



“HeidelbergCement India Limited Q1 FY20 Earnings  
Conference Call”

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**HEIDELBERGCEMENT**



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**Moderator:** Ladies and gentlemen, good day and welcome to the HeidelbergCement India Q1 FY20 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participants' 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 would now like to 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 Q1 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 maybe forward-looking statements relating to future developments and current performance. These statements may be subject to 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 the 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 exchange and its website. Participants may download a copy from these websites. I will now hand over the call to the management for their opening remarks followed by interactive Q&A. Thank you and over to you, sir.

**Management:** So, good afternoon to everybody and thank you for joining this call and thank you for the interest shown in HeidelbergCement. We would have taken down the presentation, downloaded the presentation. I will just run through this. If you look at the slide# 4 beginning from slide# 4 which shows the country wide demand scenario how it has progressed. There is no doubt that the industry is progressing, and the numbers are coming on strong. Going forward I think this numbers little bit of slowdown or softening has happened in the Q1 basically if you look at the April and May figures they have been a little soft on the growth side, but going forward we think the industry and it should end up with about something like 6% to 7% growth if possible on a financial year basis. So, that is a point from where we are beginning and thinking on our workings.

`In terms of our quarterly volumes you have seen that in June quarter 19 there is a minor degrowth from 1.26 million tons what you are seeing is and that is basically because we did not sell clinker in the last quarter for a previous year we have sold clinker that is why 30,000 tons difference is coming into this, but otherwise you can say little better only.

On the big picture of it as we say that we have a very focused way of looking at health and safety and on the health and safety part there has been a zero LTI. There are some of the plants who

are completing almost two to three years without LTI and that we are proud of our team which is taking care of health and safety there. Capacity utilizations we have crossed a 90% of capacity utilizations so we are fairly on a higher side.

On the blended cement scenario, we are 100% environment friendly green cement we are producing so we are very clear about it CO<sub>2</sub> footprint. On the premium branding which is always in our focus area that we want to create, we want to remain in the premium segment of all the products what we manufacture or quality of services what we provide. So, we have the right to claim our premium on that and that is why we launched Mycem Power there and this Mycem Power is a premium and it has grown about 53% over on year-on-year basis. On the EBITDA side we have clocked the highest EBITDA so far as 1253 per ton and this is an increase of about 33% over the previous year year-on-year basis. Net debt has come down to 79 almost 80 crores and we continue to operate on a net working capital which is negative. So, you have seen the slide# 7 highest ever quarter in terms of revenue, EBITDA per ton and profit after tax. So, on all these four counts we have clocked well.

On the income statement you have seen it already there is on the PAT side there is an increase of 55% and on the EBITDA side there is a growth of 32% and total income it is 9% growth. As I mentioned about volume there is a minor degrowth and that is because of the clinker.

On the profit bridge is concerned you can have a look at the profit bridge and there is a growth of almost 33% which I mentioned about you. The main thing which has come to us is from the price hike and little impact which has come to us is also from the power and fuel not power I would say more to be done with the fuel part about Rs. 55 a ton on our fuel cost had increased by about Rs. 50, Rs. 55 a ton and power marginal.

In terms of volumes how we do our business the bigger picture is that about 45% of our volume is on year-on-year basis that is a flattish growth on that, but 45% is by road and we are using about 40% of coal that is for all our plants put together I have mentioned about our Mycem Power project how it is moving about 53% growth and another thing is which helps us in some way or the other because in Central India which we operate mainly we sell about 85%, 86% of our business goes to trade sales and we sell a very small quantity in non-trades so we were shielded up to an extent when you will say some of you may have this question, but we got shielded because when the government spending came down in infrastructure project in the month of April and May and June that is the time this retailing helped us our retail initiatives were helping us.

On the outlook side is concerned demand is likely to continue to grow I cannot say that today at this juncture where we are standing today with the last three months how it has gone it looks to a be a little softening on demand is concerned, but I think this situation should not remain for long. The missing block which we are seeing here is the government spending and I think the government will come up post the budget the announcement what it has come in the terms of rural housing, infrastructure, commitment for the financial commitments and allocations are going to come seems to be that it should be a good run forward.

Stability of the government I think since the government is back in power it is BJP-2 and again in second term so there is no discontinuity I think on the continuity side we do not see any hiccups as of now and things would move.

In interest rates there is continuous reduction so we see that there is some people will start investing in housing sector and things like that to happen. The impact which I said it has come through because of fuel it is little softened little now the impact has come down. Now the prices of crude have come down and the fuel prices are little bit softening. So, there is some positive thing it will help us in the next quarter going forward. Concerns which we have India is predominantly agri based economy whether we like it or not we may say that the agriculture component in the GDP has come down over the years undoubtedly, but the maximum development which takes place is now the growth sector are the rural India and Tier 2 and Tier 3 cities which are going forward and that is where the growth will come in and in those areas agriculture does matter play a very big role.

So, monsoon is a very important part of it so we will look too forward to a good monsoon. Monsoon started although it started late, but it is turned to be more promising now and if things go forward, I think agriculture produce will be better and things should move forward. So, this is all from my side and if there are any questions happy to answer them.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

**Madhav Marda:** My question is just more on the demand supply aspect in Central India, could you give a sense on you know you mentioned that demand would be driven by the government budgetary allocation, but as I was just looking at the number it seems like allocation has not actually gone up a lot for the affordable housing piece, so just wondering what part of the government spending scales up a lot this year?

**Management:** I do not have the figures in terms of their percentage, but I have seen the budgetary figures there was at least significant jump in the rural housing on the PMGSY side I can give you those numbers. I have seen those figures and it was showing clearly that there is an uptake in that we can share that figures I do not have it right now immediately in front of me, but there is an improvement there.

**Madhav Marda:** Sir, back to actually I was seeing the allocation for the rural I think is down 5%?

**Management:** So, if you look at the figures budgetary for housing so in housing increase from 43,000 crore to 48,000 crore for FY20. Budgetary allocation for rural development has gone up from 112,000 crore that is almost 1.1 trillion to about 1.17. Coming to budgetary allocation in terms of railways also it has increased from 55,000 crores to 68,000 crores. In PMGSY it has gone up increased from 15,000 crores to 19,000 crores. So, all these figures these are budgetary figures which I am

speaking to you which are clearly showing that there is a movement which is on the positive side.

**Madhav Marda:** Could you just help with the demand, supply dynamics in central India in terms of the new supplies which are expected in the coming years?

**Management:** New supplies.

**Madhav Marda:** Yeah in the region are there any new supplies which are expected?

**Management:** Nothing much it will be about 2.5 million tons at best will be added somewhere in UP which is UltraTech Bara will come up and grinding millet is a grinding mill so there is no clinker capacity. Whatever new capacities are coming in are also grinding. So, it is just only today people are shipping the cement in future they will grind cement here. So, that does not spoil the equilibrium in any way.

**Madhav Marda:** And just last question sir what would be the current utilization in the Central India market on a entire year basis?

**Management:** See I do not have the industry figures but should be (+80).

**Moderator:** Thank you. The next question is from the line of Apoorva Bahadur from Jefferies. Please go ahead.

**Apoorva Bahadur:** Building on towards Madhav said so basically on the new capacity side, so it would be very helpful if you could tell me what could be the quantum of total stalled capacity in the region which possibly could be revived if we see an uptake in profitability?

**Management:** See in the Central this is about close to 58 million tons of capacity and it is not going to change too much. As I said in 58 if you add 2 million tons of grinding capacity it really does not matter to me.

**Apoorva Bahadur:** No sir I just meant that are there any stalled plants which are not working right now, but which could be revived?

**Management:** No nothing there is no plant which is not working see every plant is working accepting the CCI that has been dead plants which has been therefore lying for God knows how many years 25 years it has not worked and that is not going to work at all in future also.

**Apoorva Bahadur:** Sir from a Brownfield expansion potential point of view I mean given the existing mine and clinker limes of existing place how much do you foresee probably from a two, three, four-year point of view?

**Management:** See as of now we are going to add up about almost 0.4 million tons of additional by little bit of tweaking of our equipment. So, that alignment once we do that is one part which has happened

about quite close to 0.1, 0.2 has come in and going forward is by 2020 end I think we should be able to fully materialize this 0.4 million tons of capacity into the mainstream. So, we are just going to apply to the government for expansion of the small things and as we keep getting the license to operate we will start putting that on stream.

**Apoorva Bahadur:** And sir from an industry point of view?

**Management:** Industry point of view I mentioned to you already that there is no new capacity which is going to come there.

**Apoorva Bahadur:** No I meant from a potential point of view basically players which have excess clinker or possibly mines with plant acquired, so if you have any?

**Management:** I do not think there is no announcement as such who is putting up at least a clinkering unit I will keep track grinding unit is okay we do not really bother.

**Apoorva Bahadur:** And sir for your capacity expansion what will be your annual CAPEX figures and how will you fund it?

**Management:** It will be about close to 50 crores CAPEX.

**Apoorva Bahadur:** In FY20?

**Management:** It does not matter it will flow into the next financial also the similar normally we cap it around 50 crore or so.

**Apoorva Bahadur:** Okay and it will be funded out of cash?

**Management:** Of course.

**Apoorva Bahadur:** And sir if I may ask one more question so basically on your debt repayment side how much do we typically repay every year?

**Management:** 125 crores.

**Moderator:** Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

**Tanuj Mukhija:** My first question is on the Uttar Pradesh market the UP Cement demand has been probably better than the other parts of India especially as compared to Madhya Pradesh, but cement prices have largely been stable, can you share your thoughts if you expect cement prices to go up in Uttar Pradesh and if not what is the reason for it?

**Management:** See a stable price in a commodity market is a very good sign okay that is the way I look at it normally in a cement market either the prices can never be stable okay either they go up or they

go down, but if it has remained stable it gives me a very good sense that here after there is a movement which will be on the upside so we call it as the plateau pricing level. At this point of time when the price is plateau and it does not change for a long time and stable pricing then there is always a scope to move up. UP demand has been good MP has been little soft because of various reasons in the state. Today if you look at it the prices of cement in Uttar Pradesh is Rs. 360 to Rs. 370 is the retail price which is fairly I would say good price compared to anywhere part of that entire country as such. So, these types of prices people used to see in South at one point of time when the market used to be buoyant. Now these are the price levels I can only say that when you said that when it can go up or not the answer is it can go up, but it may not go up for a simple reason that at this price it is quite tempting and lucrative for neighboring regions to come and pump in cement. So, the existing players may be reluctant to give away that position and allow more competition to come in. The moment Central India moves up the price more competition will come in so that will be one of the reasons for the prices to remain more stable.

**Tanuj Mukhija:** So, just a follow up on that, could you please illustrate which regions at what price point level become economically viable to supply in the UP market?

**Management:** That I will not be able to tell you I do not have that working right now with me, but we know that if the prices drop below Rs. 300 everybody will run away from the market.

**Tanuj Mukhija:** Second now moving over to Madhya Pradesh as you eluded the fact that cement demand has been weak in MP for multiple reasons, so can you share your outlook for pricing in the MP market?

**Management:** MP market the demand is all of a sudden shrunk basically what should I say the spending from the government side has shrunk very badly and even the small ISD segment is taking very soft easy steps, small steps not investing too much in real estate. All real estate projects which were there which were working at one point of time in Tier 2 cities and especially in Western part of MP, Indore and other market they have taken a little beating. So, they are little soft so that another which way you call it is about 200,000 tons of cement which used to go to these projects has become rendered surplus.

**Tanuj Mukhija:** Sir in this context, do you expect a downward pressure on cement prices in MP?

**Management:** I do not think as I said the prices have remained stable see UP remained stable at 360 or 370 MP will go down what 340 is normally a difference between these two markets is Rs. 20, Rs. 25, Rs. 30 not beyond that otherwise the balance automatically changes. I do not think it will go any further down.

**Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

**Ritesh Shah:** Sir, can you highlight what is the regional state wise sales mix?

**Management:** That I will not be able to give you for competitive reasons.

**Ritesh Shah:** Sir possible to indicate broad market share that we would have?

**Management:** You can say close to about 10% in Central India.

**Ritesh Shah:** And sir were there any specific moments for us into Northern India was it more of a change of in strategy or was it more of opportunistic trade wherein what we hear is Heidelberg did aggressively push volumes into Northern India given the pricing over there has been higher than Central India.

**Management:** We supply only in UP and MP. We do not go to Punjab and anywhere else.

**Ritesh Shah:** Sir not even Rajasthan?

**Management:** Nowhere not even in Haryana. If you talk about even Uttarakhand also not very small.

**Ritesh Shah:** Sir my second question is on our incremental expansions there are lot of assets including the CCI Nimach which is on the block, you have Emami which is on the block we keep on hearing about Vadraj Cement, sir what is our strategy on organic and inorganic expansion if one takes a three year view?

**Management:** I will not be able to comment on any of the names what you said, but I can tell you that we are always in the mode of expansion if we get something at a good price which can be beneficial to the shareholders, we will definitely look at that.

**Ritesh Shah:** Sir let me put it the other way round we had a optionality for expansion in Gujarat are we looking to exercise that or on a priority order would we look at inorganic expansion, what is our thought process sir?

**Management:** So, on Gujarat side this matter is pending with some level with the governments. Once we get the approval and things like that then we will definitely look at materializing that.

**Ritesh Shah:** Sir any timelines over here?

**Management:** I cannot say that because for the simple reason this ball is not in my court.

**Ritesh Shah:** Sir lastly you indicated you cannot comment on inorganic expansion can you provide some color on balance sheet on the debt ratio they look like if we had to pursue anything inorganic, any broad parameters on equity or net debt to EBITDA that bridge?

**Management:** See we are comfortably positioned and another most of the investment when these types of transaction happen we know what is the debt component, how much is the investment to take place that will all happen depending on the target company which we acquire. So, it is a situation where I cannot tell you today what it is company may be highly leverage which we take over or it is a less leverage company it depends on that.

**Ritesh Shah:** Sir if I may squeeze in one question, sir how has the fly ash prices trended over last six months and if you can help us with our sourcing pattern both for Central India plant as well as for the Southern India plant if we have PPC better?

**Management:** In terms of our maximum volume I will talk about Central India because maximum volume is 95%, 93% volume is in Central India so I will talk more on this weightage here. So, fly ash is available across that is not a big problem, but it does cause problems the fly ash prices have gone up in the quarter and it has been continuously going up because there are many thermal power plants which are shutdown on and off and we have to source fly ash from distant sources. So, logistics become a little bit difficult. So, we are seeing that some increase in our fly ash sourcing cost has gone up, but anyway that is in terms of the fly ash is the component to the cement is a small element it does not really matter considering the margins you get on a per ton basis of sold cements.

**Moderator:** Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Sir, you mentioned during the discussion that the prices in the Central market may not go up further from here because the differences between the near markets where the material can flow it is already reached there and we cannot further increase so generally is it a East market, Chhattisgarh market from where the material flows into this?

**Management:** Yes it comes from all sides I would say let me put it the flow comes from Rajasthan, comes from Chhattisgarh, comes from Maharashtra also.

**Madan Gopal:** Mostly it is from Chhattisgarh we can say?

**Management:** Chhattisgarh also to an extent, but also significant quantity from Rajasthan also.

**Madan Gopal:** So, what is the price difference generally we tend to maintain between those Rajasthan markets

**Management:** I do not think we would look at what are the prices in Rajasthan, or which are the prices in Delhi we do not look at them. We try to at least for us it has always been like this at what price we are in a position to sell if our product is selling, I do not care if the difference goes to Rs. 60 also it does not matter to me.

**Madan Gopal:** Currently it is about Rs. 50 difference is it?

**Management:** Should be I am not very sure, but I do not have the prices of Rajasthan players because in Central India they will also try to peg it up and bring it closer to our prices may be Rs. 10, Rs. 15 lower than our price.

**Moderator:** Thank you. The next question is from the line of Sujit Loddha from Birla Sun Life Insurance. Please go ahead.

**Sujit Loddha:** Sir what is the market share in Central India for Heidelberg and secondly what would have been the regional volume growth YoY for the Central Asia?

**Management:** See as far as our market share is concerned, we said about close to 9%, 10% market share.

**Sujit Loddha:** And has it moved up in the last quarter?

**Management:** It has been very constant.

**Sujit Loddha:** And sir what would have been the industry growth in this quarter YoY?

**Management:** It seems here little flattish.

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

**HR Gala:** Just a broad question you know the pricing trend and the cost trend will keep on changing or might moderately change, for the full year are we confident that we will be able to achieve EBITDA of about 1,250 per ton as we have done in Quarter 1?

**Management:** If you look at Quarter 4 the same question was asked whether will you be able to sustain 1,100.

**HR Gala:** 1100 we have.

**Management:** So, I think the idea is never that I cannot say tomorrow what can happen tomorrow. The endeavor is to try and keep doing better and better that is the philosophy which keeps driving us even if it is tad better we should try to attempt, but again this is if you look at the whole waterfall statements which you have given the maximum has come out of price like it is everything is totally depended on I would say pricing component and again like every company and every brand has its pricing staying power. Sometimes in certain seasons of the year I find that competitor who was selling, we are selling at par with that competitor the difference increases whether it is on the upside or the low side so that is the delta on which we have to work. Important part is whether we are able to sell the entire production at a reasonably with a respectable with our nose in the air we can sell it fine keep it up okay keep your chin up.

**HR Gala:** I agree with you because you know so far, the results of cement companies which have been published so far, I think ours is the highest.

**Management:** Yes.

**HR Gala:** My second question is pertaining to our capacity ramp up now we say that we will be 5.9 million tons by end of FY20-21 or it will be end of FY19-20?

**Management:** Calendar year '20 you can say safer side.

- HR Gala:** Calendar year '20 5.9 and 5.9 what will be the breakup between clinker and grinding?
- Management:** Clinker will remain clinker is not increasing.
- HR Gala:** How much is clinker capacity currently?
- Management:** 3.5 million.
- HR Gala:** And the cement capacity will be 5.9?
- Management:** Yes, that is right.
- HR Gala:** As far as this expansion is concerned are we going to move decisively on acquiring some asset or how are we going to plan because I reckon if we grow at say between 5% to 7% in line with the industry growth I think then we will be doing somewhere around 5.1 or 5.2 this year and then '21 again we will be coming close to the capacity, so how are we trying to phase out our expansion plans?
- Management:** It is a little difficult question to answer as I said for us now the only way is to do some expansion, put up another line or something like that or acquire a company or something those are the things which we will have look at whether it will happen in the same geography or it will happen in a different geography has to be seen. Today, there is nothing which I can tell you on a material side that is in front of me it is visible on my table, but if it happens it will happen, no hurry on to that. We have got a Gujarat plant; we have got a Gujarat capacity which we can put up so we are working on those things. There are certain things which are not with the ball is not on our court. If it is there then I would start hitting it, but the ball is in the court of somewhere in the government side. I can do less about it we can only work then the government ease of doing business is important so please support us let this slogan of your ease of doing business also materialize for us.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.
- Saket Kapoor:** Sir, firstly if you could give us your mix of what is the branded cement out of the total cement which we were selling our percentage is blended?
- Management:** 100% blended cement.
- Saket Kapoor:** And sir coming to your point and the discussion which we are having upon the cement prices and the volume part, sir looking into what the other industries are facing sir whether it is telecom, whether it is automobiles everywhere there is a sluggish feeling that is now engulfing. So, sir cement somehow has performed upmost part for the first quarter where other people have suffered, sir what factors are you seeing that may impact cement also going forward or are we seeing some trend in the month of July that this sector which was aloof than the other industrial

sectors even steel is now struggling that it is in a safer zone or it is just going to enter the lull period as other industries are?

**Management:** I think I cannot foresee a situation where it will situation should worsen or anything. Cement is a product which is going into infrastructure, it is going into provision of housing. Today look at the population growth, the rate at which we are growing, this country's population is growing can anyone ever think that you know your cement demand can never die there. I think it would be just only thinking about and creating a fear about our we can create a fear as much as we want for ourselves and we say that the market will crash. I am an optimistic person on this part and I said country like India and China if they have to think about cement degrowth okay you may have a one year or two years of bad years does not mean that you are going to everything has fallen apart. Cement industry cannot stay in a stagnant mode or in a declining mode at least in India it cannot.

**Moderator:** Thank you. The next question is from the line of Mudit Agarwal from IndiaNivesh. Please go ahead.

**Mudit Agarwal:** I have question related to the freight cost per ton sir it declined on YoY and Q-on-Q basis?

**Management:** Yes, so it is around Rs. 600 a ton almost freight cost as of now. See, there is again there is a reduction is basically a better planning, a little warehouse management, logistic is one part which it constitutes close to about 18% to 20% of your total cost. So, we have to be careful on that it is one of our main areas where we have to all the time keep working. We manage our logistics better, we manage our transporters better, and we try to reduce our lead distances. So, what happens sometimes the diesel cost also starts coming down so that also benefits you. So, when the diesel cost have reduced and we have a flexible system so today Rs. 1 change in the diesel price by tomorrow night tomorrow morning the prices for the transporters will also change immediately. It is not that we go negotiating with the transporters or anything there is a model which is fixed, nobody intervenes in that automatically it happens.

**Mudit Agarwal:** And sir what is the lead distance currently?

**Management:** Lead distance would be about 400 kilometers.

**Mudit Agarwal:** Both sir for rail and road it is average?

**Management:** Yes, average.

**Moderator:** Thank you. The next question is from the line of Dhiral Shah from ACM Investment. Please go ahead.

**Dhiral Shah:** Sir my question is regarding the price difference in trade and nontrade segment?

**Management:** It is somewhere close to about Rs. 700 per ton.

- Dhiral Shah:** And in terms of bag sir?
- Management:** Rs. 35.
- Dhiral Shah:** And sir what is leading to this 53% growth in the Mycem Cement?
- Management:** This is a premium product which we sell it at a premium position. It is differently packed, it is positioned as a product which has longer shelf line and we give along with its some services to the market anybody buys this premium product he gets some additional services from it.
- Dhiral Shah:** And sir what is the price difference between this premium product and the blended one?
- Management:** About Rs. 30.
- Dhiral Shah:** And sir out of the total power consumption, what was the utilization of waste heat recovery?
- Management:** Utilization is quite significant for our Damoh plant it contributes to 40% of our requirements 16% for the total company.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** Sir, just that given that government demand is expected to be one of the key drivers, just coming back to the budgetary numbers I just wanted to understand which are the key lines that you are focus on to look at incremental government demand because I had pulled up certain key lines for myself which are the ones that you are focus on so I think just better try to understand?
- Management:** As I said you know my total volume; I only sell in the direct customer that is nontrade I sell 15% maximum so it really does not matter to me. This is only a feeler for me, but ultimately it is important for the industry to understand because there are many people who are close to 30%, 40% of their volumes are into nontrade. So, if they are under pressure, I always say that if your competition is at ease and he is able to sell his material then he will allow me to be at ease so as simple as that. First and most important is your neighbor is at ease or not.
- Madhav Marda:** So, I mean you all don't supply to the Awas Yojna projects at all?
- Management:** We do supply but as I said the quantum is small.
- Moderator:** Thank you. The next question is from the line of Manish Bhandari from Vallum Capital. Please go ahead.
- Manish Bhandari:** Sir my question is given a choice which geography you would like to expand from an acquisition point of view also?

**Management:** See if you ask me wherever the market is good the answer is very simple or let me say where the competition is sensible, where the competition is also having some appetite and interested in improving their production and things like that and giving good services to the market. Synergy between light minded people I would always say that if your competition is going to burn money then you will also burn money with him. We have seen it happened in the entire industry some people run into difficulty with cash then they want cash on a daily basis. When that happens, what do you do you are also been forced to drag down. Most important is which market as a platform offers you a good competitive scenario if all people are professionals in that market very good, I would prefer to go to a market where people are professionals.

**Manish Bhandari:** So, do you see any market such market in India?

**Management:** It is a very mixed bag. I would say the little bit more in North, East in Central India is also good I would say South is a little difficult market, more competition I think more owner driven organizations are there.

**Manish Bhandari:** But then you have this consolidated structures which does not allow you to set your foot inside through the way of acquisitions the question which keeps on coming each time on the conference call and from many of the participants including myself is that you have a very healthy cash flow and a lot of ambition in India so how do you put that to number in the process given the structure what we are in today either you start afresh or you acquire someone?

**Management:** Better to acquire I would say, afresh is only we can do a Greenfield in Gujarat otherwise it is a little difficult otherwise there are no auctioned mines also which are available which are good mines where you can put up a 5,000 TPD or something like that.

**Manish Bhandari:** The question again stands that you may have an appetite for a 5 million tons plant and the auction what is available to you would be a sizable in nature, so you have something in your mind that this is what I want to?

**Management:** Anywhere if I get the reserve of about (+100) million I will look at it 125, 150 million ton is a good capacity plant if I can get the assurance of about putting up a plant for about 40 years of life span in that it is okay with me.

**Manish Bhandari:** Is there anything available or ever shown to you in such nature?

**Management:** There is all fragmented what is so far has come for auctioning is not something which we would like to buy it.

**Manish Bhandari:** But given with the participant you work with, do you think something would come up on your way, are there any seller who would because of some....

**Management:** Let us see let keep our fingers crossed.

**Manish Bhandari:** Sir my last question is there any other cost rationalization possible in your scheme of things?

**Management:** Again, the same thing which I said a person till the end of life there is nothing called as rest. We have to eat your food daily; you have to live your life daily. I always say that there is never a place where one can say okay, I have achieved enough. So, we always search to improve, improve, and improve. So, the clarity in our organization is very clear that even the smallest guy in the company thinks what is the next step to take, so what is the improvement possible at the grass root till the top man level.

**Moderator:** Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

**Swagato Ghosh:** Sir to one of your answers to the previous question you said there are no good mines are for auction so if I see the mines which are actually been for up for auction in the last two, three years there were certain mines where the reserves upwards of 100, 200 million tons, so was our strategy different that we did not bid for these mines at that point of time or we had bit?

**Management:** That time it was there I understand that initial stages and people quoted very unnatural and unreasonable prices for that. It is always like this now you take a limestone which is available to it at some ridiculous price and then you are going to hold it on for years together, it does not really make sense. Sometimes fear-mongering happens in the whole industry and people start running and buying something which is not good, I do not call it wise business decision. This country anyway has reserves which are significantly large. So, if I miss out one or two here and there and there and do not pay to it one fine morning this price will come to a normal regularized level.

**Swagato Ghosh:** And sir another follow-up to a previous question you said that you are obviously not pushing material to any of the northern market, but is anyone else doing it from your region from whatever you know?

**Management:** In what way?

**Swagato Ghosh:** Pushing material from Central market to some of the Northern states like Rajasthan or Haryana?

**Management:** Logistics does not work out. See Rajasthan, Central India players will go mostly loaded all towards the East side. So, if you look at the material will go more towards the East direction that is to Bihar and that side. Coming material from that side I think there is a shortage scenario. So, only Chhattisgarh can push material into the Central India and Rajasthan can push a little bit and even if you look at it the western cluster people who are in the utmost North, they also cannot push material into UP, they can at best come to Uttarakhand. So, there is a limitation of geography. This material is a bulk material it has got its boundaries, it has got its limitation travel distances, travelling beyond a particular point of time and now you know that with the overloading and all those things are not permitted across the country, it is difficult to transport material beyond a certain distance.

**Swagato Ghosh:** But can that economics work out if the pricing differentials for example widens a bit for example North stays at where it is and maybe Central sees some weakening then can that economics work out?

**Management:** Again, as I said every state it is a very balanced situation if another state starts pumping more, the local players will drop the prices. So, it is natural balancing one cannot really do much about it.

**Moderator:** Thank you. The next question is from the line of Apoorva Bahadur from Jefferies. Please go ahead.

**Apoorva Bahadur:** Sir, what was your clinker purchase for the quarter and how much was your lead distance?

**Management:** About 1 lakh tons in a year so you can say about 25,000 tons a quarter.

**Moderator:** Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

**Devansh Nigotia:** Sir my question was one which is basically related to accounting sir there is a big distance between a clinker capacity and our grinding unit so our freight cost when a clinker is transferred to grinding is captured in RMC and not freight cost right?

**Management:** Yes, in the raw material cost.

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

**Sanjay Nandi:** Sir, can you please throw some light on the Gujarat expansion which has been pending from the government because I missed out the initial talks, I just wanted to know what is the current capacity?

**Management:** You see right now the project is not yet started. It is awaiting some clearances. So, we are awaiting those clearances. Once those are given to us then we will start so as of now there is nothing on the ground.

**Moderator:** Thank you. The next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

**Gaurav Rateria:** Sir just question on you mentioned that industry is likely to grow by 6% to 7% on the financial year basis, so how much of this would be accounted by the government-related spending and have you seen signs of things picking up in July or do you think it will be largely bunched up in the second half?

**Management:** I think you know it has not yet started enough. We are awaiting government demand to pick up. So, everything right now which is happening is on petty contractor basis which we are trying to

finish of the small-small projects and foot their bills for payment. I think second half it should start looking up.

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

**Navin Sahadeo:** Sir, just one question, sir while of course the EBITDA per ton is the highest, is there any disappointment on the cost front especially the power and fuel cost because given the way the overall petcoke prices have been coming off in the past few months both domestic as well as imported, those benefits I do not think I mean we are able to see as much, is it the right way to look at it or there could be more benefits in the coming quarter?

**Management:** When you have bought high price petcoke in January, February, March that will carry forward. So, now the impact of this benefit will start coming in the Quarter 2.

**Navin Sahadeo:** Just one thing if you could throw light what was the average cost for us in for petcoke in the June quarter and what is it currently to get a sense how much savings can be expected, can it be Rs. 50, Rs. 100 per ton?

**Management:** See petcoke was you know last quarter was about 10,500-odd average currently.

**Management:** Last quarter actually we end up the petcoke cost around Rs. 12,000 because the petcoke price start reducing some time end of May. Navin you are right that this quarter now the current quarter you will see some saving if the trend of the petcoke price continue in the same manner.

**Management:** Yeah because in the quarter of March the prices were 12,000 so that material got pushed on to this quarter.

**Navin Sahadeo:** So, even if it is a Rs. 1500 overall decline in the petcoke cost per ton in terms of cement it should transpired to at least Rs. 100 per ton is that way to look at it?

**Management:** Today my fuel cost is close to around Rs. 75.

**Navin Sahadeo:** Okay just one question but this premium cement you said for us grew up about 53% at the industry level if you could just help us understand this because this seems to be an interesting segment everybody is entering the space, so are we looking at this space being crowded and how are these dynamics of premium cement in particular percentage?

**Management:** Navin premium cement as I said that everybody is getting into this segment. I think it will saturate somewhere around 20% of the market it should saturate to that level as of now it seems to me, but right now it is about 13%, but the market should saturate sooner or later close to about 20% and maximum 25% you do not expect premium products to be sizable chunk of any basket wherever any part of the industry is concerned.

**Navin Sahadeo:** For us it is 13% industry level how much it could be?

- Management:** Total industry because not all players are manufacturing into a premium segment.
- Moderator:** Thank you. The next question is from the line of Siddharth Jain from Anvil Research. Please go ahead.
- Siddharth Jain:** Sir, can I know your current and your target clinker to cement conversion ratio?
- Management:** About 62% clinker factor.
- Moderator:** Thank you. The next question is from the line of Girija Rai from Dolat Capital. Please go ahead.
- Girija Rai:** So, right now cement installed capacity is 5.4 right?
- Management:** Yes.
- Girija Rai:** And we are going to increase it to 5.9 so that 0.5 million ton where we are getting added and when it will be completed?
- Management:** It will start rolling in the moment we get the government approval for operating to operate. So, as we get permission. Line one is almost complete, line two in Jhansi which will start and which will end in another six months or so it will get through and then the third phase which will start somewhere in the second half it will get complete. So, by end of 2020 everything will get in the pipeline 2020 calendar year.
- Management:** And it is in Central India?
- Moderator:** Thank you. The next question is from the line of Milind Raginwar from Centrum Broking. Please go ahead.
- Milind Raginwar:** From a volume perspective what I see is our March to June movement actually we have grown by about 3.5% so this is when actually the demand per se what we were gathering was slackening down, so can you just throw some light here?
- Management:** See market has been a little good for us. Some segments we could improve especially if you look at Western UP for us gave us a good run during this period. We have moved our volumes a little bit here and there into the region and low base also was there, the previous quarter was 1.21 and you have moved to 1.26.
- Management:** Actually, in percentage terms it seems 4%, but if you see the volume terms it is not so significant. This small quantity here and there from quarter-to-quarter may be possible.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we will be taking the last two questions. We take the next question from the line of Amit Khimesra from Prabhudas Lilladher. Please go ahead.

- Amit Khimesra:** Your other income has moved up by 70% YoY, is there any one off in it?
- Management:** Other income has increased only on the account of interest on fixed deposit kept with the bank because we have some surplus fund during this quarter.
- Moderator:** Thank you. The next question is from the line of HR Gala from Finvest Advisors. Please go ahead.
- HR Gala:** Sir, anything you hear on the GST front?
- Management:** It is there already for two years so it will be 28%.
- Management:** We are luxury product. I always mentioned keep mentioning in various forums or round table conferences I keep mentioning that you know please make me a common man's product. I am a common man; I am a commodity. I do not think right now the government is going to take chances with the aggressive budget allocation what they have made it is difficult for them to think about our GST rate on cement unlikely.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited for closing comments.
- Vaibhav Agarwal:** Thank you. On behalf of PhillipCapital, I would like to thank the management of HeidelbergCement for the call and many thanks to the participants who are joining the call. Thank you very much sir.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of PhillipCapital (India) Private Limited that concludes the conference. Thank you for joining us and you may now disconnect your lines.