“HeidelbergCement India Limited's Q3 FY'22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, and welcome to the HeidelbergCement India Limited Q3 FY'22 Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vaibhav Agarwal: Thank you, Aman, and good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q3 FY'22 call of HeidelbergCement India Limited. On the call, we have with us Mr. Jamshed Naval Cooper -- Managing Director and Mr. Anil Sharma -- Chief Financial Officer at HeidelbergCement. India Limited.

I would like to mention on behalf of HeidelbergCement India Limited and its management, that certain statements are being made or discussed on this conference call, maybe forward-looking statements related to future developments and the current performance. These statements may be subject to a number of risks, uncertainties and other important factors which may cause the actual developments and results to differ materially from the statements made. HeidelbergCement India Limited and the management of the company assumes no obligation to update or alter the forward-looking statements, whether as a result of new information or future events or otherwise. Also, HeidelbergCement India Limited has uploaded a copy of the "Q3 FY'22 Presentation" on the stock changes and its website. Participants are requested to 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, Cooper sir.

Management: Thank you, and good afternoon to everybody for your presence. Since you have downloaded all the presentations, I will run fast by this. Yes, this quarter indeed has been a very traumatic one for reasons of the cost increases which have been very severe and the unprecedented impact we have seen in this quarter the low demand because of infrastructure low spending and the market did not move to the expectation, and the double whammy was power and fuel, the fuel cost was through the roof. So we suffered, but yes, I think nothing to worry about it. The volumes were down by 11%, the first half by 13%, which will increase the price a little bit and got some 2% relief out, pass it on to the consumers. But given the current situation, I will talk to you later on also, but as of now, the quarter has been not a good one, I think this will be one of the rare ones, which we have suffered.

If I look at the other areas of our business on alternative fuel we started on the ESG, so, that is a very good thing to have happened to Heidelberg that now today we are running AFR and a target is to run to about 8% to 9% of TSR, we assure to should meet as soon as possible.

On our 5.5 MW solar power project in our sourcing of power for 15 MW at our Jhansi, I think this is all under way and it should happen start triggering from this month or later earliest by next month, some of these should fortify. So, there is a positive side to it.

Share of Green Power is about 20% for us. We produce 100% blended So, we are fully covered from the ESG side, we are on a carbon footprint we are far ahead than many of our colleagues in the industry. We operate on negative working capital, so that is also the silver lining there. And on a net cash balance basis, we are about Rs.181 crores of cash surplus.

I am going to slide four. You can see the picture of the WHR, this is the AFR plant which is on operation and on the right hand side of the picture, you can see the 5.5 solar project. The projects are already. As far as the AFR, continuously we are getting, but there can be some glitches here in AFR, sometimes it happens, because we are using biowaste, sometimes it does not come out otherwise, but we are creating capacity to store about four to five days of stock of biowaste. So we can run this plant at 100%. We have reached as high as TSR of almost 9%, on some days we are able to meet, that means the plant has proven its capability that it can deliver higher TSR, but it will take its time to stabilize, but 4% to 5% of TSR, we are guaranteeing that it will happen now.

Coming to our environmental footprint, as you are seeing on slide five, this is a very unique activity, which we have started somewhere in 2015 and now we are continuing. The target was to get the ambient temperature inside our plants to two degrees lower than what it exists one kilometer away from the plant. Very happy to say that in the previous quarters, we had clocked almost 1.6, now, we are at 1.7, there is an improvement. Of course, we compare all the units together. So, as HeidelbergCement group, India plant which includes Zuari Cement plants also.

The second unit among our India units is Jhansi which has crossed 2.2 target. We are very happy that Jhansi team has really worked to see that they are able to achieve a better work environment in their area of operations.

On CSR initiatives, Slide #6, we are now making classrooms smart by putting boards in classrooms. So, there is an obligation there in terms of CSR also. So, Amsa, at Ramasandra, we are giving schoolchildren education kits.

Another important part is on slide number seven, we had given a commitment to the local government, which is a Damoh plant to put up an OPD center. So, we are creating the center under the CSR activities which will be one of its kind and it will be a very big respite to the people of Damoh. So, that investment we are making and that is in progress. Rural health checkups and other things are continuing as it is.

Now, coming to the basics of our business which you are waiting to hear which is on slide number eight, if I take exception months which is exception quarter at December and if I look at the nine months, we get volume growth of close to 11%, which I think we should appreciate more than getting bogged down with one quarter of bad quarter which does not set any precedents, neither it sets any tone for the future. This will come back from the cloud because we had this COVID, after COVID we had this Omicron as well. So, one after the other this fuel prices and the rates which are going up through the roof, will cause the concern and it will not end here or it may continue also, but let us focus more on the Indian domestic demand, how does it stack up. I think the demand in India is going to come back and it will remain strong. People have made good amount of money in the stock exchanges and the retail investors they should plow that again into the retail reality sector and you should see again a boost in demand for housing.

Coming to the reason for decreased profitability, as I said that the major area for us has been you our fuel. I will cover further also. Of course, the volumes took a hit. We took a hit on generation because when the volumes go down, we cannot produce electrical power, quarter-on-quarter basis if I look almost two gigajoules of power we could not generate. We did generate always 15 gigajoules of power in the December quarter, now we are able to generate 13 gigajoules. So all this adds up to it.

Now, this is a slide where I can give you more details on slide number 10. You can see the power and fuel how it has impacted us on a per ton basis of cement.

Then comes the raw material. The raw material is also inclusive of our packing material. So, the granule prices shot up significantly through the roof, because of the CC prices that is baked into this. The other part is when diesel prices go up, your transfer of clinker, which is almost more than 50% of the clinker we transport from Damoh to Jhansi. So that cost is baked into this. This is where we take our clinker transportation logistics first also under the part of raw materials because it is a raw material for another unit and bags also come here. So these are the two factors which has led to this Rs.167 per ton increase impact on the EBITDA margins,

Coming to the other things, this Rs.47 which is there, we can discuss if you have any points on this. There are three four issues there which we see, one was also the unseasonal times… what I will request Anil to delve on all the four points which are there… After my presentation, you can delve on all the four points, which has led to this Rs.47, but let me tell you it is nothing but a matter of concern for us because there's some advertising costs and other things. Don't take it as an expenditure, take it as an investment, you will see the returns coming on in the long run for this Rs.47, which will give us more returns in the long run.

Interest bearing loans, if you want to know, this is how it is. Now, almost on net basis we are debt-free company, this loans which are interest-free loans, these are bullet payments, which will happen in a period up till '26 and still we sit on cash.

Coming to the key points of our business, 45% of our volumes are moved by road. We have to reduce pet coke. Earlier we were hiring almost 70% pet coke. Now it is the total reverse; it is 69%, 70% has come to coal. You can see the difference, pet coke is significantly higher. But when we reduce the pet coke, we have to increase our sweetener consumption also. So, there is a negative impact on that count also. So, it is all linked to one-by-one.

Coming to our premium products, we are good at around 22% I think this is a very reasonable figure to reach 25% in the year or so, it is good enough, but at the moment, we are not pushing these products too much beyond a point. 77% is close to our trade sales and non-trade took a beating and trade also took a beating. So, there is a difference, a little bit of realignment in the percentages. Earlier, we started clocking almost 85% of trade. So that has slipped a little bit. Whatever work we do gets also due recognition. So you can see the accolades which have come to us. We were recognized as the third fastest growing cement company in medium category by the Indian cement producers, there is one of these awards. Under the CSR award, we got a Silver Category and it's Eighth CSR Times Award for Rural Development. These are some pictures of our technical director receiving the award from Hon'b'le Minister Mr. Prahlad Joshi.

While we talk about ESG and other things, on energy we are very conservative, we are focused extremely and Jhansi has got the privilege distinction, I would say, of the sixth consecutive year being awarded for the energy conservation.

Coming to slide 16, we have seen the budget, the outlay has increased. So we can hope that there will be something for cement demand from this side. GDP is forecasted to grow better. IMF has already improved the rating from 8.5 to 9. So we should hope that GDP continues to grow and then if GDP goes at 9%, we should expect cement to be around 9% if not less we should see the growth we should see.

Third, on the COVID, now people are getting used to it, life is getting back to normal, but let us not conclude that the pandemic is over. One never knows what is around the corner hidden for us.

Fuel cost almost doubled, we have seen a few days it has gone through the roof, very difficult times. But let us not be very hopeful that the fuel will come down to yesteryear levels of when we saw pet coke at $48, which is not going to happen…. at least in a year or two, I don't see that happens.

On power distribution, we will soon might see some power tariffs going up. So, we should be prepared, we are preparing for that and that is why our team is working on renewable energy, third-party sourcing on power generation through solar power plants and our AFR if we can improve output through our WHR also, that will be our main focus areas.

Another thing before I conclude this, I want to add the cost pressures because of the fuel and everything is so much enormous that cement cannot remain at this level now. Cement prices I think should go up. As HeidelbergCement India, I am telling my team that we have to pass on the cost increases to the consumers. You cannot keep it with you because it is unfair to the shareholders really. So, every day we are trying to see somewhere we can take bites from here and there and improve our margins. We have been increasing prices with very-very small in case we have done it in the month of February, in the month of January minor we tried it, we tried something, but we had to roll back, but we did take some benefit, increased by Rs.5 rolled back by Rs.2, Rs.3 here and there when the market did not absorb it, there is some gain which is gradually coming in, but the volume should now start coming in, that is a major concern for us.

On slide number 17, I want to mention that we took a little bit an aggressive stand on our social media. This cost also is part of our other cost which we consider. More people are attached to us. We have revamped our website. This was the need of the hour. There are many customers who want to see us in better light. They have been recommending that to provide more information to them through social media and other things. So that is what we are trying to address their needs. Because the new gen customers are more on social media and they are wanting to know about the company and about the products and how we can benefit from the company. We are using these media from our side. This is all from my side. Very happy to answer your questions. Anil, my team, everybody's here to take your questions. If we have missed anything, we will definitely answer it to the best of our abilities and we want to keep our business as transparent and clear as ever. We want to give our investors a comfort that we will tell you what it is. We want to remain consistent in our business. But of course you have to pardon us for any extraneous pressures which come because of demand and other things which we are not able to foresee sometimes or not able to manage. Either. Thank you once again for staying invested with us and giving us the sense of confidence in us and holding us in the right spirit. Thank you very much. And over to you, Vaibhav.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. First question is from Shravan Shah from Dolat Capital Markets. Please go ahead.

Shravan Shah: Sir, simple basic questions is how do we now see the overall cost moving up in the fourth quarter, can we see further increase because at this time, our raw material cost including the change in inventory is significantly increased QoQ, entire all the cost line item, how much we can see further increase? Second, on pricing front last time we have said strongly prices will be increasing significantly every month. You have already given by November, December and January we will be seeing a Rs.500 per bag which is not happening as you said that Rs.5, even the January hike you have taken a rollback of Rs.2-3, so how do we see the pricing or the realization for us going forward? So net-net, just trying to understand how do we see the EBITDA per ton in the next quarter, can we see a significant improvement?

Management: Just to answer is that when I made this comment that we should see these high prices. It was based on that with such high costs coming in. I think nobody will be able to keep up with the price with them, okay, they will have to pass it on to the consumers, but probably the industry was not able to pass for whatever reasons, I cannot say for others, why they did not. For me, there is a price elasticity, if I take a price increase of Rs.10 and competition or the others don't take similar increases, there is a price parallelism which happens in the cement industry. The differences can be between competing brands depending on which brand level you are competing. The elasticity can be Rs.5-7. Beyond that, you have to fold back again into the same thing. So, I cannot tell you why the prices have not gone up, but today, I'm sure that everybody in this industry would have exhausted I would suggest, they would have exhausted their old low cost inventories, there are low cost materials and now they must be having all materials which are inventory, which will be high priced. So there is no way, but only is one way through the tunnel, you can't go back into the tunnel. So now you smoke you through the tunnel and you'll have to come out of it. And you will have to increase prices. Coming to Q4 on prices, I'm sure that prices should go up, these are the good demand months also. So, there is no reason why the prices should not go up. We have seen good production in the third quarter, I think this inventory would have also piled up a little bit, In January, they would have been able to exhaust the inventories, and from February onwards the prices should move up. That's my feeling. Coming to your inventory cost going forward, I think the prices will remain same, I think the cost will not come down significantly, minor here and there, small things may happen but not significant. Let us not give you any picture which is very nice or a very good looking picture or tell you anything which we do not expect to happen.

Management: Just to add with respect to costs part, I think we need to also understand that some of the costs like diesel prices, because of the transportation cost is higher which resulted into higher fly ash cost, then granular prices by the refineries they have increased significantly during last one year and taking costs because of that has increased between 30% to 40% during last quarter. With respect to our raw material prices, with respect to our fuel prices, this is the pure external things and in the short to near term, we can say that, okay, that may continue, maybe there will be some softening on account of pet coke prices, which we have seen in the month of November or December, but cost will remain on that account in the coming two , three months. payments. Now, with respect to this other expenditure, I think this expenditure per ton basis seems higher during the December quarter, but in absolute terms as compared to corresponding quarter of last year, it is slightly reduced. And there are two kind of costs we grouped under this other expenditure. Some of the expenditures are fixed in nature either traveling or maybe our administrative costs, some of the expenditures are variable in nature, that is related to operations of the company. So the handling costs and some of the costs related to rates and taxes like limestone royalty and other things. So, increase or decrease of the cement production and cement at this stage, cost may go down which are variable in nature but cost may also be static if these are fixed in nature. During December quarter, after second wave in July, August, the COVID delta were actually started reducing, some of the activities which we have stopped there during last one year, especially our dealer mates and the people who are going to market, those have been restricted or limited in last one year or one and a half year. So during this diwali and the month of December, we started moving to market and started meeting with our networks. And also, we have started doing some advertisement, especially digital media and wall painting. And wall painting and hoarding kind of things were almost stopped in the last 15 to 18 months from March 2020 until August 2021. Other expenses are maybe of fixed in nature, but we have revamped and increased a little bit to sustain our market share in these markets. It seems on hindsight on per ton basis because of the lower volume, but I think going forward, we will be back to on per ton basis on the other expenditures. This is one point With respect to inventory.

If you see our trend of the December quarter of 2020 or even in the past year, our inventory always decreased because in the months of November, December, we took plants shut down of our kiln so that we should be ready with our production capability and efficiency when the peak season starts from the month of January. This year also, we have done same thing. If you compare our inventory difference amount or the inventory difference amount with December 2020, you will find that same thing happens. Yes, as compared to September, our inventory increased, and that we do in order to have the inventory post-festive season. So at the time, we try to increase as on 30th September. In December, we try to reduce our inventory by taking the shutdowns. These are the developments and those are the very natural developments happened in the December quarter and always you'll find the December quarter is kind of shutdowns.

Shravan Shah: The last question is, in terms of the volume, can we see YoY growth in the fourth quarter? And two data points, the net debt you have mentioned, 1,811 million, but what's the gross debt and gross cash and how much CAPEX we have done till now?

Management: As far as the cement going on in last quarter, we did 1.25 million. So, we are working on that, we should at least be there.

Management: On our CAPEX, we have taken normal sustainable CAPEX which is almost 35% to 40% of our annual depreciation, that amounted in the range of INR500 million, Rs.50 crores for this fiscal year. And during '21-22 fiscal year, we have taken two projects related to sustainability. One is our alternative fuel project. Total investment we did for this project is Rs.16 crores in two years. So, in the fiscal year '21 also, we had incurred half of the amount and then the remaining amount we incurred in December. So, that is the total amount of Rs.6-7 crores came during the current year and then we have invested CAPEX for our solar power plants. So, during fiscal year '21-22, our total CAPEX will be in the range of Rs.75 crores, out of that we have incurred 50, 55 crores in nine months and balance we will do in the remaining three months.

Management: Cash balance also in the March balance sheet, total amount we can say net debt level is higher as compared to September quarter, September quarter our net cash balance was around 1 billion, which increased to 1.8 billion at this moment and this is happening on account of better working capital optimization. And during this quarter we have repaid our 1.2 billion total loan. If you see in one of our slides of our presentation, there you will find the total bank balance also which is 4.1 billion, Rs.415 crores will be gross cash and bank balances.

Moderator: Next question is from Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Hi, my question pertains to the scenario in the central market with multiple players entering that market, even ACC and JK Cement will be increasing their capacities next year. What is the sense on the market and where is Heidelberg position in terms of its CAPEX, capacity expansions and volume growth visibility?

Management: Rajesh, as we said in the March of '20, we debottlenecked and added almost close to 1 mt. We'll be adding a little more quantities in the next few quarters also in '22, '23 by debottlenecking. Right now, we are operating at 73% utilization for the quarter. We have got enough headroom right now. So, will we not lose market share, if that is the question? That is the answer to it, yes, we will not lose market share. Growing capacities in this particular market in central region, it is not possible as of now, because, after this debottlenecking, we will add about another half a million tons max and then we'll have to sustain this. To retain its market share, we are looking at Greenfield project which is in Gujarat on which we are working as of now. So, in terms of competition, yes, competition has increased, but ultimately we have to learn to live with competition, everybody has to live in world of competitive environment. We are not concerned about the environment because also when the capacities are coming up, we have enough headroom also, I think every cement company has the same, everybody is operating around 70% in central India. But luckily, in central India, if I look at it, in quite a few months, we operated close to about 80%, 82% also.

Rajesh Ravi: This Greenfield expansion, any timeline by when you would start groundbreaking or by when this project would be applied?

Management: Rajesh, we are working with the government to get us approval for environmental clearances and things like that which is regularly monitored month-after-month. It takes about a year, year and a half to get the environmental clearances. Once that comes to us, then we will do the further growth on this. CAPEX, we hope to start something in '23 if everything goes right.

Rajesh Ravi: So '23 if it is achieved, after that this being a Greenfield, another three years, before this could be operational, in FY'26 or somewhere…?

Management: You cannot see that project, but ultimately once the clearance comes, you can put up a plant in 24-months also.

Rajesh Ravi: Primarily, in central market, you would peak out with 0.5 mt incremental capacity and this is clinker you said, right?

Management: Yes, this is cement basically.

Rajesh Ravi: Any clinker debottlenecking also you are working on sir?

Management: That will add up to it because we have already enough grinding capability. We have to now augment to the clinker. That is on line-3 we are working on cooler.

Rajesh Ravi: On the amalgamation of Zuari, any thought on that sir?

Management: The group has given guidelines on those. We are working on. It will take time.

Moderator: The next question is from Utkarsh Nupani from Haitong. Please go ahead.

Utkarsh Nupani: Sir, my first question is again on market share. We had increased our capacity say from 5.3 mt to 6.3 mt through debottlenecking, around 1.5-2-years back. But still our sales volume is down by 4.5% on a three year CAGR basis whereas our major peers have posted positive volume growth over the same period despite no increase in their cement capacity. And what we are observing is that few new players have entered into the central region and they have been able to successfully ramp up their capacity over the last two, three years period. So sir can you please help us understand what is the reason for the same?

Management: You are saying the ramp up capacity. The only player which operates in our plant is Prism Cement. So, I have not seen that they have ramped up their volume anywhere. Yes, there are other companies which are bringing cement from other towns, other cities, they might have been selling more. It is not apple-to-apple comparison I would say. All said and done, during the COVID period, everybody has lost volumes here and there. If you are an all India player, if you are posting all India higher volumes, that does not apply to us in central India. But in central India, we have 48 mt of capacity which is about 60-63 around that much is happening. And most of the cement which has been produced also in central India is finding its way out of central India. It is not disturbing the equilibrium. Ultimately, it is some minor 0.5 here and there one quarter or next quarter can happen. But if I look at my last five years of data, we have not lost market share.

Utkarsh Nupani: And sir, considering that a lot of new capacities likely to come up in central region over the next two years, so wanted a sense from you that by when we can expect our existing capacity to be ramped up a level of 90% rate?

Management: 93%, it is just only a matter of demand. Today also if I look at it, the last month also, our plant had operated close to about 80-83% capacity utilization. So, it's a question of demand. If we get the demand, we will pump the material, not an issue.

Utkarsh Nupani: Sir, can you please provide the detail of capacity expansion plant for Zuari Cement say over the next three to four years from here?

Management: Zuari, I cannot provide. That is not a listed firm.

Utkarsh Nupani: Sir, what is the reason for sharp increase in other expense in December quarter – was there any one-off included in other expense?

Management: As I said, there is nothing as such.

Management: As we have explained, some of the expenditures are fixed in nature. If you see the total expenditure as compared to moving quarter of last year it has not increased in the absolute terms. Yes, on per ton basis, there is an increase of around 60, 70. And there are three, four elements actually is what we have done from the regular nature in December quarter. Those things we could not do during the last 18-months because of the COVID. One of that thing was our dealer meet, then wall painting. During this quarter, we have started our digital advertisement also. Again, because of the relaxation by the government, the movement of the people have started, some in other expenditure also were incurred during this quarter. Those are the regular nature of expenditure, but when we compare with the corresponding quarter of last year or the September quarter, some of the expenditure has increased during December quarter and it will be normalized maybe in coming months.

Moderator: The next question is from the Sanjay Nandi from Ratnabali Investment Private Limited. Please go ahead.

Sanjay Nandi: Sir, just a few questions from my side. What is clinker utilization for this third quarter?

Management: About 73% capacity utilization.

Sanjay Nandi: What is the clinker to cement conversion ratio?

Management: This clinker factor, we absorb almost close to about 61.5%.

Sanjay Nandi: Sir, did we take any price hike in the first month of this quarter like January is already over, so…?

Management: No price hike. As I said, around 20^{th} we tried attempting some price changes. We did some change on 7^{th} of the month, then we did something on 14th, 15^{th} of the month but with small, small pieces. Some of them were successful, some of them were not successful.

Sanjay Nandi: Do you plan any kind of price hike sir going forward, from the month of February I think…?

Management: We are increasing every month some price or the other in the market somewhere in small pockets wherever we are seeing that there is a demand coming up, so we are increased prices, but it is in a very small, but that will be a permanent increase, we are not wanting to give a price hike and then take it back and then roll back the prices, that does not we would seek a future to the trading community. Trading community requires the stability of the prices, they require consistent prices.

Sanjay Nandi: We find that we have taken some improvement in the realization like in Q3 compared to Q2 of this year. So does it happen because of the mix of changing or it's something…?

Management: Market is yet to face the prices up. Otherwise, you have seen, cost has gone up by 13%. We have increased the prices only by 2% which we could have passed on the entire 13% and we would have been smiling in front of you.

Sanjay Nandi: So, you meant to say the mix is overall same, right, in this particular quarter?

Management: Yes, almost same.

Management: We only deal in one quarter. So no change in the product in the MNC, DPC and you have also seen that our cash sales in the range of 75-80%. So that remain also same, there is no much change in the mix of the product and no change for this sector**.**

Moderator: The next question is from the line of Roshan Panicker from JM Financial. Please go ahead.

Roshan Panicker: My question is regarding the price hike. So you mentioned that we try to increase the prices by Rs.2 and Rs.5 and then we saw some rollback. So my question is why is there resistance or there is inability to pass on the cost increases because costs have risen materially and the price hikes are not happening. So, is it because of the influx in the product from some other regions or has there been any slowdown in demand in any of the segments that we cater to?

Management: Roshan, you can stretch to a certain extent. Then when you see your sales and then it has to be also supported a little bit by demand. If the demand is good, the price hikes will come better and come faster also. But sometimes if we do these types of things when the demands are not supportive, I normally will tell my team, the cost has gone up, we have to pass on those. So they may go ahead and increase the prices by Rs.4, 5 and in three days they don't able to sell, then they come back and say, we can roll it back. Now, if the demand is good, then this will get absorbed within three days or four days. Nobody will question it and it will go through. It's a question of supply/demand. I cannot take the cement prices or something which are known to every industry person and is very highly competitive. If I increase my prices, I am sure my competitor would know about it within a matter of minutes. And if I drop the prices, they would also know it probably within a matter of seconds, because prices are conveyed by sales team faster than the price increases. This is our dilemma which we live through. So, if competition also probably acts if in that direction, then probably the price hikes will come faster. If competitor has enough material with them, and they do not increase prices, we are in the comfort zone, the prices will not go up. After the harsh winters are getting over, February should start looking better now.

Roshan Panicker: Is there any slowdown in demand in the rural side because that's what we have been hearing?

Management: There is a slowdown in demand, no doubt about it.

Roshan Panicker: Second question is on the Gujarat expansion. You have given some timelines as well. When will we start the line expansion or have we already started?

Management: As I said, till the time I get the environmental clearance, we will not put any CAPEX there.

Moderator: The next question is from Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: A couple of questions from my side. First one is on the fuel essentially almost 70% of coal and I am presuming that most of it is domestic coal. What we are now seeing is that incrementally e-auction prices are actually continuing to go up month-on-month. So, in that context, compared to 3Q numbers, are we likely to see increased cost pressure on fuel side going forward into next three to six months or we are fairly confident that the worst of the fuel cost inflation is behind us?

Management: Yes, fuel on international basis does not look to be varying. So, we should not expect the prices would come down. Even if it remains at this price, we should be okay with it.

Rakesh Vyas: But just to get more clarity sir, I presume a large part of this coal purchases are also through e-auction in domestic side. So, I am just trying to understand are the prices higher compared to what we have been purchasing in recent past even now?

Management: Yes, prices are on the higher side.

Rakesh Vyas: Second question is related to the demand. And you just indicated rural demand seems to be slowing down. But I am just coming from the point that UP is going through election phase and generally we have seen demand slackness during such time period. So is this demand slackness largely you would attribute more to the ongoing elections or you are seeing this weakness in demand even in your other markets like MP, etc., which would then reflect a general slowdown in demand per se?

Management: Demand in UP will slow down during the times of election because most of the contract labors are not available. They go for election campaign, they get some Rs.500 per day sitting doing nothing. The labor gets diverted and construction labor is getting difficult and difficult first at site as elections get stiffer and stiffer. Once this gets over, then they will go for harvest in March month. So, it will be a mixed feeling for cement demand is concerned. But government spending will go up because they have to spend their budgets so that March becomes a very good month for government spending to come up whether elections or not elections in the month of March. Demand in Madhya Pradesh, I think it is mostly impacted because of cold weather.

Rakesh Vyas: Given that demand still does not seems to be bouncing back to the earlier levels of last year, etc., how confident we should be as an industry to pass on this cost inflation that we are seeing currently because as I am reading from what you are saying, the cost per se is not likely to come down materially in next three to six months and therefore the only way to improve profitability is largely through this price increases. So in the slow demand environment, how should we look at?

Management: There is no option today. If the coal is the same, pet coke supply is the same, the cost for every company is the same. If I am able to operate my kiln three shifts, rather will also be able to operate at three shifts. The cost advantage is not there with anybody. Everybody will have to one fine morning wake up and say, enough is enough now, water has touched, our nose is going below the water, we have to increase price. That's it.

Moderator: The next question is from the Mudit Agarwal from IIFL Securities. Please go ahead.

Mudit Agarwal: Sir, my question is related to the realization. Like despite reduction in the sale mix, our realization has improved. So just want to know what is the price difference between trade and non-trade in our market?

Management: Last quarter we have seen difference of about Rs.700.

Mudit Agarwal: So the realization improvement is largely driven by price hike taken in the month of October, am I correct?

Management: Yes, yes, you are right.

Mudit Agarwal: Second question is on the fuel side. Sir, what is the per thousand kCal cost of domestic coal versus imported coal or pet coke?

Management: I can take you for gigajoules coal right now which is costing somewhere around 9,200-odd, pet coke on the same side is about 20,500-odd. It translates into Rs.2.6 per gigajoules would be pet coke and Rs.1.95, almost Rs.2 in the coal per gigajoule. Coal is cheaper. That's why it is 70% we have switched over, but again it's a technical process. If you reduce total pet coke also na, it will have an impact on quality matter. Then we have to look at other costs also, grindability cost and all those things come into play, we have to mix and blend. We have to look at how do we create a recipe based on the final product cost.

Moderator: The next question is from the line of Nishant Bagrecha from InCred Capital. Please go ahead.

Nishant Bagrecha: What was the power mix in terms of grid power, thermal power and green power… I mean grid and non-grid during the quarter?

Management: Grid is 32% and non-grid is 68%, almost you can say one-third is the outside power and two-third is from the state grid.

Nishant Bagrecha: Secondly, what type of coal inventory you normally have and what is it currently if you can just highlight on that?

Management: Normally it is about 25-30-days.

Nishant Bagrecha: What was the lead distance during the quarter?

Management: Lead distance was about 350-odd.

Moderator: The next question is from the Uttam Kumar Srimal from Axis Securities. Please go ahead.

Uttam Kumar Srimal: What kind of volume guidance can you give for FY'23 seeing the current demand situation?

Management: Very difficult to give although we have made a very aggressive plans for the calendar year '22 and for the financial year '23. I am not able to comment very clearly because I was expecting January month to blast, but it did not happen, but February seems to be okay. Let's see. I think 9% is a safe bet to believe that the industry will grow.

Uttam Kumar Srimal: This quarter, our trade sale has come down to 77%. Last quarter it was around 83%. What was the basis reason for coming down this trade sale – because of lower volume or we have sold more in non-trade sale?

Management: No, volume took a beating. When the retail goes down, you have to fall back on non-trade.

Moderator: Next question is from Peter Agnel from Sharekhan Wealth Management. Please go ahead.

Peter Agnel: Just to know what is the current production capacity and what can we expect it to be in the FY'23 and FY'24?

Management: Current capacity is 6.25 mt for us and we hope that we should be able to operate at close to about 80% utilization.

Peter Agnel: And the new capacity which is expected through debottling in the next two years also will be in that range only or?

Management: Around that range.

Peter Agnel: Sir, you have elaborated of low demand and input cost pressure faced by you and the cement industry. So this particular trend, how many more quarters do you think will drag on?

Management: I think the cost pressures will remain as of now. I don't think they will ease out at least in the coming next six months to eight months.

Peter Agnel: Again, qualitatively, every budget has a push on infrastructure. So this particular has been ambitious of this, most famously the 25,000 kilometers highways and other such road related infra. There is usually the demand driver for cement industry but a few months back some people from the Ministry in Delhi have made statements like the cement industry is cartelizing and we don't like it, so we may not favor it. So will the cement industry get a good benefit out of these high road infra projects or not as much?

Management: It is very unfortunate. You look at my today's cement prices, average cement prices in some of the markets are at prices which were running in 2015 and '16. There is no inflation in cement prices. Cement has been selling in Bhopal at Rs.320 for the last five, six years. Cement should be selling at 500 plus bag na. It's very unfortunate that people talk ill about this industry but I don't think this industry deserves after having put in such huge amount of capacities and things like that. You have are invested in our company. What was the EBITDA margin 20-years back and today what are they? If there is cartelization then this should have been sold up. Somebody should do the industry advocacy properly.

Moderator: Our last question from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.

Kamlesh Bagmar: Just referring to the last quarter's call like we were very upbeat that we will increase the prices by Rs.50, 60 and even not particular for the quarter because it would be impacted by the rainfall and festive season but even if we see Jan, Feb, like yesterday the prices have yet not picked up in your key markets like say Lucknow, Kanpur or Bhopal market. So what are the reasons for that?

Management: Incremental prices are smaller, they are not visible on the surface but if you look at the retail selling prices on a ground level, there is marginal improvement. So media will never tell you that the prices were increased by Rs.2 or Rs.5. In Tamil Nadu, price goes up by Rs.70. God alone knows how can Rs.70 go up. I don't know in one day and you go and buy a cement at Rs.70, it will not sell. But media requires this sort of impetus. So you don't come to know. But if you will see the balance sheet of the company they will start showing results slow and steadily.

Kamlesh Bagmar: No sir, we don't refer to the media news. So last quarter we had seen hardly around 1.8% quarter-over-quarter movement or increase in the realization and even if we see this particular month or quarter, the increase would not be more than even say 1% to 2% quarter-on-quarter. And given the fact that the way the cost is increasing, so where is the issue sir, because even if we see last three years the way the realizations have moved for us that has been hardly around 1% to 2% as against the inflation of roughly around 10% to 12%?

Management: This is the case which is linked with excess capacity.

Kamlesh Bagmar: Contrary to that, margins in north market has improved, Gujarat market has improved, West has improved. And given the fact that the way our capacity, our market is balanced in terms of …?

Management: You must also appreciate that the realizations in central India prior to three years back used to be the most stable one. And the adjoining regions were languishing at much lower prices. When the realizations here were about 3200, 3300, in neighboring places they were less than 2400, 2500. So they have made up little bit. Central India has not been able to move up because of large ingress of materials which have started coming from the neighboring states.

Kamlesh Bagmar: So then by that logic can we infer that these margins will not move beyond in best case Rs.900 per ton?

Management: This is a relative term. When people get better margins in their home market, they won't like to come here because for them these are very distant markets. So when they stop coming to these markets, these prices will look up. Just wait for that, but nevertheless as HeidelbergCement wants to be in a premium product category, it wants its price to be in the A category price segment, it wants to sell at a volume which is reasonably priced and it gets a good return on its investment. So that is our fundamentals on which we work. That's why you see our non-trade factor is very low. We don't want to burn money. Ultimately, one fine morning it is not going to help the industry neither the investor.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the floor back to Mr. Vaibhav Agarwal for closing comments. Thank you and over to you sir.

Vaibhav Agarwal: Thank you, Aman. On behalf of PhillipCapital (India) Private Limited, we like to thank the management of HeidelbergCement for the call and many thanks participants for joining the call. Thank you very much, sir.

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