

ACC**Outperformance sustained**

India Equity Research | Cement

ACC, yet again, kicked off the sector's result season on a stellar note. Despite muted industry demand, the company's Q3CY19 EBITDA surged 26% YoY (38% ahead of our and 10% of consensus estimates) with positive surprises in revenue and cost. Volume and realisation dip of 1.7% YoY and 5.5% QoQ was better than our 3.0% and 7.0% fall expectation, respectively. Variable cost/t (ex-freight/t) declined 10% QoQ owing to low fuel cost benefit. Fixed cost was also under control—down 2% YoY. While cement demand has been muted since the past two quarters, we are hopeful of a recovery going ahead. Calibrating 9mCY19 performance and the estimated recovery, we see limited risk to our CY19E and CY20E earnings. We also introduce CY21E earnings with modest 4% YoY EBITDA growth, implying flat EBITDA/t. Rolling over valuation to Q1CY21E we retain 'BUY' with unchanged TP of INR1,846, 12x EV/EBITDA.

Q3CY19: Key highlights

- Amidst muted industry demand and no capacity addition benefits, volume at 6.44mt declined 1.7% YoY. 9mCY19 volumes rose mere 1% YoY and we estimate similar ~1% growth for CY19 and ~3% for each CY20 and CY21.
- Though realisation dipped 5.5% QoQ (7.0% dip estimate), YoY it rose ~3.5%. We estimate modest price recovery in Q4CY19. While blended realisation for CY19 is expected to rise ~5% YoY, we pencil in ~2.5% hike each for CY20 and CY21.
- Fixed costs (staff + other expenses) remained under control, falling 2% YoY. Variable cost/t (raw material + stock adjustments + traded goods + power & fuel) sprung a positive by falling 10% QoQ given benign fuel prices and we expect it to stay in comfort zone going ahead as well.
- EBITDA/t at INR864 jumped 28% YoY and for 9mCY19 stood at INR884. Our estimates for CY19/CY20/CY21 are INR880/872/875.

Outlook and valuation: Sector tailwinds intact; maintain 'BUY'

Calibrating 9mCY19 performance and the estimated recovery, we see limited risk to our CY19E and CY20E earnings. We maintain that ACC will be beneficiary of our positive sector view. Hence, we maintain 'BUY/SP' with TP of INR1,846. At CMP, ACC trades at 9.7x CY20E EV/EBITDA.

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

MARKET DATA (R: ACC.BO, B: ACC IN)	
CMP	: INR 1,498
Target Price	: INR 1,846
52-week range (INR)	: 1,769 / 1,322
Share in issue (mn)	: 187.8
M cap (INR bn/USD mn)	: 281 / 3,934
Avg. Daily Vol.BSE/NSE('000)	: 815.7

SHARE HOLDING PATTERN (%)			
	Current	Q1FY20	Q4FY19
Promoters *	54.5	54.5	54.5
MF's, FI's & BK's	22.3	22.3	21.6
FII's	8.7	8.7	8.9
Others	14.5	14.5	14.9
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW Construction Material Index
1 month	(3.8)	2.4	0.9
3 months	(6.7)	(1.8)	(6.1)
12 months	(2.3)	8.3	(3.6)

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Financials

(INR mn)

Year to December	Q3CY19	Q3CY18	% Chg	Q2CY19	% Chg	CY18	CY19E	CY20E
Total operating Income	35,276	34,332	2.7	41,497	(15.0)	148,014	157,074	164,310
EBITDA	5,563	4,426	25.7	7,817	(28.8)	20,446	25,202	25,584
Adjusted Profit	3,000	2,056	45.9	4,513	(33.5)	15,066	15,089	14,449
Diluted EPS (INR)	16.0	10.9	45.9	24.0	(33.5)	80.2	80.3	76.9
Diluted P/E (x)						18.7	18.7	19.5
EV/EBITDA (x)						12.4	9.9	9.7
ROAE (%)						15.1	13.6	12.0

Other highlights

RMC business posted robust performance with volume and revenue growth of 11% and 19% YoY, respectively.

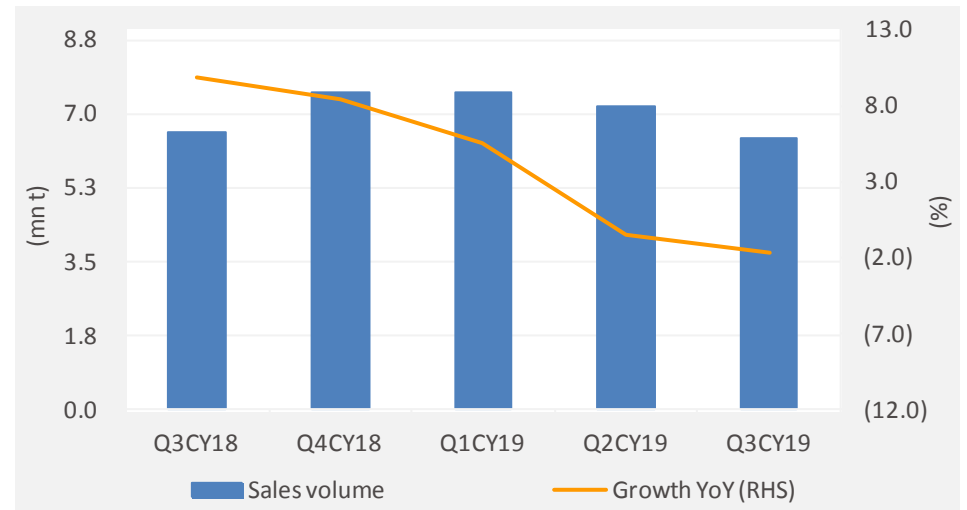
Management stated that it is in the process of evaluating the options available under the new tax regime.

Other expenses fell 6% YoY as packing material cost fell due to renegotiation with vendors and fall in PP granule price.

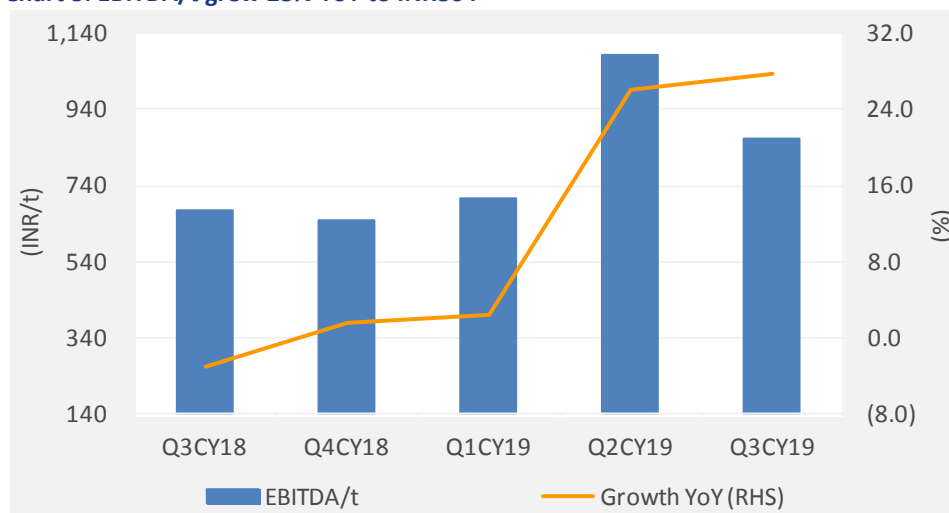
Table 1: With benefits of prices and cost accruing, EBITDA/t rose 28% YoY

(INR/tonne)	Q3CY19	Q3CY18	% change	Q2CY19	% change
Blended Realisation	5,478	5,241	4.5	5,764	(5.0)
Raw material	619	723	(14.4)	916	(32.4)
Power	1,217	1,115	9.2	1,133	7.4
Freight	1,483	1,432	3.6	1,451	2.2
Staff	356	324	9.9	282	26.1
Others	939	972	(3.4)	897	4.8
Cost	4,614	4,566	1.0	4,678	(1.4)
EBITDA	864	676	27.9	1,086	(20.4)

Chart 1: Sales volume declined 1.7% YoY



Source: Company, Edelweiss research

Chart 2: Seasonal weakness led to realisations declining ~5% QoQ**Chart 3: EBITDA/t grew 28% YoY to INR864**

Source: Company, Edelweiss research

Table 2: Maintain Target Price at INR1,846

Valuation	Q1CY21E
Assumed EV/EBITDA multiple (x)	12.0
EBITDA (INR mn)	26,066
EV (INR mn)	312,786
Less: Net debt (INR mn)	(34,247)
Mcap (INR mn)	347,033
Shares o/s (mn)	188
Value per share (INR)	1,846
Potential Upside (%)	23.3

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to December	Q3CY19	Q3CY18	% change	Q2CY19	% change	YTD CY19	CY19E	CY20E
Volume (million tonnes)	6.4	6.5	(1.7)	7.2	(10.6)	20.8	28.6	29.3
Total operating Income	35,276	34,332	2.7	41,497	(15.0)	1,13,019	157,074	164,310
Raw material costs	3,984	4,736	(15.9)	6,592	(39.6)	16,243	24,542	27,406
Freight outward	9,548	9,378	1.8	10,445	(8.6)	30,017	41,726	44,491
Staff costs	2,290	2,120	8.0	2,030	12.8	6,302	8,420	8,841
Power and fuel	7,840	7,305	7.3	8,158	(3.9)	23,485	31,638	30,908
Other expenses	6,050	6,368	(5.0)	6,456	(6.3)	18,681	25,546	27,079
Total expenditure	29,713	29,906	(0.6)	33,680	(11.8)	94,728	131,872	138,726
EBITDA	5,563	4,426	25.7	7,817	(28.8)	18,291	25,202	25,584
Depreciation	1,504	1,499	0.3	1,460	3.0	4,437	5,948	5,966
Interest	163	201	(19.0)	199	(18.3)	554	732	738
Other income	508	313	62.3	519	(2.1)	1,495	3,034	2,061
Profit before tax	4,405	3,040	44.9	6,677	(34.0)	14,795	21,555	20,941
Tax	1,406	984	42.8	2,164	(35.1)	4,831	6,467	6,492
Reported net profit	3,000	2,056	45.9	4,513	(33.5)	9,964	15,089	14,449
Adjusted Profit	3,000	2,056	45.9	4,513	(33.5)	9,964	15,089	14,449
Equity capital(FV INR10)	1,880	1,880		1,880		1,880	1,880	1,880
No. of shares (mn)	188	188		188		188	188	188
Diluted EPS (INR)	16.0	10.9	45.9	24.0	(33.5)	53.0	80.3	76.9
Diluted P/E (x)	-	-		-		-	18.7	19.5
EV/EBITDA (x)	-	-		-		-	9.9	9.7
ROAE (%)	-	-		-		-	13.6	12.0
As % of net revenues	-	-		-		-	3	3
Raw material	11.3	13.8		15.9		14.4	15.6	16.7
Employee cost	6.5	6.2		4.9		5.6	5.4	5.4
Power & fuel	22.2	21.3		19.7		20.8	20.1	18.8
Freight outward	27.1	27.3		25.2		26.6	26.6	27.1
Other expenses	17.2	18.5		15.6		16.5	16.3	16.5
EBITDA	15.8	12.9		18.8		16.2	16.0	15.6
Reported net profit	8.5	6.0		10.9		8.8	9.6	8.8

Company Description

ACC is one of the largest cement manufacturers 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 improved demand supply dynamics and rising industry clinker utilisations; (b) volume growth visibility due to the recently announced capex may lead to valuation multiple re-rating; and (c) expectation of costs to remain benign. We therefore, recommend a BUY with a target price of INR1,846.

Key Risks

Lower than estimated demand and price hikes will impact estimates.

Significant deviation in operating costs will impact estimates.

Financial Statements

Key Assumptions

Year to December	CY18	CY19E	CY20E	CY21E
Macro				
GDP(Y-o-Y %)	6.8	6.8	7.1	NA
Inflation (Avg)	3.4	4.0	4.5	NA
Repo rate (exit rate)	6.3	5.3	5.0	NA
USD/INR (Avg)	70.0	72.0	72.0	NA
Company				
EBITDA/ Tonne (INR)	720	880	872	875
Inst capacity (mtpa)	33	33	33	33
Capacity Utilisation (%)	85	86	88	91
Cement realiztn (INR/t)	5,212	5,484	5,598	5,752
RM cost per tonne	822	857	934	955
P&F cost per tonne	1,056	1,105	1,053	1,085
Freight cost per tonne	1,412	1,457	1,516	1,562
Other expenses per tonne	891	892	923	963
Total expenses per tonne	4,492	4,604	4,727	4,877
Effective tax rate (%)	(0.8)	30.0	31.0	31.0
Debtor days	19	20	20	20
Inventory days	60	63	63	64
Payable days	171	167	161	154

Income statement

(INR mn)

Year to December	CY18	CY19E	CY20E	CY21E
Income from operations	148,014	157,074	164,310	174,774
Materials costs	23,345	24,542	27,406	29,005
Employee costs	8,811	8,420	8,841	9,514
Other Expenses	95,412	98,910	102,478	109,669
EBITDA	20,446	25,202	25,584	26,587
Depreciation	5,996	5,948	5,966	6,640
EBIT	14,450	19,254	19,618	19,946
Less: Interest Expense	892	732	738	727
Add: Other income	1,385.00	3,033.92	2,061.21	2,061.21
Profit Before Tax	14,943	21,555	20,941	21,281
Less: Provision for Tax	(123)	6,467	6,492	6,597
Reported Profit	15,066	15,089	14,449	14,684
Adjusted Profit	15,066	15,089	14,449	14,684
Shares o /s (mn)	188	188	188	188
Adjusted Basic EPS	80.2	80.3	76.9	78.1
Diluted shares o/s (mn)	188	188	188	188
Adj. Diluted EPS (INR)	80.2	80.3	76.9	78.1
Adjusted Cash EPS	112.1	111.9	108.6	113.5
Dividend per share (DPS)	14.0	20.0	25.0	40.0
Dividend Payout Ratio(%)	21.0	30.0	37.7	59.4

Common size metrics

Year to December	CY18	CY19E	CY20E	CY21E
Operating expenses	86.2	84.0	84.4	84.8
EBITDA margins	13.8	16.0	15.6	15.2
Net Profit margins	10.2	9.6	8.8	8.4

Growth ratios (%)

Year to December	CY18	CY19E	CY20E	CY21E
Revenues	11.4	6.1	4.6	6.4
EBITDA	7.1	23.3	1.5	3.9
Adjusted Profit	64.6	0.1	(4.2)	1.6
EPS	64.6	0.1	(4.2)	1.6

Balance sheet		(INR mn)			
As on 31st December	CY18	CY19E	CY20E	CY21E	
Share capital	1,880	1,880	1,880	1,880	
Reserves & Surplus	103,397	113,961	122,960	128,922	
Shareholders' funds	105,277	115,841	124,839	130,802	
Long term borrowings	1,395	1,395	1,395	1,395	
Total Borrowings	1,395	1,395	1,395	1,395	
Deferred tax (net)	6,631	6,631	6,631	6,631	
Sources of funds	113,303	123,867	132,866	138,828	
Gross Block	148,600	152,600	156,600	187,600	
Net Block	70,122	68,174	66,207	90,567	
Capital work in progress	5,728	13,236	23,376	6,516	
Intangible Assets	372	372	372	372	
Total Fixed Assets	76,222	81,782	89,956	97,455	
Non current investments	16,596	16,596	16,596	16,596	
Cash and Equivalents	30,003	34,226	34,309	31,625	
Inventories	16,786	17,247	18,353	19,765	
Sundry Debtors	8,683	8,945	9,495	10,041	
Loans & Advances	4,661	4,661	4,661	4,661	
Other Current Assets	7,299	7,299	7,299	7,299	
Current Assets (ex cash)	37,429	38,152	39,809	41,767	
Trade payable	44,854	44,796	45,710	46,522	
Other Current Liab	2,093	2,093	2,093	2,093	
Total Current Liab	46,948	46,889	47,804	48,615	
Net current assets	(9,519)	(8,737)	(7,995)	(6,848)	
Uses of funds	113,303	123,867	132,866	138,828	
BVPS (INR)	560.1	616.3	664.2	695.9	

Free cash flow		(INR mn)			
Year to December	CY18	CY19E	CY20E	CY21E	
Reported Profit	15,066	15,089	14,449	14,684	
Add: Depreciation	5,996	5,948	5,966	6,640	
Interest (Net of Tax)	899	513	509	501	
Others	(6,925)	(4,735)	(593)	2,183	
Less: Changes in WC	3,856	(3,440)	658	3,832	
Operating cash flow	11,181	20,255	19,674	20,177	
Less: Capex	5,067	11,508	14,140	14,140	
Free Cash Flow	6,114	8,747	5,534	6,037	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		EV / Sales (X)	
		CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
ACC	3,934	18.7	19.5	9.9	9.7	1.6	1.5
Ambuja Cement Ltd	5,469	26.6	23.2	16.6	14.9	2.4	2.2
India Cements	24,421,101	11.4	7.7	6.5	5.4	1.0	0.9
JK Cement	81,985,530	15.1	14.2	8.9	8.4	1.7	1.5
Shree Cements	647,440,653	35.1	26.8	16.9	14.0	5.5	4.7
UltraTech Cement	-	26.5	20.1	13.4	11.0	3.2	2.7
Median	-	22.6	19.8	11.6	10.3	2.0	1.9
AVERAGE	-	22.2	18.6	12.0	10.6	2.5	2.3

Source: Edelweiss research

Cash flow metrics					
Year to December	CY18	CY19E	CY20E	CY21E	
Operating cash flow	11,181	20,255	19,674	20,177	
Financing cash flow	(4,411)	(4,524)	(5,451)	(8,721)	
Investing cash flow	(3,678)	(11,508)	(14,140)	(14,140)	
Net cash Flow	3,092	4,222	83	(2,684)	
Capex	(4,951)	(11,508)	(14,140)	(14,140)	
Dividend paid	(3,396)	(4,524)	(5,451)	(8,721)	

Profitability and efficiency ratios

Year to December	CY18	CY19E	CY20E	CY21E
ROAE (%)	15.1	13.6	12.0	11.5
ROACE (%)	15.7	19.9	17.8	17.0
Inventory Days	60	63	63	64
Debtors Days	19	20	20	20
Payable Days	171	167	161	154
Cash Conversion Cycle	(92)	(83)	(77)	(70)
Current Ratio	1.4	1.5	1.6	1.5
Gross Debt/EBITDA	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	16.2	26.3	26.6	27.4

Operating ratios

Year to December	CY18	CY19E	CY20E	CY21E
Total Asset Turnover	1.4	1.3	1.3	1.3
Fixed Asset Turnover	2.1	2.3	2.4	2.2
Equity Turnover	1.5	1.4	1.4	1.4

Valuation parameters

Year to December	CY18	CY19E	CY20E	CY21E
Adj. Diluted EPS (INR)	80.2	80.3	76.9	78.1
Y-o-Y growth (%)	64.6	0.1	(4.2)	1.6
Adjusted Cash EPS (INR)	112.1	111.9	108.6	113.5
Diluted P/E (x)	18.7	18.7	19.5	19.2
P/B (x)	2.7	2.4	2.3	2.2
EV/tonne (USD/tonne)	108	103	103	105
EV / Sales (x)	1.7	1.6	1.5	1.4
EV / EBITDA (x)	12.4	9.9	9.7	9.5
EV/EBITDA (x)+1 yr fwd.	10.0	9.7	-	-
Dividend Yield (%)	0.9	1.3	1.7	2.7

Additional Data

Directors Data

N S Sekhsaria	Chairman	Mr Jan Jensich	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 - Deloitte Haskins & Sells LLP

**as per last annual report*

Holding - Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp of India	6.50	Aditya Birla Sun Life AMC	2.36
Franklin Resources Inc	1.57	JPMorgan Chase & Co	1.34
Capital Group Cos Inc/The	1.29	ICICI Prudential Asset Management	1.22
SBI Funds Management Pvt Ltd	1.20	Reliance Capital Trustee Co Ltd	1.10
L&T Mutual Fund Tustee Ltd/India	0.87	Vanguard Group Inc/The	0.86

**as per last available data*

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	HOLD	SP	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
07-Oct-19	Cement	Demand pangs; recovery in H2FY20 key; <i>Result Preview</i>		
25-Sep-19	Cement	Tax reform: Limited benefits; <i>Sector Update</i>		
17-Sep-19	Cement	Railways' surcharge waiver to contain freight cost; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

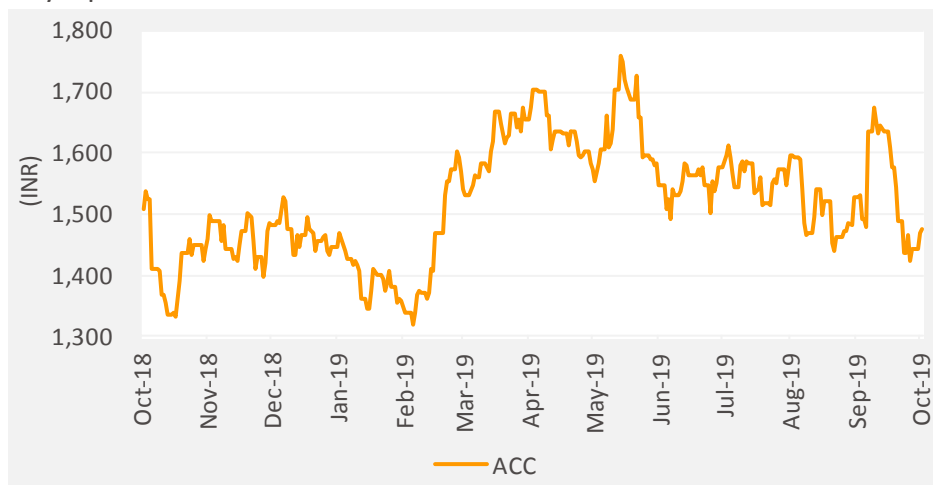
Edelweiss Research Coverage Universe

	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
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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