“UltraTech Cement Limited Q4 FY-21 Earnings Conference Call”

May 10, 2021

MANAGEMENT: **MR. K.C. JHANWAR – MANAGING DIRECTOR**
ULTRATECH CEMENT LIMITED
MR. ATUL DAGA – EXECUTIVE DIRECTOR & CFO
ULTRATECH CEMENT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the UltraTech Cement Limited Q4 FY21 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 risk 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.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now 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 Faizaan. Good morning and welcome ladies and gentlemen to UltraTech Cement's earnings call for Q4 FY21. I thank everybody for joining in and I hope and pray that you, your family and friends are all safe from COVID. The second wave is hitting our country badly and we are seeing cases all around us. We as a company and Aditya Birla Group are doing everything possible to help the people in need. I pause here for a moment to pray for all the people who lost a battle to COVID and for those who are fighting it. Life goes on and so does work. I'll be brief today in my commentary and happy to take any questions in the end for which our managing director Mr. K.C. Jhanwar is also present on the call today.

This has been a phenomenal quarter and results of cement companies are speaking for themselves. The Indian economy has shown a strong resilience against the pandemic and the government support has been unparalleled. Cement consumption has been at its best in FY21 barring the Quarter 1 of last year. We at UltraTech have been focused on what we know best and that is cement. UltraTech has reached a capacity utilization of 93% for the quarter and March '21 was a record 99% which is really heartwarming and reassuring about things to come. It put all our skills to test to dispatch nearly 9 million tonnes of cement in one month that is on an average 0.3 million tonnes of cement a day and UltraTech did it in style. The complexity or the scale of operation is to be looked at in light of the dispatches being done from 54 locations across the country. Considering the Indian cement demand of 350 million tonnes a year which is roughly a million tonnes of dispatches a day we did 0.3 million tonnes of cement. This gives you a perspective about of what UltraTech is all about. This is one of the efforts which has helped us generate a jump in our net profits by 60% in this quarter.

We have been reading the markets right and taken advantage of the tailwinds of growth going ahead with our expansion of 19.5 million tonnes. We believe that India is on the brink of a jump in cement demand. Per capita consumption of cement has already gone up from the lows of 190 kgs to around 250 kgs per capita which clearly shows that Indian cement industry is on an upswing. Our expansion program is on track barring a bit of a slow down due to the current wave of pandemic. As the analysis and reports coming in from all over, this shall also pass. The second wave also should come to an end and we don't think that we will lose any time in ramping up and be on course to commission our 19.5 million tonnes by the end of March ‘23.

The input costs have unfortunately also been on the rise casting a shadow on the profitability of the industry. Spot prices of pet coke as you know have shot up from the lows of $60 per ton to around $125 to $130 per ton already. Diesel has also been continuously going up, resulting in the two biggest cost components that is logistics and power and fuel, putting pressure on the profitability for the industry. We believe that pet coke will start stabilizing as we see the restart of Texas refineries which had suffered recently due to floods. Also as the COVID vaccination program in the US keeps making progress, there are increasing number of people returning back to work in the refineries just helping increase the output in these refineries. This will lead to increase in pet coke production and consequently pet coke prices should also stabilize which we believe should happen in the second half of this calendar year. Costs have been hit with diesel price increase but we are doing everything possible to manage this cost. Logistics is a big science and we have been investing heavily in digitalization of our logistics network which has been bearing fruits and in spite of increase in diesel costs we have been able to bear the pressure of pricing input costs.

Demand is very robust and continues to surge from all corridors. While the initial thrust came from the rural markets, the infrastructure segment picked up as the government spending gained momentum. Now we started seeing gradual improvement in the urban real estate. No thanks to the pandemic, with relaxation in stamp duties in Maharashtra and some other states I think, lowest possible interest rate regime and the increase in the need for space. We believe that this growth in consumption will continue. Towards the end of the wave 1 of COVID, the government had started expediting the projects making sure that the payments to the contractors are released on time. They continue to do so but unfortunately the lockdown pressures are withholding project work.

I must talk about cashflow management in UltraTech which continues to yield results. Tight working capital has had good cashflows during the quarter reducing our leverage by further nearly 2700 crores. In this financial year we have deleveraged rapidly reaching a net debt of 0.55X from a peak of 3.3X at the end of last acquisition which was October-December ‘18. Towards the end of March ‘21 we prepaid our long-term loan to the extent of 5000 crores. You will start seeing the benefit of reduction in interest costs on our P&L from Quarter 1 on account of these prepayments. As the year progresses, we are confident that there will be some more prepayment that we will do during the year.

I've already mentioned about 19.5 million ton of expansion. All critical orders have been placed. Civil work on all the sites has started off. The second COVID wave has slowed down work a bit temporarily. But as I mentioned, we are hopeful that we will maintain our timelines on execution of the projects. For the Dalla Super clinker plant, I'm glad to inform you that we have received the Stage 1 clearance from Ministry of Environment and Forest (MoEF) and we hope to complete the formalities by end of September ‘21. This gives us confidence that the plant will go on stream before the end of this fiscal year and provide relief to our Eastern and Central markets requirement of clinker. It's a 2.3 million tonnes of clinker plant.

In the last meeting I had told you about our RMC starting to play a bigger and a far more important role. Well, we are now 132 plant network, up from 109 plants at the end of December ‘20. In UltraTech RMC is one of the largest internal customers for cement and generates an incremental margin over the grey cement margins. Nathdwara Cement has been doing very well. We operated Q4 with almost 85% capacity utilization serving the markets of Gujarat and Rajasthan. Century assets have not stayed behind, operating at 90% plus capacity utilization. All the operating costs, optimization plans are in place except for the markets Bihar and Chhattisgarh where we are yet to do the brand change. All other markets brand change has happened accounting for almost 77% of Century's output. Chhattisgarh as we have already mentioned earlier will continue with the old brand. And Bihar would account for 7% to 8% of the Century brand.

You're aware of the amendment in the MMDR Act. UltraTech is the only cement company like a good corporate citizen that continued to pay the royalty as per the old MMDR Act on the limestone raised from the acquired cement units. As of March 28th, this additional royalty has been withdrawn and we stand to gain by way of reduction of our costs of royalty that was being incurred.

The story of this quarter will be incomplete without telling you about our work on sustainability. We are targeting ae reduction in carbon emissions by about 27% at the end of 2032 over the base of 2017. Such is the high level of confidence that we have committed to pay additional interest on our US$ bonds that we raised in the last quarter, if we don't meet the emission targets and there is no better recognition for UltraTech's commitment, this being median debt issuance in the offshore markets, the first company from India and only the second out of Asia to issue a sustainability link bond and achieving sovereign pricing. That is UltraTech for you ladies and gentlemen. Thank you and a I hope you decipher my message in the last slide of our presentation. Wish you all have a very safe time ahead and I hand it over to hand it over for the questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: First question Mr. Dhaga is on the balance sheet and on the capital allocation. Now we are impressively deleveraging every quarter and in couple of quarters we would be net cash. Given our expansion plans already announced, it appears that we will be accruing a lot of cash balance on the balance sheet. So, in terms of capital allocation priorities over the next 2 to 3 years, can you can share your pecking order whether you would like to keep some cash on books as gunpowder for any future inorganic opportunities. So, one would start expecting good dividends now or in case there are any international or global or non-core ambition with UltraTech you would like to pursue?

Atul Daga: I think I should have spoken about our capital allocation policy in my commentary. But let me give you guys an overview. You would have seen that we have stepped up the dividends, the money has to go back to the shareholders. You are absolutely right that the cash flows that we expect in future years will be very good. On a 111 million tonnes of capacity with a 71% capacity utilization for the year, the free cash flow was in a close to 5 digit number, EBITDA being close to 12000 crores. This number with a 130 million tonnes of capacity is going to go up further. As for international acquisitions or international foray, no there are no plans as yet. I guess we have enough to do in India. Several markets are wide open for our organic expansion. There will be opportunities for inorganic growth for which we will keep gunpowder on the balance sheet and excess cash will be returned to the shareholders. I hope that answers your question.

Sumangal Nevatia: Yes, sir it does. Second question on the cost front, so seeing into FY22 Mr. Daga what are the key cost areas which you would keep an eye on or a key risks of inflation, whether it is slag raw material prices in terms of fly ash or pet coke, so if you could share what is the flexibility for us to switch between alternate fuels and even thermal coal in case pet coke keeps inflating the way it is?

Atul Daga: So, all our plants are multi-fuel and highly flexible on switching on instantaneous basis from pet coke to coal or different grades of coal, some fuel mix that has to be managed. That is never a constraint. In fact, this quarter we reduced the dependence on pet coke and increased coal to manage the fuel mix which has helped manage our costs as well. As for these costs none of them give us flexibility, fly ash, coal, pet coke, diesel. If these are the main cost drivers, as a buyer we can only strategize, try and give the markets lock-in quantities at the optimal prices. But spot prices are not in anybody's control. So, we do our planning pretty solid. I think UltraTech as a company whether it's size and scale, is very well placed, very well organized, very well connected in the international markets for sourcing, in the domestic markets for fly ash and whatever best as possible I think UltraTech is able to get the best.

Sumangal Nevatia: If I may just squeeze in one more question on slide #14 on your demand chart; after many quarters there is green and now in the first quarter we are hit with COVID. So, this time around is rural demand which has been a key strength area for the industry is at significant risk? I know it's quite a dynamic situation but any early thoughts you'd like to share?

Atul Daga: No, it's too volatile or too predictable with lockdowns and life is more important. I think it's now the question of how the country fights this menace of the pandemic. Once that is out, I am sure history is very short. Like last year history will repeat itself. We are already seeing everybody is authority on COVID. We are already seeing a reduction in numbers in Maharashtra and Gujarat and the focus is now shifting to other States and I'm sure other states will also start seeing recovery. We are seeing demand sustaining and improving in Gujarat and Maharashtra.

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

Vivek Maheshwari: A few questions, first on this limestone royalty; the change that you spoke about, so that helps Century JP West as well as JP all three and Binani merger should also happen based on the present Nathdwara merger should also be now on the cards given that there is not going to be any limestone implication is that understanding correct?

Atul Daga: Yes we still have to do a lot of clean-up on Nathdwara balance sheet. The litigation cases keep popping up everywhere. There are so many cases and luckily, we have a Supreme Court blessing. I don't want to do the merger till we have absolute clean balance sheet on Nathdwara. Maybe FY23 will certainly go ahead with the merger of Nathdwara, if not by the end of this financial year. It's within our control and yes, the royalty benefit is there on JP as well as all JP assets as well as Century assets.

Vivek Maheshwari: Could you remind me for JP West whether limestone royalty is paid on that one as well because I think the merger happened probably before the regulation change or maybe I am a bit confused on that?

Atul Daga: No, you see we had acquired JP assets, there is nothing called JP West and…you are talking about Sewagram acquisition. Mukesh, this royalty applicable on Sewagram also?

Mukesh Agarwal: Yes, because transfer has been done later on.

Atul Daga: There's a huge amount of, in fact you will be surprised that there is one plant of Grasim transfers which the government delayed doing the transfer and put royalty on that also. The JP West that to talk about also attracted royalty, the rest of JP that we acquired also attracted royalty as well as Century assets.

Vivek Maheshwari: Would it be possible in terms of just quantifying it in terms of capacity which gets impacted or rupees-crores whatever that is number is.

Atul Daga: Capacity, I will give you a number, its (+200 crores) per annum. That's the benefit.

Vivek Maheshwari: And that starts right from 1st April?

Atul Daga: From 28th March '21.

Vivek Maheshwari: On the dividend pay-out so you have elaborated to your earlier response but just to get it right. So, this year's pay-out as in FY21 pay-out has been about 19%. Is that what the number so broadly…?

Atul Daga: 20%, it is 19.99 or 20% is what I would look at and the board had adopted a capital allocation dividend policy of ranging from 15% to 25%. I think we are going to sustain and improve our dividend as a percentage to net profits. It's 20% is here.

Vivek Maheshwari: In the last call you have had indicated that you have a low-cost fuel inventory going up to April or maybe early part of May. Can you just give us an update now?

Atul Daga: We are managing our inventories and procurement processes, procuring from wherever possible and I can only share with you that our cost will be better than the industry.

Vivek Maheshwari: Can you just quickly also talk about the so you have covered demand but the local restrictions impact, was there a material difference between April first fortnight and second fortnight and in terms of Maharashtra being an example; while construction at site is allowed but what are you seeing on the ground right now?

Atul Daga: It's too unpredictable Vivek. I don't want to say anything which will change dramatically in the next 10 days. So, let's watch this quarter. Let's not take decisions on 1 month, 1 day per se and I am sure you guys have your channel checks the infamous channel checks that you will and can figure out stuff. I am surprised you did not ask any question about my last slide.

Vivek Maheshwari: I will take it off-line with you.

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

Ritesh Shah: My first question is on construction chemicals. How do we see is alloyed category for UltraTech figure in, obviously the company has a right to win? If you can provide some color on how much leverage we are churning right now and does the serious business going forward?

Atul Daga: I can’t hear anything that you are saying Ritesh.

Ritesh Shah: My question pertains to construction chemicals. How do we see this business going forward specifically when in the company has a right to win? If you can provide some numbers on where we are right now and where do we see this going forward, that would be useful?

Atul Daga: I will reserve our commentary on what we call BPD, Building Products Division as part of our foray. We are going great guns ahead and this will become one of the big drivers in UltraTech. Numbers, it's too difficult to put numbers at the moment. We have discussed this in the past also Ritesh we are very focused. I told you about RMC and I have shown you the numbers this quarter and RMC is going to go full steam ahead so is BPD and when the time is right, I will speak about BPD in much more detail.

Ritesh Shah: Second question was on RMC. You did indicate that we have increased the number of plants from 109 to 132 but can you allude over here; has the industry gone some shift in cost structure or basically the way in which the industry operates specifically on transit mixtures. Is there a structural change? I think post COVID the business model did get reversed a bit. Are we back to normal? How should one look at RMC as a business?

Atul Daga: RMC is a big growth engine and in a lighter way if I can say, UltraTech decides the future of RMC but honestly RMC is going be a big element of construction industry. People are realizing the benefits, construction sites are realizing the benefits of buying RMC instead of mixing RMC on site and that is what is paying off and it's how we try and educate and give a better product, better service to our customers.

Ritesh Shah: Under the amendments, one of the things which came out was that the leases which don't have PLs on it they got lapsed or the saved leases got lapsed. Just wanted to ensure, get comfort from you that for all leases which UltraTech has they are saying…?

Atul Daga: We have zero lapses. No, we did not have any lease lapsing, all are secured.

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

Amit Murarka: I was asking could you provide an update on Super Dalla and Bara 2?

Atul Daga: Yes. I did mention about Dalla Super, MOEF Stage I clearance has been received for the plant land. Unfortunately, because of COVID the next step which is payment of dues etc. is pending. We hope things settle down and we will start work on the plant and be ready with the plant by December and hopefully January-March quarter should see the production coming out of Dalla Super that's a 2.3 million tonnes of clinker.

Amit Murarka: And also, on the fixed costs so like last year obviously post COVID, we had seen industry cut down on spends but now again we were on a recovery mode but now the demand is again looking a bit shaky. Can we now expect spends like whatever dealer promotions ahead, spends and all the other such things getting curtailed?

Atul Daga: It's natural. Jhanwar ji you want to comment?

K. C. Jhanwar: I would like to say yes, it's a very dynamic situation. We have seen that the overall environment has changed after the first wave, everyone was bullish but in last 1 month all we know the things are again at a different stage actually. Yes, we are quite conscious about the same. In case the problems continue obviously we may have to look for some cost cutting measures again, the way we did in the past but yes, I would say its little early to conclude that we are going full blast on the other course aspects?

Atul Daga: To supplement what Jhanwar ji just mentioned Amit, we have shaved-off nearly 500 crores over FY20 because you see there is inflation in every element of cost. Even if I assume a 5% inflation, that inflation has been nipped and we are looking at fixed costs at almost the same level as FY20 only. So, there's a saving which is kicked in.

Amit Murarka: On RMC just had a simple question. In the presentation you have mentioned RMC volume is up 31% QOQ but revenue is up only 8% QOQ. Why would there be such a big fall in realization, just to understand?

Atul Daga: Ankit, can you correct the number?

Ankit Asawa: RMC is 32% revenue increase also year-on-year.

Amit Murarka: I know this is QOQ. Last quarter revenue was mentioned as 620 crores and in the presentation the volume is mentioned 31% or 32% of QOQ.

Atul Daga: Let me give you a clarification in a moment. We will go on to the next question. Mukesh just look up the numbers and be ready with the clarification.

Amit Murarka: Also on the fuel mix, could you share your current fuel mix. I guess pet coke would have gone down so?

Atul Daga: Pet coke has gone down to under 30% and imported coal is up to (+60%).

Mukesh Agarwal: RMC and projects we give the combined number which is 18% higher than the last quarter.

Amit Murarka: I will take it off-line because last quarter number you have just shared.

Atul Daga: Ankit will explain it to you.

Moderator: The next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: It's a clarification. On page #17 and #18 the volume in the presentation, now there is some calculation mistake is there. So, India operation volume is 26.59, overseas is 1.41. If we add together, it is not tallying with the consol number. Same is the case with the annual number. So, first, if you can tell us what's the exact number consol plus India plus overseas for fourth quarter and for the full year and it's good that we have shared the number in the presentation on the white, RMC everything but on the annual number there is no RMC annual number. Is it possible to share the same way fourth quarter number? We have shared grey RMC, white export for the full year of FY20 and is there any re-statement of the FY20 annual numbers because growth number does not also tally so need some clarification on that part.

Atul Daga: I don't know how you are calculating the numbers. If you can connect with Ankit offline, he will, the number that we have mentioned in the slide are all audited and accurate numbers. There's no error in the numbers. Any specific clarification you require; if you can connect with Ankit, he will be helping you on that. It's between consolidation, a quick clarification. Between consolidation, there is an elimination of inter-company transactions. To that extent you cannot do a math because you see Nathdwara supplies cements to UltraTech so that I can't count double.

Shravan Shah: No, I understand but even if you just look at 26.59 for this quarter India operation number and you add 1.41 overseas, the number tallies the 28 million and we mention the 27.78. So, there is a difference of 0.22 and if I look at for the full year, the difference is 1 million ton so that's what I said the clarification and the request to share the same way the annual number for RMC white and all this. The way we have shared for the grey and my question is most of the things is answered. Couple of two things. One is, what's the trade, non-trade mix for this quarter for the full year FY21 and what was it for FY20 restated now and what is lead distance sale for this quarter for full year FY21 and the sale for FY20 and 4Q FY20?

Atul Daga: Trade share is about 67% for this quarter, lead distance is about 440 kilometers.

Shravan Shah: What is for full year FY21?

Atul Daga: Full year FY21, 69%.

Shravan Shah: What was for FY20?

Atul Daga: Ankit what was for FY20 full year?

Atul Daga: We will just give you exact numbers.

Moderator: We will move on to the next question from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: I have a couple of questions, first on the utilization levels. As you mentioned our March utilization was close to 99%. Is there any market where we have struggled to cater to demand high utilization, or we have managed to thrive through?

Atul Daga: If I had more cement to sell, we would have sold more.

Indrajit Agarwal: On that note you mentioned about keeping the powder dry for inorganic expansion. Do we have a priority order in terms of which regions we would be scouting for assets more? What would be our focus areas?

Atul Daga: Except for West where we would get restricted by consolidation from CCI point of view. All other markets are wide open. I am keen on Northeast and we are keen on South, we are keen on all the markets.

Indrajit Agarwal: At current levels what would be the price differential between landed pet coke and imported coal, on a blended basis for us?

Atul Daga: If I look at fuel price, consumption rates about I will tell you a percentage gap. Yes, imported coal and pet coke?

Indrajit Agarwal: Correct.

Atul Daga: There is a gap of about 20%-25%.

Indrajit Agarwal: Imported coal is cheaper?

Atul Daga: Yes.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: Firstly, a very simple question on realization. Your realization was up about 1% QOQ but from the general channel check the sense that I got was for the sector it was down QOQ as the pricing increases came in later part of the quarter. Can you just help me understand that? How did you buck this trend of realization?

Atul Daga: Let me ask you the question. Your channel checks cover how many people? We deal with 60,000 dealers across the country. So, what happens is the price improvements depending upon which market, what date the price movements take place will have an overall impact. Now let's say if you are dealing with a regional player and the price improvement has taken place on 25th of March; obviously they will not have a huge impact but as a pan-India player, when we are seeing, we are selling all across every price improvement helps. Every price change has a positive or a negative impact.

Swagato Ghosh: I just want to understand so was your pricing improvement in line with the overall market improvement like leave aside my channel checks. I just want to understand did you outperform the market or yours was in line?

Atul Daga: It goes to show we have outperformed the market.

Swagato Ghosh: So, I just want to understand whether this is like for the quarter or can we do it because of our scale and obviously because of our size? Can we continue to do this every time?

Atul Daga: Because of scale, size and the brand the pricing capability or respect for the brand is higher than respect for or the willingness to pay for a brand B and a brand C. Obviously price improvements for category A brand is far higher. It's a sustainable methodology. If that's what your question is, it's a sustainable methodology.

Swagato Ghosh: The other question I have is because you are the market leader, you have strong market intel. I wanted to get a sense so what has happened to the tail of the market during this last disruptive year? By the tail I mean the small-small 1 to 2 million tonnes capacity players? Have some of them gone out of market or have they severely stressed or like the most other larger players…?

Atul Daga: There has been an impact on smaller players because in the initial period of COVID when we discussed there was a time if there's a two-plant company and if there's a lockdown in one of their plant locations 50% of their capacity is gone right. As compared to that if there was one plant of UltraTech was in a lockdown situation, we or any large company would have the benefit of servicing its customers from other plants sacrificing lead distance but servicing the customer and gaining market share. I made a big statement early on in my commentary. We sold 0.3 million tonnes a day as compared to a million ton a day of all India. That speaks.

Swagato Ghosh: I just want to understand when I look at the demand supply for the sector, the supply side we look at our 500 to 520 million kind of a supply number. Do you think that the tail might shrink, and this overall number might come down..?

Atul Daga: The tail might shrink. Those are the 1 million tonnes and the smaller players also, 2.5 lakh tonnes, 500 thousand tonnes capacity players will shrink but you will have larger players like UltraTech and other larger players investing in capacity because there is a huge potential. I believe that we will see a CAGR growth, as large CAGR growth in India for a long period of time. These projects which are under execution are very cement intensive and time consuming. India will have a long-sustained period of demand and capital-intensive nature of cement industry will not let smaller investment sustain. We have the capability of investing and putting up Brownfield expansions at a cost of $60-70 a ton or even lower. It will not be possible for everybody.

Swagato Ghosh: On government project orders, have you seen any great pricing pressure over the last 1 year because there has been…?

Atul Daga: No, government is focused on project execution and fast-tracking projects. No pricing pressures and pricing are generally long-term contracted prices would be government projects. I am really happy or actually this is the most sensible thing that the government is doing to generate employment, to bring back labor to project sites so that the government is now releasing payments to the large contractors on time and pushing the pedal on execution. Let's not talk about yesterday and day before or in the last few days of COVID but general the underlying current is that we want to increase the execution, project execution at the ground level. So, that employment generation is also there, and labor is aware.

K. C. Jhanwar: As you said rightly, unlike last year this is not the case because all projects are practically running. Yes, number of labor might have reduced because of some sites say now maybe 60% labor may be working but major projects like road, Metro all projects are running even if I talk about Bombay the coastal road project is on. So, the government is fully committed because it is as linkages with the employment also.

Atul Daga: If the person from Dolat Capital is still on the line; 26.59 plus 1.41 is yes 28 and the number reported is 27.78 million tonnes because 0.22 is again elimination of domestic sales, our cement supplied to Sri Lanka, it's an elimination only. The numbers are not wrong.

Moderator: The next question is from the line of Ashish Jain from Macquarie.

Ashish Jain: Atul, can you give some sense or like to give a color of how infra is doing on demand side? Can you give some sense of how bad rural is as you speak because the impact on rural this time has been much more than what it was last year? And if you can also give some sense of how our volumes would have dropped in April over March? Any sense of that will be very useful.

Atul Daga: I don't want to comment 1 month-1 day-1 hour of sale, let's watch this quarter go by. Too unpredictable but I know my April numbers but I am restricting myself from commenting on them because let's say June picks up and whatever work was lost in April or in. There's a work loss or there is a construction slow down no doubts about that. We will come back to you with the exact number at the end of the quarter. As for infrastructures Jhanwar ji already mentioned and yes, all sites wherever possible work, work has not stopped. These lockdowns, slow down or curfews are not an economic lockdown. Economic lockdown is where you have to shut down everything. That has not yet happened in the country so infrastructure is growing. In Bombay you see your coastal road project continues, highways continue, work on Metro is continuing. Everywhere work is going on at a slower pace but work is going on.

Ashish Jain: My question was more for rural. What kind of impact you have seen on the rural demand this time?

Atul Daga: I don't have a daily number but yes there's a slowdown. As I said I don't want to

K. C. Jhanwar: There's a slowdown obviously because we all know there are lockdowns across the country in different parts. So, there is a slowdown but it's not slowdown where there is a huge worry kind of thing. Yes, obviously with all this kind of pandemic environment, there is a definitely slowdown and March and April always you know there used to be.

Atul Daga: Yes, in any case we lower than March. March is huge month, 99% capacity utilization in March in normal circumstances without COVID also it would not have been 99%.

K C Jhanwar: Yes, that's a normal change.

Ashish Jain: Can you give a sense of region wise how the pricing moved in March over December, so I know overall number is 1% but can you give colour on region wise how it moves?

Atul Daga: I'll give it to you offline.

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

Gaurav Rateria: Two questions firstly on the market share gains you talked about the initial part that you benefited from supply side issues which are plants were facing. But I think every quarter after quarter UltraTech has gaining market share. So, in the recent quarter there has not been any supply side issues, what really has been driving the market share gain for UltraTech and which regions in particular if you can show some light that will be helpful?

Atul Daga: We had a capacity utilization of 100% plus in the Eastern markets, 90% plus in all the other regions and below 90% in South which South is always supposed to be laggard that is the kind of demand that is a kind of euphoria and cement consumption in the country. UltraTech is the only company, there's no other company which is in that situation which our diversity off the spread that we have in the country comes to our advantage. We are able to service customers from anywhere.

K. C. Jhanwar: Atul, if I may add that the best part is that serviceability, we can service from the Central to East, from North to East maybe at certain post, but yes the serviceability we always ensured.

Atul Daga: So, we have focused on gaining market share theoretically saying not losing a single order.

Gaurav Rateria: The second question, great move on dividend of increasing the pay-out but I just trying to contextualize in terms the percentage of free cash flow it was probably still 10% and that will probably be the case even going forward because of good confidence on the future cash flow. What is the kind of gunpowder you want to have on the balance sheet to have that optional of any future in organic opportunities in the balance sheet?

Atul Daga: So, my aim is to go net cash on the balance sheet and irrespective of any gunpowder if I have to leverage for a year, by free cash flow for one year will be let's say 10000 crores. We will deleverage and comeback to net cash in a year’s time if you were to leverage having said that we would carry a 10000 crores surplus on the balance sheet for any exciting opportunity.

Moderator: The next question is from the line of Madhav Marda from Fidelity International.

Madhav Marda: I just had one question was on the fixed cost side, we had 500 crores savings this year over the last year. I didn't fully understand that you said that in FY22 we will maintain it at the same level as FY20 is it, that's what you said?

Atul Daga: So, if you look at my fixed cost for FY20 was close to 5500 crores. So, if I want to do inflation on that 5500 crores, I should be inching towards 6000 crores for at the end of two years but we will maintain 5500 crores. That's the way I count my chickens.

Moderator: The next question is from the line of Sumedha Srinivasan from ICICI Prudential AMC.

Sumedha Srinivasan: So, my question was on the WHRS capacity that has been announced I think in recent month you said we expect to go to almost close to 300 megawatts by the end of FY23 is more than the double of the current capacity that we have. So, is this mainly coming up in the new expansion projects that are happening and what will be the I mean will this come up along with the expansions or after completion of it and what will be the CAPEX for this?

Atul Daga: All the expansion that we are doing we have the integrated plants. We are baking in WHRS in parallel. Today we have reached 125 megawatts of WHRS and by FY23 or middle of FY24 WHRS would be at 304 megawatts. The incremental investment around 1800 crores is the part of overall investment on WHRS.

K. C. Jhanwar: Wherever new sites are coming is the part of our CAPEX fund.

Sumedha Srinivasan: What would be the cost benefit that they would we likely seen from this and would that be from FY24 onwards if my understanding is correct?

Atul Daga: Yes, it will be visible through FY22-FY23, but if you want to analyze the benefit of 304 MW that will be in FY24 and the cost of this WHRS will become about 25% to 26% of our total power consumption. I I'll give you all the lever, you can do your own math on the current network our power consumption is about 1200 megawatts and this will be 304 megawatts of WHRS. Current cost of power without WHRS would be Rs. 5 a unit and so let's say Rs. 5 a unit is the grid power or our thermal power. We need WHRS power will be 50 paise to 75 paise per unit. So, 25% of my power will cost 75 paise a unit and 75% of my power will cost let's say 5 bucks a unit.

Moderator: The next question is from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda: I have two questions, what was the premium cement now as a percentage of overall total cement sold?

Atul Daga: About 7% to 8%.

Bhavin Chheda: How it has moved over last year?

Atul Daga: Sorry, its not 7% to 8%, it's about 10% now and last year I think it was 8%.

Bhavin Chheda: Any internal targets how this will move going forward as you're planning ahead?

Atul Daga: We are looking at going upto 15%.

Bhavin Chheda: By when?

Atul Daga: This is on the current new products or value-added products and the company is working separately on identifying and bringing out newer value-added products.

Bhavin Chheda: Just before the second wave hit India the majority of the Indian company's got impacted in April-May most of the cement industry projections of 15% to 16% and obviously UltraTech being market leader expected to grow ahead of that, your internal projections on industry still stand there or what will be your view going forward?

Atul Daga: I would count pandemic as a temporary slowdown. It's an unfortunate one but I will want to count it as a bad blip. Two months we should come back and I'm scared of reading about the third wave and I don't know how long it will go but we have to taking it right. So, if by June things become normal fingers crossed. People are saying by 15th of May things will start improving or just start subsiding. Let's say June things improve and then we are back on track, the industry is back on track. You have to see the project, now let's say coastal road project they have to complete it and they will push the pedal whatever slowdown has taken place they will be wiped out, so you will be back to normal speed. The project life is not reduced. The quantity of cement required in a project. The work involved in the project is not going down. It's only temporary setback in the pace of execution.

Bhavin Chheda: What about the individual home and its consumption?

Atul Daga: It's going up.

Bhavin Chheda: So, you are saying the paint-up real-estate demand last six months what we saw a big pickup in region eventually.

Atul Daga: It will come back. If you have started a project, you have done the roof or one wall, you will not leave it there. The moment labour is available things at home are alright, things in the neighbourhood are normal. I am confident of stepping out and buying cement. I will go out and buy cement get my contractor back home and do the job, that's the IHB segment. Let's be honest today if I am scared personally, I don't want to call an electrician inside my house for any repair work or a meson or the pest control guy. When things normalize you will start calling, similarly when things normalize the work which has stopped on my house which I'm building in Timbuktu I will start work there. So, that's the general philosophy.

Bhavin Chheda: So, last question I missed out or you said you want to maintain the cash of 10000 crores, so that is net cash in the balance sheet or you spoke about liquidity to be maintain about 10000 crores?

Atul Daga: No, liquidity on our balance sheet.

Bhavin Chheda: And you technically want to be a net cash company but you're not giving any figure on that.

Atul Daga: Yes.

Moderator: The next question is from the line of Girish Choudhary from Spark Capital Advisors.

Girish Choudhary: Couple of questions from my side, firstly on the RMC business if you could also share the margins which you are making and the capacity utilization for the year and extending the capital employed in this business as to get from the return profile of this business.

Atul Daga: The last question first, you will fall over the chair if I were to tell you the return capital employed in an RMC. It's a very high number; it will go way above 25%. Second question was on margins, margins we would have 5% to 7% over grey cement on a transfer pricing that I clarified or it's on our transfer pricing. So, RMC is one of the biggest customers for my grey cement. RMC marketing team is separate, and the grey cement marketing team is separate. So, grey cement marketing team sells cement to RMC at the best possible price and then they earn a margin of 5% to 7% over grey cement margin. Third point on capacity utilization, there is no concept of capacity utilization in RMC because the transit mixer is not allowed to move 24 by 7. It can be run maybe 13 to 15 kilometers distance because we don't want the material to set. So, we don't go by capacity utilization percentage. RMC plant might be 60 cubic meter plant but that's the sizing of the plant, depending upon the customers that we want to service. Capacity utilization number could track.

Girish Choudhary: The other question was that I had a follow-up from the premium migration the earlier participants has asked, so what we are seeing is that in the recent past we have seen increase in many players focusing on this and also talking about premium migration of products moving to 10% to 15% and also targeting closer to 20%. UltraTech has been the highest price premium product which is UltraTech Weather filler. So, do you think this can slowly get commoditized or let's say can there be some pricing pickup in this part of the profile?

Atul Daga: See in this space there's always an early mover advantage and when our product has established itself it is very difficult for somebody else to substitute and as more and more players copy us, yes there will be some bit of discounting on the current pricing, but we will have a premium positioning in this product also.

K. C. Jhanwar: Because fundamentally the brand has its premium paint, even if somebody new person is coming in these product range our premium on the new products will continue to come in the market.

Moderator: The next question is from the line of Arijit Dutta from Axis Capital.

Arijit Datta: The question from my side, considering cement prices moving up in later part of Q2 and the full inventory impact in cost will be realized in Q1. Can you give some guidance on how EBITDA percent increase will be currently versus Q4 level without considering the operating leverage part?

Atul Daga: Yes, you are asking me to talk about Q1 FY22. I don't want to give you any details.

Arijit Datta: Some guidance?

Atul Daga: I don't believe in giving any guidance. Whenever we meet one-on-one I'll explain trajectories and show you directions how things are moving, you make your conclusions.

Moderator: The next question is from the line of Pratik Kumar from Antique Stock Broking.

Pratik Kumar: When you said that utilization of Nathdwara was 85, Century was 90, was this for annual numbers or for Q4?

Atul Daga: I told you about quarter numbers.

Pratik Kumar: So, what would be the annual profit per ton, EBITDA per ton for these assets now for FY21?

Atul Daga: Nathdwara would be about 1500 bucks a ton, but the Century asset is very difficult because they are totally synchronized with our existing network in the same markets. Nathdwara been a standalone channel on balance sheet.

Pratik Kumar: They used to target something in the range of 900 to 1000 for Century.

Atul Daga: I have already reached above 800 and now 60 bucks will be realized from MMDR royalty Rs. 64 will come as against. So, 865 will be there and I'm sure with some pending improvements, brand transition that are happening we will cross 900 for sure.

Pratik Kumar: Second question on your gross debt, we did some absolute gross debt reduction of 5000 crores as a maintenance, but our reported gross debt is only 2500 crores lower for FY21.

Atul Daga: What happened was we paid off 5000 crores, we had done a raising of US dollar bonds which was 2900 crores of net number will be less. We had also raised an NCD during the year which was about 1000 crores. So, crossed that level you will not see a 5000 crores number.

Moderator: The next question is from the line of Kamlesh Jain from Prabhdas Liladhar.

Kamlesh Jain: One question on the part of CAPEX like say I do appreciate that COVID volatility and uncertainty clear, so how much CAPEX can we continuing far for FY22 and FY23?

Atul Daga: CAPEX spend this FY22 we will look at 4000 to 5000 crores. That will be bulk of our cash flow; FY23 might come down to about 3000 crores because it is largely because of the expansions.

Kamlesh Jain: Secondly on the cost part, we have done phenomenal work on the particularly on the energy and the freight which is the per quarter cost. Like going forward like if I see the imported coal cost in this flat quarter on quarter $67 odd. So, going forward like say two quarters or three quarters, so from the current tables what could be the cost increase we can see for our CAPEX?

Atul Daga: I don't think we will see cost increases; costs should come down. Diesel of course is not under our control. Luckily, we don't consume petrol which has gone up 100 bucks a litre. Pet coke will come down, coal will come, this is what our reading of the international supplies is.

Kamlesh Jain: But given the current prices sustains, so what could be the next phase as we had moved to coal at around 61%. So, taking that into consideration I do appreciate that on the freight cost we can't comment, and their impact has been visible. So, but on the energy cost side how much could be the incremental move which we can see?

Atul Daga: No. What I'm saying the incremental might be 50 bucks here or there but not more than that and July onwards it cannot be cast in stone but a second half of this calendar year fuel prices should come down.

Kamlesh Jain: And lastly on the overseas, so we have done the play around 250 odd crores EBITDA, so that's also a far better as compared to what the headlines have been there that in Middle East market has not been that strong. But do we see the sustainability of 250 crores EBITDA there in overseas operations?

Atul Daga: I think I'm glad you asked about our UAE operations. The brand is very well established. We would have more than 25% of the market share in the UAE and we are the best performing company in the UAE.

Moderator: Ladies and gentlemen we will take the last question from the line of Vivek Gedda from HSBC Securities.

Vivek Gedda: I just wanted to get a sense on the volume and pricing front for UltraTech by region.

Atul Daga: I think somebody else also had asked that question, let me give it to you offline Vivek.

Vivek Gedda: Just wanted to get a sense that with RMC and BPD being a long-term growth engine, what kind of ROE would you target for the consolidated business on a medium-to long-term from the current 15%.

Atul Daga: Lovely question to end this and this session today, we have reached the ROE of about 15% and I'm looking at taking it at least two or three hundred bps higher.

Vivek Gedda: Any timeframe that I may ask?

Atul Daga: By FY25.

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.