



“UltraTech Cement Limited Q2 FY-21
Earnings Conference Call”

October 21, 2020

**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 Q2 FY21 Earnings Conference Call of UltraTech Cement Limited. We must remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, viewed in conjunction with the risk that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise.

As a reminder all participants 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 call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Daga, Executive Director and CFO of the company. Thank you, and over to you, Mr. Daga.

Atul Daga:

Thank you so much. Good evening, everybody. Thanks for joining us today and hope that all of you are staying healthy and safe in these times. Unbelievable but true, office space seems so redundant. I visit office just to keep the memory alive of what it looks like. And hopefully, it will be a monument about which I will narrate story someday to my grandchildren. I wish and pray that all of you and your near and dear ones have been safe and are doing well.

I'll try and focus today on the key parameters governing the industry and UltraTech, namely demand, prices, costs and CAPEX. In the early days of the pandemic, there was a marked shift in concentration of demand from the rural markets for reasons which we are already aware of. What was thought to be a pent-up demand actually has sustained and strengthened over the past few months. Migrant labor is still not coming back. Good monsoons are all helping the rural markets grow.

Over 50% of the rural districts have shown a growth over their past few performances. The impact of COVID-19 has been lesser in rural markets as compared to Tier-1 markets. Districts having rural demand of 25% impacted as compared to 50% in urban areas. Farmer welfare expenditure is up, nearly 100%. Other rural industries are also generating a good growth like fertilizers, seeds, etc. Both state and central government are increasing their focus, allocation and release of funds on rural housing. MSPs have been increased. Second consecutive good monsoon this year.

To sum it up, our expectation is that there will be an overall improvement in rural aka retail aka trade markets over a sustainable longer period of time. The uncertainty in the crowded urban markets will give a further boost to the trade ratios. Urban demand also is, however, slowly and surprisingly coming back as the country goes through its unlock program. So here we are where initial thoughts were that the economy will come to a grinding halt. We saw rural markets with a pent-up demand, doing good for cement industry. The government spending program, gaining momentum, payments being released on time and we are seeing infrastructure growth also happening.

Tier-1 towns are seeing opening up of real estate markets. People are wanting to buy their own space or a larger space, and we are seeing good traction in urban real estate also, albeit it's very slow. It will take time to show some real growth. All these factors put together are, in any case, very good for the industry. Government thrust and spend on infrastructure is one of the key drivers, as I mentioned. Housing demand is definitely showing green shoots. Cheap housing loans and the need for space is spurring some demand.

Gujarat, which was amongst the bottom few states in terms of demand, has also started showing signs of recovery towards the end of this quarter. Maharashtra is still to pick up, though the large projects like coastal roads, Metro, Mumbai Airport extension, Expressways continue to keep our manufacturing plants busy, but that is not enough because of the high base which Maharashtra as a state has, because of its fairly developed state of economy as compared to the other states.

Eastern and Central markets have literally brushed aside the COVID impact and running full capacity with solid demand. North markets have started picking up largely, driven more by infra projects by the government in the road project, except the NCR markets where we are starting to see housing market picking up. It is generally the rural retail demand that has shown big traction as compared to the other markets. South looks promising with Andhra getting into good demand from the state capital cities, the irrigation projects. And the remaining South states also, Tamil Nadu, Karnataka, are starting to see positive movement in demand. As I mentioned earlier, Gujarat, which had been one of the slowest states, has also started growing. So demand seems to be playing very well along for the industry.

Costs; if I were to talk about the costs, pet coke is no longer flavor of the season. With crude production down, demand for aviation fuel down, demand for automobile fuel down, pet coke production has also come down. And added to that, cement industry went all out to buy pet coke, which has shown increase in prices of pet coke. Today, as in October, the prices have almost reached \$100 if one were to buy for deliveries of January. However, as I mentioned, pet coke is no longer flavor of the season because cement industry is switching to alternate high calorific valued coal, which is today cheaper. Diesel you've all seen, it's up 13% this quarter, which does impact our logistics costs.

At UltraTech, our journey on overhead reduction continues. In first half of this financial year, we have seen an overall reduction of 14%, which is roughly Rs. 450 crores. And we are very confident of our mission to reach a sustainable reduction of Rs. 500 crores for a year-on-year basis. You might say that Rs. 450 crores has already been achieved in first half then I am telling you a smaller number for a sustainable basis. But this Rs. 450 crores is not necessarily sustainable. That's what I had mentioned last quarter also. As things start opening up, as economy starts opening up, spending will definitely increase.

Let me now touch upon prices. Cement prices have come off marginally over the last quarter, but that is so normal about seasonality, seasonal trends, so normal about the monsoon quarter. I've also heard about prices hardening in some of the markets as monsoons have started receding.

But I strongly suggest not to read too much into these price movements. It will not be prudent to annualize every price increase into profits because price movements are like your stock market prices. Today up, tomorrow down.

To talk about our last acquisition, Century, it has been fully integrated. The assets have achieved an operating EBITDA per ton of over Rs. 700 this quarter, which is a maintenance quarter. Brand transition has been slow because movement of people has been restricted. We are hopeful to complete the brand transition before the end of this financial year. We are now investing in 20 megawatts of WHRS at Maihar and Manikgarh, two of the units of Century, which will result into further cost reduction and thus an improvement in EBITDA per ton. These projects are scheduled to get commissioned by March '22.

At UltraTech, we remain focused on deleveraging, integration of our acquired assets. We have pared down our net debt by about Rs. 2,500 crores this quarter on the back of Rs. 2,200 crores that was reduced last quarter. I'm referring to net debt because we are carrying a treasury surplus on our balance sheet of over Rs. 10,000 crores as of now. Keeping liquidity is always helpful in these times, just in case some sweet opportunity knocks the door. Yes, of course, the treasury surplus in our company generates a positive carryover borrowing costs. Otherwise, it would not make any sense of carrying the treasury. This brings me to the point of ROI and ROCE, which is quite often investors have asked me about our performance. So if we were to exclude the treasury surplus of RS. 10,000 crores, noncore assets which have been held for sale, the annualized ROCE that we are generating today is about 12% and ROE has reached about 10% and will continue to improve going forward. This will further improve when the assets like the 2.3 million ton Dalla Super clinker plant and the Line 2 Bara plant get commissioned and start generating revenues and profits. Both these assets have already been paid for. We expect to commission Dalla Super clinker line sometime during the next financial year. The legal clearances and work on Phase 2 Bara is in progress, a bit slow but on track, on course.

On our CAPEX plans, there are delays on the 3.4-million-ton Brownfield expansions in West Bengal, Bihar and the greenfield Cuttack plant, largely due to the COVID impact. But I'm sure we will be able to complete these projects in FY22. Eastern markets are expected to continue to generate strong demand. And hence, we are very focused on executing these projects at the earliest. All these CAPEX plans are being funded with internal accruals, and we are on course to reach a net debt-to-EBITDA around 1X by the end of this financial year. We're already at 1.22X at the end of H1.

Let me now talk about what we are doing on environment sustainability. We at UltraTech are very conscious of our commitment to build the country's infrastructure as well as reducing CO2 emissions. Somehow both these goals get conflicted since good infrastructure needs good quality of cement and to manufacture good quality of cement, there is a lot of CO2 emission. And UltraTech will not compromise on the strength and durability of its products. As I mentioned, high purity OPC cement consumes more limestone and result into more emissions. How is UltraTech balancing both hats? The benefit of cement we make ultimately helps reduce auto fuel

consumption, reduce the number of automobiles that plough the roads. The metro networks, the expressway, the bridges that are built with our cement are definitely helping reduce CO₂ and also helping building the economy. We are working for the future in the present. In these COVID times, we were able to complete work on one of the WHRS projects, taking our total capacity to 125 megawatts. We expect to commission additional 60 megawatts by FY22, taking our total tally to 185 megawatts of WHRS. Then there's the expansion plan of another 60 megawatts to reach our peak capacity of 245 megawatts, forming 24% of our total power consumption. Added to that, we expect to commission solar power of 350 megawatts. And along with the alternate fuel that we consume, by the end of FY22, green power will constitute 30% of our current energy consumption and that is what is our contribution to Mother Nature.

UltraTech is a firm believer of delivering our product to customers in markets with lowest impact to environment. To manufacture and deliver our product, there is involvement of large-scale logistics movement. Last time when I had taken stock, we were moving 28,000 trucks on a daily basis. This number I'm referring to somewhere in FY20. Things are much slower in the current pandemic times. We look at all options to transport raw material and cement and prefer to adopt low carbon transport options. Last year, the significant portion of our material and product was moved using railways. As you know, rail is less carbon emitting mode of transport as compared to road. So if we had moved the entire quantum by road instead of by rail, it would have emitted additional 3 million tonnes of carbon dioxide into the atmosphere. That is what we saved last year, by not moving material by road. This year, we have kept predominantly using rail and already resulted into carbon savings of more than 1.25 million TCO₂. The first half of the year, we have scaled up our ambitions and actions in climate change. I would, therefore, like to highlight two key actions in this area. Our company, a founding member of GCCA, Global Cement and Concrete Association, has committed to the 2050 Climate Ambition announced by GCCA on behalf of all its members. UltraTech is also committed to Science Based Target initiative, SBTi. This will enable the company to set climate targets aligned to the Paris Agreement.

Before I conclude, let me share with you how we have been dealing with the pandemic. No doubt the impact of COVID-19 is unprecedented beyond imagination. It is affecting everyone worldwide and every aspect of the daily lives. UltraTech has emerged stronger and well prepared in the wake of the ongoing COVID pandemic, managed the crisis with sharp focus on operational efficiencies, given the response with timely precautions and creating business continuity plans, focused first and foremost on ensuring the safety of our people. We are adapting to newer ways of working in every sphere. The company has laid down very strong SOPs for the safety of people and efficient running of our operations.

As of today, we have just about 108 active cases across the company, having a strength of nearly 16,000 people. Sadly, we also lost 4 members of our team out of the 16,000 due to the damn virus. We have been increasingly working with digital technologies to help us calibrate our ways of working and collaborate more effectively. We recognize the need to ensure business as usual



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and are working with experts to achieve this for our customers, our people and partners in the value chain.

Thank you very much, ladies and gentlemen, for sparing time from your busy schedules and joining us today. With this, I end my commentary, and I'm happy to take on any questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: My first question is on the volumes. We have done 8% on like-for-like basis, which appears much better than industry. So if we could start with just sharing what are thoughts on our performance versus the industry in 2Q? And then if we look at last few quarters trend, it appeared that we are growing tad lower than the industry, which appears to have changed this quarter. So is there, I mean, a deliberate change of course or any change in strategy? Your thoughts, sir, please.

Atul Daga: I think pandemic has helped us in a way to increase our growth, better coordination amongst everybody. This is a network of 50 plants and I don't even know the head count of marketing people who are there out in the field. The coordination is going up and no order is being left unserved. If plant 1, depot 1 is not able to service, immediately the order is picked up by depot 2 and serviced. So that is the only benefit or I don't want to call it a strategy, but that is how things are moving right now. And no, I don't really agree whether we've been degrowing the market in the prior periods. We have been growing because acquisitions don't often start ramping up at the same pace from day one, it takes time. And if you look at the consolidated numbers, obviously, it does not reflect properly.

Why is it that you should look at counting Century into my base when I just was not operating that asset? When I put up tomorrow the 3.4 million ton of East capacity, there is no base effect. Consider this acquisition also or any organic or inorganic capacity, why should it get counted in the base? There are several players. When they announce their results, they'll show you a double-digit growth. But if you analyze it properly, in the base, the volume was not there. Similarly, if I were to exclude Century volume which has been included in our numbers because of NCLT orders, UltraTech has grown 20% this quarter. UltraTech brand, that is far more compelling reason to be happy about, UltraTech brand has grown 15% at a size of 115 million tonnes.

Sumangal Nevatia: And sir, with respect to industry, I mean how the industry fared any sense on that in 2Q?

Atul Daga: We will outgrow the industry, for sure.

Sumangal Nevatia: Second question is with respect to the costs, so we had a target of around 10% reduction in overhead costs and looks like from the run rate, our cost control is much more tighter and we are well above that target. So any latest thoughts you would share as to how we are doing on this overhead cost and other fixed cost reduction?



- Atul Daga:** As I said, today, H1, we are at 14% reduction. By the end of March, we will be at that 10% because this extra 4% reduction which has happened in H1 is more about not being able to spend because there was no need to advertise in Q1 or Q2. Its later part of the Q2 only when ad spends have started happening and ad spends will be regular in H2. So I will do a catch-up and our target was, let's say, Rs. 500 to 550 crores. Annualized numbers which we have done Rs. 450 crores and I specifically mentioned in my commentary also, we should be doing Rs. 550 crores per annum on an annualized basis.
- Moderator:** The next question is from the line of Ritesh Shah from Investec.
- Ritesh Shah:** Would it be possible for you to provide some color on white cement and putty market? Specific counts on market share and profitability will be quite useful and some color on the RMC margin, please? So that's the first question.
- Atul Daga:** I think we have been gaining market share in white cement also after some setbacks that we had to face in the last few quarters, but without losing the priced position. RMC is doing all right. Total revenues from RMC were about Rs. 434 crores, white cement was also around the same number. RMC, is very fragmented and very difficult to measure market share in RMC because the unorganized players are far higher than the organized players. I don't have any other comment on white cement and RMC unless you have any specific question.
- Ritesh Shah:** Would it be possible for you to quantify the market share or the volume that we have lost this quarter or in first half? So the sense that I have is basically, we have lost some market share over here. Please correct me if I'm wrong. And if that was the case...
- Atul Daga:** White cement, we have gained market...White cement we have performed very well.
- Ritesh Shah:** And putty?
- Atul Daga:** When I'm saying white cement, I'm talking about white cement, putty combined.
- Ritesh Shah:** And sir, in the initial comment, you did indicate a sweeter opportunity knocks the door and we are holding a good sense of treasury. What is the thought process, sir, over here? Like we have done a phenomenal job on balance sheet side. You did indicate year-end leverage ratio that we would end up on net debt-to-EBITDA. But from a capital allocation point of view, how should one look at it? Is it like we are saving growth or should one expect a higher dividend payout going forward?
- Atul Daga:** Higher dividend payout is still long way away for UltraTech because cement, so when we expect to grow at a 7%-8% CAGR over a longer period of time, we will have to invest a lot of money. So all the cash flows that get generated will be deployed back in the business, whether organic or inorganic. And in my earlier commentaries I have told you that we are geared up for about 50 million tonnes of expansion till 2030, first of which is Pali, we will start work on Pali in the next



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calendar year, depending upon now we get into order placement and finalizing all the details, we will start getting into that and then we are putting up our expansion proposals to the Board. Once the Board approves, I will come back to you.

Moderator: The next question is from Gunjan Prithyani from JPMorgan.

Gunjan Prithyani: Just 2 questions from my side. Firstly, just trying to understand this volume outperformance a bit better; is it that you saw the nontrade markets also recovering in this quarter and that could position us in a better position? Is there anything to read in terms of trade, nontrade market share out here and if you can just give the mix also, what is it now for UltraTech?

Atul Daga: So yes, nontrade market has started picking up, as I was mentioning a lot of infrastructure projects coming back into stream. And I think our trade, nontrade share, correct me guys, Mukesh, 71% would be trade?

Mukesh: 70%, sir.

Atul Daga: 70 -- sorry, 70% is trade. It is down from current trade, nontrade has started picking up momentum.

Gunjan Prithyani: I missed that remark. It is versus last quarter, how is it?

Atul Daga: It's come down to about 70%. Last quarter, it was about 77%-78%.

Gunjan Prithyani: So it could be that...

Mukesh: But it is better than last year.

Atul Daga: Yes. It's still higher than last year. Last year, we would be around 66%, 67% on trade. We are now at about 70%, 71%.

Gunjan Prithyani: But looking at the outperformance, it could also be that nontrade has come back, which is, in a way we were kind of ready for any demand that came to the market?

Atul Daga: Yes, absolutely.

Gunjan Prithyani: The second question I had was on the cost side. Now clearly, there are some pressures building up on the diesel and the pet coke. I just want to understand, is there any inflation that reflected in Quarter 2? If not, what kind of increase we should work with for second half, both on a pet coke and the freight side?

Atul Daga: So Q2, yes, no inflation has yet impacted, and we did have a consumption of about \$71. Current prevailing prices on pet coke are \$100. But other coal, the imported coal is still cheaper. So at



max, if you have to look at, not more than 10% inflation in energy costs in the H2, not more than that.

Gunjan Prithyani: So the shift would happen towards international coal?

Atul Daga: Yes, it is already happening. So the way one manages the international coal at a high calorific value is available, which is cheaper than pet coke. Pet coke is no longer the darling for cement industry.

Gunjan Prithyani: So 10% on power and fuel, and on the freight?

Atul Daga: Freight, it's difficult. It all depends on how diesel goes up.

Gunjan Prithyani: But the diesel may...

Atul Daga: Diesel has already gone up 13%-14% in this first half. I don't know how much it will go up. This 13%-14% has been largely absorbed in our efficiency improvements. Remains to be seen how diesel performs because diesel would contribute 3% to total cost. Diesel as a percentage of total costs, not logistics costs, contributes about 2.5% to 3%.

Gunjan Prithyani: Just last clarification on the pricing adjusted. On the pure cement business, can you give a sense on a Q-on-Q basis how much was your realization down for the cement business?

Atul Daga: Realization was down...

Management: You are talking about Y-o-Y or quarter-on-quarter?

Gunjan Prithyani: Quarter-on-quarter, sir.

Atul Daga: Quarter-on-quarter, roughly 2% to 3%.

Gunjan Prithyani: It is 2% to 3% down?

Atul Daga: Yes, all India numbers. So don't compare us with regional players and get misguided.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: Sir, first, on the industry slide that you have put out, on the South one, you had a comment, September '20 saw a sharp increase in demand. So basically, you are saying exit numbers are far better than what the quarter average was?

Atul Daga: Absolutely.



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- Vivek Maheshwari:** Because our understanding is that South was a sharp double-digit decline through the course of the quarter, so that is like a big change. Is there a base effect to it? Or there was a, let's say, decisive change on the ground...
- Atul Daga:** I would say the volumes have started picking up in South.
- Vivek Maheshwari:** And your similar comment is in Maharashtra also, infra segment recovery in September '20. So you think both these markets will become growth market as we head into second half [given the type] of base?
- Atul Daga:** In spite of these infra projects taking off in Maharashtra, because of a high base, they are still very small numbers. The interesting market is Gujarat where we are seeing improvement in demand for a very long time.
- Vivek Maheshwari:** But to me, South and Maharashtra, your comments are more like change in trend because Gujarat, whatever we picked up in our checks, was doing okay for the last 3-4 months, right? But Maharashtra, South, if you're saying there is bit of a change, particularly in South, that's an interesting one then?
- Atul Daga:** Yes, absolutely.
- Vivek Maheshwari:** And how do you reconcile IIP number versus industry demand because the numbers are looking very different, right, I mean do you think there is some disconnect over there?
- Atul Daga:** Big disconnect. The way you do your channels on industry, you should check on how these numbers are computed. We'll have a separate discussion on how the computations are done.
- Vivek Maheshwari:** And the other bit is on the energy cost. You mentioned about moving from pet coke to international coal. I mean after long, we are hearing about coal from you. So have you already moved there or it is something that you will see in case if pet coke prices further move up? Also the inflation has been quite a bit.
- Atul Daga:** We are not consuming pet coke now. The high-cost pet coke, whatever inventory we had is what consumption is happening. Otherwise, we are more into international coal at the moment till the time pet coke starts softening.
- Vivek Maheshwari:** So basically, you're using at your plants international coal already?
- Atul Daga:** Yes.
- Vivek Maheshwari:** And the last bit, the previous participant asked. So on a sequential basis, you are saying realizations are down up to around 2% to 3%, right?
- Atul Daga:** Correct.



- Moderator:** The next question is from the line of Amit Murarka from Motilal Oswal.
- Amit Murarka:** Just a few questions. Firstly, on the capacity ramp-up; so while you said that East now will happen in FY22, so will it be like early FY22, like 1Q? And secondly, also like in the Super Dalla now, what would be the time line for that?
- Atul Daga:** So Dalla Super should go definitely to Jan-March '22 quarter. That is for sure and the 1.2 million ton, which is West Bengal and Bihar, will be Q2 or Q3, depending upon how things progress. Cuttack will be again Q4 '22.
- Amit Murarka:** And for the Dalla, has the issue been settled on the environmental front?
- Atul Daga:** Yes. That has been settled. There's a lot of procedural work, but a lot of procedures that have to be complied with. We are complying with that. The biggest thing is that NGT matter has been resolved. And to explain to you in simple terms, since the NGT declared that the plant and mine was on forest land, we have to identify alternate forest land and give it to the government or to the forest authority so that we can use this forest land for mining and plant operations. That has been done. Handing over to the government is in process. Formalities have to be completed at MoEF Delhi. I guess by end of November, the MoEF formalities for the plant will be completed. And by June, the MoEF formalities for mines will be completed by June '22, MoEF formalities for mines will be completed.
- Amit Murarka:** Just on the working capital front, like in 1H, we can see that there has been a very strong working capital release, and which has come from both payables increase as well as receivables. But if I think of the September month of this year versus September last year, there must have been a very strong growth Y-o-Y for the month of September, but receivables are still down. So like has the payment terms or the credit terms still remain tight in the market?
- Atul Daga:** We are not reducing our credit period, but we are not allowing anything extra.
- Amit Murarka:** So the second half then the working capital will still be strong then?
- Atul Daga:** Yes, it will remain strong. I'm not guaranteeing that I will still have this RS. 1,700 crores negative. It could be RS. 1,500 crores, but it will remain a big negative working capital.
- Amit Murarka:** And lastly, on the Northeast, you've opened a zonal office now, I think for the first time. Earlier, you used to cater through, I think, C&F agent. So what is the plan there? I think even for Sonar Bangla, there has been an application for expansion of capacity there?
- Atul Daga:** Have you been to that office? I have not seen that office yet.
- Amit Murarka:** I just heard from people that you've opened some zonal office in Northeast.



- Atul Daga:** Now because we have a significant capacity available to the Northeast markets, we can manage it. Instead of depending upon an agent, we can do things our way better. Instead of leaving the benefit of price to the agent, we should get that price benefit. That's the whole hypothesis.
- Moderator:** The next question is from the line of Gaurav Rateria from Morgan Stanley.
- Gaurav Rateria:** Firstly, on the nontrade side, how to get some visibility about the next 3 months sequentially? Next quarter should be better than this quarter because labor is coming back. Is that how one should look at or there are other elements or moving parts in it?
- Atul Daga:** No. I think essentially, labor is coming back, and government is opening its purse strings and pushing for execution. They are cracking the whip on all the contracting companies for increasing the pace of execution. And now the classic case is road, which I always tell people that road projects are the easiest ones for the unskilled labor to get employed. You come in today and tomorrow you could start working. That's where the good amount of employment generation and income generation takes place for the laborers. So there's a huge amount of focus on road work that is happening.
- Gaurav Rateria:** So sequentially, the number should look better, right, for the nontrade segment as a whole?
- Atul Daga:** Sequentially as in Q2 over Q1?
- Gaurav Rateria:** Q3 over Q2, the numbers should look better for nontrade segment in volume terms?
- Atul Daga:** We've already reached, we are down from 78% to 71% on trade I think that is where the numbers will be now. We used to be 66% trade and 34% nontrade. As compared to that, we are now at 70%, 71% trade.
- Gaurav Rateria:** Second question, sir, at what point we may need additional clinker in the East given that East is showing very, very strong growth?
- Atul Daga:** We are today bringing material from Central plants and Coastal Andhra plant and Maharashtra plant also. Manikgarh also is taking material to the Eastern markets. Today, we don't have any shortage. In the peak time, yes, we are short of grinding capacity also. So we have enough clinker. We don't have grinding. In peak period let's say, January-March '22, we will be transporting cement from South locations because if the market remains buoyant, there's no harm in transporting long distance provided there is contribution. So at no point in time, UltraTech will be falling short of clinker.
- Gaurav Rateria:** It looks like you increased your target for the green power from 22% to 30% by FY22. What led you to do this?



- Atul Daga:** No. It's now the investment in further WHRS into the Century plants, into Nathdwara Cement, which is increasing their percentage share.
- Gaurav Rateria:** And there is no CAPEX implication? That's what I wanted to check.
- Atul Daga:** No. For example, when we are doing WHRS, there is CAPEX.
- Gaurav Rateria:** No, I meant from an outlook perspective. Whatever CAPEX you have guided for, that CAPEX stays intact?
- Atul Daga:** Yes, it stays within that.
- Moderator:** The next question is from the line of Indrajit Agarwal from CLSA.
- Indrajit Agarwal:** Couple of questions. First, sir, can you shed some light on the exceptional that you have on the consol level, mainly on the continued operations, for which entity it relates to the law?
- Atul Daga:** So what we've done is, so I'll explain the full piece instead of continued and discontinued. All these endeavors are towards the acquired assets from as part of Binani Cement acquisition, management legacy. China asset when we sold off, we had a gain of Rs. 400-odd crores. We have tried to assess the carrying value of the UAE asset and impair it by Rs. 78 crores. We have looked at the realizable value of the loan that we inherited which is a loan outstanding to this European company. We have impaired it down by Rs. 250-odd crores. Fourth, in one of the subsidiaries, there's a maze of subsidiaries which is attached to erstwhile Binani Cement, which is now Nathdwara Cement. There were some advances outstanding to unknown people, not traceable people, which we have had to do an impairment. So these are the—Mukesh—these are the main items?
- Mukesh:** These are the fourth item and net, we are gaining Rs. 24 crores.
- Indrajit Agarwal:** Second is you talked about the utilization getting stretched. Can you throw some light on what kind of utilization either you or the industry had as of September?
- Atul Daga:** It will be misleading if you look at the quarter, month-on-month, the capacity utilization has been going up. So for us, if the capacity utilization for the quarter was about 66% but if I look at my September quarter, it was close to 75% and October, I must have crossed 80%-85% already.
- Indrajit Agarwal:** One last question for me, more broad-based, as you spoke at length about ESG, thermal substitution rate for India is significantly lower than global averages. So what do you think can be done to bring about a step change in that at a country level?
- Atul Daga:** Globally, there is a huge amount of alternate fuel that gets consumed. Thermal power is not so high because they have gas as a power available in the form of energy. India is dependent on

coal-based energy only. There two and three are companies, global companies, where alternate fuel forms as high as 20% or (+20%). I have only one plant in the entire network which does about 30% alternate fuel because we are able to source and get alternate fuel. Lots of other plants, they don't have anything nearby to supply alternate fuel. If you go and approach the municipal authority for municipal waste, which has energy, they ask us to do the sorting ourselves. I can't deal with that shit, literally. So there are challenges in the country which do not exist overseas. Overseas, the awareness about disposal of waste is very high as compared to India. All the manufacturing facilities generating combustible waste should be more than happy to reach out to cement companies or any other manufacturing process where they can burn their waste, but the ways of working in India is different than overseas.

- Moderator:** The next question is from the line of Raashi Chopra from Citigroup.
- Raashi Chopra:** Just some book keeping questions. One is what is the RMC and white cement volumes for the quarter?
- Atul Daga:** White cement volume would be about 330,000 tonnes and white cement, very difficult to quantify volumes, value is about 430 crores.
- Raashi Chopra:** Secondly, how much has been the CAPEX spend in the first half?
- Atul Daga:** First half close to Rs. 450 crores.
- Raashi Chopra:** And you're sticking to the Rs. 1,500 crores target for the year?
- Atul Daga:** My guess is I will not be able to spend Rs. 1,500 crores. There might be some reduction. As of today, when I'm looking at the forecast, we could look at Rs. 1,200 crores or 1,300 crores. This is largely due to, Raashi, availability of labor is still a challenge at most project sites.
- Raashi Chopra:** And the Bara completion is scheduled for December?
- Atul Daga:** No. It will get pushed to March because cement mill is in the process of being moved. So I guess, it will go to March.
- Raashi Chopra:** And for this year, basically, we have Bara coming and next year, we have the East capacity coming. That's what's in the pipeline right at the moment?
- Atul Daga:** Yes, at the moment. And next year, we will start work on the 3.5 million tonnes Pali.
- Raashi Chopra:** And that will take how long?
- Atul Daga:** It will have to be commissioned by October, December '22. Land and boundary work, a lot of work has already been completed.



- Raashi Chopra:** So when you say October, December '22, meaning the October-December quarter of fiscal '22 or October December calendar '22?
- Atul Daga:** October, December '22 and calendar still remains the same.
- Raashi Chopra:** As in October what I mean is we're coming to fiscal '23 or fiscal '22, was my question. October-December '22. Got it. And just one, I mean at this time you've seen these price increases that have been announced in the South and prices seem to be generally resilient except for the East. So do you think can we expect some sort of changes with given that demand is quite strong in the pricing pattern in the East?
- Atul Daga:** When people don't have capacity left then how will the price hikes are immune?
- Raashi Chopra:** So we should expect these after Diwali you think?
- Atul Daga:** Very difficult. My standard response to that kind of the question is you tell me what will be the stock price or index 10 days from now? Will you be able to predict that?
- Raashi Chopra:** Unfortunately, no.
- Atul Daga:** Very difficult to predict. The moment the marketing team gets an opportunity, they will take the prices if they don't have material to sell, what else to do?
- Moderator:** The next question is from the line of Swagato Ghosh from Franklin Templeton.
- Swagato Ghosh:** So Daga, sir, I just wanted some help in reconciling your realization performance. So from what I know, the sequential realization was down about 4% to 5% for the industry. And we actually outgrew the market and also had an adverse mix impact because your trade mix came down this quarter and still you delivered better realization performance. So what were the reasons? Can you please help me with that?
- Atul Daga:** Very difficult question. You see, it's a market mix. So what happens is when you do check in one particular market, it might be behaving differently, and one is the market mix and my share in each market out of my own portfolio. So depending if South is moving up and in total volume that I have done, let's say, 19 million tonnes, what volume I have sold in South vis-à-vis in North and so on and so forth. So it's a market mix game essentially.
- Swagato Ghosh:** So then you have sold more in South and less in the weaker realization market. But can you continue to do that? Can you continue to optimize your mix in the coming quarters as well? That's the follow-up I have.
- Atul Daga:** Yes. We will optimize our mix. We will not lose any opportunity. There are times when there are plants which have gone hand-to-mouth in clinker. So everything is fresh, baked today and sold today.



- Swagato Ghosh:** Second question is, because you are the market leader, I am asking you this. Investor profitability has taken a step-up in the last three quarters, but the utilization levels are still pretty low on an absolute basis. Like if I heard you right, in September, it has improved quite a bit but still if it is 75%, there is still some room for like additional improvement. So do you think that some players now might go for maximizing absolute profit at the expense of slightly lower profitability that can start happening? What's your sense?
- Atul Daga:** No. It doesn't happen that way. The moment somebody starts dumping, material prices will collapse. And today as I also mentioned in the commentary during one of the questions, we are already reaching an 80%-85% capacity utilization without any compromise on realizations. So this is a phenomena, I remember, we had last seen in Jan-March '19, where all India cement capacity utilization was going up. What happens is that let me try and explain it, it's important. In one region is seeing good demand and consequently good prices, the neighboring region infiltrates. So it's easy for Central to send to North or to East depending upon where the market is good. Today, North is good, East is good, Central is very good. So they don't have to travel long distance and incur additional cost for market. They are happy selling in their own home market and making more money. This we had seen in January-March '19 pre-elections. This phenomenon is coming back again.
- Moderator:** The next question is from the line of Pulkit Patni from Goldman Sachs.
- Pulkit Patni:** My first question was actually the same that previous participant asked because realization, despite the fact that your trade mix has gone down, it's tough to fathom how your realizations have actually not fallen meaningfully. Nonetheless, I mean just one more question. Since you mentioned in the presentation, unprecedented growth in rural consumption, could you highlight what are the end markets where this is going? Is it like rural infrastructure or is it housing? If you could throw a little bit more light on rural consumption.
- Atul Daga:** When we talk about rural markets, infrastructure is not captured over there. Infrastructure is part of my infra spends. Rural market is largely retail market which is the housing and repair and modification market. This is what has been growing very well. Entire labor migrant which has gone back is spending time on local work because the job opportunities had dried up in the urban market. So the rural housing market has swollen up.
- Pulkit Patni:** And sir, my last question would be on incremental capacity that is likely to come through. I mean when COVID hit, saw multiple players announced delays in their existing expansion plans but do you see that changing now given that pretty much we are talking about normalcy within 5 months of COVID hitting us?
- Atul Daga:** Yes. You see projects where work was deferred will come back on stream because one would be losing interest on the half capital employed on that project. So those projects will come back for completion as gangs of labor are available on project sites; delivery of equipment, parts, etc. start normalizing. Those projects will get completed. But going forward, as mines are starting to



become expensive and costlier and very limited players have got surplus mine, by the way. There are a few announcements that you hear right now. They will start drying up as mines become lesser in the hands of people or mines are expensive. Because unless they can forecast a profitability which will absorb the additional cost of limestone under the auction process, my belief has been in the last several years ever since MMDR came into being, that new capacity addition will slow down and it has been actually slowing down.

Moderator: The next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: I just had 1 question that was given that we've seen good volume recovery in 2Q, if you could hazard a guess for full year, like can the volume decline for the full year despite 1Q being weak, can it just be flattish or maybe down with low to mid-single digits or what would your thought be for the full year?

Atul Daga: As of now, I guess, the remaining quarters, the industry should show a growth Y-o-Y. So barring Q1, which was a massive degrowth, 30%-31% or 32% degrowth, rest of the three quarters should show positive growth. So the 30% degrowth of that one quarter will get reversed to a large extent on an annualized basis.

Madhav Marda: Because Q4 FY20 was anyways hit by COVID, we already had decline in quarter 4. So the base is quite easy, which is why I was thinking, if we could end up with 0% to 5% decline for the full year, maybe, is that broadly like okay assumption to make?

Atul Daga: Yes. It's a good assumption to make because I'm -- this year, I think, was already in our pocket. Now I'm looking forward to FY22, which will be a blockbuster year for cement industry because of the low base that has got created.

Moderator: The next question is from the line of Ashish Jain from Macquarie.

Ashish Jain: My first question is on pricing. Can you just share how your regional prices moved on a sequential basis?

Atul Daga: That's very sensitive information. So in other words, I am not able to tell that.

Ashish Jain: And sir, on the cost front, so in the last quarter you had indicated like a decline of Rs. 500-550 crores and now like you indicated Rs. 450 crores of that has been achieved. So going ahead, will this start reflecting in other expenses in a material way? The context I'm asking this is also from a repair and maintenance cost point of view. How much of that have you actually done in first half and could that be a big driver of how costs move in the second half?

Atul Daga: Yes. So what happened actually was Q1 production was down, which helped us extend the life of rigs, which is less maintenance cost. So we've got the benefit of that in this financial year.



Next financial year, it will come back to normal. So as of now, I think 20-odd—Mukesh, you remember how many kilns were done for the planning this year—this quarter?

Ashish Jain:

Sir, actually, that was the context of my question.

Mukesh:

Some kilns will come in Quarter 3 also.

Atul Daga:

Yes. So we spread because of the 41 kilns that we have, we don't take all the kilns in one quarter. Q2, we have had some kilns. And Q3 also, we will do some kilns for maintenance shutdown. But maintenance shutdowns are planned so that the markets don't suffer after piling up clinker stock for the 20-odd days of kiln shutdown. But to answer your point, there will be shut-down costs which will come in Q3 also. And if you were to compare it with last year same quarter, we also had maintenance costs in Q3 last year. It's more or less if I remember it right, it is as high as Rs. 100 a ton is the maintenance cost going in Q3 also. So Y-o-Y, you will not see too much of erosion in our numbers.

Moderator:

The next question is from the line of Navin Sahadeo from Edelweiss Securities.

Navin Sahadeo:

My first question basically was on your volumes. When you post 8% growth on a like-to-like comparison basis, and with that South, in your initial presentation slide, South was negative, does it mean we have grown positively in South as well or this 8% growth is contributed by a much higher double digit kind of growth in other regions? How should we look at it? And in the same breath, how is that in October?

Atul Daga:

October is much better than September. Firstly, as I mentioned, Navin, while the average capacity utilization for the quarter was 66%, September was 73% or 74% and October, currently, we might be running anywhere between 80%-85%. And the growth, if I were to look at, West was the lowest growth market Y-o-Y. Otherwise, all markets have been doing very well.

Navin Sahadeo:

So basically, just to clarify on this, when you say West was the lowest, which means in South, despite the industry being negative, we have seen a positive growth there also, is that correct?

Atul Daga:

Marginal, yes.

Navin Sahadeo:

So that's what I just wanted to confirm. So great achievement, I'll certainly say on that. And my second question then, if you could just run us through on this waste heat recovery?

Atul Daga:

This is not great achievement. This is UltraTech's ultraperformance.

Navin Sahadeo:

Yes, certainly congrats on that. I'm sure market will also receive it very positively. My question second was on the waste heat recovery thing. You said we are going to take the total capacity to 240. If you could just help me understand this, where is it currently and how much are we adding with timelines to understand how these efficiencies will kick in both for waste heat and solar?



- Atul Daga:** I had mentioned in my comments. We are at 125 today. By end of March '22, 60 more gets added. By end of March '22, we will be at 185 and then we will launch the program for the remaining 60 megawatts. So '22, maybe mid '24, we will reach there.
- Navin Sahadeo:** Mid '24 will be totally 240, right?
- Atul Daga:** FY21 is 185, yeah, FY23-24.
- Navin Sahadeo:** Yes, we'll reach this 240-245 by mid of FY24. And solar, where are we and how much are we adding?
- Atul Daga:** Total, we are -- we have tied up for about 350 megawatts of solar, out of which -- how much is completed as of today? 115 or 120 megawatts is already up and running.
- Moderator:** The next question is from the line of Mangesh Bhadang from Nirmal Bang.
- Mangesh Bhadang:** Just one thing on this rural side. So how much of our total volumes would be contributed by this segment? Because you keep saying that it has been a good performer, and we are seeing unprecedented demand from this. How much percentage of your total volumes you would ascribe to this segment?
- Atul Daga:** How much, I didn't get you? I didn't get your question.
- Mangesh Bhadang:** So rural, how much you have consumed, in rural segment, out of the total?
- Atul Daga:** 71% of our volume is retail market. And give or take 35% or 40% of that is rural market. The definition of rural also needs to be understood. What we call rural is not a remote village. It can be a town which is a population of less than 30,000, becomes a rural market for us.
- Mangesh Bhadang:** And so if I understand this demand better, so probably Tier-3, Tier-4 towns would also be included there, is that right?
- Atul Daga:** Tier-4, for sure. Yes, Tier-4, for sure. If I call Mumbai as Tier-1, Bangalore as Tier-2 and Raipur as Tier-3. Going in that analogy, then Tier-4 is part of my rural market.
- Mangesh Bhadang:** So the reason I asked is from 70% of your retail and out of that 40% when you say it goes to that market, then the growth in that segment has to be significantly large, overall growth. So that means this is a broad-based demand recovery and not only restricted to rural, right?
- Atul Daga:** It's very broad-based. That's what I said. Practically, all states are generating growth, whether it's an advanced state. Except for Maharashtra, all the states are generating demand. India still is supposed to be rural economy.



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Moderator: We'll be able to take 1 last question. The last question is from the line of Milind Raginwar from Centrum Broking.

Milind Raginwar: Initially to start with some bookkeeping questions. One is in September '19 quarter in the 17.77, we did something like 0.3-0.32 of white. So what would be that number for 19.21 this time?

Atul Daga: Sorry, I didn't get your question. I didn't get your question.

Milind Raginwar: In terms of...

Mukesh: Volume of white cement is 3.3 lakhs.

Milind Raginwar: And so, in terms of the realization, what would be the incentive part for this quarter?

Atul Daga: Mukesh, incentive in EBITDA per ton?

Mukesh: Incentive per ton. I have never worked out.

Atul Daga: Milind, I'll get my team to get back to you directly, it's about Rs. 30 a ton.

Milind Raginwar: And sir, if I have heard it correctly, did you mention that the RMC and white cement numbers were Rs. 435 crores each. Is that the right understanding?

Atul Daga: Yes, both of them were at Rs. 430 crore levels.

Milind Raginwar: Each, right?

Atul Daga: Yes, each. And when we speak about white cement, it includes putty as well.

Milind Raginwar: Just understanding despite the RMC business coming back strongly on a sequential basis, the logistic cost on a per ton basis is still more or less same and the diesel prices also...

Atul Daga: Input costs are going up, Milind, that's why.

Milind Raginwar: Maybe for a better understanding, I may take this off-line. Actually, this was 3-4-line item question that I wanted to understand. Thank you sir.

Moderator: Thank you very much. We'll take that as the last question. On behalf of UltraTech Cement, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.