



“HeidelbergCement India Q3FY16 Earnings
Conference Call”

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HEIDELBERGCEMENT



**MANAGEMENT: MR. JAMSHED NAVAL COOPER – CEO & MD,
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**MODERATOR: MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA)
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Moderator: Good day ladies and gentlemen, and welcome to the HeidelbergCement India Q3 FY 16 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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 sir.

Vaibhav Agarwal: Thank you. On behalf of PhillipCapital (India) Private Limited I welcome you to the Q3 FY16 conference call of HeidelbergCement India Limited. On the call we have with us Mr. Jamshed Naval Cooper – CEO & Managing Director and Mr. Anil Sharma – Chief Financial Officer.

I would like to mention on behalf of HeidelbergCement India Limited and its management that certain statements that may be made or discussed on this conference call may be forward-looking statements relating to the future development and economic performance. These statements may be subjected to a number of risks, uncertainties, and other important factors which may cause the actual developments and results to differ materially from the statements made. HeidelbergCement India Limited and the management of the company assumes no obligation to update or alter these forward-looking statements whether as a result of new information or future events or otherwise. Also HeidelbergCement India Limited has uploaded a presentation on the website and the exchange. Participants may download the presentation from there. I now hand over the floor to the management for opening remarks which will be followed by an interactive Q&A. Thank you and over to you sir.

Management: Thank you Vaibhav and thank you everybody for participating in this Earnings Call. You would have seen the presentation which we have uploaded.

To run in a short manner – On a quarter-on-quarter basis there has been an improvement in volumes but from a year-on-year basis it is almost flat. On gross realizations there is a reduction on a year-on-year basis about 1.2% mainly because of the market conditions. The market has remained a little soft so the realizations were a little low.

On the freight element you would see an increase but before you ask these questions I would say that during the previous quarter on year-on-year basis we had a little more incentive which we had earned from the railways, so that had brought down our freight low. But this quarter it is not there. So that is why the increase is visible to you.

On to the cost development side – the company's endeavor to keep continuously working on costs and reduce costs to become a little better. So the activities what the company had performed has yielded results somewhat supported by some diesel price reduction, fuel cost reduction. So all those things have added the benefit to the company's results. On a year-on-year basis it is a reduction of 5.1% and on quarter-on-quarter basis it is a 6.3% reduction on the cost side.

On the EBITDA side almost it is flat compared to on a year-on-year basis. And on the EBITDA percentage wise basis if I look at it, it has a marginal improvement from about 15% to 15.6%. This is what the result is.

As far as waste heat there will be some questions from your side. Waste heat trial runs have started and once the things stabilize then we will declare commercial production on this. On the fly ash silo which were two CAPEX items that is progressing and hopefully by end of this quarter or beginning next quarter we may be able to commence our fly ash silo operation also. So this is from my side and any questions, you are most welcome to ask. Thank you.

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

Nitesh Jain: Sir my question is on the cement pricing situation in Central India, so basically we have seen very low cement prices in North India and I guess that there may be a possibility that the North guys are dumping material in the Western MP or some parts of the Central India. So have you witnessed this and has there been any pressure on the Central India prices because of the North decline?

Management: Yes, there has been and that is why you could see the realizations coming down so the price pressures were there because demand was not to the expectation and it remained a little soft. So a little price pressure was there.

Nitesh Jain: And this is continuing even now like even in the January-March quarter.

Management: January little bit but I think now the demand is appearing to get better because February and March are the months when we should expect some improvement in prices so we are hoping that things will start moving in the positive direction.

Nitesh Jain: Okay. Sir can share like the approximate retail selling price of cement in key states where we service like in Madhya Pradesh, Bihar or Odisha?

Management: I will give you a ballpark figure, for if you consider Bhopal, Bhopal price is somewhere around in the range of about 270 to 280 and in Lucknow it is also around the same price.

Nitesh Jain: And in Chhattisgarh?

Management: Chhattisgarh we are not there, so I would not be able to comment on that.

Nitesh Jain: And before this cement price declined in North like Bhopal or Lucknow 270-280, what was the price level? Was it like 290-300?

Management: Yes, around (+300).

Moderator: Next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir are you seeing inflow of cement from other markets like North players or east players into the central market?

Management: I think Nitesh asked the same question. An inflow from North is there, from Rajasthan cluster yes there is an inflow. So it is there.

Madan Gopal: We see the central market as a market not seeing much of a capacity and in case if the growth comes back it looks an attractive market but are you really worried that players might make inroads and whatever excess is there might come into this when the growth comes to the market?

Management: Are you saying that growth will come to Central India? Growth will normally come through across all the states. So every state will get that sort of demand spurt and people would prefer to sell in their own home markets rather than traveling to distance. Of course they can definitely travel to distance but the opportunity lies on both the sides. So the central cluster players can also go on and sell in those markets.

Madan Gopal: In your opinion do they make a positive EBITDA from this or they are just pushing the volumes to meet their fixed -

Management: I do not think at these prices you can make any positive EBITDA coming to Central India from Rajasthan, at least if you are traveling MP by Madhya Pradesh and Uttar Pradesh by more than 200 km then I do not think you make money.

Moderator: Next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Given the pressure and the inflow from Rajasthan cluster and all, you know you have managed this quarter pretty well with a realization drop of just about 1.2% sequentially. So could you throw some light on this?

Management: See, we have tried to improve our positioning also to some extent. And we tried to switch on our supplies to more profitable markets and we do modulate this as and when the market changes. So we are able to manage.

Raj Gandhi: And sir because as we speak prices have dropped even further, so it is possible for you to just give some update in the sense where would you be currently versus the Q3 average?

Management: In terms of realization?

Raj Gandhi: Yes sir.

Management: It would be about almost same I would say.

Raj Gandhi: And sir this pet coke cost that you mentioned, you are expecting a huge benefit to come in from this quarter since domestic players have cut prices, have you realized the same?

Management: Yes, we have realized, definitely.

Raj Gandhi: And sir because if I were to look at raw material plus power & fuel together because of that inventory changes and all, if I were to look at it on a together combined basis it has hardly fallen by about Rs. 10 per ton, even adjusted for DMF and all which would have taken in RM this quarter. The fall on an aggregate basis does not seem to be that large in that sense. So in fact on a YoY basis also you are almost still flat despite only DMF and DMF being one important component which has gone up.

Management: Yes, power cost has gone a little up.

Raj Gandhi: Any particular reason for that?

Management: Power cost is linked to the grid, we cannot control.

Raj Gandhi: So there is some specific duty or something?

Management: They increased the power tariff, that is all.

Raj Gandhi: When was this done sir?

Management: Actually in Madhya Pradesh the government has increased power rate by 10% from 1st June, 2015 and there was increase in the power rate in UP also from 1st July which is around 5.7%.

Raj Gandhi: So in recent 4-5 months nothing much. In recent month, after this hike nothing else has happened, right?

Management: But if you compare here from September quarter, that power and fuel has risen by around Rs. 100 per ton.

Raj Gandhi: But sir as I am adjusting on a like to like basis the raw material has increased quite a bit. So I am just totaling up both to negate the inventory movement because raw material sequentially has risen quite a bit in that sense by more than about Rs. 120 per ton.

Management: Yes but at the same time from the September to December, the peak development surcharge from the railway that also has come. So even in September debt impact in the raw material also will come because we bring our raw material by rail also. So the freight cost increases, although there is no increase because July to September you always get the discount from the railways. October they start to speak deployment surcharge and which comes to in the December quarter.

Raj Gandhi: And sir just given from what we understand most of the domestic players like Reliance and all have cut the price throughout the quarter and large part of the cut came at the end of the quarter. So do you expect further savings to come through or just mark to market. If you could

just give what was the average landed pet coke cost for the quarter on a reported basis and what is the current spot price?

Management: Current spot price is around Rs. 4000 per ton. We purchase all the domestic supply only.

Raj Gandhi: And just what would be the average cost of pet coke which was consumed during this quarter on a reported basis if you could help with that

Management: Percentage wise pet coke we are using about 60%.

Raj Gandhi: No, no let us say for the pet coke that we used this quarter the average basic cost would be about Rs. 5000 or where would that be?

Management: It varies because it started reducing so some benefit has come in the month of December, some has come in the month of November.

Raj Gandhi: Sir would it be possible to give an average for the quarter?

Management: The figure right now is not with us but the average cost at this moment, basic cost is Rs. 4000/

Moderator: The next question is from the line of J Radakrishnan from IIFL. Please go ahead.

J Radakrishnan: Just thought of seeking, in continuation of the previous question what is the power cost we are having from state grid now?

Management: About average for us is Rs. 7.

J Radakrishnan: Sir is there any thoughts on putting captive power plant? Do you think if we are having our own captive power plant including a depreciation of interest our cost will be more than 7 going forward?

Management: See according to me right now we are just putting first the WHR, so that will help us. But at the moment we do not have any intentions of putting our own additional captive power plant.

J Radakrishnan: Sir if funds are available, may be in the future if profitability increasing or if the power cost is staying at the current level, do you think having our own captive power plant the rates could be higher than this?

Management: We will look at open access as go forward first.

J Radakrishnan: What may be the rates in open access at present sir?

Management: It is to be negotiated between the buyer and the seller.

J Radakrishnan: So as of now there is no thought process towards putting captive power plant?

Management: At the moment, no.

Moderator: Next question is from the line of Prathik Kumar from Antique Stock Broking. Please go ahead.

Prathik Kumar: Sir my first question is with regards to MP market, so for the past 2-3 quarters we have been hearing about the sand mining issue in the region. So has there been any change in the past quarter or during 4Q with regards to the same?

Management: Last full year almost six months of the year there was the issue with land mining but it is an on and off situation. Sometimes it happens, sometimes all of a sudden it stops. So it is very difficult to project when things can change and when the government will stop it.

Prathik Kumar: And sir so that significantly hurt the demand I think at least Q2.

Management: The demand is not alone determined by sand but also by agriculture because there is sometimes you have to look at the rainfall also, the agriculture crop also because it is more of these markets are rural in nature so the purchasing power of the customer also drives the housing demand.

Prathik Kumar: And with respect to the UP market are we seeing any election led spending in the market and on infra or the housing side?

Management: It is there. In has been since last two months seen some spending happening.

Prathik Kumar: Okay, so it is related to the upcoming -

Management: Whether it is connected with the elections I am not able to say but yes, we are seeing some tenders coming here and there.

Prathik Kumar: But sir it is in which sector, I mean the infra side or -

Management: It is in infra also there is housing **Awaas, Vishwas 18.03** and all those tenders keep coming in. Now there are some inquiries also for some small road projects here and there.

Prathik Kumar: And sir we had higher taxes during the quarter, any specific reason for that?

Management: It is I think around 35%. You are talking about income tax rate?

Prathik Kumar: Yes, income taxes.

Management: It is around 35%.

Prathik Kumar: Okay, on absolute basis around Rs. 7 crores, so on a percentage basis it comes slightly higher.

- Management:** It depends because in the quarter, in the year when you calculate your tax rate depends upon deferred tax assets and deferred tax liability. At the same time, you are not getting benefit of your CSR expenses. So there are some permanent differences, some temporary differences. So theoretically we can say that tax rate is 34% but sometimes the effective rate is lower, sometimes effective rate is higher. So we will find that some quarters the effective rate is even lower than 34% also. So depending upon temporary and permanent difference it may change.
- Moderator:** The next question is from the line of Amol Kotak from Principal Mutual Fund. Please go ahead.
- Amol Kotak:** Can you just tell me when would these projects start, this fly ash silo as well as the waste heat?
- Management:** Fly ash silo is around second quarter, that is the first quarter of next financial year.
- Amol Kotak:** Okay so Q1 FY17?
- Management:** Yes.
- Amol Kotak:** And the waste heat?
- Management:** We will see that, depending on the stabilization may be in this quarter.
- Amol Kotak:** And what sort of benefits you would get from these projects in terms of financial savings?
- Management:** Waste heat recovery saving is around ranging from Rs. 60-70 per ton of cement.
- Amol Kotak:** And sir I would like to know your CAPEX plans for current year as well as next year?
- Management:** There is nothing major CAPEX other than this fly ash silo and that is all. Sustaining CAPEX will be there.
- Amol Kotak:** And just one last question only, status of the parent merger and any impact on the Indian operations?
- Management:** No, there is nothing as such on there right now.
- Moderator:** Next question is from the line of Sumangal Nevatia from Macquarie. Please go ahead.
- Sumangal Nevatia:** Sir just one or two questions left. We are hearing January has witnessed strong demand across the country so if you can just share some details as to how demand is panning out in January-February?
- Management:** I do not think there is a very strong pull in the market for January. Yes, it has been almost – definitely for some people it has been better than December in the month of December but more or less I would say on an All-India basis it should not be better than December.

- Sumangal Nevatia:** Sir just a few bookkeeping question, if you can share your railroad mix in the current quarter.
- Management:** About 50-50.
- Sumangal Nevatia:** And in the fuel mix apart from 60% pet coke?
- Management:** It is coal.
- Sumangal Nevatia:** Indigenous coal, right?
- Management:** Yes.
- Moderator:** Next question is from the line of Vineet Verma from Nomura. Please go ahead.
- Vineet Verma:** Firstly on your market in Bihar, what volume are we getting from Bihar and has there been any loss of market share in Bihar for us?
- Management:** No, actually we are a very minor player there, insignificant. It is just only a little bit of material which is surplus we push to Bihar but we are not a significant player there, so a very small quantity.
- Vineet Verma:** And sir secondly what would be out landed cost for the domestic coal?
- Management:** 5,500.
- Vineet Verma:** And this will be for what calorific value?
- Management:** C grade coal.
- Vineet Verma:** Sir, does it make sense to increase our pet coke consumption because clearly the pet coke is coming out to be relatively cheaper than the domestic coal, so are we thinking on those lines?
- Management:** You see we are looking at it but everything has to be looked at with the process also. The system should not lose on productivity.
- Vineet Verma:** Right, it is a more of a constraint from a technical angle rather than we have to service the FSA which probably limits us to at least take minimum quantity.
- Management:** No, no, it is very technical in nature.
- Vineet Verma:** Okay, alright.
- Moderator:** Next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

- Raj Gandhi:** Sir just on this front if you could throw some light because as in the past two quarters you have been saying that you have been started using more pet coke, and see anyways the linkage is going to end and they are not going to extend it. So the cost of just dropping the linkage has reduced drastically wherein it is not that if you leave now the benefit was there with you for long term and all. It is just other year and all, so I believe on that side now it is not a concern but on the technical side if you could highlight a bit.
- Management:** See we are exploring as I said, tomorrow even imported coal we start importing might come at a cheaper price. Today internationally prices of coal are suppressed. So whether it is FSA or not one does not really look today towards these things too much. One has to optimize this process, that is more crucial than anything else today.
- Raj Gandhi:** So let us say versus a domestic coal, a low grade Indonesian coal can immediately be replaced, right in that sense?
- Management:** Yes, not an issue. You have to blend your raw materials accordingly.
- Raj Gandhi:** So I believe just one technical thing could be that you need a blending silo in your power plant, right?
- Management:** No, no.
- Raj Gandhi:** Okay, for the fuel feed you will need a blending silo, right?
- Management:** No, not at all.
- Raj Gandhi:** So just let us say, then what stops you from let us say moving to imported coal which could be much cheaper than linkage?
- Management:** As we are land locked so our blended cost of coal sometimes is higher and it almost is at par sometimes. Most of the times it is at par.
- Raj Gandhi:** Because I believe your lead distance from the Coal India Mine is also quite high, right?
- Management:** No, no, very short.
- Raj Gandhi:** Okay. And so just if you could throw some light on these modalities of open access, what are the fixed charges and all with the state utility levies?
- Management:** I do not have those figures right away but the team is working on that and they are all the time exploring possibilities.
- Moderator:** The next question is from the line of Abhishek Ghosh from IDFC. Please go ahead.

- Abhishek Ghosh:** Sir could you just help us with the demand in central market in terms of million tons what could be the demand like in absolute terms?
- Management:** About 52 million tons, including part of Bihar.
- Abhishek Ghosh:** And sir what would be the average utilization level for the industry in our cluster?
- Management:** Should be about 75-80%.
- Abhishek Ghosh:** And sir broadly what is the kind of supply addition in terms of industry supply addition that we are looking in a cluster market for say next 12 to 18 months?
- Management:** I do not think there is any expansion which is coming up in Central India?
- Abhishek Ghosh:** Okay. And for our WHRS what would be the capacity?
- Management:** About 13 MW.
- Abhishek Ghosh:** Okay, so that should take about 35% to 40% for fuel requirements once it stabilizes?
- Management:** **Thermal 27.35** plan of plant we require about 65 MW, about 13 MW is out of this.
- Abhishek Ghosh:** And sir just one more thing we have seen sequentially other expenses declining, part of it is also attributed to the DMF provision that you had done in the last quarter. So just wanted to get a sense around what would be the impact of lower packing cost because of lower crude prices and other things, what would be the packing cost down on a sequential basis or say in last six months in percentage terms if that is possible?
- Management:** About 10% reduction.
- Abhishek Ghosh:** In packing cost?
- Management:** Yes.
- Abhishek Ghosh:** And sir just one last question, we have discussed about pet coke prices declining. So on a very broad basis in last say 3 to 4 months, what would be spot prices down deep say in the region of 1500 per ton kind of number from October onwards?
- Management:** About 1500.
- Abhishek Ghosh:** Okay, and we have seen some decline in January as well, right?
- Management:** No, there is a little bit change there. There I think we have corrected little marginally upwards.
- Moderator:** Next question is from the line of Samir Tulsian from JM Financial. Please go ahead.

- Samir Tulsian:** Just two small questions. One is like, sir if we see the other expenditure, the run rate for the first two quarters has been around 75 to 77 crores. In this quarter it was around 67 crores, so what is bringing it down, the other expenditure?
- Management:** So there is reduction rather you can say compared to September quarter, because September quarter we are technically dealing it for the nine months.
- Samir Tulsian:** Correct, I have a disparate amount for that. So Rs. 4 crores for that, after that it was around Rs. 77 crores.
- Management:** And depends upon the shutdown also because in some quarters you take the shutdown of your kiln and in some quarter it is not there so it changes. At the same time your consumable is also nearing your other expenditure. And because of the diesel price reduction when you compare with the last year so diesel cost is also lower and that cost has also reduced.
- Samir Tulsian:** So I think it was due to the shutdown it was around Rs. 77 crores for Q2, is that the correct understanding?
- Management:** I am not saying that. My point is that when you compare one quarter to another quarter the fluctuation of Rs. 4 crores to Rs. 5 crores may be on account of shutdown also. We have 3 kilns in one plant and we have one kiln in Southern plant. And at the same time with the consumers of the diesel prices, we consumer of diesel also for our mining activities. So when diesel price reduces benefit also comes. So when you compare year-on-year basis, so December 2014 quarter the diesel price is slightly higher, now it is lower. So that benefit also extended in December quarter of the current year.
- Samir Tulsian:** And what was the maintenance CAPEX for us like?
- Management:** I think we have explained you that this sustainable CAPEX as a thumb rule we follow generally 30% of our total annual depreciation amount, it considers it as sustainable CAPEX.
- Samir Tulsian:** 30% of the annual depreciation, correct?
- Management:** Yes, that is right.
- Moderator:** Next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Few questions from my side. First, can you just highlight as to how you are seeing the growth expectation for demand in key market for this particular calendar year likely?
- Management:** We should expect about 5% to 6% growth.
- Rakesh Vyas:** Primarily you are talking of MP and UP market?
- Management:** Yes, MP, UP, part of Bihar, part of little bit of North.

- Rakesh Vyas:** I thought you sounded slightly more optimistic on UP given the decent demand that you are seeing in the last 2 months. So is it fair to assume that you are not so hopeful on the MP market whereas UP market could probably grow at a faster pace than this 5%?
- Management:** Yes, I am talking about an average so you can say UP could be about 6.5, MP could be about 4.5.
- Rakesh Vyas:** Sir my second question relates to our debt repayment; so can you just highlight when does the debt repayment start for us?
- Management:** It started from January.
- Rakesh Vyas:** And this calendar year how much have we to repay?
- Management:** About Rs. 410 crores.
- Rakesh Vyas:** And is there a plan to refinance this?
- Management:** At the moment, no.
- Rakesh Vyas:** Sir, given that in the Central region there is likely to be a lot of this consolidation activity, I am just trying to understand as to what kind of opportunity exists for us given the transition phase around all the M&A that is likely to happen? Is it likely that we can actually focus on a much higher market share gain during this timeframe also on the pricing if you can just highlight what is the likely strategy of the management to utilize this opportunity?
- Management:** I think it is a little premature to comment on this at this stage.
- Rakesh Vyas:** But have we seen any difference so far given how market is positioned today in terms of M&A etc, so in overall marketplace?
- Management:** The market has been very suppressed. So there is a lot of pricing pressure on people, so those people with highly leveraged organizations will find it difficult to survive at this stage.
- Rakesh Vyas:** And have we seen any change in the pricing recently?
- Management:** Pricing is more or less, as I said, little bit more or less flattish. Now it has come to a point where I do not think it has a point to recede any further. It can look upside.
- Moderator:** We take the last question from the line of Amol Kotak from Principal Mutual Fund. Please go ahead.
- Amol Kotak:** My question has been answered. Thank you.

- Moderator:** We have our last question from the line of Chockalingam Narayanan from Deutsche Bank. Please go ahead.
- C Narayanan:** Just wanted to get a sense on that 52 million ton addressable market, if you could just break it up between the different states?
- Management:** You could say about 12 million ton you take it for Madhya Pradesh and about 27-28 million tons from UP, and the balance you can take it for the Western Bihar part of it.
- C Narayanan:** That is a pretty sizeable number, almost about 13 million tons.
- Management:** Yes, because this considers all the way till Saharanpur and part of Uttarakhand also, Western UP, so 28 when I told you it is inclusive of that.
- C Narayanan:** Saharanpur would be UP, right?
- Management:** Saharanpur and little bit of Uttarakhand part also will come in this. We take it as one sector. We do not have a breakup because there is a small market we address. So we add that market demand into our territory, we take it as our addressable market share.
- C Narayanan:** But western part of Bihar would be what, 6-7 million tons or it will be higher?
- Management:** Yes, about same, a little more but it depends you need to cross Patna and beyond then it will keep increasing. Till Patna it will be about 5.5 million.
- Moderator:** Thank you. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.
- Vaibhav Agarwal:** Thank you. On behalf of PhillipCapital, I will like to thank to thank the management of HeidelbergCement India and also many thanks to the participants for joining for the call. Thank you and you may now conclude the call.
- Moderator:** Thank you very much members of the management. Ladies & gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.