

Positive surprise on margin front in Q3CY21...

About the stock: ACC (a Holcim group company) is a large cement player with capacity of over 34.5 MT in India and one of the **oldest cement player** in the industry. The company also manufactures ready-mix concrete and has 50 plants across India.

- ACC has a **strong balance-sheet with debt free status**. However, it **remains a laggard in terms of efficiency** and operating margins vs. peer companies
- The ongoing capex of ₹ 3500 crore would **increase its capacity to 39.3 MT** by H1CY22E. A 1.1 MT GU in Sindri has already been commissioned. Balance 4.8 MT new capacities are progressing according to schedule

Q3CY21 Results: ACC surprised positively on the margin front amid a high cost environment. This led to better-than-expected profitability for the quarter.

- Clocked revenue of ₹ 3,749 crore, up 6.0% YoY but down 3.5% QoQ driven by sales volumes (up 1.2% YoY to 6.57 MT) and realisations (up 4.7% YoY)
- EBITDA/t up 4.8% YoY to ₹ 11084/t (last quarter EBITDA/t ₹ 1,271/t). EBITDA margin was better i.e. at 19% vs. I-direct estimate: 17.5%
- Ensuing PAT was at ₹ 450.2 crore, up 23.7% YoY (down 20.9% QoQ) on higher other income (up 39% YoY to ₹ 63.3 crore) and better margins

What should investors do? ACC's share price has grown by ~1.9x over the past three years (from ~₹ 1295 in July 2018 to ~₹ 2475 levels in September 2021).

- Given the healthy growth outlook and comfortable valuations, we remain positive and retain our BUY rating on the stock

Target Price and Valuation: We value ACC at ₹ 2800 i.e. 12.5x CY22E EV/EBITDA

Key triggers for future price performance:

- The company is raising its capacity to 39.3 MT, entailing a capex of ~₹ 3500 crore, which would be funded through internal accruals
- ACC aims to bring down cost by ₹ 200/t via optimising logistics and fixed cost under project Parvat as its CoP is ~15% higher than industry average
- Expect revenue, PAT CAGR of 15.2%, 21.7%, respectively in CY20-22E

Alternate Stock Idea: Apart from ACC, in our cement coverage we also like Sagar Cement.

- Low cost producer in the cement space having a presence in south (AP/Telangana), now expanding its footprint in central & eastern region
- BUY with a target price of ₹ 390/share

ACC

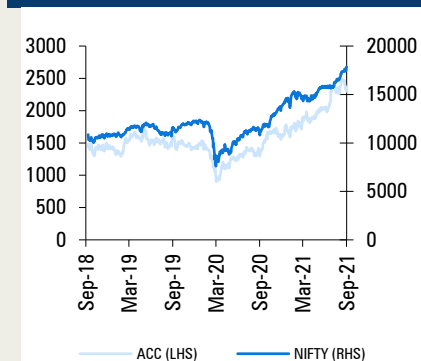
Particulars

Particular	Amount
Mcap	₹ 42841 crore
Debt (CY20)	₹ 0 crore
Cash & Invest (CY20)	₹ 3813 crore
EV	₹ 39028 crore
52 week H/L	₹ 2300 / 1289
Equity cap	₹ 187.8 crore
Face value	₹ 10

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	54.5	54.5	54.5	54.5
FII	11.6	12.7	13.6	13.7
DII	20.8	20.3	19.6	19.4
Others	13.1	12.4	12.3	12.3

Price Chart



Key risks

- Any delay in commissioning of new capacity
- Volatility in prices of imported coal/petcoke

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Key Financial Summary

₹ crore	CY17	CY18	CY19	CY20	3 Year CAGR (%)	CY21E	CY22E	2 Year CAGR (%)
Net Sales	12931	14478	15407	13786	2.2	16306	18299	15.2
EBITDA	1558	1724	2162	2355	14.8	3274	3673	24.9
EBITDA Margins (%)	12.1	11.9	14.0	17.1		20.1	20.1	
Adjusted Net Profit	924	1020	1378	1599	20.0	2061	2369	21.7
EPS (₹)	49.2	54.3	73.3	85.1		109.7	126.1	
EV/EBITDA	25.4	22.7	17.4	16.3		11.5	10.0	
EV/tonne (\$)	172	168	165	138		134	134	
RoNW	9.9	9.7	11.9	12.6		14.3	14.4	
RoCE	14.0	14.2	17.4	14.5		18.7	18.9	
RoIC	13.1	14.6	21.9	21.4		26.6	26.4	

Source: Company, ICICI Direct Research

Key performance highlights

- Net revenues were up 6%YoY to ₹ 3749 crore (down 3.5% QoQ), marginally lower than our estimated revenue of ₹ 3801.9 crore. Sales volume grew 1.2% YoY to 6.57 MT (I-direct estimate: 6.84 MT). Capacity utilisation was at 76% vs. 78% last year
- RMC revenues came in at ₹ 305 crore, up 55% YoY, 19.6% QoQ due to opening-up of the urban economy
- Production cost increased 4.8% QoQ to ₹ 4622/t, mainly due to higher raw material expenses while power & fuel and freight costs were down 1.1% and 2.7% QoQ, respectively, despite a sharp increase in petcoke, coal, fuel prices
- As a result, EBITDA/t of ₹ 1084/t remained ahead of our estimates (i.e. ₹ 973/t). Absolute EBITDA increased 6.1% YoY to ₹ 712.3 crore (down 18.1% QoQ) vs. I-direct estimated EBITDA of ₹ 665.3 crore. EBITDA margins came in at 19% (vs. I-direct estimate: 17.5%), remaining flat YoY but down 338 bps QoQ
- The company's capacity expansion projects at Ametha (clinker 2.7 MT and cement grinding 1.0 MT) in Madhya Pradesh and split cement grinding units (3.8 MT) in UP are on track. These are funded via internal accrual. Further efficiency projects like waste heat recovery (Jamul 10 MW, Kymore 14 MW) are also on track and are expected to get commissioned by Q2CY22E

Exhibit 1: Variance Analysis

	Q3CY21	Q3CY21E	Q3CY20	YoY(%)	Q2CY21	QoQ(%)	Comments
Net Sales	3,749.0	3,801.9	3,537.3	6.0	3,884.9	-3.5	Volumes up 1.2% YoY to 6.57 MT, realisations up 4.7% YoY
Other Incomes	63.3	50.5	45.5	39.1	45.6	39.0	
Raw Material Expense	624.1	483.0	680.1	-8.2	502.5	24.2	
Employee Expenses	217.0	211.0	205.7	5.5	209.2	3.7	
Power and fuel	788.3	931.5	630.2	25.1	830.2	-5.0	
Freight	860.2	938.4	860.0	0.0	920.0	-6.5	Network optimisation under MSA with Ambuja, improved geographical mix led to lower freight costs
Others	547.1	572.7	490.0	11.7	553.9	-1.2	
EBITDA	712.3	665.3	671.4	6.1	869.2	-18.1	
EBITDA Margin (%)	19.0	17.5	19.0	2 bps	22.4	-338 bps	
Interest	17.1	15.2	16.0	6.9	13.4	28.0	
Depreciation	150.5	170.6	160.8	-6.4	146.5	2.8	
PBT	607.9	530.0	540.1	12.6	754.9	-19.5	
Total Tax	159.7	132.6	176.8	-9.7	188.8	-15.4	
PAT	450.2	399.8	363.9	23.7	569.4	-20.9	Higher other incomee and better margins led to improved profitability
Key Metrics							
Volume (MT)	6.57	6.84	6.49	1.2	6.84	-3.9	
Blended Realisation (₹)	5,706	5,558	5,450	4.7	5,680	0.5	
EBITDA per Tonne (₹)	1,084	973	1,035	4.8	1,271	-14.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY21E			CY22E		
	Old	New	% Change	Old	New	% Change
Revenue	16,504.7	16,306.1	-1.2	18,186.7	18,298.7	0.6
EBITDA	3,592.8	3,274.0	-8.9	3,644.4	3,672.5	0.8
EBITDA Margin (%)	21.8	20.1	-169 bps	20.0	20.1	3 bps
PAT	2,103.4	2,061.0	-2.0	2,303.4	2,369.3	2.9
EPS (₹)	111.9	109.7	-2.0	122.6	126.1	NA

Source: Company, ICICI Direct Research

Key triggers for future price performance

New capacities to help gain lost ground from CY22E onwards

Over the past five years, the company has lost its market share to other large players with no major new capacities coming in place during this period either through the greenfield or the M&A route. While industry capacity grew at a CAGR of 7%, the company managed to increase its capacity from 30.5 MT to 33 MT i.e. at 2% CAGR. As a result, the company's production share declined from 14% in FY14 to 11% in FY20. To address this growth concern, ACC is increasing its capacity to 39.3 MT with total capex of ~₹ 3500 crore. This would be mainly funded through internal accruals. However, the new capacity would likely come on stream only by the end of H1CY22E. Thus, we model a volume CAGR of 12.2% over CY20-22E and expect revenues to grow at 15.2% CAGR over the same period.

Cost rationalisation to bring efficiency; b/s to remain firm

ACC, despite being the oldest cement company, remains susceptible to volatility in margins due to its high cost of production (CoP). To bring down costs, the company undertook various cost saving initiatives across its plant under the "Parvat Programme". This move helped ACC achieve cost saving of ₹ 110/tonne, resulting in cost savings of over ₹ 250 crore in CY20. Still, the company closed CY20 with CoP of ₹ 4472/t, i.e. 15% higher than the average CoP of the industry. The company aims to bring down the cost by ₹ 200/t via optimising logistic costs, manufacturing excellence and fixed cost rationalisation. In terms of b/s, it is among the strongest in the industry with positive FCF generation and a debt free position.

Valuation & Outlook

While the structural issues with respect to CoP need to get addressed for sustenance of healthy margins, a strong b/s and improved cash flow remain key positives. Further, the new capacities would bring the growth back on track. While the Covid induced lockdown has affected the business in the near-term, the strong underlying demand should help the company to recover lost volumes with resumption of normalcy. Hence, we retain BUY and maintain target price of ₹ 2,800/share (valuing at 12.5x CY22E EV/EBITDA implying an EV/t of ~\$167).

Exhibit 3: Valuation matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/Tonne (\$)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY17	12931.0	13.1	35.0	12.0	64.3	171.6	25.4	8.1	10.7
CY18	14477.5	12.0	80.9	131.0	41.5	167.6	22.7	9.9	14.0
CY20	13785.7	-4.8	75.7	-6.4	26.4	164.6	16.3	9.7	14.2
CY21E	16306.1	18.3	109.7	44.8	20.5	137.7	11.5	11.9	17.4
CY22E	18298.7	12.2	126.1	15.0	17.9	133.7	10.0	17.4	21.9

Source: Company, ICICI Direct Research

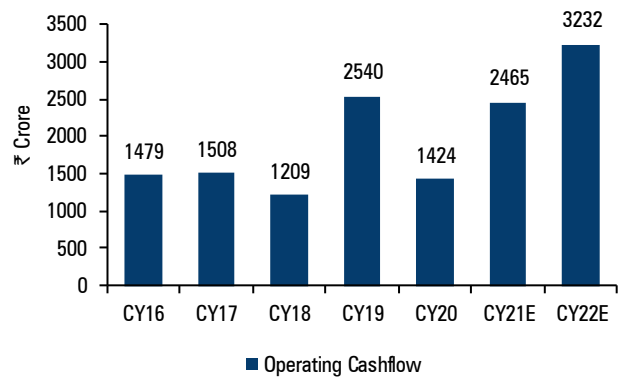
Financial story in charts

Exhibit 4: Capacity addition plans

Capacity	MT
Existing	34.5
Planned capacity addition:	
Uttar Pradesh (2 Grinding units)	2.2
Tikaria Unit, UP (Brownfield)	1.6
Ametha, MP (Integrated unit with 2.7MT Clinker capacity)	1.0
Total	4.8
Total capacity post expansion (MT)	39.3

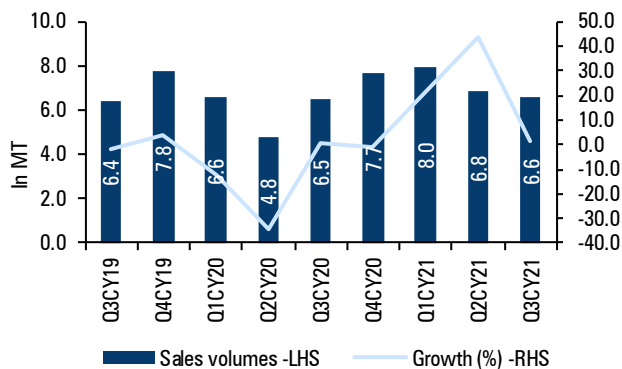
Source: Company, ICICI Direct Research

Exhibit 5: Operating cash flows sufficient to fund expansion



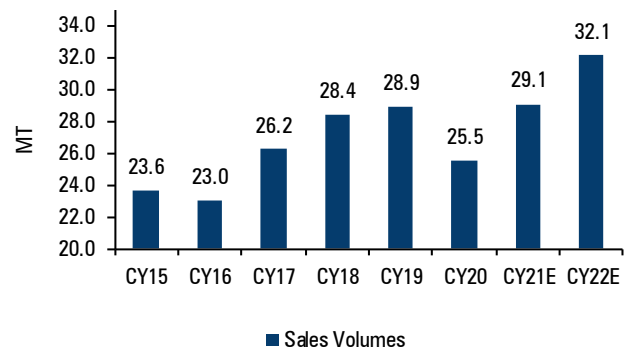
Source: Company, ICICI Direct Research

Exhibit 6: Volumes up 1.4% YoY in Q3CY21



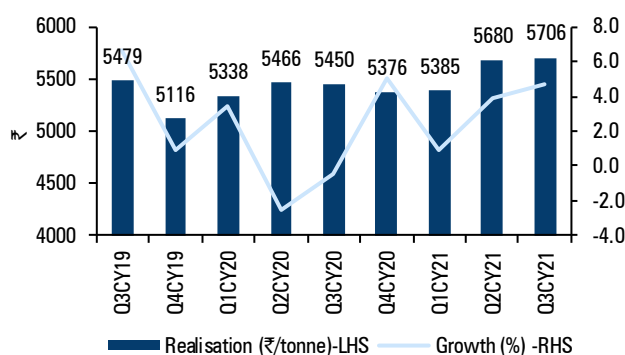
Source: Company, ICICI Direct Research

Exhibit 7: Volumes to grow at 12.2% CAGR during CY20-22E



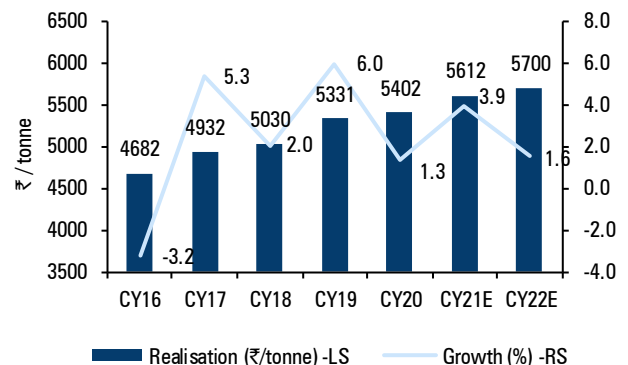
Source: Company, ICICI Direct Research

Exhibit 8: Blended realisations rise 4.7% YoY in Q3CY21



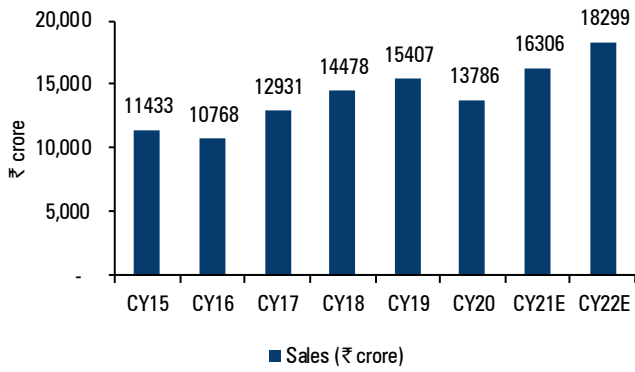
Source: Company, ICICI Direct Research

Exhibit 9: Expect realisations to improve gradually



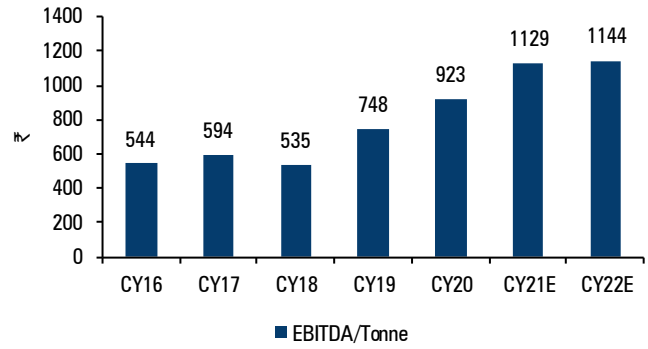
Source: Company, ICICI Direct Research

Exhibit 10: Expect revenue CAGR of 15.2% over CY20-22E



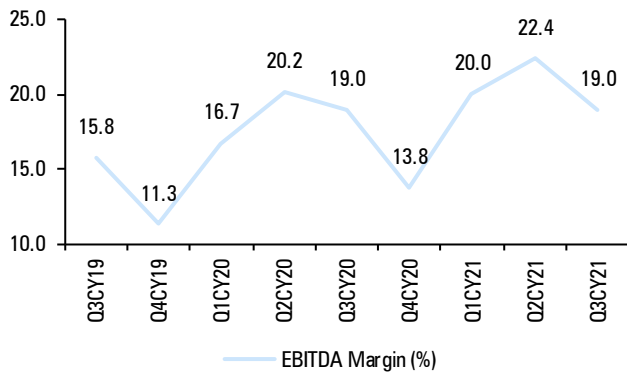
Source: ICICI Direct Research, Company

Exhibit 11: EBITDA/t to witness gradual recovery



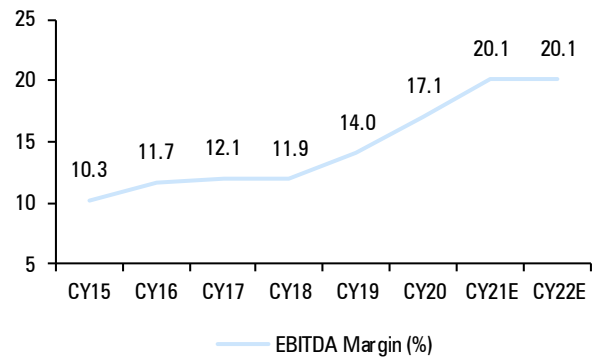
Source: ICICI Direct Research, Company

Exhibit 12: Margins come in at 19% during Q3CY21



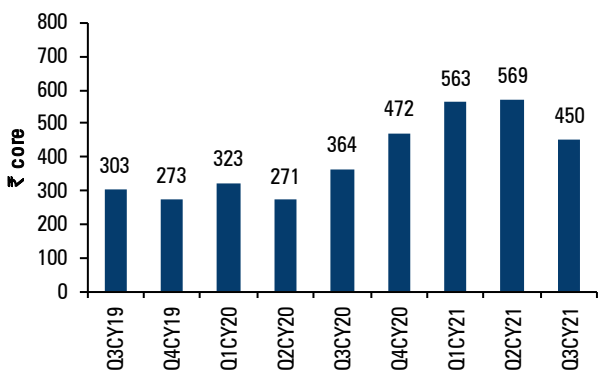
Source: Company, ICICI Direct Research

Exhibit 13: Margins to stay over 20% during CY20-22E



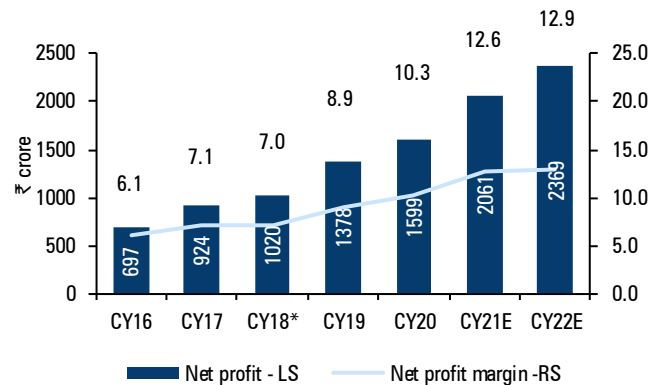
Source: Company, ICICI Direct Research

Exhibit 14: Quarterly PAT trend



Source: Company, ICICI Direct Research

Exhibit 15: PAT trajectory to remain healthy, supported by capacity additions



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Total operating income	15,407.0	13,785.7	16,306.1	18,298.7
Growth (%)	6.4	-10.5	18.3	12.2
Raw material	2718.9	2512.6	2601.7	3081.9
Power & Fuel	3134.0	2574.7	3344.4	3788.2
Employees	866.1	840.8	886.1	918.2
Freight	4032.1	3416.1	3868.9	4333.9
Others	2493.7	2086.5	2330.9	2504.0
Total Operating Exp.	13,244.8	11,430.7	13,032.1	14,626.2
EBITDA	2,162.2	2,355.0	3,274.0	3,672.5
Growth (%)	25.4	8.9	39.0	12.2
Depreciation	606.4	645.8	682.4	767.3
Interest	86.3	57.1	56.5	65.3
Other Income	569.0	216.7	223.9	327.7
Exceptional items	0.0	176.0	0.0	0.0
PBT	2,038.5	1,692.9	2,759.0	3,167.6
Total Tax	675.0	278.6	710.1	807.7
PAT	1,377.5	1,423.2	2,061.0	2,369.3
Adjusted PAT	1,377.5	1,599.2	2,061.0	2,369.3
Growth (%)	35.1	16.1	28.9	15.0
Reported EPS (₹)	73.3	75.7	109.7	126.1

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Profit after Tax	1,377.5	1,423.2	2,061.0	2,369.3
Add: Depreciation	606.4	645.8	682.4	767.3
(Inc)/dec in Current Assets	469.3	-365.1	-693.5	-677.9
Inc/(dec) in CL and Prov.	86.9	-279.8	415.1	773.0
CF from operating activities	2,540.1	1,424.0	2,464.9	3,231.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-592.9	-1,954.3	-1,450.0	-1,800.0
Others	-30.8	0.0	0.0	0.0
CF from investing activities	-623.7	-1,954.3	-1,450.0	-1,800.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-310.1	-307.8	-329.8	-329.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-55.5	0.0	0.0	0.0
CF from financing activities	-365.7	-307.8	-329.8	-329.8
Net Cash flow	1,550.8	-838.1	685.1	1,101.8
Opening Cash	3,097.0	4,647.8	3,809.7	4,494.8
Closing Cash	4,647.8	3,809.7	4,494.8	5,596.6

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Liabilities				
Equity Capital	188.0	188.0	188.0	188.0
Reserve and Surplus	11,355.8	12,471.2	14,202.4	16,242.0
Total Shareholders funds	11,543.8	12,659.2	14,390.4	16,430.0
Total Debt	0.0	0.0	0.0	0.0
Other Liabilities	658.9	658.9	658.9	658.9
Total Liabilities	12,202.7	13,318.1	15,049.3	17,088.8
Assets				
Gross Block	15,300.3	16,200.3	18,350.3	20,500.3
Less: Acc Depreciation	8,289.1	8,934.9	9,617.3	10,384.6
Net Block	7,011.2	7,265.4	8,733.0	10,115.7
Capital WIP	445.7	1,500.0	800.0	450.0
Total Fixed Assets	7,456.8	8,765.4	9,533.0	10,565.7
Investments + Goodwill	131.8	131.8	131.8	131.8
Debtors	626.7	657.5	772.1	832.2
Other assets	3,120.6	2,945.1	3,251.2	3,702.3
Misc assets	10.5	9.2	14.1	12.1
Cash	4,647.8	3,809.7	4,494.8	5,596.6
Total Current Assets	9,547.4	9,074.5	10,453.1	12,232.9
Creditors	4,331.9	3,977.3	4,332.1	4,992.7
Provisions	601.5	676.1	736.5	848.8
Total Current Liabilities	4,933.3	4,653.5	5,068.5	5,841.5
Net Current Assets	4,614.1	4,421.0	5,384.6	6,391.4
Application of Funds	12,202.7	13,318.1	15,049.3	17,088.8

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
(Year-end March)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
EPS	73.3	75.7	109.7	126.1
Cash EPS	105.6	110.1	146.0	166.9
BV	614.4	673.7	765.9	874.4
DPS	14.0	14.0	15.0	0.0
Cash Per Share	247.4	202.7	239.2	297.9
Operating Ratios (%)				
EBITDA Margin	14.0	17.1	20.1	20.1
PAT Margin	8.9	10.3	12.6	12.9
Inventory days	33.4	37.0	40.0	40.0
Debtor days	17.7	17.0	16.0	16.0
Creditor days	104.6	110.0	93.0	93.0
Return Ratios (%)				
RoE	11.9	12.6	14.3	14.4
RoIC	21.9	21.4	26.6	26.4
Valuation Ratios (x)				
P/E	30.7	29.7	20.5	17.9
EV / EBITDA	17.4	16.3	11.5	10.0
EV / Net Sales	2.4	2.8	2.3	2.0
Market Cap / Sales	2.7	3.1	2.6	2.3
Price to Book Value	3.7	3.3	2.9	2.6
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.9	2.0	2.1	2.1
Quick Ratio	1.0	1.1	1.2	1.1

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (Cement)

Company	CMP		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,251	BUY	85	110	126	16.3	11.5	10.0	138	134	134	14.5	18.7	18.9	12.6	14.3	14.4
Ambuja Cem*	391	BUY	9	11	14	21.0	16.3	14.3	247	222	220	17.6	19.4	20.6	20.3	22.0	22.9
UltraTech Cem	7,150	BUY	191	232	281	19.7	16.6	14.2	276	265	227	14.7	16.3	18.1	12.7	13.7	14.5
Shree Cement	27,400	BUY	641	682	847	24.4	22.0	18.4	285	281	275	18.2	18.2	19.5	15.2	14.1	15.2
Heidelberg Cem	248	HOLD	14	15	17	12.0	10.0	8.3	131	127	121	20.1	23.7	27.2	21.1	20.3	20.8
JK Cement	3,225	HOLD	100	118	138	17.5	15.5	12.9	207	210	209	18.6	18.5	20.0	20.6	20.1	19.4
JK Lakshmi Cem	595	BUY	34	37	41	10.5	9.2	8.4	89	89	91	21.1	22.1	21.3	19.0	19.5	18.5
Star Cement	102	BUY	6	7	8	10.8	8.4	7.2	90	86	83	13.3	16.4	17.1	12.6	14.2	13.6
Ramco Cement	985	BUY	32	35	45	17.9	16.2	13.0	201	204	190	8.6	8.8	10.1	13.5	12.9	14.2
Sagar Cement	283	BUY	79	81	138	10.5	9.7	6.4	104	76	72	15.3	15.2	22.0	15.4	13.7	19.1

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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