



“UltraTech Cement Limited Q4 FY 2017 Earnings Conference Call”

April 25, 2017



**MANAGEMENT: MR. ATUL DAGA – EXECUTIVE DIRECTOR AND CFO,
ULTRA TECH CEMENT LIMITED**



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Moderator:

Good Day, Ladies and Gentlemen and Welcome to UltraTech Cement Limited Q4 FY 2017 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 risks that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statement 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. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to 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. A very good morning to all of you and thank you once again for joining us today on this call. Let me start by talking about the year 2016 - 2017. The year started on a positive note on the back of strong demand that we saw in January - March 2016 quarter and the undercurrent was maintained in the next few months. Rural sector started looking up and the pace of growth of infrastructure development continue to show an upward trajectory and it look like the start of the next cycle.

However, the industry saw a push back in Q3 as the country was faced with a liquidity crunch. Industries involve in discretionary spend saw a slowdown and that is what we have seen in cement. From October onwards, it was a slow pace of growth. January, I believe was the weakest month in the second-half of FY 2017 and this has been followed by gradual improvement. Added to the woes of the industry from the cash crunch input cost have not been favorable either; coal, pet coke, diesel, all of them together I think peaked in Q4 which impacted the margins.

We believe that there is still some pain left because of the liquidity crisis though the worst is over. As the country comes out of the liquidity crisis, we will now be faced with another reform in the tax structure in the form of GST.

During this year, India will be transitioning to a single tax regime of GST from the multiple taxes that exist in the country. It will be a completely new process and there are bound to be some hick-ups in the initial few months more on account of administrative processes not so much of the business disruption.

Let us talk about demand for cement industry that the way it panned out during this year and the way we see it going forward. The housing sector has started to come back. There has been some correction in prices of real estate. The interest rate reduction has also helped in making housing



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finance attractive and the first home buyers are getting back in the investment mode again. We believe that there is a lot of interest from the Chinese real estate players evincing interest in investing in India as several of them have set-up base in India and looking at development opportunities.

Recent launches by prominent developers have shown a very encouraging first day response in terms of bookings that gives us a favorable feel of things to fall.

RERA, the new regulation which is going to be rolled out from the 1st of May will also help the organized real estate players.

Tier-I cities now are seeing an increase in construction activities. Cities like Mumbai which account for 3% to 4% of all India demand has some large projects underway. The metro rail construction which is in full swing and the coastal roads project which is about to commence work in this financial year will see some major thrust in cement demand from this city itself. This will of course, attract investment in the housing segment in the distance suburbs.

Tier-II cities have still not picked-up pace in the housing segment and that is the biggest worry from the housing market. Infrastructure segment continues to grow at a robust pace. However, the infrastructure segment as an overall demand driver remains to be small. Our take is that, out of the total demand basket infrastructure would be contributing about (+/-20%) of the overall demand. Within this 20%, roads which might be 3% to 4% are growing at a robust 20%. However, they contribute one small percentage of the overall demand basket. Other areas like irrigation are picking up. There are metro rail networks coming up in the country, you have inland waterways starting to pick-up. Ports overhauling, there are initial activities that have started and will contribute to demand in the longer period.

Looking at the regional splits. Southern states of Tamil Nadu and Kerala are going through a drought situation which has resulted in a pressure on the rural markets in these regions. Added to that, there is a political uncertainty and instability in the state of Tamil Nadu which is not really looking positive towards the overall economic development of the state.

The western markets have seen a surge in demand in this quarter and continue to remain bullish for volumes.

North markets were slow and continued to face maximum amount of pressure because of the liquidity crises followed by the eastern market.

Most of the other rural markets in the housing space have started picking-up on demand, this was on the back of good monsoons, good crops, pay commission disbursements and the expectation of a good crop this year as well.



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Most important and interesting aspect is the Affordable Housing Program announced by the government which is the very positive move for the cement industry. The recent data which I got 352 projects have already been launched in the country, spread across 53 cities to build more than 200,000 affordable houses and this is not the end of it, there will be much more to come. Average cost of construction of these houses is around Rs. 18 lakhs with tax holidays and wider financing options these projects will surely create a phenomenal demand in the near future. These houses will attract the first home buyers who have the added attraction of interest subvention scheme for buying the house. Interest rate correction and some reset and real estate prices in the recent times are bringing the home buyers back to the market.

In the overall scheme of what is happening in the country, let us look at what has been happening at UltraTech? First and foremost, on the acquisition, as you are aware we are in the process of acquiring 21.2 mtpa of cement capacity. This is in the last stages; all the approvals have been received. We have now applied for transfer of mines, there is a regulatory process that one has to follow and there are four different states involved Himachal, U. P., M. P., and Andhra Pradesh. We believe that in the next few months we should be able to complete the transaction.

All the assets are strategically placed for us. For example, we will have 6.5 million tonnes of capacity in the states of Uttar Pradesh and Uttarakhand, the states where we believe infrastructure development will pick-up momentum and will be the fastest growing states. Coastal Andhra Pradesh with 5 million tonnes of capacity is again well positioned to cater to the demand of the new state capital. Another 4.9 million tonnes of capacity in central India a high growth market and 5 million tonnes of capacity in Himachal which is also a focus point of development. We are on course for our 3.5 million tonnes capacity expansion in the south-western M. P.

By the end of fiscal 2019, we will have about 95.4 million tonnes of capacity on the ground.

You will recall our commitment in the beginning of last year to make the company at zero debt. Robust working capital management and prudent CAPEX spend plan have helped us achieve our goal. I am happy to tell you that this year we have ended with a negative net debt of Rs. 2,400 crores i.e. a net cash surplus of Rs. 2,400 crores. This will help us in reducing our leverage position from day one of the acquisition.

On the cost fronts, we continue to work on efficiency improvement program and we have seen this quarter also the cost escalation that caught us in terms of input price hikes have to some extent being curbed and controlled because of our efficiency improvement whether it is in power consumption, whether it is logistics or other areas of operation.

In the end, I would like to tell you that the Indian economy, as we have heard from most eminent economist and institutions, is poised to grow at about 7% in the coming years and cement is one



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of the strong pillars to sustain the growth. And UltraTech is well positioned to take the advantage of this growth in the years to come.

Thank you and with that, I hand it over for questions.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the Jaypee acquisition. What kind of synergy benefits will come through and how much time will it take for UltraTech to get Jaypee to UltraTech per tonne EBITDA after the acquisition completion? And how much of logistics optimization and raw material procurement synergy can be expected?

Atul Daga: First, on synergies. As I have explained earlier also synergies will be in the shape of from the areas of logistics, from the areas of common procurement, and as also from the management bandwidth perspective where we will be able to bring about improvement in the operations of the existing plants. The biggest of all will be synergy from our brand. Clearly, UltraTech brand commands a premium in the market and once we are able to complete the quality improvement and bring the production from those plants to the level of UltraTech we hope that we will be able to command a premium for the product from these factories. Time required as I mentioned, we will take about a year's time to do a cash breakeven and eight quarters, a two years' time we enter the plants to become EPS accretive on these assets.

Anshuman Atri: Okay, sir. If possible can you share your estimates on how the industry grew overall in this quarter and the year and also region wise growth versus UltraTech?

Atul Daga: Sure. We believe that industry on the aggregate will not have a growth in this quarter and this was the end of the tough period of the cash crunch that the country faced and things have been improving. But overall, I believe that there is not going to be a delta performance for this quarter. Vis-à-vis UltraTech as you have already seen in our results we have grown marginally.

Anshuman Atri: Okay. And any lights on the region wise, if possible?

Atul Daga: Region wise, again, south has been growing very well. West has seen a pick-up in volumes. North and east are stagnant or north was struggling for demand in this quarter and east is stagnant.

Moderator: Thank you. The next question is from the line of Mangesh Bhadang from Nirmal Bang. Please go ahead.



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- Mangesh Bhadang:** Sir, you mentioned about RERA being helpful for most of the real estate player. Obviously, it is very good in terms of transparency and governance for all the players included. But do you think it will have a negative impact on housing in the short-term?
- Atul Daga:** In the short-term yes, it could have a negative impact because the pressure will be felt by all the small first gen entrepreneur driven real estate developers. The rules required under RERA is that the booking collection have to be maintained in an escrow account that money cannot be used for any other projects and this was the bane of all problems in real estate sector because the developers would use the cash flows of one project to start another project and both the projects would get delayed. Now, the unorganized players or small developers will not be able to use the cash flows in similar way the way they were doing earlier. Which makes me believe that there will be some kind of consolidation that takes place in the real estate sector, the large organized players will definitely benefit.
- Mangesh Bhadang:** So, in the medium-term probably some slowdown in Tier-I and Tier-II cities and then probably we will see.
- Atul Daga:** Absolutely.
- Mangesh Bhadang:** Okay, sir. And one more thing for this quarter January and February, we saw a huge decline in production numbers at least based on the DIPP data. But March seems to have recovered very sharply. So, is it because of the year end pressure or the government also gives in a lot of orders or do you think that it is actually the start of the recovery and demand varying probably we will see it going forward also?
- Atul Daga:** If your appetite is to eat four slices of bread and if I serve a loaf of bread, will you be able to eat a loaf of bread? You will not. So, construction activity continues at the same pace as it was. I would agree that towards the end of financial year, every company whether it is any kind of business who wants to complete its target. So, to that extent there can be some increase in volumes but that does not kind of go, we do not go overboard because ultimately consumption has to take place in terms of cement getting poured into the construction activities. So, construction activity has taken off.
- Mangesh Bhadang:** And sir, CAPEX for Dhar project how much it will be?
- Atul Daga:** About Rs. 2,600 crores.
- Moderator:** Thank you. Next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.



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- Anubhav Agarwal:** Sir, one question on Jaypee acquisition, when will you start the brand transition process in the sense that of course, its few months before you close the transaction but soft launch of UltraTech brands in these markets the seeding process will start much earlier, right?
- Atul Daga:** Yes, seeding can start earlier. We would target to do a launch at least within three or four months of acquisition.
- Anubhav Agarwal:** But, we are already there, you suggested we are just few months away from the transaction that is why I was asking that have we already started the process or not?
- Atul Daga:** No, till the registrations take place you cannot start any work, we are still not in those plants, we have not yet completed the acquisition.
- Anubhav Agarwal:** Okay. So, when you say few months so acquisition it will take you are saying another quarter or two to close now?
- Atul Daga:** I would keep myself to few months.
- Anubhav Agarwal:** Okay. Second question was that can you give some sense on the white cement, wall putty business not on the volumes of the sales front but in terms of trend just on the profitability let us say if you look at the March 2017 quarter versus the March 2016 quarter just trying to get a sense that the margins for this business are substantially up year-on-year or is this business running on flattish margins just a sense will be useful.
- Atul Daga:** The margins have been growing. We are still seeing Y-o-Y number showing more than 10% growth in margins in white cements.
- Anubhav Agarwal:** Okay. And clarity on personal cost. Personal cost in this quarter was down 5% versus the December 2016 quarter. What drives this volatility quarter-on-quarter?
- Atul Daga:** So, may be actuarial evaluation, the retrial provisions that have to be brought into play at the end of the quarter.
- Anubhav Agarwal:** What would have led to actuarial evaluations in this because there was no interest rate change what would have caused this?
- Management:** There are certain change in assumptions.
- Management:** Beside this, with Ind AS implementation we have to take actuarial gain/loss into OCI instead of taking in main cost.



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- Anubhav Agarwal:** Okay, thanks. One just last clarity, if you look at your lead distance before demonetization and now, is there any substantial change or is it same?
- Atul Daga:** I do not think demonetization would have any significant impact on lead distance. If there are opportunities wherever the volume is growing and if we are running full capacity we will transport material from longer distance.
- Anubhav Agarwal:** Okay. But in reality it has not changed much?
- Atul Daga:** No, not because of demonetization.
- Moderator:** Thank you. Next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Just on the Jaypee, is there any risk to further significant delays on this because I think our initial guidance was either March quarter or by the end of June quarter. So, do we see any further slippages from the June quarter?
- Atul Daga:** I believe it could be a touch and go. We could look at completing it in June worst case July. You see, as I had mentioned the last item was application for transfer of mines, joint applications have been submitted and there are various steps to be followed within the framework of the new MMDR Act, we are in the process of getting those completed, which has its own time requirement.
- Gunjan Prithyani:** Okay. And these are essentially procedural approvals?
- Atul Daga:** Yes, these are procedural.
- Gunjan Prithyani:** Okay. And sir, just moving on the cost side, you highlighted the usage of industrial waste over coal in your presentation. Can you share more details here and what kind of fuel mix is there at the moment how do you see this changing in the next 12 months given how the pet coke prices are behaving?
- Atul Daga:** Basically, alternate fuel whatever we can find whether it is chemical waste or FMCG waste, paper industry waste, etc., whatever we are able to get we are using as alternate fuel. And this quarter, pet coke was about 71%, linkage coal was about 10%, imported coal 11%, indigenous open market coal 5% and others would be AFR which is about 3%. Going forward pet coke even if it is expensive it still attractive in terms of converted energy cost, pet coke will continue to occupy the pole position. However, if the prices do not come down, we will definitely look at moving into linkage coal and other options.



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- Gunjan Prithyani:** But anything on the AFR side, how do we see this going forward from 3% any internal targets?
- Atul Daga:** There are internal targets, I would not want to quantify them at the moment. But yes, we are working on improving and increasing AFR percentage.
- Gunjan Prithyani:** And pet coke sir, there has been a lot of noise around the pollution and there are being ban imposed in certain regions now. Do you see that this can be a big risk to the usage of pet coke or there could be some imposition of a cess for the usage of pet coke? What are your thoughts on that?
- Atul Daga:** As of now, what we have heard, pet coke was banned in NCR area where the use of pet coke would be much less because within the city limits, you would not have cement industry. So, there will be a marginal use of pet coke in those areas. Otherwise most of the cement plants are investing in technology to ensure that emission norms are maintained or are met as per the government regulations. So, I do not see a challenge from the perspective of environment issues for pet coke consumption. And as far as levies are concerned well it is in the hand of the government if they levy any cess it will impact the entire industry and I guess it will get passed on in prices.
- Gunjan Prithyani:** Okay. Sir, last one from my side, the other expenses seem to have shot up a lot in this quarter both you know Y-o-Y as well as sequentially, anything to explain that?
- Management:** So, on sequential basis it is largely driven by volume because there is an increase in volume by about 20%. So, in other expenses we have packing material cost and some selling expenses, which is largely linked to sales volume.
- Atul Daga:** A lot of variable expenses.
- Gunjan Prithyani:** But Y-o-Y there is a sharp increase versus last year.
- Management:** This is on account of price impact because the packing price has increased drastically compared to last year and partly some repair and maintenance also.
- Moderator:** Thank you. Next question is from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.
- Indrajit Agarwal:** My first question is has there been a major shift in your trade, non-trade sales say compared to two years back or one year back this quarter?
- Atul Daga:** No, I think trade was 68%. But it is a continuous thrust on trade and penetration in the rural markets. We have improved our rural market penetration as well as trade.



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Indrajit Agarwal: All right, this is helpful. Sir, on pet coke prices, can you share the number how much have you booked? What was the average price for this quarter?

Atul Daga: \$87/t was the booked cost in Q4.

Indrajit Agarwal: And what is the current price?

Atul Daga: Somewhere around \$94/t.

Indrajit Agarwal: Okay, sir. And can you share the white cement RMC sales number that you usually share every quarter?

Management: RMC sales is about Rs. 480 crores and white cement Rs. 500 crores.

Indrajit Agarwal: Rs. 500 crores, okay, sir. This is helpful. One last question on my side, sir the provision that has been written back that is including other income of Rs. 138 crores, what is this related to?

Atul Daga: So, this was regarding royalty on limestone, we were providing for royalty on limestone for Madhya Pradesh over the last several years on conversion factor and there has been a notification which has helped us to reverse that provisions. So, it impacts all the cement players of the state of M. P. some people have provided for it and some people were carrying it as a contingent liability.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: Firstly, now that the FY 2017 is over what is your sense of full year industry demand for FY 2017?

Atul Daga: 2017, I think flat.

Vivek Maheshwari: Flat for the industry, okay. And next year a while back I mean, one of your presentation had forecast of 2018 right up 2021 7.5 and I think it goes up to 7.8.

Atul Daga: Yes.

Vivek Maheshwari: If affordable housing becomes a reality would you see a significant upside lift to these numbers? I mean of course, depending on the execution.

Atul Daga: Yes, depending upon the execution, you see, there was a time or I would say last three years or four years have been aberration where cement has been underperforming GDP. First and



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foremost, all these initiatives especially of affordable housing will help cement to come back to its original form of growing our GDP which means instead of 7.5 you could see a higher growth. But it all depends on execution and pace of execution. Because I gave you some stats 'n' number of projects which are being already announced and work has commenced but that is till 352 projects in 53 cities 200,000 affordable houses; that 200,000 affordable houses which have been announced is too smaller number to create a dent. So, this has to pick a pace and if you recall the government's plan is to do on an average 10 million houses per annum between low cost and affordable houses. The market for affordable houses has changed completely. It can be anybody's house. It is not a poor man's house. The highest size of the affordable house is 110 square meter, i.e., 1164 square feet, this is an average 2-bedroom, hall apartment in the suburbs of Mumbai or anywhere. So, Mumbai might not be a good example because cost of house in Mumbai will still be very high. But if you go down into smaller towns a 110-square meter house will attract a lot of potential. If you see the advertisement that keep flashing in the News Paper these days, small apartment is selling for Rs. 30 odd lakhs in the central suburbs or eastern or western suburbs. Now, out of the Rs. 30 lakhs the cost of construction is only about Rs. 18 lakhs that is a handsome profit which the real estate industry is going to make. In that Rs. 30 lakh the loan component or subvention is allowed up to a loan of about Rs. 9 lakhs and Rs. 12 lakhs there are two slabs. You see, Rs. 12 lakhs as a housing loan might not be very attractive to you as an individual but for that, the first home buyer, the people in the age bracket of 25 to 35 looking for their own house this is a very attractive proposition and I think, that is what is going to change the face of housing segment. Execution is what we have to wait and watch for.

Vivek Maheshwari: Okay, sure. And one more question on the industry, so if we go by IIP number, the first two months, January and February would have seen let us say 12% - 13% kind of a decline or even more. Do you reckon that those numbers are okay, which means that March would have been 25% increase or there could be in your view some issue with the data itself?

Atul Daga: I am not able to comment Vivek on the government numbers.

Vivek Maheshwari: Let us put this way, January - February in your view as against let us say production which is let us say down 13% - 14% what is your sense of demand in the first two months there?

Atul Daga: Demand has been improving. As I said, January was the weakest month February was better and March was better.

Vivek Maheshwari: When you say February was better, it is like what mid-single-digit kind of a decline as against let us say...

Atul Daga: Obviously.



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- Vivek Maheshwari:** Okay, understood. And specifically, one or two if I may, on your specific quarterly, one is while depreciation and interest cost rising quarter-on-quarter is there any one-off in either of the head?
- Atul Daga:** Interest had another one-off provision that we have made. As you are aware entry tax Supreme Court has rule against the industry again, not just cement all industries about entry tax. So, like a prudent accounting we have been making provision for entry tax, no impact on account of that. However, in the state of Rajasthan we believe that the state government might demand interest also, so Rs. 34 crores of interest was provided over and above the normal interest cost. It is a non-cash charge.
- Vivek Maheshwari:** Okay. And what about depreciation?
- Management:** Depreciation is not much higher it is Rs. 20 crores based on the normal capitalization.
- Vivek Maheshwari:** No, my point is, so shall we take that as a run rate into F 2018?
- Management:** Yes.
- Vivek Maheshwari:** That will be the run rate, right?
- Management:** Yes.
- Vivek Maheshwari:** Okay. And finally, tax rate in this quarter or rather for next year what will be the number that we should be building?
- Atul Daga:** You know this quarter the tax rate went up because our tax benefits like deductibles were coming to an end and the overall profit growth would get tax at maximum marginal tax rate. So, next year I would be in a higher tax slab only till Dhar CAPEX kicks in where the ex-depreciation benefits. So, FY 2018 you could expect a 32% tax rate.
- Vivek Maheshwari:** 32%, okay.
- Moderator:** Thank you. Next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.
- Ashish Jain:** I had two questions. One is on pet coke what is the cost you said you booked in this quarter?
- Atul Daga:** \$87/t as against \$42/t last year and \$78/t in previous quarter.
- Ashish Jain:** And the trajectory currently is higher than that you are saying for the June?
- Management:** A little bit.



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- Atul Daga:** Slightly higher.
- Ashish Jain:** Sir, from the peak pet coke prices are still down, I would have thought at least...
- Atul Daga:** We saw marginal reduction from the \$90's it slipped to below \$90/t and it is back above \$90/t. So, as of now it is still going strong. I believe let the summers go and after that only you will see any reduction in pet coke price.
- Ashish Jain:** Okay. And sir, secondly, in terms of volume momentum how has been the trend in the first three weeks of the current quarter?
- Atul Daga:** It is maintained. Ashish, let me pre-empt your question. Volume uptick is maintained, prices are stable. The exit March prices were higher than the average prices for January - March period.
- Ashish Jain:** Okay, got it. And sir lastly, on AFR I know it is a very small part as of now. But what is the cost advantage on AFR versus let us say pet coke or any other benchmark.
- Atul Daga:** Zero cost fuel.
- Ashish Jain:** Okay. But in terms of transportation and those kind of stuff is only to incur in that?
- Atul Daga:** You know that we will not use long distance AFR with a risk of carrying any hazardous material, infect nobody would want to take a risk of any transit issues. So, it will be marginal cost of transport and we still look at as zero cost game.
- Ashish Jain:** Okay. And sir, technically, how higher can it go you think?
- Atul Daga:** As somebody else also had asked the question. We are working on improving or increasing our AFR. Some of the plants where we have already 13% or 14% but it is only one plant where we have reached 13% - 14%. On the average, we are today at about 3%. The work is on; however, wherever we can maximize, we will maximize.
- Moderator:** Thank you. The next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala:** Sir, my question basically pertains to volume. So, we see that the industry volumes in terms of DIPP numbers have been quite bad. But most of the larger players like one of your peers have also reported quite good numbers. So, just wanted to understand, is it like the unorganized players, i.e. the unlisted players are losing market share because of the cash crunch in the last quarter and the larger players are gaining market share, any such kind of trends that you are seeing?



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- Atul Daga:** In selective markets, we have seen that trend as well.
- Ankit Fitkariwala:** Okay. More specifically if you can say some regions or something?
- Atul Daga:** Western markets we saw people who were bringing material from longer distances lost market share, we have gained the market share and the local players have gained market share.
- Ankit Fitkariwala:** Okay. And sir, second question in terms of the demand do you see where that in the southern region there has been a drought kind of situation. So, in that sense how do you see the demand panning out in the larger parts of south?
- Atul Daga:** Yes, Tamil Nadu is where drought has caused a concern and we believe that the concern was spreading into A. P. and Karnataka. However, the government spending on the irrigation program NABARD had finally sanctioned about Rs. 45,000 crores for irrigation projects in Andhra Pradesh and that is what has kind of created a storm for demand in Andhra. Telangana has already been ongoing with its irrigation project. Karnataka is seeing some sporadic large commercial projects which are underway. Karnataka especially Bangalore and the suburbs are seeing housing demand picking-up. So, while Tamil Nadu as a state remains a concern right now because of its drought situation. A. P. and Telangana will be the bellwether for southern markets and I believe could show you a double-digit growth this year for the southern region.
- Ankit Fitkariwala:** And sir, just one last question there was a lot of market chatter that the price hikes around the first week of April but kind of get a bit of different signals in terms of sustenance from the dealers. So, can you just throw some light whether has sustained through April and how do you see it going forward?
- Atul Daga:** I do not track prices on a daily basis but last I had also heard that prices have been increased wherever the industry saw the demand pull happening and the quarterly results will tell you whether the prices have held or not.
- Moderator:** Thank you. Next question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Abhishek Anand:** Sir, firstly on affordable housing you were mentioning that it has got immense potential. Just trying to understand, if I am looking at current quarter or last few quarters, have you seen any demand coming from this segment or we have not seen this segment contributing.
- Atul Daga:** It is not contributing. The scheme was announced on 1st of February when the budget was announced. And typically, after the budget gets passed in the parliament which is much later the ministries get their funding after that and then the momentum picks-up. But that period gives enough opportunity for the first movers whoever are able to identify projects and get going at



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least they can, you cannot register an existing project into the affordable housing program but a new project. So, you can create a new SPV, get into a new project and get going. So, we believe that the affordable housing program will start picking-up momentum from the second-half of this financial year.

Abhishek Anand: Okay. So, if I am looking at your strategy to tap this segment. So, we were looking at SBI for instance tying-up with the builder's body to offer cheaper loans. So, are we planning some sort of strategy to actually get more share into this attractive segment. Have we thought around it or any strategy we are trying to adopt?

Atul Daga: So, our clientele is normally these large construction companies and not directly a real estate player and our relationship and the dependence of some of the large infra companies and construction companies on UltraTech is so high that if they get projects it will come to us.

Abhishek Anand: That is great. Secondly, on the freight side, we were just looking at few of the important bills being passed, GST coming in, there will be a dedicated freight corridor. So, firstly I would like to know your current mix between rail and road? And how do you see this mix changing post the implementation of these things? Any material changes?

Atul Daga: So, we are at about 70% road, rail is 26% and sea route is about 4%. Going forward yes, rail will take up a major share and I hope so. Let me tell you the current problem. Currently, the eastern markets are starved of rakes because the entire rake movement has been rightly shifted towards food grains and coal, no rakes are available for industrial commodities. So, to that extent there is a challenge in moving material by rail. When the DFC is fully functional, the DFC is supposed to be more for the government crops, it is more with the box wagons which means the open rakes will become available for the cement industry and the movement of the rail will increase. There is no way that I can put a number what percentage we will be able to increase to. Whatever rakes we get we will want to move material by rail.

Moderator: Thank you. Next question is from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

Abhinav Bhandari: The first question is on the supply side, would you have some concrete numbers on how much incremental capacity can come in next two years based on the announcements which have happened and some data that you may also be tracking and if you have then if you can give it from a region wise perspective that would be very helpful.

Atul Daga: So, we are tracking I believe about 40 million tonnes of capacity is due to come in the next three or four years. And region wise, North we ended March 2017 with 145. It will go up to about 168 million tonnes by 2021. East we believe that the capacity is about 72 million tonnes today, will go to about up to about 88 million tonnes by FY 2021. West is about 56 million tonnes, will go



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up to about 65 million tonnes. South is about 147 million tonnes, going up to about 155 million tonnes. Total is about 470 million tonnes.

- Abhinav Bhandari:** Central.
- Atul Daga:** For me central is still in north. Now that we are also entering into central, next time we will talk about central separately.
- Abhinav Bhandari:** Sure, perfect. The second question was on your CAPEX in FY 2018 including maintenance Dhar and Jaypee. What could be the total number?
- Management:** Rs. 2,100 crores.
- Atul Daga:** Major spend will be on Dhar project.
- Abhinav Bhandari:** Okay, sure. And one last question was housekeeping on white cement revenues for the full years.
- Atul Daga:** White cement revenues are about Rs. 500 crores.
- Abhinav Bhandari:** So, full year sir, for RMC and white cement revenue.
- Management:** Full year white cement revenue is Rs. 1,700 crores.
- Atul Daga:** And RMC is about Rs. 2,000 crores.
- Abhinav Bhandari:** And sir, clinker numbers for the quarter and full year volumes?
- Atul Daga:** I am not doing clinker sales now.
- Moderator:** Thank you. Next question is from the line of Alok Ramachandran from Future Generali India Life Insurance. Please go ahead.
- Alok Ramachandran:** Just wanted to know on the Jaypee acquisition any particular maintenance or any up gradation that you plan to undertake or you have to bring the efficiencies up to your levels, so any kind of up gradation that you have to take on those fronts or do you believe that they are similar in terms of the built or the qualities that you actually operate at?
- Atul Daga:** Yes. So, the quality of the infrastructure is as good as ours. It is more about changing the raw mix design and other process improvements that have to be carried out which will help us change the face of the cement that comes out from those plants.



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- Alok Ramachandran:** So, have you guys been able to do that seen at those plants and actually have done some brainstorming regarding them in those markets or you are yet to kind of start with them?
- Atul Daga:** No. Luckily, we are able to visit those plants once a month. We have been making our plans and work plan around what needs to be done in each plant. And as I mentioned in the call earlier within three or four months we should be able to launch our product which means that all the improvement initiatives should be through.
- Alok Ramachandran:** Okay. So, that perspective, should not it take much lesser time to actually breakeven then?
- Atul Daga:** Well, all the plans have factored in and I mentioned cash breakeven at the end of the four quarters, EPS breakeven at the end of eight quarters.
- Moderator:** Thank you. Next question is from the line of Nitesh Jain from Axis Capital. Please go ahead.
- Nitesh Jain:** Sir, basically can you share like what is the total volume that this Jaiprakash acquired asset have done in FY 2017 this 21 million tonnes approximately?
- Atul Daga:** They are operating at about 42% capacity utilization.
- Nitesh Jain:** Okay. And secondly, like when we build these assumptions in our model for the next year like what sort of volume not the guidance but at least the direction wise we should build in our model from the Jaiprakash acquisition in current year FY 2018?
- Atul Daga:** Let me put it this way, for the first 12 months, we would like to definitely cross 60% capacity utilization mark and next 12 months about 75%.
- Nitesh Jain:** Absolutely. Thank you very much. And sir, secondly, on your comments about the capacity addition numbers, so this 40 million tonnes like compared to my numbers or rather the overall feeling looks very high say in north the capacity going up from 145 to 168 wherein we can barely see any company except one line from Shree Cement perhaps one more line from Wonder Cement who else is adding so much capacity in north?
- Atul Daga:** For example, Emami is there, JK Lakshmi, Wonder Cement. So, take my suggestion you talk to Nitesh offline.
- Nitesh Jain:** Yes, that is what I am going to do that, okay.
- Moderator:** Thank you. Next question is from the line of Tejas Pradhan from Citi Group. Please go ahead.



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- Raashi:** Hi, this is Raashi here. Sir just want to get a sense on what you are thinking about FY 2017 all India demand was flattish year-on-year? How should we think about FY 2018 and UltraTech in context of all India demand?
- Atul Daga:** We will definitely try and grow higher than the industry put together. So, whatever industry growth number you are taking peg us above that.
- Raashi:** And you already talked about roads growing at about 20% - 30%. But some of the other sectors and houses which has not really kicked off yet but in your view how much could have contributed to growth in this year FY 2018?
- Atul Daga:** It all depends on the execution. It could be a game changer or it could be dead duck. So, we have to wait for real execution to start-off. Because whilst the intent of the program is very honorable, laudable, and it can create a huge demand but there are a lot of clearances which individual developer has to take right from land acquisition, to municipal approvals, etc., before they can actually commence work. And it is a no brainer and it is fantastic profit making opportunity or really sweet deal from the developer's perspective, fantastic deal from the house buyer's perspective. So, since it meets the objectives of both sites there is no reason why it should not pick up pace. Whatever I hear from my colleagues on the ground, there is a lot of noise and a lot of flutter as of now around affordable housing projects.
- Raashi:** Got it. Just one more question on Jaypee when you said 42% utilization that only on 17 million or 21 million ton?
- Atul Daga:** Yes, out of that 21 million 4 is not commissioned. So, you have to look at on the 17 million tonnes, 42% capacity utilization.
- Moderator:** Thank you. Next question is from the line of Abhishek Ghosh from Motilal Oswal. Please go ahead.
- Abhishek Ghosh:** Just one thing, you mentioned in 3Q FY 2017 that average pet coke consumption rate would be \$74/t which is about \$87/t in 4Q. But the increase in power and fuel cost is not to that extent. So, what would attribute that in terms of AFR or the production efficiency?
- Atul Daga:** I think you did not get my presentation. But you see there is power consumption reduction about 4%. There is an improvement in captive power plant efficiency which has contributed to reduction in cost. There is increase in AFR consumption which has helped. There is improvement in the efficiency of waste heat recovery system that are already in place that has helped. We have about 59 megawatts of capacity, now we are commencing the next project which will add another 9 megawatts of waste heat recovery will kick in. So, all these kind of initiatives will keep on helping the organization and as I have maintained in the past and told



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everybody that there is a continuous improvement program which is underway for improving our efficiency whether it is on the manufacturing cost, power consumption or logistics. We have not yet completed the program. It is still one more year of work which will keep on showing results.

Abhishek Ghosh: Okay. And sir, you also mentioned in your presentation that the you have been able to mitigate the increase in diesel prices because of ramp-up of split grinding units. So, has most part of it has been done or can we see further improvement or further ramp-up from split grinding units?

Atul Daga: Yes, most of them are operating at 100% capacity utilization. But in efficiency improvement you can operate a plant at higher capacity and that is what we would target.

Abhishek Ghosh: Sure. And sir, just lastly you mentioned that the exit realizations for this quarter would be higher. Can you give a sense around how different would it be from the average realizations?

Atul Daga: Difficult to say but what I had seen was that prices were generally stronger across all regions. It would be availing levels. So, I do not have a ready number.

Moderator: Thank you. Next question is from the line of Ankur Kulshrestha from HDFC Securities. Please go ahead.

Ankur Kulshrestha: Just one on the GST we understand that there are lot of benefits available in terms of exemptions or emissions on VAT excise on several investments that you or the industry must have done in across states. Do you have a sense of any material impact GST could have on either the profitability or cash flows related to these?

Atul Daga: No. So, there is also an anti-profiteering clause attached. I do not think there will be a big bump anywhere.

Ankur Kulshrestha: Sir, incentives that we might have on account of VAT exemptions or excise exemptions?

Atul Daga: Existing incentives will continue. So, there is a grandfathering policy already in place.

Ankur Kulshrestha: Right. So, there would not be any material difference on the numbers that way.

Atul Daga: No.

Moderator: Thank you. I would now like to hand the conference over to Mr. Atul Daga for his closing comments.



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Atul Daga:

Thank you ladies and gentlemen for joining us on this call. One question which keeps nagging everybody is whether the up cycle has started? When do we see big numbers in terms of volume? Our belief is that the up cycle has begun, it is a slow start. There was a hiccup in FY 2017. I believe FY 2017 was a start of the up cycle. With government winning U. P. elections and U. P. is the most popular state requiring a huge amount of housing, huge amount of infrastructure growth, with the government focused on strategically building the country in the states where they are not in a majority they are trying to work a lot. And government initiative is what will help the industry also grow at a rapid pace. However, we will have to wait and watch at least for this first six months before you start seeing a big-ticket growth in cement. Thank you and all the best.

Moderator:

Thank you very much members of the management. Ladies and gentlemen, on behalf of UltraTech Cement Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.