



“HeidelbergCement Q1 FY19 Earnings Conference Call hosted by
PhillipCapital India Pvt. Ltd.”

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HEIDELBERGCEMENT



**MANAGEMENT: MR. JAMSHED NAVAL COOPER – MANAGING DIRECTOR
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MODERATOR: MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA)
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Moderator: Good day, ladies and gentlemen and welcome to the Q1FY19 Conference Call of HeidelbergCement 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Thank you, Margaret. Good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q1 FY'19 Conference Call for HeidelbergCement India Limited. On the call we have with us, Mr. Jamshed Naval Cooper – Managing Director and Mr. Anil Sharma – Chief Financial Officer.

I would like to mention on behalf of HeidelbergCement India Limited and its management, that certain statements that may be made or discussed on this conference call, maybe forward-looking statements relating to the 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 on the exchange a copy of the presentation, participants may download a copy of the presentation from the exchange or even the website of the company.

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 and thank you, everybody for joining this earnings call. Just run you through the numbers, which you already have with you, so coming to the results for us, if you look at it on the India cement industry basically how the growth has panned out, that itself gives us a robust framework that industry is now on the upswing and minor changes which happen in a month-to-month basis but on an overall basis industry is having a good sustainable growth what we are seeing in the last past few quarters.

There are always issues which is pertaining to Heidelberg's volume growth, that is why we have given this time on a Slide #5, there is a volume growth of 10% on the trailing 12-months which is there and if you look at it right from 6% growth in the September '16-17 quarter, right up-coming to 15% growth in the previous quarter. So, it has been a consistent growth trajectory that Heidelberg try to maintain, and it will be our endeavor to continue this trajectory going forward also. Again, very subjective, very clear that the demand is also directly related with the market conditions and the way the market is panning out I think this whole structure will continue and we will be able to support this.

As far as our Q1 FY19 results are concerned, the highlights: The EBITDA per ton has been almost Rs.942/ton and about 92% capacity utilization, this EBITDA margin is almost close to 22.2%. On premium category products which we are doing, we are about 40% year-on-year growth and we are a 100% blended company, so that gives us a one product position in the margin, but we are happy to see that the customers appreciate our stand on being one product company and supplying them a good quality product. That is why our customers stick with us.

On the ECB, we have paid Rs.75 crores and net debt remains to about Rs.337 crores which is a multiple of 0.7 net debt-to-EBITDA. On the WHR generation, we have increased our output on this by 17% from year-on-year basis...albeit a small quantum but Ammasandra we have been sourcing power from outside and we have been very happy and lucky to have good rate in that and we are able to improve our power cost.

On the income statement which is on Slide #7, total income has grown by 22%, EBITDA by 78% and profit after tax of almost 220% growth is there. On the volumes, 15% growth is there. On gross realization 8% and total cost we have been able to reduce by about 2%, so that is the thing going forward as always, I say that we are always on cost focus, so the focus on cost continues. Despite all the challenges, we have been able to reduce these costs and we hope to maintain this going forward also. On EBITDA per ton, we have grown by almost 55%. On the EBITDA bridge which is already in front of you, the major benefit has come to us from the GSR part from the market side and the growth rate as we said 55% multiple parameter whether it is raw material, power and fuel, of course, on the freight cost because of the processes and procedures of other diesel price increases, there has been a marginal increase, but the idea is that we are very focused on freight and we will continue to improve on this freight further going forward.

On Slide #9, 45% of our volume is by road and the thing is that there we have improved it by 3% year-on-year basis. You will wonder on one part, we have written that it is 42% coal, which is a growth of 12%. The only point to mention here is that we have created a flexibility in our operating system that if we find pet coke is going to be costly, we can switch over to fuel fast, we need not wait, we can do this switching over as fast as possible and this inherent capability we have built in our operations, so that gives us edge. We said about 11% of our sales is now happening in the premium category brand and that is growing by about 2% year-on-year basis. We have improved on our trade sale penetration also which now comes to 83%.

On the Solar Power, as I mentioned, in Karnataka, we have made good efforts and although it will be to the small quantum, but definitely whatever it is in power and fuel if you can save, it is always a long-term gain which comes to us and similar things which we are going to try out in the central zone also. While we make cement also, we are concurrent about how the society looks upon us and various regulatory authorities look upon us.

We are happy to say that on the CSR leadership, we got an award for our Damoh plant on Quality Education what we provide, then we got Golden Peacock Occupational Health and Safety

Reward for our Narsingharh plant and also a Certificate of Excellence for our Narsingharh plant on Skill Development and specially the World Youth Skill Program what we conducted.

Going forward outlook: The outlook is positive, and I say the cement industry growth is growing at 7%, if the GDP is growing now at 7, 7.5%, project it to grow by 2020, I think cement should start little looking better than 7.5%, I am expecting this going forward.

The elections which are there in front of us and you can see these in the media that amount of initiatives and inauguration and budget commitments which are being made at various state levels for the infrastructure it is there and U.P. has been announced recently with the number of projects. Central India I think growth should continue in the coming years.

Boost on government spending is there because of affordable housing and I think there is no stopping it and we are seeing the results of that.

Very interesting to point out here is while on one hand the government has become little tight on the loading pattern, which earlier used to be flexible, there could be overloading and things like that but having brought in measures together those thing, government has very soon realized that the number of trucks available in the market are not adequate to pull the load which is available to the market and which speaks volumes when one sees that the government relaxed the axle load to increase the load carrying capacity of the truck itself is a very-very proactive measure, I can see this is a proactive measure, whether others see it or not, and I said this is very business-oriented we are looking at it, that if you want your farmers and industry to grow, your transportation, logistics have to be given highest priority.

On monsoons, I think the overall average should be good going forward, minor aberrations which are here and there in different states; I think they should be overcome. The only concern which are there is the food prices increasing which is not in our control, but we can always alter our fuel mix and change our production cost and control our cost. Depreciation of rupee will lead to more of exports from this country. So, it has its advantages, it has its disadvantages.

Hardening of compliance norms which I see it is a very good measure. Over a period of time we are seeing after the demonetization and things got happened, I think people have got used to it and now the economy is back on its track and I think going forward with all the restrictions or clauses what have been brought into the GST and the e-way bill, I think we have got a more cleaner future for the country and I think the growth will be much more or visible on the paper rather than only in just a simple another parallel economy will start to looking downwards.

So, this is all from my side. I can answer your questions as you come up with. Thank you for that always.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We will take the first question from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Sir, my first question is on the realization increase on a sequential basis. Sir, you indicated that our value-added product mix has changed. Is it possible if you could give some indication on how the price increases happen on a sequential basis for the normal cement that we serve and the value-added premium cement that you are looking at? Secondly, the pricing differential between the trade and the non-trade segment.

Management: You have two questions. One is our value-added product. We have a consistent pricing policy between our value-added product and a normal cement. So, if a normal cement goes up, the difference is maintained with the value-added product which is the premium product. The difference which comes into the pocket of the company is close to about Rs.8 or Rs.9 of that and the product is positioned at an upper end in the market. So, it is relatively a higher price, but the company's benefit is close to Rs.8-10 a bag. Coming to the other question you asked was trade and non-trade, the price differentiation. Sometimes the difference can be about as low as Rs.100/t, so the non-trade price can be lower by Rs.100 on realization, sometimes even it is at par, it is depending on the market-to-market in which part of the country you are selling. The maximum it can go is about Rs.250/ton lower depending on how the market shapes because if you look at the last quarter the differences had come down because the demand was good and the non-trade component has come down significantly and the non-trade is mostly a filler, so if you are having a good trade demand, then you do not supply non-trade, that is what our company philosophy, I cannot say about the industry part, this is we play, non-trade is any time entry, any time excess business for us.

Ritesh Shah: Specific to the industry like we are in a very nice situation to have such a high percentage of trade sales at 83%. I was looking at the cost inflation number on a sequential basis which you also indicated that it has been moving up. So, if one had to make a case of a price growth, how should one get comfort that there could be price growth specifically on the non-trade side because I think for us it is 83-17, but the majority of the demand what we are seeing in the market is coming from the non-trade side. So, sir, to beat the cost inflation, how should one look at the price growth on the trade side and on the non-trade side?

Management: I cannot project non-trade because non-trade is very subjective field; it depends on the type of players who are competing. So, if you have C-Class player operating in a non-trade segment, then you will be prepared to sell at very low prices lower. So, that is where the industry takes a beating. We do not get into those type of areas, we leave it to people to battle it out and take the orders to share of that pie. So, it again as I said what is the discretion level of some of the companies operating in different regions and what is the pressure on them, how to sell their volumes, it will very much depend on that. But for us, the maximum is you can go down to about 250, beyond that if it happens, I am sorry, leave the business to somebody else to take it.

Ritesh Shah: Sir, is it possible to give the sales mix for our volumes state wise, our market share positioning?

Management: I would not be able to do that because that is against competition law.

Moderator: Thank you. We will take the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I had a couple of questions. Firstly, on the fuel mix, you mentioned the shift towards the coal. Can you give us some sense on what is the per kcal difference between let us say pet coke or the coal that you are using, and do you see this mix further moving towards coal in the next couple of quarters?

Management: I can give a figure on per CV basis, you can say that coal would be about Re.1, 1.15 per CV and against the pet coke now stands at about 1.45.

Management: Pet coke is expensive at this moment as compared to coal.

Gunjan Prithyani: But the availability of domestic coal is that not a challenge?

Management: You have to manage it, it is definitely a challenge, you have to source it from all possible ways and keep plant running.

Gunjan Prithyani: So, now you would be about 60% pet coke, do you think that this is coming down further in the next couple of quarters; do you have visibility on the mix further shifting towards coal?

Management: I think right now we will hold on to this. Again, as I said after monsoon the coal availability goes down in the mine. So, one has to wait and watch. But if the coal availability improves, then we will increase the coal component.

Gunjan Prithyani: How much would be the pet coke prices right now?

Management: Close to Rs.11,000 - 11,500 would be pet coke per ton.

Gunjan Prithyani: Secondly, on the outlook that you have shared of 7.5%, what would be your sense for Central India, do you see central India sees higher growth than this and what are the capacity commissioning that you see in your market in the next two to three years?

Management: Not much, it will be about 56, 57 million tons in Central India after one unit comes up which is in the Dhar area, so that is the only capacity addition which is coming, a little bit on the East side which will be JK, a minor some small grinding unit to here and there and Bara will come in. But I think this is okay, there is not something very big to bother about. The market is growing close to about 6% to 7% depending on I think if you should take Bihar also then we will improve on but if you look at only central India between that is UP and MP then it is close to about 6.5%, 7%.

Gunjan Prithyani: I understand East would be about 10% for you or it will be higher?

Management: We don't sell much in East.

- Gunjan Prithyani:** Just last question now that you are over 90% utilization have we taken any call on the debottlenecking or on incremental capacity expansion because given the way market growth is panning out there is clearly a capacity constrain that you guys will face?
- Management:** Yes, as I said what was still enough headroom for at least three years to go even if the market grows at 7% I have three years headroom to manage.
- Gunjan Prithyani:** Okay but you do not need to incur any CAPEX to increase?
- Management:** Very minor CAPEX last time also I had mentioned that little bit of debottlenecking it will not take very significant CAPEX small CAPEX we can manage.
- Moderator:** The next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** Sir just following up on the last question, so you said you have enough headroom for next three years, but I am sure as a company you will be planning for years beyond as well, so can you just talk about what is the strategy how the company will grow after three years?
- Management:** we do not have any enough space for growth in terms of existing unit. So, we will have to put up either Greenfield or we have to do some acquisition.
- Dhiresh Pathak:** There are some mines also undeveloped mines in some these locations where is that sir?
- Management:** It is in Gujarat.
- Dhiresh Pathak:** Can you talk about that what is the whether you have acquired the land and what are the results?
- Management:** At the moment it is at a nascent stage, so we are working on that.
- Dhiresh Pathak:** So, most likely it is fair to assume that you will have a Greenfield in Gujarat because you already have set up a mine
- Management:** Yes, probably going forward we should look at that.
- Dhiresh Pathak:** In next one year or so you will probably announce something in that line because it will take time as a Greenfield project it will take about two, three years to come up?
- Management:** Yes, let us see when the time comes up we will let the market know.
- Moderator:** The next question is from the line of Pratik Kumar from Antique Finance. Please go ahead.
- Pratik Kumar:** Sir my first question is on power and fuel cost, so you mentioned few reasons on reduction in power and fuel cost during the quarter, can you just elaborate that again and if these are like I understand WHR is more sustainable because you produce more volumes in current quarter, but

some of the other cost benefit which you had during current quarter are the sustainable on forward quarter?

Management: Power and fuel is one of the basic areas where we are improving and WHR definitely as you said seeing that it is bringing in the benefit which is coming there. As I said that you know you can reduce the power consumption to a certain level. So, it is right about 73-kilowatt hour per ton of clinker which is good enough at the moment and if we can reduce our power cost by sourcing cheap power from renewableenergy sources, I think that will help us to produce the cost further, but in terms of consumption parameters at the moment I do not foresee that this will go down below 71, 72 in terms of consumption part of the power is consumed. In terms of fuel, our new kiln is operating already at 2.93gigajoule to 2.94 gigajoule and the overall fuel is about 3 gigajoule to 3.1 gigajoule. So, here also there is not too much of possibility, little bit of possibility stays there where I am improving on power is in our grinding cost. So, we are working on that and we will try to work further on that.

Pratik Kumar: During the current quarter a major benefit also was also attributable to that, cheap power sourcing from renewable power sources so which will expectedly continue like coming quarter or we can also increase that percent?

Management: I think depends you know as I said I need to have minimum assurance from the grid also. I have to keep load there because otherwise in case if these renewable energy sources or for some reasons I am not able to supply then we need to keep our plant running. So, we have to balance it out it is not that I can switch over from one to the other and totally close down one. Reliability is always an issue for that.

Pratik Kumar: In the past two quarters has there been any increase in general premium segment sales for the industry also because some of the competition has also highlighted that in a significant manner like your presentation also highlighted in terms of growth that segment is witnessing so it is a higher price segment so generally that would be attributable to higher trade sales in general. So, any views on that?

Management: This is more of a positioning issue of the company. So, we are working on a different set of customer philosophy, psychology and this is where we are working to put this premium product, but cement was to be considered as an industrial product then these things do nothave a meaning. Another 20 years down the line probably cement will not be sold in bags so you have to prepare your industry for that. Going forward, it will be an industrial product, today it is the consumer product highly on consumer, but if you look at the developed market in international, cement is a DIY products when a bag cement is concerned.

Pratik Kumar: Sir regarding the prices how the price is shaping up in Q2 versus what they are like in Q1, Q1 already have like good increase so how are the prices now Q1 exit?

Management: Right now, flattish I would say right now at this stage because monsoons are there everywhere, so the demand has taken a beating a little bit then there was a transport strike, so the material

was not moving. So, we took advantage also of those strike when that compare with a material was shortage we could sustain the prices. So, it always balances out sometimes some natural forces again so from other one come to your rescue and help. So, I think right now it is a very mixed bag of reaction to this. I do not see that if the demand is going to be the way it is I do not see prices staying where they are they should improve a little bit. But as I said there is a limit to a price increase you can go. The moment you go beyond a point then you find that your market is flooded with other brands also.

Pratik Kumar: And sir in regarding your debt on the balance sheet you mentioned we have paid 75 crores during Q1 and we are looking to pay another 75 crores in remaining years is that right?

Management: That is right. In this ongoing quarter

Moderator: The next question is from the line of Mudit Agarwal from India Nivesh Securities. Please go ahead.

Mudit Agarwal: Sir I want to know that there is any shutdown in the Q1 FY19?

Management: Yes, there is.

Mudit Agarwal: For what line there is a shutdown and for what period?

Management: These are continuous maintenance issue which are regular periodic maintenance.

Mudit Agarwal: It is not kind of proper shutdown for the lines?

Management: No-no, there is a proper shutdown means we have a plan for the whole year, we plan out all our one-by-one mills, and we take a periodic shutdown, revamp them and let them back to shift, so that they can run thereafter for 330-days.

Mudit Agarwal: Sir, what is the cost for this shutdown?

Management: Generally, we incur plant shutdown of Rs.4 to 5 crores, but these are the expenditure that every quarter you incur, corresponding quarter of last year also you see this kind of cost incurred at time.

Moderator: Thank you. The next question is from the line of Dhires Pathak from Goldman Sachs. Please go ahead.

Dhires Pathak: Sir, how much have we invested in the Gujarat mine so far?

Management: Nothing.

Dhires Pathak: From a supply point of view and from logistics point of view, which clinker cluster is most likely to supply to the central region in case of a shortage of clinker?

- Management:** Very difficult to say, today a clinker is today travelling almost 900 plus Kms, I am seeing many of them, there is no barrier as such to transportation of clinker today.
- Dhires Pathak:** From a supply point of view because some other markets are also short, right, north is also short?
- Management:** It may come only from south.
- Dhires Pathak:** So, from Gulbarga versus Nalgonda which is better economics?
- Management:** It depends, from AP and Telangana it will come, if you look at it from here the Wadi cluster will be more beneficial via Maharashtra and the western parts of MP.
- Dhires Pathak:** Chhattisgarh is also in clinker, right?
- Management:** It can. Today, if we are selling cement there at Rs.200 or Rs.220 a bag, it makes more sense to sell cement anywhere else in the world.
- Dhires Pathak:** Do you have some industry numbers in terms of Chhattisgarh cluster clinker capacity and utilization?
- Management:** I do not have them right away.
- Moderator:** The next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.
- Akshit Gandhi:** Just one question from my side. In your core markets, over the next two years, what kind of clinker or cement capacities coming in, in aggregate, if you could just help us?
- Management:** I mentioned about it, about 4 mt.
- Akshit Gandhi:** Supporting clinker is also coming in or it is already there?
- Management:** Including clinker only.
- Akshit Gandhi:** So, the 4 mt is an integrated plant, right?
- Management:** That is right.
- Moderator:** The next question is from the line of Romil Jain from JM Financial, please go ahead.
- Romil Jain:** In the view of the upcoming elections, usually what is the demand conditions before that and in this case, where are we seeing the demand coming up from, whether it is affordable housing, or anything can throw some color on that?
- Management:** Most of the demand is with infrastructure projects are there. As the agricultural production has been very good, retention price what government has given, sustainable price what they have

given for all the food grains is very good, so the farmer has got good amount of money today, the rural India has got good amount of money and that is going to keep driving the IHB segment which is close to 59, 60% of the sales volumes are coming out of the IHB segment, about 25% is coming out of the infrastructure and something then from the commercial segment is about 15%. So, these are the segments from where the demand will keep coming and I do not see there is going to be any relenting for coming at least one-and-a-half years-to-two years I would say.

Romil Jain: So, in our locations where we are servicing, we are seeing good demand on the affordable housing side also apart from the infrastructure definitely?

Management: That is right, I would say in UP it is much more on relative basis.

Romil Jain: Sir, in terms of the pet coke and coal prices, so last one year we have seen the prices kind of going up and definitely we have adjusted quite well in terms of our flexibility to use pet coke or coal prices, but from hereon can you give any sense on whether the prices can sustain over here or start coming down, how they can move?

Management: I think the pet coke has been having its blow hot, blow cold sort of a situation and last week there was a little bit of dampening in pet coke prices. So, one really cannot say how the supply situations and how things will move, but more or less if the food prices are going to be remaining at this price, I do not think that pet coke will go up.

Romil Jain: On the coal side sir?

Management: Coal side also it will remain more or less the same.

Romil Jain: On the realization side, so we have seen a good pick up. In the industry also the competition has seen price hikes in this quarter and maybe exit wise?

Management: I think if the market goes up everybody takes a share of their pie.

Moderator: Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund, please go ahead.

Rakesh Vyas: A few questions from my side; first, on the road volume mix, so it has increased to 45%, so was this a deliberate strategy or is it because of lack of rake availability if you can just highlight and how is the rake availability now?

Management: Your idea is the team has to ensure that the logistic cost remains at the lowest possible. Again, the lowest possible does not mean that today if rail is available at a cheaper price, you have to do 100% by rail because there is a limitation to the resource with the railway in terms of rolling stock. What we have seen in May and June, mostly we found that there was severe shortage of rake, not rolling stock, but more of do with engine. So, the railways were loading the wagon, but

they were not able to deliver to the destination. Lot of times the material was on the tracks available but could not get delivered to the consuming centers.

Rakesh Vyas: So, this 45% will it come down?

Management: It will remain more or less same.

Rakesh Vyas: Has there been any change in the lead distance for us?

Management: Lead distance is very much flattish for us at the moment.

Rakesh Vyas: Sir, if you can just also highlight what was the proportion of the premium sales in last full year?

Management: Last year I think it was 9% of volume. We have put slide presentation also, you see in the slide #9.

Rakesh Vyas: Lastly, how has the pet coke price changed quarter-on-quarter?

Management: When we compare our June quarter pet coke price it has increased by around 5% as compared to March quarter.

Rakesh Vyas: So, ideally even in the fourth quarter, the coal price on per kcal basis would have been cheaper, right?

Management: Coal is cheaper.

Rakesh Vyas: What was our proportion of pet coke in that particular quarter?

Management: It was around 65 or something.

Moderator: The next question is from the line of Jaspreet Singh Arora from Systematix Shares, please go ahead.

Jaspreet Singh Arora: On the power and fuel, the swing that you have given Rs.33/ton hike YoY, is it possible to break it up between the power and fuel separately because I understand power is saved and fuel it would have gone up just to understand the sustainability part of it?

Management: On the power side, on year-on-year basis it is close to 7.4% down. Fuel has gone up by about 4.4%.

Jaspreet Singh Arora: You mentioned about 25% from infra, 15% from commercial and IHBS you were mentioning, how much sir?

Management: About close to 60%.

- Jaspreet Singh Arora:** Just trying to understand the trend in the infrastructure versus non-infrastructure, it looks like most parts of India is the infra which is driving much of the growth and therefore we see the volumes coming in and the volatility in cement prices, is it possible to comment on our regions because we seem to be pretty good in terms of the realizations and the volatility is not as high as in other parts of India, so anything specific or trends that you would highlight?
- Management:** I think the market is having enough of material I would say just matching the demand. So, that is why the behavior of prices are little less volatile compared to other parts of the country, and more also there is a non-trade there are some players who will take away the non-trade share of the case and we are happy to give it to them.
- Jaspreet Singh Arora:** Because our growth has been closer to 10% which is kind of exceeding. Is it possible to get some data of the regions that we supply in terms of our regional growth rates versus, just to understand the market share please?
- Management:** Central India as I said it has grown between 6% and 7% in the previous quarter.
- Jaspreet Singh Arora:** Any number you would have for the full year FY' 18 sir?
- Management:** Between 4% and 5%.
- Moderator:** The next question is from the line of Vineet Maloo from Birla Sun Life, please go ahead.
- Vineet Maloo:** Just wanted to know, sir, where are you sourcing your coal from – is it e-auction or linkages, can you throw some light?
- Management:** It is the linkage coal so far and that we will continue for some more months and going forward we are going for e-auction.
- Vineet Maloo:** But our e-auction prices as comparative as linkage coal because the difference that you highlighted between pet coke and coal, how would e-auction coal change the dynamics?
- Management:** Minor cost will go up about 5%, 10% depending on what is the availability of coal, what is being put on the block for auctioning.
- Vineet Maloo:** Typically, we understand that e-auction coal is anywhere between 25-30% higher than some other linkage, right?
- Management:** Again, upon the grade of coal what you are buying, how you are managing your fuel mix, it very much depends on that, so, you can always go for coal which others are not buying and tweak your processes and improve your cost.
- Vineet Maloo:** So, it is still possible for your coal mix to continue to go up if current pet coke price sustained?
- Management:** Yes, sure.

- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking, please go ahead.
- Rajesh Ravi:** Sir, just wanted to understand your lead distance you mentioned, they are flattish. So, could you quantify like what would be that number be?
- Management:** The lead distance would be around 365 Kms.
- Rajesh Ravi:** It has been fairly stable over the last few quarters. Is that a fair understanding?
- Management:** It was about minor reduction, but it was little higher, but it has come down by 2-3 Kms.
- Moderator:** The next question is from the line of Saurabh Datta from GBC, please go ahead.
- Saurabh Dutta:** Actually, my question is that you have improved your bottom line also and you have improved your sales. What is the exact reason for increase in sales price or in volume also?
- Management:** In volume also, there is an increase by about 15%, on price it is close to 8.2%.
- Saurabh Dutta:** In future, do you want to continue with your pet coke or you will go for linkage and e-auction only?
- Management:** As I said, on the optimal availability, depending how coal is available, the answer to your question is very simple, if coal is cheaper you should use 100% coal today, not touch upon fly ash, but then not touch upon the pet coke, but then there are **other factors** which we look at, by using pet coke we are able to consume low-grade limestone and extend the life of our mine. It is not so simple that when I said that I am using a pet coke of 1.45 per CV, it means that I am incurring a very high cost of pet coke, but I am also taking some advantage in terms of my using of resources, one is to balance these, I think this is the process driven out, the company which possess the part we have to factor those cost also.
- Saurabh Dutta:** Last question is supposed if you are asked that right now you have money, you will go for acquisition or you will go for expansion for Greenfield project?
- Management:** I do not have an answer for this, but yes, if it is available for an expansion, I will take an acquisition first rather than go for a Greenfield.
- Saurabh Dutta:** Is there any specific reason?
- Management:** Because we have the capabilities to turn around company.
- Moderator:** The next question is from the line of Sanjay Nandi from Ratnabali Investments, please go ahead.
- Sanjay Nandi:** Like recently the government has increased the axle load for the trucks. So, how this is going to benefit the industry as a whole on the freight cost front?

- Management:** It is just a 25% increase, there would be minor changes benefit which will come to the company, then it will be shared between the transporters and us, some benefit whatever it comes about we will see that. This is under process, it will come by end of this month.
- Sanjay Nandi:** What will be the quantum in there...savings in that cost per ton basis because of this movement?
- Management:** It'll be not much, let's see.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.
- Dhiral Shah:** Sir, I just wanted to know sir what is the overall cement capacity in Central India?
- Management:** Close to about 53 or 54 mt.
- Dhiral Shah:** Secondly, sir, how much power we are sourcing from the waste heat recovery?
- Management:** Right now, waste heat is about 20% of our power.
- Dhiral Shah:** Is it going to increase from here on?
- Management:** Not possible because we are running right now at the optimum, minor changes will come in depending on how the kilns run, so there is definitely an upside there, we are working to achieve the highest potential out there.
- Dhiral Shah:** Sir, is there any view on increasing your premium cement sales?
- Management:** This is consistently increasing. I would say there is no special strategy for it. By putting a pressure, we are not going to dilute our premium in the market. So, it will keep going by word of mouth and little bit of consumer preference as it comes in.
- Dhiral Shah:** Sir, is this kind of EBITDA per ton sustainable even in coming quarters?
- Management:** We have been delivering and we will do our best.
- Moderator:** The next question is from line of Dhires Pathak from Goldman Sachs, please go ahead.
- Dhires Pathak:** Sir, what is the current reserve life of the limestone mine that we have?
- Management:** Close to about 35-years.
- Dhires Pathak:** Can you just explain the mechanism that we have linkage coal, but it will go away, so why it will not renew, how does it work, can you just explain the linkage mechanism of Coal India?

- Management:** This is the very old process, it is now being knocked off by the government, Coal India does not want linkages to continue, under the economy, the resources have, we have got the highest price possible, and so this is history now. People who live with linkage coal, those days are getting over.
- Dhiresh Pathak:** So, in non-power plant, there will be no linkage coal, is that the right way to think?
- Management:** That is right.
- Dhiresh Pathak:** This linkage goes away in which quarter?
- Management:** Anyway, it is over by now.
- Dhiresh Pathak:** Will it be fair to say that there will not be much difference adjusted for the grade, there should not be much difference between the imported coal and e-auction coal prices adjusted for the grade and the logistics, so it should move in tandem, right?
- Management:** Yes, normally it moves in tandem, but sometimes for people who are into land locked areas for them the cost of imported coal goes up.
- Dhiresh Pathak:** So, when we participate in e-auction, do we have close by Coal India mines where it makes sense for them where it is advantageous for us to adjust it for our lower freight cost, is it advantageous for us to get that e-auction rather than imported coal?
- Management:** Yes, what is happening, wherever we are right now having linkages, the same mines are going to offer us auction coal also. Sources may change a little bit here, the lead may increase in some months, it may reduce, but again we are not bothered about lead and things like that, we are bothered about our landed cost of coal and the grade and the calorific value what we deliver. So, once we see that on those basis, we make our strategies what type of grade of coal will be auctioned, how much quantity and then we make our plans.
- Dhiresh Pathak:** If you have the numbers on a kcal adjusted basis, what is the difference between landed cost of imported coal and landed cost of e-auction coal for you right now?
- Management:** Right now, we are not importing, so I cannot tell you anything on that.
- Dhiresh Pathak:** For e-auction coal, what is the landed cost?
- Management:** We have not entered a single e-auction so far.
- Moderator:** Thank you. The next question is from the line of Milind Raginwar from Nirmal Bang. Please go ahead.
- Milind Raginwar:** In the total power usage, our WHR contribution is 20% is what you said, right, is it fair to assume entire chunk we are getting it from the grid?

- Management:** As I said little bit in Ammasandra we are getting renewable sources, but there is a small component, but yes, 75% of power requirement is sourced from the grid.
- Milind Raginwar:** So, to that extent that question, the power cost saving that is about 7.4%, is it because of the WHR contribution on year-on-year basis has increased or is it the cost of procuring it from the grid has gone down or is it...?
- Management:** It is average basket.
- Milind Raginwar:** What would be the WHR contribution last year the same quarter 1QFY18?
- Management:** Actually, our price remains same, the benefit is coming only on account of waste heat recovery power because that is virtually available and whatever power we are getting from waste heat recovery, that saving is coming on account of 7.5% in total cost of power.
- Milind Raginwar:** So, essentially the 20% contribution that came from WHR is what is leading to the reduction in the overall cost?
- Management:** That is right because WHR generation also has increased, so 20% is currently the weightage in the current quarter, which was earlier lower because we are continually ramping up our WHR power generation.
- Milind Raginwar:** The second question is sir, regarding other expenditure. You said that the maintenance shutdowns have happened, in the last 1Q also the maintenance shutdown happened. Our other expenditure is largely flattish. So, anything that we have done in terms of cost savings because our volumes are going up at about 15%, so any specific cost that we have seen going down for keeping this other expenditure flattish?
- Management:** In other expenditure, the small amount is on account of the staff cost and other is other expenditure which is more or less similar on same line which we incurred last year. The freight and forwarding is separate line item so most probably other expenditure are nature of fixed cost which is similar and we have tried to optimize our fixed cost.
- Milind Raginwar:** Sir, post repayment of the debt that we did in the first quarter, what would be the outstanding debt that we have?
- Management:** The gross debt is Rs.610 and net is Rs.337
- Milind Raginwar:** Because we are doing repayments and our interest cost has inched up. So, any specific reason for that?
- Management:** We have repaid Rs.75 crores in last quarter. Interest cost not increased, it is more or less flattish, there is one reason because in Uttar Pradesh there was one legal case decided by the court that is for entry tax and at the same time they have demanded some interest amount and it is the industry wide... all the cement industry rather all the manufacturing and traders working in Uttar

Pradesh, they will have the impact on account of interest, so government has started demanding it and we have taken some provision in finance charges during this quarter.

Milind Raginwar:

Will you be able to quantify that?

Management:

That increase is only on that account, otherwise the interest is almost flat as compared to last year.

Moderator:

The next question is from the line of Abhishek Jain from Vallum Capital, please go ahead.

Abhishek Jain:

Sir, in case of Brownfield expansion, at which cost per ton you are comfortable with and at which regions you are looking for just in case of Brownfield expansion? To set up like 1 mt of Brownfield expansion, you will be needing at least Rs.600, 700 crores. So, is it the right approximation or what are your views upon the same?

Management:

Major cost of a project is on the land cost. Again also, the geography, if you are taking if it is a very long region and very difficult terrain, the cost of CAPEX project goes up, but I think normally a good plant you can put up at about including on a reasonable basis I would say would be about \$110 per ton in today's times, Rs.750 crores per mt.

Abhishek Jain:

So, sir, if it is the case of Brownfield expansion, you will take additional debt for the same or your free cash flow would you be easily able to sustain that?

Management:

Free cash flow, it is not going to sustain that, we will have to definitely draw some money.

Abhishek Jain:

Which regions you will be looking for the same?

Management:

As I said, any market preferably in Central India and after that any market is okay for us.

Moderator:

Thank you. The next question is from line of Navin Sahadev from Edelweiss Securities, please go ahead.

Navin Sahadev:

Sir, my first question in the question did we receive any consultancy charges towards the management bandwidth which goes towards managing Zuari business?

Management:

Navin, we have started this thing from last year, so last year also it was there.

Navin Sahadev:

Is it a quarterly payment, is it a yearly lump sum sort of a payment and if you can quantify that?

Management:

It is accrual accounting, so whether you receive money or not, but ultimately it goes into your P&L, so it is very much their last quarter as well as the corresponding quarter of last year, so both figures are comparable.

Navin Sahadev: My question basically was that if you could just quantify it, it is a percentage to sales, is there a formula driven or is it a lump sum amount that just trying to get understanding as to what is the potential of this income?

Management: Definitely, it is not the sales decision, it is formula-driven, and Navin, my request will be that okay, please wait for the annual report, it is coming I think very shortly and there you will get this detail of the transaction.

Navin Sahadev: My second question basically was given these relaxed truck axle norms, what kind of benefit on a per tonnage basis, just trying to understand how much cost savings on a per ton basis can we try and pencil in?

Management: I think freight should come down a little. As of now, this is what is going to happen because it is not really changing the dynamics of the logistics industry, but, yes, at least 25% movement will be go up, and if you can move out 25% more rather than become stingy about this part and you evacuate more, I think your EBITDA per ton is significantly higher than this, so one should be weighing the pros and cons of arguing with the transporters and getting them into meeting them now on this rather than looking at improvements of efficiency and then later on talk about it.

Navin Sahadev: Since you are so hands on, on the market, in the central region, at what price point do other players as you said like price increase is possible only to a limit because beyond which you start seeing a lot of material flowing in. So, at what price point does this other company start coming in and where is it currently? I am just trying to understand the risk to the current prices.

Management: If once it crosses the threshold of Rs.300, then there is you invite material from outside.

Navin Sahadev: In the central region let us say Lucknow if I were to take as a reference point?

Management: That is right, so more or less average I am saying, Rs.300 is the cutoff point where if you go, push them into Rs.290 then they go away.

Navin Sahadev: So, currently what kind of pricing are we seeing?

Management: Right now it is close to Rs.340 plus.

Navin Sahadev: So, there is already a lot of material I am assuming that is coming in from other regions, is that a fair assumption?

Management: That is right.

Navin Sahadev: Despite that prices are holding up?

Management: Because again logistics is an issue, even if you want to bring it, you cannot bring in material because of railways limitations, because of transport availability and things like that, so...

Navin Sahadev: So, is it safe to assume that at least in that market cannot see a significant increase from here on, is that a safe conclusion?

Management: You can take it, as I said, there is no stopping you, tomorrow if the market goes berserk, we follow very strong ears to the ground, the moment we see the thump in it, hear the noise on the floor, we do not miss an opportunity to take our share.

Moderator: Thank you. The next question is from the line of Farah Khare, an individual investor, please go ahead.

Farah Khare: Sir, my question is do we see any opportunity in the agriculture sector or irrigation sector for the cement industry and for us? Last week there was a big irrigation project was awarded in Mohanpura district for irrigation and there are many-more coming in central region command area development and various channel developments.

Management: Again, it is under segment which is very highly competitive segment, okay. Any business which is in the infrastructure, it is a highly competitive and it is on the low L1, which really does not fit into our philosophy of schemes. That is why again those projects demand OPC and we do not manufacture OPC.

Farah Khare: Sir, last question on the EBIT margin. Do we think reached our peak or EBIT margins will keep getting better as the volumes will keep on going, any improvement we see as we move along?

Management: Hereafter if the cost remaining the same and if the prices goes up, EBIT margin will go up.

Moderator: Due to time constraints, we will take one last question, which is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

Dhiresh Pathak: Sir, this might be a repeat question, you might have answered in other previous calls, like what is the thought process in not merging the Zuari assets with the listed company?

Management: As of now there is no value addition to the shareholders, I do not see any benefit coming out of it.

Dhiresh Pathak: When you acquire, you said you are interested in acquisition, the same thing will be applicable to any asset that you require, right?

Management: We will have to see. If we acquire it, mostly it will be in HeidelbergCement India, then we will have to merge it, , but right now that was purchased, Zuari came to us as a separate deal, so that is why there is no sense of merging at the moment, but going forward if the laws remain the same, we will look at any new acquisition will come under, has to be in one of the companies, you cannot keep making separate companies for that.

Dhiresh Pathak: I am just thinking that you said you want to do acquisition but from that lens Zuari is not a good acquisition?

Management: Zuari is not into merging, basically Zuari is acquisition which is a separate standalone, in its own way good, but by merging it, by combining the two you are not getting any value.

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 PhillipCapital (India) Private Limited, I would like to thank the management of HeidelbergCement India Limited for the call and also many thanks to the participants for joining the call. Thank you very much sir. You may now conclude the call, Margaret. Thank you very much.

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