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UltraTech, ACC's profitability, volumes surprise Street

But analysts not sure ACC can sustain the operating profit margin going ahead

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After ACC, even UltraTech Cement posted decent sales volumes for March quarter. Also, profitability improved despite weak demand. This lifted investor sentiment, which had been subdued by volume fears and profitability pressure. Now, the question is, will this trend sustain?

First off, the March quarter numbers. UltraTech's domestic grey cement sales volumes at 13.35 million tonnes (mt) came marginally better than 13.32 mt in the year-ago quarter, while ACC's 6.6 mt (up four per cent from a year ago) volumes were helped by recent capacity expansions. Both UltraTech and ACC's volumes exceeded analysts' estimates.

On pricing front, the all-India cement average fell to ₹288 per 50 kg in March quarter, compared to ₹296 in the year-ago quarter. Prices have been pretty volatile in the past few quarters, rising to ₹297-299 levels from June 2016 quarter, before declining in March 2017 quarter.

Nonetheless, pan-India players UltraTech and ACC surprised the Street by posting sequential improvement in realisation (revenue minus expenditure) and per-tonne profitability. Thus, UltraTech's domestic revenue at ₹6,500 crore (up 2.65 per cent from a year ago) was ahead of *Bloomberg* consensus estimate, ₹6,476 crore, largely on better realisation. Average per-tonne realisation at ₹4,940 came better than ₹4,860 seen in the previous quarter, says Teena Virmani at Kotak Institutional Equities. ACC echoed this trend, by posting a per-tonne realisation of ₹4,265, which is two per cent better on a sequential basis, say analysts.

A clear differentiator for UltraTech's realisation was the company's better cost controls, in the face of a bump in power and fuel expenses; others such as freight and packaging rates didn't climb much. ACC, by contrast, saw a significant rise in not only power and fuel costs, but also freight and packaging rates. For UltraTech and ACC both, prices of coal and petroleum coke have been on the rise. Virmani says UltraTech's cost controls led to a per-tonne Ebitda (earnings before interest, tax, depreciation, and amortisation) better than that of its rival ACC. According to her, the per-tonne Ebitda for domestic grey cement, white cement, and putty came in at ₹957 for the March 2017 quarter compared to ₹946 for the December 2016 quarter.

IMPROVEMENT DESPITE WEAK DEMAND

	ULTRATECH CEMENT			ACC		
	PBIDT (%)	Net profit (₹ cr)	Cement volume (mt)	PBIDT (%)	Net profit (₹ cr)	Cement volume (mt)
Mar '16	23.7	781	13.6	16.9	232	6.4
Jun '16	25.4	775	12.9	16.7	239	6.1
Sep '16	24.6	601	10.9	12.1	82	5.1
Dec '16	21.8	563	11.4	10.6	91	5.5
Mar '17	22.8	688	13.4	14.5	211	6.6

Data for ACC are consolidated, and standalone for UltraTech (consolidated includes UAE operation, thus not strictly comparable)
ACC follows January-December accounting year, UltraTech April-March; PBIDT: profit before interest, depreciation and tax;
Net profit figures rounded off; compiled by BS Research Bureau
Sources: Capitaline, Motilal Oswal Securities

Add in exports, and Binod Modi at Reliance Securities arrives at an Ebitda per-tonne of ₹904 for March quarter as against ₹920 and ₹890 for a year ago and December 2016 quarter, respectively.

ACC echoed the trend. Ebitda per-tonne at ₹518 for the March 2017 quarter, even as it fell 5.9 per cent from a year ago, topped both expectations as well as the previous quarter figure of ₹430.

Not surprising that the share price of ACC closed with more than seven per cent gains at ₹1,607, while UltraTech clocked over four per cent to ₹4,144 on Monday. Amid recent price hikes, the Street remains optimistic on demand and profitability. Although stock valuations of ACC and UltraTech look stretched, analysts are more confident about UltraTech.

For one, UltraTech has better per-tonne profitability. Second, it has continued to add capacities, thereby gaining market share, and clocking higher sales volumes consistently. While ACC, of late, has seen some capacity expansions after a few years, analysts are keeping an eye out, given its operating profit margin volatility in the past. Reacting to ACC's results, HDFC Securities said the numbers look unimpressive, despite outperformance of estimates. They still find valuations expensive at 13/9.4 times CY17/18 enterprise value/Ebitda, enterprise value of $120 per tonne, thanks to low profitability and low return ratios. Analysts at Motilal Oswal Securities said the company continues to face medium-term concerns on cost structure and efficient use of excess clinker from its Jamul plant. Even in an upswing, ACC's operating profit margin would lag behind that of the industry, thanks to inefficient operations at most of its units. As for UltraTech, experts await more details from its analysts' call on Tuesday.