Volume No. II Issue No. 172

ACC Ltd.

May 13, 2018

BSE Code: 500410 **NSE Code:** ACC **Reuters Code:** ACC.NS **Bloomberg Code:** ACC:IN

ACC is India's second-largest cement company with an installed capacity of ~33 mtpa. It also has presence in the ready-mix concrete (RMC) business.

Investment Rationale

Revenue growth led by strong volumes & realisation

Driven by healthy growth in both volumes and realisation, ACC posted strong growth in revenue in Q1CY18 on standalone basis. While cement sales volume increased by 8% YoY, realisation rose 7% YoY, leading to 15% growth in revenue during the quarter. The growth in cement volumes was supported by improvement in sand availability leading to growth across regions. While growth in premium products volume (18% YoY) supported realisation.

Margins to stay healthy:

EBITDA rose 18% YoY in Q1CY18 with EBITDA margin growing by 44bps to 13.5% as sustained improvement in operational efficiencies & optimization and robust control on fixed costs helped to offset higher freight and energy costs. Moreover, higher share of premium products in the mix also aided margin expansion. The spike in raw material, energy and logistics costs was offset by lower employee and other overheads. Raw material cost/tonne increased sharply by 13% YoY mainly on account of steep rise in slag prices and higher flyash cost due to long lead sourcing in order to meet additional requirement, while source mix optimisation of Gypsum helped to restrict the rise. Power & fuel cost/tonne rose 7% YoY as improvement in energy efficiency was offset by higher coal/petcoke prices and lower availability of FSA link coal. Additionally, freight expenses/tonne grew by 12% YoY mainly due to increase in prices of diesel and higher lead distance. On the other hand, employee cost and other expenses declined by ~6% and 7% YoY respectively. Resultantly, overall EBITDA/tonne increased by 15% YoY to Rs. 596 during the quarter under consideration. Going ahead, improving mix, volumes ramp up and cost savings will drive EBITDA margin expansion of 250bps over CY17-19E.

Cement volumes to grow at 6% CAGR over CY17-19E:

The board of directors have recommended renewal of the Technology and Know-how Agreement with Holcim Technology, which expired in Dec-17. The agreement was renewed for a period of 3 years starting from January 2018 with no changes in the terms and conditions (royalty continues to be 1% of sales), thus allaying concern of higher outgo to parent. The board has also approved a Master Supply Agreement (MSA) with Ambuja Cements (holding company) for a period of three years commencing from the date of execution. The MSA is likely to unlock annual synergy benefits in the range of approx. 3% - 5% of PBT, from the envisaged MSA. Given higher cement demand on the back of government's increasing infra spend, housing for all, uptick in rural housing and ramp up of capacity utilisation at ACC's Jamul plant, we expect ACC's cement volumes to grow at 6% CAGR over CY17-19E.

Valuation: We expect revenue/PAT to grow at a CAGR of 11%/24% over CY17-19E. Although increasing cost pressure is likely to weigh on margin, improving mix, volumes ramp up and cost savings will drive EBITDA margin expansion of 250bps over CY17-19E. Recommend BUY rating on the stock with a revised target price of Rs. 1,655 based on valuation multiple of 12x CY19E EV/EBITDA.

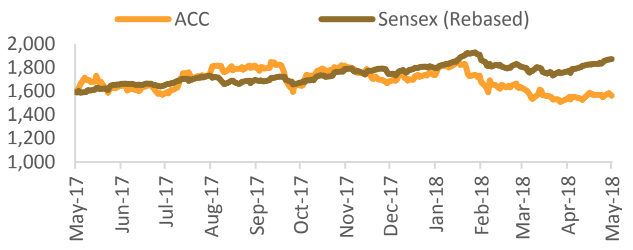
Market Data

Rating	**BUY**
CMP (Rs.)	1,471
Target (Rs.)	**1,655**
Potential Upside	13%
Duration	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	1,869/1,465
Adj. all time High (Rs.)	1,869
Decline from 52WH (%)	21.3
Rise from 52WL (%)	0.4
Beta	0.7
Mkt. Cap (Rs.Cr)	27,653

Fiscal Year Ended

Y/E	CY16	CY17	CY18E	CY19E
Revenue (Rs.Cr)	10,936	12,931	14,389	15,855
Adj. Net profit (Rs.Cr)	645	915	1,088	1,395
Adj. EPS (Rs.)	34.3	48.7	57.9	74.2
Adj. P/E (x)	42.9	30.2	25.4	19.8
P/BV (x)	3.2	3.0	2.8	2.7
ROE (%)	7.5	10.2	11.4	13.8

One year Price Chart

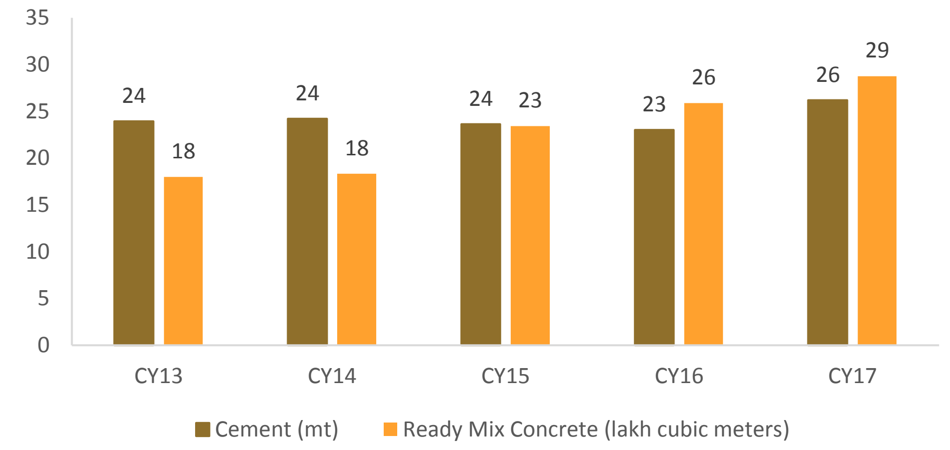


Shareholding Pattern	Mar-18	Dec-17	Chg.
Promoters	54.5	54.5	0.0
FII's	13.7	13.5	0.2
MFs/Insti	16.3	17.9	(1.6)
Public	17.8	10.7	7.1
Others	3.4	3.4	0.0

ACC Ltd: Business overview

ACC is India's second-largest cement company with an installed capacity of ~33 mtpa. It also has presence in the ready-mix concrete (RMC) business. It has pan india footprint and has wide spread geogrpahocal spreading with 11 integrtaed plants, 12 klins,5 grinding units, 1 blending and 1 bulk terminal unit.

ACC's sales volume trend



Source: Company

Quarterly Financials (Standalone)

(Rs cr)	Q1CY18	Q1CY17	YoY Growth %	Q4CY17	QoQ Growth %
Revenue	**3,625**	**3,174**	*14.2*	**3,494**	*3.7*
EBITDA	**491**	**416**	*18.0*	**443**	*11.0*
EBITDA Margin (%)	13.5	13.1	*44bps*	12.7	*88bps*
Depreciation	147	165	*(10.7)*	158	*(6.6)*
EBIT	**344**	**251**	*36.9*	**285**	*20.7*
Interest	19	25	*(23.3)*	33	*(42.2)*
Other Income	47	36	*31.0*	46	*1.3*
Exceptional Items	-	-	-	-	-
PBT	**371**	**262**	*41.9*	**298**	*24.8*
Tax	126	50	*151.3*	93	*35.6*
Reported PAT	**245**	**212**	*15.9*	**205**	*19.8*
Adjustment	-	-	-	-	-
Adj PAT	**245**	**212**	*15.9*	**205**	*19.8*
No. of shares (cr)	18.8	18.8	-	18.8	-
EPS (Rs)	**13.0**	**11.3**	*15.9*	**10.9**	*19.8*

Source: Company, In-house research

Revenue growth led by strong volumes & realisation

Driven by healthy growth in both volumes and realisation, ACC posted strong growth in revenue in Q1CY18 on standalone basis. While cement sales volume increased by 8% YoY, realisation rose 7% YoY, leading to 15% growth in revenue during the quarter. The growth in cement volumes was supported by improvement in sand availability leading to growth across regions. While growth in premium products volume (18% YoY) supported realisation. Further, its ready-mix concrete business continued to witness strong traction with sales volume increasing strongly by 16% YoY. Capacity utilisation increased sharply to 86% in Q1CY18 as compared to 81% in the previous year, signalling improving demand.

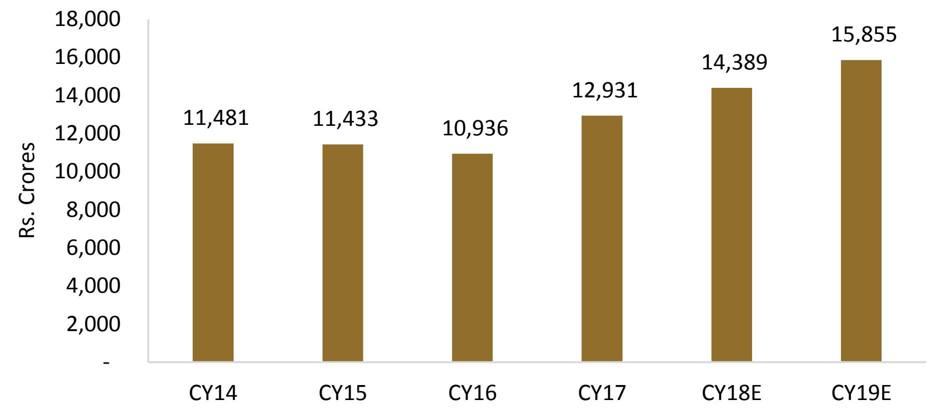
Margins to stay healthy

In line with robust revenue growth, EBITDA rose 18% YoY in Q1CY18 with EBITDA margin growing by 44bps to 13.5% as sustained improvement in operational efficiencies & optimization and robust control on fixed costs helped to offset higher freight and energy costs. Moreover, higher share of premium products in the mix also aided margin expansion. The spike in raw material, energy and logistics costs was offset by lower employee and other overheads. Raw material cost/tonne increased sharply by 13% YoY mainly on account of steep rise in slag prices and higher flyash cost due to long lead sourcing in order to meet additional requirement, while source mix optimisation of Gypsum helped to restrict the rise. Power & fuel cost/tonne rose 7% YoY as improvement in energy efficiency was offset by higher coal/petcoke prices and lower availability of FSA link coal. Additionally, freight expenses/tonne grew by 12% YoY mainly due to increase in prices of diesel and higher lead distance. On the other hand, employee cost and other expenses declined by ~6% and 7% YoY respectively. Resultantly, overall EBITDA/tonne increased by 15% YoY to Rs. 596 during the quarter under consideration. In line with robust operating performance coupled with higher other income and lower depreciation & interest charges, net profit increased by 16% YoY. Although increasing cost pressure is likely to weigh on margin, improving mix, volumes ramp up and cost savings will drive EBITDA margin expansion of 250bps over CY17-19E.

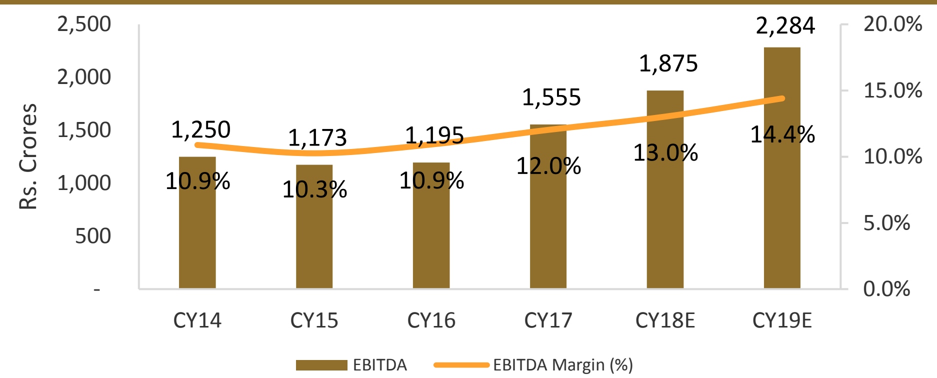
ACC's cement volumes to grow at 6% CAGR over CY17-19E

Notably the board of directors have recommended renewal of the Technology and Know-how Agreement with Holcim Technology Ltd, which expired in Dec-17. The agreement was renewed for a period of 3 years starting from January 2018 with no changes in the terms and conditions (royalty continues to be 1% of sales), thus allaying concern of higher outgo to parent. Further the board has approved a Master Supply Agreement (MSA) with Ambuja Cements (holding company) for a period of three years commencing from the date of execution. The MSA is likely to unlock annual synergy benefits in the range of approx. 3% - 5% of PBT, from the envisaged MSA. Given higher cement demand on the back of government's increasing infra spend, housing for all, uptick in rural housing and ramp up of capacity utilisation at ACC's Jamul plant, we expect ACC's cement volumes to grow at 6% CAGR over CY17-19E.

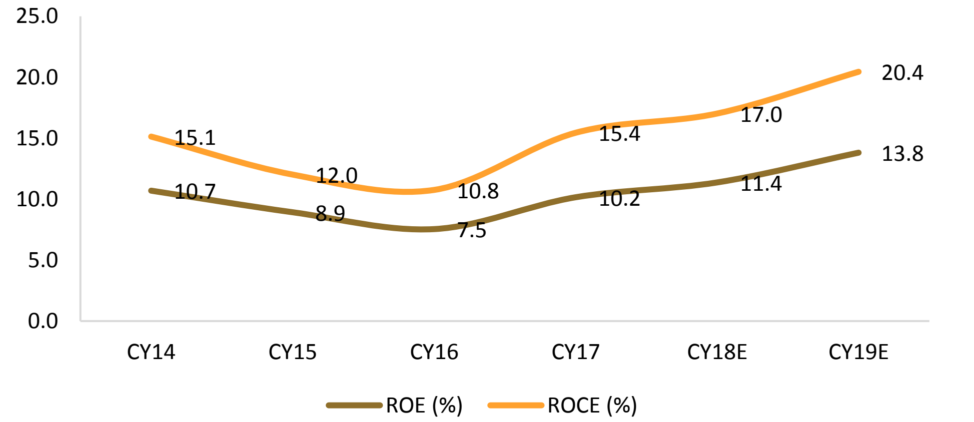
Revenue to grow at 11% CAGR over CY17-19E



Ebitda to grow at 21% CAGR over CY17-19E



Return ratios to stay robust



Source: Company, In-house research

Key risks:

- Sharp increase in fuel costs
- Slow recovery in infrastructure demand
- Sluggish housing demand

Profit & Loss Account (Standalone)

Y/E (Rs.Cr)	CY16	CY17	CY18E	CY19E
Total operating Income	**10,936**	**12,931**	**14,389**	**15,855**
EBITDA	**1,195**	**1,555**	**1,875**	**2,284**
Depreciation	605	640	675	702
EBIT	**590**	**915**	**1,200**	**1,582**
Interest cost	73	102	85	85
Other Income	335	485	439	495
Profit before tax	**852**	**1,298**	**1,555**	**1,993**
Tax	206	383	466	598
Profit after tax	**645**	**915**	**1,088**	**1,395**
Minority Interests	0	0	0	0
P/L from Associates	0	0	0	0
Adjusted PAT	**645**	**915**	**1,088**	**1,395**
E/o income / (Expense)	-43	0	0	0
Reported PAT	**602**	**915**	**1,088**	**1,395**

Balance Sheet (Standalone)

Y/E (Rs.Cr)	CY16	CY17	CY18E	CY19E
Paid up capital	188	188	188	188
Reserves and Surplus	8,473	9,177	9,589	10,240
Net worth	**8,661**	**9,365**	**9,777**	**10,428**
Total Debt	50	59	59	59
Other non-current liabilities	690	683	683	683
Total Liabilities	**9,401**	**10,108**	**10,520**	**11,170**
Net fixed assets	7,462	7,241	7,128	7,026
Capital WIP	261	262	300	300
Investments	1,804	230	630	630
Net Current Assets	**-1,572**	**824**	**910**	**1,663**
Other non-current assets	1,446	1,551	1,551	1,551
Total Assets	**9,401**	**10,108**	**10,520**	**11,170**

Cash Flow Statement (Standalone)

Y/E (Rs.Cr)	CY16	CY17	CY18E	CY19E
Pre tax profit	809	1,298	1,555	1,993
Depreciation	605	640	675	702
Chg in Working Capital	209	-88	-61	-115
Tax paid	-272	-351	-466	-598
Others	29	-383	-355	-411
Cash flow from operating activities	**1,380**	**1,116**	**1,347**	**1,571**
Capital expenditure	-519	-420	-600	-600
Chg in imvestments	21	1,574	-400	0
Other investing cashflow	-41	373	439	495
Cash flow from investing activities	**-539**	**1,528**	**-561**	**-105**
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	12	9	0	0
Dividend paid	-385	-587	-677	-744
Other financing activities	-48	-102	-85	-85
Cash flow from financing activities	**-421**	**-680**	**-761**	**-829**
Net chg in cash	**420**	**1,965**	**25**	**638**

Key Ratios (Standalone)

Y/E	CY16	CY17	CY18E	CY19E
Valuation(x)				
P/E	42.9	30.2	25.4	19.8
EV/EBITDA	23.0	16.1	13.3	10.5
EV/Net Sales	2.5	1.9	1.7	1.5
P/B	3.2	3.0	2.8	2.7
Per share data				
EPS	34.3	48.7	57.9	74.2
DPS	17.0	26.0	30.0	33.0
BVPS	460.7	498.2	520.1	554.7
Growth (%)				
Net Sales	-4.3	18.2	11.3	10.2
EBITDA	1.9	30.2	20.5	21.8
Net profit	-13.3	41.9	18.9	28.2
Operating Ratios				
EBITDA Margin (%)	10.9	12.0	13.0	14.4
EBIT Margin (%)	5.4	7.1	8.3	10.0
PAT Margin (%)	5.9	7.1	7.6	8.8
Return Ratios (%)				
RoE	7.5	10.2	11.4	13.8
RoCE	10.8	15.4	17.0	20.4
Turnover Ratios (x)				
Net Sales/GFA	0.9	0.9	1.0	1.0
Sales/Total Assets	0.8	0.9	0.9	1.0
Liquidity and Solvency Ratios (x)				
Interest Coverage	8.1	8.9	14.2	18.7
Debt/Equity	0.6	0.6	0.6	0.6

Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	**Buy**	More than equal to 15%
Hold	Upside or downside is less than 10%	**Accumulate***	Upside between 10% & 15%
Reduce	Less than equal to -10%	**Hold**	Between 0% & 10%
		Reduce/sell	Less than 0%

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

* ACC is a large cap company

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