



**“HeidelbergCement India Limited Q3 FY 2017
Earnings Conference Call”**

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HEIDELBERGCEMENT



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**MODERATOR: MR. VAIBHAV AGARWAL -- PHILLIPCAPITAL (INDIA)
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Moderator: Good Day, Ladies and Gentlemen, and welcome to Q3 FY 2017 Conference Call of HeidelbergCement India Limited hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode; and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Yes, thank you, Margret. Good afternoon everyone on behalf of PhillipCapital (India) Private Limited, we welcome you to the Q3 FY 2017 Call of 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 with the future development 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 statement 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 uploaded a ‘Presentation’ on the website and the exchange. Participants may download a copy of the ‘Presentation’ from there.

I will now hand over the floor to Mr. Cooper and Mr. Anil Sharma for their opening remarks which will be followed by interactive Q&A. Thank you and over to you, sir.

Management: Thank you, Vaibhav and thanks who has joining for this earnings call. And I will just take you the Presentation has been uploaded on the website and you would be having copies of this. I will just run through the presentation and then we can go for the Question-and-Answer Session.

In terms of volumes as you see that you know on a year-on-year basis we have slipped little mainly because a little bit of the market pressure and also on the gross realization there has been drop mainly because of pressures of the cash crunch in the market and that has been an impact for us.

In terms of capacity utilizations for the nine months we have been about 80% on capacity utilization, so we are right on stream. We are ensuring that the volumes what we are producing, we are selling. On the non-trade mix it is 80:20 and in the cost development we have taken a marginal increase for the simple reason because the diesel price has gone up plus

on operating cost there has been increase mainly because of our major shutdown which was plant shutdown in the month of December that has gone.

In logistics cost the impact has been because in the last year in the previous quarter we had some benefit which was incentives which came from the railways which is no longer there in this quarter so to that extent and there has been a diesel price increase, cost increase throughout the year for about 7% which is also showing its impact on the total logistics cost.

In terms of rail road mix we are about 50%-50% and the distance travelled is about 400 kilometers on an average. That is all I have to say on this.

And in terms of financial performance, if you look at the water fall the profit bridge, if you look at it from 575 per tonne we have come down to 534, other operating income there has been a marginal increase added to the other side, the other cost have to an extent neutralized it. Freight I have mentioned because of the element of previous year and power and fuel cost because of pet coke prices has increased. If you look at 2016, overall pet coke has shot up by almost the fuel shot up by almost 70%. So, the industry has not been able to pass on these costs to the market to an extent it has passed but not to the desirable extent that is how we see but in terms of our EBITDA per tonne when I compare my cost in the medium segment of the industry, I think relatively the teams are doing a better job. We have control on many of the things in our EBITDA per tonne if I compare with the medium size companies on a nine month basis and for the whole year and for the quarter also, I think we have done a better job and we will try to come back again as the markets improve in this quarter and the quarter after this because now the demonetization impact is varying off but it may remain for another this quarter marginally but I think by March the government spending should come in, we have elections in U. P. so, there is an impact on that a little bit impact but overall, I think we should be able to manage pull through. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the central market. So, how did the market performed? We know what Heidelberg has done, how is the market and how is the performance in the trade versus non-trade segment? And what all government initiatives are there which could boost volumes in the next year?

Management: The trade and non-trade; trade is about 80% for us in central India and the volumes we do not want to increase our non-trade volume because they go on a L1 basis. So, it does not really make sense for us, the focus always remains on retail segment where the realizations itself are better compare to non-trade. Coming to the government spending, the government spending has been there in terms of road projects we are seeing quite a lot of tenders coming in. I think government spending will continue to move forward with the budget announcements also it is very clear that the government understands the private sector investments are not coming through and to sustain economy, it is the route they have adopted is a very nice route to

increase infrastructure spending and that is evident now in the budget. So, we expect that in this coming quarters, the government spending will continue to increase that is what our take on this is and hopefully after U. P. elections we may see a lull for some time till the new government is in place, so I think the new government will take place in the month of May or June, April but I think the new government will be in place by then. And the term ends I think in the month of May.

Anshuman Atri: Okay. Sir, any guidance on the industry growth and the region you operate?

Management: Industry growth has appears to be a little flat in the central India.

Anshuman Atri: Okay. And next year what is your expectation?

Management: We are expecting around 6% to 7% growth.

Anshuman Atri: Okay. Last question is regarding cost. We have seen increase in cost and can we expect this to be a peak cost given that the pet coke prices have started softening now?

Management: I think that should be the right way to look at it.

Moderator: Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Sir, you mentioned about the shutdown related cost but you mentioned the shutdown happened in December, right? So, that is there in the previous quarter number or this quarter number?

Management: This quarter.

Raj Gandhi: Okay. What was the impact sir, if you could quantify?

Management: About Rs. 3.5 crores.

Raj Gandhi: Okay. And just given recent statement by UltraTech that Jaypee is operating at 30% and a large part of the capacity happens to be in central cluster. So, how do you expect the ramp up to play out for the cluster?

Management: I think gradually they will ramp-up because acquiring such a huge asset, you may not sweat it out but at least you will try to not operate at 30% and I do not think they are operating at 30% then this market should have seen a significant price increase.

Raj Gandhi: Yes, that is what I am wondering.

Management: It is not possible to operate at 30%.



- Raj Gandhi:** Okay. So, it might be in other regions but in central it is not that that you have seen huge cut in the supply from erstwhile Jaypee capacity, what is your sense on the market?
- Management:** In terms of Jaypee you are talking?
- Raj Gandhi:** Yes. Because they are among the largest player in your market if he were to see a such huge ramp up. But you are saying the cut has not been as much as the stark as it see...
- Management:** I think it would be somewhere around they would be operating between 50% and 60% lowest this could have been otherwise you cannot sustain markets.
- Moderator:** Thank you. The next question is from the line of Aman Chaplot from Religare Capital Market. Please go ahead.
- Navin Sahadeo:** Yes, this is Navin Sahadeo here. Sir, my first question was on your volumes for the quarter as you have reported 4% sort of drop year-on-year. But now that we are in the mid of February, January continues to be negative and what is your take for quarter volume, will there be growth or will there be negative?
- Management:** January we did not see a negative growth definitely not.
- Navin Sahadeo:** Okay. So, for the quarter as a whole also safe to assume that it will be possibly positive growth only.
- Management:** Should be.
- Navin Sahadeo:** Despite these the factor of elections in U. P. playing out wherein demand will possibly be at a halt for the interim period?
- Management:** Right now also the elections have started but we are not seeing too much of drop really.
- Navin Sahadeo:** That is good to hear. Just to take on the prices my second and last question. The realizations which we saw in the most recent quarter reported. So, current prices would be higher as compare to that or there will be dip or flat, what kind of price trends?
- Management:** Let us expect flattish.
- Navin Sahadeo:** So, they largely remain unchanged even post the quarter?
- Management:** Maybe in this quarter because as March approaches the prices tend to move up.
- Navin Sahadeo:** Fine.
- Moderator:** Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.

Abhijeet Dey: Sir, in Q4 would you see a further increase pet coke and coal prices for you sir?

Management: I think right now it does not seem to be going further increases I do not think prices should look up anyway.

Abhijeet Dey: Okay. And sir, secondly extraordinary provision which you talk about Rs. 15 crores what does that relate to sir, specifically?

Management: There was one sticky account where there is some legal markets which is going on with respect to some project advances what we had gone and that has gone a little sticky. So, that is the matter which is in the court we took the provision for that.

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

Gunjan Prithyani: I just wanted to get a sense on your fuel mix currently.

Management: About 65% pet coke.

Gunjan Prithyani: Okay. And the remaining would be the domestic coal, right?

Management: Yes.

Gunjan Prithyani: Okay. And this pet coke could give you some sense as to I mean, what is it that is being reflected in the financials right now in terms of pricing?

Management: Please, I could not get you.

Gunjan Prithyani: What is the pet coke price I mean the cost for you for this December quarter?

Management: Pet coke cost for December quarter.

Gunjan Prithyani: Yes, I mean in terms prices I mean it is \$80, \$85.

Management: Between Rs. 8,000 - Rs. 8,500 cost.

Gunjan Prithyani: And sir, have the prices softened a bit pet coke prices or they continue to inch up still.

Management: I think in February there was a little bit of roll back, it had softened but again, I think it will come down. It cannot sustain there.

Gunjan Prithyani: Okay. And sir, you on the demand you mentioned that January has been a bit positive, I am just trying to think this in the perspective of the election. There is not much government spending which usually happens around the elections and also you mentioned that till the time the new government comes, there will be a curb on the spending. so do you think that these

two quarters March and the June quarter could actually continue to be weak because of these reasons and of course the cash crunch that we have seen or liquidity problems that we have seen in December can last for another couple of months?

Management: I am not pessimistic about it at least I am sure, the government spending the rate at which it is going on even if it goes continues as this rate it seems to be a good sign. And I do not expect that government spending will absolutely dry totally because these are all committed projects and budgets which are there on which the projects are operating. So, they have now some new projects announced will not happen but the ones which are continuing they will continue. There is no bar or the government does not put curbs on that or neither the elections commission puts cubes on any of them. These are ongoing projects, long-term projects, metro is going on it will go and anything which is in the rural housing in the PMGS roads, going on, those expenditures will continue there is no stopping there.

Gunjan Prithyani: Okay. And sir, just lastly on this individual IHB segment. Now, that is fair big component of the demand in specifically in the central market. Now that has definitely taken a hit post the demonetization drive. Do you think that is coming back gradually or that stays very muted in your markets?

Management: I think it is coming back.

Gunjan Prithyani: Okay. The demand from there is also coming back?

Management: Yes.

Moderator: Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Sir, where would the current prices in your cluster be versus Q3 average?

Management: Current prices with respect to Q3, flattish.

Raj Gandhi: Flattish, okay.

Management: Yes.

Raj Gandhi: Great, it is heartening because we have been hearing further 3%, 4% downtick in terms of pricing, okay.

Management: For us it has been relatively I would say more stable or rather I would say it will only move up, we are very positive about this.

Raj Gandhi: Okay. And if I were to look at this power and fuel plus RM to negate the inventory changes we are back to 1,800 plus levels which is where we were at the peak of the fuel prices. So, whether

it is most of the other companies either because of the inventory or anything still Rs. 200, Rs. 250 below that kind of a level. So, anything in particular because WHR and all that should have helped us, right.

Management: WHR has already clicked in for us. There is no further improvement on that.

Raj Gandhi: Okay. So, that WHR is up and running, right the full benefit has flown through?

Management: Yes.

Moderator: Thank you. The next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

Krishna Kumar: Sir, is it possible to give us some color about the cost reduction measures that the Company is planning over the next one year to two years, if you could just take us through some of the investments and strategies there?

Management: See, there are multiple things which we are doing, we have run a program of CIP which is called as continuous improvement program in the plants, okay. So, I would not be able to give you a fix figure on that but yes, all said and done that we have a lot of headroom to catch up, also our plants are distinctly located they are highly fragmented in terms of mining is about 21 kilometers on the other grinding units. So, there are some inherent limitations, we are trying to overcome those to an extent but beyond a point we cannot help it. We are born with that sort of infrastructure and we will have to live with it. Efficiencies in terms of productivity and things that is a continuous program where we will continuously work and we are gradually we have seen that in this last few years, we have been able to improve on productivity, we have been able okay synergize some of the benefits and things are moving in the right direction but very difficult for me to say that when it will end and how much will it come every month or every quarter it will be difficult to comment on that. Even if there is an inch by inch improvement I am happy that the team is working and consciously working on and looking at everything with a magnifying glass and that is what matters.

Krishna Kumar: Fine, sir. And sir, in terms of gap between the trade and non-trade prices have they kind of increased in the last two months, three months. Could you give some guidance on that?

Management: If I would say on an average, if you look at the market the average difference non-trade prices are about Rs. 350 lower than the trade, the realizations are Rs. 350 lower than trade realization I would say. For us, it will be a little, we will be on the positive side, in terms of it will be between Rs. 250 and Rs. 300.

Moderator: Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

- Raj Gandhi:** Sir, like last quarterly call you mentioned that sand mining issue which has impacted, the one you were supposed to get done by this election time, so any update there because the ground feedback is that one of the major reason for demand impact also was sand mining issue across U. P.
- Management:** Yes, I agree with you and that continues haunt us even till date.
- Raj Gandhi:** Okay. But any development there?
- Management:** Nothing is happening at the moment and I do not think the U. P. has only one answer and most of the states will have one answer to do it and they have to go for manufactured aggregate and sand that is the order of the day as it appears to be it has happened in other states in Kerala especially where there is sand mining has already been totally ban and people have stated switching over to crust.
- Raj Gandhi:** Okay. So, Any sales development happening there in the end market, as we moving to this issue getting resolved in some manner that some alternatives come through?
- Management:** Right now the people are not really constraint by sand once their back is to the wall probably investors will start putting in crushers and start manufacturing sand.
- Raj Gandhi:** So, only thing as of now would be that the sand cost has gone up is that hampering?
- Management:** Marginal now the truck is something like about Rs. 40,000 a truck.
- Moderator:** Thank you. We will move to our next question which is from the line of Zeeshan Bagwan from Investec. Please go ahead.
- Zeeshan Bagwan:** Sir, can you provide some color on your merger with Zuari Cements?
- Management:** That is continuing as a separate company, Zuari.
- Zeeshan Bagwan:** Sir, but any developments on the timelines or anything that why will this margin happen if at all?
- Management:** I do not think there is any plan, nothing is on the plan either.
- Moderator:** Thank you. The next question is from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.
- Abhishek Ghosh:** Sir, in your comments you mentioned that in freight cost certain rail incentives were missing. So, where you kind of suggesting that the rail busy season surcharge which was kind of waived off has been again implemented?

Management: No, we were talking about some benefits which we were getting last year on some benefits from the railways for doing a certain volume of business that was in the last year.

Abhishek Ghosh: But it is nothing to do with the busy season surcharge?

Management: No.

Abhishek Ghosh: Okay and that is helpful. Sir, just one more thing, in terms of our sales mix, if you could just broadly help in terms of what kind of sales we do in U. P. and in Bihar broad mix of that U. P. and Bihar?

Management: It is mostly as I said 80% is trade share, 20% is non-trade.

Abhishek Ghosh: Okay. No, I was referring to sir, state wise sales, in terms of how much of it we do in U. P., M. P. and how much of it would be in Bihar?

Management: I would avoid saying these figures for certain reasons.

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

Milind Raginwar: Sir, just wanted to know about this other operating income on a run rate basis. If I am comparing it on a year-on-year basis, it looks on higher side any specific thing that has been gone in this?

Management: The other operating income includes mainly on two account – one is the scrap sales so during this December quarter we had taken a shutdown of our one kiln so surplus from the scrap sales also has increased in this quarter and in addition to that there was one reversal of our tax liability based on the favorable owner so that is why it was a one-off gain in the this quarter, in the December quarter as compared to corresponding quarter of last year.

Milind Raginwar: Sir, will you please quantify these two item if possible?

Management: I think that quantification you will get once the public result the financial balance sheet comes because this is quarter-to-quarter comparison it is very difficult quantify that, but when you get the annual balance sheet there you will find the line items separately.

Milind Raginwar: Okay. And sir, other than other expenditure of I think incremental Rs. 3 crores that you mentioned still if we adjust to that the other expenditure on a higher side on a year-on-year basis any specific reason for that or?

Management: In addition to this shutdown cost for kiln in Damoh also the cost has increased in December quarter that is the dealer conference in the state of Madhya Pradesh. So, we have conducted for dealer conference for all our dealers in the state of Madhya Pradesh and Bihar. That cost has

come in this quarter. So, it is the sales promotion activity, in last year in December quarter this expenses was note there. So, this also has come as a hit in this quarter.

Milind Raginwar: Okay. And sir, last question from my side. The current debt if you can just on the books as we end the quarter or as of date?

Management: Yes, this \$20 million actually we have repaid after this September quarter.

Moderator: Thank you. We will take on last question is from the line of Nidhi Babaria from Dalal & Broacha. Please go ahead.

Nidhi Babaria: Can you tell me about the total capacity after the merger with Zuari Cements?

Management: About 12.7.

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

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

Management: Thank you.

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