“Ambuja Cements Ltd.
Earnings Conference Call”

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Management:

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Moderator: Good morning, ladies and gentleman. Welcome to Ambuja Cements Ltd. Earnings conference call hosted by ICICI Securities.

This is to remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, viewed in conjunction with the risk that the Company faces. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information, events or otherwise. Please note that the duration of the call is for one hour.

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 '*' then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Krupal Maniar – ICICI Securities. Thank you and over to you, sir.

Krupal Maniar: Thank you. Good morning and a warm welcome to everyone. On behalf of ICICI Securities, we welcome you to the Earnings Call of Ambuja Cements Ltd.

On the call, we have with us Mr. Neeraj Akhoury-CEO India, Holcim and MD and CEO - Ambuja Cements, and Ms. Rajani Kesari, CFO India, Holcim and CFO, Ambuja Cements.

At this point of time, I will hand over the floor to the management of the Company, which will be followed by interactive Q&A session. Thank you and over to you, sir.

Neeraj Akhoury: Good morning everybody and thank you for joining Ambuja investors call. I am greatly privileged that all of you are here and I understand about 150 participants are on the line today. So, again thanks a lot, and hope all of you are safe, all of you are well in these difficult times of Corona. In 2021, we start our pledge with what we describe as "Change The Story", change the story for Ambuja Cements, change the story for ACC, and change the story for Holcim in India.

We are taking strong steps now to make our contribution worthy in the society and if you look at the title slide, it is about one of our latest technology that we bring from our group Company, Holcim to India and this is a technology through which we install what we call a “Bubble Barrier”, which allows the marine life to thrive, but the plastics can be collected. We expect, through one of these installations in Agra cleaning the Mantola Canal, to collect more than 2,500 tons of plastic, and we are confident that we are going to replicate this across India, going from Mantola Canal in Agra to going to Varanasi to going to Himachal Pradesh to Gujarat and to many other states. So, with your wishes, Ambuja and ACC will do everything possible to make sure that we come across as a responsible Company to the country.

Going next, so the today’s discussion document, we have divided into four parts. The Company overview with a bit of our views on economy and the sector. We will also talk about our strategic priorities and then we will also discuss our performance for the year 2021, as well as for the last quarter.

So, in terms of the Company overview, Slide #5, Ambuja is a fairly large organization at 31.45 million tons. This is up from earlier about30 odd million tons coming to 31.5 million tons with our new project commissioned last year at Marwar Mundwa in Rajasthan, which will enable us to produce up to 5 million tons of additional cement. In the last year, we also focused a lot on our journey of premiumization.

As you know, a couple of years back, Ambuja’s share in the premium products was roughly about 8% and now we are already at 15% and we are doing everything to increase and multiply this going ahead. We believe that these are high EBITDA product. These are profitable products for us, but also they are the right products for the consumers with the right value proposition with the right amount of value that it adds to the construction of the individual home builders. We continue with our focus on blended cement. We are still convinced that Ambuja should focus on the blended cement and not on OPC, which we believe does not add too much of bottom line to the Company. Currently, we are at about 89% and we expect to remain at the same levels in the coming years as well and with that blended cement, Ambuja is recording one of the lowest clinker factors in the industry at 63%.

We are 8x water positive, another feather in terms of how we contribute to the environment. I would hope to believe that the real-time water positive is the highest in the Indian cement industry, much higher than many other numbers that we see, and we expect to become ten times water positive in times to come. Our journey in which we are now pushing for alternate fuel to replace the more expensive fossil fuel is on. Last year, we recorded 5% plus replacement of fossil fuel with other types of renewable fuels or you call it alternate fuels.

Our focus on the market continues as ever.

We have now about 55,000 channel partners across the country from Jammu and Kashmir right down to Kerala and from Rajasthan up to Assam. A strong talent pool of roughly about 5,000 people. As you all know, last year we had also done a restructuring exercise. So, there is a reduction in the number of people, but we expect to bring in more fresh talent to the Company, more young talent and more diverse talent as we go forward.

Our strength, in terms of Ambuja Cement Foundation, which is pillar of our performance across the sites. Last year we touched about 2.8 million lives, be it in education, be it in health, be it in Corona support, be it in skill development. So, we try to do everything with our local community so that we remain a strong partner to local communities in all the plants where we operate.

Going to next Slide, #6, Ambuja has several flagship plants located across the country and most of them are highly profitable plants. So, we have right from starting from Himachal with the clinker plant up to Gujarat and in Chhattisgarh, in Maharashtra and Rajasthan, but we have also now spread our networks of grinding plants across India. This allows us to reach our products very quickly and very easily to our consumers located across the states of India.

So, look at Slide #7, based on all that I have said, I believe that Ambuja is very well positioned now to capture the new opportunities in the market and to excel in delivering better performance in the years to come. So, the first thing and I think last year also we discussed this, Ambuja is one Company, which has very well-defined growth plans with a good project team, which allows us to execute the projects on time. So, between both Ambuja and ACC, we have a strong project team and it is for this reason that despite two years of very difficult

Corona times, we were able to complete Marwar at an accelerated speed of roughly about 18-19 months despite Corona. We also have two grinding plants of ACC, both for Sindri and Tikaria, which have been commissioned in record time of sub-12 months despite the Corona led disruption being very intense last year. We also have quite a widespread presence, if you look at our earlier chart map, you'll understand that we are located across the markets, very close to the consumption centers and therefore once the demand happens, then Ambuja will be very well placed to cater to that demand and to serve the customers in those markets. Ambuja remains one of the strong brands in the country. Virat Compressive Strength, Giant Compressive Strength, remains our tagline and we continue to produce cement, which is highest in terms of strength in the market and that gives us also an opportunity to improve our premiumization and that is why you see 8% has now become 15%.

We continue to make products, which have a very sharp value proposition, which have a very high quality and therefore we remain the preferred brand to the consumers across the market. Our ‘I CAN’ project, as you know, we started it about two years back to drive the cost efficiency. It is driving our competitive stand. A lot of OPEX, as well as CAPEX actions have been taken. We believe that what happened in last quarter is more because of the fuel price, but otherwise the ‘I CAN’ initiatives of Ambuja have been delivering, but my CFO, Rajani, will talk more about it. As you go around and you hear a lot about environment commitment, Ambuja and ACC are the two companies, amongst few others, who have now committed to our SBTi targets, which are validated with action plans up to 2030. So, we are on our journey to become a net-zero Company in years to come, but we will rapidly reduce our carbon footprints, our environmental impacts in the next seven to eight years.

Our strategy will remain that we should be able to create incremental value and higher value, both in terms of financial and in terms of ESG performance in the country. We will make sure that our investors remain satisfied with the performance that we deliver, both on financial and ESG. Of course, we have a strong cash generation and that also supports our growth plans, both organic and inorganic growth. So, we will continue to scan the market of additional opportunities that we might get to improve our capacities.

With this work, Ambuja received several accolades and several awards last year. We are now in the global top 5 in the Dow Jones Sustainability Index and

I think one of the very few companies in India, which are ranked there. We also got Global Bronze on the Sustainability Yearbook of 2022. From CII, we got an award for our performance on alternate fuels for excellence in managing the municipal waste.

As you all know, municipal waste is a very big concern for all cities of India and we, at Ambuja and at ACC, are doing substantial work of how do we remove those landfills and create better cities in the country. Our products are now getting regularized for sustainability ambitions apart from the strength. Ambuja, all the products, now on are listed by the GRIHA listing, which is a national rating system by TERI, and this is something which is giving us advantage in the markets as well across India. We got the award for the best use of influencer marketing with our flagship program called Ambuja Abhiman and the best mobile loyalty program also last year.

Last and not the least, Ambuja is the only cement Company in the world to secure a place in the prestigious A-list for CDP ranking for tackling water security. I think that is something that we are extremely proud of.

Going forward, Slide #10 on economy and our outlook, we remain firmly optimistic and firmly confident of our country. For fiscal year 2022 while the GDP estimates are at about 9.2 and there could be some variations here and there, but overall the demand scenario last year has been good, especially in the first half, it was quite strong. What is the only concern now is the rising inflation, especially on the fuel prices and the diesel prices. Diesel, so far, is softening, but fuel prices is an area where we have been strongly impacted last quarter. We are trying to understand what else we can do to mitigate the very strong increase of the fuel prices globally, but also in India.

So, in terms of the key trends for where we see in our core four, I would call the megatrends in four or five categories. First part is that the Indian population, which will grow to about 150 crores by 2030 and that would mean increased need for housing, for infrastructure, for transportation systems and therefore this would mean that this will drive the cement demand very strongly.

Let’s also understand that it is expected about 60 crore people out of this 150 will stay in cities and that itself means that in cities, we need to construct about 40 to 50 million new houses and this will again help the cement demand going forward. What we have seen, there was a 71% increase in the home sales last year in the top seven cities, and this is more due to the favourable government policies. We had taken some policy stand, but also sometimes because of the interest.

So, overall at Ambuja, we remain confident about the demand for cement. I think India has just started. We still have one of the lowest per capita consumption. We still are starting to build our infrastructure. So, for years to come, cement demand will continue to remain strong in the country. In addition to that the fact that our population is growing, and more and more people are going to get into the cities, should propel the cement demand. So, from Ambuja side, we are confident that this will work.

If you refer to Slide #12, 2022 budget, the assurance from the government and the content of the budget will have positive impact on housing, on infrastructure and on industries and commercial. We believe 2022 should see demand coming back very quickly once the execution of the budgetary announcements starts.

In terms of the strategic priorities, as I told you last time also, we have four strategic priorities. One is to accelerate our growth. Second is to expand solutions and products. Third is to deliver superior performance and fourth is to lead the country in sustainability. As I said, we are strongly positioned to do this, to act on all the four performance levers.

On growth, if you go to Slide #16, yesterday we received board approval to invest about Rs. 3,500 crores to create a new footprint for Ambuja. We will expand our Bhatapara clinker unit by putting up one brownfield of 10,000 TPD clinker line in Bhatapara, but first time we are going to build a plant in Bihar in a place called Barh, which is next to the NTPC Power Plant. So, fly ash will be assured. We are also going to expand our Sankrail and Farakka grinding units.

So, in all together, it will create additional capacity for Ambuja of 7 million tons. Within this capacity, once it is commissioned, we should be closer to 40 million tons of capacity. So, as I had announced last time, we are very convinced about going to 50 million tons as Ambuja and about 100 million tons for both ACC and Ambuja. The 50 million tons roadmap for Ambuja is very clear now, and in times to come, we will come up with new proposals for expansion.

Yesterday's expansion of 7 million tons will help us strengthen our position in the attractive market of East India, which has a very low per capita consumption, which has also a very high concentration of individual home builders, which also has a high sale of blended cement. It marries quite well with our strategy of our focus on blended cement, focus on trade, focus on premiumization. I hope all our investors will support Ambuja's growth plan to reach 50 million tons, as well as the 7 million tons program in the East.

In addition to that, Slide #17 – very happy to announce that the Marwar project in Rajasthan, as I said, at a very difficult time we have been able to commission it last year. Clinker capacity has expanded to 3 million tons and potential to increase cement sales by 5 million tons. Marwar is now fully stabilized. It is running at this optimal capacity. We are happy to say that it was almost a vertical take-off for Marwar despite the problems due to Corona and today Marwar is a fully contributing plant to Ambuja. In addition, we had announced the capacity expansion of Ropar. The environment clearance process is on and once it is finished, which is being delayed slightly because of the Punjab elections. Once it is finished, we should be able to accelerate it and finish this Ropar expansion in about 10 to 12 months' time. In addition to that the Company continues to take several initiatives across plants on debottlenecking and making sure that we are able to fully utilize the assets that we have on the ground.

Going forward, our strength in terms of a strong brand with a very strong equity in Indian market continues. Last year we came up with a film, which has done quite well, 1.5 crore views so far, and it is helping us to reach out with our message to the remotest parts of India. It was all over the televisions and other mediums. Our friendship with Mr. Boman Irani continues with this film as well, but in addition we are also coming out with other creatives to make sure that Ambuja remains as top of the mind recall for our Indian consumers.

If we go to Slide #21, in terms of product portfolio, Rajani would like to take it.

Rajani Kesari: So, very briefly, you are all aware, Slide #21, of our base products and premium products. Neeraj has already spoken about the focus on premium products.

Moving quickly to Slide #22. We do have a complete wall solution coming out of our Solutions and Products Portfolio and we are looking to find a way to backward integrate this so we can help these operations to scale up. At the moment, they are operating in a trading model and there is a plan in-house to try to make this a much more stronger business model for the future.

Slide #23 talks about the technology solutions. Neeraj has spoken about the accolades that have been received, but there is a fair bit of work going on in the technology side. We already have the Ambuja Certified Technology Platform, which is quite powerful. We're helping customers to shift from product to solution. We have created concrete future laboratories where a customer can come and engage and identify all the properties of how cement can get converted to concrete and then we do have our knowledge centers as well. So, this is a very powerful foundation that Ambuja has and we are leveraging this as we further strengthen our premium products and solution and products.

Moving on to the slide on superior performance, I think this is a very-very strong vertical. We had come to you last time, promised you growth, promised you to deliver superior performance under our flagship program of 'I CAN'. So, in terms of enhancing efficiency, the levers across all the projects are working quite well starting from commercial to the plants, which is focused not only on reducing consumption, but also using digital framework for Plants of Tomorrow, which is a global tool. Neeraj has already spoken about clinker factor. A lot of work is happening on raw material efficiencies to increase further consumption of other raw materials. Our facilities for fly ash dryers will be up and coming during the early part of this year, which would further enhance our absorption of fly ash.

Logistics has been a very-very strong story for us, and you can look at it in the results as well in both the operating companies. Using of digital tools, a lot of focused activity on reducing lead distance, and also leveraging the Master Supply Agreement has helped us to keep this cost under control despite huge inflation in diesel cost. We have worked a lot on simplifying our organization structure and execution of CAPEX program is like a feather in our cap. We are quite proud of the timeliness with which our projects team is able to bring the project from planning to fruition stage.

On the digitialisation phase, all plants, there are three unique sections for digital initiatives. One is on the Plants of Tomorrow. We spoke about it. All the data is now connected on underlying systems. We are developing Edge AI capabilities to leverage this for efficiencies. Sales marketing tool does have a lot of apps, which are dedicated for each of the segments and each of the participants in the channel. We have also introduced a revenue and margin management tool, which will come up in the Quarter 2 of this year, which will help us to drive our commercial process and logistics for further strengthening the tools that they already have to continue to keep this differentiated performance.

On Slide #23, one of the key things for us is people. We have taken new internal targets for diversity and inclusion. It's not very easy in our industry, you are aware of this. We have created a strong talent and succession plan, a very high-performance culture with the 'I CAN' attitude. Despite all the headwinds that we faced; our team has clearly demonstrated that they can deliver according to the 'I CAN' philosophy. We are very proud that we have launched a women's network called OOrja, a bit late in the pipe. However, we have introduced this. This is for likeminded people to get together and we're working very actively to remove roadblocks for women and other diverse candidates to elevate themselves into leadership positions.

Moving on to sustainability very quickly, the Slide #29 is on global sustainable trends, you know that we are not very far from India. India was in COP 26. Our PM also took the lead in terms of certain initiatives. So, clearly for us, two key things, which will impact us and our industry, one is decarbonisation and the second is digital tools because most of the CO2 reduction in the cement industry will come from carbon emissions in production, but will equally come from the construction practices as well. So, it is extremely important for us to address the full value chain.

On Slide #30, you can see, we do follow. We have declared these SBTi targets. We have talked about it in the press. We have signed up for this business ambition of 1.5 degrees centigrade and we're tracking the guidance of our Holcim parent and we're extremely proud that we are on track for delivering this greenhouse gas emission reduction.

Slide #31 will show you the figures on how we have performed and what is the target for 2030. Our sustainability framework is divided into four lines. One is climate and energy, which is clearly CO2, primarily tracking Scope 1 and Scope 2. Circular economy, which is under the Geocycle flagship brand for waste reuse and recycle. Water and nature where we are clearly leading, but we want to continue to be the leader in the pack, and people and communities with an extremely strong framework under Ambuja Cement Foundation to share value with several millions of beneficiaries.

Slide #32 talks a little bit more about the details of sustainable initiatives. I won't go through all of them, but these are linked largely to manufacturing and then also to the social part.

Slide #33 is to summarize: The activities we are working on cleaner India. Neeraj spoke a lot about Change the Story, and we are really proud of this Bubble Barrier. We are also cleaning up airports. We had launched during the cricket season, Leave Behind No Waste initiative, which helped us to bring a lot of waste into our kilns and we are also working a lot on biomass and as you know biomass is a very-very low CO2 front. It's also fuel issue as well and the stubble burning issue, so this is something we're working on very closely with our team. Biodiversity remains at the top of our agenda.

Slide #35 is some statistics from Ambuja Cement Foundation in terms of what work was done across each of the levers that Neeraj described.

Slide #36 talks about COVID, so I will skip through it.

Slide #37, we continue to maintain the highest standards of governance and we're really quite proud of this.

Now, moving on quickly to the performance section:

On the full year, which is Slide #40, 2021 was the year of many-many firsts, highest ever volume, highest ever operating EBITDA, highest ever EBIT in consecutive two years despite COVID being there last year. So, we are very proud of our results. We had some exceptional expenses due to reorganization of our company and that has resulted in Rs. 65 crores of exceptional cost. If you carve that out, the profit after tax goes around 19%.

Slide #41, the quarter results were impacted due to the headwinds. I think most of the industry has seen this. We are one of the last to come out with the results now, but while the cement volume was almost flattish and the sales were higher by 6%, the operating EBITDA was lower at 26%, largely capturing an inflation from the fuel cost and I'll talk a little bit about it in the coming slide.

Moving on to the financial results on Slide #42:

It is quite clear that a very diverse picture between the quarter and the year, a very strong positive year despite a very strongly negative quarter and largely due to operating cost of fuel. We will talk a little bit about the fuel as we go to the next slides.

Slide #43 is on volume and realization chart. So, I will move through this.

Slide #44 is the EBITDA. One point to take away here is despite all the headwinds, we have seen almost four to five months of demand pressures last year. It slowly started sometime in July, August, continued on till December with the bloodbath happening in between for November, but despite all that, the EBITDA per ton is slightly higher in 2021 compared to 2020.

On Slide #45, I think this is the topic of most interest, power and fuel cost. You have two graphs there, so I will upfront address them. The first one is talking about the quarter where you see a significant increase in power and fuel cost. Two elements here, one is the impact of the procurement of fuel at a very-very high cost, I think most of our colleagues have also seen this in the industry. The second one was also additional clinker production, which happened at Ambuja as we were gunning for higher and higher volumes and we are preparing for 2022 as well. So, the stock also led to higher consumption of fuel and we also had some additional coal from our Gare Palma, which was extracted but not consumed. So, I think these two things have created an exceptional impact on the power and fuel cost. Otherwise, cost inflation is equal to that of the industry. On the freight and forwarding, its lower, 5% lower for the full year, which is quite significant. Raw material cost denotes our absorption of clinker being lower, which is quite good from an environment point of view. The other expenses are slightly higher. Here we have additional brand promotion expenses and the costs, which are coming from packing material. The total cost per ton despite all the bloodbath into the results for the full year is only marginally higher, but for the quarter is sharply higher.

So, the next slide is consolidation. So we'll skip that. The last slide, very proud that as a team we have achieved an excellence in financial reporting, goes in line with our commitment to governance and transparency.

Thank you very much. So, we hand over to Krupal now for questions.

Moderator: Thank you. The first question is from the line of Pulkit from GS. Please go ahead.

Pulkit: Thank you for taking my questions. My first question is on Bhatapara. Can you highlight this 3.2 million expansion that would be it for the entire 7 million cement that you are looking to expand plus if you could highlight the breakdown of CAPEX here in terms of whether there is going to be WHRS, I think you were already installing WHRS at Bhatapara in your ongoing projects, so if you could just talk about the expansion at Bhatapara in greater detail, that would be my first question.

Neeraj Akhoury: Thank you for this question. Bhatapara is going to be one of the new line that we are establishing, going to be one of the more modern lines as we call it. It is true that we are doing WHRS for the existing operations of the Bhatapara, the new line of Bhatapara of 10,000 TPD will also have WHRS of 17 megawatts. So, it will be a largely WHRS dependent plant and the balance power we will take from our existing CPP where we have some surplus capacity in Bhatapara. In addition to that, Barh will be about 3 million tonnes of grinding capacity, Barh in Bihar, which will be 100% fly ash-based cement, as I told you that NTPC, the power producers, mega power plant is just next door to Barh and therefore, we get a preferred cost for fly ash as well in that area. Sankrail and Farakka will be 1.6 million tons each in terms of the minimum equipment, but the equipment guarantee will be much higher because of brownfield nature of the expansion and therefore, the total will add up to 7 million tons.

Pulkit: And the entire clinker gets supplied by Bhatapara?

Neeraj Akhoury: Correct. Bhatapara being our mother plant in Chhattisgarh and that's where the limestone is so the entire clinker gets supplied from Bhatapara.

Pulkit: Okay, and my second question is why East? I mean given the kind of supply that is expected to come in East and you spoke about some of the macro factors and being the lowest per capita consumer in the country, but don't you worry that profitability in East could be under significant pressure and especially in areas like Chhattisgarh where already the pricing of cement is one of the lowest. So, just a thought on how do you look at profitability in context of the kind of supply that East is likely to see?

Neeraj Akhoury: So, our internal calculations say that by 2025 given the current extent of capacity enhancements announced, which includes the Bhatapara expansion that we are making, the East utilization levels will move to 85%, which is strong enough utilization levels for driving the business goals, that's part number 1. Part number 2, as I said that East remains a very big market, don't forget East is a 90 million tons market, which is about 26% of the national market and as I said very low per capita consumption of roughly about 216 versus all India at 242. The cement demand amongst region also, we believe that East projection therefore is more around 8% to 9% percent largely because of the structure of the demand in East and the kind of projects that we are going to see in East. The East market is also very well consolidated. So, ACC, Ambuja plus top few would account for 82% percent of the market, and this structure will further improve to roughly about close to 90% by 2025 with most of new supplies coming from the existing majors. With all that in mind, we also see in a 'do nothing' scenario in East, Ambuja will lose market share so will ACC, but with strategy of bringing in 7 million tons in East, we will be able to protect not only our EBITDA, but also our EBITDA margins, but more importantly we will be able to also protect our market share in the attractive market of East.

Pulkit: Sure sir. That's useful. Thank you.

Moderator: Thank you. We will move on to the next question that is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Hi. Thanks for the opportunity. A couple of questions. First is on the ESG, sir you have indicated Scope-1 and Scope-2 together, the reduction will be 21% by 2030 versus 2020 as the base. You also indicated that blended cement would remain at the current 89% only, wanted to get a roadmap if you can break it up for this 21%, how will it be WHRS, solar, AFR, you indicated on Biomass, any decarbonisation technologies, so that's the first question basically how should one look at the roadmap on the decline? And I understand we have internal carbon pricing of around $31 and $34 for ACC and Ambuja respectively, how do your account for this when it comes to inc'remental capital allocations and when we look at ESG in perspective, that's the first question.

Rajani Kesari: So, I think it's very difficult to draw you a roadmap for breaking it, but I'll try to answer it by giving you the plan that we have for each source of energy. One is in terms of clinker factor, yes the blended cement will be 89% but I guess with the expansions now that are happening in East etc., the blended cement share is bound to increase. There will continue to be a pressure on OPC volumes. We still feel that it's slightly higher than what we would like to be, so we will keep the pressure on that and that should bring a natural reduction in the clinker factor. Apart from that, we also have these efficiency programs, which are happening under the "I CAN" structure to drive more efficiency within the production process. Coming to the energy levels and the waste heat recovery, today the green power mix is quite low at around 4%. Once we are able to fully execute our plan, which is to take the waste heat recovery to the maximum possible kilns, get into the renewable power mix and reduce the dependence on the other sources of non-green fossil power, I think the green power mix will go up to 25% to 28%. So, I think that will also start to contribute quite significantly to the CO_2 emissions. So, I think these three parameters we can start counting. The next one that we are also working on is trying for, though it is a debate on where you put it, whether you put it in Scope 2 or Scope 3 depending on how the contracting is done, we are also working on mining vehicles for converting them into electric vehicles thereby reducing further carbon footprint.

Neeraj Akhoury: We have already deployed a pilot project in one of our plants on EV vehicles for transporting of limestone. We hope to see some good results. The initial results are not bad, but there are challenges and these challenges we have to understand and address but as Rajani said, going forward the nature of contract will determine where you put those carbon savings.

Rajani Kesari: Yes, and another important thing, sorry to miss out that one, is our AFR, currently at 5%, the near-term journey is 15%, the mid-term journey is 25%, so you see we are also starting to construct kilns, which will have higher capacity, absorb the alternate fuel, so those will also contribute.

Neeraj Akhoury: For example, Bhatapara we will have a capacity to consume up to 25% of AFR, but also with the design that we are making, Bhatapara in future, can go up to 50% of AFR.

Ritesh Shah: Sure. Is it possible to reflect on the carbon internal pricing, how we are looking at it and why is at $31 to $33?

Rajani Kesari: See, to be very honest, we do not consider it for calculation of the projects and for the core reason, the stated strategy of the group is that we want to expand in India, India is a key growth plus market and in the business of cement. So, we let the group do the balancing of the carbon emissions, but for us, we know in India you need to invest in cement to grow and capture the demand that is out there. So, strictly speaking from a return on perspective, we do not include this into the cost of the project at the moment, but we do calculate it for the purpose of group because they need to finally balance for what we as a whole generate in terms of CO2.

Ritesh Shah: Sure. My second question is on capital allocation. It's good to see the incremental growth CAPEX. I was just wondering why it is that we have selected Bhatapara? Why not say something like Jamul or Chaibasa, which is under the group or say something like Bargarh? The reason is the lead on clinker is something which is quite huge, that is one. So, first question is on the lead for clinker, which is quite huge. So, how does the company stack up on the cost curve versus a couple of other peers, which are actually better positioned to capture the Eastern markets, so that's the first question. The second question is basically on the incentive, is it something that we are getting either for the grinding units or for the Bhatapara facility? When we look at the internal IRRs, how do we gauge that? Do we have any commitment from the Government on all the four projects that they we have indicated, three grinding and one clinker? Thanks. So, one is on cost cover and the second is on the incentives.

Rajani Kesari: I will take the incentive one while Neeraj will answer on Jamul to Bhatapara. On the incentives, if you have looked at our balance sheet, we are extremely cautious now on how we build in the incentives into our returns file, so while there are incentives available for Bhatapata as well as for the grinding units, we have only taken it partially for one of the grinding units. For the whole of Bhatapara, we have not taken. So, in our internal modelling, now we tend to do modelling with and without incentives to see if the business case still stands, given the time value of money, which is lost due to the delay in receiving incentives from the government.

Neeraj Akhoury: On why Bhatapara and why not Jamul, so there are two parts. One part is the delivered cost of Bhatapara to East market is lower compared to Jamul. Jamul is in the Durg district, which is farther away. Bhatapara is closer to Bilaspur and therefore closer to the proposed grinding plants at Barh, Sankrail and Farakka, that's part number 1. Part #2, we also need to understand we are putting up a mega unit like the one we are doing in Bhatapara, which is 10,000 TPD line, typically you require about close to 6 million tons of clinker of limestone every year and this has a significant ask. So, we also require a stronger backup mining and mine deposits, which Bhatapara assures us with the kind of deposits that we have in Bhatapara, that is second. Third and more importantly, I think, in terms of the cost structure, Bhatapara is ahead versus some of the other plants like Chaibasa or Bargarh Jamul.

Ritesh Shah: Sir, just a related question, sorry, this will be my last. I appreciate on the logistic side and reserves, which is very critical, but if we have to look at our competitive cost curve versus PR, which is operating out of Orissa, which has recently commissioned, they have been quite aggressive and they will also look to tap into the Eastern markets. Now, the growth is something which is great but for some reason, pricing never comes through and eventually it boils down to cost structure. So, are we as competitive as pears when it comes to moving..?

Neeraj Akhoury: Thanks for this question, what we do normally, for each grinding plant which we create, we do what we call strategic value added. In that terms, we compare the total delivered cost of us versus others. In case of Barh, in case of Sankrail, in case of Farakka, as I said, they are located in the right markets very close to the consumption centers, so the value add or the total delivered cost of Barh or Sankrail or Farakka, in our calculations, is superior to some of the other place, which will be bringing to the same market from farther off distances.

Ritesh Shah: Sure sir. This is very useful. Thank you so much.

Moderator: Ladies and gentleman, in order to ensure that the Management is able to address questions from all participants in this conference, we request you to limit your questions to one per participant only. The next question is from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Hi sir, good morning. My question was on 'I CAN', now can you give some sense of what are the benefits and is it possible to quantify what are the benefits we have already seen from 'I CAN' and what is the roadmap from here in terms of the next 12 to 18 months? The reason I am asking is if I look at the last two years while profitability has improved, so has been the case for peers also and a large part of it was also driven by pricing, so just want to differentiate between profitability improvement driven by 'I CAN' and price hikes and all that we have seen in the last two years and also the roadmap if you can share where that can head in the next 12 to 18 months.

Rajani Kesari: Hi Ashish, I will take this. If you remember the 'I CAN' plan is split largely into two headings. One is operational efficiency savings and the second is the savings that will unlock through productivity CAPEX. So, we had commented last time that most of the operational efficiency savings are realized and that's true as of now, but during the last year given our efficiency in terms of highest ever production etc., we have released further operational efficiency in manufacturing. So, compared to a baseline of 2019 that we normally look at, the savings that have come from 'I CAN' are on the upwards of Rs. 300 per ton. Now, what do you need to look for the future, I would prefer not to give you a figure because these need to lock in and I want to say something for the next investor call as well. For the future, what you can anticipate is the fuel cost energy savings that will come through the full execution of waste heat recovery. It is important to remember that they are still to be commercialized, so they will be commercialized at the end of this quarter or beginning of next quarter. So, you will see that on power and fuel. There are two more kilns also, which we are discussing for waste heat recovery for additional 30 megawatts. So, those will also come towards the end of next year. Then, there is additional AFR, which will come as a part of all the debottlenecking that we have done. I have put some of it in the investor presentation especially in Ambuja Nagar and Rauri, which are also large consumers of alternate fuel. So, all these together with additional leverage of the Master Supply Agreement with ACC, which is a very-very important lever for us to reduce our lead distance and reduce our delivered cost. These are the ones, which you will have to watch out for in the future, but I would hesitate to give you any forward-looking number for it.

Ashish Jain: Sure. Thanks. Also, we also touched upon the fact that 50 million ton, we now have a much better roadmap and highlighted that some debottlenecking opportunities also we are tracking, so is it possible to share some idea of how we see the path to 50 million ton from a regional point of view from a debottlenecking point of view.

Rajani Kesari: So, Neeraj has already spoken about it. The current announced plans already stack up to 40, so you know 31.5 plus 1.5 of Ropar plus 7 of Bhatapara, and then you have as we announced last time we will look at West in the next phase, which will also be similar footprint as what we are doing for grinding plus clinker units. So, that would add about 7 or 8, and then you have the residual which will come from debottlenecking.

Moderator: The next question is from the line of Naveen Sahadev from Edelweiss. Please go ahead.

Naveen Sahadev: Thank you for the opportunity. One question was about the initiatives on the Master Supply Agreement or more so synergies with ACC. Now, if I am not wrong, within few months of Mr. Akhoury taking charge as India CEO, we did see a lot of changes on ground, in sense at operational level, very senior marketing executives moving from ACC to Ambuja and vice versa, I think even a common logistics head, several initiatives. So, now my question was had there been more such initiatives the company has already pursued or is pursuing to convince more on the forthcoming synergies with ACC and in the same breath then I would also like to understand if in the current quarter we saw sequential 8% drop in the freight cost per ton, is that an outcome of the synergies with ACC?

Neeraj Akhoury: Absolutely, so MSA is something that is working favourably for both the companies, I believe to the extent of the results that I have seen I think Ambuja & ACC would be one of the very few companies which have been able to contain the logistics cost increases, but we have also been able to bring it down despite a very adverse environment in terms of diesel prices. MSA is working quite well. When we started thinking about MSA, our ambitions were limited. We were not able to think beyond a certain volume levels. We are very happy to say that currently we are already about 73% higher than the same quarter last year. So, I think this is working quite well and we are now trying to understand other areas where a similar initiative can result in cost reduction.

One of the examples would be same office, for example the cost of space is very expensive across the country now, and also we're doing more in terms of what all other back office activities can be combined. Overall, in plant, especially in spare parts and all, we are now really pushing for MSA to be fully implemented, which is working well. We are also now even if for the larger CAPEX projects, we are talking about standard equipment for both ACC and Ambuja for expansion, like 10,000 TPD line that I spoke about, it is in Ametha, now going to Bhatapara, then going to the second place we will expand. So, the approach to MSA is expanding, but the key levers that will drive these results will remain the logistics MSA that we had done quite well last year, but I believe, there is significant room for improvement as we go forward.

Naveen Sahadev: Appreciate, but this quarter sequentially the decline that we are seeing…?

Neeraj Akhoury: Let's just come back to what that question is sequentially we have reduced the logistics cost, how much is the MSA contribution? Is that what your question is?

Rajani Kesari: You want to know how much is the MSA contribution in the sequential logistics cost reduction, is that what you're looking for?

Naveen Sahadev: Yes, because my question is fairly simple that despite diesel prices being broadly flattish quarter-on-quarter on an average and even rail freight and just one detail here is that I also see the absolute quantum of purchase of traded goods in both ACC and Ambuja to be very similar to that in the previous quarter.

Rajani Kesari: Yes, so it's not the quantity of goods purchased, it's where it is purchased and how does it lead in terms of cost reduction, so let me try to explain to you the logistics cost reduction. The most significant lever for logistics cost reduction within which the MSA is also subsumed, it is important to understand that is a reduction in the lead distance. We have reduced our primary lead by almost 40 km compared to the last year. We have also reduced secondary lead and we have also improved direct dispatches. So, these three things, along with the MSA volumes, have contributed quite significantly to the TDC cost per ton and a part of it has been negated by the impact that we see because of the diesel price increase. So, we should not underplay the logistics efficiencies that are happening in terms of lead distance reduction as well.

Naveen Sahadev: Appreciate it. Very heartening to see a 10% drop in lead distance, really hope this is sustainable. Thank you so much.

Moderator: Thank you. The next question is from the line of Madhav Marda from FIL. Please go ahead.

Madhav Marda: So, my question is just a quick one, if you look at our other expenses this quarter shot up quite a bit, is there any specific reason why that is happening?

Rajani Kesari: No, it captures, like I told you, it has brand promotion expenses within it. It has also got the packing bag increase, in these accounts we also show packing bag increases and you know there has been a lot of packing bag increase. The third one is the maintenance cost. In 2020, as you know, there was a lot of lockdown issues, etc., so the base was smaller. So these are the two major things. I would take maintenance phasing is one thing partly due to lower base of 2020, packaging cost and higher branding.

Madhav Marda: There is nothing from the new Marwar Mundwa plant, like a startup expense or something like that?

Rajani Kesari: No, we look at it as a fixed cost expense, I don't know where that comes, but that is additional in the fixed cost of plant operating cost by roughly about Rs. 8 crores per month. For Marwar, it goes through different lines, but that is not the most significant item.

Madhav Marda: Because our other expense per ton, if you compare it to some of the other peers who have reported, there is a pretty big delta, which is why I thought that if this is like a sustainable number, then it's kind of moved up quite a bit from our own delivered number, if I look at just Q4 for us.

Rajani Kesari: It will ease out. Yes, there is a Marwar fixed cost, but that will be addressed and that base will definitely come, but I guess about 50% of Marwar fixed cost, my team tells me, would come in here, so we are looking at roughly Rs. 20 to 25 crores of Marwar fixed cost on an annual basis, which will start coming next year, but the rest of the other costs will all get baseline to 2021 right, 2020 was not the right baseline that we had.

Madhav Marda: And in terms of our power and fuel cost, given how volatile the movement has been, do you think in the next six months, we are already at a peakish level or there can be some more inflation, going into March quarter and June quarter?

Neeraj Akhoury: Very-very difficult. I don't think given the current context, even some of the gurus of this area are able to accurately say how exactly the fuel cost evolution will happen. I would stop at this because it would be not proper to give fuel cost given extreme conditions in many parts of the globe.

Madhav Marda: Okay, thank you.

Moderator: Ladies and gentleman, that was the last question. I now hand the conference over to Mr. Krupal Maniar for his closing comments.

Krupal Maniar: On behalf of ICICI Securities, we would like to thank the Management of Ambuja Cements for providing us this opportunity to host the call and I thank all the participants for joining the call. Thank you very much.

Moderator: Thank you. Ladies and gentleman, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.