"Ambuja Cements & ACC Limited

Q1 FY 24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Ambuja Cements Limited and ACC Limited Q1 FY '24 Earnings Conference Call hosted by ICICI Securities 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 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. Naveen Sahadeo from ICICI Securities. Over to you, sir.

Naveen Sahadeo: Thank you, Dev. So good afternoon everyone. On behalf of ICICI Securities, I welcome you all to the Q1 FY '24 earnings call of Ambuja Cement and ACC Limited. From the management, we have with us CEO Mr. Ajay Kapur, CFO Mr. Vinod Bahety and Head Investor Relations Mr. Charanjit Singh. Without any further ado, I now hand over the call to Mr. Charanjit Singh for his opening comments. Over to you, Mr. Singh.

Charanjit Singh: Thank you, Naveen, and very good afternoon, everyone. Firstly, thanks for taking out the time to join on the call. Our format will be similar to as has been in the previous call. We will focus on Ambuja and ACC with reference to our numbers and the information. With respect to any information, you require on the promoters on the group level, please feel free to reach out to me separately after the call. Without taking much time, I will hand it over to Mr. Ajay Kapur, then we will follow it with comments from Mr. Vinod Bahety and thereafter we will open it for Q&A. So, over to you Mr. Kapur.

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 June '23. The third quarter post the change in management has been a spectacular one for our progress on a number of projects including operational efficiencies, synergies and business excellence, which have significantly improved key business metrics.

Let me provide some highlights of this quarter and some insights on the way forward. Starting with revenue, the revenue for the quarter came in at INR8713 crores, up 8.5% Y-o-Y. The realizations for the quarter were INR5,657 per ton. The volume of premium product has increased by 10% on a Y-o-Y basis.

Now coming to cost, our operating cost for the quarter is at INR4,575, which is 7% decline over last year. This is attributable to 20% fall in energy costs given the coal tie-ups and reduction in kiln fuel by 17% on a Y-o-Y basis at INR2.07 per 1000 kcal. The raw material cost reduced by 11% on a like-for on a like for like basis, on a Y-o-Y from INR707 per ton to INR631 per ton.

In the figures you might feel this is a little difference, but this is largely on account also of a higher production that we have done of clinker. This is in line with our target to reduce cost of raw materials by 12% during the year versus last year. Transportation cost is INR1,436 per ton, which is sustained at same quarter as the previous one, despite higher sales volume by 1.3 million tons.

Consistent reduction in other costs over the quarters, and this has come down to by about INR163 per tonne, which is a 20% decline Y-o-Y on account of resource optimization and synergy with the parent company. With the mentioned improvements on both revenue and cost front, EBITDA for the quarter came in at INR1,930 crores, which is a jump of 55% Y-o-Y. EBITDA per ton for the quarter was INR1,253, implying a jump of INR41, Y-o-Y.

The margins for EBITDA expanded by 670 bps to 22.3 on a Y-o-Y basis. PAT grew by 31% Y-o-Y at INR1,135 crores. The capex spend during the quarter was INR576 crores for the quarter and was achieved from internal accruals and cash in hand. As on 30, June, the consolidated cash and cash equivalents in the company's books was INR11,886 crores, which is an increase of INR3,744 crores, Y-o-Y.

Coming to standalone results, the net revenue is up by 18% Y-o-Y at INR4,730, in line with volumes which are up by 23% on a Y-o-Y basis. EBITDA grew by 48% Y-o-Y on a like-for-like basis, excluding dividend income of INR550 crores last year same quarter from ACC at INR1,138 crores. Margin expanded from 19.2% to 24.1%. Robust PAT growth at 29% on a Y-o-Y basis, again, all alike for like, excluding dividend income of INR550 crores at INR645 crores for this quarter.

The company won several awards and accolades for its outstanding work in customer service, safety, circular economy and CSR. Ambuja has been recognized as India's most trusted cement brand. 2023 by TRA Research. Ambuja ranked amongst India's top 50 most sustainable companies across sectors and amongst India's top three most sustainable companies in the infrastructure and engineering sector by BW Business World.

So let me share with you the progress that we have made on our long-term strategy plan, shared with you also in May at the time of full year results for FY ‘23. First our new capacity addition. On strategy update I highlighted to reach cement production capacity of 140 million tons by FY ‘28. We will add around 40 million tons of new clinker capacity, thereby implying around 10 new clinker lines.

The first line of 3.3-million-ton facility is now almost ready within Ametha, with production likely to start in quarter 2. Equipment orders for another two more lines are already placed. This includes 4-million-ton facility at Bhatapara and another 4 million facility at Maratha in Chandrapur. Each of these lines will have 42 megawatts of wasted recovery and provision for utilizing around 50% alternate fuels.

These two facilities are expected to be commissioned within 24 months. For doubling the capacity of grinding facilities to 140 by ’28, we are targeting 35 brand units against this target, we have already announced six new facilities with the capacity of 14 million tons. Of these, six facilities, three units are mapped to the upcoming clinker facility at Bhatapara, these includes one each at Sankrail, Kharagpur and Farakka.

Another three units are mapped to Chandrapur clinker facility, these include one unit each at Jalgaon, Amravati and Pune. Besides, a facility of one million tons capacity is proposed at Bhatinda grinding unit at Punjab and one new one-million-ton unit will be commissioned at

Ametha in quarter two FY '24. All together we will take the total grinding capacity to around 83 million tons per annum.

We will continue to provide progress updates of new orders and also the progress on individual products on an on-going basis. Now sharing an update on 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 and cost, freight and forwarding, manpower and admin.

Let me first discuss on the progress made to reduce our energy cost. Our waste heat recovery capacity at the time of takeover in September was 40 megawatts, which we are targeting to increase to 175 megawatts by July '24. As of June, '23, we managed to increase the waste heat capacity to 90 megawatts.

We could manage to increase our AFR share to 7% against our long-term target of 30%. I also mentioned that we are considering installing 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 the end of the 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 well as coal from group synergies. As a result, we have started bidding for coal mines and auctions being conducted by the Government of India. On account of these initiatives and reduction in fuel prices globally, our power and fuel costs have reduced by 30% to INR1,501 per tonne in Q1 FY '24 from INR2,138 per ton in June to September Q1, the last reported before our takeover.

The second cost item is freight and forwarding. 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 road lead distance to around 100 kilometres. When we took over the company, the average road distance was 172 kilometres in June to September '22, which has reduced to 170 kilometres in the current quarter.

We have increased the share of direct dispatches from 44% in September quarter to 51% in the current quarter. Rail dispatch percentage improved from 26% to 29%, comparison of the same September versus June quarter. On account of these initiatives, our logistics cost have been sustained at June, September '22 quarter despite higher sales volume and catering to long lead markets to increase our market share.

Now moving to the third cost item, which is other costs, our business is 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, with this savings in technology know-how fees and packing cost reduction. This has led to other cost reduction by 13% to INR669 per ton in quarter one FY '24 from INR770 per ton in the quarter preceding to the change of ownership.

To ensure our assured supply in limestone, we continue to bid for limestone mines and in the last few months, we have won some new mines. Let me conclude by saying that our performance during the quarter was strong with improvement in both operational as well as financial parameters. We continue to generate significant cash to finance our expansion and pay dividends to our shareholders. I would now call upon my colleague, Vinod Bahety, to also make some comments on the performance of the quarter.

Vinod Bahety: Thank you, Ajayji. Good afternoon, ladies and gentlemen. With a strong and robust financial performance, seeing a good jump in EBITDA both in absolute terms as well as on per metric ton, I am also glad to inform that our balance sheet has grown stronger compared to last quarter, with net worth increasing by almost INR700 crores commensurate with the overall PAT. The cash and cash equivalent is net positive almost at INR12,000 crores. My operating cash flows are healthy I have spent almost INR600 crores on increasing my gross block. Despite that, I'm positive on the net operating cash flows.

Overall, with a stronger balance sheet and healthy cash flow position, it augurs very well for our growth aspects. I'm sure many of you have seen our annual report, both physical or digital. We have put in a lot of effort to put all level of details, which will give you lots of insights on the initiatives and the efforts being done by the management. Now, we request the moderator to put the floor open for questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Yes, good afternoon, sir, and thank you for this opportunity. I'll start with my question. My first one is on the volume growth. So, this quarter, if we see, we've grown volume by 9% at consolidated level, whereas most of our large peers have grown significantly higher closer to 20% odd. So just want to understand, what is the reason for the underperformance and versus industry and versus last years and what is the key constraint here. Is it a capacity constraint or some other issue, which we face during the quarter?

Management: Okay. So, thanks, Sumangal. The industry, I believe, has by and large grown around 9% and 10% and our growth more or less is in sync with that. The players whom you are talking about have also added new capacity, so there is of course the flow from their new capacities, which has been added in the last couple of quarters. As we will start building and adding our new capacity, the one which is also coming in a Ametha,

You will start seeing our growth also coming up. But other than that, I think most markets we have grown favorably. There was a little aggressive monsoon in West, where we have a larger presence that of course had its play in the most of the month of June, when the monsoon was very high.

Sumangal Nevatia: Got it. So, okay, sir, over the next two years, given our pipeline of capacity addition, from a utilization point of view, can we grow at 10% to 12% odd, if the market growth supports that, or we should expect lower growth over the next two years?

Management: I don't see any issue with our growth of 10% to 15% even.

Sumangal Nevatia: That's clear. So, second question is with respect to our cost savings initiatives, our expectation was that given the group synergies and various new initiatives, we will achieve INR300 to INR400 rupees per ton cost sharing. Just want to know, where are we. In that journey, how much has already been achieved and over the next couple of quarters, what's the trajectory?

Management: As I mentioned last time, cost initiatives are of three natures, now and here. So, I think all issues of now and here have been addressed already and you are already seeing the reflection coming in the numbers. Then the initiatives which needed to speed up and catch up, which is wasted recovery, solar, increasing alternate fuels. So, I have already laid out in my opening that we will go from 40 megawatts, when we took over the business to 175 by '24 June or July, I mentioned.

That itself will give us a sizable savings. On top, the synergies within the group, you already started seeing power and fuel cost for us are in a much better trajectory than many other results, which I have seen so far. On top of it, the fixed cost saving, employee cost saving, the overall SPC as we call it, all those costs if you see are already showing a good reduction. So, I am very happy with the trajectory that we are following. And of course, freight and forwarding, as we build the footprint of new grinding units, you'll start seeing that also coming down with a much sharper turn.

And so, Mangal, just to also add, all of our efforts are actually to bring a sustainable savings in the cost. So, you will find this is coming quarters also, further improvement while we sustain on the achievements which we already made.

Sumangal Nevatia: Got that. I have more questions. I will join back to queue. Thank you and all the best.

Moderator; Thank you very much. We take the next question from the line of Prateek Kumar from Jefferies. Please go ahead.

Prateek Kumar: Yes, Rakesh sir, my first question is on employee costs. So, we have seen share production across both companies. On employee costs, what are the year-on-year calculations...

Management: Actually, you not very audible. At least, I am not able to hear very clearly. I'm not able to hear very clearly, can you again speak more clearly. I am not able to hear you. Maybe the line is bad.

Moderator: We seem to have lost the line. We'll move to the next question. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Yes, hi. Thanks for the opportunity. First question is, sir, you indicated on the clinker addition of 20 million tons. Sir, can you specify whether they have already placed the orders over here? The same thing for the grinding station. And you did indicate 140 by FY '28, but when we say 20 million tons of clinker addition, what is the timeline that we are looking at over here? And same thing for the grinding stations, please.

Management: Yes, good question, Ritesh. I mentioned 40 million of new clinker, addition to reach our target of 140 million cement and 35, new grinding units to catch up with the grinding capacity. As I had mentioned in my last call and also in May 14 million tons of cement capacity equivalent orders have been already finalized. Two kiln orders have been issued, one each at Maharashtra in Chandrapur at our Maratha Cement Works and one at Bhatapara in Chhattisgarh. Both these kilns are 4 million tons each. And I also mentioned and laid out the grinding units for which are in sync with these clinker lines.

Ritesh Shah: So, this order that is placed under the timeline over here for Chandrapur, Bhatapara, clinker lines?

Management: All 24 months.

Ritesh Shah: All 24 months. Okay. This is helpful. Sir, I will join back again. Thank you so much.

Management: Yes, please.

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

Jashandeep Chadha: Yes, hi. Thank you for the opportunity. First is on volume growth. So, if we look at standalone, both Ambuja and ACC have recorded, about 100% utilization on clinker and current cement as well. So just wanted to understand, what is the proportion of MSA sales in that? And where is that, this higher incremental volume coming from? Is it more from the non-trade segment you're seeing this demand, or is it from the trade segment? The first question is on this side.

Management: Okay, thank you. What happens when you do optimization of each company's footprint. We try and squeeze out the lowest cost plants to serve. So therefore, there is this MSA sales which happen. But what you have to see is the consol sale of Ambuja which reflects both ACC and Ambuja together. And that's where we have grown at about 9%.

And number one, number two, our trade and non-trade ratio, which remains in the region of 77%- 78% has more or less stayed where it is, with a minor shift of 1%. In fact, our premium product sales has gone up as I mentioned earlier. So, there is no major change over here. We have grown in all segments. We still continue to focus on trade as our main bread and butter.

Jashandeep Chadha: Nice. Thank you. And we can expect this, above 100% utilization. Is this sustainable for this year? Just wanted to understand that.

Management: Yes. As I mentioned, in the market, the volume up to 15%at this moment, I don't see any challenge in growing.

Jashandeep Chadha: Understood. That’s clear. And so, my next question is...

Management: We all participate in the full potential of industry growth.

Jashandeep Chadha: Okay, thank you, sir. I just wanted to understand on your capex, so what is the capex guidance of FY 24 for both, both standalone Ambuja and ACC? And also, for this quarter, we have mentioned around INR600 crores of capex. So, if you can give a bifurcation of how much was for standalone Ambuja and for standalone ACC, that would be great.

Management: So, our capex guidance for this year, the projects which are under execution is INR6,947 crores. Of course, the cash flows might be different because it depends on how the cash outflow happens. But these are the projects which you already approved, and which are under play.

Jashandeep Chadha: Right, so that is for the 14 million tons for which...

Management: And also, it's also a lot of other projects. For example, I mentioned Waste Heat and some of the improvement projects at the plants. So, this includes everything.

Jashandeep Chadha: Understood, sir. And can you give a break-up for the INR600 crores capex for this quarter? How much was for Ambuja standalone?

Management: For this quarter, capex break-up, maybe I can...

Management: I will give. In terms of Ambuja standalone, the overall capex has been close to about INR300 crores, which is essentially for the WHRS at our Darlaghat plant, Bhatapara plant. Then we have also acquired land for setting up a grinding unit at Ropar in Hoshiarpur and a few things more especially on the rig procurement, which you have put in INR28 crores and then we have also maintenance capex of INR34 crores. So about close to INR260 odd crores is the capex stand alone for Ambuja.

Management: And the remaining is for ACC.

Jashandeep Chadha: Yes. Right. Thank you so much. I have a further question, but I'll join the queue. Thank you.

Management: Thank you.

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

Rashi Chopra: Thank you. Just wanted to know the breakup for the waste heat recovery increase that you're talking about, the 90-megawatt going to 121 megawatt by FY '24 and 175 megawatt by FY '25. How does that –the breakup of the 90 megawatt, but how does the increment breakup between ACC and Ambuja?

Management: Just give me a moment. So basically, what we're going to do is, as an end state ACC will go to close to 86 megawatts and Ambuja will go to 129 megawatts by July '25. And by July '24, our plan is 85 in ACC and 87.5 in Ambuja.

Rashi Chopra: Does that also include, sorry, in Ambuja, does this also include the 42 megawatt that you are talking about with the two new clinker lines?

Management: Yes, that includes that, yes. And when I give you the figure of July 25, Ambuja 130 megawatts and ACC 86, that includes the new lines also. When I give you June 24, then it is 87.5 and 85.5 for ACC, that does not include the new lines.

Rashi Chopra: Right, got it. Sir, you said 87.5?

Management: Yes, please.

Rashi Chopra: Okay, secondly, on the power and fuel side, surely from a pet coke slash coal cost perspective, how do you expect this to trend in the next few quarters?

Management: I think the last one or two quarters earlier the trajectory was sharper decline, now I am seeing more stable. Very difficult to predict but I think my commentary also in the closing I mentioned that the costs on energy side should remain stable going forward according to me. We should see major surprises.

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

Satyadeep Jain: Hi, thank you for the opportunity. Couple of questions. One on capex. I want to understand, there is this Chandrapur and Bhatapara lines that are coming up there's also new slow round in organic. If we look at the target the company has A, the 140-million-ton target and placing orders for 10 clinker lines. If there is any inorganic acquisition that comes up would company recalibrate its organic growth expansion plans or any inorganic would be additive to 140 million ton that we already have.

And tied to that would be within that mix, a majority up at Ametha, all the expansion seem to be coming in Ambuja, Chandrapur, Bhatapara, even Mundra. If it comes, I'm not sure if it gets folded into Ambuja. And now the inorganic expansion is also being talked about in Ambuja. So, when you look at that roadmap, how much would ACC participate in that growth versus Ambuja? That's the first question.

Management: So, Satyajit, then I take this question only because you asked me multiple questions prior to this. So, should I take only the question on ACC, or you want me to also address your other concerns?

Satyadeep Jain: Both, one is if you look at capex target…

Management: Okay, I'll address both your concerns, okay, fine. So first let me address your concerns about Bhatapara and basically you're asking how do we reach this growth of 40 million addition clinker, right?

Satyadeep Jain: No, between that growth that you have, how much, if you place that order for 10 clinker lines, you're doing clinker by 40 million ton and placing orders for 35 grinding units. So that will get you 140 million tons. If in the meantime, any inorganic growth comes up...

Management: Sure, sure, sure. Yes, yes, sure. Inorganic growth. So basically, our target is 140 million, which is what I've stated in the strategy roadmap ahead. What could happen is if we have an inorganic growth happening in between, it will only expedite our reaching of that target and also make our numbers more faster. Whether we will exceed 140 is difficult for me to say today because I have placed some cash flow plans, which is what I have also put out in the public space.

As and when we make a change, I think we are anyway talking to every quarter and also from time to time we are meeting our investors, so we will come out with a new blueprint. But as of now, the blueprint we came out in March and spoke about it also later on in the May call is 140 million and we are open for organic, inorganic growth if a good opportunity comes. And that will only help us to speed up our processing journey.

Satyadeep Jain: And I'd like to try to speak with the ACC and Ambuja, how are you thinking about placing orders in ACC or participation in organic groups for ACC versus Ambuja?

Management: It's a function of the deposits of limestone, which company has what kind of reserves. Interestingly, the two kilns I have ordered, both had good reserves in Ambuja plants, one in Chhattisgarh and one in Chandrapur. ACC as I mentioned is about to complete 3.3 million new clinker line in Madhya Pradesh and Ametha.

In time to come you will find us growing in Karnataka where ACC has Vadi plant and maybe one or two locations as part of our journey to grow. So, I think it will be a mix of where we find good reserve and where we find a good fit for each entity. Also, if you see cash in hand, today Ambuja has a little larger, it's about close to 7,000 plus. So, I think that also dictates how directionally we are moving.

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

Amit Murarka: Hi, thanks for the opportunity. So just on employee costs, so I see the console employee cost is much higher than the sum of ACC, ASM this time. In fact, on console there's hardly any drop on Q-o-Q on employee cost. Could you just help explain like why is it like that in this quarter?

Management: Sure. So, thanks. Basically, in terms of standalone versus console, this is more of a issue of say regrouping, which we got this regroup between the employee cost versus the other expenditure. And the other expenditure is more about the common expenses between ACC and Ambuja, which was allocated in the ratio of, and then approved the policy in the ratio of 50 to 48 between ACC and Ambuja. So therefore, that you will find a factor under the other expenditures.

However, from July onwards, we will put everything, even these common-selling expenditures under the bucket of employee cost only so that there is a proper grouping of the overall element of cost. As you rightly said, on a console basis, there is a marginal drop only in terms of the overall employee cost from INR378 crores for June '23 to last year INR385 crores or last quarter was INR387 crores.

Amit Murarka: Okay, so it's only a reclassification because of which we see a drop in Ambuja ACC…

Management: Yes, so we have this master services agreement, yes. So that is more of account of the reclassification related point.

Amit Murarka: Okay, also could you highlight how much of the MSA volume booked for in ACC and Ambuja volumes?

Management: See MSA volume is basically, as I mentioned earlier, we try and optimize each of the entities, grinding units and clinker units. And InterSafe, finally, what we report out in the console level is what you see, it goes in the market. Individual numbers are already there with you when you see the growth of Ambuja and you see growth of ACC. I think more or less that number is very clearly laid out. But at our console entity, we would have done about 1.5 million in the MSA.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Sir, my first question pertains to similar to the employee cost, even your depreciation number, the consolidated number do not add up to the standalone depreciation numbers. The standalone depreciation numbers are higher. Any specific reason for the same? And second, can you talk on large capacity additions out of this 14 million ton? Good amount of them are concentrated in Maharashtra and West Bengal. Any thought on them?

Management: I will take up the first point in terms of the depreciation that is on account of the lease accounting which we follow for certain assets, in this case shipping and some of the RMX business trucks and other equipment. So, on a consol basis, those gets knocked off while on a standalone basis, they remain there. So that is the overall consolidation effect. On the other part, I'm requesting Ajay to answer.

Ajay Kapur: Yes, so your question was why, your question was on regional expansion. So basically, what will happen is over the next five years as we play out our strategy roadmap on expansion, we will not be putting all the eggs in one particular market. We will grow. What happens is when you put one clinker line, you also need to put up the grinding units which have to sustain that clinker.

In this case, we have put two clinker lines actually in Central and Eastern India. Ametha in ACC of 3.3 which gets into commissioning very soon. And this Bhattapara in Chhattisgarh of Ambuja. So together, let's say around 7.3 million new clinkers. So, we need to have grinding for this. So therefore, you find these locations. The locations chosen also Brownfield; it allows us to do a low-cost fast expansion. And also, these are the home markets for Ambuja and ACC.

And for Chandrapur, our last plant put up here was 2011. If I'm not mistaken, that was ACC Chanda plant. After that, we have not added any new kiln here. So, I think as part of our normal market share protection strategy, this kiln was very much useful, 4-million-ton clinker coming in Chandrapur after 10 years, I think is the right strategy. And then to build its distribution, we have announced the grinding stations.

As you see, every quarter or every couple of quarters we'll keep playing out our new expansion plans. So, whenever you hear a kiln or two kilns together or three kilns together you also hear the associated grinding units which pan out along with that. In the

Analyst: And sir, in the AGM node you have mentioned INR7,000 crores capex console for the FY '24? So how would they be spread between both the companies, Ambuja, stand-alone, and ACC?

Management: I think that we can take the discussion offline, but I take note of your question. We'll definitely connect with you and provide you those details.

Management: Yes, after this call, I'll give you the number.

Analyst: Sure, sir. I'll come back in queue. Thank you.

Moderator: Thank you. The next question is from the line of Shravan Shah from Daulat Capital. Please go ahead.

Shravan Shah: Sir, just to clarify, when we say 24 months, we will be adding this, whatever the announced expansion. So, this 24 months will start from March '23 or from August or July '23?

Management: It's already started. This is somewhere in the month. The day I made this press release, this was in May, I announced. So, it's already started from that time.

Shravan Shah: Okay. So broadly, it will be by the first quarter of FY '26, all these new expansions will come?

Management: Yes, yes, please. Because both the kilns we already have mining licenses, we already have land. So, I think those should fairly come up fast and these are brownfield expansions. And some of the grinding stations are also expansions at the same location. And in some other cases also we have full land available. So, I think we should be fairly fast in that.

Shravan Shah: Okay, and then just to clarify, when we say in terms of the EBITDA per ton improvement INR300, INR400, so is it including the other income that we are talking about or without other income? So, post this, whatever the today's number is in terms of the EBITDA per ton, so on standalone Ambuja 1,042, so from here on how much is still left to reach INR300 or INR400 improvement?

Management: See our end state target is what we announced in the month of March, was to increase our EBITDA by INR400 rupees per ton on an average of 1,000 to 1,100 over the last two years if you really see. I am eliminating the quarter of September when we took over. It was also the time when the energy prices were the highest and also that's not the quarter we wanted to pick it up. So, on a base of 1,000, 1.100, INR400 per ton we are saying will improve. So, end state should be 1450, 1500, that's the end state target. I think all the initiatives that I have laid out are structural initiatives and these structural initiatives will be cost competitiveness for the companies for all time to come.

Just to also answer to the earlier question in terms of the capex for the year between Ambuja and ACC. So, the capex of all the growth and efficiencies as well as maintenance capex is well distributed between both the companies. If I would have to just give a ballpark of INR7,000 crores, one can expect almost 60% to 65% with say Ambuja and 35% to 40% with ACC for FY ’23, FY ‘24.

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

Shyam Sriram: Yes. Hi. Good afternoon. Thanks for taking my question. Very healthy operating performance in both ACC and Ambuja. Let me start with that. My first question is on ACC performance at the unit EBITDA level has seen a very strong sequential improvement than what is seen in

Ambuja. On a reported basis, it has moved from 694 per ton to 900. Now, on a sequentially, volume increased about 10% to 11%, but the EBITDA growth has been very strong.

Now, from a business perspective, sir, what has driven this very strong EBITDA performance at ACC level? And how do we think about the profitability evolution over the next few quarters from an ACC perspective? If you can share that, that will be helpful.

Management: Yes, thank you, Shyam. If you recall, the ones who were there in the call last time, last two calls. One question was asked to me multiple times, that why is it that ACC continues to be a underperformer? And why is it the gap between Ambuja and ACC is not bridging? And I think I mentioned the same thing last time. We are running both the companies with single management executive team, both from operations of the plants to the sales, to logistics, to finance, to procurement, to the entire group synergies, both are receiving same level of support. In fact, we have pushed a lot on ACC side to have a catch-up plan and I think I am very happy that ACC has, the plants have shown improvements.

Besides the structural investments of coal from our own mines, coal from adjacencies of the business, fly ash adjacencies, the procurement efficiencies, the plant operating parameters, the waste rate recovery project investments, alternate fuel investments, logistics initiatives, the MSA initiatives which I spoke about. I think all these are helping ACC to catch up.

There are some plants in ACC which are a little dated, which we need to invest more. And I think we also focus there. So, I think this is a result of all this planning out. I believe in time to come; ACC will continue to improve. And also, we will continue to see a much better catch up between ACC and Ambuja, because end state we are managing it as one entity.

Shyam Sriram: Sure, sir. Just one follow-up on that. If you look at the purchase of finished goods at ACC level, as a percentage of revenue last quarter, it was around 14% for ACC, that is now around 13%. And the MSA volumes for ACC seem to be slightly higher. Now, my only question is, is there any change in terms of the pricing or anything of that sort on the MSA agreement that we have done on a prospective basis from this quarter onward?

Management: No, so Shyam, in terms of purchase of the finished goods, if you look at it, for example, I would actually want you to consolidate this four cost item, which is the cost of materials consumed, the purchase of the stock in trade, the change in the finished goods, and the power and fuel, because generally you will find that when you produce, some of this cost gets distributed across these four items. And when I sum total of that, vis a vis say, June ‘23, it is a INR2,552 crores, and on an ACC level, versus March ‘23, it is INR2,520 crores, so there is hardly any change.

So, suffice to say that when you produce, and then when there is a stock in hand, the stock treatment as well as the amount which goes into power and fuel and cost of raw materials consumed, this actually sometimes brings some aberration in the line items. So, when you consolidate that together, those four items, you will find it is in sync with the overall volume growth.

Management: Also, one more point, the coal block which we have in Ambuja, in Gare Palma, we also increased the share of coal from that block to ACC. So obviously that helped in the power and fuel cost for ACC.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Bandhan Asset Management. Please go ahead.

Vishal Biraia: Thank you. Sir, could you also talk about pricing, how is the environment that you are seeing in the key markets? And would you also touch upon the discounts and rebates that we used to give? Thank you.

Management: Okay, Bandhan, that's a very tricky question. Price, as you know, is a function of demand supply. Fortunately, the demand has been growing at a healthy 8%, 10%, and last quarter was actually 10%, 11%. However, we also see new capacities come in, in some parts, by some of the players. On top of it, in June we saw also heavy monsoon, so that had a little bit of an overhang of little extra supply in the market. While prices have not risen, but the good news is they have also not drastically fallen. The trajectory has been maintained, even as we entered the monsoon season.

I think going forward, as I see the utilization levels in the industry should go up from 75%, 76% to more like 78%. If I remove south and only look at the top part of the Indian Peninsula, you will find this utilization more inching towards 79%-odd in some areas. So, I think that's the level where it hits 80%, you have a very good pricing power. But I think there's a very mature industry, it's a huge 400 million-plus market. So, you have to look at micro markets rather than looking at the all India picture on pricing.

I think that you had a follow-up question also, I think other than pricing, you're asking me something else.

Vishal Biraia: I was trying to touch upon the discounts and rebates that were happening in the industry as to how is that practice going and how are you placed on that front?

Management: I think by and large, most large companies in the trade segment, I'm talking, and I think that's what you're referring to, follow a particular dealer remuneration policy. I think more or less we are also following the same. However, there was also some discounts which are not the regular dealer remuneration, but these are adjustment of market prices. Every market has a different structure. East has a little different structure than West. And then, of course, South has a little different structure than centre.

We are not very big players in south today. But in the rest of the industry, we are more or less, addressing this, keeping our dealer network and also our sales objectives in place. We try and have more transparency in our approach, so that, that the customer and also our sales people are able to leverage the brand strength. I think we are undoubtedly having two of the strongest brands in most of the markets. So, I think the pressure on us is a little less than some of the other companies in this regard.

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

Pulkit Patni: Sir, thank you. That's not the Asset Management. This is the Research side. So, my question is I just want to check. I think I heard you answer some other question on power and fuel prices from here on. You mentioned that you expect it to be stable. So, given the correction in global prices of fuel, should we not expect it to fall further from here? If you could just clarify what that answer was?

Management: See it's a very difficult question to answer because there are multiple factors which play out but I would say, stable or remaining competitive in time to come is the best way for me to say, but I would not expect them to rise if at all they should come down by a couple of bps that's the way I would look at it.

Pulkit Patni: Sir, this is basically based on whatever shipments we are expecting to receive in the next say, couple of quarters, whatever we would have ordered, we should expect it to be stable.

Management: Okay, so just to be very clear and also reiterate what I meant, I was talking more at the industry level, how the fuel prices in general will play out in the industry. Of course, we have a different strategy and I think my strategy is exactly what is playing out in my numbers. So, I think we would continue to play that strategy out.

Pulkit Patni: Which is that it should go down or it should be stable?

Ajay Kapur: You understood what I meant. It obviously has to become better than where we are.

Management: Well, also just to reiterate, and maybe a smart strategy what Ajayji is following is that keep it stable for the team so that there's a good pressure on bringing efficiency on all the other factors. And whenever the price declines on the coal, this gives you much better scope of the margins. So, I think we are not over ambitious in terms of only driven by market on the coal prices. Our whole focus is on the controllable factor which is within our overall efficiencies across the other cost, which is within our control more than the market driven largely on the coal.

Ajay Kapur: Also, the inventory element of it plays out because as you know, when you import a ship, you have to plan three months in advance. And also, typically 30 days, 35 days inventory, people keep in the factory. So, I think it's also the cost of your inventory as that cost of the inventory gets replenished with a lower cost fuel you bought, you start seeing the impact in the following quarters. I think that's the second part of my answer.

Pulkit Patni: Got it, sir. Thank you so much.

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

Aman Agarwal: Yes, sir. Thank you for the opportunity. Sir, again, on the fuel side, we recently heard of some softening in the prices of Indonesian coal, which was pretty down sizable. So, on the current booking, are you seeing anything on that side?

Management: See, Aman, what we do is, we work very closely with our group ICM team on all imports, and I think what we do is we always have a plan of next three months in place. I can only tell you that, you see this will happen some days we had a very good advantage in the domestic petcoke market, and the local refineries offered us very good discounts. So, we went and bought those shipments at some plants, like many other local companies would have done.

Likewise, the situation changes, and we do opportunist buying also. But by and large, our three-month planning keeps into account all these. And whenever there is an opportunity, we go out and book at a group level. And we continue to keep multi-fuel strategy. So, we are not married to one particular kind of a fuel. What we do is we keep optimizing the fuel mix, we keep optimizing the inventory mix.

And that's what I believe in time to come, we want to play out. And on top of it, our core strategy is our own minds and also group adjacencies. So, I think that's where it gives me a lot of strength of having one anchor mix which continues to bring the cost down. And then you have an opportunity buying, like you mentioned, about Indonesia.

Aman Agarwal: Understood, sir. Sir, on the same note, if you can just share the fuel mix for this quarter.

Management: Fuel mix for the quarter? I think it is a fairly complicated number. We can certainly connect. I will ask Charanjit to connect with you and we can have a chat offline.

Aman Agarwal: Sure sir. Sir, lastly if I may...

Management: We looked at the domestic petcoke. We also looked at local linkage and e-auction coals. And of course, wherever we had advantage of lower cost imported coals, we did that. And that was primarily responsible for improving our mix, at a group level.

Aman Agarwal: Understood, sir. And sir lastly, when we say the prices of the power...

Management: We have imported petcoke also, I think, I remember. We got some very good pricing.

Aman Agarwal: Okay. And so, when we say, we expect the power and fuel cost to be rather stable going ahead, we are taking the, for Ambuja per se, the 1,279-level mark rather than the 1,500-level mark, right?

Management: For Ambuja, you said, consolidated it's more like 1480 odd. And I think Inter se, 1,279 is the right number, yes. And this will only improve going forward.

Aman Agarwal: Understood, sir. Thank you.

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

Shyam Sriram: Yes. Hi, sir. Thanks for the opportunity again. Just one follow-up question. We have reported our power and fuel cost on a production basis has reduced anywhere between 7% to 8%, 8% for ACC and 7% for Ambuja on a standalone. Now, the question is, we had some coal advance asset at the end of March ‘23, that we had contracted some time back with the ceiling, I think for about USD157 and a minimum of 5,600 kcal.

Now, the actual fuel cost that we – in per rupees kcal that we have mentioned in the press release seems to be lower than that. Now, the question is – first part is, has that coal advance been used? How have we managed to reduce the fuel cost sharper than that? So that is one part.

And secondly, are we renewing those contracts because that seems to be benefiting us? Any thoughts on that? Thank you.

Management: So, Shyam, let me address. Number one, for Ambuja, the coal advance is zero as the end of this quarter. For ACC, there is still some money there which we expect to be zero by September quarter, which is what I had also mentioned in the last call. If you recall, I had also mentioned that, this has been a strategic buy for us. It was also in my inaugural today in the call.

And I am very happy that the strategy which our procurement teams had laid out, have actually helped us delivering industry best power and fuel cost, and also one of the remarkable ones for our AAA performance over the last coming three quarters or four quarters. Whether we will again do a transaction is difficult for me to comment today.

As I said, we have a mix of strategies. Core of our strategy is to go more and more of our own coal mines and work with our group synergies. And I'm very confident, it will help us to bring down the power and fuel cost. And our target and set target is to be the lowest cost clinker producer in the country.

Shyam Sriram: Wonderful, sir. So just the domestic coal mix in the fuel, is that possible to share that number? How will that move? Because you mentioned we have started using more of Gare Palma coal. Just how that number as in the mix has moved?

Management: So, Gare Palma is about 12% to 13% of our total mix for the fuel. What we have done is we have this quarter we use almost 12.5% of Gare Palma. So that really helped us also in the cost. And I also mentioned, we looked at imported petcoke, which was a sizable number. And then, of course, remaining was our domestic linkage and imported coal.

Shyam Sriram: Okay, understood. Sir, thank you very much. I'll call back in the queue and best wishes.

Management: Thank you. Thanks, Shyam.

Moderator: Thank you. The next question is from the line of Parth Gohil from Omkara Capital. Please go ahead.

Parth Gohil: Yes. Good afternoon, sir. So, in one of our call earlier We had mentioned that, we will be increasing our RMC plant from 78 odd to 200 plus. So, any timeline for it and where is the progress? I mean like any input if you can give on that.

Management: Yes, so RMC, our strategy of going to 200 remains. Current year, we should cross 100 plus plants. My colleague also mentioned he's also, we know he's working with my RMC mix team to optimize the structures, lease accounting, which also helps us something on the tax planning. So that journey continues. We want to be focused into the core markets, where it fits beautifully well into our integrated customer service strategy.

Parth Gohil: Okay, sir. Thank you. Best wishes.

Moderator: Thank you. We'll be able to take one last question. We take the last question from the line of Mudit Agarwal from Motilal Oswal. Please go ahead.

Mudit Agarwal: Thank you. Thank you for the opportunity, sir. So just one question, like we have given advances of INR325 crores to a related party for long-term supply of fuel, that is for the Mundra Cement Plant Unit, and that should be available from FY '26. So, in terms of expansion, as we already placed order for two lines, one in Chhattisgarh and one in Maharashtra, so this Mundra cement plant will be our first priority for the expansion. And what is the status of land as well as the environmental clearance? Thank you.

Management: Okay, so Mundra will be a beautiful investment, from my perspective, because of two counts. Number one, it will be a very competitive plant. Number two, it will be a very green plant. And number three, it will be sitting on a location from where I have a multi-modal logistics supply chain arrangements. Mundra in Kutch is also connected with rail, which no other plant in Kutch is connected.

So, we have our own rail system there. It allows us to also bring a lot of raw materials and also product output. Second, Mundra is a beautiful port you can reach anywhere, including exports and also domestic markets right up to Trivandrum, in the down south. We already decided to place 2 million ton grinding at Mundra. Eventually there will be 2 mills of 4 million and the kiln which is at 2.3 million.

The work at the site is already there. Land is available with us, and EC is also available with us. I will give you more updates in my forthcoming calls on the status of the project. But it is a very, very interesting project from overall perspective and also on improving our footprint and market shares in West Coast markets.

So, the highest level of Adani adjacencies will find actually one location in Mundra. Yes, there is a fly ash available, there is a port available, there is a railway connectivity available and there is what you call, there is no need for a limestone. We are actually going to build it with a raw material. So, it will actually become a 100% green cement.

Mudit Agarwal: Exactly. And we will use limestone slurry at that plant, is it correct?

Management: It will be calcium carbide, which is a by-product of coal to PVC plant.

Mudit Agarwal: Understood. Thank you. Thank you so much for the answers,

Moderator: Thank you very much. We will have to take that as the last question. I would now like to hand the conference back to the management team for any closing comments.

Management: So, thank you once again for taking out the time. I hope most of the questions have been answered. For any unanswered questions, feel free to reach out to me. And looking forward to the next quarterly call in October. Thank you.

Moderator: Thank you very much.

Management: Thank you, ladies and gentlemen.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.