

Operating Efficiency Augurs Well; Next Leg of Expansion will be key..

Arihant Capital values your support in the Asiamoney Brokers Poll 2021 for Institutional Team. We request your ballot



<http://www.asiamoney.com/brokers>

CMP: INR 2150

Rating: ACCUMULATE

Target Price: INR 2,460

Stock Info

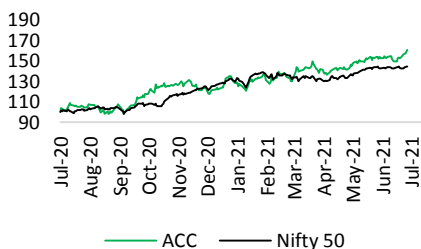
| | |
|--------------------------|-------------|
| BSE | 500410 |
| NSE | ACC |
| Bloomberg | ACC IN |
| Reuters | ACC.BO |
| Sector | Cement |
| Face Value (INR) | 10 |
| Equity Capital (INR Cr) | 188 |
| Mkt Cap (INR Cr) | 40,386 |
| 52w H/L (INR) | 2169 / 1289 |
| Avg Yearly Vol (in 000') | 1147.6 |

Shareholding Pattern %

(As on June 2021)

| | |
|-----------------|-------|
| Promoters | 54.53 |
| Public & Others | 45.47 |

ACC Ltd. Vs Nifty



Source: Arihant Research, NSE

Abhishek Jain

abhishek.jain@arihantcapital.com

022-422548871

Shrey Gandhi

Shrey.gandhi@arihantcapital.com

022 4225 4865

ACC Limited reported robust set of numbers for Q2CY21 on YoY basis .Revenue from operations showed a healthy growth YoY basis and grew by 49.3%, however on QoQ basis revenue from operations declined by 10% to INR 3884 cr although it was above our estimate of INR 3795 cr. The YoY growth in topine was backed by healthy volume and realization growth. Sales Volume grew by 42% YoY however declined by 15% QOQ to 6.8 million tonne against our estimate of 6.5 million tonne. Realization/ton grew by 7.6% YoY and 6.5% QoQ to INR 5712 against our estimate of INR 5838.

Reported EBIDTA grew by 65% YoY, however showed a flat growth QOQ to 0.9% to INR 868 cr above our estimate of INR 726 Cr. EBIDTA /tonne grew by 16.7% YoY and 18.7% QoQ to INR1277 above our estimates of INR 1117.

Reported EBIDTA margin expanded by 216 bps YoY and 231 bps QoQ to 22%. Healthy top line growth and cost efficiency actions under project 'Parvat' across cost levers helped the margin expansion.

Reported PAT grew by 111% YoY and 1.2% QoQ to INR 569 Cr above our estimate of INR 498 cr Increase in PAT was mainly due to better operating profit and reduction in depreciation expenses Depreciation expenses declined by 10.4% YoY however rose by 2.1% QoQ to INR 146 cr . PAT margin expanded by 426 bps YoY and 156 bps QoQ to 14.6%.

Other Highlights

- With a strong focus on supply chain efficiencies and cost optimization, the company has emerged stronger and more resilient.
- Waste Heat Recovery System projects at various sites are progressing well. The large cement capacity expansion project at Ametha in Madhya Pradesh has commenced.
- Demand for cement is expected to recover supported strongly by Government's increased spending on large scale infrastructure projects which augurs well for the cement sector. We believe company is well poised to capitalize on the growth momentum in the ensuing period

Valuation & View. Demand for cement is expected to recover supported strongly by Government's increased spending on large scale infrastructure projects which augurs well for the cement sector. We believe company is well poised to capitalize on the growth momentum in the ensuing period. Going forward, we believe a healthy demand outlook in the Eastern and Central regions will aid the company to witness traction in volume and profitability Ongoing capacity expansion plan of the company will also aid in volume growth. While ACC has been a laggard due to higher cost of production, it has been continuously undertaking measures to reduce its operating cost, Which will help in margin expansion going ahead. At CMP of INR 2150 the stock is trading at a EV/EBIDTA multiple of 10(x) and 8.9(x) to its CY21E & CY22E ,we value the stock at EV/EBIDTA multiple 10.5(x) to its CY22E EBIDTA of INR 3608 cr to arrive at a target price of INR 2,460 and maintain Accumulate rating on the stock.

Q2 CY21 - Quarterly Performance (Consolidated)

(in INR Cr)

| INR Cr (consolidated) | Q2CY21 | Q1CY21 | Q2CY20 | Q-o-Q | Y-o-Y |
|-------------------------|--------------|--------------|--------------|---------------|---------------|
| Net Revenue | 3,884 | 4,292 | 2,601 | -9.5% | 49.3% |
| Operating Costs | 2,253 | 2,635 | 1,556 | -14.5% | 44.8% |
| Employee cost | 209 | 206 | 177 | 1.5% | 18.1% |
| Other Expenses | 554 | 591 | 343 | -6.3% | 61.5% |
| EBITDA | 868 | 860 | 525 | 0.9% | 65.3% |
| <i>EBITDA margin %</i> | <i>22.3%</i> | <i>20.0%</i> | <i>20.2%</i> | <i>231bps</i> | <i>216bps</i> |
| Depreciation | 146 | 143 | 163 | 2.1% | -10.4% |
| EBIT | 722 | 717 | 362 | 0.7% | 99.4% |
| Other Income | 46 | 44 | 51 | 4.5% | -9.8% |
| Finance cost | 13 | 11 | 13 | 18.2% | 0.0% |
| Exceptional Item | - | - | - | - | - |
| PBT | 755 | 750 | 400 | 0.7% | 88.8% |
| Tax Expense | 189 | 192 | 132 | -1.6% | 43.2% |
| Effective tax rate % | 25.0% | 25.6% | 33.0% | -57bps | -797bps |
| PAT | 566 | 558 | 268 | 1.4% | 111.2% |
| MI & Associates | 3 | 4 | 2 | -25.0% | 36.4% |
| Consolidated PAT | 569 | 562 | 270 | 1.2% | 110.6% |
| <i>PAT margin %</i> | <i>14.6%</i> | <i>13.1%</i> | <i>10.4%</i> | <i>156bps</i> | <i>426bps</i> |
| EPS (Rs) | 30.3 | 29.9 | 14.4 | 1.2% | 110.1% |

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

| Particulars | Q2CY21 | Q1CY21 | Q2CY20 | Q-o-Q | Y-o-Y |
|--------------------------|--------|--------|--------|--------|-------|
| Sales Volume (mn tonne) | 6.8 | 8 | 4.8 | -15.0% | 41.7% |
| Sales in mn | 38840 | 42920 | 26010 | -9.5% | 49.3% |
| Realization/tonne)INR) | 5712 | 5365 | 5306 | 6.5% | 7.6% |
| EBIDTA in mn | 8680 | 8600 | 5250 | 0.9% | 65.3% |
| EBIDTA/tonne (INR) | 1276.5 | 1075.0 | 1093.8 | 18.7% | 16.7% |

| Valuations (INR CR) | CY22E |
|-----------------------------|--------------|
| EV/EBITDA(x) | 10.5 |
| EBITDA | 3608 |
| EV | 37884 |
| Cash | 8364 |
| Debt | 0 |
| Market Cap | 46248 |
| No shares | 18.8 |
| Fair value (TP) (INR) | 2460 |
| CMP (INR) | 2150 |
| Upside(%) | 14.4 |

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Financials (Consolidated)

| Profit and Loss Account (Year Ending December) | | | | |
|---|--------|--------|--------|--------|
| Particulars (INR Cr) | CY19 | CY20 | CY21E | CY22E |
| Income from Operations | 15,658 | 13,786 | 16,862 | 18,988 |
| YoY Change (%) | 5.8% | -12.0% | 22.3% | 12.6% |
| Power & Fuel Cost | 3134 | 2575 | 3035 | 3418 |
| Employee Cost | 866 | 841 | 995 | 1158 |
| Distribution Expenses | 4032 | 3416 | 4384 | 4937 |
| Other Expenditure incl. RM | 5213 | 4599 | 5160 | 5867 |
| Total Expenditure | 13245 | 11431 | 13574 | 15381 |
| EBITDA | 2413 | 2355 | 3288 | 3608 |
| Depreciation | 606 | 639 | 694 | 734 |
| EBIT | 1806 | 1716 | 2594 | 2874 |
| Other Income | 318 | 217 | 271 | 339 |
| Interest | 86 | 57 | 70 | 79 |
| PBT before Excp Items | 2039 | 1876 | 2796 | 3134 |
| Extraordinary/ Excp | 0 | 176 | 0 | 0 |
| PBT | 2039 | 1700 | 2796 | 3134 |
| Tax Expense | 675 | 279 | 923 | 1034 |
| Net Profit | 1378 | 1430 | 1873 | 2100 |
| YoY Change (%) | -9.4% | 3.8% | 30.9% | 12.1% |

| Balance Sheet (Year Ending December) | | | | |
|--------------------------------------|-------|-------|-------|-------|
| Particulars (INR Cr) | CY19 | CY20 | CY21E | CY22E |
| Liabilities + Equity | | | | |
| (a) Share capital | 188 | 188 | 188 | 188 |
| (b) Reserves and surplus | 11356 | 12511 | 14121 | 15958 |
| Shareholders' funds | 11544 | 12699 | 14309 | 16146 |
| Minority Interest | 3 | 3 | | |
| Non-current liab & Prov | 891 | 694 | 694 | 694 |
| Current liabilities | 4698 | 4804 | 5809 | 6333 |
| Total - Equity and liabilities | 17136 | 18200 | 20812 | 23173 |
| Assets | | | | |
| Non-current assets | 9601 | 9752 | 10929 | 12155 |
| Fixed assets | 7423 | 7056 | 7856 | 8706 |
| Goodwill + Intangibles | 50 | 186 | 185 | 186 |
| Long Term Inv | 116 | 129 | 161 | 193 |
| Loans & Adv | 144 | 136 | 131 | 125 |
| Other Non-current assets | 1869 | 2244 | 2594 | 2944 |
| Current assets | 7535 | 8449 | 9883 | 11018 |
| Cash | 4648 | 6006 | 7417 | 8364 |
| Other Current Assets | 2887 | 2443 | 2466 | 2654 |
| Total - Assets | 17136 | 18200 | 20812 | 23173 |

| Cash Flow Statement (Year Ending December) | | | | |
|--|-------|-------|---------|---------|
| Particulars (INRCr) | CY19 | CY20 | CY21E | CY22E |
| Operating Activities | | | | |
| PBT | 2,053 | 1,709 | 2,796 | 3,134 |
| Add Depreciation | 606 | 639 | 694 | 734 |
| Others | (206) | (378) | (1,263) | (1,465) |
| Total | 2,453 | 1,970 | 2,226 | 2,403 |
| Taxes | (675) | (279) | (923) | (1,034) |
| Changes in Working Capital | 660 | 926 | 1,128 | 655 |
| Cash Flow from Operations | 2,438 | 2,617 | 2,432 | 2,023 |
| Investing Activities | | | | |
| Change in investments | 225 | 39 | 29 | 28 |
| Capex | 540 | (745) | (800) | (850) |
| Cash Flow from Investing | 765 | (707) | (771) | (823) |
| Financing Activities | | | | |
| Dividends + Taxes paid | (317) | (263) | (263) | (263) |
| Other Financing Activites | - | (261) | 13 | 9 |
| Cash Flow from Financing | (317) | (524) | (250) | (254) |
| Opening Cash | 1,819 | 4,648 | 6,006 | 7,417 |
| Changes during year | 2,829 | 1,358 | 1,411 | 947 |
| Closing Cash | 4,648 | 6,006 | 7,417 | 8,364 |

| Ratio Analysis | | | | |
|--------------------------------|-------|-------|-------|-------|
| | CY19 | CY20 | CY21E | CY22E |
| Profitability | | | | |
| EBITDA (%) | 15.4% | 17.1% | 19.5% | 19.0% |
| EBIT (%) | 11.5% | 12.5% | 15.4% | 15.1% |
| PAT (%) | 8.8% | 10.4% | 11.1% | 11.1% |
| Du Pont ROAE Analysis | | | | |
| PAT / Sales | 8.8 | 10.4 | 11.1 | 11.1 |
| Sales / Avg Total Fixed Assets | 0.9 | 0.8 | 0.8 | 0.9 |
| Avg Total Assets / Avg Equity | 1.5 | 1.5 | 1.4 | 1.4 |
| ROE % | 11.9% | 11.3% | 13.1% | 13.0% |
| Other Ratios | | | | |
| Current Ratio | 1.6 | 1.8 | 1.7 | 1.7 |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| EPS | 73 | 76 | 100 | 112 |
| DPS | 14 | 14 | 14 | 14 |
| Valuation | | | | |
| P/E | 29.3 | 28.3 | 21.6 | 19.2 |
| EV/EBITDA | 14.8 | 11.5 | 10.0 | 8.9 |

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

| Head Office | Registered Office |
|---|--|
| #1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880 | Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199 |

| 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% |

| Research Analyst Registration No. | Contact | Website | Email Id |
|--------------------------------------|-------------------------|--|--|
| INH000002764 | SMS: 'Arihant' to 56677 | www.arihantcapital.com | research@arihantcapital.com |

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880