

Retail Equity Research ACC Limited

Construction Materials

BSE CODE: 500410

NSE CODE: ACC

Bloomberg CODE: ACC:IN

SENSEX: 66,599

ACCUMULATE

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 2,024 TARGET Rs. 2,325 RETURN 15% ↑
(Closing: 08-09-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

Impressive performance, improved margins

ACC Ltd. is a leading Indian cement company with 17+ cement plants and 82 ready-mix concrete (RMC) plants. It manufactures a range of cement and blended cement.

- In Q1FY24, ACC's revenue grew 16.4% YoY to Rs. 5,201cr, driven by the rise in sales volume.
- EBITDA surged by 80.9% YoY to Rs. 771cr, with EBITDA margin expanding by 530bps to 14.8%, driven by cost reductions. Additionally, PAT surged by 105% YoY to Rs. 466 cr.
- ACC posted strong performance during the quarter owing to improved operational efficiency and higher sales volume. Continued growth will be propelled by positive demand trend in the cement industry, robust sales volume, improved operational efficiency, continuous capacity expansion, and synergy advantages. Hence, we upgrade our rating to ACCUMULATE on the stock with a revised target price of Rs. 2,325 based on 11.5x FY25E adj. EPS.

Higher cement sales boost revenue

Revenue increased 16.4% YoY to Rs. 5,201cr in Q1FY24 driven by strong demand for cement products, brand recognition efforts, and strategic positioning of premium products. Sales volume also surged 23.7% YoY, reaching 9.4 metric tonne, supported by rise in blended cement volume and improved operational efficiency. Additionally, the company maintained its dominant position in key markets.

Lower costs expand margins

In Q1FY24, EBITDA surged by 80.9% YoY to Rs. 771cr, and EBITDA margin expanded by 530bps YoY to 14.8%. Growth was primarily attributed to significant reductions in raw material costs, power and fuel expenses, freight and forwarding costs, and other expenses, driven by synergies with the parent company and group entities. Cost of kiln fuel decreased 15.5% to Rs. 2.13 per '000kCal from Rs. 2.52 per '000kCal. Improvements in energy efficiency, workforce productivity, and operational efficiency helped in cost optimisation. Furthermore, PAT surged 105% YoY to Rs. 466cr.

Key highlights

- Waste heat recovery systems (WHRS) at the Jammu and Kymore plants, with a combined capacity of 22.4 MW, are now operating at full capacity. WHRS contribution has increased to 8.4% from 2.0%. Additional 16.3MW is set to be operational later this year, bringing the total capacity to 46.3MW.
- The integrated cement unit at Ametha is scheduled to commence operations in Q2FY24, boosting clinker capacity by 3.3MTPA (with EC approvals secured for 2.75MTPA) and increasing grinding capacity by 1MTPA.
- The RMX and construction chemicals sectors are experiencing strong growth and are expected to accelerate further due to increased investments in construction projects and urbanisation.

Valuation

ACC had a strong quarter, achieving substantial revenue growth and improved margins due to operational excellence and increased sales volume. Ongoing efforts to enhance operational efficiency, achieve continuous capacity expansion, and leverage group synergies will remain key growth drivers for the company in the near future. Furthermore, the cement industry is in a positive demand cycle, and favourable cost factors are expected to sustain the company's growth trajectory in the upcoming quarters. Hence, we upgrade to ACCUMULATE with a target price of Rs. 2,325 based on 11.5x FY25E adj. EPS.

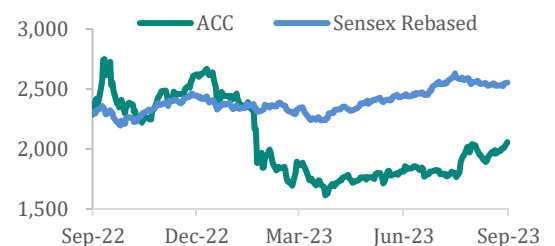
Company Data

Market Cap (cr)	Rs.39,125
Enterprise Value (cr)	Rs.37,626
Outstanding Shares (cr)	18.8
Free Float	43.0%
Dividend Yield	0.4%
52 week high	Rs.2,785
52 week low	Rs.1,594
6m average volume	24,096
Beta	1.4
Face value	Rs.10

Shareholding %	Q3FY23	Q4FY23	Q1FY24
Promoters	56.7	56.7	56.7
FII's	12.0	10.1	10.0
MFs/Insti	18.8	19.7	19.5
Public	11.4	12.4	12.6
Others	1.2	1.2	1.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	15.1%	10.0%	-8.9%
Absolute Sensex	4.8%	10.0%	11.0%
Relative Return*	10.3%	0.0%	-20.0%

*over or under performance to benchmark index



Consolidated (cr)	FY23A*	FY24E	FY25E
Sales	22,210	19,976	21,318
Growth (%)	37.5	n.m.	6.7
EBITDA	1,925	2,801	3,419
EBITDA Margin (%)	8.7	14.0	16.0
Adj. PAT	1,047	1,603	2,073
Growth (%)	(45.4)	n.m.	29.3
Adj. EPS	55.6	85.2	110.1
Growth (%)	(45.4)	n.m.	29.3
P/E	30.0	24.5	18.9
P/B	2.2	2.5	2.3
EV/EBITDA	16.1	13.4	10.6
ROE (%)	6.3	10.3	12.0
D/E	0.0	0.0	0.0

*FY23 includes fifteen months period data ended on March 31, 2023

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs.cr	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Revenue	5,201	4,468	16.4	4,791	8.6
EBITDA	771	426	80.9	469	64.5
EBITDA margins	14.8	9.5	530bps	9.8	500bps
Depreciation	200	165	21.5	177	13.2
EBIT	571	262	118.2	292	95.6
Interest	25	15	68.8	15	64.8
Other Income	77	54	42.8	119	(35.5)
Exceptional Items	-	-	-	(66)	n.m.
Share of profit from Associate	3	4	(32.9)	2	39.7
PBT	626	305	105.2	331	88.8
Tax	159	78	105.6	96	66.6
Reported PAT	466	227	105.0	236	97.8
Minority Interest	0	0	n.m.	0	n.m.
PAT att. to shareholders	466	227	105.0	236	97.8
Adjustments	-	-	-	66	n.m.
Adj. PAT	466	227	105.0	302	54.3
No. of shares	18.8	18.8	(0.0)	18.8	(0.1)
Adj. EPS (Rs.)	24.8	12.1	105.1	16.0	54.4

Per Tonne Analysis

	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Cement Volume (MT)	9.4	7.6	23.7	8.5	10.6
Cost of materials consumed	1518	1103	37.6	1856	(18.2)
Employee Expenses	162	285	(43.3)	249	(35.2)
Power & Fuel	1197	1726	(30.7)	1109	7.9
Freight & forwarding	1240	1418	(12.6)	1211	2.3
Other expenses	597	786	(24.0)	659	(9.4)
Total expenses	4713	5319	(11.4)	5085	(7.3)
Realisation (inc. RMC)	5,533	5,880	(5.9)	5,636	(1.8)
EBITDA	820	561	46.2	551	48.8

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	20,595	21,582	19,976	21,318	(3)	(1.2)
EBITDA	2,345	3,219	2,801	3,419	19.4	6.2
Margins (%)	11.4	14.9	14.0	16.0	260bps	110bps
Adj. PAT	1,441	2,051	1,603	2,073	11.2	1.1
Adj. EPS	76.5	108.9	85.2	110.1	11.4	1.1

PROFIT & LOSS

Y.E December (Rs. cr)	CY20A	CY21A	FY23A*	FY24E	FY25E
Revenue	13,786	16,152	22,210	19,976	21,318
% change	(12.0)	17.2	37.5	n.m.	6.7
EBITDA	2,355	2,998	1,925	2,801	3,419
% change	(2.4)	27.3	(35.8)	n.m.	22.1
Depreciation	639	607	841	804	848
EBIT	1,716	2,397	1,084	1,997	2,571
Interest	57	55	77	81	85
Other Income	50	164	196	222	279
PBT	1,709	2,506	1,203	2,138	2,765
% change	(16.7)	46.7	(52.0)	n.m.	29.3
Tax	279	643	317	535	691
Tax Rate (%)	16.3	25.7	26.4	25.0	25.0
Reported PAT	1,430	1,863	885	1,604	2,073
PAT att. to common shareholders	1,430	1,863	885	1,603	2,073
Adj*	176	55	162	-	-
Adj PAT	1,606	1,918	1,047	1,603	2,073
% change	16.6	19.4	(45.4)	n.m.	29.3
No. of shares (cr)	18.8	18.8	18.8	18.8	18.8
Adj EPS (Rs.)	85.3	101.8	55.6	85.2	110.1
% change	16.6	19.4	(45.4)	n.m.	29.3
DPS (Rs.)	28.0	58.0	9.3	14.5	17.6
CEPS (Rs.)	119.3	134.1	100.3	127.9	155.2

CASH FLOW

Y.E December (Rs. cr)	CY20A	CY21A	FY23A*	FY24E	FY25E
Net inc. + Depn.	2,069	2,470	1,726	2,407	2,922
Non-cash adj.	(275)	246	(306)	94	97
Changes in W.C	426	119	(2,656)	441	115
C.F. Operation	2,219	2,835	(1,235)	2,942	3,134
Capital exp.	(752)	(1,164)	(1,981)	(1,398)	(1,492)
Change in inv.	14	(13)	(2,891)	-	-
Other invest.CF	203	188	234	-	-
C.F - Investment	(535)	(988)	(4,637)	(1,398)	(1,492)
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(263)	(263)	(1,089)	(272)	(331)
Other finance.CF	(64)	(68)	(149)	(75)	(87)
C.F - Finance	(327)	(331)	(1,238)	(347)	(418)
Chg. in cash	1,357	1,517	(7,110)	1,196	1,223
Closing cash	6,006	7,522	415	1,611	2,834

* FY23 includes fifteen months period data ended on March 31, 2023

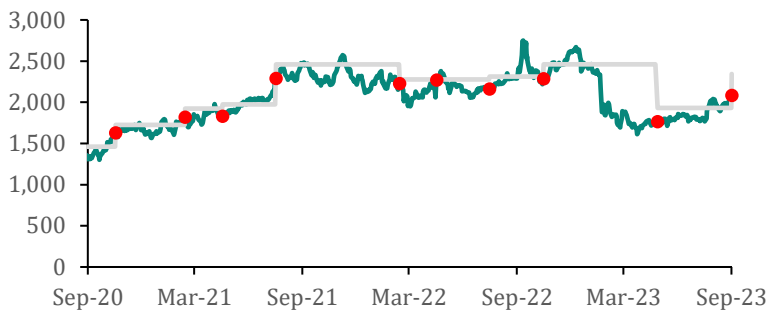
BALANCE SHEET

Y.E December (Rs. cr)	CY20A	CY21A	FY23A*	FY24E	FY25E
Cash	6,006	7,522	415	1,611	2,834
Accounts Receivable	451	462	869	899	938
Inventories	901	1,274	1,624	1,998	2,160
Other Cur. Assets	1,090	1,110	5,347	5,370	5,393
Investments	129	150	163	163	163
Gross Fixed Assets	9,632	10,219	12,200	13,598	15,090
Net Fixed Assets	6,508	6,541	7,102	7,680	8,307
CWIP	548	1,216	1,684	1,701	1,718
Intangible Assets	186	54	148	155	163
Def. Tax (Net)	-	-	-	-	-
Other Assets	2,380	2,710	3,191	3,181	3,171
Total Assets	18,200	21,039	20,544	22,758	24,846
Current Liabilities	4,804	6,006	5,641	6,508	6,846
Provisions	215	216	178	181	185
Debt Funds	-	-	-	-	-
Other Liabilities	479	505	583	552	513
Equity Capital	188	188	188	188	188
Reserves & Surplus	12,511	14,121	13,950	15,325	17,110
Shareholder's Fund	12,699	14,309	14,138	15,513	17,298
Minority Interest	3	3	3	4	4
Total Liabilities	18,200	21,039	20,544	22,758	24,846
BVPS (Rs.)	675	760	751	824	919

RATIOS

Y.E December	CY20A	CY21A	FY23A*	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	17.1	18.6	8.7	14.0	16.0
EBIT margin (%)	12.4	14.8	4.9	10.0	12.1
Net profit mgn.(%)	10.4	11.5	4.0	8.0	9.7
ROE (%)	11.3	13.0	6.3	10.3	12.0
ROCE (%)	13.5	16.8	7.7	12.9	14.9
W.C & Liquidity					
Receivables (days)	12.0	10.4	14.3	16.4	16.1
Inventory (days)	64.7	74.6	52.9	73.0	77.0
Payables (days)	102.0	111.6	48.7	70.8	74.5
Current ratio (x)	1.8	1.7	1.5	1.5	1.7
Quick ratio (x)	1.3	1.3	0.2	0.4	0.6
Turnover & Leverage					
Gross asset T.O (x)	0.7	0.8	1.0	0.8	0.7
Total asset T.O (x)	0.8	0.8	1.1	0.9	0.9
Int. coverage ratio (x)	30.1	43.9	14.0	24.7	30.4
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	1.8	2.1	1.4	1.9	1.7
EV/EBITDA (x)	10.4	11.4	16.1	13.4	10.6
P/E (x)	19.0	21.8	30.0	24.5	18.9
P/BV (x)	2.4	2.9	2.2	2.5	2.3

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
22-Jul-21	HOLD	2,460
17-Feb-22	HOLD	2,415
21-Apr-22	HOLD	2,431
17-Feb-22	HOLD	2,277
20-Jul-22	HOLD	2,313
20-Oct-22	HOLD	2,461
2-May-23	HOLD	1,931
11-Sep-23	ACCUMULATE	2,325

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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