



“HeidelbergCement India Limited Q2 FY18
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 Q2 FY18 Conference Call of HeidelbergCement, hosted by PhillipCapital (India) Private Limited. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. 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, Margret. Good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q2 FY18 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 may be forward-looking statements relating with 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 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 opening remarks which will be followed by interactive Q&A. Thank you and over to you, sir.

Management: Thank you, Vaibhav. Thank you, everybody, for joining this call. I will just run you through the presentation, which is already there with you.

For the Q2 2018 results you have seen a volume growth of about 6.5%. Realization is up by about 2.6%. On the total cost side there is a benefit of about 3.8%. On the EBITDA increase it is about 45% and year-on-year basis and net profit almost doubled with an EBITDA which is per ton higher by about 36%.

Coming on the volume side and the price development, if you look at the volume on a year-on-year basis it is around 6.5% growth. And on gross realization it is positive by about 2.6%, on slide three. If you go to the page four, then you can see the cost development. Cost development, if you look at, there is an increase in cost but if you look at minus the freight then you can see there is a reduction in cost on year-on-year basis. And the freight is higher mainly due to change in our business practice, so that has resulted because after GST we have considered some change in business practices.

On the financial performance side, on page five. You can see on EBITDA per ton, from GSR side there is a benefit of about close to Rs. 100 per ton and on the power and fuel because of the way

we have used power and fuel and the way we have managed the resources, there is a positive of about Rs. 61 per ton and other cost that is about Rs. 122 per ton.

So, this is all from my side. There will be some questions from your side we will take up that in Q&A session. Before I give the floor to Q&A session, because there might be similar questions, I just wanted to say that there is a one-time drain on the DMF side which is about Rs. 5.7 crores, that is what has come. A little bit on the side because there was no maintenance and shutdowns were not there, so on a year-on-year basis that has come has a hit last year, that was not there this time. So, these are some of the benefits which have come that if somebody asks the same question again I am answering in advance to you.

Thank you, Vaibhav. We can open the question-and-answer session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

Saumil Mehta: Sir, two questions from my side. Sorry, I joined the call a bit late, so it might be repetitive, or you may have been asked and explained. What has led to the savings in the power and fuel, because on a YonY basis if I look at the power and fuel cost I see a reduction on a per ton basis? So if you can quantify, what will be the pet coke cost or the coal cost booked in this particular quarter?

Management: So, if you look at it, the volumes in the previous quarters were lower so fuel cost was higher. So, on a per ton basis if you look at our power cost, if I was to give you power cost, last year the volumes were lower so that is why the auxiliary will be little higher, so that accounts for that. On the fuel side also again we use more of pet coke and not too much of that but also power is also affected by little bit of better use of WHR, in terms of generation there also it has been a little better.

Saumil Mehta: And in terms of fuel mix, what would that be in terms of pet coke before the other fuels?

Management: The pet coke is close to about 70%.

Saumil Mehta: And in terms of pet coke, what was the rate which we have booked in this particular quarter?

Management: Rs. 9,000 per ton.

Saumil Mehta: And what would that number in last quarter, second quarter of FY17?

Management: That I will have to check out. It will definitely be far lower because last year the pet coke prices were quite lower compared to this year. It is basically nothing, but I would say that it is much more astute use of our fuel mix. So we have a very vast modulation on when the fuel cost changes we modulate fuel to that extent.

Saumil Mehta: Okay. And sir going forward how should we view power and fuel cost over the next two quarters, given that pet coke costs have risen very sharply.

- Management:** It will be close to about \$100 plus, so I think this will remain a figure around between \$95 to \$100 - \$110, this will be the swing which will remain there, that is what is expected, unless something goes significantly wrong or something happens. Because of interest some places will start, there will be some more consumption of pet coke in some other places, so I do not know. But more or less, we expect that it should be hovering around \$100.
- Saumil Mehta:** Sure. And sir, our volume growth for this particular quarter was very strong, so I mean are there any particular states or pockets of demand growth which lead to that benefit and how sustainable that is?
- Management:** See, we are mostly a central India player, the largest volume is sold here. So, we have sold mostly in these markets, we have not migrated to other markets to sell our product.
- Saumil Mehta:** But within central India may be UP, which would be the largest states which would have seen a demand revival in this quarter which benefitted us?
- Management:** Mostly it would be MP.
- Saumil Mehta:** And sir my last question in terms of realization, what were the spot prices in the central market where we operate vis-à-vis the Q2 number in terms of the average of Q2 versus the spot price, how would have that changed from the last two months?
- Management:** Last two months has been more or less flattish, it has been up and down, up and down, so almost I would say flattish.
- Moderator:** Thank you. Our next question is from the line of Abhishek Jain from Vallum Capital. Please go ahead.
- Abhishek Jain:** Just a couple of questions. First of all, the treatment of GST on books of account excise duty is not shown this quarter, does the revenue include some part of excise duty which was levied till 30th June?
- Management:** The excise duty as on 30th June was basically part of my inventory, so we will get that money as an input tax created under the GST regime. So, revenue doesn't include any amount on account of excise duty, it is net of sales, now currently it is net of GST.
- Abhishek Jain:** It does not include 30th June excise duty part, right?
- Management:** Yes, in this quarter.
- Abhishek Jain:** And can you just throw some light on how it is impacting sand issue which is going in UP and Bihar, like how it is impacting our business and this thing?
- Management:** Sand shortage is affecting mostly I would say UP part.

- Abhishek Jain:** UP part is more effected, not Bihar?
- Management:** Bihar is also there, of course, but we are not a major player in Bihar. So it will not affect us too much.
- Abhishek Jain:** And does the ban on pet coke on our financial or how you see this thing going forward?
- Management:** For us it is not at all because the reason is we do not fall under the area jurisdiction which the government has specified, the order of the Supreme Court is not affecting to the state of MP.
- Abhishek Jain:** And this component of other expenses declined so much to enhance the current PAT levels?
- Management:** It is on account of this one-time reversal of DMF Supreme Court order. So this is netted up in the expenditure.
- Abhishek Jain:** Okay, but that is of Rs. 5.8 crores, right?
- Management:** Yes, 5.8 crores.
- Abhishek Jain:** And how you see this EBITDA has a good turn, but how you see it, is it going to be sustainable in coming quarters or so, like which part if yielding that, realization are on the better side?
- Management:** See, as we say that on the cost side we have improved, going forward if the cost remains same and everything remains same then this is sustainable.
- Moderator:** Thank you. Our next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Two questions from my side, firstly on the sand availability issues. Have you seen any resolution fall in place in terms of mining being allowed, what are your thoughts, when do we see this being resolved?
- Management:** The sand part, the situation has eased out, I would not say that it is resolved as such, sand demand is far exceeding than what is coming to the market. But at least now the sand has started to flowing, so the cost of sand which had gone up very high, it has at least tapered down by close to almost 30% - 35%, 40% it has come down.
- Gunjan Prithyani:** Okay. But sir, besides the cost is availability in any way easing, I mean are you seeing mining increase because that was the issue where there was a ban altogether in last quarter, so has activity significantly changed versus what you saw in September quarter on the sand availability?
- Management:** Yes, so if you really look at the sand availability, it is constraint, but still it is available that is why the prices came down otherwise the prices would have remained high. So, as time passes I think sand as it keeps coming to the market this situation will keep improving. Yes, I agree that it is not available in abundance, yes there are projects which might be suffering for want of sand also as of

now, and there might be some government projects which would not be able to start because we have taken on fix contract basis, cost basis, so those contractors will definitely be trying to postpone and delay the project as much as possible till we get their sand prices what they quoted in the tender. So that could be one of the reasons of the slowdown in cement demand to that extent.

Gunjan Prithyani: Okay. And sir I also was looking for one clarification on this ASP change which you mentioned, and you mentioned that this structure, the way freight agreement has also changed, sir this realization change factors in that freight component or is it like-to-like 2.5%?

Management: No, it has to get a factor because ultimately you have price and then you reduce the freight. So wherever the freight is higher than automatically if you do not pass it on to the market it hits realization, if your realization improves that means you have improved your price factor also. So realization has improved for us.

Gunjan Prithyani: Okay. And third question, just looking for a qualitative comment from you on this, have you seen any significant change in the competitive environment in terms of pricing or volume market share with JPA capacities now ramping up under UltraTech, any thoughts you can share on that?

Management: As of now it was not so much, but I think gradually coming as we ramp-up the capacity it will have some impact.

Gunjan Prithyani: So you see the pricing could come under pressure because market growth has been constant due to this sand availability issue, but you have a large player who is ramping up. So, do you foresee any kind of pricing pressure in the market?

Management: I think I do not expect UltraTech to give up its position in such a manner that it is going to be at a low-price brand, I do not expect.

Moderator: Thank you. Our next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: Sir, my first question is with regards to your volume growth, you mentioned we have a 6.5% growth, so what would be the growth in the region of operation, like you would have gained market share in general or the growth would be similar as you mentioned is driven by MP, so I would imagine MP would be may be a double-digit growth and UP would be flattish? So is this the right...

Management: No, I think UP has also grown. Let me put it very simply, UP has also grown.

Prateek Kumar: Okay. And sir in terms of competitive intensity as you were mentioning, so the UltraTech plant obviously started in Q2, started by UltraTech in that sense, we have not seen the ramp-up in terms of volumes from those capacities or they have also been consumed in this growth in general?

Management: They have been consumed, whatever the ramping is happening there it is getting consumed.

Prateek Kumar: Okay. And sir in terms of incentive money, are there any incentive money which we get from any of these markets, UP and MP, sales incentives, VAT incentives, etc, or excise benefit?

Management: Yes, we have this benefit from long-term benefit, capital expenditure benefits we get from both UP and MP.

Prateek Kumar: Sir, so what would be that quantum in terms of per ton basis on an annual basis?

Management: I will have to check that out. We get 75% VAT gain under the MP industrial policy, so whatever cement we sell in Madhya Pradesh and whatever incremental sale is there, we get that benefit.

Prateek Kumar: Okay. Sir, and regarding UP?

Management: As per their industrial policy we get interest free loan from the state government. So, you see some loans we received in past or during this quarter, there is no loan disbursed by the state government.

Prateek Kumar: Okay. And sir in terms of cost, as we have done extremely well, so it has now come again lower than Rs. 3200 per ton. Obviously, there was some impact of market shutdown, the maintenance shutdown which happened in monsoon which you did in Q1. So, sustainable cost improvement we should see around significant increase in variable cost but 3200 should be the cost which we should look at?

Management: Yes, you can look at that.

Moderator: Thank you. Our next question is from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Sir, just wanted to know how does the demand scenario look like as we get into the Q3 and Q4?

Management: Okay. The demand, we should expect improvements I would say, because we had little tough quarters in the past of the sand availability and things like that. Now I think we should see little better demand coming up, monsoon is off now, Diwali is over. So, I do not see anything unless there is a severe fog condition which we impede logistics. So, that is one area which always affects movement of material. And the only risk which we could have is the wheel transportation, if the wagon shortages persist then that could have an impact. But then it will get compensated from the price because the material will not be available, and the demand will be more.

HR Gala: Sir, will it be reasonable for us to assume about 4.6 million type of volume this year, FY18, as compared to 4.47 that we had last year?

Management: We are attempting it, let us see. Depending on market, as I said that we do not want to pressurize the market unnecessary and push the prices down. The idea is that if the brand can find its level and if it can grow and sustain on its own, that is a better strategy to follow rather than push for volumes and then bring the market down.

- Moderator:** Thank you. Our next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.
- Rajesh Ravi:** Wanted to understand what is your state-wide sales mix and also what is the volume growth outlook and any capacity outlook which the company would be having going for next two to three years?
- Management:** Rajesh, I would not be able to comment on state wise, because I think it is not appropriate from a competition point of view.
- Rajesh Ravi:** But at least central and outside central market, if you could specify that.
- Management:** I think everything is we are 100% into central.
- Rajesh Ravi:** 100% into central market only?
- Management:** Yes. So most of the time I would say it is central. As far the other question you had asked was, capacity expansion right now we are still not operating at full capacity, we still operate at about 80% capacity. And every time which I see always there is a scope for improvement to do a little bit of tweaking in the system process and ramp-up our capacities. So that we have yet not started but the day we come closer to exceed a certain level then we will do small tweaking in the plant and investment and get the required lines of licenses for that.
- Rajesh Ravi:** Sir, how much of those expenses are debottlenecking related expansions or Brownfield capabilities?
- Management:** The expenses will be small, not very big.
- Rajesh Ravi:** In terms of capacity expansion that would be available.
- Management:** See, that is what I said, you can ramp it up by about close to about 2 lakh tons.
- Rajesh Ravi:** Okay. And sir on the cost for this quarter, despite significant jump in the pet coke prices and even other fuel mix, on YoY basis even if I see my total input cost on a YoY it is almost flattish. So, is it purely the waste heat recovery power savings which has flown through or there are other cost elements which have also come into play?
- Management:** You are talking about quarter-on-quarter?
- Rajesh Ravi:** No, quarter-on-quarter there is a significant reduction in cost, even on year-on-year basis...
- Management:** Quarter-on-quarter basis it is not significant, it is minus the freight. Your question is on power and fuel or total cost?
- Rajesh Ravi:** Yes, on the power and fuel cost basis if I see, year-on-year the cost is flattish.

Management: So, there are few reasons, although you are right that the pet coke price has increased, but during this quarter basically there was no shutdown. If you recall and we have seen last quarter our presentation we have mentioned that lines shutdown was there, which last year it happened in the September quarter. So, with shutdown you save the shutdown cost as well as if there is no shutdown then your power and fuel consumption parameter always will be better. On top of that, during this quarter our WHR has given the optimum generation. So putting together these three benefits total cost has also increased and power and fuel cost have seen some savings as compared to corresponding quarter of last year.

Moderator: Thank you. We have the next question from the line of Sanjay Nandi from Ratanabali Capital. Please go ahead.

Sanjay Nandi: What is our outlook in terms of growth perspective from Madhya Pradesh and Uttar Pradesh going forward, if you can quantify in terms of numbers like what sort of...

Management: Next year I expect on an average basis it should be about 5% to 6% in both the states.

Sanjay Nandi: And from the competitive front, how are we looking in the central market, like that Birla Corp also adding, Reliance Cement, UltraTech is also coming up with capacity. So a lot of things are coming, so with a 6% demand do you think that going forward the prices are going to sustain at these levels, sir?

Management: Unless somebody wants to sell it cheap it is up to them. I cannot comment on others prices but yes, we are looking to recover pricing strategy. So, I cannot say how the market behaves, they are already there in these market, Reliance is very much in the market, Birla Corp is very much in the market, JP was also operating at a reasonably good capacity utilization, I do not think there is such a big disruption, at least we have not seen it, everybody is talking about UltraTech coming and price getting disrupted. So, I am of the opinion with this UltraTech position from the country wide basis we operate very balanced and a reasonable basis, and we have an image to protect. But I do not think they will be looking at messing up the whole thing.

Sanjay Nandi: Sir, can you please throw some light on your debt repayment structure, like what sort of debt you are going to repay in next fiscal or in this year?

Management: This quarter it is about €10 million was paid, this is what of this year is over. So, about Rs. 672 crores is the net debt.

Moderator: Thank you. Our next question is from the line of Naveen Sahadev from Edelweiss. Please go ahead.

Naveen Sahadev: Sir, a couple of questions. Sir, you mentioned to one of the questions that the sand availability is indeed improving and the prices of sand which had shot up, from the peak they have come down almost 35% - 40%. So, if you can throw just some more color on this, because off late I think there was a ban which was introduced even on the e-tendering process by NGT, and Bihar

as a state continues to have the sand issue which was supplying East part of Uttar Pradesh. So, if you could just give us more color on this as to which part of UP in particular you are saying that sand is clearly improving? And in general, how do you see the overall sand mining scenario?

Management:

Overall, I would say the sand scenario on a state wise basis, UP it is far better than it used to be about two months back. So, whether it is East UP or Central UP or Western UP, the prices were more or less ruling at the same. Central UP was a little more and both the flanges of UP, the East and west, they were less under pressure of sand. So, now to the extent that sand mining has opened, whether it is an NGT or not, some pattas were given to these people, they have started sand mining. Now it is a question of how fast the sand can reach the market and what are the bottlenecks in the infrastructure, that will only be the limitation. Because how much of equipment they are able to deploy at the sand mines to remove sand and transport to the market, that is to be seen. And this is an unorganized sector, we cannot comment too much on this because we operate totally in a different manner.

Naveen Sahadev:

So, I think may be cement volumes could be an indication of this. So, if at a state level your volumes have of course been very good, but if at the state level I were to ask you how was the demand in Q2 on a YoY basis and how is it today, that could be a fair indication of things revival there?

Management:

As I said, on demand side it is moving close to around 4% to 4.5% of demand growth has been there between the combined two states. It will be more because I cannot tell you very accurately because earlier we had the CMA figures being complied. My sense is that the demand is there, now it also depends on the customers, customers are choosing certain products of certain companies, certain they are not choosing. There are some issues which are very commercial related and customer centric and sensitive. So, those are the ones which will define the market going forward.

Moderator:

Thank you. We have the next question from the line of Manish Jha from Moody's Analytics. Please go ahead.

Manish Jha:

Just a couple of questions. Any CAPEX guidance for this year and corresponding next year?

Management:

No, nothing. It is only sustainable CAPEX that we can talk about at this moment, there is no major CAPEX.

Manish Jha:

Okay. Now, the results do not show excise duty, so do we understand that this is adjusted for revenue or it is something?

Management:

From 1st of July excise is over, the revenue is now net of GST.

Manish Jha:

Okay. So it will be a part of inventory I presume, right?

Management:

Yes. It is part of revenue.

- Manish Jha:** And also can we have volumes for this quarter?
- Management:** 6.5%
- Manish Jha:** On a YonY basis, right?
- Management:** Year-on-year.
- Moderator:** Thank you. Our next question is from the line of Ritesh Jha from Investec. Please go ahead.
- Ritesh Jha:** Sir, my first question is, you indicated UP plus MP growth rate at 4.5%, sir what are the drivers over here, is it like government projects, affordable housing, if you could please provide some color over here?
- Management:** It is mostly IHB, it is little bit of non-trade segment but very small I would say. But IHB is driving the demand.
- Ritesh Jha:** Sir, my second question is, would you like to provide some color on Heidelberg plus Zuari capacities' synergies or the contract arrangement what Zuari has got into recently, sir how should we look at it?
- Management:** Zuari is a separate company, so we do not discuss this Zuari issues here.
- Ritesh Jha:** Okay, no problem. And sir, last question, any incremental cost savings initiatives that we have?
- Management:** Yes, see we have a (CIP) Continuous Improvement Program which we run and it is a process by which we look at every smallest cost possible in the plant wherever it is and we try to optimize it, we try to tweak it and try to see that those costs if can be optimized or they can be reduced or eliminated on a long-term basis so it is a process which continuously happens and I think this is for life long history of the company, it will keep happening. I cannot say at any point of time we will be a perfect company. Room for improvement will keep going on.
- Ritesh Jha:** But no major project, sir?
- Management:** No, not at the moment.
- Moderator:** Thank you. Our next question is from the line of Rakesh Vyas from HDFC Mutual fund. Please go ahead.
- Rakesh Vyas:** Sir, on quarter-on-quarter basis, which is second quarter versus first quarter of fiscal, the realization improvement is some Rs. 35 and the cost and the other expenses probably have improved by almost Rs. 60. However, the profitability improvement is very sharp. So if you can just highlight as to is this all led by the strong volumes or I am still not able to comprehend what is leading to this cost efficiency quarter-on-quarter?

Management: If you see the total cost had also reduced, and that is on account of two major reasons. One is the reversal of DMF and at the same time this quarter we have not actually seen any our annual shutdown cost so this leads to a reduction in the cost. But you are right, the major is coming on account of volume increase. The volume has increased by 6.5% and on that account prices have gone up by Rs. 50. But at the same time your freight has also increased, so if you see the quarter-to-quarter there is no much increase in NSR.

Rakesh Vyas: Okay. However, the volumes also are broadly similar, like close to 1.1 million tons both quarters?

Management: Yes, right. In fact, the volume is marginally lower but price is better.

Rakesh Vyas: The pricing is slightly better. So if you can quantify, what is the impact of the shutdown cost in last quarter?

Management: It is only Rs. 4 crores to Rs 5 crores one shutdown cost we incur?

Rakesh Vyas: And any plans now for the rest of the year?

Management: We will see, because shutdown of plant we always try to see when it is due. Although we may plan for something but sometimes we are able to stretch on, the idea is to optimize the use of each and everything. So if there is a refractory to be done and it can last for another two months or three months we will postpone it. So that is the way we look at it, we do not go by regular that we have planned a shutdown in November so we have to do it. Maybe we see that if we optimize it maybe this factory will last me till February or March, we will pull it on to that, so why do we take a shutdown.

Rakesh Vyas: Fair enough. And lastly sir, this power and fuel cost, you expect that to remain in these levels given that you are saying pet coke also should also remain broadly in the same range? So we should expect this kind of pricing per ton to remain?

Management: I think it should be more or less, the pricing power should improve going forward. Because you have seen some of the worst times of the year when there was lot of monsoons and things like that. So, things should look up now.

Moderator: Thank you. Our next question is from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

Abhishek Ghosh: Just wanted to understand one thing, this quarter with about 50% of rail mix, we would have seen some benefit coming because of the waiver of busy season surcharge, right, from the rail segment?

Management: In the rail freight we had some benefit of about Rs. 2 crores on the long-term basis we would do certain volume, it was linked to certain volumes with benefits we took in this quarter.

- Management:** What we see as surcharge actually that is the same thing for this quarter as well as the corresponding quarter of last year, that is there between July to September.
- Abhishek Ghosh:** Okay. But on a Q-on-Q basis that improvement would have come, because last quarter would not have been there in 1Q Fy18?
- Management:** Yes, you are right. April to June there was peak season surcharge which was not there from July to September.
- Abhishek Ghosh:** Correct. And which will again be there in the December quarter?
- Management:** Yes.
- Abhishek Ghosh:** And sir just one more thing, just wanted to understand one thing. Whatever realization improvement that we are seeing, both on a YoY and Q-on-Q basis, obviously there is some impact of the change in commercial terms. But is it any branding exercise also that we are taking and that is why the resultant realization for our brand is improving or it is just that underlying prices and it is because of the change in commercial terms?
- Management:** It is mostly compared terms we are changing and of course little bit of brand, we are not spending too much on branding as such. That remains as it is. So it is more of the customer pull which is coming through which is helping us.
- Moderator:** Thank you. Our next question is from the line of Ravi Sodah from Elara Capital. Please go ahead.
- Ravi Sodah:** Sir, regarding VAT refund that we have benefit, when was the last proceed that we had received from the government and when we can expect the next?
- Management:** It is ongoing, now we have been claiming this refund from 2013, so every year we file and after filing of returns our refund application we generally do after end of March and we get generally within a year's time.
- Ravi Sodah:** Okay. So, we have received for 2017 this year?
- Management:** No, 2017 it is going on.
- Ravi Sodah:** We are yet to receive the 2017 refund?
- Management:** Yes.
- Moderator:** Thank you. Our next question is from the line of Dhiral Shah from Asit C. Mehta. Please go ahead.
- Dhiral Shah:** Sir, my only question is regarding you have posted good margins so are these kind of margins sustainable?

- Management:** As I said in my earlier point, if the cost remains constant and there is not too much of aberration in the cost, I think we will control our consumption parameters definitely.
- Dhiral Shah:** Okay. So, this 21-22 kind of margins are sustainable, going ahead?
- Management:** That we will have to see, because one-time benefits which we have to take we have to remove those one-time benefits and that is the way it is to be looked at.
- Dhiral Shah:** Okay. And sir, you just said that this IHB is driving the growth in MP and UP, what does IHB stands for?
- Management:** Individual house builder.
- Moderator:** Thank you. Our next question is from the line of Naveen Sahadev from Edelweiss. Please go ahead.
- Naveen Sahadev:** Sir, two quick follow-up questions. Do we receive any management fees towards managing Zuari?
- Management:** You are right, it is there.
- Naveen Sahadev:** And how much is that, if you can please quantify?
- Management:** Actually, it depends on how much resources we put there, we have one agreement between two companies and this provides depending upon the service requirement and depending upon the management resources we put for Zuari we charge to them. But annually we can say, the ballpark figure depending upon requirement between INR40 million to INR50 million. And this we have started from this year.
- Naveen Sahadev:** Okay, so it is only INR 40 million to INR 50 million and not as a percentage of sales or anything like that?
- Management:** No, it is as only the cost which we incur for them.
- Naveen Sahadev:** Okay, so it is not a very significant item in that sense. And second, regarding these VAT incentives. Now some multinational companies have not recognized these VAT incentives saying that there has not been any official notification towards that affect. How have we done it, in the sense, do we continue in the old method wherein we continue to recognize this on accrual basis and does this continue under GST as well, have you received any official clarification under GST as well?
- Management:** We continue accruing this benefit in September quarter also, we expect that industrial policy for the Madhya Pradesh state is likely to come before the year end, because your VAT benefit only you claim based on your incremental sales in the state of Madhya Pradesh. So your claim will be sustainable only once you close your financial year and you calculate what is the incremental

quantity you have sold in that state. If we continue accruing this benefit in the quarter of September based on the assumption that the government will change the industrial policy, which is likely to come. We expect that by the end of December and latest before March end they will modify it.

Naveen Sahadev: Sure. And sir one last question if I may, are we likely to see any further increase in cost towards complying with the emission norms especially related to the SOx & NOx? So, whatever equipments we have to install to operate those equipments, is there any operating cost implication towards meeting these emission norms?

Management: Yes, but going forward we are trying to first work out internally without doing some CAPEX and things like that can we alter the things and we can control these emissions. We are very close on the border line case, so we are hopeful that we should be able to do certain changes in the process and meet the norms. Unless we find out that we cannot meet it and we are not able to squeeze it down, then probably small CAPEX will be required to do that and bring it down.

Moderator: Thank you. We have the next question from the line of Nitesh Jain from Axis Capital. Please go ahead.

Nitesh Jain: Sir, I just want to have a very quick clarification on GST, basically on two counts. Number one, now under the GST regime when you are paying the tax to the government, is it on the gross basis or you take the input credit and then you are actually depositing the tax amount only on the net basis? This is point number one. And number two, what about the input credit on the capital goods item? So earlier in the excise regime it was like 50% in year one and then in year two, so what is it in GST now?

Management: It is very simple, with respect to your capital goods, whenever you purchase your capital goods and you receive it at your factory you will be entitled to get the full GST against your outward liability. With respect to our payment of GST, we will start it from July, and it is like same thing in past like you get the CENVAT credit as well as the VAT credit, in GST also we get in the input tax credit on your input which includes your material as well as services and we pay net of the input credit tax to the government.

Nitesh Jain: Okay. So, only in the beginning month it was gross and then it became net, is it?

Management: No, in month of July it was net, because whatever material or services you get in the month of July, you get the input credit in the month itself. Only difference is that government, since it has brought congressional provisions for the GST which is from 30th June to 1st of July, whatever material was lying, and input credit was lying there, that amount depending on industry to industry, some may get into month of July, some may get in the coming months also. So that will be a small difference between month-to-month, otherwise more or less it is similar.

Nitesh Jain: On a net basis, basically?

- Management:** Yes, net basis.
- Nitesh Jain:** And sir this electricity duty is entitled as input credit or not?
- Management:** No, electricity is out of the GST purview, electricity duty government is charging and you cannot get the tax credit.
- Nitesh Jain:** Okay. So, compared to the excise regime now the additional credit which we are getting is basically the entry tax on the input material that is number one? Any other tax that you get the credit which you are now getting in GST which was not there earlier?
- Management:** On entry tax front also more or less it is the revenue neutral, because whatever the cost was there in past it will be passed on to the ultimate consumer. So this was also in past also, and from the financial statement point of view it looks like it was a cost but it was never the cost for us because we always talked about net sales realization. And today also in GST regime it is the net sales realization. So there is no major change between the old tax regime and new tax regime. So input tax credit more or less similar to our earlier tax credit.
- Moderator:** Thank you. Our next question is from the line of Manish Jha from Moody's Analytics. Please go ahead.
- Manish Jha:** Given the current recent Supreme Court judgment of the pet coke thing for Delhi-NCR region, do we see any impact on Heidelberg?
- Management:** Not at the moment.
- Manish Jha:** I mean, it has affected the NCR region, so it is expected to spread across UP. So we have major presence in UP...
- Management:** We do not have any impact on this.
- Moderator:** Thank you. Our next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** Sir, my first question is regarding pet coke, you mentioned it is expected to remain on \$95 to \$105 per ton. So, now do we still see that attractiveness of pet coke versus domestic coal and should it be expected to remain at 70% of fuel mix?
- Management:** I think it will still remain like at this cost also.
- Prateek Kumar:** Sir, so what will be the difference on kilo cal basis, it still remains 10% to 15% attractive?
- Management:** Yes, it is around 10% we can say, but cost like today is like \$105, maybe you can say revenue neutral will be coal and pet coke.

Prateek Kumar: So, at \$105 it is neutral, at \$95 it is 10% attractive, that is what you mean?

Management: Yes.

Prateek Kumar: Okay. And sir we had that US\$20 million payment during the current year of which we have paid \$10 million in the current quarter. So we have a \$10 million pending, is that right?

Management: That also we have initiated, in October we have paid that \$10 million also.

Prateek Kumar: So we have concluded \$20 million payment?

Management: Yes.

Prateek Kumar: And sir one last question on the GST again, so have we seen any benefit for us in terms of state check post or any warehouse consolidation of any sorts in terms of our freight cost?

Management: No, not seen. Freight cost will remain the same, logistics will remain the same, this is all a little bit of a good academic exercise. The truck reaches within 24 hours, if it reaches in 23.5 hours the freight is not going to come down.

Moderator: Thank you. We will take one last question from the line of HR Gala from Finvest Advisors. Please go ahead.

HR Gala: Sir, two questions. One was regarding CAPEX, which you said nothing major. But sir, can you say ballpark figure, what kind of number we could factor in?

Management: Sustainable CAPEX which we are talking about?

HR Gala: Yes, how much it would be?

Management: Around Rs. 30 crores to Rs. 40 crores. Actually, we are doing sustainable CAPEX every year, so that we continue.

HR Gala: Beyond that there is nothing much?

Management: No.

HR Gala: And you said that 2 lakh ton capacity ramp-up could happen at a small CAPEX, so how much that CAPEX could be as and when we spend?

Management: That is very small.

HR Gala: Sir, my second question is, after this GST regime has there been any change in method of valuing our closing stock?

- Management:** It is not going to change, it is based on the cost in past also, today also it is based on the cost.
- HR Gala:** Okay. But is the GST element that we have paid, it still remains in our closing stock till we are able to recover?
- Management:** No, that is input tax credit for us, so whatever cement inventory is lying in our warehouse across the border, because within the state you need not to pay any GST on transfer of cement from your factory to warehouse. Whatever cement we are transferring to other states is lying in warehouse, it has no impact of GST because input tax credit I am getting in that state.
- HR Gala:** Okay, so that GST element is not included in the closing stock valuation?
- Management:** No.
- 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:** Thank you, Margret. On behalf of PhillipCapital (India) Private Limited, I will like to thank the management of HeidelbergCement India for the call. And also, many thanks for the participants for joining the call. Margret, you may now conclude the call. Thank you very much.
- 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 line.