

18 May 2024

India | Equity Research | Company Update

ACC

Cement

Even keel in choppy seas

In current times of cement price weakness (hikes attempted in Apr'24 have not only reversed but prices have slipped further in May'24), ACC appears a compelling bet given- a) limited risk of earnings downgrade due to demonstrated cost savings and potent volume benefit from fellow subsidiary Sanghi Industries (under MSA); b) imminent ordering of 4mtpa clinker line in South India, in the near term, offering growth visibility. Further, in the backdrop of - c) it being a beneficiary of the INR 530/t cost saving guidance given by parent Ambuja Cement (ACEM, by FY28); d) strong balance sheet (net cash being ~10% of market cap) and healthy RoEs (13-15%); e) odds of eventual consolidation with parent ACEM (over the long term, in our view) and f) undemanding current valuation of <10x FY26E EV/EBITDA – ACC appears evenly keeled to tide the choppy sector outlook. Maintain **BUY** with TP of INR 3,272.

Cement price slips further in May'24; ACC relatively immune

Contrary to expectations, cement price hikes attempted in Apr'24 have not only reversed but have slipped further in May'24 amidst weak demand and elevated competitive intensity (as per our channel checks; refer Exhibits 1-6). As a result, there looms an industry-wide risk of further earnings downgrade, over and above those witnessed post Q4FY24 results (wherein realisation for several cement companies slipped 4-7% QoQ). However, the risk of earnings downgrade for ACC could be limited owing to 1) demonstrated cost savings in the past seven quarters (across fixed as well as variable cost) under the new promoter Adani Group and 2) potent volume gains from fellow subsidiary Sanghi Industries under a Master-Supply-Agreement (MSA).

Compelling bet in troubled times

Despite the choppy sector outlook, ACC appears a compelling bet given its attractive valuation of <10x FY26E EV/EBITDA set amidst multiple positives of – i) volume growth visibility (from the imminent near-term ordering of 4mtpa clinker in South India, as per Q4FY24 earnings call guidance); ii) beneficiary of the INR 530/t cost saving target set by ACEM by FY28; iii) odds of eventual consolidation with parent ACEM (over the long term, in our view) and iv) strong balance sheet with healthy RoEs. We continue to value ACC at 13x FY26E EV/EBITDA (at par with its 10-year average multiple) and maintain **BUY** with TP of INR 3,272.

Financial Summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	2,22,100	1,99,522	2,10,881	2,28,159
EBITDA	19,190	30,576	35,775	42,154
EBITDA (%)	8.6	15.3	17.0	18.5
Net Profit	9,890	21,242	22,331	28,453
EPS (INR)	52.6	113.0	118.8	151.4
EPS % Chg YoY	-	-	5.1	27.4
P/E (x)	47.9	22.3	21.2	16.7
EV/EBITDA (x)	24.6	14.9	12.2	9.8
RoCE (%) (post-tax)	5.9	12.2	11.6	12.6
RoE (%)	7.0	14.1	13.1	14.7

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Market Data

Market Cap (INR)	474bn
Market Cap (USD)	5,685mn
Bloomberg Code	ACC IN
Reuters Code	ACC.BO
52-week Range (INR)	2,760 /1,704
Free Float (%)	43.0
ADTV-3M (mn) (USD)	13.5

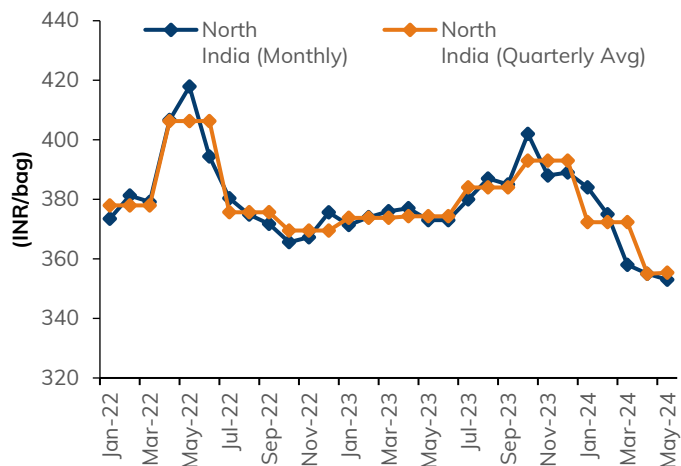
Price Performance (%)	3m	6m	12m
Absolute	(7.3)	36.5	43.4
Relative to Sensex	(9.4)	24.1	23.4

Previous Reports

26-04-2024: [Q4FY24 results review](#)29-01-2024: [Q3FY24 results review](#)

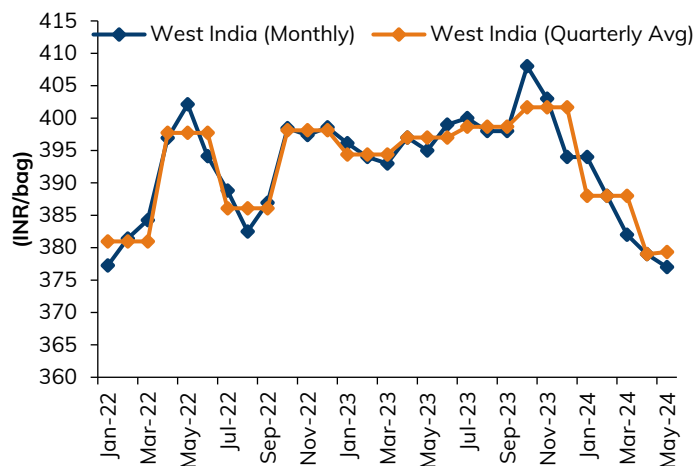
Cement prices continue to slide down further in May 2024 post a failed hike attempt in April 2024.

Exhibit 1: North India price trend



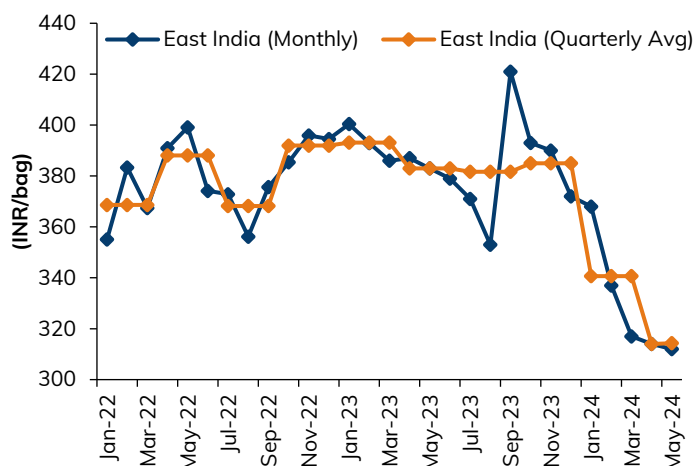
Source: Industry Data, I-Sec research

Exhibit 2: West India price trend



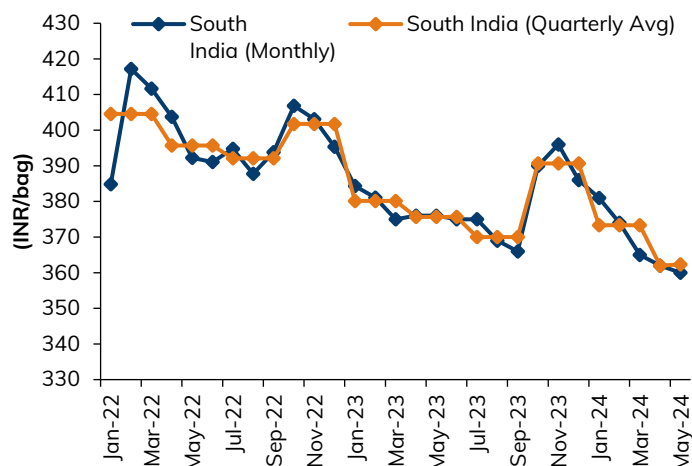
Source: Industry Data, I-Sec research

Exhibit 3: East India price trend



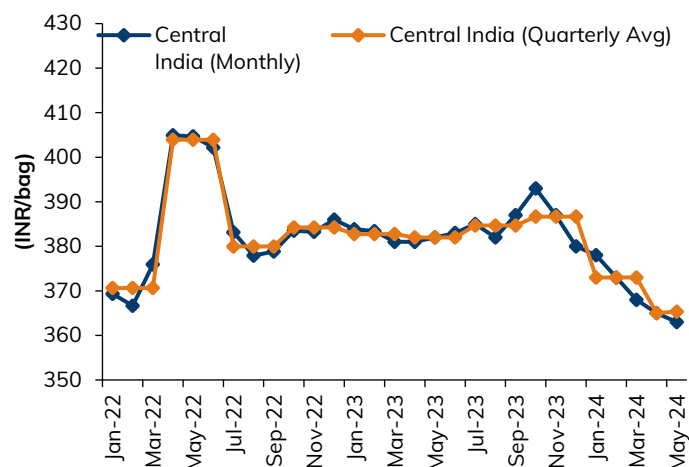
Source: Industry Data, I-Sec research

Exhibit 4: South India price trend



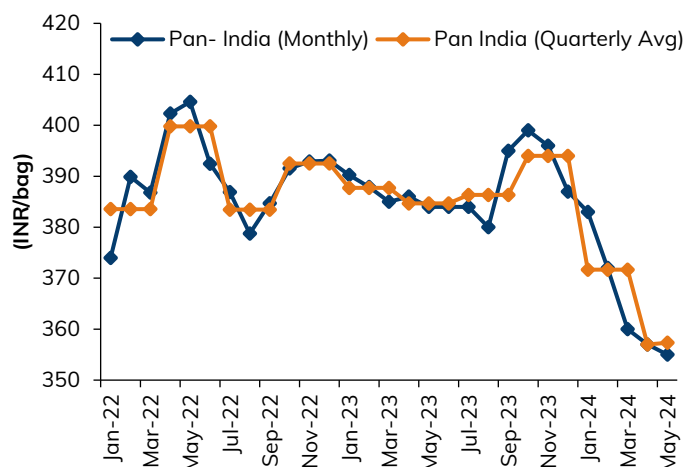
Source: Industry Data, I-Sec research

Exhibit 5: Central India price trend



Source: Industry Data, I-Sec research

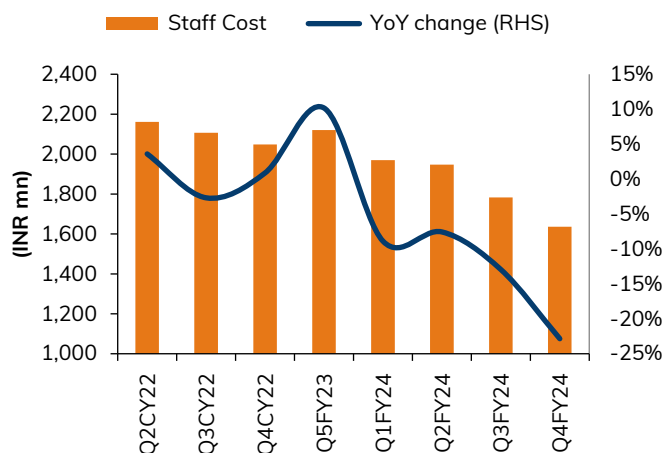
Exhibit 6: Cement prices trend weak – across regions



Source: Industry Data, I-Sec research

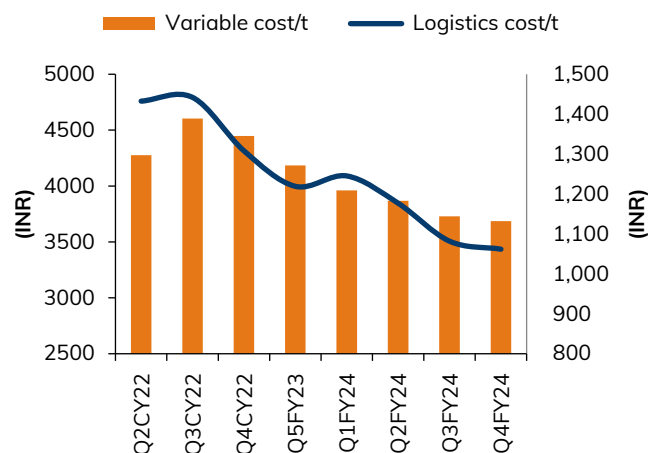
Under the new management, ACC has demonstrated sustainable cost savings, across fixed as well as variable cost.

Exhibit 7: Quarterly staff cost trend



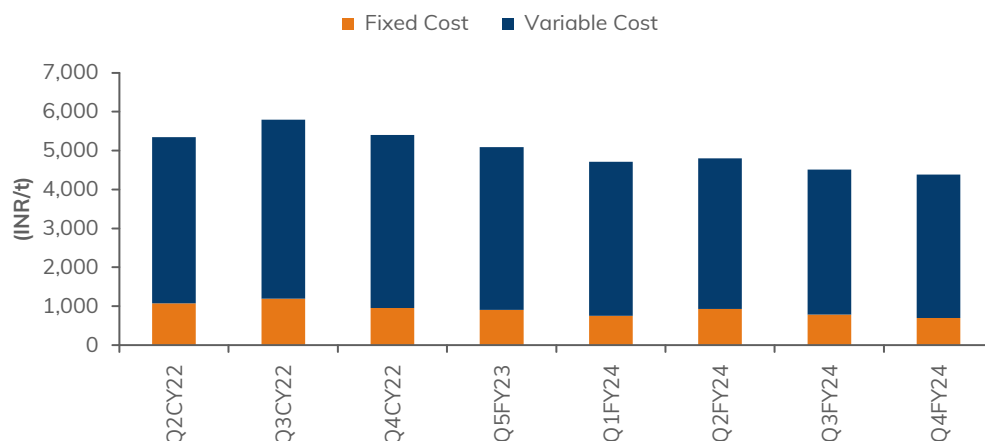
Source: I-Sec research, Company data

Exhibit 8: Quarterly variable and logistics cost/t trend



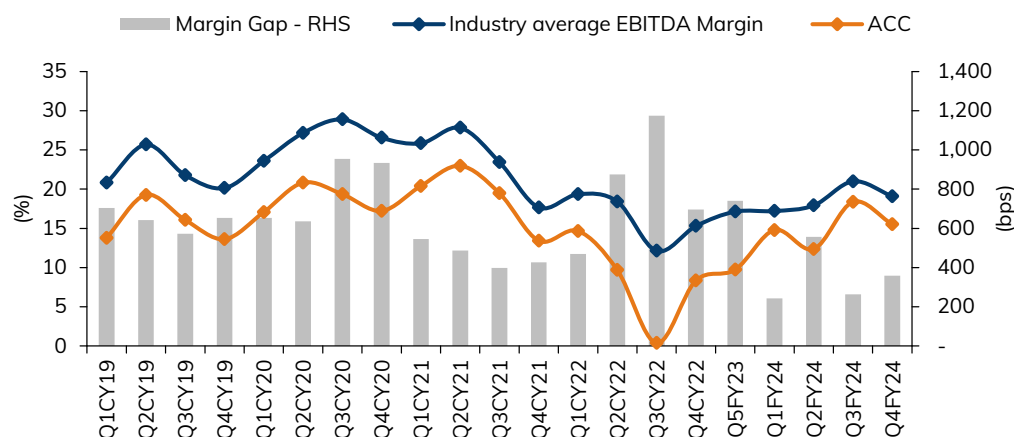
Source: I-Sec research, Company data

Exhibit 9: Break-up of total cost into fixed and variable component



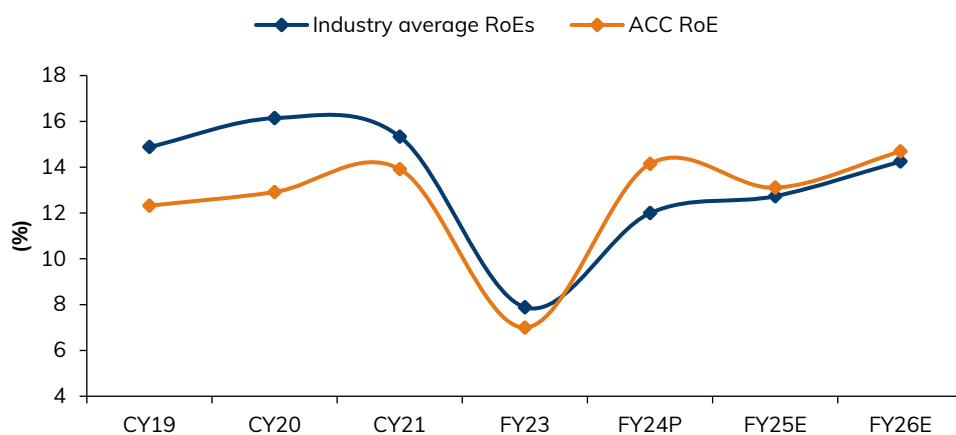
Source: I-Sec research, Company data

Exhibit 10: ACC has narrowed the margin gap with peers in the recent quarters



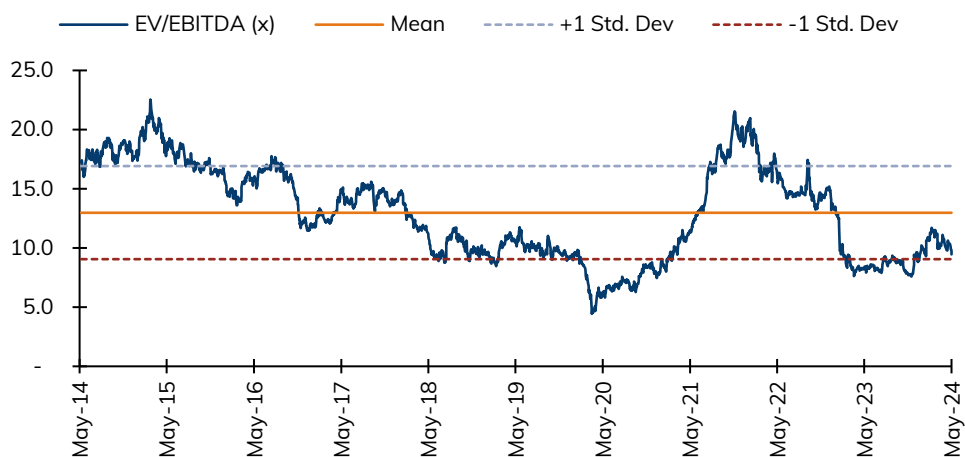
Source: I-Sec research, Company data

Note: To calculate the industry average EBITDA margins, we have considered the margins of Ambuja Cements (Standalone), UltraTech Cement, Shree Cement, JK Cement, Ramco Cements & Dalmia Bharat. Also, Ramco Cements Q4FY24 EBITDA margin is based on our Q4FY24 preview note.

Exhibit 11: ACC is expected to better itself vs peers on return profile


Source: I-Sec research, Company data; FY23 consisted of 15 months for ACC.

Note: To calculate the industry average RoEs, we have considered the RoEs of UltraTech Cement, Shree Cement, JK Cement & Ramco Cements.

Exhibit 12: 1-year forward EV/EBITDA – 10yr. mean at 13x


Source: I-Sec research, Company data

Exhibit 13: Valuations based on 13x Mar'26E EV/E

Particulars	Mar'26
Assumed EV/EBITDA multiple (x)	13.0
EBITDA (INR mn)	42,154
EV (INR mn)	5,48,003
Less: Net debt (INR mn)	-66,930
M-cap (INR mn)	6,14,933
Shares o/s (mn)	188
Value per share (INR)	3,272

Source: I-Sec research, Company data

Key risks: A sharp drop in cement prices, or sharp increase in fuel cost are the key risks to our recommendation.

Exhibit 14: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	56.7	56.7	56.7
Institutional investors	29.1	30.4	30.8
MFs and others	12.5	13.4	14.5
FIs/Banks	0.2	0.1	0.0
Insurance	9.3	9.5	9.1
FIIIs	7.1	7.4	7.2
Others	14.2	12.9	12.5

Source: Bloomberg

Exhibit 15: Price chart

Source: Bloomberg

Financial Summary

Exhibit 16: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Net Sales	2,22,100	1,99,522	2,10,881	2,28,159
Operating Expenses	2,02,910	1,68,946	1,75,106	1,86,005
EBITDA	19,190	30,576	35,775	42,154
EBITDA Margin (%)	8.6	15.3	17.0	18.5
Depreciation & Amortization	8,351	8,763	9,319	9,415
EBIT	10,839	21,813	26,456	32,739
Interest expenditure	772	1,538	1,569	1,600
Other Non-operating Income	3,372	4,915	5,087	7,053
Recurring PBT	13,439	25,191	29,975	38,192
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,122	3,948	7,644	9,739
PAT	10,317	21,242	22,331	28,453
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	1,190	-	-	-
Net Income (Reported)	8,699	21,242	22,331	28,453
Net Income (Adjusted)	9,890	21,242	22,331	28,453

Source Company data, I-Sec research

Exhibit 17: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Total Current Assets	81,315	98,519	1,19,960	1,45,804
of which cash & cash eqv.	2,868	17,298	37,569	62,510
Total Current Liabilities & Provisions	56,304	56,809	57,498	57,833
Net Current Assets	25,011	41,710	62,462	87,971
Investments	1,927	1,927	1,927	1,927
Net Fixed Assets	70,806	87,043	91,212	93,025
ROU Assets	-	-	-	-
Capital Work-in-Progress	20,623	7,191	3,191	1,691
Total Intangible Assets	4,057	4,057	4,057	4,057
Other assets	25,357	25,357	25,357	25,357
Deferred Tax assets	-	-	-	-
Total Assets	1,47,781	1,67,284	1,88,206	2,14,028
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability provisions	4,331	4,331	4,331	4,331
other Liabilities	1,763	1,763	1,763	1,763
Equity Share Capital	1,880	1,880	1,880	1,880
Reserves & Surplus	1,38,550	1,58,054	1,78,975	2,04,797
Total Net Worth	1,40,430	1,59,934	1,80,855	2,06,677
Minority Interest	-	-	-	-
Total Liabilities	1,47,781	1,67,284	1,88,206	2,14,028

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Operating Cashflow	14,309	30,005	31,650	37,868
Working Capital Changes	(26,697)	(2,268)	(482)	(567)
Capital Commitments	(19,788)	(11,568)	(9,488)	(9,728)
Free Cashflow	(32,175)	16,169	21,680	27,573
Other investing cashflow	(26,632)	-	-	-
Cashflow from Investing Activities	(46,419)	(11,568)	(9,488)	(9,728)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(10,892)	(1,739)	(1,410)	(2,631)
Others	(1,485)	-	-	-
Cash flow from Financing Activities	(12,377)	(1,739)	(1,410)	(2,631)
Chg. in Cash & Bank balance	(71,184)	14,431	20,270	24,941
Closing cash & balance	1,18,843	91,091	2,07,558	2,30,200

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	52.6	113.0	118.8	151.4
Adjusted EPS (Diluted)	52.6	113.0	118.8	151.4
Cash EPS	97.0	159.6	168.4	201.5
Dividend per share (DPS)	9.3	7.5	14.0	14.0
Book Value per share (BV)	747.2	850.9	962.3	1,099.6
Dividend Payout (%)	17.6	6.6	11.8	9.2
Growth (%)				
Net Sales [^]	-	-	5.7	8.2
EBITDA [^]	-	-	17.0	17.8
EPS (INR) [^]	-	-	5.1	27.4
Valuation Ratios (x)				
P/E	47.9	22.3	21.2	16.7
P/CEPS	26.0	15.8	15.0	12.5
P/BV	3.4	3.0	2.6	2.3
EV / EBITDA	24.6	14.9	12.2	9.8
EV / t (USD)	159.8	145.4	133.5	125.8
Dividend Yield (%)	0.4	0.3	0.6	0.6
Operating Ratios				
Gross Profit Margins (%)	75.4	70.8	70.6	71.2
EBITDA Margins (%)	8.6	15.3	17.0	18.5
Effective Tax Rate (%)	23.2	15.7	25.5	25.5
Net Profit Margins (%)	4.5	10.6	10.6	12.5
NWC / Total Assets (%)	16.9	24.9	33.2	41.1
Net Debt / Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Net Debt / EBITDA (x)	(0.1)	(0.6)	(1.1)	(1.5)
Profitability Ratios				
RoCE (%) (post-tax)	5.9	12.2	11.6	12.6
RoE (%)	7.0	14.1	13.1	14.7
RoC (%)	10.6	16.1	16.4	20.6
Fixed Asset Turnover (x)	3.3	2.5	2.4	1.0
Inventory Turnover Days	50	62	62	28
Receivables Days	11	16	16	17
Payables Days	58	55	55	25

Source Company data, I-Sec research, [^]ANA as FY23 was 15 months, hence not comparable for FY23A and FY24E.

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