# Risk management of ambuja cement economics essay

Ambuja Cements was set up in 1986. In the last decade the company has grown tenfold. The total cement capacity of ACL as on CY07 is 18. 5 million tonnes. Its plants are some of the most efficient in the world. Its environment protection measures are on par with the finest in the developed world. ACL follows a unique home grown philosophy of giving people the authority to set their own targets, and the freedom to achieve their goals. This simple vision has created an environment where there are no limits to excellence, no limits to efficiency. It has presence in the North, East and Western regions of India. Its domestic market share stands at 10. 2% as on CY07. ACL has developed a unique homespun channel management model called Channel Excellence Programme (CEP). Over 7, 000 dealerships and 20, 000 retailers across India are covered under this model. This program emphasizes the relationship management approach to build strong business ties with the dealers and retailers. ACL largely exports to the Middle East. ACL was one of the first companies to be equipped with shipping fleet and make use of sea as a medium to transport cement across the globe. Sea transport costs one-third of road transport. It has a port terminal at Muldwarka, Gujarat that handles ships with 40, 000 DWT. It is also equipped to export clinker and cement and import coal and furnace oil. ACL is the one of the most profitable cement companies in India, and one of the lowest cost producers of cement in the world. GACL has bulk cement terminals at Muldwarka (Gujarat), Panvel, Navi Mumbai and Surat.

## Risks in Company-

Demand-supply mismatch could take time to stabilise, thereby putting further pressures on margins- Recently due to Slowdown of the cement demand a mismatch come into effect so due to excess production and supply of the cement company is bearing on the front of lower margins.

Cement price / realisations to dip on account of demand slowdown- As mentioned above the demand slowdown impacted the prices to take it lower so company is having less profits which is adversily effecting the future growth projects lead out by GACL.

Rise in input costs affecting OPMs- GACL’s OPMs were at its peak in Q1CY07 after which it has seen a constant fall due to the rising prices of commodities like fly ash, gypsum, coal, crude oil, etc, rise in power & fuel costs and rise in other expenditure.

## Higher clinker purchase pulls down margin-

Higher clinker purchase pulled down the margin of the company. Ambuja is trading at a steep premium to its peers despite the fact that it does not have the best return ratios and best margins in the industry. Thus, we are maintaining our UNDERPERFORMER rating on the stock.

Demand-Supply gap, overcapacity: The capacity additions distort the demand-supply equilibrium in the industry thereby affecting profitability.

## Risks in Industry-

## Increased cost of production due to increase in coal prices.

High Interest rates on housing: The re-pricing of the interest rates in the last four years from 7% to 12% has resulted in the slowdown in residential property market.

Imports from Pakistan affecting markets in Northern India: In 2007, 130000 tonnes in 2008, 173000 Metric tones of cement was exported to India. This was done to keep the price of cement under check.

Effect of global recession on real estate: The real estate prices are stabilizing and facing steady slowdown especially in metros. There has been drastic reduction in property prices due to reduced demand and increased supply.

## Shifting supplies from export market to domestic market:

ACL is the largest exporter among the Indian cement players. Its exports account for nearly one-third of the total exports from the country by listed players. ACL witnessed reduction in exports by 28% to 1. 3 mn tonnes in CY07 vis-à-vis 1. 8 mn tonnes in CY06 due to diversion of exports to the domestic market on account of more lucrative prices in the domestic markets. The recent lifting of the ban on export of cement in the backdrop of waning demand for this crucial construction input from the real estate sector will have marginal impact on exports from India as the government had allowed export of cement from ports in Gujarat (accounting for 85% of the exports from India) on May 27, 2008. The ban was imposed on April 11 this year to curb the rapidly rising inflation.

Competitors: The Indian cement industry has a large number of fragmented firms. There is also a dearth of new players as incumbents have already procured key raw material sources, like limestone reserves on long-term leases. Further, large firms are continuously consolidating by acquiring smaller ones that find it difficult to attain minimum efficient scale of production.

Product: Cement is a bulk commodity and a low value product. It is sold in 50 kg packs as OPC grade 33, 43, and 53. It is used in all construction activities as a primary constituent of concrete. Due to similar raw material inputs and production processes, there is no significant differentiation in the cement produced across firms.

Environmental Issues: Greenhouse gas emissions from cement manufacturing pose a serious environmental threat. Currently, the cement industry generates 5% of India's total carbon-dioxide emissions. 2 With stringent emission norms, the production process needs to be made environmentally sustainable. The cost of implementing new production processes that help reduce emissions can be offset by trading certified emission reductions (CERs). CERs are a component of national and international emissions trading schemes, implemented through Clean Development Mechanism (CDM) projects, in an attempt to mitigate global warming. 3 Credits obtained through implementation of such projects can be traded in international markets.

## Risk Techniques used by Company-

Company is expanding its operations by purchasing more units and invreasing the production capacity to further lower down the overall production costs to remain competitive in the industry.

It also is reducing costs by making to reach to the Big suppliers which can provide quality materials in less prices.

It is how company responded to the challenges.

## Post Impact of Risk Management techniques-

Company has come forward in the industry and increased the operations in many states, also enhanced its exports and has posed a challenge before other companies.