# ACC

Cement

## A decent Q show; attractive valuation

ACC had a decent performance in Q2FY24 with EBITDA/t at INR 677 (4% below estimates), down 17% QoQ mainly due to seasonal low-operating leverage. While realisation disappointed, falling 1.2% QoQ, the underlying price improvement across regions is driving ~3% upwards revision to each of our FY24E and FY25E EBITDA estimates. In the backdrop of – a) improving pricing environment; b) volume gains from the recently commissioned 3.3mtpa clinker facility in Central India; c) a strong balance sheet (net cash of >INR 36bn) and d) RoEs of ~12% - current valuations of 9.1x FY25E and 8.2x FY26E EV/EBITDA appear extremely attractive. Hence, we upgrade ACC to **BUY** (*Add* earlier) keeping valuation multiple of 12.5x unchanged. Rolling over valuations to Q2FY26E yields us a target price of INR 2,451 (INR 2, 338 earlier).

### Margins slip 240bps QoQ; recovery appears imminent

ACC's volumes raced 18% YoY to 8.1mn tonnes (down 14% QoQ, being 7.5% below estimate), while realisation slipped 1.2% QoQ (vs our expectation of a 0.5% drop) in Q2FY24. Total variable cost/t eased 2.3% QoQ i.e. by INR 93/t. While fixed cost rose 6% QoQ (scheduled high maintenance), on a per tonne basis, the impact appears amplified (up 23% QoQ) due to seasonal low operating leverage in Q2. As a result, EBITDA/t at INR 677 fell 17% QoQ (YoY is not comparable due to extremely low base). While margin has slipped 240bps QoQ to 12.4%, handsome recovery appears imminent owing to the recent price hikes in most regions. Factoring the same, we raise our FY24E and FY25E EBIDTA by nearly 3% each. Assuming a flat EBITDA/t YoY, we also introduce FY26E EBIDTA, implying 3% YoY growth.

### Price improvement + attractive valuations; upgrade to BUY

Cement prices are looking up, across regions, after a gap of nearly a year and our channel checks suggest this shall sustain in the near term. ACC's efforts towards efficiency enhancement (60bps reduction in clinker factor and increasing share of WHRS power) complement its strong balance sheet (net cash per share of INR 193) and stable RoEs of ~12%. With current valuations appearing extremely attractive, we upgrade ACC to **BUY** (***Add*** earlier). We have kept the valuation multiple unchanged factoring concerns around the long-term sustainability of the price hikes. A sharp drop in cement prices remains the key risk to our recommendation.

### Financial Summary

| Y/E March (Rs mn) | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Net Revenue | 2,22,100 | 2,05,273 | 2,19,933 | 2,28,427 |
| EBITDA | 19,190 | 30,046 | 32,805 | 33,937 |
| EBITDA (%) | 8.6 | 14.6 | 14.9 | 14.9 |
| Net Profit | 9,890 | 18,416 | 19,892 | 21,664 |
| EPS (Rs) | 52.6 | 98.0 | 105.8 | 115.3 |
| EPS % Chg YoY | - | - | 8.0 | 8.9 |
| P/E (x) | 36.1 | 19.4 | 18.0 | 16.5 |
| EV/EBITDA (x) | 17.0 | 10.4 | 9.1 | 8.2 |
| RoCE (%) | 5.9 | 10.7 | 10.7 | 10.0 |
| RoE (%) | 7.0 | 12.4 | 12.0 | 11.8 |

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**Market Data**

| | |
|---|---|
| Market Cap (INR) | 357bn |
| Market Cap (USD) | 4,286mn |
| Bloomberg Code | ACC IN |
| Reuters Code | ACC.BO |
| 52-week Range (INR) | 2,675 /1,592 |
| Free Float (%) | 43.0 |
| ADTV-3M (mn) (USD) | 16.8 |

| Price Performance (%) | 3m | 6m | 12m |
|---|---|---|---|
| Absolute | (1.2) | 9.8 | (15.0) |
| Relative to Sensex | 3.8 | 4.0 | (22.6) |

| ESG Disclosure | 2021 | 2022 | Change |
|---|---|---|---|
| ESG score | 66.0 | - | - |
| Environment | 54.9 | - | - |
| Social | 58.3 | - | - |
| Governance | 84.9 | - | - |

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

| Earnings Revisions (%) | FY24E | FY25E |
|---|---|---|
| Revenue | (0.7) | 0.1 |
| EBITDA | 3.5 | 3.2 |
| EPS | 8.9 | 1.6 |

**Previous Reports**

30-07-2023: Q1FY24 results review

28-04-2023: Q4FY23 results review

## Exhibit 1: Q2FY24 result review

| INR mn | Q2FY24 | Q3CY22 | YoY (%) | Q1FY24 | QoQ (%) | Q2FY24E | Variance |
|---|---|---|---|---|---|---|---|
| Volume Sales (mt) | 8.10 | 6.85 | 18.2 | 9.40 | (13.8) | 8.77 | (7.6) |
| Blended cement realisation (INR/te) | 5,475 | 5,821 | (5.9) | 5,533 | (1.1) | 5,524 | (0.9) |
| **Net Sales** | **44,347** | **39,873** | **11.2** | **52,011** | **(14.7)** | **48,438** | **(8.4)** |
| Raw Materials | 12,945 | 8,495 | 52.4 | 14,289 | (9.4) | 13,470 | (3.9) |
| Personnel Cost | 1,948 | 2,107 | (7.6) | 1,970 | (1.1) | 1,626 | 19.8 |
| Power fuel costs | 8,857 | 13,166 | (32.7) | 11,239 | (21.2) | 10,346 | (14.4) |
| Outward freight | 9,533 | 9,877 | (3.5) | 11,705 | (18.6) | 10,918 | (12.7) |
| Other Expenses | 5,581 | 6,074 | (8.1) | 5,118 | 9.0 | 5,924 | (5.8) |
| **Total Expenses** | **38,863** | **39,719** | **(2.2)** | **44,321** | **(12.3)** | **42,285** | **(8.1)** |
| **EBITDA** | **5,484** | **154** | **NA** | **7,690** | **(28.7)** | **6,154** | **(10.9)** |
| **EBITDA / te (INR)** | **677** | **23** | **NA** | **818** | **(17.2)** | **702** | **(3.5)** |
| **Cost/te** | **4,798** | **5,798** | **(17.3)** | **4,715** | **1.8** | **4,823** | **(0.5)** |
| Interest | 288 | 177 | 63.0 | 251 | 15.0 | 180 | 59.8 |
| Depreciation | 2,118 | 1,726 | 22.7 | 1,991 | 6.4 | 2,061 | 2.8 |
| Other Income | 2,079 | 688 | 202.0 | 782 | 165.7 | 797 | 160.7 |
| **Recurring pre-tax income** | **5,156** | **(1,060)** | **NA** | **6,231** | **(17.3)** | **4,710** | **9.5** |
| Extraordinary inc/(exp) | - | (163) | NA | - | NA | - | NA |
| Taxation | 1,313 | (312) | NA | 1,592 | (17.5) | 1,225 | 7.2 |
| **Reported Net Income** | **3,843** | **(911)** | **NA** | **4,639** | **(17.2)** | **3,485** | **10.3** |
| **Recurring Net Income** | **3,843** | **(748)** | **NA** | **4,639** | **(17.2)** | **3,485** | **10.3** |
| | | | | | | | |
| **Ratios (%)** | | | bps | | bps | | bps |
| EBITDA margins | 12.4 | 0.4 | NA | 14.8 | -242 | 12.7 | -34 |
| Net profit margins | 8.7 | (1.9) | NA | 8.9 | -25 | 7.2 | 147 |

Source: I-Sec research, Company data

## Exhibit 2: Historical quarterly analysis

| INR/te | Q3CY22 | Q4CY22 | Q5FY23 | Q1FY24 | Q2FY24 |
|---|---|---|---|---|---|
| **Cement realisations including RMC** | **5,821** | **5,892** | **5,636** | **5,533** | **5,475** |
| *Growth % (YoY)* | *2.0* | *4.4* | *(1.8)* | *(6.4)* | *(5.9)* |
| Raw material with stock adjustment | 1,240 | 1,673 | 1,856 | 1,520 | 1,598 |
| Staff costs | 308 | 266 | 249 | 162 | 240 |
| Power & fuel costs | 1,922 | 1,466 | 1,108 | 1,196 | 1,093 |
| Outward freight | 1,442 | 1,308 | 1,219 | 1,245 | 1,177 |
| Other expenditure | 887 | 687 | 655 | 592 | 689 |
| **Total expenses** | **5,798** | **5,401** | **5,088** | **4,715** | **4,798** |
| Other operating income | - | - | - | - | - |
| **EBITDA** | **23** | **491** | **549** | **818** | **677** |

Source: I-Sec research, Company data

## Exhibit 3: Performance trend and assumptions

| | CY19 | CY20 | CY21 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Capacity ('000te) | 33,400 | 33,400 | 34,800 | 36,400 | 37,400 | 39,400 | 39,400 |
| *Capacity utilisation (%)* | *87* | *77* | *83* | *105* | *99* | *100* | *103* |
| Sales ('000te) | 28,900 | 25,560 | 28,870 | 38,320 | 36,973 | 39,415 | 40,597 |
| *Growth (%)* | *2* | *(12)* | *13* | *NA* | *NA* | *7* | *3* |
| Realisation (INR/te) – blended | 5,418 | 5,393 | 5,595 | 5,796 | 5,552 | 5,580 | 5,627 |
| *Growth (%)* | *4* | *(0)* | *4* | *NA* | *NA* | *1* | *1* |

Source: I-Sec research, Company data

## Exhibit 4: Per-tonne estimate analysis

| (INR/te) | CY19 | CY20 | CY21 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|---|
| Net realisation including RMC | 5,418 | 5,393 | 5,595 | 5,796 | 5,552 | 5,580 | 5,627 |
| Raw materials consumed | 941 | 983 | 993 | 1,424 | 1,560 | 1,530 | 1,530 |
| Power & fuel costs | 1,084 | 1,006 | 1,164 | 1,497 | 1,139 | 1,159 | 1,194 |
| Freight costs | 1,401 | 1,343 | 1,332 | 1,349 | 1,230 | 1,264 | 1,270 |
| Other expenses | 859 | 815 | 786 | 755 | 597 | 579 | 571 |
| **Total operating expenses** | **4,584** | **4,475** | **4,564** | **5,295** | **4,739** | **4,748** | **4,791** |
| Other operating income | 433 | 482 | 471 | 235 | - | - | - |
| **Blended EBITDA** | **834** | **918** | **1,031** | **501** | **813** | **832** | **836** |

Source: I-Sec research, Company data

## Exhibit 5: Valuations based on 12.5x Sep'25E EV/E

| Particulars | Sep'25 |
|---|---|
| Assumed EV/EBITDA multiple (x) | 12.5 |
| EBITDA (INR mn) | 33,340 |
| EV (INR mn) | 4,16,751 |
| Less: Net debt (INR mn) | -43,830 |
| Mcap (INR mn) | 4,60,581 |
| Shares o/s (mn) | 188 |
| Value per share (INR) | 2,451 |

Source: I-Sec research, Company data

## Exhibit 6: Earnings revision

| INR mn | FY24E | | | FY25E | | |
|---|---|---|---|---|---|---|
| | Revised | Earlier | % chg | Revised | Earlier | % chg |
| Revenue | 2,05,273 | 2,06,821 | (0.7) | 2,19,933 | 2,19,711 | 0.1 |
| EBITDA | 30,046 | 29,034 | 3.5 | 32,805 | 31,792 | 3.2 |
| Recurring PAT | 18,416 | 16,906 | 8.9 | 19,892 | 19,570 | 1.6 |

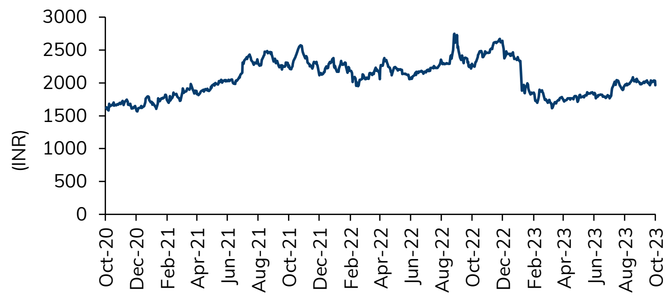
Source: I-Sec research

## Exhibit 7: Shareholding pattern

| % | Mar'23 | Jun'23 | Sep'23 |
|---|---|---|---|
| Promoters | 56.7 | 56.7 | 56.7 |
| Institutional investors | 29.6 | 29.3 | 29.1 |
| MFs and others | 8.9 | 9.3 | 12.5 |
| FIs/Banks | 0.0 | 0.0 | 0.2 |
| Insurance | 8.7 | 8.8 | 9.3 |
| FIIs | 12.0 | 11.2 | 7.1 |
| Others | 13.7 | 14.0 | 14.2 |

Source: Bloomberg

## Exhibit 8: Price chart




Source: Bloomberg

# Financial Summary

## Exhibit 9: Profit & Loss

(Rs mn, year ending March)

| | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| **Net Sales** | **2,22,100** | **2,05,273** | **2,19,933** | **2,28,427** |
| Operating Expenses | 2,02,910 | 1,75,226 | 1,87,128 | 1,94,490 |
| **EBITDA** | **19,190** | **30,046** | **32,805** | **33,937** |
| EBITDA Margin (%) | 8.6 | 14.6 | 14.9 | 14.9 |
| Depreciation & Amortization | 8,351 | 8,674 | 9,144 | 9,247 |
| EBIT | 10,839 | 21,372 | 23,661 | 24,690 |
| Interest expenditure | 772 | 1,078 | 1,100 | 1,122 |
| Other Non-operating Income | 3,372 | 4,426 | 4,139 | 5,511 |
| **Recurring PBT** | **13,439** | **24,720** | **26,701** | **29,079** |
| **Profit / (Loss) from Associates** | - | - | - | - |
| Less: Taxes | 3,122 | 6,304 | 6,809 | 7,415 |
| PAT | 10,317 | 18,416 | 19,892 | 21,664 |
| Less: Minority Interest | - | - | - | - |
| Extraordinaries (Net) | 1,190 | - | - | - |
| **Net Income (Reported)** | **8,699** | **18,416** | **19,892** | **21,664** |
| **Net Income (Adjusted)** | **9,890** | **18,416** | **19,892** | **21,664** |

Source Company data, I-Sec research

## Exhibit 10: Balance sheet

(Rs mn, year ending March)

| | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| Total Current Assets | 80,939 | 95,504 | 1,12,676 | 1,31,848 |
| of which cash & cash eqv. | 31,440 | 43,830 | 59,656 | 78,122 |
| Total Current Liabilities & Provisions | 55,962 | 56,743 | 56,999 | 57,619 |
| **Net Current Assets** | **24,977** | **38,760** | **55,677** | **74,229** |
| Investments | 1,927 | 1,927 | 1,927 | 1,927 |
| Net Fixed Assets | 68,833 | 85,159 | 89,503 | 91,484 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | 24,471 | 11,039 | 7,039 | 5,539 |
| Total Intangible Assets | 2,044 | 2,044 | 2,044 | 2,044 |
| Other assets | 24,814 | 24,814 | 24,814 | 24,814 |
| Deferred Tax assets | - | - | - | - |
| **Total Assets** | **1,47,066** | **1,63,744** | **1,81,005** | **2,00,038** |
| **Liabilities** | | | | |
| **Borrowings** | - | - | - | - |
| **Deferred Tax Liability** | **3,827** | **3,827** | **3,827** | **3,827** |
| provisions | 2,143 | 2,143 | 2,143 | 2,143 |
| other Liabilities | 1,014 | 1,014 | 1,014 | 1,014 |
| Equity Share Capital | 1,880 | 1,880 | 1,880 | 1,880 |
| Reserves & Surplus | 1,38,202 | 1,54,880 | 1,72,141 | 1,91,174 |
| **Total Net Worth** | **1,40,082** | **1,56,760** | **1,74,021** | **1,93,054** |
| Minority Interest | - | - | - | - |
| **Total Liabilities** | **1,47,066** | **1,63,744** | **1,81,005** | **2,00,038** |

Source Company data, I-Sec research

## Exhibit 11: Quarterly trend

(INR mn, year ending March)

| | Dec-22 | Mar-23 | Jun-23 | Sep-23 |
|---|---|---|---|---|
| Net Sales | 45,370 | 47,908 | 52,011 | 44,347 |
| % growth (YOY) | 7.4 | 8.2 | 16.4 | 11.2 |
| EBITDA | 3,783 | 4,663 | 7,690 | 5,484 |
| Margin % | 8.3 | 9.7 | 14.8 | 12.4 |
| Other Income | 407 | 1,173 | 782 | 2,079 |
| Extraordinaries | (791) | (664) | 0 | 0 |
| Adjusted Net Profit | 1,895 | 3,030 | 4,639 | 3,843 |

Source Company data, I-Sec research

## Exhibit 12: Cashflow statement

(Rs mn, year ending March)

| | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| **Operating Cashflow** | **17,050** | **27,090** | **29,036** | **30,911** |
| Working Capital Changes | (24,975) | (1,394) | (1,091) | (87) |
| Capital Commitments | (21,176) | (11,568) | (9,488) | (9,728) |
| **Free Cashflow** | **(29,101)** | **14,128** | **18,457** | **21,097** |
| **Other investing cashflow** | **(2,600)** | **-** | **-** | **-** |
| Cashflow from Investing Activities | (23,776) | (11,568) | (9,488) | (9,728) |
| Issue of Share Capital | - | - | - | - |
| Interest Cost | - | - | - | - |
| Inc (Dec) in Borrowings | - | - | - | - |
| Dividend paid | (10,901) | (1,739) | (2,631) | (2,631) |
| Others | - | - | - | - |
| Cash flow from Financing Activities | (10,901) | (1,739) | (2,631) | (2,631) |
| **Chg. in Cash & Bank balance** | **(42,602)** | **12,390** | **15,826** | **18,465** |
| Closing cash & balance | 31,440 | 43,830 | 59,656 | 78,122 |

Source Company data, I-Sec research

## Exhibit 13: Key ratios

(Year ending March)

| | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|
| **Per Share Data (INR)** | | | | |
| Reported EPS | 52.6 | 98.0 | 105.8 | 115.3 |
| Adjusted EPS (Diluted) | 52.6 | 98.0 | 105.8 | 115.3 |
| Cash EPS | 97.0 | 144.1 | 154.5 | 164.5 |
| Dividend per share (DPS) | 9.3 | 14.0 | 14.0 | 14.0 |
| Book Value per share (BV) | 745.3 | 834.1 | 925.9 | 1,027.2 |
| Dividend Payout (%) | 17.6 | 14.3 | 13.2 | 12.1 |
| | | | | |
| **Growth (%)** | | | | |
| Net Sales | - | - | 7.1 | 3.9 |
| EBITDA | - | - | 9.2 | 3.5 |
| EPS (INR) | - | - | 8.0 | 8.9 |
| | | | | |
| **Valuation Ratios (x)** | | | | |
| P/E | 36.1 | 19.4 | 18.0 | 16.5 |
| P/CEPS | 19.6 | 13.2 | 12.3 | 11.6 |
| P/BV | 2.5 | 2.3 | 2.1 | 1.8 |
| EV / EBITDA | 17.0 | 10.4 | 9.1 | 8.2 |
| EV / te (USD) | 110.4 | 99.7 | 90.9 | 85.3 |
| Dividend Yield (%) | 0.5 | 0.7 | 0.7 | 0.7 |
| | | | | |
| **Operating Ratios** | | | | |
| Gross Profit Margins (%) | 75.4 | 71.9 | 72.6 | 72.8 |
| EBITDA Margins (%) | 8.6 | 14.6 | 14.9 | 14.9 |
| Effective Tax Rate (%) | 23.2 | 25.5 | 25.5 | 25.5 |
| Net Profit Margins (%) | 4.5 | 9.0 | 9.0 | 9.5 |
| NWC / Total Assets (%) | 17.0 | 23.7 | 30.8 | 37.1 |
| Net Debt / Equity (x) | (0.2) | (0.3) | (0.3) | (0.4) |
| Net Debt / EBITDA (x) | (1.6) | (1.5) | (1.8) | (2.3) |
| | | | | |
| **Profitability Ratios** | | | | |
| RoCE (%) (Post Tax) | 5.9 | 10.7 | 10.7 | 10.0 |
| RoE (%) | 7.0 | 12.4 | 12.0 | 11.8 |
| RoIC (%) | 12.3 | 17.3 | 18.2 | 19.6 |
| Fixed Asset Turnover (x) | 3.3 | 2.7 | 2.5 | 1.0 |
| Inventory Turnover Days | 50 | 59 | 57 | 26 |
| Receivables Days | 11 | 15 | 15 | 16 |
| Payables Days | 58 | 55 | 53 | 24 |

Source Company data, I-Sec research

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