Ambuja Cement Ltd, headquartered in Mumbai, is one of India’s leading cement manufacturers and a subsidiary of Holcim, the world’s second largest producer of cement with annual revenues of CHF 19.7 billion (US$20.3 billion). In 2013, Ambuja accounted for 7 percent of Holcim’s group revenues. It has an 11 percent share of India’s fast-growing US$13 billion cement market.

An ambition to secure long-term corporate value prompted the company to review its operations through the KPMG True Value approach. In 2012, Ambuja started a True Value project with support from KPMG as its knowledge partner. The project’s aim was two-pronged: firstly to take into account the company’s effects on society and the environment, and secondly to maximize future profitability.

In line with KPMG’s True Value methodology, Ambuja went through three steps:

1. QUANTIFY AMBUJA’S ECONOMIC VALUE-ADD, AND SOCIAL AND ENVIRONMENTAL EXTERNALITIES in financial terms in order to calculate its ‘true’ earnings

2. UNDERSTAND FUTURE EARNINGS AT RISK from the internalization of externalities through regulation, stakeholder action and changing market dynamics

3. IDENTIFY STRATEGIC INITIATIVES to create both corporate and societal value.

“Ambuja Cement is proud to be the first company to estimate its True Value.”

Ajay Kapur, CEO Ambuja
Ambuja has been recognized as one of the pioneers of sustainability and corporate responsibility in India. By continuously reducing the resource intensity of its manufacturing process and investing in the communities in which it operates, Ambuja has made significant strides towards its long-term ambition of leaving no trace behind.

The ‘true’ earnings bridge, which combines the company’s financial profits with its monetized positive and negative externalities, fits neatly into this ambition. The calculation of Ambuja’s ‘true’ earnings showed that, on balance, Ambuja generated net-positive socio-environmental value in 2012, that is to say its ‘true’ earnings were greater than its financial profit alone. (See Figure 1).

Examples of Ambuja’s positive externalities include:

- Harvesting more water than it uses in its manufacturing (‘Water Positive’), through check dams, river linking, and turning former quarries into manmade lakes or wetlands
- Using waste from other industries in its manufacturing process, avoiding the need for landfill disposal
- Supporting income-generating activities for members of the local community

Examples of Ambuja’s negative externalities include:

- Emissions of greenhouse gases
- Other emissions such as fine particles
- Extracting groundwater

To ensure that this new approach to understanding company performance was broadly supported, and to generate ideas for improving the ‘true earnings’ of the company over time, senior staff across the company were involved throughout the process.

**Figure 1 / Ambuja Cement ‘true’ earnings bridge**

Source: Verdantix, Ambuja Cements, KPMG

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**STEP 1 / Ambuja delivers positive ‘true’ earnings**

**AMBUJA CEMENT FOUNDATION’S SOCIAL RETURN ON INVESTMENT**

Ambuja invests in the communities in which it operates through the Ambuja Cement Foundation. The Foundation’s activities range from helping farmers increase their incomes by promoting agriculture-based livelihoods, micro-irrigation and water resource management to providing healthcare and education for the families living around the company’s production sites.

Inspired by the KPMG True Value methodology, Ambuja asked KPMG to help it develop a ‘true’ earnings calculation for the Foundation. The results confirmed the Foundation’s important contribution to the company’s CSR strategy: for every rupee spent in 2012, 8.5 rupees of socio-environmental value were created.
STEP 2 / Impact of internalization on profitability assessed

The calculation of Ambuja’s ‘true’ earnings in Step 1 formed the starting point for a strategic discussion about the company’s future profitability. Detailed analysis of each of the company’s key externalities revealed that the negative externalities were more likely to be internalized than the positive externalities. (See Figure 2).

Drivers of internalization for Ambuja include increasing water scarcity in India and the introduction of regulation to increase industrial energy efficiency and reduce greenhouse gases and other emissions. These drivers were assessed both qualitatively and quantitatively to understand their potential impact on Ambuja’s future profitability.

Figure 2 / Key externalities prioritized by likelihood of internalization

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STEP 3 / Future investments prioritized to create societal value as well as corporate value

The cement industry is highly capital intensive and Ambuja has to select investments carefully in order to maintain profitability and competitiveness.

The KPMG True Value methodology enabled Ambuja to make a comprehensive assessment of return-on-investment that included returns resulting from the likely internalization of externalities as well as direct financial returns. By taking this approach, Ambuja identified a number of financially attractive, positive NPV projects that would benefit local communities, society and the environment, and boost future profitability. In effect, the company is taking ‘value creation at risk’ and turning it into a source of competitive advantage.

The projects identified include measures to reduce greenhouse gas emissions that will also cut costs and capital outlays by reducing fuel intensity and the use of limestone. Other projects will see Ambuja reduce its use of scarce and increasingly expensive water. Additionally, its on-going investment in communities and the local environment could secure its license-to-operate, enhance talent attraction, and facilitate access to new mining sites.

If all identified projects are implemented, Ambuja could boost its ‘true’ earnings substantially above the baseline scenario by 2020.

Taking true value forward

Going through the KPMG True Value methodology has been a powerful process for Ambuja. Bringing together the numbers and presenting them in such a visual manner provided valuable insights, which helped to get company staff engaged.

The process has helped Ambuja in its decision-making and the company plans to fully integrate the KPMG True Value approach in its business processes.

The company’s ambition is to continuously increase its ‘true’ earnings. It will do this by reducing its negative externalities, but also by creating more positive societal value. The water harvesting program is a good example of the latter, but the company could go further by developing products that help its customers to improve their own socio-environmental footprints.

Ambuja realizes that it cannot achieve this ambition in isolation, so it will be pro-actively engaging stakeholders – such as customers and the government – in discussions to communicate the results of the project and to explore how they can work together to create more socio-environmental value.

“In the quest to create value beyond business, our people are focused on creating enduring results in all three aspects of our future – social, environmental and economic.”

Narotam Sekhsaria
Chairman, Ambuja Cement
What is KPMG True Value?

KPMG True Value is a tool to understand how the value a business creates and reduces for society is likely to affect the value it creates for shareholders. This knowledge provides a new lens for decision-making to improve performance, inform strategy and increase influence.

KPMG True Value is a 3-step process that can be applied across sectors and geographies. It is scalable and can be applied to a whole company, a division or a specific project.

Figure 3 / KPMG’s three step True Value methodology

To find out more about how KPMG True Value can help your organization, contact your local KPMG member firm professional:

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