" UltraTech Cement Limited Q1 FY18 Earnings Conference Call"

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the UltraTech Cement Limited Q1 FY18 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, Mr. Daga.

Atul Daga: Thank you. Good morning, friends. I welcome you on the earnings call for Q1 2017-18. I think this quarter is of mixed reactions.

The country is going through some structural changes and major economic reforms, all of which will help India to achieve a strong, stable and robust growth in the longer term. For example, RERA has been made effective from 1st of May 2017. It has put some brakes on the small scale real estate players in the country, thereby slowing down the pace of construction. Improvement in compliance regime in the housing sector will benefit the pace, quality and timeliness of construction. We are already seeing a shift in demand towards organized real estate developers, most of whom are seeing a big jump in their new project sales. Pressures in the IT sector can also have a domino effect on the new housing demand.

Rural Markets: Everything seems to be going good in the rural markets as of now. Kharif crop sowing is up around 8% to 9%; this is a follow-up of a good winter crop as well. Rains have been good so far. Disbursement of HRA from July as part of the 7th Pay Commission will also fuel cash flows. We feel that this will continue to spur demand in rural markets. At UltraTech, we have been continuously increasing our presence in the rural markets and have crossed a mark of 40% of our total sales in the rural markets in this quarter, which is a highly brand conscious market.

The housing segment seems to be de-growing at ~ 2%, with the overhang of unsold inventories. Affordable housing program is gaining momentum and this should generate demand in the coming years.

Cement industry ended last year on a positive note and also entered the current financial year with good volumes; however, midway way lost the momentum for multiple reasons: GST, monsoons, sand shortage, drought in some regions, political instability and so on. Eastern markets have been doing very well, followed by South, North and West, in that order. At an aggregate level, we expect the industry to grow around 2-3% this quarter. There could be a low base effect or benefit of new capacity for some players or gross under-utilization of some capacities that dampen the overall growth for the sector in this quarter.

GST: At UltraTech, we have transitioned effortlessly into the new tax regime. The reduction in tax has been passed on to the customers, which is about 2% to 3%, varying from state to state. This does not impact the future earnings in any manner. The benefits of GST will be realized in the next few quarters as distances become shorter, smoother movement of trucks across state boundaries (we have nearly 70% of dispatcher by road), increase in direct movement instead of warehousing; reduction in costs and working capital. These benefits will have to wait until compliance levels improve on GST.

Cost curve: Fuel prices continue to rise. Pet coke costs were high, and diesel costs were equally strong, resulting in costs going up. We have continued our efforts on efficiency improvement program which have helped reduce the impact of higher fuel prices to some extent.

Let me touch upon the acquisition that we have completed in this quarter:

Towards the end of this quarter, we acquired 11 additional plants from Jaiprakash Associates. It marks our entry into the Central India and coastal Andhra Pradesh, strengthens our position in the Northern markets. This was the first transaction for the company to test waters under the new mining laws, took us some time but we are finally home. The plants were starved of resources, money, manpower, material alike. We have started building the assets in right earnest and hope to achieve our objective of improvement in quality, raw material availability, energized workforce and a strong marketing network to be able to launch UltraTech brand from all these plants starting next quarter. There will be competitive challenges since the last quarter saw these plants delivering an abysmal capacity utilization of less than 20%. We are in the process of ramping up capacity utilization and improving operating efficiencies. After having stepped in these plants, we are confident of bringing the plants up to our existing standards of operation well before the end of this financial year.

We ended the quarter with the Debt / EBITDA of 1.87, and our focus going forward is to rapidly reduce the leverage position, because we always remain growth hungry. We are currently operating at 78% capacity utilization, and it couldn't be a better timing to add additional capacity for us to grow our market share.

Before I end, a bit about Q2 July-September. We will do a gradual increase in our capacity utilization of the acquired assets and with full interest cost getting loaded for the acquisition, one-time initial brand launch expenses & other setup expenses, including initial maintenance costs and the process of integration of these assets with UltraTech. Besides the one-time expenses, this being the monsoon period, the slack season for cement, the volume and prices could remain soft; hence, there will be a reduction in overall EBITDA per ton for this lean quarter. However, we will see a significant improvement from October-December period.

To conclude:

I **am reminded of a quote from our late Chairman, Mr. Aditya Vikram Birla at a global event in 1992. He said, "We are not afraid of the competition, let the competition be afraid of us" and we at UltraTech swear by every single word of what he said. Thank you.**

Moderator: Thank you. We will take the first question from the line of Anshuman Atri from Haitong Securities.

Anshuman Atri: My question is regarding the Jaypee. So, what kind of utilization can we see in the next nine months and say next year and two?

Atul Daga: We should be crossing the level of 60% by the end of Q4 for sure, that is January-March period and as we progress into the next financial year, we will definitely cross the hurdle of 70%.

Anshuman Atri: Okay. Sir, and the second question is regarding the branding. So as of now, the Jaypee in Central region is selling under category B, and by next quarter we will be seeing a sudden jump in their realization once they move to the UltraTech brand, is this a correct understanding?

Atul Daga: Yes, we are in the process of improving quality, as I said earlier, to bring it up to our levels. And there are certain regulatory clearances that need to be done. So Central India, currently they are operating with the old brand before we launch UltraTech brand. The current brand is about Rs. 15 to Rs. 20 per bag below category “A” brand prices.

Anshuman Atri: Okay. Last question is regarding industry wise region growth; what do you expect industry growth in this quarter as well as for the full year as to what would be the pan-India and region wide industry estimates, if you can share?

Atul Daga: Very difficult to pinpoint like that.

Moderator: Thank you. Our next question is from the line of Aniket Shetty of CLSA

Vivek Maheshwari: My first question is on the Slide #25, you have mentioned about long-term concerns on urban housing, private CAPEX and cement prices to remain volatile. Why do you say these are long-term concerns and what do you exactly mean by long-term here?

Atul Daga: I think I am trying to start following the stock markets where long-term in their parlance is one year or two years, so that is where I will look at. In the next couple of years, it will take time for real-estate markets to turn around because of the overhang of capacity. Also, I have said, affordable housing is fast catching up which, of course, deals with a different category of the consumer profile. We have also seen the unsold inventory levels come down from 40 months to about 36-37 months in the recent past. But till the time that it starts hovering around 25 - 26 months of unsold inventory; because that is, I believe, a standard norm which is a generally acceptable norm for urban inventory. So long-term to me is maybe the next 2 years, I would say, which would be slight slow pace of recovery in the urban housing markets. As I have also mentioned, if you look at real-estate, the organized real-estate players are seeing a very good jump in their sales bookings. Those bookings are, as you would understand, the real-estate market it is advanced payments, construction follows and with RERA coming into place it is a time-bound delivery, and the good developers are known for time-bound deliveries. So give or take two years is what we would call it the long-term or a slowdown or I should say a slow pace of recovery for real-estate in urban markets.

Vivek Maheshwari: Okay. And just a follow-up on this subdued urban housing demand, so there are multiple pressures it appears, be it RERA or demonetization, is that how it is we should be seeing? And do you stand by the same comment that it is a problem of more of Tier-II, Tier-III towns?

Atul Daga: Yes, there is a problem of Tier-II towns essentially and if you look at the sales being done by large real-estate players, they are having a gala time at the moment. Because they are getting recognized, or RERA is helping them in a big way, people are flocking towards these companies, the projects being launched by these companies.

Vivek Maheshwari: Okay. My second question is on the GST. We have been reading in media about India being almost, all states check posts being done with it. But when we talk to transport guys, different companies, we are getting mixed feedbacks on that. Given that cement is so logistic intensive and you have 70% through roads, can you exactly tell what is happening on the ground on these check posts? I know it is very, very early, but in the last say 15 days or whatever, have you seen truck turnaround time getting better?

Atul Daga: The outright check posts are empty, so trucks are able to move at a faster pace from clearing through check posts, that is very clearly visible across the country. There is no doubt about that. This helps in faster deliveries and faster turnaround of trucks.

Vivek Maheshwari: Okay. So basically then, interstate movements are getting shorter in that context?

Atul Daga: Yes. Interstate movements are getting shorter. Within state, for example, now if you were to get out of Mumbai, just beyond Vashi, you will see the truck yards completely empty, hardly any trucks parked alongside the road. And this is something which is known to me or Thane side or Borivali side, as you go you will see the difference on the roads.

Vivek Maheshwari: Okay, and just a small follow-up to this, as transporters see better utilization of their CVs, would you be able to capture some of those benefits or most of those benefits given that asset utilization will improve at their end, which should benefit the industry?

Atul Daga: Yes, that will be our intent.

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

Gunjan Prithyani: Two questions. Firstly, the follow-up on Jaypee. In your presentation, you mentioned that in four quarters you expect the assets to be cash breakeven, and you gave this expectation of capacity to reach about 70% in two - three quarters. Now does that mean the assets reach about Rs. 900 / 1000 EBITDA per ton by then? Because only then that you will be able to cover the interest outgo of almost Rs. 13 billion. So, I am just trying to work the maths around here, what is the EBITDA per ton expectation?

Atul Daga: Gunjan, your math is as good as mine.

Gunjan Prithyani: So you expect that, I mean, because currently they are at a very depressed level, so you expect that they should reach by almost Rs. 900/1000 EBITDA per ton in four, five quarters?

Atul Daga: So I have given you an indication, yes, we will do a cash breakeven for sure by the end of fourth quarter of operations, July-September being the first quarter.

Gunjan Prithyani: Okay, and in this re-branding which you are talking about, is there any time period required for the Jaypee brand to re-brand, or there any approvals needed? Is there going to be any time to market?

Atul Daga: There is a very small process, what is called BIS application. The applications have already been made. And it is not so much about the regulatory process, it is more about bringing the quality of the product to a same standard as cement comes out of any other UltraTech plant. Everything else is in place at the moment, and in fact we will see launches of UltraTech brand one after the other from various plant locations.

Gunjan Prithyani: Okay. And currently, you are selling under the existing brand, and the cash flows accrue to you?

Atul Daga: Yes, absolutely.

Gunjan Prithyani: Okay. And secondly, on the cost side now, could you give us some sense of where the pet coke prices are and how you are seeing them trending at the margin? And is there any potential shift now you expect could go back to, let's say, international coal because the pet coke prices are continuing to strengthen?

Atul Daga: Yes. So one is that we have seeing some small weakness coming in pet coke prices in the recent past; I could say last 30 days or so. Domestic pet coke players have also reduced prices. At the moment, there is a shift from pet coke to coal, it becomes clearly evident. And oil refineries in the U.S. are not able to hold inventories for too long. There is a continuous demand from China of our pet coke which has kept the prices up. The moment Chinese demand starts coming off, you will see some amount of recovery in pet coke prices also. At these levels also, pet coke, on a converted energy basis, remains attractive.

Gunjan Prithyani: Sir, what would be the pet coke prices currently?

Atul Daga: Currently, around $87 to $90/t as compared to the high of $94 - $95/t.

Gunjan Prithyani: So the average for Q1 would be around...?

Atul Daga: $84 - $85/t.

Moderator: Thank you. Our next question is from the line of Indrajit Agarwal of Goldman Sachs.

Indrajit Agarwal: Two questions from my side on Jaypee assets again. Sir, what is the kind of blending in these assets currently in terms of blended cement? And secondly, what is the fuel mix in that? So, can we use higher pet coke composition in these plants as well?

Atul Daga: Yes, we can use higher pet coke for sure. Unfortunately, if I were to compare it with the last April-June quarter for their performance, they were sub-20%. So whatever blending or whatever fuel mix that they could do they were doing, it was not by design but by choice. So having said that, the blending ratio again will vary according to market, and we are taking advantage of our larger network to service the market. We will look at blending ratios is going upwards of 60% - 70%. Pet coke will be launched in all the plants. There are some lines showing concerns in one or two plants, because of which it will be slightly lesser, but average it will again will cross over to 60%.

Indrajit Agarwal: And sir, lastly, when you actually move from your existing brand to UltraTech brand from these plants, will there be any stoppage of operations, or will it be a smooth transition?

Atul Daga: No, absolutely smooth.

Indrajit Agarwal: All right, okay. And sir, one last housekeeping question, can you give us the white cement and RMC sales in rupees million number or rupees crores?

Atul Daga: White cement sales were about Rs. 370 crores and RMC were at about Rs. 475 crores.

Moderator: Thank you. Our next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Sir, one question on this sand shortage which you mentioned in the presentation in North and West. Just wanted to check at how acute was the problem, I mean, the availability was 10% or 20% lower, some numbers will just help?

Atul Daga: No, it was drop dead kind of a situation. So it was pretty bad, 10%, 20% is too a healthier number for considering that there was a shortage, it would have gone below 50% availability.

Anubhav Aggarwal: And what is the situation now? Has things normalized now?

Atul Daga: It is a sand mafia, so they will improve supplies at the earliest, and there has been improvement. But now you are into the monsoon, so it does not really matter too much.

Anubhav Aggarwal: Okay. And just other question was on GST. Some quantification would help, I know it is difficult, but the benefit of shorter waiting time and lower tariffs and additionally the reorganization of warehouses, can we expect logsitics cost to decline by let's say 5% - 10% by end of this year?

Atul Daga: We will definitely see a benefit. And I think you answered my question earlier in your question itself that it is difficult to quantify, but we will definitely see benefits.

Anubhav Aggarwal: No, I am just thinking, asking very broadly, is it like the total benefits could be less than 5% or they could be like as high as 10%, just a range would help? I mean, what do you see there is a meaningful number like 10%, or it is meaningless number, less than 5%?

Atul Daga: It will be a meaningful number, Anubhav, without getting into the definition of what is meaningful. Let us deliver it and show it to the investor instead of commenting on a number.

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

Navin R. Sahadeo: Two questions. First, sir, you have given the Jaypee capacities, post the acquisition of these Jaypee capacities what kind of market share or capacity share, rather, it will have? But since bulk of these capacities in Central India are located in the Eastern side of it, there is a specific target market that you would have in mind. So, at that target market, these capacities will be what share roughly?

Atul Daga: I think a slide covers it, right? We have become number one player with 30% share of the potential market.

Atul Daga: If you look at slide six, we will have 30% market share in Central region, and we become number one player in that market as well.

Navin R. Sahadeo: Okay. My second question, sir, was your domestic volumes have seen a dip of just 1% there, largely flat. So, I mean, how do you see, is this an industry representation you think, or we have fared a bit lower than the industry?

Atul Daga: No, I think it is an industry representation. As I mentioned earlier on, there will be benefits to some players because of low base or new capacity addition.

Navin R. Sahadeo: Okay. And just one quick question, if I may. You said that an improvement in the overall CC ratio or clinker-to-cement conversion ratio, so if you could give us some details on that, in a sense, where are we right now, and what's the headroom because that gives us significant better volumes? So just trying to understand what is the CC ratio currently?

Atul Daga: About 1.34 now.

Navin R. Sahadeo: Okay, fair. And we can see this improving to even a higher level because other large companies are at 1.5 kind of a number. Is that a possibility there?

Atul Daga: I do not know about other large companies as UltraTech, but yes, we will be looking at improving it further.

Moderator: Thank you. Our next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Sir, just wanted to know, given that Jaypee, a lot of its capacities are in central market which are operating at low utilization, so just wondering, I don't know, what is the rationale behind, let's say, another capacity addition in the central market?

Atul Daga: Yes, if you look at the state of Madhya Pradesh, the acquisition sits in the Eastern part of Madhya Pradesh and the Greenfield that is happening is on the Southwestern corner. The distance between the two plants is large enough not to eat into each other's markets.

Raj Gandhi: Okay, great. And sir just, there is a lot of this state level or geography-specific incentives, like for Himachal and Jaypee and other plants where we are. Now on the GST, has this been taken care of?

Atul Daga: A lot is still not clear from the states how they will deal with the incentives, but clearly we believe that there will be a grandfathering on all the incentives.

Raj Gandhi: Okay. But given that like by now, states, to a certain extent will have to compensate a part of excise and also which erstwhile the central government was doing. So from a state perspective, there are to go increases, right, in that sense?

Atul Daga: Yes. And the states will also have to remain industry friendly. Now so they will have to do a balancing act.

Raj Gandhi: Okay. And one last question, if I may. Sir, just given that this quarter the realization jump was quite sharp, so is it that the exit realization is much higher than the quarterly average?

Atul Daga: No. Exit realization, or actually I would say opening realization we did a correction, one was on account of GST and typical of monsoon, when the demand, construction work is lower, there will be a small correction that would have taken place.

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

Rajesh Kumar Ravi: Quickly on the Jaypee assets. This market where, you mentioned currently operating at 15% utilization, now do you expect that when you start ramping up the utilization, because that is 21-odd million ton capacity, so if utilization starts ramping up to 50% - 60%, that would add substantial new supplies into the market. So is the market demand enough which can be resolved without having a meaningful impact on the pricing?

Atul Daga: You see, that is where I would say that India is a brand-conscious market as far as cement is concerned. Point number two is UltraTech ranks in the A category brands and I am sure we will be able to find our place under the sun when we bring in this additional quantity.

Rajesh Kumar Ravi: Okay. So would this impact your core volume growth would remain at low single digit, something like that? Or that also, you know the pre-Jaypee assets, there also we can see assets sweating and incremental volume growth coming through?

Atul Daga: Yes.

Rajesh Kumar Ravi: Okay. And this 21 million ton is totally come through, or there is 4 million ton of this...

Atul Daga: That is under construction, yes.

Rajesh Kumar Ravi: That would be commissioned in what phases, sir?

Atul Daga: By the end of FY19.

Rajesh Kumar Ravi: The whole 4 million will come in?

Atul Daga: Yes, it will come in two phases within a gap of six months. But by the end of FY19, full 4 million ton will be available.

Rajesh Kumar Ravi: Okay. So this year, we will be having 17 million ton, and that you are saying that will be ramping up to 60% by end of Q4?

Atul Daga: Yes.

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

Rajesh V. Lachhani: My question is on the difference between the DIPP volumes and the industry volumes. So we have seen, especially in the previous quarter, the DIPP volume reported by Economic Affairs Office was quite low, it was 12% contraction in the previous quarter. However, the industry reported slightly higher. So I just wanted to understand, where is the discrepancy, like how can we judge from the volumes going forward?

Atul Daga: Yes, I think you should address this question to DIPP, the industry, is it quoting whatever they are delivering.

Rajesh V. Lachhani: Okay, sir. And sir, just another question on the Jaypee assets. Sir, the utilization levels are currently low, less than 20%. And if we move to 60%, it is equivalent to adding 3 million ton additional into the market, which is close to if we assume that your expectation is 5% growth for the industry, it is close to 2% additional volumes coming only from the Jaypee assets. So sir, don't you think this is quite aggressive compared to, especially in the scenario and the demand is not that great?

Atul Daga: No, I believe that the impact of demonetization finally wears off. And along with monsoon and the festive season getting over, after October you should start seeing a much better retraction in demand. So I think the numbers are realistic.

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

Sumangal Nevatia: Just one question remaining. You mentioned that the Jaypee assets are operating at less than 15% utilization in the presentation. Is it possible to share some color on region-wide utilization? Just trying to understand which region will witness a sharper jump in production in the next couple of quarters.

Atul Daga: I guess, central region will see the maximum improvement.

Sumangal Nevatia: Any numbers you can share, sir?

Atul Daga: No, not at the moment.

Moderator: Thank you. Our next question is from the line of Dheeresh Pathak of Goldman Sachs. Please go ahead.

Dheeresh Pathak: Can you share some color on the current profitability of the Jaypee assets?

Atul Daga: They were doing an EBITDA of somewhere around Rs. 400/ton.

Dheeresh Pathak: Okay. The current run rate is Rs. 400 per ton?

Atul Daga: Current means past.

Dheeresh Pathak: I mean, I want to know the exit run rate, let's say.

Atul Daga: Yes, exit would be something around Rs. 400/ton.

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

Abhishek Ghosh: Just one understanding, that some past quarters has the utilizations for Jaypee's assets come down like, let's say, take 30% - 40%, and then now it's down to 15%?

Atul Daga: It has come down, it kept coming down quarter-after-quarter.

Abhishek Ghosh: Okay. So it has been coming off from that 30% - 40% range to about less than 15%, right?

Atul Daga: Yes.

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

Amit Murarka: Just another question on Jaypee itself. So, the current utilization of 15% for the quarter, right?

Atul Daga: Yes, April-June quarter.

Amit Murarka: Yes. And from there, the guidance is to go to 60% by the end of year one, which will be 1Q FY19?

Atul Daga: Yes.

Amit Murarka: Okay. And the debt that has been taken on the books is about Rs. 162 billion?

Atul Daga: Slightly lesser because net we have raised, Rs. 13,000 crores is what we have raised. So balance, we have used internal accruals.

Amit Murarka: Okay. And within that also, about Rs. 1,500 crores is preference shares that is issued?

Atul Daga: That gets converted into the debt, it is a part of the transaction, out of which Rs. 500 crs is already converted into debt. Rs. 1,000 crores will get converted into debt in the next may be 6 months.

Amit Murarka: Okay. And do we get any tax breaks as part of this acquisition, as there will be some losses accumulated for Jaypee?

Atul Daga: No, this is an asset purchase. No tax break coming around.

Moderator: Thank you. Our next question is from the line of Ankur Kulshrestha of HDFC Securities. Please go ahead.

Ankur Kulshrestha: Sir, basically, on the assets in Central India Satna cluster, I understand that one of the grinding units is still some time away. Sir, the question is, in the meanwhile would you not face a cement-clinker mismatch phase? And if that is, what bearing would it have on your projections of volume growth?

Atul Daga: One is that the grinding unit under construction is not in Satna, it is in UP. Having said that, we do not have a clinker-cement mismatch at the moment. We have additional capacity available where we can use the clinker.

Ankur Kulshrestha: Sir, I meant that clinker may be higher than required than the cement capacity?

Atul Daga: So we have additional grinding capacities always available.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, can you just tell us in terms of, one, when do you see cement industry capacity utilization, in your view, to improve considering the level of structure triggers which are happening in the industry?

Atul Daga: From that perspective, taking RERA, GST into account and the passing effects of demonetization, I would believe FY19 have to have a full-blown effect, positive effect of the economic reforms. We should start seeing improvements going forward in any case. FY19 is also general election, so I believe that the year should be good for cement.

Rajesh Kothari: Would you like to quantify in terms of how do you see the demand growth, which has been sluggish in the last at least two to three years?

Atul Daga: I have a standard reply to this kind of question. If you can tell me what the stock market will end at three days from now, I will be able to answer you right now.

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

Ritesh Shah: Sir, first question is, you indicated on cash breakeven, so just wanted to understand on the carry forward losses and how much is the tax rate that we should look at the company level going forward?

Atul Daga: So there is no carry forward loss coming because this was an asset purchase transaction. And when I was saying cash breakeven, I was talking about these assets with the interest burden fully loaded onto these assets. So they have to become cash breakeven. Today, if you were to look at it, because the interest burden is significantly high and where we are starting or going in EBITDA per ton is much lower than the interest burden, that is why it's cash negative. So as EBITDA improves, I think earlier in the call, Gunjan had mentioned or somebody had mentioned, the EBITDA will improve to offset the interest cost.

Ritesh Shah: That helps. Sir, secondly, on the CAPEX guidance for next two years?

Atul Daga: This year FY18, in about Rs. 2,000 crores plus/minus. And next year should be similar just because of the ongoing Dhar expansion that is where a big amount of money is getting spent.

Ritesh Shah: Okay. Sir, would it be possible for you to quantify the utilization levels for UltraTech region-wise?

Atul Daga: Region-wise, yes. East is upwards of 90%, and North and West is upwards of 80%. South is somewhere around 60%. Central, if you look at, it's about 70%.

Ritesh Shah: Okay. Sir, my last question is the rule as NGT verdict which was there on the pet coke usage, and I think that the notification was in sometime in 17th of May. To my understanding, the state governments were supposed to approve on the usage of pet coke. But could you please provide some more color on this subject?

Atul Daga: Yesterday, in fact, the ruling has come that cement industry is allowed to use pet coke, provided they operate within the specified norms. So there is no restriction per se on pet coke.

Ritesh Shah: This is for all states, and it includes both power plant as well as kiln?

Atul Daga: Yes.

Moderator: Thank you. The next question is from the line of Supriya Madye of Research & Ranking.

Supriya Madye: Sir, you did mention in your comment that going forward the EBITDA per ton is likely to be impacted because of the brand expenses and integration expneses. So can we expect it towards the Q4 level and then after that to improve upon?

Atul Daga: Q4 levels, I didn't get your question.

Supriya Madye: Sir, currently in Q1 we see the EBITDA per ton has improved to Rs. 1,380?

Supriya Madye: In Q2 you guided is that it is likely to see little reduction because of the expenses in branding and the acquisition. So how much can be the reduction is expected? Can we expect it, say like FY17 you had in the Rs. 1,122/t or your Q4 was specifically around Rs. 1,080? So is that a sharp decline in cement...

Atul Daga: I do not want to give an exact guidance on a numbers, I have giving a trajectory or a trend that you should expect.

Supriya Madye: Okay. Sir, going forward, not talking about Q2, do we see the significant improvement by the end of the year.

Atul Daga: Yes, please.

Moderator: Thank you. Our next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.

Akshit Gandhi: Sir, two things from my side. If you could you kindly comment on UltraTech's region-wise volume growth?

Atul Daga: I do not have that readily. And as I mentioned, if you can draw a benchmark from the capacity utilization, North and West were upwards of 80% capacity utilization; East was upwards of 90%; Central, somewhere around 70%; and South, somewhere around 60% capacity utilization.

Akshit Gandhi: Okay, sure. Also, one more question, if I look at, your other income and other operating income, they were quite significant last year, for full year FY17 the other income is around Rs. 660 crores. So if you could just give us what could be the run rate going forward for full year?

Atul Daga: There was a one-time credit coming into last year around Rs.138 crores, which was a reversal of provisions that we have to do. So barring that you should expect the same level of run rate.

Akshit Gandhi: And the other operating income should also have the same run rate as last year?

Atul Daga: Yes, I guess so.

Moderator: Thank you. The next question is from Abhishek Anand of JM Financial. Please go ahead.

Abhishek Anand: Sir, I understand we have our exposure in Satna market, Northern market, and now we have expansion done in MP. Do we still see certain markets where our lead distance is significant or we do not have material presence?

Atul Daga: Yes.

Abhishek Anand: Any broad idea of which regions would that be?

Atul Daga: North, South, East.

Abhishek Anand: Any particular state, just wondered a bit.

Atul Daga: Rajasthan, Eastern corridor, practically all the states. South, you could look at Tamil Nadu, a bit more strengthening in MP. MP is a very big state. A bit more strengthening in UP, but there are not too many opportunities there, not too much of limestone either, so it will be difficult. But these are the areas, I would say. And Northeast also.

Abhishek Anand: So on demand side, are we seeing some demand being generated from affordable housing or it is still at the concept stage.

Atul Daga: It started converting, lots of projects which were ongoing, the builders and real-estate players have been able to convert them into affordable housing program, whether it was by chance or by tweaking their plans. We are seeing the conversion into affordable housing very fast, we are seeing the numbers in terms of housing loans for affordable housing getting picked up very rapidly from the housing finance companies, their number is also doing very well.

Moderator: Thank you. Our next question is from the line of Prateek Kumar of Antique Stock. Please go ahead.

Prateek Kumar: Sir, my first question is with respect to recently you won the rail freight contract, you did some rail freight contracts for the long-term agreements with the Indian Railway. So are there any expected benefit which you can share because it talks about discounts up to 35%, starting 1% incremental.

Atul Daga: Yes, it is for volumes being moved up, for example, a million ton, so there are special discounts that are available. So we will definitely benefit because of that. And I do not have the number off hand in my memory, I can share it with you offline.

Prateek Kumar: Okay. And just, can you share this white cement volumes for the quarter?

Atul Daga: 0.284 million ton.

Prateek Kumar: Okay. And sir, with respect to just a follow-up on this affordable housing and infrastructure. As reflected from the utilization on volume which you have mentioned region-wise, so affordable housing segment is clearly gaining strength in East or any other specific region also?

Atul Daga: East and North.

Prateek Kumar: And sir, with regards to infrastructure projects, if you talk about region-wise?

Atul Daga: Again, you will see East doing very well in infrastructure. And then we have followed by West, I would say, with Mumbai Metro picking up at a rapid pace, there are a lots of highway projects which have started off in the Western markets. We expect that the coastal road project would kick off post monsoon. If that picks up, if that actually happens, then you will see very high growth in Western markets.

Prateek Kumar: Okay. And sir, one last question. You mentioned about this one initial launch expenses for Jaypee assets related to branding or, I mean, initial expenses, so is there any quantification of those expenses for the Q2 assets?

Atul Daga: So it is about Rs. 20 crores to Rs. 30 crores.

Moderator: Thank you. The next question is from the line of K. Radhakrishnan of IIFL. Please go ahead.

K. Radhakrishnan: Sir, just trying to understand, if roughly our grey cement production cost is around 3,400/t, what could be the cost for Jaypee production assets when we took over?

Atul Daga: It will be slightly higher for the acquired assets. One is, there is an additional royalty, clearly. And the additional costs will also be on account of higher amount of maintenance that we would have maybe the first quarter or so, and then it will stabilize.

K. Radhakrishnan: No, I am just trying to understand what was the costs previously rather than how it is going to be.

Atul Daga: Previously! I would not want to benchmark ourselves previously because there is a lot of cost improvements, the renegotiations that we are doing already have got locked in. So, in fact, I will not do a reference point to the pre-acquisition costs. Ultimately, they were operating at Rs. 400 plus/minus EBITDA per ton.

K. Radhakrishnan: Because I am, in fact, surprise that they have operators Rs. 400 EBITDA per ton.

Atul Daga: No, no. That would be a good analysis, Radha, nobody has pointed that out earlier. But they had the benefit of huge amount of fiscal incentives.

K. Radhakrishnan: Okay. So because of that, still they could get Rs. 400 EBITDA per ton despite 15% utilization?

Atul Daga: Yes.

K. Radhakrishnan: Okay. So maybe can we roughly take that, before we take in maybe their per ton cost, would have been around Rs. 4,000 or Rs. 3,900/t?

Atul Daga: I don't have that number readily. I will check it myself.

K. Radhakrishnan: Yes, just two more questions. What is our current market share, excluding Jaypee, in the regions where the Satna plants where were supplying, like the Eastern Uttar Pradesh or Eastern Madhya Pradesh kind of places?

Atul Daga: I wish I knew the market share analogy, we do not have the market share data at all.

K. Radhakrishnan: No, I am asking for us.

Atul Daga: Yes. So how do I compute market share if I do not know the rest of the market size in those markets?

K. Radhakrishnan: Yes. And last question, what could be our incremental depreciation per quarter roughly, can we take a 4% - 5% kind of number?

Atul Daga: About Rs. 130 crore per quarter additional depreciation.

K. Radhakrishnan: Because we have taken around Rs. 16,000 crore kind of asset disposal?

Atul Daga: Yes, because that is the valuation of the assets coming on books.

K. Radhakrishnan: So it will be Rs. 130 crore t0 Rs. 140 crore kind of run rate per quarter?

Atul Daga: Right. So Rs. 130 crores plus/minus, yes.

Moderator: Thank you. Our next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala: I just wanted to clarify on the last question. Sir, as you said, the Jaypee production cost is higher due to higher maintenance and higher royalty, whereas the Rs. 400 per ton is because of the huge incentives that they have. So going forward, the incentives would continue, we will bring down the maintenance cost probably and due to the operating leverage, there will be benefits coming in?

Atul Daga: Yes.

Ankit Fitkariwala: But just wanted to largely understand, is there any structural thing in terms of the power mix or the fuel mix which can be changed pretty fast? I don't know whether coal versus pet coke or something like a grid power versus waste heat recovery or something like that.

Atul Daga: Yes, so those changes will be there. But these plants are very good-quality, European-technology plants, we do not have any complaints on those plants. In terms of consumption norms on power or fuel, they were as good as our plants or maybe 5%, or plus/minus 5 which we will improve. And yes, the benefits of higher amount of pet coke or a higher amount of imported coal will add to the overall gains.

Moderator: Thank you. Our next question is from the line of Alok Ramachandran of Future Generali. Please go ahead.

Alok Ramachandran: I wanted the grey cement volumes, including clinker this quarter?

Atul Daga: 12.90 million tons.

Alok Ramachandran: And regarding pet coke, do you see pet coke utilization to going up or what is your current levels?

Atul Daga: Currently, it is about 71%, we could go up to 80%?

Alok Ramachandran: Okay. Any time line for this?

Atul Daga: It is a pure economic play, because we have done higher pet coke also in earlier months, it is more opportunity-based now.

Alok Ramachandran: And just the cash breakeven you were mentioning, any time line we have heard mentioned for this, is it one quarter?

Atul Daga: Yes, within four quarters of operations. So Q1 next year, we should be cash breakeven.

Moderator: Thank you. Our next question is from the line of Amit Nigam of Peerless Mutual Fund. Please go ahead.

Amit Nigam: I see that the net debt post-acquisition number is at about Rs. 13,000 crores. So is there any pre-committed retirement plan here that we can be made aware of?

Atul Daga: No, there is no pre-committed retirement because the debt is very flexible, it is a 20-year rupee term loan, with 5 year moratorium and anytime pre-payment opportunity.

Amit Nigam: Okay. So anytime pre-payment opportunity?

Atul Daga: Yes.

Amit Nigam: So rupee term loan at less than 8% or slightly...

Atul Daga: Yes, the cost of debt, yes, less than 8%.

Amit Nigam: So overall cost for this Rs. 13,000 crores is less than 8% is what we have to look at?

Atul Daga: Yes.

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

Rakesh Vyas: Yes, two quick clarifications Sir. One, can you just provide the status on the Super Dalla project, whether it will be operational for us or how much time it would take for it to get all clearances?

Atul Daga: Within this year.

Rakesh Vyas: Okay. And secondly, the utilization of 70% for next year is, for the average, for the acquired asset or is the exit rate that you were mentioning?

Atul Daga: Average in the last quarter.

Rakesh Vyas: Okay. So exit rate?

Atul Daga: Not the exit rate, it should be slightly lower, yes. Exit will be slightly lower because the first part of at July-September, they will not be operating 70%. We will be gradually ramping it up.

Rakesh Vyas: Okay. So is it fair to assume that for fiscal 2019 we would probably be looking at around 15 million ton volume on this 21 million ton kind of capacity?

Atul Daga: If you do a 70% or upwards of capacity utilization, yes, whatever that number stacks up to.

Rakesh Vyas: Yes, so 21 million ton, we are fairly confident we will be able to get in terms of our capacity overall for fiscal 2019, right?

Atul Daga: Yes.

Moderator: Thank you. Our next question is from the line of Sanjay Nandi of Ratnabali Capital. Please go ahead.

Sanjay Nandi: Just one question from my side. Sir, you told your cement-clinker conversion ratio is 1.34, right, sir?

Atul Daga: Yes.

Sanjay Nandi: Sir, what is your current OPC/PPC mix, sir?

Atul Daga: So blended mix 68% which is PPC and PSC.

Sanjay Nandi: Okay. And one thing from GST front, sir. Like for the getting into the GST transportation cost is going to come down. So, is it possible for us to just afford to book some extra distance to get into some extra markets with our incremental servings?

Atul Daga: Yes, it could.

Sanjay Nandi: Sir, can you please quantify what sort of kilometers can we afford?

Atul Daga: Fairly little right now because GST is still stabilizing, and as I mentioned compliance levels need to go up across the board before we actually see the real benefits of GST flowing in.

Sanjay Nandi: Okay. Sir, is it possible to, like give the average if this is 452 kilometers, 470 kilometers, so is it possible therefore to go more than 100 kilometers apart from that?

Atul Daga: No.

Moderator: Thank you. We will take our last question from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: Sir, basically, in case of Jaypee, as we have mentioned that Rs. 400 or whatever EBITDA per ton. But we have come to know that out of that Rs. 400, roughly around Rs. 120 was around incentives and there is a big risk that a lot of those incentives are going to be over in that one odd year, like say in the case of HP and some of the incentives in the UP as well. So what is the update on that, if you have?

Atul Daga: Yes. So there are some incentives which get over within, but before the end of this financial year, some are getting over in FY19, that is true.

Kamlesh Bagmar: Yes. Sir, but if you can quantify that, how much that could be?

Atul Daga: I do not have that breakup readily, because the incentives are there across all plants. And there is a maturity of incentives at different points in time for various plant locations.

Kamlesh Bagmar: Okay. So in case of Dhar what incentives are going to have in case of this...?

Atul Daga: Fiscal incentives will be there, fiscal incentives in terms of tax set offs, so it gets converted into GST as well.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Atul Daga for closing comments.

Atul Daga: Thank you all of you for joining us on this call. This quarter, July-September is the time for us to put our heads down and get the acquired assets fully ramped up and up & running and launch our brand. And I think you will all be surprised with what is in store. Thank you so much.

Moderator: Thank you Members of the Management. Ladies and Gentlemen, no behalf of UltraTech Cement Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.

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