"UltraTech Cement Limited Q4 FY18 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 Q4 FY18 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Daga - Executive Director and CFO of the Company. Thank you and over to you, sir.

Atul Daga: Thank you. Good afternoon and welcome all of you for our fourth quarter FY18 Earnings Call. I wanted to start by saying **we are one step ahead and will always be ahead.**Let me elaborate by what I mean by saying this.

1. First one would be the acquisition of 21.2 mtpa capacity that we did in June 2018. Ramp up of all the plants as ahead of its schedule. In a cyclical commodity industry normally projects are financed with 40% debt, however, we had finance this acquisition with 80% debt and I am delighted to share with you that we would have achieved a cash break even on these assets for the quarter ended January-March 2018, one quarter ahead of schedule. The capacity ramp up has been improving month after month. We achieved a nearly ~ 75% capacity utilization for this quarter. Some of the plants in the north and central markets are consistently operating above 80%-85% capacity utilization.

   We have committed and incurred a CAPEX of about 109 crores only for retrofitting these plants to our standards and going forward we will have normal maintenance CAPEX costs. Operating cost for these plants have been dropping down as planned and some of the plants have already achieved our benchmark costs.

   Distribution network for these plants has been further strengthened over what we had acquired in June 2017 with a view to enable the network to achieve the position UltraTech deserves in the market place. Logistics cost has been our prime focus as part of the integration program. In spite of rising cost, the efficiency improvement has been as planned.

   Manufacturing costs - we have almost reached very close to the targeted cost in terms of efficiency in operations. The capital investments made and being incurred will help us bridge the overall gap.

   Today we are about Rs. 125 per tonne away from our targeted operating cost excluding the structural cost differences which is essentially on the MMDR royalty.

The next target for us on the acquired asset is to achieve a PBT break-even by April-June in 2019 which will be as promised at the end of the 8th quarter of operations.

2. **Greenfield expansion**: I think we would have created a world record of sorts. Completion of a Greenfield integrated cement plant, from the ground breaking to commercial production, stabilization in less than a year. Our 3.5 mtpa capacity Greenfield cement plant has been commissioned in April'2018 and has already achieved a Clinkerization capacity utilization in excess of 60%. This plant will cater to the high growth markets of South–West MP and North MP. Also help us reorganize the logistics network within the north markets further enhancing the market share in those regions.

3. **Limestone**: limestone is becoming next important factor to focus in the cement industry ever since limestone mines are being auctioned. In an auction in the Chhattisgarh state in March 2018, we have acquired a mine for our future expansion. East as a market has become the fastest growing in the largest market for cement and this mine will give us the strategic advantage to gain market share. Of course, the mine will start its operations somewhere in 2025 only not in the immediate future. We will be actively exploring opportunities for securing limestone for future growth.

4. **Pet coke** which is a worry for all cement players, it is become black gold now. Costs of pet coke procurement has been going up continuously. It is currently trading somewhere around $115 per tonne and has already gone up. I guess $10 from the last quarter. Next quarter, which means the April-June quarter also we will feel the impact of rising cost.

   Imported coal has also become dearer currently trading at around $110 per tonne. Last year the pet coke was around $85 to $87 per tonne only and imported coal was also at a similar level of $85 per tonne. Given the level that which pet coke is operating some of the plants in our network have become amenable to switch over from pet coke to imported coal or domestic coal and we are looking at those opportunities.

5. **One-off impacts in our P&L:** We have reported a PAT of Rs. 488 crores which actually according to us is Rs. 677 crores before the impact of one-time exceptional items of Rs. 189 Crs. At Rs. 677 crores PAT it would look like a drop of 1.6% only over the previous year in spite of interest cost increasing by nearly 182 crores.

   - **Stamp duty on the acquisition**: We have made a provision of Rs .226 crores on account of stamp duty for the acquisition that we have done last year. This has been charge to the P&L as per the new accounting standards. Had we done the acquisition somewhere in 2015 this amount would have got capitalized but under the current accounting standards we have to charge it off to the P&L it becomes the onetime cost.

- Deferred tax provisions have gone up because of the change in tax rates, cess going up from 3% to 4% there is one time impact of Rs. 41 crores on account of deferred tax charged to the P&L.

Other one-time impacts to our performance:

- **Yield curve:** MTM gain on treasury incomes were lower as compared to the last year by about 64 crores due to the yields being lower by about 1.5%. 10-year G-Sec hardened by 70 basis points from 6.69% as on 31st March 2017 to 7.4% on 31st March 2018. This is of course a notional impact, but it impacts the P&L.

- In our foreign subsidiaries we have taken 2 impairments which would impact the consolidated accounts. First one is the WHRS plant which was installed in the Dubai unit has been impaired at a value of Rs. 75 crores. This reflects in the consolidated P&L account for the quarter. Second, we also had made some time back an investment in gypsum mining in Oman. We have reduced our investment in that company to a minority stake and thus resultant one-time impairment loss of Rs. 14 crores has been accounted in this quarter.

6. **Leverage:** I think we do not like leverage situation and are focused on rapid reduction of debt which was taken for the acquisition. We have ended the year with a net debt of Rs. 12,007 crores in our standalone financials. Having reduced our net debt position by Rs. 1,600 crores since the acquisition, Rs. 1,000 crores of this reduction coming in from the quarter 4 itself. We have closed this year with a net debt EBITDA of 1.85 down from about 2.1 at the time of acquisition. Mind you the EBITDA this year is not representative of a full year performance since the acquired unit had a matured performance of only one quarter which was January-March quarter. The acquisition also had a life of only 9 months in this year.

7. **Demand**: This year the industry will surely surpass the GDP growth rate of the country coming out of its longest down cycle. There are some mega projects getting launched, the bullet train, there is a Mumbai-Delhi 10 lane expressway coming up very soon, Delhi International Airport and there are other metro networks which are being done. These are some big projects to count amongst the few. I believe that infrastructure will continue to drive demand for the near future.

- Eastern markets are fast becoming the bell weather for cement demand as it appears from the capacity utilization in that region and overall demand which is largely being driven by government spending on low income housing program and roads.

- Northern markets continue to break record every quarter showing a huge appetite for growth. Housing market has started improving a bit but again infrastructure demand is what continues to pull weight.

- In the central market of course, there is the new infrastructure projects are generating big demand.

- Maharashtra, affordable housing segment witnessing high demand coupled with good demand coming in from infrastructure activities in Mumbai and other parts of the state.

- Gujarat is still witnessing a weak housing demand because of RERA. However, with the DFC entering the state there are some expectation of demand revival in Gujarat as well.

- Andhra Pradesh and Telangana have been driving demand in southern region with various government projects and Karnataka has also witnessed improvement in demand from commercial and housing segment. Despite political instability cement demand has shown signs of recovery in Tamil Nadu also, the demand mainly coming from the IHB segment.

8. **Road** construction, which has been the biggest driver within the infrastructure segment. During fiscal year 2018 NHAI constructed about 9,829 kilometers of roads at a pace of 27 kilometers per day which is an improvement of 20% in its pace of last year which was at 22 kilometers a day. Road contracts which have been awarded during the year is also high of more than 17,000 kilometers.

9. **Social housing** again the government has sanction 7.7 million units till now out of which 3.5 million units have already been constructed, under PMAY Gramin Program. There is a long way to go in the 6-year program which the government had announced. The Prime Minister's Awas Yojana India, Urban area is having a similar traction.

10. **Sand mining ban** and the problems that sand mining was imposing on the industry is almost over. In most of the states it is coming back to normalcy, except in Rajasthan where the ban continues as per Supreme Court and is impacting the construction activities to some extent over there. The next hearing of Supreme Court is in the first week of May 2018 and we are hopeful that very soon or this quarter will see the end of issue of sand availability from the construction point of view.

11. We believe that the last quarters of the lowest of EBITDA margins due to increasing input costs and the muted price trends. With the capacity utilization improving significantly across the country we believe that the industry will be able to pass on the cost increases as part of the prices and we should see better price regime in this financial year.

At UltraTech, we saw capacity utilization of 88% in north, central was 76%, west at 82%, south and east being 70% and 90% respectively. East continues to feel pressure of non-availability of rail network because of which there is some restriction on supply.

We have seen a Y-o-Y improvement in realization of 5% and 2% on quarter-on-quarter basis. If I have to look at the zonal trends we saw price improvement of about 1% in north, west improved 11%, east improved 16% and south was flattish or a marginal decline of 1%. Prices have seen further improvement as we stepped in this financial year.

That is all from my side. I will be happy to take questions now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Navin Sahadeo from Edelweiss Securities. Please go ahead.

Navin Sahadeo: 2 questions. Sir, first is you mentioned about prices. So, other regions while like on year-on-year basis there is some bit of improvement. What is leading to low prices in the north region in particular because that remains laggard and as you said in initial comment that your capacity utilizations including others are operating at a fairly healthy level there?

Atul Daga: I guess it is a matter of time only when you will start seeing improvement in prices because the only reason whether the demand is temporary that could be one phenomenon playing the minds of the players wanting to capture market share instead of worrying about prices. I do not see any other logic.

Navin Sahadeo: My second was with respect to your Greenfield capacity which you said it is a record this time. So, there we just wanted to understand what there if you can just tell us, is it the construction period or is it the faster delivery of equipment. What really lead to this and is it then like something, I mean just trying to understand if something like this can be emulated by other players as well as in the lead time for a new plant from a 2 years typical period can just come down to be a year or so. Some color will be helpful there.

Atul Daga: It all depends upon individual capabilities and efficiency. There is a lot of learning which will be available from our example. So, if people were to act at a similar pace and similar strategy then obviously a plant can come up in 365 days.

Navin Sahadeo: So, you are saying it can be a new norm that any Greenfield project can commission in a year period?

Atul Daga: Yes, we will repeat, I do not know what others but we will definitely repeat it.

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

Vivek Maheshwari: Few things, first what is your estimate of fourth quarter as well as fully year demand growth in FY18 for the industry?

Atul Daga: I would imagine it will be a double-digit growth.

Vivek Maheshwari: For fourth quarter?

Atul Daga: Yes.

Vivek Maheshwari: And for full year what is your estimate, sir?

Atul Daga: Around 8%.

Vivek Maheshwari: Second on your own volumes could you indicate how much would be JPA in the total 17.5?

Atul Daga: Very difficult Vivek, because the material moves crisscross. Lots of people, my board has also asked me this question. I am not able to exactly quantify. Only feature that you can analyze, it is that capacity utilization of these plants has gone up to 74%-75% in this quarter. So, that is the sales volume out of 17.2 million tonnes capacity 75% capacity utilization for this quarter.

Vivek Maheshwari: 74%-75% the average through the quarter is it?

Atul Daga: Yes.

Vivek Maheshwari: That will make it around 4 million during the quarter.

Atul Daga: Yes, so 4 million tonnes is under implementation as of now. So you have to quantify**.**

Vivek Maheshwari: Sure. Other thing you said in your opening remarks is if we adjust for one-off the profit is Rs. 677 crores that is standalone, right?

Atul Daga: Yes.

Vivek Maheshwari: So this Rs. 226 crores of one-time, is that tax deductible or no?

Atul Daga: Yes, so there is a tax impact, tax benefit of that, Rs. 78 crores is the tax impact, net impact being something around Rs. 140 crores because of that.

Vivek Maheshwari: So, that is tax deductible?

Atul Daga: Yes and Rs. 41 crores is increase in MAT on the opening balance because of surcharge rates going up from 3% to 4%.

Vivek Maheshwari: Which is part of the deferred tax line, right?

Atul Daga: Yes.

Vivek Maheshwari: And lastly on the foreign subsidiary where you mentioned about what exactly went wrong with waste heat recovery and investment?

Atul Daga: That plant was on a different technology, because we have got 5-7 plants already operational in India. That was an ammonia gas-based plant and what was expected to be a good technology; the technology was not successful. They were frequent break downs, gas leakage which was a very high-risk area might as well, we have scrapped that plant.

Vivek Maheshwari: So, the residual value is nothing. Rs. 75 crores is the net impact and you will not recover anything at all, right?

Atul Daga: Rs. 75 crores is net of residual value.

Vivek Maheshwari: Small one but investment in this gypsum mining, what exactly happened over there?

Atul Daga: So, it was a small mine about 6,00,000 tonnes per annum mining capacity and there are much larger mines operational. Due to its own operating capabilities we saw that the operating cost are much higher than the selling prices and that is why does not make strategic sense to remaining stay put in this mine because we are able to procure gypsum directly also at a lower price.

Vivek Maheshwari: I have just one more bit if I may, this pet coke what will be the average consumption cost during…

Atul Daga: $104 per tonne during the quarter, against that now it must be anywhere $110 to $115 per tonne.

Vivek Maheshwari: So the 10% plus hit will be there in the first quarter?

Atul Daga: First quarter, yes.

Vivek Maheshwari: Can you do much about it in terms of efficiency over there or that is something we have to factor in?

Atul Daga: See, overall like this quarter also we have seen about 3% improvements in power consumption. So, that will definitely help in mitigating the impact of rising pet coke prices.

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

Anubhav Aggarwal: Atul sir, one question on the just INR sensitivity to our overall cost because we see certain items like pet coke, imported coal, diesel, etc. which links with INR depreciation, I mean would we have a very simple number like 1% INR depreciation leads to what increase in our cost?

Atul Daga: No, largely if I look at it pet coke as part of cost would form somewhere around 15% of total cost. So, that is the biggest cost driver and imported pet coke would be 7% to 10% only. That is where the maximum impact on operating costs comes from as far as foreign exchange is concerned.

Anubhav Aggarwal: And if we include diesel as well, so total impact we would say, cost will be 15% to 20% which will be impacted by INR depreciation?

Atul Daga: 10% to 12% mainly. Because diesel impact directly our road freight, 40% of road freight has linked to diesel prices others are non-diesel linked prices. So, the logistics costs variation take place only 40% to the extent of diesel.

Anubhav Aggarwal: And one clarity on the employee costs. Employee costs in this quarter is decline 9% sequential. I have always seen that in March quarter it declines but this time the decline was significantly higher than their past trends?

Management: There is a reduction in retiral benefit provisions because of interest rate is hardened.

Atul Daga: Yes, it is a gratuity accounting or leave encashment accounting issue.

Moderator: Thank you. The next question is from the line of Sneha Baheti from Kredent Capital Ltd. Please go ahead.

Sneha Baheti: So, sir my question is what would the annual demand requirement in central India be and is there any incremental capacity that is expected to come on stream in that region?

Atul Daga: So, there is no incremental capacity. The large capacity which came in was our own capacity of 3.5 million tonnes and to answer your other question just one second central India, so we have about 17.6 million tonnes of capacity accounting for 20%.

Sneha Baheti: You said some of our plants are being able to switch from pet coke user to imported coal.

Atul Daga: Imported coal or domestic coal.

Sneha Baheti: Yes, what could be the cost savings be from this shift?

Atul Daga: Right now, the way we look at it is whichever fuel is cheaper we need to go in for that fuel. And it is again prices are moving and there was time when pet coke would be 10% or 15% beneficial in energy terms. That benefit has got eroded, so might as well shift into alternate sources.

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

Gunjan Prithyani: 2 questions. Firstly, one the JPA assets did you say that the 74%-75% is for the, the average for the quarter or is the Exit?

Atul Daga: Average for the quarter. Exit was much higher.

Gunjan Prithyani: Can you share the Exit number?

Atul Daga: It was about 84% or 85%.

Gunjan Prithyani: And in the comments you mentioned that the cost difference now is about Rs. 125 per tonne and there is of course the MMDR that you need to pay. So, the EBITDA per tonne difference between JPA and the pre JPA, I mean UltraTech standalone assets should be close to about Rs. 200 a tonne is that correct?

Atul Daga: Yes, 125 per tonne towards this cost and the Rs. 70 per tonne towards that MMDR royalty. If you put together it is ballpark Rs. 200 per tonne.

Gunjan Prithyani: And second question sir I had on was on the capacity addition now clearly this is ramped up fairly well and you mentioned that you are looking at M&A, you are accelerating your capacity addition. Could you just give some sense on what are we targeting in terms of capacity market share and which are the regions where we are open to explore more opportunity for additions? And a just related question to that what is the leverage level we will be comfortable with, while exploring these inorganic and organic opportunities?

Atul Daga: We will obviously be picky in terms of assets through the inorganic route**.** Obviously, we have to be cognizant of compliance with CCI. Having said that we want to grow in line with the industry or at a pace higher than the industry. Today our capacity utilization for the quarter was about 80% all put together with markets growing at 8% to 10% in the next financial year. We would want to capture our market share of that growth also whether by way of acquisition or organic expansion.

Gunjan Prithyani: And any regional …

Atul Daga: Geographic, yes, east is our focus area. East, north within south, extreme south remains our focus area. There is a bit of room from our perspective to expand further in the central market and also north east.

Gunjan Prithyani: And the leverage that you will be open to while evaluating these opportunities, let us, what is the comfort.

Atul Daga: Having done that large acquisition of Rs. 16,189 crores I do not think there will be any similar ticket size of acquisition and we have reached with that acquisition at about 2.4X debt EBITDA. So, internally we are prepared to go up to 2.4 - 2.5x for sure but I do not foresee a possibility of debt levels rising to that higher level because the ticket size of acquisition will not be so big.

Gunjan Prithyani: And on the new capacity addition can you share the timelines for the JPA or the assets under implementation when did when do they come on stream and also the Pali project?

Atul Daga: Yes, so these Bara project which is a 4 million tonnes grinding units will come on stream by April-June 2019 and Pali we are targeting somewhere around any time in FY21.

Gunjan Prithyani: And just last question on this limestone bid that you mentioned what would be the operating cost that works out at your bids?

Atul Daga: So, the effective cost or the royalty commitments is Rs. 537 per tonne. That limestone mine will get commission somewhere around 2025 only.

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

Indrajeet Agarwal: I have 3 questions. Sir, first in light of the capacity additions in the industry in the course of FY19, how do you see prices moving in that aspect? Do you think that there will be enough demand to absorb that and then have a better profitability in the year?

Atul Daga: Yes, as I mentioned in the opening commentary that last quarter was the lowest in terms of EBITDA per tonne because the cost had been continuously going up and prices had not improving. So, there is only that much of resilience which the industry would have not to throw back the cost increases into prices. With capacity utilization is now hitting upwards of 75% for the industry as a whole. I believe that prices correction could happen perhaps improvement could happen.

Indrajeet Agarwal: And sir on pet coke you mentioned the trajectory of imported pet coke prices. How do you see domestic coke prices?

Atul Daga: Unfortunately, domestic has gone up slightly higher than imported pet coke. 39% is what we saw an improvement, increase in domestic prices as compared to 20% increase in imported pet coke. It defies all logic that is all.

Indrajeet Agarwal: And after Reliance comes in the refinery, do you think there is a further upside to those numbers?

Atul Daga: Difficult to say, of course there will be shortage of domestic pet coke, people will switch over to imported pet coke. There is enough pet coke available outside India.

Indrajeet Agarwal: And sir one last one housekeeping question from my side. Can you give us the white cement and wall care putty volume number and the revenue numbers for RMC and white cement?

Atul Daga: 4 lakhs tonnes was the volume for white cement and RMC was about Rs. 535 crores of turnover.

Indrajeet Agarwal: And white cement turnover?

Atul Daga: White cement turnover is almost identical at Rs. 536 crores.

Pulkit: This is Pulkit from Goldman. Sir, regarding this release of working capital about Rs. 500 crores that you talk about compared to Q3, can you tell what the key drivers for this are? Has it got something to do with readjustment of logistics or anything?

Atul Daga: No, nothing to do with logistics, it is inventory management essentially and when you are tightening your procurement efficiency, so we are able to realize the higher credit.

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

Radhakrishnan: Sir, Radhakrishnan here. I have just slight different question what Naveen asked. So this is on the cost side. So, it is mentioned that the cost of setting up the plant is less than $90 per tonne. Is this cost including facilities like CPP, WHR, railway siding, etc.? Whether this low cost is only for this plant or at industry level also the cost has gone down?

Atul Daga: So, in our configuration yes, we do not have railway siding in this plant. We have WHRS instead of a power plant so that equates the cost. Other than railway siding I think it is a like-for-like comparison for any full-blooded integrated cement plant of this size 3.5 million tonnes.

Radhakrishnan: So, can we largely assume that at industry level also for a Greenfield plant it will be ranging between $90 to $100 now sir?

Atul Daga: It depends upon individual efficiency. I am not able to comment on the capability of others.

Radhakrishnan: For us also going forward at least you can say temporarily at least?

Atul Daga: Yes, from UltraTech point of view this is our benchmark.

Radhakrishnan: So, just follow up on that, so if it is going to be like this whether our expectation of profitability on per tonne basis for calculation of IRR would have come down?

Atul Daga: Theoretical, yes.

Radhakrishnan: Sir, just if I can squeeze one more question this is based on the presentation we are released for the month of March. Sir, in that you have mentioned that the southern region market share is 34% is that based on the volumes or capacity?

Atul Daga: It is always on capacity. Do not know volumes of other players, there is no data available.

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

Ritesh Shah: Sir my first question is on the trade, non-trade mix for us how was the numbers moved on the sequential basis and if you could provide some color on the pricing as well, how it has changed?

Management: So, in this quarter our trade share has increased by a percentage compared to Q3.

Ritesh Shah: And sir on the pricing basis between trade, non-trade how should one look at it?

Management: So, generally non-trade billing prices are lower because we do not have to pay the dealer commissions and discounts but if we will see it net realization level to the company there is only a marginal difference in case of non-trade.

Ritesh Shah: Sir, second at an industry level in the last conference call we had indicated we are expecting 35 million tonnes of capacity additions, can you provide some color on how the number will look like in FY19-FY20?

Atul Daga: I am looking at 20 to 25 million tonnes for sure.

Ritesh Shah: That was in FY20?

Atul Daga: Both years 2019 as well as 2020.

Ritesh Shah: And sir for our own expansion at Dalla clinker facility what is the status like?

Atul Daga: It should start clinkerization from September.

Ritesh Shah: And sir this is 2.3, right clinker?

Atul Daga: 2.2 mtpa

Ritesh Shah: And sir last question on pet coke, how much is the mix currently in the power plants and specifically with this changing regulation?

Atul Daga: Power plant do not have pet coke now, zero.

Ritesh Shah: So, we already moved to 0%?

Atul Daga: Yes.

Moderator: Thank you. The next question is from the line of Antriksh Banerjee from ICICI Prudential. Please go ahead.

Antriksh Banerjee: So, I just wanted to ask regarding cost efficiency how much has the lead distance reduced by? So Slide #11 mentioned is 3% and 6% that you mentioned in Slide #16 is what you aspire to achieve is that what I am reading?

Management: No, it is quarter versus annual. So, 3% is improvement for the year rand 6% it is Y-o-Y improvement for the quarter.

Antriksh Banerjee: And the other thing is you have already achieved an 85% exit utilization in this acquired assets. So, but the PBT break even targets still remains 5 quarters from now. So, are you not seeing any bullish momentum in realization?

Atul Daga: No, I want to surprise you guys.

Antriksh Banerjee: And the last one thing is something interesting you just mentioned is you are also looking at Northeast. So, is that an organic process or what you have on your mind?

Atul Daga: Will let you know as we are ready to disclose the plans at an opportune time.

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

Ashish Jain: Sir, on other expenses why is the growth so low relative to our volume growth. So, what is helping other expenses?

Atul Daga: It is higher capacity, volume absorbing the cost I would say.

Management: All the expenses do not grow proportionately.

Ashish Jain: No sir, I understand but if I see on a per tonne basis they are down like 6%-7% and I would believe this would include stuff like packing material, repair and maintenance which would have seen growth because of either crude or because of the increased capacity utilization.

Atul Daga: Cement industry there is no operating leverage. 75%-80% is variable cost. So, fixed cost component is so small and higher the volumes the fixed cost remaining same per tonne you will see an improvement.

Ashish Jain: So, there is no one-off here?

Atul Daga: No, one-off I spoke about on the call.

Ashish Jain: And sir also in employee cost what is the impact of the reversal on future payables, gratuity and all?

Atul Daga: Rs. 20 crores-25 crores.

Ashish Jain: Sir, secondly on the Dhar acquisition you spoke about the cost, now does it include the land acquisition cost?

Atul Daga: Yes, all inclusive. It is not the acquisition it is a Greenfield.

Ashish Jain: And sir, lastly on the Pali expansion now with your earlier comment on 12 months probably being a new norm for you then why Pali commissioning is more towards the end of the fiscal?

Atul Daga: From the start of ground breaking, I am sure we can do it within 365 days. We have not yet started serious work on that.

Moderator: Thank you. The next question is from the line of Anshuman Atri from Premji Invest. Please go ahead.

Anshuman Atri: My question is regarding the new channel. You mentioned that the channels are helping you to grow faster than the industry. For example, in RMC you increase the share, UBS contribution has increased to 1600. So, how do we see it going forward as to what kind of growth will see above the industry for Ultratech?

Atul Daga: So, RMC will continue to grow is not only for UltraTech whoever is operating in RMC will continue to grow because it is being led by the infrastructure industry which is demanding volume bulk or RMC. And from our perspective our retail channel which is the UBS we continue to expand in network across the country which is helping our sales volumes. There is no target number because India is a large network and wherever we are present we will continue to expand in and around our marketing networks.

Anshuman Atri: So, second question is regarding the limestone auction, so we are seeing increase in prices with every auction. How do you see the trend going forward as to, is there dearth of material or is it expecting demand people are bidding?

Atul Daga: It is the importance of the mine that each relevant player might attach to. We found this mine very strategic. It is very close to our Hirmi-Rawan plant which will help us in our future Greenfield expansions. Limestone quality being good. Good quantity of lime stone available very close to our plant is all drove our decision.

Moderator: Thank you. The next question is from the line of Vijay Chauhan from Jefferies Equity Research. Please go ahead.

Vijay Chauhan: Can you just tell me volume details regarding RMC and cement and white cement?

Atul Daga: White cement was about 4 lakhs tonnes, RMC rupee value was about Rs. 535 crores.

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

Amit Murarka: Amit Murarka here. On the fuel side just wanted to understand now that generally we have seen such a large inflation in pet coke and coal and the other fuels. So, what is your thought on industry moving gradually to more of AFR users and what are the constraints there just to understand?

Atul Daga: Constraints on AFR is largely availability in the country and the distance that the AFR has to travel in some of our plants. One particular plant which is down South, we are 20% now of our overall fuel mix , we have already reach AFR. So, it is more about access to AFR and there is the industry will have to do some capital investment which UltraTech is already done away with for kilns to be able to consume alternate fuels.

Amit Murarka: And one on JPA, so just to understands the pricing for all the JPA production is now at par with UltraTech, right?

Atul Daga: Yes.

Moderator: Thank you. The next question is from the line of Vaibhav Agarwal from PhillipCapital. Please go ahead.

Vaibhav Agarwal: Can you just share the consolidated volume numbers, please?

Management: It is 19.45 million tonnes. This include all white cement and putty also.

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

Kamlesh Jain: Sir, just wanted to know about the increase in realization quarter-on-quarter. So, it would be very helpful if you can share it region wise?

Atul Daga: Quarter-on-quarter, roughly 2% improvement in realization.

Kamlesh Jain: No, sir I mean to say region wise?

Atul Daga: Region wise, I do not have it readily on region wise basis.

Kamlesh Jain: And sir like region wise improvement, like say quarter-on-quarter improvement realizations which we have seen. So, is it primarily because of the increase in share of regions or it is primarily because of the market movement?

Atul Daga: There was definitely an impact of central markets coming into our fold within our market share from 1% growing up to more than 20%-21% barring that I think it is no different, every market has its own pricing behavior.

Kamlesh Jain: Sir, like but in terms of regions like say there is mix which was there in this quarter I know that exit rate has been much higher compared to the quarter average. But let us say the month average the exit rate which is there, so is it more or less stabilized or we are going to see further change in the mix going forward?

Atul Daga: See, you are asking about trade mix?

Kamlesh Jain: No, I am asking about the region mix?

Atul Daga: Region mix is to my mind stabilized now because central plants, central markets are operating at good capacity. There can be small movement, will not be too material.

Kamlesh Jain: So, like say prior to the JP acquisition you never use to have the Central region. You used to have only the Northern region. Now, I believe you would be having the Central region alone. So, the Central region is entirely UP or you mean to say the part of UP only?

Atul Daga: UP and MP is constituted our Central region.

Moderator: Thank you. The next question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

Saumil Mehta: First my question is on with the record time line of less than 365 days and a very attractive $90 per tonne. So, should we believe that going forward our acquisition strategy will take a back seat since we can set up plants that are much more cost acquisition in a timely manner?

Atul Daga: No, acquisition will play an important role. Being a Greenfield as we go along will become a little more complex because you do wait for mines auction, acquire mine and land acquisition become the slower process. So, preferred route is obviously inorganic over organic.

Saumil Mehta: What is in for our Binani acquisition as in what can be the potential IRRs at the revised bid which we have offered to them?

Atul Daga: Do not look at these standalone assets in terms of their returns because they form part of an overall network and how the overall network of UltraTech behaves. It is difficult to quantify on a standalone basis.

Saumil Mehta: Even if I look at the entire region wise if not a particular asset as on North region with because that should have been benefitted some of other capacity in that region. Does it still fit in our overall IRR objective?

Atul Daga: Yes, it does.

Saumil Mehta: And that I assume would be on a much-expanded capacity then what currently is?

Atul Daga: Obviously, post-expansion.

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

Sumangal Nivetia: One, on the cost difference between JPA and our organic assets you said it is around 150 ?

Atul Daga: 125 per tonne.

Sumangal Nivetia: So, do we expect this to narrow down going forward?

Atul Daga: Yes, I guess, I would give April-June quarter for it to narrow down to normalize levels.

Sumangal Nivetia: And when we said we exited at around 84%-85% utilization can we assume FY19 we might Exit closer to 90%-92% an average somewhere in between?

Atul Daga: Difficult to say but yes, I think our ambition will be to be above 80% for the acquired asset.

Sumangal Nivetia: And closer to 90 will be the peak where we can achieve, right?

Atul Daga: I do not know that.

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

Abhishek Gosh: Just if you could help me with the regional utilizations that I do not know if you have already given in the call the regional utilization numbers?

Atul Daga: Regional utilization I did mention but North we were somewhere around 88%, central about 76%, East 90%, West 82% and South about 70%.

Abhishek Gosh: So, just coming to one thing given that now we are talking about the acquired assets at about 85% utilization in which South is almost about 30% where the utilizations are much lower. So, would that constrain us from going beyond 85% on a consistent basis?

Atul Daga: When we have achieved 85% I think that becomes surely a base line number. As you rightly said South is the lowest in terms of capacity utilization. However, South is improving. I think 3 of the states or almost everywhere Andhra, Telangana are going very fast. Karnataka we are seeing some action and last quarter was pleasant surprise from Tamil Nadu also where the housing segments demand had been improving. So, South is growing.

Abhishek Gosh: So, you think that can catch up now in terms of …

Atul Daga: Yes. I do not expect it to go to the 80's but 70% that we have achieved should be able to stay.

Abhishek Gosh: So, I am saying in terms of our central capacity addition, we are adding Dhar and the Bara units in terms of 4 and 3.5 which is getting added till now to about next 12 months and they should achieve, so regional utilization levels of the Central region from about 12 months from the time of when they independently.

Atul Daga: Yes, absolutely.

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

Alok Ramchandran: Yes, so can I have the clinker volumes for the quarter?

Atul Daga: I do not have it. It is very insignificant. So, let me look at cement as a consolidated number.

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

Raj Gandhi: Sir, on this Rs. 125 cost differential that is Rs. 125 difference was is your targeted cost for JPA or your own UltraTech cost?

Atul Daga: Targeted cost for JPA. So, there will be one statutory difference which is about Rs. 64 a tonne and there are some structural differences because of hilly terrain one of the plants is in high up in the hills. So, there the cost of moving raw material is higher or some plants are land locked so essentially cost of moving material becomes higher. So it is about targeted cost difference.

Raj Gandhi: So, how much would your targeted cost let say X of that Rs. 60 royalty differential how much is the difference between the targeted cost of JPA and UltraTech structural difference?

Atul Daga: One structural difference, no that is not too high, one is Rs. 64 of royalty. On a cement converted basis it comes to somewhere around Rs. 70 and there would be Rs. 10 or Rs. 20 of other differences.

Raj Gandhi: Just Rs. 10 or Rs. 20.

Atul Daga: Yes, not too high.

Raj Gandhi: And sir just on Northeast plants, I did not see any specific comment on the PPT or anything. So, any specific comment as of now for North-East?

Atul Daga: Well just that we are looking at opportunities.

Raj Gandhi: Is it related to some mining options coming up there? We have some limestone auction coming up there?

Atul Daga: I have not heard of any auction date announcement as yet.

Moderator: Thank you. The next question is from the line of Pratik Maheshwari from Ambit Capital. Please go ahead.

Pratik Maheshwari: Sir, just one question what could be the cement to clinker ratio right now?

Atul Daga: 1.32 actually.

Pratik Maheshwari: Sir, could you just tell me what it was last year?

Atul Daga: We always are between 1.32 to 1.34 depending upon the blended cement ratio change.

Pratik Maheshwari: So, it did not reduce because of the infrastructure demand?

Atul Daga: No, not too much.

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

Akshit Gandhi: First question, how much would be the fiscal incentives for FY18 which we would have booked?

Management: About Rs. 300 crores.

Akshit Gandhi: It is Rs. 300 crores which I believe last year was 141 crores, right?

Atul Daga: Yes.

Akshit Gandhi: And sir second, while you commented on the pricing scenario just wanted to reconfirm whether in the Northern region the trade and the nontrade both these segments have seen a price improvement post March. Is that correct?

Atul Daga: Very marginal but yes, both the segments have seen improvement. It is not something great but yes, it is in the positive direction.

Moderator: Thank you. We take the last question from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: Sir, one follow up and I know couple of questions has been asked around it. But you are saying US $90 is the new Greenfield cost and in the past that number used to be $130. So, how has there been such a big delta? What has reduced essentially in this Greenfield?

Atul Daga: Can we keep our secrets?

Vivek Maheshwari: Yes, you can. But my point is on one hand you are saying that in a record time you are able to put up a plant in a year on the other hand you are saying Greenfield is going down. So, the entire theory that was there that entry barriers are rising in the sector, I mean is not it, are not both the arguments against….

Atul Daga: Let me describe it for you. One is this mine is not under auction, the Dhar plant. So, a land acquisition we completed long time back. If you were to start a Greenfield today on the basis of an acquired mine, my guess is it will go above $100.

Vivek Maheshwari: Because again acquired mine does not have a big CAPEX, right? The point is in this $90 essentially the only the land will be the…

Atul Daga: No acquired mine has the land CAPEX which shoots up the price goes up.

Vivek Maheshwari: So, essentially land will be the delta right?

Atul Daga: Yes, from the capital cost point of view land will become our delta, could add $10 to $15 per tonne.

Vivek Maheshwari: So you are saying even on an acquired mine the CAPEX will be $100- $105 as again $130.

Atul Daga: Somewhere around that, yes going by our Dhar experience.

Vivek Maheshwari: Against 130 that you used to say of couple of years back.

Atul Daga: Yes. With time we would improve, right.

Vivek Maheshwari: No that is great but I am saying why should you then be aggressively pursuing a Binani acquisition if that is the case?

Atul Daga: It all depends upon strategic value of the asset. Now I do not have enough limestone there in Rajasthan. This asset comes with high quality limestone and ample limestone. So, for doing an expansion it is a good asset. All inorganic will not be at the same price mind you.

Vivek Maheshwari: No, I understand but I am saying if let's say $100 is the new benchmark let us say industry requires a particular EBITDA or profitability for generating enough returns. Does that mean that Binani will be definitely dilute or decisively dilute till then? Because the benchmark itself is $100 as in will not generate enough IRRs or returns?

Atul Daga: No it will. It will generate enough IRRs. We know ways and means of how we will go about it.

Moderator: Thank you. Ladies and gentlemen, I would now like to hand the conference over to Mr. Daga for his closing comments. Over to you, sir.

Atul Daga: Thank you everybody for joining us on this call. I realized Board Meeting got extended and the Results were available to you for a very short period of time, but we had some interesting questions. I think the financial year has begun on a promising note for the cement industry with volumes going up. The industry coming back into the up cycle and UltraTech is very well-poised and will surge ahead full throttle. In the end I will say that we do what we promise and promise only what we do. Thank you and have a good evening.

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

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