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Ambuja Cements' higher costs offset gains in volume

Volume growth and profitability improvement in rising cost environment are key to instill confidence

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Ambuja Cements' performance for the quarter ending March was no different from its subsidiary ACC. While sales volumes improved, the pressure of rising costs was evident.

Volumes at 6.02 million tonnes (mt), up three per cent year-on-year (y-o-y), despite a high base, provided some respite and were marginally ahead of expectations. Since the December quarter had seen the impact of the note ban and as volumes had been shrinking y-o-y since the June quarter, the sales volumes growth of 20 per cent sequentially (as the note ban impact subsided), however, wasn't a surprise.

Per-tonne realisations at ₹4,146 were up 2.4 per cent but lower by 3.9 per cent sequentially. Consequently, revenues at ₹2,533 crore grew 5.3 per cent and 15.3 per cent sequentially, and came largely in line with the Bloomberg consensus estimate of ₹2,511 crore. However, rising costs have impacted operating performance more than expected.

The company said production costs were impacted on account of higher petcoke and imported coal prices. Sourcing of fly ash from longer leads (distances) and increase in diesel prices led to higher freight costs. This impact was partly offset by cost reduction initiatives and lower gypsum cost. Nevertheless, operating Ebitda (earnings before interest, tax, depreciation and amortisation) for the quarter at ₹394 crore still came lower against ₹452 crore in the corresponding quarter last year.

Ebitda came lower than ₹407 crore indicated by Bloomberg consensus estimates. Per-tonne Ebitda at ₹597 was 16.6 per cent lower on a sequential basis, though it improved 3.2 per cent y-o-y, according to Reliance Securities. With operating performance lower than expectations, net profit at ₹246 crore also came below the ₹254 crore estimated by analysts.

Moving forward, cost controls on the back of rising costs remains one of the key factors to be watched. The trend of improving cement prices bodes well and if it sustains, will accrue benefits. Recent channel checks by Edelweiss shows there is a demand push, especially in the East and some parts of the north/west markets. While this is encouraging, the concern emanates from their other observation that there could be supply constraints, with some markets suddenly witnessing scarce fly ash/wagon shortage as and when regulatory tightening on overloading takes effect. Fly ash sourcing has already taken a toll on profitability in the March quarter for Ambuja. Also, cost benefits from ACC's amalgamation and reducing lead distances for procuring fly ash and other raw material is to be seen.

Apart from costs, the other concern remains on slow capacity addition. Analysts at Emkay Global say they expect volume growth of to remain below peers in the absence of expansion plans. Sales volume remained flat during the calendar year 2012-16; also the financial year for Ambuja. Though Emkay says the comforting factor is sustenance of higher cement prices in key regions, they still arrive at a target price of ₹228 for the stock, trading at ₹246. Analysts at Reliance Securities, have a hold rating as they lower the target price from ₹255 earlier to ₹240. All these indicate the stock is at best fairly priced.

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	CY15			CY16				CY17
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales volume	5.95	4.90	5.48	5.97	5.85	4.58	5.09	6.10
% change y-o-y	1.8	1.9	0.8	9.9	-1.7	-6.5	-7.1	3.00
Realisation/tonne (₹)	4,190	4,277	4,300	4,053	4,344	4,376	4,316	4,146
% change y-o-y	-9.5	-6.0	-1.8	-9.2	3.7	2.3	0.4	2.4
Ebitda margin (%)	14.7	14.1	12.9	17.5	22.9	13.8	13.4	14.4

Note: Sales volume in million tonnes

Source: Brokerage report