

Corporate

Cost-cutting drive fires up A.V. Birla group companies

Latha Venkatraman
MUMBAI, Nov. 5

STRINGENT cost reduction measures, enhanced asset productivity, working capital management, debt restructuring and value-addition are common buzzwords in A.V. Birla group company circles.

However, at a time when the economy is in a downturn, these practices have helped A.V. Birla companies to swim better than the rest.

According to analysts, measures undertaken by the A.V. Birla management to prune long-term costs and resort to efficient working capital management have helped the companies to maintain profits despite flat turnover.

Grasim Industries Ltd, one of

Q2 CONTOURS

the leading A.V. Birla group company, has ended the first-half of the current fiscal with a 36 per cent increase in profit at Rs 188.6 crore (Rs 138.9 crore) on flat turnover of Rs 2,391.3 crore (Rs 2,388 crore).

In the case of Grasim, external factors including a demand pick-up in cement have helped the company's performance, which has been primarily driven by cement.

"Cement industry dynamics have helped Grasim this time," said an analyst who declined to be named. According to him, Grasim is at a disadvantage over other cement companies as only 40 per cent of its turnover comes from cement.

According to the company, it has been able to maintain turnover despite lower VSF (viscose staple fibre) and sponge iron vol-

umes. The company achieved an eight per cent increase in realisations in its cement business as compared to two per cent rise in realisations in both VSF and sponge iron business.

During the current fiscal, Grasim is incurring an expense of Rs 15 crore towards VRS and Rs 37 crore towards payment to 2,300 employees at its Mavoor plant, which has been shut down since July 1, 2001.

Despite this expense, the company has been able to maintain net profit at Rs 133.8 crore as

"Despite the cyclical nature of most A.V. Birla companies' businesses, they have been able to maintain their topline and bottomline. This is probably because cost-control and debt restructuring are a continuous exercise and not an ad hoc measure."

against Rs 131.1 crore in the year-ago period.

Notwithstanding the expense during the current fiscal, this move will help the company save Rs 27 crore every year, company officials said.

In the half-year period, Grasim's interest and finance charges have been reduced by 22 per cent to Rs 95.4 crore (Rs 121.8 crore). "The company has been able to bring down its interest burden mainly by way of working capital management, and restructuring its debt," said Mr D.D. Rathi, Group Executive President & CFO, Grasim Industries Ltd.

As for Indo Gulf Industries Ltd, its net profit for the six-month period rose by 39 per cent to Rs 126.71 crore (Rs 91.04 crore) and net sales moved up by 30 per cent

to Rs 1274.90 (Rs 978.24 crore).

According to Mr D. Bhattacharya, Managing Director of Indo Gulf, the company's efforts to move up the value chain, reduce energy consumption, increase asset productivity and cost effectiveness and sustained exports have helped it to retain its topline and bottomline growth.

"Despite the fall in LME prices, Indo Gulf's focus on high margin products has helped the company," said Mr Rahul Dhawan, Head of Research, S.K.P. Securities.

Indo Gulf's turnover increase in

pany, has reported a slight dip in net profit for the first-half period at Rs 328.3 crore from Rs 330.6 crore in the year-ago period. However, analysts consider this better than expected performance.

"It is a combination of an advantage of business mix and a conscious strategy of the A.V. Birla management that has helped Hindalco," said another analyst.

In the case of Hindalco, its dependence on exports is much lower than Nalco and this has worked to the former's advantage. "Hindalco's exports are mainly in the downstream area of aluminium while Nalco is in exports of alumina which has seen wide fluctuations," the analyst said.

A steep fall in LME prices and sluggish demand scenario were responsible for flat sales growth in the six-month period at Rs 1,106.3 crore (Rs 1,116 crore).

Analysing the company's performance, Mr A.K. Agarwala, Whole-time Director, said Hindalco will continue to work on increasing throughput, cost reduction, improving operating efficiencies and reducing working capital.

Indian Rayon Industries Ltd has ended the first-half of the current fiscal with a 32 per cent increase in net profit at Rs 25.03 crore (Rs 18.93 crore) on sales of Rs 781.15 crore (Rs 735.66 crore).

The company attributed the performance to better operating efficiencies in all its divisions and cost-cutting measures.

However, analysts agreed that A.V. Birla companies have been riding over the Birla brand equity. In a declining market, the brand equity has helped boost the companies' performance.

Cement sector in high spirits

Reuters
MUMBAI, Nov. 5

THE country's cement sector is currently a favourite of fund managers and top companies July-September earnings results show why.

The quarter is typically considered the worst for the sector because of the June to September monsoon, which dampens con-

second-largest cement market after China — also expect profits to keep expanding, despite the slowdown in domestic economic growth.

Reason? Companies expect cement realisations the amount received from sales after deducting taxes and dealer commissions will rise.

However, bottomline growth, analysts figure, will not be nearly as dramatic as last quarter, when profits soared in comparison to

than companies selling more in the South, said Mr Manish Saxena, an analyst with ICICI Securities and Finance Co. At Gujarat Ambuja Cements, the fourth-largest cement maker, net profit more than doubled, as net sales jumped 17 per cent, reflecting a surge in demand for reconstruction in Gujarat, which was ravaged by an earthquake in January.

Larsen & Toubro, which is also an engineering and construction conglomerate, re-