



“HeidelbergCement India Limited Q2 FY-20 Earnings
Conference Call”

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HEIDELBERGCEMENT



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**MODERATOR: MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA)
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Moderator: Ladies and gentlemen good day and welcome to the HeidelbergCement India Limited Q2 FY20 Earnings Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. I 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 Q2 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 related 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 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. Participant may download a copy from these websites. I will now hand over the floor to the management for their opening remarks which will be followed by interactive Q&A. Thank you and over to you Sir.

Management: Thank you Vaibhav and thank everybody for joining our conference today. I suppose you would have received copy of our presentation which has been getting uploaded already. Take you through some of the questions which you may ask, maybe I will try to answer them early so that you can avoid asking the questions or if there are anything which we can answer them later on which I have not been able to cover up.

So, covering the first point is like if you see our results, EBITDA increased by almost 5.3%, net realization is higher by 9%, EBITDA per ton is higher by 4.5% and volume increased by almost 0.8%. These are the basic highlights which I’m seeing.

Coming to my slides presentation, my cost has increased marginally but coming to my presentation point is that if you look at the cement industry development you have to go by the industry how it is. There has been a little degrowth which is we are witnessing by the cement industry and this is visible in my Slide #4 which is in front of you. You can see that market was going and all of a sudden there was a trajectory which has changed. So, that was a little bit of concern and in the month of August and that is shown as a negative growth. We will have to see how the September figures come in but October also would be like little softer on the volume side because of the Diwali and Dussehra both falling in the same month.

Coming to HCI quarterly volumes; the same reflection you can see a little bit of the industry trend although we have shown a marginal increase despite a very rough monsoon which was a very rough weather this time across the country. We have seen extended monsoons which has taken its toll. Otherwise we would have done a little better after the last two quarters which were a little subdued compared to the previous year.

Coming to our Financials and Operational Highlights which is Slide #6:

We always take a ride in saying that we will look at zero fatality and things like that and we have a target to have a zero harm organization delivered by 2020. So, foremost priority is our safety and there we are delivering on zero fatality and zero loss-time injuries. On dependence on grid power if you look at it power grid power reduction has been dependence has come down to 16.9%. It could have come down further more ahead our WHR operations being a little better than what was anticipated. I will explain why it had happened because during monsoons the materials are wet so you have to divert the hot gases to warm the material, to heat the material, dry the material. So, to that extent you lose out on the generation part, so that has been the impact of it and that's how you see my cost going up on power little bit. I will explain to you later on on that also. On the net debt we had paid for share dividend we have paid up, so the net debt has gone up marginally from 80 crores of the previous quarter it has gone to 118 crores now. On Mycem Power we have grown 29% year-on-year, about 11% of our trade volumes is on Mycem Power which is a premium brand and we will take gradually we are increasing this quantum also. Regarding the questions could be about corporate tax reductions and what has been our take on this, we are evaluating because we have a MAT credit with us, almost close to 1.6 billion is the MAT credit with us and plus we have some other incentives which are coming for our certain plant. So, we are weighing the pros and cons of either of them and at an opportune time when we think that it is appropriate we will switch over to the new regime of tax benefits.

Dividend of FY19 is 30% since the dividend distribution tax has been paid so this is where we are standing. On the Q2 results is concerned if you look at page # slid #7, you will observe that on most of the counts on all the talk parameters we are positive. So, the company has done well, the team has really worked hard to deliver this type of a result despite very rough monsoon and very difficult climate situation because there was no sand. In many of the parts of western UP there was no sand and the struggle continues because of over flooding, floods were there in many parts of the country despite that these figures have been delivered.

Volume growth is marginally as I said higher but on the gross realization we have improved by 7.5% and that is brands are speaking, the market is giving a premium to the company for its positioning. Costs have also increased by about 7.3%. On the EBITDA bridge which is on Slide #8, you can see that the maximum contribution has come from the GSR which is market driven. Raw material cost has gone up marginally and that is basically because of certain power plants not operating and we have to cart fly-ash from distant markets. So, fly-ash cost went up and certain other material gypsum and other costs have also gone up to an extent. Power and fuel in the month of August, we had a power tariff increase in UP and MP and then again in the month

of September in UP. So, those two increases have come and because of our lower power generation in the WHR a little marginal increase you see in our power cost.

On freight side, we have tried to negotiate our freights in some of the markets and we have been able to reduce. But in this quarter, coming quarter forward there will be a marginal increase because we had to increase our distances to certain markets to cover the low demand in home markets we have to sending material to a little restaurant market so that will increase a bit. In terms of other costs if you have any questions we can answer to you on this particular part. We had some one-time expenditures like our dealers conference that had come into it, other part was our two cement mills this quarter were down, so there was an expenditure on that count and the third one was VAT incentive also we have taken because of the certain change in the incentive calculations. We have accounted for it and we have taken a soft **peddling** on this particular at this point only so we did not face problem at a later day.

In terms of overgrown volume share, if you look at it this has gone up little higher. Earlier we used to be 50-50 road and rail, now rail has increased little bit to a 56%, close to 56% and that is also basically we took the advantage because this time the railways are in a off-season discount. They have not withdrawn, so that is continuing. So, we continue to push little material in that.

In terms of coal on a year-on-year basis there is a benefit close to 40% on that and about 88% of our trade volumes are into retail. So, this is also one of the major reasons for a little better pricing for us from the GSR side and the more we increased trade volumes and the more the premium segment brand goes up so it is 11% when you look at it. It is 11% of 88% is important and we are not in a market where we are selling 40% under non-trade, so its on a 50% unit, the benefit is little relatively high year.

Coming to our Slide #10 which is also the cover slide, which is called Friends of Earth, you will see that why all of a sudden, what has happened to Heidelberg Friends of Earth. We have been friends of earth from very beginning. It is not we are friends of earth today. Very responsible mining operations to the running of the business we are as a group philosophy we want to be the least element, we would be the last element to ever even deterioration on anything on planet earth. So, this friends of earth although we have done a lot of plantation in our company's in this last 4-5 years. The target is to achieve a 2° temperature reduction in the plans compared to 1 km away from the plant. So, that is our ambition which we slotted it sometimes in the year 2014 and we are pursuing. So, forestation is one part of activity in that. Now on 15th of August we have launched the program Friends of Earth for our dealer network community where they will be planting trees and the they will be called as HeidelbergCement Tree and it will be planted at various locations and there will be on certain occasions it can be planted but that he has to be a little bigger in size. So, there is a full program we have created that how do we involve our dealer network also into thinking environment. So, today dealers normally if you talk to them about environment, they are very least interested in understanding or the implications they don't understand. But true this program we are touching the hearts of the people, making them feel responsible to the environment and to the society and how they can in a very small way also

contribute to making the planet greener and making our country is a little more environment friendly. So, this is the one thing which we have started in this year and hopefully so far we have in this between 15th August to now we have planted not many trees, about 50 to 100 trees would have been planted. But very soon we will be doing some major activities which is a shareholder as an investor also can go to the web and check what is the progress on it. It is not only we are talking about it. You will be able to monitor the progress of this is an individual and outsider also.

On the outlook side; positives are that I always say that cement Indian industry in India cannot remain silent or cannot be on the back burner. It is only for a temporary phase a 1.4 billion population will require housing 44 million houses, government will make ahead the best about 15-20 million houses in another coming 2-3 years but there will be continuously demand growing and the population growth continues to be at 1.1%-1.12% annually. So, the housing will continue to be a major demand driver for cement.

On stability of the governments is there, the central is on a much strong footing. State governments at some places, they are facing little difficulty with cash crunches. But overall I think the sentiments look to be positive. It should help in the near future to build up on this. By reduction in interest rates by the RBI that will help us boost the demand in the housing sector and crude prices are likely softening; only tension would be that may be in case if the rupee depreciates then this will have a negative impact. So, whatever you gave you may stand to lose there.

Today what is my major concern; today at the key level liquidity is a big issue. We have not but you are from the industry that many companies on many other commodities and companies, they are not able to recover their debts from the market and earlier the debtors used to come in 30-35, 40-45 days, they are now crossing 70 and 90 and somewhere even 120 days. So, there is a liquidity crisis which I think will get resolved once the government starts putting in money into the infrastructure projects which have completed to a big extent but their invoices are pending, payments are pending for release. So, once that sort of liquidity comes in this is a temporary thing which I think which should not last for long. But since your company is HeidelbergCement as company as such is that we believe in doing our business mostly on cash and carry. So, you will see that we have hardly any orders which are selling on credit. At best you can say some of my dealers maybe 5% of my dealers pay to me on the fifth day or sixth day otherwise everything is virtually on the first day or in advance or the next day.

Imbalanced monsoons, yes monsoons are significantly higher. Water table is gone high. I think this will have a positive impact for our Rabi crop going forward. As of now there is a lot of water which fell onto some crops which also have got damaged to an extent. But in central India where we operate the damage is not much but in certain other regions we have seen some damage happening because of excess monsoons, not timing. Monsoon is good but timing was wrong. So, that has the little bit of impact. Otherwise if the economy is on the strong footing once it takes off I think the future is bright ahead of us. So, with these notes I end my points here and

request you to pose your questions before us so that we can answer them. Thank you very much for being here with us and being with invested in the company.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Ritesh Shah from Investec Capital.

Ritesh Shah: How are we approaching organic and inorganic growth looking into next 2 to 3 years?

Management: Ritesh, first of all as we said that we are looking at improving capacity utilization, debottlenecking is one of the major things which we are looking at. Then we are looking at some limestone mines also to augment the existing capacity of our limestone mine. So, that will be the second which will be in the line and of course whatever the opportunities come in for other acquisitions or anything that we will all explore that as the time comes.

Ritesh Shah: Is it possible if you can quantify till what extent we are okay to stretch our balance sheet? I understand asset wise on inorganic front it is difficult to comment but from a balance sheet point of view what is our comfort level till which we can stretch on net debt to EBITDA or net debt to equity what you look at?

Management: Heidelberg is now almost (+5000 crores on an annualized basis if you look at it. So, the cash flow is good with the company, so you can imagine what we should be capable of doing it. I should not be giving any guidance or anything here at this moment. But yes, considering our net debt today our existing level considering also the group's ability, overall ability in the country I think we are not stretched I would say. I cannot say that it will be an easy walk but yes, we are confident that as a team we can produce results and get over it.

Ritesh Shah: So, is it like one-time net debt equity or some quantification if it's possible from your end just to understand how we are approaching at?

Management: Ritesh at this moment I would refrain from saying anything because before I say anything I will have to inform the stock exchange whatever I have to say before I can communicate to you.

Ritesh Shah: My second question is on Mycem, what is the premium it does command to our basic rent and what will be the contribution at EBITDA level for the premium cement that we have?

Management: There is a small contribution which comes in from the premium brand but it is more of which we call it as a supporting brand. Based on this we tried to improve the premiums on our base products. So, this is more of a puller brand which supports—I would say it is more of a booster the brand—it supports me in other activities creating an image about the organization and the company of the products. So, all though we sell about 11% I don't think we will want to sell anything more than 10% to 15% or 20%, only if it goes at a premium whatever my asking premium is. In case if I have to increase this volume and if my sales team says that please reduce the premium then I'm not interested in selling, I'm happy with 11% or 15% or 12%. I'm okay

with it. If I have to compromise on premium then I'm not interested. This is the part of my strategy.

Ritesh Shah: But if one had to quantify Rs. 30 per bag is a differential at the retail level then at the EBITDA level how much should it accrue, will it be Rs. 5-10?

Management: You take Rs. 5 to 10.

Ritesh Shah: Last question on cost heads; what was the petcoke consumption cost and a rupees per kcal basis for this quarter and how do we see this number for the next quarter?

Management: So, our petcoke price is coming to about 1.34 per kcal as of now as coal is coming to about 1.22 kcal.

Ritesh Shah: How do we see this for the next quarter?

Management: These are the current price so we can say about the current quarter this price will prevail.

Ritesh Shah: What was average for the quarter that went past against 1.2 and 1.34?

Management: This is almost flattish, not too much of a difference. If you look at my previous quarter also it was almost the same.

Moderator: The next question is from the line of Navin Sahadeo from Edelweiss.

Navin Sahadeo: My question first was on volumes, you said of course monsoons have done a lot of damage into the quarter and so for the first half if I look at it our volumes are almost flat year-on-year. So, given that October also you said there is a bit of a caution because of two festivals coming in the same month. Do we still expect growth for Heidelberg into the year as in will FY20 volumes will growth year-on-year?

Management: The thing is November and December are yet ahead of us. One month or so here going there it does not really matter. I think in the months of November and December now when the sand will be available today. Today there is no sand in the market. There are many markets where there is no sand, so construction has come to a grinding halt. Once the sand is available the demands will pick-up. I don't foresee big challenge here.

Navin Sahadeo: So, for a year as a whole would you like to give some guidance, what kind of volume growth are we expecting?

Management: Again depends on how the industry pans out. As I said we did not expect in August the negative growth. In September again there was a very harsh weather, so I'm sure the industry would record negative growth. October the festival season was there, so as an optimist I would say that the past 3 months was because of certain external environment conditions the cement was not

selling. So, the pent up demand which is going to come, so should come in the month of November to March.

Navin Sahadeo:

My second question then was on the cost front; you mentioned grid power has increased in the states of UP and MP. So, if you can just throw some more light as to from when exactly these hikes happened because frankly given the way the overall petcoke prices and imported coal as well as improved availability of linkage called as well and from bit of an indication given by Anilji in the previous quarter there was some decline in the cost expected but clearly that has not happened. So, just wanted to understand can we still hope of some benefit of low petcoke price coming into the numbers or this is what the costs are likely to be?

Management:

This is the current cost. I think going forward that cost will reduce further. That is what our anticipation is that the cost will come down on petcoke. Coal again when you're talking about these auctioned coal and this linkages what we are talking about, the coal what people are getting out of those linkages are not of the calorific value which has been assured. So, you are really struggling to get a coal of the calorific value what you want what has been agreed on. So, there is a challenge there and there we have lost out a little bit but we have to work with the quarries there, collieries there and we have to put our people there on place to see to it we get our consignments well calibrated and at the site only and there is a material delivered to us in the shape we want it. So, these are operational issues I think these are all I would say learnings which are getting into the industries to learn into. Earlier the coal linkages used to come whatever used to get loaded we used to accept it. But now when you're going for auctions and things like that then we would also like to have what the material what we have paid for.

Management:

Just to add I have two topics with respect to cover price, your question about it when it is started. So, in the month of August the Madhya Pradesh government has increased the power rate by 7.5% which was really a significant hike and you know that our clinker plant is in Madhya Pradesh so that's why the major impact of this power cost increase has come during this quarter. You are right that the petcoke price has reduced and during this quarter you are not seeing in the result and that is because of the exigency when the significant rains happened during this quarter which was not the case during last year and because of the more wet material, using of the hot gases, the WHR generation was also lower which you appreciated it is really a free of cost power for us. So, putting all these factors together the result has not shown but we have expected on power and fuel front. But we are hopeful that these benefits we will see specifically petcoke price reduction in the coming quarters.

Navin Sahadeo:

Thank you for your response Anilji but anything you can quantify in terms of at least a Rs. 50 per ton benefit or some ballpark number of savings that one can expect?

Management:

On the power and fuel it is almost we can say both the elements around 50-50 contributory on the overall power and fuel cost. On the power side since the increase has already been happened so that increase you will see in the month of coming quarter. But on petcoke or the fuel side you're right that around out of whatever 88 or the Rs. 100 increase during this quarter, so 50%

saving you will see. So, Rs. 40 to 50 reduction we are hopeful that will be coming in the current quarter.

Navin Sahadeo: You mentioned about non-recognition of VAT incentives for this particular quarter, so is there any communication that has happened from the state regarding that? If you can just throw some more light to give us some idea as to how can we expect this going ahead.

Management: The change in the way the incentive calculations are to be done, there is a change. So, we have represented to the government and we are hopeful of getting the resolution to that. That has affected many people, not only us. Other industries also they have affected. So, everybody is making a representation to the government and we are very hopeful that will be resolved in the coming quarter. This should be back to our normal, maybe with minor small adjustment. We may lose out small money but at least there will be some upside I would say.

Moderator: The next question is from the line of Ramnik Gupta from Gupta Associates.

Ramnik Gupta: Can you please throw some light on the clinker sales on this year versus the last year and the prices also for the clinker sale?

Management: This year there has been virtually no clinker sale by us.

Ramnik Gupta: And the last year?

Management: Last year there was a clinker sale there. 8000 tons was the sale last year and for the whole year if I would say 12 months so about 70,000 tons of clinker we sold last year.

Ramnik Gupta: For the whole year 70,000?

Management: Yes. This year it is nothing.

Ramnik Gupta: Can you please quantify the trade and nontrade share and price gap between these two categories, trade and nontrade?

Management: For us as I said 88% of our volumes is in this quarter is under trade and about 12% is in nontrade. The difference on an average should be close to about Rs. 400 for us. But if you really ask me that what is the difference in trade and nontrade in the market, it is as high as Rs. 800.

Ramnik Gupta: At the retail level you are saying?

Management: Not the retail, these are all institutional buying. When I invoiced it I take my invoice price at what I invoice to my dealers and I invoice to my direct party. So, the differences can range to as high as Rs. 800 also.

Moderator: The next question is from the line of Pratik Kumar from Antique Stock Broking.

Pratik Kumar: When we say that grid power contribution decreased to 69%, so like on last quarter it was how much?

Management: Could not get you.

Pratik Kumar: So, the grid power contribution, actually it's increased to 69% which was 60% last quarter in Q1.

Management: It was 69%, it's around 31% of the total power requirement during this quarter is either from WHR or from the third-party, not from the grid. So, our power target or endeavor is to increase the third-party power in WHR so that we can go more green.

Pratik Kumar: I mean corresponding number of Q1 was a much versus 69%?

Management: Q1 was 75 and if you see the corresponding year-on-year earlier that was further high. It may be in the range of 80%-85% at the company level because we have started buying opower through the bilateral agreement during last maybe 3 quarters and we are hopeful that this ratio will further increase from the third party.

Pratik Kumar: So, our grid power purchase went down but our WHR contribution also went down, so bilateral agreements contributed more like we are comparing quarter-on-quarter I mean grid power contribution also went down, WHR also went down.

Management: Because the third-party variable went up.

Pratik Kumar: Which is also higher cost generally or is it lower cost?

Management: It is relatively cheaper than the grid power. That's why we are moving from grid to third-party. It is cheaper, bilateral power is cheaper than the grid cost.

Pratik Kumar: When you say in Q3 we are expected to see slightly higher freight cost on higher lead distance, so is there any quantification there? I think we operate at around 400 km lead distance.

Management: 430 odd km. The thing is we are trying to see that how do we consolidate. What is happening that putting a pressure in a certain market really does not help. It dilutes in you in a many-many ways, you disturb the price sentiment, number one. Number two, you disturb your own brand image, so it is better sometimes to sustain certain things as a strategy we keep changing this mode of working from time to time, quarter to quarter, months after months. Those things will come into play from time to time and we know that right now the markets in Madhya Pradesh are in the little difficult situation than compared to Uttar Pradesh. And Uttar Pradesh also some places you are seeing stretch parts of the state, so you don't focus on those. You try to move materials to much remunerative market. So, when you move to remunerative at least you are getting a better contribution by increasing, freight, may be a one part of the element. But really

does not matter it in fact by going to a longer distance I am getting also better price which is far more or setting the cost of freight increase I have given.

Pratik Kumar: So, on the same thing, so seriously we used to also say that I mean at the current prices in some of our markets are so good that there is some volume which comes from northern markets to our market. So, the prices in our market has sort of diluted so much now that we are also looking at higher leads now?

Management: No, it is not like that. It is like this, the markets from where the brands are coming in they are not remunerative. For them they find MP and UP to be more remunerative, so they pump-in material here.

Pratik Kumar: But we find the farther east is even more remunerative so that's why we will choose to maybe increase.

Management: There are markets from Rajasthan; you can't reach those markets towards the east. so those are markets are beneficial to us.

Pratik Kumar: Regarding the debottlenecking plan, so we are on like generally companies undertake some debottlenecking initiative during monsoon, so we are on time for like 5.9 capacity by FY 20 end?

Management: We are very much on time excepting for Phase 3 we may just postpone—maybe in case if required postpone it—to by about few months, 3-4 months by a quarter or so.

Management: So, our original timeline was to complete all the phases of the debottlenecking which are in three phases by end of calendar year '20.

Pratik Kumar: Which could not be FY21 end?

Management: You are right.

Pratik Kumar: We are also having any other debottlenecking initiative also can come through after 5.9?

Management: I don't say, at the moment there is no debottlenecking I can see. We will first off this and thereafter only we can go for expansion.

Pratik Kumar: When we say that limestone, we are looking to have some augmentation in terms of capacity, so is it over and above 5.9 million ton?

Management: Yes then it will be straightaway catapult to another 2.5 million tons clinker it will come.

Pratik Kumar: But this is not the same location in Gujarat which we otherwise talk also?

Management: Not, I will refrain from saying anything on this. But we are definitely looking at some expansion which will happen.

Pratik Kumar: And just one thing on petcoke cost, so when in earlier comments you said that petcoke cost current spot cost are same as 1Q average or 2Q average but then we also said that we are expecting Rs. 40 to 50 savings on fuel cost in 3Q.

Management: So, that's what I said by altering the fuel mix we are able to get that benefit.

Pratik Kumar: In favor of petcoke?

Management: Yes, sometimes what happens that sometimes there are other things also, it is not only fuel. I may increase my fuel cost but you will miss out the other part which is how am I improving my life of mine. So, sometimes we may use a little more sweetener to use a sub-grade limestone also and extend the life of the mine. When I use more petcoke I'm able to consume more of sub-grade limestone also.

Moderator: The next question is from the line of Aprurva Bahadur from Jefferies.

Apurva Bahadur: Wanted to understand we haven't moved to the new corporate tax rate yet, so what exactly is holding us back?

Management: We have MAT credit with us, so which is about 1.6 billion. That is on the presentation also and plus some other incentives, so we have to look at which is the most optimal tax structure for us and if we will do a calculation on this and then we will come out with the final decisions, not in a hurry. At the moment staying with the existing tax structure is more beneficial, appears to be more beneficial but we will take a call on this later on.

Apurva Bahadur: You spoke about a lack of availability in sand in some of our key markets, so what exactly would be a cause for this? Are there changes any government policies or because there is a lack of difficulty in dredging during the monsoons?

Management: So, much as the same dredging, dredging is an issue and this time the rivers have swollen beyond a point. So, there was no sand available and it is not for humanly possible to dredge that sand during floods.

Apurva Bahadur: So, this should solve itself once the monsoon....?

Management: By 10th of November I think things will be especially in Central India by 10th of November we should start seeing a good quantum of sand coming into the market.

Apurva Bahadur: On all the lead distance that you told, it's 430 kilometers if I'm not wrong, significant increase from previous quarter? So, there is primarily because of dumping by other players in our key markets.

- Management:** Even sometimes what happens demand is low in your own market, you want to remove, you want to push a little volume so you spread out little more.
- Apurva Bahadur:** And our rail-road mix that will not change much significantly for a full-year basis?
- Management:** It will remain around 52 for rail and 48 for road and if the road is more beneficial, we will push more road. Time to time, I cannot say today the railways surcharge is not there, off-season they have not withdrawn. So, if that continues, we will keep pushing by rail. The moment they put the surcharge the road will become cheaper, road will increase.
- Apurva Bahadur:** So, if you could quantify the benefit for that surcharge, 7 hour per kilometer basis?
- Management:** It is about 8% or so 7%-8% on the total freight.
- Apurva Bahadur:** Total railway freight rate.
- Management:** Railway freight it is coming around Rs. 100 per ton.
- Apurva Bahadur:** The surcharge benefit?
- Management:** Surcharge yes, because they charge two kind of this fixed season surcharge and development charges which is coming around 15% of the rail freight so basically around Rs. 100 per ton of the rail freight and when we see our ratio of around 45% or 50% rail and road, so we can say by doing this exercise you get a significant quantum of the freight reduction because of the change of mix.
- Apurva Bahadur:** On the linkage side you said that we are receiving sub grade coal, so in that case I believe there is a provision for penalty on Coal India or the subsidiaries. Do we pursue any of that? Have you received any penalties in the past?
- Management:** Apurva I would be very happy if somebody is ready to give me up, to accept a penalty. You are dealing with the organization, easier said than done.
- Apurva Bahadur:** They are likely deployed CIMFR for this sampling, third-party sampling some time back, so even that is not helping?
- Management:** It's a long-drawn process. We should put our energies on improving productivity and things like that rather than running after the small-small claim.
- Management:** Sample also, what kind of sample you take and it is not the question third-party sampling. It is question how to take the sample and it is that always be prerogative of the Coal India or the respective subsidiary of the Coal India. They take and they send. There are very many means to actually they prove their VSP quality of the coal is good. Whereas when you get the coal of the full rate you will find that it is not as per our expectations.

- Apurva Bahadur:** On this Bilateral Power Purchase Agreements that we are entering. So, are we entering via power traders like PTC or are we directly going for I mean what type of parties are we entering this bid directly with not the DISCOMs, the generators or through traders?
- Management:** It is directly with the generators.
- Moderator:** The next question is from the line of Dhiral Shah from PhillipCapital.
- Dhiral Shah:** You talked about the power price increase in MP by 7.5%, so how much it is been increased in UP in the month of September?
- Management:** It is 5%.
- Dhiral Shah:** You talked about there was a low demand in your core market; then too realization was very strong, so what was the reason?
- Management:** We did not drop prices that's all.
- Dhiral Shah:** What was the price in the UP and MP during the quarter?
- Management:** There was a GSR of that time of around Rs. 4000 you can say, 4000 for the quarter so GSR was 4000, 4008 or something per ton.
- Management:** GSR is 4600 and NSR after freight is 4000.
- Dhiral Shah:** How economical is the third-party power sourcing as compared to the power grid?
- Management:** You save some money here. The outsource power is always little cheaper and then you have the benefit of scheduling it during non-peak hours and things like that so you take the benefit of out of it.
- Dhiral Shah:** What is our target because you talked about that you are trying to bring the mix of power and the WHR and this third-party, so currently it is 69% is power grid and remaining is from the two sources. So, what is the target to bring this to?
- Management:** Tomorrow the government may come out with a new Power Policy which is in the making, so the complexion may change after that comes in. That we don't know but what tomorrow will be the surcharge, they are talking about and we have the subsidies which are there. Those are the ones which we cannot say but as of now today if I were to source power I would say let us optimize it more through the third-party. Put your own power source also which we will in the long run we are going to come up with a little bit of putting up solar power also.
- Moderator:** We take the next question is from the line of Rajesh Ravi from HDFC.

- Rajesh Ravi:** I have a few questions, first is on the CAPEX which you guided by FY21 at the 5 million ton debottlenecking would be done. What would be the CAPEX that we would be spending on the same?
- Management:** It will be about 1.6 total on second phase and about 1.67 are on this third phase. You can say about 13 crores on each of the phases.
- Management:** Actually there are fixed phases, so each phases we are putting CAPEX which is not significant and we achieve the total CAPEX during the 3 years' time will be between Rs. 30-40 crores putting together all these three phases.
- Rajesh Ravi:** 30 to 40 crores total and this would be spent over FY20-21?
- Management:** 21 correct.
- Rajesh Ravi:** 4.5 million tonnes...
- Management:** Partly has been incurred in 19-20 and partly will be incurred in 20-21, majority will come under 20-21.
- Rajesh Ravi:** For the trade non-trade mix, around 90%-10% more that we have, on EBITDA and you also mentioned Rs. 20 will be a bad differential for you. At EBITDA level what would be it the differential for trade non-trade at your end?
- Management:** As I said Rs. 400.
- Rajesh Ravi:** No, that is the realization and that would also be the same at EBITDA quarter?
- Management:** 800 is on for the industry level.
- Rajesh Ravi:** Yes 400 realization difference that flows totally to EBITDA?
- Management:** Yes it is straightaway to EBITDA.
- Rajesh Ravi:** There are no additional cost incurred in the trade and hence the margin could be..?
- Management:** Nothing. Non-trade we allow a small commission if there are agents in between if that is Rs. 20-30 a ton that is all.
- Rajesh Ravi:** On this Blended Bilateral Agreement that you have, first of all what would be our blended power cost per unit, electricity cost per unit?
- Management:** Around Rs. 6.
- Moderator:** The next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: In the Central region in our operating markets what would be the capacity utilization if you look at it on a full-year basis?

Management: About 82%.

Madhav Marda: What are the new supplies which are expected in the next year or two years, any capacities which are coming up?

Management: Its 15 for that East UP plant of L&T, UltraTech that might be the one which is added, rest I think one plant of Wonder may get added in the Dhar area which might take still time and there is JK Aligarh.

Moderator: The next question is from the line of Milind Raginwar from Centrum Broking.

Milind Raginwar: Can you please share the clinker production during the quarter?

Management: Clinker production was about 670 ton.

Milind Raginwar: And this number would be in the corresponding quarter of FY19?

Management: On the corresponding that was 770.

Milind Raginwar: Staying on the P&L logistic of this time has shown a reduction on a per-ton basis however on an increased lead distance, is that understanding correct?

Management: No, not on the increased lead distance. The lead distance is now started increasing a little bit in the last two months. That's what I was mentioning, so it is not the earlier leads were okay.

Milind Raginwar: Last 2 months of this quarter?

Management: I was referring to the quarters beginning for the third quarter which will be the part of it is went into September, rest will come in the month of October-November.

Milind Raginwar: So, lead distance is increasing in this quarter?

Management: October-November but again by December as in November-December it should again retreat.

Milind Raginwar: The third question is on the debottlenecking that we are taking it from up to 5.9 right, is that understanding right?

Management: Right, sure.

Milind Raginwar: Our clinker stays at 3.45 including Ammasandra?

Management: Clinker should be almost 3.5.

- Milind Raginwar:** You see that conversion ratio bit stretched?
- Management:** No, I think this 3.5 is sufficient for the cumulant cement of around 6 million tonnes. We have totally blended cement and the fly ash we are using at optimum level and Ammasandra we are using flake. So, there is really headroom available on the clinker side to grind the additional cement capacity which will come out from the debottlenecking.
- Management:** So, Milind just only for your information the clinkering capacity utilization for last quarter was 76%.
- Moderator:** The next question is from the line of Kaushal Bothra from Antique Stock Broking.
- Kaushal Bothra:** I just wanted to understand what was the pricing scenario in October and what are you expecting in November and December, if you could give a sense of regional breakup too?
- Management:** I think October was little soft, mid-November it should take up little more and then it should take some more increase in the first week of December and then it will stay flat, decline a little bit in the end of December that is what my reading because there is the severe winters. In case if the winter progresses, it will all depend on it.
- Moderator:** The next question is from the line of Ritesh Sheth from CRISIL.
- Ritesh Sheth:** I wanted to know that what gives you confidence that demand would pick up from second half FY20 onwards. I know there would be pent-up demand as you said which has not yet appeared in the months of August-September but we have been hearing about various payment issues and lack of focus by Madhya Pradesh, MP government on building up infrastructure. So, just wanted to know what gives you that confidence of a revival of demand in particularly in your market of UP and MP?
- Management:** As I said we are more into the trade segment. So, whether the government spending happens or not it does affect because it builds up pressure on price if government demand does not take place. But asking me about volume, volume will continue to grow. Volume is a basically Tier-2 and Tier-3 cities, as our infrastructure work is mostly on the roads and Awas Vikas.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.
- Vaibhav Agarwal:** Thank you. On behalf of PhillipCapital I will like to thank the management of HeidelbergCement India for the call and also many thanks to the participants for joining the call. Thank you very much sir.
- Moderator:** Thank you very much 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.

