

HOLD
 TP: Rs 2,569 | ▲ 3%

ACC

| Cement

| 01 August 2024

1Q below expectations, but leaves room for improvement

- Q1FY25 revenue stayed flat YoY as 8.5% uptick in volume was offset by realisation drop of 8.3%
- External purchases and inflated raw material dragged EBITDA margin by 170bps YoY to 13.1% and EBITDA/t to below Rs 700
- Retain HOLD as we continue to value ACC at 10x 1-year forward EV/EBITDA, and forecast FY27 EBITDA margin at ~16.5%

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Revenue stays flat as realisations moderate: ACC reported flat revenue YoY (-4.5% QoQ) in Q1FY25 at ~Rs 51bn, backed by volume growth of 8.5% YoY (-1.9% QoQ) to 10.2mn tonnes supported by increase in premium products and improvement in efficiency parameters. Realisations fell 8%/3% YoY/QoQ to Rs 4,757/t. Revenue from ACC's ready-mix concrete (RMC) segment dropped 9.3% YoY (+3.5% QoQ) to Rs 3.3bn, with EBTI gain of Rs 230mn.

Inflated raw material cost a drag on EBITDA margin: Operating cost increased ~6% YoY (flat QoQ) to Rs 4,391/t owing to inflated raw material consumption. Energy costs (adjusted for inventory) rose by 13.8% YoY (+2.45% QoQ) to Rs 1,730/t and was offset by logistics costs decline of 13.6% YoY (+1.27% QoQ) to Rs 1,075/t aided by supply agreements with ACEM. Other expenditure fell 16.0%/17.0% YoY/QoQ to Rs 46.72bn. Effectively, EBITDA/t fell to Rs 664 from Rs 818 YoY (Rs 805 in Q4FY24), and operating margin dropped to 13.1%, down 170bps YoY.

Capacity expansion on track: Clinker expansion at Maratha (Maharashtra) will be operational by Q2FY26. Additionally, grinding unit expansion of 1.6mt at Sindri (Jharkhand) and 2.4mt at Salai Banwa (Uttar Pradesh) are expected to be commissioned by Q4FY25/Q1FY26. The expansion is on track, with no change in the timelines.

Maintain HOLD due to limited upside: Factoring in ACC's Q1FY25 below-par performance despite master supply agreement (MSA)-led synergies and focus on cost savings, we lower our FY25 EBITDA forecasts by ~2%. With limited capacity available in FY26 and intense competitive pressure, we have lowered our FY26 EBITDA estimate by ~6%. However, we raise our EPS estimates, factoring in better tax incidence following the capex. We introduce FY27 estimates with EBITDA/PAT three-year CAGR of 7%/9% due to limited capacity headroom though we factor in higher cost savings. We continue to value ACC at 10x EV/EBITDA 1-year forward earnings and reduce our TP to Rs 2,569 (from Rs 2,657). This implies a replacement cost of Rs 9.2bn/mt – a 30% premium to the industry average. However, the stock offers limited upside, hence, we retain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ACC IN/Rs 2,488
Market cap	US\$ 5.6bn
Free float	43%
3M ADV	US\$ 16.3mn
52wk high/low	Rs 2,844/Rs 1,803
Promoter/FPI/DII	57%/12%/19%

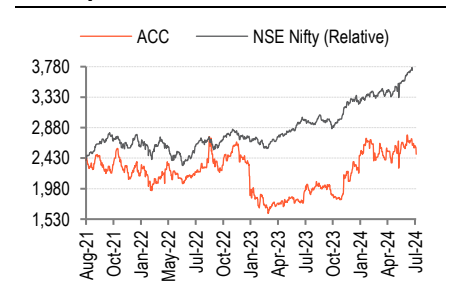
Source: NSE | Price as of 1 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,95,710	2,14,983	2,26,294
EBITDA (Rs mn)	30,576	35,737	38,227
Adj. net profit (Rs mn)	21,242	23,841	25,811
Adj. EPS (Rs)	113.0	126.8	137.3
Consensus EPS (Rs)	113.0	111.0	141.1
Adj. ROAE (%)	14.0	14.9	14.3
Adj. P/E (x)	22.0	19.6	18.1
EV/EBITDA (x)	14.5	11.8	9.9
Adj. EPS growth (%)	143.0	12.2	8.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Key quarterly metrics

(Rs)	1QFY25	1QFY24	YoY %	4QFY24	QoQ %	Q1FY25E	Deviation %
Volumes (mn mt)	10.2	9.4	8.5	10.40	(1.9)	10.39	(1.8)
Cement realisations (Rs/t)	4,757	5,189	(8.3)	4,908	(3.1)	4,708	1.0
Operating costs (Rs/t)	4,391	4,715	(6.9)	4,386	0.1	4,211	4.3
EBITDA/t (Rs)	664	818	(18.8)	805	(17.5)	766	(13.3)

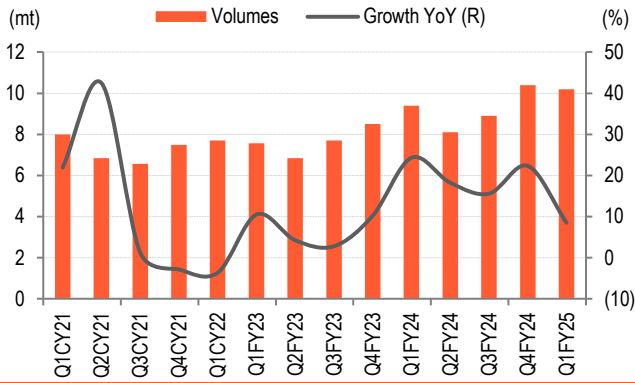
Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	1QFY25	1QFY24	YoY %	4QFY24	QoQ %	Q1FY25E	Deviation %
Net Sales	51,556	52,011	(0.9)	53,981	(4.5)	51,714	(0.3)
Expenditure							
Change in stock	(386)	(508)	(24.1)	972	(139.7)	(684)	
Raw material	10,043	8,225	22.1	8,666	15.9	8,530	17.7
purchased products	7,993	6,573	21.6	7,929	0.8	7,803	2.4
Power & fuel	9,890	11,239	(12.0)	9,721	1.7	9,777	1.2
Freight	10,969	11,705	(6.3)	11,044	(0.7)	11,367	(3.5)
Employee costs	1,601	1,520	5.4	1,636	(2.1)	1,710	(6.4)
Other exp	4,673	5,568	(16.1)	5,643	(17.2)	5,251	(11.0)
Total Operating Expenses	44,784	44,321	1.0	45,610	(1.8)	43,754	2.4
EBITDA	6,772	7,690	(11.9)	8,371	(19.1)	7,960	(14.9)
EBITDA margin (%)	13.1	14.8	(165bps)	15.5	(237bps)	15.4	(226bps)
Other Income	699	782	(10.7)	1,215	(42.5)	971	(28.1)
Interest	331	251	32.0	660	(49.8)	681	(51.4)
Depreciation	2,214	1,991	11.2	2,311	(4.2)	2,381	(7.0)
PBT	4,925	6,231	(21.0)	6,615	(25.5)	5,869	(16.1)
Non-recurring items	0	0	0.0	0	0.0	0	0.0
PBT (after non recurring items)	4,925	6,231	(21.0)	6,615	(25.5)	5,869	(16.1)
Tax	1,263	1,592	(20.7)	1,702	(25.8)	1,497	(15.6)
Reported PAT	3,662	4,639	(21.1)	4,913	(25.5)	4,373	(16.2)
Adjusted PAT	3,662	4,639	(21.1)	4,913	(25.5)	4,373	(16.2)
NPM (%)	7.1	8.9	(182bps)	9.1	(200bps)	8.5	(135bps)
Adjusted EPS (Rs)	19.5	24.7	(21.1)	26.1	(25.5)	23.3	(16.2)

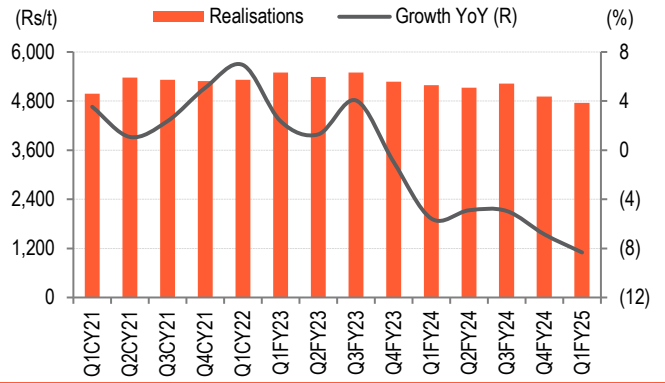
Source: Company, BOBCAPS Research

Fig 3 – Volume tepid due to sluggish demand



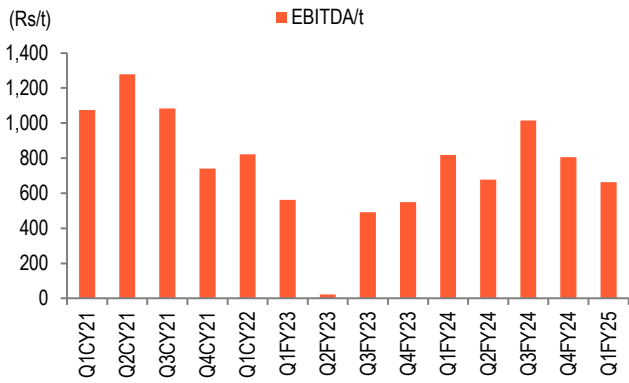
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar; thus, FY23 consists of 5 quarters

Fig 4 – Tepid demand keeps realisations weak



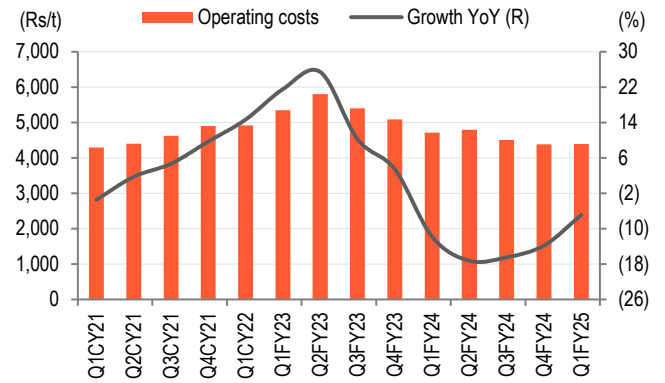
Source: Company, BOBCAPS Research

Fig 5 – EBITDA/t stays lower dragged by cost



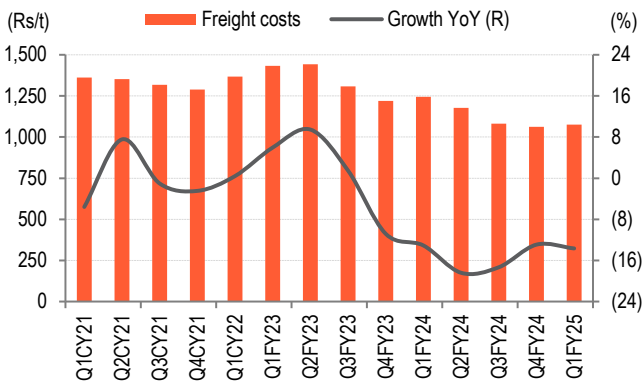
Source: Company, BOBCAPS Research

Fig 6 – Operating cost swings up pushed by higher raw material cost



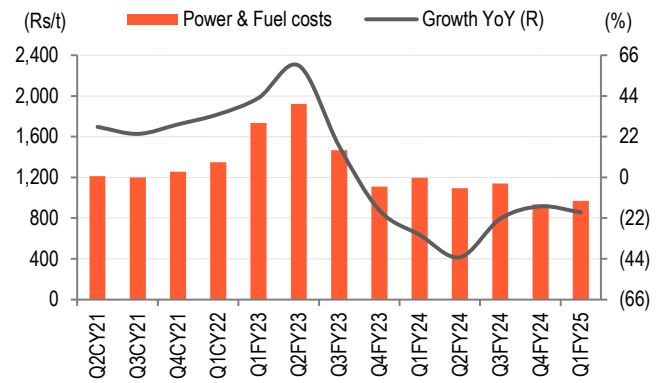
Source: Company, BOBCAPS Research

Fig 7 – Logistics cost savings only respite



Source: Company, BOBCAPS Research

Fig 8 – Power cost savings leaves further room



Source: Company, BOBCAPS Research

Valuation methodology

Maintain HOLD owing to limited upside: Factoring in ACC's Q1FY25 below-par performance despite MSA-led synergies and a focus on cost savings, we reduce our FY25 EBITDA forecasts by ~2%. With limited capacity available in FY26 and intense competitive pressure we have revised downwards our FY26 EBITDA estimate by ~6%. However, we raise our EPS estimates factoring in better tax incidence following the capex. We introduce FY27 estimates with EBITDA/PAT three-year CAGR of 7%/9% due to limited capacity headroom though we factor in higher cost savings.

We continue to value ACC at 10x EV/EBITDA 1-year forward earnings and lower our TP to Rs 2,569 from Rs 2,657. This implies a replacement cost of Rs 9.2bn/mt – a 30% premium to the industry average. However, the stock offers limited upside and, hence, we retain our HOLD rating.

Fig 9 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	2,14,983	2,26,294	2,40,633	2,07,736	2,25,713	NA	3.5	0.3	NA
EBITDA	35,737	38,227	40,301	36,376	40,638	NA	(1.8)	(5.9)	NA
Adj PAT	23,841	25,811	27,568	22,585	25,663	NA	5.6	0.6	NA
Adj EPS (Rs)	126.8	137.3	146.6	120.1	136.5	NA	5.6	0.6	NA

Source: BOBCAPS Research

Fig 10 – Valuation summary

Business (Rs mn)	FY26E
Target EV/EBITDA (x)	10
EBITDA	38,227
Target EV	3,99,092
Total EV	3,99,092
Net debt	(72,068)
Target market capitalisation	4,71,160
Target price (Rs/sh)	2,569
Weighted average shares (mn)	188

Source: BOBCAPS Research | Note: Valuations are based on 1-year forward, and includes partial estimates for FY27E

Key risks

Key upside/downside risks to our estimates are:

- faster-than-expected capacity addition helping volume growth;
- further higher-than-expected easing of costs; and,
- fierce competitive intensity putting pressure on pricing.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	2,17,883	1,95,710	2,14,983	2,26,294	2,40,633
EBITDA	19,400	30,576	35,737	38,227	40,301
Depreciation	(8,351)	(8,763)	(10,415)	(10,926)	(11,455)
EBIT	14,421	26,729	30,028	32,478	34,540
Net interest inc./(exp.)	(772)	(1,538)	(954)	(1,001)	(921)
Other inc./(exp.)	3,372	4,915	4,706	5,177	5,695
Exceptional items	(1,618)	0	0	0	0
EBT	12,031	25,191	29,074	31,477	33,619
Income taxes	(2,723)	(3,948)	(5,233)	(5,666)	(6,051)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	9,309	21,242	23,841	25,811	27,568
Adjustments	1,618	0	0	0	0
Adjusted net profit	10,926	21,242	23,841	25,811	27,568

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	43,868	52,971	58,254	62,217	67,352
Other current liabilities	13,592	9,653	12,156	13,218	14,386
Provisions	1,863	1,611	1,287	1,297	1,307
Debt funds	0	0	0	0	0
Other liabilities	4,331	4,543	4,600	4,667	4,734
Equity capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	1,38,696	1,58,340	1,77,509	1,98,200	2,20,647
Shareholders' fund	1,40,430	1,60,220	1,79,389	2,00,080	2,22,527
Total liab. and equities	2,04,086	2,28,997	2,55,686	2,81,477	3,10,304
Cash and cash eq.	2,868	24,298	46,095	65,914	91,649
Accounts receivables	8,747	8,412	8,652	8,487	8,365
Inventories	16,235	18,429	20,096	20,998	22,164
Other current assets	82,615	69,711	68,766	72,233	75,929
Investments	1,927	6,154	6,154	6,154	6,154
Net fixed assets	73,113	90,037	90,430	89,098	87,350
CWIP	16,831	9,720	15,000	18,000	18,000
Intangible assets	1,750	2,236	493	593	693
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,04,085	2,28,997	2,55,686	2,81,477	3,10,304

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	(39,898)	45,103	37,236	35,500	38,416
Capital expenditures	(20,113)	(17,994)	(12,306)	(10,560)	(7,560)
Change in investments	2,652	(6,786)	(25,000)	(20,000)	(25,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(17,461)	(24,780)	(37,306)	(30,560)	(32,560)
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	(10,892)	(1,737)	(3,076)	(5,054)	(5,054)
Other financing cash flows	(271)	(3,942)	(57)	(67)	(67)
Cash flow from financing	(11,163)	(5,679)	(3,133)	(5,121)	(5,121)
Chg in cash & cash eq.	(68,522)	14,644	(3,203)	(180)	735
Closing cash & cash eq.	2,868	24,298	46,095	65,914	91,649

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	39.6	113.0	126.8	137.3	146.6
Adjusted EPS	46.5	113.0	126.8	137.3	146.6
Dividend per share	46.4	9.2	21.0	23.0	23.0
Book value per share	747.0	852.3	954.2	1,064.3	1,183.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.8	2.3	2.0	1.7	1.6
EV/EBITDA	20.3	14.5	11.8	9.9	9.4
Adjusted P/E	53.5	22.0	19.6	18.1	17.0
P/BV	3.3	2.9	2.6	2.3	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	77.4	84.3	82.0	82.0	82.0
Interest burden (PBT/EBIT)	94.6	94.2	96.8	96.9	97.3
EBIT margin (EBIT/Revenue)	6.6	13.7	14.0	14.4	14.4
Asset turnover (Rev./Avg TA)	113.1	89.3	93.5	88.7	85.0
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.4
Adjusted ROAE	7.9	14.0	14.9	14.3	13.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	10.2	12.3	9.8	5.3	6.3
EBITDA	(48.3)	97.0	16.9	7.0	5.4
Adjusted EPS	(54.3)	143.0	12.2	8.3	6.8
Profitability & Return ratios (%)					
EBITDA margin	8.7	15.3	16.4	16.6	16.5
EBIT margin	6.5	13.4	13.8	14.1	14.1
Adjusted profit margin	5.0	10.9	11.1	11.4	11.5
Adjusted ROAE	7.9	14.0	14.9	14.3	13.7
ROCE	7.9	17.3	17.2	16.7	16.0
Working capital days (days)					
Receivables	18	16	15	14	13
Inventory	34	34	34	34	34
Payables	99	114	116	118	120
Ratios (x)					
Gross asset turnover	1.8	1.3	1.4	1.4	1.4
Current ratio	1.9	1.9	2.0	2.2	2.4
Net interest coverage ratio	18.7	17.4	31.5	32.4	37.5
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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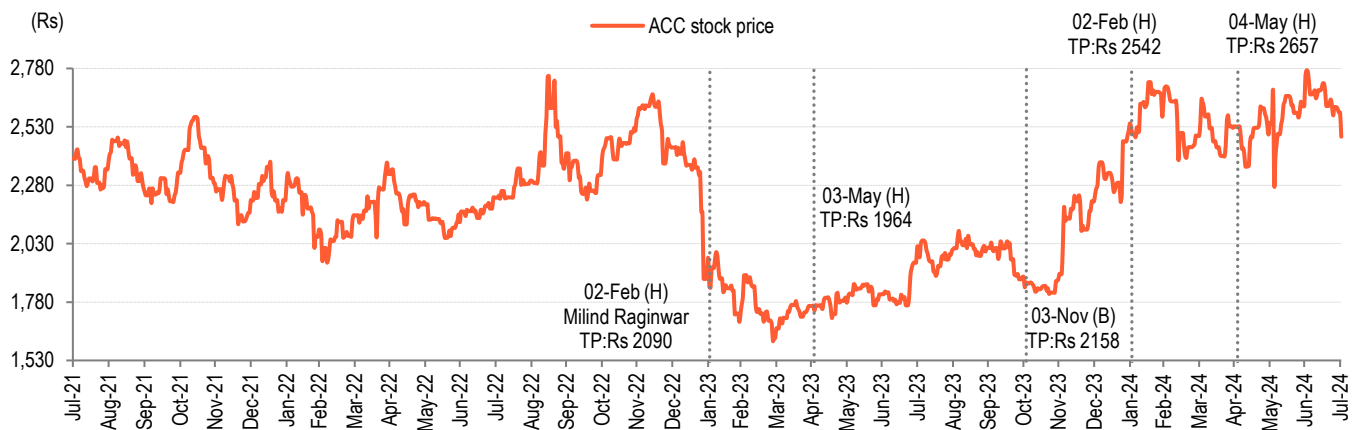
HOLD – Expected return from -6% to +15%

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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