

ACC

ACCUMULATE

Capacity addition plan announced

Summary

ACC's Q4CY20 Adj. EBITDA is 7% lower than our estimate. Volume in the quarter has declined by 1% YoY and adjusted EBITDA/t stood at Rs908 (vs Rs1033/t QoQ). Cash in the books remains strong at Rs58bn (18% of Mkt Cap) and company has announced dividend of Rs14/sh in CY20, which is same as CY19. Due to lack of capacity addition, ACC has lost market share in the last 3-4 years. And company plans to correct this with addition of 5.4mtpa over CY21, CY22. In CY21/22E we factor volume to increase by 19%/3% YoY and EBITDA/t of Rs955/952 respectively. We maintain our estimate and TP of Rs1,879, stock is trading closer to our TP and thus down-grade the rating to ACCUMULATE.

Key Highlights and Investment Rationale

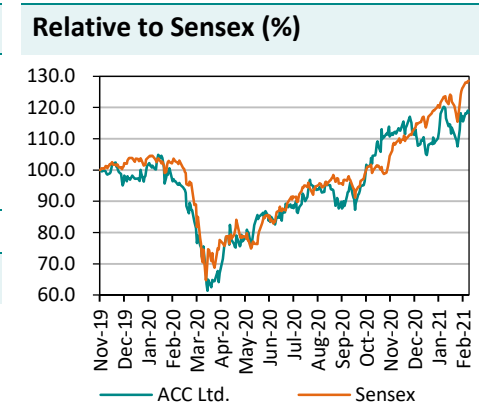
- Q4CY20 Snapshot:** Revenue increased by 2% YoY and is led by increase in the realization of 5% YoY. Q4CY20 cement sales volume declined by 1% YoY, impacted from weak volume in the South market. Opex/t was up 5% YoY and 3% QoQ. This led Adj EBITDA/t to decline to Rs908/t vs Rs1033/t QoQ, Rs750/t YoY. Adj PAT stood at Rs3.9bn up 44% YoY. Reported PAT is adjusted for Rs1.8bn impairment of Madukkarai plant and Rs1.3bn of incentive reversal.
- Capacity addition plans:** ACC has cement capacity of 33mtpa with 17 operating cement. Its plants operated at 72% capacity utilization in CY20 vs 85-90% pre-covid time. ACC has recently commissioned 1.4mtpa capacity in the east. And in CY22, company is planning to commission ~4mtpa Ametha plant in north. From CY20 to 22, ACC capacity will increase by 15%. We have factored Ametha plant to get commission in CY23. And thus early commissioning could see our volume higher by 4-5% vs current estimate for CY22.
- SOTP TP:** Our TP values, ACC at 10x CY22E EV/EBITDA (83% contribution to TP) and cash in the books of Rs58bn (17% contribution). Stock is trading at 9x CY22 EV/EBITDA (last 10 years average is 10x).

TP	Rs1,879	
CMP	Rs1,766	
Potential upside / downside	+6%	
Previous Rating	BUY	
V/s Consensus		
EPS (Rs)	CY21E	CY22E
IDBI Capital	84.7	87.5
Consensus	94.9	91.9
% difference	(10.8)	(4.8)

Shareholding Pattern (%)		
Promoters	54.5	
FII	11.6	
DII	10.5	
Public	23.4	

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(1.6)	5.5	21.9
Rel to Sensex	(5.7)	(13.4)	(2.1)

Key Stock Data	
Bloomberg / Reuters	ACC IN / ACC.BO
Sector	Cement
Shares o/s (mn)	188
Market cap. (Rs mn)	3,31,717
Market cap. (US\$ mn)	4,559
3-m daily avg Trd value (Rs mn)	861.8
52-week high / low	Rs1,813 / 896
Sensex /Nifty	51,544 / 15,163



Financial snapshot					(Rs mn)
Year	CY18	CY19	CY20E	CY21E	CY22E
Revenue	148,014	156,567	137,845	166,474	177,303
EBITDA	20,446	24,095	23,522	28,570	29,360
EBITDA (%)	13.8	15.4	17.1	17.2	16.6
Adj. PAT	10,060	13,589	14,149	15,932	16,447
EPS (Rs)	53.5	72.3	75.3	84.7	87.5
EPS Growth (%)	(18.8)	35.1	4.1	12.6	3.2
PE (x)	32.9	24.4	23.4	20.8	20.2
Dividend Yield (%)	0.5	0.8	0.8	0.9	1.0
EV/EBITDA (x)	14.7	11.9	11.6	9.9	9.4
RoE (%)	10.1	12.3	11.7	12.0	11.3
RoCE (%)	13.5	16.2	14.3	17.0	15.9

Source: Company; IDBI Capital Research

Conference call highlights

- ACC has cement capacity of 33mtpa with 17 operating cement (in 12 states), 80 RMC plant (in 17 states). Plants operated at 72% capacity utilization in CY20 vs 85-90% pre-covid time.
- Impairment in Q4CY20 is due to lower CF vs current book value. As quality of limestone is lower versus previously envisaged.
- Reversal of incentive factors in Q4CY20 is to factor discounting of the time value of money due to delay in receipt of it. Overall liability is sovereign and don't see risk there.
- Project Parbat has targeted to reduce opex by Rs200/t. Target is on track and company will reduce cost by more than Rs200/t.
- MSA with Ambuja, full benefit is not yet realize as chain is not yet fully exploited. ACC aims to be more cost competitive and under MSA 1.44mt was purchased from Amabuja in CY20.
- ACC is not sitting with low cost inventory of fuel. And thus impact of increase in the fuel cost will be visible in the coming quarters
- Capacity addition: Ametha capacity will commission in June 2021. ACC is committed to growth and won't comment on future capacity addition beyond CY21. As per ACC, India is a growth market. And company will bridging the cost gap with the leader
- Capital allocation, ACC has cash in balance sheet of Rs58bn and plan to invest in times to come.
- Capex target Rs5bn in Ametha and WHRS plant in CY21
- ACC aim to rationalize entire value chain and extract more value and reduce the costs.
- Target to reach best EBITDA/t with the industry and will bridge ebitda/t gap in the next 5 years
- Limestone leasing is expiring in 2028-30. But its industry phenomena and aims to work around and avoid any business disruption.
- Project Parbat: WHRS Tamul and Jamun. Ametha 14-15MW WHRS plan
- ACC utilization is highest in the industry and this is leading to lower volume growth. 6.2mnt capacity by next year will see a growth in CY22.
- ACC is one of the Lowest CO2 emitters at 500kg/t. Company is focusing on reducing clinker factor, increasing blended cement, increase in the usage of waste, higher usage of WHR. Which will further improve ESG for ACC
- There is no plan of merger of Ambuja and ACC.

Exhibit 1: Financial snapshot (Standalone)

(Rs mn)

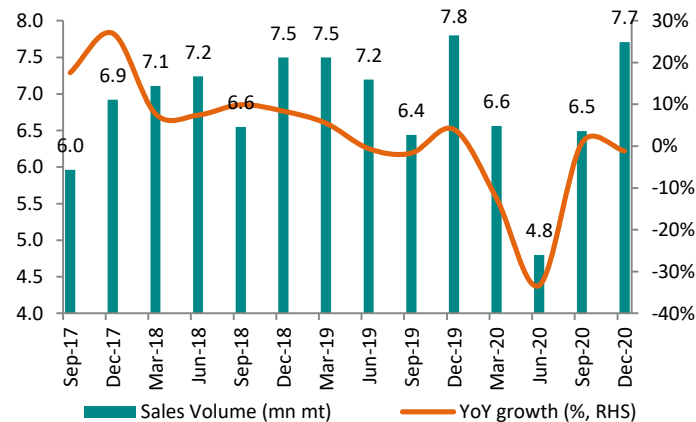
Year-end: December	Dec 20	Dec 19	YoY	Sep 20	QoQ
Net Sales	41,447	40,603	2.08	35,373	17.2
EBIDTA	5,712	5,405	5.7	6,707	(14.8)
<i>EBIDTA margin (%)</i>	<i>14</i>	<i>13</i>	<i>0 bps</i>	<i>19</i>	<i>(5) bps</i>
Other income	542	560	(3.3)	449	20.5
Depreciation	1,565	1,600	(2.2)	1,600	(2.2)
Interest	174	292	(40.6)	160	8.6
Pre-tax profit	2,755	4,073	(32.4)	5,397	(49.0)
Tax	(1,884)	1,381	(236.4)	1,766	(206.7)
Adjusted net profit	4,639	2,692	72.3	3,631	27.8
Adjusted EBITDA	7,001	5,405	29.5	6,707	4.4
Adjusted PAT	3,889	2,692	44.4	3,631	7.1

Source: Company; IDBI Capital Research

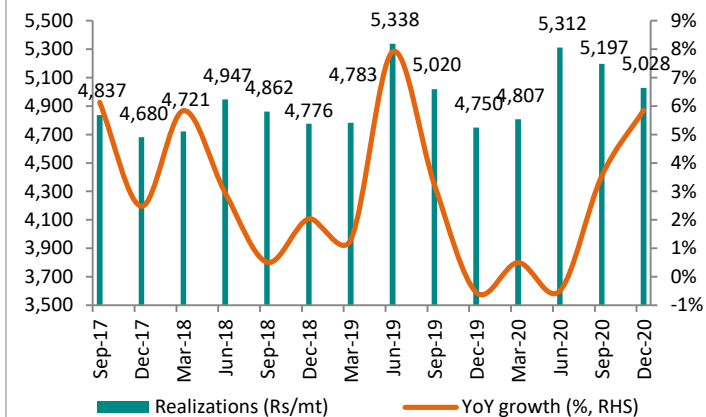
Exhibit 2: Operating Matrix

Particulars	Dec 20	Dec 19	YoY	Sep 20	QoQ
Cement sales (mn t)	7.7	7.8	(1.2)	6.49	18.8
Cement - Net realization Rs /t	4,970	4,750	4.6	5,148	(3.5)
Total expenditure per Rs /t	4,234	4,032	5.0	4,125	2.7
Composite raw materials Rs /t	1,112	1,220	(8.8)	1,048	6.1
Employees Cost Rs /t	323	298	8.5	316	2.3
Power & Fuel Cost Rs /t	975	949	2.8	970	0.6
Freight & Handling Expenses Rs /t	1,322	1,269	4.2	1,331	(0.7)
Other Expenditure Rs /t	903	777	16.1	752	20.0
EBITDA Rs /t	741	736	0.7	1,033	(28.3)
Adj. EBITDA Rs /t	908	736	23.4	1,033	(12.1)

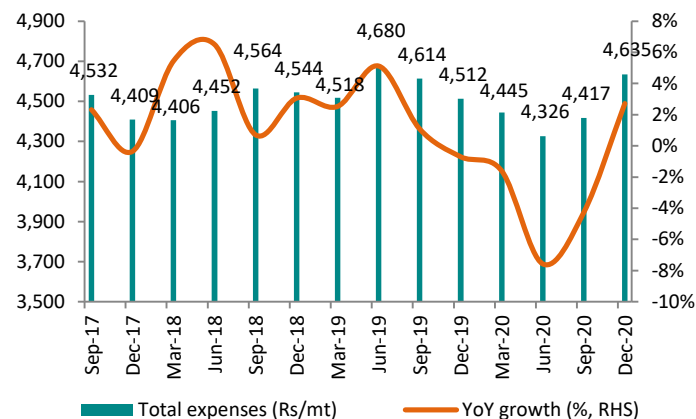
Source: Company; IDBI Capital Research

Exhibit 3: Q4CY20 volume decreased by 1% YoY


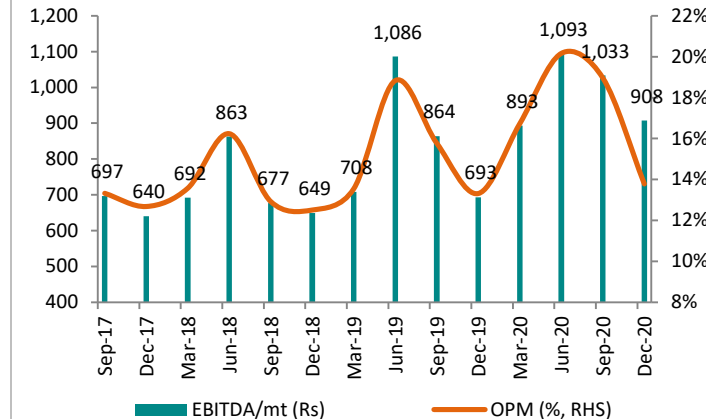
Source: IDBI Capital Research

Exhibit 4: Q4CY20 cement prices increased by 5% YoY


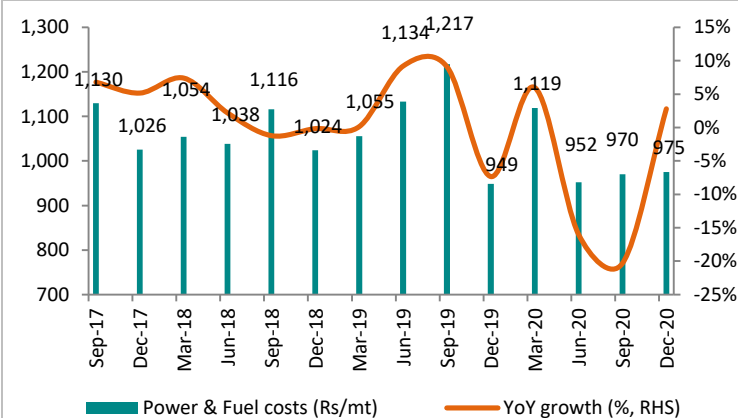
Source: IDBI Capital Research

Exhibit 5: Q4CY20 opex up 3% YoY


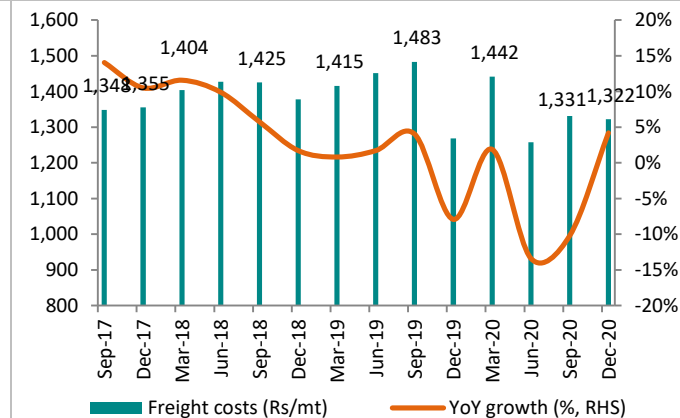
Source: IDBI Capital Research

Exhibit 6: Q4CY20 EBITDA /t up YoY to Rs908


Source: IDBI Capital Research

Exhibit 7: Q4CY20 fuel cost +3% YoY


Source: IDBI Capital Research

Exhibit 8: Q4CY20 freight cost up +4% YoY


Source: IDBI Capital Research

Exhibit 9: Capacity addition plan of ACC

Capacity	mn t
Existing	33.1
Planned Capacity Addition over CY21-22:	
Ametha, MP (Integrated unit with 2.7mt Clinker Capacity)	3.7
Sindri Jharkhand (Brownfield) – Commissioned	1.4
Total	5.1
Total Capacity mn t	38.2

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	CY19	CY20E	CY21E	CY22E
Net sales	1,56,567	1,37,845	1,66,474	1,77,303
<i>Growth (%)</i>	5.8	(12.0)	20.8	6.5
Operating expenses	(1,32,472)	(1,14,324)	(1,37,904)	(1,47,943)
EBITDA	24,095	23,522	28,570	29,360
<i>Growth (%)</i>	17.8	(2.4)	21.5	2.8
Depreciation	(6,030)	(6,353)	(6,417)	(6,678)
EBIT	18,065	17,169	22,153	22,682
Interest paid	(862)	(570)	(661)	(610)
Other income	3,112	2,040	2,277	2,465
Pre-tax profit	20,315	16,878	23,768	24,537
Tax	(6,726)	(2,729)	(7,837)	(8,090)
<i>Effective tax rate (%)</i>	33.1	16.2	33.0	33.0
Net profit	13,589	14,149	15,932	16,447
Exceptional items	-	-	-	-
Reported net profit	13,589	13,399	15,932	16,447
<i>Growth (%)</i>	35.1	(1.4)	18.9	3.2
<i>Shares o/s (mn nos)</i>	188	188	188	188

Cash Flow Statement

(Rs mn)

Year-end: March	CY19	CY20E	CY21E	CY22E
Pre-tax profit	20,315	16,878	23,768	24,537
Depreciation	6,030	6,353	6,417	6,678
Tax paid	(4,462)	(7,064)	(7,837)	(8,090)
Chg in working capital	2,661	3,872	(9,931)	1,331
Other operating activities	(2,059)	(866)	(1,616)	(1,855)
Cash flow from operations (a)	22,484	19,173	10,802	22,601
Capital expenditure	(4,935)	(7,452)	(15,000)	(15,000)
Chg in investments	195	148	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(3,283)	(7,378)	(12,723)	(12,535)
Equity raised/(repaid)	5	1	-	-
Debt raised/(repaid)	(572)	(645)	(661)	(610)
Dividend (incl. tax)	(3,169)	(2,629)	(3,755)	(3,877)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(3,737)	(3,273)	(4,417)	(4,487)
Net chg in cash (a+b+c)	15,464	8,522	(6,338)	5,579

Balance Sheet

(Rs mn)

Year-end: March	CY19	CY20E	CY21E	CY22E
Net fixed assets	74,267	71,581	84,596	92,919
Investments	2,302	2,206	2,206	2,206
Other non-curr assets	11,449	14,747	14,289	14,289
Current assets	74,128	83,276	85,045	92,383
Inventories	11,410	9,005	18,244	19,431
Sundry Debtors	6,284	4,515	8,210	8,744
Cash and Bank	43,832	57,349	46,910	52,489
Marketable Securi.	1,549	1,562	1,562	1,562
Loans and advances	314	598	586	625
Total assets	1,62,146	1,71,810	1,86,137	2,01,797
Shareholders' funds	1,15,213	1,26,614	1,38,791	1,51,361
Share capital	1,880	1,880	1,880	1,880
Reserves & surplus	1,13,333	1,24,735	1,36,911	1,49,481
Other liabilities	1,171	(2,291)	(2,291)	(2,291)
CurrLiab & prov	45,763	47,487	49,637	52,727
Current liabilities	43,187	45,192	47,232	50,305
Provisions	2,575	2,294	2,405	2,423
Total liabilities	46,933	45,195	47,346	50,436
Total equity & liabilities	1,62,146	1,71,810	1,86,137	2,01,797
Book Value (Rs)	613	674	738	805

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	CY19	CY20E	CY21E	CY22E
Adj. EPS (Rs)	72.3	483.1	74.5	74.9
Adj. EPS growth (%)	35.1	568.3	(84.6)	0.6
EBITDA margin (%)	15.4	69.0	16.3	15.8
Pre-tax margin (%)	13.0	65.9	13.3	12.8
ROE (%)	12.3	75.1	10.6	9.9
ROCE (%)	16.2	73.8	14.9	13.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.0	0.8	0.9	0.9
Leverage factor (x)	1.4	1.4	1.4	1.3
Net margin (%)	8.7	65.9	8.9	8.6
Net Debt/Equity (x)	(0.4)	(0.5)	(0.3)	(0.3)
Working Capital & Liquidity ratio				
Inventory days	27	24	40	40
Receivable days	15	12	18	18
Payable days	41	121	47	47

Valuation

Year-end: March	CY19	CY20E	CY21E	CY22E
P/E (x)	24.4	23.4	20.8	20.2
Price / Book value (x)	2.9	2.6	2.4	2.2
PCE (x)	16.9	16.2	14.8	14.3
EV / Net sales (x)	1.8	2.0	1.7	1.6
EV / EBITDA (x)	11.9	11.6	9.9	9.4
Dividend Yield (%)	0.8	0.8	0.9	1.0



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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