

ACC: Profitability drives Q1 numbers

Healthy volume growth, better realisations helped the company report higher profit per tonne

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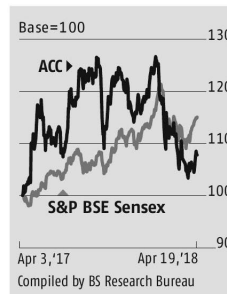
ACC's March 2018 quarter performance beat expectations on the profitability front, driven by higher realisation and volume.

During the first quarter, the company's cement sales volumes grew 7.7 per cent year-on-year, or y-o-y, (2.7 per cent sequentially) to 7.11 million tonnes (mt). ACC follows January-December fiscal year.

The sales volume growth was led by strong demand, mainly in the east where stabilisation of its new commissioned units in Jamul and Sindri helped. The region has also witnessed improving cement prices compared to other areas. Hence, pan-Indian player ACC can surprise with better average realisations.

Binod Modi at Reliance Securities said unlike expectation of a sequential decline, average cement realisation improved 1.3 per cent month-on-month, owing to increased sales in premium products and meaningful contribution from eastern markets.

All-India cement prices for a 50 kg bag averaged ₹288 in the March quarter, lower than ₹297 a year ago. While



north, south and west India saw a decline in prices, those in east India stood at ₹283, up from ₹278 a year ago and sequentially.

Even as raw material costs continue to rise, better realisations and cost efficiencies helped ACC report a better-than-estimated profitability. ACC reported an operating earnings before interest, tax, depreciation and amortisation (Ebitda) of ₹4.92 billion, up 18 per cent y-o-y. Thus, the per tonne profit at ₹573 improved from ₹497 in the March 2017 quarter and ₹506 in the December 2017 quarter.

Net profit at ₹2.45 billion, too, grew 16 per cent y-o-y and 35 per cent sequentially, beating *Bloomberg's* consen-

sus estimate of ₹2.29 billion.

ACC's revenue at ₹35.5 billion reflects an increase of 15 per cent y-o-y and 4 per cent sequentially.

Investors' apprehensions over a possible increase in royalty charges, too, have been put to rest as ACC renewed the technology and know-how agreement with its parent Holcim at same terms and conditions. Analysts said clarity on royalty payment (1 per cent of sales) bodes well for the stock.

Against this backdrop, ACC's scrip closed flat at ₹1,591 on Thursday.

While improving profitability is a positive, ACC still lags peers such as UltraTech and Shree Cement. A further upside in cement prices will play a key role. Cost pressures persist as per tonne pet coke prices averaged \$108 in the March 2018 quarter (\$98 in the December 2017 quarter). Analysts at Kotak Institutional Equities said the effect of higher priced raw material would be seen in the subsequent quarters. The Street will also monitor the benefits of its master supply agreement with Ambuja Cements after their merger being postponed.