Q1CY19 – Result Update

NALANDA RESEARCH

Institutional Research

April 24, 2018

ACC Ltd.

Q1CY19 Result Update

Volume growth remained strong but miss on EBITDA and price realization

The volumes in Q1CY19 stood at 7.5 mn tons registering a growth of 5.6% y-o-y. Although the industry has been plagued with rising input costs, the company has managed to curb this inflationary environment by optimizing its expenses. Post commissioning of its plants in the Jamul and Sindri, the company has benefited with the Eastern region and further plans to expand capacities. Reported EBITDA of INR 531.7 crore and blended realization of INR 5133/ton was sharply below street estimates.

Price hikes along with volume growth led to increase in revenues

The company recorded volume growth of 5.6% coupled with price hikes in its key markets have led to a top-line growth of 8% y-o-y and 1% q-o-q. Revenue for the quarter stood at INR 3919.11 crore driven by a blended realization of INR 5133/ton (up by 2.5% y-o-y).

Strong operational efficiencies keeps cost at bay

The company has been affected due to rising pet-coke and slag prices. This has been exacerbated due to the unavailability of rakes for non-power sector, which has also limited the supply of FSA linkage coal and cheap slag. However, ACC has efficiently managed its overall expenditure, through raw-mix and source-mix optimization, route optimization leading to a reduction in average lead distance of 2% as well as a robust control on fixed assets.

Capacity expansion to be funded by internal accruals

The company is planning to add capacity of 6mt at a total capex of INR 3000 crore (USD71/t) which is expected to come on stream over the next three years. This will be funded by internal accruals and help the company to protect its market share in the central and eastern regions.

Valuations

With the Government's increased focus on rural and affordable housing, as well as infrastructure development, we expect increased volumes to sustain. Four (Bihar, West Bengal, Orissa, Jharkhand) of the top ten beneficiaries of Government housing schemes lie in the Eastern region, where ACC has recently expanded its capacity. Cost control initiatives pursued by the company, such as using alternate fuels and higher mix of premium products is expected to further boost margins. We remain positive on the stock and maintain our target price of INR 1742 giving an upside of 5%. (i.e. valuing the stock at CY20E EV/Ton of $110/Ton, 11x CY20E EV/EBITDA). We believe stock should be added on dips as there has been another round of price hikes in April which bodes well for the company.

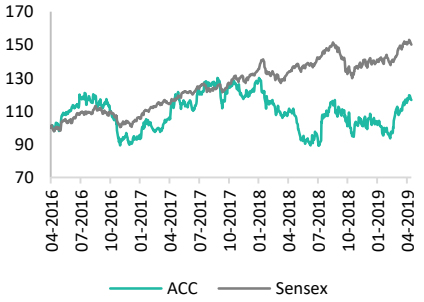
HOLD*

Downside Scenario	Last Closing Price	Price Target	Upside Scenario
	1661	1742	
		5% ▲	

Stock Details	
Industry	Cement
Sensex	38653
Nifty	11597
Bloomberg Code	ACC:IN
Eq. Cap. (INR Crores)	188
Face Value (INR)	10
52-w H/L	1256/1723
Market Cap (INR Crores)	27647

Valuation Data	CY18	CY19E	CY20E
P/E (x)	16.2	25.5	23.6
EV/EBITDA (x)	10.6	11.5	10.2
EV/Ton ($)	95.2	110.7	101.0

ACC Ltd Vs SENSEX



Shareholding Pattern	Mar'19	Dec'18	Mar'18
Promoters	54.53	54.53	54.53
FIIs	8.92	7.18	13.69
DIIs	21.6	23.62	17.75
Retail	14.95	14.67	14.03
	100.0	100.0	100.0

(INR Crores)	CY16	CY17	CY18	CY19E	CY20E
Revenue	10936	13023	14802	15832	16443
Growth%		*19%*	*14%*	*7%*	*4%*
EBITDA	1411	1909	2048	2324	2492
Growth%		*35%*	*7%*	*13%*	*7%*
Adjusted PAT	596	915	1521#	1224	1323
Growth%		*54%*	*66%*	*-20%*	*8%*
EPS (INR)	31.8	48.8	80.9	65.1	70.4
EV/EBITDA	18.1	14.7	10.6	11.5	10.2
EV/Tonne	113.6	128.7	95.2	110.7	101.0

Source: Company, NSPL Research

** Read last page for disclaimer & rating rationale*
 # Includes INR 500 crore of tax refunds from previous years

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Q1CY19 Result Analysis

(INR Crores)	Q1CY19	Q4CY18	Q1CY18	Y-o-Y	Q-o-Q
Revenue	**3919.1**	**3895.6**	**3624.6**	**8.1%**	**0.6%**
COGS	711.5	744.9	566.1	25.7%	-4.5%
Employee Expenses	200.1	215.0	198.8	0.6%	-7.0%
Power and Fuel	792.1	769.0	749.4	5.7%	3.0%
Freight and Forwarding	1056.9	1028.0	998.1	5.9%	2.8%
Other Expenses	626.9	650.9	620.3	1.1%	-3.7%
Total Expenses	**3387.4**	**3407.8**	**3132.7**	**8.1%**	**-0.6%**
EBITDA	**531.7**	**487.8**	**491.9**	**8.1%**	**9.0%**
Depreciation	147.6	155.2	148.3	-0.5%	-4.9%
Other Income	156.6	30.0	47.4	230.7%	421.8%
EBIT	**540.7**	**362.6**	**391.0**	**38.3%**	**49.1%**
Finance Cost	20.9	22.4	18.2	14.5%	-6.7%
PBT	**519.9**	**340.3**	**372.8**	**39.5%**	**52.8%**
Taxes	173.9	-392.1	122.4	42.0%	-144.3%
Net Profit	**346.0**	**732.4**	**250.4**	**38.2%**	**-52.8%**

Source: Company, NSPL Research

- The company's net sales grew 8.1% y-o-y and 0.6% q-o-q to INR 3919.1 crore.
- EBITDA for the company grew by 8.1% y-o-y & 9.0% q-o-q to INR 531.7 crore. EBITDA Margins stood at 13.6% as against 12.5% in Q4CY18.
- Blended EBITDA/Ton for the quarter grew by 2.3% y-o-y to INR 708.9/ton.
- Total cement volumes for the quarter stood at 7.5 mn tons. The cement volumes grew at 5.6% y-o-y, and RMX volumes grew at 19% y-o-y.
- PAT grew by 38.2% y-o-y and declined by 52.8% q-o-q to INR 346 crore. There was an exceptional tax benefit of INR 500 crore in the previous quarter which spurted the profitability.
- Blended Realization/ Ton grew by 2.5% y-o-y to INR 5133/ton.
- Management guided that capacity utilization improved during the quarter.
- Eight new plants of Ready Mix Concrete (RMC) were commissioned in the quarter taking the total number of plants to 80.
- Management predicts a normal monsoon which should augur well for the rural economy. The government continued thrust on infrastructure development as well as housing for all initiatives are expected to stimulate cement demand.

Per ton Analysis

	Q1CY19	Q4CY18	Q1CY18	Y-o-Y	Q-o-Q
Revenue per ton	**5133**	**5051**	**5010**	**2.5%**	**1.6%**
COGS per ton	949	993	797	19.0%	-4.5%
Employee Expenses per ton	267	287	280	-4.7%	-6.9%
Power and Fuel per ton	1056	1025	1055	0.1%	3.0%
Freight and Forwarding per ton	1409	1371	1406	0.2%	2.8%
Other Expenses per ton	836	868	874	-4.3%	-3.7%
EBITDA per ton	**709**	**649**	**693**	**2.3%**	**9.2%**

Source: Company, NSPL Research

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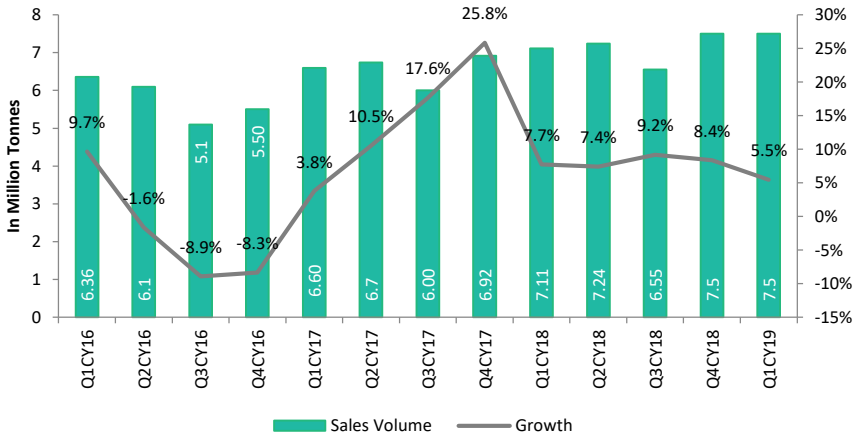
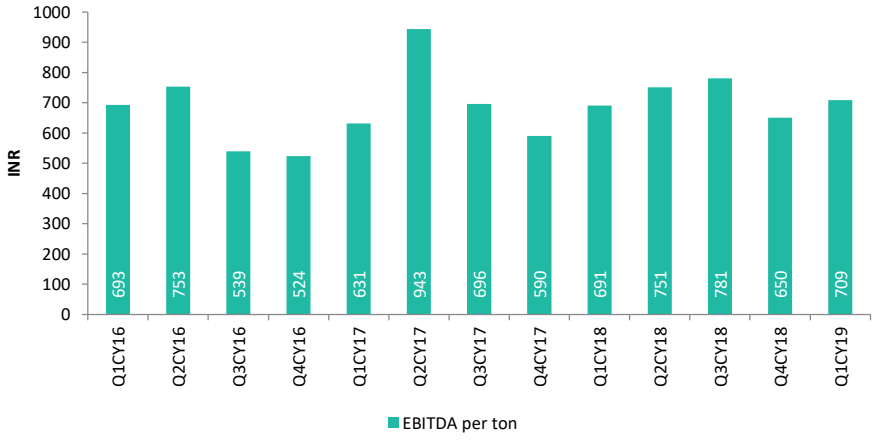
Sales Volume



Blended Realization per ton

Blended EBITDA/Ton



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Profit & Loss (INR Crores)	CY16	CY17	CY18	CY19E	CY20E
Net sales	**10936**	**13023**	**14802**	**15832**	**16443**
COGS	1694	1968	2332	2566	2822
Employee Expenses	778	819	884	972	1069
Power and fuel	2157	2714	3001	3036	3072
Transportation cost	2655	3451	3993	4116	4275
Other Expenses	2463	2423	2544	2818	2713
EBITDA	**1411**	**1909**	**2048**	**2324**	**2492**
D&A	605	640	603	640	668
Other income	113	132	143	63	66
EBIT	**919**	**1401**	**1588**	**1748**	**1890**
Interest Expense	73	102	88	0	0
PBT	**846**	**1298**	**1500**	**1748**	**1890**
Tax	206	383	-11	524	567
PAT	**596**	**915**	**1521**	**1224**	**1323**

Balance Sheet (INR Crores)	CY16	CY17	CY18	CY19E	CY20E
Share Capital	188	188	188	188	188
Reserves & Surplus	8,644	9,177	10,340	11,196	12,122
Shareholder's Funds	**8,832**	**9,365**	**10,528**	**11,384**	**12,310**
Deferred Tax Liability (Net)	447	541	663	663	663
Long term provisions	141	142	140	185	204
Non-current liabilities	**589**	**683**	**803**	**848**	**867**
Short-term borrowings	50	59	-	-	-
Trade payables	1,257	1,810	1,923	2,109	2,320
Other current liabilities	2,241	2,451	2,563	3,079	3,387
Short-term provisions	471	519	209	209	209
Current liabilities	**4,019**	**4,840**	**4,695**	**5,397**	**5,916**
Total Equity and Liabilities	**13,440**	**14,889**	**16,025**	**17,629**	**19,093**
Gross Block	14,070	14,570	15,293	15,993	16,693
Less: Accum. Depreciation	6,608	7,248	7,851	8,491	9,159
Net Fixed Assets	7,786	7,503	7,442	7,502	7,534
Non-current investments	259	226	230	230	230
Long term Loans	489	515	487	487	487
Other Non-current Assets	835	1,027	1,285	1,285	1,285
Non-current Assets	**9,368**	**9,271**	**9,443**	**9,503**	**9,536**
Inventories	1,224	1,404	1,679	1,828	2,010
Trade receivables	536	668	868	737	766
Cash and cash equivalents	1,945	2,557	3,000	4,526	5,743
Short term Loans	320	188	79	79	82
Other current assets	46	800	956	956	956
Current Assets	4,071	5,618	6,582	8,126	9,557
Total Assets	**13,440**	**14,889**	**16,025**	**17,629**	**19,093**

Source: Company, NSPL Research

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Cash Flow (INR Crores)	CY16	CY17	CY18	CY19E	CY20E
PBT	809	1,298	1,500	1,748	1,890
Depreciation & Amortization	605	640	603	640	668
(Incr)/Decr in Working Capital	1,443	1,861	2,191	2,388	2,557
Cash Flow from Operating	**1,380**	**1,555**	**1,589**	**2,593**	**2,313**
(Incr)/ Decr in Gross PP&E	-519	-534	-542	-700	-700
Cash Flow from Investing	**-539**	**-385**	**-542**	**-700**	**-700**
(Decr)/Incr in Debt	-	4	-59	-	-
Finance costs	-48	-42	-88	-	-
Dividend Paid	-320	-384	-456	-367	-397
Cash Flow from Financing	**-421**	**-422**	**-603**	**-367**	**-397**
Incr/(Decr) in Balance Sheet Cash	420	748	444	1,526	1,217
Cash at the Start of the Year	1,389	1,809	2,557	3,000	4,526
Cash at the End of the Year	**1,809**	**2,557**	**3,000**	**4,526**	**5,743**

RATIOS	CY16	CY17	CY18	CY19E	CY20E
Particulars					
EBITDA/Ton	551.6	656.3	652.3	705.9	743.1
Growth (%)					
Total Sales		11.9%	4.2%	7.0%	3.9%
EBITDA		35.3%	7.3%	13.5%	7.2%
PAT		53.5%	66.1%	-19.5%	8.1%
Profitability (%)					
EBITDA Margin	12.6%	14.4%	13.8%	14.7%	15.2%
NPM	5.3%	6.9%	10.3%	7.7%	8.0%
RoE (%)	6.8%	9.8%	14.4%	10.7%	10.7%
RoCE (%)	9.7%	13.9%	14.0%	14.3%	14.3%
Per share data / Valuation					
P/E (INR.)	45.9	33.3	16.2	25.5	23.6
EV/EBITDA (x)	18.1	14.7	10.6	11.5	10.2
EV/Ton ($)	113.6	128.7	95.2	110.7	101.0

Source: Company, NSPL Research

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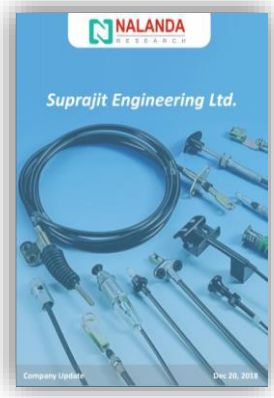

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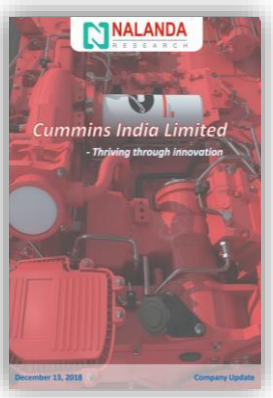

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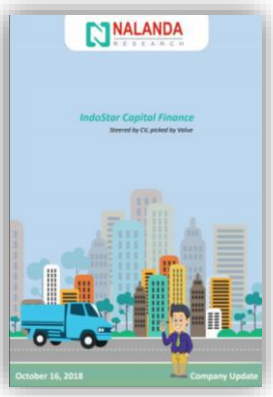

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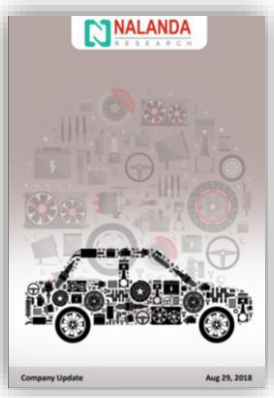

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ACC Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
April 24, 2019	1661	1742	Hold	Buy	5% - 15%
October 19, 2018	1540	1750	Buy	Hold	0 – 5%
July 24, 2019	1311	1638	Strong Buy	Reduce	-5% - 0
				Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Other disclosures	NO

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