

ACC

24 April 2019

Reuters: ACC.BO; Bloomberg: ACC IN

Performance Lacks Surprises, Vigour

ACC reported a steady performance in 1QCY19 as its revenues grew ~8.2% YoY to Rs38.5bn backed by volume growth and better realisation, although the gains were limited. Premium products sales increased 23% YoY (volume growth). Revenues from cement business grew ~7% YoY to Rs35.9bn. Cement volume grew ~5.5% YoY to 7.5mt, as expected, supported mainly by the eastern region. However, realisation growth was muted at 1.3% YoY at Rs4,783/tn (Rs4,721/tn in 1QCY18). ACC's volume push came from the eastern region and price support from the remunerative southern markets that kept realisation growth muted at ~1% and came as a surprise, impacting its performance from further improvement. Ready-mix concrete or RMC volume grew by a robust ~19% YoY and revenues rose 18.5% YoY to ~Rs4.0bn (~Rs3.3bn in 1QCY18). ACC contained operating cost inflation (2.5% up YoY at Rs4,518/tn, but flat QoQ). This, and better earnings contribution from RMC business (Rs402mn EBIT), helped it to maintain EBITDA margin at 13.5%, flat compared to 1QCY18. EBITDA/tn was marginally better at Rs621/tn (from Rs596/tn in 1QCY18). With indifferent interest costs and depreciation YoY, adjusted PAT was flat YoY (marginal decline of 2%) at ~Rs2.39bn from Rs2.45bn in 1QCY18. Reported PAT was Rs3.38bn because of non-recurring benefit of incentives net of provision of Rs995mn in 1QCY19. We have retained our CY19/CY20EPS estimates at Rs64.7/Rs74.0, respectively. We expect volume growth to be restricted as new capacities will get commissioned only in 3QCY21 and ACC may face volume constraints because of capacity restrictions (current capacity utilisation at 90% in 1QCY19), leaving limited head room to meet higher demand in CY19/CY20. Hence, the performance will be largely driven by realisation gains contributed by grey cement segment and sale of premium products. The push to control costs is commendable but has limitations (no control on external cost inflation). We have valued ACC at Rs7.5bn/mt based on replacement costs (currently trades at Rs7.7bn/mt) and arrived at a target price of Rs1,520 (from Rs1,1547 earlier) based on its one-year forward capacity. We have retained Accumulate rating on ACC.

Revenue driven by volume, product mix and RMC: ACC's volume rose 5.5% YoY to 7.5mt in 1QCY19 (in line with our estimate of 7.47mt) driven by healthy demand in the eastern region. Premium product sales grew 23% (volume) compared to 1QCY18. Realisation gained, albeit by a small 1% YoY, largely because of ACC's presence in the southern region, while volume growth came from the eastern region. RMC revenues grew 18%, while volume rose by a strong 19% YoY.

Outsourcing helps control operating cost inflation control: Operating costs grew ~2.5% at Rs4,518/tn, well contained with benefits of outsourcing, although they were marginal (volume produced). Effectively, although raw material costs (including external purchases) grew 19% to Rs949/tn versus Rs797/tn (including external purchases), external purchases were insignificant in 1QCY18. Rising slag prices also contributed to raw material cost inflation. However, this helped contain energy costs (lower clinker production) which were flat YoY at Rs1,055/tn. Logistics costs were also contained at Rs1,415/tn, flat YoY. Other expenditure (OE) was up by only 1% YoY at Rs6.24bn, helped by increased capacity utilisation (~90% in 1QCY19). Effectively, EBITDA grew only 8.1% to ~Rs5.3bn and EBITDA margin stayed flat at 13.5% YoY.

Earnings estimates remain unchanged: Our EBITDA margin estimates are expected to hover in the 14%-15% range in CY19/CY20 as we believe ACC will be able to maintain the current cost structure (with the exception of external shocks). Additionally, new units will drive efficiency gains for ACC. With limited realisation gains, ACC will be still able to marginally improve its margins. Our earnings growth estimate will taper to ~15% in CY20, after strong ~20% EPS growth estimate for CY19, as volume growth gets restricted in CY20. We have continued with our CY19/CY20 EPS estimates of Rs64.4/Rs74.0, respectively.

Outlook and rating: We have valued ACC at Rs7.5bn/mt based on replacement costs (currently trades at Rs7.7bn/mt) and arrived at a target price of Rs1,520 (from Rs1,1547 earlier) based on its one-year forward capacity. We have retained Accumulate rating on ACC.

ACCUMULATE

Sector: Cement

CMP: Rs1,590

Target Price: Rs1,520

Downside: 4%

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Key Data

Current Shares O/S (mn)	187.8
Mkt Cap (Rsbn/US\$bn)	312/4.5
52 Wk H / L (Rs)	1,723/1,255
Daily Vol. (3M NSE Avg.)	885,837

Price Performance (%)

	1 M	6 M	1 Yr
ACC	5.0	20.3	6.2
Nifty Index	1.0	14.1	9.4

Source: Bloomberg

Y/E December (Rsmn)	1QCY19	1QCY18	YoY %	4QCY18	QoQ %
Net sales	38,496	35,570	8.2	37,886	1.6
Operating expenses	33,882	31,335	8.1	34,082	(0.6)
EBITDA	5,309	4,911	8.1	4,871	9.0
EBITDA margin (%)	13.5	13.5	(0.0)	12.5	(104.2bps)
Other income	530	468	13.2	288	84.1
Interest costs	209	193	8.0	223	(6.5)
Depreciation	1,467	1,474	(0.5)	1,543	(4.9)
PBT	4,164	3,712	12.2	3,393	22.7
Non-recurring items	995	0	0.0	0	0.0
PBT (after non-recurring items)	5,159	3,712	39.0	3,393	52.0
Tax	1,774	1,261	40.7	1,095	62.0
Reported PAT	3,384	2,451	38.1	2,298	47.2
Adjusted PAT	2,389	2,451	(2.5)	2,298	4.0
NPM (%)	6.2	6.9	(68.4 bps)	6.1	14.0bps
Adjusted EPS (Rs)	12.7	13.0	(2.5)	12.2	4.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Operational details

Operational data	1QCY19	1QCY18	YoY %	4QCY18	QoQ %	1QCY19E	Deviation %
Volume (mnmt)	7.5	7.1	5.5	7.5	-	7.5	0.5
Cement realisation (Rs/mt)	4,783	4,721	1.3	4,776	0.1	4,795	(0.3)
Operating costs (Rs/mt)	4,518	4,407	2.5	4,544	(0.6)	4,589	(1.6)
EBITDA (Rs/mt)	615	596	3.3	507	21.3	621	(0.9)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Detailed quarterly financials

(Rsmn)	1QCY19	1QCY18	YoY %	4QCY18	QoQ %	1QCY19E	Deviation %
Net sales	38,496	35,570	8.2	37,886	1.6	38,897	(1.0)
Expenditure							
Change in stock	(95)	(67)	41.4	(308)	(69.1)	95	(200.3)
Raw material costs	6,360	5,713	11.3	6,769	(6.0)	6,831	(6.9)
Purchased products	660	21		376	75.8	411	60.8
Power & fuel expenses	7,916	7,488	5.7	7,679	3.1	8,227	(3.8)
Freight costs	10,613	10,023	5.9	10,334	2.7	10,377	2.3
Employee costs	1,995	1,982	0.7	2,144	(6.9)	2,101	(5.0)
Other expenses	6,243	6,175	1.1	6,473	(3.6)	6,410	(2.6)
Total operating expenses	33,882	31,335	8.1	34,082	(0.6)	34,262	(1.1)
EBITDA	5,309	4,911	8.1	4,871	9	5,306	0.1
EBITDA margin (%)	13.5	13.5	(2.0bps)	12.5	(104.2bps)	13.4	14bps
Other income	530	468	13.2	288	84	301	76.1
Interest	209	193	8.0	223	(7)	225	(7.3)
Depreciation	1,467	1,474	(0.5)	1,543	(5)	1,555	(5.7)
PBT	4,164	3,712	12.2	3,393	23	3,827	8.8
Non-recurring items	995	-		-	-	-	-
PBT (after non-recurring items)	5,159	3,712	39.0	3,393	52	3,827	34.8
Tax	1,774	1,261	40.7	1,095	62	1,263	40.5
Reported PAT	3,384	2,451	38.1	2,298	47	2,564	32.0
Adjusted PAT	2,389	2,451	(2.5)	2,298	4	2,564	(6.8)
NPM (%)	6.2	6.9	(68bps)	6.1	14bps	6.6	(38.4bps)
Adjusted EPS (Rs)	12.7	13.0	(2.5)	12.2	4	13.6	(6.8)

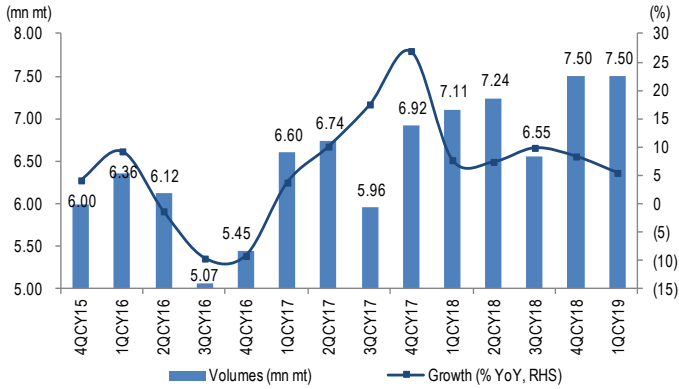
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs/mt

Costs per mt (Rs)	1QCY17	2QCY17	3QCY17	4QCY17	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	YoY %	QoQ %
Raw material costs	704	596	832	875	797	758	723	994	949	19.0	(4.5)
Power & fuel exp.	981	1,016	1,130	1,024	1,053	1,037	1,115	1,024	1,055	0.2	3.1
Freight costs	1,258	1,299	1,348	1,361	1,410	1,434	1,432	1,378	1,415	0.4	2.7
Other exp. (Rsbm)	-	-	-	-	3	34	40	55	88	-	60.1
Total costs/mt	4,179	4,180	4,533	4,459	4,407	4,454	4,566	4,544	4,518	2.5	(0.6)

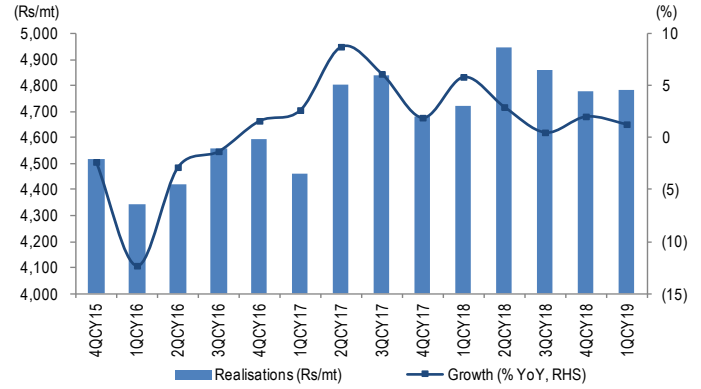
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Eastern region and VAP helps volume gains



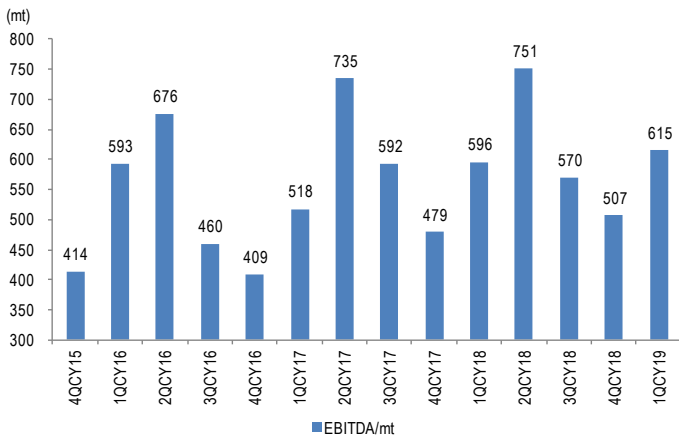
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Realisation maintained helped by southern price hikes



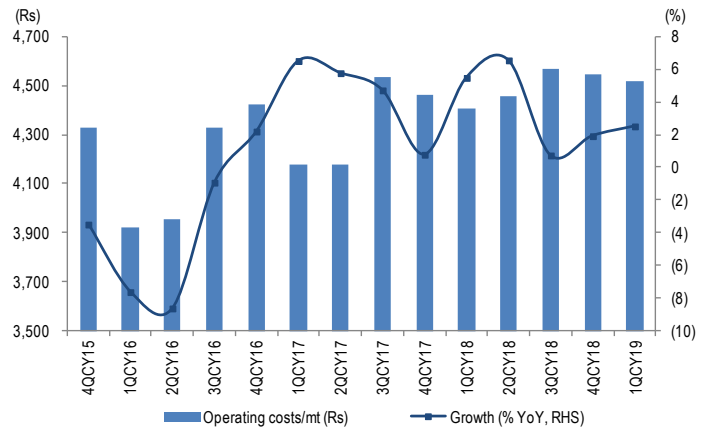
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: EBITDA/tn flat as realization growth muted



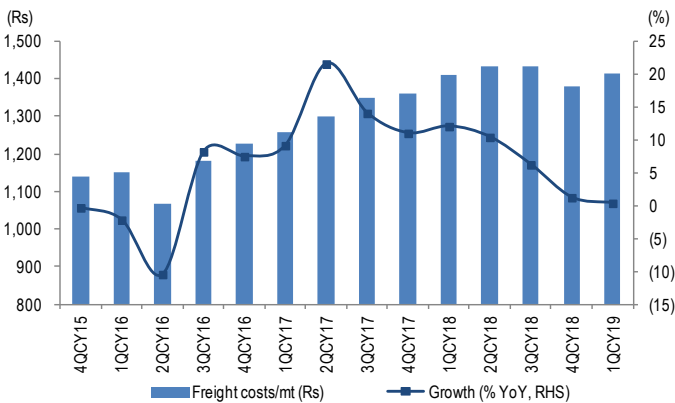
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Operating cost well controlled



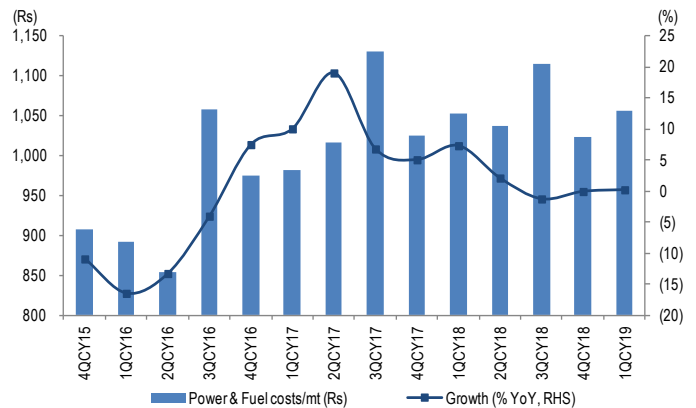
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Limited freight cost inflation



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Lower clinker production helps control energy cost



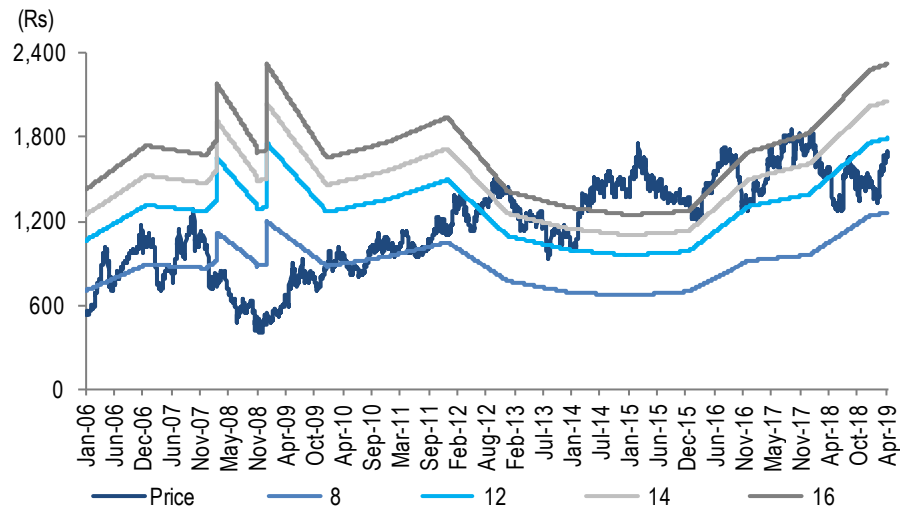
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Our old and new estimates

(Rsmn)	New		Old		Change	
	CY19E	CY20E	CY19E	CY20E	CY19E	CY20E
Net sales	150,727	165,519	150,727	165,519	-	-
EBITDA	24,464	25,974	24,464	25,974	-	-
Net profit	12,108	13,908	12,102	13,908	-	-
EPS (Rs)	64.41	73.98	64.38	73.98	-	-
Target price (Rs)		1,520		1,547		
Rating		Accumulate		Accumulate		

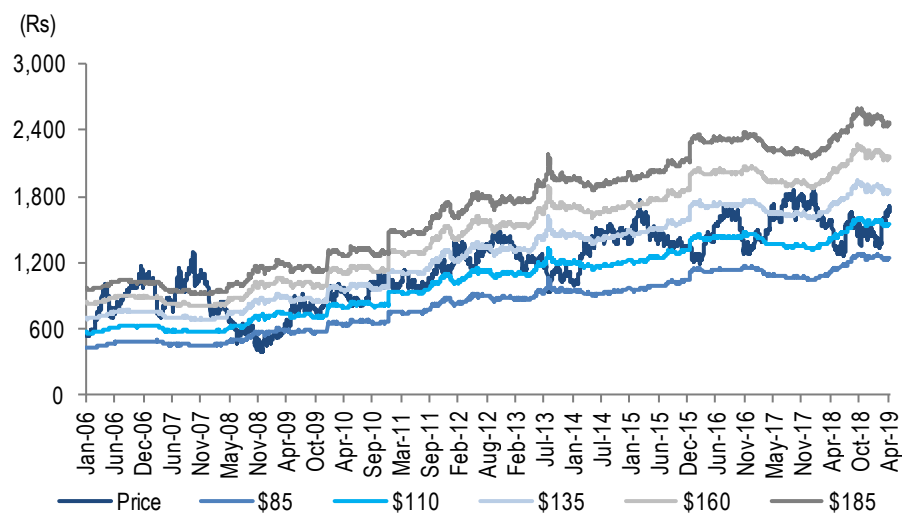
Source: Nirmal Bang Institutional Equities Research

Exhibit 11: One-year forward EV/EBITDA



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: One-year forward EV/tn



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 13: Income statement

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Net sales	109,364	129,310	144,775	150,727	165,519
Growth (%)	(4.3)	18.2	12.0	4.1	9.8
Operating expenses	(97,413)	(114,097)	(127,568)	(130,018)	(142,555)
EBITDA	13,511	18,249	20,446	24,464	25,974
Growth (%)	(0.1)	35.1	12.0	19.7	6.2
Depreciation & amortisation	(6,052)	(6,401)	(5,996)	(6,541)	(6,916)
EBIT	9,246	13,164	15,834	19,349	20,554
Other income	1,786	1,317	1,385	1,426	1,496
Interest paid	(729)	(1,023)	(892)	(1,544)	(686)
Extraordinary/exceptional items	-	-	-	-	-
PBT	8,089	12,983	14,942	17,805	19,868
Tax	(2,065)	(3,829)	(4,883)	(5,698)	(5,960)
Effective tax rate (%)	(25.5)	(29.5)	(32.7)	(32.0)	(30.0)
Net profit	6,024	9,154	10,060	12,108	13,908
Minority interest	-	-	-	-	-
Reported net profit	6,024	9,154	10,060	12,108	13,908
Non-recurring items	(428)	842	-	-	-
Adjusted net profit	6,452	8,312	10,060	12,108	13,908
Growth (%)	(13.4)	28.8	21.0	20.4	14.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Balance sheet

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Cash & bank balances	2,756	9,785	30,003	25,535	23,015
Other current assets	52,085	61,644	42,013	67,249	78,425
Investments	2,302	2,302	2,302	2,302	2,302
Net fixed assets	76,606	74,566	80,307	82,014	87,829
Goodwill & intangible assets	626	462	226	326	426
Other non-current assets	-	-	-	-	-
Total assets	134,375	148,757	154,851	177,427	191,997
Current liabilities	41,679	49,229	29,116	56,617	60,934
Borrowings	500	592	19,147	750	1,050
Other non-current liabilities	5,581	5,414	6,631	6,631	6,631
Total liabilities	47,760	55,234	54,894	63,998	68,615
Share capital	1,880	1,880	1,880	1,880	1,880
Reserves & surplus	84,734	91,775	103,477	111,549	121,502
Shareholders' funds	86,614	93,523	99,958	113,429	123,382
Minority interest	-	-	-	-	-
Total equity & liabilities	134,375	148,757	154,851	177,427	191,997

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Cash flow

Y/E December (Rsmn)	CY16	CY17	CY18	CY19E	CY20E
Pre-tax profit	8,089	12,983	14,942	17,805	19,868
Depreciation	5,406	(53,692)	4,541	5,283	5,585
Chg. in working capital	3,107	(4,546)	(13,909)	8,519	(616)
Total tax paid	(1,536)	(3,505)	(3,432)	(5,452)	(5,703)
Other operating activities	-	-	-	-	-
Operating CF	15,066	(48,759)	2,143	26,155	19,135
Capital expenditure	(6,079)	55,896	(10,047)	(7,090)	(11,500)
Chg. in investments	(3,456)	3,402	11,655	(6,500)	(6,500)
Other investment activities	-	-	-	-	-
Investing CF	(9,535)	59,298	1,608	(13,590)	(18,000)
FCF	5,531	10,539	3,751	12,565	1,135
Equity raised/(repaid)	6	(133)	-	-	-
Debt raised/(repaid)	145	92	18,555	(18,397)	300
Dividend (incl. tax)	(3,842)	(5,198)	(2,417)	(3,955)	(3,955)
Other financing activities	-	1,730	330	5,319	-
Financing CF	(3,691)	(3,510)	16,468	(17,033)	(3,655)
Net chg. in cash & bank bal.	1,840	7,029	20,219	(4,468)	(2,520)
Closing cash & bank bal.	2,756	9,785	30,003	25,535	23,015

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Key ratios

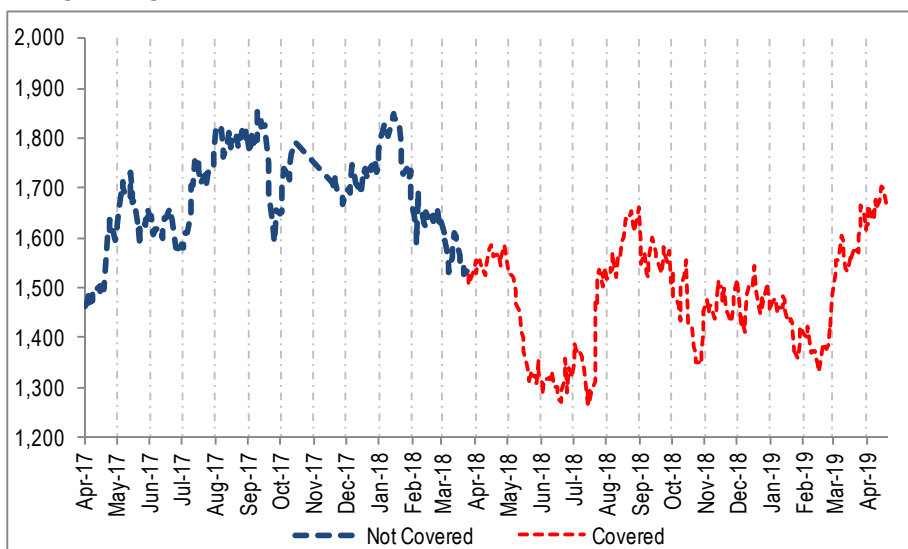
Y/E December	CY16	CY17	CY18	CY19E	CY20E
Profitability and return ratios (%)					
EBITDAM	12.2	13.8	13.8	15.8	15.4
EBITM	8.3	9.9	10.7	12.5	12.2
NPM	5.9	6.4	6.9	8.0	8.4
RoE	7.6	9.3	10.8	11.7	12.5
RoCE	10.2	13.7	14.1	15.7	16.3
RoIC	10.1	13.5	13.5	15.6	17.1
Per share data (Rs)					
O/s shares	187.9	187.9	187.9	187.9	187.9
EPS	34.3	44.2	53.5	64.4	74.0
FDEPS	34.3	44.2	53.5	64.4	74.0
CEPS	66.5	78.3	85.4	99.2	110.8
BV	460.7	497.5	531.3	603.4	656.3
DPS	17.0	17.0	18.0	18.0	18.0
Valuation ratios (x)					
P/E	46.0	35.7	29.5	24.5	21.4
P/BV	3.4	3.2	3.0	2.6	2.4
EV/EBITDA	20.3	14.8	13.7	10.6	9.9
EV/Sales	2.5	2.1	1.9	1.7	1.5
Other key ratios					
D/E (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
DSO (days)	16	19	22	23	24
DuPont analysis - RoE					
NPM (%)	5.9	6.4	6.9	8.0	8.4
Asset turnover (x)	0.8	0.9	1.0	0.9	1.0
Equity multiplier (x)	1.5	1.6	1.6	1.6	1.6
RoE (%)	7.6	9.3	10.8	11.7	12.5

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
6 February 2019	Accumulate	1,396	1,547
24 April 2019	Accumulate	1,580	1,520

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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