"UltraTech Cement Limited Q3 FY20 Earnings Conference Call"

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MANAGEMENT: MR. ATUL DAGA – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER, ULTRATECH CEMENT LIMITED

Moderator: Ladies and Gentlemen, good day and welcome to the UltraTech Cement Limited Q3 FY20 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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 – Executive Director and CFO of the company. Thank you, and over to you, sir.

Atul Daga: Thank you so much. Good evening, everyone. And welcome to this call to discuss UltraTech's Results for Q3 FY20. Better late than never, wishing all of you a very successful and eventful 2020. I think too much is happening in the country and around the globe, and in all this confusion, the growth story of India has actually taken a beating.

But let me start by sharing some good news. We have started seeing improvement in demand from few geographies in the country, with states like Odisha, West Bengal, Jharkhand, Bihar, Tamil Nadu, Kerala, Telangana, Maharashtra, Rajasthan, and MP turning around. This covers a lot of territories. The best thing to happen is the restart of work on the Polavaram Dam, the biggest irrigation project in the country, and several other irrigation projects have been re-awarded by the AP Government.

Clearly, the Government is concerned on the depressed state of the economy. And I am sure where there is a will there is a way. The Honorable Prime Minister has identified and chalked out a detailed program of driving growth, and the cement sector is totally going to benefit with a thrust on infrastructure. You all would have read about the Task Force on National Infrastructure Pipeline has been identified in different segments, for spending about $1.5 trillion till 2025. Of course, this work that has been identified has to actually get awarded and start execution.

In real-estate segment also, there is 25% growth during second half of 2019 for launches of number of housing units in top eight cities in the lower ticket sizes. Unsold inventories dropped about 13% in calendar 2019, versus the previous year. And as I mentioned, seeing new launches, this should help in the overall pick-up in the real-estate demand in urban areas.

Cement prices: During the quarter, prices dropped on an average about 4% compared to Q2. However, they still remain higher than last year. Price has corrected mainly in East, South and Western markets. In some markets, prices have started picking up, during the current month with improving demand sentiment.

Costs: Please don't be alarmed seeing a higher amount of other expenses in UltraTech's P&L. Let me first tell you about the exceptional items which have been charged in the P&L during this quarter. Rs. 133 crores have been provided against the disputed liabilities offered under the Amnesty Scheme, called Sabka Vishwas introduced by the Central Government. This Amnesty Scheme, as you might be aware, is for service tax and all other indirect taxes up to June 2019.

We have examined our various pending cases and the gross liabilities involved against the settlement that we have taken is Rs. 832 crores. All these liabilities are in the nature of contingent liabilities, show cause notices and cases which have been going on. We thought it is better to focus the management efforts on productive work instead of spending time and effort on running around courts and legal authorities. To my mind, this will give us a lot of peace of mind and we can do more productive work. As I mentioned, Rs. 832 crores worth of contingent and disputed liabilities have been settled by way of amount to be paid Rs. 133 crores by Mar'20.

Another one-time expense is an amount of Rs. 31 crores which was incurred for the acquired Century Plants as a one-time exceptional cost, as part of our process of integration and alignment with our company accounting policies. Both these items have an impact on operating EBITDA to the extent of nearly Rs. 82/tonne. As for the transition costs or upgradation cost at Century Plants, we will further have of around Rs. 30 crores of spends in the current quarter as part of the integration program.

Getting further into details in the **energy cost**, they have reduced by about 9% linked to drop in fuel prices. During the quarter, we have consumed pet coke at about $ 80/tonne, as compared to $ 91/tonne in the last quarter. Spot prices of pet coke are hovering around $ 70/tonne and U.S. coal is around $ 80/tonne on a landed price basis. The benefit of these prices will surely reflect in Q1 FY21. However, we are all aware of the IMOs ban on bunker oil being used as shipping fuel. Whatever, we know of, most of the chartered ships are switching to low sulfur fuel oil, which will lead to an increase in their cost, and thus the ocean freight. This means that we might not see significant fall further in the landed cost of fuel going forward.

It will be important to talk about **Green Power**. In our total power requirement, the share of Green Power is increasing every quarter. During this quarter, the Green Power constituted about 12.7% of our total power requirements, up from 10.5% in the last quarter, this excludes Century assets. At this mix, the company is reducing about 5 lakh metric tonnes of fossil fuel on an annual basis at current capacity utilization.

Logistics costs which is the biggest cost for cement industry. Railways extended the benefit of exemption from Busy Season Surcharge till June 2020, which has helped maintain the logistics costs at the current level. The recent hike in passenger fare seems to have been absorbed very well in the system giving us hope, that there will be no increase in rail freight for some time. On the other hand, road freight rates have gone up, due to hike in diesel prices. Synergies between existing plants and the acquired assets have helped to reduce our lead distance by about 2%, as compared to last quarter. As the capacity utilization of Century assets ramps up this benefit could increase further.

Integration of Century Assets: The assets are fast turning around. For the month of December, we have achieved a capacity utilization of 79%. This has been a month-on-month ramp-up with average capacity utilization from these plants touching about 55% for the quarter. You will appreciate that it takes time to convert Category B brand into Category A brand in the same markets. The dealer community selling a Category B brand takes time to change the practices and our team is on the job. For the month of December, there is 79% capacity utilization of the 14.6 million tonne of capacity of Century assets. We have achieved 55% brand transition, and this will reach upwards of 80% by the end of September 2020.

We are tapping into various synergies and operations, manufacturing costs and overheads. Today, the production costs are higher by about Rs. 425/tonne from our neighboring plants. This includes the structural cost increase of Rs. 70/tonne towards MMDR royalty and about Rs. 125/ tonne being exceptional cost. We expect to have a complete alignment in cost with UltraTech cost by the time we complete the transition.

We have been rapidly converting the Century brand into UltraTech and are confident of a complete switch in 12 months, since we started managing the operations by from 1st October 2019 only. And this acquisition, in my view, will start generating an EBITDA per tonne in excess of Rs. 1,000. Hence, it will not be relevant to look at the current quarter's performance as a steady-state performance for the Century acquisition.

UltraTech Nathdwara: It has achieved nirvana, generating an EBITDA per tonne in excess of Rs. 1,500, at a capacity utilization of only 60%. The production costs are in line with our existing plants or better than some of the plants. They will improve further with the commissioning of a 10.5 megawatts WHRS plant by March 2021. This will be our 11th WHRS unit. With improvement in demand, my guess is that the unit is poised for bigger wonders.

Talking about WHRS, we now have a total operating capacity of 103 megawatts and another 39 megawatts is under implementation.

During the quarter, we completed the sale of a grinding unit of 6 lakh metric tonne in Bangladesh at an EV of $30.2 million.

Our cash flows on CAPEX till December 2019 were Rs. 1,150 crores and we expect it to go up to Rs. 1,600 crores by the end of fiscal 2020, as against our earlier guidance of about Rs. 2,000 crores, thus saving us Rs. 400 crores of cash flows.

Orders have already been placed for the 3.4 mtpa grinding capacity expansion in the Eastern markets. Cuttack will be a greenfield capacity and two brownfield expansions; one at Dhankuni in West Bengal and the other Pataliputra in Bihar. All these three plants will be for composite cement. We expect to commission this expansion by March 2021.

I am happy to tell you, and you would have noticed from the stock exchange release yesterday, that we have finally been able to commission the Phase-I of Bara grinding unit, which was purchased as part of the deal from JP Associates. Talking about the JP transaction, Dalla Super Unit, which is at 2.3 mtpa clinker plant, is expected to commission by March 2021, after completing all legal formalities. There is a delay, however, we have fully covered on our existing clinker requirements.

Having given you an overview of the cash flows that have taken place and what lies ahead, on the basis of 12-month trialing performance, our net debt-to-EBITDA is at about 1.87x on a consolidated balance sheet, including the Star Cement UAE. We have reduced our net debt by about Rs. 3,486 crores during the first nine months of this year.

Our **ROCE** for the trailing 12 months has increased to about 11.2%, as compared to 8.9%. And **ROE** has improved to 10.4%, as compared to 7.3% as of March 2019. These numbers, of course, have to be looked at taking into account the front loading of the investments that we have made.

We have a lot of capacity available and I am sure there are interesting times ahead and UltraTech is in a unique position to tap the opening up of the markets going forward.

Thank you so much for listening to me. And I hand it over to you for further discussions and questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bhoomika Nair, IDFC Securities. Please go ahead.

Bhoomika Nair: Sir, just wanted to understand Century a little better. We have really seen an improvement in your realizations and we are making the brand transition. So just wanted to understand what has been the average realization improvement on a per tonne basis for Century? And if you can give some colored on the EBITDA for the asset.

Atul Daga: Right now, we are more focused on brand transition and a marginal improvement only. Prices will start falling in line with UltraTech from January-March quarter. And as far as EBITDA per tonne is concerned, operating EBITDA, excluding one-time costs, will about Rs. 267 per tonne.

Bhoomika Nair: Okay. So in that sense, as we move ahead there will be a continuing cost of the Rs. 70 and Rs. 125?

Atul Daga: No, only Rs. 70 per tonne for MMRD royalty. And one-time cost which we incurred about Rs. 31 crores in this quarter. I might have about Rs. 25 crores to Rs. 30 crores in the January-March quarter. That will be the end. And then from April onwards, we will have only the Rs. 70 as an exception. I can't call it an exception, it's part of the business.

Bhoomika Nair: Okay. So by when we are saying that we will hit the number of Rs. 1,000 EBITDA from sometime in 1Q, would that be a fair an understanding?

Atul Daga: Absolutely. With capacity utilization in excess of 80%.

Bhoomika Nair: Got it. Perfect. And as and when the balance transition happens through the course of FY21, and also the Baikunth plant shifts over at the later stage, the EBITDA per tonne would broadly improve in line with the realization?

Atul Daga: So when I told you that we will have in excess of 80% brand transition completed, I had excluded the Baikunth plant. Baikunth plant will continue, for strategic reasons, to sell the Birla Gold for some time. Ultimately, the team is firming up the view that we will have to put up a fresh line, erase down that line and put up a fresh line, unless there is some other technology improvement possible to improve the quality of cement coming from that plant. So out of the 14.6 million tonnes acquired capacity, Baikunth is 2.4 million tonnes, 12.2 tonnes would be 100% UltraTech and this 2.4 million tonnes will continue for some time as the old brand. It sells in Chhattisgarh market only, which is a very low price market.

Bhoomika Nair: Yes. So just wanted to get some things on just real-estate. You know, how is that part? You talked about infra being a key driver for demand. And if you can just throw some color on the real-estate activity.

Atul Daga: So whatever we have heard and I gave too small glimpse of the noise that came. We are seeing an improvement in new launches in metro towns. Now, new launches have to be looked at, they are not the luxury apartments. If I were to give an example of city of Mumbai, new launches in the ticket size of Rs. 1 crores to Rs. 1.5 crores are seeing growth as compared to the luxury apartments of anything above Rs. 3 crores or those kind of apartments are just not selling, and not too many new products are coming up. We have been told that Mumbai has a surplus inventory for about 24 months. And Bangalore, which is an interesting market, has an inventory of 8 to 9 months. Once this inventory becomes tighter of unsold houses, you start seeing new projects rapidly surfacing. And with RERA in place, there is no way that there will be any delay in project execution. Whichever project gets launched under RERA will see project execution also on time, good for cement.

Moderator: Thank you. The next question is from the line of Apoorv Bahaddhur from Jeffries. Please go ahead.

Apoorv Bahaddhur: Congratulations on a good set of numbers. And I understand it was a very difficult quarter. A couple of questions from my end. Wanted to understand sir, something on this one-time settlement. So is this once and done or should we expect more such settlements in future?

Atul Daga: No, the scheme is over. The scheme got over on Jan 15th and the Government closed the doors for anybody wanting to go under Amnesty. And this is nothing new, there have been several amnesty schemes which have come in the past period also.

Apoorv Bahaddhur: Okay. And sir how much would be a tax benefit, because I think in your presentation you mentioned it is between 40% to 70%?

Atul Daga: That is a Rs. 133 crores, is roughly about 50% of the principal amount of the demand which was contingent or disputed. Since it was contingent we did not make any provisions. So, it's a direct charge to P&L. However, the contingent liabilities extinguished amount to Rs. 832 crores. And the bigger point to note, Apoorva, is that suppose some matters pending in Supreme Court and court prolongs and the decision is made three years, four years down the road, this Rs. 832 crores would have become Rs. 1,100 crores or Rs. 1,200 crores with compounding interest. So, we target it best to settle these cases and move on in life.

Apoorv Bahaddhur: Of course, makes sense. Sir, so overall your premium cement products is increasing the volumes over there. So I just wanted to understand whether we are still maintaining those EBITDA margins of Rs. 5 to Rs. 10 per bag? And going ahead, do you see these margins being maintained or will they come under pressure as the competitive intensity increases over here as well?

Atul Daga: No, so the premium products will continue to command higher EBITDA per tonne.

Apoorv Bahaddhur: So we are maintaining Rs. 5-10 per bag EBITDA per bag margin?

Atul Daga: Almost higher, actually slightly higher than that. But Rs. 10/bag would is a safe number for your calculation. And as volumes go up, the EBITDA per bag will also go up because of operating leverage, cost absorption.

Apoorv Bahaddhur: Okay, fine. Sir lastly, you have mentioned in your presentation that there was a fly ash price increase. Wanted to understand if this is seasonal or there is any specific reason? And how do you see the trajectory going ahead?

Atul Daga: Generally it's seasonal, because suddenly when there is power plant shut down, there becomes a scarcity in a particular region. And like slag that you have seen in the past, where steel industry saw an opportunity, power plants have also seen an opportunity of making money in fly ash. Fly ash used to be negative cost maybe a decade ago, now we have to incur a cost. So it's opportunistic and not necessarily seasonal, some could be season also, but more because of a shutdown in our power plant.

Apoorv Bahaddhur: Okay. So going ahead, with renewable possibly there could be some increase over here as well?

Atul Daga: Both ways, it could come down also. So, with the size and scale of our operation any big power plant would be more than happy to do a long-term tie up with UltraTech. And we are doing those kind of strategic initiatives to lock in our costs.

Apoorv Bahaddhur: Makes sense. Sir, lastly if I could just squeeze in one more. So I basically missed out on your expansion part. So if you could just elaborate on that, the three plants that you are going to shut.

Atul Daga: Three plant's total capacity is 3.4 metric tonnes, out of which Cuttack is a grinding unit at greenfield which is 2 million tonnes, and 0.6 million tonnes each brownfield expansion at Dankuni, and Patliputra, this would add up to about 3.4 mtpa. We should be commissioning by March 2021. Total CAPEX commitment is about Rs. 940 crores.

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

Indrajeet Agarwal: Congratulations for a good set of numbers. I just want to understand a little bit more on the transition of brand part. Sir, if you look at the others two acquisitions, for example, the Binani and JP, we did at a much lower time, right, about 40 to 50 days. For this one we are taking slightly longer. So what is this different this time around?

Atul Daga: So, if you start from December, then it is taking about six months. Because in the quarter April-June 2021, we should be 100% of the convertible possible plants. Baikunth is not possible, so we should count it out. So same six months. Because don't count October, November, first two months takes time to settle the plants, people alignment, process alignment, etc. Now, the bigger questions of why it is taking so long? You need to understand the location of these plants. The Manikgarh plant, which is acquired, is 20 kilometers away from our existing Awarpur plant.

The Baikunth plant near Raipur is 35 to 50 kilometers from two of our existing plants in Chhattisgarh. Maihar plant is less than 70 or 80 kilometers from two of our plants, Bela and Sidhi. And then Sonar Bangla, which is, of course, doing very well. It caters to the Northeast markets, and here we come in the Northeast markets with a big bang.

All the other plants, since we are operating in the same market where we were already existing, there is a gradual transition. I cannot just uproot an existing brand and start selling under it. It is not a selling of a label, there is a convincing to the customer about quality, the benefits of a product that we are selling now as compared to what they were buying earlier. I don't want to lose the customer either and I want to convince the customer to pay a premium. That's why it takes slightly longer.

JP acquisition, if you were talking about, which conversion happened very fast. Bela-Sidhi plant in central market, which was our first entry in the central market. It was a virgin territory for us. So it was launching of a Category A brand straight away and not a conversion. Similarly, when we went in as part of the JP acquisition, Vizag market, we were catering to that market from Tadipatri plant, which is very far away as compared to this plant, giving us access to the industrial development in that market. So we could launch our product and increase our volumes there.

Then there is the Dalla plant, again, helps us in the Eastern markets, easy transition. And Baga plant, which is up the hills in Himachal. We were present in a very small scale because we were supplying material from foothills, and it were exorbitantly expensive. So small supplies. Now we had an opportunity to launch big scale. We've been able to do that.

Nathdwara, similar story. While we were present in Rajasthan market, we are present in Gujarat market, the location gives us advantage to split Rajasthan into two territories, and we have been able to cater to Western Rajasthan in a much more granular manner, which helps us capture the market. I hope I have been able to explain.

Indrajeet Agarwal: Absolutely. Thank you for the elaborate answer. One follow-up. So for this Baikunth plant, is there any incremental CAPEX that we'll have to incur?

Atul Daga: There will be, certainly. We haven't firmed up the plans. Once we do, we will let you know.

Indrajeet Agarwal: One last housekeeping question. Can you help us with the working capital release in the third quarter and nine-month as a whole?

Nilesh: So in the third quarter, basically, we have released about Rs. 834 crores, which is largely on account of inventory liquidation.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: Just a couple of questions. One, in the presentation, I see that you have mentioned that the trade sales improved by about 3% on a Y-o-Y basis this quarter.

Atul Daga: Yes.

Amit Murarka: But overall, volumes have declined 4%. So, does this imply that basically your institutional volumes or the infrastructure volumes were the spoilsport here?

Atul Daga: Yes, absolutely. And in a depressing market, everybody knows that infrastructure activity has slowed down. So it was easy to focus on the trade market.

Amit Murarka: And what was the trade/non-trade split then in this quarter?

Atul Daga: 68% is trade.

Amit Murarka: Sure. And on the infra side then, as we see that some coastal projects are getting approved, Mumbai-Nagpur highway is going. So, do you expect a pickup in that segment then going ahead?

Atul Daga: Yes, very much. As you mentioned, I think that's the best part, that's the brighter side of life that things are picking up. Now take the case of Mumbai and Maharashtra. Maharashtra, we are firing full throttle in both the plants, the Manikgarh and Awarpur plant now with the Mumbai-Nagpur Expressway. And coastal roads will also pick up, no cement consumption has started here, but it will pick up.

Amit Murarka: Okay. And also on the pet coke side, basically, the power fuel cost has come down this quarter, but the presentation mentions $ 80/tonne as the consumption cost. Whereas, I believe the spot prices have been much lower. So like, again, can you quantify what kind of benefit can flow through on the 4Q also now on the power fuel front?

Atul Daga: Well, I think I mentioned it. Our consumption was $ 80/tonne, and if you are buying at about $70/tonnne , a $10/tone differential, give or take 50 bucks a ton in costs would reflect in the next quarter.

Amit Murarka: Sure. And lastly on the Bara grinding unit, so this is Phase-I and there is another 2 million ton Phase-II as well?

Atul Daga: Yes.

Amit Murarka: So one, by when will this be commissioned? And secondly, what do you think or expect the ramp-up schedule to be over here, given that the Super Dalla clinker will come later?

Atul Daga: So I clarified that we are not short of clinker. We will supply clinker from Sidhi where we have surplus clinker to Bara. And Bara will ramp up in the next couple of months of this 2 million ton capacity. The Phase-II, I expect will commission by September 2020.

Amit Murarka: Sure. But will there be enough clinker for Phase-II as well? Phase-I, I understand will have.

Atul Daga: Yes, we will have enough clinker.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Sir, my first question is, when we look at our volume growth for the quarter as compared to the industry growth, I don't know what it is. Sir, how do you look at it? Are you happy with our volume growth on a year-on-year basis? I mean de-growth.

Atul Daga: I think we will perform better than the industry.

Ritesh Shah: Sir, can you help what was the industry growth number? Basically, broad number should be helpful.

Atul Daga: Difficult to pinpoint a number, because it's a fragmented market, and there are so many unlisted players. My giving a number might send a wrong signal. So I would avoid commenting on that.

Ritesh Shah: Okay. But if I have to put it the other way around, have we lost market share in any of the regions given the decline that we have seen? Or is it that the industry de-growth would have been higher than what we have reported?

Atul Daga: I don't think so. I think we have gained in terms of market share. There might be a district level number which I am not tracking, but generally, overall, we have increased our market share.

Ritesh Shah: And this would be across regions, right?

Atul Daga: Yes, at an all India basis.

Ritesh Shah: Okay. That's helpful. Sir, secondly, just to continue with the prior question, you indicated that we have adequate clinker. Now this is despite JP Super, there being a delay over here and Phase-I getting commissioned for Bara. And Century also had 1 million tonne deficit to my memory. Sir, when you say we don't have a deficit, is it you are adjusting for the OPC, PPC, PSC mix?

Atul Daga: Absolutely. So that is taken care of. Plus, the surplus clinker that we have at Sidhi. And there is an inherent debottlenecking capacity which is available at the acquired plants.

Ritesh Shah: Okay. So sir, how should we look at the OPC, PSC, PPC and composite cement mix for us, say, FY'20 and FY21? Just to have a better understanding.

Atul Daga: On a blended basis, we are 69% on a blended cement. FY21 we should be around 71% blended cement. Blended cement includes PPC, slag, composite.

Ritesh Shah: That's helpful. Sir, last two questions. Sir, on wall putty, what we understand is we have lost market share, not giving discounts on smaller kg bags, 1 kg and 5 kg, and the peer set has benefited. And sir, this has been going for the last six months or so. Sir, any thoughts over here? One is, if you can give us some numbers over here on the top line and EBITDA that would be useful. And are we fine with this market strategy of losing the market share?

Atul Daga: It's the paint companies which are gaining market share. I am afraid, I think we are not wanting to compromise on our pricing position. And we will live with the situation as of now.

Ritesh Shah: Okay. And sir, last question, incentives on the Eastern expansion that you indicated in the three phases, one greenfield, two brownfield. So have the incentives been firmed up? Because what we hear is the states are going slow on incentives. Sir, please correct me if I am wrong.

Atul Daga: Yes, you are absolutely right. Hardly any states have cash flows. Orissa, the policy exists, we will try for our incentives for the Cuttack grinding unit.

Ritesh Shah: Okay. But sir, nothing firmed up?

Atul Daga: Nothing firmed up. And Bengal, I think it's really a dry state in all terms. So difficult to get incentives in West Bengal. Bihar also has an incentive policy where we will apply for incentives.

Moderator: Thank you. The next question is from the line of Tejas Pradhan from Citigroup. Please go ahead.

Raashi Chopra: This is Raashi here. Sir, you have mentioned that prices have picked up in some regions. Please correct me if I am wrong, I believe that West and some parts of the South have not improved yet. But you also suggested that the dams and some of the irrigation projects have started, and the winter market demand looks like it's kind of picking up. So is this just a matter of, like is just like time distance before which we see price improvement across or the pickup all of south and all of west

Atul Daga: No, not all. For example, we have not seen in Gujarat, we are seeing improvements in Maharashtra. We are seeing improvements in some regions in South. Rajasthan, we are seeing an improvement in North. East is growing so rapidly, showing double-digit growth again in this quarter. We will start seeing price improvement.

Raashi Chopra: So has this demand improvement that we are seeing in the South, that's not fully translated with the price hikes?

Atul Daga: Not yet. I think my sense is that capacity utilization starts going up, you will start seeing price improvements.

Raashi Chopra: And what would be the utilization in the South, like ballpark right now?

Atul Daga: Utilization. Somewhere around 70%.

Raashi Chopra: Okay. And just one more question, and not linked with the results. On Emami, what are the time lines that you are looking at? I know you have bid, but what are the time lines on deal closure?

Atul Daga: I did not bid for Emami. So now you need to discount all the news that you guys read in the newspapers.

Raashi Chopra: Sorry, you said you did not bid?

Atul Daga: Did not bid at all. And I would always be surprised what newspapers are reporting. The asset is of no interest to us.

Raashi Chopra: Okay.

Atul Daga: So there were some people who are worried about our cash flows, we are as conscious as you are about our cash flows.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Sir, first question, again, a little bit more on demand. Is it in the last two months more of restocking demand, or we are seeing actual project and real demand growth?

Atul Daga: What do you mean by restocking? Cement never stocks. So depot stocks or warehouse stocks would be two days or three days, they are small warehouses. So I don't know what you mean by restocking.

Sumangal Nevatia: No, generally what we hear is, in December there was expectation of strong price increases in January.

Atul Daga: No, no, I think you are misinformed. There is actual activity on the ground which is taking off.

Sumangal Nevatia: And this is more from January onwards or December itself?

Atul Daga: I would say December, December is which helped us improve capacity utilization also. As I mentioned in my commentary, we have seen Century assets improve. November was better than October and December was better than November. So we did nearly 79% capacity utilization on Century assets, up from below 50% a quarter ago. So this is actual work happening.

Sumangal Nevatia: Understood. Sir, secondly, on our volume growth. Now, I think last December, Nathdwara was just for like 18-odd days. So if you look at ex-Nathdwara, it's a 7% to 8% volume decline Y-o-Y. Is that the right calculation?

Atul Daga: Ex-Nathdwara. It is very difficult, because we move material crisscross. If suppose I was not moving material from Nathdwara, I would have moved material from Aditya Cement and Kotputli. So beyond a point, it is impossible for us to segregate old versus new.

Sumangal Nevatia: Okay. But you still, I mean, a bit confident that we have not lost market share and the overall volume growth in the industry would have declined by more than 4%, 5%?

Atul Daga: No, I never said anything about volume decline in the industry. Industry would see a decline of 1%, 2% only, nothing significant.

Sumangal Nevatia: Understood. Okay. Just one small clarification. Is there any progress on the Nathdwara's noncore assets?

Atul Daga: Oh, I forgot to update. We have appointed merchant bankers for China and non-binding bids have been received. We will take action post Chinese New Year. Chinese New Year holidays begin from today and the country shuts down completely for 15 days. But now I will have to wait for this new virus issue which has come up. I don't want to travel to China. So we will look at the next steps on China in the month of March. And as far as Europe is concerned, things are progressing well. We might be able to close the deal by June. Dubai, unfortunately, we haven't been able to find any suitable buyers. We are trying to operate the plant and improve its efficiency.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from Edelweiss Securities. Please go ahead.

Navin Sahadeo: My question basically was that in case of Century Textiles, I mean, those assets, there seemed to be like a good ramp-up progress happening there. December, as you said, was 79%. But

Nathdwara remains at 60%, while I think overall region per se in North, they could be at least upwards of 75% or 80% or so. So what's the...?

Atul Daga: So it's the market mix that determines our plant to market ratios. So we have surplus capacity available in the market and we will use whichever plant is most L1 in terms of logistics costs to serve the market.

Navin Sahadeo: Got it. Understood. So basically, other plants could be operating at a much higher utilization probably and then...

Atul Daga: Yes, could be.

Navin Sahadeo: Okay. And in case of Century Textiles, you said average for the quarter was 55%, but exit was about 79%.

Atul Daga: Yes.

Navin Sahadeo: And with March quarter only being better versus the December quarter, we can easily expect an upwards about 85%-odd utilization for the full quarter.

Atul Daga: It's simply possible. As things stand, the volumes are picking up. Demand is picking up. So it could reach an 85% level also.

Navin Sahadeo: Okay. And then my last question on the pet coke usage. The presentation mentions overall pet coke at about 77% versus 69%. I am assuming that is for the quarter?

Atul Daga: Yes.

Navin Sahadeo: No, because in your November corporate dossier or that November company presentation, what I see for the first half, pet coke consumption is actually at 64% versus 71% last year. And at the same time, I think we are ramping up pet coke usage, both at Nathdwara as well as at Century. So I just wanted to confirm.

Atul Daga: Absolutely, it's bang on. No confusion. Century has come in now. And from an insignificant pet coke to a high pet coke, Nathdwara was 0 pet coke to now 100% pet coke. So this quarter has an advantage in terms of pet coke consumption. And in current times, pet coke has lost its shine because it is easily swappable between U.S. coal. U.S. coal also has a high calorific value, so whichever fuels cheaper will be used.

Navin Sahadeo: Got it. And just one last question, if I may slip in. Sir, in the previous quarter's con-call, you seem to be a lot interested about Emami Cement. I think there was some question about, will

CCI be an issue or even to the extent that since you are already announcing a 3-plus million ton expansion there, would you still be interested in Emami. And now there is a change of heart, you said you are not interested in their assets. So if you could just throw some, like to understand is there… what could be...?

Atul Daga: We evaluated, we did the due diligence. We put in a lot of effort to understand what value it brings to the table. They don't have clinker, and there is surplus grinding capacity and some land bank. You can't sell me a dream and value it at an EV of operating plant. There was a lot of disconnect. There were a lot of other issues that we found at the due diligence, which were not comfortable for us.

Navin Sahadeo: Got it. Valuation disconnect largely. Got it, that helps. And just one housekeeping question. These white cement volumes and revenues that you normally give, Nilesh shares, I think.

Atul Daga: 3.46 lakh tons is this quarter as compared to 3.7 lakh tons Q3 2019.

Navin Sahadeo: Revenues?

Atul Daga: Revenues, Rs. 460 crores this quarter. And last quarter?

Nilesh: Rs. 500 crores last year.

Navin Sahadeo: And RMC revenues?

Nilesh: Rs. 500 crores for this year and last year Rs. 527 crores.

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

Rajesh Ravi: I have a few questions. For the East expansions, going ahead, what sort of clinker backing do we have? Or are we still have some clinker expansion opportunities in East? And second would be on the WHRS, whichever places, and what capacities we are adding over the next one, two years?

Atul Daga: We have clinker available at Hirmi-Rawan and some surplus, which is coming in from Maihar. While Century, in totality you might see, from their perspective they were short in clinker. But when we are merging it with our overall network, we have some surplus clinker available from Maihar. And the debottlenecking that we are doing at the Century plants, which will help us meet the requirements at Cuttack, Dankuni and Pataliputra. Existing Dalla also is undergoing debottlenecking, which not on a heavy CAPEX, is a routine stuff being done, which is releasing clicker capacity for us.

Rajesh Ravi: And Dalla, by when you expect the clinker to be up and running?

Atul Daga: Dalla Super, I would keep time in hand and commit by March 2021. A lot of progress has been made in the U.P Government. The files have moved to the central government now, to the MoES. And hopefully, we will get clearances in time for March 2021 clinker going on stream. Second question you asked on WHRS, Nilesh, just give the locations?

Nilesh: We will be having WHRS in Gujarat plant; Andhra, at Tadipatri plant; in central market, Bela plant; and the Nathdwara plant.

Rajesh Ravi: Okay. So just extending on this question, we have around 85-megawatt WHRS currently?

Nilesh: 103 megawatts.

Atul Daga: Today.

Rajesh Ravi: Okay. So we added something in this quarter, Q3?

Nilesh: Last quarter Q2.

Rajesh Ravi: Okay. Which place, sir?

Nilesh: So basically, it has got partly commissioned at Gujarat, Tadipatri and Rajasthan at Kotputli plant.

Rajesh Ravi: Okay. So around 5, 6 megawatt each?

Nilesh: Yes.

Rajesh Ravi: So final target at 131 megawatt is what remains for you.

Nilesh: 141 megawatts.

Atul Daga: Up to 141, everything has been sanctioned and work in progress. We will look at the next phase because this would cover about 11 integrated plants out of 23 integrated plants. So there is scope for doing WHRS in other plants also.

Rajesh Ravi: Great. And sir, just two last questions. One on the Binani, what helped you scale up Rs. 1,500 EBITDA margins? We understand pricing is relatively stable, but despite that, this is a really strong number. First on this maybe, please?

Atul Daga: Our brand is very strongly respected in that market. We sell more than, I think, 25 million tonnes annually. So point is, Northern markets we have a very strong foothold and the price premium that we enjoy in the market is very strong. Cost advantages, we have been able to drive very hard in the improvement program for Nathdwara plant. Logistics costs, one of the biggest things. And it has very sweet location. It's a sweet spot that this plant sits in bang on the borders of Gujarat and Rajasthan, giving it an optimal advantage on leadership.

Rajesh Ravi: Okay. So what would be a sustainable margin, because earlier we were factoring Rs. 800 to Rs. 900 will be a sustainable EBITDA margin? But in this Q3 itself, we have seen…

Atul Daga: You were factoring and not we were.

Rajesh Ravi: I mean, as an analyst, we were not factoring, obviously, Rs. 1,000 plus, and Rs. 1,500 in Q3, obviously, sets a high benchmark for this plant.

Atul Daga: Yes. So, I mean, I will not let it go below 4-digit mark.

Rajesh Ravi: Great. That's a great thing, sir. And lastly, because you are not going ahead with the Emami, at least for now and your own expansions are there.

Atul Daga: Not at least for now, never.

Rajesh Ravi: Okay. So do you see the competition remaining elevated in that market, because that market would remain relatively fragmented. And a lot of capacities are piling up across Orissa, West Bengal grinding units and all. So what is your thought process in terms of rising stability in the Eastern market?

Atul Daga: For East, I think there is so much of demand today also. And whenever new capacity stabilizes, there is some correction in prices and then prices comes back. However, it has not helped the overall EBITDA for the zone to improve. If you were to analyze each as a stand-alone, if you have results of companies for that East zone only, then nobody would be generating a 4-digit number in the Eastern markets. So it's a market for high-capacity utilization, good operating leverage.

Moderator: Thank you. The next question is from the line of Bhavin Chedda from Enam Holdings. Please go ahead.

Bhavin Chedda: Two questions. One, what was the average lead distance in the quarter and nine-months, if you are sharing the approximate numbers?

Atul Daga: 400 kilometers.

Bhavin Chedda: Around 400?

Atul Daga: Yes.

Bhavin Chedda: This would be after including Century, Binani, everything?

Atul Daga: Yes. In Century, Binani and clinker because clinker travel is long distances, we transport clinker from South to East also.

Bhavin Chedda: Right. And sir, what would have been the white cement wall putty and the RMC EBITDA in this quarter? I missed that number if you shared.

Atul Daga: No, difficult to compute it separately here.

Bhavin Chedda: Combined number you have for the quarter?

Atul Daga: No, don't look at the EBITDA separately, it's cement for us.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of UltraTech Cement, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

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