

Strong operating performance on the back of improved realisation with EBITDA/ton at 7-yr high; maintain Accumulate with a revised TP of Rs 1736

| | |
|---------------------------|---------------------------|
| Current | Previous |
| CMP: Rs 1544 | |
| Rating: Accumulate | Rating: Accumulate |
| Target: Rs 1736 | Target: Rs 1871 |

(NR-Not Rated)

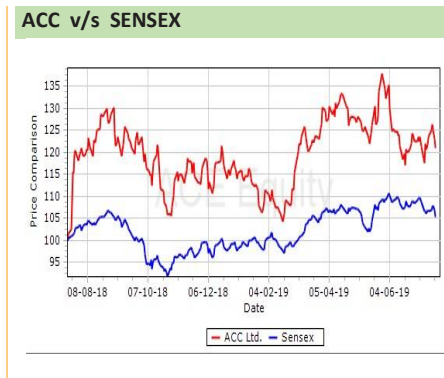
| Stock Info | |
|--------------------------|-----------|
| INDEX | |
| BSE | 500410 |
| NSE | ACC |
| Bloomberg | ACC IN |
| Reuters | ACC.BO |
| Sector | Cement |
| Face Value (Rs) | 10 |
| Equity Capital (Rs Cr) | 188 |
| Market Cap (Rs Cr) | 29,026 |
| 52w H/L (Rs) | 1769/1262 |
| Avg Weekly Vol (BSE+NSE) | 613,560 |

| Shareholding Pattern | % |
|---------------------------|------|
| (As on June, 2019) | |
| Promoters | 54.5 |
| Public & Others | 45.5 |

Source: NSE, Arihant Research

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|-----|------|
| ACC | -9.1 | 7.2 | 21.1 |
| SENSEX | -2.1 | 5.4 | 5.5 |

Source: ACE Equity, Arihant Research



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ACC reported stellar set of numbers in Q2CY19, beating our estimates on all fronts. Revenue grew 7.8% YoY to Rs 4,150 cr above our estimate of Rs 3,941 cr. EBITDA stood at Rs 783 cr against our estimate of Rs 615 cr. EBITDA margin expanded 530bps YoY to 18.9%, ahead of our estimate of 15.6%. PAT for the quarter jumped 38.6% YoY to Rs 456 cr way ahead of our estimate of Rs 335 cr. EBITDA/ton jumped to 7-year high at Rs 1089/ton, witnessing a robust growth of +26% YoY/+54% QoQ. We maintain our Accumulate rating on the stock with a revised target price of Rs 1736.

Q2CY19 Operational Highlights

- Consolidated revenue for Q2CY19 stood at Rs 4150 cr, registering +7.8% YoY/+5.9% QoQ growth. Despite subdued cement demand, ready mix concrete (RMC) business of ACC registered double digit volume growth of 11% YoY in Q2CY19 mainly aided by its eight new ready mix concrete plants. However cement sales volume remained flat at 7.2 MT in Q2CY19 due to subdued demand in June quarter due to the slow pace of construction activity during monsoon. Though on half yearly basis cement volume grew by 2% to 14.7 MT in H1CY19.
- Consolidated EBITDA jumped 25.3% YoY to Rs 783 cr, while EBITDA margin expanded +530bps YoY/+263bps QoQ to 18.9% against our estimate of 15.6%. Margin improvement came on the back of better realisations, operational efficiencies and supply chain efficiency improvement. Reported PAT witnessed a robust growth of +38.6% YoY/+31.7% QoQ to Rs 456 cr above our estimate of Rs 335 cr.

Outlook and Valuations

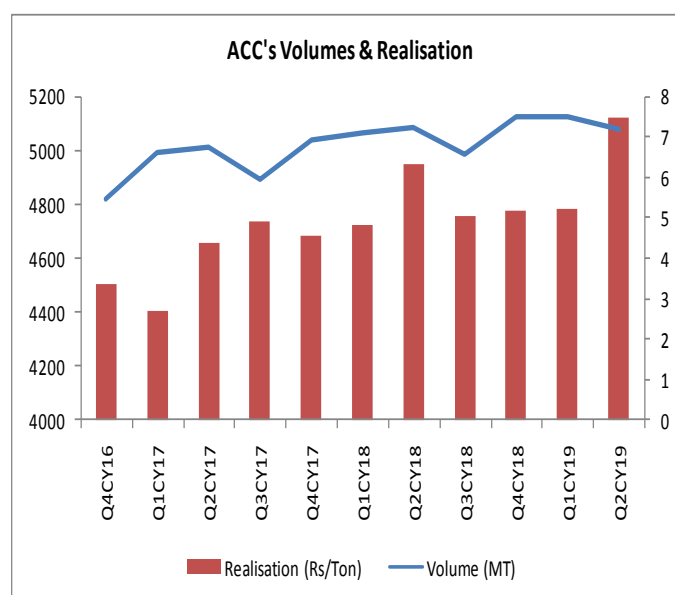
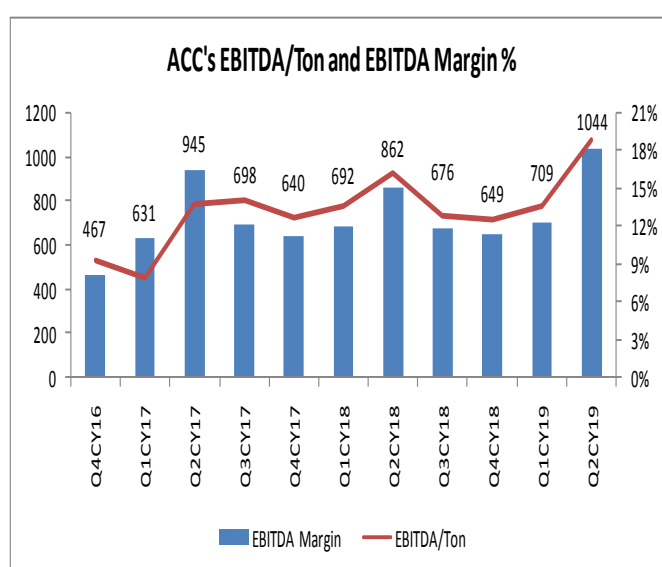
Higher annual budget allocation for infrastructure, affordable housing, upgradation of roads and Government's strong focus on improving connectivity across the country will drive cement demand going forward. ACC being a Pan-India player will be a direct beneficiary of this improved demand. Cement prices have seen some correction in last two months due to seasonal factors like slow industrial activity during monsoon. Despite subdued demand, ACC's operational performance improved substantially this quarter. We continue to maintain our positive view on ACC owing to its deep penetration in rural markets and strong focus on premium products. At CMP of Rs 1544 the stock is available at CY20E EV/EBITDA of 9.6x. After factoring in strong Q2CY19 results, we keep our CY19E/CY20E estimate unchanged, however lower our target EV/EBITDA multiple to 11x from 12x earlier which yields a target price of Rs 1736. **Maintain 'Accumulate'.**

Financial Performance

| YE March (Rs Cr) | Net Sales | EBITDA | PAT | EPS (Rs) | EBITDA Margin % | RoAE (%) | P/E (x) |
|------------------|-----------|--------|-------|----------|-----------------|----------|---------|
| CY17 | 14,201 | 1,912 | 925 | 49 | 13.5 | 9.9 | 31.4 |
| CY18 | 14,802 | 2,048 | 1,521 | 81 | 13.8 | 14.4 | 19.1 |
| CY19E | 15,764 | 2,308 | 1,211 | 64 | 14.6 | 11.0 | 24.0 |
| CY20E | 16,867 | 2,537 | 1,364 | 73 | 15.0 | 11.7 | 21.3 |

Source: Companv. Arihant Research

| Per Ton Analysis | Q4CY16 | Q1CY17 | Q2CY17 | Q3CY17 | Q4CY17 | Q1CY18 | Q2CY18 | Q3CY18 | Q4CY18 | Q1CY19 | Q2CY19 |
|----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Volumes (MT) | 5.45 | 6.6 | 6.74 | 5.96 | 6.92 | 7.11 | 7.24 | 6.55 | 7.50 | 7.50 | 7.20 |
| Realisation (Rs/T) | 4507 | 4404 | 4657 | 4733 | 4680 | 4721 | 4947 | 4756 | 4776 | 4783 | 5122 |
| RM | 726 | 704 | 595 | 831 | 873 | 793 | 806 | 822 | 944 | 861 | 738 |
| Staff Cost | 367 | 297 | 325 | 338 | 297 | 280 | 354 | 324 | 286 | 267 | 271 |
| Power & Fuel | 977 | 982 | 1017 | 1130 | 1026 | 1054 | 1037 | 1115 | 1024 | 1056 | 1089 |
| Freight & forwarding | 1217 | 1252 | 1291 | 1341 | 1355 | 1404 | 1434 | 1432 | 1378 | 1409 | 1386 |
| Other Expenditure | 1135 | 942 | 950 | 890 | 909 | 872 | 870 | 972 | 863 | 836 | 866 |
| Total Cost | 4422 | 4177 | 4178 | 4530 | 4460 | 4403 | 4502 | 4665 | 4494 | 4428 | 4351 |



Q2CY19 Financial Performance

| Rs Cr (consolidated) | Q2CY19 | Q1CY19 | Q2CY18 | Q-o-Q | Y-o-Y | H1CY19 | H1CY18 | Y-o-Y |
|-----------------------------|--------------|--------------|--------------|----------------|----------------|--------------|--------------|----------------|
| Net Revenue | 4,150 | 3,919 | 3,848 | 5.9% | 7.8% | 8,069 | 7,473 | 8.0% |
| Operating Costs | 2,514 | 2,560 | 2,334 | -1.8% | 7.7% | 5,074 | 4,647 | 9.2% |
| Employee cost | 204 | 200 | 257 | 1.7% | -20.9% | 404 | 456 | -11.5% |
| Other Expenses | 650 | 627 | 633 | 3.6% | 2.7% | 1,276 | 1,253 | 1.9% |
| EBITDA | 783 | 532 | 625 | 47.3% | 25.3% | 1,315 | 1,117 | 17.7% |
| <i>EBITDA margin %</i> | <i>18.9%</i> | <i>13.6%</i> | <i>16.2%</i> | <i>+530bps</i> | <i>+263bps</i> | <i>16.3%</i> | <i>14.9%</i> | <i>+135bps</i> |
| Depreciation | 147 | 148 | 149 | -0.5% | -1.4% | 294 | 297 | -1.0% |
| EBIT | 636 | 384 | 476 | 65.6% | 33.7% | 1,020 | 820 | 24.5% |
| Other Income | 53 | 157 | 33 | -65.8% | 64.3% | 210 | 80 | 162.9% |
| Finance cost | 20 | 21 | 27 | -4.7% | -27.0% | 41 | 45 | -10.4% |
| Exceptional Item | - | - | - | - | - | - | - | - |
| PBT | 670 | 520 | 481 | 28.8% | 39.2% | 1,190 | 854 | 39.3% |
| Tax Expense | 217 | 177 | 154 | 22.5% | 40.5% | 394 | 280 | 40.8% |
| <i>Effective tax rate %</i> | <i>32.4%</i> | <i>34.1%</i> | <i>32.1%</i> | <i>-167bps</i> | <i>+30bps</i> | <i>33.1%</i> | <i>32.8%</i> | <i>+36bps</i> |
| PAT | 453 | 343 | 327 | 32.1% | 38.6% | 796 | 574 | 38.6% |
| MI & Associates | 3 | 3 | 2 | -10.9% | 45.7% | 6 | 5 | 23.8% |
| Consolidated PAT | 456 | 346 | 329 | 31.7% | 38.6% | 802 | 579 | 38.4% |
| <i>PAT margin %</i> | <i>11.0%</i> | <i>8.8%</i> | <i>8.5%</i> | <i>+215bps</i> | <i>+244bps</i> | <i>9.9%</i> | <i>7.7%</i> | <i>+219bps</i> |
| EPS (Rs) | 24.2 | 18.4 | 17.5 | 31.7% | 38.6% | 42.6 | 30.8 | 38.4% |

Source: Company, Arianth Research

Valuations

| | CY17 | CY18 | CY19E | CY20E |
|---------------|-------|-------|-------|--------------|
| EV/EBITDA | 13.8 | 12.7 | 10.7 | 9.6 |
| EBITDA | 1912 | 2048 | 2308 | 2537 |
| EV | 26466 | 26092 | 26940 | *27905 |
| Net Debt | -2560 | -2933 | -4304 | -4726 |
| Market Cap | 29026 | 29026 | 29026 | 32631 |
| No of Shares | 18.8 | 18.8 | 18.8 | 18.8 |
| Fair Value | | | | 1736 |
| CMP | | | | 1544 |
| Upside | | | | 12.4% |

*EV on basis of target EV/EBITDA multiple of 11x

Consolidated Financials

| Profit and Loss Account (Year Ending December) | | | | |
|---|---------------|---------------|---------------|---------------|
| Particulars, in Rs crore | CY17 | CY18 | CY19E | CY20E |
| Income from Operations | 14,201 | 14,802 | 15,764 | 16,867 |
| YoY Change (%) | 25.0% | 4.2% | 6.5% | 7.0% |
| Power & Fuel Cost | 2717 | 3001 | 2995 | 3289 |
| Employee Cost | 821 | 884 | 914 | 995 |
| Distribution Expenses | 3434 | 3993 | 4099 | 4217 |
| Other Expenditure incl. RM cost | 5316 | 4876 | 5448 | 5829 |
| Total Expenditure | 12288 | 12754 | 13456 | 14330 |
| EBITDA | 1912 | 2048 | 2308 | 2537 |
| EBITDA margin % | 13.5 | 13.8 | 14.6 | 15.0 |
| Depreciation | 644 | 603 | 633 | 646 |
| EBIT | 1269 | 1445 | 1674 | 1891 |
| Other Income | 129 | 143 | 150 | 157 |
| Interest | 99 | 88 | 93 | 100 |
| PBT before Excp Items | 1299 | 1500 | 1731 | 1948 |
| Extraordinary/ Excp | 0 | 0 | 0 | 0 |
| PBT | 1299 | 1500 | 1731 | 1948 |
| Tax Expense | 386 | -11 | 519 | 584 |
| Net Profit | 925 | 1521 | 1211 | 1364 |
| YoY Change (%) | 42.7% | 64.5% | -20.3% | 12.6% |

Source: Company, Arianth Research

| Balance Sheet (Year Ending December) | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Particulars, in Rs crore | CY17 | CY18 | CY19E | CY20E |
| Liabilities + Equity | | | | |
| (a) Share capital | 188 | 188 | 188 | 188 |
| (b) Reserves and surplus | 9171 | 10347 | 10839 | 11504 |
| Shareholders' funds | 9359 | 10535 | 11027 | 11692 |
| Non-current liab & Prov | 694 | 815 | 902 | 952 |
| Current liabilities | 4793 | 4706 | 4832 | 5026 |
| Total - Equity and liabilities | 14846 | 16056 | 16760 | 17670 |
| Assets | | | | |
| Non-current assets | 9191 | 9372 | 10019 | 10694 |
| Fixed assets | 7494 | 7433 | 7928 | 8451 |
| Goodwill + Intangibles | 56 | 53 | 53 | 53 |
| Long Term Inv | 95 | 104 | 136 | 168 |
| Loans & Adv | 223 | 169 | 269 | 369 |
| other Non-current assets | 1324 | 1612 | 1632 | 1652 |
| Current assets | 5655 | 6684 | 6742 | 6976 |
| Cash | 2560 | 2933 | 4304 | 4726 |
| Other Current Assets | 3095 | 3751 | 2438 | 2250 |
| Total - Assets | 14846 | 16056 | 16760 | 17670 |

Source: Company, Arianth Research

| Cash Flow Statement (Year Ending December) | | | | |
|--|--------------|--------------|--------------|--------------|
| Particulars, in Rs crore | CY17 | CY18 | CY19E | CY20E |
| Operating Activities | | | | |
| PBT | 1,299 | 1,500 | 1,731 | 1,948 |
| Add Depreciation | 644 | 603 | 633 | 646 |
| Others | (159) | (171) | (175) | (168) |
| Total | 1,784 | 1,933 | 2,189 | 2,426 |
| Taxes | (386) | 11 | (519) | (584) |
| Changes in Working Capital | 1,516 | (30) | 117 | 382 |
| Cash Flow from Operations | 2,914 | 1,914 | 1,787 | 2,223 |
| Investing Activities | | | | |
| Change in investments | 901 | 938 | 896 | (401) |
| Capex | (1,595) | (1,595) | (600) | (550) |
| Cash Flow from Investing | (694) | (657) | 296 | (951) |
| Financing Activities | | | | |
| Dividends + Taxes paid | (610) | (1,004) | (800) | (900) |
| Other Financing Activites | 124 | 121 | 87 | 50 |
| Cash Flow from Financing | (486) | (883) | (713) | (850) |
| Opening Cash | 827 | 2,560 | 2,933 | 4,304 |
| Changes during year | 1,734 | 374 | 1,370 | 422 |
| Closing Cash | 2,560 | 2,933 | 4,304 | 4,726 |

Source: Company, Arianth Research

| Ratio Analysis | | | | |
|--------------------------------|-------|-------|-------|-------|
| | CY17 | CY18 | CY19E | CY20E |
| Profitability | | | | |
| EBITDA (%) | 13.5% | 13.8% | 14.6% | 15.0% |
| EBIT (%) | 8.9% | 9.8% | 10.6% | 11.2% |
| PAT (%) | 6.5% | 10.3% | 7.7% | 8.1% |
| Du Pont ROAE Analysis | | | | |
| PAT / Sales | 6.5 | 10.3 | 7.7 | 8.1 |
| Sales / Avg Total Fixed Assets | 1.2 | 1.0 | 1.0 | 1.0 |
| Avg Total Assets / Avg Equity | 1.6 | 1.6 | 1.5 | 1.5 |
| ROAE % | 9.9% | 14.4% | 11.0% | 11.7% |
| Other Ratios | | | | |
| Current Ratio | 1.2 | 1.4 | 1.4 | 1.4 |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| EPS | 49 | 81 | 64 | 73 |
| DPS | 17 | 16 | 16 | 18 |
| Valuation | | | | |
| P/E | 31.4 | 19.1 | 24.0 | 21.3 |
| EV/EBITDA | 13.8 | 12.7 | 10.7 | 9.6 |
| P/BV | 3.1 | 2.8 | 2.8 | 2.7 |

Source: Company, Arianth Research

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Stock Rating Scale

| | Absolute Return |
|------------|------------------------|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | <-5% |

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