"UltraTech Cement Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the UltraTech Cement Limited Q1 FY20 earnings conference call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the 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 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: Thank you. Good evening ladies and gentlemen. Welcome to the earnings call of UltraTech Cement for Q1 FY2020. With general elections behind us we believe that continuity at the center will helps improvise the economy and bring boost to the economy. This is a temporary slowdown, which is being visible across all sectors. We have seen an unpredictable slowdown in the economy as well as cement sector which is part of the whole game. You must have heard several theories around it and let me add my two cents to the pot boiler.

Construction industry, the real estate sector as well as the infrastructure sector is one of the quickest drivers for the employment of unskilled labour. With construction activities slowing down, it has had a cascading effect on employment and rural incomes; various states are facing the tight fiscal position resulting in a slow release of funds for infrastructure projects.

Our sense is that demand should stabilize after Diwali 2019. All the ongoing long-term projects that is metros, roads etc., will pull demand. We have seen improving sentiments in the organized housing sector in the Tier I towns with organized real estate players gaining momentum. There is a big vacuum in real estate in the Tier II towns, which we believe will be captured by the organized developers in the longer term. Low cost housing and affordable housing segments continue to grow providing some support to the housing segment. It has always been and will be a key demand driver going forward.

Let me talk about sand mining which has become an area of concerned time and again. In Rajasthan since November 2017, sand mining ban is continuing on major mines which are impacting the construction activities there. Recently, High Court has given a decision that mines allotment are valid and mines can be operational after all the required clearances as per NGT. We expect that in the next couple of months the sand mines in Rajasthan should be operational.

Again in the state of Andhra Pradesh in the month of June 2019, the new government has imposed ban on sand mining which is creating a barrier for construction activities. The government is expected to introduce new sand mining policy in the month of September which would restore construction activity to normalcy.

Similarly in West Bengal, the state government has strict norms on movement of sand which is keeping sand prices high and having an impact on construction activity.

Andhra Pradesh has also seen a slowdown in all State level projects. With the new government coming in, we believe once their review is over the projects will kick start work and I guess one quarter, two quarter it should start and come back into mainstream.

Let me touch upon the costs. Costs have been under control thankfully. We do not expect any surprises in the near future. Pet coke prices have come down 25% from their peak. UltraTech's average consumption price in the quarter was around $95 per ton, marginally lower from the consumption price of Q4 FY2019 which was around $98 per ton. The benefit of the continuously falling prices will reflect in future periods. For example, the current purchase is prevailing anywhere around $75 to $80 per ton.

Imported pet coke supplies have filled a vacuum created by reduction in domestic pet coke supply thus not having any adverse impact on prices. 70% of our pet coke requirements have now being met from imports without any constraints. Besides pet coke we are also using high calorific value imported coal which is economical at some of the plant locations.

With capacity utilization going at strongly in almost all the regions in Q4, we were able to take price improvements; the impact of which is reflected in the earnings of this quarter. With monsoons, we have seen prices correcting a bit and along with slowdown in demand, this is nothing unusual this is a direct correlation between demand capacity utilization in prices.

Let me look inwards, it is important to share the progress on our growth plans. First and foremost, on Century Textiles. We have received the NCLT order approving the takeover of cement business of Century. This takes are total operating capacity in India to 109.4 million tons. We are awaiting completion of other regulatory approvals for completing the transaction which we expect should get completed in this quarter.

The mines transfer which is underway will attract additional royalty under the MMDR Act. UltraTech will be fully compliance with the MMDR Act. After inclusion of Nathdwara Cement in our network, our numbers were consolidated with no option of having comparative numbers. Well, you will have to live with this phenomenon for some more time. NCLT Mumbai has fixed May 20, 2018 has the appointed date for the transaction. We will recast financials from the date of May 20, 2018 going forward once the transaction is completed. I can only assure you that our presentations will be as simple and as clear as responsible so that you do not have any difficulties in interpreting and analyzing the numbers.

Nathdwara Cement: I am pleased to inform you that the integration has been fully completed. The plants are fully synchronized with our existing operations. Nathdwara Cement has generated an EBITDA per ton in excess of Rs.1200 and there is enough capacity available at a plant as and when the demand opens up. We have achieved a PBT breakeven for Nathdwara operations within two quarters of acquisition.

However at the current cost of acquisition our returns are not really worth talking about from the assets. We are evaluating opportunities to liquidate non-core assets, before the end of this fiscal year which will improve the returns and in the next few years with the improvement in demand there is always the option to double the capacity at Nathdwara Cement which will help us to generate a desired level of returns from this investment.

The decision on Pali Greenfield expansion has been put on hold for the time being. We will revert once the board takes on Pali expansion. We as a responsible cement player keep our growth options open.

The JP assets which were acquired in June 2017 some of you might remember our guidance for these plants to be EPS accretive in the eighth quarter of the operations i.e., April-June 2019. Well, we have stuck to our guns. The cash flows from acquired assets have improved significantly. This quarter the plants were operating at a capacity utilization of 68% and have become EPS accretive. We have generated positive PBT.

We have had a small setback in this acquisition though nothing to be perturbed about. Bara grinding unit was under trial runs last month but there was a breakdown during the process, the free of cost replacement parts have been ordered and are underway and we expect the plants to get commission in Q3 FY2020.

Leverage, which is always an important focus area for us, our focus on improving leverage have helped us to reduce net debt further by about Rs.1000 Crores during the quarter, to be precise Rs. 1022 Crores. Our trailing net debt EBITDA is at 2.24x as compared to 2.71x in March 2019.

Our consolidated returns on capital on trailing 12 months performance have improved to 11% in June 2019 as compared to 10% in March 2019. Our business and our balance sheet will remain sharply focused and cater to the needs of cement business only. There have been lots of questions raised in the past and hence I thought of making it very clear for everybody that we are very focused in our business.

A small initiative which I would definitely want to mention before ending this commentary is on sustainability. In one of our initiatives we are collaborated with our group company Hindalco to develop aluminum dry bulker vehicles which can carry 10% extra quantity, this will support to reduce the number of trips for the trucks which eventually reduce carbon emissions. Once this scheme is fully implemented we will have 3 lakh trucks moving less on the roads and that is our contribution to sustainability.

We assure you a long sustainable future in UltraTech and with that I handover the session for questions. Thank you and have a good evening!

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal: Thank you for the opportunity. I have two questions, first on the demand in your slides, you have mentioned several factors which has led to a weakness on industry demand, can you highlight which of these sectors are more transient in nature and which do you think are at least structural in the near term at least through the course of FY2020 will be an overhang on demand?

Atul Daga: Short-term, Indrajit is slowdown in construction activity as I mentioned in the commentary also. The housing sector continues to grow albeit at a very slow phase and I believe that infrastructure growth will come back with gradual stabilization that we will see in the economy. So infrastructure and real estate, within real estate also is government led low income housing and affordable housing. The good part about affordable housing projects is it has started kicking now.

Indrajit Agarwal: Have you seen unlike liquidity was one of the consent last couple of quarters, have you seen some easing on that front at all in the last few weeks?

Atul Daga: No, I mean it is difficult to quantify on a weekly basis and I do not want to discuss the current operating quarter. April-June saw a squeeze on liquidity because of elections, because of all related reasons with elections. Things should come back to normalcy as a layman if I were to speak should come back to normalcy, like anybody guess whether it happens in July or this quarter or at the earliest.

Indrajit Agarwal: One housekeeping question, would you be guiding us to how much is the utilization for Nathdwara in this quarter?

Atul Daga: Nathdwara was about 60%. Of course we had a major maintenance shut down taken during this quarter.

Indrajit Agarwal: Thanks. That is all.

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

Gunjan Prithyani: Thanks for taking my question. Just a followup on this industry growth going by the trend that you are seeing in the markets right now, would you say that the 6%-7% growth that we were looking for full year or I think even higher would be at risk, is there any revision to the growth expectation for full year that you are looking at now?

Atul Daga: As of now Gunjan, I would still look at plus/minus 6%, may be it would drop at by a percentages that is what we were look at because all these projects which have been underway will not stop and will kick off through the latter half of the financial years, should see a phenomenal growth.,

Gunjan Prithyani: Even on a high base that we saw in March quarter. I am just trying to understand because we do have a very demanding base that we get into the second half for the entire industry?

Atul Daga: Yes, historically if you look at January-March quarter has always proven to be the best quarter and the government spending was looking at their own budgetary allocations for the next financial period so, there is a huge base of activities typically in the January-March quarter.

Gunjan Prithyani: Okay so we will take with the 6%-7%?

Atul Daga: Yes, 6%-7%, there is no decimal that I can guide to.

Gunjan Prithyani: Sir the second question is on the deleveraging and capacity expansion plan, if I got understood right I mean that there is no new project that you were approved as such in terms of expansion so it is essentially going to be the same?

Atul Daga: As of now no approvals from the Board yet.

Gunjan Prithyani: So no Pali, the Nathdwara additional expansion, this year do you see we can have more expansion and all so the focus is going to stay on just consolidation of Century and deleveraging?

Atul Daga: My guess is it will remain focused on deleveraging and Century consolidation.

Gunjan Prithyani: On this overall capex number if you can give the guidance? What should we look at as capex?

Atul Daga: Roughly Rs. 2000 Crores for this fiscal year. There are some big projects which are ongoing like WHRS, Bicharpur coal block, Wall Care Putty Plant which is on-going, there is a bulk terminal that we are doing besides the Bara project which is going on and there will be routine maintenance capex.

Gunjan Prithyani: Last question on the Century you mentioned that there will be fee under the New Mining Regulation so that is similar to the JPA thing that there will be additional, if I am not mistaken around Rs.60 right?

Atul Daga: Yes, as of now the current rate is Rs.64 per ton.

Gunjan Prithyani: Rs.64 and the Century EBITDA per tonne can you share anything around it where are they operating right now?

Atul Daga: January-March was Rs.670 EBITDA per tonne.

Gunjan Prithyani: Thank you so much.

Moderator: Thank you. The next question is from the line of Vivek Maheswari from CLSA. Please go ahead.

Vivek Maheswari: Good evening Atul Sir. First on the demand your comment about 6% demand growth that is for full year or for rest of the year as in the nine months?

Atul Daga: Full year.

Vivek Maheswari: Second I mean pet coke prices as you mentioned has gone down quite a bit. Is there any inventory that you still carry the high cost inventory or in second quarter we should start to see the benefits of low pet coke prices?

Atul Daga: We will see improvement in fuel consumption prices quarter-on-quarter. Today we do not have any inventory above \$ 100/t it is in the range of early \$ 90/t. So added to that the procurement which takes place will also help into the fuel consumption prices for the next quarter as well.

Vivek Maheswari: This quarter obviously saw a very strong realization and you indicated about some pull back but can you share where the exit cement prices or realization compared to the quarter average?

Atul Daga: Exit cement prices were obviously be lower and indicative may be 3% average across the country reduction.

Vivek Maheswari: 3% from your quarter average?

Atul Daga: Yes.

Vivek Maheswari: Lastly you mentioned about this CSR project with the Hindalco I fully could not understand Sir. You mentioned something like 10% higher tonnage and all can you just repeat what exactly it is and how do you plan to go ahead?

Atul Daga: These are the dry bulkers, the vehicles which carry cement in bulk so these are developed with aluminum body and that obviously helps them carry higher quantity. So one is the capacity has been increased because lighter weight on the same chassis since it is able to carry a higher weight and on that basis effectively for the same volume to transport we require lesser number of trucks.

Vivek Maheswari: Is this still an experiment or you would be?

Atul Daga: No, it has been officially launched.

Vivek Maheswari: Officially launched so I mean the benefit of this we should be able to see next few quarters?

Atul Daga: You count it next year. I would want to see scale to reflect in our numbers. So small number of trucks which rollout might not see too much because and in the long run we are looking at three lakh trucks moving less so that is a bigger number and I would start counting my chicken only in the next financial year.

Vivek Maheswari: Just last bit on the same point, so let us say FY2021 so the plan is basically to get all the trucks which are therefore able to carry 10% more is that how you would plan it?

Atul Daga: You will scare the truck operators, let us not do it.

Vivek Maheswari: Alright Sir, looking forward to it. Thank you and all the best.

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

Naveen Sahadeo: Good evening Sir and congrats on good set of numbers. So my first question basically was, what is the consolidated volume, of course you said 17.86 is the total volume. So just wanted to understand what are the total consolidated grey volume and white cement volumes?

Atul Daga: 18.8 million tons the total volume including white cement.

Naveen Sahadeo: And white is 0.315 million tons.?

Atul Daga: Yes.

Naveen Sahadeo: Second then I just wanted to understand your premium sales segment has grown by 24% in your presentation, so just wanted to understand it contributes how much now of a total volumes and either a target we have in mind towards premium product and also just an extension there that how much more in terms of margins do these products contribute?

Atul Daga: Firstly what is the target, obviously we want to be as high as possible as much as the market can absorb, and there will always be a challenge because there will be a market which is not interested in paying a premium. There are products which we have launched in the market which are Rs.50 to Rs.55 per bag higher in realization as compared to our own prices. Those are very niche product so the market will also remain niche and all the products whether composite or these value added products, we are still launching in various markets. I know I am going round about because I do not have an exact numbers to give you but directionally yes we will be increasing the percentage share of all the value added products.

Naveen Sahadeo: Just one bit then Bara Grinding Unit is scheduled for Q3, clinker is likely by when there?

Atul Daga: We already have clinker available.

Naveen Sahadeo: No which is fine we have certain clinker but along with the same project there was a clinker?

Atul Daga: The Dalla super clinker, happy to tell you that the MOEM order forest advisory committee meeting took place on August 31, has cleared the proposal. Now it should go through and may be April-June for sure we will see the plant commissioning.

Naveen Sahadeo: Great. Thank you so much.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity. Please go ahead.

Madhav Marda: Good evening. Sir just wanted to understand on the demand drivers. Companies have been talking about those social housing programs and I look at the government allocation for the next four years you know we get what the numbers are, but if I just go through the budgetary document and something I am trying to source out if I look at the allocations that they made for the budget for rural housing for example, they have allocated about 19000 Crores which was a close to 20000 Crores last year and urban housing was about 6800 Crores to 6500 Crores last year so net-net there is 2% decline Y-O-Y. The Government project allocation for the next financial year, so what I am trying to understand is how does it step up in terms of demand for the next year, I am just trying to solve?

Atul Daga: While there is a budget allocation, where the government to able to exhaust that allocation, if they are able to exhaust that allocation that will be a wonderful achievement, but they are growing rapidly, we have seen allocation target getting missed in spite of achieving a huge growth so over a current base, while the allocation is the one aspect so we are looking at on a current base they will keep on growing that is more important.

Madhav Marda: Sir that is what I am trying to understand, they had a lot of growth last year and if I look at the completion data which is available on the website there has been a massive scale up over the last three years and the budget allocation of course was stepped up as we went into election but now if I compare sort of seems to be leveling up coming down little bit on the rural side, so I do not know if there is going to be growth in terms of execution?

Atul Daga: This slow down which you have seen is because there have been delays in contract of payment. I understood that beyond March 31, there was a major slow down in release of funds at the state level, if you look at various state whether it is UP, whether it is MP, whether it is Andhra, whether it is West Bengal the state treasuries are running dry and there has been delay in release of payments to large contracting companies which has had a cascading effect on the project execution. I believe, things will come back to normalcy, payments will get release and you have to give a six months for normalcy to come back which is where I was looking at post Diwali which is November-October or post November you should start seeing action on ground.

Madhav Marda: Okay, great Sir thanks.

Atul Daga: Thanks Madhav.

Moderator: The next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: Thanks for the opportunity. Sir just one question, like in this quarter the industry has shown excellent resilience in terms of prices so like the way the demand is, like say if it continues to grow at like 4% to 5%, so how do you see the industry going forward?

Atul Daga: Well, any industry, nothing to do with cement, any industry operates on the pillars of demand supply and capacity utilization, so those pillars will come in and have their forces playing.

Kamlesh Jain: Sir like in which particular markets you are seeing better pricing going forward like in north, which all markets because in the eastern market despite the fact that capacity has not been there last one and half year, demand has been growing at a strong pace

Atul Daga: Four and half million ton capacities got added this quarter in eastern market

Kamlesh Jain: Yes, but that is not led by say the clinker based capacity?

Atul Daga: True.

Kamlesh Jain: Despite that we are seeing significant erosion in the eastern markets in terms of prices, so how do we see the region wide dynamics going forward?

Atul Daga: I really do not know how other companies are thinking. We are a small player in the east. We are more than 95% utilized and we will continue to for the market in the eastern corridor.

Kamlesh Jain: Sir lastly are we still hungry for the M&A. Like say some of the opportunities which are available in the eastern market, are we looking at those opportunities available despite the focus on deleveraging the balance sheet?

Atul Daga: Any other question? I will not comment anything on that.

Kamlesh Jain: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Good evening Sir. Two questions firstly, is there any difference in the growth for trade versus non-trade segment during the quarter?

Atul Daga: In fact, we are marginally improved our trade we are now at about 66% on trade as compared to 65% previous quarter.

Gaurav Rateria: Have you seen any green shoots in the month of June and July post elections are over and which would be the segments where you have probably seen some pickup in the demand?

Atul Daga: Infrastructure and affordable housing. These are the two segments. There are State level challenges which exist but overall if we were to talk about these are the two areas where we see a traction coming back in the month of July. In spite of monsoon we have seen a good traction in July.

Gaurav Rateria: Okay. Thirdly Sir the Bara facility will that be contributing additional for you or will that help you in saving some cost because clinker was already available with us?

Atul Daga: We have surplus clinker so it will increase the overall capacity in the industry.

Gaurav Rateria: Last question from me, on the difference between the consolidated and the standalone EBITDA there was a quite a bit of a jump there any color or explanation that will be helpful?

Atul Daga: So consolidated includes UltraTech Nathdwara which had in excess of Rs. 150 Crores of EBITDA, and some share from UAE operations & Sri Lanka, so all those get consolidated.

Gaurav Rateria: Thank you.

Moderator: Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija: Thank you for taking my question. The first question is on can you please comment on demand outlook for the next nine months specifically for North and for Central India?

Atul Daga: Let me talk about Central first that is easier question. Central is very strong in demand barring the slowdown of April-June. I believe we should see good capacity utilization in Central India. In the Northern markets it will remain good and buoyant. Rajasthan has some challenges on sand mining. I would look at Jammu & Kashmir as a segment opening up with the new focus there, lots of tunnels, roads that kind of infrastructure, defence related infrastructure will start picking up in the J&K market so North markets will remain buoyant, but I will see a stronger growth in Central market.

Tanuj Mukhija: So Sir follow up to that question, if I look at your presentation for Rajasthan it just shows red across all the demand driver segments keeping that in perspective could you comment on your pricing outlook for North India and is there a scope for further price hikes post monsoons?

Atul Daga: Prices as I mentioned will be clearly governed by capacity utilization, demand and supply, supply as in new capacity coming in, so it is a natural phenomena. I really cannot comment, if suppose the demand just collapses then obviously prices will collapse, if demand is buoyant, there is no new capacity coming in, which is quite unlikely then you could see prices remain firm.

Tanuj Mukhija: Sir for Century Cement do you plan to re-brand Century Cement into UltraTech Cement after merging the two businesses?

Atul Daga: Yes, as we have done with all our acquisitions. We will be a single brand company. We have to undertake quality upgradation, process alignment, add flagship brands, as mentioned in the earlier calls also that one of the plant is very old, it is a vintage 1974 or thereabouts, that is a plant which will take maximum of time for quality upgradation and rebranding but other plants will be much faster, give it a quarter or so we should be able to rebrand and launch UltraTech from the remaining three locations.

Tanuj Mukhija: My last question is can you elaborate what could be your freight cost saving or cost saving after acquiring Century Cement and how much EBITDA per ton improvement can we see Century Cement business?

Atul Daga: We might not see too much of freight benefit because all the plants are collocated. Barring one plant which is in West Bengal, which might be 120-200 kilometers away from our existing location, other plants being collocated we might not see too much of freight savings.

Tanuj Mukhija: What is the fuel mix in Century Cement right now?

Atul Daga: Fuel mix I do not have that unfortunately. The transaction is not completed and we have not yet stepped in. I do not have that information.

Tanuj Mukhija: Thanks a lot Sir for answering my questions.

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

Rajesh Lachhani: Many thanks for the opportunity. Sir my question is basically on demand so why the industry as you have pointed out in the presentation has contacted by 3% to 4% can you throw some color on region wise demand breakup?

Atul Daga: What do you mean?

Rajesh Lachhani: So which regions have contracted more and which regions have shown some resilience?

Atul Daga: In that sense, I have given a state wise breakup in our presentation, if you were to look at I think South contacted the most Andhra was the state which contracted the most. We saw some impact in Central market and Gujarat market and Odisha as well. These are the few states which come to my mind immediately others might be vary one against the other, difficult for me to answer.

Rajesh Lachhani: Can you help us with some quantification with regards to region wise demand growth?

Atul Daga: I do not have it unfortunately.

Rajesh Lachhani: Sir with regards to the current quarter, are you looking at some growth in the current quarter or even the current quarter looks like to be a muted quarter or degrowth?

Atul Daga: Forward looking numbers I do not want to talk about, if you do not mind.

Rajesh Lachhani: Understood. That is it from my side.

Moderator: Thank you. We move to the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Thanks a lot Sir for taking my question. My first question is in your opinion how are you looking at the capacity addition over the next couple of years and has that estimate changed given the strong pricing we have seen in the last sort of three months in the industry, that is my first question?

Atul Daga: Because of three month change a performance during one particular quarter next year capacity addition or the year after will not have any impact. As you are aware Pulkit this is a long gestation cycle for putting up a capacity six to seven years so whatever is in pipeline will come through and my sense is we have seen a slowdown in the new capacity additions, people whoever had existing mines belong to do a Brownfield will come to an end then we have to wait for auctioned mines which slows down the new capacity addition instead of increasing the pace of new capacity addition. Last year you should recall we had a very small 12 million tons of capacity which got added last year. We have seen 4.5 million tonne already getting commissioned this year in the first quarter, give and take 15 million tons, and I would keep my tab on a 15 million tonnes capacity getting added this financial year.

Pulkit Patni: My second question is if I look through those state wise demand color that you have put in, a lot of those you have attributed to non-availability of labour so if I was to ask you to guess out of that three to four percent demand decline that you are talking about in the quarter for the industry how much of that would be related to election and how much is general demand slowdown that you see which could reverse in this quarter and the subsequent quarters?

Atul Daga: I do not have a breakup of how much to attribute to which factor, but everybody knows where the labour goes during the election time, there is lot of earning opportunity which the labour has during that period, which sees a scarcity of these people on construction site and construction sites are sites which offer employment on a day's notice. You land up at a site and you can start working tomorrow that is the scene which typically we see around election time when labour is not available.

Pulkit Patni: Sure Sir. Thank you.

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

Sumangal Nevatia: Thanks. Just a small clarification, you said that Nathdwara EBITDA is around 156 Crores and on the volumes based on the utilization you said it appears that EBITDA per ton is more than overall EBITDA per tonne which is around Rs.1600 per ton, so is it the right way to look at this Atul?

Atul Daga: Yes, you have the numbers with you, you can do the analysis.

Sumangal Nevatia: Second question was with respect to working capital, I mean given the liquidity tightness in the economy and higher prices what sort of working capital buildup do we expect this year?

Atul Daga: We have picked up in working capital. Working capital buildup typically happens pre-monsoons for almost all cement guys and now we should not see any further buildup in working capital, there will be one lumpy payment which happens is towards the MMDR advance royalty for the Century acquisition which should be less Rs. 100 Crores somewhere around Rs. 100 Crores would be the one element of advance royalty, other than that I should start seeing reduction in working capital.

Sumangal Nevatia: Thanks and all the best.

Atul Daga: Thank you.

Moderator: The next question is from the line of Swagato Gosh from Franklin Templeton. Please go ahead.

Swagato Gosh: Thanks for taking my question. Sir you mentioned that you held back on the Pali expansion but where exactly are we in terms of preparation in terms of land acquisition etc.?

Atul Daga: Land is fully available, environment clearance & all license fully available, it is a matter of, the day the Board gives us a nod we can start civil work.

Swagato Gosh: Okay. So from that day what kind of timeline we should look at?

Atul Daga: 12 months.

Swagato Gosh: Second question is on the Binani non-core assets when can we expect the process to start if it has not started already?

Atul Daga: It started already we are in different levels of discussion because they have multiple assets. I would want to see some color of money before the end of March 2020.

Swagato Gosh: Okay, that is encouraging and as part of this acquisition we also acquired some loans and advances, I think this is for the glass fiber business so I just wanted some color on, is it interest bearing and if it is are we getting the interest on time?

Atul Daga: Yes, it is interest bearing and no we are not getting interest payment so we are looking at cashing out on that loan at the earliest. Do not want to hold that loan on our books.

Swagato Gosh: Right, but we have to take a haircut, is that understanding right?

Atul Daga: Yes, we will have to look at a haircut, yes.

Swagato Gosh: Sir last question is you mentioned about the quality upgradation as part of the Century deal to get it under one brand, what exactly will we be doing this to upgrade the quality?

Atul Daga: Easiest one to tell you is to increase the strength of cement coming out of those factories to the same level of strengths that we produce. The strength is the biggest thing besides that the texture the fineness of cement has to be identical to what we produce, that would amount to the quality upgradation.

Swagato Gosh: Right, but would that mean lower blending and higher cost of production?

Atul Daga: Not necessarily because there are lots of common costs, we will have synergies in terms of procurement cost, we will have synergies in terms of clinker movement for them because right now they move clinker from the Chhattisgarh plant or even the Maharashtra plants to their Sonar Bangla, which is the West Bengal GU. We will be able to serve then clinker from a closer plant, that in fact would be a small amount of logistic gain as somebody had asked me earlier on the call but the fixed overheads will not be there, so on an absolute basis we will not have costs going up.

Swagato Gosh: Thanks.

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

Dhiresh Pathak: Thank you. Sir, for Century assets for the June quarter what has been the EBITDA per tonne?

Atul Daga: The results have not been declared yet. I believe Century's Board meeting is scheduled for 12th of this month.

Dhiresh Pathak: Can you give the RMC and the white & putty revenues?

Atul Daga: RMC is Rs. 580 crores and white cement is Rs. 410 crores.

Dhiresh Pathak: Thank you.

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

Ritesh Shah: Thanks for the opportunity. Sir, you would not probably give some color on Emami or CCI Neemuch, but if I had to ask you the other way round what is the sort of balance sheet parameters that we are looking at factoring Binani overseas will be there with us by March. So what is the appetite that we have for inorganic growth?

Atul Daga: Good question, Ritesh. You tried me, but I quite awake, you would not catch me off hand. Balance sheet all I can say and I have given this advanced estimate also that we would reach a debt EBITDA of below 2x for sure by the end of March 2020.

Ritesh Shah: Sir, you said net debt to EBITDA of 2x by March 2020, correct?

Atul Daga: Yes, net debt to EBITDA will be around 2x, as of March 31, 2020. That is what we are working towards.

Ritesh Shah: Sir, this would factor in what capex?

Atul Daga: Rs. 2000 Crores of capex is already included.

Ritesh Shah: Sir, including Century this number will move up, so will the ratio of 2x still stand?

Atul Daga: I am absorbing Century debt which will come on our books on account of Century.

Ritesh Shah: That is helpful. Secondly, incentives as a percentage of sales has increased considerably for us on FY2019 annual numbers in the annual report it is nearly 7% of revenue now. So, how should one look at this trend going forward? And how is the cash conversion over here, because the receivables are also moving up sharply?

Atul Daga: FY2019 we had nearly Rs. 450 Crores of fiscal incentives and this quarter it is about Rs. 112 Crores, so I do not think too much of offline. The numbers are broadly trending the same way. In fact, when Bara grinding unit kicks in the absolute amount of incentives will go up because Bara also has incentives attached to it. Second point that you raised on cash is coming in on account of these incentives. They have an assessment cycle. So, the accrual which is done in Q1 FY2020 the assessment will take place after March 2020 only. So, what the cash which is coming in is of obviously prior period. I do not have abnormal delays in collection of our incentives if that helps your question.

Ritesh Shah: That helps. You indicated a timeline of April to June for Dalla Super. Is that correct?

Atul Daga: Yes, it is June 2020.

Ritesh Shah: Sir, this particular project it has got postponed by quite a long on the timelines. To my numbers, we have less quantum of clinker in Eastern India and with Century coming in it would only aggravate the situation. Please correct me if I am going wrong anywhere.

Atul Daga: Century is already short in clinker. Perhaps I missed you.

Ritesh Shah: Bara you indicated that it will come by April to June, so I was hopeful of Bara coming in a bit early given we are short of clinker in a way it is a bit subjective to the blend in Eastern India and once Century comes to the fold, I think the clinker shortage will only increase for us?

Atul Daga: One is clinker shortage does not increase and by the time Bara grinding unit comes up, we will be able to service it with the surplus clinker that we have in the central market and to meet our requirements. Dalla Super will come up in April June. We will be fully balanced and we will make sure that we are fully balanced.

Ritesh Shah: Just to continue, last question. Sir, we are operating at pretty high utilizations of North and Central India, you also did indicate that Bara could be serviced by the other kilns. Now we are in a scenario wherein we are talking about not to go ahead with expansion either at Pali or at Binani? It is a good scenario to expand the capacities and why are we not expanding the capacities?

Atul Daga: It is a good scenario to expand capacity even expand at the right style as you said. Today if you have to look at we have sufficient capacity available in North; however, just for your reference our total capacity in North India is close to 24 million tonnes and we have sufficient room over there as of now. We are operating somewhere around 70% - 75% for the last quarter. And if I were to not go by last quarter as in April-June, which is not a benchmark, if I were to go by the quarter ended January-March quarter we still have sufficient capacity basis the high capacity utilization of January-March as well. I do not want to block capital unless it is required. We have our long-term planning and we know how the markets are moving and it will take 12 months to erect a plant and we will be sure that we are not out of clinker at any point in time.

Ritesh Shah: Thank you so much Sir. I will join back the queue for more questions.

Moderator: Thank you. Ladies and gentlemen we will take the last question for today from the line of Milind Raginwar from Centrum Broking Limited. Please go ahead.

Milind Raginwar: Thanks for the opportunity. The incentive number for the quarter was Rs. 112 Crores, if I am just reiterating it?

Atul Daga: Yes. Incentive is that number.

Milind Raginwar: Sir, just on your answers to some questions, that 6% looks to be still possible would that means that the second half we will be at about 9% to 10%.

Atul Daga: It will give a double-digit growth in second half, and then only we can 6% growth.

Milind Raginwar: So, in that line do you see the pricing pressure continuing that we are seeing in June and July?

Atul Daga: Pricing, again I will maintain, I will tell you, it is a matter of demand, capacity utilization, and new supplies, so it is market force driven nothing else.

Milind Raginwar: Thank you.

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