

Sustainable Performance

24th Oct, 2017

CMP: Rs.1,781
Target Price: Rs.1,872
Recommendation: NEUTRAL

Stock Info

BSE Group	A
BSE Code	500410
NSE Symbol	ACC
Bloomberg	ACC.IN
Reuters	ACC.BO
BSE Sensex	32,507
NSE Nifty	10,185

Market Info

Market Capital	Rs 33,584 cr
Equity Capital	Rs 188cr
Avg. Trading Vol.	4,45,260
52 Wk High/ Low	1,869/1,256
Face Value	10

Shareholding Pattern (%)

Promoters	54.53
Domestic Institutions	17.12
Foreign Institutions	13.64
Public & Others	14.71

Price Chart:



ACC Ltd. reported a healthy rise in its net profit for its third quarter ended June, 2017. Net profit for the quarter came in at Rs. 182 cr compared to Rs.90 cr in the corresponding quarter of previous year registering a growth of 102% YoY. Total income for the quarter came in at Rs.3,116 cr as compared to Rs. 2,476 cr in the corresponding quarter of CY 16, up 26% YoY however decreased 9.8% sequentially. EBITDA for the company stood at Rs.416 cr vs. Rs. 282 cr YoY. EBITDA margin expanded to 13.3% from 11.4% in corresponding quarter of previous year and contracted from 18.4% sequentially.

Cement volumes came in at 5.96 MT higher by 18% compared to the corresponding quarter of previous year & contracted by 13% sequentially led by continued thrust on promotion of company’s range of premium products, alongside contributions from volume growth during the quarter from added capacity in East supporting its market share improvement. Further, enhanced participation in Infra projects (Z-Morh tunnel - Srinagar Leh Highway), integrated offers for metros, landmark buildings etc aided the volume growth for the company. Premium product volume grew by 18% YoY.RMX Business sales improved by 11%.Realisation for quarter improved by 6% YoY & 1.6% QoQ based on higher prices in all regions.

Ongoing efforts to enhance operational efficiency delivered a reduction in energy consumption as a result of optimization of fuel mix and higher usage of alternative fuel. Basic price of slag increased due to spurt in demand. Gypsum & raw mix optimization minimized the cost increase. Rail freight reduced due to lower lead. Road freight maintained at PY level due to restricted freight pass-on.

Valuations:

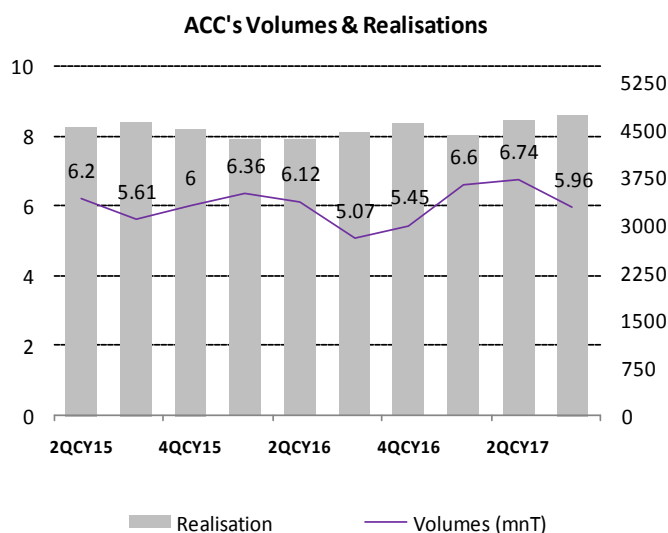
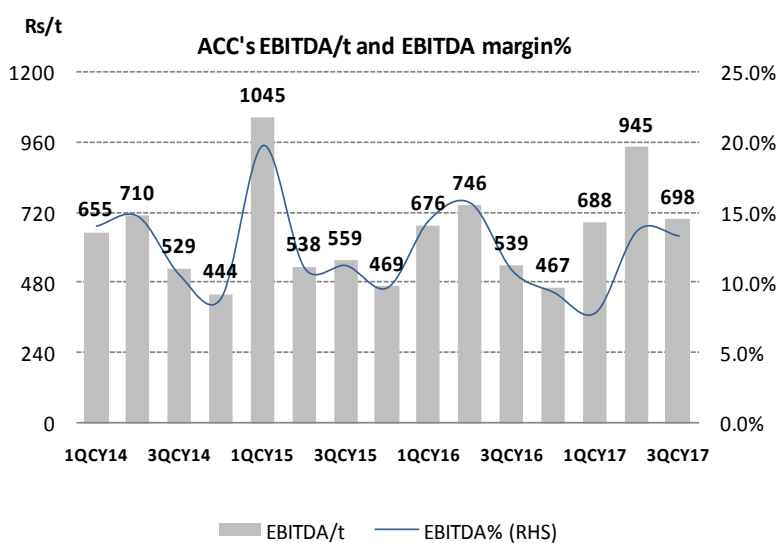
Increased government spending on infrastructure development should further boost demand for cement and concrete.

We have valued stock on EV/EBITDA of 19.6 (x) to its CY19 estimates and have arrived at a fair value of Rs 1,872 per share. At CMP of Rs 1,781 the stock is available at CY19E P/E(x) of 39.4 (x) and CY17E EV/EBITDA(x) of 21.4 (x) respectively. We have “NEUTRAL” rating on the stock.

Financial Snapshot (Rs Cr)	CY16	CY17E	CY18E	CY19E
Net Revenue	10,990	11,872	12,804	13,952
EBITDA	1,434	1,513	1,699	1,814
PAT	647	664	757	827
EPS	34.9	35.3	40.3	44.0
EPS Growth (%)	13.9	1.1	14.0	9.3
ROE%	7.6	8.9	8.3	8.8
P/E (x)	38.1	49.1	43.1	39.4
EV/EBITDA (x)	17.2	21.4	19.0	19.6

Source: Ace Equity, Arihant Research

Per Tonne Analysis	1QCY15	2QCY15	3QCY15	4QCY15	1QCY16	2QCY16	3QCY16	4QCY16	1QCY17	2QCY17	3QCY17
Volumes (mnT)	5.82	6.2	5.61	6	6.36	6.12	5.07	5.45	6.6	6.74	5.96
Realisation	4715	4547	4618	4518	4345	4361	4463	4592	4404	4657	4733
RM	496	650	520	488	470	775	573	477	704	595	747
Staff Cost	294	323	296	334	297	305	370	366	297	325	338
Power & Fuel	1068	984	1102	1075	905	854	1058	1004	982	1017	1130
Freight & forwarding	1179	1193	1093	1141	1153	1060	1174	1226	1252	1291	1341
Other Expenditure	975	954	1152	1075	947	954	1151	1131	942	950	974
Total Cost	4012	4104	4163	4113	3772	3948	4326	4204	4177	4178	4530


Valuations:

	CY16	CY17E	CY18E	CY19E
EV/EBITDA	17.2	21.4	19.0	19.6
EBITDA	1434	1513	1699	1814
EV	24719	32373	32272	35560
Net debt	-278	-217	-318	-381
Market Cap	24997	32591	32591	35179
No shares	18.8	18.8	18.8	18.8
Fair value				1872
CMP				1781
Upside				5%

Q3 CY17 Results (Consolidated)

Rs in Crore	Q3 CY17	Q3 CY16	YOY (%)	Q2 CY17	QoQ (%)
Total Income	3,116	2,476	25.8	3,453	-9.8
Total Expenditure	2,701	2,194	23.1	2,816	-4.1
EBITDA	416	282		637	
EBITDA Margins (%)	13.3	11.4	1.9	18.4	-5.1
Other Income	24	27		26	
Depreciation	156	154		163	
Exceptional Items	-	-		-	
PBT	264	135	95.7	479	-44.9
Tax	85	45		156	
Tax rate (%)	32.2	33.0		32.5	
Share of associates	2.7	(0.5)		3.1	
Minority Interest	-	0.0		-	
Net Profit	182	90	102.4	326	-44.4
Net Profit Margin (%)	5.8	3.6		9.4	
EPS	9.7	4.8		17.4	

Source: Ace Equity, Arihant Research

Profit and Loss Account, Year Ending December				
Particulars, in Rs crore	CY16	CY17E	CY18E	CY19E
Income from Operations	10,990	11,872	12,804	13,952
YoY%	-6.8%	8.0%	7.8%	9.0%
Power & Fuel Cost	2160	2464	2706	3045
Employee Cost	790	855	922	1005
Distribution Expenses	2636	2731	2945	3209
Other Expenditure incl. RM cost	3969	4309	4532	4879
Total Expenditure	9555	10359	11105	12138
EBITDA	1434	1513	1699	1814
EBITDA margin %	13.1	12.7	13.3	13.0
Depreciation	608	596	639	658
EBIT	826	917	1060	1157
Other Income	128	184	192	209
Interest	41	79	88	94
PBT before Excp Items	913	1022	1164	1272
Extraordinary/ Excp	39	0	0	0
PBT	874	1022	1164	1272
Tax Expense	227	358	408	445
Net Profit	647	664	757	827
YoY%	10.1%	2.6%	14.0%	9.3%

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	CY16	CY17E	CY18E	CY19E
Operating Activities				
PBT	874	1,022	1,164	1,272
Add Depr	608	596	639	658
Others	(199)	(189)	(180)	(175)
Total	1,283	1,429	1,623	1,755
Cash Taxes	(283)	(358)	(408)	(445)
Changes in Working Cap	221	36	37	49
Cash Flow from Operations	1,222	1,107	1,252	1,359
Investing Activities				
Change in investments	285	242	152	152
Capex	(780)	(550)	(670)	(730)
Cash Flow from Investing	(495)	(308)	(518)	(578)
Financing Activities				
Dividends + Taxes paid	(380)	(438)	(499)	(546)
Other Financing Activites	(20)	(60)	(10)	(43)
Cash Flow from Financing	(400)	(498)	(509)	(589)
Opening Cash	1,644	1,971	2,272	2,496
Changes during year	327	301	225	192
Closing Cash	1,971	2,272	2,496	2,688

Balance Sheet Year Ending December				
Particulars, in Rs crore	CY16	CY17E	CY18E	CY19E
Liabilities + Equity				
(a) Share capital	188	188	188	188
(b) Reserves and surplus	8454	8819	9076	9357
Shareholders' funds	8642	9007	9264	9545
Non-current liab & Prov	694	510	500	457
Current liabilities	4051	4250	4537	4914
Total - Equity and liabilities	13387	13767	14301	14916
Assets				
Non-current assets	9317	10078	10260	10482
Fixed assets	7751	7873	7904	7976
Goodwill On Consolidation	10	8	7	5
Long Term Inv	88	169	201	233
Loans & Adv	985	1522	1622	1722
other Non-current assets	483	506	526	546
Current assets	4070	3689	4041	4434
Cash	278	217	318	381
Other Current Assets	3791	3472	3723	4053
Total - Assets	13387	13767	14301	14916

Ratio Analysis				
	CY16	CY17E	CY18E	CY19E
Profitability				
EBITDA%	13.1	12.7	13.3	13.0
EBIT%	7.5	7.7	8.3	8.3
PAT%	5.9	5.6	5.9	5.9
Du Pont ROAE breakup				
PAT / Sales	5.9	5.6	5.9	5.9
Sales / Avg Total Fixed Assets	0.8	1.0	0.9	1.0
Avg Total Assets / Avg Eqty	1.5	1.6	1.5	1.6
ROE	7.6	8.9	8.3	8.8
Other Ratios				
Current Ratio	1.0	0.9	0.9	0.9
Debt / Equity	0.0	0.0	0.0	0.0
EPS	35	35	40	44
DPS	17	19	22	24
Valuation				
P/E	38.1	49.1	43.1	39.4
EV/EBITDA	17.2	21.4	19.0	19.6
P/BV	2.9	3.6	3.5	3.4

Arihant Research Desk

E. research@arihantcapital.com
T. 022-42254800

Head Office

#1011, Solitaire Corporate park,
Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road,
Chakala, Andheri (E).
Mumbai - 400093
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

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%

Research Analyst Registration No.

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**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.