

ACC

19 December 2018

Reuters: ACC.BO; Bloomberg: ACC IN

Capacity Expansion To Consolidate Presence In Central India

ACC has announced 5.9mt capacity expansion by adding a greenfield unit near its existing capacity in Kymore, Madhya Pradesh, in central India. Additionally, the company announced expansion of its grinding unit at Sindri (Jharkhand) in the eastern region. This is in line with the recent indications by the parent company, Lafarge Holcim, of further commitment towards its Indian operations.

The new 3mt clinker capacity along with 1mt cement grinding unit at Kymore (close to its existing capacity) will be supported by two split grinding units in Uttar Pradesh or UP (expansion at Tikaria by 1.6mt) and a new 2.2mt grinding unit in UP (location yet to be finalised). This is apart from the 1.1mt Sindri grinding unit expansion.

The internally funded capital expenditure of Rs30bn (current balance sheet cash of ~ Rs27bn) augurs well as the expansion will be without any balance sheet leverage. The new capacity is likely to be completed in three years, indicating staggered completion of the project.

The expanded capacity will be commissioned post CY20 and is internally funded. Our CY18, CY19 and CY20 earnings estimates therefore remain unchanged. The new expansion will allow ACC to tap incremental demand in the Central India and its increased presence in remunerative markets will help average realisation growth post CY20. We have retained Accumulate rating on ACC with an unchanged target price of Rs1,517.

Well poised for remunerative markets: The new capacities will be largely added in the remunerative central India region (YTD prices here are 3% higher than the all India average, as per our channel checks). The capacity addition has been slow in this region with a CAGR of ~ 3.5% over FY15-FY20E. This has kept the pricing relatively better as compared with other regions. If a similar trend continues, ACC will increase its presence (24% of total capacity from 14% currently) in the remunerative region post CY21 which will help strengthen its earnings.

Clinker conversion ratio maintained without additional stress: Following capacity addition in central and eastern regions, ACC will maintain clinker conversion ratio at a manageable level of 1.4x and 1.5x, respectively. The eastern region is largely a slag cement market and hence higher blending is justified. Though the trend is moving towards the OPC market of late, ACC will still be reasonably poised to cater to the market witnessing incremental OPC/PPC cement demand.

Expansion of grinding unit in eastern region to help tap additional demand: The 1.1mt grinding unit expansion at Sindri in Jharkhand will help ACC to tap the eastern region market with focus on Bihar, Jharkhand, West Bengal and the far east. These markets are growing at a healthy pace (double digits) and ACC will be able to add to its volume following the capacity expansion. The clinker for the same will be sourced from Chaibasa (Jharkhand) and other eastern region units.

Capacity addition without any balance sheet stress: The capacity addition of 5.9mt will be funded through internal accruals and we foresee no stress on ACC's balance sheet. ACC's current cash of ~Rs27bn and even if no growth is assigned to the cash generated in next two years, we feel the capacity addition can be funded without any stress on the balance sheet.

Earnings estimates and rating: The new capacities are expected to be commissioned over the next three years. Hence, at the earliest (assuming capacities are added in a staggered manner), the new capacities will impact earnings post CY20. We have maintained our CY18/CY19/CY20 EPS estimates at Rs54.7/Rs64.4/Rs74.0, respectively. We expect volume growth to be restricted (current YTD capacity utilisation at 84%) and the performance will be largely driven by realisation gain (despite the disappointment in 3QCY18). Additionally, premium product contribution and a pan-India presence will drive ACC's performance. We have valued ACC at Rs7.5bn/mt based on replacement costs (currently trades at 7.4bn/mt) to arrive at a target price of Rs1,517 (unchanged) based on its September 2020 estimated capacity. We have retained Accumulate rating on the stock.

ACCUMULATE

Sector: Cement

CMP: Rs1,501

Target Price: Rs1,517

Upside: 1%

Milind Raginwar

Research Analyst

milind.raginwar@nirmalbang.com

+91-22-6273 8172

Key Data

Current Shares O/S (mn)	187.8
Mkt Cap (Rsbn/US\$bn)	294.3/4.2
52 Wk H / L (Rs)	1,857/1,255
Daily Vol. (3M NSE Avg.)	742,681

Price Performance (%)

	1 M	6 M	1 Yr
ACC	4.4	22.0	(9.4)
Nifty Index	1.9	2.4	4.9

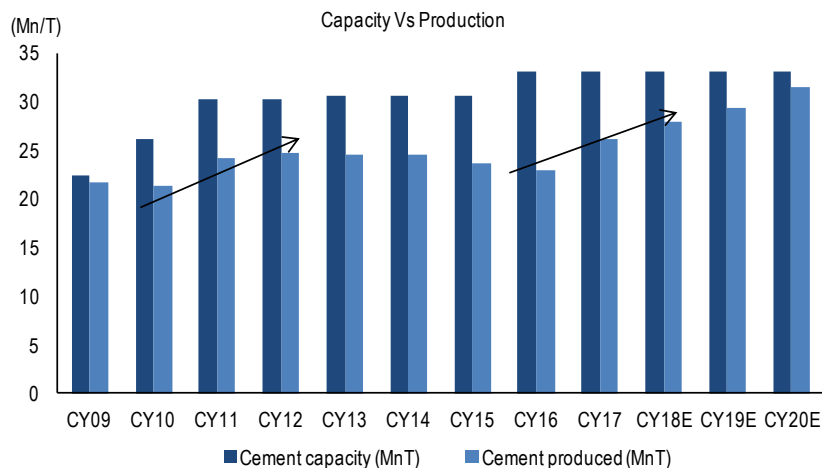
Source: Bloomberg

Y/E December (Rs.mn)	CY16	CY17	CY18E	CY19E	CY20E
Net sales	109,364	129,310	139,180	150,727	165,519
EBITDA margin (%)	12.2	13.8	14.5	15.4	15.4
Adjusted net profit versus consensus	6,452	8,312	10,275	12,102	13,908
EPS (Rs)	34.3	44.2	54.7	64.4	74.0
growth (%)	(13.4)	28.8	23.6	17.8	14.9
P/E (x)	43.8	34.0	27.5	23.3	20.3
P/B (x)	3.3	3.0	2.8	2.6	2.4
EV/EBITDA (x)	19.2	14.0	12.4	10.6	9.4
D/E (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
RoE (%)	7.6	9.3	11.0	12.0	12.8
RoCE (%)	10.2	13.7	15.6	16.8	17.2
Dividend yield (%)	1.1	1.1	1.2	1.2	1.2

Source: Company, Nirmal Bang Institutional Equities Research

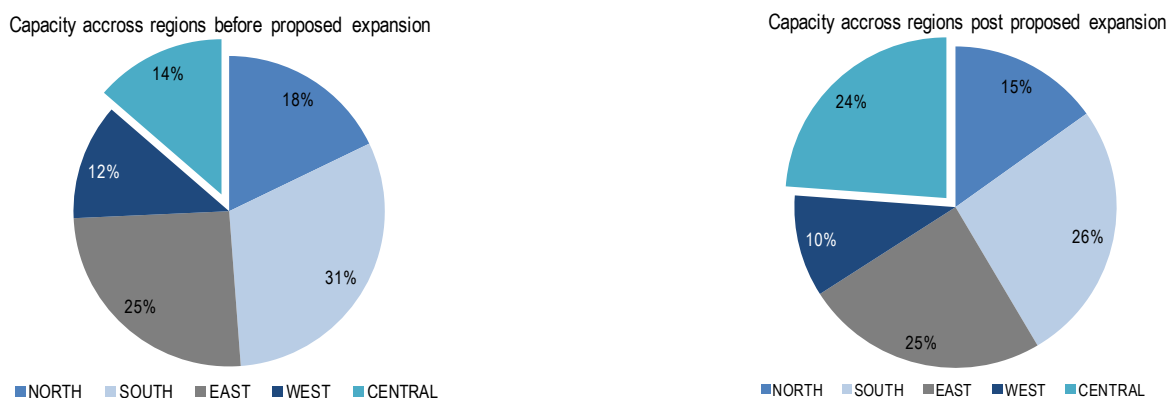
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Exhibit 1: Capacity addition has been followed by volume growth in the past



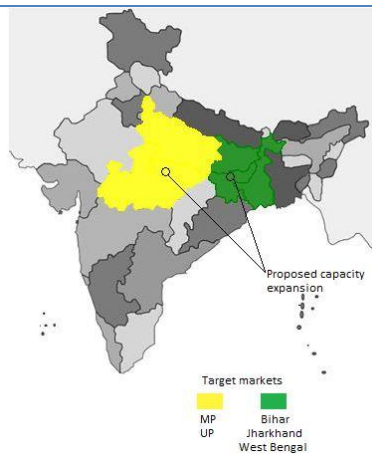
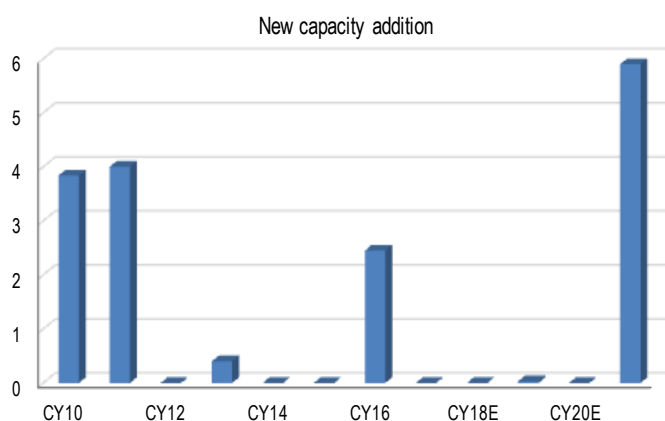
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Lucrative central India region to contribute more in ACC's volume share post expansion, boosting revenues



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: ACC's sizeable capacity addition of ~6mt comes after nearly a decade



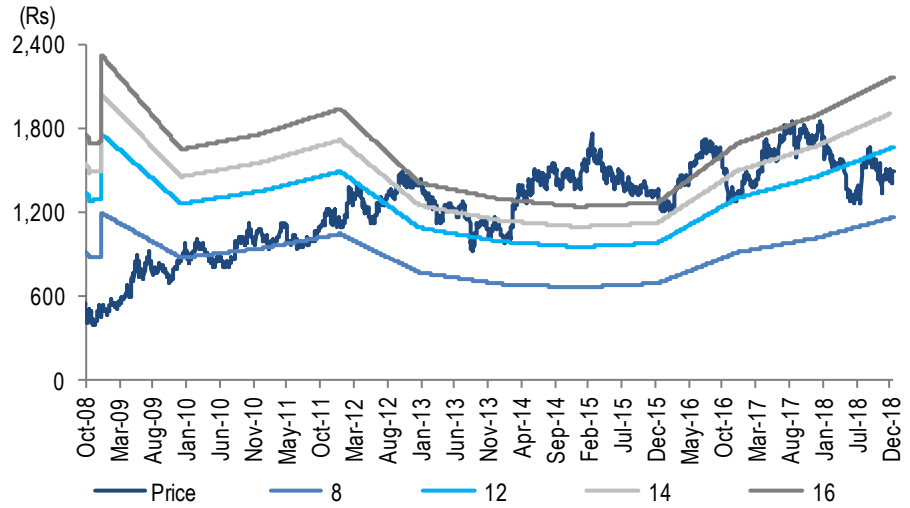
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: New capacity announcement

Location	Capacity added	
	Grinding unit (mtpa)	Clinker capacity (mtpa)
Ametha, Kymore, Madhya Pradesh	1.0	3.0
Tikaria (Uttar Pradesh)	1.6	-
Sindri (Jharkhand)	1.1	-
New grinding unit in UP (location not disclosed)	2.2	-
Total	5.9	3.0

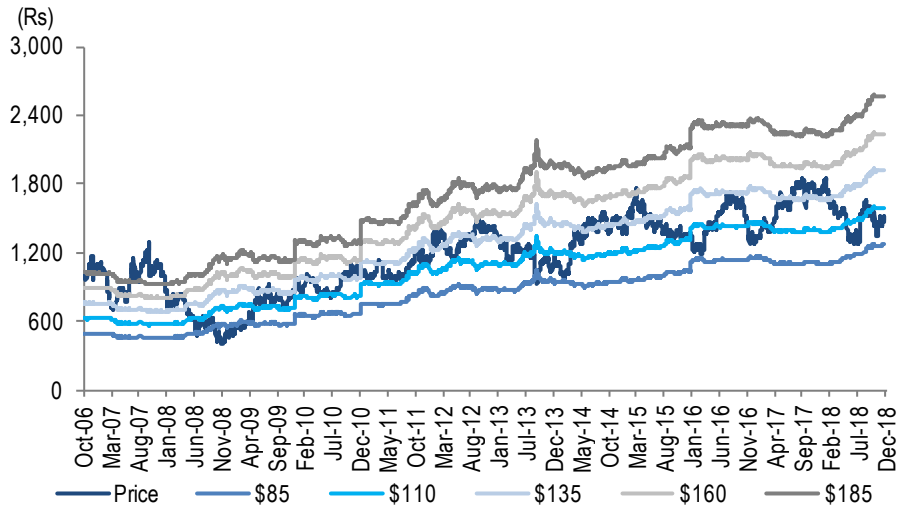
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: One-year forward EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: One-year forward EV/tn



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 7: Income statement

Y/E December (Rsmn)	CY16	CY17	CY18E	CY19E	CY20E
Net sales	109,364	129,310	139,180	150,727	165,519
Growth (%)	(4.3)	18.2	7.6	8.3	9.8
Operating expenses	(97,413)	(114,097)	(121,370)	(130,018)	(142,555)
EBITDA	13,511	18,249	20,598	23,614	25,974
Growth (%)	(0.1)	35.1	12.9	14.6	10.0
Depreciation & amortisation	(6,052)	(6,401)	(6,147)	(6,541)	(6,916)
EBIT	9,246	13,164	16,016	18,499	20,554
Other income	1,786	1,317	1,565	1,426	1,496
Interest paid	(729)	(1,023)	(905)	(702)	(686)
Extraordinary/except. items					
PBT	8,089	12,983	15,111	17,797	19,868
Tax	(2,065)	(3,829)	(4,835)	(5,695)	(5,960)
Effective tax rate (%)	(25.5)	(29.5)	(32.0)	(32.0)	(30.0)
Net profit	6,024	9,154	10,275	12,102	13,908
Minority interest	-	-	-	-	-
Reported net profit	6,024	9,154	10,275	12,102	13,908
Non-recurring items	(428)	842	-	-	-
Adjusted net profit	6,452	8,312	10,275	12,102	13,908
Growth (%)	(13.4)	28.8	23.6	17.8	14.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E December (Rsmn)	CY16	CY17	CY18E	CY19E	CY20E
Cash & bank balances	2,756	9,785	4,222	2,649	3,259
Other current assets	52,085	61,644	71,465	83,612	94,657
Investments	2,302	2,302	2,302	2,302	2,302
Net fixed assets	76,606	74,566	81,167	82,014	84,829
Goodwill & intangible assets	626	462	226	326	426
Other non-current assets	-	-	-	-	-
Total assets	134,375	148,757	159,382	170,903	185,473
Current liabilities	41,679	49,229	53,468	56,617	60,934
Borrowings	500	592	525	750	1,050
Other non-current liabilities	5,581	5,414	5,414	5,414	5,414
Total liabilities	47,760	55,234	59,407	62,780	67,398
Share capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	84,734	91,775	98,096	106,242	116,195
Shareholders' funds	86,614	93,523	99,976	108,122	118,075
Minority interest	-	-	-	-	-
Total equity & liabilities	134,375	148,757	159,382	170,903	185,473

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E December (Rsmn)	CY16	CY17	CY18E	CY19E	CY20E
Pre-tax profit	8,089	12,983	15,111	17,797	19,868
Depreciation	5,406	(53,692)	4,541	5,283	5,585
Chg. in working capital	3,107	(4,546)	(1,354)	(2,744)	(486)
Total tax paid	(1,536)	(3,505)	(4,602)	(5,449)	(5,703)
Other operating activities	-	-	-	-	-
Operating CF	15,066	(48,759)	13,696	14,887	19,265
Capital expenditure	(6,079)	55,896	(10,907)	(6,230)	(8,500)
Chg. in investments	(3,456)	3,402	(6,000)	(6,500)	(6,500)
Other investment activities	-	-	-	-	-
Investing CF	(9,535)	59,298	(16,907)	(12,730)	(15,000)
FCF	5,531	10,539	(3,211)	2,157	4,265
Equity raised/(repaid)	6	(133)	-	-	-
Debt raised/(repaid)	145	92	(67)	225	300
Dividend (incl. tax)	(3,842)	(5,198)	(2,417)	(3,955)	(3,955)
Other financing activities	-	1,730	132	-	-
Financing CF	(3,691)	(3,510)	(2,352)	(3,730)	(3,655)
Net chg. in cash & bank bal.	1,840	7,029	(5,563)	(1,573)	610
Closing cash & bank bal.	2,756	9,785	4,222	2,649	3,259

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

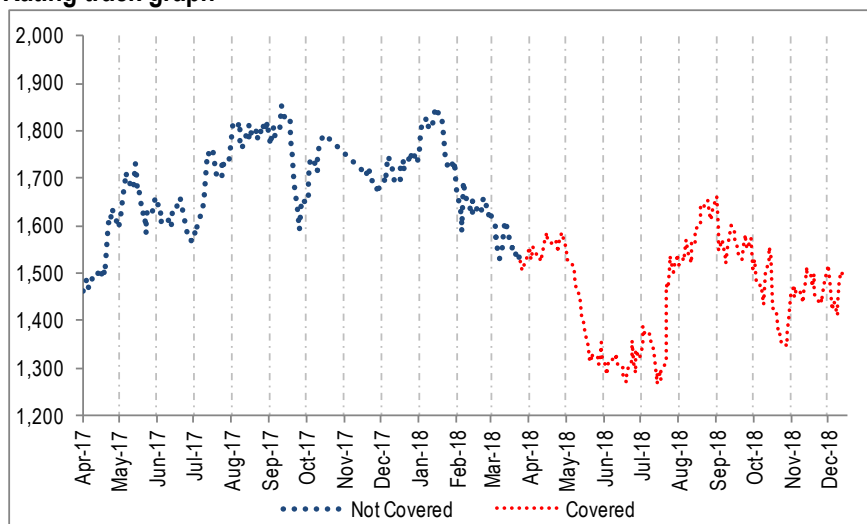
Y/E December	CY16	CY17	CY18E	CY19E	CY20E
Profitability and return ratios (%)					
EBITDAM	12.2	13.8	14.5	15.4	15.4
EBITM	8.3	9.9	11.3	12.0	12.2
NPM	5.9	6.4	7.4	8.0	8.4
RoE	7.6	9.3	11.0	12.0	12.8
RoCE	10.2	13.7	15.6	16.8	17.2
RoIC	10.1	13.5	14.9	16.1	17.7
Per share data (Rs)					
O/s shares	187.9	187.9	187.9	187.9	187.9
EPS	34.3	44.2	54.7	64.4	74.0
FDEPS	34.3	44.2	54.7	64.4	74.0
CEPS	66.5	78.3	87.4	99.2	110.8
BV	460.7	497.5	531.8	575.1	628.1
DPS	17.0	17.0	18.0	18.0	18.0
Valuation ratios (x)					
P/E	43.8	34.0	27.5	23.3	20.3
P/BV	3.3	3.0	2.8	2.6	2.4
EV/EBITDA	19.2	14.0	12.4	10.6	9.4
EV/Sales	2.4	2.0	1.8	1.7	1.5
Other key ratios					
D/E (x)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
DSO (days)	16	19	20	21	22
DuPont analysis - RoE					
NPM (%)	5.9	6.4	7.4	8.0	8.4
Asset turnover (x)	0.8	0.9	0.9	0.9	1.0
Equity multiplier (x)	1.5	1.6	1.6	1.6	1.6
RoE (%)	7.6	9.3	11.0	12.0	12.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
26 March 2018	Accumulate	1,549	1,582
20 April 2018	Accumulate	1,574	1,612
6 July 2018	Accumulate	1,390	1,488
24 July 2018	Accumulate	1,473	1,468
19 October 2018	Accumulate	1,431	1,517
19 December 2018	Accumulate	1,501	1,517

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010