

## **Holcim-Ambuja Cements deal not winsome for investors**

The proposed restructuring of operations by Swiss cement maker Holcim, featuring a hike in its stake in Ambuja Cements, does not bode well for shareholders of Ambuja.

That is because it would imply transfer of nearly all the cash on the books of Ambuja Cements to the parent Holcim and a higher stake in the combined entity, which hardly impacts investors of ACC.

Ambuja Cements has a cash and bank balance of Rs3,700 crore. In the run-up to the restructuring, Ambuja Cements will acquire a stake of 24% for Rs3,500 crore in Holcim India from Holderind International, or Holcim. This will mean an outgo of Rs 11.3 for each share. Subsequently, there will be a merger of Ambuja Cements and Holcim through a share-swap arrangement. After the merger, the combined entity will control 50.5% of the holding in ACC.

The merger-swap ratio values ACC at Rs1,260 per share, which is at a premium of Rs30 to the current price. Even after the merger, the stake of Holcim in Ambuja Cements will go up from 50.55% to 61.39% while ACC will become an arm of Ambuja Cements.

The arrangement appears to be an exercise to route Rs3,500 crore from the balance sheet of Ambuja Cements by Holcim. What it does is lighten the leveraged balance sheet of Holcim. According to a Credit Suisse report, Holcim's debt to EBIDTA rose from 1.5% in 2006 to 2.7% in 2011. The company has been attempting for a while to deleverage its balance sheet and maintain its 'investment grade' status. And the latest financial structuring appears to be just another step towards that. The cement maker's Indian subsidiaries are performing relatively better compared to its operations in Europe and the US. The contribution of its Asian subsidiaries to its total EBIDTA increased from 27% to 44% in the last four years while the EBIDTA contribution from Europe declined from 36% to 15%.

The deal, however, has long-term synergies for the merged entity. According to the management, it has the potential of providing a value of Rs900 crore to the combined entity. However, this will not compensate for the cash outgo from Ambuja's balance sheet. Investors may not gain by approving this deal.

*(Economic Times)*