

July 24, 2018

ACC Ltd.

Q2CY18 Result Update

Sput in volumes; ahead of estimates

The volumes in Q2CY18 stood at 7.24 mn tons registering a growth of 7.4% y-o-y and 1.8% q-o-q. Although the industry has been plagued with rising input costs, ACC has managed to curb this inflationary environment by optimizing its expenses. Post commissioning of its plants in the Jamul and Sindri, the company has benefited with the Eastern region posting double-digit growth.

Revenue growth of 11.5% due to improved realization

Volume growth coupled with price hikes in its key markets have led to a top-line growth of 11.5% YoY and 6% QoQ. Revenue for the quarter stood at INR 3848cr driven by a realization of INR 5315/ton (up by 3.7% YoY and 4.3% QoQ).

Operational efficiencies keep rising costs at bay

The company has been affected due to rising pet-coke, diesel and slag prices. This has been exacerbated due to the unavailability of rakes for non-power sector, which has also limited the supply of FSA linkage coal and cheap slag. However, ACC has efficiently managed its overall expenditure, through raw-mix and source-mix optimization, route optimization leading to a reduction in average lead distance of 2% as well as a robust control on fixed assets.

Surplus cash with no proposed capex

The company has generated a FCF of over ~INR 1000cr in CY17 leading to an increase in cash of INR 748cr. Going forward, with limited capacity expansion in the pipeline, this could lead to a healthier dividend payout (Dividend payout of 53% in CY17).

Valuations

With the Government's increased focus on rural and affordable housing, as well as infrastructure development, we expect increased volumes to sustain. Four (Bihar, West Bengal, Orissa, Jharkhand) of the top ten beneficiaries of Government housing schemes lie in the Eastern region, where ACC has recently expanded its capacity. Cost control initiatives pursued by the company, such as using alternate fuels and higher mix of premium products is expected to further boost margins. We remain positive on the stock with a target price of INR 1638 giving an upside of 25%. (i.e. valuing the stock at CY19E EV/Ton of \$110/Ton, 11x CY19E EV/EBITDA)

(INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
Revenue	10936	13023	14088	14911	15484
Growth%	-4%	19%	8%	6%	4%
EBITDA	1411	1909	2295	2506	2660
Growth%	-8%	35%	20%	9%	6%
Adjusted PAT	596	915	1171	1266	1355
Growth%	2%	53%	28%	8%	7%
EPS (INR)	31.8	48.8	62.4	67.4	72.2
Sales Volume (MT)	25.6	29.1	30.3	31.4	32.0
EV/EBITDA	18.1	14.7	9.2	8.0	7.0
EV/Tonne	113.6	128.7	92.7	87.8	81.1
P/E (x)	45.9	33.3	21.0	19.5	18.2

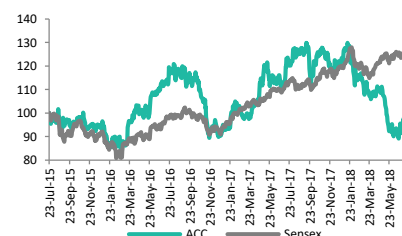
BUY

Downside Scenario	Current Price	Price Target	Upside Scenario
	1311	1638	
		25%▲	

Stock Details	
Industry	Cement
Sensex	36719
Nifty	11085
Bloomberg Code	ACC:IN
Eq. Cap. (INR. Cr.)	188
Face Value (INR.)	10
52-w H/L	1256/1870
Market Cap (INR. Cr.)	27647

Valuation Data			
	CY17	CY18E	CY19E
OPM	14.4%	16.3%	16.8%
NPM	6.9%	8.3%	8.5%
P/E (x)	33.3	21.0	19.5
EV/EBITDA (x)	14.7	9.2	8.0
EV/Ton (\$)	128.7	92.7	87.8

ACC Ltd Vs SENSEX



Shareholding Pattern			
	Jun'18	Mar'18	Jun'17
Promoters	54.53	54.53	54.53
FIIIs	10.87	13.69	14.78
DIIIs	20.03	17.75	16.38
Retail	14.57	14.03	14.31
	100.0	100.0	100.0

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Q2CY18 Result Analysis

(INR Crores)	Q2CY18	Q2CY17	Q1CY18	Y-o-Y	Q-o-Q
Revenue	3848	3453	3625	11.5%	6.2%
COGS	549	402	567	36.6%	-3.1%
Employee Expenses	256	218	198	17.5%	29.4%
Power and Fuel	751	685	749	9.7%	0.3%
Freight and Forwarding	1038	875	1002	18.6%	3.6%
Other Expenses	630	637	618	-1.2%	2.0%
Total Expenses	3224	3323	3133	-3.0%	2.9%
EBITDA	624	635	491	-1.8%	27.0%
Depreciation	148	162	147	-8.6%	0.5%
Other Income	32	26	47	21.6%	-32.6%
EBIT	507	499	391	1.6%	29.9%
Finance Cost	28	23	19	22.4%	42.6%
PBT	480	477	371	0.6%	29.3%
Taxes	154	155	126	-0.5%	22.3%
Net Profit	326	322	245	1.2%	32.8%

- The company's net sales grew 11.5% y-o-y (from INR 3453cr in Q2CY17) and grew 6.2% q-o-q (from INR 3625cr in Q1CY18) to INR 3848cr in Q2CY18.
- EBITDA for the company stood at INR 624cr down from INR 635cr (-1.8% Y-o-Y) and up from INR 491 cr (27% Q-o-Q) with EBITDA Margins at 16.2% as against 18.4% in Q2CY17 and 13.5% in Q1CY18. The rise in margins was primarily due to active cost management. Though input material and logistics costs increased, fixed cost and SG&A costs were reduced on a comparable basis.
- EBITDA/Ton for the quarter stood at INR 862 down from INR 943 (-8.6% Y-o-Y) in Q2CY17 and INR 691 (24.7% Q-o-Q) in Q1CY18. Total cement volumes for the quarter stood at 7.24 mn tons. The cement volumes grew at 7% YoY, and RMX volumes grew at 22% YoY.
- Reported PAT stood at INR 326cr which was up by 1.2% Y-o-Y (from INR 322cr) and up by 32.8% Q-o-Q (from INR 245cr). PAT Margins stood at 8.5%, down from 9.3% in Q2CY17 and up from 6.8% in Q1CY18.
- Realization/ Ton has increased to INR 5315, up from INR 5123 (3.8% Y-o-Y) and INR 5098 (4.3% Q-o-Q).
- Capacity Utilization has increased 500bps YoY to 89% for the quarter.
- Premium and value-added products witnessed a robust growth of 44% YoY.
- Improvement in energy efficiency and higher usage of industrial waste in kiln restricted cost escalation to 2%.
- Although diesel prices rose by 16%, freight costs were maintained at the same level due to higher home market sales, route optimization, plant and geo-mix change.

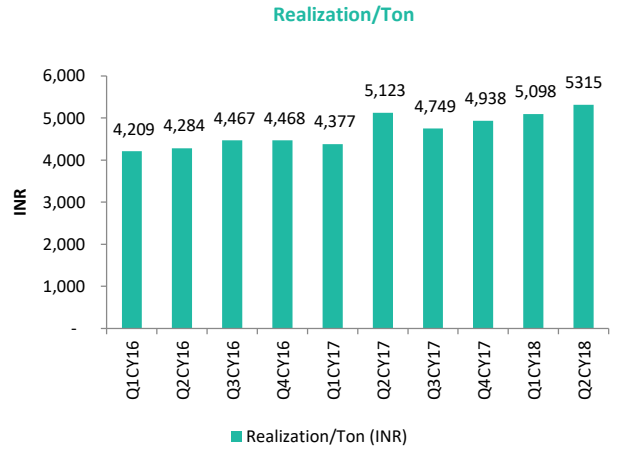
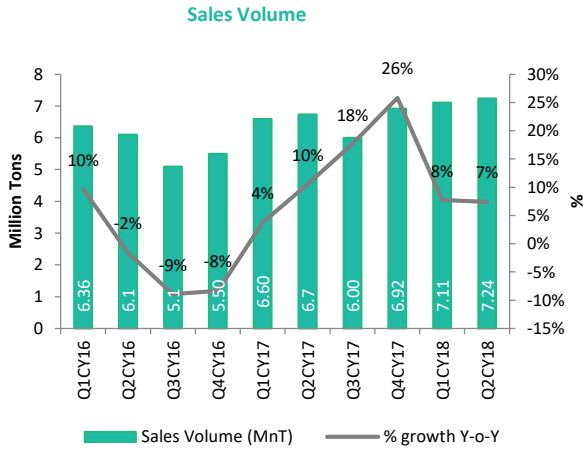
(INR/Ton)	Q2CY18	Q2CY17	Q1CY18	Y-o-Y	Q-o-Q
Realization	5315	5123	5098	3.7%	4.3%
RM Cost	758	596	797	27.2%	-4.8%
Employee Cost	354	324	279	9.4%	27.1%
Power and Fuel	1037	1016	1053	2.1%	-1.5%
Freight and Forwarding	1434	1299	1410	10.4%	1.7%
Other Expenditure	870	946	869	-8.0%	0.2%
Total Expenditure	4454	4180	4407	6.5%	1.1%
EBITDA	862	943	691	-8.6%	24.7%

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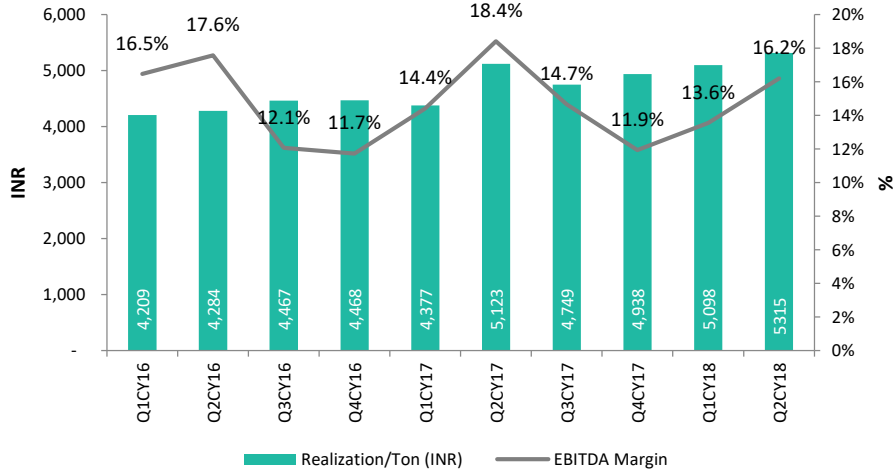
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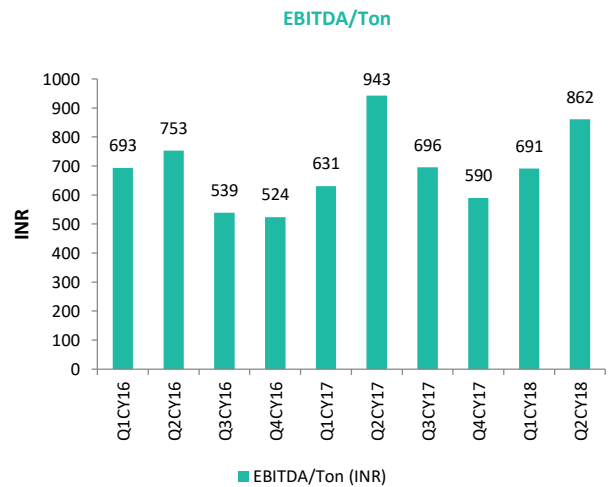
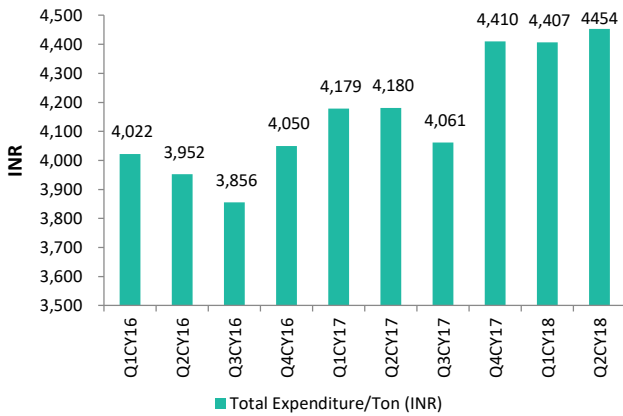
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Margin improved q-o-q due to fixed cost optimization and change in raw-mix



Increasing cost pressure due to rising pet-coke and diesel prices



Source: Company, NSPL Research



Profit & Loss (INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
Net sales	10936	13023	14088	14911	15484
COGS	1694	1968	2165	2382	2620
Employee Expenses	778	819	901	964	1031
Power and fuel	2157	2714	2986	3021	3056
Transportation cost	2655	3451	3240	3429	3561
Other Expenses	2463	2423	2501	2609	2555
EBITDA	1411	1909	2295	2506	2660
D&A	605	640	641	671	700
Other income	113	132	120	60	62
EBIT	919	1401	1774	1894	2022
Interest Expense	73	102	100	86	86
PBT	846	1298	1674	1808	1936
Tax	206	383	502	542	581
Effective tax rate	24.4%	29.5%	30.0%	30.0%	30.0%
PAT	596	915	1171	1266	1355

Balance Sheet (INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
Share Capital	188.0	188.0	188.0	188.0	188.0
Reserves & Surplus	8,643.9	9,177.5	9,997.5	10,883.4	11,832.0
Shareholder's Funds	8,831.9	9,365.5	10,185.5	11,071.4	12,020.0

Deferred Tax Liability (Net)	447.4	541.4	541.4	541.4	541.4
Long term provisions	141.4	142.0	156.3	172.0	189.2
Non-current liabilities	588.7	683.4	697.7	713.3	730.5
Short-term borrowings	50.0	59.2	50.0	50.0	50.0
Trade payables	1,256.9	1,810.5	1,779.7	1,957.7	2,153.4
Other current liabilities	2,241.5	2,451.5	2,598.4	2,858.2	3,144.0
Short-term provisions	470.5	518.9	518.9	518.9	518.9
Current liabilities	4,019.0	4,840.0	4,946.9	5,384.7	5,866.3
Total Equity and Liabilities	13,439.6	14,888.9	15,830.1	17,169.5	18,616.8

Gross Block	14,070.5	14,570.5	15,270.5	15,970.5	16,670.5
Less: Accum. Depreciation	6,608.1	7,248.2	7,889.5	8,560.3	9,260.5
Net Fixed Assets	7,785.8	7,502.7	7,380.9	7,410.1	7,410.0
Non-current investments	258.5	226.5	226.5	226.5	226.5
Long term Loans	488.6	515.1	515.1	515.1	515.1
Other Non-current Assets	835.4	1,026.8	1,026.8	1,026.8	1,026.8
Non-current Assets	9,368.2	9,271.0	9,149.2	9,178.4	9,178.3
Inventories	1,223.8	1,404.0	1,542.4	1,696.7	1,866.3
Trade receivables	536.1	668.2	656.1	681.3	707.5
Cash and cash equivalents	1,945.1	2,557.0	3,611.5	4,724.9	5,973.2
Short term Loans	320.5	188.2	70.4	73.1	76.0
Other current assets	46.0	800.4	800.4	800.4	800.4
Current Assets	4,071.4	5,617.8	6,680.9	7,991.0	9,438.5
Total Assets	13,439.6	14,888.9	15,830.1	17,169.5	18,616.8

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Cash Flow (INR Crores)	CY16	CY17	CY18E	CY19E	CY20E
PBT	808.9	1,298.4	1,673.5	1,808.0	1,935.8
Depreciation & Amortization	605.2	640.1	641.4	670.8	700.2
(Incr)/Decr in Working Capital	208.8	-89.0	121.8	256.7	299.5
Cash Flow from Operating	1,380.1	1,554.8	2,034.6	2,279.6	2,441.2
(Incr)/ Decr in Gross PP&E	-518.9	-533.8	-519.5	-700.0	-700.0
Cash Flow from Investing	-539.1	-384.6	-519.5	-700.0	-700.0
(Decr)/Incr in Debt	-	4.2	-9.2	-	-
Dividend Paid	-320.3	-384.2	-351.4	-379.7	-406.5
Finance costs	-47.8	-42.0	-100.0	-86.4	-86.4
Cash Flow from Financing	-421.2	-422.1	-460.6	-466.1	-493.0
Incr/(Decr) in Balance Sheet Cash	419.9	748.1	1,054.5	1,113.4	1,248.3
Cash at the Start of the Year	1,389.0	1,808.9	2,557.0	3,611.5	4,724.9
Cash at the End of the Year	1,808.9	2,557.0	3,611.5	4,724.9	5,973.2

RATIOS	CY16	CY17	CY18E	CY19E	CY20E
Particulars					
EBITDA/Ton	552	656	676	798	832
Sales Volume (mn tons)	25.6	29.1	30.3	31.4	32.0
Growth (%)					
Total Sales	-4.3%	19.1%	8.2%	5.8%	3.8%
EBITDA	-7.6%	35.3%	20.2%	9.2%	6.2%
PAT	2.4%	53.5%	28.0%	8.0%	7.1%
Profitability (%)					
EBITDA Margin	15.0%	15.8%	16.3%	16.8%	17.2%
NPM	6.3%	7.6%	8.3%	8.5%	8.8%
RoE (%)	6.8%	9.8%	11.5%	11.4%	11.3%
RoCE (%)	9.7%	13.9%	16.2%	16.0%	15.8%
Debt Ratios					
Net Debt/EBITDA	-1.3	-1.3	-1.6	-1.9	-2.2
Net Debt/Equity	-0.2	-0.3	-0.3	-0.4	-0.5
Interest Coverage	12.6	13.7	17.7	21.9	23.4
Per share data / Valuation					
EPS (INR.)	31.8	48.7	62.4	67.4	72.2
BPS (INR.)	470.3	498.7	542.4	589.5	640.0
P/E (INR.)	45.9x	33.3x	21.0x	19.5x	18.2x
EV/EBITDA (x)	18.1x	14.7x	9.2x	8.0x	7.0x
EV/Ton (\$)	113.6	128.7	92.7	87.8	81.1



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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Other disclosures	NO

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