

Strong volumes buoy Ambuja Cements

Better cost controls boost operating performance

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The stellar performance of Ambuja Cements in the December quarter has surprised the Street. The impressive show came mainly on the back of higher-than-expected cement volumes and better cost control measures. Ambuja follows the January-December financial year.

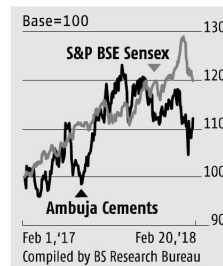
A growth of 17.4 per cent in cement volumes pulled up revenues, which grew 19.4 per cent year-on-year (y-o-y) to ₹26.12 billion (up 14.5 per cent sequentially). Realisations, however, remained subdued as expected. These were up 3 per cent y-o-y at ₹4,427 a tonne, but were 2.2 per cent lower sequentially.

Analysts attribute the strong volumes to a better demand scenario in the eastern and northern markets and Gujarat. Ambuja being a regional player, its increased exposure to Gujarat helped realisations on a y-o-y basis.

"Our strategy to focus on premium products, core markets and managing costs has delivered higher sales volumes and Ebitda (earnings before interest, tax, depreciation, and amortisation) growth," MD and CEO Ajay Kapur said.

While revenues beat consensus estimates of ₹25.84 billion, Ambuja's Ebitda at ₹4.40 billion was also ahead of the ₹3.89 billion expected. Besides operating leverage, cost optimisation played a key role in boosting profitability. While there was a sharp jump in power and fuel costs due to rising petroleum coke and freight costs, its cost control initiatives helped to fully offset the effect of increased expenses. Hence, operating cost per tonne came down by 1 per cent y-o-y and 6 per cent sequentially to ₹3,681.

This helped Ambuja to report an operating profit per



tonne of ₹746, significantly better than ₹586 a year ago and ₹628 in the previous quarter. This metric was also better than ₹505 a tonne reported by ACC, Ambuja's subsidiary. ACC being a pan-Indian player had seen softer cement realisations in the south, though volumes grew 27 per cent to 6.92 million tonnes (mt) helped by expansions in east India. Among peers, UltraTech had reported an Ebitda per tonne of ₹717, while Shree Cement witnessed Ebitda per tonne of ₹1,057 in the December quarter.

Against this backdrop, Ambuja's reported net profit at ₹3.38 billion (up 89 per cent y-o-y) was not surprising. It was also better than the ₹2.52 billion anticipated by analysts. Reacting to the financials, the stock gained over 2 per cent to close at ₹263.10 on Tuesday.

As the industry enters seasonally strong quarters, better performance and share price gains can be expected for Ambuja. The proposed merger of ACC and Ambuja will drive synergy benefits. Analysts such as Binod Modi at Reliance Securities expect Ambuja to get a decent traction on the back of strong brand equity, a premium product portfolio, and value-based pricing, besides an expected pick-up in demand. Thus, he maintains a positive stance on the stock.