UltraTech Cement Limited

Q2 FY20 Earnings Conference Call

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

Moderator: Good day, ladies and gentlemen and welcome to the UltraTech Cement Limited Q2 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 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 developments, 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, sir.

Atul Daga: Thank you so much. Good evening everybody and a very warm welcome to this call and for all those attending from Bombay, my humble apologies for dragging you on a holiday.

But I want to begin this by sharing some new landmarks which UltraTech has achieved. We have become the only company outside of China to have more than 100 million tons of capacity in a single country. This has become possible with the efforts of over 22,000 people working across the 53 plants, 101 RMC locations, 300 marketing offices spread across the country. We are today present with our integrated plants, grinding units and bulk terminals in 19 states out of the 29 states and 7 union territories and our products reach more than 30,000 towns across the country. On an average, 11,000 trucks are moving on a daily basis carrying UltraTech products helping people build and repair homes and enabling the country building a stronger infrastructure network. You name an important project and chances are you will find UltraTech associated with it in some form or the other. I am so proud to be an UltraTechie.

Another important milestone to share with you, UltraTech reached Rank 10 in the DJSI Sustainability Index in the construction material segment globally and I wonder where will we be if we start making only blended cement. But if we do so, which company will then partner in building the infrastructure in the country.

In another sustainability initiative, our efforts to minimize the usage of plastic and its disposal, the Company has been certified 1.58x negative plastic consumption. Well, that is about the new landmarks.

Now, let me update you on the acquisition of Century cement capacity. First and foremost, we have issued 1.396 crores shares to the existing shareholders of Century Textiles and taken over a debt of Rs. 3,000 crores. This acquisition has generated a goodwill of Rs. 2,284 crores which includes Rs. 1,479 crores towards deferred tax liability created for a gap in fair valuation and book WDV of the assets. Though the acquisition is effective 1st October, the appointed date for the transaction fixed by NCLT is 20th May 2018. We have to restate the accounts from Q1 FY19 by adding the earnings reported by Century for that period. The Q2 numbers which have been published today adopted by the board include the performance of the acquired assets which was subpar. I would not get disturbed with it and you should not get disturbed what it either. Let me explain why?

The capacity utilization in Q2 by Century was 48% as compared to 64% last year. Two reasons for low capacity utilization, first heavy rains and flooding in the states of West Bengal, Madhya Pradesh and Bihar. All the three being primary markets for Century cement. The company took this opportunity to take all the three integrated plants for maintenance shutdown with 16% of the operating days not being available in this quarter. This resulted in low capacity utilization, higher operating cost and lower fixed cost absorption. The EBITDA per ton for Century assets dropped to around Rs. 60 per ton as compared to 505 per ton that had been achieved last year. For your reference, these assets did a capacity utilization of 74% in April-June 2019 generating an EBITDA per ton of tRs. 933/, not bad. They have achieved a volume of 1.74 million metric ton in July-September quarter as against 2.33 million metric ton same period last year. This gives us the confidence that these assets will be back on track very soon.

UltraTech team is back at work rebuilding the assets and do not foresee a challenge. We are working towards rebounding and launching our premium brands from the plants in West Bengal, MP and Maharashtra. Within this calendar year, we will continue the Birla Gold brand which is the erstwhile brand of Century Cement from the Chhattisgarh plant for at least a year before the plant is ready to switch to UltraTech brand.

Next, I should update you on Nathdwara Cement performance. The fastest integration of these assets is one of the finest examples of UltraTech's capability of turning around and integrating the acquisition with UltraTech standards. Nathdwara Cement remained PAT accretive in this otherwise weak quarter.

Let me now touch upon our debt position. Our net debt now stands at Rs. 18,719 crores on our India balance sheet and net debt to EBITDA on trailing 12-month basis is 2x. I have computed this leverage position on the basis of actual EBITDA earned by Century assets. Leave it to your excel sheets an imagination to do the leverage computation adding the capability of UltraTech on these assets.

We are progressing well on the discussion on divestment plans on the non-core assets namely China, UAE and Europe. We will update you on the same before the end of this financial year. We are also exploring opportunities to exit Bangladesh where we have a small grinding unit of 6 lakh metric tons. All the proceeds from this asset disposal will help being done our leverage position further.

Next, let us talk about new capacity addition. During this quarter, we have seen a million ton getting added taking the total tally to about 5.5 million tons for H1, this 5.5 million ton is non-UltraTech. We have 4 million tons of our Bara grinding unit getting commissioned very soon. It is under trail runs right now which will be get commissioned in the October-December quarter. The total for the year I believe will be about 15 to 16 million metric tons over 12 million tons which was executed last financial year.

Cost is another aspect which I should surely touch upon. Luckily for the industry foreign exchange as well as purchase prices have been favorable, you would have expected a bit decline in fuel cost; however, the benefit flows in always the lag effect because of the long lead time on imports. The average consumption rate achieved this quarter on pet coke for UltraTech is about $ 91/t as compared to $ 95/t last quarter. While the purchase rates of pet coke have fallen dramatically, the ocean freight has been going up. This will settle down only post stabilization of the IMO effect sometime in the next calendar year. Supramax freight rates have gone up from $ 30 per ton to $ 42 per ton in the recent past. Current FOB rates for pet coke are around $ 30 per ton, thus the effective purchase rates could be hovering anywhere around $ 70 per ton to $ 75 pe ton in current times. The fuel costs are naturally going to get benefit from these lower purchase rates in the next 2 quarters.

Now about our CAPEX plans. We are looking at a cash flow of around Rs. 2000 crores during this financial year. With the commissioning of 4 million ton grinding unit, we will reach a total capacity of 113.4 million tons in the country. As I mentioned earlier, the plant is under trail runs and should get commissioned soon. Today, our board has also approved an investment to add 3.4 million tons of capacity in the Eastern markets. This will be constituted by 2 brownfield expansions and 1 Greenfield grinding unit. The brownfield expansions will be in our existing plants of Pataliputra in Bihar and Dhankuni in West Bengal and the Greenfield grinding unit will be setup in Odisha. Clinker requirement will be met out of our existing capacities. We expect all these plants to get commissioned latest by Jan-March 21.

Onto WHRS, 3 plants have been commissioned this quarter and are under stabilization. One more plant is under execution which will take up our total WHRS capacity to 131 megawatts with 10 plants by September 20. The 11th WHRS plant has also been approved by the board to be setup at Nathdwara Cement for a total of 10.5 megawatts, thus the total capacity of WHRS for UltraTech Group would be around 142 megawatts at the end of commissioning of the Nathdwara WHRS project.

Let me now update you on the recent tax changes. You have obviously realized that it does not result into an immediate gain to companies who have been investing in the country and are under MAT regime. Of course, our MAT tax payments will go down 4% from the earlier rate of 21.5% to about 17.5% including surcharge and cess and this will certainly result in a positive cash flow.

Our P&L will reflect the charge of the older tax rate and our effective tax rate is somewhere around 31%. If no further big investments are made, we expect to be out of MAT during the fiscal year 21-22.

The cement story remains incomplete without a mention about prices. During the quarter, average cement prices dropped around 5%-6% from Q1 with the highest drop of about 8% in the East and South markets and the lowest drop being in the Northern markets. The good part is that the prices are higher in comparison to previous year about 8%. Prices are all a function of demand and capacity utilization for cement in the country and that is what we have seen in this quarter.

The last and most important topic that we should discuss is demand. I guess there has been a glitch in the smooth ride the industry experienced in the last 8 or 10 quarters till March 19. Expectations of a slowdown post-election was in the offing, but such a sharp decline that we have seen is a surprise. I am sure things will be back on track in the country.

Major reforms which have recently been enacted in the country that is demonetization, RERA and GST are all having their impact on demand resulting in a slowdown but for a better tomorrow. States like Madhya Pradesh, West Bengal, Rajasthan, Telangana, Karnataka are all strap for cash resulting in a slowdown in activities in these states.

Housing sector, individual home builder market has not shown any signs of recovery. NHAI-led projects have seen a major slowdown; however, PMAY and PMGSY are continuing the spend and are leading revival of demand. For the immediate present i.e. the financial year, we are still waiting to see a sharp pickup in the existing infrastructure projects and sanction of new projects. This quarter, the country has had excessive rains in almost all parts which is another reason why we saw dismal volumes; however, North markets were relatively better off and saw reasonable growth in volumes. This gives us the confidence that there is inherent demand and it should come back. Kerala also in fact saw improvement in volumes with the rehabilitation work post the disastrous floods that hit the state last year.

Another positive sign to note is that the late monsoons of July-September quarter have been good for kharif crops. The harvesting happens November-December which could potentially lead to a revival in rural demand and we should see good volumes, good demand in January-March quarter. Government is making all efforts to revive demand both in housing and infrastructure space. There are significantly large projects like the bullet train, new airports in Mumbai and Delhi, Samruddhi Expressway and the Bharatmala road projects which will continue the juggernaut of infrastructure growth. Consumption can also increase with the announcement for hike in dearness allowances for government employees and pensioners.

Well, that is all that I had to talk about on this commentary and I would now leave it for the questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija: So, first question was on the demand front. Could you please comment what was the cement demand growth across India for the sector in second quarter FY20 and also if you could give the numbers each region wise for cement demand growth?

Atul Daga: I would expect a demand degrowth of 2% to 2.5% in this quarter. North region would have had a positive growth of about 4% to 5%. East and South had a degrowth around 3% to 4% and followed by West and the central regions again showing about 2% degrowth plus minus.

Tanuj Mukhija: Sir, last call we had given us a guidance for 6% demand growth in FY20. You maintain the guidance or would you?

Atul Daga: No. Unfortunately, I do not think so that we will see a 6% growth because the cement was being driven by infrastructure, government spending and government spending has still not picked up. We will have to look at a lower number and unfortunately, I am not able to put a finger on any number right now.

Tanuj Mukhija: Understood. And sir just a follow up on that front. If I look at your slides 6 and 7 which talk about state wise performance on cement demand. What are the key reasons for slowdown across multiple states? Is basically lack of government funding or change in state government, which is Rajasthan, Madhya Pradesh? So, just wanted to get your thoughts on government funding and are you seeing any improvement or deterioration on that front for cement demand?

Atul Daga: No, we have not seen any improvement as yet from the follow up that we do with our corporate customers like the large infra companies. They are seeing tripling of funds happening and their March-April bills are cleared now by the government. So, that is how the cash flows are improving in these infra companies. These are the government payments as such. We do not deal with the government directly. Our customers have the barometer for the government payment position.

Tanuj Mukhija: And just last question from my end. Could you just talk about the industry supply addition for the next 3 years because you have seen a lot of large cement companies now announcing capacity expansion. So, just your thoughts on what is your expectation for supply addition for the next two and half years?

Atul Daga: So, this year, we would look at 15-16 million tonnes. Regarding new capacity announcements, lots of them mind you are always announcements, not necessary that they will see light of day. Limestone will be a challenge and I have made that point repeatedly over the last couple of years that going forward, limestone availability is shrinking or becoming costlier. Due to that, the new capacity addition will be slow and having the average of 10 to 15 million tonnes on a large base which is 2.5% to 3.5% that is what we will see year-on-year going forward and it will keep slowing down. I do not expect the pace to pick up.

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

Gunjan Prithyani: I have couple of questions. Firstly on the Century, I do understand the shutdowns, but there has hardly been any EBITDA that those assets have generated in this quarter. Now given that you guys have now taken over the asset, is there anything you would like to share in terms of how do we see the assets ramping up in terms of both the utilization as well as the kind of EBITDA per tonne purely coming from the cost. I appreciate prices, we do not know how they pan out, but how should the EBITDA per tonne move for the remainder of the year?

Atul Daga: So, if you look at Gunjan year-on-year, same period last year Century had generated Rs. 500/t EBITDA on its own strength. So, I would expect that this quarter was a washout for them because of the reasons I pointed out earlier we should be inching towards that Rs. 400-500 mark in the coming months at least in the first 6 months, which is October 19 to March 20.

Gunjan Prithyani: And there is no incremental shutdowns or like the way we have done it for past.

Atul Daga: That is lucky thing for us. They took about 87 days of total shutdown that they took during this 3 months. All the brick lining, all the major maintenance work has been done and we have these plants available full capacity now.

Gunjan Prithyani: So, it is fair to assume that it should be fairly quick that you get the capacity utilization aligned with the market because I do understand that the utilization is also much lower than where the market is right now for the Century assets?

Atul Daga: So, if you were to look at, Gunjan, pure central players, they would have because of the flooding that we have seen or pure East play, they will had challenges this quarter.

Gunjan Prithyani: Sir, what I am trying to get from you is how should we look at the utilization because there were shutdowns for sure and East & Central were weakish markets, but if I look at the decline for Century, it is much higher than what the market has been for whatever variety of reasons. I am just trying to understand how should I look at the volumes or utilization number and EBITDA per ton?

Atul Daga: I would go in the 60% capacity utilization and 400 to 500 EBITDA per ton range in the next 6 months.

Gunjan Prithyani: And going into next year is when you see the brand transition and lot of the cost efficiency measures that you will look at in terms of both cost as well as the trade synergy. So, is that any target or anything that you can share that how can the EBITDA per ton move from 500 odd levels where Century has been operating at in past also?

Atul Daga: Next 12 months we should be in line with UltraTech standards in the relevant markets.

Gunjan Prithyani: In terms of EBITDA per ton?

Atul Daga: Yes.

Gunjan Prithyani: And second question I had was on the debt. If I look at the debt compared to last quarter and I am comparing all numbers, the debt has moved up by about 2000 odd crores versus the asset debt that you would have taken over is about 3000 crores. So, this is free cash generation in the business that has led to the reduction in debt?

Atul Daga: Yes, please.

Gunjan Prithyani: And there has been no monetization of any non-core assets?

Atul Daga: I am yet to realize cash. I will be the first person to inform you about it.

Gunjan Prithyani: And related point here now if I am going back to the debt, you shared these ratios where you pointed out that net debt to EBITDA is reasonably comfortable even with the Century not contributing as yet. So, does that mean we are okay to now look at CAPEX both in terms of organic, inorganic or how should I think about debt moving from hereon and your approach towards M&As or organic expansion?

Atul Daga: I had given a guidance on my net debt to EBITDA March 20. I will be below 2x and I maintain that. So, we have reached 2x in any case. Of course, I am banking on liquidation of these non-core assets plus the cash innovation, free cash flow from the operations which will help me nudge further below 2x. As per organic, we were not worried about the leverage position ever. Today's board meeting, the board has approved 3.4 million tons of organic capacity addition in the Eastern markets where we have now got 16 million tons of capacity which will take us by another 3.4 million tons.

Gunjan Prithyani: And on the M&As because at least what we read in the newspapers there are couple of transactions out in the market. Is there openness more from a strategic perspective that there are certain markets where you are open to looking at M&As or?

Atul Daga: East is a very attractive market for us. I should explain to you the reason for going in for our organic when inorganic opportunities are also visible, but they have a specific size and East markets in the peak times, we are falling short of capacity. We are running 100 plus capacity utilization in the January-March period, so we need capacity for sure in the Eastern markets and that is why we are pressing the pedal on increasing our presence in the Eastern markets. As for M&A, we will examine opportunities. Whatever is logical to our fit, we will examine it.

Gunjan Prithyani: So, leverage is not a constraint in exploring these opportunities?

Atul Daga: It was never a constraint. Nobody likes to have a leverage on the balance sheet and I was perfectly focusing on deleveraging at the earliest. Luckily, nothing came on the table during this last one year.

Gunjan Prithyani: Lastly, if you can share Century depreciation and the interest expense because we do have the breakup on until EBITDA level in the P&L. It would be great if you can share the other numbers.

Atul Daga: So, interest charge was about Rs. 66 crores, depreciation of about Rs. 89 crores. After tax, they have a PAT loss of Rs. 100 crores.

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

Pulkit Patni: Sir, regarding these sale of inorganic assets, the non-core assets. Can you please highlight if there is any debt associated with assets in UAE, China and Belgium?

Atul Daga: China, the loan is about Rs. 145 crores and UAE has a loan on books of about Rs. 100 crores. And as for the European asset, it is not an asset on our books. It is a loan which was given to the European subsidiary. We are down selling the loan.

Pulkit Patni: And what is the total size of that sir?

Atul Daga: That loan was about Rs. 1656 crores.

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

Kamlesh Jain: Sir on the Century side in this Rs. 10 crores EBITDA, so that Rs. 70 per ton of additional royalty has that been included there or it would be let us say in coming quarter?

Atul Daga: It will be in the coming quarter because the effectiveness of the merger is on 1st October 2019.

Kamlesh Jain: And lastly sir, if I see the presentation as you had mentioned that there was a heavy shutdown in Century, but if I see the other expenses, that had hardly moved up like say Rs. 157 crores last year, it was around Rs. 162 crores in this quarter, so that is not visible in the other expenses cost?

Atul Daga: Though the expenditure has not moved up because last year also there were some shutdowns, but this time the number of shutdown days are higher, it impacted the capacity utilization and volume.

Kamlesh Jain: And lastly sir, if you can provide revenue without other operating income for the last quarter that is Q1 FY20?

Atul Daga: It was Rs. 10825 crores inclusive of Century and UNCL. That was Q1 FY20.

Kamlesh Jain: I was really surprised with some of increase in other expenses. If I see last quarter, there were 10 odd shutdown and though we are not quantified but they were like losses gone up as well in that particular quarter that even if we see this quarter, it is almost Rs. 100/t increase?

Atul Daga: Essentially the impact of operating leverage if you look at would be roughly Rs. 75 per ton on the other cost. We have also had higher marketing spends in terms of advertisements which has taken a jump in this particular quarter.

Kamlesh Jain: But how would be the run rate going forward? I do appreciate that operating leverage impact would not be there but that higher expenses and Century integration, all those would also be there like at least for couple of quarters?

Atul Daga: Yes.

Kamlesh Jain: So, would the fall would be significant, or it would get some?

Atul Daga: What will happen is with capacity utilization going up, you will start seeing fixed cost absorption improving, difficult for me to put a finger on a number but you will see an improving absorption rate.

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

Ritesh Shah: Sir, my first question is, you have indicated incremental expansion in Eastern India, sir quite surprised with this, sir if you could explain the thought process over here because honestly looking at the profitability utilization levels hearing you in past, clearly Northern and centeral are better markets for us and what I am not able to comprehend is we were in a way short of clinker in Eastern India because Della was yet to come. Sir, if you could please put into perspective how the thought process evolved over here?

Atul Daga: By the time, the grind units come on stream, we will have Dalla clinker available. We also have surplus clinker capacity today at Bela and Sidhi, so that also can cater to the Eastern markets. We have readiness to add clinkers, that is the worst case possibility but we are not considering that and why East as compared to North for expansion as I was mentioning earlier, there are times in peak utilization where we are running all our Eastern plants full throttle, the capacity utilization goes above100% and we are not able to meet the rising demand, hence to meet the demand cycle in those times we need capacity available. As for North, we have acquired 6.25 million tons of capacity with Nathdwara which gives us enough fire power for the Northern markets, so we will get into the Northern markets once we start feeling the pinch of non-availability of capacity.

Ritesh Shah: Sir, just to stretch this, but if you had to look at profitability versus market share, I think incremental announcements in North would have probably made a more sense?

Atul Daga: No, because the returns that I am looking at from these incremental investments in East because I have surplus clinker available and if I have to invest in North, it would have been a heavier investment clinker backed investment. These are grinding capacities and addition to existing capacities, my returns from these investments will be very high as compared to a Greenfield investment or a Brownfield investment clinker back in the Northern markets.

Ritesh Shah: Sir this incremental expansion, will it be attracting incentives from the state governments which make the returns probably better as compared to our investments in North?

Atul Daga: We will apply for incentives, there is no assurance of them.

Ritesh Shah: Sir, my second question is on Century, will it be attracting the royalty payments on limestone?

Atul Daga: We are law abiding citizens.

Ritesh Shah: Sir, lastly, if you can quantify white cement and putty volumes revenue and EBITDA numbers for last year and this quarter sir?

Atul Daga: White cement 3.18 lakh tons compared to 3.16 lakh tons and putty, revenue is what about Rs. 423 crores as compared to Rs. 466 crores last year.

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

Vivek Maheshwari: Sir, first question, can you explain this part, let us say if you have a debt of over 20,000 crores right now? And now, you spoke about down selling the loan which is 1656 crores, so is that part of that debt, I am not clear about?

Atul Daga: That is an asset which we had acquired as part of Binani acquisition. The Europe asset which I keep talking about it is ultimately sitting as the loan in our books to the European companies. We have 100% security of those assets with pledge of shares. I can any day take over those assets but that is not our intent because we don't know shit about fiberglass.

Vivek Maheshwari: So, that is my question, so when you say, let us say 205000 crores of debt.

Atul Daga: That is debt. I am talking about assets.

Vivek Maheshwari: I understand. You have an asset, so what is the corresponding liability side against that?

Atul Daga: That has already been discharged. When we paid, let us say Rs. 7950 crores to the various lenders, that Rs. 7950 which was paid to the lenders is sitting as my liabilities against which what I acquired this Rs. 1650 crores of loan to 3B Binani that is our fiberglass company in Europe and China assets and the UAE assets and the India assets.

Vivek Maheshwari: So, my simple question is had let us say this fiberglass not being there, your debt would have been lower by Rs. 1500-1600 crores, is that correct because you are going to spend it.

Atul Daga: If the transaction has excluded this asset, I would have nothing to pay for, it would have reduced.

Vivek Maheshwari: My simple point is whatever you paid, the purchase consideration of Binani at that time included the 1600 crores or liability, by the end of the day, your debt includes that right?

Atul Daga: Absolutely.

Vivek Maheshwari: And if this is Rs.1650 crores, can the market price be different from depending on the asset that you sell, can it be shorter or higher?

Atul Daga: There will be a discount on this lower.

Vivek Maheshwari: Do you know what could be the realizable value of this asset?

Atul Daga: Not at the moment Vivek, I am negotiating with a couple of opportunities. The moment we are able to see a clarity we will let you know.

Vivek Maheshwari: So, basically the day when you sell this asset or the Binani transaction, whatever is the amount, basically minus whatever you realize, so 1650 crores doesn't have a meaning today, it is essentially going to be what the realized value of this asset?

Atul Daga: Yes, absolutely right and if you recall when a question was asked of me why we have taken such a high price, I said we have a longer term plan by disposing of non-core assets, we will realize cash which will help reduce the overall cost of acquisition and when need for expansion in North, we will expand at Nathdwara. The cost of expansion will be ridiculously low and these two points, one is liquidation of non-core and expansion by way of Brownfield capacity expansion would bring our overall acquisition cost down to $110-$120/t.

Vivek Maheshwari: Second, on Century I didn't understand, so you have had, let us say difficult quarter but it was planned. Now why will it take 12 months and not 6 months, why 6 months EBITDA, I mean 6 months includes the quarter which will be busy quarter from Jan to March, why are you sticking to Rs. 400 to Rs. 500 per ton, I mean if everything is done from a CAPEX perspective and efficiency perspective, why shouldn't it turnaround faster than what you are kind of guiding?

Atul Daga: Vivek, I don't know how things will pan out in the country. It all depends upon demand push and the markets where they are operating. The April-June'19 these assets operated at 74% and generated an EBITDA per ton of 933 per ton, so that possibility exists but whether I want to sign off on that number, immediately no. We have just entered those assets and turning them around, capacity utilization, I am not worried, delivering an EBITDA per ton, I am not worried. It is not a Binani, not a Jaypee asset. Jaypee asset was delivering 18% capacity utilization, 5 out of 10 plants were dead, non-operating for more than a year or so.

Vivek Maheshwari: But the reason such that you are mentioning are basically that those risk will be there for organic assets as well, so essentially when you are saying 400 to 500, your biggest argument is industry either because of demand or because of pricing but let us say from a cost perspective, shouldn't you be converging with UltraTech, let us say within 3 to 4 months itself?

Atul Daga: Yes, we will converge in UltraTech levels very soon, it is the pricing you know that the pricing is what determines the profitability and I want to see how we are able to bring the prices up for the acquired cement assets from Century. That is where the big Mulla will lie.

Vivek Maheshwari: So, when do they move to UltraTech brand?

Atul Daga: This quarter, October December quarter. Now, except for the Chhattisgarh plant which will take a year which is about 2.4-million-ton capacity. It runs full capacity, but we are not able to deliver the same quality because it requires a lot of investment. We will take a longer period, so out of the 14.6 million tons of total acquired capacity, 12.2 million tons of capacity will get rebranded UltraTech before the end of December 19.

Vivek Maheshwari: And one more follow up to this, when you say 400 to 500 per ton, in a way are you kind of also signaling a big price correction across the board?

Atul Daga: No, this is too smaller capacity, don't create panic Vivek. This is too smaller capacity to create any fighting issues.

Vivek Maheshwari: No, what I mean Atul sir is when you are saying the logics or reasons that you have given are more market related, so does that mean that you are expecting?

Atul Daga: No, what I am seeing is climbing up from 60 to 500 to 900, these are big steps that is all. I can jump two steps also, I can jump three steps also in one leap, it is because these assets have seen good numbers in the recent past. In the previous quarter, there were 930 bucks. I can deliver if the old management with the old brand and old practices without synergy gains could deliver 930 bucks a ton, this is enough indication for you what UltraTech can deliver with synergies with branding.

Vivek Maheshwari: And few quick questions if I may, when are Century, the stocks getting converted and listed?

Atul Daga: This Thursday or Friday, the additional capitals will get listed.

Vivek Maheshwari: And last one, is the expansion but without asking necessarily about the capacity which is there in the market, but can this create any CCI issue or is it feasible now?

Atul Daga: No, see, organic capacity does not require a CCI clearance.

Vivek Maheshwari: No, what I am saying is the fact that you have announced, can that create an antitrust issue, if you were to buy out a capacity in East now, given that it is…

Atul Daga: No, East is a very fragmented market. There are larger players than UltraTech who are wanting to acquire further in East, but I don't think East will attract antitrust issue unless in the case of Lafarge divestment which happened in 2016 where CCI itself had put an embargo. If that happens then somebody cannot acquire because at that time tactically everybody was blocked from acquiring the Lafarge.

Vivek Maheshwari: So, just to conclude you are saying despite East?

Atul Daga: I can acquire if I want to.

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

Madhav Marda: Sir, just wanted to understand we have announced the 3.4 million ton expansion in East, the clinker for this comes from which region, Central or East India?

Atul Daga: Dalla super which is Eastern UP, it is more close to the Eastern markets than to the North markets or Bela, Sidhi which is in Satna.

Madhav Marda: Serviced in the Central India clinker plants, not East India.

Atul Daga: No.

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

Navin Sahadeo: Sir, just a couple of questions. Sir, you mentioned Century Textiles, total capacity already at 14.6 or it is 13.4?

Atul Daga: It is now 14.6.

Navin Sahadeo: Because there was 1.2 and 0.6 mtpa pending, sorted out?

Atul Daga: Yes.

Navin Sahadeo: As on date 14.6 is up and ready?

Atul Daga: Yes, up and running.

Navin Sahadeo: Sir, your presentation says switching to the UltraTech brand in a phased manner, I am just trying to understand past year acquisitions which we did, say Binani or be it is Jaypee, the transition I think, may if I recollect correctly and correct me if I am wrong, but these transition happened almost overnight, so why the slow transition in this case?

Atul Daga: It never happened overnight, Jaypee we took about 52 days and Binani we took about 40 odd days for changing the brand because you have to produce cement of a particular quality and strength and test it. If I have to test 28 days, then I have to wait for 28 days and for Century assets, as I mentioned in one of the questions which was asked just now, three of the four plants will convert to UltraTech brand before the end of December 19 which is out of the 14.6 roughly 12.2 million ton of capacity and the Raipur plant which is the 2.4 million ton plant, it is vintage of 1974, very old plant, very old technology, will take time to develop that plant to deliver

UltraTech strength and UltraTech quality cement and I think I will require at least a year for bringing out UltraTech cement from that plant, that is why I said it will be a gradual change.

Navin Sahadeo: Understood, so to bring these total Century Textile capacities to UltraTech standards including some other efficiencies probably Waste Heat, I am just guessing, Waste Heat probably there?

Atul Daga: That will happen for sure.

Navin Sahadeo: So, what is the total CAPEX we can pencil in let us say, in this year and let us say over the next two years?

Atul Daga: This year we are spending about 30 odd crores, 30 to 40 crores, this is the basic CAPEX required after which it becomes all routine CAPEX because Nathdwara when I have announced the WHRS which would be more than 100 crores of CAPEX is part of routine CAPEX now. The CAPEX required by UltraTech is anywhere between 30 to 40 crores to bring the three plants up to the standards of UltraTech quality and basic hygiene, the ways of working improvement, safety standard improvement, etc., in all the plants, so that investment will get done by March 20. We will have 12.2 million ton of the capacity operating with UltraTech brand before the end of this quarter and i.e., full quarter next year will be UltraTech brand from Manikgarh, Maihar and Sonar Bangla, these are the three plants. The Baikunth plant which is Chhattisgarh plant will continue to sell Birla Gold brand in the Chhattisgarh market for some time. I am asking for one-year time to convert that plant into UltraTech.

Navin Sahadeo: My last question, total CAPEX at the company level could be expected how much this year and next year?

Atul Daga: UltraTech total is about 2000 crores.

Navin Sahadeo: This year?

Atul Daga: Yes.

Navin Sahadeo: Next year how much is estimated?

Atul Daga: We would look at not more than Rs. 2000 crores and the new CAPEX announced would get covered in these Rs. 2000 crores of cash flow for CAPEX.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal Securities. Please go ahead.

Amit Murarka: Just to clarify and also the status on the North expansion, either Pali or Nathdwara, by when will it be cleared ?

Atul Daga: We have sufficient capacity in Nathdwara, so at least a couple of years is not definitely not expansion of the table. We are somewhere around FY 22 is what we would look at if at all, I am speaking out of my own conviction, the proposal has yet to be approved by the board, so to that extent I should be cautious but not in the next 2 years for sure.

Amit Murarka: And the increased royalty payment for the Century assets will start from October or is it retrospective?

Atul Daga: It started from 1st October 2019.

Moderator: Thank you. The next question is from the line of Raashi Chopra from Citigroup. Please go ahead.

Raashi Chopra: Atul, just to clarify on Century, if hypothetically you were to be able to rebrand it right away, what kind of pricing delta are we talking about just hypothetically?

Atul Daga: Rs. 15-20 per bag.

Raashi Chopra: And when you talk about the EBITDA going back to at least 500 level, I assume that you are not really talking about any pricing delta in that?

Atul Daga: Because this is what they had delivered same period last year.

Raashi Chopra: And the rebranding will get done by December but I imagine that the whole pricing impact will be a bit longer than that, right?

Atul Daga: Slightly longer, yes because again I want to give you guys a comparison between the other acquisitions. When we acquired Jaypee, it was a virgin market for us, central was a virgin, Himachal was a virgin market. As compared to that the markets which Century is operating UltraTech is also operating the same market. Similarly, the case with Nathdwara cement, Nathdwara serves in Rajasthan and Gujarat, we are already present in those markets. We will gradually improve the prices.

Raashi Chopra: And what kind of capacity utilizations would we be thinking about for this, say next year?

Atul Daga: Next year it should be in line, the Central markets and East markets would go to 80% capacity utilization. Maharashtra plant, since Maharashtra markets are operating 50%- 60%, so it would be in line with the Maharashtra, Gujarat market.

Raashi Chopra: And this is over 14.6 mtpa, right whatever capacity is?

Atul Daga: 14.6 mtpa yes.

Raashi Chopra: Just one more thing, you said that the CAPEX for this year you are saying is 2000 crores, right?

Atul Daga: Yes, cash flow, yes.

Raashi Chopra: Can you give me a broad breakup of like the top 3 or 4?

Atul Daga: Yes, there is some amount spend pending on Bara project grinding unit which is getting commissioned within the next month, 170 odd crores pending over there, Bicharpur coal block about 200 crores, 5 of the WHRS projects ongoing, balance amount spend is about 170 crores, then there is that we are doing a bulk terminal at Panvel which is about 75 crores. There is a wall care putty project which is ongoing, that is another 75 crores. Then the usual modernization CAPEX if across the network of all the plants would be the big junk of about 700 crores. These are the big ticket items.

Raashi Chopra: Sir, the new grinding CAPEX that you have announced that comes next year?

Atul Daga: Yes, because if we place the orders now the payment would be just 10% when you are placing an order and it is milestone base, so it will fall in the next year only.

Raashi Chopra: And next year is also 2000 for the CAPEX?

Atul Daga: Yes, because all the big tickets, WHRS will be over; the Bara project will be over; Dhar, some odd jobs which are pending, everything will be over, so big ticket items we won't have any.

Raashi Chopra: Just a few bookkeeping questions, what was Binani's utilization separately, Nathdwara's utilization separately in this quarter?

Atul Daga: The Nathdwara utilization was about 60%.

Raashi Chopra: And just lastly on pricing trends across regions, you mentioned that the South and the East have declined of almost 7% to 8%, what has been the trend across the other regions, North West, Centre?

Atul Daga: North was the lowest drop of about 3%, North and Central were about 3%, West was 1 to 2% only. Gujarat was pretty good because of which the Western markets were only 1 to 2%.

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

Bhoomika Nair: Sir, you spoke about on Century that you told there would be Rs. 15 to Rs. 20 bag benefit that would flow through over a period of next 6 months? That would translate into roughly about Rs. 200 to Rs. 250 on a per ton basis in terms of realization plus there would be an improvement in utilizations given that the plants had come back to normalized operation, so in that scenario sir, would it be EBITDA per ton for Century actually be higher than Rs. 500 to Rs. 600?

Atul Daga: Yes, please.

Bhoomika Nair: And on the EBITDA, if I could just get the revenue breakup of bookkeeping question on white and RMC revenues?

Atul Daga: White cement revenues are Rs. 423 crores, RMC was about Rs. 512 crores.

Moderator: Thank you. We will take one last question from the line of Rajesh Lachhani from HSBC. Please go ahead.

Rajesh Lachhani: Atul sir, my question is with regards to the government's announcement of cut to the taxes on new manufacturing plants, do you think that this will bring forward much of the capacities to get the benefit of?

Atul Daga: The SME sectors could take advantage of this, not large corporate.

Rajesh Lachhani: And sir, the other question is, still now we were saying that government spend would be one of the main drivers for the demand, now with government giving more, the money from government, was it is going to the consumer, do you think that could be a further crunch in the liquidity from the government's end?

Atul Daga: They have played up the fiscal deficit going up to 4%. The plan to fast-track PSU divestment is there, so they will have liquidity coming on stream, I don't know what further crunch could the government do. You will be keep seeing news every regularly that the finance ministry is talking about, wanting the government offices to expedite release of payment, so urgency is quite visible from the government side to do anything and everything possible to revive the payment cycle, not curtail.

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

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