ACC (ACC)

₹ 1,420

Volume growth intact; Realisations holds a key…

- ACC Q3CY18 results were above our estimates. Revenues increased by 10.1% YoY to ₹ 3,364 crore (above I-direct estimate of ₹ 3,259.8 crore) led by 10.0% YoY increase in volumes to 6.6 mt (vs I-direct estimate of 6.4 mt). Realisations for the quarter remained flat YoY to ₹5136/t that also remained ahead of our estimates due better pricing environment in East & central regions added by rise in the share of value added premium products during the quarter.
- On the margin front, the EBITDA margin decreased 46 bps YoY to 11.1% due to higher freight cost (up 16.8% YoY led by higher diesel price) and higher raw material cost (up 17.9% YoY). However, EBITDA margin remained marginally above our estimate of 11% due to beat in the realisation. Company reported EBITDA/t of ₹572/t (vs I-direct est: ₹ 560/t).
- Net profit increased 15.2% YoY to ₹209.2 crore (vs I-direct est: ₹183.1 crore) mainly led by lower depreciation & interest costs.

Normal monsoon, rural demand to drive growth…

A normal monsoon and uptick in rural demand is expected to benefit the construction sector. In addition, sustained infrastructure spends in low cost housing, roads along with a pick-up in private capex is expected to further boost cement consumption. Apart from improving macro demand, the company's expansion in the eastern region by ~5 MT (of which 2.8 MT was already commissioned at Jamul with the rest to come up in Kharagpur) is expected to drive volumes in the next few years (8.4% CAGR in CY17-19E). Further, higher realisation led by increased sale of premium products is expected to drive topline over the next few years.

…operating efficiency to drive margins

ACC has rationalised its selling, general & administrative (SG&A) costs in Q2CY18. Going forward, we expect the company's focus on rationalising its fixed and other expenses (higher than peers) to further boost margins. Similarly, usage of alternative fuel is expected to rise from the current 3% to 5% over the next 12 months. The company is also focusing on increasing the volume of premium products and higher home market sales to reduce lead distance resulting in higher margins.

Healthy cash flow generation may boost dividend payout

The company generated an healthy FCF of over ₹1,000 crore in CY17, which resulted in higher dividend payment of ₹26/share for CY17 implying a dividend payout of 53%. Going forward, considering limited capacity addition by the company and FCF generation of over ~₹3000 crore in CY18-19E, we expect higher dividend payout to continue.

Cost pressure to recede gradually; Available at attractive valuations!!

After reporting subdued volume growth (1.8% CAGR in CY13-17), ACC reported double digit volume growth (up 14.0% YoY) in CY17 led by capacity expansion. Going forward, with higher infra spending, revival in rural economy post hike in MSP for agricultural produce and pre-election spending, we expect demand to improve (that has remained a laggard till now). On the margin front, we expect margins to improve QoQ led by price hikes and stabilisation in the operating costs. The stock is available at attractive valuations of 11.0x FY20E EV/EBITDA and EV/t of $109/t post recent corrections. Hence, maintain our **BUY** rating. We revise our target price downwards to ₹ 1,750 (i.e. valuing the stock at CY19E EV/tonne of $140/tonne, 14.0x CY19E EV/EBITDA).

Rating matrix

Rating	:	Buy
Target	:	₹ 1750
Target Period	:	12-15 months
Potential Upside	:	23%

What's Changed?

Target	Changed from ₹ 1800 to ₹ 1750
EPS CY18E	Changed from ₹ 59.7 to ₹ 49.9
EPS CY19E	Changed from ₹ 76.0 to ₹ 68.8
Rating	Unchanged

Quarterly Performance

	Q3CY18	Q3CY17	YoY (%)	Q2CY18	QoQ (%)
Revenue	3,364.0	3,054.5	10.1	3,767.9	-10.7
EBITDA	374.3	353.8	5.8	544.6	-31.3
EBITDA (%)	11.1	11.6	-46 bps	14.5	-332 bps
PAT	209.2	181.5	15.2	328.7	-36.4

Key Financials

₹ Crore	CY16	CY17	CY18E	CY19E
Net Sales	10767.8	12931.0	14173.0	15803.3
EBITDA	1256.6	1558.3	1608.8	2085.5
PAT	658.3	924.4	936.9	1292.4
EPS (₹)	35.0	49.2	49.9	68.8

Valuation summary

	CY16	CY17	CY18E	CY19E
PE (x)	40.5	28.9	28.5	20.6
Target PE (x)	50.0	35.6	35.1	25.4
EV to EBITDA (x)	19.8	15.4	14.7	11.0
EV/Tonne(US$)	135	121	113	109
Price to book (x)	3.1	2.9	2.8	2.7
RoNW (%)	8.1	9.9	9.7	12.8
RoCE (%)	10.7	14.0	14.2	18.4

Stock data

Particular	Amount
Mcap	₹ 26682 crore
Debt (CY17)	₹ 70 crore
Cash & Invest (CY17)	₹ 2732 crore
EV	₹ 24019 crore
52 week H/L	₹ 1870 / 1255
Equity cap	₹ 187.8 crore
Face value	₹ 10

Price performance (%)

	1M	3M	6M	12M
ACC	-0.7	-17.9	-29.8	-26.6
UltraTech Cement	4.9	-3.6	-12.7	-11.1
Ramco Cement	-10.6	-22.2	-18.5	-7.9

Research Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Romil Mehta
romil.mehta@icicisecurities.com

Variance analysis

	Q3CY18	Q3CY18E	Q3CY17	YoY (%)	Q2CY18	QoQ (%)	Comments
Net Sales	3,364.0	3,259.8	3,054.5	10.1	3,767.9	-10.7	Higher growth in premium products and healthy demand across regions drove revenues during the quarter
Other Incomes	102.0	80.0	86.3	18.2	112.9	-9.7	
Raw Material Expenses	562.3	499.5	476.9	17.9	608.2	-7.6	The increase in RM expenses was due to a sharp rise in slag prices and long lead distance to source fly ash
Employee Expenses	212.6	217.7	201.3	5.6	257.1	-17.3	
Change in stock	-89.6	0.0	18.7	-578.2	-59.5	NM	
Power and fuel	730.9	723.7	673.8	8.5	751.6	-2.8	Higher pet coke prices led to rise in power cost
Freight	933.6	903.0	799.5	16.8	1,033.2	-9.6	Higher diesel prices led to increase in freight cost
Others	639.9	557.2	530.4	20.6	632.7	1.1	Lower SG&A expenses and fixed cost optimisation led to lower other expenses
EBITDA	374.3	358.6	353.8	5.8	544.6	-31.3	
EBITDA Margin (%)	11.1	11.0	11.6	-46 bps	14.5	-332 bps	Higher input cost dented margins
Interest	19.9	27.3	20.3	-1.8	27.3	-26.9	
Depreciation	150.8	145.4	156.0	-3.4	149.0	1.2	
PBT	305.6	266.0	263.8	15.9	481.2	-36.5	
Total Tax	98.9	85.1	84.9	16.4	154.4	-36.0	
Adjusted PAT	209.2	183.1	181.5	15.2	328.7	-36.4	Lower depreciation expenses led to higher PAT during the quarter
Key Metrics							
Volume (MT)	6.6	6.4	6.0	9.9	7.2	-9.5	Healthy demand across regions and higher sales of premium products drove volumes in Q2CY18
Realisation (₹)	5,136	5,090	5,125	0.2	5,204	-1.3	Higher sales of premium products drove margins
EBITDA per Tonne (₹)	572	560	594	-3.7	752	-24.0	

Source: Company, ICICI Direct Research

Change in estimates

	CY18E			CY19E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Revenue	14,173.0	14,173.0	0.0	15,803.3	15,803.3	0.0	Healthy infra growth and revival in rural economy to drive revenues
EBITDA	1,633.6	1,608.8	-1.5	2,102.0	2,085.5	-0.8	
EBITDA Margin (%)	11.5	11.4	-18 bps	13.3	13.2	-10 bps	We factor in current quarters impact into our model leading to marginal contraction in margins.
PAT	935.8	936.9	0.1	1,303.8	1,292.4	-0.9	
EPS (₹)	49.8	49.9	0.1	69.4	68.8	-0.9	

Source: Company, ICICI Direct Research

Assumptions

	Current						Earlier		Comments
	CY14	CY15	CY16	CY17	CY18E	CY19E	CY18E	CY19E	
Volume (MT)	24.2	23.6	23.0	26.2	28.2	30.8	28.2	30.8	Volumes to grow at a CAGR of 8.4% over CY17-19E
Realisation (₹)	4,742	4,838	4,682	4,932	5,030	5,131	5,030	5,131	
EBITDA per Tonne (₹)	518	496	544	594	571	677	580	682	EBITDA/t to improve from ₹ 594/t to ₹ 677/t

Source: Company, ICICI Direct Research

Annual Report Analysis

Benefits of capacity expansion materialise in current year: The company commissioned Jamul and Sindri plants (with capacity of 2.8 MT) in the second half of CY16 taking the capacity to 33.4 MT. However, the ramp up in capacity was visible in CY17 resulting in 14.5% YoY to 26.5 MT growth in volumes in CY17. The increase in capacity also enabled the company to regain its lost market share. The company's volume growth in CY17 outperformed industry growth of 6.0% YoY.

Volume mix and RMC: The company sold 78% of volumes in trade segment (retail) and the balance in the non-trade segment (institutional). The company sold 27.3 lakh cubic metre of volume in the ready mix concrete (RMC) segment leading to volume growth of 11.7% YoY in RMC. Incentives under various state investment promotion schemes have increased by ₹ 86 crore including an accrual of ₹ 67 crore incentive for the new Sindri plant in Jharkhand in the current year.

Rising cost pressure contained by cost rationalisation: The company's cost/t in CY17 increased 4.8% YoY mainly led by an increase in power & fuel cost and freight cost. The rise in power cost was mainly due to an increase in pet coke price (pet coke consumption in fuel mix has increased from 60.0% to 67.0% in CY17), imported and domestic coal prices. The increase in freight cost was due to a change in sales pattern (from ex-works to FOR sales) and higher diesel prices. However, to contain these rising cost, the company has taken various measures like lowering power consumption from 88.7 Kwh/t to 84.3 Kwh/t of cement and higher usage of alternative fuels (up from 3.0% to 4.0% in CY17). The company's other expenses/t also declined 9.3% YoY led by a decline in consumption of stores and spares parts (on account of lower maintenance cost compared to the previous year). Going forward, the cost is further expected to improve due to master supply agreement (MSA) with Ambuja Cements. The proposed agreement will help unlock synergy between ACC and Ambuja leading to lower lead distance and maximise utilisation of assets as well as spare inventory.

Capacity expansion drove depreciation expenses: Capitalisation of Jamul project in Q3CY16 and Sindri project in Q4CY16 led to 5.6% YoY increase in depreciation expenses.

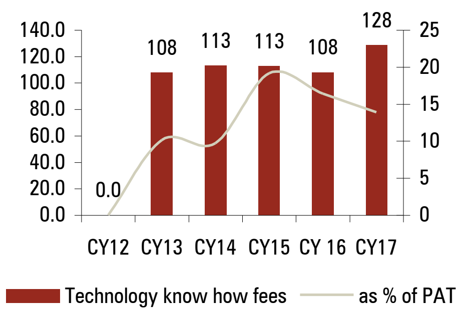
Improvement in return ratios: An increase in utilisation (up from 71% to 75%) and improvement in operating margins (up from 11.7% to 12.1%) led to increase in RoCE from 10.7% in CY16 to 14.0% in CY17.

Healthy growth in operating cash flow: Operating cash flow increased by ₹ 175 crore in CY17 mainly led by ₹ 386 crore increase in profitability partly offset by an increase in working capital by ₹ 89 crore compared to a reduction of ₹ 176 crore in the previous year. The rise in working capital was mainly led by higher payable days.

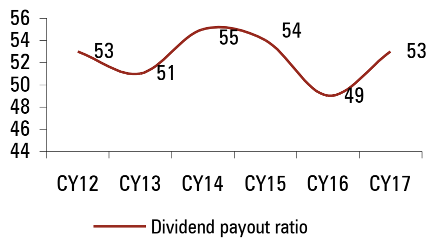
Renewal of technology & knowhow: The company has renewed the technology & knowhow agreement for a further period of three years effective from January 1, 2018. In CY17, the company paid ₹ 128.4 crore (increased from nil in CY12 to ~14% of PAT in CY17) as technology know how fees to Holcim Technology. In addition, remuneration, severance to top management, independent directors and non-executive directors accounted for 1.4% of PAT.

Dividend payout improves: The company declared a dividend of ₹ 26 per share (dividend payout ratio of 53% up from 49% in CY16).

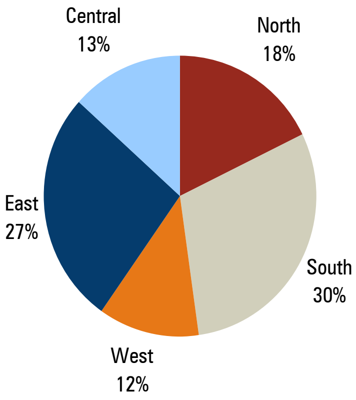
Technical knowhow fees trend



Dividend payout ratio



Regional presence



Company Analysis

Pan-India presence to reduce regional risk

ACC is a pan-India player with an installed capacity of 33.4 MTPA distributed across all regions, thereby insulating the company from any weakness in a particular region. Out of the total capacity, the company has ~10 MTPA capacity in the southern region, ~9 MTPA capacity in the eastern region, ~6 MTPA capacity in the northern region, ~4.5 MTPA capacity in the central region and ~ 4 MTPA capacity in the west region.

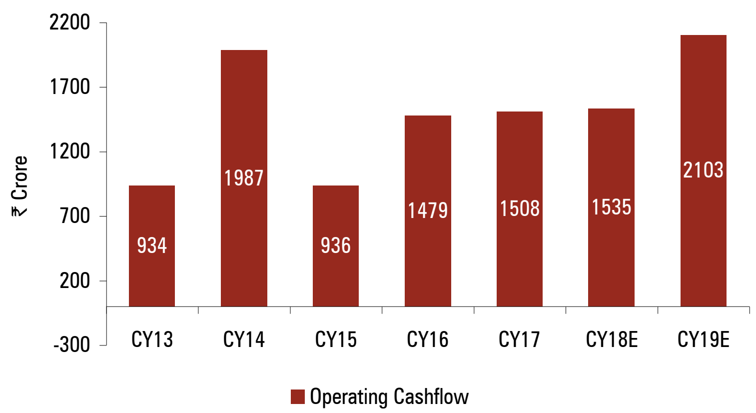
Recovery in southern region to benefit company

ACC has a third of its total capacity in the southern region. With the resolution of political problems in the region along with expectations of an overall recovery in the demand environment, going forward, ACC should benefit from its presence in the southern market.

High FCF generation, limited capex to lead to higher dividend payout

The company generated an FCF of over ₹ 1,000 crore in CY17, which led to increased cash. The company has also recommended a dividend of ₹ 26/share for CY17 implying a dividend payout of 53%. Going forward, considering limited capacity addition by the company and FCF generation of over ~₹ 3000 crore in CY18E-19E, we believe this could lead to a higher dividend payout.

Exhibit 1: Healthy operating cash flow



Source: Company, ICICI Direct Research

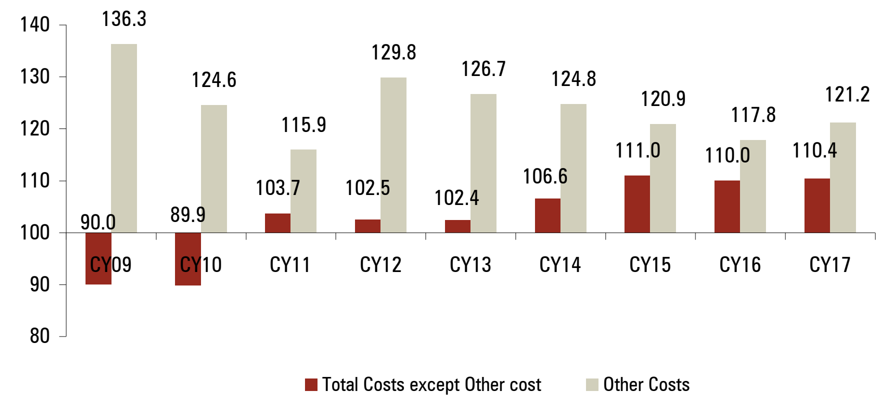
Master supply agreement with Ambuja Cement

The board has also approved a master supply agreement (MSA) with Ambuja Cements for a period of three years commencing from the date of execution. The proposed agreement will help in unlocking synergy between ACC and Ambuja. Under the agreement, ACC and Ambuja can procure from each other clinker, cement, raw materials (including fuels, fly ash, slag) & spare parts and undertake toll grinding in certain plants. This will enable both companies to lower its lead distance, maximise utilisation of assets and utilisation of spare inventory. This, according to the management, will result in synergy benefits of ~3-5% of profit before tax.

Old, inefficient plants lead to higher cost of production…

ACC has one of the oldest manufacturing plants in the industry, resulting in higher operating costs for the company. As can be seen from the chart below, its other costs per tonne, which includes maintenance costs of the plants, as percentage of industry average, is much higher than 'total costs except other costs', on a per tonne basis. For example, for CY08, if the industry's 'average costs per tonne after deduction of other costs' was ₹ 100, the same for ACC was ₹ 90 while the industry's 'average other costs per tonne' was ₹ 100 while that for ACC was ₹ 139.9. Higher other costs are the result of older machinery of the company.

Exhibit 2: Costs as percentage of industry average costs

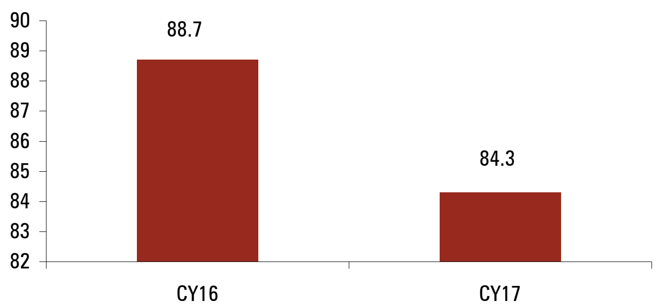


Source: Company, ICICI Direct Research

…but efforts on to improve efficiency and reduce cost

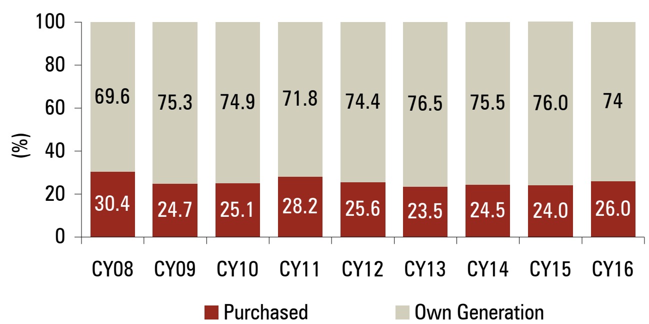
To improve efficiency and reduce overall cost, the company has adopted a two-pronged approach. One is phasing out of old and inefficient plants. The second approach is to reduce dependency on power purchase from outside. Captive power plant capacity of the company has increased from ~237 MW in CY08 to ~384 MW till CY12. The company met ~69% of its power requirement through captive sources in CY08 and the remaining through the state grid while the contribution of the captive source increased to ~74% in CY16. This helped in reducing overall cost per tonne for the company. Further, with proposed synergies from the Holcim restructuring, we expect efficiencies to improve, going ahead.

Exhibit 3: Power consumption (Kwh/t)



Source: Company, ICICI Direct Research

Exhibit 4: Purchased power share at 26.0% in CY16

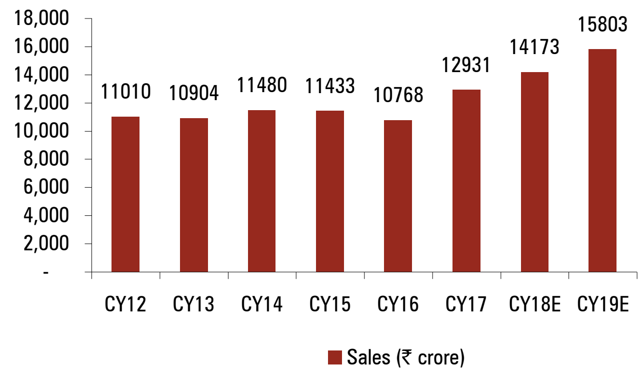


Source: Company, ICICI Direct Research

Expect revenue CAGR at 10.6% during CY17-19E

Going forward, we expect revenue CAGR of 10.6% during CY17-19E with volume growth at 8.4% CAGR. Realisation growth is expected at 2.0% CAGR in the same period. The company is well on track on the capacity expansion front and will likely achieve its target of 35 MT by CY18E.

Exhibit 5: Expect revenue CAGR of 10.6% during CY17-19E



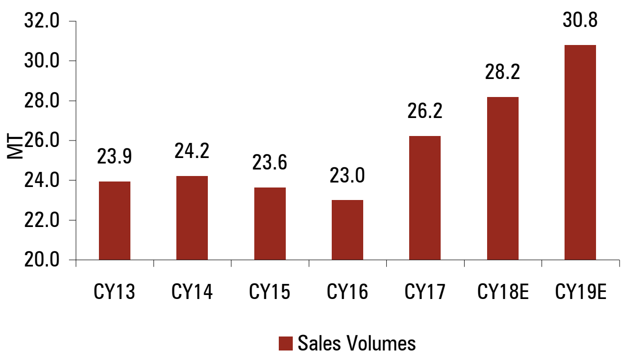
Source: Company, ICICI Direct Research

Exhibit 6: Capacity addition plans

Existing Capacity (MT)	32
Planned capacity addition	
Kharagpur	2.7
Total	2.7
Total Capacity by CY18E (MT)	34.7

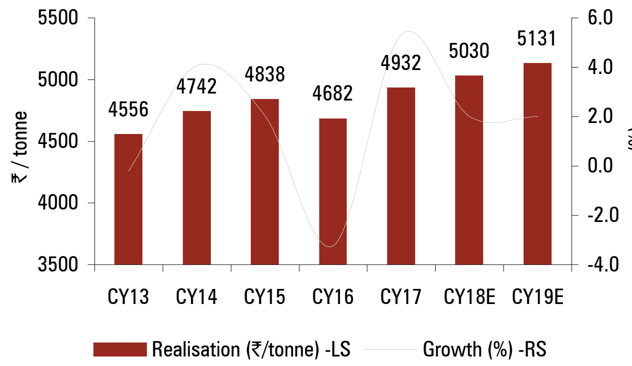
Source: Company, ICICI Direct Research

Exhibit 7: Volume to grow at 8.4% CAGR during CY17-19E



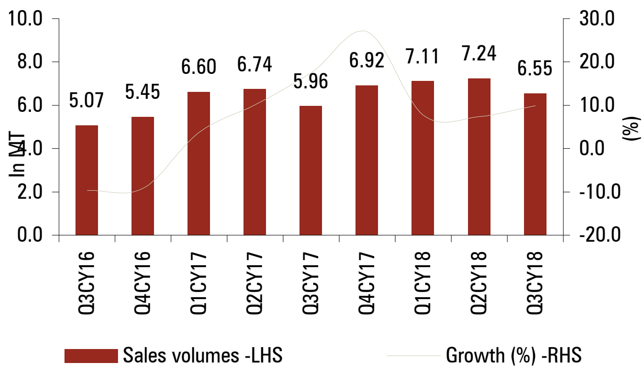
Source: Company, ICICI Direct Research

Exhibit 8: Realisation to grow at 2.0% CAGR during CY17-19E



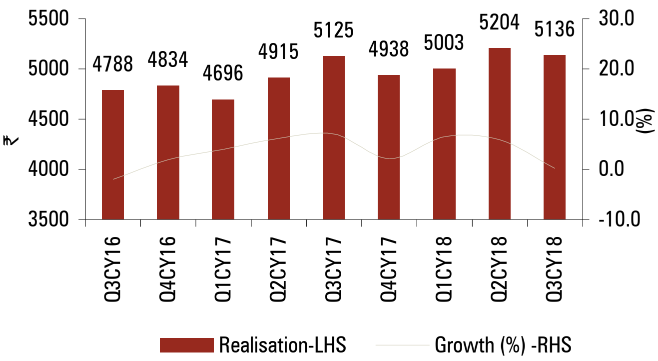
Source: Company, ICICI Direct Research

Exhibit 9: Q3CY18 volume increases 10% YoY



Source: Company, ICICI Direct Research

Exhibit 10: Realisation during Q3CY18 remain flat YoY due to weak demand from retail segment

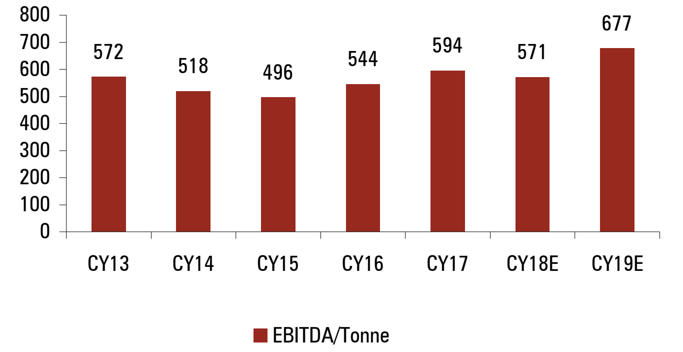


Source: Company, ICICI Direct Research

Margins to improve but high operating cost to limit its expansion

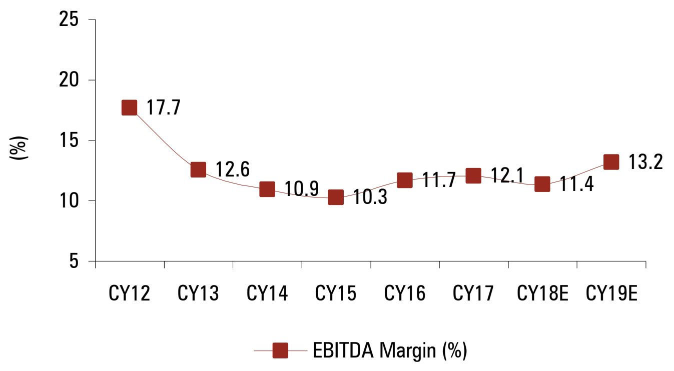
With operating leverage benefit and operational efficiency due to cost optimisation the company is expected to report ~110 bps increase in EBITDA margins over CY17-19E.

Exhibit 11: Expect EBITDA/tonne of ₹ 677/t in CY19E



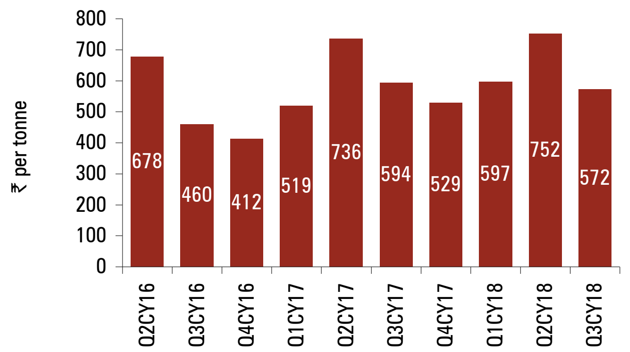
Source: Company, ICICI Direct Research

Exhibit 12: Margins to improve led by operating leverage benefit



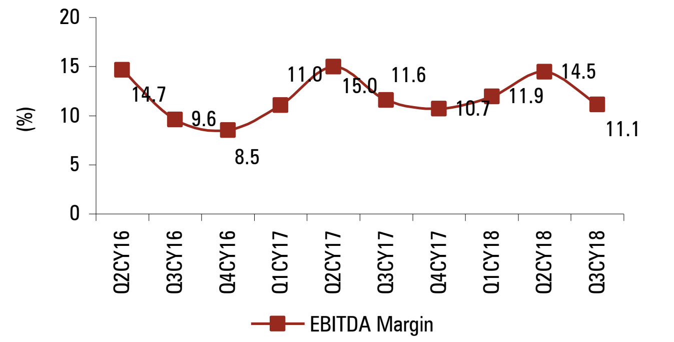
Source: Company, ICICI Direct Research

Exhibit 13: Q3CY18 EBITDA/tonne at ₹ 572/t



Source: Company, ICICI Direct Research

Exhibit 14: Margin trend (%)

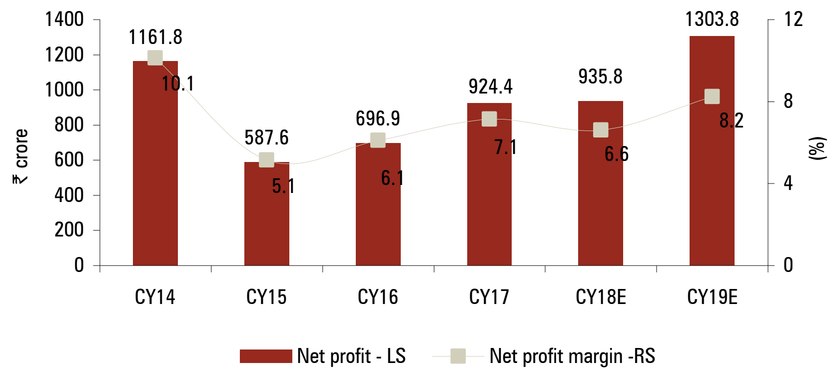


Source: Company, ICICI Direct Research

Expect net profit CAGR of 18.2% during CY17-19E

We expect net margins to improve to 8.2% in CY19E from 7.1% in CY17. Overall, we expect net profit to grow at a CAGR of 18.2% in CY17-19E.

Exhibit 15: Profitability trend



Source: Company, ICICI Direct Research

Outlook and valuation

After reporting subdued volume growth (1.8% CAGR in CY13-17), ACC reported double digit volume growth (up 14.0% YoY) in CY17 led by capacity expansion. Going forward, with higher infra spending, revival in rural economy post hike in MSP for agricultural produce and pre-election spending, we expect demand to improve (that has remained a laggard till now). On the margin front, we expect margins to improve QoQ led by price hikes and stabilisation in the operating costs. The stock is available at attractive valuations of 11.0x FY20E EV/EBITDA and EV/t of $109/t post recent corrections. Hence, maintain our **BUY** rating. We revise our target price downwards to ₹ 1,750 (i.e. valuing the stock at CY19E EV/tonne of $140/tonne, 14.0x CY19E EV/EBITDA).

Exhibit 16: Key assumptions

₹ per tonne	CY14	CY15E	CY16	CY17	CY18E	CY19E
Sales Volume (mtpa)	24.2	23.6	23.0	26.2	28.2	30.8
Net Realisation	4742	4838	4682	4932	5030	5131
Total Expenditure	4224	4342	4138	4337	4459	4454
Stock Adjustment	-5	0	7	-6	-55	-55
Raw material	819	782	691	755	812	828
Power & Fuel	1010	1014	939	1036	1080	1102
Employees	309	327	329	313	311	315
Freight	1065	1144	1148	1310	1420	1355
Others	1026	1074	1024	929	891	909
EBITDA per Tonne	518	496	544	594	571	677

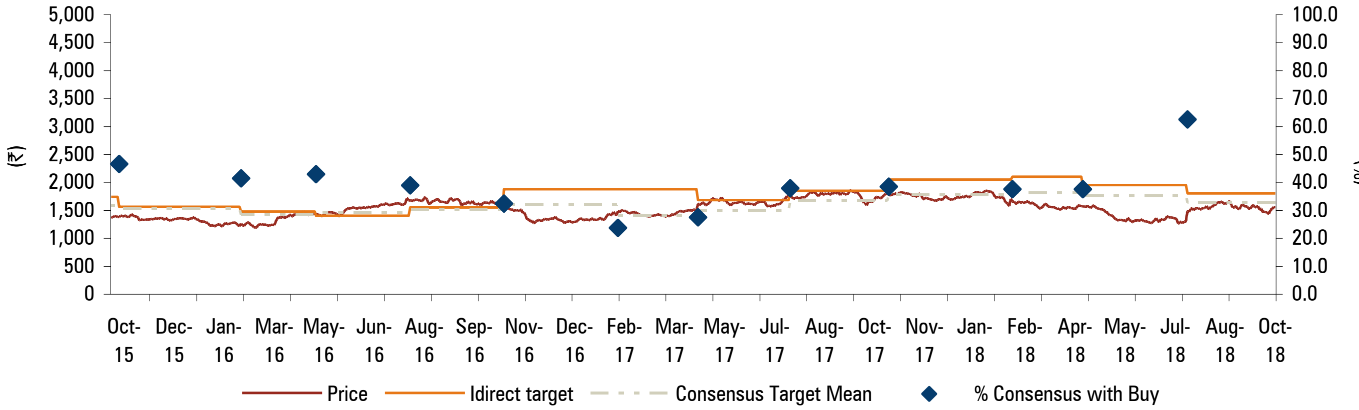
Source: ICICI Direct Research

Exhibit 17: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/Tonne ($)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY16	10767.8	-3.3	35.0	3.3	40.5	135.0	19.8	8.1	10.7
CY17	12931.0	20.1	49.2	40.4	28.9	121.3	15.4	9.9	14.0
CY18E	14173.0	9.6	49.9	1.4	28.5	112.7	14.7	9.7	14.2
CY19E	15803.3	11.5	68.8	37.9	20.6	109.0	11.0	12.8	18.4

Source: Company, ICICI Direct Research

Recommendation history vs Consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
May-12	CCI completes probe into alleged cartilsation by 39 cement companies and finds these companies, including ACC, guilty of cartelisation
Jun-12	CCI passes an order against several cement manufacturers including ACC and imposes a penalty of 0.5 times the profit for 2009-10 and 2010-11. For ACC, the penalty works out to ₹ 1147.59 crore
Oct-12	The company's wholly-owned subsidiary company, ACC Concrete Ltd amalgamated with the company
Nov-12	Files petition with COMPAT against CCI order that imposed penalty of ₹ 1,147.6 crore on ACC
Dec-12	Holcim hikes royalty payment to 1% of sales with effect from January 1, 2013
Jul-13	Holcim Group to consolidate its holding in ACC through Ambuja Cements. The transaction will result in Ambuja holding 50% stake in ACC, in which Holcim India currently holds 50.01%
Sep-13	To expand its capacity by nearly 4 MTPA in the eastern region in the next three years with an investment of over ₹ 3000 crore
Oct-14	Suspension of limestone mining operations at Chaibasa and Bargarh
Feb-15	Resumption of limestone mining at Chaibasa Plant in Jharkhand
Jun-15	Resumption of limestone mining at Bargarh Plant in Odhisa
Jul-16	Commisions 2.79 MT clinker facility at Jamul
Aug-16	ACC becomes subsidiary of Ambuja
Oct-16	Commisions 1.4 MT grinding unit at Sindri, Jharkhand
Apr-18	Board approves MSA with Ambuja

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Holcim Group	30-Jun-18	54.5	102.4	0.0
2	Life Insurance Corporation of India	30-Jun-18	10.3	19.4	0.0
3	Capital Research Global Investors	30-Jun-18	2.7	5.1	-2.4
4	Reliance Nippon Life Asset Management Limited	30-Jun-18	1.5	2.9	0.1
5	J.P. Morgan Asset Management (Hong Kong) Ltd.	31-May-18	1.4	2.7	0.0
6	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-May-18	1.2	2.2	0.2
7	Aditya Birla Sun Life AMC Limited	30-Jun-18	1.1	2.1	0.2
8	Capital World Investors	30-Jun-18	1.0	1.9	-0.4
9	The Vanguard Group, Inc.	31-May-18	0.9	1.7	0.0
10	ICICI Prudential Asset Management Co. Ltd.	30-Jun-18	0.7	1.3	0.2

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	54.53	54.53	54.53	54.53	54.53
FII	14.78	13.64	13.53	13.69	10.87
DII	16.23	16.97	17.66	17.60	19.88
Others	14.46	14.86	14.28	14.18	14.72

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Kotak Mahindra Asset Management Company Ltd.	17.84	0.89	Capital Research Global Investors	-46.36	-2.37
SBI Funds Management Pvt. Ltd.	10.87	0.54	Aberdeen Asset Management (Asia) Ltd.	-44.30	-1.61
IDFC Asset Management Company Private Limited	5.69	0.28	Capital World Investors	-8.26	-0.42
ICICI Prudential Asset Management Co. Ltd.	4.62	0.24	Wellington International Management Company Pte. Ltd.	-5.71	-0.21
Aditya Birla Sun Life AMC Limited	3.66	0.19	Axis Asset Management Company Limited	-4.42	-0.18

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	CY16	CY17	CY18E	CY19E
Total operating Income	10,767.8	12,931.0	14,173.0	15,803.3
Growth (%)	-5.8	20.1	9.6	11.5
Raw material	1606.8	1966.0	2131.8	2380.4
Power & Fuel	2159.9	2716.9	3043.5	3393.6
Employees	756.7	821.4	875.9	970.2
Freight	2636.1	3433.8	4001.8	4173.4
Others	2351.7	2434.7	2511.3	2800.2
Total Operating Exp.	9,511.2	11,372.7	12,564.2	13,717.8
EBITDA	1,256.6	1,558.3	1,608.8	2,085.5
Growth (%)	7.1	24.0	3.2	29.6
Depreciation	609.2	643.6	602.7	667.1
Interest	78.7	98.5	92.7	109.1
Other Income	344.7	483.0	452.3	550.0
Exceptional items	38.6	0.0	0.0	0.0
PBT	874.9	1,299.1	1,365.7	1,859.4
Total Tax	226.9	385.6	438.4	576.4
PAT	658.3	924.4	936.9	1,292.4
Adjusted PAT	696.9	924.4	936.9	1,292.4
Growth (%)	-7.3	32.6	1.4	37.9
EPS (₹)	35.0	49.2	49.9	68.8

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	CY16	CY17	CY18E	CY19E
Profit after Tax	658.3	924.4	936.9	1,292.4
Add: Depreciation	609.2	643.6	602.7	667.1
(Inc)/dec in Current Assets	4.5	-812.7	-17.1	-1,013.9
Inc/(dec) in CL and Prov.	207.1	752.6	12.2	1,157.3
CF from operating activities	1,479.1	1,507.9	1,534.6	2,102.8
(Inc)/dec in Investments	-371.4	1,595.2	-1,600.0	-1,000.0
(Inc)/dec in Fixed Assets	-658.5	-416.6	-500.0	-500.0
Others	203.3	-26.3	0.0	0.0
CF from investing activities	-826.7	1,152.2	-2,100.0	-1,500.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-30.0	0.0	0.0	0.0
Dividend paid & dividend tax	-376.7	-576.1	-681.5	-835.4
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-61.4	366.2	0.0	0.0
CF from financing activities	-468.1	-209.9	-681.5	-835.4
Net Cash flow	184.3	2,450.2	-1,246.9	-232.6
Opening Cash	94.1	278.4	2,728.6	1,481.8
Closing Cash	278.4	2,728.6	1,481.8	1,249.2

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	CY16	CY17	CY18E	CY19E
Liabilities				
Equity Capital	188.0	188.0	188.0	188.0
Reserve and Surplus	8,453.4	9,167.9	9,423.3	9,880.3
Total Shareholders funds	8,641.4	9,355.9	9,611.3	10,068.3
Total Debt	70.0	70.0	70.0	70.0
Other Liabilities	562.2	554.4	554.4	554.4
Total Liabilities	9,273.6	9,980.3	10,235.7	10,692.7
Assets				
Gross Block	13,935.6	14,315.5	15,084.7	15,584.7
Less: Acc Depreciation	6,435.9	7,051.0	7,653.7	8,320.7
Net Block	7,499.7	7,264.5	7,431.0	7,264.0
Capital WIP	261.0	269.3	0.0	0.0
Total Fixed Assets	7,760.7	7,533.7	7,431.0	7,264.0
Investments+Goodwill	1,687.0	110.4	1,710.4	2,710.4
Inventory	1,224.6	1,404.8	1,476.4	1,736.2
Debtors	466.4	666.0	568.8	808.0
Loans and Advances	1,908.4	2,389.2	2,429.6	2,943.5
Other Current Assets	61.0	13.1	15.3	16.3
Cash	278.4	2,728.6	1,481.8	1,249.2
Total Current Assets	3,938.8	7,201.6	5,971.9	6,753.2
Creditors	3,374.1	4,203.1	4,098.8	5,158.0
Provisions	738.7	662.4	778.8	876.9
Total Current Liabilities	4,112.9	4,865.5	4,877.6	6,034.9
Net Current Assets	-174.1	2,336.2	1,094.3	718.3
Application of Funds	9,273.6	9,980.3	10,235.7	10,692.7

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	CY16	CY17	CY18E	CY19E
Per share data (₹)				
EPS	35.0	49.2	49.9	68.8
Cash EPS	67.4	83.5	81.9	104.3
BV	459.8	497.9	511.5	535.8
DPS	17.0	26.0	31.0	38.0
Cash Per Share	14.8	145.2	78.9	66.5
Operating Ratios (%)				
EBITDA Margin	11.7	12.1	11.4	13.2
PAT Margin	6.1	7.1	6.6	8.2
Inventory days	40.9	37.1	37.1	37.1
Debtor days	16.1	16.0	15.9	15.9
Creditor days	110.5	106.9	106.9	106.9
Return Ratios (%)				
RoE	8.1	9.9	9.7	12.8
RoCE	10.7	14.0	14.2	18.4
RoIC	9.1	13.1	14.1	20.8
Valuation Ratios (x)				
P/E	40.5	28.9	28.5	20.6
EV / EBITDA	19.8	15.4	14.7	11.0
EV / Net Sales	2.3	1.9	1.7	1.4
Market Cap / Sales	2.5	2.1	1.9	1.7
Price to Book Value	3.1	2.9	2.8	2.7
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.0	1.5	1.2	1.1
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Cement)

Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY18	FY19E	FY20E	EV/EBITDA (x) FY18	FY19E	FY20E	EV/Tonne ($) FY18	FY19E	FY20E	RoCE (%) FY18	FY19E	FY20E	RoE (%) FY18	FY19E	FY20E
ACC*	1,420	1,800	Buy	26,687	35.0	49.2	49.9	15.4	14.7	11.0	121	113	109	14.0	14.2	18.4	9.9	9.7	12.8
Ambuja Cement*	218	245	Hold	43,287	6.3	6.6	8.3	14.6	14.0	11.0	144	145	143	11.3	12.9	16.6	8.6	8.8	10.9
UltraTech Cem	3,730	4800	Buy	102,351	89.6	93.8	160.2	19.7	17.6	12.4	217	204	193	10.0	10.5	15.0	9.5	9.2	13.7
Shree Cement	15,131	18500	Hold	52,656	397.8	354.3	530.9	21.9	20.8	16.1	267	224	217	15.3	13.1	17.2	15.6	12.5	16.2
Heidelberg Cem	147	180	Buy	3,331	5.9	7.2	9.3	11.7	10.3	9.0	121	120	114	14.8	17.9	21.3	12.8	14.5	16.8
India Cement	94	140	Buy	2,875	3.3	4.3	7.5	8.7	8.5	6.8	65	63	62	5.1	5.1	6.7	1.9	2.5	4.2
JK Cement	702	830	Hold	4,909	51.3	45.1	56.3	8.8	10.0	9.0	80	80	82	14.6	11.9	12.8	16.7	13.3	14.6
JK Lakshmi Cem	277	375	Buy	3,260	7.1	8.3	15.2	11.6	10.7	8.1	63	59	57	8.8	9.4	12.8	5.8	6.3	10.5
Mangalam Cem	224	250	Hold	598	4.3	-6.9	1.3	10.8	19.5	13.2	39	43	45	7.2	3.3	6.0	2.2	-3.7	0.7
Star Cement	108	125	Hold	4,527	7.9	5.5	6.2	9.2	11.0	9.5	218	202	198	21.6	16.1	18.0	22.4	14.0	13.9
Ramco Cement	579	844	Buy	13,785	23.5	24.8	33.5	13.4	13.1	9.7	149	144	119	10.4	9.7	12.0	13.7	13.3	15.8
Sagar Cement	673	900	Buy	1,373	12.9	19.5	28.1	11.8	10.3	8.7	69	58	39	8.1	9.3	10.8	3.4	4.9	6.6

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey	**Head – Research**	**pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

ANALYST CERTIFICATION

We /I, Rashesh Shah, CA, and Devang Bhatt, PGDBM Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Registration No. INZ000183631 for stock broker. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Rashesh Shah, CA, and Devang Bhatt, PGDBM Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.
It is confirmed that Rashesh Shah, CA, and Devang Bhatt, PGDBM Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.