



“HeidelbergCement India Limited's Q4 FY'22 & FY'22
Earnings Conference Call”

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HEIDELBERGCEMENT



MANAGEMENT: **MR. JAMSHED NAVAL COOPER – MANAGING
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MODERATOR: **MR. VAIBHAV AGARWAL, PHILLIPCAPITAL (INDIA)
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Moderator: Ladies and gentlemen, good day and welcome to the HeidelbergCement India Limited Q4 FY'22 & FY'22 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you. And over to you sir.

Vaibhav Agarwal: Thank you, Steven. Good afternoon everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q4 FY'22 and FY'22 Call of HeidelbergCement India Limited.

On the call we have with Mr. Jamshed Naval Cooper -- Managing Director and Mr. Anil Sharma -- Chief Financial Officer of HeidelbergCement India Limited.

I would like to mention on behalf of HeidelbergCement India Limited and its management that further statements that may be made or discussed on this conference call, maybe forward-looking statements related to future development and the current performance. These statements may be subject to a number of risks, uncertainties and other important factors, which may cause the actual developments and results to differ materially from the statements made. HeidelbergCement India Limited and the management of the company assumes no obligation to update or alter these forward-looking statements, whether as a result of new information or future events or otherwise.

Also, HeidelbergCement India Limited has uploaded a copy of the Q4 FY'22 and FY'22 Presentation on the stock exchanges and its web site. Participants are requested to download a copy of the presentation from the website.

I will now hand over the floor to the management of HeidelbergCement India Limited for their opening remarks, followed by interactive Q&A. Thank you and over to you, Cooper sir.

Management: Thank you, Vaibhav for hosting this investors call. First of all, let me thank all the participants who have joined and taken out their time to attend this call. I suppose you would have received our presentation which has been posted already.

Coming to the first page of it, which you've already read, which we're talking about ESG projects, alternative fuels project and solar power plant which we have commissioned very recently, and we are on the path on a trajectory towards greener and much more efficient energy utilization system, which we had planned on a long basis and continuously as of now, today, we are close to about 23%, 24% of our total is the green power for the company and future, it is a target close to about 30%-plus.

On cement capacity utilizations, we have increased and we will talk about later on also. We are right now at hovering around 76% utilization. Last time we had this issue that we had dropped down because of the capacities and now we are recovering that.

We continue to produce 100% blended cement. As you are aware, that we do not produce OPC and which is one of the rare companies which in the cement Indian space which believes that we have to take care of our planet also. Today, many constructions don't require it. Anyway, we can talk about it later on also.

On green power, which I said already is 23% EBITDA is Rs.910 per ton. We have tried to do our best. We could have done still better as power and fuel power little sympathetic to us.

We repaid our third and final tranche of non- convertible. So, we are now a debt-free company. You will see the interest costs coming down to zero now. Then, we have a good amount of cash balance close to about Rs.380 crores. And we continuously augment that also. We'll talk about that later. Based on the cash flows which are anticipated cash flows, the board has recommended in AGM to the shareholders a dividend of Rs.9 per share. We will talk about this later also in detail. And we continue to operate on negative net operating working capital.

Moving to the next slide. On the clinker factor, we are at 61.4%. Being a blended cement company, I think this is a rare distinction in the cement industry. Those people who are making slack for them, it might be a little better. But in the PPC space, this would be probably one of the best we're trying to do in this. So, on the CO₂, we are right now 511 Kg per ton of cement which is also I would say you will appreciate and accept that also that we are here doing the company gets best foot forward. Coming to the water positive, we are about 4.4 on X-water positive.

On CSR we've touched the lives of almost 35,000 people and we believe that our CSR activities are bringing the smile on the faces of the local society. In terms of green power, we have spoken about is 23%.

Taking you to the next slide, which is five, we have a target to reach about 500 Kgs per ton CO₂ emission from 511 Kgs to 500 Kgs by 2025. The task has happened and that cannot happen without the use of AFR and renewable energy. So, our focus is there. You can see beautifully laid down solar power plant, which is now operational, and we are getting a very good plant load factor from this and I'm sure that it will go a long way in giving us the carbon credit for this, and it will be almost 2,50,000 tons of CO₂ will get conserved because of that. So, this is very important steps in the direction of becoming from green to greener.

Coming to this footprint of the slide, you can see on slide six, at Jhansi, we have just started our drawing power from renewable which is about 22-gigawatt hour. In Narsingarh because with upfront of WHRS and things like that, we are almost close to 40% in green power plus we have added another 5.5 MW of solar power to it.

Ammasandra is 90%. Here, we are writing on a safe side, but it is close to 95%-plus I would say of power is green. Maybe it varies sometimes, but on an average it will surely be 95% and above

When it comes to how we have grown in our green power, you can see that we have reached 23% of our total power in HeidelbergCement India and we have a target in addition to cross 35% in the near future. I would say the roadmap is clear and the company has been working on it. So, it is not a project we will see and we will come back to you in '25 and say that, okay, this does not happen or that does not happen. It will be delivered to the world.

Next Slide #7: We have our website that is a very unique website. It is called "Friends of hcfriendsofearth" where anybody who planted a tree and he or she can geotag it with the name and features. Right now, the maximum contribution has come from the employees and business associates for us. But, in future, we are wanting that more and more people should come and contribute to the meaning of this earth. I think as a generation, we need to contribute more and more to our planet, Mother Earth. This is one of the initiatives in this direction. If anybody has questions, happy to answer them.

Coming to the business results are concerned, so if you look at Slide #8, there were questions that why have you dipped in your capacity utilization, and you can see a dip from 91% to 87% because we did an expansion work and we had a hit in '20 because of the COVID but then again we got the capacity, timing was a little od, but now again we are into back and trying to lift the bar and see to it that we reach that our 90%, but we are today at 76% given the market conditions and demand are there, we do not want to put too much pressure in the market, although we can sell it but ultimately it will come at a cost.

On the Slide #9, you can see our 12-months of performance. We have compared that December-on-December, quarter-on-quarter how it has fared. So, from that we are back on the trajectory. We pulled up our numbers in the month of March just only on flattish come back. And I think this trajectory will further improve in the months to come in the next quarter.

Coming on the profitability, what I see on Slide #10, it's a very clear message that 0.4 has been power and fuel. Had it not been there, on the parameters the team has done a very good job, they have tried to conserve, they have tried to recycle, reuse, whatever they did it, that is visible in our every effort of it, but sometimes certain things are beyond the control. As we talk about also, our team is working on in some of our plants on how to switch fuels with maximum efficiency. So, earlier the lag time used to be about two days or three days from switching over of fuels, now, we have come to a stage where we are able to reduce this time to almost 36-hours, and within 36-hours fuel change we can do without balancing of the kiln or disturbing the kiln. This is what is happening there.

If you look at the Slide #11, you can see very clearly, now it is much more refined from the micro numbers you can see in the fuel, the power infusions gone down. Others, you may have some questions, we will answer them, but these are the one-off items. Some of them, which are the tax incentives we've got from the MP government. So, that is one part of it. But yes, that was new to us, it had not been coming, now it has come. So, now we're standing at an EBITDA of Rs.961. And I'm sure that if the market has some good sentiments built up, this will go up in the future.

For the whole year, you can see, again, power and fuel is one of the areas which is bad, but still we deliver Rs.910 per ton of EBITDA from March to March, for the quarter, it was Rs.961 of EBITDA.

The balance sheet has been placed in front of you. If you have any questions, Anil can answer on the balance sheet part also. I think it is fair and simple. I don't think there are too many surprises in this anything, it's very clean neatly done balance sheet, audited by our auditors.

The question comes now on Slide #14. You can see the bank balance is what we have. As the net cash is about 1.34 billion of cash is we are sitting as of 31st of March. UP government is to bring more transparency. this zero-interest loan we have with the banks, we have from the UK government for development of our expansion. That will be repaid till '26. How the payment year-by-year it is going to work? It is very transparent in front of you what was the money which will be taking off and which are the ones we are right now being in the best position we are placed till year if you see the slide 14 reflected on the right-hand side.

Coming to slide 15, I think company has delivered starting from the first dividend after 20-years in 2017, gradually improving, not letting down the investors. I think there was no interim dividend. So, that was the one place we have placed it as 90% the dividend. I'm sure you may have questions about it. But based on our future cash flows and things like that, we recommended to the board, the board has now recommended to the shareholders for their approval.

Slide #16, the story is that little bit has been a reduction on our work. It used to be 50:50 but now as the circumstances change of rail becomes cheaper, so we went to rail, we are able to change this blend faster, 46% is by road and 62% of our coal if you look at it, we have gone to 62% for coal. What to do is because export becomes much-much costlier, today the domestic pet coke price is hovering around Rs.20,000 a ton. But on the gigajoule basis, when it becomes a cheaper or so, then we switch. Again, it's not a question of this pet coke and fuel. It is also availability which is a major issue. Many a times we are running into problems of getting sourcing our coal from domestic market also. Sometimes you have to use a costlier coal to keep the plant running as long as you are able to keep your nose afloat, we are doing that. On premium cements, we have now reached 21%. There is an improvement on the previous quarter.

And on the trade side, there is a minor deterioration because our trade has declined to 80%, earlier it was around 85%, 86%. But I think this will keep going on. The markets are little softer, little we have to keep changing, but does not really matter too much on our results.

Coming to Patharia, from awards, we'd like to even share with you, how our team takes pride in receiving the award. On CSR, we got an award for our rural education. There is a lot of transformation we have done; we are done a lot of schools anganwadis we have refurbished. On rural education, it is very heartening to see the smiles on the faces of the children who want to come to school. Normally in school not many people would like to come, but we have made the school so invitee that the teachers would like to come there, even the children would like to come there because now they are not no longer the government schools. Government also has limited.

As a corporate, we have just only supported given a helping hand there to refurbish the schools and make them look decent, livable and happy. So, happiness quotient has gone up. On the integrated community development project also, we have gotten a Global CSR Award.

Coming to Patharia Mines, it is again a feather in our cap. It's quick succession year-after-year. Indian Bureau of Mines has been appreciating our efforts for very safe mining, sustainable mining. In fact, use of limestone reject, the way we refill, we use reclaim land and then we do the forestation on that. These are some of the areas which are a cushion of joy for us. Our team also has a matter of pride, that we try to make our workplace much more better. And that gets recognized by the government, then it feels furthermore nice.

So, on the demand situation, we are talking about demand situation. When we talk about the pandemic, when I move around in the market, when I see people without masks, I feel that in India the pandemic has gone and it is of no meaning, corona has gone from here, but, there is always a worry that we become complacent and then it strikes us. So, that's the thing, but I think right now it's okay.

The danger is how you Russia-Ukraine conflict disruption goes, right now had an impact on fuel. What's next? We do not know. So, one has to really tread very carefully on this. I do not expect in future the coal prices to be coming down below \$150 ever in future. That's what my feeling is and that too also after '24 or so, it may come down to below that level. But right now, it does not seem to be easing out.

Fuel availability remains a challenge for us and we try to see that we get the most optimum source of fuel. Cost pressures are there. What should I say? Today, the prices of coal, almost fuel and pet coke, some things have doubled, some things have tripled.

Heat and other, these are temporary things because you will have questions that how is this quarter going on and forward. Yes, I'm just pre-warning, cautioning that because of the heat, there could be a little bit of impact on sales little bit of this month, marginal impact will be there. And because there is a slowdown of construction, because also you must appreciate that this steam has gone through the roof and other building materials have gone through the roof. There's a liquidity crunch at the dealer end. So, there is a little bit of concern there. Little bit of outstanding has increased marginally, but nothing to worry about it. We have a very strong robust channel. We are sure about them. They have securities with us. So, nothing to worry on the side of thinking about any bad debts or anything. Company is fully secured and covered. You will have some questions definitely, I will answer to you what happens after the price reduction of diesel and petrol, how does it impact us, that I can answer to you as and when you want it.

But this is as of now from our side. Anil who is our CFO, Amit are there to answer your questions whatever they are, to the best of our ability we will give you a most transparent view of whatever you need to know. Thank you very much and thank you once again for all the support you people have been rendering to our company.

- Moderator:** We will now begin the question-and-answer session. The first question is from the line of Shravan Shah from Dolat Capital Markets. Please go ahead.
- Shravan Shah:** First, on the demand front. So, as you mentioned the other building material costs which has increased including steel and the heat also impacting, so in this April and May, how do you see the demand, has it impacted 10%, 15%, any number you want to throw, so just trying to understand so including normally fourth quarter remains a robust and the first quarter normally we see a decline in the volume, so just trying to assess the decline on QoQ in the volume front for this quarter?
- Management:** I would say there is a negative impact on volumes as of now as we speak. We were expecting extra little bit of showers comes in and then it should again boost. There is a little bit of slackness in the government demand because of the monies the government demand because the money the government had spent during March, I next flow of funds has not come from the panchayats and other places which draw a significant amount of cement. There could be a 15% to 20% you can say hit, seems to be on an industry basis. I will give you more of an industry basis. That is what I can get out. For some it maybe ranging even 30 also. But let us see because the month is not yet over. Today, as we speak, demand seems to be in some market coming up, some market is becoming stagnant, let's wait and watch. I think June would be good.
- Shravan Shah:** Sir, on pricing, so post-March how much price increase we have taken in April and May or from there maybe average? Any further price hike attempt would be there in the remaining one month?
- Management:** Price is more or less flat as of now. Minor increases come here and there, some constant increases will definitely be there, in June if the business starts a little bit better. Since March, there has been an increase of around Rs.20, 25 per bag.
- Shravan Shah:** Sir, now coming on the costing front, so, definitely it is difficult to answer particularly on the pet coke and coal, but still trying to understand, what kind of further increase because this quarter definitely a significant increase we have witnessed, but still at least for this quarter, how much more impact we can see, another 10%. 20% QoQ power and fuel cost, is it fair to say that kind of increase will be there?
- Management:** Pet coke and coal prices even higher than 10%. So, we have seen that there is significantly pet coke prices increased. Just to give you a little bit idea about the pet coke prices, in the March quarter, it was around Rs.20,000 per ton, which is now coming to around Rs.27,500 per ton as we see currently in the month of May. So, the pet coke domestic supply they took many hikes during the last few months and the landed cost is coming to around Rs.27,500.
- Shravan Shah:** So, for us, including the kind of a green share we are trying to increase, so for us in terms of the per ton, how much likely increase to happen?
- Management:** We'll see. It depends upon how the power prices by the grid increase during this quarter because Madhya Pradesh government has already taken a few hikes in the grid prices, in UP we have not

seen that kind of things, and at the same time we have been working on this renewable power. So, during this quarter that benefit also flow to bottom line. Pet coke and the coal prices increase significantly as compared to March quarter. In power, maybe we will not see that kind of increase because of the initiatives on renewable power. Let us see that how much cost increase happen during this quarter and how much will we pass on to the market.

Shravan Shah:

On the CAPEX and the expansion, previously we were talking half a million ton of kind of a debottlenecking and the Gujarat expansion environmental clearance. So, what's the status, when can we start spending on the Gujarat expansion and then what will be the capacity once we start, will it come in two, three years?

Management:

First of all, there is a debottlenecking and a little bit of improvement in projects which we are doing. That will get all triggered and all started coming by March, April next year. So, this year, we are doing some CAPEX on that, we are working on this, and I think the ordering will happen by June, July. The second phase will happen of that in '24, it's line-II, where there is a small debottlenecking, but there is some study which is going on because whatever the benefits we are getting, right now, they are not to our expectations, so, we are doing still more additional study into that, in 22,600 DPD line we want to take it right now to 31 or 32 or 33. Let us see how it goes through. Technical study is necessary in that, but line-III we will work on it. There are projects it is under now environmental clearances. So, we have moved there. And I think it will take one and a half years to get all the clearances and then we start building the plant which may take another two years to get the plant up and running.

Moderator:

The next question is from the line of Prateek Kumar from Jefferies. Please go ahead.

Prateek Kumar:

My first question is related to prior question on CAPEX in Gujarat. As you mentioned, it may take some time to start. Can you just elaborate a bit more details on that project where we are currently exactly, are we expected to start that in FY'25 or '26?

Management:

You can say by mid-'24, depends on the clearances, how fast we get the approvals, but these are not within our control, these are all government controls, clearances and approvals we have to get. So, right now, it is at a very nascent stage. Once we get approvals and we will start investing on that. Or maybe earlier also, how fast efficient the government system is.

Prateek Kumar:

We know that global group has like sold assets in India for the reason of get into ESG and carbon emission. So, is this something which our parent also worries about and which may restrict growth in India or our M&A opportunities in India?

Management:

As of now, Prateek, I do not see any reason to worry for our company. Our company on the ESG is very, very strong. If you look at our carbon footprint at 511 Kgs, who will be able to compare this? Today, among the global out of entire listing, this company is doing a marvelous job. So, I don't think there should be a concern. Plus, we have invested into all ESG-related CAPEX gradually over the period of time. So, today, we have shielded our company from the spikes of becoming environment compliant. Today, the company's in a much better poised in a situation.

I don't think the group will ever think of an emerging market, at least HeidelbergCement I don't think it is looking at any of these type of discussions at any point of time.

Prateek Kumar: Regarding cost, you mentioned the pet coke price has moved to Rs.27,000 per ton from Rs.20,000 per ton. So, this Rs.27,000 per ton will hit us in terms of realization in our income statement in q2 or straightaway in Q1?

Management: In Q1 also, some impact will come na, because since we are buying at that price that we will invest, because the inventory of fuel nowadays with any cement company upper limit is 25 to 30-days.

Moderator: The next question is from the line of Peter Agnel from Shima Wealth. Please go ahead.

Prateek Kumar: What has been the pet coke prices during FY'19, '20, '21 and '22 just to get an idea of what has been the increase?

Management: If I look at a quarter of March '20 pet coke price was just Rs.8,000, then you look at March '21, this went to almost Rs.13,600, and now, this March, it was Rs. 20,000, and now, the next lot is Rs.27,000. So, if you look at these jumps, this is where it is. I mentioned to you that some of the things almost doubled and some have tripled.

Prateek Kumar: Sir, what is your raw material basket cost? What are the major raw materials? Where are you sourcing them from?

Management: In raw materials, maximum which is our own limestone. There are small 3%, 4% is additive which is for gypsum and raw material another is small laterite, bauxite, fly ash. There is our standard suppliers contracts going on for years together. I think that isn't not about it fly ash is a more tied up source compared to other variables.

Prateek Kumar: Just to understand, because of the raw material cost pressures which are expected, are there any initiatives in place to reduce the raw material cost pressure going forward in light of keeping margins afloat?

Management: I cannot reduce the raw material costs, I can only reduce consumption, but consumption also has to be to an extent that you can remove the flesh from the bone, but you cannot cut the bone.

Prateek Kumar: You have mentioned about the new diesel price which has come down. Could you throw some color?

Management: That is a small element, that diesel only goes into our yellow machines, and a little bit on our logistics, about Rs.2 a bag it will reduce.

Prateek Kumar: You mentioned that a lot of road contracts are given. So, any color on Heidelberg, is it getting any major orders from road contractors?

- Management:** We are not into OPC manufacturing. So, we do not bid for that. We are a green cement manufacturer. So, PPC in road projects are not preferred as per the government regulations, although you can use it, there are projects which have been done in this country with 100% PPC also for highway projects. But as of now, the road projects are using only OPC as mandated by the CPW. We don't supply this.
- Prateek Kumar:** Any CAPEX guidance for the next two fiscal years, that would be helpful?
- Management:** We generally do around Rs.50 to 60 crores per annum CAPEX as a sustainable CAPEX that will continue for the next two years. And as well the next two years we are going to do this de-bottlenecking projects in Madhya Pradesh, and that will be the additional amount. So, we expect that maybe there will be around 40 to 50 crores additional CAPEX in the fiscal year '23. Put together, around Rs.100 crores in '23 and another Rs.80 to 90 crores in the fiscal year 2024.
- Moderator:** The next question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.
- Navin Sahadeo:** Just two quick questions. One is this reduction in diesel price that has happened, are we likely to announce any price cuts? I think Shree Cement promoters have made some statement some time back. So, I just wanted to know if this is a general industry trend that since the diesel price was cut by the government to contain the inflation, so is there an obligation for the industry to pass on that to the consumers at least to begin with?
- Management:** Navin, this amount as I mentioned to you, the impact is only Rs.2. In cement industry prices fluctuate by anywhere between Rs.20 and Rs.30. So, I don't know. Even if today that I reduce prices, nobody will come to know also that what I have reduced. I can make any comment on that. In a day, you can have a variation of Rs.10 to Rs.15, so today I drop by Rs.15, tomorrow, I will increase it by Rs.3. It's a very difficult situation to tell you that whether this is going to impact the cement prices. Let me put it for the benefit of all the listeners here. Cement as a component as a builder is just the impact of cost which is increased for a builder is 13.5% for all the building materials. Steel is one of the largest which constitute about 35%. Cement as a component in that is 0.1% of the 13% of cost increases which has gone. I saw this report by one of the builders I think it is Lodha group which they have made the report, saying that how their building materials costs have gone up and there you can see the cement is just only 0.1%.
- Navin Sahadeo:** My question was more on the general mood in the industry, in the sense, at a time when the underlying cost is shooting up, but the industry is not really able to take enough price hikes and that's where the margin compression that we are seeing. So, I was just trying to understand if there is a general inclination that the underlying cost is up, we can continue to see some price hikes or there is —?
- Management:** Navin, prices right now should cross Rs.500 a bag according to to me. Today, cement still is on an average Rs.370. This was the price ruling in '2018, 2019, 2020 and 2021 also. We are still at the same place.

Navin Sahadeo: Because we are halfway through the first quarter, so given where the current prices stay and the cost that we are likely to budget in for Q1, directionally, the margin should continue to be under pressure in Q1 over the previous quarter, right?

Management: That will continue to be under pressure if the prices don't go up. You're using your optimal resources. What else can you do? Pet coke earlier used to cost us something just about Rs.300, Rs.320 or Rs.360, gigajoule that is costing today Rs.780 or 790, now some of them Rs.900, you have to pass on to the market. It's unfortunate the other commodities have gone up. This industry because of the excess capacity, it has not been able to take increases because everybody wants to run the show and wants to keep the price. Anyway the public is any day benefited by the competition which is happening in the industry.

Management: Navin, no doubt the cost has increased, but a good thing that during last one, one and a half months the slight cost we could pass on to the customers. Now we are middle of this quarter and we'll see that how this especially pet coke price development happen in the remaining 45 days as well how the prices will move. If the demand sluggish will continue, yes, there will be some pressure on the margin, but let us see, because March was also not a very good quarter, although it was better than December quarter, but not as compared to corresponding quarter of last year. So, let us wait and watch how the margin improvement or the margin development happen during this quarter. For our company, yes, there are many good things happened during this quarter or is happening, renewable power is supporting our costs, we have been increasing our alternative fuel consumptions also. So, there should be some good things, but at the same time, cost pressure no doubt is there.

Moderator: Next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: A couple of questions. First is, sir, can you indicate the blended pet coke plus coal cost in rupees per kCal basis for the quarter and on spot basis?

Management: Pet coke I have got is about Rs.2.54 per CV and coal is about Rs.2.34 per CV, in the previous quarter last year coal used to be Rs.1.33 and pet coke used to be Rs.1.72. On spot basis, the current rate will be much more; it is now 3.38.

Management: Increase to Rs.3.38 per kCal. On coal also now it is coming around Rs.15,000, there is also an increase significantly. When we compare the March quarter, the pet coke and the coal prices in any case increased by 20%.

Ritesh Shah: How should one look at basically pricing when it comes to offsetting this cost given we have monsoons in front of us, are we confident of the demand, you indicated that we have increased prices after March, will we be in a position to actually cover up for the cost inflation?

Management: Ritesh, you must understand that when the prices go up significantly, then there is always a push back from the customer end. So, I always call it as a stabilizing phase. So, it's like climbing 100 ladder step, every 25 you should get up and stop there. So, industry is going through this phase.

Soon or later, customers will realize that now, cement is not going to be available less than Rs.380 or Rs.400 a bag and then they will again come back. Who will expect the steel prices come to Rs.55, I doubt very much. The steel prices will remain anywhere above 75 or at least 70 and above. It is a question of wait and watch. With these type of fuel prices, you cannot afford to reduce prices any further.

Ritesh Shah: A bit of a hypothetical question. So, what the government did is actually a duty structure on steel. Although the fear next could be aluminum and cement. I understand you indicated 0.1% impact out of 13.5% increase in construction costs. Do you think there is any risk of government potentially intervening to curb pricing on cement? Rs.900, Rs.1000 is also not a bad number if one looks at. So, the priority for the government might be a bit different at this juncture.

Management: Why should the government intervene when they cannot stop the prices of all other commodities going up? How can you just ask one type of industry to just becoming the whipping boy?

Ritesh Shah: Gujarat CAPEX has been pending since quite some time. I think our commentary has been that clearances is taking longer. So, can you provide some more color on clearances still pending? Even I think our financial parameters is perfectly placed, balance sheet is awesome. I think the only thing which is a question mark is growth organic or inorganic. If you could provide some more color on clearances on Gujarat and will we be open for inorganic expansion given our balance sheet shape is pretty good?

Management: Last one on inorganic, yes, always open. Coming to Gujarat, it's environmental clearance, we have to get. Because the plant is coastal in nature. SEZ or coastal zone, CRW regulation is there. So, this we have to clear and now, we have almost got it over. So, we have got the approval for that also. The environmental study will take about a year. One season they will require to measure the impact of putting up a cement plant. So, they will do all the studies through an agency and then they will come up with the solution because we have told them what is the size of the plant, what is the water requirement, what is the power requirement, everything is there. We have given that and once the study happens, they will take about one full year to study it and then the report will take about three months or four months and by the time it gets finalized, then we get final award in year and a half. In the meantime, when we see things are moving in the direction, then we will start working on our internal side also for land procurements and boundary creations and things like that. So, those things are there.

Ritesh Shah: Any update on Zuari merger, is it something which is possible, if not now, say two years out? If one looks at the history of the group also, I think they' are a simplified structure. So, how should one understand this?

Management: Ritesh, every time I have mentioned this, that yes, it is a doable project. It's only a question of how do you engineer it financially? So, once that engineering is done, and there is no loss to the shareholder value, then we will take it, but yes, you can expect in another two or three years it will happen at best.

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

Uttam K Srimal: My first question pertains to our fuel mix. You said our coal mix is around 62%. So, how much is imported coal and how much is domestic coal in this overall?

Management: In our case it is 100% domestic.

Uttam K Srimal: How was the pet coke doing during the quarter?

Management: Pet coke is also total domestic and the pet coke is around Rs.20,000 a ton for the quarter.

Uttam K Srimal: I also want to know the pet coke mix, 62% is coal and the balance is pet coke?

Management: Yes, right.

Uttam K Srimal: What has been our dependence on grid power because last quarter it was 32% on state gate and 68% was outside state gate?

Management: As we talk about, Damoh runs close to 40% on WHRS, then we have this 5.5 MW of solar and then rest is 55% would be from the grid.

Uttam K Srimal: So, what has been our lead distance during this quarter?

Management: Nothing has changed, between 360, 375 it remains.

Management: There is no change in lead distance. We continue selling in the same market.

Uttam K Srimal: Other expenses is down quite sharply this quarter. So, what has been the reason for that?

Management: Last time we explained in December quarter there was a big shutdown and that's why this shutdown cost has increased. During March quarter, generally, we do not go for any shutdown. So, that's why you see the expenditure as compared to quarter-on-quarter there is reduction. When you compare with the year-on-year, it is on the similar range. The fluctuation in the other expenditure from quarter-to-quarter is only because of the plant shutdown of the kilns.

Uttam K Srimal: What was the incentive amount that we have received in this quarter?

Management: We have already given in our published results in notes. The total amount we have accounted during this quarter is INR300 million and out of that INR200 is to the earlier period.

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

Rajesh Ravi: I have a few questions. First, could you share for the Q4, what is the trade sales mix?

Management: In Q4 75%.

Rajesh Ravi: Are we seeing any pressure because steadily our trade mix has been coming off if you look the trend in last few quarters from more than 80%, the trade mix was 80%, 85% and then till March and June quarters it was 83% and now you're seeing it is close to 75%, so any regional pressure that you're witnessing from other peers and that is why more push in the non-trade?

Management: Rajesh, this is a little bit of technical area. There are certain rakes we have supplied on a prefixed prices, but the material is a trade material only, it is a branded bag, is sold to a bigger wholesaler which will retail, but in the segment, since we have a separate methodology, it is not an NFR bag. So, we have not classified as per this. Otherwise, that is also a trade. A little bit of correction we will do it in the statistics because the quantity in those categories have increased, is being measured into non-trade. So, we will change those nomenclature. Otherwise, more or less 80% trade will remain or little plus one it will remain. Last month also we spent about 25,000, 26,000 tons in this type of a transaction which we will correct it in the next quarter.

Rajesh Ravi: On the expanded capacity this year, we have around 76% utilization. You've operated at 90% utilization earlier. So, what sort of number you're looking at and are there any risks to operating at 90% utilization?

Management: I don't see any risk. The risk would be only that we run out of fuel.

Rajesh Ravi: In terms of the fuel, sequentially, you mentioned that fuel cost for you have gone up by 20%-odd. First of all, what sort of alternative fuel we have consumed or we expect to consume in this quarter?

Management: In Damoh, we have set up of an AFR which has started operating from December. Gradually it is ramping up. It is right now about 3%, 3.5% of TSR. For bigger it is likely to be around 5%, that is what we have factored in. Going forward next year we are going to take it to 11% and 12% and thereafter we will try to give go to 22% and 23% of AFR in '24 and '25. If we put it very clearly that AFR, it's a difficult business because AFR availability itself is a big issue and bring it to the plant itself is a challenge.

Rajesh Ravi: Is there any inflationary pressure you have seen even the electricity which you're purchasing from outside, 70% of your total consumption would be external power, right?

Management: Power will go up but since we have got now a tie up for other sources from third party, I think this will keep our costs at least lower. On adverse side, it will be a little better.

Rajesh Ravi: You're saying for the 70% which you're buying electricity from outside you have a fixed price contract?

Management: Not 70%. We are talking about these 22 GW of energy –

- Rajesh Ravi:** That obviously will help you. I'm saying the power which you are purchasing from grid and all, because of the rising fuel prices, what sort of cost inflation are there in the electricity cost?
- Management:** Madhya Pradesh government has already revised the grid prices. They have considered around 3% hike. And this 3.5% will impact in this current quarter. As you rightly said renewable power will still support us. So, we don't foresee any significant increase in the electricity price in the coming quarters. It is not the significant hike taken by the state government so far at this point.
- Rajesh Ravi:** So, whatever impact you and other players would be witnessing would largely be on the fuel side?
- Management:** That's right.
- Rajesh Ravi:** In terms of the central market, because you don't have any major expansions in the market, whereas UltraTech, ACC are coming up with capacities, and a few other players also, you have capacity in Gujarat, that would not be operational before FY'26, so what sort of business impact you're looking in terms of market share loss that you're looking at, how do you assess those situations?
- Management:** Till another coming two years, we do not expect any market share loss. If you look at, we have added capacity, we were running at 90%, now after adding capacity additionally it became to 72, today we are getting back to 76, if market is growing at about 6% or 7% or 8%, if we keep adding to it, we have got another two years to even get 90%.
- Moderator:** The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher. Please go ahead.
- Kamlesh Bagmar:** One question on the part of incentives. So, these incentives are expected to expire in Feb 2023. So, is it the case or would we be able to get it extended further?
- Management:** Our incentive is going to expire in February 2023 after completing 10 years, and thereafter, we don't expect that it will be extended by the government.
- Kamlesh Bagmar:** I missed on the part of your de-bottlenecking expansion in central region. So, can you please repeat the figures and quantity on that?
- Management:** 300,000 tons of additional capacity will come in line-II and line-III and it will be about something like total investment of about Rs.40 crores.
- Management:** In phase-I and then maybe higher in these phase-II in 2024 calendar year.
- Kamlesh Bagmar:** So, 3,000 DPD of clinker addition, which is around a million-ton additional clinker, we will be able to cater from there?

- Management:** Half a million cement. 300,000 tons clinker debottlenecking and equal to 450,000 to half a million cement grinding capacity. And at the same time when we talk about the debottlenecking, we're talking about some allied process on account of packing or displaying, so those gradually we are taking up, so that tomorrow once we have the grinding, once we have the clinker, there is no constraint on the display side or packing side. So, the figures that we're talking about amount of around Rs.100 crore in the coming three years including all these kind of small, small debottlenecking on the old processes.
- Kamlesh Bagmar:** So, Rs.100 crores would be including your maintenance CAPEX or it would be primarily on these debottlenecking projects?
- Management:** Rs.100 crores is debottlenecking in addition to our normal CAPEX of Rs.50 to Rs.60 crores per annum of sustainable CAPEX.
- Kamlesh Bagmar:** We expect it to commission by mid of CY'24 or –
- Management:** Early '23 and then one in '24.
- Kamlesh Bagmar:** Total around like 300,000 tons of clinker and half a million ton of grinding capacity?
- Management:** Yes.
- Moderator:** The next question is from the line of Aman Shah from Jeetay Investments. Please go ahead.
- Aman Shah:** From organizational standpoint say on a medium term basis, we have seen a change in the industry structure with the addition of a new player and exit of an existing player. The price at which the assets are bought at \$160 a ton, do we think it should lead to change in a structural profitability say from a medium term point of view, given that the buyout is also possibly on a leverage basis for them?
- Management:** If I'm understanding your question, you're talking about the recent acquisition of Lafarge and the emerging scenario post that, correct. If you pay higher, then you have to earn higher also to get the cost of capital there, you will require very high level of EBITDA coming out of it. So, the responsibility on the player itself should be enormous, what should I say, it will be a sleepless night, for a person like me if I will spend this money then I will be in a hurry to get the money out of it. Prices should look up.
- Aman Shah:** Counter to this, would it be like since EBITDA is reasonable enough for the top players, the new capacity are being created on a Brownfield basis, which reduces ultimately capital cost, which would keep in check the current prices, just the changes would be commensurate to the cost increases, would that also be a counter to any improvement in profitability?
- Management:** Aman, we have to first arrive at a solution that what is the EBITDA required per ton. There is no consensus on it. Is Rs.200 EBITDA per ton good or Rs.1,300 is good? We have to understand that. We have to first come to that consensus. According to me, at Rs.910 per ton of EBITDA

or Rs.961 per ton of EBITDA, I'm not comfortable with. Today, if you want to really grow your industry and you really want to do some innovation and features, look at it from 2030 when you get the ESG will be totally on your heads, the type of carbon capture and what you will require, what not, then you require in your step commercials when you require in your first jet baghouses. All these are high capital incentive assessment which we will start putting into the plant. When will the CAPEX come from when you don't have it? Now I'm in milligrams, I'm accepting a 10 milligram and you are either or not. 10 milligrams, the moment you do, what is the CAPEX required? You have to start building your organization now only and you have to start investing. In my view, Rs.1,000 EBITDA would say on an average.

Moderator: We take the last question from the line of Shravan Shah from Dolat Capital Markets. Please go ahead.

Shravan Shah: Sir, a couple of data points. First, the Gujarat plant in terms of the capacity clinker and grinding would be how much whenever it will come?

Management: About 6,000 DPD kiln. Grinding, we'll have to segregate into two plants, because ultimately, if I'm putting up that line, it will be close to about 3, 3.5 million cement capacity.

Shravan Shah: In terms of the green in presentation we said that we want to achieve a 35% to 40% by FY'25. So, by end of FY'23 and '24, this year from 23% on green it will increase to how much?

Management: Between 35% and 40%. In one of the slides, we have made it already. Regarding increase, that will take its own time, because unless you put up more solar power plant or we invest into further solar power plant, then it's a different thing. But right now, our focus will be to reduce the heat consumption or do the thermal substitution changeover, that will be our focus for '22 and '23 right now.

Shravan Shah: The way you said the trade data number for the Q4 of 46%, same way the presentation is for the full year on the road and premium. So, if you share the number for road share, premium share for the fourth quarter?

Management: Road share during Q4 is 46%, rail 54%.

Shravan Shah: The premium share was 21% for the full year. So, for Q4 FY'22, how much was the number?

Management: Q4 was 22%.

Shravan Shah: In terms of the debt when we say in the presentation, so, what number we are increasing because if I add the balance sheet number, the number comes on the lower side, so, Rs.235 crores of debt is the total of what numbers?

Management: Rs.235 crores is the actual loan amount. This amount is slightly different in the balance sheet because balance sheet is based on the discounting of the present value. So, firstly you receive the loan and get amount, when you repay and as per the Ind AS, you need to discount it and

therefore this amount has been shown separately under the government grants, then amount will reach to Rs.235 crores is total.

Moderator: I now hand the conference over to Mr. Vaibhav Agarwal for closing comments. Over to you, sir.

Vaibhav Agarwal: On behalf of PhillipCapital (India) Private Limited, we 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 for tuning in for the call.

Management: Thanks.

Management: Thank you.

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