"HeidelbergCement India Limited Q2 & H1 FY-22 Earnings 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 Q2 and H1 FY22 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. 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.

Vaibhav Agarwal: Thank you Stanford and good afternoon everyone. On behalf of PhillipCapital (India) Private Limited we welcome you to the Q2 FY22 and H1 FY22 Conference Call for HeidelbergCement India Limited. On the call we have with us Mr. Jamshed Naval Cooper - Managing Director and Mr. Anil Sharma - Chief Financial Officer at HeidelbergCement India Limited.

I would like to mention on behalf of HeidelbergCement India Limited and its managements that certain statements that may be made or discussed on this conference call may be forward looking statements related to future developments and 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 Q2 FY22 presentation on the stock exchanges and its website. Participants may download a copy of the presentation from these websites. I will now hand over the floor to the management of HeidelbergCement India Limited for their opening remarks, which will be followed by interactive Q&A. Thank you and over to you, Cooper sir.

Management: Thank you Vaibhav and thank you everybody for joining for this call. You have received our presentations and you would have gone through it but nevertheless I will reiterate while we are on the Slide #3. On the ESG projects which we are talking about we are in the advanced stages of alternative fuels and also very close to our commission's almost ready to be commissioned solar power plant at 5.5 megawatts at Narsingarh. We have signed some solar projects, some agreements on power purchase for close to about 22 gigawatts of power for our Jhansi unit and that is green power. Total share of our green power as of now stands at 27% for Heidelberg and we continue to produce 100% blended cement. As you know that capacity utilization for us for this quarter has been 78 and it has been a variance of multiple months so it has stand from 90% also during the quarter, one of the month.

Coming to the EBITDA it is 946 per tonne which is 17% lower than the previous year-on-year quarter basis. And there are reasons for it we can answer that. Dividend is, we started this journey and now since we are from a non-dividend paying company to a dividend paying company we have reached about 80% of our dividend is being paid. We continue to operate on our net working capital on cash flows as in net cash bank is about 70, 80 crores.

Taking you to the next slide which I mentioned to you, it is a picture of our Narsingarh AFR project which is now in trial runs and we should be able to stabilize it within 1.5 months or so. So, initially it will be, the TSR will be between 5% to 7% and in the long run we intend to take it to above +20. So, that will take some time, but the first phase is about 6% to 7%.

Next slide takes you on the green power what we are talking about and you can see our trajectory, we commissioned our WHRS in the first quarter of calendar year 2016 and from there we are moved and we are now today at green power is 27, but very soon there will be power ticks in for us for our solar power and all that, we will be close to taking around 30% of all green power. We have shown in the map, we have signed an agreement of 22-megawatt, gigawatt power in Jhansi, where we are at 5.5 megawatt is ready and Ammasandra on 90% on green power. So, these are the three plants which consume power here.

Coming to the next, we are proud to announce that we continue our efforts to achieve carbon neutrality and water positivity. And you can see that today we standard at 4.4x water positive. This journey continues to motivate us and that way we are targeting to do better. This year a little bit changes, this is an old record which is a year old assessment done by TUE, but when we see this year, I'm sure definitely the efforts what we put in during the last year there should be some improvement on water positivity it should be improved from 4.4 and above.

Our commitment to CSR and obligation to the society remains undated and out of that in the Jhansi plant we have given oxygen generating plant dedicated to the society. You can see the picture of that. Then we take you to, we are quite a lot into supporting the public health care as enforcement there and we are putting up small CSCs, in small, small villages we are putting up a building with few beds so the people can get basic necessities of health and hygiene treatments can be given to them. Government is supportive, government has come forward to give us the places we are constructing and handing over to them and we will keep supporting them to whatever extent is possible to run the CSCs also in the long run.

We also committed to education and then we have done quite a lot of government schools, which we have refurbished and this is where you can see this picture of some of the schools dedicated to the government for the good cause.

Coming to the Slide #10, you can see that we have kept last four years of performance before you and you will see that in quarter-by-quarter we have shown a positive trend only over the previous ones and this year it is 11% in the September quarter of 2021 the growth is 11%. Now where have we suffered, let us see this on the coal side, I put an index of the coal here considering that and coal has been a major impact to us, and same is the case with Petcoke. Petcoke has risen through the roof, we earlier used to buy Petcoke at close to \$85 or \$100, today it is costing anywhere huge amount but anyway for Damoh, Jhansi, it is a local Petcoke but local Petcoke is also priced in-line with what is the export lending, import lending. So, nobody gives you free anything. So, for Petcoke the domestic Petcoke is also priced airline to the arrival price of the imported Petcoke then we are suffering here, on this part. On the packaging side because food has gone from $40 to almost $78, $75, $78 it is almost doubled in the last two years. And you can see that the food goes up the so the PP granule goes up and the packing materials is also more costly.

On the power side, there has been improvement because of our sourcing of power from various sources, non-grid sources. Today our grid is 60% and close to other 40% is non-grid for us. Coming to fly ash as it is very constant, but then today we are suffering the industry will suffer in the long run to come with also with the insights of power plant shutdowns and getting fly ash will become and for us it is 100% blended so we have to somehow source the fly ash from somewhere or the other to keep our business going on. Diesel, no hidden fact that it used to be close to about Rs.80 a liter, it is not shot up to close to Rs.100 and plus and the journey continues I don’t think it is going to stop at this level also.

You have seen the Slide #12 which is front of you. You will observe that our volumes are better, our revenues are better, but because of the cost there is an impact. Another thing you may ask me that why is the price compared to, why is our price not increased to that extent. So, let me forewarn on this, that when I compare the quarter of last year September our prices, you would see the results of last year quarter we were already running (+2%) at that point that quarter and that is the base effect for us the base was higher as compared so I don’t want to compare it with what is happening elsewhere in the industry. But there will be definitely questions you will ask that why others are improving, but it is also because of our higher base.

Taking you to Slide #13. However, you will observe that from 1137 EBITDA per tonne we clocked to about 946 and you will see power and fuel is one of the biggest disturbing points for us. GSR minor here and there, raw materials everything is going up, now everything is in a costly mode. So, these are some of the areas which will be, we will have to find out a way to pass it on to the market, which I will talk about this, you will have definitely questions on this.

Coming to our Slide #14, you will see our balance sheet. The balance sheet is almost of the same size. Nothing major change, probably you may have some questions on investments which Anil will answer to you. Debt repayments you can see in this particular slide by December we will be virtually debt free, this 120 crores we will pay it in the month of December and thereafter, there is no interest charge on this so there will be an upside on this count in them and then there is a long term interest free loan to us available with us from the government which is about 235 crores which is with us.

Taking you to Slide #16. Our volumes are about 45% by road and we have moved from Petcoke, Petcoke has shot to almost close to Rs.580 giga joules now almost 600 touching now even more than coal, coal is something like around 410, 20, 30. So, coal becomes a cheaper option for us. And we have changed our recipe for fuel. Coming to the resale of our premium bags, it is about 21% not in a hurry, we will touch about 25% very easily, but with a restriction on the price and this difference in price is consistently in premium and I have mentioned it very categorically we started with a premium of close to about Rs.25 today it is about more than Rs.35 to Rs.40 in premium bags. 83% of our trade sales is there and I am sure this is a very healthy balance to maintain.

Taking to the last thing you must be aware, that we have already inoculated our employees and almost quite a lot of them, most of them have been inoculated I would say, still there are some people to be going for round two. So, in another three months' time we will have 100% of our employees, including contract workmen and including their families inoculated. So, there is some resistance at some levels, but then now we will be able to manage that. We have elections in 22, so there is an upside there. For the elections we should see a good run in UP for cements. Domestic coal and fuel prices as I mentioned this is one of our major concerns, which is a national concern, equally a concern for the cement industry. So, we'll have to find ways and means to battle with this.

When such high prices of coal, we do not expect that the government will be kind enough to continue absorbing this and giving us subsidies, so we should expect our prices also to go up because now normal coal they were using high fly ash coal And now today they are using low coal ash fuel also. So, I'm very clear about it that the government will not be able to sustain these types of costs in the long run and they will have to be ultimately passed on to consumers. Raw materials had to be sourced from long distance and especially fly ash is another thing. And we had this fear of third wave but it is subsided to a lot of extent. Coming to the China crisis, when we talk about China crisis globally. I can only think that if this will help or not help, I don't know. But any equipment which are new capacities, who have placed order from China for equipment their capacities will get delayed, and if that happens, the capacity expansion for plant it may not come through. Today also the countrywide demand will be estimated, I expect that this year we'll end up at about 10% to 12% between 10% and 12% the demand projections are there and the country will deliver against that.

Price trends to talk about, I am foreseeing that these type of force cannot be kept with us on our books, on our document it has to be passed on to the consumer. We are taking price increase is now, in UP we started taking price increases from first of this month. So, far we have taken increases close to between Rs.10 to Rs.15 in Central India. The other increase we have taken today of about Rs.10 increase in Central India, tomorrow it was and day after we will take another further increases and we are expecting that Central India prices to move from an average Rs.360 a bag it should touch to about Rs.400 a bag when we open up November as of now, that's my view on this because coal is getting limited with the industry and everywhere. And as the coal prices go up and with the risk of stopping production is going to be there, it is better to get your money for the assets what you have.

So, this will continue and I can assure that hopefully that November end you should see a price flank of Rs.450 and going further I'm hoping that we open up the new year which might be a good music to your ears, I would say it is Rs.500 that is what my thinking is we should open 2022 with Rs.500 a bag in Central India. That's my view on this. And thank you once again and I leave the floor to Vaibhav. And before we conclude the meeting also, I would wish everybody present as a Happy Diwali to you because some of you may be there for a short while and then could disconnect. So, I wish every one of you and your families also Happy Diwali, all the best to you. Okay, one before I close it. We have sent out this time, the industry's first digital annual report. I don't think anybody has so far actually not many industries also manufacturing sector have provided a digital, I have seen one which was made in, somewhere outside the country. And I was impressed by that and I said let us make an attempt to come out with a good annual report which gives you a very clear snapshot of what business we do and what is our basic philosophy. So, how are we driven as an organization and that helps us to whether it is sustainability or whether it is anything try to capture it and I'm hope you have seen it and I will be very happy to receive your feedback on the same so we can improve it for the year next. Thank you very much.

Vaibhav Agarwal: Thank you sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sir, my first question is, thanks for your commentary specifically on the pricing, when in you indicated that it should technically move from Rs.360 to Rs.400 per bag in November and then basically target will be Rs.450 and hopefully by Rs.500 start of New Year. So, just wanted to understand the rationale basically is it on back of the cost inflation that is something that we are staring at and hence this aggressive price increases. So, just wanted to understand the rationale sir, if you can explain it on a rupees per kcal basis on what it is right now, and what it would be next quarter and quarter after. Just trying to understand price and cost?

Management: So, I would say the costs are going up by close to Rs.400 which is basically move because of fuel and other cost which are likely to be, so you can understand that these costs which we have been absorbing have to be now cumulatively passed on to the market. So, these prices are purely, purely on cost basis because we cannot see these costs any longer, you have seen our margin fall from 24.6 to come to 24 almost 400 basis points it has fallen. You cannot keep this sort of arrangements with going on and I have not pass on the losses to, largely we could not pass it in during the last fifth quarter basically because of the monsoon season demand remains subdued. So, at that point of time opportunity was not there. But now even I would have said we could have taken a smaller increase and done away with it but, I'm seeing that the Petcoke and future Petcoke which are being coming and the pipeline seems to be totally, totally on a very high load basis. So, it cannot be, now if today we don't take a price increase then when will we take, it would be very unfair to the shareholders of the company.

Ritesh Shah: Sir, that's very useful. Sir, if I just may dig into this, how should one understand the sourcing strategy for the company say Petcoke, thermal coal, linkage what is our sourcing strategy when it comes to, if I'm in the company obviously I'll be in a position where I'm allowed to think whether should I move the contracts for Jan to March or should I wait for the prices to cool off. So, how should one understand it spot buying versus long term purchase, medium term contracts. Sir what is your thought process over here?

Management: So, Ritesh today the situation is so fluid that even long-term contracts people are not ready to honor so there is no strategy. So, if you would have a strategy depends on the commitment on both sides. So, if your long-term contract from March or whatever the contracts you had earlier contracts also which they were supposed to mature now, they are being denied. The government itself is denying the contracts, whatever the auction coal what we have the government is refused to give it, they say we will give priority. So, there is no honoring on the commitment, there is no gentleman's promise which is for coming through on the table. So, what do you do under such a situation. It is a situation like COVID people had the money to buy get to the hospital and get themselves treated but today in like a COVID situation today coal has become a situation you pay any price you don't get the coal. At the same time COVID when you had the money you did not get a hospital room, today you can't get coal. So, this is the situation which we are into. Now, there is no strategy at this point of time it is a do or die situation you have to live by the day. And we do have the long term fuel supply agreement with the Coal India and we have the valid allotment, but the Coal India at this moment they are focusing and giving priority to the power plant. So, we need to continue pursuing with the government as well as the supplier and we are also exploring various possibility to ensure that there should not be any problem in the production for want of fuel or want of Petcoke. At the same time, we are also working on the AFR part, the alternative fuel already trial run has started although it will be very miniscule at this moment the consumption but it will support to replace the fossil fuel in the long run.

Management: So, Ritesh one point which I want to make it here is that, our production will not stop. We will manage to run the things that is the strategy as of now.

Moderator: Thank you. The next question is from the line of Kunal Sharma from SMC Private Wealth. Please go ahead.

Kunal Sharma: Just one question I have, Sir EBITDA per tonne industry is showing the positive EBITDA per tonne growth with an increasing demand and the increase in ASP in quarter one, but out EBITDA is showing a de-growth over the last two quarters. So, it is because of the cost inflation and the lower ASP price. So, can we expect the more cut on EBITDA per tonne going forward or are we passing it to the customers?

Management: So, let me tell you that when you are comparing our EBITDA per tonne for this quarter, compared to the previous year, it is lower because as I said my base of September was higher last year 2020.

Kunal Sharma: So, then what about, are we going to passing it to the customer going forward?

Management: That is what we have started doing it so far we have taken increases of almost Rs.10 to Rs.15, today we have taken another Rs.10 increase almost Rs.25 is into the market. So, even if I take Rs.25 that will make to close to about Rs.500 a tonne out of 500 tonnes at least after taking a tax deduction also 35 will come to you.

Kunal Sharma: Okay. And lastly, what is the capacity utilization as of now?

Management: It is about 78%.

Moderator: Thank you. The next question is from the line of Kalpit Narvekar from Allianz Global Investors. Please go ahead.

Kalpit Narvekar: Sir, my first question was on the side of the industry so, in the Central India, could you share what is the sort of premium that you charge in the market versus the other peers and how does the brand perceived versus the other peers in Central India market some color on that?

Management: So, it's big fabric, Central India is a big fabric I don't say that, but if I would say that if you compare it we will be in the category of A glass brand. So, somewhere between the A category also we compete somewhere some are higher somewhere we are higher, so it keeps switching up from market to market. But nowhere in the Central India we are under the B category.

Kalpit Narvekar: Sir if possible like on a per bag basis so there is UltraTech or something, how much would be your….

Management: Any competition I would refrain very strongly because it is unethical to compare with any brand or anything. I have seen some time some companies have come out with some surveys by some other companies and reported some wrong figures that was totally misleading, but I would still not there I would, ethically I will refrain from commenting on that as a competitor. Every brand has a strategy and every brand it's face value. We have a reasonably good face value in the market and Mycem is a good, I would say quite a few customers are very loyal to us. We have a very loyal network with us and they have been there with us for years together. So, we enjoy a premium, mostly it is not only the product which enjoys the premium it is also our dealers who enjoy the premium because of their positioning and they're single handedly dealing with us for years together. So, it's the combination of everything that but, I am sorry that I cannot answer your question about premiums between, I can only say that I am in the A category brand, between A category and B category brand there is a difference of easily Rs.10 and then there is another Rs.10 difference between B and C or Rs.15 between B and C. So, if you compare from C, you will be close to Rs.20, Rs.25 higher from a C category player and if you compare this with a sold rate material which comes on fly by night operators which is other material, there you will find that between A category and fly by night operators the price difference is as high as Rs.50 to Rs.60 and sometimes even Rs.70.

Kalpit Narvekar: That's quite helpful. And just one more question on, you mentioned that the trajectory expected to go to Rs.450 per bag and Rs.500 per bag in November and say hopefully next year. So, just wondering how does that, the competitive scenario playing out is it necessary that all the competition or the market raises prices for just to play out, or you can sort of go ahead and raise prices on your end?

Management: Kalpit if you ask me that the coal is something raw material input which is common to all, if it is hurting me, it will hurt others also. So, I'm not worried about what others are doing or not. I'm clear about it, we have started taking price increases from 1st of this month whether who does what not for me it is by material is selling. Even at Rs.15 a bag I have a higher price if my material is selling and I'm doing well in the market till 20th of this month my sales figures are okay with me, I will say that, why what is wrong in increasing the prices further and my team is aligned to this thought process that we have to pass it on to the market otherwise, we will end up with bad results year after month, quarter-after-quarter. And the team is committed, so as long as the sales team understands that we have to pass it on to the consumer and the consumer is ready to buy, today let me tell you there is the steel price which has reduced. We have seen in this last six months, it is a one trajectory in the North only which commodity has come down in the last seven months, eight months there is not a single thing that I have found that anything has come down, cement has been late starter, cement has to start moving now. Now it has to pick up speed and move up to that level. It is very fair to pass on these increases you can't keep it with you. And tomorrow if god forbid the government decides to increase cost of power then we had it. If you ask me, I am impatient about.

Moderator: Thank you. The next question is from the line of the Deepanshu Jain from HEM Securities. Please go ahead.

Deepanshu Jain: Sir actually, I want to know views on coal and fuel cost in coming future. So, can you just throw some light on fuel cost what will be the fuel cost in coming future down the line?

Management: Deepanshu, the issue is today it is a very fluid situation we cannot predict today, it is at a very high price at the moment, but if how China fails. China is really craving for material but it is not getting material. So, how China absorbs with not China is under a blackout their power plants are down they will start pulling coal. In the near future in the coming three, four months I don't see any relenting which happens and maybe after three, four, five months or so or maybe if it extends it will be something in the second half of the next calendar year. You can see something happening changes start happening from, today the demand is as I speak everybody is running probably it is also a little bit of a result of a panic buying. So, when material is not available, panic buying when it takes over this sort of frenzy is not good for the market. And I cannot control the frenzy of the market. So, I am anticipating that the coal and the fuel will force people now in the ranges of something like Rs.600 giga joules should come. These types of costs should come there.

Moderator: Thank you. The next question is from the line of Harsh Mittal from Systematix. Please go ahead.

Harsh Mittal: I have one question, what is your volume guidance for the 2H FY22, given the price guidance if you have given, do you feel that Central Indian market will be able to stomach such type of price hike?

Management: See, it is like when commodity prices have gone up nothing has stopped from that. So, I don't think cement is going to be an exception here. People will continue to buy, people who are building houses, building construction is happening where people are still buying steel at Rs.75,000 today, they were buying the same steel at 45 and Rs.48,000 and Rs.50,000 they are still buying and that is also they have to wait for some of the steel rods and bars and things like that we have seen them wait for two days or three days to get materials. Similar is the situation with cement is going to happen and God forbid if some of us run out of coal stock or our fuel stock and we have to stop the plant. I am sure that you have this Rs.500 you will see it in the coming few days only it, why wait till January of next year.

Harsh Mittal: You have given us the fly ash price trajectory, given we have a good amount of blended cement almost 100%, don't we have long term contracts for fly ash with power fly?

Management: So, Harsh we have fly ash contract, we have everything but it is like, as I said that the person who is going to supply you he should have also, if his power plant is shut down for the last 15 days for want of coal, whatever you try to do where are you going to take it from him. The person says, it's kept here and if you want you can take it. But if the material is not there so what can we do.

Harsh Mittal: Okay. Sir last question, what is the lead distance for this quarter?

Management: Rs.350.

Moderator: Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: My first question is, so you mentioned about 70% coal mix for the quarter which has sort of gone up quarter-on-quarter. So, this coal is like largely domestic coal and if the supply drops from government, so you will have to shift to imported coal completely, or is it the large imported coal component also there?

Management: This is all combination of right now we are not imported any coal for Central India, we have not imported any coal. But it is a mix of auction coal, FSA agreements, so there are all sorts of it's a combination from local purchases, on spot buying from different sources. So, it is a mix of and if you can give them some percentages.

Management: Actually sir during this quarter we purchased some coal from open market also. This open market trader maybe there some kind of mix of imported coal or maybe local coal, but we have not made any kind of imports directly from the exporter and during this quarter actually, we could not receive a major portion from the Coal India, so most of that the biggest problem for us. And as we speak, there is maybe for a few days, we will see that the coal India will supply only to the power plant. And when the situation will ease out they will start getting coal against our fuel supply agreement.

Management: Again here I want to add little bit, it's not only the Coal India will supply even the railways are saying that we will not give wagons for movement of coal to private sector. And Prateek we should appreciate one more point here, that whatever the domestic Petcoke supplier there they generally try to interlink their pricing with the international Petcoke prices. So, during last one month, all these domestic suppliers they are increasing every fourth side they are increasing significantly their Petcoke prices and they also know the ground reality. That the cement company, they are not able to get the coal from the Coal India as well as the imported Petcoke prices it is $250 at this moment to $60 at this moment, the imported Petcoke so, that's why they have also been increasing this significantly due to Petcoke price.

Prateek Kumar: Okay. Sir my follow up question on this power. So, what is the power mix in terms of grid power, thermal power and green power?

Management: So, it is 60% right now grid power, 40% is through non-grid and through our own.

Prateek Kumar: And just one question, on other expense was there a one-off component in other expense or is it just reflecting and taking during the quarter?

Management: There is no one-off, during this quarter we have one kiln shutdown as well as now because of the volume growth as the market is coming back all the admin cost which were not used to be in the last September quarter those are the normal expenditures. So, we are coming back to normal with respect to traveling, with respect to our promotional activities and there is some element in the other expenditure is the diesel price increase. So, diesel all the source and consumables are also part of the other expenditures. So, these are the normal ones if the diesel price reduce you will have some reduction but there is no one off item here.

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

Amit Murarka: My question was around the cost and price dynamics. So, if I got you right, you said that cost inflation is about Rs.400 per tonne. So, firstly like, when you're shifting from domestic coal availability is reducing and you have let's say having to go for alternate sources be it Petcoke or imported coal, won't the jump in cost be much higher given that the imports are coming in at $240, $250?

Management: Going forward we say that yes, because as you get your rate we will make in not the future values of the coal, but we make in and whatever is available with us so, what is in the pipeline at whatever we have source. So, that will last us till the next quarter and the beginning of the early quarter from that basis we are making our estimates that this will be like this, but yes you are right. So, that if I want to be an opportunistic, then I will say okay let us be in the future cost also and the future cements will be available in these price only. And if I would say very clearly that, also we had told our dealers, channel partners very clearly that please don't be under the impression that this is a small increase, these increases are temporary and you can postpone your purchase decisions and you will be only like the stock exchange like, if I would have bought it tomorrow it would have been good. Very simple and straight now trajectory movement is up.

Amit Murarka: So, this Rs.400 per tonne inflation is what roughly 3Q inflation over 2Q?

Management: Yes, now it is already there, this is already there.

Management: September already there is some inflation has come, because whatever the coal and Petcoke, Diesel price increase to some extent already happened in the month of September. So, out of the Rs.400 you can say a little bit amount already part of the Q2 results, but most of the part will come into Q3.

Amit Murarka: Okay. And then Q4 there could be further inflation given how coal prices have been behaving then?

Management: Depends upon how this development of the coal availability or the Petcoke availability domestic as well as the international market movement happens or the development happens, but at this moment we see really extraordinary and exceptional increase in the Petcoke, imported Petcoke and the coal price.

Amit Murarka: Okay. And also, like there was some inflow of material from South players, so now with the cost going up are you seeing that also coming down the supplies from the current fair?

Management: So, there will be some tapering off will happen. But when we increase the prices, that certain balance equilibrium will again be available that liquidity of the market will remain. So, Central India operates at close to about 70% utilization, South India operates close to about 55% to 60%, for 55% to 60% utilization so, attractiveness of the market will remain the moment we take the price to 500. We should not be very saying that we will not take the price because somebody else will come to the market, at least I'm not of the view. I am of the view that what is it important for us to do in Central India as a player, as one of the lead players in the market. I'm very clear about this. My team is very clear about it, pass on the price.

Moderator: Thank you. The next question is from the line of Vaibhav from Joyce International. Please go ahead.

Vaibhav: I just wanted to ask what is the current lead distance?

Management: 320 kilometers.

Moderator: Thank you. The next question is from the line of Prateek Maheshwari from HSBC. Please go ahead.

Prateek Maheshwari: Sir, I wanted to ask you about the demand sentiment right now in Central India. While you have grown at 11% one of your peers had mentioned the growth is slack during the quarter Y-o-Y, so just wanted to understand if there is some bottleneck in terms of infrastructure segment growth?

Management: This time the agricultural production has been good, monsoons have been good, little bit extended monsoons are there. The demand will remain strong and we expect in next year with elections in UP things should be positive only. Demand, we will clock close to between 10% and 12% for financial year 22. And going next year, we should expect at least nothing less than 10% growth.

Prateek Maheshwari: This is both for the company and industry?

Management: I'm talking more about the industry growth.

Prateek Maheshwari: Okay. Sir other thing that I wanted to ask was, in terms of the current cost increase probably met you increase the prices there so much, but usually we are seeing the prices are after price hike sustained, were sticky at that level. So, do you think like in a normal price scenario, this would be an opportunity for our peers to kind of establish capacities in Central India if the prices kind of increase and sustain from a long-term perspective?

Management: If I get you correctly, you're saying that, how clear come in and establish capacities here that is what you are saying?

Prateek Maheshwari: Yes, because usually we have seen that these Petcoke and steel prices they would kind of, so Central India we have seen several price have been kind of stable for a very long time. And if you're able to sustain this price probably again the pricing level itself increases even if the cost normally later. So, for any other player, it could mean that they could kind of have an opportunity to establish capacity or dealer network?

Management: So, that will happen, these are the market dynamics we should not be getting worried about this. Supply and demand ratio will decide who will come to the market, what prices we sell automatically if there is a lot of surplus today also if you look at it traditional players in Central India, I just saw the scene that this last seven quarters data I was observing and I saw that almost now in Central India 35% share belongs to non-traditional players in this market. It used to be 8% seven quarters earlier or earlier it used to be close to about 8% to 10% market share they used, come now they are close to about 30%, 35% market share and we have already penetrated this market. So, I think this should deter at least to me, if it is not a deterrent if somebody can come and develop a market and they can also keep themselves busy with this market very happy it's okay good to see more competition happening no problem in that. For me, I would say if competition was not there then what is the since, our value is dependent only on competition.

Moderator: Thank you. The next question is from the line of Peter Uday from Ksema Wealth Management. Please go ahead.

Peter Uday: Just wanted to confirm what you said before about demand, so for FY22 we are estimating 10% to 12% demand in Central India volume wise?

Management: I am talking about more of the country wise.

Peter Uday: FY23 what was the figure you mentioned sir?

Management: It should clock 20 about 10% at least.

Peter Uday: Okay. My first question is that about 1231 kilo tonnes of sales volume had been reported this quarter. So, at 574 crores it comes about 46.8 lakhs of the selling price overall. Now, you have made it clear that due to cost pressures you and other participants in the industry will be rising prices and we agree that people are willing to buy but according to you at what point is the price going to be elastic, because they cannot keep exponentially growing. So, how much is the leeway that companies like you can push from the current point price increase at which the demand will have to take halt or slow down?

Management: Demand will halt only after Rs.550, at Rs.450 also and Rs.475 there will be no relenting in demand

Peter Uday: Sir Rs.550 per bag the demand you feel might take a hunch?

Management: Yes, maybe Rs.500 once it crosses the reaches the mark of Rs.500 but unfortunately now they are Rs.2000 they can give and get four bags. Not a problem, now prices like Amit is pointing and telling me very clearly today we are the cheapest product on manufactured products, after putting $125 to $130 per tonne investing you're selling cement which is even cheaper than the waste paper, waste paper today is at Rs.11 to Rs.12 a kg. Today where is cement, cement is just Rs.5 a kg, Rs.6 a kg.

Management: But we are not talking about the exponential price increase, we are talking about the whatever the cost increase happens that is around Rs.400 per tonne of cement putting together the fly ash cost, the diesel prices, all other commodities which is used for this manufacturing cement and clinker and including fuel the cost impact is Rs.400 at this moment and now Rs.400 is more or less when we talk about the price increase, this is a translate to around Rs.40 per bag. So, the GST is more than 1/3rd in any case goes to **(Inaudible) 53.10** tax accounts so the amount comes to the company in order to maintain the margins, but it is a reasonable expectation to increase the price also depends upon the demand supply situation if tomorrow, people start buying cement then we will increase the price, but at this moment there is good demand, the government is also putting impetus on the infrastructure growth and are now once the festival season Diwali after this hopefully the demand will further increase so we will able to pass on to the customer.

Management: So, Uday let me put to another point here is, at one point of time the cement industry was making margins of close to about (+30%), (+35%). Today we have come down to sometimes some of the players are even in a very bad shape. And the industry requires its share of margin so that it can keep expanding. Another thing is let me another tell everybody here who are listening here, that your future is going to be still costlier because the ESG when start clicking in, the investments required for carbon capture and investments which will be they will be huge and for your information very soon Indonesia will have a carbon CO2 sales of $2 which is already been contemplated. So, you look at it in Europe already there is a sales of CO2 of close to about €38. Now these type of investments and these type of spaces if we have to deal with content with, where will the money the industry will bring in money today if you don't start investing, if you don't have a healthy return, you will not be able to by 2030 when you have to meet the target **(Inaudible) 54:59**. You will be really twiddling your thumbs, you don't know where to go then. So, now only we have to start investing in our ESG and become compliant. So, those are huge costs, you will not be able to afford them at margins of 13% and 14% sure.

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

Pinakin Parekh: Sir, just trying to understand the math because you mentioned Rs.400 per tonne of cost increase, but you also said Rs.350 a bag going to Rs.400 and that Rs.400 going to Rs.450. So, essentially it implies that the December quarter EBITDA per tonne can be around Rs.200 to Rs.300 per tonne higher than the September quarter even with what the cost updating given the price increase in cement?

Management: Yes for the time at least be happy with that at least we can think of that, at least let us start thinking of it that we are able to pass it on this type of cost to the market and restore back to our normalcy. That is what my target but if **(Inaudible) 56.24** shareholders we are not doing a good job at all.

Pinakin Parekh: When you're looking at restoring EBITDA margins as management you're looking at going back to Rs.1300, Rs.1400 per tonne or higher than that, so when you're looking at price hikes, what is the broad EBITDA per tonne you're looking to restore after the cost increases?

Management: So, Pinakin there is a later stage Rs.1300, Rs.1400 in today's time it is a reasonable achievement to reach.

Pinakin Parekh: Sure sir. So, basically for Rs.450 a bag will take you there, so would that be a fair assumption sir?

Management: I suppose so it should be taking there, the subject to that no further diesel increase is coming or further this otherwise it will again eat up…

Moderator: Thank you. Ladies and gentlemen due to time constraints, we take the last question from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: My question pertains to first, could you give a breakup between your green power which you are sourcing it from WHR solar and others, and on the costing for the various sources and second on your growth CAPEX plans?

Management: So, on the WHR components for my Narsinghgarh plant it is close to about 40% of the power comes from WHR, Narsinghgarh unit alone. And if I look at the power share for the total WHR it will be close to about 23%, 24% between 22% to 24% of my total power. And if you talk on company basis, our component for the whole company as such is close to about 27%.

Rajesh Ravi: If you could talk on WHR and solar as a company on a company basis what would be the….

Management: So, you can simply remove from 27 to 23 that is about close to 4. 4% is the power of other than WHR.

Rajesh Ravi: And on the costing how are the CPA as a solar purchase costing would work at?

Management: So, we are working on these, these are reasonably price I would like to refrain from talking about these because these are various typically how we manage this. So, I would prefer to refrain from answering this question. But yes, definitely it will come to us at **(Inaudible) 59:15.** For us when total cost of power is sub six because reason is, we have seen quite a lot of other power from non-grid power sources. So, I can only tell you that it is sub six now.

Rajesh Ravi: Okay. And on the growth CAPEX if we can talk on, what sort of any major expense on the West expansion, what are the progress over there?

Management: So, we do at this moment, the replacement CAPEX which is generally between Rs.40 to Rs.54. During the current year we have this environmental CAPEX which will classify for the alternative fuel projects. And the total CAPEX for this alternative fuel is around Rs.64. So, that we are doing last year, part amount we have incurred and in current year also we are incurring this amount for the alternative fuel. Put together total CAPEX during the fiscal year will be in the range of Rs.55 to Rs.60 crore.

Moderator: Thank you. Ladies and gentlemen, we take one last question from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: I missed out if you have mentioned what type of coal inventory you normally have. And what is it currently?

Management: Normally about 30 days.

Bhavin Chheda: And same were you carrying now or the tightness has led to the?

Management: Almost similar. We are carrying the same capacity.

Bhavin Chheda: I missed out on your coal mix also?

Management: 70% coal right now and 30% Petcoke.

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: Thank you. On behalf of Phillip Capital India Pvt. Ltd. I would like to thank the management of Heidelberg Cement India Limited for the call and many thanks for participants joining the call. Thank you very much, sir. Stanford you many now conclude the call.

Management: Thank you.

Management: Thank you.

Moderator: Thank you, sir. 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.