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Q1CY21 result review and
earnings revision

Cement

Target price: Rs2,300

Earnings revision

(%)	CY21E	CY22E
Sales	↑ 1.3	↓ 0.6
EBITDA	↑ 2.7	↑ 2.9
EPS	↑13.4	↑11.8

Target price revision

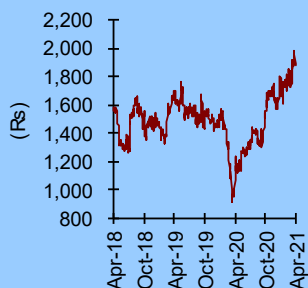
Rs2,300 from Rs2,050

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	54.5	54.5	54.5
Institutional investors	32.2	32.2	33.0
MFs and others	12.8	9.6	9.1
Ins. Cos./FI's	6.3	10.9	11.1
FPI	13.1	11.7	12.8
Others	13.3	13.2	12.4

Source: BSE

Price chart



INDIA

ACC

BUY

Maintained

Rs1,877

Strong show led by lower costs

ACC's Q1CY21 EBITDA at Rs8.6bn (up 47% YoY) was higher than our / consensus estimates, mainly owing to lower costs. Total cost/te declined 3% QoQ (1% YoY) vs our estimate of 2% QoQ increase owing to fuel mix optimisation, better cost efficiencies and operating leverage. Volumes including clinker sales grew 19% YoY while realisation remained flat QoQ – both broadly in line with our estimates. Cement EBITDA/te increased 29% YoY to Rs1,028/te while blended EBITDA/te (including RMC) grew 23% YoY to Rs1,075/te (I-Sec: 923/te). Factoring-in better profitability, we raise our CY21-CY22E EBITDA by ~3% and, coupled with lower taxes, raise our EPS by 12-13%. With improving profitability and return ratios, we raise our target multiple to 10x EV/E (earlier 9x) and raise our target price to Rs2,300/share (earlier Rs2,050/sh). Maintain BUY. Key risks: lower demand/prices.

- ▶ **Revenues grew 23% YoY to Rs42.1bn (I-Sec: Rs43.1bn):** Grey cement realisation increased 6.5% YoY (flat QoQ) to Rs4,876/te led by higher prices in South and West markets and product mix optimisation on account of higher share of premium products. Volumes including clinker sales increased 19% YoY to 8.0mnte (implying >90% utilisation) owing to strong demand and aided by low base. Management maintained a cautious (due to rising Covid cases) yet positive outlook on overall cement demand in the coming months on the back of government's increased spend on infrastructure.
- ▶ **RMC revenues declined 8% YoY to Rs3.6bn** owing to 11% YoY lower volumes as urban centres are still witnessing gradual recovery. EBIT margin shrunk to 7.5% vs 9.3% YoY. Other operating income grew 15% YoY / remained flat QoQ at Rs787mn. During the quarter, the company launched green concrete "ECOPact".
- ▶ **Cement EBITDA/te increased 29% YoY to Rs1,028/te while blended EBITDA/te (including RMC) grew 23% YoY to Rs1,075/te.** Cement cost/te fell 5% QoQ / rose 2% YoY to Rs3,946/te. Raw material plus power and fuel cost/te fell 9% QoQ (up 13% YoY) owing to fuel mix optimisation (lower petcoke and higher linkage) and better cost efficiencies under project 'Parva'. Freight cost/te was up 3% QoQ and down 2% YoY. Focus on direct despatches, network and warehouse footprint optimisation, and procurement savings helped mitigate the impact of rising diesel costs. Other expenses and employee costs/te fell 8% QoQ / 9% YoY on account of better efficiencies and operating leverage.
- ▶ **PAT grew 74% YoY to Rs5.6bn (I-Sec: Rs4.7bn)** owing to strong operating performance and aided by lower tax rate of 25% vs 32% YoY.
- ▶ **2.7mnte clinker unit at Ametha, MP,** along with 1mnte grinding unit and 1.6mnte grinding unit at Tikaria is likely to commission by Jun'22, and balance 2.2mnte Shonebhadra, UP, grinding unit may commission by early CY24. Waste heat recovery systems (WHRS) at Jamul, Kymore and Ametha are expected to be operational by mid-CY22.

Market Cap	Rs352bn/US\$4.7bn
Reuters/Bloomberg	ACC.BO/ACC IN
Shares Outstanding (mn)	187.8
52-week Range (Rs)	1982/1122
Free Float (%)	45.5
FII (%)	12.8
Daily Volume (US\$'000)	34267
Absolute Return 3m (%)	10.4
Absolute Return 12m (%)	63.2
Sensex Return 3m (%)	(2.8)
Sensex Return 12m (%)	53.4

Year to Dec	CY19	CY20	CY21E	CY22E
Revenue (Rs mn)	1,56,576	1,37,860	1,64,715	1,78,218
EBITDA (Rs mn)	24,128	24,841	30,339	33,977
Net Income (Rs mn)	12,782	17,353	19,543	21,781
% Chg YoY	17.2	35.8	12.6	11.5
P/E (x)	27.6	20.3	18.1	16.2
CEPS (Rs)	100.3	126.3	135.7	152.1
EV/E (x)	12.7	11.8	9.4	8.0
Dividend Yield	0.7	1.0	1.0	1.1
RoCE (%)	11.4	11.7	14.4	14.3
RoE (%)	11.6	11.8	14.5	14.3

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Table 1: Q1CY21 result review – consolidated*(Rs mn, year ending December 31)*

	Q1CY21	Q1CY20	% chg (YoY)	Q4CY20	% chg (QoQ)	I-Sec estimates	(%) Variance
Volume sales (mn-te)	8.00	6.74	18.8	7.8	2.9	8.09	(1.1)
Net realisation incl. RMC	5,265	5,097	3.3	5,226	0.8	5,334	(1.3)
Net sales	42,133	34,330	22.7	40,660	3.6	43,141	(2.3)
Other operating income	787	687	14.6	787	(0.0)	776	1.4
Raw materials	7,459	4,755	56.9	8,575	(13.0)	8,669	(14.0)
Personnel costs	2,064	2,090	(1.3)	2,497	(17.4)	2,195	(6.0)
Power fuel costs	8,049	7,344	9.6	7,529	6.9	8,812	(8.7)
Outward freight	10,837	9,415	15.1	10,139	6.9	10,846	(0.1)
Other expenses	5,907	5,549	6.5	5,699	3.7	5,927	(0.3)
Total expenses	34,317	29,152	17.7	34,439	(0.4)	36,448	(5.8)
EBITDA	8,603	5,865	46.7	7,008	22.8	7,469	15.2
EBITDA/te	1,075	871	23.5	901	19.4	923	16.4
Interest	112	106	5.9	174	(35.4)	170	(33.8)
Depreciation	1,432	1,580	(9.3)	1,574	(9.0)	1,605	(10.8)
Other income	440	559	(21.4)	640	(31.3)	615	(28.5)
Recurring pre-tax income	7,542	4,761	58.4	5,939	27.0	6,342	18.9
Extraordinary inc/(exp)	-	-		(3,049)		-	
Taxation	1,916	1,531	25.2	(1,835)	(204.5)	1,649	16.2
Reported net income	5,626	3,230	74.2	4,725	19.1	4,693	19.9
Recurring net income	5,626	3,230	74.2	7,774	(27.6)	4,693	19.9
Ratios (%)							
EBITDA margins	20.4	17.1		17.2		17.3	
Net profit margins	13.4	9.4		19.1		10.9	

Source: Company data, I-Sec research

Table 2: Segmental analysis*(Rs mn)*

	Q1CY20	Q2CY20	Q3CY20	Q4CY20	Q1CY21
Realisations – Cement (Rs/te)	4,579	5,048	4,877	4,881	4,876
Volume (mn-te)	6.74	4.89	6.77	7.78	8.00
Cement	30,844	24,691	33,033	37,978	39,022
Ready mix concrete	3,898	622	1,966	3,129	3,598
Total	34,742	25,313	34,998	41,108	42,619
Less: Inter-segment revenue	412	110	323	448	487
Net sales/Income from operations	34,330	25,203	34,675	40,660	42,133
Segment results before tax & interest (Rs mn)					
Cement	3,934	4,033	5,378	3,729	6,917
Ready mix concrete	363	(391)	(284)	448	270
Total	4,297	3,642	5,094	4,178	7,187
EBIT margin (%)					
Cement	12.8	16.3	16.3	9.8	17.7
Ready mix concrete	9.3	(62.9)	(14.5)	14.3	7.5
Total	12.4	14.4	14.6	10.2	16.9

Source: Company data, I-Sec research

Table 3: Historical quarterly analysis

(Rs/te)	Q1CY20	Q2CY20	Q3CY20	Q4CY20	Q1CY21
Cement realisations including RMC	5,097	5,153	5,120	5,226	5,265
Growth % (YoY)	0.2	(4.9)	(1.3)	5.5	3.3
Raw material with stock adjustment	706	1,021	1,004	1,102	932
Staff costs	310	362	304	321	258
Power & fuel costs	1,090	935	930	968	1,006
Outward freight	1,398	1,228	1,270	1,303	1,354
Other expenditure	822	701	725	732	739
Total expenses	4,326	4,246	4,233	4,426	4,289
Other operating income	102	168	103	101	98
EBITDA	872	1,074	990	901	1,074

Source: Company data, I-Sec research

Chart 1: Sustainable Development (SD) 2030 goals – ACC's core priority

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

	CY17	CY18	CY19	CY20	CY21E	CY22E
Capacity ('000te)	33,051	33,051	33,051	33,051	34,151	35,451
Production ('000te)	26,560	28,360	27,870	23,770	27,192	28,824
Capacity utilisation (%)	80	86	84	72	80	81
Sales ('000te)	26,210	28,840	29,754	26,181	29,950	31,747
Growth (%)	14.0	10.0	3.2	(12.0)	14.4	6.0
Realisation (Rs/te) – blended	4,934	5,020	5,157	5,151	5,396	5,513
Growth (%)	3.6	1.7	2.7	(0.1)	4.7	2.2

Source: Company data, I-Sec research

Table 5: Per-tonne estimate analysis

(Rs/te)	CY17	CY18	CY19	CY20	CY21E	CY22E
Net realisation including RMC	4,934	5,020	5,157	5,151	5,396	5,513
Raw materials consumed	740	822	976	1,057	1,000	1,020
Power & fuel costs	1,023	1,058	1,125	1,083	1,084	1,110
Freight costs	1,293	1,408	1,447	1,437	1,335	1,355
Other expenses	1,296	1,109	905	740	1,067	1,058
Total operating expenses	4,352	4,398	4,451	4,317	4,487	4,543
Other operating income	133	114	113	126	104	101
Blended EBITDA	715	736	818	960	1,013	1,070

Source: Company data, I-Sec research

Valuation methodology and key risks

Factoring-in better profitability, we increase our CY21-CY22E EBITDA by 3%, and coupled with lower taxes, raise our EPS by 12-13%. We raise our target price to Rs2,300/share (earlier: Rs2,050) based on 10x Mar'23E EV/E. Maintain **BUY**.

Table 6: Valuations based on 10x Mar'23E EV/E

(Rs.mn)

Target EV/ EBITDA multiple (x)	10
Target EV (Rs mn)	3,49,967
Net debt / (cash) (Rs mn)	(82,301)
Target value (Rs mn)	4,32,268
No. of shares (mn)	188
Target price per share (Rs)	2,300

Source: I-Sec research

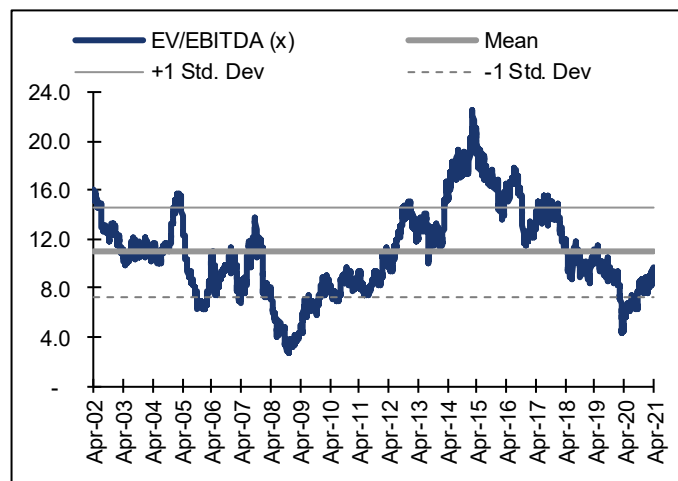
Table 7: Earnings revision

(Rs mn)

	CY21E			CY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	1,64,715	1,62,528	1.3	1,78,218	1,79,228	(0.6)
EBITDA	30,339	29,542	2.7	33,977	33,035	2.9
PAT	19,543	17,233	13.4	21,781	19,477	11.8

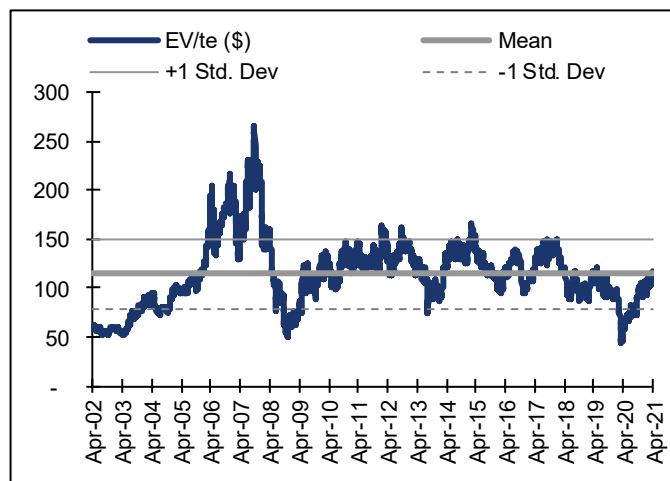
Source: Company data, I-Sec research

Chart 2: Rolling EV/EBITDA



Source: I-Sec research

Chart 3: Rolling EV/te



Source: I-Sec research

Financial summary (consolidated)

Table 8: Profit and Loss statement

(Rs mn, year ending December 31)

	CY19	CY20	CY21E	CY22E
Operating Income (Sales)	1,53,431	1,34,869	1,61,611	1,75,014
Other operating income	3,144	2,992	3,104	3,204
Operating Expenses	1,32,448	1,13,019	1,34,376	1,44,241
EBITDA	24,128	24,841	30,339	33,977
% margin	15.4	18.0	18.4	19.1
Depreciation & Amortisation	6,064	6,388	5,963	6,818
Gross Interest	863	571	714	721
Other Income	2,190	2,167	2,260	2,455
Recurring PBT	19,532	20,139	26,058	29,042
Add: Extraordinaries	995	(3,049)	-	-
Less: Taxes	6,750	2,786	6,514	7,260
Net Income (Reported)	13,777	14,304	19,543	21,781
Recurring Net Income	12,782	17,353	19,543	21,781

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending December 31)

	CY19	CY20	CY21E	CY22E
Assets				
Total Current Assets	51,116	51,170	61,021	73,776
Current Liab. & Prov.	49,333	51,031	54,838	58,672
Net Current Assets	1,782	139	6,183	15,104
Investments of which	45,416	58,378	58,378	58,378
Strategic/Group	1,162	1,293	1,293	1,293
Marketable	44,254	57,085	57,085	57,085
Net Fixed Assets	74,829	72,455	82,484	91,471
Capital Work-in-Progress	4,457	5,481	1,973	1,579
Total Assets	1,22,027	1,30,972	1,47,045	1,64,953
of which Cash equivalents	46,477	60,057	68,508	79,904
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	6,557	3,948	3,987	4,027
Equity Share Capital	1,880	1,880	1,880	1,880
Face value per share (Rs)	10	10	10	10
Reserves & Surpluses	1,13,558	1,25,111	1,41,137	1,58,998
Net Worth	1,15,438	1,26,991	1,43,017	1,60,877
Total Liabilities	1,22,027	1,30,972	1,47,045	1,64,953

Source: Company data, I-Sec research

Table 12: Quarterly trend

(Rs mn, year ending December 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	25,203	34,675	40,660	42,133
% growth (YoY)	(37.9)	0.1	2.4	22.7
Recurring EBITDA	5,254	6,714	7,008	8,603
Margin (%)	20.8	19.4	17.2	20.4
Other income	513	455	640	440
Extra ordinaries Inc / (Loss)	-	-	(3,049)	-
Recurring Net Income	2,709	3,638	7,774	5,626

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending December 31)

	CY19	CY20	CY21E	CY22E
Operating Cashflow	21,065	17,779	23,882	26,847
Working Capital changes	2,699	3,883	2,292	2,354
Capital Commitments	(4,949)	(7,479)	(15,992)	(15,805)
Net Operating FCF	18,815	14,183	10,182	13,395
Investing Activities	(57)	253	2,260	2,455
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	-	-	-	-
Dividend paid	(3,169)	(2,629)	(3,518)	(3,921)
Others	-	-	(474)	(533)
Extraordinary Items	-	1,760	-	-
Chg. in Cash & Bank	15,589	13,567	8,451	11,396

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending December 31)

	CY19	CY20	CY21E	CY22E
Per Share Data (Rs)				
EPS(Basic)	73	76	104	116
Diluted Recurring EPS	68	92	104	116
Diluted Recurring CEPS	100	126	136	152
Dividend per share	14	19	19	21
Book Value	614	676	761	856
Growth Ratios (% YoY)				
Operating Income	5.8	(12.0)	19.5	8.2
EBITDA	13.9	3.0	22.1	12.0
Recurring Net Income	17.2	35.8	12.6	11.5
Diluted Recurring EPS	17.2	35.8	12.6	11.5
Diluted Recurring CEPS	11.3	26.0	7.4	12.1
Valuation Ratios (x)				
P/E	27.6	20.3	18.1	16.2
P/CEPS	18.7	14.9	13.8	12.3
P/BV	3.1	2.8	2.5	2.2
EV / EBITDA	12.7	11.8	9.4	8.0
EV / te (US\$)	124	118	111	103
EV / Operating Income	2.0	2.1	1.7	1.5
EV / Operating FCF	14.1	13.1	10.9	9.3

Operating Ratios (%)

Raw Material / Sales	17.7	18.6	18.5	18.5
SG&A / Sales	68.6	65.2	64.6	63.9
Other Income / PBT	11.2	10.8	8.7	8.5
Effective Tax Rate	32.9	13.8	25.0	25.0
NWC / Total Assets	(0.0)	(0.0)	(0.0)	(0.0)
Inventory (x)	6.3	7.5	9.6	9.6
Receivables (days)	16	13	9.3	8.7
Payable (days)	47	47	40	41
D/E Ratio (x)	(0.3)	(0.4)	(0.5)	(0.5)

Profitability Ratios (%)

Rec. Net Income Margins	8.1	12.4	11.7	12.1
RoCE	11.4	11.7	14.4	14.3
RoNW	11.6	11.8	14.5	14.3
Dividend Payout	20.6	20.6	18.0	18.0

Source: Company data, I-Sec research

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