

**HOLD**

TP: Rs 1,964 | ▼ 1%

**ACC**

| Cement

| 09 August 2023

## Synergies with Ambuja propel volumes

- Robust volume-led performance in Q1 spurred by the MSA agreement between ACC and parent ACEM
- Opex fell 12% YoY to Rs 4,715/t aided by operating leverage, realignment of expenses and softer fuel cost
- Maintain HOLD with a TP of Rs 1,964 (unchanged)

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**Synergies with ACEM drive volumes and revenue:** ACC reported an 18% YoY (+9% QoQ) increase in Q1FY24 revenue to Rs 52bn led by volume growth of 24% YoY (+11% QoQ) to 9.4mn tonnes. Volumes also include supply to parent ACEM under a master supply agreement (MSA). However, the quantum of dispatches under the MSA remains undisclosed due to the complexities of the agreement. Realisations fell 5% YoY and 1.5% QoQ to Rs 5,189/t amid the volume push.

**Cost benefits emerge due to MSA:** Operating cost softened 12% YoY and 7% QoQ to Rs 4,715/t, which management attributed to the supply agreement with ACEM. Additionally, ACC had earlier realigned staff and other expenses and hence both showed a decline. Energy cost adjusted for raw material cost fell 5% YoY due to lower fuel expense. EBITDA/t increased at a healthy pace to Rs 818 (vs. Rs 563 in Q1FY23) and ACC's operating margin climbed to 14.8% (vs. 9.5%).

**Capacity expansion on track:** Capacity expansion at Ametha (Uttar Pradesh) is due to become operational from Q2FY24, adding 3.3mt (environmental clearance for 2.75mt) of clinker and 1mt of cement capacity. Clinker will be fully utilised by the split grinding units in Uttar Pradesh. ACC has further plans to double capacity from 70mt to 140mn by FY28.

**Maintain HOLD:** We acknowledge ACC's strong first-quarter performance but await clarity on MSA synergies and the quantum of external sale volumes. Consequently, we maintain our estimates at this juncture. We continue to value ACC at 10x FY25E EV/EBITDA for an unchanged TP of Rs 1,964 and retain our HOLD rating. Our TP implies a replacement cost of Rs 7.8bn/mt – compared to the industry average of Rs 7bn/mt.

## Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ACC IN/Rs 1,987
Market cap	US\$ 4.5bn
Free float	43%
3M ADV	US\$ 15.0mn
52wk high/low	Rs 2,785/Rs 1,592
Promoter/FPI/DII	57%/12%/19%

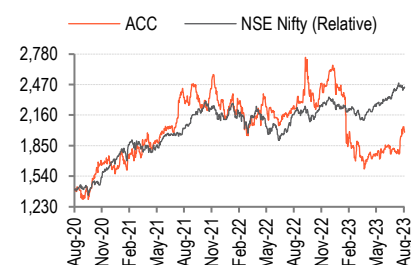
Source: NSE | Price as of 9 Aug 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,17,883	1,96,593	2,18,812
EBITDA (Rs mn)	19,400	20,771	28,538
Adj. net profit (Rs mn)	10,926	11,715	16,763
Adj. EPS (Rs)	46.5	62.3	89.2
Consensus EPS (Rs)	46.5	93.0	114.0
Adj. ROAE (%)	7.9	8.1	11.2
Adj. P/E (x)	42.7	31.9	22.3
EV/EBITDA (x)	19.1	15.6	10.4
Adj. EPS growth (%)	(54.3)	34.0	43.1

Source: Company, Bloomberg, BOBCAPS Research | FY23 is for 15 months due to a change in year-end from December to March

## Stock performance



Source: NSE



**Fig 1 – Key quarterly metrics**

(Rs)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Volumes (mn mt)	9.40	7.56	24.3	8.50	10.6
Cement realisations (Rs/mt)	5,189	5,495	(5.6)	5,269	(1.5)
Operating costs (Rs/mt)	4,715	5,348	(11.8)	5,088	(7.3)
EBITDA/t (Rs/mt)	818	563	45.4	549	49.1

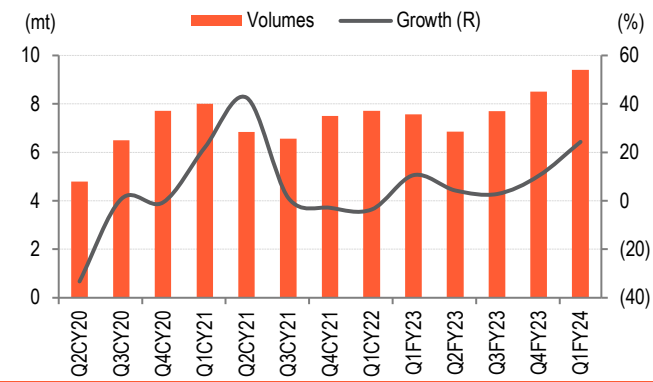
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
<b>Net Sales</b>	<b>52,011</b>	<b>43,933</b>	<b>18.4</b>	<b>47,908</b>	<b>8.6</b>
<b>Expenditure</b>					
Change in stock	(508)	(1,887)	(73.1)	1,568	(132.4)
Raw material	8,225	6,939	18.5	7,292	12.8
Purchased products	6,573	3,333	97.2	6,918	(5.0)
Power & fuel	11,239	13,110	(14.3)	9,420	19.3
Freight	11,705	10,830	8.1	10,363	12.9
Employee costs	1,520	2,162	(29.7)	2,121	(28.3)
Other expenditure	5,786	5,786	0.0	5,786	0.0
Total Operating Expenses	44,321	40,431	9.6	43,245	2.5
<b>EBITDA</b>	<b>7,690</b>	<b>4,253</b>	<b>80.8</b>	<b>4,663</b>	<b>64.9</b>
EBITDA margin (%)	14.8	9.5	527bps	9.7	505bps
Other Income	782	529	48.0	1,173	(33.3)
Interest	251	149	68.8	152	64.6
Depreciation	1,991	1,638	21.5	1,741	14.4
PBT	6,231	2,995	108.0	3,942	58.1
Non-recurring items	0	0	-	(664)	-
PBT (after non-recurring items)	6,231	2,995	108.0	3,278	90.1
Tax	1,592	774	105.7	912	74.5
<b>Reported PAT</b>	<b>4,639</b>	<b>2,222</b>	<b>108.8</b>	<b>2,366</b>	<b>96.1</b>
Adjusted PAT	4,639	2,222	108.8	3,030	53.1
NPM (%)	8.9	5.1	386bps	6.3	260bps
<b>Adjusted EPS (Rs)</b>	<b>24.7</b>	<b>11.8</b>	<b>108.8</b>	<b>16.1</b>	<b>53.1</b>

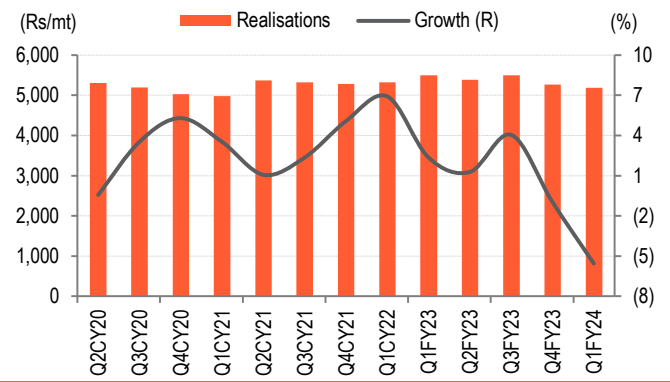
Source: Company, BOBCAPS Research

**Fig 3 – Volume growth aided by MSA with ACEM**



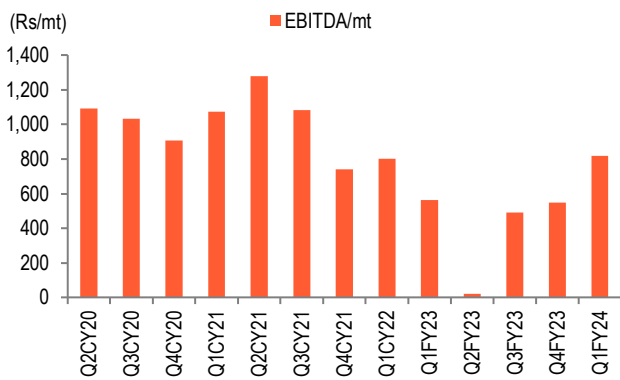
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar; thus, FY23 consists of 5 quarters

**Fig 4 – Realisations capped by volume push**



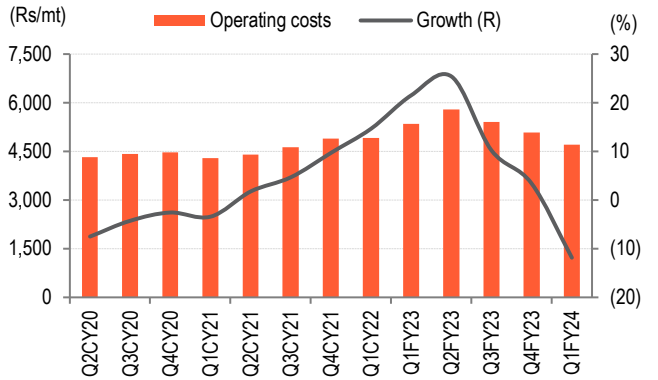
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA/t recovery strong, sustainability key**



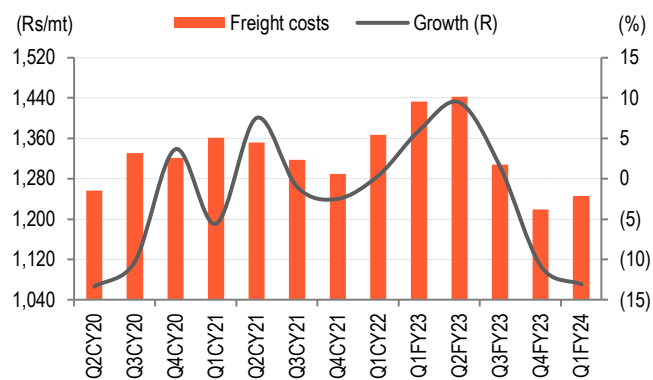
Source: Company, BOBCAPS Research

**Fig 6 – Operating cost softening with better leverage**



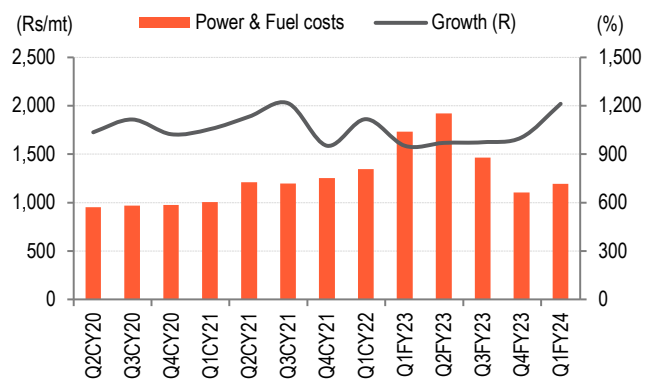
Source: Company, BOBCAPS Research

**Fig 7 – Freight cost well-managed**



Source: Company, BOBCAPS Research

**Fig 8 – Fuel cost likely to soften further**



Source: Company, BOBCAPS Research

## Valuation methodology

We acknowledge ACC's strong first-quarter performance but await clarity on MSA synergies and the quantum of external sale volumes. Consequently, we maintain our estimates at this juncture. We continue to value ACC at 10x FY25E EV/EBITDA for an unchanged TP of Rs 1,964 and retain our HOLD rating. Our TP implies a replacement cost of Rs 7.8bn/mt – compared to the industry average of Rs 7bn/mt.

**Fig 9 – Key assumptions**

Parameter	CY21	FY23	FY24E	FY25E
Volumes (mt)	28.9	38.5	32.6	35.9
Realisations (Rs/mt)	5,118	5,169	5,298	5,457
Operating costs (Rs/mt)	4,551	5,269	5,489	5,388
EBITDA/mt (Rs)	1,038	468	587	828

Source: Company, BOBCAPS Research

**Fig 10 – Valuation summary**

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	10
EBITDA	28,538
Target EV	2,91,657
Total EV	2,91,657
Net debt	(77,276)
Target market capitalisation	3,68,933
<b>Target price (Rs/sh)</b>	<b>1,964</b>
Weighted average shares (mn)	188

Source: BOBCAPS Research

**Fig 11 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
ACC IN	HOLD	1,964	22.9	14.9	9.8	115	92	84	5.2	8.1	11.2	7.9	11.0	14.5
ACEM IN	HOLD	387	11.5	10.5	8.2	249	239	227	6.0	7.4	8.0	13.1	12.8	14.6
UTCEM IN	BUY	9,396	24.7	17.9	13.6	228	226	192	9.6	12.5	15.5	12.0	16.4	20.0
SRCM IN	HOLD	24,656	27.9	19.4	15.1	205	203.8	199	6.4	10.8	13.6	9.2	14.6	18.0

Source: BOBCAPS Research

## Key risks

- Better-than-expected realisation gains and above-expected synergies with ACEM would represent upside risks to our earnings estimates.
- Capacity addition faster than current estimates would act as another upside risk.
- A volume push may lead to weakening realisations (as competition intensifies), and operating efficiencies can be impacted more than our estimates – both key downside risks.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.5	1,987	1,964	HOLD
Dalmia Bharat	DALBHARA IN	4.5	2,013	1,934	HOLD
JK Cement	JKCE IN	3.2	3,371	3,474	HOLD
JK Lakshmi Cement	JKLC IN	0.9	654	551	SELL
Shree Cement	SRCM IN	10.7	24,331	24,656	HOLD
The Ramco Cements	TRCL IN	2.5	864	585	SELL
Ultratech Cement	UTCEM IN	28.5	8,111	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Aug 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>1,34,868</b>	<b>1,58,144</b>	<b>2,17,883</b>	<b>1,96,593</b>	<b>2,18,812</b>
EBITDA	24,811	30,004	19,400	20,771	28,538
Depreciation	(6,353)	(5,973)	(8,351)	(7,000)	(8,312)
EBIT	20,498	26,078	14,421	16,280	22,985
Net interest inc./(exp.)	(570)	(546)	(772)	(555)	(485)
Other inc./(exp.)	2,040	2,048	3,372	2,509	2,759
Exceptional items	(3,049)	(548)	(1,618)	0	0
EBT	16,878	24,984	12,031	15,725	22,500
Income taxes	(5,422)	(6,401)	(2,723)	(4,010)	(5,738)
Extraordinary items	2,694	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>14,149</b>	<b>18,583</b>	<b>9,309</b>	<b>11,715</b>	<b>16,763</b>
Adjustments	355	548	1,618	0	0
<b>Adjusted net profit</b>	<b>14,505</b>	<b>19,131</b>	<b>10,926</b>	<b>11,715</b>	<b>16,763</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23A	FY24E	FY25E
Accounts payables	33,640	40,320	43,868	48,885	53,919
Other current liabilities	14,949	20,458	13,592	22,201	23,601
Provisions	2,294	2,300	1,863	1,321	1,331
Debt funds	0	0	0	0	0
Other liabilities	3,762	3,827	4,331	4,331	4,331
Equity capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	1,24,735	1,40,404	1,38,550	1,45,870	1,58,019
Shareholders' fund	1,26,614	1,42,284	1,40,430	1,47,750	1,59,899
<b>Total liab. and equities</b>	<b>1,81,259</b>	<b>2,09,190</b>	<b>2,04,085</b>	<b>2,24,488</b>	<b>2,43,081</b>
Cash and cash eq.	58,911	74,042	2,868	49,268	77,276
Accounts receivables	4,515	4,892	8,747	9,327	9,782
Inventories	9,005	12,733	16,235	18,849	21,130
Other current assets	34,583	35,961	82,615	54,934	42,823
Investments	2,206	1,927	1,927	1,927	1,927
Net fixed assets	64,384	66,492	73,113	81,492	81,854
CWIP	7,011	12,408	16,831	8,500	8,000
Intangible assets	644	736	1,750	190	290
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,81,259</b>	<b>2,09,190</b>	<b>2,04,085</b>	<b>2,24,488</b>	<b>2,43,081</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	CY20A	CY21A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>18,709</b>	<b>31,108</b>	<b>(39,898)</b>	<b>55,137</b>	<b>40,431</b>
Capital expenditures	(5,220)	(13,342)	(20,113)	(5,879)	(7,810)
Change in investments	13,884	2,349	2,652	(15,000)	(25,000)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>8,663</b>	<b>(10,994)</b>	<b>(17,461)</b>	<b>(20,879)</b>	<b>(32,810)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(2,629)	(2,629)	(10,892)	(2,856)	(4,614)
Other financing cash flows	2,670	(5)	(271)	0	0
<b>Cash flow from financing</b>	<b>41</b>	<b>(2,634)</b>	<b>(11,163)</b>	<b>(2,856)</b>	<b>(4,614)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>27,413</b>	<b>17,480</b>	<b>(68,522)</b>	<b>31,401</b>	<b>3,007</b>
<b>Closing cash &amp; cash eq.</b>	<b>58,911</b>	<b>74,042</b>	<b>2,868</b>	<b>49,268</b>	<b>77,276</b>

### Per Share

Y/E 31 Mar (Rs)	CY20A	CY21A	FY23A	FY24E	FY25E
Reported EPS	75.3	98.9	39.6	62.3	89.2
Adjusted EPS	77.2	101.8	46.5	62.3	89.2
Dividend per share	14.0	14.0	46.4	20.0	21.0
Book value per share	673.5	756.9	747.0	785.9	850.6

### Valuations Ratios

Y/E 31 Mar (x)	CY20A	CY21A	FY23A	FY24E	FY25E
EV/Sales	2.3	1.9	1.7	1.6	1.4
EV/EBITDA	12.7	10.0	19.1	15.6	10.4
Adjusted P/E	25.8	19.5	42.7	31.9	22.3
P/BV	3.0	2.6	2.7	2.5	2.3

### DuPont Analysis

Y/E 31 Mar (%)	CY20A	CY21A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	67.9	74.4	77.4	74.5	74.5
Interest burden (PBT/EBIT)	97.2	97.9	94.6	96.6	97.9
EBIT margin (EBIT/Revenue)	15.2	16.5	6.6	8.3	10.5
Asset turnover (Rev./Avg TA)	79.0	83.2	113.1	90.7	97.9
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.5	1.5
<b>Adjusted ROAE</b>	<b>11.7</b>	<b>14.8</b>	<b>7.9</b>	<b>8.1</b>	<b>11.2</b>

### Ratio Analysis

Y/E 31 Mar	CY20A	CY21A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(12.1)	17.3	10.2	12.8	11.3
EBITDA	3.0	20.9	(48.3)	33.8	37.4
Adjusted EPS	18.8	31.9	(54.3)	34.0	43.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	18.0	18.6	8.7	10.4	12.8
EBIT margin	14.9	16.1	6.5	8.1	10.3
Adjusted profit margin	10.8	12.1	5.0	6.0	7.7
Adjusted ROAE	11.7	14.8	7.9	8.1	11.2
ROCE	16.3	18.9	7.9	11.0	14.5
<b>Working capital days (days)</b>					
Receivables	12	11	18	17	16
Inventory	24	29	34	35	35
Payables	109	112	99	100	102
<b>Ratios (x)</b>					
Gross asset turnover	1.4	1.5	1.8	1.5	1.5
Current ratio	2.1	2.0	1.9	1.8	1.9
Net interest coverage ratio	35.9	47.7	18.7	29.3	47.4
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets | FY23 is for 15 months due to a change in year-end from December to March

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**BUY** – Expected return >+15%

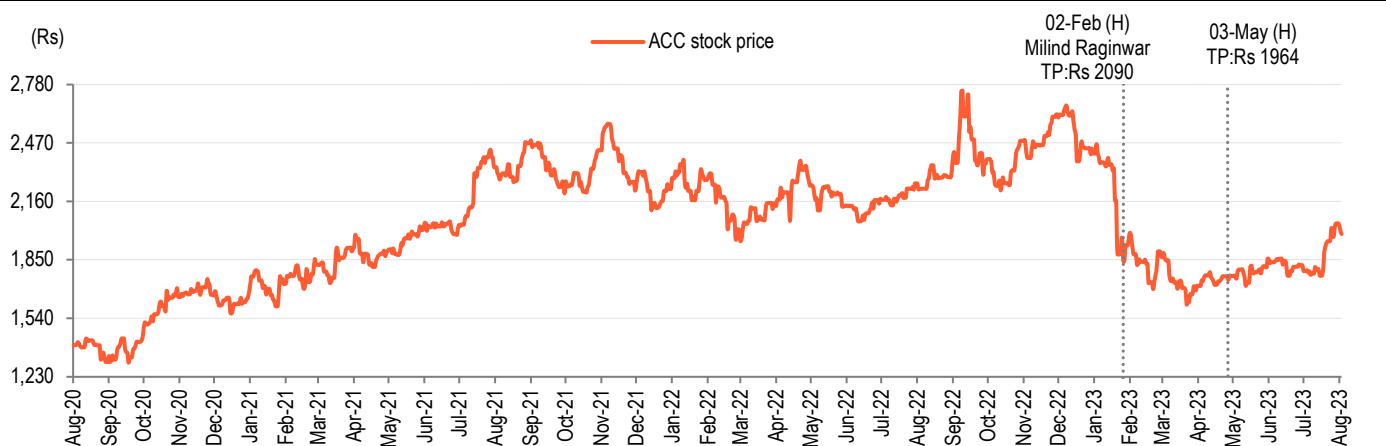
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): ACC (ACC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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