"UltraTech Cement Limited Q3 FY-22 Earnings Conference Call"

January 17, 2022

MANAGEMENT: MR. K.C. JHANWAR – MANAGING DIRECTOR
MR. ATUL DAGA – EXECUTIVE DIRECTOR AND CFO

Moderator: Ladies and gentlemen good day and welcome to the UltraTech Cement Limited Q3 FY22 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 risk that the Company faces. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise.

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

I now hand the conference over to Mr. Atul Daga – Executive Director and CFO of the Company. Thank you and over to you sir.

Atul Daga: Thank you. Good evening, everybody and welcome to this call for UltraTech's Q3 Performance. First and foremost, I hope, wish and pray that all of you and your families are safe from COVID.

This has been a difficult quarter with costs going up a sudden and unexpected decline in demand in the month of November and consequent pressures on selling prices. India is a very regional market and each region as usual has performed at different levels. Demand slump was the maximum in the Eastern corridor which I'm sure you would have heard already from the market sources. North continued to be relatively strong and growing consistently, performing better than other markets in terms of volumes and prices.

At UltraTech despite a 3% de-growth in domestic volumes this quarter, we have achieved a 13% growth in the 9-month period and in spite of a high base for Q4, our aim is to achieve a growth in Q4 also.

As for Q3 we believe there were multiple factors leading to the demand slump in November:

- First and foremost, unexpected rains in several parts of the country
- Construction ban in NCR.
- Labor availability at several places.
- Sand shortages in Eastern side.

These were just a few reasons which can be assigned to why November fell. December was back on track. On an average for the quarter our capacity utilization was 75% but December had already inched up to (+80%). Utilizations across the country are improving and so are prices.

Let me first give you an update on our expansion program:

As part of our growth plans, we are putting up additional 19.5 million tons of capacity. 1.2 million tons Brownfield was already commissioned last quarter in East and 2 million tons Bara grinding unit has been commissioned in the current quarter in the month of January taking our total India operating capacity to 114.55 million tons. The balance 16.3 million tons of capacity will be commissioned during a FY23 at different point in time. Barring a few small delays due to the pandemic, we don't anticipate any bottlenecks in project commissioning schedule. This becomes very important because we believe that demand will see a surge given the general elections in 2024.

To brief you about the other non-core assets which we had inherited as part of the acquisition of Nathdwara Cement:

Definitive agreements have been signed to sell off the fiberglass business in Europe. We expect to close the transaction in the current quarter. This quarter we have spent 1690 crores on expansion and other CAPEX reaching a total of close to 4000 crores and the pace at which the project execution is going on we may spend about 5000 crores on overall CAPEX in FY22.

I'm happy to share with you that the board has approved an expansion of our White Cement capacity. It will be undertaken in a phased manner from our current 6.5 lakh tons to about and 12.5 lakh tons. The current putty capacity is 8.2 lakh tons split at two locations. We are in the midst of competing our Greenfield expansion of putty capacity by about 4.4 lakh tons. The project is expected to go on schedule in Q2 FY23.

On the debt front – we prepaid our loan to the extent of 3459 crores. This was a very well-planned move with the hardening of interest rates and falling treasury yields. Going forward the gap between our operating EBITDA and total EBITDA will narrow down due to lower treasury operations.

On the cost front – fuel costs have softened a bit from the peak but still strong. As we had told you during the last quarter, fuel consumption costs for UTCL are up by roughly Rs. 250 per ton on cement. During the ongoing quarter we don't expect any more surprises but the cost will remain elevated at the current levels. There is a reasonable possibility as of now for prices to soften post the winter Olympics of China. Logistics costs this quarter were almost at the same level as the previous quarter despite reduction in cost of diesel in the month of November. Exit September quarter fuel was higher than the average of Quarter 2. This is another reason for not a very visible impact on average logistics costs for Q3. The benefit big or small of reduction in diesel cost will be visible in Q4.

We have begun the current quarter on a very positive note with improvement in demand sentiments and improvement in prices as well. Next year seems to be poised for a good growth for the industry. General elections as I mentioned in the beginning are around the corner which always spurt demand, urban housing has started seeing rapid improvement thus helping cement industry. New norms under the CRZ will open new vistas of growth for redevelopment of several old constructions. New infrastructure projects are in pipeline. We believe that the project announcements and issuance of new orders will start picking up pace. Government's Gati Shakti initiative is a transparent mechanism of tracking all the projects and this will further strengthen the intent of timely execution of infra projects.

We continue our efforts on sustainability. This quarter again we have increased our capacity of WHRS as well as solar. This quarter we ended our WHRS capacity at 156 MW and solar capacity at 221 MW. On our current scale of operations, we are now close to 16% green energy on our path to achieve a 34% green energy by the end of 2024.

With that good note I handover the session for questions. Thank you.

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 Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: My first question is on the cost front; just to understand your comment in opening remarks a bit better. On a full overall cost basis, we expect if I understand correctly from fourth quarter some tailwinds to start reflecting or given the consumption lag in the fuel etc., we will see some bit of a fuel cost increase and then maybe from 1Q '23 some cost benefits. If you could just share some more details, it will be very helpful.

Atul Daga: The big benefit or the delta movement would be visible only in Q1 next year, Q4 this year as I have mentioned the cost will remain elevated and not too much of difference is expected.

Sumangal Nevatia: But given that spot prices of petcoke around 170-175 and even thermal coal, our sense was that there will be some bit of a lag in inflation further in fourth quarter and then a dip in 1Q, is that understanding not correct then?

Atul Daga: Your understanding is also correct; my understanding is also correct. Let's wait for Q4 results.\

Sumangal Nevatia: On the demand, I mean 3Q of course at the start of the quarter no one expected such weak demand in the quarter. Will you still term it as an aberration and some external factors and is your medium-term demand estimate and outlook still intact in terms of strong recovery demand?

Atul Daga: Yes, Sumangal as I mentioned November was an aberration, December was back on track, January continues to be strong. To give you a precise number from UltraTech's perspective average capacity utilization for the quarter was 75%, December was 84%. That gives you a sense that this was one freak month. Everything pointing in the in an unfavorable direction.

Sumangal Nevatia: Just one last question on the exit prices of 3Q, any sense from what it was versus 3Q average prices and very early days in January but any direction on how we are seeing prices because we do hear some price hikes in few pockets of the country. So, if you could just share some details.

Atul Daga: You already get the sense about price hikes before I do. The undercurrent is strong because the demand is strong so we expect price hikes to take place. As far as Q3 is concerned Q3 over Q2 was almost flat. There were price hikes which were taken in the month of October which had to be given up or rolled back.

Sumangal Nevatia: January we expect price hikes but as of now nothing is reflected, right?

Atul Daga: No, there have been price hikes in few pockets in the country already but don't multiply it by 365, we have to wait and watch for prices to stabilize. I won't get the benefit for the entire month but February and March should get the benefit. Again, cement market is no less than the stock market today, today it's up, tomorrow it's down. Nobody can predict what exactly will happen. The bigger point is the undercurrent is very strong.

Moderator: The next question is from the line of Pinakin from JP Morgan.

Pinaki: Just trying to understand the cost item better. Can you give us a sense versus the $150 per ton of P&L cost in the third quarter? What will broadly be your blended purchase costs at this point of time because we have seen thermal coal prices again surge after the Indonesian ban and they've not come up materially.

Atul Daga: The Indonesian coal price hike apparently might stay for a short period of time and currently the prices are elevated. Our expectation is March-April onwards we should start seeing some softening trend.

K. C. Jhanwar: Just to add up, KC Jhanwar here. Yes, you are right because the Indonesia imports are banned on export of coal but now, we understand that there is some relaxations are being announced, means particularly the people who have fulfilled their domestic quota, sourced everything to the local power would be allowed to export actually. But yes, it is to be seen in the next fortnight or in a month how it gets shaped out. There may be some impact here and there if this trend continues.

Atul Daga: Q4 costs might still be elevated. There will be some positive, some negative, there are inventory effect, spot prices have no relevance for the current quarter consumption because the time lag in delivery is minimum 45 to 50 days. The newer purchases will impact the next quarter only.

Pinaki: Just trying to move beyond thermal coal and petcoke, crude brent prices are near 5-year highs. The outlook is that crude prices further move higher. If crude prices do move higher then would it be fair to say that the cost disinflation that the Company is expecting in first quarter may not take place because you will still have continued all round cost inflation from higher crude indirectly.

Atul Daga: Yes. Pinakin you're absolutely right. If crude misbehave then there will be a dilemma for cement industry also.

Pinaki: Lastly because of the latest COVID wave, would any of the project commissioning timelines get pushed out because if any work has been impacted?

Atul Daga: Not at the moment, we don't see any slowdown.

K. C. Jhanwar: Because honestly with the COVID there may be some small here and there but I don't think there is any worry or the schedule commissioning timing. We are very much on track.

Atul Daga: At this juncture, so we don't know whether Omicron or Demicron is there or whatever is coming. How does that impact? So as of today, with the current state of affairs of Omicron and the current state of affairs of the COVID things are under absolute control.

Moderator: The next question is from the line of Rashi Chopra from Citi Group.

Rashi Chopra: Just firstly on pricing, you mentioned that price hikes have come through in some of the regions. Which regions have still not come through and if there is a delay or if there is no delays then why they haven't come?

Atul Daga: It's a matter of time Rashi, so step-by-step things are done, the East has happened, some part of Maharashtra and some parts of South yes, price hikes have been done. Kerala has been done for example.

K. C. Jhanwar: So fundamentally because it's also depends on the level. If the levels are too low but as just now told by Atul, once you have a price hike it will be known only maybe after a week, 10 days' time. So, the real reflection would come after 10 days because there is a lot of inventory in the pipeline and thus different people may have different sort of pressure. But I would say holistically since the demand has improved in the month of January. The price improvement must have come in.

Atul Daga: Again, I'm repeating we are operating at 85% capacity utilization now. Clinker is operating about 90%. That should be enough indication of how strong the market is.

Rashi Chopra: Just can you talk more upon the white cement expansion plan and the thought process behind that?

Atul Daga: So white cement, first and foremost white cement market has already been growing and better late than never that we decided to start our expansion. We were meeting our requirement with imports which is not as remunerative as our domestic supplies. So that is the whole purpose of getting into an expansion mode, increasing our capacity on white cement.

Rashi Chopra: And I think I missed the number, what did you say about the expansion, what was that number?

Atul Daga: About 12.5 lakh tons, doubling the capacity more or less from 6.5 lakh tons to 12.5 lakh tons.

Moderator: The next question is from the line of Girish Choudhary from Spark Capital Advisors.

Girish Choudhary: Two questions; firstly, if I look back to your slide on the region wide demand performance, I see East is the only been in which has seen two consecutive quarters of declining demand on a YOY basis. So how much of this will attribute to one of reasons and how much is due to actual slowdown in the region if at all, so your thought process?

Atul Daga: The one of reasons where the sand shortage, rains and labor movement. These three are one of movement. My expectation is that now onwards you will start seeing improvement in Eastern corridor also. Jhanwarji would you like to add something?

K. C. Jhanwar: Because the sand was one of the major issues and number two because the state supported schemes actually in infra. That also little bit got slowed down post the elections of Bengal and kind of things. So now things are getting stabilized and we are pretty confident that demand should come back at normal.

Girish Choudhary: On the white cement expansion, if you can give us a little more on the timelines and also on the white cement grade limestone reserves post the expansion. So some more details on this expansion.

Atul Daga: On the reserves post expansion also, we would have reserves of 40 to 50 years that is one. We would look at anywhere around 2026 to commission the white cement expansion. The land acquisition is something which is not complete. That is what will take a bit of time. If you will refer to the slide it's there in the presentation also.

Girish Choudhary: Just to finish this off on white cement, one of the reasons you mentioned is that to reduce the high-cost import, so just to understand this how much is this import has done versus how much you're using it or…

Atul Daga: This year the plan was to import 2 lakh tons of white cement. Till we commission our expansion we expect the way the market is growing that our requirement will keep on growing.

Moderator: The next question is from the line of Amit Murarka from Axis Capital.

Amit Murarka: Firstly, on other operating income, so last quarter I remember you mentioned there was some incentive, this quarter also that number is a bit elevated. So, is there some one-off this quarter there as well?

Atul Daga: There will be something which comes and something which goes out. Last quarter we had a Dhar incentive coming in. As a block it has got stabilized now as a regular inflow, this quarter we had Rajashree Cement Line IV which got disbursed. So, I would expect our incentive and related other incomes to be in and around 125 to 150 crores per quarter.

Amit Murarka: This quarter it was more or less 270 crores. So, like then what the Rajashree one would be what 120-130 crores?

Atul Daga: What is 270?

Amit Murarka: The difference between the revenue and the sales and the total revenue?

Mukesh Agarwal: Rajashree Cement is Rs. 50 crores.

Atul Daga: 270 crores what is the break up?

Mukesh Agarwal: That is including other income like scrap sale and miscellaneous write-back also.

Atul Daga: It do take place every quarter. Any write-back might be there on a regular basis, so 150 crores is an average number for our size of operations.

Amit Murarka: Just one more question on the capacity utilization. You mentioned that the FY23-24 should be strong growth year due to pre-elections and you're already at 85% utilization. But the capacity pipeline is there till March '23 largely. So is there a new pipeline also firmed up and by when can we expect the same thing to be known.

Atul Daga: We will come back to you, once the board approve. Once the board approves, we can tell you about it.

Amit Murarka: And lastly what was the trade, non-trade sales this quarter?

Atul Daga: 64% trade.

Moderator: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: How are you looking at industry level capacity additions this fiscal and next fiscal and factoring the demand scenario that you are looking at; how should one look into UltraTech's market share given the incremental capacity additions we will have which will be significant in FY23?

Atul Daga: So, each year you should look at (+/– 20) million tons of new capacity. FY23 bulk will be coming from UltraTech. Next year, the year after also you could see (+/-20) million tons. Our market share will grow with this 20 million tons of 16 million coming in FY23, the market here is bound to grow.

Ritesh Shah: Would it be possible for you to give a regional flavor over here.

Atul Daga: Regional flavor as in?

Ritesh Shah: On market shares because 16 and 20 is a big number.

Atul Daga: Market share, very difficult to quantify because the comparable data is never available. When I talked about market share increase, my analysis is that new capacity which will come in we will sell it out without competition being there. Obviously, our presence in the market will grow further.

Ritesh Shah: My second question is on construction chemicals; it was good to see the white cement announcement actually coming through this quarter. We haven't heard anything from you on construction chemicals. We understand that we have started manufacturing at few of our plants. So, we just wanted to understand your thoughts on construction chemicals and basically how is it going along with Grasim given they have highlighted significant plans on the paint side? The question is more with reference to any changes on the distribution side, synergies wherein UltraTech is actually benefiting out of it.

Atul Daga: We are gradually growing our construction chemicals business. It should be reaching maybe 500 cores per annum on annualized basis by the end of this year. We would look at acquiring good quality assets to grow this business further. The bigger point that you asked about whether in Grasim or in UltraTech, UltraTech will do this line of business in the construction stage and not in the finishing stage. Now there are sealants, waterproofing, agents. Yes, we will remain in the construction stage and finishing anything that has to be done would be with, we are not getting into that space. There is a lot of opportunities, waterproofing agents, sealants, mortar, dry mix, then some amount of admixtures also, there admixtures will become more captive product for captive consumption also because we have a big RMC as well, for our RMC also. So, lots of areas where we are growing steadily and we should be annualized about 500 crores this year. Multiple plants have already been put up and we would look at interesting opportunities to consolidate with us.

Ritesh Shah: Where do we see this business 3 years out?

Atul Daga: 3 years down the road, if today I am 500 crores, I would target 2,500 crores at least.

K. C. Jhanwar: Because once we have started in this line of business, obviously we would like to double year after year fundamentally because there is enough opportunity for growth in this particular segment, right from water proofing, sealants, mortar, grouting. So, there would be enough opportunities.

Moderator: The next question is from the line of Indrajit from CLSA.

Indrajit: On the same vein actually to repeat this question, so going forward given the amount of cash we will end up generating in the next 2 to 3 years and given the expansion plan that we have, any indication on annual CAPEX and would it be more heavily biased towards non-cement or allied segments like construction chemicals, white cement etc. or we will continue to see a higher proportion of CAPEX on the cement business?

Atul Daga: So, the proportion of CAPEX will be higher on grey, construction chemicals is a very small cost operation. So even if we expand, acquire it will not be a big portion and white cement, it will be spread over the next 2 or 3 years, the big spend. So, maximum spend you will see on grey cement.

This year as I mentioned we might exceed our initial forecast. We might reach close to 5000 crores of CPAEX spends. Next year would be close to 4000 crores of cash outflow on CAPEX which would complete the current phase of CAPEX plan, the capacity expansion plan. 4000 cores would include the capacity expansion also as well as a routine CAPEX, maintenance CAPEX. What we call maintenance CAPEX which is anywhere around, sustenance CAPEX which is around anywhere between 1000 to 1500 crores.

Indrajit: On the construction chemicals, if you can help us understand the industry better? Is there a brand consciousness or is it mostly an unorganized sector, do we have to spend a lot on A&P, getting people conscious about the brand or do you think these have reasonable mindset?

Atul Daga: There is an effort which has to be put in place to get people to buy a product that we are selling and it will be an UltraTech brand to command a premium and to have a sticky customer.

K. C. Jhanwar: And the major strength with UltraTech is because our vast network in terms of dealer and the retailer networking. So, we have a huge network, so dealer as well as the retailer. So, we would like to make full use of this network excellence. And yes, the brand will definitely play a role, so we have started putting some efforts on branding before these products actually. But yes, in time to come now we are moving from one level to another level. So, the brand will play again major role but predominantly it is going to be under the UltraTech brand.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: Just one question, taking a slightly longer-term view if we look at the last few years because of COVID, other disruptions while growth rates look good but broadly there has not been a significant growth in terms of volumes, if I look at a 2-to-3-year CAGR, whereas in the same period, we have seen capacity getting added at a reasonably strong pace last few years. Are you worried that maybe next 12 to 18 months, the pricing environment might not be as conducive as we are used to seeing in the last 2 years?

Atul Daga: First and foremost, on the sales volumes, I think we have been continuously growing from a 70 million tons to crossing a 90 million tons mark and jumping over a 100 million tons of sale. It is growing at a steady pace, I would say. Capacity expansion, yes, over a last 5 years has grown roughly 11% and we have always invested ahead of the demand curve in time to meet the rising demand. I don't foresee a challenge to be able to tell, we don't see a challenge to sell this capacity. Next point that you mentioned is on pricing. Given our consolidated strength or a position in any market, we are able and it's a rule of the game not just UltraTech, anywhere where there is a consolidation of the market pricing, discipline is far better. Take the case of Gujarat market; we were not present at one point in time. 2014 onwards we came in and today Gujarat markets are one of the best priced markets. Similar phenomenon we are seeing in the central market; North is where similar thing has happened in the North markets. East is a market where what you are talking about is a fierce market, lot of new capacity getting added. We might see some pricing pressures but the consumption in East market will keep going up.

K. C. Jhanwar: What our data are available, I think despite the new capacity additions, overall capacity utilization of the industry is likely to improve in next 18 to 24 months period.

Atul Daga: Pulkit, I am just looking at my data. From 2016 where we sold about 48 million tons, crossing 80 million tons now this year and then jumping on to a three-digit mark very soon. We are steadily doing at about a CAGR of 10%-11%.

Pulkit Patni: No, my question was more from an industry. No doubt, you've done pretty well in the last few years. But as an industry we were at about 335-340 million tons in FY19 and FY22, we will finish at about 350-352. So, on a CAGR basis, it's not that exciting but I understand what you are saying that consolidation should likely help right?

Atul Daga: Unfortunate instances that have happened. Now COVID was most unthinkable thing that has happened and for all you know, it might continue for a couple of more years. As you read Cyprus, somewhere new variant has already been discovered. Demicron or something is being talked about. I don't know the disruptions which the world will see, which India will see going forward. We have had several instances. There was demonetization in 2016 which broke our back, then GST introduction, there was so much of confusion with GST introduction. That's the new system which came into play, took time to stabilize. I think we have to take all these events as part of in, in our stride and move on and as UltraTech, we will keep consolidating the industry and grow from strength to strength.

Pulkit Patni: Any sense of what could be the realization from this Belgium sales? Any rough-cut number that we can?

Atul Daga: €94 million, I think 90 to 94 million, depending upon working capital adjustments. I would safely put a number at €90 million.

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

Navin Sahadeo: First of all, I just want a small clarification on this fuel cost that we report in the presentation. When we say average fuel consumption costs in dollar terms which is about 151, that is you are referring to the petcoke price, the imported coal price or it is the blended cost of?

Atul Daga: Blended cost of consumption in UltraTech.

K. C. Jhanwar: That includes some part of the local…..

Atul Daga: Its total fuel, including domestic.

Navin Sahadeo: Can you give me a broad breakup as to what it was for the quarter as in, in terms of how much is petcoke, how much is imported coal and domestic coal? Is it possible to share that?

Management: Petcoke $193 and coal at around $137, imported coal.

Navin Sahadeo: I was talking about overall in terms of the break-up, in terms of usage in the sense let's say petcoke is 50%.

Atul Daga: I will tell you; we have reduced the dependence on petcoke and this quarter the petcoke consumption was 25%.

Navin Sahadeo: If petcoke is 25%, imported coal would be broadly 50%?

Atul Daga: Could be a larger chunk.

K. C. Jhanwar: Just to set on the calorific value, we have gone for the high calorific value import-export.

Navin Sahadeo: My second question then was about the white cement expansion which you talked about from 6.5 lakhs to over 12.5 lakhs. But if I understand correctly, white cement per se is not a growing industry as such. It is the putty which is growing. Is that understanding, correct? And you are rightly putting up both?

Atul Daga: Both are growing. Putty is growing at a faster pace. I am putting up a 4.4 lakh tons putty expansion also and white cement is also growing. Bulk of the expansion will get consumed into putty yes but white cement growth is also there.

Navin Sahadeo: So, putty post expansion, our current if I'm not wrong, putty capacity is 8.5 lakhs?

Atul Daga: Yes.

Navin Sahadeo: So, 8.5 lakh putty, we are adding roughly around 4.5 lakhs to it.

Atul Daga: 4 lakhs tons, yes.

Navin Sahadeo: But again, if I understand to make putty, requirement of white cement is only 20%. So, for 4.5 lakhs of putty, all you need is 90,000 tons of white cement?

Atul Daga: I agree. That is why I already told you that white cement, we see a huge potential in pure white cement sales as well.

K. C. Jhanwar: And apart that currently we are importing also.

Navin Sahadeo: Largely import substitution to begin with which you said is about 2 lakh tons. That will happen straight away and thereafter the growth part of it. Just one follow-up here. By when because it said the expansion will happen in phases. I think I missed that. You answered this but by when is this capacity likely to come onboard?

Atul Daga: It sounds a very long timeframe but we are looking at FY26 to have our Line 3 and then further jump production to 12.53 lakhs MT in FY27. The biggest portion of time spent will be in land,

land acquisition is not completed. We would now today the board has finally approved the expansion. We will start putting pressure on working on our land acquisition and perhaps over the next 3 or 4 quarters; I will have a clarity on how the timelines are getting crunched.

Navin Sahadeo: Demand of course as you said, is strong and December also I think saw a reasonable like recovery. You also said utilizations were in upwards of 80% but with the coal prices going down, we again saw a lot of fight for market share coming back. That's where exit December particularly or most of the December the prices were under pressure. So, in the same light if we?

Atul Daga: Navin, there are some companies who have year ending December.

Navin Sahadeo: Yes, but in East, I am saying, we are seeing a different fight for market share altogether, right?

Atul Daga: I am not aware of any fight.

Navin Sahadeo: My simple question on a broader perspective was with coal prices or in general fuel prices easing; do you see headwinds to these price rise or you think no, as long as demand is good pricing should just be good enough and margin accretive?

Atul Daga: I believe and again I will repeat, cement prices with capacity utilizations and in my term, I have seen two or three cycles where All India capacity utilizations have gone above 85%, margins hit the ceiling. Because what happens is when all the regions are having a good capacity utilization, there is no export of material from one region to the other. Every region is able to enjoy a good pricing environment.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: I had a very simple question. This consolidation helps in passing on some of the cost pressures in difficult times like we have seen in the last two-three quarters. So, while the industry is consolidated versus say what it was 5 years back, still it’s turning out on consolidated enough. I just want to get your view on what might happen to the industry in say 4-5 years’ time? Can reach a level of consolidation when like even in weak demand scenario we are able to successfully pass on any major cost headwinds? And I am asking you this because you can be a driver of the consolidation I guess through acquisition or by pushing out marginal players by selling higher volumes etc.?

Atul Daga: That scenario which you're looking at, I don't expect in the next 4-5 years. There are global markets which are in that phenomenon. Consolidation will take place. There will be people who will want to cash out in a good cycle. UltraTech as a Company believes very strongly in cement growth in the country. Over the next decade we are seeing at least a CAGR of 6% to 8% growth. So, we are all very aggressive. We will evaluate every opportunity to keep growing.

Swagato Ghosh: Can we shift our volume mix to other regions if and when needed from East and South to the other regions? Do we have that flexibility?

Atul Daga: Yes, we have the flexibility. In fact, we moved material from across the country. That's the advantage of diversity of our existence. Today with 53 odd locations, we are able to move material crisscross in any direction.

K. C. Jhanwar: That's the one of the big flexibility UltraTech enjoys because we have never seen practically, I would say, never seen that servicing problem to the customer. At times, sometimes the demand is high and we may have to move from another zones, another plant, may be with some additional force but the servicing is done because it has already done a positive contribution.

Atul Daga: Swagato, UltraTech is able to operate more than 250 rail heads across the country. That helps, moved and rail freight cost would be 50% of the road freight cost. That is the kind of advantage which we enjoy and in times of what should I say, restriction in supply in one particular market we are able to meet the customer obligations from other markets also.

Swagato Ghosh: Basically, these levers should help us outperform the market over the long run? Is that would be right assumption?

Atul Daga: Yes, absolutely. I will share with you data which shows clearly period-after-period UltraTech has been able to outperform in volume terms because what happens is when a new capacity gets added in a particular Company, they will have artificial growth I would say. But if I look at an industry level number; we would have achieved growth quarter-on-quarter higher than the industry.

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

Ashish Jain: Firstly, on the construction chemical business, can you give some idea in terms of the margins we are making there and where those margins could head and also any meaningful CAPEX and all if we may incur on that, in the next 12 to 18 months?

Atul Daga: I think as of now we are investing in the business, so it's an insignificant margin.

K. C. Jhanwar: We are building the business at this stage and obviously we have to do lot of activities and piloting certain things to get the right product and kind of things. So, obviously once we reach to the reasonable size actually, I am sure it would definitely generate.

Atul Daga: Right now, we are not focusing on the margin. We are investing in the business but it can be a healthy 15% to 18% EBITDA for sure. And you asked about CAPEX, no it does not, it's a capital light business. And the other advantage that we have is, we are able to take advantage of our existing planned infrastructure to add to the construction chemical opportunity.

Ashish Jain: Just to understand; the idea behind this is that either you think it's going to be huge opportunity because even at 25 billion doesn't seem to be the case in a 2–3 year timeframe or just about leveraging the supply chain or the distribution that we have much better or is it like some of the input costs and all could be much cheaper for us because of the whole value chain that we have. What's the thought process behind investing in this business?

Atul Daga: The distribution; first and foremost, it synergizes with our vision of being building solution provider, right? Instead of getting a third party to come in and apply something on the construction side, we would have a product of UltraTech being used to complete the project. Take the case of our UBS model. The advantage of that model is when an individual home builder within the store, he's not just buying cement but he also sees a pipe, he also needs a white cement that he needs or a Vastu service or an architect that he required, services that he required. He gets everything under a single window, under a single roof. Similar is the concept that when UltraTech is being approached by a developer, by an infra-Company for any project, they get everything that is required to build a bridge or build a high-rise. That's the bigger theme. The advantages that we have is our strong distribution network, the brand equity that we have, the quality or the product that we deliver, the logistics network that we have, it goes hand in hand. There's no extra effort that we will require to scale up.

Ashish Jain: The only thought which I had just as because the customer still comes to the store to buy UltraTech cement and some of these products are like additive which even if it’s third-party, still kind of serves the purpose of making it more comfortable for the customer, was my initial thought at least but fine. I get the point that you are saying. Secondly on pricing, can you just share how the exit prices were versus average for the quarter?

Atul Daga: I am sorry, what?

Ashish Jain: What the December exit prices were versus the average for the December quarter?

Atul Daga: Prices corrected, so December would have exited lower only, almost flat. I'm looking at a data, September and December end was flat, average to be exact Rs. 348 a bag what I see and December Rs. 350 a bag.

Ashish Jain: 348 is the exit and 350 is the average for the quarter? Did I hear that correct?

Atul Daga: 348 was exit September. 350 was exit December.

Ashish Jain: What is the average for December? If you can share, please. If it’s possible?

Atul Daga: I don’t have average for the month.

Ashish Jain: Lastly on utilization; can you just indicate how low did November drop for us? You gave the quarter and December month number. How low did the November drop for us in terms of?

Atul Daga: 70% if I remember it right? Yes. It had gone below 70%.

Moderator: Ladies and gentlemen, we will take the last question from the line of Prateek Kumar from Antique Stock Broking.

Prateek Kumar: First question is, can you highlight a bit on rural demand trend? So, peer sector which is FMCG, we have heard like industry talking about some kind of slow down there which may be due to high base or some kind of transient slow down but how do we see that for cement? And is it something which is contributing to negative growth for the quarter?

Atul Daga: Could be because the rural markets largely on the Eastern corridor suffered because of rains and sand shortage and labor movement. I think things are coming back on track. When the labor supply settles and availability has settled; December and January; we are seeing good traction across all the segments. The most important thing, I don't want to be sadistic but the benefit of COVID has been revival of urban housing demand. So, everybody knows the pillars of cement consumption which is urban and rural housing infrastructure, industrial and commercial, all along infrastructure and rural housing were supporting the growth. Now, urban housing has also started growing. This is what I would want to conclude with that three of the four levers have started firing very well for cement.

Prateek Kumar: These rains and sand shortage would be something which will not impact probably…. So, which will probably impact only…?

Atul Daga: As I see now, December and January continuing, the capacity utilization is good across the country.

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