

May 4, 2023

Near perfect quarter; risk-reward favourable...

About the stock: ACC (now an Adani group company) is a large cement player with capacity of over 36.1 MT in India and one of the **oldest cement players** 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 (cash: ₹ 3000+ crore) However, it remains a laggard in terms of efficiency vs. peer companies as of now. Given the higher cost structure, we believe there is enough scope through group synergies to reduce costs by ~₹ 350-400/t

Q4CY22 Results: ACC recorded healthy volume growth of 10.2% YoY to 8.5 MT (I-direct estimate: 7.7 MT) with strong capacity utilisation rate of 94.2%.

- Revenue grew 8.2% YoY to ₹ 4791 crore. Realisations declined 4% QoQ to ₹ 5636/t mainly due to a change in geo-mix and weak pricing environment
- Through better operational efficiency EBITDA/t increased by ₹ 56/t to ₹ 549/t but was below our estimate (₹ 678/t) owing to weak realisations
- Absolute EBITDA was at ₹ 466 crore (I-direct estimate: ₹ 520.0 crore, Q4FY22: ₹ 635 crore, Q3FY23: ₹ 379 crore). ACC recorded exceptional expense worth ₹ 66 crore pertaining to one-time restructuring cost

What should investors do? Given the concerns related to Adani group liquidity, the share price has decline materially by ~28% on a YTD basis. We find the risk reward favourable at the CMP as ACC trades at reasonable valuations of EV/t of US\$85/t (~8x EV/EBITDA), which is ~25% lower than the replacement cost. Further, we find comfort owing to its b/s strength with cash & investment of ₹ 3000+ crore.

Target Price and Valuation: We retain **BUY** rating on the stock with a revised target price of ₹ 2130 i.e. 10x FY25E EV/EBITDA.

Key triggers for future price performance:

- Cost efficiency measures like higher share of renewable power, strong logistics support of group entities to drive margin expansion in the long run. We bake in cost savings of ~₹ 390/t by FY25E
- Ametha Integrated Unit to be commissioned by Q2FY24, which will increase clinker capacity by 3.3 MT and grinding capacity by 1 MT. Also, Kharagpur grinding unit of 2 MT (greenfield) to be commissioned over next two years
- Immediate cost benefits to come from royalty cost savings (~1% of revenue), raw material sourcing like fly ash, coal on better terms

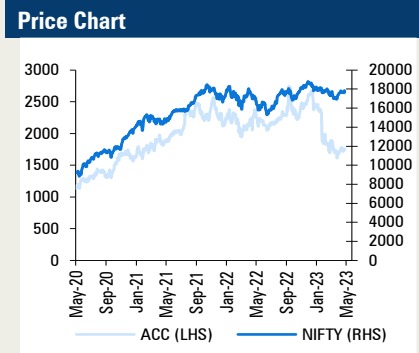
Alternate Stock Idea: Apart from ACC, in our cement sector coverage we also like UltraTech Cement.

- BUY with a target price of ₹ 9000/share



Particulars	Amount
Mcap	₹ 32883 crore
Debt (FY23)	₹ 0 crore
Cash & Invest (FY23)	₹ 3315 crore
EV	₹ 29568 crore
52 week H/L	₹ 2785 / 1592
Equity cap	₹ 187.8 crore
Face value	₹ 10

Shareholding pattern				
(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	54.5	56.7	56.7	56.7
FII	12.1	11.4	12.0	10.1
DII	20.8	19.1	18.8	19.7
Others	12.5	12.8	12.6	13.6



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

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Key Financial Summary

₹ crore	CY19	CY20	CY21	FY23E*	3 Year CAGR (%)	FY24E	FY25E	3 Year CAGR (%)
Net Sales	15407	13786	16152	22210	13.0	18961	20123	7.6
EBITDA	2162	2355	2998	1925	-3.8	2668	3385	4.1
EBITDA Margins (%)	14.0	17.1	18.6	8.7		14.1	16.8	
Adjusted Net Profit	1378	1606	1918	1047	-8.7	1764	2324	6.6
EPS (₹)	73	85	102	56		94	124	
EV/EBITDA	13.1	11.4	8.5	15.4		10.5	7.9	
EV/tonne (\$)	121	115	92	102		95	85	
RoNW	11.9	12.6	13.4	7.4		11.2	13.1	
RoCE	18.4	15.2	18.2	10.1		15.4	18.0	

Source: Company, ICICI Direct Research * Represents numbers for 15 months

Key performance highlights

- ACC recorded healthy volume growth of 10.2% YoY to 8.5 MT (I-direct estimate: 7.7 MT) with strong capacity utilisation rate of 94.2%. The volume numbers are impressive in the context of challenges faced by the company regarding the shutdown of plant operations in Himachal Pradesh. Realisations declined 4% QoQ to ₹ 5636/t (I-direct estimate: ₹ 5833/t). The decline was steeper compared to average pan-India cement prices (down 1% QoQ). Subsequently, revenue grew 8.2% YoY to ₹ 4791 crore
- Through better operational efficiency coupled with synergising Adani group expertise, production cost per tonne (QoQ) declined by ~ ₹ 312/t to ₹ 5088/t in Q4FY23 vs. our expectation of decline of ₹ 245/t. The major delta was driven through decline in power and fuel cost by ₹ 360/t to ₹ 1108/t. Fuel cost declined 10% QoQ from ₹ 2.6/Kcal to ₹ 2.35/Kcal owing to group synergies on coal procurement and reduction in clinker factor by 130 bps to 54.8%. Freight expense also declined by ₹ 82/t to ₹ 1219/t mainly owing to shortened lead distance (165 km to 161 km) and higher dispatches through rail. EBITDA/t increased by ₹ 56/t to ₹ 549/t but was below our estimate (₹ 678/t) owing to weak realisations
- The company has recently commissioned WHRS units at its Jamul (10 MW) and Kymore (12.4 MW) plants and aims to achieve a WHRS capacity of 75 MW in the near term (~16 MW WHRS is under commissioning at Ametha)

ACC - ESG Disclosure Score*			
Score	CY19	CY20	CY21
Environmental	54.9	54.9	54.9
Social	55.1	52.5	58.3
Governance	84.9	84.9	84.9
Overall ESG Score	65.0	64.1	66.0

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Cost rationalisation to bring efficiency...

- The company was earlier paying royalties to the Holcim group at ~1% of revenues. With Adani now being the promoter, the company will be able save ~₹ 175-180 crore on an annual basis, which works out to savings of around ₹ 55-60 on a per tonne basis
- On the raw material front, the company is now better placed to source inputs like flyash/imported coal/petcoke from the Adani group on better terms. The company is aiming to reach WHRS capacity of 75 MW by 2024. With these, we expect annual cost savings in the range of ₹ 100-150 on a per tonne basis. The company can also leverage on the renewable energy potential from the Adani group, going ahead, for optimisation of its power & fuel costs. We await more clarity on the same to quantify the benefit
- Further, the company can also leverage the group network to bring down the freight cost further, which the earlier promoter was doing through master supply agreement with Ambuja

We build in volumes CAGR of ~6% in FY23-25E with average capacity utilisation rates healthy of 85%+. With realisations remaining stable, we expect revenue to grow at CAGR of 6.5% in FY23-25E. We believe there is adequate cost savings delta through group syneresis. Hence, we expect EBITDA/t to improve from ₹ 502/t in FY23 to ₹ 994/t in FY25E. On the balance sheet front, the company generated negative FCF mainly on account of higher working capital blockage (owing to ₹ 1400 crore advance payments for coal procurement) and higher capex of ₹ 1930 crore (Ametha unit). ACC continues to carry cash & investment worth ₹ 3000+ crore. With a gradual reduction in working capital requirements and better profitability, we expect the company to generate FCF of ~₹ 3500 crore in FY24-25E. The valuations of ACC have declined sharply over the last four months with prices of ACC declining 28%. As the fundamentals of the sector and the company per se continue to stay strong, we believe this sharp correction in stock price offers a good opportunity to enter from a longer term perspective. In terms of its valuation, the EV/tonne is trading now at \$85/tonne (8.0x EV/EBITDA). We maintain **BUY** rating with a revise target price of ₹ 2,130 (valuing at 10x FY25E EV/EBITDA implying an EV/t of ~\$110).

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	Comments
Net Sales	4,790.9	4,474.8	4,426.5	8.2	4,537.0	5.6	Revenue growth mainly driven by volume growth of 10% YoY
Other Incomes	119.2	42.0	58.5	103.8	40.7	192.8	
Raw Material Expense	1,577.7	1,158.4	900.6	75.2	1,287.8	22.5	Higher RM expense owing to increase in clinker purchase
Employee Expenses	212.1	211.0	193.1	9.8	203.0	4.5	
Power and fuel	942.6	1,089.3	1,040.5	-9.4	1,130.2	-16.6	Fuel cost declined by 10% QoQ from ₹ 2.6/Kcal to ₹ 2.35/Kcal owing to group synergies on coal procurement and reduction in clinker factor by 130 bps to 54.8%
Freight	1,029.8	958.9	1,048.2	-1.8	1,001.8	2.8	Warehouse optimisation & shortened lead distance (165 km to 161 km) led to decline in freight costs
Others	560.2	537.0	609.5	-8.1	535.1	4.7	
EBITDA	468.5	520.3	634.6	-26.2	379.1	23.6	EBITDA miss mainly owing to weak realisations
EBITDA Margin (%)	9.8	11.6	14.3	0 bps	8.4	0 bps	
Interest	15.2	17.0	10.6	44.0	18.9	-19.2	
Depreciation	176.8	173.0	153.9	14.8	172.5	2.4	
PBT	395.7	372.3	528.6	-25.1	228.4	73.2	
Total Tax	95.7	93.1	136.0	-29.6	39.3	143.7	
PAT	235.7	279.2	392.7	-40.0	110.1	114.1	
Key Metrics							
Volume (MT)	8.5	7.67	7.7	10.2	7.7	10.4	The volume numbers are impressive in the context of challenges faced by the company regarding the shutdown of plant operations in Himachal Pradesh
Blended Realisation (₹)	5,636	5,834	5,741	-1.8	5,892	-4.3	
EBITDA per Tonne (₹)	551	678	823	-33.0	492	11.9	

Source: Company, ICICI Direct Research

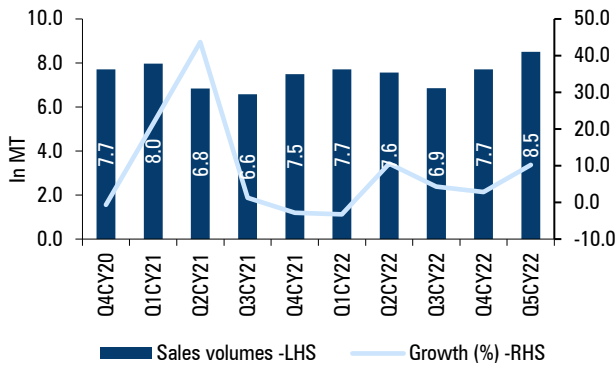
Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Revenue	18,756.5	18,961.5	1.1	20,225.2	20,123.4	-0.5
EBITDA	2,628.8	2,667.5	1.5	3,171.4	3,385.3	6.7
EBITDA Margin (%)	14.0	14.1	5 bps	15.7	16.8	114 bps
PAT	1,795.8	1,764.0	-1.8	2,175.2	2,324.1	6.8
EPS (₹)	95.6	93.9	-1.8	115.8	123.7	6.8

Source: Company, ICICI Direct Research

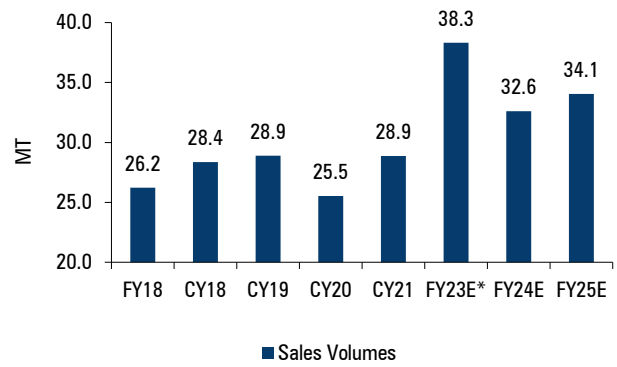
Financial story in charts

Exhibit 3: Volumes up 10.2% YoY in Q4CY22



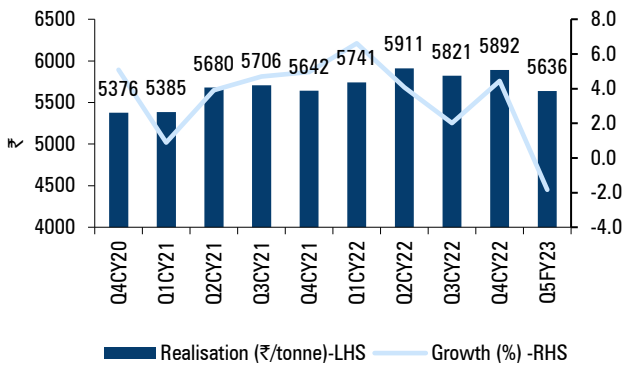
Source: Company, ICICI Direct Research

Exhibit 4: Volumes to grow at 6% CAGR over next two years



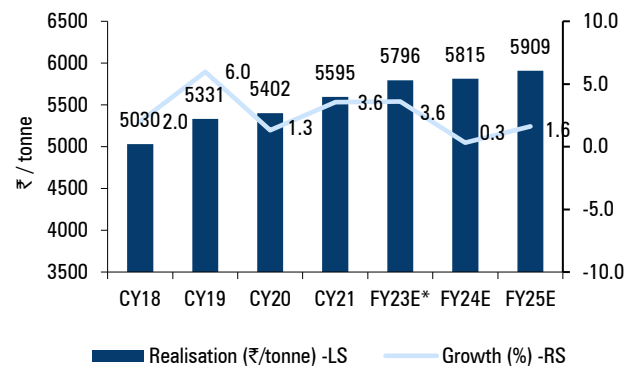
Source: Company, ICICI Direct Research *Represents numbers for 15 months

Exhibit 5: Blended realisations decline 4% QoQ



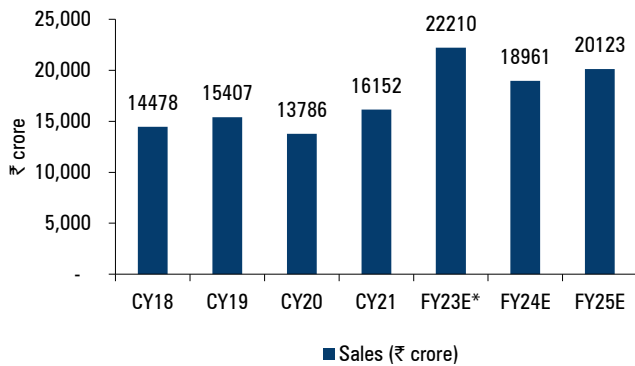
Source: Company, ICICI Direct Research

Exhibit 6: Expect realisations to broadly remain stable



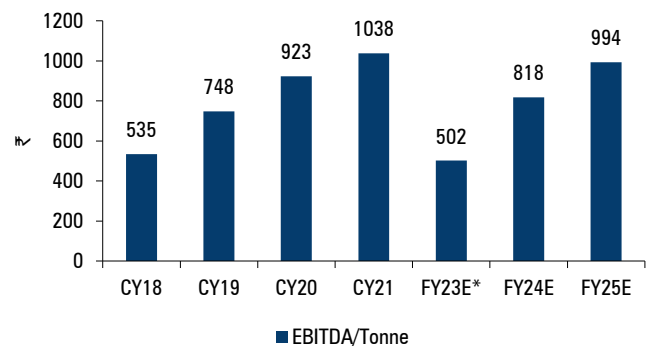
Source: Company, ICICI Direct Research *Represents numbers for 15 months

Exhibit 7: Expect revenue CAGR of 7.6% over CY21-FY25E



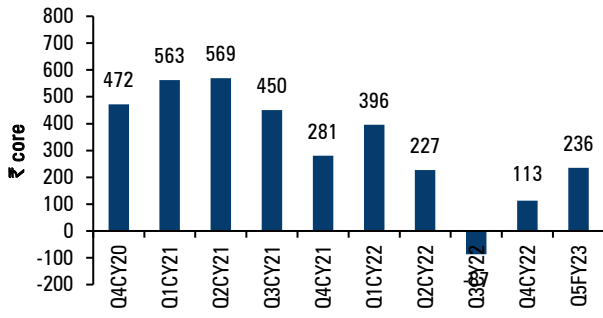
Source: ICICI Direct Research, Company, *Represents numbers for 15 months

Exhibit 8: EBITDA/t to witness gradual recovery from FY24E



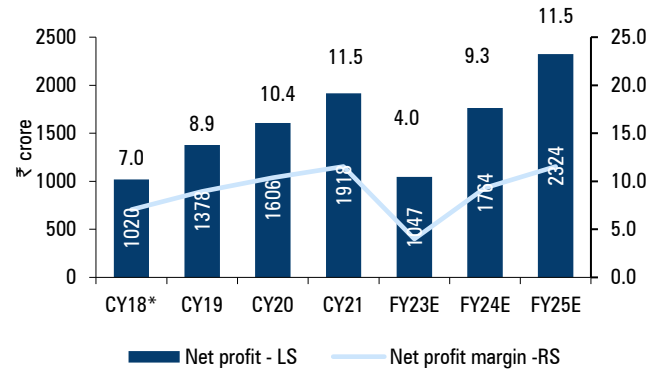
Source: ICICI Direct Research, Company *Represents numbers for 15 months

Exhibit 9: Quarterly PAT trend



Source: Company, ICICI Direct Research

Exhibit 10: PAT trajectory to improve post cooling off of fuel prices



Source: Company, ICICI Direct Research *Represents numbers for 15 months

Financial summary

Exhibit 11: Profit and loss statement					
	₹ crore				
(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Total operating Income	13,785.7	16,151.6	22,210.1	18,961.5	20,123.4
Growth (%)	-10.5	17.2	NA	NA	6.1
Raw material	2512.6	2866.5	5453.7	5696.7	5269.3
Total Operating Exp.	11,430.7	13,153.6	20,285.2	16,293.9	16,738.1
EBITDA	2,355.0	2,998.1	1,924.9	2,667.5	3,385.3
Growth (%)	8.9	27.3	-35.8	38.6	26.9
Depreciation	638.8	600.7	841.3	720.0	810.0
Interest	57.1	54.6	77.3	72.3	68.3
Other Income	216.7	206.7	341.9	480.0	600.0
Exceptional items	176.0	54.8	161.8	0.0	0.0
PBT	1,699.8	2,494.7	1,186.5	2,355.2	3,107.0
Total Tax	278.6	643.4	317.4	600.6	792.3
PAT	1,430.2	1,863.0	885.2	1,764.0	2,324.1
Adjusted PAT	1,606.2	1,917.7	1,047.0	1,764.0	2,324.1
Growth (%)	16.6	19.4	-45.4	68.5	31.7
Reported EPS (₹)	76.1	99.1	47.1	93.9	123.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement					
	₹ crore				
(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Profit after Tax	1,430.2	1,863.0	885.2	1,764.0	2,324.1
Add: Depreciation	638.8	600.7	841.3	720.0	810.0
(Inc)/dec in Current Assets	77.0	-548.4	-2,498.7	782.3	108.8
Inc/(dec) in CL and Prov.	67.2	1,197.0	-406.0	-9.2	297.7
CF from operating activities	2,213.1	3,112.2	-1,178.2	3,257.1	3,540.7
(Inc)/dec in Investments	-13.1	-20.3	-2,913.8	-58.0	-29.6
(Inc)/dec in Fixed Assets	-279.1	-1,328.2	-1,935.4	-1,616.0	-1,700.0
Others	-129.9	-24.7	-107.0	0.0	0.0
CF from investing activities	-422.1	-1,373.2	-4,956.1	-1,674.0	-1,729.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	0.0
Dividend paid & others	-274.8	-253.3	-1,055.6	-173.8	-375.8
Others	-158.3	31.9	81.3	-37.9	8.2
CF from financing activities	-433.1	-221.4	-974.3	-211.7	-367.6
Net Cash flow	1,358.0	1,517.6	-7,108.6	1,371.4	1,443.5
Opening Cash	4,647.7	6,005.7	7,523.3	414.7	1,786.1
Closing Cash	6,005.7	7,523.3	414.7	1,786.1	3,229.7

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet					
	₹ crore				
(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Liabilities					
Equity Capital	188.0	188.0	188.0	188.0	188.0
Reserve and Surplus	12,511.1	14,120.8	13,950.5	15,540.7	17,489.0
Total Shareholders funds	12,699.1	14,308.8	14,138.5	15,728.7	17,677.0
Total Debt	0.0	0.0	0.0	0.0	0.0
Other Liabilities	500.6	532.5	613.9	575.9	584.2
Total Liabilities	13,199.8	14,841.4	14,752.3	16,304.7	18,261.2
Assets					
Gross Block	9,632.5	10,218.9	11,621.0	13,421.0	15,221.0
Less: Acc Depreciation	3,124.1	3,677.5	4,518.8	5,238.8	6,048.8
Net Block	6,508.4	6,541.5	7,102.3	8,182.3	9,172.3
Capital WIP	548.1	1,245.0	1,800.0	600.0	600.0
Total Fixed Assets	7,056.5	7,786.5	8,902.3	8,782.3	9,772.3
Intangible assets	56.2	53.7	148.0	148.0	148.0
Investments	129.3	149.6	3,063.3	3,121.3	3,150.9
Inventory	901.3	1,273.9	1,624.2	1,298.7	1,378.3
Debtors	451.4	489.0	869.2	742.1	787.6
Other assets	823.6	970.6	2,531.3	2,077.3	1,714.2
Loans & advances	2,776.4	2,792.2	3,106.8	3,231.0	3,360.3
Cash	6,005.7	7,523.3	414.7	1,786.1	3,229.7
Total Current Assets	10,958.3	13,049.0	8,546.2	9,135.4	10,470.0
Creditors	1,422.2	5,323.9	4,925.6	5,799.8	5,778.0
Provisions	230.7	897.7	729.1	986.0	982.3
Other Current Liab	3,347.6	4,061.3	4,110.2	4,315.7	4,531.5
Total Current Liabilities	5,000.5	10,282.9	9,764.9	11,101.5	11,291.7
Net Current Assets	5,957.8	2,766.1	-1,218.7	-1,966.1	-821.7
Application of Funds	13,199.7	14,841.4	14,752.3	16,304.7	18,261.2

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios					
(Year-end March)	CY20	CY21	FY23E*	FY24E	FY25E
Per share data (₹)					
EPS	76.1	99.1	47.1	93.9	123.7
Cash EPS	110.1	131.1	91.9	132.2	166.8
BV	675.8	761.5	752.4	837.1	940.8
DPS	14.0	14.0	58.0	9.3	20.0
Cash Per Share	319.6	400.4	22.1	95.1	171.9
Operating Ratios (%)					
EBITDA Margin	17.1	18.6	8.7	14.1	16.8
PAT Margin	10.4	11.5	4.0	9.3	11.5
Inventory days	23.9	28.8	26.7	25.0	25.0
Debtor days	12.0	11.1	14.3	14.3	14.3
Creditor days	37.7	43.0	24.5	24.5	24.5
Return Ratios (%)					
RoE	11.3	13.0	6.3	11.2	13.1
RoCE	15.2	18.2	10.1	15.4	18.0
Valuation Ratios (x)					
P/E	23.0	17.7	37.1	18.6	14.1
EV / EBITDA	11.4	8.5	15.4	10.5	7.9
EV / T (\$)	115.0	91.9	102.4	94.8	85.0
Market Cap / Sales	2.4	2.0	1.5	1.7	1.6
Price to Book Value	2.6	2.3	2.3	2.1	1.9
Solvency Ratios					
Debt/EBITDA	0.0	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.7	1.7	1.8
Quick Ratio	0.6	0.6	1.0	0.5	0.6

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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