

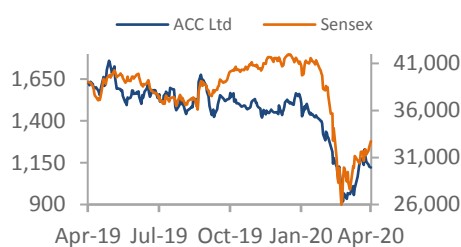
|                       |               |
|-----------------------|---------------|
| <b>Sector</b>         | <b>Cement</b> |
| <b>Recommendation</b> | <b>BUY</b>    |
| <b>Upside</b>         | <b>19%</b>    |

| Stock Data       |           |
|------------------|-----------|
| Sensex           | 31,715    |
| 52 Week h/l (₹)  | 1,769/895 |
| Market cap (₹Cr) | 21,160    |
| BSE code         | 500410    |
| NSE code         | ACC       |
| FV (₹)           | 10        |
| Div. yield (%)   | 1.2       |

| Shareholding Pattern |        |       |        |
|----------------------|--------|-------|--------|
|                      | Mar-20 | Dec19 | Sep-19 |
| Promoters            | 54.5   | 54.5  | 54.5   |
| DII+FII              | 29.0   | 29.9  | 30.5   |
| Individuals          | 16.5   | 15.5  | 15.0   |

Source: www.bseindia.com

### Share Price Trend



Prices as on 30/04/2020

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ACC a pan-India cement company with sizable production capacity (33mtpa) is one of the best placed companies in the sector to end up largely unscathed owing to its net cash balance sheet. We expect that CY20E will witness sharp volume declines owing to combination of lockdown and weak demand scenario post lockdown. However, we expect sharp volume recovery in CY21E and factors like fiscal stimulus for infra segment would support cement demand. Post correction, ACC is trading at CY21E EV/tonne valuation of ~USD65 which is at significant discount to its 10-year average of ~USD120 (and replacement cost).

### Lower variable costs to aid in margin defense

With expectation of sharp volume decline, negative leverage is expected to impact margins in CY20E. However, declining variable costs in a deflationary environment are expected to protect margins to some extent as cement companies have high element of variable cost (e.g. transport, fuel). We believe that rebound in volumes and favorable pricing in CY21E would lead to margin recovery in CY21E.

### Valuations at comforting levels

Even after cutting our CY21E estimates, ACC is trading at reasonable valuations of ~7x EV/Ebitda and US\$65 EV/tonne. This is at ~40% discount to its 10-year average and replacement cost. An attractive FCF yield of ~4% (CY21E) and CY19 cash & cash equivalents amounting to ~22% of current market cap provide tremendous level of comfort. We recommend to BUY ACC from a long term perspective, valuing at 9.0x CY21E EV/EBITDA (USD83 implied EV/tonne).

### Financial Summary

| Parent ₹ cr    | CY18   | CY19   | CY20E  | CY21E  |
|----------------|--------|--------|--------|--------|
| Revenue        | 14,801 | 15,657 | 12,866 | 15,707 |
| EBITDA         | 2,045  | 2,410  | 1,751  | 2,301  |
| EPS growth (%) | 5.9    | 35.1   | (53.7) | 52.2   |
| P/E (x)        | 21.1   | 15.6   | 33.6   | 22.1   |
| ROE (%)        | 10.1   | 12.3   | 5.3    | 7.6    |
| EV/EBITDA (x)  | 8.1    | 6.9    | 9.5    | 7.2    |

Source: Company, IIFL Research

**Recommendation Parameters for Fundamental/Technical Reports:**

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

**IIFL Group | IIFL Securities Ltd** (CIN No.: L99999MH1996PLC132983) Office No 1, Gr Floor, Hubtown Solaris, NS Phadke Marg, Andheri, Vijay Nagar, Mumbai - 400069. Tel.: (91-22) 2580 6650 \*Customer Service: 40071000 \*Stock Broker SEBI Regn: INZ000164132 \*NSE: 10975 \*BSE: 0179 \*MCX:55995 \*NCDEX:378 \*Depository: INDP185 2016 \*MF Distributor ARN: 47791, \*PMS SEBI Regn.: INP000002213, \*Investment Adviser SEBI Regn. : INA000000623, \*Research Analyst SEBI Regn:- INH000000248 | Kindly refer to [www.indiainfoline.com](http://www.indiainfoline.com) for detailed disclaimer and risk factors.

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