

ICICI Securities Limited
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CY18 annual report
analysis

Cement

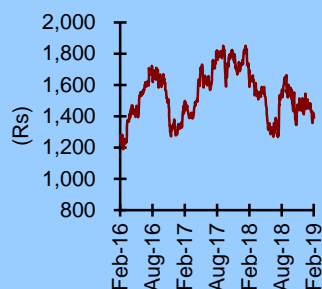
Target price Rs1,750

Shareholding pattern

	Jun '18	Sep '18	Dec '18
Promoters	54.5	54.5	54.5
Institutional investors	30.7	30.7	30.7
MFs and UTI	6.1	6.3	8.9
Ins. Cos./FI's	13.7	14.2	14.4
FII's	10.9	10.2	7.4
Others	14.8	14.8	14.8

Source: BSE

Price chart



INDIA

ACC

BUY

Maintained

AR analysis - Focus on profitable growth

Rs1,482

Key takeaways from ACC Limited (ACC) CY18 annual report analysis include: a) company's increased focus on cost efficiencies via >5% reduction in clinker factor, 4% increase in fuel efficiency, increase in AFR usage to 4.5% and employee headcount rationalisation by 9%; b) management remains optimistic on demand growth led by East, Central and North regions; c) net cash and cash equivalents increased by Rs3.7bn during CY18 to Rs31bn, despite working capital infusion of Rs3.9bn owing to higher inventory and receivables; and d) improvement in return ratios by 100bps YoY to ~11% on improved profitability. Besides, the company recently announced plans to increase its clinker and cement capacity by 13% and 18% respectively by CY21E at an outlay of Rs30bn. We maintain our CY19E-CY20E estimates with the target price unchanged at Rs1,750/share, based on 11x CY20E EV/E. Maintain BUY. Valuation at 8.9x CY20E EV/E, or US\$100/te, remains attractive for a pan-India diversified company with industry-leading return ratios. ACC remains one of our preferred picks besides SRM / UTCEM.

- ▶ **ACC remained focused on improving its cost structure** during CY18 with the increase in share of new capacities, reducing clinker factor (by >5% YoY in CY18) through improved blending ratio, increasing usage of AFR (by 50bps YoY to 4.5% in CY18), improving specific power consumption norms (to lowest-ever 81kwh/te in CY18 from 84kWh/te in CY17), and optimising freight mix along with reduction in employee cost (~9% manpower reduced in CY18). ACC maintained its EBITDA margin at 14% in CY18 led by these cost efficiencies despite a sharp 55% YoY increase in slag prices, 22% YoY increase in pet coke and 17% YoY increase in diesel prices.
- ▶ **Management remains optimistic on demand growth over next few years** backed by higher government spends on infrastructure and affordable and rural housing. Management expects strong demand to be led by East, Central and North regions. We had highlighted in our Oct'18 thematic note '[Robust demand growth to alleviate supply concerns](#)', maximum pricing/margin uptick is expected in these regions, given our estimate of >85% clinker utilisation from H2FY19E.
- ▶ **ACC recently announced its plan to add 3mnte clinker unit** at Ametha, Madhya Pradesh, and four grinding units totalling 5.9mnte (Ametha: 1mnte, Tikaria: 1.6mnte, UP: 2.2mnte, and Sindri: 1.1mnte) capacity in Central and East regions. These capacity adds are expected to be operational by CY21E at a capex of Rs30bn. We believe this would address key investor concerns on volume growth as well as strengthen ACC's market share in the high-growth Central and East regions.
- ▶ **Value-added product volumes grew 36% YoY in CY18:** ACC launched various new products in CY18, i.e. ACC F2R SUPERFAST, ACC LeakBlock (construction chemical), ACC Supercoat Premium, etc. which are gaining traction in the market. Company's premium product volumes grew 36% YoY in CY18 (23% CAGR over CY14-CY18) to ~17% of its total volumes, which will further likely increase to ~20% of overall volumes by CY19E.

Market Cap	Rs278bn/US\$3.9bn
Reuters/Bloomberg	ACC.BO/ACC IN
Shares Outstanding (mn)	187.8
52-week Range (Rs)	1662/1267
Free Float (%)	45.5
FII (%)	7.4
Daily Volume (US\$'000)	14,726
Absolute Return 3m (%)	(1.8)
Absolute Return 12m (%)	(8.3)
Sensex Return 3m (%)	(0.1)
Sensex Return 12m (%)	7.3

Year to Dec	CY17	CY18	CY19E	CY20E
Revenue (Rs mn)	132,851	148,016	156,549	167,795
EBITDA (Rs mn)	18,782	21,181	24,130	27,049
Net Income (Rs mn)	8,902	10,898	13,224	15,101
% Chg YoY	38.4	22.4	21.3	14.2
P/E (x)	31.1	25.4	20.9	18.0
CEPS (Rs)	81.6	90.1	104.2	116.2
EV/E (x)	13.3	11.6	10.1	8.9
Dividend Yield	1.8	1.0	1.2	1.4
RoCE (%)	10.3	11.2	11.9	12.4
RoE (%)	9.9	11.0	12.0	12.6

Research Analysts:

Krupal Maniar, CFA

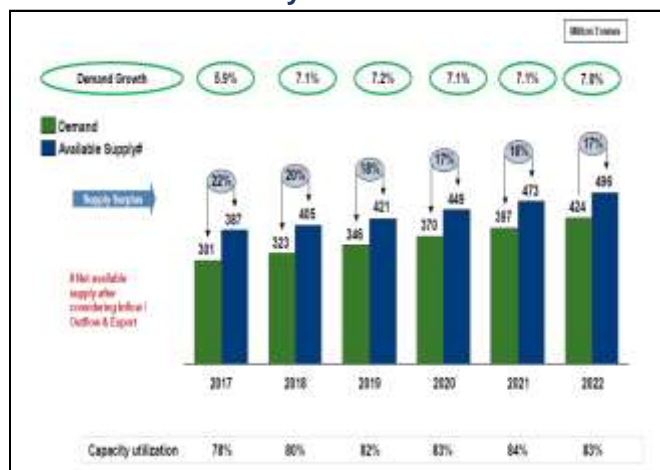
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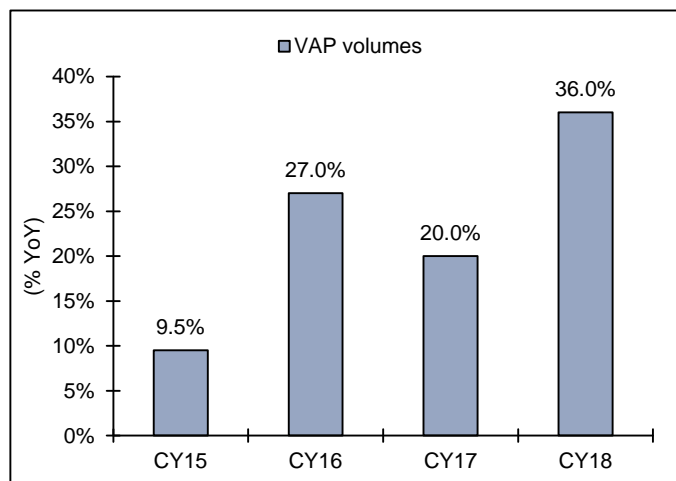
- **RMC business EBITDA grew 16% YoY to Rs1.3bn in CY18** while volumes grew at a similar rate to 3.16mn cu.m. In CY18, ACC has added 18 RMC plants across the country to increase its nationwide footprint to 75 plants. Earlier, the management guided to double the number of RMC plants to 140 as government's focus on infrastructure development holds many opportunities in the RMC business. Accordingly, we believe ACC's RMC business is expected to continue delivering its robust performance, which should aid blended margins.
- **Net cash and cash equivalents increased by Rs3.7bn to Rs31bn** after incurring capex of Rs5bn during CY18. EBITDA to OCF conversion declined to 51% in CY18 (vs 81% in CY17) mainly on working capital infusion. OCF before working capital changes declined 9% YoY to Rs14.7bn owing to higher tax outgo and, with working capital infusion of ~Rs4bn, led to 29% YoY decline to Rs10.8bn in CY18. Cash conversion cycle (based on sales) has more than doubled YoY to 15 days in CY18 led by increase in inventory days owing to increase in cement and coal inventories. As per the management, trade receivable days in the cement business increased to 13 days (vs 11 in CY17) and 80 days (vs 77 in CY17) in the RMC business in CY18. Besides, incentive receivables increased by 29% YoY to Rs5.3bn in CY18.
- **Return ratios improved by 100bps YoY to ~11%** on improved profitability. We factor 4% volume and 2.8% blended realisation CAGRs over CY18-CY20E and expected EBITDA/te to increase to Rs881/te by CY20E from Rs746/te in CY18. Net cash is further expected to increase to ~Rs33bn by CY20E (~12% of current market cap) from ~Rs31bn at Dec'18-end. **With improving EBITDA/te and return ratios, we expect ACC's valuation discount to larger peers to narrow.**

Chart 1: Cement demand expected to grow at >7% CAGR over next few years



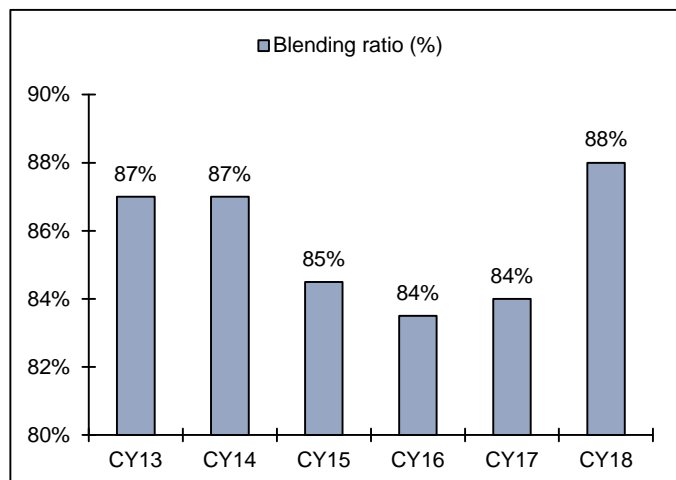
Source: Company data, I-Sec research

Chart 2: ACC's premium product volumes grew 36% YoY in CY18



Source: Company data, I-Sec research

Chart 4: Increasing share of blended cement helps reduce clinker factor



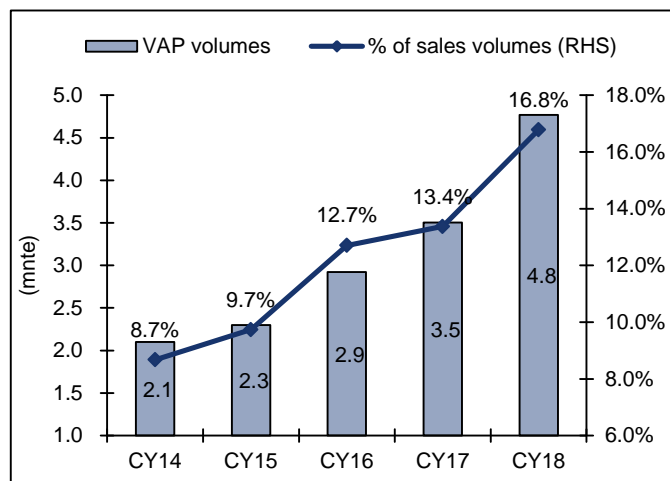
Source: Company data, I-Sec research

Table 1: East, Central and North regions to operate at >85% clinker utilisation from H2FY19E

(mnte)	FY18	FY19E	FY20E	FY21E
North, Central and East (combined)				
Clinker capacity	156	158	165	171
Clinker utilisation	78	84	83	87
South and West (combined)				
Clinker capacity	158	160	162	168
Clinker utilisation	63	71	74	76
All India				
Clinker capacity	313	318	327	339
Clinker utilisation	71	78	80	82
Cement utilisation	70	75	75	77
Gap (%)	1	3	5	5

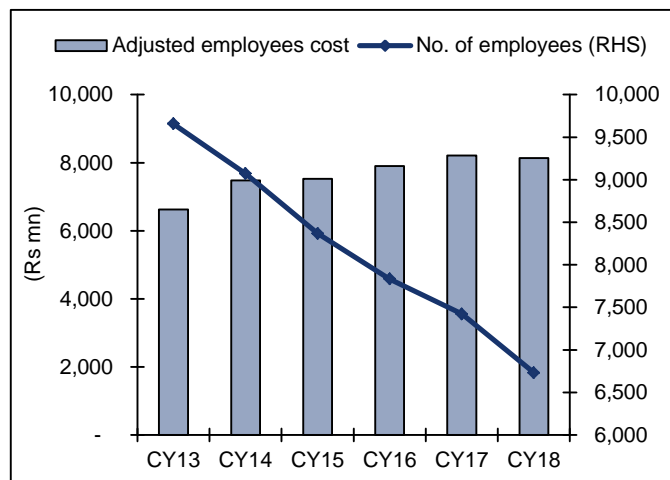
Source: I-Sec research

Chart 3: Contribution of premium products increased to ~17% in CY18



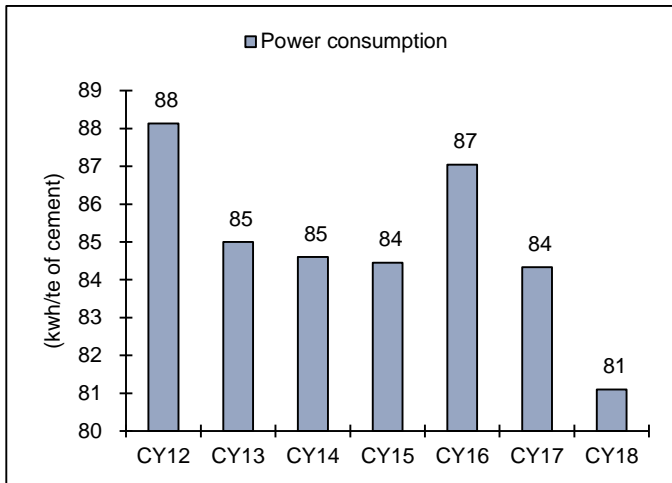
Source: Company data, I-Sec research

Chart 5: Employee count has reduced by 30% since CY14



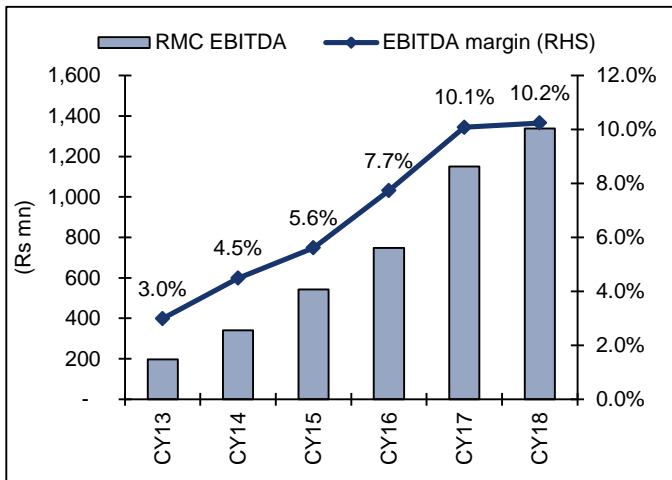
Source: Company data, I-Sec research

Chart 6: Power consumption norms are improving with increase in share of new capacities



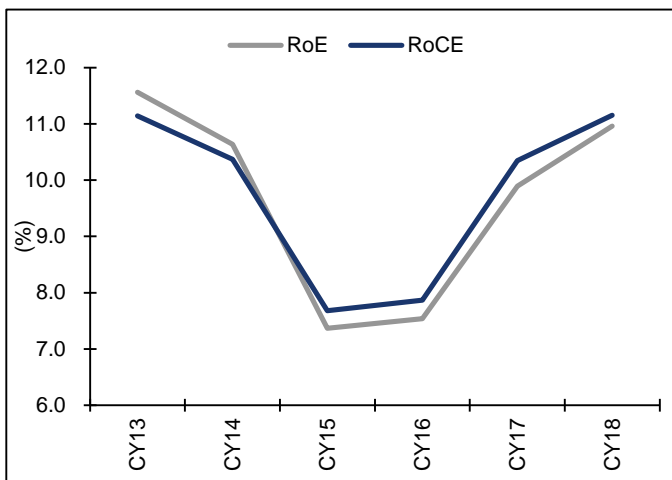
Source: Company data, I-Sec research

Chart 8: RMC EBITDA increased 16% YoY with almost flat margin in CY18



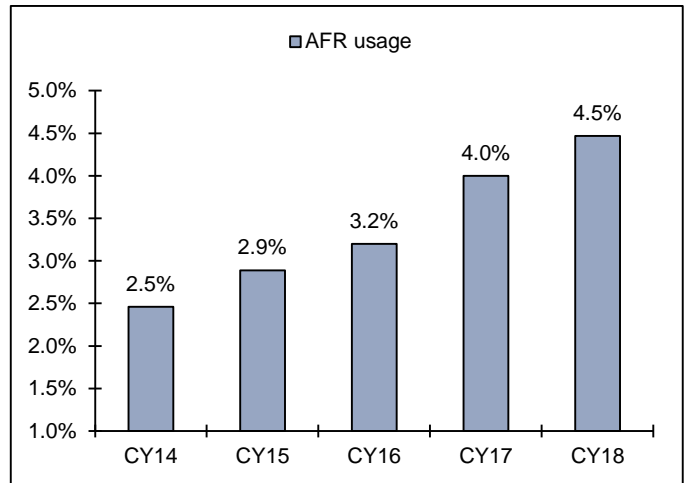
Source: Company data, I-Sec research

Chart 9: Return ratios improved by 100bps YoY to ~11% in CY18



Source: Company data, I-Sec research

Chart 7: AFR usage increased to 4.5% in CY18 and is expected to increase further



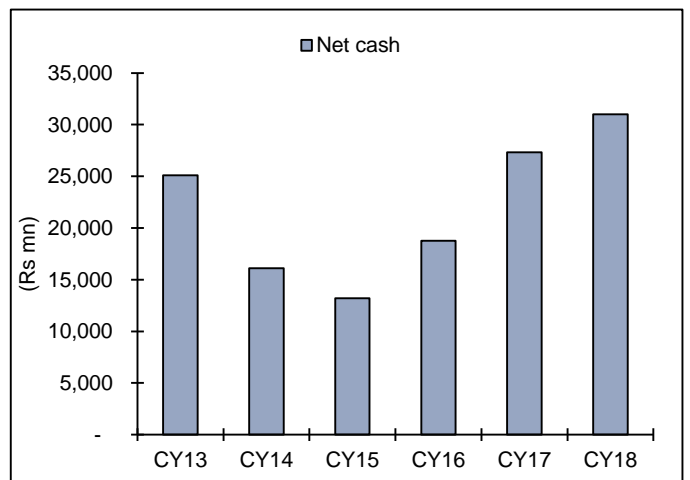
Source: Company data, I-Sec research

Table 2: EBITDA to OCF conversion declined to 51% in CY18 on working capital infusion

(Rs mn)	CY17	CY18	% YoY
OCF before WC changes	16,036	14,673	(8.5)
WC changes	(907)	(3,906)	NA
OCF	15,129	10,767	(28.8)
EBITDA	18,782	21,181	
EBITDA:OCF conversion (x)	81%	51%	

Source: Company data, I-Sec research

Chart 10: Net cash increased by ~Rs3.7bn YoY to Rs31bn in CY18



Source: Company data, I-Sec research

Table 3: Performance trend and assumptions

	CY15	CY16	CY17	CY18	CY19E	CY20E
Capacity ('000te)	30,683	31,308	33,411	33,411	33,411	34,511
Production ('000te)	23,840	23,180	26,560	28,400	29,536	30,717
Capacity utilisation (%)	78	74	79	85	88	89
Sales ('000te)	23,620	22,990	26,210	28,400	29,536	30,717
Growth (%)	(2.4)	(2.7)	14.0	8.4	4.0	4.0
Realisation (Rs/te) – blended	4,796	4,722	4,869	5,098	5,203	5,387
Growth (%)	1.3	(1.5)	3.1	4.7	2.1	3.5

Source: Company data, I-Sec research; *numbers from CY17 based on Ind-AS

Table 4: Per-tonne estimate analysis

(Rs/te)

	CY15	CY16	CY17	CY18	CY19E	CY20E
Net realisation including RMC	4,796	4,722	4,869	5,098	5,203	5,387
Raw materials consumed	775	731	740	821	837	851
Power & fuel costs	1,005	932	1,023	1,057	1,076	1,116
Freight costs	1,134	1,137	1,293	1,406	1,377	1,412
Other expenses	1,388	1,405	1,239	1,182	1,193	1,203
Total operating expenses	4,303	4,205	4,295	4,466	4,483	4,582
Other operating income	94	96	133	114	97	76
Blended EBITDA	587	613	707	746	817	881

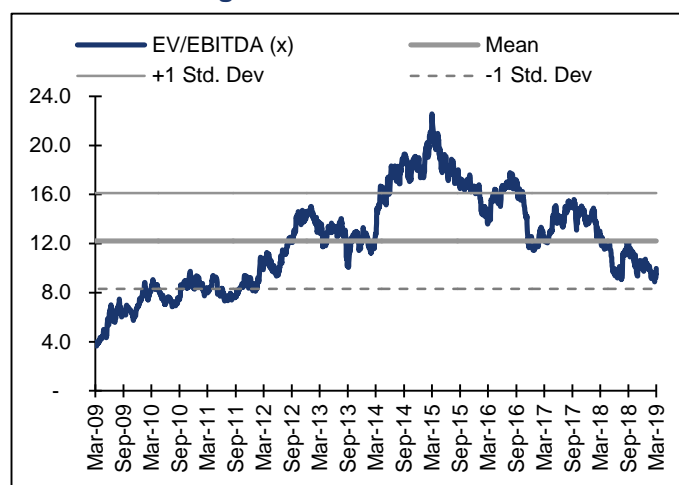
Source: Company data, I-Sec research; *numbers from CY17 based on Ind-AS

Table 5: Valuations based on 11.0x CY20E EV/E

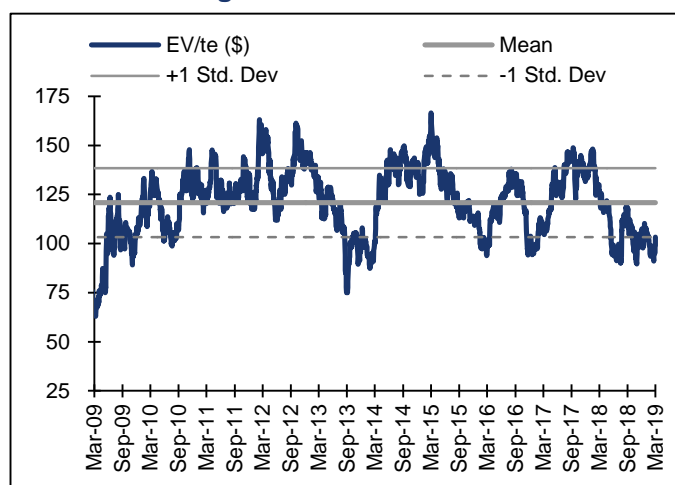
(Rs.mn)

Target EV/ EBITDA multiple (x)	11
Target EV (Rs mn)	297,543
Net debt / (cash) (Rs mn)	(32,446)
Target value (Rs mn)	329,989
No. of shares (mn)	188
Target price per share (Rs)	1,750

Source: I-Sec research

Chart 11: Rolling EV/EBITDA

Source: I-Sec research

Chart 12: Rolling EV/te

Source: I-Sec research

Financial summary (consolidated)

Table 6: Profit and loss statement

(Rs mn, year ending December 31)

	CY17	CY18	CY19E	CY20E
Operating Income (Sales)	129,310	144,775	153,680	165,461
Other operating income	3,542	3,242	2,869	2,334
Operating Expenses	114,069	126,835	132,419	140,745
EBITDA	18,782	21,181	24,130	27,049
% margin	14.1	14.3	15.4	16.1
Depreciation & Amortisation	6,436	6,032	6,365	6,751
Gross Interest	985	878	895	922
Other Income	1,289	1,427	1,641	1,755
Recurring PBT	12,758	15,800	18,626	21,270
Add: Extraordinaries	342	4,306	-	-
Less: Taxes	3,856	4,901	5,401	6,168
Net Income (Reported)	9,244	15,205	13,224	15,101
Recurring Net Income	8,902	10,898	13,224	15,101

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending December 31)

	CY17	CY18	CY19E	CY20E
Assets				
Total Current Assets	54,432	63,391	68,141	71,936
Current Liab. & Prov.	49,355	48,465	50,128	52,042
Net Current Assets	5,078	14,926	18,013	19,894
Investments of which	18,402	22,194	22,194	22,194
Strategic/Group	912	1,004	1,004	1,004
Marketable	17,490	21,190	21,190	21,190
Net Fixed Assets	75,624	74,975	81,288	90,123
Capital Work-in-Progress	2,693	3,978	11,956	19,542
Total Assets	99,103	112,095	121,495	132,212
of which Cash equivalents	27,323	31,007	32,549	32,446
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	5,516	6,746	6,881	7,018
Minority Interest	3	3	3	3
Equity Share Capital	1,880	1,880	1,880	1,880
Face value per share (Rs)	10	10	10	10
Reserves & Surpluses	91,679	103,439	112,696	123,267
Net Worth	93,559	105,319	114,576	125,147
Total Liabilities	99,103	112,095	121,495	132,212

Source: Company data, I-Sec research

Table 10: Quarterly trend

(Rs mn, year ending December 31)

	Mar-18	Jun-18	Sep-18	Dec-18
Net sales	35,570	37,679	33,640	37,886
% growth (YoY)	14.8	13.7	10.1	10.9
Recurring EBITDA	4,919	6,687	4,471	5,108
Margin (%)	13.8	17.7	13.3	13.5
Other income	474	326	327	300
Extra ordinaries Inc / (Loss)	-	(438)	(36)	4,776
Recurring Net Income	2,504	3,725	2,127	2,548

Source: Company data

Table 8: Cashflow statement

(Rs mn, year ending December 31)

	CY17	CY18	CY19E	CY20E
Operating Cashflow	16,036	14,673	18,405	20,610
Working Capital changes	(907)	(3,906)	(1,629)	(2,071)
Capital Commitments	(5,204)	(4,971)	(12,678)	(15,587)
Net Operating FCF	9,925	5,796	4,098	2,953
Investing Activities	1,409	1,327	1,641	1,755
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	-	-	-	-
Dividend paid	(3,842)	(3,396)	(3,967)	(4,530)
Others	-	-	(230)	(280)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	7,491	3,726	1,542	(102)

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending December 31)

	CY17	CY18	CY19E	CY20E
Per Share Data (Rs)				
EPS(Basic)	49	81	70	80
Diluted Recurring EPS	47	58	70	80
Diluted Recurring CEPS	82	90	104	116
Dividend per share	26	14	18	20
Book Value	498	560	609	666
Growth Ratios (% YoY)				
Operating Income	19.0	11.4	5.8	7.2
EBITDA	32.2	12.8	13.9	12.1
Recurring Net Income	38.5	22.4	21.3	14.2
Diluted Recurring EPS	38.4	22.4	21.3	14.2
Diluted Recurring CEPS	21.9	10.4	15.7	11.6
Valuation Ratios (x)				
P/E	31.1	25.4	20.9	18.0
P/CEPS	18.0	16.3	14.1	12.5
P/BV	3.0	2.6	2.4	2.2
EV / EBITDA	13.3	11.6	10.1	8.9
EV / te (US\$)	117	104	103	100
EV / Operating Income	1.9	1.7	1.6	1.5
EV / Operating FCF	(5.1)	22.4	14.5	13.0
Operating Ratios (%)				
Raw Material / Sales	15.2	16.1	16.1	15.8
SG&A / Sales	73.0	71.5	70.1	69.3
Other Income / PBT	10.1	9.0	8.8	8.3
Effective Tax Rate	29.4	23.6	29.0	29.0
NWC / Total Assets	(0.0)	0.0	0.1	0.1
Inventory (x)	6	5	5	6
Receivables (days)	21	17	20	23
Payable (days)	49	54	55	54
D/E Ratio (x)	(0.2)	(0.2)	(0.2)	(0.2)
Profitability Ratios (%)				
Rec. Net Income Margins	6.6	7.3	8.4	8.9
RoCE	10.3	11.2	11.9	12.4
RoNW	9.9	11.0	12.0	12.6
Dividend Payout	54.9	24.1	25.0	25.0

Source: Company data, I-Sec research

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ANALYST CERTIFICATION

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