# "Century Textile and Industry Limited Conference Call to Discuss the Demerger of Cement Division to UltraTech"

**May 22, 2018**

**MANAGEMENT: R. K. DALMIA – SENIOR PRESIDENT AND CFO**

**Moderator:** Ladies and Gentlemen, Good evening. Welcome to the Century Textiles and Industries Limited Conference Call to discuss the Demerger of Cement Division to UltraTech. We wish to remind you that the discussion on today's call may include certain forward-looking statements and must be therefore be viewed in conjunction with the risk 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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now hand the conference over to Mr. R. K. Dalmia, Sr. President & C.F.O of the company. Thank you and over to you sir.

**R. K. Dalmia**: Good evening and welcome to this call regarding the announced transaction of demerger of our cement division into UltraTech. As you know CTIL currently has four business divisions viz. Cement, Textiles, Pulp & Paper and Real Estate and the objective is to enhance focus and performance of our businesses. The company requires significant capital to upgrade, modernize and grow these businesses. The current leverage in the company is around Rs. 4,300 crore which implies net debt EBITDA of 3.1 time and such high leverage constrains further growth of our businesses.

Hence, the company has decided to demerge its cement division, which will enable transfer of debt of around Rs. 3000 crore along with cement division. This can bring down the leverage to around 1.6 times creating headroom to invest in growing other businesses. In cement business, CTIL has a capacity market share of around 3%, which makes it a marginal player nationally. To even maintain this market share CTIL needs to increase capacity and incur significant CAPEX. Moreover, the profitability of cement division is currently not comparable to the industry average. For the year ended March 31st, 2018 it has achieved revenue of Rs. 4306 crore and EBITDA of Rs. 544 crores, which includes net one-time gain of Rs. 51 crore. This translates to EBITDA per ton of around 367 based on the capacity and after adjusting for one-time gain. This performance is despite running at 74% capacity utilization primarily due to high operating cost and market constraints.

Lastly, some of the cement plant of CTIL are old and require CAPEX to modernize and enhance product quality besides requiring high maintenance CAPEX for its upkeep. This CAPEX will result only in maintenance of EBITDA rather than a meaningful improvement in the profitability. This transaction will therefore help us in deleveraging CTIL balance sheet and creating an opportunity for its growth in the remaining businesses especially in unlocking the value in the real estate portfolio. We have had some initial success in real estate through two commercial buildings, which are fully leased out and have recently won some prestigious award.

This gives us confidence in our brand Birla Estates and our execution capability. We have a full-fledged team with complete focus on growing our real estate portfolio. The biggest advantage that we have is our existing land parcel, which the company holds in Mumbai, Kalyan and near Pune.

Currently we own around 13 million square feet out of which around 5 million square feet is at prime location of Worli area. In addition to the old land, Birla Estate has also signed MoU to develop one million square feet of residential project in Gurgaon. Further, the business has plans to enter into similar MoU's to develop a residential, commercial and retail portfolio. This will require significant funding over next 3 to 5 years. Pulp and paper business has its location advantage and has performed well in last 3 years. It is the largest single location plant in the country. The EBITDA of the paper business has improved over last 3 years and currently stands at Rs. 485 crore in financial year 18.

We would focus on achieving better efficiency by increasing capacity utilization of board and tissue segment improving cost structure, better realization through product mix with the objective to further improve the EBITDA. With this rationale, the board has approved the demerger of the cement business at the Swap ratio of. 1 equity share of UltraTech for every 8 equity shares held in CTIL. So the shareholder will continue to get exposure to cement through UltraTech shares, which are the market leaders in the sector while continuing to hold their existing shares in CTIL, which will focus on growing real estate portfolio and maximizing profitability in other businesses.

I would like to now take the questions that you may have on this transaction. I introduce my colleague Mr. Nilay Rathi, Sr. Vice President, who looks after the corporate finance of the company. Thank you.

**Moderator:** Ladies and Gentlemen we will now begin the question and answer session. The first question is from the line of Raj Gandhi from SBI Mutual Fund. Please go ahead.

**Raj Gandhi**: Will this demerger require approval from the majority of minority in Century Textiles?

**Management**: Yes.

**Raj Gandhi:** And for that any independent valuation sought because the valuation of the cement division if I just go back the current price seems to be low compared to the transaction that we have seen on the cement side.

**Management:** Yes. Bansi S. Mehta & Co and Walker Chandiok & Co have done independent valuation.

**Raj Gandhi:** In terms of real estate possible to highlight key status of the land bank that we are seeking to monetize? We are aware because you have given the update on the Aurora and other commercial building which you have already brought them to near completion, but outside that the mill land parcel and Pune land which you have referred to and Thane land so any update on those land parcels in terms of where are we in terms of monetizing them?

**Management:** Yes, we have a 30-acre land in Worli area. Apart from that in Kalyan also we have around 100 acres of land. We also have land at Pune. Right now, we are thinking of development at Worli and Kalyan in the first phase. Around 12 lakh square feet will be available on our land for construction.

**Raj Gandhi:** Will this all be residential or mix development? How do we intend to do that at least in the Worli side?

**Management:** At present it will be residential, but then as per the market we can go for commercial also in future, but presently it is residential.

**Raj Gandhi:** Any timeline by when do we intend to start for some sort of approval which will be required or any other manual detail that you can provide at least in the working?

**Management:** The company balance sheet will supports financial leverage after the sale of Cement business; hence we will expedite this activity and go strongly in real estate market.

**Moderator:** The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak**: So as minority shareholders we are not happy with the valuation that has been offered and I feel as management we have fiduciary duty to get bidding from other suitors as well. So as to know what the fair market value of the asset is. So I will strongly recommend you to do that exercise so that we can establish a fair market value which is based on what other buyers might also be willing to offer rather than just one particular party because we are not happy we think the asset can give us much more.

**Management**: Right now, if we check in case of comparable companies the valuation is around $80 - $90 per ton. Further, we got it independently valued. These plants are very old and require almost Rs.500 crore maintenance CAPEX to maintain current profitability. If we go for bidding it will take time and delay the growth of the real estate business. So to speed up the real estate development, we have expedited the process of cement outgo and this will help us ramp up the start our real estate activity.

Further we need to spent nearly Rs. 500 crore in 2 to 3 years. We are getting nearly 17 times EBIDTA multiple (after reducing one-time profit of Rs. 51 Crores. This is a very good multiple more so when our current capacity utilization is only about 75%. The capacity utilization cannot be increased unless we commit a big CAPEX. So instead of delaying these activities it make sense to go ahead with expansion of Real estate and Pulp & Paper, which is giving very good profits. Further at real estate for last 2 - 3 years we are working on necessary approvals. Now we are geared up to take real estate to next level. So, we have decided to expedite the above. I think 17 multiple is a very good valuation.

**Dheeresh Pathak**: Sir I would very humbly recommend you that the EBITDA multiple is not the right multiple because our EBITDA is understated given A the pricing and B are cost structure just by investing Rs. 350 UltraTech can bring the EBITDA to Rs. 900 per ton by taking building on branding. So obviously the EBITDA multiple is not the right multiple as we have seen with cement. Once the asset is out for multiple players to bid, it fetches n higher value because people think of it as asset value rather than just EV/EBITDA multiple right now because the EBITDA is depressed. For most of the midcap or small cap names you can see EBITDA is depressed. So I would strongly recommend that is your Fiduciary duty also as management of the company to make sure that we get the best value for the asset because we as minority shareholders we are not happy with the valuation we have got so that is my humble request to you. Thank you very much.

**Moderator**: The next question is from the line of Hitesh Doshi an Individual Investor. Please go ahead.

**Hitesh Doshi**: What would be the big picture in Worli you said the first phase will be 12 lakh square feet. What can be the big picture total over next 10 to 15 years what square feet according to you this year we can develop and same about Kalyan and Pune. I want just 10 to 15 year picture.

**Management**: Our CEO of real estate division is also here. He will reply this query.

**Management**: Worli we are expecting overall over the next few years potential of about 5 million square feet. And in Kalyan we have several parcels aggregating about 100 acres so the first parcel we are hoping that we will be able to launch in this financial year itself and the potential is about 1.3 million square feet.

**Hitesh Doshi**: Sir what can be the cost per square feet including TDR and all and what can be the selling price ideally over a 10-year period I mean what can be the profitability per square feet in Worli?

**Management**: Worli you know the pricing is around anywhere between Rs. 35,000 to Rs. 40,000 per square foot. So, we expect about Rs. 25,000 per square foot as a profit on an average of the next 10 years.

**Hitesh Doshi**: Nilayji I also share the concern on valuation of the cement unit please try to compensate minority shareholders in a better way. Thank you and wish you all the best for everything in future.

**Moderator**: We move to the next question. It is from the line of Sagar Karkhanis from Motilal Oswal Financial Services. Please go ahead.

**Sagar Karkhanis**: I had a question on the real estate business specifically pertaining to our MoU for the project in Gurgaon like the experience we have had so far is real estate being a regional business companies who have stuck to doing development in one region have generated or created higher shareholder value vis-à-vis companies from one city who are going and venturing into different city altogether. So, what is your thought process are we going to be a PAN India Real Estate player or are we going to be a regional player?

**Management**: Birla brand has very strong brand equity. We believe that we can play very strongly as a pan India player and you must have observed in the real estate market some of the brands which had earlier entered enjoy very strong presence in major market unlike strong regional player. It also helps us in sort of distributing the risk involved in the business, market risk as well as approval risk etc. So, we are very confident that we will be able to do extremely well in certain markets like NCR, Bombay, Pune and Bangalore, which essentially constitute about 80% of the real estate market. So our focus will be to develop simultaneously in all these markets.

**Moderator**: The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

**Ritesh Poladia**: Out of 30 acres in Worli how much land is already developed and what could be your investment in each of the business that is real estate, textile, if any and paper for next 2, 3 years?

**Management**: As mentioned earlier, the overall potential for Worli is about 5 million sq. feet. Out of this we have already developed a commercial building is about 3.5 lakh square feet. The rest is open for development. And pulp and paper it will require almost 200 crore investment, some for increase in tissue capacities and other for modernization of our remaining plants.

**Ritesh Poladia**: That would be happening in FY19 or over couple of years?

**Management**: Over two years.

**Ritesh Poladia**: What is the realization in paper and tissue?

**Management**: 55,000. Its EBITDA margin around 22% they are working it.

**Ritesh Poladia**: So right now, realization is about 55,000 and is it working at 100%?

**Management**: Yes.

**Ritesh Poladia**: And in real estate, what would be your investment over next 2, 3 years?

**Management**: If you take for 3 to 4 years target is around 1100 crore.

**Ritesh Poladia**: And that would be for first phase of 1 million square feet.

**Management**: this is for the overall development of various parcels in the first phas

**Moderator**: The next question is from the line of Krudent Chheda from Apt Capital. Please go ahead.

**Krudent Chheda**: Sir, if we include the two-million-ton capacity of cement for which the approval is still pending the valuation comes to around $93, $94 per ton, which is very less, compared to the other deals done in the market?

**Management**: It is not 2 million it is 1.2 million ton. Presently there is a very limited market potential in that area and we are operating at only 64% capacity. 2-million plant capacity is non operationsal since last 3-4 years because there is no market available. Other than that the plant is also cost ineffective at that location

**Krudent Chheda**: Sir as a minority we feel we have sold at very cheap valuation the better would have been done by the transparent bidding process where like few buyers would have bided and we have got a better value, so which would have helped in future cash flows also since we require lot of investments in future, do not you think that?

**Management**: It has been independently valued by Bansi S. Mehta & Co and Walker Chandiok & Co. Secondly, I repeat that out of that capacity of 4.8 million ton at that location where we got the valuation only 3-million-ton capacity is working. The balance is not utilized due to cost ineffective plant. Further even though the production increases then marketability of extra produced is question mark. So valuation has been done independently and is fair. We have also taken fairness opinion from JM. Financial.

**Krudent Chheda:** But we still feel it would have been better if we would have done other transparent bidding process that would give us a fair value rather than done by the independent valuer.

**Management:** As I have said earlier in my reply, we are getting a 17 EBIDTA multiple, which in itself is a good deal. Secondly, to make the plants maintain the current level of profitability we require huge CAPEX. So the longer we delay the transaction the further will be the delay in developing the Real Estate business. This decision was taken to focus on the Real Estate business and not delay it any further.

**Krudent Chheda:** Sir earlier there was some news we were planning to sell a paper and pulp division, so do we still plan to sell it, or we will continue owning it?

**Management:** No, we will continue and go with the growth story of pulp and paper, further in tissue I have said we are increasing and doubling our capacity apart from modernizing our plant, so in paper we are very focused and continue our business with paper.

**Krudent Chheda:** How do you see the pricing and pulp prices has gone up significantly in last 6 months, 8 months?

**Management:** It is controlled and the realization is also increasing. We have a great locational advantage also and the long term contracts that we have will ensure that the paper business will not face any significant problems over the next 2-3 years.

**Krudent Chheda:** How is the pricing changed in long-term contract any increase in raw material has passed on immediately or how is it?

**Management:** Yes, it is passed on. Within two, three months whatever orders are there in hand after that the new orders come up on that price increase happens.

**Moderator:** The next question is from the line of Tanuj Makhija from Bank of America. Please go ahead**.**

**Tanuj Makhija**: You earlier mentioned in the call that out of the 4.8 million ton capacity 1.8 is cost ineffective, can you elaborate on the cost inefficiency of plant and what are the steps required to make this ineffective plant of 1.2 capacity economically viable?

**Rajesh Shah**: Out of the existing capacity of 4.8 million tonnes at Manikgarh, 2 million is the old capacity and shutdown. It's an old plant and it has lot of inefficiencies relating to power consumption, heat consumption and to upgrade that it needs a huge investment. So utilization is low & the effective capacity utilization is around 64%.

**Tanuj Makhija**: So could you elaborate a bit more on the operating cost per ton of the 2 million ton capacity and what is the power efficiency of those plants over there?

**Management**: I will just come to the power efficiency, but basically demand is also not there in that area. There is huge competitive intensity in that area and we are not able to sell that. That is why that utilization level is low.

**Tanuj Makhija**: On the cost front for a 2-million-ton capacity?

**Management**: So, I would say Rs. 300 to Rs. 400 per ton it would be higher cost compared to the efficient unit.

**Tanuj Makhija**: That is the fixed plus higher power cost. Like other plant in Madhya Pradesh and also in Chhattisgarh what are the operating cost per ton and what are the cost inefficiency can you elaborate?

**Management**: Again about the Chhattisgarh Plant that is the oldest plant that is a 44 year old plant. And the current life of the plant left is around 6-7 years' time and maybe after 7 years it need complete new line will have to be put up so that will again call for huge investment that is a 44-year-old plant and given the state of structure so life is not beyond 6-7 years.

**Tanuj Makhija**: So, the entire Chhattisgarh Plant line needs to be replaced as for 6 to 7 years and for the Madhya Pradesh Plant.

**Management**: I am referring to only the Chattisgarh plant. Any other question?

**Tanuj Makhija**: Yes sir this is one more question what are the cost inefficiencies at the Madhya Pradesh Plant?

**Management**: Yes, Madhya Pradesh. The pet coke utilization is lower.. Given the old plants there are limitations in terms of usage of pet coke you cannot increase pet coke beyond a particular level and again the power plants are old and they would not be efficient as new generation power plants and if you were to completely upgrade that calls for huge investment.

**Tanuj Makhija**: Sir if you can give a tentative number, what is the investment required for a up gradation it seems like a huge investment, but what is the investment required for up gradation?

**Management**: I think we need to spend around 500-600 crores merely to maintain our current level of EBIDTA. However, to maintain our market share in a very competitive market we will need to invest close to about 2500-3000 crores. This will need to be done over the next 2-3 years. We are a marginal player and do not command a position in the industry. So we need to put in nearly 3000 crores over the next 2-4 years to just ensure that we maintain the current level of our market share which does not seem to be justified

**Moderator:** The next question is from the line of Harsh Thakkar from Pinnacle. Please go ahead.

**Harsh Thakkar:** Sir my questions are same that I also have expressed strong opinion that we could have got on valuation cement because 106 or 96 that is a debatable figure. It is just my opposition that you know I also agree with other investors that we could have got a way better valuation?

**Management**: I have said previously also and I shall say it again. Bidding as slump sale is highly tax inefficient and what we have done is to maximize the benefits to the shareholders. The direct share transfer is highly tax efficient. Secondly, it would have taken a longer time and the planned growth of our Real Estate business would have suffered.

**Harsh Thakkar**: Sir, coming to the real estate growth story I just want to know that Mr. Jitendra mentioned that it is around 5 million square feet with a 25,000 of approx. profitability, so it converts to 12,500 crores of profits over the next 10 years?

**Management**: That is about that approximately you are right. Harsh we are just talking about Worli.

**Harsh Thakkar**: Just Worli 12,500 crore then in Kalyan what do we expect to be the profitability over the next 10 years and with so much cash flow coming into the picture how do we like what is our next stage like do we go PAN India wise and in the next 5, 7 years do we see Birla estates as a brand among the top three real estate developers in India the way other developers who are branded have a Pan India presence and how much time are we away from all the presentation analyst meets IR and newer project pipeline to be taken?

**Management**: It is this way that we are very focused to become one of the leading real estate players in the next few years. We have chosen NCR, Mumbai, Pune and Bangalore as the markets to grow in. So we will be simultaneously getting into partnership with other landowners. We will aim to develop in each of these markets and aim for market leadership. So, our aspiration is to go full steam in these markets.

**Harsh Thakkar**: Sir do we see more update in terms of analyst presentation from Birla estates or from the pulp and paper as well Birla estates because in results the only communication we get is from quarter-to-quarter results. Otherwise there are no analyst presentation, no IR firm, are we in the process of hiring an IR firm who can update regularly on the project status you know the other leading in real estate developers are doing currently.

**Management:** We will start with presentations by FY19.

**Harsh Thakkar**: So in this current FY19 we will be able to see that.

**Moderator**: The next question is from the line of Rajesh Lakhani from HSBC. Please go ahead.

**Rajesh Lakhani:** Sir, my question is basically on these 3,000 crores to maintain the market share so if just wanted to be clear on this, so maintaining market share would also mean that putting additional capacity and that is the 3000 crores amount or just replacement of the old plant that you have spoken of would that cost 3,000 crore?

**Management:** It includes the addition in capacity because right now we are at 3% of market share if we want to continue with 3% then we have to put some additional capacity also to keep our share of the growing market

**Rajesh Lakhani**: And sir just to replace these plants what would be the amount? The older plant the 2 million tons old plant in Manikgarh and the Chhattisgarh plant?

**Management**: We are working on it we will tell you. It will take almost 2300-2400 crores. Raipur will require around 1500 crores and Manikgarh will require 800 crores.

**Moderator**: The next question is from the line of Gautam Dedhia from Nalanda Securities. Please go ahead.

**Gautam Dedhia**: Just wanted to know whether at Gurgaon which you mentioned about development of 1 million square feet, how much like this project will be over what period of time and what is going to be the profitability from that project?

**Management**: The project is about 1 million square feet in Gurgaon, which should take about 4 year to complete, and we expect about 30% margin in this project.

**Gautam Dedhia:** So 30% of what amount?

**Management:** it should be in our estimate top line about 1100 crores.

**Gautam Dedhia:** And that will be over a period of 4 years.

**Management:** That is right.

**Gautam Dedhia**: Any similar project on the offing to be signed?

**Management:** We are looking for projects in all the 4 markets as I mentioned earlier. We are looking for multiple projects in partnership with the landowners.

**Gautam Dedhia:** One more thing as far as Kalyan is concerned you mentioned you were to develop how many square feet and what is going to be the profitability there and over what period of time?

**Management:** We have several land parcels at Kalyan. We plan to start with the first land parcel which should give us about 1.3 million sq. feet. Here again Kalyan being our own land parcels we are expecting margins north of 30% around 35% to 40%. So this is about 1100 crore project. So you can estimate what is going to happen.

**Gautam Dedhia:** You mentioned about the selling price at Worli, what would be the selling price at Kalyan?

**Management:** The average over the next 4 to 5 years we expect about 7,500 to 8,000.

**Gautam Dedhia:** So 30% of that should be considered as profit?

**Management:** That is right.

**Gautam Dedhia:** And what about Pune, you said 45 acres where is it located, and it will be purely residential there or commercial?

**Management:** No, it would be residential.

**Gautam Dedhia:** And where is the location in Pune?

**Management:** Just outside Pune in Talegaon.

**Gautam Dedhia:** There what is the program of development?

**Management:** We will take up Talegaon when the market is ripe. It wont be happening immediately. When the area is ready for development we will launch our product in Pune.

**Gautam Dedhia:** Regarding cement valuation just wanted to check whether you had reached out to any other competitive bidders or just to give valuation of the value or you have gone ahead with the deal?

**Management:** As I said earlier, Bidding is tax inefficient and would result in huge capital gains tax for the company on the sale proceeds to be received by the company The cash flow will be in the company only . As compared to that, in the demerger scheme, the shareholders of century are getting additional wealth. Apart from being tax inefficient it also takes a long time.

**Gautam Dedhia:** We are quite unhappy with evaluation as far as minority is present.

**Management:** Independent valuers have done it; further fairness opinion has been taken from JM Financial. Wefeel we have got a good value.

**Gautam Dedhia:** See this involves technical as far as valuation of plant is concerned. So you mentioned about Bansi Mehta they are a Charted Accountant Firm. So technically I do not know how qualified they would be to value a cement plant of such big capacities.

**Management:** They have their own team for each and every field. It is not only accounting or taxation; there are different teams and they are doing these types of valuations at Bansi Mehta. They have done it for other companies also. It is a business valuation and not technical valuation.

**Gautam Dedhia:** And at least we expect that as was mentioned earlier that you should have more of the concall meetings with the analyst and investor henceforth?

**Management:** Thanks for your suggestion and we will continue with this.

**Moderator:** The next question is from the line of Akshat Gandhi from Kotak Mutual Funds. Please go ahead.

**Akshat Gandhi**: Couple of questions from my side. First, will this transaction require majority of the minority approval?

**Management**: Yes it will require.

**Akshat Gandhi**: Second, you have quoted couple of times in your responses to various participants on the fairness of the deal and everything, is it possible to share the valuation report and fairness opinion to the shareholders or let say online if it can be viewed by the shareholder or anyone can view it?

**Management**: So along with the scheme it will be filed on stock exchange also. So once we will file the scheme it will be uploaded on stock exchange also. So, you can view.

**Akshat Gandhi**: So you are saying the copy of the valuation report and fairness opinion also will be available. Okay also third question in the entire transaction there is 1.2 million ton which requires statutory clearances, which I believe is at Manikgarh correct?

**Management**: Yes.

**Akshat Gandhi**: So how much CAPEX we incur towards that 1.2 million ton?

**Management**: It is largely debottlenecking. This incremental capacity has come from debottlenecking, so this capacity is available. We are waiting for the environmental clearances on this.

**Akshat Gandhi:** How much CAPEX we incur to debottleneck this?

**Management:** Very minor CAPEX almost negligible. This has come out mainly by operational improvement.

**Akshat Gandhi:** So the total limestone reserve is 439 million tons, which we will be transferring to, UltraTech is that correct?

**Management:** Right.

**Akshat Gandhi:** Just one question while the EV/EBITDA argument I can understand has been already quoted, but did this cross our thoughts that on one side assets like Binani is being bid at such aggressive valuation which is still not EPS accretive and around roughly 6 million tons. Best case may make Rs. 700, Rs. 800 EBITDA per ton and we are transferring 13 million tons that too which is EPS accretive from day one and there the valuation versus the Binani valuation offered by the same acquirer is quite different.

**Management:** We have a locational disadvantage apart from old plants. Binani has problems of lack of funds and working capital issues. Binani actually has around 540 million metric ton of limestone reserves and we understand there is a possibility for brown field expansion Moreover, the comparison is not apt for another reason. Different geographical regions offer different competitive intensity. It is not possible to compare a player operating in the North markets with one in South or east. Also, in case of Century there is no additional land so offers no scope for expansion whereas we undertand Binani has immense possibilities of growth. That may also have been taken into consideration while valuing Binani.

**Moderator:** The next question is from the line of Mahantesh Maralinga from Finquest Securities. Please go ahead.

**Mahantesh Maralinga**: Sir as minority shareholders we also feel you could have invited other competing bids so the right valuation might have been arrived at for disposing of the cement business and they would have been given realistic valuation because in comparison to Binani also there might be some aggressive bidding from other players because setting up a new plant requires lot of efforts from many new player like land acquisition and limestone reserve, etc., that sort of we feel that better valuation on that front?

**Management**: Firstly, the shares of UltraTech will be directly transferred to you. This will mean you get the benefit of UltraTech's growth story. If we did a slump sale, the capital gains tax in the hands of the company will be very high and if the balance surplus is declared as dividend then shareholders will also be impacted because of dividend tax implication. Secondly, as I mentioned earlier and I repeat, slump sale is highly tax inefficient, it takes lot of time and the Century growth story will be delayed because of this activity. So to expedite all those thing to take care of shareholders we have thought to go fast on this activity to save on dividend distribution tax, to avoid taxation on slump sales and thirdly to quickly execute our real estate business plans. So the shareholders will get the benefit of UltraTech growth story and Century can go forward with its plans in the real estate sector. So from all the areas shareholder will get benefit and that is our paramount thought process while going for this.

**Mahantesh Maralinga**: One more question like in Kalyan what is the total area I mean that will be developed for a period of time?

**Management**: Mahantesh the area is about 1.3 million square feet for the first land parcel.

**Mahantesh Maralinga**: No, I mean the total area?

**Management**: Total is about 5 million over a period of time.

**Mahantesh Maralinga**: This 1.3 million will be developed in the next three-four years?

**Management**: That is correct.

**Mahantesh Maralinga**: Sir coming to paper business like going at what is the outlook I mean it is quite interesting now I think for the whole paper industry and recently in an article where in even the newsprint press have jumped up a 15%, do we manufacture any newsprint or only quarter-on-quarter paper?

**Management**: Right now our board business is doing very good and it has a very good market in future also. This is required for medical boxes or anything we need a board hence we are going very strong on board. Secondly, tissue paper is used for industrial users and normal consumers. If you see at each and every location now we find tissue paper. So hotel industry, hospital industry, everywhere tissue is there. So we want to grow our tissue business also. Apart from that writing and printing paper demand too is high as compared to supply. Close to 20-30% of paper is imported which means there is a demand supply mismatch in the domestic market.

**Mahantesh Maralinga**: Coming to recent raw material prices like pulp and all gone up, are we able to pass on the prices to the end consumers?

**Management**: Yes, I have said demand-supply mismatch is there and there is import of paper. We can use our capacities to counter imports; hence demand of paper is there.

**Mahantesh Maralinga**: Sir coming to the textile division what is your outlook the performance is quite erratic in the sense the margin are quite volatile and how do you plan to go in that division?

**Management**: Textile we want to continue with the current status because it is majorly textile industry by which we have grown everything. So, we intend to continue whatever our business is there. We have a good export market, but we do not want to go for big expansion in textiles because the profits we expect are more in paper and real estate. However we are catering to big brands at export market.

**Mahantesh Maralinga**: So you will maintain the current operations you mean.

**Management**: Yes.

**Mahantesh Maralinga**: Sir, what will be the debt reduction of this year?

**Management**: Right now, we have a debt of 4,300 crore, 3000 crore will go away so 1300 crore will remain as debt in our books.

**Mahantesh Maralinga**: So you might be going for further leverage now of real estate and other things because of this production?

**Management**: Now we have an opportunity we can go ahead with the development at real estate, Pulp & Paper.

**Mahantesh Maralinga**: So in the next FY19-20, can I just broadly get the top line from real estate ballpark figure?

**Management**: We will not be able to comment at the moment.

**Mahantesh Maralinga**: Already work started Worli Phase-2 or something?

**Management**: Worli as I mentioned we will start with the Phase-1. We will take about 12 to 15 month to launch the first phase. Based on the response of that we will be gearing up for the other phases also.

**Moderator**: The next question is from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

**Antariksha Banerjee**: Could you just help me with what are the major markets that we service in the cement division from each of our plants geographically speaking?

**Management**: For Madhya Pradesh Plant, we serve Utter Pradesh. Madhya Pradesh then Bihar is our major markets. West Bengal, Maharashtra so these are markets, which are in proximity to our plant location.

**Antariksha Banerjee**: So I was saying so for the Madhya Pradesh Plant you saw all these states is that correct?

**Management**: Yes Madhya Pradesh, Utter Pradesh there are the two major markets.

**Antariksha Banerjee**: What about the Maharashtra Plant?

**Management**: Basically, Maharashtra and Southern market.

**Antariksha Banerjee**: So Karnataka you mean, the Gulbarga belt?

**Management**: Yes.

**Antariksha Banerjee**: And for West Bengal it is only West Bengal or Bihar also included?

**Management**: West Bengal, Bihar and part of other north markets, but majorly in West Bengal and Bihar.

**Moderator**: The next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.

**Yash Agarwal**: Sir I want to know what is the lease income from the two building that we have leased out here annually?

**Management**: It is about 150 crore annually.

**Yash Agarwal**: So that will come in FY19?

**Management**: Yes that is right.

**Yash Agarwal**: Secondly in the textile division post the deal with Grasim what sort of EBITDA left, what annual EBITDA will come in?

**Management**: 70 crore to 85 crore.

**Moderator**: The next question is from the line of Govind Gilada from GG Securities. Please go ahead.

**Govind Gilada**: On real estate few questions I have got most of the things have been clarified. This margin all that what you are referred I hopes they are at PBT level?

**Management**: Yes that is correct gross margin.

**Govind Gilada**: At PBT level?

**Management**: These are at EBITDA level.

**Govind Gilada**: These are at EBITDA level not at PBT level. One more thing Kalyan we are talking about 5 million total potential, but land we are telling that it is 100 acres. So 100 acres only 5 million potentially is real sir?

**Management**: As I said Govind we have several parcels in Kalyan of various actually they are kind of accumulating into about 100 acres in various locations. So as per the current DC rules we are getting about 5 million square feet because of the location of this land parcels, but we are hopeful that as the DC rule keeps getting revised and reformed will get more FSI. For our first parcel, which is about 22 acres, which we are going to launch shortly the potential, is about 1.3 million square feet.

**Govind Gilada**: 22 acres only 1.3 million what is FSI there?

**Management**: FSI is about 1.5.

**Govind Gilada**: On lower side I think 1.3.

**Management**: Yes could be there is some land but we get to develop all that.

**Govind Gilada**: One more clarification can you give me sir. This PBT level any idea can you give me what can the margins this we are talking about Worli 25,000 profits. It is at EBITDA level what you told but at PBT level what can be can you give rough guess sir.

**Management**: We have repaid lot of loans. So I do not think interest burden will be very high.

**Moderator**: The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

**Gunjan Prithyani**: I just have one clarification there is this grinding unit in West Bengal from where was you feeding the clinker to that grinding unit?

**Management**: So in that grinding unit clinker was largely getting supplied from Manikgarh unit incurring a huge logistic cost.

**Gunjan Prithyani:** But if I were to just think you had 4.8 million ton or 5 million ton in East which was operating at a fairly high utilization levels and you were also feeding clinker from that plant to the West Bengal plant, so your whole system was balanced right. There was enough clinker to feed the integrated plant as well as the grinding unit, right?

**Management:** No, large quantity of clinker was getting supplied from Manikgarh which is the unit in Maharashtra, but as and when there are some surpluses available with other units in Chhattisgarh and MP at that time some small quantities would have supplied, but largely it was supplied from Maharashtra. Clinker supply also depends a lot on availability of rail network.

**Gunjan Prithyani:** No, I am asking this question because I would have assumed that on that 13.4 million ton you were clinker balanced and clinker was sufficient for that 13.4?

**Management:** Actually, clinker is not balanced at our plants. We have a shortfall of around 1 million ton of clinker so that we take from the outside market.

**Gunjan Prithyani:** So you procure that from the outside market.

**Moderator:** The next question is from the line of Kunal Bhakta from First Water Capital. Please go ahead.

**Kunal Bhakta**: I have a couple of question at Worli we have a total of 40 acres of land out of which I believe 10 acres is on 19 years is lease from Bombay Dyeing which was subject matter of litigation, so it would help if you could provide with the status of that 10 acres of land that is my first question and my second question is on the paper business in terms of long-term plan when you say that 200 crores is the CAPEX over the next two years. I believe this business will start throwing up free cash in addition to its CAPEX requirement on an ongoing basis, so do you see this as a strategic fit as part of current entity or you think that now you will also look at segregating this into a separate entity somewhere down the line.

**Management**: This Worli land 10 acre which is under litigation with Mr. Nusli Wadia which is still in a lower courts so that is the status as on today.

**Kunal Bhakta**: It is still under the lower courts it is not yet progressed.

**Management**: We have not considered this disputed piece of land in our calculation of the 5 million sq. feet potential at Worli.

**Management**: Pulp and paper will continue to be part of Century only and we will continue with our writing and printing paper, packaging board and tissue paper all three together. Further financially we have a cushion so we can finance on paper and real estate both, wherever required.

**Kunal Bhakta**: And there is a 600 crores royalty which you supposed to receive over 15 years from Grasim for the VFY, so in the last finance year whole year part of that 40 crores annual inflow would have been accounted? What was the amount that you accounted in FY18?

**Management**: It is like 40 crore yearly, average we take it is coming to around 8 - 9 crore.

**Kunal Bhakta**: 8 - 9 crores is what you accounted last year.

**Moderator**: The next question is from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

**Abhinav Bhandari**: Couple of questions. One was on all the cement plants that we have how much is the value of incentives which are yet to be claimed and how was it taken it into calculation while arriving at this $106 valuation?

**Management**: So that in EBITDA everything is covered, and right now receivable of cement is almost 400 crore.

**Abhinav Bhandari**: This is over what period sir?

**Management**: That is receivable till 2034. Receivable every year we get. Receivable we receive after year end on state sales, the government reimburse us.

**Abhinav Bhandari**: So 400 crores is the value of still recoverable incentive that you are mentioning right is that understanding correct?

**Management**: So let me just explain this at Manikgarh, which is the Maharashtra unit the total fiscal incentive was 1460 odd crores out of which around 400 crores has been recognized in the books meaning fiscal incentive get recognized over a period of time.

**Abhinav Bhandari:** So 1100-odd crores or 1000-odd crores is still unrecognized which has gone to UltraTech basically if I understand it correctly?

**Management:** That is for a long period of time and it is captured in the EBITDA it gets captured in the valuation and last we had a fiscal incentive at the West Bengal unit, which is already being completely recognized in the books.

**Abhinav Bhandari:** The other question was sir how much royalty we would get from Grasim on an annual basis if you could just help me with that number?

**Management:** Everything we got upfront.

**Abhinav Bhandari:** So the 800 crore, 600 plus 200 that you got is everything upfront?

**Management:** Plus, working capital whatever we have transferred so all we got upfront.

**Abhinav Bhandari:** And the third question was how much of TDR sales are still left. I think you booked one chunk in the last quarter, so how much of it is still left to be booked?

**Management:** We have about another 15,000 square meters to be booked.

**Moderator:** The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

**Sumant Kumar**: EBITDA per ton for paper division. As per my calculation 1,97,000 you have in writing printing paper and 31,000 you have in Rayon grade pulp and then tissue paper 36,000. So is this total capacity plus 180,000 of paper both, so which segment you have higher EBITDA per ton, so in 485 crore?

**Management**: Tissue paper gives the highest followed by board and then the writing and printing paper.

**Sumant Kumar**: How much is in tissue paper EBITDA per ton?

**Management**: We map as per paper industry only not tissue wise. Per ton are not the criteria; we map it as EBITDA percentage.

**Sumant Kumar:** We know that TNPL EBITDA per ton of the Tamil Naidu Newsprint is around 13,000 to 14,000 other companies has 12,000 to 13,000 EBITDA per ton but when we calculate the EBITDA per ton for Century Textile Paper Division is coming around 11,000 for FY18, so what is the key reason for lower EBITDA per ton?

**Management:** So we are not tracking it as per EBITDA per ton it is around 22% we are getting EBITDA on pulp and paper industry.

**Sumant Kumar**: So we are fully backward integrated?

**Management**: Yes.

**Moderator:** The next question is from the line of Pawandeep Bhatia from IL&FS. Please go ahead.

**Pawandeep Bhatia**: Most of the questions were answered just wanted to understand the thought process that we have in terms of holding on to if I am not wrong we are having a vision of being real estate company on the line of Birla Estate where we have our brand and we create a brand image and brand equity. If the paper cycle is good and we are getting a good valuation because we will not get such valuation and such EBITDA margins in a bad cycles. So, can't we sell off the paper division and just focus on real estate that is going to have a lot of potential as you guys said the potential profit is around 12.5 crore which paper or any other division cannot even imagine to make. So I just wanted to know the broad vision and big picture that we are planning in the whole as a shareholder and as an investor I wanted to understand the vision of the company?

**Management**: So apart from paper we also have board and tissue paper, which will continue to grow, board industry has come new and it is growing very fast. So boards benefit we want to take, apart from that tissue paper is also rampant in India right now. So we want to continue with paper business at present.

**Pawandeep Bhatia**: Other participant has also focused on is with just some visibility in terms of analyst needs and conference calls I would really highly appreciate and request you to be present at least after every quarterly results so that the management can share their vision and potential of the company in front of people, we would like to instill the confidence. I do not want to dwell in the point that we are not happy with the cement business because everyone has already covered it. So just a request so that we can have more confidence in the management going forward just more communication with the analyst committee because as an analyst representing IL&FS I have tried to reach out to the management in the past with no real success. So I would just request just one point and I would like to wish you all the best for the future.

**Management:** We appreciate your views and we will continue with more interaction with shareholders.

**Moderator:** We take the last question from the line of Nirav Shah from GeeCee Investments. Please go ahead.

**Nirav Shah**: Two questions. Sir, what is the working capital that is transferred to Grasim?

**Management:** 120 crore.

**Nirav Shah:** Sir, one just clarification real estate you mentioned of the 5 million potential in Worli we have developed 3.5 lakh square feet, is it correct?

**Management:** That is correct.

**Nirav Shah:** And the future will be largely outright sale or will be a mix of lease as well as outright sale?

**Management:** We are planning to do predominantly residential in the future phases so largely it will be outright sale.

**Moderator:** Thank you. Ladies and Gentlemen, with this I now hand the conference over to Mr. Dalmia for his closing comments. Over to you sir.

**R. K. Dalmia:** Thank you for joining us today we feel we have achieved a good value for our shareholders. A high price would not have got many bidders and the process would be tax inefficient. We are now getting ready for our next phase of growth. The balance sheet is strong, and we will create value for all shareholders. Thank you once again for joining us today and have a good night.

**Moderator:** Thank you very much sir. Ladies and Gentlemen of Century Textiles and Industries Limited that concludes this conference call. Thank you for joining you and us may now disconnect your lines.