# "UltraTech Cement Limited Q2 FY-23 Earnings Conference Call"

**October 19, 2022**

**MANAGEMENT: MR. ATUL DAGA – EXECUTIVE DIRECTOR & CFO, ULTRATECH CEMENT LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to the Q2 FY23 Earnings Conference Call of UltraTech Cement Limited. 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, please signal an operator by pressing "*" and 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 so much. Good evening and a very warm welcome to all of you to this earnings call of UltraTech Cement. As was expected, this quarter has not been good for the industry as well as ourselves alike. Lots of things happened which went not in favor of the industry, which are clearly reflected in our numbers as well.

Let me talk about all the negatives first and there are lots of good things also to talk about:

Firstly, the monsoon as you are already seeing everybody is aware monsoons have been so erratic. It seems to be a dramatic ecological change that is taking place in the country. Excessive monsoons have been there almost all parts of the country, except maybe some areas like Tamil Nadu, Assam and Meghalaya, which saw lesser rains, delayed exit of monsoon has been causing some amount of pressure on cement consumption and construction activity and it remains to be seen how the delayed exit of monsoons will impact the crops. We'll have to wait and watch.

Cost is the next item which I would want to touch upon and as I had mentioned in the call during our last quarter, the costs are still elevated, continue to remain high, primarily driven by the rising prices of fuel. There was a brief period of merriment when petcoke prices dropped to 170 and everybody thought that this reduction is permanent. I'm sure many players interested in petcoke would have booked some contracts between 170-190. But today, as of yesterday in fact, the prices of petcoke are back to (+205). There was some news about Venezuelan supplies as well. However, we were advised not to venture into Venezuela supplied with the US sanctions. Coal is stuck around $300-$350. Softened up a bit, but still very high. Not yet worth buying for most of the cement players as there is significant arbitrage in petcoke. Few years ago it used to be opposite. Petcoke was expensive as compared to coal.

In our analysis, the geopolitical situation continues to be the driver for determining the costs or the trends or the direction in which the fuel costs will move. China is always the sleeping giant. Today the Chinese economy is down, but I'm sure China will revive open-up at some point or the other. Europe has started its coal fired engines because of the ongoing war in Europe, in the Russia European war which is also sucking a lot of coal supplies.

Our view is that fuel costs will remain high due to the ongoing geopolitical scenario. Albeit, we have seen the worst on coal and petcoke prices. Hopefully they should not go up further. Crude has softened a bit, but we'll have to wait till the government decides to pass on the benefit to industrial consumers. We have to wait and see in the manner in which it is passed on and how much is passed on.

During this quarter, UltraTech has completed shutdown work on almost 19 of its kilns out of the total 43 kilns. Maintenance costs have been higher because of inflationary pressure on refractory brick cost and other maintenance costs. Prices were under pressure towards the end of May '22 and they saw a continuous slide. Monsoons don't see any opportunity in increasing prices. However, the first available opportunity that the industry saw, I believe in pockets where demand has been good, price increases have been attempted. Some price increases have settled, some have not settled in the country. Typical of the Indian cyclical cement industry, the season for cement starts after the festive season is over, which is after Diwali. So, Diwali ends on 24th and maybe 25th of this month and you should start seeing improvement in the market sentiment on all factors after that only.

One negative aspect about the rising prices of fuel is large cash flows are getting blocked in costlier working capital. After enjoying a long run of negative working capital, we had no choice but to give up the gains with rising costs and identifying pockets of opportunities to buy cheaper fuel, we have increased consciously, we have increased our inventories which has resulted in increase in our working capital. However, I am confident that in the next 6 months as volumes go up as the cost of purchase of fuel stabilizes, our working capital will go back into the negative working capital zone before the end of this fiscal year. There is no reason why the industry will not take prices up since the margins are continuously under pressure.

Let me now talk about the positive side:

Demand has been good and that is the most important factor, most heartwarming factor from our perspective. On an increased capacity, we increased about 4.5 million tons of capacity YOY. On an increased capacity our domestic volumes have grown about 10%. This could have been higher but for the heavy monsoons. Improvement in capacities bode well for profitability and cash flows. Good capacity utilization is the key. Good capacity utilization would easily help increase prices.

This year and the next year definitely can be delivering a double-digit growth. Why? Well, because the first half itself at UltraTech we have recorded about an average of 14% growth despite a weak monsoon quarter. As you are all aware that demand starts picking up post November and March is a peak period. Definitely we should be able to deliver double digit growth this year and next year as well.

During the quarter we've commissioned about 32 MW of renewable energy taking the total to 318 MW which makes it to 5.6% of our total power consumption. An additional 5 MW WHRS was also commissioned. Birla White continues to strengthen its position in the industry. Putty expansion that we had undertaken 4 lakh tons of additional capacity, it's under trial production and we hope to commercialize the plant before the end of this month or mid- November. Imports from Rak White will further strengthen the brand presence in the country. I believe the first shipment will happen during this quarter. We have been steadily growing our construction chemicals business which recorded revenues of about 132 crores, up from 82 crores last year.

On our growth plan we are again ready to ride the high demand cycle with additional capacity getting commissioned. During the reported period we commissioned Dalla brownfield expansion of 1.3 million tons ending this quarter at 115.85 million tons of capacity. Pali, greenfield plant and Dhar brownfield expansion is almost ready to roll out production and we should see commissioning of these plants in the October-December quarter.

We are on course, on track to reach 131.25 million tons of capacity by the end of March ‘23 which will be fully available for the next fiscal year to meet the rising demand and generate additional cash flows for the company and the shareholders. All this capacity expansion is being met out of internal accruals and this year we expect cash outflow on CAPEX of anywhere between 6000 crores to 7000 crores. We have already done in the first half of I think 2900 or 3000 crores of cash has already been spent on CAPEX in the first half. The phase 2 expansion of 22.6 million tons which was announced last quarter, work has commenced almost 500 crores of spending has taken place on advanced payments, labor mobilization, some sites civil work has already started. This is going to take us to our next milestone of 153 million tons of capacity by ‘25-26.

A quick update on ESG; we continue to focus on reducing CO2 emissions with several collaborations and global tie-ups. Four of our key cement products have been granted environment product declaration. It's called EPD. This is a key step in our endeavor to drive sustainability in our business with a lifecycle approach. With this UltraTech green product portfolio includes more than 70 GreenPro certified products. We continue our focus on improving our blending ratios this quarter yet again we have gone up to 1.41 as our conversion ratio, blended cement continues to rise. Blended cement has reached about 71% which helps us meet our targets to reduce our carbon emissions. In the end, I'll conclude by saying that I believe cement is going to see a good time in the next few years and for which UltraTech is very well prepared. Thank you and over to you for questions.

**Moderator:** Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Sumangal Nevatia from Kotak Securities.

**Sumangal Nevatia:** My first question is with respect to the energy costs. I missed the opening remarks. If you see both the coal and petcoke it's been quite volatile. It corrected from the peak sharply but again has started increasing. So, if you could just elaborate. I mean how do we see on consumption basis our power and fuel cost shaping up in the next two quarters?

**Atul Daga:** We believe that this quarter, the July-September quarter was a peak cost and we should start seeing marginal reduction in our consumption cost in the next two quarters.

**Sumangal Nevatia:** Is it possible to quantify?

**Atul Daga:** No.

**Sumangal Nevatia:** Okay, generally how many days of inventory are we carrying or have we increased our…?

**Atul Daga:** Our normal norm is about 45 days and this time we have consciously gone up to 55 days. That is why I spelt out our working capital increase also taking place.

**Sumangal Nevatia:** Understood, that's helpful. On the RM cost we read the comment and also that index which you shared on the fly-ash, it's up 8%-9% quarter-on-quarter which is a bit unusual. Is it possible to share? What sort of inflation are we seeing in other RMs like slag, gypsum and also is this seasonal one-off spike?

**Atul Daga:** Yes, Sumangal this is one-off. What happens is that in case there is a power plant shutdown, so you have to source fly-ash from a next available power plant which will be obviously further away, so the transportation cost goes up. There is no pattern that you can establish accordingly on fly-ash costs.

**Sumangal Nevatia:** Okay, understood. Just one last broad question on the overall M&A, there are a lot of media reports on say JP Assets, India Cement and few regional players in east and west. How do we see the M&A activity shaping up in the sector and given our market share, what sort of inorganic growth appetite do you see for UltraTech?

**Atul Daga:** All I can share with you is to allay the confusion in minds of several people that given our size we will get restricted on consolidation. But the geography is wide open for UltraTech to consolidate through inorganic routes also. As and when some opportunity surfaces in any part of the country, we will examine it.

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

**Amit Murarka:** On the cost side, like in the presentation its mentioned that the power and fuel cost was $200. The fuel was $200 per ton. This includes the domestic coal sourcing as well or this is the imported fuel cost.

**Atul Daga:** This is imported fuel cost. Domestic coal for us is a very small percentage, 7% to 8% only.

**Amit Murarka:** Last time in the last call, you had mentioned that there were some cargos of Russian coal and all which was taken. So, was that there in this quarter and the sourcing is continuing as of now?

**Atul Daga:** Yes, it has started getting into consumption in this quarter and it was an opportunistic trade. In case something again surfaces, we will examine it.

**Amit Murarka:** On the petcoke, the spot prices, could you just share some light on that? Like, what is the spot petcoke? Is it closer to like 200 or is it gone beyond that also?

**Atul Daga:** Beyond 200 now. I mentioned on the call Amit 205.

**Amit Murarka:** Okay, I missed that.

**Moderator:** The next question is from the line of Ritesh from Investec.

**Ritesh:** Couple of questions, first one is you indicated you are open to inorganic growth. How should we look at it? What are the things that you look at which will make us attract to the asset?

**Atul Daga:** You see, our fundamental premise for evaluating any asset is a profitable growth opportunity. I'll pay a price on which I am able to generate return for shareholders and we will buy an asset where we can increase our market presence. Also, I mentioned that India is a wide-open geography for us as well.

**Ritesh:** If I have to take one step over here, how would you look at versus the expansion optionality that we have on the table which you have indicated? Like, we are absolutely going full throttle. We have a pipeline which is actually workable. If you look at the incremental ROCE versus the optionality that we have on the table, how should one look at that comparative math on incremental ROCE?

**Atul Daga:** So, incremental ROCE or organic obviously, it is time value of money and you get an inorganic opportunity. You hit the ball, hit the road running. That is the advantage that one would have on inorganic versus organic and it depends on the price that you are paying. Today organic would be costing absolutely greenfield where you are requiring land also. It will cost $110-$120, give or take. That is how and if you start investing today, it will take you 7 years to put up that capacity. As compared to that you might pay some premium. You will have to pay a premium over a replacement cost. But you also get advantage of 7 years of market share and cash flows.

**Ritesh:** My second question is we have indicated our…

**Atul Daga:** This is third not second.

**Ritesh:** I have four total. We have indicated incremental expansion plans on the capacity side. I just wanted to have your thoughts on what are our plans on distribution. Basically, incremental rails head, bulk cement terminals, optimizing sea freight and DFC, how should we look at all these co-variables

**Atul Daga:** So, fleet expansion, we don't own fleet. Our transporters continuously add fleet as in when wherever it is required. Our transporters who are associated with the organization, with the group for maybe four decades, they will expand their fleet as and when required. Our endeavor is to continuously improve, increase the penetration in terms of dealer network. Today our channel partners spread would be upwards of 1 lakh, close to 1,10,000 channel partners and a continuously increasing number. DFC is opening up. I saw Rajasthan has already started double story wagons. Of course, they have not yet been made available for cement but I think things are opening up. As for bulk terminals, our expansion footprint is always planned in a manner where, if a bulk terminal is required, we will take it into account upfront instead of waiting. For example, in the second phase of growth we have 2 bulk terminals already planned and any future requirement also bulk terminals will be planned, grinding unit. So, it will be a split grinding unit composition that will come into play. The last point that you mentioned about as far as railway siding, there is no target.

**Ritesh:** Railway siding and sea freight.

**Atul Daga:** As far as railway sidings are concerned, I think we keep on adding wherever available whenever available. Last time I remember that it was beyond 260 odd rail heads, (+260) rail heads. It's not a top-down target but operational efficiency improvement plan with which we keep on adding railway siding. As for an ocean route is concerned, we have our own jetty at our Gujarat plant, bulk terminals, 279 railway sidings as of now. Bulk terminals along the coastline there is Mumbai, that is JNPT. Then it goes down to Mangalore. Mangalore also, right? Bulk Terminal? Yes.

**Atul Daga:** Mangalore, Cochin, so this is on the coastline. We will look at expanding our network on the eastern side as well. We don’t have bulk terminals at the moment, but we will look at expanding that network in our second, third phase of growth.

**Ritesh:** Sir, just one last question. We have an interesting launch on white cement based liquid primer. Just wanted to understand what is the rational for it to be in UltraTech and why not Grasim given for the limited understanding it is better to bundle it with paint versus putty.

**Atul Daga:** Because the raw material is white cement, and all the primer and putty-based products are done by UltraTech. That's why it's here.

**Moderator:** The next question is from the line of Prateek Kumar from Jefferies.

**Prateek Kumar:** My first question is on utilization; you have mentioned your overall utilization is around 76% and can you throw some light on region wise utilizations?

**Atul Daga:** Region wise utilizations, so north was nearly 85%, central was 70%, east was 90%, west was more than 60, south was more than 75.

**Prateek Kumar:** How much you said for central region?

**Atul Daga:** Around 70%.

**Prateek Kumar:** And on pricing overall it appears that we had like around a 2.5% grey cement realization decline or a 2% to 3% decline on a sequential basis. How would that be region wise?

**Atul Daga:** Region wise, I think east was the least impacted, north saw a decline, north and central were the leaders in decline. East was better placed, west was neutral.

**Prateek Kumar:** And in the presentation you have mentioned that there was a preponement of maintenance shutdown. Did that have any specific impact on cost which was like one-off.

**Atul Daga:** I think my maintenance costs were higher than planned by about 80 crores. I think it was 80 crores, yes.

**Prateek Kumar:** When you say like-for-like, basically last year…

**Atul Daga:** What I mean was that we had planned original plan as per our annual budget, 'x' number of kilns were planned. We did three more kilns than that in this period. And the spending was also higher, partly because of cost of procurement going higher and partly because of additional work that was done.

**Prateek Kumar:** And last question on your logistics costs, in your presentation you mentioned diesel price are lower like 5% but our like-to-like logistics cost is down 1%. So, when you change in lead distance which is resulting in over decline in logistics cost.

**Atul Daga:** Diesel cost is not 100% logistics cost.

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

**Pinakin Parekh:** You mentioned that east prices have relatively held up better than the other regions. But this is also region where we would see the maximum capacity addition over the next two quarters. And the presentation highlights that Chhattisgarh and Orissa had seen degrowth due to sand mining bans. Given this context, how do you see the east markets at this point of time. Is demand going to get further impacted because of what's happening in Chhattisgarh and Orissa?

**Atul Daga:** I believe Pinakin, east will be the best performing market in terms of demand and that is why I think nobody is a fool to add additional capacity in that market. There is a big science or big rationale which each player is having to add capacity in that market. So, this additional capacity will get absorbed in east, demand will continue to support. But don't want to get into comments on individual states or a point in time because sand issues are here today, then something else will happen tomorrow. But if you look at the underlying demand, underlying capacity utilization in this quarter also in fact, we have the highest within our regional spread, our capacity utilization in the east was the highest. I believe the industry, not just UltraTech, industry players will continue to enjoy a good capacity utilization in east.

**Pinakin Parekh:** My second question is basically this is the second quarter where UltraTech's India realization seem to have outperformed the peers. We had seen a larger than peer group increase in the first quarter, and we have seen a smaller than peer group decline in the second quarter. In your sense, is this because of higher nontrade mix, more premium products or specific regions aiding this performance?

**Atul Daga:** Should I reveal all my trade secrets to you? So, value added product is continuously going up. It's reached more than 18% now. That is one area we are increasing our blended cement ratios, increasing our trade ratios as well. And plus, there has to be some respect that you should give to UltraTech as a brand. So, we have historically commanded superior pricing as compared to the other players and I believe UltraTech will continue to do so.

**Moderator:** The next question is from the line of Pulkit from Goldman Sachs.

**Pulkit:** Just one question. You mentioned that it is because of monsoon having a prolonged impact that demand got impacted. Now, our understanding was that July and August were weak months since September is actually a relatively stronger month. Would that be correct that we have exited September at a much stronger volume print or is it the other way around based on what you just said.

**Atul Daga:** If I remember it right Pulkit, all the months have shown growth. And yes, I think my colleague confirms September was a higher growth as compared to the other months. But each month we have seen growth.

**Pulkit:** So, we can expect that since September exit was a stronger month and now that we are off monsoon, hopefully this momentum should continue for us.

**Atul Daga:** I will just not go with that statement of yours that we are off monsoon. I don't know whether the monsoons are off or not.

**Moderator:** The next question is from the line of Indrajit Agarwal from CLSA.

**Indrajit Agarwal:** I have two questions. First sir, on capital allocation going ahead. So, assuming at 130-131 million tons capacity we'll be able to sell close to 100 million and if not more and should generate close to Rs. 12,000 crores of EBITDA annually even with Rs. 6,000 crores of CAPEX we will have significant amount of free cash flow to make it net cash positive in two years at best. So, any thoughts on other than inorganic expansion, return of cash to shareholders?

**Atul Daga:** That is always there. I think the dividend allocation was increased to 20% year before last and now we are again looking at growth. So, as I said this quarter, whilst we had a positive operating cash flow, but net cash after CAPEX was negative. We have CAPEX happening in 24-25 as well and a shade of part of 26 will also see an extra amount of CAPEX. If you'll recall two years ago or three years ago, our average annual CAPEX would be (+) (-) 2000 crores and now we are going to see (+) (-) 6000 cores for the next two or three years. Having said that we are still on course, or we are delayed as of now because of the cash flow being used for CAPEX, otherwise we would have been in the net cash already in this year. I expect net cash to be on the balance sheet towards the end of March 24.

**Indrajit Agarwal:** Second, calendar 23 will be the pre-election year and if there has to be any significant bump up on infra-activity demand from infra government spending, we should have seen some bit of preordering already. Are you seeing any signs of that yet?

**Atul Daga:** Not yet. I think we expect more than what is happening. See, the good part is that we have recorded 10% growth domestic sales in this heavier monsoon quarter. So, obviously there is a positive direction in which the orders are flowing, and cement consumption is happening, and I expect it should go up further.

**Indrajit Agarwal:** That buoyancy you see in the rural residential part as well?

**Atul Daga:** Yes.

**Moderator:** The next question is from the line of Navin Sahadeo from Edelweiss Securities.

**Navin Sahadeo:** In the previous questions, thank you for giving the region wise color on utilizations as well as realizations. Is it possible to get some trend on profitability? For example, your average EBITDA per ton was more like Rs. 800. So, is it possible to get which regions are little more profitable than these and others lag around?

**Atul Daga:** I don't have that at the moment.

**Navin Sahadeo:** Very broadly.

**Atul Daga:** If I look at the prices, so then obviously south would be the leader in profitability, followed by west and north catches up along with…East is of course, at the last step in terms of profitability. Central and north would be behind south and west.

**Navin Sahadeo:** Sir, my second question was about your fuel mix. So, presentation says 40% is pet coke and I think you also mentioned imported coal is 7% to 8%, if I heard that correctly.

**Atul Daga:** Domestic coal is 7% to 8%.

**Navin Sahadeo:** Okay, so if you could just give me the overall fuel mix both in the kilns and power plants.

**Atul Daga:** Indigenous coal 15%, imported coal 46%. One second. I should look at kiln separately. Indigenous coal in kiln was 5%, imported coal was 50%, pet coke was 40%. Alternate fuel was about 5.2%. That's in the kiln.

**Navin Sahadeo:** And the earlier number was for TPP, the 46%?

**Atul Daga:** We don't have TPP separate data hybrid number with TPP plus kiln, TPP one second, it is there. TPP indigenous coal 56%, imported coal 29%, pet coke 5%, others 10%, lignite which is essentially an alternate fuel.

**Navin Sahadeo:** The thing on this kilns bit because you mentioned that pet coke is far more favorable in terms of cost. The imported coal that we are using is at par to that cost because of better sourcing or it's conscious that we don't want to go higher on the pet coke consumption.

**Atul Daga:** We have to balance the pet coke coal mix and our coal procurement is far more efficient than anybody else's.

**Navin Sahadeo:** But it still is higher than pet coke on a landed basis even now, right? So, are we looking at increasing pet coke considerably from 40% currently or it will still this is what max it is.

**Atul Daga:** It can go up to 50% to 60%.

**Navin Sahadeo:** So, which basically then means that if this mix is changing, Q3 can then see a very meaningful decline in the cost?

**Atul Daga:** I had mentioned that the cost will come down for Q3.

**Navin Sahadeo:** Before it takes up again because spot prices are again…

**Atul Daga:** Naveen, we cannot really start analyzing spot prices. So, our game plan we will deliver lower cost this quarter and lower cost next quarter.

**Navin Sahadeo:** And then just my last question. You mentioned working capital as the prime reason. But if I mean for that increase in debt, net debt position, so given that these fuel prices are again sort of bottoming out maybe say or going up, is it fair to say that this working capital funds will stay locked even for March or that would still…

**Atul Daga:** Again, I had mentioned, and I would have requested you to listen to my commentary more carefully. We would get into a negative working capital zone before the end of March with volumes going up will be one big driver for more cash collections takes place with higher volumes. Inventories we have now reached about 54 or 55 days. By the end of March, we will come down to our normal level of 45 days. So, that will release cash. Cost of purchase will be lower as of now. So, nobody knows how prices will actually pan out. But our planning is to release working capital cash by March for sure.

**Navin Sahadeo:** Great. I did hear your comment. I was just confirming because since the fuel prices are wherever they are today…

**Atul Daga:** Naveen, but that today. There was a time when the pet coke was 170 and everybody started annualizing it. That was not the right thing to do. So, this is the most unpredictable times that we are going through.

**Navin Sahadeo:** And just one last confirmation. Did you say we have spent about close to Rs. 3,000 crores in CAPEX so far into the year?

**Atul Daga:** First half, yes.

**Navin Sahadeo:** Because I'm just looking at your balance sheet and the capital work in progress or even total property plant and equipment, these numbers are up like about Rs. 800 crores odd each which is Rs. 1,600 crores. Just trying to understand…

**Atul Daga:** Lot of advance would be there. That is one point which I can think about. Advance also in CWIP, right?

**Navin Sahadeo:** Capital advances are reported separately.

**Atul Daga:** So, capital advances also you need to add, but I don't know what the accounting issue is. But I can get an explanation sent to you separately.

**Navin Sahadeo:** Sure, that would be really helpful. Thank you so much for answering and all the very best.

**Moderator:** The next question is from the line of Ashish Jain from Macquarie.

**Ashish Jain:** Firstly, on coal you made a comment that pet coke can go to like 50%-60%. So, given the current pet coke and coal prices, I believe we should be going to 70%-80% pet coke, right? So, is there anything constraining us on that front?

**Atul Daga:** There are technical constraints, that's all I know that there are technical constraints. In the earlier days when pet coke was darling of the industry, those days also, we had tested, and we reached about 78% peak. So, there is some issue with blending. You know limestone from mine to mine has different qualities because of which you cannot mix 100% petcoke. Second point would be availability. As and when petcoke is available, one would pick up shipments of petcoke.

**Ashish Jain:** Secondly, in terms, let's say growth plans outside the organic plans that we have, if we have to explore M&A, like any specific region where both were interested and we will not even face regulatory issues in terms of our market share and those kind of stuff, can you point where our strategy….

**Atul Daga:** We are interested in India for organic opportunities. I will not have regulatory issues in any geography in the country as of today, at this stage where we are, I don't know 5 years-6years later. Ashish, we have evaluated through all the lenses that the regulators look at and what is the requirement. So, we are well within the norms.

**Ashish Jain:** Just couple of housekeeping questions. One, what was the share of trade cement this quarter?

**Atul Daga:** Trade was 68%.

**Ashish Jain:** Secondly you spoke about the chemical business revenues which has crossed 100 crores this time. In our segmentation where do we put that? Is it in grey cement or it's in others?

**Atul Daga:** Very small, less than 1% so there is no segmentation. There is no segmentation. It is part of cement only Ashish.

**Moderator:** The next question is from the line of Girish Choudhary from Spark Capital.

**Girish Choudhary:** Firstly, I would like to get your sense on the industry's supply dynamics. Are you worried of the potential build up or a surprise in the overall supply with also the new entrant infusing significant amount of money and from the other larger players having a strong balance sheet. So, just wanted to get your sense on the supply dynamics, that's the first one?

**Atul Daga:** My guess is that all the supply which comes in organic supply will get absorbed easily. Because if you see India as a story will show you much higher growth as compared to any other market because there's a huge amount of development required, there's huge amount of housing required. It's a no brainer statement which I'm making. But yes, India will see a huge amount of cement consumption happening for a few years to in the next few years. 2 years can be 10 years, more than 10 years that I don't know but as of now it's still a very long distance away when India also reaches a saturation point and growth tapers down. So, as long as there's growth potential, additional capacity will get absorbed. And one more point one needs to keep in mind that total capacity that one looks at is a myth because there are lots of capacities which are non-operational, lots of capacities which are inefficient or shut. Effective capacity, available capacity is lower than the nameplate capacity that you might be tracking.

**Girish Choudhary:** Secondly if I look at your Phase-1 and Phase-2 capacity addition plans roughly which is around 40% plus of addition. West is the region which is seeing a very low capacity coming in roughly around 1.8 million tons so any reasons why a lower addition here? Is to do with reserves or utilizations or you are looking at inorganic?

**Atul Daga:** I am not able to hear you clearly. Which region you picked up as low addition?

**Girish Choudhary:** As in West, if you look at West, you're adding only 1.8 million tons. So, between Phase-1 and Phase-2?

**Atul Daga:** West is more GU.

**Girish Choudhary:** So, you are just adding..

**Atul Daga:** Yes, mines is not a constraint and West luckily, we have coastal plants so I can bring limestone from the Middle East in case of it. Limestone as a resource is not a constraint in the Western market. West, we have enough capacity available and we don't put surplus capacity and create problems for us. We will put up capacity where we feel that we need additional volumes right now.

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

**Rajesh Kumar Ravi:** I don't know if you have already answered this. Could you talk on the fuel cost on a per kilo cal basis? How was it in Q2 and versus Q1?

**Atul Daga:** Rs. 2,489 per million kcal was the cost in Q2 as compared to 2,215 in the previous quarter and if I go back 1 year, Q2 FY22 it was 1,427. 1,427 has come up to 2,489.

**Rajesh Kumar Ravi:** In this quarter how are the numbers currently in October?

**Atul Daga:** We'll talk in January.

**Rajesh Kumar Ravi:** Directionally is it coming off?

**Atul Daga:** What is coming off?

**Rajesh Kumar Ravi:** Quarter-on-quarter do you see this number coming off versus what you saw in Q2?

**Atul Daga:** The fuel cost?

**Rajesh Kumar Ravi:** Yes, fuel cost per kcal?

**Management:** Yes, fuel cost will come off.

**Moderator:** The next question is from the line of Kamlesh Bagmar from Lotus Asset Managers.

**Kamlesh Bagmar:** Just one question on the cost side. Going forward in a couple of years, what quantum of cost reduction do you see like say be it freight side or power and fuel cost?

**Atul Daga:** About Rs. 100 a ton would definitely come out of cost reductions, minimum.

**Kamlesh Bagmar:** On the variables side?

**Atul Daga:** On the?

**Kamlesh Bagmar:** Variable side?

**Atul Daga:** Yes.

**Kamlesh Bagmar:** In the presentation we have mentioned 19.5% as the mix of the renewable power. Is it in terms of the capacity or in terms of the power usage in this quarter?

**Atul Daga:** Actual generation.

**Kamlesh Bagmar:** Lastly you have 40% odd share of petcoke so vis-à-vis imported coal because this 2,489 looks to be very competitive as compared to what thermal coal prices are. Is it the case that the grade of the imported coal which we are using is also equally competitive as compared to the petcoke?

**Atul Daga:** Yes, you get US coal is very high-grade coal. 6,900 kcal.

**Management:** Normally we are not buying RB1.

**Kamlesh Bagmar:** So, that would be RB3 or all that. That's why that is also competitive, compared to the…

**Atul Daga:** Yes.

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

**Shravan Shah:** What was the lead distance in this quarter?

**Atul Daga:** 428 kilometers.

**Shravan Shah:** You mentioned that regulatory issue will not be there. You have taken care of that in terms of the inorganic expansion. Just trying to further understand, for my understanding in terms of if we go for Nuvoco acquisition, I'm just giving an example. So, how do the CCI look at?

**Atul Daga:** I don't look at specifics. You can ask a general question if you have.

**Shravan Shah:** No, I'm asking a general, in terms of the market share how the CCI looks at? Any percentage, what are the broad criteria that the CCI looks at post the acquisitions, 10%-15%-20% market share should not be there?

**Atul Daga:** I think that I will not be able to answer.

**Shravan Shah:** Third, just trying to understand in terms of the second phase of expansion 22.6. How much broadly from that we would be commissioning in FY24?

**Atul Daga:** May be 3 or 4 million.

**Shravan Shah:** And rest mostly by March of FY25?

**Atul Daga:** FY25 and some might be gone into '26 also, fiscal '26 which means first-half of '25-26.

**Moderator:** The next question is from the line of Sanjay Nandi from Ratnabali Investments.

**Sanjay Nandi:** We have seen some spike in the employee cost in this particular quarter. Can you please throw some colors on that?

**Atul Daga:** Annual increments. We follow an increment cycle from July, 1st July. Our increments are evaluation done in March, given effect in July. So, July-June is our annual cycle.

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

**Amit Murarka:** Just on white cement and putty like the RAK acquisition that you had made. That is supposed to kind of flow in additional volumes into India. By when is that expected to start?

**Atul Daga:** This quarter they will start. October-December quarter should be starting volumes. For packing material has already reached there, quality etc. all settled, logistics tied-up. This quarter shipment should happen, start happening.

**Amit Murarka:** The exports to Sri Lanka, is there anything happening or is completely stopped?

**Atul Daga:** Very marginal so only in case we have secured rupee LC available which is opening up against those LCs only we are exporting. Exports have dropped down dramatically from maybe a 1-1.5 lakh tons per months give or take 1-1.5 lakhs to 30,000 or 40,000 two shipments only and one more reason I'm glad you asked about Sri Lanka. Our working capital so we have close to 200 crores due from our Sri Lanka operation. The money is lying there. Government is releasing money gradually. We received about 40 crores last quarter in the reported quarter and I believe that money will get regularized in the next two quarters or three quarters.

**Amit Murarka:** What was the export volume in Q2, absolute number?

**Atul Daga:** 1 lakh tons.

**Moderator:** The next question is from the line of Ritesh from Investec.

**Ritesh:** First is if I heard it right you indicated on TPP we have 5% petcoke and 56% local coal. My question is why petcoke is at only 5%? I remember like 2017 something there was a court judgment which had…

**Atul Daga:** What was the court judgment?

**Ritesh:** I think it did restrict the usage of petcoke when it comes to power plants but for kilns it was allowed because of the quality of limestone and limestone saturation factor. Question is, can this number of 5% petcoke when it comes to TPP increase and can it be a cost saving lever?

**Atul Daga:** In TPP we use domestic coal which is far more cheaper.

**Ritesh:** Right but you had said 29% is imported and 5% is petcoke. So, 29% imported versus 5% petcoke. Is there room for substitution?

**Atul Daga:** We are, there is one in the NCR and the related markets petcoke is not allowed in power plants that you are aware. And its opportunity, wherever we find financial economics working in favor of petcoke we use that.

**Ritesh:** If my memory serves me right it's only in three states where in petcoke in TPP is not allowed?

**Atul Daga:** Yes, you're right. NCR, which is that, is the market.

**Ritesh:** Can this number move up and surprise?

**Atul Daga:** Could be. I don't have a ready answer actually Ritesh.

**Ritesh:** Second quick question, is there some changes which one can expect on the discounting trends in the marketplace? Is that some probability over here?

**Atul Daga:** I have no idea about that.

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