"UltraTech Cement Limited Q3 FY-16 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to UltraTech Cement Limited Q3 FY-16 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward looking statements and must be therefore viewed in conjunction with the risks that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward looking statement on the basis of any subsequent development, information or events or otherwise. As a reminder all participant lines will be in the listen-only mode. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Daga. Thank you and over to you Mr. Daga.

Atul Daga: Thank you. Good evening and wishing you all a very super 2016. I have pleasure in welcoming you for this earnings call for UltraTech for the Q3 this year. I have with me our Managing Director – Mr. O. P. Puranmalka and my other financial colleagues to give answers on each specific query that you may have. How we may describe cement industry, I thought of picking up some words from Einstein he said when you are courting a nice girl an hour seems like a second, when you sit on red-hot cinder a second seems like an hour. That's relativity but that is also a cement industry for all of us. We are waiting for the growth to happen; growth will happen when will it happen we keep waiting.

Briefly head the context about the country, about the economy one of the best economies amongst the emerging markets oil prices being favorable, current-account deficit being favorable everything seems to be going good. Today if I were to look at oil prices which somewhere around $ 30 would equate to prices prevailing in 1993 inflation at just at prices of about $ 18. At these kind of levels if the growth does not happen then I do not know when the growth will happen. Before we get into specifics I wanted to comment on a few media reports which have come around one was on cement imports, we do not think that cement imports are a possibility in India to a big extent because of the infrastructure that would be required to handle cement at the ports, huge amount of storage facility would be required to begin with and then shipment out of the ports to various destinations this is unlike Africa where yes imports are still possible. In the recent past last few days somebody had called me to check why are we investing in Kenya, I was taken aback and I told him that he got a wrong number we do not invest in wildlife we are a cement industry then I was told that there was some report about AMR, UltraTech investing in AMR, so that's about it.

On a serious note on MMDR Act which has been the buzz word for the industry for which everybody is waiting the last update that we have I guess everybody also has the same news. The amendment to the MMDR Act has been put up for public opinion on the Ministry's website till 26th of January few days from now and hopefully in the ensuing budget session we should be seeing positive changes into the MMDR Act so that the consolidation process in the cement industry continue at a normal pace.

For us erratic or bad monsoons, commodity prices have suppressed rural incomes and that is impacting the rural demand the rural housing spend has gone down dramatically and the continuing surplus inventory in urban real estate has also hindered the growth. However, as we progress we are seeing green shoots of growth coming up in nooks and corners of our country and our expectation has been all along that is the second half of fiscal 2016 will be better than H1 and start the recovery cycle this is what is emerging as of now. Cement industry registered a growth of somewhere around 4% to 5% in Q3 better than H1 performance and we expect that the industry will continue to improve from here onwards.

A little bit about how the demands has panned out in various sectors, North saw an increase in infrastructure spending, UP has been seeing has been seeing a lot of activity now with infrastructure just ahead of the elections this year, rural housing was a bit subdued, East practically all the states have seen growth in rural infrastructure and housing. Maharashtra has seen lukewarm demand from housing space however highways and rural development work is beginning to take off during this period. South was impacted because of Tamil Nadu rains as also lack of absence of sand availability which hindered lot of construction activity because of which South had very marginal or no growth virtually. Gujarat typical of the festive season of Diwali, labor shortage was phenomenal in Gujarat which saw hardly any cement offtake happening in that period. What we have also seen in this quarter is price corrections happening in the eastern and western markets over previous quarter. Northern markets remain more or less at par with the last quarter however the exit prices slipped over from recent times and they were at par with Q1. Declining trends in the commodity prices i.e. coal, pet coke has always been favorable for us, the World Bank had announced a reduction in coal demand, global coal demand to below 1% and the crude is also going down and we believe are yet to see the bottom of the barrel. However, on one hand when the industry saw reducing prices of commodities there have been some costs going up the surprise was payment of Bonus Act amendment which was passed with retrospective effect the amendment came in the first week of January and with effective from 1st April, 2014 which has caused a significant impact. The entire impact of previous year and the previous quarters of this financial year, 7 quarters essentially being borne by Q3 this year.

What lies ahead for us we expect the infrastructure activity of the government will pick up which will show us the light for demand growth, we have seen a lot of talk around roads and road related activities, the government has pushing the pedal on the road work today as we speak the execution rate has reached about 12-14 kms per day and continues to inch forward. Having seen this number performance at this level we believe that the ambition that the government had set for itself of 30 kms a day for road execution should be possible in the distant future. Recently in fact we were just looking at various projects which the government has sanctioned across the country nearly Rs.3 to 4 lakh crores have been sanctioned across railways, housing and road sector. This is what will drive the growth of cement industry for the future years. Roads being such a pertinent point of discussion let me give you another piece of information 1 km of 2 lane cement road consumes about 1200 metric tons of cement, 1 km of 2 lane bitumen road consumes about 300 tons of cement and 1 km two lane white stopping road consumes about 450 metric tons of cement. This data when I checked last time around bitumen roads were about 9 or 10% cheaper than cement roads but however if you look at the cost of maintaining bitumen roads, bitumen roads would require rework every five years as compared to higher life expectancy of cement roads we believe that cement roads is the way for the future and the government is all set to work towards cement roads. Housing program, the 7th Pay Commission will definitely help increase the spend in housing sector that should help the growth of cement industry. Low-cost affordable housing is gaining momentum in various states specially we have seen in Telangana, AP as I mentioned earlier in the eastern corridor and just to give you another piece of information the government 30 square meter house would take about 4 tons of cement and the government plans to do 16 million houses over a period of six years till FY 22. Metro Rail that is another area of growth for cement industry what we are seeing today India has about 268 km of Metro Rail network and the 400 km of additional network has been planned with a target of 70-80 km every year going forward this will again be a demand boost. While demand has been the key to growth we have at UltraTech as you would have already seen our numbers delivered and operating performance, operating margin of 20% this quarter after absorbing all the surprise cost hikes by the government and a 36% improvement in our EPS. The balance sheet is strong with a debt equity at the consolidated level debt equity of 0.21 and debt EBITDA of 0.88. With this I would like to conclude my opening remarks about our quarter, about the industry and handing it over back to you for questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin with the question and answer session. The first question is from the line of Indrajeet Agarwal of Goldman Sachs. Please go ahead.

Navin: If I look at this quarter you have got apart from volume growth you had cost savings as well in the quarter, how should we look at FY 17 in terms of any cost-saving initiatives and if you're able to quantify specifically in this quarter for example pet coke fuel mix has gone up in the quarter so are there similar initiatives that we can expect and in terms of freight optimization measures. My second question I just missed on the Bonus Act should we pro rate is it spread over the 7 quarters that has come under this particular quarter.

Atul Daga: Yes that is over 7 quarters, roughly about Rs. 5 crores per quarter is an impact for UltraTech. Total impact was Rs. 31 crores for that we have provided for in this quarter.

Navin: If you can just help us the understanding of the cost savings measures and if you can quantify in FY 17 apart from the reduction the coal costs.

Atul Daga: This is a continuous process one more element which I would want to add over here the cost savings, there is a lot of improvement that has happened in terms of efficiency improvement and not just the benefit of prices which have been coming down there is always a chance that the prices could go up at some point of time but those efficiency improvements that our team has been able to deploy are on a sustainable basis and at any corporate I would imagine that people are working day in and day out to continuously improve further there is no specific target that I would take but yes we will definitely try and make all efforts to reduce the cost further.

Navin: A last question, this is a housekeeping question can you tell us cement and clinker sale in the quarter?

Atul Daga: Cement was 11.26 that is domestic and export was 2.05 it is all in lakh metric ton and 0.08 lakh is clinker. Clinker is generally opportunistic so that is why we really do not count on clinker sale.

Moderator: Thank you. We will take the next question from the line of Anubhav Agarwal of Credit Suisse. Please go ahead.

Anubhav Agarwal: The 7% volume growth that you have recorded in this quarter how would the trend look for trade versus non-trade, would trade be more than 7?

O. P. Puranmalka: I would like to clarify that the measures thrust what we have given is towards trade sales and the majority of the growth has come from trade sales and our rural sale has gone up from interstate sale rural growth earlier was about 52-53% which has now gone up to 55-56%. In the trade sale mostly it is coming from the trade sale.

Anubhav Agarwal: So would that comment imply that if the overall sales is 7% then trade would have at least grown at 8-9%.

O. P. Puranmalka: Yes definitely you're right.

Anubhav Agarwal: Second question is on the pet coke, in this quarter pet coke prices have come down but in this quarter were we carrying any inventory which was before October 15 which does not have the benefit of this?

Atul Daga: The benefit of price reduction what we are buying today will come into future. You are always buying with a lead of minimum of 2 to 3 months.

Anubhav Agarwal: So this quarter you did not benefit at all from the reduction in pet coke?

Atul Daga: We did because pet coke prices have been continuously coming down so it is better than Q2 it is better than Q1 continuously.

Anubhav Agarwal: Let us say whatever the average for this quarter was I know it has been coming down November and December let us say from the average of the quarter you would have benefited only half from that from the decline?

Atul Daga: Yes absolutely.

Anubhav Agarwal: On the pet coke how much of your pet coke is US based versus Middle East based?

Atul Daga: 50-50 I would say. I'm sorry you're talking only about US versus Saudi?

Anubhav Agarwal: Yes.

Atul Daga: It is negligible.

Anubhav Agarwal: Once let us say your grinding units are up in Jhajjar and East grinding units how much would be the reduction in the freight cost that you think will happen to the system?

O. P. Puranmalka: Actually we have just started both the units and Jhajjar still we reached to 40 to 50% capacity utilization when we will be on the full capacity utilization definitely the lead distance is going to be reduced.

Anubhav Agarwal: I was just asking, supposing we are in FY 17 right now let us say these units are operating at 70 to 80% utilization so just trying to understand that how much will be the lead distance reduction in there?

Atul Daga: Difficult to comment on it right now as we progress Pataliputra is yet to get commissioned, Nagpur is yet to get commissioned and then we will see, but definitely the point is that lead come down.

O. P. Puranmalka: Because presently we are transporting cement from our Chhattisgarh unit and when we will transport clinker and add the fly ash at the point definitely lead distance is going to be reduced and also the cost both.

Moderator: Thank you. We will take the next question from the line of Chockalingam Narayanan of Deutsche Bank. Please go ahead.

Chockalingam Narayanan: If you can give some color on the growth levels on the various regions like the previous quarter you did, what was the percentage growth…

Atul Daga: I can only talk about trends East has been growing strongly, North has also been growing strongly, West was lukewarm or flat and South is showing de-growing trend.

Chockalingam Narayanan: But would East have been double digits?

Atul Daga: Yes.

Chockalingam Narayanan: North more likely national average or is it slightly better than that?

Atul Daga: It is good.

Chockalingam Narayanan: But it is not double-digit?

Atul Daga: It is good.

Chockalingam Narayanan: The rural percentage that you gave that was a percentage of trade sale.

Atul Daga: Yes percentage of trade sale.

Chockalingam Narayanan: As a percentage of total would it be more like 30%?

Atul Daga: 37% of total sales.

Chockalingam Narayanan: 37% of total sales. The Bonus Act impact it has been booked under which head.

Management: Several heads.

Management: It goes into repairs and maintenance because if it is contract labor it goes into Repairs and Maintenance, if it is our own people then it goes to Salaries and Wages. Some goes into freight also because if labor is employed over there contract labor employed there then it is booked there as well.

Chockalingam Narayanan: On pet coke any sort of impact assessment that you have done once Reliance pet coke gasification unit comes in, how is that likely to impact us?

Atul Daga: There is enough availability of pet coke within the country as well as Saudi it is available there are other Middle East countries also coming up. Today as a matter of fact US fuel is cheaper converted in energy bases it is cheaper than the domestic prices. So it is not really a concern.

Management: In East and South we are importing only. Only in North we are buying from the Reliance and that is against similar to the imported price.

Chockalingam Narayanan: On this waste heat recovery that you have made a brief mention what percentage of overall power….?

O. P. Puranmalka: 5%.

Moderator: Thank you. We will take the next question from the line of Jigar Mistry of HSBC. Please go ahead.

Jigar Mistry: The lead distance you say has improved Rs. 31 per tonne on a sequential basis would you say that is specific to UltraTech or is it the trend that the industry is witnessing?

Atul Daga: It is UltraTech.

Jigar Mistry: No the lead distance improvement…

Atul Daga: Yes that is ours UltraTech, the UltraTech logistic costs.

Jigar Mistry: But would it be fair to assume that generally in a scenario where you see the freight rate coming off cement companies would in theory like to move much further out than the traditional territories?

Atul Daga: Not really because the longer you go the cost keeps going up and it would have handling issues, transshipment issues cost could work negatively and if you are able to sell close to your home why do you want to go further distance. It also depends upon the availability of road vis-a-vis the rail.

Jigar Mistry: Only the other thing was that the industry is growing between 4-5% and UltraTech is growing at 7%, is it more of an impact of the acquisition or is it that UltraTech is gaining market share or is it alternatively that North and West are growing at a much stronger rate and therefore you're getting a higher share?

Atul Daga: First West is not growing and second point UltraTech's is always been growing consistently at a rate higher than the industry, it speaks for itself and yes in some markets we would be gaining market share.

Moderator: Thank you. We will take the next question from the line of Vivek Maheshwari of CLSA. Please go ahead.

Vivek Maheshwari: On the demand side on the rural bit given the kind of pressures that we have even the second half fiscal 2016 is it a wishful thinking in your view particularly on the rural as well as urban housing at the moment?

Atul Daga: No it is all logical play of event that is happening and as I mentioned pay commission find when the money has hit the pockets and large amount would ultimately flow into the rural areas it will also get aided by the low income housing program which the government is going strongly on, it will also get aided by spending in states like UP largely a rural market and pre-election, elections are there in March and you have already seeing lot of tom-tom about the spending plans that the government has over there. We expect, the only party pooper could be the rains if the rains again to be havoc this year then it is difficult to say, other than that things are panning out in a positive manner. We expect that budget should be quite favorable for the economy.

Vivek Maheshwari: Second on the fuel price trend that you have given in your presentation on slide 14 is that the spot prices of, is it basically the spot or the consumption rates that you have given there?

Atul Daga: It is consumption rate; it is worked out on index on the basis of 100.

Vivek Maheshwari: Basically when I say this 81 in December 2015 that is not the spot price but what you have consumed that is what you mean?

Management: Yes. If the prices were 100 in April so it declined by 19% in December on consumption basis.

Vivek Maheshwari: Ok. On the eastern side double-digit volume growth and prices have been quite under pressure, were you disappointed with the kind of pricing trend that we saw in East?

Atul Daga: No not really prices have been stable, looking at fall in relative terms the fall in Eastern market was very marginal and this is also visible in our numbers if you look at it YoY our net realization has dropped just 1% so it is flattish.

Vivek Maheshwari: But I would imagine sequentially East prices actually were quite under pressure along with the pockets of West, did that come as a surprise given that the demand was quite strong in that region?

O. P. Puranmalka: I think the demand mostly coming from Odisha, Jharkhand and North of Bihar and that we also expect that the demand should be better from West Bengal because in the future years the elections is going to be there. Presently what demands we're getting is from Odisha, Chhattisgarh and Jharkhand and Bihar.

Vivek Maheshwari: In your presentation again you mentioned and in your opening remarks as well about Andhra Pradesh development yet to take off, when do you expect cement consumption to see a kind of boost from Andhra?

Atul Daga: It will not happen overnight; we were not expecting that Amravati should have been ready yesterday. The full complement credit to the government there they have finished the land acquisition in record time. I hear lots of Japanese banks have already come forward for financing the growth and to plan a city I am sure there is a lot of town planning work and design and whatever else clearance etc that they have to do. It should start ticking off give them some rope.

Vivek Maheshwari: But what is your expectation in terms of cement industry perspective the consumption getting a boost?

Atul Daga: When we heard the Andhra Government officials talk about one is that it would amount to 30 to 40 million tons of cement not in one year but getting spread over the next 3-4-5 years and when it starts I want to start it yesterday. It is really difficult I do not have any.

O. P. Puranmalka: I think they have initially started affordable housing Andhra government have taken the steps and some cement has started flowing into that area but if you're talking about Amravati and that area that still I think 3-6 months will take time the offtake should start venturing. But affordable housing they have already started taking some cement actually.

Vivek Maheshwari: You have initially indicated about lot of news flows around you acquiring assets etc. Is there a benchmark about debt to EBITDA comfortable level or a stretch beyond which you will not go as the company?

Atul Daga: Debt to EBITDA I am comfortable up to 3.5.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani of JP Morgan. Please go ahead.

Gunjan Prithyani: I had a question on Jaypee acquisition in MP and that has been stuck because of the regulatory issue. There have also been news reports of Jaypee is looking at the entire entity sale which will also include this asset. So is there a timeline beyond which in the agreement that we will not pursue if that entity sale happens. Just a clarity on what happens if they are looking at entity sale?

Atul Daga: They are looking for entity sale also without Bela and Sidhi unit and they are still wanting to keep a couple of assets with themselves within that company. It is a confused state of affairs right now and before they are able to do the ATD sales they have to first divest non-cement assets from that company which they have handful of assets in that company. So it is a long drawn process. As far as Bela and Sidhi is concerned it will be our deal that is the way things stand as of now.

Gunjan Prithyani: There is no timeline as such that if it does not happen by let us say March or whatever mid of this year then they can go ahead and restructure the transaction because there is still a way for them to monetize the assets if they do share sale.

Atul Daga: As I mentioned to do a share sale they have to clean up the company first which will take a minimum of 8 to 9 months or thereabouts before that we are very hopeful and feeling positive that the amendment to MMDR Act will come through in this budget session which is February-March so that by the end of Q1 next fiscal we should be able to close the transaction on our acquisition. Everything has got completed just waiting for approval from the High Court, High Court is just waiting for that law amendment.

Gunjan Prithyani: Secondly on the pet coke we had a target of getting to about 75% which is where we are right now so in terms of mix you think we are at a level, it should stay fairly stable from here on?

Atul Daga: There are still some more improvements left and we expect to increase further from 70%.

O. P. Puranmalka: I think presently if you will exclude two plants where the limestone and the sulphur content are high we are already on (+85%).

Gunjan Prithyani: So it is fair to say we will continue to see cost trending down still going into next year because you still see more levers on the fuel side and on the freight side of course these grinding units have just become operational so you will see the benefit of that flowing through in the next couple of quarters?

Atul Daga: Yes absolutely. So two grinding units have come in, two are yet to start.

Gunjan Prithyani: Lastly on the demand outlook you seem to be sounding much more positive in terms of whatever is happening on the ground let us say in terms of roads or affordable housing, is it fair to say that you're much more confident of demand recovery now versus what it was last quarter?

Atul Daga: I am cautiously optimistic. All signs are positive the only grey area is if there is a delay in government spending the plans are intact concrete and very solid plans.

Gunjan Prithyani: On roads there has been a traction for I think almost 8 to 9 months now so have you really seen that flowing through into higher cement dispatches?

Atul Daga: As a matter of fact in the reported quarter we have seen higher traction on roads with in our RMG space which gives us direct barometer of measuring performance.

Moderator: Thank you. We will take the next question from the line of Sanjay Satpathy of Merrill Lynch. Please go ahead.

Sanjay Satpathy: Is there any particular region where you're seeing much faster growth than the market, that is market share has grown is much more appreciable in some regions than the others and if you can highlight that to us?

O. P. Puranmalka: As far as our growth is concerned our growth is much faster than the Eastern region where the industry growth is also higher and all growth is higher than the industry and also similarly in the North we have much higher than the industry growth.

Sanjay Satpathy: Continuing on the same growth of course the March quarter has not really started but the change in terms of growth trajectory will you see some kind of positive change coming in Western region which has not been doing well sometime soon and do you think Western region will recover faster than that of South?

O. P. Puranmalka: We hope that Maharashtra should be recovered which is presently lagging behind there should be some better growth in Maharashtra and Gujarat previously there was a good growth but last quarter growth was not very good. We expect that Gujarat growth should also be better in Q4 this quarter.

Sanjay Satpathy: Will it be fair to assume that we were looking at a much better industry growth rate than this 4-5% that you saw in December quarter to happen in March quarter and probably for you double-digit?

O. P. Puranmalka: Yes it should be better than Q3 growth what we expect so.

Sanjay Satpathy: What are your thoughts about so much of divergence in price and so much of volatility in price in so many places, is it because costs are declining and the companies are trying to pass that on to the customer or why this spot price behavior is like this?

Atul Daga: Spots are going up also. Prices are of your dynamic of demand and supply, good contracts happening good capacity utilization taking place prices will firm up it is a thing of daily routine and I always get to know about prices from you guys that prices have gone up or down other than knowing myself. Whatever reports that I have seen on what you guys called dealer checks, you go and talk to 2 dealers in each state and make a view that the prices have gone haywire; however, if you look at our realizations, YoY realizations are flat so it has not gone down dramatically.

Moderator: Thank you. We will take the next question from the line of Navin Sahadeo from Edelweiss. Please go ahead.

Navin Sahadeo: Pet coke you did mention that there will be some further declines and you also said that typically there is a lag of almost about 2-3 months for the benefit to flow through. I believe in the previous quarter the decline in the pet coke prices could have been more amplified, based on whatever orders they have placed for pet coke so far what kind of benefits, is it possible to give some rough indication that the pet coke price would have gone down by let us say at least about Rs.1000 to Rs.1500?

Atul Daga: I will not be able to quantify anything for the future. I can only give you trends. Yes, the prices have fallen and we have already said that the benefit of current transactions will be seen in the next couple of quarters. Just to give you an indication from previous quarter we have seen nearly 29% reduction in pet coke prices on a landed basis it is somewhere around $53 today which has gone down further.

Navin Sahadeo: On the regional commentary you mentioned that the North is also seeing good growth, East of course is seeing much better prices but North demand is certainly not a disappointing?

Atul Daga: Yes, it is not disappointing.

Navin Sahadeo: In that light off late especially in the month of December and now also in January despite post Makar Sankranti the prices in Rajasthan, Delhi region continues to remain fairly subdued. So is it got to do more with the volume pushed that happened towards the quarter end which is keeping these prices low because if the demand is good, prices there should have been some recovery there too.

Atul Daga: In the last quarter lots of MNCs have their December period closing pressures so lot of volume is pushed.

O. P. Puranmalka: I think whenever the demand is going to be good the prices are going up and we have now seen after December that demand in the North East is now pitching up and we are very hopeful that there should be a price improvement in the North also.

Navin Sahadeo: Which is that you will appreciate that typically every year Makar Sankranti does see a change some decent price announcement which happened and everybody is too excited about prices which is absent so far this year so is it because the inventory which was pushed into the December quarter is still….

O. P. Puranmalka: I can tell you that whatever the clinker inventory was used to be there with the players has come down and we are now hopeful that the prices should go up into North also.

Navin Sahadeo: Previous month the COMPAT referred the case back to CCI to be filed again in three months, are they looking like CCI is changing the period of that particular investigation or approached companies including you for some more data what exactly are they going to….?

Atul Daga: No more data queries Navin. As we speak in the last 2-3 days since yesterday in fact CCI has been hearing the case, the hearing will go on tomorrow after that they will pronounce their order whether keep it same to reduce, increase demand whatever we do not know.

Navin Sahadeo: Basically you're trying to say that we do not really have to wait for three months if the order could come much earlier possibly from CCI?

Atul Daga: Maybe, may not be they might want to wait out their entire three months' period it is all up the system that they have.

Navin Sahadeo: I believe most of the CAPEX is now almost about to complete so what is the CAPEX guide in rupee terms for FY 16 and FY 17?

Atul Daga: When we had spoken earlier during this year we talked about Rs. 3500 crores for this year and Rs. 1000 crores for next year I think between Rs. 4500 crores to Rs. 5000 crores is what we would look at for the two years combined which is FY16 current financial year and the next year. There will be some spillover I will not be able to spend the entire Rs. 3500 crores in this financial year. There will be may be Rs.500 to 750 crores short of that target which will get spilled over into the next financial year.

Moderator: Thank you. Our next question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: In terms of pricing sequentially we have seen the price realization dip of around 4% so would you guide which are the markets where most of the erosion has been felt?

Atul Daga: Prices fell generally across at different levels of price fall.

Rajesh Ravi: I understand the South prices were more resilient on a sequential basis so is that understanding right?

Atul Daga: Yes absolutely.

Rajesh Ravi: Ex South which are the other markets, ex-South all markets saw similar amount of price erosion?

Atul Daga: No I think North was higher than East and West.

Rajesh Ravi: As you stand in January how are things now in most of these markets?

Atul Daga: About January when we talk in the next quarter.

Rajesh Ravi: In terms of demand outside India, UAE demand how is that are you seeing any potential slowdown happening?

Atul Daga: UAE was operating at 116% capacity utilization. There is no let down in demand and if you look at the Dubai export 2020, the huge amount of construction activity that is happening over there.

Rajesh Ravi: There at least the utilization will remain steady at (+100%) odd.

Atul Daga: Yes, we hope so.

Rajesh Ravi: This CAPEX number that you shared and of the nine months' numbers that we have on your presentation no gross change in gross block if I see the change in gross block in nine months that is hardly less than Rs. 1,000 crores as against Rs 3000 crores you're targeting for this year so large chunk is what is due in Q4?

Atul Daga: For nine months it is close to Rs. 1600 crores so balance spending that is where I'm looking at Rs. 500-1000 crores anywhere between that could get completed in this quarter. If it does not because they are ongoing projects that could get spilled over into the next fiscal year.

Rajesh Ravi: So there is no any organic expenses which are due for next year post this for grinding units which are expected in March?

Atul Daga: We will announce the plans in due course.

Rajesh Ravi: I mean for FY17 there are no expenses which are undergoing.

Atul Daga: No.

Moderator: Thank you. Our next question is from the line of Anshuman Atri of Haitong Securities. Please go ahead.

Anshuman Atri: My first question is on freight front. We have seen an increase in the rail over the past couple of years the roads share as a percentage of total is it a management decision…?

Atul Daga: It is purely because of availability of rail being low that is why we have to depend on roads network.

Anshuman Atri: Going forward what could be ideal share of road versus rails?

Atul Daga: Last I have seen internally is the last 4 or 5 quarters the highest rail availability in our system I had seen about 38% I would wish to reach over there if not higher. It is difficult to predict.

Anshuman Atri: Given the push on coal and other for the rail?

Atul Daga: Today we are somewhere around 30%, I hope it will not fall further below that number.

Anshuman Atri: The second question is on expansion. How much would be the potential Brownfield for expansion for UltraTech available as an option?

Atul Daga: We will come back to you in due course as and when our Board approves any new expansion. All I can say is yes our team is working on various opportunities.

Anshuman Atri: On rural based housing, we have seen government cutting down their targets for this year so how do you see it panning out across different regions? Is this rural housing on West and South how is the State government focus as compared to East and North states?

Atul Daga: Clearly as we speak now we should see improvement taking place in Tamil Nadu one in Chennai redevelopment of course that is not rural but from housing space perspective Chennai and the rest of Tamil Nadu with pre-election boost that the state would get. Andhra we already spoke on the call there is lot of spending happening on rural housing. Karnataka there is not so much on housing but more on irrigation projects that the spending is happening. On the housing front in other states practically everywhere we are seeing a boost taking place in the housing front. Whatever the cut the government might take in their rural housing program will be spillover into the next fiscal year.

Moderator: Thank you. Our next question is from the line of Mitesh Shah from OHM Group. Please go ahead.

Mitesh Shah: How much is the current cement used for road consumption in FY 15 and how much do we could see it going ahead in next two years?

Atul Daga: We do not have that number.

Mitesh Shah: Ok based on number which you give 1200 tons per kilometer it consumes 7000 km to be built….?

Atul Daga: It is very difficult because 1200 tons is on a 2 lane basis, depends upon if it is an expressway of 8 km the number will multiply proportionately. We do not have that breakup on how much and what kind of roads are being done.

Mitesh Shah: If I assume FY 15 cement consumption in India was around 260 million tons around 4-5 million ton was cement being used for roads is that the correct or it could be much higher?

Atul Daga: Really do not know that.

O. P. Puranmalka: 260 is okay.

Mitesh Shah: When we say we are bullish for or we are positive for Q4 is it primarily driven by the low base effect of last year?

Atul Daga: One would also be low base effect yes and there is also a growth that you will see. Both benefits will be there.

Mitesh Shah: When we go back to the earlier cycle probably of 02 to 06 generally for cement pricing is an important criteria, which we are looking at and the current capacity utilization is at sub-67%. When we look at the earlier cycle of 02 to 06 the cycle started with a much higher capacity utilization of 75-76 and when the demand picked up it was much easier for the pricing to pick up, in this cycle currently we are starting at a much lower capacity utilization do you think this pricing is obviously demand driven and market-driven but do you guesstimate the pricing will also be similar like we saw in the last cycle or it could be much lower than what street is estimating probably?

O. P. Puranmalka: The capacity utilization what you're seeing in the industry is much lower but it is different from the region-to-region it is not necessary that all the region's capacity utilization is lower and we expect that wherever the demand will be higher the capacity utilization is going to improve. We have seen that whenever the capacity utilization improvement is going to be there or the demand is coming much faster the price improvements are happening.

Moderator: Thank you. Our next question is from the line of Sandipan Pal from Motilal Oswal Securities. Please go ahead.

Sandipan Pal: Little bit more on pricing, taking cue from the previous caller even if there is an improvement on the demand side led by infrastructure is it a possibility that going forward the pricing may not increase commensurately because many of the demand will come at a certainly lower price because the government contract and hence you can gain on the volume but may not gain on the pricing as much?

O. P. Puranmalka: I think whenever the demand improves definitely the price improvement is going to happen. If you see that in past demand is very-very low the first time (+4%) growth we have seen in Q3 and we're hopeful that now the demand number should be better and we are hopeful that price should also improve in certain regions.

Sandeepan Pal: So government contract lower price spent is not a big issue for the overall realization growth, that should be at market price.

O. P. Puranmalka: Overall price I'm talking about is overall price I'm not talking about government price separately and the other price separately what is that I am talking about the overall price.

Sandeepan Pal: The depreciation for the quarter I thought two of the grinding unit started this quarter so I anticipated higher depreciation so have we started taking those effect this quarter?

Management: Yes, apart from that Rs 25 crore impact because of new company law, we have done computation also additional impact of that is also Rs. 25 crore.

Sandeepan Pal: So depreciation would have been Rs. 25 crore higher if that was not there?

Atul Daga: Yes.

Sandeepan Pal: I can see that you have reduced your net debt by almost Rs. 1100 crores on a sequential basis was the very little CAPEX for the quarter because your EBITDA is around Rs. 1200 crores and you have tax and interest after that?

Atul Daga: Working capital improvements also accounted for it.

Moderator: Thank you. Our next question is from the line of Vineet Parmar from Nomura. Please go ahead.

Vineet Parmar: My question is related to the energy cost, basically in one of your previous annual reports you have mentioned that the power generation potential through waste heat recovery could be on 90 MW so currently we are around 55-56 MW are we like fully tapped the potential…?

Atul Daga: No we are firming up our plans for other plant locations where we'll be doing WHRS and we will start work in due course.

Vineet Parmar: When can we expect this going to 90 MW what you have identified?

O. P. Puranmalka: It will take time because we are firming up our remaining CAPEX program for the next years.

Atul Daga: If at all it could happen in FY18 or somewhere around at that time, difficult to put a number put a finger on any particular period of point in time.

Vineet Parmar: There was a higher pet coke uses in power plants as per the presentation, how much have we increased to now?

O. P. Puranmalka: Pet coke in consumption in power plant is 41% which was 31% last year.

Vineet Parmar: We can go till 65-70% that is what is our target is it correct?

Atul Daga: Yes, we could.

Vineet Parmar: Basically the Middle East pet coke with higher sulphur more than 8% do we see more arbitrage in terms of benefit in terms of pricing…?

Atul Daga: The arbitrage is also going down, Saudi pet coke has also firmed up a bit, there is very marginal difference between US and Saudi left on a net basis.

Moderator: Thank you. Our next question is from the line of Mihir Jhaveri from Religare Capital Markets. Please go ahead.

Mihir Jhaveri: What would be your lead distance now?

Atul Daga: Somewhere around 440 km.

Mihir Jhaveri: What would be your trade and non-trade mix now?

Atul Daga: 69% is trade.

Moderator: Thank you. Our next question is from the line of Sumangal Nivetia from Macquarie. Please go ahead.

Sumangal Nivetia: Continuing on the fuel cost you mentioned that pet coke prices are declining and we are also seeing weakness in imported coal and e-auction prices so if you can quantify what is the per Kilo Cal cost at the plant for different fuel types as on today or last quarter?

Atul Daga: I will give you a range of numbers somewhere around 850 would be pet coke, imported coal would be somewhere around 1150, indigenous coal, the linkage coal would be somewhere around 1000 and indigenous open option coal would be 1250 somewhere around that level.

Sumangal Nivetia: So this is as on recent trend?

Atul Daga: This is I'm talking as of Q3 consumption basis.

Moderator: Thank you. Our next question is from the line of Rakesh Vas from HDFC Mutual Fund. Please go ahead.

Rakesh Vas: Can you just give the power fuel mix in terms of pet coke you get 41% so what was the other components like domestic coal?

Atul Daga: That was what we're talking about pet coke for power plant so that is what was 41%, linkage coal was 31%, open market 14%, and imported coal 8%. Power Plant what you should be focusing is on kiln, kiln is much higher.

Rakesh Vas: Kiln you have given the numbers in the presentation. I was just wondering on the power plant how are the things changing.

Rakesh Vas: This 10% incremental pet coke is in lieu of where we have seen the reduction essentially in the open market coal?

Atul Daga: Yes imported coal and open market also.

Rakesh Vas: Just a clarification, the domestic sales number that you gave in the presentation does that include white cement sales as well?

Atul Daga: No that was the grey cement we talked about.

Rakesh Vas: Because it says the standalone number and the domestic cement sales.

Atul Daga: We have talked about separately also in the chart.

Rakesh Vas: Lastly can you give the breakup of the revenue for RMC and white cement sales?

Atul Daga: Rs. 500 crores each.

Rakesh Vas: Will it be possible to give EBITDA?

Atul Daga: No.

Moderator: Thank you. Our next question is from the line of Swati Ramesh from CRISIL. Please go ahead.

Swati Ramesh: When are your capacities for Fatuha and Nagpur expected to be commissioned?

Atul Daga: By the end of this fiscal.

Swati Ramesh: Secondly wanted to understand the impact of Chhattisgarh government cancelling the NOC. So is mining currently underway at the Baloda Bazar plant?

Atul Daga: No that mine was not even started.

O. P. Puranmalka: It was for the future expansion and the NOC is related to some irrigation part, I do not think the major impact is going to be there, so it is not for the operational plant.

Moderator: Thank you. Our last question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat: On the limestone acquisition under the new MMDR Act you mentioned that it has become incrementally troublesome, so any relaxation there which the government is thinking of anything that you heard that could be relaxed?

Atul Daga: Just a piece of information that I can share with you. Rajasthan auctions they did not take place because there were no bidders virtually actually one bidder had participated so auction cannot take place so government has called in all the corporates to understand why was such a poor reaction so I hope the respective governments will listen to corporate citizens to make auction process a much more meaningful process.

Achint Bhagat: If you can share your region capacity utilization for example in North India, South?

Atul Daga: North about 78%, East 89%, West 71%, South about 50%.

Achint Bhagat: Apart from East it seems that you have enough capacities for the next few years, does it mean that a large proportion of your expansion incrementally will be East India only or it is agnostic to that?

Atul Daga: Yes we are agnostic, while we would want to do East also we will look at all the areas.

Moderator: Thank you very much. Ladies and gentlemen with that we had our last question. I would now like to hand the conference over to Mr. Atul Daga for closing comments, please go ahead.

Atul Daga: Thank you ladies and gentlemen for listening into us and supporting us. This quarter has been as you can see from the numbers driven by operating efficiency improvement and going forward we look to for having improvement in the topline in those terms also and look forward to meeting you and the coming to you again at the end of next quarter, thank you.

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