

Industry  
Bloomberg  
BSE CODE

Building Materials  
ACC IN  
500410

RATING	BUY
CMP	1501
Price Target	1720
Potential Upside	15%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	1768/1325
Mkt Capital (Rs Cr)	28193
Free float (%)	45%
Avg. Vol 1M (,000)	36
No. of Shares (Crs)	19
Promoters Pledged %	NA

### RESEARCH ANALYST

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### Satisfactory volumes while higher tax impacted PAT

#### 4QCY19 Result Update

- In 4QCY19, ACC grey cement volumes increased by 3% YoY to 7.76 MT (vs. expect. of 7.96MT) led by stable demand in Eastern market (~22% of its total capacity) on account of infrastructure development while realization declined by 5% QoQ to Rs. 4774/ton partly due to weak demand in Southern markets(~36% of its total capacity).
- Total Sales grew by 4.2% YoY to Rs. 4060 cr. mainly driven by volumes from Ready mix Concrete, better traction from new products in premium segment and stable demand in Eastern regions.
- Ready mix Concrete volumes increased by 8% YoY to 0.93 Million Cubic metres led by company's focus on value added solutions, strengthened customer network and have also widened national presence with the addition of 7 new plants during the quarter. ACC now has 90 operational ready mix plants in India.
- The Company's Gross margin contracted by 430 bps to 76.6% YoY led by higher input prices while EBITDA margin improved by 82 bps to 13.3% YoY led by premiumization, supply chain efficiency and lower other expense.
- Power and Freight cost declined by 149/214 bps to 18.2% YoY and 24.2% YOY (as % of Sales) led by decline in cost saving and supply chain efficiency measures undertaken by the company.
- PAT stood at RS. 273 cr. with PAT de-growth of 62.6% YoY mainly on account of higher tax while PAT margin stood at 6.6% in 4QCY19.

#### View and Valuation

Despite weak demand scenario in North, South, Central region the company posted satisfactory volume growth of 3% YoY while Eastern region witnessed positive demand led by infrastructure activities. Going forward, government's thrust on infrastructure development as well as Housing for-All initiatives is expected to revive the construction sector and boost demand while volumes from Ready mix Concrete is expected to improve with addition of new Plants and new product offering in premium segment. On Gross Margin front, we expect input cost to increase while company's supply chain efficiency and cost saving measures at operational level will ensure EBITDA margin expansion. Thus, we remain positive with the stock and maintain our BUY rating with a target price of Rs. 1720.

**Hence, we maintain our BUY rating on this stock with the target price of Rs.1720 (10x CY20e EV/EBITDA).**

#### Key Risks to our rating and target

- Further slow down in pick of volume demand.
- RMC business slowdown due to slowdown in consumption

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	CY16	CY17	CY18	CY19	CY20E
Net Sales	10990	13285	14802	15658	17189
EBITDA	1478	1912	2048	2413	2754
EBIT	869	1269	1445	1806	2161
PAT	658	925	1521	1378	1696
EPS (Rs)	35	49	81	73	90
EPS growth (%)	12%	40%	64%	-9%	23%
ROE (%)	7%	10%	14%	12%	15%
ROCE (%)	10%	14%	14%	16%	19%
EV/EBITDA	16.2	15.6	11.7	9.8	8.8
P/B (X)	2.9	3.5	2.6	2.4	2.4
P/E (x)	39	35	18	20	17

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## 4QCY19 Results

### Mixed numbers

Fig in Rs Cr

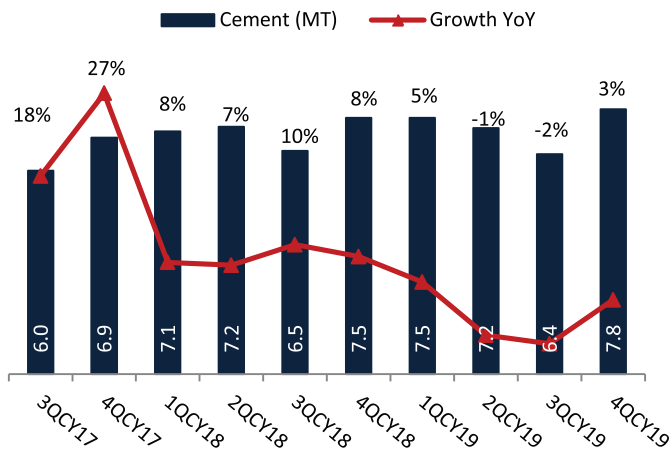
FINANCIALS	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	YoY %	QoQ%	CY18	CY19	YoY %
Net Sales	3895	3919	4150	3528	4060	4.2%	15.1%	14802	15658	-5%
Other Income	29	157	53	51	58	99.8%	13.3%	143	318	-55%
COGS	745	712	657	398	951	27.7%	138.8%	2332	2719	-14%
Gross Margin	81%	82%	83%	89%	77%	-4.3%	-12.1%	84%	83%	-1%
Employee Cost	214	200	204	230	233	8.7%	1.5%	884	866	2%
Other Expenses	647	627	650	608	610	-5.8%	0.3%	2544	2494	2%
EBITDA	487	532	783	557	541	11.1%	-2.9%	2048	2413	-15%
EBITDA%	13%	14%	19%	16%	13%	0.8%	-2.5%	14%	15%	2%
Depreciation	154	147	147	151	161	4.2%	6.4%	603	606	-1%
EBIT	333	386	636	406	380	14.2%	-6.3%	1445	1806	-20%
Interest	22	21	20	16	29	31.2%	80.0%	88	86	2%
PBT	339	522	670	440	408	20.4%	-7.3%	1500	2038	-26%
Exceptional Item	-	-	-	-	-	-	-	-	-	-
Tax	-391	177	217	141	140	-136%	-1%	-11	675	-102%
PAT	730	344	453	300	268	-63.3%	-10.4%	1521	1378	10%
PAT Margin	19%	9%	11%	8%	7%	-12.1%	-1.9%	10%	9%	-1%

CEMENT BUSINESS	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	YoY%	QoQ%
Sales	3,357	3,581	3,185	3,582	3,587	3,841	3,233	3,705	3%	15%
Vol (Mn Ton)	7.1	7.2	6.5	7.5	7.5	7.2	6.4	7.8	3%	20%
Real.(Rs./Ton)	4,721	4,947	4,869	4,776	4,783	5,335	5,021	4,774	0%	-5%

RMC BUSINESS	1QCY18	2QCY18	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	YoY%	QoQ%
Sales	332	321	303	360	393	366	335	389	8%	16%
Vol (Mn Ton)	0.8	0.8	0.7	0.9	0.9	0.9	0.8	0.9	8%	15%
Real.(Rs./Ton)	3,949	4,164	4,155	4,181	4,181	4,304	4,134	4,182	0%	1%

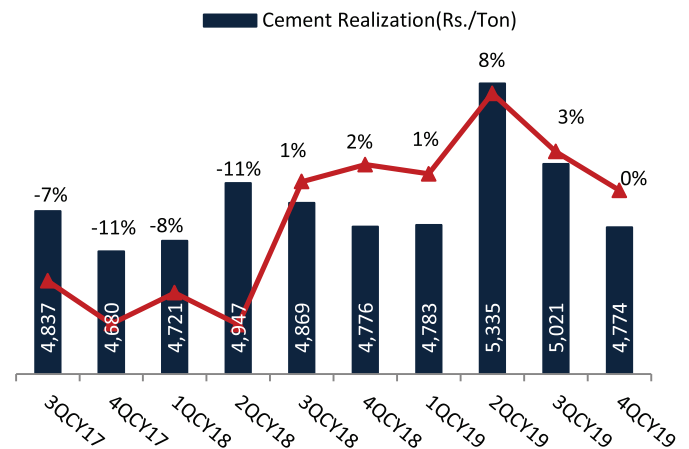
## Exhibit: Cement Volume trend

Cement volumes increased by 3% YoY with 7.76 MT in 4QCY19.



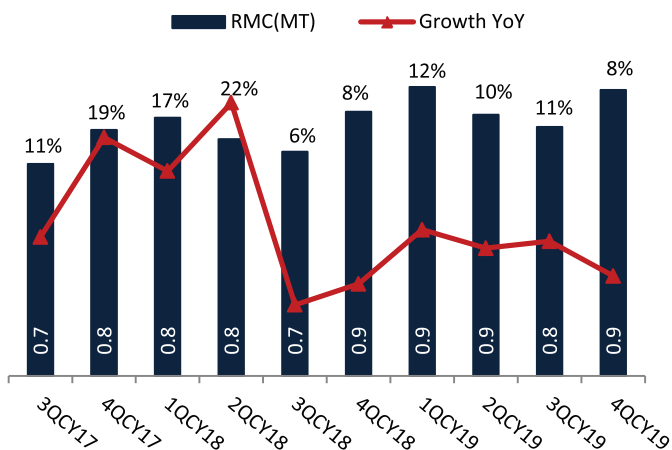
## Exhibit: Cement realization trend

Realization remained flat on YoY basis led by demand slowdown but declined on QoQ basis.



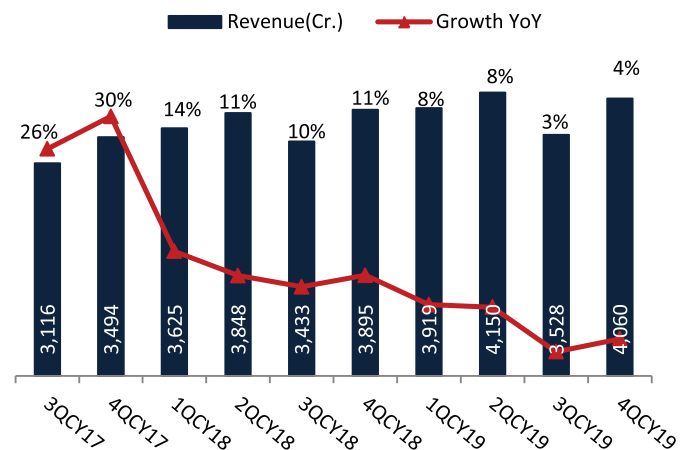
## Exhibit: RMC Volume trend

The Company's RMC continued to deliver robust growth of 8% YoY in 4QCY19.



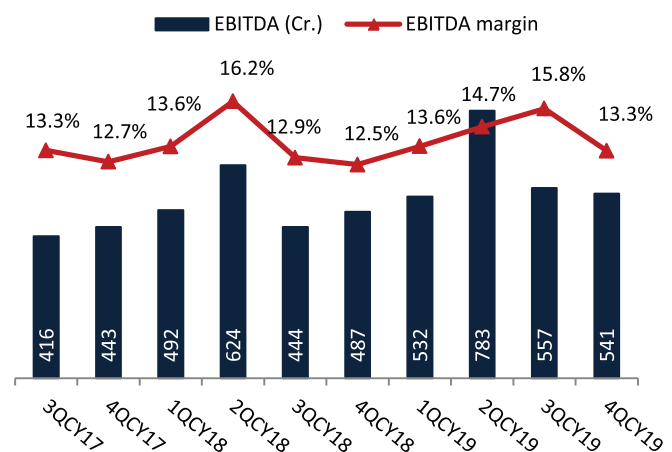
## Exhibit: Revenue and revenue growth trend

Sales remained impacted due to lower volumes from grey cement due to demand slowdown.



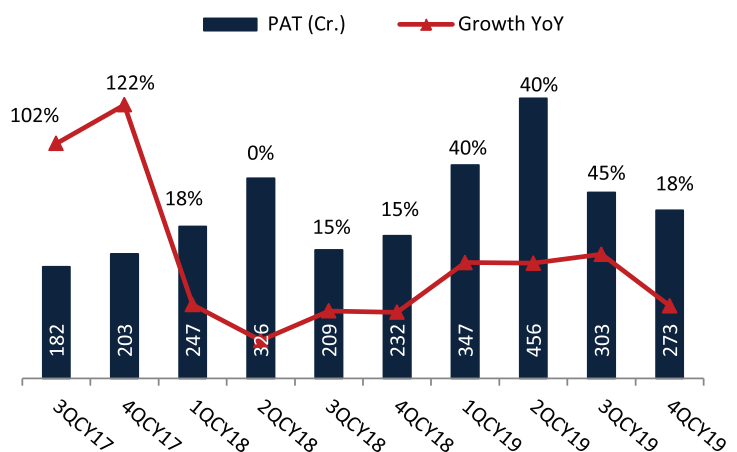
## Exhibit: EBITDA margin trend

EBITDA improvement was led by lower power & fuel cost and supply chain efficiency.



## Exhibit: PAT and PAT growth trend

PAT stood at Rs. 273 cr. with PAT margin at 6.6% YoY.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
Share Capital	188	188	188	188	188	188	188	188
Reserves	7625	8030	8233	8625	9168	10344	11356	11455
<b>Networth</b>	<b>7813</b>	<b>8218</b>	<b>8421</b>	<b>8813</b>	<b>9356</b>	<b>10532</b>	<b>11544</b>	<b>11643</b>
Debt	0	0	0	0	0	0	0	0
Total Capital Employed	7813	8218	8421	8813	9356	10532	11544	11643
<b>Net Fixed Assets (incl CWIP)</b>	<b>6402</b>	<b>7622</b>	<b>7727</b>	<b>7813</b>	<b>7534</b>	<b>7470</b>	<b>7457</b>	<b>7695</b>
Non Current Investments	87	84	87	32	4	4	4	4
Other Non Current Assets	308	361	466	839	1027	612	541	541
Non Current Assets	7684	9003	9396	9289	9191	9372	9601	9839
<b>Inventory</b>	<b>1122</b>	<b>1256</b>	<b>1189</b>	<b>1225</b>	<b>1405</b>	<b>1679</b>	<b>1142</b>	<b>1950</b>
Debtors	397	411	484	533	666	867	627	1007
Cash & Bank	839	696	94	1977	2729	3097	4648	3999
Other Current Assets	20	15	55	323	792	725	808	842
Current Assets	4417	3678	3404	4093	5642	6673	7524	8152
<b>Creditors</b>	<b>642</b>	<b>752</b>	<b>878</b>	<b>1258</b>	<b>1814</b>	<b>1926</b>	<b>1475</b>	<b>2237</b>
Provisions	1064	937	639	52	51	27	23	32
Other Current Liabilities	1961	2115	2269	1416	1738	1795	1919	2084
Curr Liabilities	3666	3804	3786	3980	4793	4706	4698	5465
<b>Net Current Assets</b>	<b>751</b>	<b>-126</b>	<b>-382</b>	<b>113</b>	<b>849</b>	<b>1967</b>	<b>2826</b>	<b>2686</b>
<b>Total Assets</b>	<b>12101</b>	<b>12682</b>	<b>12800</b>	<b>13394</b>	<b>14846</b>	<b>16056</b>	<b>17136</b>	<b>18002</b>

### Income Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
<b>Revenue from Operation</b>	<b>11150</b>	<b>11739</b>	<b>11797</b>	<b>10990</b>	<b>13285</b>	<b>14802</b>	<b>15658</b>	<b>17189</b>
Change (%)	-2%	5%	-1%	-7%	21%	11%	7%	9%
Other Income	281	257	120	123	129	143	318	180
<b>EBITDA</b>	<b>1630</b>	<b>1513</b>	<b>1537</b>	<b>1478</b>	<b>1912</b>	<b>2048</b>	<b>2413</b>	<b>2754</b>
Change (%)	-26%	-7%	2%	-4%	29%	7%	18%	14%
Margin (%)	14%	13%	13%	13%	14%	14%	15%	16%
Depr & Amor.	584	568	663	609	644	603	606	593
<b>EBIT</b>	<b>1046</b>	<b>946</b>	<b>875</b>	<b>869</b>	<b>1269</b>	<b>1445</b>	<b>1806</b>	<b>2161</b>
Int. & other fin. Cost	114	83	65	79	99	88	86	75
<b>EBT</b>	<b>1214</b>	<b>1120</b>	<b>930</b>	<b>913</b>	<b>1299</b>	<b>1500</b>	<b>2038</b>	<b>2266</b>
Exp Item	0	0	164	39	0	0	0	0
Tax	132	-31	190	227	386	-11	675	570
Minority Int & P/L share of Ass.	(0)	(0)	0	-	-	-	-	-
Reported PAT	1095	1162	588	658	925	1521	1378	1696
<b>Adjusted PAT</b>	<b>1095</b>	<b>1162</b>	<b>457</b>	<b>629</b>	<b>925</b>	<b>1521</b>	<b>1378</b>	<b>1696</b>
<b>Change (%)</b>	<b>3%</b>	<b>6%</b>	<b>-49%</b>	<b>12%</b>	<b>40%</b>	<b>64%</b>	<b>-9%</b>	<b>23%</b>
Margin(%)	10%	10%	5%	6%	7%	10%	9%	10%

## Financial Details

### Key Ratios

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
ROE	14%	14%	7%	7%	10%	14%	12%	15%
ROCE	13%	12%	10%	10%	14%	14%	16%	19%
Asset Turnover	0.9	0.9	0.9	0.8	0.9	0.9	0.9	1.0
Debtor Days	13	13	15	18	18	21	21	21
Inv Days	37	39	37	41	39	41	41	41
Payable Days	21	23	27	42	50	48	48	48
Int Coverage	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
P/E	19	23	43	39	35	18	20	17
Price / Book Value	2.7	3.2	3.0	2.9	3.5	2.6	2.4	2.4
EV/EBITDA	12	17	17	16	16	12	10	9
FCF per Share	0.1	(0.2)	0.2	0.6	0.6	0.4	1.3	0.7
Div Yield	3%	2%	1%	1%	0%	0%	0%	0%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20E
PBT	1214	1120	766	885	1310	1510	2038	2266
(inc)/Dec in Working Capital	-189	60	52	183	-91	-391	460	-509
Non Cash Op Exp	584	568	827	609	644	603	606	593
Int Paid (+)	114	83	65	79	99	88	86	75
Tax Paid	-451	-237	-231	-274	-219	-528	-675	-570
others	-208	-240	-22	-93	-188	-165	91	0
<b>CF from Op. Activities</b>	<b>1063</b>	<b>1352</b>	<b>1457</b>	<b>1390</b>	<b>1554</b>	<b>1118</b>	<b>2608</b>	<b>1854</b>
(inc)/Dec in FA & CWIP	-963	-1604	-1119	-501	-520	-497	-593	-831
Free Cashflow	101	-251	337	889	1034	620	2015	1024
(Pur)/Sale of Inv	-58	36	153	-112	62	40	-12	0
others	159	111	62	78	79	93	0	0
<b>CF from Inv. Activities</b>	<b>-862</b>	<b>-1457</b>	<b>-904</b>	<b>-535</b>	<b>-380</b>	<b>-364</b>	<b>-605</b>	<b>-831</b>
inc/(dec) in NW	0	0	0	0	0	0	0	0
inc/(dec) in Debt	-128	-35	0	0	0	0	0	0
Int. Paid	-51	-49	-41	-46	-42	-41	-86	-75
Div Paid (inc tax)	-656	-753	-675	-384	-384	-340	-880	-1083
others								
<b>CF from Fin. Activities</b>	<b>-834</b>	<b>-837</b>	<b>-716</b>	<b>-430</b>	<b>-426</b>	<b>-380</b>	<b>-966</b>	<b>-1158</b>
Inc(Dec) in Cash	-633	-942	-164	425	749	373	1037	-134
<b>Add: Opening Balance</b>	<b>3156</b>	<b>2523</b>	<b>1581</b>	<b>1383</b>	<b>1810</b>	<b>2561</b>	<b>3097</b>	<b>4648</b>
Closing Balance	2523	1581	1418	1808	2559	2933	4134	4513

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