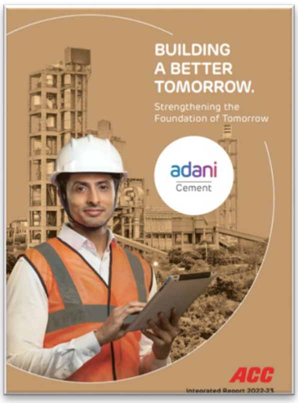
MOTILAL OSWAL
FINANCIAL SERVICES

17 July 2023

Annual Report Update | Sector: Cement

ACC

BSE SENSEX	S&P CNX
66,590	19,711



Stock Info

Bloomberg	ACC IN
Equity Shares (m)	188
M.Cap.(INRb)/(USDb)	340.2 / 4.1
52-Week Range (INR)	2785 / 1594
1, 6, 12 Rel. Per (%)	-7/-32/-38
12M Avg Val (INR M)	1666
Free float (%)	43.3

Financials Snapshot (INR b)

Y/E Dec	FY23	FY24E	FY25E
Sales	222.1	181.6	194.7
EBITDA	19.2	22.6	28.6
Adj. PAT	9.9	12.4	17.0
EBITDA Margin (%)	8.6	12.4	14.7
Adj. EPS (INR)	52.6	66.2	90.6
EPS Gr. (%)	(47.6)	25.7	37.0
BV/Sh. (INR)	747.0	803.9	882.6
Ratios			
Net D:E	-0.2	-0.3	-0.4
RoE (%)	7.0	8.5	10.7
RoCE (%)	7.2	8.6	10.7
Payout (%)	20.0	18.1	15.4
Valuations			
P/E (x)	34.4	27.4	20.0
P/BV (x)	2.4	2.3	2.1
EV/EBITDA(x)	15.2	13.1	9.6
EV/ton (USD)	99	97	90
Div. Yield (%)	0.5	0.7	0.8
FCF Yield (%)	-9.4	3.8	6.3

*FY23E is 15m period due to change in accounting year

CMP: INR1,811 TP: INR2,000 (+10%) Neutral

Expansion delayed; cost curve remains higher than peers

The key highlights of ACC's FY23 annual report: 1) Ametha greenfield expansion has been delayed by six to nine months and is now likely to be commissioned in 2QFY24; 2) Environmental clearance was granted for the Salai Banwa split grinding unit in Nov'22 with capacity of 3mtpa; however, there was no comment on the status of the expansion and the commissioning date; 3) It aims to realize cost savings of about INR500/t by increasing green power share, higher usage of alternative fuel and process optimization.

Delayed expansion could limit growth potential

- ACC's ongoing expansion plan in Ametha, Madhya Pradesh, (Greenfield integrated cement plant) with clinker/cement capacity of 3.1mtpa/1mtpa has been delayed by six to nine months. It is now expected to be commissioned in 2QFY24. With this expansion, ACC's total clinker/cement capacity will increase to 25.6mtpa/37.5mtpa by FY24-end (based on expansion plans announced by the company).
- Sales volumes grew 5% YoY (on like-to-like comparison). The company's cement capacity utilization stood at ~92% in FY23 vs. 78% in CY21.
- We estimate ACC's cement sales volume to grow 5%/6% YoY in FY24/FY25, given the delay in the commissioning of Ametha expansion and limited clarity about its future expansion plans.

Profitability hurt by higher input costs, expect margin to improve in FY24

- In FY23, the cost of production increased significantly due to higher raw material and fuel costs. Raw material cost per tonne of cement rose 10% in FY23 vs. CY21, due to an increase in the cost of raw materials required for clinkering (up 16%) and gypsum, fly ash and slag (up 12%). Power and fuel cost/t grew 30% in FY23 vs. CY21 due to a surge in coal and petcoke prices.
- Due to significant cost pressures, EBITDA margin declined to 9% in FY23 vs. 19% in CY21. EBITDA/t stood at INR497 in FY23 vs. INR1,021 in CY21. We estimate EBITDA margin to improve to 13%/15% in FY24/FY25, led by a reduction in fuel prices.
- The company has been working on several cost-saving initiatives. Key cost-saving initiatives include: a) maximizing wet fly ash (WFA) and conditioned fly ash (CFA) usage to reduce overall fly ash cost; b) reduced clinker factor by 1.5pp to 56.8% in FY23 and increased blended cement share to 92.4% in FY23 vs. 91.2% in CY21; c) increasing green power share by setting up WHRS and solar power plants to increase green energy share to ~50%; d) reduction in lead distance by 5% to 315km in FY23 vs. CY21; and e) higher sales volumes under master supply agreement (MSA) with ACEM.

Operating cash flows turned negative in FY23, likely to improve in FY24-25

- ACC's OCF turned negative in FY23 due to lower profitability and higher working capital requirement, including INR9.75b in advances given to a coal trader for the supply of fuel under a long-term supply agreement. Due to lower OCF and higher capex, ACC reported FCF outflow.

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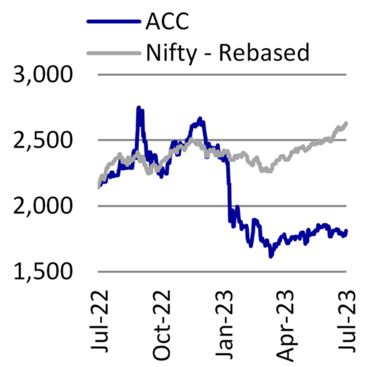
Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	56.7	56.7	54.5
DII	19.5	19.7	20.8
FII	10.0	10.1	12.1
Others	13.8	13.6	12.5

FII Includes depository receipts

Stock Performance (1-year)

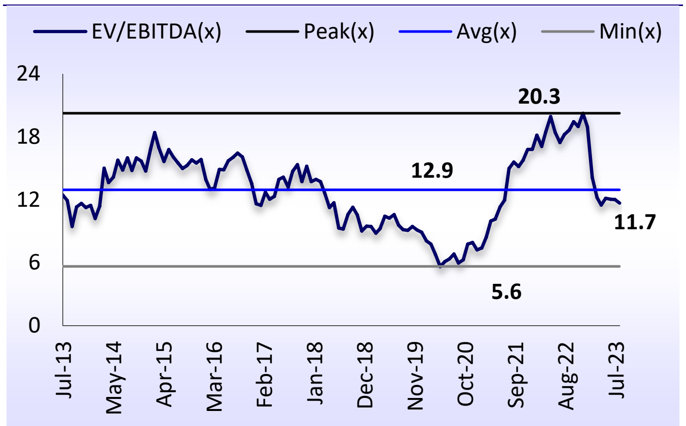


- We expect OCF to improve in FY24/25, led by improvement in profitability. We estimate capex of INR10b/INR6b in FY24/FY25 for efficiency improvement, cost reduction initiatives (WHRS, Solar, AFR and debottlenecking), and maintenance capex, as there is no clarity about capacity expansion plans.
- ACC's net cash declined in FY23 due to lower profitability, higher working capital requirement, increased capex and higher dividend payments (as announced in CY21). Although the company remained net cash positive at INR32b (including bank deposits) in FY23 vs. INR75b in CY21. We expect its net cash to be at INR44b/INR63b in FY24E/FY25E.

Stock price factors in concern of expansion delay and weak performance

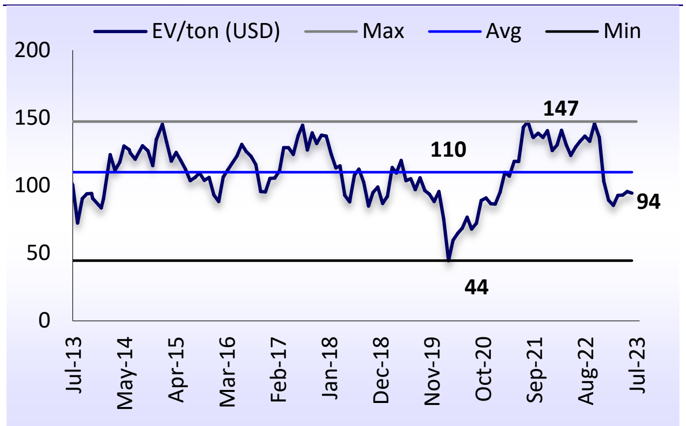
- ACC trades at 13x/9.6x FY24E/FY25E EV/EBITDA and USD97/USD90 FY24E/FY25E EV/ton. The stock has traded at an average EV/EBITDA of 13x over the last 10 years.
- The stock price has corrected 24% in the past six months and underperformed broader indices, primarily due to a delay in the expansion plan, a lack of clarity on future growth plan, and underperformance vs. peers in terms of margin recovery sequentially.
- We estimate a gradual margin improvement in FY24/FY25, led by a decline in fuel prices. However, volume growth will be in mid-single digits due to delayed expansion plans. Further, the company lags behind its peers in terms of higher opex/t and lower profitability.
- We value ACC at 11x FY25E EV/EBITDA to arrive at a revised TP of INR2,000 and maintain our Neutral rating on the stock.

Exhibit 1: One-year forward EV/EBITDA chart



Source: MOFSL, Company

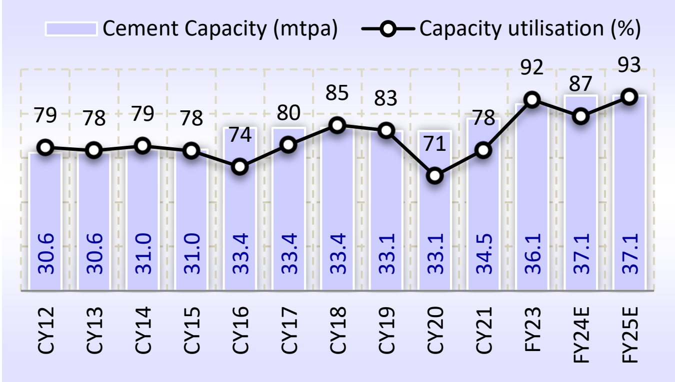
Exhibit 2: One-year forward EV/ton chart



Source: MOFSL, Company

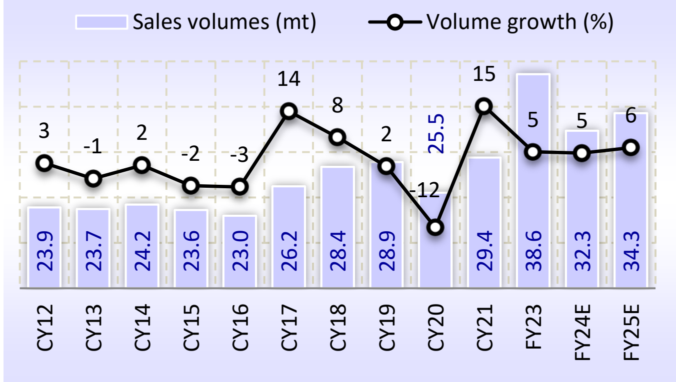
Story in charts

Exhibit 3: Capacity utilization at optimum level



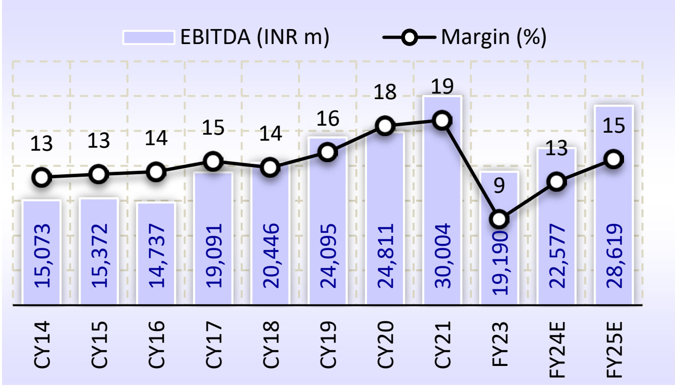
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 4: Volumes grew ~5% YoY (on like-to-like) in FY23



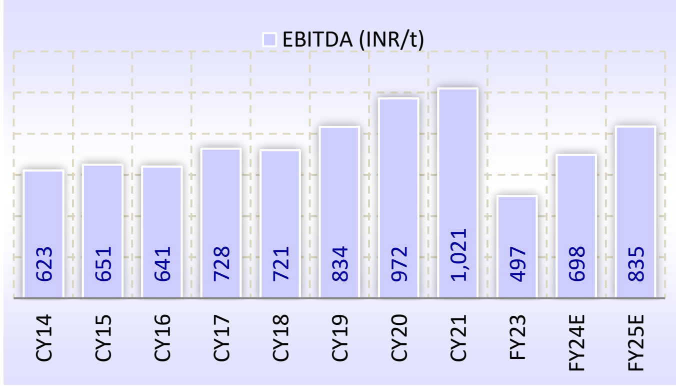
Source: MOFSL, Company, Note: FY23 was a 15M period

Exhibit 5: OPM declined due to cost pressure



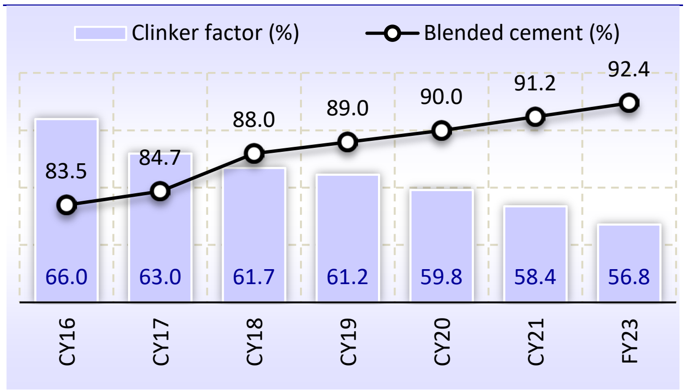
Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 6: EBITDA/t declined to INR497 in FY23



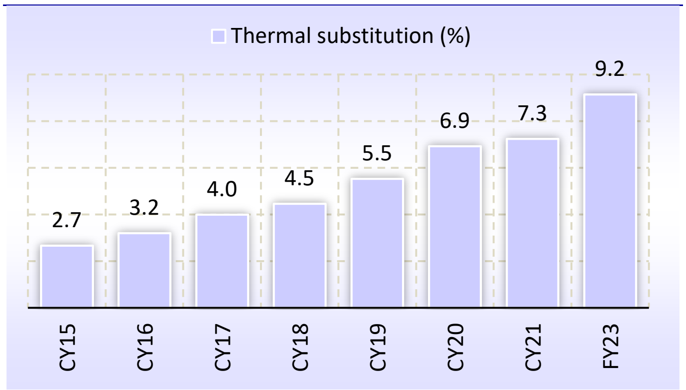
Source: MOFSL, Company, Note: FY23 was a 15M period

Exhibit 7: High blended cement led to drop in clinker factor



Source: Company, MOFSL, Note: FY23 was a 15M period

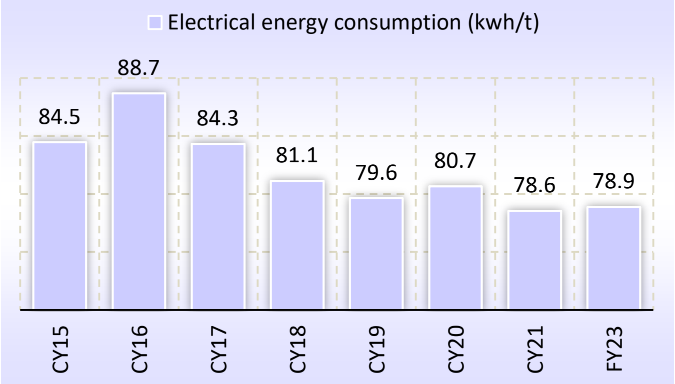
Exhibit 8: Increasing trend in thermal substitution rate



Source: Company, MOFSL, Note: FY23 was a 15M period

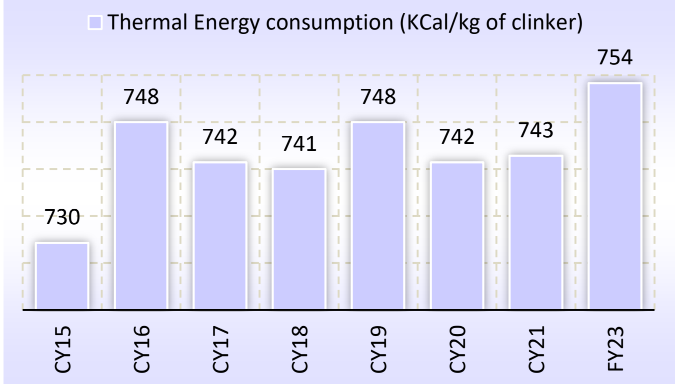
Story in charts

Exhibit 9: Electrical energy consumption increased in FY23…



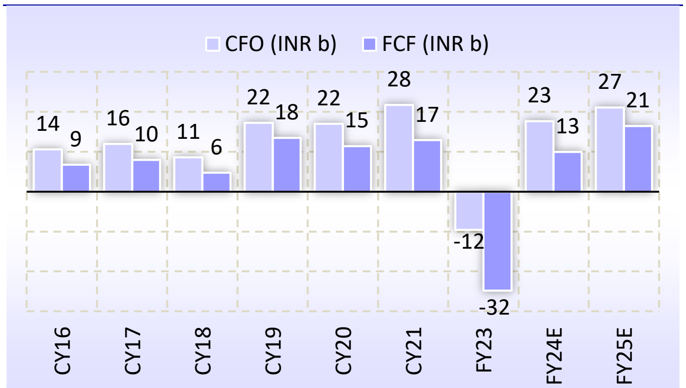
Source: Company, MOFSL, Note: FY23 was a 15M period

Exhibit 10: …so did thermal energy consumption



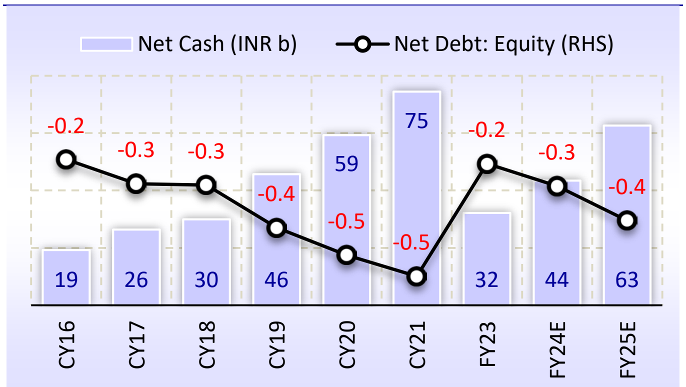
Source: Company, MOFSL, Note: FY23 was a 15M period

Exhibit 11: OCF and FCF to improve in FY24E/FY25E after turning negative in FY23



Source: Company, MOFSL

Exhibit 12: Net cash declined in FY23 due to lower EBITDA, higher capex and increase in working capital requirement



Source: Company, MOFSL

Exhibit 13: Du-pont analysis: Lower margins impacted RoE, this will improve gradually

Particulars	CY17	CY18	CY19	CY20	CY21	FY23	FY24E	FY25E
PAT/PBT	70.5	67.3	66.9	74.0	74.0	73.6	74.4	74.4
PBT/EBIT	92.7	94.4	95.9	97.2	97.9	94.6	96.6	97.4
EBIT/Sales	10.5	10.7	13.5	14.9	16.1	6.4	9.5	12.1
Asset turnover (x)	1.38	1.40	1.34	1.09	1.17	1.22	1.21	1.20
Assets/Equity (x)	1.06	1.06	1.06	1.04	1.03	1.03	1.03	1.03
RoE (%)	**10.1**	**10.1**	**12.3**	**12.2**	**14.1**	**5.6**	**8.5**	**10.7**

Source: MOFSL, Company; Note: FY23 was a 15M period, so FY23 ratios have been annualized

Ametha expansion delayed, now expected in 2QFY24

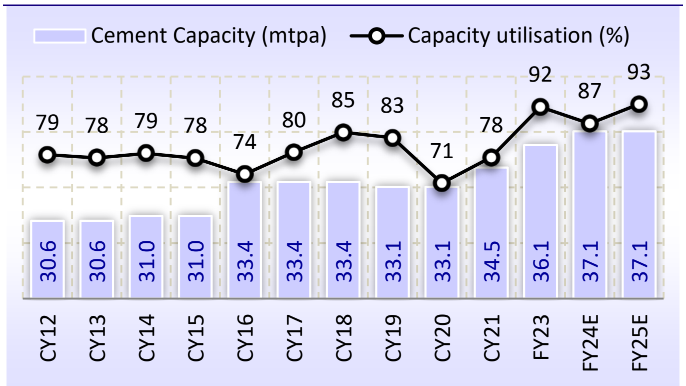
Aiming to double capacity through brownfield and de-bottlenecking

- The company's ongoing expansion plan in Ametha, Madhya Pradesh, (Greenfield integrated cement plant) with clinker/cement capacity of 3.1mtpa/1mtpa has been delayed by six to nine months. It is now expected to be commissioned in 2QFY24. With these expansions, ACC's total clinker/cement capacity will increase to 25.6mtpa/37.5mtpa by FY24-end (based on expansion plans announced by the company).
- The company intends to double its capacity through brownfield and de-bottlenecking expansion. However, it has not provided any details and timeline so far.

Volume grew 5% YoY in FY23 (on like-to-like); capacity utilization at ~92%

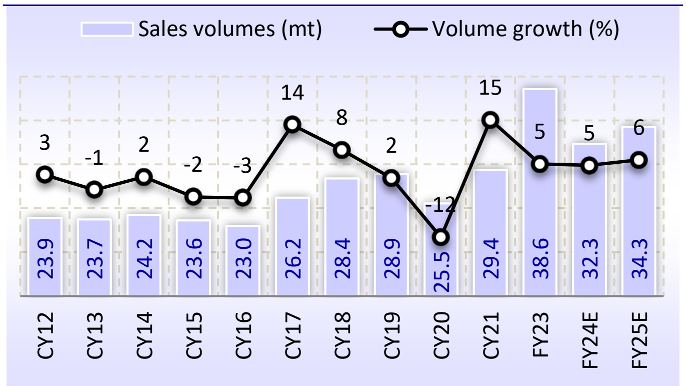
- ACC's sales volumes grew 5% YoY (like-to-like comparison). The company's cement capacity utilization stood at 92% in FY23 vs. 78% in CY21.
- The management estimates industry volume growth of ~6-8% YoY in FY24. Key sector demand drivers would be: a) rise in rural income; b) consistent rise in India's urbanization; c) strong demand in the rea estate sector along with focused investments in the affordable segment; c) growing capex by the government to drive infrastructure sector.
- We estimate ACC's cement sales volume to grow 5%/6% YoY in FY24/FY25, given the delay in the commissioning of its Ametha expansion and limited clarity over its future expansion plans.

Exhibit 14: Capacity utilization at optimum level



Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 15: Volumes grew ~5% YoY (on like-to-like) in FY23



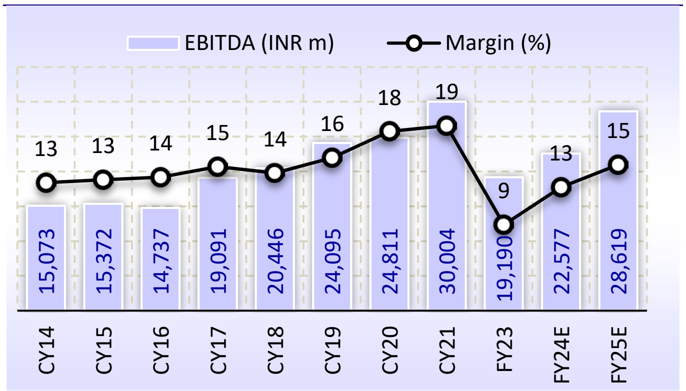
Source: MOFSL, Company, Note: FY23 was a 15M period

Profitability hit by higher input costs

EBITDA margin contracted sharply to 9% in FY23 vs. 19% in CY21

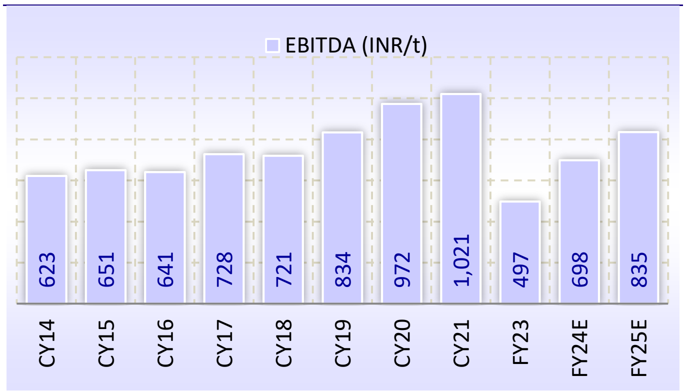
- In FY23, the cost of production increased significantly due to higher raw material and fuel costs. The key cost trends in FY23:
  - Raw material cost per tonne of cement rose 10% in FY23 vs. CY21 due to an increase in the cost of raw materials required for clinkering (up 16%) and gypsum, fly ash and slag (up 12%).
  - Power and fuel cost/t increased 30% in FY23 vs. CY21 due to a sharp increase in coal and petcoke prices.
  - Freight cost/t increased 2% in FY23 vs. CY21 mainly due to an increase in diesel prices and resumption of busy season surcharge from Oct'22.
  - Other expenses/t declined 2% in FY23 vs. CY21 due to the termination of its agreement with Holcim for the payment of technical and know-how fee (i.e. 1% of revenue) and a reduction in fixed overheads.
- Cement realization (excluding other operating income) improved 4% in FY23 vs. CY21. However, due to significant cost pressures (up 17.5% in FY23 vs. CY21), the company's EBITDA margin declined to 9% in FY23 vs. 19% in CY21. EBITDA/t stood at INR497 in FY23 vs. INR1,021 in CY21. We estimate EBITDA margin to improve to 13%/15% in FY24/FY25, led by a reduction in fuel prices.

Exhibit 16: OPM declined due to cost pressure



Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 17: EBITDA/t declined to INR497 in FY23



Source: MOFSL, Company, Note: FY23 was a 15M period

Exhibit 18: Opex/t increased 17.5% in FY23 vs. CY21; decline in employee cost/t led by restructuring

Particulars (per ton)	CY18	CY19	CY20	CY21	FY23	Chg. (%)
Sales Volume - Cement (mt)	28.37	28.89	25.53	29.39	38.59	5.0
Sales Volume - RMC (m cum)	3.16	3.53	2.27	2.81	3.95	12.5
Blended Realization	**5,217**	**5,419**	**5,399**	**5,496**	**5,755**	**4.7**
Grey Cement Realization	**4,643**	**4,801**	**4,909**	**4,958**	**5,163**	**4.1**
Raw Material Cost	823	942	984	976	1,414	44.9
Power and Fuel	1,057	1,084	1,008	1,144	1,487	30.0
Freight Cost	1,414	1,402	1,344	1,308	1,339	2.4
Employee Benefits Expense	311	299	329	284	269	-5.4
Other Expenses	892	859	763	764	750	-1.8
Total Expenses	4,497	4,585	4,428	4,475	5,258	17.5
EBITDA per ton	**721**	**834**	**972**	**1,021**	**497**	**-51.3**

Source: MOFSL, Company, Note: 1) FY23 was a 15M period, 2) volume growth calculated by annualizing FY23 numbers

Exhibit 19: Common-size analysis – Raw material, power and fuel cost increased, while other costs declined in FY23 vs. CY21

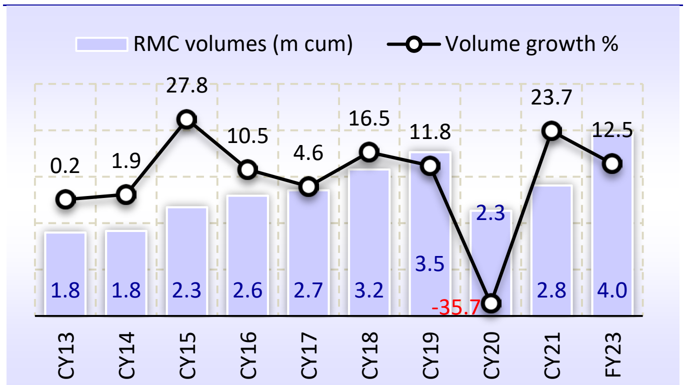
Particulars (INR m)	CY18	%	CY19	%	CY20	%	CY21	%	FY23	%
Net Revenue (Operations)	**1,48,014**	**100.0**	**1,56,567**	**100.0**	**1,37,845**	**100.0**	**1,61,514**	**100.0**	**2,22,100**	**100.0**
Raw Materials (incl. Change-in-inventory)	23,345	15.8	27,206	17.4	25,124	18.2	28,672	17.8	54,550	24.6
Power and Fuel	29,981	20.3	31,313	20.0	25,724	18.7	33,608	20.8	57,383	25.8
Freight and forwarding	40,114	27.1	40,501	25.9	34,318	24.9	38,447	23.8	51,683	23.3
Operating and Administrative Expenses	25,316	17.1	24,812	15.8	19,478	14.1	22,442	13.9	28,933	13.0
Personnel Cost	8,811	6.0	8,640	5.5	8,391	6.1	8,340	5.2	10,362	4.7
EBITDA	**20,446**	**13.8**	**24,095**	**15.4**	**24,811**	**18.0**	**30,004**	**18.6**	**19,190**	**8.6**
Depreciation	5,996	4.1	6,030	3.9	6,353	4.6	5,973	3.7	8,351	3.8
Other Income	1,385	0.9	3,112	2.0	2,040	1.5	2,048	1.3	3,372	1.5
EBIT	**15,835**	**10.7**	**21,177**	**13.5**	**20,498**	**14.9**	**26,079**	**16.1**	**14,211**	**6.4**
Financial Charges	892	0.6	862	0.6	570	0.4	546	0.3	772	0.3
PBT (Before Exceptional Items)	**14,943**	**10.1**	**20,315**	**13.0**	**19,927**	**14.5**	**25,533**	**15.8**	**13,439**	**6.1**
Exceptional items	5,006	3.4	0	0.0	-3,049	-2.2	-929	-0.6	-1,618	-0.7
PBT	**19,949**	**13.5**	**20,315**	**13.0**	**16,878**	**12.2**	**24,604**	**15.2**	**11,821**	**5.3**
Tax	4,883	3.3	6,726	4.3	2,728	2.0	6,401	4.0	3,122	1.4
PAT	**15,066**	**10.2**	**13,589**	**8.7**	**14,149**	**10.3**	**18,203**	**11.3**	**8,699**	**3.9**

Source: MOFSL, Company

RMC business performance also affected by cost pressure

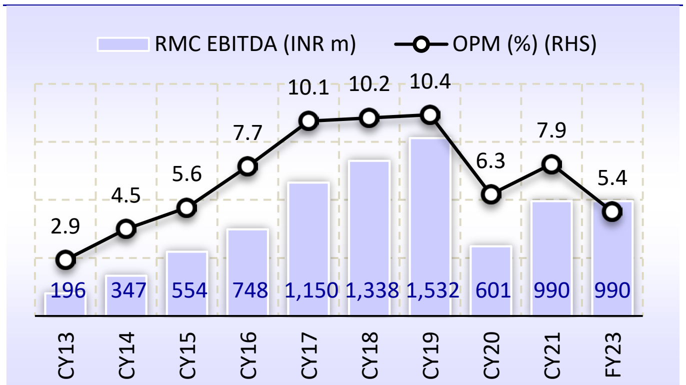
- The company currently has a nationwide network of 92 ready-mix concrete (RMC) plants. Its RMC volume grew 12.5% YoY (like-to-like comparison). RMC realization increased 6% in FY23 vs. CY21. However, OPM declined to 5.4% in FY23 vs. 7.9% in CY21.
- ACC has a vast RMC portfolio of 25 value-added solutions designed to meet different stages of construction requirements, from the foundation to the roof. Value-added solutions recorded 11% YoY growth in FY23, and accounted for 38% of total RMC sales vs. 27% in CY21.
- In the RMC vertical, the company launched ACC AEROMaxX, ACC ECOMaxX, ACC Coolcrete and ACC Bagcrete. ACC ECOMaxX sales now contribute 15% of total RMC sales.

Exhibit 20: RMC sales volume witnessed healthy growth



Source: MOFSL, Company; Note: FY23 was a 15M period

Exhibit 21: RMC margins declined due to cost pressure



Source: MOFSL, Company; Note: FY23 was a 15M period

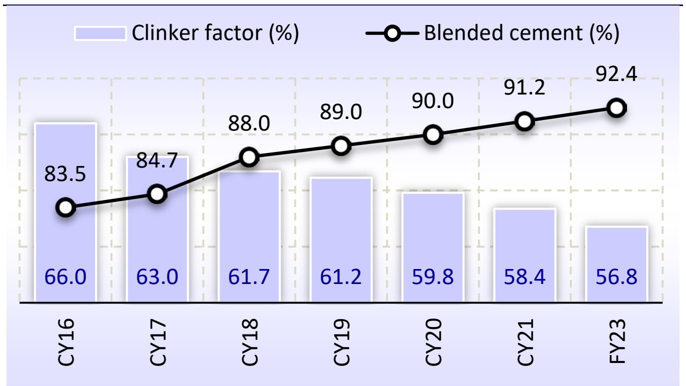
Focusing on plant efficiency and cost rationalization

Targets cost savings of INR500/t

The company has been working on several cost-saving initiatives. Some key measures are as follows:

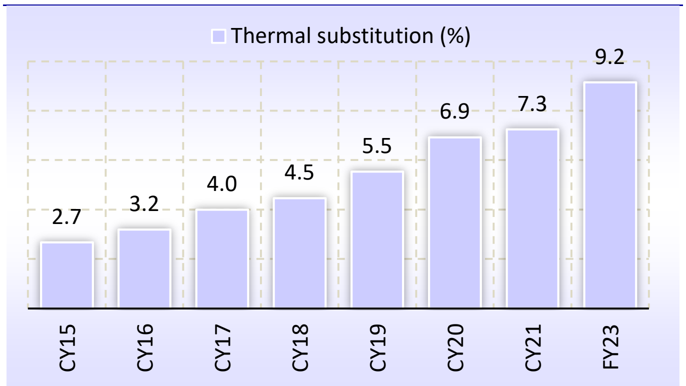
- Maximizing wet fly ash (WFA) and conditioned fly ash (CFA) usage to reduce overall fly ash costs. Fly ash dryer projects at Kymore, Gagal and Wadi are installed and their commissioning is under progress.
- Reduced clinker factor by 1.5pp to 56.8% in FY23 and increased blended cement share to 92.4% in FY23 vs. 91.2% in CY21.
- Commissioned 22.4MW of combined WHRS capacity at Jamul and Kymore at a total capex of INR3b. Renewable energy (including WHRS) contributed 6.1% to total power consumption in FY23. It is setting up additional WHRS capacity of 55.8MW at various plants (Ametha, Wadi and Chanda) in FY24E. The company also plans to invest in solar energy for sourcing an additional 100MW by FY24E. With these initiatives, it aims to increase green energy share to ~50% by FY24E in total energy consumption.
- Upgradation of AFR pre and co processing system at various plants, which will help to increase TSR to 18% by FY24 (after complete realization of projects). The company achieved TSR of 9.2% in FY23.

Exhibit 22: Higher blended cement led drop in clinker factor



Source: Company, MOFSL, Note: FY23 was a 15M period

Exhibit 23: Increasing trend in thermal substitution rate



Source: Company, MOFSL, Note: FY23 was a 15M period

Exhibit 24: ACC is adding 55.8MW WHRS capacity in FY24E

Plants	State	MW	Timeline
Gagal	Himachal Pradesh	7.5	
Kymore	Madhya Pradesh	12.4	
Jamul	Chhattisgarh	10.0	
Current capacity		**29.9**	
Ametha	Madhya Pradesh	55.8	FY24E
Wadi	Karnataka		
Chanda	Maharashtra		
Planned capacity		**55.8**	
Total capacity		**85.6**	

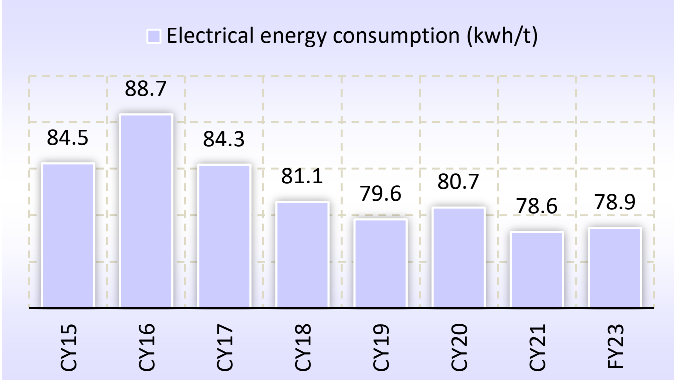
Source: MOFSL, Company

Exhibit 25: 32MW solar power got commissioned in FY23

Plants	State	MW
Wind Power plants	Rajasthan, Tamil Nadu, Maharashtra	19.0
Solar Power plants*	Chhattisgarh, Uttar Pradesh and Karnataka	114.0
Current Capacity		**133.0**
Solar Power Plant	At various locations of ACC	100.0
Planned Capacity		**100.0**
Total Capacity		**233.0**

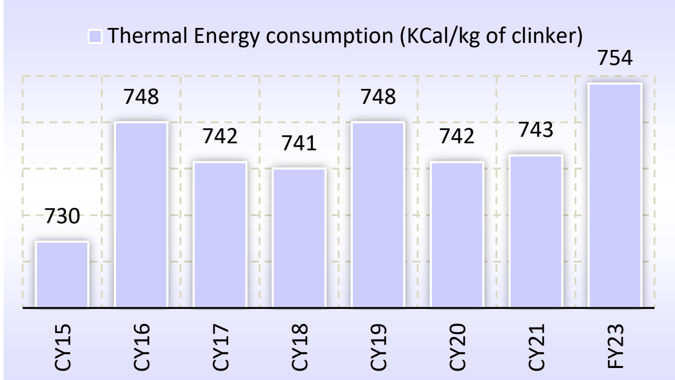
Source: MOFSL, Company, *Solar power plants located onsite and offsite

Exhibit 26: Electrical energy consumption increase in FY23…



Source: Company, MOFSL, Note: FY23 was a 15M period

Exhibit 27: …so the case with thermal energy consumption



Source: Company, MOFSL, Note: FY23 was a 15M period

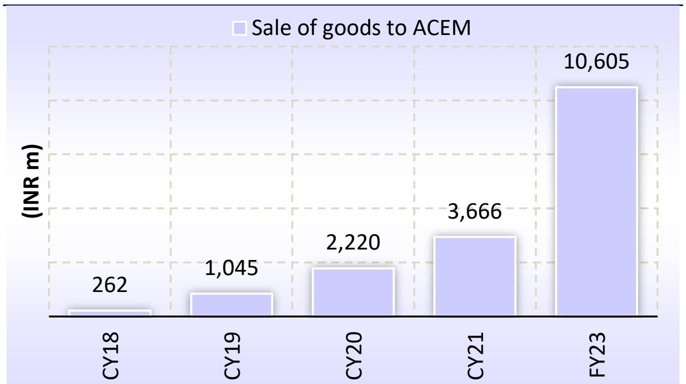
Exhibit 28: 90bp margin improvement driven by lower packing cost, royalties on minerals, technical and license fee

Other Expenses	CY20	% of Revenue	CY21	% of Revenue	FY23	% of Revenue	Change (%)
Packing materials	3,863	2.8	5,520	3.4	6,564	3.0	-0.5
Stores Consumed	2,248	1.6	2,773	1.7	3,853	1.7	0.0
Repairs	1,263	0.9	1,553	1.0	2,367	1.1	0.1
Rent	756	0.5	1,073	0.7	1,405	0.6	-0.0
Rates and taxes	769	0.6	968	0.6	1,003	0.5	-0.1
Royalties on minerals	2,401	1.7	2,643	1.6	3,027	1.4	-0.3
Technical and License fee	1,328	1.0	1,545	1.0	1,154	0.5	-0.4
Advertisement	566	0.4	864	0.5	1,186	0.5	-0.0
Other miscellaneous expenses	6,286	4.6	5,504	3.4	8,376	3.8	0.4
Total	**19,478**	**14.1**	**22,442**	**13.9**	**28,933**	**13.0**	**-0.9**

Source: MOFSL, Company; Note – it has terminated agreement with Holcim Technology for payment of technology and know-how fees @ 1% of eligible net sales w.e.f. 16th Sep'22

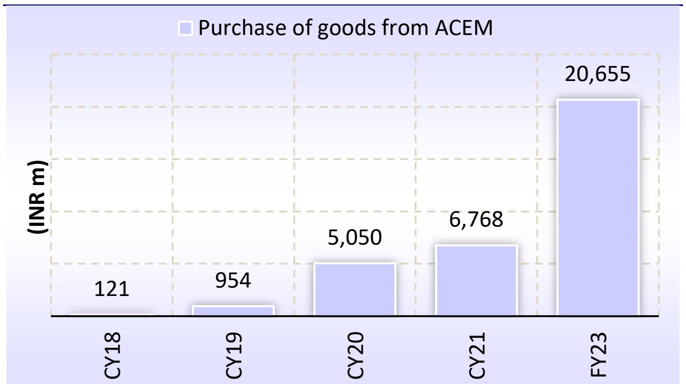
- A master supply agreement between ACC and ACEM was further approved in Mar'23 for a period of one year. ACC sold 2.5mt to ACEM under the agreement in FY23 vs. 0.85mt in CY21. In FY23 (adjusted for 12M number), goods purchased from ACEM grew 1.4x YoY and goods sold to ACEM rose 1.3x YoY under the arrangement.

Exhibit 29: Value of goods sold to ACEM increased sharply…



Source: Company, MOFSL, Note: FY23 was a 15M period

Exhibit 30: …so did the purchase of goods in FY23



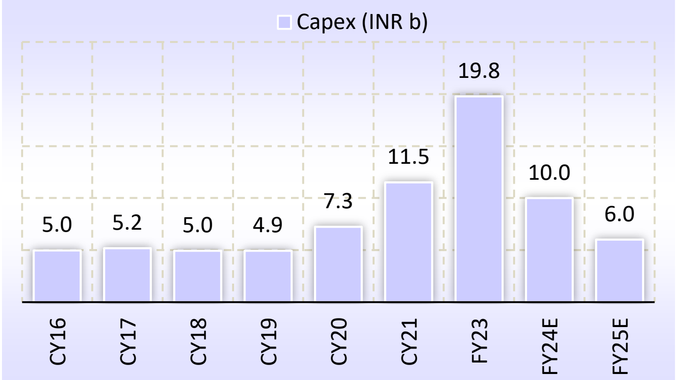
Source: Company, MOFSL, Note: FY23 was a 15M period

Capex, fixed assets and cash flows

ACC capitalized Property, Plant and Equipment of INR14.4b in FY23, mainly consisting of Tikaria grinding unit expansion (1.6mtpa), WHRS and routine maintenance, as well as efficiency/ productivity improvement capex. Total capex in FY23 was INR19.8b vs. INR11.5b in CY21. We estimate capex of INR10b/INR6b in FY24/FY25, primarily for efficiency improvement, cost reduction initiatives (WHRS, Solar, AFR and debottlenecking) and maintenance capex, as there is no clarity about capacity expansion plans.

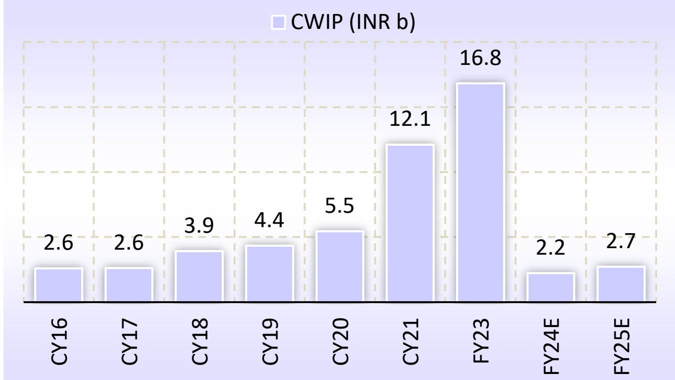
The company has a capital work-in-progress (CWIP) of INR16.8b in FY23 vs. INR12.2b in CY21. CWIP mainly consisted capex incurred toward greenfield expansion at Ametha, Madhya Pradesh, of INR13b as of Mar'23 vs. INR4.3b as of Dec'21.

Exhibit 31: Capex increased in FY23 for Ametha expansion



Source: Company, MOFSL, Note: FY23 was a 15M period

Exhibit 32: CWIP included capex of INR13b towards Ametha



Source: Company, MOFSL, Note: FY23 was a 15M period

The fixed asset turnover (including CWIP) increased in FY23, led by realization improvement and volume growth. However, margin pressure due to a significant increase in input costs resulted in a sharp decline in ROE. We estimate asset turnover to decline due to the delayed commissioning of new capacity and moderate volume growth. We estimate fixed asset turnover to be at 1.21x/1.20x in FY24/25 vs. 1.22x in FY23 (average of 1.28x over CY17-21). However, improvement in profitability amid the softening in input costs will drive a gradual improvement in RoE over FY24E/FY25E, but it is estimated to remain lower than it was in the CY19-CY21 period, which saw better margins.

Exhibit 33: Du-pont analysis: Lower margins impacted RoE, this will improve gradually

Particulars	CY17	CY18	CY19	CY20	CY21	FY23	FY24E	FY25E
PAT/PBT	70.5	67.3	66.9	74.0	74.0	73.6	74.4	74.4
PBT/EBIT	92.7	94.4	95.9	97.2	97.9	94.6	96.6	97.4
EBIT/Sales	10.5	10.7	13.5	14.9	16.1	6.4	9.5	12.1
Asset turnover (x)	1.38	1.40	1.34	1.09	1.17	1.22	1.21	1.20
Assets/Equity (x)	1.06	1.06	1.06	1.04	1.03	1.03	1.03	1.03
RoE (%)	**10.1**	**10.1**	**12.3**	**12.2**	**14.1**	**5.6**	**8.5**	**10.7**

Source: MOFSL, Company; Note: FY23 was a 15M period, so FY23 ratios have been annualized

ACC saw a reduction in receivables days between CY18 and CY21. However, this increased in FY23 to 18 from 11 in CY21. Inventory days also increased in FY23 to 34 from 29 in CY21. Higher fuel (sharp increase in fuel prices) and clinker inventories led to the increase in inventory days.

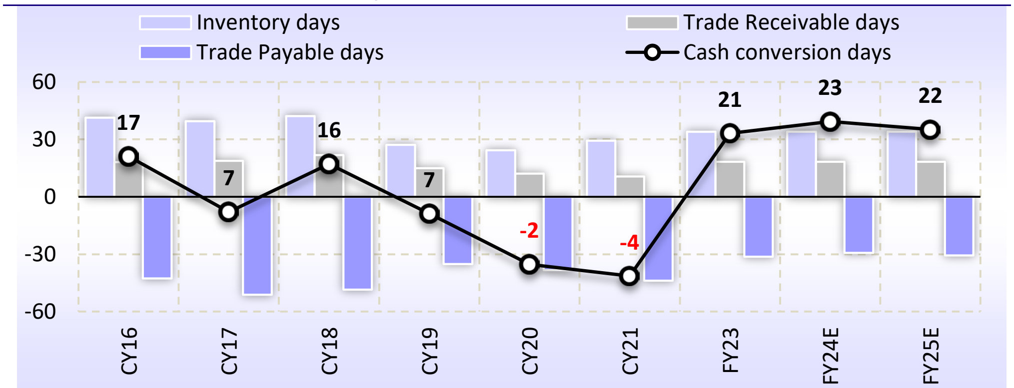
Exhibit 34: Higher fuel and clinker inventories led to an increase in inventory days in FY23

Break-up of inventory days	CY17	CY18	CY19	CY20	CY21	FY23
Raw Materials	4	5	3	3	4	4
Work-in-progress and stock-in-trade	7	6	4	4	7	10
Finished goods	5	7	5	3	3	4
Stores and Spares	11	10	7	7	5	6
Packing Materials	1	1	0	1	1	1
Fuels	13	14	7	6	9	11
Total inventory days	**40**	**42**	**27**	**24**	**29**	**34**

Source: MOFSL, Company, Note: FY23 was a 15M period, so FY23 ratios have been annualized

Trade payable days declined to 31 in FY23 from 44 in CY21. ACC's cash conversion period turned positive to 21 days in FY23 vs. -4 days (negative cash conversion period in CY20-21).

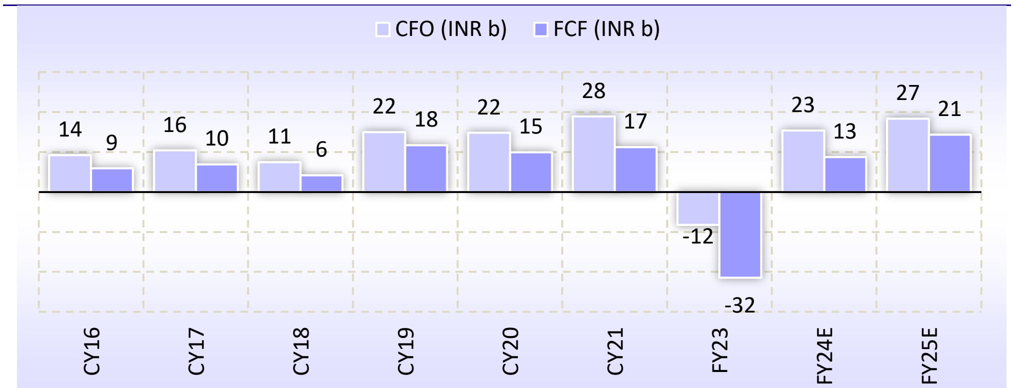
Exhibit 35: ACC cash conversion cycle increased in FY23



Source: MOFSL, Company; Note: FY23 was a 15M period, so FY23 ratios have been annualized

ACC's OCF turned negative in FY23 due to lower profitability and higher working capital requirement. The increase in working capital was also due to INR9.75b in advances given to a coal trader for the supply of fuel under a long-term supply agreement. Due to lower OCF and higher capex, ACC posted FCF outflow. We believe OCF to improve in FY24E/25E led by improvement in profitability.

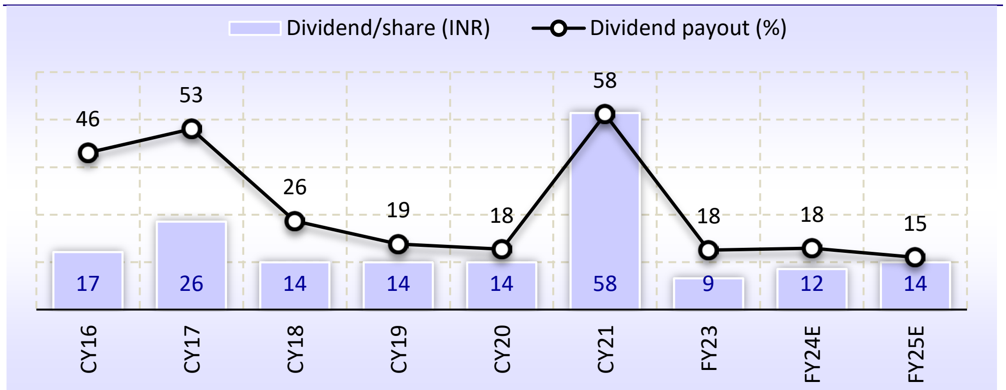
Exhibit 36: OCF and FCF to improve in FY24E/FY25E after turning negative in FY23



Source: MOFSL, Company; Note: FY23 was a 15M period

The company announced a dividend of INR9.25/share in FY23 (dividend payout of ~18% was in-line with CY19-20 average). In CY21. the company announced and paid a dividend of INR58/share (dividend payout of ~58%), given better cash flow generation in CY19-21. Going forward, we expect the dividend would be in the range of 15-18% lower than previous five-years' average, as the company is looking to aggressively expand capacity.

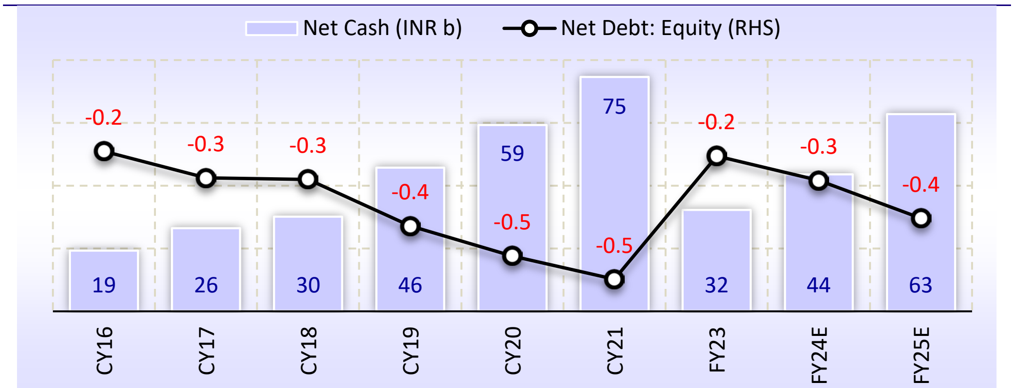
Exhibit 37: Dividend payout increased in CY21



Source: MOFSL, Company; Note: FY23 was a 15M period

ACC's net cash declined in FY23 due to lower profitability, higher working capital requirement, increased capex and higher dividend payment (as announced in CY21). Although the company remained net cash positive at INR32b (including bank deposits) in FY23 vs. INR75b in CY21. We expect its net cash to be at INR44b/INR63b in FY24E/FY25E.

Exhibit 38: Net cash declined in FY23



Source: MOFSL, Company; Note: Net Cash; Note: FY23 was a 15M period

Other important points from AR

Contingent liabilities remained high primarily due to the fines imposed by the Competition Commission of India (CCI). In 2012, the CCI had imposed a penalty of INR11.5b on ACC. This order was set aside by the Competition Appellate Tribunal (COMPAT) in CY15 and a fresh order was passed by the CCI in Aug'16 and a penalty of INR11.5b was imposed again.

The COMPAT later granted a stay on the CCI's order in Nov'16 with a condition to deposit 10% of the penalty amount and levy of interest of 12% p.a. in case the appeal is decided against the company. The COMPAT was replaced by the National Company Law Appellate Tribunal (NCLAT) in May'17, which dismissed the company's appeal and upheld the CCI's order in Jul'18.

ACC has appealed against the NCLAT's order in the Supreme Court. Interest accrued on this penalty stood at INR6.95b at CY21-end vs. INR5.67b at CY20-end. Increase in contingent liabilities in CY21 was led by an increase in accrued interest on the above penalty.

Exhibit 39: Contingent liabilities increased due to interest accrued on CCI penalty

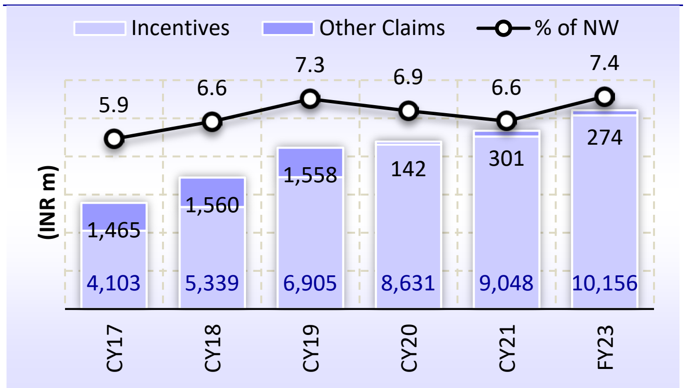
Contingent Liabilities	Brief description of contingent liabilities	CY21 (INR m)	FY23 (INR m)
Competition Act, 2002	❖ CCI mater	18,783	20,396
The Income Tax, 1961	❖ Related to excise duty incentives in the form of capital receipts	6,044	6,044
Service Tax – The Finance Act, 1994	❖ Dispute regarding place of removal	919	826
The Mineral Concession Rules	❖ Compensation for use of government land	2,122	2,122
Sales tax/commercial tax act of various states	❖ Packing material- differential rate of tax, other sales tax matters	487	487
Customs Duty – The Customs Act, 1962	❖ Demand of duty on import of steam coal	310	310
Central excise Act	❖ Demand of differential excise duty	505	548
Good and service tax Act	❖ Denial of transitional credit of clean energy cess	150	627
Government incentive	❖ Sales tax incentive	729	729
Other Statutes/Other Claims	❖ Claim by suppliers, withdrawal charges, claims related to railways	734	596
Mines and Minerals (Development and Regulation) Act	❖ Demand of additional royalty on limestone	79	79
Total		**30,862**	**32,765**
% of Net worth		**21.7**	**23.3**

Source: MOFSL, Company

Significant part of government grants remains outstanding

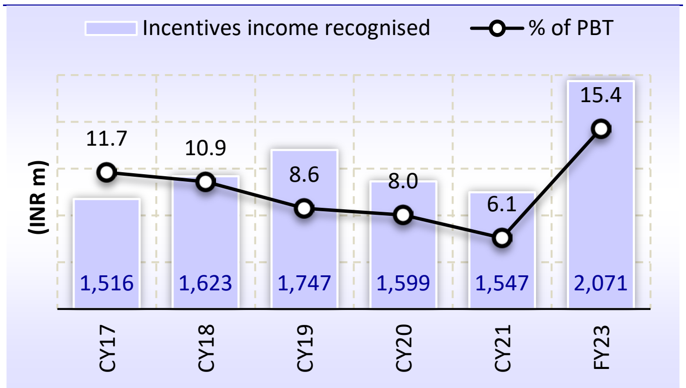
- ACC recognized government grants under the state government industrial promotion schemes over the years. The company recognized INR2.1b (15.4% of PBT) in FY23 vs. INR1.5b (8% of PBT) in CY21, under government schemes for its Sindri (Jharkhand), Chanda (Maharashtra) and Tikaria (Uttar Pradesh) plants.
- We note that a significant part of recognized government incentives remains outstanding. The company has recognized cumulative incentives of INR13b over the last eight years (CY15-FY23) and out of that, INR10b (79% of incentives recognized over CY15-FY23) remains outstanding at FY23-end.

Exhibit 40: Rise in outstanding incentives from government



Source: Company, MOFSL; Note: FY23 was a 15M period

Exhibit 41: Incentive income rises with commissioning of new unit at Tikaria, Uttar Pradesh



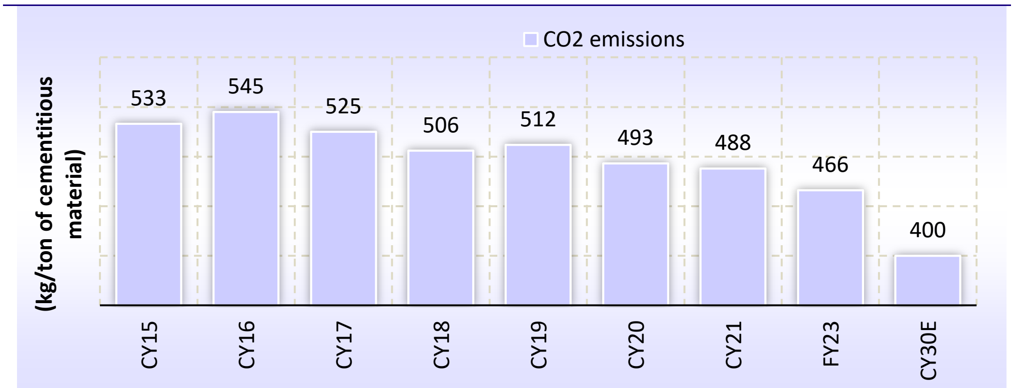
Source: Company, MOFSL; Note: FY23 was a 15M period

Sustainability developments and targets

Leading in sustainability and innovation

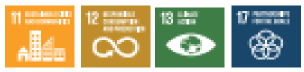
ACC has pledged to achieve 'net-zero' emission and set ambitious targets for reducing the carbon footprint. These targets have been validated by the Science Based Target initiative (SBTi). The company aims to reduce scope 1 emissions by 21.3% and scope 2 emissions by 48.4% by CY30, taking CY18 as the baseline year. The company reduced CO2 intensity by 5% in FY23 compared to CY21. It targets CO2 intensity per ton of cementitious material to reduce to 400kg/t of cementitious material by 2030 vs. 466 kg in FY23.

Exhibit 42: Aims to reduce carbon emission by 14% between FY23 and CY30E



Source: Company, MOFSL

Exhibit 43: Sustainable development 2030 (SD 2030) plan

Pillars	Objective	Lead Metrics	Target	FY 2023 Performance	SDGs Impacted
Climate and energy	We aim to reduce our CO_2 emissions and build a low-carbon nation.	CO_2 emitted	400 kg/t cementitious material	466 kg/t cementitious material	
Circular economy	We are replacing natural resources with alternative materials and renewable energy.	Waste reused	30 million tonnes	~15 million tonnes	
Environment	We strive for operational excellence to reduce our environmental footprint. This pillar primarily focuses on two aspects: water and biodiversity.	Water positivity index	5 (no. of times)	1.1 (no. of times)	
People and community	Our rich legacy of community development and caring for our people, path breaking leadership and corporate empathy contributes to societal progress	No. of beneficiaries	3.5 million total beneficiaries	1.2 million people directly benefited through community development projects	

Source: Company, MOFSL

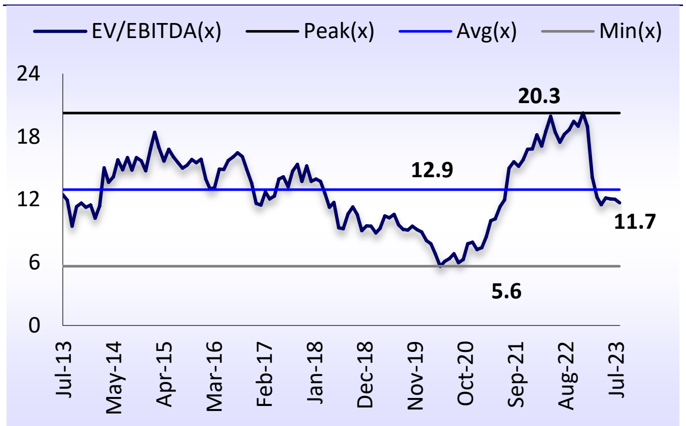
Outlook & Valuation

ACC's ongoing expansion plan in Ametha, Madhya Pradesh, (Greenfield integrated cement plant) with clinker/cement capacity of 3.1mtpa/1mtpa has been delayed by six to nine months. The company added grinding capacity of 1.6mtpa at Tikaria, Uttar Pradesh, in Feb'22 and clinker capacity at Jamul in CY17. The management aims to double the capacity, but it has not provided any details yet.

The company's OCF turned negative in FY23 due to lower profitability and higher working capital requirement. The increase in working capital was due to INR9.75b in advances given to a coal trader for the supply of fuel under a long-term supply agreement. Due to lower OCF and higher capex, ACC reported FCF outflow. ACC's RoE also declined to 5.6% in FY23 from 14.1% in CY21 due to margin pressure. We believe that improvement in profitability amid the softening in input costs will drive a gradual improvement in RoE over FY24E/FY25E; however, RoE is estimated to remain lower than it was in the CY19-CY21 period, which saw better margins.

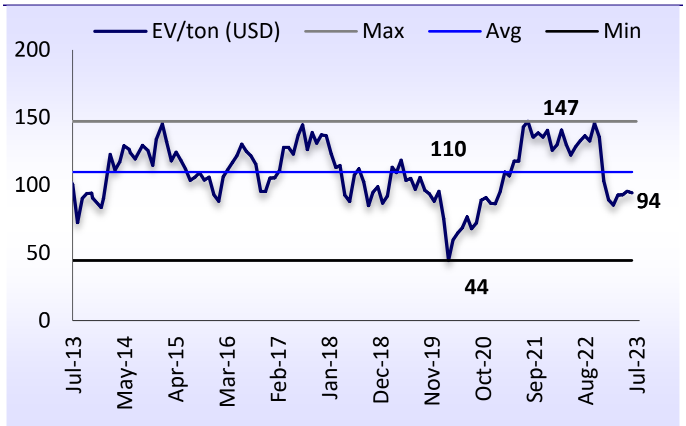
ACC trades at 13x/9.6x FY24E/FY25E EV/EBITDA and USD97/90 FY24E/FY25E EV/ton. The stock has traded at an average EV/EBITDA of 13x over the last 10 years. The stock price has corrected 24% in the past six months and underperformed broader indices, primarily due to a delay in the expansion plan, a lack of clarity about future growth plans, underperformance vs. peers in terms of margin recovery sequentially. We estimate a gradual margin improvement in FY24/FY25, led by a decline in fuel prices. However, volume growth is expected to be in mid-single digits due to delayed expansion plans. Further, ACC is lagging behind its peers in terms of higher opex/t and lower profitability. We value ACC at 11x FY25E EV/EBITDA to arrive at a revised TP of INR2,000 and maintain our Neutral rating on the stock.

Exhibit 44: 1-year forward EV/EBITDA chart



Source: MOFSL, Company

Exhibit 45: 1-year forward EV/ton chart



Source: MOFSL, Company

Financials and Valuations

Standalone Income Statement								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23**	**FY24E**	**FY25E**
Net Sales	**1,32,846**	**1,48,014**	**1,56,567**	**1,37,845**	**1,61,514**	**2,22,100**	**1,81,612**	**1,94,651**
Change (%)	20.9	11.4	5.8	(12.0)	17.2	37.5	(18.2)	7.2
EBITDA	**19,091**	**20,446**	**24,095**	**24,811**	**30,004**	**19,190**	**22,577**	**28,619**
Change (%)	29.5	7.1	17.8	3.0	20.9	(36.0)	17.6	26.8
Margin (%)	14.4	13.8	15.4	18.0	18.6	8.6	12.4	14.7
Depreciation	6,401	5,996	6,030	6,353	5,973	8,351	7,315	7,402
Int. and Fin. Charges	1,023	892	862	570	546	772	580	622
Other Income - Rec.	1,317	1,385	3,112	2,040	2,048	3,372	2,040	2,310
PBT Before EO Item	**12,984**	**14,943**	**20,315**	**19,927**	**25,533**	**13,439**	**16,722**	**22,904**
EO Income/(Expense)	-	5,006	-	(3,049)	(929)	(1,618)	-	-
PBT After EO Item	**12,984**	**19,949**	**20,315**	**16,878**	**24,604**	**11,821**	**16,722**	**22,904**
Tax	3,829	4,883	6,726	2,728	6,401	3,122	4,281	5,863
Tax Rate (%)	29.5	24.5	33.1	16.2	26.0	26.4	25.6	25.6
Reported PAT	**9,154**	**15,066**	**13,589**	**14,149**	**18,203**	**8,699**	**12,441**	**17,041**
Adjusted PAT	**9,154**	**10,060**	**13,589**	**14,746**	**18,899**	**9,896**	**12,441**	**17,041**
Change (%)	32.7	9.9	35.1	8.5	28.2	(47.6)	25.7	37.0
Margin (%)	6.9	6.8	8.7	10.7	11.7	4.5	6.9	8.8

Standalone Balance Sheet								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23**	**FY24E**	**FY25E**
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	91,775	1,03,397	1,13,333	1,24,735	1,40,404	1,38,550	1,49,253	1,64,037
Net Worth	**93,655**	**1,05,277**	**1,15,213**	**1,26,614**	**1,42,284**	**1,40,430**	**1,51,132**	**1,65,917**
Loans	592	0	0	0	0	0	0	0
Deferred Tax Liability	5,414	6,631	6,422	3,762	3,827	4,331	4,331	4,331
Capital Employed	**99,660**	**1,11,908**	**1,21,635**	**1,30,376**	**1,46,112**	**1,44,761**	**1,55,464**	**1,70,249**
Gross Block	84,799	88,774	93,972	98,093	1,04,708	1,20,694	1,45,294	1,50,794
Less: Accum. Depn.	12,389	18,280	24,059	31,507	37,480	45,831	53,145	60,547
Net Fixed Assets	**72,410**	**70,494**	**69,914**	**66,586**	**67,228**	**74,863**	**92,148**	**90,246**
Capital WIP	2,617	3,922	4,353	5,453	12,121	16,831	2,231	2,731
Investments-Trade	25,304	37	37	82	184	184	184	184
Investments in subsidiaries	2,265	2,265	2,265	2,124	1,743	1,743	1,743	1,743
Curr. Assets, Loans&Adv.	**46,292**	**83,533**	**94,252**	**1,07,014**	**1,27,914**	**1,10,464**	**1,17,331**	**1,40,010**
Inventory	14,040	16,786	11,410	9,005	12,733	16,235	16,594	17,800
Account Receivables	6,682	8,683	6,284	4,515	4,624	8,747	8,941	9,591
Cash and Bank Balance	1,687	30,003	45,672	59,219	74,345	32,062	43,351	62,552
Others	23,884	28,062	30,887	34,275	36,212	53,420	48,445	50,067
Curr. Liab. and Prov.	**49,229**	**48,343**	**49,186**	**50,883**	**63,078**	**59,324**	**58,173**	**64,665**
Account Payables	18,105	19,227	14,710	14,163	18,992	14,922	14,257	16,021
Other Liabilities	24,515	25,627	28,478	30,189	33,868	35,632	32,069	33,672
Provisions	6,609	3,489	5,998	6,531	10,219	8,770	11,847	14,972
Net Current Assets	**(2,936)**	**35,190**	**45,067**	**56,131**	**64,835**	**51,141**	**59,158**	**75,345**
Application of Funds	**99,660**	**1,11,908**	**1,21,635**	**1,30,376**	**1,46,112**	**1,44,761**	**1,55,464**	**1,70,249**

Source: Company, MOFSL; *Note: FY23 is 15-month period due to change in accounting year

Financials and Valuations

Standalone Ratios								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23**	**FY24E**	**FY25E**
Basic (INR)								
EPS	**48.7**	**53.5**	**72.3**	**78.4**	**100.5**	**52.6**	**66.2**	**90.6**
Cash EPS	82.7	85.4	104.4	112.2	132.3	97.1	105.1	130.0
BV/Share	498.2	560.0	612.9	673.5	756.9	747.0	803.9	882.6
DPS	26.0	14.0	14.0	14.0	58.0	9.3	12.0	14.0
Payout (%)	53.3	17.4	19.3	18.6	59.9	20.0	18.1	15.4
Valuation (x)								
P/E		33.9	25.1	23.1	18.0	34.4	27.4	20.0
Cash P/E		21.2	17.4	16.1	13.7	18.7	17.2	13.9
EV/Sales		2.1	1.9	2.0	1.6	1.3	1.6	1.4
EV/EBITDA		15.0	12.1	11.1	8.5	15.2	13.1	9.6
P/BV		3.2	3.0	2.7	2.4	2.4	2.3	2.1
Dividend Yield		0.8	0.8	0.8	3.2	0.5	0.7	0.8
EV/ton (USD-Cap)		112	107	102	90	99	97	90
Return Ratios (%)								
RoE	10.1	10.1	12.3	12.2	14.1	7.0	8.5	10.7
RoCE	10.2	11.3	12.1	13.6	14.0	7.2	8.6	10.7
RoIC	12.7	14.7	16.2	22.6	28.4	10.3	11.1	14.7
Working Capital Ratios								
Debtor (Days)	18	21	15	12	10	14	18	18
Asset Turnover (x)	0.8	0.8	0.8	0.9	0.9	0.7	0.9	0.9
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Standalone Cash Flow Statement								(INR m)
Y/E December	**CY17**	**CY18**	**CY19**	**CY20**	**CY21**	**FY23**	**FY24E**	**FY25E**
OP/(Loss) before Tax	12,984	14,943	20,315	16,878	24,604	11,821	16,722	22,904
Depreciation	6,401	5,996	6,030	6,353	5,973	8,351	7,315	7,402
Interest & Finance Charges	104	-129	0	570	0	0	0	0
Direct Taxes Paid	(2,177)	(5,265)	(4,462)	(7,064)	(2,849)	(4,027)	(4,281)	(5,863)
(Inc)/Dec in WC	(1,660)	(4,493)	601	5,419	588	(28,533)	3,271	3,015
CF from Operations	**15651.4**	**11,052**	**22,484**	**22,156**	**28,316**	**-12,388**	**23,027**	**27,457**
Others	(104)	129	-	-	-	-	-	-
CF from Operating incl EO	**15,548**	**11,181**	**22,484**	**22,156**	**28,316**	**-12,388**	**23,027**	**27,457**
(Inc)/Dec in FA	(5,194)	(4,951)	(4,935)	(7,252)	(11,509)	(19,788)	(10,000)	(6,000)
Free Cash Flow	**10,354**	**6,230**	**17,549**	**14,904**	**16,808**	**-32,175**	**13,027**	**21,457**
(Pur)/Sale of Investments	1,348	1,273	1,651	1,886	1,619	(26,632)	-	-
Others	(262)	-	-	-	-	-	-	-
CF from Investments	**(4,108)**	**(3,678)**	**(3,283)**	**(5,366)**	**(9,890)**	**(46,420)**	**(10,000)**	**(6,000)**
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	42	-606	0	0	0	0	0	0
Interest Paid	(420)	(409)	(572)	(399)	(316)	(596)	0	0
Dividend Paid	(3,192)	(2,817)	(2,629)	(2,629)	(2,629)	(10,892)	(1,739)	(2,256)
Others	(650)	(579)	(540)	(246)	(360)	(889)	-	-
CF from Fin. Activity	**(4,221)**	**(4,411)**	**(3,742)**	**(3,274)**	**(3,305)**	**(12,377)**	**(1,739)**	**(2,256)**
Inc/Dec of Cash	7,219	3,092	15,459	13,516	15,121	-71,185	11,289	19,202
Opening Balance	19,772	26,949	29,959	45,477	58,908	74,029	2,868	14,156
Closing Balance	**26,991**	**30,040**	**45,418**	**58,993**	**74,029**	**2,868**	**14,156**	**33,358**

Source: Company, MOFSL; *Note: FY23 is 15-month period due to change in accounting year

NOTES

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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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