"Ambuja Cements Ltd., ACC Ltd., and Sanghi Industries Ltd. Q3 FY24 Earnings Conference Call"

January 31, 2024

MANAGEMENT: **MR. AJAY KAPUR – CEO, ACIL**
MR. VINOD BAHETY – CFO, ACIL
MR. CHARANJIT SINGH – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY24 conference call of Ambuja Cement, ACC, and Sanghi Industries hosted by Antique Stock Broking.

As a reminder, all participants' 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 this conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Charanjit Singh – Head, Investor Relations. Over to you, Mr. Singh.

Charanjit Singh: Good evening ladies and gentlemen. Thank you very much for taking out time to join this call. On behalf of Adani Cement, a very warm welcome to all of you.

Before I hand over the call to Mr. Ajay Kapur for his opening remarks, I will make a request that kindly limit your questions to one or a max of two, and then you can reenter the question queue.

On this side, we have Mr. Ajay Kapur and Mr. Vinod Bahety – the CEO and the CFO – to answer your questions. We will go for around an hour, so hopefully we will manage to answer all your questions. But in case something gets left, then kindly feel free to reach out to the IR post the call.

Over to you, Ajay Ji.

Ajay Kapur: Good afternoon to all of you. Warm greetings. Thank you for joining us today. It is my pleasure to share with you the Operational and Financial Performance of Adani Group's cement business for the Quarter Ended 31st December 2023.

To begin with, the Consolidated Quarterly Y-o-Y performance:

We registered a revenue of Rs. 8,129 crores, a jump of 3%. This is largely driven by a strong focus on our micro market management strategy and expansion of dealer network. Blended cement as a mix of total sales was maintained at 87%. Premium products as a percentage of trade sales volume increased to 22%.

Operational cost for the quarter was at Rs. 4,526 per tonne, shows a decline of 10%. This is attributable to 21% decline in energy cost driven by better fuel management, which resulted in reduction of kiln fuel by 25% to Rs. 1.84 per 1,000 kcal from Rs. 2.45.

The transportation cost declined by 1% to Rs. 1,297 per tonne on account of footprint optimization. The direct dispatch to customers has further increased to 52% from 50%. The rail coefficient stands at 26%.

Other expenses stand at Rs. 777 per tonne. With the improvements mentioned on both revenue and cost, EBITDA grew by 70% at Rs. 1,732 crores and EBITDA per tonne at Rs. 1,225, implying a jump of 65%. EBITDA margin expanded by 8.4 percentage points to 21.3%.

The CAPEX spend of Rs. 1,048 crores were achieved from internal accruals and cash in hand. As on 31st December, the consolidated cash and cash equivalent in the company's books stood at Rs. 8,591 crores. The reduction in consolidated cash was on account of acquisition of Sanghi Industries, resulting in cash outflow of Rs. 3,801 crores.

Now, looking at the 9 months Y-o-Y performance:

Revenue is up 5% at Rs. 24,266 crores. EBITDA grew at 91% at Rs. 4,701 crores. On a per-tonne basis, it was Rs. 1,103, implying a jump of 82% and EBITDA margin too expanded by 8.7 percentage points to 19.4%.

Now, coming to standalone performance of Ambuja for the quarter ended 31st December on a Y-o-Y basis:

The revenue is up 8% at Rs. 4,440 crores, in line with the volume growth of 6%. EBITDA jumped by 33% to Rs. 851 crores. EBITDA per tonne stood at Rs. 1,043, a jump of 26% and EBITDA margin expanded by 3.7 percentages to 9.2%. We had a robust PAT growth of 39% to Rs. 514 crores.

Speaking of the last 9 months' standalone performance on a Y-o-Y basis:

Net revenue is up 11% at Rs. 13,139 crores, in line with volume growth of 12%. EBITDA jumped by 57% at Rs. 2,573 crores. EBITDA on a per-ton basis was Rs. 1,035, a jump of 40% and margin expanded by 5.7% at 19.6. We had a robust PAT growth of 16% to Rs. 1,802 crores.

Now, let me share with you the progress that we have made on our announced long-term strategic plan:

Firstly, on our new capacity additions, in line with our plan to add around 40 million tonnes of new clinker capacity, Ametha integrated unit in Madhya Pradesh has now been commissioned, enhancing the clinker capacity by 3.3 million tonnes. Acquisition of Sanghi has increased our clinker capacity by another 6.6 million tonnes. With these 2 additions, we have already added 10 million tonnes of clinker out of 40 million tonnes, as we had planned. Now, our total clinker capacity stands at 51 million tonnes.

For doubling the capacity of grinding facilities to 140 million tonnes by FY28, we are targeting around 35 new grinding units. 1 million tonne of grinding unit at Ametha has now been commissioned. Acquisition of Sanghi has increased our grinding capacity by 6.1 million tonnes. Further acquisition of remaining stake in Asian Concrete & Cements Private Limited has increased our grinding capacity by another 1.5 million tonnes. Our grinding capacity now stands at 77.4 million tonnes. Another 2 units are mapped to the upcoming clinker facility of Bhatapara of 4 million tonnes. These include one at Sankrail and one at Farakka in West Bengal. Another 2 units are mapped to Chandrapur clinker facility of 4 million tonnes in Maharashtra. These include 1 unit at Jalgaon and one at Amravati.

Other grinding units which are being set up are Salai Banwa in Uttar Pradesh, Sindri in Jharkhand, and Marwar in Rajasthan. All these units are expected to get commissioned by FY26 end. Additionally, we would be also setting up grinding units at Hoshiarpur in Punjab, Warisaliganj in Bihar, and Pune in Maharashtra to be commissioned by FY27.

For the new facilities of 4 million tonne clinker at Bhatapara, 30% of civil execution work is now complete and major equipment dispatch has also commenced. Expected completion is by quarter 4 of FY25. For its corresponding grinding unit at Sankrail and Farakka, order has been placed on EPC vendor, and 80% of the filing work has been completed at the site. Expected completion of these units is by quarter 3 of FY25.

For the new facility of 4 million tonne clinker line at Maharashtra in Chandrapur, LOI has been placed on the EPC vendor. Site development and pre-project work has already been started. EC approval is expected in this quarter. Expected completion is by quarter 2 of FY26. Each of these kiln lines will have 42 MW of waste heat recovery and provision for utilizing beyond 30% alternate fuels. We also placed orders on EPC basis for grinding units at Salai Banwa in Uttar Pradesh, 2.4 million tonnes; Sindri, 2.4 million tonnes, in Jharkhand. At our Salai Banwa grinding unit in Uttar Pradesh, groundbreaking activities have already been done.

We will continue to provide progress updates of new orders and also the progress on individual products on an ongoing basis.

Now sharing an update on the structure initiatives to become the cost leader in the Indian civil industry:

In my last call and also in our strategy presentation, I have guided for a total cost reduction of over Rs. 400 per tonne.

Let me first discuss on the progress made to reduce our energy cost:

Our waste heat recovery capacity at the time of takeover, last year, September 2022, was 40 MW, which are now targeting to increase to 186 MW by March 2025. At present, the waste heat recovery capacity stands at 119 MW. We have recently announced installation of 1,000 MW of RE energy, which is expected to get commissioned by FY26 and would ensure that 60% of our power requirements would be through green power. This would help in reducing the power cost by Rs. 90 per tonne on the expanded capacity by FY28.

On multiple occasions, I have highlighted that we want to be self-sufficient on our coal requirements with captive coal mines. As a result, we have started bidding for coal mines in the auctions being conducted by the Government of India. Besides the 1.3 million captive coal mine at Gare Palma, which Ambuja has since 2018, we have won the bid for the 2 million tonne coal mine in Dahegaon-Gowari in Maharashtra. The 2 mines together would cater to around 40% to 50% of our current coal requirements. Our power & fuel costs have decreased by 21% to Rs. 1,353 per tonne in quarter 3 of FY24 from Rs. 1,702 per tonne in quarter 3 of FY23, driven by better fuel management and structure initiatives undertaken. These initiatives include an increase in share of AFR and waste heat recovery in fuel and power mix. Share of AFR in fuel mix has improved to 9.1%, which was 7.1% at the time of acquisition. Share of waste heat recovery in power mix has increased to 12.7% from 3.4% at the time of acquisition.

The second cost item is freight & forwarding cost. These are 3 focus areas for cost reduction here. First reduction in lead distance; second, warehouse footprint optimization; and third, rail-road mix optimization. We are targeting to reduce the average primary lead distance to about 100 km. Lead distance in the current quarter was 284 km versus 291 km at the time of acquisition. For Ambuja standalone, in quarter 3 of FY24, it was 277 km, and for ACC, it was 295 km.

We have made progress on warehouse optimization as well and increased the direct dispatches from 50% to 52% on a Y-o-Y basis. With a focus on cost reduction in logistics, we have ordered 11 General Purpose Wagon Investment Scheme, rakes of seven of which have already been delivered, and the rest are expected to be delivered by the end of the current financial year. These trains will enable cost efficient clinker movement from the mother plants. Apart from these, we have also ordered 26 BCFC rakes for safe and cost-efficient transportation of fly ash from thermal power stations to our facilities. The cost reduction is mainly driven by detailed route planning at each micro market level and adherence to our L1 source, renegotiation on commercial terms, GPS and technological measures, and today, 98% of our fleet leaving the plant is now tagged with the GPS system. On account of these initiatives, our logistics costs have reduced to Rs. 1,297 per tonne in quarter 3 of FY24 versus Rs. 1,310 per tonne in quarter 3 of FY23.

To secure our limestone supplies, we have also won bids for 10 new mines with one each in Odisha, Maharashtra, and Madhya Pradesh, two in Gujarat, and five in Rajasthan. Together, these limestone reserves are estimated to have a total reserve of 586 million tonnes of limestone. And with the acquisition of Sanghi, we are optimizing the infrastructure at the site that would enable efficient transportation of cement from the plant to the jetty through mechanized conveyor belts. Along with other basic infrastructure updates, we are expecting a modest CAPEX of Rs. 200 crores to improve the efficiency at the Sanghi plant. The master Supply Agreement has been signed between Ambuja and Sanghi and ACC and Sanghi that would enable in improving the utilization of Sanghipuram unit from the current 25% to 30% to 75% to 80% in the near future. Improved utilization levels would enable us to transform the company from EBITDA negative to EBITDA positive within a very short span of time.

In conclusion:

We have made strong strides, both operationally and financially in the recent quarter, a testament to our consistent efforts and strategic planning. We continue to generate significant cash to finance our expansion and pay dividends to our shareholders. Your trust and support have been our guiding force. Thank you for believing in us.

I will now request my colleague, Vinod, our CFO, to also start the initial remarks.

Vinod Bahety: I also just want to exert my jubilance in terms of some of the important parameters. For this quarter, we have achieved EBITDA on a consolidated basis per metric ton of Rs. 1,225 which is highest amongst the peer group. Our EBITDA margin of 21.3% is amongst the highest in the industry. Our rating is reaffirmed to triple A level, stable, long term. Our highest PAT margin of 13.4% in the industry. Net worth is lifetime high at Rs. 42,824 odd crores. And in terms of cash and cash equivalents at Rs. 8,500 odd crores, we are again in the highest category.

From a trade sales perspective, the percentage is again the highest. And from premium cement sales, our percentage is again very high. If you see in 9 months, the cost reduction which is achieved almost at 10%, we were almost at Rs. 4,700 per tonne to Rs. 4,800 per tonne in December last year and now we are at close to Rs. 4,300. This Rs. 400 per tonne which has been saved is again the cost reduction which has been highlighted.

And, if you see the investor deck also, there were some feedbacks to bring in more and more information. So, this time we have covered lots of additional information in our investor deck. I am sure people would have gone through it, all of you. And, we are open to questions now.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Indrajit Agarwal from CLSA India. Please go ahead.

Indrajit Agarwal: My first question is on Sanghi. Congratulations on the acquisition. Post to the acquisition, would Sanghi as a brand cease to exist? Would the entire volumes be sold under MSA to ACC Ambuja or that brand will also exist?

Ajay Kapur: The simple answer is we have already shifted the entire sales in the brands of Ambuja and ACC. And that is very well received in the market. So, Sanghi as a brand we are not using.

Indrajit Agarwal: My second question is actually on CAPEX; if you can help us with the guidance of CAPEX for FY24, FY25, and FY26 and the split between Ambuja and ACC on this.

Ajay Kapur: If you see our investor deck, we have loaded Slide #29. All the details are there. We have, as I mentioned also in my opening, 2-line 8 million tonne clinker and 19.6 million cement. In addition, there are 5 new grinding stations. I know this question will also come later, so I'm attempting an answer now only so that perhaps another question on the same I'll answer. In Amravati and Jalgaon, the land acquisition is currently in active progress. We expect this to be completed and EC also by December 2024. And therefore, after that, in about 14 months, the project should be on. Hoshiarpur in Punjab, the land has been purchased. Public hearing has been completed. We are already in an advanced stage. I think we should get the EC by March 2024. After that, again in around 14 to 15 months, the project should be live. The Bihar grinding unit Warisaliganj, land is already available. Public hearing also completed. The EC timeline is March 2024. After that, 14 to 15 months for project completion. And in Pune, the land is identified, under progress. Like Amravati and Jalgaon, we should get the EC by December 2024, and after that, another 12 to 14 months. This is the status of the new 5 grinding units which have been announced today in addition to 19.5 which we have already announced with the timelines.

Indrajit Agarwal: And how will we source clinker here?

Ajay Kapur: We have a clinker at ACC Wadi. We are doing some debottlenecking there. Maharashtra we have anyway put up a clinker line of 4 million. That can easily produce 6.5 million tonnes of cement. And you can see the 3 grinding units are coming in there – Pune, Amravati, and Jalgaon. Regarding Bihar, we are putting a new line at Bhatapara, which can again produce with slag and composite cement, closer to 7 million of which 4 million is in Bengal and the remaining, as I mentioned, in Bihar and some of the other areas. So, more or less well balanced clinker across. Obviously, very soon you will also hear from us the next set of clinker lines. I can tell you a lot of work is already being done, but in today's call, I am not going to announce new clinker lines, but rest assured, a lot of work has already been done there.

Vinod Bahety: And Indrajit just to also preempt another question, for the December quarter, Sanghi, it was only 25 working days, which is part of the results. And just to also highlight, the entire integration process has gone very well ahead of the plan. And in the March quarter, you will see some good volume jump coming from Sanghi itself, which I am expecting to be almost a million tonne for the 3 months compared to less than 0.2 million for the December quarter. At Sanghi, this volume expansion is on the back of the brand strength of Ambuja and ACC as well as the overall distribution strength of both the companies. And hence it makes more relevant to use Ambuja and ACC.

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

Prateek Kumar: My question is, if you can explain the cost hit which we had during this quarter because of which the EBITDA per tonne has got hit during the current quarter? Is it related to buying clinker from ACC or from outside? And what part of it is extraordinary when you say you took a 12% clinker shut down during the quarter?

Ajay Kapur: Basically, we had 3 big kilns of Ambuja, which are about 40% of our clinker. They were under routine maintenance, and one had an unscheduled breakdown. As a result, the clinker production was less, and therefore, the cost absorption was on a lower volume. I think that's the main principal reason. Other than that, I don't see anything. That should come back in the following quarters.

Prateek Kumar: What would be the cost associated with this? Why I ask is most of your peers have reported Rs. 200 improvement in EBITDA per tonne. ACC is also higher on a standalone basis at least. Your consolidated number actually looks quite good. But your standalone numbers of Ambuja are looking sort of flattish on unit EBITDA. All that loss got booked in ACC in terms of more clinker purchased from ACC, and a result ACC results have improved significantly during the quarter?

Ajay Kapur: One question always asked to me in the past was that ACC and Ambuja had a big lag. And we always said that we are running both companies with the same set of lens. We have seen ACC performance certainly going up. If you see standalone, Ambuja volumes are pretty good, I would say. It is just that absorption has happened because some clinker capacities were not running. As a result, our cost for Ambuja for this particular quarter is slightly higher. But I think this should catch up. About Rs. 100 per tonne is a catch-up, I would expect.

Vinod Bahety: Just to put some numbers, let us say in September, on standalone Ambuja was Rs. 1,020 per tonne on EBITDA. And as you rightly said, this shutdown and also higher clinker of the inventory which has been consumed, close to about Rs. 150 per tonne to Rs. 200 per tonne which has affected Ambuja. If I normalize it, it would be close to Rs. 1,200 odd which is also a Rs. 200 jump in the EBITDA. So, Prateek, just to give you the numbers, this higher cost of the shutdown of almost say 40% capacity costed me almost Rs. 50 per tonne. Then the inventory of clinker, which I consumed, the opening stock if you see also, the difference in the change in the inventory, earlier it was positive, this quarter it is negative because I have consumed more inventory of the opening stock, which has cost me almost Rs. 30 to Rs. 40. And then higher sales of the traded goods, when it comes to Ambuja, there has been a higher proportion. And I will explain to you on the MSA part, which also costed another Rs. 30 to Rs. 40. So, close to Rs. 150 odd has been impacted for Ambuja standalone EBITDA. Otherwise, it would be closer to Rs. 1,200 per tonne on a normalized basis.

Ajay Kapur: Also, on our MSA, one good news is that we have been able to maximize the synergies between the two companies. As a result, that volume has taken a significant improvement. When you consolidate at Ambuja level at Holdco level, you find that the margins are now really shooting up. That's a very good news, I would say, because the interest rate improvement for MSA volume itself has been substantial uptick for the consolidated company which is Ambuja.

Prateek Kumar: Just one clarification. In Q4, this Rs. 150 should swing back, right?

Vinod Bahety: Yes, for sure. In fact, therefore, we have also highlighted in our press release that the benefits will come in the coming quarters, immediately in Q4 itself.

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

Raashi Chopra: Sir, my first question is on the cost side. You would mention that the costs will improve by about Rs. 400 per tonne based on all the efficiency parameters, etc. How much of that is already done and how much more can come?

Ajay Kapur: Raashi, if you see my opening, we already have saved some because of the increased share of waste heat. By March, you will see a substantial improvement in the RE because 200 MW is getting commissioned. Let's say on 30% to 32% factor, 60 MW of RE would be available to us. Then next year, as I mentioned, we are further going to add waste heat recovery. So, I think in the journey of Rs. 400 and our EBITDA already at consolidated level is now nearing Rs. 1,200, you can see improvement happening purely on efficiency. But I believe another Rs. 300 will come over the next 12 to 24 months.

Vinod Bahety: Raashi, what Ajay Ji has highlighted is some of the important investments which we are making in terms of the renewable power, WHRS, and also in terms of the raw materials procurement, for example, whether it comes to gypsum, whether it comes to fly ash, putting CAPEX for fly ash handling system or putting facility of synthetic gypsum, these all are going to give us the visibility of at least a couple of hundred crores of cost reduction in the coming quarters. We are very confident of achieving our Rs. 1,450 guidance which we had given in the initial period. I think we are very much on the exit of FY24, we should be moving towards that.

Raashi Chopra: Your EBITDA per tonne guidance keeping in mind that the price hikes that happened over the course of the last few months have kind of reversed, etc., this is really only a cost advantage we are all talking about, right?

Ajay Kapur: Yes. I don't want to get into the price debate and discussion because it's a very dynamic one first of all. So, it's not right for me to comment there. I was, therefore, commenting only that you have seen when we put up our strategy roadmap in May last year, from then till now, we had guided about Rs. 400+ cost improvement on a static price line. Of that, I said another Rs. 300 should flow in over the next 12 to 24 months. What are the levers? Rs. 90 per tonne will straightaway come from waste heat and green power when fully implemented, another Rs. 50 to Rs. 60 will come from logistics, and another Rs. 50 to Rs. 60 will come from footprint optimization, and the last Rs. 50 will come from the raw material procurement. This still doesn't have the play of our own fuel management. I think that will be on top. So, I am very comfortable that I will exceed that guidance which I have given and there is no question of…. We are very much progressing in that direction.

Raashi Chopra: Sorry, I missed that. 90 was waste heat recovery and green, 50-60 logistics, 50 was raw material, and what was the other 50?

Ajay Kapur: Footprint optimization; where you have new grinding stations, your cost associated with the market tends to improve. And straightaway the one lever which hits first is the lead distance. Every kilometer per tonne if you take Rs. 4 or Rs. 5, the decrease in cost is substantial.

Raashi Chopra: Just one more question. Sir, currently, your grinding cement capacity is 77.4 and clinker is 51. And in the immediate visibility, based on the announced expansions, you have cement going to 110. I know you said you want to detail clinker, but at 110 cement base, how much clinker do you expect to have?

Ajay Kapur: Again, as I said, then I will have to give you a number which I rather come out with a proper guidance. And with the details as we have loaded on our website today…. Allow us some time. I can assure you, just to give you some comfort, at Sanghi itself, we have a billion tonne of limestone. Likewise, there are multiple sites where work is going on. Land has been acquired, EC applications have been filed. I want to announce when my EC application for a mother plant is already in my hand. So, just wait for some time.

Raashi Chopra: On a consolidated basis, from a volume growth perspective, FY 2025-26, how do you first look at that?

Ajay Kapur: Let me only give you a number right now, a growth number for Indian demand, should be about 7% to 8%. I am very confident about that. I think our normal existing capacities should get that number. And our new capacity that we have acquired and also some of the markets that we have acquired with those capacities, that should give us a number on top of the normal 7% to 8%.

Vinod Bahety: Raashi, straightaway we have added almost 15% of the capacity, where we were 67.5% and today we are at 77.4%. That will definitely add up to my overall volume when the full blown up strategy comes on the capacity which we have acquired. Now, you can just do the math. This will definitely be better than the industry growth for Ambuja consolidated.

Moderator: The next question is from the line of Rahul Gupta from Morgan Stanley. Please go ahead.

Rahul Gupta: I have two questions. First, out of this 2.9 million tonne of MSA sales, can you help me understand how much would be to ACC on net basis?

Vinod Bahety: Rahul, in terms of this 2.9 million tonnes, 1.7 comes from ACC to Ambuja and 1.3 comes from Ambuja to ACC.

Rahul Gupta: My second question is a bit related to strategy. How is the group thinking now with respect to ACC and Sanghi consolidation into Ambuja? Is it that they would continue to keep the 3 companies separately listed eventually? Any color on this would be very helpful.

Ajay Kapur: Rahul, you would appreciate, at this moment if there was any comment, I would have already commented in the press release or in our media statement. Give us some time. We will come back to you with a more coherent and clear strategy on that. For ACC Ambuja, we are very clear. Right now, we are running it as 2 companies. However, you have seen the MSA volume. The MSA volume in this quarter has been the highest and the biggest and that is already showing in the result margin for the consolidated entity. As far as Sanghi is concerned, we have just acquired. We are still in the process of finishing certain steps. Step #1 is to finish our open offer. Step #2 would be to integrate. Again, there are 4 or 5 steps before I can answer the question you have raised. But allow us some time. We will come back to you on that.

Rahul Gupta: Just a followup on this. Is it fair to say that the net MSA volumes of around 2.9 million tonnes or 3 million tonnes would be the way to go forward with?

Ajay Kapur: I think at this moment, this volume is all right. But don't forget that every year we are adding 10% to 15% new capacity. As the new capacities get added, until such time, the 2 entities remain the way they are. We will always keep optimizing the footprint. And that's where the value is coming in. And you are seeing for yourself that at a Holdco level, we have seen a margin uptick coming because of consolidation and because of MSA. So, I would say the full strategy is playing out beautifully well.

Moderator: The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Kapur Saab, last year we had a detailed discussion about the strategic roadmap and some of the contours in terms of the cost and other things are beginning to get visible. But I wanted to take an opportunity and check with you as to what your overall vision of the industry Ambuja combines plays under that and some of the more tangible guideposts in terms of volume, profitability, and capital efficiency over a 3 to 5 years' time frame? I am aware of the roadmap that you had drawn and indicated, but my personal opinion is that maybe this is probably the Indian cement industry's one of the best periods ahead. This is my personal understanding. But I would like to have some more clarity from your end as to how you view it and Ambuja combines plays under that overall opportunity for the industry.

Ajay Kapur: Bharatji, thanks. I think you asked me very very interesting questions. They are also strategic and future oriented. Let me attempt answers. First of all, our position is very clear. We want to grow and we want to have an end state roadmap which our Chairman had given us this vision of doubling the capacity from the day we acquired the companies, from 67.5 to 140. I have already in my PR today released the number of 110 million, of which ten has already been acquired, which has already taken to 77.5 in 1 year. Work on multiple others has already started, but a very clear roadmap with names we have given up to 110 million. That clearly is a work in that direction. On the cost leadership, you are seeing the margins improve. You have also seen the turnaround in the company of ACC under Adani leadership; it's a complete turnaround. Today, ACC EBITDA margin is nearing 1,000. And when we acquired it, it was almost negative a year back. Now, coming onto how I see the next 3 to 5 years, I believe the EBITDA per tonne of Ambuja consolidated should be in the realm of Rs. 1,450 plus. That guidance stays firmly in place. And this guidance is not basis price. This guidance is firmly based on cost. And I am very confident this will come. And it will be further supported with a larger volume from the current 77.5 to 140. We should be selling 120 million tonnes by March of 2028. I am very confident we should be able to get to that number. I think that itself will tell you the position, the valuation, and the financial matrices, because that will also give me a ROCE of closer to 19%, with an EBITDA margin of 25% to 26%, other things remaining equal. That's what I have put out in the public space. That's what I like to further reiterate and also mention that a lot of actions on the ground are happening across our sites. I hope I have answered your question, Bharatji.

Bharat Shah: But return on capital employed of 19% to 20%, would you not regard it as a little less ambitious? Because, today's Indian cement industry is placed in the global context on many qualitative parameters and is much more distinguished than before. Industry itself has consolidated.

Underlying demand drivers in terms of real estate, housing, and infrastructure, all that appear to be robust. And it looks very clear that the industry which has grown in the last 20 years at 6% to 7% per annum in volume terms should do a lot better on a larger base in the next 20 years. Therefore, consolidation of the industry, improvement of the practices, very clearly the global level capability and capacity emerging, and the opportunity highway and our stringent focus on internal efficiency and raising the bar there, 19% to 20% in a consolidated industry for a lead player, would you not regard it as somewhat underwhelming?

Ajay Kapur: Bharatji, one thing I didn't mention. This is on static prices. My entire strategy which I had laid out then and I am again laying out today, I have not considered a healthy price increase in this. If there is a price increase, as you rightly mentioned, with the demand supply gap narrowing, the upside could be much higher. But in the interest of time, I would suggest we can engage offline and we can have a much more nuanced discussion on it.

Moderator: The next question is from the line of Devesh Agarwal from IIFL Securities. Please go ahead.

Devesh Agarwal: I missed the number on the cost that is there in this quarter. What is the cost per kcal basis for the 3rd quarter and your expectation for the 4th quarter?

Ajay Kapur: 1.84 I think is the fuel cost I gave. And we expect the cost to more or less trend in the same format because we expect much more smart buying on pet-coke prices.

Vinod Bahety: Just to add, Devesh, you are right. What we have seen in this quarter, December, is that the pet-coke has been subdued in terms of the overall prices which have come down almost like if I compare, say 20 odd percent, from $140 per tonne to almost $115 per tonne. There is a lag effect with coal. And now, for example, we are seeing a good trend of softening of the coal prices for this quarter and definitely it should help. As you know that my basket of coal is actually improving in terms of domestic more as compared to import. And we also definitely have put 3 lakh tonnes of opportunity buy when it comes to pet-coke from Saudi Aramco. That is definitely going to help me in the coming quarters.

Devesh Agarwal: On Sanghi, you mentioned 1 million tonne volume in the next quarter itself, in the running quarter. That implies 75% utilization. So, what are your plans to increase capacity at 10 million tonnes that you mentioned and what would be the markets that you are targeting from the Sanghi plant?

Ajay Kapur: Sanghi plant will initially target Gujarat and Maharashtra markets. And in time to come as the full strategy plays out, it will go down south as well to markets of Kochi and Mangaluru. But it will cover the entire Gujarat; it will cover parts of Maharashtra, most of the coastal parts; and it will also then go down south.

Devesh Agarwal: And target to increase from 6 to 10 million tonnes?

Ajay Kapur: That, I will lay out in my roadmap, as I mentioned. In the next set of kiln announcements, you will also hear of Sanghi kiln.

Devesh Agarwal: And one final question. What are the timelines for the balance of warrant money that is likely to come from the promoters?

Vinod Bahety: Devesh, as you know that the timelines are somewhere mid of April and that is when the promoter group will be able to highlight on that part. So, as of now, no comments on that.

Moderator: The next question is from the line of Navin Sahadeo from ICICI Securities. Please go ahead.

Navin Sahadeo: Two questions; one on CAPEX and second on the sustainability of fixed cost reduction. On CAPEX, if you could first share the actual cash outflow that you are estimating because what I also see is while your clinker addition which you have given so far is about 10.25; 8 already announced and 2.25 at Mundra; and total grinding is almost 32 million tonnes, it does appear even from an FY27 year perspective, it could be higher on the grinding and lesser on the clinker front.

Ajay Kapur: As I mentioned earlier on the clinker, very soon you will hear the next set of clinker capacities. I am waiting for the public hearings to be done. I expect these to be done by June. Post that, you will hear our next set of kilns for which most of the land is in our possession. These are brownfield assets. Limestone reserves in our possession; land in our possession; only public hearing we are awaiting. Therefore, some places we have to build. This has always happened as we expand. Sometimes the grinding will be ahead, sometimes the clinker will be ahead, but we are very confident. These projects, since they are brownfield, should be able to get from the time of EC approval to the plant commissioning, outer limit would be 18 to 20 months.

Vinod Bahety: Navin, if you are preempting in terms of the overall capital management plan around this CAPEX, then we have done our math, and for any intermittent, any M&A outgo; otherwise, all our CAPEX is well planned, aligned with the cash flows what we are expecting from the business. And if there is any requirement for any additional opportunity, definitely our balance sheet is very very strong and very healthy, debt free as of now. So, that is capable to handle that part.

Navin Sahadeo: The second question was about the sustainability of fixed cost reduction. Because, we have seen in the case of ACC particularly and also in the case of Ambuja, fixed cost – at least the staff expenses and in case of ACC, even the other expenses – we have seen a significant reduction. Just wanted to get a sense are these more sustainable or it had probably some element of one-off or it could be volatile going ahead?

Ajay Kapur: I think there is no one-off per se. I would say the entire strategy, as we had laid out last year, is now playing out in full potential. There is lean management, there is single management. And of course, we have also volume. As it kicks in, you will find the fixed cost journey at least will not go haywire from where it is. It will only get slightly improved further. But I don't see any major uptick in the cost going forward. And some of the cost in Other Expenses, we are also now investing in brands. I think that part I would say was under invested; in future, we will invest a little more. But other than that, I think it is more or less in place. I don't see any major concerns going forward either way.

Vinod Bahety: Navin, interestingly, this one-off question has been coming every quarter, and every quarter we have been sustaining in terms of the cost, which actually shows that last 4 quarters from almost a 10% reduction and if you start from looking at March to December 2023, the trend is very very clear. And in all our investor presentations, we are highlighting all the components of the cost. And further, we have now highlighted what are the efficiencies, improvements, CAPEX. So, only from here, there will be improvement.

Ajay Kapur: And, of course, the annual bonus, as you know, kicks in in the April quarter. So, they could always be a little bit of a natural payout of bonuses. That's the only thing which would happen going forward.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Firstly, I appreciate the granular details on various aspects in the presentation. My first question is on the volume growth part. If you look at the last 4 quarters, our volume growth on a consolidated basis has been just 2.5% to 2.6% excluding the Sanghi volumes versus peers that have grown by early teens. I just want to understand from the last 4 quarters, what are the key reasons why we are lacking the growth and losing market share and some future guidance on this aspect.

Ajay Kapur: For the current quarter, I believe the industry growth is about 3.5%. We are more or less in line with the industry growth. Within that if you see, Ambuja's standalone is about 6%. So, it's a little better than the industry growth. And also, of course, in this quarter, you had a very bad November. So, some of those issues also had an impact on the rest of the industry. And there are some elections, I think, in this quarter. I think, going forward, as I mentioned, the industry growth should be about 6%. At the base level, all our units should be able to get plus that and all the incremental volumes that we are adding in the system plus the catch-up, as you rightly mentioned, should also help us. And I can only give you that in January, we are seeing very robust numbers for the entities. So, I am very confident that, going forward, we should have a healthy growth.

Vinod Bahety: And also in terms of our capacity realizations, we are amongst the highest in the peers at 77 odd percent which means with every increasing capacity, one can just expect that the volume expansion will be proportionately growing with that. That is a straightforward math.

Sumangal Nevatia: I missed the CAPEX number. Is it possible to share what is our full year CAPEX latest guidance for FY24 and FY25 as well?

Vinod Bahety: Let's go with the overall. Again, I would reflect you on the 140 million tonnes of plan which is staggered into the next 4 years. And as I highlighted, 80% of this, we will be achieving by FY27. And when I do a complete math, I am generating an EBITDA of close to Rs. 8,000 crores to Rs. 10,000 crores which we will be generating and the business itself will be throwing a healthy cash of Rs. 5,000 crores to Rs. 6000 crores, net of taxes and all. So, from an overall CAPEX outflow perspective, each year we are expecting a Rs. 4,000 crores to Rs. 5,000 crores outflow staggered over the next 3-4 years. For FY24, we are expecting Rs. 3,500 crores overall outflow. So, this quarter we will see a good CAPEX outflow as well. But Sanghi will be adding to the incremental requirement. However, as I mentioned, from an overall capital management plans and perspective, the numbers which we are discussing with you, these are all without any incremental borrowings at this stage. These are all basis the healthy cash flows and the existing treasury on the books, which will be self-sustaining. And the EBITDA which is highlighted to you doesn't factor in the potential jump on the basis of the price realizations improving. This is the cost leadership journey which we have achieved. And any further improvement on the market which we have highlighted will only be adding to my EBITDA. The business is generating a good healthy cash flow and which will maintain my CAPEX plans. Broadly, as I said, Rs. 5,000 crores to Rs. 6,000 crores from a cash outflow perspective and from a commitment perspective, Rs. 8,000 crores to Rs. 10,000 crores a year you can expect.

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

Amit Murarka: Sir, my first question is on the arrangement with Adani Cement's Dahej plant. I think in the presentation, you have mentioned that you have entered into an arrangement. Can you please explain that?

Ajay Kapur: Like we do a master supply agreement between Ambuja and ACC since it's a related party, we have done a similar arrangement with Dahej unit of Adani Cementation, wherein we use it like a toll manufacturing. We give them clinker, convert it into cement, and take it at the ex-factory gate, and sell it in both Ambuja and ACC brands. More or less a similar arrangement as we have done with all our entities, including now Asian which ACC has acquired in the north.

Amit Murarka: This is cost plus 10% arrangement similar to, let's say, what we saw in Sanghi or it's a different arrangement?

Vinod Bahety: Since this is on a pure tolling basis, this will not be cost plus 10%. It will be on the basis of tolling charges per metric tonne, which is close to about Rs. 300 to Rs. 350 per tonne.

Ajay Kapur: In this case, in Sanghi, Sanghi is producing clinker and billing us on cost plus. Plus we are taking the entire investment. We have given loans at a very market-friendly pricing versus what they were getting earlier. And their entire brands are from Ambuja and ACC. In this case, we are using the grinding unit purely as a tolling unit. So, we have to mitigate the entire cost and then we buy it on a price, more or less the same formula as we do for ACC and Ambuja.

Vinod Bahety: I stand corrected. Yes, this is on a sales basis only, similar to what we have adopted. It's not on a tolling, sorry. It is on a sales basis which we have adopted for Sanghi and ACIL. It is on a similar principle.

Amit Murarka: There would be some double counting of volume then, right? When you sell clinker, you would be booking as clinker sale and then cement sold externally will again be booked as sales.

Vinod Bahety: No, it will not be double counting.

Amit Murarka: You will sell clinker to Dahej, right? And then they will sell cement to you?

Vinod Bahety: Yes. In this case, for example, we will only factor in the sale of the cement which will be there from our side. And in the cost, it will also come as a purchase of cement. Basically, that is how it will be. But there will not be any per se double accounting.

Amit Murarka: When we sell the cement externally, that will come as cement sales as well?

Vinod Bahety: Yes, I will be selling and then I will be buying. Delta is mine.

Amit Murarka: Also, on your ACC, if you could just help us understand like there has been quite a bit of volatility in the numbers there. We saw Q1 being good, Q2 again being weak, Q3 has again been good, thankfully though. Now, can we expect a Rs. 1,000 EBITDA profile to sustain and in fact hopefully improve from there? If you can just dwell into that a bit.

Ajay Kapur: Basically, ACC movement has been…. You're right; March quarter was 554, December 2022 was 496. Sequentially, you have seen from June from 800 to September it had a dip. And then it has again gone up. I would say it is more stable now. A lot of inefficiencies in the system have been addressed and we are also addressing the tail-end plant. I think that is also helping. On top, we are also doing footprint optimization. And this is a question, if you all recall, that was asked that why there was such a big margin gap between the 2 entities? And I think that strategy is now playing up.

Amit Murarka: So, we can now hope for a Rs. 1,000 profile to sustain basically at ACC?

Ajay Kapur: Yes, we are also hoping for the same.

Moderator: The next question is from the line of Satyadeep Jain from Ambit Capital. Please go ahead.

Satyadeep Jain: There are a couple of questions. One, on the new capacity expansion you have announced of 2.5 million clinker and 10 million cement, which entity would that come under? Some Adani Cement, I guess. But can you talk about where all these capacities settle?

Ajay Kapur: All the capacities that I have announced, the 2 clinker lines are coming in Ambuja, Slide #29. Bathinda is in Ambuja; Bhatapara is in Ambuja; Maratha, of course, is Ambuja; Sankrail is

Ambuja; Marwar is Ambuja; Farakka is Ambuja; Sindri is ACC; Salai Banwa is ACC; Mundra is Ambuja. And of the new capacities that are coming in, all of them are in Ambuja.

Satyadeep Jain: I just wanted to ask given ACC also has a lot of cash on the books, what is the thought process behind adding all these capacities in Ambuja and not ACC?

Ajay Kapur: As I mentioned, I have yet to announce the new set of cement kilns. And, in time to come, you will hear expenditure planned over there as well from ACC.

Satyadeep Jain: Thank you for all the detailed slides you have put out; it's very informative. Just wanted to ask on power. Obviously, under Adani Cement, Ambuja is doing all the power commissioning and execution by itself whereas you have Adani Green and Adani Power – they have the experience. What's the thought behind doing it in-house? And also, when you are building a Rs. 1.3 savings, can you maybe talk about what kind of grid power cost you have assumed for that kind of savings?

Ajay Kapur: We have taken around an average Rs. 7 grid power cost. That is basis this working. I think the details are given in Slide #43. And then if you really look at the mix, it's not just green, it's also waste heat recovery. The grid we have calculated for FY 27-28 is around Rs. 8.50, CPP Rs. 8.28, and waste heat about Rs. 1.4. And that's how we have worked out this saving.

Satyadeep Jain: CPP seems very high. Because you are building on this green energy which is going to be solar that would be mostly during the day. So, during the evening, you are going to replace the grid with captive coal plant. Is that correct? And would that mean that you ramp up and ramp down the coal plant? During the day, you shut down coal and during the evening, you start it?

Ajay Kapur: What we have done is, basically, on a technical minimum, the captive power plants will be run during the night. And during the day, the solar would be drawn. And we have taken a lot of help from our colleagues in the Green and also in our distribution and part of planning the strategy.

Satyadeep Jain: Because of that ramp up and ramp down, you assumed more than Rs. 8 cost for CPP. Is that correct? Otherwise, that cost seems very high.

Ajay Kapur: No, CPP cost basically will also go up because we have taken some assumptions in the cost of coal going forward. That's the reason. We have taken the trend of the past few years; 2% to 3% inflation we have taken for the purpose of our modeling.

Satyadeep Jain: Why Ambuja is executing this and why not Adani Power given their capabilities in that.

Vinod Bahety: A good point and good observation. It is an investment from Ambuja on its balance sheet because this is like a strategically important investment from my cost to my ESG requirements and all. And Adani Green which is the group's leader in the green power, they are helping us to implement it. A large part of this green power is coming in Khavda where Adani Green has sizable, as we all know, ongoing projects and wherein they are giving us some part of this out of this Khavda location. Of course, they are helping us in terms of implementing and executing this project. But strategically, it is important from Ambuja's perspective. As I highlighted, it's a long-term requirement for me and also helps me in my overall larger ESG standards.

Moderator: Ladies and gentlemen, due to paucity of time, we will take that as our last question. I will now hand the conference over to Mr. Charanjit Singh for closing comments.

Charanjit Singh: Thank you everyone, and thanks for taking out time. For any leftovers, you can directly reach out to me after the call. Looking forward to another engagement after Q4 results. Good day.

Moderator: On behalf of Antique Stock Broking Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.