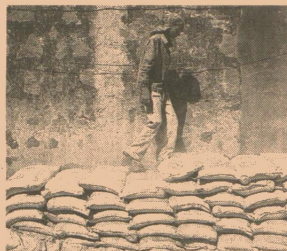


Strong realisations drive Ambuja Cements' June quarter show

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Ambuja Cements, which follows the January-December fiscal year, comprehensively beat estimates in standalone performance for the quarter ended June (Q2). Sales volumes at 6.14 million tonnes grew by a healthy 5.3 per cent year-on-year (y-o-y) and were 6.11 per cent higher than Q1. While its subsidiary ACC reported higher volume growth at 10 per cent, Ambuja was helped by capacity expansions. UltraTech, on the other hand, had reported flat volumes during the June quarter and in this backdrop, Ambuja's volume growth is worth mentioning.

Apart from volumes, realisations also improved. The latter were helped by rising cement prices in western India, from where Ambuja derives up to 40 per cent of its sales. Average price per 50 kg bag in this region was ₹290 during the June quarter, much higher than the ₹277 seen in the previous quarter and marginally lower than the ₹291 seen in the June 2016 quarter. This helped per tonne realisations rise 10.9 per cent sequentially to ₹4,598 (up six per cent y-o-y). The y-o-y growth was fuelled by average cement prices in north India, which for every 50 kg bag at ₹293 was significantly higher than ₹278 in the year-ago quarter and slightly lower



REALISATIONS DRIVE PROFITABILITY

	Ambuja Cements		
	Q2 CY17	y-o-y	q-o-q
Volumes (mt)	6.14	5.3	0.5
Realisation (₹/tonne)	4,598	6	10.9
Ebitda (₹/tonne)	998	0.7	67.1

Mt: million tonnes; CY: calendar year, also financial year for Ambuja Cements
 Sources: Company, Reliance Securities

than ₹295 in Q1.

Realisations also helped the company counter surging costs such as power and fuel expenses (₹565 crore), which grew 20.8 per cent y-o-y, because of rising coal and pet coke prices. Operating Ebitda (earnings before interest, taxes, depreciation and amortisation) at ₹651 crore thus came higher than ₹598 crore in the year-ago quarter and was significantly ahead of ₹544 crore indicated by Bloomberg consensus estimates.

The company said top line

growth, driven by increased sales and value-based pricing, helped mitigate higher costs due to the rising prices of fuel, packaging and other manufacturing materials.

Higher volumes and realisations helped Ambuja post sales of ₹2,823 crore, an increase of 11.7 per cent y-o-y, and about six per cent ahead of Bloomberg consensus estimates of ₹2,672 crore. Net profit at ₹392 crore came 12 per cent ahead of estimates of ₹350 crore.

On a per tonne basis, Ambuja's Ebitda at ₹998 per tonne, was ahead of ₹992 per tonne in the year-ago quarter and significantly higher than ₹597 per tonne in Q1. UltraTech had reported Ebitda per tonne of ₹1,182, while ACC's was ₹736 per tonne. This should bode well for Ambuja's stock price too, which has been rising regularly in the past few months. The stock closed at ₹267.50 levels on Tuesday.

Nevertheless, it is the sustenance of this strong performance and volume growth prospects that will drive significant upside from current levels. Binod Modi at Reliance Securities does not expect this kind of strong performance to repeat at least for the rest of CY17 due to visible pricing pressure in the current month and costs pressure. Meanwhile, progress on the ACC-Ambuja Cements merger could add to the sentiment in the interim.