

October 17, 2022

**RESULT REPORT Q3 CY22** | Sector: Cement

# ACC Ltd

## Performance missed on all front

### Result Synopsis

ACC Ltd (ACC) reported weak operational performance as EBITDA margin declined to 0.4% v/s YSEC est. of 8.6% due to inflating total cost/te by +25% y/y and +8% q/q in Q3CY22. On account of ongoing monsoon, ACC volume & NSR corrected by 9.4% & 1.5% sequentially, while increased by 4.5% & 1.8% y/y owing to the newly added capacities resulted in revenue growth of 6% y/y to Rs39.9bn (v/s YSEC est. Rs41.8) in Q3CY22. ACC reported multi-quarter low EBITDA of Rs164mn declined by 98% y/y and 96% q/q translates in EBITDA/te of Rs23 in Q3CY22. The 9MCY22 operating cost/te increased by +20% y/y mainly due to unprecedented surge in power cost/te by +46% y/y to Rs1597 which declined the EBITDA/te by 58% y/y to Rs469. However, we expect full year EBITDA/te for CY22E to stand at Rs522 (earlier Rs678), owing to normalizing cost and higher NSR that will revive operating profits for Q4CY22E. ACC reported a net loss of Rs873mn declined by 1.2x y/y and 1.4x q/q in Q3CY22. Given the Q3CY22 operational performance, we have trimmed our EBITDA & PAT estimates for CY22E by 26/30% y/y respectively. However, we didn't change our earnings estimates for CY23E envisaging 1) Cost normalization 2) Improving operating efficiency 3) Incremental volumes. ACC is scaling up its green-power share (WHRS/Solar/ Wind capacity to 75/82/19MW) and alternative fuel usage coupled with debottlenecking of various plants that will aid ACC to improve EBITDA/te to Rs996 for CY23E. ACC recently commissioned Tikaria 1.6 MTPA GU, while other ongoing expansion of Ametha 2.7MTPA Clinker & 1MTPA Cement capacity and Salai Banwa 2.2MTPA are on track which would take total capacity to ~39MTPA by H1CY23E. Therefore, the recently added & upcoming capacity in the central market will improve the volume growth by +12% for CY23E. We recommend NEUTRAL rating with TP of Rs2,364 at 10x EV/EBITDA on CY23E.

### Result Highlights

- Ongoing monsoon softened volume & NSR by 9.4% & 1.5% sequentially, while increased by 4.5% & 1.8% y/y over newly added capacities resulting in revenue growth of 6% y/y (-11% q/q) to Rs39.9bn (v/s YSEC est. Rs41.8) in Q3CY22.
- RMC volume grew by 10% y/y (-10% q/q) to 0.75m<sup>3</sup> in Q3CY22.
- ACC reported +11% higher than expected total cost/te (+25% y/y and +8% q/q) mainly due to exceptional jump in RM/power & other cost/te by 12/11% & 13% q/q (30/60% & 7% y/y) in Q3CY22.
- ACC reported multi-quarter low EBITDA of Rs0.16bn declined by 98% y/y and 96% q/q translates in EBITDA/te of Rs23 in Q3CY22.
- ACC reported net loss of Rs0.87bn declined by 1.2x y/y and 1.4x q/q in Q3CY22.

### Exhibit 1: Actual vs estimates

| Rs Mn      | Actual | Estimate |           | % Variation |           | Remarks  |
|------------|--------|----------|-----------|-------------|-----------|--|
|            |        | YSec     | Consensus | YSec        | Consensus |  |
| Sales      | 39,873 | 41,803   | 41,642    | (4.6)       | (4.2)     | Topline stood close to our expectation, however higher than expected cost dented margins |
| EBITDA     | 164    | 3,610    | 3,390     | (95.5)      | (95.2)    |  |
| Margin (%) | 0.4    | 8.6      | 8.1       | (823 bps)   | (773 bps) |  |
| Adj. PAT   | (873)  | 1,577    | 2,206     | (155.4)     | (139.6)   |  |

Source: Company, YES Sec

|                  |                  |
|------------------|------------------|
| Reco             | : <b>NEUTRAL</b> |
| CMP              | : Rs 2,270       |
| Target Price     | : Rs 2,364       |
| Potential Return | : +4%            |

### Stock data (as on Oct 17, 2022)

|                         |               |
|-------------------------|---------------|
| Nifty                   | 17,312        |
| 52 Week h/l (Rs)        | 2785 / 1900   |
| Market cap (Rs/USD mn)  | 426296 / 5176 |
| Outstanding Shares (mn) | 188           |
| 6m Avg t/o (Rs mn):     | 1,751         |
| Div yield (%):          | 2.6           |
| Bloomberg code:         | ACC IN        |
| NSE code:               | ACC           |

### Stock performance



|                 | 1M     | 3M   | 1Y   |
|-----------------|--------|------|------|
| Absolute return | -13.1% | 6.1% | 1.0% |

### Shareholding pattern (As of Jun'22 end)

|          |       |
|----------|-------|
| Promoter | 54.5% |
| FII+DII  | 32.8% |
| Others   | 12.5% |

### Δ in stance

| (1-Yr)       | New     | Old   |
|--------------|---------|-------|
| Rating       | NEUTRAL | ADD   |
| Target Price | 2,364   | 2,385 |

### Δ in earnings estimates

|           | CY22e | CY23e |
|-----------|-------|-------|
| EPS (New) | 42    | 114   |
| EPS (Old) | 61    | 114   |
| % change  | (31%) | 0%    |

### Financial Summary

| (Rs mn)   | CY21    | CY22E   | CY23E   |
|-----------|---------|---------|---------|
| Revenue   | 161,517 | 175,862 | 197,791 |
| Growth    | 17.2    | 8.9     | 12.5    |
| EBITDA    | 29,981  | 16,159  | 34,676  |
| Margin %  | 18.6    | 9.2     | 17.5    |
| PAT       | 19,179  | 8,130   | 21,340  |
| Growth    | 10.5    | (57.6)  | 162.5   |
| ROE       | 13.8    | 5.5     | 13.5    |
| ROCE      | 18.3    | 7.6     | 17.6    |
| P/E       | 22.9    | 53.6    | 20.0    |
| EV/EBITDA | 11.7    | 22.2    | 9.7     |

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## Exhibit 2: Quarterly snapshot (Console)

| Particulars (Rs m)      | Q3CY21 | Q4CY21 | Q1CY22 | Q2CY22 | Q3CY22  | y/y (%)    | q/q (%)   | CY21    | CY20    | y/y (%) |
|-------------------------|--------|--------|--------|--------|---------|------------|-----------|---------|---------|---------|
| Net Revenue             | 37,490 | 42,258 | 44,265 | 44,684 | 39,873  | 6.4        | (10.8)    | 161,517 | 137,860 | 17.2    |
| Total Expenses          | 30,367 | 36,695 | 37,919 | 40,422 | 39,710  | 30.8       | (1.8)     | 131,536 | 113,020 | 16.4    |
| COGS                    | 6,242  | 9,940  | 9,006  | 8,385  | 8,491   | 36.0       | 1.3       | 28,665  | 30,023  | (4.5)   |
| Employee Expenses       | 2,170  | 2,036  | 1,931  | 2,168  | 2,113   | (2.6)      | (2.6)     | 8,362   | 8,412   | (0.6)   |
| Power & fuel            | 7,883  | 9,414  | 10,405 | 13,119 | 13,175  | 67.1       | 0.4       | 33,648  | 25,747  | 30.7    |
| Freight Exp             | 8,602  | 9,591  | 10,482 | 10,779 | 9,827   | 14.2       | (8.8)     | 38,230  | 29,263  | 30.6    |
| Other Expenses          | 5,471  | 5,714  | 6,095  | 5,971  | 6,104   | 11.6       | 2.2       | 22,632  | 19,575  | 15.6    |
| EBITDA                  | 7,123  | 5,563  | 6,347  | 4,262  | 164     | (97.7)     | (96.2)    | 29,981  | 24,840  | 20.7    |
| EBITDA (%)              | 19.0   | 13.2   | 14.3   | 9.5    | 0.4     | (1859 bps) | (913 bps) | 18.6    | 18.0    | 54bps   |
| D&A                     | 1,505  | 1,604  | 1,539  | 1,647  | 1,735   | 15.2       | 5.3       | 6,007   | 6,388   | (6.0)   |
| Other Income            | 633    | 539    | 585    | 539    | 697     | 10.2       | 29.5      | 2,067   | 2,167   | (4.6)   |
| Interest Expense        | 171    | 129    | 106    | 149    | 177     | 3.4        | 19.1      | 546     | 571     | (4.3)   |
| Exceptional/EO items    | -      | 548    | -      | -      | 163     |            |           | 548     | 3,049   | (82.0)  |
| Share JV/Associates     | 20     | 19     | 36     | 44     | 29      | 43.6       | (32.6)    | 117     | 89      | 30.5    |
| EBT                     | 6,100  | 3,839  | 5,323  | 3,049  | (1,184) | (119.4)    | (138.8)   | 25,064  | 17,089  | 46.7    |
| Tax                     | 1,597  | 1,031  | 1,360  | 775    | (311)   | (119.4)    | (140.0)   | 6,433   | 2,786   | 130.9   |
| Reported PAT            | 4,502  | 2,809  | 3,963  | 2,274  | (873)   | (119.4)    | (138.4)   | 18,631  | 14,303  | 30.3    |
| Less: Minority Interest | -      | -      | -      | -      | -       |            |           | -       | -       |         |
| Adj. PAT                | 4,502  | 2,809  | 3,963  | 2,274  | (873)   | (119.4)    | (138.4)   | 18,631  | 14,303  | 30.3    |

Source: Company, YES Sec

## Exhibit 3: Quarterly Operational Performance Analysis (Console)

| Particulars (Rs m)  | Q3CY21 | Q4CY21 | Q1CY22 | Q2CY22 | Q3CY22 | y/y (%) | q/q (%) | CY21  | CY20  | y/y (%) |
|---------------------|--------|--------|--------|--------|--------|---------|---------|-------|-------|---------|
| Total Volumes (MMT) | 6.8    | 7.7    | 8.0    | 7.9    | 7.1    | 4.5     | (9.4)   | 29.9  | 26.3  | 13.5    |
| NSR/te (Blended)    | 5,507  | 5,456  | 5,523  | 5,692  | 5,606  | 1.8     | (1.5)   | 5,407 | 5,237 | 3.2     |
| RM/te               | 917    | 1,283  | 1,124  | 1,068  | 1,194  | 30.2    | 11.8    | 960   | 1,141 | (15.9)  |
| Employees/te        | 319    | 263    | 241    | 276    | 297    | (6.8)   | 7.6     | 280   | 320   | (12.4)  |
| Power/te            | 1,158  | 1,215  | 1,298  | 1,671  | 1,852  | 60.0    | 10.8    | 1,126 | 978   | 15.2    |
| Freight/te          | 1,263  | 1,238  | 1,308  | 1,373  | 1,382  | 9.3     | 0.6     | 1,280 | 1,112 | 15.1    |
| Others/te           | 804    | 738    | 761    | 761    | 858    | 6.8     | 12.8    | 758   | 744   | 1.9     |
| Opex/te (Blended)   | 4,461  | 4,738  | 4,731  | 5,149  | 5,583  | 25.2    | 8.4     | 4,403 | 4,293 | 2.6     |
| EBITDA/te (Blended) | 1,046  | 718    | 792    | 543    | 23     | (97.8)  | (95.8)  | 1,004 | 944   | 6.4     |

Source: Company, YES Sec

**Exhibit 4: Annual Operational Performance Estimates (Console)**

| Particulars (Rs m)  | CY19  | CY20  | CY21  | CY22E | CY23E |
|---------------------|-------|-------|-------|-------|-------|
| Total Volumes (MMT) | 30.12 | 26.32 | 29.87 | 30.97 | 34.83 |
| NSR/the (Blended)   | 5,198 | 5,237 | 5,407 | 5,679 | 5,679 |
| RM/te               | 1,067 | 1,141 | 960   | 1,123 | 1,077 |
| Employees/te        | 288   | 320   | 280   | 271   | 252   |
| Power/te            | 1,040 | 978   | 1,126 | 1,622 | 1,258 |
| Freight/te          | 1,174 | 1,112 | 1,280 | 1,358 | 1,313 |
| Others/te           | 828   | 744   | 758   | 783   | 783   |
| EBITDA/te (Blended) | 801   | 944   | 1,004 | 522   | 996   |

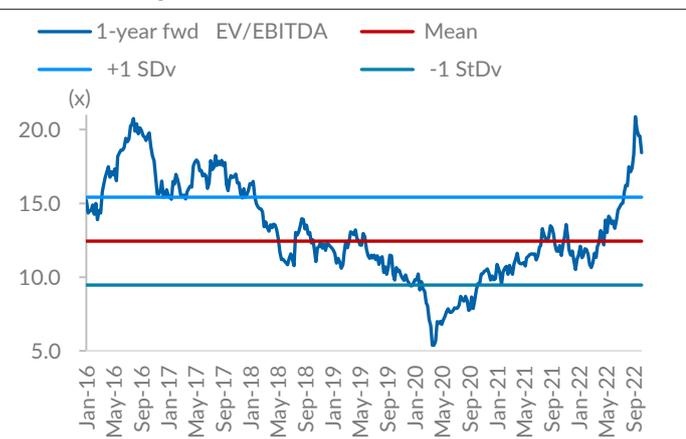
Source: Company, YES Sec

**Exhibit 5: Key Estimate Revision**

|          | CY22E   |         |        | CY23E   |         |        |
|----------|---------|---------|--------|---------|---------|--------|
|          | Old     | New     | Change | Old     | New     | Change |
| Revenues | 184,785 | 175,862 | -5%    | 198,713 | 197,791 | -0.5%  |
| EBITDA   | 21,952  | 16,159  | -26%   | 34,695  | 34,676  | -0.1%  |
| PAT      | 11,459  | 7,967   | -30%   | 21,397  | 21,340  | -0.3%  |
| EPS      | 61      | 42      | -31%   | 114     | 114     | -0.4%  |

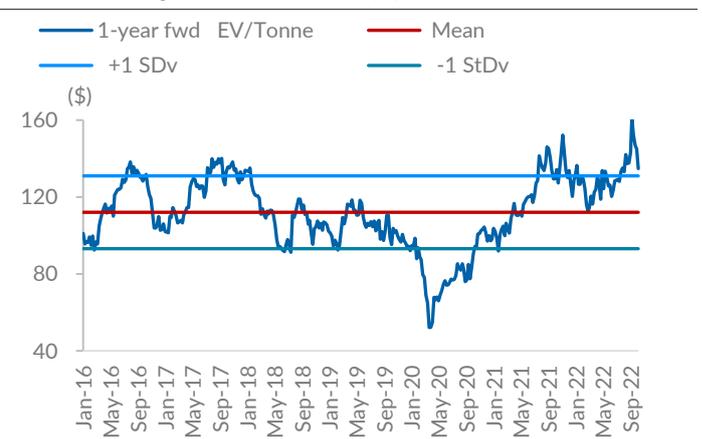
Source: Company, YES Sec

**Exhibit 6: 1-yr forward EV/EBITDA band**



Source: Company, YES Sec

**Exhibit 7: 1-yr forward EV/te (\$) band**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 8: Balance Sheet (Console)

| Y/e 31 Dec (Rs m)          | CY19           | CY20           | CY21           | CY22E          | CY23E          |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| Equity capital             | 1,880          | 1,880          | 1,880          | 1,880          | 1,880          |
| Reserves                   | 113,558        | 125,111        | 141,208        | 146,546        | 165,257        |
| <b>Net worth</b>           | <b>115,438</b> | <b>126,991</b> | <b>143,088</b> | <b>148,426</b> | <b>167,137</b> |
| Other LT Liabilities       | -              | 840            | 1,014          | 1,014          | 1,014          |
| LT provision.              | 2,351          | 2,148          | 2,156          | 2,156          | 2,156          |
| Minority interest          | 32             | 32             | 34             | 34             | 34             |
| Long-term Borrowing        | -              | -              | -              | -              | -              |
| Deferred tax liab (net)    | 6,557          | 3,948          | 4,037          | 4,037          | 4,037          |
| <b>Current Liabilities</b> |                |                |                |                |                |
| Sundry creditors           | 14,750         | 14,222         | 19,049         | 18,655         | 19,026         |
| Short-term Borrowing       | -              | -              | -              | -              | -              |
| Other current liabilities  | 31,999         | 33,662         | 40,855         | 40,855         | 40,855         |
| ST Provision               | 234            | 159            | 157            | 157            | 157            |
| <b>Total liabilities</b>   | <b>171,360</b> | <b>182,002</b> | <b>210,388</b> | <b>215,332</b> | <b>234,414</b> |
| <b>Assets</b>              |                |                |                |                |                |
| Fixed assets               | 69,769         | 65,084         | 65,414         | 84,593         | 80,711         |
| Intangible assets          | 4,799          | 5,941          | 14,496         | 4,956          | 4,956          |
| Investments                | 1,162          | 1,293          | 1,312          | 1,312          | 1,312          |
| Other Non-current Asset    | 20,128         | 25,097         | 25,435         | 25,435         | 25,435         |
| Deferred tax asset (net)   | -              | -              | -              | -              | -              |
| <b>Current Assets</b>      |                |                |                |                |                |
| Inventories                | 11,419         | 9,013          | 12,739         | 12,439         | 13,822         |
| Sundry debtors             | 6,267          | 4,514          | 4,890          | 7,227          | 8,128          |
| Other current assets       | 10,892         | 10,313         | 10,761         | 10,761         | 10,761         |
| ST. Loans & advances       | 290            | 590            | 66             | 66             | 66             |
| Cash                       | 46,633         | 60,159         | 75,275         | 68,543         | 89,222         |
| <b>Total assets</b>        | <b>171,360</b> | <b>182,002</b> | <b>210,388</b> | <b>215,332</b> | <b>234,414</b> |

Source: Company, YES Sec

## Exhibit 9: Income statement (Console)

| Y/e 31 Dec (Rs m)                | CY19           | CY20           | CY21           | CY22E          | CY23E          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                   | <b>156,576</b> | <b>137,860</b> | <b>161,517</b> | <b>175,862</b> | <b>197,791</b> |
| <b>Operating profit</b>          | <b>24,128</b>  | <b>24,840</b>  | <b>29,981</b>  | <b>16,159</b>  | <b>34,676</b>  |
| Depreciation & Amortization      | 6,064          | 6,388          | 6,007          | 7,075          | 8,881          |
| PBIT                             | 18,063         | 18,452         | 23,974         | 9,084          | 25,794         |
| Interest expense                 | 863            | 571            | 546            | 609            | 609            |
| Other income                     | 3,184          | 2,167          | 2,067          | 2,518          | 3,268          |
| <b>Profit before tax</b>         | <b>20,385</b>  | <b>20,049</b>  | <b>25,495</b>  | <b>10,993</b>  | <b>28,453</b>  |
| Taxes                            | 6,750          | 2,786          | 6,433          | 2,973          | 7,113          |
| Minorities/Share from Associates | (140)          | (89)           | (117)          | (109)          | -              |
| Exceptional items                | -              | (3,049)        | (548)          | (163)          | -              |
| <b>Reported profit</b>           | <b>13,775</b>  | <b>14,303</b>  | <b>18,631</b>  | <b>7,967</b>   | <b>21,340</b>  |
| <b>Adj. Net profit</b>           | <b>13,775</b>  | <b>17,352</b>  | <b>19,179</b>  | <b>8,130</b>   | <b>21,340</b>  |

Source: Company, YES Sec

## Exhibit 10: Cash Flow (Console)

| Y/e 31 Dec (Rs m)                          | CY19          | CY20          | CY21          | CY22E          | CY23E         |
|--|---------------|---------------|---------------|----------------|---------------|
| <b>Cash flow from operation</b>            |               |               |               |                |               |
| Profit before tax                          | 20,385        | 16,999        | 24,947        | 10,830         | 28,453        |
| Depreciation                               | 6,064         | 6,388         | 6,007         | 7,075          | 8,881         |
| Tax paid                                   | (6,750)       | (2,786)       | (6,433)       | (2,973)        | (7,113)       |
| Working capital Δ                          | 6,927         | 5,499         | 7,990         | (2,431)        | (1,913)       |
| Other operating items                      | 140           | 89            | 117           | 109            | -             |
| <b>Operating cashflow</b>                  | <b>26,767</b> | <b>26,190</b> | <b>32,628</b> | <b>12,611</b>  | <b>28,308</b> |
| <b>Cash flow from Investing Activities</b> |               |               |               |                |               |
| Capital expenditure                        | (5,929)       | (2,845)       | (14,892)      | (16,713)       | (5,000)       |
| Change in other non-current assets         | (2,314)       | (4,968)       | (339)         | -              | -             |
| <b>Free cash flow</b>                      | <b>18,524</b> | <b>18,377</b> | <b>17,397</b> | <b>(4,102)</b> | <b>23,308</b> |
| <b>Cash flow from Financing activities</b> |               |               |               |                |               |
| Equity raised                              | (472)         | (117)         | 474           | 379            | 379           |
| Investments                                | (121)         | (131)         | (19)          | -              | -             |
| Debt financing/disposal                    | -             | -             | -             | -              | -             |
| Dividends paid                             | (3,185)       | (2,632)       | (3,008)       | (3,008)        | (3,008)       |
| Other items                                | 761           | (1,971)       | 271           | -              | -             |
| <b>Net Δ in cash</b>                       | <b>15,508</b> | <b>13,526</b> | <b>15,116</b> | <b>(6,732)</b> | <b>20,679</b> |

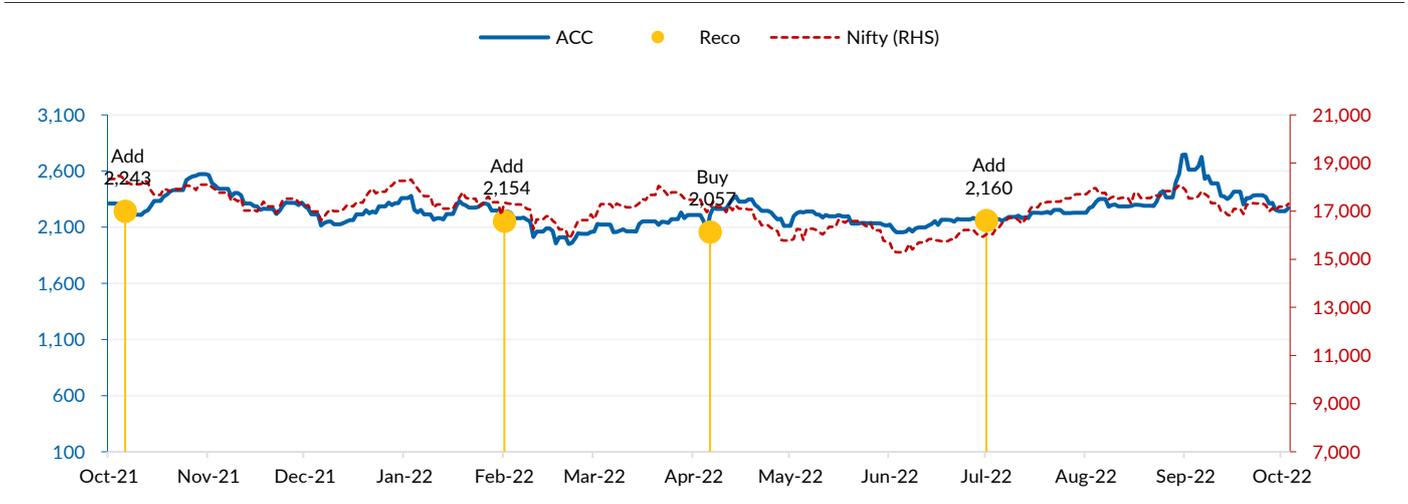
Source: Company, YES Sec

## Exhibit 11: Ratio Analysis (Console)

| Y/e 31 Dec                      | CY19   | CY20   | CY21   | CY22E  | CY23E  |
|---------------------------------|--------|--------|--------|--------|--------|
| <b>Growth matrix (%)</b>        |        |        |        |        |        |
| Revenue growth                  | 5.8    | (12.0) | 17.2   | 8.9    | 12.5   |
| Op profit growth                | 17.8   | 3.0    | 20.7   | (46.1) | 114.6  |
| EBIT growth                     | 33.8   | (3.0)  | 26.3   | (55.4) | 150.5  |
| PBT growth                      | 35.9   | (1.7)  | 27.2   | (56.9) | 158.8  |
| EPS growth                      | (9.4)  | 3.8    | 30.3   | (57.2) | 167.9  |
| <b>Profitability ratios (%)</b> |        |        |        |        |        |
| OPM                             | 15.4   | 18.0   | 18.6   | 9.2    | 17.5   |
| EBIT margin                     | 13.6   | 15.0   | 16.1   | 6.6    | 14.7   |
| Net profit margin               | 8.8    | 10.4   | 11.5   | 4.5    | 10.8   |
| RoCE                            | 17.9   | 16.0   | 18.3   | 7.6    | 17.6   |
| RoNW                            | 11.9   | 11.8   | 13.8   | 5.5    | 13.5   |
| RoA                             | 8.0    | 8.1    | 9.5    | 3.7    | 9.5    |
| <b>Per share ratios (Rs)</b>    |        |        |        |        |        |
| EPS                             | 73     | 76     | 99     | 42     | 114    |
| Dividend per share              | 14     | 14     | 16     | 16     | 16     |
| Cash EPS                        | 41     | 42     | 67     | 5      | 66     |
| Book value per share            | 614    | 676    | 761    | 790    | 889    |
| <b>Payout (%)</b>               |        |        |        |        |        |
| Dividend payout                 | 23.1   | 18.4   | 16.1   | 37.8   | 14.1   |
| Tax payout                      | 33.1   | 13.9   | 25.2   | 27.0   | 25.0   |
| <b>Liquidity ratios</b>         |        |        |        |        |        |
| Debtor days                     | 15     | 12     | 11     | 15     | 15     |
| Inventory days                  | 27     | 24     | 29     | 26     | 26     |
| Creditor days                   | 34     | 38     | 43     | 39     | 35     |
| <b>Leverage ratios (x)</b>      |        |        |        |        |        |
| Interest coverage               | 24.6   | 36.1   | 47.7   | 19.1   | 47.7   |
| Net debt / equity               | (0.40) | (0.47) | (0.53) | (0.46) | (0.53) |
| Net debt / EBITDA               | (1.93) | (2.42) | (2.51) | (4.24) | (2.57) |

Source: Company, YES Sec

## Recommendation Tracker



## DISCLAIMER

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