"UltraTech Cement Limited Q4 FY-20 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the UltraTech Cement Limited Q4 FY20 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Atul Daga – Executive Director and CFO of the company. Thank you, and over to you, Mr. Daga.

Atul Daga: Thank you so much. Good evening, ladies and gentlemen and welcome to this call to discuss our Results for Q4 FY20. First and foremost, we apologize for the delay in announcing our results which in normal circumstances should have got done in the third week of April. The delay is all due to COVID which created obstacles for completing the statutory audit and well we are absolutely law abiding corporate citizens, so we have completed the audit with all kind of physical verifications with various ways and means to the satisfaction of the statutory auditors and that's why the delay in the results.

This quarter is not a representative quarter to benchmark or measure performance. We or the industry or the economy saw a heightened pullback across all fronts in the month of March due to the ongoing pandemic. Businesses started slowing down, region by region since late February till things came to a grinding halt towards the end of March. It is worthwhile to mention that we had been seeing improving demand sentiments in Jan over the previous month and in Feb over the Jan that's a positive part.

Henry Ford said - "**A business that makes nothing but money is a poor business."**

Let me talk about post what we have been doing besides cement, especially in times of this pandemic; during the current quarter we have almost committed Rs. 75 crores helping our country fight the pandemic. We are helping the authorities by arranging PPEs, N95 masks, surgical gowns etc. At the local level, food packets, sanitizers, soaps, bleaching powder, disinfectants etc. are being distributed to the needy people in and around the villages surrounding our plant locations. We are arranging proactive awareness programs amongst the local communities. We are also readied two quarantine centers with a facility of 30 beds in the State of Madhya Pradesh and Rajasthan. When the last count was taken more than half a million people have benefited by the company's efforts.

Let me now talk about the operations and firstly must tell you about our plans during COVID. We started off this year with enough inventories. By the end of third week of April we received approvals to start manufacturing activities at all the plants as well as approvals to dispatch cement. Both these approvals are independent of each other. Dispatches are continuously being going up and all the plants are continuing to dispatch cement and sales have been improving. Clinker feeds to the grinding units is also stabilizing. For your information UltraTech has a network of 22 operational integrated plants, 23 grinding units and 6 bulk terminals. We are dispatching cement from almost all the locations barring one or two. We have the unique advantage of being able to cater to demand in different parts of the country.

The question is where is this demand coming from? Larger part of demand is from the retail market, the rural markets where we believe that the pending work is being completed pre monsoon. Some of the infrastructure projects had commenced construction activities. With this demand surge few of the plants are already operating at 70% capacity. In the urban real estate markets, we understand that large organized real estate players have accommodated labor on their sites and can commence work, some have started work wherever there is an improvement. However, as everybody knows there has been and there will be exodus of labor from the city worksites at the earliest available opportunity and this could lead to a potential slowdown in construction activities and demand during the next 2-3 months which otherwise also will be a lean season. If I name few of the infrastructure projects where work has commenced, almost all major national highway projects like Samruddhi Expressway, Delhi-Vadodara, Green-field corridor either Kanpur, Char Dham Project, Mumbai-Goa Expressway, Metro Networks across various cities, modernization of Bengaluru Airport, Dedicated Freight Corridor, Polavaram Dam, lot of PMAY work is going on in Madhya Pradesh. Government authorities I believe are monitoring the project progress, social distancing and other aspects with respect to COVID remotely through cameras at these project sites and basis work progress payments are being released promptly to the contractors. The idea is to expedite completion of concreting works before monsoons.

Let me now talk about debt on our balance sheet; our net debt at the end of fiscal ‘20 is Rs.15,096 crores. Nearly 60% of our loans are variable rate loans which is helping us to get the advantage of the reducing interest rate regime. Our gross debt is about Rs. 20,978 crores with a treasury surplus of Rs. 5882 crores that we ended the fiscal year ‘20. All our treasury surplus is deployed in AAA liquid debt schemes. For your information in the recent debt debacles like Franklin Templeton, Zee, IL&FS, DHFL we had zero exposure. Our treasury operations generate a positive carry compared to the borrowing cost and these monies are available at any point in time should there be a need for the business. During the year, we have reduced our net debt by about more than Rs. 5000 crores for India operations. Happy to share with you that we have achieved a net debt to EBITDA ratio of 1.55x on India balance sheet for the trailing 12 months as compared to 2.64x March 19. ROE for the company has improved to 10% from 7% last year, I must remind you that whilst 10% does not sound very nice number but we have invested in excess of Rs. 36,000 crores in the last 3 years to the benefit of it which have not yet been realized.

Over the next few years depreciation and improvement in operations and realization of cash flows from the non-core assets will only improve the ROE for future.

Conserving cash is the biggest motto for us this year. Running a negative working capital cycle has been the key, our net operating working capital, which is pure inventories or receivables and payables stood at a negative of Rs. 700 crores. Our suppliers both domestic and international continue to partner with us extending credit; they fully realize the benefits of long-term relationships with UltraTech and we are equally committed to all our business partners. Luckily input costs have also been low on account of coal and pet coke and we are carrying sufficient inventories across all our plans to meet the production requirements.

Having said this let me know quickly touch upon our CAPEX plans; we had started planning big CAPEX spends, 3.4 million tons of expansion had also been announced which would require cash during this financial year. However due to COVID, we have restricted our CAPEX plans to an amount of around Rs. 1000 crores. We have slowed down the work on the 2.2 million ton Cuttack grinding unit which was scheduled for commissioning in March '21. This project will now get pushed to the next financial year depending on when we are able to start work. Brownfield capacity expansion work at the West Bengal and Bihar grinding units is almost coming to a close and should get commissioned by March '21. Bicharpur coal block should also get commissioned by March '21 as most of the work is over. The coal supplies from this will meet the requirement of Maihar plant in MP. We have restricted the work on new WHRS plants for the moment however the last one to get completed will be WHRS at Nathdwara plant within this financial year at the end of which we will have 145 MW of WHRS power, meeting about 12.5% of our total power requirements. There are no other major CAPEX which are being undertaken as in new WHRS or any major modernization projects, all maintenance CAPEX and other routine ongoing CAPEX would consume about 1000 crores.

Fixed cost cannot be left out of the purview, we as a business teams have looked at our business continuity plans and taken various initiatives to reduce overheads during the current financial year. We have targeted a reduction of around 10% of our overheads during FY 21 as compared to FY 20.

Let me share the work done on Century assets; we are happy to inform you that the assets were operating at 83% for this quarter in spite of the COVID impact. I guess if we would operate in full steam we would have been operating at (+90%) from the Century assets. Nearly 65% of the brand conversion has already been completed as compared to 55% in last quarter. Supplies in West and North markets on these plans are 100% UltraTech brand. This has resulted in increase in realizations for the Century plants by about Rs. 160 per ton over the last quarter. Cost improvement programs have also been at play and we have reduced cost by about Rs. 200 per ton. There might be a small delay in our rebranding program because of COVID which we wanted to complete by June '20 might get pushed depending on how the markets open up. During this quarter I must mention that we are accounted for one-time improvement cost of Rs. 40 crores.

Talking about Q4 '20; cement prices remained firm in major part of the country and in fact we saw some increases in North, Central and Western markets. At an all India level the company saw an increase of about 2% in realizations over Q3, March exit prices have been higher than the quarter average.

Costs have been under control with reduced fuel prices, pet coke consumption for this quarter was at an average of $70/t, $10 per ton lower than the consumption rate of Q3. The purchase prices of pet coke touched a high of $78 per ton but now are hovering around $ 60 per ton. Benefit of these purchases will be visible in towards the end of second quarter this financial year. Crude prices have been at a historical low but all of us know that the benefit of crude prices has not been passed on yet to the industry.

The company has achieved an operating EBITDA of Rs. 1144 per ton as compared to Rs. 1004 per ton for last quarter which is about 14% improvement despite the slowdown in the month of March 20. On the full-year I'm happy to share that we have achieved an EBITDA per ton of Rs.1154 per ton. This is a very unique feat, as it is the highest so far since inception, since 2004 this is the highest and I think there is lot more to come.

One more point; there are so many adjustments which have to be done to the accounts, one more point I should tell you about accounting standards on leasing. Interest cost looks higher because of an additional non-cash impact of Rs. 48 crores as required by accounting standards in this quarter. Otherwise our profits would have been to that extent high year.

Thank you ladies and gentlemen for patiently listening to me and I must conclude by saying when the going gets tough the tough get going that's UltraTech for you.

Thank you.

Moderator: Thank you. We will now begin the question and answer session. We take the first question from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: Two questions; first on demand, we had a volume decline of 16% YoY, based on your best understanding do you think this replicates the industry volume or we would have underperformed the industry demand?

Atul Daga: Being pan India I think this is the industry norms I would say and you will not see this kind of a number anywhere else. The other challenge that you might see is Century numbers of last quarter have been added to our volumes as this where we did not have any role to play.

Indrajit Agarwal: So on a like for like basis if I take out Century then the volume declined would have been slightly lower than that, is that the fair understanding?

Atul Daga: Slightly lower, yeah or maybe a percentage or so.

Indrajit Agarwal: The second question like you mentioned you have delayed your CAPEX plans, given the kind of volume a demand destruction that we could see do you think the industry will now have a much lower capacity additions get used over the next 2 years than what was earlier envisaged?

Atul Daga: I think so, any prudent balance sheet management and financial planning would want to relook at CAPEX plans. I can't comment for others, so that's my view.

Moderator: We take the next question from the line of Gunjan Prithyani from JP Morgan.

Gunjan Prithyani: On the Century really good to see the ramp-up coming through. Now if you could just talk about the EBITDA per ton, is it somewhere in the range of 650-700, is that assessment correct?

Atul Daga: This quarter and if I were to exclude the one-time cost then we would be somewhere around Rs. 575 per ton.

Gunjan Prithyani: And now if I look at the next couple of quarters with the cost reduction?

Atul Daga: It will go up.

Gunjan Prithyani: I mean just keeping the pricing flattish what is the kind of improvement we can see from the branded transition and the cost levers which are still there?

Atul Daga: It should go up, difficult to give a number but anywhere between Rs. 800 and 900 per ton.

Gunjan Prithyani: The second question, I had was on this deleveraging, now good to see the reduction coming through consecutively for the last couple of quarters. Now how should we think about the target in mind from your perspective and I do understand there is a focus. But do we have some number in mind that we are looking to bring down the debt to this level and in the same backdrop given where we are in the market right now there could be possibilities of some stress assets—I don't know I am not sure if anything comes up—what is your thought process in terms of balancing M&A versus the deleveraging that we are assumed right now?

Atul Daga: As of now, we have been conserving cash. However, I don't rule out the possibility if something attractive terms up, we will examine it. I had already mentioned earlier that our target is to go to 1.0x net debt to EBITDA and then maintain the balance sheet at that level. It would be possible because the cash flows from this large operation, we knocked off nearly 5000 crores of debt in one single year where CAPEX was normal. We should be aiming towards a net debt EBITDA of 1.0x that's number one at console level. keeping our eyes and ears open for any opportunity that comes by.

But I have told you in the past also that we are very well-prepared for organic expansion should the situation arise, could the demand be there. This quarter we had a capacity utilization of 74%, so there is enough headroom that we have in individual markets for servicing the market should there be a demand. So plenty of headroom to think.

Gunjan Prithyani: And just one clarification, in your initial comments you had mentioned that plants are ramping up and I'm not sure if you mentioned the number where the dispatches levels are versus the pre-COVID what we were seeing in Feb if you can just talk about that.

Atul Daga: We have not reached the same levels. As I said if I were to look at last few days which is not the correct way to look at it because ultimately average full quarter is what matters, we are already reaching around 65%-70% capacity utilization in the last few days. We started off 1st April or 2nd of April with a zero and gradually ramp-up has been taking place, so we are almost there. If I were to look at some plants in fact in East we are running full capacity right now. So it's a mixed bag, things are going on well. Personally I don't think that it will last too long. Monsoons will be there, there are still no sign of COVID going out, migrant labor problem continues to be there, so this might slow down, keeping fingers crossing each day, living each day as of now.

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

Ritesh Shah: My first question is on the distribution side; given one in average four bags is UltraTech in India. Now this is a challenge and it's also a blessing. So wanted to understand how different is our distribution strategy as compared to the peers basically when it comes to last mile connectivity, anything specifically having warehouses in each district which probably is a blessing for us? Can you give some color here on roads, rails mix who can drill a bit down to how we look at our distribution strategy?

Atul Daga: Right now, the road rail mix, road would be about 70%, 27% would be rail and 3% ocean route. Our distribution strategy during these times with the dedicated fleet that we have, we have transporters who deploy their trucks exclusively for UltraTech I think the last number I remember is 53% of our fleet was dedicated fleet, so that is where the biggest advantage which UltraTech would have to manage distribution in these COVID times. I think that's what you were asking about.

Ritesh Shah: Correct. This is one thing, secondly when you look at on the distribution we typically talk about silos and warehouses. How would we fair if you can quantify the numbers basically over here it will be quite useful? So this is very useful 53% of fleet that's very useful but something on the warehouses, godowns which enhances our last mile connectivity given these difficult times of finding labor and truck?

Atul Daga: There is concept of temporary warehouse which can be hired depending upon market requirement that is what is at play right now and we would have at any point in time 900 to 1000 distribution points at play. I'm not updated today as of how many are shut down because they might be near a red zone, in a good normal situations 1000 odd distribution points, SLOCs are available.

Moderator: We also take the next question from the line of Raashi Chopra from Citigroup.

Raashi Chopra: You mentioned that one is of course your volumes were down around 16% for the quarter and is there any region which has extreme variation ? And second is that your plants are operating at 65% to 70%, again regionally is there anything which is disconnected on the 65% like is the South also around that level or is the South low and some other region higher, historically and currently both?

Atul Daga: First question on 16% let me see if I can give some color around that. But on the second question it's more current; East is operating at much higher capacity Eastern and some plants in central our operating at much higher capacity. West is the lowest today because that is the most impacted region in terms of COVID whether it is Ahmadabad and surrounding markets, Mumbai and surrounding markets where the impact is higher. So if you were to look at then North is doing well, East is doing very well, West is the weakest today and South is coming up, Telangana, Andhra, Tamil Nadu, almost in the entire South in fact Karnataka. We are all aware Karnataka is in fact now started almost all the activities. And talking about last quarter if I were to look at our capacity utilization I think east was again rocking at 95% to 100%, central was weakest, would have been operating below 60% and all other regions would 65% to 80%.

Raashi Chopra: So central was weak but central is picking up now you are saying?

Atul Daga: Central is now picking up, yes.

Raashi Chopra: Than the second thing I wanted to check was on Century you mentioned that the variable cost is down by Rs. 200 per ton and realization up by 160 per ton, so firstly on the realization I wanted to check that how much of this would be rebranding? I mean say about Rs. 100 would be rebranding?

Atul Daga: I don't have an answer how much is due to rebranding and how much is due to national price increases. National price increases….surrogate if I were to use, on an all India basis we saw 2% increase in prices over the last quarter. There is a small component of national price increases maximum benefit of rebranding. That's just a surrogate which I could use to explain.

Raashi Chopra: And for the cost side, you mentioned the variable costs are down, again I am sure part of it is due to the pet coke prices benefit kicking in and part of it is due to efficiency parameters. So going forward again how much benefit can one assume on the cost side on efficiency for Century? I know you mentioned EBITDA can go up.

Atul Daga: So let me give it in another way; we have reached a normative EBITDA per ton of Rs. 575 per ton. Its excluding at one time cost. This 575 per ton will go up anywhere between 800 to 900 per ton. So let me be conservative, let's say our first target is to touch Rs. 800 a ton. That's where the game lies. 65% of the produce of Century assets has been branded UltraTech. Our target excluding the Chhattisgarh plant because Chhattisgarh plant will not be rebranding, so 84% or 85% of the total produce from Century plants will be UltraTech. So there is room for price advantage in Century assets, so I guess large benefits will come from price improvement. We will take on implementation of WHRS at these locations which will give cost improvement but that is I think Phase-II now. The immediate one will come from price improvements. And to help you analyze it, Chhattisgarh since we are not doing it all other plants are in high price zones will give is the bulk of the benefits. So from 575 to 800 to 900 per ton bulk of the gain will come from prices. Pet coke is consumption has reached 68%-69% in a mix of all plants. It can go to 75% or 80% that over a period of time. We might not have too much of juice leftover there.

Raashi Chopra: What was the trade volumes percentage during the quarter and for the full-year?

Atul Daga: So blended we are at about 68% for this quarter and interestingly I must share with all of you that post COVID all these ratios whether blended of 68% or trade of 66% looked so ridiculous because now these ratios have reached 90%. Maximum sale is happening in the trade market.

Raashi Chopra: So currently you are saying trade is around 90 and what was it last year for you in the fourth quarter?

Nilesh Garg: 66% Raashi.

Raashi Chopra: And just one bookkeeping question, if we can just get the revenue breakdown for RMC and White Cement and Putty.

Atul Daga: RMC was about Rs. 555 crores, White Cement was Rs. 421 crores.

Raashi Chopra: White Cement and Putty volumes.

Atul Daga: At 3,20,000 tonnes.

Raashi Chopra: The Bara's remaining 2 million is still on track?

Atul Daga: No, I am assuming a quarter delay further because of COVID but June earlier we would have expected it in April-June, it could get pushed to July-September period. And since you asked about Bara, before the next question, let me also tell the audience about the Dalla Super, the NGT plant I think the approvals are moving on track and we should be seeing light of day for that plant by March '21.

Moderator: Next question is from the line of Saumil Mehta from BNP Capital.

Saumil Mehta: Over a period of time is it fair to assume that the EBITDA per ton difference what you said Century versus the blended which is about 300 assuming Century goes to 900 per ton that will remain partly because of Chhattisgarh unit and some bit of regional mix or that gap can narrow further with cost efficiencies at least some of them I am assuming would be pending?

Atul Daga: So it will be regional dynamic. If I have achieved let's say for full year 1154 per ton, Century obviously will not achieve 1154 per ton, it will perform according to its reach.

Saumil Mehta: So to that extent in1.5-2 years down the line assuming realizations are at optimal levels you will continue to still achieve that Rs. 200 to 250 per ton of gap that's a fair assumption, right?

Atul Daga: From an all India average?

Saumil Mehta: Yes.

Atul Daga: No, it could shrink because we will be investing behind improvement in the Century plants which has already been done in other plants. So that could give for example WHRS has to be done across all locations. It's investment of give or take 300 crores between Maihar and Manikgarh, so there is a gap which could reduce over a longer period of time not in this financial year.

Saumil Mehta: For the quarter what was the lead distance and how it has changed Q-on-Q because on a per ton basis the freight cost actually has moved up, so just wanted to check?

Atul Daga: Yes, the lead has gone up because we have been crisscrossing flows across the country. I think we were around 440 km that's what I remember.

Saumil Mehta: My last question is when you see that the West market seems to have more been impacted, so is it April and May onwards what you saw that impact even in Q4 numbers?

Atul Daga: No, I was talking about post-COVID. The pick up that we are seeing today for example Eastern markets as I mentioned plants are operating at 90% which is back to near normal. West has not come back. West all the cities are more impacted than any other state. We haven't been able to get control of COVID.

Saumil Mehta: What would be the possibility of a pent-up in the non-trade demand because as you said the trade mix has gone up significantly, so once assuming government spending starts in second half of this fiscal year—again that's a hope—do you see a lot of pent-up demand coming in?

Atul Daga: It could then I won't have capacity.

Moderator: We take the next question from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: I just have one question, with such weakness in demand and cash flow strains which we see across the economy, do you expect that excellent improvement in the working capital cycle to be distorted either in terms of build-up of some amount inventories or in terms of needing to give more receivables period for your customers?

Atul Daga: My receivables are at the lowest as we speak. Inventory buildup could happen because today we plan on a particular trajectory of performance as in of demand and the long lead items which is coal, pet coke is procured and God forbid if demand collapses then we will have higher inventory to carry otherwise we intend to work with negative working capital.

Moderator: We take the next question from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: For the fourth quarter of for Nathdwara what was the utilization?

Atul Daga: About 57%. For UltraTech you guys should not look at Nathdwara's capacity utilization standalone because we pool all our capacity and then the distribution is managed. Just because Nathdwara capacity utilization is low does not say that it is a poor performing asset. It's an optimization of the overall capacities within the network.

Swagato Ghosh: I understand that yes and profitability for the quarter for Nathdwara?

Atul Daga: Its eye popping, 1600 worth plus.

Swagato Ghosh: But in the slide, in the earlier quarter slides you generally had mentioned that 1500 per ton kind of number, now this quarter slide you have mentioned for the full-year it's 1250 or let's say exceeds 1250 per ton but that kind of different indication at the fourth quarter number is lower. But that is not the case?

Atul Daga: Nilesh will you just explain what was this 1250?

Nilesh Garg: 1250 per ton is more of operating EBITDA.

Swagato Ghosh: And one other question, do you see going forward in the medium term lead distance to be slightly higher because of how maybe chunky demand centers can…?

Atul Daga: Yes, it could be higher in the short-term because to manage distribution to not to lose our customer wherever we can supply from, we will do that.

Swagato Ghosh: One last question on pet coke prices did you say that the benefits of the current spot prices can come in from second quarter of this financial year?

Atul Daga: Yes, in July-September.

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

Nitin Arora: Just one question; you have delivered a net debt closer to what you guided. Any sense and direction for this year given the constraint of direction in volumes depending on what the situation pans out on the post-COVID, any direction can you give on that?

Atul Daga: Nitin very difficult to give any guidance or how things will pan out. Nobody knows whether there could be Phase-II of COVID, I am being extremely pessimistic. Whether there could be Phase-II or Phase-III or how fast the recovery is, how soon the economy opens, it's a million-dollar question so I am not able to give you a clear answer.

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

Pulkit Patni: My first question is again on demand but not the near-term demand. What I'm trying to understand is that once we come out of the COVID, clearly the government's fiscal numbers are not going to look very good and that's why the fact that you mentioned that there has been a significant surge in trade percentage recently. What I'm trying to understand is what is giving you confidence that even over a 12-18-month period volumes could likely come back to what we have seen in the past? That would be my question number one.

Atul Daga: All along Pulkit in the last 2 years or 3 years rural and infra has been driving growth; whilst you are right government will have fiscal pressures. I don't know where they will bring the money from but there are lots of avenues, we can discuss off-line which the government could tap into. The other segment which is more promising remains to be rural markets. Now they are not dependent on MSP alone, the average prices have actually gone up on rural produce; both the crops, the winter crop, the summer crop have been good which improved the cash flows in the rural markets pumping up a rural demand. So and unfortunately India is so circumspect and so much dependent on the vagaries of weather if the crops remain good again for a longer period of time, we would see rural demand continue to surge. Government spending I don't know how they are managing but we are seeing huge amount of demand for consumption pick up—I'm talking about post-COVID—not actually the post-COVID but April onwards, whatever you want to call it. Wherever possible the government has started work on existing infra projects. Today you step out; if you want to step out on Mumbai roads you will see the metro work has started. So government is having some thought process on expediting infrastructure and all those commitments which were made when, in the last budget and subsequently also billions of dollars being committed for infrastructure in spite of these dark skies moving over the economy; I'm sure there will be some mechanism that they are thinking about.

Pulkit Patni: We are all hoping that government has some money to spend on this. My second question is assuming that there are constraints in government spending; you did talk about 10% reduction in discretionary spend that we could do. Any specific hit that you could highlight where this fixed cost reduction could come through?

Atul Daga: We have put a manpower cost that is one, second with ad spend will go down which was a big bucket of cost, third is the declining costs at plants will go down because plants have remained shut for let's say a month or so; gives me an extension of life on the plants. So plant maintenance costs without compromising on the quality of the plant at all, the shutdowns which hit a cement company will reduce. Travel expenses, all admin related stuff will go down, that's the plan that we have. These are the high big-ticket items, manpower cost, maintenance spends, ad spends, admin related cost will see a reduction.

Pulkit Patni: One more question, very basic, for a normal cement plant at what percentage capacity utilization does it breakeven?

Atul Daga: Depends upon the profitability of that plant or that particular company because every company has a different level of efficiency, but I would peg it anywhere between 30% and 40% where it's a breakeven capacity.

Moderator: Next question is from the line of Amit Murarka from Motilal Oswal.

Amit Murarka: I was saying that while on the name plate basis the capacity utilizations are at 40% to 50% but there were supply constraints as well like labor availability or logistics and others. So once if we forget about demand right now, in the current scheme of things what could be the utilization levels of the plants you think given these constraints around the other factors of production?

Atul Daga: As I said today we are operating anywhere between 65% to 70%.

Amit Murarka: But could it go to like higher number if there was no demand constraint?

Atul Daga: Yeah why not, if there was no demand constraint as of today, I don't have any challenge across the network. So, in case required we can produce more. There is one plant; one grinding unit which has been kept shut because of demand not being there that is near Delhi. So Delhi is in any case shutdown area and we have a grinding unit close by. One of the grinding units has not been started so that's demand led.

Amit Murarka: On the cost side I believe the logistics costs have also moved up particularly the road logistics and similarly I'm not sure how would be the raw material availability of pricing be on fly ash and other things. So could you comment a bit on those factors, the variable cost side?

Atul Daga: In this quarter, raw material cost went largely driven by fly ash. Fly ash availability is not a problem because power plants in the country are not shutting down. Transportation of fly ash could become a problem at some point in time; today it is not a problem. Other than that, I think from the raw materials perspective this is the biggest thing, domestic. Internationally coal, pet coke is available, that's not a problem.

Amit Murarka: Is the road freight up like 10% or so is what I understand because the return load is not available for lot of truckers?

Atul Daga: Road freight, no it's almost flat over last year as I see the data, there is no change.

Amit Murarka: I am saying the current post-COVID situation?

Atul Daga: Post-COVID I don't have the number immediately.

Moderator: We take the next question from the line of Naveen Sahadeo from Edelweiss.

Naveen Sahadeo: Just a couple of questions, you mentioned 65% to 70% kind of a utilization for our plants. I just wanted to confirm this, is it for the plants that are operating or is it at the company level that you are talking about because…?

Atul Daga: At the company level, operating plants again they are much higher.

Naveen Sahadeo: So all plants are operating except for that Delhi unit which you said?

Atul Daga: Yes, one GU near Delhi not yet started. East plants are operating 90% already, West might be the Manikgarh-Awarpur cluster has begun because their supplies are going to that expressway project big way, South plants have begun, Central, plants are operating.

Naveen Sahadeo: That's encouraging to know and related to this is, is it coming at a higher cost in the sense the other previous question was also that if there is no return load; also the fact that the driver also obviously there was a scarcity so to say what we are hearing from channel checks or media and also since social distancing as a norm has to be practiced. So is this a utilization ramp up coming at a higher cost to us?

Atul Daga: From the distribution point of view I haven't heard anything otherwise, see what happens on the ground; the same driver is not necessarily coming back but the transporter is able to find some alternate driver. My rates are not for the driver; my rates are with the transporter, the number of trucks that he deploys with us. As long as he is deploying those trucks it's in his interest also for his own business, he has to deploy as many trucks. So rates are not being increased for that. The reverse logistics if something is not, if the reverse logistics have gone down I don't have a ready number on how it is impacting currently.

Management: Overall logistic cost has not increased currently. In fact in some of the destination cost is reduced also.

Naveen Sahadeo: That's nice to know because in general what we're hearing is there a scarcity of labor. I mean apart from labor migration there is also this driver, set of drivers who are unwilling to come to work and that's where they were paid.

Atul Daga: The driver issue I am fully aware of, tracking it but alternate drivers are coming. Earlier what used to happen, same driver would do a day trip and come back but we are finding a frequent change in drivers, the way the transporters are managing it. That is their headache as long as they are bringing trucks across.

Naveen Sahadeo: Are you also seeing some demands since you said infra some of the projects like work in progress like constructions or government projects have started but also are you seeing because since you said it's also the trade demand which is seeing a very high percentage; are you also seeing some sort of channel filling or the dealers carrying in higher inventory so to say given there is a bit of uncertainty in the near term which could get again disrupt the supply or something like that?

Atul Daga: No Naveen, a dealer community is a high ROCE business. They don't carry inventory, they don't have stock points. They will give instructions to deliver, dispatch and unload at a location. They don't carry inventory, they don't invest so much. So chances of their building inventory is highly unlikely, right now the demand is good.

Naveen Sahadeo: And just like related to this COVID thing and since it's so new and caught everybody of us unguarded, in general the changes that has to probably come to the business because even at the plant you cannot have a loading division or some functions where there is potential crowding of labors. How do you address that, in the sense is there more CAPEX that you are planning towards having more automation at the plants or anything like that?

Atul Daga: While there is a lot of work in parallel happening, studies being done across a network, inter-unit comparisons to see whoever is the most optimal and then replicate. This is a new normal that we are seeing. Today we are running the plant at 30% to 35% and the plant is operating, right without any handicap. So it's a discovery that is happening. I cannot invest overnight in automation and use labor. So my labor cost is not going down because I'm paying everybody but the plant is operating with lesser number of technical people on the shop floor. Let's say it has just given us an opportunity to test new ways of working.

Naveen Sahadeo: Yeah that's precisely my question was. So when you touch new ways of working, two things can happen, either it can improve the efficiency and we realize some cost of the lesser number of people or some people become redundant but can be a cost saving from a longer term perspective on in general there could be automation? I was just trying to understand that.

Atul Daga: Yes as of today we realize that we are able to operate a plant at 35%-40% of the normal manpower also.

Naveen Sahadeo: Sorry I missed that, can you repeat that?

Atul Daga: We have realized when we planned all our SOPs were done on manning norms etc. where people are required. We are now operating at maybe 35% or 40% of normal manpower. So that will prove to be a benefit in the longer term where we, for the new expansion in Pali comes up or the new grinding unit comes up. It will be manned differently for sure.

Naveen Sahadeo: You said in the previous quarter the central utilization were the lowest. When you say central is it also Chhattisgarh that you include in that or how do we look at it or is it only the Satna cluster you are talking about?

Atul Daga: Central is Satna, MP and the way we look at central is the East MP and East UP. Chhattisgarh is part of East.

Naveen Sahadeo: But some of the peers in that region like typically Birla Corp or Heidelberg for that matter they report of a very high utilization so to say so that's where I thought is there a disconnect, just wanted to clarify, our utilizations are low?

Atul Daga: Satna cluster is low for us as compared to somebody else because they are absolutely local player. Look at their distribution; they are very small market that they are catering to as compared to our raw material also flowing from Satna plants to the more lucrative Bihar market which is quite close.

Moderator: We take the next question from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: First question is with respect to the reversal of deferred taxes. Any particular year as per our assessment when we would be moving to the new tax regime in future?

Atul Daga: Minimum 2 to 3 years.

Sumangal Nevatia: With respect to CAPEX of around Rs. 1000 crores, what part of that is going towards completion of Bara and the Super Dalla grinding unit and what would be maintenance?

Atul Daga: Bara has Rs. 120 crores left which would get spend this year. Bicharpur coal block also had somewhere around that number only. Dalla Super we have not factored in any spend as of now because when we get the plant and a plant is available. It's more of a maintenance and oiling of plant that will have to be done so it's not too bigger CAPEX to my knowledge.

Sumangal Nevatia: So Rs. 600-700 would be maintenance.

Atul Daga: Yes, about Rs. 600 crores will go on maintenance CAPEX.

Sumangal Nevatia: Is this a reduced maintenance run rate given the challenges this year or this is something which is a normal run rate to assume in future as well?

Atul Daga: Rs. 100-200 crores would have got reduced on a current network otherwise we are not compromising on maintenance costs.

Sumangal Nevatia: We are quite optimistic on the rural demand. Any assessment as to what proportion of the rural demand is driven by government role in terms of say housing scheme subsidies etc. and what is then in self-reliant, any broad intelligence on the industry?

Atul Daga: This seems to be self-reliant or non-government because everything is going in trade and other than that I don't have any data source to split the demand between government support and private.

Sumangal Nevatia: In a normal year what would be the rural demand mix in the overall cement industry demand?

Atul Daga: about 35%

Sumangal Nevatia: Just one last clarification, you said 65% to 70% utilization in May, April would be, I missed that, April would be what percentage utilization?

Atul Daga: It would be lower; April is not a month to talk about because we started around 20th of April.

Moderator: Thank you. Ladies and gentlemen due to paucity of time this was the last question for today. On behalf of UltraTech cement that concludes this conference. Thank you all for joining. You may now disconnect your lines. Thank you very much.

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