

Robust show continues amid weak offtake

We reiterate BUY on ACC with TP of Rs 1,940 (11x its Jun-21E consolidated EBITDA and 0.5x its CY20E CWIP). ACC delivered a strong performance in 3QCY19 aided by both, pricing and cost tailwinds despite subdued demand.

HIGHLIGHTS OF THE QUARTER

- Another strong quarter:** During 3QCY19, consolidated net sales/EBITDA/PAT rose 3/25/42% YoY to Rs 35.28/5.57/3.03bn respectively (ahead of our estimate of Rs 34.90/4.61/2.76bn).
- Weak demand but strong realization:** Continued slowdown in construction activities coupled with a heavy monsoon drove 2% YoY volume decline to 6.4mn MT. Co witnessed sales decline in east and west markets. However, despite the weak demand, the overall cement pricing trend remained positive. Thus, ACC's NSR fell a modest 5% QoQ (after it had surged 11% QoQ in 2Q). Thus, its NSR came in 3% higher YoY, boosting margins.
- Cost reduction further buoyed margin expansions:** Unitary opex fell by 1/2% YoY/QoQ, driven by cooling-off in input costs (down 15/7% QoQ/YoY). The co highlighted a healthy reduction in slag and fuel costs QoQ and an improvement in the rate of electricity consumption. ACC also renegotiated lower packing costs, adding to the cost

Financial Summary (Consolidated)

Year Ending Dec (Rs mn)	3QCY19	3QCY18	YoY (%)	2QCY19	QoQ (%)	CY17	CY18	CY19E	CY20E	CY21E
Net Sales	35,283	34,332	2.8	41,498	(15.0)	132,851	148,016	154,307	164,960	174,127
EBITDA	5,571	4,471	24.6	7,830	(28.9)	18,783	21,185	23,968	26,801	28,187
APAT	3,026	2,127	42.2	4,557	(33.6)	8,904	10,904	14,292	16,140	17,127
Diluted EPS (Rs)	16.1	11.3	42.2	24.2	(33.6)	47.4	58.1	76.1	86.0	91.2
EV / EBITDA (x)						13.5	11.8	10.1	8.8	8.2
EV/MT (USD)						123	121	117	115	112
P/E (x)						31.6	25.8	19.7	17.4	16.4
RoE (%)						9.8	11.0	13.1	13.7	13.4

Source: Company, HDFC sec Inst Research

efficiency. Thus, ACC's 3QCY19 unitary EBITDA rose by 31% YoY to Rs844/MT (to a 7-yr high in a monsoon quarter)!

- Other highlights:** Share of traded goods purchase (mainly with Ambuja) stood at 2.5% vs 2.5/0.7% QoQ/YoY. Also, since ACC is still evaluating the recently announced changes in the corporate tax rate, the same hasn't been incorporated in 3Q nos.
- Strong near term outlook:** While ACC's volume growth will remain subdued (absence of surplus capacity), stable pricing across north/central/west regions, benefits of lowering energy costs should bolster its profitability during CY19-21E.

STANCE

We estimate ACC to deliver 10/16% EBITDA/PAT CAGR during CY18-21E. Given ACC's healthy cash flow and RoE, as well as its concrete expansion plans (20% capacity increase by end CY21E/early CY21E), the current valuation (of 8.8/8.2x its CY20/21E EBITDA, EV/T of USD 115) is inexpensive. We reiterate BUY with a TP of Rs1,940 (ascribing 11x to its Jun-21E EBITDA and 0.5x to its CY20E CWIP). Key risks: Sharp roll back in cement prices, continued sluggishness in demand and a rebound in energy costs.

INDUSTRY	CEMENT
CMP (as on 15 Oct 2019)	Rs 1,498
Target Price	Rs 1,940
Nifty	11,428
Sensex	38,506

KEY STOCK DATA

Bloomberg	ACC IN
No. of Shares (mn)	188
MCap (Rs bn) / (\$ mn)	281/3,933
6m avg traded value (Rs mn)	1,335

STOCK PERFORMANCE (%)

52 Week high / low	Rs 1,769/1,322			
		3M	6M	12M
Absolute (%)	(6.1)	(10.5)	(1.6)	
Relative (%)	(5.1)	(9.4)	(12.1)	

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	54.53	54.53
FIs & Local MFs	21.92	21.66
FPIs	8.66	9.36
Public & Others	14.89	14.45
Pledged Shares	-	-

Source : BSE

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2QCY19 revenue/EBITDA/PAT propelled by robust pricing and lower costs

One of the best ever EBITDA margins in a monsoon quarter

NSR remains firm at 3% YoY despite subdued off take

Falling fuel and slag prices, improvement in efficiencies further boosted unitary EBITDA YoY.

Quarterly Financials' Snapshot: Consolidated

Consolidated (Rs mn)	3QCY19	3QCY18	YoY (%)	2QCY19	QoQ (%)	9MCY19	9MCY18	YoY (%)
Net Sales	35,283	34,332	2.8	41,498	(15.0)	115,972	109,060	6.3
Raw Materials	9,182	10,878	(15.6)	12,031	(23.7)	17,674	15,876	11.3
Power and Fuel	7,845	7,309	7.3	8,166	(3.9)	23,932	22,318	7.2
Employee	2,295	2,090	9.8	2,035	12.8	6,331	6,212	1.9
Transport	9,510	9,336	1.9	10,398	(8.5)	30,477	29,648	2.8
Other Exp	6,077	6,399	(5.0)	6,495	(6.4)	18,841	18,929	(0.5)
EBITDA	5,571	4,471	24.6	7,830	(28.9)	18,718	16,077	16.4
EBITDA margin (%)	15.8	13.0	277	18.9	(308)	14.7	16.1	(140)
Depreciation	1,512	1,508	0.3	1,469	3.0	4,456	4,481	(0.5)
EBIT	4,059	2,963	37.0	6,362	(36.2)	14,262	11,597	23.0
Other Income (Including EO Items)	508	292	74.2	535	(5.0)	2,609	681	283.0
Interest Cost	163	199	(18.5)	199	(18.3)	562	654	(14.1)
PBT - Reported	4,404	3,055	44.2	6,698	(34.2)	16,309	11,623	40.3
Tax	1,409	989	42.6	2,170	(35.0)	5,350	3,786	41.3
Tax rate (%)	32.0	32.4	(36)	32.4	(39)	32.6	32.8	(23)
(Minority Interest)/ Share of associates profit	31	25		29		91	74	
RPAT	3,026	2,091	44.7	4,557	(33.6)	11,051	7,911	39.7
EO (Loss) / Profit (Net Of Tax)	-	(36)		-		995	(445)	
APAT	3,026	2,127	42.2	4,557	(33.6)	10,056	8,357	20.3
Adj PAT margin (%)	8.6	6.2	238	11.0	(241)	7.7	8.7	(101)

Source: Company, HDFC sec Inst Research

Quarterly Performance Analysis: Cement

	3QCY19	3QCY18	YoY (%)	2QCY19	QoQ (%)	9MCY19	9MCY18	YoY (%)
Sales vol (mn MT)	6.4	6.6	(1.7)	7.2	(11.0)	21.2	20.9	1.3
Rs/MT trend								
NSR	5,021	4,862	3.3	5,306	(5.4)	5,034	4,844	3.9
Raw materials	182	382	(52.3)	511	(64.4)	431	431	(0.0)
Power & fuel	1,218	1,116	9.2	1,128	8.0	1,130	1,068	5.8
Employee	356	319	11.7	281	26.8	299	297	0.6
Freight (inward +outward)	1,477	1,425	3.6	1,436	2.8	1,439	1,419	1.4
Other Exp	944	977	(3.4)	897	5.2	890	906	(1.8)
Opex	4,177	4,219	(1.0)	4,254	(1.8)	4,188	4,120	1.6
EBITDA	844	643	31.3	1,052	(19.8)	846	723	16.9

Source: Company, HDFC sec Inst Research

We expect volume growth to improve slightly in CY20/21E

We estimate 2.5% NSR CAGR for CY18-21E

Falling coal/petcoke and diesel prices should add to margin expansion

Operational Trends and Assumptions – Cement business

Particulars	CY15	CY16	CY17	CY18	CY19E	CY20E	CY21E
Cement Cap (mn MT)	30.4	31.8	31.8	31.8	31.8	31.8	31.8
Sales Volume (mn MT)	23.6	23.0	26.2	28.4	28.5	29.5	30.0
YoY change (%)	(2.4)	(2.7)	14.0	8.3	0.2	3.5	2.0
Utilisation (%)	77.7	72.3	82.5	89.3	89.5	92.6	94.5
(Rs/ MT trend)							
NSR (1)	4,616	4,430	4,623	4,749	4,890	5,035	5,186
YoY change (%)	1.8	(4.0)	4.4	2.7	3.0	3.0	3.0
Raw material cost	486	379	351	406	406	409	402
Power and fuel cost	1,015	939	1,036	1,057	1,041	1,067	1,120
Transport cost	1,145	1,147	1,310	1,406	1,392	1,427	1,484
Employee cost	327	329	313	286	306	310	334
Other expenses	1,075	1,025	929	896	946	961	962
Total Opex	4,047	3,819	3,951	4,051	4,090	4,173	4,302
YoY change (%)	3.2	(5.6)	3.5	2.5	1.0	2.0	3.1
EBITDA per MT	569	611	672	698	800	862	883
YoY change (%)	(6.9)	7.4	10.0	3.9	14.6	7.8	2.5

Source: Company, HDFC sec Inst Research

We have plotted ACC's operating metrics on trailing 12-month (TTM) basis, to show long term performance trends

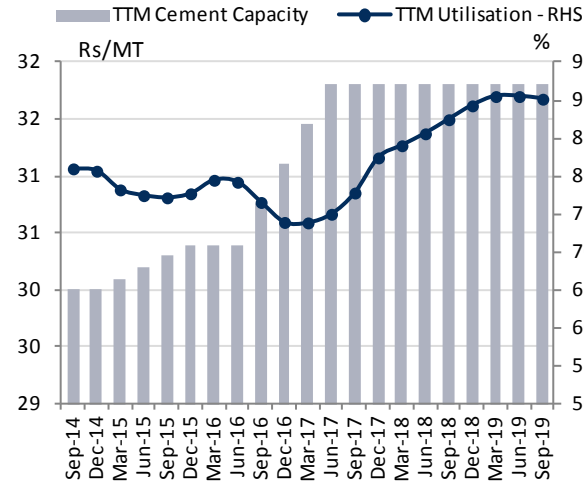
Lack of major expansions have been a bane for the company as its volume growth and market share have suffered

However, ACC has been able to manage its operating costs and has also worked on increasing sale of premium products to offset the volume loss impact

Aided by good cost controls and recent cement price increase, ACC's TTM EBITDA/MT currently is at seven year high level.

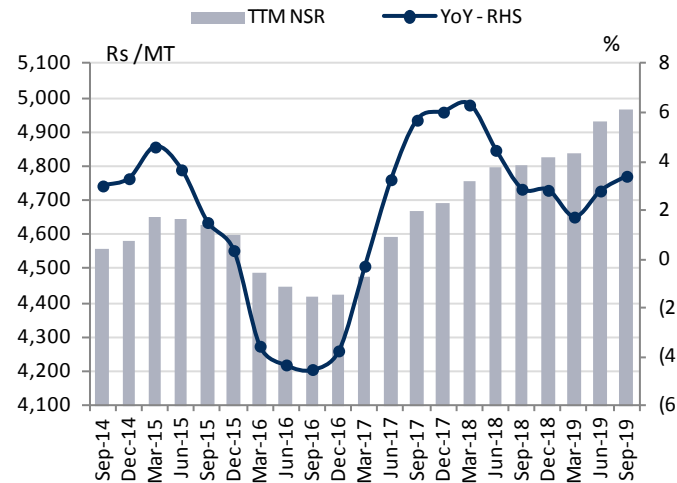
Long term performance trends

ACC continues to operate at peak utilization



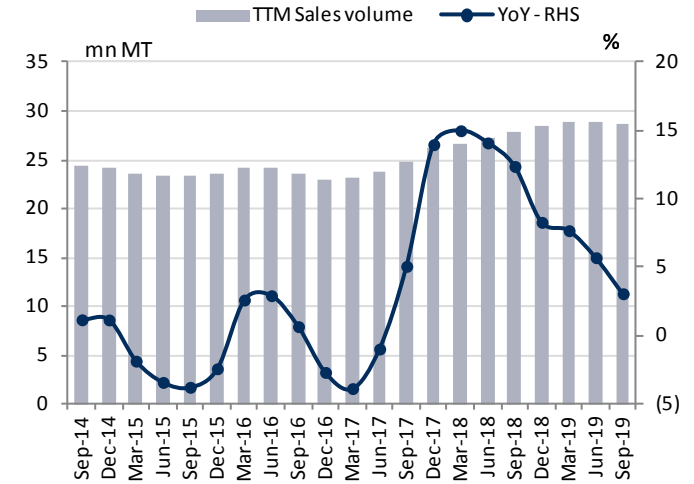
Source: Company, HDFC Sec Inst Research

NSR trend continues to remain firm



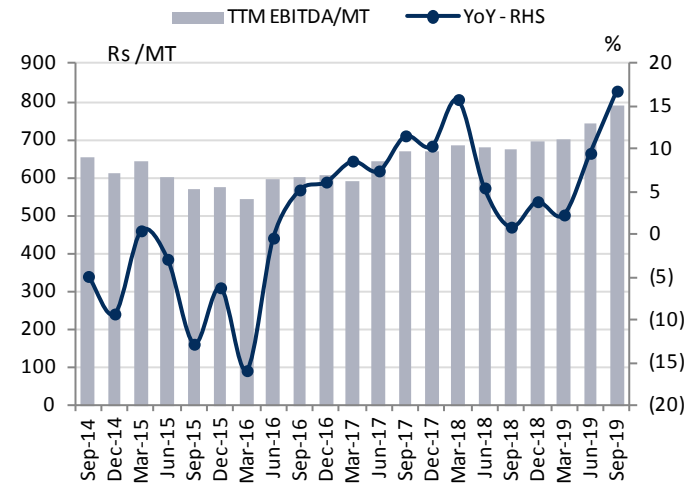
Source: Company, HDFC Sec Inst Research

Subdued growth in past six month has moderated growth trends



Source: Company, HDFC Sec Inst Research

Strong pricing amid moderating opex further bolsters unitary EBITDA to 7-yr high level

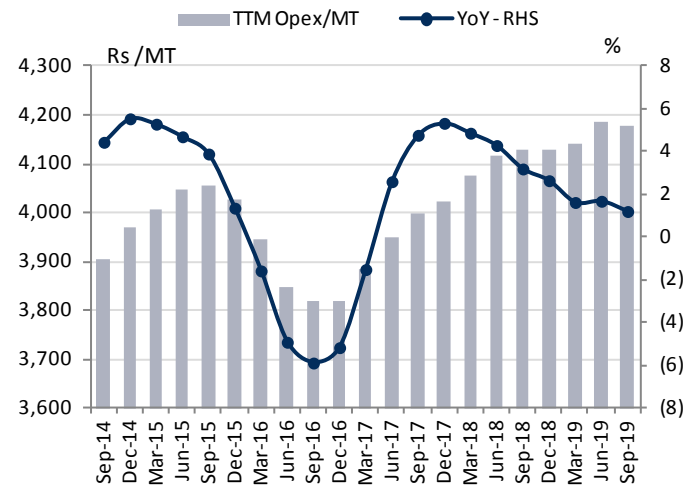


Source: Company, HDFC Sec Inst Research

Over the last two years, higher utilisation and other cost controls have yielded positively for ACC, as its fixed costs have shrunk

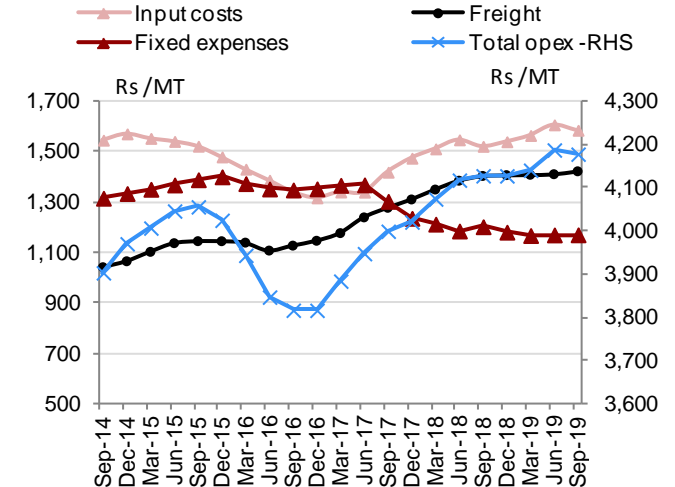
Input and freight costs are also cooling off, resulting in boosted margins

Moderation in fuel and diesel prices further cooled off cost inflation, adding to cost efficiency



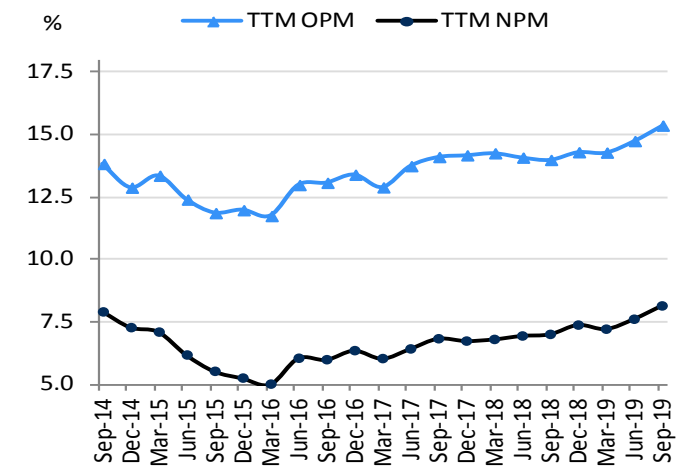
Source: Company, HDFC Sec Inst Research

ACC's fixed cost reduction through cost controls continues



Source: Company, HDFC Sec Inst Research

ACC's EBITDA margin currently stands highest in past seven years



Source: Company, HDFC Sec Inst Research

We broadly maintain our earnings estimates

ACC's valuations are inexpensive given that it continues to generate healthy return ratios and has a net cash balance sheet, despite ongoing expansions

The on-going expansions (6mn MT, 20% capacity increase) will drive volume growth of CY22 and onwards, thereby boosting its position in the central market.

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA (x)			EV/MT (USD)			Net D:E (x)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
UltraTech Cement	1,155.3	4,207	BUY	5,330	19.8	14.6	12.1	210	182	176	0.7	0.4	0.3	8.9	12.8	13.6
Shree Cement	647.9	18,599	NEU	19,200	22.7	16.8	14.2	239	224	208	(0.2)	(0.3)	(0.4)	13.5	17.2	17.0
Ambuja Cements	391.1	197	BUY	230	12.7	11.2	10.2	125	121	112	(0.7)	(0.7)	(0.7)	5.9	6.6	6.5
ACC	281.3	1,498	BUY	1,940	11.8	10.1	8.8	121	117	115	(0.3)	(0.4)	(0.4)	11.0	13.1	13.7
Ramco Cements	170.7	725	BUY	800	17.9	13.6	12.0	191	172	155	0.3	0.4	0.4	12.1	16.7	16.2
Dalmia Bharat	155.4	806	BUY	1,470	9.7	7.9	7.0	110	109	83	0.3	0.3	0.2	2.8	5.9	5.6
JK Cements	82.1	1,062	BUY	1,321	12.3	9.7	8.8	107	89	90	0.8	0.9	0.8	10.5	15.1	15.7
Star Cement	39.2	94	BUY	138	8.6	8.1	6.6	160	129	114	(0.1)	(0.2)	(0.3)	17.9	16.5	17.4
JK Lakshmi	32.8	279	BUY	376	10.9	7.4	7.0	64	62	64	0.8	0.7	0.6	5.3	13.6	14.5
Orient Cement	16.9	82	BUY	150	9.4	5.8	5.5	57	54	57	1.2	0.9	0.9	4.6	16.0	16.9
Deccan Cement	4.7	333	BUY	670	4.1	3.2	3.5	27	31	35	(0.2)	(0.0)	0.1	11.9	19.5	16.2

Source: Company, HDFC sec Inst Research, For ACC and Ambuja, the financial year is CY18/CY19E/CY20E resp

Consolidated Income Statement

(Rs Mn)	CY17	CY18	CY19E	CY20E	CY21E
Revenues	132,851	148,016	154,307	164,960	174,127
Growth %	20.8	11.4	4.3	6.9	5.6
Raw Material	19,659	23,325	25,479	27,265	28,746
Power & Fuel	27,169	30,008	29,625	31,428	33,659
Freight Expense	34,338	39,928	39,618	42,030	44,585
Employee cost	8,214	8,132	8,701	9,136	10,050
Other Expenses	24,689	25,438	26,916	28,300	28,900
EBITDA	18,783	21,185	23,968	26,801	28,187
EBIDTA Margin (%)	14.1	14.3	15.5	16.2	16.2
EBIDTA Growth %	27.1	12.8	13.1	11.8	5.2
Depreciation	6,436	6,032	5,965	6,450	6,718
EBIT	12,347	15,153	18,003	20,350	21,469
Other Income (Including EO Items)	1,631	5,729	1,700	1,802	1,982
Interest	985	878	800	800	800
PBT	12,992	20,004	18,903	21,352	22,651
Tax	3,856	4,901	4,726	5,338	5,663
Minority Int	(109)	(103)	(115)	(126)	(138)
RPAT	9,246	15,206	14,292	16,140	17,127
EO (Loss) / Profit (Net Of Tax)	342	4,303	-	-	-
APAT	8,904	10,904	14,292	16,140	17,127
APAT Growth (%)	27.7	22.5	31.1	12.9	6.1
AEPS	47.4	58.1	76.1	86.0	91.2
AEPS Growth %	27.7	22.5	31.1	12.9	6.1

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

(Rs mn)	CY17	CY18	CY19E	CY20E	CY21E
SOURCES OF FUNDS					
Share Capital	1,880	1,880	1,880	1,880	1,880
Reserves And Surplus	91,679	103,440	111,141	120,690	131,226
Total Equity	93,559	105,319	113,021	122,570	133,106
Minority Interest	29	30	30	30	30
Long-term Debt	-	-	-	-	-
Short-term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Deferred Tax Liability	5,516	6,745	6,745	6,745	6,745
Long-term Liab+ Provisions	1,428	1,403	1,403	1,403	1,403
TOTAL SOURCES OF FUNDS	100,531	113,498	121,199	130,749	141,284
APPLICATION OF FUNDS					
Net Block	72,645	70,726	69,761	67,311	64,592
Capital WIP	2,693	3,978	8,978	20,978	32,978
Goodwill	156	156	156	156	156
Other Non-current Assets	15,597	17,930	18,747	19,375	20,006
Total Non-current Investments	949	1,041	1,041	1,041	1,041
Total Non-current Assets	92,039	93,831	98,683	108,860	118,773
Inventories	14,048	16,794	16,910	18,530	19,559
Debtors	6,660	8,674	8,878	9,039	9,541
Cash and Cash Equivalents	27,286	30,970	39,661	44,532	50,455
Other Current Assets	8,425	10,292	10,806	11,338	11,505
Total Current Assets	56,418	66,729	76,256	83,439	91,061
Creditors	18,137	19,263	21,986	23,501	24,807
Other Current Liabilities & Provns	29,789	27,799	31,753	38,049	43,743
Total Current Liabilities	47,927	47,062	53,739	61,550	68,550
Net Current Assets	8,492	19,667	22,516	21,889	22,511
TOTAL APPLICATION OF FUNDS	100,531	113,498	121,199	130,749	141,284

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

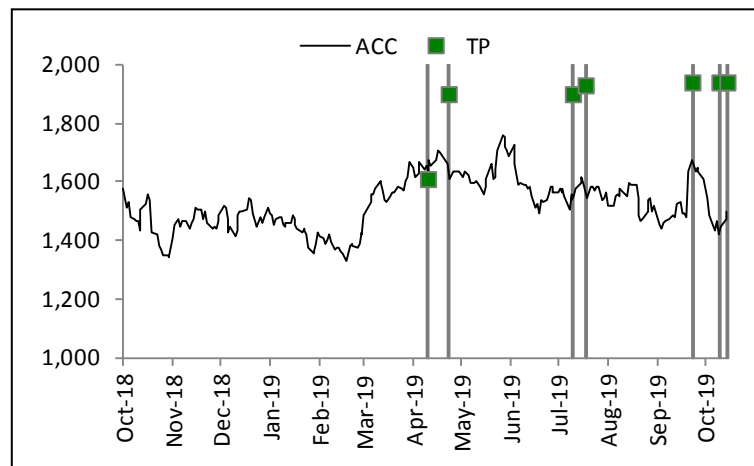
(Rs mn)	CY17	CY18	CY19E	CY20E	CY21E
Reported PBT	13,101	15,101	18,903	21,352	22,651
Non-operating & EO Items	(1,879)	(1,650)	(1,585)	(1,676)	(1,844)
Interest Expenses	985	878	800	800	800
Depreciation	6,436	6,032	5,965	6,450	6,718
Working Capital Change	(907)	(3,906)	5,025	4,871	4,669
Tax Paid	(2,191)	(5,279)	(4,726)	(5,338)	(5,663)
OPERATING CASH FLOW (a)	15,545	11,175	24,383	26,460	27,332
Capex	(5,204)	(4,971)	(10,000)	(16,000)	(16,000)
Free Cash Flow (FCF)	10,340	6,204	14,383	10,460	11,332
Investments	664	396	-	-	-
Non-operating Income	744	931	1,700	1,802	1,982
Others					
INVESTING CASH FLOW (b)	(3,796)	(3,644)	(8,300)	(14,198)	(14,018)
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	(416)	(409)	(800)	(800)	(800)
FCFE	9,925	5,796	13,583	9,660	10,532
Share Capital Issuance	-	-	-	-	-
Dividend	(3,842)	(3,396)	(6,591)	(6,591)	(6,591)
FINANCING CASH FLOW (c)	(4,258)	(3,805)	(7,391)	(7,391)	(7,391)
NET CASH FLOW (a+b+c)	7,491	3,726	8,692	4,871	5,923
EO Items, Others					
Closing Cash & Equivalents	27,263	31,012	39,661	44,532	50,455

Source: Company, HDFC sec Inst Research

Consolidated Key Ratios & Valuations

	CY17	CY18	CY19E	CY20E	CY21E
PROFITABILITY %					
EBITDA Margin	14.1	14.3	15.5	16.2	16.2
EBIT Margin	9.3	10.2	11.7	12.3	12.3
APAT Margin	6.7	7.4	9.3	9.8	9.8
RoE	9.8	11.0	13.1	13.7	13.4
RoIC	11.8	14.7	16.5	18.2	18.2
RoCE	9.9	11.7	12.6	13.2	12.9
EFFICIENCY					
Tax Rate %	29.7	24.5	25.0	25.0	25.0
Fixed Asset Turnover (x)	1.6	1.7	1.7	1.7	1.7
Inventory (days)	39	41	40	41	41
Debtors (days)	18	21	21	20	20
Other Current Assets (days)	23	25	26	25	24
Payables (days)	50	48	52	52	52
Other Current Liab & Provns (days)	82	69	75	84	92
Cash Conversion Cycle (days)	(52)	(28)	(41)	(50)	(59)
Net Debt/EBITDA (x)	(1.5)	(1.5)	(1.7)	(1.7)	(1.8)
Net D/E (x)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	12.5	17.3	22.5	25.4	26.8
PER SHARE DATA (Rs)					
EPS	47.4	58.1	76.1	86.0	91.2
CEPS	81.7	90.2	107.9	120.3	127.0
Dividend	26.0	29.0	30.0	30.0	30.0
Book Value	498.4	561.0	602.0	652.9	709.0
VALUATION					
P/E (x)	31.6	25.8	19.7	17.4	16.4
P/Cash EPS (x)	17.9	13.2	13.9	12.5	11.8
P/BV (x)	3.0	2.7	2.5	2.3	2.1
EV/EBITDA (x)	13.5	11.8	10.1	8.8	8.2
EV/MT(USD)	123	121	117	115	112
Dividend Yield (%)	1.7	1.9	2.0	2.0	2.0
OCF/EV (%)	6.1	4.5	10.1	11.2	11.8
FCFF/EV (%)	4.1	2.5	6.0	4.4	4.9
FCFE/M Cap (%)	3.7	2.2	5.1	3.7	4.0

Source: Company, HDFC sec Inst Research,

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
10-Apr-19	1,654	BUY	1,910
24-Apr-19	1,658	BUY	1,900
10-Jul-19	1,554	BUY	1,900
19-Jul-19	1,567	BUY	1,930
22-Sep-19	1,634	BUY	1,940
10-Oct-19	1,467	BUY	1,940
16-Oct-19	1,498	BUY	1,940

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
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