



“HeidelbergCement India Limited’s Q2 FY’21 Earnings
Conference Call”

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HEIDELBERGCEMENT



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY'21 Conference Call of HeidelbergCement India Limited, call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you. And over to you, sir.

Vaibhav Agarwal: Thank you, Stanford. Good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q2 FY'21 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 the conference call may be forward-looking statements related to future developments and the current performance. These statements are subject to a number of risks, uncertainties and other important factors which may cause the actual developments and results to differ materially from the statements made. HeidelbergCement India Limited and the management of the company assumes no obligation to update or alter these forward-looking statements, whether as a result of new information or future events or otherwise.

Also, HeidelbergCement India Limited has uploaded a 'Copy of the Presentation' on the exchange and its website. Participants may download a copy of the presentation from these websites.

I will now hand over the floor to the "Management of HeidelbergCement India Limited for their Opening Remarks", which will be followed by "Interactive Q&A." Thank you. And over to you, sir.

Management: Thank you, Vaibhav, and once again, thank you to each and every one for joining this earnings call. First of all, my best wishes to all of you on the occasion of Dussehra and I hope everyone is safe and healthy in these times, which are really challenging times. Nevertheless, the business has to go on and continuing with our tradition the way we are moving ahead, so, I just present to you the September quarter results. The 'Presentation' is already there in front of you, you would have seen it.

Coming to the page #3 of the presentation which talks about our cement industry volume. I would say that it has been an up and down movement, things are swinging which I would say only in the positive direction given the growth rates which are coming in. Of course, it is a very mixed feeling when you look at an all India picture, but when you look at region-to-region the feelings are very different. So, I can only say that in the markets where your company operates, the trend has been a little positive and more work should I say is more stable considering that these two markets, central India are labor surplus and these are the exporters of labor. So, there are enough labors which came back to this. So there has been a positive factor on that. Demand

pattern has changed over the last six, seven months. Nevertheless, going forward, I think the trend is going to be somewhat up and down. We will see some good months, some bad months.

Coming to next page of this, if you look at, we continue our tradition of zero harm to our people. We want our people to be safe, healthy. Okay, they come here to work and be happy. So we have a zero lost time injury and fatalities are big no. But even we do not want to scratch on our people going forward.

Recovery, most of them, as I mentioned to you the volumes have recovered to some extent, but it varies in micro markets and in the market micros have done a little better than the urban markets. We are 100% blended cement that takes you to a very clear picture that we are very strong on the CO2 footprint and going forward I will talk to you about that also.

Dependence on the grid power remains around at 60%. So, we have come a long way. We have renewable energy, third-party energy and now we are working towards putting up an AFR feeding system also in Narsingharh.

Our EBITDA per ton has gone to about 1,140 almost which is a 5% increase growth over year-on-year basis.

And the final dividend we have declared, and it has been approved at the AGM was 60%. So in all total was about 75% for the year. We continue to operate on networking capital, which is again a forte for us, which is again a very strong point for us that we are one of the companies who believe cash is the king and we manage our cash very clearly and we continue to work on a negative working capital.

Going to Slide #5 of the presentation, you will see that I mentioned about EBITDA has grown by 5%, on a PAT side on absolute terms, we have grown 7.3%. EBITDA, we have had close to about 100 basis points improvement over last year, and the similar is reflected in the PAT also over last year basis. All this on the margin side.

Coming to the Waterfall, which is on page #6, you will have seen a consistent improvement that the price has been a very big beneficial part of it, and, of course, power and fuel because we had fuel which was at a lower cost at that point of time, which supported us during this quarter. And also, there was a good rejigging of the power sources. So we could get power also at a reasonably good price. And that is how we could see on this.

On the side of the other expenses, others what you are seeing which is a red point, let me mention to you that there is basically because of some postponement, we normally would have taken two shutdowns, but we postponed one and there was a rejigging because of when the plant did not operate one month, okay, you cannot take up a schedule. So, the entire schedule has got disturbed of the shutdowns. And taking a premature shutdown also is not a very good thing. So, you have to extend the life and you have to use the full utility and benefits out of this before you take the

shutdown, you should come nearly close to a point where the plant will stop. That is how efficiency of the operation is reflected in our system.

And when I talk about on the Slide #7 on the share of volumes about higher road share has gone up to 49%, that is about almost 500 basis points it is better.

Coming to coal, coal component has gone up because we had to rejig this based on the availability of pet coke and things like that.

Our premium brand share, trade volume, it has gone up to almost 20% year-on-year basis. I would like to mention here also that we have introduced another packaging in the market, which is premium packaging in the market, and we were clocking around close to about 13%, 14%, now we are clocking to 20%. So, that has got us some additional displaced share which we probably would have lost to some of our industry colleagues or some brands. We have again taken it back. Our target is to reach to 25% of our total volume share. So, I think we are on the right trajectories. 85% of our target is to remain in trade sales; about 85% to 90%, next year, we are targeting to improve upon it. So, there has been a little slip of 225 basis points on this.

Nevertheless, it does not hold so much of impact on the result because this non-trade becomes a filler for us and we try to optimize it. Tomorrow, if we are on a sold out basis, we will exit non-trade business totally.

On the balance sheet, we increased the size of the balance sheet, you can see this, now it is almost INR28 billion worth of balance sheet is there. Anyway, but there will be some changes in the balance sheet in the months to come, in the years to come.

Considering that we are a very environment-conscious organization which we draw from the group and business is one side, you got to be compliant and you got to be socially responsible. Our business exists because the society exists. If the society would not exist and people would suffer from health, their medical bills will go up, and it is contrary to everything... and of course, it also deteriorates the human DNA. So, conscious about our very thought process that we have to be very environment-friendly and sustainability.

We launched this website of "Friends of Earth." You are most welcome to go to the site, this site is nothing but it logs down all the tree plantations done by business associates and now it will be open for even general public who can plant trees and send us the data and we will put it. These all trees are with their details, what tree it is, what is the size of the tree, date of plantation, what was the location of plantation and all that and the pictures are attached to it with the lat long, so, you can see them on geo-tag. It is nothing something you say that I planted 1,000 trees, you can verify each and every 1,000 trees, it is a verifiable thing on the basis of lat long and this will carry history of pictures as they flow in every year after year or after every three years to show the growth of the tree which will be visible to the people who are planting today and to their children, and to their grandchildren in future too. So, this is one initiative which we are trying to

make our footprint stronger on the planet and also it is delivering what we are saying, it is not something we are delivering just in words, but it is in action.

“annam” Scheme is another yet another measure where you would have seen the commitment of the company towards the underprivileged section of the society, it is a part of the CSR, about 28,000 families have been covered. We did this in the previous months and there is a flow, we did it for two months and the flow of that money continues to be spent in these months also. That has helped a lot. Your company also has been able to build up a very good image in the market, a lot of loyalty has developed, a lot of appreciation from the society, and there is inclination more towards your brand.

Another point which is on Slide #11, we have started, this will be probably going down as one of the major initiatives which will be as I am told that we are talking about carbon footprint. So, we have designed a special measure, where do we stand in terms of our carbon system. These are sourced from (GCCA) Global Cement and Concrete Association. This is the Global’s website where people can also go and verify what the industry data. Company-by-company and the product-by-product we can define very clearly based on the clinker content of the cement which we produce. So, your company is here in this Central India and South India that CIL is a 100% blended cement. So, this is what you see it in the footprint, it talks about 520 Kg per ton, which is far lower than the industry standard. Target is to that we want to have a carbon neutral concrete by 2050, but by 2030 we want to reduce further our carbon emissions. And this we are going to launch our new cement also which is called Green Cem, which has already been now at the approval level. And Green Cem will be a new product which we will be introducing in markets and this will carry the label also. This segment will be for those who matter, for those who care for the environment. Idea is to propagate and make people think that what is good for the society and also support and buy products which are green products, which is a normal global trend you would have seen anywhere now, people are talking green, and this carbon level will be, as I am told, we have checked it across the globe. This is the first of its kind carbon label ever used by any cement company across the world. So there is no mention about these things, but HeidelbergCement India will become the first ever cement company in the world to put up this carbon label on its product.

On the outlook, as it happens, the resumption of business took place in the month... I am talking about Slide #12, and we have been moving and tugging along properly. Things have moved. steady recovery in the IHB segment in some rural areas as I said that it is positive. Further improvements post-festive season, we are expecting that it will start moving. Also now also it is not bad for central India or any other markets. The best part is the prices are firm, demand is consistent. Even if the demand has been a little softer on some weeks of the month, still we have been able to hold on to the prices without any stretch coming in.

Working capital, as I said, liquidity will remain a big issue, and in the previous discussions also I said, but HeidelbergCement team has been able to do proper collections and manage its cash very well and various astute treasury system to manage this cash.

Energy prices, as I said, it is a government thing and energy prices will be dependent on the supply/demand. But I do not think they should move northwards too much because the economy is reeling under real pressure. So after seeing a degrowth of close to 23%, 24% in the GDP, I do not think you should still expect price hikes.

Input raw materials, now because of the power plants and things like that, material availability, raw materials is a challenge. But anyway, the procurement team and everybody is fully geared and they are able to source the material. We do not source it at an unreasonable price or unrealistic price but within the limits defined by the management, people are able to bring the material and also we are able to produce our cement and sell it in the market. But going forward if these prices remain, there is no second option but the cement prices will have to go up, there is no option before us but to increase prices.

And optimization of operational work and capital will hold the key, how well you manage these operations in times. Flexibility, agility and speed are the key words which will drive the organization going forward. We work on that.

I would like you to take page #14. You would have seen, we have put up a new slogan for our group. Group is coming out with a new vision and mission statement. This is part of the material to build our future. So, this is the Heidelberg square finds its position across the globe, footprint is visible on the globe and it can be read in both materials to build the future and it is even material to build the future. So it can be used in both the manner and both connotations it works out well. So this is our new corporate global logo or you should see a sign or signature of the Heidelberg. Thank you very much. Over to the questions.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Dhaval Doshi from Sundaram Mutual Fund. Please go ahead.

Dhaval Doshi: Sir, just a couple of questions from my side. Can you give us the idea about how much percentage growth we have seen in our central region for the quarter?

Management: For the quarter I do not have the real figures actually. I cannot talk about the industry figures because there is a mismatch in the figures, the results of all cement companies from central are not declared, ballpark figure which is visible, maybe little negative, I cannot say right now.

Dhaval Doshi: Because where I am coming from is our volume number is constantly if I exclude last two quarters because of the COVID impact in Q4 and Q1, then we are seeing continuous negative growth since Q4 FY'19 onwards, just wanted to know whether it is constrained to the capacity which have anyways we have resolved with the debottlenecking thing, so, when can we expect growth or market share improvement in that?

Management: We have been able to improve the price line. That is very important. We could have done two things; okay, we could have sold more volumes and dropped the prices. Since we are one of the prominent strong brands in the central India, it might have caused more flutter in the industry if

you would have dropped the prices and taken the volumes. We could have done that also. Okay? But I think it was making more sense because we are moving toward the premium category positioning. So, sometimes we take conscious decisions also on volumes. Volumes will come through, volume is not a big thing to sell, okay, volume is a question of price. As I see it right now, when we have taken a trajectory and we have taken a decision that we reach a certain level, once there is a customer pull for our brand, then volumes will just fly off.

Dhaval Doshi: Because despite we have a negative working capital and so much of demand for our product and brands, that is why my question came that we are losing our market share, that is what I thought and that is the reason I have checked with you?

Management: I do not think we have lost market share, because, we were almost in central India close to 10% market share. So, even it became 9.8%, it really would not matter because this is the inertia which I just put the foot on the pedal and then it will just straightaway zoom off, will not take that long.

Dhaval Doshi: Only one clarification, the full impact of WHR, power and fuel, everything came off as of now?

Management: Yes, and WHR is with God's grace, it is operating also at a very good throughput.

Dhaval Doshi: What is the total savings you have seen so far?

Management: On an annual basis at about Rs.40 crores.

Management: On power front maybe there is some little bit room further for the renewable power which we are working for and I think going forward next year you will see some saving on that account also.

Management: About this AFR is alternate fuel we will start, about 6% to 7% of our thermal substitution will happen out of that once that gets into full swing, that we expect to start after July, it should click in.

Dhaval Doshi: And sir low cost pet coke inventories are there as of now for the next quarter?

Management: We have exhausted our inventory, that is why you are seeing some benefit which has come under fuel. We took advantage of it, but in the future right now, the coal and the average cost of fuel is about something like 300-odd which is similar to per gigajoule which is very similar to what was last year.

Dhaval Doshi: So, I mean we are switching more towards coal and not the pet coke because pet coke is around \$100 as of now?

Management: Now it is 10% costlier than calorific value.

Dhaval Doshi: My question is I mean probably in Q3 where we can see 80:20 kind of ratio of coal, pet coke?

Management: I do not think it is possible to do that now. Now the new pet coke which will come, it will be at a very high price. So we will have to be very, very stingy about it on the use of petcoke. It is not good for us because we had lined our system with higher pet coke. We try to use other additives also. It makes the impact on the total run what we create. If pet coke is cheaper, it adds much more value to us.

Management: But at the same time, you will see a little bit maybe plus/minus in the pet coke consumption, even in the September quarter, you have seen that we have slightly increased our coal consumption, in the coming quarters also try to optimize the mix based on the availability and the cost. And when we say the cost, always we calculate that what is the per ton on the cost of production of clinker and considering all additives and the other materials, then we decide about the pet coke consumption either reduce or increase.

Moderator: Thank you. The next question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: My first question is with regards to the demand scenario considering classified into trade, non-trade, rural demand, urban demand, infrastructure demand and housing. If you could share some more details on each of these segments, how they have been in last two, three months, last one quarter and also how do we see the situation today and going ahead for the industry and for the company in terms of the regions in which we operate?

Management: So, the government demand has been, I would say on an average strong, I would say on the positive side only specially in Uttar Pradesh, little soft would be on the MP side, but on UP it is positive. Coming to your share IHB segment constitutes about close to 60%, 62% of the cement consumed on to the retail outlets, there is a very massive drop down in the builder segment. So, that has been hit badly for various seasons of labor, for cash flow, these people are reeling under pressure, and they do not have capital to put into the market, they do not pay you for their old use also. So, there is a problem there. So, this will continue to languish for some more years, maybe for months or maybe a year or two also, you cannot say that because there is a lot of unsold inventory stuck in the market, the property prices have corrected in many of the markets by almost 20% to 25%. So, this is what it appears to be. Government constitutes close to about 30%, 35% of the volume, it is pulling up, and then this 5%, 7% which is missing, out of it you can say it is operating at 50% capacity. So, here we stand on that.

Rahul Jain: Sir, going ahead, the way we look at our next two quarters to come, what is your judgment in terms of the demand moving up apart from the seasonal impact and comparing it on a year-on-year basis basically?

Management: Now, COVID has become part of our life. Okay? Now Despite the country clocking 1 lakh and mortality coming to quite high also, what I would think is the people have got used to this whole system of COVID. Now, people are getting back to work, you can see traffic has come back again almost close to 80%, these are some research studies done by many research agencies, you are seeing the traffic back to 80%, migration of labor taking back from to cities which is

happening, so, you can see that also. Yes, precaution is there. Speed of work is little slow, but imagine what has happened in this whole bargain, the labor costs have shut up. You go to any market where a labor earlier was available for Rs.500, today he is not available for less than Rs.800, the guy who was the maistry or carpenter or senior guy who was drawing 800, today he is charging 1,500 as high as that, and people are not available. So this has improved the earning ability at the bottom of pyramid. Now, if these people are going to earn like this, their spending power will come back gradually. So the power of earning will come back into the rural markets where it is supposed to be. So we have been proponent of this, we are talking about for so many years that the growth is in the hinterland and that is coming true. You asked me that, this situation demand for the coming two quarters is concerned, I would say, very careful about it and I would say okay, you should be able to do the similar volumes what you did last year, a little more marginally here and there. So, if that answers your question? I am giving it with a very much of a caution. The reason is that, now dussehra is over, diwali is just another 15 or 20 days ahead of us. We have not seen any negative signs of people. Yes, consumerism in terms of the consumer movement for other goods, we are seeing very soft pedaling, but in terms of cement, I think it is going on.

Moderator: Thank you. The next question is from the line of (Ramesh Bhagwan from Prabhudas Lilladher). Please go ahead.

Kamlesh: This is Kamlesh here sir. Just one question on the part of the volumes like we have been growing far, far below our market for last three, four quarters as rightly pointed out by Dhaval as well. So what is the rationale for going forward like are we really focused on the margins like we want to maintain 1100 per ton? And for that say, if the volumes are down by 5%, 10%, would we be happy in that as well?

Management: Volumes we are never happy by 5% to 10%, this quarter we lost about a little bit. As I said, for me it is okay. On your EBITDA front, had I dropped prices by Rs.10, the entire industry would have also lost. Please understand that there is a responsible behavior at the top and the market is really not growing at that pace. There is a liquidity crunch. We can throw material left, right and center and then write off maybe another Rs.20 crores as bad debt. That is not the answer to it. Today, you give money to a builder, you do not expect him to pay you next nine months. And tomorrow, if he meets with a fatality of COVID, you are dead forever... that money is never going to come. It is a question of time. We have to be very clear about it what you can manage and what you cannot manage. It is only to the extent you can justify to your shareholders. Tomorrow, you will not spare us if we were to come back to you and say that, Rs.50 crores has to be written off. You would not like that.

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

Ritesh Shah: My question is on capital allocation. One is what is the status of the Gujarat expansion? And the second is on the annual report what we see is that our term loan which has been given to Zuari, what should one make of this and what is the end use for the quantum, is there any cap to it?

Management: Ritesh, on the Gujarat, we will now start our environmental studies. So, it will take about a year, two years to do this. Once the environmental studies are over, then we will go for a clearance environmental approval. And once that approval comes, then we will think about putting up the Gujarat project, that is one. On the term loan given to Zuari, it is about Rs.150 crores and the last tranche will be disbursed latest by March 2021, and it will carry a close to an interest rate of about 7.5%, and this will be fixed for the entire term. No further loans are to be given, this is one and all, no further extensions to be given. There is no rollover in this loan. It comes back to us by end of two years in full. In terms of its use, Zuari Cement is putting up a WHR unit which is costing them about Rs.230 crores. The Rs.80 crores they have done it on their own and about Rs.150 crores we are giving. So, in fact, today, it is a very good thing that the shareholders approved giving the term loan, otherwise at least there will be income which will come to you of close to about Rs.24, 25 crores plus I have spoken to you about in the past also about the MAT credit we will be able to utilize, about 85 crores of MAT credit still remains on our books to be utilized in the coming one and a half to two years.

Management: So, Ritesh, just to add one thing that the shareholder has approved this loan. So far no amount has been given as a term loan. Received the enabling provision given by the shareholders. So based on the requirement of the Zuari Cement, then we will leave the tranche by 31st March 2021. As on 30th September, in the balance sheet, there is no loan to Zuari.

Moderator: Thank you. The next question is from the line of Rahul Jain from Systematix. Please, go ahead.

Rahul Jain: Coming back to the question of volumes again, so, we right now did debottlenecking and we are at 6.3 mt. So, how should we look at it say over two years, so, essentially, you are trying to say that to get the market opportunity, you probably can reach to 90% of the utilization, is that how we should look at it?

Management: So, today we are operating close to 80% of capacity utilization and going forward we will step it up, now in the coming months we are obviously observing that there will be a good demand, so, we will improve the capacity utilization. We will have to do a little bit of changes also in terms of logistics also. So, there some logistics tweaking will have to be done for the market. Because right now, we are in the position that if you have to go full steam, then we will require some more trucks also. So, our contractors are building up the truck fleets and things like that, they are getting ready for that to serve the market, but today also if I want to operate at 90% capacity utilization, existing resources are good enough to operate. The two things which we want, we will not compromise on -- That is on the quality of our product, quality of our sales also. We will not throw money on credit, we will take always our payments into time, we are very selective about our consumers, we are very selective there is a good amount of demand which comes in. Sometimes it does happen also that we may have more orders, but we may not be able to dispatch, that also happens in today's COVID time one bad wave comes in, in some district and then there is a lot of fear and panic and that can push you back. So, today they want 200 tons of material. When the truck reaches there, entire market is closed down or something panic has started. So, that also impacts and then what do you do with the 200 tons. You have to

put it into some other place. So, these ups and downs are there. Notwithstanding this, we are clear that by '22, we will be virtually almost against sold out position.

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

Gaurav Rateria: Sir, just to clarify when you said, retail demand is 55% in builder segment, is that another 5% over and above the retail demand what you quantify?

Management: Retail demand is mostly for the IHB segment. Now, what is happening, there are quite a few contractors earlier who have gone into non-trade they are not able to come directly to the companies also because their cash flow is dried out, so, they are now going back to the retailers. So, we really cannot make out. Sometimes what happens is at the retail level the person who is buying, although we try to tell our retailers customer base we maintain, but to get a full clear picture that this contractor was an irrigation contractor who bought the material or it was a builder who bought the material on credit and the dealer is funding that. We are not funding it. Earlier these builders and many of these people used to pay us advance payment and take material. Now, because of the cash crunch they are going to the dealers or the middlemen who are buying cement as a dealer and supplying to them. They are ready to pay a higher price. They are not getting the benefit of a lower price. Does that answer your question?

Management: Can you quantify how big is that segment which is stressed right now and where the demand...?

Management: About 20% of that market is stretched.

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

Navin Sahadeo: My question basically was the sustainability of volumes. So, if I look at it on 1.1 mt that we have done for the quarter, typically that comes to around 11,000, 12,000 tons per day sort of a number, I believe for the month of September that could have been slightly higher. Towards the end of October, so, how do you see that sustaining for us or for the broader industry as well? And in the same breadth, are we seeing a lot of material influx coming in from the northern players or the Chhattisgarh players, which is disturbing much more than what it used to be before?

Management: Right now, in the month of October also, it is a little softer, because at least four days of the month are still because of holidays. So, you can say that even if it will flock out, it will flock out to something like 12,000 on the basis this is what would happen, is happening also, but the best part is that the prices have improved in the month of October. little bit of softening in volume, but this is for the industry I am talking about, our industry, I think should also taken benefit of this price, we have increased our prices in the month of October.

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

Rakesh Vyas: I have three quick questions: First is on the freight side sir, so we have been able to reduce our freight cost despite increase in the road share and there has been a substantial increase in diesel prices as well. So, can you just highlight the reason behind, is it just the lead distance or there has been any other changes that you would have made?

Management: From the competition viewpoint, I would not speak too much on this. We do a lot of internal discussion with our transporters, how do we improve the turnaround time and how do we improve their total earnings also despite market forces being in place. So, we do a lot of exercise with them and this is a result of that. Diesel prices will continue to go up and going forward also we are clear about it that if the surcharge what you call it as the peak season surcharge does not come in, we will try to clock the similar logistics cost in the future also.

Rakesh Vyas: Second is around the fuel mix. So, essentially you are highlighting that pet coke is now costlier. So, I believe given how our location is, we are relying more on the domestic coal itself or are we importing as well given the price differential and where do you think your coal mix could actually settle at if this price differential remains between pet coke and domestic?

Management: So, we have signed an FSA on coal. So, we are obliged to take that coal. So that first quantum of coal we will have to take anyway. But in the year ahead, we will definitely look at some imported coal also because the quality of coal in the Indian market is deteriorating very-very sharply and nobody wants to listen to the quality what is assured and what is delivered it is a hell of a difference and you cannot fight out a battle, management cannot lose time on that, it is better to find out a solution of your own where you can operate. So pet coke is totally domestic. No imported pet coke is we have taken. And right now, also there is no way that anybody will be able to take an imported pet coke given the current price. So if you ask me going forward what will be the mix. I am sure that coal percentages will remain on the higher side. Those days of 70% pet coke and 30% coal are not likely to come unless the refinery start working. Right now, it seems that globally the refineries are not operating because the diesel and petrol consumption may have come down. This could be one of the reasons but then once they start the plants, I think again pet coke will come back down to 60, 65.

Rakesh Vyas: Have we seen any supply disruption in the market that we are operating by any other players in general?

Management: See, most of the disruption is happening is because of low priced brands which are coming in sole rakes, which they are available in the market from Rs.40 to Rs.60 or Rs.80 rupees a bag, cheaper than the top brands which are selling. So, on the retail counter, you can find a price gap of as high as Rs.60 to Rs.70 also of some brands.

Moderator: Thank you. The next question is from the line of Sonal Minhas from Prescient Capital. Please go ahead.

Sonal Minhas: Hi, sir, this is Sonal Minhas. I wanted to talk to you with regard to your outlook on price rise and realization given that how you are seeing the cost hardening in the last few quarters, so, just

maybe a ballpark of what price if you are planning in the next three, six months would be helpful?

Management: So, Sonal, we are looking at the prices in the months of December. Depending on when the winter start, there will be some price movement on the upside. We are expecting in November also some price hikes which can happen and in the month of December also some price hikes could happen. This is what our take on this. On the demand side, again, if the demand stays at the level at what it is today, price hike may not take place too much. But if the demand which we expect that post-Diwali, the demand will shoot up, then we should see at least some improvement in price realization for close to about, you can say, Rs.100 a ton is possible on kiln side. Again, I am not talking about giving PD and then reversing it and all that. Genuine price increase can happen to the extent of about Rs.100 a ton and more depending on the market.

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

Shreyas Bhukhanwala: Sir, two questions: One is you mentioned on some price hike taken in October. Is it possible to quantify broadly how much price hike you have taken in October?

Management: I would refrain from answering this question...but yes, you can say it has added at least Rs.50 a ton to your NSR.

Shreyas Bhukhanwala: On Gujarat expansion, you did mention that probably we will start with the environmental studies which will take some time. So any timelines what we are looking at probably when the plant would start commissioning?

Management: Shreyas, the thing is this environmental studies are not within our control, these are done in cycle. So we can only say that give it to an agency who will do this, then go for approvals, it is a long process, it is a statutory requirement. So only when that happens through no, and once we get the environmental clearance, then we can give you a timeline. Yes, now from this date, it will take us another three years, three and a half years to put up a plant.

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

Sanjay Nandi: Sir, just you mentioned like we are just entering into some green sigma arrangement, which is a premium segment. So, what is our current like exposure in the premium segmenting and what kind of the realizations per ton improvement we might feel like once that thing gets...?

Management: It is close to about 20% today we are selling in the premium segment. And the realizations there are anywhere as it can be, it will range to close to about Rs.10-12 a bag minimum, which comes net into the company after taking discounts and all those things, which are there. So with the new packing right now, we were clocking close to about 22% of our volumes till last month.

With this introduction, 14 plus seven, almost 20%, 21% now, we are clocking there. September it was a little better, October a little softer, but I think November again move up.

Moderator: Thank you. The next question is from the line of Jainis Chheda from Dimensional Securities. Please go ahead.

Jainis Chheda: Sir, just one question. Your interest cost has dropped down drastically in this quarter whereas the debt levels are still constant. So any specific reason for that?

Management: That is our one NCD tranche we paid which was last year. There is no change after that. We have not paid anything out. And the next tranche is due in December of this year, which is about Rs.125 crores.

Management: So, basically, your question is about the reduction of the interest. So, if you see as compared to September 2019 year, there is a reduction as well as the June quarter also there is a reduction in the interest cost. When we talk about the reduction as compared to September '19, it is because of the loan which we paid in last December, that is the first tranche of the NCDs, and during this quarter, yes, there is a reduction because this interest cost also include the various financial charges, some bank guarantee charges, some other bank charges, so, we have saved a lot on that account, because now in the case of our few entry tax matters, those matters are already resolved and we have saved bank guarantee charges by returning those bank guarantees from the government.

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

Prateek Kumar: My question is regarding the premium segment. You mentioned that we have moved to 20% but our presentation says 13%, so, we have moved to 20% towards the end of the quarter, is that correct?

Management: 13% was there, now we have moved to plus-20% on that. So, that is still September because now when we give you the next quarter, so this is right now 13% and growth is of about 20% year-on-year basis. So, if you compare our volumes last year percentage, it would have been 20% lower.

Management: And this 13% we talk about, one is the Mycem Power which we call it under the premium branding and that Mycem Power we have launched two years back and gradually every quarter you see the growth in the Mycem Power. And recently now we have launched also new LPP packing box bottom bags and that is also now we classify. So, you will see that also gradually increasing, that is in addition to 13%.

Management: And again from 1st October, we have also increased our premium by Rs.5 on power. So that is also net which comes back to the company. Net of tax it will be somewhere around Rs.3.60.

Moderator: Thank you. The next question is from the line of Sumedha Srinivasan from ICICI Prudential Asset Management. Please go ahead.

Sumedha Srinivasan: So, you had mentioned that grid power dependence is right now 60%. Is that correct?

Management: Yes.

Sumedha Srinivasan: So what is the total share in renewable power, I mean, what would be your target for renewable power over the coming years, and what would be the cost benefits from that?

Management: See, we have a WHR, and we have a Renewable Power. So WHR if you call it under the renewable power, then it is a different thing. Otherwise, in terms of this component of power which we talk about is about 19%, WHR 20% and rest is the third-party.

Management: So, out of third-party, actually, under this renewable power if you put WHR as well as and the wind power. So, in our case, 60% is the grid, around 25% including WHR in renewable, and 15% actually we are buying bilateral power from the third-party.

Sumedha Srinivasan: Do you have solar separately or you get it from third-party?

Management: This is bought out from the third-party. So, we cannot tell you that, is it a wind power or solar power. This is in south we are taking into Ammasandra.

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

Manish Saxena: Just wanted to check if you have any updates on the eCommerce part, which you have talked about earlier, anything in terms of selling digitally or something like that if that is progressing?

Management: So, we are working on that, it is under progress, it takes time to develop software. I think in the next financial year, we should be able to talk much strongly about it.

Moderator: Thank you. The next question is from the line of Simran Bhatia from SMC Securities. Please go ahead.

Manish Saxena: Sir, I have two, three questions lined up: First of all, can you give some guidance on the debt profile, how it will go forward like I am very impressed by seeing your debt profile especially from 670 crores to 280 crores in the past five years, you constantly bring down your debt. So, can you give some light on the borrowings going forward? And second on the operating margins guidance like, right now it is at 23% to 24%. So, can you throw some light there also?

Management: So, if you are talking about our debt, we have been paying now, after this we pay one more tranche this year, after that then there is nothing till 2022. Thereafter, it is only the repayment of the UP state debt free loan what we have given, so, it will start from '23, '24 onwards. So, if we were to take up a Gujarat project, then we will have to do some borrowing, but touchwood with

God's grace today we are sitting on close to Rs.700 crores of net cash in the books. So, we are very comfortable to pay off our next one loan, we will be able to very comfortably give Rs.150 crores to this, and again by March I think we should come back to the same level of our cash reserves with us. So, we will try to build up about Rs.1,000 crores at a point of time so, that when we do our Gujarat project our borrowing is at the least possible lowest level. This is one point on this. In terms of our operating margins improving, there is always an effort to keep improving this to the best possible. Yes, once our AFR picks a little bit, that will support us. Then once we have implemented our solar project which we are looking at 5 MW, that will give some operational benefit. All said and done, the target is to improve on consumption parameters. We are very focused on reducing power. So, power consumption has to be continuously brought down, fuel consumption has to be brought down. Again, we have to also keep in mind not to ignore the fact that now we have to be more compliant on SOx and NOx. So, we have to take care of that also. So, we are doing a little bit of renovation in the plant here and there to put a different type of a burner here and there and see that how you control your SOx, NOx. These small, small costs will keep happening, in the long run, we will also look at a little bit of improving our clinking capability so that we get a better quality of clinker improvement further. Now the only upside which we are waiting is, with very hopeful eyes looking at the BIS, that they allow us to start putting 40% fly ash. The day they allow us, I can assure you, we will be one of the companies, if I am not saying, we will be the only company, who has excellent quality of clinker, we can absorb 40% of fly ash and still improve our profitabilities far, far more. But we have constrained, we have to only use maximum 35%. So it is a little bit of a tightrope.

Management: But at the same time you have seen that margin has improved during September quarter by almost 100 basis points as compared to corresponding quarter last year. So it has been gradually increasing, and now we are almost at 25% of the EBITDA margin.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: First question is with respect to the pet coke, you said you are switching gradually to thermal coal. Just want to understand given the technical and the quality constraint, if we are in a scenario where pet coke remain 10%, 15% expensive, what could be a sustainable mix of both the coal, that is one? And second question on, you are very aggressive in carbon footprint reduction target. Want to understand the 300 Kg per ton, what is the target year for achieving that and what is the ask in terms of alteration in our product mix, in our power mix, etc., which we are looking at over the long-term?

Management: See, this 520 Kgs can further go down to 500 Kgs if we were to increase the fly ash incorporation. Right now, the room is very limited. Now, when we are going low on pet coke and more on coal also, we will have to start containing a little bit on that side also. So, sometimes also it disturbs your whole working scenario. But they also had 520 Kgs. Show me one cement company in India which has Rs.520 Kgs? Everybody has a component of OPC. The moment you produce OPC, this you can reach 520 Kgs. What was your other question?

Sumangal Nevatia: The other thing is given the technical and the quality constraints, etc., what could be the sustainable mix of fuel if pet coke remains expensive?

Management: So, you can say 50:50 on an average basis, you will have to keep a 50:50 mix because we have also a target to extend the life of our mines. So in these last four, five years, six years, we have been able to extend our life of mines by close to seven years, and we will try to keep this that we do not lose out a single, we do not share the seven years of extra life at any cost. So, we will have to use pet coke and it will be give and take sort of a number. So, we do not lose that on a short-term basis.

Rajesh: Rajesh here from HDFC Securities. I have a few questions. First is we are currently operating at around 55%, 60% utilization for the WHR is what I understand. So, what is the thought process over there? How much more it can be accepted? And second, are we working on reducing our fly ash cost new initiatives that we are working on? And third, given that a major project expansion in Gujarat is still a few years ahead, what could be the CAPEX outgo in FY'21 and '22?

Management: So, to answer your question on the WHR, we are running right now at close to the very highest levels of capacity utilization. I think sometimes we run on a per day basis on two kiln basis, we run at least 5% better of them which is expected rated capacity. So, that is what it is. So, there is no further improvement in WHR generation possible. So, if we run three kilns, we will produce 300 MW of kWh or hour unit per day. And answer to your fly ash, you said cost wise, fly ash cost wise I have to tell you today if the thermal power plants in UP closed down, then we have to go to further or so. Sometimes we go to further distances also because we are a 100% blended cement. If we do not get fly ash, we will have a problem to survive also to run our plants. Normally, fly ash you can source it from the minimum cost of Rs.250, so, it can go to Rs.650 or Rs.800 or so which is far lower than the cost of clinker which is about close to Rs.1,800, 1,900. So, it makes more sense on fly ash. Coming to our Gujarat project, as we said, there is not too much of CAPEX which will happen in '21 and '22. Okay, just minor environmental studies and if things happen, it will happen only post '22. No major CAPEX I see it excepting for a little bit of CAPEX, which we will do on our AFR. And maybe about Rs.15, 16 crores, if we were to do our cooler for line three.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will be able to take the last two questions. We take the next question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: A couple of questions; one, you mentioned that you are balancing both the volume and pricing in the market and slight plus/minus basis points of market share does not matter right now. With the increased capacity last year, we should have expected a better market share gain given the increase in our capacity. So, if you can just throw some light on, how do you look at, obviously, you mentioned about your strategy of balancing growth plan, but if you can just indicate how long will it take to utilize the extended capacity at the current rate?

Management: Chintan, to answer your question, I always take a perspective of five years, okay, where I want to be in five years, what should be my planning for five years and then we decide on our current position. I can ruin the next 50-years by taking wrong decisions or we are taking a very shortcut method, but that is not the way we would like to build our company. So, yes, I am very clear about it that what is my price positioning today. If I tell you in 2006 when we started this company from the top brand, we were priced at Rs.50 a bag lower. Today, among the top brands in quite a few markets, we are Rs.5 ahead of them. And the target is to develop another Rs.30 premium over the top brand which one is positioning we want to go, that is very important to understand today. Tomorrow it can take another 7% volume. It is not a problem I am telling. Volume selling is not a problem for me at all I never look at volume as a game winner because management says okay, we compromise on our 50-year principle and we just take volumes. No problem, I will give you a 9% growth in next month. What is there? It does not take time. So, I am not looking at a very short-term area. We are building a company which has come a long way. From our company, EBITDA was about close to Rs.400 per ton while others were giving you Rs.700 per ton. Leading today a position from Rs.400 to Rs.700 those people who are giving, they are giving you Rs.900 to Rs.1,000 and we are giving you Rs.1,100 plus. So, it is a question of how you want to structure your organization going forward, that is very important for me. 2%, 3% of volume really does not matter to me.

Management: And Chintan, your specific point with respect to utilization of the new capacity, which we have debottlenecked and now it has increased by 1 million tons further and seeing the market growth of around maybe average between 5% to 6% next three years, I think that will be utilized, although in '20, '21, '22 fiscal year, the demand growth, we are hopeful that will be significantly higher, it should not be less than the double-digit demand growth, because in fiscal year '21, the cement market will degrow in the range of between 10% to 11%. So, that will come back and you will see really a good volume growth in the company in the next one to two fiscal years.

Management: Easily, I can assure you next year, in the same meeting when we discuss, you yourself will say the situation is a little different. And it comes over time. We understand a little bit on the ground reality where we need to press the pedal.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Raghav Maheshwari from Asian Markets Securities. Please go ahead.

Raghav Maheshwari: What is the status of our debottlenecking?

Management: Raghav, most of the debottlenecking is over, there is nothing much left to debottleneck excepting a little bit of clinker side, line-3 which will add up another 200,000 tons of clinker to 250,000 tons of clinker.

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: Yes, thank you. On behalf of PhillipCapital (India) Private Limited, we thank the management of HeidelbergCement India Limited for the call and many thanks to the participants for joining the call. Thank you very much, sir. Stanford, you may now conclude the call.

Management: Thank you, Vaibhav. Thank you, everybody.

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