"UltraTech Cement Limited Q3 FY 2018 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the UltraTech Cement Limited Q3 FY 2018 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 therefore in conjunction with the risks that the company faces. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise.

As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded.

I would 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 and Good Morning, Good Afternoon and Good Evening to all the friends joining on this call. I welcome you to our quarter three earnings analysis.

I do not know where to start. But let me give you the morbid news first about the industry.

Cement industry is always in the news raising unwarranted concerns. There was a spate of structural issues this year beginning with RERA, then the launch of GST, followed by the ongoing crisis on sand availability. The dust has not settled yet on that the ban on usage of pet coke surfaced. Thankfully cement industry will be allowed to use pet coke.

Clearly it has been a yo-yo ride for the industry this quarter.

Let me now get into a few specific elements the way we read at UltraTech:

One is on the cost then demand, prices and maybe sand availability also I could update you people on before getting into specifics on UltraTech performance.

<u>On the cost front first:</u>

Since last eight quarters the costs have been on a north bound journey then the costs have been spiraling up. Pet coke, coal, raw materials, freight have all been moving up. Pet coke has been banned for usage in captive power plants and import duty has been raised on pet coke in the country. The latest one is domestic coal price hike. This will universally increase the input costs.

At UltraTech, what we have tried to counter the impact of rising input costs with sustainable efficiency improvements. Comparing the performance from last year, the efficiency improvement has added 2% to the EBITDA margin.

Cement prices:

Cement prices have dropped in most parts of the country quarter on quarter, though there was a marginal improvement year on year.

Looking at the demand segment:

During the quarter industry is expected to achieve double digit growth in volume. Benefiting from a low base year, consistently improving demand from the infrastructure sector and pick-up in rural housing demand & Government's low cost & affordable housing programs.

If you were to see this year's growth it seems alright with the first quarter around 4% to 5% second quarter around 10% for major cement players. The third quarter also expected for the industry to do a double-digit growth. And remember that the January - March period supposedly runs full steam for the industry and always does better than Q3.

There is an increase in new capacities coming into the market. But the saving grace is on an annualized basis the demand growth seems to be on a higher run rate than the new capacity addition.

Roads:

National highways continue to remain healthy at an execution pace of 23 to 24 kilometers a day for the first eight months of this year. Government has taken up various projects specific worth mentioning is the $5 billion for Delhi and NCR region. Work has already commenced on projects of Eastern Periphery, the Delhi - Meerut Highway, Dwarka Expressway is under bidding stage.

Execution of the Prime Minister's Rural Road Program continues to be at fast pace at 130 kilometers a day. Mumbai coastal roads, the process for awarding the contract is underway and we expect the construction work and the cement consumption to begin in April 2018. You would have already seen the news that spending on roads is set to increase 3x in the current Government's regime.

Mumbai Metro, which is a much talked about project work for two elevated lines about 35 kilometer long is already progressing very well. 30% of pier erection work and casting of 25% U-girders has already been completed. Tunneling work on the 33.5-kilometer route is underway.

Bullet Train:

That is the other project we are waiting for. The 500 plus kilometer long Mumbai -Ahmedabad Bullet Train project. The ground survey has already been completed and the construction work is expected to begin in the second-half of 2018. This itself will require about 6 to 7 million tonnes of cement generating an incremental demand of 1% for the Gujarat region.

Low-Cost Housing / Affordable Housing Project:

It is making rapid progress. 5.8 million houses have been sanctioned till now, out of which we believe more than 1.51 million houses have already been completed and handed over. The program is gaining momentum since almost 1 million houses were completed during this quarter. Government has disbursed first installment for more than 95% houses and second installment for more than 65% houses sanctioned till now. The states which are making the most of this program are the states in the South and East and to a large extent the North-Eastern corridor of the country. Overall, the rural markets have been seeing an improved demand sentiment.

On the urban, Affordable Housing projects are gradually surfacing in the country. Amravati City, Andhra Pradesh has started seeing these projects on a big scale followed by the states of Maharashtra, M. P., Tamil Nadu, U. P., Karnataka, among others. 3.74 million units have been sanctioned till date, out of which 1 million were sanctioned in Q3 for a total investment of about more than Rs. 2 lakh crores. The speed of execution is yet to pick-up because 0.3 million houses have been completed out of the 1.65 million houses where groundwork has begun.

DFC:

DFC is now completing the Haryana-Rajasthan sector and work has started on the Gujarat-Maharashtra belt. Hopefully there will be an improvement in the ancillary areas in the Western region. Thanks to DFC, this will give a long-awaited boost to economic activity in these markets.

Airports:

There are new airport projects on the horizon. Bangalore modernization, New Bombay, the financial closure has been done. Goa International Airport, Pune International Airport are amongst the big names that come to my mind about the Airport projects.

Irrigation Projects:

Major work has started in Andhra and Telangana as well as Southern Maharashtra where it is consuming a lot of cement.

Regional Demand

If I were to do a regional split on demand, how demand has been shaping up in the country let me talk about region by region.

Northern regions:

- Infrastructure projects are contributing to improving demand sentiment. Government spending in Rajasthan and in M. P. will continue its build-up and support demand.
- Currently, Haryana and Punjab demand are subdued due to severe cold and brick and sand availability in these markets. However, rural housing and small contractor purchases are generating reasonable demand in these markets.
- Jammu and Kashmir: the roads and bridges, hydropower, railways and defense are key demand drivers.

Central markets:

- Rural demand is picking up in M. P. stalled government projects are getting revived, Affordable Housing program where M. P. is in the forefront seems to be coming together to pull demand. Investment in power projects is also drawing cement consumption.
- U. P.: Several highway projects are taking off. However, sand and aggregates availability continue to be a challenge in the state. Government spending through demand for small rural roads and schools and rural housing is primary driver. Initially the sand mining ban was getting resolved but we have heard that some parts of U. P. the NGT order is coming back into force and sand mining will not get resolved very soon.

Eastern markets:

- Rural demand is expected to boom with the construction of 10 million rural homes in the states. State governments are promoting rural projects and supporting rural demand. Within Eastern corridor, if I look at the state of West Bengal, they are triggering their Green Building concept which is usage of the AAC or the autoclaved aerated concrete blocks increase infrastructure development should prompt an increase in demand. Government aided infrastructure and low-cost housing are also adding to the demand growth.

- Odisha: Rural demand increased marginally primarily through the IHB segment. State government housing projects continue to be the key drivers. Central government allocation of funds through NABARD for irrigation projects, dams, canal lining, etc. have been primary driver for growth in the state of Odisha. Smart City development has taken off as a pilot project in the city of Shantipalli near Bhubaneswar which is expected to drive demand for the state.

- Chhattisgarh: The Government-funded rural development and road projects, Rural Housing supported rural demand. Urban demand is supported by major road links projects (especially through National Highway Authority of India), Infrastructure development and Airport development. Paucity of labour availability witnessed in Nov'17 till early Dec'17 on account of harvesting, resulting in slow-down in construction activity.

- In the state of Bihar, non-availability of sand continued to impact demand.

Western markets:

- In the Western states of Maharashtra and Gujarat, the DFC beginning work. Urban housing seems to be picking up after the price correction that took place in the real estate markets and the Metro Rail project in the City of Mumbai are generating demand.

South markets:

- Nothing new has been happening. Government spending is continuing in Karnataka, in Andhra Pradesh and Telangana the projects around irrigation and a few commercial areas.

<u>Sand Mining:</u>

- **Bihar:** sand supply remained weak during the last quarter due to various protests from truckers and masons against the government's new mining policies. The next hearing of the High Court is scheduled on 23rd of January against the New Mining Policy. We are waiting to hear the outcome.

  Government has planned to commence e-Auction of sand mining in this month in the state of Bihar. We expect that sand should pick up from next month or perhaps the month after.

- **Rajasthan:** The Supreme Court mining ban on 82 mines continues. The next hearing on the case in Rajasthan is scheduled after six weeks from now. Construction work accordingly was impacted in the state of Rajasthan.

- **U. P.:** As I already mentioned earlier on the call the NGT ban on major sites continues regarding sand usage.

- **Madhya Pradesh:** The government has dropped the plan for on-line sale of sand and now allowing license owners to sell sand. Hopefully, this will start improving as we progress.

- **Tamil Nadu:** River sand mining ban continues as per the last order and we are seeing some shift towards the mechanized sand.

Now let me talk about what has been happening at UltraTech:

First and foremost, about the acquisition, This was the acquisition of 21.1 mtpa capacity covering 11 plants spread across 5 states marking of a long overdue entry into the Central India markets, Coastal Andhra and strengthening our presence in the Northern markets.

Success of an acquisition can be found in four stages: Acquire, Assess, Advance and Achieve.

The first quarter of operations went in the assessment mode for; completing the formalities of transfer. We focused on understanding the people, assessing the retrofit requirements, planning shut downs, building our systems, quality up gradation, building our marketing network etc.

We got into the advancing mode in the October - December quarter month after month we have improved the performance of these operations. Major maintenance shutdowns were taken as were required in the month of November and which could have spilled by a few days in the month of December across all the five integrated plants. We have achieved a capacity utilization of 51% for the quarter. But more important to note is December exited with a capacity utilization of 60% mark.

We are well ahead of our target of achieving a 60% capacity utilization which we were planning earlier for April - June 2018 quarter. We are now very confidently poised and on course on turning around these assets.

On the cost front: Today there is a gap of maybe Rs. 200 per tonnes in operating variable costs between the old assets and the new assets. However, as we progress along in the next financial year, there will be no gap left in the cost of operations except for the extra royalty which is attached for the acquired assets.

This quarter I believe we had an additional cost of Rs. 100 per tonnes on the acquired assets because of the extra work that was undertaken simultaneously across all five integrated plants. Such a cost will not be a recurring cost month after month.

Deleveraging:

We have reduced Rs. 629 crores of net debt in the last three months. Peak investment on the acquired assets is now behind us and we should be looking at a progressive reduction of debt going forward. We have optimized our project cost significantly on the ongoing Greenfield expansion at Dhar in Southwestern M. P. this will further help us in reducing debt.

RMC Business:

The RMC business has been gaining volumes with infrastructure projects gaining momentum in the country which is clearly reflective of the growth in the infra sector. This will also reflect in a shift to some extent towards the non-trade or the institutional markets. Historically, we have had a very high concentration on trade market there is a slight shift towards non-trade market but this is expected as the country sees an overdrive in terms of infrastructure execution.

Let me talk about the cost front within UltraTech:

The rising procurement costs were a dampener, but we have done tremendous work this quarter also and the work goes on. We saw efficiency improvements to the extent of 4%. We have improved efficiency of our WHRS system. We are planning to invest in two more WHRS plants next financial year and increasing alternate fuel becomes a big focus area for us. Cost of captive power might go up marginally because pet coke is not being allowed for use in the captive power plants. However, we have improved the efficiency of our captive power plants which has helped reduce the overall costs.

Logistics:

With the addition of this 21 mtpa of capacity in the North and Central markets we have undertaken an exercise to reduce our logistics cost the benefits of which has started unfolding and will be visible in the next four quarters.

e-Way Bills, which the government will introduce if I am not mistaken from 1st of February, will be a challenge on managing interstate movements. We are waiting and watching and preparing for managing this transition into the e-Way Bill environment.

Going Forward:

I think that the worst on cost is behind us unless there is again any structural change in the country whether a duty structure or norms regarding consumption of material. I believe that costs should remain stable or benign in the next financial year. And with capacity utilizations going up, we should see much better performance than what we have seen in this quarter. This quarter was focused on achieving faster capacity utilization on the acquired assets and our team has proven their prowess yet again where we achieved a phenomenal performance on the acquired assets.

That is all, I wanted to talk about from my side and I open for questions now.

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

Anshuman Atri: My question is regarding the sand, since it is an essential for cement usage and so do we see any opportunity on the similar lines of global majors which also sell sand and aggregate along with cement? Is UltraTech looking at this as an opportunity?

Atul Daga: No. I think we are focused on cement. Aggregates as an industry is highly unorganized in the country and not the best place for a corporate player.

Anshuman Atri: Okay, Sir ! and second question is on usage of these waste material. Recently, I think you tied up with railways for procuring waste to be used in kilns and it is only 3% of total fuel which is being used. So, what opportunities there? Can it go to 10% in next two years to three years of the total?

Atul Daga: No. That is too high a number. But we would touch certainly the 5% mark very soon maybe in a couple of years.

Moderator: Thank you. We have the next question from the line of Nitin Basin from Ambit Capital. Please go ahead.

Nitin Basin: A few questions, one on the energy side. When you mentioned that the captive power plant has been banned to use pet coke was it for the entire quarter last year or is it for January - February this year onwards?

Atul Daga: This happened in November 2017, somewhere around then the Supreme Court ban on pet coke came in. So first, the ban was only in the three states adjoining NCR and then subsequently after the ban on usage of pet coke was lifted for kilns the ban on power plant has been maintained.

Nitin Basin: So, the structural cost goes up by roughly how much for you because of the captive power cost bans till the time ban goes off?

Atul Daga: Very marginal. Very marginal because you see, we were using 50% - 60% pet coke only in captive power plants and ultimately the power cost is what will go up by a few paise. In effect on cement cost it will be a marginal effect.

Nitin Basin: Okay. And the import duty is yet to play out because it started only in January somewhere?

Atul Daga: Yes.

Nitin Basin: You mentioned in the presentation that there are multiple head winds in the P&F cost more than the only fuel cost. So anything else that you are witnessing beyond this ban etc. like do you have to structurally change the source of your pet coke?

Atul Daga: So till now the U. S. supplies have not stabilized and we are waiting for the stabilization; which will bring about a little more predictability around pet coke.

Nitin Basin: Okay. And you mentioned in the call earlier that the cost difference between JP capacities or the production today is roughly about Rs. 200 per ton and it increased by another Rs. 100 per ton because of one-time. So roughly for this quarter the Rs. 300 cost difference between JP production

Atul Daga: No. Rs. 200 per ton would include this Rs. 100 cost.

Nitin Basin: Okay. So, does it mean that we are roughly at about Rs. 3,200 or Rs. 3,100 cost for JP?

Atul Daga: Yes, you can do the math's for yourself.

Nitin Basin: Okay. And last one from me was is that extra royalty also part of this one only?

Atul Daga: Yes.

Nitin Basin: Okay. So the last one was RMC sales you said it is growing in double-digits. So should we assume like a 15% - 16%

Atul Daga: Yes, it is about Rs. 500 crores.

Nitin Basin: Rs. 500 crores, okay.

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

Vivek Maheshwari: Sir, first on the demand bit the numbers that you have given for let us say first quarter, second quarter, third quarter and your expectation for fourth quarter this year is strong demand growth, will you just attribute to base, or you think that the underlying trend because last year was a slight negative or you think beyond the base also there is an improvement?

Atul Daga: There is a structural improvement, Vivek. Entire growth cannot be attributed to low base. You should give credit to the cement industry also. There is an absolute amount of volume growth that we are seeing. If I were to look at RMC volumes, the way RMC is shooting up? This is just a indicator of where the country's shift is happening, it is infrastructure, infrastructure and infrastructure.

Vivek Maheshwari: Okay. And your past comments about Tier-II housing that those remain under pressure even now?

Atul Daga: We are still not seeing big activities in the Tier-II cities in the housing space. What we are seeing is the new launches which are Affordable Housing program taking shape, but best is yet to come.

Vivek Maheshwari: Okay. Second, on the sand mining and I remember you had put out a very detailed presentation last month. I mean at that point of time, I think the outlook was a bit more positive after whatever you mentioned now be it Bihar, Uttar Pradesh are you a bit more concerned compared to let us say when you had put out that presentation that this may take a little longer?

Atul Daga: Could take a little longer and what has happened is Rajasthan and U. P.; the ban has come back in the few cities again which was opening up. Bihar, where we saw that the government would frame rules, still there is a bit of a confusion. Rajasthan, the ban was enforced the last. Tamil Nadu when they started importing sand from Malaysia that was also restricted. So, these are the further developments which are raising concern in our mind how much time it will take to solve the issue on sand. What we are doing from our side is educating, guiding contractors on mechanized sand because there is always a concern in the minds of a mason or an architect that the quality of construction, time or cost required will be different if they are using mechanized sand compared to river sand. But there is not too much of a difference. That is where our technical services are out on the field guiding and educating people.

Vivek Maheshwari: One last question, all the issues that you mentioned about be it pet coke or linkage coal or diesel prices or freight, whatever it may be; end of the day it is an industry wide issue, right? So…

Atul Daga: It is an industry wide issue.

Vivek Maheshwari: So, why is it that cement prices have not reacted as much as they should have in let us say December quarter?

Atul Daga: Capacity utilization still continues to remain subdued. It is still not crossing 70% for the industry. So, the movement as demand uptick continues in the January - March quarter I believe it will be a historic quarter. I hope I am right on that and this will be a game changer quarter for the industry.

Moderator: Thank you. We have the next question from the line of Raashi Chopra from Citigroup. Please go ahead.

Raashi Chopra: Atul. On the pricing data that you gave, just to be clear North you said was positive 2% and East was a positive 5%, right?

Atul Daga: Yes.

Raashi Chopra: And this North when you say, you say cumulatively with the central?

Atul Daga: Yes. North, I have not kept Central Separately North and Central combined.

Raashi Chopra: And what was the capacity utilization across these regions?

Atul Daga: Capacity utilization, I would say North was 80% plus; Central we reached 60% plus; East 80% plus West 70% plus South 53%.

Raashi Chopra: Okay. And if I take JP capacity utilization at 51% as you mentioned that means your own growth was somewhere in the mid-teens. Is that right?

Atul Daga: Yes. Own growth you have got to look at, we have grown 13% to 14%.

Raashi Chopra: And which regions have you seen the maximum growth?

Atul Daga: North and Central. Central largely is new so North is where we have seen a big growth followed by East.

Raashi Chopra: All the regions will be positive, right?

Atul Daga: Yes, organic it was a fabulous growth.

Raashi Chopra: Okay. And then just one industry wide question I mean you mentioned that the first quarter was 4% to 5%; second quarter was 10%, right? And the third quarter also 10%?

Atul Daga: Yes. Third quarter will be double-digit. I am expecting more than 10% for sure.

Raashi Chopra: So, is the sand mining ban really making an impact? What I mean is that if the ban were not there then how much it would be?

Atul Daga: It could have been much higher.

Raashi Chopra: When you say much, I mean how much?

Atul Daga: I do not know the exact number. But yes, because the issue on sand mining is restricting the construction activity. That is a fact which we cannot deny, and sand mining did start opening up. Let me go back again on sand mining. U. P. lots of districts have started opening up on sand mining which saw good traction in this quarter. However, I think in the month of December or early January some more districts came back into the sand mining ban. In Bihar, the mining ban was lifted from various pits but again they have come back on clearing up the process or laying down the process. Odisha, there is no problem. The state is growing at a breakneck pace. A bit of a crisis in the state of M. P. Maharashtra and Gujarat, there is possibly no problem per se on sand. Karnataka, Andhra luckily are already well into mechanized sand. Tamil Nadu is a problem state, Tamil Nadu in any case was not growing.

Raashi Chopra: Okay. And just lastly, you said that the new capacity announcements are going up. So what in your view is roughly a growth rate we can expect over the next couple of years?

Atul Daga: Okay, I would expect by the end of next year, I look at the industry being about 440 million tonnes. Next year anywhere between 30 million to 35 million tonnes will get commissioned out of which 7.5 million tonnes is ours.

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

Anubhav Agarwal: Sir, one clarity on other expenses. This Rs. 100 per tonne cost that you mentioned in Jaypee plants, basically that translates to about Rs. 20 crores - Rs. 25 crores impact. Is that the only one-off in other expenses or is there something more than that?

Atul Daga: One-off in other expenditure, I do not see anything else. Stay on the call, Anubhav, if I have something I will clarify midway. But I do not think there was any other one-off.

Anubhav Agarwal: Sure. So, this Rs. 20 crores - Rs. 25 crores is the only one we need to take up.

Atul Daga: More than Rs. 30 crores.

Anubhav Agarwal: More than Rs. 30 crores, okay. And this other income, you can help that if you adjust for the DMF reversal, other income declined more than Rs. 100 crores sequentially. What is the reason for that?

Atul Daga: So, other income includes treasury income. Last quarter let us say we had Rs. 129 crores of treasury income. This quarter we had a treasury income of Rs. 43 crores and this is largely accounting issue M2M. Because of the yield curves going up, the M2M accounting resulted into a low treasury credit.

Anubhav Agarwal: Okay. And sir, just last question one clarity on the fuel cost. Because of the pet coke ban in between how much was the impact because of that? So I could see that your imported coal consumption has gone up, pet coke usage has gone down but if you were to just quantify if the pet coke ban was not there our power cost would have been much lower?

Atul Daga: Difficult to quantify. But let me get back to you offline or later on to give you the calculation on that. Because this was a very brief period as also only in three states which is in the Rajasthan. Haryana, we do not have any coal consuming operation. So from our perspective, Rajasthan which has 16 to 17 million tones capacity from our total capacity were impacted because of the pet coke ban.

Anubhav Agarwal: See, I was asking because our imported coal usage went up significantly from last quarter, 11% to 17%. Large part because of this pet coke ban or was that driven by some other reason?

Atul Daga: No. One is pet coke ban as also the effective landed price. If we are getting better deal on imported coal, we have taken advantage of that.

Anubhav Agarwal: So, our net fuel costs was not worse off because of this?

Atul Daga: Impact of pet coke ban was about Rs. 13 crores. So, that is also a one-off is what we could count.

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

Navin Sahadeo: Sir, two questions. One is you mentioned that incrementally there will be a shift more towards non-trade. So if you could just explain what is the current or what was it in the previous quarter where are we now and how do we see it?

Atul Daga: Trade was 68% last year same quarter which has come down to 65%.

Navin Sahadeo: And when we say it will be incrementally more toward that are we looking at…..

Atul Daga: This is what the shift is. Now quarter-on-quarter if you see it might go up or down 1%.

Navin Sahadeo: Yes. But since like you also mentioned we are way ahead in terms of achieving our volume targets for the JP acquired facility I am trying to see it in sync of this that will then this lead to a 60 - 40 or a higher?

Atul Daga: No. I think 64 - 66 these kind of numbers would be trade.

Navin Sahadeo: Fair. Sir, my second question was you mentioned JP Associates operating at about 51% utilization and doing the simple arithmetic with the numbers that you have given on domestic sales the organic growth works out to over about 17% - 18%. Now given that sand continued to remain an issue and there is some shift to non-trade as well. Are we saying that we have gained market share significantly or it is got to do only with the base?

Atul Daga: No, we have gained significant market share. We are growing in volume terms in totality 35%. So, I am sure this will definitely give a benefit of higher market share.

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

Gunjan Prithyani: Firstly, just wanted to hear your thoughts on pricing because the ASP decline seems to be far steep if I take into account that this was the quarter we also were supposed to see the benefit of that JPA rebranding impact so was not there a flow through in this quarter because of this entire rebranding exercise?

Atul Daga: No, rebranding had happened in the last quarter and we had taken a price improvement in all the markets before the end of September.

Gunjan Prithyani: Yes. So from what I remember last call you would mentioned that that exercise is done in September which essentially means that September was the month where you took those price increases because of the rebranding. So that by itself meant about Rs. 200 to Rs. 300 positive impact on the JPA capacities flowing through in Q3 at least. So, it just seems that ASP decline is far steep than what the market pricing suggests so I am just trying to understand. Do you think there was some kind of a volume portion which led to the lower realizations in this quarter?

Atul Daga: No. As a matter of fact, from our perspective let us say 10 million tonnes of capacity is in the Central and the Northern markets where we have seen a price improvement quarter-on-quarter Southern markets is what saw a price decline and Western markets saw a price decline. So from the acquired capacities 5 million tonnes is in South but still we are operating at about 53% - 55% in the Southern markets. That is the same level of capacity utilization that existed pre-acquisition. So, there is no push phenomena from our side.

Gunjan Prithyani: Okay. And this Rs. 200 per ton difference which you mentioned between UltraTech and JPA capacities, this just to clarify includes the Rs. 100 a tonnes one-off cost that was incurred in this quarter for the maintenance?

Atul Daga: Yes.

Gunjan Prithyani: So, essentially the difference is now only Rs. 100 per ton between the JPA and the UltraTech capacity?

Atul Daga: Absolutely. And if I were to do a rough calculation on the additional royalty cost which should be Rs. 64 - Rs. 65 per ton and it is essentially going to stay.

Gunjan Prithyani: So, in terms of cost improvement on JPA capacities the….

Atul Daga: The royalty cost is separate, there is this Rs. 200 per ton difference which will come down.

Gunjan Prithyani: Rs. 200 per ton difference will come down on Rs. 100 per ton we know it is definitely going because that was a one-time maintenance spend which is kind of done now. The remaining Rs. 100 per ton is basically a lot of initiatives essentially you are taking on the fuel mix. So, are we confident that on the cost side this Rs. 100 per ton will flow through in the next two quarters given you have taken a lot of initiatives in terms of fuel mix.

Atul Daga: It is guaranteed because if I were to look at my December cost vis-à-vis the quarter cost I am much lower already.

Gunjan Prithyani: Okay, got it. And there is no other one-off spends which are pending on the JPA assets now besides what is being done of Rs. 25 crores?

Atul Daga: Yes, Rs. 30 crores to be precise as the one-off. See, all the five plants we had taken the major shutdown for kiln brick relining and other maintenance jobs everything is behind us now. So it is all routine maintenance going forward.

Gunjan Prithyani: Okay. Sorry to drag on this because I think the last quarter we did have other expenses which were very low and this quarter the maintenance shutdowns impact even if we remove that the other expenditure has increased a lot. So do you think that Q3 is the number which is a more stable state number for the other expenditure if I just remove this Rs. 30 crores impact?

Management: If you reduce the Rs. 30 crores and some of the expenditure linked with the productions like maintenance, packing charges, sales promotion expenses etc. So you see the 37% is growth in the sales while other expenses have increased total 31%. If I remove Rs. 30 crores it will be around 20% - 25%.

Gunjan Prithyani: Okay, got it. Just last on the fuel mix, clearly alternate fuels and lot of other initiatives you are taking; just two targets, if you can give on WHR, what are you looking at in terms of mix and also alternate fuel how realistic is to get to the target of 10%? How long can it take?

Atul Daga: So we are looking at adding 26 MW of additional WHRS from current 59 MW and alternate fuel where we are at about 3% next year could see a rise to anywhere between 4% to 5%.

Moderator: Thank you. We have the next question from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.

Indrajeet Agarwal: First, sir, can you give us some color on what is the current ASPs are compared to third quarter average? Have they trended up, down, how are you seeing that going forward?

Atul Daga: No, I think nothing great to talk about. They must be more or less the same levels one or two cities might have seen up or down, but they are generally around the same level that we exited the quarter.

Indrajeet Agarwal: Sure, that is helpful. And sir, second housekeeping question. Can you give us the white cement and RMC sales in rupees crores?

Atul Daga: White cement sales Rs. 447 crores; RMC Rs. 489 crores.

Moderator: Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: My first question is with respect to fiscal benefits which came along with the JPA transaction. So how should one look at it from a numbers point of view given currently we are at 51% and if this number had to go to say 100% tax benefits in specific regions would be higher than certain other states. So, I was trying to understand this.

Atul Daga: Most of them are linked to VAT or which is otherwise getting converted to SGST. The higher the volume the higher the amount will be.

Management: No doubt around Rs. 40 crores we have a benefit of incentive which proportionally will increase if the quantity increase.

Atul Daga: So in other words the answer for you is at 51% capacity utilization it was Rs. 40 crores fiscal incentive, you can do the math there.

Ritesh Shah: Sir, what I am hinting to is that something like South it might remain steady at 50% utilization but Central India, Northern India if it increases at a higher rate probably those states might be having incentives I am not very sure of that. So I am asking the extent if you can provide some color on if we have incentives in states of Himachal?

Atul Daga: South does not have any incentive.

Ritesh Shah: Sir, my second question is on expansion plans both organic and inorganic how are we looking at it?

Atul Daga: So, we are already in the midst of one organic expansion in M. P. and we have also announced the Greenfield expansion at Pali in Rajasthan. At the moment we are participating in the bid for Binani Industries plant in Rajasthan that will be the inorganic.

Moderator: Thank you. We have the next question from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Sir, just one question you mentioned that the capacities that you are expecting about 30 million to 35 million tonnes I mean, this is by when are you expecting by end of 2018 because that seems a little high compared to I think what we understand?

Atul Daga: Yes, March 2019.

Madhav Marda: March 2019, okay.

Atul Daga: If the commissioning is delayed by some players then it could stretch to June 2019.

Moderator: Thank you. We have the next question from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antariksha Banerjee: My first question is respect to this affordable housing data that you have provided in your presentation. So if I were to look at it, you have states like Punjab, Haryana and some states in East like Chhattisgarh, Jharkhand, and Odisha in green. Whereas in your comments you mentioned Haryana and Punjab demands are subdued. So, how am I to read that? Does it mean that affordable housing does not constitute a substantial portion of your demand?

Atul Daga: The subdued demand was because of severe cold in that part of the country not because Affordable Housing projects not coming through. So you have large number of projects practically across the country. However, in relative terms, Punjab, Haryana are in the lower run in terms of biting the benefits of Affordable Housing. Punjab, Haryana as you know are very rich agri states and there you will not find too much of Affordable Housing program.

Antariksha Banerjee: But in that case, how do you classify this metric? So, what is the green? Green is a percentage of total national or is green is a percentage of its previous I mean whatever its base was?

Management: So, it is pick-up, from previous year.

Antariksha Banerjee: Okay. It is a base effect.

Management: Yes.

Antariksha Banerjee: Fine. And the other question is with regard to your Central region. So in last quarter obviously you did not share the utilization number. But if I were to compare 15% and 60% that you were talking about today you have roughly added something around 5 million tonnes of volume in 6 months in the region, am I right in that?

Atul Daga: Central region capacity utilization was 60%, yes.

Antariksha Banerjee: Yes, which was around 15% is what you told us two quarters back of the acquired asset.

Atul Daga: Yes.

Antariksha Banerjee: So if I do the math that comes to around 5 million tonnes of volume in 6 months.

Atul Daga: Yes.

Antariksha Banerjee: Could you tell us what the addressable market is like what the market size is like? I am trying to see what the market share is.

Atul Daga: Addressable market, I am afraid I do not have that number with me.

Antariksha Banerjee: Okay. But are we selling primarily non-trade in these markets?

Atul Daga: M. P. is more of non-trade, but trade is picking-up.

Antariksha Banerjee: Okay. And given that we have already achieved 60%, would you like to revise your target guidance for June FY 2019 upwards from what you had said earlier?

Atul Daga: The improvement will be higher because January to June is the peak season for cement so we will see a higher capacity utilization in April - June.

Antariksha Banerjee: Okay. So where actually I was coming from is for the quarter we have seen a dip in realizations whereas you have mentioned that Central has actually grown in terms of pricing sequentially and South has dropped. But volume share from the Central is much larger than the South and you have East picking-up as well then how did we lose realization and what will it take to increase realization going forward?

Atul Daga: As I was mentioning on the call, the overall one company alone cannot increase the prices without everybody else.

Antariksha Banerjee: So, you are saying people are spoiling prices in the market.

Atul Daga: No. The overall capacity utilization has to improve further. My guess is we will be touching 70% for the industry. We have to go up as an industry on capacity utilization. This demand uptick which we have seen in October - December will continue and you will see price improvements accordingly falling in place in future quarters.

Antariksha Banerjee: Okay. If it were to just push a little bit you will see that happening in all regions other than South by the end of this year by capacity improving?

Atul Daga: No. South has improved after the fall that you saw South has started coming back. So, I would expect price improvement generally across the country because from my reading the weakest markets were the Western markets. Not too much of demand uptick and the big projects which we are seeing are generating demand. So, Western markets were the last ones were the laggards they will start catching up on prices soon.

Antariksha Banerjee: Okay. And you are also on track with your Dhar expansion timeline.

Atul Daga: Yes.

Antariksha Banerjee: And so you see the Central region growing at that much pace, so it can absorb so much of capacity even with all these sand issues pertaining which you have just said.

Atul Daga: So sand issues are not a permanent damage to the industry. I am sure all the state governments are working at breakneck speed to find a solution. It will get resolved. I am obviously not an authority on what how it will happen, but common sense prevails that a solution will be found.

Antariksha Banerjee: But that does not cause you to go slow on that?

Atul Daga: No. Does not cause us to go slow we will capture market share.

Moderator: Thank you. We have the next question from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

Abhishek Ghosh: Just one thing in terms of what will be our CAPEX for FY 2019 - FY 2020?

Atul Daga: CAPEX for FY 2019 will be about Rs. 2,500 crores.

Abhishek Ghosh: And that would include Dhar, Pali and some amount for the JPA left over?

Atul Daga: Yes, so whilst I see some savings on Dhar coming in so I will take it down to about Rs. 2,000 crores not Rs. 2,500 crores. There is Pali then there is Bara which is happening as part of the acquisition as a 4 million tonnes plant. These are the big-ticket projects other than the maintenance projects.

Abhishek Ghosh: Okay. And sir, just to come back to this Bara which you are adding about 4 million tonnes of which the first phase will come in by September and the second by March 2019. Any sense on the expected kind of utilization that you would look at by say the first half of FY 2020? Any sense there?

Atul Daga: I would go up to 60% mark on launch.

Abhishek Ghosh: Okay. And sir, just one last thing. In the Pali one which you have recently announced you have lowered down your CAPEX in terms of on a per tonne basis fairly to a lower number and now also you are revising down that Dhar number as well. So does it mean it is a new norm for us going forward wherein we can see because of the efficiencies that a project team?

Atul Daga: Yes.

Abhishek Ghosh: Okay. So this $80 per tonne - $85 per tonne is kind of is a new norm…

Atul Daga: Sub-$100 per tonne is what I can tell you as of now.

Moderator: Thank you. We have the next question from the line of Alok Ramachandran from Future Generali India Life Insurance. Please go ahead.

Alok Ramachandran: I just wanted the pure grey cement volumes including clinker.

Atul Daga: 15.52 mill tones.

Alok Ramachandran: This 15.52 is including clinker, right?

Atul Daga: Yes.

Alok Ramachandran: All right. And even white putty and the other volume will be 15.85.

Atul Daga: 3.33 lakh tonnes.

Alok Ramachandran: Okay. So, is it inclusive in the 15.85 mill tones or is it not?

Management: Total 15.85 mill tones including white cement and putty 3 lakh tonnes. So 0.33.

Moderator: Thank you. We have the next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: So just on the volume front I just wanted to understand this better. What we understand is that the volume has revived double-digit growth but mostly led by infrastructure. So will you be able to give us a understanding as to how much will be the trade segment growing at so versus let us say institutional?

Atul Daga: I do not have that break-up, Amit. Let me see if it is captured separately.

Amit Murarka: But based on the anecdote your interactions would it also have revived the two?

Atul Daga: No, trade is revising, because trade for us let me give you another surrogate. Our rural market penetration has been growing continuously. And rural market is all trade and all retail. Rural growth clearly shows that trade market is also growing. So between the two segments obviously, the non-trade has grown at a faster pace than trade but trade is also growing.

Amit Murarka: Sure. And so I believe the individual house building segment would largely be Tier-II or rural side so is that also seeing a recovery?

Atul Daga: So, rural individual housing is seeing a recovery. The Tier-II, Tier-III cities are still very slow.

Amit Murarka: Okay. So basically, the demand growth as of now is being led by infrastructure, roads and whatever, irrigation and all that.

Atul Daga: Yes, that is again infrastructure. So out of the total demand basket, 55% of the demand basket which is infra plus rural these segments are clearly growing.

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

Vivek Maheshwari: A few things, sir. First on the capacity, the 35 million tonnes number that you have given on the base and this is for FY 2019 on a base of 440 million tonnes that makes it 8% increase in supply, right? So unless demand is significantly ahead FY 2019 then utilization rates cannot move up, right?

Atul Daga: No. One is this 8% is not available from April 1, 2018. It will get staggered and it will not be available in full 100% capacity because ramp-up clearly takes time. So by the end of March 2019 let us say we are at 475 million tonnes that is point #1. But 35 million tonnes assuming doing simple law of averages that 17 million tonne is available for full year that also if you want to count for your working, I would put 40% to 50% capacity utilization not more than that for this new capacity.

Vivek Maheshwari: Okay, got it. But in that context let us say and obviously we do not want to speculate who gets it but let us say Binani, Murli the assets which will change hands some of these are not operating at all or operating at very low utilization. Does that also worry you as these plants start to ramp-up? Will there be some turbulence in the market at least at a regional level?

Atul Daga: Minor, yes. There will be a shift in market share for the stronger players.

Vivek Maheshwari: Okay. Second on pet coke, just a few things so as of now, my understanding is pet coke imports are banned and February there will be a call on that. Is that understanding correct?

Atul Daga: No, pet coke imports are not banned. The case is still pending if I remember it right. As of now you are right, first week of February when the final call will be taken on banning import of pet coke. However, as of now, the duty on pet coke is already revised to 10%.

Vivek Maheshwari: No. But as of now, you cannot import. Even if you want to pay 10% you cannot import right, as of now?

Atul Daga: We are importing.

Vivek Maheshwari: So, there is no ban at this moment you are saying if you pay 10% custom duty.

Atul Daga: Yes.

Vivek Maheshwari: I thought first week of February there will be a call taken on whether imports can be allowed or not but you are saying that is not the case.

Atul Daga: It is banned.

Vivek Maheshwari: Okay. As of now, it is allowed. And second bit is that impact we will see in January to March quarter, right? The higher customs duty?

Atul Daga: Yes.

Vivek Maheshwari: Okay. Which will be another additional headwind from this quarter?

Atul Daga: Yes.

Vivek Maheshwari: Okay. And lastly this Rs. 200 per tonne, I know this has been asked quite a lot of times on this call. But Rs. 200 delta, when you say Rs. 100 you are saying it is easy to fix the remaining Rs. 100, will it be a function of basically operating leverage and therefore as the plant ramp-up that number will start coming down? Is that how we should think about that remaining Rs. 100?

Atul Daga: Yes. And also part of it will get fixed because of the shutdown that was taken all the improvement that have been brought about. We are seeing an improvement already in December and January.

Vivek Maheshwari: That Rs. 100, I understand because that was related to maintenance shutdown. The other Rs. 100 remaining one is basically…

Atul Daga: I am referring to the second Rs. 100. One is towards the annual shutdown that was taken that is roughly Rs. 100 a tonne that Rs. 100 a tonne helps us reduce the second part also, probably both are Rs. 100. So because of maintenance having been undertaken, there is definitely an efficiency improvement.

Vivek Maheshwari: I see. And for these assets in let us say M. P. are your prices let us say for this market because it is a newer one for you is it like let us say comparable to the rest of the country adjusting for regional dynamics or because you are newer in these markets the realization side also could be weaker?

Atul Daga: We have pegged our prices at our benchmark prices in the country, so we are not compromising on our price positioning.

Vivek Maheshwari: Okay. Except to the extent of non-trade mix which may be higher as you ramp-up?

Atul Daga: Yes, that is the dynamics of the business in any case so.

Vivek Maheshwari: Okay. My point is basically as you ramp up your trade segment in M. P. automatically or Central India the realization from P&L perspective will keep getting better.

Atul Daga: Yes.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the 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, everyone, for being with us today and asking some very interesting questions. All I would want to say in the end is that the best is yet to come for the industry and for UltraTech. Thank you and wishing you a pleasant evening. Good Day!

Moderator: Thank you, Mr. Daga. 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. Thank you.

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