

**Robust Performance aided with healthy Balance Sheet;
grim macro demand to continue in near term**

CMP: Rs 1,233

Rating: HOLD

Target Price: Rs 1,335

Stock Info

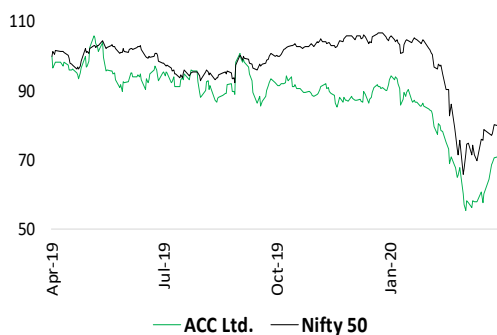
BSE	500410
NSE	ACC
Bloomberg	ACC IN
Reuters	ACC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Cr)	188
Mkt Cap (Rs Cr)	21,901
52w H/L (Rs)	1,769 / 895
Avg Yearly Vol (in 000')	859

Shareholding Pattern %

(As on March, 2020)

Promoters	54.53
FII	7.79
DII	21.19
Public & Others	16.49

ACC Ltd. Vs Nifty



Source: Arihant Research, NSE

ACC reported good set of numbers in Q1CY20 despite the macro economic slowdown. Consolidated revenue stood at Rs 3,502 Cr, a decline of 10.7% YoY/13.8% QoQ, EBITDA stood at Rs 586 Cr, increasing by 10.3% YoY/8.4% QoQ and PAT at Rs 323 Cr, down 6.6% YoY/up 18.2% QoQ. The sharp decline in revenue could be attributed to the overall macro slowdown and an ultimate nation-wide lockdown. The total sales of cement by volume decreased to 6.6 million tonne from last year's 7.5 million tonnes while the fall in realization price of cement was partly offset by optimization of premium product mix. With almost zero long term debt of the company owing to better management over the years, the company will face lesser concerns amongst its peers. However, due to the ongoing lockdown and the severe fall in demand due to a now seemingly certain prolonged impact of Coronavirus, we see the fixed costs straining the near future returns for the company. Hence, we revise our CY20E/CY21E estimates downwards but maintain positive stance on the company with Hold rating and target price of Rs 1,335.

Q1CY20 Operational Highlights

The raw material costs fell for the company during the quarter, thereby benefitting it immensely by 16.7% YoY fall while the sales fell by 10.7% YoY, along with significant amount of inventory remaining as the lockdown was announced suddenly.

Operation-wise, the sales of cement by volume stood at 6.6 million tonnes, significantly below from last year's 7.5 million tonnes. However, the expenses by Rs/tonne on Power (up 4% YoY), Freight (down 1% YoY) and Employees (up by 17% YoY, understandable as the sales fell drastically), reflect management ability to offset the Covid-19 impact.

Valuation & View

Going ahead, while the company has informed about resuming operations from the 20th April, 2020 in a phased manner, we believe the piled up inventory and slow restart of operations will see it revive sales gradually and resume normalcy after some time. Also, since the clout around the spread or containment of Coronavirus remains under doubts, the cement maker may not be seeing an upward growth anywhere before the Oct-Dec 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 1,233 the stock is available at CY21E EV/EBITDA of 11.6x. After factoring in good bottomline in the past quarter but a grim demand outlook, we have revised our CY20E/CY21E estimates downwards. We continue to value the stock at 13x EV/EBITDA multiple of its CY21E estimates, which yields a target price of Rs 1,335 and downgrade to HOLD rating on the stock.

Q1 CY20 - Quarterly Performance (Consolidated)

(in Rs Cr)

Rs Cr (consolidated)	Q1CY20	Q4CY19	Q1CY19	Q-o-Q	Y-o-Y
Net Revenue	3,502	4,060	3,919	-13.8%	-10.7%
Operating Costs	2,151	2,677	2,560	-19.6%	-16.0%
Employee cost	209	233	200	-10.3%	4.5%
Other Expenses	555	610	627	-9.0%	-11.5%
EBITDA	586	541	532	8.4%	10.3%
<i>EBITDA margin %</i>	<i>16.7%</i>	<i>13.3%</i>	<i>13.6%</i>	<i>343bps</i>	<i>318bps</i>
Depreciation	158	161	148	-1.8%	7.0%
EBIT	429	380	384	12.7%	11.6%
Other Income	56	58	157	-2.8%	-64.3%
Finance cost	11	29	21	-63.8%	-49.2%
Exceptional Item	-	-	-	-	-
PBT	474	408	520	16.0%	-8.9%
Tax Expense	153	140	177	9.3%	-13.6%
Effective tax rate %	32.3%	34.3%	34.1%	-198bps	-176bps
PAT	321	268	343	19.5%	-6.4%
MI & Associates	2	5	3	-54.3%	-30.7%
Consolidated PAT	323	273	346	18.2%	-6.6%
<i>PAT margin %</i>	<i>9.2%</i>	<i>6.7%</i>	<i>8.8%</i>	<i>249bps</i>	<i>40bps</i>
EPS (Rs)	17.2	14.5	18.4	18.2%	-6.6%

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

Valuations (Rs Cr)	CY18	CY19	CY20E	CY21E
EV/EBITDA	12.7	11.6	13.0	13.0
EBITDA	2048	2413	2062	2287
EV	25930	27933	26803	29735
Net debt	-2751	-4753	-4857	-4632
Market Cap	23179	23179	21946	25103
No shares	18.8	18.8	18.8	18.8
Fair value				1335
CMP				1233
Upside				8.3%

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

Key Financials

Profit and Loss Account (Year Ending December)					Balance Sheet (Year Ending December)				
Particulars (Rs Cr)	CY18	CY19	CY20E	CY21E	Particulars (Rs Cr)	CY18	CY19E	CY20E	CY21E
Income from Operations	14,802	15,658	14,092	15,571	Liabilities + Equity				
YoY Change (%)	4.2%	5.8%	-10.0%	10.5%	(a) Share capital	188	188	188	188
Power & Fuel Cost	3001	3134	2748	3036	(b) Reserves and surplus	10347	11359	11797	12313
Employee Cost	884	866	779	919	Shareholders' funds	10535	11547	11985	12501
Distribution Expenses	3993	4032	3664	4049	Non-current liab & Prov	815	891	883	933
Other Expenditure incl. RM	4876	5213	4839	5280	Current liabilities	4706	4698	4884	5141
Total Expenditure	12754	13245	12030	13284	Total - Equity and liabilities	16056	17136	17752	18574
EBITDA	2048	2413	2062	2287	Assets				
EBITDA margin %	13.8	15.4	14.6	14.7	Non-current assets	9372	9601	10276	10951
Depreciation	603	606	646	672	Fixed assets	7433	7423	7946	8469
EBIT	1445	1806	1416	1615	Goodwill + Intangibles	53	50	50	50
Other Income	143	318	398	498	Long Term Inv	104	116	148	180
Interest	88	86	78	86	Loans & Adv	169	144	244	344
PBT before Excp Items	1500	2039	1736	2027	other Non-current assets	1612	1869	1889	1909
Extraordinary/ Excp	0	0	0	0	Current assets	6684	7535	7476	7452
PBT	1500	2039	1736	2027	Cash	2933	4493	5542	5317
Tax Expense	-11	675	437	510	Other Current Assets	3751	3042	1933	2135
Net Profit	1521	1378	1299	1517	Total - Assets	16056	17136	17752	18574
YoY Change (%)	64.5%	-9.4%	-5.7%	16.8%					

Cash Flow Statement (Year Ending December)					Ratio Analysis				
Particulars (Rs Cr)	CY18	CY19	CY20E	CY21E	Ratios	CY18	CY19	CY20E	CY21E
Operating Activities					Profitability				
PBT	1,500	2,053	1,736	2,027	EBITDA (%)	13.8%	15.4%	14.6%	14.7%
Add Depreciation	603	606	646	672	EBIT (%)	9.8%	11.5%	10.0%	10.4%
Others	(171)	(227)	(191)	(182)	PAT (%)	10.3%	8.8%	9.2%	9.7%
Total	1,933	2,432	2,192	2,517	Du Pont ROAE Analysis				
Taxes	11	(447)	(437)	(510)	PAT / Sales	10.3	8.8	9.2	9.7
Changes in Working Capital	(30)	270	1,057	54	Sales / Avg Total Fixed Assets	1.0	0.9	0.8	0.9
Cash Flow from Operations	1,914	2,255	2,811	2,061	Avg Total Assets / Avg Equity	1.6	1.5	1.5	1.5
Investing Activities					ROAE %	14.4%	11.9%	10.8%	12.1%
Change in investments	938	(322)	(461)	(461)	Other Ratios				
Capex	(1,595)	-	(550)	(550)	Current Ratio	1.4	1.6	1.5	1.4
Cash Flow from Investing	(657)	(322)	(1,011)	(1,011)	Debt / Equity	0.0	0.0	0.0	0.0
Financing Activities					EPS	81	73	69	81
Dividends + Taxes paid	(1,004)	(317)	(742)	(1,325)	DPS	16	18	17	20
Other Financing Activites	121	-	(8)	50	Valuation				
Cash Flow from Financing	(883)	(317)	(751)	(1,275)	P/E	15.2	16.8	17.8	15.3
Opening Cash	2,560	2,933	4,493	5,542	EV/EBITDA	12.7	11.6	9.2	9.2
Changes during year	374	1,559	1,050	(226)	P/BV	2.2	2.0	1.9	1.9
Closing Cash	2,933	4,492	5,542	5,317					

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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