

Expansions on track; one-offs drag profitability...

ACC reported EBITDA margin of 13.8%, EBITDA/t of ₹ 742/t, lower than our estimate of 16.4%, ₹ 871/t, respectively, although sales volumes (up 18.8% QoQ, flat YoY) broadly remained in line with our estimates. Strong rural demand along with revival of infrastructure projects supported sales volumes. RMC volumes, however, fell 21.5% YoY to 0.73 Mio (up 58.6% QoQ). While operating performance of ACC appear weak mainly due to lower margins, this is due to additional charge of ₹ 129 crore in other expenses (pertaining to incentives receivable from government) that led to sharp contraction in margins. Adjusting for the same, EBITDA margins and EBITDA/t would have been 16.9% and ₹ 909/t. Further, impairment loss of ₹ 176 crore led to 14.6% QoQ dip in profits at PBT level to ₹ 461 crore, which otherwise would have remained on expected lines. The company's expansion plans are on track, which will be mainly funded through internal accruals. Of the total 6.2 MT new proposed capacity additions, the company has commissioned a new 1.4 MT grinding unit at Sindri, Jharkhand during January 2021, which will help strengthen its positioning in the eastern region. The board has recommended final dividend of ₹ 14/share.

New capacities to help gain lost ground from 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 from 14% in FY14 to 11% in FY20. To address this growth concern, the company is adding 6.2 MT new cement capacities with capex of ~₹ 3000 crore. This would be mainly funded through internal accruals. However, the new capacity would likely come on stream only by end of H122E. We thus model volume CAGR of 11.7% in CY20-22E and expect revenues to grow at 12.8% CAGR in the same period.

Higher CoP stays key concern but there is comfort on B/S front

ACC despite being the oldest cement company remains susceptible to volatility in margins due to its high cost of production (CoP). The company closed CY20 with CoP of ₹ 4472/t, 15% higher than industry average CoP. Higher power/fuel consumption, RM costs are key areas that need to be focused upon to drive efficiency. While CoP remains high, the company's balance sheet is among the strongest in the industry with positive FCF generation and a debt free position. Return ratios RoCE and RoIC are also expected to stay healthy during CY20-22E despite ongoing capex.

Valuation & Outlook

Structural issues with respect to CoP need to be addressed for sustenance of healthy margins in the long run. 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 with expected revenue CAGR of 12.8% during CY20-22E. Hence, we retain **BUY** with a revised TP of ₹ 2,250/share (valuing at 11.5x CY22E EV/EBITDA implying EV/t of ~\$135) (earlier TP ₹ 1950/share).

Key Financial Summary

₹ crore	CY18	CY19	CY20	CY21E	CY22E	CAGR (CY20-CY22E)
Net Sales	14478	15407	13717	15757	17466	12.8%
EBITDA	1724	2162	2286	2686	3248	19.2%
EBITDA Margins (%)	11.9	14.0	16.7	17.0	18.6	
Adjusted Net Profit	1020	1378	1599	1520	1863	7.9%
EPS (₹)	54.3	73.3	85.1	80.9	99.2	
EV/EBITDA	17.5	13.2	12.9	10.9	8.8	
EV/tonne (\$)	129	122	106	104	104	
RoNW	9.7	11.9	12.6	11.0	12.1	
RoCE	14.2	17.4	14.5	16.0	17.7	
RoIC	14.6	21.9	20.5	20.7	22.6	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Mcap	₹ 33202 crore
Debt (CY20)	₹ 0 crore
Cash & Invest (CY20P)	₹ 3816 crore
EV	₹ 29386 crore
52 week H/L	₹ 1768 / 1265
Equity cap	₹ 187.8 crore
Face value	₹ 10

Key Highlights

- Cement volumes growth remain flat YoY, RMC volumes down 21.5% YoY
- New capacities (6.2 MT) to get commissioned by H1CY22E
- Expect revenue CAGR of 12.8% over CY19-21E
- Maintain BUY rating with revised TP of ₹ 2,250 (vs earlier TP ₹1950)

Key risks to our call

- Any delay in commissioning of new capacity may impact growth and return ratios
- Volatility in prices of such imported coal/petcoke without corresponding movement in price of cement can affect its profitability

Research Analysts

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Exhibit 1: Variance Analysis

	Q4CY20	Q4CY20E	Q4CY19	YoY (%)	Q3CY20	QoQ (%)	Comments
Net Sales	4,144.7	4,264.8	3,969.8	4.4	3,537.3	17.2	Volumes remained flat YoY, improved 18.8% QoQ to 7.71MT.
Other Incomes	64.0	90.0	148.1	-56.8	45.5	40.6	
Raw Material Expense	857.5	833.7	951.5	-9.9	680.1	26.1	
Employee Expenses	249.7	230.0	233.0	7.2	205.7	21.4	
Power and fuel	752.9	810.4	740.9	1.6	630.2	19.5	
Freight	1,013.9	1,050.1	984.4	3.0	860.0	17.9	
Others	698.9	641.3	609.6	14.7	490.0	42.6	Includes expected credit loss of ₹129 crore pertaining to incentives receivables from government
EBITDA	571.7	699.3	450.4	26.9	671.4	-14.8	
EBITDA Margin (%)	13.8	16.4	11.3	245 bps	19.0	-519 bps	
Interest	17.4	18.0	29.3	-40.6	16.0	8.6	
Depreciation	157.4	164.3	160.8	-2.1	160.8	-2.2	
PBT	461.0	607.0	408.5	12.9	540.1	-14.6	Impairment loss of ₹176 crore pertaining to assets at Madukkarai led to lower profit at PBT level
Total Tax	-183.5	198.7	140.1	-231.0	176.8	-203.7	Deferred tax adjustment led to net tax credit during the quarter.
PAT	472.3	410.6	273.3	72.8	363.9	29.8	
Key Metrics							
Volume (MT)	7.71	8.03	7.76	-0.6	6.49	18.8	Strong rural demand, revival of infrastructure projects supported sales volume growth QoQ
Realisation (₹)	5,376	5,311	5,116	5.1	5,450	-1.4	
EBITDA per Tonne (₹)	742	871	580	27.8	1,035	-28.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY21E			CY22E		
	Old	New	% Change	Old	New	% Change
Revenue	15,819.5	15,756.7	-0.4	17,411.2	17,466.3	0.3
EBITDA	2,671.0	2,686.2	0.6	3,254.6	3,247.9	-0.2
EBITDA Margin (%)	16.9	17.0	16 bps	18.7	18.6	-10 bps

Source: Company, ICICI Direct Research

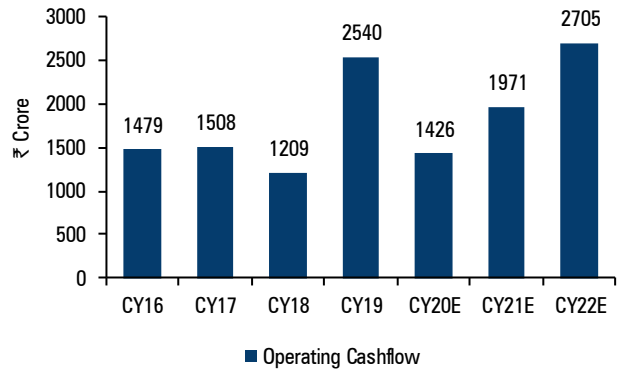
Financial story in charts

Exhibit 3: Capacity addition plans

Capacity	MT
Existing	33.05
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
Sindri (brownfield) - commissioned	1.4
Total	6.2
Total capacity by CY21E (MT)	39.3

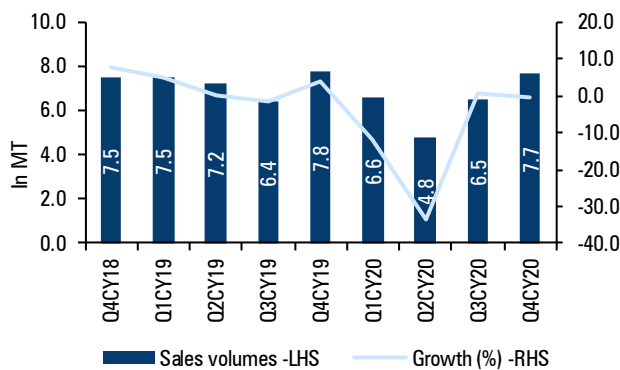
Source: Company, ICICI Direct Research

Exhibit 4: Operating cash flows sufficient to fund expansion



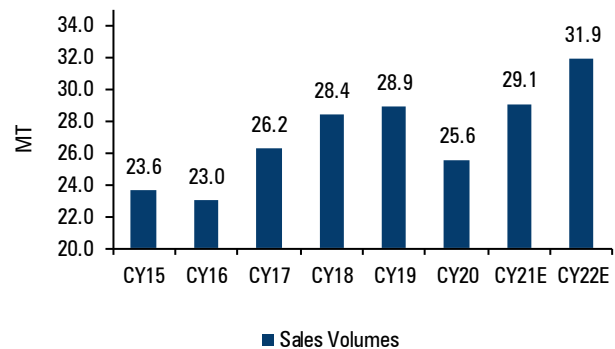
Source: Company, ICICI Direct Research

Exhibit 5: Volumes remain flat YoY in Q4CY20



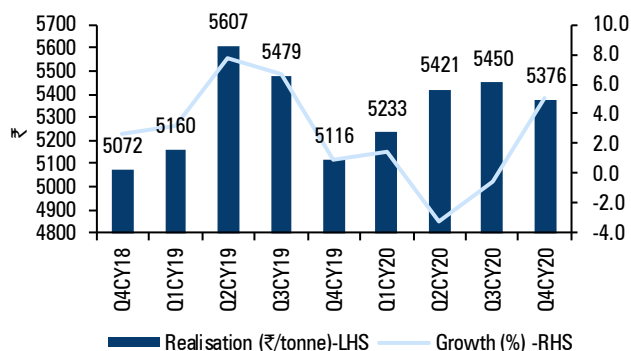
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 11.7% CAGR during CY20-22E



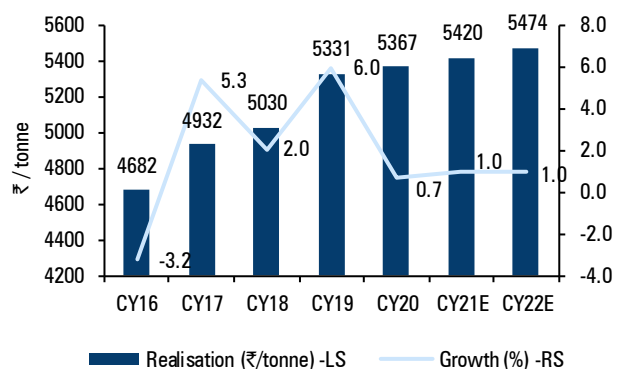
Source: Company, ICICI Direct Research

Exhibit 7: Realisations rise 5.1% YoY in Q4CY20



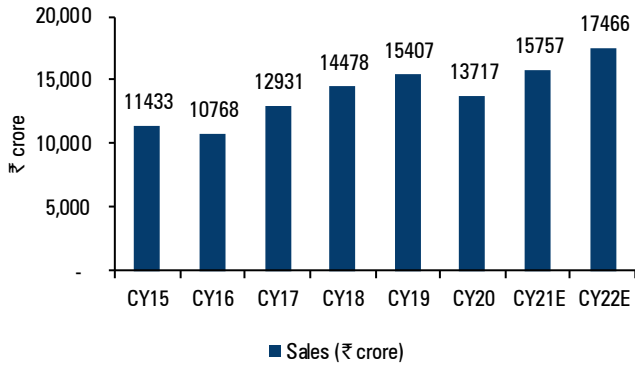
Source: Company, ICICI Direct Research

Exhibit 8: Expected realisations to remain stable, going forward



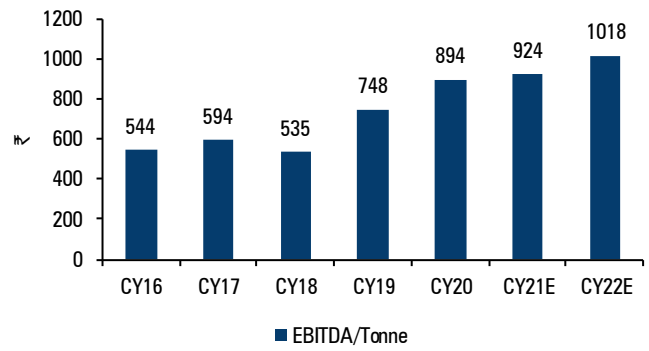
Source: Company, ICICI Direct Research

Exhibit 9: Expect revenue CAGR of 12.8% over CY20-22E



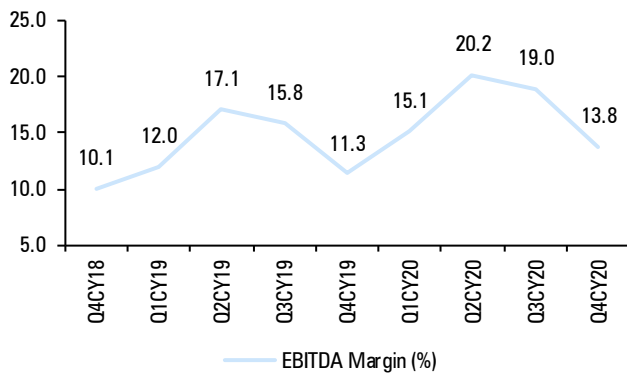
Source: ICICI Direct Research, Company

Exhibit 10: EBITDA/t to witness gradual recovery



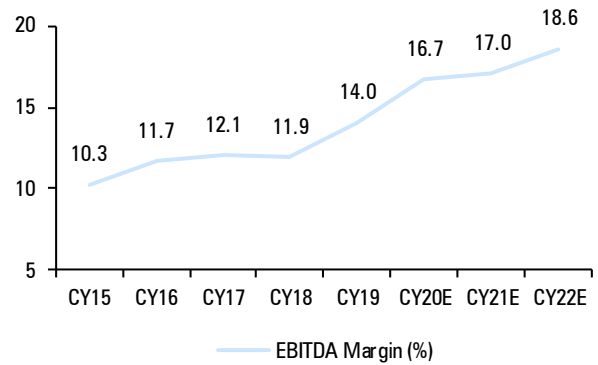
Source: ICICI Direct Research, Company

Exhibit 11: One-offs in other expenditure lead to contraction in margins in Q4CY20



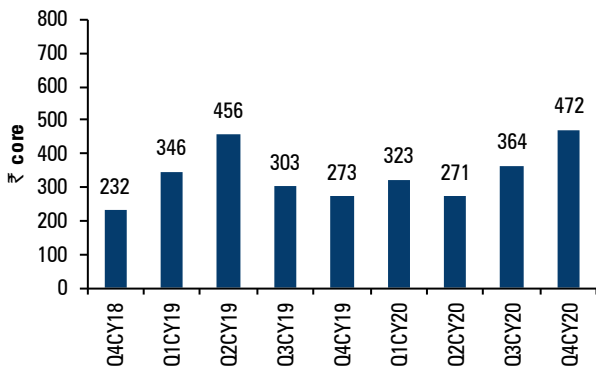
Source: Company, ICICI Direct Research

Exhibit 12: Margins to witness gradual recovery from CY21E



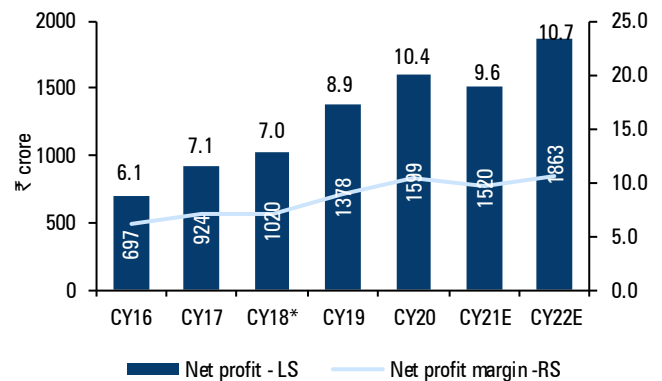
Source: Company, ICICI Direct Research

Exhibit 13: Quarterly PAT trend



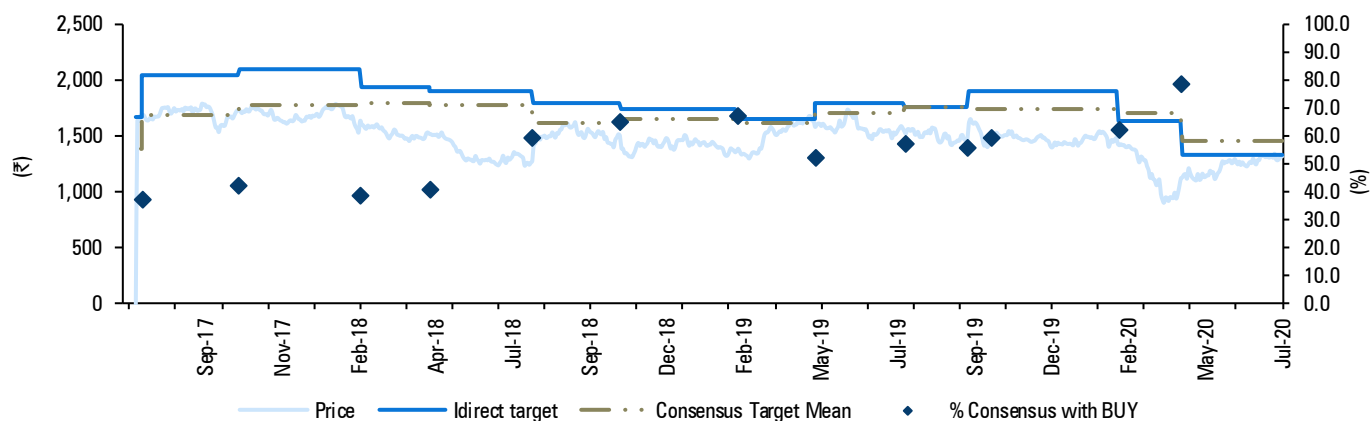
Source: Company, ICICI Direct Research

Exhibit 14: Annual PAT to bounce-back from CY21E



Source: Company, ICICI Direct Research

Exhibit 15: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: Top 10 shareholders

Rank	Investor Name	Filing Date	% O/S Position (m)	Change (mn)	
1	Ambuja Cement India	31-Mar-20	50.1	93.98m	(0.00)m
2	Life Insurance Corp	31-Mar-20	5.2	9.75m	(0.93)m
3	Holderind Invsts Ltd	31-Mar-20	4.5	8.41m	0.00m
4	Franklin Resources	17-Jul-20	3.7	6.85m	0.00m
5	Aditya Birla Sun Lif	30-Jun-20	2.0	3.78m	(0.05)m
6	Icici Prudential Lif	31-Mar-20	1.2	2.33m	2.33m
7	Icici Prudential Ass	30-Jun-20	1.1	2.11m	0.32m
8	Jpmorgan Chase & Co	31-Mar-20	0.9	1.75m	(0.72)m
9	Vanguard Group	30-Jun-20	0.9	1.59m	(0.03)m
10	Dsp Blackrock Invest	30-Jun-20	0.8	1.51m	(0.10)m

Source: Company, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	54.53	54.53	54.53	54.53	54.53
FII	8.60	7.79	8.14	6.60	11.55
DII	21.22	21.03	20.68	25.76	20.83
Others	15.65	16.65	16.65	13.11	13.09

Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and loss statement					₹ crore
(Year-end March)	CY19	CY20	CY21E	CY22E	
Total operating income	15,407.0	13,717.0	15,756.7	17,466.3	
Growth (%)	6.4	-11.0	14.9	10.8	
Raw material	2718.9	2512.6	2722.6	3018.0	
Power & Fuel	3134.0	2574.7	2972.1	3310.9	
Employees	866.1	840.8	878.6	918.2	
Freight	4032.1	3416.1	4011.7	4307.2	
Others	2493.7	2086.5	2485.5	2664.1	
Total Operating Exp.	13,244.8	11,430.7	13,070.6	14,218.4	
EBITDA	2,162.2	2,286.3	2,686.2	3,247.9	
Growth (%)	25.4	5.7	17.5	20.9	
Depreciation	606.4	645.8	682.4	767.3	
Interest	86.3	57.1	65.3	65.3	
Other Income	569.0	285.4	316.8	351.6	
Exceptional items	0.0	176.0	0.0	0.0	
PBT	2,038.5	1,692.9	2,255.3	2,767.0	
Total Tax	675.0	278.6	744.2	913.1	
PAT	1,377.5	1,423.2	1,520.4	1,863.3	
Adjusted PAT	1,377.5	1,599.2	1,520.4	1,863.3	
Growth (%)	35.1	16.1	-4.9	22.5	
Reported EPS (₹)	73.3	75.7	80.9	99.2	

Source: Company, ICICI Direct Research

Exhibit 20: 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	13,661.9	15,195.4	
Total Shareholders funds	11,543.8	12,659.2	13,849.9	15,383.4	
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	14,508.8	16,042.3	
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	651.1	730.3	801.0	
Other assets	3,120.6	2,914.9	3,072.7	3,564.5	
Misc assets	10.5	9.1	13.4	11.6	
Cash	4,647.8	3,811.9	4,002.6	4,578.3	
Total Current Assets	9,547.4	9,026.0	9,633.5	10,969.2	
Creditors	4,331.9	3,935.9	4,093.5	4,807.1	
Provisions	601.5	669.1	695.9	817.2	
Total Current Liabilities	4,933.3	4,605.0	4,789.4	5,624.3	
Net Current Assets	4,614.1	4,421.0	4,844.0	5,344.8	
Application of Funds	12,202.7	13,318.1	14,508.8	16,042.3	

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement					₹ crore
(Year-end March)	CY19	CY20	CY21E	CY22E	
Profit after Tax	1,377.5	1,423.2	1,520.4	1,863.3	
Add: Depreciation	606.4	645.8	682.4	767.3	
(Inc)/dec in Current Assets	469.3	-314.5	-416.7	-760.0	
Inc/(dec) in CL and Prov.	86.9	-328.3	184.4	834.9	
CF from operating activit	2,540.1	1,426.2	1,970.5	2,705.5	
(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 activit	-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 activit	-365.7	-307.8	-329.8	-329.8	
Net Cash flow	1,550.8	-835.9	190.7	575.7	
Opening Cash	3,097.0	4,647.8	3,811.9	4,002.6	
Closing Cash	4,647.8	3,811.9	4,002.6	4,578.3	

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
EPS	73.3	75.7	80.9	99.2
Cash EPS	105.6	110.1	117.2	140.0
BV	614.4	673.7	737.1	818.7
DPS	14.0	14.0	15.0	0.0
Cash Per Share	247.4	202.9	213.0	243.7
Operating Ratios (%)				
EBITDA Margin	14.0	16.7	17.0	18.6
PAT Margin	8.9	10.4	9.6	10.7
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	11.0	12.1
RoIC	21.9	20.5	20.7	22.6
Valuation Ratios (x)				
P/E	22.5	21.8	20.4	16.6
EV / EBITDA	12.2	11.9	10.1	8.1
EV / Net Sales	1.7	2.0	1.7	1.5
Market Cap / Sales	2.0	2.3	2.0	1.8
Price to Book Value	2.7	2.4	2.2	2.0
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	2.0	2.0
Quick Ratio	1.0	1.1	1.2	1.1

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,766	2,250	BUY	73	85	81	13.2	12.9	10.9	122	106	104	17.4	14.5	16.0	11.9	12.6	11.0
Ambuja Cem*	278	280	HOLD	7.7	8.7	9.5	14.1	12.8	11.2	140	152	134	12.2	17.1	17.3	14.7	19.7	19.6
UltraTech Cem	6,400	6,300	BUY	180	194	234	15.6	14.5	12.2	207	207	195	14.2	14.2	15.8	12.1	11.7	12.4
Shree Cement	27,900	31,000	BUY	435	624	666	25.7	23.6	20.0	278	262	259	13.8	18.2	18.0	12.1	15.1	14.2
Heidelberg Cem	230	265	BUY	11.8	10.2	14.6	10.4	11.6	8.7	139	123	117	22.3	20.3	27.5	20.4	19.0	24.0
JK Cement	2,711	2,950	BUY	51.8	99.5	101.6	17.5	13.6	12.8	174	163	168	16.2	18.9	17.3	12.8	20.2	17.5
JK Lakshmi Cem	375	470	BUY	7.0	7.1	6.8	15.8	13.5	13.0	73	73	66	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	96	120	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	956	1,100	BUY	25.7	29.5	30.2	20.5	16.5	15.5	180	175	171	7.5	8.6	8.7	12.3	12.5	11.4
Sagar Cement	700	900	BUY	17.1	80.0	86.2	11.6	5.4	5.3	53	54	41	7.2	17.5	15.4	4.2	15.4	14.4

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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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