

Capacity Expansion likely to bring growth back on track.

CMP: INR 1,766

Rating: ACCUMULATE

Target Price: INR 2,042

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 (INR Cr)	33,172
52w H/L (INR)	1,813 / 895
Avg Yearly Vol (in 000')	1339.68

Shareholding Pattern %

(As on December 2020)

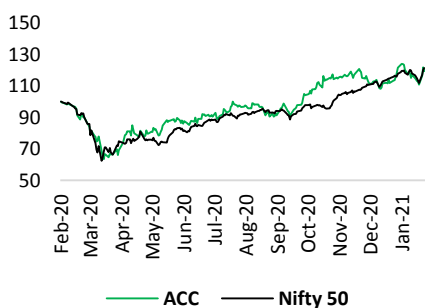
Promoters	54.53
Public & Others	45.47

ACC Limited reported mixed set of numbers for Q4CY20 and were below our estimates on all front. Revenue from operations showed a flat growth YoY basis and grew by 2%, however on QoQ basis revenue from operations grew by 17% to INR 4145 cr below our estimate of INR 4280 cr. Revenue from Cement grew by 4.6% YoY and 14.9% QoQ to INR 3877 cr. Revenue from ready mix concrete declined by 19.5% YoY, however rose by 59% QoQ to INR 312 cr. Sales Volume declined by 1.3% YoY but grew 18.6% to 7.7 million tonne . Realization/ton grew by 3.4% YoY but declined 1.2% QoQ to INR 5383. Reported EBIDTA grew by 5.9% YoY, however declined by 14.8 % QoQ to INR 572 cr below our estimate of INR 876 Cr. Adjusted EBIDTA grew by 30% YoY and 4.5% QoQ and 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 mutedly by 50 bps YoY and contracted by 517 bps QoQ to 13.8%. Higher operating expenses and sharp increase in other expenses on QoQ basis has led to sharp contraction in margin on QoQ basis. Operating expenses declined by 2% YoY, however grew by 20.9% QoQ to INR 2624. Other Expenses grew by 14.6% YoY and 42.7% QoQ to INR 699. Adjusted EBIDTA margin declined by 200 bps QoQ however grew by 360 bps to 16.9% in Q4FY20 backed by product mix optimization.

Reported PAT grew by 73% YOY and 29.9% QoQ to INR 473 Cr Increase in PAT was mainly due to tax refund of INR 183 cr in Q4CY20 as against tax expense of INR 140 cr and 177cr respectively for Q4CY19 and Q3CY20. PAT margin expanded by 469 bps YoY and 112 bps QoQ to 11.4%.

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

New capacities to help growth CY22E onwards In the past five years, ACC has lost market share to other large players with no major new capacities coming in place in this period either via greenfield or M&A route. While industry capacity grew at CAGR of 7%, the company managed to increase its capacity from 30.5 MT to 33 MT at 2% CAGR. As a result, ACC's production share declined. To address this growth concern, the company is adding 6.2 MT new cement capacities. However, the new capacity would likely come on-stream only by end of H1CY22E. Which will benefit the company in longer run.

Valuation & View Government's increased spending on infrastructure development, particularly roads, railways, affordable housing and other schemes as announced in the recent Union Budget 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. Company needs to focus on structural issues with respect to cost of production. On the positive side, strong b/s and improved cash flow remain key positives. Further, new capacities would bring the company back on the growth track At CMP of INR 1766 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 3081 cr to arrive at a target price of INR 2042 and upgrade to Accumulate rating on the stock.

Q4 CY20 - Quarterly Performance (Consolidated)

(in INR Cr)

INR Cr (consolidated)	Q4CY20	Q3CY20	Q4CY19	Q-o-Q	Y-o-Y
Net Revenue	4,145	3,537	4,060	17.2%	2.1%
Operating Costs	2,624	2,170	2,677	20.9%	-2.0%
Employee cost	250	206	233	21.4%	7.3%
Other Expenses	699	490	610	42.7%	14.6%
EBITDA	572	671	540	-14.8%	5.9%
<i>EBITDA margin %</i>	<i>13.8%</i>	<i>19.0%</i>	<i>13.3%</i>	<i>-517bps</i>	<i>50bps</i>
Adjusted EBIDTA	701	671	540	4.5%	29.8%
Depreciation	157	161	161	-2.5%	-2.5%
EBIT	415	510	379	-18.6%	9.5%
Other Income	64	46	58	39.1%	10.3%
Finance cost	17	16	29	6.3%	-41.4%
Exceptional Item	176	-	-	-	-
PBT	286	540	408	-47.0%	-29.9%
Tax Expense	-183	177	140	-203.4%	-230.7%
Effective tax rate %	-64.0%	32.8%	34.3%	-9676bps	-9830bps
PAT	469	363	268	29.2%	75.0%
MI & Associates	4	1	5	300.0%	-20.0%
Consolidated PAT	473	364	273	29.9%	73.3%
<i>PAT margin %</i>	<i>11.4%</i>	<i>10.3%</i>	<i>6.7%</i>	<i>112bps</i>	<i>469bps</i>
Adjusted PAT	602	364	273	65.4%	120.5%
EPS (INR)	25.16	19.38	14.55	29.8%	72.9%

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

Key Con-Call Highlights

- Company is a focus driven organization believing in responsible growth by the way of expanding capacities, Investing to enhance profitability by driving new engines of growth and focus on ESG.
- The Company successfully commissioned a new Grinding Unit with a cement capacity of 1.4 MTPA on January 02, 2021 at Sindri, in the State of Jharkhand which will further strengthen company's positioning in the eastern region.
- Ametha project is currently on so together with Sindri the capacity expansion would be 3 million MT of clinker and 6.2 million Mt of Cement. Company will continue to focus on cost efficiency and cost reduction measures

Key Con-Call Highlights continued

- Company's parentage (LafargeHolcim (LH)) helps it to compete better and helps in to het sustainable edge. It helps company to stay ahead of the curve in the dynamic and evolving building materials industry.
- The company has 17 cement plants operational, 80 RMC plants. The company's current capacity utilization is 72%. On regular annual basis its capacity utilization is around 85-90%.
- Company's Key focus is on Innovation, sustainability and digitalization . Company has rolled out new digital first campaign for gold water shield. ACC has launched new value added solution like ACC Thermofillcrete and ACC Suraksha Nx
- Company will continue to focus on cost efficiency and cost reduction measures
- Company has endeavour to become building material company so it is focusing on concrete and also looking to build new engines of growth in the areas of construction chemicals.
- Company has nationwide presence with cement plants over 12 states and RMC plants over 17 states.
- Cement volumes in Q4CY20 stood flat on YoY basis On RMX front company is nearly 80% to the pre covid era .
- Key drivers of margin and cash flow is backed by product mix optimization and cost efficiency measures under flagship project Parvat
- Per capita consumption of cement is very low in India which provide growth opportunities coupled with government impetus of low cost housing and infrastructure will drive the cement demand going ahead.

Valuations	CY22E
EV/EBITDA	10
EBITDA	3081
EV	30808
Cash	7580
Debt	0
Market Cap	38388
No shares	18.8
Fair value	2042
CMP	1766
Upside	15.6

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

Key Financials (Consolidated)

Profit and Loss Account (Year Ending December)				
Particulars (INRCR)	CY19	CY20	CY21E	CY22E
Income from Operations	15,658	13,786	15,338	17,115
YoY Change (%)	5.8%	-12.0%	11.3%	11.6%
Power & Fuel Cost	3134	2575	2761	3252
Employee Cost	866	841	905	1044
Distribution Expenses	4032	3416	3988	4450
Other Expenditure incl. RM	5213	4599	4770	5289
Total Expenditure	13245	11431	12424	14035
EBITDA	2413	2355	2914	3081
Depreciation	606	639	694	734
EBIT	1806	1716	2221	2347
Other Income	318	217	271	339
Interest	86	57	64	71
PBT before Excp Items	2039	1876	2428	2615
Extraordinary/ Excp	0	176	0	0
PBT	2039	1700	2428	2615
Tax Expense	675	279	801	863
Net Profit	1378	1430	1627	1752
YoY Change (%)	-9.4%	3.8%	13.7%	7.7%

Balance Sheet (Year Ending December)				
Particulars (INRCR)	CY19	CY20	CY21E	CY22E
Liabilities + Equity				
(a) Share capital	188	188	188	188
(b) Reserves and surplus	11356	12511	13875	15364
Shareholders' funds	11544	12699	14063	15552
Minority Interest	3	3		
Non-current liab & Prov	891	694	694	694
Current liabilities	4698	4804	5620	6112
Total - Equity and liabilities	17136	18200	20377	22358
Assets				
Non-current assets	9601	9752	10929	12155
Fixed assets	7423	7056	7856	8706
Goodwill + Intangibles	50	186	186	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	9448	10203
Cash	4648	6006	7012	7580
Other Current Assets	2887	2443	2436	2623
Total - Assets	17136	18200	20377	22358

Cash Flow Statement (Year Ending December)				
Particulars (INR CR)	CY19	CY20	CY21E	CY22E
Operating Activities				
PBT	2,053	1,709	2,428	2,615
Add Depreciation	606	639	694	734
Others	(206)	(378)	(1,367)	(1,489)
Total	2,453	1,970	1,755	1,860
Taxes	(675)	(279)	(801)	(863)
Changes in Working Capital	660	926	1,081	649
Cash Flow from Operations	2,438	2,617	2,034	1,646
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	7,012
Changes during year	2,829	1,358	1,006	568
Closing Cash	4,648	6,006	7,012	7,580

Ratio Analysis				
	CY19	CY20	CY21E	CY22E
Profitability				
EBITDA (%)	15.4%	17.1%	19.0%	18.0%
EBIT (%)	11.5%	12.5%	14.5%	13.7%
PAT (%)	8.8%	10.4%	10.6%	10.2%
Du Pont ROAE Analysis				
PAT / Sales	8.8	10.4	10.6	10.2
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%	11.6%	11.3%
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	87	93
DPS	14	14	14	14
Valuation				
P/E	24.1	23.2	20.4	18.9
EV/EBITDA	11.8	11.5	9.0	8.3

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

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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