"Ambuja Cements & ACC Limited
Q2 FY 24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Ambuja Cements Limited and ACC Limited, hosted by PhilipsCapital India Private Limited.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vaibhav Agarwal from PhilipsCapital India Private Limited. Thank you and over to you Mr. Agarwal.

Vaibhav Agarwal: Thank you, Michelle. Good afternoon, everyone. On behalf of Philips Capital India Private Limited, we welcome you to the earnings call for the quarter and half year ended 30, September 2023 for Ambuja Cements Limited and ACC Limited. On the call, we have with us Mr. Ajay Kapur, CEO, Mr. Vinod Bahety, CFO, and Mr. Charanjit Singh, Head Investor Relations at Ambuja Cements Limited and ACC Limited.

I will now hand over the floor to Mr. Charanjit Singh for his opening remarks and management presentation which will be followed by interactive Q&A. Thank you and over to you, Charanjit.

Charanjit Singh: Thanks, Vaibhav. Good afternoon, everyone. Thank you very much for taking out the time to join our Q2 results call. Without taking any further time, requesting Mr. Ajay to provide a quick overview on the performance of ACC and Ambuja for Q2 and HY FY '24 and thereafter, we will open the line for questions. So, over to you, Mr. Ajay.

Ajay Kapur: Thank you, Charanjit. Warm greetings to everyone. Thank you for joining us today. It is my pleasure to share with you the operational and financial performance of Adani Group's cement business for the quarter ended September '23.

The fourth quarter post the change in management has been yet another important milestone for our progress and transformative journey on operational efficiencies, nurturing business synergies, and business excellence which have significantly improved key business matrices. Let me provide you key highlights on the consol performance of the second quarter ended 30, September '23 as well as half yearly ended 30, September ‘23 of FY ‘24 and share insights on the way forward.

To begin with the revenue, this quarter on a Y-o-Y, we registered a revenue of INR7,424 crores, a jump of 4.1%. The realization for the quarter was INR5,334 per ton, which is a jump of 0.9%, largely driven by a strong focus on our micro market management strategy, expansion of dealer network, blended cement as a mix of total sale volumes maintained at 89%, premium products as a percentage of trade sale volume has increased by 0.8% to 23.4%, compared to same quarter in previous year.

Talking about the cost. Operational cost for the quarter at INR4,682 per ton shows a decline of 11.8% on a Y-o-Y basis. This is attributable to 33% decline in energy cost driven by better fuel management which resulted in reduction of kiln fuel cost by 38% to INR1.82 per 1,000 kcal from INR2.93 same period last year. The transportation cost is at INR1,377 per ton, which is

3.1% decline Y-o-Y on account of footprint optimization. The direct dispatch to customers has further increased by 5 percentage to 49 percentage in the current quarter. The rail coefficient has gone up by 2% to 28%.

The new operating business model led us to increased focus on improving business parameters resulting in reduction of other expenses. This now stands at INR829 per ton, a 13.5% reduction on a Y-o-Y basis. With the improvements mentioned on both revenue and cost front, EBITDA excluding other income for the quarter came in at INR1,302 crores, which is a jump of 298% Y-o-Y. EBITDA per ton excluding other income for the quarter was INR995 implying a jump of 291% Y-o-Y. EBITDA margin expanded by 12.9% to 17.5% on a Y-o-Y basis.

The capex spent of INR1,101 crores for the quarter was achieved from internal accruals and cash in hand. As on 30, September, '23, the consol cash and cash equivalent in the company's books was INR11,721 crores. During half yearly ended 30, September, ‘23, revenue is up 6.44% at INR16,137 crores. EBITDA excluding other income for the quarter came in at INR2,969 crores which is a jump of 107% on a Y-o-Y. On a per ton basis, it was INR1,042 implying a jump of 95% on a Y-o-Y basis. EBITDA margin too expanded by 8.9 percentage to 18.4% on a Y-o-Y basis.

Now coming on stand-alone performance of Ambuja Cements for the second quarter, 30, September, ‘23, on a Y-o-Y basis, net revenue is up 8% at INR3,970 crores in line with the volume growth of 7.3%. EBITDA excluding other income came in and jumped by 147% to INR773 crores. EBITDA excluding other income per ton stood at INR1,020 showing a jump of 130%. EBITDA margin expanded by 11% to 19.5%. We had a robust PAT growth of 364% to INR644 crores.

The same results on a stand-alone for half year, ended 30, September, on a Y-o-Y basis, net revenue up at 13.4% at INR8,700 crores in line with volume growth of 15.4%. EBITDA excluding other income jumped by 72% at INR1,722 crores. EBITDA excluding other income on a per ton basis was INR1,031 showing a jump of 49%. The margin expanded by 6.8% at points at 19.8%. We had a robust PAT growth by 8.5% to INR1,289 crores.

The company won several awards and accolades for its overall outstanding work. Ambuja has been recognised amongst the iconic brands of India, 2023, for the second year in a row. Gare Palma coal mine under Ambuja Cements secured 11 accolades at the Annual Mine Safety Fortnight and Inter-Regional First-Aid Competition, hosted by SECL at Bilaspur.

Several of our plants and grinding units were recognised at the 24th National Awards for Excellence in Energy Management by CII for their exceptional dedication to energy efficiency and sustainability. Ambuja Cements, Bhatapara, Maratha, Farakka, Nalagarh and ACC's Jamul, Sindhri and Madukkarai were recognised.

Ambuja Cements Bhatapara plant has also been honoured as first runner-up for the CII Award for Excellence in Safety, Health and Environment, 2023. Ambuja Vidyaniketan, Ambuja Nagar, our school, secured the first runner-up position at the International Model United Nations held in Kerala.

Now let me share with you the progress that we have made on our long-term strategy plan that I have shared with you in May '23 at the time of full year results of FY '23. First, our new capacity addition. In my strategy update, I highlighted that to reach a cement production capacity of 140 million by FY '28, we will add around 40 million of new clinker capacity, thereby implying around 10 new cement kilns. In line with our plan, Ametha integrated unit in Madhya Pradesh has been commissioned, enhancing the clinker capacity by 3.3 million tons per annum.

For doubling the capacity of grinding facilities to 140 million by FY '28, we are targeting around 35 new grinding units. Of these, two units are mapped to the upcoming clinker facility at Bhatapara of 4 million tons. These include one unit at Sankaren, Kolkata, one at Farakka. Another two units are mapped to Chandrapur clinker facility. These include one unit at Jalgaon and one at Amravati. Another grinding unit is being set up at Salai Banwa in Uttar Pradesh.

For the new facilities of 4 million at clinker at Bhatapara apart from equipment which has been ordered, civil execution work has started on ground. Expected completion is by quarter 2 FY '26. For its corresponding grinding unit at Sankaren and Farakka, order has been placed on EPC vendor and piling work has also started at the site. Expected completion of these units is by quarter 3 FY '25.

For the new facility of 4 million tons clinker line at Maratha in Chandapura, LOI has been placed on EPC vendor. Site development and pre-project work has also been started. EC and CT approval are expected in this quarter. Expected completion by quarter 4 FY '26. Each of these kiln lines will have 42 megawatt of waste heat recovery and provision for utilizing 50% alternate fuels in the kilns.

At our Salai Banwa grinding unit in Uttar Pradesh, ground breaking activities have already been done. Expected completion is by quarter 1 FY '26. We will continue to provide progress updates of new orders and also the progress on individual projects on an ongoing basis.

Status on Sanghi acquisition. On 3, August, Ambuja Cement announced acquisition of Sanghi Industries at an enterprise value of INR5,000 crores to be fully funded through internal accruals. Seller's CPs are in the progress of completion and the acquisition is expected to close in quarter 3, current year. This acquisition would help us to accelerate Ambuja's goal of 140 million ahead of 2028 and reinforce its position as a leader in construction material sector.

Now sharing an update on the structural initiatives to become the cost leader in the Indian cement industry. In my last call and also in our strategy presentation, I have guided for a total cost reduction of over INR400 per ton under three broad segments, which are energy cost, freight and forwarding cost and other costs.

Let me first discuss on the progress made to reduce our energy cost. Our waste heat recovery capacity at the time of takeover was 40 megawatts which we are now targeting to increase to 170 megawatts by March '25. As of FY '23 end, we managed to increase the capacity to 70 megawatts. At present the waste heat recovery capacity stands at 90 megawatts.

I also mentioned that we are considering installation of 200 megawatts of captive renewable power generation. The construction of the facility has already started in Khavda in Gujarat and is expected to be ready by end of current financial year. On multiple occasions, I have highlighted that we want to be self-sufficient on our coal requirements with captive coal supplies.

As a result, we started bidding for coal mines in the auctions being conducted by the Government of India. Besides the 1.3 million captive coal mine at Gare Pelma which Ambuja has since 2018, we have won the bid for a 2 million ton coal mine in Dahegaon Gowari in Maharashtra. The two mines together would cater to around 40% to 50% of our current coal requirement.

On account of these initiatives and reduction in fuel prices globally, our power and fuel costs have reduced by 33% to INR1,425 per ton in Q2 FY '24 from INR2,134 per ton in Q2 FY '23, the last reported quarter before our takeover.

The second cost item is freight and forwarding cost. There are three focus areas for cost reduction here. First, reduction in lead distance. Second, warehouse footprint optimization. And third, railroad mix optimization. We are targeting to reduce the average primary road lead distance to about INR100 kilometers. When we took over the company, this was INR175 in Q2 FY '23, which has been reduced to INR165 in the current quarter. For Ambuja stand-alone in the last quarter, it was at INR174 kilometers and for ACC, it was INR153 kilometers.

We have made progress on warehouse optimization as well and increased the direct dispatches from 44% to 49% on a Y-o-Y basis. With focus on green cost reduction in logistics, we have ordered 25 bulk rakes. These trains will enable safe and cost-effective transportation of fly ash from thermal power plants to our facilities. The costs are reducing mainly driven by detailed route planning at micro-market level and adherence to our L1 source, renegotiation on commercial terms, GPS and technological measures. On account of these initiatives, our logistics costs have reduced by 3.1% to INR1,377 per ton in Q2 FY '24 from INR1,421 per ton in Q2 FY '23, the last reported before our takeover.

Talking about the third cost item, the other cost, our business is now being run as a single entity with a single executive team and a streamlined employee hierarchy, thereby removing the role of redundancies between Ambuja and ACC. This streamlining has led to reduction of other costs by 13.5% to INR829 per ton in Q2 FY '24 from the earlier INR958 per ton on a Y-o-Y basis.

To secure our limestone supplies, we have won bids for 10 new mines with one in Odisha, one in Maharashtra, two in Gujarat, one in Madhya Pradesh and five in Rajasthan. Together, these limestone reserves are estimated to have a total of 584 million tons of limestone reserves. We have put a good discipline on the working capital, which has helped in improvement in working capital and operating cash flows, helping us continued increase in cash and cash equivalents.

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

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We will take the first question from the line of Prateek Kumar from Jefferies. Please go ahead.

Prateek Kumar: Yes, good afternoon, sir. So my question was regarding your guidance on INR400 per ton reduction in cost. Where are we as of like now we completed one year, where are we versus the INR400 per ton reduction from company specific initiatives?

Ajay Kapur: Yes, good question, Pratik. If you saw when we took over the companies, unfortunately, those were the quarters, number one transition quarters, so not the best time to compare with. Number two, the energy costs were very high during that period. If I normalize that and if you really see the structural efforts we are putting in, I think in my opening, I gave a very detailed explanation on how on all the three legs we are moving. Waste heat recovery, we already ordered 175 megawatts of waste heat between ACC and Ambuja.

We've already ordered 200 megawatts of green. We've already acquired a new coal mine in addition to the one which was running and is now being run at full capacity. We are already focusing on logistics and I've shown you how the direct dispatches have increased. I think each of these levers have already yielded some returns. The full spectrum of these results, plus our additional strategy on long term contracting our own wagons, which I spoke, I think over a period of next 12 months to 36 months, you will see a play of further improvement on the cost from the current level.

Prateek Kumar: I was just asking that how much of that INR400 maybe like, INR100 has come already or INR50 has come already based on whatever is operation in terms of various capex projects, so that was my question?

Ajay Kapur: I would say straight away 3% to 11% waste heat. So that much extra straight away comes on the power. Coal, we are already seeing also some strategies working with the Group companies. You've seen our power and fuel costs are getting optimized. The whole play of ACC and Ambuja using the best lowest cost models, increasing direct freight. So logistics cost also, while there has been a general inflation, we are seeing the cost has been arrested. So I would say already a part of it is coming in. But I think a large part of it will come in over the next 12 months to 36 months.

Prateek Kumar: Sure, sir. My second question is on your capex projection, you have given a detailed line on the expansions in your presentation. So there is nothing related to the grinding unit on related to Maratha, clinker line which was given in the presentation, right? Which will be given -- the details will be given later or something?

Ajay Kapur: Yes. Actually Maratha will have, I think I also mentioned, I don't know in my opening that there will be two grinding units. I think I mentioned Amravati and I mentioned Jalgaon in my speech. It is not captured here. But we will come out with the next detailed presentation where we will upload those as well. But there is one at Jalgaon, one at Amravati, 2 million plus 2 million, 4 million.

Moderator: Thank you. We'll take the next question from the line of Navin Sahadeo from ICICI Securities. Please go ahead.

Navin Sahadeo: Hi. Good afternoon and thank you for the opportunity. Also, thank you for the detailed presentation. I think every quarter the incremental details are really helpful. I'll ask two questions. One is about the strategy that the company has for Sanghi Industries in the sense that since the acquisition is about to complete, but have we started utilizing these assets on a tolling basis or like, trying to feed the market?

Because I understand this capacity is large, but we are operating at very low utilization. So what we are gathering from the market is that ACC brand, which is not present in Gujarat, can be like, being made an entry to leverage on the Sanghi's entire capacity. So that is part of the question that what is the strategy, if you may request? Also, there was a plan to increase to 15 million tons.

Will that also on time in two years or how should one look at that? Overall, Sanghi, your comments on Sanghi? Thank you.

Ajay Kapur: Thank you, Navin. I think what I would do is Sanghi, as I mentioned in my opening, we're expecting to conclude the transaction in quarter 3. I think it's fair that since we're in the process of acquisition, I don't speak about a potential company which is still not part of our ecosystem. But I can tell you two things. Number one, Ambuja and ACC continue to remain our two main brands wherever we operate. That's our current stated strategy. Therefore, post-acquisition of Sanghi, Ambuja and ACC would continue to remain two brands which would be used to improve the output and reach from the Sanghi plant. That's the first set of answers.

The second set of answers, how will we expand? The Sanghi acquisition has two underlying strategies. First, it is a great asset at a great location and is very synergistic within our own ecosystem. Number two, it has 1 billion tons of limestone reserve, which allows us to increase clinker capacity in a very good location to help us cater to the West Coast. So I think both the strategies are very much part of our plan. And post-acquisition, once it's complete, we'll come up and state a very clear, laid out plan. I can assure you all the plans are ready with us.

Navin Sahadeo: Great. That's helpful. Sir, the second question was about the capex timelines and you mentioned this unit-wise. But frankly, are we moving a little slow consciously? I mean, just trying to understand it because Maratha and Bhatapara units, I think were announced as six months back. And now we are sometime around April or May of ‘23, if I'm not wrong. And now we're looking at these completing towards end of FY ‘26.

That's like nearly three years timeline. So is there a challenge with these clearances? Is that the reason why we are moving a little slow? Because what we gather or in our experience, typically two years or rather less than that is more than enough typically for such units to come on board?

Ajay Kapur: So basically, Bhatapara, we already have an environment clearance. So I believe that will be a little ahead of time. Maratha public hearing has been done. We are in the process of securing the EC. But notwithstanding that, all the ordering work has been completed. Whatever we can do, we are already doing it.

So I think Bhatapara will be ahead of time. All grinding units you'll find are also coming ahead of time. So there we are taking about year and 1.5 years about, it think, 18 months to 16 months. Again, some places there's a piling work. Wherever ECs are available, we are going fast. Wherever ECs are not available, that is what has taken some time.

Navin Sahadeo: I appreciate. The only thing I was referring to the clinker…

Ajay Kapur: The land and the resource and all are in place. That's the positive news.

Moderator: Thank you. We'll take the next question from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Yes, good afternoon, sir. Thank you for this opportunity. The first question on the volume growth this quarter. So if you look at consolidated volume growth is around 2.3%, which just for a few of our peers reporting industry growth appears to have been upwards, almost double digit industry growth. So if you could just explain what is the reason? Why, we have not been able to match the industry growth and the market share loss continues?

Ajay Kapur: So, Sumangal, we had not a very good July month. As you know, large part of our capacity north in Himachal, it was seriously flooded. It had some supply chain impact in the month of July. I think we also had very heavy monsoons in the central India. So this is the two very big markets for ACC and Ambuja combined. Post that, I think we had good two months and again, October, we are seeing a very healthy, double digit growth in top line. So I think it was more -- a very strong impact of July rubbing on our quarter 2 numbers.

Sumangal Nevatia: Okay, I understand. Second question with respect to the grinding unit announcements from [inaudible 0:24:59] Jalgaon, can we assume that this is beyond FY '26, given that things are not yet finalized?

Ajay Kapur: So we believe these grinding units from today should take 24 months. That is what I think, because the basic engineering, basic designs, they are very standard and we are very advanced stages of closing these sites. So I think 24 months from today.

Moderator: Thank you. We'll take the next question from the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: Hi, sir. My first question is a follow-up of the question from the earlier participant. Is it possible to give some sense of the cost savings out of that INR400? How much is already there till this quarter? I know you spoke about that a larger part is going to come, but any rough cut number just to have a starting point for us?

Ajay Kapur: The way to look at it is, we were making INR1000 per ton EBITDA margin on an average over the last two years before acquisition, right. Then came a period of very uncertain synergy, which I think impacted everybody, including us. Then we launched our initiatives. So what we have to -- we have reset the whole clock.

Our target EBITDA would be closer to INR1,450, which is what I have laid out in my strategy update also. We are still not there because some things have played out, some things will play out in time to come, in addition to the volume growth. So on a waste heat recovery, if I were to say, if 175 was 100%, we are at 90. So you can, we are almost 50% there.

On coal mines and coal strategy, we are about 30%- 40% there. Another 60% more improvement will happen. And then on other expenses, if you have seen, we already shaved off about 100, about 10% of the cost, which is translating to about 10% per ton, directly impacting, helping us in the EBITDA.

What has not helped is obviously the prices have remained constant. Had the prices moved with the normal trends, you would have already started seeing some of the better upsides. So I think these are the three things. Logistics, I believe there is still ample room for us to improve. We have reduced about 3%- 4%. I think, I would say another INR100- INR150 per ton over the next six months- 12 months, you will see on logistics as well. So if you add all that, then you hit a figure of INR400 or maybe even slightly higher than that.

Ashish Jain: So just one small follow-up. Other expenses, shall we believe, has played out completely within that INR400 number or there could be more in other areas? Because that is something which is completely in your hand in a way?

Ajay Kapur: I think it's a constant journey of excellence. Whatever you leave it stable, it will either go up or go down, right? So we try not to have it go up. We have done a lot of optimization, but we also have stabilization of the current organization, preparing it for the growth. My focus is also on those two areas.

So when it comes to sales and marketing, we are actually adding a lot of people, increasing our footprint, putting more resources on the field. At the same time, optimizing wherever there were redundancies. A little bit more room is always there for us to improve.

Moderator: Thank you. We'll take the next question from the line of Rahul Gupta from Morgan Stanley. Please go ahead.

Rahul Gupta: Hello. Thank you for taking my questions. Sorry, my first question again is on cost optimization. So just to put it simply, costs per ton has improved by around INR650 versus September quarter last year. So how much of this INR650 is part of the INR400 cost optimization that you are talking about? So that's my first question.

Ajay Kapur: So Rahul, I think interestingly I've got three of my colleagues on the call have asked me the same question, but with a different opening. Whether my answer can be different, I don't think it will be different because you understand where I'm coming from. You have to shave off the general energy prices which have come down for everybody.

So I would let's say about 30% or 20%- 25% cost for power and fuel has come down for everybody. I would say additional 10% is coming out or 15% is coming out from our own work, which is largely wasted recovery. Own coal mine improved production. Better mix of various five or six kinds of fuels that we can use and improved focus on alternate fuels and green energy.

Green energy will still play out after March of '24 and we will keep this open because we are still thinking a lot more on that direction. So we'll come back to you on that. Waste recovery is still as I said from 90 megawatts to 175 megawatts. The remaining 60 megawatts- 70 megawatts have still to be commissioned. Each megawatt of waste heat gives you a cost of INR1 versus a grid cost of INR6 and captive sometimes at INR6.50 or INR7. So that saving is still to translate.

The whole saving on logistics is still to come in. I would say about 25%- 30% has come in. 70% more has to come in. So of the INR400, you can say about INR100 has come in, INR300 more to go. But by the time, I hit the figure of INR400, this INR400 will get increased to INR500. Because the end goal target is INR1,450- INR1500 EBITDA per ton.

Rahul Gupta: Got it. This is very helpful. My second question is, if we look at Ambuja consol volumes term, can you help us understand, how one should look at over the next couple of years given a large part of the new plant commissioning would not come in before the end of fiscal '25? Would you continue to lose market share or this was just a one-off quarter?

Ajay Kapur: As I said, July was a negative month for us because of the season extent. October interestingly has been a very good month for us. We are looking at a double digit sort of a number. So the answer lies there. By the way, Sanghi is being acquired by Ambuja. So clearly 6.6 million clinker with a very little investment straightaway can go up to 10 million cement.

That further improves your footprint in some of the core markets where we have very good positions, where we perhaps feel we under supplied today. Those markets are namely Gujarat, most of the Gujarat, Mumbai, parts of Maharashtra and down south. So if you take all that, these markets where we are actually under supplied and there is a great demand.

So easily market share will come up. Ametha, we have just fired the kiln. The cement mill will also come in this quarter. That will give us additional one million. There is a group company have put up a one million grinding station in the Dahej. That's another one million. That will also give us additional grinding capacity. And then the first set of grinding units of Sankrail and Farakka would come up over the next year and a half.

So that will give us the next set of. In addition, we are also looking at Bhatinda in Punjab, where we are doing a deep bottle necking project. So that will give us one million in Punjab. We are also looking at Sindri in Jharkhand for ACC, another 1.6 million. If you add all this together, to do a growth of 10% to 12% in line with the industry or slightly better in markets where we have an acquisition, should not be a problem for us.

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

Ritesh Shah: Yes. Hi, sir. Thanks for the opportunity. A couple of questions. Sir, first is, can you please repeat on basically the orders that we have placed and if you could highlight, like, are we looking at KHD, FLS or any of the Chinese equipment suppliers?

And sir, you did indicate a few plants where we have placed orders, but any specific update on likes of Mundra where we were looking at around 3.8 million ton or has it been more to -- It was always under Adani Cementation. That's the reason, why it's not there right now?

Ajay Kapur: So Mundra we have actually put up in our presentation a GU of 4.5 million and actually by it's a typo error, we have put a GU of another 2.4 million. It is basically an IU of clinker capacity of 2.25 million or 2.4 million and cement capacity of 4.5 million. And it is being put up under Ambuja.

Ritesh Shah: Okay.

Ajay Kapur: Sorry. Mundra we have put up 4.6 million. That's right. And Marwar is another 2.4 million. That's right. So that's under, that is being put up under Ambuja. Mundra unit.

Ritesh Shah: Both under Ambuja, right? Marwar obviously and Mundra as well, right?

Ajay Kapur: Yes.

Ritesh Shah: Can you please repeat on the order placement, sir? It was not clear.

Ajay Kapur: So we have already placed orders for Bhatapara, Maratha, Sankrail, Farakka and LOI has also been issued for another five grinding units. I think some of them are already featuring in this list. And we have placed order on TCDRI, China.

Ritesh Shah: This is helpful. And sir, my second question is in the presentation, we do indicate long-term tie-up for key raw materials. Can you please highlight this? Does it include fly Ash as well as Slag, if it is there? And what are the terms that we are looking at over here? And lastly, sir, structure simplification. Can we see Ambuja-ACC as a single unit from a market standpoint? Any timelines over there? Thank you so much.

Ajay Kapur: Okay. On the long-term tie-ups of raw materials, clearly you are right. One is Fly Ash, one is Slag. Slag, as you know, there are only a few companies. So wherever we are bidding, we are trying to secure longer term. Not so long term, but I think in Fly Ash, because there are government plants also.

And in the past, we have had long-term tie-ups. So we are looking at long-term tie-ups. The terms are very transparently determined because either there is a public auction done by a government entity or again, there is a EOI done with a listed Indian entity in the private sector. And the third is within our group, which again, being a RPT, we go through a EOI process and a transparent, what do you call, tendering. But whatever we do, what we are looking at is -- which plant is the best fit for location.

And then also making some investments in loading and unloading, because that is something that was missing earlier, putting our own fleet of railway wagons that allows us seamless connectivity. And more importantly, when you have that well-planned connectivity and source to consumption plant, you end up optimizing. I think beyond that, we can take it up one-on-one. But I think needless to say, these are all going to be highly value-accretive and are part of my INR400 plus plan.

Moderator: Thank you. The next question is from the line of Jashandeep Singh from Nomura. Please go ahead.

Jashandeep Singh: Hi, sir. Thanks for the opportunity. Yes. My first question is a booking question. You said 170 million ton of WHRS is coming. So since both the companies are still separate legal entities, can you tell us how much is coming in which company?

Ajay Kapur: Yes. So we have waste heat. We'll have 129 in Ambuja and about 86 in ACC.

Jashandeep Singh: And what will be the current status of these, sir?

Ajay Kapur: Current as on September, Ambuja is 60 and ACC is 30. When I said 90.

Jashandeep Singh: And sir, you said INR1,450. So what is the timeline you are thinking of? By this, you can comfortably achieve that. Is it by end of FY '25 or beyond that?

Ajay Kapur: Sorry, what was the question? Can you repeat it?

Jashandeep Singh: Yes. So you said a sustainable EBITDA of INR1,450 to INR1,500 per ton. That is something you are looking at?

Ajay Kapur: 36 months from now, because you understand, I have to complete some of the new kilns, which are lower cost. That's also part of the strategy. I have to complete the new Gus, which will help me enable better go to market and thereby reduce my lead distance. I have to see the culmination of my long term raw material contracts.

And then finally, I have to complete the current stage of waste heat recovery and green and also some of the optimization projects which are also laid out in my presentation. Many cooler projects have taken up which were ignored earlier. We are also looking at the best power mix at each plant using our group expertise. So all those things will play out over 12 months to 36 months. Maybe earlier, but I think you can take 36 months as the last upper limit of that.

Jashandeep Singh: So from today, you are saying a sustainable bid of INR1,450 to INR1,500 per ton. And sir, my last question is on ACC. So we have seen post the transition period also, Ambuja has recovered to the previous EBITDA level. You are saying around INR100 is included that. But in ACC, we are not seeing any recovery happening.

The first quarter was somewhat good. So what is going wrong or what is lagging in ACC, which we are seeing in Ambuja, but ACC is lagging behind. So we see utilization levels are higher than when coal used to be there. So there is nothing on the operation front. So why is ACC a bit still perplexed?

Ajay Kapur: No, if you look at the cost factors…

Jashandeep Singh: Cost factor, the synergies are both the same for both the companies.

Ajay Kapur: See, with the ACC and Ambuja always had a gap of about 4% to 5% in the margin, traditionally. Actually, last year, September, ACC had actually gone pretty low. It's almost like a negative or zero margin, when we acquired the business. From there to now, the movement has been, I would say, has been structurally in the right direction. And I believe in time to come, see, we are buying the same coal for both the companies.

We are buying the same raw material. The cost benefits are going equally to both the companies. The sales and the pricing is also driven by the same set of leaders. So I believe the catch-up will be even sharper in time to come. ACC did have legacy plants in the past. And we are structurally looking at each of the legacy plants. And either those plants would be replaced by new kilns next door or we are going to either make investment or if nothing else, we will mouth ball them. So I think we are very clear, we want to increase our performance.

In fact, an answer to many of you asked me on the growth. Besides, of course, a bad July and some hit in our core markets, we are also looking at wherever there were bad trade practices, where we found there were leakages or there was lower EBITDA sales happening from some plant. We have curtailed those in order to improve our efficiency because that's what will stay with us. And that's the only way you can get to a much better level of performance.

Moderator: Thank you. The next question is from the line of Shyam Sriram from Franklin Templeton. Please go ahead.

Shyam Sriram: Yes. Hi. Thanks for this opportunity. Very healthy operating performance at Ambuja. My question is somewhat on similar lines to the prior participant. Now, when we compare ACC and Ambuja at the unit EBITDA level, the gap between ACC and Ambuja has widened this quarter at EBITDA per ton. This quarter, it has become INR345 per ton, which was earlier around the 220-mark last quarter.

Now, while I do understand why this is one should not look to from a quarter-to-quarter perspective, are there any business reasons for this EBITDA unit EBITDA gap widening from an ACC perspective? If you can share any thoughts on that? Any regional mix or any other business reasons attributable to this?

Ajay Kapur: I think one is, of course, the market mix of Himachal, as I said, had serious flooding. ACC has one unit in Gagal, not many grinding units. Ambuja is well integrated. It has four grinding units in North. Roper, Bhatinda, Dadri, then Roorkee. Whereas, ACC entire grinding is in Gagal. And then they have a tolling arrangement with another company, Asian. So, I think to that extent, they got hit little more severely with that.

Other than that, East also we saw a little bit of a demand slowdown. Bihar, East, some of these markets. ACC is very strong there. So, I think that also adds something on the sales footprint. Other than that, I do not think there were any major concerns. And I also don't have any major concerns going forward.

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

Amit Murarka: Hi, good afternoon. First, I wanted to check what was the MSA sales volume in the quarter?

Vinod Bahety: So, Yes. Amit, hi. Vinod here. In terms of MSA between Ambuja and ACC, together it was 2.4 million. Ballpark 1.2 million each, sales from Ambuja to ACC and sales from ACC to Ambuja.

Amit Murarka: And could you also give a split of clinker and cement in this? Like how much of clinker from ACC to Ambuja and vice versa?

Vinod Bahety: It was largely cement only. So, almost 95% of this volume would be cement only.

Ajay Kapur: Largely cement.

Amit Murarka: Got it. And with Amita commissioning, given that Amita like has much higher clinker and grinding, how will the utilization of the clinker happen between Ambuja and ACC?

Ajay Kapur: So, we have already put in additional 1.5 million grinding at Tikaria ahead of time. So, I think we will use that fully. Besides, some of the units of Ambuja in East have the grinding capacity available. So, I think we should be able to absorb this clinker very profitably by realigning the clinker and also further optimizing the MSA.

Amit Murarka: Sure. Also, coal advances, could you provide the status of that?

Ajay Kapur: The coal advance in Ambuja had already become zero in the last quarter. ACC, it has already become zero in the current quarter. It's fully squared off.

Amit Murarka: And I see in the balance sheet cash flow that the receivables seem to have gone up in one inch even though the volume seems to be the same as what we did in Q4. So, why would that be?

Management: So, basically Amit, if you compare Q1, Q2, we have improved on the working capital when it comes to March versus September. That is a factor of the year-end closing versus the half-year closing. Otherwise, we don't see any concern. My receivables are at 12 days of the overall set turnover. So, that is... And in fact, if you see my payables, we have improved over there. So, effectively, I've improved on my working capital on an overall basis.

Amit Murarka: Sure. And the last question is on Sangi. Once the deal is completed, generally, what would be the sales strategy? Would that be like a purchase from Sangi on an MSA basis because Ambuja and ACC are much stronger brands or would you continue to sell under the Sangi brand?

Ajay Kapur: I think, clearly, as I said earlier, we have a strategy in place. We would continue to run our company's cement business for Adani through Ambuja and ACC brands. Of course, we have leverage of using any regional brands as and when we acquire, like this one. But I think the market would also expect us to be selling an Ambuja brand or ACC brand. We'll use those. How we would structure it, I think we have a very good experience of structuring between Ambuja and ACC. As and when Ambuja acquires the completion of Sangi, we would use more or less similar arrangement as we are already doing for Ambuja or ACC.

Moderator: Thank you. The next question is from the line of Aman Agrawal from Equirus Securities. Please go ahead.

Aman Agrawal: Thank you for the opportunity. Sir, my question is on the demand situation in the eastern region. We have been hearing for some softness for quite a few quarters now. At the same time, the upcoming capacities in east is one of the highest among all the regions in India. Do you think there is a reason to worry about the utilization levels in east or is this anything of temporary sort?

Ajay Kapur: The east also saw a very good base effect over the last, if you saw, 12 months. East was having a very good, in certain months it was even growing two digits. So sometimes it is also the base effect. The current last couple of months, east had serious monsoons. And of course, currently we are reeling out of the Puja, Diwali time. Puja, as you know, has a very strong sales impact in east. I expect post November, December, east should go back to its normal 8%-10% demand growth. Earlier times, it was growing at about 15%-16%. That is my guess.

Moderator: We will take the next question from the line of Shyam Sriram from Franklin Templeton. Please go ahead.

Shyam Sriram: Hi. One follow-up here. On these other expenses, line items, you did explain on this EBITDA GAAP and some business reasons. But other expenses for ACC seems to have been higher than Ambuja, that is one part? And the other one on the housekeeping question, for ACC, the receivables seem to have moved quite a bit higher as compared to March. And you did talk about March being year closing. But the receivables have substantially shot up for ACC per se. Any reasons that can be attributed there? Thank you.

Ajay Kapur: Yes. So, basically on the other expenses -- your question was on ACC, it is not showing the same trajectory as Ambuja, right?

Shyam Sriram: Correct.

Ajay Kapur: I think one other expense was the technical know-how fees, I think which both the companies were paying 1% to [Astral Olsen]. They have both reduced that. I think I am asking Vinod to just bring out the finer details of what you are asking me right now.

On the second question was on receivables, I think by and large in the market, both the companies have a debtors' balance of -- we were at about 11 days last year. We have gone up by one day. And this is also reflecting in the market. We are a very trade-focused business. We still continue to sell almost 85% to 86% sales and trade. ACC is more or less there.

And when you have to increase volume in trade, the rest of the industry is much, much lower here. Sometimes you have to give a little bit of credit in the market. That is purely on the trade side. But Vinod wants to add something more.

Vinod Bahety: Shyam, again, actually it is a factor of March versus September. Otherwise, I see that in ACC as well, the receivables are in this range of 10 to 12 days for the trade sales. And for the non-trade, it is in the range of 30 to 45 days. And then there is this element of MSA. So earlier, we would settle the sales intercompany in a week or 10 days' time. But now, just to avoid multiple entries, we do it once in a month and at the end of the month.

Hence, you will find that the receivables at the end of September will be a little higher for sale to Ambuja, but otherwise, nothing of any per se unusual item here.

Shyam Sriram: Absolutely. Just one follow-on, if I may. Because the MSA volumes a little bit obscure the actual underlying working profitability picture for ACC, would it be possible to share what will be

ACC's production numbers per MSA? And how do we think of the revenue split on what ACC produces and sells?

Charanjit Singh: Shyam, I see 10 people on the call as of now. So in the interest of time, we will take this question offline, if that's okay with you.

Moderator: The next question is from the line of Mangesh Bhadang from Centrum Broking. Please go ahead.

Mangesh Bhadang: Sir, a couple of questions from my side. Firstly, almost 12 million tons of grinding capacity is getting commissioned in the second half of FY25. But the clinker -- associated clinker is coming in, say, post-second quarter. So is it right to assume that most of the volume growth from these expansions should follow in FY26 only?

Ajay Kapur: No. So we always have some clinker available in our system. And [Ametha], as we already commissioned, that is 3.3 million. And we believe we can still take out a little more. Most of these kilns, as you know, we generally optimize another 10%. Our existing kilns also have a residual capacity. There is some capacity still in Chanda. So I think we will be able to meet the growth targets of about 10% to 12% per annum on the current basis.

Grinding units are easier to bring forward. And some of these grinding units are also brought ahead of the time because if you can use the current clinker and produce cement from it that is even more value-accretive for us. Salai Banwa is a plant we are bringing up in Uttar Pradesh. We already have an EC. We already have the land. We are now already starting the work at the site. That is 2 million will help immediately in our central region. So I think those are the measures we are taking. You will always find clinker units coming up a little delayed versus the grinding unit.

Mangesh Bhadang: And the second question is, what could be the capex -- actual capex for ACC and Ambuja for the next two years?

Ajay Kapur: So I think the larger capex, I can give it to you, but final bifurcation will be difficult to give you now. The current year, we have by and large about 7,500, of which ACC is about 2,500, Ambuja is about 5,000.

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

Satyadeep Jain: Hi. Thank you, a couple of questions on capacity. You mentioned in your opening remarks achieving 140 million tons before FY28 and ordering 10 kilns. If you look at your own targets and guidance, you are talking about 3 kilns by the end of FY26. Does it mean 7 kilns through organic growth in FY27 and first half of FY28? And what gives you the confidence given these new kilns are taking 2.5 years that you would be able to commission 7 kilns in FY27 and FY28?

Ajay Kapur: Basically, all the kilns we are talking about are coming at current locations, which are largely brownfield -- in fact, mostly brownfield, other than maybe one odd. Number one. Number two, now we also have Sanghi in the ecosystem. So the moment Sanghi comes in, it's already there are 2 kilns producing, capable to produce 6.6 clinker, which I believe can easily go up to 7.2 clinker.

One new kiln there adds straight away from 7 plus 4, you know, 11 million, 12 million clinker. What I have to do is from the current 40 million clinker, I have to add another 40 million clinker. I think, you know, Ametha just got commission 3.3. I already mentioned about 3 kilns, that's 12. If you add Sanghi 6.6, which is actually 7, add another Sanghi at another 4, we are almost, I think, 70% there already. I need to just open up 2 new sites of 4 million each and I'm done.

Moderator: Ladies and gentlemen, due to time constraint, we'll take only 2 questions, which is from the line of Prateek Maheshwari from HSBC. Please go ahead.

Prateek Maheshwari: Thank you, sir, for the opportunity. Sir, I have a question on the MSA. You just made a comment that there is still some room left to kind of optimize it. I'm looking at your last 8 quarters of data, it seems like your MSA volumes have increased from 1.5 lakh tons a month to upwards of 8 lakh tons per month.

So, just looking at the existing capacity base, how much is the opportunity to kind of further improve on the MSA or this MSA improvements will happen after the commissioning of new capacity? That's question number one. Sir, also I wanted to understand on the coal…

Ajay Kapur: It's question number one because, you know, if you heard, that's 2%, 3%. This is the last, I think, if I'm not mistaken, last or one more. But MSA currently with the current footprint minus Ametha is already optimized. Once Ametha comes in, next set of optimization will happen.

But believe me, what is MSA? MSA is saying Master Supply Agreement between two entities to continue to optimize. So, when we add [Killen] and Ambuja, that Killen will have a clinker of 4 million, it will use for Ambuja and ACCC both and vice versa.

Moderator: Thank you, sir. Ladies and gentlemen, this will be the last question for today, which is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Yes. Hi, sir. Good afternoon. My question pertains to first on the capex, which you mentioned Ambuja 5,000. So, this is beyond the Sanghi acquisition, right?

Ajay Kapur: Yes.

Rajesh Ravi: Okay. So, first half number has been quite low. So, second half, you're looking at an accelerated capex?

Ajay Kapur: Yes.

Rajesh Ravi: And ACC, how much is among the list with capex, which you have mentioned, I assume most of them are happening in Ambuja?

Ajay Kapur: Yes. Except for Salai Banwa, it's happening in ACC. Sindri, I don't know whether it's in this list, but it's happening in ACC. It is there in the list. All the waste feed and all the optimization capex of ACC plants are happening in ACC, Ambuja plants in Ambuja. Sanghi, of course, is happening.

Rajesh Ravi: So, next year also, it will be around similar capex, 7,000 to 8,000 crores?

Ajay Kapur: I think so, yes. We will have to continue because some of it will be the current capex rolling in, some of it will be the fresh capex, which will start in, and some of it will be the next stage of growth, which I'll announce in time to come, to come to our 140 million target.

Charanjit Singh: So, Rajesh, we will give the guidance at the year-end for the next FY.

Rajesh Ravi: Great. And also, could you share the clinker production number in 1H for both the companies, ACC and Ambuja? And also, what is the status on the Sanghi's buyback?

Ajay Kapur: Just give me a sec. I need to just pull out the number. Clinker production, first half? So, we have done. You want breakup company-wise or I can give you the full entity? 17.4 million tons of clinker has been produced in the first half.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question for today. I now hand the floor over to Mr. Charanjit Singh for closing comments. Over to you, sir.

Charanjit Singh: So, thank you once again for joining the call. For any queries which have been left unanswered feel free to reach out to me. I will be happy to respond to any of the pending queries. Also looking forward to having another fruitful session after Q3 results in January, so, thank you very much, and good day, everyone.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of PhillipCapital India Pvt. Ltd., that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.