



“UltraTech Cement Limited Q3 FY19 Earnings Conference Call”

January 24, 2019



**MANAGEMENT: MR. ATUL DAGA – EXECUTIVE DIRECTOR & CHIEF
FINANCIAL OFFICER, ULTRATECH CEMENT LIMITED**



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Moderator:

Ladies and gentlemen, Good day and welcome to UltraTech Cement Limited Q3 FY19 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company faces. The company assumes no responsibility to publicly amend modify or revise any forward-looking statements on the basis of any subsequent development, information or events or otherwise. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Daga Executive Director and CFO of the company. Thank you and over to you, Mr. Daga.

Atul Daga:

Thank you Aman. Good evening, good afternoon to everybody and welcome to this call to discuss UltraTech Q3 Results. Let me straight get into the burning point that is on pricing. I think cement prices have not risen as expected during the quarter and I really do not have the magic wand to tell you when the prices will move. For me it is similar to stargazing or you forecasting the Nifty level 5 or 6 days from now.

Pricing ultimately is a pure demand and supply game. As you know there are more than 60 named players in the country and look up at any micro-market, there is aggressive competition since supply is in excess of demand. Average capacity utilization in the country is hovering around 70% which is definitely a significant and meaningful improvement over the last two years since from the bottom of about 65% that we have seen. But is this 70% capacity utilization good enough for natural pricing? I do not think so.

We have seen, in Indian market, companies are generating very high margins when national capacity utilization were upwards of 85% this was seen last in 2012, 2010, 2008 as well as 2003. Markets like Central India, where the demand is very robust capacity utilization is hitting all time high. We are seeing significant improvement in profitability and pricing.

During this quarter, prices have corrected on an average 1% or lesser in Central, East and West. South saw the maximum amount of correction which is about 3% and North markets have registered around 1% increase in prices.

Talking about new capacity additions, as it stands today is 17.3 mtpa of capacity would get added in this financial year taking the industry total to about 478 mtpa. Demand has been growing at much more than this new capacity which will thus reduce the surplus capacity as compared to previous year. Similarly, we expect another 18 mtpa to be added in FY20 and perhaps 16 mtpa in FY21. Two points to note over here: (a) these capacities will never have a full run in their first year of operations and (b) it takes time to ramp-up any new capacities. Hence, the annual increase



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in demand which is expected to be in excess of 25 mnt year-on-year should be good for improving the capacity utilization in the country and thus profitability for the cement sector.

At UltraTech we have led from the front in our attempt at consolidating the industry, you all know the way we have been acquiring assets. Yes, this will lead to an increase in supply in terms of overall capacity, but obviously we are not acquiring an asset to run at sub-standard or sub-optimal capacities, in fact nobody would do that.

Next, let touch about demand as we have told you in the past and everybody has observed demand has been strong, it has come back with a very strong gusto. It is only the headwinds of high growth last year which is reflected in the reported quarters performance otherwise you could be seeing higher numbers. This is obviously on the back of nearly 15% growth every quarter that we saw in the last few quarters except this quarter where we expect the demand growth to be somewhere around 9% to 10%.

One important point to note is that infrastructure and low-income housing segment has eating into shares of rural and urban housing. Clearly cement industry in India is institutionalizing. We now see the housing segment (excluding low costs housing) share at ~ 53% to 55% as compared to what we used to record it at ~ 65%, but of course this is splitting the segment into two parts looking at rural and urban housing at around 55% and the remaining 8%, 10% being brought up by low income housing program which is growing at a very rapid pace. bear in mind with improvement in infrastructure quality distance has become shorter and housing demand is bound to spring back in the next three to four years.

During this quarter there was minor setback in demand due to 15 days construction ban in the NCR region, besides the usual phenomena of slow pace of construction activities during the festive period. Elections in big states like Rajasthan, MP and Chhattisgarh obviously had an impact on slowing down the demand. Despite this the overall demand growth for the industry for this quarter is expected around 9% to 10%.

Cost: I think there is some relief, Diesel prices have not been going up so sharply. However, comparing crude and diesel prices in India from first April, 2018 crude has corrected nearly ~ 25% and diesel has not moved down in parallel till the end of December, 2018. Though in the past, crude and diesel prices in India have mirrored each other with a lag of 15 days. Q3 FY19 average diesel prices increase around 3% over Q2. YoY also diesel prices are up 21% which impacts logistics cost.

Secondly the busy season surcharge of railways resulted an increase in cost in Q3 as compared to Q2 nearly ~ 3.5% amounting to an increase in cost for us to the extent of Rs. 40/ton over the previous quarter. Actually, we should call this not as a busy season surcharge, but it was a off



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season discount which the railways authority give in the period of July to September and through the nine months this busy season surcharge is applicable.

It is worth mentioning about our logistics efficiency where we have been continuously bringing down our lead distance which would be down about 6% YoY and 2% quarter-on-quarter at the end of December 18. Non-availability of rail network is also a concern in the country and is adversely impacting our logistics cost. Since road movement cost is nearly 1.7x that as compared to the cost of rail movement.

Next important element is petcoke imported petcoke cost increase by around 8%. 35% of requirements of petcoke are from imports. Today there is a 15% to 20% reduction in international petcoke prices from its peak coupled with rupee depreciation of 5% to 6%; which is still giving a 10% to 12% net reduction in international petcoke prices. There is always a lead time of two months for imported petcoke and hence whatever orders have been placed during this quarter will benefit the next quarter.

Domestic supplies of petcoke have started shrinking 65% of our requirement are met through domestic markets which infact still saw a 4% reduction in cost. Considering all implications, the fuel cost has risen during the quarter resulting into extra cost quarter-on-quarter of Rs. 6/ton or YoY about Rs. 156/ton. In our kilns fuel mix, petcoke has nearly 70% and thus should have a favorable impact in Q4 with the falling prices of petcoke.

Another aspect which maybe one-time cost and that is why I should highlight it is about maintenance. In this quarter, we had nearly 11 kilns under maintenance out of which one kiln standalone accounted for nearly 26 crores of maintenance expense. This was one of the last plants in the JP network, which require major overhauling and major maintenance. I am glad to inform you that the kiln was let up somewhere around 17th of this month after all the major overhauling expenditure has been incurred and completed and it is firing full cylinders, we expect the cost to normalize going forward in the next quarter.

Let me now brief you on our acquisition: the 2017 acquisition of 21.2 mtpa is now tracking at par our existing operations in terms of quality and efficiency. One of the plants, as I mentioned, Bela in MP was under a long shutdown in Central India and we expect its cost also to normalize from Q4 and boost the profitability in Central market further. Post shutdown the cost have reduced significantly and we should start seeing the benefits from next quarter itself that is from March'19. There is one more small shutdown planned for this plant in February'19 after which the cost will be 100% aligned with our older operations. This acquisition is now operating at about 75% capacity utilization.



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The next one which was in 2018 Nathdwara cement which was formerly called Binani Cement. We have completed the quality improvement work at the plant and launched UltraTech brand in the markets.

We now busy integrating the acquired dealer's network with our network. The plant was operating at about 50% at the time of acquisition and generating an EBITDA of Rs. 100/ton. It is just 40 days of operation in our hands and I am sure the capacity utilization and EBITDA profile of this plant will improve significantly. The acquisition has been funded 40% with internal accruals and 60% with debt. This being a 100% subsidiary of UltraTech let me explain the financials and the operating model going forward.

UltraTech has infused an equity of Rs. 3,400 crores and borrowings of Rs. 4,500 crores for this acquisition. It has been renamed to UltraTech Nathdwara Cement Limited (UNCL). The UltraTech will market all the product manufactured by UltraTech Nathdwara. UltraTech Nathdwara will have just one single customer that is UltraTech. Depreciation in the books of UNCL will continue on its book value of assets, which will be around Rs. 75 crores; whereas depreciation on consolidated books will be on the revalued assets. We are in the process of revaluing the assets. However, you might want to note that depreciation will be significantly higher. Out of debt of Rs. 4,500 crores Rs. 1,800 crores of debt in UTCL books and Rs. 2,700 crores is in the books of UNCL interest accounting will be according.

UltraTech standalone results that have been declared today include the UNCL Cement purchase cost as part of our traded purchase with the contribution to EBITDA and so on a standalone sales volume of UTCL it includes the sales from UNCL to UTCL also, with effect from 10th December, 18 when that is the date of migration to UltraTech brand.

Century cement as you know that the shareholders and creditor approval process has already been completed we have filed a petition with NCLT Mumbai and got a date of 13 February, 2019 for the admission of the petition. After the petition gets admitted it takes roughly a month for the hearing to take place and we would expect the NCLT order somewhere closer to the end of March, 2019.

In parallel, we are working towards the mines transfer of the Century acquired plant which are located in the states of Chhattisgarh, MP and Maharashtra. Chhattisgarh and MP were going through elections hence bit slow, but we are hopeful to coincide the mines transfer processed with the NCLT order and will see the closure of transaction in Q1 FY20. We have already started working on a transition plans for integrating this acquisition. The plants are currently operating at a capacity utilization of 75%. There is no more acquisition hence there is nothing to talk about.

With that I would like to end this commentary and happy to take down any questions.



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- Moderator:** Ladies and gentlemen we will now begin the questions and answer session. The first question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Two question firstly on the industry you spoke about the utilization levels being still at 70%, but if I just look at ex-south I would think that most of the markets are in the range of 75% to 80% utilization so just taking that forward what is the issue on pricing do you think it is the demand profile of the industry or is it just way too high competitive intensity what is really holding back the pricing in the markets?
- Atul Daga:** I think it is both the points together. More important is as I mentioned the structure of demand is changing it is institutionalizing which has caused a bit of resistance and price increases are taking time. Though we have seen price increases being done in the institutional or the non-trade segment also. Second point always remains that any regional market you go there is minimum five or ten players also in the market, so competition intensity is always there. In these two scenario it has been slow going on price improvement however if you were to look at a longer period of time the prices have not gone down; they have remained stable and it is now time that the prices should go up and I was very strongly hopeful that October, December was all logical conclusions all finger pointing towards price hike post festive season the demand start picking up, but you got hit with elections and at NCR banned construction. So, there was some bit of pull down on the demand also. We have seen price increases happening in January in the Northern market in the Southern markets as well. So, I think the price increases are now happening.
- Gunjan Prithyani:** Just a follow on this now that the commodity or the petcoke prices are easing there can always be an argument that we have the cost which is coming down is there a need to take price increases do you think that can be a risk to pricing action?
- Atul Daga:** No Gunjan, prices and cost have never moved in tandem for cement industry in India or for any industry where there is a supply demand mismatch. When cost were going up and that is one reason why it becomes difficult for the industry to pass on the impact of cost increases. Now is the opportunity for the industry to take the benefit of cost reduction. Having said that when the capacity utilizations are going up and as you mentioned rightly that excluding South the capacity utilizations are significantly higher there is no reason why price increases should not happen as I have mentioned January, we have already seen price hikes happening.
- Gunjan Prithyani:** And this low-cost housing which you mentioned in your slide of about 11% to 12%, does this pertain just to the Prime Minister Awas Yojana Program?
- Atul Daga:** Yes. I thought it was important for everybody to know that it is a good effort that the government has been doing and it is gaining strength.



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- Gunjan Prithyani:** Almost 28 to 30 million ton of demand coming from this segment is fairly high, I mean is this just this program or you are including some other low costing also because I would have thought it would be in the range of 15-million-ton odd from this program?
- Atul Daga:** This is the PMAY low cost housing program. The affordable housing program is still not meaningful that is why it continuous to be part of the housing demand in our analysis.
- Gunjan Prithyani:** And now just moving to the Binani transaction you mentioned that the cement will eventually be sold from UNCL to UTCL does that mean the EBITDA that we capture on the sales that we do on Binani will be captured in the standalone financials?
- Atul Daga:** Yes.
- Gunjan Prithyani:** And the fixed cost expenses pertaining to the revalued assets of the depreciation and they have taken on the subsidiary will be captured on the console?
- Atul Daga:** The revalued depreciation will appear on console only not on standalone UTCL or standalone UNCL.
- Moderator:** The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.
- Amit Murarka:** Just couple of questions on the Binani kind of arrangement, first so you said it is cost plus margin so what is the margin kind of that will be built in over here?
- Atul Daga:** We are taking a transfer pricing opinion, so it should be at an arm's length basis not yet firmed up we have just started off the transactions. The accounting firms are examining the norms to be let down.
- Amit Murarka:** So, basically, the sales volumes will be reflected in the standalone sales volume or basically Binani volumes will be reflected in standalone sales volumes, but the margin that will be coming into the standalone books will be lower let say for our own production right?
- Atul Daga:** Very insignificant, you know for all purposes we should look at domestic market for Ultratech point of view or consolidated picture that only will make sense.
- Amit Murarka:** And the Binani will have a PBT loss which means that consol tax rate will be higher?
- Atul Daga:** I expect in Q4 FY20 we should be PBT breakeven. So, the first nine months of operations could see a PBT loss.



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- Amit Murarka:** And lastly what is the status of Pali now and the Binani planned expansion?
- Atul Daga:** No decision taken yet. I think we are stabilizing and ramping up the Nathdwara plant which is Binani plant in your parlance. By the next board meeting hopefully we should have a decision on Pali expansion.
- Amit Murarka:** Lastly what was the trade non-trade share this time around in volume?
- Atul Daga:** 64% is trade and remaining being non-trade.
- Moderator:** The next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.
- Rajesh Lachhani:** I just want to ask what would be your estimate of return on capital employed on the Binani as well as the Century assets one we are integrated in the next one or two years?
- Atul Daga:** So, I do not want to look at the next one year or two years return and depress myself. I would look at a third-year position from now where we will be inching towards 14% to 15% mark.
- Rajesh Lachhani:** And sir other question is what would be the volumes from Binani that you have recognized in the standalone?
- Atul Daga:** 1 lakh ton.
- Moderator:** The next question is from the line of Jatin John from CLSA. Please go ahead.
- Vivek Maheshwari:** Sir two questions, first on the non-trade segment your comment about the demand profile shifting, I would imagine that you know the non-trade portion or let say infrastructure demand can grow faster does that in anyway impact the branding going ahead?
- Atul Daga:** No it does not, because especially for the big customers, there is very significant importance of the brand. Let say the metro network which is happening in Mumbai maximum will be UltraTech or any major projects. So, these are projects specific, location specific preferences. Quality and strength which a particular company delivers becomes very important and hence brand stickiness prevail. In fact, we have now been seeing improvement in pricing from what we call Key Accounts or non-trade segment also.
- Vivek Maheshwari:** So, non-trade price differentiation is possible. It is not that every brand will be procured at the same price then?
- Atul Daga:** Within non-trade, yes absolutely.



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- Vivek Maheshwari:** Basically, it does not impact the branding structure relief?
- Atul Daga:** It does not.
- Vivek Maheshwari:** Second, couple of things on Binani, one I do not fully understand this depreciation bit so the balancing figure will be intangible?
- Atul Daga:** Let me explain that the current depreciation on the existing asset is somewhere around Rs. 75 crores. Accounting Standard required to revalue the assets and since we have paid Rs. 8000 crores, the asset value will stand at Rs. 8000 crores within that Rs. 8000 crores whatever is attributable to land or mining rights to that extent the depreciation rates will change. So, the overall value of the assets let us say Rs. 8000 crores only, and this crores need to be depreciated and depreciation charge on this will be consolidated basis only. When I am doing my accounting in UltraTech standalone books there is no depreciation of course on account of UNCL when UNCL is accounting there is a Rs. 75 crores charge and is a third set of books which gets created which is a consolidated books which will have a higher depreciation.
- Vivek Maheshwari:** But if you are revaluing sir that will be intangible?
- Atul Daga:** No it will not be intangible because it will be linked to the valuation model that we have looked at what we will be able to realize from non-core assets taking that off and then how we allocate the value that value will be depreciated.
- Vivek Maheshwari:** And two small bits if I may on Binani itself first is when you said cost plus would you include the interest charge also or is it just the operational cost?
- Atul Daga:** Interest cost also because we have funded the acquisition 40-60 that is a norm if you would follow in a commodity sector for any new project and it has to be able to bear its interest cost also.
- Vivek Maheshwari:** So, basically, transfer pricing will be there variable, fixed cost plus interest cost.
- Atul Daga:** Yes.
- Vivek Maheshwari:** Noncore asset can you give any idea about the foreign assets does that include glass fiber unit?
- Atul Daga:** Yes, we will get rid of the glass fiber unit hopefully within FY20.
- Moderator:** The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.



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Bhoomika Nair: Sir just wanted some more color on this Binani thing so what you are saying is the volumes will get reflected in standalone, but the EBITDA in the standalone will really be very marginal because the UNCL will actually have to cover the variable cost plus the interest cost of Rs. 2700 crores.

Atul Daga: Yes. So, it will cover all its cost and then there will be small margin on which it will sell to UltraTech India.

Bhoomika Nair: So, our perspective naturally the EBITDA from that volumes will be actually very low on a standalone basis on a consolidated basis it will add up?

Atul Daga: Yes, in UTCL books the EBITDA from those volume will be insignificant.

Bhoomika Nair: So, if you can just explain how you will bridge the gap between Rs. 100/ton and on a higher and take it closer to what UltraTech EBITDA per ton?

Atul Daga: Within the 40 days we have already gone up significantly I do not want to still comment on the number individually, but you see one big driver of course is pricing power there used to be a gap of anywhere between Rs. 25 to Rs. 30 per bag between our brand and the erstwhile brand. Manufacturing cost where efforts we are putting in for reduction in cost that will also bring significant amount of saving and then there are logistics synergies. There are two plants which are located 600 kilometers away from each other were earlier they were transporting clinker from the mother unit to the grinding unit. Now we have our own unit located less than 75 kilometers from that grinding unit as compared to 600 kilometers so it saves on significant amount of logistics cost.

So, there are huge amount of procurement synergies also, I mean there is no brainer it's buying efficiency and economies of scale. Third one is they were not using any petcoke. We are beginning to use petcoke which of course will get built into my manufacturing cost reduction. So, it is a multipronged attack there is benefit because of price premium, cost reduction which are directly related to the plant and logistics synergies or synergies due to combining hands with the 50-plant network you get synergy gain and we should be able to see a significant improvement in costs.

Bhoomika Nair: So, by when do we see the Binani?

Atul Daga: As I was saying by Q4 FY20 we should become EPS accretive for this standalone asset.

Bhoomika Nair: And just lastly if I can, just squeeze in terms of some color on the international cement assets what are the utilization, profits like. What are the outlook on that asset and lastly Bara status?



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Atul Daga: So, China was under shutdown in this quarter because of peak winter. The UAE plant is operating full capacity it is very well-located in the Jabel Ali export zone that advantage that we are deriving is, its customer base is within 15 kilometers so that is a lead distance that this plant has. It has got a huge potential we are evaluating what we would want to do with these plants. As you know we have a significance presence in the UAE already and it is easy to manage that UAE plant. China plant lesser keen to keep it, it is not our core market and we might give it up. So, our first focus right now is to consummate the Century deals focus on integrating those assets and synergies from there and then in parallel we might start thinking about what is to be done with the China asset and the UAE assets.

Bhoomika Nair: Lastly on the Bara assets?

Atul Daga: Bara line it is delayed because as per contract Jaiprakash Associates their engineering firm was executing the contract for us. There have been challenges for them to complete it. As of now we expect commissioning by June 19 only not before that.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: My question is on demand since you breakdown the low-cost housing and infrastructure which together is contributing to a significant portion of the demand and now as we head into elections clearly; these are two government-funded and government-driven drivers, what would be your outlook for demand say for the next six to nine months keeping in mind that we have got election and keeping in mind that the three states which underwent election this quarter also saw demand slow down since you mentioned about it in your opening remarks.

Atul Daga: Pulkit we are expecting an impact on demand and obviously election code kicks in maybe February or mid-Feb or March depending upon the election dates any case it has to happen by May. So, April, June quarter will be subdued which is supposed to be the peak period a good period for demand. I am not commenting about nine-month but if I were to look at FY20 we are still looking at a demand forecast of about 7% to 8%.

Moderator: The next question is from the line of Anubhav from Credit Suisse. Please go ahead.

Anubhav: Sir just one clarity on this Binani, I have not understood this when you say breakeven do you mean to say at UNCL or do you mean to say that total assets when you take total loan of Rs. 4500 crores ?

Atul Daga: No UNCL.

Anubhav: So, at Rs. 2700 crores of debt and depreciation of 75 crores?



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- Atul Daga:** Yes.
- Anubhav:** That is clear and then just couple of more questions one on maintenance expense you mentioned Rs. 26 crores as one number and when you look at other in the Central plant everything as a maintenance cost how much was the total maintenance cost in this quarter you just about mentioned Rs. 26 crores just for the Central plant?
- Atul Daga:** Roughly Rs. 80 per ton is the maintenance cost.
- Nilesh:** Rs. 100 per ton was in last quarter and Rs. 80 per ton in this quarter.
- Anubhav:** Yes but can you say what is the tonnage there? Are you talking about total capacity here then.
- Atul Daga:** He is talking about total capacity only.
- Anubhav:** One just last question at this spot prices of petcoke and diesel cost in the next quarter should be lower if we just assume that if we are buying everything at spot how much the cost would come down by at the part of diesel and petcoke?
- Atul Daga:** Yes on account of diesel prices have not yet come off significant as I mentioned Q3 saw in fact increase in average diesel prices.
- Anubhav:** Now it is about 5% to 6% lower than Q3 average?
- Atul Daga:** So, if that 5%, 6% lower, it would impact roughly 1.5% of logistics cost and petcoke as I mentioned cost have dropped about net of exchange impact between 10% to 12%. In total cost we could see an impact of ~ 2% on account of petcoke and 0.5% on account of freight.
- Moderator:** The next question is from the line of Jasprit Arora from Systematix Shares. Please go ahead.
- Jasprit Arora:** It is just continuing with the Binani acquisition, I understand you do want to comment on the last quarter performance, can you leave us with some guideline for the next financial year in terms of both EBITDA per ton and volumes or the utilization level?
- Atul Daga:** Normally, I do not want to give guidance numbers and I do not want to comment on this quarter because it was not even a quarter, it was just 40 days of operation in our hands. as I had mentioned that we are targeting an EPS accretive performance in January- March 20. Capacity utilization I can say we will go up to about 80%.



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- Jasprit Arora:** And on the cement prices as it prevails you mentioned there was some uptick but what we hear from the channel is that except North all other regions it was kind of rolled back so can you just clarify?
- Atul Daga:** I did not talk about other regions, I talked about North and South only where improvements have happened in the month of January.
- Jasprit Arora:** Just lastly on what was the fiscal incentive that was kind of booked in the revenue which was part of the other income in this quarter versus Rs. 85 crores in last quarter?
- Atul Daga:** Rs. 97 crores.
- Moderator:** The next question is from the line of Raj Gandhi from SBI Mutual Fund. Please go ahead.
- Raj Gandhi:** Just on Binani and Century, both what would be the utilization currently if you could mention?
- Atul Daga:** Currently, it is first month of the quarter really it is upwards of 76% that is all I can say.
- Raj Gandhi:** I am not asking for the previous quarter as you mentioned it was just 40 days but as we speak current month is a peak demand month also?
- Atul Daga:** As of now if I were to annualize my January number it will somewhere around 60%.
- Raj Gandhi:** And Century?
- Atul Daga:** It is already operating at 75% in the hands of the earlier management.
- Raj Gandhi:** And just on the CAPEX while acquisition of Century you were mentioning that few of the plants require some bit of overhaul CAPEX and also in light of that what would be the overall CAPEX over next two, three years as a company?
- Atul Daga:** So, we have an average CAPEX of Rs. 1000 crores to Rs. 1200 crores on an annual basis which includes Nathdwara Cement also and when Century into fold, there will be initial CAPEX of maybe Rs. 500 crores which will take time because there are structural changes that have to be carried out at the Raipur plant that Rs. 500 crores will get committed, but get spent over a couple of years. The annual maintenance CAPEX which I would look at will rise to maybe Rs. 1300 crores or Rs. 1400 crores per annum.
- Moderator:** The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.



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- Madhav Marda:** Just wanted to understand your outlook on the rural housing demand ex of the PMAY scheme because we keep reading about monsoon is not doing too well in some part of the country, how has it been so far and in your sort of understanding how do you expect it?
- Atul Daga:** Rural market have been buoyant till now and yes you are right monsoons have been impacting negatively again back into the Karnataka, Maharashtra markets. However, in the Northern market with the rains happening right now are sounding good fortunes for the crop this season. So, as of now the rural demand has not seen a setback yet and the big things which have happened the farm loan waiver and the small MSP hike that was given is holding good for overall rural demand.
- Madhav Marda:** On the urban housing side your outlook because all of us are aware of the high inventory situation etc., but the Tier-2 Tier-3 cities how are you seeing demand there for data is not really available.
- Atul Daga:** We are marching Tier-2 Tier-3 on the contrary the Tier-1 Mumbai, Bangalore, Gurgaon these kind of places have started seeing significant improvement in demand for new constructions. The new constructions in the price bracket of Rs. 1 to 1.5 crores are seeing big positive movement, new projects are getting launched. The luxury segment is not seeing pickup of demand that is the surplus inventory there is a huge surplus inventory in the luxury segment and anywhere you are launching a product for Rs. 1 crores to 1.5 crores is selling like hot cakes.
- Madhav Marda:** You are summing it up 7% - 8% demand growth on the base that we have seen with affordable housing execution at such a high-pace roads at probably the best India has seen affordable housing with the best that India is seen in history that is available to us, do you think on that base you can still grow 7%, 8%?
- Atul Daga:** The confidence level is very high because the kind of roads construction that is happening and we have looked at projects in pipeline projects being announced and under execution or to be announced. There is massive amount of work in the country which is unfolding. The big challenge yes, the big risk is general elections which happens if there is a change of guard.
- Moderator:** The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** I have just one question, the point that you made that Binani will be PBT positive by Q4 so that applies if I add the Rs. 75 crores depreciation and interest cost on Rs. 2700 crores sum to roughly Rs. 800 - 850 kind of EBITDA per ton for Binani so it that the right number?
- Atul Daga:** I do not want to do forward-looking number Ashish you can do your Math.
- Ashish Jain:** But is that the number kind of be?



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- Atul Daga:** It will be high delivery number. We are aiming towards that side only and it is possible in those markets.
- Moderator:** The next question is from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.
- Abhinav Bhandari:** Just couple of questions, one is both Binani and Century on the overall EV can you help us understand the breakup in terms of tangible, intangible and working capital takeover?
- Atul Daga:** It is very difficult to split that of hand, but if you have to look at EV per ton all the acquisition and I am looking at EV per ton for the Binani acquisition net of the realization that we expect from non-core assets and the potential expansion benefit, the EV per ton would range between Rs. 7,000 to 7,500 per ton, either for Century or for Binani if that helps.
- Abhinav Bhandari:** The other question sir, on Nathdwara Cement you explained in terms of positioning, but on Century how would be the positioning products would the existing brand and existing product continue or is there a change there as well once you takeover?
- Atul Daga:** It will get rebranded to UltraTech that is the strategy as of now and as I mentioned we have started working on the integration program as it evolves, we will figure out what to do. There is no logic of having a separate brand.
- Abhinav Bhandari:** And the structuring would be similar to what you have done in case of Binani?
- Atul Daga:** No because we are not acquiring Century as a company, the assets are being acquired from there and it will be folded up into UltraTech only. Binani was different because we had to acquire the company.
- Abhinav Bhandari:** On the synergy and savings part you explained on the procurement and freight side any saving/rationalization can be expected on the employee cost and the other expenses?
- Atul Daga:** No impact on employee cost because we need the employees. The plant level employees are definitely required the marketing network as we expand the market because we are not going to sell in the limited market only as we acquire capacity, we expand our markets also so marketing people are equally required.
- Abhinav Bhandari:** Just one last booking number sir on consol side if you could understand the volumes UltraTech consol entity including the overseas cement business as well as the usual white cement revenue volume and RMC revenues that you give?



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- Atul Daga:** All in the volumes are at about 19.39 million tons an increase of 15%. White cement revenues would be around Rs. 500 crores RMC would be Rs. 521 crores.
- Abhinav Bhandari:** And white cement volumes?
- Atul Daga:** 0.37 million tons.
- Moderator:** The next question is from the line of Navin Sahadeo from Edelweiss Securities.
- Navin Sahadeo:** Just two questions, so I am looking at your investor presentation in this quarter and just also recollecting the previous two quarters keeping the view positive on demand, but on the industry outlook, are we little more cautious now incrementally especially mentions of surplus capacity and uncertainty around prices?
- Atul Daga:** The reason I mentioned specifically about surplus capacity because I keep sharing comments and that there is 25 million ton coming or 50 million tons coming in one year or two year where is that 50 million tons or 25 million tons there is a 17 million tons. I was expecting 17 million ton for this year and that is why it is important to clarity that the new addition when it is announced you have to pet it in a particular period where it will come up. Quite often people miss timing of the new capacity. So, I am looking at 16 million tons now each year for next 2 years down the road. Next year might be slightly higher, but bigger point is that the demand growth is in excess of 25 million tons every year which will absorb the new capacity which is coming in and keep on inching up the capacity utilization. Capacity utilization mind you is not behaving in arithmetic progression when the demand surge happens. We are today looking at, excluding South, 75% capacity utilization or even more than 75%. In my arithmetical progression 75% would have been achieved much later on. So, demand surge is all defining how the capacity utilization is going to behave.
- Navin Sahadeo:** Because I was just looking at from incremental conviction from management because past few quarters on con-calls the commentary was too positive. Now it sounds a little too cautious especially from prices, given the election so I was just trying to say that pricing perspective we are getting into zone of muted price hike kind of an expectation is that fair to expect?
- Atul Daga:** Difficult for me to say, I think January price hike have happened in some parts of the country. It is a like a play if region sees price hikes happening in one area the other regions might follow suit. It is a game of wait and watch.
- Navin Sahadeo:** My second question is on the cost, so in that you said this quarter particularly had this maintenance cost related to Bela facility of roughly around Rs. 26 crores, I am looking at total other expenses which come in about (+1200) crores in the quarter which a maintenance cost as you said is Rs. 80 per ton. I am comparing it with the previous quarter which was about Rs. 1058



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Crores or even lower Rs. 980 crores in Q1. So, I am saying this component of other expenses seems to be sharply moving up so what else is impacting this cost beside this maintenance?

Atul Daga: Other maintenance cost as I mentioned there are 11 kilns which were under shutdown. So, beside that there would be maintenance on account of those plants. Packing cost has gone up a bit that of absolute volumes and one more thing which is I am forgetting to add is like to like Dhar plant was non-existent last year now we have had the Dhar plant fully operational into those streams which will increase the absolute quantum of expenditure.

Navin Sahadeo: I am referring to let say Q1 we did about (+17) total volume and in Q3 also we have done 17.5 little higher kind of volumes, but this cost from Rs. 980 crores in Q1 is shooting up to almost Rs. 1211 cores. So I am just trying to understand besides there seems to be more cost than beside maintenance cost the rough cut numbers which you have mentioned of 80/t.

Nilesh: As we have said that maintenance cost in this quarter is about Rs. 80 per ton which is not there in Q1 at all. So, if you take the volume of 18 million tons, at Rs. 80 per ton it gives about 145 crores and as we discussed earlier also the other cost include some variable component also like we mentioned that packing which move in tandem with the volume.

Navin Sahadeo: Last one is just on this purchase of finished goods which is also sequentially up about 100 crores so even if Binani volume of lakh ton come into this it will cost not more than I think Rs. 35- 40 crores so what explains the further increase there?

Nilesh: See this is linked to the additional volume because sequentially our volume is up so this has also increased.

Navin Sahadeo: Purchase of traded goods you are saying?

Nilesh: Yes.

Moderator: The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir my question it is more philosophical, how do you see UltraTech in the current environment is it something market share is more dear to us or is it profitability because in the prior questions you emphasize a lot of utilization level be at Century or Binani at 80% say in FY20 so how should one look at this?

Atul Daga: So, one is we do consolidation but not for operating at sub-optimal capacity there is no point in operating Binani plant at 40% only. It was because of working capital front that the erstwhile owners were not able to operate or JP assets which were operating at 18%. So, an optimal capacity utilization has to be achieved to absorb your fixed overheads and deliver profitability.



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Century assets that is why it was important to specify that it is already operating at 75% capacity utilization it is almost optimal there is nothing much to do on fixed cost absorption it is more to do what we will do have to do work in Century assets as improved cost and take up our pricing. Pricing wherever we have gone into whether it was JP or Binani acquisition or Century, we will peg the output from these plants at the prices at which UltraTech sells. there is no chance that it will get discounted.

Ritesh Shah: Sir let me put this way round when we look at regional profitability at UltraTech is it one region would subsidize the other when we acquire the new assets. So, I do not know at what level is Dhar operating right now, Binani utilization levels will increase so or let me put it the other way round, if you had the opportunity to utilize Binani at 90% utilization at 450 kilometers of lead distance would you prefer that or would you operate it at 70% utilization levels let say 250 kilometer of lead distance.

Atul Daga: Logistics is the biggest cost and 450 kilometers is something that we would not want to do as I mentioned in my address also that we have been reducing our lead distance. So, we would look at operating closer to the plant and selling the output closer to the plant not sending out further.

Ritesh Shah: Second question, versus trade versus non-trade profitability how was it changed a year back and how does it stack up right now specifically non-trade prices have been depressed?

Atul Daga: Non-trade prices have been increasing in fact at least in the market that we have seen and the margin difference is we were to look at would continue to be somewhere around Rs. 30- 40 per ton.

Ritesh Shah: Sir last two questions. One is any update on the Dalla clinker unit it has been like quite sometimes we have not yet commissioned?

Atul Daga: There were the NGT process which is on just to explain land and which has to be handed over to the forest department has been identified. We keep testing the plant, firing it up and testing all the motors and stuff. So, my expectation is on the next two or three months that clinker plant should be available and March maybe a quarter or six months of tidying it up and sprucing it up to start operations.

Moderator: We will take the last question from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: Sir quickly one clarification the cost saving number that you gave I just want to confirm 1.5% due to diesel and 2% due to petcoke those are 2% of total cost and 1.5% of total cost?

Atul Daga: 1.5% for petcoke on total costs and 2% for diesel on logistics cost.



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Swagato Ghosh: And axle load norms whatever had to come in has already come in there is nothing incremental left?

Atul Daga: No there are still negotiations going on and I would expect January-March internally we have seen month-on-month improvement and we would see January-March quarter showing maximum benefit.

Moderator: Ladies and gentlemen that was the last question. On behalf of UltraTech Cement Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.
