

**BUY**

TP: Rs 2,158 | ▲ 16%

**ACC**

Cement

03 November 2023

## Cost savings boost margin; upgrade to BUY

- Q2 volumes flat YoY (-15% QoQ) at 6.9mt due to flood impact in key markets
- Cost-saving initiatives helped bolster operating performance, with EBITDA margin up sharply to 12.4% off a weak base
- Factoring cost synergies, we hike FY24/FY25 earnings 44%/26% and upgrade from HOLD to BUY with a new TP of Rs 2,158 (vs. Rs 1,964)

Milind Raginwar | Shree Kirloskar  
 research@bobcaps.in

**Volumes disappoint:** ACC reported a 13% YoY (-15% QoQ) increase in Q2FY24 revenue to Rs 44.3bn off a low base (includes other operating income). Volumes were flat YoY (-15% QoQ) at 6.9mn tonnes (netting 1.2mt of sales to ACEM under the master supply agreement or MSA). Realisations fell 5% YoY (-1% QoQ) to Rs 5,125/t amid the supply push from competition and demand weakness in some pockets (key operating markets of ACC like North India) that were severely affected by floods in July. Revenue from ACC's ready-mix concrete (RMC) segment fell 13% YoY (-15% QoQ) to Rs 3.1bn, with segmental earnings at Rs 33mn.

**Cost benefits a bright spot:** Operating cost softened 17% YoY (+2% QoQ) to Rs 4,798/t owing to lower energy and logistics cost. Additionally, ACC had earlier realigned staff and other expenses and hence both showed a decline. Energy cost fell sharply by 43% YoY to Rs 1,093/t due to lower pet coke prices but was down only 15% YoY when adjusted for raw material cost. Logistics cost declined 18% YoY (-5% QoQ) to Rs 1,177/t on the back of synergies with ACEM. Consequently, ACC's cement EBITDA/t jumped to Rs 676 vs. Rs 44 in Q2FY23 and its operating margin climbed to 12.4% off a low base of 0.4% (-240bps QoQ).

**Capacity expansion on track:** Expansion at Ametha (Uttar Pradesh) became operational during Q2FY24, adding 3.3mt of clinker and 1mt of cement capacity. Clinker will be fully utilised by ACC's split grinding units in UP. ACC has a defined roadmap to double capacity from 70mt to 140mt by FY28 together with cost-saving measures such as captive power and waste heat recovery systems.

**Strong earnings trajectory; raise to BUY:** Factoring in ACC's strong H1FY24 performance backed by cost savings partly from MSA-led synergies, we increase our FY24/FY25 EBITDA estimates by 33%/21% and EPS by 44%/26%. Our TP thus rises to Rs 2,158 (from Rs 1,964), set at an unchanged 10x FY25E EV/EBITDA multiple. Our TP implies a replacement cost of Rs 9bn/mt – a 30% premium to the industry average of Rs 7bn/mt – given ACC's pan-India presence, size (38mt) and operating efficiencies. We upgrade the stock from HOLD to BUY for 16% upside potential.

## Key changes

Target	Rating
▲	▲

Ticker/Price	ACC IN/Rs 1,864
Market cap	US\$ 4.3bn
Free float	43%
3M ADV	US\$ 13.8mn
52wk high/low	Rs 2,675/Rs 1,592
Promoter/FPI/DII	57%/12%/19%

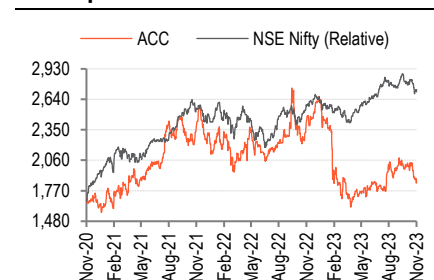
Source: NSE | Price as of 2 Nov 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	217,883	196,593	218,812
EBITDA (Rs mn)	19,400	27,692	34,422
Adj. net profit (Rs mn)	10,926	16,871	21,146
Adj. EPS (Rs)	46.5	93.8	110.0
Consensus EPS (Rs)	46.5	93.0	114.0
Adj. ROAE (%)	7.9	11.4	13.6
Adj. P/E (x)	40.1	19.9	16.9
EV/EBITDA (x)	17.9	11.9	8.8
Adj. EPS growth (%)	(54.3)	93.0	25.3

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Key quarterly metrics**

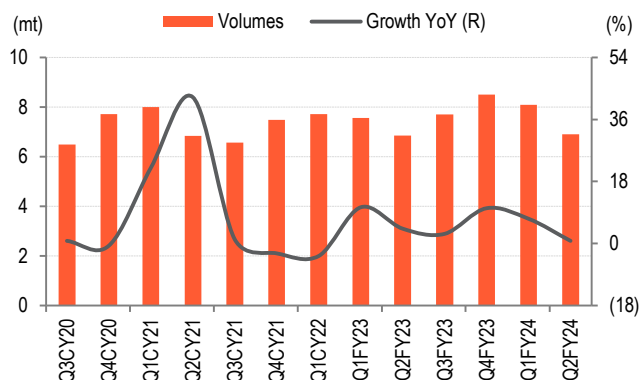
	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (mn mt)	6.90	6.85	0.7	8.10	(14.8)
Cement realisations (Rs/mt)	5,125	5,389	(4.9)	5,189	(1.2)
Operating costs (Rs/mt)	4,798	5,798	(17.3)	4,715	1.8
EBITDA/t (Rs/mt)	677	44	1434.4	838	(19.3)

Source: Company, BOBCAPS Research

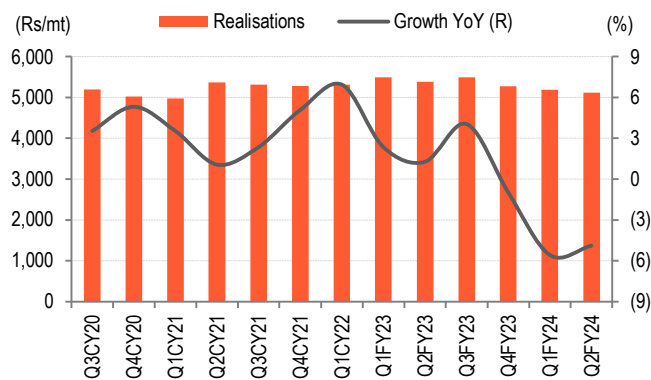
**Fig 2 – Quarterly performance**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
<b>Net Sales</b>	<b>44,347</b>	<b>39,873</b>	<b>11.2</b>	<b>52,011</b>	<b>(14.7)</b>
<b>Expenditure</b>					
Change in stock	643	(2,226)	-	(508)	-
Raw material	7,192	6,347	13.3	8,225	(12.6)
Purchased products	5,110	4,374	16.8	6,573	(22.3)
Power & fuel	8,857	13,166	(32.7)	11,239	(21.2)
Freight	9,533	9,877	(3.5)	11,705	(18.6)
Employee costs	1,948	2,107	(7.6)	1,520	28.2
Other expenditure	5,581	6,074	(8.1)	5,568	0.2
<b>Total Operating Expenses</b>	<b>38,863</b>	<b>39,719</b>	<b>(2.2)</b>	<b>44,321</b>	<b>(12.3)</b>
<b>EBITDA</b>	<b>5,484</b>	<b>154</b>	<b>3,456.3</b>	<b>7,690</b>	<b>(28.7)</b>
EBITDA margin (%)	12.4	0.4	1198bps	14.8	(242bps)
Other Income	2,079	688	202.0	782	165.7
Interest	288	177	63.0	251	15.0
Depreciation	2,118	1,726	22.7	1,991	6.4
PBT	5,156	(1,060)	-	6,231	(17.3)
Non-recurring items	0	(163)	-	0	0
PBT (after non-recurring items)	5,156	(1,223)	-	6,231	(17.3)
Tax	1,313	(312)	(520.9)	1,592	(17.5)
<b>Reported PAT</b>	<b>3,843</b>	<b>(911)</b>	<b>(521.9)</b>	<b>4,639</b>	<b>(17.2)</b>
Adjusted PAT	3,843	(748)	(613.5)	4,639	(17.2)
NPM (%)	8.7	(1.9)	-	8.9	(25bps)
<b>Adjusted EPS (Rs)</b>	<b>20.4</b>	<b>(4.0)</b>	<b>-</b>	<b>24.7</b>	<b>(17.2)</b>

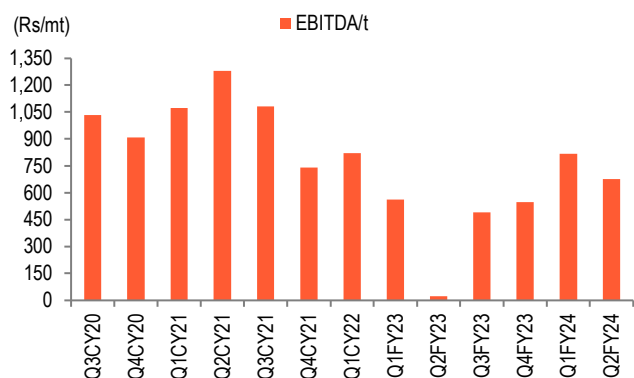
Source: Company, BOBCAPS Research; Note: Sales revenue in Q2FY23 includes other operating income

**Fig 3 – Volumes declined due to flood impact in key markets**


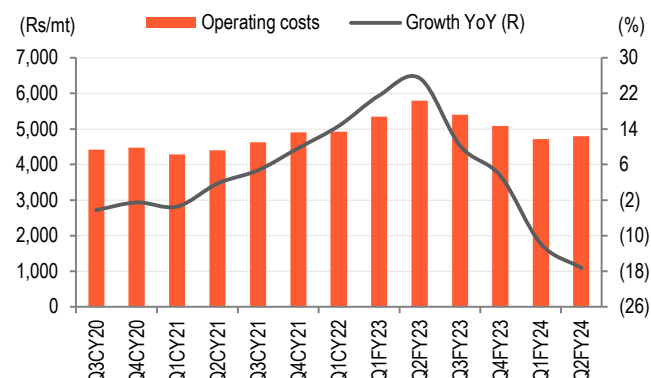
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar; thus, FY23 consists of 5 quarters

**Fig 4 – Realisations down amid supply pressure and weak real estate demand**


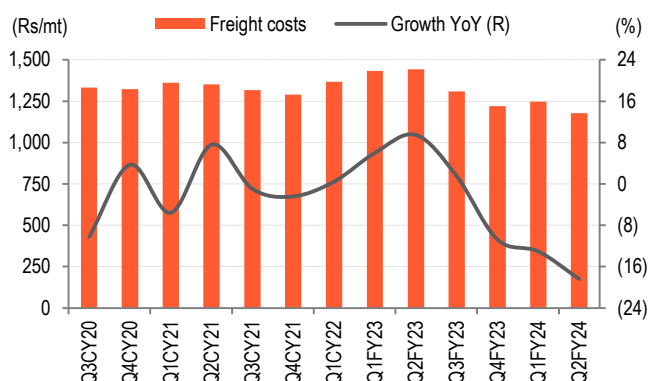
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA/t recovery strong on weak base and cost control**


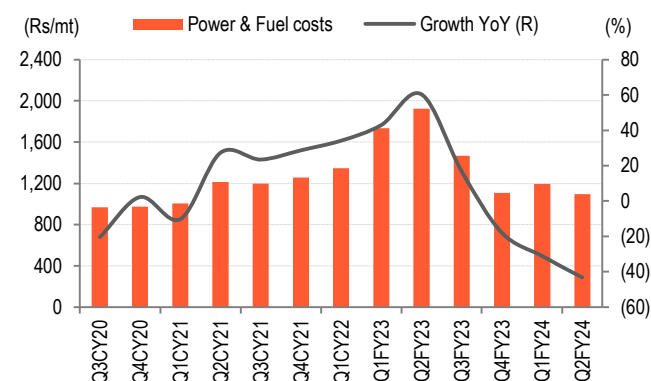
Source: Company, BOBCAPS Research

**Fig 6 – Operating cost softened thanks to lower fuel cost**


Source: Company, BOBCAPS Research

**Fig 7 – Freight cost well managed**


Source: Company, BOBCAPS Research

**Fig 8 – Fuel cost eased owing to lower pet coke prices**


Source: Company, BOBCAPS Research

## Valuation methodology

Factoring in ACC's strong H1FY24 performance backed by cost savings partly from MSA-led synergies, we increase our FY24/FY25 EBITDA estimates by 33%/21% and EPS by 44%/26%. Our TP thus rises to Rs 2,158 (from Rs 1,964), set at an unchanged 10x FY25E EV/EBITDA multiple.

Our TP implies a replacement cost of Rs 9bn/mt – a 30% premium to the industry average of Rs 7bn/mt – given ACC's pan-India presence, size (38mt) and operating efficiency. We upgrade the stock from BUY to HOLD for 16% upside potential.

**Fig 9 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,96,593	2,18,812	1,96,593	2,18,812	0.0	0.0
EBITDA	27,692	34,422	20,771	28,538	33.3	20.6
Adj PAT	16,871	21,146	11,715	16,763	44.0	26.2
Adj EPS	89.7	112.5	62.3	89.2	44.0	26.2

Source: BOBCAPS Research

**Fig 10 – Key assumptions**

Parameter	CY21	FY23	FY24E	FY25E
Volumes (mt)	28.9	38.5	32.6	35.9
Realisations (Rs/mt)	5,118	5,169	5,298	5,400
Operating costs (Rs/mt)	4,513	6,802	5,246	5,201
EBITDA/mt (Rs)	1036.4	467.9	892.6	936.5

Source: Company, BOBCAPS Research

**Fig 11 – Valuation summary**

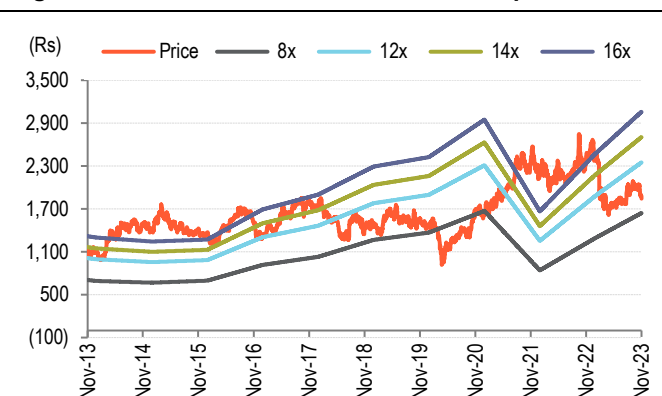
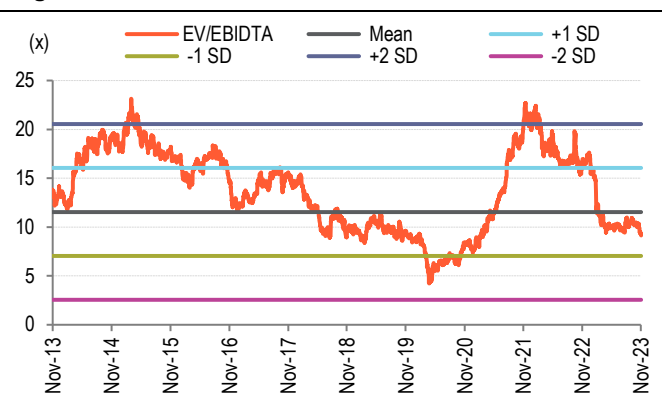
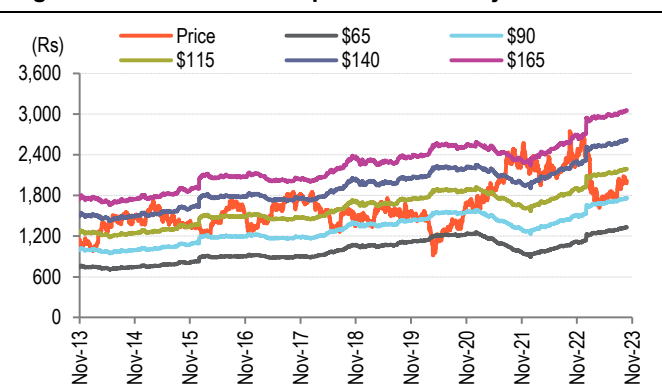
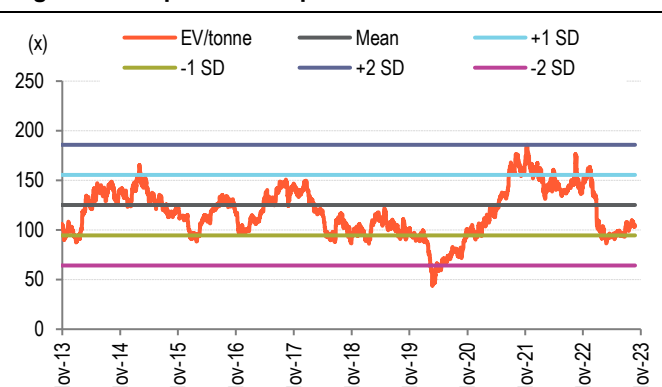
Business (Rs mn)	FY25E
Target EV/EBITDA (x)	10
EBITDA	34,422
Target EV	3,59,364
Total EV	3,59,364
Net debt	(46,382)
Target market capitalisation	4,05,746
<b>Target price (Rs/sh)</b>	<b>2,158</b>
Weighted average shares (mn)	188

Source: BOBCAPS Research

**Fig 12 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
ACC IN	BUY	2,158	22.9	12.2	9.0	121	106	98	5.2	8.1	11.2	7.9	11.0	14.5
ACEM IN	HOLD	387	11.5	10.5	8.2	249	239	227	6.0	7.4	8.0	13.1	12.8	14.6
UTCEM IN	HOLD	9,396	24.9	18.0	13.7	227	226	193	9.6	12.5	15.5	12.0	16.4	20.0
SRCM IN	HOLD	24,656	27.9	19.4	15.1	205	204	199	6.4	10.8	13.6	9.2	14.6	18.0

Source: BOBCAPS Research

**Fig 13 – Current valuation leaves room for upside****Fig 14 – Stock will revert back to mean valuations****Fig 15 – Premium to the replacement cost justified****Fig 16 – Well placed for upmove**

## Key risks

Key downside risks to our estimates are:

- severe competitive pressure that keeps a lid on pricing,
- delays in planned expansion that lead to loss of market share, and
- cost inflation, especially for fuel.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.3	1,864	2,158	BUY
Ambuja Cements	ACEM IN	10.1	420	435	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,077	2,286	HOLD
JK Cement	JKCE IN	2.9	3,113	3,474	HOLD
JK Lakshmi Cement	JKLC IN	1.0	674	551	SELL
Orient Cement	ORCMNT IN	0.5	194	128	SELL
Shree Cement	SRCM IN	11.4	25,892	25,731	HOLD
Star Cement	STRCEM IN	0.8	157	159	HOLD
The Ramco Cements	TRCL IN	2.8	993	585	SELL
Ultratech Cement	UTCEN IN	29.7	8,459	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Nov 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>134,868</b>	<b>158,144</b>	<b>217,883</b>	<b>196,593</b>	<b>218,812</b>
EBITDA	24,811	30,004	19,400	27,692	34,422
Depreciation	(6,353)	(5,973)	(8,351)	(7,000)	(8,312)
EBIT	20,498	26,078	14,421	23,200	28,869
Net interest inc./(exp.)	(570)	(546)	(772)	(555)	(485)
Other inc./(exp.)	2,040	2,048	3,372	2,509	2,759
Exceptional items	(3,049)	(548)	(1,618)	0	0
EBT	16,878	24,984	12,031	22,645	28,384
Income taxes	(5,422)	(6,401)	(2,723)	(5,775)	(7,238)
Extraordinary items	2,694	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>14,149</b>	<b>18,583</b>	<b>9,309</b>	<b>16,871</b>	<b>21,146</b>
Adjustments	355	548	1,618	0	0
<b>Adjusted net profit</b>	<b>14,505</b>	<b>19,131</b>	<b>10,926</b>	<b>16,871</b>	<b>21,146</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	33,640	40,320	43,868	46,995	52,281
Other current liabilities	14,949	20,458	13,592	22,201	23,601
Provisions	2,294	2,300	1,863	1,321	1,331
Debt funds	0	0	0	0	0
Other liabilities	3,762	3,827	4,331	4,331	4,331
Equity capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	124,735	140,404	138,550	151,026	167,558
Shareholders' fund	126,614	142,284	140,430	152,906	169,438
<b>Total liab. and equities</b>	<b>181,259</b>	<b>209,190</b>	<b>204,085</b>	<b>227,755</b>	<b>250,983</b>
Cash and cash eq.	58,911	74,042	2,868	21,257	46,382
Accounts receivables	4,515	4,892	8,747	9,327	9,782
Inventories	9,005	12,733	16,235	18,849	20,830
Other current assets	34,583	35,961	82,615	76,212	74,918
Investments	2,206	1,927	1,927	1,927	1,927
Net fixed assets	64,384	66,492	73,113	81,492	81,854
CWIP	7,011	12,408	16,831	18,500	15,000
Intangible assets	644	736	1,750	190	290
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>181,259</b>	<b>209,190</b>	<b>204,085</b>	<b>227,755</b>	<b>250,983</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>18,709</b>	<b>31,108</b>	<b>(39,898)</b>	<b>37,125</b>	<b>34,549</b>
Capital expenditures	(5,220)	(13,342)	(20,113)	(15,879)	(4,810)
Change in investments	13,884	2,349	2,652	(15,000)	(25,000)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>8,663</b>	<b>(10,994)</b>	<b>(17,461)</b>	<b>(30,879)</b>	<b>(29,810)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(2,629)	(2,629)	(10,892)	(2,856)	(4,614)
Other financing cash flows	2,670	(5)	(271)	0	0
<b>Cash flow from financing</b>	<b>41</b>	<b>(2,634)</b>	<b>(11,163)</b>	<b>(2,856)</b>	<b>(4,614)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>27,413</b>	<b>17,480</b>	<b>(68,522)</b>	<b>3,390</b>	<b>125</b>
<b>Closing cash &amp; cash eq.</b>	<b>58,911</b>	<b>74,042</b>	<b>2,868</b>	<b>21,257</b>	<b>46,382</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	75.3	98.9	39.6	89.7	112.5
Adjusted EPS	77.2	101.8	46.5	93.8	110.0
Dividend per share	14.0	14.0	46.4	20.0	21.0
Book value per share	673.5	756.9	747.0	813.4	901.3

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	2.2	1.7	1.6	1.7	1.4
EV/EBITDA	11.8	9.2	17.9	11.9	8.8
Adjusted P/E	24.2	18.3	40.1	19.9	16.9
P/BV	2.8	2.5	2.5	2.3	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	67.9	74.4	77.4	74.5	74.5
Interest burden (PBT/EBIT)	97.2	97.9	94.6	97.6	98.3
EBIT margin (EBIT/Revenue)	15.2	16.5	6.6	11.8	13.2
Asset turnover (Rev./Avg TA)	79.0	83.2	113.1	90.0	96.2
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.5	1.5
<b>Adjusted ROAE</b>	<b>11.7</b>	<b>14.8</b>	<b>7.9</b>	<b>11.4</b>	<b>13.6</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(12.1)	17.3	10.2	12.8	11.3
EBITDA	3.0	20.9	(48.3)	78.4	24.3
Adjusted EPS	18.8	31.9	(54.3)	93.0	25.3

### Profitability & Return ratios (%)

EBITDA margin	18.0	18.6	8.7	13.9	15.5
EBIT margin	14.9	16.1	6.5	11.6	13.0
Adjusted profit margin	10.8	12.1	5.0	8.6	9.7
Adjusted ROAE	11.7	14.8	7.9	11.4	13.6
ROCE	16.3	18.9	7.9	15.4	17.4

### Working capital days (days)

Receivables	12	11	18	17	16
Inventory	24	29	34	35	35
Payables	109	112	99	100	102

### Ratios (x)

Gross asset turnover	1.4	1.5	1.8	1.5	1.5
Current ratio	2.1	2.0	1.9	1.8	2.0
Net interest coverage ratio	35.9	47.7	18.7	41.8	59.5
<b>Adjusted debt/equity</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

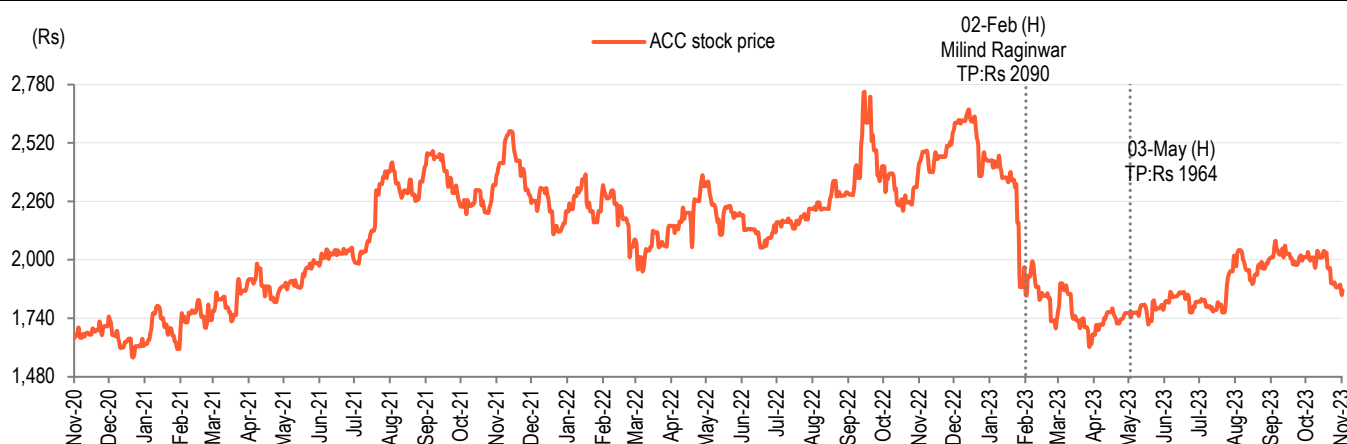
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

## Ratings and Target Price (3-year history): ACC (ACC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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