

ACC

Stellar show despite odds

India Equity Research | Cement



ACC reported stellar Q2CY18 performance despite odds such as weak cement prices, rising fuel cost and a high base. Adjusted EBITDA, at INR6.7bn (INR4.2bn estimate), rose 5% YoY with beat across revenue and cost. While volumes rose 7.4% YoY (4% estimate), realisation sprung a positive surprise—up 4.5% QoQ (versus flat estimate). Focus on premium products and improved regional sales mix aided realisation beat. Costs surprised yet again with tight leash on fixed expenses and benefits of efficiency enhancement on variable cost. Fixed expenses (adjusted to one-off employee separation cost) dipped 1.5% YoY and variable cost/t too fell 1% QoQ. With current cement prices being higher than Q2CY18 average, we see limited risk to our CY18E EBITDA. We believe, the pan-India player will benefit from the imminent rise in the industry's clinker utilisation and, hence, retain CY19 estimates. Maintain 'BUY' with TP of INR1,817 (12x CY19E EV/EBITDA). Any effort by ACC to increase capacity (organic or inorganic expansion) will boost sentiments further.

Q2CY18 result: Key highlights

- Riding growth across regions (led by East), ACC's volumes at 7.2mt grew 7.4% YoY. H1CY18 volumes jumped 7.5% versus our CY18 estimate of 6%. With focus on sale of premium products and benefits of improved geographical sales mix, realisation surprised with 4.5% QoQ (5% YoY) rise. Current cement prices being ahead of Q2CY18 average and chances of them improving further lend comfort.
- Despite rise in fuel cost, variable cost/t dipped 1% QoQ with higher sale of blended cement and focus on fuel efficiency. Fixed cost (adjusted to INR438mn employee separation expenses) remained low—down 1.5% YoY.
- While reported EBITDA/t stood at INR862 (down 9% YoY), adjusted EBITDA/t stood at INR922 (down mere 2% despite a high base).

Outlook and valuations: On a strong footing; maintain 'BUY'

We believe, the stock's underperformance is set to reverse given healthy H1CY18 numbers, realisation surprise in Q2CY18, positive cement price trend and current valuations—8x CY19E EV/EBITDA and USD93 EV/t—which offer attractive risk-reward. We maintain 'BUY/SP' with INR1,817.

Financials		(INR mn)						
Year to Dec.	Q2CY18	Q2CY17	∓ change	Q1CY18	∓ change	CY17	CY18E	CY19E
Net revenues	38,483	34,529	11.5	36,246	6.2	132,846	145,466	159,984
EBITDA	6,239	6,354	(1.8)	4,911	27.0	19,091	20,104	25,806
Adjusted profit	3,255	3,217	1.2	2,451	32.8	9,155	10,374	14,368
Diluted EPS (INR)	17.3	17.1	1.2	13.0	32.8	48.7	55.2	76.4
Diluted P/E (x)						26.7	23.6	17.0
EV/EBITDA (x)						11.5	10.6	7.9
ROAE (%)						10.2	10.8	14.2

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 1,311
Target Price	: INR 1,817
52-week range (INR)	: 1,870 / 1,255
Share in issue (mn)	: 187.8
M cap (INR bn/USD mn)	: 246 / 3,575
Avg. Daily Vol.BSE/NSE('000)	: 438.2

SHARE HOLDING PATTERN (%)			
	Current	Q4FY18	Q3FY18
Promoters *	54.5	54.5	54.5
MF's, FI's & BK's	17.7	17.7	17.8
FII's	13.7	13.7	13.5
Others	14.0	14.0	14.1
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)			
	Stock	Nifty	EW Construction Material Index
1 month	(0.8)	2.3	(3.5)
3 months	(18.9)	3.7	(14.1)
12 months	(26.5)	10.7	(8.8)

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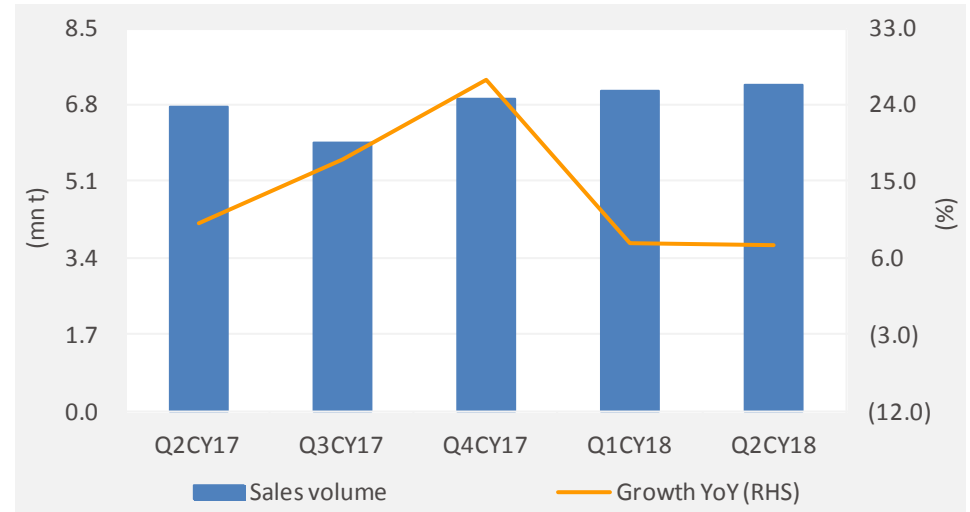
July 23, 2018

Table 1: Tight leash on cost arrested EBITDA/t decline despite high base

(INR/tonne)	Q2CY18	Q2CY17	% change	Q1CY18	% change
Blended Realisation, net	5,315	5,123	3.8	5,098	4.3
Power	1,037	1,016	2.1	1,053	(1.5)
Freight	1,434	1,299	10.4	1,410	1.7
Staff	354	324	9.4	279	27.1
Others	870	946	(8.0)	869	0.2
Cost	4,454	4,180	6.5	4,407	1.1
EBITDA	862	943	(8.6)	691	24.8

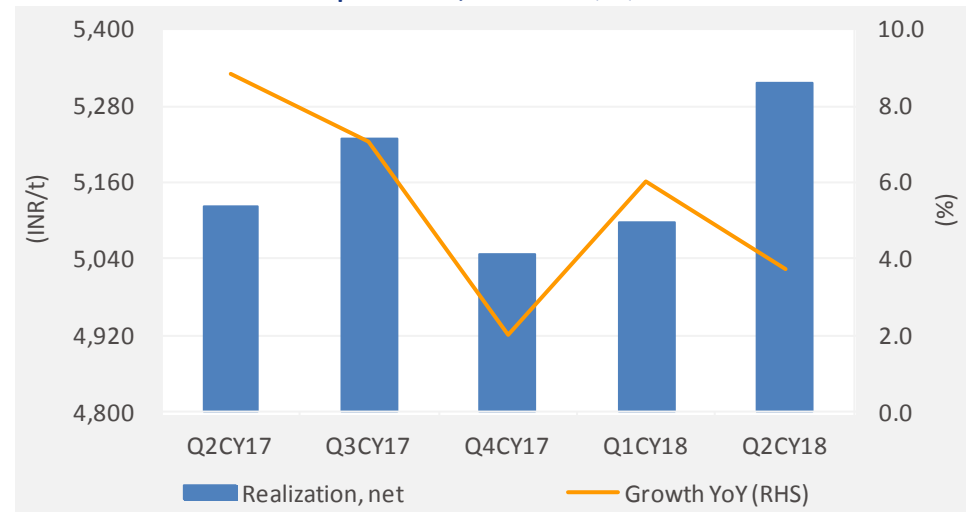
Source: Company, Edelweiss research

Chart 1: Sales volume rose 7% YoY

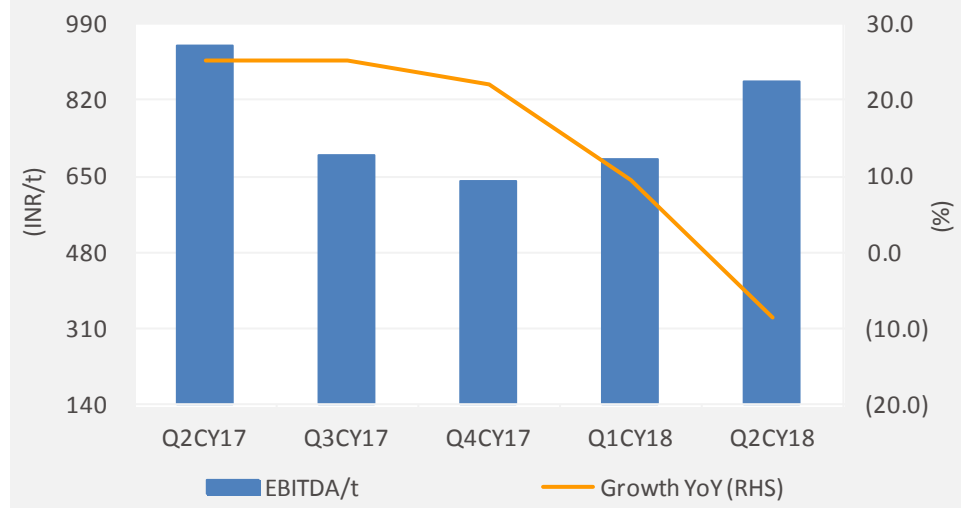


Source: Company, Edelweiss research

Chart 2: Blended realisation up 3.8% YoY, and 4.3% QoQ



Source: Company, Edelweiss research

Chart 3: EBITDA/t at INR862, down ~9% YoY

Source: Company, Edelweiss research

Table 2: Target price maintained at INR1,817

Valuation	CY19E
Assumed EV/EBITDA multiple (x)	12.0
EBITDA (INR mn)	25,806
EV (INR mn)	309,667
Less: Net debt CY17E (INR mn)	(31,898)
Mcap (INR mn)	341,565
Shares o/s (mn)	188
Value per share (INR)	1,817
Potential Upside (%)	39.8

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to December	Q2CY18	Q2CY17	% change	Q1CY18	% change	YTD18	CY18E	CY19E
Volume (million tonnes)	7.2	6.7	7.4	7.1	1.8	14.3	27.7	28.8
Total operating Income	38,483	34,529	11.5	36,246	6.2	74,728	145,466	159,984
Raw material costs	5,490	4,018	36.6	5,666	(3.1)	11,157	22,332	24,042
Freight outward	10,380	8,753	18.6	10,023	3.6	20,403	39,421	42,228
Staff costs	2,565	2,182	17.5	1,982	29.4	4,547	8,532	9,044
Power and fuel	7,510	6,847	9.7	7,488	0.3	14,997	30,496	32,809
Other expenses	6,300	6,374	(1.2)	6,175	2.0	12,475	24,581	26,056
Total expenditure	32,244	28,175	14.4	31,335	2.9	63,579	125,362	134,178
EBITDA	6,239	6,354	(1.8)	4,911	27.0	11,150	20,104	25,806
Depreciation	1,481	1,621	(8.6)	1,474	0.5	2,955	6,170	6,640
Interest	275	225	22.4	193	42.6	468	902	892
Other income	316	260	21.6	468	(32.6)	784	1,787	2,251
Profit before tax	4,798	4,768	0.6	3,712	29.3	8,510	14,820	20,525
Tax	1,543	1,550	(0.5)	1,261	22.3	2,804	4,446	6,158
Reported net profit	3,255	3,217	1.2	2,451	32.8	5,706	10,374	14,368
Adjusted Profit	3,255	3,217	1.2	2,451	32.8	5,706	10,374	14,368
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)	17.3	17.1	1.2	13.0	32.8	30.4	55.2	76.4
Diluted P/E (x)	-	-		-		-	23.8	17.2
EV/EBITDA (x)	-	-		-		-	10.8	8.0
ROAE (%)	-	-		-		-	10.8	14.2

As % of net revenues

Raw material	14.3	11.6		15.6		29.9	15.4	15.0
Employee cost	6.7	6.3		5.5		12.1	5.9	5.7
Power & fuel	19.5	19.8		20.7		40.2	21.0	20.5
Freight outward	27.0	25.4		27.7		54.6	27.1	26.4
Other expenses	16.4	18.5		17.0		33.4	16.9	16.3
EBITDA	16.2	18.4		13.5		29.8	13.8	16.1
Reported net profit	8.5	9.3		6.8		15.2	7.1	9.0

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) high operating leverage — 1% volume variation is ~3-4% positive for EPS and 1% in price is ~8-10% EPS accretive; and (c) current EV/t of ~USD102 (CY19E) appears reasonable versus other large peers and positioning of industry cycle. In addition, possible synergies with Ambuja post the restructuring may further aid profitability.

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
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Company				
EBITDA/ Tonne (INR)	616	728	725	895
Inst capacity (mtpa)	33	33	33	33
Capacity Utilisation (%)	69	79	83	86
Cement realiztn (INR/t)	4,851	5,067	5,247	5,549
RM cost per tonne	737	751	806	834
P&F cost per tonne	938	1,035	1,100	1,138
Freight cost per tonne	1,154	1,316	1,422	1,465
Other expenses per tonne	1,068	924	887	904
Total expenses per tonne	4,235	4,338	4,522	4,654
Effective tax rate (%)	25.5	29.5	30.0	30.0
Debtor days	16	16	17	16
Inventory days	64	59	57	55
Payable days	174	183	188	176

Income statement

(INR mn)

Year to December	CY16	CY17	CY18E	CY19E
Income from operations	111,583	132,846	145,466	159,984
Materials costs	16,944	19,685	22,332	24,042
Employee costs	7,783	8,190	8,532	9,044
Other Expenses	72,686	85,881	94,498	101,093
EBITDA	14,170	19,091	20,104	25,806
Depreciation	6,052	6,401	6,170	6,640
EBIT	8,118	12,690	13,935	19,166
Less: Interest Expense	729	1,023	902	892
Add: Other income	1,127.09	1,316.5	1,787.26	2,251.36
Profit Before Tax	8,089	12,984	14,820	20,525
Less: Provision for Tax	2,065	3,829	4,446	6,158
Reported Profit	6,024	9,155	10,374	14,368
Exceptional Items	(300)	-	-	-
Adjusted Profit	6,324	9,155	10,374	14,368
Shares o /s (mn)	188	188	188	188
Adjusted Basic EPS	33.6	48.7	55.2	76.4
Diluted shares o/s (mn)	188	188	188	188
Adj. Diluted EPS (INR)	33.6	48.7	55.2	76.4
Adjusted Cash EPS	70.6	82.8	88.0	111.8
Dividend per share (DPS)	17.0	26.0	28.0	30.0
Dividend Payout Ratio(%)	63.8	64.2	61.1	47.2

Common size metrics

Year to December	CY16	CY17	CY18E	CY19E
Operating expenses	87.3	85.6	86.2	83.9
EBITDA margins	12.7	14.4	13.8	16.1
Net Profit margins	5.7	6.9	7.1	9.0

Growth ratios (%)

Year to December	CY16	CY17	CY18E	CY19E
Revenues	(5.4)	19.1	9.5	10.0
EBITDA	(7.8)	34.7	5.3	28.4
Adjusted Profit	(9.1)	44.8	13.3	38.5
EPS	(9.1)	44.8	13.3	38.5

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	95,815	103,396	
Shareholders' funds	86,614	93,655	97,695	105,276	
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	
Sources of funds	94,013	101,080	105,120	112,701	
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	3,560	3,560	3,560	
Intangible Assets	35	398	398	398	
Total Fixed Assets	78,174	75,970	73,808	71,176	
Non current investments	7,190	15,524	15,524	15,524	
Cash and Equivalents	18,439	26,954	32,489	42,246	
Inventories	12,238	14,040	14,650	15,125	
Sundry Debtors	4,677	6,682	7,056	7,342	
Loans & Advances	13,056	1,715	1,715	1,715	
Other Current Assets	602	8,004	8,004	8,004	
Current Assets (ex cash)	30,572	30,441	31,426	32,187	
Trade payable	34,300	47,296	47,615	47,920	
Other Current Liab	6,062	512	512	512	
Total Current Liab	40,362	47,808	48,127	48,432	
Net current assets	(9,790)	(17,367)	(16,701)	(16,245)	
Uses of funds	94,013	101,080	105,120	112,701	
BVPS (INR)	460.8	498.3	519.8	560.1	

Free cash flow		(INR mn)			
Year to December	CY16	CY17	CY18E	CY19E	
Reported Profit	6,024	9,155	10,374	14,368	
Add: Depreciation	6,052	6,401	6,170	6,640	
Interest (Net of Tax)	623	721	631	624	
Others	(4,993)	(21,244)	(6,517)	(10,382)	
Less: Changes in WC	(6,095)	(16,093)	(4,869)	(9,301)	
Operating cash flow	13,801	11,126	15,527	20,552	
Less: Capex	4,647	3,834	4,008	4,008	
Free Cash Flow	9,154	7,292	11,519	16,544	

Cash flow metrics				
Year to December	CY16	CY17	CY18E	CY19E
Operating cash flow	13,801	11,126	15,527	20,552
Financing cash flow	(4,212)	(5,941)	(6,334)	(6,786)
Investing cash flow	(5,391)	3,330	(4,008)	(4,008)
Net cash Flow	4,199	8,515	5,185	9,757
Capex	(4,976)	(4,197)	(4,008)	(4,008)
Dividend paid	(3,853)	(5,876)	(6,334)	(6,786)

Profitability and efficiency ratios				
Year to December	CY16	CY17	CY18E	CY19E
ROAE (%)	7.4	10.2	10.8	14.2
ROACE (%)	10.6	15.2	16.1	20.7
Inventory Days	64	59	57	55
Debtors Days	16	16	17	16
Payable Days	174	183	188	176
Cash Conversion Cycle	(94)	(109)	(114)	(105)
Current Ratio	1.2	1.2	1.3	1.5
Gross Debt/EBITDA	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	-	-	-	-
Interest Coverage Ratio	11.1	12.4	15.4	21.5

Operating ratios				
Year to December	CY16	CY17	CY18E	CY19E
Total Asset Turnover	1.2	1.4	1.4	1.5
Fixed Asset Turnover	1.8	1.8	2.0	2.3
Equity Turnover	1.3	1.5	1.5	1.6

Valuation parameters				
Year to December	CY16	CY17	CY18E	CY19E
Adj. Diluted EPS (INR)	33.6	48.7	55.2	76.4
Y-o-Y growth (%)	(9.1)	44.8	13.3	38.5
Adjusted Cash EPS (INR)	70.6	82.8	88.0	111.8
Diluted P/E (x)	39.0	26.9	23.7	17.1
P/B (x)	2.8	2.6	2.5	2.3
EV/tonne (USD/tonne)	102	102	99	93
EV / Sales (x)	2.0	1.7	1.5	1.3
EV / EBITDA (x)	16.2	11.6	10.7	8.0
EV/EBITDA (x)+1 yr fwd.	11.9	10.9	8.3	-
Dividend Yield (%)	1.3	2.0	2.1	2.3

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	3,575	23.7	17.1	10.7	8.0	1.5	1.3
Ambuja Cement Ltd	5,711	29.5	22.2	17.3	13.3	2.6	2.3
India Cements	481	13.5	9.1	6.5	5.4	1.2	1.0
Shree Cements	8,536	36.2	23.5	19.0	13.5	4.7	3.8
UltraTech Cement	15,996	34.3	21.6	16.5	11.7	3.2	2.6
Median	-	29.5	21.6	16.5	11.7	2.6	2.3
AVERAGE	-	27.4	18.7	14.0	10.4	2.6	2.2

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 invsts ltd	4.48	Capital group compan	3.78
Jpmorgan chase & co	2.68	Reliance capital tru	1.58
Franklin templeton i	1.2	Aditya birla sun lif	1.18
Vanguard group	0.91	Sbi funds management	0.83

**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	SO	M	India Cements	BUY	SP	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
19-Jul-18	UltraTech Cement	Decent performance; confident on recovery ; <i>Result Update</i>	3,857	Buy
25-May-18	India Cements	Muted quarter; negatives priced in ; <i>Result Update</i>	130	Buy
23-May-18	Grasim Industries	Good going for standalone business; <i>Result Update</i>	1,047	Buy

Distribution of Ratings / Market Cap

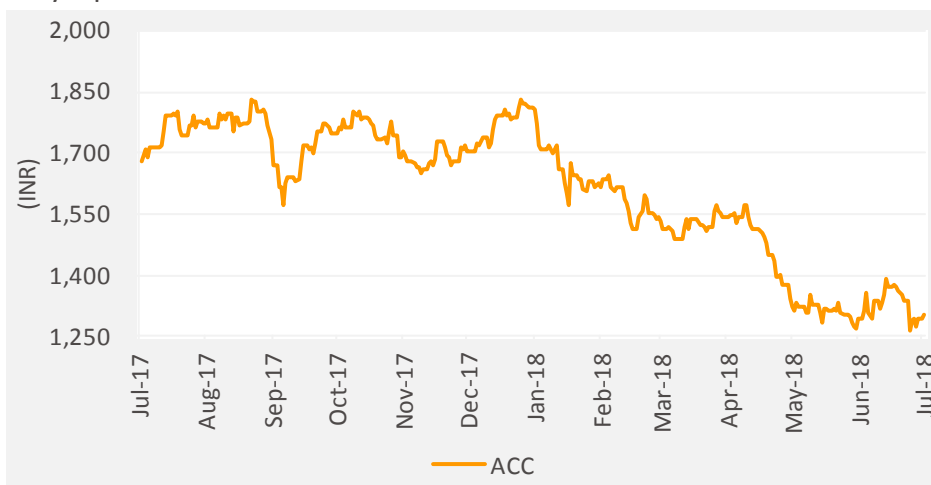
Edelweiss Research Coverage Universe

	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
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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