Cement firms spring pleasant surprise

Despite cost pressure, UltraTech, ACC, Shree Cement see volume growth, better than expected realisation in March quarter

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Despite cost pressure and absence of significant uptick in realisations, top cement companies ACC, UltraTech Cement and Shree Cement reported decent performance for the March quarter.

Although rising petroleum coke (petcoke) prices are putting pressure on fuel and transportation costs, strong volume growth and some surprise on realisations were key drivers. Moving forward, while improvement in realisation will play a key role in tiding over rising cost, the latest results do instill confidence. Improving infrastructure and housing demand is likely to benefit sales and push realisations, say analysts, many of whom are positive on cement companies.

Beat expectations

Shree Cement, which reported its quarterly performance over the weekend, reported earnings before interest, tax, depreciation and amortisation (Ebitda) at ₹6.9 billion, ahead of the consensus analyst expectation of ₹6.15 billion. While Ebitda per tonne in the cement business at ₹958 was higher than the ₹908 in the year-before period, cost pressure meant it was lower than the ₹1,080 in the December 2017 quarter.

Operating cost per tonne for cement was up eight per cent year-on-year and five per cent sequentially to ₹3,200. Rising petcoke prices drove fuel costs up by 31 per cent and 20 per cent sequentially. And, logistics costs, led by rising diesel prices and overloading restrictions in several states, pulled down the sequential performance. Logistics costs were up 16.5 per cent year-on-year and 29 per cent sequentially.

Higher sales volume and realisations did well to overcome cost pressure. Cement sales volume (including clinker) improved 8.7 per cent year-on-year (21 per cent sequentially) to 6.44 million tonnes (mt). Average realisation at ₹4,158 a tonne was up 10 per cent year-on-year and 0.6 per cent sequentially, as against analyst expectations of sequentially flat to declining realisation. Thus, net profit surged 31 per cent over a year and 20 per cent over the earlier quarter to ₹4 billion, ahead of the consensus estimate of ₹3.3 billion.

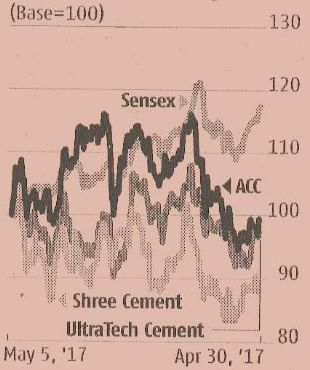
The script is almost similar for UltraTech and ACC. UltraTech, a few days before, had reported an increase of 32 per cent year-on-year in domestic sales at 17.64 mt, and Ebitda per tonne of ₹857 for the March quarter, as against ₹841 and ₹726 in the year-before and sequential quarters, respectively. Despite rising costs, its Ebitda at ₹nearly 18.1 billion was much ahead of analysts' estimate of ₹14.8 billion.

GOOD PROFITABILITY IMPROVEMENT

March'18 quarter	UltraTech*	ACC	Shree Cement*
Revenues (₹ billion)	88.8	35.6	28.1
% change y-o-y	37.0	14.8	15.3
Ebitda (₹ billion)	18.1	4.2	6.3
% change y-o-y	19.0	23.9	11.5
Ebitda margin (%)	20.0	11.9	23.1
Net profit **(₹ billion)	6.8	2.5	4.0
% change y-o-y	-1.6	15.9	31.1

*Domestic (standalone) performance; **Adjusted for exceptional items
Sources: Company and analyst reports

TRIGGERS AHEAD



Data compiled by BS Research Bureau

ACC saw 7.7 per cent growth in sales volume over a year and 5.6 per cent in average realisation (1.3 per cent sequentially against expectations of decline). Its per-tonne profit at ₹573 improved from ₹497 in the March 2017 quarter (₹506 in the December 2017 one).

Capacities

UltraTech, the largest manufacturer, continues growing its capacities. It commissioned new clinker capacity of 2.5 mt annually in Madhya Pradesh in the record time of less than a year, taking its total to 96.5 mt. The acquired JP assets saw higher utilisation at 75 per cent in the quarter, ending the financial year at an 80 per cent average. Improvement in this will further drive the numbers.

ACC's new capacities in East India are already driving volume growth, while better demand and realisation in the region are pushing up profitability. For Shree Cement, commissioning of grinding units in Rajasthan (3.6 mt) and Bihar (two mt) will take its total annual capacity to 34.9 mt.

Street positive

Analysts at Antique Stock Broking say with the capacities in place, the operating profit outlook for Shree Cement is strong. With a healthy balance sheet and return profile, it has ability to scale-up volumes. Healthy demand outlook in the eastern and northern markets, along with its new capacities and visible realisation recovery, is also keeping other analysts positive on the company.

Despite being the largest, UltraTech is seen growing faster than the industry, on the back of a ramp-up of the JP Group's acquired assets, say analysts at Elara Capital. They expect its margin profile to also expand further, due to improvement in cost structures and better pricing.

Although capacity expansion triggers remain elusive for ACC, the new Chattisgarh capacities will continue driving its near-term growth. Binod Modi of Reliance Securities maintains his positive view on ACC, due to its deep penetration in rural markets (80 per cent trade segment volume) and consistent focus on premium products. He believes cost optimisation measures and visible recovery in realisation in its key markets will provide additional boost to the margins.