"HeidelbergCement India Limited Q1 FY'21 Conference Call"

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MODERATOR: **MR. VAIBHAV AGARWAL - PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the HeidelbergCement India Limited Q1 FY'21 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 now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you. And over to you, sir.

Vaibhav Agarwal: Thank you, Stanford. Good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q1 FY'21 Conference Call for HeidelbergCement India Limited.

On the call with us Mr. Jamshed Naval Cooper -- Managing Director and Mr. Anil Sharma -- Chief Financial Officer.

I would like to mention on behalf of HeidelbergCement India Limited and its management that certain statements that may be made or discussed on the conference call maybe forward-looking statements related to future developments and current performance. These statements are subject to a number of risks, uncertainties and other important factors which may cause the actual development 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 there is a result of new information or future events or otherwise.

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

I will now hand over the floor to the management of HeidelbergCement for the opening remarks which will be followed by the Q&A. Thank you. And over to you, sir.

Management: Thank you, Vaibhav and thank you everybody for joining this earnings call. Wishing everybody healthy and a safe time. Times are a little difficult as the environment suggests most of the time hear every day something or the other from different parts of the country, we say we say that with god's grace, we sail through all these difficult times and we are back to normal in the years to come.

You have received our presentations. Just running you through this basic first slide, which is on slide #3, you have seen the industry development. It is nothing big which has happened in the month of April. It was a total lockdown but natural that you will have such type of volume 85% degrowth, it is nothing big. Coming to May, the things started improving and in the month of June, things further improved. In terms of capacity utilizations, you will find across the industry that things are ramping up gradually. It will not happen instantly, but yes, the trajectory which it is showing seems to be encouraging, just like I say for the trend.

In terms of drawing your attention to the next slide, what did we do for our business continuity? We are first more concerned about our employees and the people including our channel partners. So we are ensuring that these people do our business safely, our people are safe, the families are safe, because going forward, if there is harm to the human life, then we are not doing justice to our business. So that is our first priority. Health and safety always remain our topmost priority. We continuously are communicating with our employees, wherever they are located and including our channel partners, we are in constant touch, our teams are in constant touch with our business associates including our transporters and vendors as such. So, we are ensuring that constant touch is maintained.

Work from home is a new normal. We started in our head office and now it is becoming much more of a prevalent practice across. I think the efficiencies have not come down. There is no evidence that we have lost out on any efficiency parameters.

"Safety of our Assets." That is the second foremost priority. So, when we were asked to lock down, we took a little more time… three, four days to shut down the plant, mothball the plant properly so that at any point of time we can jump start our assets and that our team did a very wonderful job. And when we wanted to start the plants at one click of a button and the machines were on and it were rolling.

Optimization Measures on Cost. We have negotiated many of our contracts with our vendors. We have negotiated many of the terms including the period of the contracts, whether it was a reduction and those efficiency parameters, whatever, because everybody understands today's times, and because of our excellent relationships with all the channel partners and vendors, they have been very understanding and forthcoming to support us and the way we have supported them in the past and we continue to support them now.

On the special focus on working capital management, cash is king. We work significantly on this particular parameter. Collections from the market were done at rocket speed and there were some small minor delays. Our vendors also accepted it. So, the cash flow we have ensured that it was remaining in top class condition.

Coming to remaining focus into the market and remaining top of mind recall, so we did a digital campaign every day of the lockdown period, the first lockdown period, we were giving out digital snippets on social media or on WhatsApp and they reached out to our dealers, retailers and everyone so that we are remaining in constant touch with them. Very relevant topics were covered, which were of the need of the hour that time.

On CSR initiatives we have worked most of the time because the communities around the plant needed support. The people around the markets also needed support. There was a lot of emotional support which was supposed to be given at that point of time. And I am happy to say that our teams here have risen to that occasion and they have done a fantastic job of keeping in touch with the people, communicating with them and helping them to be emotionally strong.

Coming to the "Financial and Operational Highlights", we have a zero-loss time injury. So, this is our target to deliver a company that is zero harm. On the volumes decreased which was because of the lockdown, we are 100% blended cement company that you are aware of it.

On fixed costs, we have focused more and more, and we continue to focus as part of our improvement plans. Grid power dependence has come down to just now 59% to 60%. And this we will continue to work on in the near future also. So, that will be our focus area and future too.

"EBITDA." There is an improvement of 1% on the EBITDA and this is supported more because of the prices. We will now continue to work on a negative working capital. So, this is one more feather in the cap of HeidelbergCement India that it achieves this sort of an efficiency despite the most difficult times also. Net cash of 1.6 billion as of 30th June we are net cash positive.

Coming to page #6 of the presentation, you have seen that there is almost 32% drop in volume and the similar thing is reflected in the EBITDA also. So, nothing big because, I would say the world economic clock needs to be reset rather than talking about what is the loss we will make during the financial year 2021. We should say that this financial year is not of 12-months, but it is of 10-months. Probably that will pepe up the sentiments also and we will get a realistic view about it. What is lost for a month need not crib about it, that is lost forever. We got to look for a better future and focus more on that. On our page #7, EBITDA per ton bridge which we talk about, you can see it how the waterfall has been. GSR has improved, raw material improved, power fuel improved, a little bit negative on the freight but it was natural because the rail movement was lower. To a certain extent, rakes were not available by the railways. road movement had to take place. The prices were going up consistently. That you had to en- cash that with whatever availability was there, and there were some other costs which took away the certain costs which took away the gain benefit we had. Anyway, but that this happens, but all said and done that there was always a counterbalance to it. Price was good. Otherwise, you would have had to suffer. So, that has not happened and that will not happen I suppose with the industry as such.

Coming to the "Volume Share", 52% of our road volume we are catering to our customers and about 14% of our volumes are in our premium bag, quality bag and very small quantity we sell under non-trade. So, we continue to pursue that same strategy because in the COVID times, the one which we will get most hit is the non-trade and can leads to a danger that if you do not come out of this non-trade only you will bring in bad practices in the business. So, we have told our team to be away from these types of things and let us work on a clean system. So, on compliances, we are very strong. On the coal, there was a 38% basis lower than that. So, that has benefited us.

One of the biggest initiatives from a social responsibility point, HeidelbergCement has launched was the "Annam Scheme." What we have done is, as India operations we decided that for every bag we sell, we will donate Re.1 keep aside and that will be used to feed the underprivileged by giving them food grains and things like that. So, this is one area which we have worked on very seriously. The biggest risk the country runs today is unemployment. And some people sliding down below the poverty line. And if that happens, it is a very big issue, which the government will not be able to support all these initiatives, the corporate world has to come forward to support this in some way or the other. Otherwise, we fear that there could be social unrest also. So let us start doing our own way and under that scheme we try to do this.

Coming to our "Digital Media Campaign", we have become a little more digital in these last three, four months and this is one of the documents what you are seeing on page #10. These are some of the initiatives trying to involve our channel partners, trying to involve our teams, internal teams also, internally also trying to pep up the morale of the people so that the clouds of COVID really do not drench us and keep lower our morale because if the morale is high then I think everything is good, then everything looks rosy.

Coming to "Outlook", demand reduction in urban areas is visible and we are seeing a good push from the rural markets because central India, the labor market is little positive.

"Working Capital." On the liquidity side, as I mentioned that we are good and we are ensuring that our channel partners are also advised to keep a track the way we are looking at the market and we are trying to teach them that how they should also conduct their business in today's times.

Reduced availability of trucks and drivers was one of the big challenges and we are meeting it. And we have been able to mitigate. The team has been very-very agile to this and they have really worked to see that the materials are dispatched on time.

Energy prices will remain stable. I do not think there is too much worry on that count. But again it will depend how things pan out. But because of energy, there was the impact on the power plant shutting down at many places and the fly ash was not available, the fly ash prices went up a little bit. Input and raw materials had to be sourced from longer lead, so that has resulted into those other costs. What you are seeing is those costs which are up.

Manpower availability at railway yards did not allow us to push out rakes many of the times and whatever rakes went there, they were stuck up. But anyway, the railways was not enforcing or levying demurrages and wharfages so much in the initial stages. So it was tolerable in the system.

On all CAPEX items, we have optimized it and we are very tight fisted right now on CAPEX. We have just kept on hold whether it is a recruitment or a CAPEX, everything is on hold, the bare minimum essentials we are trying to do.

Let me tell you before I end this that while you are looking at our results, you will find that we have remained fully compliant, we have not made any provisions which are not required. We have kept our systems so updated that whatever is for month-to-month settlements which we are doing, it is absolutely compliant way of producing the results. That is why you may see fine that our growth may not be reflected so sharp or something like that. But yes, whatever it is, it is there in front of us. And we continue to deliver in the months to come also, in the next quarter also, and we are gearing up ourselves in all possible ways, because times will remain uncertain and this uncertainty is not going to go out of business. The game today is not the size that matters, it is the agility, speed and adaptability. That is the critical parameters of our business. And this is what we are trying to build it in our company that we got to resonate with the times and then only we will be able to tide the storm which is in front of us.

Thank you once again for being with us. I can answer your questions thereafter.

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

Dhaval Joshi: Quarter-on-quarter prices have been grown pretty good, I mean, 4% to 5% if I am not mistaken in central region per se. Why there has been a bit disappointment in pricing realizations front for the quarter -- is there any more discounts or anything which we are offering to the dealers or something like that or in general…?

Management: Our prices in the quarters have been very high earlier also. So, we have not really tinkered too much with the prices. Our price lines in the March also quarter-ended was very high.

Dhaval Joshi: So you have not taken the price increase, the way…

Management: There is a limit to everything in the market it can take. In the previous quarter we were already at a high level. There is a material availability in the market also. By increasing the prices further, you are just only inviting competition from neighboring states to come in more and more.

Dhaval Joshi:: It is too early, but how is the trend now in July, I mean, especially after starting of monsoon in terms of demand only?

Management: Demand has been okay. I would say not bad. I would say the prices are also very stable, not too much of a problem on this account. And right now very recently that we have seen some monsoon entering some places, but the first shower also did not impact the prices. I think the people are wanting cement there, so the demand is there, and it is moving. Right now there is no question of worry. We may see some things happening once the showers are very heavy or something hit.

Dhaval Joshi: So no major drop from June to July you are saying?

Management: Not really.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: You explained on the pricing part. Also, if you could explain on these other expenses, what all went into achieving that around 30% reduction which we have received on absolute basis YoY; Rs.86 crores going on to Rs.61 crores, that would be helpful? We understand there is a volume impact. But what else which you could control which cushioned the volume loss impact? And second question would be in terms of though you have put on hold CAPEX plan, but recently you mentioned that you are exploring some Greenfield opportunity, so what would that be?

Management: Answering your last question first in terms of our Greenfield, as you said that, we are looking at other things which are there available with us in the pipeline. Because of this whole lockdown thing, everything has been put to a standstill, there is nobody in the government offices to really talk about these things. So, we are just keeping it on hold till such time. We cannot even travel now. There is a big issue. Even if you have to meet somebody, other fellow is not willing to meet on the other side. So, I think it is a little premature, but I think in the next quarter or so, things should be more clearer. So, we will inform you as and when it happens.

Rajesh Ravi: No, from a market perspective which market you are exploring to expand?

Management: It is everywhere. See, the Greenfield could happen in the West also. But expansion plans are there. If anything comes in Central, East wherever it is, we are open to it.

Management: To your first question, basically, Mr. Ravi, these other expenditure comprises of both parts, some part is related to variable, that is the prorated based on the volume reduction that costs are reduced during this quarter. And in the future whenever the volume increase, that cost also will increase. But some of the expenditures are very fixed in nature. And we have taken various measures to optimize during the lockdown. Those expenditure always be on the radar of the management to optimize and that will continue in future. And now your question is whether this reduction of 30% will be sustainable? The answer is basically it depends upon the volume development and the situation in the quarter to come and accordingly then we can optimize the cost.

Management: Since there are certain costs which like in running auxiliaries, essential services, those things will continue to incur. Only thing that can get diluted when the volumes go up. So they become smaller, otherwise they will continue to exist with us.

Rajesh Ravi: If I see your FY'19 annual report breakup, I just want to understand the Rs.70 crores, it was a conventional. Because your volumes are down, variable cost will hold on largely in a same proportion?

Management: It depends because the stores and the spares also again comprises of some of the expenditure which fall under the consumables. Those are largely related to volume. But some of the expenditure related to maintenance, depend upon when you take the plant shutdown. And during plant shut down, then those expenditure you need to incur. These are you can say semi fixed kind of nature and little bit change with the volume but not prorated based on the volume, this cost cannot move either downward or upward.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: In the slide, you have given the industry numbers till May. Any idea on the June numbers -- were they almost flattish YoY?

Management: In central it should be a little better.

Bhavin Chheda: You mentioned that July too also looks to be better purely on a YoY basis?

Management: July maybe flattish because monsoon has started na, now you are getting back to normal.

Bhavin Chheda: I was just trying to see that industry slide only which you have shared a very interesting slide on a monthly number. Last year August to October had a big fall. Obviously, one of the reasons was the late monsoons and that is the reason the dispatches overall on India basis were down, but this time monsoon has been on time and front, so, are we also expecting very big growth numbers in August, September, October, because obviously, some lag impact of shutdown would also be felt, and construction activities and all those start picking up in August, September since almost everything also opening up, so, could we head for a stronger type of environment in August, September October, how is your feeling?

Management: Little mixed feelings here because there are markets which are being sometimes on and off shut down in various states and every district, little bit of uncertainties prevail. But the other good part of the whole thing is that the government is clear about it that the building industry should continue to operate. So, this is one good feature which we must always capitalize on this. Earlier when the lockdown happened, everything was shut down okay. Thereafter they realize that the building industry is a, employment generator. So, they should not stop it and they allowed it. And this time also in many places where the shutdowns are taking place which we keep hearing where we do not have our plants, but in some other places where it has been shut down, they were allowed to operate the cement plants in the construction business. So, even if you look at in a lockdown situation, the cement shops and building materials open up in the morning and close down by 11 o'clock or 12 o'clock. So, this is happening. And, you must all appreciate one thing that this construction labor can be deployed at a firm for a certain period. Beyond that, sustenance cannot happen. So these poor people have to come back for work. They are into a position where they will come back to the construction sites and the construction will continue.

Bhavin Chheda: Is the raw material cost for you the benefits of the lower coal prices largely captured or we would see some more benefit flowing into Q2 also?

Management: We are going by spot purchases. So right now whenever the prices are there, we have got a certain stock of about 20, 30-days of stock. So, that is not too big a thing to really worry about. Maybe you can say about Rs.10, 15 a ton at best.

Management: Pet coke price also started inching up in.

Bhavin Chheda: What was your region wise sales mix in the quarter if you can share the state wise?

Management: Region wise, I would prefer not to give because of certain competitive issues.

Moderator: Thank you. The next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.

Kamlesh Jain: If I see your volumes, it has fallen by roughly around 32%. Even if we see pan India present companies, their volumes have fallen 33%, 34%. And your market like a central region has been least impacted because of the COVID. Despite that, we have a fall of 32%. So, I know that April was entirely lockdown, but even in May and June, like your regional peers have done far better as compared to all. So, what has been the case like -- have we been a little bit late in terms of like restarting the plants or restarting the dispatches?

Management: Kamlesh, it was not the plants which had a limitation, it was the logistics which had a limitation. So it was the market reach. If your trucks are going to get held up on the roads and police is not going to allow them and there were a lot of restrictions which were happening. We sell into certain markets. We were not able to load many rigs also. So that is also one of the reasons our dispatches could come in now. Because loading rigs was also not becoming a viable solution for us because the material was not getting sold after reaching. So we said wherever the material we are getting advanced payments in cash down, let us sell in those markets. I do not think we did badly on this. Let more numbers come in and you will see that how others have also panned out. I am very clear about it that Heidelberg relatively should have done better. I cannot comment on others, but we will see with the results come in more and more.

Management: One thing also, Kamlesh, we can add here that when we are comparing the volume development on year-on-year basis, we are comparing with the June 2019 and luckily June 2019 was the highest sale in that quarter by this company. So it may be a little bit misleading if we compare the volume in percentage. In absolute terms if you see I think it will be comparable, but like M.D. said that let us wait for the more result of the cement companies and then we will understand how fairly this company has done during COVID-19 in a difficult situation.

Kamlesh Jain: And sir, secondly, we have increased our capacity by 20%-odd through debottlenecking. So as the market expands, so would we be focused to expand the volumes at the cost of lower realizations because over the last three, four years our volumes have grown by hardly 1%-odd, I know that there were capacity constraints but even now we have 20% additional capacity available around a million ton, so would we be like say pushing the volumes at lower realizations or we would be like say happy with having higher prices and higher margins?

Management: If you want to gain 10% additional volume and if you have to cut down the prices by 7%, it is not going to work. So I can do a battle and I will lose on 90% also. For us the target is very simple that to get market share if we are getting a premium positioning and a premium pricing, only then we are going to be increasing because this is a gradual slow story, but it is a permanent change.

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

Sumedha Srinivasan: So you had mentioned that grid usage is about 59%, 60% which would gradually go down in the future. So are there any waste heat recovery plan set up or any renewable sources, solar or wind or anything?

Management: So we are looking at solar. And we are looking at also third-party outsourcing. We will keep increasing our share of outsourced power.

Management: But at the same time on your question with respect to waste heat recovery, just to inform you that we have already installed waste heat recovery power plant in the year 2016, so that is already there and now we are working on the renewable energy.

Sumedha Srinivasan: Any increase in capacity in waste heat recovery plan?

Management: No, at the moment we are not adding any kiln. It is right now the optimum what we can utilize on the three kiln basis.

Sumedha Srinivasan: By when solar would be coming up?

Management: It is in progress. The work is held up because of this COVID situation, the contractors are not able to complete the job.

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

Navin Sahadeo: I had questions; one is on the current run rate, so given that Bihar is a sizeable sales exposure that the company has, and also the COVID situation as well as floods that we keep seeing in the media, so are we seeing any major drop in volumes from that particular state, the central could be possibly by and large steady as you said in previous question, but is one of the states where we supply Bihar seeing a major impact?

Management: Navin, for us, Bihar, we hardly sell any material there, not for us.

Navin Sahadeo: My second question then was on prices. If I compare with let us say, the March quarter, our trade sales have gone up from 85% to 89%. Also there is some increase in the share of premium cement. So given that the sequential increase in realization, which is a little under 2% and the kind of hikes that we were at least hearing from the market, it seems a little on the low side and one of the participants did ask that, but I just wanted to understand this because there is an improvement on the trade side, also in the premium side, are we missing anything, is there more discounts or what could be the challenge?

Management: No, I do not think we are missing out anything. I can assure you one thing that we will never keep a provision or we will not delay a provision ever okay. Whatever is there, it is upfront. It is given in the month and it is distributed and put into the ledger every month. So there will be no surprises in the future. I can only say that much. As far as our prices are concerned, you can check out from the market at the retail counter level. They are on the upper side. Maybe there is sometimes it happens that the certain costs go up, but discounts, no way they have gone up. Some other brands would have done some catching up on lining their discount structure, that is why you might be finding some changes.

Navin Sahadeo: Is solar power now the next development we are looking at from a cost efficiency perspective? And If yes, then how much is like the difference between let us say the cost from solar visualized versus the grid power?

Management: Navin, right now, we are looking at a 5 megawatt sort of thing putting up in the central India plant. When we are exploring other possibilities to put up something more here and there also basically on two counts -- one is also the futuristic view on compliance, futuristic view on Co2 footprint which we are working on. So, we have made a roadmap for 2030 and we are pursuing that with the angle view of that we have to come down our Co2 content per kg of cement as to per ton of cement has to come down significantly lower than. Although we are today 100% blended cement company and our Co2 content is quite low I would say on Indian standard basis. But yes, we are still saying that okay, we can do still better and we will achieve that.

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

Gaurav Rateria: Two questions: Firstly, any color on what the demand drivers are right now? Do you break your entire region into like top-10, top-15 cities and the rest of the other regions? And is there any divergence in the demand pattern you are seeing across that?

Management: Gaurav, we follow this very closely and we follow the tier system of where we sell, where we do not sell. And there is clear cut indication that what we sold in Q4, what we sold in tier, since central India do not have metros but in tier-1, 2, and 3 cities, the sales has come down and it has moved to tier 5, 6 and villages, there has been a step up in those areas. I would not be able to give you the right numbers right now but yes, we are monitoring it month-after-month how this panning is taking place and what are the resources that will be required to cater to such type of demand which are there. So the team is constantly on top of it.

Gaurav Rateria: Okay, just data bookkeeping questions. The increase in diesel prices, is that currently already in your cost structure or is it likely to reflect in the coming quarter? And secondly, on the power cost side, what is the differential between a grid power cost let us say versus the third-party sourcing and temporary challenge to do?

Management: Diesel prices already passed on into the system and it is already part of the freight structure already there. We have a system that the moment the freight changes beyond a certain percentage, we have understanding with our transporters that factor is immediately calculated and given to them automatically. So, if it reduces, it is automatic and if it increases also, it is automatic. So, it takes place within three days of the change. So, that has happened already. The other question you asked was price difference. Third party-source is at least Rs.1.50.

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

Ritesh Shah: My question is how did the lead distance pan out in Q4 versus Q1?

Management: Minor increase by about Rs.10 Kms or so.

Ritesh Shah: Just a continuation to this question, when the demand conditions are tough, typically from your experience, does the lead distance increase or reduce for the industry, typically what should happen?

Management: It depends, gradually it should stay at the place where it is because the markets where you are selling, they are not changing. Unless you are closer to a metro city and then you are not selling in that metro city and then you have to move out to a long distance is a different thing. So, there will be some changes which will happen in the V-alignment on freights will happen because there was the one question which was asked by Gaurav in terms of how this demand has changed. So now we are getting into rural markets. So those minor changes will be there.

Ritesh Shah: My second question is normally we have annual incentives which we give out to dealers. Is that usually accounted in Q1 when it comes to P&L, so, how does the accounting work? I think there were a couple of questions on pricing. So, I was just trying to relate to it. Was that one of the variables, just trying to understand that sir?

Management: So, in terms of annual discounts, they are not confirmed yet ever. If at all we give. Okay, it is not given every year also. It is dependent on the management whether it wants to give or not give. And whenever it is given, then it is booked at that point of time. And these are not very big amounts, some very fancy amounts are there that it will disturb your P&L.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I just have one or two follow up. On the demand side you mentioned that it is essentially the tier 4, tier 5 or rural which is driving the demand. Has there been any change in the government spending on infra or that PMYAY Scheme that you have seen, is that kind of CAPEX also coming back to the market now?

Management: It is coming back, right now, we can see that, but again it has taken a little bit of a pause, because some of the disbursement of money is not happening from these projects and the contractors have again taken a little bit of backseat. I think it might take another 15, 20-days they will come back to the market.

Gunjan Prithyani: So the idea I am trying to essentially get is that let us say if some of these larger cities because of rising COVID cases or lockdowns may not see a comeback immediately and plus the labor issues, you are feeling reasonably confident that given the momentum that we have seen in some of these smaller cities and rural markets, plus the government program, we should be reasonably able to match the demand of last year for the remainder of the year, what is lost is lost, I get that point but for the remainder of the year is that the sense you are getting when you are looking at the market environment?

Management: There are very diverse opinions in the industry, but we are clear about it that we somehow got to manage and retain the positions what we have in our markets in our own places. And without having to bleed or anywhere in terms of prices, because prices is not something which is negotiable now with us. So, we will try to see that our volumes do not get impacted anyway. Now, the only effort is on the volume side we have to make that.

Moderator: Thank you. The next question is from the line of Raghav Maheshwari from Asian Market Securities. Please go ahead.

Raghav Maheshwari: So, what percentage of your dispatches are directly to dealer from the plant?

Management: You can say almost 65% to 70%. In Madhya Pradesh it will be close to 80%.

Raghav Maheshwari: This is directly to the dealers bypassing the godowns and the C&F?

Management: Yes. Basically, the invoicing happens at the warehouse, but the material straight goes into the shop of the dealer from the plant.

Raghav Maheshwari: This is the general situation, or this is COVID situation?

Management: No, this is our strength.

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

Sanjay Nandi: Can you just share like production status in the first month of July compared to July '19 last year in sort of guidance?

Management: Right now, I cannot comment on that. The plants are now running in a normal course as in the month of June the way they were running. Business is usual, I do not think any major change.

Sanjay Nandi: What percentage of rural demand comes from our total demand like you said like we are catering to the rural segment as a whole out of this little volume?

Management: About 35%, 40%.

Moderator: Thank you. The next question is from the line of Rishith Shah from Dhanki Securities. Please go ahead.

Rishith Shah: For the quarter gone by what is the per kilo calorie cost of coal as well as pet coke?

Management: Coal and pet coke combination is close to our fuel cost I would say is 1.3 kilo calories.

Rishith Shah: As you said earlier, so, there was an increase in the fly ash cost due to the increase in the lead distance. If you can quantify this increase?

Management: About Rs.150 or so.

Moderator: Thank you. The next question is from the line of the Pritesh Sheth from Edelweiss Wealth. Please go ahead.

Pritesh Sheth: Just one question on the volume front and this is more so for the industry. I want to understand how much of the March produced volumes you could not sell because of current lockdown, how much of that would have been reflected in April?

Management: Because the maximum volumes in March and the lockdown happened during the last 10-days of the month, so we lost close to about 1,50,000 tons of volume during that period.

Management: If your question is with respect to inventory change, you can see in our P&L it was not significant. Even the total amount is INR22 million in our P&L of June, so there is no significant change of the inventory of cement from March to June and we generally do not carry significant amount of cement inventory in warehouse.

Management: We had only just about 35,000 tons of cement in the warehouse in the month of March. And as I said that everything moves for us, most of it moves directly to the plant from the plant to the customer. So you lose out on stocking. It makes the same thing here.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: My question was around cost. In this quarter, there has been a substantial reduction in cost both on employee as well as in other expenses. So, I just wanted to understand like, which are the areas the cost reduction has come from and also like is this only a temporary reduction, I mean, what is the split between temporary and structural reduction in this cost?

Management: There have been some voluntarily reduction which has taken place in the manpower cost because of the circumstances and it is a temporary change. Going forward only we will decide whether these changes will be long term or not. But at the moment, it was a very, very short term for the time being. Our people have volunteered to take a small cut here and there, and that is what is reflected here.

Amit Murarka: And on the other expenses side, even better, decline was quite sharp So, I understand the travel would have gone down, I think promotional spends have been low across the industry. But beyond that, if there has been any other reductions?

Management: I think the advertising spends have to go down because you cannot do anything, where do you advertise, you cannot venture out into the market, there is nothing there. Going forward, some spending will happen in the next three quarters.

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

Sumangal Nevatia: I just missed the CAPEX number for the year. And the second part is now since our major CAPEX is behind us, we start accumulating cash, is there any consideration to increase dividend payouts or to preserve for future expansion?

Management: I think this will be one of the highest dividends we have recommended, and the trend has been progressive. I think we should contain ourselves with this. It is dependent on the shareholders approving it at the AGM. We should not expect too much at this juncture. But yes, we will see later on. These are prerogatives of the board.

Management: Sumangal, replying to your question on the CAPEX side, we always follow the principle of carrying out the replacement and sustainable CAPEX on a continuous basis. Generally, we follow that. It should be in the range of around 40% of our annual depreciation and during current year also we continue with the same policy so that there should not be any lag effect in the future year. If you defer some CAPEX today ultimately then the next year you need to incur more. So, we decided that we will continue with our CAPEX plan during the fiscal year 2021 as we do in past.

Sumangal Nevatia: Around Rs.40, 50 crores will be from there. And anything else this year, I mean we start spending towards solar, etc.,?

Management: The solar is something which is not a CAPEX item because it is going to be like BOT sort of arrangement. Vendor will be supplying us the power for 25 years at a certain fixed price.

Moderator: Thank you. The next question is from the line of Dhaval Joshi from Sundaram Mutual Fund. Please go ahead.

Dhaval Joshi: At which price level per bag do you see that competition might come from the other states approx.?

Management: Right now at this price also there is an overload of supply which is coming from outside. It is a very heavy feeling, not something comfortable.

Dhaval Joshi: Or let us put it this way, so this quarter on an average pricing per bag roughly around, top two, three brands?

Management: The average would be about Rs.365 to 370.

Moderator: Thank you. Ladies and gentlemen due to time constraints, we will be taking the last two questions. We take the question from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: So, just touching base on pricing, I think you suggested that there is flat pricing as of now in current month. So, how has the prices fallen or behave from the peak which we had in May in your market?

Management: That time that was artificial pricing, just it went up beyond Rs.400…Rs.420, 430 also in certain markets it went up, but it was not sustainable because once the more material started coming from the neighboring states that bring it down to about 65, 70 range. The prices right now in the market if you look at the bandwidth is very huge, okay. So, you can get cement in central India as low as Rs.280 to Rs.380 and Rs.390 and Rs.400 also.

Prateek Kumar: And similarly what would be average fuel price which we have had like in Q1?

Management: Rs.1.3 per kilo calorie.

Moderator: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, just trying to understand demand coming from tier-3, tier-4 cities and mostly from the trade segment. Now, when you have demand coming from non-trade, there is a sense of continuity because it goes into a project which will last for 28 months or 36 months versus this rural demand which can come very quickly and also part of it disappear very quickly. So, just to get a sense, how do you look at the right mix? And do you think that this kind of rural demand that is coming right now, because a lot of money is getting thrown at rural projects, NREGA, is this something that you think could actually sustain for a longer period, what would be your qualitative comments on that?

Management: If you look at traditional history of cement industry, retail demand has never vanished. Always which has taken an upswing and downswing is the non-trade segment. Invariably we have seen that across the country you look at it, it is the non-trade which fluctuates. Government investment is close to about 15% to 20% from the demand on infrastructure which is coming in. That takes a big swing. And 15% to 20% if that happens, then it will affect the indirect other channels. So you have these other builder segments and things like that. So you can say about 30% of your business is always at risk if you are into a bigger quantum of non-trade depending on your percentage of non-trade.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: One question on the Zuari Cement, the sister concern of Heidelberg. As the management is already consulting and managing the day-to-day operations there in terms of guidance, any plans strategically to merge that business with us?

Management: Zuari is a standalone company. Right now, it does not really make sense to merge these two companies, because it is not going to add any value to the shareholders. But the day when we see that it can add some value to our shareholders, we will definitely take it up.

Chintan Sheth: But there are some synergies in the southern plant where in terms of cost as well as market which can increase the overall size of the business and then derive the benefit of scale?

Management: These are two different geographies. It does not really bring in too much of synergies. Whatever the synergies in terms of operational efficiencies were there, they have been implied in both the companies. So the benefits of both these companies they operate at a certain level of operational excellence whereby those synergies have already been harnessed. But in terms of market synergies, we will not get anything.

Management: I think Chintan, we need to see this question from the government regulatory point of view also, because there are two regulations for the law, which also has big role to play for taking this decision. One is the shareholding pattern because Zuari Cement is the 100% held by the group and in the listed company it is around 70%. And regulation does not allow more than 75% shareholding by the promoters which is the hiccup at this moment. And second thing is the more related to host site. The current MMDR Act does not allow transfer or change of mining name at this momentum and if we go for that thing, then you need to pay additional 80% royalty amount which is a direct cost to the company. So we do not foresee at this moment considering the two regulations that it is beneficial for the shareholders in large to merge those companies.

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: Yeah, thank you. On behalf of PhillipCapital, I would like to thank the management of HeidelbergCement for the call and also many thanks to the participants joining the call. Thank you very much, sir.

Management: Thank you.

Management: Thank you.

Moderator: 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.