"UltraTech Cement Limited Q1 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the UltraTech Cement Limited Q1 FY22 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 risks that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statement on the basis of any subsequent development, information or events or otherwise.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Atul Daga – Executive Director and CFO of the company. Thank you, and over to you, sir.

Atul Daga: Thank you. Good evening, everybody and thank you for joining this call to discuss our earnings for Q1 FY22. First and foremost, I wish and pray that all of you are safe and vaccinated. Global economies after reaching a vaccination status in excess of 70% are shrugging the burden of COVID and making it a part of life. We should also commit ourselves to the cause and get our vaccinations competed at the earliest whoever has not done it yet. With Wave 2 of COVID reasonably under control, we have seen revival of demand as the statewide lockdowns have been gradually coming off.

Demand saw resurgence from almost all front, i.e., trade and non-trade. This quarter, we have achieved a growth of 48% Y-o-Y. An interesting point to emphasize upon is the growth trajectory that we have demonstrated quarter-after-quarter since Q1 FY21, going faster and rapidly as compared to the rest of the industry. And all the growth has been without new capacity addition, organic or inorganic. We achieved a capacity utilization of 73% this quarter, with South going above 50%, North being above 75%, East more than 95%, and Central and West doing 70% plus. This needs to be looked at in light of the previous quarter, where UltraTech operated at 93% capacity utilization, ending March with 99% capacity utilization. We grew 30% Y-o-Y last quarter and 17% Q-on-Q as compared to rest of the industry, growing 22% and 13%. This I am referring to, ladies and gentlemen, for the January-March quarter, it is important to keep this factor in mind. And our growth was mostly organic as compared to the industry having added nearly 3% additional capacity.

All of you know that UltraTech is a growth hungry company, and the country's cement consumption is expected to keep on growing. This is what propelled our expansion plans which are more or less on schedule. You will recall our expansion plans of 19.5 million tonnes which we started towards the end of last calendar. We expect the next quarter to commission 3.2 million tonnes, which will be in East and Central. Q1 FY 2023, about 3.5 million tonnes, which will be again East and Central. The next three quarters would see the balance about 12 odd million tonnes of commissioning happening in the remaining three quarters. We are on course to complete all our expansions by the end of FY 2023.

Our cash flows continue to grow stronger with every incremental capacity going on stream. We have reached net debt EBITDA of less than 0.5x already, going to net cash on the balance sheet is within site, after absorbing all the cash flows for our growth CAPEX this year. Talking about cash flows, COVID had an impact on our cash flows this quarter, although we saw a reduction of Rs. 733 crores in net debt this quarter, we could have done better, because a lot of working capital requirements came up in this quarter suddenly due to the surge in COVID cases. Our confidence on the cash flows has helped us increase our dividend payouts for the shareholders. And we will meet our ongoing CAPEX out of internal accruals and yet be net cash on the balance sheet as committed in FY24 for sure.

Happy to share with you that today we have prepaid another Rs. 5,000 crores of long-term loans, today as in to be precise, 22nd of this month. We have doubled our ROCE to around 16.5% from the average of around 8% in 2018. And we will continue this trajectory as well as we keep improving our earnings, supported by low-cost expansions and asset sweating.

RMC and white cement, both were impacted due to COVID lockdown this quarter. In spite of that, we have added four new RMC plants this quarter, taking the tally to about 136, and achieving a growth of more than 300% in RMC Y-o-Y. White cement volumes were a bit slow, but now they have started catching up. Work has commenced on the putti expansion plan in Rajasthan as well, which should get commissioned in Q2 FY23.

Happy to tell you about Dalla super unit, we have received a Stage 1 approval from MoEF for the plant. For refreshing your memory, it is a 2.3 million tonnes clinker facility which we had acquired from JP. Stage 2 approval is in process, and we expect to start work on the plant and commission it by March 2022.

Let's now talk about the brass-tacks namely demand, supply, prices and cost. Our views have one big assumption that wave 3 of COVID will not impact the business. Demand has started picking up on all fronts, against the earlier fears of rural slump we have seen the rural cement consumption also increasing in almost all the corridors, in particular Central and East, followed by other parts of the country. It is clearly reflected in our trade sales jumping to about 70%. Urban real estate continues being pulled up by the current situation of lower interest rates, government subsidies, the need for space being felt due to COVID. And large infrastructures projects continue to generate increase in demand across the country.

Infrastructure projects, if you were to talk about a bit. Roads, there's a big emphasis on road infrastructure, both by way of speed of construction as well as awarding new projects. As on June end, the daily road length completion has reached 37 kilometers per day versus a target of 40 kilometers a day. I remember talking about these numbers way back in 2014, 2015, when the speed of execution was 3 or 4 kilometers a day, and this number was unbelievable, but the government has actually achieved and delivered it.

Greater emphasis is given on the completion of expressways between Mumbai-Delhi, Nagpur-Mumbai, Bangalore-Chennai, Delhi-Varanasi, all of which are cemented roads. Just to refresh again, 1 lane kilometer of cement concrete road takes about 600 tonnes of cement.

Metros, all the metro rail projects which were announced in the last budget are going on. In addition, the first RRTS connecting eight satellite towns to NCR; Ghaziabad, Meerut, Alwar, Panipat, etc, is all going on full swing.

The other major new development which is taking place in the space of infrastructure is health infrastructure. To tackle the potential challenge of COVID wave 3, recently the government has allocated as much as Rs. 21,000 crores from the PM Relief Fund to develop public health centers. Oxygen plants are coming up in all district hospitals, 15 All India Institute of Medical Sciences, vaccine manufacturing facilities, all of them will of course consume cement, and UltraTech is present everywhere.

To talk about airports, the work on all regional airports has started as part of Udaan Scheme to connect a lot of districts of commercial and tourist importance. Smart Cities, worth mentioning about that. Work on 100 Smart Cities is going on to build sustainable, connected infrastructure in these places, to improve urban infrastructure to address the rapid urbanization of the country. High speed train, which is the bullet train project, work on the first Mumbai-Ahmedabad section has started in Q1 and will pick up pace in the remaining part of the year. Clearly, infrastructure will lead from the front.

Another interesting phenomena worth sharing with you is changing landscape of logistics for cement. The painting is still on the canvas, and we have seen a few brush strokes only, I am referring to DFC. DFC started emerging as a game changer for logistics. Few patches have already been implemented. The total program as of now is for around 2,800 kilometers, out of which nearly 435 kilometers is in operation. It is important to note that the rake speed has doubled. The rake size will become four times the current capacity, you can visualize the impact it will have on the cost of rail movement, and shift from road to rail.

And Nathdwara Cement which we acquired recently in 2018, is already connected to DFC. Axle load of these rakes will also increase max speeds, will increase by 30% I am told, rake wagon capacity will increase by more than 50%. So, this is going to be a game changer for logistics. And I think we are very well connected.

To talk about input costs. Both coal and petcoke have been threatening to break all the chains around them and continue to surge. Demand from China, as usual, is one big lever driving up prices. Coal has gone up from $60 in Q1 to around $100 plus, $120 in June, petcoke is hovering around $160. July loading, U.S. petcoke cargoes have been offered somewhere around $160 to $163 per tonne, but without any buying interest. Saudi origin cargoes are being offered around $140 dollars per tonne. However, the industry so far has shown resilience against these cost pressures with price improvements, i.e., cost pressures are being passed on in prices, that's protecting the margins.

Talking about prices, prices have generally been stable to strong in most regions. We have noticed an average of 6% to 8% increase in prices with regional markets in the range of, East and South going somewhere around 10%, West growing 7% to 10%, North and Central growing 3% to 6%.

In the end, I will only say, don't worry about these line items. Let the operating teams manage that. We have this quarter delivered an EBITDA per metric tonne of around Rs. 1,600 per tonne, which is the highest so far and will go higher further. ROCE of 17% from less than 10% till four years ago, a growth faster than the industry, fastest deleveraging program from a 3.4x in December 2018 to 0.4x in June 2021. And all growth financed by internal accruals. We deliver what we commit.

Thank you, ladies and gentlemen, for your time. And over to you for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sumangal from Kotak Securities. Please go ahead.

Sumangal Nevatia: Many congratulations for the results. First question is on the realization you touched a little bit in the opening remarks. But we have seen a healthy increase in this quarter sequentially, and a bit more than what people are anticipating. Is it possible to share some more regional color for us to better understand this? And also, how has trade, non-trade moved during the quarter? And lastly, some color in how prices are shaping up in July?

Atul Daga: July typically slows down a bit, and you are seeing heavy rains across the country. And it is premature for me to talk about the ongoing quarter in detail. And for regional prices, I had already given a breakup in my commentary, East and South around 10%, West 7% to 10%, North is 3% to 6%, the price hike which we saw in the last quarter.

Sumangal Nevatia: And sir, the trade and non-trade also moved in line?

Atul Daga: They moved in line.

Sumangal Nevatia: Okay. The next question is on the cost, I mean, we have been keeping cost impressively under control. But, I mean, as you said the recent cost numbers for petcoke, I mean, what sort of cost inflation is expected on that front in the coming one to two quarters, if you can give some directional sense? And also, any line item on the fixed cost is something which was lower because of COVID led restriction, and that is somewhere where we see increase in coming quarters as we return to normalcy?

Atul Daga: On your first question, we have not seen any respite in the prices of coal and petcoke, fuel prices essentially. And we don't have any signals or indications whether production of oil increasing and petcoke increasing, or coal mining output going up or China demand coming down, nothing is visible. And what is happening is, petcoke as I was mentioning, cargoes are being quoted, but there is no offtake. So, there will be a tipping point, after which either the prices reduce the speed of increase or slow down or stop, or you see some correction. It's very difficult as of now to get any trend on which side the wind is blowing as far as fuel prices are concerned.

The second point you were asking about overheads. COVID related overheads or impact due to COVID is mostly on travel, I would say, because the travel costs have gone down dramatically. Plants are running as usual, we have preponed some maintenance cost this quarter, which will benefit in the subsequent quarters. So, I don't foresee any spike in fixed costs from where we are right now.

Sumangal Nevatia: Understood. Sir, just last follow-up on this petcoke topic. Is it possible to share what would be a consumption cost in 1Q versus the current procurement? Procurement you already said, but consumption costs in 1Q?

Atul Daga: I will just double check and give the number during the call. Can we move to the next question, please?

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

Pinakin Parikh: Just following up on the previous question, you said July is a seasonally a weak month, so is it fair to say that the prices which we saw in the first quarter have broadly held up in month of July across the key markets? Or July, we have seen a correction versus the June quarter averages?

Atul Daga: I wouldn't be tracking day to day prices, but generally prices don't go up. At times there might be some pressure. I have our Managing Director, Mr. Jhanwar also on the call, perhaps he can give a better color.

K.C. Jhanwar: Very good afternoon to you. Yes, by and large, at the moment the prices are in the range. But as you know, the last one week, 10 days the monsoon has picked up across the country. So, obviously there generally used to be some dilution in the prices, but it would be very difficult to judge at this point of time whether it would continue or whether it will stay at this stage actually. But yes, once there is a demand pressure, you understand. There used to be some pricing increase here and there, and some additional logistic cost and godown cost, etc, that also impacts the overall realization.

Pinakin Parikh: Understood, that is very helpful. Sir, my second question is on energy cost, now as you have mentioned there is relentless cost surge, and what we understand is that new cost on high grade coal prices have actually crossed $150 a tonne. Now, as the company would be maintaining a certain amount of inventory, has the policy changed, are you buying less coal at this point of time and petcoke in the expectations of price fall? Or broadly, you are maintaining the same inventory?

Atul Daga: No, we can't take that risk. We are not speculative in nature, we have to protect the operation. So, at any point in time, we would carry 45 days of inventories.

Pinakin Parikh: Understood. So, that broadly stays the same?

Atul Daga: Yes.

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

Indrajit Agarwal: Two questions, first is more on the medium term. Thank you for the detailed explanation of demand drivers, but what we are seeing on the supply side is, some of the limestone mines which have been auctioned are struggling to pick up, given the new Mines Act. So, over a five, seven year period, how do you see the demand supply dynamic changing? Do you think that utilization could tighten meaningfully more than probably what the street is expecting or what we are looking?

Atul Daga: I have always been of the firm view that utilization will tighten over a longer period of time. Obtaining a limestone, mine in auction is first aspects, the next on line is land acquisition and various approvals, which is a time consuming process. It becomes expensive, because the operating costs for the new plant will go up because of the royalties, the premium that is attached to it. Cost of land goes up because it's all in public domain, which company has acquired the limestone mine, so it becomes difficult to compete.

K.C. Jhanwar: Just to further add up on what Atul said. Because there are lots of regulatory requirements, so the overall gestation period of the project gets enhanced. Generally, if you have a direct allotted mine, you can put a plant in two to three years' time, depending on the location and issues there. But now five to six years is the general time, right from the auction and then finally concluding the auction formalities and land acquisitions, etc. So, that's the reason things are going to be little difficult.

Indrajit Agarwal: Thank you for the detailed explanation. A follow-up to that is, in the last annual report you had mentioned that we have reserves to expand capacity by up to 50 million tonnes. None of our minds get impacted by this, is that correct?

K.C. Jhanwar: No, whatever we said, it is fully protected.

Indrajit Agarwal: Okay, and one last question, if I may. Are you sharing a working capital and the CAPEX numbers for this quarter? What was the working capital spending?

Atul Daga: CAPEX spend was about Rs. 1,000 crores cash out, working capital went up Rs. 600 crores or Rs. 700 crores.

K.C. Jhanwar: And this is a very normal feature, because Q4 versus Q1 always high one. And number two, the monsoon buildup also takes place for inventory.

Atul Daga: So, I am not particularly disturbed about spike in working capital in this quarter, as Jhanwar ji also just now mentioned. Q1 April, June always spikes up, historically you can check, n number of quarters it always spikes up. And then it will start tapering down and release more working capital. And just to complete to the previous question, the consumption cost was $123 per tonne of fuel in this quarter as compared to $109 in the previous quarter.

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

Amit Morarka: Just first question is around the capacity. So, while you mentioned that about 3.5 million tonnes will be commissioned in Q2, so that includes the Bara Phase-2, right?

Atul Daga: Yes, Bara Phase-2.

Amit Morarka: Okay. And also, just in terms of the cash flow, we are generating strong cash flows, and I believe for the full year it looks like we should be generating Rs. 12,000 crores plus. And now that the leverage is coming down substantially, what is the thought around the utilization of this cash flow, will it go towards further organic growth or will inorganic be also on the table, how will it be?

Atul Daga: It will go towards growth and shareholder returns.

Amit Morarka: Okay, got it. on trade, I missed the trade mix number, what was the trade mix in this quarter?

Atul Daga: 70%.

Amit Morarka: And blended cement would be how much?

Atul Daga: 72%.

Amit Morarka: Got it. So, also during the quarter, like my understanding was that generally the larger projects or did not get impacted as much, because the onsite workers were there.

Atul Daga: There was a bit of a slowdown, Amit, in whatever we have understood, and things have started picking up.

Amit Morarka: Okay. Why I asked that is, in the last quarter the trade mix was 67% and this quarter it is 70%. So, do we think that the non-trade activity slowed down more than trade in this quarter? Or was it just because maybe last quarter you could capture a bigger share with the non-trade market?

Atul Daga: See, what was happening is, the impression being built or the assumption being made in this quarter was that rural markets have slowed down, rural markets have slowed down. But rural markets did not slow down actually and we saw a good amount of demand surfacing from rural areas. My absolute quantity of cement consumption in non-trade is continuously going up also. Project to project it's too difficult to dissect the slowdown. I know some real estate projects where they were having 500 laborers on the site and now they have 350 laborers. The entire team of 500 laborers does not work on cement only, in the same cement related, there might be some other stuff also involved in the project. If you have been travelling to Worli, the coastal road project has been on throughout, it could have got stalled, whichever area was badly hit. I am just assuming, I don't know any project in Kerala, but Kerala is so badly impacted with COVID, it must have been…

K.C. Jhanwar: Just to add upon, I think there are some disruptions from site to site actually, temporarily. Because somewhere the impact of COVID was severe than the labor camps must have left actually. But to the best of understanding, the work is on the most of the sites, no where practically the zero kind of activity has happened. So, the work is going on, but maybe at reduced rate at certain site.

Amit Morarka: Okay, understood. And just lastly on Century, like what percentage of the brand transition has already happened?

Atul Daga: Everything completed, the Chhattisgarh plant we are not doing, so that continues to operate on the old brand.

Amit Morarka: And by when will the work be started on Chhattisgarh? I believe you will have to do some CAPEX also there?

Atul Daga: Yes, so decision has not been taken on that as yet, because we are having a lot of other expansions happening, plant less than 100 kilometers which is Hirmi is undergoing expansion. So, we have not taken a decision on that yet.

Amit Morarka: Okay. And that would be roughly 15% of volume, if I am not wrong, right, of the Century volume? The Baikunth capacity would be 15% of the total Century capacity, if I am not wrong?

Atul Daga: Baikunth was 2.4 million tonnes out of 14.6.

Moderator: Thank you. The next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: Basically just want to ask you, in terms of quarterly volumes you have ended up with quarter, let’s say, comparing to 1Q 2020 base almost unimpacted, while obviously nation went through a massive COVID wave with all the destruction that it caused. Could you also give a sense, although it’s backward looking, I understand there is a lot of excitement going forward, but could you also help us understand how did April, May and June individually pan out? Because then the June momentum could at least help us get insight into what we can look forward to.

Atul Daga: So, June capacity utilization was obviously the highest, way above 70%.

Lokesh Garg: Could you sort of share this commentary in form of Y-o-Y volume movement?

Atul Daga: Monthly numbers I don't want to talk about actually.

Lokesh Garg: Okay. Any other way you can give this perspective on how things have panned out as we move from…

Atul Daga: I can always share with you that directionally June had improved much better than what April was doing.

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

Satyadeep Jain: Most of my questions have been answered. Just one quick question, after the expansion you mentioned earlier clinker and grinding unit expansion, all the other expansion in East by FY23 would you have clinker shortage in East?

Atul Daga: No. See, the other thing that is happening is, Dalla clinker is coming up which was stuck for a long time, which is in Central, but in close proximity to East markets. Hirmi is expanding with clinkers, so we will not have clinker shortage.

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

Ritesh Shah: Sir, for this quarter, did we have full benefit of the MMDR amendment which I think was March end, is it possible to quantify the amount?

Atul Daga: I will get the quantification done and shared with you, but it's fairly simple, 64 bucks a tonne on limestone. 20.5 million tonnes, broadly you can take the same ratio, 20 million tonnes of limestone.

Ritesh Shah: Okay, great. Sir, my second question is, we have stayed away from commenting much on construction chemicals and white cement and wall putty. In the initial remarks you did indicate about wall putty expansion. Sir, these are easy wins for the company, Grasim has gone into paints, I think investors would love to hear specifically on construction chemicals wherein the company has a right to win. Sir, any incremental color, target, expansion plans will be very useful.

Atul Daga: I think you should reserve that question for the AGM and ask the Board, because I am discussing quarterly results. That was on a lighter vein, Ritesh. But construction chemicals, we have started work and we are building scale, and there's a lot of work happening right now. But it's too small in the overall P&L and balance sheet of UltraTech. Maybe Jhanwar ji can add further.

K.C. Jhanwar: What Atul said, I would like to just build up on. The construction chemical, as you all know, it's a very specialized subject actually. So, we started building up some skills about it and we are looking for something if we find interesting then obviously we will think of. But we are not at this stage, I would say, we have not zeroed down anything, we are just trying to build up our scale.

Ritesh Shah: Okay. And sir, is it possible to quantify how much would be the white cement and wall putty capacity post expansion?

Atul Daga: We are 0.6 right now. And putty I will let you know.

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

Girish Choudhary: A couple of questions, firstly, in your earlier comments you did indicate trade sales 70%. So, similarly, what is the rural urban/split? And if you could also guide us the volume mix from the urban real estate, if you have it handy.

Atul Daga: Urban real estate, I don't have a split like that. Rural sales were about 65% of our trade sales, 70% was trade sales.

Girish Choudhary: Okay. My second question was the gross debt and cash…

Atul Daga: Rs. 19,000 crores gross debt as of 30th June, and Rs. 13,000 crores of treasury.

Girish Choudhary: Sir, I have one more last question. You did give a very good slide on the UltraTech smart factory which talked about various initiatives using tech. So, if you could sort of elaborate this more in terms of ramping this up across plants. And if this is already implemented at any specific plant, what are the benefits you are seeing?

Atul Daga: So, I cannot disclose the plant at which it has already been implemented. There are various schemes which are under implementation at different levels and different things at different plants.

K.C. Jhanwar: I would add to what Atul said. Because the digital, as you know, there are a number of areas where our plant teams are working. It is in that cement plant area, it is in the power plant area and the other of the leading areas. So, the entire idea is how we can improve the reliability of our operations, how we can have our operations with minimized cost and reduced variation actually. If you are able to reduce the variation, basically the cost and reliability gets improved. So, some pilot projects have succeeded and now we are moving forward across the category.

Girish Choudhary: So, will this involve any sizable CAPEX?

K.C. Jhanwar: No, I would say very straight, it's not sizeable CAPEX, it’s more of a sort of software sitting on our existing systems actually. So, there is no much hardware gets involved in this entire exercise.

Atul Daga: So, for example, a lot of artificial intelligence, IoT is being done. To give you one example, a classic example, when the heat temporary varies in the kiln from one end to the other, and the team is trying to stabilize it through the kiln, narrowing it, which reduces the overall heat consumption. And this is being done through digital interventions.

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

Navin Sahadeo: Congratulations on good set of numbers. So, two questions, one is, you said your capacity utilization for the quarter was about 73% and June was also around 74%.

Atul Daga: Yes, that's correct. It was much lower. The real impact of lockdown/shutdown COVID wave 2 was in April.

Navin Sahadeo: Okay. What I was trying to really understand is, in July, as in since Q1 has already seen the impact of wave 2, so in July are you seeing a sense of pent-up demand? Or in general, are we operating at let's say the June utilization levels directionally or higher or lower than that, if you can give some color will help us understand.

Atul Daga: Navin, July is all about rains. So, July you will expect a lower capacity utilization. It should not be new to you guys, because every July the capacity utilization goes down.

Navin Sahadeo: Fair, I was just talking that in some regions the monsoon seemed a little delayed, so I was thinking is there any pent up factor so to say?

Atul Daga: We expect pent up demand to kick in big time, yes. As I mentioned earlier, I don't want to comment specifically on the month of July, on what's happening on the 22nd of July at 4pm. But there is a huge expectation of pent up demand coming back, as monsoon recedes you will start seeing demand picking up.

Navin Sahadeo: Okay. My second question was on your fuel mix. So, in the last call you said petcoke has come down to almost about 28%.

Atul Daga: It has gone lower further.

Navin Sahadeo: Yes. So, just wanted to understand what is the current fuel mix.

Atul Daga: Petcoke is about 17%; 2%, 3% would be other and balance would be coal.

Navin Sahadeo: So, in coal, I just wanted to understand, because prices of both imported coal as well as petcoke have been going up on a landed cost, I believe. The Indian coal turns out economical. So, just trying to understand, how much can it go, as in, can Indian coal be 20%? It used to be 10% in 2021. So, just trying to understand where does that as a percentage in overall mix come up to.

K.C. Jhanwar: I would respond to that. So, fundamentally it's a function of your plant location actually, because if you have your plants located in Central and Eastern parts of the country, obviously you have linkage as you are near to the coal mine, so then you can get the local coal. But if you are located, as you know, in the West or North, no way you can transport coal despite the imported coal prices have gone up. Number two, there is also linkages of the coal with now the limestone quality and so on. So, even if the local coal prices go quite low, but is switching over to the highest coal would be very difficult for the industry. And if we talk about UltraTech, we have plant in East, Central, North, West. So, it's a combination of fuel mix actually. So, we have in our basket the indigenous coal, we have the imported coal plant located on the West Coast and North part of the country.

Atul Daga: Navin, the advantage of our diversity is that we can use the most optimal fuel at a particular location.

Navin Sahadeo: Sure. So, I was just trying to know, because last year if Indian coal was 10%, will it be broadly there, not likely to change? Or there can be some scope of 10% going to 15%?

Atul Daga: You can take a range of 10% to 20%, I also don't have a number, but I am just guessing it will not go beyond that.

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

Rajesh Ravi: Congratulations on great set of numbers. My query is with regard to the fuel energy cost. You mentioned during the call that our consumption cost is up by almost 12% Q-on-Q. However, in the presentation that you shared, your energy cost per tonne is up around 5% Q-on-Q. So, what is explaining this massive difference?

Atul Daga: I am sorry, I missed your question.

Rajesh Ravi: Sir, in the presentation that you shared, there have been per tonne fuel energy cost, it is up by around 5% Q-on-Q. And during the call you answered to one of the participants that your consumption cost for fuel has increased from $109 to $123, so that is close to around 12% to 13%.

Atul Daga: That is petcoke what we were talking about.

Rajesh Ravi: Okay. So, this is particular to petcoke you are saying, that this cost is $109 to $123?

Atul Daga: Yes, that was petcoke.

Rajesh Ravi: Okay. So, my question, where I was coming in from is that because petcoke and coal, both have served over the last six months. So, how is that impacting your captive power generation also? Are you seeing a bump up in your electricity generation cost also?

Atul Daga: Not really, because we are taking FSA coal, which is regulated prices.

Rajesh Ravi: Okay. And sir, how much would be your captive consumption for electricity?

Atul Daga: 88%, 90% would be captive power.

K.C. Jhanwar: Most of our integrated plant, we have almost 80% plus is captive power.

Rajesh Ravi: Okay. And there you are not seeing a larger chunk of inflation that is largely coming up is in the kiln fuel is where you are facing the…

Atul Daga: Yes, correct.

Rajesh Ravi: And that is why the blended number is much lower from a power and fuel cost perspective?

Atul Daga: Yes.

Rajesh Ravi: Okay. And sir, secondly on the CAPEX, you mentioned that this year around 2 million tonnes would be commissioning, right? So, of the total 19 million tonnes, FY22 how much and which place the capacities are coming up?

Atul Daga: In 2022, we will have 3.2 million tonnes getting commissioned, Patna, Dankuni and Bara.

Rajesh Ravi: And the clinker also will be coming by end of March 2022?

Atul Daga: I already have clinker, these are all grinding capacities. All clinker will come by the end of 2023.

Rajesh Ravi: The Dalla in the UP where approvals are pending, you received Phase 1?

Atul Daga: Dalla will come by March 2022, Pali and Hirmi by March 2023.

Moderator: Thank you. The next question is from the line of Milind Suresh Raginwar from Centrum. Please go ahead.

Milind Suresh Raginwar: Sir, at the beginning of the call, you just mentioned about the regional capacity utilization, I got about 50% is South and 70% is East, can you please repeat the numbers for the other two regions?

Atul Daga: South was 50%, North was around 75%, East was 95% plus, Central and West was 70% plus.

Milind Suresh Raginwar: And the next thing is about the incentives part, how much of that should be built in the revenue numbers?

Atul Daga: Roughly Rs. 70 crores to be precise.

Milind Suresh Raginwar: And sir, if I am comparing the number of our volume, in the first quarter of 2022, over the first quarter of FY20, that is June 2019 quarter, we are still declining on that number despite the capacity. So, how should we read?

Atul Daga: One is, no new capacity has been added from June 2019 to June 2021. That is one, there will be big ramp up right now. So, no new capacity has got added on overall base of 100 plus million tonnes. Looking at April, June 2019 and April, June 2021, there is a marginal growth, not a decline. And what we are looking at is the potential, the way we saw the pent-up demand coming in and the new infra projects which I was particularly enumerated in my opening remarks, we expect that the demand will continue to surge. So, the cement consumption will keep on going up. Just to complete the loop, I don't think that there is stagnation. And there's no point in comparing with April, June 2019. Because a lot of water has flown under the bridge, there's a lot of issues with COVID which have impacted demand, new vistas of demand have opened up, urban real estate Tier-2 towns have started picking up, Tier-1 has started picking up, now we are just in the midst of monsoons.

K.C. Jhanwar: Just to add up on what Atul said, I would say it's good to note that there is a marginal increase in the overall numbers in terms of demand, despite the severe COVID wave actually in this particular quarter. Actually, as we all know there was a number of lockdown across the country and severity rate was too high actually. So, the positive side is that there is a good opportunity for growth going forward, I would read it this way.

Milind Suresh Raginwar: Okay. And Atul sir, lastly, our overall capacity utilization for the quarter was 74%, is that what I heard correctly?

Atul Daga: 73%.

Milind Suresh Raginwar: And for June it was 74%.

Atul Daga: Yes.

Milind Suresh Raginwar: So, that means our loss in the first few months was not that significant, is that the way to look at it?

Atul Daga: Yes, May was pretty bad. April had started declining.

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 Century plant's profitability, so while we are not like 1500 EBITDA per tonne, Century is where we used to target 900 odd, that would have been also exceed that number, right?

Atul Daga: We have crossed Rs. 1,000 mark there also.

Prateek Kumar: And regarding your fuel cost, is it possible to give a sort of average fuel cost, including coal and pet coke combined for this quarter versus last quarter?

Atul Daga: Just one second, if my team has it I will give it to you. I will get it communicated to you separately.

Prateek Kumar: Okay. And particularly last quarter results PPT of yours said that imported coal consumption at that time was $76 per tonne. So, how much of that now moved?

Atul Daga: Prateek, I will give the break up to you separately.

Prateek Kumar: Sure. And is it possible to quantify like how much, like another 100, 150 fueling station you can build on?

Atul Daga: Million-dollar question, I also don't have the answer for that.

Moderator: Thank you. The next question is from the line of Ronald from Sharekhan. Please go ahead.

Ronald: I had one query regarding raw material cost, like during this quarter you had changes in inventory, which if I see that including raw materials and purchase of finished stocks, it had completely absorbed the rising power and fuel and freight cost rise. And this phenomenon has also been in results of ACC and Mangalam. What we are seeing that raw material cost together on an aggregate has led to our performance on EBITDA per tonne, which we should expect also. If this can be explained, like what is this thing, is it gains in the inventory? I guess this kind of figure would not get I think repeated over the next coming quarters.

Atul Daga: I haven't followed your question. So, one is, if I look at my raw material cost, which has gone up from Rs. 470 a tonne to Rs. 510 a tonne, a large impact is felt because of diesel, huge amount of consumption in the mining operations, internal movement, that is what drives cost. And the second one is, fly ash contracts, fly ash is very opportunistic, the power plants also keep on changing prices, depending upon demand supply situation. Both of these are not in control.

Ronald: Sir, I am referring to the negative Rs. 290 odd crores, the changes in inventory of finished goods, which was there in the present quarter.

Atul Daga: That is because of increase in inventory in this year. Last year it was a decrease in inventory.

Ronald: So, this has brought down the overall cost of this, if I include raw materials and purchase of stock into it. So, this frees up around 200 per turn in profitability.

Atul Daga: No, this is the increase/decrease of raw material, this is increase/decrease of finished product and inventory.

Ronald: And this figure won't be repeated in upcoming quarters, right?

Atul Daga: It will change, it can go up or down. This element of the P&L is always there.

Moderator: Thank you. The next question is from the line of Roshan Paunikar JM Financial. Please go ahead.

Roshan Paunikar: Sir, in your presentation you have given that the proportion of green energy portfolio is at 15%, right?

Atul Daga: Correct.

Roshan Paunikar: Are there any internal targets and is there a cap up to which it can go up to?

Atul Daga: We are now looking at going up to 34% of our existing capacities with the green power, that should get completed by FY24 latest.

Roshan Paunikar: Okay. So, this includes the WHR capacity?

Atul Daga: Yes, WHR, solar, these are the two main stays.

Roshan Paunikar: Okay. And the next question is on the lead disclosure, what would it have been in this quarter?

Atul Daga: Lead distance, I believe, would have been higher around 430 odd kilometers.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Sir, two questions. One was, what was your white cement volumes?

Atul Daga: Look at the presentation, it is there in the presentation.

Bhavin Chheda: EBITDA numbers, sir.

Atul Daga: I am not able to calculate EBITDA separately.

Bhavin Chheda: Okay. You used to give a combined number of non-cement in the earlier quarters, so if you can, normally it is between 150, 160.

Atul Daga: No, nothing like that.

Bhavin Chheda: Sir, what was the industry growth number in the quarter one, if you can share that number?

Atul Daga: If the results get declared we will know. Only this is the second or third company declaring results. Four companies have declared results, we will have to wait to know what the industry growth is like.

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

Kamlesh Bagmar: Sir, one question on the part of divestment of overseas operations, like say that fiber assets which we got through the acquisition of Binani cement, any update on that?

Atul Daga: We are working on it, I am hopeful to conclude it in this financial year, where we now at least have multiple dialogues going on, there are interests being generated. So, the confidence level is very high that by end of March 2022 we should be rid of all these pending issues.

Kamlesh Bagmar: Okay. And sir, second question on this margin. So, you mentioned in your opening remarks that you are very confident that margins could improve from current levels of roughly around Rs. 1,600 per tonne, which we did in this quarter. So, given the fact that there is significant pressure on the cost side, and secondly like the way the volumes are coming up and the capacities are also coming up in the system, what drives this particular confidence on the margin?

Atul Daga: For the costs going up, they will not keep on moving in one single direction. I will again harp on the point that there is no offtake of petcoke at $150, so it's naturally going to correct. Second point is, new capacity is coming up, they need time to stabilize, time to mature, time to establish in the marketplace. Third point is, from UltraTech's point of view, we ourselves will bring in close to 15 million tonnes of capacity in the next fiscal year. I can already say lots of plants are already oversold, as in we have our order book building up whereby we will have our utilizations going up in those new capacities as well. Next point to add here is the brand itself, UltraTech is one of the best brands of cement, any major project whether it is a house or infra, UltraTech is there. And way India is growing, there is no reason why UltraTech will not grow. Clearly, over absorption is where the incremental capacity utilization will help absorb overheads at a much faster pace, the operating leverage keeps on improving, thus helping me improve my margins further.

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