14 July 2022
2QCY22 Results Update | Sector: Cement

ACC

Estimate change	↓
TP change	↓
Rating change	↓

Bloomberg	ACC IN
Equity Shares (m)	188
M.Cap.(INRb)/(USDb)	404.9 / 5.1
52-Week Range (INR)	2588 / 1901
1, 6, 12 Rel. Per (%)	1/4/3
12M Avg Val (INR M)	1216

Financials & Valuations (INR b)

Y/E Dec	2021	2022E	2023E
Sales	161.5	172.5	181.1
EBITDA	30.0	18.9	27.8
Adj. PAT	18.9	10.4	16.6
EBITDA Margin (%)	18.6	11.0	15.4
Adj. EPS (INR)	100.5	55.3	88.4
EPS Gr. (%)	28.2	(45.0)	60.0
BV/Sh. (INR)	756.9	754.1	820.5
Ratios			
Net D:E	-0.5	-0.4	-0.4
RoE (%)	14.1	7.3	11.2
RoCE (%)	14.0	7.4	11.2
Payout (%)	59.9	39.8	28.3
Valuations			
P/E (x)	21.4	39.0	24.4
P/BV (x)	2.8	2.9	2.6
EV/EBITDA(x)	10.6	17.3	12.0
EV/ton (USD)	117	116	111
Div. Yield (%)	2.7	1.0	1.2
FCF Yield (%)	4.1	-1.5	3.9

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	54.5	54.5	54.5
DII	20.8	20.1	19.5
FII	12.1	12.8	13.7
Others	12.5	12.6	12.3

FII Includes depository receipts

CMP: INR2,156 TP: INR2,260 (+5%) Downgrade to Neutral

Weak performance as expected; downgrade to Neutral

Stock outperformance v/s other stocks unwarranted

- ACC's 2QCY22 result was weak as expected, though, the company met with our muted expectations. EBITDA declined 51% YoY to INR4.25b (v/s estimated INR4.29b) and OPM contracted 13pp YoY to 9.5% (v/s estimated 9.9%) due to cost pressures. EBITDA/t dipped 56% YoY to INR563.
- Earnings are expected to come under further pressure in 3QCY22 led by rising costs. We further cut our EBITDA estimates by 7%/4% and EPS estimates by 9%/4% for CY22/23, respectively.
- ACC trades at 12x CY23E EV/EBITDA (in line with its 10-year historical average) and leaves little room for upside. **We downgrade the stock to Neutral with a revised TP of INR2,260 (based on 12x Mar'24E EV/EBITDA).**

Cement volume 2% above estimate; EBITDA/t 3% below estimate

- Revenue/EBITDA/adjusted PAT stood at INR44.7b/INR4.3b/INR2.2b (+15%/-51%/-60% YoY and +3%/-1%/-1% v/s our estimate), respectively. Cement sales volume grew 10.5% YoY to 7.56mt (est. 7.40mt). RMC sales volume rose 43% YoY to 0.83cubic meters.
- Grey cement realization improved 2% YoY/4% QoQ. Blended realization improved 4% YoY/3% QoQ on higher RMC revenue (up 53% YoY).
- Blended cost/t grew 22% YoY/9% QoQ, led by higher variable and freight costs (elevated coal/petcoke/diesel prices). EBITDA/t dipped 56% YoY/32% QoQ to INR563 (at a 26-quarter low).
- In 1HCY22, ACC's revenue grew 9% YoY backed by increase in blended realization/volume by 3%/6% YoY, respectively. However, EBITDA declined 39% YoY due to a sharp increase in operating cost/t (up 18% YoY).
- ACC's OCF turned negative (INR7.6b) v/s INR4.2b in 1HCY21 owing to lower profitability and increase in working capital (up at INR15.8b v/s INR11.9b in 1HCY21) as well as higher tax outgo of INR2.3b v/s 1.3b in 1HCY21.
- Capex stood at INR10.8b v/s INR3.4b in 1HCY21. Net cash plunged to INR45.8b from 74.2b in Dec-21.

Highlights from the management commentary

- Project work at Ametha Greenfield integrated unit (2.7mtpa clinker, 1mtpa cement and 16.3MW WHRS) is on track and is likely to be commissioned by 4QCY22.
- Orders have been placed for Waste Heat Recovery Systems (WHRS) at Chanda and Wadi plants. WHRS projects are already under implementation at Jamul, Kymore and Ametha plants. Post-completion of all projects, WHRS capacity will augment to 75MW from 7.5MW at present.

Valuation appears rich; downgrade to Neutral

- ACC is well placed to pursue growth opportunities with net cash of INR69.3b in CY23E. Historically, ACC has been a laggard in capacity additions v/s other relevant players in the industry. During FY08-22, ACC's grinding capacity reported a CAGR of 4% v/s 9-18% capacity CAGR of other major players.

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- The growth plans and cost saving strategies by the new management will be the key triggers for stock performance, in our view. We expect INR85/t savings from Technology & Knowhow fees being paid to Holcim and incremental green energy share (of 16% in CY24E v/s 7% in CY21).
- ACC, due to ongoing corporate action (acquisition by Adani group which has to be followed by an open offer), has outperformed BSE Sensex by 6% in CY22; whereas, other companies underperformed the index by 17-38%. We expect ACC's EBITDA and profits to decline at a CAGR of 4% and 6% over CY21-23, respectively. The stock trades at 12x CY23E EV/EBITDA (in line with its 10-year average one-year forward EV/EBITDA). We value ACC at 12x Mar'24E EV/EBITDA and downgrade it to Neutral with a revised TP of INR2,260 (v/s INR2,465 earlier).

Standalone quarterly performance (INR m)

Y/E December	CY21				CY22				CY21	CY22E	MOFSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Cement Sales (mt)	7.97	6.84	6.57	7.49	7.71	7.56	6.96	7.67	28.89	29.90	7.40	2
YoY Change (%)	21.5	43.7	1.2	(2.9)	(3.3)	10.5	6.0	2.4	13.2	3.5	8.2	
Net Sales	**42,919**	**38,848**	**37,489**	**42,258**	**44,265**	**44,684**	**39,433**	**44,077**	**1,61,514**	**1,72,460**	**43,448**	**3**
YoY Change (%)	22.6	49.4	6.0	2.0	3.1	15.0	5.2	4.3	17.2	6.8	11.8	
Total Expenditure	34,325	30,101	30,376	36,707	37,928	40,431	36,953	38,220	1,31,510	1,53,532	39,155	
EBITDA	**8,594**	**8,747**	**7,113**	**5,551**	**6,337**	**4,253**	**2,480**	**5,858**	**30,004**	**18,928**	**4,294**	**(1)**
Margin (%)	20.0	22.5	19.0	13.1	14.3	9.5	6.3	13.3	18.6	11.0	9.9	(36)
Depreciation	1,424	1,456	1,497	1,596	1,531	1,638	1,646	1,692	5,973	6,507	1,531	
Interest	112	134	171	129	130	149	149	133	546	560	130	
Other Income	432	447	640	529	576	529	502	494	2,048	2,100	403	
PBT before EO Item	**7,489**	**7,604**	**6,085**	**4,355**	**5,252**	**2,995**	**1,188**	**4,527**	**25,533**	**13,961**	**3,036**	**(1)**
EO Income/(Expense)	-	(381)	-	(548)	-	-	-	-	(929)	-	-	
PBT after EO Item	**7,489**	**7,223**	**6,085**	**3,807**	**5,252**	**2,995**	**1,188**	**4,527**	**24,604**	**13,961**	**3,036**	**(1)**
Tax	1,915	1,885	1,594	1,007	1,358	774	307	1,136	6,401	3,574	785	
Rate (%)	25.6	26.1	26.2	26.5	25.9	25.8	25.8	25.1	26.0	25.6	25.9	
Reported PAT	**5,574**	**5,338**	**4,490**	**2,800**	**3,894**	**2,222**	**881**	**3,391**	**18,203**	**10,387**	**2,251**	**(1)**
Adjusted PAT	**5,574**	**5,597**	**4,490**	**3,172**	**3,894**	**2,222**	**881**	**3,391**	**18,899**	**10,387**	**2,251**	**(1)**
Margin (%)	13.0	14.4	12.0	7.5	8.8	5.0	2.2	7.7	11.7	6.0	5.2	
YoY Change (%)	59.3	89.2	12.4	(26.1)	(30.1)	(60.3)	(80.4)	6.9	28.2	(45.0)	(59.8)	

Exhibit 1: Per ton analysis including RMC (INR/t)

	CY21				CY22				CY21	CY22E	MOFSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Blended Realization	**5,385**	**5,680**	**5,706**	**5,642**	**5,741**	**5,911**	**5,711**	**5,740**	**5,591**	**5,777**	**5,870**	1
YoY Change (%)	0.9	3.9	4.7	5.0	6.6	4.1	0.1	1.7	3.5	3.3	3.4	
Increase/Decrease in stock	(78)	(310)	(181)	293	(74)	(250)	-	-	(60)	(2)	-	
Raw Material	1,014	1,045	1,131	1,035	1,243	1,359	1,090	1,037	1,053	1,154	1,110	22
Staff Cost	258	305	330	271	250	286	298	301	289	283	265	8
Power and fuel	1,009	1,212	1,198	1,255	1,348	1,734	1,734	1,282	1,163	1,489	1,698	2
Freight	1,366	1,352	1,317	1,289	1,367	1,433	1,370	1,346	1,331	1,371	1,367	5
Other expenditure	737	797	828	758	786	786	753	896	777	797	850	(7)
Total Expenditure	**4,307**	**4,401**	**4,623**	**4,901**	**4,919**	**5,348**	**5,245**	**4,862**	**4,552**	**5,092**	**5,290**	1
EBITDA	**1,078**	**1,279**	**1,083**	**741**	**822**	**563**	**466**	**878**	**1,039**	**685**	**580**	(3)
YoY Change (%)	20.7	16.1	4.8	(18.4)	(23.8)	(56.0)	(57.0)	18.5	6.9	(34.0)	(54.6)	

Source: Company, MOFSL Estimates

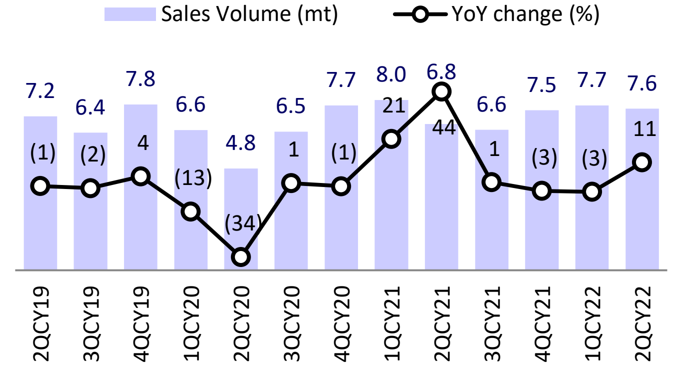
Exhibit 2: Revisions to our estimates

(INR m)	Revised estimate		Old estimate		Change (%)	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Net Sales	1,68,993	1,77,551	1,67,991	1,76,812	0.6	0.4
EBITDA	18,928	27,836	20,382	28,934	(7.1)	(3.8)
Net Profit	10,387	16,621	11,391	17,345	(8.8)	(4.2)
EPS (INR)	55.3	88.4	60.6	92.3	(8.8)	(4.2)

Source: MOFSL Estimates

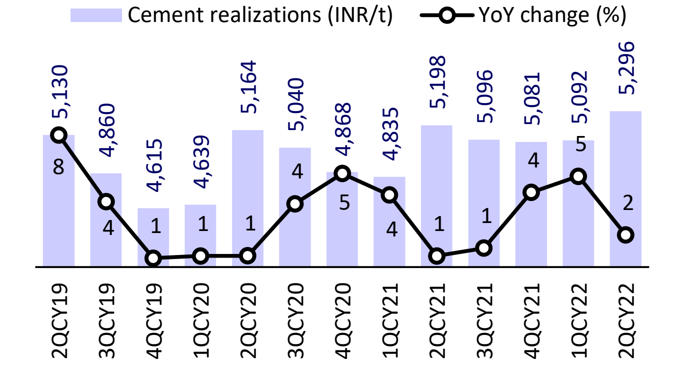
Key exhibits

Exhibit 3: Sales volume grew 10.5% YoY, but fell 2% QoQ



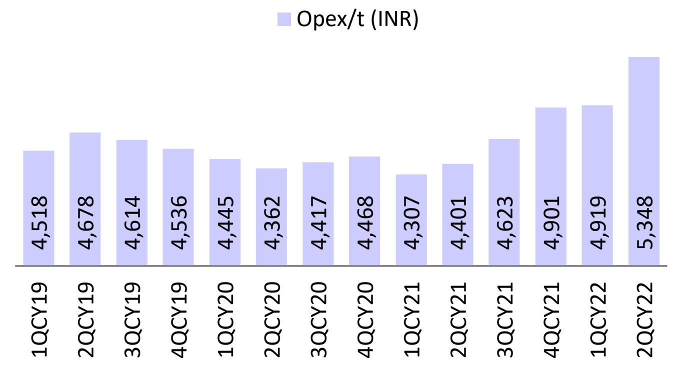
Source: Company, MOFSL

Exhibit 4: Cement realization improved 2% YoY and 4% QoQ



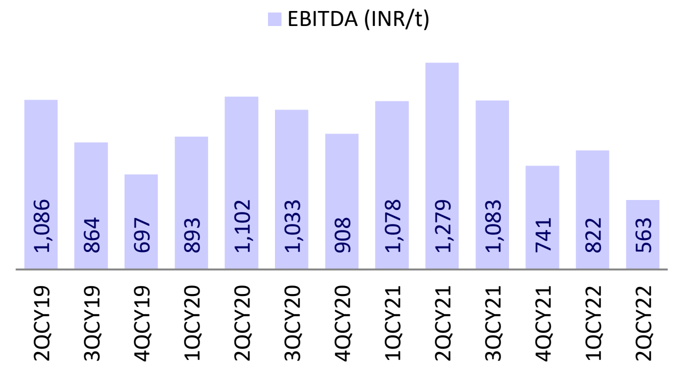
Source: Company, MOFSL

Exhibit 5: Opex/t increased 22% YoY on higher variable costs



Source: Company, MOFSL

Exhibit 6: EBITDA/t down 56% YoY on higher opex



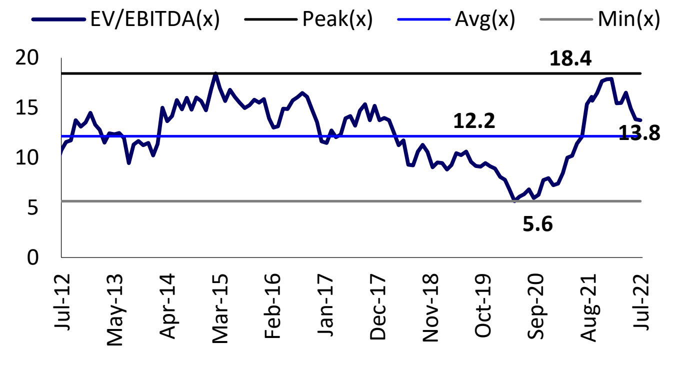
Source: Company, MOFSL

Exhibit 7: Key performance indicators (including the RMC business)

INR/t	2QCY22	2QCY21	YoY (%)	1QCY22	QoQ (%)
Blended realization	**5,911**	**5,680**	**4**	**5,741**	**3**
Cement realization	5,296	5,198	2	5,092	4
Raw materials	1,109	735	51	1,169	(5)
Staff cost	286	305	(6)	250	15
Power	1,734	1,212	43	1,348	29
Freight	1,433	1,352	6	1,367	5
Other expenditure	786	797	(1)	786	0
Total cost	**5,348**	**4,401**	**22**	**4,919**	**9**
EBITDA	**563**	**1,279**	**(56)**	**822**	**(32)**

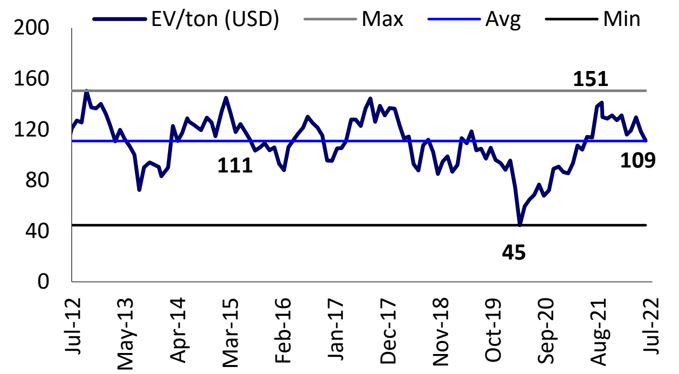
Source: Company, MOFSL

Exhibit 8: One-year forward EV/EBITDA trend



Source: Company, MOFSL

Exhibit 9: One-year forward EV/t trend



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)
Y/E December	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**CY22E**	**CY23E**
Net Sales	**1,09,897**	**1,32,846**	**1,48,014**	**1,56,567**	**1,37,845**	**1,61,514**	**1,72,460**	**1,81,134**
Change (%)	(6.8)	20.9	11.4	5.8	(12.0)	17.2	6.8	5.0
EBITDA	**14,737**	**19,091**	**20,446**	**24,095**	**24,811**	**30,004**	**18,928**	**27,836**
Change (%)	(4.1)	29.5	7.1	17.8	3.0	20.9	(36.9)	47.1
Margin (%)	13.4	14.4	13.8	15.4	18.0	18.6	11.0	15.4
Depreciation	6,052	6,401	5,996	6,030	6,353	5,973	6,507	7,068
Int. and Fin. Charges	826	1,023	892	862	570	546	560	588
Other Income - Rec.	1,283	1,317	1,385	3,112	2,040	2,048	2,100	2,160
PBT Before EO Item	**9,143**	**12,984**	**14,943**	**20,315**	**19,927**	**25,533**	**13,961**	**22,341**
EO Income/(Expense)	(428)	-	5,006	-	(3,049)	(929)	-	-
PBT After EO Item	**8,715**	**12,984**	**19,949**	**20,315**	**16,878**	**24,604**	**13,961**	**22,341**
Tax	2,244	3,829	4,883	6,726	2,728	6,401	3,574	5,719
Tax Rate (%)	25.8	29.5	24.5	33.1	16.2	26.0	25.6	25.6
Reported PAT	**6,471**	**9,154**	**15,066**	**13,589**	**14,149**	**18,203**	**10,387**	**16,621**
Adjusted PAT	**6,899**	**9,154**	**10,060**	**13,589**	**14,746**	**18,899**	**10,387**	**16,621**
Change (%)	(7.4)	32.7	9.9	35.1	8.5	28.2	(45.0)	60.0
Margin (%)	6.3	6.9	6.8	8.7	10.7	11.7	6.0	9.2

Balance Sheet								(INR m)
Y/E December	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**CY22E**	**CY23E**
Share Capital	1,880	1,880	1,880	1,880	1,880	1,880	1,880	1,880
Fully Diluted Capital	1,880	1,880	1,880	1,880	1,880	1,880	1,880	1,880
Reserves	86,439	91,775	1,03,397	1,13,333	1,24,735	1,40,404	1,39,888	1,52,374
Net Worth	**88,319**	**93,655**	**1,05,277**	**1,15,213**	**1,26,614**	**1,42,284**	**1,41,768**	**1,54,254**
Loans	500	592	0	0	0	0	0	0
Deferred Tax Liability	4,474	5,414	6,631	6,422	3,762	3,827	3,827	3,827
Capital Employed	**93,293**	**99,660**	**1,11,908**	**1,21,635**	**1,30,376**	**1,46,112**	**1,45,596**	**1,58,081**
Gross Block	81,295	84,799	88,774	93,972	98,093	1,04,481	1,16,081	1,45,681
Less: Accum. Depn.	6,045	12,389	18,280	24,059	31,507	37,253	43,759	50,827
Net Fixed Assets	**75,250**	**72,410**	**70,494**	**69,914**	**66,586**	**67,228**	**72,321**	**94,854**
Capital WIP	2,608	2,617	3,922	4,353	5,453	12,408	20,808	1,208
Investments – Trade	18,098	25,304	28,405	43,869	57,431	72,656	57,656	69,656
Investments in subsidiaries	2,265	2,265	2,265	2,265	2,124	1,743	1,743	1,743
Curr. Assets, Loans and Adv.	**36,175**	**46,292**	**55,165**	**50,421**	**49,665**	**55,155**	**56,857**	**59,520**
Inventory	12,238	14,040	16,786	11,410	9,005	12,733	13,607	14,296
Account Receivables	5,361	6,682	8,683	6,284	4,515	4,892	5,227	5,492
Cash and Bank Balance	1,674	1,687	1,635	1,549	1,562	1,569	-266	-394
Others	16,903	23,884	28,062	31,178	34,583	35,961	38,289	40,125
Curr. Liab. and Prov.	**41,103**	**49,229**	**48,343**	**49,186**	**50,883**	**63,078**	**63,790**	**68,899**
Account Payables	12,569	18,105	19,227	14,710	14,163	18,992	22,618	25,479
Other Liabilities	22,415	24,515	25,627	28,478	30,189	33,868	33,868	33,868
Provisions	6,119	6,609	3,489	5,998	6,531	10,219	7,304	9,553
Net Current Assets	**(4,928)**	**(2,936)**	**6,822**	**1,235**	**(1,218)**	**(7,923)**	**(6,933)**	**(9,380)**
Application of Funds	**93,293**	**99,660**	**1,11,908**	**1,21,635**	**1,30,376**	**1,46,112**	**1,45,596**	**1,58,081**

Source: Company, MOFSL

Financials and valuations

Ratios								
Y/E December	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**CY22E**	**CY23E**
Basic (INR)								
EPS	**36.7**	**48.7**	**53.5**	**72.3**	**78.4**	**100.5**	**55.3**	**88.4**
Cash EPS	68.9	82.7	85.4	104.4	112.2	132.3	89.9	126.0
BV/Share	469.8	498.2	560.0	612.9	673.5	756.9	754.1	820.5
DPS	17.0	26.0	14.0	14.0	14.0	58.0	22.0	25.0
Payout (%)	49.3	53.3	17.4	19.3	18.6	59.9	39.8	28.3
Valuation (x)								
P/E			40.3	29.8	27.5	21.4	39.0	24.4
Cash P/E			25.2	20.7	19.2	16.3	24.0	17.1
EV/Sales			2.5	2.3	2.5	2.0	1.9	1.8
EV/EBITDA			18.2	14.8	13.7	10.6	17.3	12.0
P/BV			3.9	3.5	3.2	2.8	2.9	2.6
Dividend Yield			0.6	0.6	0.6	2.7	1.0	1.2
EV/t (USD-Cap)			141	136	131	117	116	111
Return Ratios (%)								
RoE	8.0	10.1	10.1	12.3	12.2	14.1	7.3	11.2
RoCE	8.1	10.2	11.3	12.1	13.6	14.0	7.4	11.2
RoIC	10.4	12.7	14.7	16.1	22.5	28.4	14.6	19.9
Working Capital Ratios								
Debtor (Days)	18	18	21	15	12	11	11	11
Asset Turnover (x)	0.8	0.8	0.8	0.8	0.9	0.9	0.8	0.9
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement								(INR m)
Y/E December	**CY16**	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**CY22E**	**CY23E**
OP/(Loss) before Tax	8,715	12,984	14,943	20,315	16,878	24,604	13,961	22,341
Depreciation	6,052	6,401	5,996	6,030	6,353	5,973	6,507	7,068
Interest and Finance Charges	171	104	-129	0	570	0	0	0
Direct Taxes Paid	(2,717)	(2,177)	(5,265)	(4,462)	(7,064)	(2,849)	(3,574)	(5,719)
(Inc.)/Dec. in WC	1,752	(1,660)	(4,493)	601	5,419	588	(2,826)	2,319
CF from Operations	**13971.6**	**15651.4**	**11,052**	**22,484**	**22,156**	**28,316**	**14,068**	**26,008**
Others	(171)	(104)	129	-	-	-	-	-
CF from Operations incl. EO	**13,801**	**15,548**	**11,181**	**22,484**	**22,156**	**28,316**	**14,068**	**26,008**
(Inc.)/Dec. in FA	(4,976)	(5,194)	(4,951)	(4,935)	(7,252)	(11,509)	(20,000)	(10,000)
Free Cash Flow	**8,826**	**10,354**	**6,230**	**17,549**	**14,904**	**16,808**	**-5,932**	**16,008**
(Pur.)/Sale of Investments	(416)	1,348	1,273	1,651	1,886	1,619	15,000	(12,000)
Others	2,576	(262)	(42)	(42)				
CF from Investments	**(2,815)**	**(4,108)**	**(3,720)**	**(3,325)**	**(5,366)**	**(9,890)**	**(5,000)**	**(22,000)**
Issue of Shares	2	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	117	42	-606	0	0	0	0	0
Interest Paid	(478)	(420)	(409)	(572)	(399)	(316)	-	-
Dividend Paid	(3,192)	(3,192)	(2,817)	(2,629)	(2,629)	(2,629)	(10,903)	(4,136)
Others	(650)	(650)	(579)	(540)	(246)	(360)	-	-
CF from Fin. Activity	**(4,201)**	**(4,221)**	**(4,411)**	**(3,742)**	**(3,274)**	**(3,305)**	**(10,903)**	**(4,136)**
Inc./Dec. in Cash	6,785	7,219	3,050	15,417	13,516	15,121	-1,836	-127
Opening Balance	12,949	19,735	26,954	30,003	45,420	58,936	74,057	72,221
Closing Balance	**19,735**	**26,954**	**30,003**	**45,420**	**58,936**	**74,057**	**72,221**	**72,094**

Source: Company, MOFSL

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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