

## ACC

## Opportune expansion

India Equity Research | Cement

ACC has announced plans to add 3mtpa clinker and 5.9mtpa cement capacity over the next three years. This puts to rest the buzz around the company's capacity expansion. The capex will cost ~INR30bn and will be funded via internal accruals given its strong balance sheet (>INR26bn net cash) and robust cash flow expectations. The announcement will delight investors as: 1) the expansion imparts the much-needed volume growth visibility; 2) bulk of the new capacity will be based in the lucrative Central region; and 3) reflects LafargeHolcim's commitment to India business which entails valuation multiple upgrade potential, in our view. We maintain our positive stance on the cement sector citing imminent rise in the industry's clinker utilisation and easing fuel cost. While ACC will benefit from the sector uptrend, capex offers a tailwind. Maintain 'BUY'.

## Capex announcement tracks recent cues

ACC's capex announcement tracks recent cues of: 1) parent LafargeHolcim's recent capital commitment for expansions in India (6.5mtpa plus clinker and 8.5mtpa plus cement by 2022); and 2) ACC not paying interim dividend despite strong balance sheet.

## Opportune capex

The company is planning to add 3mtpa integrated clinker plant (greenfield; 15% of existing capacity) at Ametha, Madhya Pradesh (MP) and 5.9mtpa cement capacity (18% of existing) spread over four locations: a) 1mtpa at Ametha; b) 1.6mtpa at Tikaria (MP); c) 2.2mtpa new unit in Uttar Pradesh; and d) 1.1mtpa at Sindri (Jharkhand). While these capacities will come over the next three years (plant-wise timelines not yet disclosed), the Sindri unit will probably be the first to be commissioned (in our view). A further positive is that the entire clinker and >80% of cement capacity will be based in the lucrative Central region (which already has high clinker utilisation of >85%).

## Outlook and valuations: Roadmap to growth; maintain 'BUY'

We maintain 'BUY/SP' on ACC with a TP of INR1,735 given: a) the capex offers much-needed volume growth visibility; b) enhances presence in attractive Central region; and c) clears air around ACC's growth plans in India. Factoring the sector uptrend, while we value the stock at 12x CY19E EV/EBITDA, any further affirmation to maintain market share (going forward) will potentially drive a valuation multiple upgrade.

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

## MARKET DATA (R: ACC.BO, B: ACC IN)

CMP	: INR 1,480
Target Price	: INR 1,735
52-week range (INR)	: 1,857 / 1,255
Share in issue (mn)	: 187.8
M cap (INR bn/USD mn)	: 269 / 3,727
Avg. Daily Vol.BSE/NSE('000)	: 589.2

## SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	54.5	54.5	54.5
MF's, FI's & BK's	20.7	20.0	17.7
FII's	10.2	10.9	13.7
Others	14.6	14.6	14.0
* Promoters pledged shares (% of share in issue)			NIL

## PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	(0.3)	2.0	(0.2)
3 months	(2.9)	(7.4)	(3.9)
12 months	(18.3)	0.7	(15.6)

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## Financials

(INR mn)

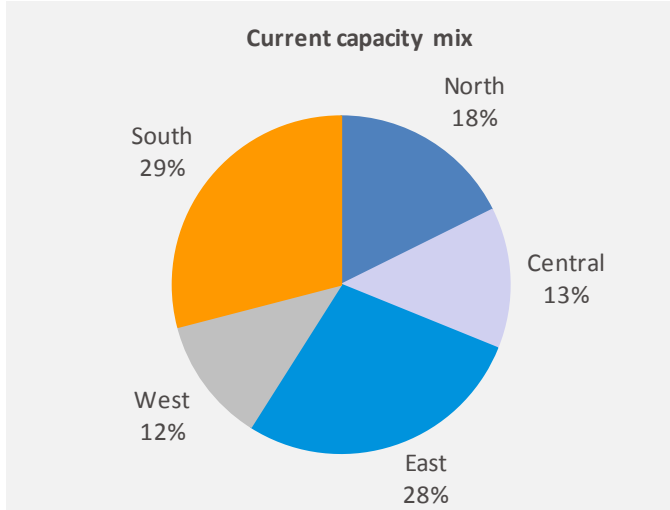
Year to March	CY16	CY17	CY18E	CY19E
Revenues	111,583	132,846	147,134	160,899
EBITDA	14,170	19,091	20,648	24,490
Adjusted Profit	6,324	9,155	10,754	13,446
Diluted EPS (INR)	33.6	48.7	57.2	71.5
Diluted P/E (x)	44.0	30.4	25.9	20.7
EV/EBITDA (x)	18.5	13.3	12.0	9.7
ROAE (%)	7.4	10.2	11.2	13.3

**Table 1: Capex plan announced...**

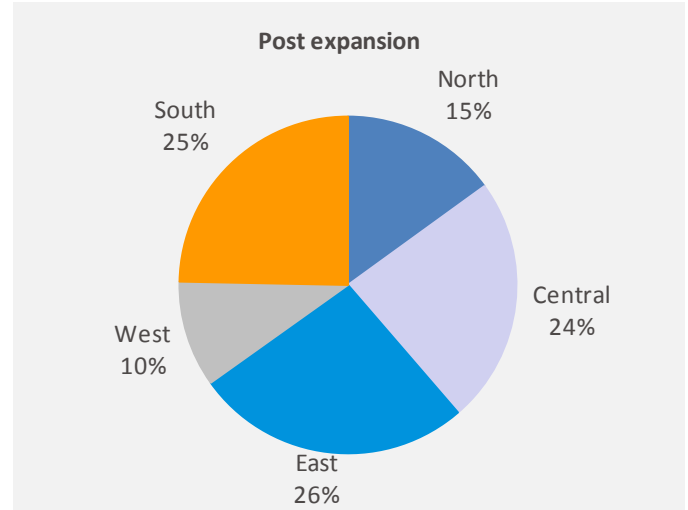
Location	Region	Clinker (mtpa)	Cement (mtpa)
Ametha, Madhya Pradesh	Central	3.0	1.0
Tikaria, Uttar Pradesh	Central	NA	1.6
Uttar Pradesh	Central	NA	2.2
Sindri, Jharkhand	East	NA	1.1

Source: Company

**Chart 1: ...to improve capacity mix...**



**Chart 2: ...in the lucrative central region**



Source: Company, Edelweiss research

## Company Description

ACC is the second largest cement manufacturer in India, with current installed capacity of ~33.5mtpa. The company is a pan-India player with its plants spread across the country. Holcim Group, through direct and indirect investments (through its subsidiary Ambuja Cements), holds ~54.5% stake in the company.

## Investment Theme

Factors that drive our investment thesis for ACC include: (a) being a pan-India player, ACC will be beneficiary of the expected recovery in cement demand (in the run up to the general election in 2019) and rising industry clinker utilisations on slow capacity additions; (b) volume growth visibility due to the recently announced capex may drive to valuation multiple re-rating; (c) high operating leverage — 1% volume variation is ~3-4% positive for EPS and 1% in price is ~8-10% EPS accretive; and (d) current EV/t of ~USD99 (CY19E) appears reasonable versus other large peers and positioning of industry cycle.

## Key Risks

Lower than estimated demand and price hikes will impact estimates.

Significant increase in operating costs will impact estimates.

## Financial Statements

## Key Assumptions

Year to December	CY16	CY17	CY18E	CY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.1	6.7	7.3	7.6
Inflation (Avg)	4.5	3.6	4.5	4.5
Repo rate (exit rate)	6.3	6.0	6.8	6.8
USD/INR (Avg)	67.1	64.5	70.0	72.0
<b>Company</b>				
EBITDA/ Tonne (INR)	616	728	731	834
Inst capacity (mtpa)	33	33	33	33
Capacity Utilisation (%)	69	79	85	88
Cement realiztn (INR/t)	4,851	5,067	5,211	5,479
RM cost per tonne	737	751	772	823
P&F cost per tonne	938	1,035	1,069	1,117
Freight cost per tonne	1,154	1,316	1,433	1,477
Other expenses per tonne	1,068	924	893	910
Total expenses per tonne	4,235	4,338	4,480	4,645
Effective tax rate (%)	25.5	29.5	30.0	30.0
Debtor days	16	16	17	16
Inventory days	64	59	57	54
Payable days	174	173	170	157

## Income statement

(INR mn)

Year to December	CY16	CY17	CY18E	CY19E
Income from operations	111,583	132,846	147,134	160,899
Materials costs	16,944	19,685	21,804	24,167
Employee costs	7,783	8,190	8,817	9,346
Other Expenses	72,686	85,881	95,864	102,896
EBITDA	14,170	19,091	20,648	24,490
Depreciation	6,052	6,401	6,170	6,640
EBIT	8,118	12,690	14,478	17,850
Less: Interest Expense	729	1,023	902	892
Add: Other income	1,127	1,316	1,787	2,251
Profit Before Tax	8,089	12,984	15,364	19,209
Less: Provision for Tax	2,065	3,829	4,609	5,763
Reported Profit	6,024	9,155	10,754	13,446
Exceptional Items	(300)	-	-	-
Adjusted Profit	6,324	9,155	10,754	13,446
Shares o /s (mn)	188	188	188	188
Adjusted Basic EPS	33.6	48.7	57.2	71.5
Diluted shares o/s (mn)	188	188	188	188
Adj. Diluted EPS (INR)	33.6	48.7	57.2	71.5
Adjusted Cash EPS	70.6	82.8	90.0	106.9
Dividend per share (DPS)	17.0	26.0	28.0	30.0
Dividend Payout Ratio(%)	63.8	64.2	58.9	50.5

## Common size metrics

Year to December	CY16	CY17	CY18E	CY19E
Operating expenses	87.3	85.6	86.0	84.8
EBITDA margins	12.7	14.4	14.0	15.2
Net Profit margins	5.7	6.9	7.3	8.4

## Growth ratios (%)

Year to December	CY16	CY17	CY18E	CY19E
Revenues	(5.4)	19.1	10.8	9.4
EBITDA	(7.8)	34.7	8.2	18.6
Adjusted Profit	(9.0)	44.8	17.5	25.0
EPS	(9.0)	44.8	17.5	25.0

Balance sheet		(INR mn)			
As on 31st December	CY16	CY17	CY18E	CY19E	
Share capital	1,880	1,880	1,880	1,880	
Reserves & Surplus	84,735	91,775	96,195	102,855	
Shareholders' funds	86,614	93,655	98,075	104,735	
Long term borrowings	1,317	1,420	1,420	1,420	
Short term borrowings	500	592	592	592	
Total Borrowings	1,817	2,012	2,012	2,012	
Deferred tax (net)	5,581	5,414	5,414	5,414	
<b>Sources of funds</b>	<b>94,013</b>	<b>101,080</b>	<b>105,501</b>	<b>112,161</b>	
Gross Block	140,669	144,494	148,502	152,510	
Net Block	74,589	72,013	69,851	67,219	
Capital work in progress	3,551	2,617	2,617	2,617	
Intangible Assets	35	398	398	398	
Total Fixed Assets	78,174	75,027	72,866	70,234	
Non current investments	7,190	15,524	15,524	15,524	
Cash and Equivalents	18,439	26,954	32,802	41,733	
Inventories	12,238	14,040	14,979	14,967	
Sundry Debtors	4,677	6,682	7,214	7,267	
Loans & Advances	13,056	2,658	2,658	2,658	
Other Current Assets	602	8,004	8,004	8,004	
Current Assets (ex cash)	30,572	31,384	32,854	32,896	
Trade payable	34,300	42,620	43,357	43,037	
Other Current Liab	6,062	5,189	5,189	5,189	
Total Current Liab	40,362	47,808	48,545	48,226	
Net current assets	(9,790)	(16,425)	(15,691)	(15,330)	
<b>Uses of funds</b>	<b>94,013</b>	<b>101,080</b>	<b>105,501</b>	<b>112,161</b>	
BVPS (INR)	460.8	498.3	521.8	557.2	

Free cash flow		(INR mn)			
Year to December	CY16	CY17	CY18	CY19E	
Reported Profit	6,024	9,155	10,754	13,446	
Add: Depreciation	6,052	6,401	6,170	6,640	
Interest (Net of Tax)	623	721	631	624	
Others	(4,993)	(15,880)	(6,480)	(9,555)	
Less: Changes in WC	(6,095)	(15,150)	(5,114)	(8,570)	
Operating cash flow	13,801	15,548	16,190	19,726	
Less: Capex	4,647	2,892	4,008	4,008	
<b>Free Cash Flow</b>	<b>9,154</b>	<b>12,656</b>	<b>12,182</b>	<b>15,718</b>	

Cash flow metrics		CY16	CY17	CY18E	CY19E
Year to December					
Operating cash flow		13,801	15,548	16,190	19,726
Financing cash flow		(4,212)	(4,221)	(6,334)	(6,786)
Investing cash flow		(5,391)	(3,846)	(4,008)	(4,008)
Net cash Flow		4,199	7,481	5,848	8,931
Capex		(4,976)	(5,194)	(4,008)	(4,008)
Dividend paid		(3,853)	(3,842)	(6,334)	(6,786)

Profitability and efficiency ratios		CY16	CY17	CY18E	CY19E
Year to December					
ROAE (%)		7.4	10.2	11.2	13.3
ROACE (%)		10.6	15.2	16.6	19.4
Inventory Days		64	59	57	54
Debtors Days		16	16	17	16
Payable Days		174	173	170	157
Cash Conversion Cycle		(94)	(98)	(95)	(86)
Current Ratio		1.2	1.2	1.4	1.5
Gross Debt/EBITDA		0.1	0.1	0.1	0.1
Adjusted Debt/Equity		-	-	-	-
Interest Coverage Ratio		11.1	12.4	16.1	20.0

Operating ratios		CY16	CY17	CY18E	CY19E
Year to December					
Total Asset Turnover		1.2	1.4	1.4	1.5
Fixed Asset Turnover		1.8	1.8	2.1	2.3
Equity Turnover		1.3	1.5	1.5	1.6

Valuation parameters		CY16	CY17	CY18E	CY19E
Year to December					
Adj. Diluted EPS (INR)		33.6	48.7	57.2	71.5
Y-o-Y growth (%)		(9.0)	44.8	17.5	25.0
Adjusted Cash EPS (INR)		70.6	82.8	90.0	106.9
Diluted P/E (x)		44.0	30.4	25.9	20.7
P/B (x)		3.2	3.0	2.8	2.7
EV/tonne (USD/tonne)		109	105	103	99
EV / Sales (x)		2.3	1.9	1.7	1.5
EV / EBITDA (x)		18.5	13.3	12.0	9.7
EV/EBITDA (x)+1 yr fwd.		13.7	12.3	10.1	-
Dividend Yield (%)		1.2	1.8	2.0	2.1

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		EV / Sales (X)	
		CY18E	CY19E	CY18E	CY19E	CY18E	CY19E
ACC	3,727	25.9	20.7	12.0	9.7	1.7	1.5
Ambuja Cement Ltd	5,862	32.2	25.9	18.9	15.4	2.3	2.1
India Cements	378	26.9	10.5	8.1	6.2	1.1	0.9
JK Cement	688	17.0	12.3	9.3	8.0	1.5	1.4
Shree Cements	7,726	52.8	29.5	21.2	14.8	4.5	3.8
UltraTech Cement	14,754	40.7	23.5	17.6	12.3	3.1	2.6
Median	-	29.5	21.8	14.6	10.8	2.0	1.8
AVERAGE	-	32.4	20.3	14.5	11.0	2.4	2.1

Source: Edelweiss research

## Additional Data

### Directors Data

N S Sekhsaria	Chairman	Mr Eric Olsen	Deputy Chairman
Mr Farrokh K. Kavarana	Non-Executive and Independent Director	Mr Vijay Kumar Sharma	Non-Executive and Independent Director
Mr Arunkumar Ramanlal Gandhi	Non-Executive and Independent Director	Mrs Falguni Nayar	Non-Executive and Independent Director
Shailesh Haribhakti	Non-Executive and Independent Director	Mr. Neeraj Akhoury	Managing Director & CEO
Mr Christof Hässig	Non-Executive and Non-Independent Director	Sushil Kumar Roongta	Non-Executive and Independent Director
Ashwin Dani	Non-Executive and Independent Director	Mr Martin Kriegner	Additional Director

Auditors - S R Batliboi & Associates

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Ambuja cement india	50.05	Life insurance corp	10.41
Holderind investment	4.48	Capital group cos in	3.16
Jpmorgan chase & co	2.21	Aditya birla sun lif	1.86
Franklin resources i	1.38	Reliance capital tru	1.36
Icici prudential lif	1.33	Sbi funds management	0.93

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ACC	BUY	SP	M	Ambuja Cement Ltd	HOLD	SU	M
Grasim Industries	BUY	SP	M	India Cements	HOLD	SU	H
JK Cement	BUY	SO	M	Shree Cements	BUY	SO	M
UltraTech Cement	BUY	SO	M				

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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## Coverage group(s) of stocks by primary analyst(s): Cement

ACC, Ambuja Cement Ltd, Grasim Industries, India Cements, JK Cement, Shree Cements, UltraTech Cement

### Recent Research

Date	Company	Title	Price (INR)	Recos
14-Nov-18	<b>Grasim Industries</b>	Holdco capital commitments overhang; <i>Result Update</i>	881	Buy
14-Nov-18	<b>UltraTech Cement</b>	Appellate Tribunal favours UTCL for Binani Cement ; <i>EdelFlash</i>	3,938	Buy
13-Nov-18	<b>Shree Cements</b>	Improved sales mix aid outperformance; <i>Result Update</i>	15,127	Buy

### Distribution of Ratings / Market Cap

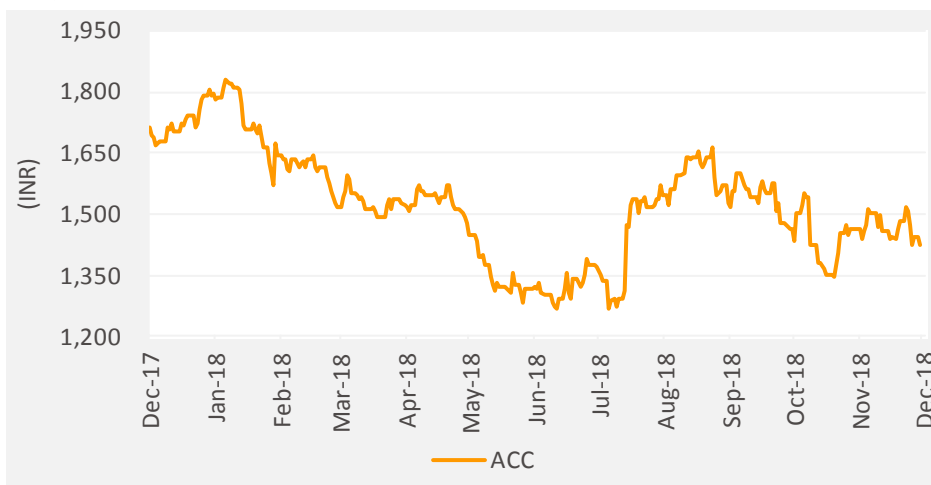
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart





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