

Better than expected performance and a lighter book to keep steer the company through easily

CMP: Rs 1,335

Rating: HOLD

Target Price: Rs 1,457

Stock Info

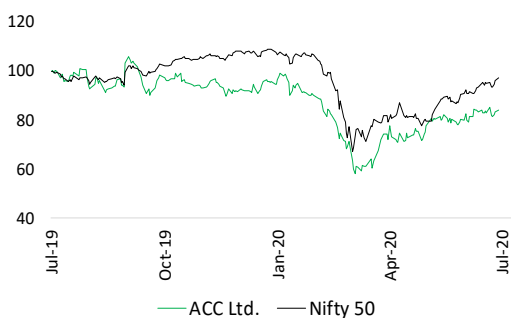
BSE	500410
NSE	ACC
Bloomberg	ACC IN
Reuters	ACC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Cr)	188
Mkt Cap (Rs Cr)	24,971
52w H/L (Rs)	1,709 / 895
Avg Yearly Vol (in 000')	997

Shareholding Pattern %

(As on June, 2020)

Promoters	54.53
FII	8.14
DII	18.53
Public & Others	18.80

ACC Ltd. Vs Nifty



Source: Arihant Research, NSE

ACC Limited Q2CY20E got impacted due to nation-wide lockdown for the first month of April. Consolidated revenue stood at Rs 2,602 Cr, a decline of 37.3% YoY/25.7% QoQ, EBITDA stood at Rs 525 Cr, decreasing by 32.9% YoY/10.4% QoQ and PAT at Rs 271 Cr, down 40.5% YoY/16.1% QoQ. The sharp decline in revenue could be attributed to the nation-wide lockdown for the month of April and then a gradual but rather slow re-opening of the economy. The total sales of cement by volume decreased to 4.8 million tonne (down 34% YoY) and RMX volume declined to 0.15 million cubic metre (down 83% YoY) while realization per tonne improved by a percentage point to Rs 5,048 per tonne over Q2CY19. However, with zero debt of the company and superior management over the years, the company steered through the quarter pretty well against its peers. Due to the current scenario of intermittent lockdowns in certain covid hotspots and a stronger than normal monsoon this year, the impact of coronavirus is expected to linger for another quarter and get better by the last quarter of 2020. Hence, we remain positive with the business outlook on the company and maintain our HOLD rating.

Q2CY20 Operational Highlights

The raw material costs fell significantly for the company during the quarter to Rs 397 per tonne (down 26% YoY), thereby benefitting it as the demand remained subdued. Inventories did pile up slightly due to the subdued demand but major fall in other expenses helped improve the margins.

Operation-wise, the sales of cement by volume stood at 4.8 million tonnes, significantly below from last year's 7.2 million tonnes. Also, the expenses on Power (down 14% YoY) and Freight (down 9% YoY) due to overall fall in demand helped better the EBITDA margins to 20.2% (up 132 bps YoY). The increase in cost of employees per tonne by 32% remains understandable considering the weak volumes.

Valuation & View

Going ahead, while the company has informed about resuming operations from the 20th April, 2020 in a phased manner, it currently is operating almost all its manufacturing facilities, except for those in large metros still under some sort of lockdown. Since, the July-Sept quarter is a generally weak quarter with lesser construction activity going on due to monsoon, we expect the company to come out strong in the last quarter of 2020 with close to last year's demand levels and a similar run rate of production. 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 1,335 the stock is available at CY21E EV/EBITDA of 14x. After factoring in marginal hit to the bottom-line in the past quarter and a gradual opening of the economy to pre-covid levels, we maintain our estimates due to zero debt in its balance sheet. We revise upward its EV/EBITDA multiple of its CY21E estimates to 14x, which yields a target price of Rs 1,457 and maintain our HOLD rating on the stock.

Q2 CY20 - Quarterly Performance (Consolidated)

(in Rs Cr)

Rs Cr (consolidated)	Q2CY20	Q1CY20	Q2CY19	Q-o-Q	Y-o-Y	H1CY20	H1CY19	Y-o-Y
Net Revenue	2,602	3,502	4,150	-25.7%	-37.3%	6,104	8,069	-24.4%
Operating Costs	1,557	2,151	2,514	-27.6%	-38.0%	3,709	5,074	-26.9%
Employee cost	177	209	204	-15.4%	-13.1%	386	404	-4.4%
Other Expenses	343	555	650	-38.2%	-47.2%	898	1,276	-29.7%
EBITDA	525	586	783	-10.4%	-32.9%	1,112	1,315	-15.4%
<i>EBITDA margin %</i>	<i>20.2%</i>	<i>16.7%</i>	<i>18.9%</i>	<i>344bps</i>	<i>132bps</i>	<i>18.2%</i>	<i>16.3%</i>	<i>+183bps</i>
Depreciation	163	158	147	3.0%	10.8%	321	294	8.9%
EBIT	363	429	636	-15.4%	-43.0%	791	1,020	-22.5%
Other Income	51	56	53	-8.3%	-4.1%	107	210	-49.0%
Finance cost	13	11	20	23.3%	-34.3%	24	41	-41.9%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	401	474	670	-15.4%	-40.1%	875	1,190	-26.5%
Tax Expense	132	153	217	-13.7%	-39.1%	285	394	-27.6%
Effective tax rate %	33.0%	32.3%	32.4%	66bps	57bps	32.6%	33.1%	+17bps
PAT	269	321	453	-16.2%	-40.7%	590	796	-25.9%
MI & Associates	2	2	3	-0.9%	-23.0%	4	6	-27.1%
Consolidated PAT	271	323	456	-16.1%	-40.5%	594	802	-25.9%
<i>PAT margin %</i>	<i>10.4%</i>	<i>9.2%</i>	<i>11.0%</i>	<i>119bps</i>	<i>-57bps</i>	<i>9.7%</i>	<i>9.9%</i>	<i>+229bps</i>
EPS (Rs)	14.39	17.16	24.20	-16.1%	-40.5%	31.6	42.6	-25.9%

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

Valuations	CY21E
EV/EBITDA	14.0
EBITDA	2287
EV	32022
Net Debt	-4632
Market Cap	27391
No shares	18.8
Fair value	1457
CMP	1334
Upside	9.2%

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

Key Financials (Consolidated)

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		CY18	CY19E	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	11.3	13.0	14.0
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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