

Birla Corp pips global giants to scoop up Lafarge India's eastern assets for Rs 5000 crore

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MUMBAI | KOLKATA: Birla Corp agreed to acquire two cement units of [Lafarge India](#) that the French company has to sell to conclude its global merger with Holcim, beating several multinational giants and bulge-bracket private equity suitors that were also in the running. Investors applauded the move with Birla Corp surging by 20% to Rs 540.25 on the Bombay Stock Exchange.

The two assets in eastern India — Jojobera in Jharkhand and Sonadih in Chhattisgarh — are being sold through a slump sale for an enterprise value of Rs 5,000 crore, Birla Corp said on Monday.

The transaction will be funded through existing cash reserves and incremental debt and is subject to approvals, including clearance from the [Competition Commission of India](#).

Under the deal, Birla Corp will acquire an integrated cement unit at Sonadih, a cement grinding unit at Jojobera and the Concreto and PSC brands along with the management team. The plants have a total cement capacity of 5.15 million tonnes per annum (MTPA) with mineral rights over adequate reserves of limestone.

Established in 1919, Birla Corp is part of the MP Birla Group with a presence in cement and jute. Cement accounts for more than 90% of revenue with a total operational capacity of 10 MTPA through units in Rajasthan, Madhya Pradesh, Uttar Pradesh and West Bengal.

Birla Corp will look to derive synergy and cost savings through consolidation of capacity. The company already has a 2.3 MTPA grinding unit in Durgapur. On completion of the deal, its footprint in the east will go up to 7 MTPA, giving it an edge over others. The acquisition fits "perfectly... into our strategic vision and ambition of enhancing our competitiveness in our chosen markets", said Birla Corp Chairman Harsh Lodha. "I am glad to welcome new talent and leaders to our group who share our convictions and professional culture."

Birla Corp will use Rs 1,500 crore of the Rs 1,700 crore of cash and cash equivalent on its books to fund the acquisition. Additional debt of approximately Rs 3,500 crore will be raised from a consortium including Deutsche Bank, Axis Bank, State Bank of India and IndusInd Bank, among others, merchant banking executives said.

The company had total debt of Rs 1,302 crore as of FY15 but generated an operating profit (earnings before interest, taxes, depreciation & amortisation, or EBITDA) of Rs 288 crore and net profit of Rs 175 crore in the last fiscal year.

REASONABLE PRICE

The purchase price pegs enterprise value (EV) per tonne at \$150. This is reasonable, said analysts, when compared with recent deals in the sector. In the recent past, UltraTech Cement has acquired JP Associates' cement plant for an EV/tonne of \$130 and Dalmia Cement acquired JP's Bokaro grinding unit at an EV/tonne of \$90.

Birla Corp pipped global companies such as CRH and Heidelberg that had been shortlisted. The Lafarge assets have "a demonstrated track record of operational and commercial excellence with profitability amongst the highest in the industry aided by raw material linkages, strong distribution networks and excellent brand loyalty in the attractive eastern India cement market", Birla Corp said. Upon completion of the transaction, Birla Corp will consolidate its position in the east where the demand-supply scenario and outlook continue to remain

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The move will serve Birla Corp well, said Vijay Goel, cement analyst at Karvy Stock Broking. "At \$150 per tonne, it is equal to the current replacement cost of cement plant. Also, this has come at a time when most players are adding capacities in the eastern region. Pricing will remain strong in the region," Goel said. Kriscore Financial Advisors and SBI Capital Markets were financial advisers and **Nishith Desai Associates acted as counsel to Birla Corp**. Citi and Arpwood advised Lafarge.

TRANSFER OF MINING RIGHTS

There is some uncertainty over transfer of mining rights and leases for mines that have not been auctioned as per the amended mining Act that came into effect earlier this year, said sources directly involved.

"Till now, there is no clarity on the subject even though Competition Commission had asked Lafarge to carry out this divestment," said a senior industry executive on condition of anonymity. "It is difficult to take such a risk in India without a clear directive from the government. As things stand today, our legal understanding is that Lafarge's limestone mines cannot be transferred and without that there is no value in the plants."

Birla Corp's bid is believed to be conditional on mining lease transfers.

Lafarge is hopeful that the government will intervene and help in the transfer of mines over the next 6-12 months, especially since it was a government regulator that initiated the transaction in the first place.

"The transaction with Birla Corp as a purchaser will be submitted to CCI for approval and is subject to other regulatory approvals and customary conditions," LafargeHolcim said in a statement.