UltraTech Cement Limited

India's Largest Cement Company

Earnings **Q3** FY18

Stock Code: BSE: **532538** | NSE: **ULTRACEMCO**

Reuters: **UTCL.NS** | Bloomberg: **UTCEM IS/UTCEM LX**

Contents

GLOSSARY

Mnt – Million Metric tons, **Lmt** – Lakhs Metric tons, **MTPA** – Million Tons Per Annum, **Q2** – July-September, **Q3** – October – December, **9M** - April-December, **CY** – Current year period, **LY** – Corresponding period last year, **FY** – Financial Year (April-March)

Note: The financial figures in this presentation have been rounded off to the nearest Rs 1 cr; 1 US$ = Rs 63.88

Macro **indicators**

- Pick-up in economic growth: Q2 GDP at 6.3% vs 5.7% in Q1 FY18
- Currency appreciation against USD
- December Manufacturing PMI peaked in 5 years
- Sharp pick-up in November IIP - 17 - month high

Sectoral update
- Industry entering into upward cycle

Strong volume growth

01 Continued infrastructure spending by Government

02 Pick-up in low-cost housing / affordable housing activities

03 Reviving rural housing demand

04 Effect of low volume base in the last year

Sectoral update

State wise performance

State / Region	Vol. Gr.	I	LCH	RH	UH	C	Key Drivers
Haryana	↑	●	●	●	●	●	PMAY and rural housing
Delhi + NCR	↑	●	●	●	●	●	NGT ban on construction work
Punjab	↑	●	●	●	●	●	Pick up in housing demand
Himachal Pradesh	↑	●	●	●	●	●	Govt. infrastructure spends
Madhya Pradesh	↑	●	●	●	●	●	Govt. infrastructure spends
Rajasthan	↑	●	●	●	●	●	Poor sand availability
Uttar Pradesh	↑	●	●	●	●	●	Govt. infrastructure spends & PMAY
West Bengal	↑	●	●	●	●	●	Govt. infrastructure spends & housing
Bihar	↓	●	●	●	●	●	Poor sand availability
Jharkhand	↑	●	●	●	●	●	PMAY and IHB
Odisha	↑	●	●	●	●	●	PMAY and Smart city projects
Chhattisgarh	↑	●	●	●	●	●	PMAY and IHB

Continuing infrastructure spending and pick-up in PMAY activities supported growth

I: *Infrastructure,* ***LCH:*** *Low cost housing,* ***RH:*** *Rural Housing,* ***UH:*** *Urban Housing,* ***C:*** *Commercial*

PMAY: *Pradhan Mantri Awaas Yojana,* ***IHB:*** *Individual Home Builder*

Sectoral update

State wise performance

State / Region	Vol. Gr.	I	LCH	RH	UH	C	Key Drivers
Maharashtra	⬆	🟢	🟢	🟡	🟡	🟡	Govt. infrastructure spends & PMAY
Gujarat	⬆	🟢	🟡	🟢	🟢	🟡	Demand from DFC & road projects
AP / Telangana	⬆	🟢	🟢	🟢	🟡	🟢	Development in AP capital city
Karnataka	⬆	🟢	🟡	🟢	🟡	🟢	Pre-election spending
Tamil Nadu	⬇	🔴	🟡	🟡	🔴	🔴	Political instability
Kerala	⬇	🔴	🟡	🟡	🔴	🔴	Average IHB demand

Pick up in affordable housing demand and infrastructure work supported growth

I: *Infrastructure,* ***LCH:*** *Low cost housing,* ***RH:*** *Rural Housing,* ***UH:*** *Urban Housing,* ***C:*** *Commercial*

PMAY: *Pradhan Mantri Awaas Yojana,* ***IHB:*** *Individual Home Builder,* ***DFC:*** *Dedicated Freight Corridor*

Acquired assets: Transforming realities

- Capacity utilization Q3 exit @ 60%
- Aggressive network development (addition of dealers and retailers)
- Increasing connect with influencers (masons)
- Realized brand premium across new markets
- Expanding reach in new rural markets

Conclusion: Focused approach in market entry and capture translated into UltraTech outperformance

Acquired assets: Progressing towards defined targets

Completed maintenance

Arresting operational gaps - plant by plant

Pet coke consumption >75% for Q3

Enhanced logistic synergies between acquired and existing plants

Implemented basic safety standards

Conclusion: Cost optimization key to bridge profitability gap

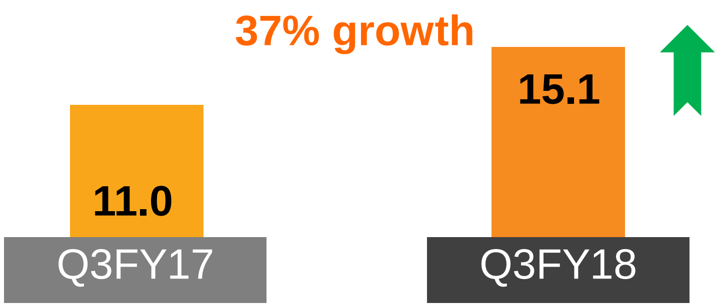
Acquired assets: **Immediate agenda**

- **Enhancing capacity utilization**
- **Deepening rural penetration**
- **Enhancing plant efficiency**
- **Improving employee residential standards**
- **Graduating acquired units to UTCL EBITDA/mt**

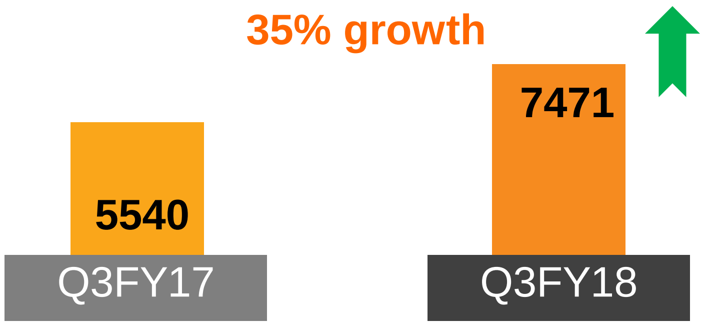
Conclusion: Cash break-even of acquired units by April-June 2018

UltraTech: **Key performance highlights**

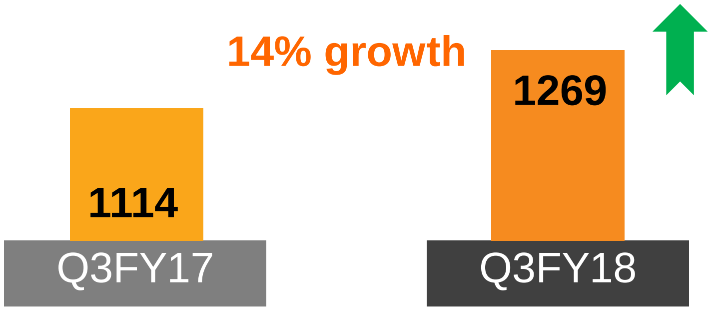
Domestic sales volume (MnT)



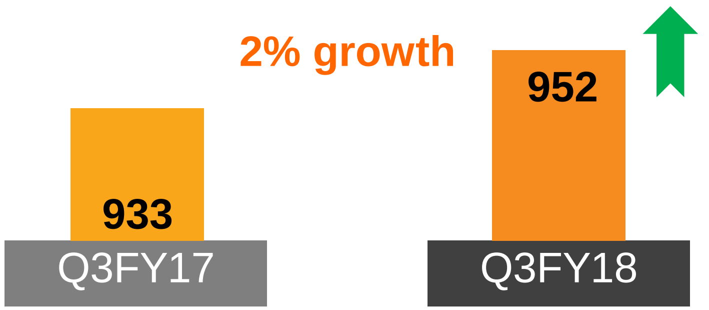
Turnover (Rs. Crs)



Operating EBITDA (Rs. Crs)



Cash Profit (Rs. Crs)



Sales performance … robust volume growth

Mnt

Particulars	Q3			9M		
	CY	**LY**	**▲ %**	**CY**	**LY**	**▲ %**
Domestic Capacity (MTPA)*	85.0	66.3	28	85.0	66.3	28
Capacity Utilization	69%	67%	2	68%	69%	(1)
Domestic Sales	15.10	11.01	37	40.11	34.27	17
Exports & Others	0.75	0.73	2	2.07	1.84	12
Total	**15.85**	**11.73**	**35**	**42.18**	**36.11**	**17**

Conclusion: UltraTech forging ahead

** Excluding capacity under implementation: 11 MTPA*

Key **sales initiatives**

01 Growing rural off-take - a key growth driver

02 Increasing revenues from UltraTech Building Solutions (UBS)

03 UBS stores increased from 1500 in H1 FY18 to 1540 in Q3 FY18

04 Increasing connect with product applicators

05 UltraTech preferred choice in major infrastructure projects - fastest growing sectoral demand driver

Operating **Costs**

(challenging environment)

Logistics cost*	Energy cost*	Raw materials cost*
33% share YoY up 6% at Rs. 1127/t	28% share YoY up 21% at Rs. 949/t	14% share YoY lower 2% at Rs. 476/t
Increased FOR sales against ex-works sales	Multiple headwinds besides higher fuel prices More usage of high cost fuel due to pet coke ban	Slag prices increased over 65% Focus on replacing high cost additives with low cost alternates

Conclusion: UltraTech progresses despite cost challenges

** for Grey Cement*

Consistent yields from **efficiency improvement program**

Freight optimisation to mitigate diesel price impact

Reduced power consumption 5% YoY

Sustained use of alternative fuels

Declining auxiliary consumption of TPPs

Procurement source optimization

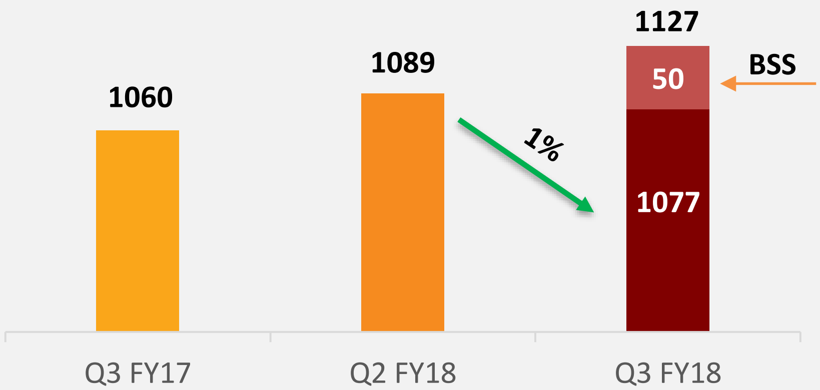
Increased additives blending ratio by ~ 100 bps

Conclusion: Contribution to EBITDA ~ 9%

Logistics **cost trends**

Grey Cement

Logistics cost (Rs./t)



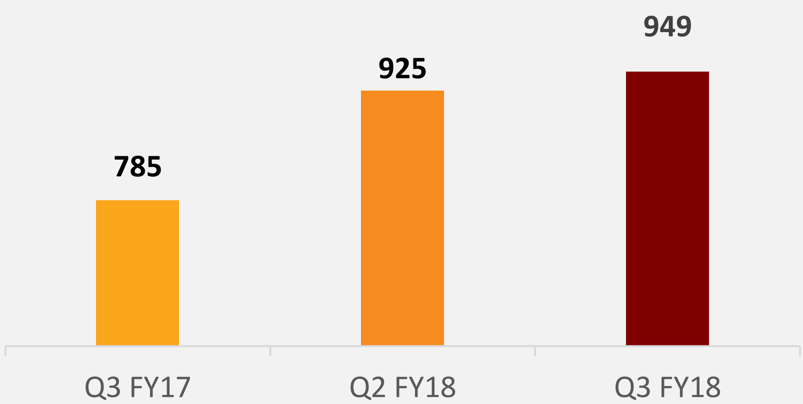
Mode Mix	Q3 FY17	Q2 FY18	Q3 FY18
Rail	24%	23%	24%
Road	72%	74%	73%
Sea	4%	3%	3%

- **Costs escalated over Q2 - 3%**
  - Applicability of railway Busy Season Surcharge ("BSS") [Impact ~ 5%]
  - Inflated diesel prices by 2%
  - Lower rakes availability
  - Savings from synergies occurred between existing and acquired units
- **YoY cost increase 6%**
  - More FOR sales [Impact ~ 3%]
  - Rise in diesel prices by 5%
  - Shorter lead distances

Energy **cost trends**

Grey Cement

Energy Cost (Rs./t)



Kiln fuel mix %	Q3 FY17	Q2 FY18	Q3 FY18
Pet coke	78%	76%	70%
Industrial waste	3%	3%	3%
Imported coal	11%	11%	17%
Lignite	-	2%	3%
Indigenous coal and others	9%	9%	6%

- **YoY cost rose 21%**
  - Pet coke prices soared 33% at $104/t
  - Pet coke ban impact
  - Import duty hike on pet coke from 2.5% to 10%
  - Cost control initiatives reduced impact of fuel prices increase - 4%
    - WHRS share increase at 8%
    - Lignite use over imported coal 3%
    - Power consumption improved 5%
    - Power mix optimisation

Liquidity
improvement initiatives

Net debt reduced ~ Rs 629 Crs over Q2

Net Debt/EBITDA at 2.35 within norms

Improved working capital use - released Rs 87 Crs over Q2

Cautious spends on Capex

Income statement Q3

Rs. Crs

Consolidated			Particulars	Standalone		
CY	**LY**	**▲%**		**CY**	**LY**	**▲%**
7897	5927	33	Revenues (net of taxes)	7471	5540	35
156*	97	60	Other Income	156*	97	61
1494	**1280**	**17**	**EBITDA**	**1425**	**1210**	**18**
19%	***22%***	***(3)***	***Margin (%)***	***19%***	***22%***	***(3)***
359	144		Finance Costs	347	129	
496	336		Depreciation	474	316	
182	206	12	Tax Expenses	182	202	10
456	**595**	**(23)**	**PAT after minority interests**	**421**	**563**	**(25)**

** CY includes reversal of DMF Provision ₹ 104 Crs*

17% growth in EBITDA

Financial **position**

Rs. Crs

Consolidated		Particulars	Standalone	
31.12.17	**31.03.17**		**31.12.17**	**31.03.17**
25847	24401	Shareholders Funds	25362	23941
19999	8474	Borrowings	17883	6240
3037	2773	Deferred Tax Liabilities	3038	2774
48882	**35648**	**Sources of Funds**	**46283**	**32955**
42298	26039	Fixed Assets	40705	24387
1020	1085	Goodwill	-	-
4864	8713	Investments	5575	9409
700	(189)	Net Working Capital	3	(841)
48882	**35648**	**Total Application of Funds**	**46283**	**32955**

15161	**(215)**	**Net Debt**	**13057**	**(2422)**

Sectoral Outlook
Demand to mirror GDP growth

Demand drivers

01 Higher prospective Government allocation for infrastructure and rural development

02 Increasing affordable and low cost housing (PMAY Scheme)

03 Rural housing revival

04 Onset of the next upcycle

Sectoral Outlook

Key concerns

01 Weak demand from urban housing and private capex segment

02 Multiple cost challenges ahead

03 Rising input procurement costs

Disclaimer

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