

HOLD

TP: Rs 2,542 | ▲ 0%

ACC

Cement

02 February 2024

Strong margins; cut to HOLD on full valuations

- Q3 revenue growth of 8% YoY bolstered by 16% uptick in volumes while realisations moderated 5%
- Cost-saving initiatives saw EBITDA margin climb 10ppt YoY and 600bps QoQ to 18.4%
- We raise FY24/FY25 EPS by 3%/7% and roll over to new TP of Rs 2,542 (vs. Rs 2,158); cut from BUY to HOLD on high valuations

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Robust volume growth but realisations moderate: ACC reported an 8% YoY (+11% QoQ) increase in Q3FY24 revenue to Rs 49.2bn backed by sharp volume growth of 16% YoY (+10% QoQ) to 8.9mn tonnes. This includes 1.7mt of sales to ACEM under the master supply agreement or MSA. Q3 realisations fell 5% YoY (+2% QoQ) to Rs 5,225/t. Revenue from ACC's ready-mix concrete (RMC) segment dropped 20% YoY (-3% QoQ) to Rs 3bn, with segmental loss at Rs 45mn.

Cost savings continue: Operating cost softened 16% YoY (-6% QoQ) to Rs 4,511/t owing to lower energy and logistics costs. Energy costs (adjusted for inventory) fell by 16% YoY (-2% QoQ) to Rs 2,647/t due to lower pet coke prices and management's cost reduction initiatives, while logistics costs declined 17% YoY (-8% QoQ) to Rs 1,082/t aided by supply agreements with ACEM. Consequently, EBITDA/t jumped to Rs 1,015 from lows of Rs 491 in Q3FY23 and Rs 677 in Q2FY24, and operating margin expanded to 18.4% off a low base.

Capacity expansion on track: Clinker expansion at Ametha (Uttar Pradesh) became operational during Q3FY24, adding 3.3mt of capacity which will be fully utilised by ACC's split grinding units in the state. Further, grinding unit expansion of 1.6mt at Sindri (Jharkhand) and 2.4mt at Salai Banwa (Uttar Pradesh) is expected to become operational by Q4FY25 and Q1FY26 respectively.

Upsides capped – downgrade to HOLD: Factoring in ACC's healthy 9MFY24 performance contributed by MSA-led synergies and a focus on cost savings, we raise our FY24/FY25 EPS forecasts by 3%/7%. We introduce FY26 estimates and roll valuations over for a revised TP of Rs 2,542 (from Rs 2,158). Our valuation multiple remains at 10x on FY26E EV/EBITDA and implies a replacement cost of Rs 9.2bn/mt – a 30% premium to the industry average given ACC's pan-India presence, size (38mt) and operating efficiencies. However, the stock has run up in the last few months and offers limited upside – we thus downgrade to HOLD from BUY.

Key changes

Target	Rating
▲	▼

Ticker/Price	ACC IN/Rs 2,530
Market cap	US\$ 5.8bn
Free float	43%
3M ADV	US\$ 16.2mn
52wk high/low	Rs 2,584/Rs 1,592
Promoter/FPI/DII	57%/12%/19%

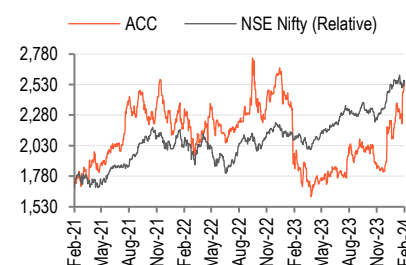
Source: NSE | Price as of 1 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,17,883	1,89,849	2,07,853
EBITDA (Rs mn)	19,400	31,081	35,673
Adj. net profit (Rs mn)	10,926	19,057	22,061
Adj. EPS (Rs)	46.5	101.4	117.4
Consensus EPS (Rs)	46.5	100.0	118.0
Adj. ROAE (%)	7.9	12.8	14.1
Adj. P/E (x)	54.4	25.0	21.6
EV/EBITDA (x)	24.4	14.6	12.0
Adj. EPS growth (%)	(54.3)	118.0	15.8

Source: Company, Bloomberg, BOBCAPS Research | FY23 is for 15 months due to a change in year-end from December to March

Stock performance



Source: NSE



Fig 1 – Key quarterly metrics

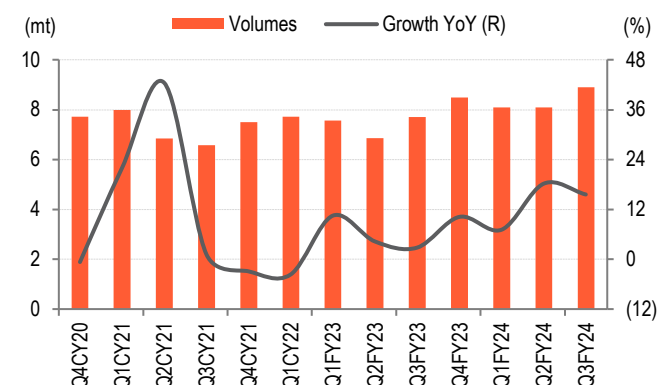
Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Volumes (mn mt)	8.9	7.7	15.6	8.10	9.9
Cement realisations (Rs/mt)	5,225	5,497	(5.0)	5,125	1.9
Operating costs (Rs/mt)	4,511	5,401	(16.5)	4,798	(6.0)
EBITDA/t (Rs/mt)	1,015	491	106.6	677	49.9

Source: Company, BOBCAPS Research

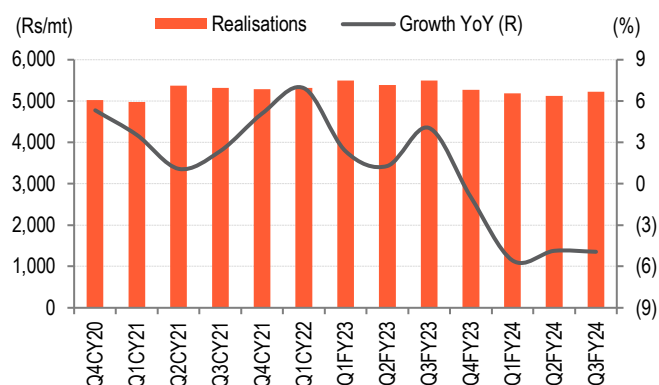
Fig 2 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	49,183	45,370	8.4	44,347	10.9
Expenditure					
Change in stock	(768)	1,186	(164.8)	643	(219.4)
Raw material	7,645	6,087	25.6	7,192	6.3
Purchased products	6,547	5,608	16.7	5,110	28.1
Power & fuel	10,136	11,292	(10.2)	8,857	14.4
Freight	9,629	10,073	(4.4)	9,533	1.0
Employee costs	1,783	2,048	(12.9)	1,948	(8.5)
Other expenditure	5,180	5,293	(2.1)	5,581	(7.2)
Total Operating Expenses	40,152	41,587	(3.5)	38,863	3.3
EBITDA	9,032	3,783	138.7	5,484	64.7
EBITDA margin (%)	18.4	8.3	1,002bps	12.4	600bps
Other Income	839	407	106.2	2,079	(59.6)
Interest	339	188	79.9	288	17.5
Depreciation	2,343	1,716	36.6	2,118	10.6
PBT	7,189	2,286	214.5	5,156	39.4
Non-recurring items	0	(791)	0.0	0	0.0
PBT (after non-recurring items)	7,189	1,495	380.9	5,156	39.4
Tax	1,914	390	390.3	1,313	45.8
Reported PAT	5,275	1,104	377.6	3,843	37.3
Adjusted PAT	5,275	1,895	178.3	3,843	37.3
NPM (%)	10.7	4.2	655bps	8.7	206bps
Adjusted EPS (Rs)	28.1	10.1	178.3	20.4	37.3

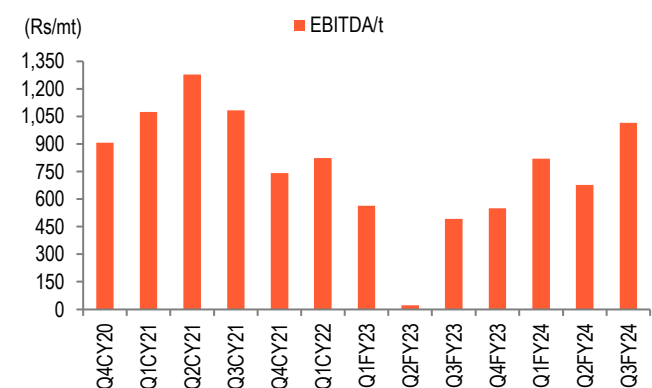
Source: Company, BOBCAPS Research

Fig 3 – MSA boosts volumes

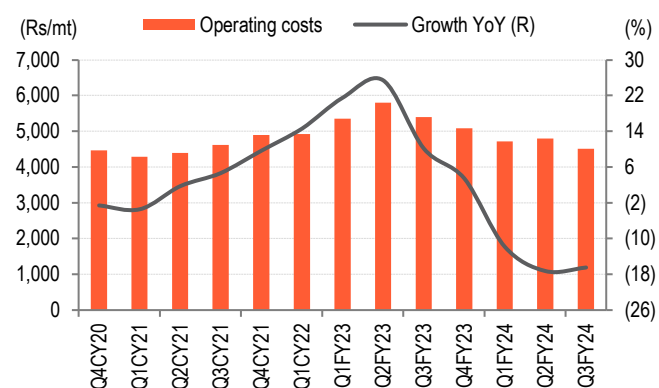
Source: Company, BOBCAPS Research | Note: ACC has changed its accounting Y/E from Dec to Mar, thus, FY23 consists of 5 quarters

Fig 4 – Weak demand keeps realisations weak

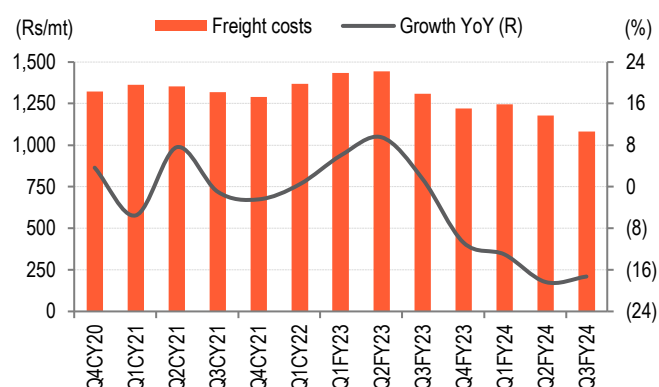
Source: Company, BOBCAPS Research

Fig 5 – EBITDA/t surges off a low base

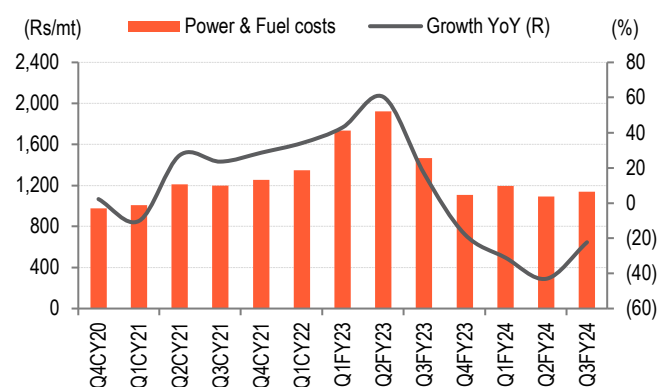
Source: Company, BOBCAPS Research

Fig 6 – Cost savings commendable, sustainability is key

Source: Company, BOBCAPS Research

Fig 7 – Logistic cost savings may limit levers ahead

Source: Company, BOBCAPS Research

Fig 8 – Fuel cost savings healthy

Source: Company, BOBCAPS Research

Valuation methodology

Factoring in ACC's healthy 9MFY24 performance contributed by MSA-led synergies and a focus on cost savings, we raise our FY24/FY25 EPS by 8%/7%. We now introduce FY26 estimates for the company and model for a three-year revenue/ EBITDA/PAT CAGR of 6%/26%/30% driven by cost efficiencies. This coupled with rollover of valuations to FY26E results in a higher TP of Rs 2,542 (from Rs 2,158), set at an unchanged 10x EV/EBITDA multiple.

Our TP implies a replacement cost of Rs 9.2bn/mt – a 30% premium to the industry average given ACC's pan-India presence, large size (38mt) and operating efficiencies. However, the stock has run up in the last few months and offers limited upside potential – we thus downgrade to HOLD from BUY.

Fig 9 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,89,849	2,07,853	2,24,865	196,593	218,812	NA	(3.4)	(5.0)	NA
EBITDA	31,081	35,673	38,939	27,692	34,422	NA	12.2	7.7	NA
Adj PAT	19,057	22,061	24,398	16,871	21,146	NA	13.0	9.3	NA
Adj EPS (Rs)	101.4	117.4	129.8	93.8	110	NA	8.1	6.7	NA

Source: BOBCAPS Research

Fig 10 – Key assumptions

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	38.5	32.6	35.9	35.9
Realisations (Rs/mt)	5169	5143	5221	5325
Operating costs (Rs/mt)	6,802	4,938	4,953	5,047
EBITDA/mt (Rs)	467.9	996.6	989.4	1034.0

Source: Company, BOBCAPS Research

Fig 11 – Valuation summary

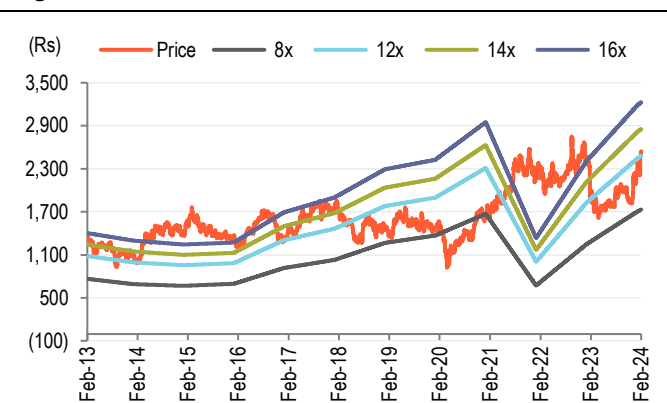
Business (Rs mn)	FY25E
Target EV/EBITDA (x)	10
EBITDA	38,939
Target EV	4,06,523
Total EV	4,06,523
Net debt	(71,288)
Target market capitalisation	4,77,811
Target price (Rs/sh)	2,542
Weighted average shares (mn)	188

Source: BOBCAPS Research

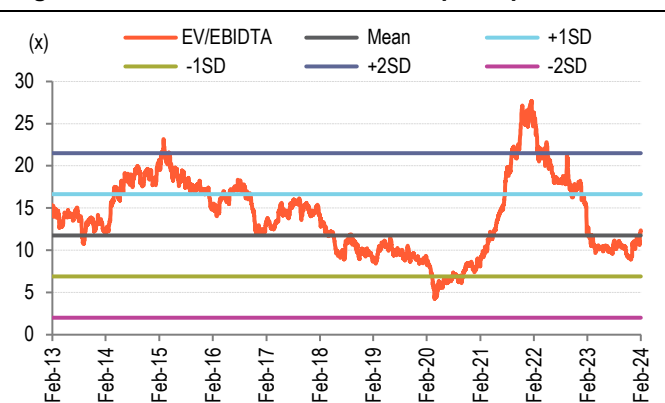
Fig 12 – Peer comparison

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	HOLD	2,542	24.4	14.6	11.5	161	142	134	7.9	12.8	14.7	7.9	17.5	19.2
ACEM IN	HOLD	449	18.0	10.8	8.9	286	215	204	9.3	9.5	10.1	9.2	13.8	14.6
UTCEM IN	HOLD	9,396	24.9	18.0	13.7	229	227	193	9.6	12.5	15.5	12.0	16.4	20.0
SRCM IN	HOLD	24,656	27.4	19.9	15.5	208	207	202	6.7	10.7	13.5	8.6	14.3	17.9

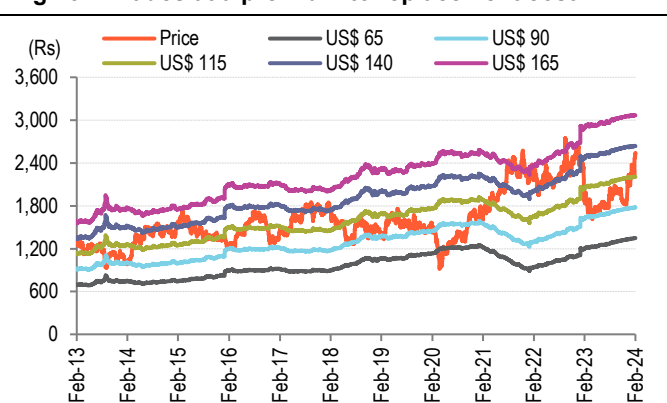
Source: BOBCAPS Research

Fig 13 – EV/EBITDA band: We value ACC at 10x on FY26E

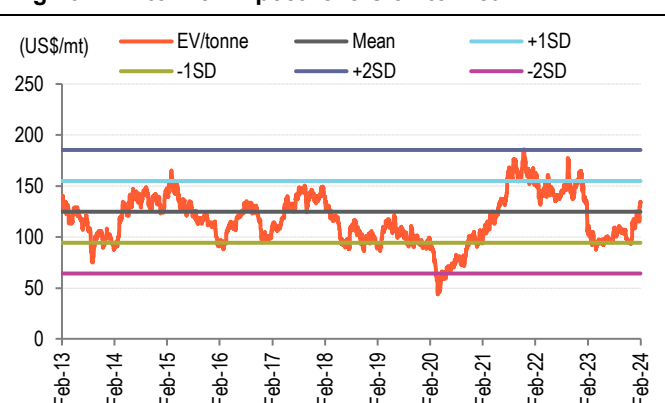
Source: Company, Bloomberg, BOBCAPS Research

Fig 14 – EV/EBITDA 1Y fwd: Limited upside potential

Source: Company, Bloomberg, BOBCAPS Research

Fig 15 – Trades at a premium to replacement cost

Source: Company, Bloomberg, BOBCAPS Research

Fig 16 – EV/tonne: Expect reversion to mean

Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key upside/downside risks to our estimates are:

- Faster than expected capacity addition helping volume growth
- Further higher than expected cost easing
- Competitive intensity getting fierce putting pricing pressure

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	5.8	2,530	2,542	HOLD
Dalmia Bharat	DALBHARA IN	5.1	2,280	2,443	HOLD
JK Cement	JKCE IN	4.1	4,407	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.3	930	551	SELL
Orient Cement	ORCMNT IN	0.7	287	128	SELL
The Ramco Cements	TRCL IN	2.8	987	661	SELL
Ultratech Cement	UTCEN IN	34.9	9,922	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 1 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,58,144	2,17,883	1,89,849	2,07,853	2,24,865
EBITDA	30,004	19,400	31,081	35,673	38,939
Depreciation	(5,973)	(8,351)	(8,909)	(9,697)	(10,253)
EBIT	26,078	14,421	26,681	30,935	34,141
Net interest inc./(exp.)	(546)	(772)	(1,100)	(1,323)	(1,393)
Other inc./(exp.)	2,048	3,372	4,509	4,959	5,455
Exceptional items	(548)	(1,618)	0	0	0
EBT	24,984	12,031	25,581	29,612	32,748
Income taxes	(6,401)	(2,723)	(6,523)	(7,551)	(8,351)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	18,583	9,309	19,057	22,061	24,398
Adjustments	548	1,618	0	0	0
Adjusted net profit	19,131	10,926	19,057	22,061	24,398

Balance Sheet

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24E	FY25E	FY26E
Accounts payables	40,320	43,868	44,229	48,881	53,833
Other current liabilities	20,458	13,592	22,201	23,601	25,141
Provisions	2,300	1,863	1,321	1,331	1,341
Debt funds	0	0	0	0	0
Other liabilities	3,827	4,331	4,384	4,441	4,508
Equity capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	1,40,550	1,38,696	1,53,305	1,70,695	1,89,972
Shareholders' fund	1,42,285	1,40,430	1,55,185	1,72,575	1,91,852
Total liab. and equities	2,09,191	2,04,086	2,27,321	2,50,829	2,76,675
Cash and cash eq.	74,042	2,868	21,790	47,762	69,361
Accounts receivables	4,892	8,747	9,007	9,292	9,436
Inventories	12,733	16,235	18,203	19,787	21,252
Other current assets	35,961	82,615	76,212	74,918	75,259
Investments	1,927	1,927	1,927	1,927	1,927
Net fixed assets	66,492	73,113	81,492	81,854	81,050
CWIP	12,408	16,831	18,500	15,000	18,000
Intangible assets	736	1,750	190	290	390
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	2,09,190	2,04,085	2,27,321	2,50,829	2,76,675

Cash Flows

Y/E 31 Mar (Rs mn)	CY21A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	31,108	(39,898)	37,565	35,453	37,280
Capital expenditures	(13,342)	(20,113)	(15,879)	(4,810)	(10,560)
Change in investments	2,349	2,652	(15,000)	(25,000)	(25,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(10,994)	(17,461)	(30,879)	(29,810)	(35,560)
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)	(10,892)	(2,856)	(4,614)	(5,054)
Other financing cash flows	(5)	(271)	92	(57)	(67)
Cash flow from financing	(2,634)	(11,163)	(2,764)	(4,671)	(5,121)
Chg in cash & cash eq.	17,480	(68,522)	3,922	972	(3,401)
Closing cash & cash eq.	74,042	2,868	21,789	47,762	69,361

Per Share

Y/E 31 Mar (Rs)	CY21A	FY23A	FY24E	FY25E	FY26E
Reported EPS	98.9	39.6	101.4	117.4	129.8
Adjusted EPS	101.8	46.5	101.4	117.4	129.8
Dividend per share	14.0	46.4	20.0	21.0	23.0
Book value per share	756.9	747.0	825.5	918.0	1,020.5

Valuations Ratios

Y/E 31 Mar (x)	CY21A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.5	2.2	2.4	2.1	1.7
EV/EBITDA	13.4	24.4	14.6	12.0	9.9
Adjusted P/E	24.9	54.4	25.0	21.6	19.5
P/BV	3.3	3.4	3.1	2.8	2.5

DuPont Analysis

Y/E 31 Mar (%)	CY21A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.4	77.4	74.5	74.5	74.5
Interest burden (PBT/EBIT)	97.9	94.6	95.9	95.7	95.9
EBIT margin (EBIT/Revenue)	16.5	6.6	14.1	14.9	15.2
Asset turnover (Rev./Avg TA)	83.2	113.1	87.0	91.4	89.2
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.5	1.5	1.5
Adjusted ROAE	14.8	7.9	12.8	14.1	14.1

Ratio Analysis

Y/E 31 Mar	CY21A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	17.3	10.2	8.9	9.5	8.2
EBITDA	20.9	(48.3)	100.3	14.8	9.2
Adjusted EPS	31.9	(54.3)	118.0	15.8	10.6

Profitability & Return ratios (%)

EBITDA margin	18.6	8.7	16.1	16.9	17.0
EBIT margin	16.1	6.5	13.8	14.6	14.9
Adjusted profit margin	12.1	5.0	10.0	10.6	10.8
Adjusted ROAE	14.8	7.9	12.8	14.1	14.1
ROCE	18.9	7.9	17.5	18.4	18.3

Working capital days (days)

Receivables	11	18	17	16	15
Inventory	29	34	35	35	34
Payables	112	99	100	102	104

Ratios (x)

Gross asset turnover	1.5	1.8	1.4	1.5	1.5
Current ratio	2.0	1.9	1.8	2.1	2.2
Net interest coverage ratio	47.7	18.7	24.3	23.4	24.5
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets | FY23 is for 15 months due to a change in year-end from December to March

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

BUY – Expected return >+15%

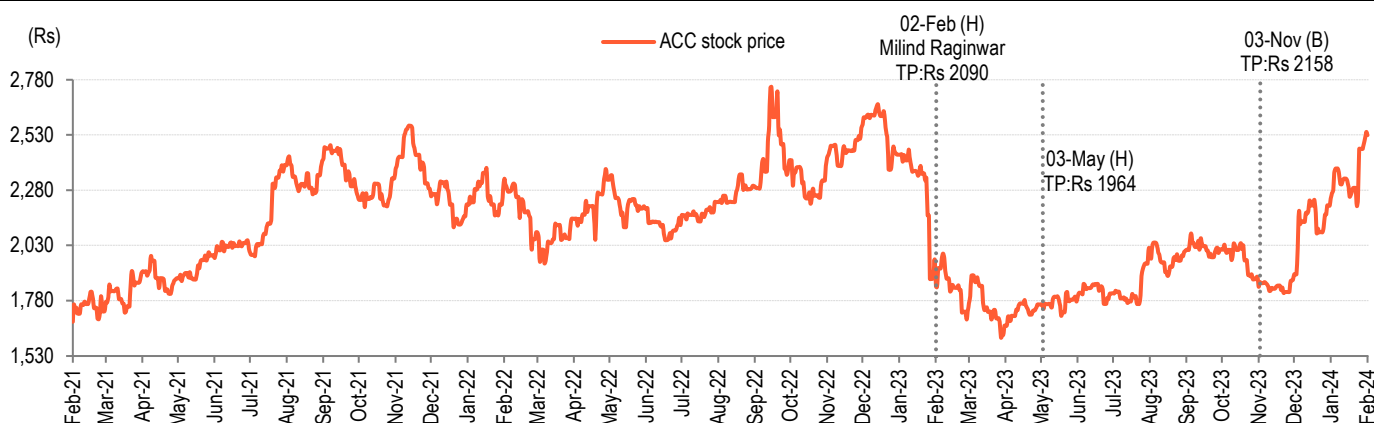
HOLD – Expected return from -6% to +15%

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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