"UltraTech Cement Limited Q4 FY19
Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to UltraTech Cement Limited Q4 FY19 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statements on the basis of any subsequent development, information or events or otherwise. UltraTech Cement reserves the right to block access to any media to whom an invitation is not sent. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Atul Daga – Executive Director and CFO of the company. Thank you and over to you, sir.

Atul Daga: Thank you, Sanford. Good evening and a very warm welcome to this call for UltraTech's Q4 FY'19 Results. Well, actually the Q4 results are out of the way and I guess we can now focus on bigger things that the country is experiencing. First and foremost the election. All eyes are on the results of general elections which will set the tone for the country's growth and of course for the cement industry for the next five years. All I can is that I am keeping my fingers crossed.

Next big thing are an event unfolding is the monsoons. And there is a lot of confusion around monsoons. We think that is nothing new in India. Initial news was that monsoon will be deficit and subsequent announcements were made that monsoons will be normal. It clearly shows that the met department is as unpredictable as cement industry. Last year also parts of the country had a dry spell and there could be drought situation in some parts of the country this year as well. You may be aware that there was a forced stoppage of construction activities due to acute water shortage in a few regions in the country in last year. We will have to wait and watch how the met department's forecast pans out this year.

Forecast for the GDP for this year is also robust, upwards of 7% and our belief is that the cement industry is back on track and will deliver higher growth this year as well.

Demand: Several questions have been raised about the source of cement demand. While the institutional demand is clearly rising in the country, we are still in a retail market. Affordable housing projects have started gaining momentum in several towns alongside the low income housing program in the rural markets. Besides, the infrastructure demand continues to grow very strongly.

Supply: During last financial year, 12 mtpa of new capacity was commissioned. Out of which 4 mtpa was added in Q1, 3 mtpa in Q2 and 5 mtpa in Q3. You all know that the cement plants take time to ramp up and secondly with the phasing of new capacity during the year it does not seem to be too much of a challenge with the new cement demand growing at a pace much higher than the new capacities. For FY'19 thus the effective annual new capacity during the year was around 6 mtpa only. However, the annual estimated demand for cement in the country is around 340 million tons and the installed capacity, the nameplate capacity, is around 480 mtpa. Out of these installed capacities, clearly, there are several plants which are not running optimally or shutdown giving us lower effective available capacity in the country. We expect 15 to 20 mtpa of capacity to get commissioned during FY'20. Staggered over the year and incremental demand during this year will be around 28 to 30 million tons. For FY'19 our numbers tell us that the industry will show a growth of about 13%. This is on the back of 9% growth recorded in FY'18 which had some economic reforms like GST and RERA and prior to that marginal or a degrowth in FY'17 because of demonetization. Ladies and gentlemen, do not be surprised in FY'20 if still there was a reasonable growth that should bring a smile to our face.

Input cost: As was expected we have had favorable cost conditions during this quarter. We expect the same trend to continue at least till H1 FY20 for sure. Pet Coke which is nearly 14% of our total cost has seen a reduction in the consumption price of about 7% sequentially, while imported pet coke prices were lower 16%, there was increase in domestic pet coke cost by about 4%. However, these days the US coal is as attractive as pet coke. So pet coke is not the standalone meter for energy cost consumption. Diesel which roughly contributes 9% of total cost and 35% of our logistics cost has also seen a reduction of 6-7% sequentially, helping in our road transport cost. UltraTech has close to 70% of its logistics being moved by road network.

Selling prices have seen an improvement in almost all the regions in the country, driven by strong demand and improving regional capacity utilization.

UltraTech performance: For the quarter, we have achieved a 4-digit EBITDA per ton, up from around 770 in the previous quarter. This was achieved with an improvement in selling prices, reduction in cost and strong volumes. Also, to our aid where our efficiency improvement program which is continuously helping us to deliver a sustainable reduced cost curve. Besides this, another factor is the accruing of synergies because of the acquisition done recently in logistics, procurement and operating leverage.

UltraTech Nathdwara: We had completed the acquisition on 20th November 2018. The integration has been completed on a fast track. The operations have been stabilized and helping the company to further strengthen our presence in the North and West markets. Every month has been an improvement and this quarter generated an operating EBITDA per ton of Rs.830. I have eliminated the one-time ramp-up legal & maintenance cost and foreign currency revaluation gain. All of which have had an impact of about Rs.160 per ton. Obviously, the March '19 exit performance is comforting and reassuring on our investment hypothesis. March '19 we had an exit capacity utilization of 72%. We are working on exiting the non-core businesses to reduce the overall cost of our acquisition and are hopeful to reach a conclusion before the end of FY'20.

We have increased the use of pet coke and high CV imported coal from nil level at the time of acquisition to more than 50% as we operate as of now. There is further a program in place to deliver cost reduction of close to 50 per ton which should be delivered in the financial year '20.

A very important aspect to note is that the (DFC) Dedicated Freight Corridor passes by very close to both these plants which I hope will improve the dispatches dramatically.

Leverage: An important aspect has been leverage position and we are working on several initiatives to reduce our debt. The India business which is today 94.8 mtpa of capacity had a peak debt of Rs.19,563 crores in December'18 when we completed the acquisition, now with the closing net debt of Rs.17,594, we have reached a net debt-EBITDA in India at 2.5x. Needless to mention, this net debt-EBITDA does not include the benefit of operations of Nathdwara Cement for a full year. We always focus on India net debt-EBITDA because the overseas operations have a separate debt at a cost of 1.6% and the debt amount is about Rs. 2,000 crores as it is a self-funding debt. Consolidated net debt to EBITDA for someone looking at for academic interest is 2.71x.

Sustainability: We are now 2x amount of positive. This means that the persistent efforts, we have developed sources of water through rainwater harvesting, cleaning reservoirs and fully secured the requirement of water supplies.

As far as power supply is concerned for our 94.8 mtpa of capacity in India, about 1100 MW of power is required and we have fully invested in captive power plants. Not satisfied over there yet, we have now started investing in renewable energy. Today, we have 62 MW of effective renewable energy from solar and wind mills. This accounts for around 1% of our total power requirement; however, there are additional programs in progress which will increase our effective renewable energy from the solar and wind sources to about 10%.

Added to that, there is WHRS. During FY'19, we have commissioned 26 MW of WHRS, taking total WHRS capacity to 85 MW. There are four more investments in progress which are expected to be completed in a phased manner by mid FY'21, taking our WHRS capacity to 131 MW which will account for about 12% of our current power requirement. Thus WHRS and renewable energy through solar and wind will contribute in excess of 20% of green energy that UltraTech will consume.

CSR Initiatives: We are very strong on our CSR initiatives as well. Around a network of more than 50 plants, we are touching the lives of people in 502 villages. And out of these, there are 38 model villages. What are the model villages? These villages have 100% children going to school, no girls are barred from education system, 100% immunization and employment for all. Well, this is what is our commitment to society.

ROCE:. UltraTech has been busy investing in the last five years. Our capital employed which stood somewhere around Rs.26,000 crores as at March'14 had more than doubled to nearly Rs.55,000 crores as at March'19. Headwinds of our investments have obviously impacted the return on capital which you all are concerned about. However, having reached 84% capacity utilization for last quarter, we have enough gunpowder in our system to meet the growing demand and improve the ROCE. I think we can sit back and relax and now enjoy the fruits of our investment in this upcycle. I have told you before the best is yet to come from UltraTech.

And before I open the session for questions, I think it will all be fair to say that all is well that ends well. Thank you and have a good evening.

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 Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: First question, Atul is with respect to Nathdwara volume and margin. If you could just share some more detail what was it during the quarter, and mainly I just wanted to understand how it is captured in the standalone results versus consolidated?

Atul Daga: For the moment if you look at my presentation page #22, there we have shown you the results of standalone UltraTech as well as India operations. The reason I am showing India operations separately is to add the Nathdwara cement business along with it. So that will show you the picture of what domestic cement is all about and we want to eliminate the difference between the two entities as far as the financial performance is concerned. About 9.75 lakh tons was the volume from Nathdwara cement. However, again that number is misleading because month-after-month we have been ramping up. Average capacity utilization for Nathdwara Cement for the quarter was ~ 62% whereas the exit month was 72%, clearly shows things are on the north-bound journey.

Sumangal Nevatia: Okay, just another thing, on the cost deflation, what quantum of tailwinds do you think will 1Q and 1H also have or large part of the lag on cost is already reflected in 4Q results?

Atul Daga: I think it is all baked in 4Q. Crude as you know, thanks to Mr. Trump, is not behaving very well. For a lay consumer also, petrol prices have gone up marginally in the last few days. That is I would say a black hole. The other bigger cost driver for cement industry is fuel. I think that is under control.

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

Vivek: This is Vivek. Few questions: First on Nathdwara. I just want to understand, I saw Slide #22 but if we just look at standalone can you just highlight any of the line items other than purchase getting impacted because of Nathdwara on the cost side?

Atul Daga: Clinker movement and cement logistics cost will have impact of UNCL trading. Obviously, interest income, interest paid by Nathdwara to UltraTech has to get adjusted. Other than that, let us say SG&A, manpower cost, fuel consumption is obviously direct, manpower is direct, marketing is all by UltraTech. So there is no overlap besides clinker transfer and related logistics.

Vivek: Just to get it right, between Nathdwara and UltraTech, the clinker gets sold to UltraTech standalone or it is the cement that gets sold?

Atul Daga: There are two-way movement because of multi-plant locations. From Aditya Cement, our plant can transfer clinker to the Neem Ka Thana grinding unit. From Nathdwara integrated plant, we have the ability to transfer it to Wanakbori in Gujarat. So that is how logistics synergies will pan out for our network.

Vivek: No, but if that is the case, if you are transferring clinker from Nathdwara to UltraTech, after that there will be outward freight cost for the cement that you are selling and all that. Basically my limited point is Rs.830 EBITDA per ton when you said Nathdwara is captured by entirely Nathdwara or a part of this is in UltraTech standalone?

Atul Daga: In Nathdwara.

Vivek: So is there anything over and above that UltraTech makes on this or no?

Atul Daga: No-no. Let us call it a management reporting. 830 is the EBITDA which Nathdwara Cement is generating.

Vivek: Is any part of EBITDA getting captured at UltraTech standalone level or no?

Atul Daga: No.

Vivek: UltraTech is selling its cement at almost zero EBITDA?

Atul Daga: Yes. That is why if you look at standalone results will not be correct.

Vivek: Which also means that the denominator that we are using in standalone, if we reduce it with Binani numbers, then whatever your EBITDA per ton is almost touching 1100 then at a standalone level?

Atul Daga: Your math is as good as mine.

Vivek: There was another thing on Nathdwara I wanted to ask you. Slide #22 if we take, because the problem is the EBITDA that you have given over here includes financial other income, right. So if I subtract 2406 minus 2353, I get 53 crores which makes it around Rs.540 EBITDA per ton at Binani?

Atul Daga: You can take this question offline with Nilesh. He will explain you the math because there is the other income, inter segment reporting which has to be knocked off.

Vivek: I have a few questions on Nathdwara. I will do that. Another bit is full axle load impact or benefit you have said is captured in the quarter. So there is not going to be anything else that we will see?

Atul Daga: Unless we are able to break the monopoly of the transport unions in Kerala and Himachal, there is nothing else left to be captured.

Vivek: Was it like back-ended ?

Atul Daga: Very difficult to say but I think it is evenly spread out.

Vivek: Again if I take your revenues, with the slide which you have reported standalone, your revenues of fourth quarter versus third quarter and I take the unit realization, it shows almost flat trend as against 1-2% which you have highlighted in your PPT. What is the delta? What am I getting wrong?

Nilesh: I will discuss it separate with the exact number but there is an increase of 1% QoQ on like-for-like basis.

Vivek: Okay, Nilesh. I will touch base with you. Alright.

Atul Daga: Just for your reference, the way the accounting reports happen, knocking off certain expenses from the sales, etc., will never reflect the selling price, the way the selling price prevails in the marketplace.

Vivek: So is Nathdwara impacting this or there is an accounting thing which is impacting?

Atul Daga: I would say it is purely accounting. Not just as any balance sheet you look at, assuming a cement bag is selling at Rs.300 per bag throughout the period into the volume will never give you the revenue number on the P&L.

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

Madhav Marda: One basic question I was just trying to understand that in the previous quarter if we see the commentary, we were highlighting surplus capacity at the industry level, pricing being challenging and demand was pretty strong that time as well, but just after a quarter, we are seeing the industry is in upcycle. I am not able to understand where the industry is – are we in an upcycle or is there surplus industry capacity?

Atul Daga: Madhav, upcycle what we refer to is in terms of demand and there were no doubts about it that demand is bearish, and always been bullish and I have been bullish on cement demand right since the time pre-demonetization, it is only demonetization which put brakes, otherwise if you go back and see the history of April to September '16, the cement demand had started to rise. So you are in the upcycle ever since then. There have been roadblocks like RERA, like GST, which created a disruption but the inherent growth exists, that is what is the upcycle. Upcycle again I will repeat from our perspective is volumes growing at well above GDP, that is the upcycle.

Madhav Marda: Is the current level of utilization for the industry in the different regions of the country, is that good enough for price upcycle because my understanding personally is that industry cycle corresponds to a price where EBITDA per ton goes up, am I missing something there?

Atul Daga: No, I think we have seen regional capacity utilization improvements which is now leading to the industry's ability to pass on the cost pressure. Last year you have seen capacity utilization improvements taking place, but the cost pressures were significantly higher. I think that is what is happening. So in fact, Q4 if I look at YoY, the costs are still higher than Q4 last year, they are significantly down as compared to Q3. So there is a bit of catch up that needs to be done yet.

Madhav Marda: Are the current utilizations in your view sufficient for price of cost inflation sort of scenario for the Indian cement?

Atul Daga: One is current utilization and the pain that the cement industry has gone through in the last two years. I think there is a strong chance of price improvement in FY'20 as well.

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

Rakesh Vyas: Can you just explain Slide #24 which is the operating EBITDA bridge, because the numbers that I am seeing is very different from the numbers that are highlighted on the other slides on regional cost basis?

Nilesh: Slide #24 these per ton numbers are based on the blended volume while the other cost slide is purely for grey cement and this is where there is a difference between these two sets of numbers.

Rakesh Vyas: So when we are looking at energy cost reduction of Rs.141 per ton, on a base which essentially would be power and fuel cost around 1100, is almost 13%. I think most of the cost items individually like pet coke, etc., has fallen by only 7%. So what is leading to?

Nilesh: If you see the power and fuel cost, where we have eliminated the impact of increase/decrease in stock and there is a reduction of 4% only from Rs. 1105 per ton to Rs. 1057 per ton. While the Slide #24, since it is on blended basis and it is not adjusted for the increase/decrease in stock, that is why this number is coming as Rs.141 per ton.

Rakesh Vyas: So on a steady state basis which should be the number that we should look at?

Nilesh: We should see that Rs.1057 per ton, that is energy cost on grey cement basis.

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

Indrajeet Agarwal: A couple of questions from my side: How are the current pricing versus the quarter average – are they significantly higher or largely on similar level?

Atul Daga: I think the exit prices were higher because the price improvements have taken place through the quarter.

Indrajeet Agarwal: Also, secondly, in terms of demand, I understand your average demand that you are expecting, but in the first half, are you expecting because of elections and other factors, a significant deceleration of demand in the near-term?

Atul Daga: We are seeing a deceleration right now; April and May are not very encouraging and this I would attribute largely to movement getting restricted.

Indrajeet Agarwal: In one of your slides you mentioned PBT breakeven for Nathdwara by 4Q FY20. What kind of utilization are we building in for that?

Atul Daga: 85 to 86%.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Sir, on Nathdwara you mentioned that the EBITDA for the quarter was Rs.830, but there is a one-time cost. So when I am looking at the EBITDA number for India operations, it is actually including the one-time impact.

Atul Daga: Yes.

Bhoomika Nair: As we go ahead, it will reflect the Rs.830 plus the Rs.50 cost efficiency flow in and that will take it to about Rs.880?

Atul Daga: Rs.880, for sure that is the math, but on 62% capacity utilization, as my capacity utilization goes up, there will be overhead absorption resulting into the benefits of operating leverage.

Bhoomika Nair: That is what will narrow the gap between our existing EBITDA per ton and UNCL?

Atul Daga: Correct.

Bhoomika Nair: Sir, JP's assets, how has their EBITDA per ton moved?

Atul Daga: JP at a regional level they are operating at par. We had a surprise in one of the plants which is Bela, MP where we had to take a major shutdown…I think I had explained that in the last quarter results also, the shutdown carried through in Jan also but now that plant is on track and delivering cost like any other plant. So we would start looking at April-June quarter for the JP acquired assets also to operate at a four-digit level.

Bhoomika Nair: That would help in achieving the PBT breakeven?

Atul Daga: Absolutely.

Bhoomika Nair: Lastly, a book-keeping question on white and RMC revenues for the quarter and for the year?

Atul Daga: White Cement revenues was Rs.536 crores for this quarter and RMC was Rs.591 crores for the quarter.

Nilesh: For the year, White Cement Rs.1900 crores and RMC is Rs.2100 crores.

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

Amit Murarka: Just a few questions. Firstly, has the decision been taken whether Pali expansion is going ahead or you will be doing Nathdwara expansion?

Atul Daga: Not yet. They are now actually focusing on ramp up Nathdwara. Again, as I mentioned, March capacity utilization were 72%. So there is enough material to sell before we commit capital.

Amit Murarka: And the Nathdwara expansion then is also still kind of not yet decided?

Atul Daga: Not yet decided.

Amit Murarka: Also, just to be sure about it, the volumes that you have shared in the presentation, given as domestic volumes. All of it was also standalone volume, right?

Atul Daga: Nathdwara volumes were 9.75 lakh tons which is included in a domestic volume of 20.46 mt or 204.65 lakh tons.

Amit Murarka: That is also the standalone volumes basically?

Atul Daga: Standalone would be 194.9 lakh tons, add to that 9.75 lakh tons of Nathdwara and total domestic becomes 204 lakh tons.

Amit Murarka: What I meant was even the Nathdwara volumes are there in your standalone top line.

Atul Daga: In the standalone numbers, yes, you are right, sorry.

Amit Murarka: And in the presentation, in the slide it is written that the pricing premium is realized for Nathdwara. Not fully realized yet?

Atul Daga: The pricing premium is fully realized. The two things which are left out as of now is the cost improvement program which will deliver improvement in margins and capacity utilization.

Amit Murarka: Can you also share the trade kind of absolute number?

Atul Daga: Trade, we had improved to about 66% in this quarter.

Amit Murarka: What is the blended cement percentage now?

Atul Daga: 65%.

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

Navin Sahadeo: Two questions: First is on this performance, if you could throw some light on the consol front? Standalone you did explain. But how have the Nathdwara overseas units done and even our other overseas ETA Star volumes, just wanted to get a color on these volumes and performance?

Atul Daga: Slide #23 which is consolidated, we have not included the performance of the acquired assets overseas because they have been classified as held for disposal. So the total revenues when you look at for Q4: Rs. 10,739 crores includes our existing UAE operations, India and domestic cement which is UltraTech domestic and Nathdwara Cement sales.

Navin Sahadeo: Because I was referring to your recent corporate presentation, in that the volumes given for the consol entity were more like 18.9. So just a total consol volumes for gray as a company if you can help?

Atul Daga: Overseas volumes will add up to about 22.26 mt.

Nilesh: Which includes the white cement and putty also, 0.41.

Navin Sahadeo: Just a request, Atul sir here, looking at standalone number is increasingly not correct because of these inter-company transactions. So it will be helpful if you can also give the consol volumes as well and some more color?

Atul Daga: We will add the volumes. The page #22 and 23 will be a standard part of our disclosure. I will add the volume numbers also on top. And I welcome any suggestions anybody has to us. So both color and clarity in case there is. I thought this was a good job done from our side to explain the numbers, but suggestions are most welcome, I will add the volume number, Navin. Thanks.

Navin Sahadeo: Just my second question is about the Bara clinker update. What is the timeline there?

Atul Daga: Bara is delayed. I expect June-end to see light of the day. Because that is part of the contract. JP Associates has taken a turnkey contract to execute the entire project and hand it over to us. You know the situation with them. There is a slight delay but I expect that the grinding unit will get commissioned by June. Clinker is available in plenty from our Sidhi plant in M.P. And the other which is Dalla Super, it is a complicated legal issue, part of it has got resolved which is awaiting clearance now from MoEF Delhi. I expect the clearances to come only after elections. And there is one leg which needs to be completed about mines but we are not extremely worried about that because once the plant gets cleared, we will start manufacturing clinker from the existing mines. So, the clinker plant should also see light of day simultaneously along with Bara grinding unit getting commissioned.

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

Pulkit Patni: Sir, two questions from my side: One, how much scope is there for further reduction in lead distances without incorporating Century in the fold within your existing portfolio of assets?

Atul Daga: Today we are hovering around 400 Kms of lead distance and there is always an opportunity. Today it is 400, it cannot be a static number, it could go up or down, but hover around in a band of 395 to 405. There is always a possibility as we increase the ramp up of Nathdwara for it to come down by 10 Kms max.

Pulkit Patni: Sir, Nathdwara is largely catering to West India right now or is it catering to North India equally?

Atul Daga: It is catering to North as well. It is catering to the western Rajasthan where we had a void situation from our supplies.

Pulkit Patni: Sir, secondly, what is the debt repayment that is scheduled in FY'20?

Nilesh: The biggest repayment comes up in FY'22 on the first leg of the JP acquisition borrowing.

Atul Daga: Rs.535 crores is the repayment due in FY'20. FY'22 would be close to Rs.2,300 crores.

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

Rajesh Lachhani: Sir, we have also heard that some price hikes taken in the north, east and central regions in April. So along with the exit rate in Q3 and these recent hikes, can you just guide us to what could be the approximate realization level increase compared to the previous quarter?

Atul Daga: I do not want to give any forward-looking statements. That will have a bearing on the next quarter performance.

Rajesh Lachhani: Sir, so if I look at your balance sheet consolidated, you have some assets held for disposal with around Rs.1100 crores in it and liabilities are Rs.500 crores, so can we assume the assets that are held for sale can get Rs.600 crores?

Atul Daga: Yes, that is the ambition that we have set out for.

Rajesh Lachhani: So Century I believe has been delayed by three months. Earlier we were expecting it to come in 1Q. Now we are saying 2Q. So any reasons for the same and can we see further delay in that?

Atul Daga: Elections is one reason because we have not had the NCLT hearing yet. So till the NCLT hearing takes place, I am not able to put my finger on what date we will be able to complete the transaction. Now the process left is NCLT hearing maybe one or two hearings and the NCLT order, that order gets filed with the mining department for mines transfer and that complete the transaction. Mines department it is not just filing but there are several approvals within the mines department that have to be taken which will take at least a month to 45-days after the NCLT order is received.

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

Ritesh Shah: Sir, my first question is if you can give us some sense on the inventory at the system level and at the mill level? I am trying to understand pricing which you would not comment on, so I am asking you indirectly.

Atul Daga: Channel inventory is never high, two to three days of channel inventory and unless there is a news about price increase happening, dealers come to know about it, they will pull in inventory pre-price hike, otherwise it is a routine two to three days inventory anywhere in the country.

Ritesh Shah: It has not moved up post March-end. It still remains at the very same two to three days?

Atul Daga: Yes, I guess so. It cannot move up because dealers will not take delivery.

Ritesh Shah: Second thing is you indicated on cost tailwinds till first half. You did indicate about pet coke, crude and Trump. Sir, what gives us visibility for next six months -- have you already locked in pet coke contracts for delivery for next six months or thermal coal, what you indicated?

Atul Daga: One difference, pet coke and crude are commodities and Trump is a human being. We have locked our prices at least till H1 FY20, that's why I was very confident in making my statement. After that we will see what happens. But the macro environment indications are that we do not expect coal and pet coke in any case to go up.

Ritesh Shah: Sir, given the macro is so positive, you indicated on 12 million tons and 28 million tons incremental supply and demand, why the lead distance actually not coming down, one would expect this number to actually come down pretty sharply besides the trade and non-trade mix which has been improving gradually?

Atul Daga: Lead distance, we have seen it reducing from 450 to 400. That itself is a big reduction and it cannot keep on reducing every time. So for a network like us, lead reduction will happen whenever a new plant, new location gets added to the network because the entire country ultimately will go through reorganization from our distribution perspective. Otherwise with capacity utilization increasing, yes, we start selling closer to the plant and that could see a lead reduction; however, I cannot ignore our customer sitting long distance.

Ritesh Shah: You indicated on DFC. It could benefit the Nathdwara asset. Sir, how do you see the implication on a system wide level for UltraTech and at the system level how will eastern and western DFC change things?

Atul Daga: DFC will be a big benefit because the wagon availability will improve, today our rail is about 26%, I have seen in the last four years rail network availability coming down from 35% to 26%

and long distance movement obviously rail is cheaper mode than road. So once DFC commissioning takes place, rake availabilities will improve which will help us significantly.

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

Gunjan: Firstly on the CAPEX, now there is no clarity of Pali and UNCL expansion yet. So how should we look at CAPEX for FY20?

Atul Daga: Anywhere between Rs.1500 to 2000 crores would be the cash outflow in FY20.

Gunjan: This would eventually be maintenance?

Atul Daga: Maintenance of the bigger project which is going on at Bicharpur coal block development, there is a bulk terminal that we are developing outside of Mumbai and there are WHRS plants across four locations as I mentioned, those are the bigger ones, and of course another standalone expansion which is a Wall Care putty plant incidentally in Nathdwara district itself is taking place, and one more is Bara grinding unit where CAPEX is happening. These are the bigger projects. So to recap there is Bara, Bicharpur, WHRS, bulk terminal and the Wall Care putty plant. If I were to add them together, they would stack up to Rs.700 crores be attributable to these projects, balance would be all maintenance capex.

Gunjan: Basically I am just trying to understand from an F20 perspective, if you are not looking any aggressive expansions in inorganic or organic, is it fair to assume that the lot of focus will be on deleveraging the balance sheet and optimizing the mix because clearly we have gone lower on the trade side and there will definitely be more synergy, so I am just trying to understand what will be the focus from an F20 perspective given you are going to take pause on those expansions?

Atul Daga: Deleverage, deleverage, deleverage.

Gunjan: Any target you have in mind in terms of net debt-to-EBITDA which is where you want to get to?

Atul Daga: Next halt will be definitely below 2x.

Gunjan: Second question is on this PBT breakeven for UNCL that you have mentioned now. This PBT breakeven pertains to the debt that is there on UNCL subsidiary?

Atul Daga: Yes, on UNCL books, as also we will have a benefit of liquidating the non-core assets which are sitting on the UNCL books.

Gunjan: That is Rs.4,500 crores.

Atul Daga: Yes.

Gunjan: So the PBT breakeven is to think from the perspective of this Rs.4,500 crores?

Atul Daga: Yes absolutely. So we should look at Q4 number, not annual number, by Q4 next year where we should be able to reduce leverage on account of selling of those non-core assets and improving profitability which will give us a PBT breakeven.

Gunjan: Last question on this other expenses and ASP. Honestly, it is very difficult to see the ASP being flat QoQ and then I am continuing to see that your other expenses are coming off whereas the scale of operations has meaningfully increased. So is there something which is structurally some efficiencies or it is something to do with accounting because other expenses have come off very meaningfully in the last couple of quarters?

Atul Daga: It is bound to happen because it is clearly operating leverage advantage that one gets with additional capacities coming on stream, expenses do not go up proportionately. A simple example, I will give you is TV spends which are very expensive. The cost does not go up unless you increase the number of time spent on TV.

Gunjan: Even absolute number is coming down despite you are having consolidated such large M&A. So I am just wondering is there any accounting adjustment?

Management: No, compared to Q3, in Q4 the maintenance cost is very less… major difference between the Q3 to Q4 is maintenance cost.

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

Anshuman Atri: My question is regarding ramp up of EBITDA on Century. Sir, we have seen very sharp ramp up on Binani, almost Rs.500 rupees realization and Rs.200 on cost and Century is doing Rs.500 of EBITDA. So within a quarter or two of consolidation can we see Rs.1000 EBITDA from Century?

Atul Daga: Very nice question. That is all I can say. I cannot give any guidance. But obviously our efforts will be to improve the performance from where they are.

Anshuman Atri: Secondly, on the North markets, the utilization is significantly higher as compared to other regions and no new major capacities have been announced. So Pali versus Nathdwara what would be a priority?

Atul Daga: Nathdwara.

Anshuman Atri: The way we had expanded Dhar in one year's time..?

Atul Daga: Yes, I think the team will get scandalized if they do not deliver in one year.

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

Dheeresh Pathak: You mentioned Rs.830 per ton EBITDA for UNCL. How much would be captured in standalone?

Atul Daga: None, everything is UNCL.

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

Ashish Jain: Firstly, this PBT breakeven that you were talking for Nathdwara which is on cash basis I hope ?

Atul Daga: PBT is after depreciation. So cash basis obviously I would achieve earlier.

Ashish Jain: Secondly, on other expenses, the point that you made earlier, I understand this quarter had much lower maintenance expenses, but more on run rate basis how should we think about other expense because of the one-off in Q3, that dipped quite sharply this quarter?

Atul Daga: April-June should replicate, again July-September and October-December will be high because our maintenance will be spread in those two quarters.

Ashish Jain: This quarter had any maintenance at all?

Atul Daga: It is always there. When we talk about maintenance shutdown which has to be a long tenor shutdown taken for a work.

Nilesh: Small maintenance is going on, but major shutdowns are not there in Q4.

Ashish Jain: And not in Q1 either that is what?

Atul Daga: Shutdown or major maintenance when we call is when the kiln is taken for a shutdown for 10, even 20 days that is a major shutdown. So there can always be a breakdown for a day or for a few hours that is routine operating cost.

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