Ambuja Cements, ACC and Sanghi Industries Limited

Q2 FY '25 Earnings Conference Call

October 28, 2024

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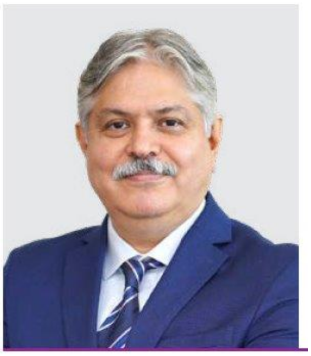	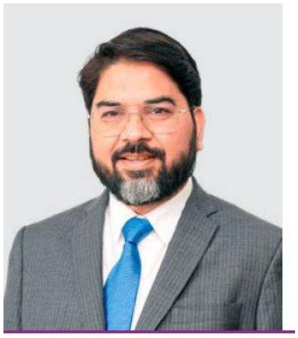
MR. AJAY KAPUR **CHIEF EXECUTIVE OFFICER**	**MR. VINOD BAHETY** **CHIEF FINANCIAL OFFICER**
MR. DEEPAK BALWANI – HEAD INVESTOR RELATIONS	
MODERATOR	
MR. SANJEEV KUMAR SINGH – MOTILAL OSWAL	

Moderator: Ladies and gentlemen, good day, and welcome to Ambuja Cements Limited Q2 FY '25 Earnings Conference Call hosted by Motilal Oswal Financial Services Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjeev Kumar Singh from Motilal Oswal Financial Services Limited. Thank you, and over to you, sir.

Sanjeev Kumar Singh: Thank you. Good afternoon, everyone, and thank you for joining the call. Without much delay, I will transfer the call to Mr. Deepak Balwani, Head of Investor Relations. Mr. Deepak, over to you.

Deepak Balwani: Yes. Thank you, Sanjeev. Wishing you all a very happy and a prosperous Diwali. It is my pleasure to welcome you all to Ambuja's Second Quarter FY '25 Earnings Call. Ambuja Cements Limited is one of the India's leading cement companies and a member of the diversified Adani Group, the largest and the fastest-growing portfolio of diversified, sustainable businesses. Our financial results, investor presentation and press release are now available on the company website and stock exchanges.

Joining us on this call are Mr. Ajay Kapur, Chief Executive Officer; and Mr. Vinod Bahety, Chief Financial Officer. Now let me invite Mr. Ajay Kapur to share his insightful perspective on the quarterly results. Over to you, Mr. Ajay.

Ajay Kapur: Thank you, Deepak. Good afternoon to all of you. I extend a warm welcome to each of you for joining us in our quarter 2 and H1 FY '25 Earnings Call of Adani Group's cement business. We continue to strengthen our position as a market leader in the cement industry.

Adani Cement is becoming stronger over time with an intense commitment towards capacity expansion to both organic and inorganic groups, along with excellence in operational efficiency, ESG and safety parameters. Adani Cement market share is about 15% with an internal target of 20% by FY '28.

To begin with, I would like to share some of the high-level highlights before I dive into specifics. Ambuja enters into a binding agreement to acquire 46.8% stake in Orient Cements Limited. The acquisition complements existing cement footprint, reducing overall lead distance and logistics costs and improving market share in core markets. Post successful completion of this transaction, our capacity will increase to 97.4 million tons, and the acquisition will be met through internal accruals.

We continue to remain debt-free. Our first phase of 200-megawatt solar power project at Khavda in Gujarat has been charged. 70 million tons of new limestone reserves have been secured in quarter 2 FY '25, 4-million-ton clinkering and 6.4 million tons cement capacity is expected to commence by quarter 4 FY '25, taking the total capacity to 100-plus million tons per annum.

The consolidated quarterly Y-o-Y performance. We achieved a revenue of INR 7,516 crores, driven by strong focus on our micro market management strategy, expansion of our dealer networks, blended cement at 84%, increase in premium products as a percentage of trade sales by 300 bps up to 26%. On the operational cost for the quarter, it was INR4,497 per ton, showing a decline of 4%.

This is driven by a 10% decline in energy costs, owing to better fuel management and strong focus on green power. Kiln fuel costs reduced by 13% to INR 1.59 per 1,000 kCal from INR 1.82 last year. The transportation cost declined by 7% at INR 1,282 per ton on account of footprint optimization.

Secondary lead distance reduced by 7 kilometers to 47 kilometers. The direct dispatch to customers increased by 600 bps to 55%. With the improvements mentioned on the cost front, EBITDA stood at INR 1,111 crores at a margin of 14.8% and EBITDA per ton of INR 780. As of 30th September, the consolidated cash and cash equivalents stood at INR10,135 crores.

During H1, approximately INR 14,700 crores has been utilized, out of which INR 12,350 crores towards organic and inorganic growth, namely Tuticorin grinding unit, Penna acquisition and ongoing capex programs, besides dividend outflow of INR 555 crores and the balance towards working capital, which we had higher receivables, higher inventory, lower payable, income tax payout, etcetera.

The consolidated half yearly Y-o-Y performance, the revenue stood at INR 15,828 crores, operational cost at INR 4,467 per ton. EBITDA stood at INR 2,391 crores at a margin of 15.1% and EBITDA per ton at INR795. In the best interest of time, I will not discuss the standalone financial performance of the listed companies separately as they are available on the stock exchanges.

Now I will share with you the progress we have made on our announced long-term strategic plan. As we plan to expand our cement capacity, 140 million tons by FY '28, we are pacing well to achieve the stated target. This has also resulted into higher cash outgo as informed above. With the acquisition of Orient Cement, our operating cement capacity will go up to 97 million tons post completion of the transaction.

We are on course to commission our 4 million tons clinker unit in Bhatapara in Chhattisgarh and the associated grinding units in Sankrail and Farakka in West Bengal, Sindri in Jharkhand by the end of this financial year. The grinding unit of Salai Banwa in Uttar Pradesh will be commissioned in quarter 1 of FY '26 and brownfield expansion of Bathinda grinding unit in Punjab and Marwar grinding unit in Rajasthan, Kalamboli unit expansion in Maharashtra, Dahej grinding unit expansion in Gujarat, Jodhpur Penna grinding unit and clinker unit, Krishnapatnam grinding unit to be commissioned by quarter 3 FY '26.

With commissioning of these projects, we shall be reaching cement capacity of 115 million tons by quarter 3 FY '26. Further clinker unit of 4 million ton of Maratha in Maharashtra and grinding unit at Warisaliganj in Bihar are also expected to be commissioned by the end of FY '26, enabling us to reach 118 million tons capacity by end of next financial year. We have also identified 13 additional grinding unit projects for which land acquisition and statutory approvals are under progress, which shall enable us to reach 140 million tons by FY '28.

For the new facilities of 4 million tons clinker line at Bhatapara, 90% of the civil work is now complete and major equipment has been received at the site. Expected completion is quarter 4 FY '25. For its corresponding grinding units in Sankrail and Farakka in Bengal, civil work of 88% and 97%, respectively, have been completed and major equipment has been received at site. Expected completion of these units is by quarter 4 FY '25.

For the new facility of 4 million tons clinker line at Maratha in Chandrapur, contract has been awarded on EPC vendor. 59% of major equipment ordering done by EPC partners, project execution work started, expected completion by quarter 3 FY '26. These Kiln lines will have 42-megawatt of waste heat recovery and provision for utilizing 30% alternate fuels.

For the new facility of 3 million tons clinker line in Jodhpur of Penna, 70% civil work and 60% of major equipment ordering done, expected completion by quarter 3 FY '26. For new facilities of 2.4 million ton grinding unit at Salai Banwa, Uttar Pradesh, 26% civil work is now complete, and delivery of major equipment commenced at site. Expected completion by quarter 1 FY '26.

Major equipment ordering for roller press at Bhatinda grinding units, fly ash grinding unit and blending system at Kalamboli and grinding unit at Dahej has been completed and all these projects are under execution. Contract awarded for grinding unit at Marwar Mundwa and Warisaliganj to EPC vendor, and both the projects are now under execution.

Now I will share some of the key initiatives being undertaking for becoming a cost leader in the cement sector. Securing major raw materials at cost-competitive prices and efficiency and productivity improvement capex will further help in optimizing by 8% to 10%. First, let me discuss the steps we have taken to lower our energy costs.

Our wastage recovery capacity at the time of takeover was 40 megawatts, which we are now targeting to increase to 218 megawatts by March '25. Currently, the WHRS capacity is 196 megawatts. We have earlier announced our investments in 1,000 megawatt of RE, which is expected to get commissioned by FY '26 and would ensure that 60% of our power requirement will be green power.

This would help in reducing the power cost by INR90 per ton by FY '28. First phase of 200 megawatt at Khavda in Gujarat have been charged. Over the next 2 quarters, this will reach full capacity. As previously explained to meet our requirements, we aim to have captive coal supplies. As a result, we are bidding for coal mines in the auctions being conducted by the government, a higher share of coal from our captive mines and opportunity to buy imported pet coke will further lower our own fuel costs.

Driven by better fuel management and structure initiatives undertaken, our power and fuel costs have decreased by 10% to INR1,276 per ton in quarter 2 FY '25 from INR1,425 per ton in quarter 2 FY '24. These initiatives include an increase in the share of AFR and Green Power. The share of AFR and fuel mix has improved to 9.5% from 7%. The share of Green Power and fuel mix has increased from 15.6% to 18.2%.

The second cost item is freight and forwarding. There are three focus areas for cost reduction here. Number one, reduction in lead distance, warehouse footprint optimization and railroad mix optimization. We are targeting to reduce the average primary road lead distance by about 100 kilometers. Primary lead distance in the current quarter was in 271 versus 272, and secondary lead distance at 47 versus 54. This has been done with improvement in direct load dispatch by 600 basis points.

To further optimize our cost in logistics, we have ordered 11 GPWIS rakes, of which all 11 have been delivered and running in approved circuits. These rakes will enable cost-efficient clinker movement from the mother plants. In addition to these, we have also ordered 26 BCFC rakes for safe and cost-efficient transportation of fly ash from thermal power plants to our facilities. Of these 26 BCFC rakes, 3 rakes have been delivered and another 8 are expected to be delivered by March '25. Because of these initiatives, our logistics costs have been reduced by 7% to INR1,282 in quarter 2 FY '25 from INR1,377 in the same quarter last year.

To secure our limestone supplies in quarter 2 FY '25, we have won bids for another 2 new mines having reserves of 70 million tons, 1 in Madhya Pradesh and 1 in Maharashtra. On ESG, we are committed to net-zero by 2050. Ambuja and ACC are the only 2 cements companies in India who are undergoing net-zero target validation by SBTi.

Ambuja is a leader in water stewardship and co-processing of plastic waste. Ambuja and ACC put together used more than 5 million tons of waste-derived resources in quarter 2 FY '25, embracing circular economy. The 2 companies created societal values for more than 4.7 million people by contributing to fields like health care, education, employment, and sustainable livelihoods.

The company won many awards and accolades for its responsible and sustainable business practices. On the global front, Ambuja has been the world's first cement company to join the alliance for industry decarbonation and initiative of International Renewable Energy Association, became a signatory to transitioning industrial cluster initiative of World Economic Forum and became a member of United Nations Global Compact.

Finally, looking at the industry outlook. I think strong infrastructure demand and ongoing needs from the housing and commercial sectors are anticipated to boost cement demand in H2 FY '25. The introduction of PMAY Urban Housing 2, with an allocation of INR11 lakh crores, along with government's continued focus on infrastructure development as the key to economic growth augurs well for cement sector.

Strategic investments in road, railways, along with urban and commercial amenities is poised to drive robust growth. We expect demand during FY 2025 to grow in the range of 4% to 5%. India's per capita cement consumption currently at 275 kg is still having a lot of headroom for growth, and I believe over the next 10 years can reach 1-billion-ton cement market.

In conclusion, as I mentioned earlier, on multiple occasions, Adani Cement will benefit from accelerated growth, lower costs, and group synergies, all of which will contribute to lead the market and achieve sustainable performance in the near future. The pace of capex has increased, which will help to achieve targeted growth ahead of time.

With this, I now hand over to our CFO, Mr. Vinod Bahety.

Vinod Bahety: Yes. Thank you, Ajay ji. Good afternoon, friends. Season's greetings and festival greetings as well. Good to connect with you all again at a very important junction in our journey of growth, where Ambuja consol is expected to hit 100 million metric tons very soon. And by the end of FY '26, we should be reaching 118 million metric tons, very close to our target of 140 million tons, which is ahead of our target curve.

During the last 12 months, friends, we have successfully completed 3 important acquisitions: Sanghi, Penna, and the recently announced Orient apart from Asian and the grinding unit of Tuticorin of MyHomes. I will share more updates on the integration, which has gone very well.

Friends, you have often heard from us about our drive on the few major areas viz. Growth, Cost and ESG. Since September '22, when we took control, we have been constantly achieving new milestones across these three important focus areas viz. Growth, Cost and ESG. Cement business has grew almost 50% in 2 years, largely driven by the inorganic growth, while organic is also going very well, and you have heard Ajay ji in terms of the progress made across the various projects, which will add capacities in months to come.

On the cost efficiency, in December '23, we laid out our clearly defined roadmap in terms of cost leadership to improve the margin, and we are well on this track. A good level of investment has been made for this cost optimization, which will start yielding us the results in coming quarters, whether it is green power, key logistics, WHRS, AFR, operational efficiencies, amongst others. Ajay ji already highlighted 200 megawatts of our 1,000-megawatt plant that has already been lighted up, and we'll start getting the green power in November itself.

I'm very glad to highlight one important initiative, which we have been working on for the last 2 years, but now getting more prominence is digitization from manufacturing to logistics and sales. We are putting a comprehensive technology platform, which is expected to bring commendable difference in the way we are operating the business, and it will help further to bring improvement in productivity and efficiency.

On the governance part, friends, again, happy to share that we have appointed Grant Thornton to do a detailed independent review of the RPTs and the entire framework around it. The report has been shared. Very satisfactory report, which has been shared with the statutory auditors, the audit committee, and the Board. And it only reinforces the systems and processes, which we have placed, and we have been highlighting to you from time-to-time.

In addition, if you remember, in March quarter, we had also used services of proxy advisory firm, IiAS, for the assessment of the governance area framework, and I'm glad to highlight that we scored a Good position in the overallband from them, which is 60 and above score. And this is what, for example, many of the leading corporates of India share this kind of scores. Ambuja has scored in that. We also won Golden Peacock Award from the Institute of Directors, a prestigious award in the field of ESG. We are the only cement company to have won this.

So this half year, very importantly, if you look at our balance sheet, you will see that we have done the purchase price allocation, PPA, for the acquired assets, which is Sanghi, Asian and Tuticorin. Earlier in March, we had done on the provisional basis, but now this September, we have-finalized the PPA. And more importantly, also for Penna, we have done provisional one, which will get finalized for Q3. So I will answer specific questions around it, but this is like an important half year from that perspective.

Therefore, balance sheet, some of the numbers are not like-to-like comparable. However, on these two major factors of the balance sheet, which is cash and cash equivalent and net worth. On cash and cash equivalent, I begun the half year -- 1st of April, I was holding INR16,000 crores of cash and cash equivalents. Then in April, the warrants program gave another INR8,300-odd crores. And then the operating cash flows, net of taxes, were close to INR3,100-odd crores. With this, gross amount was INR27,400 crores. And in terms of utilization, capex is almost INR5,000 crores. The investment, primarily in terms of Penna is INR7,800 crores. Dividend outgo was around INR560-odd crores, and then the changes in the NWC, net working capital close to INR4,000-odd crores. Therefore, with all these inflows and outflows, if I look at the net figure, as of now, the cash and cash equivalent is closer to INR10,135 crores in Ambuja console.

On the net worth also, I'm glad to highlight that beginning of April '24, we were at INR50,843 crores. And I'm closing the half year at INR59,916 crores, which is a jump of almost INR9,073 crores in terms of net worth. Needless to highlight Ambuja remains debt-free, and we are in the highest bracket of all the ratings in terms of AAAs.

Further in the network, some of the analysts have been asking for tangible net worth, which is closer to INR43,000 crores, which means all my intangibles, goodwill, if I remove the net worth stands to INR43,000 crores, which is almost 73% of my overall net worth. So tangible net worth in 73%.

And this tangible net worth in simplified manner, it is represented by cash and cash equivalents of almost INR10,135 crores. PPE of almost INR29,000 crores and NWC of close to INR4,000 crores. So on net worth and cash and cash equivalent, I pre-empted the question. And with this, I would pass on the call again back to the coordinator, Mr. Sanjeev.

Sanjeev, over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Gupta from Morgan Stanley. Please go ahead.

Rahul Gupta: Yes, hi. Thank you for taking my question. I have couple of questions. First, on a console basis, volumes grew by around 9% year-on-year, and this is on the back of industry struggling at around 1%, 2%. So can you give more color on what's happening on this? What drove such high growth? Similarly, on the pricing side, I understand a strong pricing was also a function of you gaining -- or the expansion of premium products.

But if I look at prices per bag, that has also not fallen a lot from INR249 to INR247. So any additional color on this front would be very helpful? Thank you.

Ajay Kapur: Yes, Rahul, good question. Our volume growth is driven both by our current capacities and also the acquired capacities. As you know, we've been ramping up. Those capacities are helping us to fill up the voids which are there because we didn't have presence in some markets. Like, for example, Sanghi itself, if we take an example last year versus this year, there's a tremendous increase.

Some volume growth has also happened in B2B segment where, again, we are not having capacity, so they have been used to expand. And therefore, you've seen -- because of premium products and also because of a very structured marketing, we've been varied Y-o-Y, the drop is substantial. I mean you can see that. For 2 quarters, it's not so substantial.

Rahul Gupta: Yes. So just to understand this, you would have substantially gained market share on volumes within the quarter. So anything different that you are doing or was industry not that bad? How should we reiterate this 9% year-on-year growth?

Ajay Kapur: So Rahul, this also has -- this is, I think, the volume of CLC. This also includes clinker sales, which happens from Ambuja to its subsidiaries and otherwise. But even if you remove the clinker sales, I think the volume is still a healthy 7%. And as I mentioned, this is also a function of the acquisition of new assets that we have done.

Some of them are not working in the previous period or working at a lower utilization. And with Ambuja ACC brands, we've been able to increase it.

Rahul Gupta: Okay. And when can we get numbers for Penna -- Penna is not included in this quarter, right?

Ajay Kapur: Part of it is. So the number of very, very small quantity of Penna is there.

Vinod Bahety: Almost 45 days of operations of Penna, Rahul, is part of this quarter and half year.

Rahul Gupta: So can you give us numbers around that? What would be volumes, what kind of EBITDA that you have got from Penna because that will not be in the base, right?

Ajay Kapur: That will not be in the base. We can, offline, give it you. Or we can connect and give it to you.

Vinod Bahety: But broadly, like in terms of volume, from a cement perspective, Penna has given almost 4.5 lakh. But more importantly, on the clinker, Penna is helping us a lot. And we are seeing a capacity of almost a 70% utilization for Penna in 45 days and -- which is also helping us to meet some of the requirements of our southern plants from clinker perspective. Ajay Ji already highlighted that our sales includes both cement plus clinker, right?

So on Penna, as part of our integration has went extremely very well. And within like a month or 2 months, we were able to operate at almost 70%, 75%. During our acquisition, we had given targets to hit 80%, 85% in, say, 3 years' time, but I see that we will be able to achieve much before that.

Ajay Kapur: Yes. Cement volume for Penna would be in the range of 1 lakh to 2.5 lakhs.

Rahul Gupta: Sorry. So earlier, what was this 450,000

Ajay Kapur: That was with clinker you see.

Rahul Gupta: That's including clinker?

Ajay Kapur: Yes, yes.

Rahul Gupta: And excluding clinker, it would be around 150.

Ajay Kapur: Around 1 lakh odd.

Rahul Gupta: Okay. So just my -- just a suggestion, I'm sure other participants would have similar questions. If you can help us more details around what kind of numbers were consolidated from Penna during the quarter, that will be very helpful, otherwise.

Vinod Bahety: Sure. Thank you. So we'll move to the next question please.

Moderator: Yes, sir. Thank you. The next question is from the line of Navin Sahadeo from ICICI Securities Limited. Please go ahead.

Navin Sahadeo: Yes. Good afternoon. And thank you for the questions. Also congratulations on decent set of numbers. So I have 2 questions. First is, I just wanted to get a better sense of now the cash that we have, which is already mentioned, of course, at INR10,000 crores-odd. But from Penna perspective, also that -- the cash which is lined up for Orient assuming the open offer gets subscribed fully, so in that context, what kind of appetite do we still have from an acquisition perspective is what I would request some color on.

Are we open to doing further a similar size of Orient kind of an acquisition or here on, we could be looking at more smaller side of acquisition? And how should one look at?

Ajay Kapur: So Navin, very good question. First of all, you'll appreciate both are very strategic acquisitions. And they are helping us both inimproving cost efficiencies, but also improving volume because these are 2 big drivers of value. Now I think we are currently focused on completing Penna. It's a very good asset, multiple tasks ahead of us, and Orient.

So I think our hands are quite full right now with these 2. Having said that, I also mentioned in the opening that we are building 3 kilns as part of our expansion, 2 which we had already started and 1 is part of the Penna. So about 11 million tons of clinker and 20 million, 22 million tons of cement is already underway.

So I think that with 10 million of Penna of 8.5 million of Orient, 18.5 million and add another 20 million. So I think we're already having a substantially low-cost new expansions happening. And I laid out the roadmap right up to 118 million. 118 million minus 140 million leaves only 22 million. So I think that also, as I mentioned, we have plan in place.

With all these consolidations, our balance sheet and also the strength of annual cash generation goes up. In spite of all this, at the group level, we remain healthy, cash positive. And I think generally, we don't comment on the future, so I think I'll leave it at that. Maybe that's for some other day, some of the time.

Vinod Bahety: And Navin, like in terms of net worth of almost INR60,000 crores and debt-free leaves enough opportunity for expansions on both organic and inorganic. So I will just rest myself here, but you can understand the strength the balance sheet has.

Navin Sahadeo: Okay. Helpful. Second question, I'll put it on Penna. If you can just walk a little bit further in detail here because you gave volumes, which is around 100 kt for cement, but you also said it was supporting significantly in terms of clinker to some of the southern plants. So from an incremental perspective, what kind of volumes, first of all, can we expect from Penna because that I'm assuming would be fairly stabilized as of now?

Or does it continue to support more clinker to other units? So I just wanted to understand the actual cement contribution that one can expect from Penna. And also what is the cash now that is yet to be paid? Because your presentation says about INR7,800-odd crores is the amount allocated. The deal, as we understand, was INR10,400 crores. So the balance amount, how should be that looked as well?

Ajay Kapur: Yes, Navin. So what I'll do is I'll ask Vinod to address the cash part, but let me first address your question on Penna. We're very happy with the Penna ramping up. In fact, our clinker, all the kilns have operating at near 85%, 90% utilization levels. And we are also doing some small adjustments because the plants were not running earlier, but we are very happy that already they are producing almost at 80%, 85%. And hopefully, by the time we close this year, we'll be hitting 95%.

And obviously, that clinker is helping some of our grinding units in South, and that will play out. Parallelly, the demand and the sales teams are working. I'm confident in the next quarter when I come in front of you, the sales of Penna would also be quite healthy, and it's going in the right direction. I think we are more or less on track as far as sales is concerned. But for the right reasons, I cannot comment on what's happening this quarter, which I can only comment when I meet you for the results for the next quarter.

Vinod Bhai, could you just throw some light on the cash?

Vinod Bahety: Yes. So Navin, on the cash & the capex, if you remember, during announcement also, we said there are under construction assets. Krishnapatnam grinding unit which is increasing from 2 million to 4 million tons and also the ongoing capex at the Jodhpur, the Marwar project of Penna. Both of them are progressing very well. And the remaining outgo will happen with part of the progressive milestones to be achieved. That is how it is planned, and which is very much a part of the overall transaction. So your observation is right.

Navin Sahadeo: Yes. To summarize, by end of '26, this entire INR10,400 crores would have got consumed. We have paid about INR7,800-odd crores.

Vinod Bahety: Absolutely right. So I said, as per the current year, the milestones are laid out. Now if it is '26 or if it is little 3 months or 4 months here and there, but the progressive payment will be made once the seller achieves the targets.

Navin Sahadeo: Understood. Helpful. Thank you.

Moderator: Thank you. The next question is from the line of Raashi Chopra from Citigroup. Please go ahead.

Raashi Chopra: Thank you. Just -- I want to just come back to the volume question. If you were to exclude the acquisitions -- the volumes on the acquisition on a year-on-year basis, what is the growth or what is the organic volume for 14.2 million?

Ajay Kapur: We would still be around 5%, 5.5%, Raashi.

Raashi Chopra: Just pure plain organic volume...

Ajay Kapur: Yes.

Raashi Chopra: Okay. On the...

Ajay Kapur: Actually, it's very difficult for us in future also to break this up because as we use ACC and Ambuja two brands largely. And whatever we buy, we try and sell in these two brands because these are premium brands. It also help us in improving our market position. You've already seen in the pricing when we start selling in these brands, we do premium pricing. It gives us that extra leverage. So I think as far we are concerned, we'll continue to report the numbers the way we are.

Of course, if it's needed, we can certainly deep dive with you guys on more detail, but I think we will continue to -- because we'll keep buying and we'll also be building our new capacities. So it's difficult then to differentiate. And Penna, any case is a subsidiary of Ambuja. So it will anyway get subsumed 100% in Ambuja console.

Raashi Chopra: Right. Okay. Also on the pricing front after the quarter how have prices done?

Ajay Kapur: Beg your pardon.

Raashi Chopra: How about spot pricing versus the quarter, cement?

Ajay Kapur: So let me comment more on the scenario on demand. I think demand is now opening up with the rains behind us, elections behind us. Diwali hopefully brings a lot of goodwill and good luck. So I think demand has started opening up now in short. And I think in our guidance, we have said that we're expecting for the full year FY '25, 4% to 5% growth. You already know first half; the growth has been tepid. So obviously, we are looking at growth in the range of 8% to 9% going forward.

And thereby will be average of around 4% to 5%. The early offshoots of demand, we are only seeing. The pre-Diwali demand has been good. Hopefully, this continues post Diwali as well. And I see no reason because the INR11 lakh growth program on infrastructure, all the other initiatives the government is driving this, there is a stable policy regime. And I think that because of elections and also heavy rains got disturbed in the first two quarters. I don't see any reason why it should not really bring that -- the spirit which we are seeing earlier also, except for these two quarters which are an aberration.

Raashi Chopra: So have you seen prices move up -- starting to move up?

Ajay Kapur: The pricing is a very tricky question. I think demand is good, things then settle down. And I don't want to get into this discussion for various reasons.

Raashi Chopra: Sure. So just one last question. On the cost reduction, INR500 target that you had, how much more is remaining from here on?

Ajay Kapur: A lot more. We are on track. And again I laid out all the -- see end of the day INR500 or INR450 is a result of certain inputs. The initiatives multiplied by the saving per initiative. I have laid out and every time when I come before you guys, I clearly lay out what is the progress. So I very clearly detailed out on coal mining. I laid out on green power. I laid out on waste heat recovery, general efficiency programs, acquisition of new assets and optimizing it further, increasing capacity utilization, increasing productivity, doing more direct dispatches, improving our warehouse footprint, going for our own rakes, in future going for more ships for the Sanghi fleet.

When you add all this together, the whole number of INR450, INR500 comes in place. We already reduced cost almost to INR250 which was, of course, slightly higher I think when we acquired the businesses, but I believe we are very well on track. And every quarter, every year you will see this journey going towards that end-state objective to emerge one of the lowest cost saving producers in the business.

Vinod Bahety: So, Raashi, also like in my opening remarks, I highlighted that somewhere like in December '23, we had come up with this whole program of cost and it is just like almost about a year from there. And March '28 is what, for example, we had put our aspirations to achieve those numbers. So we are very well on that journey. And with every progressive quarterour investments have been made substantial.

And the results will start coming in, as I said, from the coming quarter itself from say December when we start getting green power to the sea logistics. For example, we are placing orders for the vessels to WHRS, which again investments have been committed and so on and so forth. I think that you will see it is not going to be backended, it will be like progressive with moving quarters.

Raashi Chopra: That's fine. Thank you for detail. I just -- I think just to be more clear what I'm trying to ask you that how much of the INR500 has already happened? Is it INR100, is it INR150 or we still have like the entire INR500 to go.

Vinod Bahety: I would say 25%-odd has been achieved, 25% to 30%. But -- this is, again, yes as of now our assessment, but safe to assume say INR150-odd has been achieved.

Raashi Chopra: Got it. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Hello. Hi, sir. Good afternoon. Sir my question is again pertaining to volumes. I know you have answered it. Just wanted to ask, it also includes the benefit of My Home this quarter?

Ajay Kapur: Yes. Tuticorin is yes, but you understand Tuticorin is only a grinding unit. It needs my clinker. So it's basically -- I think it includes that also. Whatever we are paying and wherever we are investing capital, we have to make sure that the capital at charge is delivering its returns. And as you can see in our growth that our growth strategy is clearly in line with our stated objectives.

Ashish Jain: Sir, just to clarify, so you said Penna did 450,000, out of which 100,000 was cement, balance was clinker. Safe to assume large part of that clinker would have gone to Tuticorin?

Ajay Kapur: No. That is -- Penna clinker also goes to our own grinding units which are there in South. And we would have done an equal amount of sales from Tuticorin also, just to answer that question. About 1 lakh comes from Tuticorin as well.

Ashish Jain: Got it, sir. That helps. Sir, secondly, in terms of the pricing, so while I can see Y-o-Y pricing is down and you alluded to that means most of your peers this quarter have reported a fairly weak pricing sequentially as well whereas our pricing has been resilient sequentially. So is it like mix impact? Have we sold more in specific regions or what has gone behind that and if you can just help to understand that as well?

Ajay A. Kapur: I think a couple of things. Number one, OPC sales slightly higher, OPC yields higher price per ton. So that is evident. Number two, as I mentioned, 6 percentage improvement in our premium products across the brands. And number three mix you rightly mentioned. So I think we add all three together, we've been able to do a little better on price, but as I said year-on-year, it's still quite a harsh number because it's such a strong 9%, 10% decline. All the work you do on cost and of course somehow gets into the lower slot more.

Ashish Jain: Right. Sir, lastly, just one question on capacity expansion. So last say two, three quarters we have done a phenomenal job in terms of the organic growth that we have achieved. But our end capacity target has largely remained unchanged while we have spoken about building a lot more capability in terms of limestone acquisition and various other project initiatives.

So should we think that post fiscal '28, we will remain in an accelerated expansion phase even let's say, from '28 to '31 or what kind of number should we think because while you're adding capability, we're also acquiring a lot. I just want to understand how capacity could look, let's say, slightly away from '28 as well.

Ajay Kapur: So Ashish, we have been very consistent in our message of doubling our capacity from 67.5 million in September '22. That's the day when we had bought these companies, and our Chairman has given this in his first speech post-acquisition that we will double by '28. We remain committed to that target. Should there be a need to revise it in near future, still '28 is a little far away. We'll certainly come back to you. As of now, we are fully committed to make sure that number one we deliver on our promise and cost.

Number two, we deliver on our promise on growth. And number three, we keep highest governance on ESG. And number four as of now we are debt-free, and we hope to remain debt-free as part of our expense. These are the four stated objectives. We remain steadfast on that. Whenever a good opportunity for acquisition has come, we have taken it. I guess that from the past track you can more or less project how we have acted and how we have reacted to the changing context.

Ashish Jain: Right. Got it sir. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Hi, sir. Good afternoon. Congrats on good numbers. If you could mention this MSR despite higher share of nontrade Q-on-Q, our MSR is positive while the industry wide we have seen 3% realization dip. And also in your capex, there is no mention on the Mundra project on a capex slide. So is there any delays? And also if you could discuss on Sanghi plant, we are seeing no capex progress and even volume ramp-up seems to be not as was earlier in when it was acquired, the plan was that the ramp-up would happen fast. So if you could share some detail on these, that would be great.

Ajay Kapur: So let me address your concern on capex. First, let me address your concern on price. As I mentioned, we have had a substantial decline Y-o-Y. Quarter-on-quarter, our premium product percentages have gone up; number two, I mentioned we moved some OPC sales in bulk in OPC, the prices are better there; number three, also the mix. So I think that's the reason on the quarter-to-quarter.

On your question on Sanghi, we had a very severe monsoon and impact of that was very severe in Mundra area. In fact, almost for 2 weeks, the plant was flooded. Post that, what we have done is we have 2 kilns there, 1 kiln is fully refurbished, restarted, and now it is running the new kiln, the line 2 kiln is now fully running at free capacity. The line 1 kiln is now under maintenance, and this undergoes the entire refurbishment. This was part of our planned strategy. And I believe in quarter 3 and quarter 4, we should start seeing Sanghi clinker production coming at almost near full production. And with that, we'll translate into cement as well.

For Sanghi, we also had to do some work on the channel. So we have finished that work. We are now starting our Marine expansion plan there. So that will also be part of this strategy. Mundra, we stay on track, and I think we should be commissioning this project somewhere in '26, '27. Again, Phase 1 for grinding unit has already started. Also, the clinker line we are expecting somewhere in '26, '27.

Rajesh Ravi: In Sanghi, what is the end plan 15 million ton which you are targeting, when would that be taken up?

Ajay Kapur: So Sanghi, second kiln, we'll announced in due course. As I speak to you, we are in the process of getting environmental approvals. We are in the process of also getting the jetty expansion, and we are also in the process of placing orders for ships, which are needed to transfer across the coast. We are also fortifying our position across the West South Coast with grinding units and/or bulk cement terminals.

And at some stage, Sanghi will stop, and Penna will take over through its BCTs from Krishnapatnam onwards right up to Cochin. So I think that whole strategy piece has been worked out. At some stage in future, you will hear from us in a much more detailed investor deck as well. But give us some time, we'll certainly share with you.

Rajesh Ravi: Just to highlight the MSA volumes is wrongly mentioned in the Q2 Q3 I think the breakeven number is just what has got printed against, if you share that MSA volumes...

Ajay Kapur: Okay. Thanks for bringing it up, our team will address that.

Moderator: Thank you. The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: Hi, thank you for the opportunity. Most of my questions are answered. I just have one question on the cash flow. There's a sharp increase in other current assets and other current liabilities if you can -- or cash outflow because of these 2 items. If you can please highlight what costs asset items led to this increase?

Vinod Bahety: We also, Indrajit, in my opening remarks, again, when I highlighted, so there is an overall, say, utilization of closer to INR4,100 crores, which is part of the net working capital. And in the net working capital, there are various assets right from inventory to receivables. Ajay ji mentioned about increasing trend of the OPC sales.

And typically, as you know that this leads to increase in the receivables, then what we've also done is piled up a good level of inventory for coal, given that the prices of the pet coke has been substantially lower, and then we actually have used the opportunity. As you speak, I'm holding almost 65 to 70 days of inventory of coal, and which will give me the benefit in time to come.

So we have been opportunistic in terms of this a, the trend of sales; and b, in terms of building up the inventory. Primarily, these are the 2 factors which will see increase in the current assets, which would have gone up. And then on top of it, as I said, some of the factors are not apple-to-apple comparison because of the overall Purchase Price Allocation of Sanghi, Tuticorin and Asian, which has been finalized this quarter and also provisional numbers of Penna, which has gone into the balance sheet. More specifics, I can off-line connect separately, but these are a few points you should look into it and then I can address separately.

Indrajit Agarwal: Sure, sir. I'll connect with you separately because the numbers I'm looking at in the consol cash flow, other assets, cash outflow INR2,100 crores and other liabilities of INR800 crores.

Vinod Bahety: Broadly in line with what I told initially, like when I say that opening of INR16,000 crores to closing of INR10,135 crores, I broadly highlighted the major inflows and the major outflows leading it to the net case of INR10,135 crores in the overall consol level.

Indrajit Agarwal: No, that's helpful. Second, while our realizations have been largely flat quarter-over-quarter, if you can give us some broad regional trend for the quarter gone by itself? Like where do you think that prices have declined the most and where you have had like more resilient place.

Ajay Kapur: I think that we can do more off-line, too much of a micro detailing at this call.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Jefferies India. Please go ahead.

Prateek Kumar: Yes. Good afternoon, Sir. My first question is on, we have this notes to account given in results. It says around INR130 crores incentives at West Bengal unit. Is this a one-off which is benefiting also the revenues? Or is this like an incentive we will continue to accrue like in 60 days? How should we understand this?

Ajay Kapur: Yes, Prateek this is more business as usual because as part of our various incentives states, there are certain accruals. And this, we got a very good case in Supreme Court, got order in our favor and now it's for us to encash it through the state and we are working on that. So we have a very strong case. And therefore, this is more of business income, which has been booked now, normal course of business.

Prateek Kumar: But ideally, we should address this in revenues to arrive at the realization, right, because this was not there in last quarter. Would that be right?

Vinod Bahety: So Prateek, Vinod here. For example, like I would look at it in a normal course of business. So that is how we would calculate. But it all depends on how you calculate. But as you highlighted, it is like very much part of the incentives, which we will be getting from the West Bengal government, and it is very much part of the business income, operating income.

Prateek Kumar: Okay. And what are the full year incentives we are expected to get this year and maybe next year, including this INR138 crores?

Vinod Bahety: So I'm expecting around closer to INR80-odd crores for the another project. Let us say, together is closer to INR220-odd crores, which I should be getting from this -- for these plants in West Bengal from the government. By the way, we have already received INR45-odd crores in the past.

Prateek Kumar: No, sir, I was asking just cumulatively overall for the company, how much we are looking to get in FY '25 and as a run rate basis.

Vinod Bahety: Quarterly, my incentives ballpark is around INR250-odd crores. And therefore, if I extrapolate so for a year, we're close to around, I would say, INR600 crores to INR650-odd crores is my incentives which I put in a year.

Prateek Kumar: Okay. Out of INR650 crores, we have accrued INR138 crores specifically we had mentioned, that's why we have given a note around it...

Vinod Bahety: Yes, that is. Therefore, since there was a background to the -- this particular item with respect to one of the Supreme Court cases, therefore, this came into the notes from the auditors.

Prateek Kumar: Okay. My other question is regarding your Mundra limestone grinding plant. We have taken that out from our capacity schedule. Is the timeline for that like sort of pushed out to later year? Or how we are looking to that?

Ajay Kapur: Which plant you're talking about, Mundra?

Prateek Kumar: There was this coal to PVC project for which you gave some advances for that project.

Ajay Kapur: It's very much in the plan. As I mentioned, it is mentioned in, I think, 2027 we should be commissioning that.

Prateek Kumar: Okay. And last question on organic capex this year. What is the targeted organic capex hits off M&A?

Ajay Kapur: I think we have already done close to INR3,500-odd crores for the first half, well on track. Maybe there's small 10%, 20% slippage here and there. Some projects are 100%, some projects are sometimes because of permits, sometimes because of land. But I think by and large, we are trading quite well.

Prateek Kumar: Okay. Sir, what is the capex number, which we should expect for full year FY '25?

Vinod Bahety: So Prateek, our target when we started the year is closer to, say, INR7,000-odd crores. And while we have crossed 50% milestone, another INR3,000 -3500 crores, is what we are expecting to end with the full financial year. So closer to INR7,000 – 8000 crores, is what we are expecting for the full year.

Moderator: Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Thank you and congratulations on good set of numbers. Sir, first, is it possible to tell the MSA volume for second quarter?

Vinod Bahety: Very much, yes. Very much.

Ajay Kapur: So our total MSA volume would be around 3.7 million.

Shravan Shah: Okay. Got it. And second, just wanted to understand both in terms of the green share and whatever the expansions that we have, what I see is green share last time, we said that by FY '25, we will be looking at close to 31%, but now we are saying at 20%-odd, so currently 18.2%. And for all the expansions, if I see many projects are getting delayed by 1 or 1 quarter. So any specific reason?

Ajay Kapur: See, as I mentioned earlier, there was my rains and this I mentioned more for Sanghi plant. We had a very heavy rainfall in Gujarat and Khavda area also, where our solar power is. As a result, the 200 megawatt, which should have happened 2 months back is now happening in this quarter. So that's one reason.

Second, at one plant, one of our wastage plants also got delayed for about 2 months. So I think other than that, there is no major delay. And as these projects start coming in, you will start seeing the same number which I promised albeit with the delay of maybe 1 or 2 months here and there.

Shravan Shah: Okay. And for the -- even for the grinding expansion, Sankrail, Farakka...

Ajay Kapur: Heavy capex project, so by and large, we are on track. Some projects, we are absolutely on track. Some projects, slight delays. Some projects, delays are more. But then on the other hand, we are also doing M&A. So what is important is with the Penna addition of 10 million, ongoing another 4 million, with the Orient addition in the future of 8.5 million, straight away 4% market share uptake is there from M&A itself. So I think from the market perspective, it helps us.

Shravan Shah: And then sir, broadly, when we said that out of INR530-odd cost reduction, INR150 we have done. So if I broadly divide and do the math of close to INR120, INR125 per ton for next 3 years that we are looking at, so if somebody looks at from currently INR780-odd EBITDA per ton, it has to move up significantly what we were looking at close to INR1,400, INR1,500-odd. Then are we assuming a significant price hike to coming from now onwards?

Ajay Kapur: If you look at the price, current prices are one of the lowest ever. So I wouldn't make any future estimate on the current price. You'll have to make a much more analytical estimate, what is the right price and what should be the future price. Therefore, if you adjust for the normal price, and then if you look at our end state costs, which we are targeting about INR3,800, I think then the numbers we're seeing is very much achievable.

Shravan Shah: Okay. And for ACC, is it possible for full year, how much capex we are looking at?

Ajay Kapur: How much?

Shravan Shah: For ACC, how much full year capex are you looking at?

Ajay Kapur: I don't think I have that number, but we can certainly give you...

Vinod Bahety: Yes. So I think maybe offline, we can connect, but if I have to just give you for ACC for the balance around closer to INR1,000-odd crores is what we are expecting to incur and like some of them, for example, Salai Banwa and all are already under progress, and we should be achieving this part of my 6 million tons of GU, it has to be up and running before March '25, so yes, ballpark within ACC, say, INR1,000-odd crores.

Shravan Shah: Okay, and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: Thanks for the opportunity. Sir, my question is around right-of-use assets and the cash flow statement, there is an entry called payment of principal portion of lease liabilities. So this number seems to be quite high for ACC. Could you just help understand what is this -- the item and why is it so high for ACC?

Vinod Bahety: Okay. While you are asking for ACC, I have the details on a consol basis, I will just try and attempt that and then maybe separately, we can speak about the ACC part. So the ROU asset, which is there, closer to INR1,498-odd crores, which is as of September '24. And when we started, it was closer to, I'd say, INR1,100-odd crores.

Typically, right of the use of assets would include some of your long-term assets, which are available to you for use. This would include the RMX assets, the office building if you take it on a long-term lease, some of the guest houses, which we've taken on long-term lease and on top of it, some of the contracts on shipping or the rate which you enter into long-term leases. So that is like basically right of use of assets. So on an overall basis, for example, when I look at the overall, say, tangible block of asset, this is a smaller portion of the larger block. And I would say it is actually less than 3%, 4% of the overall, say, my block.

And we haven't seen any significant additions per se, in 6 months, except as I said, around INR500-odd crores, which is for the factors which I mentioned. Again, please bear for me on the point that the numbers are not apple-to-apple comparison given, again, my point that there are 3 companies which have got finalized in terms of their purchase price allocation and the fourth company which is Penna, which is provisional basis. Therefore, you will have to also put the lenses from that perspective.

ACC, maybe off-line, I can address your question. I don't have the details right now, but this was on a consol basis for Ambuja. So there will be a glimpse of ACC also in the same manner.

Amit Murarka: Sure. ACC, It's like looking like a big number, I mean, it's almost INR700 crores for the first half. So that was what I want to understand and although...

Vinod Bahety: So I think all these intangible assets basically, which is where ROU also part of the sale, and you will have this generally, like in terms of any asset which is available on long-term usages, and I will give you some examples of ships to rates to office buildings to guest houses and likewise, right? So yes.

Amit Murarka: Sure. Because, I also noted that in Ambuja console, that number is actually not different from ACC, which means some leases that have happened in Ambuja ACC as well, right?

Vinod Bahety: No, basically because the RMX items get -- which are primary for ACC, and therefore, in console, we'll find delta is marginal between ACC and Ambuja. And when we look at ACC as I said to you for RMX, especially for the mixers and the transit pumps, we have been little going our RMX business aggressively now, and this is more on the outsourcing model wherein you will take the transit mixers and the transit pumps on a long-term leases, which will become part of the ROUs.

Amit Murarka: Sure, sir. And just a second question on Penna sales volumes. So is there any sales being made in the Penna brand also or its all MSA with Ambuja ACC?

Vinod Bahety: Ajay ji, would have answered, but I'll just answer on this point. Like so for the interim period, given that there have been ongoing contracts and especially some of the government contract where Penna was listed as an approved brand, we have continued over there. But otherwise, primarily we have used Ambuja and ACC. Having said that, obviously, the brand remains with us, and we are free to use the requirements. But yes, for certain government contracts and some of the institutional sales, we have used Penna brand.

Amit Murarka: And the MSA will be cost plus 10% or because -- like how in Sanghi it was like -- is it similar MSA or it will be different?

Vinod Bahety: In case of Penna, this is similar to what we have applied for Sanghi, which is primarily cost plus 10% kind of formula. And I'm happy, by the way, that Sanghi, as I told you, has come into EBITDA positive, with this formula, otherwise, it was going through negative EBITDA for many years. And likewise, even Penna has seen a very good healthy utilization of capacities. When we acquired, it was less than 30% capacity utilization and which I'm very happy to highlight that now we are almost at 65%, 70% capacity utilization for Penna.

Amit Murarka: Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take this as a last question. I would now like to hand the conference over to the management for closing comments.

Deepak Balwani: I hope most of the questions have been answered. If you have any unresolved queries, please contact us. Thank you, Sanjeev, and the Motilal Oswal Securities team for organizing this call. Thank you.

Sanjeev Kumar Singh: Thank you, everyone, again, on behalf of the management team, wishing you all a very, very happy and prosperous Diwali. Be safe and healthy and enjoy festivals. Thank you.

Moderator: Thank you. On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: This transcript has been edited to improve readability

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