

Improved profitability on strong realisations

ACC reported +26% YoY revenues on volume /realisation growth of 18%/7.5% YoY respectively as operations stabilised in Jamul/Sindri plants and higher premium product sales. 3QCY17 EBITDA,+47% YoY, beat our estimates primarily on higher realisations. YTD ACC has reported a realisation growth of 5.7% YoY. EBITDA/t for the quarter at INR543/t; improved YoY as cost escalation was offset by strong realisation. Lack of expansion pipeline and high cost structure limits significant earning surprise going forward. We continue to value the company at 10x EVE to arrive at a TP of INR1,570 (Sep'18). Key trigger will be merger with Ambuja and capacity expansion plans. Maintain HOLD.

- 26% Revenue growth on volume/realisation growth:** Company reported 3QCY17 revenues at INR31.2bn, +26% YoY, primarily on volumes growth (17% YoY; in-line with JMFe) and realisations improvement (7.5% YoY; 6.5% above JMFe). Net-sales was 7.5% above JMFe primarily on realisation beat. Volumes at 5.96mnT (72% capacity utilisation) grew on account of operations ramp up in Jamul and Sindri plants which helped company improve its market presence in East. Blended realization improved by c.7.5% YoY (3% QoQ) on account of growth in the premium products volume (18% YoY). RMC business improved performance registering a volume/value growth of c.11%/19% YoY driven by realisation enhancement (7%/16% YoY/QoQ in RMC segment), supply to the diversified customer segments including infrastructure and housing. Volume growth in RMC was also on account of commissioning of two new commercial plants in Mumbai and Pune. Other operating income for the company was recorded at INR620mn vs INR486mn in 3QCY16.
- Robust EBITDA on strong realisations in seasonally weak quarter:** EBITDA stood at INR4.2bn (growth of 47% YoY), beat JMFe primarily on better than expected realisations. EBITDA/t at INR543/t grew 30% YoY (INR120/t improvement) primarily on realisation improvement (INR329/t of positive impact) and decline in employee expenses (INR28/t of positive impact), and lower other expenses (INR157/t of positive impact). It was partially offset by increase in 1) raw material costs (INR161/t of negative impact) on higher slag prices; 2) increase in power and fuel costs (INR71/t of negative impact) on higher petcoke/coal prices (average petcoke/coal prices higher by 19%/35% YoY respectively); and 3) higher freight costs (INR158/t of negative impact) on higher diesel prices (22% higher YoY). As per management, improved raw material mix and fuel mix optimisation helped company contain the adverse impact of costs. EBIT margins in Cement/RMC improved to 8.5/7.3% respectively (4.9/3.6% 3QCY16).
- Maintain HOLD:** With no capacity expansion over next three years, we expect volume growth visibility to be limited in medium term. We believe the current valuation of 13.2x CY18E EVE factors in high medium term growth for the company which could have downside risks. Key trigger for value unlocking would be the merger with Ambuja. We continue to value stock at 10x EVE to arrive at a TP of INR 1,570 (Sep'18). Maintain HOLD.

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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	1,570
Upside/(Downside)	-12.4%
Previous Price Target	1,501
Change	4.6%

Key Data – ACC IN

Current Market Price	INR1,793
Market cap (bn)	INR336.7/US\$5.2
Free Float	39%
Shares in issue (mn)	188.0
Diluted share (mn)	188.0
3-mon avg daily val (mn)	INR902.8/US\$13.9
52-week range	1,870/1,257
Sensex/Nifty	32,609/10,234
INR/US\$	64.9

Price Performance

%	1M	6M	12M
Absolute	-1.5	19.3	11.7
Relative*	-2.5	7.6	-5.7

* To the BSE Sensex

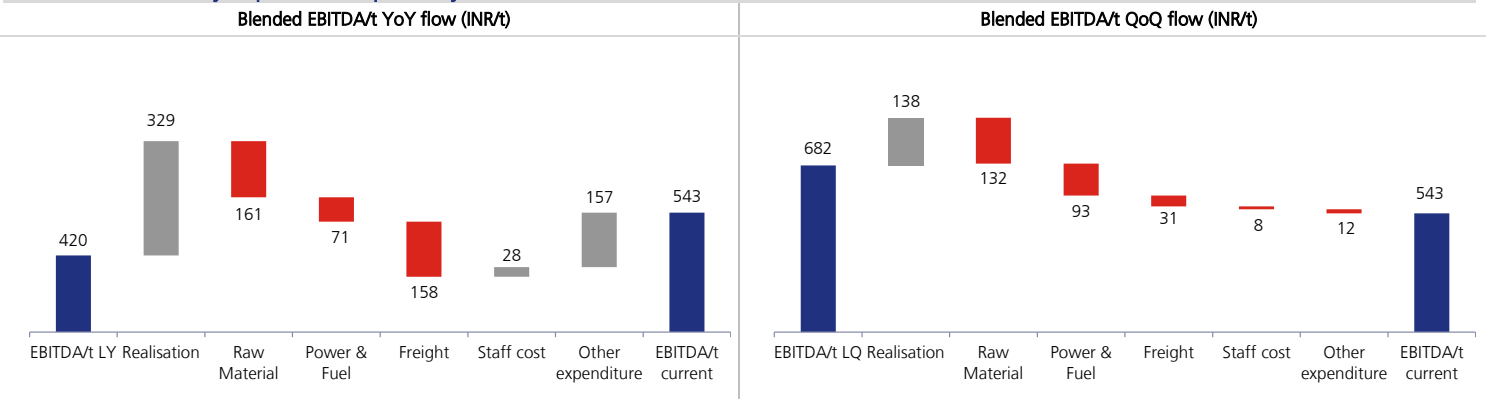
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Sales	114,328	109,456	124,775	140,442	155,651
Sales Growth	-0.4%	-4.3%	14.0%	12.6%	10.8%
EBITDA	15,374	14,207	18,657	22,701	27,191
EBITDA Margin	13.0%	12.7%	14.6%	15.8%	17.1%
Adjusted Net Profit	7,521	6,430	8,768	11,572	14,664
Diluted EPS (INR)	40.0	34.2	46.6	61.6	78.0
Diluted EPS Growth	-35.3%	-14.5%	36.4%	32.0%	26.7%
ROIC	10.3%	8.8%	13.1%	18.5%	25.4%
ROE	9.0%	7.5%	9.9%	12.5%	15.0%
P/E (x)	44.8	52.4	38.4	29.1	23.0
P/B (x)	4.0	3.9	3.7	3.5	3.4
EV/EBITDA (x)	21.9	23.5	17.5	14.0	11.3
Dividend Yield	0.9%	0.9%	1.2%	1.7%	2.5%

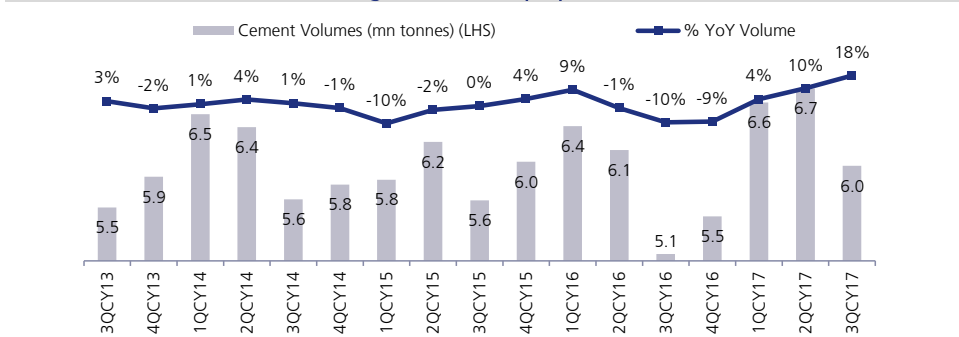
Source: Company data, JM Financial. Note: Valuations as of 17/Oct/2017

Exhibit 1. Profitability improvement primarily on better realisations



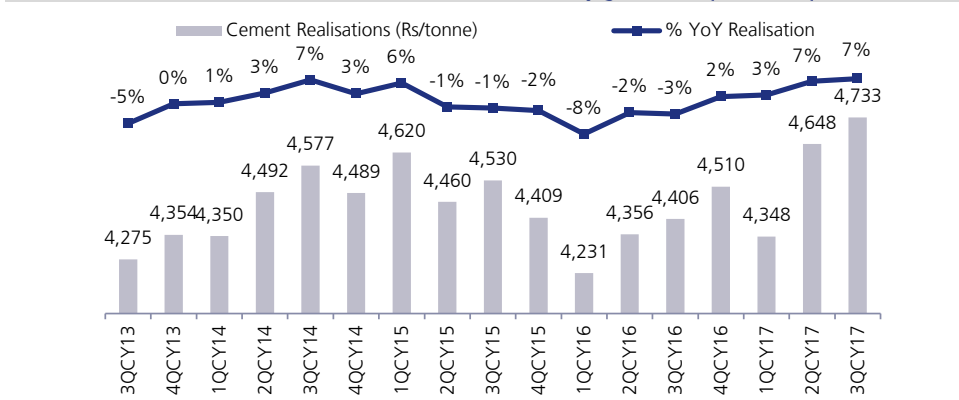
Source: Company, JM Financial

Exhibit 2. Cement volume trends – growth on ramp up in Jamul and Sindri



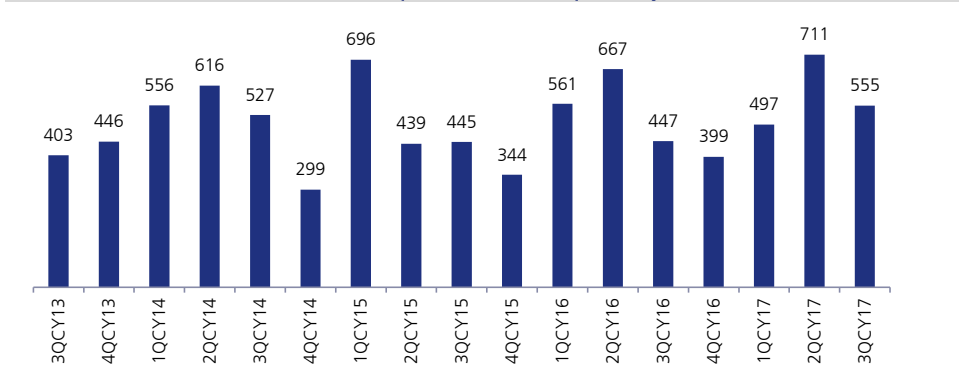
Source: Company, JM Financial

Exhibit 3. Cement realisation trends – realisation aided by growth in premium products



Source: Company, JM Financial

Exhibit 4. Cement EBITDA/t trend – improved EBITDA/t primarily on realisations



Source: Company, JM Financial

Exhibit 5. Result update

	(INR mn)										
	3Q CY17	3Q CY16	%YoY	2Q CY17	%QoQ	9M CY17	9M CY16	%YoY	CY17E	CY16	%YoY
Sales	30,545	24,277	25.8	33,125	-7.8	94,667	81,330	16.4	124,775	107,677	15.9
Other operating income	620	486	27.5	1,407	-55.9	2,771	1,593	74.0	3,431	2,219	54.6
Total Revenues	31,165	24,764	25.8	34,533	-9.8	97,438	82,923	17.5	128,206	109,896	16.7
Expenditure	27,007	21,940	23.1	28,164	-4.1	82,743	71,057	16.4	109,550	95,158	15.1
EBITDA	4,158	2,824	47.3	6,369	-34.7	14,694	11,865	23.8	18,657	14,737	26.6
EBITDA margin (%)	13.3	11.4	194.0bps	18.4	-510.0bps	15.1	14.3	77.2bps	14.6	13.4	114.2bps
Other income	243	274	-11.5	265	-8.3	829	964	-14.0	1,113	1,072	3.8
Interest	203	211	-3.7	216	-5.8	661	589	12.3	835	689	21.1
Depreciation	1560	1539	1.4	1630	-4.3	4849	4404	10.1	6533	6151	6.2
PBT	2,638	1,348	95.7	4,788	-44.9	10,013	7,837	27.8	12,402	8,969	38.3
Tax	849	445	90.7	1,556	-45.5	2,903	2,219	30.8	3,721	2,096	77.5
% tax rate	32.2	33.0		32.5		29.0	28.3		30.0	23.4	
PAT (Adjusted before MI)	1,789	903	98.1	3,231	-44.6	7,110	5,618	26.6	8,682	6,873	26.3
Share of profit from Associates	27	-5	-592.6	31	-14.5	78	58	36.2	88	88	0.0
Minority Interest	0	0		0		0	1	-100.0	2	1	53.8
PAT (Adjusted)	1,815	897	102.4	3,262	-44.4	7,188	5,674	26.7	8,768	6,960	26.0
Extraordinary Inc/Exp	0	0		0		0	0		0	0	
PAT (Reported)	1,815	897	102.4	3,262	-44.4	7,188	5,674	26.7	8,768	6,960	26.0
EPS (INR)	9.5	4.8	98.1	17.2	-44.6	37.8	29.9	27.0	46.6	36.6	36.4
ACC key operational metrics											
Cement sales (mn tonnes)	5.96	5.07	17.6	6.74	-11.6	19.30	17.55	10.0	25.05	23.00	8.9
Realisation (INR per tonne)	4,733	4,406	7.4	4,648	1.8	4,572	4,325	5.7	4,614	4,302	7.3
EBITDA INR/tonne	555	447	24.2	711	-21.9	590	565	4.4	569	526	8.2

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	(INR mn)										
	3Q CY17	3Q CY16	%YoY	2Q CY17	%QoQ	9M CY17	9M CY16	%YoY	CY17E	CY16	%YoY
Raw material	4,767	3,615	31.9	5,033	-5.3	14,404	12,076	19.3	17,694	15,555	13.8
INR/tonne	732	649	12.7	692	5.8	687	631	8.9	648	619	4.8
Power/fuel cost	6,738	5,366	25.6	6,852	-1.7	20,073	16,275	23.3	26,501	21,167	25.2
INR/tonne	1,035	964	7.3	942	9.9	957	850	12.6	971	842	15.3
Change of stock	-316	-712	-55.6	-1,022		-1,296	12		195	167	
INR/tonne	-49	-128	-62.0	-140		-62	1		7	7	
Purch of cement	3	6	-51.8	3	0.0	8	24	-68.2	10	902	-98.9
INR/tonne	0	1	-58.8	0	11.7	0	1	-71.0	26,501	21,167	25.2
Total Direct costs	11,191	8,275	35.2	10,866	3.0	33,188	28,386	16.9	44,400	37,790	17.5
INR/tonne	1,718	1,487	15.6	1,493	15.1	1,583	1,482	6.8	28,128	22,635	24.3
Freight	7,995	5,954	34.3	8,704	-8.1	24,963	19,729	26.5	32,218	26,097	23.5
INR/tonne	1,228	1,070	14.8	1,196	2.6	1,191	1,030	15.6	1,180	1,038	13.7
Staff cost	2,013	1,875	7.4	2,189	-8.0	6,160	5,567	10.7	8,460	7,741	9.3
INR/tonne	309	337	-8.2	301	2.8	294	291	1.1	310	308	0.6
Other expenditure	5,808	5,837	-0.5	6,405	-9.3	18,432	17,376	6.1	24,472	24,419	0.2
INR/tonne	892	1,049	-15.0	880	1.3	879	907	-3.1	897	972	-7.7
Total expenditure	27,007	21,940	23.1	28,164	-4.1	82,743	71,057	16.4	109,550	96,047	14.1
Cost per tonne (INR)	4,147	3,942	5.2	3,871	7.1	3,947	3,711	6.4	4,014	3,821	5.0

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 9.3/7.2/6.4% and a realisation growth of 5.5/5/4.2% in CY17/18/19E. ACC is trading at 13.2x EV/EBITDA on CY18E 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 Rs1,570 (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	24.8	26.6	28.3
YoY Growth (%)	-1.1	-3.5	9.1	7.2	6.3
Cement Realisations (INR/tonne)	4,512	4,414	4,656	4,889	5,095
YoY Growth (%)	0.4	-2.2	5.5	5.0	4.2
Power & Fuel (INR/tonne)	936	865	971	1,013	1,049
Freight (INR/tonne)	876	874	979	1,009	1,039
Raw Material (INR/tonne)	679	636	648	661	681
Cement EBITDA (INR/tonne)	465	484	569	713	815

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement						(INR mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E	
Net Sales	114,328	109,456	124,775	140,442	155,651	
Sales Growth	-0.4%	-4.3%	14.0%	12.6%	10.8%	
Other Operating Income	3,644	2,219	3,431	2,809	3,113	
Total Revenue	117,972	111,676	128,206	143,251	158,764	
Cost of Goods Sold/Op. Exp	17,398	16,043	17,889	19,568	21,440	
Personnel Cost	7,722	7,899	8,460	9,251	10,035	
Other Expenses	77,477	73,527	83,201	91,731	100,098	
EBITDA	15,374	14,207	18,657	22,701	27,191	
EBITDA Margin	13.0%	12.7%	14.6%	15.8%	17.1%	
EBITDA Growth	1.6%	-7.6%	31.3%	21.7%	19.8%	
Depn. & Amort.	6,626	6,151	6,533	6,758	6,983	
EBIT	8,748	8,056	12,124	15,943	20,208	
Other Income	1,198	1,072	1,113	1,223	1,285	
Finance Cost	646	689	835	758	668	
PBT before Excep. & Forex	9,300	8,439	12,402	16,408	20,826	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	9,300	8,439	12,402	16,408	20,826	
Taxes	1,900	2,096	3,721	4,922	6,248	
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	8,768	11,572	14,664	
Adjusted Net Profit	7,521	6,430	8,768	11,572	14,664	
Net Margin	6.4%	5.8%	6.8%	8.1%	9.2%	
Diluted Share Cap. (mn)	188.0	188.0	188.0	188.0	188.0	
Diluted EPS (INR)	40.0	34.2	46.6	61.6	78.0	
Diluted EPS Growth	-35.3%	-14.5%	36.4%	32.0%	26.7%	
Total Dividend + Tax	3,841	3,842	4,752	6,788	10,182	
Dividend Per Share (INR)	17.0	17.0	21.0	30.0	45.0	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E	
Shareholders' Fund	84,211	86,415	90,431	95,215	99,697	
Share Capital	1,880	1,880	1,880	1,880	1,880	
Reserves & Surplus	82,332	84,535	88,551	93,335	97,817	
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	96,052	100,836	105,318	
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	49,756	61,228	72,478	
Inventories	11,894	12,246	13,674	15,391	17,058	
Sundry Debtors	4,844	4,664	5,128	5,772	6,397	
Cash & Bank Balances	940	2,784	11,261	20,371	29,330	
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	46,649	51,579	56,364	
Current Liabilities	0	0	0	0	0	
Provisions & Others	39,058	41,829	46,649	51,579	56,364	
Net Current Assets	-1,469	-2,441	3,107	9,649	16,114	
Total - Assets	88,942	92,037	96,052	100,836	105,318	

Source: Company, JM Financial

Cash Flow Statement						(INR mn)
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E	
Profit before Tax	9,300	8,053	12,402	16,408	20,826	
Depn. & Amort.	8,270	6,151	6,533	6,758	6,983	
Net Interest Exp. / Inc. (-)	646	689	835	758	668	
Inc (-) / Dec in WCap.	518	2,156	2,928	2,569	2,494	
Others	-1,861	-391	-1,113	-1,223	-1,285	
Taxes Paid	-2,308	-2,753	-3,721	-4,922	-6,248	
Operating Cash Flow	14,566	13,905	17,864	20,348	23,437	
Capex	-11,194	-5,013	-5,000	-5,000	-5,000	
Free Cash Flow	3,372	8,892	12,864	15,348	18,437	
Inc (-) / Dec in Investments	1,532	-1,117	0	0	0	
Others	622	780	1,199	1,309	1,371	
Investing Cash Flow	-9,041	-5,350	-3,801	-3,691	-3,629	
Inc / Dec (-) in Capital	-413	-459	-835	-758	-668	
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	-5,586	-7,546	-10,849	
Inc / Dec (-) in Cash	-861	1,844	8,477	9,110	8,959	
Opening Cash Balance	1,802	940	2,784	11,261	20,371	
Closing Cash Balance	940	2,784	11,261	20,371	29,330	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
Net Margin	6.4%	5.8%	6.8%	8.1%	9.2%
Asset Turnover (x)	1.3	1.2	1.4	1.5	1.5
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.1
RoE	9.0%	7.5%	9.9%	12.5%	15.0%

Key Ratios

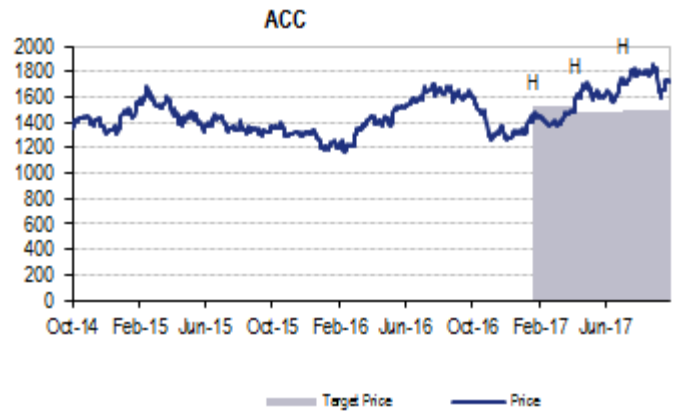
Y/E March	CY15A	CY16A	CY17E	CY18E	CY19E
BV/Share (INR)	448.1	459.7	481.0	506.5	530.3
ROIC	10.3%	8.8%	13.1%	18.5%	25.4%
ROE	9.0%	7.5%	9.9%	12.5%	15.0%
Net Debt/Equity (x)	0.0	0.0	-0.1	-0.2	-0.3
P/E (x)	44.8	52.4	38.4	29.1	23.0
P/B (x)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	21.9	23.5	17.5	14.0	11.3
EV/Sales (x)	2.8	3.0	2.5	2.2	1.9
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 (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
6-Feb-17	8.3		12.4		1,530	
24-Apr-17	14.3	71.5	20.0	60.8	1,488	-2.8
18-Jul-17	47.9	236.4	62.9	214.9	1,501	0.9

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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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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