# "UltraTech Cement Limited Q3 FY-21 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen, good day and welcome to UltraTech Cement Limited Q3 FY21 Earnings Conference Call. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company faces. The company assumes no responsibility to publicly amend, modify or revise any forward-looking statements 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 and a warm welcome to all of you on this call. Wishing you all a very safe 2021 and my apologies for having dragged you on a holiday of Saturday. I'm happy to inform you today that we have our Managing Director, Mr. KC Jhanwar, also on this call to talk to all of you. I could go on and speak for an hour to introduce him, but I'll have to restrict myself from doing that. To introduce him, he has spent major part of his career of more than 35 years in cement, having worked at the grass root of plants, putting up several of our projects, the best being Dhar unit, setting it up in a world record for time taken and the cost at which the project was done. He is a veteran of the group, I have already mentioned, a chartered accountant by profession and a thorough gentleman. Thank you, sir for joining us today. Before I delve into the quarter, let's discuss ESG. And I think nobody is better equipped to talk about how conscious UltraTech is with the environment other than Mr. Jhanwar himself. Over to Jhanwar, sir.

**K.C. Jhanwar:** Thank you, Atul and a very warm welcome to all analysts joined on this meeting. I'm extremely very happy to be interacting with all of you on this particular event at the time of quarterly results. So I'll start with the ESG part actually. Particularly, if I say about the ESG, I will say that this is one of the important pillars of our vision and mission statement where we have committed that this would be going to be remain as important as other businesses. We have put all kind of policies to achieve these particular objective of whether it's environment, whether it's sustainability or whether it is a social responsibility, everything. So whatever area, which covers under the ESG have been very well-defined in the organization. And there is a framework also in place where our three strategic pillars on sustainability framework are responsible stewardships, stakeholder engagement, where we have interaction with the stakeholder group and the future proofing which is equally important. And we have very clear-cut focus area in the area of ESG, whether it's decarbonization, water management, environment side, circular economy, which is very important biodiversity and of course, you can't assume anything without having a thought leadership.

I'm also happy to share with you that there is a well-defined milestone-based action plan under the each this focus area, whether it's a consumption side, whether it's alternate fuel usage, whether it's a green power, WHRS, renewal energy etc. And these all areas are traded on a very regular basis and on a quarterly basis, it gets discussed in the management meeting. It is not only these 2-3 areas, but equally important that the environment norms, which are, of course, mandatory but we need to exceed those norms so that we are ahead of those things and norms. And in terms of circular economy, I would say that we are one of the largest consumers of the fly-ash. Actually, we consume almost 12 million ton fly-ash per year. We consume almost 1 million ton alternate fuels and raw materials and we consume almost another 0.5 million tonnes in terms of various waste products of the industry. So if I may say, it's not only the ESG per se for doing the ESG, but all these areas are really aligned. And along with these facts, these focus areas, the biodiversity is another one important area where we have already completed Pali plants for our assessment and the plants have been made under execution and three more plants assessments would be done during this year. The company has already committed the size-based targets, which are under validation and we are committed to build our business in line with the below 2 degree work under the Paris Agreement. And we are hopeful that by 2032, we would be definitely able to achieve the targets as defined. So, whether this ESG is done in a right suite, I can commit to all the ladies and gentlemen present in this meeting, it is being done very religiously. And if I may share some numbers actually about our green power, we have targeted to achieve our green power, so in total, almost to 34% by 2024, which includes our Waste Heat Recovery Systems and the solar power, wind power, etc. So this area is under huge focus.

Coming to the social responsibility, again, ladies and gentlemen, Aditya Birla Group is started on this one much ahead than anyone else in the industry, some of the industrialists were doing, but we are among one of them and our focus is on the education, health care, sustainable livelihood, infrastructure development etc. And the total beneficiaries with all our initiatives are more than 1.6 million people who had benefited, where on the education front, almost 1 lakh children are benefited, rural health care village covered are 502 villages and we cover almost 16 states. And if I may share about the number also, our CSR spread even for April to December, this year is almost more than a little more than Rs. 100 crores.

So this is all about the ESG, but I would not say it's the work is in still in progress, we have to go yet long way. And every day, this subject as you know is getting evolved. So we are fully aligned and we are, again part of the World Concrete Association, where we are the founding member actually and there is a regular interaction with the regards to learning from those platforms. We are also part of one of the member of the TERI waste platform and in terms of we have disclosure to Dow Jones Sustainability Index. And I'm happy to say that we have improved our Dow Sustainability zone almost by 9 points, from 59 to 68. So journey is still on and we have yet to go a long way. But I can only make this statement on this opportunity that the entire company is fully committed. We are well-aligned business objectives are well aligned with our ESG. So thank you, Atul. Sorry, I've taken a little more time, but it was maybe the need of the hour.

**Atul Daga:** Thank you, Jhanwarji. No, it was certainly very important to tell the whole world of investors, how serious we are and how committed we are on the environment. Coming back to the nitty-gritties of our quarter, let me start with how demand has been shaping up. Pandemic has not had a significant impact on the cement industry. I think everybody is aware of that now. After the initial setback, the industry has got on track with demand surfacing from almost all the quarters. We already talked about rural and infrastructure demand facing up. Now we are also seeing Tier II, Tier III towns urban real estate, which was languishing in the dark for last few years, has started showing signs of recovery, aided by the current low-interest cost regime, various benefits being given by the authorities to home buyers as well as builder to give builders to give a boost in the real estate sector.

We've seen a healthy improvement in capacity utilization across regions. UltraTech achieved a capacity utilization of 80% for the quarter, ending December with as high as 85%. Sales have gone stronger only month after month. These markets continue their swansong on cement consumption. Pre-COVID rural market and infrastructure segment was driving demand, but now as I mentioned urban housing is also gaining momentum.

Let me now quickly talk about our CAPEX the way things have been shaping up. Firstly, the last acquisition, Century Cement was consummated on the 1st October, 2019. And this quarter, finally, UltraTech has a like-for-like quarter. Century assets have been shaping up very well. There was a small delay in terms of the rebranding exercise because of COVID, but we are sure that we will be able to complete the rebranding exercise as per plan by March or not later than Q1 next financial year. Line 2 of Bara grinding mill was another delay beyond our control. But now it's in the last phase and we expect that the line will get commissioned by March '21. Line 1, which was commissioned in February, 2020 has already achieved a capacity utilization of more than 70%. Work on our next phase of expansion, which was about close to 19 million tonnes has commenced in full swing and we are on course for commissioning during FY23 in a staggered manner.

You are also aware that we were holding the assets, a 2 million ton grinding unit, which was acquired as part of the Binani Cement acquisition. It was held for sale. We have finally decided to give up the idea of selling that unit and consolidated the asset itself as part of our UAE operations. Our total overseas capacity now stands at 5.4 million tonnes. I'm very proud to tell you about the way our team has managed cash flows. Not a penny of extra cash anywhere, that's the mantra, which the team has been following. Our efforts have resulted in the reduction of net debt by a further Rs. 2,696 crores this quarter, totaling to Rs. 7,123 crores in the first 9 months of the year. And you all know, January-March quarter is supposedly a very good quarter for cement industry.

Net debt stands at Rs. 7,973 crores. We are having a current gross debt of Rs. 21,000 crores and a treasury surplus of Rs. 13,000 crores. Our treasury surplus continues to give us interest arbitrage and we are always in the money on our treasury surplus. This treasury is deployed in 100% secured AAA risk-free investment opportunities only. Another dimension, which we keep looking at is our ROE. ROE without goodwill has reached a number of 14.1%. We are confident to improve this further with all our new investments being at a low cost and generating very high returns. I expect to cross the number of 15% ROE, along with the new projects coming on stream.

We must talk about the cost curve as well. Yes, cost of coal and pet coke, both have been going up. Fuel forms nearly 13% of cost for cement industry. Currently, coal and pet coke, both are trading around $110 per ton as compared to somewhere around $60 or $65 in June '20. It's almost doubling from there. Pet coke market has been soaring high over the last few months. And is expected to peak by June in all probability. This has happened because availability of U.S. pet coke has been scarce, with petroleum crude production going down with automobile sector demand going down in the earlier times of COVID. And the demand for pet coke has been rising in Latin America and the Mediterranean. Many cement manufacturers switched to coal, but international coal prices have also risen steeply over the last few months due to the production and logistic disruption, strong Chinese winter demand amidst ban on Australian coal as well. As I mentioned, we expect that the coal prices, the fuel prices should stabilize in the next 6 months when again, the crude production goes up for building up the winter stocks in the U.S. refineries.

Quickly to tell you about selling prices. Selling prices were marginally lower this quarter. This quarter has been volume led, but selling prices Y-o-Y have been stable. I must also update you on RMC. As in our last presentation I talked about RMC. RMC is a space gaining momentum for us. We now have 109 plants in the country as compared to a number of 100 plants where our RMC network was stagnating for a very long period of time. We have started growing RMC in a significant manner. Besides being a large captive customer for our own cement, RMC generates incremental margins over cement and is also a high ROCE opportunity.

What has been talked about white cement, white cement continues to strengthen its position in the market, net sales going up 15% this quarter. This was driven by good volume performance and a strong price/mix with growth broad-based across categories and regions. Growth comes from both White Cement WallCare Putty segment of the business. White Cement grew about 13%. Putty has grown handsomely at 18%. With strong focus on penetration in new towns, rural sales have also grown by 91% over the same period last year.

We are continuing on the path of innovation with launch of new products. We launched best-in-class Waterproof Putty in the market with 2X water resistance meeting great success. Introduction of new variants of Fragrance Putty and expansion of current product portfolio has resulted in incremental growth in Putty segment. I believe Fragrance Putty has also been very well appreciated in the market while Waterproof Putty has shown promising results in a very short time after its launch. I hope our results brought a smile on your face too. Some of you might remember my message a few quarters ago, the best is yet to come. So hold on and the enjoy ride. Thank you. Over to you for questions.

**Moderator:** Thank you very much Ladies and gentleman, we will now begin the question and answer session. First question is from the line of Bhoomika Nair from IDFC Securities.

**Bhoomika Nair:** So the first question is on everybody's mind is the group investment or new entry of the paint business. And just wanted to get our thoughts on why we are not doing this ourselves, given that we have the moat of the dealer network and the brand through White Cement? And the second question is on the fund raise, given that we've been deleveraging quite well, the reason for the Rs. 3,000 crores of fundraising.

**Atul Daga:** Bhoomika, first question on paints. I think we did not see any synergy of paints with cement. Globally, there is no cement company who was doing paints and the customer for paint from a sales force perspective is different for a cement sales guy as well as a paints salesperson. We are single product core cement company and I think surging ahead with our investment plan and growth plan in cement in a big way. To your second point, fundraise. Fund raise, there is a lot of interest arbitrage opportunities that exist in the market. I'm happy to tell you that last month, we had raised a 3-year debt at 3-year bonds at 4.5%. Sorry... 4.6%. My colleague is correcting me for a few decimal points. So we see an opportunity of interest arbitrage, whereby we can refinance some of our existing debt. And that's where we are looking at this opportunity of raising debt. Two, to quell all doubts and for any other question that might come on this fundraising, we are not raising equity. There have been questions which have been raised in the last 2 days, whether they are going for equity raise. It's not an equity raise. We do not mention in any shape or form about equity. It's a debt raise only.

**Bhoomika Nair:** So pre-financing?

**Atul Daga:** Pre-financing. Yes.

**Bhoomika Nair:** So if I may just squeeze in one question. We've done quite well across all our acquisitions of both UNCL as also Century. Are there any further synergies and possible ways to reduce costs further between all the assets that we've acquired and setting up?

**Atul Daga:** Yes. There are lots of things that are happening. If you will see our presentation, there's a big investment that we are doing in WHRS in both UNCL as well as Century. There are production cost improvement program, which is happening at Raipur unit, which is the oldest unit in the network of Century plants. When we complete our WHRS implementation, the cost will come down further. I'll request Jhanwarji also to add further on this.

**K.C. Jhanwar:** Yes, just to add up on ma'am because yes as far as old assets acquired JP and the Binani Cement, most of the synergy has been I would say is realized. But yes, always there is every day some learning and some opportunities. In terms of Century, yes the major part has been done and as Atul has said in his opening remarks that the brand transition, we have completed brand transition to the extent of about 79%-80% under UltraTech. So the balance part will definitely give additional benefit to the UltraTech once the full brand transition takes place. And in terms of the cost side, yes definitely some more opportunities are there and we are hopeful that in next 2-3 quarters, we would be able to realize further value in terms of optimization of our consumption ratios and raw mix designs etc. which is already on. But yes, definitely as you know, it's a continuous process industry and take a little time to reset the optimum level.

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

**Gunjan Prithyani:** Two questions from my side. Firstly, on the cost side, there is clearly a huge difference still between the approval rate and the spot prices for pet coke and international coal. Also, could you just give us some sense like what kind of inflation you further expect assuming spot sales where it is right now? And along with that, on this WHRS program, which is fairly aggressive for the next 2-3 years, what kind of cost savings can this yield when it is fully executed?

**K.C. Jhanwar:** I'll start with the second part actually, So in terms of Waste Heat Recovery System, yes, the project was a little bit delayed during this pandemic because of the non-availability of manpower. But now I would say that the work is in full swing since last later part of the second quarter and we are hopeful to the commission, all those projects made it 3-4 months later than what it was originally targeted. And in terms of savings, definitely, as you know, the WHRS power is generally itself if we exclude the CAPEX cost and depreciation aspects, then the power is practically pre subject to the certain government levies actually like electricity duty etc. So as most of the places, if I may say a safer number, it is within Rs. 1 per kilowatt of the total cost, actually, which is generally the major part is of contributing from the government levies. And the second, in terms of the pet coke prices, to us actually now pet coke prices have already touched on the upper band, actually. And there may be some possibility. It may further move maybe another $10-$15. It's very difficult to predict. But yes, that's what the general feeling in the marketplace. But the coal is now reasonably settled. But yes, there are always challenges to switch over from one fuel to another fuel. But I would say, at UltraTech, our team could able to develop a good understanding so that we can switch over to either fuel without much of delay, because sometimes it takes a little time, but I think that flexibility has been developed. So Atul, if I have missed something. So that is the case.

**Gunjan Prithyani:** No, that's really helpful. But if I can just have to just put the numbers, if like we are at $74 approval versus $110 at pet coke. Is it fair to say that there is almost Rs. 120 to 150 of incremental cost, assuming spot stays where it is, which is incremental increase that can come from?

**Atul Daga:** It can be, Gunjan, it can be there. But it's all linked to how each company or each player manages its fuel. We have reduced our dependence on pet coke and increased our consumption of imported coal, making new sources of coal. My sense is that the current high-cost purchases will come up for consumption in April-June quarter. And the math that we had run earlier, every $10 increase could impact the cost by Rs 50.

**K.C. Jhanwar:** So yes, it has been explained. But I would only say because always, there is some inventory in the pipeline. So it may not have that much impact actually of $74 versus $120, but yes, if it continues for a longer period, then obviously we would be also going to hit with $120 kind of cost. But yes, I don't think, at least in our case, it is likely to happen at least in a short period.

**Atul Daga:** Gunjan, in my commentary I had mentioned, we see it maybe 6 months more of this high price achieved.

**Gunjan Prithyani:** Before just taking the second question, would you be able to put any number to the savings from WHRS or maybe if I think through it, incremental 20% shifting to the WHRS potential savings can be Rs. 70 to 80.

**Atul Daga:** Let me flip that question. I will leave it to your calculations. As Jhanwarji already mentioned, the cost of WHRS is less than Rs. 1 and the cost of the thermal power is Rs. 4 to 5.

**K.C. Jhanwar:** Between Rs. 4 to 5 depending on the location.

**Atul Daga:** 26% of our power will become WHRS.

**Gunjan Prithyani:** That makes it amply clear. Now just second question is on the industry growth. Now we've done 14%. And if you can share what is your assessment that where industry would have been in December quarter and to me, it seems there are clearly some market share gains? So are there any specific regions where we have done better than the market or any thoughts you can share around this?

**Atul Daga:** It's very difficult because there's no data that is available to quantify how the market has grown. But yes, I'm sure UltraTech has done much better than the industry. The other point that you asked which zones, almost all regions, the East has grown phenomenally well, again growing more than 20%. North is also growing at 20%. So it's general euphoria, I can say which is visible in the cement industry across the country.

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

**Indrajit Agarwal:** First question is, can you give us tentatively what is your capacity utilization in each region or what was our utilization in the region in the quarter gone by?

**Atul Daga:** I'll give you a range. So when we ended for the year around 80%, east was doing more than 100% and the lower being south, which was in the 70s and rest all were closer to the 80% mark.

**Indrajit Agarwal:** Second is, what is your sense on industry capacity addition over the next 2-3 years? Where do you see that? Do you see that outstripping the demand growth or it should be lower than that?

**Atul Daga:** The way we have looked at the announcements and plans in the industry, I think demand will outstrip the incremental new capacity and you will start seeing the supply-demand gap tightening over a longer period of time. Longer period is 3-4 years.

**K.C. Jhanwar:** So what Atul said, so there is good opportunity for improvement in the capacity utilization going forward. But as you know, because everything that demand fundamentally is linked with how infrastructure momentum gets maintained actually and whatever we read or whatever we hear from the policymakers that the infrastructure spend is likely to continue and now the urban growth has started happening. So hopefully, the demand should support for improving the capacity utilization going forward.

**Indrajit Agarwal:** And last one, if I may. You have done a phenomenal job on working capital received throughout the course of the year. Do you think there's still some scope left or we could see some reversal in the next couple of quarters?

**Atul Daga:** Indrajit, can I keep surprises to myself?

**Indrajit Agarwal:** Sure.

**Moderator:** The next question is from the line of Gaurav from Morgan Stanley.

**Gaurav Rateria:** So firstly, a little bit of color on how has been the growth in the trade versus nontrade and within trade, how has urban done and rural done? And I'm sure that rural has been doing phenomenally well. Just want to get a little bit of understanding that what is the delta which has come in the urban trade and the nontrade segment?

**K.C. Jhanwar:** Let me start saying that, the trade has obviously done very well in the, if I may say, from the first quarter, second quarter, the overall trade ratio, if we calculate arithmetically, then the trade ratio was higher because urban and the infra are not picked up actually. And in the last call, you must have been definitely informed that there was a very good demand in terms of rural side because of the lot of migrant labor moving to their hometowns, constructing the same small houses here and there. And this time, the rural growth is also good; water level is also increasing almost 112% of the last one decade. So there is every likelihood that the rural demand is going to be robust. Urban demand, yes, I must say that there is lot of articles in the papers that are unsold inventory gets reduced. And I think no major activity in terms of new constructions have started on the ground, at least. But yes, now if the unsold inventory gets reduced, obviously, the activity will happen on the ground. So yes, in last 6 months, our trade was in terms of ratio, trade ratio, derived ratio was definitely good because of the lower demand from urban and the infra. But the same I'm sure will get normalized now going forward because now the urban demand has started showing some sign of improvement. And particularly the infra and the government policy related with a low-cost urban housing, Prime Minister's Awas Yojana, etc. Obviously the calculated ratio of trade should come down. So obviously, it was much better in the last two quarters. So that's my response.

**Gaurav Rateria:** Second question on the UNCL. Historically, it has been at almost 60% utilization. Current presentation says 75% and profitability has been in line or even better. So has there been any rethinking in terms of strategic decisions on increasing lead distance or anything which has led to this increase in utilization rate?

**Atul Daga:** The demand has generally been good in the market, yes and we are not leaving any stone unturned to service our customers. A lead might have increased, but the increasing capacity utilization is not because of lead, but it's more because of overall improvement in the demand sentiment and we are able to service all the customers.

**Gaurav Rateria:** Last question, bookkeeping on White Cement and RMC revenue.

**Atul Daga:** RMC was Rs. 620 crores and White Cement was Rs. 538 crores.

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

**Ritesh Shah:** I have two questions, one on the ESG side and one on the call that we had earlier during the day. Atul sir, I specifically wanted to check with you...

**Atul Daga:** Ritesh, what earlier during the day, I did not have any call.

**Ritesh Shah:** Grasim call, the group call. The question is specifically for you. How should one look at the incremental CAPEX deployment on the distribution network, specifically for White Cement and Putty? I'm specifically asking this given Grasim's growth of Rs. 5,000 crores over the next 3 years and they are looking to leverage on UltraTech's network. So how should one look at this angle or should one expect that UltraTech will get some loyalty from Grasim going forward as they make good of the brand, Birla White as well as the network?

**Atul Daga:** So first part of your question, Ritesh, on CAPEX on distribution network. There is hardly any CAPEX that we do on our distribution network. Correct me, the way I am understanding your question because distribution network for me is my dealer network and transporters. Both of our transporter is all outsourced. We don't buy it on our books and appointment of a distributor is not a CAPEX for us. Whilst we have generally a large part of dealers, prefer dealing only in UltraTech, but there are lots of multi-brand dealers also attached with our product line. So when there are multi-brand dealers attached to UltraTech cement, if they want to sell Grasim's paint, they are free to do so. It does not, in any way, impact the performance of Birla White or UltraTech. And anybody can approach those dealers to and impanel their product. So there is hardly any problem over there.

**Ritesh Shah:** So there won't be any cash flow drag on back of this as Grasim goes aggressive on paints, specifically for UltraTech?

**Atul Daga:** UltraTech...

**Ritesh Shah:** I hope I understand that right?

**Atul Daga:** No. So UltraTech, cash flow is on cement. We breathe cement, we sleep cement, we make cement, we eat cement. So we are expanding. Ritesh, you've seen our expansion plan. And this is not the end of the road for expansion. India is a growing market for cement and we will continue to participate in the growth of cement in the country.

**K.C. Jhanwar:** And if I may add in, even in the worst-case suppose some resources get shared from the synergy point of view, obviously, it would be the 100% on arm's length, but there is no question of CAPEX utilization and kind of things.

**Atul Daga:** There's no CAPEX.

**Ritesh Shah:** My second question is on ESG side. We have recently placed a voluntary target production of 25% on a new baseline. But if I look at what our target was for FY21. On a FY 10-year baseline, we have actually relied to what we had stated. So how would you reflect upon that? And given that we have new targets, what we have already laid out, is there a particular road map on cement to clinker ratio or carbon capture or using hydrogen as a alternate fuel? How should one look at that given we are specifically now actually moving up the ladder when it comes to commitments over here? So that's the first thing. And the second thing is, would it be possible for you to classify what percentage of our capacities or plants are in safe semi-critical, critical and over-exploited regions, looking at it from a water perspective?

**K.C. Jhanwar:** So let me start with the first part. Yes, right on the science-based target actually. We have a very clear-cut roadmap how we are going to do in terms of improving our coversion ratio, actually, how we are going to come out with the new products in time to come and so for achieving those targets as I briefed in my initial talk actually. We have clear-cut focus area defined for these things, how we are going to reduce power consumption, how we are going to reduce fuel consumption by modernization of our cool apps and the plants, pre-test, etc. So as to bring down the energy efficiency, electrical energy as well as the thermal efficiency and how we can do the process optimization use of alternate fuel etc., so all that roadmap is very much in place, whether it is roadmap for CO2 or anything else. Coming to the water management, I would say, I'm happy to share that today; we are almost water positive to the extent of 3X actually. And now, we have a very aggressive target, how we can reduce the water consumption in the process and we are targeting that our water consumption positive ratio should increase to 4, at least by after 1 year or so and I don't remember any of our plant is in that trouble zone as far as the water, the consumption side is concerned or the water issue is concerned. Am I able to answer your questions?

**Ritesh Shah:** I wanted specific numbers. Probably I'll come back. I'll take it from market and...

**Atul Daga:** Ritesh. Let's discuss off-line, I'll share the number.

**Moderator:** The next question is from the line of Amit Murarka from Motilal Oswal.

**Amit Murarka:** And also, my first question is around the mix. What was the trade mix in this quarter?

**Atul Daga:** 64% was trade.

**Amit Murarka:** So, is it right to say that the strong growth that has come like is also implying a recovery of the non-trade or the institutional demand?

**Atul Daga:** Yes. Amit, absolutely. I think intra demand has been picking up. Urban real estate has been picking up, which is also institutional or non-trade. So we've seen non-trade coming back very well.

**K.C. Jhanwar:** And you see it fundamentally because the ratio is the derived number. So if in fact, demand is suppose growing by 20% or urban is going much faster than obviously, the overall ratio of trade looks down. But we are very clear that our trade sales should continue to increase actually. That's how we measure internally.

**Amit Murarka:** And just also on the cost side, like I've already mentioned on fuel is going up. Also, I wanted to take on freight, there was a 15% business season surcharges were waived last year. So is it getting levied now?

**K.C. Jhanwar:** It's not there. And I don't think if I may share my personal view, actually, the government wants to give the push. And I think based on whatever information, the government is very clear that I think they would get more benefit if this surcharge is not there. But I don't think it should be charged again, but you never know because how the overall budget gets optimized by our policy makers.

**Amit Murarka:** Also on pet coke, like I believe the low-cost inventory now would be exhausted. So in 4Q, like if the cost as such has gone up, let's say, 30%-40%. So all of it should reflect in 4Q in that case, right?

**Atul Daga:** No, it will be a mix because inventory is there and there's a lead time in deliveries coming in. So you would start seeing full impact would be in Q1 only and there will be a marginal impact in Q1 next year and marginal impact in Q4.

**Amit Murarka:** And lastly, on the price. So generally, this time around every year we see some seasonal hikes happening around because of the heavier construction season and demand being good. So what is it? Like, so far January, I believe, has not seen much of hikes. So what is the sense around pricing in this environment?

**Atul Daga:** Can we restrict to Q3, Amit?

**Amit Murarka:** Sure.

**Moderator:** The next question is from the line of Raashi Chopra from Citigroup.

**Raashi Chopra:** Just on costs, just rechecking. So you've talked about the impact of pet coke coming through in the first quarter and obviously, there are a lot of efficiency measures that are ongoing. But how does one think about costs in the sense that any of the COVID-related expenses that had stopped and then coming back? So how do you think about costs in the next half, is it a combination of all three?

**Atul Daga:** I didn't get your point, Raashi, COVID-related expense as in?

**Raashi Chopra:** I mean like a lot of the spend like in terms of your travel, etc. all of that, advertising, all of that kind went down.

**Atul Daga:** So advertising spends are coming back, yes and I've been maintaining right from Q1 that what we saw 20% reduction in expenses will not stay. But we've also learned a new way of working. And I foresee a 10% saving on overheads going forward in any case, year-on-year. Travel is not happening. In the new ways of working, it's more of online meeting, unfortunately. So there are lots of overhead reduction that is taking place and don't foresee cost coming back to the same levels of Q4 ever again.

**Raashi Chopra:** Just to clarify, when you say 10% reduction on overhead, you're talking about, again, next year versus as in FY22 versus FY21 or this is the set ongoing?

**Atul Daga:** Not FY21 is the year not to be used for comparison. If you have to compare, you have to compare with FY20.

**Raashi Chopra:** And what is the lead distance now?

**Atul Daga:** It's close to 440 kilometers and somebody might get alarmed why our lead has gone up, but this was a conscious effort to service our customers. As I mentioned, eastern plants were running at more than 100% capacity and we were falling short of material. And that is where when we saw this coming, we also announced or we pressed the pedal on our expansion plans, a lot of expansion happening in eastern markets so that we are able to meet the growing demand in east. We have been servicing east as far as Maharashtra plants, from central plants from south plants also and that is the reason for lead going, yes.

**K.C. Jhanwar:** So it's a fundamentally because of one, Atul said, we had to move lot of material to service our valued customer, but it is also to do a lot with the market mix actually because the eastern markets generally have a much larger lead than any part of the country, whether it's a south, west or north. So that's also had the impact.

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

**Ashish Jain:** My first question is on the debt risk that you indicated that we have also raised debt at 4.6% last year.

**Atul Daga:** 4.54%. Saurav will kill me if I say 4.6%.

**Ashish Jain:** What is the hedge cost of that debt and does it still make it attractive versus whatever you're earning on your treasury at this point of time? And another question in the same context is also that now we're sitting on like a huge Rs. 13,000 crores of treasury. Our cash flows are fairly strong. We are well covered for our CAPEX as well. So is there no thought of actually reducing the gross debt going ahead because if you are doing more fund base with a longer tenure issuances, should it be read as a thought that you will not reduce gross debt going ahead?

**Atul Daga:** As long as I am having a positive arbitrage, we are keeping our treasury. And the treasury will also start getting deployed for our expansion for all the CAPEX that we are undertaking so monies will be used over there and I don't know what is the linkage of hedge cost, 4.5% was rupee cost of debt. Saurav, do you want to say something?

**Saurav:** It's an INR bond. So there's no hedge cost to it.

**Atul Daga:** Yes.

**Ashish Jain:** I thought that is the dollar bonds.

**Atul Daga:** It was Indian rupee bond.

**Ashish Jain:** Secondly, is any part of the treasury invested as intercompany loan or something...

**Atul Daga:** No. Ashish, I have told you guys N number of times.

**Ashish Jain:** And just lastly, in terms of pricing and all, can you give some color how Q3 pricing was at a regional level because like sequentially your pricing is flattish, which was much better than my expectation for sure? So can you give some color on where we are on each region in terms of Q-o-Q pricing in December quarter?

**Atul Daga:** Generally. We saw a reduction of 1% or 2% in prices Q-o-Q. Regionally, east was weaker than the other markets because the volume uptick was very high. And it's not only us; practically every player who doesn't have enough capacity in the eastern markets tends to bring material from other markets. North was stable, if I remember it right. There was some correction in the southern market as well.

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

**Navin Sahadeo:** Just one question and this is just like in continuation of what we heard from the parent’s on call this morning, that the entire idea of the paint business was to leverage on the very strong distribution network of the White Cement business and Putty business because that is where the paint business has most of the synergies with. So just a question here was because since our business, again as you mentioned, is gray cement. Is there a possibility that we hive off or give back this White Cement business to the parent and that helps unlocking some value for this because it's typically seen as an FMCG business, but gets a multiple of a gray business? So is there a possibility that this kind of hive off can happen?

**Atul Daga:** No thoughts as yet on this point, which you have raised or hiving off White Cement. But for us, we have White Cement, we have Gray Cement, we have Waterproof Cement, we have PPC, we have OPC, we have PFC, so we have various kinds of cement. And white cement is an integral part of UltraTech. White cement manufacturing process, white cement can be manufactured in a gray cement kiln also. That is also a possibility. There is a lot of synergy amongst the operating teams. Procurement is common. In fact, pet coke procurement is common. And as far as distribution network is concerned or Grasim paints business, leveraging on our distribution network, I have already mentioned in one of the questions because we have lots of multi-brand dealers. Today any other cement company can also approach them to keep their product. Any other paint company, there might be dealers already who are stocking some other paint. So there is no reason why they will not be willing and given the trust, the respect that Aditya Birla group's brand has with all the dealer community, they'll be more than happy to do paints. They will for them, it will be one more source of attachment and connection with the group and generating revenues for them. This does not, in any way, create a problem or hamper our distribution network.

**Navin Sahadeo:** Just one question on RMC. You mentioned the business has come back strong with Rs. 620 crores of revenues in the quarter. If I understand correct, it's over 20% Y-o-Y growth. So given that we are still recovering and I'm sure demand in all probabilities in Q4 will be better, so is it safe to say that like going ahead now since this quarter, December itself has seen over Rs. 600 crores revenues. Going ahead, this business can continue to grow with more plants and all coming under its fold.

**Atul Daga:** Yes, certainly. And in the last call when I had showcased our portfolio of products. And I had mentioned, RMC was bound to grow 10% to 20% by the end of March '21 itself and we are on course.

**K.C. Jhanwar:** And to further add upon what Atul said, because as you know, the RMC is linked with the infra and it's urban-centric. So if the urban demand is now showing improvement and so the infrastructure, so I'm sure the RMCs should continue to do better going forward also.

**Navin Sahadeo:** Just one small bookkeeping question. How much was White Cement volumes for the quarter?

**Atul Daga:** Volume was 3.9 lakh tonnes.

**Moderator:** The next question is from the line of Prateek Kumar for Antique Stockbroking Limited.

**Prateek Kumar:** My first question is regarding the recent cabinet approval for this mining law. Although the fine field is not available, do you think from the read, is it something which will facilitate cement sector M&As or and will also help reduce your royalty payments on the acquisitions that you did in the past?

**K.C. Jhanwar:** Yes, I would say there are some amendments are yet to be announced. Some decisions have been taken by the cabinet committee actually, but nothing has been done to under PID, actually. So yes, that's a lot of rumors that this has happened. This has not happened. But if I'm very honest, it's one thing we see the final print and the notification, once it is passed in this coming session, parliament session, then only we'll get to know. But the ministry has so far not said anything officially with anyone. But yes, as you said rightly, somebody is talking that now levies have been removed, the limestone can be sold and some positive, some negative for the industry. But would be able to make comment very honestly once it is in.

**Atul Daga:** So to your question, if the proposed amendments come through, it will make consolidation easier. There is a lot of if, as Jhanwarji already mentioned, there's a....

**K.C. Jhanwar:** How it is drafted finally.

**Atul Daga:** There is a slip between the cup and the lip. So the final print lines have to be seen, final law as and when it gets implemented has to be seen. But if it does, then yes, it could help consolidation.

**Prateek Kumar:** And also, like it could be retrospective, reducing our cost of royalty as well?

**Atul Daga:** Yes. We haven't got any fine print yet.

**Prateek Kumar:** And just one question on other expense. It seems to be now higher on year-on-year basis versus like large declines, which we saw last two quarters. So is there any additional expenditure which was...

**Atul Daga:** The slight increase in ad spend, which was there Y-o-Y. But if I look at on a 9-month basis, we are still below our numbers. And I again maintain, we will have a reduction in overall expenses going forward in any case.

**Moderator:** The next question is from the line of Raj Gandhi from SBI Mutual Fund.

**Raj Gandhi:** Just here, during the announcement of the capacity addition, you did highlight UltraTech moving into this building solution business, where we are rolling out outlets with paints and everything and even construction, chemicals and also seem like a great opportunity from a stand-alone UltraTech perspective to create value given we're already moving in that direction and we have the dealer network with us. So sorry for the same repetition, but it seems like a huge opportunity for UltraTech on a stand-alone basis to capture.

**Atul Daga:** So what opportunity? I didn't understand.

**Raj Gandhi:** The paint opportunity?

**Atul Daga:** So one is UBS. We did not start UBS network last quarter. It has been there and I have just showcased the strength that we have developed with a network of 2,300 stores and yes, that we do sell paint from that network, which is a trading play for us. More important for us is UBS acts as a channel as a customer for us for selling cement. Paint, as I explained does not fit into the overall scheme of things of cement as a business. And I think, let me flip that question. Had we done paints in UltraTech, you guys would have questioned why are you doing paint and cement? Now if it is not there, now you are questioning, why is it not there? But jokes apart, Rajesh, the world over, if you see, there is no cement company which is doing paint. And the customer profile, if we evaluate the customer for gray cement and customer for paint is totally different.

**Raj Gandhi:** I know gray cement is different, but just because we have that white cement, wall putty...

**Atul Daga:** Customer for white cement is also different than customer for paints, completely different. Customer for white cement is my mason and a painter and customer for paints is the lady of the house. This is my understanding. I'm not a paints person.

**K.C. Jhanwar:** There may be some synergy but still, there is a big difference because it's altogether different segment. Yes, some as you said rightly, no connection with grey cement, but yes may have something with the white cement.

**Raj Gandhi:** And also, just on this because the paint company has been pushing putty based on a very bundled offering. So from now for us, it's being a different company to offer similar bundle offers and all that, it gets kind of...

**Atul Daga:** So it's too early for us to say anything and there can always be a cross-selling of products within the same group, there's nothing wrong in that. Whatever we do, it will be an onset. That is most important.

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

**Rajesh Ravi:** First of all, on few numbers, like you mentioned your WHRS capacity. Would you also give us what is the current thermal power capacity with the group, UltraTech as a whole?

**Atul Daga:** It's to total 1,100 or 1,200 megawatts, thermal.

**Rajesh Ravi:** 1,200. And sir, on the RMC, you did mention that there is a sharp increase and it will continue to grow. On the working capital, even in your September quarter, you had already squeezed in your working capital significantly. And thereafter, you have further reduced it. So do you believe that the December quarter numbers are more sustainable or there are a few specific reasons because of which your working capital has come off significantly?

**Atul Daga:** Yes. December is sustainable.

**Rajesh Ravi:** And yes, I think most of the other questions have been already answered.

**Moderator:** The last question is from the line of Madhav Marda from Fidelity International.

**Madhav Marda:** I just wanted to ask because there have been so many questions on why UltraTech didn't enter the paints business, which I find very surprisingly why you should do paints, it's very surprising. But I don't understand like there's no gray cement company in the world that's doing paints. Anyway, I think my question really was that even if you do like an arm's length kind of transaction, would you be able to give us some sense on how that could be structured? Like it would be some sort of distributor margins or something that we would earn?

**Atul Daga:** I don't know, Madhav, as and when it happened, because this has just been taken up by Grasim. I'm sure they will come to us in case they need to do some kind of tie-up or synergy because as I explained, anybody can approach the dealer to empanel, enlist their product. Today, I'm not 100% sure, but there might be a white cement dealer who's already selling some paint. It is a possibility. I don't know for sure. So they'll be than happy to sell Grasim's paints. They don't even have to take any permission, any approval from us.

**Moderator:** Thank you very much. I will now hand the conference over to Mr. Atul Daga for closing comments.

**Atul Daga:** Thank you, everybody, for having spent your Saturday evening with us. And as I said earlier also, the best is yet to come. So hold on and enjoy the ride. Look forward to meeting you again for the next quarter results. And I'll be more than happy to talk to you. In case there are any queries left, you can give me a call or my colleagues later on. Jhanwarji, anything to say?

**K.C. Jhanwar:** So thank you once again. It's a nice interacting with all of you. So thank you once again.

**Atul Daga:** Thank you.

**Moderator:** Thank you very much. On behalf of UltraTech Cement, that concludes this conference. Thank you for joining us. You may disconnect your lines. Thank you.