"HeidelbergCement India Limited Q4 FY '20 & FY '20 Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the HeidelbergCement India Limited Q4 FY '20 & FY '20 Conference Call 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 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, sir.

Vaibhav Agarwal: Thank you, Stanford. Good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q4 FY20 & FY20 conference call for HeidelbergCement India Limited. On the call, we have with us Mr. Jamshed Naval Cooper – Managing Director and Mr. Anil Sharma – Chief Financial Officer.

I would like to mention on behalf of HeidelbergCement India Limited and its Management that certain statements that may be made or discussed on this conference call may be forward-looking statements related to future developments and current 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 copy of the presentation on the stock exchanges and its website. Participants may download a copy from these websites. I will now hand over the floor to the management of HeidelbergCement for their opening remarks which will be followed by interactive Q&A. Thank you and over to you, sir.

Management: Thank you, Vaibhav and thank you everybody for joining this call today. First of all, I hope all of you are well. We are meeting at a time when the world is really undergoing a change. Our lives have undergone a change and I don't know how things will move forward, but yes, the business has to go on, I think everybody has to maintain the social distancing and whatever is required to do and I wish that everybody, we as a country and as individuals and the nation and the globe, tides over this Coronavirus thing and everybody including their loved ones are safe, hale and hearty and we see the brighter Sun at some times of life. So I wish this for everybody, each and every individual on this planet.

You have seen our presentation which is there before you. So, I would start with the presentation from Slide #3. If you look at it, the cement industry was doing well. I think the quarters which went on were doing well, it moved from 5% growth and moved to 8%. It was a healthy growth. Unfortunately, the brakes got applied in the month of March, almost fag end of the FY year. When the steam was in full swing and things were moving in the right direction but unfortunately this happened and the industry recorded in just a matter of 9 days, it lost a significant volume. You must appreciate that the cement industry, in many of the companies which is the March year end, the maximum volumes gets sold in the last 10 days of the month which probably got sacrificed. So you see this particular part on that. But all said and done, I think we will be back at it soon.

On the financial year wise, we did a capacity utilization of close to 87% utilization. So, I think it was a good job done despite these 10 days of loss. And as you know, your company is 100% blended cement we manufacture, dependence on grid power as WHR and the power sourcing what we do from as green power we source from other sources in Ammasandra and other places. So that way our dependence on grid power has come down to 66%, ie. we are in 34% better situation on that count. We have paid our first tranche of NCD at about 1.25 billion, so that has happened and the next one will be due in the next December. We have paid interim dividend of 1.5 and now the board has recommended to the AGM a dividend of Rs. 6 per share.

Definitely, you will have questions on our capacity utilization, I will come to that which has increased to about 6.26 and I will take you to the next slide which is Slide #5. You will see the volumes, again it has dropped, 3.9% is basically more to do with the March impact of COVID.

Before you ask these questions, I am explaining to you on the Slide #6 which we have put specifically for this, as to how our capacity has increased, okay. So you can see that our utilization in Imlai was about 94.5% and 99%, almost 100% in Jhansi. So there was some improvement which had to be done to build up some more, basically it has to be done with grinding. On clinkering, we are operating at close to about 80%-83% utilization, but we needed cement capacity to absorb this particular thing and as you know that we have a continuous improvement program over the years which goes on, so we keep improving things here and there and we keep discovering. So it is also a matter of how you discover your equipment, plant and machinery and then you try to test out the limits of the plant and equipment and one fine morning you realize yes, by a small expenditure you can really extract far more and then the management takes a call. okay, , let us put on this investment which in this case, was to do with putting up separators in our mills. So we had to just put an investment of a small amount where the manufacturers guaranteed to our assumptions and we went ahead to enhance it. So we did a test of it and when we were sure about it, we made this investment and we were lucky that we were not proven wrong. The machine started delivering to the rated output what we thought and that is how our capacity has increased now at Imlai at 2.5 and Jhansi, it has gone to 3.25.

Coming to the results on page #7. You are seeing that for the whole year, EBITDA is up by 9%. On the PAT side, it is up on the whole year by 17% and all the other figures what you are looking at it. In terms of whether it is gross realization, sales volume got hit. Had volumes not been hit I think we could have done better. But all said and done that we cannot keep going back. Because of COVID, this has happened, it has happened. We will have to move forward on that and have to see how best we can work under the changed environment.

If you look at the whole year waterfall chart - in terms of how the EBITDA has moved, so you can see that the maximum benefit has come out of the GSR on Slide #8. Raw materials, minor impact and there are some other small impacts as well. So that is not something very big to worry about. Well managed, the team has managed consumption parameters whether you call it as sourcing parameters, everything has been managed very well. The market has delivered. They have recognized the premiums what the brand deserves, and they have been giving those types of premiums in the market.

Coming to Slide #9, page 9 you can look that we have got 46% of our volumes by road and fuel mix is about 39% coal, you look at it from this is 655 basis points improvement year-on-year. On the blended cement, you can see that as I mentioned to you that we will go up maximum of 15%, so we are nudging there. The volume is about 13% and is coming close to it, but as I said again, I will be very steady unless I get my premiums. I will not push the volumes of any premium products, they have to go slow. So they will keep improving over a period of time. We had a scale zero, we are mostly a retail driven company. You can see that about 85%-86% of our volumes have been only in trade.

As the tradition goes, over the period of time you will see that we have been working with the net negative working capital and that continues, so the tradition continues. Our customers respect us, they count on us. They give us the payments, advance, on most of the times, it reflects on our DIO, DPO all those things which are there. It is a well-managed, well-oiled machinery which is working. This is how we proceed forward.

In terms of bank balances and borrowings is concerned, we said that we have already made one tranche payment and in FY20, that is 1.25 billion and another 1.2 billion in FY21 which will happen in December of 21 and then everything is beyond that. In a gloomy picture also, in such a situation, the India ratings has continued to give us AA plus rating. So we are thankful for their faith, by giving us this rating in an environment which is little difficult.

Coming to page 13, I don't know how many people of you are aware of it, but during the COVID times, when the COVID started for 21 days, we were developing one theme on COVID on an everyday basis and sending it to our vendors, dealers, channel partners, to our customers on social media, more to explain to them the need of the hour or to make them relevant. So we have kept our company very relevant during the times when people were, every time, every house and every individual was talking about COVID. So how do we make a difference in their lives, so how do we make their presence felt among them and being talked about. So this is what we did, the team did it wonderful job and we were able to put up one snippet on everyday basis. So these are some of the glimpses of that. You can go to our Facebook and to Linkedln pages and you can find all of these 21 there and some more which are keep coming sometimes or the other . CSR and social responsibilities remain at the top agenda for our company and for each individual of us and you can see that we have been in the forefront whether it is distribution of masks, food items or giving hygiene factors, whether it is inside the plant, outside the plant, I must say that the maximum impact of this COVID is felt by the under privileged section of our society which I am worried that many of these people will be pushed down below the poverty line and this will set our country back many years, if we do not wake up and do everything, something for the society. So these are the concerns which we have on particular part which the COVID is concerned.

So if I take you to the page 15 and you will observe that we have recently announced that we will for every bag of cement Heidelberg sells, contribute one rupee a bag for the cause of feeding the poor, feeding the under privileged, those people who needs real attention. So this will go on till such time we are able to feel that okay, we have done enough for the society. I don't think we will be able to, ever do enough. We have a population of 1.4 billion in this country, I don't think as a company whatever we can do we will do our best. we have the bigger**,** but we can make a difference, whatever we can do, we will try and do our best. And thank you all for your support. I also thank my dealers, my C&Fs and everybody for their support who are coming forward and who will also be volunteering with whatever we can.

Coming to the outlook which is there. So the demand reduction in urban cities we have seen it, somewhat improvement is there in the rural areas. On the working capital and liquidity, I am expecting the crunch to become tighter and tighter. So far there could be some money is locked inside the market , maybe it is not the company's money but even if it belongs to the channel and if we do not help them take out that money out of the system or get it back into the rolling , then we will have a problem. So we are working on that also. Reduced availability of trucks and drivers is always there. There is a labor availability shortage at the ply**,** at the yards, which will impact the rolling stocks which is in the coming times. Lower energy costs will be there and we will get benefit out of it, but again it is not a very healthy sign. You know if the industry grows, it is good, but it does impact us because if there is power plant shut down, then we have to go far for our fly ash sources, we have to search for fly ash. We are a 100% blended company. So we have these challenges and we are trying optimization of your operational and capital expenditure. We are into everything. The life for us has really really changed and I am telling you, the business have seen a change in these 2.5 months. I can tell you that nobody had expected it, nobody had dreamt about it, but it has been a very interesting learning lesson. It has brought into the fore, agility of your company, agility of your management, ability to think fast. It is not the big fish which is going to eat the small fish. It is the small fish which is going to escape faster and lead the way. So agility and ability ie. the quickness and the promptness, it is now the speed, and not the size which matters today. So there was every time when people say that you are a small company, I say today it is agility which will count today on this particular part. So this is all from my side.

Another thing which before I end, I want to add up or add on that, that because of the measures which the company took in terms of, all the employees of the company are safe, healthy. We did everything possible to ensure none of our trade channels and partners, we had educated them on COVID and things like that and now we are getting into the deep of it to educate them on how the new business will run. The business will not be the same, the way it used to be and I am seeing these type of changes which will take over very soon. Our dealers' unfortunate part is that they are not agile enough. They sometimes sit down in their homes. They are not privileged enough to be exposed to the environment which we are privileged to, because we interact with the society, the environment everywhere. So we are privileged to that extent. So it is our duty also to see to it that our channel partners and our business associates are also equally brought up to the levels which is need of the hour. We have done lot of trainings everywhere. All said and done now, our dealer partner, channel partners, we have taken them on IT systems. We are educating them on Microsoft Teams or on Zoom or whatever it is, whatever is required to uplift the level because I am sure that the new normal is quite different from what we have ever seen and I don't expect also that we will be ever back to the normal what we have seen earlier. So it will be something history and I think whatever we led our life so far is something which I call it as history. Now we have to think, it is a new start. So life and the business has to change. We are determined. My team and I are determined that we will do everything possible. We will adapt to the new systems, adapt to the new style, adapt to the market requirements and I would be very happy to say that each and every person whether it is the smallest man on the field or my workmen, he has given his commitment that he will stand by the new rules of the game and we will play the new rule of the game.

Another thing which I want to tell you that till March and all the months we have paid our salary. None of the people have been isolated or anything in any manner or been underprivileged to that extent. So the salaries have been paid. The workmen are okay with it. Everything is happy. The only thing is the plants have started now. So I think, things will go on. So this is all I have to say and as we go forward, I will answer all your questions to the best of our ability and thank you for being here once again.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Sir, couple of questions from my side. Firstly on the demand side, how is the demand scenario in our market share where we operate. As we speak today, what is our capacity utilization and we understand from some of the channel checks that the rural demand has been very strong and hopefully, that should continue up to June end or July, but urban has been a bit lackluster, this was based on some channel checks and dealer calls about a week ten days ago and with now the opening up, has the demand also improved from margins? So basically if you could shed some light on the demand scenario and pricing? And second question is about the cash sir. We understand we are in a very healthy position with regards to our balance sheet in terms of cash already and again, this year and next year also, probably next 2 years we will generate a very good amount of cash. So any plans which we have finalized in terms of utilization of this cash which we have and which we are going to generate over a period of next 2 years even after excluding the debt repayments. And lastly sir, anything on the cost front which we are trying which could be helpful in this year in terms of reduction of our costs, measures or steps which the management has already started taking…

Management: So Rahul, there are a few questions,, some of them I will answer from a current perspective because we are talking about results of quarter ended and the financial year ended. So, if I make any statement which is in the current scenario or going forward, it will not be inappropriate at this juncture. So I would refrain from that, but I can give you a simple answer to some of these changes. When you are saying demand, yes, you are right, the urban demand has dropped, the rural demand has marginally improved. In terms of capacity utilization, April has been virtually a down month, you can understand that, in May, there is some uptick has happened and June, we have just started. So we will see how the demand pans. Too early to say what the capacity utilizations are going to be, but I think, the way things are going on, I think I would say okay, okay, not to get too much pessimistic about it, neither to get optimistic about it, either. On the pricing side, yes, I can tell you the pricing has firmed up and pricing will stay firm for quite some time because everybody in the market understands one thing that if you are going to operate at lower capacity, then the only way to breakeven is to have a higher price. So the prices will continue to stay in these markets for quite some time to come. Of course, it has got negatives also, I'm saying this upfront because you can see that when we are holding onto higher prices, in our region, we are also opening up gates for our competition to come in. Those who are coming at a very low prices, almost Rs. 100 – Rs. 120 a bag lower landing prices are happening than us. So there is a stretch which will happen on our brand people also. But anyways as of now, we are able to take the stretch because if our material is moving, I say that if my customer is ready to buy my cement at an X price, why should I bother about anybody else's brand. So right now the elasticity has increased significantly. I can take a brunt of as high as Rs. 80 a bag from a competitor's brand, I have no problems on that. As far as the cash is concerned, yes, you are right that our cash balances are good. We are working on it as it is always on a negative working capital. So it will continue. I think we will see we have given a dividend right now, announced it. Now, it will be approved by the AGM and we will see how it goes. Going forward, we will try to see what is to be done with this cash or whatever it is. Of course, we are always in the lookout for some acquisitions, that theme continues as of now. In terms of cost, you can see the costs are coming down in some of the certain areas, but certain costs are also going up also because when you are traveling to long lead distances, then there is a problem, then there is also money stuck up in the cycle, which has to be also brought out of the cycle. So those things will have to, take some time. There is no readymade solution for us at the moment, but I can only tell you that going forward, we are trying to see that we sustain some way or the other and our business to the best of our ability so that we do not dishearten anybody going forward.

Rahul Jain: Any brownfield, greenfield CAPEX plan at this point of time?

Management: As of now, nothing.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: It is good to hear that the teams are safe and healthy right now and great gesture on the Re. 1 social contribution, that will go long way. Sir, on your comment you rightly pointed out that improvement in the EBITDA, the bridge you mentioned, our realization was driving force on this year and if I look at past 3, 4 years also, most of our EBITDA gain, prime role was played by our average sales realization improving or contributing. So how sustainable this is, obviously near term you mentioned that looks like we can sustain that, but given you also pointed out that higher realization also attracts competition. So I am just trying to understand going forward over a long-term basis, how sustainable this is, ie. our contribution to EBITDA and how long it can continue, if you can touch upon this.

Management: Chintan, valid point. The margin is coming from the market. This is the result of which markets we are present, how are we nurturing our customers whether it is through services or through whatever methods, whatever the customer's expectation are, are we are able to meet and that is how we get that, we are able to garner that additional money. If somebody would say that today if I am going to take a flexibility of close to about Rs. 80 a bag, I can sell higher than my competition. Yes, going forward, this can go to Rs. 160 a bag. I am not concerned about it. If the customer feels that there is a price band which it has to take and he has to pay for Rs. 160 a bag, higher than my competition, then they will say it to me. So I think we are looking at more of the customer side psyche on this part and of course when there is abundance of material, I can say that I will come under pressure, so we would put it that at today we were able to bear this very different size, but in future maybe we have to come down to differences of Rs. 5, Rs. 10 also between the two brands. Today, it is a very different scenario. So if I can say that sustainability going forward is, I think it is a sustainable game.

Chintan Sheth: In terms of ASP levels maintaining or sustaining, but in terms of its contribution to our profitability, so my question is from that angle that how much we have to depend on our firm's to fill realization in the market which will drive the EBITDA and from the cost front again, most of your expenses are variable in nature, but still what can we do to trim down ie. our fixed cost or improve upon our existing facility that you are doing a commendable job in putting up capacities at the lower cost, that adds to the efficiency and in the profitability as well. From that angle I am trying to assess the situation?

Management: Chintan, to answer your question, we must say that cost wise, more or less the industry is close to each other. Not too much of a variance in this. I don't think in the cost side if we keep looking at it, ultimately you will touch the bone fast. It will go and prick there. Now after this, there is no flesh remaining, flesh has to come from the market. So the entire effort in energy has to be there.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from Edelweiss Securities. Please go ahead.

Navin Sahadeo: Congrats on the set of numbers in the quarter gone by. Two questions. Sir, one I was going through your update related to COVID-19 that you filed on the exchange where it says that it has been a month for the production to have started, but normalcy is yet to be achieved. Now, just a perspective like we got from other companies in their most recent conference calls post the results that especially in the center and east regions, the utilization had come back to near normal and in fact if we try to probe it further, we also understand that May as a month has actually seen marginal growth in dispatches coming largely from the central regions so to say, especially for large dealers and all, it is just a channel check. So in that context, I was just trying to understand, when you say normalcy is yet to be achieved, are we seeing a lot of material coming in from other markets and hence we are lower or we would still be broadly at par with the industry average?

Management: To answer your thing, see normalcy means, when we talk about normal plant operation, that means you have seen that you will operate with 100% of the people there. Here you are operating with less number of people, social distancing, the speed between each, the shift you have to go, one hour gap you have to give, the next shift starts, the hours are lost. So in terms of those efficiencies that is what we are referring to. Today to run a kiln and mill, okay it is fine, but tomorrow monsoons are coming in front of you, how much are your monsoon prepared, the plants are prepared for that. There are many things, it is not just only production and sales is not the answer. We have to sustain it also. Tomorrow if something happens, the big shower, the cloud burst happens and you don't brace up, your plant will be off for 10 days off altogether. So there are many things of this nature are concerned. Yes, on the other point is concerned, yes, there are other brands who are coming in. There are logistics bottlenecks. Our prices are higher, significantly higher, so our acceptance also will be to that extent little, so softer only we will get a push back from the market to that extent. Some other brand would be able to sell a marginally little higher volume than us. But then finally, it will balance out somewhere between on a revenue basis you will see it, how it balances out.

Navin Sahadeo: Understood. Certainly, but I was only referring to and I appreciate the other aspect which you mentioned but I was precisely mentioning only about the production part of it, that in May is it fair to assume that we are, as we speak and I know and I am not even asking the guidance going ahead or in terms of any future outlook. But as we speak, is it safe to assume that you are seeing near normal production versus last year or that kind of a utilization?

Management: I think we can come to that level. That is not an issue. But there are certain, sometimes some months we have also your maintenances repair, sometimes they coincide with certain months. So those things are the ones which will always, if you compare it, am I able to, or if you ask me a question, can you run your plant at full capacity, I say the answer is yes.

Management: Navin, just to add one more point in this COVID-19, the mitigation things management has taken up during the last 2-2.5 months and the information we shared with the stock exchange yesterday, we are talking about that we are taking whole atmosphere for the safety of our people. At the same time, gradually we are shaping up production and we know that okay when we talk about the new normal in the business, then it will be totally different than what we used to talk in the past. So it does talk about the entire COVID-19 situation putting together all these aspect of the operation including production.

Moderator: Thank you. The next question is from the line of Sanjay Nandi from Ratnabali Capital. Please go ahead.

Sanjay Nandi: Congrats on good numbers. Sir, my question is, like you mentioned that our GSM improved like Rs 377 per tonne on a Y-o-Y basis. So which comes to Rs 14 per bag. So sir is it because of changes in some trade mix or is it because of only the market driven prices?

Management: Some part is market driven, some part comes from all the incentive schemes and things like that. Everything we have to keep tweaking it. It comes from various aspects of the business. So normally we try to see that, we optimize everything on the field also. So some months we may not give some incentive, some we draw back and we see the prices are going up. Prices have gone up in fact now. As of now, the price movement is very high.

Sanjay Nandi: Okay. Sir, what is the exit like price movement, as what happened in the March quarter as on date?

Management: Prices have improved significantly I would say, I don't have the figure right away. But what is the March improvement and this is what you are seeing is, I will have to checkout, what is the exact amount I am not having, but definitely there would have been about Rs. 10 – Rs. 12 a bag, improvement. If I recollect correctly, because it is now quite long back. When you discuss in the month of June when you are wanting to, we head on the way. So that time if you look at it, I will have to see my figures. Around Rs. 10 you take, by large, Rs. 10 to Rs. 12 I have got…

Moderator: Thank you. The next question is from the line of Shreyas Bhukhanwala from Canara Robeco. Please go ahead.

Shreyas Bhukhanwala: Sorry I joined in late. So just one question. So, sir how are we looking at the CAPEX for this year and we were thinking of expanding in West, if I am not wrong. So any update on the same?

Management: CAPEX is normal. Of course, we have cut down on certain CAPEXES which we think we can prolong or we can extend it into the next year, we have to conserve little bit of more money at this juncture. So we have identified and there is a full exercise done. We have identified, classified them into 1-2-3 segments, into a-b-c and then what is urgent and important and accordingly, we will proceed on that. The other part of it, which was Gujarat is concerned, yes, we are progressing on that. But right now, every government machinery or anything has come to a grinding halt. So there is nobody there to talk about the government machineries fully engaged into managing COVID crisis. So any government department you talk to them, they are not willing to talk because they are either on some emergency duty or something or the other.

Shreyas Bhukhanwala: So sir, if you can just quantify what would be the CAPEX for this year, rough range if you can give?

Management: Generally, we do the CAPEX based on our replacement on account of the depreciation and generally we feel that 40%-45% of the annual depreciation requires to be replaced in the business. So based on that, the amount is almost around 500 million in a year.

Shreyas Bhukhanwala: And sir, Gujarat since we are looking to progress, so have we postponed to next year or we would be spending some amount for Gujarat also in this year?

Management: We will be spending some money possibly. As of now, all these are statutory payments, so these will come up, it is nothing called as, into plant and machinery. So everything will go under the studies in the environment and all those things which we will do, but it will all depend on how the environment turns conducive.

Shreyas Bhukhanwala: There we are looking at 3 million tonne, right?

Management: Yes, around that.

Moderator: Thank you. The next question is from the line of Pritesh Sheth from Edelweiss. Please go ahead.

Pritesh Sheth: Congrats on good numbers. So, one question is on the fixed cost side which we have seen it increasing this year to around 800 or 900 per tonne, especially in Q4 there was an increase in other expense of 17%. So two questions on that part, firstly what was that reason for that increase? Is it because of some additional promotional expenses and how do you look to control it in FY21 given, there would be a low demand scenario or even negative volumes?

Management: So basically if you see the trend of our fixed cost in one of the quarters, maybe you will find some increase and then some quarter you will find some decrease. Because in the cement industry, generally fixed cost move based on your plants shut down or some of your sales promotional activities. During March quarter, yes, the amount when we compared to year-on-year, a little bit increase, but quarter-on-quarter if you see, there is reduction in the costs and the year-on-year cost increase is on account of some of the sales promotional activities and some of the CSR activities, we did additionally during the quarter. These are the only controllable cost which can say based on the comparable quarter of last year. You will find that there is going to be significant increase or decrease in the future quarters.

Pritesh Sheth: And any plans of controlling that in FY21, like any plans you have laid out already that how much of that would be cut down in this year?

Management: I think the management has been really very close watch on the development and movement of the variable cost and the fixed cost and earlier also in some of the calls, we talked about our continuous improvement program and we really keep growth focus and we work on those kind of cost which we can bring under control. So, I think it is very much under control and you will not see much significant upward movement in the cost.

Pritesh Sheth: And lastly any debottlenecking now you are looking at from your side maybe for next 2 years?

Management: Right now, I think in 2020, little bit this will happen something somewhere here and there, minor, small-small. We will look only now at the clinker part, maybe in next year or so, we will start looking at it, that if we can do something in our clinker capacity enhancement that we will do.

Moderator: Thank you. The next question is from the line of Keshav Lahoti from Angel Broking. Please go ahead.

Keshav Lahoti: Thank you for the opportunity. Sir, can you please give what was your capacity utilization in May month and what is your current capacity utilization?

Management: As I said I won't be able to inform you about the current one because as I said it would be irrelevant. If we are to talk about relevant quarter, it is close to about around 80% of utilization which I have mentioned. Even in the total last year it is close to; I would say 87% utilization is there.

Keshav Lahoti: And on the demand side, can you give me a guess work what would be the demand. Will it be picking up from the infrastructure segment or the housing sector? What is coming towards the real estate sector, is it going to be in pressure quite a sometime now. The developers are planning to postpone the project, so just like the cement industry will have a lower demand for the year?

Management: Keshav, on this part of demand is concerned, as I have mentioned in the beginning that you will find reduction in cement demand when it is coming from the small projects which are happening, which are private driven projects, but when it comes to government spending, I am sure that the government is spending on MNREGA or anything, they have increased the rates also in the MNREGA there as the government spending whether it will be irrigation projects or anything, they will be coming up in a big way. That is what I am expecting the way the government should be looking at it. Why I get hope from this is, because cement and building materials were the first one, even under the restricted area and red zones, they allowed you to start. So the government knows and I think yesterday or day before our minister, Piyush Goyal also mentioned something somewhere which I remember that he said that they are talking to builders and how do we revive these builders because construction industry happens to be the biggest employment provider to the migratory labor in this country. So, if the government's thought processes are like that we should not get worried too much but in the short term ,yes, because anything government does, it takes us time to mobilize things. Once the money comes into, reaches the people and then mobilization takes place. It takes a hell of a time, I would say completely it may take about 6 to 8 months if they start thinking today, it will happen in 7 to 8 months. You are right that the builder in some of these contracts will have a problem and we are seeing that happen, so there will be lot of money that will get stuck up also in the channel, in the businesses where they are not able to restart the business. So those people who are having exposures in these type of businesses with builders or other things or anywhere could have a problem.

Moderator: Thank you. The next question is from the line of Manish Saxena from PineBridge Investments. Please go ahead.

Manish Saxena: I have a few things that I wanted to check with you, as we still do, the annual reports been more of a book keeping thing but just to understand in terms of the loan that yet to be repaid which you have showed in the presentation slide, how much of this is like the one which is NCD and what is the government grant portion in this?

Management: This is mostly what you have shown here is the NCD part and the government portion to it which will be from 2023 onwards.

Management: To answer to your question, if you see the presentation of slide #11 talks about the entire outstanding debt of the company for first two years, 21 and 22, these are the NCDs, two installments, two tranches are yet to be paid, one will be paid in the month of December of 2020 current year and then next year again, in December 2022, the balance amount will be paid. The third March or so, there is 2.3 billion that is related to the government grant. It will start due from 2023 onwards.

Manish Saxena: Also just to understand we have a net cash, we have reasonable levels of cash but this is something that even you highlighted in the COVID related issues and we will be having a huge amount of a cash payout in terms of the dividend that would happen across, so are you envisaging that the debt levels in this current year will increase or how do you actually plan to manage the finances for the current year?

Management: At this moment, as on 31st March, we are more or less debt free company, so debt is basically more or less equal to the total bank balances and going forward let us say the shareholders will get the dividend at the same time, we are hopeful that company also will make or continue making money. Although this COVID-19 situation very uncertain and the outlook also at this moment is uncertain, but we are very much hopeful that yes, this growth part of the company will continue.

Manish Saxena: And just to also understand in part of the other expenditure, is there any portion of other expenses which is variable or this is largely fully fixed in nature?

Management: If you see the detailed annual report because in the public result, it is the format given by the SEBI. So there, you need to give only 5 or 6 line items, so other than power and fuel and the freight and salary, everything is consolidated under the other expenditure but when you see our detailed annual report, you will find that some of the expenditures are variable in nature, like there are some handling cost which we incur for the cement unloading and loading, but at the same time, some of the costs are the semi-fixed and fixed in nature, so that detail you will find it in our detailed annual report.

Manish Saxena: The reason was basically to just to check on like would there be some reduction in other expenses because April was largely a shutdown or not?

Management: Yes, the management has taken the entire status of all this expenditure and we have also informed the stock exchange, yesterday about the initiative taken by the company and we are hopeful that yes, there will be always the chances for optimization and we are taking up with the various means so that shareholder will feel that yes, we have handled the COVID-19 situation appropriately and in very timely manner.

Manish Saxena: And one final question was on other expenditures done and cash. As you again mentioned in the COVID outlook that some issues in terms of procuring jute bags or something like that in terms of packaging material or this thing, is that a thing that you really think that because of the other things that you mentioned, is that something that we should keep a watch for?

Management: Jute bag, I don't..

Manish Saxena: Something in terms of availability of packing material or migrant workers, what would be?

Management: Okay, we must understand most of this bag suppliers, HDPE bags or PP bags, has got a very high quantum of manual work, which is sometime in printing, sorting, packing, stitching, these are things which are happening there, there is a lot of manual labor employed at this packing units. Now, this labor has migrated, so these suppliers are finding it little difficult, of course because this is all skilled manpower. So they are facing problems, but I think now most of these people, have been able to get the labor back and I think in another 15 days or 20 days, they should come back to normalcy.

Moderator: Thank you. The next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: Sir, just one question on the part of incentives, the GST incentives which we book or recognize in other operating income, so what is the status on that and would we be eligible for this expansion to get the same incentives or not?

Management: Incentives are linked to volumes, they do, so I think they will continue to get, whenever they do the volumes, they do their targets, whenever they do, they achieve their cash discount scheme. So all those things which as a common business practice will go. So suppose in the month of April, you did sell virtually nothing.

Kamlesh Jain: Sir, I am not asking about that, sir I am asking about the GST incentive?

Management: Basically, GST incentives like we have said last time that we have for the time being discontinued the approval of the GST incentive in our books, so we are waiting for the changes or modification in the notification issued by the government of Madhya Pradesh. Answer to your another question with respect to incentive entitlement of the debottlenecking volume increased by the company, very difficult to say at this moment because our incentive industrial policy benefits in Madhya Pradesh is given based on the incremental volume. So if we achieve incremental volume in the Madhya Pradesh, we will get it on prorated basis on that volume also. So let us wait for the notification by the Madhya Pradesh government and there also I think we will have more clarity about the entitlement of the incentive.

Kamlesh Jain: And secondly, on your opening remark that we are getting our entire earnings through the high realization and we are proud of our premiums and all that, but if we see for our capacity, we have increased more than by 70% and we are going to just be satisfied with the fact that we have the margin, so would we be eager enough to push the volumes or we would be more satisfied with these margins going up well under these or whatever levels we want to target, so how the thinking would be going forward?

Management: So today, it is a day-by-day fight, Kamlesh, the problem is today if I have got 20 trucks standing outside who can take my material and one rake, now I know that if I have only this much of material my price will be different. Tomorrow, I have got 60 trucks standing and my 3 rakes, then my pricing will be different. So, it is very clear that if I have got lesser material and there are buyers standing outside, there are 300 dealers waiting for material then my price will be for today different, tomorrow it will be differed.

Moderator: Thank you. Next question is from the line of Jaspreet Singh from Equentis. Please go ahead.

Jaspreet Singh: In one of the slides, the second slide we mentioned that there was reduction in volumes primarily because of the lockdown, is it possible to share what could be the potential production or sales loss in the month of March because of the shutdown, ballpark?

Management: March, about 10 days impact is there, 10 days of volume lost, so you can say we are doing about 4 lakh tonnes a month, you can say close to about 1 lakh tonnes, 1.25 lakh tonnes has gone.

Management: See, the government has given this lockdown officially from 24th March but you see in some of the states, the restriction have started much before, somewhere it is the 15th March, somewhere it is the 20th March, so overall impact you can say that okay 1.25 to 1.5 lakh tonnes in the month was the real potential during this situation.

Management: More than that, the stocks which got held up which were in transit, that was very big and that could not be sold but anyway ultimately when the lockdown opened, that went off at a very high price because everybody was dried up with material, so that went up at Rs. 50 a bag higher.

Jaspreet Singh: And the second last slide you talked about FY21 outlook, all of the constraints, working capital, liquidity crunch, truck drivers, labor cost and railway yards manpower, I know it has been clubbed together, but what is your sense from now. Is it going to be month part or you think it is going to be there for most part of the next couple of months, how do you see this sir?

Management: See, this will continue to keep haunting us somewhere or the other till the time. See the agricultural produce this year has been good, so those labors who have migrated to rural India, their chances of coming back soon are little remote. So you can expect that you will have these bouts of blow hot, blow cold, it will be very uncertain situations and I think things will start improving after Diwali, when it comes to major cities are concerned. Small businesses, small medium enterprises, they will continue unless they had some permanent jobs and they were paid very well, but normally in small industries what happens, the labor does not get paid as well as the organized industry. So if they are going to be paid lower than MNREGA, you are getting more money, these guys will not go back. They will say we are at home it is okay we get half salary we will at least get food.

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

Prateek Kumar: Sir, my first question is on your realization growth for the quarter, it was around 4-4.5%, it looks like slightly higher than your peers**.** So when you mentioned that Rs. 10-Rs. 12 increase, was that for Q4 or you are talking about current quarter Q1?

Management: This increase of gross realization is about 5.8% over previous quarter, year-on-year basis.

Prateek Kumar: Even quarter-on-quarter it is the same?

Management: Current quarter.

Management: Rs. 10 to Rs. 12 we are talking about the current situation post, may be during the COVID-19 period.

Prateek Kumar: So in Q4 versus Q3 also, your realization was 4.5% higher, so it seems higher than some of the peers, so any specific reason there? It is thiere clinker or cement mix change or something that contributed to this?

Management: No, nothing, we did not sell any clinker. It is only purely market driven

Prateek Kumar: So when you say Rs. 80, you have a flexibility of selling volumes at as like Rs. 80 versus competition, so this would be part of your like Rs. 280 kind of increase in realization which is all RPI?

Management: No, don't be under that impression that it is an increase, it is those people who are coming down and selling it in these prices. So, if I was selling at Rs. 400 today, if I have increased from 380 to 400 I have gone, when I was at 380, they were bringing cement at 250, now today they are able to may be Rs. 300 or so, may be today we are bringing at 310 only or they are at the same price, so my Rs. 20 has gone up to that extent, about 25 or 30 depending on the market to market whichever, I have. In certain markets, the prices are short up by more than Rs. 30 also and they continue to be at the prices which they were in February. That is the difference. I am not making more money, my difference has increased.

Prateek Kumar: Just one question on your other income looks slightly higher for the quarter and tax rate for future, are we looking to move to new tax rate anytime sir?

Management: Basically, the other income is coming mainly on account of this income on the surplus fund available with the company and that is why you have seen that gradually quarter to quarter there is some little bit improvement in the other income. With respect to your question on the consistent, if I understand correctly you are talking about the consistent income tax rate? Is your question with respect to consistent income tax rate?

Prateek Kumar: Yes, 25% tax rate as per the announcement last year, the government announcement?

Management: See, actually company is currently carrying some amount of minimum alternative tax balance and we are still evaluating this situation where when we need to switch over from the normal tax to consistent tax rate and I think we will decide as we think that okay, it will be better to move to consistent rate. Once we adjust our minimum alternative tax amount, I think that it will be the right time to move to the new tax regime, it will be around 2022.

Moderator: Thank you. Ladies and gentlemen, due to time constraints we will be taking the last question. We take the question from the line of Amit Maheshwari from HDFC. Please go ahead.

Amit Maheshwari: Sir, I would like to understand what will be the total delivered cost for the company and at what lead distance we operate?

Management: About right now, delivered cost is about Rs. 1000.

Amit Maheshwari: So does it include clinker transfer cost also to the grinding unit?

Management: No, this is pure cement.

Amit Maheshwari: And what leads where we are operating sir?

Management: Around 368 or 370 you can say.

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. On behalf of Phillip Capital, I would like to thank the management of Heidelberg Cement for the call and also many thanks to the participants for joining the call. Thank you very much sir. Stanford, you may now conclude the call.

Management: Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Phillip Capital (India) Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.