“UltraTech Cement Limited Q1 FY-21 Earnings Conference Call”

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

Moderator: Ladies and gentlemen good day and welcome to the UltraTech Cement Limited 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, please signal an operator by pressing "*" and 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, sir.

Atul Daga: Thank you. Good evening, ladies and gentlemen. First and foremost, I hope and wish that your family, friends and colleagues have been safe from COVID and I pray that all of us get over this crisis safely and quickly. There is a big unpredictability and uncertainty about what will happen tomorrow and surprisingly the world is united in its stand on dealing with COVID which is irrational and with utter disdain towards self-preservation and well-being of the society. Lockdowns are lifted by the regulators and the masses start celebrating and what happens that well you all know it. The scariest news article that I have read is from MIT on the 9th of July. It said will have 2.87 lakh COVID cases a day by winter '21 if there are no remedies found before that.

In these challenging times this quarter has been quite unique. Companies who did their business continuity plans well, have weathered the storm so far and with what panache! Numbers speak for themselves. For cement industry demand has been buoyant since late April when the industry started operations. Industry witnessed demand pickup in East, Central, North, Tamil Nadu and Kerala markets while weak demand persisted in Western India, Andhra, Telangana and Karnataka markets. Cement consumption has found its way into the rural and retail markets since the heat of pandemic was felt much more in the urban markets at that point in time. Rural markets, we believe will continue to thrive in future months as well.

Our retail share in overall sales for the quarter have increased to an all-time high at about 78%. Odisha is picking up development activities as part of the tightening, rehabilitation program. West Bengal, with elections approaching will keep the momentum on project execution and thus consuming cement. We are also seeing large projects unfolding in the northern markets, road segment is gradually improving. It has gone up 3X on April but it's not at this peak. Hopefully things should stabilize post Diwali with return of migrant labor.

We recorded an effective degrowth of only 22% which in current COVID times we are not so unhappy about. The restated numbers for the period up to 1st October 2019 will reflect a higher degrowth. This is purely on account of the appointed date of merger of Century Cement being fixed as 20th May, 2018 compared to the effective date of takeover being 1st October 2019, clearly reflecting the strong equity of our brand and its market potential, the strength that we derive from a network of more than 95,000 channel partners. Yes, that is what differentiates men versus boys.

Cement prices remained resilient during the quarter before witnessing the seasonal impact towards the end of quarter. But entered the monsoons with the head held high on prices. Average prices increased about 7% over March quarter.

As were expected most of the expansion plans across the industry are moving cautiously. We have not seen any additional capacity going on stream this quarter across the industry. As for UltraTech, work on our 1.2 million tons Brownfield expansion in Bihar and West Bengal is going on. There will be delays. There are challenges is in terms of labor availability and material supplies. We are now targeting to commission these plants somewhere in early next financial year. We also expect to commission the 2.3 million tons Dalla Super clinker plant in Uttar Pradesh in the next fiscal year. We are glad to tell you that we are on track in getting approval from the government.

Total cash flow and CAPEX this year will not be more than Rs. 1500 crores, bulk of the investment is towards return based projects, which includes 66 MW WHRS projects, spread across 7 plant locations, railway sidings, 1.2 million tons brownfield expansion, phase II of the Bara grinding unit, Bicharpur Coal block, packaging terminal that we are doing is near Mumbai, ready mix concrete plants and other normal maintenance & modernization CAPEX.

I had mentioned in the past about our endeavor to dispose off non-core assets and to that effect we have concluded our transaction to sell the 92.5% share in a cement subsidiary. We held these assets in our books as assets held for disposal and hence its P&L or capacity has not been part of our operating performance. The sale proceeds which we expect to be received in August will help reduce the net debt of the company further. We are working on the other non-core assets but at this moment I don’t have anything concrete to tell you.

Cash flow management is a must to talk about. It has been a hallmark of our company. We have shrunk our working capital by over Rs. 600 crores this quarter. This excludes the one-time provision that we have had to make for prior period adjustments. We will continue to maintain a tight hand on our overall cash flows. However don’t expect this reduction to repeat in future months.

Sustainability; UltraTech joins the growing list of companies adopting science-based target initiatives it is called “SBTi” as part of its climate commitment. We are committed to build our business in line with below 2° world under the Paris Agreement. To talk a little more about sustainability we have achieved 19.14% reduction in CO2 emission levels in FY20 over the base of 2006. Water positive score has increased 2.81x in FY20 and we are targeting to reach about 4x this year or early next year.

All of you closely watch the fuel cost. Cement industry of India went berserk booking coal and pet coke which has caused a run up in the spot prices of fuel. We are not expecting any further benefit in terms of reduction in fuel cost. The costs seem to have plateaued for now. What we continue to work on is improving our internal efficiency on a sustainable basis. Adding to that our Green Power share in total power mix base for the quarter has increased to 14% from 12% last quarter.

Diesel prices have been continuously increasing since May '20. The prices were higher over 15% as compared to the prices in the beginning of April. However, the average for the quarter remained more or less at the same level as March quarter, hence we will not have any adverse impact on logistic cost during this quarter. But the increased diesel prices will have an impact for the industry in the coming periods.

Overheads control remember important aspect which I should talk to you about; as we have mentioned in the last quarter call, the efforts on cost reduction has gone full throttle and it is evident in the numbers for Q1. It enhances our confidence on the ability to generate a 10% reduction in overheads over the last year for sure. This quarter the total fixed costs were down 21% over the previous year thus reducing the impact on our P&L of lower capacity utilization.

Century assets, the integration efforts have continued in spite of the slowdown this quarter, plant utilization has been robust—we are about to touch about (+70%) in phases when lockdown forgetting lifted—EBITDA per ton profile is almost reaching the Rs. 1000 mark.

We have reduced our net debt further by about Rs. 2200 crores this quarter to Rs. 12,950 crores in India. We expect to receive the fund from sale of China unit in this quarter which will help reduce our leverage further. In addition to that we have a loan of Rs. 1700 crores in our overseas companies at a cost of about 1.5%. Our India Net Debt / EBITDA the basis of trailing 12 months performance is 1.44X as compared to 1.55X previous quarter.

Let me just clarify on the one-time expense that we have had and it happens only in India. State Governments gave incentives to invest in the state and then try and muscle their way out of their commitments. This quarter we have recorded an exceptional expense of Rs. 157 crores. To give you the history VAT incentive given in the year 2006 has been reversed with interest and penalty. We went up to the Supreme Court but unfortunately Supreme Court also ruled in favor of State. We are moving a review petition but making a full provision for this liability. It does not impact in anyway the company's operating performance where we have delivered 28% of operating EBITDA margin and in EBITDA per ton of 1453/t. The impact of this reversal will not be there in the future quarters because the incentive which was given is no longer available. It has already been exhausted.

In the end let's just discuss briefly about what lies ahead? Well your guess is good as mine. The crisis brought about by this pandemic is far from over. The local lockdowns have thrown in an additional layer of uncertainty. On the positive side rural markets have been good so far but now the virus is spreading there too. Monsoons have been equally good, in most part of the country; therefore outlook for Kharif crop has been favorable as sowing was much higher which will mean that the rural cash flows will continue stay strong and a bid to revive the economy government will fast-track its spending on infrastructure. Most of the infrastructure projects are now operational though they are operating at a much lower capacity due to labor availability issues. Keeping our fingers crossed at the end I take this opportunity of thanking you for joining us today. Stay safe, stay blessed thank you. Over to you for questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Bhoomika Nair from IDFC.

Bhoomika Nair: I just wanted to understand the July volume trend and the market and a little better. In your sense and interaction who are you seeing, on ground demand with monsoon setting in and the pent up demand being largely exhausted, is the demand trend still continuing to remain healthy or are you seeing rural coming off, if you can give some more color by when do you expect institutional demand coming back? That's question number one and on debt we've definitely seen a very strong deleveraging in the past 9 months to a year. A lot of it is also been working capital driven, so is that now behind it and incrementally the debt leveraging will be more operational and what kind of non-core asset sale can further help in terms of the entire deleveraging?

Atul Daga: I will take the second question first Bhoomika and before that thank you for the compliments for our numbers. Working capital yes we have squeezed it tights to the bone and as I mentioned in a commentary for the release in working capital. That's the max I think we can do. We might want to pump in some more working capital depending upon how the markets shape up. On the non-core assets there is unit in Dubai and loan outstanding to the company in Europe which is a non-cement company, company called 3B Fiberglass. Our intent is to down sell the loan and realize whatever we can realize from that loan. Now the Fiberglass industry whatever I've understood that particular unit caters to automobile sector and wind mills. Both the sectors are down and COVID is also there so we have not been able to find buyers as of now. Dubai unit is also not able to find investors to buy the asset. We will try for some more time otherwise maybe for this quarter we will try and otherwise integrate it and start operating it as part of our own capacity. So that's as far as Dubai as it is concerned and I think we can synergize because there are some advantages that we see in that Dubai unit. But we will wait for this quarter before we take a final call.

On July, today if you see the rain clouds in Mumbai, it's very heavy rains, last week it was totally dry and it would be raining here so badly today. The uncertainty is very high. Now what is happening is we started off July alright and its continuing the momentum that we got from June if that gives a sense. But as we are progressing it's a normal monsoon slowdown that would take place. So last year July-September period we were operating and there was no COVID and normal monsoons we were operating at about 60% capacity utilization. So monsoon is there too as a weak period in any case for cement industry. The challenge that the industry is facing is local lockdowns. That becomes a problem because a project which is going on in Kolkata or Bangalore and suddenly the state government puts a lockdown, no movement allowed. It kind of puts a very urgent brake on the sales. This unpredictability is not in your hands nor in my hands otherwise if this unpredictability was not there things are doing fine.

Bhoomika Nair: Broadly you keep saying that 60% utilization as you said that is what we were last year. Would it be a similar utilization, would we be lower or higher?

Atul Daga: That would be overlooking number, I don't want to comment on that and I don't know. Honestly I don't know because tomorrow if there is a major lockdown, we are already shooting upto 50,000 cases a day in India. If there is a major lockdown happening then things will go haywire.

Bhoomika Nair: And on pricing versus average of 1Q 21 are we largely holding on or we seen a correction?

Atul Daga: Monsoons correction, 4% to 5% correction is normal.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: Getting into this quarter whatever interaction I had with the industry the outlook was looking far bleaker from what the outcome has been—let's say in your case the decline is—arrested to 22% in terms of volumes. Now can you just elaborate on—I understand the rural and the retail bit which helped but who is the end user or where is this cement exactly going in your assessment and given that there has been such a huge surprise on the positive side so to speak?

Atul Daga: I can elaborate on that. When I said our retail share has gone up to 78%, not only ours practically everybody else of whatever results have been declared, everybody's retail share would have gone up dramatically. Blended cement sales have gone up dramatically because retail sale is only blended and where this material is going, it is going to the individual home builder in the remote areas. What has happened is migrant labor normally goes back in batches, a family of 7-10 people few people will go back, few people will stay back in town in urban areas and they keep on rotating their home visits. This time everybody has landed back in the remote areas in their hometowns and are building their next room next house or whatever work had to be done. In the fear because COVID is playing heavily on everybody's mind, social distancing requirements are playing on the minds and cost of doing construction is far lower, land cost is insignificant or not there, it's only the construction cost which one has to incur. So we have seen retail demand for cement industry call IHB, individual home builder demand, drive bulk of the cement consumption and cement demand. It is not seen in metro towns, Mumbai and Delhis, Bangalores etc. I know real estate companies when they started work towards, got permission in I guess April end they started getting permissions slightly 15-20 days later, they started work on project sites and had to stop completely. What have also happened, the moment the migrant labor got opportunity to move out there was an exodus of labor. Companies like L&T had mentioned on their call they were holding back N number of people 1.5 lakh or 1.6 lakh labors across all their project sites. But the moment the opportunity was available people left the sites and went back remote areas to their hometowns. MGNREGA is not enough, the government paycheck is not enough. so they went on to whatever project work is available in the remote areas which is not a road or a bridge or a station or a metro construction in the remote areas but in their individual houses.

Vivek Maheshwari: Two points from here, one is the fact that the workers have moved from urban from rural, does that worry is from an urban market perspective given that these projects which they build on here in urban are far more cement intensive as compared to the rural piece. And the second thing is when they build these IHB, some part of this is pent up from April and whatever happened end of March and the other part would be some advancement from later part of the year. So on the demand side do you worry or you think that leave aside the comment you made about the local lockdown, let's assume that if that were to go pass would you think that things will get incrementally better as we move into the during the course of the year?

Atul Daga: For a split second let's leave COVID aside and suppose things start moving in a normal manner, the pent-up demand that we talk about or preponing demand that we talk about will continue because it always linked to cash flows. Tractor sales are going up, two-wheeler sales are going up. People will invest in two-wheeler or entry level four-wheeler for the purpose of social distancing instead of traveling in public transport. Tractor sales are going up, Agri incomes are going up. Government has also increased the MSP, so there is a huge amount of support which is going in towards improving the rural cash flows. Our dipstick tells us that rural demand will continue. There will be these hiccups. Now let me bring COVID into play, there will be these hiccups. There are small-small towns where I have heard that markets which were open 7 days a week have had to start operating—smaller towns, very remote towns—which are operating only till afternoon, Saturday Sunday closed because there have been some cases. And they don't have as good facilities as whatever level of facilities we see that cities like Mumbai or metro towns have. If COVID spike keeps happening there will be blips of slowdown. Another positive sign is that people are realizing COVID is not so bad after all, not so difficult because staying at home and getting cured is also a very good possibility and that's what people are regarding too but what it does is, patient in a family in a remote area their family is into a lockdown, there is a social boycott because of which work suffers. Talking about urban markets, we believe and we are also reading in the newspaper that labor is coming back and yes we are seeing labor come back. The big labor come back will happen only after Diwali when all the Agri work is over, they have to now go back somewhere around February-March for the April harvest and then in the monsoons. So November onwards we will start seeing non-trade demand come back. The institutional projects will start stabilizing with whatever level of project site which was working with 100 people and if they are an organized real estate player or large contractors, they will continue the project site with social distancing or whatever else they have to do with slightly less number of people work will continue.

Moderator: The next question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: My first question is more on the core real estate sales, I remembered in the last call you talked about a proportion and I am talking more from perspective of a client like L&T, Shapoorji, more on the real estate side, has that volume started to pick up or how do you see that? and as a percentage I am talking on a very rough basis let's say he be in a normal scenario sales about 80-90 million tons of volumes, I think the hard core real estate as such would be around 20-30 million tons, is that the right number to look at it?

Atul Daga: I normally look at the urban real estate if that's what you are alluding to, to be about 30 to 50 million tons not more than that. And as of now they are suffering because of essentially labor availability and local lockdowns if they hit them.

Nitin Arora: So once if let's say, it's difficult to time the timeline when the urban markets will open up in full way but that's where the existing project developers who are still rich on their balance sheet and still not declining being our large customer that pent up will eventually come once this market starts opening up, if they are not taking too much volume right now or it's an on and off situation. Is that the right way to conclude?

Atul Daga: Yes, absolutely because whichever developer has a strong balance sheet can tap into the projects or a very good deals I should say because this is also helping and I am speaking with some real estate experience. This is helping the larger developers consolidate further. This is helping them strike good deal with landowners or the developers who had bad balance sheets are giving upon budgets more rapidly. The deals are more higher available in number but all depends on how many deals would one want to sign up till the uncertainty on this pandemic is not dying down.

Nitin Arora: And just last question on the debt reduction part on a directional side. Given that capital expenditure still remains on the lower side versus what we used to do on an average even for this year and I think next year also, if this pandemic is assuming to be continuing for the next 2-3 months will almost reach towards FY22. Directionally should we look at more—I understand you said that working capital is something which we need to infuse also at some point in time to generate more sales and support dealers and distributors—but directionally if we look at from a 2 years point of view given whatever the CAPEX level you have been envisaging; do you see the debt reduction to the tune of about 2000 to 3000 crores on a minimum side. Is that the right way to conclude it?

Atul Daga: In running towards 1x Net Debt / EBITDA, we will go at breakneck speed. We don't want to give any forward-looking numbers but we are clearly running at breakneck speed to reduce leverage. We use opportunity, as I said this Rs. 700 crores liquidation which has not yet reflected in the cash flows, there is more from the other non-operating assets. The new capacity which will come up, the 1.2 million tons, we will start generating cash flows from day one. The 2.3 million tons which was part of the JP deal by the way which we consciously bought as which will get stuck in NGT as 2.3 million tons of clinker sitting in the hotbed of the market which is Eastern UP. It will start generating big amount of cash flows. So we will run towards 1X or lower very fast.

Nitin Arora: Just last if I can press one more, we saw you and that's purely on our channel indication. We saw in MP you really growing very high in Madhya Pradesh. I understand because of Bara as well which got commissioned and all. It's more of market share gain which you grew very fast I mean what we get from channel you're growing almost 30%-40% in that market in June, may be higher than that. Is it more of market share gain or is it more of increasing dealer and distributor which is getting more volumes in? If you give that not to answer it but I just thought I will try.

Atul Daga: Its a low base, we were not present in Madhya Pradesh at all because we want to supplying from Vikram Cement which is more closer to North. So we were not a central player for a very long time and it's only after JP acquisition and Century both acquisitions have added to our capacity. Yes dealer addition, dealer network creation is an important element of any B2B play and I alluded to number of 95,000 channels partners which is all India which is no mean achievement.

Moderator: The next question that is from the line of Gunjan Prithyani from JP Morgan.

Gunjan Prithyani: I had a question specifically on the cost side and I do note that in the presentation you have marked out 10% reduction on the overhead side. Now when I look at the expenses on the other expenses, it's been a very material reduction and there is definitely a combination of some deferment of OPEX like ad spends which wouldn't have been high in this quarter and some of the cost program that you are working on. Is it possible for you to give us some sense in terms of absolute savings that we are targeting and what we have achieved on that overhead cost control program?

Atul Daga: We have achieved a 21% reduction in this quarter over last year on fixed overheads which was something around 989 crores, if I remember it right as compared to 1231 crores same year last year. Advertisement has not necessarily a deferment but yes it was not required. So we did not curtail the expense. Travel for example is not a deferment it was just forced. So today when we have achieved a 21% reduction, I am sure that we will continue to maintain a minimum of 10% reduction. Other expenditures which may include various elements which are variable in nature like packing cost is part of my other expenses or selling overheads and consumables is also part of other expenses. So they are with volumes down they are naturally going to come with volume picking up. That's why I am not going to replicate the 20%-21% overhead reduction in the future quarters but the reduction plan that we have put in place for a sustainable longer-term, minimum 10% is guaranteed.

Gunjan Prithyani: Which would be almost about going by the number 1200 crores a quarter kind of a fixed expense, it can be close to about 120 crores odd a quarter. So your staff cost just clarification on that?

Atul Daga: So, 1231 full year numbers you need to see instead of money or numbers and I think last year our full year overheads were close to 5000 crores. I would do a minimum 500 crores on an annual basis.

Gunjan Prithyani: On the cost side the other question was on the variable. Now when I look at the comments on the power and fuel I sense that directionally you are not expecting very meaningful savings on that cost item and on the freight side as well given there we are where the diesel prices have been moving, are there any significant savings that you are expecting there? Anything from the M&A or logistics optimization?

Atul Daga: Optimization will continue because when capacity utilization goes up you will get the benefit of logistics optimization and as I mentioned our Green Power investment which today has reached 14% that must be costing may be less than 20% of the current cost of power. That Green Power contribution because of the investment in WHRS and solar will go up to about 22% to 23%. So that will help us reduce the fuel cost. Adding to that there is a continuous effort for reducing the per ton power consumption of cement. Now as we move forward the incremental reduction is not in big chunks but smaller units, smaller denominations but those are the efforts which will lead to a sustainable reduction in costs.

Gunjan Prithyani: But lastly if I can just put one question on the transaction which you mentioned which has been concluded in the last quarter. Are there any outstanding liabilities to meet or it's the net cash flow that comes to UltraTech that $120 million?

Atul Daga: So 120 was that EV that would make it 900 crores. We have to pay withholding tax in China and that asset had a local debt also. Net-off everything after taxes we should get 700 crores in India.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: Firstly a few clarifications, so the Rs. 500 crores cost reduction which we are aiming from the overhead cost roughly, so one should expect that to be achieved in FY21 or it's over a 1-2 year kind of..?

Atul Daga: Hopefully '21.

Sumangal Nevatia: Second, with respect to the Rs. 700 crores which you just mentioned is what we get India, so this is net of the loan which is there against the asset or is it just net of withholding tax?

Atul Daga: Net of everything, Rs. 700 crores cash in India.

Sumangal Nevatia: So then it looks like overall when we were talking about Rs. 1000 crores from divestment it's only Rs. 700 crore from one asset itself, so looks like we crossed our overall expectation in terms of divestment revenue, right?

Atul Daga: No, this has yielded me Rs. 700 crores does not necessarily mean that I will get the same form others, I'm not very hopeful on how much I can get from Dubai and I'm still working on it's been a long time already still not been able to crack a deal on the European loans. So we will I'm sure we will cross Rs.1000 crores number for sure. There are two more assets to go.

Sumangal Nevatia: Second question with respect to the overall maintenance CAPEX, this year the guidance is around Rs. 1000 crores but we also have growth CAPEX with respect to the grinding units, WHRS as well as something with respect to the coal block.

Atul Daga: Guidance is Rs. 1500 crores not Rs. 1000 crores that is one. This Rs. 1500 crores obviously includes my balance spent on the 1.2 million grinding units in East. Bicharpur is coming to a close, should get commissioned in March '21, 1.2 million expansion also lot of spending had already happened, so we have bulk of that and WHRS. So modernisation CAPEX requirement is Rs. 700-800 give or take not more than that.

Sumangal Nevatia: And this is a normalised run rate given the vintage of our plants, so without any growth CAPEX Rs. 700-800 cores is what we should have built up in future?

Atul Daga: On our current capacity we are, Rs. 750-800 crores is the reasonable modernisation or maintenance CAPEX because we do spend on regular basis that's why.

Moderator: The next question is from the line of Gaurav Rateria from Morgan Stanley.

Gaurav Rateria: Just a question on the retail volume on a like-for-like, for the period you were operational during the quarter, what would have been the growth compared to the same period last year because we can't compare the whole quarter one month was completely lockdown so it doesn't make sense to compare the on the quarter-on-quarter for last year.

Atul Daga: You are right. Effectively we had 68 days of operation then 23rd April permissions started coming in and they were also full of controversies and they will put people, management team behind bars if there was a COVID case in any of the plants, so we did not start the plants ASAP. I have not computed the number of 60 days of sale of same period last year and obviously if you were to do that it's a classic case of correcting the base. Right now you are using a 90 days base and comparing a 60 day performance which is showing a 22% degrowth and if you were to correct that the numbers will look more rosy. The other way to give you some perspective widely average capacity utilisation for the quarter was 46%. So we are looking at these 60 odd days of capacity utilisation with capacity utilisation was upwards of 70% for those two months alone. Other than that I haven't computed the data last year, two months.

Gaurav Rateria: Actually I was specifically asking this for the retail volume just to understand how much of the retail can actually offset any weakness in the institutional demand during the current year but that's fine I'm good for the answer. Just other question on the other expenses, the overall overhead reduction is Rs. 500 crores; this is something which one should build for on a sustainable basis going forward beyond FY21 also?

Atul Daga: Yes please. On a current capacity Rs. 500 crores. If the capacity grows then obviously expenses will have to grow.

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

Ritesh Shah: My first question is if you could provide some details on the Rs. 157 crores for exceptional. For what asset was this and for what duration was that?

Atul Daga: It was for Kotputli plant and expansion in Aditya Cement line 2 expansion. We had got the incentive; I don't know whether I spoke in my commentary in detail. The incentive at that point in time was 75% of VAT, in case the investments size, ticket size is more than Rs. 100 crores. Clearly the investment on the Brownfield expansion and the greenfield possibly was way higher than Rs. 100 crore and that's why there was a special committee in Rajasthan which approved these 75% incentive for these two projects, VAT incentive of 75%. The incentive was exhausted by 2012 because both the units were doing very well, continue to do very well. And now in 2019 the State government said no you should have taken only 50% for whatever their analysis, I don't know what happened but long story short they ruled that 75% they gave by overside and it should be restricted to 50%. We challenged the matter in High Court, lost, bring it to Supreme Court, supreme court ruled in their favour but the only grace is that they reduced the interest rate to 12%. I hope that answers.

Ritesh Shah: That's useful. My second question is on pricing and discounts. I think you have done a wonderful job on the cost side but specifically if one looks at the pricing what should one make of this, looking at price and discount both in tandem? So other managements which have come on the call basically what we hear is, there will be reduction in price differential between the invoice price and the selling price. They are also talking about stricter working capital when it comes to dealers, more of cash and carry. Sir a commentary on that side would be quite useful.

Atul Daga: What's the question, then I don't understand the question.

Ritesh Shah: The question is regarding discounts; basically the differential which is a practice in the market. I think a few companies which have already quoted, they have indicated that this is something which is a good lever and we are playing on it and it actually helps margins and secondly as the terms which the companies have with dealers is now more on cash and carry and there are no more freebies which are there at the dealer level. So if one looks at the results overall you have done a wonderful job on the cost side but honestly was expecting something.

Atul Daga: We have done an excellent job on sales price also which you are not recognising any way. I still I haven't understood your question but what is this rate difference? What happens is you cannot keep on changing the price on a daily basis, the invoice that is getting remitted. So in the market practice is you will issue an invoice at X per bag and if the dealer is not able to sell in the retail market, X plus his margin then the dealer gets compensated with that rate difference that is what is called the rate difference discount. Might be making some extra money also, can't rule that out. But this is prevalent maximum in Southern markets. Northern markets eventually stopped it. West once in a while it happens when East doesn't have it. I think it's predominant in South only.

Ritesh Shah: I'll probably give you a call offline for this I wanted some more details.

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

Navin Sahadeo: So the last time when we spoke on the call, I think sometime in May after your Q4 results, you had mentioned around call time that the capacity utilisation for UltraTech stood around 65% odd with East operating a much higher level of 85%-90%. Basically can I just request a similar commentary of current status as to how do you see your capacity utilisation for company let's say July or as we speak and then some colour on the region wise utilisation please?

Atul Daga: Navin, I think talking about capacity utilisation for a two months' period and spreading it around that three months' period that itself is a fallacy. Second, we have an average of 46% capacity utilisation for the full period. The low would be maybe 40% and high would be about 70% ranging from market to market. Obviously high 70% would be the Eastern markets. This is on a 90 day basis. But if I were to look at on a 68 days or 65 days of operations, the overall numbers will jump up. I don't know how you want to.

Navin Sahadeo: Let me put it simply this way. June would have been maybe July as we speak what could be the capacity utilisation so to say because Q2 last year was 64% or around that level.

Atul Daga: July right now as of today is running pretty well and I would imagine it is between 60% and 65% annually. For the month of July but don't multiply it by 3 or average it to 3 because we don't know how the remaining two days of July and remaining months August and September will pan out.

Navin Sahadeo: Yes sure. That's clearly dynamic and I'm not getting into that, that's anybody's guess and I'm not even trying to get it. Second if I may just ask, how has been the utilisation at Century Textiles? Are they similar to what we have done at a company level which is around 46%-47% or are they materially different?

Atul Daga: So the Eastern planta would have gone higher, the Western plant would have done bad. For us it is becoming very difficult especially in the Century acquisition as compared to the JP acquisition because each plant was a standalone in that geography which we entered. The Manikgarh plant is within 20 kms of our existing Awarpur plant. Maihar plant has two other plants within 40-50 km which is Bela and Siddhi. The Chhattisgarh Baikunth plant is also close to two other plants that we have. It's only our Sonar Bangla plant which is the grinding unit is standalone by itself. So what happens is my customer is the same. Our objective is to deliver same quality of cement from any plant. The moment I have achieved the quality equilibrium, the individual plants use their sanctity. I hope I'm able to explain this. So my customer, L&T which is doing the Mumbai-Nagpur expressway, Samruddhi expressway, groups of plants are supplying wherever I have material, is supplying that. So it is very difficult to segregate between them and hence I think now we are operating optimally on a regional basis. If my East is operating at 70% or 80%, all my plants will operate at the same level. Does that explain?

Navin Sahadeo: What is the revenue from the white segment and RMC business in the quarter?

Atul Daga: RMC business was about Rs. 148 crores and white was Rs. 250 crores.

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

Indrajit Agarwal: Can you give us some blended cement ratio or percentage in this quarter?

Atul Daga: Blended is 78%.

Indrajit Agarwal: So we had been at about 68% last year so one, the trade sales or the non-trade or the institutional sales come back, it will have some impact on the raw materials cost as well as the blending goes down is that the correct understanding?

Atul Daga: Yes, absolutely right.

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

Kamlesh Jain: Just one question on the CAPEX side, Last quarter we were having a CAPEX that is around 1,000 crores. So this quarter we have increased it to 1,500 crores. Is it only because of the project CAPEX guidance in the last quarter or the guidance has increased?

Atul Daga: So, pessimism has reduced. In the beginning of April we were looking at a very grim future, we are now wanting to expedite our projects. So we have increased our cash flow requirements on return based CAPEX which we were going to do in any case and like WHRS and as I mentioned 66 MW of WHRS work has started and that's why we have increased certain more, fast tracking on some CAPEX. Not going full blast but fast tracking on some CAPEX.

Kamlesh Jain: And how much potential do we have for this WHRS? Because some of the peers I know you would be having 40% share of WHRS. So are we looking at the same level of share as well from current levels?

Atul Daga: We have reached about 15%. My guess is after the current phase of expansion we will go up to about 20%. I am not very sure I will ask Mukesh or Nilesh to confirm.

Nilesh Garg: Yeah, we will be having more than 20%.

Atul Daga: Somewhere around 20%, The advantage some players which you are referring to Shree Cement, the advantage that they have and they have done an incredible job also about it, no doubts, a single location where they could plan very well and we are a place like Rajashree cement which has four lines, a single location 6.5 million tons capacity provided so you have to do the rigmarole of identifying space where to put additional WHRS capacity because the large turbine and a boiler which has to be put in place and we will keep on adding till the technically feel in that, there is no more juice left to put up WHRS. I don't have an endgame number in plan or the endgame opportunity that exists but there is still room to expand our WHRS network on a current capacity.

Moderator: The next question is from the line of Raashi Chopra from Citigroup.

Raashi Chopra: Atul just wanted to check in where does the India demand decline for the quarter stand in context of your 22% organic decline that was one question?

Atul Daga: Can you repeat the question, decline as in?

Raashi Chopra: As in all India Volumes, I am just trying to understand where you stand in respect of the all India volumes for the first quarter. Like you have a 22% decline if I exclude Century so what is all India, the industry data?

Atul Daga: Industry data, so we are looking at industry doing about 33% or 35% decline this quarter.

Raashi Chopra: You have explained a bit of this in some of the prior questions but essentially when we look at this 30%-35% decline in India right now or if you want to talk about UltraTech specifically, if anecdotally we had to ascribe some percentage to this to the use segment; so just maybe I will ask more straightforward like the low-cost housing data or the IHB, what is the rate of decline there? So just trying to figure out what segments are likely to see some sort of recovery? How we can extrapolate that to the second half?

Atul Daga: IHB is growing today and when we talk about IHB we talk about retail demand which is smaller towns, there is no IHB in Mumbai. So in my hypothesis the housing demand is give or take 50% excluding the Tier 1 town which is another 10%. So 60% is the total housing demand and that 50% demand; in that 50% demand 35% is rural demand. Rural demand we internally and this is our internal definition, we classify any town which a population of less than 30,000 people as a rural town. Those markets are growing and you won't believe but Central India has grown for us in this quarter over the same period last year in spite of doing only 65 days of operation in this quarter. So the base is not correct but on that base also we have grown. Central India is a rural market and it's not an institutional market, it's an IHB market, the MP-UP market. Going forward, I am giving you all kinds of analogies and explanations and I think you will be able to derive a conclusion. As I mentioned Odisha, now Odisha we are seeing a big spending coming up. Government support is happening, it is not only where government program of low-income housing but it is because of that typhoon which had hit, there is a huge amount of rehab work which is going on. Bengal the moment they lift lockdown and they get the situation under control they are going all out for development, there will be an institutional spend happening till elections. I think the elections are just a few months away, I don't remember the exact period but 5-6 months if I am right, you will have a huge amount of spending happening in Bengal. These are the two big chunks in the Eastern markets. West unfortunately continues to struggle, West whatever demand we are seeing let's say a 40% or 42% capacity utilization that we are seeing in the Western markets, is largely institutional or largely government spending on the big projects. Metro you will see still some work happening in Mumbai wherever they have sites open, roads projects are still happening, so institutional demand is going up, continuing. Now the base is so volatile that the percentages will look totally different. If my overall all India demand basket shrinks and IHB continues to grow then IHB will occupy a higher share this year. Does that answer a bit?

Raashi Chopra: If I have understood this right, so IHB is roughly about 35% of India's demand and that you are saying is up on year-on-year basis. Coal India demand on a whole is down about 30%-35%, is that okay like a fair summary?

Atul Daga: Yes.

Moderator: The next question is from the line of Rajesh Lachhani from HSBC.

Rajesh Lachhani: So just two questions from my side. One in earlier during the call I heard that in July the realizations are down by 4% to 5%. Can you please confirm that, that will be question number one?

Atul Daga: Yeah confirm.

Rajesh Lachhani: And secondly Atul we have also seen employee cost declined during this quarter. Even quarter-on-quarter we have seen a 14% employee cost decline. So just wanted to understand how much of this is sustainable and how much would reverse in Q2 and going forward?

Atul Daga: It is sustainable.

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

Pulkit Patni: If I understand correctly it is obviously the trade segment that has actually driven the demand. Now what I am unable to understand why this apprehension about strong growth continuing because project work will only get better from where it is, so far if projects are operating at 50%, they will only get to 60% or 70% and given the monsoon and as you said that rural crop has been good that momentum should also continue. So what I am unable to relate to is that why should there be an apprehension in terms of positivity on demand because whatever has happened in terms of a month long lockdown across the country is probably the worst. Even if there are pockets of the country which see sporadic lockdowns why should the momentum not stay positive? Is your concern that project work etc. could not begin for a long time or new project awards could not happen because it seems the worst is over. From here why should there not be a positive momentum is what I am trying to understand?

Atul Daga: Pulkit I am very positive. We have increased our CAPEX by Rs. 500 crores. We are going ahead with our capacity expansion plans. The only uncertainty which we are worried about, take a classic example of Kolkata lockdown; I was just alluding to the pre-election spending which everybody is aware of what happens. Government hands are tight, they can't move an inch. What happens is if I have an RMC plant sitting out there, can't bring raw material in, can't move trucks to the site, don't keep casual labor with you, we have disband the casual labor, then to mobilize all resources again takes time, to mobilize-de-mobilize again. This is the uncertainty which we are struggling with. Otherwise and in the last quarter I think I had already mentioned that this financial year could be the best ever in terms of profitability for cement industry. Volumes, we are in the current pandemic times, the month of July we are doing 60% to 65% capacity utilization, the month is already coming to an end. So this is under the belt. Monsoon is doing pretty well in the country; generally everywhere we are seeing wet spells or floods also for that matter. In that scenario if July we have done 65% there is no reason why we cannot keep on the same momentum and if that happens, well it's paid at time. I hope you read that message, it's a deep message that I have given.

Pulkit Patni: Fair point and state finances also do not worry you in a big way?

Atul Daga: No they don't. We can have an off-line discussion and I have heard this, I don't have my own resources but I have heard this from prominent economists and bankers where is the government cash surplus, cash pool lying. A huge amount of cash available in the country, don't worry about it.

Moderator: The next question is from the line of Rajesh Ravi from HDFC.

Rajesh: First on the Pali expansion what is the status on that projects North Pali expansion?

Atul Daga: Pali we will start to work in the next financial year positively. So that project is going on stream for sure because to be candid we have mines, we have to commission it otherwise we lose the mines in December '22. So we will start work on it next financial year.

Rajesh: So by '22 end do you expect that to be commissioned or it may extend into '23, FY23?

Atul Daga: No it's in FY23. October-December '22, FY23, that's '23, calendar '22, commissioning by October-December '22.

Rajesh: On the volumes front when you say that like to like 22% volume decline. Would you please explain how that works because I would assume that the Century last year on the record that when you were taking the merger impact, you would have taken only proportionate volumes of Century in the reported numbers that we have?

Atul Daga: The like for like period is April-June '19. So that has full 90 days volumes but this quarter you have only 60 days of volume, that's another dimension. Any acquisition that takes place, in the case of Binani Cement that we acquired, we acquired Binani Cement in November 2018 and when we reported, when you annualized performance for October-December '18 there was no impact of Binani that you calculated for October-December '17 in the base. Any acquisition that takes place, any inorganic not just cement anyway when a capacity addition takes place you start counting the benefits from that period. Why will you debit or credit me for the performance of the previous management and the previous team. That doesn't happen.

Moderator: We will take the next question that is from the line of Amit Murarka from Motilal Oswal.

Amit Murarka: My question is on cost. So what I understand is the cost reduction has been quite phenomenal but some of the spends like repairs which you have curtailed this quarter. By when can this come back because we believe now we are in the maintenance season anyways, so can we expect normalization of the repairs and maintenance cost in this quarter? And secondly on the power and fuel side, if I gather it correctly you mentioned that the power and fuel cost will not fall further from 1Q FY21 levels while my understanding has been that the low point in pet coke was about $60 and the last quarter average for us was $70. So shouldn't there be some follow-through benefits of that $60 pet coke into 2Q?

Atul Daga: It could be there but if you look at the quarter because current purchases which are happening for $70-75 also will hit the next quarter and bulk weightage of 70-75 will be higher. It's too early to say unless prices suddenly crash but as of now the prices are stable around $75 as compared to a low of $55 or $60 per ton. The other thing that happens in the pet coke prices, they say it's a landed price. Ocean freight is very high component, at times it becomes 50% also. Currently I think it is moving around 50%?

Mukesh: Yes, Ocean freight is 50% around.

Atul Daga: The FOB price might still be $35 but ocean freight when April ocean freight had fallen dramatically because there was no movement. Now ocean freight is picking up, they have the backing of the price, the freight rates also.

Mukesh: In fact there was hardly transaction happened between the 55 to 60 per ton. It was a rate only but there are hardly buyers available in the market.

Atul Daga: It remains to be seen Amit $70 becoming $60 which is $10 might impact 50 bucks or 70 become 75. So it's a swing of let's say Rs. 50 a ton either ways, either side.

Amit Murarka: And also this quarter was also hampered by the lower working run rates or the utilization rates which would have hampered efficiency. Could you quantify what could be that impact let's say was it 2% to 3% additional energy consumption because of that?

Atul Daga: Yes, I think we have mentioned it in the presentation also that what is called a frequent start-stop causes a higher consumption but I don't have a separate number for that. We will have to work it out; we haven't worked it out that number.

Amit Murarka: And at the repairs and maintenance that part would be your largely normalize this quarter, right?

Atul Daga: Amit important point to note is that power consumption per ton of cement which we had put down in the presentation is down only. If I remember it right, I am trying to…

Mukesh: It is down only.

Atul Daga: It is down, so it's not mentioned here but our power consumption per ton of cement is down as of now, yeah. So there will be a benefit or in case the plants run smoothly.

Nilesh Garg: It is slightly down but if we compare to Q4 it is higher because of the interruptions…

Amit Murarka: Could you quantify like what will be the impact of that interruption just to look at the context?

Nilesh Garg: About 1.5 kwh per ton of cement.

Atul Daga: One-unit cost less than around Rs. 5 a unit into 75.

Amit Murarka: So Rs. 5 per ton maybe the cost?

Atul Daga: Yeah.

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

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