"UltraTech Cement Limited Q2FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the UltraTech Cement Limited Q2FY22 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 public amendments, 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 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: Good evening ladies and gentlemen, once again, thank you for joining our Earnings Call for Quarter 2 FY22, today, the 18th of October 2021.

First and foremost, greetings to all of you for the festive season, in India. I hope that all of you and your dependents have already been vaccinated for COVID and are able to kill the boredom of work from home by returning back to your respective workspaces and enjoying meeting your colleagues and associates in-person.

At UltraTech, we believe that work from home is here to stay and we are enabling roster services, releasing office leases wherever possible, redesigning our larger offices to suit the new normal. To quote "New normal is never normal" yes, that is what we are seeing in the cement industry as well.

Every now and then we are waking up with a news of a new Cyclone, Idai, Tauktee, Yaas and whatnot. Cyclones generally would give our shores a miss, but now are hitting our shores every now and then. Monsoons have continued in the country in the month of October as well and have only started receding in the last few days.

World is just recovering from the aftermath of COVID and now, fuel is creating roadblocks for the economic growth. Shortages in gas market is pushing demand of electricity generation from coal-based power plants. The surge in demand for coal is largely from recovering economies. China first shut down its coal mines and now is stockpiling domestic coal and gas reserves. And on the other side, Russia is curtailing its supplies. China was not importing coal from Australia, but off late I guess that is getting resolved and they will start importing from Australia.

Fuel prices have seen an unprecedented rally, who could have forecast more than a $50 jump in less than a month added to that the stock built-up requirements of the West and North Asia for the winters. In India also all the coal supplies were being diverted to the thermal power plants.

But only today's newspaper was some relief that inventory at Coal India has been improving and the power rates have corrected on the exchange.

With this kind of pricing in the coal market, petcoke again becomes favorable in terms of energy cost at the current price levels of coal. So, I guess switching back to petcoke makes more economic sense. Using alternate sources of coal from wherever the most economical coal is available is the order of the day.

Increasing alternate fuel is slow in India. This quarter we have reached 4.4% of our total fuel consumption as alternate fuel. And our efforts will be to continuously increase the sourcing of alternate fuel from wherever possible. However, something needs to be done to protect our margins too, industries like coal and other commodities are raking up in big moolah with price increases and artificial shortages. Cement cannot keep on just improving efficiency to protect and generate margins. We have taken a call at UltraTech to increase prices of cement to help manage the rising cost of production.

Current spot prices of coal have already gone up 3x from June 21 and petcoke is up nearly 2x. Sometime during the month of October we have increased the prices in almost all the regions, the prices are now back to where they were pre-monsoons. This is certainly not enough to cover the cost pressures, needless to mention, you must have already got the information from your famous/infamous channel checks.

On other costs you would have noticed an increase in UltraTech, but I would urge you not to annualize these numbers. At the beginning of COVID, we had told you about a reduction in our overheads plan of about 10% over FY20. Yes we are at it. FY22 will see our overheads around the same numbers as FY20, thus having absorbed the inflation of two years.

Let me now talk about the brighter side, demand:

It seems to be robust, as monsoon have been receding volumes are going up. In spite of heavy rains that the country witnessed, UltraTech has recorded a domestic grey cement volume growth of 8%, 17% in white cement. Could we have done better? Yes, most certainly. But we were at the mercy of rain gods. In the lighter vein, a pharma Company would always urge for rains. A pharma Company manufacturing anti-malarial drugs would urge for rains and cement Company would pray otherwise. Q2 was substantially impacted by monsoons which were above normal in most parts of the country. And in fact, till yesterday, some parts of Northern India and Kerala were facing heavy showers.

On the infrastructure side, the thrust by the Government continues to be very high as part of implementation of its Rs. 1.1 Trillion project under NIP to be completed by 2025. If you were to deep dive briefly on the various subsets of infrastructure roads, fastest growing sectors with a massive plan to connect the entire length and breadth of the country under the Bharatmala Pariyojna Project, there are 20 Expressways already operational and 30 are under construction. Highway construction is almost at par with last year with 3824 kilometers completed till

September. Ordering was a tad slower, but we expect it to catch up this quarter. Railways Q3 onwards the speed of implementation at DFC is picking up and most of the work is expected to be completed by the end of fiscal 22. Metro rails 18 existing metro rail systems have already started increasing the length of their existing metro lines. And 27 new metro lines are being added in the country. Irrigation projects are also back on track. Airports, two major airports which is New Bombay and Jewar are likely to commence this fiscal year. Airports in the major districts are being implemented as part of UDAN Scheme to improve the regional connectivity. On the commercial real estate side, it's a mix trend. The IT infrastructure space demand is again booming, giving rise to the commercial space and we are also seeing good traction in the urban housing market in the Tier-2 and Tier-3 markets. Infrastructure spends continue to lead the demand boost with the increase in execution speed across all projects.

To quickly touch upon our expansion plans, we have commissioned 1.2 million ton Brownfield expansion of our Bengal and Bihar unit. This is part of the 3.2 million tonnes scheduled for this financial year. 1.2 million tonnes is additional grinding capacity for which clinker is sourced from our existing units in Chhattisgarh, East MP and East UP. These expansions are focused on composite cement, and in the overall capacity though less than 1%, but certainly a tiny contribution towards increasing the share of blended cement in our endeavor to continuously improve our CO2 emission norms.

The next in line for this fiscal is the 2 million tonnes Phase-II of Bara grinding unit. Small delays but it's on course now and we expect to commission it before the end of this fiscal year. All other projects of the 19.5 million tonnes expansion are on track except for small delays of a month or two here and there.

In these coal crisis times happy to share with you that our Bicharpur Coal Block will also start coal mining operations from Q3FY22. The coal will be used in our Satna cluster plants. During this quarter, we have also commissioned 12 MW of WHRS capacity and added 21 MW of solar capacity tie-ups. With these expansions our green power share has increased to 15% of our total requirements.

Before I conclude, let me talk about the cash flows. Working capital has been increased in value terms due to the rising purchase cost. However, we continue to maintain a negative working capital of around 8 to 9 days on this quarter sales. This negative working capital will further improve in the second half with the reduction in inventories post-monsoon. We generated an operating cash flow of Rs. 1750 crores. A large part of this was used on the ongoing CAPEX plans. In the first half of this year, we have spent Rs. 2300 crores on CAPEX and should end the year with nearly Rs. 4000 to Rs. 5000 crores of CAPEX all being funded from internal accruals and yet, deleveraging further.

During this quarter, we trimmed our treasury surplus to Rs. 7600 crores and retired Rs. 5200 crores of long-term debt. At the end of this quarter, we are 0.47x net debt to EBITDA at consolidated level and will only improve going forward quarter-on-quarter. With rising sales volumes and expansions coming on stream, the reduction in net debt will certainly pick up pace as we move forward.

And to conclude, I believe cement demand seems to be on a stronger path. There is a pressure on fuel supplies and costs. But rising costs will be compensated by increase in cement prices.

So, ladies and gentlemen, let's sit back and enjoy the ride. Thank you. And over to you for questions.

I also have with me, our Managing Director, Mr. K.C. Jhanwar to take on any questions.

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. Please go ahead.

Sumagal Nevatia: Mr. Daga the first question is on the cost, if you can elaborate a little bit more on the fuel cost specifically, I mean we currently have a very changing, I mean a very dynamic situation for the economics of petcoke and thermal coal and also with the inventory in-hand, I mean, how are we looking at coal cost in coming quarters should the spot price sustains for a couple of more months. And also there is a spike in the employee cost is this a new run-rate to work with?

Atul Daga: So, on fuel cost, your guess is as good as mine. We don't know where the peak is, when will it start switching gears, but the general feedback that we are getting is at least there is a few more months of pain in the cost on fuel. But more importantly we are passing on all these cost increases in selling prices.

As far as availability is concerned, I don't see challenge as of now in availability of imported coal. We were in any case very, loosely dependent on domestic coal, a shade under 15% or maybe 12% of domestic coal is part of our fuel mix the balance is all imported.

As for employee costs this year last year they were no increments which were given as you are all aware as part of our COVID plan. So, this year the increments were given which came into effect in this quarter and will rationalize as we go forward in the future.

Sumangal Nevatia: Second with respect to the demand front you shared a very strong commentary in your opening remarks, any ballpark number for second half for the industry demand growth which you all are working with internally or expecting? Any quantification or guidance on that front?

Atul Daga: I would be very safe in estimating it anywhere between 6% to 8% in the next six months which could be conservative.

K.C. Jhanwar: So, yes, as Atul said rightly because now it's a very challenging time because with such an increase of fuel prices which will obviously result in to increase in the cement prices. And all may know that the steel prices have also doubled actually in last a few months. So, there may be some impact on the demand side, but yes, we can still safely assume about 6% to 8% to our understanding, the demands would be there. And all of you know that these months are the peak months from the demand point of view.

Atul Daga: So, as the festive season gets over, November, Chhath Puja I don't remember when is this Chhath Pupa in India. But typically, from there onwards, we start falling short of capacity. That's what we saw last year, January, March, and I think it will repeat.

Sumangal Nevatia: And just one last thing this European loan asset which we have, we have classified that as discontinued, so any progress of the recovery of that or?

Atul Daga: No, we are fairly advanced in our negotiations. And my sense is by end of December, we would be reporting a closure on that transaction as well.

Moderator: Thank you. The next question is from the line of Rashi Chopra, from Citi Group. Please go ahead.

Rashi Chopra: So, just a few questions on cost first. One is last quarter the coal consumption was about $123. So, do you have a blended cost for this quarter?

Atul Daga: This quarter is a shade under $120.

Rashi Chopra: It's flattish?

Atul Daga: It's flattish Yes.

Rashi Chopra: So, you have yet to, so this is because you had inventory or?

Atul Daga: So, we had inventories and we had done some smart contracts, which enabled us to procure fuel at lower costs.

Rashi Chopra: What do we expect this to be in the 3rd Quarter?

Atul Daga: It's bound to go up. I would expect, $120 could go up by $10 to $20 more it could go up.

Rashi Chopra: This $10 to $20 is in the 3rd Quarter but I would imagine us to stock more, some inventory this quarter. Or this is like the peak given current prices, will the 4th Quarter be higher?

Atul Daga: Rashi peak I cannot guarantee I don't know how long the prices will keep on going up. But yes, we will see an increase in our fuel costs going forward.

Rashi Chopra: Second on the price increases that you are referring to, to sort of absorb the cost inflation. So, when we think about that, is it, you want to kind of maintain that EBITDA level versus 1Q versus last year, so when you say cost inflation absorption as in what kind of, what is the --?

Atul Daga: Given a choice, I will want to reach the best-in-class EBITDA margin that we would have achieved. So, our endeavor will be not to be buckled under the pressure of rising fuel costs. And on a steady state if I were to look at 34% to 35% is a very high number, but on a steady state 27% to 28% would be a good range to benchmark performance.

Rashi Chopra: And so, October, what has been the, you said October you took price increases so what is that, like what has been the quantum roughly?

Atul Daga: Varies from market to market and average I would say Rs. 10 to Rs. 15 has already gone up.

K.C. Jhanwar: Yes Rs. 10 to Rs. 15 rupees the price has gone up, but as you know it varies from market to market.

Atul Daga: So, Rs. 10 to Rs. 15 Rashi, across the country and the good part is all the regions have absorbed these price hikes. Other thing is there is a general expectation amongst the infra players amongst the dealer community that price rises are imminent. So, there is very little resistance.

Rashi Chopra: And just one more thing on your Bicharpur Coal Block, this coal will be used in the power plant?

Atul Daga: At our Maihar plant.

Rashi Chopra: In the power plant, right?

Atul Daga: Yes, it will be, we can blend it also in the kiln as well as in the power plant.

Rashi Chopra: So, how much, I mean what proportion of the coal will you be able to --?

Atul Daga: So, that way, Rashi, it's a small portion, I think on today's capacity we need plus or minus 12 million tonnes of fuel. And this mine, coal block's annual mining plan is 750,000, less than a million tonnes per annum.

Rashi Chopra: Last question, what is the lead distance because you made a comment that geographical mix has also hurt the freight costs. So, just, number one, what does that mean? Number two is what is in lead distance?

Atul Daga: Lead distance, about 425 kilometers.

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

Pinakin: My first question is just trying to understand this energy cost trend issue better. If we look at slide #17 where there is the green line, which is the index of petcoke prices versus the black line, which is the energy cost index, it's nearly half of where the spot petcoke prices are. Now when we look at spot prices of thermal coal petcoke and if there were no inventory benefits, how much would have been the energy costs been higher by? I mean assuming there is no change in spot prices from here, this roughly Rs. 1100 a ton should be at Rs. 1500 to Rs. 1800, Rs. 1300? How should we look at the total cost inflation from here?

Atul Daga: So, Pinakin, there one is carried forward inventory, the other is efficiency improvement. We have been continuously improving our power consumption, heat consumption. Power consumption has gone down by 4% YoY that is one. So, that is where the big difference delta between Rs. 240 and Rs. 126 lies. Of course, this is only a schematic reference because I have taken only petcoke price Index, I haven't taken the coal price index and the blending ratios will continue to change. So, to answer your question Rs. 1100 could be Rs. 1300 but not Rs. 1500.

Pinakin: My second question is that if I look at the broader, moving beyond energy cost, there is a cascading impact of inflation coming through in other line items also, because rent is moving higher, diesel prices have started moving higher, you mentioned packaging cost is also higher. So, when we are looking at total cost over the next two quarters if we take the starting point as the 2Q realization. If we were to go back to the 1st Quarter EBITDA per ton, what kind of price hikes would the industry need to see? Would the industry be okay with the 5% price hike to absorb all the costs and revert back to margin? Or we are talking about 10% to 15%.

Atul Daga: If I were to assume Rs. 350 as a base price, 10% minimum is required.

Pinakin: To cover all the costs, revenue to go back to the 1st Quarter.

Atul Daga: Go back to Q1 margin because Q1 you are referring to as a very high margin level.

Pinakin: Yes okay, understand.

Atul Daga: It will happen.

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

Ashish Jain: Again, my question goes back to the earlier questions one is on power and fuel costs. So, if I understood your comment right, versus the $120 that you said was the blended consumption cost versus that if I peg $220 to $230 we are seeing the energy costs will go up only by Rs. 200 is that --?

Atul Daga: Give or take yes.

Ashish Jain: And so, like this $10 number that you said could be the impact in Q3 on the fuel cost side, this is good for the whole of Q3 based upon a reasonable production assumption?

Atul Daga: Yes.

Ashish Jain: So, the $210 to $220 is not going to hit us even in Q4 you think based upon the contracts we have?

Atul Daga: Whether Q4 it will be $220 or higher is yet to be seen, we will try and keep the various expertise that the team has in sourcing and you know, planning will come to its play. And we will try and keep our prices, energy costs as controlled as possible.

Ashish Jain: My apologies but you know just to persist on this what I want to understand is that either due to our contracts or based upon some other sourcing mechanism, is it possible for us to source coal even if the spot is $220 are we sourcing at $161 or $170.

Atul Daga: I wish I could.

Ashish Jain: So, at some level the market price will shoot up?

Atul Daga: Yes, it will catch up. I am not able to say whether it will happen in Q4 or Q5 which is Q1 2023.

Ashish Jain: Secondly, just on the CAPEX plans you said that we are seeing some delays means I understand one or two months is what you indicated but are we seeing these delays across locations or one or two locations?

Atul Daga: No, one or two locations. Odisha, we saw some delays, that's the only delay. Everything, there has been a catch up in fact, like Chattisgarh was a delay they have caught up brilliantly, Pali they have caught up brilliantly, these are the larger ones, others are smaller ones. So, Cuttack was the maximum; Dhar also has picked up sorry. So, out of the 19.5, 3.2 million will get commissioned this year. And next year, every quarter we will have, out of the remaining 16 million tonnes I had given the schedule in the earlier presentation. One of the, I think quarter or the CAPEX plan presentation. We will be able to meet that schedule a month here or a month there.

Moderator: We move to the next question from the line of Amit Murarka, from Axis Capital. Please go ahead

Amit Murarka: First question was on mix, sort of what would have been the trade mix in this quarter?

Atul Daga: 67% is trade mix.

Amit Murarka: So, broadly stable then. And also like on other operating income, I see that it has jumped quite sharply this quarter so any reason for that?

Atul Daga: So, incentives keep coming in and out, this quarter, we had our Dhar incentive coming in, some incentive expired, and there could be some other miscellaneous income kicking in. So, this would be a one off and I would have a stability at the way we have been around Rs. 60 to Rs. 70 per ton.

Amit Murarka: So, this quarter it's almost double of your usual run-rate.

Atul Daga: Yes.

Amit Murarka: And also in terms of the capacities like obviously, you have highlighted about the ongoing expansions which are on track, which should be done like in March 2023, but given that we know that it takes let's say 18 months or two years or more also, if it's a Greenfield to do, like are you thinking around further expansions more from FY24 and further pipeline point of view?

Atul Daga: Yes, we cannot stop growing. India is the only market as you very well know which is expected to see a growth of 6% to 7%. If I look at a CAGR of 10 years, 6% to 7% is a very confident number to go by. If we don't grow then we will start losing market share.

Amit Murarka: Okay, so we should assume let's say that kind of capacity growth rate --?

Atul Daga: Inorganic or organic.

Amit Murarka: And also in terms of capital allocation now that like you are quite fast moving towards the net cash balance sheet, what is going to be the capital allocation plan or inorganic is back on the radar or how's it?

Atul Daga: It's always there on the radar, the right opportunity is what we would look for. And capital allocation as you know that the return to shareholders will increase we had stepped it up last financial year and I am sure I think this was very well thought out decision taken by the Board after looking at the long-term cash flow plans that we will be able to step-up returns to shareholders after taking into account our requirements for growth which will not be leveraged.

Amit Murarka: So, then like, is it fair to say that the net, the balance sheet will not turn into a net debt balance sheet maybe or maybe even if there is an acquisition or something?

Atul Daga: No, if there is an acquisition then there will be one year of leverage because you see acquisition has a front ended payment. So, depends on the size also if it small a million ton, you will not even realize that the balance sheet has absorbed it, but if it's a 10 million ton or a 13-million-ton acquisition then bump up for a year will take place.

K. C. Jhanwar: It all depends on the kind of opportunity we get and obviously the opportunity is quite big then as Atul said rightly, it may have some impact here and there.

Atul Daga: So, I think I have stated, mentioned this earlier also in some forum. Your financial models will tell you what is the size of the EBITDA that UltraTech will be in FY24, FY23 all capacity 20 million tonnes of new capacity coming on stream stabilizing in '24, '24 is a new normal EBITDA for UltraTech. Make the thumb rule of whatever leveraging you want to do on that and it's a one-year reduction.

Amit Murarka: And lastly one Super Dalla I guess there is some more delays like would you just throw some light on that as well?

Atul Daga: Quite unforeseen, unfortunate instances keep taking place at the bureaucracy level. We were scheduled to fast track then PM visit happened so everybody went into the PM visit mode. No meetings taking place or somebody's not there, etc. Having said that March '22 is a very realistic number that we will have our plant geared up, ready to start work March '22, yes. Let me not bother you with the nitty-gritty, you know, there are so many things that we have to deal with.

Amit Murarka: But I remember there is some work also that needs to be done once you get the plant because it has been shut for a long time.

Atul Daga: But you see that we have clearly identified the CAPEX plan. If I am able to wrap it up by December we will start work in January touch and go March, April we will start generating clinker from there. It's a 2.3 million tonnes clinker.

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

Ritesh Shah: A couple of questions, first, is it possible if you can break up the Rs. 286 crore number you did indicate that incentives related to Dhar came in. Related to this, I wanted a wider answer from you regarding what are the sorts of incentives that you are expecting from se Dhar or Pali or from the incremental announcements that we already made? So, that's the first question.

Atul Daga: Let me first before I forget, your questions are long and most complex, Ritesh. So, incentives are not standard anywhere. So, you have to approach the authorities, the regulatory body and see whatever is best possible under the ongoing schemes, suddenly a new scheme gets announced. So, whether you are eligible, not eligible at all, is in a mixed bag. So, we don't count, don't depend on incentives at all, for our project returns. Incentives are always top-up.

And Pali, let's say Pali, I expect to commission by September FY 23. When will I get the incentive application is fairly advanced stage. When will I get it, I don't know. Practically all the projects are, they are in different stages of consideration at the state authority levels, remains to be seen when we get it.

Ritesh Shah: Specific coming back to Dhar I understand that under the earlier government cement was in negative list for MP, and after that it was taken off. So, I am sure like we would have got some benefits over here. So, if you can compare this just to understand the IRR of the project better, that would be useful, if possible.

Atul Daga: But the earlier the incentives used to be directly linked to a VAT. Now, they cannot be linked to SGST because it's very difficult to track from this State Exchequer's perspective, how much material is sold within the state and how much material has gone out? So, they keep structuring different packages to incentivize investments. We have got a completely different incentive package for Dhar and completely different hypothesis which we are pursuing at Pali. So, it's a completely different.

Ritesh Shah: Second question, just coming back to the cost inflation part. What is our procurement strategy? So, basically, when we procure fuel, we have optionality for petcoke which you indicated will increase in price by going forward. But when it comes to petcoke or coal, there will be spot contracts, medium, long-term contracts. So, just wanted to understand what is our sourcing strategy, when we say that our cost will only increase by $20 to $30, next quarter? So, is it like we already have booked something at low cost. So, just wanted to have some sense and thought process behind it?

Atul Daga: So, I will give you a bigger picture instead of giving exact details, being confidential from competition perspective. In cement obviously, we are the largest consumer of fuel 12 to 13 million tonnes of fuel. So, we cannot depend on spot alone. We do a blend, we do long term contracts, at fixed prices. We do long term contracts on index link prices, discount to index, different sources to try and manage the average cost. We do blending of fuel within, as a kiln feed to reduce the average fuel cost. We are trying to increase our, a small number, but we are trying to increase our alternate fuel so that dependence on fuel goes down. We are increasing our WHRS capacity, which is helping me reduce my fuel consumption. For power, we are --

K.C. Jhanwar: There are also a number of initiatives, ongoing initiatives in terms of fuel and power consumption improvement, the consumption norms. So, it's a combination of multiple things actually, and of course, the blended part of it.

Atul Daga: Continuously trying to improve our conversion ratio, so that is also helping improve the fuel consumption.

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

Madhav Marda: I just had a quick question, basically, given that UltraTech like you mentioned is the largest consumer in the Indian cement space, and we have all these long-term contracts. If we think about some of the smaller players in the industry, would they also have access to such long-term contracts which would be at sort of more fixed prices and more favorable prices, or such contracts would be more limited to the larger players in the industry.

Atul Daga: Would you like to ask them, instead of asking me about them.

Madhav Marda: They might reverse it then --

Atul Daga: Madhav, there are benefits of scale and size which UltraTech certainly enjoys. I wouldn't want to comment about what others are doing on a public forum.

Madhav Marda: Second question was that like you said price hike should happen considering how heavily coal and petcoke cost have gone up. Should we broadly basically expect this to come through January onwards, once the peak season kicks in, or it could be even earlier? The price hikes, basically would they come in usually, as it happens January onwards, when the peak season kicks --

Atul Daga: October 7th onwards.

Madhav Marda: So, we will keep on passing ahead through the quarter --?

Atul Daga: Yes, absolutely. I mean you can't do a lag effect over here, otherwise the damage would be done in this quarter.

Moderator: Thank you. The next question is from the line of Satyadeep Jain from Ambit Capital. Please go ahead.

Satyadeep Jain: First, on the capital cost inflation given where steel prices are, cement prices are, are you seeing any capital cost inflation on your existing project or if you had to start a new project, could you elaborate on that?

Atul Daga: So, let me take the latter part of the question first, new project obviously will cost much more, a Greenfield project would go above $100 per ton very easily. As for our ongoing projects, there are some cost overheads, but there are cost reductions and optimizations. Again, thanks to bulk buying, longer term contracts that we have been able to largely weather the storm of increase in steel prices, I mean steel becomes the major component for CAPEX cost. Jhanwarji, would you like to add anything.

K.C. Jhanwar: Yes, just to further add upon because our, the major context for the technology supply and the steel parts was reasonably well covered before the price, the steep price increase started in steel and other metals. So, I don't think there would be major surprises in terms of the cost. There would be some minor here and there, very marginal increase maybe there. But we are putting all efforts so that whether efficiency or whether other improvement initiative we can contain it, the cost within the budgeted cost.

Atul Daga: So, total project cost for the 19.5 is Rs. 6800 somewhere around, a shade under Rs. 7000 crores, I think Rs. 6800 is the number to my memory. We will remain at that.

Satyadeep Jain: Okay, but if you had to, so you are well covered on the existing project. If you had to start a new project, obviously there you would see some capital cost.

Atul Daga: Yes, there the cost will go up.

K. C. Jhanwar: Yes, obviously because it's one, the overall inflation then the impact of the exchange rate and so many other factors. And it's not only in cement, but I think all metal prices right from copper, aluminum everything is up. And the contractor cost is also now increasing substantially.

Atul Daga: So, if we want to look at average Greenfield cost of let's say $90, it will go up to $110 for sure.

Satyadeep Jain: Secondly, you did talk about imported coal. But coming to domestic coal also, for your TPPs, what kind of long-term FSAs we have with Coal India for your requirement and --?

Atul Daga: As of now, Coal India is cancelling the shipments and --

K. C. Jhanwar: Because they have totally stopped for the time being allocation of coal to the non-power sector. But yes, obviously it's the combination of FSA, the auction coal and --

Satyadeep Jain: How much percent in domestic coal?

K. C. Jhanwar: 17% combined.

Atul Daga: So, between kiln and our power plants, total fuel 17% is domestic which was being met out of auction coal or FSA. Don't count what is happening today or yesterday as of now, because that I believe is temporary. Coal India will get its reserves back on track. There were delays because of heavy monsoons, movement was not taking place, so and so forth. With season improving, things will come back to normalcy in Indian domestic supply.

Satyadeep Jain: But as you do your planning and you look at different scenario analysis, typically the power situation would improve in winter and stock price would improve, but in case they don't, what's your fallback option that you are looking at for your TPP?

Atul Daga: Well, we will have to depend on grid power also, and imported coal.

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

Naveen Sahadev: Two question, one, first of all clarification and sorry if it's repeat. You said, Q2, the average fuel cost was about $120, which in the current spot terms is over $200. And for that increase the max hit that will come to us in terms of average fuel cost increase will be just about Rs. 200 or roughly $3, is that understanding correct?

Atul Daga: Okay, yes, in Q3.

Naveen Sahadev: In Q3, okay. So, in Q3, we are expecting fuel cost increase of roughly Rs. 200 per a ton and thereafter another impact in Q4 because of --

Atul Daga: We will see, because the way spot is, it's crazy.

Naveen Sahadev: Right. So, if I were to just ask from let's take Q2, the current quarter as the base at which it's about $120, and the spot of 240, 250, I really hope that its spirals down as quickly as it went up, but assuming at the current rate, what is the cost delta?

Atul Daga: Sorry, for what period, we just discussed, right.

Naveen Sahadev: Yes, but you said in Q3.

Atul Daga: Fuel cost goes up by Rs. 200 to Rs. 300.

Naveen Sahadev: In Q3?

Atul Daga: Yes.

Naveen Sahadev: But at current spot, it goes up to how much?

Atul Daga: Current spot, it will, should go up by maybe Rs. 500 more. If I have to consume everything at $225, $230, $240. But I am very peaceful and sleeping peacefully at night because we are passing it on to you if you are constructing your house.

Naveen Sahadev: Then the second question is about the fuel mix, so petcoke from Q4 have been falling at 28% to 30% in Q4. Previous quarter we were at about 17% to 18%. Currently, where is this fuel mix in terms of broadly petcoke, imported coal, how should one look at it?

Atul Daga: Petcoke was 19%.

K.C. Jhanwar: And just to add upon, see the fuel mix is very dynamic actually because, at one quarter base the coal was very competitive and petcoke had become expensive. Now the petcoke is equally competitive. And second is, now the major challenge is not the price if you ask me honestly it's the availability and the fuel security. So, but we have developed reasonably very good skill to shift over from one fuel to another fuel very quickly without losing much of time. So, it all depends what kind of prices of the petcoke and the coal.

Naveen Sahadev: No precisely sir, I asked this question precisely for that reason that it's not about the price, it's about the availability and on KCAL basis, as we speak I think the imported coal is much costlier compared to petcoke, but petcoke availability is a challenge. So, with that in mind as we speak, as you said petcoke is again become the favorable fuel, so how much can it go to in terms of percentage?

K. C. Jhanwar: It's very difficult, very honestly to predict it, as you said very rightly the availability of petcoke is not such a huge, the way the coal is available. So, it all depends actually what kind of scenario gets emerged from different part of the world, not only from India.

Atul Daga: Naveen, to give you comfort, two things, as of now the pipeline has not choked, so there is a continuous flow. And we are ensuring that none of our operations, not a single plant will suffer a shutdown because of non-availability of fuel.

Naveen Sahadev: Of course, that much we certainly trust of UltraTech.

Atul Daga: I think that's a beauty of being a large player. You have the reach practically everywhere to get resources. And secondly I am sleeping peacefully because the cost is being pushed on to the consumer.

Naveen Sahadev: Just one last question if I may slip in, staff cost sequentially is higher. I know other expense is higher because of maintenance. But staff cost sequentially is higher, so that's for the increment, so is it --

Atul Daga: I had already told you, the increment got factored in this quarter.

Naveen Sahadev: Correct, so can that be taken as the normalized base, to be annualized we cannot annualize the other expenses --

Atul Daga: It will be lower, because there were some one-time bonuses also factored in, so it will be lower, not same level.

Moderator: Thank you. The next question is from the line of Girish Choudhary from Spark Capital Advisors. Please go ahead.

Girish Choudhary: Most of my questions have been answered, but one thing, if you can share the regional pricing trends like you generally share on a sequential basis that would be great.

Atul Daga: Regional pricing trends for what?

Girish Choudhary: During the quarter 2Q.

Atul Daga: For the last quarter?

Girish Choudhary: Yes for UltraTech.

Atul Daga: Well, one is the average prices were up about 4% to 5% on an all-India basis. There was an increase of 2% to 3% in North and East, Central was flat, West was 5% to 7% increase, South was flat.

Girish Choudhary: So, these are on YoY basis, right.

Atul Daga: Well, this is YoY.

Girish Choudhary: Can you share the sequential numbers?

Atul Daga: Sequential, the prices were marginally down about 3%, the biggest drop was in the Eastern markets, closer to 10% but otherwise average 3% plus minus prices were down.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: On the earlier part of the call, you mentioned that the second half you are looking at 6% to 8% volume growth. So, if we do the math, for the full year it works up to be around 13%, around 97 odd million-ton grey cement sales. So, is this what you are looking at?

Atul Daga: I guess so.

Rajesh Ravi: And second is, if I look at the grey cement performance on a QoQ basis adjusted for the other two businesses, realization is down just 1%. So, any specific reason because markets, we understand the prices were down 3% to 4% across markets, barring off North and Central slightly flattish. So, is it any change in sales strategy which help you clock lower decline, sequentially.

Atul Daga: Are you a shareholder, Rajesh? Yes or No, and your fund I mean?

Rajesh Ravi: No, I am not.

Atul Daga: Then you should be holding UltraTech then, I think UltraTech as a leader in the industry, always commands respect in pricing as compared to the other players.

Rajesh Ravi: And on the cost side, if I look at the cost line items which you have mentioned in the PPT, and if I take that with the grey cement realization we see around Rs. 330 odd decline QonQ in your EBITDA margins. So, is this all because of the power and fuel cost or.

Atul Daga: It's cost.

Rajesh Ravi: And this is what you are looking to with the realization increase for this month onwards.

Atul Daga: Yes, because monsoons it is very difficult as it is there is a pressure on volume, and in spite of the heavy monsoons, I think nobody complimented us, but I take the compliment from you that we did a 7.5% to 8% growth in volumes. The moment, monsoon just started subsiding we have taken the opportunity of increasing the prices.

Rajesh Ravi: And on the costing side, WHR which you installed 13 MW so what is the total installed capacity post that?

Atul Daga: It is mentioned in the presentation, 137 MW WHRS.

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

Prateek Kumar: My first question is on the truckers issue in the Eastern market. So, is it something which impacts us also. There was a strike which resulted into close down in some plants, in Chhattisgarh. And has that issue been resolved?

K. C. Jhanwar: No, the truckers issue is there in Chhattisgarh, but the good part is, we are not too much impacted obviously because our all plants have the railway siding actually. So, yes, definitely there may be some marginal impact on the road moment actually from the plant. And as of now I understand it is getting resolved tonight or by tomorrow morning, almost understanding has been reached. But let's see where, because this development of negotiation, discussions is happening since last three days. But yes, we are near to reach to some understanding.

Prateek Kumar: Second question is on this demand trend chart which we generally give on the presentations is also very useful, which mentioned that central region has a flat growth during the quarter. Is this purely reflection of monsoons or?

Atul Daga: Heavy monsoons, cities like Bhopal and Madhya Pradesh faced torrential rains this time.

Prateek Kumar: So, like something like elections related demand coming in UP is something, which is seen on the ground or it is also sort of impacted by monsoon?

Atul Daga: Now you will have the benefit of election demand. 2022-2023 will be all election driven demand. General elections are there, 2024, so you would have seen what happened in 2019.

Prateek Kumar: I was talking about state elections in UP.

Atul Daga: I know, I was referring beside state election, I am referring to general elections also coming in. So, 2022- 2023 will see a very robust demand momentum.

Moderator: Thank you. The next question is from the line of Mihir Jhaveri from Avendus Capital. Please go ahead.

Mihir Jhaveri: Just wanted to ask you, this demand thing, which you said in second half which is going to be 6% to 8%. If I look at purely from a math angle, the base is pretty high Q3 and Q4, last year was phenomenal given the COVID situation, even Q1, was very strong. So, how should we look at it, is there a risk to this guidance of 6% to 8% given that they have a very high --?

Atul Daga: No, there is a huge --; I went in a long detail in my commentary, on the infra space. So, let me give you the basics, what is now happening is, post-COVID, the housing sector has also been, urban housing sector has also been reviving. Monsoons have been good, crops have been good, so rural demand will continue to have a party time. Infrastructure was continuously growing. Earlier, pre-COVID rural markets and infrastructure were the torchbearers for demand. Now you are seeing the urban housing also coming in. I also touched upon the IT related commercial demand, which is coming up in Karnataka, in Andhra big time, in Tamil Nadu in a big way. So, you will see a huge amount of cement consumption going forward.

Mihir Jhaveri: And just a clarification on the cost part, so the cost impact probably what you highlighted from the fact that Q3 will have a less impact. So, the cost impact clearly will continue given at current spot present in Q4 and Q1 as well, right, I mean the --

Atul Daga: True, the cost will be northbound.

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

Kamlesh Bagmar: Just one question related to your Middle East and the overseas operations, I believe this quarter had been one of the worst in last like say around 18 odd quarters. Our derived or imputed EBITDA has been hardly around Rs. 8 crore, so what has been the reason behind that, has there been from one time cost --?

Atul Daga: Yes, no this was a temporary setback. One is cost going up in the UAE markets and export markets into Sri Lanka from India suffering. We had a bit of a slowdown from our Gujarat plant into Sri Lanka. But now I think there will be a catch-up because Sri Lanka which we sell close to 1.5 million tons per annum. It was a control price regime now it's gone into free; prices are decontrolled. Price increases have already been taken in Sri Lanka. So, I expect it to come back, it's a one-off bad quarters for our overseas operations.

Kamlesh Bagmar: Lastly we know that Q2 is a mix of maintenance cost and lower efficiencies, so but like say given the Q3, where if you could have a peak quantity, a very strong quantity of cement and on top of that better efficiency. And secondly we will have a higher energy cost. So, taking that into consideration, like say for Q3 and Q4, fixed cost element is also there. So, how do we see the cost, I know that a lot of questions have been asked, like I believe most of the part have been discussed on that thing. But taking fixed cost, the term cost all that in considerations, Q3, Q4 or combined H2, over Q2, how the cost would pan out in terms of overall trajectory?

Atul Daga: I will give you some homework, you do the calculation of our operating leverage, over the last three or four quarter, and it will answer you.

Moderator: Thank you. We will take one last question from the line of Sanjeev Kumar Singh from Motilal Oswal Financial Services. Please go ahead.

Sanjeev Kumar Singh: I wanted to understand what sort of capacity additions are you foreseeing in the industry. And secondly in terms of inorganic acquisition, I believe that in one of the presentation you have written that 50, 60 million ton of inorganic acquisition opportunities are available. So, any comment on that, are there good assets available and when the profitability is higher will there be sellers available?

Atul Daga: So, first point, I think this year 20 to 25 million tons is what I would expect, slowing down next year. And on a longer-term basis I still believe as auction mines come into play, recently somebody took a small mine in Chhattisgarh at 660 bucks. So, it's quite unrealistic to generate a return on these kind of highly expensive resources. So, you won't see too many CAPEX; besides you need to also to look at what are the mining resources each player has at what location the data is easily available. If somebody wants to run a plant with just five year or 10 years of life, God save them and God save the investor who is putting money in that Company. So, expansions 20 million tons coming up. Next year again we have a large chunk of our expansions 15 million tons coming up, next year. Beyond that there is, I would say slowdown in investments.

As for acquisitions, we are always open to a target which helps us, gives us a profitable growth opportunity. So, growth as in increase in my market share and profitable obviously it has to generate a return on my investment. As of now there are a couple of transaction which I am examining, small ones not worth, very small ones. But I am sure, there will be people who will want to cash out at some point or the other, and we will be there to have a discussion.

Sanjeev Kumar Singh: And second just a clarification, grey cement realization down to half percent QoQ, because if I go by the presentation, it looks like it was down 2.5%, am I correct or it was lower than that?

Atul Daga: Realization is down, QoQ, about Yes 2.5% to 3%.

Moderator: Thank you. Ladies and gentlemen, on behalf of UltraTech Cements, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.