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INDIA

ACC

BUY

Maintained

Rs1,786

AR analysis - focusing on profitable growth

Key takeaways from ACC's CY20 annual report analysis include: a) Management remains optimistic on CY21 demand growth and expects industry to post >10% YoY growth; b) cost efficiency programme 'Parvat' yielded savings of Rs110/te in CY20 – confident of achieving targeted Rs200/te ; c) 2.6mnte Ametha expansion may commission by Jun'22; d) company achieved increased synergies of ~5% of CY20 PBT via MSA with ACEM; and e) EBITDA-to-OCF conversion stood strong at ~100%; net cash increased by Rs12.5bn to Rs59bn. ACC posted 15% EBITDA CAGR over CY17-20 and likely to post similar CAGR over CY20-22E (lower volume growth may be offset by better cost efficiencies). Hence, valuation at <8xCY22E EV/E or US\$100/te is attractive, given ACC's improving profitability / return ratios and industry tailwinds over next few years. Maintain BUY with unchanged target price of Rs2,050/share (9x FY23E EV/E). Key risks: Lower demand/pricing.

- **Management remains optimistic on CY21 demand growth** led by increased government thrust on infrastructure and strong rural housing demand and expects industry to post >10% YoY growth. ACC's 1.4mnte Sindri grinding unit got commissioned in Jan'21. 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'24. Besides, commissioning of 4.5mnte Marwa Mundra expansion of ACEM in CY21 may also provide incremental volumes to ACC. Overall, ACC targets to maintain its market share. Given high utilisation vs peers, ACC intends to focus on high contribution markets and increase share of value-added / premium products.
- **Achieved cost savings of Rs110/te or >Rs2.5bn in CY20 via 'Parvat'**. Clinker factor was further reduced by 1.37% and the share of blended cement increased by 100bps YoY to 90%. 'Parvat' also led to higher direct despatches, warehousing cost rationalisation, source mix optimisation, renegotiating various contracts etc. Covid'19 induced cost optimisation led to nearly 1/3rd lower consumption of stores and spare parts to Rs2.3bn vs Rs3.3bn in CY19, while rates and taxes were reduced to Rs770mn vs Rs1.4bn in CY19 and ad spends halved from Rs1.1bn in CY19. While some of these costs will normalise with volume recovery, ACC remains confident to achieve targeted cost savings of ~Rs200/te via optimising logistic costs, manufacturing excellence and fixed cost rationalisation. CY20 employee costs included one-time cost of Rs210mn towards employee separation costs.
- **Achieved synergies worth ~5% of CY20 PBT or Rs0.8-0.9bn via MSA with ACEM**: Cement / clinker swaps with ACEM gained increased traction with volumes and synergies rising significantly YoY in CY20. Purchase of goods from ACEM increased to Rs5bn from Rs1.1bn in CY19, while sale of goods to ACEM doubled from Rs1bn in CY19 to Rs2.2bn. Besides, network optimisation and better realisation with change in market mix will also add to improved profitability.

Market Cap	Rs336bn/US\$4.6bn
Reuters/Bloomberg	ACC.BO/ACC IN
Shares Outstanding (mn)	187.8
52-week Range (Rs)	1893/895
Free Float (%)	45.5
FII (%)	11.7
Daily Volume (US\$'000)	33,732
Absolute Return 3m (%)	11.1
Absolute Return 12m (%)	56.4
Sensex Return 3m (%)	10.2
Sensex Return 12m (%)	42.3

Year to Dec	CY19	CY20	CY21E	CY22E
Revenue (Rs mn)	1,56,576	1,37,873	1,62,528	1,76,024
EBITDA (Rs mn)	24,128	24,946	29,542	33,035
Net Income (Rs mn)	12,782	14,409	17,233	19,477
% Chg YoY	17.2	12.7	19.6	13.0
P/E (x)	26.3	19.2	19.5	17.2
CEPS (Rs)	100.3	126.8	127.6	142.1
EV/E (x)	12.0	11.1	9.1	7.8
Dividend Yield	0.8	0.8	0.9	1.1
RoCE (%)	11.7	11.7	12.8	13.0
RoE (%)	11.6	11.9	12.8	13.0

Annual report analysis

Cement

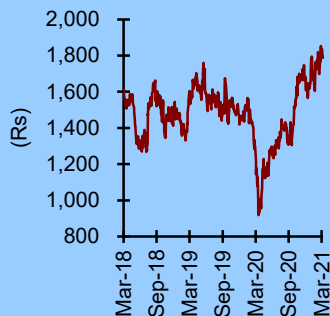
Target price: Rs2,050

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	54.5	54.5	54.5
Institutional investors	26.5	32.2	32.2
MFs and others	11.7	12.8	9.6
Ins. Cos./FI's	6.4	6.3	10.9
FPI	8.4	13.1	11.7
Others	19.0	13.3	13.2

Source: BSE

Price chart



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- ▶ **RMC revenue was down 35% YoY to Rs9.6bn** in CY20 led by similar decline in volumes to 2.27mn c.m. owing to Covid'19 lockdown and slower urban market recovery. RMC EBITDA declined from Rs1.5bn in CY19 to Rs0.6bn and impacted blended EBITDA/te by Rs35/te. EBITDA margin declined from 10.4% to 6.3%.
- ▶ **ACC operated at 72% utilisation in CY20** and produced 23.77mnte cement and sold 25.53mnte cement and 0.65mnte clinker. This would imply ~1.7mnte volumes via MSA with ACEM. Cement EBITDA/te increased from Rs781/te in CY19 to Rs948/te. Government incentives accrued declined 8% YoY to Rs1.6bn (Rs60/te), while incentive receivables increased to ~Rs8.6bn in CY20 after providing Rs1.3bn towards expected credit loss on account of time value of money.
- ▶ **EBITDA-to-OCF conversion in CY20 was strong at 100%**. ACC generated OCF of Rs24bn in CY20 and net cash increased by Rs12.5bn to Rs59bn after incurring capex of Rs7.5bn. Net cash is likely to increase further to Rs77bn (22% of mcap or Rs410/sh) by CY22E even after factoring in capex of Rs33bn over CY21-22E.
- ▶ **We factor 11% volume CAGR over CY20-22E and expect blended EBITDA/te to improve to Rs1,025/te from the current Rs953/te** led by improved cost efficiencies. ACC posted 15% EBITDA CAGR over CY17-20 and likely to post similar CAGR over CY20-22E (lower volume growth may be offset by better cost efficiencies). Hence, valuation at <8xCY22E EV/E or US\$100/te is attractive, given improving profitability/return ratios and volume growth visibility, in our view.

Table 1: Performance trend and assumptions

	CY17	CY18	CY19	CY20	CY21E	CY22E
Capacity ('000te)	31,308	33,051	33,051	33,051	34,151	35,451
Production ('000te)	23,180	26,560	28,360	23,403	28,396	30,219
Capacity utilisation (%)	74	79	85	72	83	85
Sales ('000te)	22,990	26,210	28,840	26,185	30,396	32,219
Growth (%)	(2.7)	14.0	10.0	(12.0)	16.1	6.0
Realisation (Rs/te) – blended	4,722	4,869	5,105	5,151	5,347	5,463
Growth (%)	(1.5)	3.1	4.9	(0.1)	3.8	2.2

Source: Company data, I-Sec research

Table 2: Per-tonne estimate analysis

(Rs/te)	CY17	CY18	CY19	CY20	CY21E	CY22E
Net realisation including RMC	4,934	5,020	5,156	5,151	5,347	5,463
Raw materials consumed	740	822	941	957	990	1,010
Power & fuel costs	1,023	1,058	1,085	983	1,113	1,140
Freight costs	1,293	1,408	1,396	1,304	1,331	1,351
Other expenses	1,296	1,109	1,029	1,069	1,044	1,038
Total operating expenses	4,352	4,398	4,451	4,313	4,477	4,537
Other operating income	133	114	109	115	102	99
Blended EBITDA	715	736	814	953	972	1,025

Source: Company data, I-Sec research

Table 3: Valuations based on 9x Mar'23E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	9
Target EV (Rs mn)	306,235
Net debt / (cash) (Rs mn)	(79,125)
Target value (Rs mn)	385,360
No. of shares (mn)	188
Target price per share (Rs)	2,050

Source: I-Sec research

Financial summary (consolidated)

Table 4: Profit and loss statement

(Rs mn, year ending December 31)

	CY19	CY20P	CY21E	CY22E
Operating Income (Sales)	1,53,431	1,34,869	1,62,528	1,76,024
Other operating income	3,144	3,004	3,104	3,204
Operating Expenses	1,32,448	1,12,927	1,36,091	1,46,193
EBITDA	24,128	24,946	29,542	33,035
% margin	15.4	18.1	17.8	18.4
Depreciation & Amortisation	6,064	6,388	6,760	7,245
Gross Interest	863	571	714	721
Other Income	2,190	2,167	2,416	2,607
Recurring PBT	19,532	20,244	24,619	27,825
Add: Extraordinaries	995	(3,049)	-	-
Less: Taxes	6,750	2,786	7,386	8,347
Net Income (Reported)	13,777	14,409	17,233	19,477
Recurring Net Income	12,782	17,458	17,233	19,477

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending December 31)

	CY19	CY20P	CY21E	CY22E
Assets				
Total Current Assets	52,489	62,315	70,966	82,552
Current Liab. & Prov.	50,806	51,282	55,161	59,794
Net Current Assets	1,683	11,033	15,805	22,759
Investments of which	44,042	44,042	44,042	44,042
Strategic/Group	1,125	1,125	1,125	1,125
Marketable	42,917	42,917	42,917	42,917
Net Fixed Assets	74,829	75,978	85,383	94,446
Capital Work-in-Progress	4,457	9,794	1,959	1,567
Total Assets	1,22,027	1,31,053	1,45,230	1,61,247
of which Cash equivalents	46,514	59,491	66,564	76,820
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	6,557	3,760	3,798	3,836
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	1,25,373	1,39,505	1,55,476
Net Worth	1,15,438	1,27,253	1,41,385	1,57,356
Total Liabilities	1,22,027	1,31,053	1,45,230	1,61,247

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending December 31)

	CY19	CY20P	CY21E	CY22E
Operating Cashflow	21,065	19,187	22,282	24,895
Working Capital changes	2,699	3,424	2,088	3,079
Capital Commitments	(4,949)	(7,537)	(16,165)	(16,308)
Net Operating FCF	18,815	15,074	8,206	11,666
Investing Activities	(57)	2,167	2,416	2,607
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	-	-	-	-
Dividend paid	(3,169)	(2,594)	(3,102)	(3,506)
Others	-	(94)	(447)	(511)
Extraordinary Items	-	(3,049)	-	-
Chg. in Cash & Bank	15,589	11,504	7,073	10,256

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending December 31)

	CY19	CY20P	CY21E	CY22E
Per Share Data (Rs)				
EPS(Basic)	73	77	92	104
Diluted Recurring EPS	68	93	92	104
Diluted Recurring CEPS	100	127	128	142
Dividend per share	14	14	17	19
Book Value	614	677	752	837
Growth Ratios (% YoY)				
Operating Income	5.8	(11.9)	20.1	8.2
EBITDA	13.9	3.4	18.4	11.8
Recurring Net Income	17.2	36.6	(1.3)	13.0
Diluted Recurring EPS	17.2	36.6	(1.3)	13.0
Diluted Recurring CEPS	11.3	26.5	0.6	11.4
Valuation Ratios (x)				
P/E	26.3	19.2	19.5	17.2
P/CEPS	17.8	14.1	14.0	12.6
P/BV	2.9	2.6	2.4	2.1
EV / EBITDA	12.0	11.1	9.1	7.8
EV / te (US\$)	120	115	108	100
EV / Operating Income	1.8	2.0	1.6	1.4
EV / Operating FCF	12.3	12.2	11.0	9.3
Operating Ratios (%)				
Raw Material / Sales	17.7	18.6	18.5	18.5
SG&A / Sales	68.6	65.1	65.2	64.6
Other Income / PBT	11.2	10.7	9.8	9.4
Effective Tax Rate	32.9	13.8	30.0	30.0
NWC / Total Assets	(0.0)	(0.0)	(0.1)	(0.1)
Inventory (x)	6.3	7.4	9.6	9.5
Receivables (days)	16	14	10	9
Payable (days)	47	47	40	43
D/E Ratio (x)	(0.3)	(0.4)	(0.4)	(0.5)
Profitability Ratios (%)				
Rec. Net Income Margins	8.1	12.5	10.3	10.7
RoCE	11.7	11.7	12.8	13.0
RoNW	11.6	11.9	12.8	13.0
Dividend Payout	20.6	14.9	18.0	18.0

Source: Company data, I-Sec research

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