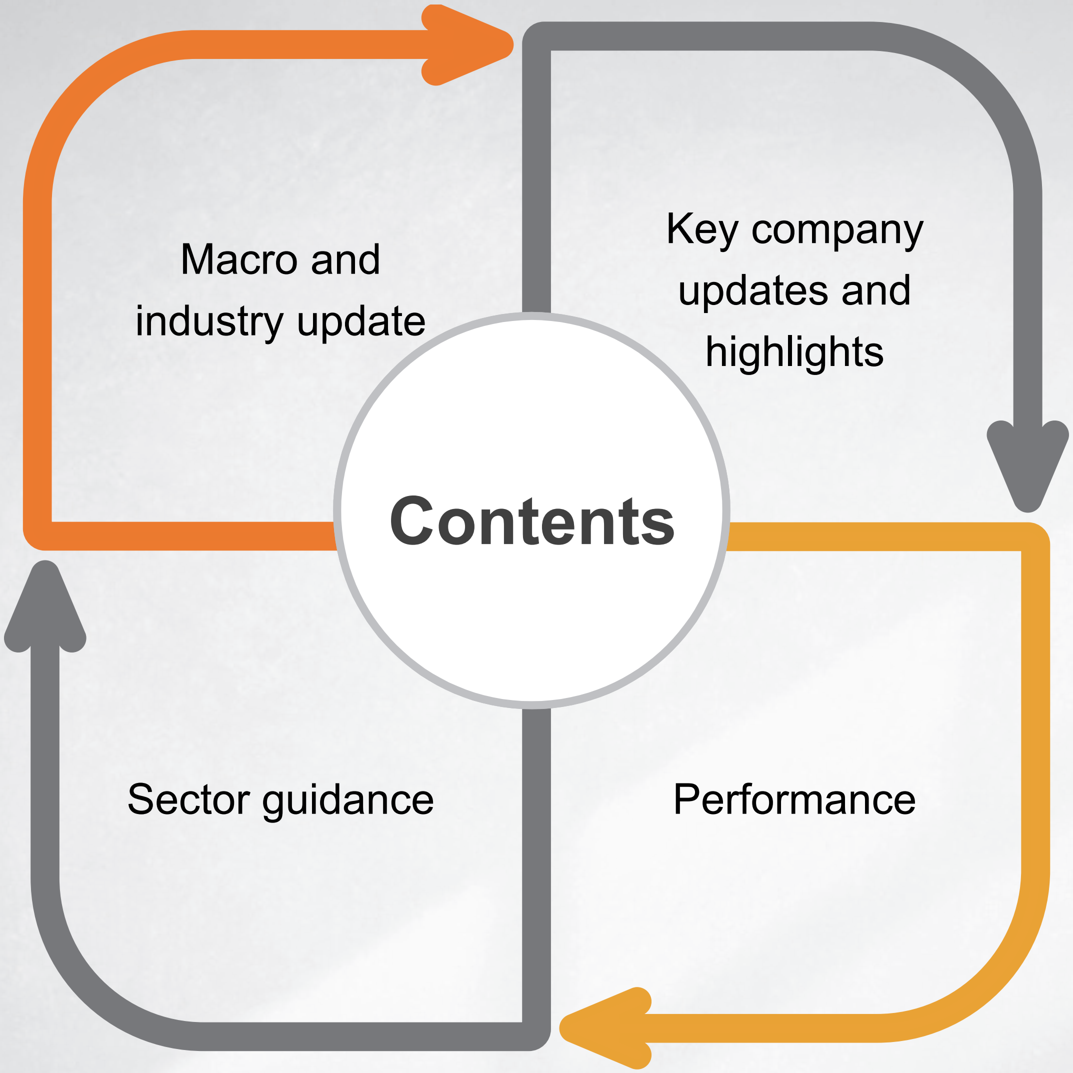
INDIA'S LARGEST CEMENT COMPANY

Earnings, **Q2** FY20

Stock code: **BSE: 532538** | NSE: **ULTRACEMCO** | Reuters: **UTCL.NS** | Bloomberg: **UTCEM IS/UTCEM LX**



GLOSSARY

MNT – Million metric tonnes, **LMT** – Lac metric tonnes, **MTPA** – Million tonnes per annum, **Q1** – April-June, **Q2** – July-September, **H1** – April-September, **H2** – October-March, **CY** – Current year period, **LY** – Corresponding period last year, **FY** – Financial year (April-March)

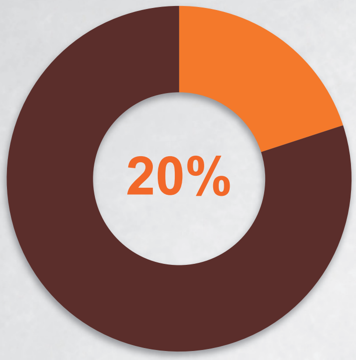
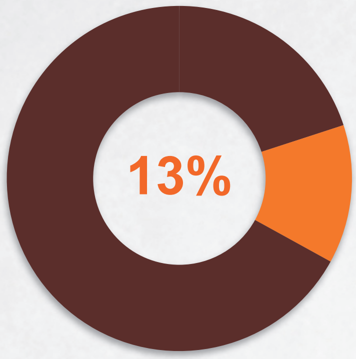
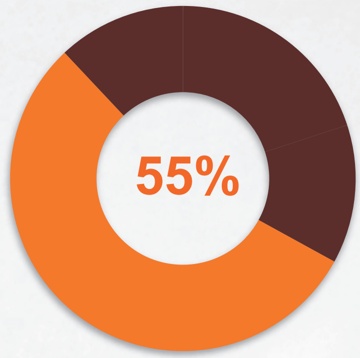
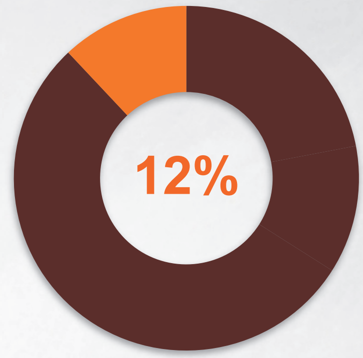
Macro indicators

Key Government initiatives to boost up consumption and growth in economy:

- ❖ Corporate Tax rate cut and incentives for new manufacturing units with lower tax rate
- ❖ Easing of funding norms for the affordable housing segment and additional income tax benefit for interest on housing loans
- ❖ Credit enhancement for infrastructure & housing projects
- ❖ Additional liquidity infusion by National Housing Board ($ 3 bn)

Sectoral Update: Key growth drivers Q2 FY20

Heavy monsoons impacted cement demand growth…. Good monsoons to drive future consumption

	Infrastructure	Low-cost housing	Housing	Industrial and commercial
Growth drivers				
Growth				
Key contributors	Monsoon floods resulted in a slowdown in construction activities Slow release of Government funds Amaravati project halted	Central government spending increased ~ 6% over LY on Low cost housing projects	Marginal decline in overall housing demand	Weak demand

Cement demand expected to accelerate in H2

Demand Outlook H2 FY20

- **Infrastructure demand to pick up :**
  - ✓ Samruddhi Expressway and Bharatmala road projects
  - ✓ Mumbai and Delhi International Airports expected to commence work by Q4 FY20
  - ✓ Polavaram irrigation project retendered – work to resume soon
  - ✓ 337 Kms metro rail construction is underway in Mumbai
- **Increased Dearness Allowance for government employees (Benefiting > 1.1 mn employees) will support housing demand**

Demand drivers having ~ 65% share in total cement consumption to support demand pick up

Sectoral Update Q2 FY20

State / Region wise performance

State/Region	Vol. Gr.	I	LCH	RH	UH	C	Key drivers
Haryana	⬆	🟠	🟢	🟢	🟢	🟠	Pre-election spending
Delhi + NCR	⬆	🔴	🟢	🟠	🔴	🔴	Government spends on low cost housing
Punjab	⬆	🟠	🟢	🟢	🟢	🔴	IHB and improvement in sand availability
Himachal Pradesh	⬆	🟢	🟢	🟢	🟠	🟠	Infrastructure
Rajasthan	⬇	🔴	🔴	🔴	🔴	🔴	Change in State Government and rains
North	⬆	🔴	🟢	🟢	🟠	🔴	
Madhya Pradesh	⬇	🔴	🟠	🔴	🔴	🟠	Lack of Government funding and rains
Uttar Pradesh	⬆	🟠	🟢	🟢	🟠	🟠	LCH and IHB
Central	⬇	🔴	🟠	🟠	🔴	🟠	
Maharashtra	⬇	🔴	🟠	🔴	🔴	🔴	Floods and weak IHB
Gujarat	⬇	🔴	🔴	🔴	🔴	🔴	Heavy rains
West	⬇	🔴	🟠	🔴	🔴	🔴	

Low cost housing emerged as key cement consumption driver

I: Infrastructure, LCH: Low-cost housing, RH: Rural housing, UH: Urban housing, C: Commercial, IHB: Individual House Builder

Sectoral Update Q2 FY20

State / Region wise performance

State / Region	Vol. Gr.	I	LCH	RH	UH	C	Key Drivers
West Bengal	⬇	🔴	🔴	🔴	🔴	🟠	Lack of Government funding and rains
Bihar	⬇	🔴	🟠	🟠	🔴	🔴	Rains
Jharkhand	⬇	🔴	🟢	🟠	🔴	🔴	Lack of Government funding
Odisha	⬆	🟠	🟢	🟠	🔴	🔴	LCH and IHB
Chhattisgarh	⬇	🔴	🔴	🟠	🔴	🔴	Lack of Government funding
East	⬇	🔴	🟠	🟠	🔴	🔴	
Andhra Pradesh	⬇	🔴	🔴	🔴	🔴	🔴	Complete halt in Amaravati
Telangana	⬇	🔴	🔴	🟠	🔴	🔴	Lack of Government funding
Karnataka	⬇	🔴	🟠	🟠	🔴	🔴	Lack of Government funding and rains
Tamil Nadu	⬆	🟠	🟢	🟢	🔴	🟠	LCH and Infrastructure
Kerala	⬆	🟠	🟢	🟢	🟢	🟠	Post floods rehabilitation work
South	⬇	🔴	🟠	🟠	🔴	🔴	

Heavy rains restricted cement dispatches

I: Infrastructure, LCH: Low-cost housing, RH: Rural housing, UH: Urban housing, C: Commercial, IHB: Individual House Builder

UltraTech Nathdwara- integration update

Assets consistently generating healthy EBITDA

Continuing PAT positive performance in a seasonally weak quarter

Cost improvement program in place - Capex initiated for 10.5 MW WHRS

Disposal of non-core assets to improve returns

Assets generated free cashflows of ~ Rs. 100 crores in the first half of FY20

Assets fully integrated …. No negative surprises

Century Cement assets- completed the merger process

Scheme effective from 1st October following the completion of mines transfer

Consolidated capacity in India crossed 100 mtpa.

Total capacity in India at 109.4 mtpa

UltraTech **3rd Largest Cement Player Globally** (excluding China)

Post acquisition, UltraTech's position is strengthened in Eastern markets and a deeper penetration in Central & Western markets.

Added ~ 5000 dealers, increasing total network size to **> 27000**

Over 2200 employees are now part of the UltraTech Team

Capacity and network spread wider across attractive markets

Century Cement assets- completed the merger process *Continued*

NCLT approved the Scheme with Appointed Date of 20th May 2018

UltraTech's results restated for previous period w.e.f. the Appointed Date

Took over borrowings of Rs. 3000 crores as on 20th May 2018

Allotted 1.396 crores share to the shareholders of Century Textiles

UltraTech's Share Capital expanded to Rs. 288.61 crores (dilution of ~ 5%)

Acquisition will be value accretive from the first year

Century Cement assets- Integration Steps

1. Integration of People and overall internal control processes
2. To undertake quality improvement programs to match UltraTech standards
3. To switch to the 'UltraTech' brand in a phased manner
4. Capacity utilization ramp-up with 'UltraTech' brand
5. Dealer network integration around UltraTech practices
6. Cost improvement programs to achieve UltraTech benchmark
7. Introduce synergies in the logistics and procurement areas
8. Implementation of UltraTech safety and sustainability norms
9. Capex evaluation for cost and quality improvements

UltraTech's proven capability to reflect in seamless integration

Other development-
Change in the Corporate Tax rate

New Income tax Provision

- ❖ Maximum Marginal Tax Rate to reduce from 34.94%[1] to 25.17%[1] with No tax incentives & MAT
- ❖ Effective MAT Tax rate to reduce from 21.55%[1] to 17.47%[1]
- ❖ New Tax Rate Option:
  - ✓ 25.17%[1] with No MAT and No tax incentives
  - ✓ MAT rate of 17.47%[1] with existing tax rate of 34.94%[1]
- ❖ Tax Rate of New Manufacturing Co : 17.16%[1]
- ❖ **Tax optimization strategy :**
  - ✓ Cash outflow as against charge to P&L
  - ✓ Availability of current & likely exemption and incentives to a Company
  - ✓ Applicability of MAT and unused MAT Credit

UltraTech Position

FY19 Tax Rate:

	FY19
Current Tax	21%
Deferred Tax	11%
Effective Tax Rate	**31%**

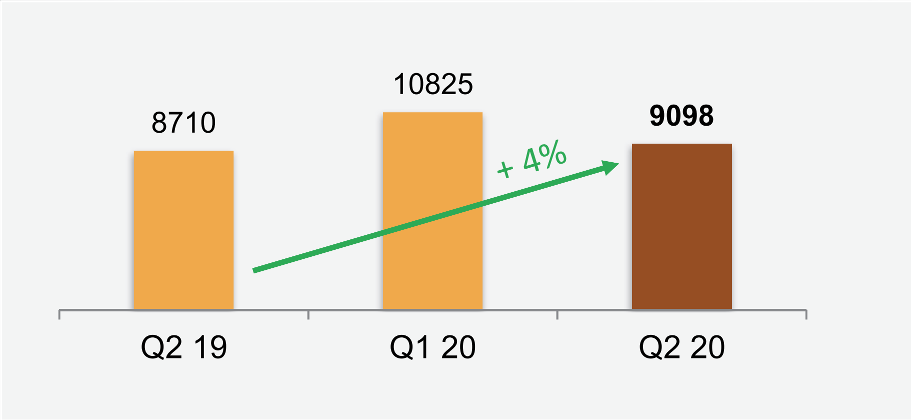
- FY19 Actual Cash outflow @ 21%
- In the new regime cashflow @ 17.5%[1] due to lower MAT, **resulting saving of ~ 4% cashflow**. Effective charge in P&L to continue @ 31%
- Likely higher cash outflow with new lower tax rate.
- Company has over Rs. 1400 crores unused MAT credit as on March'19

Continuous evaluation of both the option factoring cash outflow benefit

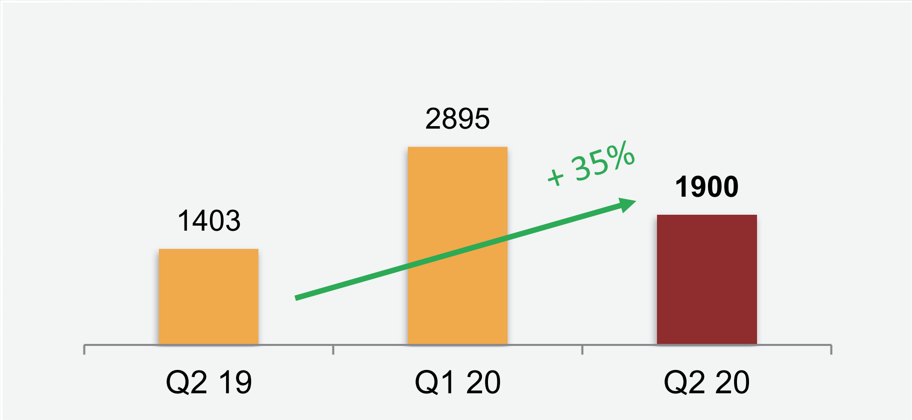
[1]Including Surcharge (12% on existing rate and 10% on new rate) + Cess (4%)

Q2 FY20 Performance

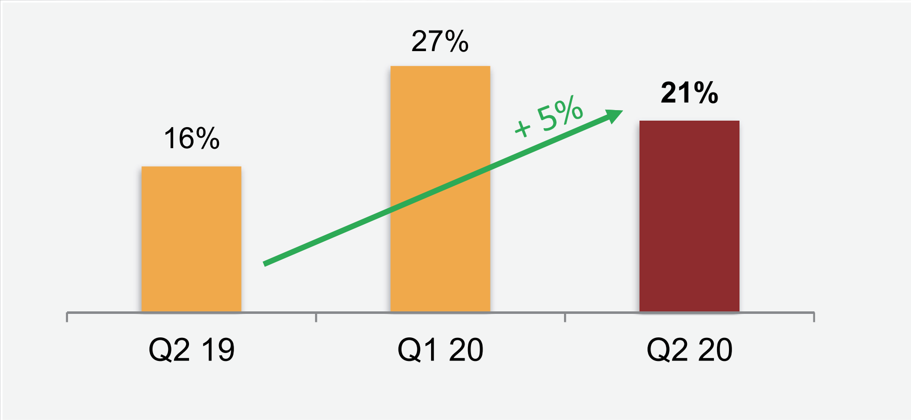
Turnover *(Rs. crores)*



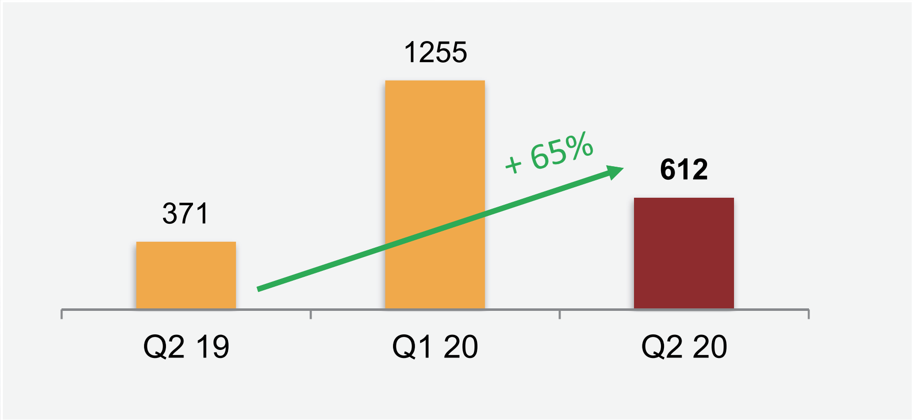
Operating EBITDA (Rs. crores)



Operating Margin *(%)*



PAT *(Rs. crores)*



Average Operating EBITDA per ton of Rs. 1055/t v/s Q2 FY19 Rs. 776/t

Above nos. are India performance inclusive of acquired Century Cement Capacities with restatement of previous period performance.

Q2 FY20 Highlights

Key performance drivers

- ❖ Increased sales through the retail channel 2% v/s Q1 FY20
- ❖ YoY retail sales volume growth ~ 5.6%

- ❖ Enhanced share of blended products volume 1% v/s Q1 FY20

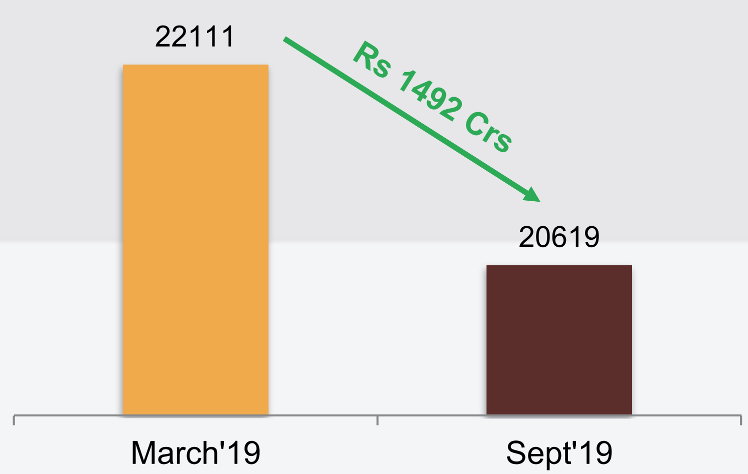
- ❖ Number of UBS outlets crossed 2000
- ❖ YoY volume growth from UBS stores ~ 6.0%

- ❖ Premium products volume growth: > 30% YoY
- ❖ Contributes 10% of trade sales volume

- ❖ YoY reduction in variable cost ~ 5%

Consistent reduction in Net debt

Consolidated Net Debt (Rs crores)



- Systematic reduction in working capital
- Optimal Capex spends
- EBITDA to Cash Conversion Ratio at 63%
- Consolidated Net Debt/EBTIDA reduced : 2.16 v/s March’19: 2.83[1]

Post Century Cement Merger, India Net Debt / EBIDTA as at Sep-19 : 2.0x
Target of less than 2.0x by Mar-20

[1]*On the basis of trailing 12 months including the debt taken over for Century Cement assets*

Sales performance : Q2 FY20

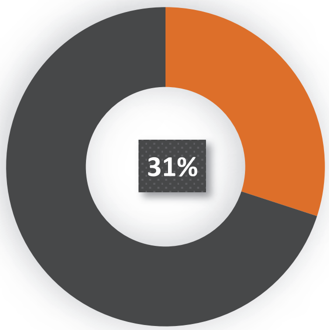
MnT

Particulars	Q2			H1		
	CY	LY	▲ %	CY	LY	▲ %
India Capacity (mtpa)	109.4	103.1	6	109.4	103.1	6
Domestic sales	**17.19**	**17.40**	**(1)**	**37.07**	**35.70**	**4**
Exports and others	0.57	0.68		1.18	1.33	
Total India Operations	**17.77**	**18.07**	**(2)**	**38.24**	**37.02**	**3**
Consolidated Sales Volume (Incl. Overseas)	**18.69**	**18.88**	**(1)**	**40.11**	**38.66**	**4**

Monsoon quarter results in lower volumes and
Healthy monsoons to support Rural demand in future months

Above nos. are inclusive of acquired Century Cement Capacities with restatement of previous period data.

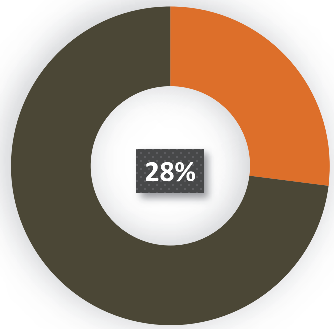
Operating costs



Logistics Cost

Declined YoY 4%
to Rs.1111/t

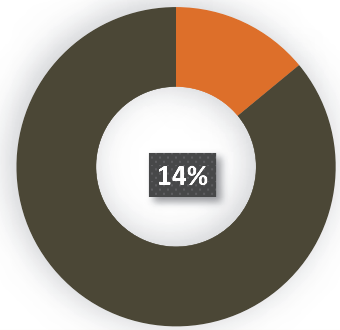
- Lower diesel prices
- Revised Axle load norms benefit



Energy Cost

Declined YoY 9%
to Rs.1003/t

- Fuel price reduction benefit
- Higher share of low-cost fuel



Raw Materials Cost

Declined YoY 2%
to Rs. 495/t

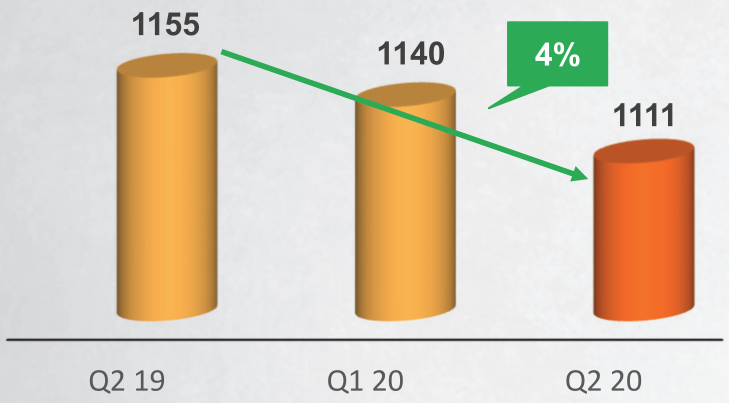
- Increase in production of composite cement
- Optimized raw mix usage

Favorable Cost Trends

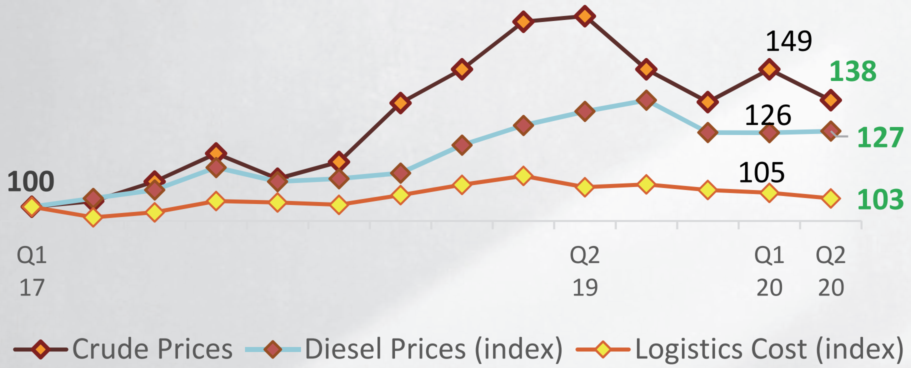
Above nos. are for Grey Cement of UTCL & UNCL excluding Century Cement

Logistics cost trends

Logistics Costs (Rs/t)



Logistics Costs v/s Diesel Prices



YoY Cost reduced : 4%

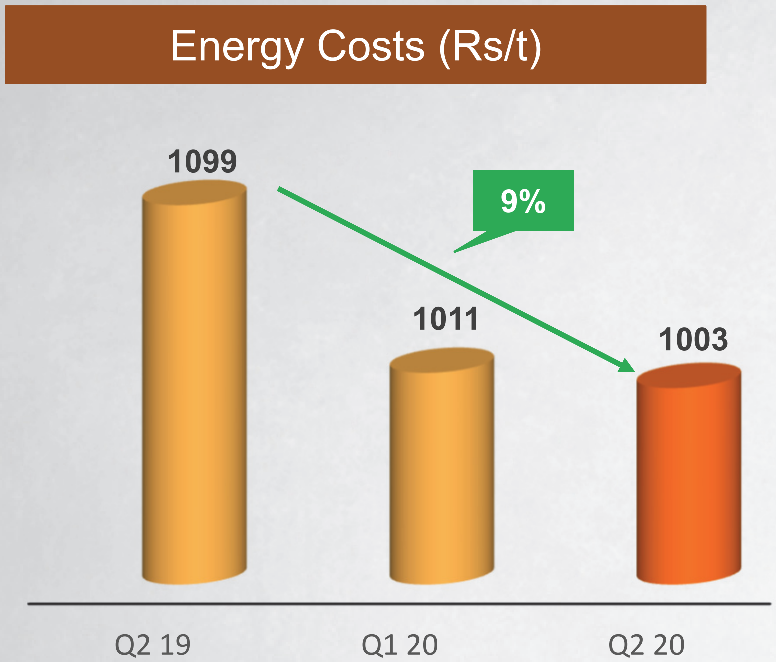
- Benefit from axle load relaxation : ~ 1.5%
- Gain due to reduction in diesel prices : ~ 1.5%
- Plant and market mix alignment
- Cost benefit partially offset with reduced rail movement

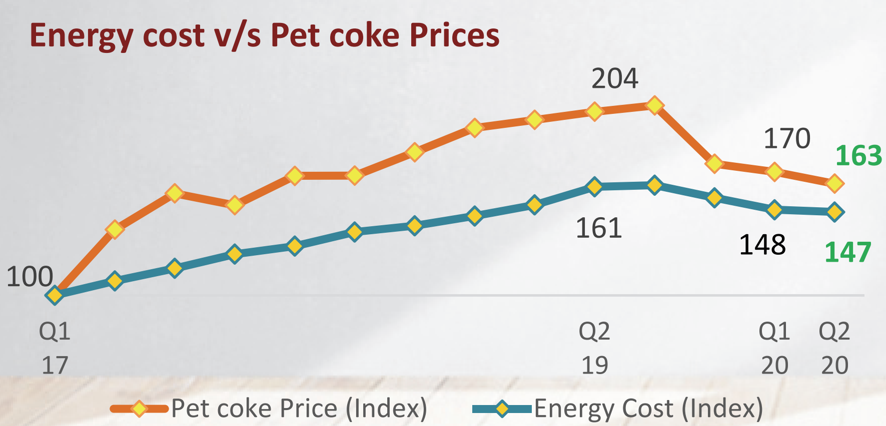
Cost reduced 2% over Q1FY20

- Benefit due to exemption of busy season surcharge during Q2 FY20
- Steady diesel prices

Above nos. are for Grey Cement of UTCL & UNCL excluding Century Cement

Energy cost trends





Sequentially Costs declined marginally

- Savings due to reduction in average pet coke prices : ~ 4%
- Average pet coke price during the quarter USD 91/t v/s Q1 FY20 USD 95/t
- Benefit in price gain partially negated with annual plant shutdown impacting consumption norms

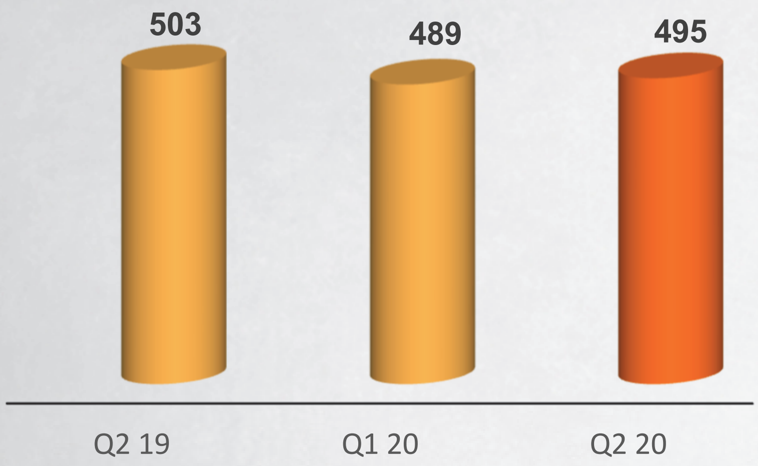
YoY Costs reduced : 9%

- Reduction in average fuel prices : ~ 7%
- Increased contribution of 'green power' in overall power requirement : 10.5% v/s 8.4% in Q2 FY19
- Reduced power consumption : 1%
- Benefit of power plant efficiencies

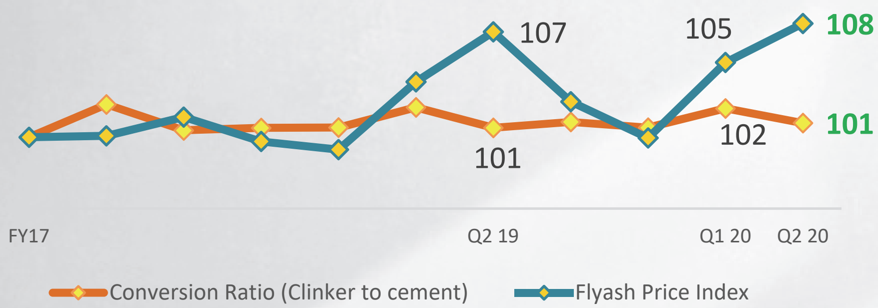
Above nos. are for Grey Cement of UTCL & UNCL excluding Century Cement

Raw Material costs

Raw Materials Costs (Rs/t)



Conversion Ratio and Fly ash Prices Trends



QoQ costs increased :1%

- Increased costs due to higher share of premium products
- Increase in prices of Fly Ash

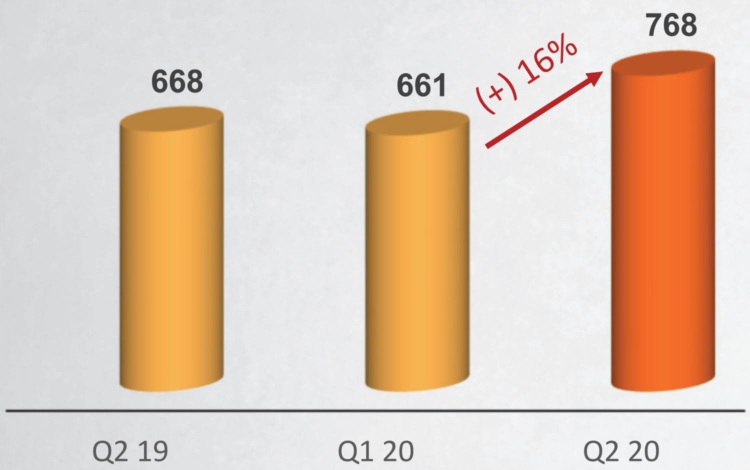
YoY costs reduced : 2%

- Reduction in slag consumption due to higher share of composite cement

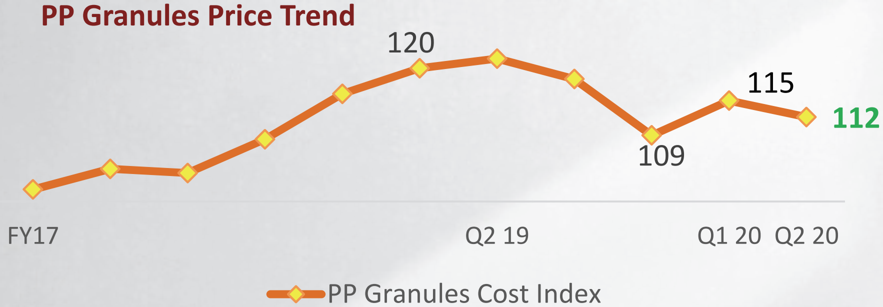
Above nos. are for Grey Cement of UTCL & UNCL excluding Century Cement

Other cost trends

Other Costs (Rs/t)



PP Granules Price Trend



QoQ costs increased : 16%

- Impact of operating leverage due to lower sales volume : Rs. 75/t
- Higher numbers of kilns under shutdown resulted in increased maintenance costs
  - ✓ No. of kiln shutdown 14 v/s 10 kilns in Q1 FY20

Above nos. are for Grey Cement of UTCL & UNCL excluding Century Cement

Building a Sustainable future

Decarbonization (CO_2 Management)

Target 25% CO_2 reduction by FY25 vs FY06

Water Management

Water Positive Score : 2.18 across plants

Green Power Capacity by FY21

WHRS : 142 MW
Renewable : > 500 MW

Circular Economy

Plastic Negative Consumption : 1.58x

Waste Management

Alternate Fuel Rate : 3.5%
Alternate RM Rate: 16.2%

Amongst the top 10 in the DJSI Index for Global Construction Material Segment

Income statement Q2

Rs. crores

Particulars	(UTCL + Century) Published*			(UTCL + Century) + UNCL		
	CY	LY	▲%	CY	LY	▲%
Revenues (Net of Taxes) ^	9129	8710	5	9098	8710	4
Operating Income	125	159	(22)	126	159	(21)
Other Income	182	142	28	159	142	12
Total Income	**9436**	**9011**	**5**	**9383**	**9011**	**4**
Expenses :						
Raw Materials Consumed	1129	1215	7	1198	1215	1
Purchase of Traded Goods	566	276	(105)	200	276	28
Changes in Inventory	(72)	(238)	(70)	(58)	(238)	(76)
Employee Costs	593	574	(3)	607	574	(6)
Power and Fuel	1794	2159	17	1887	2159	13
Logistics Cost	2090	2270	8	2099	2270	8
Other Expenses	1342	1210	(11)	1392	1210	(15)
EBITDA	**1995**	**1544**	**29**	**2059**	**1544**	**33**

^ After elimination of inter company clinker sales

India Operations EBITDA higher 33% YoY

**Above nos. are inclusive of acquired Century Cement Capacities with restatement of previous period financials.*

Income statement Q2

Rs. crores

Q2 FY19			Particulars	Q2 FY20		
UTCL + UNCL	Century	(UTCL+ Century)+ UNCL		UTCL + UNCL	Century	(UTCL+ Century) + UNCL
7732	977	8710	Revenues (Net of Taxes)	8352	746	9098
124	35	159	Operating Income	114	12	126
134	8	142	Other Income	148	11	159
7991	**1020**	**9011**	**Total Income**	**8614**	**769**	**9383**
			Expenses :			
1097	118	1215	*Raw Materials Consumed*	1118	80	1198
276	-	276	*Purchase of Traded Goods*	200	-	200
(204)	(34)	(238)	*Changes in Inventory*	(33)	(25)	(58)
503	71	574	*Employee Costs*	538	69	607
1886	273	2159	*Power and Fuel*	1650	237	1887
1952	318	2270	*Logistics Cost*	1863	235	2099
1053	157	1210	*Other Expenses*	1230	162	1392
1427	**117**	**1544**	**EBITDA**	**2048**	**10**	**2059**

Century performance was depressed due to major annual plant shut down and heavy monsoons in its key markets

Income statement Q2

Rs. crores

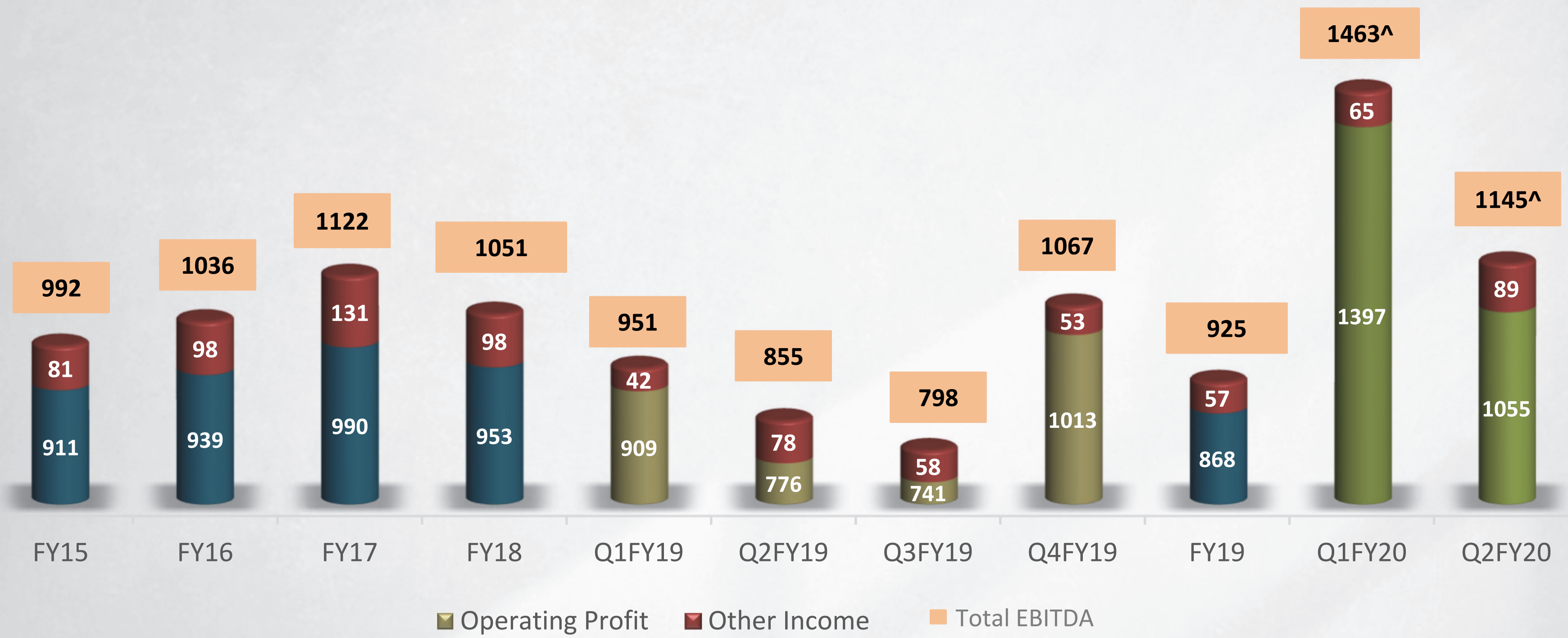
Consolidated			Particulars	UTCL + Century		
CY	LY	▲%		CY	LY	▲%
9491	9088	4	Revenues (net of taxes)	9129	8710	5
154	143	8	Other Income	182	142	28
2072	**1564**	**32**	**EBITDA**	**1995**	**1544**	**29**
22%	**17%**	**5**	**Margin (%)**	**22%**	**18%**	**4**
507	416	(22)	Finance costs	437	405	(8)
675	624	(8)	Depreciation & Amortization	606	602	(1)
890	**524**	**70**	**PBT**	**951**	**538**	**77**
311	168		Tax expenses	312	167	
(0.6)	(1.1)		Minority interest	-	-	
579	**357**	**62**	**PAT**	**639**	**371**	**72**
20.1	**12.5**	**61**	**EPS (Rupees)**	**22.2**	**13.0**	**71**

Consolidated PAT higher 62% YoY

Above nos. are inclusive of acquired Century Cement Capacities with restatement of previous period performance.

EBITDA Trends

Rs. PMT



^ Excluding impact of Lease Accounting Standard

YoY EBITDA pmt increased 34%

Above nos. are inclusive of acquired Century Cement Capacities with restatement of previous period performance from Q1 FY19 onwards.

Financial position

Rs. crores

Consolidated		Particulars	(UTCL+ Century) +UNCL	
30.09.19	**31.03.19**		**30.09.19**	**31.03.19**
53753	53307	Net Fixed Assets incl. CWIP	51934	51676
2941	2047	NWC+ Loans+ Derivative Assets	2599	1519
35186	33761	Shareholders Fund	34690	33218
26417	25337	Total Debt	24515	23336
69511	**65471**	**Capital Employed**	**66857**	**62936**
20619	**22111**	**Net debt**	**18719**	**20112**

Above nos. are inclusive of acquired Century Cement Capacities with restatement of previous period performance.

Sectoral Outlook

Demand expected to grow in line with GDP rate

Demand drivers

- Good monsoons
- Government is taking steps to boost growth
- Declining Interest rates
- Thrust on infrastructure development with Plan spending of over USD 1500 bn in the next 5 years
- Increased plans for social housing programs in Phase 2
- Rural housing demand

Key things to watch

- Urban housing demand pick-up
- Liquidity improvement
- Improvement in overall economic growth.

Disclaimer

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UltraTech Cement Limited

Regd. Office: Ahura Centre, Mahakali Caves Road, Andheri (E), Mumbai – 400 093

[Corporate Identity Number L26940MH2000PLC128420]

www.ultratechcement.com or www.adityabirla.com

investorrelations.utcl@adityabirla.com