"UltraTech Cement Limited Q1-FY23 Earnings Conference Call"

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MANAGEMENT: MR. K.C. JHANWAR – MANAGING DIRECTOR
MR. ATUL DAGA – EXECUTIVE DIRECTOR AND CFO

Moderator: Ladies and gentlemen, good day and welcome to the UltraTech Cement Limited Q1 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore reviewed 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Atul Daga: Thank you. Good evening, ladies and gentlemen and welcome to this call of UltraTech for our results for April-June quarter.

I will focus on three issues today. Demand, costs, and our growth plans. Demand is good. Costs as you all know have not been very good and I do not know how things will pan out in future. And growth prospects as we see are very good. We are happy to see the cement consumption in this current quarter, the reported quarter April, June quarter continuing the momentum after a strong performance in Q4, month after month we saw improvement in demand in cement consumption. The good part about this cement cycle is that urban housing has picked up in the last few quarters.

The unsold housing inventories at its record low. With RERA coming into effect, there has been a reduction in number of unorganized real estate players clearing the path for timebound completion of residential projects. The number of new project launches has also been on the rise, which will benefit cement of course. Might be these are announcements in real estate projects, after their announcement of real estate project there is still lead time before cement actually starts consumption. Cement consumption actually starts on each project site.

There is a negative impact on the purchasing power to invest in housing, but I believe demand is resilient. Large infrastructure projects like high-speed Mumbai-Ahmedabad train, coastal roads, Jewar Airport, Mumbai Airport to name some of them are leading to an overall growth in cement demand in the infrastructure space. With a lot of ancillary projects getting seeded which generate employment, income generation, and of course, housing growth.

The government's thrust on infrastructure growth is very much there and most welcome. Prices have been good. But like anyone else, we would also want them to be better given the inflationary trend in costs.

Now let me talk about the not so good news, which is input costs. Costs have been rising continuously. Fuel and energy costs have been a matter of concern for all players. Production costs have risen about 7% this quarter. Effect of rising costs have been mitigated by improvement in procurement prices, improvement in efficiency and better planning.

Everyone knows that China has a significant influence on most of the commodity prices. Good news is that China's domestic coal production at a high of 395 million metric ton in March before slipping to 362 million metric ton in April.

The average monthly production is trending 12% higher year on year. However, I understand that China has cut import tariffs for all types of coal to zero from May, '22 to March '23 as compared to the tariffs of 3% to 6% on imported coal depending on its quality.

This might still lead to a jump in exports to China, thereby leaving prices inflated for some more time. Good news is that petcoke prices have started softening. We have seen maybe about 10% reduction in the prices over the last month or so.

Hopefully coal will also follow suit. On an average, UltraTech would require about 13 million tons to 15 million tons of fuel per annum from FY24. With that kind of requirement, obviously we are planning our procurement strategies, inventory management plans, alternative fuel plans. WHRS efficiency improvement plans as best as we can to soften the impact of rising costs.

I would want to clarify on the news flow around Dalla Super, The JP unit which we had acquired in 2016. It was in stuck in NGT issues. It is in the last leg of forest clearances. You will recall we have held back Rs. 1,000 crores from the original consideration paid in June 16. After settling all the costs pertaining to forest clearances, land acquisitions, the balance money will be released to the sellers at the time of taking over the asset.

I realize this has got delayed. It is almost been five years, but trust me, we are clearing all the hurdles step by step. At this point in time, I do not want to give you any timeline on final clearance because every time I have committed, I have not been able to deliver on those timelines.

These things are not in our control. There are lots of government or regulatory clearances that have to be taken, but I am hopeful that we should be able to clear everything and the asset should start production before the end of this calendar.

There have been several theories during the rounds on our 22.6-million-ton expansion announced last month. I must tell you that it is a very well thought out planned step.

It is part of the earlier announced 50-million-ton growth plan. The news announcement of the 22.6-million-ton expansion was perhaps delayed by a month.

We were contemplating to go ahead as part of our Q4 Results Board meeting, but we went slow on it since there was news about Holcim assets transaction happening and we were also interested in looking at those assets.

Anyway, that is history now and we have got back in our stride. The delay caused in announcing the plans will not be a bottleneck to meeting our overall timelines to commission all the projects by 2025-26. Work is in full swing on the ordering process. In fact, lots of orders have already been placed. Main project items have already been ordered, advanced payments are being released. All these expansions are predicated on our fundamental philosophy of profitable growth.

Expansions are not done just to add capacity, but to generate profits. These investments are targeting an IRR in excess of 15%, as in when from '26 onwards when they start delivering production.

Thus, helping the overall balance sheet also improve its return ratios. The internal accruals will be sufficient to meet all the Capex requirements. At this juncture, my colleagues are reminding me of a unique and a creditable achievement of the company. The growth since inception have all been funded through internal accruals.

Why this expansion? India will remain a strong market growth market for a long time to come and after completing this expansion, we will chat out our road map to rise from 153 million tons to about 200-million-ton mark through organic and inorganic growth.

Do not ask me questions now, it is work in progress and we will come back to you with details in due course of time and tell you all about it. Where, when and how. That is all from my side for this quarter results. 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 Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: Three quick questions. My first is that you mentioned 153 million tons to 200 million tons. Now obviously that we do not expect any details, but is this part of the 2030 timeline or is this something which can be preponed even before 2030?

Atul Daga: It can be preponed. But whether it is 2027-28, 2028-29 somewhere around those timelines. So, because after completing the current expansion of '26, we will see how the markets are shaping up. We start preparing for that plan for '28 now and decide on the next steps somewhere around '26.

Pinakin Parekh: Okay, because I am just trying to put the numbers in context. 153 million tons to 200 million tons, is 47 million tons, right? If you are thinking to add by '28 or '29, you would have to start, if it is a large part of it is organic, you would have to start, the process of land acquisition, mines, ordering and stuff like that?

Atul Daga: So, land acquisition is a continuous process, Pinakin, which keeps on happening and that is why we are able to cut short the project execution time. When we announce our expansion plan, we would have completed our mines land acquisition, environment clearances already.

Pinakin Parekh: Sure. My second question sir, on the phase two expansion, slide 28, which gives the breakup between integrated units, grinding units, and bulk terminals. Now it mentions that bulk terminals is not additional capacity, but bulk terminals is around 2 million tons of this 22.7 million tons. So how?

Atul Daga: No. If you sum up all these 4.4, 5.7, 5.2 and 7.3; that is 22.6, but if you look at, let us say South, sum up all the four-line items, it is much more.

Pinakin Parekh: And can you give us lastly, a breakup of this 22.6 in terms of what is the clinker capacity of this?

Atul Daga: It is backed by full clinker. That is all I can say right now.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Sir, first question is on the cost. A bit surprised to see only a 10% sequential increase in the coal cost this quarter, so great year on the cost management. Given the inventory and the sourcing visibility we have, is it possible to give some guidance on the coming quarter how do we see the energy costs moving and the mix of coal?

Atul Daga: I find it very difficult. It was, I think last quarter I gave a guidance of 10% increase and I have barely managed to be there. It becomes very difficult to predict cost. Of course, the cost will get locked for the quarter in the next few days. But at this point, I would rather avoid doing forecasting and let me stick to the results.

Sumangal Nevatia: Okay, but just for understanding, I mean what sort of inventory and the lag is there in petcoke and international coal. Is it possible?

Atul Daga: We would have 50 plus days of inventory at the close of the quarter, close of June. And sorry, what was the next part of your question?

Sumangal Nevatia: Yes, 50 days, right? And it will be same? And it would be same for petcoke and thermal coal or some dip?

Atul Daga: Fuel mix is what I am talking about.

Sumangal Nevatia: Okay, understood.

Atul Daga: Because it is all our plants are multi fuel so we can fire anything.

Sumangal Nevatia: Second question which is more broadly on the industry supply dynamics. So, I mean, we are hearing that new entrant and also many other players might be a bit aggressive on the growth given the balance sheet across is in good shape for the sector. So, do we see a risk of increasing supply pressure and low utilization?

Atul Daga: No, I do not think so, Sumangal, because you will have to wait and watch for the next few quarters to see how the balance sheet shape up given the cost pressures that are being faced as also even if new capacities are added, I believe that new demand will continue to surpass the new capacity addition.

Sumangal Nevatia: And then one just last thing. I mean, are there any assets will come up anything on the block for an organic opportunity?

Atul Daga: Of course, there must be.

Moderator: Thank you. The next question is from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: So just a few questions. Yes, so like on the timelines, just wanted to check like what is the phasing of this phase 2 like, will it be all at the end of the period mentioned or would it come during like spread out during this period?

Atul Daga: Which one, the phase 2 expansion? It will be spread out. It may not be one day. It will be spread out. It cannot be one quarter.

Amit Murarka: So, is there any break up as of now available or we will have to wait for that then?

Atul Daga: I think let project work start. Right now, we are in the ordering state because main equipment, all main equipment have got ordered or will get ordered by the end of this month for all the plant locations. So, in the next couple of quarters, we should be start drawing timelines as well.

Amit Murarka: What will be the revised FY23 CAPEX number now?

Atul Daga: I am sorry?

Amit Murarka: The FY23 CAPEX guidance, that must be revised now right after the dip?

Atul Daga: Yes, it will go up I think plus minus Rs. 6,000 crores I would say.

Amit Murarka: And what would be the trade mix in the quarter?

Atul Daga: Trade mix 67%. Blended ratio is 70%.

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

Indrajit Agarwal: I have a couple of questions. First on the expansion. So, your CAPEX is at $75 per ton. We have seen some other players doing at a much higher number. So, what do you think the replacement cost for industry now is? I understand part of your land acquisition is done, part of it is brownfield. So how do you see the replacement cost ?

Atul Daga: I would, if you had to start from scratch today and on the current prevailing prices, I would peg it anywhere between plus minus $110 to $120.

Indrajit Agarwal: And secondly, as we are already planning for 2030, we will also have some limestone mines expiring by that period. So how are we planning for that? Any thought process? Any strategy we are adopting?

Atul Daga: So, I have two mines expiring and they will be ROFR, obviously, with the existing players, so we will secure those mines. What is required for us is to get more mines in the locations that we are blueprinting now. It is too early, but I thought the importance of tabling our growth plans for 2030 was so that you are not caught by surprise later on that it was not talked about. So anyway, limestone is secured. There are two mines which expire which we will have ROFR.

2030 cost of operations for every player will go up with, you were asking about our preparedness, sorry, we talked about costs of a Greenfield and our preparedness, so we will be prepared as and when time comes.

Indrajit Agarwal: One last question. We generally see a bump up in demand in the pre-election year. So, are you getting some kind of sense of that already or too soon to tell?

Atul Daga: I have reasons to believe that there are 20 months left pre-election and there is a huge amount of tailwinds for demand.

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

Prateek Kumar: First question is on; you have mentioned about overall utilization of 83% and I believe your quarter-on-quarter grey realizations are up 7%. Can you split this region wise utilizations and realizations?

Atul Daga: North and central would have gone up in double digits. West and East might be 5%, 6%. South was flat.

Prateek Kumar: Our realizations would be like better than industry growth because couple of peers of yours reported like 4%, 4.5% sequential growth this quarter?

Atul Daga: My peers, okay. I do not know who my peers are, but Yes, I think we should report good numbers.

Prateek Kumar: And secondly, when we say, only expansions, we have a 15% IRR post FY26. What kind of unit EBITDA we are like assuming for these expansions corresponding to the volumes we do?

Atul Daga: I think you can do your back calculation, Rs. 12,886 crores delivering a ROCE of 15% plus, would generate a Rs. 1,500 or there about. Rs. 1,400 to Rs. 1,500 EBITDA. We are looking at that number for '26.

Prateek Kumar: And lastly, on realizations. While we had a very strong Q1, how would the exit realizations of June quarter versus average for the quarter?

Atul Daga: June exit was slightly less, I think. When monsoon starts kicking in, realizations start dropping. Maybe 3% to 5% lower were the assumption in the chart. Anything else?

Prateek Kumar: So, 3% to 5% versus average, that is what you said?

Atul Daga: Yes.

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

Ashish Jain: Firstly, on expansion. So, I just want to understand like earlier when in December we had announced the expansion, we had spoken about 160 million tons by 2030 and now we have in a way raise that 200 million tons, that is like a major increase?

Atul Daga: See, we do not want to fall short of capacity and we are seeing, I've also given a demand outlook. So, if that demand outlook is there on a CAGR, we will not have capacity to service, if we do not expand.

Ashish Jain: Sir, what headroom we have on Brownfield or Greenfield, based upon limestone mines that we own?

Atul Daga: We will share that offline with you.

Ashish Jain: Lastly on cost means I understand you do not want to give a forward number, but where would our cost be let us say for June month or the first three weeks of July in terms of the energy cost versus what we were consuming in June on a permanent basis?

Atul Daga: Daily it is going up.

Ashish Jain: Okay, so let me put it like this.

Atul Daga: I think let us stick to a quarter instead of the month or the day or the weeks. Yes, it is very volatile.

Ashish Jain: And just one housekeeping question. What is our net debt at the end of this quarter? We have not shared it?

Atul Daga: Sorry, I think there were too many slides. Net debt has gone up slightly. We are at Rs. 5,561 crores on a consolidated basis and India is Rs. 4,670 crores.

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

Satyadeep Jain: A couple of questions on the slide 28. Some details on the expansion. In South you are adding GUs, especially, one of the GUs is actually far from Andhra Pradesh. Are you looking to add clinker in Tamil Nadu in this one, or is the new GU is going to be served from Andhra Pradesh?

Atul Daga: We will serve it from APCW, the IU, which is Andhra. We are also participating in mines auctions in Tamil Nadu.

Satyadeep Jain: Because one of the GUs, Karur is actually will be 600 kilometers from APCW?

Atul Daga: I know, I am fully aware and our plan is that we will have the bulk terminal at Bangalore. From there it can service, directly also it can service.

Satyadeep Jain: And you are also banking on possible auction wins also to support some of the GUs?

Atul Daga: I am sorry, banking on?

Satyadeep Jain: Possible auction wins?

Atul Daga: Yes, certainly.

Satyadeep Jain: Just a couple of questions on the entire CAPEX. One is, somewhat surprising to see A greenfield IU in Chhattisgarh, given you already have GU clinker plants within 10 to 15 kilometers of that upcoming plant?

Atul Daga: Yes, also it helps me leverage on economies of scale big time. And if you look at the next chart, which is page 29, the focus is now how we will service the Northeast market. So, the extreme East plants, which is West Bengal plants will start catering to Northeast so that capacity is available from here to service the other markets.

K. C. Jhanwar: And moreover, Atul, I may add actually. The limestone is available only in Chhattisgarh in the East actually. So, people have no choice other than to put up the clinker facility in Chhattisgarh only. There is no limestone in Bihar, Jharkhand, Bengal. Orissa, even very limited quantity. So Chhattisgarh is a natural choice for clinkerization units.

Atul Daga: We have similar concentration in Satna. We have three units there. So, it also helps the economies of scale.

Satyadeep Jain: My question was why not do a brownfield in Hirmi or the other?

Atul Daga: We are just completing a brownfield in Hirmi. The clinkerization got commissioned I think last month and cement will get commissioned this month or next month perhaps.

K. C. Jhanwar: Beyond a limit one should not also complicate one particular site, so if they have other options, then why not to first use those options rather than making a one particular location vulnerable from multiple point of views.

Satyadeep Jain: Lastly, you have done in this round of expansion is Kotputli but I guess the Nawalgarh land acquisition is also complete. Is that going to be part of the next level of growth?

Atul Daga: Nawalgarh will form part of my next phase of growth. There are some issues on mines which we are sorting out.

Satyadeep Jain: On the mines you said lines or mines?

Atul Daga: On mines.

Management: Mines and land both.

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

Girish Choudhary: So, there was this recent news that you bought this Russian coal at $164, so on this, what would be the landed cost and incrementally how much more of this low-cost fuel can be replaced with other high cost?

Atul Daga: So, $164 is what the cost is. $168, if I remember it right. And we keep one scouting for opportunities, so there is nothing, in fact it was opportunistic transaction. If something more surfaces, we will pick it up.

Girish Choudhary: So as of now we have just bought this just one?

Atul Daga: 157,000 tons.

Girish Choudhary: And secondly, if you can just guide us on for the phase 2 expansion, what would be the CAPEX to be spent over ’23, ’24, ‘25?

Atul Daga: We have the phasing as yet? I think give me next quarter because we are just in the ordering phase right now, so hopefully we will give clarity on cash flows next quarter.

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

Navin Sahadeo: Couple of questions. So first I would request some more details or color about the slide 8, wherein we are talking about electrification of cement kiln heating process. So, I just wanted to understand, can this be a big opportunity in the sense, can we really go in for instead of?

Atul Daga: Yes, it can be. Technical discussions have just started. It is not happening in the next couple of years. It is a long-term plan, but the emphasis is that we are making all efforts possible on reducing emissions.

Navin Sahadeo: The next phase of, if at all, there is the next phase of evolution, this can be one of it?

Atul Daga: Yes, this will be a game changer.

Navin Sahadeo: Second then I just wanted to request your views on the overall pricing power in the sense that off late what we see is that despite the cost rising, we have not really been able to like pass on prices commensurate to the way the cost is, also understands government's focus on inflation. When diesel prices were reduced, there was also an industry reciprocation of passing it on to consumers. So, is it safe to say that, until such time the inflation stays firm, we should be more looking at cost because prices may not really go up? Your views, please.

Atul Daga: So Navin, as of now, I think we would want to balance the cost pressures with prices, and if you look at the current quarter performance, the reported quarters performance also, it is been alright and I have always maintained that the price increases will always be with a lag effect. They do not happen immediately.

The efforts will be at the moment to cover cost increases, cost pressures with prices.

Navin Sahadeo: Sir, just wanted on the costing part. Because the prices have been volatile, but off late we have also seen global prices seeing fair amount of drop. So, it will be safe to comment that whatever cost of like fuel that we saw in the quarter, is that very much the peak or no, we can still see some decent increase coming into Q2?

Atul Daga: Keeping my fingers crossed that we have passed the hump, but as of now, at least in the next two or three quarters, we would still see price increases, cost pressures continue.

Navin Sahadeo: For two, three quarters, because as you said, in just a few weeks we would have in just a couple of days may be our cost for Q1 gets locked because of that inventory aspect. But it would still be on a rising trend for at least one to two quarters?

Atul Daga: It will be on a rising trend.

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

Kamlesh Bagmar: Sir, one question on the part of let us say phase 2 expansion. So how much is the waste heat recovery capacity included in that?

Atul Daga: In the expansion?

Kamlesh Bagmar: Yes.

Atul Daga: About 50 to 60 megawatts.

Kamlesh Bagmar: And would that be sufficient to reach our target or 45% realization?

Atul Daga: Along with that we will be doing solar as well.

Kamlesh Bagmar: And secondly, on part of?

Atul Daga: The important aspect to note is that we are not putting up any thermal power.

Kamlesh Bagmar: And Sir, on the part of your existing expansion, that is phase 1, so some like say in the Cuttack we have reduced like we have revised the capacity. So that is coming up with like Rajpura and other units. So, what has been the reason behind that? Because those capacity expansions have been going for long in Cuttack, particularly in Cuttack?

Atul Daga: So, Cuttack, for example, the plan was two lines of 2 million tons, 2.2 million tons each. After looking at the market and opportunities available, I think the team decided that we should restrict ourselves at the moment to 2.2 million tons only at Cuttack. 2.8 million tons, sorry.

Kamlesh Bagmar: And lastly, the way phase 2 expansion is, like there is going to be a far higher level of blending ratios as compared to what we are at currently because like we are coming up with units in South where branding image would be in Tamil Nadu and even in Chhattisgarh and UP.

So, would it be like here, how much blending ratio or blended ratio can be assumed or clinker conversion ratio in this phase 2 expansion?

Atul Daga: So currently we are already reaching 70%. On a consolidated basis, we might see a percentage improvement further.

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

Rajesh Kumar Ravi: My question pertains to first on the phase 2 expansion, 23 million tons. So, is it fair to assume that it would be backed with 15 odd million tons clinker capacities?

Atul Daga: Yes, plus or minus.

Rajesh Kumar Ravi: Second, the blended fuel costs which you have mentioned. On a per kilo calc for Q1, where would that stand?

Atul Daga: So, we have given the fuel costs at 2,200.

Management: 2,200/ million kcal.

Rajesh Kumar Ravi: Okay, Rs. 2.2 sort of a number you are talking, right?

Atul Daga: Yes.

Rajesh Kumar Ravi: So why I am asking this is that, given that imported coal prices are currently hovering at north of Rs. 4, and even petcoke prices are Rs. 2.5 after falling off recently. So, is it fair to assume that we could see a sharp hardening in Q2 numbers from Rs. 2.2 north of Rs. 3?

Atul Daga: Yes, so as I mentioned in a previous question, also costs for Q2 will go up. I do not want to give any guidance on the number, but it will go up.

Rajesh Kumar Ravi: No, because you already have 50 days of inventory, almost closer to that. So, for most of your Q2, your cost would be secured?

Atul Daga: Yes, it is secured. It will go up. The reported cost will go up.

Rajesh Kumar Ravi: Okay. And sir, your net debt number on a Q-on-Q basis would have gone up by Rs. 2,000 crores?

Atul Daga: No. Okay, we are very close. And Rs. 1,600 crores have gone up. On a consolidated basis but India has gone up by Rs. 900 crores.

Rajesh Kumar Ravi: And last question, is the overseas operations if I back calculate the India operations and consolidated, the numbers look quite depressed. What would that be on account of?

Atul Daga: So, what has happened is we have operations in Sri Lanka where we have to take a rupee depreciation, the currency depreciation impact of about Rs. 38 crores. Other than that, sorry, you were asking about an operating cost, right?

Rajesh Kumar Ravi: At the EBITDA level the margin would be not more than Rs. 150 per tons for the overseas operations?

Atul Daga: Overall, because of Sri Lanka is what we have suffered on the P&L.

Rajesh Kumar Ravi: Okay, Rs. 38 odd crores for the quarter itself?

Atul Daga: Rs. 38 crores have been provided for currency.

Rajesh Kumar Ravi: Okay. In the expenses only, other expenses?

Atul Daga: Yes.

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

Ritesh Shah: Sir, wanted to understand the price growth. I think it is pretty stunning when one just compares it with the other listed companies which have reported so far. Anything specific that you would like to highlight? I think, I would love to hear your thoughts here for the first question?

Atul Daga: About what? Numbers speak?

Ritesh Shah: Yes, but sir, how basically was it a more premium sales, I think that number is something which has been quantified is a direct dispatches to leaders or anything different on discounting or anything at all?

Atul Daga: Ritesh, you look at the number. Let us do the business.

Ritesh Shah: That is there.

Atul Daga: You enjoy the numbers, why are you counting the goodly?

Ritesh Shah: Has there been any shift in the sales mix basically region wise where in pricing was more conducive to us, which could have helped us?

Atul Daga: I think there was a question which was asked earlier. North and Central we were able to get better price improvement as compared to the other markets.

Ritesh Shah: Sir, second question is, we have announced incremental phase 2 of growth CAPEX, 22 million tons. What sort of growth optionality do we have after this?

Atul Daga: I think you joined in slightly late. I talked about the next phase of growth will take us to 200 million tons. Now, somebody had asked a question whether we will do 40 million tons in two years. It is too early to talk about phasing of that, but that is the game plan that we have in place now going to 2030.

Ritesh Shah: And sir, last question. Given we have out laid our plans on the capacity side. We have also indicated CAPEX intensity, which is great. Anything which can actually improve our positioning on the cost curve as we continue to expand? Anything from a logistic side, anything that one can look at, say DFC, any other variables?

Atul Daga: I think as far as DFC is concerned, UltraTech is very well positioned to take advantage. Today we run more than 260-odd railheads in the country. I think after Coal India I think we might be having the highest number of in the private sector railway sidings. So, we will definitely get the benefit of lower cost in terms of movement through railway corridor. Economies of scale will always be a plus point for a large operation like ours. Whether economies of buying, economies of logistics.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Just one question. What I derived looking at your realization is that clearly the gap between trade and non-trade is much lesser in the particular quarter?

Atul Daga: That is absolutely right.

Pulkit Patni: Anything structural there for us to?

Atul Daga: Structural efforts.

Pulkit Patni: Any sense on what that gap would be right now?

Atul Daga: 15-20 bucks.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Just a one question. If you can share the coal mix in the quarter, how much was petcoke, linkage coal, which normally share in the quarter?

Atul Daga: 52% is petcoke is what my colleagues are telling me and 37% is imported coal, and 5% is domestic coal. Balance is others.

Bhavin Chheda: Comparing to quarter 4, the linkage coal was close to 17%, 8%, so it is gone down further?

Atul Daga: Indigenous coal is more or less at the same level.

Bhavin Chheda: And sir, are you getting any imported coal under long term contracts? Because it looks like you are saving a lot on power and fuel as compared to some peers?

Atul Daga: Yes, so I was emphatic about our strategies on fuel management given the quantum of fuel that we consume. So, there are lots of efforts which we go which are put in, with that long term contracts. Whether it is sources of supplies mix. Everything goes on.

Bhavin Chheda: And what would be the lead distance in the quarter, average for the company?

Atul Daga: About 429 kilometers.

Moderator: Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Most of the questions have been answered. A couple of things, sir. In terms of the CAPEX, the already ongoing 19.9 MTPA. So, when we announced the CAPEX was around Rs. 6,500 crores. So, has that number increased or?

Atul Daga: No. It might increase by Rs. 100 crores here or there, but that is all.

Shravan Shah: So, broadly you mentioned Rs. 6,000 crores CAPEX for this year FY23, so FY24, the number should be Rs. 7,000 crores, Rs. 8,000 crores odd?

Atul Daga: I think the ability to spend also is capability exists, but ability to spend will also be there. You know on the ground execution. So, Rs. 6.000 crores plus minus should be an annual spend.

Shravan Shah: And this entire 22.6 when we say 25 but I think in your comments you mentioned maybe by FY26?

Atul Daga: FY25-26 because, as we progress, we will have more clarity on the exact dates.

Shravan Shah: And the other is the already a clinker that we announced in 19.9 MTP expansion. So we have given the grinding expansion timeline but clinker if you can help me out, out of that 11.4 MTPA that we announced previously?

Atul Daga: The upper limit for example, Hirmi, if you look at, the clinker has already got commissioned. Now there is Pali, which is clinker, which is in Q3, Dhar is in Q3, others are all grinding units. It is there in the chart, page 23. Q3 '23 is what the other clinkerization commissioning is.

Shravan Shah: And just a last. You mentioned that the pricing has gone down 3% to 5% in June versus the average for this quarter. Has it also further reduced the realization in the first 20 days of July?

Atul Daga: July is always, the way the monsoons have been progressing in the country, I think July generally the prices soften a bit.

Moderator: Thank you. The next question is from the line of Sanjay Gandhi from Ratnabali. Please go ahead.

Sanjay Gandhi: Just one or two questions. Like you mentioned, like the trade down trade cap is currently Rs. 15, Rs. 20 per bag. So, what was the thing like previously before of this like improvement?

Atul Daga: It was higher than Rs. 20.

Sanjay Gandhi: Just a long-term question. Sir, like in China the per capita consumption is 1,500 KG per person and in India we are heading to 200 KG?

Atul Daga: Now may be closer to 300 KG now. It is improved but way behind China. But if you exclude China, but China is high on everything. If you exclude China, then the average per capita of the globe will be 500 KG to 600 KG per capita.

Sanjay Gandhi: Do you feel like in next 10 years' time we will be able to like touch that?

Atul Daga: It is improving, so when five years ago it was closer to 200. Now it is reaching about 200, 300, so it is improving.

Moderator: Thank you. The next question is from the line of Akshata Telisara from SBI General Insurance. Please go ahead.

Akshata Telisara: So, over the last decade we did see a lot of capacities coming in anticipation of demand. But the demand did not materialize enough and therefore we kind of entered a surplus environment. Even today a lot of capacities have been announced by you and your peers. So, my question is, how do you see the large players like you and others interact with the other large players in regions like north and central or how do you see the small players interact with other small players in say South? Or how do you see the large and the small talk to each other in regions like East? So, if you could just elaborate a little on that? Thank you.

Atul Daga: first and foremost, we do not have to interact with other players, so that is the shortest answer I can give you. Unless you have something else to ask, or I did not understand your question?

Akshata Telisara: No, I was just wanting to understand how would the pricing play within the players, given that there is a demand supply mismatch here?

Atul Daga: Every market, its prices are clearly driven by demand supply and if you are tracking the cement market for a longer history, the moment any market crosses 85% capacity utilization, there is a very strong uptick in prices. So that is how the markets behave.

Akshata Telisara: But on an aggregate level, we are around 70, right so?

Atul Daga: I am sorry what?

Akshata Telisara: On an aggregate level, we are at around 70?

Atul Daga: The capacity utilization at and all the country level 70%, yes. But this is again to caution you, one should never look at All India full year capacity utilization. You will never reach a high number because cement is seasonal. July, September, and the peak summer months do pull down the cement consumption, so you will never have All India number to go by.

You have to test waters for January, March. January, March we operated the last year we operated at 93% capacity utilization we operated. In fact, for the month of March we operated at close to 100% and I would want you to imagine, 55 physical plant locations operating at 100%

capacity utilization. Railway sidings operating 100%. No strikes happening anywhere. Railway wagons available. Everything moving smoothly. If that happens, then you have 100% capacity utilization.

Moderator: Thank you. The next question is from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: So, actually on slide 30 you have mentioned about improving the blending ratio, which actually is quite an interesting comment given that you have one of the lower blending ratios actually among the players. So how will that be achieved? Will it also mean like you will focus more on the trade markets and hence maybe it is the lower OPC or how do you think about that?

Atul Daga: See OPC will if infrastructure is going up, OPC consumption will go up. Large infra projects tend to consume OPC and that is where UltraTech stands out in supporting the infra growth unlike any other player in the country. What we are also engaging in is advocacy with the infrastructure players to do blending and reduce OPC consumption. That is what will help us improve the overall blending ratio. Besides, there are markets, now Eastern markets are composite cement markets which they higher the sales mix in those markets or southern markets will improve the overall blending ratio.

Amit Murarka: Okay, and is there any number you have in mind like going up to 1.4, 1. 5?

Atul Daga: We are already at 1.4 today.

Amit Murarka: Okay Yes, you used to be slightly lower than that so basically?

Atul Daga: Yes. We were at 1.34 in maybe a year or two years ago. But we are already at 1.4 and obviously the ambition will be to improve it further.

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

Prateek Kumar: Sir, there is some question bookkeeping question on slide 13 of your presentation. There is a line item under others which says the Rs. 291 crores of revenues and corresponding that there is no volumes. We used to give this export and others volumes in this head. So firstly, why is there is no volumes here? Also, this Rs. 291 crores is corresponding to what exactly?

Management: So that others is actually an inter-company sell, which we have removed from this quarter. If you add up all these numbers, which is cement, RMC, white and grey cement, it will add to the consolidated number. It was only an intercompany sale, so.

Atul Daga: Volume has not been shown on that account.

Management: And Rs. 291 crores revenue, which is on other business, UBS, BPD and others.

Atul Daga: Yes, so UBS sales or our building construction chemical sales or other incomes or other miscellaneous sales that might be there.

Prateek Kumar: So last quarter that number was?

Atul Daga: We are trying to improve the disclosures simplify your life what perhaps you might want is export volumes. Export volumes were dismal. Our exports are largely to Sri Lanka, and Sri Lanka was virtually no exports. Just 1 lakh tons of export to Sri Lanka.

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

Indrajit Agarwal: Hi sir, one follow-up bookkeeping question. Any ballpark number on how much CAPEX is remaining in phase 1 for FY23?

Atul Daga: We should complete everything this year and maybe Rs. 2,000 crores, Rs. 3,000 crores of spending might be pending. Might be pending, if I am wrong then Ankit will revert to you, Indrajit.

Indrajit Agarwal: Sure, thank you so much.

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

Ritesh Shah: Two questions. First is, Grasim has made an announcement of Rs. 2,000 crores on the B2B side online portal. We have a solid UBS franchise. Any color if both the variables can actually marry into each other for both the entities to realize the gains?

Atul Daga: They should be. I think they will evaluate how to synergize because that is B2B e-com. That is what I believe. Our UBS is hardcore it is B2C. I do not have too much more insights on what Grasim is doing.

Ritesh Shah: Any growth numbers or target numbers on UBS stores, say three years out, any target revenues over there?

Atul Daga: We are today reaching about 3,000 odd stores. UBS from cement perspective because it is an important channel partner for us. I would think 10% of revenue quantity. Today it is 15%. Just today, about 15% of our cement volumes are through UBS outlet so we will continue to grow the UBS channel.

Ritesh Shah: Sure. And sir, on RMC, there are few players who are going super aggressive in the market. Any plans over here to up the game?

Atul Daga: We are expanding pretty rapidly. Today we have reached, you know, maybe a year ago or six quarters ago we were static around 100 plants. Today we have reached almost 171 plants, YoY

35 plant growth has happened. So it is, if I look at the revenue numbers on that same chart, 77% growth in revenue. And mind you, we generate incremental EBITDA over the cement EBITDA. So, it is not just channel, but it generates its own P&L.

Ritesh Shah: Sir, last question. I am not sure should I ask or not but I still I will go ahead with it. Sir, at what point do you think that adding capacity beyond a particular point could actually be detrimental to us? What is the variable that you will look at and say I do not want to do any incremental?

Atul Daga: In the light way, if I look right, I see my plant, and if I look left, I see my plant, then that is when we will stop adding capacity. But to be honest, this question will get. It is a brilliant, Ritesh. The answer to this would be defined by lead distance. How much lead I am generating?

Maybe today I am here at 439 kilometers. Maybe average of 300 kilometres might be a good lead to operate on. To that extent we will keep on expanding because there will be opportunity to expand. Let me put it this way. There will be opportunity to expand, but there is no, this is off the cuff answer. There is no scientific work that I have done in giving this answer.

Ritesh Shah: Right. If I just try to push you a little bit. We have given numbers, say 2025 probably something by 2030. Any specific numbers and market share that we would be looking at given you would have certain number?

Atul Daga: We cannot define market share because we do not get any market data. We do not know how the capacity will be there, how the growth will be there, so it is difficult. You ask me a difficult question, I will give you a difficult answer.

Moderator: Thank you. Ladies and gentlemen, that was the last question. On behalf of UltraTech Cement, that concludes this conference. Thank you for joining us and you may now disconnect your lines.