

HOLD

TP: Rs 2,657 | ▲ 5%

ACC

| Cement

| 04 May 2024

Healthy performance largely priced in; maintain HOLD

- Q4 revenue growth of 13% YoY boosted by 22% uptick in volumes (unadjusted to MSA) while realisations moderated ~7%
- Cost-saving initiatives saw a healthy climb in EBITDA margin YoY on weak base declines ~300bps QoQ to 15.5%
- We raise FY25E/FY26E EPS by 3%/5% and TP to Rs 2,657 (from Rs 2,542), valuing ACC at 10x FY26E EV/EBITDA. Maintain HOLD

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Healthy volume growth as realisations moderate: ACC reported an 13% YoY (+10% QoQ) increase in Q4FY24 revenue to ~Rs 54bn backed by healthy volume growth of 22% YoY (+17% QoQ) to 10.4mn tonnes. This includes ~2.0mt of sales to ACEM under the master supply agreement or MSA. Q4 realisations fell 7%/6% YoY /QoQ to Rs 4,908/t. Revenue from ACC's ready-mix concrete (RMC) segment dropped 7% YoY (+6% QoQ) to Rs 3.2bn, with segmental gain at Rs 169mn.

Cost savings continue: Operating cost softened ~14% YoY (-3% QoQ) to Rs 4,389/t owing to lower energy and logistics costs. Energy costs (adjusted for inventory) fell by 9% YoY (+12% QoQ) to Rs 1,689/t due to lower pet coke prices and management's cost reduction initiatives, while logistics costs declined 13% YoY (-2% QoQ) to Rs 1,062/t aided by supply agreements with ACEM. Consequently, EBITDA/t jumped to Rs 805 from lows of Rs 549 in Q4FY23 (Rs 1,015 in Q3FY24), and operating margin expanded to 15.5% off a low base.

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 become operational by Q4FY25 and Q1FY26 respectively. The expansion is on track, with no change in the timelines

Upsides capped – Maintain HOLD: Factoring in ACC's healthy FY24 performance contributed by MSA-led synergies and a focus on cost savings, we raise our FY25/FY26 EPS forecasts by 3%/5%. We continue to value ACC at 10x EV/EBITDA FY26 earnings and arrive at a revised TP of Rs 2,657 (from Rs 2,542). This implies a replacement cost of Rs 9.2bn/mt – a 30% premium to the industry average given ACC's pan-India presence, size (38mt) and operating efficiencies. However, the stock continues to trade at a premium and offers limited upside. Maintain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ACC IN/Rs 2,531
Market cap	US\$ 5.8bn
Free float	43%
3M ADV	US\$ 13.5mn
52wk high/low	Rs 2,746/Rs 1,704
Promoter/FPI/DII	57%/12%/19%

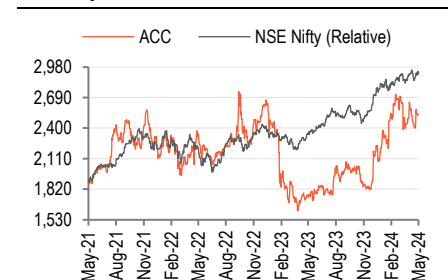
Source: NSE | Price as of 3 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	1,99,522	2,07,736	2,25,713
EBITDA (Rs mn)	33,831	36,376	40,638
Adj. net profit (Rs mn)	21,243	22,585	25,663
Adj. EPS (Rs)	113.0	120.1	136.5
Consensus EPS (Rs)	113.0	120.0	137.0
Adj. ROAE (%)	14.0	14.2	14.3
Adj. P/E (x)	22.4	21.1	18.5
EV/EBITDA (x)	13.2	11.5	9.5
Adj. EPS growth (%)	143.0	6.3	13.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional | 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

Particulars	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Volumes (mn mt)	10.4	8.5	22.4	8.9	16.9
Cement realisations (Rs/mt)	4,908	5,269	(6.8)	5,225	(6.1)
Operating costs (Rs/mt)	4,386	5,088	(13.8)	4,511	(2.8)
EBITDA/t (Rs/mt)	805	549	46.7	1,015	(20.7)

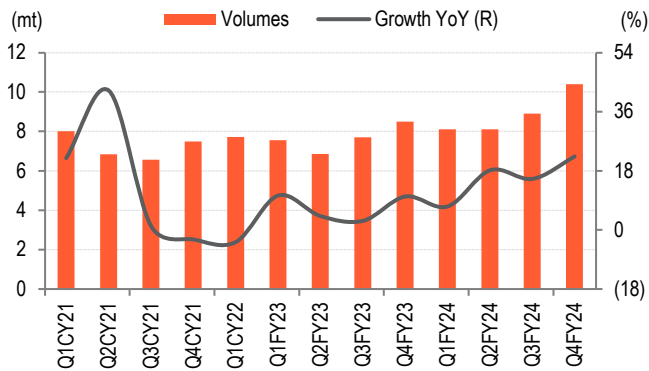
Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	4QFY24	4QFY23	YoY %	3QFY24	QoQ %
Net Sales	53,981	47,908	12.7	49,183	9.8
Expenditure					
Change in stock	(972)	(1,568)	(38.0)	768	(226.6)
Raw material	8,666	7,292	18.8	7,645	13.4
Purchased products	7,929	6,918	14.6	6,547	21.1
Power & fuel	9,721	9,420	3.2	10,136	(4.1)
Freight	11,044	10,363	6.6	9,629	14.7
Employee costs	1,636	2,121	(22.8)	1,783	(8.2)
Other expenditure	5,643	5,564	1.4	5,180	8.9
Total Operating Expenses	43,667	40,109	8.9	41,688	4.7
EBITDA	10,314	7,799	32.3	7,496	37.6
EBITDA margin (%)	15.5	9.7	577bps	18.4	(286bps)
Other Income	1,215	1,173	3.6	839	44.8
Interest	660	152	333.1	339	94.8
Depreciation	2,311	1,741	32.7	2,343	(1.4)
PBT	6,615	3,942	67.8	7,189	(8.0)
Non-recurring items	2,572	0	0.0	0	0.0
PBT (after non-recurring items)	6,615	3,278	101.8	7,189	(8.0)
Tax	1,702	912	86.6	1,914	(11.1)
Reported PAT	4,913	2,366	107.7	5,275	(6.9)
Adjusted PAT	7,485	2,366	216.4	5,275	41.9
NPM (%)	13.9	4.9	893bps	10.7	314bps
Adjusted EPS (Rs)	26.1	16.1	62.2	28.1	(6.9)

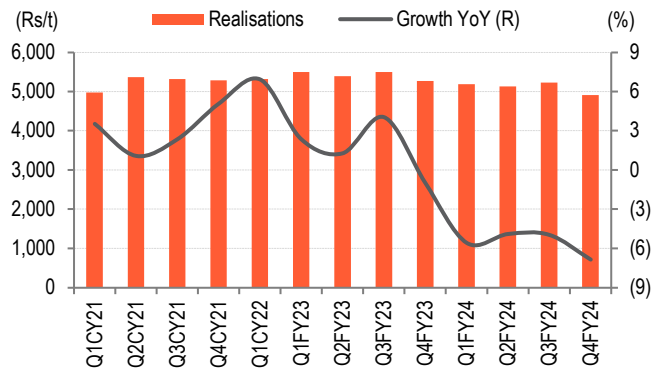
Source: Company, BOBCAPS Research

Fig 3 – Volume boosts from MSA



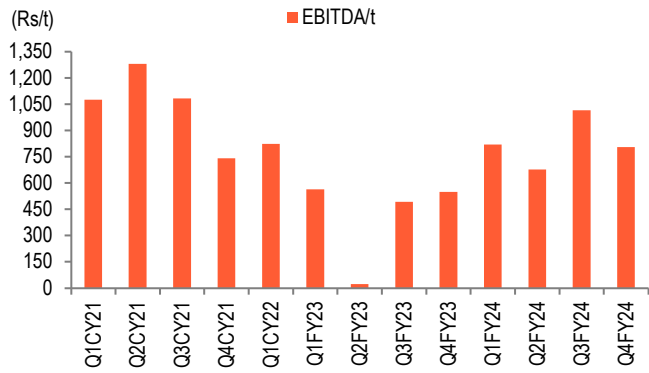
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar, thus, FY23 consists of 5 quarters

Fig 4 – Tepid demand keeps realisations weak



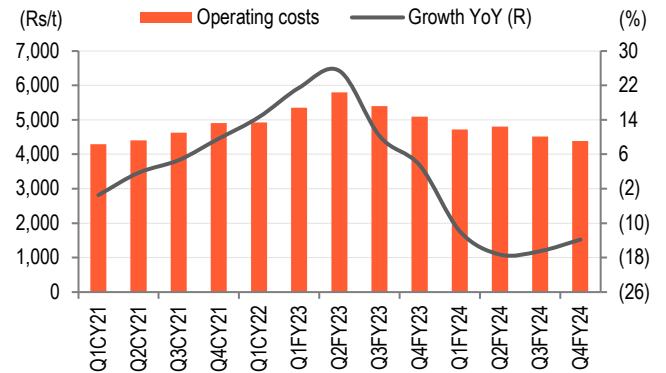
Source: Company, BOBCAPS Research

Fig 5 – EBITDA/t surges off a low base



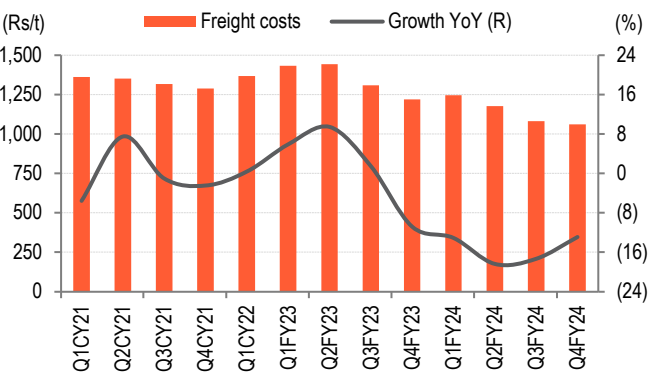
Source: Company, BOBCAPS Research

Fig 6 – MSA helps cut costs



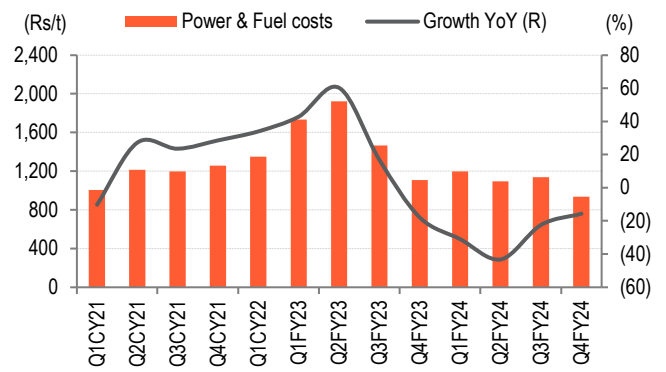
Source: Company, BOBCAPS Research

Fig 7 – Logistics cost savings commendable



Source: Company, BOBCAPS Research

Fig 8 – Power cost helps energy cost savings



Source: Company, BOBCAPS Research

Valuation methodology

Factoring in ACC's healthy FY24 performance contributed by MSA-led synergies and a focus on cost savings, we raise our FY25/FY26 EPS forecasts by 3%/5%. We continue to value ACC at 10x EV/EBITDA FY26 earnings and arrive at a revised TP of Rs 2,657 (from Rs 2,542).

Our TP implies a replacement cost of Rs 9.2bn/mt – a 30% premium to the industry average given ACC's pan-India presence, size (38mt) and operating efficiencies. However, the stock continues to trade at a premium and offers limited upside – maintain HOLD.

Fig 9 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	2,07,736	2,25,713	2,07,853	2,24,865	(0.1)	0.4
EBITDA	36,376	40,638	35,673	38,939	2.0	4.4
Adj PAT	22,585	25,663	22,061	24,398	2.4	5.2
Adj EPS (Rs)	120.1	136.5	117.4	129.8	2.3	5.2

Source: BOBCAPS Research

Fig 10 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	38.5	32.61	35.57	37.71
Realisations (Rs/mt)	5169	5143	5169	5298
Operating costs (Rs/mt)	6,802	5,149	4,885	4,978
EBITDA/mt (Rs)	467.9	829.0	980.6	1049.3

Source: Company, BOBCAPS Research

Fig 11 – Valuation summary

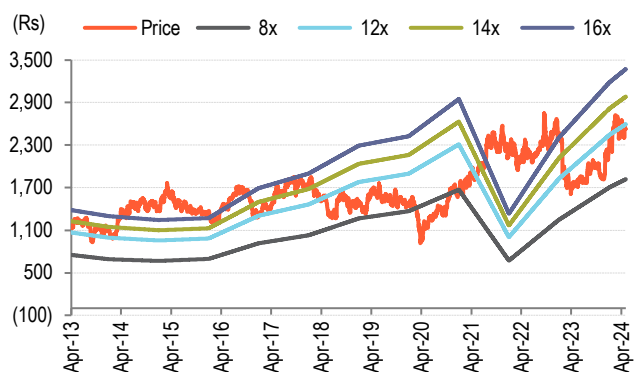
Business (Rs mn)	FY25E
Target EV/EBITDA (x)	10
EBITDA	40,638
Target EV	4,16,541
Total EV	4,16,541
Net debt	(82,975)
Target market capitalisation	4,99,516
Target price (Rs/sh)	2,657
Weighted average shares (mn)	188

Source: BOBCAPS Research

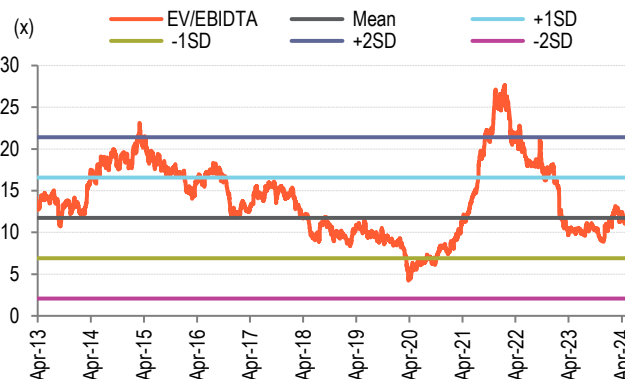
Fig 12 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E
ACC IN	HOLD	2,657	13.2	11.5	9.5	140	126	113	14.0	14.2	14.3	17.3	18.2	18.6
ACEM IN	HOLD	552	10.8	14.1	11.2	215	171	159	9.5	7.9	8.6	13.8	14.2	16.3
UTCEM IN	BUY	11,510	20.9	17.6	14.4	228.8	226.7	192.8	12.5	14.1	15.8	14.4	17.6	19.7
SRCM IN	HOLD	27,836	36.7	22.1	17.8	208	207	202	7.5	11.7	12.4	9.4	15.3	16.6

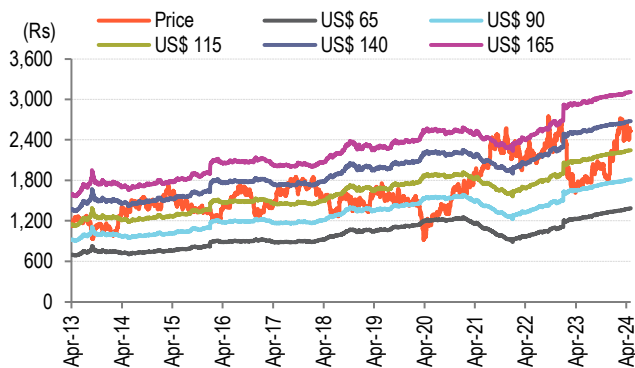
Source: BOBCAPS Research

Fig 13 – EV/EBITDA band: We value ACC at 10x on FY26E

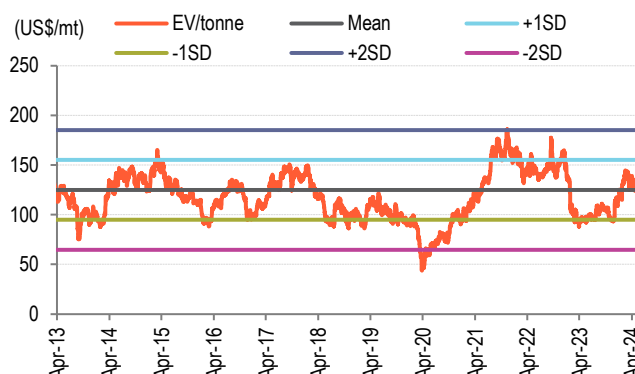
Source: Company, Bloomberg, BOBCAPS Research

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

Key risks

Key upside/downside risks to our estimates are:

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

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.8	2,531	2,657	HOLD
Ambuja Cements	ACEM IN	15.0	622	552	HOLD
Dalmia Bharat	DALBHARA IN	4.0	1,796	2,346	BUY
JK Cement	JKCE IN	3.7	3,977	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.1	797	637	SELL
Orient Cement	ORCMNT IN	0.5	220	147	SELL
Shree Cement	SRCM IN	11.3	25,747	27,836	HOLD
Star Cement	STRCEM IN	1.2	236	193	HOLD
The Ramco Cements	TRCL IN	2.2	772	728	SELL
Ultratech Cement	UTCEN IN	34.5	9,816	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 3 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24P	FY25E	FY26E
Total revenue	1,58,144	2,17,883	1,99,522	2,07,736	2,25,713
EBITDA	30,004	19,400	33,831	36,376	40,638
Depreciation	(5,973)	(8,351)	(8,763)	(9,697)	(10,253)
EBIT	26,078	14,421	26,729	31,638	35,841
Net interest inc./(exp.)	(546)	(772)	(1,538)	(1,323)	(1,393)
Other inc./(exp.)	2,048	3,372	1,661	4,959	5,455
Exceptional items	(548)	(1,618)	0	0	0
EBT	24,984	12,031	25,191	30,315	34,448
Income taxes	(6,401)	(2,723)	(3,948)	(7,730)	(8,784)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	18,583	9,309	21,243	22,585	25,663
Adjustments	548	1,618	0	0	0
Adjusted net profit	19,131	10,926	21,243	22,585	25,663

Balance Sheet

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24P	FY25E	FY26E
Accounts payables	40,320	43,868	46,119	48,653	53,592
Other current liabilities	20,458	13,592	24,705	26,355	28,171
Provisions	2,300	1,863	(6,590)	1,331	1,341
Debt funds	0	0	0	0	0
Other liabilities	3,827	4,331	4,543	4,600	4,667
Equity capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	1,40,550	1,38,696	1,58,340	1,76,253	1,96,796
Shareholders' fund	1,42,285	1,40,430	1,60,219	1,78,133	1,98,675
Total liab. and equities	2,09,191	2,04,086	2,28,997	2,59,072	2,86,446
Cash and cash eq.	74,042	2,868	28,524	57,895	81,048
Accounts receivables	4,892	8,747	8,412	8,189	8,280
Inventories	12,733	16,235	18,429	19,045	20,538
Other current assets	35,961	82,615	69,711	74,871	75,212
Investments	1,927	1,927	1,927	1,927	1,927
Net fixed assets	66,492	73,113	81,492	81,854	81,050
CWIP	12,408	16,831	20,312	15,000	18,000
Intangible assets	736	1,750	190	290	390
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,09,190	2,04,085	2,28,997	2,59,072	2,86,446

Cash Flows

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	31,108	(39,898)	43,262	37,040	38,834
Capital expenditures	(13,342)	(20,113)	(17,691)	(2,998)	(10,560)
Change in investments	2,349	2,652	(11,013)	(25,000)	(25,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(10,994)	(17,461)	(28,704)	(27,998)	(35,560)
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	(2,629)	(10,892)	(2,856)	(4,614)	(5,054)
Other financing cash flows	(5)	(271)	2,941	(57)	(67)
Cash flow from financing	(2,634)	(11,163)	85	(4,671)	(5,121)
Chg in cash & cash eq.	17,480	(68,522)	14,643	4,371	(1,847)
Closing cash & cash eq.	74,042	2,868	28,524	57,895	81,048

Per Share

Y/E 31 Mar (Rs)	CY21A	FY23A	FY24P	FY25E	FY26E
Reported EPS	98.9	39.6	113.0	120.1	136.5
Adjusted EPS	101.8	46.5	113.0	120.1	136.5
Dividend per share	14.0	46.4	20.0	21.0	23.0
Book value per share	756.9	747.0	852.3	947.6	1,056.8

Valuations Ratios

Y/E 31 Mar (x)	CY21A	FY23A	FY24P	FY25E	FY26E
EV/Sales	2.6	2.2	2.2	2.0	1.7
EV/EBITDA	13.9	24.4	13.2	11.5	9.5
Adjusted P/E	24.9	54.4	22.4	21.1	18.5
P/BV	3.3	3.4	3.0	2.7	2.4

DuPont Analysis

Y/E 31 Mar (%)	CY21A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.4	77.4	84.3	74.5	74.5
Interest burden (PBT/EBIT)	97.9	94.6	94.2	95.8	96.1
EBIT margin (EBIT/Revenue)	16.5	6.6	13.4	15.2	15.9
Asset turnover (Rev./Avg TA)	83.2	113.1	91.1	89.7	87.6
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.5	1.4
Adjusted ROAE	14.8	7.9	14.0	14.2	14.3

Ratio Analysis

Y/E 31 Mar	CY21A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	17.3	10.2	14.5	4.1	8.7
EBITDA	20.9	(48.3)	118.0	7.5	11.7
Adjusted EPS	31.9	(54.3)	143.0	6.3	13.6
Profitability & Return ratios (%)					
EBITDA margin	18.6	8.7	16.7	17.2	17.7
EBIT margin	16.1	6.5	13.2	15.0	15.6
Adjusted profit margin	12.1	5.0	10.6	10.9	11.4
Adjusted ROAE	14.8	7.9	14.0	14.2	14.3
ROCE	18.9	7.9	17.3	18.2	18.6
Working capital days (days)					
Receivables	11	18	15	14	13
Inventory	29	34	34	33	33
Payables	112	99	100	102	104
Ratios (x)					
Gross asset turnover	1.5	1.8	1.5	1.5	1.5
Current ratio	2.0	1.9	1.9	2.1	2.2
Net interest coverage ratio	47.7	18.7	17.4	23.9	25.7
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

BUY – Expected return >+15%

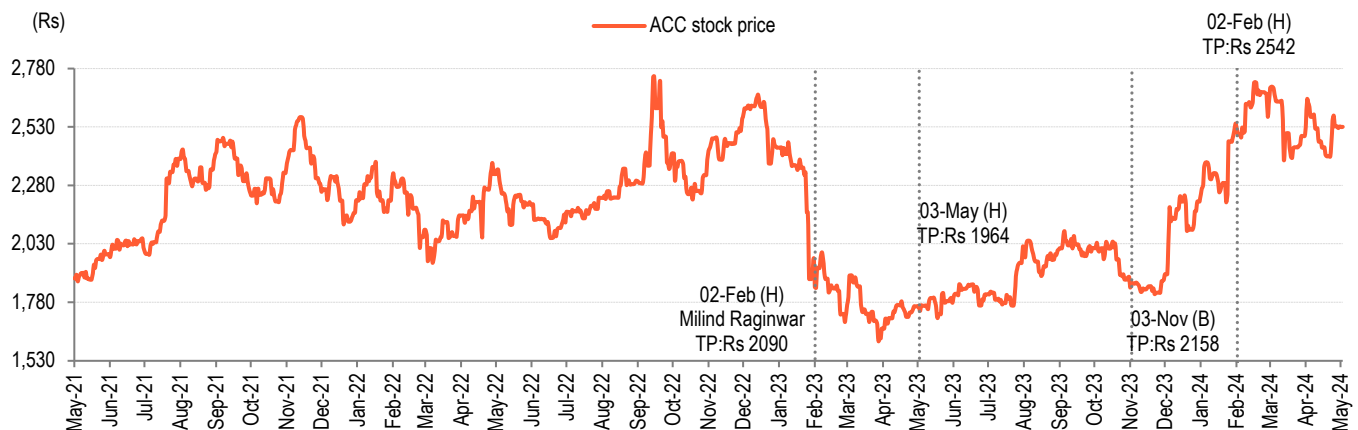
HOLD – Expected return from -6% to +15%

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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