

Impressive volume growth, realization improved despite cost pressure

6th February 2019

CMP Rs. 1401
Target Price Rs. 1601
Recommendation **ACCUMULATE**

Stock Info

BSE Group	A
BSE Code	500410
NSE Symbol	ACC
Bloomberg	ACC.IN
Reuters	ACC.BO
BSE Sensex	36,975
NSE Nifty	11,062

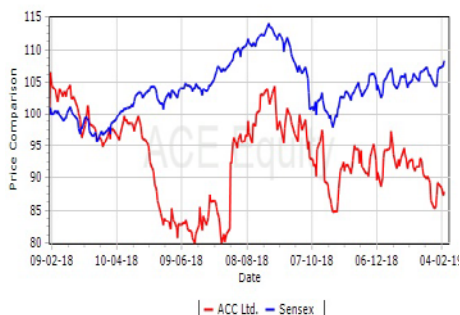
Market Info

Market Capital	Rs 12,018 cr
Equity Capital	Rs 188cr
Avg. Trading Vol.	535,170
52 Wk High/ Low	1,705/1,255
Face Value	10

Shareholding Pattern (%)

Promoters	54.5
Public & Others	45.5

Price Chart



Q4CY18 Operational Highlights

- ACC's PAT for the quarter Q4CY18 grew more than two-fold (255% YoY as well as QoQ increase) to Rs. 730.5cr, mainly on account of a tax write back of Rs 500.6cr pertaining to previous years. Total income for the quarter came in at Rs. 3,895cr as compared to Rs. 3,494cr in the corresponding quarter of CY17, up 11.5% YoY and 13.5% sequentially. EBITDA for the company stood at Rs. 487cr vs. Rs. 443cr YoY. EBITDA margin for the quarter stood at 12.5% vs 13% in the corresponding quarter of the previous year. The fall in margin has been mainly due to the rise in transportation and fuel costs.
- Cement Business volume came at 7.5MT higher by 8.7% YoY compared to the corresponding quarter of the previous year. The management has indicated that even though the quarter was marked by higher input prices, the rise was partly offset by improvement in operating efficiencies and productivity.
- Realization for the quarter improved by 1.4% YoY to Rs 4634 per ton. This was despite rise in input prices due to increased efficiency of the company.

Future Outlook

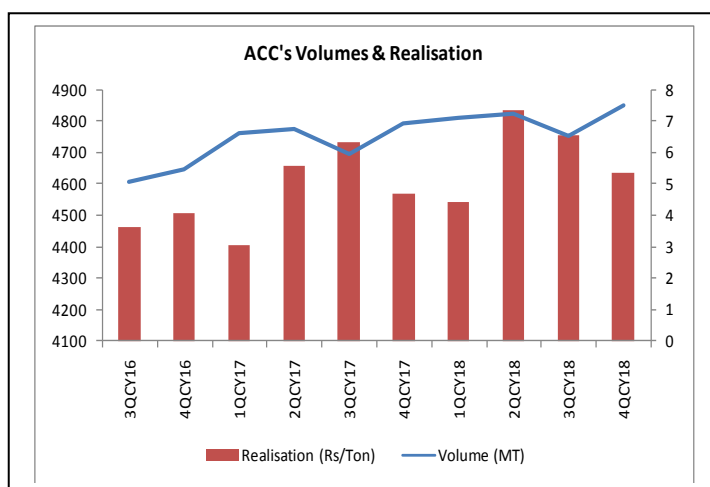
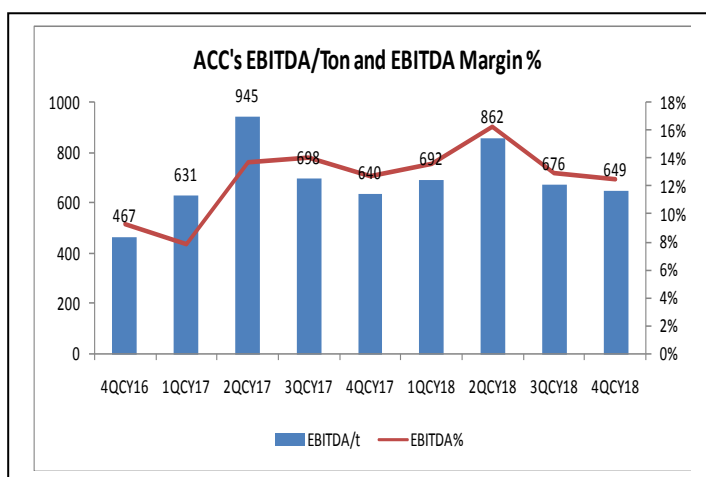
- In the recently announced budget 2019, the Government has indicated its commitment to further augment the infrastructure sector (railways, roads, highways and irrigation projects). Government's concerted efforts to increase investment across several sectors will have a favourable impact which will stimulate cement demand and boost economic growth. ACC will be a direct beneficiary of this improved demand.
- ACC is also increasing its cement capacities by 5.9MT through a greenfield integrated cement plant at Ametha in Madhya Pradesh, with a grinding unit in Uttar Pradesh. The company is also undergoing expansion of its capacities at its Tikaria and Sindri plants. This capacity expansion will aid its volume growth.

Valuations

We continue to maintain our positive view on ACC owing to its deep penetration in rural markets. The regional break-up shows that cement prices in central and eastern India did relatively better. Since ACC has a national presence, it could benefit from this. However, unless cement prices improve across India or cost pressures abate, the stress on profitability will continue. There was some signs of easing of pet coke and diesel prices of late, which if continues, will improve the realization and the company can gain back pricing power if cement prices stabilise.

At CMP of Rs 1401 the stock is available at CY20E P/E of 19.3x and CY20E EV/EBITDA of 9.1x respectively. After factoring in Q4CY18 results we have revised our CY19E estimates and introduced CY20E estimates. We have rolled over our target multiple to CY20E and now value the stock at 10x EV/EBITDA of CY20E which yields a fair value of Rs 1,601. **We maintain our 'Accumulate' rating on the stock.**

Per Ton Analysis	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18
Volumes (MT)	5.07	5.45	6.6	6.74	5.96	6.92	7.11	7.24	6.55	7.50
Realisation (Rs/T)	4463	4507	4404	4657	4733	4569	4542	4832	4756	4634
RM	573	726	704	595	831	873	793	806	822	944
Staff Cost	370	367	297	325	338	297	280	354	324	286
Power & Fuel	1058	977	982	1017	1130	1026	1054	1037	1115	1024
Freight & forwarding	1174	1217	1252	1291	1341	1355	1404	1434	1432	1378
Other Expenditure	1151	1135	942	950	890	909	872	870	972	863
Total Cost	4326	4422	4177	4178	4530	4460	4403	4502	4665	4494



Q4CY18 Results (Standalone)

Rs in Crore	Q4 CY18	Q4 CY17	YOY (%)	Q3 CY18	QoQ (%)
Total Income	3,895	3,494	11%	3,433	13%
Total Expenditure	3,408	3,051	12%	2,991	14%
EBITDA	487	443		443	
EBITDA Margins (%)	12.5	12.7	-1%	12.9	-3%
Other Income	29	46		31	
Depreciation	154	159		150	
Exceptional Items	-	-		-	
PBT	339	298	14%	304	12%
Tax	(391)	95		98	
Tax rate (%)	(115.3)	32.0		32.4	
Share of associates	-	3.1		-	
Minority Interest	-	-		-	
Net Profit	730	206	255%	206	255%
Net Profit Margin (%)	18.8	5.9		6.0	
EPS	38.9	10.9		10.9	

Valuations

	CY17	CY18	CY19E	CY20E
EV/EBITDA	12.4	11.4	10.0	10.0
EBITDA	1912	2048	2308	2537
EV	23772	23404	23078	25368
Net debt	-2560	-2933	-4304	-4726
Market Cap	26332	26337	27382	30095
No shares	18.8	18.8	18.8	18.8
Fair value				1601
CMP				1401
Upside				14.3%

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%	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%	42.7%	64.5%	-20.3%	12.6%

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

Cash Flow Statement (Year Ending December)				
Particulars, in Rs crore	CY17	CY18	CY19E	CY20E
Operating Activities				
PBT	1,310	1,510	1,731	1,948
Add Depr	644	603	633	646
Others	(170)	(181)	(175)	(168)
Total	1,784	1,933	2,189	2,426
Taxes	(386)	11	(519)	(584)
Changes in Working Cap	1,516	(30)	117	382
Cash Flow from Operations	2,914	1,914	1,787	2,223
Investing Activities				
Change in investments	901	938	(5,473)	(401)
Capex	(1,595)	(1,595)	5,770	(550)
Cash Flow from Investing	(694)	(657)	297	(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	1,371	422
Closing Cash	2,560	2,933	4,304	4,726

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 breakup				
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 Eqty	1.6	1.6	1.5	1.5
ROE %	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	28.5	17.3	21.7	19.3
EV/EBITDA	12.4	11.4	10.0	9.1
P/BV	2.8	2.5	2.4	2.3

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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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