Profit rose 20.3% YoY (up 34.3% QoQ) and Net Profit margin for the quarter expanded by 176bps YoY to 10.5% (-26 bps QoQ). Other income for the quarter decreased by 10.4%/11.3% on YoY/QoQ basis, respectively.

MARKET DATA

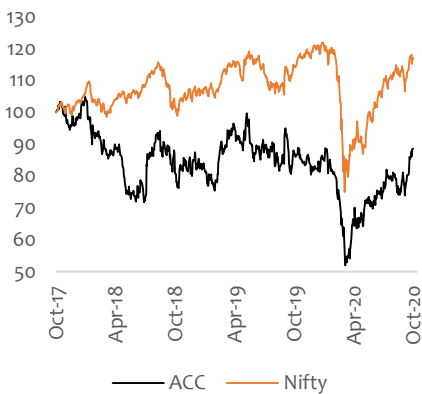
Shares outs (Cr)	18.8
Equity Cap (INR Cr)	11,547
Mkt Cap (INR Cr)	29,694
52 Wk H/L (INR)	1,622/895
Volume Avg (3m K)	1,077
Face Value (INR)	10
Bloomberg Code	ACC IN

KEY FINANCIALS

INR Cr	CY17	CY18	CY19	CY20E	CY21E
Revenue	13,285	14,802	15,658	13,627	15,296
EBITDA	1,912	2,048	2,413	2,377	2,678
PAT	925	1,521	1,378	1,440	1,700
EBITDA Margin (%)	14.4%	13.8%	15.4%	17.4%	17.5%
NPM (%)	7.0%	10.3%	8.8%	10.6%	11.1%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Strong sequential recovery in volumes; stable realizations: ACC's Q3CY20 was better than expected with Revenue/EBITDA/PAT higher than our expectations by 4.7%/14.0%/11.3%, respectively. ACC's cement revenue rose 32.2% QoQ (+4.3% YoY, 94% of revenue) backed by 35.2% QoQ (+0.8% YoY) increase in cement volume to 6.49 Mn T. RMX revenue rose 216% QoQ (-41.3% YoY, 6% of revenue) backed by 207% increase in RMX volume (-43.2% YoY) to 0.46 m³. Realization were stable for both Cement & RMX. Cement realization for the quarter was -2.2%/+3.5% QoQ/YoY, respectively, while RMX realization was +3.0%/+3.4% QoQ/YoY, respectively.

Cost reduction on all fronts improves EBITDA margin: EBITDA for the quarter rose 20.5% YoY (+27.8% QoQ) due to overall operating efficiency. On per tonne basis, though raw material cost was higher, other costs like logistics cost (-10.3%/+5.9% YoY/QoQ), energy cost (-20.3%/+1.9% YoY/QoQ) & other expenses (-20.0%/+5.7% YoY/QoQ) were on the lower side. EBITDA/t for the quarter increased 19.6% YoY (-5.5% QoQ) to INR 1,035/t; implying EBITDA margin expansion of 328bps YoY (-148bps QoQ). Overall, operating expenses per tonne were lower by 4.3% YoY but increased by 2.1% on QoQ basis. Effective tax rate was 32.7% in Q3CY20 (vs 32.0% in Q3CY19). In line with the operating performance, Net profit margin improved 176bps YoY despite lower other income at INR 45.5 Cr (-10.4% YoY).

Valuation and view: Continuing from previous quarter, company was able to handle COVID-19 led decline in volume with efficient utilization of resources & demonstrated excellent control over its operations. In the wake of higher retail demand, lower crude oil prices and continued cost controls measures, ACC delivered yet another extraordinary quarter in turbulent times.

We see further demand recovery in cement at industry level specially from retail front aided by new capacities and have thus, revised our CY20/CY21 EBITDA upward by 12.8% & 21.7%, respectively, and PAT by 15.7%/24.8%, respectively.

The shares of ACC has rallied 14.5% since our last earnings update (at INR 1,379/share) and are currently trading at EV/EBITDA multiple of 9.4x/7.2x on CY20/CY21E EBITDA. We maintain our earlier EV/EBITDA multiple of 11.0x on CY21E EBITDA and arrive at a revised Target Price of INR 1,815/share (earlier INR 1,535); an upside potential of 15.0% over CMP. Accordingly, we upgrade our rating to "BUY" on the shares of ACC.

MARKET INFO

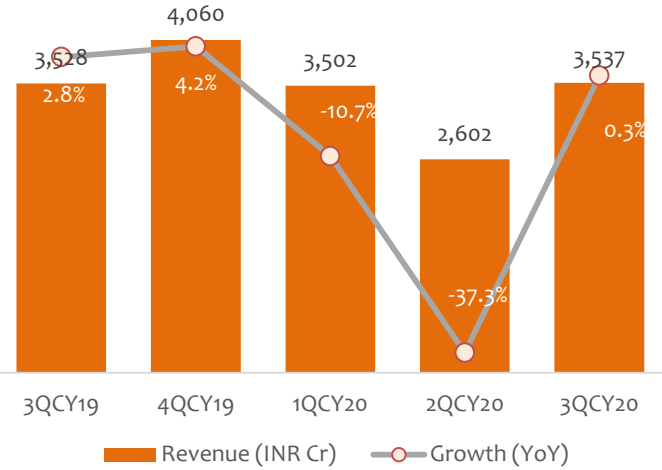
SENSEX	40,544
NIFTY	11,897

SHARE HOLDING PATTERN (%)

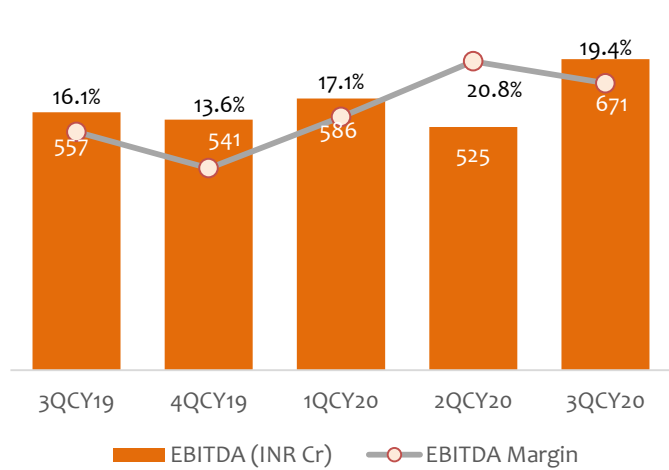
Particulars	Sep-20 (%)	Jun-20 (%)	Mar-20 (%)
Promoters	54.5	54.5	54.5
FIIs	0.0	8.1	7.8
DIIIs	32.4	18.6	21.2
Others	13.1	18.8	16.5
Total	100	100	100

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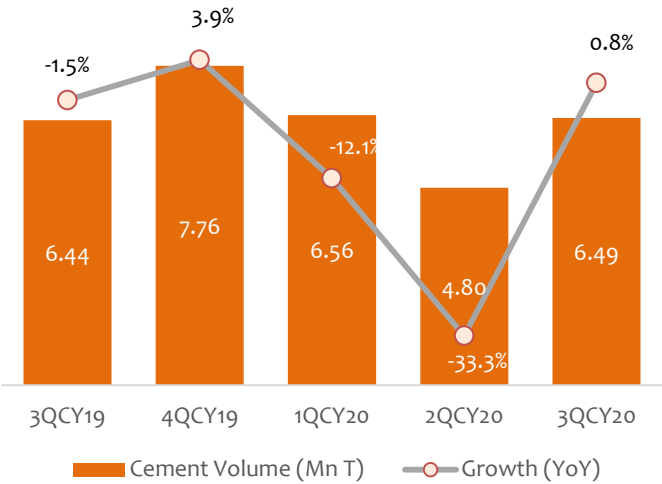
Strong QoQ recovery in revenue



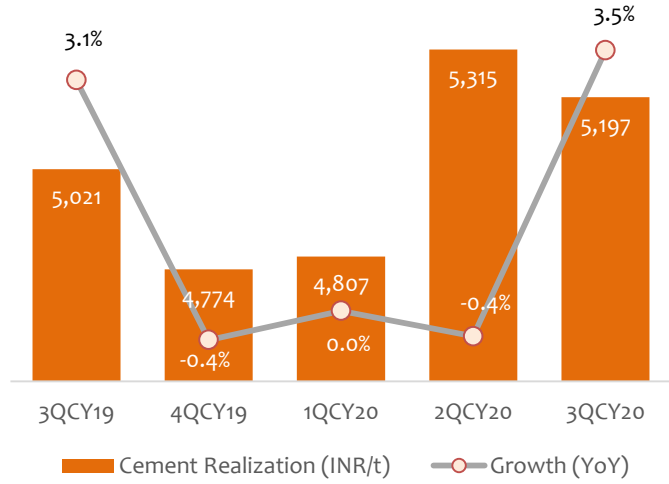
Cost reduction & efficiency improves EBITDA margin



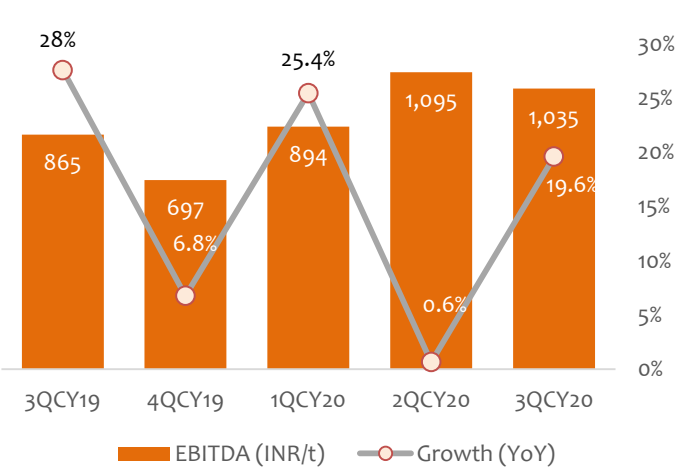
Volume on recovery path, significant increase QoQ



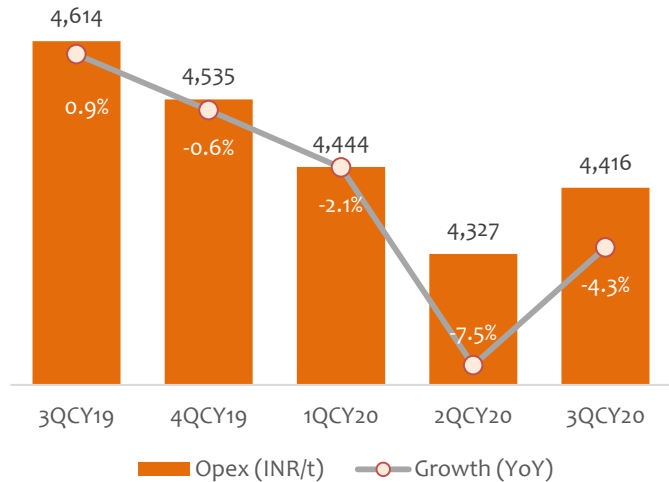
Realization improves YoY



Substantial improvement in EBITDA (INR/t) with lower cost YoY



Operating expenses inches up QoQ



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Cr	CY17	CY18	CY19	CY20E	CY21E
Revenues	13,285	14,802	15,658	13,627	15,296
COGS	1,966	2,332	2,719	2,560	2,825
Gross profit	11,319	12,469	12,939	11,066	12,471
Employee cost	821	884	866	790	918
Power & Fuel	2,717	3,001	3,134	2,500	2,747
Freight and Forwarding Expense	3,434	3,993	4,032	3,286	3,681
Other expenses	2,435	2,544	2,494	2,112	2,447
EBITDA	1,912	2,048	2,413	2,377	2,678
EBITDA Margin	14.4%	13.8%	15.4%	17.4%	17.5%
Depreciation & amortization	644	603	606	640	719
EBIT	1,269	1,445	1,806	1,737	1,959
Interest expense	99	88	86	0	0
PBT	1,299	1,500	2,039	1,953	2,278
Tax	386	-11	675	527	592
PAT	925	1,521	1,378	1,440	1,700
EPS (INR)	49.18	80.89	73.28	76.58	90.41

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Cr	CY17	CY18	CY19	CY20E	CY21E
Net Cash Generated From Operations	1,554	1,118	2,255	1,983	2,019
Net Cash Flow from/(used in) Investing Activities	(380)	(364)	(322)	(2,188)	(1,261)
Net Cash Flow from Financing Activities	(426)	(380)	(374)	(316)	(338)
Net Inc/Dec in cash equivalents	749	373	1,559	(520)	419
Opening Balance	1,810	2,560	2,933	4,493	3,973
Closing Balance Cash and Cash Equivalents	2,560	2,933	4,493	3,973	4,392

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	CY17	CY18	CY19	CY20E	CY21E
EBITDA Margin (%)	14.4%	13.8%	15.4%	17.4%	17.5%
Tax rate (%)	29.7%	-0.7%	33.1%	27.0%	26.0%
Net Profit Margin (%)	7.0%	10.3%	8.8%	10.6%	11.1%
RoE (%)	9.9%	14.4%	11.9%	11.4%	12.1%
RoCE (%)	13.6%	13.7%	15.6%	13.7%	14.0%
EPS (INR)	49.18	80.89	73.28	76.58	90.41

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

INR Cr	CY17	CY18	CY19	CY20E	CY21E
Non-current assets					
Property, plant and equipment	7,224	7,035	6,977	8,836	9,618
Capital work-in-progress	269	398	446	446	446
Goodwill	16	16	16	16	16
Intangible assets	40	37	34	34	34
Investment in Associate	91	100	112	112	112
Financial assets					
Investments	4	4	4	4	4
Loans	223	169	144	144	144
Other financial assets	410	325	468	468	468
Non-current Tax Assets (Net)	297	675	860	748	840
Other non-current assets	617	612	541	471	529
Total non-current assets	9,191	9,372	9,601	11,279	12,210
Current assets					
Inventories	1,405	1,679	1,142	1,075	1,186
Financial assets					
Trade receivables	666	867	627	545	612
Cash and cash equivalents	2,560	2,933	4,493	3,973	4,392
Other Balances with Banks	169	164	155	155	155
Loans	41	77	29	29	29
Other financial assets	9	232	270	270	270
Assets/Disposal Group held for sale	13	12	10	10	10
Other current assets	792	720	808	704	790
Total current assets	5,655	6,684	7,535	6,762	7,445
TOTAL ASSETS	14,846	16,056	17,136	18,041	19,655
EQUITY AND LIABILITIES					
Equity					
Equity share capital	188	188	188	188	188
Other equity	9,168	10,344	11,356	12,480	13,841
Equity attributable to the equity shareholders	9,356	10,532	11,544	12,668	14,029
Non-controlling interests	3	3	3	3	3
Total equity	9,359	10,535	11,547	12,671	14,032
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Provisions	143	140	235	235	235
Deferred Tax Liabilities (Net)	552	675	656	571	641
Total non-current liabilities	694	815	891	806	876
Current liabilities					
Financial liabilities					
Trade payables	1,814	1,926	1,475	1,389	1,533
Other financial liabilities	721	776	938	938	938
Other current liabilities	1,738	1,795	1,919	1,919	1,919
Provisions	51	27	23	20	23
Current Tax liabilities (Net)	468	182	343	298	335
Total current liabilities	4,793	4,706	4,698	4,565	4,747
Total liabilities	5,487	5,521	5,589	5,371	5,623
TOTAL EQUITY AND LIABILITIES	14,846	16,056	17,136	18,041	19,655

Source: Company, KRChoksey Research

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ACC Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
20-Oct-20	1,580	1,815	BUY	Buy	More than 15%
				Accumulate	5% – 15%
22-Jul-20	1,379	1,535	ACCUMULATE	Hold	0 – 5%
				Reduce	-5% – 0
22-Apr-20	1,196	1,415	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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