CHAPTER 4

Acquisition's Synergy Evaluation - Indian Cement Industry

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ABSTRACT

This paper aims to conduct a comprehensive analysis of the financial performance characteristics of the firms involved in acquisitions, especially those within the construction sector, focusing on the acquisition of ACC and Ambuja Cement by Adani Enterprises. This case example represents a unique scenario wherein the acquired and the acquiring firm, both are available for pre- and post-acquisition analysis. The paper also gives an insight of how it has affected the cement industry within the construction sector. It seeks to evaluate the synergy between these entities pre- and post-acquisition and understand the underlying motives driving the acquisition activities. The research leverages widely accepted financial variables and models, alongside market evidence, to evaluate the pre- and post-acquisition financial synergy as well as assess the value-adding potential of the transaction that is crucial for a company's development. Our study shows a mixed market emotions of the said acquisition. Despite the negative Cumulative Abnormal Returns for Adani Enterprise and ACC, Ambuja Cement managed to show a long-term positive return. In early stages, immediately after the acquisition announcement, the financial performance failed, however in 2023, both the acquired companies made a considerable comeback showing higher Return on Equity, better asset efficiency, and liquidity ratios. Between the two, Ambuja Cement shows more resilience through the changes. Despite difficulties in formulating a joint functioning unit initially, the acquisition has had a positive effect on the financial position of the two companies, along with the emergence of tangible signs of sustainable synergies. This acquisition established Adani Group as India's second largest cement manufacturer, enhancing its position through operational synergies and cost optimization.

Keywords: Acquisition synergies; Infrastructure sector; Financial performance; Adani Enterprise; Market dominance.

1.0 Introduction

Mergers and Acquisitions (M&A) are strategies used by organisations to enter new potential markets or to enter a new business sector (Malik, 2014).

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These two terms M&A are often used interchangeably but are different terminologies. In a merger, two or more organizations combine to form a single legal entity while when one organization takes over another organization and keeps itself as the owner, it is known as acquisition (Moskovicz, 2018). Business landscapes are, most often than not, characterized by ever evolving landscapes that are marked by strategic decisions that not only redefine industry trajectories but also amplify market influence. Mergers and acquisitions are one such strategic decision that significantly affects and shapes the nature of any corporate function (Mehta, 2007). The accelerated mergers and acquisition trend in India have resulted in the companies opting for this route to secure higher rates of growth. The greater deal momentum is a result of Foreign Direct Investment available with the corporate sector and other favourable conditions (Sahoo, 2006). The introduction of conducive incentive schemes makes India an attractive destination for Foreign Direct Investments, causing the foreign player to transform their business and investment structure, giving rise to potential surge in cross border merger and acquisition opportunities. The study was hindered by the time limit which moved it towards a case-based approach. Also, the nearness of the event period to COVID-19 pandemic impacted the t-test results to be insignificant under the event study methodology despite significant synergies being seen today. The study also focuses only on short term financial impacts due to the acquisition event, failing to fully address the possible long term synergy effects that surface after several years. This study restricts the use of quantitative data analysis only, and it does not consider the qualitative variables like cultural changes, management choices, and strategic realignments.

1.1 Justification for M&A in construction field

Mergers and acquisitions (M&A) in the construction industry are critical strategies that offer a variety of benefits that contribute to the long-term success of the companies involved. By leveraging mergers and acquisitions, construction companies can capture economies of scale and scope and consolidate resources and expertise to efficiently tackle larger, more diverse projects. Access to new markets becomes possible, allowing companies to expand their reach, take advantage of new opportunities and reduce dependence on specific regions or sectors (Carrillo, 2010). This expansion not only drives growth but also improves competitiveness as mergers and acquisitions allow companies to strengthen their market position, negotiate favourable terms with stakeholders and strategically align with industry trends and customer preferences. Additionally, mergers and acquisitions enable efficiencies to be gained by optimizing processes, resource allocation and overall costs, thereby promoting innovation and long-term profitability within the combined company. Fundamentally, mergers and acquisitions serve as a risk mitigation tool, allowing companies to diversify revenue sources, project portfolios and geographic footprint, thereby improving resilience and financial stability in the face of economic fluctuations and market uncertainties (Rottke, Schiereck, & Pauser, 2011). Overall, mergers and acquisitions in the construction sector represent a strategic imperative for

companies seeking sustainable growth, market leadership and resilience in an ever-evolving industry landscape.

1.2 Aim & Objectives

To analyse and compare the valuation of acquisitions in the case of Adani's acquisition of Abuja & ACC cement, focusing on key challenges and emerging opportunities within the industry.

Objectives of the study are as follows:

• To identify the quantitative factors influencing acquisitions in the construction sector.
• To conduct a case-based analysis to examine specific acquisitions.
• To evaluate the accuracy and relevance of various valuation models used in M&A transactions.
• To compare the comprehensive performance of both the acquired and acquiring companies, assessing pre- and post-merger periods.

2.0 Review of Literature

There are several factors that influence the merger and acquisition decision of any company. An investigation into the financial and performance characteristics of merging companies is important. It is observed that firms with higher technological and financial productivity are more likely to go for acquisitions, while firms that have potential to grow in the future but are struggling at present owing to low profits or losses are more likely to be acquired and the management of firms that are not actively involved in research activities are also likely to be replaced (S., 2023).

Another important factor is the relationship between the size of acquisition deals and their outcomes for acquiring companies. A study by Journal of Corporate Finance contributes by documenting a robust negative relationship between the size of acquisition targets and premiums paid (Alexandridis *et al.*, 2013). The study presents various measures of acquisition premiums, showing that acquirers tend to pay lower premiums for large targets compared to small ones due to value destruction. The reasons for value destruction being that managers of acquiring firms may overestimate their ability to extract benefits from large acquisitions, leading to overpayment, top executives may pay higher premiums for large firms due to the perception of high private benefits and concerns such as strategic potential or deal complexity (Alexandridis *et al.*, 2013). The analysis includes statistics on deal and firm characteristics, such as target and acquirer market capitalization, transaction value, acquirer market-to-book ratio, competition levels, and payment methods. Large targets tend to have higher transactions and market values, are less likely to be financially distressed, and are acquired with stock more often. Regression analysis confirms the negative association between target size and acquirer returns, even after controlling various factors like offer premiums and market conditions.

In another research, the study found that the acquirers failed to gain financial synergy even after three years of the deal with the results suggesting that the manufacturing industry in India performed better in the post-acquisition scenario as compared to the service industry and the study found that the stock returns are well-explained by the long-term financial variables, and the acquisitions resulted in a decline in performance (Mehrotra & Sahay, 2023).

The study on corporate mergers and acquisitions in India identified discriminating variables that help delineate bidder and target firms which indicated that targets have higher liquidity, growth, and size, and lower risk, leverage, profitability, and operating efficiency (Aggarwal & Garg, 2010). These results support the theory that takeovers are a market share enhancing mechanism and may be driven by synergy gains through economies of scale or scope, reducing the cost of capital, or increasing debt capacity (Basu *et al.*, 2008).

Case Review of Adani's Ambuja-ACC Acquisition: The Adani Group acquired major stakes in Ambuja Cements and ACC for $6.50 billion, marking one of India's largest cement sector transactions. This acquisition followed Holcim's strategic exit, which was driven by sustainability goals and environmental compliance pressures. Through this deal, Adani secured 63.15% ownership in Ambuja Cements and 56.69% in ACC (with 50.05% held through Ambuja), positioning itself as India's second-largest cement manufacturer with a 67.5 MTPA capacity and a combined market capitalization of $19 billion. The acquisition served multiple strategic objectives for Adani, including backward integration to ensure reliable cement supply for its infrastructure projects, vertical integration to control costs and improve operational efficiency, and portfolio diversification across energy, logistics, and real estate sectors. This move strengthened Adani's market position while allowing Holcim to divest from carbon-intensive operations in emerging markets, aligning with global ESG trends and environmental regulations that increasingly scrutinize carbon emissions in industrial processes.

3.0 Research Methodology

The study integrates quantitative measures such as market measures, accounting measures, mixed metrics and stock price impacts to evaluate the company's performance pre- and post-acquisition. Both short-term and long-term impacts of M&A events are analysed and provide insights into the immediate market perceptions and sustained performance over the period. This research study is significant in understanding the gap between the valuation process and the performance outcomes of M&A in the construction sector. The study aims to integrate financial, operational and strategic perspectives to provide substantial actionable insights for stakeholders, policymakers and academicians alike.

4.0 Analysis, Observations and Implications

After Adani's takeover, ACC and Ambuja Cements went through a financial transformation characterized by revenue highs in 2022 followed by declines in 2023, with net

profit margins initially falling in the year of acquisition before rebounding in 2023, indicating cost of adjustment followed by operational gains.

Table 1: Financial Performance of ACC Limited

	2017	2018	2019	2020	2021	2022	2023
Book to Market Value	498	560	613	674	757	747	852
Operating Income over Sales	10.54%	10.69%	13.52%	13.93%	16.14%	6.39%	13.39%
Return on Assets	6.40%	9.40%	7.95%	7.80%	8.70%	4.26%	9.27%
Return on Equity	9.77%	14.31%	11.80%	11.18%	12.79%	6.30%	14.59%
Acid Ratio (Quick Ratio)	0.87	1.04	1.34	1.55	1.5	1.16	1.27
Asset Turnover	89.22%	92.36%	91.65%	0.78%	0.83%	1.07%	0.92%
Debt-to-Equity Ratio	0.01	0	0	0	0	0	0
Interest Coverage Ratio	ND	ND	ND	ND	ND	ND	ND
Net Revenues	13,416	14,940	15,968	13,989	16,356	22,547	20,444
Earnings per Share	48	80	72	75	96	46	113
Sales Growth	19.03%	11.36%	6.88%	-12.40%	16.93%	37.85%	-9.33%
Profit Margin Ratio	6.89%	10.18%	13.52%	13.93%	16.14%	6.39%	13.39%
EV	30,411	25,483	22,764	24,642	34,362	31,046	45,152
EV/EBDITA	14.9	11.58	8.31	9.6	10.7	13.76	12.72

Source: Compiled by authors, Data: BSE Website

Table 2: Financial Performance of Ambuja Cement Ltd

	2017	2018	2019	2020	2021	2022	2023
Book to Market Value	100.59	105.82	111.83	102.31	111.84	143.56	168.39
Operating Income over Sales	16.50%	15.13%	17.41%	21.96%	21.06%	16.71%	18.33%
Return on Assets	5.07%	5.90%	5.66%	7.02%	7.38%	7.11%	5.29%
Return on Equity	6.25%	6.88%	8.79%	9.35%	7.31%	8.94%	6.31%
Acid Ratio (Quick Ratio)	1.08	1.33	0.81	0.99	1.71	1.50	2.08
Asset Turnover	0.44%	45.09%	43.22%	0.43%	0.52%	0.62%	0.45%
Debt-to-Equity Ratio	0.00%	0.16%	0.21%	0.19%	0.12%	0.16%	0.10%
Interest Coverage Ratio	18.13	22.78	25.88	30.07	32.35	26.10	20.25
Net Revenues	10,457	12,047	11,622	14,546	16,510	20,711	18,762
Earnings per Share	6	7	9	10	10	12	11
Sales Growth	13.71%	15.21%	-3.53%	25.16%	13.50%	25.45%	-9.41%
Profit Margin Ratio	11.94%	13.10%	15.74%	14.89%	13.04%	12.77%	13.02%
EV	50,378	34,314	46,532	70,848	97,275	70,080	125,768
EV/EBDITA	21.91	18.21	13.32	15.42	20.28	16.79	29.78

Source: Compiled by authors, Data: BSE Website

Liquidity metrics demonstrated conflicting trends with Ambuja's fast ratio becoming stronger considerably after acquisition while ACC retained stability as both firms held low debt and managed leverage levels during the transition. Performance ratios illustrated this transition period, where both firms witnessed ROA and ROE declining in 2022 before staging a partial recovery in 2023, evidencing incremental efficiency gains and recovered shareholder value. The market welcomed the acquisition positively, especially for Ambuja, whose market capitalization increased significantly in 2022, while ACC's recovered EPS in 2023 showed signs of regaining profitability, both implying that although there was short-term financial uncertainty, the acquisition showed promising signs of stabilization and operational recovery by 2023.

Stock Price Reaction (ACC Limited): ACC Limited's share price showed remarkable volatility throughout the Adani Group takeover process. When the takeover news broke out on May 15, 2022, the stock rallied from ₹2,099.95 (May 13) to an intra-day high of ₹2,398.10 (May 16)14.2% higher, demonstrating initial investor optimism—before tapering off gradually to about ₹2,100 by mid-June as market players re-balanced expectations. So, too, with ACC's stock price advancing 8.9% to ₹2,786.85 from ₹2,558.65 (August 16) as of September 16, 2022, acquisition completion, only to lose 4.96% right away to ₹2,611.50 and then go down further to about ₹2,390 in mid-October, indicating short-term investors' profit-taking after the pre-acquisition run-up and perhaps integration results uncertainty.

Figure 1: ACC's Stock Price Reaction-time of Announcement

Source: Brokerage application

Figure 2: ACC's Stock Price Reaction at Time of Acquisition

Source: Brokerage application

Figure 3: Ambuja's Stock Price Reaction at Time of Announcement

Source: Brokerage application

Figure 4: Ambuja's Stock Price Reaction at Time of Acquisition

Source: Brokerage application

Stock Price Reaction (Ambuja Cements Ltd): Ambuja Cements' share showed high volatility around the Adani Group takeover. After the May 15, 2022, announcement, shares rose from ₹358 (May 13) to ₹377.75 (May 16)—a 5.53% rise—with volumes spiking to 50.46 million shares, before correcting to ₹349.55 by June 16, indicating investor rethinking after initial euphoria. The trend gained momentum in the course of acquisition completion, with the stock surging spectacularly from ₹380 in early August to ₹586.35 by mid-September—a whopping 54.82% increase in six weeks—before ending at ₹516.70 on the day of completion (September 16), showing a 4.09% intraday fall amidst increased trading volume of 42.87 million shares. The stock then went into a consolidation phase at ₹511.25 in October 2022, with strong gains from pre-announcement levels still in place despite the correction, as the overall price trend and high trading volumes on major dates suggest favourable market perception balanced with normal post-event profit-taking and overall implication evaluation.

5.0 Conclusion

The assessment of ACC and Ambuja Cements' financial Performance pre & post-acquisition by the Adani Group reveals important patterns in achieving synergies. Before the acquisition, both firms showed consistent growth in critical financial areas such as book to market value, return on assets, and return on equity, which indicated solid investor trust and efficient operations. However, shortly after the acquisition, there was a noticeable drop in profitability measures like operating income relative to sales and profit margin, pointing to difficulties in integration and necessary cost adjustments. Nevertheless, by 2023, signs of

financial recovery became clear, with both companies improving their ROE, asset use efficiency, and management of liquidity. Notably, Ambuja showed more strength in keeping its financial stability after the acquisition, which is evident in its higher quick ratio and enterprise value. Moreover, the fluctuations in stock prices also reflect the optimistic market views on the acquisition, with notable price increases during the announcement and completion stages. While immediate revenue synergies were achieved, ensuring long-term profitability will depend on ongoing improvements in operations and cost effectiveness. This concludes, the acquisition has enhanced the financial health of both companies, with clear long-term synergies despite initial integration hurdles.

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