UltraTech Cement Limited Q2 FY17
Earnings Conference Call

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MANAGEMENT: MR. ATUL DAGA - EXECUTIVE DIRECTOR & CFO, ULTRATECH CEMENT LIMITED

Moderator: Good day, ladies and gentlemen and welcome to UltraTech Cement Limited Q2 FY17 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 publically amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise. As a remainder, 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 this 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 so much. Good afternoon and a very warm welcome to all of you on our call for quarter 2 results of this financial year. The quarter has panned out as expected. Let me go through the good and the bad about this quarter.

The good news first, good for the country that the monsoons were very well dispersed this season, water reservoirs have risen as you know 74% and the crop sowing has also been much better as compared to previous year. Why monsoons are better for the country because only about 40% of the agricultural land is irrigated in the country and hence good monsoons become important and also rural markets are the single largest demand driver for cement industry. Ease of liquidity in these areas certainly will help the industry. This is also evident from the earlier phases of good monsoons which helped to improve cement demand.

Second good news, the pay commission hikes. Government this time has approved about 23% increase in salaries for the government employees as a part of the 7th pay commission. This impacted nearly 10 million people. Out of the total $15.5 billion of the pay commission hike that was announced, $5 billion has already been disbursed in somewhere around July and August 2016 and there is empirical evidence that housing demand definitely picks up for a short term post the pay commission hike because the government employees, present and pensioners who are involved are all from tier 2, tier 3 towns and significant amount of these monies flow for housing demand and housing improvement. I just hope the history repeats itself this time around as well and cement demand is also revived.

Now the bad news, cement industry had a dream run with falling crude prices, pet coke prices till last year. Pet coke in the last 6 months has almost doubled and it is now crossed $80 per ton. This up-movement has been far sharper than the downslide that we witnessed till last year. Primarily, if we assign the reasons, I guess the demand for pet coke in the country has gone up 3x in the last 5 years. While there is economic benefit with pet coke consumption, I believe that there will be a tipping point for all consumers beyond which they may switch to other fuel. This is only a hypothesis and remains to be tested but that may in some way stem the rising prices of pet coke **.**

Getting on to the demand factors, **first one urban housing**. Surplus inventory in urban housing continues to be there in tier 1 towns; however, tier 2 and tier 3 towns have seen steady growth in cement demand throughout the last few months.

Infrastructure, there is myriads of data available to reflect the initiative that the Government is taking to boost the infrastructure growth. New projects have been announced, old projects cleared, higher capital allocations made in this fiscal budget, now it is all about execution. We believe that the momentum is picking up but the pace is yet to come. Roads, Ports, Power Plants, Metro Rail Projects, DFC, Irrigation etc. will be the key drivers of cement demand going forward.

Some specific plans worth a notice that we have seen:

(a) **Industrial Corridor:** Delhi-Mumbai industrial corridor worth $100 billion of a project, for that land deal has been finalized. Land allotment has been planned in October/November onwards. It is an online process that is being contemplated. Government has completed 10,000 hectares land acquisition in Aurangabad, one of the 4 industrial areas of the corridor.

Vizag-Chennai industrial corridor is another big project which has been cleared, loans have been sanctioned.

(b) **Mumbai Metro Rail**: There will be a 142 km network for which work has commenced, orders are getting placed and now that the monsoons have receded, we expect the work to start getting momentum and increasing pace.

(c) **Irrigation**: Government cleared nearly 99 irrigation projects worth $11.5 billion to bring about 7.6 million hectares of land under irrigation. This will definitely require lot of cement.

(d) **Increased road compensation** by NHAI, more than 9,000 hectares of land having been acquired by NHAI during fiscal 2016, which is much higher than last year for road construction. Nearly 180 projects are now under execution and this time around the Government has put a time limit for completion of these projects. We believe that good infrastructure will create a momentum and generate demand for urban housing in the long run. Of course, the long run would mean 3-4 years from now.

Rural demand; there is a lot of expectation getting build up this season for an improvement in consumption spends from the rural markets. Tractors, the Indian version of Harley Davidson, compact cars and of course cement are expected to improve consumption. If infrastructure, rural housing demand improves, we expect that the prices should also see a stable to a positive cycle.

Going in with the monsoons, the prices have remained stable in the country with very small sideward movement in some states. But generally the prices have been positive. The prices improved over the exit of June and have been continuously inching up though marginally. This, I believe is on account of all the construction work that started earlier and had to be force stopped in the monsoons. Once the monsoons are over, in October onwards we should start seeing some positive activity in terms of construction work. Of course, there are numbers of festivals in the country. October will see Diwali where most of the labor force goes off to their villages from the large construction projects which sees some kind of a lull in construction activity during this month. November-December onwards, we expect the volume should come to a normal pace.

Another major development is GST, as of now I believe today the Government officers are meeting to finalize the rates and as of now the government is on track for roll out of GST from 1st of April 2017. What it would mean, tax administration process since it will undergo a change because entire country has to go online on a unified platform. IT systems need to gear up, supply chain optimization opportunity, input purchase price, renegotiation opportunity that is what will be thrown up by GST. Likely benefits for cement industry, I would believe reduction in overall tax outgo, which eases the working capital cycles, smoother movement of material from one state to the other without any tax loss, optimization of logistic costs that will be the biggest gain.

Let me address in a bit about how each state has behaved in this quarter.

Starting from North, Haryana, Punjab agriculture and reasonably good monsoon supported rural demands, so we have seen a positive movement over there. In the state of Madhya Pradesh, infrastructure and housing in semi-urban and urban areas drove demand. Uttar Pradesh; aggregates and sand shortages, hike in sand prices in major markets hampered the demand. Uttarakhand, we saw price stability and aggregates also available in abundance which was driving IHB demand over there. Rajasthan, with excessive rains had a bad period this quarter and was devoid of too much of demand. Delhi, the property prices have been declining, which is impacting new development. No new spending of government projects in Delhi and thus we have not seen too much of demand coming in from Delhi.

Bihar and Jharkhand, rural areas were subdued due to monsoons and floods in several parts of those states. There are various festivals which also impact the construction activity and thus leading to a mediocre demand. West Bengal, again was impacted by sand and aggregates availability, ban imposed by NGT and West Bengal Government on all quarries for sand excavation. All construction was widely impacted. Odisha, demand was generally coming from the IHB segment. Major projects in rural markets are being driven by the Government schemes for example, Biju Pucca Ghar Yojana, Swachh Bharat Mission and others. Chhattisgarh, again rural housing projects show a good amount of spending and drove demand.

Maharashtra, demand was subdued due to heavy rains in most part of July and August. However, September onwards we started seeing some improvement in demand from the interiors of Maharashtra.

Gujarat and South remain subdued, nothing significant that we noticed over there.

Now to briefly talk about news within the company, we have seen efficiency improvement again this quarter which helped to improve our EBITDA nearly 20% and out of this EBITDA improvement, major component has been cost and efficiency improvement which is sustainable and will help us in the long run. We are continuously improvising and so are the external inputs like pet coke and other costs.

Our major CAPEX capital cycle has come to an end and now the next long-haul will be the ongoing acquisition. On the 20th of October, that is towards the end of this week is the court convened shareholders and lenders meeting to discuss and approve the scheme. Post that, the resolutions will be filed with the High Courts for court hearing and then the SEBI and ROC approvals will bring a closure to the scheme. As of now, it looks that we should have the asset for the full run of next financial year. This will obviously reflect negatively on the current year balance sheet since the debt will come on the balance sheet without the income profile of these assets but we are not really worried about it because that is only a temporary phenomenon.

To end my remarks, going forward we are expecting a long cement cycle this time around especially with a slow down in new capacity addition and the infrastructure projects - panning out in a big way because right now we are only seeing roads. Now as and when the other projects start getting into the execution mood, we will see significant amount of demand coming in. With that, I end my comments and over to you for questions. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Bhoomika Nair from IDFC securities. Please go ahead.

Bhoomika Nair: Congratulations on a god set of numbers. Sir, just wanted to understand on volume growth, this quarter has been fairly muted as you mentioned because of monsoons but even if you look at industry volume that appears July and August put together has been about 2%-3% and we have grown roughly about 1%. So is it that we have grown little lower than industry and what is our outlook for the full year for the industry as well as for ourselves?

Atul Daga: The only reason we saw our performance on volumes lower was our Pan India presence because wherever we are, we got hit with rains. That is the only reason I would ascribe to, otherwise I think we are geared up for demand opening up and if you could tell me what the stock exchange index will be tomorrow, I will tell you what the demand forecast should be for the year.

Bhoomika Nair: Okay, but does it look like this is year-to-date, the growth has been about 4% and this will be another year of sub 5% or just about 5% kind of industry growth?

Atul Daga: I expect it should be higher than 5%.

Bhoomika Nair: Okay and sir the second question is in terms of pet coke prices, could we get a sense on what has been the average pet coke price for us in 2Q 2017?

Atul Daga: $50-$55/t approximately.

Bhoomika Nair: Okay and this quarter we have obviously seen a lot of efficiency in savings and cost particularly coming in from WHRS, is there further scope to improve from the 7% of our requirement?

Atul Daga: Yes, we are working on a CAPEX plan for the next phase and I think it still a few months away before we get into the execution mode.

Bhoomika Nair: So it should remain at these levels for some time now.

Atul Daga: Yes, at least for a year or may be 2 years it should remain at these levels whereas the efficiency improvement within the existing investment of WHRS will potentially improve the ratio in favor of WHRS, though marginally.

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

Gunjan Prithyani: Two questions from my side. Firstly, you mentioned in your remarks about the tipping point when the industry starts to evaluate whether to shift away from pet coke . Now could you give us some sense what is the benefit that we have in terms of cost versus the other few international coal or domestic coal in terms of percentage, any sense and you think that any further 5%-10% increase in pet coke and we could then start shifting to international coal again?

Atul Daga: It all depends, because both imported coal and pet coke are moving in the same direction, so everything remaining constant, I think that the tipping point would have already, we would have crossed that, but since everything else is rising, there is money in the game for pet coke .

Gunjan Prithyani: But sir, on a per kcal basis if you can give some sense what is the cost saving that we get out of pet coke , is it 15% cheaper or is it more than that?

Atul Daga: 10% to15% cheaper, everything remaining constant, it's better.

Gunjan Prithyani: Okay, 10%-15% cheaper. Okay and sir, the mix has gone to about 76%.

Atul Daga: Gunjan, over imported coal.

Gunjan Prithyani: Over imported coal, okay and 76% is where it is, I mean you don't think there is a scope to further increase this, right?

Atul Daga: There is. So what we are doing is, now if you have read our presentation, we have looked at 71% as hybrid number which includes TPP also. So now we are increasing our pet coke consumption in our power plants. There is room to improve overall consumption.

Gunjan Prithyani: How much can this go to, according to you?

Atul Daga: I do not have an immediate answer on that.

Gunjan Prithyani: Okay, got it and second question was on the limestone reserves. So there have been some of these auctions which have happened. Is that something that we are looking at or which will be the regions where you think you could evaluate bidding for some of these reserves, any thoughts on those auctions?

Atul Daga: As and when we are evaluating all the blocks which are in the pipeline and there will be a few of them which could be either for augmenting the resources at our existing plants or if there is an opportunity for a greenfield basis, we will examine that.

Gunjan Prithyani: But we have not participated really in any till now?

Atul Daga: We participated in one, but the prices were becoming too high, did not make economic sense for us and that is why we did not pursue it further, we dropped out of it.

Gunjan Prithyani: Okay, sir just last one, clarification on the presentation. So this domestic sale number is 1% down. Now what is this others if you could just explain?

Atul Daga: Others include export of cement, white cement and putty.

Gunjan Prithyani: So basically the grey cement domestic sales is down 1% and let's say the industry would have grown at about sub 2% in the quarters, is that correct?

Atul Daga: I do not know the quarter number as yet for the industry.

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

Anubhav Aggarwal: Atul sir, one question on the road freight. In the month of October, post 1st October when railways reinstated the busy season surcharge. On the road side, diesel prices have also gone up 5% since then, so what kind of increase have you seen from the road truck guys?

Atul Daga: There is a formula directly linking diesel prices to road freight and there is a percentage basis which the road contract prices get adjusted, so that adjustment takes places automatically.

Anubhav Aggarwal: So, what do you say that when we see diesel prices gone up by 5%, so road freight in October would have been up like roughly 5%?

Atul Daga: No, because diesel is not 100% in correlation. There is a small percentage, less than 50% is correlated. So there is a small impact, yes.

Anubhav Aggarwal: So, it has been low single digit only.

Atul Daga: Yes, low single digit.

Anubhav Aggarwal: Sir, the pet coke costs, you say in the presentation will normalize for UltraTech in 4Q 2017. Of that delta, which is going to hit us, majority of this will be reflected in December quarter or in the March quarter?

Atul Daga: March quarter.

Anubhav Aggarwal: The March quarter will have the larger head?

Atul Daga: Yes.

Anubhav Aggarwal: So most of the inventory, if I understand right, the gap largely is coming because you accumulated imported pet coke inventory.

Atul Daga: Yes and you know, you order and there is a lead time, you manage the process.

Anubhav Aggarwal: And just last question is networking capital, quarter-on-quarter there is an increase of almost 400 crores in the networking capital, can you explain that?

Atul Daga: So, there was a bit of clearance on the liability side and as well as, as I mentioned about in case of inventory, pet coke inventory has also gone up and some other inventories have been taken up.

Moderator: Thank you. Next question is from the line of Aniket Sethi from CLSA. Please go ahead.

Vivek: This is Vivek. Firstly on the volume growth again, I did not understand, so your volumes are down whereas for industry, it is up. Was there any specific issue in any of the plants or any of the regions?

Atul Daga: No issue in the plants. Like I say that we have been impacted with rains all across. Barring that, I do not have any plausible reason.

Vivek: Okay, I know it is a small delta but the industry would have been equally impacted because of rains, right because you typically mirror industry in anyways in terms of regional presence, right? Why would it be different for you?

Atul Daga: **B**ecause I am Pan India and let us say a pure Gujarat play or pure Haryana play because these two states had their least amount of monsoons would definitely fare better, but if you were to compare us with our Pan India player, then it would mirror that.

Vivek: Okay, understood and second on the cost side again we are seeing the pet coke , coal and freight, all the costs, obviously the overall cost curve moving up now. How do you see the scenario if, so basically is everything dependent on demand, if demand picks up, prices picks up and that is how you will be able to maintain our expand margins or irrespective demand given that cost curve is moving up, you will have to take up cement prices to kind of mitigate the impact?

Atul Daga: So I believe that there is increasing demand, the prices will improve and as you can see in quarter2 with an improvement in prices, whatever impact of increase in input material cost has been absorbed, besides the fact that there is a lot of efficiency improvement as well.

Vivek: Okay, efficiency improvement while you have been indicating but the point is that you have really worked over the past few quarters, perhaps couple of years to get most of these, do you think there are significant gains which is still which you can take in the bag or this is just about it?

Atul Daga: No, there is still more room for improvement.

Moderator: Thank you. Next question is from the line of Nitesh Jain from Axis Capital. Please go ahead.

Nitesh Jain: I have 2 questions. Number one on the cement pricing like in this quarter we have seen cement dispatches going down and surprisingly cement prices were quite resilient, ideally along with the volumes, prices should also come under pressure. So my question is looking at the peak construction season which is the next summer season or the Q4 rather, I want to ask you like which reason you think should stand out in terms of the cement pricing, where you see the maximum scope of cement prices going up along with the volumes this is number one and number 2 is the bookkeeping question, what will be the CAPEX in rupees crore for FY17 and 18?

Atul Daga: So, all fingers are pointing for North and perhaps Western markets for pricing followed by East and then South. Second one on CAPEX, we have expectation of Rs. 800 to 900 crores of steady state CAPEX year-on-year.

Nitesh Jain: Okay and secondly sir on the organic side, we are not planning anything as of now?

Atul Daga: Nothing as of now.

Moderator: Thank you. Next question is from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.

Chockalingam Narayanan: One basic bookkeeping question which you normally give in terms of numbers both the absolute value and the volumes for RMC, white cement and putty?

Atul Daga: Chocka, will you take it offline with Nilesh?

Chockalingam Narayanan: Sure sir, in that case actually the volume on month basis Y-o-Y, if you can split what was it for you for July, August and September?

Atul Daga: I do not track in that way.

Chockalingam Narayanan: Okay, understood and last thing on the Jaypee Group, the assets that we are taking over, any sense on how much volumes because we understand that there are some working capital issues and they possibly have lost some more volumes. What are the assets currently operating at versus say 6 months back when we kind of got into the transaction?

Atul Daga: So they had gone down. When we entered into a transaction, they were close to 50%, they went down to 30%, capacity utilization. Now on an average, I believe they are somewhere around 40%-45% capacity. But some of their plants in better markets are doing phenomenal in terms of capacity utilization, they might be operating at 80% plus. Not all the plants, there are specific markets where they are able to operate.

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

Murtuza Arsiwalla: Sir just 2 questions from my side. One is on the other overhead cost, when I look it from the same period last year and I know that was not under IndAS, but there is substantial decline so 9.3 billion going down from 10.4 billion odd, one I understand is discounts are now being netted off in the net sales itself. Number two, was this then be the run rate this 9-9.5 billion would be the run rate that you would look at on quarterly basis or there would be some increase?

Atul Daga: No, Murtuza, each quarter has its own peculiar nature. July, September period is a most heavy in terms of maintenance cost and that itself was one big factor which was controlled and whatever requirement was done. So because of which, we saw a significant positive delta in other cost. October-December, I think rest of the other quarters are more or less the same barring July-September, so other quarters will be slightly lower only than July-September.

Murtuza Arsiwalla: Sure, sir one other question just on the volume numbers. For instance if I look at the same presentation last year, it said India operations 10.8 million tonnes and the current presentation talks of a number which is 10.6 and it says domestic sales 10.6 million tonnes, would you able to reconcile that, what could be that?

Atul Daga: Yes, I can. This is the most intriguing question that I have to deal with and every time I am trying to align the presentation with the analyst presentations but something else only, a new question comes up. So what we try to do is focus on domestic sale of cement and putting everything else into miscellaneous and others. So in last year also, if whatever was there instead of that, there would have been clinker also loaded in domestic sales, so I have just focused purely on domestic sales of this period versus last year.

Murtuza Arsiwalla: Okay sir and we should expect this to be the consistent report?

Atul Daga: This is the way I will be now. I think at least I have got a clarity.

Murtuza Arsiwalla: Just to be consistent across periods.

Atul Daga: Yes, absolutely that is the most important thing.

Moderator: Thank you. Next question is from the line of Navin Sahadeo from Quant Capital. Please go ahead.

Navin Sahadeo: Two quick questions. First you mentioned in your initial comments that there is acute sand shortage which impacted demand in Uttar Pradesh and also West Bengal. Now Uttar Pradesh being a state where it is about to witness elections, you normally expect a very sharp recovery so to say in public expenditure or demand in general. So what is the sense there, is the sand issue continues to persist?

Atul Daga: No, I think this is getting resolved and on the ground if you visit, there is a lot of construction activity, flyovers, roads being done which is very visible and it is just picking up over there.

Navin Sahadeo: Sure, but even the sand issue is getting addressed?

Atul Daga: It happens, there is an uproar. Somebody will come down, notice it and resolve it. Those are temporary issues but when it hits, it hits the market.

Navin Sahadeo: Exactly, so our feedback also was similar that the sand cost doubled almost in the past few months because of which the volumes or demand in general for cement got impacted so just wanted to get a sense that are you seeing any building of those?

Atul Daga: I believe that was temporary for this quarter and now it is not going to get negatively impacted.

Navin Sahadeo: Sure, thank you and just second quick question if you could answer, just the revenues for RMC and white cement if possible?

Atul Daga: Sorry, I do not have it readily, I will give it to you offline.

Moderator: Thank you. Next question is from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal: Just one last quick question. So what is the status on the Bicharpur's coal block?

Atul Daga: That is somewhere in 2018 to commence production.

Indrajit Agarwal: That is calendar 2018?

Atul Daga: Financial.

Moderator: Thank you. Next question is from the line of Tejas Pradhan from Citigroup. Please go ahead.

Rashi: This is Rashi. Just a question, Atul you had given a lot of data on what you are seeing across various regions, do you have any numbers in terms of either for UltraTech of India in terms of how the quarter has been volume wise, like what regions have shown growth and declines?

Atul Daga: So I had talked about it. Chhattisgarh showed positive, then you had Odisha showing positive trajectory in spite of the weather and most of the other regions, Maharashtra in particular was in the interiors, not Mumbai but interiors of Maharashtra were positive towards the last month that is what we saw.

Rashi: So is it fair to assume that even from UltraTech perspective, your volumes show positive growth?

Atul Daga: Yes, absolutely.

Rashi: Okay and in the last quarter you have mentioned that South has started to see some sort of improvement, is it still like status quo…

Atul Daga: It is not improving because we were expecting the work on Amravati to start big, that big movement has not yet come to play. We are seeing Telangana lot of irrigation work, lot of road work happening that is continuing, nothing new, and nothing extraordinary.

Moderator: Thank you. Next question is from the line of Abhishek Ghosh from Motilal Oswal Securities Please go ahead.

Abhishek Ghosh: Just one thing, in the last 1Q FY17 presentation, you had mentioned that the newer units are still under lower utilization levels, what would be the corresponding number for 2Q?

Atul Daga: About 50%.

Abhishek Ghosh: Sir in the last about 12-18 months, most of the new units that have got commissioned are in form of splits. Does that mean that lot of freight cost benefits still we have not kind of realized and that are.

Atul Daga: Absolutely.

Abhishek Ghosh: So okay, so once this reaches to about 70%-75% utilization?

Atul Daga: That is when we will start seeing the benefit.

Moderator: Thank you. Next question is from the line of J. Radhakrishnan from IIFL. Please go ahead.

J. Radhakrishnan: Sir, on the other income even under IndAS from last quarter, this quarter there is significant jumps, can we assume that such kind of jumps will be happening for further quarters or largely it will be around this run rate**?**

Atul Daga: Around these levels only because on the treasury portfolio, whatever accrued income will get annualized and adjusted every quarter.

J. Radhakrishnan: So we can assume around Rs. 170 crores kind of run rate in other income?

Atul Daga: Rs. 150 to 170 Crs is what one could look at. I also do not have any exact handle.

J. Radhakrishnan: And one more thing sir, on this other expenses on year-on-year basis, there is a decline, any specific reason for this Rs. 25 crores kind of decline, any specific line items?

Atul Daga: This is rather essentially on maintenance cost, we have been able to optimize on other maintenance cost which has helped largely.

J. Radhakrishnan: Around Rs. 25 crores savings would have come because maintenance?

Atul Daga: Not 100% but there will be large components from maintenance cost also.

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

Ritesh Shah: Sir my first question is earlier you had guided for 7% industry volume growth for FY17, sir how do we see the number right now?

Atul Daga: I think let us talk about it at the end of March that will be the best thing to do.

Ritesh Shah: Okay, sir my second question is on the presentation you have indicated over optimization of plant and market mix. In the prior question, you did indicate the new plants operating at 50% utilization levels, sir can you please provide some more colour on this aspect?

Atul Daga: See both are independent of each other, now optimization of plant and market mix is reallocating capacities to a specific market from the existing network that is what we mean by plant-market mix and capacity utilization we are gradually ramping up these new plants.

Ritesh Shah: Okay and sir last question, would it be possible for you to help us with the utilization levels for each of the regions for us?

Atul Daga: I can give you a trend, you ask for industry?

Ritesh Shah: For us, for UltraTech.

Atul Daga: I can give you a trend if you like. North and East hover in the 80s, West is in the high 60s and South in the high 50s.

Moderator: Thank you. Next question is from the line of Vipul Shah from Shubhmangal Invest. Please go ahead.

Vipul Shah: Sir you mentioned that you have certain levers for efficiency improvement, so would you elaborate and second in terms of how many months of pet coke inventory generally we carry?

Atul Daga: Inventory, we carry about 3 to 4 months and you asked about others levers of improvement. There are lots of initiatives at the plant level which I may not be able to disclose.

Vipul Shah: Okay but would it be more on freight side or would it be more on energy side, would it be main on this waste recovery sides, so if you can give some broad colour it will be helpful?

Atul Daga: So obviously it is on logistics that is on the freight side, it is on energy consumption improvement, energy improvement norms, maintenance costs as we saw, so within the plant that is where it could be.

Vipul Shah: So maximum where one can expect?

Atul Daga: Now I think it is difficult to quantify that.

Moderator: Thank you. Next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Just 2, 3 points. One if you could share what would be the amount of debt that would come on books from the Jaypee's acquisition? And second what was your NSR trend on grey cement Q-o-Q?

Atul Daga: So first one the transaction is 100% debt funded. 16,189 crores will be debt and NSR meaning revenues?

Rajesh Ravi: Yes, realization improvement.

Atul Daga: Realization improvement quarter-on-quarter is about 3%, Y-o-Y it is still trailing.

Rajesh Ravi: And just South market, did you miss the commentary for the states as you read for the other markets?

Atul Daga: South, I mentioned I did not split talk about the states separately. There is nothing new, nothing exciting that is visible as of now. That is all I had said.

Rajesh Ravi: During the month of September, we have seen sharp uptick of pricing in UP, Telangana market by about Rs. 100, what is your view on the sustainability of the same?

Atul Daga: I am not aware of this.

Moderator: The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Sir I have just one question on Jaypee units, so you mentioned about utilization of the units ranging in between 30%-45% and to higher levels also for some plants, what would be the overall profitability in terms of EBITDA per tonne like-to-like UltraTech for FY17, I mean till date?

Atul Daga: For FY17, I would not be aware of because the asset is still not under our wealth and we are just looking at their overall plant capacity utilization, the details will not be available at the moment.

Prateek Kumar: Okay, so I mean FY16 EBITDA would worth around 400 to 500 which you have mentioned earlier.

Atul Daga: Yes, I believe there must be around the same levels.

Moderator: Thank you. Next question is from the line of Bhavani Prasad from Narnolia Securities. Please go ahead.

Bhavani Prasad: Hello sir, I have 2 questions. First question is that we are facing a capacity constraint in terms of white cement segments, so is there any capacity expansion plan for this segment?

Atul Daga: Not at the moment.

Bhavani Prasad: And the second question is that the volume and sales number of different segments?

Atul Daga: That I have already given to you in the presentation.

Bhavani Prasad: Okay and the volume and sales number if you could share me in offline?

Atul Daga: Okay.

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

Anubhav Aggarwal: Yes, sir just couple of questions. One is on the packaging cost, now which is included in other expense, with the crude derivatives going up, have you seen any increase in cost so far or there is an expectation of increasing cost in this quarter now?

Atul Daga: No increase in cost.

Anubhav Aggarwal: So the prices in March largely are similar right now on the packaging cost?

Atul Daga: Prices are similar on packing bags.

Anubhav Aggarwal: And on the road sector, lot of new projects have been given out but have you seen let us say in terms of real demand so far in the first half of this year, some contribution from the road sector has that been meaningful?

Atul Daga: That has been meaningful, significant improvement within the institutional, sales the way we track it, the road segment is jumping very heavily.

Anubhav Aggarwal: I know it is very difficult but you know just as an idea let us say if road sector demand would have been like say at peak would have been 100%, have you seen like 10% of it, 20% of it so far?

Atul Daga: Potential I don't know how will you count the potential because it is continuously going up and as I had mentioned that 2 new things which the government has done this time around. There is a time-bound completion program given it, it cannot be an open ended program and as we speak, there are 188 projects under execution. Lots of them are in North East where we are not present at all but there are several other projects where we are actively participating. Wherever we are present, we are actively participating.

Moderator: The next question is from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.

Chockalingam Narayanan: In the presentation, you made a mention of the raw mix improvement in raw material cost. Can you elaborate on that a bit in terms of how much is the cement clinker ratio or any other cost where you have seen improvement?

Atul Daga: You have been talking about raw mix improvement. It is difficult to quantify it separately Chocka, but within the overall raw material cost it plays a small role.

Chockalingam Narayanan: Okay, but what is the cement-to-clinker ratio now sir?

Atul Daga: 1.3.

Chockalingam Narayanan: And second thing is on logistics, you mentioned about lead distance having come down by about 3%. What is the lead distance on absolute kilometer basis?

Atul Daga: 442.

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

Kamlesh Jain: Just one question on the realization part sir**.** As you had mentioned that realizations have improved by 3% odd. But like say in the previous quarter like our grey cement realization had improved but our blended realizations were not that strong. So in this quarter I just wanted to know that how the grey cement realizations have moved, what they are 5%, 6% like say, because on blended basis, it is a 3% improvement.

Atul Daga: Yes, quarter-on-quarter is 3%.

Kamlesh Jain: Even in the grey cement?

Atul Daga: Yes.

Kamlesh Jain: Okay, so previous quarter it was 4130, so can we say that it was 4250 around in this quarter, assuming 3% improvement quarter-on-quarter realization?

Atul Daga: September, around those levels.

Moderator: The next question is from the line of Simmi Chhabra from Frontline Securities Limited. Please go ahead.

Simmi Chhabra: This is about the part where you mentioned that the net debt has been redcued by about Rs. 1600 crores.

Atul Daga: Yes.

Simmi Chhabra: So is this the right way to read it as in the short term borrowings were about 2476 crores as on March 2016, which today is 819 crores. First of all, is this the right way to read it?

Management: Yes, that is the right way to read it.

Simmi Chhabra: Okay and second sir, what is going to be the impact on the finance cost in the next 2-3 quarters, before Jaypee asset you acquire?

Atul Daga: It is coming down because in the last 10 days we have raised some money at very low rate with the interest rate cuts happening, we expect our borrowing cost also to move southwards.

Simmi Chhabra: Okay and sir can you give some details about trimming the short term borrowings by 1600 crores?

Management: Largely, we had CP book which we have retired, we have trimmed our CP book by 1000 crores.

Moderator: The next question is from the line of Sanjay Nandi from Ratnabali Capital Private Limited. Please go ahead.

Sanjay Nandi: Sir, all of my questions have answered, but I just wanted to know one thing. Sir if you can kindly give me the numbers for the growth for this quarter in the North, East, West and South, means region specific in percentage?

Atul Daga: Region specific, let me just see where I can, region specific whereas actually if I were to refer to our presentation slide 2 where we have seen declines in North and West.

Sanjay Nandi: If I can get some numbers.

Atul Daga: Numbers, no I don't have it.

Moderator: Thank you. We will be taking the last question from the line of Vipul Shah from Shubhmangal Invest. Please go ahead.

Vipul Shah: I just wanted to know when you take over Jaypee assets, when their margin will convert with UltraTech margin, what timeframe sir?

Atul Daga: The existing UltraTech asset will also keep on rising, so we expect of course the jump in margins of Jaypee assets will be faster but it will still take about maybe 3 years or maybe 4 years for the margins to reach an equilibrium.

Vipul Shah: 4 years from date of your takeover right?

Atul Daga: Yes, 3 to 4 years, not before that.

Moderator: Thank you, that was the last question, I would now like to hand the conference over to Mr. Atul Daga for his closing comments.

Atul Daga: Thank you everybody for joining us on this call. I am happy that our presentation was enough and there were very few questions on the table. We have been able to address the questions and conclude this call well in time. Looking forward to this quarter and the next quarter I think we should be seeing good volumes, good prices and good construction activities which will help the cement industry. We will be back with you again after our 3rd quarter results, till then wish you all the best. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of UltraTech cement that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

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