

ACC Ltd.



ACC Ltd.

Stellar performance – all round beat

| | | | | | |
|------------------|---------------------|-------------------------|-------------------------------------|-------------------------------------|-------------------------|
| CMP INR 2,309 | Target INR 2,540 | Potential Upside 10% | Market Cap (INR Mn) INR 4,34,069 | Recommendation ACCUMULATE | Sector Cement |
|------------------|---------------------|-------------------------|-------------------------------------|-------------------------------------|-------------------------|

Result Highlights of Q2CY21

- ACC reported revenue growth of 49.3% YoY at INR 38,849 mn, 17.9% above our estimate. Cement volume saw strong growth of 43.7% YoY to 6.8 MT (6.4 MT KRC estimate) from 4.8 MT in Q2CY20, mainly driven by robust demand and low base effect.
- EBITDA for the quarter was up by 65.5% YoY (1.1% QoQ) to INR 8,693 mn. EBITDA margin expanded by 219 bps YoY/ 233 bps QoQ to 22.4%. Margin expansion was largely due to effective cost control on the company's part driven by efficiencies under project "Parvat", geo-mix and network optimization.
- Reported PAT has more than doubled, a quantum jump of 110.2% YoY to INR 5,694 mn, beating our estimate of INR 4,120 mn by a wide margin. On sequential basis, PAT has seen a growth of 1.2%. NPM stood at 14.7%, an expansion of 425 bps YoY.

MARKET DATA

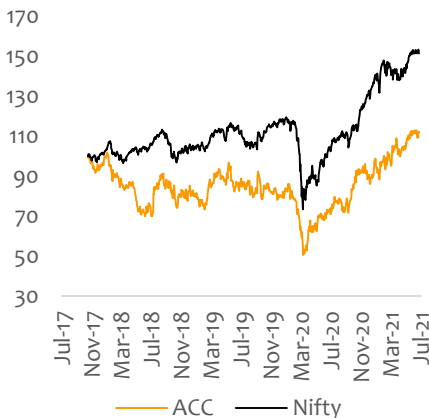
| | |
|-------------------|-------------|
| Shares outs (Mn) | 188 |
| Mkt Cap (INR Mn) | 4,34,069 |
| 52 Wk H/L (INR) | 2,343/1,290 |
| Volume Avg (3m K) | 1,314 |
| Face Value (INR) | 10 |
| Bloomberg Code | ACC IN |

KEY FINANCIALS

| INR Mn | CY18 | CY19 | CY20 | CY21E | CY22E |
|-------------------|----------|----------|----------|----------|----------|
| Revenue | 1,48,016 | 1,56,576 | 1,37,860 | 1,53,876 | 1,76,892 |
| EBITDA | 20,481 | 24,128 | 23,551 | 27,522 | 33,353 |
| Adj. PAT | 15,206 | 13,775 | 16,063 | 16,608 | 20,170 |
| EBITDA Margin (%) | 13.8% | 15.4% | 17.1% | 17.9% | 18.9% |
| Adj. NPM (%) | 10.3% | 8.8% | 11.6% | 10.8% | 11.4% |

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Strong volume growth; improved realizations: ACC's Q2CY21 results were better than our expectations with Revenue/EBITDA/PAT higher than our estimates by 17.9%/31.2%/38.2%, respectively. ACC's cement revenue rose 46.6% YoY, backed by 43.7% YoY increase in cement volume to 6.8 MT. RMX revenue grew 3x YoY due to 293% YoY rise in RMX volume to 0.58 mn m³. Blended realization was mostly flat YoY at INR 5,135/t vs INR 5,133/t in Q2CY20. However, realization improved 5.3% on QoQ basis (INR 4,876/t in Q1CY21), mainly on account of price hikes taken in the last quarter as well as by sales of premium product and brand positioning.

Operating efficiency improves EBITDA margin despite higher input costs: EBITDA for the quarter rose 65.5% YoY (1.1% QoQ) due to overall operating efficiency. ACC has undertaken various efficiency measures like 'Parvat', geo mix and network optimization to get control over rising input costs. On per ton basis, raw material cost was higher by 36.8% YoY at INR 543/t, power & fuel at INR 1,183/t (+27% YoY), freight & forwarding at INR 1,278/t (+4.8% YoY), other expenses at INR 753/t (+18.4% YoY). Only employee costs were on lower side at INR 274/t (-16% YoY) due to better absorption driven by higher volumes. EBITDA margin expanded by 219 bps YoY/ 233 bps QoQ to 22.4%.

Valuation and view: We see gradual demand recovery in the cement industry going forward though monsoon and continuing 2nd Covid wave might halt the recovery temporarily. ACC has started construction work at its Ametha plant (2.7 mtpa clinker & 1 mtpa cement expansion project), and is also expanding its grinding capacity at Tikaria plant by 1.6 mt. The company is further setting up a greenfield grinding unit at Shonebhadra, UP of 2.2 mtpa capacity.

The shares of ACC has rallied ~13% since our last update (at INR 2,053/share) and is currently trading at EV/EBITDA multiple of 13.6x/11.2x on CY21E/CY22E EBITDA. With expected capacity addition and steady capacity utilization giving good revenue visibility, we are positive on ACC's future growth potential. Management's focus on improving ACC's margin profile by increasing share of premium products in revenue mix augur well for the company. As a result, we raise our target price for ACC from INR 2,185 per share earlier to INR 2,540 per share, valuing the company at 12.5x CY22E EV/EBITDA (earlier 10.5x CY22E EV/EBITDA), giving an upside potential of 10% over CMP. Accordingly, we reiterate our "ACCUMULATE" rating on the shares of ACC Ltd.

MARKET INFO

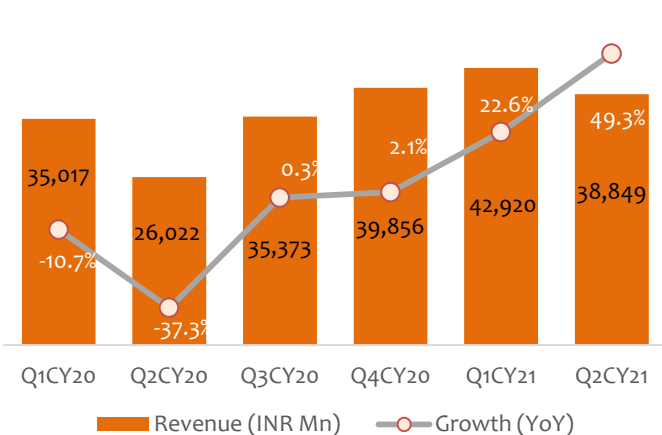
| | |
|--------|--------|
| SENSEX | 52,199 |
| NIFTY | 15,632 |

SHARE HOLDING PATTERN (%)

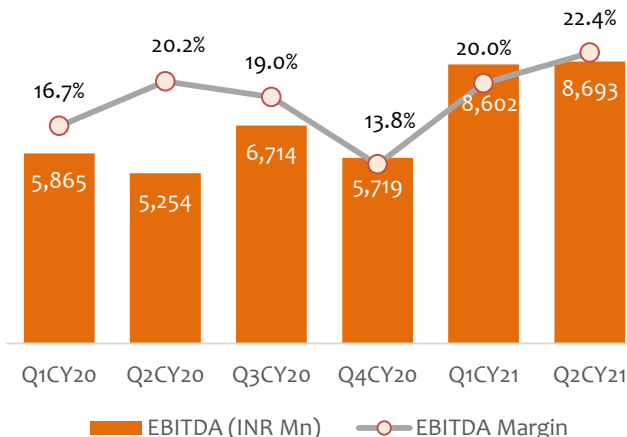
| Particulars | Jun-21 (%) | Mar-21 (%) | Dec-20 (%) |
|-------------|------------|------------|------------|
| Promoters | 54.5 | 54.5 | 54.5 |
| FII's | 13.6 | 12.6 | 11.5 |
| DII's | 19.4 | 20.3 | 20.7 |
| Others | 12.5 | 12.6 | 13.3 |
| Total | 100 | 100 | 100 |

ACC Ltd.

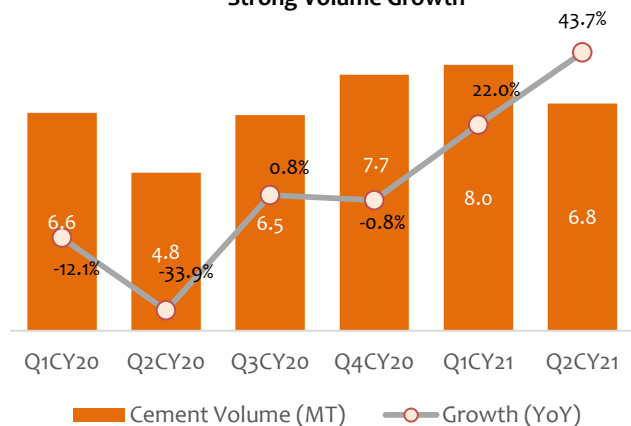
Robust Growth in Revenue



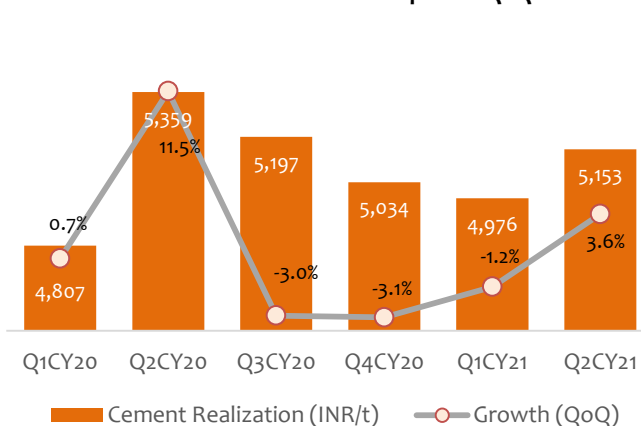
Cost efficiency improves EBITDA margin



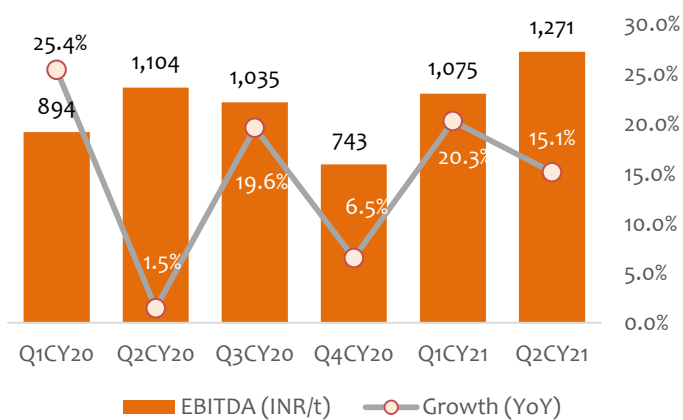
Strong Volume Growth



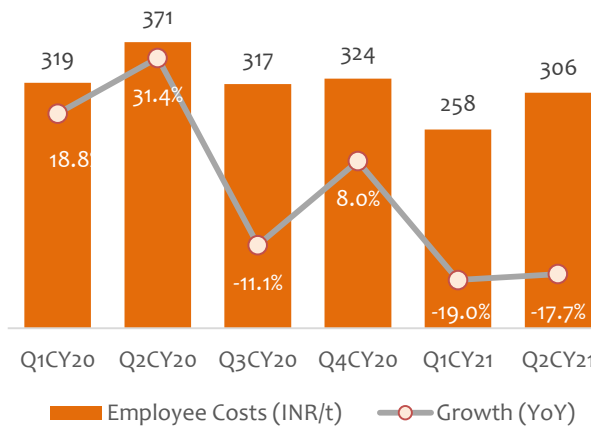
Cement Realization Improves QoQ



Substantial improvement in EBITDA/t with cost efficiency



Employee Costs (INR/t) have also come down



Source: Company, KRChoksey Research

ACC Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

| INR Mn | CY18 | CY19 | CY20 | CY21E | CY22E |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenues | 1,48,016 | 1,56,576 | 1,37,860 | 1,53,876 | 1,76,892 |
| COGS | 23,325 | 27,189 | 25,125 | 29,231 | 31,488 |
| Gross profit | 1,24,692 | 1,29,387 | 1,12,735 | 1,24,644 | 1,45,404 |
| Employee cost | 8,836 | 8,661 | 8,412 | 9,233 | 10,614 |
| Power & Fuel | 30,008 | 31,340 | 25,747 | 29,175 | 34,472 |
| Freight and Forwarding Expense | 39,928 | 40,321 | 34,161 | 38,710 | 45,738 |
| Other expenses | 25,438 | 24,937 | 20,864 | 20,004 | 21,227 |
| EBITDA | 20,481 | 24,128 | 23,551 | 27,522 | 33,353 |
| EBITDA Margin | 13.8% | 15.4% | 17.1% | 17.9% | 18.9% |
| Depreciation & amortization | 6,032 | 6,064 | 6,388 | 7,232 | 8,314 |
| EBIT | 14,449 | 18,063 | 17,163 | 20,290 | 25,039 |
| Interest expense | 878 | 863 | 571 | 500 | 500 |
| PBT | 14,998 | 20,385 | 16,999 | 21,958 | 26,706 |
| Tax | -105 | 6,750 | 2,786 | 5,489 | 6,677 |
| PAT | 15,206 | 13,775 | 14,303 | 16,608 | 20,170 |
| EPS (INR) | 80.9 | 73.3 | 76.1 | 88.3 | 107.3 |

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

| INR Mn | CY18 | CY19 | CY20 | CY21E | CY22E |
|---------------------------------------------------|---------|---------|----------|----------|---------|
| Net Cash Generated From Operations | 11,175 | 22,547 | 20,119 | 21,583 | 25,522 |
| Net Cash Flow from/(used in) Investing Activities | (3,644) | (3,220) | (21,942) | (13,595) | (5,130) |
| Net Cash Flow from Financing Activities | (3,805) | (3,742) | (3,729) | (3,884) | (4,954) |
| Net Inc/Dec in cash equivalents | 3,726 | 15,586 | (5,552) | 4,104 | 15,438 |
| Opening Balance | 25,597 | 29,332 | 44,927 | 39,465 | 43,569 |
| Closing Balance Cash and Cash Equivalents | 29,332 | 44,927 | 39,465 | 43,569 | 59,008 |

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

| Key Ratios | CY18 | CY19 | CY20 | CY21E | CY22E |
|-----------------------|-------|-------|-------|-------|-------|
| EBITDA Margin (%) | 13.8% | 15.4% | 17.1% | 17.9% | 18.9% |
| Tax rate (%) | -0.7% | 33.1% | 16.4% | 25.0% | 25.0% |
| Net Profit Margin (%) | 10.3% | 8.8% | 10.4% | 10.8% | 11.4% |
| RoE (%) | 14.4% | 11.9% | 11.3% | 11.9% | 13.0% |
| RoCE (%) | 13.7% | 15.6% | 13.6% | 14.5% | 16.1% |
| EPS (INR) | 80.9 | 73.3 | 76.1 | 88.3 | 107.3 |

Source: Company, KRChoksey Research

ACC Ltd.

Exhibit 4: Balance Sheet

| INR Mn | CY18 | CY19 | CY20 | CY21E | CY22E |
|------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Non-current assets | | | | | |
| Property, plant and equipment | 70,352 | 69,769 | 88,289 | 96,057 | 93,945 |
| Capital work-in-progress | 3,978 | 4,457 | 4,457 | 4,457 | 4,457 |
| Goodwill | 156 | 156 | 156 | 156 | 156 |
| Intangible assets | 374 | 343 | 343 | 343 | 343 |
| Investment in Associate | 1,004 | 1,125 | 1,125 | 1,125 | 1,125 |
| Financial assets | | | | | |
| Investments | 37 | 37 | 37 | 37 | 37 |
| Loans | 1,691 | 1,438 | 1,438 | 1,438 | 1,438 |
| Other financial assets | 3,253 | 4,682 | 4,682 | 4,682 | 4,682 |
| Non-current Tax Assets (Net) | 6,750 | 8,598 | 7,570 | 8,449 | 9,713 |
| Other non-current assets | 6,120 | 5,411 | 4,764 | 5,318 | 6,113 |
| Total non-current assets | 93,715 | 96,014 | 1,12,860 | 1,22,061 | 1,22,008 |
| Current assets | | | | | |
| Inventories | 16,794 | 11,419 | 10,553 | 12,277 | 13,225 |
| Financial assets | | | | | |
| Trade receivables | 8,674 | 6,267 | 5,517 | 6,158 | 7,080 |
| Cash and cash equivalents | 29,332 | 44,925 | 39,465 | 43,569 | 59,008 |
| Other Balances with Banks | 1,638 | 1,552 | 1,552 | 1,552 | 1,552 |
| Loans | 773 | 290 | 290 | 290 | 290 |
| Other financial assets | 2,317 | 2,704 | 2,704 | 2,704 | 2,704 |
| Assets/Disposal Group held for sale | 116 | 105 | 105 | 105 | 105 |
| Other current assets | 7,202 | 8,084 | 7,118 | 7,945 | 9,133 |
| Total current assets | 66,844 | 75,346 | 67,303 | 74,600 | 93,096 |
| TOTAL ASSETS | 1,60,560 | 1,71,360 | 1,80,164 | 1,96,661 | 2,15,104 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Equity share capital | 1,880 | 1,880 | 1,880 | 1,880 | 1,880 |
| Other equity | 1,03,439 | 1,13,558 | 1,24,702 | 1,37,927 | 1,53,643 |
| Equity attributable to the equity shareholders | 1,05,319 | 1,15,438 | 1,26,582 | 1,39,807 | 1,55,523 |
| Non-controlling interests | 30 | 32 | 32 | 32 | 32 |
| Total equity | 1,05,349 | 1,15,469 | 1,26,614 | 1,39,838 | 1,55,554 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Financial liabilities | | | | | |
| Provisions | 1,403 | 2,351 | 2,351 | 2,351 | 2,351 |
| Deferred Tax Liabilities (Net) | 6,746 | 6,557 | 5,773 | 6,444 | 7,408 |
| Total non-current liabilities | 8,149 | 8,908 | 8,124 | 8,795 | 9,759 |
| Current liabilities | | | | | |
| Financial liabilities | | | | | |
| Trade payables | 19,263 | 14,750 | 13,630 | 15,858 | 17,082 |
| Other financial liabilities | 7,755 | 9,375 | 9,375 | 9,375 | 9,375 |
| Other current liabilities | 17,946 | 19,194 | 19,194 | 19,194 | 19,194 |
| Provisions | 273 | 234 | 206 | 230 | 264 |
| Current Tax liabilities (Net) | 1,824 | 3,430 | 3,020 | 3,371 | 3,875 |
| Total current liabilities | 47,062 | 46,982 | 45,425 | 48,027 | 49,790 |
| Total liabilities | 55,210 | 55,891 | 53,549 | 56,822 | 59,549 |
| TOTAL EQUITY AND LIABILITIES | 1,60,560 | 1,71,360 | 1,80,164 | 1,96,661 | 2,15,104 |

Source: Company, KRChoksey Research

ACC Ltd.

| ACC Ltd. | | | | Rating Legend (Expected over a 12-month period) | |
|-----------|-----------|----------|----------------|-------------------------------------------------|----------------|
| Date | CMP (INR) | TP (INR) | Recommendation | Our Rating | Upside |
| 20-Jul-21 | 2,309 | 2,540 | ACCUMULATE | Buy | More than 15% |
| 30-Jun-21 | 2,053 | 2,185 | ACCUMULATE | | |
| 20-Apr-21 | 1,826 | 2,185 | BUY | Accumulate | 5% – 15% |
| 05-Apr-21 | 1,894 | 2,185 | BUY | | |
| 17-Mar-21 | 1,766 | 2,100 | BUY | Hold | 0 – 5% |
| 15-Dec-20 | 1,609 | 1,957 | BUY | | |
| 20-Oct-20 | 1,580 | 1,815 | BUY | Reduce | -5% – 0 |
| 22-Jul-20 | 1,379 | 1,535 | ACCUMULATE | | |
| 22-Apr-20 | 1,196 | 1,415 | BUY | Sell | Less than – 5% |

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Parvati Rai, head-research@krchoksey.com, +91-22-6696 5413

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com