

September 29, 2022

(Aggressive growth + margin levers) to narrow down valuation gap...

About the stock: ACC (now Adani group conglomerate part) is a large cement player with capacity of over 34.5 MT in India and one of the **oldest cement players** in industry. ACC also manufactures ready-mix concrete and has 50 plants across India.

- ACC has a **strong balance-sheet with debt free status**
- Ongoing capex of ₹ 3500 crore would **increase its capacity to 39.3 MT** by CY22E. Grinding unit (GU) in Sindri & Tikaria has already been commissioned, balance 3.2 MT new capacity is progressing as per schedule

Key Highlights:

- The recently concluded deal (worth \$6.5 billion) between Holcim & Adani has now made Adani Group the second largest cement player in the industry with a combined total cement capacity of 67.5 MT (ACC + Ambuja). Post the deal, Adani now holds 63.15% stake in Ambuja and 56.69% stake in ACC (of which 50.05% is held through Ambuja Cement)
- The Board of both these companies has also been reconstituted. Gautam Adani will be the Chairman and Non-Executive, Non-Independent Director of Ambuja Cement (promoter entity of ACC) while Karan Adani will be the Chairman and Non-Executive, Non-Independent Director of ACC
- The new promoter intends to double the group’s cement capacity in next five years and become largest and most efficient cement company by 2030
- Keeping this in mind, the new board of Ambuja (parent of ACC) has approved fund infusion of ₹ 20,000 crore by issuing warrants to the promoter entity on a preferential basis at a price of ₹ 419. Post conversion of these warrants, promoter’s shareholding in Ambuja will increase to 70.3% vs. 63.2% at present while effective holding in ACC will rise to 41.8%
- Also, the group’s exposure to energy and logistics will help it to improve cost dynamics and gain supply chain efficiencies

What should investors do? Given the healthy outlook, new aggressive management & comfortable valuations post correction, we retain our **BUY** rating.

Target Price and Valuation: We value ACC at ₹ 2,900 i.e. 11.5x CY23E EV/EBITDA.

Key triggers for future price performance:

- While the group is envisaging doubling the current capacity over the next five years, the ongoing expansion (₹ 3,500 crore capex) would increase ACC’s capacity to 39.3 MT by CY23 from current 34.5 MT capacity
- Cost efficiency measures like higher renewable power share, strong logistics support of promoter group to drive margin expansion in long run
- Immediate cost benefits would come from royalty cost savings, raw material sourcing like fly ash, coal on better terms

Alternate Stock Idea: Apart from ACC, we also like UltraTech Cement.

- It is a market leader with strong brand in the retail segment
- BUY with a target price of ₹ 7,600/share

Key Financial Summary

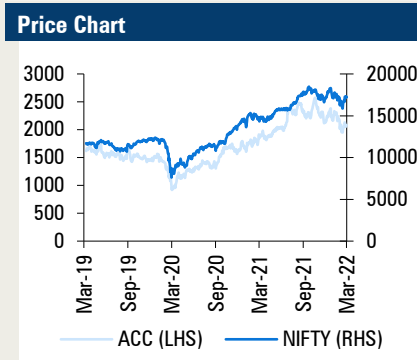
₹ crore	CY18	CY19	CY20	CY21	3 Year CAGR (%)	CY22E	CY23E	2 Year CAGR (%)
Net Sales	14478	15407	13786	16152	3.7	17768	19253	9.2
EBITDA	1724	2162	2355	2998	20.3	2412	3878	13.7
EBITDA Margins (%)	11.9	14.0	17.1	18.6		13.6	20.1	
Adjusted Net Profit	1020	1378	1606	1918	23.4	1457	2558	15.5
EPS (₹)	54	73	85	102		78	136	
EV/EBITDA	23.8	18.3	15.8	11.9		14.5	8.6	
EV/tonne (\$)	176	169	159	147		135	121	
RoNW	9.7	11.9	12.6	13.4		9.5	14.8	
RoCE	14.2	17.4	14.7	17.6		12.7	19.7	

Source: Company, ICICI Direct Research



Particulars	Amount
Mcap	₹ 44157 crore
Debt (CY21)	₹ 101 crore
Cash & Invest (CY21)	₹ 7732 crore
EV	₹ 36526 crore
52 week H/L	₹ 2300 / 1289
Equity cap	₹ 187.8 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	54.5	54.5	54.5	54.5
FII	13.7	13.9	12.9	12.2
DII	19.4	19.3	20.0	20.6
Others	12.3	12.3	12.6	12.7



- Key risks**
- Entire promoter holding is currently pledged as collateral for loans
 - Volatility in prices of imported coal/petcoke

Research Analyst

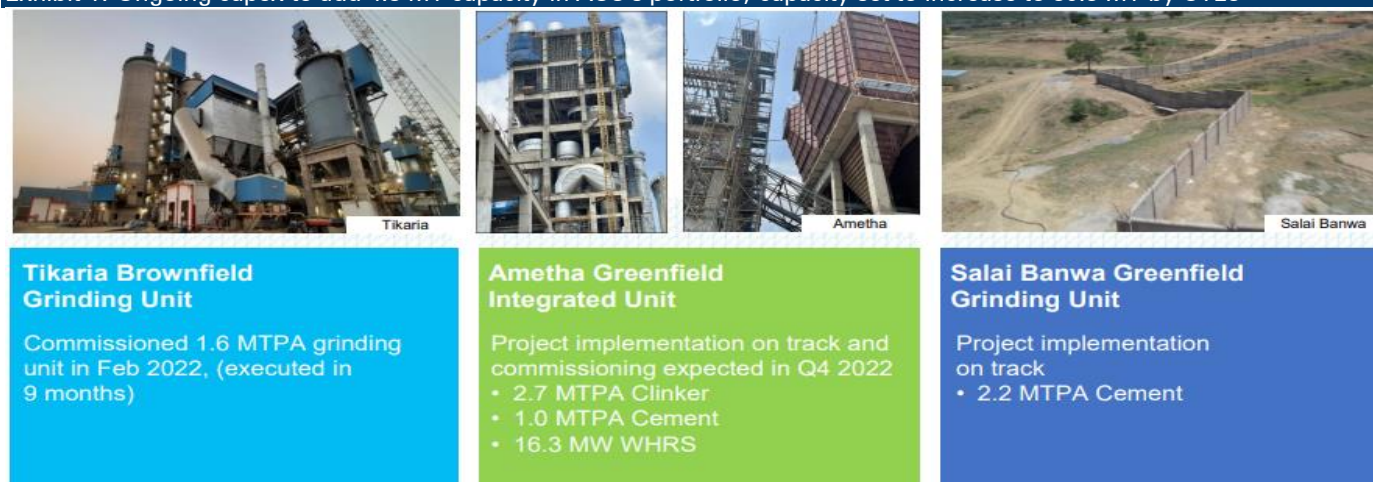
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Update on ongoing expansion

- During the current calendar year, the company commissioned a 1.6 MT GU at Tikaria, UP in February 2022. The 2.7 MT clinker and 1.0 MT GU in Ametha would get commissioned by Q4CY22. Balance 2.2 MT GU at Salai Banwa UP to come on stream in CY23. All this capex is funded via internal accruals
- Further efficiency projects like waste heat recovery (Jamul 10 MW, Kymore 14 MW) are also on track and are likely to get commissioned soon. The earlier board had also approved WHRS project at Chanda and Wadi. Post these, total WHRS capacity will increase to 75 MW.

Exhibit 1: Ongoing capex to add 4.8 MT capacity in ACC's portfolio; capacity set to increase to 39.3 MT by CY23



Source: Company, ICICI Direct Research

Capital infusion by promoter at Ambuja to increase effective promoter shareholding in ACC from 38.2% to 41.8%

The new board of Ambuja (parent company of ACC) has approved fund infusion of ₹ 20,000 crore to promoter entity (Harmonia Trade and Investment) on a preferential basis. While Adani Group's shareholding in Ambuja will increase to 70.3% vs. 63.2% at present, the effective shareholding in ACC will also increase from 38.2% to 41.8%.

Exhibit 2: Promoter holding post fund infusion

Shareholding structure						Effective holding of Adani group in ACC
ACC			Ambuja			
Promoter	No of shares (ln cr)	%	Promoter	No of shares (ln cr)	%	
Ambuja	9.4	50.1%	Adani Group	125.5	63.2%	31.6%
Adani Group	1.2	6.6%	NA			6.6%
Total promoter holding	10.6	56.7%	Total promoter holding	125.5	63.2%	38.2%
Total	18.8	100.0%	Total	198.8	100.0%	

Fund raising of ₹20,000 crore through issuance of 47.7 convertible warrants at ₹419/share by Ambuja						
Promoter	No of shares (ln cr)	%	Promoter	No of shares (ln cr)	%	
Ambuja	9.4	50.1%	Adani Group	173.2	70.3%	35.2%
Adani Group	1.2	6.6%	NA			6.6%
Total promoter holding	10.6	56.7%	Total promoter holding	173.2	70.3%	
Total	18.8	100.0%	Total shares post fund raise	246.5	100.0%	41.8%

Source: Company, ICICI Direct Research

Key triggers for future price performance

New capacities to help gain lost ground, going ahead

Over the past five years, the company has lost its market share to other large players with no major new capacities coming in place during this period either through the greenfield or the M&A route. While industry capacity grew at a CAGR of 7%, the company managed to increase its capacity from 30.5 MT to 33 MT i.e. at 2% CAGR. As a result, ACC's production share declined from 14% in FY14 to 11% in FY20. To address this growth concern, the company is increasing its capacity to 39.3 MT with total capex of ~₹ 3500 crore. Further, with the aggressive new promoter, we now expect volume growth to get ramped up, going ahead, supported by new capacity additions.

Cost rationalisation to bring efficiency...

- The company was earlier paying royalty to the Holcim group at ~1% of revenues. With Adani now being the promoter the company will be able save ~₹ 175-180 crore on an annual basis, which works out to savings of around ₹ 55-60 on per tonne basis
- On the raw material front, the company is now better placed to source inputs such as fly ash/imported coal/petcoke from Adani group on better terms. The company is aiming to reach WHRS capacity of 75 MW by 2024. With these, we expect annual cost savings in the range of ₹ 100-150 on a per tonne basis. The company can also leverage the renewable energy potential from Adani group, going ahead, for optimisation of its power & fuel costs. We await more clarity on the same to quantify the benefit
- Further, the company can also leverage Adani's logistic network to bring down the freight cost further, which the earlier promoter was doing through master supply agreement with Ambuja. Overall, as per our rough estimates, we expect cost savings of ₹ 300-350/tonne from the current run rate

Valuation & Outlook

While we believe that the structural change in the ownership as well as aggressive expansion strategy through organic/inorganic route could pave the way for growth as well as margin expansion led by cost synergies and operating leverage opportunities, we await more clarity and would want to see how this plays out. Given these potential benefits, we expect the valuation gap between the company and other large efficient players to narrow down over the next two to three years. Hence, we retain **BUY** with a revised target price of ₹ 2,900/share (valuing at 11.5x CY23E EV/EBITDA implying an EV/t of ~\$159).

Exhibit 3: Valuation matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/Tonne (\$)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY19	15407.0	6.4	35.0	12.0	67.1	169.0	18.3	12.6	14.0
CY20	13785.7	-10.5	76.1	117.3	27.5	159.3	15.8	12.6	14.7
CY21	16151.6	17.2	99.1	30.3	23.0	147.3	11.9	13.4	17.6
CY22E	17768.4	10.0	77.5	-21.8	30.3	134.5	14.5	9.5	12.7
CY23E	19253.4	8.4	136.1	75.6	17.3	121.2	8.6	14.8	19.7

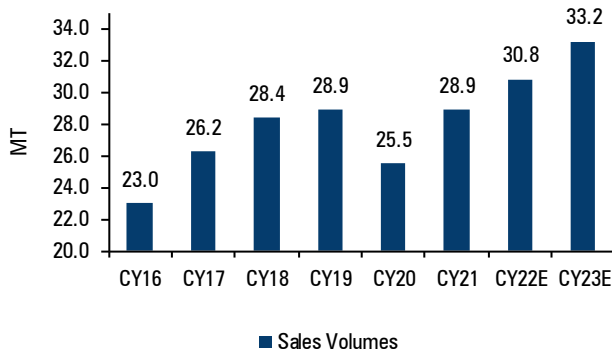
Source: Company, ICICI Direct Research

Exhibit 4: Capacity addition plans

Capacity	MT	Expected commissioning
Existing	36.1	
Planned capacity addition:		
Uttar Pradesh (2 Grinding units)	2.2	Jan-24
Tikaria Unit, UP (Brownfield) - Commissioned in Feb'22	-	
Ametha, MP (Integrated unit with 2.7MT Clinker capacity)	1.0	Dec-22
Sindri (brownfield) - commissioned	-	
Total	3.2	
Total capacity post expansion (MT)	39.3	

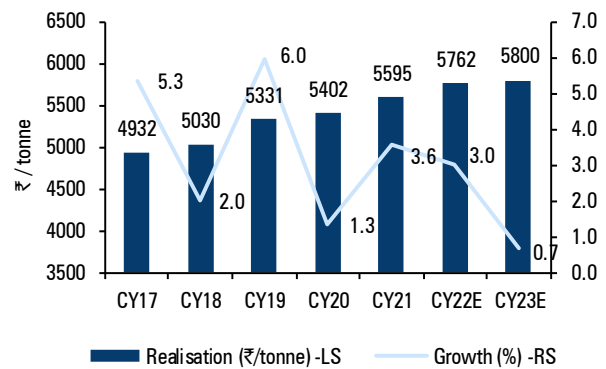
Source: Company, ICICI Direct Research

Exhibit 5: Volumes to grow at 7.2% CAGR during CY21-23E



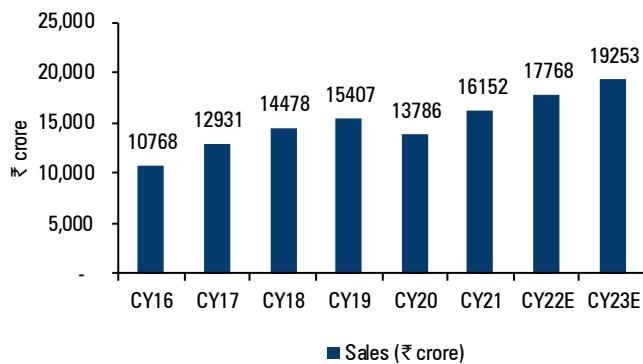
Source: Company, ICICI Direct Research

Exhibit 6: Expect realisations to improve gradually



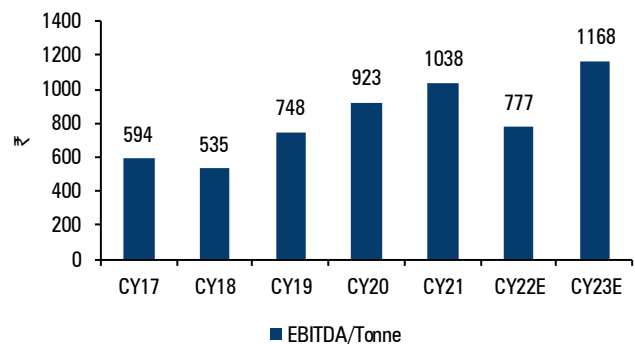
Source: Company, ICICI Direct Research

Exhibit 7: Expect revenue CAGR of 9.2% over CY21-23E



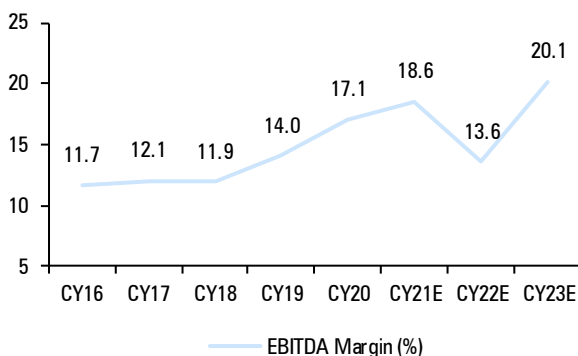
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA/t to witness sharp recovery from CY23E



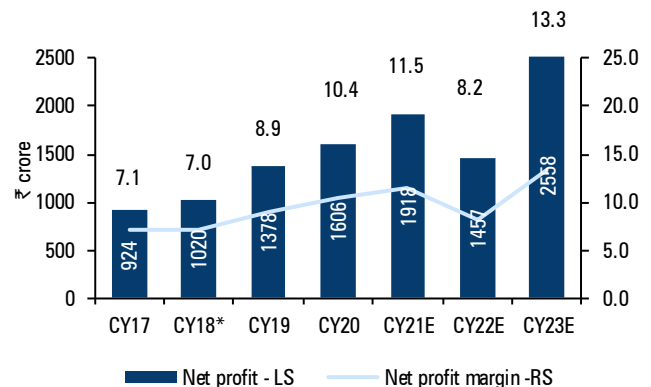
Source: ICICI Direct Research, Company

Exhibit 9: Margins trend



Source: Company, ICICI Direct Research

Exhibit 10: PAT trajectory to improve post cooling off of fuel price



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement					₹ crore
(Year-end March)	CY20	CY21	CY22E	CY23E	
Total operating income	13,785.7	16,151.6	17,768.4	19,253.4	
Growth (%)	-10.5	17.2	10.0	8.4	
Raw material	2512.6	2866.5	3226.5	4149.4	
Power & Fuel	2574.7	3364.8	4749.2	3818.5	
Employees	840.8	836.2	856.4	917.5	
Freight	3416.1	3823.0	4072.0	3735.0	
Others	2086.5	2263.2	2452.0	2755.2	
Total Operating Exp.	11,430.7	13,153.6	15,356.0	15,375.6	
EBITDA	2,355.0	2,998.1	2,412.3	3,877.8	
Growth (%)	8.9	27.3	-19.5	60.7	
Depreciation	638.8	600.7	653.4	723.4	
Interest	57.1	54.6	55.5	65.3	
Other Income	216.7	206.7	242.4	332.2	
Exceptional items	176.0	54.8	0.0	0.0	
PBT	1,699.8	2,494.7	1,945.8	3,421.2	
Total Tax	278.6	643.4	501.6	872.4	
PAT	1,430.2	1,863.0	1,456.9	2,558.2	
Adjusted PAT	1,606.2	1,917.7	1,456.9	2,558.2	
Growth (%)	16.6	19.4	-24.0	75.6	
Reported EPS (₹)	76.1	99.1	77.5	136.1	

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement					₹ crore
(Year-end March)	CY20	CY21	CY22E	CY23E	
Profit after Tax	1,430.2	1,863.0	1,456.9	2,558.2	
Add: Depreciation	638.8	600.7	653.4	723.4	
(Inc)/dec in Current Assets	1,876.8	-415.6	-503.4	-218.9	
Inc/(dec) in CL and Prov.	85.9	1,202.4	-34.1	585.5	
CF from operating activities	4,031.7	3,250.4	1,572.8	3,648.3	
(Inc)/dec in Investments	-788.9	-153.9	0.0	0.0	
(Inc)/dec in Fixed Assets	-238.5	-1,330.7	-1,500.0	-1,400.0	
Others	-253.9	-1.1	0.0	0.0	
CF from investing activities	-1,281.3	-1,485.6	-1,500.0	-1,400.0	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	84.0	17.4	-101.4	0.0	
Dividend paid & dividend tax	-307.8	-307.8	-439.7	-549.6	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	33.0	54.0	0.0	0.0	
CF from financing activities	-190.8	-236.4	-541.1	-549.6	
Net Cash flow	2,559.6	1,528.4	-468.3	1,698.7	
Opening Cash	4,647.8	6,192.0	7,731.6	8,267.5	
Closing Cash	7,207.3	7,720.4	7,263.3	9,966.2	

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet					₹ crore
(Year-end March)	CY20	CY21	CY22E	CY23E	
Liabilities					
Equity Capital	188.0	188.0	188.0	188.0	
Reserve and Surplus	12,511.2	14,120.4	15,137.6	17,146.2	
Total Shareholders funds	12,699.1	14,308.3	15,325.6	17,334.2	
Total Debt	84.0	101.4	0.0	0.0	
Other Liabilities	398.0	407.1	407.1	407.1	
Total Liabilities	13,181.2	14,816.8	15,732.6	17,741.2	
Assets					
Gross Block	15,436.4	16,070.1	17,015.1	19,615.1	
Less: Acc Depreciation	8,928.0	9,528.7	10,182.1	10,905.5	
Net Block	6,508.4	6,541.4	6,833.0	8,709.6	
Capital WIP	548.1	1,245.0	1,800.0	600.0	
Total Fixed Assets	7,056.5	7,786.5	8,633.0	9,309.6	
Investments + Goodwill	913.7	1,077.7	1,077.7	1,077.7	
Inventory	901.3	1,273.9	1,354.8	1,599.1	
Debtors	451.4	489.0	582.0	578.5	
Other assets	654.2	595.2	779.2	710.0	
Misc assets	1,016.1	1,080.4	1,225.9	1,273.2	
Cash	6,192.0	7,731.6	8,267.5	9,966.2	
Total Current Assets	9,214.9	11,170.1	12,209.4	14,127.0	
Creditors	4,448.8	5,323.9	5,288.4	5,788.9	
Provisions	570.4	897.7	899.0	984.1	
Total Current Liabilities	5,019.2	6,221.6	6,187.5	6,773.0	
Net Current Assets	4,195.7	4,948.5	6,022.0	7,354.0	
Application of Funds	13,181.2	14,816.8	15,732.6	17,741.2	

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	CY20	CY21	CY22E	CY23E
Per share data (₹)				
EPS	76.1	99.1	77.5	136.1
Cash EPS	110.1	131.1	112.3	174.6
BV	675.8	761.5	815.6	922.5
DPS	14.0	14.0	0.0	0.0
Cash Per Share	329.5	411.5	440.0	530.4
Operating Ratios (%)				
EBITDA Margin	17.1	18.6	13.6	20.1
PAT Margin	10.4	11.5	8.2	13.3
Inventory days	27.0	24.6	27.0	28.0
Debtor days	14.3	10.6	11.0	11.0
Creditor days	116.2	110.4	109.0	105.0
Return Ratios (%)				
RoE	12.6	13.4	9.5	14.8
RoCE	14.7	17.6	12.7	19.7
Valuation Ratios (x)				
P/E	30.9	23.7	30.3	17.3
EV / EBITDA	15.8	11.9	14.5	8.6
EV / Net Sales	2.7	2.2	2.0	1.7
Market Cap / Sales	3.2	2.7	2.5	2.3
Price to Book Value	3.5	3.1	2.9	2.5
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	2.0	2.1
Quick Ratio	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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