

Retail Equity Research

ACC Limited

Construction Materials

BSE CODE: 500410

NSE CODE: ACC

Bloomberg CODE: ACC:IN

SENSEX: 47,706

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 1,824

TARGET Rs. 1,974

RETURN 8% ↑

(Closing: 21-04-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Healthy quarter; Outlook cautious

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.

- Q1CY21 revenue up 22.6% YoY (+3.6% QoQ), on higher cement volume (+21.6% YoY; +3.4% QoQ) and increased share of premium products.
- EBITDA margin expanded 330bps YoY to 20.0% (-620bps QoQ) backed by low opex, cost efficiency measures and refined product mix. Consequently, PAT came in at Rs. 563cr (+74.2% YoY; +19.1% QoQ).
- Even with strong balance sheet, cash flows, government spends, cost efficiency etc., recovery is skeptical with risk of rising fuel prices. Hence, we maintain cautious view on the stock and rate it a HOLD with a revised TP of Rs. 1,974 based on 8.7x CY22E EV/EBITDA.

Topline backed by strong demand and volumes

Q1CY21 revenue grew 22.6% YoY to Rs. 4,292cr (+3.6% QoQ), aided by strong volume growth in Cement at 21.6% YoY to 8.0MT (+3.4% QoQ) driven by robust demand. The Ready Mix Concrete business de-grew 7.7% YoY to Rs. 313cr (+59.2% QoQ) as sales volume dropped to 0.83m cubic meter (-10.8% YoY) with lower demand trend on the infrastructure front. However, Cement business (~92.8% of total sales) was up 26.3% YoY to Rs. 3,981cr (+2.7% QoQ).

Cost rationalization builds efficiency

Higher usage of alternative fuels and fuel mix optimization led to a dip in power & fuel cost on per tonne basis by 7.7% YoY at Rs. 999/t (+4.0% QoQ). Freight and other expenses plunged by 2.4% and 6.5%, respectively, whereas Material costs rose 9.4% YoY on higher cost of slag and flyash. This was partially mitigated by cost efficiency measures in project "Parvat" and other opex cuts during the quarter. Average realizations (including RMC) for Q1CY21 rose 1.0% YoY to Rs. 5,286/ton (+0.2% QoQ) with better segment mix. EBITDA rose 46.7% YoY to Rs. 860cr (+50.4% QoQ) and EBITDA margin came in at 20.0% (+330bps YoY) driven by improved product mix.

Key concall highlights

- Successfully launched "ECOPACT" - green concrete, a value added product in Q1CY21 driving its journey of innovation and sustainability along with pioneering low-carbon concrete in India.
- Commissioned 1.4 MT GU at Sindri during the quarter, remaining capacity (4.8 MT) is expected to be completed by H1CY22.
- Capacity utilization at 90% in Q1CY21.
- Project "Ametha" to get commissioned by Q2CY22 and efficiency project like Waste Heat Recovery are on track.

Valuation

Demand/volume should be boosted with intensified COVID vaccination drives, increased government spending, strong infrastructure development, focused dispatches, optimized network warehouse footprint and procurement savings etc. However, we remain cautious on the stock due to rising diesel costs without a parallel hike in cement prices in the coming months. Hence, we retain our HOLD rating on the stock with a revised target price of Rs. 1,974 based on 9x CY22E EV/EBITDA.

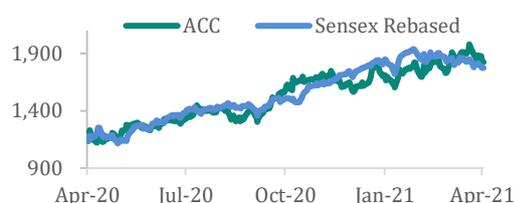
Company Data

Market Cap (cr)	Rs. 33,557
Enterprise Value (cr)	Rs. 27,202
Outstanding Shares (cr)	18.8
Free Float	45.0%
Dividend Yield	0.8%
52 week high	Rs. 2,023
52 week low	Rs. 1,108
6m average volume(lacs)	0.5
Beta	0.8
Face value	Rs. 10

Shareholding %	Q3CY20	Q4CY20	Q1CY21
Promoters	54.5	54.5	54.5
FII's	6.6	11.6	12.6
MFs/Insti	25.8	20.8	20.4
Public	10.2	10.2	9.7
Others	3.0	2.9	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	9.5%	12.6%	60.5%
Absolute Sensex	-3.9%	17.2%	55.7%
Relative Return*	13.4%	-4.6%	4.8%

*over or under performance to benchmark index



Consolidated (cr)	CY20A	CY21E	CY22E
Sales	13,786	16,150	17,609
Growth (%)	(12.0)	17.2	9.0
EBITDA	2,355	2,881	3,146
EBITDA Margin (%)	17.1	17.8	17.9
Adj. PAT	1,606	1,779	1,949
Growth (%)	16.6	10.8	9.6
Adj. EPS	85.3	94.5	103.6
Growth (%)	16.6	10.8	9.6
P/E	19.0	19.3	17.6
P/B	2.4	2.4	2.2
EV/EBITDA	10.4	9.4	8.2
ROE (%)	11.3	12.5	12.2
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1CY21	Q1CY20	YoY Growth %	Q4CY20	QoQ Growth %
Revenue	4,292	3,502	22.6	4,145	3.6
EBITDA	860	586	46.7	572	50.4
EBITDA margins	20.0	16.7	330bps	13.8	620bps
Depreciation	143	158	(9.3)	157	(9.0)
EBIT	717	429	67.3	414	73.0
Interest	11	11	5.9	17	(35.4)
Other Income	48	58	(16.7)	68	(28.7)
Exceptional Items	-	-	n.m.	(176)	100.0
PBT	754	476	58.4	289	161.0
Tax	192	153	25.2	(183)	204.5
Share of profit from Associate	4	2	100.0	4	14.7
Minority Interest	0	0	-	0	(33.3)
Reported PAT	563	323	74.2	472	19.1
Adjustments	-	-	-	176	(100.0)
Adj. PAT	563	323	74.2	648	(13.2)
No. of shares	18.8	18.8	0.0	18.8	0.0
Adj. EPS (Rs.)	29.9	17.2	74.1	34.5	(13.3)

Per Tonne Analysis

	Q1CY21	Q1CY20	YoY Growth %	Q4CY20	QoQ Growth %
Cement Volume (MT)	8.0	6.6	21.6	7.7	3.4
Cost of materials consumed	549	502	9.4	492	11.6
Employee Expenses	644	659	(2.3)	1,084	(40.6)
Power & Fuel	999	1,082	(7.7)	961	4.0
Freight & forwarding	1,308	1,340	(2.4)	1,265	3.4
Other expenses	707	756	(6.5)	730	(3.2)
Total expenses	4,207	4,339	(3.0)	4,532	(7.2)
Realisation (inc. RMC)	5,286	5,233	1.0	5,274	0.2
EBITDA	1,079	894	20.7	742	45.5

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	CY21E	CY22E	CY21E	CY22E	CY21E	CY22E
Revenue	16,021	17,315	16,150	17,609	0.8	1.7
EBITDA	2,822	3,119	2,881	3,146	2.1	0.9
Margins (%)	17.6	18.0	17.8	17.9	24bps	(13bps)
Adj. PAT	1,726	1,882	1,779	1,949	3.1	3.6
Adj. EPS	91.7	100.0	94.5	103.6	3.1	3.6

PROFIT & LOSS

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Revenue	14,802	15,658	13,786	16,150	17,609
% change	4.2	5.8	(12.0)	17.2	9.0
EBITDA	2,048	2,413	2,355	2,881	3,146
% change	7.1	17.8	(2.4)	22.3	9.2
Depreciation	606	606	639	615	638
EBIT	1,445	1,806	1,716	2,266	2,509
Interest	88	86	57	74	88
Other Income	153	332	50	95	86
PBT	1,510	2,053	1,709	2,288	2,507
% change	15.3	35.9	(16.7)	33.9	9.6
Tax	(11)	675	279	509	557
Tax Rate (%)	(0.7)	32.9	16.3	22.2	22.2
Reported PAT	1,520	1,377	1,430	1,779	1,949
Adj*	(501)	-	176	-	-
Adj PAT	1,020	1,377	1,606	1,779	1,949
% change	10.3	35.1	16.6	10.8	9.6
No. of shares (cr)	18.8	18.8	18.8	18.8	18.8
Adj EPS (Rs.)	54.2	73.2	85.3	94.5	103.6
% change	10.3	35.1	16.6	10.8	9.6
DPS (Rs.)	14.0	14.0	14.0	14.0	14.0
CEPS (Rs.)	86.4	105.4	119.3	127.2	137.4

CASH FLOW

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Net inc. + Depn.	2,126	1,984	2,069	2,394	2,587
Non-cash adj.	(618)	1	(238)	70	85
Changes in W.C	(391)	270	388	(95)	140
C.F. Operation	1,118	2,255	2,219	2,369	2,811
Capital exp.	(501)	(1,127)	(1,502)	(877)	(956)
Change in inv.	8	5	13	-	-
Other invest.CF	129	801	953	-	-
C.F - Investment	(364)	(322)	(535)	(877)	(956)
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	1,161	1,520
Closing cash	3,097	4,648	6,006	7,166	8,686

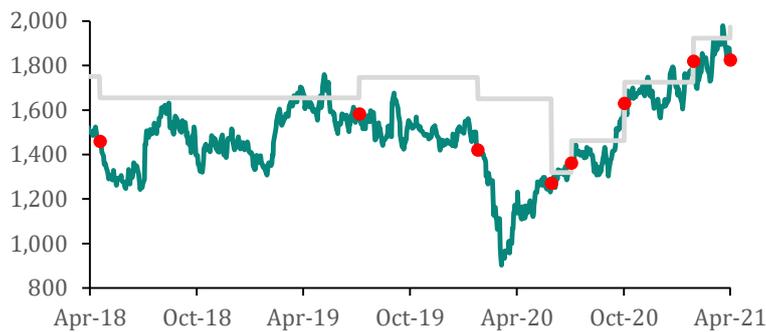
BALANCE SHEET

Y.E December (Rs. cr)	CY18A	CY19A	CY20A	CY21E	CY22E
Cash	3,097	4,648	6,006	7,166	8,686
Accounts Receivable	867	627	451	678	757
Inventories	1,679	1,142	901	1,140	1,258
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	12,369	13,325
Net Fixed Assets	7,035	6,977	6,508	6,765	7,078
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	20,089	22,124
Current Liabilities	4,706	4,698	4,804	5,167	5,496
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	14,057	15,783
Shareholder's Fund	10,532	11,544	12,699	14,245	15,971
Minority Interest	3	3	3	3	3
Total Liabilities	16,056	17,136	18,200	20,089	22,124
BVPS (Rs.)	559	613	675	757	848

RATIOS

Y.E December	CY18A	CY19A	CY20A	CY21E	CY22E
Profitab. & Return					
EBITDA margin (%)	13.8	15.4	17.1	17.8	17.9
EBIT margin (%)	9.8	11.5	12.4	14.0	14.2
Net profit mgn.(%)	10.3	8.8	10.4	11.0	11.1
ROE (%)	14.4	11.9	11.3	12.5	12.2
ROCE (%)	13.7	15.6	13.5	15.9	15.7
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	0.8	0.8
Int. coverage ratio (x)	16.5	20.9	30.1	30.7	28.5
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	1.7	1.4	1.8	1.7	1.5
EV/EBITDA (x)	12.1	9.4	10.4	9.4	8.2
P/E (x)	27.3	19.8	19.0	19.3	17.6
P/BV (x)	2.6	2.4	2.4	2.4	2.2

Recommendation Summary



Dates	Rating	Target
8-May-18	HOLD	1,655
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

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. The stock may still be a quality stock.

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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