



“HeidelbergCement Q3 FY19 Earnings Conference Call”

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HEIDELBERGCEMENT



**MANAGEMENT: MR. JAMSHED NAVAL COOPER – MANAGING DIRECTOR
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MODERATOR: MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA)
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Moderator: Good day, ladies and gentlemen and welcome to the Q3 FY19 Conference Call of HeidelbergCement India hosted by PhillipCapital (India) Private Limited. 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 an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Thank you, Margaret. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q3 FY19 Conference Call for HeidelbergCement India Limited. On the call we have with us Mr. Jamshed Naval Cooper – Managing Director and Mr. Anil Sharma – Chief Financial Officer.

I would like to mention on behalf of HeidelbergCement India Limited and its management that certain statements that may be made or discussed on this conference call maybe forward-looking statements relating to future developments and economic performance. These statements may be subject to a number of risks, uncertainties and other important factors which may cause the actual developments and results to differ materially from the statements made. HeidelbergCement India Limited and the management of the company assumes no obligation to update or alter the forward-looking statements whether as a result of new information or future events or otherwise. Also, HeidelbergCement India Limited has uploaded on the exchange and its website a copy of the presentation. Participants may download a copy of the presentation from these websites.

Management: Thank you, Vaibhav and thank you, everybody for joining this telecon conference. It is quite late in the evening but all those who have joined to take out special time for that, thanks to everybody here who is there.

You have got a presentation copy which is already there in front of you. I will take you through it and then we will go for question-and-answer session.

The bigger picture is that the country's capacity is close to 480 mt and operating in the country right now at around 70% utilization there. Heidelberg is operating close to 90% utilization. The industry growth if you look at it, it is on an average for the year around it has been 15% but on the December last quarter it has grown about something like 18% in October, 9% and 12% in December. On quarterly volumes for HCIL is concerned, in the December quarter we have grown by about 6% growth but on an average of 12-months it is 8% growth for Heidelberg.

Taking you to Slide #6 which is the highest ever quarterly results we have produced ever for this company which is the sales volume is highest, realization is highest, profit after tax is highest, EBITDA and revenue, all are highest. So this is one of the best performance we have given so far in the history of this company and with support everything we think let us go forward and try to work to sustain this as much as possible but again depends on quite a few factors of the

environment because we operate in an environment which is mostly Central India and that is where Heidelberg India operates with a very small exposure in south.

Coming to HCIL's major highlights, EBITDA per ton is Rs.947 per ton which is marginally lower than what we gave in the last previous quarter. Capacity utilization is at 93%. We sell 100% of our cement in blended cement. Last time we mentioned about to you that we are doing some separator in our grinding mills so one of the projects is over, we have got another two more phases to go ahead which we will take it over in a period of time.

We have received our interest free loan from UP State Government and that helps us to an extent you will see our interest cost coming down a little bit in the last quarter.

On the net debt, it is about Rs.231 crores and distributed interim dividend is about 10% which is about Rs.27 crores which is distributed.

On the income statement side, the bigger picture is that total income is up 15%, EBITDA YoY is 48% and profit after tax is close to 84%. If you look at nine months period, PAT has been almost close to double. So that is where the highlight is.

On KPIs, we have performed in terms of our sales volume, the growth is 6%, gross realization is up 9%.

But on the EBITDA bridge, let me take you to the EBITDA bridge per ton; YoY, from Rs.680 crores per ton to Rs.947 crores per ton, the biggest beneficiary has been the price, the price has helped us in terms of GSR has improved. Hit we have taken marginally on account of raw material because of some fly ash shortages here and there little bit of that. So that has affected us.

The major cost hit came to us on power and fuel. That we cannot help because the fuel prices we cannot control. But of course, the team has been very agile on to the management of fuel in terms of changing the fuel mix. So they have done a good job, but still we cannot defy the gravity which pulled us down by about Rs.108 per ton on this part.

Coming to our slide #10, we moved 47% of our volumes by road and 39% of coal we had to use this time because of the pet coke had shot up significantly high, so we had to change over to this. Otherwise, you are averaging to close to 70% pet coke but then we have to alter the fuel mix which I mentioned last time also it was coming down, we had seen it come down. And when the coal price goes up, then again, we move towards pet coke. Anyway, the target is not to see how much coal we are using the target is to see how low gradual cost we can achieve and that we work towards that.

We have sold in terms of our premium products. So we have shown significant improvement there; premium products are about 4% increase year-on-year. So that is moving in the direction.

We always believe that sustainability of our business is not only to make profits but the profit should be sustainable and sustainability means also not only in terms of profit but also in terms of environment sustainability. Is our business going to be hit in future if we are not compliant? So here is the company, here we try to ensure that we remain 100% compliant in all respects, highest respect to all the emission norms and ensuring the security of the organization is intact in terms of that we remain fully compliant and we are ahead of the curve in terms of addressing to any of the environmental thing, whether it is water positivity or whether it is reducing the power consumption that we continuously work.

So we have got Quality Circle Forum of India – Hyderabad Chapter, Damoh Plant got the 1st Prize in Safety Excellence. So we believe in quality of life, we believe also that people who come to our plant should go back home, laughing and smiling and we care for of course high respect for life. We spend our target time on ensuring safety of our people. We believe that we are going to achieve zero harm by 2020 so that we pursue on the target.

For Jhansi, we have got Energy Appreciation for that also from Ministry of Power.

Taking you forward on the outlook, we have seen the budget coming this time, so we had interim budget and we are expecting the demand to continue to grow at 7% in the year ahead. Can be better, but I think 7% is the sustainable number which we should expect in 2019.

Government demand I am sure it will spend because Awaz Vikas projects are going on in big swing. I can see everywhere mobilization in terms of roads is concerned. So there is a lot of movement on roads. So that is one area where cement demand for the industry is there. Although we are not in the area league of supplying cement to government projects because we do not manufacture OTC, our company is totally 100% PPC, a blended cement company. So we do not really serve these projects but the idea point of telling you here is that the industry is going to look forward to a good robust growth in numbers in one year to come. The concerns are for us is the steep increase in crude prices which can always take us by surprise and general elections at that point of time some demand slack will be there. But I think we should not be too much worried about these types of things because the demand if it is running at the growth rate what we are seeing today minor dips also it is not really going to make too much of a difference. As I said on SOx and NOx, we are remaining compliant, our scrubber SMCR has been installed at our plant in Central India and it has started operating for the norms that we are well within the timeframe what was given to us, we have remained become compliant.

So, this is all from my side. And thank you all once again for being here and we can go for question-and-answer session.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Agarwal from India Nivesh Securities. Please go ahead.

Mohit Agarwal:

I have one question that the freight cost is reduced for this quarter because of the rebate on account of higher volume in the Railways side. So want to know how much rebate we get?

- Management:** Depends on the volume we do it. It is not something which is permanent. There is always Railways say that if you do a volume which is better than the last year, so there is a formula which Railways gives. If we achieve that we get it. If we do not achieve it, we do not get it. So there is nothing some permanency in this particular sort of thing which we should count on all the time.
- Mohit Agarwal:** But how much this quarter sir?
- Management:** Actually, this is pertaining to the period for one year and during this quarter we got benefit from Railways, total amount is INR38 million or Rs.3.8 crores.
- Mohit Agarwal:** Second question sir, about the impact of commissioning of expected Bara grinding unit of 4.0 mt, how we are looking for that new capacity?
- Management:** Let it come, not a problem at all. If it comes in, it is most welcome to the market as long as people can sell it at a good price and not be greedy about taking the market share, it is fine. Anyway nobody can take away anybody share in the cement industry. We have seen it takes only 15-minutes for the other company to settle the price.
- Moderator:** Thank you. The next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.
- Abhishek Jain:** Sir, just a question on the expansion side. Currently sir from where the growth will come to the dealers if we count for our exclusive dealers, our utilization level is 93%, so for them the growth has to be there and they have to be with us, have we given any thought about the same?
- Management:** Abhishek, we do not call them exclusive dealers, we call them as trusted dealers, first, on this particular part, but like my total trusted dealers are close to about 65% of my dealer network. So there is still people who are dealing with it. So if my capacity has to grow and my trusted dealers have to grow, we will definitely have a strategy to feed them more and give less to channel which is multi-branded. So we will promote our trusted dealers more definitely on that. So as of now I do not see a ceiling.
- Abhishek Jain:** Anything from the expansion side since we have reached 93% of our capacity utilization? I know you have told about we were going for the 100% capacity utilization, there is a room for that. But any plans on the board for any Greenfield or Brownfield expansion currently?
- Management:** Right now as I said that debottlenecking is going on. The first phase is over. So it adds up about a lakh tons after that. Of course, optimization has to continue. So we will add up over a few hundred thousand tons in the timeframe to come. But as you said that we do not have the limestone mines as of now to do a Greenfield, but definitely we are always on a lookout for expansion in terms of it can be acquisition or anyway, we will look at it and that is we actually look forward.

- Moderator:** Thank you. The next question is from the line of Kshitij Bansal from Albatross Capital. Please go ahead.
- Kshitij Bansal:** I would appreciate if you could share your current mix of trade versus non-trade and please also sort of help us understand how exactly these realizations and the demand scenario according to your advantage point you are looking for coming quarter and beyond?
- Management:** On a trade we are about 80%, non-trade is about close to 20%.
- Kshitij Bansal:** If I speak from like you have been among the top performing companies at least when it comes to EBITDA per ton, you are clocking like way above the industry average to the extent I have been able to track. Will you be able to sustain momentum going forward as well?
- Management:** As I said, if we can keep getting this money at the top line, if it is coming from the consumers pocket, then I think that difference will always remain, because ultimately it is a question of NSR. If you can sell your product at a little premium than competition, then it is sort of a result is possible, because only competitive edge comes out of your two edges – one is your cost and the other is from your market. So you have to be competitive on both ends. So it is a double-edge sword.
- Kshitij Bansal:** That is what I am saying. In a sense we have seen that it is difficult for cement organizers to kind of differentiate the product and at times in order to garner more volumes, they might end up compromising on the per unit or the realizations part of it. So I am just trying to understand that from where you stand for the coming quarter and beyond, do you see that you will be able to replicate this momentum so that at least you can get some possibility because you said that in this current quarter the growth was a decent double digit growth that you were able to see?
- Management:** There is always a very conscious effort to see that we remain ahead in all respect. I think so far we have not let the market down as far as the results are concerned. So we have been improving QoQ and this is the attempt which we will continue to do. So I cannot tell you anything for what future holds for us or how the markets will move around, but we will try to stand as tall as possible.
- Kshitij Bansal:** From CAPEX standpoint, how much of CAPEX do you foresee sort of going in the organization in the coming year and possibly for another year and beyond that?
- Management:** Rs.50 crores will be the CAPEX per year on an average more or less.
- Kshitij Bansal:** I hope all from internal accruals if I may ask?
- Management:** Yes-yes.
- Moderator:** Thank you. The next question is from the line of Chintan Shah from Investec. Please go ahead.

Chintan Shah: Sir, my first question is on power and fuel. If you can help us understand what the mix is right between linkage, pet coke basically?

Management: Now, our linkage is almost over. So we are now on auction coal. So there is very small component. Again, we are struggling to get coal because Coal India is even not giving the auction coal also as of now. It is a difficult situation but we are managing.

Chintan Shah: What is the mix of pet coke in the kiln right now?

Management: I mentioned to you it is about close to 40% almost coal and 60% is pet coke.

Chintan Shah: Is it possible if you can help us with the pricing on a rupee per kCal basis for coal and pet coke for this quarter and can one expect some tailwinds into Jan and Feb as we go into Q4 as the prices for pet coke softened?

Management: No, pet coke as of now also is stiff. A dollar or two should not really be looked at if there is a softening it has to be by about \$10 when we talk about it is some material difference.

Chintan Shah: Sir, on a blended basis, how much would it be in the last to last quarter you had indicated around 1.3, 1.4 per kCal if I am not wrong?

Management: Coal is about Rs.1.46 and pet coke is 1.5.

Chintan Shah: Secondly, how is our product mix on the blended cement side on PSC and PPC?

Management: 100% PPC is in Central India and small quantum of about 60,000 tons per quarter in south.

Chintan Shah: How was the fly ash and slag prices trended – is there some cost inflation over here specifically on the slag side that we hear it is pretty steep?

Management: The problem is these materials keep changing from time-to-time depending on availability and running of power plants and things like that. Today, I cannot say what my cost is going to be. Tomorrow it is going to be the same thing. It is difficult to forecast that because again when there is a power shortage the excess power in thermal power shutdown and then you have to run here and there for your fly ash. So that always becomes a challenge and you cannot forecast that.

Chintan Shah: I am just trying to understand, knowing Heidelberg and given our execution track record, I am sure we will have things you had already occupied for it. What is the quantum of volume and price contract do we have on fly ash and slag, is it like market linked or we already have volume contracts and the price gets determined every quarter?

Management: For fly ash we have long-term contract, but slag is there, it keeps fluctuating, slag is a smaller quantity for us, so it is not too much of a bother.

Chintan Shah: How does the pricing book over here specifically on fly ash, is it determined every quarter?

- Management:** No-no, it is year around price.
- Chintan Shah:** When does it get renegotiated?
- Management:** Every year.
- Chintan Shah:** Is it the March ending?
- Management:** Sometime depends on different, different contracts, different, different units, so they close at different times, but materially does not change because it will change by about Rs.10 here or there per ton.
- Chintan Shah:** How should one look at the different cost here as we go into Q4? You indicated pet coke coal has not changed much. Is there anything specifically on the lead distance which is reduced I think that has been one of our focus areas and anything on the raw mat side which has changed or one can look at?
- Management:** If you look at it on our logistics cost, we got some benefit of the axle load. So the diesel went up a little and axle load improved so that rate adjusted against that. Otherwise, supply lead is more or less the same. I think we are not changing too much of our lead. Inward materials are coming from almost the same sources. Not much of a change.
- Chintan Shah:** Sir, will it be possible for you to highlight the power sourcing arrangement that we have for our Karnataka facility, the kind of contract that we have because we stack up really well when it comes to power and fuel against the competition, I think one of the elements would be this, so how should one look at this?
- Management:** In our Karnataka plant, we are sourcing more than 50% of our plant requirement through this renewal long-term PPA which is let us say almost 30-35% economical as compared to grid.
- Chintan Shah:** Sir, will it be possible for you to quantify how much is it and for what duration this contract is?
- Management:** Contract is available for 25-years. Price is locked for 10-years and it is a flat price without any collision. To quantify, there is a specific slide on this topic, so if you want to refer maybe you will get a better insight there.
- Moderator:** Thank you. The next question is from the line of Pradeep Agarwal from Reliance Mutual Fund. Please go ahead.
- Pradeep Agarwal:** Just wanted to understand a little bit on pricing in central region for Q3. So correct me sir if I am wrong because through some dealers what I had my knowledge was that pricing in Central India have been flattish to slightly negative for Q3. So for you it has been 1.5% up QoQ. So if you can explain me how pricing has moved for you versus the regional players – has it been different or you are in line with the other players or is it because of better premium products your pricing has been better for this QoQ?

Management: First, let me put it like we do not change our prices frequently in the market. That is one important part for us is we do not change our prices, we try to move it gradually up, we resist forces of bringing down the prices, but sometimes we have to do it because if competition drops it significantly then the elasticity between them and us is also a certain amount, we cannot stand beyond that. But the tendency is that if the market drops also, we try to delay it as much as possible. So there we get some benefit out of it. So if somebody has dropped the prices five days earlier than us, then we tend to lose a little lesser and if we take a price increase five days before competition, that helps us. So, on both the sides, the delta we try to make money on that. We do not believe that to increase prices first you dump the material in the godowns which is the usual trend of the industry before the price increase, they will announce everybody, so that the dealers fill up the material. And after 10-days you find that the dealer is not lifting, then you again go back to your own price. So what is the sense of increasing the price? So we do not inform the market that we are going to increase, overnight we inform that tomorrow night the price is going up and that is it and that is how we make our money.

Pradeep Agarwal: Any major benefit of premium product increase sequentially as you mentioned it has gone up by 4% YoY?

Management: Not really, I would say it is a very small margin but idea is that product there is in the market is to improve the brand positioning of a gamut of products. So it is Mycem umbrella under which we operate in Central India. We try to see that the umbrella product is given the due weightage and it gets the due respect from the market. So these are all props which we allow. We do not really look at any product as such that it is going to make too much of money in the long run but yes, it does give us an image in the market. The strategy is not to make money out of one single product. The strategy is to using a product as a lever, we try to pull up the entire range of products.

Pradeep Agarwal: What could be the difference between your regular products and premium products and total percentage mix?

Management: In the market the retail would be about close to Rs.30 more. Total percentage mix of trade sales is close to 10%.

Moderator: Thank you. The next question is from the line of Milind Raginwar from Nirmal Bang Securities. Please go ahead.

Milind Raginwar: I have a couple of questions: To start with what would be the clinker production for the quarter?

Management: It is about close to 6,60,000 tons.

Milind Raginwar: Any comparable number for the September quarter and December quarter last?

Management: Around 7,60,000 tons in previous quarter and if you look at it 6,05,000 tons was in the quarter before year-on-year.

- Milind Raginwar:** If I am looking at a pricing for us, in terms of September to December, the pricing has been about 1.2% kind of a thing. So September being a monsoon quarter, was it that the state election in MP or something has impacted or probably at this level the prices will stabilize going forward, how are we looking at this because being a monsoon quarter from thereon, the festive quarter jump is slightly muted, so I was just wondering on that part, what is your take on that?
- Management:** If you look at the GSR part, GSR was in the month of March was 4135, then it went to 4235 almost stable similar in September and about 4316 almost last quarter. So it has marginally improved only.
- Milind Raginwar:** Any impact of the Madhya Pradesh state election on either volume or pricing?
- Management:** Election will always have an impact.
- Milind Raginwar:** What would be the contribution of WHR now in the total requirement of us?
- Management:** In our clinker plant, WHR contribution is around 30, 35% of the total power requirement.
- Milind Raginwar:** That is using at what capacity of that WHR plant?
- Management:** It depends upon the kiln running. So during December quarter, we have decided that we only take the shutdown and that is why the clinker production is lower, because of that waste heat recovery generation also will be lower but now it is almost stabilized and we are running WHR based on the clinker production with 90, 95% capacity.
- Milind Raginwar:** I mean that 30% would be probably the maximum that we can get or there is something more that we can get from the WHRS?
- Management:** You can say that whatever the power requirement for the clinker is 30, 35% is met by the WHR. Tomorrow my clinker product increase, my total WHR power will increase but it will remain by around 30, 35% of the total power requirement in clinkerization plant.
- Milind Raginwar:** The next question is about this Rs.3 crores of logistics cost. You rightly said it is based on volume and we have limited volume traction if we had to take it that way. So is it that this Rs.3 crores is a sustainable number or is it a one-off or it is going to change, can you just throw some light on this?
- Management:** We have the long-term agreement with the Railways to increase the volume. And if we increase, then we get the rebate from them which is based on the annual increase quantity which we achieve during 2017-18 from the Railways. Now, if we increase our volume, next year then we will get it. We do not say it is one-off or we do not say that okay it is the benefit coming from the Railways will remain here or will not remain there. It depends upon the volume which we achieve next year. If it is higher, we will get again the rebate, but you can say that it is not coming every quarter.

Milind Raginwar: There is an increase in the run rate of the other income. So anything specific that we should look at? Normally we do about 6-7 crores and this time it is 10 crores, so that Rs.3 crores is sitting incremental.

Management: The other income basically comprise of mainly two parts – One is the GST benefit from the state government in Madhya Pradesh and second is on account of sales. Those are predominantly two major parts which sitting in other operating income and it depends how much quantity we sell in Madhya Pradesh and where we sell it. So you will see that okay, it is fluctuation between Rs.6, 7, 8 crores every quarter. When you talk about the other income, it is mainly on account of interest on the fixed deposit. During this quarter, we had a good amount of the fixed deposit with the bank and we earn a good interest on that thing. So that is why it has increased to Rs.10 crores.

Milind Raginwar: It is only that, there is nothing incremental or differently to look at it, right?

Management: It is primarily on account of interest on fixed deposit.

Milind Raginwar: So as we move on, probably this would be the steady state number because we are generating enough cash now, can we take it that way?

Management: You can assume that, it will be similar to the December quarter.

Milind Raginwar: Sir, again going back on the debottlenecking of the overall capacity that we are at about 5.3 mt, so what debottlenecking benefit we would get – would it be 10%, any number that you would like to assign?

Management: 10% would be too high. You can say around 7% putting together.

Milind Raginwar: Sir, while Mr. Cooper mentioned about 80% of the trade sales in the quarter, the presentation indicates 85%. So is there anything that we have to ...?

Management: Usually we average around 80%.

Milind Raginwar: Nine months was about 80%, that way we can look at.

Management: Yes, we are improving. Sometimes what happens, when there is a good demand, we immediately shut off the tap into the area of non-trade. That business always for us is always an opportunistic business.

Milind Raginwar: Sir, normally our lead distance should be about 350 Kms, any change there including rail and road both, right?

Management: About 380 Kms.

Milind Raginwar: Sir, debt is about Rs.230-odd crores, right?

- Management:** Yes.
- Milind Raginwar:** Any gross number just to know the cash that we are sitting on?
- Management:** Rs.605 crores.
- Milind Raginwar:** Tax rate for us has been higher at about 35%-odd for the year as a whole. So anything there that we can see some or this will be the run rate?
- Management:** Yes, this will remain there, this is the tax rate by the government.
- Moderator:** Thank you. The next question is from the line of Rajesh Gupta from MS Capital. Please go ahead.
- Rajesh Gupta:** My question is what is the price difference between trade and non-trade?
- Management:** On the realization side, it can be close to Rs.500 a ton.
- Rajesh Gupta:** What is your expectation about the MSP in 2019 – will it go up and by how much percentage you expect?
- Management:** Today as I said, in Central India it is very much dependent on the markets which are adjoining there. So unless the neighboring states start moving up, it is difficult to pull up any further Central India prices.
- Rajesh Gupta:** What is your market share in the Central India?
- Management:** About 10%.
- Rajesh Gupta:** In Eastern region how much you sell total?
- Management:** We do not sell in any Eastern region, Bihar is a very small quantity we sell, negligible.
- Rajesh Gupta:** Mostly in Central India only?
- Management:** Yes.
- Rajesh Gupta:** Another thing is what is the price gap between your premium products and your normal products?
- Management:** It is Rs.30 in the retail counter.
- Moderator:** Thank you. The next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.

- Abhishek Jain:** Sir, just wanted to have the lead distance number this quarter?
- Management:** Around 380 Kms.
- Abhishek Jain:** Is there any scope to reduce it?
- Management:** We are at very optimal level.
- Management:** I cannot pump material everything near to the plant. It has to go some distance.
- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.
- Rajesh Ravi:** I had a few questions. First on the employee cost which has come down in this quarter, what exactly went in this or is just some adjustments which will get reversed in subsequent quarter? And second if you could repeat the gross and net debt numbers again please? Third, capacity debottlenecking, what is the total capacity that we are seeing in FY'19 and what would be the capacity in Q3?
- Management:** On employee cost side, whenever we go for any kind of actual valuation of either gratuity or leave liability, sometimes you get some small amount of actuarial gain or sometimes maybe actuarial loss. In December quarter, we got some benefit on that account and may not be repeated every quarter. Actual payout may remain same as compared to September but on the P&L side, you sometimes get this benefit. On the gross debt and net debt side, gross debt is around Rs.600 crores and net debt is around Rs.280 crores. So basically we have more or less half of the gross debt as against balance in our books.
- Rajesh Ravi:** Capacity debottlenecking that you mentioned, what CAPEX we are looking at for FY19?
- Management:** We have put the CAPEX debottlenecking in three phases. Total amount will be somewhere around INR250 million and during this fiscal year we have incurred around INR70 million for the Phase-1, out of the Rs.7 crores we had incurred so far for completing Phase-1.
- Rajesh Ravi:** This would increase the clinker capacity for us?
- Management:** Grinding.
- Rajesh Ravi:** To what level you are expecting this to go sir?
- Management:** As I said little more lakh tons from each phase should come out.
- Rajesh Ravi:** So 0.3 million is what you are looking for, 5.4 million will go to...?
- Management:** 0.3 plus only you can say. If technical team can do a good job, it can go to 4 at best.

- Rajesh Ravi:** In the call you also mentioned that you had some railways incentive of around 35 million, is that right?
- Management:** It is INR38 million or 3.8 crores.
- Rajesh Ravi:** Which was booked in December quarter?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Chintan Shah from Investec. Please go ahead.
- Chintan Shah:** Sir, I checked in the prior presentation. There was no mention about the price that we had locked in under the solar power agreement that we have. It just states that 35% lower than the grid tariff. If you can please quantify it will be quite useful?
- Management:** Grid power is close to about Rs.7, you can take it as an average.
- Chintan Shah:** Secondly, is there any particular reason why we have not replicated this for our Central India facility or is it some state-specific policy and hence it is at our southern plant?
- Management:** We are working on that, but all opportunities do not come simultaneously, so some places you have that facility, in South you have solar power and renewable energy more than what you have it in Central India. Availability and rules and regulations will make a difference. That is what we are working on.
- Chintan Shah:** Sir, just to understand this better, is this under the RPO obligation that we have the capacity in South and basically this will be from central government schemes and not state government schemes, so if we have that benefit it will also be applicable for the capacities that if we decide to incrementally set up in Central India?
- Management:** Actually we have not set up any solar plant in South India. That is the long-term agreement with the power producer. Like Mr. Cooper also explained that we are working on it. Certainly, if we go for any solar power, renewable power, there will be benefit on account of RPO. At this moment, we are looking for various elements to bring down the power cost in Central India also. The waste heat recovery was one of that we put there and the benefit is now coming. Now we are working maybe the long-term agreement or maybe we are looking for some solar power to central plant and I think we will be able to bring that kind of benefits also in the coming quarters.
- Chintan Shah:** My second question is you indicated that we are open to inorganic growth. Now I understand basically there is a sizeable cash which is there on the balance sheet. So, what is the kind of inorganic growth that we are looking at – are there any specific regions that we are interested in?
- Management:** We would prefer to grow more in Central India where we have synergies. But we are not saying that we will only look at this, we have the capability to expand to any markets and make the

presence felt. So we are looking at any possible avenues which can make money for a share for our shareholders.

Chintan Shah: Is there any other timeline that we are looking at? I am just coming from a point like why not to increase dividend payout if we do not have anything firm on hand or do we have something we already doing debottlenecking, do we have something in mind on the inorganic side that we can expect over six months or nine months horizon and that is the reason why we are not sparing out cash to the shareholders?

Management: I would not be able to comment on that because it is premature to comment anything, I do not want to bring this chapter here, but yes, definitely I can tell you that we are always on the lookout.

Management: But Chintan, you will appreciate that already in the December quarter the board has declared 10% interim dividend. The dividend percentage is 20%, 25%, 35% total we have paid during 2018-19, it has increased from 20% to 35%.

Chintan Shah: Anything incremental on the Zuari project that we have? I think it does consume a part of management bandwidth. So how should one look at that asset when one looks at Heidelberg in conjunction?

Management: Zuari pays Heidelberg for use of management resources.

Chintan Shah: But sir anything on the synergy side that you can share?

Management: Yes, we do because we do get clinker from Zuari to our Ramachandra Unit, there is a benefit which is there, there are synergies, no doubt about it.

Chintan Shah: How much is the clinker volumes if I may?

Management: 125,000.

Chintan Shah: I am assuming this was on market rates?

Management: In South there is no price. If you get at a good price, you can always get it. That is the control under related party transactions. So it goes through that process.

Chintan Shah: If I am not wrong, there was certain agreement between Zuari and Sagar Cement also on a certain cement clinker swap. If you can provide some details over there, that will be quite useful?

Management: I would not be able to comment on this forum.

Moderator: Thank you. We will take the last question is from the line of Pratik Maheshwari from Ambit Capital. Please go ahead.

Maheshwari: Sir, I was looking at our raw material cost which comes to about Rs.765 per ton around that level for last two years before that also. So, just wanted to understand why is the raw material cost relatively higher than the average for the industry and is it because of some additives which reduces the power and fuel cost for the company?

Management: Our raw material cost when you look into in financial I think you need to also consider that we have the one grinding plant. We transfer clinker from our Madhya Pradesh plant to our Jhansi plant and the transportation cost also coming under this raw material. This may not be situation for the other cement companies. Otherwise, my raw material cost will always be lower because we are 100% blended cement. So you will get the fly ash there. If someone is doing the OPC maybe you will see that okay his raw material cost is lower because nothing he has to buy other than gypsum where I have to put either plain or the fly ash.

Maheshwari: But using the blended, it should be much lower, right, from higher OPC player?

Management: Higher OPC player will always be lower in the raw material cost because they only add gypsum there whereas we had either fly ash or slag and moreover in south plant we are buying clinker and that clinker 100% is coming under the raw material whereas if we produce clinker, then it is split into power and fuel although that is very miniscule percentage on overall result of the HeidelbergCement but ultimately that directly enter into my raw material cost.

Maheshwari: To understand this correctly, those because of higher blending and fly ash cost coming in your raw materials, you are not producing that much amount of clinker, that maybe required by a higher OPC player and hence sir on the power cost you will be much lower to higher OPC player, is that correct understanding?

Management: You are right.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.

Vaibhav Agarwal: Yes, thank you. On behalf of PhillipCapital, I would like to thank the management of HeidelbergCement India Limited for the call. Also many thanks to the participants joining the call. Thank you very much sir.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes the conference. Thank you for joining us and you may now disconnect your lines.