UltraTech Cement Limited

The Chairman's Speech

at the

Twenty-Second Annual General Meeting

Wednesday,

17th August, 2022 – 3.00 pm

through video-conferencing

Dear Shareholders,

The turn of the decade felt like a moment of departure. The COVID-19 pandemic made 2020 an unprecedented year. And then the supply chain whiplash made 2021 feel unprecedented. And now, the Russia-Ukraine war and global stagflation are making 2022 feel unprecedented. Disruption now feels like *'business as usual'.*

As these tectonic shifts get normalised, businesses with deep reserves of resilience and agility are the ones that are emerging even stronger. Your Company is undoubtedly one of them. We don't just make cement. We breathe life into the aspirations of homeowners and their families. We stand by them as they envision and execute their dream projects. And as India's building solutions champion, we are powering the infrastructure growth of a rapidly transforming nation.

Let me first share some thoughts on the macroeconomy.

Economy overview

Global economies recovered from the pandemic shock in 2022 on the back of supportive fiscal and monetary policies and mass vaccination programs. However, in recent months, the war in Ukraine and looming fears of a global recession have posed macro headwinds. The International Monetary Fund (IMF) now expects the world economy to grow at 3.2% in CY22, slowing further to 2.9% in CY23. These forecasts are 1.2 and 0.9 percentage points lower than its pre-war projections.

There are two major fallouts of the current global crisis. One is the tightness in energy markets and concerns around the energy security of some regions. This has indirect implications for many economies.

Secondly, elevated energy prices have spurred a chain reaction, fueling the existing inflationary impulses. This has triggered central banks to normalise monetary policy faster than anticipated, denting consumer confidence and dampening risk sentiment in the financial markets.

As the stance of monetary policy shifts, there is greater turbulence in currency markets. The dollar has strengthened, while the euro and emerging economies have witnessed downward pressure on their currencies. Energy and commodity markets have witnessed heightened volatility. Global supply chain disruptions due to pandemic-induced lockdowns have been replaced by new disruptions due to the war in Ukraine and the lockdowns imposed in China last quarter.

The Indian economy has not remained unscathed by these global developments. India has also witnessed upward pressures on inflation, rate hikes by the RBI and a widening trade deficit. Nevertheless, there are also bright spots in India's overall economic narrative – which are bolstering our resilience through the broader global economic turmoil.

First, the economic recovery cycle in India remains firmly in place thanks to the significant progress on vaccination and the upswing in public capex. Even during Covid, various government schemes had helped small and medium enterprises and the worst affected sections of the population to weather through the crisis. Activity indicators are now well ahead of the pre-Covid levels, and most estimates peg India's likely economic growth during FY23 at 7%-plus.

Second, while India's inflation rate has been above the RBI's tolerance range for some time, the overshoot has not been as severe as in many other countries. Monetary and fiscal authorities have taken steps to dilute the inflationary pressures, and a normal monsoon this year will help soften these pressures further.

Third, even with a rising trade deficit, India's external indicators remain supported – with foreign exchange reserves equivalent to more than 9 months of imports despite some decline in recent months.

With these silver linings, India appears to be well placed to ride through an uncertain global economic environment.

Looking beyond the current challenges, a robust pipeline of infrastructure projects as well as the government's pragmatic policies such as the production - linked incentive schemes are helping. Many industries have witnessed fresh project investment announcements. Foreign direct investment flows have remained strong. The burden of non-performing assets in the banking sector has eased. Start-ups and technology-based new age enterprises have acquired critical mass in India. These sectors are exhibiting a strong momentum – providing new jobs and enhancing customer experiences. Dynamism in India's digital ecosystem, diversification of global supply chains away from China and the greater emphasis of investors on sustainable finance also offer new opportunities for India.

Thus, while businesses will need to remain on guard regarding financial market volatility and cost pressures this year, one could expect the medium-term growth recovery to remain on track.

Let me now shift to your Company's performance in FY22.

During FY22, your Company's net revenues exceeded Rs.50,000 crores - the first cement company in India to hit this milestone. Your Company recorded net revenues of US$ 7.1 billion or Rs. 52,599 crores and an EBITDA of US$ 1.6 billion or Rs.12,022 crores.

Your Company has significantly increased capacity over the last five years from 69.65 mtpa to 119.95 mtpa and is committed to meeting India's future needs for housing, roads, and other infrastructure.

Capex

Your Company commissioned cement capacity of 3.2 mtpa at Patliputra Cement Works, Bihar; Dankuni Cement Works, West Bengal and Line II of the Bara Grinding Unit, Uttar Pradesh. This is the first phase of the 19.9 mtpa capacity expansion and will help your Company service the fast-growing cement demand in the Eastern and Central regions of India. Your Company also commenced operations from the bulk terminal at Kalamboli, Navi Mumbai. This is your Company's 7th bulk terminal in India.

As part of your Company's ongoing expansion plan, the 2nd clinker line of 2.7 MTPA was commissioned at Hirmi Cement Works in Q1FY23. Cement mill upgradation for a further capacity of 1.30 MTPA is also on track to commission in Q2FY23. The commissioning of the clinkerisation unit was completed well ahead of schedule, which is a unique achievement considering the slowdown faced in project work earlier during the year due to Covid.

Additionally, your Company's Board of Directors approved a fresh capex of Rs. 12,886 crores towards increasing capacity by 22.6 MTPA with a mix of brownfield and greenfield expansion. The additional capacity would be created across the country and achieved by setting-up integrated and grinding units as well as bulk terminals. Commercial production from these new capacities is expected to go on stream in a phased manner by FY25.

These investments are backed by a strong conviction on India's growth potential as well as a deep and nuanced understanding of the market dynamics of the cement industry.

Upon completion of the latest round of expansion, your Company's capacity will grow to 159.25 mtpa, reinforcing its position as the third largest cement company in the world, outside of China.

In line with its endeavour to maintain optimal capital structure, your Company repaid high-cost, long-term debt amounting to Rs. 7,531 crore. The loan repayments were made out of free cash flows that your Company generated during the year, resulting in an improved Net Debt / Equity ratio and Net Debt / EBITDA ratio.

And now let me touch upon the **Dividend:**

Your Directors' had recommended a dividend of Rs. 37 per equity share in the previous year. Continuing to maintain the trend, they recommend a dividend of Rs. 38 per equity share for the year ended 31st March, 2022, despite the overall challenging conditions. This, in a way, also reflects your Directors' confidence in your Company's performance, going forward. The recommended dividend is in line with your Company's dividend policy.

Let me now focus on your Company's **Sustainability Agenda:**

Sustainability is at the core of your Company's business and continues to guide its strategic choices. In many ways, it has contributed to the resilience demonstrated by the business in navigating the challenges posed by the pandemic.

Your Company's strong commitment to sustainable growth is visible in its actions. It has aligned itself with the climate goals set in the Paris agreement. Your Company's GHG emission reduction targets are validated by the Science Based Targets Initiative (SBTi) - yet another marker of your Company's commitment to building sustainable infrastructure. Your Company has also adopted the recommendation of the Task Force on Climate-Related Financial Disclosure (TCFD), and has integrated its findings into risk management, business planning and strategy.

As per the S&P's Dow Jones Sustainability Index (DJSI), your Company's performance has improved by 11 points to 79, a 16% increase from the previous year. Your Company is now ranked 7th globally on the DJSI in the Construction Materials category. This disclosure has helped your Company benchmark itself against the world's best companies in sustainability performance.

Your Company prides itself in **Being a Caring Corporate Citizen:**

Your Company actively contributes to the social and economic development of the communities in which it operates. This is done through focused interventions across education and capacity building, infrastructure, healthcare, and social reforms to transform life and livelihood opportunities, in sync with the major United Nations Sustainable Development Goals ("SDG").

Your Company's CSR activities are implemented under the aegis of the Aditya Birla Centre for Community Initiatives and Rural Development, led by Mrs. Rajashree Birla, your Director. Your Company aims to enable these communities to reap the benefits of the nation’s rapid economic growth and become active participants in the exciting journey ahead.

Your Company’s initiatives positively impacted the lives of over 16 lakh people across 507 villages in the country. For FY22, your Company’s CSR spend was around Rs.103 crores.

Let me now briefly touch upon your Company’s performance in Q1FY23

After a strong end to FY22, cement demand was impacted by overall inflationary trends. However, cement demand picked up in June 2022 due to pre-monsoon construction activity.

Net revenues was Rs. 15,164 crores vis-à-vis Rs. 11,830 crores over the corresponding period of the previous year. Profit before interest, depreciation and tax was Rs. 3,204 crores compared to Rs. 3,512 crores. Profit before tax was Rs. 2,293 crores, and Profit after tax was Rs. 1,584 crores compared to Rs. 2,526 crores and Rs. 1,703 crores, respectively.

Conclusion

No financial metric can truly represent the rigour, passion and dedication that goes behind your Company’s performance, given the unprecedented circumstances and challenges. And for this, I am grateful to all our employees.

On behalf of your Company's Board, I convey our gratitude to all the banks, financial institutions, stakeholders, business associates and the Central and State Governments for their co-operation and support.

Let me express my deepest gratitude to each one of you, our shareholders. I look forward to your continued trust, confidence, and support.

Given the inherent strengths of your Company, we are again at a moment where we are uniquely positioned to invest for long-term growth and explore new paradigms. An exciting journey beckons.

Thank you very much.

Kumar Mangalam Birla