NUVOCO VISTAS CORP. LTD.

NUVOCO
Shaping a new world

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November 17, 2021

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai – 400 001 Scrip Code: **543334** Scrip ID: **NUVOCO**	**National Stock Exchange of India Limited** Exchange Plaza, C–1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 Trading Symbol: **NUVOCO**

Dear Sir/Madam,

Sub: Transcript of Investor and Analyst Conference Call pertaining to the Financial Results for the quarter ended September 30, 2021

Further to our letters Sec/104/2021-22 dated October 21, 2021, Sec/112/2021-22 and Sec/114/2021-22 dated November 10, 2021, attached herewith is the transcript of the Investor and Analyst Conference Call held on November 11, 2021 pertaining to the Unaudited Standalone and Consolidated Financial Results of the Company for the quarter ended September 30, 2021.

The same is also being made available on the Company's website at www.nuvoco.com.

This is for your information and records, please.

Thanking you,

Yours faithfully,
For **Nuvoco Vistas Corporation Limited**

Shruta Sanghavi
SVP and Company Secretary

Nuvoco Vistas Corp. Ltd. MUMBAI 70

Nuvoco Vismtas Corporation Limited
Q2 & H1 FY22 Earnings Conference Call Transcript
November 11, 2021

Moderator: Ladies and gentlemen, good day and welcome to Nuvoco Vistas Corporation Limited's Q2 & H1 FY22 Earnings Conference Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

Gavin Desa: Good day everyone and thank you for joining us for Nuvoco Vistas Corporation Limited's Q2 & H1 FY22 Earnings Conference Call. We have with us today the Managing Director – Mr. Jayakumar Krishnaswamy; the CFO – Mr. Maneesh Agrawal; and the Chief of Strategy & Marketing – Ms. Madhumita Basu who will represent the Company on this call.

Before we begin, I would like to point out that some statements made or discussed on the call may be forward-looking in nature and must be viewed in conjunction with the risks that the Company faces. The Company does not undertake to update them. A statement in this regard is available for reference in the presentation shared with you earlier. We will begin the call with opening remarks from Mr. Jayakumar Krishnaswamy who will share perspective of the business model and strategy for the Company. Post this, we will open the forum for an interactive Q&A session.

I would now like to invite Mr. Jayakumar Krishnaswamy to share his views. Over to you sir.

J Krishnaswamy: Thank you very much, Gavin. Good evening to all the participants in this Nuvoco Vistas investor call. I am joined by Maneesh Agrawal, our CFO and also Madhumita Basu who is the Chief of Strategy and Marketing, and she is also the Chief Investor Relations Head for the Company. And I am pleased to introduce her to all of you. She will be the single point of contact for all the interactions with the investors and analysts with our Company. Of course, myself and Maneesh are always there to support her. But I just want to assure you that we have a full-fledged department now, and Madhumita has been working in this Company for almost 12 years, handled a variety of functions in sales, marketing, R&D, innovation and now strategy along with the investor relations. So, she is exco member for the Company, and that's how we have placed the investor relations department as a very important function for the Company.

Now coming to this quarter call, I would start by recapping the vision for our Company. The vision for our Company is to build a safer, smarter, and sustainable world and the mission for Nuvoco is to become a leading building materials

Company delivering superior performance. The values for our Company are very core to our heart i.e integrity, entrepreneurship, collaboration, care, and operational excellence. The vision, mission, values are the guiding force for the Company.

Let me start with an overall demand review of the cement industry in the country. While the overall demand in the country improved over the last year, for some unique reason, which I will explain later, the east region witnessed a decline in demand. Following are the principal reasons: we had heavy monsoon in the state of West Bengal for a number of weeks in Quarter 2. We also had a cyclone impact in Orissa during the month of August, and then above all our principal market Bihar, where there was a sustained sand availability issue due to ban on sand mining and to cap it all in the state of Chhattisgarh there has been a 40-day transporter strike which hampered the entire industry. All this severely impacted the regions demand, while every region in the country has some kind of a growth in Quarter 2, East was the only region which had a de-growth of close of 9%. However, post Diwali, Dussehra and now yesterday Chhath Pooja which is an important function in East India, we are optimistic that the improved demand numbers will happen for the balance period of this fiscal.

Coming to the outlook for this industry, all of us know that push by the Government for infrastructure , focused on expressway construction, the DFC implementation, Metro projects, airports will propel demand. Also, there's going to be a significant pickup in the infrastructure activity backed by the National Infrastructure pipeline which is likely to see the healthy traction in terms of new projects and execution in medium term. Furthermore, the rural housing demand is going to be robust in the coming quarters, backed up by the robust kharif harvest. All of you know the agriculture income has improved significantly in this quarter; it's contributed well to the GDP growth of the country and with a healthy procurement program by the Government of India supporting the farm prices we would see a heightened housing demand in the rural and the semi urban areas of India. And, with the vaccination increasing, more people are returning to offices and economy growing, we see an improved demand offtake in the coming five months.

Moving on to the prices. While in the earlier call, I spoke to all of you about the price increase which happened across the board in Q1 vis-à-vis Q4, however in Q2 prices reduced significantly in East to the tune of about 5% over Q1 actuals.

All of you would know last quarter had a marked fuel crisis. We have seen in all the televisions and newspaper about the impending coal prices in the country where coal was not available for a significant period. At a global level, China shutting down its coal mines, Russia curtailing its supplies, the overall coal supply was severely impacted and more importantly with the flooding and monsoon, most of the coal mines in Chhattisgarh, Jharkhand, region were all flooded, and coal extraction became a serious problem in this quarter. As a result of this most of the steel, cement and other infrastructure companies had to go to the model of imported coal which resulted in inflation of coal prices to about 70%, and in the pet-coke to the tune of around 40%in September 2021 over April 2021 levels. Coal supply in India was impacted due to low production, extended monsoon and priority to power sector. Things are improving,Coal stocks which had reached to about 2-3 days of availability about 4-5 weeks ago, has improved to 6-7 days and by end of November and December the coal stocks in the country will reach to about 16-17 days and things will return to normalcy. The resumption of proper coal supply by middle to end of December should help the industry as well as the economy.

The third one which I am going to talk about is the transporter strike in Chattisgarh. We had a problem last year in March, there was a transporters' strike and again it happened in the month of August and September. This time around, the strike went for a long period of 40 days. And, with this kind of a strike in the state, it severely impacted the cement industry because all the big players were operating out of Chhattisgarh and the road transport of clinker and cement were severely impacted. Finally, the strike got resolved sometime in mid-October and 20th of October we had to agree for a 12% increase in freight costs. This is over and above the 13% increase in freight cost in the month of March. So overall, it is about 25% increase in the freight costs which typically is going to impact the industry anywhere between Rs. 70-100 per tonne only for that market not in the entire region. However, when dispatches could not be made, we took strategic decision of operating the kilns while factoring the required annual maintenance.

So, happy to report that at the end of the quarter as well as currently as we stand today, we have over 0.75 million tonnes of clinker in stock with the Company which is sufficient for nearly 1.5 million tonnes of cement and when the demand is going to kick start it's going to really help the Company. During the last call, I reported that in Q4 of last year we could not supply the market because there was a clinker shortage because of 100% capacity utilization. With this kind of clinker stock which we have as well as the production resuming from now until March of next year, we really expect adequate clinker available for Nuvoco to capture the market growth which is likely to happen.

Coming on to the cost pass on. The above cost pressures of coal, transport and other cost lines cannot be sustained by the industry and in October, we had a price increase of Rs. 15 to Rs. 20 per bag in East and Rs. 10 to Rs. 15 per bag in North over September. With the maximum impact of fuel cost increase going to happen in Q3, even this kind of price increase which we have taken in October is not sufficient. And in my view, we need to further increase prices to offset the impact of fuel inflation.

Moving on to the project SPRINT. We spoke about the synergies between the two companies. We have named this project as Project SPRINT. And this flagship project is to build synergies between NVCL and NU Vista and has been yielding results under various buckets of logistics cost, clinker transportation cost, procurement synergies and adopting the best practices between the companies.

Other than this, there are two other projects which I spoke to all of you in the previous call. One was launch of Double Bull in markets in North India other than Rajasthan. This product has been very well received in all the markets of Gujarat, Haryana, Western UP and Western MP without cannibalizing the sales of the original product Duraguard and it's going to really help us move from the non-trade into trade, that was one of our goals in North India.

The second one was to conserve clinker and venture into the markets of East with composite cement. I spoke about the inability of NVCL in the past to make composite cement and with the acquisition of Nu Vista we now have plants in Jajpur, Panagarh and the expansion in Jojobera. All these three plants are now capable of making composite cement. I spoke about the target last time of achieving 1 million tonnes of composite cement. Happy to report that the transformation of composite cement has already happened in these three plants and the market has received our product we hope to achieve the goal set for us.

Nuvoco takes pride in its innovation capability. Our vision says safer, smarter and sustainable world. As part of offering smart solutions, we launched three new products in this quarter. One was the Zero M water shield 2K in the MBM range. And second was the Speedex Tile Grout. And the last was Germicheck in the putty segment. With health consciousness triggered by Covid, we found an opportunity to innovate with an anti-microbial wall putty which helps fight bacteria.

I now move on to the overall financial performance of the Company. In terms of revenue, sequentially from Q1 to Q2 volume declined and this was anticipated, Q2 is always the monsoon quarter and volumes in Q2 is always lower than the Q1. But more importantly with the East being significantly impacted and Nuvoco has got an exposure of close to 70% of sales from east, so volume had an impact. Overall, if you see the east markets dropped by nearly 9%, but we stayed flat vis-à-vis last year's Q2 numbers.

One of the important things for us for building revenue has been getting a pricing acceleration program going for the Company. I spoke about the thrust on premium products, improving geo mix in key states. Happy to report that we improved the premium share of the Company from 31% to 34% in this quarter which helped us kind of offset the impact of price drop in Q2 versus Q1. When the market dropped prices by about 5% the impact on pricing in Nuvoco was only 3%, the benefit coming out of the focus on premium products, getting the Double Bull right in north, getting composite cement and also focusing on geo mix.

Coming to the cost elements of Q2 performance. The first one is about the raw material cost. We have clocked a Rs. 551 per tonne in Q2 lower than Q1 which was Rs. 555 per tonne. Our teams did a wonderful job on the raw mix optimization and delivered the raw material cost target for the Company.

Coming to distribution cost. The Q1 number was Rs.1,343 per tonne. In Q2 we achieved Rs. 1,298 per tonne (despite Chattisgarh strike impact) aided by the Project SPRINT savings led by cross sourcing, markets in proximity to plant and clinker rerouting via Sonadih.

On the power and fuel cost, Q4 of last year our Company did Rs. 854 per tonne. Q1, we went to Rs. 917, Q2 we did Rs. 1,008, in Q3 its likely to increase by another Rs. 200. One of the things which I hope and believe is after the coal scenario in India improves, the linkage coal will increase in India. And you are all are aware that we have a unique advantage of 27% of linkage coal for the Company. As against that in Q2 we did only 12% of linkage coal and that should improve in Q3. With this linkage coal if and when it gets restored in Q3, our teams are working closely with SECL on this. By middle of December, we should get coal from SECL quickly. If that happens, Q4 is estimated to be a better quarter for us, but I foresee Q3 to have inflated coal prices.

Coming to the capex for the Company. In this quarter we spent about Rs.120 crore of capex. The projects in Arasmeta has been commissioned. Jojobera trial production has happened on CPP. The grinding unit in Jojobera is commissioned. Also, happy to report two key projects for the Company was the debottlenecking of clinker. In Risda the target was to increase from 10,500 tonnes per day (TPD) 11,500 tonnes per day. During the shutdown, we did most of the modifications on the kiln and the kiln is already delivering 11,000 TPD. The other one is the debottlenecking of Nimbol kiln from 4,500 TPD to 5,500TPD. Very pleased to report that earlier this week, we did the Bhoomi pooja. The equipment has been ordered, the mill is ordered and then the technical studies have been done. So, this project has now started this month and it will take about 15 to 18 months for the kilns to be operational. The other kilns which were debottlenecked in the last year are all giving full capacity. Chittor is operating at 6,000 TPD, Sonadih line two at 6,000 TPD and Arasmeta at 5,250 TPD.

As regards to the deleveraging and IPO proceeds deployment, we have been able to deleverage the Company to about 0.6x in this quarter. And currently the net debt to EBITDA stands at about 3.1x end of September. In terms of IPO proceeds deployment in this quarter, we deployed Rs. 605 crore to square off some of the borrowings. And then the balance Rs. 745 odd crore will be paid in H2 of this year and that's part of our object clause in the IPO. Some of these loans mature in February, March and then that's the time when we will repay because earlier prepayment would lead to some penalty and that's already disclosed in IPO document. We are following what we have mentioned to the regulatory authorities.

Coming to the sustainability. Sustainably continues to be a key agenda for the Company. Currently we are in the process of validating our carbon emission by an external agency. A detailed roadmap to reduce carbon emissions is in the process. However, I would like to reiterate, we are on an accelerated ramp up on carbon footprint reduction actions. Number one, all of us know all our kilns are equipped with WHR and we are one of the best in the industry with around 2:1 power to cement capacity. In terms of alternate fuel Chittor plant is running at 16% alternate fuel. And happy to report, we just signed a capex for Risda and Nimbol to start work on alternate fuel. On the green footprint we are committed to tree plantation in all our sites. And on the CO_2 reduction our Company is one of the best blended cement ratios, the CK ratios at 1.7 is better than the industry.

On the CSR front, we continue to operate in all the plants, work with the stakeholders in the local communities to demonstrate commitment to the agenda there.

With this, I end my opening remarks. I open this floor for Q&A, and we will answer all your questions which you have.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Vivek Ramakrishnan from DSP Mutual Fund.

Vivek Ramakrishnan: I wanted to know about your debt and deleveraging plans well into the future. You had given guidance till March. You had taken a lot of debt and you have kind of taken it out via liquidity even. But going forward, what is the kind of leverage that we can expect in the Company in terms of we can say it in terms of debt to EBITDA or whatever ratio that is convenient for you. And how much capex, do you see in terms of going into FY23?

J Krishnaswamy: I think we are consistent with what we spoke in the IPO. Our debt for the Company at the end of September is Rs. 5,718 crore and the net debt to EBITDA ratio as I spoke a little while ago is 3.08x. Our target is by March 31st this fiscal, our debt should come to about 2.2 times the EBITDA. On a long-term basis we are looking at FY26 where we will become a debt-free Company. In terms of the capex which we are deploying for the Company in FY22 our target is Rs. 550 crore out of which about Rs. 230 crore we have already spent in H1, the balance ones will happen in H2. The next year in FY23 we are looking at a capex Rs. 1,5250 crore, that's what we spoke during the IPO. That involves the groundbreaking of Gulbarga and starting our work 18 months post the listing, Along with that the debottlenecking of Risda, Nimbol as well as Sonadih line 2 will happen. One of the things which we spoke during the IPO, was the Bhabua expansion from 0.8 to 2 million tonnes. There we are in consultation with the State Government. The entire project is dependent on whether the Government is able to give fiscal benefits to us. We will take a decision of starting work in the state only after we get a formal go ahead in terms of fiscal benefit.

Moderator: The next question is from the line of Shubhra Dwivedi from SBI Life.

Shubhra Dwivedi: Out of the Rs. 1,750 crore* capex you mentioned lined up for FY23, how much would be for the Gulbarga project and how would be for the debottlenecking projects?

Maneesh Agrawal: The overall capex over the next five years that was talked about during the IPO roadshows was Rs. 4,750 crore out of which around Rs. 550 crore will be spent this year and around Rs. 1,525 crore would be spent next year out of which the major portion would be towards the Gulbarga expansion line of around Rs. 3,000 crore.

Shubhra Dwivedi: And my second question was, so at the parent level Niyogi level, is it now completely debt free?

J Krishnaswamy: Rs. 3,500 crore has been transferred to Niyogi and then Niyogi has become a debt free Company.

Shubhra Dwivedi: And it would have given some loans to Nirma, or it would have passed the surplus through dividends?

J Krishnaswamy: Niyogi has become a debt free company.

Moderator: The next question is from the line of Amit Murarka from Axis Capital.

Amit Murarka: Wanted to understand your cost and margin. There seems to have been a sharp jump in cost on a QoQ basis. While I understand the increase in power fuel rate in those line items, but even then, the increase is much higher than what we see for industry. So, is it to do more with the regional players, why the cost are looking so different compared to 1Q?

J Krishnaswamy: Let me just take all the cost elements one at a time. The first one, which really impacted the Company was obviously the fuel price impact. During my opening remarks, I spoke about the power and fuel cost. Q4 of last year we were one of the best in the industry at Rs. 854 per tonne. That was like benchmark in terms of comparison to all the peer group companies. However, in Q1, this Rs. 854 became Rs. 917 due to slow escalation of the coal cost. However, as the quarter progressed in Q2 it became Rs. 1,008 per tonne, a good Rs. 100 increase over Q1. That's the kind of impact which we are having. In October, the fuel prices further increased to over Rs. 1200 per tonne and the rates at which the inflation of coal is happening, it might even touch a good Rs. 200 more than Q2 actuals. All thee prices have either doubled or even tripled in some cases and added to the fact that the non-availability of coal internationally and ocean freight rates being very high these days. And right now, there is a mad rush by all the companies to book material at any cost because if the industry has to run, we need coal to run kiln. So, the objective for all of us is get the kiln running, make the clinker so that when the season comes you are not caught with no clinker. Hence, we have taken a decision to buy coal even though it is expensive. Fortunately, in the last two to three weeks, there is some softening of pet-coke as per the international coal reports, I am only hoping this will get moderated in the coming six to eight weeks. But the biggest thing our Company is banking is the linkage coal which I spoke a little while ago. We are uniquely placed at about 27% of our coal requirement in the East from the linkage coal, which came to 12% in Q2 because of collieries never supplied coal to us. But our team is now sitting as we speak with SECL management to supply coal to us. As when they open the collieries, they will have to give first benefit to our Company so that by end of this month, beginning of December, we will start getting coal from SECL. That was the first reason of fuel impact. The second was the diesel price increase, which used to be Rs. 76 and all of us know diesel reached Rs. 100 in the last one month. A little bit of softening has happened in the last 10 days, but it increased the distribution cost in Q1 to Rs. 1,343 per tonne. So, these are two important points. The third important point is a fixed cost increase. Here again, it's a very strategic tactical point which we did in Q2. When the demand had dropped in the market and also with this strike in Chhattisgarh, we took two decisions, one to run all the kilns, second to get the annual shutdown going for all the kilns because when the demand was not happening, we kind of took a decision to fix all the kilns. We have six kilns in the country, five out of six kilns have already been reconditioned or annual maintenance done for this year. We don't expect any further shutdown in the balance five months. Hence, this quarter had higher fixed cost impact due to the higher shutdown cost. So, these are basically fixed cost impact from shutdown, diesel impact in the distribution cost and the coal impact in the power and fuel cost, that's the basic reason for inflated cost numbers in Q2.

Amit Murarka: So, now that the Government has reduced the duties on diesel and the prices have come down by almost 18%-20% will the Chhattisgarh negotiated tariff with the truckers stay or will that now be reduced again?

J Krishnaswamy: That's a wonderful question. I am not going to stick my neck out and say whether we will get this thing or not but when we did the agreement with the transporters it was clear that when we resolved the strike we agreed for a particular component of diesel as part of the overall escalation. I think, Nuvoco believes that hopefully other companies also are on the same wavelength that whatever we are agreed in terms of percentage diesel linkage through overall freight increase, diesel cost comes down the freight cost has to come down. That's going to be our line of discussion in the coming period. But we will have to take it in a spirited manner with the trucking companies in Chhattisgarh.

Amit Murarka: Just a last question, what was the clinker production in the quarter?

J Krishnaswamy: We will discuss off line, if you are okay with that?

Amit Murarka: Sure, thank you very much.

Moderator: The next question is on the line of the Pinakin Parekh from JP Morgan.

Pinakin Parekh: My first question is basically trying to understand prices and margins. You said that there was a price hike in the month of October. Can you give us a sense what was the quantum of the price hike vis-à-vis the September average cement prices?

J Krishnaswamy: So, what has happened is the prices started getting corrected from about 5th October and all the way multiple times during the month. If you really look at the overall price per bag, it can be to the tune of different states had different prices, the wholesale prices got corrected in Bengal to the tune of about Rs. 23, Bihar it was about Rs. 30, Orissa Rs. 16, Jharkhand Rs. 30, Chhattisgarh Rs. 24. But you would know, all this did not happen on one day. It happened from early October all the way till 31st of October. So, the less impact of price for that month was close to about Rs. 10 to Rs. 15 per bag correction which happened in East and about Rs. 10 to Rs. 12 correction happened in North. So, that's the kind of impact on the volumes in that month. But now after the festivities have ended and the markets have opened, we will get the full benefit of all the price increases which will happen during the month.

Pinakin Parekh: Now just putting those price increases in the context of the second half, you said that coal cost will be higher, but you will have some price improvements, you will have some volumes. Can we expect the EBITDA per tonne which fell very sharply in the second quarter versus first quarter to go back above Rs. 1000 a tonne in the third and fourth quarters or you think that the cost inflation is just too high, and the price increases will not be able to offset it.

J Krishnaswamy: It will be very difficult for me to put a number at this point of time because of the dynamic situation in the market in terms of fuel cost. But that's only one part of the answer. All of you would listened to every company's result call and you would have seen that every company the EBITDA erosion from quarter on quarter is almost this kind of numbers which we have faced. We faced a little bit more because we are a East focused Company and pricing also really played a negative part for us in Q2 as compared to Q1. Having said that the correction in prices will certainly reinstate the profitability of Company to a much higher level than what we achieved in Q2. But I am going to keep my fingers crossed at this stage. If the coal prices are going to continue to be at October levels, then I think the numbers which you indicated will happen. But if the coal prices are going to be further inflated, by Rs. 200per tone odd then certainly it demands further price correction in the month of November, and I think as a Company, we have to really focus on getting the prices right in November to ensure or restore profitability in Quarter 3. Quarter 4, I see much better quarter in terms of demand upliftment as well as more stability in the market.

Pinakin Parekh: My last question is you mentioned that on the FY23 capex target of Rs.1750 crore*. Does this mean that the Company is not looking to de-lever next year because Rs. 1,750 crore* essentially will eat up all your operating cash flows even if we assume Rs.1,100 of EBITDA per tonne

Maneesh Agrawal: Basically, the operating cash flows would be significantly higher than what the capex requirement would be there. So obviously it is going to help us deleverage going forward in FY23 from the FY22 level.

Pinakin Parekh: But the operating cashflow being higher, what is the underlying assumption of EBITDA? I mean at Rs. 1,000 EBIDTA per tonne, it will not be high enough to do both the capex and deleveraging, right? Then the assumption is that the EBIDTA per tonne is much higher than this.

J Krishnaswamy: Pinakin, we have spoken in the past during the IPO time as well as the Quarter 1 results. One of the things we are not looking at is that there are a number of aspects which we considered as part of the Company's strategy and business plan over the next few years. The number one was getting volume leverage for the Company and fixed costs rationalization as we move from the last year's actual of 17.3 million tonnes to this year's target which is close to about 20 million tones and then next year, we are looking at close to about 23 million tonnes. That's the kind of numbers which we work and hence now the big impact is going to be the volume impact. The second one, which we also discussed during the IPO was the cost inflation will be neutralized by the big price increases which the industry will get. Albeit there is lot of conversation about whether we will take it straightaway, whether the industry would benefit or not, but I think whatever we said at that time has come true. Industry certainly will take the price increase, I'll talk on the quarter later. Our assumption at the time was Rs. 475 of price increase and Rs. 350 of cost increase and we said the impact of pricing should be about Rs, 75 to Rs. 100 per tonne. That was one big assumption which we had made. Second one was the volume impact. The most important thing for Nuvoco is the internal levers and the synergies coming out of NU Vista and Nuvoco. There we had a clear target that the internal levers to the Company will give anywhere between Rs. 150 to Rs. 250 per tonne. And what was the agenda we spoke about; one was to get composite cement. Second was to get price acceleration program which gives Rs. 70 per tonne due to premiumization. The third thing we said was Rs. 50 per tonne will come on through SPRINT savings, Rs. 50 through fixed cost impact. Rs. 25 will come through incentive. Currently, as we speak, we are not able to get the fixed cost impact because the volume has not got built up during the weak quarter in Q2. I think as a Company and a management, we are confident that demand will come back very soon in the coming 1 or 2 months and certainly we get sustained in Q4 and beyond. Last but not the least is the huge infrastructure thrust as for the rural housing improvement which I spoke about in my initial remarks. The demand is going to go in the industry from 6% to 8% East being the fastest demand growth in the region in the country at 9% to 10% followed by North and Centre. Nuvoco operates in East, North and Centre and we are looking at a sustained volume growth. So, with the volume growth happening, cost impact neutralized by the price increases, scale benefit and unlocking the internal levers to the Company. We were targeting to move EBITDA from Rs. 975 per tonne actual last year, all the way to Rs. 1,200 per tonne is what our business plan made. We continue to have similar assumptions. We still have a robust and a challenging agenda which the Company's focused to deliver.

Moderator: The next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: Just continuing the previous question, when we are saying that we are looking at 20 odd million tonnes for this year, so in the first half we have done 8 million. So, we are looking at 12 million odd in the second half, so close to 6 odd million per quarter. So, till now whatever October and November – 11 days, are we on track in terms of achieving that number?

J Krishnaswamy: I am not going to kind of make a number where we will hit the year, but certainly I'll be able to tell a few points which are very important. First thing is I spoke about sand mining ban which impacted in the state Bihar, the entire industry was prepared. So, happy to report, the Supreme Court judgment has come to reopen the sand mining and Bihar will open up. Monsoons are over in Bengal, and Bengal is opening up after the Durga Pooja and Diwali. Strike is over in Chhattisgarh. Chhattisgarh demand gets reinstated. Jharkhand post Chhatt pooja will get reinstated and Orissa will certainly get reinstated as we speak. Last but not the least, the markets in Gujarat, Rajasthan Delhi, Haryana, western UP all are opening up as we speak. With this kind of number last year in Q4 we did 5.6 million tonnes and I have spoken in the past also that we were having a clinker shortage and most of the companies in need had to get clinker from other states. As we speak, we have close to about 0.75 million tonnes of clinker in stock because in the weak quarter, we continued to run the kiln and stock up clinker in all our plants. 0.7 million tonnes of clinker would produce roughly around 1.4 or 1.5 millon tonnes of cement. With this kind of head start which we have, what we will not have is what we faced in Q4 last year. Coming back to what we will do in Q3, of course October ended and November with this festivities getting over and with markets opening up 2 days ago. The next , 50 days is going to be very critical for Nuvoco as well as for the industry and I really hope and expect that the demand is going to get a full momentum going forward. As we thought whether we will hit 20 odd million or not, idea is delivering around 2 million tonnes every month for 6 months, 1 month is already gone so I guess it will be little bit lower than the original number, but our aim will be to maximize from December until March.

Shravan Shah: Second question is on the working capital front so in the first half if I look at the cash flow, close to Rs. 674 odd crore went into the working capital. So, the thing, what I am trying to understand the capex that we are looking at, second is, are we also planning the deleveraging and here the working capital is increasing. So, put together, just trying to understand how are we looking at to actually go for a de-leveraging?

J Krishnaswamy: I will make the first two comments and Maneesh will give you the relevant details. The current working capital level is a very practical move by the Company to block all coal available, wherever it is available to stock up coal. The second one was we also took a tactical decision to buy slag. All of you would know that the slag prices had gone up to as high as Rs. 1900 per tonne and Rs. 1800 per tonne and when the weak quarter was happening, we took a call, we have a strategic tie up with Tata Steels at a preferred price and when the steel industry was moving on, we decided to get all the slag which was being made even though were not consuming which is going to help us in Q3 and Q4. So, we built up slag inventory, we built up coal inventory. As I spoke to you, we built up clinker inventory to the tune of 0.75 million tonnes. And last but not the least, in the last 3 to 4 weeks, we also built-up cement inventory to tune of 0.35 – 0.40 million tonnes. All this is resulting into high working capital which will all vanish in the next 5 to 6 months. From 1st April we will have very low working capital and we will have the right leveraging to pay back all the loans as well as invest on capex next year.

Shravan Shah: Just to get what you said in terms of building up the inventory but if I look at the trade receivables, there also around Rs. 321 odd crore has increased. So, can you explain that?

J Krishnaswamy: That will happen because last 2 months if you see the Trade is also struggling. So, I guess we have to be very considerate and work with the channel partners because we are all in it together. So, I guess it's been a conscious call not to kind of push them, but I think the channel partners really work well in the industry. We have got a wonderful relationship with them. Once the market opens up, all these things will come back because we operate close to about 10-11 days receivables in the East and about 3 to 4 days receivables in North. Slightly increased by 2 days now but as all of it will vanish. I think the panacea to all this is once the sales happen everything will come in order.

Maneesh Agrawal: Just to add, our receivables in cement side are backed by security deposits. As a strategic call, inventory of clinker, cement and coal were built up. In normal course of business, as Q3 and Q4 volumes improve, the inventory will get consumed leading to free cash flow arising out of reduction in working capital which is part of cement cycle.

Shravan Shah: The third thing is on the RMC front. So, this quarter, our RMC revenue has increased on QoQ from Rs. 131 odd crore to Rs. 182 crore but if I look at the EBIT level loss, it has increased from Rs. 6.5 crore to Rs. 9.3 crore. So, 2-3 things just wanted to understand, first in terms of what was the volume for this quarter in RMC? What is the EBITDA margin that was there? So maybe if you help me in terms of the depreciation for RMC, that would be great. How do we now see in terms of the RMC revenue picking up and when can we see the RMC turning positive?

J Krishnaswamy: I will give you part answer right now but in terms of granular details of numbers, if you are okay, we can discuss off line. But certainly I'll give you the high-level stuff of RMC. In Q2 of last year of FY21, we did 159, K Cum of sales. Q1 this year we did 323, in Q2 it became 424. Every quarter RMC business is doing better than the previous quarter in terms of revenue. The overall revenue was Rs. 71 crore in Q2 FY21, Rs. 131 crore in Q1 FY22 Rs. 180 crore in Q2 FY22. We had an EBITDA loss of Rs. 12 crore Q2 FY21. We've come into an EBITDA positive of Rs. 3 crore in Q2 FY22. As I mentioned before in the earlier calls, it's going to be a little bit of a gradual process for us to get the RMC business going but we have totally restructured the business, wound up some of the plants which were not economically feasible, but we also got into new businesses like we are now a big supplier for the bullet train HSR project in Surat. We also signed contract with Oil India in Numaligarh to supply to them. We're also going to supply concrete to Chennai Metro out of the Chennai plant. We also got about 35% of the business on cash and carry and there's a huge thrust on getting premium products going. Last year we used to trend it about 20%-21% of premium products. This year we are already trending at 25%. Our goal in Q3-Q4 is to go to 28% and 30%. We are able to get the premium product going, focus on cash & carry business. Our goal for this business in Q4 is to hit around 200 KCum per month which will be around 600,Kcum in Q4, and the aim is once we start this out, the scale will basically improve EBITDA for this business and result EBIT will come automatically.

Moderator: The next question is from the line of Kamlesh Parmar from Prabhudas Lilladher.

Kamlesh Parmar: One question on the strategic side, like we are looking to put up a green field plant in Karnataka but if you see our north portfolio, I do know that it needs to be our much bigger player and we are among the top 3. So, in case of North, our market share is between around 3.5% odd. Rather than looking at the North market, we are going to set up a Greenfield plant in a crowded market like south, so what is the thought process there? Rather than expanding in the north market, where like say we would be among the lowest in the top 3 players. Like at par with Mangalam Cement or India Cement, which is not a focus player in that market, then why we are going to Karnataka.

J Krishnaswamy: Let me just explain to you, I think in the previous calls, in the quarter calls as well as in the buildup to the IPO, we had a very clear-cut plan of how Nuvoco is going to grow and become a 25 million tonne Company in the coming few years. That's been the ambition for the Company, and we have made a roadmap for this journey. First, we said was at this point of time, whatever capacity we have in East, we will only debottleneck and not kind of put up any more capex in the short to medium term. The next one was Gulbarga which technically can be called in Karnataka, we all know Gulbarga is on the tip of Karnataka and Maharashtra. The ambition of the Company is to enter the Maharashtra, Gujarat market out of IU or spilt GU unit from Gulbarga so that the plant is not to serve the south market. The plant is to serve the Center and Maharashtra through the western market where all of us know pricing and realization is pretty good. The last one you asked about why not north, of course, north is very much in our plan. Our first foray is going to be an expansion in Gulbarga, backed by further expansion in north India. Why are we taking north as step two and not step one is for the following reason. In north India, we had a capacity utilization till last year of only 70%. In East we have a capacity utilization on 90%-95%. In North India we have capacity utilization of 70% odd. What we did was to get Double Bull brand in north India and put a second brand along with Duraguard to get that additional capacity utilized by selling in a new brand, which I spoke a little while ago, it's been a wonderful entry for us in markets other than Rajasthan where we have not yet launched. Every market, Double Bull is galloping. Secondly, to get the additional requirement in north, we are debottlenecking the Nimbol plant about 1000 tonnes per day, additional capacity which I spoke about groundbreaking and in the next 15 to 18 months, Nimbol will come. With this kind of 6,000 TPD Nimbol plant and 6,000 TPD Chittor plant in terms of clinker, we're looking at 12,000 TPD of clinker availability in north. Our ambition is to move from OPC to PPC. Whereas in north it is about 35%-65%. Our aim is to move from OPC to PPC, move from non-trade to trade, get Double Bull going in north and that would take the overall capacity of the Company from current 4.8 million tonnes to all the way to 6 million tonnes in this next 1 to 1.5 years. By the time we get this growth and a capacity utilization done, our sequential expansion in north will stop. The first one is, get Gulbarga right, launch in Maharashtra, Gujarat through split grinding model and expand in west followed by a step into the north expansion.

Kamlesh Parmar: Would we be putting at the grinding unit to service the Gujarat market? I haven't seen any companies taking the clinker right from Gulbarga to service the market of Gujarat.

J Krishnaswamy: I didn't say that we are going to put up a grinding unit in Gujarat. We will put up a grinding in an appropriate location which will have fiscal benefits in Maharashtra and hence if you really look at cement industry, you get the radius of 180 and 250 kilometers at the clinker through a railway siding and then get GU up and that GU will have another 150-kilometer radius to transport the material. With this model of having a GU somewhere in Aurangabad, Ahmednagar and such kind of various work is happening right now. Too early for me to say where it will come. Certainly, we have mines in Gulbarga so we will have to put the site there. The environmental clearance is approved, mining plan approved and railway siding work is largely happening, compound wall done, and mines are opened. So, it more or less ready for us to use this mine. Then on we get into north Maharashtra, Vidarbha area and east Gujarat towards Surat, that's the area we are looking at.

Moderator: The next question is from the line of Sumangal Nevatia from Kotak Securities.

Sumangal Nevatia: I just missed few details. So, which year do we plan to complete the Gulbarga Greenfield project, if you could just say that again?

J Krishnaswamy: In our business plan we had said, we will start construction in Gulbarga 18 months post the listing. So, our listing happened in August, 18 months would be end of the next year, which is Q3 FY23 and then on we are looking at 24 months for the plant to come up.

Sumangal Nevatia: Second on some other cost items, like slag, fly ash, is it possible to share some recent trends?

J Krishnaswamy: We had shared details last time around as well. But in terms of slag details let me just give you some indication, some information which is useful. We have a slag tie up with Tata Steel. Overall, we have a long-term 20-year contract with Tata Steel till 2039. I won't be able to divulge the exact price because of commercial considerations which we have with Tata Steel but suffice to say it comes with a substantial reduction to the current slag price in the market. The best price currently trending in the market is Rs. 1200 per tonne and the worst price trending in the market is Rs. 1600 to Rs. 1800 per tonne. We have pricing which is much better than the best price trending in the market in terms of slag for 20 years and that's a great relationship which we have with the Company. The second one is fly ash. In 2 sites, namely Mejia plant and as well as Jojobera plant, we have fly ash coming from Tata Power as well as Damodar Valley Corporation and there the cost of fly ash is much lower than what anyone would buy from open market. Likewise, in the Bhiwani Plant we have a tie up to get preferential fly ash rates. Other than that, rest of the fly ashes as much as what others buy from the open market.

Sumangal Nevatia: I understand the security of the raw material but in terms of price trends, at least if the market price trend if you can suggest for slag which you said is Rs. 1200, how has this moved in the last few months?

J Krishnaswamy: I think you really look at the slag price trends for the industry, I think it is all moved from Rs. 1600 to Rs. 1800 to Rs. 1900. But for our Company will be blended rates of what we get from Tata Steel and what we buy from open market, trending price is close to about Rs. 1100 is what in the Q1 and Q2 of this year. But you would know that the slag prices are little bit exorbitant in the last 6 to 8 months. I think already the prices are softening as we speak. In fact, in number of auctions, we have kind of renegotiated with some of the slag suppliers and not going to book at the prices which they are offering. I think because the demand was also little bit low for cement in Q2 because of monsoon and the slag prices already softened, our view is maybe by the end of November- December it should come to reasonable levels and not certainly at Rs. 1900 per ton level where it's not worth it to buy slag.

Moderator: The next question is from the line of Rajesh Ravi from HDFC Securities.

Rajesh Ravi: My questions pertain to first on the Chhattisgarh strike impact on sales volume for the second quarter and how has been the impact in Q3 because we understand a similar number of days the strike impacted inthird quarter also?

J Krishnaswamy: I'll talk about Q2 certainly because in Q2 certainly Chhattisgarh strike impacted the industry and certainly companies like ours and 2-3 other companies who are basically road-based companies bore the full attack other than companies who had rail connectivity from other states into this. Even though we had Arasmeta and Sonadih which has rail connectivity but then Risda which is a big plant for us. Our estimate is we had lost about 1 lakh tons of sale in the month of September alone and that backed up by a similar kind of number in October. But October is not big, not too much of an impact because the entire industry was crippled by huge monsoons and sand mining in states like Bihar and other states, but certainly in September we got impacted and it had a negative impact in the overall top line.

Rajesh Ravi: Secondly you talked about that you took a clean shutdown across almost all the locations, Why is that the per ton other expense costs number for this quarter has jumped to almost Rs. 800 crore versus average of Rs. 600 core in the preceding 4-5 quarters. Any thought on that, is it all because of the clinker kiln shutdowns or something else we intended? That is what we're trying to understand.

J Krishnaswamy: Two big reasons, one as you associated, I think shutdown is a big one. In fact, shutdown cost of similar quarter last year Q2 FY21 was about Rs. 37 - Rs. 38 crore whereas the shutdown cost in Q2 FY22 is Rs. 62 crore. So, about Rs. 25-Rs. 26 crore increased in this cost versus last year. The second, we also commissioned. the CPP projects in Arasmeta and the trial production for Jojobera CPP was carried out. The depreciation cost increase by about 6 to 7 crore in this quarter. Last but not the least, the packing cost went up significantly versus last year to this year, last year it used to be about Rs. 140 per ton. It went as high as Rs. 220 per ton, currently trending at Rs. 205 per ton. These were the big-ticket items which impacted the various cost lines

Rajesh Ravi: Some of these only Rs. 75-80 odd will come off in third quarter versus second quarter?

J Krishnaswamy: Shutdown will go away, packing costs I can say because granule prices again taking the same direction as fuel prices globally. Hopefully that comes down granule prices will also come down but certainly shutdown cost will go away in Q3.

Rajesh Ravi: Two more questions, on the debt reduction what is the target for FY22 now that H1 is done?

J Krishnaswamy: As said earlier, our target is 2.2X is the net debt to EBITDA ratio end of March 2022

Rajesh Ravi: Net EBITDA ratio 2.2 at the end of FY22.

J Krishnaswamy: End of FY22. That's the target we are working on.

Rajesh Ravi: This is on the net debt level you are talking about.

J Krishnaswamy: That's it. Net debt level.

Rajesh Ravi: This synergy Rs. 150 per ton for this year and Rs. 100 synergy benefit for next year. If you could elaborate how much of these have been achieved?

J Krishnaswamy: We thank you for asking this question. I was waiting somebody would ask that question. In fact, one of the most satisfying thing for us is all our teams have been able to get the synergies going between the two companies, we said about Rs. 150 this year and Rs. 100 next year. We are on track in the last 6 months. I think it's only going to increase once the volumes come and then we're able to push a lot of materials through the factories. I guess this number of Rs. 150 is still achievable. I think the teams are committed to acknowledging the benefits which will come up in the next year.

Moderator: The next question is from the line of Satyajit Jain from Ambit Capital.

Satyajit Jain: A couple of questions, on the volumes it seems Nuvoco outperform the entire softness in East in the quarter. Was it taking market share in this region or was it diverting some higher volumes to central compared to normal run rate and the Company has also built a significant inventory indeed there is a debt deleveraging target, there is working capital that the Company would want to release? If the demand doesn't play out as expected would the Company like to take some market share, be aggressive in taking some market share or maybe look to divert some volumes to central India market just for the working capital release also and in taking the debt targets that we have in mind? That's the first question.

J Krishnaswamy: The first thing I'll say about you asked about Q2, how did we get the volumes? Certainly, I think we are very mindful of distribution cost and lead distance and getting the EBITDA per ton right. At no point of time, we will move cement to long distance. It's just not attractive and spoil the EBITDA for the Company. That's a core assumption and target for the Company, not to sell cement for the sake of selling. We have core markets like Jharkhand, Bihar, Bengal,. These are part of our strategy called BBJRM. We have to maximize sales in Bengal, Bihar, Jharkhand, Rajasthan, and western MP and these are the markets that Company consistently works to get the maximum throughput going. That's what we adopted in Q2. I think the teams did a wonderful job to buck the trend in this market and still achieve the volumes which we achieved in this market.
There is no way we will go and sell in states which are not close to us and incur additional costs just to get some market share in other places. Suffice to say, this was a temporary quarter where the number is 3.8 million tones but if you see Nuvoco always operates with close to 95% capacity utilization and then when the markets are going to open up there is no case for us to even take material away from the home markets like Chhattisgarh plant or Jharkhand plant. We focus very close about 150-200 kilometer radius around the plant to maximize sale. As regards to your second question of its higher working capital with so much of cement and clinker will we be tempted to move material to non-core markets to deleverage the Company? I have to say that at this point of time as a senior leadership of our Company I'm pretty confident that going forward markets will grow. Q4 is estimated to be a bonanza quarter. I think all the stocks will vanish in the next 5 months.

Satyajit Jain: Second question is on the projects. On the Gulbarga. first of all, has the management taken some decision around whether it's going to start with 6,000 ton per day initially and another 4000 ton per day later on or is it going to be 10,000 ton per day and is there capital cost inflation because earlier we talked about Rs. 3,000 crore for a 10,000 ton per line and to you is it is the number the same?

J Krishnaswamy: During the IPO time we did speak about 10,000 TPD line but we've not made any shift in terms of whether it goes from 10,000 to 6,000 ton or not, but if you had participated in those calls certainly similar questions were posed to us at the time. Our answer at that time was very clearly that we need to have capacity in this place but closer to the time when we embarked on a technical study and the business model going which will happen in the next 1 or 2 months, we'll come to a decision whether a 10,000 TPD Gulbarga is right for the Company or a 6,000 TPD to start with the ability to expand to 10,000 TPD. Maybe two cycles from now when we meet we'll be able to give you better clarity on whether we are going to zero down on a 10,000 TPD or 6,000 TPD.

Satyajit Jain: Is there capital cost inflation right now where you sit for 10,000 ton per day that you initially expected Rs. 3000 crore?

J Krishnaswamy: No, it has nothing to do with capital cost is going to decide whether we will do over a 10,000 TPD or 6000 TPD. Certainly, I think we have started working on the modeling of markets, ability to get EBITDA per ton, what's the contribution we'll get, what is going to be distribution, but the teams who are currently working on this business model and the target markets whether it's an IU or IU plus split GU which are our core market. I think it will shape within 3 to 6 months, I think by the time we can go for next cycle or the cycle after that we'll be able to give you what is the plan for Gulbarga but suffices to say that we are going to expand in Gulbarga.

Moderator: Thank you. Ladies and gentlemen that was the last question, I now hand the conference to the management for closing comments.

J Krishnaswamy: Thank you all for participating in this call. As I said the vision for our Company is to build a safer, smarter, and sustainable world and the mission for Nuvoco's to become a leading building materials Company delivering superior performance. the values being integrity, operational excellence, entrepreneurship, collaboration, and care. These are the cornerstones for our Company. We arethe fifth largest Company in India and the leading Company in East India with acquisition Nu Vista. But for this short temporary dip in the market because of extraneous conditions, I think as a Company we are well on our way to unlock value between the two companies, get the synergies going and then aggressively developing the market by launching new products, launching composites cement, getting double bull and work on moving our non-trade to trade share. Higher trade share is in line with our strong focus on sustainability to reduce the carbon footprint year on year. That in short is our presentation to all of you. If there are any further questions you may have, do reach out to our Chief of Investor Relations Madhumita Basu and the team will be happy to answer all your queries and myself and Maneesh will always be there to work with Madhumita to answer every question of yours. Thank you so much and look forward to meeting you again later.

**Correction on Capex for FY 23. Capex to be read as Rs. 1525 Cr instead of Rs. 1750 Cr*