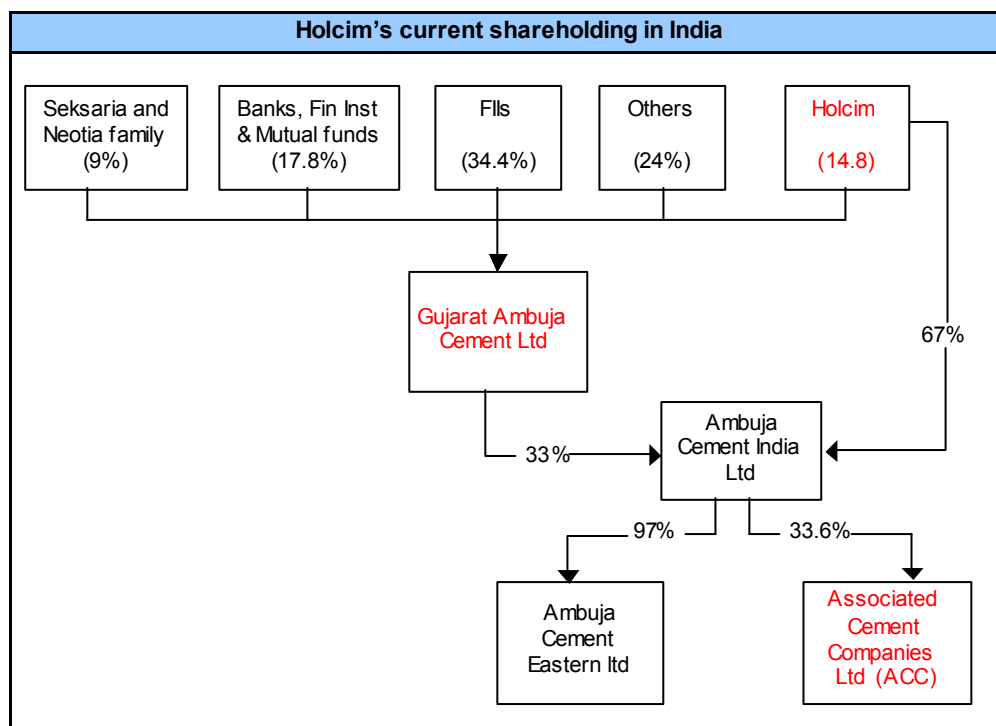






## The largest cement deal in India

Holcim has acquired 14.8 per cent stake in Gujarat Ambuja Cement limited (GACL), which will strengthen its position as one of the largest cement producers in the world. The acquisition of the stake in GACL involves Holcim paying \$477 million (Rs 21.2 billion) at Rs 105 per share (Rs 15 per share as a non-compete premium) to the promoters, the Seksharias and the Neotias. With this acquisition, the promoters' stake in GACL reduces to 9 per cent.



Holcim will make an open offer to acquire an additional 20 per cent shareholding in GACL at a price of Rs 90 per share, entailing an investment of \$560 million. This would raise its stake in GACL to 34.8 per cent, and enable it to assume board and management control (open offer is mandatory in cases where there is change in management). Although Holcim has traditionally financed acquisitions equally through debt and equity, the management decided to finance its current acquisition through equity. However, the exact amount would depend on whether Holcim's open offer would be a success. This is the costliest deal in the Indian cement industry, involving a transaction cost of \$227 per tonne.

### *Acquisition cost includes substantial control premium*

The final acquisition cost for Holcim (to acquire a 34.8 per cent stake in GACL) could work out to slightly over \$1 billion (Rs 45 billion). This acquisition price paid by Holcim has come at a significant control premium. The transaction value of \$227 per tonne of cement capacity is nearly twice the price paid by Holcim just over a year ago, for acquiring Associated Cement Companies Limited (ACC).

### Transaction cost paid by acquirers

Year	Players	Cost/tonne (\$)
2006	Holcim-GACL	227
2005	Holcim-ACEL-ACC	129
2004	Grasim-L&T	60
2004	Italicementi-Zuari	91
2000	Lafarge-Raymond	80
1999	Lafarge-Tisco	72

Source: CRIS INFAC

Holcim, in its conference call, indicated that the total average price paid for its various acquisitions in the Indian market works out to \$130 per tonne (acquiring stakes in ACC, Ambuja Cement Eastern Limited [ACEL], and GACL) and 9 times of the 2006 EV/EBITDA.

A plausible explanation for paying an acquisition price significantly higher than what was paid for the ACC transaction could be on account of a variety of factors discussed below:

- Non-compete agreement
- Control premium
- Increased shareholding in ACC
- Strategic location of GACL, which provides access to Middle East markets
- High operating efficiency and strong market position

### Valuation indicators of domestic players

Company name	EV/tonne (US\$)	EV/EBITDA (times)	PE (times)	EV/sales (times)
ACC	138	14.5	19.1	2.6
Gujarat Ambuja	199	14.1	26.6	4.0
India Cements Ltd	108	20.8	NA	2.9
Madras Cements Ltd	110	14.6	57.5	2.7
Shree Cement Ltd	170	10.5	14.9	3.2

#### Notes

- 1) Share prices are the average prices over the last month.
- 2) The EV/EBITDA, PE, EV/Net sales multiples are based on 2005-06 estimates.
- 3) EV is calculated by taking the market capitalisation and debt, netted off for cash and cash equivalent. For Gujarat Ambuja, we have adjusted the value of indirect control in ACC through ACIL.

Source: CRIS INFAC

The rise in EV for cement companies is occurring across the board, and share prices have gone up significantly over the last one year. Shree Cement (a Rajasthan-based cement producer) has an EV/tonne of \$170. India Cement, which until recently was plagued with adverse credit ratios and had earlier defaulted on interest and principal payments, has also witnessed a significant rise in its EV.

### *Holcim gains access to the second-largest cement consuming market in the world...*

Holcim, the Swiss giant, is the largest supplier of cement, aggregates, and RMC in the world, with a presence in 70 countries and an equal mix in matured as well as emerging markets. Holcim's

capacity is around 156 metric tonne (mt), equal to the size of the Indian cement market. The company has grown to its current size through inorganic growth driven by aggressive acquisitions.

Holcim now gets access to the second-largest cement consuming market in the world, where volumes are expected to grow at a healthy 8-9 per cent over the medium to long term. The upward movement of prices and demand in the country, over the last 10 months of 2005-06, augurs well for Holcim. Also, because of its acquisition in the Indian market (GACL, ACC, and ACEL), Holcim immediately becomes the largest player, with a market share of 23 per cent, a pan-Indian presence, and a capacity of 33 million tonnes.

*...access to export markets of Middle East*

Holcim has a strong presence in the more mature European and American markets, whereas Asia-Pacific is more of an emerging market. Therefore, this acquisition would amount to an increase in capacity in the Asia-Pacific region, which is witnessing huge demand. The acquisition of GACL also provides Holcim with access to exports markets in the Middle East, where until now it lacked significant presence.

*GACL's strong operating efficiencies to boost Holcim's financial profile*

Along with being the third-largest player in the Indian cement industry, GACL enjoys superior operating efficiencies and a strong credit profile, which would reflect in Holcim's financial profile.

*Holcim further consolidates its shareholding in ACC*

Prior to acquiring GACL, Holcim held approximately 23 per cent of ACC, proportionate to its 67 per cent holding in ACIL. However, with this acquisition, Holcim's stake now increases by 11 percentage points (Gujarat Ambuja's proportionate holding) to 34.6 per cent.

**KFI comparison**

KFI	Holcim	GACL	ACC
Operating margins	25.90	28.52	17.70
Net margins	8.40	17.79	9.10
Current ratio	1.05	1.06	0.98
Debt-equity ratio	0.64	0.52	0.89
RoCE	11.40	15.78	17.40
Corporate long-term rating	BBB+ stable <sup>1</sup>	AAA <sup>2</sup>	

Note: Figures for GACL and ACC are as per projection for 2005-06.

<sup>1</sup> Outstanding Standard and Poors rating

<sup>2</sup> Outstanding CRISIL rating

Source: CRIS INFAC and Holcim

*Holcim, the last entrant into the Indian market, becomes the market leader*

Holcim's foray into the Indian market happened in January 2005 when it entered into a strategic alliance with Gujarat Ambuja and acquired a stake of 67 per cent in ACIL (the holding company of Ambujas), while GACL held on to the remaining stake. Through this strategic alliance, Holcim

acquired a 34.57 per cent stake in ACC and 97 per cent in ACEL. The total investment was \$800 million.

Thus, in a period of one year, Holcim has invested up to \$2 billion in the Indian cement industry. The aggressive acquisition strategy has put Holcim way ahead of other multinational companies (MNCs) who have had a presence in India much before Holcim’s entry. It now becomes the largest player in the Indian cement industry with a pan-India presence, a high market-share of 23 per cent (GACL-ACC-ACEL group), and a total capacity of 33 million tonnes (higher than the Grasim-Ultratech group).

**MNCs in India**

	Entered in	Current capacity (mt)	Key markets
Lafarge	1999	5	East
Italcementi	2004	2	South
Holcim	2005	34	Pan-India

Source: CRIS INFAC

Lafarge was the first MNC to enter the Indian market – it acquired companies like Tisco Cement and Raymond Woollen in 1999-2000. The next entrant was Italcementi, which entered into a strategic alliance with Zuari Industries in 2004. However, despite being the first on the scene, these MNCs have just managed a total capacity of 5.0 million tonnes in mainly eastern regions and 2.5 million tonnes in the south, respectively.

*GACL valuation may not be a benchmark for the sector*

Consolidation has gained momentum over the past few years, and the share of the top 5 players has risen to 58 per cent from about 50 per cent 5 years back. This acquisition is not expected to result in any significant upward movement in cement prices in the short term, as prices are mainly dependant on the demand-supply scenario. Further consolidation is likely to happen at high valuations; however, the GACL valuation might not be the benchmark.