

# Due Diligence Report



**Notes**

# DUE DILIGENCE REPORT

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**A. Company analysis Overview**

Established in 1936 as a merger of 10 cement companies, ACC Limited (hereafter called ACC) is the only cement company that figures in India's list of Consumer Super Brands.

Formerly called The Associated Cement Companies Limited - (the company changed its name in 2006) - ACC's corporate office is located in Mumbai. The company has 14 modern cement factories, more than 30 Ready Mix Concrete (RMX) plants, 20 sales offices and several zonal offices. It has a workforce of about 10,000 persons and a countrywide distribution network of over 9000 dealers.

**Ownership & Shareholding Pattern**

The house of TATA was intimately associated with ACC up to 1999, after which the Tata Group sold all 14.45% of its shareholding in ACC in three stages to subsidiary companies of Gujarat Ambuja Cements Limited (GACL).

In January 2005, the Holcim Group of Switzerland announced its plans to enter into a long-term strategic alliance with the Ambuja Group by acquiring a majority stake in Ambuja Cements India Ltd. (ACIL), which at the time held 13.8% of the total equity shares in ACC. Holcim simultaneously announced its bid to make an open offer to ACC shareholders, through Holdcem Cement Pvt Limited and ACIL, to acquire a majority shareholding in ACC. An

open offer was made by Holdcem Cement Pvt. Limited along with Ambuja Cements India Ltd. (ACIL), following which the shareholding of ACIL increased to 34.69% of the Equity share capital of ACC.

The shareholding pattern in ACC (as on March 31, 2009) was as follows:

	(In %)
Promoters & Persons in Control	46.21
Ambuja Cement India Private Limited, Mumbai	45.92
Holderind Investments Limited, Mauritius	0.29
Institutional Shareholders	32.61
Non-institutional Shareholders	20.78
Shares against Depository Receipts	0.40
TOTAL	100.00

Holcim, which is the ultimate holding or parent company, plans to increase its stake from 46.21% to 51% through the creeping acquisition route.<sup>1</sup>

#### Plants & Capacities

ACC has an installed capacity of 22.63 MTPA (million tonnes per annum). It has a pan-India presence with 14 plants across 12 locations:

<i>Location</i>	<i>State</i>	<i>Capacity (MTPA)</i>
Bargarh	Orissa	0.96
Chaibasa	Jharkhand	0.87
Chanda	Maharashtra	1.00
Damodhar	West Bengal	0.53
Gagal	Himachal Pradesh	4.40
Jamul	Chhatisgarh	1.58
Kymore	Madhya Pradesh	2.20
Lakheri	Rajasthan	1.50
Madukkarai	Tamil Nadu	1.18
Sindri	Jharkhand	0.91
Tikaria	Uttar Pradesh	2.31
Wadi	Karnataka	5.19
Total		22.63

ACC has 12 captive power generating plants across 7 locations, with a captive power generating capacity of 241 MW. It also has wind power plants at Madukkarai and Lakheri, which together generate 16.5 MW electricity from wind power

ACC plans to invest Rs. 30 billion as capital expenditure over the next two years. This would result in enhancing the total cement manufacturing capacity to 30.58 MTPA and the captive power generation capacity to 351 MW by the end of 2010.

#### Products & Services

Besides manufacturing ordinary Portland cement, ACC is the largest producer of blended cements in the country, offering two varieties of blended cements, namely:

*Fly-ash based Portland Pozzolana Cement* (fly ash is a waste from thermal power plants) &

*Portland Slag Cement* (slag is a waste by-product from steel plants)

ACC has been a trend-setter in the industry in this respect with as much as 85% of its total production comprising blended cements.

Through its subsidiary companies, ACC has pioneered introduction of two value added products in India, namely *Bulk Cement & Ready Mix Concrete*.

ACC has also extended its services overseas to the Middle East, Africa & South America, where it has provided technical and managerial consultancy to a variety of consumers, and also helps in the operation and maintenance of cement plants abroad. The overseas contract with YANBU Cement Company, Saudi Arabia for management and operation of its cement plants, is an ongoing relationship for the last 29 years and has been

renewed up to February 28, 2011.

#### Subsidiary Companies

<i>Company</i>	<i>Business</i>	<i>Location</i>	<i>ACC's stake</i>
Bulk Cement Corporation (India) Limited	Bulk Cement handling facility	Mumbai	94.65%
ACC Concrete Limited	Ready Mix Concrete	29 plants Pan-India	100%
Lucky Minmat Private Limited	Limestone mining	Rajasthan	100%

#### Financials

ACC's sales volume has grown over time, from 13 mn tonnes in 2005 to 21 mn tonnes in 2008. A booming Indian economy during this period meant higher demand for cement, resulting in better price realisations and hence, impressive net sales. Despite cost pressures, ACC maintained its operating margins as well as its profits after tax.

	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Sales Volume (Mn Tonnes)	13.0	18.9	20.0	21.0
Net Sales (Bn Rs)	32.21	58.03	69.91	73.09
Operating Margins (%)	19	30	29	26
Net Profit (Bn Rs)	5.44	12.32	14.39	12.13

#### Culture and values

ACC's new vision is "to be one of the most respected companies in India; recognized for challenging conventions and delivering on our promises"

ACC claims to assess its performance on the basis of the Triple Bottom Line theory- defined as the achievement of 3 interdependent and mutually reinforcing goals of economic development, social development and environmental protection.

#### **B. Competitor analysis**

ACC, with an installed capacity of 22.63 MTPA, enjoys an 11% market share in India, which with its total

installed capacity of 207 MTPA, is the second largest cement producing country in the world.

ACC's nation-wide presence and brand image ensures a competitive edge and helps it to withstand regional fluctuations in prices and also to adapt its distribution to market place needs.

Its key competitors are as follows:

<i>Company</i>	<i>Capacity (in MTPA)</i>
ACC	22.63
Ambuja Cements	18.50
Binani Cements	6.50
Birla Corporation Limited	5.80
CCI	3.85
Century Textiles	6.80
Grasim	16.75
India Cements	8.94
Jaypee Group	13.50
Kesoram Industries	5.60
Lafarge	5.50
Madras Cements	10.00
Ultratech Cement	18.20
Zuari Cement	3.50

Note: Only companies with cement production capacity >3 MTPA included here. There are likely to be other competitors not included here.

#### **A. General**

ACC has made public commitments to corporate and social responsibility as well as sustainable development. These are explained prominently on the company website, in corporate publications and repeated in various presentations by high-level executives within the group.

ACC was among the earliest companies in India to have an independent department dedicated to rural development and village welfare activities, as part of the company's village welfare scheme launched in 1952. A new CSR department was introduced in ACC in 2006. The company's Corporate Communications Department has been expanded to include Corporate Social Responsibility as an independent function.

ACC brought out its first Corporate Sustainable Development Report for 2007. It used the framework prescribed by the G3 guidelines of the Global Reporting Initiatives which was released in October 2006. ACC intends to make this report a regular feature and will publish it once in two years.

According to Ravi Puranik (Head - CSR, ACC), Sustainable Development (SD) is integral to business at ACC. The company has now set up an institutional structure both at the corporate level and at the plant level.

## **II CSR Information**

At the corporate level, it has a SD Council that is chaired by the Managing Director. It includes all members of the apex internal corporate decision making body at ACC, which is the Managing Committee and the SD core group<sup>2</sup> that comprises:

Chief Knowledge Officer,  
Head - Environment and Energy Conservation Cell,  
Head - Raw Materials and Mines Planning,  
Head - Alternate Fuels and Raw Materials and Head -  
Corporate Social Responsibility

At each plant, ACC has constituted a Plant SD Council.

ACC aims to be recognized as a leading champion of sustainable development not only in the cement industry, but on a wider plane, for which, it has charted a clear road map, comprising a host of comprehensive programmes with distinct milestones, adequate budgets and measurable targets.

<sup>2</sup> IUCN Asia staff had a meeting with the SD Core Group at Mumbai in March 2009.

### **B. Local communities**

ACC's CSR agenda identifies the rural community living around its cement plants as one of the major focus groups. Tribal people also form part of this group. ACC aims to make comprehensive plans to address issues and challenges such as enhancing employability, providing education, healthcare, capacity building and creating basic rural infrastructure to raise the quality of life and living conditions of the underprivileged and backward classes. Its approach takes the following steps:

- a) Rapid Assessment including stakeholder analysis.
- b) Needs Assessment.
- c) Identify local partners and NGOs for engagement.
- d) Training and coaching in areas such as self-development, quality of living, health and capacity building.
- e) Linkages in production, employment, fund mobilisation and marketing.
- f) Making an Action Plan for target communities.
- g) Implementation of Action Plan.
- h) Monitoring and evaluation.

Since 2006, ACC has been undertaking Community Needs Assessment studies at few of its plants to help devise effective community development programmes. It has partnered with leading CSR consultants like Partners In Change, Development Alternatives and the Tata Institute of Social Sciences. ACC aims to complete this exercise by the end of 2009.

On-going exercises include ACC's support for important national issues like the fight against HIV/AIDS, tuberculosis and leprosy. The company also supported sustainable construction. On a different note, the company sponsored the Indian boxing team at the Athens Olympics in 2004.

ACC's contribution towards sustainable development was rewarded by the Federation of Indian Mineral Industries, New Delhi which chose ACC and three other companies to be members of the Sustainable Miners' Club.

### ***C. Environmental performance***

ACC claims to be a trendsetter in the cement industry in terms of its environmental protection practices. The environment management organization has been strengthened at the corporate as well as the plant level. The Environment and Energy Conservation Cell was formed in September 2007 with a clear road map to pursue emission and energy reductions. A large group of 70 environment engineers are deployed across the company with separate teams for environment related R&D, design and installation of equipment at the central level and separate engineers overseeing maintenance and operation at each plant.

With regular energy shortages in India, ACC is engaged in making regular modifications in process and technology to adapt to best practices in energy savings on the usage of conventional energy and fuel sources. In 2007, it established a wind power project in Tamil Nadu to provide an environmentally sustainable energy input to its Madukkarai Plant.

The company has also implemented initiatives to improve the performance of various equipments for achieving optimum utilization of electrical and thermal energy. The average specific energy consumption has reduced from 113 KWH/tonne to 94.71 KWH/tonne of cementitious material in the last 7 years.

#### **Atmospheric Emissions Control**

Environmental laboratories along with pollution control equipment and devices are provided at each plant. All plants are certified with EMS (Environment Management System) - ISO 14001:2004.

ACC is carrying out baseline monitoring of emissions. This is to provide emissions values using conventional fuel and acts as a reference for evaluating the incremental change in emission from the usage of alternate fuels. It is also in the process of implementing Continuous Emission Monitoring Systems (CEMS) in all plants.

Cement industry is among the major emitters of greenhouse gases. Acknowledging this fact, ACC has started reporting the CO<sub>2</sub> emissions from clinker and cement production activities. Gross CO<sub>2</sub> emissions and Net CO<sub>2</sub> emissions are calculated for the company as a whole using data provided by each individual cement plant. The calculation principles and guidelines are based on the Cement CO<sub>2</sub> Protocol developed by the Cement Sustainability Initiative (CSI) of the World Business Council for Sustainable Development (WBCSD).

## Mineral Components and Blended Cements

ACC was the first in the country to utilize waste by-products from other industries and deploy them gainfully to manufacture cement. These included blast furnace slag and calcium carbonate sludge from steel and fertilizer industries. The company led the promotion of fly-ash based cement, which used fly-ash, generated as a waste pollutant in thermal power industries. What were once waste pollutants are now redefined as raw materials compatible for the manufacture of cement.

## Waste Management Services

ACC promotes the use of Alternate Fuel and Raw Materials (AFR). The aim of the AFR team is to provide total solutions for waste management including testing based on co-processing. Coprocessing refers to the use and/or disposal of waste materials in industrial processes as alternative fuels and raw materials to recover energy and material value from them, if any. Co-processing of hazardous wastes in existing cement kilns provides a simple, sustainable, local and immediate solution to the problem of disposing hazardous wastes without affecting the environment and without huge investments.

## Greening

ACC has won several prizes and certificates of merit for its programmes involving 'greening,' afforestation, reclamation and rehabilitation, top soil management, noise abatement and other visible measures such as tree plantation and water management at its plants and mines.

The company has a key message for employees: 'Each One Plant One'. Greening at plants, mines and colonies of each factory has taken place in the form of tree planting, greening activities, horticulture, flower and fruit cultivation and water conservation.

ACC aims to take up the task of biodiversity assessment and the impacts of its operations on the biodiversity around its plants and mines.

## Water Management

The company maintains a norm of Zero Water Discharge at all cement units.

ACC cement plants have converted old abandoned mines into huge reservoirs by collecting rain water from different catchments around mines. The collected water is then channelled into abandoned mines forming water storage areas. These reservoirs meet the water requirement of the plants and help improve ground water tables in surrounding areas.

## ***D. Communication on CSR policy and achievements***

ACC's CSR policies and achievements are explained prominently on the company website and in corporate

publications. In June 2008, it released the Sustainable Development Report 2007 - a first for the company - which details the CSR strategy and achievements to date. ACC intends to make reports of this kind a regular feature, publishing once in 2 years and providing an updated version on its website every year.

III Assessment of commitment to CSR and engagement with IUCN

ACC has a long 'history of good governance' and have achieved many milestones in Sustainable Development to date. It would help IUCN achieve its mission of sustainable development, by further developing and promoting best practice for ACC and by demonstrating to other companies that such practice makes good business sense.

Initial discussions of IUCN staff with ACC indicate that the company is committed to CSR. Several indicators of its commitment to CSR include:

- Community development programmes were initiated by ACC before the term CSR was coined.
- ACC had also practiced environmental protection and pollution control before pollution regulatory laws came into existence.
- ACC is now part of the Holcim Group. Hence even more attention is likely to be paid to its reputation and image. Moreover, Holcim has entered into a five year partnership with IUCN for biodiversity conservation. The strategic objectives of this collaboration are to review and assess the approach of the Holcim Group to biodiversity conservation management, establish a baseline, and develop a more comprehensive corporate biodiversity policy and strategy for the Holcim Group. Within the purview of the global agreement, IUCN has forged partnerships with Holcim in several Asian countries to help Holcim develop robust ecosystem conservation standards for contributing to sector-wide improvements in the cement and related sectors.
- ACC has embarked on the road of Sustainability Reporting as per the Global Reporting Initiative. There are SD Core Teams both at the corporate as well as at the plant levels.
- ACC has won several awards and accolades for its performance on all fronts - economic, environmental and social.

ACC already has a relationship with Development Alternatives, an Indian NGO and an IUCN member organization. The aim of this collaboration is to create local enterprise-based livelihoods, healthier habitats with adequate community physical infrastructure, household services and village institution building around the Wadi plant site. According to Ms Sharma, Vice President of Development Alternatives, its "relationship with ACC has gained immensely by their openness as a strategic partner to go beyond statutory obligations to understand the needs of both civil society and local communities. The leadership they (ACC) have demonstrated as a socially responsible business has allowed us to work in tandem for the creation of value for the community, ACC, ourselves and society."

From the above, it would seem that ACC is fully committed to Corporate Social Responsibility and Sustainable Development. Moreover, it was ACC that showed interest in working with IUCN, thereby again demonstrating its commitment.

#### **IV Media and Stakeholder Analysis**

##### **A. General Internet Queries *Positive (or at***

##### ***least not negative) press***

Most internet query results focus on general ACC Ltd's business activities, including financial data, earnings, share price, holdings, growth and general business dealings. Specific articles related to CSR and environment is listed below:

##### **India, Inc's. new virus: AIDS**

Large Indian corporates including Associated Cements have already taken the lead under the banner of the Confederation of Indian Industries (CII) to shore up defences against the dreaded virus. These companies have committed themselves to setting up anti-retroviral centres across the country to treat the infected.

- The Economic Times, India

##### **Corporate Office, Cement House, turns green**

ACC's corporate head office in Mumbai is being transformed into an energy-efficient, green building while maintaining its heritage. This major renovation and refurbishment programme is called Project Orchid and is expected to save 30% energy costs.

- The Hindu Business Line  
- The India Brand Equity Foundation, News  
- Karmayog

ACC won the FICCI award for Environment Management for adopting innovative measures for pollution control, waste management and conservation of mineral resources in mines. It was awarded to ACC's Gagal Cement Works located in Himachal Pradesh. Gagal unit also received the ISO 14000 certification.

- The Indian Express

##### **ACC's ready mixed concrete plant secures ISO 14001**

The ACC Ltd's ready mix concrete facility at Faridabad in Haryana received the ISO 14001 certification for adhering to global safety and environmental norms. This is the only RMC plant in India having both ISO 90001 and 14001 certification.

- Money control.com

[secures-iso-14001/19/02/227649](#)

- The Hindu Business Line

##### **200 AIDS patients enrol in ART centre**

About 200 AIDS-affected persons have enrolled in the Anti-Retroviral Therapy Centre set up in the IDTRC of Christian Medical College thanks to private-public partnership between ACC, the CMC and the NACO managed by the ACC-CMC Trust for Infectious Diseases.

- The Hindu

##### **ACC in strategic tie-up with Development Alternatives**

In a move to provide a thrust to construction and rural infrastructure in India, cement major ACC Ltd has entered into a strategic partnership with Development Alternatives, a Delhi-based private agency. This partnership was forged to help launch a sustainable community development programme for communities around ACC's Wadi Plant.

- The Press Trust of India Ltd

0286-33546151 ITM ACC commissions wind energy farm in TN

Cement major ACC Ltd has successfully commissioned its first wind energy farm at Udayathoor in Tirunelveli district of Tamil Nadu. The initiative was taken up to reduce dependence on conventional fossil fuel-based energies.

- Asia Pulse Pty Ltd

0286-33073591 ITM Expired FMCG products to power ACC kilns

ACC's AFR (alternative fuel resources) business unit signed a contract with FMCG company to burn its 'expired' stocks of toothpaste, cosmetics and other products in its kilns. They get money to burn other peoples waste, replacing coal with other fuels. Before agreeing to incinerate wastes they are first tested in an experimental kiln. They feel it is an 'environmentally sustainable initiative.'

- The Hindu Business Line

Burning waste to make cement

- Business Standard

ACC's eco-friendly waste management practices

- The Hindu

Finding a remedy for handling medical waste

The Hindu Business Line

ACC, Ambuja Cement to form new waste management co

ACC and Ambuja Cement are together forming a waste management company - Geocycle India - that could add Rs 100 crore to their bottomline per year by 2011. They will use waste as a replacement for fuel.

- The Economic Times

[By Industry/Indl Goods Svcs/Cement/ACC Ambuja Cement to form new waste management co/rssarticleshow/2646400.cms](#)

We eye a Rs 100-cr bottom line benefit from alternative fuel

- Business Standard

Associated Cement Companies donates Rs 10 million to Prime Minister's National Relief Fund

ACC Ltd donated Rs 10 million to the Prime Minister's National Relief Fund as part of its contribution to help support the Government of India in meeting relief and rehabilitation work for victims of the tsunami disaster that struck the coast of South India and the Andaman & Nicobar Islands.'

- Bombay Stock Exchange Limited

[E36679D5F8B5%7D](#)

## **Negative press**

Negative press concerning ACC mainly focuses on share price performance or quarterly results or cement prices. There have been some bad press on issues related to health and safety, environment and perceptions about the cement industry. Specific articles are listed below:

Cement industry 'green' only when it suits its pocket, says CSE (Centre for Science and Environment) rating study  
Market leaders are not the environmental leader.....ACC Limited.....scored less than 35% marks as a group. Cement industry's better environmental performance in energy and waste utilisation is not because of environmental concerns, but because of better economic returns.

- CES press release

[20051216.htm](#) Boundary Lease Row

The subdivisional officer (Sadar Chiabasa) West Singhbhum, Mr Jeetwahan Oraon...issued a deadline... to Chaibasa Cement Works, a unit of Associated Cement Companies (ACC), for fresh demarcation of their mining lease area. The deadline was set after about 200 villagers of Jhinkpani block staged a protest in front of the administrative block of the plant...the villagers alleged that the company has stepped beyond the contours of its legitimate territory and is mining in their private land.

- The Telegraph, Calcutta, India

[5533761.asp](#) MRTPC pulls up ACC, Lafarge, Birla for cement price rigging

Fair trade practices body MRTPC has pulled up ACC, Lafarge Cement, Birla's Grasim and four other top cement producers for cartelisation to increase prices in tandem.

- The Financial Express

[rigging/279666/](#)

Srinu got 'supari' to kill advocate

...Moddu Srinu.. reportedly told police the bomb he was making..was meant to kill a High Court advocate at the behest of a realtor. The realtor and the advocate had fallen out over ACC's sale of the 300-acre limestone mine in Kaza in Guntur district to a syndicate of 16 persons.

- The Times of India

Easy subscription makes compliance a casualty

ACC was delisted by the United Nations Global Compact as 'inactive' for failing to submit their communication on progress.

- The Financial Express

NMC slaps Rs 71 lakh penalty on ACC Cement for octroi evasion

The Nagpur Municipal Corporation (NMC) has slapped a penalty of Rs 71 lakh on Associated Cement Company (ACC) for trying to evade octroi for bringing cement into the city.

- The Times of India

Nightmare on NH-21

The never-ending line of trucks, tippers, tankers and lorries, carrying cement from Barmana, Darlaghat and

Bhagha factories, all located in the Bilaspur-Mandi-Solan limestone belt, has an adverse affect on the state's tourism....Moreover, three cement companies, ACC cements at Barmana, Ambuja cements at Darlaghat and JP associates at Bagha have done nothing to ease the congestion.

- The Financial Express

Interesting Tale of Two Deals

Even before the ink is dry on Holcim's deal with GACL, the latter is in a controversy over its attempt to transfer control over Everest India Ltd (EIL), in which ACC holds a 76% stake, to the Adani group, which has a minority holding.

- The Financial Express

Insult on Injury

ACC has sold a 50 per cent stake in Everest to Mrinalini Trust at the rate of Rs 134 per share. Clearly, it is time for the regulator to take a good hard look at the deal and get the company to provide all the answers before clearing the open offer.

- Money Life

[492e830882e6&base=sub\\_sections\\_content&f&t=Insult+on+injury](#)

India's ACC net profit dips, sees slowing demand

Profit slips 23 pct on slowdown, high input prices....sees demand slowing in 2009, but prices stable....to defer new commitments on expansion projects

- Reuters

General perception of ACC Ltd and its business practice is positive therefore, there would appear to be few sources of potential negative press in the future.

There could be potential negative press in the future for ACC due to in the controversy suuounding the Himachal Pradesh Government's decision to make the state into a cement manufacturing hub. Several environmental groups are agitating against this and ACC, though it is a going concern and its plant at Gagal in Himachal is one of the better environmentally friendly plants, could get caught in this controversy. Some examples of recent articles in the media:

Cement plants, how many the state can sustain

The decision of the Himachal Pradesh government to go ahead with five more cement plants in the state has attracted wide spread resentment not only from environmentalist groups but from the general public also.

- My Himachal

Himachal Govt. moves for compulsory acquisition to set up cement plant

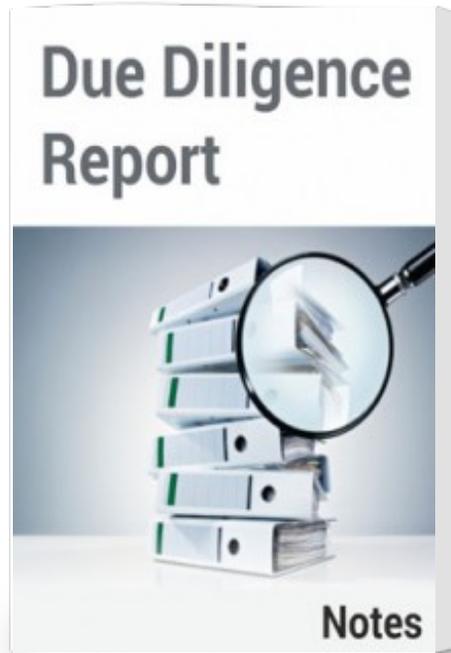
In defiance of local resistance, the government has moved in for compulsory land acquisition to set up a cement plant near Sundernagar in Mandi district

- My Himachal

***Change in press coverage over time***

Overall, the majority of articles available on Google news search engine focus on the business side of ACC Ltd. i.e.

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