

India

ADD (no change)

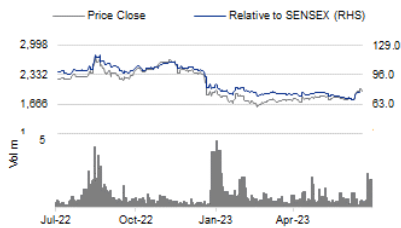
Consensus ratings*: Buy 29 Hold 8 Sell 6

Current price:	Rs1,971
Target price: ▲	Rs2,270
Previous target:	Rs2,150
Up/downside:	15.2%
InCred Research / Consensus:	7.1%
Reuters:	ACC.NS
Bloomberg:	ACC IN
Market cap:	US\$4,482m
	Rs370,176m
Average daily turnover:	US\$18.2m
	Rs1505.6m
Current shares o/s:	188.0m
Free float:	41.4%

*Source: Bloomberg

Key changes in this note

- EBITDA raised by ~2-4% for FY24F-25F.
- Rollover target price valuation to Sep 2024F.
- Introduce FY26F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.7	11.7	(11.5)
Relative (%)	7.7	3.9	(21.5)

Major shareholders	% held
Promoter & Promoter Group	56.7
Life Insurance Corporation of India	6.4
SBI Large & Midcap Fund	1.8

Analyst(s)

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ACC Ltd

Strong beat and a roaring comeback in 1Q

- 1QFY24 consolidated EBITDA surged by ~81% yoy to Rs7.7bn (vs. Rs5.6bn Incred est.) due to higher-than-expected volume and lower-than-expected cost.
- The EBITDA/t gap has narrowed sharply for industry leaders. We expect cost savings to sustain with improvement in efficiency and operational initiatives.
- We raise our EBITDA estimates by ~2-5% for FY24F-25F to factor in the strong beat in 1Q. Retain ADD rating with a higher target price of Rs2,270.

Strong volume beat; Ametha greenfield expansion on track

Cement sales volume of ACC grew by ~24% yoy (incl. via MSA with Ambuja Cements or ACEM) to 9.4mt in 1QFY24, mainly due to the increase in blended cement, better route planning and higher operational synergy. Adjusted for MSA-related volume, volume growth is in line with the industry (~9-10% yoy growth). Cement realization fell by ~1.5% qoq. As regards its ongoing expansion, Ametha project {1mt cement, 3.4mt clinker (EC nod: 2.75mtpa)} is on track and will be commissioned by 2QFY24F, with the group's target to double cement capacity over the next five years, which would improve volume growth outlook but the exact quantum of ACC's role in it needs more clarity. Management expects the demand to grow at 8-10% in FY24F for the industry and for the ACC group it expects higher capacity utilization to drive volume growth of ~10-15% over the next two years.

Unit EBITDA improves on cost reduction; further recovery likely

Blended EBITDA/t improved by ~Rs270 qoq and ~Rs260 yoy to Rs820. Blended cost/t improved by ~7% qoq and 11% yoy where (a) the kiln fuel cost fell by ~16% qoq to Rs2.1/kcal with a change in the coal basket and group synergy on coal procurement, & higher AFR consumption, b) logistics cost/t rose by 2% qoq while down 13% yoy, and c) staff expenses plunged by 42% yoy due to reclassification of other expenses and employee expenses while other expenses/t fell by 24% yoy mainly on account of resource optimization and synergy benefits from a group company. ACC completed the waste heat recovery system or WHRS at Jamul & Kymore plants (22.4MW). The company expects an additional 16.3MW WHRS to be commissioned by FY24F, taking the total capacity to 46.3MW, and to 86MW by Jul 2024F.

Balance sheet remains healthy; capex guidance of Rs25bn for FY24F

ACC had a cash position of ~Rs32.3bn as of Jun 2023-end vs. Rs31.4bn in FY23. Management has given capex guidance of Rs20-25bn for FY24F for ACC out of Rs70bn for the combined entity (Ambuja Cements: 65% and ACC: 35%) allocated towards cement and clinker expansion and for process optimization and operational efficiency. Advances to a coal trader for supply of fuel at concessional rates as of Mar 2023-end stood at Rs9.8bn for ACC; there is still something left for ACC, which will be completed by Sep 2023F.

Retain ADD rating with a higher target price of Rs2,270

ACC trades at FY24F/25F EV/EBITDA of 11.3x/9x, respectively. Retain ADD rating on it with a Sep 2024F lower TP of Rs2,270, set at one-year forward EV/EBITDA of 10.5x (unchanged). Downside risks: Pressure on cement prices, project delay & a rise in costs.

Financial Summary	Dec-21A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	161,517	222,102	203,876	220,094	233,067
Operating EBITDA (Rsm)	29,981	19,249	28,789	35,060	38,011
Net Profit (Rsm)	18,631	8,852	16,900	21,218	23,044
Core EPS (Rs)	101.3	53.4	89.9	112.9	122.6
Core EPS Growth	20.7%	(47.2%)	68.3%	25.5%	8.6%
FD Core P/E (x)	19.89	41.86	21.93	17.47	16.08
DPS (Rs)	58.0	9.3	13.5	16.9	18.4
Dividend Yield	3.09%	0.62%	0.68%	0.86%	0.93%
EV/EBITDA (x)	9.85	19.04	11.28	9.01	7.99
P/FCFE (x)	15.05	(7.53)	16.78	36.35	27.85
Net Gearing	(52.6%)	(2.9%)	(29.4%)	(31.5%)	(34.6%)
P/BV (x)	2.59	2.62	2.38	2.13	1.92
ROE	14.1%	7.1%	11.4%	12.9%	12.6%
% Change In Core EPS Estimates			(0.33%)	(0.30%)	(0.30%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, *FY23 FINANCIAL YEAR IS FOR 15 MONTHS; YEAR-END CHANGES FROM DEC-MAR

Strong beat and a roaring comeback in 1Q

1QFY24 results review

Quick snapshot of ACC's results ►

- **Cement division:** During 1QFY24, cement volume surprised and stood at 9.4mt (~8% above our and consensus estimates), up ~24% yoy (vs. ~20% of UTCEM, ~19% of SRCM and ~12% of Dalmia Bharat). Volume improvement was supported by an increase in blended cement and improvement in efficiency parameters. The company maintained its market leadership across key markets. Cement realization was down 1.5% qoq and 5.1% yoy to ~Rs 5,189/t (in line with our estimate).
- **RMC division:** Ready-mix concrete or RMC revenue stood at Rs3.6bn, up 7% qoq while down 7% yoy. The company reported an EBIT of Rs33m for the quarter vs. a loss of Rs31m qoq vs. a profit of Rs124m yoy.
- **Consolidated EBITDA for the quarter was at Rs7.7bn vs. our expectation of ~Rs5.6bn** and up 81% yoy & 65% qoq. **EBITDA/t stood at Rs820 during the quarter (Incred estimate: Rs645)** vs. Rs551 qoq and Rs561 yoy.
- **Operating costs:** Overall blended cost/t was lower by 11% yoy and 7% qoq on account of: a) power and fuel cost being down by 31% yoy while up 8% qoq (on Kcal basis, fuel cost reduced by ~15.5% to Rs2.13 vs. Rs2.35 qoq and Rs2.52 yoy), b) logistics cost/t down 13% yoy while up 2% qoq, c) other expenses down 24% yoy and 9% qoq, and d) raw material consumption up 38% yoy while down 18% qoq. The company has consumed low-cost fuel inventory and has shifted its focus to building synergies with other group companies, which will lead to lower costs going ahead as well.
- ACC reported PAT of Rs4.66bn vs. our expectation of Rs3.2bn, up 105% yoy and 98% qoq.

Other updates:

- Ametha integrated unit (IU) is expected to be commissioned by 2QFY24F, which will increase clinker capacity by 3.3mtpa (EC approvals in hand for 2.75mtpa) and grinding capacity by 1mtpa.
- WHRS at Jamul & Kymore plants (22.4MW) have become fully operational. WHRS share has improved to 8.4% from 2%. Further 16.3MW is expected to be commissioned this year, taking the total capacity to 46.3MW.
- Cash and cash equivalents stood at Rs32.2bn as of Jun 2023-end.

Our view and valuation:

- ACC has posted a robust quarterly performance and a big beat on the profitability front (almost by ~30%) vs. our and consensus estimates, mainly on account of strong volume, cost savings and operational synergies (after four straight weak quarters in its history). Management expects the EBITDA growth to sustain, with further improvement due to various efficiency and operational initiatives.
- ACC stock price has corrected by more than 20% over the past six months due to concerns over the high leverage position of the Adani Group vs. ~20% positive reaction witnessed in Indian cement stocks and ~12% in the Nifty. We feel the current fears and a sharp drop in the share price is all unwarranted. Unlike a few other Adani Group companies, ACC has strong cash flow-generating assets and a net cash balance sheet.
- In the medium term, we expect the margins to improve on easing input cost, group-level synergies, and a strong demand scenario (barring seasonality). We expect the Adani factor as well as the aggressive expansion strategy through organic/inorganic routes to pave the way for growth as well as margin expansion led by cost synergy and operating leverage opportunities.

- **On valuation**, we believe the stock still warrants more upside due to favourable valuation, despite the recent jump (up ~10% in the past one week) in its price. We expect the valuation gap between the company and other large efficient players to narrow over the next two-to-three years. The stock currently trades at a valuation of 9x FY25F EV/EBITDA and EV/t of US\$97 on FY25F basis. We have an ADD rating on the stock.

Figure 1: Consolidated quarterly performance (1QFY24)

Particulars (Rs m)	1QFY24	1QFY24F	4QFY23	1QFY23	% Change		
					1QFY24F	4QFY23	1QFY23
Net Sales	52,011	49,612	47,909	44,684	5%	9%	16%
Raw Materials Consumed	14,269	15,298	15,778	8,385	-7%	-10%	70%
Freight and Forwarding Expenses	11,654	10,594	10,298	10,779	10%	13%	8%
Power and Fuel Cost	11,248	9,360	9,426	13,119	20%	19%	-14%
Employee Cost	1,520	2,374	2,121	2,168	-36%	-28%	-30%
Other Expenses	5,612	6,362	5,602	5,971	-12%	0%	-6%
Total Expenditure	44,302	43,988	43,224	40,422	1%	2%	10%
EBITDA	7,709	5,624	4,685	4,262	37%	65%	81%
Depreciation	2,001	1,805	1,768	1,647	11%	13%	21%
EBIT	5,708	3,818	2,918	2,615	50%	96%	118%
Interest	251	158	152	149	58%	65%	69%
Other Income	769	673	1,192	539	14%	-35%	43%
PBT	6,226	4,333	3,957	3,005	44%	57%	107%
Tax	1,594	1,126	957	775	42%	67%	106%
PAT before MI & Associates	4,632	3,206	3,000	2,230	44%	54%	108%
Minority Interest	0	0	0	0			
Profit from Assoc.	29	45	21	44	-36%	40%	-33%
Recurring PAT	4,661	3,252	3,021	2,273	43%	54%	105%
Extraordinary Items	0	0	-664	0			
Reported PAT	4,661	3,252	2,357	2,273	43%	98%	105%
EPS (Rs)	24.8	17.3	12.5	12.1	43%	98%	105%
Margins (%)	1QFY24	1QFY24F	4QFY23	1QFY23	Est.	yoy	qoq
Gross Margin	29%	29%	26%	28%	-41 bp	263 bp	78 bp
EBITDA Margin	14.8%	11.3%	9.8%	9.5%	349 bp	504 bp	528 bp
EBIT Margin	11%	8%	6%	6%	328 bp	489 bp	512 bp
PBT Margin	12%	9%	8%	7%	324 bp	371 bp	525 bp
PAT Margin	9%	7%	5%	5%	241 bp	404 bp	387 bp
Tax Rate	26%	26%	24%	26%	-40 bp	142 bp	-20 bp
Cost Items as % of Sales							
Raw Material Cost	27%	31%	33%	19%	-340 bp	-550 bp	867 bp
Freight Cost	22%	21%	21%	24%	105 bp	91 bp	-172 bp
P&F Cost	22%	19%	20%	29%	276 bp	195 bp	-773 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

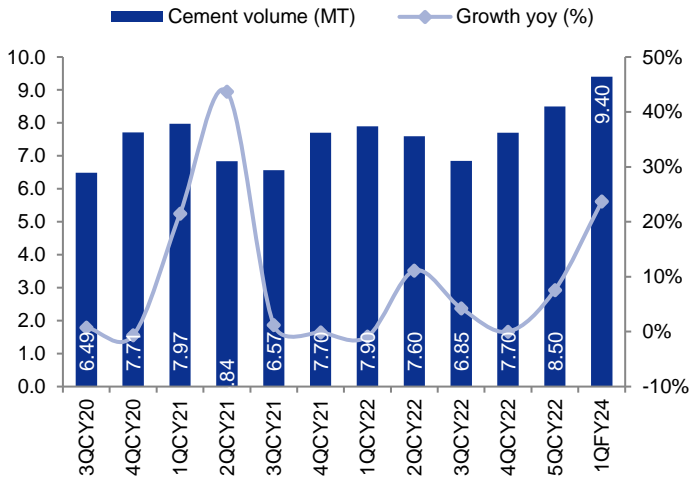
Figure 2: 1QFY24 results - per tonne analysis

Per tonne analysis	1QFY24	1QFY24F	4QFY23	1QFY23	% Change		
					1QFY24F	4QFY23	1QFY23
Sales Volume	9.40	8.72	8.50	7.60	8%	11%	24%
Realization	5,189	5,227	5,269	5,466	-0.7%	-1.5%	-5.1%
EBITDA/t	820	645	551	561	27.2%	48.8%	46.2%
Raw Material Cost/t	1,518	1,754	1,856	1,103	-13%	-18%	38%
P&F Cost/t	1197	1073	1109	1726	11%	8%	-31%
Freight Cost/t	1,240	1,215	1,211	1,418	2%	2%	-13%
Employee Cost/t	162	272	249	285	-41%	-35%	-43%
Other Expenses/t	597	730	659	786	-18%	-9%	-24%
Total Cost/t	4,713	5,044	5,085	5,319	-7%	-7%	-11%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

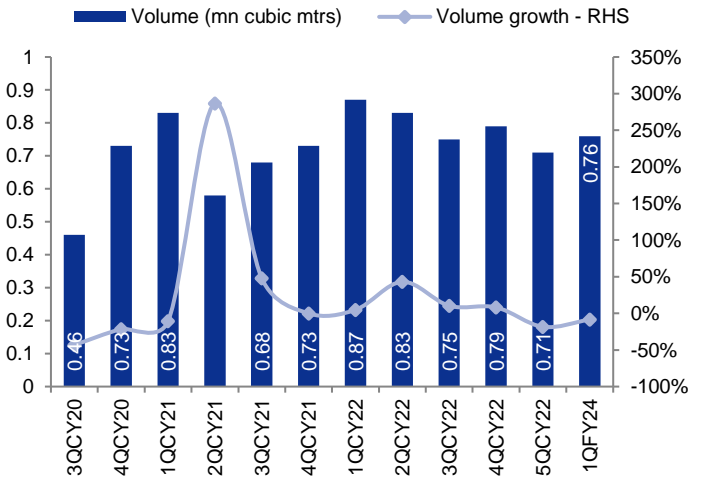
Key charts ➤

Figure 3: Cement sales volume up by ~10% qoq and ~8% yoy



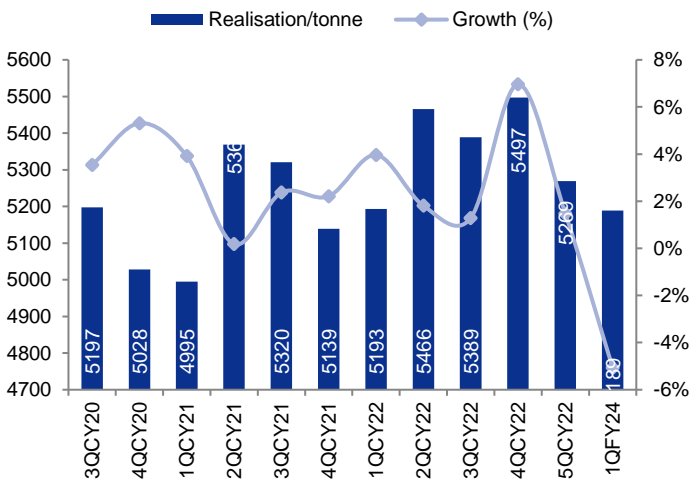
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Ready-mix concrete or RMC volume trend



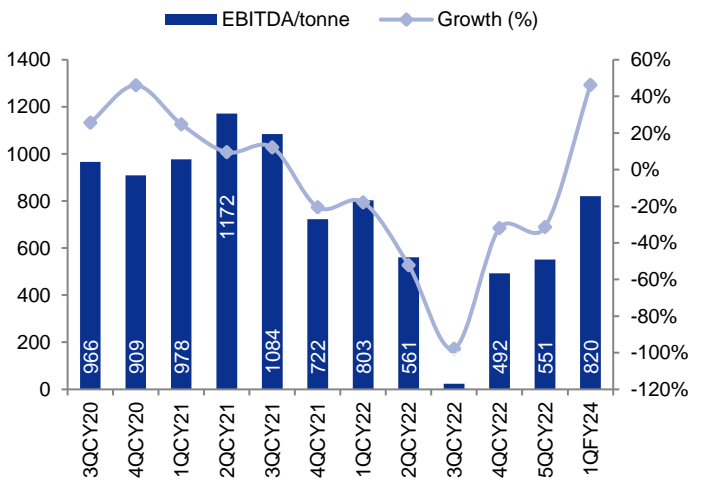
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Cement realization down by ~4% qoq



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Unit EBITDA stood at Rs551/t for the quarter



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Sustainability goal – ACEM-ACC’s strategy is led by Sustainable Development (SD) 2030 Plan; ACEM/ACC are confident of achieving the 2030F target much ahead of time

KPIs	Ambuja Cement		ACC		Remarks
	Target 2030	Actual	Target 2030	Actual	
 Climate and energy (Net specific CO ₂ emissions) Kg/t	453	523	400	460	<ul style="list-style-type: none"> - Accelerating Green products & Solutions - Maximizing WHRS power in power basket to reduce carbon footprint - Increased share of Blended cement
 Circular economy (Use of waste derived resources per year) MnT	21	2.7	30	3.6	<ul style="list-style-type: none"> - Reduction of Clinker factor by 1.2% YoY - Strong drive to maximise Alternative fuel as % of total fuel basket
 Environment (Fresh water consumption Ltrs / T of Cementitious material)	62	42.5	5	0.6	<ul style="list-style-type: none"> - Reduction of fresh water withdrawal - Focus on water governance - Enhanced usage of recycled water - Utilisation of harvested water
 Community (Number of new beneficiaries) million	3.5	2.5	3.5	0.06	Focus on sustainable livelihood & social inclusion for the community

SOURCE: INCRED RESEARCH, ACC-ACEM 1QFY24 INVESTOR PRESENTATION

NOTE: ACTUAL NUMBERS ARE FOR ACHIEVEMENT DURING 1QFY24, WHRS-WASTE HEAT RECOVERY SYSTEM; MW-MEGA WATT

Figure 8: Adani Cement – ACC and Ambuja Cements brands



Share of Premium Products :
23% of Trade Volume

SOURCE: INCRED RESEARCH, ACC-ACEM 1QFY24 INVESTOR PRESENTATION

NOTE: IHB STANDS FOR INDIVIDUAL HOME BUILDER

Figure 9: Adani Cement - presence in 29 states and 600+ districts (~79%)*

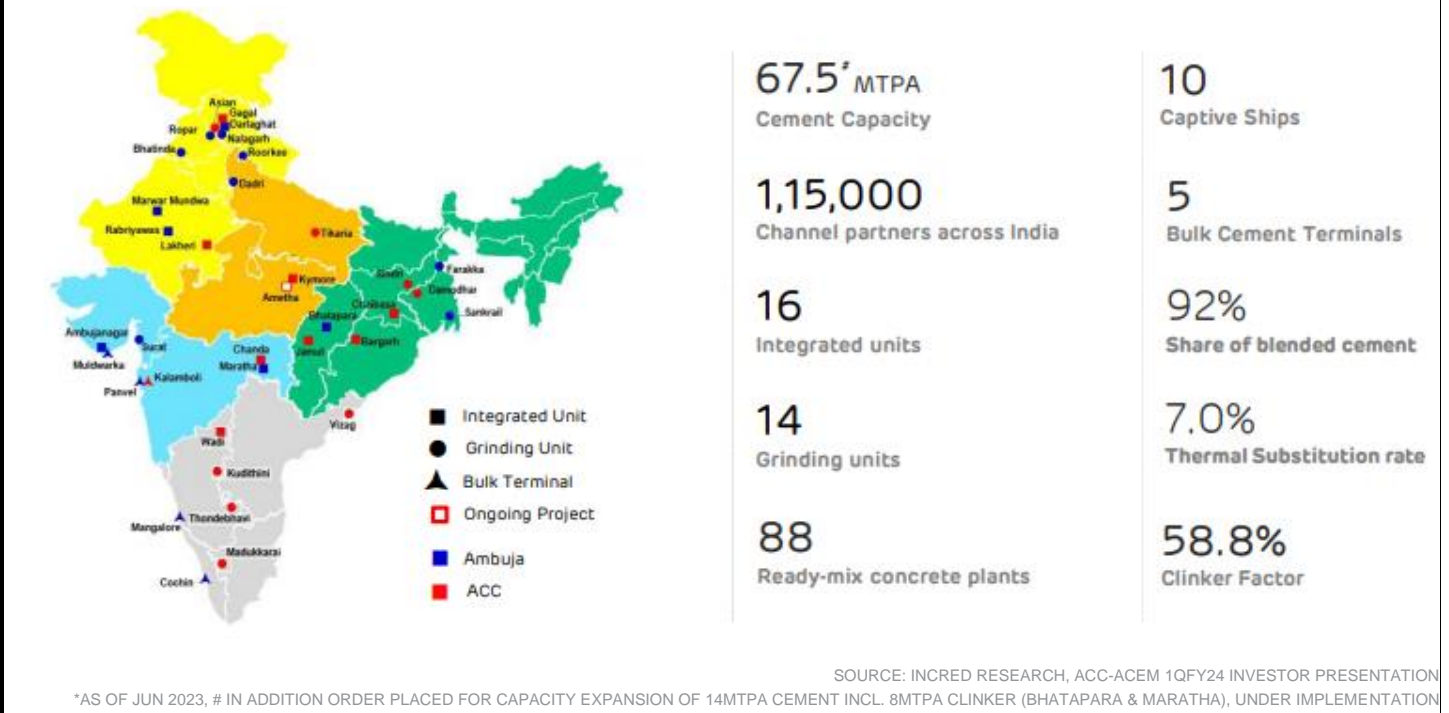


Figure 10: Adani Group's cement (ACC+ACEM) growth strategy

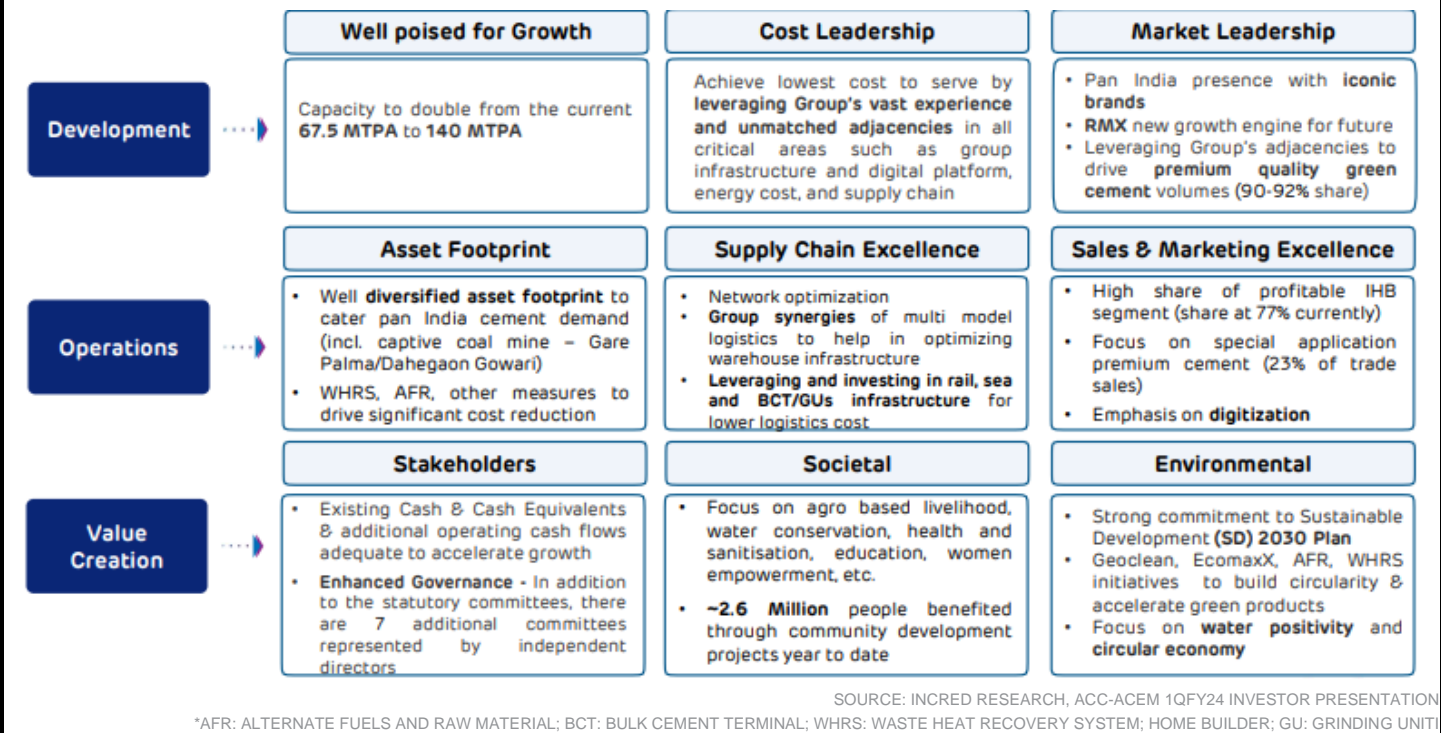


Figure 11: Our revised earnings estimates

Rs. m	New		Change (%)		Old	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	2,03,876	2,20,094	7%	6%	1,90,943	2,06,982
EBITDA	28,789	35,060	4%	2%	27,702	34,312
Recurring PAT	16,900	21,218	1%	3%	16,684	20,538
EPS (Rs.)	88.9	111.8	1%	3%	88	108

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: Changes in our estimates vs. Bloomberg consensus estimates

Rs. m	Incred		Consensus		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Sales	2,03,876	2,20,094	1,96,569	2,08,410	4%	6%
EBITDA	28,789	35,060	28,282	34,002	2%	3%
PAT	16,900	21,218	16,861	20,852	0%	2%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 13: Key assumptions

	CY21A	FY23F (15M)*	FY24F	FY25F	FY26F
Volume (in mtpa)	29	39	36	39	41
yoy	13%	34%	-6%	7%	5%
Realization (per t)	5,044	5,276	5,170	5,217	5,253
yoy	3%	5%	-2%	1%	1%
Cost (per t)	4,553	5,257	4,801	4,742	4,761
yoy	2%	15%	-9%	-1%	0%
EBITDA (per t)	1,038	499	789	899	928
yoy	15%	-52%	58%	14%	3%
EBITDA (Rs m)	29,981	19,249	28,789	35,060	38,011
yoy	27%	-36%	50%	22%	8%

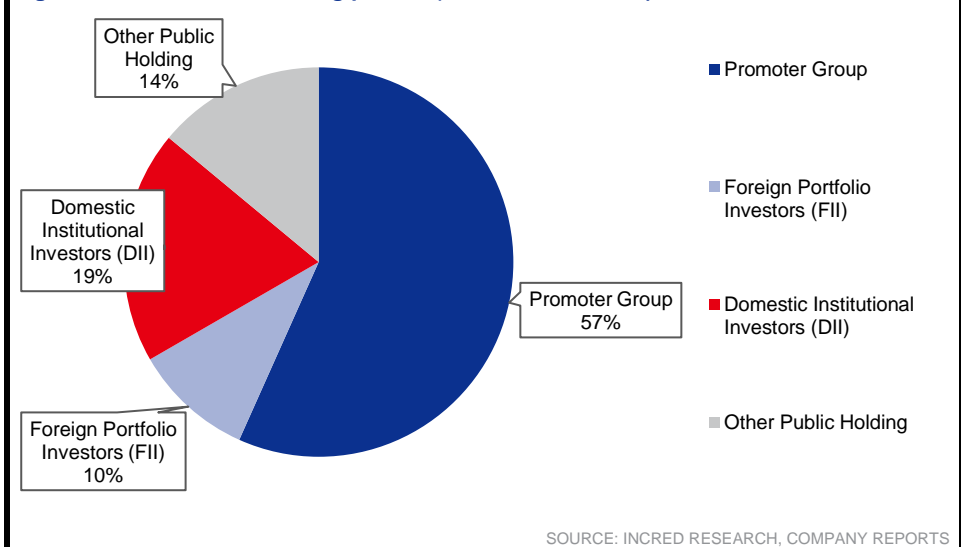
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS
*NOTE: FY23 FINANCIAL YEAR IS FOR 15 MONTHS; YEAR-END CHANGES FROM DEC-MAR

Figure 14: Maintain ADD rating on attractive valuation with a Sep 2024F target price of Rs2,270, set at a one-year forward EV/EBITDA of 10.5x. (unchanged)

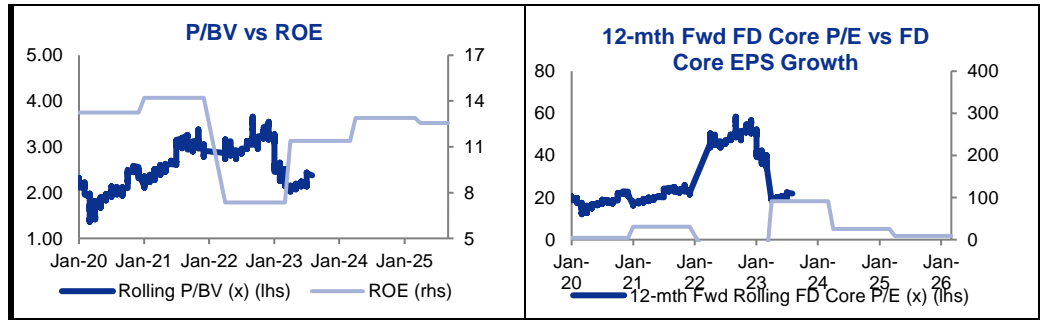
Valuation	TP
Target EV/EBITDA (x)	10.5
Target EV (Rs m)	3,99,118
Net debt / (cash) (Rs m)	(54,833)
No. of shares (m)	188
Fair value per share (Rs)	2,270

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: ACC's shareholding pattern (as of Jun 2023-end)



BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	161,517	222,102	203,876	220,094	233,067
Gross Profit	161,517	222,102	203,876	220,094	233,067
Operating EBITDA	29,981	19,249	28,789	35,060	38,011
Depreciation And Amortisation	(6,007)	(8,413)	(8,329)	(8,995)	(9,715)
Operating EBIT	23,974	10,836	20,460	26,064	28,296
Financial Income/(Expense)	(546)	(773)	(989)	(1,039)	(1,070)
Pretax Income/(Loss) from Assoc.	117	162	182	202	222
Non-Operating Income/(Expense)	2,067	3,419	2,940	3,146	3,366
Profit Before Tax (pre-EI)	25,611	13,644	22,592	28,373	30,814
Exceptional Items	(548)	(1,618)			
Pre-tax Profit	25,064	12,026	22,592	28,373	30,814
Taxation	(6,433)	(3,174)	(5,692)	(7,156)	(7,771)
Exceptional Income - post-tax					
Profit After Tax	18,631	8,852	16,900	21,218	23,044
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	18,631	8,852	16,900	21,218	23,044
Recurring Net Profit	19,038	10,043	16,900	21,218	23,044
Fully Diluted Recurring Net Profit	19,038	10,043	16,900	21,218	23,044

Cash Flow

(Rs mn)	Dec-21A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	29,981	19,249	28,789	35,060	38,011
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,303	(26,708)	11,969	(1,274)	(2,186)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2,067	3,419	2,940	3,146	3,366
Other Operating Cashflow	(1,162)	(2,043)	(2,043)	(2,043)	(2,043)
Net Interest (Paid)/Received	(546)	(773)	(989)	(1,039)	(1,070)
Tax Paid	2,857	4,039	(5,692)	(7,156)	(7,771)
Cashflow From Operations	34,499	(2,816)	34,974	26,694	28,308
Capex	(11,533)	(19,810)	(11,884)	(15,500)	(14,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,653	(26,563)	(1,000)	(1,000)	(1,000)
Cash Flow From Investing	(9,880)	(46,373)	(12,884)	(16,500)	(15,000)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,890)	(1,739)	(2,535)	(3,183)	(3,457)
Preferred Dividends					
Other Financing Cashflow	7,585	(10,638)	2,025	2,045	2,265
Cash Flow From Financing	(3,305)	(12,377)	(511)	(1,138)	(1,192)
Total Cash Generated	21,314	(61,566)	21,580	9,056	12,116
Free Cashflow To Equity	24,619	(49,189)	22,090	10,194	13,308
Free Cashflow To Firm	25,165	(48,416)	23,079	11,233	14,378

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Dec-21A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	75,237	4,147	45,777	54,833	66,949
Total Debtors	4,890	8,692	8,937	9,648	10,217
Inventories	12,739	16,242	18,433	19,899	21,072
Total Other Current Assets	10,827	53,470	19,368	22,009	25,637
Total Current Assets	103,694	82,552	92,515	106,389	123,875
Fixed Assets	65,914	72,465	76,136	79,141	83,426
Total Investments	1,496	1,633	1,633	1,633	1,633
Intangible Assets	12,488	16,878	17,878	18,878	19,878
Total Other Non-Current Assets	26,797	31,910	31,794	35,294	35,294
Total Non-current Assets	106,695	122,886	127,441	134,946	140,231
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	19,049	14,934	18,027	19,370	20,373
Other Current Liabilities	41,012	41,476	38,736	40,938	43,117
Total Current Liabilities	60,060	56,410	56,763	60,307	63,490
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	7,206	7,608	7,408	7,208	7,208
Total Non-current Liabilities	7,206	7,608	7,408	7,208	7,208
Total Provisions					
Total Liabilities	67,267	64,018	64,171	67,515	70,698
Shareholders Equity	143,088	141,385	155,750	173,785	193,372
Minority Interests	34	35	35	35	35
Total Equity	143,122	141,420	155,785	173,820	193,407

Key Ratios					
	Dec-21A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	17.2%	37.5%	(8.2%)	8.0%	5.9%
Operating EBITDA Growth	27.3%	(35.8%)	49.6%	21.8%	8.4%
Operating EBITDA Margin	18.6%	8.7%	14.1%	15.9%	16.3%
Net Cash Per Share (Rs)	400.22	22.06	243.51	291.68	356.13
BVPS (Rs)	761.15	752.09	828.50	924.44	1,028.63
Gross Interest Cover	43.89	14.02	20.68	25.09	26.45
Effective Tax Rate	25.7%	26.4%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	59.7%	21.8%	15.0%	15.0%	15.0%
Accounts Receivables Days	10.63	11.16	15.78	15.41	15.55
Inventory Days	24.58	23.81	31.04	31.78	32.08
Accounts Payables Days	46.16	30.57	34.36	36.88	37.18
ROIC (%)	32.6%	7.6%	17.7%	20.9%	21.4%
ROCE (%)	17.7%	7.6%	13.8%	15.8%	15.4%
Return On Average Assets	10.1%	5.4%	8.4%	9.6%	9.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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