"HeidelbergCement India Limited Q4 FY'16 & Full Year FY'16 Earnings Conference Call"

May 30, 2016

MANAGEMENT: **MR. JAMSHED NAVAL COOPER – CEO & MD, HEIDELBERGCEMENT INDIA LIMITED**
MR. ANIL SHARMA – CFO, HEIDELBERGCEMENT INDIA LIMITED

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to the HeidelbergCement Q4 & Annual Earnings Conference Call for FY'16 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. 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. Good Afternoon, Everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q4 and Annual Earnings Call for FY16 for 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 maybe forward-looking statements relating with the 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 statement made. HeidelbergCement India Limited and the management of the company assumes no obligation to update or alter these forward-looking statements whether as a result of new information or future events or otherwise. Also, Heidelberg Cement India Limited has uploaded a 'Presentation' on the website and the exchange. Participants may download the 'Presentation' from there.

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

Management: Thank you, Vaibhav, and thank you, everybody for attending. I think you would have received a copy of our 'Presentation'. Taking you through this just the salient points which I will touch up which is HCIL as far as its growth is concerned, it has maintained its growth in line with the industry which is 4.6% is the industry growth. Capacity utilizations for HCIL have been better at (+80%) against the industry average of about 70% as far as the industry was concerned.

Now, coming to the Growth of HeidelbergCement: There has been a volume growth of about 2% in the quarter ended March and that is a growth of about 6.5%, there has been a growth in our central India which is our main market and because we did not do well in south, that is why our average growth has been 2%.

Total cost has been lower by about 3.9%. We have done well on the EBITDA which is higher by 8.7%, stands at Rs.72.8 crores and EBITDA margin has increased to 18.3% against 16.7% in the previous year.

On the Volume Development, Slide #4, overall as I said is 4%, quarter basis of March it is 2%.

On the Logistics cost, we have done overall on very flattish base, because last year we had some incentives which is not here this year, so that is why you see a little negative of 1.3, otherwise on a like-to-like basis it compares very well.

On the cost realization, because of the market conditions it has been lower compared to the previous year's quarter and on the 12-month basis also it is lower by about 3.3%. On the total cost we have improved and this you can see it on a quarter basis ended March there is an improvement of about 4.7% and on 12-month basis it amounts to 2.5% improvement in the cost.

On the financial performance, EBITDA has grown by about 8.7% which I mentioned. This is at PAT level also there has been a significant improvement.

On the balance sheet side, we have paid our loan of Rs.275 crores in the quarter ended March and around Rs.215 crores will be paid in this year. On a debt position, we have got some interest free loan based on our investments made in expansion in Jharsi, that is about Rs.33.6 crores.

Coming to last but not the least which are the opportunities, we are looking at a good situation in the market to come in the future. We have waited for significant amount of time but I think now we are expecting improvements every quarter sometimes we see but this time we are seeing some good improvements, again, everything hinges on the monsoon, Indian economy works tremendously loaded with monsoon and if that happens I think the government will also look at, RBI will look at rate cuts and housing sector which probably has a little bit of oversupply in some pockets but in some pockets there is still a scarcity of affordable housing and that should take place.

I wish to mention about our (WHR) Waste Heat Recovery Projects, that has started yielding results and we saw the positive impact to some extent in the quarter ended March and this we expect to continue as the plant stabilizes and we have collected our lines-II and III already to the Waste Heat Recovery and plant of Line-I also will be connected somewhere in the month of July and then this plant can operate at a little higher capacity utilization.

This is all from our side. We can take up the questions.

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 Rajesh Ravi of Centrum Broking. Please go ahead.

Rajesh Ravi: Would you please share what was the Clinker production for the year as a whole and OPC-PPC mix?

Management: Clinker production for the whole year was 2.7 mt and 100% we are into blended.

Rajesh Ravi: That should be PPC and Slag also …?

Management: Yes, Slag in South and PPC in Central India.

Rajesh Ravi: Possible to share the breakup of PPC and Slag?

Management: I do not have it right away.

Rajesh Ravi: Fuel mix sir?

Management: Pet Coke is close to 60%.

Rajesh Ravi: Rest would be imported or domestic also?

Management: Domestic.

Rajesh Ravi: How fuel mix has changed fuel mix YoY vis-à-vis last financial year?

Management: The same we are trying to improve our consumption on Pet Coke, year maybe this year it will be little better.

Rajesh Ravi: So you would be increasing beyond 60%?

Management: Yes.

Rajesh Ravi: If you could discuss on the sales market mix currently…which all regions account for what amount…?

Management: We sell into Central India which is about mostly 90% of our volumes and about 10% from South is Karnataka and Kerala.

Rajesh Ravi: There you have seen a decline and that is where you are seeing the volume growth has got muted?

Management: That is right.

Rajesh Ravi: Total basically current maturities of long-term debt, that is in other current liability?

Management: Rs.875 crores is the long-term debt.

Management: Rajesh, you can refer the Slide #10 where we have shown.

Moderator: Thank you. The next question is from the line of Nitesh Jain of Axis Capital. Please go ahead.

Nitesh Jain: I have two questions: #1 is you mentioned that the volume growth was impacted because of the sand mining issue. So has this been totally resolved and how is the situation now? #2 is Coal India has cut the Coal prices for the non-regulated, that means the non-power sector. So for HeidelbergCement , on an average the Coal cost per se how much it will decline in rupees per ton or in percentage whatever?

Management: Answering to your first question of sand issue, this sand issue is on and off situation which happens, whether it is any state, not necessarily in central India, it happens across the country, it is in Bihar get partly resolved, partly resolved in Karnataka, Kerala also there is an issue and in Central India, in M.P., there was, last year we had it in U.P., very difficult to predict what will happen. As far as the Coal is concerned, I will have to check out with the impact of because we are taking from different collieries and different collieries rate cuts have been different. So we have to work out our average mix based on the balance Coal which we are going to take for the remaining part of the year. The calculation will have to be done.

Nitesh Jain: If you can share in any of your markets basically it is Central India, have you seen the drought impact on Cement demand or when you saw like the construction got stopped because of lack of water or something like that?

Management: Yes, it has been across, the situation has been disturbing everyone because of water scarcity, but surprisingly IHB segment has suffered a little, but wherever the government projects are going on, we are somehow managing to complete the irrigation projects despite the water shortage. So some places it has a compensating effect.

Nitesh Jain: In all states like M.P., Chhattisgarh, U.P.?

Management: In M.P. also if you look at the markets which are upon the bordering of the Tikamgarh Chhatarpur, Gwalior side, those are the ones which are impacted most.

Nitesh Jain: Basically northeast?

Management: Yes.

Moderator: Thank you. The next question is from the line of H R Gala of Panav Advisors. Please go ahead.

H R Gala: I just wanted to know how is the price realization trend now?

Management: Because of the drought conditions, the prices are I would say a little under pressure but from the previous quarter but I think it is looking up once the monsoon starts.

H R Gala: For the year as a whole do you expect gross realization which was Rs.3,665 could improve next year?

Management: We should expect it because there is nothing which is adverse which is visible as of now.

H R Gala: What will be our total if you can help me with the Clinker and the Grinding capacity?

Management: Total Cement capacity is about 5.5 mt; 3.4 mt is the Clinker and 2 mt is the Grinding.

H R Gala: So currently we are operating at 80% capacity utilization as you have mentioned. So what will be our future capacity expansion plans?

Management: First of all, this capacity is also the nameplate capacity, so this plant has the capability to produce even far more. So we will have to just tweak the equipment a little bit and I think we can improve, there is a lot of room for improvement which I can see.

H R Gala: So this 5.4 mt how much we can stretch?

Management: I cannot comment on that right now, but these are the figures we will have to work on a technical side, but on a ballpark what I can understand is there is headroom still.

H R Gala: In terms of the total volume, do you expect good growth to come in next year?

Management: 6-7% growth should come in, volume growth for the industry should be there.

H R Gala: How will be the position in Central India where we are mainly operating?

Management: I think it should be better, same if not better than this.

H R Gala: Can you just tell us how much was capital expenditure in FY'16 and planning for FY'17?

Management: FY'16 was Rs.134 crores.

H R Gala: That will be mainly the 12 MW plant?

Management: Yes, included that plus our fly ash silo.

H R Gala: Next year how much we are planning?

Management: Rs.60 crores.

Moderator: Thank you. The next question is from the line of Anshuman Atri of Haitong Securities. Please go ahead.

Anshuman Atri My question is regarding the demand. So, when you are talking about the 6-7% what is the expectation from say government-based demand versus individual housing?

Management: U.P. goes in election next year, so the growth rate should be higher in U.P. In M.P. we should expect because of last two years being a depressed market, pent up demand should be there, so again (+8%) M.P. should also grow. On an all India basis, we are looking at growth of about 7-8%, out of which 30% we take it as the share of government supplies. Maybe the growth might be a little better because there is a little oversupply in some of the metros on the housing side. That could impact to some bit A-class metros the demand should be low. So one has to really figure out on an all India basis how it will pan out.

Anshuman Atri: Second question is regarding inflow of Cement in Central as Central is the best region. So after the increase in prices in North, are we seeing lesser inflow to the Central region or has the situation…?

Management: Not really, situation is same.

Anshuman Atri: Still coming in from…?

Management: It will come in, because the material has to flow somewhere.

Anshuman Atri: Are we seeing any incremental demand from the Road segment which is seen as…?

Management: As of now no, but we are seeing some good demand coming out from some Irrigation projects and Rural Housing.

Anshuman Atri: How much savings will we get from this once WHR is fully utilized?

Management: About Rs.42 as of now is realized, going forward Rs.60-70/ton of Cement, as of in the quarter Rs.60 is better.

Moderator: Thank you. The next question is from the line of Abhishek Shah of Valcore. Please go ahead.

Abhishek Shah: Just wanted some technical understanding. Is it possible to take the fuel mix to 100% Pet Coke over the next few quarters?

Management: Difficult, because we also have a linkage Coal, if you talk theoretically, yes, you can run the plant with 100% capacity with Pet Coke, but it has its own consequences.

Abhishek Shah: Is it fungible I mean can you use Pet Coke or Coal or …?

Management: Depends, but ultimately as I said that there is some cost, you can reduce the cost but somewhere you lose on the equipment life also.

Abhishek Shah: What is the per ton savings that are made due to the switch from Coal to Pet Coke, assuming if you take it to 100% Pet Coke?

Management: Pet Coke is about 30% cheaper than Coal, now, I have to work out.

Abhishek Shah: Second question is again on Pet Coke. Is it true that using Pet Coke leads to lot of pollution and this could be a big threat from the government asking us to cut down the usage of Pet Coke over the next couple of quarters?

Management: I think more than the use, dumping will cost much more environmental problems. Where do you dump this Pet Coke?

Abhishek Shah: So it is not a threat that we could assume as such…that should not be a problem at all?

Management: Yes, this should not be. Appears some people sign up all these things, but if it was to be stopped, why would not been again stopped already in the developed country?

Moderator: Thank you. The next question is from the line of Aaron Armstrong of Alquity Investments. Please go ahead.

Aaron Armstrong: Two questions from me: Firstly, on the balance sheet, can you talk about how you see gearing over the next two-three years also the presence of foreign denominated currency debt on the balance sheet? Secondly, I notice that the Heidelberg Group and Italcementi who have some capacity in the South. Can you talk about the plans there and any synergies is possible with those assets?

Management: As far as our net debt-to-equity is concerned, we are talking for the 12-months period is about 1.05, as it goes ahead, as we have to keep paying our long-term debt, this year it will be about Rs.215 crores, so that will again go out of the long-term debt. As far as Italcementi is concerned, we have not yet worked together because the transaction is not yet closed. So the two companies of work in isolation in their own way. Going forward we will have to see what synergies come in, that we can only tell as and when the transaction gets completed.

Aaron Armstrong: I understand you have loan denominated in dollar on the balance sheet what percentage of your total loans please?

Management: It is around 50% of total loan, it is dollar, but it is fully principal plus interest, it is hedged.

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

Ritesh Shah: First question is if you could please help us with the current power and fuel consumption norms?

Management: Current power consumption is about 75 units, fuel side is close to 3 GW ton of Clinker.

Ritesh Shah: In the ‘Presentation’, we have mentioned that there have been recent tariff increases in M.P. and Karnataka. So if you could provide some color over there?

Management: In Karnataka it is 7%, in M.P. it has been 8% increase in the power tariff.

Ritesh Shah: How much would it be on absolute basis rupee per kWh?

Management: It is about 6.36 cost per unit as of now on a blended basis total all India.

Ritesh Shah: Any new capacity is coming up in the region? I think you answered in the previous question, "We do not see much material flowing from East into the Central cluster." But anything that you would like to flag on the interregional trade which can possibly depress the realization in the cluster?

Management: Every market at one point of time seem to be a very liquidity market, today it is not, equations are changing as capacities have come in Bihar and Odisha, those are becoming a little surplus, which was the materials which was flowing in from here into those markets we find a little bit of resistance there.

Ritesh Shah: Sir, would it be possible for you to help us with state wise mix of our sales volumes?

Management: I would not be in a position to give it.

Ritesh Shah: What would be the market size for the Central cluster – would it be around 50-55 mt, if you could provide some state wise color?

Management: About 48 mt you can take it in Central.

Ritesh Shah: How much would U.P. and M.P. be?

Management: U.P. would be about something like 24-25 mt and about 11-12 mt in M.P.

Ritesh Shah: The balance?

Management: Balance is we take adjoining markets of Bihar and those are the ones which is coming from Rajasthan, part of the Chhattisgarh material coming in, so those are the ones that is an extended Central India cluster.

Ritesh Shah: Anything on the CAPEX side besides maintenance CAPEX that we are looking at?

Management: No, not right now.

Moderator: Thank you. The next question is from the line of J Radhakrishnan of IIFL. Please go ahead.

J Radhakrishnan: Some data points required; is it possible for you to give us the Clinker and Cement production for this quarter?

Management: Cement production as I said it is about 1.1 mt and Clinker production is about 0.74 mt.

J Radhakrishnan: Is it possible for you to give for the year-on-year number also?

Management: 0.7 mt in previous quarter that is year-on-year and Cement was about 1.13 mt, Coal was 1.1 mt.

J Radhakrishnan: Why this I am asking primarily because there is a huge change in inventory, the sales number has gone up by just 2%, so that is why I am trying to understand how much has gone into inventory?

Management: There is not any change in inventory as in.

J Radhakrishnan: So this quarter it is 1.1 mt and the previous year same quarter is 1 mt, am I right?

Management: Cement production is 1.1 mt close to both the years.

J Radhakrishnan: Is it possible for you to share the per unit cost of power for March quarter?

Management: Rs.6.36 I said.

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

Gunjan Prithyani: I just wanted to get some sense on the demand trends in Central India. So overall the growth for F'16 has been close to about 4.5-5%, but could you give some sense on how Central India has grown, is there an expectation that demand should see an uptick on the back of U.P. elections this year, what are your projections specifically for Central India?

Management: Central India we should expect about (+8%) growth in Uttar Pradesh and a little less in Madhya Pradesh.

Gunjan Prithyani: What was the demand growth in F'16 for Central India?

Management: Between 5 and 6%.

Gunjan Prithyani: As far as pricing is concerned, of course we have seen some strengthening but it is not something which is sustained really for a couple of months. Especially now that we are entering into seasonally weak period and we also have some segments which are impacted by water shortage. So how do we look at pricing coming back – does it happen in the next few months or it really happens next year, what are your thoughts on it?

Management: If the monsoons are good, prices should be a form of little better, I expect during monsoon also it will not be a weak period, because there is a lot of work which has been completed, there is a pent-up demand for last two years. I do not expect price to be getting any softer from hereafter.

Gunjan Prithyani: Do you see any impact of the consolidation that we are seeing specifically in Central India that could probably provide some support to pricing?

Management: Ideally it should, that is what I would expect, consolidated always bring in a little bit of better market operations people try because people have invested so they will try to even make some money there.

Gunjan Prithyani: On your Pet Coke, that is around 60% right now, right. Is there any scope to increase this further or this is where it stays?

Management: How much I will not be able to tell you, but it can go up to about 70%.

Gunjan Prithyani: On the Waste Heat Recovery, what is ongoing right now… pretty much the plan there is no other further capacity expansion on that side?

Management: No as of now.

Gunjan Prithyani: CAPEX number for F'17?

Management: Rs.60 crores.

Moderator: Thank you. The next question is from the line of Achint Bhagat of Ambit Capital. Please go ahead.

Achint Bhagat: Sir, firstly wanted to understand on your Pet Coke, where are you sourcing it right now– is it imported or is it from one of the Indian refineries?

Management: All domestic.

Achint Bhagat: So what happens when Reliance convert their Pet Coke capacity into gasifiers, then will you shift to imports?

Management: That is definitely, Pet Coke if we have to buy, we have to get it from other units, there are other suppliers also.

Achint Bhagat: But that is a very small capacity if I am not mistaken, I think Reliance is about…?

Management: Domestically there is a good amount of Pet Coke available not an issue.

Achint Bhagat: The Railways infrastructure, is it good to transfer from the refineries to there or did you get it from road?

Management: No, mostly it is by rail.

Achint Bhagat: Rake availability is not a problem?

Management: Not an issue.

Achint Bhagat: You mentioned in the call sometime that Pet Coke is 30% cheaper than Coal. Did you mean that like-to-like in terms of volumes that is per ton basis or is that on a (GCV) Gross Calorific Value basis?

Management: Per ton basis and also GCV basis always it is a high calorific value.

Achint Bhagat: So it means that on a GCV adjusted basis, the difference will be as high as 50% in terms of cost, am I right?

Management: About 30% per ton is on GCV basis as compared to domestic Coal.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh of IDFC. Please go ahead.

Abhishek Ghosh: Sir, in terms of the Central market that you mentioned of about 48-50 mt, what would be the capacity utilization of the Central market, say we are at 80%, what would be the …?

Management: More or less same.

Abhishek Ghosh: Are we seeing any meaningful capacity addition that is coming into a market in next say 12-18-months?

Management: In Central India, no.

Abhishek Ghosh: So given that scenario, if we are expecting meaningful capacity addition, so we are expecting utilization levels to inch up to 85-90% in say 15-18-months from here on, is that a right assumption if demand was to go by 7-8%?

Management: That is a good expectation. Depending again how much of inflows come from the neighboring states.

Abhishek Ghosh: Coming to the Pet Coke part, on a per kCal basis, so are we seeing that Pet Coke is cheaper than domestic only for the last quarter and now the spot prices have moved, just wanted to get on a spot basis what would be the differential, the 30% that you mentioned?

Management: Just now I saw the figure; it is about 38% on the calorific value.

Abhishek Ghosh: So only the fact that we are constrained by moving Pet Coke or increasing fuel consumption to a certain point, otherwise economically Pet Coke would obviously make sense rather than lifting domestic coal, is that a right statement?

Management: Yes.

Moderator: Thank you. The next question is a follow up from the line of H R Gala of Panav Advisors. Please go ahead.

H R Gala: I just wanted one clarification; as far as the freight cost is concerned, how do you see the cost going up, because now the fuel cost has again started to increase, so do you think that you will be able to pass it on in the Cement price?

Management: It is a question of distribution how efficiently you are managing your distribution. So if you look at it on our freight cost per ton we have reduced freight cost per ton over previous year. The Railways freight is concerned, I cannot stop it because if there is a Railways freight increase it will be applicable to all. If there is a fuel price increase, it will be applicable to all. But within that given limitation, how you are organizing yourself with the transporters, not with the Railways I cannot do much, but we can only change the co-efficient there.

H R Gala: But sir Slide #6 where you said the logistics cost, I think that …?

Management: That is 1.3% it has gone up, that is because last year we had some freight incentives which are no longer there. But if I were to remove that freight incentive, we are better off.

H R Gala: So you expect it to remain at around Rs.523/ton?

Management: Around that much, yes.

H R Gala: How much is our total freight coming from Railways and Road in terms of…?

Management: About 50-50%.

Moderator: Thank you. The next question is from the line of Achint Bhagat of Ambit Capital. Please go ahead.

Achint Bhagat: Has the cost of rail freight increased in FY'17?

Management: This year no.

Achint Bhagat: What I was hearing from some of my checks was that the rake availability has also improved in this year due to which some people are contemplating there will be no busy season surcharge. Is that right or is there a cap?

Management: Surcharge will always click in. I doubt very much Railways will forego the busy season.

Management: Actually the government has waived this busy season charge w.e.f. 1st of May 2016. So basically the industry has got the benefit of two more months. Unless the busy season surcharge remain for 9-months and no busy season surcharge from July to September, instead of three months you have got the benefit for five months.

Achint Bhagat: Can you quantify that if at all that is possible?

Management: It is 15% of your Railways tariff.

Moderator: Thank you. The last question is from the line of Nitesh Jain from Axis Capital. Please go ahead.

Nitesh Jain: Since the company is now generating free cash flows, so instead of repaying the debt in such massive amount, why does not the company put up a captive power plant say 15 or 20 MW wherein the buyback period will be far more lucrative, so any thoughts on this from the management?

Management: If we have to put up a captive power plant, we always put it. First of all, we would like to pay our debts as of now. WHR is about 13 MW which let us stabilize first right now plus running a power plant separately a coal-based power plant it has shown issues of with this uncertainty of coal linkage is in future, one has to take a little careful look on this.

Moderator: Thank you. I now hand the floor back to Mr. Vaibhav Agarwal for closing comments. Please go ahead.

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

Moderator: Thank you. 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.