

# Pick of the Week

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
  - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
  - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
ACC	29,162	1,553	1,739	12%	<b>BUY</b>

\* Note: Investment horizon Approx. 6-9 months., CMP as on 18<sup>th</sup> Oct, 2019.

## Investment Rationale

- ❑ **Steady Q3CY19:** Despite Q3CY19 being a seasonally weak quarter backed by demand slowdown, ACC reported just 1.6% YoY decline in volumes to 6.44MT. Realizations were up 3.5% YoY aided by 9% YoY growth in premium products volume and price hikes initiated in March. Owing to these factors, ACC reported a 3% YoY growth in Net Sales at Rs. 3528cr. RMC revenues increased 10% led by a 10% volume growth for the quarter. Going ahead, management remains optimistic on demand recovery in coming months.
- ❑ **EBITDA Margin performance to hold up:** So far this year, operating margins for ACC have been holding up on account of lower raw material costs, cost saving measures and product mix optimizing. However, Power & Fuel Costs and Freight costs remained higher in Q3CY19. We believe, going ahead both power and fuel costs along with freight expenses are expected to see a reduction as high cost inventory phases away and decision of Indian Railways (IR) to withdraw the Busy Season Surcharge (BSC) which will yield approx. Rs. 30/tonne of freight cost saving for cement companies including ACC. Railways contributes ~40% (highest amongst peers) to the transport mix thereby supporting ACC to improve Operating Margins Q4CY19 onwards.
- ❑ **Capex:** ACC has undertaken capacity expansion of clinker capacity by 3MTPA and grinding capacity by 5.9MTPA (17.7% increase) at the cost of Rs 3,000 cr and is expected to be operational over the next 3 years thus supporting volume growth in medium term. The company has robust cash flows & return ratios along with unlevered balance sheet (debt free status).
- ❑ **Corporate Tax Rate Cuts:** ACC is at 32% tax rate and the management is evaluating options available under the new tax regime.
- ❑ We maintain a BUY with a target price of Rs. 1,739

## Financial Summary

Y/E Dec.	Revenue (Rs Cr)	EBIDTA (Rs Cr)	PAT (Rs)	EPS (Rs)	RoE (%)	RoCE (x)
CY18	14,802	2,059	1,521*	81.0	10.3	12.7
CY19E	15,839	2,441	1,397	73.6	12.4	15.1
CY20E	16,873	2,641	1,554	81.3	12.7	15.4

Source: Reuters, Consensus Estimates, \*Includes reversal of tax provision of Rs 500.63 cr

CMP (Rs)	Target (Rs)
1,553	1,739

### MARKET DATA

No. of Shares	: 18.8 cr
Market Cap	: Rs 29,162 Cr
52-week High / Low	: Rs 1,769/1,322
BSE Code	: 500410
NSE Code	: ACC

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