

Retail Equity Research

ACC Limited

Construction Materials

BSE CODE: 500410

NSE CODE: ACC

Bloomberg CODE: ACC:IN

SENSEX: 52,837

HOLD

12 Months Investment period Rating as per Large Cap

CMP Rs. 2,293 TARGET Rs. 2,460 RETURN 7% ↑
(Closing: 22-07-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Outlook cautious due to industry slowdown

ACC is a leading Indian cement company. It manufactures a range of cement and blended cement with 17+ cement plants and 90+ ready-mix concrete (RMC) plants.

- Q2CY21 revenue up 49.3% YoY (-9.5% QoQ), with cement volume (+44.0% YoY) and RMX sales volume (293.0% YoY).
- EBITDA margin expanded 218bps YoY to 22.4% on improved realizations and lower staff costs. Higher fuel costs were offset by inventory liquidation. Consequently, PAT came in at Rs. 569cr (+110.2% YoY; +1.2% QoQ).
- There has been structural slowdown and delay in capacity expansion projects. Hence we expect that there will be some-time until company's productivity levels reach that of pre-COVID. Intensified COVID vaccination drives & increased government spending may trigger demand to recover rapidly. However, given the current scenario with sharpened fuel costs, we remain cautious on the stock & retain our HOLD with revised target price of Rs. 2,460 based on 11.0x CY22E EV/EBITDA.

Topline impact less severe as compared to Q2CY20

For Q2CY21 revenue climbed 49.3% YoY to Rs. 3,885cr (-9.5% QoQ), with cement sales volume of 6.8mt (44.0% YoY). The Ready Mix Concrete business surged 309.9% YoY to Rs. 255cr (-29.1% QoQ) with RMX sales volume of 0.58m cubic meter (293.0% YoY). However, Cement business (~94.5% of total sales) was up 43.9% YoY to Rs. 3,672cr (-7.8% QoQ). Lockdown-led demand disruption was caused on the back of suspension of production, stalled construction activities & labour unavailability.

Margin expands on improved realizations and lower staff costs

EBITDA rose 65.5% YoY to Rs. 869cr with 218bps YoY margin expansion to 22.4%. Average realizations for Q2CY21 rose 6.1% YoY to Rs. 5,571/ton, with better product mix. Cost of materials, Power fuel costs (as % of revenue) worsened 466bps and 380bps YoY respectively. These were partly offset by inventory liquidation, Employee expenses (-141bps YoY as % of revenue) and Purchase costs (-65bps YoY as % of revenue). Higher usage of alternative fuels should help improve margins further. PAT came in at Rs. 569cr (+110.2% YoY), further aided by lower D&A (-10.0% YoY).

Key concall highlights

- WHRS projects in Jamul (10MW) and Kymore (14MW) are on track to be commissioned by Q2CY22.
- Geocycle projects at Chanda has been commissioned in June 2021. Capacity expansion project at Ametha in Madhya Pradesh and associated grinding units have commenced.
- Capacity utilization at 77% in Q2CY21 with 17 cement plants and 79 ready mix concrete plants being operational.

Valuation

There has been structural slowdown and delay in capacity expansion projects. Hence we expect that there will be some time until company's productivity reaches that of pre-COVID levels. Intensified COVID vaccination drives & increased government spending may trigger demand to recover rapidly. However, given the current scenario with sharpened fuel costs, We remain cautious on the stock & retain our HOLD with revised target price of Rs. 2,460 based on 11.0x CY22E EV/EBITDA.

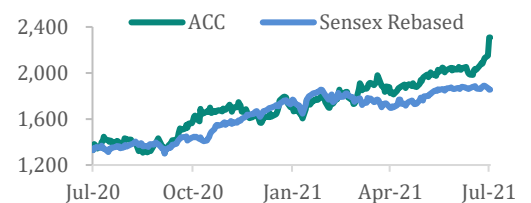
Company Data

Market Cap (cr)	Rs. 42,454
Enterprise Value (cr)	Rs. 36,127
Outstanding Shares (cr)	18.8
Free Float	45.0%
Dividend Yield	0.6%
52 week high	Rs. 2,343
52 week low	Rs. 1,290
6m average volume	38,783
Beta	0.8
Face value	Rs. 10

Shareholding %	Q4CY20	Q1CY21	Q2CY21
Promoters	54.5	54.5	54.5
FII's	11.6	12.6	13.6
MFs/Insti	20.8	20.4	19.6
Public	10.2	9.7	9.6
Others	2.9	2.7	2.7
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	26.5%	38.6%	67.2%
Absolute Sensex	9.4%	5.2%	37.6%
Relative Return*	17.1%	33.4%	29.6%

*over or under performance to benchmark index



Consolidated (cr)	CY20A	CY21E	CY22E
Sales	13,786	16,409	17,893
Growth (%)	(12.0)	19.0	9.0
EBITDA	2,355	3,046	3,294
EBITDA Margin (%)	17.1	18.6	18.4
Adj. PAT	1,606	1,908	2,062
Growth (%)	16.6	18.8	8.1
Adj. EPS	85.3	101.3	109.5
Growth (%)	16.6	18.8	8.1
P/E	19.0	22.8	21.1
P/B	2.4	3.0	2.7
EV/EBITDA	10.4	11.9	10.5
ROE (%)	11.3	13.3	12.7
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2CY21	Q2CY20	YoY Growth %	Q1CY21	QoQ Growth %	H1CY21	H1CY20	YoY Growth %
Revenue	3,885	2,602	49.3	4,292	(9.5)	8,177	6,104	34.0
EBITDA	869	525	65.5	860	1.1	1,730	1,112	55.6
EBITDA margins	22.4	20.2	220bps	20.0	240bps	21.2	18.2	300bps
Depreciation	146	163	(10.0)	143	2.3	290	321	(9.6)
EBIT	723	363	99.3	717	0.8	1,440	791	82.0
Interest	13	13	2.4	11	19.1	25	24	4.0
Other Income	46	51	(11.2)	44	3.6	90	107	(16.5)
Exceptional Items	-	-	n.m.	-	n.m.	-	-	n.m.
Share of profit from Associate	3	2	48.0	4	(26.7)	8	4	74.1
PBT	758	403	88.1	754	0.5	1,513	879	72.0
Tax	189	132	42.9	192	(1.5)	380	285	33.4
Minority Interest	0	0	-	0	50.0	0	0	-
Reported PAT	569	271	110.2	563	1.2	1,132	594	90.6
Adjustments	-	-	n.m.	-	n.m.	-	-	n.m.
Adj. PAT	569	271	110.2	563	1.2	1,132	594	90.6
No. of shares	18.8	18.8	(0.0)	18.8	(0.0)	18.8	18.8	(0.0)
Adj. EPS (Rs.)	30.3	14.4	110.2	29.9	1.2	60.1	31.5	90.6

Per Tonne Analysis

	Q2CY21	Q2CY20	YoY Growth %	Q1CY21	QoQ Growth %	H1CY21	H1CY20	YoY Growth %
Cement Volume (MT)	6.8	4.8	42.5	8.0	(14.2)	14.8	11.4	30.4
Cost of materials consumed	543	397	36.8	549	(1.1)	546	458	19.2
Employee Expenses	543	971	(44.1)	644	(15.7)	597	790	(24.4)
Power & Fuel	1,183	932	26.9	999	18.4	1,085	1,019	6.5
Freight & forwarding	1,278	1,220	4.8	1,308	(2.3)	1,294	1,290	0.3
Other expenses	753	636	18.4	707	6.5	728	705	3.3
Total expenses	4,300	4,156	3.5	4,207	2.2	4,250	4,262	(0.3)
Realisation (inc. RMC)	5,571	5,251	6.1	5,286	5.4	5,418	5,241	3.4
EBITDA	1,271	1,095	16.1	1,079	17.8	1,168	979	19.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Revenue	16,150	17,609	16,409	17,893	1.6	1.6
EBITDA	2,881	3,146	3,046	3,294	5.7	4.7
Margins (%)	17.8	17.9	18.6	18.4	80bps	50bps
Adj. PAT	1,779	1,949	1,908	2,062	7.2	5.8
Adj. EPS (Rs.)	94.5	103.6	101.3	109.5	7.2	5.8

PROFIT & LOSS

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Revenue	14,802	15,658	13,786	16,409	17,893
% change	4.2	5.8	(12.0)	19.0	9.0
EBITDA	2,048	2,413	2,355	3,046	3,294
% change	7.1	17.8	(2.4)	29.4	8.1
Depreciation	606	606	639	615	639
EBIT	1,445	1,806	1,716	2,432	2,655
Interest	88	86	57	74	90
Other Income	153	332	50	95	86
PBT	1,510	2,053	1,709	2,453	2,651
% change	15.3	35.9	(16.7)	43.6	8.1
Tax	(11)	675	279	545	589
Tax Rate (%)	(0.7)	32.9	16.3	22.2	22.2
Reported PAT	1,520	1,377	1,430	1,908	2,062
Adj*	(501)	-	176	-	-
Adj PAT	1,020	1,377	1,606	1,908	2,062
% change	10.3	35.1	16.6	18.8	8.1
No. of shares (cr)	18.8	18.8	18.8	18.8	18.8
Adj EPS (Rs.)	54.2	73.2	85.3	101.3	109.5
% change	10.3	35.1	16.6	18.8	8.1
DPS (Rs.)	14.0	14.0	14.0	14.0	14.0
CEPS (Rs.)	86.4	105.4	119.3	134.0	143.5

CASH FLOW

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Net inc. + Depn.	2,126	1,984	2,069	2,522	2,701
Non-cash adj.	(618)	1	(238)	70	87
Changes in W.C	(391)	270	388	(46)	142
C.F. Operation	1,118	2,255	2,219	2,547	2,929
Capital exp.	(501)	(1,127)	(1,502)	(891)	(972)
Change in inv.	8	5	13	-	-
Other invest.CF	129	801	953	-	-
C.F - Investment	(364)	(322)	(535)	(891)	(972)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(282)	(263)	(263)	(263)	(263)
Other finance.CF	(99)	(111)	(64)	(68)	(73)
C.F - Finance	(380)	(374)	(327)	(331)	(336)
Chg. in cash	373	1,559	1,357	1,325	1,622
Closing cash	3,097	4,648	6,006	7,331	8,953

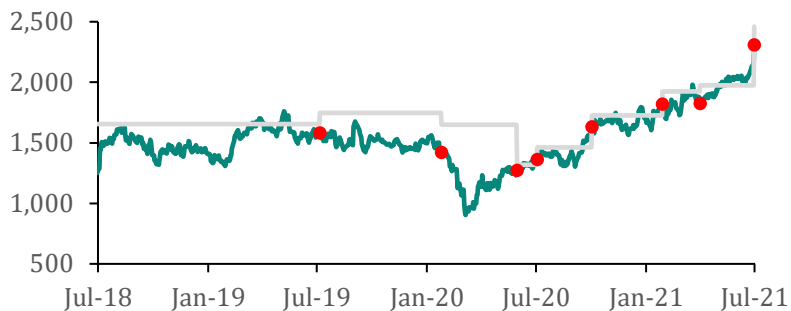
BALANCE SHEET

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Cash	3,097	4,648	6,006	7,331	8,953
Accounts Receivable	867	627	451	689	769
Inventories	1,679	1,142	901	1,226	1,354
Other Cur. Assets	1,041	1,118	1,090	1,083	1,075
Investments	104	116	129	138	146
Gross Fixed Assets	8,863	9,990	11,492	12,383	13,354
Net Fixed Assets	7,035	6,977	6,508	6,779	7,106
CWIP	398	446	548	554	559
Intangible Assets	53	50	186	195	204
Def. Tax (Net)	-	-	-	-	-
Other Assets	1,781	2,013	2,380	2,370	2,361
Total Assets	16,056	17,136	18,200	20,364	22,527
Current Liabilities	4,706	4,698	4,804	5,314	5,656
Provisions	140	235	215	219	224
Debt Funds	-	-	-	-	-
Other Liabilities	675	656	479	454	430
Equity Capital	188	188	188	188	188
Reserves & Surplus	10,344	11,356	12,511	14,186	16,026
Shareholder's Fund	10,532	11,544	12,699	14,374	16,214
Minority Interest	3	3	3	3	3
Total Liabilities	16,056	17,136	18,200	20,364	22,527
BVPS (Rs.)	559	613	675	764	861

RATIOS

Y.E December	CY18A	CY19A	CY20A	CY21E	CY22E
Profitab. & Return					
EBITDA margin (%)	13.8	15.4	17.1	18.6	18.4
EBIT margin (%)	9.8	11.5	12.4	14.8	14.8
Net profit mgn.(%)	10.3	8.8	10.4	11.6	11.5
ROE (%)	14.4	11.9	11.3	13.3	12.7
ROCE (%)	13.7	15.6	13.5	16.9	16.4
W.C & Liquidity					
Receivables (days)	21.4	14.6	12.0	15.3	15.7
Inventory (days)	114.9	71.2	64.7	73.9	74.8
Payables (days)	131.8	92.0	102.0	93.5	92.8
Current ratio (x)	1.4	1.6	1.8	1.9	2.1
Quick ratio (x)	0.8	1.1	1.3	1.5	1.7
Turnover & Leverage					
Gross asset T.O (x)	0.9	0.8	0.6	0.7	0.7
Total asset T.O (x)	1.0	0.9	0.8	0.9	0.8
Int. coverage ratio (x)	16.5	20.9	30.1	33.0	29.5
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	1.7	1.4	1.8	2.2	1.9
EV/EBITDA (x)	12.1	9.4	10.4	11.9	10.5
P/E (x)	27.3	19.8	19.0	22.8	21.1
P/BV (x)	2.6	2.4	2.4	3.0	2.7

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
26-Jul-19	BUY	1,747
14-Feb-20	BUY	1,650
19-Jun-20	HOLD	1,319
23-Jul-20	HOLD	1,462
22-Oct-20	HOLD	1,725
17-Feb-21	HOLD	1,924
22-Apr-21	HOLD	1,974
22-Jul-21	HOLD	2,460

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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