

ACC

BUY

Status quo on TKH fee

Summary

ACC and Ambuja Cement (ACEM) board has approved continuation of existing technology and know-how agreement ('TKH Agreement') at 1% of net sales with Holcim Technology Limited. We understand this will come as relief for both the company, as street feared that TKH fee will see an increase. Both the stocks were down by 8-10% in the last one month relative to its large cap peers like UTCEM, SRCM. We have factored TKH fee at 1% of net sales in CY21E and CY22E and thus on unchanged earnings estimate we re-iterate BUY rating on ACC (TP Rs1,879) and HOLD on Ambuja Cement (TP Rs245). We prefer ACC due to a) simplified structure vs holding company structure of Ambuja Cement, and b) Valuation, ACC is trading at 10% discount to ACEM valuation at 9x CY22E EV/EBIDTA. Risks to ACC BUY rating a) negative outcome on CCI investigation on price cartelization by cement companies, b) delay in price hike, as we have factored 3% ASP increase for ACC in CY21E.

Key Highlights and Investment Rationale

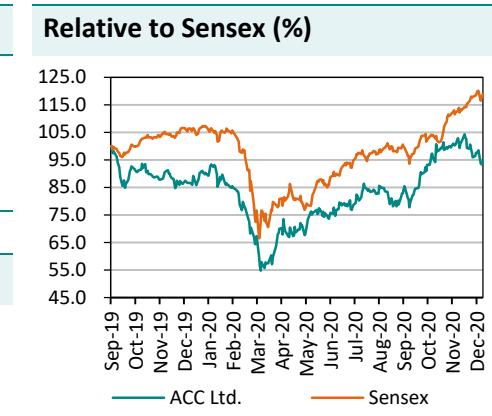
- Details on TKH:** The board of both Ambuja and ACC has approved the renewal of existing technology & know-how agreement. And thus both the company will pay TKH fees at 1% of net sales each year, for a period of 2 years w.e.f. January 01, 2021 on the same terms of the existing TKH Agreement. Refer existing TKH agreement [link](#). The fee is prescribed by Bilateral Advance Pricing Authorities of India and Switzerland Authorities.
- Street concern assuaged:** While negotiating last TKH agreement in Dec 2007, parent has proposed to levy TKH at 2% of net sales but concluded it at 1%. Hence, there was concern for investors as TKH was lapsing in Dec 2020. Continuation of existing TKH for the next 2 years will assuage investor concern as every 1% increase would have impacted EBITDA by 6% for both the stock.
- View:** Our TP values, ACC at 10x CY22E EV/EBITDA at its 5/7 years average valuation.

TP	Rs1,879		
CMP	Rs1,580		
Potential upside / downside		19%	
Previous Rating			
V/s Consensus	CY20E	CY21E	CY22E
IDBI Capital	71.8	87.4	90.6
Consensus	71.7	82.3	88.4
% difference	0.1	6.2	2.5

Shareholding Pattern (%)		
Promoters		54.5
FII		6.6
DII		14.1
Public		24.8

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(8.4)	16.6	7.8
Rel to Sensex	(13.8)	(6.7)	(3.7)

Key Stock Data	
Bloomberg / Reuters	ACC IN / ACC.BO
Sector	Cement
Shares o/s (mn)	188
Market cap. (Rs mn)	296,638
Market cap. (US\$ mn)	4,283
3-m daily avgTrd value (Rs mn)	830.7
52-week high / low	Rs1,788 / 896
Sensex / Nifty	46,444 / 13,601



Financial snapshot (Rs mn)					
Year	CY18	CY19	CY20E	CY21E	CY22E
Revenue	148,014	156,567	140,600	165,557	172,423
EBITDA	20,446	24,095	25,039	29,661	30,605
EBITDA (%)	13.8	15.4	17.8	17.9	17.8
Adj. PAT	10,060	13,589	13,498	16,427	17,025
EPS (Rs)	53.5	72.3	71.8	87.4	90.6
EPS Growth (%)	(18.8)	35.1	(0.7)	21.7	3.6
PE (x)	29.5	21.8	22.0	18.1	17.4
Dividend Yield (%)	0.6	0.9	0.9	1.1	1.1
EV/EBITDA (x)	13.1	10.4	10.0	8.2	7.7
RoE (%)	10.1	12.3	11.2	12.5	11.8
RoCE (%)	13.5	16.2	15.3	17.3	16.3

Source: Company; IDBI Capital Research

Exhibit 1: ACC TKH fee

(Rs mn)

	CY18	CY19	CY20E	CY21E	CY22E
Net Sale	148,014	156,567	140,600	165,557	172,423
TKH fee	1,445	1,523	1,357	1,598	1,665
Fee % to net sales	1.0%	1.0%	1.0%	1.0%	1.0%

Source: Company; IDBI Capital Research
Exhibit 2: ACEM TKH fee

(Rs mn)

	CY18	CY19	CY20E	CY21E	CY22E
Net Sale	113,568	116,679	113,643	131,753	137,260
TKH fee	1,095	1,126	1,097	1,272	1,325
Fee % to net sales	1.0%	1.0%	1.0%	1.0%	1.0%

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rsmn)					Cash Flow Statement (Rsmn)				
Year-end: March	CY19	CY20E	CY21E	CY22E	Year-end: March	CY19	CY20E	CY21E	CY22E
Net sales	156,567	140,600	165,557	172,423	Pre-tax profit	20,315	20,072	24,507	25,400
<i>Growth (%)</i>	5.8	(10.2)	17.8	4.1	Depreciation	6,030	6,404	6,625	6,894
Operating expenses	(132,472)	(115,561)	(135,897)	(141,817)	Tax paid	(4,462)	(6,574)	(8,080)	(8,374)
EBITDA	24,095	25,039	29,661	30,605	Chg in working capital	2,661	(8,902)	3,838	844
<i>Growth (%)</i>	17.8	3.9	18.5	3.2	Other operating activities	(2,059)	(1,437)	(1,472)	(1,689)
Depreciation	(6,030)	(6,404)	(6,625)	(6,894)	Cash flow from operations (a)	22,484	9,563	25,419	23,075
EBIT	18,065	18,635	23,036	23,711	Capital expenditure	(4,935)	(7,000)	(15,000)	(15,000)
Interest paid	(862)	(553)	(596)	(550)	Chg in investments	195	-	-	-
Other income	3,112	1,990	2,068	2,239	Other investing activities	-	-	-	-
Pre-tax profit	20,315	20,072	24,507	25,400	Cash flow from investing (b)	(3,283)	(5,010)	(12,932)	(12,761)
Tax	(6,726)	(6,574)	(8,080)	(8,374)	Equity raised/(repaid)	5	-	-	-
<i>Effective tax rate (%)</i>	33.1	32.8	33.0	33.0	Debt raised/(repaid)	(572)	(553)	(596)	(550)
Net profit	13,589	13,498	16,427	17,025	Dividend (incl. tax)	(3,169)	(3,137)	(3,818)	(3,957)
Exceptional items	-	-	-	-	Chg in minorities	-	-	-	-
Reported net profit	13,589	13,498	16,427	17,025	Other financing activities	-	-	-	-
<i>Growth (%)</i>	35.1	(0.7)	21.7	3.6	Cash flow from financing (c)	(3,737)	(3,691)	(4,414)	(4,507)
<i>Shares o/s (mn nos)</i>	188	188	188	188	Net chg in cash (a+b+c)	15,464	862	8,072	5,806

Balance Sheet					(Rsmn)
Year-end: March	CY19	CY20E	CY21E	CY22E	
Net fixed assets	74,267	74,863	83,238	91,344	
Investments	2,302	2,302	2,302	2,302	
Other non-curr assets	11,449	11,449	11,449	11,449	
Current assets	74,128	80,590	91,946	98,867	
Inventories	11,410	15,408	18,143	18,896	
Sundry Debtors	6,284	7,704	8,164	8,503	
Cash and Bank	43,832	44,694	52,766	58,573	
Marketable Securi.	1,549	1,549	1,549	1,549	
Loans and advances	314	495	583	607	
Total assets	162,146	169,204	188,935	203,962	
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Shareholders' funds	115,213	125,573	138,182	151,251	
Share capital	1,880	1,880	1,880	1,880	
Reserves & surplus	113,333	123,693	136,303	149,371	
Other liabilities	1,171	1,171	1,171	1,171	
Curr Liab & prov	45,763	42,460	49,581	51,540	
Current liabilities	43,187	39,891	46,972	48,920	
Provisions	2,575	2,569	2,609	2,620	
Total liabilities	46,933	43,631	50,752	52,711	
Total equity & liabilities	162,146	169,204	188,935	203,962	
Book Value (Rs)	613	668	735	805	

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	CY19	CY20E	CY21E	CY22E
Adj. EPS (Rs)	72.3	71.8	87.4	90.6
Adj. EPS growth (%)	35.1	(0.7)	21.7	3.6
EBITDA margin (%)	15.4	17.8	17.9	17.8
Pre-tax margin (%)	13.0	14.3	14.8	14.7
ROE (%)	12.3	11.2	12.5	11.8
ROCE (%)	16.2	15.3	17.3	16.3
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.0	0.8	0.9	0.9
Leverage factor (x)	1.4	1.4	1.4	1.4
Net margin (%)	8.7	9.6	9.9	9.9
Net Debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Working Capital & Liquidity ratio				
Inventory days	27	40	40	40
Receivable days	15	20	18	18
Payable days	41	48	48	48

Valuation

Year-end: March	CY19	CY20E	CY21E	CY22E
P/E (x)	21.8	22.0	18.1	17.4
Price / Book value (x)	2.6	2.4	2.1	2.0
PCE (x)	15.1	14.9	12.9	12.4
EV / Net sales (x)	1.6	1.8	1.5	1.4
EV / EBITDA (x)	10.4	10.0	8.2	7.7
Dividend Yield (%)	0.9	0.9	1.1	1.1



Notes

Dealing

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Up to ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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