

“HeidelbergCement India Limited Q4 FY-15 and FY-15
Conference Call”

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HEIDELBERGCEMENT

 PhillipCapital

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Moderator: Ladies and gentlemen good morning and welcome to HeidelbergCement India Limited Q4 FY-15 and FY-15 Conference Call 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaibhav Agarwal of PhillipCapital. Thank you and over to you, sir.

Vaibhav Agarwal: Yes, thank you, Inba. Good afternoon everyone on behalf of PhillipCapital India Private Limited we welcome you to the Q4 FY-15 and FY-15 call of HeidelbergCement India Limited. We have with us Mr. Jamshed Naval Cooper – CEO and Managing Director and Mr. Anil Sharma – Chief Financial Officer of the Company.

I would like to mention on behalf of HeidelbergCement India Limited and its management that certain statements that may be made or discuss on this conference call maybe forward-looking statements relating to the Company’s future business development and economic performance. These statements maybe to a subject to a number of risk, 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 these forward-looking statements whether as a result of new information or future events or otherwise. Also HeidelbergCement India Limited has updated the presentation on the website at www.mycemco.com participants may download the copy of the presentation from there.

I will now hand over the floor to the management of HeidelbergCement India Limited for their opening presentation which will be followed by interactive Q&A. Thank you and over to you, sir.

Management: Thank you, Vaibhav and thank you everybody for participating the participant we are really thankful and just about the presentation are in front of you. For the Q1, we have had a growth of the Slide #1 which takes you through that is 6.5% growth in our volumes. If you look at our volumes over the quarter-on-quarter which is crossing 1 million so we have now stabilized at a 1 million plus sort of a volume.

Going to as we said that on the net sales there is marginal increase mostly because of the market condition it should have been better. On total income which is almost flat.

On EBITDA there is almost flat if you look at it, if you look you at EBITDA margin on year-on-year basis you will see that EBITDA margin has doubled from 8.4% to 16% which is what the growth we had been able to achieve.

Coming to the EBITDA Bridge the difference which has come is mostly in terms of volumes we could gain so there is revenue growth. On power and fuel there is an improvement in consumption patterns raw material this is the marginal impact and so it the impact of freight. Although if you look at the whole picture it is result which our EBITDA has maintained it almost flattish on year-on-year basis.

On the balance sheet side, the balance sheet has grown from 2,758 crores to 2,819 crores so there is an improvement in terms of a net debt it reduced to 970 crores from 1,067 crores. On the side waste heat recovery our project s which are going on CAPEX side waste heat recovery project is on its way. We expect complete it before end of this year and start filtration. It is about 12 megawatts to 13 megawatts of power which will come to at a cheaper price.

We have invested in fly ash silo because to increase our dependability on sources there is difficulty in managing fly ash resources so we have put up a silo invested into that and the silo work is also on and about 5 meters to 6 meters of height has come by end of much before the end of this year the silo should be completed and should get commissioned by beginning of next year.

This is all I have to say if there are any questions I will more than happy to answer. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from Nitesh Jain of Axis Capital. Please go ahead.

Nitesh Jain: Sir if you can tell us the demand and pricing scenario in your key markets in Eastern India or the say in UP market it would be very helpful.

Management: Nitesh, on demand side if you look at the all India demand I will be able to tell you much better picture. The overall demand remain suppressed if you look at the capacity utilizations of the industry what it appears to be it somewhere hovering around 70% and that is what the state of affairs as of now it is. As far as Central India is concern the demand has grown by about between 3% and 4%, this is what our expectation are this is what our market estimation which is coming up this is for the last year.

- Nitesh Jain:** Sure. And sir we have been like as per research when we talk to dealers we have been told that compared to other regions like North India say Rajasthan, Delhi or some of the other state cement prices in eastern part of the country are holding very well. So would you able to be confirm this call what can be ruling pricing of mycem in your market in UP or Madhya Pradesh as we speak.
- Management:** See it varies, today's prices will be very different from it was the prices are fluctuating but if you look at it on an average in Central India the prices should hover around Rs. 270 around.
- Nitesh Jain:** Sure, sir. And one last thing sir in the presentation you have mentioned that variable cost on per ton basis have declined by 5% due to saving in power and fuel.
- Management:** Correct.
- Nitesh Jain:** So if you could tell us like where the saving is coming like the specific power consumption has gone down or the coal price had gone down what is the key driver of this saving?
- Management:** This is basically because of the consumption factor improving although there is an increase in power cost.
- Nitesh Jain:** Okay. So basically power units per ton of cement has gone down.
- Management:** Correct.
- Nitesh Jain:** Okay. And sir if you can tell us what it is like 75 unit or how is it?
- Management:** It is about 74 or so something, Yes, around that.
- Nitesh Jain:** Okay. And sir just one last clarification the waste state recovery you said by the end of this year so you mean calendar year of financial year?
- Management:** Calendar year.
- Nitesh Jain:** Calendar year, right?
- Management:** Yes.
- Moderator:** Thank you. Our next question is from Rahul Veera of Edelweiss. Please go ahead.

Rahul Veera: I just had one question regarding the freight cost sequential I see there is a very sharp increase in the freight cost. So can we know the reason please after the impact of diesel prices going down we believe that the prices that the freight cost should have come down.

Management: Rahul, it is mainly because of the railway freights have gone up so that is the reason you see a sharp increase in the railway freight.

Rahul Veera: Okay. So is it because of the peak season charges?

Management: Peak season the railway Yes also because of the peak season charges.

Moderator: Thank you. Our next question is from Jaspreet Singh Arora of Systematix Shares. Please go ahead.

Jaspreet Singh Arora: My question on our growth plans sorry if you have touched upon on this in your earlier statement I missed out. So basically have you made any headwind in terms of opportunity in either Greenfield, Brownfield or first to grow be we have been operating at 80% plus utilizations for most part of the last financial year?

Management: So you are asking about growth plans?

Jaspreet Singh Arora: No, we obviously have growth plans. But if we have made any headwind in terms of identifying sites or deciding on any particular project in the last quarter?

Management: As of now no I cannot comment on that but yes, we are looking always for opportunities for growth.

Jaspreet Singh Arora: So there is nothing that is concrete?

Management: I am not in a position to comment on that because it has an impact on the Company.

Jaspreet Singh Arora: Sure. So at whatever stage you would be finalizing it you will be obviously sharing with us so.

Management: Definitely.

Moderator: Thank you. Our next question is from Sameer Tulsian of JM Financials. Please go ahead.

- Sameer Tulsian:** Does the margins for this particular quarter includes any government incentives which were not there in December quarter like the last quarter or the March quarter last year?
- Management:** No, Sameer they are very much the same there is no change whatever was there earlier it continues so it is a consistent.
- Sameer Tulsian:** So how much the EBITDA would be coming from incentives approximately?
- Management:** EBITDA from incentive will be around Rs. 45 to Rs. 50 per ton or cement.
- Sameer Tulsian:** Okay, like we see our power and fuel metrics have improved so what I was trying to compare was CY-13 versus FY-15?
- Management:** Just could you repeat that, just loudly.
- Sameer Tulsian:** When we are comparing our power and fuel metrics from FY-15 and CY-13, if you see it on a per ton basis actually the cost has not improved like it was around 1,000 and still it is around Rs. 1,000 so there is a minor...
- Management :** No, the issue is you are not comparing the power cost which has gone up. So you also take into consideration the cost of power which has gone up and the number of units which have come down.
- Management:** Sameer, you are referring the published result here?
- Sameer Tulsian:** Yes.
- Management:** In 2013 the Indorama was also there.
- Sameer Tulsian:** Yes, I know in fact I just wanted to check even after removing like if you see in FY-15 in which there was no Raigad unit still the power and fuel cost seem to be around Rs. 1,000.
- Management:** But then you see in Indorama the volume was there was there but the power and fuel cost was very no fuel was there and only power and fuel cost was very less no fuel cost only power cost and that is also for the grinding so if you do the apple to apple to comparison removing the Raigad there is certainly consumption parameter benefit is there.
- Sameer Tulsian:** Got it, okay. And what would the CAPEX expected in FY-16-FY-17?

Management: Pardon.

Sameer Tulsian: CAPEX expected in FY-16-FY-17?

Management: FY-16-FY-17 we have not yet made the plan.

Sameer Tulsian: Means what would the balance...

Management: I do not think there will be too much of the overflow because in this '15-'16 we will be completing our WHR also and fly ash so I do not see any CAPEX provided as of now.

Sameer Tulsian: So how much is the CAPEX is left in WHR and the silo?

Management: WHR the total CAPEX will be around Rs. 70 crore we need to incur in this year and fly ash silo is around Rs. 25 crore.

Sameer Tulsian: Okay. And what would be the volume targeted by the company?

Management: That we would not have position to Sameer tell you.

Sameer Tulsian: Correct. How do we get hold of the tax rate for the company?

Management: What? Please could you repeat?

Sameer Tulsian: How do we get hold of the tax rate for the company tax?

Management: We could not follow you... Tax rate means you are talking about the...

Sameer Tulsian: Yes the tax paid by the company.

Management: You are referring to this tax expenses in the published result?

Sameer Tulsian: Correct.

Management: This is deferred tax liability. There no actual tax because of expansion project so there is no actual income tax liability in that neither in last nor in the current year this is only give the accounting of deferred tax liability.

Sameer Tulsian: So how long it is expected to continue?

Management: It depends on the profitability in the coming futures but at this moment in this quarter there is no actual tax this is deferred tax liability expenditure.

- Moderator:** Thank you. Our next question is from Nitesh Jain of Axis Capital. Please go ahead.
- Nitesh Jain:** Sir, if you can tell us what is the actual CAPEX incurred in this last 15 month?
- Management:** In the last 15 months?
- Nitesh Jain:** Yes, like the financial year March 2015.
- Management:** It is about 170 crores.
- Nitesh Jain:** 170 crore. And if I can ask you something on balance sheet other current liability number has gone up from like from 200 crore to 550 crores so I believe there is some long-term debt being classified as other current like payable within one year so you can tell us...
- Management:** Exactly, this is difference only on that account.
- Nitesh Jain:** So how much is that sir like one year our liability repayment is like 300 crore entire thing is long-term?
- Management:** Yes.
- Nitesh Jain:** Okay. So one request particularly to Himanshu, earlier you use to give the cost break-up also in the presentation so this time that one is missing so if you can continue with that cost thing it would be really helpful sir?
- Management:** I understand, but if you see till last year there was a like-for-like comparison now there is clean vanilla calculation you have the million rupees and you have the volume. I am sure you have seen the volume also.
- Nitesh Jain:** Yes, I have seen the volume but like power and fuel cost, freight cost per ton and all that so...
- Management:** Nitesh, till last year the things were not comparable as what Sharmaji said because of the Raigad thing coming into play not that has gone out of the table so we can for the comparable.
- Moderator:** Thank you. Our next question is from Ashish Jain of Morgan Stanley. Please go ahead.

- Ashish Jain:** Sir my question is on your presence in East, I think around 25% of volumes today are going in East and you know with so and so expansion happening in East do you think there is risk that you might have to vacate some of the market share?
- Management:** We are not permanent player of East. We mostly our markets are Central India and little bit Bihar which is on the joining to UP and MP that is the area we sell so, it is not really impacting us.
- Ashish Jain:** Okay. And sir secondly, on waste heat recovery, can you just tell me what is the capacity and would you be 100% how much captive view will be with this waste heat recovery?
- Management:** About 12 million to 13 million megawatt of capacity is this for the WHR. So you expect at least 90% utilization.
- Ashish Jain:** Sorry, I did not get that sir 90%.
- Management:** 90% you know you can on the load factor if it works out it works out something like almost 11 megawatts of power you can always draw.
- Ashish Jain:** Okay, got it. And sir just lastly on expansion earlier you said there is not concrete which you can share at this point of time but given we are already operating close to 80%-85% isn't that like a top priority for the management especially given the demand outlook that you people in general have for the sector. So is it possible for you to share any thoughts on that apart from what you already said?
- Management:** You are right. We are looking at opportunities to grow but existing plants cannot accommodate more expansion, right. So it has to be something organic inorganic way in the some different market.
- Ashish Jain:** Sir just one clarification what you said existing plants cannot accommodate in terms of any limestone or land constraint or just that you do not think that it is conducive to expand any more in that.
- Management:** It is more because of limestone limitations.
- Moderator:** Our next question is from Abhishek Ghosh of IDFC. Please go ahead.
- Abhishek Ghosh:** I join in late. So just want to get a sense what are the current how is the pricing environment in our key markets vis-à-vis last quarter?

Management: Right now the prices remain depressed.

Abhishek Ghosh: Okay. So on a sequential basis they are depressedes what...

Management: Yes, they are depressed, right.

Abhishek Ghosh: Okay. And sir any what is the kind of capacity addition that we are seeing in our key market?

Management: As of now I do not think any capacity which will materialize everything what was there is on the pipeline has come up.

Abhishek Ghosh: Okay. So no major capacity coming in the Central region.

Management: No.

Abhishek Ghosh: Sir, any view on the consolidation that is likely to happen with UltraTech taking the JPA units which is I believe in your markets as well any impact that in envisage because of that?

Management: There is no impact we expect because ultimately, the volumes remain the same, capacity and customers remains the same, only the owner changes.

Abhishek Ghosh: Sure, okay, Yes. And sir just one more thing on WHRS so what proportion of our total power required would be met through WHRS once it is runs at about that 80%-90% utilization level that you were referring to?

Management: It is about 20%

Abhishek Ghosh: About 20% of the requirement. Okay. And sir lastly, in terms of freight rates have they move quarter-on-quarter because we have seen a series of diesel price increases so how has the road freight reacted to that have they already been repriced or what is the status in the same?

Management: I think not too much because these freights are working on long-term basis so sometime you know Rs. 2 - Rs. 3 of diesel cost does not really make a difference on the freight unless there are significant change it will not really change.

Abhishek Ghosh: Okay. And sir some of the industry players are referring to some shortage on the rail side in terms of availability of rakes is that also we are facing and what are the issues with that if you can throw some light on that?

Management: It is usually seasonal in nature. Every region has its seasonality some have gain movement sometimes coal movement which start so railway is find themselves to give vehicles to people so it changes from time to time in Central India this problem was there in the month of February also but now it is not so, it is back to normal.

Abhishek Ghosh: So but in terms of also the busy season surcharge so it will only not be there from July to September quarter, is that right?

Management: Yes.

Abhishek Ghosh: Otherwise for the nine month that busy season surcharge is level.

Management: Correct.

Abhishek Ghosh: Okay. And sir lastly have accounted for the district magistrate fund and have we made some provisions for that?

Management: Right now there is no clarity on that unless the government comes out with a rule for that only from that day it will become effective.

Abhishek Ghosh: So we have done any provisioning?

Management: No.

Moderator: Thank you. Next question is from Ritesh Shah of Investec Capital. Please go ahead.

Ritesh Shah: Sir if you could provide some color on Lafarge assets which are on the block and what we understand is we also bit for it. So from a balance sheet perspective till what extent can we stretch something of this sort materializes? And secondly what are the timelines that one should expect for this event to play out.

Management: Ritesh, I am not able to comment on this.

Ritesh Shah: Okay, no worries. Sir secondly, just book keeping question, what is our OPC-PPC mix and the lead distance?

Management: We are a 100% PPC company, and PFC in South. So we are a 100% blended cement company you can call it. What is the second question?

Ritesh Shah: On the lead distance?

Management: Lead distance is about 400-450 kilometers.

Moderator: Thank you. Our next question is from Gunjan Prityani of JP Morgan. Please go ahead.

Gunjan Prityani: You mentioned that the demand growth as per you would have 3% to 4% in your market. Was it materially different in fourth quarter I mean if you can quantify how much was the degrowth or was it stable in fourth quarter?

Management: I think right now it appears to be it is negative growth.

Gunjan Prityani: Okay, would it be like double-digit negative growth?

Management: No, I do not think double-digit. It will be a single-digit but we have not got the figures from the market so it is a long process we have to analyze that.

Gunjan Prityani: Okay. And the reason for this is essentially the unseasonal rains or is it government spending being curtail I mean why was the market down in the fourth quarter according to you?

Management: Mostly, it is because of the low government spending again unseasonal hail which came in and could damage a little bit of the crop that was also part of it. Many of the projects have installed in the private sectors also because of some reasons of cash availability. Then there was issue in UP with something to do with sand and aggregate mining so that was also stopped for some time that also impacted.

Gunjan Prityani: And has there been any change in the last one or two months or the demand environment still remains as suppressed as the March quarter?

Management: I would say the same.

Gunjan Prityani: Okay. And just moving to the pricing you said it is suppressed I mean are we seeing prices still coming off because if the new capacity according to you is completely behind there is no more capacity expansion which is happening in the market. So in terms of pricing have you seen any stability of course I can understand that there has been any increase but is it still going down?

Management: I think it has tapered down I think the speed which it was going down was now come to a little stagnant state because it is at a point where have to see an upside only beyond the point you cannot go. So some people who came to these markets from distant places now have exhausted their ability to compete.

- Gunjan Prityani:** And would it possible for you to share your fuel mix in terms of how much is imported and is there any pet coke usage that you have?
- Management:** We have 100% ingenious fuel consumption and about 60% we do is pet coke.
- Gunjan Prityani:** 60% is pet coke?
- Management:** Correct.
- Gunjan Prityani:** Okay. And lastly on the freight how would it be for road and rail?
- Management:** 50%-50%.
- Moderator:** Thank you. Our next question is from Ashish Jain of Morgan Stanley. Please go ahead.
- Ashish Jain:** Sir, I had a follow-up question on the fuel consumption which you answered partly but in terms of pet coke sourcing domestically where do we source from is it possible?
- Management:** We have a coal linkage and pet coke we source from different sources from Essar and Reliance.
- Ashish Jain:** When you say it is due to expire the linkage given the government is not renewing the linkages.
- Management:** As of now there is nothing on the cards.
- Ashish Jain:** Okay. So there is no timeline by which it would...
- Management:** There is no timeline.
- Ashish Jain:** Okay. And secondly, on the earlier question on acquisition I understand that you cannot comment on any specific transaction but if I look at the balance sheet are gearing today is around 1.2x so how much are we comfortable to on the gearing front?
- Management:** We will see when it comes Ashish we will look at that time.
- Ashish Jain:** Okay. So there is no number that you are working with working internally in terms of how much getting...

- Management:** We will come to that when we come to the...
- Ashish Jain:** Got it, sir. Sir, just last thing on the freight cost you said you have longer term contract can you just explain the nature of these contract in terms of how the costing of these contracts work?
- Management:** We work on a very simple basis when there is tolerance in which diesel goes up by x or y if it comes down then we come for a negotiation we discuss it. There is formula which is fixed with our transporter that is the trigger automatically so to that extent you get a shield. So when sometimes even on both sides you stand to gain and lose both. So there is long-term relationship with the transport people in the industry so they understand the game and we also understand each of this survival instinct.
- Moderator:** Thank you. Our next question is from Rahul Veera of Edelweiss. Please go ahead.
- Rahul Veera:** Just a quick question sir what is our non-trade mix?
- Management:** Trade is about 75%.
- Rahul Veera:** 75. And sir what will be the price gap between trade and non-trade in your markets?
- Management:** Depends because some is about average 35 to 40.
- Rahul Veera:** Rs. 35 to Rs. 40.
- Moderator:** Thank you. Next question is from Abhishek Ghosh of IDFC. Please go ahead.
- Abhishek Ghosh:** Sir, just one clarification in terms of per kcal basis what would be differential between pet coke and the current coal?
- Management:** Pet coke be cheaper by around 10%.
- Management:** Yes, around that.
- Abhishek Ghosh:** So differential would have been narrowed to about 10% now?
- Management:** 10%, Yes.
- Abhishek Ghosh:** Okay. And sir is this right assumption to make that with railway freight charges have gone up since effective 1st April both on coal and cement to the extent of 6% and 2% respectively and with prices kind of lower on a sequential basis from hereon is it a

right assumption to make that profitability in the current quarter would be impacted on account of these phenomena.

Management: I do not think we can comment on that at this stage.

Moderator: Thank you. I now hand the floor back to Mr. Vaibhav Agarwal for closing comments. Over to you, sir.

Vaibhav Agarwal: Yes, thank you. On PhillipCapital I would like to thank the management of HeidelbergCement India for this call opportunity and also many thanks for joining for the call. You can now conclude the call. Thank you very much, sir.

Management: Thank you.

Vaibhav Agarwal: Thank you, sir.

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