

LafargeHolcim lays ground for merger of ACC and Ambuja, gets closer to rival UltraTech

: Cement giant LafargeHolcim has initiated a process that could lead to the union of its Indian operations ACC [BSE 0.06 %](#) and Ambuja Cement, following months of speculation that this could be happening.

ACC is evaluating a potential merger with Ambuja Cement, both companies said on Friday. A meeting was held on Friday to evaluate the benefits of a merger. As a first step, a special committee of directors, of which a majority are independent, has been constituted to commence the evaluation.

"No decision to merge has been taken and our board will decide on a merger upon receiving recommendation from the special committee and the audit committee," the companies said. Both are separately listed.

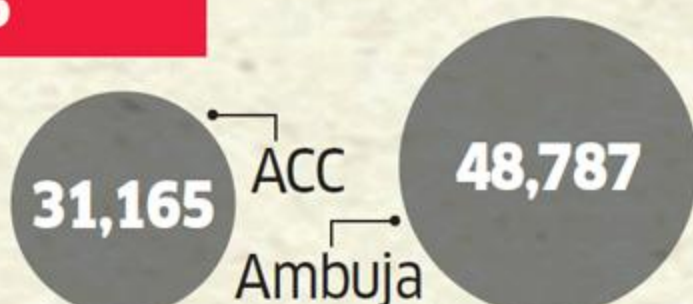
The merger has been on the cards since 2013, when LafargeHolcim opted for a major consolidation of its shareholding in India. The parent took control of Ambuja Cement, which in turn owns a 54.5% stake in ACC. LafargeHolcim currently owns 63.62% of Ambuja Cement. In November last year, the parent had increased its stake in ACC and Ambuja Cement by 4% and 2%, respectively.

Concrete Moves

CAPACITY OF TOP 3 PLAYERS (IN MT)



MARKET CAP (IN ₹CRORE)



LafargeHolcim owns **63.62%** in Ambuja. Ambuja, in turn, owns **54.5%** in listed subsidiary ACC.

The combined capacity of ACC and Ambuja, at 63.06 million tonnes annually, will help LafargeHolcim inch closer to rival UltraTech Cement [BSE 0.07 %](#), the market leader at 70 MT. UltraTech's capacity will, however, rise to 91 MT after the completion of its acquisition of Jaypee Group's cement assets.

But scaling up should not be linked to capacity addition by local rivals, a veteran said.

"I feel MNCs like LafargeHolcim will prefer to play second fiddle to a local player in a regulated market like India," said Sumit Banerjee, former ACC managing director. "It has been contemplated for long and now that we can sense it is finally happening, one can say it's better late than never."

If the merger happens, it will be the latest in a series of such transactions.

In the past year, the Jaypee Group has sold its cement assets to UltraTech [BSE 0.07 %](#) and a merger took place between Dalmia Bharat and OCL India [BSE 0.57 %](#).

In January, JSW Cement said it will buy out the entire promoter holding in cement maker Shiva Cement [BSE -2.62 %](#). The top four — ACC, Ambuja, UltraTech and Dalmia — command about 40% of India's total cement market, estimated at 420 million tonnes.

In June last year, LafargeHolcim agreed to sell assets held under Lafarge India Pvt Ltd to Nirma [BSE 0.06 %](#) for Rs 9,400 crore including debt, as part of a deal to complete the India leg of the global merger of Lafarge and Holcim.

ACC has cement capacity of 33.5 MT, which it plans to expand to 35 MT in the current calendar year. It is a pan-India player with close to 10 MT capacity in the southern region, close to 6.2 MT in the eastern region, about 6 MT in the northern region, about 4.5 MT in the central region and close to 4 MT capacity in the western region.

Ambuja's capacity of close to 29.6 MT will rise to 34 MT by 2018. The company has a presence in all regions except the south, with maximum focus in the north.

Analysts believe the merger, once cleared, will lead to rationalisation and savings of Rs 500-1,000 crore annually from cross-branding and cross-bagging as also sales and marketing.

"The benefits of this will accrue only in the long term.

Initially, it was expected that the two companies together would save around Rs 900 crore, which will happen over a period of time.

"But for now, ACC is losing market share and the valuations appear expensive," said Teena Virmani, lead cement analyst, Kotak Securities.

"In my assessment, the merged entity can save costs on many levels. Some of the key costs, which are expected to come down, are logistics and taxes on interparty transactions.

I think overall the merged entity will be able to save 7-8% of the operating costs... This should directly translate into net profit, thereby enhancing it," said Rajesh Kumar Ravi, cement analyst, Centrum Capital [BSE -4.25 %](#).