



“UltraTech Cement Limited Q2 FY'18 Earnings Conference Call”

October 18, 2017



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



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Moderator:

Ladies and gentlemen, good day and welcome to the UltraTech Cement Limited Q2 FY18 Earnings Conference Call. We must remind you that the discussion of today's call may enclose certain forward looking statements and must be therefore viewed in conjunction with the risk that the company faces. The company assumes no responsibility to publically amend, modify or revise any forward looking statement on the basis of any subsequent developments, 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 the conference call please signal an operator by pressing * then 0 on your touchtone telephone. 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. Good afternoon and a very warm welcome to all of you for our Q2 results. Let me first brief you on the acquisition and what we have been doing there. This acquisition will enhance our footprint in some of the high growth market in the country, viz. Central India, Himachal Pradesh, Eastern UP and Coastal Andhra where the company has been focusing to increase its presence. This being the first quarter of operations post our acquisition, we have been busy cleaning up and putting the house in order. First things first, the much needed working capital has been introduced in the new assets to buy raw materials, fuel, pay creditors etc. The most critical task was to improve and stabilize the quality of cement being produced on these plants and brings it up to company standards, for which initial onetime expenses were undertaken towards improving efficiencies and maintenance of the plants. In parallel, we went about appointing new dealers and retailers enrolling them to penetrate the markets.

Our technical team has been able to bring about improvement in the product quality in about two months of time and we have launched UltraTech brand of cement from these acquired plants during the quarter across all the addressable markets. Our product has been very well accepted and is steadily gaining market share.

We would not have expected any miracle in the first quarter of the acquisition. So effectively we have had perhaps just one month of operation of the acquired assets. Several of our executives were conversant with our ways of working have moved in to hold hands with the team joining us from the erstwhile management to help them transition to our processes.

We entered these plants in the middle of monsoons, which were heavy in some region impacting dispatches. Also, the sand shortage in several markets impacted the cement demand.

Despite all of the above, the operations of the acquired assets have been EBITDA accretive and the company is now focused on increasing its presence in the newly acquired market and ramping up sales.



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I am now much more confident of achieving the milestones that we have set for ourselves. At UltraTech, we will continue the ramp up plan in the future months.

GST: we have successfully migrated to the GST platform. On the first of July 2017, the tax differential was passed on as reduction in prices. There have been a few teething issues in the administrative processes, which were generally expected. We are sure, that in the next few months, it will be smooth and stable. Our teams have burned the midnight oil and made sure that all our filings and registrations were complete. We embarked on extensive training program for our dealer network across the country, educating them, guiding them on what is to be done and how is it to be done about GST.

The last mile connect of the business value chain was least prepared for the transition, which seems to be gradually settling down slowly. Recently there has been a relaxation for small entities having annual turnover of Rs. 1.5 crores for filing a GST return on a quarterly basis. Limit for composition scheme has also been increased to about a crore. Rates are also being adjusted to meet the demands of various sectors. These amendments will help to generate confidence on the new tax regime as well as the process stabilization as we go through a couple of more months.

Next on the agenda for me to brief you is on the cost. On the cost front, pet coke prices have gone up further. Hurricane Harvey which hit the US last quarter has disrupted the schedules of several oil refineries, leading to increase in prices of pet coke. Likewise the prices have risen in India as well. We have seen prices being hiked further in the first week of October. The prices are now hovering around \$105 per ton. This will impact the current quarter also. Coal has also strengthened in prices. The prices are upwards of \$100 per ton. At this juncture, as we look at the economics of pet coke versus domestic coal, there are some markets within the country which are looking positively inclined towards switching back to domestic coal as compared to pet coke.

Increase in diesel prices has also impacted the logistic cost. During the quarter, diesel prices has gone up by 7% YoY.

How UltraTech has been working on managing the cost front is efficiency improvement. We continue to focus our efforts on efficiency improvement. This quarter we have been able to achieve a reduction in power consumption by nearly 5% YoY, which is a sustainable reduction in costs. We have increased the use of waste materials, helping reduce the consumption of fossil fuel. AFR has risen to about 3% now in our overall fuel mix and there are plans to take it up further. Logistics, we have improved our efficiency in reducing our lead distances, but the impact of increase in diesel cost has not been very helpful.



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Let me now switch gears and talk to about demand, always the focus point of cement industry. Improvement in availability of sand in some states, end of monsoons is expected to bring about a surge in demand in various regions of the country where there is a lot of pent up demand. Stalled work could get a boost. Take for example, the bullet train project announced recently will require an excess of 6 million tonnes of special grade cement. This is of course a long duration project. Per kilometer length of girders will take about nearly 8,400 tonnes of cement. The special grade cement requirement for piers is close to 1,550 tonnes per kilometer. Once the project starts, it would have a steady consumption.

There is a lot of debate on what is happening on sand. Sand availability has been plaguing the construction industry across the country. Cost of sand has gone up nearly 5x. If we were to look at region by region:

- UP, Uttaranchal and Bihar were impacted since July. The pits have been opened since 3rd of October and we expect that the supply should become regular by the end of the month.
- Central zone was affected very badly. However, this should also result to normalcy by the end of this month, but it is a wait and watch period.
- Tamil Nadu, Kerala, Karnataka, Maharashtra, the mechanized mining is banned as of now also causing a slowdown in construction activities.
- Odisha and Chhattisgarh were not impacted and that is where we saw cement demand also going very well.

If we were to deep dive into the state-wise performance or how each state has performed in Cement, let me start with Maharashtra.

Maharashtra: Trans-Harbor link and costal road project is gaining momentum. Work is expected to start later by April-June quarter. I have been informed that contracts have already been awarded to various engineering companies. JNPT port renovation work is also another big project which is underway. The Western Freight Corridor is completing Rajasthan and will enter Gujarat hopefully in the next financial year. This will give a big boost to cement consumption in the Western zone.

Rajasthan saw increase in government projects like Gaurav Path, cement concrete roads, panchayath work contributed to housing demand. PM Sadak Yojana, Swachh Bharat Abhiyan also boosted a lot of rural demand.

Madhya Pradesh rural demand picked up after harvesting. Compensation given to displaced villagers of Rajgarh district is being utilized in rehabilitation. Compensation to land losers in infrastructure project has spurt construction activities.



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UP: the demand has been slow in the initial part of the quarter, but started gaining momentum perhaps in the last month only.

Delhi saw a fantabulous performance, they did double digit growths. All category “A” players in the Delhi market have done exceedingly well. This was driven largely by government spending on infrastructure.

Haryana the rural demand has been very strong. The government’s aggressive push for road construction and ‘Housing for All’ projects is the key driver in these markets.

Punjab however is weak, low demands due to heavy rains across the state and 7 days were virtually shut down due to the Ram Rahim Verdict during September 2017, saw the industry growing just 2%-3% in that state.

East: Major demand drivers have been IHB segment, Government aided infrastructure, the low cost housing and all the Prime Ministers programs that have been running PMAY, PMGSY etc. Infrastructure and housing segment have triggered demand due to higher support from government spending essentially. There have been hiccups though. There is demand decline due to monsoons and frequent railway restrictions resulted in delayed movement of clinker and cement rakes. Availability of sand was scarce due to ban imposed by NGT in Bihar which has impacted certain regions for cement consumption. In spite of all these, East has been the fastest growing market.

Defense initiatives, I must say will be the next area to attract cement consumption especially in the Andhra Pradesh and North East.

Low Cost Housing: As per the recent update Government plans to complete 10 million units of average size of 25 square meter by the end of FY19 and has kept a target of 3.2 million units for this year. 5 million have already been sanctioned till now and around 0.5 million completed so far. Government has also released the first installment of funding for more than 70% of the units till now. Each 25 square meter house takes about 100 bags of cement and this program has a potential to generate 10 million to 15 million tonnes of additional demand. Key states involved at the moment are Odisha, West Bengal, Uttar Pradesh, MP and Chhattisgarh, essentially Central and the Eastern corridor.

In the urban housing program, houses sanctioned till now is about 2.85 million units at a total investment of Rs. 1.54 lakh crores. This program added great strength. Will definitely drive cement demand.



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RERA: Roll out of RERA from May'17 has definitely impacted urban real estate, already dealing under the pressures of surplus inventory. The organized real estate developers are benefiting now and the unorganized real estate players have been facing lot of compliance pressures. This will definitely lead to much more consolidation in the urban real estate sector and will help improve demand in the longer term.

Road sector: Investment in roads are expected to grow at a healthy pace especially the highways and rural roads. In the union budget for FY18, the government has allocated Rs. 64,000 crores to NHAI and Rs. 27,000 crores to PMGSY which will support construction growth in the sector. The highways to the tune of 8,142 kilometers were completed in FY17 which is an all-time high at an average pace of about 22.3 kilometers per day. This has already gone up in the first two months of this financial year to about 26.2 kilometers per day, as per the stats that have been released so far and the pace is expected to grow up further. NHAI plans to build 50,000 kilometers of roads worth \$250 billion by 2022 doubling the national highway network to nearly 2 lakhs kilometers. Rural roads construction also continues at a robust pace of about 133 kilometers per day in FY17 as per the data released.

Rural economy: I think the rural economy is opening up for cement demand. Most parts of the country witnessed normal monsoons, expect UP, Punjab and Haryana. Kharif crops sowing was the same as last year. All indications are that rural cash flows should remain healthy. Initial signs of tractor sales and two wheeler sales are very encouraging. The government thrust on public spending in the rural areas in this year and the coming year, i.e. FY19, should be on a step up mode and will revive demand.

UltraTech has been growing in double digits in its rural markets and will continue to do so.

Industry has been facing some short term impact on demand due to various factors whether we look at the currencies squeeze which started off in November last year followed by GST roll out or RERA. Things are gradually falling in place in the overall economic system and we are positively looking at revival of cement demand.

That is all from my side. Thank you and wishing you all a very Happy New Year and a Happy Diwali. Over to you for questions.

Moderator:

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri:

My question is regarding volume growth. If possible can you give us a like-on-like growth for UltraTech?



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- Atul Daga:** I am afraid I will not be able to do that.
- Anshuman Atri:** Okay. And second question is in terms of utilization, so part of this if possible if you can share the utilization, how it has improved and whether 60% can be reached in next two quarter itself?
- Atul Daga:** As I had mentioned earlier also, now we are much more confident that capacity utilization will reach 60% plus in the fourth quarter of operation which is April-June 2018. We started off where the capacity utilization was down to 20%. It is gradual uptick that we have planned and working on it.
- Anshuman Atri:** Okay. So last question is regarding various cost initiatives like AFR, waste heat recovery and logistic optimization, how much savings can we see in next 1-2 years for UltraTech?
- Atul Daga:** I don't want to give any advanced forward looking statements or future numbers, till they are approved by the Board. As again, to repeat what we have mentioned in the past, there are efforts being put in place to reduce our energy costs and logistics. There are specific initiatives underway. We should definitely see an improvement in efficiency. Can't control the purchase price hikes that are taking place in the country.
- Moderator:** Thank you. Next question is from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.
- Murtuza Arsiwala:** Just two question from my side. One, there was an element of confusion in the post GST regime in terms of the various fiscal benefits. Now there may be some which should be there with the Jaiprakash assets as you have discussed as well. There has been some clarification on the central one, any clarity on the state level and have we accounted for them or have we not included them now going into this quarter's reported results? Also previously, we used to show excise separately as a separate line item. You haven't shown any GST, so should we assume that the revenue line is a net and just for clarification that the GST number is not in any of the other expense in many of the other line items?
- Atul Daga:** So let me take the second question first. Earlier, excise used to be shown as part of other expenses and VAT was netted off from sales. From now onwards, as per accounting standards, GST is being netted off from sales, which is effectively at 28% as compared to a 14% net off, which was happening from sales earlier. Excise was never a part of the netting off from sales.
- Murtuza Arsiwala:** Right. But the number that we see now, the entire GST is being net off from sales?
- Atul Daga:** Net off, yes.



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- Management:** In regards to the state incentive, we have considered the same will continue. And for central government, we have considered what notification has been issued recently.
- Atul Daga:** None of the state have notified yet, but the general consensus is that the grandfathering of the incentives will continue.
- Murtuza Arsiwala:** Okay, so we are essentially accounting for them for now and building that in our number. So there is no adjustment per se on that?
- Atul Daga:** No.
- Murtuza Arsiwala:** And, sir, any color that you'd be able to give on the impact that the acquired assets have had in terms of volumes, revenue or EBITDA on the...
- Atul Daga:** It's reflected in the numbers. So we have achieved a growth of about 18% in volumes. That is where there's a contribution from the acquired assets also.
- Moderator:** Thank you. Next question is from the line of Gunjan Prithyani from JPMorgan. Please go ahead.
- Gunjan Prithyani:** Sir, I'm not going to ask you the breakup, but at least you've put out 2 targets that is, cash breakeven and capacity utilization. Can you at least give us some sense where we stand versus in the start of June quarter?
- Atul Daga:** We are definitely on track. What we had mentioned was that by end of fourth quarter of operations, which will be April, June '18, we should be above 60% capacity utilization and we are very confident it will happen. It's moving in that direction.
- Gunjan Prithyani:** Okay. And the second question is on the cost side. Now if I look at the cost items, particularly the other expenses, that have not moved up at all despite the consolidation of JPA assets. So I'm just a bit struggling to match the cost lines post the consolidation. Is there anything specific one-off? Or this is the base level for the other expenses, including the consolidated assets?
- Management:** Nothing is specific. These are the all cost controls, which we have taken, lower maintenance cost, lower packing cost etc.
- Gunjan Prithyani:** Okay. And just one more question. On the petcoke, now how should we see the mix changing, as you mentioned that in some of the markets it makes sense to now move back to other fuel sources? So how should we see this changing going ahead? Particularly on the fuel mix, given the petcoke prices have rallied so much and you did mention that in some markets, it now makes sense to go back to domestic.



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- Atul Daga:** As luck would have it, the collieries are also becoming difficult; we are not getting coal allocation. So if you are asking for 10 rakes, you are getting 4 rakes. So essentially the plants, which are sitting on the pit head, let's say our plant in Karnataka, plant in Maharashtra, Chhattisgarh, these are the locations where it becomes economic to switch over to domestic coal. That's what we are doing.
- Gunjan Prithyani:** Okay. And just last question, if I can squeeze in. On the depreciation cost line I see that it's far higher than what our guidance on the increase due to JPA assets was. Does this capture the incremental expansion also, which was underway for JPA, that 21?
- Atul Daga:** No, that cannot be depreciated. This is on the existing assets. That 4 million tonnes, expansion is being done, that will come up only by end of next year.
- Gunjan Prithyani:** So how much that will increase the depreciation line more?
- Atul Daga:** That should increase slightly, yes.
- Moderator:** Thank you. Next question is from the line of Anubhav Aggarwal from Crédit Suisse. Please go ahead.
- Anubhav Aggarwal:** Atul sir, you mentioned last quarter that for transitioning JPA brand to UltraTech, there will be a one-off expense in this quarter. You've mentioned something like 20 crores to 30 crores. What is the actual one-off expenses in this quarter?
- Atul Daga:** Somewhere in between that number only. There are lots of onetime expenses, Anubhav. There is for marketing launch, plant maintenance. So difficult to quantify it separately, but marketing launch itself would have cost us anywhere between 20 crores to 30 crores. Plant maintenance, I don't have an immediate handle on exact onetime expenditure that has been incurred.
- Anubhav Aggarwal:** But now this marketing launch is largely done, so let's say from next quarter onwards, will there be any one-off expenses?
- Atul Daga:** So it's 90% done already.
- Anubhav Aggarwal:** Okay. And just if you can help with one data point. If you just look at gray cement realization, June quarter to September quarter, what would have been rough movement of that?
- Management:** So it's about 5% up on Y-o-Y basis. And if you'll see compared to June quarter, it is about flattish, kind of.
- Anubhav Aggarwal:** I'm sorry, sequentially, how it is?



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Atul Daga: Flat.

Anubhav Aggarwal: And just one, what's your idea, you mentioned about different state on the volume growth, Industry volume growth in this quarter would have been how much? It is like Low single digit, mid-single digit?

Atul Daga: It has to be low single digits. Our volume was high because we have got acquired capacity, similarly with any other company which has a new capacity coming in would show a good growth. Otherwise, expectation is that it will be a low single digit only this quarter.

Moderator: Thank you. Next question is from the line of Abhishek Anand from JM Financial. Please go ahead.

Abhishek Anand: Atul, so firstly, if you could help us out with the RMC and white putty sales numbers?

Management: So RMC is about 440 crores and white cement is 415 crores.

Abhishek Anand: Okay, perfect. So, basically, we have also changed our sales pattern from Ex-works to FOR. Could you explain the impact on topline, what could have been?

Atul Daga: It's insignificant.

Abhishek Anand: Insignificant. But although, the cost increases, but overall realization-wise it was not a material impact?

Atul Daga: Yes. No, it will not, because at a margin level it remains the same.

Abhishek Anand: Correct. If I'm just looking at net sales, not a material impact?

Atul Daga: Yes.

Abhishek Anand: Okay, perfect. And finally on the demand side, Atul. If I'm looking at affordable housing and the numbers you have mentioned, we have been hearing this. So do you see a pickup happening soon here?

Atul Daga: Yes, even if the government achieves or these projects achieve 50% of the targets that they have set, it will be a wonderful performance because the housing sector otherwise is in doldrums. And FY19 is a special year, lot of activity, I expect, should start picking up now.

Moderator: Thank you. Next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.



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- Indrajeet Agarwal:** Most of my answers have been answered, just one follow up. In the notes to account in Point 1, there's a mention that the company is in the process of determining the accounting treatment of certain costs incurred for these assets. Can you just throw some more light on that?
- Atul Daga:** So this is essentially stamp duty that has to be paid. There is no clarity as such on how the treatment has to be done, whether to be capitalized or taken as a onetime expenditure to accounts an exceptional item. Also the Accounting Standards says that as and when it is incurred; so stamp duty has still not been incurred. There are lot of administrative issues in the process. You are aware that NCLT took over from High Courts somewhere in December. But however, the Stamp Act has not been modified yet. Stamp Act still talks about High Courts as the approving authority for any amalgamation court order. So we have not been able to pay that stamp duty till now. So once the administrative processes and notifications get issued, which is in process right now, we have been following up with respective authorities, once the notification is issued or amending the Stamp Act to recognize NCLT as the official body, then we will be able to pay the stamp duty and account for it. Accounting for it as capital or revenue, whichever way. If it is revenue, it is an exceptional item. It does not impact the operating performance.
- Moderator:** Thank you. Next question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.
- Navin Sahadeo:** Sir, my question firstly, you mentioned that sand availability in central market is seen improving, especially it was a case in UP. But I think of late also there has been some other fresh ban on e-tendering process being initiated by the NGT there?
- Atul Daga:** Correct.
- Navin Sahadeo:** Also, some channel checks that we are doing, what we understand is that sales volumes from some of the large dealers or companies may have been down by almost 30% in UP and to a higher 40% - 50% in Bihar. So for the turnaround of the Jaypee assets that we have acquired, this region, UP in particular is important, just wanted to understand how do you see the situation? What is the current situation as on date? And are these numbers of 30% drop in volumes correct that we are hearing?
- Atul Daga:** So I won't be able to comment on some dealers losing sales. That might not necessarily be because of sand. It could be some other reasons also. Third of October is when some of the pits were opened in Bihar for mining.
- Navin Sahadev:** Okay. UP or Bihar?
- Atul Daga:** Bihar. So, there as sand mining picks up activities, of course, from Bihar it also flows into the UP East, sand. From there, if it actually picks up, then by end of October is when you should see normalization of sand supplies. But God knows, if some injunction is passed or some other



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decision is taken and sand mining gets blocked for some more time, then this embargo will continue. UP, as I mentioned, because of some improvement in sand availability, we saw sparks of concession activity going on-stream, that was only in the month of September. It will remain to be seen, how sand availability improves.

Navin Sahadeo: Yes. So are guidance basically of achieving this utilization would largely hinge around how these demand in UP in particular picks up because that could be severely impacted as on date with sand availability issues, right?

Atul Daga: No. Demand is there. There is pent-up demand. There is work happening at a slow pace. Now it's a matter of how, which brand occupies the mine space and which brand of cement is able to occupy the wallet share.

Navin Sahadeo: Understood. Sir, just 2 quick questions. If you can share volumes of white cement division, and the average petcoke cost for the quarter?

Atul Daga: Average petcoke cost for consumption was about \$ 90 per ton, and volumes for white cement n Putty about 3.04 lakh tonnes.

Moderator: Thank you. Next question is from the line of Milind Raginwar from SBICAP Securities. Please go ahead.

Milind Raginwar: In the previous question that was answered, you said that the other expenditure cost control was largely due to the maintenance shutdown. So as we understand, normally, for the existing units of UltraTech, we take the shutdowns in the second quarter. So is that been postponed? Or there wasn't cost control there?

Atul Daga: There are cost controls also being put in place and shut down is maximum during the monsoons period. However, in the acquired assets, we're taking shutdowns now in this month, but that does not impact my volumes because the planning is such that you would have enough clinker stock, so that cement grinding does not halt. Why we did not take shutdown in the acquired assets in first quarter because there was enough maintenance work that was being taken up, and it was more about starting the plants, ramping up production.

Milind Raginwar: Okay. My second question is, sir, for the purchase of finished goods, we have seen kind of a jump from a normal run rate. Any specific reason for that?

Atul Daga: Yes. There are pockets of demand which are visible, which we are trying to take capacities on lease, short-term lease operations where we are able to identify opportunities to quickly implement our systems and quality improvements and buy cement as UltraTech brand. So there are additional capacities which we can always take on hire to meet the demand requirements.



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- Milind Raginwar:** So will this be the new run rate for this item or...
- Atul Daga:** Not necessarily, but this is more opportunistic. We must have been planning may be 6 to 7 months earlier where is the potential and how we attack it.
- Milind Raginwar:** Okay. Sir, for other domestic sales, you have said that probably grey cement is 12.41, and exports and others would be 0.73. And so that comes to 13.14. Does this include your white cement also or this is only the grey part?
- Atul Daga:** Yes. 13.14 inclusive of white cement. So 0.73 includes 0.30 of white cement and putty.
- Milind Raginwar:** Okay. And, sir, within this 0.73, is there any clinker sales or can you tell me that breakup?
- Atul Daga:** No. There's no clinker sales per se. It is very insignificant. It goes into decimal, that is why we do not even bother about it.
- Moderator:** Thank you. Next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.
- Kamlesh Jain:** Just one question on the part of tax. So we have seen that our current tax, like the last year it was 21 odd percent, now it has fallen to like 16 odd percent. So it may be partially because of this acquisition. Should we take it forward going forward?
- Atul Daga:** We are under MAT so we have to be around 20%, 21% only.
- Kamlesh Jain:** Okay. So rest would remain deferred tax?
- Atul Daga:** Yes.
- Kamlesh Jain:** And sir lastly, on the other expenses side, I know that it has been asked in the previous questions, but let us say that this run rate looks very low. If we see the employee cost, it has jumped by roughly around 24% year-over-year. And even in other expenses, I believe, majority of the portion would be fixed portion. So where in staff cost we are seeing a 24% increase, while in other expenses, it is hardly 4%.
- Atul Daga:** One is staff cost increase because it's not a like-for-like. The staff costs of the acquired units comes into the P&L this year. Other cost essentially is store and spare and maintenance. So if there is an efficiency improvement, it reflects in the quarter. There is definitely a saving that we are seeing a cost reduction effort which has been put in place, which is resulting into benefits.



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- Kamlesh Jain:** Okay. So is that then the case that, let's say whatever is bidding cost, which is related to the stabilization of the acquisition, is going through the cash flow? Or all is going through the P&L only?
- Atul Daga:** What do you mean? I mean, whatever expense goes to the cash flow of P&L will go to the cash flow also.
- Kamlesh Jain:** No. I mean to say that, let's say, in the initial part of this acquisition, so are all the costs going through the P&L only? Let's say, what happens in the case of new units getting commissioned.
- Atul Daga:** No, we don't capitalize any expenses. Everything gets charged off.
- Moderator:** Thank you. Next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** I am hoping for answers over here so if you can help me with the regional utilization levels post Jaypee?
- Atul Daga:** Regional utilization levels are around 70% in North; around 50% Central; 70% East; West is around 60%; South is around 50%.
- Ritesh Shah:** South is around 50%, okay. So secondly, my question is, sir, how should one look at the cement clinker balance at UltraTech post Jaypee, given we commissioned the couple of grinding units Patliputra and Dankuni recently. So where is the clinker being fed for these units? And just a followup to this is we had a couple of clinker projects, I think, Jaypee Super, which was under commission, so at what stage is it so?
- Atul Daga:** Yes. So Jaypee Super should get commissioned by September '18. And the grinding units, which are coming up, the first line will come up 12 months. So September '18 is when we will also have that grinding capacity coming in. So both are balanced per se. As of now, there is no mismatch.
- Ritesh Shah:** Okay. But sir, where was that clinker fed from for the Dankuni and Patliputra grinding units?
- Atul Daga:** So they are coming in from our Chhattisgarh plants. Now that is where our synergy efforts come in. We are able to transfer it from our acquired plants of Western MP also instead of Chhattisgarh. That gives us logistics savings as well.
- Ritesh Shah:** Okay. That has already started?
- Atul Daga:** Yes, that's started.



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Moderator: Thank you. Next question is from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Sir, you said the EBITDA in accretive. So can I get a value to that or what is the EBITDA per tonne that we have achieved from Jaypee? Some guidance on that?

Atul Daga: I am unable to give any guidance on that. The reason is because every month is a better month over the previous month. So looking at an average will not make sense. Looking at today's EBITDA if we look at on a daily basis, today EBITDA will be higher than yesterday. So it's a ramp-up phase which one has to respect and appreciate.

Rajesh Lachhani: Okay. And the second question is on the freight cost. So I see that per tonne freight cost seems to have come down sequentially. So is this because of the low lead distance due to the acquired assets or it's the normal lead distance...

Atul Daga: Rajesh, quarter-on-quarter, the major gain is on account of lead distance reduction. And another, reason, since in Q2 for railway freight, we don't have the busy season surcharge. So that benefit is also there.

Rajesh Lachhani: Understood. But just to take this further, will this acquisition give us significant room for improvement in lead distance going forward?

Atul Daga: Yes.

Moderator: Thank you. Next question is from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

Abhishek Ghosh: So what would have been the selling price gap between Jaypee and for UltraTech?

Atul Daga: Again, initial month, it would have been wider. But once we have launched the brand, the gap is nonexistent. So I would say it's nonexistent because it will vary only market to market.

Abhishek Ghosh: Okay. And the large part of the gap, you would have only covered by end of the quarter, so the impact will be now seeing in the coming year?

Atul Daga: Yes. Absolutely.

Abhishek Ghosh: And sir, just one more thing. In terms of the presentation, whatever kiln fuel mix that you have given, that is for the entire acquired assets as well. So just to get it right, a lot of the Jaypee or the acquired assets would already be under that higher fuel mix category of pet coke and other things?



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- Atul Daga:** No, they were zero.
- Abhishek Ghosh:** Okay. So on a pre-acquired, we would have been even doing it higher than that weighted average, as you've now come in at 76%. Is that the right way to look at it?
- Atul Daga:** Yes, absolutely.
- Abhishek Ghosh:** Okay. And just one last thing. Is there any benefit that one is seeing in freight because of the GST implementation? Or is it still early days?
- Atul Daga:** Too early because the worst is yet to come, when that E-Waybill if that happens or not happens that is what one will have to wait and watch. Whether it slows down the process or how it stabilizes. Until it stabilizes, nobody would want to tinker with its logistics network to derive the benefits.
- Abhishek Ghosh:** Okay. So it's only post-month that clarity will emerge over the...
- Atul Daga:** Yes.
- Moderator:** Thank you. Next question is from the line of Ankur Kulshrestha from HDFC Securities. Please go ahead.
- Ankur Kulshrestha:** You just announced this small investment in putty plant. If you could throw some light on what are the kind of growth rates you're seeing in white cement and putty business and how does this new addition help margins there?
- Atul Daga:** Putty volume has been growing at least a CAGR of about 18% over last 7 years. That's the growth rate that we have seen. Capacity is fully utilized and demand is still existing. You have seen paint also getting to putty in this market. So that is how it clearly helps us get into an expansion mode for wall care putty. I forgot the second question and leading question that you were asking on this.
- Ankur Kulshrestha:** So basically, how does addition of putty versus white cement help margins? And what kind of margins do you have at present there?
- Atul Daga:** In the overall scheme of things, it's just 4 lakh tonnes of putty, which will be too small.
- Moderator:** Thank you. Next question is from the line of Prateek Kumar from Antique Stockbroking. Please go ahead.



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- Prateek Kumar:** My first question with regards to sir your some kind of demand outlook, if you can throw on sir the South markets specifically Gulbarga and the TN, Kerala markets. Do you see them improving over the next 2 to 3 years?
- Atul Daga:** For 2 to 3 years, if I ever to look at Andhra Pradesh or Amaravati City has started picking up now. And for it to gain momentum, it will still take time, and that is I believe, a game changer for Southern markets. We have seen irrigation projects, which were sanctioned. NABARD funding of Rs. 40,000 crores approved and sanctioned and disbursement is taking place, which is driving the growth for the Andhra and Telangana markets per se. Karnataka, that you were asking is largely being driven by IT commercial spend in and around Bangalore and other IT hub areas. Nothing else is still visible in spite of severe drought that North Karnataka faces. No significant work has started on irrigation, but I am sure the government is planning to get on to an irrigation platform also, which will drive growth of demand in Karnataka. Tamil Nadu right now is in a flux, and there's lot of confusion in that state. We are not seeing any traction, any new projects, whether government projects or private sector projects being announced. So Tamil Nadu seems to be slow as yet, no signs visible of a long-term recovery.
- Prateek Kumar:** And sir one last, Kerala market?
- Atul Daga:** Kerala is too small. I have not even looked at that market.
- Prateek Kumar:** Okay. And sir, regarding the cost line items, was there any benefit of input credit on either realization of cost line for the company or for the industry during the quarter?
- Atul Daga:** As the requirement was, it has to be passed on. So we have passed on the benefit of GST that would be there.
- Prateek Kumar:** Okay. So as such there was no benefit on realizations on that?
- Atul Daga:** On realizations? Because effectively from 30% to 31%, the tax rates went down to 28%. It gets passed on in the rates. And when you look at net realization, realization is always net of tax, so it doesn't really impact the P&L.
- Prateek Kumar:** Okay. And, sir, one question on this sand mining thing which you mentioned like in some of the regions, the sand mining thing expected to resolve by end of October. So sir, the regions would include UP, Bihar or a cost market you are expecting there?
- Atul Daga:** Bihar is what we have heard 3rd October precisely was the date where some pits were allowed to operate. And we believe the activity has been picking up. Unless there is some new development, which could take place anytime, we believe that by end of October, Bihar should



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be back to normalcy in sand mining and sand availability, which should also improve availability in UP.

Prateek Kumar: Okay. And, sir, my last question on this rail share for your freight mix. Sir, we have entered a few long-term agreements with Indian Railways and we also hear that Indian Railway also pushing cement industry for increasing the target. So have there been any evident benefit visible on freight from this? Or what is the primarily mode of movement for the last quarter?

Atul Daga: It will come later on only.

Prateek Kumar: But is there any evident benefit to which we could foresee from this?

Atul Daga: Yes. So there will be a volume and growth discount is what the government has promised.

Prateek Kumar: But in our context, no quantification can be done as such?

Atul Daga: No. Nothing has come in now. It happens only next year.

Moderator: Thank you. Next question is from the line of Sanjay Nandi from Ratnabali Capital. Please go ahead.

Sanjay Nandi: My question is you just mentioned that special grade cement is required for the bullet trains. Can you specialize the grade of the cement that will be used for that project?

Atul Daga: There is a special grade cement, which is being prescribed. It is not even IRS-T 40. It will be a higher strength cement.

Sanjay Nandi: Is this OPC or is it like a slag cement?

Atul Daga: No, not a slag cement. It's a higher grade OPC is what I can say. There is a cement tracks on which the railway track is laid down. So there is a special grade cement that is used for bullet trains.

Sanjay Nandi: Okay. So we do make that cement or that will be special grade which we need to work on the composition?

Atul Daga: We make that cement.

Sanjay Nandi: You make. So it's a higher grade OPC, right?

Atul Daga: Yes.



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Sanjay Nandi: Okay. And, sir, the GST is netted off from sales?

Atul Daga: Yes.

Sanjay Nandi: Okay. And sir going forward like 3 years down the line in the North, South, East, West, Central region. So which of the regions you were looking like much more demand growing there in next 3 years down the line, sir?

Atul Daga: For the next 3 years, I would bet on East, followed by North for demand growth.

Sanjay Nandi: Okay. In the South and West regions, sir?

Atul Daga: The projects that have been announced is whether it's bullet train, trans harbor link, coastal roads, then West could be the winning horse, otherwise, South will lead the race.

Moderator: Thank you. We take the next question from the line Vaibhav Agarwal from Phillip Capital. Please go ahead.

Vaibhav Agarwal: Just one question from my end. Can you also give the sales volume number for the overseas operations?

Atul Daga: Vaibhav, including overseas, the total sales volume is 14.02 million tones.

Vaibhav Agarwal: And can you also give the EBITDA number there? Is it possible to share that?

Atul Daga: EBITDA number?

Vaibhav Agarwal: For the overseas operations?

Atul Daga: No. It's unlisted entity, so not able to share that.

Moderator: Thank you. Next question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

Saumil Mehta: Sir with respect to pricing, I believe you said that the differences are actually narrowed or probably not meaningful. How should we view the profitability once we achieve a targeted 60% capacity utilisation. And I'm sure the endeavor is to go much higher than that. How do we look at the profitability between Jaypee and non-Jaypee?

Atul Daga: EBITDA coming to the same level as existing UltraTech. We have given ourselves 3 years' time to meet there. So our goal posts, fourth quarter is capacity utilization of 60% plus cash breakeven. Eight quarter is PBT breakeven or EPS accretive. And in the financial year, which is



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the third financial year, the EBITDA of both the existing and the new units will coincide with each other because mind you, the existing operations will keep on improving their EBITDA. So there is a catch-up game that the acquired assets have to play.

Saumil Mehta: Sure. And in terms of getting there in 3 years, in terms of cost element, where will be the 2 key cost element which you would target for us to bridge the gap between that?

Atul Daga: Logistics and energy.

Saumil Mehta: And my last question, do those assets have any fiscal incentives or benefits?

Atul Daga: Yes, they do.

Saumil Mehta: Sure. And they are likely to...

Atul Daga: They have a life, various points in time that they started to expire. So some expire March '18, but they go on until about '22 or '23 also.

Moderator: Thank you. The next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.

Akshit Gandhi: Sir, just one question. If I look at the annual report, one of the key expenses in the other expenses is the advertisement and the cash discounts, which is roughly around 3.5% of sales. So when we would have added Jaypee assets, would a similar run rate be there in the other expenses of Jaypee assets also, it would be much lower?

Atul Daga: Slightly lower is what my colleagues tell me, but my request is in case you need a clarification, just get in touch with Nilesh offline.

Moderator: Ladies and gentlemen, with this, I now hand the conference over to Mr. Daga for his closing comments. Over to you, sir

Atul Daga: Thank you everybody for being on the call. As I mentioned, our focus is on improving the efficiency and ramp-up the volumes from the acquired assets. I think we are on course this quarter. In the current quarter, we will see a further improvement in the volumes from the acquired assets as we gain market share. The concern always remains on the costs. Pet coke still does not seem to be subsiding. Coal has also gone up. We will wait and watch the markets. We are trying to identify new areas or new markets from where we can procure coal and pet coke. And demand, we expect yes, it should start picking up from now onwards. And it should be a good story for cement going forward into the next financial year, next couple of years at least. Thank you so much. Wishing you all a very happy Diwali and a happy new year.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of UltraTech Cement that concludes this conference. Thank you for joining us and you may now disconnect your lines.
