Ambuja Cements, ACC, and Sanghi Industries

Q1 FY25 Earnings Conference Call

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MANAGEMENT	
	
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MODERATOR	
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Moderator: Ladies and gentlemen, good day and welcome to the Ambuja Cement Limited Q1 and FY25 Earnings Conference Call.

As a reminder, all participant line will be in 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. Jashandeep from Nomura. Thank you and over to you, sir.

Jashandeep Singh: Thank you. Good afternoon, everyone, and thank you for joining the call.

Without much ado, I will transfer the call to Mr. Deepak Balwani - Head of Investor Relations. Mr. Deepak, over to you.

Deepak Balwani: Thank you, Jashandeep. It is indeed my pleasure to welcome all of you to Ambuja's Earnings Call for Quarter 1 FY25.

Ambuja Cement Limited, along with its listed subsidiary ACC and Sanghi, is one of India's leading cement companies and a member of the diversified Adani Group, the largest and the fastest growing portfolio of diversified sustainable businesses. I hope you all had a chance to go through our financial results, investor deck and the press releases which are now available on the company website and on stock exchanges.

Joining us on this call, Mr. Ajay Kapur - Chief Executive Officer and Mr. Vinod Bahety - Chief Financial Officer.

I would now like to invite Ajay ji for sharing his valuable insights on the quarterly performance. Over to you, Ajay ji.

Ajay Kapur: Thank you, Deepak. Good afternoon to all of you. I extend a warm welcome to each of you for joining us in our quarter one FY25 Earnings Call of Adani Group's cement business for Ambuja, ACC and Sanghi.

We continue to strengthen our position as a market leader in the cement industry. Adani Cement is becoming stronger overtime with an intense commitment towards capacity expansion through both organic and inorganic groups along with efficiency improvement initiatives. Adani Cement's current market share is about 14% with an internal target of 20% for FY28.

To begin with, I would like to share some of the high-level highlights before diving into specifics. Our current cement capacity is 89 million tons which includes ongoing Penna acquisition. This will help in strengthening our market share in Southern markets. We have increased our capacity by 32% since acquisition through both organic and inorganic growth translating to 21.4 million tons. 275 million tons of new limestone reserves have been secured in the 1st Quarter FY25. Capacity growth from the current 89 million tons to 140 million tons will be met through internal accruals and operating cash flows. We will continue to remain debt free during this journey. 4 million ton clinkering and 6.4 million ton cement capacity is expected to be commissioned in FY25.

The consolidated quarterly Y-o-Y performance, we have achieved a revenue of Rs. 8,311 crores. This is driven by a strong focus on our micro market management, expansion of dealer network, blended cement as a mix of the total sales volumes maintained at 86%, premium products as a percentage of trade volume increased by 200 basis points to 24%. On the cost, for the quarter was at 4,437 per ton showing a decline of 3%. This is driven by 13% decline in energy cost owing to better fuel management which resulted in reduction in kiln-fuel by 17% to Rs. 1.73 paisa from 208 paisa per 1000 kilocal. The transportation cost declined by 8% at Rs. 1,323 per ton on account of footprint optimization, the secondary lead distance reduced by 9 kilometers to 46 kilometers and the direct dispatches to customers increased by 4% points to 55%. With the improvement mentioned on the cost front, EBITDA stood at Rs. 1,280 crores at a margin of 15.4% and EBITDA per ton of Rs. 807.

As on 30th June, the consolidated cash and cash equivalent stood at Rs. 18,299 crores. Approximately, Rs. 6,000 crores have been utilized out of which Rs. 3,300 crores towards our organic and inorganic growth mainly for Tuticorin grinding unit acquisition, ongoing CAPEX program and Penna acquisition, dividend outflow of Rs. 630 crores and balance towards working capital which includes higher receivables during this quarter, higher inventory, lower payables, income tax payout, etc. In the best interest of time, I will not discuss the standalone financial performance of the listed company separately as they are available on our stock exchanges.

Now, I will share with you the progress we have made on our announced long-term strategy plan. As we plan to expand our cement capacity to 140 million tons by FY28, we are pacing well to achieve the stated target. This has also resulted into higher cash outgo as informed above. With the ongoing acquisition of Penna Cement, our operating cement capacity now stands at 89 million tons. We are on course to commission our 4 million tons clinker unit at Bhatapara in Chhattisgarh and the associated grinding units at Sankrail and Farakka, West Bengal and Sindri in Jharkhand by the end of this financial year. The grinding unit of Salai Banwa in Uttar Pradesh to be commissioned in Quarter 1 of FY26 and Brownfield expansion of Bathinda grinding unit in Punjab and Marwar Mundwa grinding unit in Rajasthan to be commissioned in Quarter 2 FY26. With commissioning of these projects, we shall be reaching cement capacity of 100 million tons by Quarter 2 FY26 and that indeed will be a great day for us to hit the first 100.

Further clinker unit of 4 million tons at Maratha in Maharashtra and grinding units of Warisaliganj, Bihar; Kalamboli unit expansion in Maharashtra; Mundra in Gujarat and Dahej grinding unit expansion in Gujarat are also expected to be commissioned by the end of FY26 enabling us to reach 112 million tons cement capacity by FY26. We have also identified 14 additional grinding unit projects for which land acquisitions and statutory approvals are under progress which shall enable us to reach 140 million tons by FY28. For the new facilities of 4 million tons clinker line at Bhatapara, 80% of civil work is now complete and major equipment has been received at the site. Expected commissioning is by quarter 4 FY25. For its corresponding grinding unit in Sankrail and Farakka, West Bengal, civil work of 66% and 60% respectively have been completed and major equipment has been received at the site. Expected completion of these units is quarter 3 FY25.

For the new facility of 4 million tons clinker line in Maratha in Chandrapur, contract has been awarded on EPC vendor, 25% major equipment ordering done by the EPC partner. Project execution work started. Expected commissioning is by Quarter 2 FY26. These kiln lines will have 42 megawatts of waste heat recovery and provision for utilizing 30% alternate fuels in these kilns. The new facilities of 2.4 million ton grinding unit at Salai Banwa in Uttar Pradesh, 11% civil work is now complete, and delivery of major equipment commenced at site expected completion is Quarter 1 FY26. Major equipment ordering for roller piers at Bathinda grinding unit and Fly Ash grinding unit, blending system at Kalamboli has also been completed.

Now, I will share some of the key initiatives being undertaken for becoming a cost leader in the cement business:

Securing major raw materials at cost competitive prices and efficiency and productivity improvement CAPEX will further help in cost optimization by 8% to 10%. First, let me discuss the steps we have taken to lower our energy cost. Our waste heat recovery capacity at the time of takeover around September 22 was 40 megawatt which we are now targeting to increase to 186 megawatts by March 25. Currently, the WHRS capacity is at 165 megawatts. We have earlier announced our investments of 1000 megawatt in RE which is expected to be commissioned by FY26 and would ensure that 60% of our power requirement would be through green power. This would help in reducing the power cost by 90 per ton by FY28. The first phase of 200 megawatt is getting commissioned as I speak to you in Quarter 2 FY25.

As previously explained to meet our requirements, we aim to have captive coal mines. As a result, we are bidding for coal mines in auctions being conducted by the Government of India. A higher share of coal from captive mines and the opportunity to buy imported pet coke will further lower our costs of fuel. Driven by better fuel management and structure initiatives undertaken, our power and fuel cost have decreased 13% to Rs. 1,304 per ton in Quarter 1 FY25 from Rs.1,501 per ton in Quarter 1 FY24. These initiatives include an increase in the share of AFR and WHRS. The share of AFR in fuel mix has improved to 9.3% from 7%. The share of WHRS in power mix has increased to 15.1% from 11.5%.

The second cost item is freight and forwarding cost. There are three focus areas of cost reduction here, reduction in lead distance, warehouse optimization and railroad mix optimization. We are targeting to reduce the average primary road lead distance by about 100 kilometers over a period of time. Primary lead distance in the current quarter was 270 versus 275 and secondary lead was 46 versus 55. To further optimize our cost in logistics, we have ordered 11 GPWIS rakes of which 9 have already been delivered and the rest are expected to be delivered by the end of Quarter 2 FY25. These rakes will enable cost efficient clinker movement from the mother plants. In addition to these, we have also ordered 26 BCFC rakes for safe and cost efficient transportation of Fly Ash from thermal power plants to our facilities. We expect 10 rakes to be delivered in the current fiscal year**.**

We will also introduce EV trucks in a few select groups which will be started by Quarter 2 FY25. Because of these initiatives our logistics cost have reduced by 8% to Rs. 1,323 per ton in Quarter 1 FY25 from Rs. 1,436 per ton in Quarter 1 FY24. To secure our license supplies in Quarter 1 FY25, we have won bids for another 2 mines having reserves of 275 million tons. On ESG, we are committed to net zero by 2050 for Ambuja and ACC with near term targets validated by SBTi. 60% power sourced will be from green power by FY28 which will help us to reduce carbon footprint. Ambuja is 11x water positives, establishing leadership in water governance, reached an impressive 8 times plastic negativity for Ambuja through co-processing of plastic waste in 7 kilns. Ambuja and ACC put together use more than 5.7 million tons of waste derived resources in Quarter 1 FY25, embracing circular economy. We are pledged to plant 8.3 million trees by 2030. Ambuja and ACC created societal values for more than 4.6 million people by contributing to fields like healthcare, education, employment and sustainable livelihoods.

We are optimizing the infrastructure at Sanghi that would enable efficient transportation of cement from the plant to the jetty and through mechanized conveyor belts and then using the marine and sea route. On the industry side, cement demand during FY24 stood higher by 7%-8% at 422 million tons and is likely to grow at 7% to 9% in FY25 to around 450 million tons driven by strong correlation with GDP growth and rising demand from housing and infrastructure sectors. The government aims to invest US $3 trillion in infrastructure and housing development through ongoing housing for all schemes, National Infrastructure Plan, PM Gati Shakti National Master Plan and others. An outlay of 11.11 lakh crores for capital expenditure has been allotted in budget FY25 which represents 3.4% of GDP. Phase 4 of Pradhan Mantri Gram Sadak Yojana will be launched to provide all weather connectivity to 25,000 rural habitations. We believe all these measures are expected to bring buoyancy in the cement demand.

To conclude, as I mentioned earlier at multiple occasions, Adani Cement will benefit from accelerated growth, lower costs and group synergies all of which will contribute to lead the market and achieve sustainable performance in the near future. The pace of CAPEX has increased which will help to achieve targeted growth ahead of time. With this, I now hand over to my colleague, my CFO - Vinod Bahety.

Vinod Bahety: Thank you, Ajay ji. I think Ajay ji has already covered in detail, but a few points from my side, another sustainable quarter and sustainable EBITDA in an otherwise subdued industry condition and I strongly believe this has been possible on back of the strength of cost leadership, which last 8 quarters we have been working on. Better fuel management is reflected in the results and in the coming quarters, the benefit of green power, we will see which will start from August onwards and that will further accentuate our position of strength in terms of cost optimization.

Our focus on digitization, ESG, and productivity, both machines and manpower will give commendable results in coming quarters. Ongoing expansions in parallel at almost more than

10 sites which Ajay ji has referred to which are at various different levels will see commendable progress in our organic growth plans, while the integration of Penna this quarter will give us immediate results as part of our inorganic growth.

So with this, I will pass on to Deepak and to the coordinator in terms of Q&A, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rishi Kothari from Pi Square Investments. Please go ahead.

Rishi Kothari: What is the bifurcation of our cement supply to private sector and public sector?

Ajay Kapur: So Rishi, hardly at an industry level, we consume about 64%-65% cement for housing, all kinds of housing. Large component is individual housing, and then it goes into commercial residential. About 23%-24% of cement gets consumed by infra. In this segment, it is largely government, but also in some cases, you have private players who are doing BOT projects. So I think large part of your question gets answered in this segment. And the last segment is about 15%, which are commercial institutions, I think this is largely private sectors because government seldom is here in this area. So I think to answer your question, the infra segment is 24%. In this, a large part of it is also government, but also some big companies who are also doing BOT projects, road projects, bridge projects, etc. I hope I have answered your question.

Rishi Kothari: In general, 70%-75% overall we have a public infrastructure supply and rest is on our private sector supply, is it?

Ajay Kapur: Of the 24% of the total demand, which is for the infra segment, a large part of it is government, but also a lot of it is done by private companies.

Vinod Bahety: Rishi that is a reverse what you have told. So it is like actually 75%-80% is private, and 20%-25% is actually public. When you say public, it is like government-driven infrastructure projects and all.

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

Navin Sahadeo: So two quick questions. Sir, first, on the green power bit, you said that first phase of the 200 megawatt is a little delayed in my view and I think it is coming now in Q2. So wanted to understand, does that mean that the entire 1000 megawatt project gets delayed because the earlier guidance for that was Q1 FY26? And just related to this, how much should the CAPEX distribution? I would rather request Vinodji to give this breakup on entire CAPEX through green power and other for 25 and 26. That is my first question?

Vinod Bahety: So in terms of your first question, our June '25, which is Q1 of FY26, remains very much firm there. In terms of the first 200 megawatt, which is now coming in August, and almost 650 megawatt, we are targeting by March 25, and another, say, 150 by May 25, which will actually complete to almost 1,000 megawatt by 1st Quarter of FY26. In terms of the CAPEX, as you would recall, close to Rs. 6,000 Cr is the overall outlay for this 1,000 megawatt initiative, and out of which close to 1,500 already has been invested, and balance 4,500 will be incurred in the coming next 12 months, out of which another Rs. 500 Cr is expected by September, and so on and so forth. But as we move in the coming quarters, lots of this completion will be happening as I mentioned and therefore, the CAPEX will be incurred as well, let us by say June 26. I would also give you an insight so that you are aware of this, that out of this 1000 megawatt, close to 160 megawatt is wind and close to 840 is actually solar, and which also if I have to give you further details and to the larger analysts and all, 300 megawatt is actually in Rajasthan and out of the solar 840 and the rest 540 is in Gujarat and also the 160 megawatt of wind is also in Gujarat. Khavda is the one where we are putting up this large investment.

Navin Sahadeo: Sir, my second question then was about the Penna acquisition, so would want to understand because from the presentation I see there is some delay in the timeline for the Jodhpur unit. I think we were targeting around May-June next year, but there seems to be some delay both in Krishnapatnam and the Jodhpur unit so to say, and also in the same breath want to understand how should one look at getting this Penna acquisition in our numbers in the sense you said it will complete by Q2, so just wanted to understand will second half then should see full benefit of the acquisitions for us and will Ambuja Cement as a brand be launched in South India?

Vinod Bahety: So I will cover on the acquisition part and then Ajayji can chip in on the rollout of the brand. So far as the status of acquisition is concerned, it is in very fairly advanced stages. So I would say that in a fortnight kind of thing, we are targeting to achieve full closing. And therefore you will definitely get the benefit of integration in Q2 and Q3 will be where it will be 100% available for the quarter. So that is on the status of the acquisition. Now, so far as the brand strategy is concerned, over to Ajay ji.

Ajay Kapur: So what we are going to do is clearly once this integration is done, we believe there is a synergy between our Adani Group plants, especially ACC plants in South and the Penna units. I think in our earlier call, which we done at the time of acquisition, we also laid out the rationale for the investment and also the uptake we will get it both on volume and cost. And as part of the strategy to enter South, we will be playing with our Ambuja and ACC brands. We will also be using Penna, wherever we feel that can add value for us to penetrate the market. So we will be using all the three brands, Ambuja, ACC and Penna.

Vinod Bahety: And Navin, I missed to answer your question on the CAPEX part, both Krishnapatnam and Marwar project of Penna very much remains intact on the timelines and therefore no concerns from our side on any delay over there.

Navin Sahadeo: So just one bit here, Penna as a brand continues to stay with us, so continue to use that?

Vinod Bahety: Yes, as a brand that remains in the company which we have acquired.

Ajay Kapur: So we will use this to the extent of our sales requirements. But as you know, we have strong brands of Ambuja and ACC. ACC has a very strong positioning in large parts of South. Ambuja also has a very good presence in especially AP region. So we will play on our strengths and ensure that the fastest ramp up and capacity utilization is enabled at the highest price and also the lowest cost. That will be our objective.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Couple of questions. First one is, sir, what do you make of consolidation in the space? Also, would you like to highlight the underlying levers which are driving this frenzy, say for Ambuja or for the wider industry?

Ajay Kapur: I think it is a very interesting question. We are looking at Quarter 1 demand and sales. The share of top 5 companies has come to 60% versus some 45 odd percent in 2018. So I think just by the size and scale, we are already seeing consolidation happening. I think it is always good as we mature as an industry that you can either have organic growth or inorganic. We are doing both, I can speak more for Adani Group. You have seen we rolled out a program of 140 million and that program did not have any acquisitions. However, having said that, whenever a good opportunity has come in, whether it is Sanghi, whether it is Asian, whether it is the Tuticorin grinding unit we acquired from My Home, or whether it is Penna, which we are acquiring, which on top of cement assets of 10 million operating, 4 million to be built, we also have 2.5 million of bulk cement terminals, 5 terminals, and a position in Sri Lanka, and a shipping infrastructure in the entire Eastern corridor. If you look at all this, I think what we have done is we have used very widely our resources to acquire good assets in the markets which are fitting perfectly well with our growth strategy and we have not at all gone in a rampant expansion, but we have gone in a very structured expansion. I think you use the word frenzy, I don't think there is any frenzy. All businesses use the money very carefully and whatever money we use, we have to ensure we get the returns for that. Maybe, Vinod, you want to add something?

Vinod Bahety: No, I think, Ritesh, it is also preempting in terms of, and which I can actually highlight for our acquisition of Sanghi and Penna, I am sure you also have your own math, which is actually coming below $90 a ton. Therefore, in terms of acquisition, I think we have been very careful, methodical, and in a structured manner, which we are doing. And I think both organic and inorganic is going very well for us.

Ajay Kapur: Our internal target for new growth is less than $80. In fact, the target given to operating team is to further drive it down by another $5-$10. Therefore, acquisition also for us has to meet some tough internal checks. And whenever we feel that it makes sense, build versus buy, we apply that very diligently. And so far we have been very responsible. You have seen, we have grown 35%, but we have grown profitably. We have reduced our cost substantially. We have committed to reduce the cost by about Rs. 550. We are well on track. All initiatives are structural initiatives, be it green power, be it waste heat recovery, be it own coal mines, be it long-term contracting, be it restructuring of logistics, be it taking some very bold steps in the market, which included warehouse optimization, which included more going direct. I think we have taken all those brave steps and I am very happy that my team in Adani Cement business is diligently working towards this. And on top of it, now we are driving a very big initiative, which is digitization. Whatever we do, we want to do it in a digital manner because the company will become so big, there is no other way we can have strong performance other than through digital means.

Ritesh Shah: Sir, my second question is what do you make of limestone lease expiries cum 2030 with respect to Ambuja, ACC and wider industry? And how do you think will this have a bearing on consolidation and profit pool overall for the industry?

Ajay Kapur: Very good question, Ritesh. So let me answer first for Adani Group, then I will jump on the larger industry. So for us, we have about 19 leases which will come up for renewal by 2030. Most of them are in ACC. However, out of those 19, by the time we hit 2030, we will have only 11 of them left because the remaining would have already lived their lives. So our strategy would be to use the limestone from them during this period. Of the 11, there are only three sites. We have alternate plants in place. And I think as per the law, the right of refusal rests with the current player. Other than that, I think we are in the same ship as anybody else because this is the rule of law and we have to all abide as per the government of India's mining laws. On a larger issue, a lot of representations have been made by FIMI, by ASSOCHAM, CII, I believe also from the cement industry, individually all of us have also made in various fora and forums. I believe in some cases for public sector enterprises, government has relaxed some norms. So this is something to be discussed. I think we also made an appeal to the NITI Aayog and I think people are seized off it. We will have to find a way to how best we can comply with the requirement at the same time, not have a disruption. But you can see for us, it is not too much. We have today with Penna coming in 50 operating sites in Adani Cement of which only 4 sites will have leases which are coming in 2030, so not a major concern for us.

Vinod Bahety: So just to reemphasize that for Ambuja Nil leases for 2030 expiry, industry level it is 25%, ACC the percentage is much lesser. So therefore, at Adani Cement level, we are well placed compared to the others.

Ritesh Shah: Sir, you indicated that at Ambuja level, there is not much of lease expiries which are there as compared to the industry which is the 23%. What this would essentially mean that the cost curve inflation for the rest of the industry will be significantly high as compared to Ambuja, now if the cost curve for the industry increases more than us, the pricing will increase and hence our profitability pool technically should move up?

Ajay Kapur: So I think Ritesh, I have to thank you that you have given the answer to your own question, do I have to even answer anything?

Ritesh Shah: Right, the idea was to understand how are you looking at this particular scenario? Like is there something which will drive consolidation?

Ajay Kapur: I don't think this will drive consolidation. This is known to the whole industry. And some leases are coming for renewal in 2030. But there is a law that after 50 years, all leases have to come back for renewal. So this journey will continue as India moves forward. The cement capacity in India, according to me, will hit a billion tons. If it is not in too distant a future, I can see it already by next 7-8 years. We are already at 420-430 million. And to double itself to 900 or 1 billion is not such a big time. It will double very fast. And for that, we need limestone. We will certainly be making representations to the government. And I am sure there will be some way out. There is still some couple of year's time we have for that.

Vinod Bahety: But what happens, it happens with the whole industry.

Moderator: Thank you. The next question is from the line of Jyoti from Nirmal Bang Equities. Please go ahead.

Jyoti: I have two questions. One is, when do we see Sanghi completely optimizing or rather ramping up in terms of capacity? By when and when can we expect like 85% or 90% from Sanghi Cement happening? Second is, with the Ultratech becoming almost like 180 million tons and their focus only on being, taking the capacity minimum at 70% utilization, will actually keep the prices muted and that will be a drag on the industry for the entire FY25. FY26, things could even don't know how it is going to pan out. What is your view on that?

Ajay Kapur: So let me first answer your question on Sanghi. We are progressing very well on Sanghi. As of now, we are also seeing a substantial improvement in our volumes that we sell in the Gujarat state. This is almost like double the volumes we are doing because of Sanghi, number one. Number two, Sangi has two kilns, one was the earlier kiln and the second one they only set up 3-4 years back. Both the kilns in the plant we have put on the major refurbishment program. This was part of our acquisition strategy, was budgeted in our acquisition cost. I believe this whole program will come to an end by end of October or at the most mid of November. After that I believe the last quarter of current FY, we should be hitting more or less full utilization of the clinker. And then the next level of investments in Sanghi would be at our jetty and the shipping infrastructure which also we have done first level dredging. I believe we have to watch this monsoon. Immediately after monsoon, the next set of investments would be made. So that is the question one of. And also we are considering connecting of some wind investment into Sanghi because it is in a very right region. We have a lot of land. I think in time to come, we will come back and talk to you more once we have signed that contract.

Vinod Bahety: And this will be over and above 1000 megawatt

Ajay Kapur: Yes, this. So we are already running one program of 1000 megawatts. At Sanghi, we might make further investments so that plant becomes very cost efficient. Wind, as you know, comes at around less than Rs. 4 and the current cost over there is more than Rs. 7-Rs. 7.5. So there is a clear Rs. 3-Rs. 3.5 up side on the power cost. So your second question is a more important one. I don't want to comment on my competition. That is not right. I can comment on cement industry at large. Prices have taken a toll on this quarter, multiple reasons, one the industry growth was a little tippet largely on account of elections and then of course, overall dragged almost 2 months in multiple elections and rain started early June. So that had an impact. We have seen that all over. You have not seen a very healthy increase. And on top of the volumes and some new plants which have come in, I think it has clearly added on some competitive pressures in the market.

You are right. As we speak to you, July has again had a very high rainfall, but I think post-Diwali again this year, and with all the budgetary grants and also announcements, I read immediately post-budget, a lot of analyst reports came out and people are saying at least 4% to 5% additional demand growth in cement can happen once these projects see a fruition. So I think the good news is on the demand side, we will again be back to 7%-8% growth. There is always an overhang of about 100-150 million tons of cement capacity in India. So no one player can be responsible for too much. I think it is there at the large country level. What is important to see if we have 8%-9% demand growth, every year we will add about 40 million tons of additional demand. I think over a period of time and then if you go geography wise, you will still find some geographies which are about 78%-79% utilized and some geographies which may be 65%, like I am saying South India. So you have to basically cut and paste and look at India in pieces, not as one piece.

Jyoti: Sir, subsequent to that question again two things, one is do we see high maintenance cost being built up in the second quarter because usually monsoons is the time where most of the plants go for maintenance. So obviously there will be a huge inventory buildup and therefore again a high cost of raw material in the second quarter as well which will again take a beating on the EBITDA better? And second thing is, the 1st Quarter was not such a great quarter still ACC has done 10.2 million tons in terms of volume which I believe is a significant number?

Ajay Kapur: So basically as you see when you see our presentation which is loaded on our website, you have ACC numbers, you have Ambuja numbers, you have Sanghi numbers. We have an MSA under which both ACC and Ambuja, we use each other's facilities and try and optimize our distribution and cost to serve under which you have seen ACC is a high growth, but if you see at console Ambuja level, the growth is with CLC as we call it, cement and clinker, 3% and cement standalone is about 1%. So I think basically more the market has been mellowed as I mentioned, the industry demand also, I am not looking at more than 1%-1.5% for this quarter. So we are more or less in line with the industry demand. Prices have taken a knock and that knock is straight away reflected in the EBITDA per ton. Some part of it, we have mitigated with our power and fuel cost, with our freight cost. You have seen raw material cost slightly higher. This is on account of clinker purchases. I believe as part of the Penna acquisition and one of the reasons of that is also Penna will give us very good quality and low-cost clinker to our grinding units in South, including Tuticorin, including Thondebhavi, including Madukarai of ACC. And I think that you will see uptake coming in once Penna comes to play and therefore, the cost of this quarter will get mitigated.

Jyoti: And sir, the other one which I asked in terms of this quarter for maintenance costs, do we expect plants shutting down, so again, we will have an inventory buildup?

Ajay Kapur: We have 14 plus kilns. Each kiln has to take its scheduled 20-day shutdown. Some of them have happened in the previous quarter. One of them was not to happen, and therefore you have seen a little bit extra. Rest of them will happen from now till December, but I don't see any worry on that count.

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

Prateek Kumar: My first question is on your cash position. So you mentioned out of 60 billion drop in cash position, 33 billion was towards expansion and related initiative. Penna related payment, is it done already on the balance sheet in 1st Quarter?

Vinod Bahety: In terms of Penna, so like in June quarter, Penna is not on the cash outflow, but Ajay ji has also covered, a major part of the outgo is on account of the CAPEXs. And on top of it, you have a payment of dividend, which is for the year, was paid out, which is closer to say Rs. 600 odd crores. Then you have tax outgo and on top of it, the Tuticorin acquisition goes up to for Rs. 415 crores, which has actually gone over there. And what we have also seen that, while as I mentioned, that like in subdued quarter from our overall industry perspective, it also results into buildup of inventory and also buildup of receivables. And therefore, you have seen some uptake in the overall say working capital. But good part is a heavy outflow on the CAPEX actually is a positive thing given that the overall organic growth is now getting good momentum. In my initial answers to the questions, I highlighted how now speedily things are moving on the green power, which will see a good outflow of almost like Rs. 4,500 Cr in next 12 months. So that is overall from an outflow perspective. As of now, we are sitting on closer to Rs. 18,300 cores of cash and cash equivalent on Ambuja console.

Prateek Kumar: And generally what is the expectation for full year CAPEX's of around Rs. 3,500 crore outflow for?

Vinod Bahety: For full year CAPEX, Prateek, we have a target of closer to Rs. 10,000 crores both the growth CAPEX as well as the maintenance CAPEX and after factoring in the Penna outflow and after factoring in the CAPEX outflow and with the overall operating cash flows, our expected end year cash and cash equivalent will be closer to Rs. 10,000 odd crores. And as I mentioned, that this will actually, after the outflow for the Penna and the CAPEX, so there will be still a healthy cash and cash equivalent of closer to Rs. 10,000 crores.

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

Rahul Gupta: Couple of questions. So just taking the previous participants' question forward, so we saw around 20 billion sequential decline in cash position for ACC as well, so is it more driven by a buildup of inventory and higher working capital outgo? Can you just please help us give breakdown of this Rs. 20 billion?

Vinod Bahety: Same again, like both ACC and Ambuja, and for Sanghi as well, on a consolidated when I am highlighted, the factors are the same, more or less. Even in ACC, we have seen a good buildup on CAPEX as well as of course, on the working capital as well, and dividend and tax. These are like key component, which also reflects for ACC. It reflects more on the CAPEX part for Sanghi, and also more on the CAPEX part for Ambuja as well as the working capital. So these are the key factors, which actually have seen the outflow.

Rahul Gupta: No, I understand that. So the reason I asked this question is, we are not seeing any material CAPEX plan for ACC at least in the near term. So what specifically is driving this large Rs. 2,000 crores?

Ajay Kapur: Earlier we had highlighted ACC is building up an office building in Ahmedabad and we are also putting up an office in Delhi. So that is like one CAPEX is coming in the books of ACC and on top of it, some of the investments when we acquired the Rajpura unit and when we also are modernizing the Wadi unit, you will see line items there in terms of the CAPEXs. So in September, when you will actually see the balance sheet of ACC, you will actually be able to see those numbers.

Rahul Gupta: My second question is more on your strategy. We have ACC as a listed subsidiary, we have Sanghi as a listed subsidiary and now Penna would come under Ambuja as well, so can you just help us understand what the management strategy is from here on with respect to consolidating everything into one entity? How should we look at all these companies going from here?

Ajay Kapur: So as far as we had some subsidiaries, not subsidiaries, sister concern in the group that we already rolled a plan to merger with Adani Cementation and Adani Industries. It basically has limestone leases in Gujarat. It has a cement grinding unit and a land parcel for a jetty in Mumbai, Raigarh and it also has a grinding unit of Dahej and also an expansion going on at the same. So that is Phase 1 that cleans up and brings it into one pocket. As far as Penna is concerned, it is acquired through Ambuja and at the end of the completion it will become a wholly owned subsidiary of Ambuja. It won't be a listed entity. So to that extent, we have to deal with it differently. Today, we don't have a mandate to speak about that since it is currently under acquisition. As far as Ambuja and ACC are concerned, I have repeated time and again that as of now, we run our cement business as one management organization. All the advantages, synergies, we are driving through the MSA and MSA has now reached a level where we are far higher than what we were two years back. And I am very happy that teams are working together, one procurement, one sales, one operations, one finance, one digital, so on and so forth. So I think to that extent, and yet we have brands in the market which are separate. As of now, we have no such plans. Whenever we have something to announce, we will certainly come out and talk about it.

Rahul Gupta: So just to understand this clearly, so right now the company does not have any plan to take ACC and/or Sanghi private and the company will have three different listed companies as of now and we don't have any clarity on that right now?

Vinod Bahety: No, absolutely. As Ajay ji highlighted, when the clarity emerges, it will be also informed to you. So obviously, when things fructify, you are the first person to be informed, as we assured. I think we will just move on this point now and at the right, when things move, we will inform the markets.

Moderator: Thank you. The next question is from the line of Pulkit Pathani from Goldman Sachs. Please go ahead.

Pulkit Pathani: Sir, my first question is on capital allocation. Given the fact that you have a stated policy that your growth is going to be either internal accrual funded, there will be no debt involved, the fact that we are putting in quite a large sum of money behind these solar power plants, and the fact that we are talking about the industry also growing quite meaningfully, and I am sure we are going to want to match up with that market share, why is it that the focus is to install a green power when you can actually get it from multiple sources including our group companies? So just wanted to understand what is the thought behind putting so much money in renewable power when we can actually buy it from outside? That is question number one?

Ajay Kapur: Pulkit, very good question. When we took over the business and we laid out a certain roadmap, one of the strategic levers, see cement is one of the highest CO2 emitters. On one end we have 2050 zero-net target, 2030 we have a target to reduce our CO2 emissions, I think for the entire cement business to about sub 400 or around 400. We have to mitigate those as part of our ESG responsibility. Globally in Europe and all, there is carbon tax, zero tax, it is not there today, but someday it can also come. So we have to be very aware that as a responsible company, we do things which are not only environment compliant, but also cost effective. With this strategy and with this investment of 6,000 crores, which my colleague just explained, we are going to also get a benefit of close to Rs. 100 per ton on the cost of production thereby improving the EBITDA and thereby improving my performance. Now as far as our expansion CAPEX and growth CAPEX is concerned, the company over a period of time targets reduction of cost by about 550. Green is about Rs. 100 of that 550. There are other initiatives also which includes waste heat recovery which I spoke in my opening. We are already hitting by the end of this year 180 which we started was only 40 and our end state would be more closer to 300 by the time we hit FY28 on waste heat alone. So it is not just the solar we are also working on. Solar is something which pays by itself. The return on investment is sharper, improves the performance and then on an average, the run rate at which we estimate we are going to deliver our EBITDA and bottomline at the same time, the cash burn we will have for our new expansion, we believe over the next 5 years, we would have adequate cash this year after acquiring 14 million of assets, and building another 10 million, 24 million, we would still have a cash left of about Rs. 10,000-Rs. 11,000 crores because next year we will also be adding from our operating and thereby we still have a healthy cash flow as we move around. So we have done that math, Pulkit, and it makes perfect sense for us that to turn green, to turn lowest cost, and I think to turn lowest cost is the only license to expand your capacity and we want to deliver on both accounts.

Pulkit Pathani: Sir, my second question is, we have done about Rs. 800-Rs. 810 EBITDA per ton this quarter and based on the target we have to get 3,650 cost. We are looking at about Rs. 800 EBITDA per ton improvement from here on. Any sense on whether this is based on some assumption on pricing because I think while you are doing a lot on cost, I think pricing is something that has been disappointing in general. So I am just trying to get to ask which could look a little steeper based on where the industry stands as we speak?

Ajay Kapur: So clearly, you picked up the right question. What has happened is, prices today, for most of the companies have fallen anywhere between 5% and 6% and the same has been the trend for us as well. So for this quarter the price has fallen more like Rs. 370-Rs. 380 a ton versus that EBITDA has fallen by 200. So part of it we have mitigated through volume and cost and part of it is directly reflected in the EBITDA decline. Now, this price is the lowest price I believe in the last 36 months in most of the markets especially in some of the markets where there is extra capacity. I believe going forward the trend will change again after Diwali which happens every year because right now we are in monsoon and then we should again go back to the normal pricing. Our estimate of 550 cost is independent of price because cost is something that is in my hand, price is something which is more discovered in the marketplace. Like you have seen in this quarter it has taken a beating. It has also taken a beating because of tepid demand which I mentioned largely on account of elections and early monsoon.

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

Ashish Jain: Sir, on this Rs. 550 cost savings that we have been talking about, how much of it is only there? Is it possible to quantify that?

Ajay Kapur: So Ashish, when we started the journey way back in September, our cost was more like Rs. 4,800 odd, which was brought down in the first year to Rs. 4,400. And currently as you can see, we were still at Rs. 4,400 odd. So I think some part of it has already come in, but some part of it is currently projects under play. So what is under play is full utilization of our waste heat recovery and so the number was September we were at Rs. 4,844, FY23 we were at Rs. 4,740 and FY24 we were at Rs. 4,184. So from that Rs. 4184 we are targeting Rs. 530. It will come from basically freight, it will come from power and fuel, it will come from raw material, and it will also come from optimizing our other fixed costs and other expenses. So I think that is the journey. You have the numbers with you all the 3 years.

Ashish Jain: Just two clarifications on that. One, earlier in the call, did you say that the secondary lead distance we plan to reduce by 100 kilometers?

Ajay Kapur: Yes, I said that, but that will happen by FY28-29 when I have a full play of 140 million and also, when we started, we were at about 34 units, 35 locations. We will end this year by 50 plus locations. As the number of locations increase, especially the grinding and you ship your clinker by railway wagons, some of which are owned by us, thereby giving us also advantage on on-time service and also savings because of this initiative. We then distribute cement at a radius of about 100 kilometers and that is how this number was calculated and we are very much tracking that. Plus the sea transportation, which we will enter, this will really increase us. And this is for the primary, not for the secondary, primary lead, I am saying will get reduced.

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

Sumangal: First question is on the volume growth. So if you look at a growth around 6.6% at console level, it is still much lower than the peers who have reported could be the case of higher utilization. So just want to understand by when do we expect these losses to kind of reverse given the capacity expansion is more back-ended in FY25, should we expect markets again starting from 26 only?

Ajay Kapur: Sumangal, last quarter, if you saw, we had a 17% growth in volume, which I think was pretty much in line or better than the industry. In this quarter, we had two markets where we suffered volume losses. You will also find from our investor deck that we have loaded because we give now break up even region-wide. Basically, East region and South region is the two areas where we were losing out on volume growth. We gained market in North, we maintained market in center, and we gained market share in West. In the East and South, we had a little bit of a capacity constraint this quarter. As I mentioned, there was one unscheduled shutdown and therefore, even though utilization was higher in East, we are still not able to recover fully. So I believe this should get corrected from the current quarter.

Sumangal: And just one clarification. This office building CAPEX, can you share details? What is the exact amount and is it being shared by the group companies, some details on this?

Vinod Bahety: No, so like, we are constructing a full-fledged cement house in Ahmedabad and this will be almost closer to Rs. 600 to Rs. 700 crores and another office which we are constructing as a regional office is in Delhi and that would also stand below Rs. 500 odd crores. So together, let us say about Rs. 1,000 odd crores will be the two buildings coming up both in Ahmedabad and Delhi.

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

Prateek Maheshwari: Sir, first question I had on the prices. So sir, if I look at the two quarters, cement prices or your elevation size is down about 11%. So my question was, sir, now in the quarters ahead, you will be looking to ramp up on your Sanghi Industries' Asset and also on the Penna. So would you see that with ramp up of such asset, the prices could also further see some pressure or are you seeing the bottom is there now in this price?

Ajay Kapur: So Prateek, from my perspective, I think our prices were down about 5%-6%, not 11%. We can separately connect and see where it is coming from. That is what we have reported and that is what it is. Prices today, as I mentioned, for all companies you have seen sequential decline. It is also, as I said, largely because of this year we had elections and four multiple phases. So the entire month we saw challenges on that. Prices generally tend to recover after the monsoon season. So I believe post-monsoon, like normal trend, prices should follow the normal trajectory because demand supply tends to match more in the quarters of December and March. And as I mentioned, in the budget, there are very good initiatives which should also help us give that extra respite of demand which should also help improve market sentiments.

Prateek Maheshwari: Sir actually, I meant from the December quarter to June quarter, the prices are falling by that much?

Ajay Kapur: I was looking at last year's Y-o-Y, it has gone about 2%-2.5% and Y-o-Y has gone about 6%-7%. There is a 6.5% decline in prices sequentially.

Prateek Maheshwari: Sir, I wanted to check about again the comment on the cost front, right, so 3,650 of operating cost target by FY28. I think the ask now has become much higher about 800 per ton as well, right. And while you have given us across these segments have given us what is the potential of reduction? This again, sir, on that part, just wanted to understand, sir, is this target of 3,650 regardless of the inflation that we see because everywhere any which ways we are seeing for the last 7-8 years, we have seen 1%-2% of inflation and that would itself make this number much higher versus 3,650. So just wanted to understand is there a margin of 50 or this is at just on the current prices and the inflation would play its role?

Ajay Kapur: So Prateek basically, as I said, I will repeat again four numbers, 4,844 was the cost in September 22, 4,740 was the cost in 23, 4,184 was the cost in FY24. From the 4,184 cost, we want to achieve at least Rs. 500-Rs. 550 deduction. We are firmly on track. Yes, this is the way things stand today. All other costs we are very clear. It is the energy cost which generally gets adjusted because today coal is, there is an index which gets adjusted every few years. If the index gets adjusted, this cost gets adjusted, but our target is to get to this cost. But if there is a general inflation, it will also still give me relative benefit of my own number versus this number. So I think net-net, it will directly show in the EBITDA.

Vinod Bahety: But there are also some basically other off-fitting items Prateek, like this number which we had given was pre Penna in fact, right now Penna with all the logistic strength, I am not even right now factoring in, so some of this, for example, when you say inflation and then some of the other measures which will offset, on an overall basis, I think it is what we have considered that we should achieve 3,650.

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

Deepak Balwani: So thank you for your time. I hope most of the questions have been answered. If you have any unresolved queries, please contact us. We look forward to the next quarterly call before Diwali. Thank you Nomura for organizing this. Thank you.

Moderator: Thank you. On behalf of Ambuja Cement, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Note: This transcript has been edited to improve readability

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