"HeidelbergCement India Limited Q1 FY-16 Earnings Conference Call"

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**Moderator:** Ladies and gentlemen good day and welcome to HeidelbergCement India Limited Q1 FY16 Earnings Conference Call hosted by PhillipCapital India Private Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaibhav Agarwal of PhillipCapital. Thank you and over to you sir.

**Vaibhav Agarwal:** Thank you Inba. On behalf of PhillipCapital India Private Limited I welcome you to the Q1 FY16 Conference Call of HeidelbergCement India Limited. On the call we have with us Mr. Jamshed Naval Cooper – CEO and Managing Director and Mr. Anil Sharma – Chief Financial Officer. I would like to mention on behalf of HeidelbergCement India Limited and its management that certain statements that may be made or discussed on this conference call may be forward looking statements relating to the company's future development and economic 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 this forward looking statements whether as a result of new information of future events or otherwise. Also HeidelbergCement India Limited has updated the presentation on the website www.mysemco.com participants may download the copy of the presentation from there. Sir I now handover the floor to you for your opening remarks which will followed by a Q&A. Thank you and over to you sir.

**Management:** Thank you Vaibhav. And to others also a warm welcome. The presentations would have been seen by you, just to run through this and take your questions later on. We achieved the highest volume ever in this company which is 1.18 million tons so that is positive sign, on the gross sales realization the markets remained flat sluggish we operate in central India so that has got an impact on that. So this is we are having a flattish almost on declining little bit of decline in the revenue of gross realization. Freight cost we have bettered considering that over last year on a year on year basis you will have questions definitely I will answer it in the initial states only that the previous quarter the freights were low because of certain freight subsidies.

On the cost development side we have been almost a flattish cost compared to on a year on year basis on the financial performance you have the figures in front of you in case I need not tell out each and every component of the financial performance there it is there in front of you we can take it in the question and answer session. On the projects update also the WHR project which we have been telling you that it will be getting close to completion by end of this year so that is in progressing very well and we should meet our deadlines as there. The fly ash silo is also almost completed and I think we will get the delivery of this fly ash silo much before time what we anticipated is good project management our team there, so it has done a good job. In case now I think we can go straight to the questions if people who have questions for us.

**Moderator:** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from Sameer Tulsiyan of JM Financials. Please go ahead.

**Sameer Tulsiyan:** My first question relates to direct cost, like if we see the sum of raw material increased decreased in stock and power and fuel we see it is grown sequentially by around 8% so what is driving that on a per ton basis?

**Management:** Which one you are referring to?

**Sameer Tulsiyan:** Direct cost to some of raw materials, power and fuel.

**Management:** So there is a change in inventory and that is leading to, there was also in the Q1 there was a shut down so that cost would be higher during shut down period.

**Management:** Mr. Tulsiyan if you go through our presentation we have mentioned also the cost-increase reason for the increase in the cost. We have mentioned there is a plant shutdown of our klin and at the same time there is increase in railway freight. This railway freight impact not only your outbound freight but it impacts on the inbound freight. You know that we also transfer clinker from our clinker plant to grinding plant in UP that is 260 kilometers from our plant and wherever this increase in the clinker freight railway freight it impacts our raw material cost. It is coming on that account.

**Sameer Tulsiyan:** Correct. Sir I have gone through the presentation but the main thing driving this direct cost is two basically one is the kiln thing and the second is the increase in the freight cost correct?

**Management:** Absolutely.

**Sameer Tulsiyan:** Okay and what is our current status of DMF like how we are doing about it?

**Management:** Basically I think we need to wait for the final notification with respect to their affectivity and at the same time we need to wait when they are going to implement it. We are not sure at this moment that what amount they are going to charge from the mining owner they have mentioned in their rules that it may vary from one third to full equivalent amount of royalty, we are not sure how much they are going to charge and when they are going to charge let us wait for the final notification from the government.

**Sameer Tulsiyan:** Correct. And with strong volume growth coming in, how do we plan to sustain a growth in coming two year because our capacity would get exhausted in two years' time with this kind of volume growth coming in.

**Management:** We first, still we are not at full capacity utilization still we are around 88% of utilization so there is still long way the markets are almost flat, so till the market starts looking up it will take about a year or so more till we see although there is some economic improvements taking place but with capacities coming in there will be always remaining a pressure in central India for some time.

**Sameer Tulsiyan:** Okay, which capacities are coming in?

**Management:** There are capacities not in central India as per say but there is an inflow of cement which we are seeing from other states neighboring states that is causing a little bit of concern and they are coming with little to explore market they come at little low prices putting pressure on the existing players.

**Moderator:** Mr. Tulsiyan may we please request you to return to the queue please as there are other participants waiting for their turn.

**Sameer Tulsiyan:** Sure.

**Moderator:** Thank you. Our next question is from Anshuman Atri of Espirito Santo. Please go ahead.

**Anshuman Atri:** My question is what can we expect for the full year in terms of volume growth?

**Management:** As of now the way we are going we are considering a 10% growth, that is what we anticipate the trend should continue now I don't expect it to improve significantly.

**Anshuman Atri:** Okay.

**Management:** But this is what we can cap it off at the moment.

**Anshuman Atri:** In terms of realization are we seeing any improvement or is it similar as it was in the last quarter?

**Management:** Again it will all depend on how the market fair, how the monsoon fair so a little premature to comment on that.

**Anshuman Atri:** Okay, and just one last question is on like the parent has announced acquisition of Italcementi Zurari Group has around 6 and they are going to 10. If this combination goes through will be a big player in terms of 15 million tons of capacity.

**Management:** Yes.

**Anshuman Atri:** So what are your thoughts on this?

**Management:** Just announcement has come we will wait and watch at the moment I won't like to comment much on this but because it will be subject to the antitrust laws and things like that so we will have to hold on to this.

**Anshuman Atri:** Okay, thank you.

**Moderator:** Thank you. Our next question is from Raj Gandhi of Sundaram Mutual Fund. Please go ahead.

**Raj Gandhi:** Sir we also hear that Heidelberg is trying to, is the highest bidder for Lafarge assets I know you have refused to comment specifically on this but just wanted to know does Indian entity have any role in this bid that we have put or it's the parent?

**Management:** Raj all this thing as I said, these are all little issues which I would not like comment too much on this but anyway since you have asked me this question let me put it that it will be whatever will be happening is from the German side, the parent company will look into it. As of now the appetite on the financial side for this company to take on acquisition is ruled out at the moment. At the moment as we are not looking at it but the parent is definitely whatever they do it is from there.

**Raj Gandhi:** Okay. And sir just on the freight cost as mentioned there are some subsidy element for the previous quarter Q1 FY15 was there some element also for Q3 14 or Q4 because for last four quarters your average freight cost is just at 500 it is not just one quarter but previous if I compare three quarters the average cost was sub 500.

**Management:** There is a very small component in December quarter of the freight subsidy comes in, that was the last calendar year quarter and there is but in this quarter Q2 there is nothing. There is Q1 financial year.

**Raj Gandhi:** Okay.

**Management:** There is no element traces of that in this.

**Raj Gandhi:** Okay, because from December quarter levels sir your freight cost in December quarter there was not much subsidy element there.

**Management:** There was a little element there.

**Raj Gandhi:** Okay, and the major one was in which quarter sir?

**Management:** It comes usually in the Q1.

**Raj Gandhi:** Okay, because sir in C4 FY14 your freight cost was just at Rs.450 a ton so just within two quarters it jumps to about 567 so about more than 25% increase on the freight, almost 20% increase on the freight side on per ton basis.

**Management:** But if I look at, if you were to take June quarter of 14 it was 602.

**Raj Gandhi:** Right.

**Management:** So if you look at it but these are freight cost change, seasonal freight cost peak charges comes in, railway freight charges come in so these keep changing from time to time. And how much we move by rail and road at that point of time depending on the leads which we take to the market it changes a little bit but I think everybody should look at the freight cost per ton when compared to the industry also.

**Raj Gandhi:** Right. Sir given that you have that advantage of a low lead distance so was it that this quarter any adverse mix in terms of be it railroad mix or lead distance anything which is a bit unusual this quarter?

**Management:** No, nothing I think it is very constant.

**Raj Gandhi:** Okay. And sir just in terms of power and fuel now we know from this quarter we started seeing your power and fuel cost starting to come off so any more benefit you see flowing in from here?

**Management:** As I said that WHR will be the only which will factor which will come in the next year that will be an advantage to us, otherwise whatever the cost increases which are happening is because of the tariff increases things like that, otherwise I don't think we are very constant with our fuel energy consumptions.

**Raj Gandhi:** Okay. And sir just in terms of pet coke I think you are at 60% any possibility to move up further there?

**Management:** We are exploring it but at the moment we want to cap it till 60% because there are environmental issues of socks-knocks so we have to take that also burning more pet coke also has it's socks and knocks gases go up new pollution control environments which are coming in will put little pressure on that so there will be a challenge here.

**Raj Gandhi:** Okay. And sir you mentioned about some new player entering so any particular player who is entering central?

**Management:** These are all players from Rajasthan mostly.

**Raj Gandhi:** Okay. And so this seems to be more of opportunistic right, North has dropped so much that covering so much lead distance will also be good otherwise normally you won't see Rajasthan material flowing in central right?

**Management:** Opportunity cost is there today they are looking at when they can't sell in Rajasthan today the prices are very-very low there. So people are trying to see that in very nearest next best market they will come and ruin it that's all.

**Raj Gandhi:** Okay, sir just to parse you don't see any Greenfield capacity or any expansion happening in your cluster right?

**Management:** As of now there is nothing on the card, we have not heard anything no announcements.

**Raj Gandhi:** Okay. And which is the nearest natural cluster let say as and when your market grows without any capacity which is the nearest cluster from which material flows in if at all the region deficit increase.

**Management:** Chandrapur.

**Raj Gandhi:** Okay. Sir I will come in the queue for further questions.

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

**Madan Gopal:** Just wanted to understand a little bit more in detail about the socks and knocks norms any new, I think the government is proposing some new norms on this front so if you can elaborate at that what kind of CAPEX that cement companies have clinker on this front to meet the new norms if you can explain it.

**Management:** The norms will come into force I think by next year. For us I can say that your company has really worked well on this particular aspect we don't have to do too much of CAPEX on this particular case we are already a very close to the compliance norms.

**Madan Gopal:** So it's a norm where the socks and knocks submission would be curtail by a meaningful portion is it?

**Management:** Yes, meaningful portion because one is the pollution control what they call the PPM, that is one norm, another is they have brought in the SOX norm socks knocks norm which are in more like new to the industry so people will have to work a little more on this, earlier these norms were not being monitored so closely.

**Madan Gopal:** So what is that incremental CAPEX will go for others like is it some new equipment that I have to put?

**Management:** Yes, it is equipment process control changes things will have to be looked at fuel mixes will have to be revalued. So those are all a question of it's an ongoing exercise which we are working on. It is possible to achieve it is not that it is something which is going to change the whole scene and complexity of it.

**Madan Gopal:** So since we are meeting it already you see some advantage here with other cost going up or that is not a very big CAPEX per say.

**Management:** For us it is not so much of an issue.

**Madan Gopal:** Do we see an advantage because others have to spend this.

**Management:** I won't know what their emission norms are what are they, where they stand I can't say.

**Madan Gopal:** Okay. And is it final notification or just a draft it is?

**Management:** Final notification.

**Madan Gopal:** Okay, one year for meeting the norm is it?

**Management:** Yes.

**Madan Gopal:** And for all existing plants it should be?

**Management:** Everybody, even old plants.

**Moderator:** Thank you. Our next question is from Nitesh Jain of Axis Capital. Please go ahead.

**Nitesh Jain:** I have two questions, number one if you can share what is the capacity utilization of our Jhansi grinding unit and since we are like doing 100 PPC if you can share what is our cement clinker ratio currently?

**Management:** Jhansi I don't think but the total company's we are talking about 88% capacity utilization. I don't have a breakup of Jhansi separate. The other question I think you were asking in terms of our clinker incorporation.

**Nitesh Jain:** Yes.

**Management:** On a clinker incorporation we are around 60-61.

**Nitesh Jain:** Okay, so in one ton of cement 60% is clinker balance is fly ash and gypsum.

**Management:** Yes.

**Nitesh Jain:** And sir my second question is basically on this markets, see North prices have dropped significantly and the demand is also not good and on the contrary the central India the prices are very stable, very resilient so I was wondering by the material or these North guys they are not trying to push more volume and disturb the central India even for last three four months it is like quite steady so your thoughts on the same.

**Management:** I think you are totally sorry to correct you on this, the prices in central India have been affected the most in these last two quarters they have been impacted very badly I would say. And the prices are bad again because of some of the competitors who are not, this is not their natural market they are trying and dumping material. So that is the problem which is causing us, I mentioned it just before this also that it is the cement players which are coming from Rajasthan they find that incremental volume and incremental prices whatever because their prices in their markets are not good. So they come here and disturb the sentiments here.

**Nitesh Jain:** But sir even your gross realization which you mentioned in the presentation is flat like June quarter is flat compared to March so it is stable only.

**Management:** That is what I am saying that the only problem is different companies will have different resilient from that. But we are finding pressure.

**Nitesh Jain:** Okay, so you are saying just to summarize basically you are witnessing pressure in the central India as well but HeidelbergCement India is somehow managing the situation.

**Management:** To an extent.

**Moderator:** Thank you. Our next question is from Ujjwal Shah of Quest Investments. Please go ahead.

**Ujjwal Shah:** Sir can you just give a brief idea about which markets the demand which we have seen in terms of volume growth which were the exact regions which have actually contributed to the same and what were the reasons basically if you can just summarize that.

**Management:** As I understand I don't have the full data but on an all India basis the market remains flat.

**Ujjwal Shah:** That is true sir.

**Management:** So I won't be able to comment on region to region.

**Ujjwal Shah:** But I am just talking about our center region because we have seen such a good volume growth in this quarter and within the center region which were the areas which actually contributed to this growth?

**Management:** Little bit of UP I would say contributed more, MP I would say it is flattish or 2-2.5% of growth I would expect not more than that.

**Ujjwal Shah:** Okay, sir and in terms of our retail and institutional mix can you just let us know what is the mix?

**Management:** Institute it is about 80-20.

**Ujjwal Shah:** Retail is 80.

**Management:** Yes.

**Ujjwal Shah:** Okay, fine. Thank you sir I will jump back in the queue.

**Moderator:** Thank you. We will take our next question from Raj Gandhi of Sundaram Mutual Fund. Please go ahead.

**Raj Gandhi:** Sir this other expenditure also for the quarter was a bit higher than your normal thing so anything on the other expenditure side or is it that kiln shutdown cost.

**Management:** Raj in other expenditure you will find some amount which is linked to your volume also in Q1 FY16 since the volume is higher because you need to incur the handling cost also with respect to dispatch of material so other expenditure is almost freight is compared to last year see the per ton basis on amounting on higher side.

**Raj Gandhi:** Okay. And sir this deprecation pose the change of rate should stabilize at current level right 235 crores or that for the quarter.

**Management:** More or less it will stabilize in the coming quarters.

**Raj Gandhi:** Sir any scope of Brownfield for the Brownfield at our current location.

**Management:** At the moment no.

**Raj Gandhi:** Okay, but any possibility is there a potential based on our limestone reserve other constraints do we have potential for debottlenecking?

**Management:** Brownfielding it is not possible let me tell you, at the moment with the limestone reserves I think in the past also I mentioned that we don't see a scope at the moment.

**Raj Gandhi:** And any Greenfield project that we are incubating nothing is active and anything which we will be incubating?

**Management:** We will come back to you on this at the appropriate time.

**Raj Gandhi:** Okay. And sir in terms of sales mix because you are more of central player only is it possible to give some minute detail in terms of your mix in terms of clusters where you sell something like that?

**Management:** We send it mostly in, we are in MP, UP and Bihar. So these are our main market for Jhansi they are down, in South we are in Karnataka and Cochin into North Kerala.

**Raj Gandhi:** Okay, and possible to give a breakup?

**Management:** Possible to give you breakup in.

**Raj Gandhi:** Percentage wise?

**Management:** It will be 90% weightage is in central India.

**Raj Gandhi:** Okay. And Karnataka, Kerala will be 10%.

**Management:** Yes, 10-12%.

**Raj Gandhi:** Okay. And sir we had done a lot of conveyor belt and all other stuff and we are still at 80% so any further advantage that you see on further ramp up or most of the advantages have now flown through in terms of whatever you had done in the past.

**Management:** The continuous improvement plans what we work on whenever there is any place to improve we keep improving so these small-small changes will keep coming up.

**Raj Gandhi:** Okay, and sir just last thing from my side I believe for the older capacity you had linkage coal available right so there that is could you let us know what is the kind of quantum you are receiving and let say if it were to go out what is the kind of head that can come?

**Management:** Raj considering our pet coke consumption of 60% as we consumed through our linkage considering the quantity available through our Coal India it is sufficient for their company because at this moment you need not to buy from the outside market.

**Raj Gandhi:** But given that Coal India is talking of that linkage been taken away and put for auction so in that case you could lose those linkage so just wanted to know what is the absolute quantum of coal that you received from coal India last year possible to quantify?

**Management:** It will be ultimately applicable to everyone so let us wait and see how it is ultimately impacting the cement industry.

**Raj Gandhi:** Okay, so just roughly here from what I recollect reading in the past con-calls and all for expansion you have not got any linkage for erstwhile front it was just 40% right will that be correct broadly?

**Management:** I don't recollect that.

**Management:** I will have to get into these details.

**Moderator:** Thank you. Our next question is from Pratik Kumar of Antique. Please go ahead.

**Pratik Kumar:** Sir my question is regarding the demand again you mentioned your targeting 10% growth for yourself and during the year so like-to-like what could be your cluster or your region growth during that period?

**Management:** I think as I mentioned that around 4% should be the growth which could come there in this region.

**Pratik Kumar:** Versus 10% for you.

**Management:** Yes.

**Pratik Kumar:** And sir there was non-seasonal rains which happened like in Q1 CY this year which impacted possibly crops and farmer sentiments then so, more specifically in UP also and there was some compensation also which was provided by the government during that period so did that hurt the demand for you and your regions because your 80% sales mix is retail mix so I assume it comes from housing and more so from rural housing as well.

**Management:** Mostly these are all more agri based market so whenever there is an impact on agriculture in anyway it impacts basic things of infrastructure things and the government has to pump in more money. The government has so far not pumped in money so it has been sustaining I would say over a period of time in the years to come this sort of a scenario will change because out of every household now there is one person who is serving also so to that extent the dependence on agri will come down but as of now I would say UP and MP are get impacted and so the results in the next quarter or the third quarter one rain don't happen then you have lost three quarter comparatively virtually. So this will continue to affect.

**Pratik Kumar:** Okay, but so current quarter's growth of 14% doesn't reflect that.

**Management:** No, that does not, first as I said that we got the capacity so we were ramping up our market share maybe for others it is a constant factor so we have grown over the if you look at the last three years results we have grown relatively higher than the industry.

**Pratik Kumar:** Okay. And sir on the freight part what would be our rail road mix and the distance?

**Management:** 50-50 and distance is about 400 odd kilometers average.

**Moderator:** Thank you. Our next question is from Achint Bhagat of Ambit Capital. Please go ahead.

**Achint Bhagat:** Sir couple of questions firstly on your power and fuel as I can see that it remains flat on a year-on-year basis but what we understand from a few other cement companies is that pet coke prices have cracked actually and shipments from US and Saudi have been coming into India at a much lower cost. So given that you have 60% pet coke consumption how do we see this going forward now what is your view on that sir?

**Management:** We are not importing any pet coke so our requirements are being fulfilled by the local players so anyway we have a long term contracts with them so, we are able to manage.

**Achint Bhagat:** But domestic prices have not come off is it in your view.

**Management:** Markets had not gone up also so much.

**Achint Bhagat:** Okay, so basically 980-982 what is there been in this quarter should be a normal until the WHR capacity comes up is that a right way to understand sir?

**Management:** Yes.

**Management:** Unless there is any revision in the tariff from the government on the power side because if they increase I don't know whether you are aware that in UP the government has increased the power tariff from 1st of July although it is not significantly had they have increased by 5.7% but nobody knows when government increase the power rate.

**Achint Bhagat:** Okay. Sir just one more question on the demand side of it, so UP and MP as what we understand is seen in the last few years also that it's possibly one of the few regions where in road contracts in India have been very high now the new government has been talking about road concretization, etc., so have you seen any of those translate into on ground demand in terms of higher concrete cement.

**Management:** As of now we have not seen any demand coming from that sector.

**Achint Bhagat:** But any tenders opened up sir any tenders any participation?

**Management:** Not so far. Only people have taken, one or two people have taken some offers but they have said have said that these are only tentative indicative offers they are taking for purpose of budgeting that will start coming in December.

**Achint Bhagat:** Okay. And sir the third question is on the freight cost again 50% of your cement movement is through road so just wanted to understand how should one look at the sensitive of the diesel price cuts because it seems that diesel prices have come off sharply and how should one see that is it a 1:1 correlation between diesel price cuts and…..

**Management:** No.

**Achint Bhagat:** So what should be the?

**Management:** I think for every Rs.1 diesel price change the freight cost element is about 22 or 23 paisa.

**Achint Bhagat:** Okay, so for every Rs.1 change that is.

**Management:** I will tell you around on a ballpark figure the industry would use this figure.

**Achint Bhagat:** Okay, so it's one fourth.

**Management:** And the last bit is again coming back to the demand side of it so have you seen any sector where in the tendering has improved because the government has spoken a lot about infrastructure order awards, etc., have you seen any sector where there have been strong tenders and hence you think that demand should improve from let say the second half or the fourth quarter or this year?

**Achint Bhagat:** We expect based on whatever media reports suggest, the statements by the government the projects being announced by the government we expect that in the fourth quarter the thing should improve for the fourth quarter of the calendar year.

**Management:** We expect based on whatever media report suggest the statements made by the government, the projects being announced by the government we expect that in the fourth quarter of the calendar year things should improve.

**Moderator:** Thank you. Our next question is from Raj Gandhi of Sundaram Mutual Fund. Please go ahead.

**Raj Gandhi:** Sir you mentioned that you have some long term contract on pet coke possible to elaborate as in is it one year tenure.

**Management:** It is one year contracts nothing which are common in nature, very common. Nothing much to comment on that.

**Raj Gandhi:** So when did you enter, as in is it December ending, when does it get rest?

**Management:** I am not sure about it but normally it starts from between September-October it ends or something like that.

**Raj Gandhi:** Okay.

**Management:** I won't be able because there will be multiple of them with different companies will have different supplier so I will not be able to give you a fix which one is ending where.

**Raj Gandhi:** Okay, so as in your procurement contracts you are saying they are not that all the contracts are September-October you are on a rolling basis.

**Management:** We are on rolling basis.

**Raj Gandhi:** Okay, so is this possible to tell us what is the absolute level of pet coke cost right now for you landed.

**Management:** You want to know the landed cost for us?

**Raj Gandhi:** Yes, sir.

**Management:** It varies but it is around I think Rs.8,500 to Rs.9000.

**Raj Gandhi:** Okay. Sir because from other players from what we hear they are now North based player there landed pet coke cost is now around Rs.7000 so can we expect that kind of benefit to flow through when this contract negotiation happens again?

**Management:** If the pet coke price globally sync then it's a different thing but I don't know let me tell you that there is lot big issue on shipping 70 to 80,000 tons of pet coke is lying for nine months on the ports we have not been able to move there is a railway issue and then there is a congestion in the port I don't know how people are managing but these are also something which you have to see it.

**Raj Gandhi:** Okay, but majority of our contract will expire on September-October right?

**Management:** I won't be able tell you that, I told you that some may expire this month, some may September, and some may be March everything is different.

**Management:** But we need to address one thing there is hardly any impact because those are the spot price based contract so if your concern is about the company that if the price reduce significantly and the company is not getting benefit we can assure you that the trade benefit will definitely flow to the company. So pet coke is now easily available in commodity it is not like that it is either scare or you can't import. Only point is that your major plant is in the land lock situation in the heart of the country in Madhya Pradesh and always as a management we see that whether the import pet coke is cheaper or the domestic pet coke is cheaper that comparative always we do and accordingly we will decide about the cheapest course of fuel for the company.

**Raj Gandhi:** Okay, got it sir. And sir just last question this JPA being dominant player in your market and given a debt situation in the past you have seen JPA being very aggressive and all in the last cycle as in any behavioral change from JPA?

**Management:** I am sorry I won't be able to comment on that.

**Raj Gandhi:** Okay sir. And sir just in terms of power purchases externally we have kept on hearing about open access and everything or buying surplus power from CPP is being allowed to sell or anything so any benefit on power procurement side that we can envisage in sometime.

**Management:** This matter has gone we were working on this but because of certain the way the electricity boards have levied a certain tariff on terms of this PPA cross subsidies now if I go through that exchange power I am not getting any benefit out of it.

**Moderator:** Thank you. Our next question is from Ashish Jain of Morgan Stanley. Please go ahead.

**Ashish Jain:** My first question is on volume, you have said that one the demand in your region is not great plus you are also seeing some penetration from the North based guys still what is helping us to grow volume so strongly at 13-14% are we doing something different or new in terms of versus what we were doing in the past?

**Management:** Some part of the volume is coming to us also from South where we have capacity there. Plus little bit of extra market share in some markets which we were not going to we have focused on those markets and getting a little additional volume we don't want to put pressure on the markets and create by pushing a volume create a pressure in that and then take a bigger beating on the contributions. So we are exploring different-different zones, different markets on a very systematic manner. But that is how our growth comes from.

**Ashish Jain:** Sir can you give some sense?

**Management:** I would because these are strategic in nature it is little difficult for me to comment on.

**Ashish Jain:** Fine sir. And do you see any challenge from so many capacities being added in East is that any challenge for you in terms of some of the market especially Bihar.

**Management:** **East is a very isolated… Madhya Pradesh is an isolated** **40.08** market after coming to the last border lines of Bihar it does not really affect us. It can impact at best is Patna max after that it has no impact.

**Ashish Jain:** Okay, got it and sir just lastly only your pet coke consumption you said so currently already has 60% and I heard your point on the new norms and all. So is there something that we are already working on to increase it further or you would wait for the norms to be implemented and then you will revisiting it or something.

**Management:** Maybe you missed a point, maybe earlier I mentioned it that we are looking at the socks-knocks pollution issues also and we are very carefully trading on this, if there is room for increasing our pet coke consumption we will definitely do it we are looking at our total overall cost vis-à-vis meeting norms of the environment. So I can't say that tomorrow I am currently for sure that tomorrow I will not go to 70%, I can go to 70% subject to I am able to accommodate and remain complaint with those norms also.

**Ashish Jain:** Sir just lastly one thing more from a strategy point of view you said that the current balance sheet doesn't permit you to maybe acquire capacity at the current location we can't do Brownfield. So don't you think as in I am actually just trying to understand are we not looking at any new expansion because even the timelines people talk about like it takes two, three years is it not high time that we start revisiting our expansion.

**Management:** To this also I answered that it is strategic in nature for a Greenfield project or anything I won't like to make any announcements on that but we are working on something's which we will as the time goes and when the time comes we will come back on this. So the capacity we will continue to increase it is not that we will not increase capacity. Ways and means will be different.

**Ashish Jain:** No, sir the reason I just questioned is with the parent now possibly being in a position to get roughly say 10-11 million tons incremental capacity does it any form impact our own expansion plans?

**Management:** No, it does not reflects.

**Moderator:** Thank you. Our next question is from Rajesh Ravi of Centrum Broking. Please go ahead.

**Rajesh Ravi:** Sir all my questions have been answered. Would you just elaborate more on your CAPEX plans and what is the gross debt levels currently?

**Management:** Let me first take up your second question which is, you asked about the gross debt it is around Rs.850 crores as on date net of cash balance. And maybe you are aware that from next year onward we will start repaying those debt. Next year the payment will be around Rs.400 crores. On the CAPEX side we have also mentioned in our presentation, two big projects are going on one is related to waste heat recovery project, total CAPEX is around Rs.170-180 crores we expect that end of this year starting of first quarter calendar year 2016 recovery will start operation and the benefit will flow to the company.

**Rajesh Ravi:** Okay, how much is the unit sir?

**Management:** It is around 12 to 13 megawatt capacity waste heat recovery power plant.

**Rajesh Ravi:** That is great and second one is on the silo that you have written.

**Management:** Yes.

**Rajesh Ravi:** Sir on Q-on-Q you said the cost increase was largely on account of kiln shutdown and the real freight hike that could be if you normally show the kiln shutdown have you seen any cost efficiency on sequential basis due to moderation in input costs?

**Management:** Yes, there are two type of you can say cost improvement one is the your economies of the scale when it comes so in this quarter on in this year if you see the capacity utilization increased to around 85-88% so this benefit definitely comes to the company and consumption parameters efficiency actually get nullified with the inflation the power tariff has increased but at the same time the railway freight has also increased and on that account the cost is more or less on sequential basis is flat.

**Rajesh Ravi:** Okay. And just two last questions one is on this CAPEX this year you said is 180 crores for the waste heat and total CAPEX for this year would be how much?

**Management:** 180 crores.

**Management:** Waste recovery power plant we started last year so this 180 is basically for two years CAPEX.

**Rajesh Ravi:** So total for this year would be how much?

**Management:** In addition to the waste heat recovery, this is normal replacement CAPEX that is every year we continue to maintain basically health of the plant.

**Rajesh Ravi:** That will be how much?

**Management:** It is generally as a thumb rule we can say 30-35% of your depreciation.

**Rajesh Ravi:** Okay. And sir last question on Italcementi Cement stake buyout in, you are buying out stake in Italcementi one of the parent company. Will that also have any ramifications for Indian operations between both the companies?

**Management:** As of now no.

**Moderator:** Thank you. Our next question is from Abhishek Ghosh of IDFC. Please go ahead.

**Abhishek Ghosh:** Sir just wanted to get some sense around that for the July quarter is the railway busy season surcharge being waved off?

**Management:** It is not there from July to September this busy season surcharge is removed. It is the development surcharge which is 12% of their basic tariff.

**Abhishek Ghosh:** Okay, so to that extent we should see some reduction for the current quarter only.

**Management:** We hope so.

**Abhishek Ghosh:** Sure. And sir just for the 10% kind of an exposure that we have in the Kerala, Karnataka market that you spoke about so the current prices would be closer to the kind of exit or average prices of the last quarter?

**Management:** No, they are almost flattish now, I think two quarters we have seen almost a flattish price trend with a little bit of pressure on when it comes to little monsoons. South West monsoons comes in then a little pressure is there.

**Abhishek Ghosh:** So in the current quarter there would be some pressure.

**Management:** Little marginal, we are not seeing too much of it but yes definitely.

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

**Vaibhav Agarwal:** Thank you. On behalf of PhillipCapital India Private Limited I would like to thank the management of HeidelbergCement India for the call opportunity and also many thanks to the participants for joining for the call. You may now conclude the call. Thank you very much.

**Moderator:** Thank you. On behalf of PhillipCapital India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.