

ACC | HOLD


JM FINANCIAL

Volumes steady; Beat primarily on higher other operating income

ACC reported in-line revenues growing by 20% YoY on realisation/volume growth of 7%/10% YoY as operations stabilised in Jamul plant. In addition other operating income (OOI) increased to Rs1,407mn vs Rs474mn in 2QCY16. EBITDA for the quarter grew by 38%, beat the JMFe primarily on higher than expected OOI (EBITDA beat of 7% adjusting for OOI). EBITDA/t for the quarter at Rs682/t; improved YoY primarily on higher realisation aided by increased volume from premium segment and lower raw material costs on inventory accretion. Lack of expansion pipeline and high cost structure limit significant earnings surprise going forward. We roll forward the multiple valuing the company at 10x EVE to arrive at a TP of Rs1,500 (Sep'18). Maintain HOLD.

- Revenue growth on volume/realisation growth:** 2QCY17 revenues at Rs34.5bn, 20% growth YoY on volumes growth (10% YoY; 2% above JMFe) and realisations improvement (7% YoY; 1.5% below JMFe). Net-sales excluding OOI was in-line with JMFe. Volumes at 6.74mnT (84% capacity utilisation) grew on account of operations ramp up in Jamul plant which helped company improve its market presence in East. Blended realization improved by c.7% YoY (5% QoQ) on account of increased cement prices over the quarter and growth in the premium products volume (9% YoY). RMC business improved performance registering a volume/value growth of c.5%/13% YoY driven by realisation enhancement (8% YoY in RMC), Supply to projects in the diversified infrastructure segments and large housing projects in the metropolitan areas. OOI for the company was recorded at Rs1,407mn vs Rs474mn.
- EBITDA beat on higher OOI and lower raw material costs:** EBITDA stood at Rs6.4bn (growth of 38% YoY), 23% higher than JMFe primarily on higher OOI. Adjusting for OOI, EBITDA beat on JMFe was to the tune of 7%. EBITDA/t at Rs682/t grew 9% YoY (sequential growth of 43%) primarily on realisation improvement (Rs282/t of positive impact) and decline in raw material costs (Rs165/t of positive impact) – on inventory accretion, partially offset by higher power and fuel cost (Rs153/t of negative impact) on increased petcoke/coal prices and higher freight costs (Rs218/t of negative impact). Freight costs were higher on increased diesel prices (12% higher), busy season surcharge on railway freight and sourcing of additional clinker due to restricted flyash/slag supply. Packing material cost increased in the quarter due to higher PP granules prices.
- Other details:** i) Company in the quarter initiated a study to evaluate a potential merger with Ambuja, for which a special committee has been constituted with majority independent directors; ii) Company announced an interim dividend of Rs11/share; iii) Company expects better volume on prospects of normal monsoon, smart cities, urban infrastructure and housing projects and implementation of GST
- Valuation:** The stock is currently trading at 17.7x/14.1x CY17/18E EVE. We roll forward the multiple, valuing the stock at 10x EVE to arrive at a TP of Rs 1,500 (Sep'18). Maintain HOLD.

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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	1,500
Upside/(Downside)	-14.2%
Previous Price Target	1,400
Change	7.1%

Key Data – ACC IN

Current Market Price	Rs1,747
Market cap (bn)	Rs328.1/US\$5.1
Free Float	39%
Shares in issue (mn)	188.0
Diluted share (mn)	188.0
3-mon avg daily val (mn)	Rs714.2/US\$0.7
52-week range	1,779/1,257
Sensex/Nifty	32,075/9,916
Rs/US\$	64.4

Price Performance

%	1M	6M	12M
Absolute	6.6	31.5	8.3
Relative*	3.3	11.7	-6.0

* To the BSE Sensex

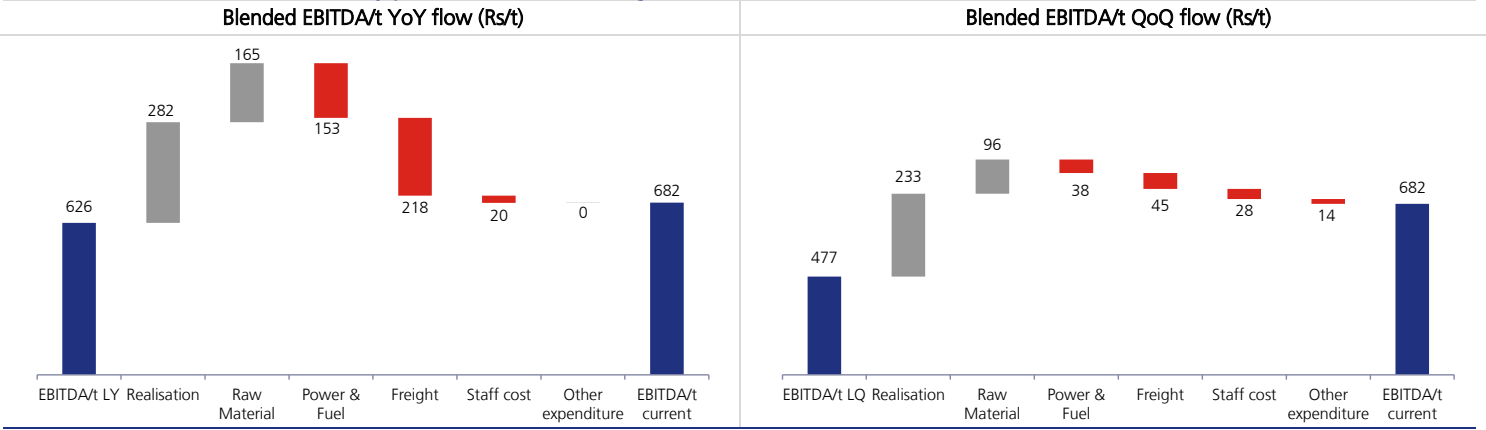
JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(Rs mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Sales	114,328	109,456	121,784	134,952	149,620
Sales Growth	-0.4%	-4.3%	11.3%	10.8%	10.9%
EBITDA	15,374	14,207	17,979	21,861	26,047
EBITDA Margin	13.0%	12.7%	14.4%	15.9%	17.1%
Adjusted Net Profit	7,521	6,430	9,082	11,922	15,219
Diluted EPS (Rs. Rupees)	40.0	34.2	48.3	63.4	81.0
Diluted EPS Growth	-35.3%	-14.5%	41.3%	31.3%	27.7%
ROIC	10.3%	8.8%	12.5%	17.4%	23.5%
ROE	9.0%	7.5%	10.3%	12.8%	15.5%
P/E (x)	43.7	51.1	36.2	27.5	21.6
P/B (x)	3.9	3.8	3.6	3.4	3.3
EV/EBITDA (x)	21.3	22.9	17.7	14.1	11.5
Dividend Yield	1.0%	1.0%	1.2%	1.7%	2.6%

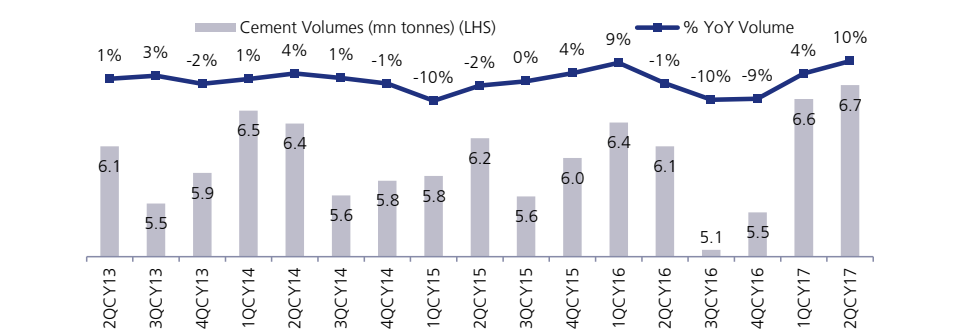
Source: Company data, JM Financial. Note: Valuations as of 17/Jul/2017

Exhibit 1. Better realisations offset by power and fuel and freight cost escalations



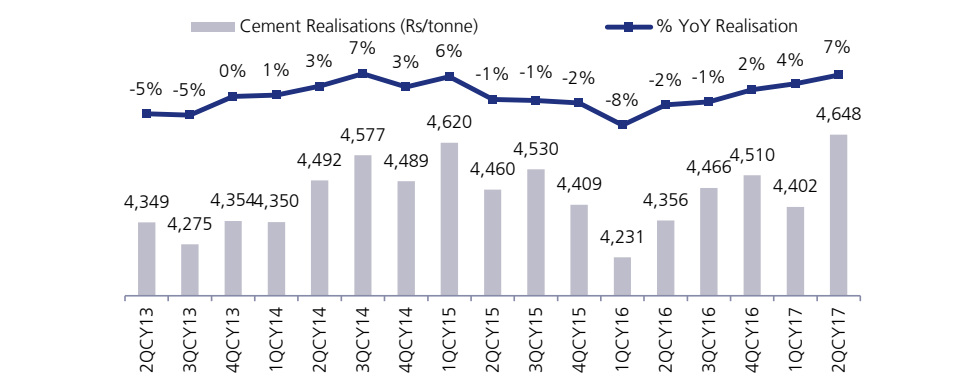
Source: Company, JM Financial

Exhibit 2. Cement volume trend – growth on speedy ramp up in Jamul plant



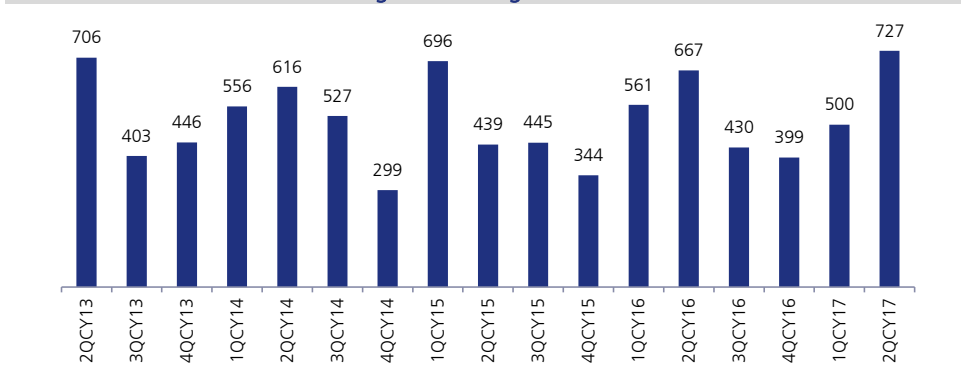
Source: Company, JM Financial

Exhibit 3. Cement realisation trend – realisation growth on higher prices



Source: Company, JM Financial

Exhibit 4. Cement EBITDA/t trend – growth on higher realisation/lower RM costs



Source: Company, JM Financial

Exhibit 5. Result update

	2Q CY17	2Q CY16	%YoY	1Q CY17	%QoQ	1H CY17E	1H CY16	%YoY	CY17E	CY16	%YoY
Sales	33,125	28,326	16.9	30,997	6.9	64,122	57,053	12.4	122,368	108,127	13.2
Other operating income	1,407	474	197.0	744	89.3	2,151	1,106	94.4	2,447	2,219	10.3
Total Revenues	34,533	28,800	19.9	31,740	8.8	66,273	58,159	14.0	124,815	110,347	13.1
Expenditure	28,164	24,176	16.5	27,572	2.1	55,736	49,117	13.5	106,836	95,696	11.6
EBITDA	6,369	4,624	37.7	4,168	52.8	10,536	9,042	16.5	17,979	14,651	22.7
EBITDA margin (%)	18.4	16.1	238.7bps	13.1	531.1bps	15.9	15.5	35.2bps	14.4	13.3	112.7bps
Other income	265	262	0.9	321	-17.6	586	689	-15.0	1,599	1,072	49.2
Interest	216	198	8.7	242	-11.0	458	378	21.2	374	689	-45.7
Depreciation	1630	1420	14.7	1659	-1.8	3289	2864	14.8	6533	6151	6.2
PBT	4,788	3,267	46.5	2,588	85.0	7,375	6,489	13.7	12,671	8,883	42.7
Tax	1,556	830	87.5	498	212.7	2,054	1,774	15.8	3,675	2,096	75.3
% tax rate	32.5	25.4		19.2		27.9	27.3		29.0	23.6	
PAT (Adjusted before MI)	3,231	2,437	32.6	2,090	54.6	5,321	4,715	12.9	8,997	6,787	32.6
Share of profit from Associates	31	24	31.8	21	51.0	52	63	-17.8	88	88	0.0
Minority Interest	0	0	-100.0	0		0	1	-100.0	2	1	53.8
PAT (Adjusted)	3,262	2,460	32.6	2,111	54.6	5,373	4,777	12.5	9,082	6,873	32.1
Extraordinary Inc/Exp	0	0		0		0	0		0	0	
PAT (Reported)	3,262	2,460	32.6	2,111	54.6	5,373	4,777	12.5	9,082	6,873	32.1
EPS (Rs)	17.2	13.0	32.6	11.1	54.6	0.0	25.1	-100.0	0.0	36.1	-100.0
ACC key operational metrics											
Cement sales (mn tonnes)	6.74	6.12	10.1	6.60	2.1	13.34	12.48	6.9	24.50	23.00	6.5
Realisation (Rs per tonne)	4,648	4,356	6.7	4,402	5.6	4,526	4,292	5.4	4,612	4,302	7.2
EBITDA Rs/tonne	727	667	9.1	500	45.5	615	613	0.3	600	522	15.0

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	2Q CY17	2Q CY16	%YoY	1Q CY17	%QoQ	1H CY17E	1H CY16	%YoY	CY17E	CY16	%YoY
Raw material	5,033	4,097	22.8	4,605	9.3	9,638	8,461	13.9	17,505	15,555	12.5
Rs/tonne	692	618	12.0	642	7.8	667	623	7.0	655	619	5.8
Power/fuel cost	6,852	5,229	31.0	6,483	5.7	13,335	10,909	22.2	23,739	21,167	12.2
Rs/tonne	942	788	19.4	903	4.2	923	803	14.9	888	842	5.4
Change of stock	-1,022	641	-259.5	42		-980	724	-235.4	191	167	nm
Rs/tonne	-140	97	-245.4	6		-68	53	-227.2	7	7	nm
Purch of cement	3	14	-81.1	2	28.6	5	18	-73.3	1,039	902	15.2
Rs/tonne	0	2	-82.8	0	26.8	0	1	-100.0	23,739	21,167	12.2
Total Direct costs	10,866	9,982	8.9	11,132	-2.4	21,998	20,112	9.4	42,474	37,790	12.4
Rs/tonne	1,493	1,505	-0.8	1,551	-3.7	1,522	1,481	2.8	25,289	22,635	11.7
Freight	8,704	6,490	34.1	8,264	5.3	16,968	13,775	23.2	28,975	26,097	11.0
Rs/tonne	1,196	979	22.2	1,152	3.9	0	1,014	-100.0	1,084	1,038	4.4
Staff cost	2,189	1,865	17.4	1,958	11.8	4,147	3,692	12.3	8,711	7,741	12.5
Rs/tonne	301	281	7.0	273	10.3	0	272	-100.0	326	308	5.8
Other expenditure	6,405	5,839	9.7	6,219	3.0	12,624	11,539	9.4	26,676	24,419	9.2
Rs/tonne	880	880	0.0	867	1.6	0	850	-100.0	998	972	2.7
Total expenditure	28,164	24,176	16.5	27,572	2.1	55,736	49,117	13.5	106,836	96,047	11.2
Cost per tonne (Rs)	3,871	3,645	6.2	3,842	0.7	3,857	3,616	6.6	3,996	3,821	4.6

Source: Company, JM Financial

Company Background

- ACC, part of Holcim group, is the 2nd largest manufacturer of cement and RMC with a countrywide network of factories and sales offices. It has pan-India presence with 16 plants and total capacity of 32MT. It is the oldest player in the industry with c.10% market share.

Key investment arguments

- In our relative cost index analysis ACC ranks the last amongst its peers as high fixed costs (old plants requiring high annual maintenance costs) impacts its profitability.
- In addition, in a scenario of demand not meeting expectations, ACC has the highest vulnerability to volume fluctuations.
- We are building in the volume growth of 6.6/5.5/6.5% and a realisation growth of 4/5/4% in CY17/18/19E. ACC is trading at 17.7x/14.1x EV/EBITDA on CY17/18E EBITDA. The stock has a limited upside from the current levels.

Valuation and View

- We continue to value the stock at 10x EV/EBITDA to arrive at a TP of Rs1,500 (Sep'18). We maintain our HOLD rating on the stock.

Key upside risks

- (1) Higher than expected price increase can lead to a positive surprise on realisations; (2) Better cost controls will help the company to significantly improve EBITDA/t

Exhibit 7. Volumes, Realisation and Cost outlook

	CY15	CY16	CY17E	CY18E	CY19E
Cement Sales (mn tonnes)	23.6	22.7	24.2	25.6	27.3
YoY Growth (%)	-1.1	-3.5	6.6	5.5	6.5
Cement Realisations (Rs/tonne)	4,512	4,414	4,612	4,820	5,013
YoY Growth (%)	0.4	-2.2	4.5	4.5	4.0
Power & Fuel (Rs/tonne)	936	865	888	923	959
Freight (Rs/tonne)	876	874	900	927	955
Raw Material (Rs/tonne)	679	636	655	674	695
Cement EBITDA (Rs/tonne)	466	493	600	710	805

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(Rs mn)				
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Sales	114,328	109,456	121,784	134,952	149,620
Sales Growth	-0.4%	-4.3%	11.3%	10.8%	10.9%
Other Operating Income	3,644	2,219	3,349	2,699	2,992
Total Revenue	117,972	111,676	125,133	137,651	152,613
Cost of Goods Sold/Op. Exp	17,398	16,043	17,866	19,266	21,154
Personnel Cost	7,722	7,899	8,796	9,482	10,308
Other Expenses	77,477	73,527	80,493	87,043	95,105
EBITDA	15,374	14,207	17,979	21,861	26,047
EBITDA Margin	13.0%	12.7%	14.4%	15.9%	17.1%
EBITDA Growth	1.6%	-7.6%	26.5%	21.6%	19.1%
Depn. & Amort.	6,626	6,151	6,533	6,758	6,983
EBIT	8,748	8,056	11,446	15,103	19,064
Other Income	1,198	1,072	1,601	2,151	2,860
Finance Cost	646	689	375	344	305
PBT before Excep. & Forex	9,300	8,439	12,671	16,909	21,619
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	9,300	8,439	12,671	16,909	21,619
Taxes	1,900	2,096	3,675	5,073	6,486
Extraordinary Inc./Loss(-)	-1,645	-386	0	0	0
Assoc. Profit/Min. Int.(-)	115	89	90	90	90
Reported Net Profit	5,876	6,044	9,082	11,922	15,219
Adjusted Net Profit	7,521	6,430	9,082	11,922	15,219
Net Margin	6.4%	5.8%	7.3%	8.7%	10.0%
Diluted Share Cap. (mn)	188.0	188.0	188.0	188.0	188.0
Diluted EPS (Rs.Rs Rupees)	40.0	34.2	48.3	63.4	81.0
Diluted EPS Growth	-35.3%	-14.5%	41.3%	31.3%	27.7%
Total Dividend + Tax	3,841	3,842	4,752	6,788	10,182
Dividend Per Share (Rs.Rs Rupees)	17.0	17.0	21.0	30.0	45.0

Source: Company, JM Financial

Cash Flow Statement					
	(Rs mn)				
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Profit before Tax	9,300	8,053	12,671	16,909	21,619
Depn. & Amort.	8,270	6,151	6,533	6,758	6,983
Net Interest Exp. / Inc. (-)	646	689	375	344	305
Inc (-) / Dec in WCap.	518	2,156	2,438	2,159	2,405
Others	-1,861	-391	-1,601	-2,151	-2,860
Taxes Paid	-2,308	-2,753	-3,675	-5,073	-6,486
Operating Cash Flow	14,566	13,905	16,742	18,947	21,966
Capex	-11,194	-5,013	-5,000	-5,000	-5,000
Free Cash Flow	3,372	8,892	11,742	13,947	16,966
Inc (-) / Dec in Investments	1,532	-1,117	0	0	0
Others	622	780	1,686	2,237	2,946
Investing Cash Flow	-9,041	-5,350	-3,314	-2,763	-2,054
Inc / Dec (-) in Capital	-413	-459	-375	-344	-305
Dividend + Tax thereon	-6,750	-3,853	-4,752	-6,788	-10,182
Inc / Dec (-) in Loans	0	2	0	0	0
Others	776	-2,402	0	0	0
Financing Cash Flow	-6,387	-6,711	-5,127	-7,132	-10,487
Inc / Dec (-) in Cash	-861	1,844	8,301	9,051	9,425
Opening Cash Balance	1,802	940	2,784	11,085	20,137
Closing Cash Balance	940	2,784	11,085	20,137	29,562

Source: Company, JM Financial

Balance Sheet					
	(Rs mn)				
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Shareholders' Fund	84,211	86,415	90,746	95,881	100,918
Share Capital	1,880	1,880	1,880	1,880	1,880
Reserves & Surplus	82,332	84,535	88,866	94,001	99,038
Preference Share Capital	0	0	0	0	0
Minority Interest	27	28	28	28	28
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	4,704	5,594	5,594	5,594	5,594
Total - Equity & Liab.	88,942	92,037	96,367	101,502	106,539
Net Fixed Assets	77,269	77,608	76,075	74,317	72,335
Gross Fixed Assets	115,553	142,670	147,670	152,670	157,670
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	62,244	67,673	74,205	80,963	87,945
Capital WIP	23,961	2,610	2,610	2,610	2,610
Investments	13,142	16,870	16,870	16,870	16,870
Current Assets	37,589	39,388	49,130	60,166	71,801
Inventories	11,894	12,246	13,346	14,789	16,397
Sundry Debtors	4,844	4,664	5,005	5,546	6,149
Cash & Bank Balances	940	2,784	11,085	20,137	29,562
Loans & Advances	14,696	14,254	14,254	14,254	14,254
Other Current Assets	5,214	5,440	5,440	5,440	5,440
Current Liab. & Prov.	39,058	41,829	45,708	49,851	54,467
Current Liabilities	0	0	0	0	0
Provisions & Others	39,058	41,829	45,708	49,851	54,467
Net Current Assets	-1,469	-2,441	3,422	10,314	17,335
Total - Assets	88,942	92,037	96,367	101,502	106,539

Source: Company, JM Financial

Dupont Analysis					
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Margin	6.4%	5.8%	7.3%	8.7%	10.0%
Asset Turnover (x)	1.3	1.2	1.3	1.4	1.5
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.1
RoE	9.0%	7.5%	10.3%	12.8%	15.5%

Key Ratios

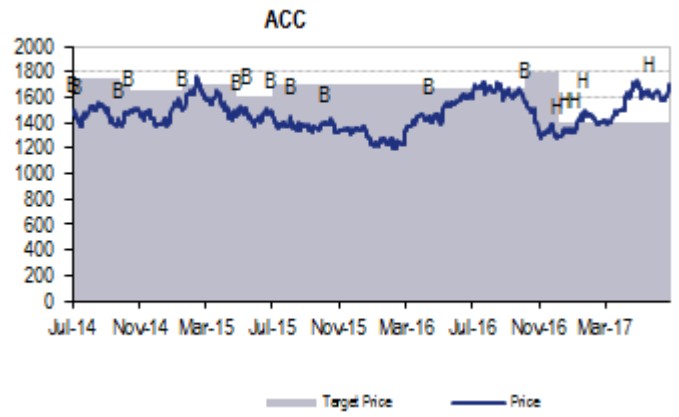
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
BV/Share (Rs.Rs Rupees)	448.1	459.7	482.7	510.0	536.8
ROIC	10.3%	8.8%	12.5%	17.4%	23.5%
ROE	9.0%	7.5%	10.3%	12.8%	15.5%
Net Debt/Equity (x)	0.0	0.0	-0.1	-0.2	-0.3
P/E (x)	43.7	51.1	36.2	27.5	21.6
P/B (x)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	21.3	22.9	17.7	14.1	11.5
EV/Sales (x)	2.8	2.9	2.5	2.2	2.0
Debtor days	15	15	15	15	15
Inventory days	37	40	39	39	39
Creditor days	0	0	0	0	0

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
4-Mar-14					1,300	
19-Mar-14					1,350	3.8
25-Apr-14					1,400	3.7
18-Jul-14					1,750	25.0
25-Jul-14					1,750	0.0
10-Oct-14					1,700	-2.9
30-Oct-14					1,650	-2.9
3-Feb-15					1,700	3.0
13-May-15					1,600	-5.9
1-Jun-15					1,600	0.0
17-Jul-15	83.6				1,700	6.3
19-Aug-15	83.6	0.0			1,700	0.0
21-Oct-15	83.6	0.0			1,700	0.0
28-Apr-16	75.6	-9.6			1,675	-1.5
21-Oct-16	60.3	-20.2	89.2		1,800	7.5
19-Dec-16			67.4		1,400	
5-Jan-17			67.4		1,400	

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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