

**Capacity Expansion & Cost efficiency to drive the way ahead.**

**CMP: INR 1,877**

**Rating: ACCUMULATE**

**Target Price: INR 2,187**

**Stock Info**

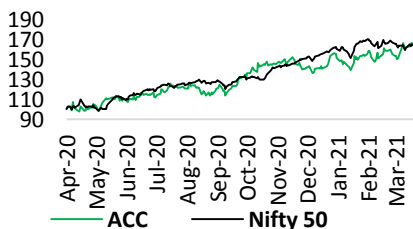
BSE	500410
NSE	ACC
Bloomberg	ACC IN
Reuters	ACC.BO
Sector	Cement
Face Value (INR)	10
Equity Capital (INR Cr)	188
Mkt Cap (INR Cr)	35,245
52w H/L (INR)	2023 / 1108
Avg Yearly Vol (in 000')	1346.68

**Shareholding Pattern %**

(As on March 2021)

Promoters	54.53
Public & Others	45.47

**ACC Ltd. Vs Nifty**



Source: Arihant Research, NSE

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ACC Limited reported robust set of numbers for Q1CY21. Revenue from operations showed a healthy growth YoY basis and grew by 22.6%, however on QoQ basis revenue from operations grew only by 3.5% to INR 4292 cr in line with our estimate of INR 4296 cr. Revenue from Cement grew by 22.6% YoY and 2.7% QoQ to INR 3981 cr. Revenue from ready mix concrete declined by 7.6% YoY, however rose by 15% QoQ to INR 360 cr. Sales Volume grew by 21% YoY and 3.9% QoQ to 8 million tonne. Realization/ton grew mutedly by 1.1% YoY but declined by 0.3% QoQ to INR 5365. Reported EBIDTA grew by 46.5% YoY and 50.3% QoQ to INR 860 cr above our estimate of INR 679 Cr. Adjusted EBIDTA for Q4CY20 stood at INR 701 cr after adjusting for one off expense of state industrial policy charge of INR 129 cr due to time value of money computed based on expected credit loss method included in other expenses.

Reported EBIDTA margin expanded by 328 bps YoY and 624 bps QoQ to 20%. Healthy top line growth backed by better operational efficiency and reduction in Employee cost led to expansion in Margin. Adjusted EBIDTA margin stood at 16.9% in Q4FY20.

Reported PAT grew by 74% YOY and 18.8% QoQ to INR 562 Cr Increase in PAT was mainly due to better operating profit and reduction in depreciation expenses Depreciation expenses declined by 9.5% YoY and 8.9% QoQ to INR 143 cr . PAT margin expanded by 387 bps YoY and 168 bps QoQ to 13.1%. Adjusted PAT for Q4CY20 stood at INR 602 Cr.

**Capacity expansion plan** ACC's capex plan of adding 6.2mn mt capacity constitutes ~19% of the company's current capacity. Out of the 6.2mn mt, the company has commissioned 1.4mn mt brownfield plant at Sindri in January 2021 while the rest of the capacity will be commissioned by CY24. Along with the above capex plan, the management will add WHRS plants with a total capacity of 22.5MW at two of its plants, which will take the WHRS capacity to 30MW by CY22.

**Valuation & View** Government's increased spending on infrastructure development, particularly roads, railways, affordable housing coupled with government's timely and pro-active measures will open up more opportunities for the cement sector which will stimulate cement demand going ahead. Government is also taking all possible steps to intensify the vaccination programme and control the spread of COVID. Increase in cement prices coupled with capacity expansion done by the company will help to drive volume as well as realization growth going ahead. Company's cost efficiency project 'Parvat' will continue to help in managing some cost headwinds. Strong balance sheet and improved cash flow remain key positives for the company. Although We are keeping a close eye on multiple factors like impact of Covid wave on demand & sustainability of maintaining variable cost as input prices continue to put pressure on margin with lag impact. At CMP of INR 1877 the stock is trading at a EV/EBIDTA multiple of 11.5x to its CY20 EBIDTA of INR 2355 cr. ,we value the stock at EV/EBIDTA multiple 10.0x to its CY22E EBIDTA of INR 3353 cr to arrive at a target price of INR 2187 and maintain Accumulate rating on the stock.

## Q1 CY21 - Quarterly Performance (Consolidated)

(in INR Cr)

INR Cr (consolidated)	Q1CY21	Q4CY20	Q1CY20	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>4,292</b>	<b>4,145</b>	<b>3,502</b>	<b>3.5%</b>	<b>22.6%</b>
<b>Operating Costs</b>	<b>2,635</b>	<b>2,624</b>	<b>2,151</b>	<b>0.4%</b>	<b>22.5%</b>
Employee cost	206	250	209	-17.6%	-1.4%
Other Expenses	591	699	555	-15.5%	6.5%
<b>EBITDA</b>	<b>860</b>	<b>572</b>	<b>587</b>	<b>50.3%</b>	<b>46.5%</b>
<i>EBITDA margin %</i>	<i>20.0%</i>	<i>13.8%</i>	<i>16.8%</i>	<i>624bps</i>	<i>328bps</i>
Adjusted EBIDTA	860	701	587	<b>22.7%</b>	<b>46.5%</b>
Depreciation	143	157	158	-8.9%	-9.5%
<b>EBIT</b>	<b>717</b>	<b>415</b>	<b>429</b>	<b>72.8%</b>	<b>67.1%</b>
Other Income	44	64	56	-31.3%	-21.4%
Finance cost	11	17	11	-35.3%	0.0%
Exceptional Item		176	-	-	-
<b>PBT</b>	<b>750</b>	<b>286</b>	<b>474</b>	<b>162.2%</b>	<b>58.2%</b>
Tax Expense	192	-183	153	-204.9%	25.5%
Effective tax rate %	25.6%	-64.0%	32.3%	<i>8959bps</i>	<i>-668bps</i>
<b>PAT</b>	<b>558</b>	<b>469</b>	<b>321</b>	<b>19.0%</b>	<b>73.8%</b>
MI & Associates	4	4	2	0.0%	81.8%
<b>Consolidated PAT</b>	<b>562</b>	<b>473</b>	<b>323</b>	<b>18.8%</b>	<b>73.9%</b>
<i>PAT margin %</i>	<i>13.1%</i>	<i>11.4%</i>	<i>9.2%</i>	<i>168bps</i>	<i>387bps</i>
Adjusted PAT	562	602	323	<b>-6.6%</b>	<b>74.0%</b>
<b>EPS (Rs)</b>	<b>29.96</b>	<b>25.16</b>	<b>17.20</b>	<b>19.1%</b>	<b>74.2%</b>

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

Particulars	Q1CY21	Q4CY20	Q1CY20	Q-o-Q	Y-o-Y
Sales Voloume ( mn tonne)	8	7.7	6.6	3.9%	21.2%
Sales in mn	42920	41450	35020	3.5%	22.6%
Realization/tonne	5365	5383	5306	-0.3%	1.1%
EBIDTA in mn	8600	5720	5570	50.3%	54.4%
EBIDTA/tonne	1075.0	742.9	843.9	44.7%	27.4%

### Key Highlights

- The grinding unit expansion in Sindri is completed and is fully operational. The execution of Greenfield growth project in Ametha and associated grinding units is progressing as per company's plan. Additionally, company's efficiency projects such as Waste Heat Recovery are on track.
- During this quarter, company launched the green concrete "ECOPact", which is a major milestone in journey of innovation and sustainability.
- Company's cost efficiency project 'Parvat' is on track and has helped in managing some continuing cost headwinds.

Valuations ( INR CR)	CY22E
EV/EBITDA(x)	10
EBITDA	3353
EV	33531
Cash	7580
Debt	0
Market Cap	41111
No shares	18.8
Fair value (INR)	2187
CMP ( INR)	1877
<b>Upside(%)</b>	<b>16.5</b>

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

**Key Financials (Consolidated)**

Profit and Loss Account ( Year Ending December)				
Particulars (Rs Cr)	CY19	CY20	CY21E	CY22E
Income from Operations	15,658	13,786	15,749	17,648
YoY Change (%)	5.8%	-12.0%	14.2%	12.1%
Power & Fuel Cost	3134	2575	2835	3177
Employee Cost	866	841	929	1077
Distribution Expenses	4032	3416	4095	4588
Other Expenditure incl. RM	5213	4599	4819	5453
Total Expenditure	13245	11431	12678	14295
EBITDA	2413	2355	3071	3353
Depreciation	606	639	694	734
EBIT	1806	1716	2378	2620
Other Income	318	217	271	339
Interest	86	57	65	73
PBT before Excp Items	2039	1876	2583	2885
Extraordinary/ Excp	0	176	0	0
PBT	2039	1700	2583	2885
Tax Expense	675	279	852	952
Net Profit	1378	1430	1731	1933
YoY Change (%)	-9.4%	3.8%	21.0%	11.7%

Balance Sheet (Year Ending December)				
Particulars (Rs Cr)	CY19	CY20	CY21E	CY22E
Liabilities + Equity				
(a) Share capital	188	188	188	188
(b) Reserves and surplus	11356	12511	13979	15649
Shareholders' funds	11544	12699	14167	15837
Minority Interest	3	3		
Non-current liab & Prov	891	694	694	694
Current liabilities	4698	4804	5662	6155
Total - Equity and liabilities	17136	18200	20522	22685
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	9594	10531
Cash	4648	6006	7128	7877
Other Current Assets	2887	2443	2466	2654
Total - Assets	17136	18200	20522	22685

Cash Flow Statement (Year Ending December)				
Particulars (Rs Cr)	CY19	CY20	CY21E	CY22E
Operating Activities				
PBT	2,053	1,709	2,583	2,885
Add Depreciation	606	639	694	734
Others	(206)	(378)	(1,365)	(1,486)
Total	2,453	1,970	1,911	2,132
Taxes	(675)	(279)	(852)	(952)
Changes in Working Capital	660	926	1,089	646
Cash Flow from Operations	2,438	2,617	2,148	1,826
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)	(0)	-
Cash Flow from Financing	(317)	(524)	(263)	(263)
Opening Cash	1,819	4,648	6,006	7,128
Changes during year	2,829	1,358	1,122	749
Closing Cash	4,648	6,006	7,128	7,877

Ratio Analysis				
	CY19	CY20	CY21E	CY22E
<b>Profitability</b>				
EBITDA (%)	15.4%	17.1%	19.5%	19.0%
EBIT (%)	11.5%	12.5%	15.1%	14.8%
PAT (%)	8.8%	10.4%	11.0%	11.0%
<b>Du Pont ROAE Analysis</b>				
PAT / Sales	8.8	10.4	11.0	11.0
Sales / Avg Total Fixed Assets	0.9	0.8	0.8	0.8
Avg Total Assets / Avg Equity	1.5	1.5	1.4	1.4
ROE %	11.9%	11.3%	12.2%	12.2%
<b>Other Ratios</b>				
Current Ratio	1.6	1.8	1.7	1.7
Debt / Equity	0.0	0.0	0.0	0.0
EPS	73	76	92	103
DPS	14	14	14	14
<b>Valuation</b>				
P/E	25.6	24.7	20.4	18.3
EV/EBITDA	12.7	11.5	9.2	8.2

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

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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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