"UltraTech Cement Ltd. Q4 FY16 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the UltraTech Cement Ltd. Q4 FY16 Earnings Conference Call. 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 would now like to hand the conference over to Mr. Atul Daga – CFO of the company, thank you and over to you sir.

Atul Daga: Thank you so much. Good evening and welcome to all of you to this call for Quarter 4 and full year numbers of UltraTech. I must say before the call that I am so relieved that my accounts are over, the pressure is over but now the pressure for the next year has already begun with the volumes and the prices that one has to look forward to. Having said that, the way the few questions which come to my mind which all the investors and analysts have I had thought I will address them from my side; One is on the demand. Where is demand headed? We feel that this year the momentum should be maintained and the industry should be able to do (+) 7-8% volume growth. As you have already seen January-March quarter did good numbers for the industry somewhere around 11.5% and this momentum hopefully will get maintained. The only grey area in this demand growth is that it is still coming from the infrastructure space, the government spending. The bigger consumer, the bigger section which drives the growth for cement industry is the residential area, rural areas, that we haven't seen so much traction. However, the growth that we are seeing in infrastructure the volumes that are happening in infrastructure will to a large extent make good for the slow pace of housing in case it does not materialize. As you are seeing road construction work going on full swing, the last official statement which was made from the Ministry, they are clocking 20 kms per day kind of execution of cement roads and promising to go up further. Today if I were to look at it there are nearly 100 ongoing concrete road projects which are going on and the government is planning to increase the execution more from the current 20 kms to 25 kms per day. The road projects awarded so far is 1.8 lakh crores worth of awards. About 3 lakh crore worth road contracts will be additionally awarded in 2017. This is as far as the target is concerned. Our belief is that once there is momentum then all these awards will get converted into execution. It remains to be seen how much happens in 2017 and how much goes on in 2018, it's just about bringing pace to the industry. There is lot of activity, NHAI driving it themselves; there is a special cell under NHAI which is driving the growth, NHIDCL, that's the agency which is doing North-Eastern states and targeting to do 1 lakh kms of roads in the North-Eastern states.

Housing, as you all are aware that there is an Annual Housing Scheme which was announced, Pradhan Mantri Awas Yojana, which is under the Housing for All Program having 10 million houses in a period of 3 years from 2017 to 2019. This is over and above the projects which are already going on.

The other areas which are picking up momentum is the hydel power projects. While there is bit of slackness in execution of power projects; there are 37 ongoing projects as of today and I have the maths, about 6 million tons of cement demand which is going to come from these projects. Over and above these projects there is 66 new projects slated to go on stream which would have about 27 million tons of cement demand spread over a period of three years. It remains to be seen, as I said, how much is the time overrun in these projects, nonetheless there should be a demand momentum which will be coming up.

Recently there was the maritime event wherein the government has announced to increase port handling capacity to 3000 million tons by 2025, 1 lakh crore of investment. All these investment programs are ultimately going to lead for cement consumption and I hope that the momentum will be maintained.

One key factor that UltraTech brings to the table is its strong presence in the OPC segment which is the prima donna for all the government projects that gives us a strong positioning.

Risks: The drought situation which is there in Maharashtra or as a news said that 33% of the population is today facing the pressure of severe drought. If rains don't happen again this year then it will be I would imagine a disaster for the economy and will definitely have an impact on cement volumes. We have seen volume uptick happening across the country zone by zone. You have seen that in our presentation, I don't want to repeat that again. The other risk factor I may highlight over here is the upturn in the coal and pet coke prices. We have seen the bottom of pet coke prices, now the prices have started hardening. You have already seen crude also hardening. It remains to be seen where do the prices stabilize. Hopefully it will not be a very long rally but nonetheless the benefits that we had of lowest possible pet coke prices seems to be over and we are in for a slightly higher price period in the forthcoming months.

The other thing that I would want to mention specifically about UltraTech is our Greenfield CAPEX that we commissioned. Nearly 10% capacity has been added. We started off the year with about 60.15 million tons of capacity in India which is now at 66.3 million tons and one more grinding unit is yet to be commissioned. It's ready and just waiting for approvals after which we would have completed our CAPEX cycle. Having said that there is still a CAPEX of about 1500 crores which are largely on account of maintenance, some amount of CAPEX on environment and regulatory requirements and very small debottlenecking CAPEX so we will have about 1500 crores of CAPEX additionally happening in fiscal 2017. The Balance Sheet is very strong. As you would have seen the numbers and if things go very well we will be zero debt at the end of fiscal 2017 and that should be very strong positioning from the point of view of when we take on JP acquisition that we have announced. That JP acquisition asset will fold into our Balance Sheet somewhere around February-March 2017. It all depends upon the court processes and the timing for how things move. Just to give you an update MMDR Amendment is slated for discussion in the Rajya Sabha. It should get tabled. We expect that there will be a clearance coming through on the MMDR Amendment.

That is all that I would want to talk about from my side. The numbers are there in front of you. I think we have done a decent quarter and with that I hand it over back to you for questions. Thank you.

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

Naveen: This is Naveen here from Goldman. A couple of questions, one, you have seen a sharp decline in energy costs in the quarter. How much of that would be just price related which could reverse in the next quarter?

Atul Daga: The energy efficiency that we have achieved is about 27% and the efficiency gains is about 5% gain, balance is price gain.

Naveen: Almost 22% is because of price.

Atul Daga: Yes.

Naveen: And possibly you will see some of that reversal in Q1 on that?

Atul Daga: Not in Q1, maybe in Q2.

Naveen: Second, if you can share some financials of your overseas entity in terms of volumes?

Atul Daga: UAE which is about 3 million tons of capacity operates at (+/-116%) and doing well. The prices also are close to $52 per tone over there.

Naveen: That's the current price or you are talking about the fourth quarter average?

Atul Daga: I am talking about Q4.

Naveen: What would be the full year FY16 average?

Atul Daga: Average for FY16 would be somewhere around $53 per tone.

Naveen: You have the total EBITDA?

Atul Daga: 1390 crores is the UltraTech domestic EBITDA and 1478 crores is the consolidated EBITDA, so you have that 88 crores of incremental.

Naveen: If you can share the RMC and the White Cement.

Atul Daga: For everybody's benefit, there are some e-mails which have come into me for how the volumes are which Naveen will answer your question as well. The domestic volumes were 13.2 million tons against 11.51 million tons last year. Cement exports were 0.26 against 0.22. Clinker sale was 0.12 against 0.09, so this totals up to 13.58 million tons versus 11.81 million tons, a jump of 15%. And including Middle East volumes the total number stacks up to 14.5 million tons against 12.78 million tons, a net delta of 13%. RMC volume is about 13.31 lakh cubic meters as against 11.28 lakh cubic meters, a jump of about 18%.

Naveen: I wanted the sales value for RMC and White Cement.

Management: RMC 550 crores and White Cement is 575 crores.

Moderator: The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: The raw material saving that we have seen sequentially, do you expect that is to sustain or we are seeing that the trend reversing now?

Atul Daga: Raw material should sustain.

Anubhav Agarwal: You talked about water shortages. Have you seen them impacting the volumes in March or April so far?

Atul Daga: The biggest drought problem that we understand is in Maharashtra and Maharashtra has been weak. Actually it's not picked up so it's very difficult to say what is the further impact of water shortage. We will see that in maybe in June if there is no rain, then that will be a crisis.

Anubhav Agarwal: What about let's say northern part of Karnataka or southern UP, that kind of belt?

Atul Daga: Not as yet, that is not a problem as yet. In UP for that matter we have seen growth in volumes.

Anubhav Agarwal: This news on the UP government taking away some land from JP, just wanted to check that for Dalla and Super Dalla our mines are outside that area completely, right?

Atul Daga: If they had that much of surplus land they would have sold the assets. It doesn't impact our assets. I think I had clarified to you earlier also.

Anubhav Agarwal: You mentioned about this last quarter you growing at 15% industry growing at 11.5% and most of the higher growth was coming from the Eastern and the North region where you are gaining market share, would that trend still continue?

Atul Daga: I guess so.

Anubhav Agarwal: Same two regions leading to higher margins.

Atul Daga: Now you are seeing also AP, Telangana also picking up momentum. That has been seen in March typically.

Anubhav Agarwal: So from Telangana you will benefit as well.

Atul Daga: Yes. As well AP.

Moderator: The next question is from the line of Sanjaya Satapathy from Bank of America. Please go ahead.

Sanjaya Satapathy: Can you give little bit more clarity on this market share gain that you saw during this year. Basically region wise if you can give us a bit of a flavor?

Atul Daga: In the absence of any data on the competition it is very difficult to talk about market share.

Sanjaya Satapathy: What I am trying to say is that is the overall stronger growth mainly driven by your pan India presence or within the region also your growth was higher than the industry?

Atul Daga: Yes we have grown higher.

Sanjaya Satapathy: When you are saying that you may be able to sustain that, so any particular differential like 200-300 basis points……

Atul Daga: It's not necessary that we will be able to sustain the differential and clearly if industry has grown 11% and we have grown 15% then the logical conclusion is that it would have added to our market share. Similarly, October-December quarter we grew 7% and industry had grown 4.5%, so it definitely tantamounts to increase in market share.

Sanjaya Satapathy: Just a housekeeping question, this new grinding unit capacity that you are saying that you are adding what is the tonnage for that?

Atul Daga: 1.6 million tones was the grinding unit.

Sanjaya Satapathy: The one which is about to come up?

Atul Daga: That it will not add incremental capacity it is only balancing part of our Awarpur unit. We will have 66.3 million tons capacity only after adding this unit also.

Sanjaya Satapathy: When you mentioned that pet coke price again is going up and from Quarter 2 one may start to see the negative impact of that. So is UltraTech in a position to benefit from something like more efficiency gain which you are planning and wastage recovering? Basically we just want to assess what the energy cost sensitivity will be for the next financial year.

Atul Daga: Waste heat recovery is very small portion. It's still about 6% and 59 megawatts of capacity and the entire industry will get impacted with the pet coke prices. It all depends on how much each player has been able to forward book because since pet coke is not an exchange traded product how one is able to lock in quantities and prices it remains to be seen.

Sanjaya Satapathy: You have given the overall industry utilization level at about 71%. Can I get a sense from you how is the utilization of different regions and basically ex-south?

Atul Daga: There is a general trend which I would say North would be somewhere around 80-90%, South is (+/-50%), East would be upwards of 90% and West is slightly still lukewarm maybe (+/-70%).

Moderator: The next question is from the line of Nitesh Jain from Axis Capital. Please go ahead.

Nitesh Jain: You have mentioned in the presentation that you have seen the cement demand coming from the Amravati region. Can you please elaborate a little bit on this, what sort of demand you have seen, have they opened some tender or are they making road to the Amravati city, what kind of demand is it?

Atul Daga: There is road work which is happening in Amravati, the Secretariat work has begun but I would imagine this is still tip of the iceberg, the bigger contracts and tenders are yet to open.

Nitesh Jain: So broadly in your opinion you think that this is a sustainable growth or it's like a one-time event which has happened since the base was very low.

Atul Daga: 15% growth or 11% growth industry is not sustainable because you will remember that January-March last year was a de-growth quarter so it's not only a low base but a negative growth period is what we had seen last quarter, so can't achieve a 15% growth every quarter but as I mentioned 7-8% growth should happen every quarter.

Nitesh Jain: Secondly my question is on NSR. We have seen cement prices going up sharply in North India particularly in the month of March similarly some price hikes have also happened in the Central region. So would you say that the March exit realization is much higher than the Q4 average?

Atul Daga: Yes. It is higher than Q4 average.

Nitesh Jain: Would you be able to quantify that?

Atul Daga: We will quantify it at the end of April-June quarter.

Nitesh Jain: Directionally the realization is higher basically?

Atul Daga: Yes, directionally it's higher.

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

J Radhakrishnan: The cement demand growth going to 7-8% because we have seen largely 3-5% for the last 5-6 years, are you seeing any early trend that it can have at 7-8%, is this because you are seeing some recovery in housing segment or do you feel that infrastructure itself will be able to provide this kind of growth?

Atul Daga: Right now infrastructure is driving growth and cement has its cycles, so there will be 2-3 years of blip and then there is an uptrend like any other commodity so we have seen the lowest possible volume numbers till the first six months of last financial year and thereafter we have been seeing uptrend. Hopefully we should be seeing, I don't know how many years, but at least some years of good growth happening. Second one whether infrastructure will be able to carry the weight of the entire industry? The kind of volume that the government is generating in terms of consumption is very high. I have mentioned in the past also if you look at the Cement industry break up roughly out of the overall demand 50 million tons was the base line number for infrastructure and each of these projects are generating a demand which can pull the infrastructure space for itself by at least to 20%. That 20% in the overall basket will definitely help the industry to move up above the 5% levels and close it at 7-8%. It's not that the housing sector is not growing. There are rate stagnation, there are parts of country where housing is growing….you go to a Tier-2 town or a Tier-3 town, the individual home builder market is still flourishing, its waiting for the monsoon now, if good monsoon then you will have rural markets also flourishing as for the housing space is concerned. Wait and watch the Pay Commission disbursement, the disbursements have still not hit the pockets of the masses and everybody knows that most of the population in the government sector comes from the Tier-3 towns or rural areas. Once that income flow happens clearly and there is empirical evidence that every time the Pay Commission hike is announced give it a lag of one year and you will start seeing the housing demand pick up. My guess is that October-December quarter onwards you should start seeing growth in housing space.

J Radhakrishnan: Are you seeing already some increase in launches or this you believe that it will mostly happen in second-half?

Atul Daga: No big launches as yet.

J Radhakrishnan: Just a bookkeeping question, what is fully export volume and you have given year-on-year number for cement exports and clinker exports, possible to give for Q-O-Q also?

Management: Full year export volume is 7.98 and clinker volume is 2.40.

Atul Daga: 7.98 against 7.48 and 2.40 against 7.26.

J Radhakrishnan: First one is cement exports and second is clinker. All are lakh tons ?

Atul Daga: Yes.

J Radhakrishnan: For Q3 if you can give.

Management: Q3 cement export was 2.05 and clinker sale 0.1 lakh tons.

J Radhakrishnan: All these things are in lakh tons.

Atul Daga: Yes.

Moderator: The next question is from the line of Jigar Mistry from HSBC. Please go ahead.

Jigar Mistry: In this quarter if I compare the Balance Sheet with the second quarter Balance Sheet, then it appears that we have liquidated significant amount of working capital into cash, so is this the new steady state or is there a way we can lean on it further?

Atul Daga: The efforts are continuous to optimize working capital and what you see is the month end or the quarter end number. If there is one shipment or a couple of shipments which land towards the last 4-5 days then the inventory and working capital will look skewed. No doubt the team has made a lot of effort in pushing the pedal on clearing any overdue receivables. There is a lot of improvement over there.

Jigar Mistry: One last question, arguably this quarter was the quarter and with the first double-digit industry wide growth in almost I think 8-9 quarters and at that time is the company a little worried that the pricing has grown negatively Y-O-Y and Q-O-Q as well? Won't you have expected in a double-digit growth for the industry the pricing could have been slightly higher?

Atul Daga: The pricing has been trailing and I think, Jigar, you should make this mention to CCI also. The prices have been trailing. You have seen the price impact positive trajectory happening in the month of March. January-February, yes, were lukewarm though the volume pickup was happening continuously, January also was 9% growth, February was also I think close to 13% growth for the industry. We have seen the impact in prices, maybe slightly delayed but they have also caught up.

Jigar Mistry: Last one if I may, has the April shipments kept pace with the quarter's average growth?

Atul Daga: We will talk about it at the end of April-June quarter.

Moderator: The next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat: Firstly on the freight side, when I see the unitary freight cost, I think it's remained fairly constant for the last few quarters at about close Rs. 1200 and you have been able to implement some efficiency savings in power and fuel. So is there any room of being able to reduce this over the next 1-1.5 years through efficiency?

Atul Daga: The freight cost is somewhere around close to Rs. 1100 per ton. The benefit of the grinding units which have got commissioned that have still not got ramped up. All of them are closer to the market place. We expect that in the overall scheme of things there should be some benefit which will occur for our logistics cost also, we haven't yet seen the benefit of that. As you picked up, maybe in the next 12-18 months, yes, we should see some benefit in logistics cost as well.

Achint Bhagat: Which will be sustainable, right?

Atul Daga: It will be sustainable except for the fact that in road transportation 40% of the cost is directly linked to diesel prices, so to that extent it's not predictable.

Achint Bhagat: You mentioned in your commentary that infra demand is something which you expect will drive volume growth in this year. My question to that is infra sales for a cement company and for you as profitable as your retail sales, so my question being that if your infrastructure sales as a percentage of overall rises, will your EBITDA per ton be maintained or do you think that can impact because infra will be more of a tender demand and price conscious customer, etc.?

Atul Daga: It should get maintained, the reason being there are lot of intermediate cost which get eliminated and large volumes help in grow capacity utilization so net net it is an advantage only. As I also mentioned OPC, maximum output on infra is OPC which is definitely much more price premium as compared to other segments.

Achint Bhagat: To that extent I think the clinker usage in OPC is higher than PPC, so the cost of manufacturing, so is it that does the math stack up because when I was speaking to a few people they said that OPC EBITDA per ton is sometimes slower than PPC and hence a lot of companies have moved towards PPC over a period of time.

Atul Daga: The benefit of realization, the higher prices is much more than the impact on costs.

Achint Bhagat: You mentioned last time that your rural component has increased. What would that percentage be now, rural as a percentage of your overall sales?

Atul Daga: About 37% of total sales is rural.

Achint Bhagat: And this number last year would be close to 34-35?

Atul Daga: It was 35.

Achint Bhagat: In terms of your capital allocation from here on I think the last 7-8 years UltraTech has significantly increased capacities but apart from JP, any other expansion that you would be planning at UltraTech level?

Atul Daga: At the moment there is none. As and when the company decides we will definitely come back to you.

Achint Bhagat: Because when I see your borrowings it's close to 7000 crores which means that with a 1-1.5 year cash flow your debt will become zero…

Atul Daga: Yes.

Achint Bhagat: So the cash that's generated after that is that cash re-investable in cement in India, do you think that the annual cash flow of 6000-6500 crores is re-investable in India in cement given the current capacity utilization situation?

Atul Daga: Certainly.

Achint Bhagat: So basically even when the company starts generating a lot of Cash flow--the CAPEX program-- so basically reinvestment will continue to be very high?

Atul Daga: That's a very subjective statement but yes there will be opportunities.

Moderator: Thank you. Next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: The steep decline on energy cost that we have seen on a regular basis, does that also factor in any impact of inventory as such or is it purely pricing as you said earlier on the call?

Atul Daga: It's essentially on pricing and small amount of efficiency gain; power consumption per ton of cement has also been improved about 3%. It's a benefit of price drops all along. So inventory as in you are carrying a couple of months maybe 2 months' inventory depending upon the lead time that is therefore Pet Coke to arrive so that is the inventory level.

Ashish Jain: My question was more from the point of view that were we sitting on very high clinker inventory which got converted into cement?

Atul Daga: No.

Ashish Jain: Nothing of that sort, but for the Pet Coke prices this is sustainable?

Atul Daga: Yes.

Ashish Jain: On your freight cost, you said that as the grinding capacities we start ramping up, we can see some downtick in the freight cost.

Atul Daga: Yes.

Ashish Jain: Can you give some sense of what kind of utilization the new grinding capacities are operating all that you have commissioned in the last 12 months?

Atul Daga: They have just started off with 40%, there are 4 plants totally. So one is just started in fact few days ago so average they would be anywhere between 40% to 50% or somewhere around that level.

Moderator: Thank you. Next question is from the line of Mihir Jhaveri from Religare. Please go ahead.

Mihir Jhaveri: Just one question in terms of the realization decline, so there has been a steep decline if I take the volumes including the exports and clinker volumes its 5% more. Which are the regions would have been impacted the most that's my first question this quarter for us?

Atul Daga: I didn't understand your question.

Mihir Jhaveri: If I take the number in terms of volume-- our volume growth--on a quarter on quarter basis, take the volumes of 13.9 which is the number which you have given including the exports and clinker. The quarter-on-quarter decline is coming in terms of realization pretty steep on a blended basis of (+5%), so I wanted to know which are the regions which are the most impacted number one because there is such a steep decline.

Atul Daga: In prices?

Mihir Jhaveri: In prices and secondly in terms of Pet Coke one book keeping, if you can give us what is the Pet Coke prices for this quarter versus the last year and Q3?

Atul Daga: One is price decline the highest we have seen in the East and West that's the maximum; others are plus-minus here and there, doesn't make a difference.

Mihir Jhaveri: And would it be fair to assume that both the regions now would have the exit rate which will be much higher compared to the quarterly average?

Atul Daga: Yes.

Mihir Jhaveri: If you can give me the Pet Coke prices for this quarter average.

Atul Daga: Average about $40-$45 per ton.

Mihir Jhaveri: Vis-à-vis last year?

Atul Daga: I'm talking about January-March 16, somewhere around $40-$45 per ton and before that it must have been $70 per ton .

Mihir Jhaveri: For 15 you're saying?

Atul Daga: Yes and March 15 it was somewhere around (+$ 70 per ton).

Mihir Jhaveri: And Q3?

Atul Daga: Its $ 70 to 80 per ton and Q3 it somewhere around $50 per ton, so Q4 we have seen benefit of $8 to $10 per ton coming in.

Mihir Jhaveri: What will be the exit run rate right now?

Atul Daga: Exit is difficult to say, as in when you buy your shipment so now when we have hardening trend it's obviously gone the averages that we have seen $40-$45 per ton, we are seeing upwards of $45 per ton.

Moderator: Thank you. The next question is from the line of Rajesh Kumar Ravi from Centrum broking. Please go ahead.

Rajesh Kumar Ravi: Would you please suggest on this JP acquisition, what was the captive power plant the breakup, which are the plants where you will be having the captive power plants?

Atul Daga: 265 MW of captive power.

Rajesh Kumar Ravi: But can you give the breakup, which all plants like having these captive power?

Atul Daga: All the plants, the clinker plants are self-sufficient in captive power.

Rajesh Kumar Ravi: So like it's not concentrated between some of the plants?

Atul Daga: No, it's fairly balanced. In fact, there is some surplus power also available which we will use for our other operations.

Rajesh Kumar Ravi: So you are saying it's well-spread across all the clinker units?

Atul Daga: Yes.

Rajesh Kumar Ravi: Secondly on your gross block for this acquisition what would that be?

Atul Daga: 15,900 crores is the acquisition price.

Rajesh Kumar Ravi: No, the gross block of the JP assets.

Atul Daga: In our book it will get recognized at 15,900 crores, of course that includes working capital also. Once we have the exact breakup towards the closer of the scheme we will be able to let you know.

Rajesh Kumar Ravi: Net level would you have some numbers?

Atul Daga: What do you mean net level?

Rajesh Kumar Ravi: Net block level. This is what you are saying 15,900 would be at capital employed level, right?

Atul Daga: Yes.

Rajesh Kumar Ravi: So gross would be much higher than this?

Atul Daga: The working capital cannot be estimated as of now. It will be on the date of closing so at that point in time only we will know what is the breakup of block and working capital.

Rajesh Kumar Ravi: This capacity addition in UltraTech standalone, which are the plants which we have added in FY 16?

Atul Daga: Jhajjar in Haryana, 1.6, there is Dankuni in West Bengal another 1.6, Patliputra has just come in Bihar and Pune by terminal got added 2 million ton capacity.

Rajesh Kumar Ravi: Nagpur is due, right?

Atul Daga: Yes.

Rajesh Kumar Ravi: So like 60.2 was end of FY 15?

Atul Daga: Yes.

Rajesh Kumar Ravi: So there we added only 3.2, right?

Atul Daga: No 4.5.

Rajesh Kumar Ravi: You are adding this Patliputra also in Q4?

Atul Daga: Yes. 66.3 is as of date, so March closing you did not have this 1.6 million ton of Patliputra capacity.

Rajesh Kumar Ravi: Only 3.2 got added in FY 16?

Atul Daga: Yes.

Rajesh Kumar Ravi: So 60.2 plus 3.6 so around 64 million ton is where we in FY16.

Atul Daga: Ended the year.

Rajesh Kumar Ravi: And now 3.2 would be what would we get added this year, right?

Atul Daga: 1.6 million ton because Nagpur is basis the logistics and clinker balancing it does not get added overall capacity.

Rajesh Kumar Ravi: On the plant utilization you shared, North is around 80% to 90% what you said is for Q4?

Atul Daga: We talked about Q4.

Rajesh Kumar Ravi: So four quarters together what would this number be, FY16?

Atul Daga: FY16 we were operating at 76%.

Rajesh Kumar Ravi: And all the four region wise as you shared?

Atul Daga: I don't want to talk about individual specific but the trend will remain the same.

Rajesh Kumar Ravi: South and West if demand picks up, you will have benefit over operating leverage?

Atul Daga: Yes.

Rajesh Kumar Ravi: One more observation on this trade payable numbers that you have reported this quarter, is there any restatement of the trade payable number? In the stand-alone number that I see number has come down. Trade payable last year it was reported…

Atul Daga: 1553 to 1613.

Rajesh Kumar Ravi: I think last year it was higher number FY15 number which was reported earlier was higher number.

Atul Daga: In the annual report it was some reclassification from trade payables to other current liabilities.

Rajesh Kumar Ravi: Now this reclassification has led to this?

Atul Daga: Yes.

Moderator: Thank you. Next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: Now the CCI has been talking that like the participants can't bid who are having a market share more than 5% of the relevant area, so what would be the idealistic or realistic calculation or the quantum according to your company for the relevant area market share?

Atul Daga: This is a CCI norm, I really don't have any way to explain what should be an ideal now. But healthy competition I would look at it if standard one player, monopoly two players, duopoly and anywhere where you have more than five players its healthy competition. So from that if you look at five players then it is 20% market share.

Kamlesh Jain: It should be in between 20% odd.

Atul Daga: No, what I'm saying is it depends upon monopolistic situation versus what is a healthy competition. I'm saying anywhere above five players is a healthy competition.

Kamlesh Jain: In the southern market what we have been hearing that the demand has come primarily because the prices have been very weak and every player wanted to show their strength that how much volume they can hit in the market. So that was the key driver for the higher volumes in the southern market. So now with the prices picking up as it is expected in the first week of May or in the coming months. Do you think that this trend is going to continue with the huge volume growth which we have seen in the month of March?

Atul Daga: That will be good if we have volume growth as a strike growth that will be very nice. We are seeing an uptick in volumes in any case that should benefit the industry.

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

Gunjan Prithyani: Just two clarifications I needed, one on the JP acquisition. When does the entire amount get paid, is it staggered or is one bullet payment?

Atul Daga: One bullet on the date of closing.

Gunjan Prithyani: That would be closer to end of Feb ’17.

Atul Daga: Yes Feb ‘17, March somewhere around that time

Gunjan Prithyani: Is there any risk to the timeline now that you are guiding to Feb or March, anything on the regulatory front or anything else that we should keep in mind?

Atul Daga: I have always maintained it would take somewhere 12 to 15 months from where we have signed. Maybe if I count on that perspective, we have signed our MoU on the 20th of Feb from there also. So it is somewhere around plus minus 14 months is what we look at, so February, March, April is anybody's guess.

Gunjan Prithyani: On this MMDR amendment there has been some news flow around fee imposition on the limestone. If you can share what exactly it would be and how does it get borne by the buyer?

Atul Daga: We don't know what kind of charge will be levied. It has to be linked to the current royalty so if it is 100% of royalty--just taking a number—Rs.80 is the royalty per ton of limestone used, so additional Rs.80 per ton of limestone will have to be paid on the mines that come with the acquisition. Again the rules are not clear, after Rajya Sabha passes the center of the mines ministry will lay down the rules, the rates could vary from state to state. It all depends on how the rules are modified.

Gunjan Prithyani: Even if it gets passed by the parliament now in this session we will not have a clarity around this imposition. So this does not impact the transaction price and any way it is going to be an ongoing cost.

Atul Daga: Yes, we will see what the cost implications are and then only take a decision.

Gunjan Prithyani: Will you be able to share the volume breakup for this quarter or this year in terms of how much was it IHB or project.

Atul Daga: No, I don't have that breakup because ultimately our sale is either to large contractors or to distributor and they have their end point connection. But we just have industry trend but not really specific number.

Gunjan Prithyani: Has there been any significant shift in the sense because of course the incremental demand is coming a lot from the infrastructure segment--the project segment-- is there a significant skew in the mix in this year?

Atul Daga: The only skew which I can talk about is the way RMC volumes have gone up. Within the RMC volumes if I talk to our people, there volume jump towards the road sector is significantly higher as compared to the high-rise construction work. So that is the only surrogate that I have to talk about growth in volumes and housing vis-à-vis infrastructure. It's a not a direct correlation--but that's the only correlation that I can draw upon.

Gunjan Prithyani: Would it be possible for you to share any commentary in terms of region wise growth trend, whether a particular market has been substantially better than the 11% every industry growth, any sense?

Atul Daga: This quarter I would imagine that North has grown the highest, followed by East and then Gujarat and then it will be scattered.

Gunjan Prithyani: Last question on the waste heat recovery, so we've broadly reached the target that we'd set out that it would be about 5% to 6% that you said at the beginning of the year, so is there any incremental investments now we are evaluating given the cost in this case is fairly lower than TPP?

Atul Daga: Yes, we are evaluating further projects. They have to have a positive return and we will take on the CAPEX, not yet decided but there will be some more opportunities on WHRS.

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

Ritesh Shah: The first question is regarding the SOx and the NOx norms, so the government did amend these norms late December. How are we placed and would this attract incremental CAPEX?

Atul Daga: There is incremental CAPEX which is part of our 1500 crores plan that we are doing. It remains to be seen whether the industry can complete the CAPEX plan. More than the industry whether the equipment supply side is geared up to take care of the needs of the entire industry.

Ritesh Shah: There is no timeline for this so that we need to comply to it….

Atul Daga: December '17 was the time limit given by the ministry. But looking at the progress made by everybody I guess the ministry will take a call whether an extension is required or not. It's too early to say that right now.

Ritesh Shah: In the prior questions you did indicate that we had locked the Pet Coke prices, so if you could provide some more color on at least on the volume side that we have locked. So is it just one quarter what you hinted in the prior questions or is it more than that?

Atul Daga: As of now next quarter is already locked, we don't lock for too long in any case. Then otherwise you will question me why my working capital has gone up. We have to balance both sides P&L versus balance sheet.

Ritesh Shah: Government did notify composite cement besides PSC and PPC, how do you see these new norms on composite cement? Is it something that we intend to launch going forward, how do you look at it?

Atul Daga: Yes, we are examining the product and how to bring it in the market.

Ritesh Shah: Do you see this basically helping the cement players on a procurement side, probably a lowering the procurement cost because you will have the flexibility to choose the field.

Atul Daga: Early to say that, it needs to be tested from all the parameters, in terms of strength, essentially the strength and how the finish, etc., so once it is tested and the product is stable then only we will be able to say anything further.

Ritesh Shah: How much is the volume that we move through sea and how do we see this trend going forward?

Atul Daga: 3% to 4% move up by sea and that's a standard steady volume. It's basically to our unit in Lanka and to our but terminals around the seaside.

Moderator: Thank you. Next question is from the line of Murtuza Arsiwalla from Kotak Securities. Please go ahead.

Murtuza Arsiwalla: 4Q petcoke was about $45-$50 per ton, I understand the inventory will allow you to continue that benefit. But what would be the spot prices currently around Pet Coke?

Atul Daga: Somewhere around $45-$50 per ton.

Murtuza Arsiwalla: So it's not moved much.

Atul Daga: It has moved, we will have impact because Pet Coke for energy component is nearly 30% of the overall cost and we have enjoyed the benefits of lower prices in the last year so any increase is hurting the manufacturing guys. We have not seen an increase over last one-year and then we're feeling happy. So now even a $1 increase, pinch.

Murtuza Arsiwalla: On the demand side 4Q FY16 has obviously been fantastic with the 15% growth. Any sense you can get on how April is been so far, is it the same kind of double-digit or we are more moderate in down to…

Atul Daga: Murtuza unless you were not there on the call earlier, I have clearly mentioned I don't want to give individual months. We will talk about the quarter as a whole at the end of Q1.

Murtuza Arsiwalla: If we can still just talk about how the exits months pricing would be versus the average for the quarter.

Atul Daga: That is better than the average.

Murtuza Arsiwalla: Any number that you could put to that?

Atul Daga: At the end of Q1?

Murtuza Arsiwalla: At the end of 4Q…

Atul Daga: I will tell you at the end of Q1'16.

Moderator: Thank you. Next question is from the line of Vaibhav Desai from SBI Life Insurance. Please go ahead.

Vaibhav Desai: On the energy efficiency part when you have said that you have 5% energy efficiency gain, so is it primarily driven by the waste heat recovery?

Atul Daga: Waste heat recovery as well as consumption improvement.

Vaibhav Desai: Because on the kiln side you have improvement of around a percent, so that is what you have written in the presentation. On the power consumption side of the remaining gain would be there?

Atul Daga: Yes.

Vaibhav Desai: So roughly around 3% is coming from waste heat recovery and around a percent from power reduction?

Atul Daga: You can say that if you want to split it. I think it helped splitting but what I have seen is the power consumption per ton of cement has improved from nearly 3 units improvement has taken place, so that is a big saving which is a sustainable benefit.

Vaibhav Desai: Around how much kilo calorie in terms of power going for, so kiln has 710 Kcal and for everything else in power how much would be in kcal terms.

Atul Daga: No kilo cal is only for heat consumption and power is in kilo watt unit.

Vaibhav Desai: As of now it would be around how much?

Atul Daga: Around 80.

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

Rakesh Vyas: Few clarifications to begin with, this 80 kilo watt is on per ton of cement or clinker?

Atul Daga: Per ton of cement.

Rakesh Vyas: The fuel which that your report, is it based on the kcal adjusted basis or its volume million ton?

Atul Daga: On heat consumption basis.

Rakesh Vyas: Are you likely to see any significant change now in this fuel mix it given Pet Coke prices have increased?

Atul Daga: It's still lower till the time domestic coal is expensive as compared to Pet Coke; it makes logical sense to continue using Pet Coke.

Rakesh Vyas: And versus imported coal it's a way cheaper on landed basis.

Atul Daga: Yes.

Rakesh Vyas: My another question is slightly strategic. You have highlighted that the utilization level in East was around 90% that is the region which is growing the fastest currently.

Atul Daga: Correct.

Rakesh Vyas: Whereas our Greenfield capacity expansion plan seems to be coming at a halt now. So is it risk or a concern that we will start to lose market share in that particular region if we do intend to put up new capacities because lot of other players are putting up capacities?

Atul Daga: You will see which are the ways to meet the demands of that market when we get our capacities from the Jaypee acquisition, there are a lot of capacities which are in the East which can cater to the Eastern markets also.

Rakesh Vyas: And you don't think that there would be a disadvantage in that particular aspect. Just trying to understand is it better to put up new capacities directly or…

Atul Daga: No, unless you have capacity closest to the market, yes certainly that capacity will benefit but more important is availability of an absolute capacity. It will be still worthwhile to incur the freight and capture the market and get the benefit of good volumes over there. So when we get a capacity in UP East, it can easily good towards the further Eastern states and get the benefit of high volumes over there.

Rakesh Vyas: Can you just highlight as to what could be in your assessment the optimum waste heat recovery capacity at the complete at the company level specifically?

Atul Daga: We are examining it and there could be another 30-40 MW of WHRS power that can be implemented.

Moderator: Thank you. We will take the last question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the Greenfield, so do we have enough environmental clearances already in place for next phase of Greenfield, the limestone?

Atul Daga: Yes, we have enough limestone and we don't get into a Greenfield capacity expansion without clearances.

Anshuman Atri: You have got already all these ECs in place and you just have to get board approval or you have to bid in auction if you want to go for the new expansions.

Atul Daga: It's both ways whether we have to bid in the auction that will if we win the mine then they will decide. It is very difficult to say right now. The thing is that nothing has been approved as yet on the next phase of CAPEX plans. As and when we have some concrete plans we will come back to you.

Anshuman Atri: My second question is regarding to the building products ultimately it's only adding to the portfolio, so I know. You have this building solutions franchise so what are the targets as to how much what kind of products you want to add and what percentage of sales through these franchisees should be for UltraTech products as compared to other…

Management: Right now we have around 1100 stores of UltraTech building solutions which we are planning to extend it to around 2500 by coming year-end. Basically it is catering to steel, paint, asbestos sheet, like those types of products.

Atul Daga: You have all the homebuilder's requirements to be met under one roof, whether it is masonry services, architectural services, vastu consultancy if you require. You may name it what is required, my colleague already mentioned about paint, white cement of course-- our own white cement—sales through that shop. I have seen personally some of our affiliates have been able to enlarge the basket of offering right from the hammers and nails also that have been sold from their store to any other kind of building material that is required.

Anshuman Atri: Is it leading to more footfalls for UltraTech in terms of sales on their store versus normal store for UltraTech Cement?

Atul Daga: Certainly, all the franchisees operators who are going to participating with us in UBS have seen a significant improvement in sales and business volumes for themselves. There is definitely a big advantage that UltraTech also gets from the brand presence and the comfort that we are providing individual to a standalone customer where we are able to meet all his requirements under one roof.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the conference back to Mr. Atul Daga for his closing comments. Over to you Sir.

Atul Daga: Thank you everybody for being on the call and listening to us. This has been a good quarter and I hope we will be able to deliver good results and good quarter year on year. Thank you.

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