

July 31, 2024

RESULT REPORT Q1 FY25 | Sector: Cement

ACC

Synergy benefits and cost efficiency to lead margin expansion. upgraded to BUY

Result Synopsis

ACC Ltd (ACC) numbers slightly deviated from street estimates. Revenue stood at Rs51.55bn (flattish YoY/ -4.7% QoQ) primarily due to weak realizations and muted volumes. EBITDA in absolute terms declined by 11.9% YoY (-18.8% QoQ), and the EBITDA margin slid to 13.2% in 1QFY25 from 14.8% in 1QFY24 and 15.5% in 4QFY24. Adj. PAT stood at Rs 3.62 billion, a decline of 22.5% YoY (-49.5% QoQ), mainly due to lower EBITDA coupled with a decrease in other income. EBITDA/tn stood at Rs 666, a decline of 18.8% YoY (-17.3% QoQ). The YoY decline in EBITDA/ton is mainly due to a high base impact from lower volume, while the QoQ decline is primarily due to lower realization and the absence of cost benefits.

With 38.55mtpa installed capacity, ACC's core capacity utilization stands at 76% which gives enough headroom to cater incremental capacity where we are not factoring clinker sale + MSA with Ambuja. ~25% of installed capacity is in southern region where the capacity utilization has improved gradually and we believe, synergy benefits i.e., volume plus cost from Penna Cement to give a better prospective to ACC in the region coupled with market reach. Also, ACC's expansion plan of 1.6mtpa at Sindri (GU), Jharkhand (Eastern region) and 2.4mtpa Salai Banwa (GU), Uttar Pradesh (Central) expected to commission during end of Q4FY25 to 1QFY26. This will add volumes especially in demand rich region i.e., central region. While the ongoing capex for green power energy of 1000MW by FY26 to give big respite to energy cost. Also, various cost initiative on group level i.e., wear house optimization, increase in direct dispatches, higher usage of green energy, reduction in lead distance etc will provide cost synergy benefits to ACC.

Valuation & Outlook: We are factoring 78-80% avg. capacity utilization to arrive at volume CAGR or 5.1% over FY24-FY26E, while realization looks weak for FY25E and expected some positiveness in FY26E. We are assuming Revenue/ EBITDA/ PAT growth of ~6%/ ~18%/ ~9% over FY24-FY26E. ACC remains a cash rich company, and the capex can be met through operating cash flow and internal accruals. At, CMP Rs2590 the stock is trading at 11.9x/ 9.3x FY25/FY26E EV/EBITDA. We believe, the stock to trade at higher multiple going forward backed by various synergy benefits, volume uptick and cement price appreciations. Therefore, we are valuing the stock at 12x FY26E EV/EBITDA (Earlier 10x FY26E EV/EBITDA) and revised our TP to Rs3256 (Earlier TP Rs2645), upgraded the recommendation to BUY from NEUTRAL. Any, further weakness in cement demand/pricing, delay in capacity expansion/cost initiative program is the key downside risk to our recommendation.

Exhibit 1: Actual vs estimates

Rs Mn	Actual	Estimate		% Variation		Remarks
		YSec	Consensus	YSec	Consensus	
Sales	51,549	49,080	49,983	5.0	3.1	Better than expected volume and realization missed estimate
EBITDA	6,791	6,180	7,136	9.9	(4.8)	
Margin (%)	13.2	12.6	14.3	58 bps	-110 bps	
Rept. PAT	3,614	3,204	4,024	12.8	(10.2)	

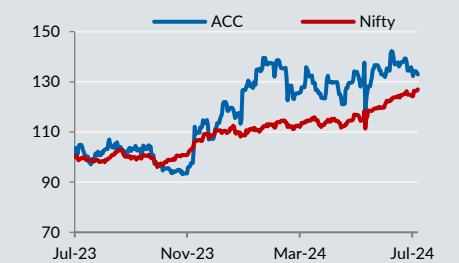
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 3,256
Target Price	: Rs 2,590
Potential Return	: +26%

Stock data (as on Jul 31, 2024)

Nifty	24,951
52 Week h/l (Rs)	2844 / 1803
Market cap (Rs/USD mn)	486510 / 5817
Outstanding Shares (mn)	188
6m Avg t/o (Rs mn):	1,263
Div yield (%):	0.3
Bloomberg code:	ACC IN
NSE code:	ACC

Stock performance



	1M	3M	1Y
Absolute return	-1.1%	2.3%	28.4%

Shareholding pattern (As of Mar-24)

Promoter	56.7%
FII+DII	31.0%
Others	12.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	NEUTRAL
Target Price	3256	2,544

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	107.1	133.3
EPS (Old)	110.0	132.0
% Change	-3%	1%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	199,589	201,724	222,849
Growth	(10.1)	1.1	10.5
EBITDA	30,617	35,313	42,701
Margin	15.3	17.5	19.2
Adj PAT	21,069	20,136	25,049
Growth	164.0	(13.8)	24.4
EPS	124.3	107.1	133.3
ND/EBITDA	(0.6)	(0.6)	(1.1)
ROE	15.3	11.7	13.1
ROCE	11.8	11.1	12.3
EV/EBITDA	10.6	11.9	9.3

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Exhibit 2: Quarterly snapshot (Console)

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	y/y (%)	q/q (%)	FY24	FY23	y/y (%)
Net Revenue	52,011	44,347	49,144	54,087	51,549	(0.9)	(4.7)	199,589	222,102	(10.1)
Total Expenses	44,302	38,855	40,096	45,719	44,758	1.0	(2.1)	168,973	202,853	(16.7)
COGS	14,269	12,944	13,410	17,492	17,509	22.7	0.1	58,116	54,537	6.6
Employee Expenses	1,520	1,948	1,783	1,672	1,641	8.0	(1.9)	7,372	10,362	(28.9)
Power & fuel	11,248	8,866	10,154	9,763	10,002	(11.1)	2.4	40,030	57,427	(30.3)
Freight Exp	11,654	9,479	9,557	11,014	10,854	(6.9)	(1.5)	41,704	51,402	(18.9)
Other Expenses	5,612	5,618	5,193	5,778	4,753	(15.3)	(17.7)	21,817	29,312	(25.6)
EBITDA	7,709	5,493	9,047	8,368	6,791	(11.9)	(18.8)	30,617	19,249	59.1
EBITDA (%)	14.8	12.4	18.4	15.5	13.2	-165 bps	-230 bps	15.3	8.7	667 bps
D&A	2,001	2,128	2,352	2,350	2,323	16.1	(1.2)	8,831	8,413	5.0
Other Income	769	2,101	862	1,197	717	(6.7)	(40.1)	4,929	3,419	44.2
Interest Expense	251	289	339	667	331	32.0	(50.3)	1,546	773	100.0
Exceptional/EO items	-	-	-	(2,296)	-	-	(100.0)	(2,296)	1,618	(241.9)
Share JV/Associates	29	17	76	7	9	(67.8)	34.3	129	162	(20.0)
EBT	6,256	5,194	7,293	8,850	4,863	(22.3)	(45.1)	27,464	11,865	131.5
Tax	1,594	1,315	1,916	(598)	1,249	(21.7)	(308.8)	4,228	3,174	33.2
Reported PAT	4,661	3,879	5,377	9,448	3,614	(22.5)	(61.8)	23,365	8,852	164.0
Less: Minority Interest	0	0	0	1	0	-	(20.0)	1	1	(21.4)
Adj. PAT	4,661	3,879	5,376	7,152	3,614	(22.5)	(49.5)	21,069	10,468	101.3

Source: Company, YES Sec

Exhibit 3: Quarterly Operational Performance Analysis (Console)

Particulars (Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	y/y (%)	q/q (%)	FY24	FY23	y/y (%)
Total Volumes (MMT)	9.4	8.1	8.9	10.4	10.2	8.5	(1.9)	36.9	38.6	(4.4)
NSR/te (Blended)	5,533	5,475	5,522	5,201	5,054	(8.7)	(2.8)	5,412	5,755	(6.0)
RM/te	1,518	1,598	1,507	1,682	1,717	13.1	2.1	1,576	1,413	11.5
Employees/te	162	240	200	161	161	(0.5)	0.1	200	269	(25.6)
Power/te	1,197	1,095	1,141	939	981	(18.0)	4.5	1,085	1,488	(27.1)
Freight/te	1,240	1,170	1,074	1,059	1,064	(14.2)	0.5	1,131	1,332	(15.1)
Others/te	597	694	583	556	466	(21.9)	(16.1)	592	760	(22.1)
Opex/te (Blended)	4,713	4,797	4,505	4,396	4,388	(6.9)	(0.2)	4,582	5,257	(12.8)
EBITDA/te (Blended)	820	678	1,017	805	666	(18.8)	(17.3)	830	499	66.4

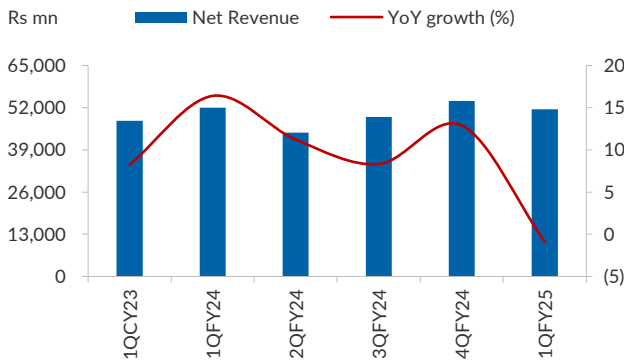
Source: Company, YES Sec

ADANI CEMENTS (ACC + AMBUJA) KEY CON-CALL HIGHLIGHTS

- **Industry overview:** Industry demand stood higher at 7-8% YoY in FY24 and expected to grow 8-9% YoY in FY25E backed by housing and infra projects. ~65%/ 35% demand comes from housing (largely from IHB)/ Infra projects (largely Govt. ~75%). Also, share of top five cement companies have increased to 60% in 2024 as against 45% in 2018.
- **Volume guidance of ~8% YoY growth:** As we are standing in monsoon quarter (Especially July was heavy rain across the country), so we can't expect good volumes in the 2QFY25, however. Post Diwali we can expect volume uptick and Adani Cements guiding a volume growth of ~8% YoY backed by budget 24-25 allocations. Management expect ~40mtpa demand creation in near-term.
- **Better pricing in 2HFY25:** Weak pricing across the region due to elections and summer hit. And prices generally tend to recover after monsoon. In Fact, all India avg. prices (Rs365-370) are already low as compared to last 36 months and which should follow normal trajectory. Because, in general demand-supply matches in Dec & Mar Quarters.
- **Green energy capex guidance and targeting to meet 60% of power requirement:** ~1000MW of green energy set-up is expected to come by 1QFY26 (200MW in Aug'24/ 650MW by Mar'25/ 150MW by May'25). The total capex is estimated at Rs6000Cr, out of which company have invested Rs1500Cr already and incurring remaining Rs4500Cr in next 12 months.
- **Enormous synergy benefits from Penna Cement:** It is in advance stage and expected 100% acquisition completion will be done in 3QFY25. The acquisition will provide huge synergy benefits to Adani Group, especially ACC plants in southern regions with respect to both volume and cost. The company will be using Penna as brand along with ACC and Ambuja.
- **In the verge of Rs550/tn cost savings:** Company is targeting Rs550/tn of cost savings through 1). Green Energy, 2). Logistic benefits, 3). Captive coal mining, and 4). Long-term contract. Targeting to install 186MW WHRS by Mar'25 from current installed capacity of 165MW, setting up 1000MW Renewable energy (Wind+ Solar) by FY26 will meet ~60% of power requirements result Rs90/tn of P&F cost savings by FY28. Targeting to reduce the avg. lead distance by 100kms over a period of time including introducing EV trucks.
- **Limestone lease expiration is not a concern for the company:** They have ~19 limestone lease sites which will be renewed in 2030, and most of them are from ACC. However, they have Penna lease sites for backup. So one can say, its limestone expiry is only the 25% of industry limestone expiry. Also, company have already own bids for two limestone mines having reserves of 275mt.

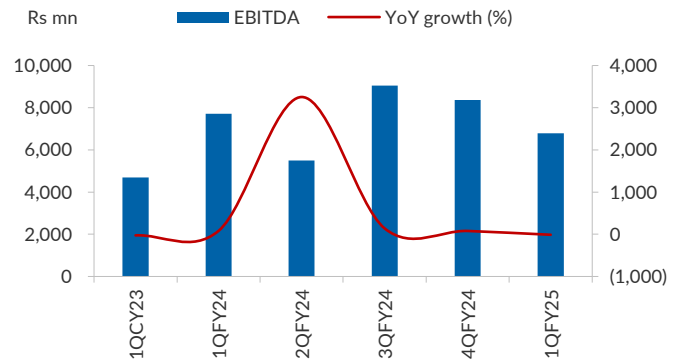
QUARTERLY CHARTS & ANALYSIS

Exhibit 4: Revenue flattish YoY and down by 4.7% QoQ due to weak realization



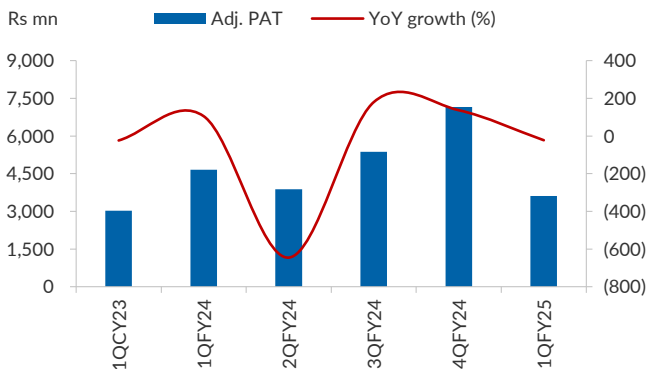
Source: Company, YES Sec

Exhibit 5: EBITDA down by ~11.9% YoY (-18.8% QoQ) due to lower top-line growth and no major cost benefits



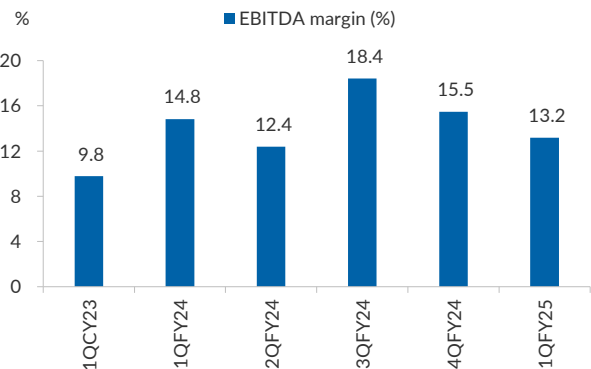
Source: Company, YES Sec

Exhibit 6: Adj. PAT down by 22.5% YoY (-49.5% QoQ) due to higher depreciation, interest expenses and lower other income



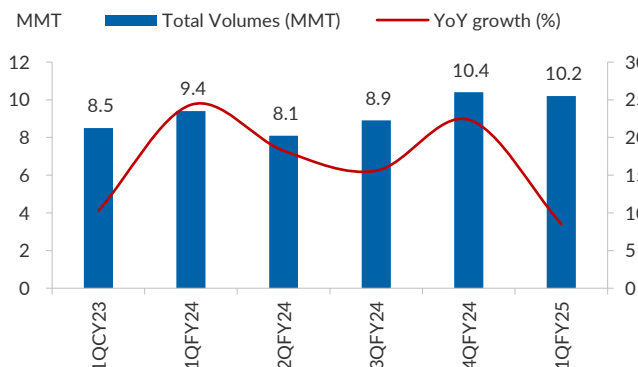
Source: Company, YES Sec

Exhibit 7: Lower EBITDA resulted margin contraction



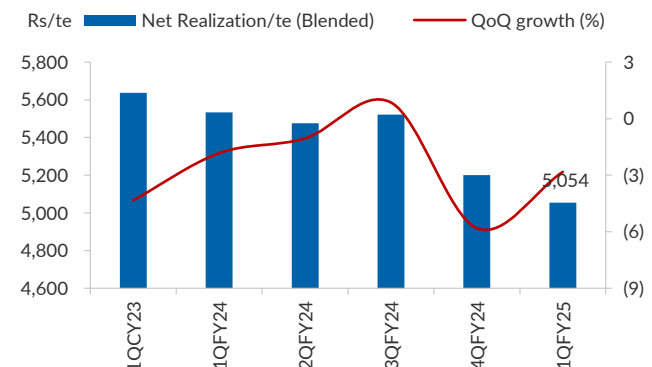
Source: Company, YES Sec

Exhibit 8: Decent volume growth of 8.5% YoY supported by MSA with Ambuja especially in western region



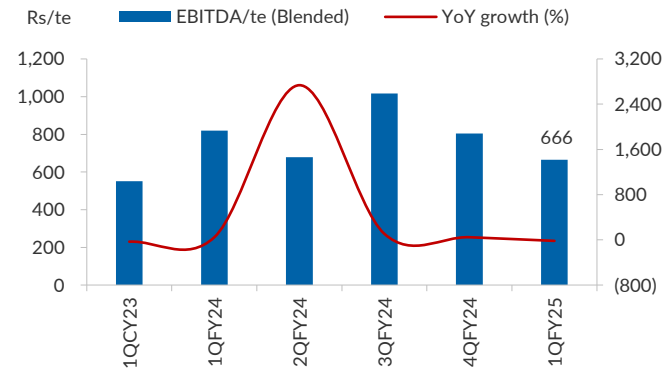
Source: Company, YES Sec

Exhibit 9: NSR down by 8.7% YoY (-2.8% QoQ), as higher exposure in S/E region



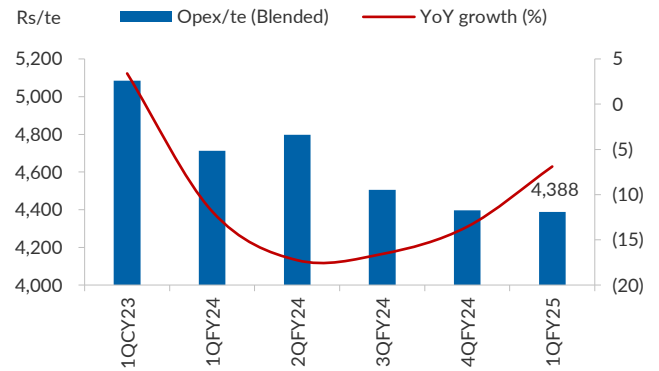
Source: Company, YES Sec

Exhibit 10: Blended EBITDA/te down by 18.8% YoY & 17.3% QoQ is an impact of high-volume despite having a cost rationalization



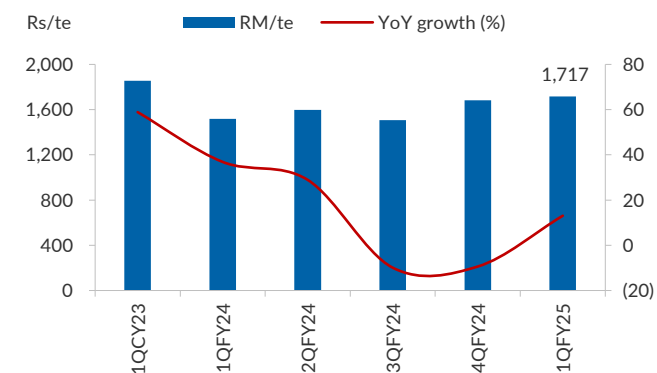
Source: Company, YES Sec

Exhibit 11: Opex/te down by 6.9% YoY and flattish QoQ mainly led by improved operating leverage benefits



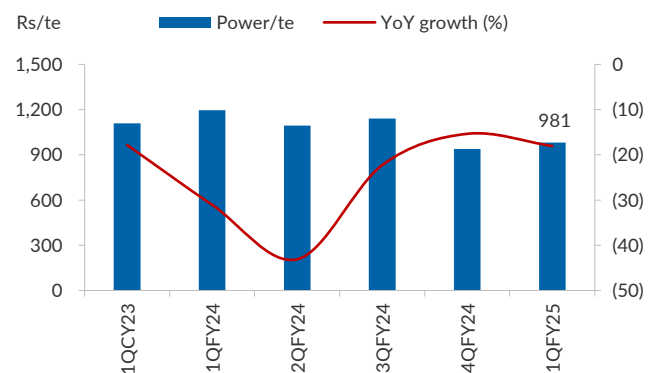
Source: Company, YES Sec

Exhibit 12: RM Cost/te up by 13.1% YoY (+2.1% QoQ)



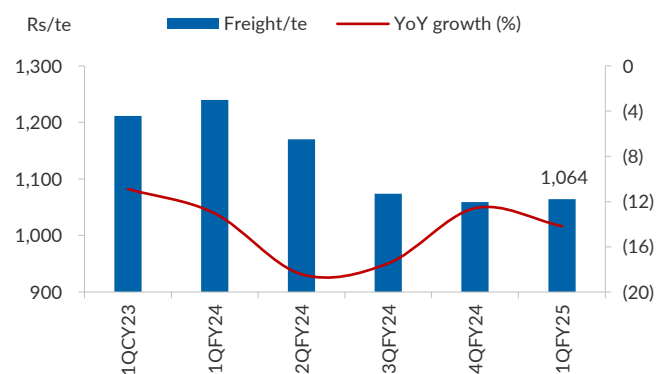
Source: Company, YES Sec

Exhibit 13: P/F Cost/te down by 18% YoY (+4.5% QoQ)



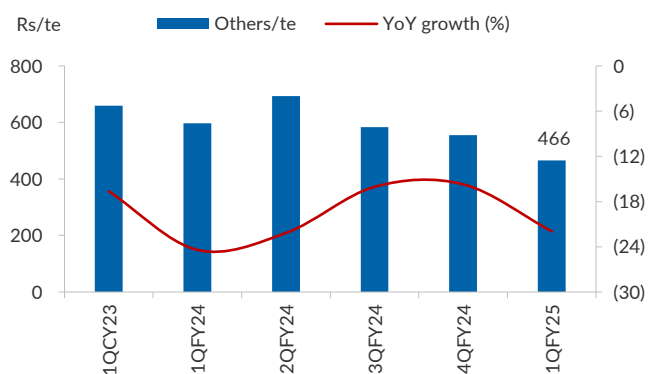
Source: Company, YES Sec

Exhibit 14: Logistic cost/te up down by 14.2% YoY (flattish QoQ) led by reduction in lead distance and stable diesel prices.



Source: Company, YES Sec

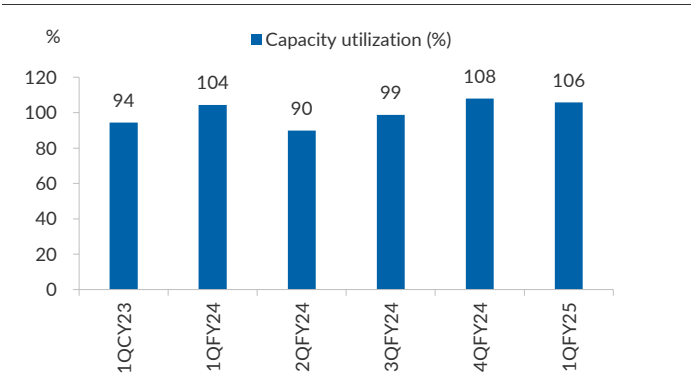
Exhibit 15: Other Ex/te down by 21.9% YoY (-16.1% QoQ).



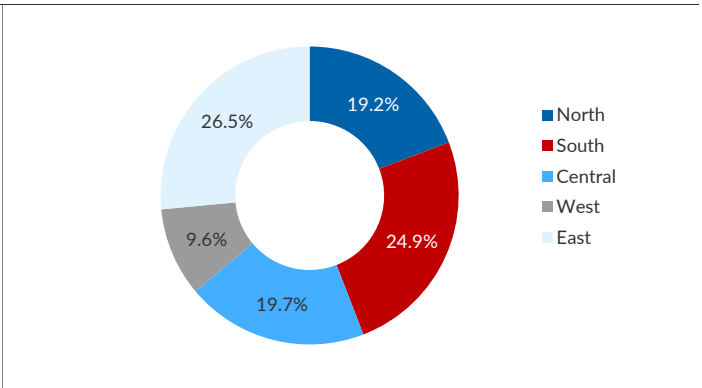
Source: Company, YES Sec

Exhibit 16: Capacity utilization at peak level (Impact of MSA with Ambuja)

Exhibit 17: Current regional exposure and adding 1.6mtpa/ 2.4mtpa in East/ Central region by FY25E/ FY26E



Source: Company, YES Sec



Source: Company, YES Sec

Exhibit 18: Capacity expansion update

Expansion Plan (Cement)	Cement (mtpa)	Status
Capacity As on 1QFY25	38.55	
Adding:		
Sindri (GU), Jharkhand	1.6	4QFY25
Salai Banwa (GU), Uttar Pradesh	2.4	1QFY26

Source: Company, YES Sec

Exhibit 19: Annual Operational Performance Estimates (Console)

Particulars (Rs m)	CY21	FY23*	FY24	FY25E	FY26E
Total Volumes (MMT)	29.4	38.6	36.9	37.1	40.9
Utilization (%)	78%	92%	76%	78%	79%
Cement Realization/te	4,958	5,163	4,959	4,906	4,954
Net Realization/te (Blended)	5,496	5,755	5,412	5,440	5,444
RM/te	975	1,413	1,576	1,619	1,630
Power/te	1,145	1,488	1,085	1,005	965
Freight/te	1,301	1,332	1,131	1,076	1,031
Employees/te	285	269	200	204	208
Others/te	778	760	592	586	568
Opex/te (Blended)	4,476	5,257	4,582	4,488	4,401
EBITDA/te (Blended)	1,020	499	830	952	1,043

Source: Company, YES Sec, *15-month data

Exhibit 20: Key Estimate Revision

	FY25E			FY26E		
	Old	New	Change	Old	New	Change
Revenues	210,236	201,724	-4%	229,005	222,849	-3%
EBITDA	35,604	35,313	-1%	41,523	42,701	3%
PAT	20,739	20,136	-3%	24,895	25,049	1%
EPS	110.0	107.1	-3%	132.0	133.3	1%

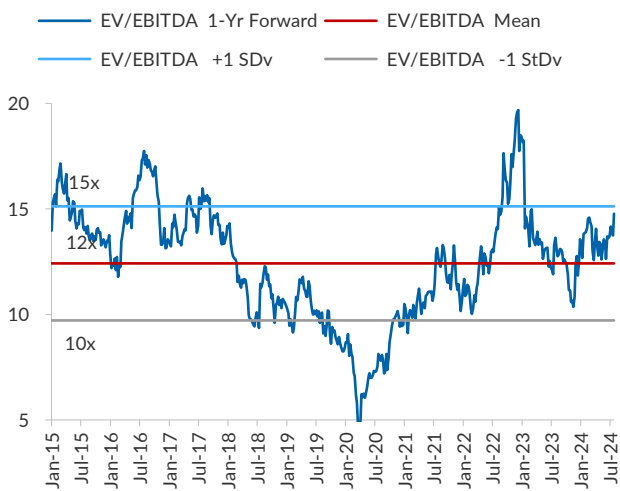
Source: Company, YES Sec

Exhibit 21: Valuation Summary

Valuation	Rs mn
FY26E EBITDA (Rs mn)	42,701
Target Multiple (x)	12
EV (Rs mn)	512,416
Less: Net Debt (Rs mn)	(99,765)
Equity Value (Rs mn)	612,181
No of Shares (in mn)	188
Value of shares (Rs)	3,256
CMP (Rs)	2,590
Upside / (downside)	26%

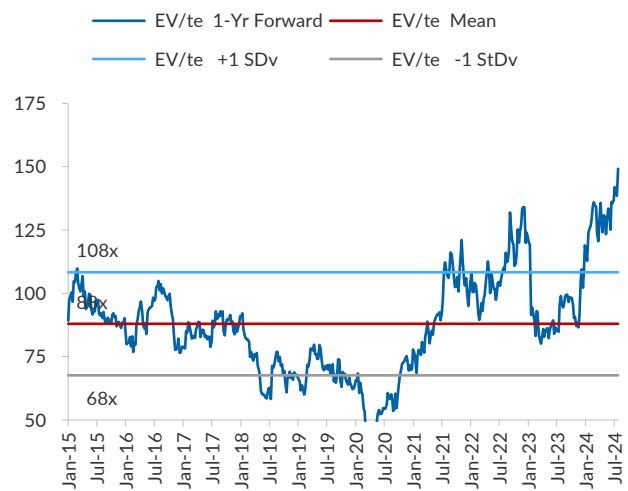
Source: Company, YES Sec

Exhibit 22: 1-yr forward EV/EBITDA band



Source: Company, YES Sec

Exhibit 23: 1-yr forward EV/te (\$) band



Source: Company, YES Sec

FINANCIALS

Exhibit 24: Balance Sheet (Console)

Y/e 31 Mar (Rs m)	CY21	FY23*	FY24	FY25E	FY26E
Equity capital	1,880	1,880	1,880	1,880	1,880
Reserves	141,208	139,505	161,417	178,734	200,964
Net worth	143,088	141,385	163,297	180,614	202,843
Other LT Liabilities	1,014	1,257	2,238	2,238	2,238
LT provision.	2,156	1,778	1,517	1,517	1,517
Minority interest	34	35	36	36	36
Long-term Borrowing	-	-	-	-	-
Deferred tax liabilities. (net)	4,037	4,573	5,801	5,801	5,801
Current Liabilities					
Trades Payables	19,049	14,934	19,249	17,028	17,736
Short-term Borrowing	-	-	-	-	-
Other current liabilities	40,855	41,375	41,598	41,598	41,598
Short Term Provision	157	101	121	121	121
Total Liabilities	210,388	205,438	233,856	248,953	271,890
Assets					
Total Net Block	65,914	72,465	92,352	97,276	103,532
CWIP & Other Assets	14,034	19,494	17,758	23,845	13,090
Investments	1,496	1,633	519	519	519
Other Non-current Asset	25,251	29,294	25,966	25,966	25,966
Deferred tax asset (net)	-	-	-	-	-
Current Assets					
Inventories	12,739	16,242	18,686	18,508	19,959
Trades Receivables	4,890	8,692	8,275	8,529	9,023
Other current assets	10,761	53,412	51,636	51,636	51,636
Short Term Loans & advances	66	58	36	36	36
Cash & Bank Balances	75,237	4,147	18,629	22,639	48,129
Total Assets	210,388	205,438	233,856	248,953	271,890

Source: Company, YES Sec, *15-month data

Exhibit 25: Income statement (Console)

Y/e 31 Mar (Rs m)	CY21	FY23*	FY24	FY25E	FY26E
Net Revenue	161,517	222,102	199,589	201,724	222,849
EBITDA	29,981	19,249	30,617	35,313	42,701
D&A	6,007	8,413	8,831	10,235	11,344
EBIT	23,974	10,836	21,786	25,078	31,358
Interest Expense	546	773	1,546	810	810
Other Income	2,067	3,419	4,929	2,582	2,852
Exceptional/EO items	548	1,618	(2,296)	-	-
EBT	24,947	11,865	27,464	26,850	33,400
Tax	6,433	3,174	4,228	6,712	8,350
Share of Profit/(Loss) in JV/Associates	117	162	129	-	-
Reported PAT	18,631	8,852	23,365	20,137	25,050
Less: Minority Interest	1	1	1	1	1
Adj. PAT	19,178	10,468	21,069	20,136	25,049

Source: Company, YES Sec, *15-month data

Exhibit 26: Cash Flow (Console)

Y/e 31 Mar (Rs m)	CY21	FY23*	FY24	FY25E	FY26E
Cash flow from operation	32,628	(36,333)	36,527	28,074	35,156
Profit before tax	25,610	13,642	25,296	26,849	33,399
Depreciation	6,007	8,413	8,831	10,235	11,344
Tax paid	(6,433)	(3,174)	(4,228)	(6,712)	(8,350)
Working capital Δ	7,990	(53,598)	4,330	(2,298)	(1,237)
Other operating items	(547)	(1,616)	2,297	1	1
Cash flow from Investing Activities	(14,983)	(24,467)	(23,655)	(21,245)	(6,845)
Capital expenditure	(13,529)	(20,424)	(26,983)	(21,245)	(6,845)
Change in other non-current assets	(1,453)	(4,043)	3,328	-	-
Free cash flow	19,099	(56,757)	9,544	6,830	28,311
Cash flow from Financing activities	(2,466)	(10,290)	1,610	(2,820)	(2,821)
Change in Equity & Reserves	8,369	(8,817)	(43)	-	-
Investments	(203)	(138)	1,115	-	-
Debt financing/disposal	-	-	-	-	-
Dividends paid	(10,903)	(1,739)	(1,410)	(2,820)	(2,821)
Other items	271	403	1,948	-	-
Net Δ in cash	15,180	(71,090)	14,482	4,010	25,490

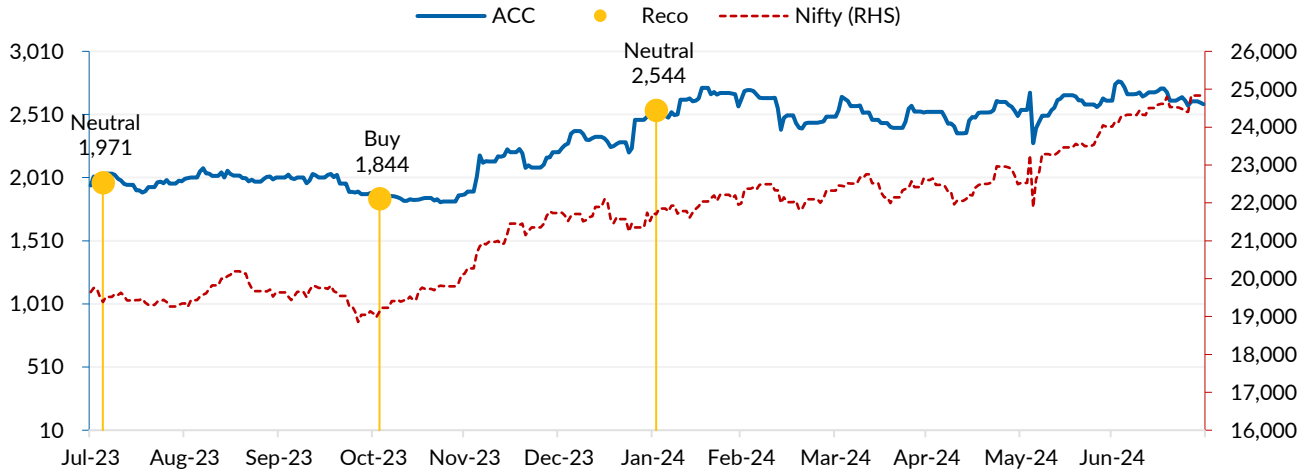
Source: Company, YES Sec, *15-month data

Exhibit 27: Ratio Analysis (Console)

Y/e 31 Mar	CY21	FY23*	FY24	FY25E	FY26E
Growth matrix (%)					
Revenue	17.2	37.5	(10.1)	1.1	10.5
EBITDA	27.3	(35.8)	59.1	15.3	20.9
EBT	46.8	(52.4)	131.5	(2.2)	24.4
RPAT	30.3	(52.5)	164.0	(13.8)	24.4
Adj. EPS	30.3	(52.5)	164.0	(13.8)	24.4
Profitability ratios (%)					
EBITDA Margin	18.6	8.7	15.3	17.5	19.2
EBIT Margin	16.1	6.4	13.4	13.7	15.4
PAT Margin	11.5	4.0	11.7	10.0	11.2
ROCE	13.1	7.2	11.8	11.1	12.3
ROE	13.8	6.2	15.3	11.7	13.1
ROA	23.8	9.9	22.9	17.8	23.1
Per share ratios (Rs)					
EPS	99	47	124	107	133
DPS	58.0	9.3	7.5	15.0	15.0
Cash EPS	131	92	171	162	194
BVPS	761	752	869	961	1,079
Payout (%)					
Dividend payout	58.5	19.6	6.0	14.0	11.3
Tax payout	25.8	26.8	25.0	25.0	25.0
Liquidity ratios					
Inventory days	62	46	49	49	49
Payable days	73	44	49	49	49
Receivables days	11	11	16	16	16
Leverage ratios (x)					
Interest Coverage	47.7	18.4	17.3	34.2	42.2
Net D/E	(0.5)	(0.0)	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA	(2.5)	(0.2)	(0.6)	(0.6)	(1.1)

Source: Company, YES Sec, *15-month data

Recommendation Tracker



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