

Ambuja Cement

Ref:

August 30, 2013

To,
National Stock Exchange of India Limited
Listing Department
Exchange Plaza 5th Floor
Plot No. C/1, G Block
Bandra – Kurla Complex
Bandra (East)
Mumbai – 400 051
NSE Scrip Code: AMBUJACEM

Kind Attn: Mr Hari K – Vice President

Dear Sir,

- Re: Scheme of Amalgamation between Holcim (India) Private Limited, Ambuja Cements Limited and their respective shareholders and creditors under Sections 391 to 394, read with Section 100 and other applicable provisions of the Companies Act, 1956**
- &
- Re: Application under Clause 24(f) of the Equity Listing Agreement**
- &
- Re: Securities and Exchange Board of India circular number CIR/CFD/DIL/5/2013 dated February 4, 2013 read with circular number CIR/CFD/DIL/8/2013 dated May 21, 2013**
- &
- Re: Meeting with officials of the Securities and Exchange Board of India on August 27, 2013**

Dear Sir,

This has reference to the meeting held between officials of the Securities and Exchange Board of India (“SEBI”) and our advisers on August 27, 2013. Further to our letter dated August 23, 2013 and discussions with SEBI officials at the aforesaid meeting, we submit the following for your kind consideration:

1. Justification for cash payment of Rs. 3,500 crores for purchase of 24% of HIPL (“Proposed Purchase”)

The use of cash to fund the Proposed Purchase provides a number of benefits to all our shareholders and us. Please refer to **Schedule 1** for a brief summary of the key benefits.

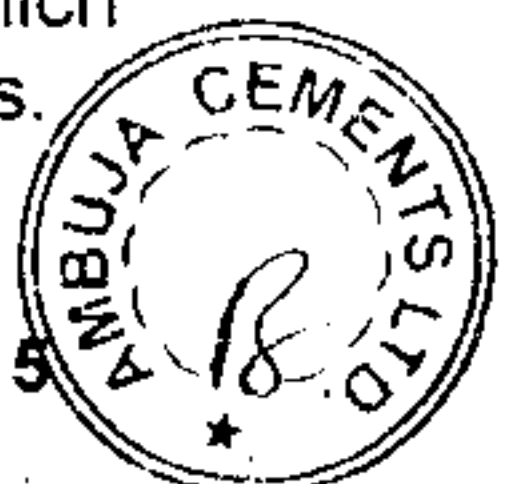
2. Financials reviewed by the Valuers

- (a) The accounting year for our company (“**Ambuja Cements Limited**” / “**ACL**”), Holcim India (Private) Limited (“**HIPL**”) and ACC Limited (“**ACC**”) is January 1 – December 31. Accordingly the last audited accounts are as of December 31, 2012 for our company and ACC.
- (b) Additionally in terms of Clause 41 of the Listing Agreement ACL and ACC have submitted the unaudited financial statements for quarter ended March 31, 2013 which were subject to Limited Review by the statutory auditors of the respective companies.

AMBUJA CEMENTS LIMITED

Elegant Business Park, MIDC Cross Road 'B', Off Andheri - Kurla Road, Andheri (E), Mumbai - 400 059
Tel. : (91-22) 6616 7000 / 4066 7000, Fax : (91-22) 6616 7711 / 4066 7711
Regd. Off. : P. O. Ambuja Nagar, Taluka - Kodinar, Dist. - Junagadh, Gujarat

Page 1 of 5



Ambuja Cement

- (c) The Valuation Report dated July 22, 2013 issued by BSR and Associates (“BSR”) and Price Waterhouse & Co (“PW&Co”), both independent chartered accountant firms (“Valuers”) considers the aforesaid financials.
- (d) Audited financial statements of HIPL for the quarter ended March 31, 2013 have already been submitted vide our letter dated August 27, 2013.

3. **Benefits of Proposed Purchase and merger of HIPL (“Proposed Transaction”) to us and all our shareholders**

The Proposed Transaction is in the interests of and would benefit all our shareholders. Please find enclosed as **Enclosure A**, a presentation prepared by us summarizing the transaction and highlighting the benefits to all our shareholders. This presentation will shortly be uploaded on our website.

4. **Shareholders’ Approval for acquisition of shares in HIPL**

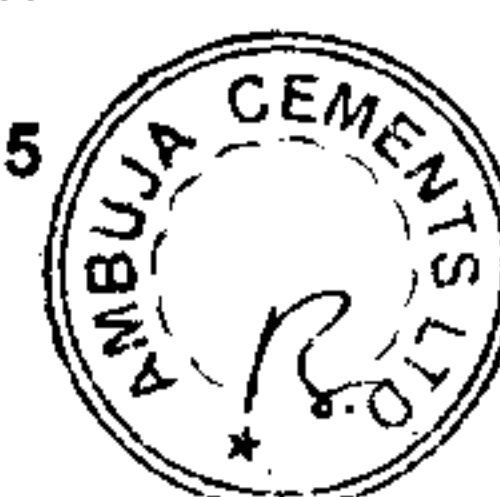
During the aforesaid meeting, a query was raised in relation to whether we could consider seeking approval of the minority shareholders for the Proposed Purchase in the same manner as contemplated for the merger under the SEBI Circular number CIR/CFD/DIL/5/2013 dated February 4, 2013 read with circular number CIR/CFD/DIL/8/2013 dated May 21, 2013 (“SEBI Circular”). In this behalf, we humbly submit that:

- (a) Approval of our Board in accordance with Section 372A of the Companies Act, 1956 (“Companies Act”) has been duly obtained. The consideration payable for the Proposed Purchase is within the limits specified under Section 372A of the Companies Act and consequently we do not need shareholders’ approval for the Proposed Purchase under the Companies Act;
- (b) However, our audit committee as well as the Board of Directors have approved the Proposed Purchase as an inter-linked transaction with the merger, i.e., the Proposed Purchase will be consummated once and only once ALL the approvals for the merger have been obtained, including from the public shareholders (per the SEBI Circular) and from the Courts. This inter-linkage was well thought of and is a well-considered decision of the audit committee and the board of directors. This effectively ensures that whilst the public shareholders are voting on the merger, they will also be approving or disapproving the Proposed Purchase;
- (c) The inter-linkage is disclosed in paragraph 8 of the notice filed by us with the stock exchanges on July 24, 2013 within 15 minutes of the closure of the board meeting and a copy of the same is enclosed as **Enclosure B**. A specific condition precedent in this regard has also been included at Clause 5.1 (c) of the acquisition agreement executed on July 31, 2013 (post intimation to the stock exchanges) between us, Holderind Investments Ltd and HIPL (“Acquisition Agreement”). To further strengthen our commitment of not acting upon the Proposed Purchase without obtaining all approvals for the merger, including from the public shareholders, we agree to provide a specific undertaking to SEBI/ Stock Exchanges, if required, confirming that the above referred condition precedent included in the Acquisition Agreement will not be altered or waived;
- (d) In response to the observation in our meeting, that the merger scheme as submitted (as per Part I, paragraph 2 (a) of the scheme) does not very clearly cover the intent of inter-linkage of the two steps, we will, if required by SEBI, amend Part I, paragraph 2

AMBUJA CEMENTS LIMITED

Elegant Business Park, MIDC Cross Road 'B', Off Andheri - Kurla Road, Andheri (E), Mumbai - 400 059
Tel. : (91-22) 6616 7000 / 4066 7000, Fax : (91-22) 6616 7711 / 4066 7711
Regd. Off. : P. O. Ambuja Nagar, Taluka - Kodinar, Dist. - Junagadh, Gujarat

Page 2 of 5



Ambuja Cement

(a) third bullet of the draft scheme (which will be placed before our shareholders for approval) to read as follows (the underlined portion in bold will be added):

"The Amalgamating Company, Amalgamated Company and HIL have entered into an agreement pursuant to which the Amalgamated Company will, subject *inter alia* to the satisfaction of all conditions precedent to the effectiveness of the Scheme, except the filing of the certified orders of the High Courts with the Registrar of Companies, Gujarat and the Registrar of Companies, New Delhi (including the Scheme having been approved by the majority of public shareholders (members) of the Amalgamated Company as required under the SEBI Circular), purchase 1,36,56,92,423 (One Hundred and Thirty Six Crores Fifty Six Lakhs Ninety Two Thousand Four Hundred and Twenty Three) shares of the Amalgamating Company from HIL. The Amalgamated Company will not purchase the shares of the Amalgamating Company if the Scheme is not approved by the majority of public shareholders (members) of the Amalgamated Company i.e. the votes cast by public shareholders in favour of the resolution are more than the number of votes cast by public shareholders against it."

- (e) We respectfully reiterate that the need to seek shareholders' approval for acquisition of 24% shares in HIPL for around Rs. 3,500 crores is adequately built-in in our structure for the Proposed Transaction because of the inter-linkage condition provided by the audit committee and the board of directors. Effectively, if the public shareholders do not vote in favour of the merger scheme, then the first step of the Proposed Transaction, i.e., acquiring 24% shares in HIPL cannot be acted upon by the very design of the transaction.
- (f) We also confirm that we will adequately disclose all the relevant facts in this regard, including in relation to the inter-linkage between the merger and the Proposed Purchase, in the explanatory statement that will be sent to the shareholders for obtaining their approval for the merger by way of postal ballot and e-voting as required under the SEBI Circular.
- (g) We further submit that the ~ 40% of the current shareholding of ACL comprise of institutional investors, which represent 80% of the total public shareholding.

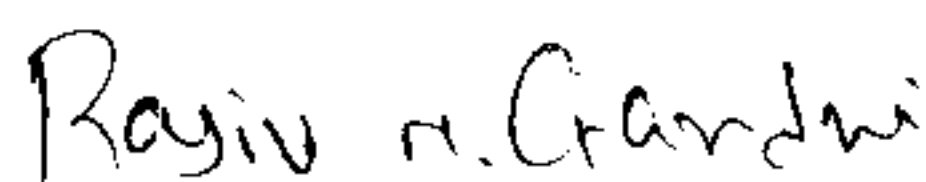
In view of additional disclosures proposed as above and the dominant presence of institutional investors in our company, we believe that the shareholders will be adequately apprised that the Proposed Purchase is contingent on their approval of the merger.

In light of the explanations provided above, we trust that your concerns have now been addressed. Do let us know if any additional information is required.

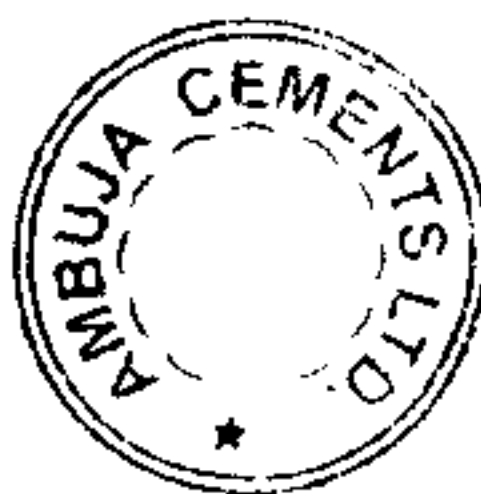
Thanking you.

Yours faithfully,

For **AMBUJA CEMENTS LIMITED**



Rajiv Gandhi
Company Secretary and Compliance Officer
E-mail Address: rajiv.gandhi@ambujacement.com
Telephone (Landline): (022) 40667059
Telephone (Mobile): (+91) 9920752059



AMBUJA CEMENTS LIMITED

Elegant Business Park, MIDC Cross Road 'B', Off Andheri - Kurla Road, Andheri (E), Mumbai - 400 059
Tel. : (91-22) 6616 7000 / 4066 7000, Fax : (91-22) 6616 7711 / 4066 7711
Regd. Off. : P. O. Ambuja Nagar, Taluka - Kodinar, Dist. - Junagadh, Gujarat

Page 3 of 5

SCHEDULE 1

1. **ACL is effectively getting 50.01% stake in ACC which is being discharged by issue of shares under the scheme and through payment of cash for purchase of 24% in HIPL**

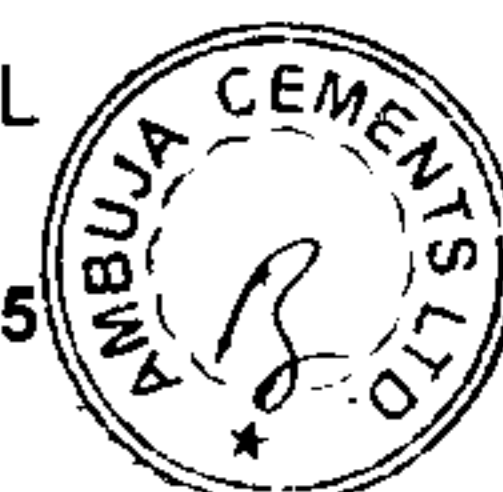
	(In Rs. crores)
What does ACL pay?	
Purchase of 136.6 crores HIPL equity shares @ Rs. 25.63	3,500
Issue of 58.4 crore ACL shares @ Rs. 189.66	11,084
Sub Total	14,584
Less: Value of HIPL's 15.1 crores ACL shares which will be cancelled	2,857
Total Cost of Transaction to ACL	11,727
What does ACL get?	
Value of HIPL's 9.4 crores ACC shares @ Rs. 1,249.02	11,727

2. **Economically, most favourable deal structure for ACL shareholders**

- The Proposed Transaction structure provides an opportunity to utilize cash on ACL's balance sheet. It was considered only prudent that the Company uses cash (optimum) for acquiring capacity as against equity dilution.
- By acquiring 24% of HIPL in cash, ACL has limited the equity dilution to the extent considered optimum. There is no economic reason to expand the share capital of ACL when there's cash on its balance sheet. In an all-stock transaction, ACL would have had to issue an additional equity shares, resulting in incremental dilution. In turn, this would reduce dilution for public shareholders, whose pro forma ownership would have been 35.3% in an all-stock transaction vs. 39.6% in the Proposed Transaction.
- Utilizing cash instead of equity is expected to have a favourable impact on ACL's consolidated EPS as it effectively re-invests cash, which currently earns ~5% returns post tax, into the business with higher expected returns than treasury income.
- Going forward we expect an incremental favourable impact on consolidated earnings and ROE on account of impending capacity expansion and development of captive coal blocks (on account of having minimized equity dilution currently).
- It is a well established fact that use of equity to acquire an asset is more expensive than using cash, a matter that has been taken into consideration when structuring the Proposed Transaction.

3. **Strong standalone cash flow generation sufficient for ACL's future needs and consequently no requirement to hold on to the current cash balances**

- Over the last 3 years, cumulative post tax free cash flow generation at ACL standalone has been over INR 5,000 crores.



- ACL is expected to continue to have a strong, debt free balance sheet immediately post closure of the Proposed Transaction. The proposed capital expenditure projects and intended increase in its stake in ACC are expected to be funded through internal accruals of ACL generated over the next few years.
- Additionally, the strong balance sheet / asset base of ACL allows enough flexibility to raise debt (if required) for meeting any further capital expenditure needs as well.

