



# ACC

## Robust prices drive stellar performance

India Equity Research | Cement



ACC kicked off the sector's result season on a stellar note. Q2CY19 EBITDA at INR7.8bn rose 25% YoY (9% ahead of our estimate and 27% versus consensus) led by 11% (8% estimate) surge in realisation. Defying perception of a decline in industry demand, volumes stood largely flat YoY (in line). Cost/t, however, remained a sore point—rose 5% YoY versus 2% estimate. While fixed cost fell 4% YoY, variable cost/t rose 8% YoY (>2% QoQ) despite benign fuel cost. Going ahead, while cement prices are likely to dip in the near term (monsoon-led seasonal weakness), we expect some respite in cost owing to further dip in fuel prices. Calibrating H1CY19 performance and factoring price and cost changes, we revise up CY19 EBITDA 10%, but retain CY20E. Rolling over valuation to Q4CY20E we retain 12x EV/EBITDA leading to revised TP of INR1,846 (INR1,799 earlier). With 18% potential upside, we upgrade ACC to 'BUY'.

### Q2CY19: Key highlights

- Amidst capacity constraints, volume at 7.2mt remained flat YoY. However, it defied Street's perception of a dip in industry demand. We now estimate ~3% growth each for CY19 and CY20 (4% earlier).
- Realisation zoomed 11% QoQ (8% estimate) boosted by cement price hikes across regions. Though prices may cool in the near term owing to monsoon, we expect them to stay elevated YoY.
- While ACC managed to keep a tight leash on fixed cost (adjusted cost up 1% YoY), variable cost/t disappointed—rose 2% QoQ despite benign fuel prices. However, we expect some respite on this front driven by recent fall in fuel prices.
- Boosted by realisation, EBITDA/t clocked seven-year high of INR1,086 (up 26% YoY).

### Outlook and valuation: Defying consensus; upgrade to 'BUY'

ACC's Q2CY19 numbers defied consensus on two counts: 1) flat volumes versus decline estimate; and 2) earnings upgrade despite concerns of economic slowdown. The company looks set to benefit from industry positives of healthy cement prices and benign cost. Hence, we upgrade to 'BUY/SP' from 'HOLD/SU' with TP of INR1,846. At CMP, ACC trades at 10x 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 1567
Target Price	: INR 1846
52-week range (INR)	: 1,769 / 1,262
Share in issue (mn)	: 187.8
M cap (INR bn/USD mn)	: 294 / 4,356
Avg. Daily Vol.BSE/NSE('000)	: 794.7

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	54.5	54.5	54.5
MF's, FI's & BK's	22.3	21.6	23.6
FII's	8.7	8.9	7.2
Others	14.5	14.9	14.7
* Promoters pledged shares (% of share in issue)	:	NIL	

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Construction Material Index
1 month	(2.5)	(3.2)	(4.6)
3 months	(7.5)	(0.1)	(2.6)
12 months	13.9	5.8	0.0

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#### Financials

(INR mn)

Year to December	Q2CY19	Q2CY18	% Chg	Q1CY19	% Chg	CY18	CY19E	CY20E
Total operating Income	41,497	38,483	7.8	39,191	5.9	148,014	160,144	169,803
EBITDA	7,817	6,239	25.3	5,309	47.2	20,446	24,392	26,147
Adjusted Profit	4,513	3,255	38.6	3,384	33.4	15,066	14,445	14,865
Diluted EPS (INR)	24.0	17.3	38.6	18.0	33.4	80.2	76.9	79.1
Diluted P/E (x)						19.5	20.4	19.8
EV/EBITDA (x)						13.0	10.8	10.0
ROAE (%)						15.1	13.1	12.4

**Other highlights:**

RMC business posted robust performance with volume and revenue growth of 11% and 16% YoY, respectively.

Employee benefit expense on account of Employee Separation Scheme was nil for Q2CY19 compared to INR438mn in Q2CY18.

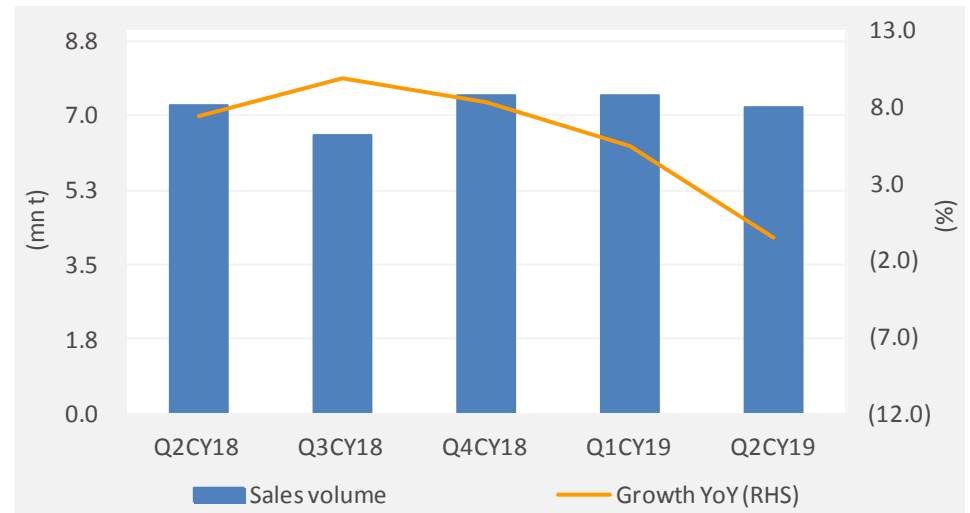
Other income was higher in Q1CY19 by ~INR995mn due to of partial recognition of interest and write back of interest on income tax related to a tax appeal.

**Table 1: Boosted by sharp uptick in realisations, EBITDA/t shot up 26% YoY**

(INR/tonne)	Q2CY19	Q2CY18	% change	Q1CY19	% change
Blended Realisation	5,764	5,315	8.4	5,225	10.3
Raw material	916	758	20.7	949	(3.5)
Power	1,133	1,037	9.2	1,055	7.4
Freight	1,451	1,434	1.2	1,415	2.5
Staff	282	354	(20.4)	266	6.0
Others	897	870	3.0	832	7.7
Cost	4,678	4,454	5.0	4,518	3.5
EBITDA	1,086	862	26.0	708	53.4

Source: Company, Edelweiss research

**Chart 1: Sales volumes remained flat YoY**



Source: Company, Edelweiss research

Chart 2: Realisation/t zoomed 11% QoQ

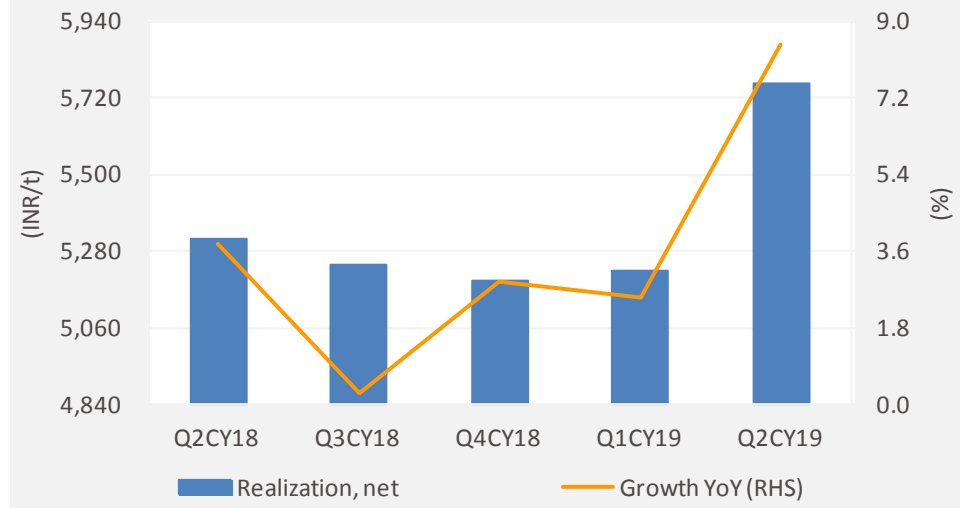


Chart 3: EBITDA/t grew 26% YoY to INR1,086

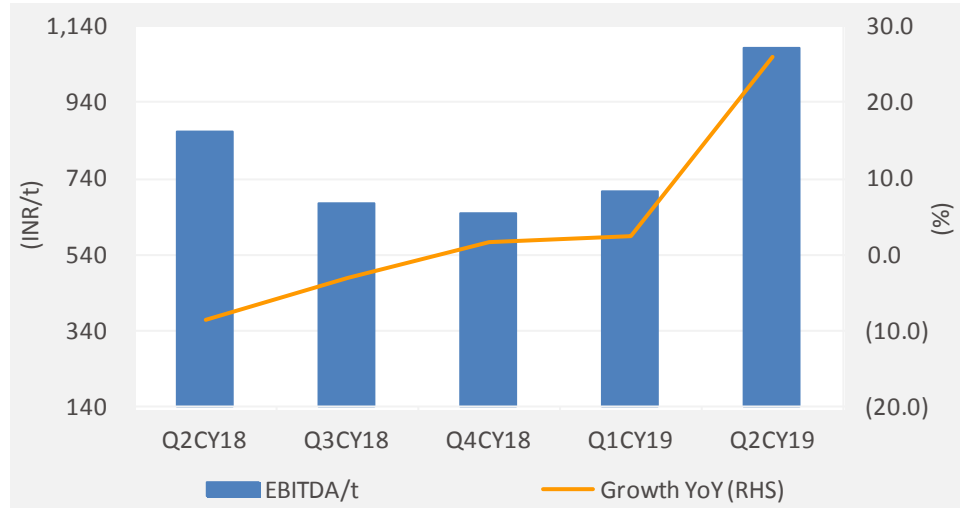


Table 2: Target price revised to INR1,846

Valuation	Q4CY20E
Assumed EV/EBITDA multiple (x)	12.0
EBITDA (INR mn)	26,134
EV (INR mn)	313,611
Less: Net debt (INR mn)	(33,263)
Mcap (INR mn)	346,874
Shares o/s (mn)	188
Value per share (INR)	1,846
Potential Upside (%)	17.8

Source: Edelweiss research

## Financial snapshot

(INR mn)

Year to December	Q2CY19	Q2CY18	% change	Q1CY19	% change	YTD19	CY19E	CY20E
Volume (million tonnes)	7.2	7.2	(0.6)	7.5	(4.0)	14.7	29.2	30.1
Total operating Income	41,497	38,483	7.8	39,191	5.9	80,688	160,144	169,803
Raw material costs	6,592	5,490	20.1	7,115	(7.4)	13,707	27,000	28,049
Freight outward	10,445	10,380	0.6	10,613	(1.6)	21,058	42,236	45,041
Staff costs	2,030	2,565	(20.9)	1,995	1.7	4,025	8,223	8,634
Power and fuel	8,158	7,510	8.6	7,916	3.1	16,073	32,175	34,246
Other expenses	6,456	6,300	2.5	6,243	3.4	12,699	26,118	27,685
Total expenditure	33,680	32,244	4.5	33,882	(0.6)	67,562	135,752	143,656
EBITDA	7,817	6,239	25.3	5,309	47.2	13,126	24,392	26,147
Depreciation	1,460	1,481	(1.4)	1,467	(0.5)	2,927	5,888	6,063
Interest	199	275	(27.8)	209	(4.7)	407	861	867
Other income	519	316	64.4	1,525	(66.0)	2,044	2,993	2,018
Profit before tax	6,677	4,798	39.2	5,159	29.4	11,836	20,636	21,235
Tax	2,164	1,543	40.3	1,774	22.0	3,939	6,191	6,371
Reported net profit	4,513	3,255	38.6	3,384	33.4	7,897	14,445	14,865
Adjusted Profit	4,513	3,255	38.6	3,384	33.4	7,897	14,445	14,865
Equity capital(FV INR10)	1,880	1,880		1,880		3,760	1,880	1,880
No. of shares (mn)	188	188		188		376	188	188
Diluted EPS (INR)	24.0	17.3	38.6	18.0	33.4	42.0	76.9	79.1
Diluted P/E (x)	-	-		-		-	20.4	19.8
EV/EBITDA (x)	-	-		-		-	10.8	10.0
ROAE (%)	-	-		-		-	13.1	12.4

## As % of net revenues

Raw material	15.9	14.3		18.2		17.0	16.9	16.5
Employee cost	4.9	6.7		5.1		5.0	5.1	5.1
Power & fuel	19.7	19.5		20.2		19.6	20.1	20.2
Freight outward	25.2	27.0		27.1		26.1	26.4	26.5
Other expenses	15.6	16.4		15.9		15.7	16.3	16.3
EBITDA	18.8	16.2		13.5		16.3	15.2	15.4
Reported net profit	10.9	8.5		8.6		9.8	9.0	8.8

## Change in Estimates

	CY19E			CY20E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	160,144	157,440	1.7	169,803	169,661	0.1	With robust performance in Q2CY19 providing a high base for the year, we revise up our CY19 EBITDA estimates by 10%.
EBITDA	24,392	22,128	10.2	26,147	26,180	(0.1)	
EBITDA Margin	15.2	14.1		15.4	15.4		
Adjusted Profit After Tax	14,445	12,556	15.0	14,865	14,609	1.8	
Net Profit Margin	9.0	8.0		8.8	8.6		
Capex	11,508	11,508	0.0	14,140	14,140	0.0	

## 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 Cement), 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	CY17	CY18	CY19E	CY20E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
<b>Company</b>				
EBITDA/ Tonne (INR)	728	720	836	868
Inst capacity (mtpa)	33	33	33	33
Capacity Utilisation (%)	79	85	87	90
Cement realiztn (INR/t)	5,067	5,212	5,488	5,635
RM cost per tonne	751	822	925	931
P&F cost per tonne	1,035	1,056	1,103	1,137
Freight cost per tonne	1,316	1,412	1,447	1,495
Other expenses per tonne	924	891	895	919
Total expenses per tonne	4,338	4,492	4,652	4,768
Effective tax rate (%)	29.5	(0.8)	30.0	30.0
Debtor days	16	19	20	21
Inventory days	59	60	62	63
Payable days	173	171	163	156

## Income statement

(INR mn)

Year to December	CY17	CY18	CY19E	CY20E
Income from operations	132,846	148,014	160,144	169,803
Materials costs	19,685	23,345	27,000	28,049
Employee costs	8,190	8,811	8,223	8,634
Other Expenses	85,881	95,412	100,529	106,973
EBITDA	19,091	20,446	24,392	26,147
Depreciation	6,401	5,996	5,888	6,063
EBIT	12,690	14,450	18,504	20,084
Less: Interest Expense	1,023	892	861	867
Add: Other income	1,316.5	1,385.00	2,992.99	2,017.83
Profit Before Tax	12,984	14,943	20,636	21,235
Less: Provision for Tax	3,829	(123)	6,191	6,371
Reported Profit	9,155	15,066	14,445	14,865
Adjusted Profit	9,155	15,066	14,445	14,865
Shares o /s (mn)	188	188	188	188
Adjusted Basic EPS	48.7	80.2	76.9	79.1
Diluted shares o/s (mn)	188	188	188	188
Adj. Diluted EPS (INR)	48.7	80.2	76.9	79.1
Adjusted Cash EPS	82.8	112.1	108.2	111.3
Dividend per share (DPS)	26.0	14.0	20.0	25.0
Dividend Payout Ratio(%)	64.2	21.0	31.3	36.7

## Common size metrics

Year to December	CY17	CY18	CY19E	CY20E
Operating expenses	85.6	86.2	84.8	84.6
EBITDA margins	14.4	13.8	15.2	15.4
Net Profit margins	6.9	10.2	9.0	8.8

## Growth ratios (%)

Year to December	CY17	CY18	CY19E	CY20E
Revenues	19.1	11.4	8.2	6.0
EBITDA	34.7	7.1	19.3	7.2
Adjusted Profit	44.8	64.6	(4.1)	2.9
EPS	44.8	64.6	(4.1)	2.9

Balance sheet		(INR mn)			
As on 31st December	CY17	CY18	CY19E	CY20E	
Share capital	1,880	1,880	1,880	1,880	
Reserves & Surplus	91,775	103,397	113,318	122,732	
Shareholders' funds	93,655	105,277	115,198	124,612	
Long term borrowings	1,420	1,395	1,395	1,395	
Short term borrowings	592	-	-	-	
Total Borrowings	2,012	1,395	1,395	1,395	
Deferred tax (net)	5,414	6,631	6,631	6,631	
<b>Sources of funds</b>	<b>101,080</b>	<b>113,303</b>	<b>123,224</b>	<b>132,638</b>	
Gross Block	144,494	148,600	152,600	161,600	
Net Block	72,013	70,122	68,234	71,171	
Capital work in progress	4,767	5,728	13,236	18,376	
Intangible Assets	398	372	372	372	
Total Fixed Assets	77,177	76,222	81,842	89,920	
Non current investments	13,374	16,596	16,596	16,596	
Cash and Equivalents	26,954	30,003	33,263	33,788	
Inventories	14,040	16,786	17,912	18,878	
Sundry Debtors	6,682	8,683	9,289	9,861	
Loans & Advances	2,658	4,661	4,661	4,661	
Other Current Assets	8,004	7,299	7,299	7,299	
Current Assets (ex cash)	31,384	37,429	39,162	40,700	
Trade payable	42,620	44,854	45,546	46,272	
Other Current Liab	5,189	2,093	2,093	2,093	
Total Current Liab	47,808	46,948	47,640	48,365	
Net current assets	(16,425)	(9,519)	(8,478)	(7,666)	
<b>Uses of funds</b>	<b>101,080</b>	<b>113,303</b>	<b>123,224</b>	<b>132,638</b>	
BVPS (INR)	498.3	560.1	612.9	663.0	

Free cash flow		(INR mn)			
Year to December	CY17	CY18	CY19E	CY20E	
Reported Profit	9,155	15,066	14,445	14,865	
Add: Depreciation	6,401	5,996	5,888	6,063	
Interest (Net of Tax)	721	899	603	607	
Others	(15,880)	(6,925)	(3,862)	(1,132)	
Less: Changes in WC	(15,150)	3,856	(2,218)	287	
Operating cash flow	15,548	11,181	19,292	20,116	
Less: Capex	5,042	5,067	11,508	14,140	
<b>Free Cash Flow</b>	<b>10,506</b>	<b>6,114</b>	<b>7,784</b>	<b>5,976</b>	

## 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	4,356	20.4	19.8	10.8	10.0	1.6	1.5
Ambuja Cement Ltd	6,334	32.5	27.2	19.7	17.0	2.4	2.2
India Cements	443	9.3	6.4	6.0	4.9	1.0	0.9
JK Cement	1,114	13.8	13.1	8.5	7.6	1.7	1.4
Shree Cements	10,902	33.7	26.4	17.1	14.4	5.0	4.3
UltraTech Cement	18,416	28.8	21.7	14.6	11.9	3.2	2.7
Median	-	24.6	20.8	12.7	11.0	2.1	1.9
AVERAGE	-	23.1	19.1	12.8	11.0	2.5	2.2

Source: Edelweiss research

Cash flow metrics					
Year to December	CY17	CY18	CY19E	CY20E	
Operating cash flow	15,548	11,181	19,292	20,116	
Financing cash flow	(4,221)	(4,411)	(4,524)	(5,451)	
Investing cash flow	(3,846)	(3,678)	(11,508)	(14,140)	
Net cash Flow	7,481	3,092	3,259	525	
Capex	(5,194)	(4,951)	(11,508)	(14,140)	
Dividend paid	(3,842)	(3,396)	(4,524)	(5,451)	

## Profitability and efficiency ratios

Year to December	CY17	CY18	CY19E	CY20E
ROAE (%)	10.2	15.1	13.1	12.4
ROACE (%)	15.2	15.7	19.3	18.2
Inventory Days	59	60	62	63
Debtors Days	16	19	20	21
Payable Days	173	171	163	156
Cash Conversion Cycle	(98)	(92)	(80)	(73)
Current Ratio	1.2	1.4	1.5	1.5
Gross Debt/EBITDA	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	12.4	16.2	21.5	23.2

## Operating ratios

Year to December	CY17	CY18	CY19E	CY20E
Total Asset Turnover	1.4	1.4	1.4	1.3
Fixed Asset Turnover	1.8	2.1	2.3	2.4
Equity Turnover	1.5	1.5	1.5	1.4

## Valuation parameters

Year to December	CY17	CY18	CY19E	CY20E
Adj. Diluted EPS (INR)	48.7	80.2	76.9	79.1
Y-o-Y growth (%)	44.8	64.6	(4.1)	2.9
Adjusted Cash EPS (INR)	82.8	112.1	108.2	111.3
Diluted P/E (x)	32.2	19.5	20.4	19.8
P/B (x)	3.1	2.8	2.6	2.4
EV/tonne (USD/tonne)	125	114	109	109
EV / Sales (x)	2.0	1.8	1.6	1.5
EV / EBITDA (x)	14.1	13.0	10.8	10.0
EV/EBITDA (x)+1 yr fwd.	13.2	10.9	10.0	-
Dividend Yield (%)	1.7	0.9	1.3	1.6

## 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	2.17
Franklin Resources Inc	1.46	Capital Group Cos Inc	1.43
JPMorgan Chase & Co	1.42	Reliance Capital Trustee Co Ltd	1.20
SBI Funds Management Pvt Ltd	1.13	ICICI Prudential Life Insurance Co	1.06
DSP Investment Managers Pvt Ltd	0.94	ICICI Prudential AMC	0.91

*\*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	BUY	SO	M
UltraTech Cement	HOLD	SP	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
08-Jul-19	<b>Cement</b>	Defiant resilience; Q1FY20 Result Preview		
27-May-19	<b>India Cements</b>	Operating outlook sanguine; concerns persist; Result Update	114	Hold
24-May-19	<b>Grasim Industries</b>	Near-term margin pressure; remains a value play; Result Update	910	Buy

### Distribution of Ratings / Market Cap

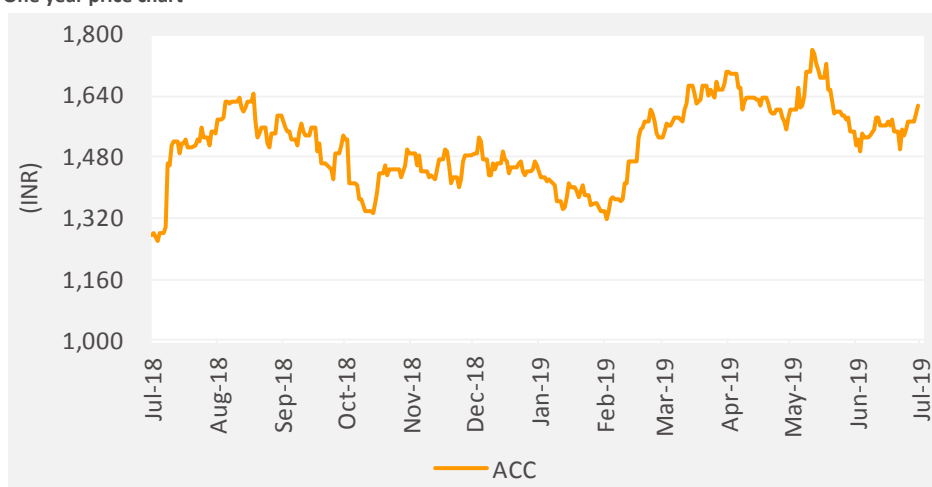
#### Edelweiss Research Coverage Universe

	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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