

HOLD

TP: Rs 2,398 | ▲ 5%

ACC

| Cement

| 28 October 2024

1H below expectations, headroom for improvement

- Q2FY25 revenue grew 4% YoY as 15% uptick in volume (supported by inorganic growth) was offset by realisation drop of 6%
- External purchases and inflated raw material dragged EBITDA margin by 305bps YoY to 9.3% and EBITDA/t to below Rs 500
- Retain HOLD as we continue to value ACC at 10x 1-year forward EV/EBITDA, and forecast FY27 EBITDA margin at ~16.0%

Soft realisations keep revenue listless: ACC reported ~4% revenue growth YoY (-11% QoQ) in Q2FY25 at ~Rs 46bn, backed by volume growth of ~15% YoY (-9% QoQ) to 9.3mn tonnes (including MSA sales) supported by increase in premium products and aided by inorganic growth (indirectly). Realisations fell 9%/2% YoY/QoQ to Rs 4,680/t. Revenue from ACC's ready-mix concrete (RMC) segment dropped ~6%/12% YoY/QoQ to ~Rs 3.0bn, with EBIT gain of Rs 44mn.

Inflated raw material cost drags EBITDA margin: Operating cost increased ~8%/2% YoY/QoQ to Rs 4,493/t owing to inflated raw material consumption. Energy costs (adjusted for inventory) rose by 22%/12% YoY/QoQ to Rs 1,942/t and was offset by logistics costs decline of 13.0% YoY (fall of 5% QoQ) to Rs 1,020/t aided by supply agreements with ACEM. Other expenditure fell 15.0% YoY (flat QoQ) to Rs 4.72bn. Effectively, EBITDA/t fell to Rs 462/t from Rs 677 YoY (Rs 654 in Q1FY25), and operating margin dropped to 9.3%, down ~300bps YoY.

Capacity expansion on track: Clinker expansion at Maratha (Maharashtra) will be operational by Q3FY26. 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 timelines.

Maintain HOLD due to limited upside: Factoring in ACC's H1FY25 below-par performance despite master supply agreement (MSA)-led synergies and focus on cost savings, we lower our FY25E/FY26E/FY27E EBITDA forecasts by ~17%/9%/8%. With limited capacity available in FY26 and intense competitive pressure, we have lowered our FY26 EBITDA estimate too. Our EBITDA/PAT three-year (FY24-FY27E) CAGR is 7%/6% due to limited capacity headroom, although 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 2,398 (from Rs 2,569). This implies a replacement cost of Rs 8.9bn/mt – a ~25% premium to the industry average. However, the stock offers limited upside, hence, we retain our HOLD rating.

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ACC IN/Rs 2,289
Market cap	US\$ 5.1bn
Free float	43%
3M ADV	US\$ 10.9mn
52wk high/low	Rs 2,844/Rs 1,803
Promoter/FPI/DII	57%/12%/19%

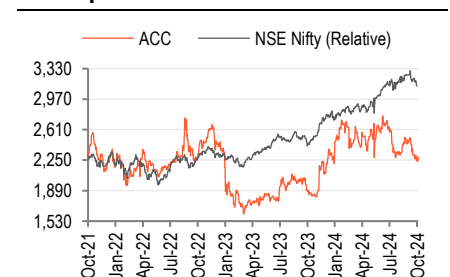
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	1,95,710	2,05,332	2,17,087
EBITDA (Rs mn)	30,576	29,772	34,740
Adj. net profit (Rs mn)	21,242	18,950	22,952
Adj. EPS (Rs)	113.0	100.8	122.1
Consensus EPS (Rs)	113.0	103.0	129.6
Adj. ROAE (%)	14.0	12.0	13.0
Adj. P/E (x)	20.3	22.7	18.7
EV/EBITDA (x)	13.3	13.1	9.8
Adj. EPS growth (%)	143.0	(10.8)	21.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Key quarterly metrics

(Rs)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	Q2FY25E	Deviation (%)
Volumes (mn mt)	9.3	8.1	14.8	10.20	(8.8)	8.2	13.7
Cement realisations (Rs/t)	4,680	5,125	(8.7)	4,757	(1.6)	4,747	(1.4)
Operating costs (Rs/t)	4,493	4,798	(6.3)	4,391	2.3	4,520	(0.6)
EBITDA/t (Rs)	462.0	677.0	(31.8)	664.0	(30.5)	566.0	(18.4)

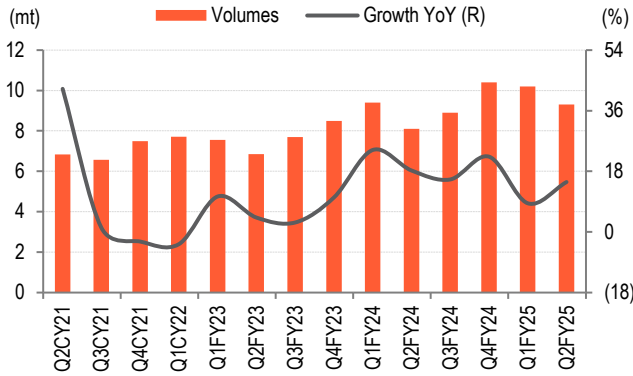
Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	Q2FY25E	Deviation (%)
Net sales	46,080	44,347	3.9	51,556	(10.6)	41,605	10.8
Expenditure							
Change in stock	918	643	42.7	(386)	(337.9)	(255)	-
Raw material	9,124	7,192	26.9	10,043	(9.2)	8,140	12.1
Purchased products	8,021	5,110	57.0	7,993	0.3	6,250	28.3
Power & fuel	7,721	8,857	(12.8)	9,890	(21.9)	7,813	(1.2)
Freight	9,490	9,533	(0.5)	10,969	(13.5)	8,623	10.1
Employee costs	1,790	1,948	(8.1)	1,601	11.8	1,634	9.5
Other exp	4,725	5,581	(15.3)	4,673	1.1	4,770	(0.9)
Total Operating Expenses	41,788	38,863	7.5	44,784	(6.7)	36,975	13.0
EBITDA	4,292	5,484	(21.7)	6,772	(36.6)	4,630	(7.3)
EBITDA margin (%)	9.3	12.4	(305bps)	13.1	(382bps)	11.1	(181bps)
Other Income	1,540	2,079	(25.9)	699	120.4	716	115.1
Interest	333	288	15.5	331	0.5	351	(5.2)
Depreciation	2,317	2,118	9.4	2,214	4.6	2,310	0.3
PBT	3,182	5,156	(38.3)	4,925	(35.4)	2,685	18.5
Non-recurring items	0	0	0.0	0	0.0	0	0.0
PBT (after non-recurring items)	3,182	5,156	(38.3)	4,925	(35.4)	2,685	18.5
Tax	843	1,313	(35.8)	1,263	(33.2)	685	23.2
Reported PAT	2,339	3,843	(39.1)	3,662	(36.1)	2,000	16.9
Adjusted PAT	2,339	3,843	(39.1)	3,662	(36.1)	2,000	16.9
NPM (%)	5.1	8.7	(359bps)	7.1	(203bps)	4.8	27bps
Adjusted EPS (Rs)	12.4	20.4	(39.1)	19.5	(36.1)	10.6	16.9

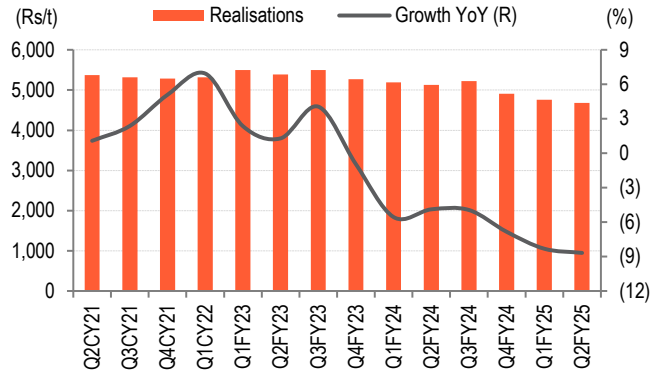
Source: Company, BOBCAPS Research

Fig 3 – Volume growth ahead of industry, supported by inorganic growth (indirect)



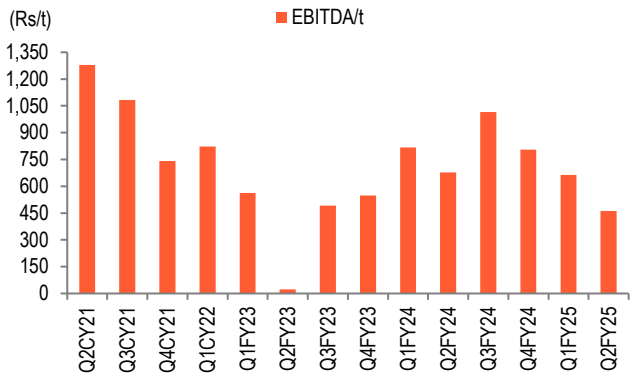
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar, thus, FY23 consists of 5 quarters

Fig 4 – Realisations stay weak due to tepid demand



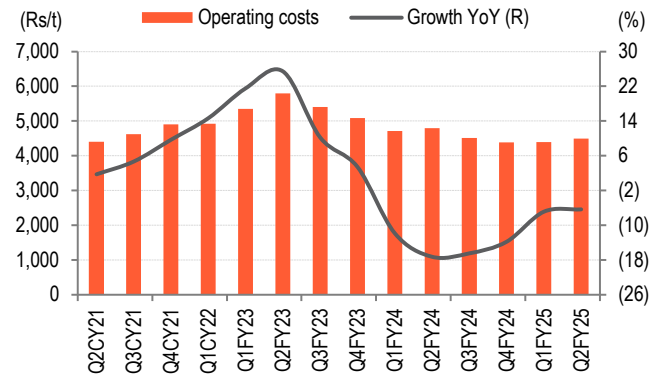
Source: Company, BOBCAPS Research

Fig 5 – EBITDA/t continues to be dragged lower by cost



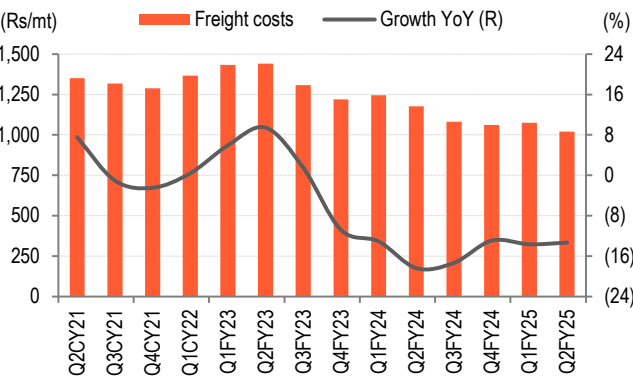
Source: Company, BOBCAPS Research

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



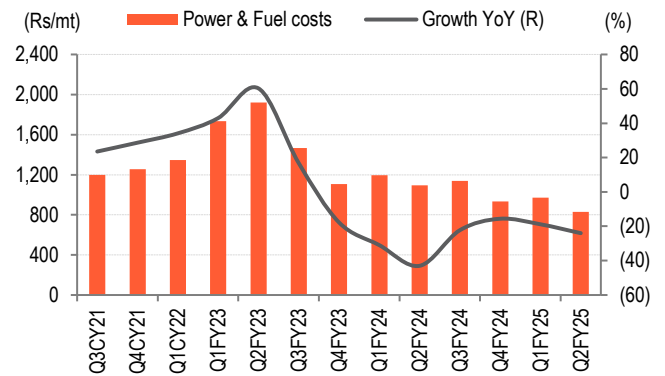
Source: Company, BOBCAPS Research

Fig 7 – Logistics cost savings the only respite



Source: Company, BOBCAPS Research

Fig 8 – Power cost savings leave further room for improvement



Source: Company, BOBCAPS Research

Valuation methodology

Factoring in ACC's H1FY25 below-par performance despite master supply agreement (MSA)-led synergies and focus on cost savings, we lower our FY25/FY26/FY27 EBITDA forecasts by ~17%/9%/8%. With limited capacity available in FY26 and intense competitive pressure, we have cut our FY26 EBITDA estimate too. Our EBITDA/PAT three-year (FY24-FY27E) CAGR is 7%/6% due to limited capacity headroom, although 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 2,398 (from Rs 2,569). This implies a replacement cost of Rs 8.9bn/mt – a ~25% premium to the industry average. However, the stock offers limited upside, 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	2,05,332	2,17,087	2,30,888	2,14,983	2,26,294	2,40,633	(4.5)	(4.1)	(4.0)
EBITDA	29,772	34,740	37,237	35,737	38,227	40,301	(16.7)	(9.1)	(7.6)
Adj PAT	18,950	22,952	25,055	23,841	25,811	27,568	(20.5)	(11.1)	(9.1)
Adj EPS (Rs)	100.8	122.1	133.3	126.8	137.3	146.6	(20.5)	(11.1)	(9.1)

Source: BOBCAPS Research

Fig 10 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	36.8	37.73	38.86	40.03
Realisations (Rs/mt)	5,143	4,809	4,930	5,066
Operating costs (Rs/mt)	4,791	4,742	4,786	4,932
EBITDA/mt (Rs)	1,028	770	770	810

Source: Company, BOBCAPS Research

Fig 11 – Valuation summary

Business (Rs mn)	FY27E
Target EV/EBITDA (x)	10
EBITDA	37,237
Target EV	3,88,752
Total EV	3,88,752
Net debt	(86,573)
Target market capitalisation	4,75,324
Target price (Rs/sh)	2,398.0
Weighted average shares (mn)	188

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

Fig 12 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
ACC IN	HOLD	2,398	13.2	11.5	9.5	126.0	115.9	104.8	12.0	13.0	13.0	14.0	15.4	15.2
ACEM IN	HOLD	667	14.7	15.2	13.9	193.0	183.0	175.0	9.3	10.0	10.1	11.7	13.0	13.2
UTCEM IN	BUY	12,469	22.0	17.2	14.3	274.4	238.5	218.8	11.9	14.5	16.2	15.1	18.3	20.3
SRCM IN	HOLD	25,422	21.8	22.4	18.0	182	179	172	8.1	11.0	12.9	10.4	14.0	16.2

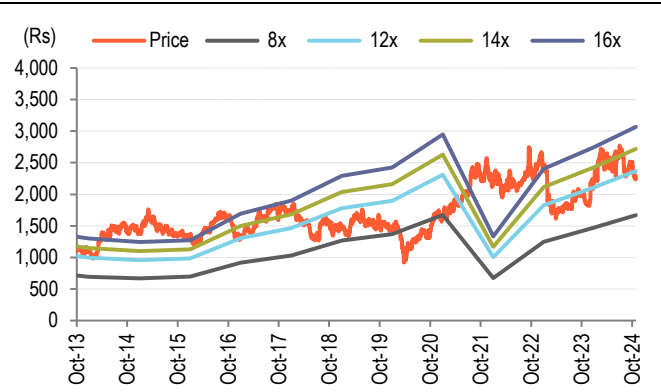
Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

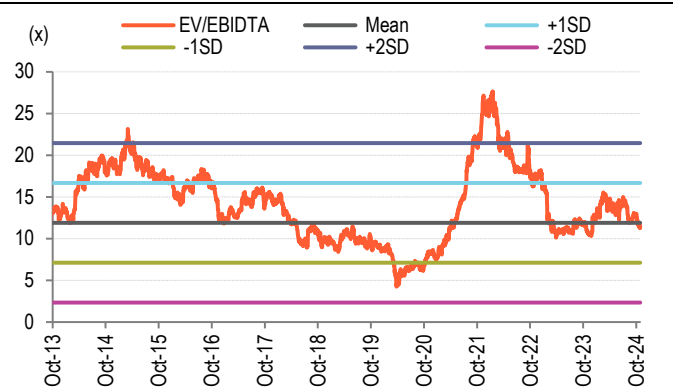
- faster-than-expected capacity addition helping volume growth;
- further higher-than-expected easing of costs; and,
- fierce competitive intensity putting pressure on pricing.

Fig 13 – EV/EBITDA band: We value ACC at 10x 1-yr forward earnings



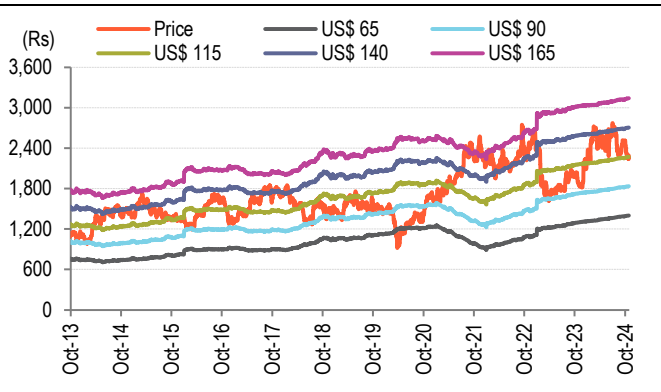
Source: Company, Bloomberg, BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: Limited upside potential



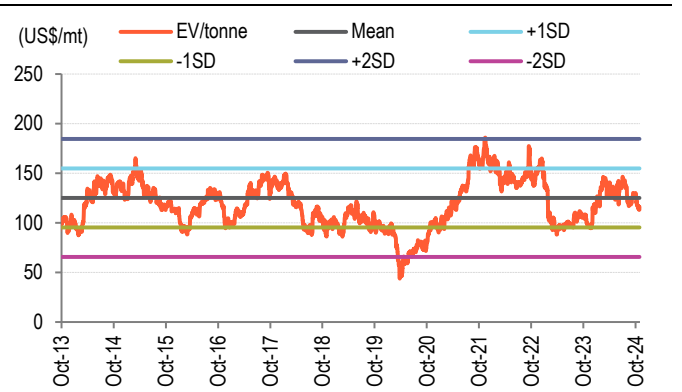
Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – EV/tonne: Trades at a premium to replacement cost



Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: Expect reversion to mean



Source: Company, Bloomberg, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	2,17,883	1,95,710	2,05,332	2,17,087	2,30,888
EBITDA	19,400	30,576	29,772	34,740	37,237
Depreciation	(8,351)	(8,763)	(10,415)	(10,926)	(11,455)
EBIT	14,421	26,729	24,064	28,992	31,476
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	23,110	27,991	30,555
Income taxes	(2,723)	(3,948)	(4,160)	(5,038)	(5,500)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	9,309	21,242	18,950	22,952	25,055
Adjustments	1,618	0	0	0	0
Adjusted net profit	10,926	21,242	18,950	22,952	25,055

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	43,868	52,971	57,078	60,361	65,147
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	1,72,618	1,90,450	2,10,384
Shareholders' fund	1,40,430	1,60,220	1,74,498	1,92,330	2,12,264
Total liab. and equities	2,04,086	2,28,997	2,49,619	2,71,871	2,97,837
Cash and cash eq.	2,868	24,298	41,318	57,508	80,419
Accounts receivables	8,747	8,412	8,263	8,142	8,027
Inventories	16,235	18,429	19,194	20,144	21,267
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	2,49,619	2,71,871	2,97,837

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	(39,898)	45,103	32,460	31,870	35,592
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	(7,980)	(3,810)	(2,089)
Closing cash & cash eq.	2,868	24,298	41,318	57,508	80,419

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	39.6	113.0	100.8	122.1	133.3
Adjusted EPS	46.5	113.0	100.8	122.1	133.3
Dividend per share	46.4	9.2	21.0	23.0	23.0
Book value per share	747.0	852.3	928.2	1,023.1	1,129.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.6	2.1	1.9	1.6	1.5
EV/EBITDA	18.4	13.3	13.1	9.8	9.1
Adjusted P/E	49.2	20.3	22.7	18.7	17.2
P/BV	3.1	2.7	2.5	2.2	2.0

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	96.0	96.5	97.1
EBIT margin (EBIT/Revenue)	6.6	13.7	11.7	13.4	13.6
Asset turnover (Rev./Avg TA)	113.1	89.3	90.5	86.7	84.3
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.4
Adjusted ROAE	7.9	14.0	12.0	13.0	13.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	10.2	12.3	4.9	5.7	6.4
EBITDA	(48.3)	97.0	(2.6)	16.7	7.2
Adjusted EPS	(54.3)	143.0	(10.8)	21.1	9.2
Profitability & Return ratios (%)					
EBITDA margin	8.7	15.3	14.3	15.7	15.9
EBIT margin	6.5	13.4	11.5	13.1	13.4
Adjusted profit margin	5.0	10.9	9.2	10.6	10.9
Adjusted ROAE	7.9	14.0	12.0	13.0	13.0
ROCE	7.9	17.3	14.0	15.4	15.2
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	1.3	1.4	1.4
Current ratio	1.9	1.9	2.0	2.1	2.3
Net interest coverage ratio	18.7	17.4	25.2	29.0	34.2
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

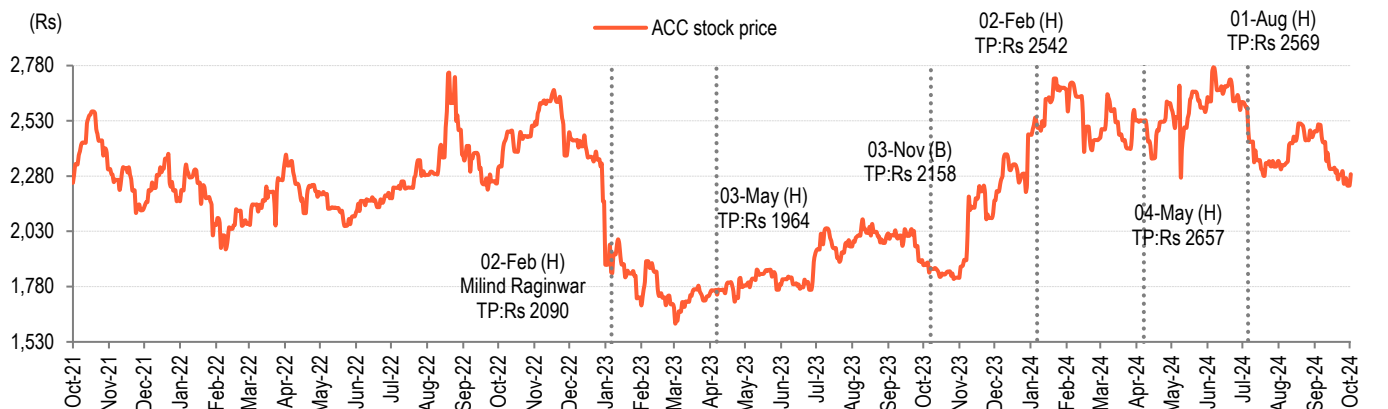
HOLD – Expected return from -6% to +15%

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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