"Ambuja Cements & ACC Limited
Q3 FY23 Earnings Conference Call"

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MANAGEMENT:	**MR. KARAN ADANI – CHAIRMAN, ACC AND DIRECTOR, AMBUJA CEMENTS** **MR. AJAY KAPUR – CHIEF EXECUTIVE OFFICER (CEMENT BUSINESS)** **MR. VINOD BAHETY – CHIEF FINANCIAL OFFICER (CEMENT BUSINESS)**
MODERATOR:	**MR. RITESH SHAH – ANALYST MATERIALS, HEAD MID-MARKET COVERAGE, ESG FROM INVESTEC CAPITAL SERVICES**

Moderator: Good morning, ladies and gentlemen. Welcome to Ambuja Cements & ACC Limited Q3 FY '23 Earnings Conference Call hosted by Investec Capital Services. Please note this call is only for buy-side and sell-side analysts.

As a reminder, all participants' 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ritesh Shah, Analyst Materials, Head Mid-Market Coverage, ESG from Investec Capital Services. Thank you, and over to you, sir.

Ritesh Shah: Thank you, Lizann. I, on behalf of Investec, thank you for joining Ambuja Cements & ACC Limited Q3 FY '23 Conference Call. We shall have a detailed business update from the Management and the way forward.

Today, we have with us Mr. Karan Adani – Chairman, ACC and Director, Ambuja Cements. We also have Mr. Ajay Kapur – CEO of Cement Business; and Mr. Vinod Bahety – CFO, Cement Business.

I will hand over the call for the prepared remarks, post which, we will have a Q&A session. Over to you, Vinod ji.

Vinod Bahety: Thank you very much, Ritesh. Thanks, Lizann. Good morning, all of you. On behalf of Mr. Karan Adani, Mr. Ajay Kapur, myself and on behalf of the Management Team, I welcome all of you. Thank you for joining us today for the analyst call.

Let me provide some highlights of the performance of December Quarter and I will right now discuss on a consolidated basis:

This has been our first full-fledged quarter under the new promoter, Adani Group. The company has in a real sense embarked on a transformational journey, which has resulted in sizable operational efficiencies across all the business parameters and which has resulted in to a good jump in the financial performance quarter-on-quarter.

On the industry level, the cement industry saw higher capacity production with a good pickup in demand during the quarter. We have seen a healthy increase in our top line of around 11%, coupled with a good reduction in the overall cost.

The cost optimization is led by a reduction in the overall fuel cost and which I will take more in detail and the other operational efficiencies. This has helped us to improve the EBITDA margin, which has expanded by 8% from 6.1% to 14.4%.

A notable point here is also the synergies between both the companies, the parent company, Ambuja, and its subsidiary, ACC, as well as with Adani Group. On the EBITDA level, EBITDA has jumped by 161% at an absolute amount of Rs. 1,138 crores quarter-on-quarter. This is led by a higher revenue base of Rs. 8,036 crores. And we expect this trend to continue in the coming quarters when we will see a full impact of our performance improvement levers.

Net revenue was sequentially up by 11% and year-on-year 4%. With our new capacity of Ametha, which we are targeting, it will be commissioning somewhere in March, and commercial production will start somewhere in Q2. And this did include the 3.3 million tons of, say, clinker capacity and 1 million tons of grinding unit, and also debottlenecking of additional capacity and asset sweating, we expect our top line to be moving healthy going forward.

We have a strong product portfolio, a strong brand, legacy strong brand along with premium products in our core markets. And we continue to have market leadership on those core markets.

Overall, an important factor on a per metric ton, my cost has come down by Rs. 283, which itself give a bump to the EBITDA by Rs. 220 crores. And as I said in my earlier remarks, fuel cost has been a mover in this factor. We expect to optimize further our cost by leveraging the synergies from the adjacency businesses of Adani Group apart from our initiatives on improving overall efficiency factors.

On the volume front, we achieved a growth of 7%. And as I mentioned, the trend continues to be positive on back of the increased CAPEX on the housing, on the infrastructure. Budget has been also very positive for this sector.

On the cost front, some of the key achievements, and these are like the operational factors quarter-on-quarter. Kiln fuel cost has substantially reduced from Rs. 2.84 per 1,000 kilocalories to Rs. 2.45 per 1,000 kilocalories, thereby resulting into an overall decline of say 14%. Logistics costs reduced by almost 6%. And it is now residing at Rs. 1,339 per ton. And we have further more initiatives planned here to bring it down. The raw material cost has come down 5% from Rs. 703 per ton to Rs. 667 per ton.

On a standalone basis, for Ambuja Cements, it has also recorded a substantial jump in the sequential EBITDA by 103% at Rs. 715 crores. The net revenue sequentially up by 13%, and year-on-year by 11%. It stands at Rs. 4,218 crores, and volume is up by 11%.

The robust sequential PAT growth by 166% and Y-o-Y PAT growth by 46% to Rs. 369 crores, which in real sense, the momentum has begun for all the initiatives being taken. EBITDA margin expanded both sequentially and Y-o-Y at 17.5%, while on a consolidated basis, we were at 14.4%, but Ambuja standalone is on a higher side at 17.5%.

The company remains zero debt, debt-free with a healthy position of cash and cash equivalents close to Rs. 9,500 crores, to be precise Rs. 9,454 crores. This augurs very well for the journey to achieve scale, market leadership apart from the whole idea is to serve on the lowest cost basis in the natural markets.

Working capital remains a key focus area for us. And we have seen a good improvement in the overall inventory, as well as the trade receivables, which have come down, what we say, the DSO, which has come down from 10 days to 8 days.

Ambuja Cements remains committed to achieving significant size, scale and market leadership with strong emphasis on margin expansion. The base has been created in December. And quarter-on-quarter, we are expecting to be better from here, and adhering to the world-class ESG standards. And we will discuss more about the ESG achievements both the companies have achieved.

On the growth part, we remain committed to increasing our waste heat recovery system capacity to almost 190 Megawatts by March 2025 from the existing close to 65 Megawatts as of December 2022, so which is almost 125 Megawatts plans to increase this factor.

We have relaunched our green initiatives of using the waste management under Geoclean. We plan to accelerate higher consumption of waste material. This quarter, we saw the highest ever AFR consumption, which we will continue and improve it further so that the thermal substitution rate of the plant, we achieve to our target of 30% by 2027.

To further strengthen our ESG leadership, Ambuja's sustainability strategy is led by its Sustainable Development Plan of 2030, which we have covered in detail in our Analyst Presentation, which was released yesterday.

Our ESG highlights make us proud. If I just have to give one or two examples, ECOMaxX Concrete, which has been launched to augment green solutions in RMC business, and we see a good growth in the RMC. So, ECOMaxX will help us to have green solutions there.

Significant thrust, I highlighted about WHRS. I mentioned AFR. And of course, we are going to also use the group’s strength on renewable power. This will help us to improve substantially on our objective of circular and green economy.

Water governance, a key factor, Ambuja is by far the leader, because we are 8 times water positive. And on the sustainable livelihood, women empowerment, rural infrastructure, the social inclusion, we have a very robust CSR initiatives led by Adani Foundation, also Ambuja Foundation. And that is all of them are collaborating very very well.

The company has won several awards recognition for its outstanding work in ESG, the water positivity, the circular economy and CSR, which I won't repeat, because that has been shared in detail in the investor presentation.

So, let me conclude by saying that our business fundamentals remain very strong. We are well positioned to continue with our growth trajectory and remain market leader in the segment.

Now I request Mr. Ajay Kapur ji also to give a broad overview on the strategy and the way forward. Over to Ajay ji.

Ajay Kapur: Thank you, Vinod. Good morning to everyone. Very happy to address all of you on our first investor call post Adani Group's acquisition of ACC and Ambuja.

As already highlighted by Vinod and as already, you know, you would have seen our investor deck, what we are trying to achieve is largely a three-step approach.

First is, here and now, we want to improve our operational performance. We had engaged even before we had acquired consultants to work with us. We are very happy to say that all the efficiency improvement projects are now underway. And we expect to start seeing the benefits of improved waste heat recovery, alternate fuels, our flash drying investments, improved clinker factor, product mix, playing on the power of ACC Ambuja brands and also premium products.

We have started relooking at the logistics, which we believe we have a very strong fundamental position in Ambuja with our Western Coast serviced through railway mode. We were one of the pioneers in starting the hub and spoke model of cement grinding units way back 20 years. We are bringing it back with full force. We are taking full advantage of the adjacencies within our Adani Group.

We will be looking at own wagons. We will be looking at terminals and grinding stations in time to come as part of our vision to become the lowest cost to serve. And I repeat cost to serve, because it's not just cost of production. It's also how you reach the market. And then, I would also relay our plan to double our capacity from 67.5 million tons to 140 million tons. And we have already initiated actions in all these areas.

As we say this, we are also, you know, aware that ESG remains a fundamental focus and the pillar on which the entire working and strategy rests. We are mindful of customer excellence. Therefore, we are launching in this leg now the next set of initiatives to service our customers.

We have taken some initiatives in improving direct from factory dispatches. These numbers are already reflected in our last quarter results. We have improved by 5% or 6% the share of direct dispatch from most of our plants and grinding stations.

We are also focusing a lot on improving our limestone reserves, as well as strengthening our resources. A lot of work is going on. We are relooking at the entire mining strategy. We are relooking at our coal mine and also going forward, adjacencies with the group on coal and coal basket, what we call the solid fuel.

You would have already seen a larger and a more focused thrust under Geoclean, which was earlier Geocycle. We have rebranded it as Geoclean. We want to actually accelerate our alternate fuel by 2027, not so much in future to 30%. And I believe that will be a game changer. And we will take our waste recovery to about 190 to 200 Megawatts, which would basically mean 40% of our power will be green power.

So, I would say, those would be some of the fundamental shifts, which will allow us to emerge as the lowest cost and also one of the largest and the most well-branded cement company in the country. Vinod?

Vinod Bahety: So, with these remarks, I thank you, Ajay Ji. And now I would request Ritesh to further proceed.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: Thanks to the management for conducting this call. We hope such interaction become a regular affair. My first question is on our growth vision. I mean, initially, we had articulated a five-year target of doubling capacity to 140 million tons. We don't see that in the latest presentation. So, if you could just share and articulate what is our medium and long-term capacity goals, and also what could be the likely mix of organic and inorganic?

Ajay Kapur: This is Ajay here. I will take this question. Number one, we remain committed on doubling the capacity goal, which is a five-year goal we had set on 16 September, on the day of the takeover. As of now, we are looking at all Greenfield and Brownfield expansions within the group, number one.

Number two, we believe there is still potential within our assets to strengthen more. So, we are actually looking at releasing some clinker from debottlenecking, and we already started some work on that direction. Today, I will not be able to share that with you. Maybe in the next analyst call, we will have a separate discussion around our growth plan.

However, on efficiency, we have started a whole lot of projects. As I already mentioned to you, we have a road map for waste heat recovery. We already have a road map on AFR improvement further. The first set of investments were made by Ambuja ACC five years back. We have now started the second leg of investments. Most of our plants have now fly ash dryers wherever not we are investing in those, because we believe that will help us going forward. Each of this, we are also looking at and very mindful, what does it bring on the efficiency side, on the OPEX improvement side. And these are all mid-term and now in here. So, all these investments have already started.

In terms of the new clinker line, I will come back to you, as I mentioned, in the next call. And on the M&A side, we are constantly evaluating opportunities as and when they remain attractive. We obviously have become far more strategic in looking at new limestone mines, and you will keep hearing from time to time. However, we want to be mindful that we don't also want to acquire an asset where it is a **(Inaudible) 18:05**. So, you will see that also in our strategy. Thank you.

Sumangal Nevatia: That's very reassuring. Any particular number we are looking at the next three years, five years?

Ajay Kapur: I rather not, you know, have a guess here. When we come back, we will give you exact details, which plants ordered, and what is the commissioning date. So, I think that will be a much more better way to address this.

Sumangal Nevatia: Got it. That's very helpful. My second question is on this related party transactions. Just want to understand, is this payment for coal contracts to a related party? And is it a one-time thing or something which could continue? Also, I mean, as per our assessment, what could be the quantum and areas of related party transaction as far as the cement company is concerned with the other group companies on a steady-state basis?

Vinod Bahety: Sumangal, first of all, I will answer the second question. In terms of the related parties, for example, between Ambuja and ACC, we are bringing lots of synergies between both the companies. During the erstwhile promoters, they had the approved RPT of almost Rs. 3,500 Cr till December, which we have increased it to Rs. 3,000 Cr between parent and subsidiary up to March. And prospectively also for next year, we see more healthy working between both the companies. So, that is one component of, say, a related party, which will properly come to the shareholders and with the approval of the requisite Board and all. That is one part.

So, on the other part, in terms of the Adani Group related party, we have not seen any significance for the December quarter, except few crores here and there. And that is very much within the fair and arm's length pricing basis. So, I can just rest assure you because this goes through all the musters. I want to just highlight that we have almost like almost 11 committees, Mangal, and a robust framework. So, we have almost seven committees, which are purely governance committees and these are not statutory committees. So, therefore, I would say that the emphasis on the RPT is more between ACC and Ambuja, which prospectively will be working more synergistically.

On the coal part, Mangal, again, I think, I would say, and allay any fear, there is no related party here. It is a proper trade. And I can go in little more detail. So, we have entered into a contract, which is unique, wherein we have a contractual agreement for supplies of almost 16 lakh metric ton of coal. This has to be supplied over a period of, say, 6 months, and we expect that this will be completed between March to June quarter.

Over here, we have put a cap on the overall price for the supplies, which is a CIF agreement on the port of discharge like say Gangavaram, Goa or Mundra. So, there is a cap on the overall price, which is $157. And any fall in the global benchmark, and here we have used the benchmark, which is the RB1 benchmark. So, any fall over there will also get passed on to us.

I will just give a simple synopsis that this import of coal actually has helped the Company to bring down the overall cost of fuel in terms of rupees per kilo calories. Because, effectively, this comes to be as a ballpark as of now for the December, if I do an analysis, close to about Rs. 2 or Rs. 2.10 per kilo calorie, which actually resulted when I said that 14% of the cost has run down on the fuel. This is a major also component. Also, I can, in the same way, say that out of this 15 lakhs, almost 3 lakhs have been delivered already, and the shipments are there.

So, I think that summarizes my overall point on this particular trade. And going forward also, we will be evaluating opportunities to how to bring down our overall coal cost, because that's also, as you know, in September, our companies were significantly affected, both ACC and Ambuja. And it is important to do some kind of hedge here for some partial quantity. So, Mangal, this is where I would stand to.

Sumangal Nevatia: No, this is very elaborate and very reassuring.

Moderator: The next question is from the line of Pinakin Parekh from JPMorgan.

Pinakin Parekh: Just to clarify, I assume that the counterparty for the coal transaction was a group company. And going forward, you know, the adjacencies that we are talking about, which should lead to synergy benefits and OPEX savings can follow a similar transaction model where there is an upfront cash payment from ACC, Ambuja and in return, there is effectively synergy benefits and OPEX cuts that we get. Would the coal model be replicated when we are talking about the various adjacencies at a group level?

Vinod Bahety: So, first, to clarify again, which I responded to Mangal, so there is no RPT in this particular trade. There is all the opinions and all properly taken. So, that is one point. But whether we will be aspirational for the good synergies on the coal and the fly ash and the logistics parts to bring synergies? Absolutely, we will be very much looking at it. We have been harping on this point time and again that the Group has these adjacencies businesses, which brings lots of advantage to our cement business. So, we will be looking to those opportunities going forward. And of course, on an arm's length basis those principles remain there on the RPT transactions. And it will pass through investors also. And I mentioned that there is a robust governance framework here.

Pinakin Parekh: My second question is that when we are looking at the presentation, we talk about Adani Cement. We talk about the consolidated level. And we have a growth plan at the consol entity. Is the current structure of having two list cos, ACC and Ambuja separately, the optimum one? Or should we look at a collapse into one single listed entity at some point of time over the coming quarters?

Ajay Kapur: So, first thing we did on the day of acquisition, while we have two independent Boards with independent governance, we have unified the Management team, which runs the cement business end-to-end. So, I, as a CEO, am responsible for the entire cement business. Vinod, as a CFO, is responsible as a CFO for the entire cement business.

Likewise, all function heads and even up to the regions, the regional cement manufacturing officers, sales and marketing officers, logistic officers, HR, Finance, everybody looks at end-to-end for both the companies. So, that's the first thing we have done.

And also, the MSA framework, which was rolled out by the previous management, we have almost made it like way of life on a day-to-day basis. It works seamlessly. And so, whatever, you know, advantages to be taken out on scale and size, we are already squeezing the lemon, I would say, to the last ounce. Number one.

Regarding your question on structure and whether a merger or not, I do not think today that is on our table. If and when it comes on the table, we will certainly discuss about it.

Pinakin Parekh: So, you are effectively running it as a one company internally. But externally, we have two listed entities.

Ajay Kapur: Yes.

Vinod Bahety: That is true and that is where the synergies are coming from.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from Nuvama Institutional Equities. Please go ahead.

Navin Sahadeo: This is Navin from Nuvama, formerly known as Edelweiss Securities. Sir, two questions. One is, when we look at Ambuja's balance sheet, there is a very sizable increase in the capital advances to the tune of almost over Rs. 1,700 odd crore. Now in the previous question, I think Kapur ji, Ajay ji said that like, you know, those plans of expansion, specifically detailing clinker-wise or location-wise or exact capacity-wise you will reveal in the next quarter. So, I am assuming they are in the works as we speak.

So, just wanted to understand because of the total Rs. 2,600 crore plus amount that has been spent towards CAPEX by Ambuja, the sizable portion lies in capital advances. So, if you could just help us understand what exactly is the nature? And what is the CAPEX under consideration?

Ajay Kapur: First of all, about 600 is lying in inventories, which, I think, is a normal business. We have a plan, as I laid out in my opening, to look at three levers. One is ‘Now and Here’ second was ‘Logistics & Supply Chain’ related, and third was ‘Growth & Expansion’. Within growth and expansion, again, one is going out, setting up a new Brownfield kiln and new Greenfield clinker grinding units.

But the second way, an optimal way in between is to start getting out little more clinker from your old kilns. In the process, you also make them more competitive. You reduce thermal energy. You improve the coolers. You make investments in your mills. You put, you know, grinding expansions, packers, buying new rigs, all that. We believe in a short term, in a short, midterm, I would say, around Rs. 10,000 crores is what we have envisaged. And this is what the work in progress you are already seeing in the balance sheet. We will obviously give you more details in time to come. Each of them is highly accretive and also fastest, you know, bang on our buck. So, I think, that's where we are.

Navin Sahadeo: I appreciate it. And as you said, Rs. 10,000 crores being envisaged towards this CAPEX is actually heartening. And those benefits I am sure will come. My question still remains why not under CWIP, if I may, just try to understand this a little better in the interest of everybody? And why in capital advances?

Vinod Bahety: So, just to, I guess on that point, this move from capital advances to CWIP will be ongoing progress. So, basis the milestone. This will keep on adding to the CWIP. For example, as you see, the Ametha project also, which is on the overall on completion part, all of that, for example, with the milestone, it keeps adding to the CWIP part.

So, I will just say that this is a factor of completion of the milestone than the accounting-wise, it moves from advances to CWIP. And this overall CAPEX plan, which Mr. Kapur highlighted, that is the program over, say, 18 months across the various segments, which he mentioned.

Moderator: Thank you. The next question is from the line of Satyadeep Jain from AMBIT Capital.

Satyadeep Jain: A couple of questions. First, on capital allocation. We do understand that there is no debt on the balance sheet of ACC and Ambuja, but there was debt taken at the promoter entity for these acquisitions. As you look at capital allocation, would there be a need to obtain some of the cash for debt payments at all? Or would the entire cash flow for ACC and Ambuja go towards CAPEX? And tied to that, some of the previous questions, has there been any equipment ordering at all yet?

Vinod Bahety: So, Satyadeep, there is a proper dividend distribution policy both the companies have. And at an appropriate stage, if there is any development, it will be properly informed. So, that should suffice, because it is a decision to be taken in, if at all. So, as of now, this will go with the dividend distribution policy, which is there.

And regarding some of these promoter-related questions, I would only request that there is a proper forum which can be addressed over in that forum, because here we will discuss more on the operational performance of the company of the last quarter. And that is our first full-fledged quarter. So, my request is to all of you to respect this point, please.

Satyadeep Jain: And secondly, on the entire synergies, on the logistics front, on the port front, we have heard from some of the companies previously looking to transport cement, let's say, from South to East that the port charges become prohibitive paying port charges in both outbound and inbound. And given there is Adani ports also that the company can leverage, but if the charges are going to be what are charged for other companies, how can that entire sea-based logistics model generate some synergy? Can you maybe throw some light on how that model could generate synergies for ACC and Ambuja?

Ajay Kapur: So, good question. First is, yes, there is a lot of opportunity, because the entire coast line, we do have our ports of the group. And we will certainly, and we are certainly looking at a complete coastal sea transportation strategy. Little early in the day for me to comment. And I will keep this position going forward. When we have something firm, we will talk about it, but in the planning stage, it doesn't make sense to talk about it.

To answer your second question, it also goes back to some previous people who asked the same question on RPT. End of the day, Adani APSEZ is a related party. So, whatever transaction we do, we will obviously be keeping in the spirit of the RPT. And obviously, the pricing framework will be that only on both sides, from their side as well as on our side.

Moderator: Thank you. The next question is from the line of Girish Choudhary from Avendus Spark. Please go ahead.

Girish Choudhary: Two questions. Firstly, on the fly ash, if you can throw some light on the long-term contract, which you mentioned signing with power companies to bring down the cost. What percentage of your requirement will this cater to? And is this RPT? And will there be advance payment for this as well?

Ajay Kapur: Advance payment for fly ash to the government power stations, advance payments to Coal India for the coal procurement, advance payment for the pet coke for the refineries of the government, advance payment to the GEBs for the power we buy is something bone of contention all the time and not going away anywhere.

As far as your second question is on fly ash contracting, we certainly have a very strong group adjacencies here within our group, and we are examining it, and we are going to take full advantage of it. Again, all the sales will be based on RPT.

If, let's say, Group has a power plant in X location and it's offering fly ash, say, at Rs. Y. We will also be offered the fly ash at Rs. Y, because end of the day, there is a separate CEO sitting and running the power business as I run the cement business. And he also has the same set of stakeholders as I have.

So, I think, having said that, it obviously makes life more easier when you have your own Group company. So, the risk of payment for them is zero, and the risk of delivery for me is also zero. So, I think, to that extent, it becomes a fantastic opportunity.

I can only tell you that we are looking at exploring each and every mode but are actually exploring a lot on our own wagons and taking advantage also of the railways scheme, which is open to everybody. But we are going to exploit it to the hilt. And in the process, reduce our raw material costs.

Vinod Bahety: And therefore, fly ash also which we are going to install at many locations to take the benefit.

Girish Choudhary: My second question is more at a broader industry level, your thoughts on pricing from a medium to long-term trajectory. While we know of your goal to achieve capacity scale and also to be the lowest cost producer, so given your adjacencies and all those things. But in the medium-term to long-term, do you like to retain those in your margins or to pass on some of the benefits? I just wanted to know your strategy.

Ajay Kapur: I don't understood your question. You're saying will this, you know, lead to drop in prices, is that what you are saying?

Girish Choudhary: No. Given you have multiple Group level adjacencies, right, and that will lead to you being a lowest cost producer, so how would you want to sort of play with this as in would you want to sort of expand your margins or maybe pass on some of the benefits to the market?

Ajay Kapur: It is a very very tricky question. End of the day, basically, the core essence of both the companies is known to you. ACC, strongest brand, one of the highest proportion of premium products, very premier in many markets in India.

Ambuja, again, a very strong brand, one of the strongest, I would say, in many markets in India, again, a good portfolio of premium products. Both the companies are largely trade focused, I would say, upwards of 85% of its total production. Both the companies are largely blended cement focused. That also allows it a fantastic opportunity.

Now, on top of it, if you replace high-cost fly ash with an optimized fly ash and raw materials, you can see what shift is going to happen on the bottom line. However, if I let it go through the top line, I think, I will not be doing justice. So, we will obviously try to strengthen the brand. We would like to enter new geographies where we expand. We would like to enter newer and emerging segments.

And I repeat this time, so far we have not spoken about B2B, large buyer segment. We have 78 plus RMX plants. We will expand them to over 250 in the mid-term. And that will be our entry into the large buyer market, India's, you know, the infrastructure market, and we will play the full game there. And whatever products are needed for that market, we will develop and supply. So, I think, we rather play that game by reduced cost, then dropping the price or, you know, doing that. But, however, we will do whatever it takes to win in the market.

Vinod Bahety: Many market factors. So, it will be taken that point of time. So, Girish, it is suffice to say the focus is on cost. And I think you will also appreciate it. And it is a very competitive industry. So, it will be driven by the various market factors.

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

Ashish Jain: Sir, my first question was, you alluded earlier in the call that ACC, Ambuja are practically operating as one entity to the extent that even on the ground, you know, the team is kind of same. Now, given these are two listed entities with different minority investors, how are we kind of ensuring the optimization of profits for both companies in this case?

Ajay Kapur: So, a good question. As I mentioned, while we run the management as one management, we still operate the companies as independent entities for statutory and all legal and regulatory purpose. We have approved the plan of MSA, which is the Master share shareholder agreement approved by the shareholders.

And we are governed within the guidelines of that, which allows the selling of products of each other, which goes through the audit committee, independent review. And I am very happy that our governance is top class.

So, within that, and that's why, in time to come, while we focus on individual entities, we also focus on the entire combined entity because when the entire combined entity wins, both the shareholders and both the value creation is taken care of. But it's never one at the cost of the other, to answer your question.

Ashish Jain: Sir, don't you think, you know, if the fleet on the ground is common, there is a chance of conflict of interest here? Do you think, do we run that risk?

Ajay Kapur: I understood where you are coming. We have 35 locations, you know. More or less, let's say, 50/50 of Ambuja and ACC. At the location, the people who are running the site are totally focused on improving the efficiency of that site. So, I don't see any conflict there.

Then we have procurement organizations who buy coal, who buy fly ash, who buy slag, who buy gypsum. When you go on scale of 67 million or 70 million entity and time to come 140 million entity, you can imagine what benefits accrue, and the benefits which accrue, accrue to both the entities.

When we look at our growth as a synergy, again, the Group looks at both of them as same, and they try and pass on the benefits to both the entities similarly. That's one part.

On the IT side, for example, today, a lot of spend happens in making a new digital strategy, IT, SAP, etc., etc. Again, as you go and talk of one set of negotiation, the cost is far better. Where in the market, our frontline salespeople are still separate. The frontline sales managers are still separate. However, the leadership on top is same, because end of the day, we are selling cement, right? We are not selling apples and oranges. So, to that extent, I think we are very well aligned.

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

Hiren Dasani: This is Hiren from Goldman Sachs Asset Management. I just wanted clarification on this coal transaction. So, categorically asking you that there is no Adani Group entity as a counterparty at the first, second, third level, whichever way you want to think about it.

Vinod Bahety: No, Hiren. I am clearly highlighting it again. No counterparty of Adani entity. And this is overall beneficial for the company.

Hiren Dasani: You have explained it quite in detail. So, thanks for that. And just quickly on that. I mean, I am just curious that the Group has so much coal-related businesses, whether it is trading or whether it is handling and all. So, why did we have to go outside of the Group to enter into such a long-term coal agreement?

Vinod Bahety: That's a good question, Hiren. In fact, the Group has helped us to properly negotiate this. Each trader has its own position, Hiren. And therefore, one would assume, depending on the position of the trader, how and what quotes one can provide.

So, I think, when we found that the Group offer has been relatively higher on that point of time, and this was somewhere in October after the results of September when we found we have bled completely on the coal in October mid, then we quickly geared up and with support of Group only then we have negotiated this. So, it is suffice to say traders have their own unique positions. And this is true in many transactions. Need not that every time you will have a Group to offer it.

So, for example, fly ash. I have Group of companies having fly ash. Do I compulsorily buy it from them? Answer is no. It's a factor of what as Karan, Ajay Ji mentioned, for example, that we will be very on an arm's length basis, fair pricing basis we will evaluate, which is in the interest of the cement business. And each CEO will be responsible to answer to their Board also. So, I think, yeah.

Hiren Dasani: And just a final question on this. I mean, compared to the ACC agreement in terms of quantum both value and volume, for Ambuja, it is substantially lower. So, I mean, how do we kind of think about that?

Vinod Bahety: Good question again, Hiren. See, Ambuja has a captive coal mine, which is you know that Gare Palma. This mine caters to almost 20% to 25% of the overall say or maybe one quantity higher requirement of the Ambuja. In the case of ACC, it is completely based on supply from third party. And hence, therefore, the volume of ACC imports on this trade is higher as compared to Ambuja.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC AMC. Please go ahead.

Rakesh Vyas: I have 2 questions. I will just quickly run through them. The first one is on the cost savings. So, both ACC and Ambuja through 'Project Parvat' and ‘I CAN’ has embarked on cost saving initiative in the last 3 years or so, and they have seen reasonable success. So, beyond this, what is the quantum of cost savings ceteris paribus that you think we will be able to achieve through either the OPEX that we are doing or the Group synergies, if you can highlight that. So, my second question essentially was around the capacity growth plans that we have, doubling of capacity in 5 years. Essentially, if all is organic means 15% capacity growth CAGR. And although as an industry, we remain always very hopeful on demand environment. I am just trying to understand how flexible we would be in our capacity ambition, if demand does not seem very conducive in that sense?

Ajay Kapur: So, let me answer the first one on the ongoing efficiency programs, which both the companies, ACC and Ambuja were running. Obviously, to join or take over a company, keep doing what you are doing good. However, we believed that we can certainly bring in focus. For example, from where we were on the waste-heat recovery to where we ought to be. And what is the gold standard to be second to none. So, clearly, we will expand 100% waste-heat. Clearly, I am not highlighting it today. But as you understand, our experience rests within the Group on RE, solar, etc. So, we are still on a pre stage and I will talk about it on the time, how we will use that adjacency to, you know, become more green and also more competitive. Again, we run a large part of our business, the own CPPs. There, again, we have a very big opportunity to work with our colleagues on the power side and see how best we can run our power plants more efficiently. And there are advantages of where again, we have **(Inaudible)** agile trading on the exchange. So, just to lay out one set of KPIs, the second set of KPIs is coal, coal mining, coal focus, more and more domestic coal. So, I think that's another area where we are going to work very closely. And I believe we can certainly bring more value addition here.

The third set of KPIs are around logistics, like somebody already asked me before, and I also mentioned. The 'Own Your Wagon' scheme, the GPWS, understanding of our Adani Logistics colleagues on this area can certainly help us. You know, setting up a vast network of cement terminals and brand units in the near short term, which I believe is very accretive from day 1. Not only it allows you to take positions closer to the customer, you also move in a more cost-effective manner through your own wagons or through railways or through ships as we have done in Ambuja way back. And then when you move out in the market, you go directly. So, you avoid warehousing and you go straight to the end users. So, it allows both better quality, less seepages, and lower logistics costs. So, these are three areas.

On top, we are already doing alternate fuels. We have embarked on it, and we said, how we can accelerate it? So, we have actually taken a target of going as high as 30%, which I believe is possible because some of the plants even now, as I speak to you, within our Group at about 20% plus. So, if they can do it, why not the rest? So, for that, we are also making a set of investments. So, I think, what perhaps was not done in the past was spending money and also debottlenecking existing assets, putting a lot of money on AFR, alternate fuels. So, I think, those things we are going to go in a big manner.

Then, of course, we do have a lot of reserves of limestone at our existing sites. So, Brownfield obviously looks as a very attractive proposition. You can do it at a very cost-effective manner. And I think here, again, a more domestic way of looking more Indian standards, more in market, I think those are the areas, which will immediately help us, you know, set up these capacities at a reasonable cost and within the time.

Now to answer your question on the demand side, typically, 8% to 10% is what we believe will be the cement demand on the back of GDP of about 6% to 8%. There will be a good year. There will be a bumper year. Then there will be not so great year. I think that will not deter us from our growth ambition, because we are building India for a longer term. Our per capita consumption still remains in mid-200s. And I believe there is an opportunity to go to 500, even if you look at Thailand on a per capita income basis, India had about 2,000…**(Inaudible)**

Rakesh Vyas: I understood your point regarding your ambition around growth, sir. Just one clarification, if I may seek on my first question. At this point of time, would you be in a position to highlight to us the quantum of cost savings that you are targeting as a Group? Or we will also discuss it at a later stage?

Ajay Kapur: I think let the numbers do the talking. I think that will be the better thing to do.

Vinod Bahety: But just to also highlight to you, that in terms of EBITDA margin expansions in rupees per ton basis, we do look forward to achieve, say, 4 digits on the EBITDA in coming quarters, which will be essentially driven by the overall, say, improvement on the cost factors. So, Rakesh, I hope that answers your question.

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

Ritesh Shah: Quickly, two questions. One is, sir, you did indicate on the dividend policy that we have already in place. Sir, can you please put across your thoughts on the royalty payments? I think it has been taken off. Will that continue to be the case going forward? How should we understand this variable?

Vinod Bahety: So, the erstwhile technical know-how fee or the royalty, which was being charged by the erstwhile promoter, that has been almost going to be there as we progress. So, that was basically around the mid of September that all the payments related to the erstwhile promoters are made. And including, if I also add a factor, they were also supporting us on the IT transition.

So, there was also this element of TSA, which we have disclosed, Transactional Services Agreement, which we had with Holcim. So, for three months, they have actually provided us those services and which is coming in some of the exceptional items. Prospectively, for the March quarter, there is not going to be any payment. So, that will be value accretion in terms of cash flows close to Rs. 270 odd crores, which will be by saving on this outbound of the TSA.

That is how I think, and I should complement my team. And it's important to highlight that the entire transition of the IT from the erstwhile promoter server to the new promoter server, it was done in a record, say, 4 months in terms of deliberation. But the actual commissioning or the live transition happening, say, 7 days' time, it was like a 17 TB data. So, this is like one of the highest successful transition of IT basically platform. And this has also saved the Group or the companies going forward, dependency will not be there on the erstwhile promoter.

Ritesh Shah: So, sir, no royalties, right? Will that be a fair assessment?

Vinod Bahety: As of now, we have no, not having any royalty item in our P&L. And also, there is nothing on the cards as of now.

Ritesh Shah: That is helpful. Sir, the second question was more on growth. It was pertaining to Ambuja's ongoing expansion plans. I see in Slide #24; we have a mention of that. But there is no time line corresponding to it. Is it possible if you could please quantify that given these were already announced projects?

Vinod Bahety: Ajay Ji mentioned to you in the earlier discussion that we are looking for this CAPEX program in a time horizon of around, say, 18 months' time. But in more detail, for example, Ritesh, as we highlighted that the CAPEX program can be discussed in the next call because 18 months is what we are looking at, which would mean that probably somewhere like around June '24 or September '24, we should be able to complete all the WHRS initiatives, all the AFR initiatives, all the growth on some of the BUs and so on and so forth.

So, I think the debottlenecking the efficiency, CAPEX, the green circular, green investment CAPEX, all of that we are targeting to expedite and achieve. Ametha I have highlighted in the previous call also that, or sorry, in the previous discussion also that we are targeting that by end of March, the pre-trials will start happening, and the commercial production will start from like June or July. But maybe we may see a good improvement in May itself. So, that is how, for example, we are looking at the time lines.

Ritesh Shah: Sir, just a clarification. So, I think Ambuja had around 6 million tons, which was still pending. So, what we are calling out is in 18 months, so that is something which stands commission. Would that reading be right?

Ajay Kapur: Yes. I think more or less you are on track. But let us come back and, you know, talk about it in a separate call where we actually disclose the entire strategy, because there is a lot more to it. And I don't want to, this is purely last quarter results, so I want to focus on that.

Vinod Bahety: As of now on the cost factors, Ritesh, I think the journey of 67 to 140 will come in a more elaborate manner. But as of now, what we have in hand is what we discussed with you.

Ritesh Shah: And sir, just last question. Can you please reconfirm the commitment from the promoters on the incremental warrant infusion? I think 5,000 crores has already come in. What are the time lines over here? I think that point, I think, is important, if you could please touch upon that?

Vinod Bahety: I think as of now, they decide warrants within which they have this 18 months' time window. And so, they remain there, unlike the timelines remain there for them. I won't be able to comment on their timing specifically.

But I can just suffice to add that both the companies on a consolidated basis are sitting on the Rs. 9,500 crores of cash. On top of it, we are generating on our operating cash flows almost like Rs. 4,500 crores to Rs. 5,000 crores. So, there is a substantial amount of equity and the networth lying there. We are zero debt company.

So, I think, I am looking more from overall say CAPEX program on these amounts. And of course, promoters or the parent company will take their call. I cannot comment on that as of now.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Ritesh Shah for his closing comments.

Ritesh Shah: Thank you, Lizann. I like to thank the management for a detailed call and the remarks. I will again hand it back to Vinod Ji, sir, if you have any closing remarks. Thank you so much.

Vinod Bahety: No, I, again, thank you from my side and also from Ajay Ji and Karan Bhai side, thank you to all of you. And do excuse for those couple of technical glitches. We would love to engage now more often with you. And if you have any other questions, we can always offline connect on the subject. Thank you very much, Ritesh. Thank you, Lizann. And thanks everyone. I rest myself on this.

Moderator: Thank you, members of the Management team. Ladies and gentlemen, on behalf of Investec Capital Services, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.