"UltraTech Cement Limited Q1 FY19 Earnings Conference Call"

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MANAGEMENT: MR. ATUL DAGA – EXECUTIVE DIRECTOR AND CFO, ULTRATECH CEMENT

Moderator: Ladies and gentlemen, good day and welcome to UltraTech Cement Limited Q1 FY19 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 statements 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 'o' on your touchtone 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, Mr. Daga.

Atul Daga: Good morning, everyone and welcome to our call for this April-June quarter results. I wish we were doing a repeat performance of last year April-June quarter on current volumes that would be the day. If wishes were horses, then we would surely be riding them.

Let me get on to the first of the wish list, Demand.

Demand I believe is coming back and this trend we noticed more than a year ago. Housing has been and will always remain the biggest demand driver for cement. But in this cycle infrastructure-led demand is taking cement consumption up and with the improving infrastructure, a natural extension is improvement in the housing demand in the next 2-3 years. There is a moderate shift at present from individual housing to institutional housing. I have mentioned in the past also about this being the biggest upcycle for cement. Historically, cement cycles have been three to four years, but we believe this being the longest upcycle that the industry is witnessing because this time around the demand drivers are different. We expect the momentum in cement demand to continue with some big projects around the anvil. I understand work on Jewar Airport that is the New Delhi Airport, coastal roads in Mumbai, Purvanchal Expressway on the Allahabad-Gorakhpur sector, Mumbai-Nagpur Super Communication Expressway will commence before the end of this year. The long overdue Mumbai Airport also is expected to commence work now. Land leveling has been completed and the contracts have already been awarded for the construction of the airport. Polavaram Dam in Andhra continues in full swing. All these are very large projects. This time around again, government has introduced penalty clauses in delays beyond the deadline given for completion of the project. Hence there is a strong chance of systematic and time-bound execution.

The recent Minimum Support Price (MSP) hike will further help improve the rural demand. Of course, this is bound to get inflationary pressures in the economy. Rural market has been a very strong forte of UltraTech. Today, we have ~ 40% of our sales in rural markets.

Low cost housing and affordable housing consistently are supporting cement demand growth with increased pace of execution. Since April 18, fresh construction work started for another million low income houses in urban areas and construction has already been completed about 0.4 million houses in last three months. In rural areas, about 0.5 million houses have been completed during the last quarter and sanctioned about 2 million new houses. Total sanctioned till now is about 8.5 million houses. Government is fast reaching its target of at least sanctioning the 10 million houses per year that we had envisaged.

Further to update, the first phase of DFC project is also likely to commission by the end of this year. For Western freight corridor which is 432 Kms out of the 1500 Kms and Eastern freight corridor 343 Kms is likely to commission. This is important not for cement consumption, but to improve the logistics for cement, improvement in rail availability in the eastern corridor which is absolutely dry as far as cement industry is concerned for rakes availability. Movement of cement become extremely difficult these days in the absence of availability of rakes because rakes are diverted for government requirements.

The growth and improvement of infrastructure in the country will lead to general improvement in housing demand. Additional capacity from new assets acquired has given us an opportunity to expand a footprint into newer markets and in the institutional channel. With Pan India presence, we enjoy a very high share of business for cement sales amongst all the leading intra companies who are catering to the low income housing projects, catering to the infra projects and urban housing as well. This quarter our domestic volumes have grown 34%. The quarter saw strong demand across all regions. In our view, we could see double-digit growth for the sector in this quarter for sure. For UltraTech, blended sales have gone up 3% and now at ~ 67% and trade sales being in the focus have now risen 2% to ~ 68% over the previous quarter.

Let me get on to the next of the horses on the wish list which is **prices**.

I would complement our own team for achieving this growth without compromising on prices. The realizations on an average have gone up 1% to 2% quarter-on-quarter, however, the exit prices have been far higher than the average prices for the quarter across all zones. As compared to previous quarter, central and western markets saw good improvement followed by north and south which were lower than Q4, but the exit prices were higher. East was remained flat. Full benefit of June price hikes should reflect in the current quarter since the exit June prices were higher than the average.

The next area which I would want to touch upon is **costs**.

Our costs have increased about 3% quarter-on-quarter. Pet coke, coal, diesel have not shown any signs of slowing down in terms. Rupee depreciation is also impacting the import bill. Another dimension to watch now is the interest cost, which seems to be inching up. This could be a dampener on new capital spending, new plant expansions seems to be mushrooming as of now in the country.

We are focusing on reducing the impact of increase in purchase price with efficiency improvement. During this quarter, the purchase price impact was about 13% and efficiency gain was about 2% in our direct manufacturing costs. This improvement of 2% is a sustainable long-term permanent reduction in costs and I believe the purchase price impact whist today is high, in the long-term it is not sustainable and there will be a dipping point when costs are coming down. With the current cost of pet coke at some of our locations, coal is becoming economical. Our total usage of coal both kiln and power plants put together has increased to 16% during this quarter as compared to 11% in the same period last year.

Amidst the adverse cost scenarios, there is one good news for the sector. In the last few days, the Government announced the new norms of axle load for trucks, increasing it by 15% - 25%. This will surely benefit the logistics costs. Initially, there was some confusion that the axle load is allowed only for new trucks, but however, clarification has been issued that the older trucks will be eligible for the improvement in axle load. We will see how the benefit starts impacting the P&L in the future quarters.

Another element is operating margins. We run a large treasury and income form treasury compounds part of our overall EBITDA. This quarter since the yield curve has gone up, it resulted into an M2M dip in our treasury income, because of which the overall EBITDA would also look slightly down.

Let me now share with you an update on our **sustainability agenda**:

Five new projects are under commissioning for WHRS which will take WHRS capacity to 121 MW, meeting ~ 15% of our total power requirement. We expect them to be completed somewhere in the financial year '20. We have increased the consumption of alternate fuel to ~ 4% of our total fuel and are working on further increasing it. We are now certified as 2.18x water positive by a global quality assurance and risk management company, DNV GL.

Let me touch upon the acquired assets. I think 12 months of operations now. We completed the acquisition on 29th of June 2017. Our focus has been on costs optimizations this quarter and we should be able to achieve the optimal level of costs from all the acquired plants post monsoons, couple of plants are under shutdown right now, after which we believe that cost will be at par with our existing plants excepting of course the structural cost which has the MMDR royalty and logistics cost because some of the plants are land locked.

Total variable costs difference today is ~ Rs. 160 per MT between the acquired plants and our existing plants, out of which there is scope to achieve efficiency improvement to the extent of Rs.50 per ton, which is remaining now and Rs.110 per MT will be the structural difference. We are confident to complete our improvement plan by December 2018. These assets were operating at a very low level of capacity utilization when we acquired them at somewhere around 18%. We completed the acquisition at the start of monsoon months last year and also sand mining bans were hitting the country at that point in time. This led to a suppression of demand and our focus has been to increase our capacity utilization of the acquired assets without compromising on prices. We have successfully increased the capacity utilization across the network and the plants are now stable at around 70-75% capacity utilization.

Lot has been said and I have read about increasing supply. We expect the supply to moderate around 3% to 4% every year whilst the demand growth will be around 8% to 10%. Faster pace of demand growth than supply would result in narrowing of demand/supply gap and gradual increase in capacity utilization. Historically, if you scan decades of history of cement industry in the country, every time when the cement demand has started booming, supply has also increased. This is nothing new; however, this time around what we are looking at as the gap between demand and supply, demand will certainly be far higher than the supply. The moderation in supply would primarily be driven by continuing cost pressures of the items such as coal, pet coke and all as well as costly mines in the long run, also the rising interest rates will increase the overall financing cost for new capital outlay.

On our own home front, we have already completed our 3.5 mtpa of Greenfield capacity at Dhar in Southwest M.P. The Bara grinding unit of 4 mtpa is under execution, work has picked a pace and we expect the plant to be commissioned by Q4 this financial year. CAPEX spends during the quarter were about Rs.330 crores and balance to be spent for the year is roughly around Rs.1800 crores.

We had also announced the merger of cement business of Century Textiles with UltraTech, we expect the transaction to be completed by Q4 FY19 after all the regulatory formalities. CCI application has already been filed, it is under review and we expect CCI clearance by middle of August and thereafter the legal formalities of court-convened shareholders meeting, filing with ROC, etc., and in between there are court holidays because of which the transaction will get see a closure only by Q4 of FY19.

White cement based new putty capacity expansion of 0.4 mpta also on track. This is expected to commission by FY'20.

Let me talk about our own cash flows, since it is a high focus area right now. Net working capital has increased by about Rs. 568 crores essentially with the buildup of raw materials and fuel inventory, this is typical for pre-monsoon period. During this quarter our net debt has reduced by about Rs.208 crores and now stands at Rs.11,799 crores on the Indian balance sheet. Net debt-to-EBITDA is around 1.74x and the ROCE has marginally inched up to 10.4% on the basis of Q1 annualized. That is all that I have to say.

In the end I have heard a lot about anxieties about the cement sector saying the demand is rising, prices are not rising, etc., But I believe that the fruits of patience are always sweeter. There are no secrets to success and it the result of preparation and hard work which UltraTech is well known for. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is in the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: Just one quick clarification, firstly, you mentioned the difference between the cost of the ex-JPA assets at about Rs. 160 per MT, right and the difference is all cost or this Rs. 110/t of MMDR is included in this?

Atul Daga: Rs. 160/t includes Rs. 110/t of MMDR and extra logistics.

Gunjan Prithyani: The incremental cost saving, or cost reduction would be about Rs.50/t over the next two quarters?

Atul Daga: Yes.

Gunjan Prithyani: Just to get clarity on this roadmap to PBT breakeven, now we are already at cash breakeven in this quarter, right?

Atul Daga: Yes please.

Gunjan Prithyani: And from here of course the cost reduction of Rs. 50/t will come through in next two quarters, but I think from a perspective of reaching PBT breakeven there will be more needed in terms of EBITDA per ton increment. Is this banking on the debt pay down or the roadmap is contingent on pricing improvement, just want to get clarity there?

Atul Daga: It is a mix of both, Gunjan, there is continuous focus on debt repayment, last year we had reduced Rs.1500 crores, this year first quarter Rs.200 crores already down. However, today when we are at about 70% to 75% capacity utilization, this capacity utilization will go up, one of the plants is under a long shutdown for environmental improvement, ESP is being converted to baghouse, that statutory requirement, so once all the plants are fully up, the capacity utilization will also go up, and with this buoyancy in demand I believe the prices are bound to rise further helping us improve EBITDA. Second thing also which will help UltraTech to improve its EBITDA for the acquired assets is, fast change in the ratio of trade/non-trade sales and blended sales improvement.

Gunjan Prithyani: That should also yield some realization in the business?

Atul Daga: Yes. There will be a mix, it is not just realization by itself.

Gunjan Prithyani: Would you be okay to comment on what will be the EBITDA per ton difference. Because of course we can work out the calculations given that are cash breakeven, but any sense you can give us, what will be the…?

Atul Daga: Difficult to say that.

Gunjan Prithyani: Secondly, on these results, the fiscal incentive seems to be higher. So, any specific reason why there is more accrual in this quarter and how should we look at the remainder of the year?

Atul Daga: It is directly linked to volumes and prices in the markets where the plants have fiscal incentive.

Gunjan Prithyani: This should stay as a run rate for the rest of the year because this has risen pretty sharply versus what we were reporting until even Q4 of last year?

Atul Daga: We will still wait and watch. It is a mix. Suppose, the volumes go up in western markets on an average, then the incentive mix will not be visible as much.

Gunjan Prithyani: On the lead distance, you mentioned there has been improvement sequentially. But anything you can comment on versus last year because last year 1Q we did not have JPA with us?

Atul Daga: Gunjan, it is not sequentially, it is year-on-year.

Gunjan Prithyani: What is the lead distance now?

Atul Daga: 453 Kms one year ago, now it is about 427 Kms.

Moderator: Thank you. We will take the next question from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal: Sir, two questions; first on pet coke prices. Can you give us some idea as to what was the average rate for the quarter?

Atul Daga: $114/t was the average costs for this quarter and current trading has been at around $119/t.

Indrajit Agarwal: Second thing on any update on your aspirations in the Northeastern market?

Atul Daga: When I have an update, I will come back officially.

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

Anubhav Agarwal: Versus March quarter we have always seen that the other expense declined, but if I even compare to December quarter, given the volume increase that we have seen other expenses were absolutely lower than the December quarter?

Atul Daga: This is all linked to maintenance cost which would surface, there is no pattern on maintenance cost.

Anubhav Agarwal: Sir, you commented that in December quarter there was Rs.30 crores JPA related shutdown cost. Even if I adjust for that, despite 10% increase in volume in December quarter, absolute other expenses were lower than that?

Management: Other than maintenance, there is some slight difference in advertisement cost. It varies quarter to quarter.

Anubhav Agarwal: That gap will be only 10, 15 crores, that is it right?

Atul Daga: Yes.

Anubhav Agarwal: So, there is nothing unusual?

Atul Daga: I do not remember anything unusual.

Anubhav Agarwal: Second thing, you mentioned the exit prices are higher, just one question that if we take those prices to sustain that the higher cost of pet coke and freight your contribution excluding the fixed cost you will still be maintaining the contribution today what you had in the June quarter?

Atul Daga: Let me give you an analogy on this; QoQ the average prices went up about 1-2% and variable cost have gone up about 3-4%, prices have risen only in the month of June, so if we are able to sustain these prices in the entire quarter, then obviously we should be able to do good EBITDA. However, July-September is maintenance period, maximum amount of maintenance work is undertaken during the monsoon period. But as you mentioned on contribution, yes, contribution levels will be maintained.

Anubhav Agarwal: Sir, the last question on the freight benefit you mentioned on the truck load bearing capacity being increased. Any initial assessment?

Atul Daga: We are doing it at the moment, Anubhav. When the first circular was out, we were not really focused because it was about new trucks, now the subsequent amendment talks about old trucks also and there are various categorizations; 20-tonner, 38-tonner and 25-tonner, that is already published. So, we are analyzing the fleet and how fast we can get the benefit of that.

Anubhav Agarwal: But just a rough idea in the sense that the benefit can be low single digit in terms of the reduction in freight cost or can it be higher than mid-single digit?

Atul Daga: I will keep my fingers crossed. I will take a target of low single digit only but if higher is available good for us. I do not have any computation; hence I am not able to comment on it right now.

Moderator: Thank you. We will take the next question from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.

Murtuza Arsiwala: Just wanted to check the Dhar capacity has been ramped up fairly-fairly aggressively compared to what we have traditionally known in a slow ramp up. Is it a reflection of the underlying demand growth or UltraTech continues to sort of sell ahead of peers and gain market share like we saw with the Jaiprakash acquisition where you have grown faster than the industry?

Atul Daga: This is a shining example of UltraTech's technical team's capability, first and foremost the execution of the project from the ground breaking to commissioning of the first line in record 354-days, cost being controlled and the ramp up. We wanted to do a ramp up earlier also and the demand has also supported.

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

Amit Murarka: Sir, just first data question; what was your white cement putty volume and revenue and RMC?

Atul Daga: White cement 3 lakh tons, putty is included, white cement revenue is about Rs.400 crores, RMC revenue is about Rs.507 crores.

Amit Murarka: Then a question related to the annual report actually, so I just notice the production mentioned was 57.23 mnt but the domestic sales have been 59.3 mnt, so there is 2 mnt additional sale versus cement production this is I am talking about. So, I guess this is what the tolling arrangements have…?

Atul Daga: Yes, there are lots of tolling arrangements which we keep trying short-term versus long-term if there are opportunities available, we do that.

Amit Murarka: It is not that the clinker sales have increased, right?

Atul Daga: No-no-no, nobody will sell that much of clinker.

Amit Murarka: Just some clarification on the regulatory issues I believe. There is a Supreme Court hearing wherein the oil ministry has kind of supported the pet coke import ban, now I think the environment ministry has to respond. So, what is your sense on that?

Atul Daga: No, as far as I understand, the Supreme Court judge has asked the petroleum minister to file their report. Since they have delayed, Rs.25,000 fine has been imposed on the ministry. However, the ministry has maintained, and I have seen this order also and I am sure you would have also seen the order and heard the Supreme Court arguments that both cement and steel are allowed to use pet coke. Import ban is not being discussed as of now because the supreme court judge was talking about the pollution and the related issues with pet coke. We are pretty confident. That beats all logic. When India is deficit in pet coke, then why would you ban import?

Amit Murarka: The other worry also I think is the Reliance pet coke gasifier is almost complete now. So, the domestic availability of pet coke could also probably reduce?

Atul Daga: Yes, that is true.

Amit Murarka: Any update on the Rajasthan sand mining issue? I believe there is a court hearing pending on that as well.

Atul Daga: Rajasthan I believe is the only state where there are still some issues left to be sorted out but by and large it is not impacting the construction activity because sand imports from neighboring states is happening at the moment in the industry of Rajasthan.

Amit Murarka: Can I just get the fuel mix and OPP, PPC, PSC mix as of now?

Atul Daga: Blended is 67% and Pet Coke is about 75% of kiln, coal is about 20% and alternate fuel is about 4%.

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

Vivek Maheshwari: Sir, my first question is again on freight, one. So, while you said about the calculation that you will have to do, but just conceptually this will only benefit your output or there can be some benefit on the input side also as in when you fetch raw materials or when you fetch gypsum, fly ash or coal?

Atul Daga: Yes, both side.

Vivek Maheshwari: Because I thought input would be more volume dependent and therefore there is limited potential to increase the tonnage over there?

Atul Daga: There are open trucks also which are used for exports and earlier when before this relaxation the government had put penalties on the buyer if the trucks were loading extra. So, a local minor would tend to load extra but the buyer was a handicap. So, there was a lot of restriction on inbound logistics as well. This will get eliminated to the extent of whatever is the allowance.

Vivek Maheshwari: So, the benefit will be on both the sides, input as well as on the output?

Atul Daga: Yes.

Vivek Maheshwari: Second is on the cement pricing, where the exit prices are compared to where let us say spot cost are, is it still pushing up margins or you are just maintaining what the levels for?

Atul Daga: Pushing up margins and as I had mentioned earlier, if you were to exclude the July-September quarter, because July-September quarter would be heavier on cost, everything else remaining the same, October-December if you were to observe, it will push up margins.

Vivek Maheshwari: I do not have the detail numbers for let us say different revenue line items, but if I remove operating income and look at grey cement realization it does not look like on a sequential basis there is hardly any increase, is that correct or no, if I remove operating other income which has fiscal incentives and a lumpy one, actually there is no increase in sequential realization. Is that not correct?

Atul Daga: Fiscal incentive is not part of my billing. If I look at my average billing, my average billing is higher, QoQ is what I am talking about, of course, not YoY.

Vivek Maheshwari: So, you are saying underlying grey cement realizations are higher on a sequential basis?

Atul Daga: I am sure you guys can do your math, the price hikes were taken multiple points in time in June, so we do not have full month effect of June and this is as I am repeatedly saying the ex-prices are higher.

Vivek Maheshwari: By how much?

Atul Daga: I do not want to quantify.

Vivek Maheshwari: Your outlook says with the cement industry now in its upcycle, demand is expected to be healthy. So, demand is looking like to be more of an outcome because cement is in an upcycle. What do you mean by that exactly because when your volumes are rising, let us say 33%, there is hardly any change in EBITDA, so upcycles are not characterized by that, how would you respond to that?

Atul Daga: The point I am trying to make is cement as an industry will see very high volume growth, long story short. Second one, again, I do not know about other players in the country but from our perspective, our focus was to ramp up the capacities of the acquired assets which we have been successful and wherever we found opportunities to increase prices, we have taken price hikes.

Vivek Maheshwari: Upcycle obviously should also mean better margins, right, is that how one should look at it, you say it is a start of an upcycle, but numbers are not showing that is what I am trying to say?

Atul Daga: I know, so what is happening is this time around the costs are also ramping up very fast, whether it is pet coke, oil… I do not have to repeat that point, but all these elements which contribute about 65% of our cost are going up continuously. The low on pet coke if you recall was January-March '16 about $41-45/t, today it is hovering around $119/t. Coal is anywhere around $105/t actually. Crude is stable at $75. Rupee is depreciating. This is causing a far higher impact on costs. Small hikes in prices are enough to take care of these costs which has been again visible in this quarter because if you see that the marginal hike in prices, let us say 1-2% in this quarter and the total cost increase of about 3-4% over the previous quarter has helped improve the EBITDA per ton marginally over the previous quarter. There is agency called Argus who publishes data on coal and pet coke. If you look two years long, the prices are being forecast in a downward trajectory. So, cost will come down, it cannot go unabated the way the costs are going up on pet coke and coal. There are global phenomena. There is Aramco IPO if you were to ask me, that also is linked to crude prices. There are several other phenomena which we can discuss offline which are keeping the prices at this level.

Vivek Maheshwari: But my point is wherever the costs are in an upcycle mean that you should be able to pass on all the impact and should still grow the margins, right?

Atul Daga: Absolutely, it will happen.

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

Naveen Sahadeo: Sir, my question was now from a market share perspective having acquired JP assets, Century is also on its own way and hopefully even Binani. So, from overall market share perspective from here on, how do we see expansions in the sense that do we look at expansions for UltraTech to maintain market share or there is scope and of course the company aspires to increase its further?

Atul Daga: So, today our capacity is 88.5 mtpa plus 4 mtpa of Bara which will take it to 92.5 mpta plus roughly 14 mtpa for century to106.5 mtpa, that divided by ~ 460 mtpa gives us ~ 23% capacity share. UltraTech believes in profitable growth and there is no end to profitable growth, we will want to increase our market share and profitability alike.

Naveen Sahadeo: Because a lot has been talked about expansion that you mentioned in your initial comments, just to understand that our expansion including that of Pali, so that can be followed with expansions which are targeted at growth higher than the industry to further increase market share?

Atul Daga: Yes.

Naveen Sahadeo: My question was again on the JP assets. Are these assets have been waste heat recovery plants?

Atul Daga: No, not yet, currently we have five plants under execution as I mentioned, and we will take up the waste heat recovery plants in the acquired assets also in due course.

Naveen Sahadeo: So, this new waste heat recovery of 62 MW which is planned, that is at JPA?

Atul Daga: No, exiting plants, so it is at Kotputli which is in Rajasthan, Dhar itself, whereas Hirmi which is in Chhattisgarh, a Gujarat plant and one plant in Andhra.

Naveen Sahadeo: But there is scope you are saying put it for acquired assets also?

Atul Daga: Definitely, older the plant**,** more the opportunity for WHRS.

Naveen Sahadeo: So, my question then sir is that like the payback period typically as we understand for waste heat recovery projects is being very high, what is stopping us to like have these waste heat plants at JP Associates?

Atul Daga: Management bandwidth is required. So, we will take it up. Whether I put it up over there or put it up in our existing plants, there is bound to be efficiency gain and return on investments would be there.

Naveen Sahadeo: No-no sir, I was only saying since the cost difference is that Rs.50/t which is you said can be bridged, and there is some element of structurally of Rs.110/t and waste heat recovery could get some other Rs.20 / 30/t, there I think?

Atul Daga: So, we will take it up. Assessment is happening right now and it will be put up to the board for approval.

Naveen Sahadeo: Pali expansion, what is the timeline, have we ordered equipments for this unit?

Atul Daga: Not yet ordered, but the commissioning by June 2020, that is what the target is.

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

Rajesh Lachhani: Sir, two questions; can you just give me what is the demand growth in each of the regions and what was our utilizations in these regions?

Atul Daga: Our utilization north would be somewhere around 80%+, central about 70%, east 95%, west somewhere about 75%, south somewhere about 60%. Demand growth in these regions, how do I estimate that, it is very difficult for me to comment on demand growth or an individual region, Rajesh.

Moderator: Thank you. We will take the next question from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: With regard to the Pali expansion or the Greenfield plant, somehow the feeling which we are getting is that it has been postponed, earlier we were talking of March 2020, now even the equipments have been not supplied, so what is the actual thought process on the plant in terms of adding capacity in Rajasthan or is it a thought that we would first on to complete this Binani and then we will give a thought there.

Atul Daga: There is nothing like that. North market is so buoyant that we have to do our Pali project. We are running almost fully sold out. Binani, if it were to happen, it will help us meet the growing demand of Rajasthan and the northern markets. We are committed to June 2020 deadline, that should not be a problem.

Kamlesh Jain: Sir, just one question on this incentives part, let us say some of the incentives would be getting expired like the HP plant, so what should be the steady rate or per ton rate we should look at into because in this quarter it has been as high as Rs. 105 per ton.

Atul Daga: Very difficult to compute that because as I was mentioning on the call earlier, it all depends upon the mix of sales volume from region-to-region and the realization that is happening in that particular plant. High prices at low volume will still lead to lower incentives.

Kamlesh Jain: But sir, your breakup among the incentives as well, so it would be more contributed by your western region like say the Maharashtra plants or it is equally distributed among the regions?

Atul Daga: It would be more or less equated because incentives are now on SGST per se availing that state, so the rate of incentive is the same, somewhere you might have one off additional incentives like duty, somewhere exemption is available and so on and so forth. But the biggest standard incentive is an exemption on SGST for sales in the state. So, that ratio remains the same. It will directly link to the volumes there.

Kamlesh Jain: What is the guidance on the CAPEX part in this year and next year?

Atul Daga: This year we have already completed about Rs.330 crores of CAPEX in Q1, Rs.1800 crores more to go and next year I would have about Rs.2000 crores as of now.

Moderator: Thank you. We will take the next question from the line of Anshuman Atri from Premji Invest. Please go ahead.

Anshuman Atri: My question is regarding recent ministry talks on bringing the royalty payment under GST. Will this change the economics of the acquired plants and bring it at par with existing one?

Atul Daga: Acquired plant has one more level of royalty which will continue but if it happens it will be wonderful for the industry.

Anshuman Atri: Secondly is on the coal, for example, for the past 1.5-years, we have not seen any auction for coal block and all the captive producers would like to have, for example, UltraTech requires so much of coal, why are these coal auctions not happening?

Atul Daga: I recently read a notification announcing the next set of coal auctions. We are examining if there is any mine of interest to us. We have one coal mine in auction in 2015 which we are working on commissioning which should start production somewhere in 2020 or 2021.

Anshuman Atri: The preference would be linkage or captive coal mine for UltraTech?

Atul Daga: Preference is linkage coal.

Moderator: Thank you. We will take the next question from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: What is your cost per ton on pet coke and what is your cost per ton on coal?

Management: On energy basis, pet coke is about Rs.1.30, coal is about Rs.1.45 for one kcal.

Anupam Goswami: If you could give the prices trends for all the regions of India like how much it has risen or it has gone down from a previous year?

Atul Daga: If I were to look at QoQ, the prices for central is up about 4-5%, west is again up 4-5%, east is flat, north is about a percentage up and south is I would call it a flat only.

Anupam Goswami: Sir, on an overall basis longer-term, where do you see your sustainable margins at because it is sharply falling, can we see anything improvement in the next year maybe?

Atul Daga: Yes, today we are let us say 20% margins, this is the lowest levels of margins we should see improvement in margins in the coming years.

Moderator: Thank you. We will take the next question from the line of Bhavin Chheda from Enam Holding. Please go ahead.

Bhavin Chheda: Sir, you indicated of good demand and actually we are seeing it across the region. But you also mentioned a good demand/supply equation. So, when we are reading reports or when we are hearing from companies everyone is looking for expansion and even the ordering activities picking up, so what is your sense of supply side because demand looks strong but supply side you are saying reports of 25-27 million addition for next three years versus less than 20 mt for last three years. So, can you throw some light here about your understanding of ordering activity?

Atul Daga: It is slightly higher than that, maybe close to 40-45 mtpa over a period of three years which is around 10% growth in supply. The demand is expected to grow at about 8-10%. I would be bullish on a double-digit mark even if 8-10% average 9% growth which is 27% growth in demand over the next three years. So, current demand is roughly around 290 mt,that is potentially set to grow by about 27% which is roughly 78 mt and the new capacity announcements and board approvals and all this place, anywhere between 40-45 mtpa the supply which will get commissioned during the next three years. So, to that extent supply/demand gap will be shrinking.

Bhavin Chheda: So, you are indicating you expect 40-odd mtpa over next three years whereas the consensus is building upwards of 20 mtpa per year. So, what is a number of 60 mtpa?

Atul Daga: That is totally wrong.

Bhavin Chheda: I think we have to do some more work on that. But I think if your number is correct then I agree with your assessment. Thanks a lot sir.

Atul Daga: Thank you.

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

Madhav Marda: Just one question on the demand side. You are saying 8-10% and probably if you are bullish it could be higher. In the history if I look for the last so many years and now we are at a higher base also of 300 mt versus say 100 in the last upcycle that we saw. So, what makes you bullish on getting that 10% number because on 300 mt base, and with urban housing private CAPEX not looking that great, how do we see the demand coming through because 10% seems very sharp, what are the drivers, it is not a very big part of overall India demand right?

Atul Daga: Very good point, Madhav. My colleague just told me yesterday that in the history of cement in India FY'10 was the highest demand growth in volume terms about 12.1%. That is anecdotal. Of course, I do not remember what was the base in FY'10 and absolute growth number. So, you are absolutely right that on a higher base of 300 mt and 10%, 30 mt of demand. Now where is the demand going to come from? All these infra projects that we are talking about, some of them are enumerated on the call as well. I will build on examples, the bullet train project, it will consume additional 1-1.5 mt of cement every year. There is a rehab project for the BDD chawl in Mumbai, that is Rs.12,000 crores project, that is a massive cement. Cement roads were not being done in the earlier bull cycles. Cement roads are happening now. The metro project where we are one of the biggest suppliers in Mumbai, the sales are going up currently somewhere around 15,000 tons will go post monsoon to about 30,000 tons a month…30,000 tons a month does not equate to about 30 mt, I understand that but the point that I am trying to make is these projects are on a time bound execution plan, government is levying heavy penalties on contractors for any delays. The Worli sea link project which took seven years, eight years, I do not know how many years and how many extensions, those kinds of delays will not be permitted now. So, this time around the heavy-duty consumption of cement is what is going to drive demand. The Purvanchal Expressway which is one of the longest ones from Allahabad to Gorakhpur that has been done. The Bharatmala project encompassing all these concrete road projects, 84,000 Kms of road. The low-income housing project which is now picking up pace. I again repeat that the affordable housing program has not yet kicked off in its super speed. I am in touch with some developers and the organized real estate is gathering steam now because of RERA. People have forgotten that the RERA just came in May 17 and only eight or ten states have adopted RERA till now. Once the entire country is on RERA, the organized real estate will start booming. We are seeing uptick in urban real estate already, be it like Mumbai, Gurgaon, Pune, they are seeing the construction activity and demand for organized real estate coming back. It is a matter of time when the tier-2 and tier-3 town start picking up pace. I will give you another example, Gujarat as a state was not growing in demand for cement till about six months or nine months ago. The moment DFC has entered Gujarat, there is so much of ancillary activity which has started picking up, that we are seeing huge volume of cement in Gujarat. State-by-state, there are different demand drivers which are generating volumes. Rural markets, we keep forgetting about the rural market in the country, rural market is the largest market in the country. First and foremost, there was this crop loan waiver, Now the MSP hike which has come in, monsoon have been good consecutively for the three years in a running. The demand from rural markets has started picking up big time. So, all this is leading to the 8-10% growth. Last three quarters, we have seen 13- 14% growth in cement industry, it is happening.

Madhav Marda: Just one quick follow up to that; so, in terms of pricing being better, you mentioned that you will also try to increase your retail institutional mix, but many of these will be institutional projects, right, infra plus the low-income housing. So, do you think that could not help margins a bit, would you agree with that?

Atul Daga: We have seen price hikes for our institutional clients also. There is only this much of cement that is available whilst we talk about 73% overall capacity utilization in the country, there is a lot of dead capacity also in the country. So, there is bound to be price improvement from institutional customers also which we are already seeing ourselves and more importantly is the margin because there is a lot of cost which is eliminated in institutional supply, so, margins are fairly robust.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will take our last question, that is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir, my question actually pertains to the last point you made. Today, what is the kind of EBITDA per ton differential you see in your institutional versus other institutional business?

Atul Daga: Difficult to go down to the EBITDA level. Average EBITDA per ton is Rs. 929/t, give or take Rs.20/t - Rs.30/t here or there, that is what I would estimate.

Ashish Jain: Secondly, the spike in incentive income that we have seen this quarter. Is it from a specific plant and if yes can you just highlight which plant it is?

Atul Daga: The new plant which started generating incentives was Tanda part of the acquired assets but more important is the mix of sales and prices which has started to improve the incentives.

Ashish Jain: As a side point, there has been newspaper article, now this pertains to Binani, that as per the terms of the bid that have given, you are incurring Rs.1.5 crores of interest cost on a per day basis. Is it possible for you to comment on that?

Atul Daga: The matter is subjudice, it is in court, I do not want to handle on that at the moment.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I now hand the conference over to Mr. Atul Daga for closing comments. Thank you and over to you sir.

Atul Daga: Thank you everybody for participating in this call. The Q2 July-September quarter, let me warn you upfront, do not have high expectations in terms of margins because it is a wet period, volumes I still hope the way the construction activity is going, volumes will sustain and prices will sustain; however, with higher maintenance cost during the quarter you could see some kind of depression in margins. Otherwise, this seems to be beginning of a good year and a good period for cement. Thank you so much.

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