

Stable operating performance due to improved realisation, despite muted volume growth, cost efficiency aided margin, maintain Accumulate with TP of Rs 1736

Current	Previous
CMP: Rs 1498	
Rating: Accumulate	Rating: Accumulate
Target: Rs 1736	Target: Rs 1736

(NR-Not Rated)

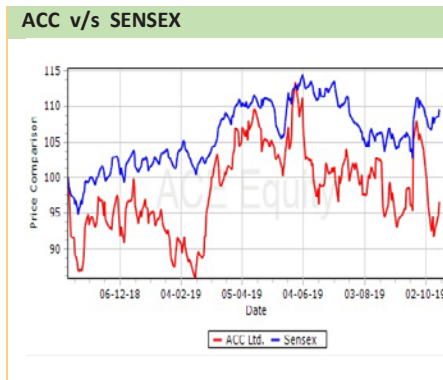
Stock Info	
INDEX	
BSE	500410
NSE	ACC
Bloomberg	ACC IN
Reuters	ACC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Cr)	188
Market Cap (Rs Cr)	28,146
52w H/L (Rs)	1769/1323
Avg Weekly Vol (BSE+NSE)	715,580

Shareholding Pattern	%
(As on Sept, 2019)	
Promoters	54.5
Public & Others	45.5

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
ACC	-5.9	-10.5	-1.6
SENSEX	-1.0	-1.0	10.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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ACC reported good set of numbers in Q3CY19 mostly in line with our estimate. Consolidated revenue grew 2.8% YoY to Rs 3,528 cr, a tad below our estimate of Rs 3,626 cr. EBITDA stood at Rs 557 cr above our estimate of Rs 544 cr. EBITDA margin expanded 287bps YoY to 15.8%, ahead of our estimate of 15%. PAT for the quarter jumped 44.7% YoY to Rs 303 cr slightly below our estimate of Rs 326 cr. On the back of stable results, we have revised our CY19E/CY20E estimates upwards and maintain our Accumulate rating on the stock with target price of Rs 1736 (unchanged).

Q3CY19 Operational Highlights

- Consolidated revenue for Q3CY19 stood at Rs 3528 cr, registering 2.8% YoY growth. Despite subdued cement demand due to extended monsoon, ready mix concrete (RMC) business of ACC registered double digit volume growth of 11% YoY in Q3CY19, aided by its newly added RMC plants. ACC added 3 new plants in Q3CY19, bringing its operational RMC plants count to 83.
- Cement volume remained subdued at 6.4 MT in Q3CY19 due to muted demand on account of seasonality due to extended monsoon. Though on nine-month basis (9M CY19) cement volume grew 1% to 21.1 MT.
- Consolidated EBITDA jumped 25.6% YoY to Rs 557 cr, while EBITDA margin expanded 287bps YoY to 15.8% against our estimate of 15%. Margin improvement came on the back of lower input costs backed by supply chain efficiency. Reported PAT witnessed a robust growth of 44.7% YoY to Rs 303 cr slightly below our estimate of Rs 326 cr.

Outlook and Valuations

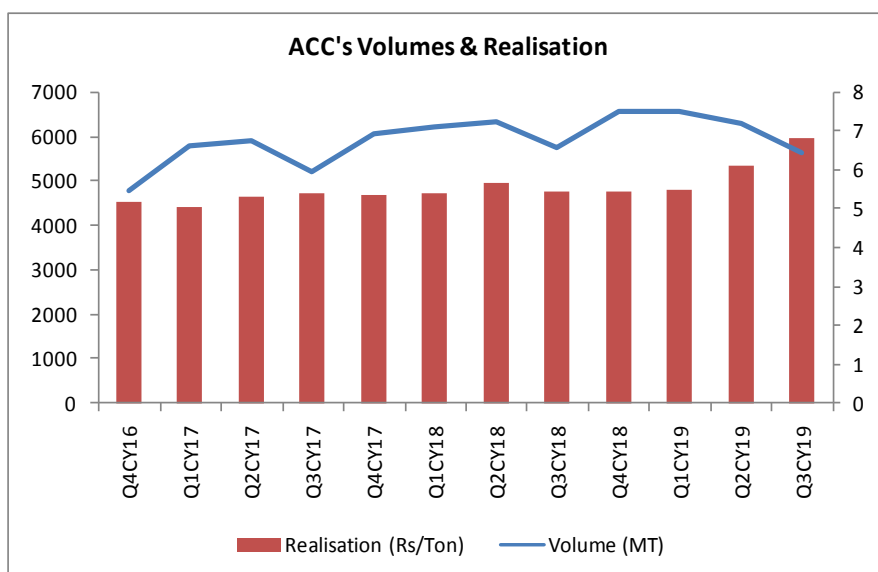
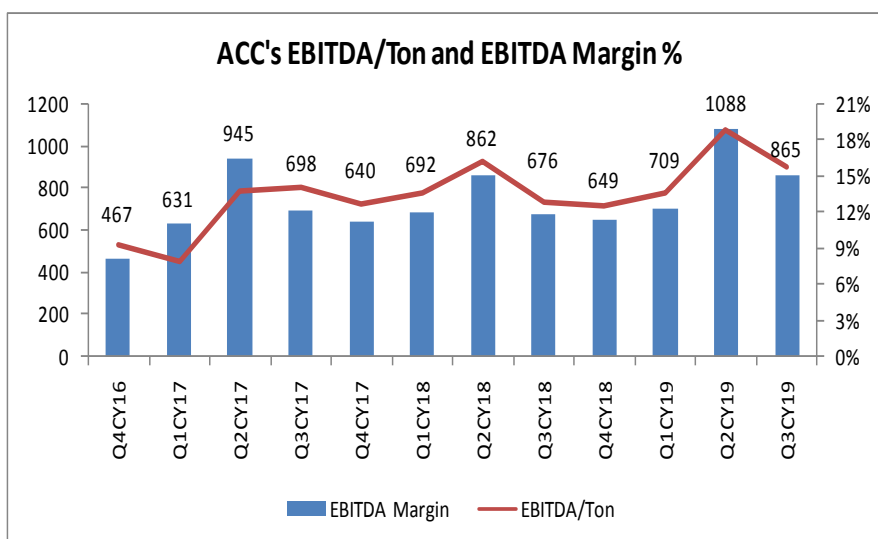
Higher annual budget allocation for infrastructure and government's focus on affordable housing, will drive cement demand going forward. ACC being a Pan-India player will be a direct beneficiary of this improved demand. Cement prices have seen some correction in past few months due to seasonal factors like slow industrial activity during monsoon. Despite subdued cement demand due to extended monsoon, ACC's operational performance was stable during the 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 1498 the stock is available at 11x EV/EBITDA of 9.2x. After factoring in good Q3CY19 results, we have revised our CY19E/CY20E estimates upwards. We continue to value the stock at 11x EV/EBITDA multiple of its CY20E estimates, 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	30.5
CY18	14,802	2,048	1,521	81	13.8	14.4	18.5
CY19E	15,764	2,465	1,437	76	15.6	11.0	19.6
CY20E	16,867	2,537	1,528	81	15.0	11.7	18.4

Source: Company, Arihant Research

Per Ton Analysis	Q4CY16	Q1CY17	Q2CY17	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18	Q4CY18	Q1CY19	Q2CY19	Q3CY19
Volumes (MT)	5.45	6.6	6.74	5.96	6.92	7.11	7.24	6.55	7.50	7.50	7.20	6.44
Realisation (Rs/T)	4507	4404	4657	4733	4680	4721	4947	4756	4776	4783	5335	5965
RM	726	704	595	831	873	793	806	684	944	861	769	482
Staff Cost	367	297	325	338	297	280	354	324	286	267	283	356
Power & Fuel	977	982	1017	1130	1026	1054	1037	1115	1024	1056	1134	1218
Freight & forwarding	1217	1252	1291	1341	1355	1404	1434	1432	1378	1409	1444	1477
Other Expenditure	1135	942	950	890	909	872	870	972	863	836	902	944
Total Cost	4422	4177	4178	4530	4460	4403	4502	4527	4494	4428	4532	4477



Q3CY19 and 9MCY19 Financial Performance

Rs Cr (consolidated)	Q3CY19	Q2CY19	Q3CY18	Q-o-Q	Y-o-Y	9MCY19	9MCY18	Y-o-Y
Net Revenue	3,528	4,150	3,433	-15.0%	2.8%	11,597	10,906	6.3%
Operating Costs	2,134	2,514	2,137	-15.1%	-0.2%	7,208	6,784	6.2%
Employee cost	230	204	213	12.8%	8.0%	633	669	-5.3%
Other Expenses	608	650	640	-6.4%	-5.0%	1,884	1,893	-0.5%
EBITDA	557	783	444	-28.9%	25.6%	1,872	1,560	20.0%
<i>EBITDA margin %</i>	<i>15.8%</i>	<i>18.9%</i>	<i>12.9%</i>	<i>-308bps</i>	<i>+287bps</i>	<i>16.1%</i>	<i>14.3%</i>	<i>+183bps</i>
Depreciation	151	147	151	3.0%	0.3%	446	448	-0.5%
EBIT	406	636	293	-36.2%	38.7%	1,426	1,112	28.2%
Other Income	51	53	33	-5.0%	55.2%	261	113	131.6%
Finance cost	16	20	20	-18.3%	-18.5%	57	65	-12.9%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	440	670	306	-34.2%	44.2%	1,630	1,160	40.6%
Tax Expense	141	217	99	-35.0%	42.6%	535	379	41.3%
<i>Effective tax rate %</i>	<i>32.0%</i>	<i>32.4%</i>	<i>32.4%</i>	<i>-39bps</i>	<i>-36bps</i>	<i>32.8%</i>	<i>32.7%</i>	<i>+17bps</i>
PAT	300	453	207	-33.9%	44.9%	1,095	781	40.2%
MI & Associates	3	3	2	6.7%	24.8%	9	7	24.5%
Consolidated PAT	303	456	209	-33.6%	44.7%	1,104	788	40.1%
<i>PAT margin %</i>	<i>8.6%</i>	<i>11.0%</i>	<i>6.1%</i>	<i>-241bps</i>	<i>+248bps</i>	<i>9.5%</i>	<i>7.2%</i>	<i>+229bps</i>
EPS (Rs)	16.1	24.2	11.1	-33.6%	44.7%	58.7	41.9	40.1%

Source: Company, Arianth Research

Valuations

	CY17	CY18	CY19E	CY20E
EV/EBITDA	13.4	12.3	9.7	11
EBITDA	1912	2048	2465	2537
EV	25601	25228	23857	*27905
Net Debt	-2560	-2933	-4304	-4726
Market Cap	28161	28161	28161	32631
No of Shares	18.8	18.8	18.8	18.8
Fair Value				1736
CMP				1498
Upside				15.9%

*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	5290	5829
Total Expenditure	12288	12754	13298	14330
EBITDA	1912	2048	2465	2537
EBITDA margin %	13.5	13.8	15.6	15.0
Depreciation	644	603	633	646
EBIT	1269	1445	1832	1891
Other Income	129	143	314	392
Interest	99	88	93	100
PBT before Excp Items	1299	1500	2052	2183
Extraordinary/ Excp	0	0	0	0
PBT	1299	1500	2052	2183
Tax Expense	386	-11	616	655
Net Profit	925	1521	1437	1528
YoY Change (%)	42.7%	64.5%	-5.5%	6.4%

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	2,052	2,183
Add Depreciation	644	603	633	646
Others	(159)	(171)	(175)	(168)
Total	1,784	1,933	2,511	2,661
Taxes	(386)	11	(616)	(655)
Changes in Working Capital	1,516	(30)	113	386
Cash Flow from Operations	2,914	1,914	2,008	2,392
Investing Activities				
Change in investments	901	938	824	(461)
Capex	(1,595)	(1,595)	(600)	(550)
Cash Flow from Investing	(694)	(657)	224	(1,011)
Financing Activities				
Dividends + Taxes paid	(610)	(1,004)	(948)	(1,009)
Other Financing Activities	124	121	87	50
Cash Flow from Financing	(486)	(883)	(861)	(959)
Opening Cash	827	2,560	2,933	4,304
Changes during year	1,734	374	1,371	423
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%	15.6%	15.0%
EBIT (%)	8.9%	9.8%	11.6%	11.2%
PAT (%)	6.5%	10.3%	9.1%	9.1%
Du Pont ROAE Analysis				
PAT / Sales	6.5	10.3	9.1	9.1
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	76	81
DPS	17	16	19	20
Valuation				
P/E	30.5	18.5	19.6	18.4
EV/EBITDA	13.4	12.3	9.7	9.2
P/BV	3.0	2.7	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% to -12%
SELL	<-12%

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