

Healthy operational performance...

ACC's Q1CY21 performance was ahead of our estimates led by better sales volumes and higher margins. Sales volume increased 21.5% YoY to 7.97 MT (up 3.4% QoQ) while realisations increased 0.9% YoY (flat QoQ) to ₹ 5,385/t leading to revenue growth of 22.6% YoY to ₹ 4292 crore. Strong demand along with lower base of last year and partial benefit of new capacity (1.4 MT) led to healthy sales volume growth. However, RMC volumes fell 10.7% YoY to 0.83 million cubic metre (up 14.7% QoQ). Reported EBITDA margin came in at 20% (up 330 bps YoY, 625 bps QoQ), higher than our estimate of 16.5% due to volume led operating leverage and lower other costs. Absolute EBITDA increased 46.7% YoY to ₹ 860.3 crore. EBITDA/t was at ₹ 1079/t (I-direct estimate: ₹ 891/t) vs. ₹ 894/t last year, ₹ 742/t last quarter. The company commissioned a new grinding unit (1.4 MT) in January 2021 at Sindri, Jharkhand. Further greenfield expansion in Ametha and associated grinding units are on track.

New capacities to help gain lost ground from CY22E onwards

Over the past five years, ACC has lost market share to other large players with no major new capacities coming up during this period either through greenfield or M&A route. While industry capacity grew at 7% CAGR, the company managed to increase its capacity from 30.5 MT to 33 MT i.e. at 2% CAGR. As a result, ACC's production share declined from 14% in FY14 to 11% in FY20. To address this growth concern, the company is increasing its capacity to 39.3 MT with total capex of ~₹ 3000 crore. This would be mainly funded through internal accruals. However, the new capacity would likely come on stream only by the end of H1CY22E. Thus, we model a volume CAGR of 11.7% in CY20-22E and expect revenues to grow at 12.8% CAGR over the same period.

Cost rationalisation to bring efficiency; b/s to remain firm

ACC despite being the oldest cement company remains susceptible to volatility in margins due to its high cost of production (CoP). To bring down costs, the company undertook various cost saving initiatives across its plant under "Parvat Programme". This move helped ACC achieve cost saving of ₹ 110/tonne resulting in cost savings of over ₹ 250 crore in CY20. Still, the company closed CY20 with CoP of ₹ 4472/t, i.e. 15% higher than industry average CoP. ACC aims to bring down the cost by ₹ 200/t via optimising logistic costs, manufacturing excellence and fixed cost rationalisation. In terms of b/s, it is among the strongest in the industry with positive FCF generation and a debt free position.

Valuation & Outlook

While structural issues w.r.t CoP need to be addressed for sustenance of healthy margins, strong b/s and improved cash flow remain key positives. Further, new capacities would bring growth back on track. The Covid induced lockdown may impact sales in the near-term. However, strong underlying demand should help the company recover lost volumes as and when normalcy resumes. Hence, we retain **BUY** and maintain TP of ₹ 2,250 (valuing at 11.5x CY22E EV/EBITDA implying an EV/t of ~\$135).

Key Financial Summary

₹ crore	CY18	CY19	CY20	CY21E	CY22E	CAGR (CY20-CY22E)
Net Sales	14478	15407	13786	16136	17555	12.8%
EBITDA	1724	2162	2355	3234	3379	19.8%
EBITDA Margins (%)	11.9	14.0	17.1	20.0	19.2	
Adjusted Net Profit	1020	1378	1599	1892	1934	10.0%
EPS (₹)	54.3	73.3	85.1	100.7	102.9	
EV/EBITDA	18.7	14.2	13.4	9.6	8.9	
EV/tonne (\$)	138	131	113	110	110	
RoNW	9.7	11.9	12.6	13.3	12.2	
RoCE	14.2	17.4	14.5	18.6	17.8	
RoIC	14.6	21.9	21.4	26.3	23.8	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Mcap	₹ 35250 crore
Debt (CY20)	₹ 0 crore
Cash & Invest (CY20)	₹ 3813 crore
EV	₹ 31437 crore
52 week H/L	₹ 1768 / 1265
Equity cap	₹ 187.8 crore
Face value	₹ 10

Key Highlights

- Cement volume growth remained robust at 21.5% YoY while RMC volumes were down 10.7% YoY
- Commissioned 1.4 MT GU at Sindri during the quarter. Balance capacities (4.8 MT) to get commissioned by H1CY22E
- Expect revenue CAGR of 12.8% over CY20-22E
- Maintain BUY rating with target price of ₹ 2,250 (unchanged)

Key risks to our call

- Any delay in commissioning of new capacity may impact growth and return ratios
- Volatility in prices of such imported coal/petcoke without corresponding movement in price of cement can affect its profitability

Research Analysts

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Exhibit 1: Variance Analysis

	Q1CY21	Q1CY21E	Q1CY20	YoY(%)	Q4CY20	QoQ(%)	Comments
Net Sales	4,292.0	4,224.9	3,501.7	22.6	4,144.7	3.6	Capacity expansion, lower base of last year and higher share of premium product led to healthy revenue growth
Other Incomes	44.0	138.3	55.9	-21.4	64.0	-31.3	
Raw Material Expense	745.9	775.2	475.5	56.9	857.5	-13.0	
Employee Expenses	206.4	250.6	209.0	-1.3	249.7	-17.4	
Power and fuel	804.9	806.5	734.4	9.6	752.9	6.9	Higher usage of alternative fuels, fuel mix optimisation led to lower power & fuel cost on per tonne basis
Freight	1,083.7	1,088.4	941.5	15.1	1,013.9	6.9	
Others	590.7	606.8	554.9	6.5	698.9	-15.5	Down QoQ mainly as Q4CY20 included additional cost impact of ₹ 129 crore on expected credit loss
EBITDA	860.3	697.5	586.5	46.7	571.7	50.5	
EBITDA Margin (%)	20.0	16.5	16.7	330 bps	13.8	625 bps	
Interest	11.2	17.0	10.6	5.9	17.4	-35.4	
Depreciation	143.2	168.0	158.0	-9.3	157.4	-9.0	
PBT	749.8	650.8	473.9	58.2	461.0	62.7	
Total Tax	191.7	214.8	153.1	25.3	-183.5	-204.5	
PAT	562.6	438.4	323.0	74.2	472.3	19.1	
Key Metrics							
Volume (MT)	7.97	7.83	6.56	21.5	7.71	3.4	Strong demand in East, revival of infrastructure projects supported sales volume growth QoQ
Realisation (₹)	5,385	5,396	5,338	0.9	5,376	0.2	
EBITDA per Tonne (₹)	1,079	891	894	20.7	742	45.6	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	CY21E			CY22E		
	Old	New	% Change	Old	New	% Change
Revenue	15,819.5	16,135.9	2.0	17,411.2	17,554.6	0.8
EBITDA	2,671.0	3,234.4	21.1	3,254.6	3,379.0	3.8
EBITDA Margin (%)	16.9	20.0	316 bps	18.7	19.2	56 bps

Source: Company, ICICI Direct Research

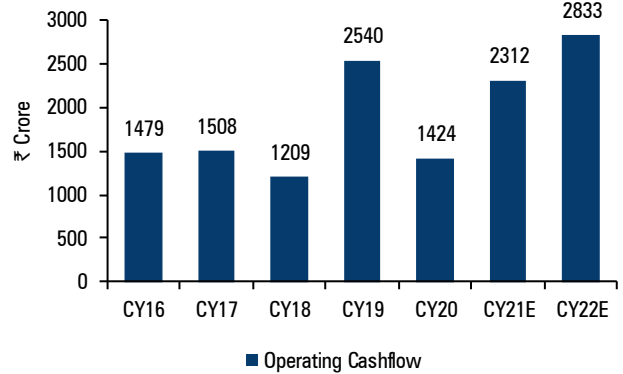
Financial story in charts

Exhibit 3: Capacity addition plans

Capacity	MT
Existing	34.5
Planned capacity addition:	
Uttar Pradesh (2 Grinding units)	2.2
Tikaria Unit, UP (Brownfield)	1.6
Ametha, MP (Integrated unit with 2.7MT Clinker capacity)	1.0
Total	4.8
Total capacity post expansion (MT)	39.3

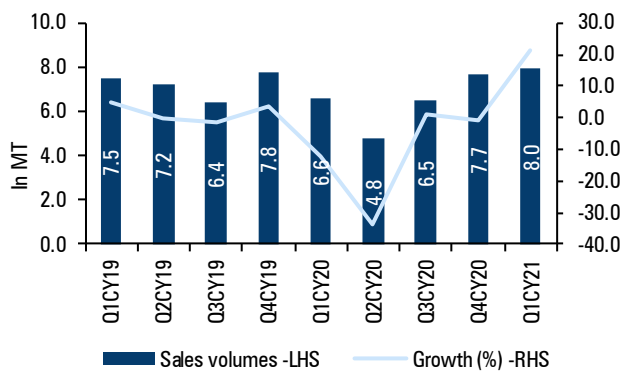
Source: Company, ICICI Direct Research

Exhibit 4: Operating cash flows sufficient to fund expansion



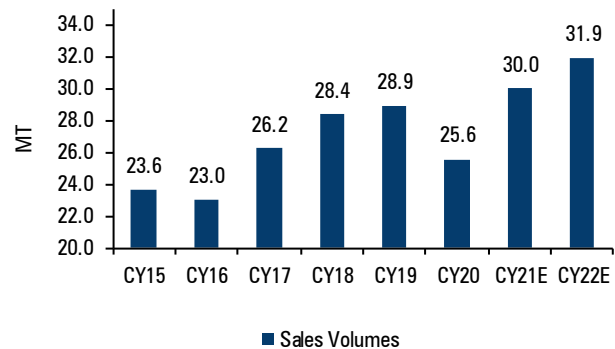
Source: Company, ICICI Direct Research

Exhibit 5: Volumes up 21.5% YoY in Q1CY21



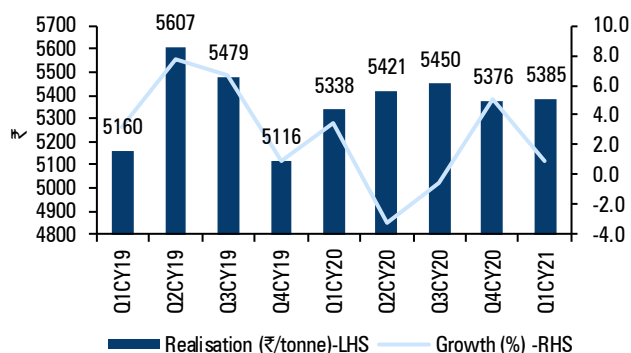
Source: Company, ICICI Direct Research

Exhibit 6: Volumes to grow at 11.7% CAGR during CY20-22E



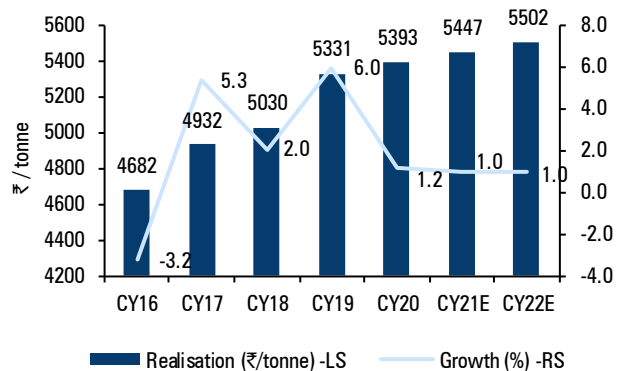
Source: Company, ICICI Direct Research

Exhibit 7: Blended realisations rise 0.9% YoY in Q1CY21



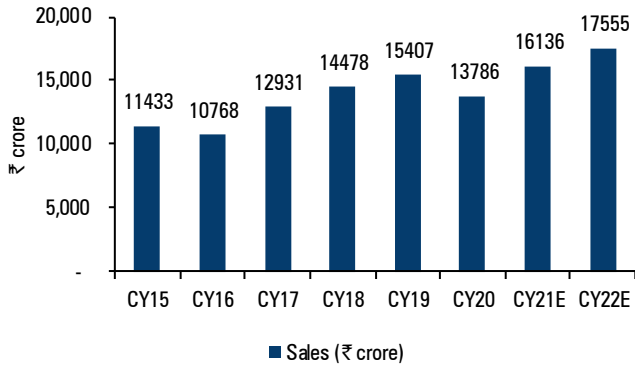
Source: Company, ICICI Direct Research

Exhibit 8: Expect realisations to remain stable, going forward



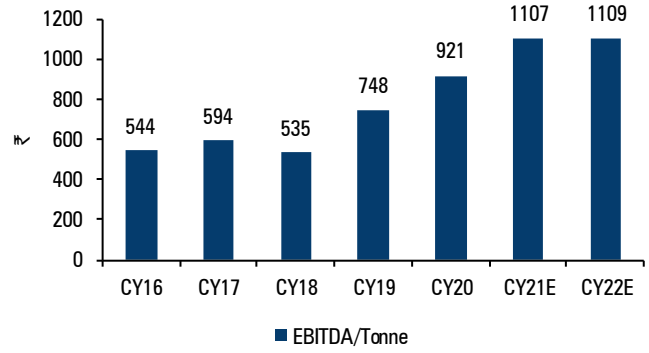
Source: Company, ICICI Direct Research

Exhibit 9: Expect revenue CAGR of 12.8% over CY20-22E



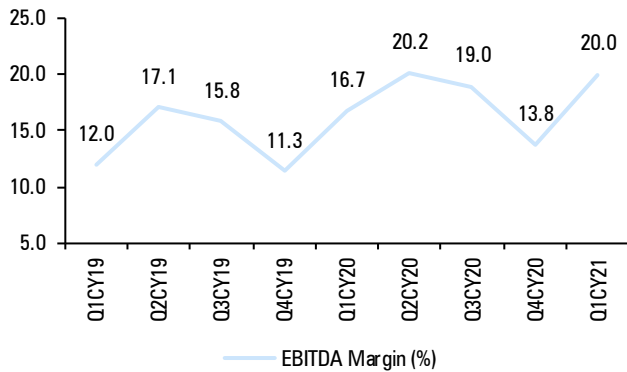
Source: ICICI Direct Research, Company

Exhibit 10: EBITDA/t to witness gradual recovery



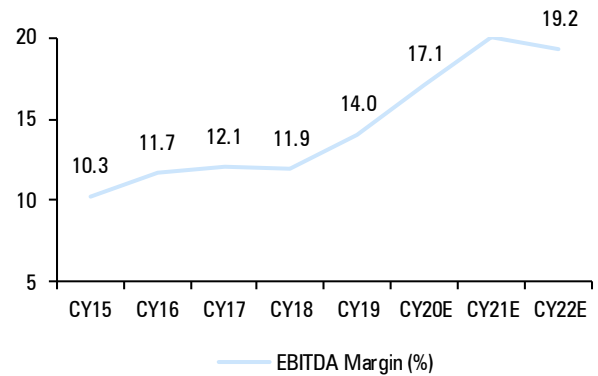
Source: ICICI Direct Research, Company

Exhibit 11: Margins inch back to 20% during Q1CY21



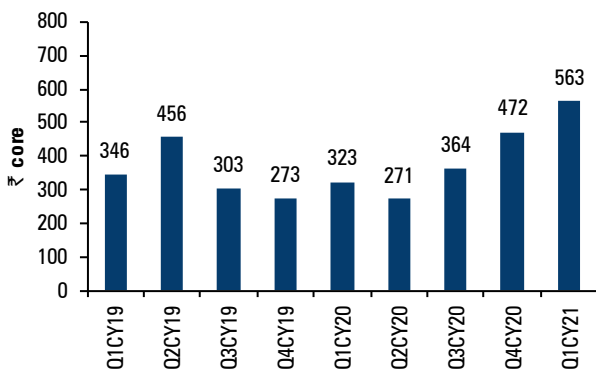
Source: Company, ICICI Direct Research

Exhibit 12: Margins to witness gradual recovery from CY21E



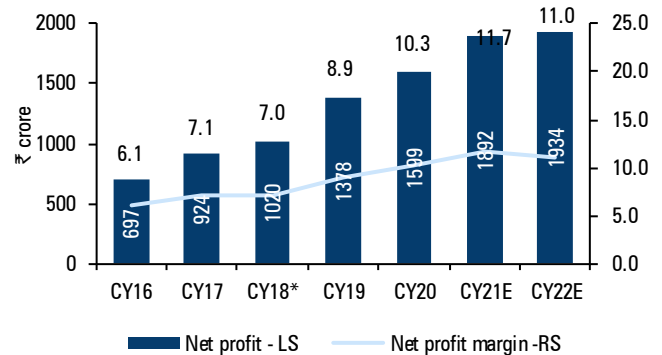
Source: Company, ICICI Direct Research

Exhibit 13: Quarterly PAT trend



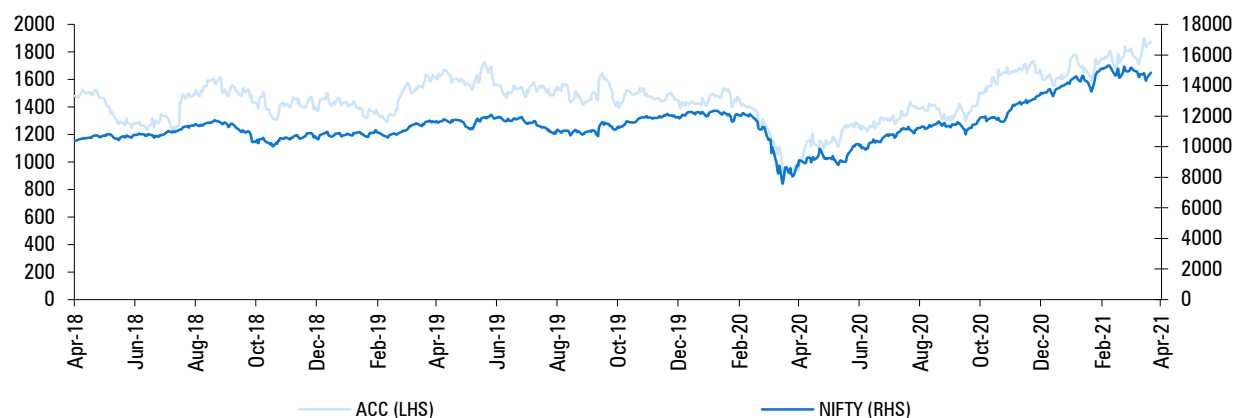
Source: Company, ICICI Direct Research

Exhibit 14: Annual PAT to bounce-back from CY21E



Source: Company, ICICI Direct Research

Exhibit 15: Price performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: Top 10 shareholders

Rank	Investor Name	Filing Date	% O/S Position (m)	Change (mn)
1	Ambuja Cement India	31-Mar-20	50.1	93.98m
2	Life Insurance Corp	31-Mar-20	5.2	9.75m
3	Holderind Invsts Ltd	31-Mar-20	4.5	8.41m
4	Franklin Resources	17-Jul-20	3.7	6.85m
5	Aditya Birla Sun Lif	30-Jun-20	2.0	3.78m
6	Icici Prudential Lif	31-Mar-20	1.2	2.33m
7	Icici Prudential Ass	30-Jun-20	1.1	2.11m
8	Jpmorgan Chase & Co	31-Mar-20	0.9	1.75m
9	Vanguard Group	30-Jun-20	0.9	1.59m
10	Dsp Blackrock Invest	30-Jun-20	0.8	1.51m

Source: Company, ICICI Direct Research

Exhibit 17: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-20
Promoter	54.53	54.53	54.53	54.53	54.53
FII	7.79	8.14	6.60	11.55	12.74
DII	21.03	20.68	25.76	20.83	20.33
Others	16.65	16.65	13.11	13.09	12.40

Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Total operating income	15,407.0	13,785.7	16,135.9	17,554.6
Growth (%)	6.4	-10.5	17.0	8.8
Raw material	2718.9	2512.6	2804.3	3190.7
Power & Fuel	3134.0	2574.7	3026.2	3270.7
Employees	866.1	840.8	775.9	918.2
Freight	4032.1	3416.1	4074.4	4307.4
Others	2493.7	2086.5	2220.9	2488.7
Total Operating Exp.	13,244.8	11,430.7	12,901.6	14,175.6
EBITDA	2,162.2	2,355.0	3,234.4	3,379.0
Growth (%)	25.4	8.9	37.3	4.5
Depreciation	606.4	645.8	682.4	767.3
Interest	86.3	57.1	59.5	65.3
Other Income	569.0	216.7	222.4	326.1
Exceptional items	0.0	176.0	0.0	0.0
PBT	2,038.5	1,692.9	2,714.9	2,872.5
Total Tax	675.0	278.6	834.3	947.9
PAT	1,377.5	1,423.2	1,892.1	1,934.0
Adjusted PAT	1,377.5	1,599.2	1,892.1	1,934.0
Growth (%)	35.1	16.1	18.3	2.2
Reported EPS (₹)	73.3	75.7	100.7	102.9

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Liabilities				
Equity Capital	188.0	188.0	188.0	188.0
Reserve and Surplus	11,355.8	12,471.2	14,033.6	15,637.8
Total Shareholders funds	11,543.8	12,659.2	14,221.6	15,825.8
Total Debt	0.0	0.0	0.0	0.0
Other Liabilities	658.9	658.9	658.9	658.9
Total Liabilities	12,202.7	13,318.1	14,880.4	16,484.7
Assets				
Gross Block	15,300.3	16,200.3	18,350.3	20,500.3
Less: Acc Depreciation	8,289.1	8,934.9	9,617.3	10,384.6
Net Block	7,011.2	7,265.4	8,733.0	10,115.7
Capital WIP	445.7	1,500.0	800.0	450.0
Total Fixed Assets	7,456.8	8,765.4	9,533.0	10,565.7
Investments + Goodwill	131.8	131.8	131.8	131.8
Debtors	626.7	657.5	757.2	781.9
Other assets	3,120.6	2,945.1	3,186.6	3,484.2
Misc assets	10.5	9.2	13.8	11.3
Cash	4,647.8	3,809.7	4,341.6	5,045.3
Total Current Assets	9,547.4	9,074.5	10,182.8	11,286.5
Creditors	4,331.9	3,977.3	4,245.4	4,700.3
Provisions	601.5	676.1	721.7	799.0
Total Current Liabilities	4,933.3	4,653.5	4,967.1	5,499.3
Net Current Assets	4,614.1	4,421.0	5,215.7	5,787.2
Application of Funds	12,202.7	13,318.1	14,880.4	16,484.7

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end March)	CY19	CY20	CY21E	CY22E
Profit after Tax	1,377.5	1,423.2	1,892.1	1,934.0
Add: Depreciation	606.4	645.8	682.4	767.3
(Inc)/dec in Current Assets	469.3	-365.1	-576.4	-400.0
Inc/(dec) in CL and Prov.	86.9	-279.8	313.6	532.2
CF from operating activit	2,540.1	1,424.0	2,311.7	2,833.5
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-592.9	-1,954.3	-1,450.0	-1,800.0
Others	-30.8	0.0	0.0	0.0
CF from investing activit	-623.7	-1,954.3	-1,450.0	-1,800.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-310.1	-307.8	-329.8	-329.8
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-55.5	0.0	0.0	0.0
CF from financing activit	-365.7	-307.8	-329.8	-329.8
Net Cash flow	1,550.8	-838.1	531.9	703.7
Opening Cash	3,097.0	4,647.8	3,809.7	4,341.6
Closing Cash	4,647.8	3,809.7	4,341.6	5,045.3

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	CY19	CY20	CY21E	CY22E
Per share data (₹)				
EPS	73.3	75.7	100.7	102.9
Cash EPS	105.6	110.1	137.0	143.8
BV	614.4	673.7	756.9	842.2
DPS	14.0	14.0	15.0	0.0
Cash Per Share	247.4	202.7	231.1	268.5
Operating Ratios (%)				
EBITDA Margin	14.0	17.1	20.0	19.2
PAT Margin	8.9	10.3	11.7	11.0
Inventory days	33.4	37.0	40.0	40.0
Debtor days	17.7	17.0	16.0	16.0
Creditor days	104.6	110.0	93.0	93.0
Return Ratios (%)				
RoE	11.9	12.6	13.3	12.2
RoIC	21.9	21.4	26.3	23.8
Valuation Ratios (x)				
P/E	25.6	24.8	18.6	18.2
EV / EBITDA	14.2	13.3	9.6	8.9
EV / Net Sales	2.0	2.3	1.9	1.7
Market Cap / Sales	2.3	2.6	2.2	2.0
Price to Book Value	3.1	2.8	2.5	2.2
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.9	2.0	2.1	2.1
Quick Ratio	1.0	1.1	1.2	1.1

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP (₹)	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
ACC*	1,876	BUY	73	85	101	14.2	13.4	9.6	131	113	110	17.4	14.5	18.6	11.9	12.6	13.3
Ambuja Cem*	305	BUY	7.7	9.0	10.3	17.3	15.8	13.4	172	185	164	12.2	17.6	18.3	14.7	20.3	20.7
UltraTech Cem	6,505	BUY	180	194	234	18.2	17.0	14.4	242	242	228	14.2	14.2	15.8	12.1	11.7	12.4
Shree Cement	30,051	BUY	435	624	666	25.7	23.6	20.0	278	262	259	13.8	18.2	18.0	12.1	15.1	14.2
Heidelberg Cem	227	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	2,898	BUY	51.8	99.5	101.6	17.5	13.6	12.8	174	163	168	16.2	18.9	17.3	12.8	20.2	17.5
JK Lakshmi Cen	396	BUY	7.0	7.1	6.8	16.6	14.2	13.7	76	76	70	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	96	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	980	BUY	25.7	29.5	30.2	20.5	16.5	15.5	180	175	171	7.5	8.6	8.7	12.3	12.5	11.4
Sagar Cement	736	BUY	17.1	80.0	86.2	11.6	5.4	5.3	53	54	41	7.2	17.5	15.4	4.2	15.4	14.4

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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