Ambuja Cements - Update on Penna Acquisition

Conference Call

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MANAGEMENT	
	
MR. AJAY KAPUR CHIEF EXECUTIVE OFFICER	MR. VINOD BAHETY CHIEF FINANCIAL OFFICER
MR. DEEPAK BALWANI – HEAD INVESTOR RELATIONS	
MODERATOR	
MR. RITESH SHAH – INVESTEC CAPITAL SERVICES	

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

I now hand the conference over to Mr. Ritesh Shah from Investec Capital Services. Thank you and over to you, Mr. Shah.

Ritesh Shah: Thank you, Michelle. Good afternoon, everyone. On behalf of Investec Capital, we welcome you to Ambuja Cements Conference Call to provide an update on Penna acquisition. I'll now hand over the call to management of Ambuja Cements for their opening remarks, which will be followed by Q&A. Over to you, Deepak, and thank you.

Deepak Balwani: Thank you. Good afternoon, everyone. On behalf of Adani Cement, a very warm welcome to all of you. On this side, we have Mr. Ajay Kapur, Chief Executive Officer, and Mr. Vinod Bahety, Chief Financial Officer. Ambuja Cement, the cement and building material company of Adani Cement and part of the diversified Adani Group, has announced the signing of the binding agreement for the acquisition of Penna Cement Industries. I would like to invite Ajay ji for sharing his valuable insights on the acquisition. Over to you, Ajay ji.

Ajay Kapur: Thank you, Deepak. Good afternoon, ladies and gentlemen. I'm very happy to announce Ambuja's decision to acquire 100% shares of Penna Cements Limited and post that, Penna Cements becomes solely owned subsidiary of Ambuja. The transaction value, as you've already seen from our investor deck, is INR10,422 crores. It will be funded fully from our internal accruals. It includes 14 million tons of cement capacity, of which 10 is operational, 4 is under construction.

This will take Adani Cement's operational capacity to 89 million tons. The remaining 4 million tons under construction capacity will be added in the next 12 months. This is over and above the ongoing expansions which Adani, Ambuja, ACC Cements are already pursuing, which I have already briefed in the last call.

This transaction is also value accretive. On top of this cement capacity, we have five bulk cement terminals and one 25,500 tons self-discharging cement carrier, which will beautifully complement our coastal logistics strategy. The basic investment rationale is it helps Ambuja to increase its presence in South India while further expansion in Pan-India.

It fast-tracks the capacity which in any case we had planned through Greenfield expansions. With this, our South Indian market share will improve by 8% to 15% and our Pan-India market share will improve by 2%. The surplus clinker at the Jodhpur plant, which is under construction, will provide further potential of cement grinding of 3 million tons in our home markets of North Over and above 14 million tons. The surplus land and limestone reserves available at our integrated units from Penna acquisition will allow us to set up additional clinker capacity, de-bottlenecking some of the existing ones and also doing with small marginal improvements, more cost efficiency in the overall operations. Very interesting thing is it brings back Ambuja into Sri Lanka.

You might be aware many years back Ambuja had a bulk cement terminal in Kale in Sri Lanka, which later became part of the Holcim. With this, we also have an entry point back into Sri Lanka, where the group is also building a port and it helps us to start capturing market there. When we look at the capacity, when we acquired the companies in September 22, the capacity of ACC Ambuja together was 68 million tons.

with the Ametha brownfield expansion, with the Dahej, which is within the Adani Enterprises, 1 million ton grinding unit, with the acquisition of Asian Cement and Concrete and finally with My Home and Sanghi, we are currently already sitting at 79 million tons. With this 14, our capacity will go up to 93 million tons. As you all know, we have various projects under commissioning. 20 million we have already announced in the last call, so that straightaway takes us to 113. The remaining 30 is also blueprint is ready, land has been acquired, mining is in place. So, we are well poised to hit our 140 million ton target, as we have been speaking in past.

The asset footprint of Penna beautifully fits into our southern strategy. It has units in AP, it has units in Telangana and it has a grinding unit at Krishnapatnam port, which enables the entire coastal strategy on the east coast. It also has a grinding unit in Maharashtra in Pune, which also fits in beautifully with our western market share strategy.

The new under construction plants, one in Jodhpur, it is a kiln of 3 million tons, which you know can produce cement of close to 5 million. And the Krishnapatnam grinding unit, which is currently 2 million, is under construction for another 2 million, work for which 50% is already completed, gives us a beautiful position of 4 million on a coast, which can enable us to go through the five bulk cement terminals I mentioned earlier. On this, we have a tremendous advantage on various costs.

I would now invite my colleague, Vinod Bahety, our CFO, to take you through the numbers and the business rationale and the deal details. Vinod, over to you.

Vinod Bahety: Thank you, Ajay ji. Good afternoon, ladies and gentlemen. I am so glad to engage with all of you on this another strategically important opportunity in terms of acquisition of Penna cement, which straightaway adds up 10 million tons of operating capacity, another under construction 4 million and 3 million potential with surplus clinker.

So, effectively, the 17 MTPA is what we get from this acquisition, which improves from my current base of 80 million, 20% capacity it jumps up to. Importantly, it takes my South India capacity to almost 20% and hence balances out my pan-India overall balancing of the capacity. As you know, we were at almost 10% of overall capacity in South India.

This brings us to almost 20%. Importantly, apart from all the points Ajayji has highlighted, it gives me an opportunity of earning a ROCE of almost 15%. Since you all know that we have been sitting on good cash and cash equivalent, it will be a good deployment of this amount and earning much more than 15% in terms of ROCE.

The entire acquisition will be funded through cash and cash equivalents. After all of this also, by end of this year, my estimate is that we will be holding almost INR10,000 plus crores of cash. In terms of the coastal shipping opportunity which Ajayji has highlighted, but most importantly, this is like a significant part of this acquisition, that it gives me the opportunity to complete Peninsula India to service at the most optimum logistics cost and on a most efficient ESG manner.

We have already shared our investment rationale in the morning today and I am sure all of you would have gone through it. I won't take more time. Details are there and I will request straightaway to now come into question and answer. So, over to organiser.

Moderator: Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Hi, sir. Congrats on this large acquisition. So, first question is in terms of the expansion of the North plant. What is the current status? How much capex has already been incurred? And to complete the 2 million ton clinker and corresponding grinding and same for Krishnapatnam, how much capex would be required? And second, what sort of return ratios at various assumptions these assets can generate over the next two years?

Vinod Bahety: I will take up that question. Rajesh, hi. So, in terms of the overall enterprise value, let me just put that number, say INR10,422-odd crores, out of which we will be releasing milestone payments of almost INR3,000 crores. This is the completion of Krishnapatnam as well as completion of the Marwar Jodhpur unit, so which would mean that the initial payment will be on an EV basis INR7,400-odd crores, and out of which if I overall remove the debt to another liability, say close to INR3,500 crores, the upfront equity comes to, say, close to, say, INR4,000-odd crores. So, in terms of the under-construction projects, we are going to release almost INR3,000 crores at different time intervals. This is the milestone to be achieved.

Your second question was in terms of the overall return. I think you asked, and as I said in my initial remarks, we are targeting to achieve a ratio of almost 15%, and that we should start looking at from when we hit the capacity of, say, 80%, which we are targeting by, say, third year. So, one can safely assume that from '27, that is the return which we are looking at.

Ajay Kapur: Just to add, I think you also asked the timeline. The timeline for the Rajasthan plant is about 12 months from today and the timeline for Krishnapatnam would be slightly less than one year.

Vinod Bahety: For Krishnapatnam, we are giving a timeline of say, nine months and Rajasthan, 12 months. Yes.

Rajesh Ravi: So this Rajasthan expansion, this 10,000 crores EV, is this factoring in the capex which is required for the Rajasthan?

Vinod Bahety: Yes. It does that. So, already, it is a work in progress. Already, they have incurred a certain expenditure, and then this amount which we are going to release on a milestone basis will be part of the overall enterprise value and which will be used for the completion.

Rajesh Ravi: Okay. So, this is not an incremental, is what I was understanding, because...

Ajay Kapur: No. Total 10,400, to clarify for everybody's benefit, 10,442 is for entire 14 million tons cement capacity.

Vinod Bahety: For Rajasthan, as well as Krishnapatnam, so all the under-completion projects will be covered as part of the 10,422 crores EV.

Rajesh Ravi: Okay. That's nice to hear. And you mentioned that in the next 12 months, these projects, both the projects will be up and running. And lastly, in terms of when you're seeing 15% ROC at 85% utilisation, any thought on pricing? Because, see, what we understand, FY '24, these plants were operating at 25% utilisation. You would be ramping up because they were cash-curve and now you would be supplying that and hence, they would ramp up.

And given that multiple capacities are coming up across South and East markets, how do we just look at pricing versus volume? Because if everyone would be looking at volume, the prices and that we are seeing in Q4 and Q1, you know, the pricing is taking a knock. And given that the prices don't recover, how confident are we that we would be looking at 1,200, 1,300 sort of EBITDA per ton and 1,500 guidance which you're looking at for the company level?

Ajay Kapur: I can take that. Rajesh, basically, if you really look at South India, ACC is a very dominant brand from our portfolio there. We have a presence through Wadi and then we have presence in Tamil Nadu through Madukkarai. We have presence through two grinding units in Karnataka. We have presence through Ambuja in Mangalore and Cochin through our two bulk terminals. And now, recently, we have acquired a Tuticorin grinding unit from My Home.

So now, basically, if you see, ACC is undersupplied in the market, and we have actually been losing market share. When I look at Penna, in 2022, Penna itself did about 6.5 million, 6.6 million. So that plus what we are doing, and we have taken a very considered ramp-up plan. First of all, undersupplied ACC. Secondly, undersupplied Ambuja also over the years, because we had run out of capacity in Gujarat. Now we are ramping it up.

So what we feel is, from volume side, we should not have a problem. We also look at the cap utilization of the leading companies in South, and we find some of the leaders are operating today at 78%. So I think if you take an 80% target back to within a 36-month period, it's a very fair assumption we have taken. Mind you, there will be a substantial growth in large parts of the country, especially with the new regime in place in AP. I believe there should be a lot of development work. So some demand will happen there.

The new capacity creation has already slowed down in South. It's more ramping up of the old capacity. And finally an M&A of this nature helps the industry, because rather than putting a new greenfield, we have acquired an existing asset, which I believe is a win-win for us as well as for the cement business.

Vinod Bahety: And can I just add, Ajayji, as we decipher these South markets, almost 200 million tons of capacity over 35 players, this acquisition actually helps in terms of consolidation. So as we see right now, the top five players, they have almost say 45% capacity share. Now, while we know that Kesoram is getting consolidated with UltraTech and now Penna with us and so this will actually improve the share of the top five players to almost say 55%. And that will actually help in maturing the overall industry for the Southern markets.

Moderator: Thank you. The next question is from the line of Kamlesh Jain from Lotus Asset Managers. Please go ahead.

Kamlesh Jain: Yeah, thanks for the opportunity and congratulations on the acquisition. So just one question on the part of this clinker. So this 10,422 crores includes 3 million ton clinker capacity as well.

Vinod Bahety: That is true.

Kamlesh Jain: And so what is the timeline for that and the ordering? Has it been ordered or you are going to order it?

Ajay Kapur: Kamlesh, I think I just answered in the previous question for sake of not repeating it. But still for you, I'm repeating. Both the projects are expected to be completed in one year. So its work is already going on at site. 60% of the civil structures are already standing and it's at an advanced stage.

Kamlesh Jain: So when you say the 2 million ton grinding unit or the timeline of 12 months for the Rajasthan unit, so that 12 month timeline includes clinker as well?

Ajay Kapur: Yes.

Vinod Bahety: Kamlesh, it is an integrated unit. So therefore, yes, it will be combined together 12 months.

Kamlesh Jain: And sir lastly not related to the acquisition, but I believe there has been one tender or one particular arrangement which company is looking for that we are going to outsource the cement production at the plants. So can you throw some light on that part?

Vinod Bahety: No, my request, Kamlesh, this is specifically for the acquisition call. So my request is let's right now focus and let's give the opportunity for the other questions also to come in. We will have another day to answer this Kamlesh.

Ajay Kapur: And we can engage with you separately.

Kamlesh Jain: Thanks sir. Thanks a lot.

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

Navin Sahadeo: So thank you for the opportunity and congrats on the great deal. Two questions. One is with this acquisition now giving us a major inroad into South and also in the North should one make or believe that the organic expansion that we were trying, in fact, in the previous call after Q4, you had said that in 3 months, 4 months we were looking to order three large kilns of 4 MTPA each in North, South and one in West. So with this acquisition does that organic expansion take a little bit of a breather or a backseat? That's my question one?

Ajay Kapur: So very simple. Our target is to put 140 million tons by March of 2028 and every time when this question came and a question was asked would we be open to organic, inorganic a mix of both we always said we look at a good opportunity. This opportunity helps us in perhaps slowing down some of our Greenfield projects which we are planning to bring in South. I did mention about that.

However, we have markets in Central, markets in East, markets in North. North also is not one market. There is one market of Rajasthan, Haryana, Delhi then there is one market of Punjab, Himachal, Jammu and adjoining Western UP. So those markets, I believe will still need an expansion and we'll continue with some of the projects which we are doing within the overall capital allocation to achieve 140 million tons and also making sure that most of our expansions are fully funded through our internal resources.

Vinod Bahety: Navin just also add, end of this year we should be hitting almost like operating capacity of say, 96 million tons and by FY26, I should be giving good news of 110 million tons. So all our plans are very much on roll.

Navin Sahadeo: Understood. That's helpful. My second question was about the potential to expand further on Penna. And I know South would have enough and more limestone, but can you just give more details as to what kind of limestone availability is there in North to pursue another line of expansion there because that I would like to believe would come at a much lower cost. And I believe this is a very good location from a strategic point of view also. So how should one look at further expansions in North from Penna?

Ajay Kapur: So Navin for Penna in North as you can see the valuation we are already on a very good attractive valuation because this is a blended valuation which we are paying for the entire 14 million which includes North and that's why this deal looks very attractive to us. As you are aware, we already have substantial limestone reserves at our Marwar Mundwa position in Rajasthan and where we already have a latest kiln in put up only a few years back.

So I think in future we do have a lot of limestone reserves. We recently won another auction in Jodhpur in the last round of auctions. I think beyond that at this moment it will be difficult for me to comment whether we will expand at this current location, but I can only tell you that this plant itself is a new 3 million ton plus kiln and we already have enough limestone to expand at Marwar Mundwa multiple kilns over there.

Navin Sahadeo: Helpful. Thank you sir.

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

Amit Murarka: Hi, congratulations and thanks for the opportunity. So in North this 3 million ton grinding that you will be setting up in the future, I believe the land is not acquired and is not part of the deal. That is one and something I wanted to clarify?

Ajay Kapur: So Amit North we are having a clinker line of 3 million. At the same location there will be about 2 million of grinding part of the deal. In addition, we already have multiple locations in north because Ambuja ACC has a good footprint. And as part of our future expansion, you already know we are putting up a grinding unit in Hoshiarpur. We are putting up an expansion in Bhatinda and besides we have already acquired a few land parcels for grinding units. So I think it should not be a very difficult thing for us. It will be a very smooth plug and play for us.

Vinod Bahety Amit just to highlight that plant land is already there and the land for the limestone whatever the balance land and also for the railway line and all, will be the responsibility of the seller and which is very much part and parcel of the entire EV. So that is a complete package which they have to deliver.

Amit Murarka: Sure. And in case there is a delay, so does that 3,000 I think you mentioned INR3,000 crores?

Vinod Bahety Those adequate mechanisms are there let us be assured. We have put a proper structure there.

Amit Murarka: Yes okay. And also like as this will be under a wholly owned subsidiary so I believe there will be MSA again over here. And in this belt at least I think Ambuja doesn't sell much. So I mean is it fair to say that you may think of doing more sales under ACC brand which is probably a more recognized brand in that belt?

Ajay Kapur: So it's an opportunity for us to develop a market from ground zero. Yes, you're right. In some markets ACC has a very strong brand, but Ambuja traditionally also was present earlier which later on because it ran out of capacity it had very good position in Andhra especially the Adilabad right up to Nalgonda cluster. So I think we'll use both the brands Ambuja, ACC in time to come and yes it will be 100% subsidiary of Ambuja.

Vinod Bahety Yes. And Amit we have a very mature MSA and. those MSAs will be followed here as well.

Amit Murarka: No, I was just trying to figure out if ACC can also benefit from this deal because I mean, they have a good presence in that belt?

Vinod Bahety Which Ajay ji already answered to you.

Amit Murarka: And lastly the Krishnapatnam 2 million ton that will come up. My understanding is that you will be short of clinker for that because the clinker is 7.3 million ton and as we know that belt, I mean, it's a OPC belt 1.3x cement clinker. So as of now I believe you can do 9.5 million ton, 10 million ton max over there. So is there any plan to kind of add any further clinker line either in that specific plant or any other line over there in other plants that you have?

Ajay Kapur: So Amit we already have as we mentioned also in the docket we have uploaded. We have substantial limestone reserves at most of the sites of Penna. They do allow us to debottleneck and also put a new line. In addition, Ambuja and ACC both have substantial limestone reserves both in Andhra and in Telangana and these reserves are free auction era. So it certainly allows us to put up another line in, for example, Nadikudi for Ambuja and also in Kadapa for ACC.

Vinod Bahety And Ajay ji just also to add, adequate lands are also surplus lands are available in Penna Cement's existing assets which will facilitate the expansions.

Amit Murarka: Okay got it. Thank you very much.

Moderator: Thank you. The next question is from the line of Hrishikesh Bhagat from Kotak AMC. Please go ahead.

Hrishikesh Bhagat: Hi, good afternoon. My question is related to Slide 7 where you have provided a logistics roadmap in terms of, so is it fair to -- if my understanding is right that potentially Sanghi clinker could also come into the AP market through your shipping route? Is that a fair understanding based on this map or do you think potentially only these assets clinker will be used for the grinding unit?

Ajay Kapur: So Hrishikesh very good question. See before we had this asset, Sanghi and Ambujanagar were two sources of clinker for us for the Western Corridor. Today, we are evaluating the cost benefit of Krishnapatnam right up to Cochin. I believe beyond Cochin upwards, I think Sanghi would be more advantageous and also cost effective, but I think up to Cochin, Krishnapatnam and also into Sri Lanka, Krishnapatnam will be more cost beneficial.

Hrishikesh Bhagat: So with Sanghi also we have reasonable clinker on the Coastal side. So even that will come into the AP market that's what the question was potentially?

Ajay Kapur: I think Sanghi will more focus in Gujarat. It will focus in Maharashtra. It will focus in up to Mangalore and I think with proper shipping we will see if we have to bring up to Tuticorin even that might work out for us.

Hrishikesh Bhagat: Okay. That answers my question.

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

Prateek Kumar: Yes. Hi, Good afternoon sir and congratulations for the deal. My first question is on the product mix of Penna Cement how is that seen and how do you think to evolve that product mix in the region by substituting your brand or otherwise?

Ajay Kapur: So Prateek we have a very good playbook for our brands, for Ambuja and ACC. We have typically a base brand and we have two premium brands for each of the company which is the playbook we have for Pan India. In addition, for B2B segments, we have our power brands, OPC and also blended. So we basically do the same playbook.

The good news is Penna at all its locations has multi chamber silos which I believe will help us in going ahead with our playbook of premium brands and base brands. The quality of clinker what I've seen is very good. It allows us to produce all kinds of cements that we are already playing with. So I think more or less we will follow what ACC strategy is in Karnataka, the base brand and the premium brand and our OPC and Penna allows us all this.

Prateek Kumar: And secondly on efficiency of the plant and legacy of the plant. So are these some of these plants are like too old or like too inefficient or are these like up to speed in terms of efficiency of Ambuja Cement?

Ajay Kapur So I'll tell you all the -- there's only one plant which was built somewhere in 94. Other than that most of the plants have been built. If you see we have loaded in Slide number 5 the Talaricheruvu plant was 1.3 was built I think a little earlier, but most of the other plants are clearly of a recent era.

All plants have their own railway siding, very good limestone reserves, very good equipment, very well maintained plant and all the bulk terminals are very efficient, fully automated both packing machines. So I think the asset class is very good, I would say and also the maintenance is of the top order and they have their own captive power plants, waste heat recoveries.

I think it's only one plant Talaricheruvu where there is no railway siding where the plant is on a hill. Other than that, all plants are very well connected with all the modern infrastructures. That's number one. Having said that, there are opportunities available for us with a little bit of an investment to, for example, putting some coolers, replacing coolers maybe adding a little bit extra waste heat capacity in some places. I think at AFR Penna has perhaps not moved fast.

With our experience where some of our plants are already operating at about 25%, 30% AFR and a full-fledged team in place, we should immediately with some fast investments increase the AFR. On top we already have a great solar strategy. As you know AAA is in the process of putting 1000 megawatts of solar and wind.

In Andhra, there is a lot of opportunity to put behind the meter assets as well. So once we integrate our RE strategy, AFR strategy on top, we integrate the Adani Group's ecosystem of fully taking advantage of synergies from the group whether it is fly ash, whether it is bulk cement wagons for bringing fly ash, the coal and fuel strategy.

I think each of these should give us an upside of about don't take me wrong because it's early days for us, but I would say about INR300 per ton cost efficiency is something very doable. And on the pricing side as you know Ambuja ACC are A category price players. So there is always a INR5 to INR10 upside on the pricing.

So if I put INR10 on pricing and INR300 on cost we are talking about INR500 EBITDA kick up from the current levels and then productivity going up over a period of next 2 years to 80% plus.

Vinod Bahety: And I will just also add in good times this company has been earning INR600 to INR700 EBITDA per ton. So if you just add this mark-up, almost then we are like between INR1000 to INR1250 down the line when we do those efficiency investments.

Prateek Kumar: INR1000, INR1250 is like sort of part of INR1500 console companies EBITDA per ton or like this number will also go to INR1500 or how is it?

Ajay Kapur: No, this number will go to INR1500, INR1000. See what we are doing at Ambuja, ACC level we are running on a cost on margin optimization program of INR550 which we had also announced in the last earnings call. Once Penna is part of our ecosystem and blends into the Ambuja, ACC ecosystem the same INR550 margin expansion plan will also work here of which I already told you about 500 comes from price and cost.

And of course as we debottleneck, as we reduce logistics costs, optimize the bulk cement terminals open a few more grinding units, I think there is an additional INR300 to INR400 and that's why it will go to INR1500. And also mind you, current price line in South is one of the lowest. So, over a long period, I don't think the prices will be there.

Prateek Kumar: Right. And sir, last question on general strategy. So, one acquisition in West, one in South. So, this looks, I mean, we are probably now looking at other regions, right? For M&A, obviously, the seller needs to be on board, but that's how we should think about it.

Ajay Kapur: So, M&A Pratik, I would only say what I have said in past, no comments, number one. And number two, we remain fully focused on expanding through our brownfield, for which we already have a plan of 40. The Sanghi 6 million and Penna 14 million, the 20 million is on top of what we were doing.

It only accelerates our journey, but we continue to work on our brownfield sites, for which we are very advanced stages of either getting permits or starting ordering of the kilns. Should another opportunity present? I think there'll be another occasion for us to discuss. Other than that, unless Vinod wants to add something more.

Vinod Bahety: No, I mean, to our luck, the occasions have been a little faster also last, say, six months. So, I think, Pratik, if you're taking that clue, we always evaluate and at the right time and right price, we will strike something, if possible, if available. But yeah, the focus is all about on the organic growth, which Ajayji highlighted, and we have a completely execution plan over there.

Prateek Kumar: Sure, sir. I mean, really fast and like moving ahead and all the best. Thank you.

Vinod Bahety: Thank you, Prateek.

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

Rashi Chopra: Thank you. I'm just seeking a clarification. I didn't quite get the point on the land. You said you still have to, the seller still has to acquire the land. If you could just please clarify that.

Vinod Bahety: No, Rashi, a question was asked whether the land will be your responsibility to acquire for the Marwar project, the Jodhpur one. And what I responded was that the Jodhpur project, which is under construction, first of all, the plant land is available. And B, whatever is the pending parcels of land which will be required for the railway line and for the limestone reserves in due course, they are acquiring it. And that will be part of the overall enterprise value.

Rashi Chopra: But this is not likely to cause any delay to your 12-month timeline, right?

Vinod Bahety: Not really. That has been factored in.

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

Satyadeep Jain: Hi. Thank you. First, I wanted to ask on the packing units. After Krishnapatnam 2, you'll have 4 million tons of capacity at Krishnapatnam. And you, I believe, will have about 2.5 million tons, give or take. Is there potential to expand the packing capacity? And I believe the sales to Calcutta were relatively lower. What was driving that? And is there potential to increase sales in the East after this acquisition?

Ajay Kapur: See, it's a beautiful opportunity for us to, again, relive our strategy, which many years back through Ambuja, we had started in the West. You know, from Ambuja Nagar, we built beautiful sea transport system on Panvel, Surat, Mangalore, Cochin. Then we acquired Sanghi. And currently, we are designing a completely different, even more modern ecosystem of marine transportation on the West Coast, right up to the tip of Tuticorin. These terminals, I must say, very state of art, very ahead of time. Beautiful sea carrier, you know, cement carrier, 25,500 tons.

Ambuja already has another cement carrier, which is close to 18,000 tons, which is on a long charter with us. And with our Adani shipping and Adani ports and logistics support to us, I think in a very short point of time, we should be able to ramp up this 2.5 million. And positions are available.

Some of the positions are also at our own ports. We should be able to expand them pretty fast and bring in more efficiencies. I see even in bulk transportation, from what was proposed earlier to what we are going to do, I think the same, you know, uptick on INR300 to INR400 per ton on efficiency improvement on cost to serve. And you are right, Kolkata, Gopalpur, Karaikal, then, you know, going into Cochin and Sri Lanka are all, each of the positions are very nice positions.

Satyadeep Jain: Okay. Thank you. Just one other question on, there was some litigation against Penna Cement historically. As an acquirer, would you acquire some of these liabilities or are you indemnified from these litigations?

Vinod Bahety: Yes. So, hi. So, there is proper indemnification for the liabilities of the past and a suitable mechanism has been framed.

Moderator: Thank you. The next question is from the line of Prateek Maheshwari from HSBC. Please go ahead.

Prateek Maheshwari: Hello, sir. Thank you for the question. Thank you for the opportunity. Sir, again, from this building on what the previous participant had asked. So, my question is regarding your expansion in Krishnapatnam. So, the unit will become four million tons.

And earlier, what we know is that Penna was trying to service Krishnapatnam unit from Ganeshpahad plant and also a plan to services from Talaricheruvu plant, right? So, since there is no release sliding at two of the plants, right? So, just trying to understand is, in the current asset base, are they not already incurring a very high inward freight to take the tinker to the Krishnapatnam plant?

And also, because Krishnapatnam is a grinding unit, again, you do not have the advantage of kind of utilizing fly ash and slag at the packing tunnels, which are coming with the asset. So, just only to understand about that, even if I look at, even if I remove the Talaricheruvu plant, the cement to clinker ratio will become about 1.7 times, which will also be advanced given the product banks in that region. So, how would that happen, sir?

Ajay Kapur: So, I will take care of that. Basically, it is our Boyareddypalli plant from where we have rail linkage to Krishnapatnam. The fly ash at Krishnapatnam is at zero cost. It has a very good, you know, and the freight is not more than, is less than 500 rupees. The cost of clinker at Boyareddy is already pretty competitive. But with the measures which I announced, when we, you know, institutionalize all the measures, the cost of tinker will come down further by INR300.

With that, I think the landed cost of Krishnapatnam and then add to it the sea freight to each of the BCTs, I think should be very competitive for us to serve. And I think we should be one of the lowest cost at each of the locations with the Krishnapatnam.

Prateek Maheshwari: And, sir, on the part of cement to clinker, which will be 1.7. So, would you have opportunity? I was just checking from the limestone reserves. It seems that the opportunity is only available at Telangana plants and not at the Andhra Pradesh plants. So, just wanted to clarify if opportunity to raise clinker capacity is also available in Andhra Pradesh because of this unit.

Ajay Kapur: So, first of all we have to ramp up the whole investment over the next 24 months. As I mentioned, de-bottle taking of some of the existing clinker lines. There are some more reserves available to us at each of the sites. I think that doesn't stop us from expanding clinkers, number one. Number two, as I mentioned, Ambuja in Nadikudi has a substantial limestone reserve and ACC in Kadapa also has a substantial limestone reserve. Both these greenfields were in our plan to expand.

And should the need arise, we will initiate any one of these plants or both the plants in time to come. We will be putting up 4 million ton kiln each. So, I think that way, we should be very well taken care of through clinker. That will not come in the way.

Vinod Bahety: By the way, what Ajayji highlighted is a very important point. Most of these locations, anyways, we are looking to grow organically greenfield, but this actually has helped us to fast-track our expansion, which we have covered in our rationale also on slide number three.

Prateek Maheshwari: Yes. Vinodji, last question. So, I was just also checking FY '22, despite their stressed utilisation rates of 65%, the structure is still a better cost structure on Ambuja versus Ambuja. So, do you think with your addition of AFR and other renewable and achieving 80%, would you guys be able to do better cost structure at Penna versus the overall operations of Ambuja that you guys are already doing?

Vinod Bahety: Ajayji can answer this.

Ajay Kapur: Yes. So, we looked at the Penna current costs. As I mentioned, Penna is not doing AFR for the moment. Penna is not doing solar RE at the moment. And Penna still has not fully invested in replacing its coolers in some of the plants. There are some of the additional investments on the mine conveyor belts, which I think need to be completed.

And then the de-bottlenecking and maybe putting few pre-grinders either in the VRMs for roller press for the raw mills or in the cement mills. We have done a first cut analysis. And as for my operations team, 300 rupees per ton on clinker costs, which I also made in the opening is something we believe very much doable, what we are also achieving in ACC Ambuja.

Prateek Maheshwari: Okay. Thank you so much, sir.

Moderator: Thank you. We'll take the next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Hi, sir. Thanks for the opportunity. A couple of questions. One is, can you highlight how strategic this port-based infrastructure is? Had it been not for this acquisition, would you have been able to replicate it? That's one. Second is, earlier you had indicated 10% of the volumes will target to move via sea. This was pre-Penna. How would that number change right now?

Ajay Kapur: So, Ritesh, the first one, how strategic it is? See, for the valuation for which we are acquiring Penna Cement Assets 10,442, 14 million capacity, Vinod has already explained to you the contours of transaction. So, having said that, this 2.5 million and a ship 25,500 is on top of it, right?

It's part of the game. So, number one, it is strategic because it took us a lot of effort, time and money to build a similar infrastructure in the western side, to get a port position, to get a permit, to build a ship, to build a complete ecosystem, to think it through end-to-end. I believe it's already done beautifully well.

And then it allows us to now augment it by, for example, with our experience in Adani, we believe some of the investments are using ships power. The moment we turn it into a shore power, the moment we bring in mechanical processes with some bit of investment of silos on the port, I think we can take straight away this capacity can be increased in time to come and also optimize substantially with our shipping and marine knowledge.

And 10% sea, what you are we referred, we have taken a conservative estimate of 10% because from Sanghi and from Penna, but mind you, over 10% will also be on a higher 140 million tons, right? You have to keep that in mind.

Ritesh Shah: Right. So, sir, my first question to what you answered, basically, had you bought Penna, had it been not for the packing cement terminals? That's what I'm trying to understand.

Ajay Kapur: It's a difficult question. Penna is a great company, has very well established plants, very good positions, complements the current positions, and also strategically fits in our expansion roadmap. Out of the 5 ticks, it almost put 4.5 tips for us. And therefore, we went ahead for it.

Ritesh Shah: Sure. My second question is for Vinodji. Sir, are there any fiscal incentives on the current capacities which are there and the upcoming facilities like Jodhpur, are we already entailing or do we have approvals to secure state-level incentives?

Vinod Bahety: They already have, in fact, and what we see is there is a good scope to further improve on that. But yes, two of their existing plants have it and then Rajasthan will have far better incentives to look forward to.

Ritesh Shah: Right. And just last question for Ajay, sir. Sir, what is the missing part? Basically, if you look at our exposure to India, I presume Tamil Nadu is one particular region where we don't have any desired presence, probably if I have to use the words. How are we looking at that particular region to fill that gap? And secondly, from a regulatory approval, including CCI, what are the timelines? Can there be any hindrances, hurdles that one can expect?

Ajay Kapur: I can cover the Tamil Nadu one first. Then I will ask Vinod to cover on the approvals. But we don't see any in-per-se problems on any of the regulatory approvals. See, if you look at it on the coast, we have a position in Madukkarai, which is right bordering Tamil Nadu. We have recently entered Tuticorin through a GU of 1.5, which can be expanded to 2.5. We have a bulk cement terminal, we will have a bulk cement terminal through Penna at Karaikal, which is in Pondicherry area. And then with this Kadapa position, I think it has substantial limestone for us to enter into Tamil Nadu.

Currently, we don't have a limestone there. Should an opportunity arise in future, we will be certainly looking at it very carefully. But I think other than that, it's fairly, you're right, it fairly covers pan India for us, except for Northeast, where we still don't have a position.

Ritesh Shah: Sir, regulatory approvals?

Vinod Bahety: No, sir, it depends on the regulatory approvals. Customary of this nature, that will be taken care of as part of the whole closing. But I see it will be much easier in this case, since it's a purchase of the shares, than the asset, and we don't see any issue over here.

Ritesh Shah: That's great. Thank you so much for all the answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Ritesh Shah for closing comments. Over to you, sir.

Ritesh Shah: Thanks, Michelle. I'll request Ajay ji, Vinod ji to please have the closing remarks. Thank you.

Ajay Kapur: So, I can only say to all of you, when we started engaging with you, because earlier there was no engagement after Adani takeover, one question was always asked in every call, how are you going to expand from 67 to 140? And I think this question never stopped coming. Second question came in, how will you improve the cost?

So, I think we are already delivering on the cost. We have already delivered on a very smooth, swift execution of four M&A back-to-back. Also, commissioning 8 million tons of clinker lines, 20 million tons of grinding units, and the balance 30 million tons to take us well past 140 is actively underway.

We have successfully participated both in coal mines as well as limestone mines. And we have made the company on the path of being a greener or Greenest cement company, putting 1,000 megawatt of RE and solar. We are focusing a lot on ESG. We are increasing our footprint on alternate fuels. We are investing back in our brands.

We have base brands and premium products, and I think we are amongst the leaders in India on the premium product portfolio. And I think above all, we are building a solid organization which is capable to grow at the pace we have envisaged. Vinod, over to you.

Vinod Bahety: thank you, Ajay ji. I still go back to September 22 and when we announced that we want to grow 2X from 67 million tons to 140 million tons by 2028. That was a very aspirational call and journey which we had to follow. But in the last one and a half years when we look at it, now I think that journey is very visible.

As I said, we are looking closer to 100 million tons by the end of this fiscal and 110 around, say, next year. So, I think we are very much in our good progress. Then cost addressing is what we have demonstrated in the last 18 months, and that journey continues more. And I think apart from growth to market leadership, overall ESG, I think we are in good shape as of now. And I'm sure our analysts and investor communities are also appreciating some of these initiatives and measures. Thank you, Ritesh. Thank you, everyone.

Moderator: Thank you, members of the management. On behalf of Investec Capital Services, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.

Note: This transcript has been edited to improve readability

Ambuja Cements Ltd

Registered office: Adani Corporate House Shantigram, S.G. Highway Khodiyar, Ahmedabad – 382 421 Gujarat, India
Ph +91 79-2555 5555; www.ambujacement.com; CIN: L26942GJ1981PLC004717