



“Star Ferro and Cement Ltd. Q4 FY-14 Earnings  
Conference Call”

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**MODERATOR: MR. J RADHAKRISHNAN – IIFL CAPITAL LIMITED**

**MANAGEMENT: SANJAY KUMAR GUPTA – CEO, STAR FERRO AND  
CEMENT LTD.  
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CEMENT LTD.**

- Moderator:** Ladies and Gentlemen, good day and welcome to the Star Ferro and Cement Q4 FY15 post results conference call hosted by IIFL Capital Ltd. As a reminder, all participants' 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 would now like to hand the conference over to Mr. J Radhakrishnan from IIFL Capital. Thank you and over to you Sir.
- J Radhakrishnan:** Thank you Karuna, good evening Ladies and Gentlemen. On behalf of IIFL Institutional Equities, I would like to welcome you all for Q4 FY15 Earnings Conference Call of Star Ferro and Cement. From the management, we have with us, Mr. Sanjay Kumar Gupta – CEO and Mr. Dilip Kumar Agarwal – CFO. I would now like to hand over the floor to the management for opening remarks, after which we will move to a Q&A session, over to you Sir.
- Sanjay Kumar Gupta:** Good evening friends, I am Sanjay Kumar Gupta – CEO of Star Ferro and Cement Ltd. With me, I am having Mr. Dilip Agarwal, CFO of the company. We welcome you all to this interactive session. Before we start this interactive session, I will request Mr. Dilip Agarwal to give you a brief about our results for FY14-15 and Q4 numbers, after that house will be opened for further interaction, over to you Mr. Agarwal.
- Dilip Kumar Agarwal:** Good evening friends, I am Dilip Kumar Agarwal – CFO, Star Ferro and Cement Ltd. and we welcome all of you to this interactive session. I would like to clarify that we will be talking about historic numbers and this is not an invitation to invest. First, I would like to take you through the financial numbers. So far as our top line is concerned, the top line has grown by 39% on year-on-year basis and in terms of value growth it is by Rs. 400 crores. EBITDA has increased by 84.8% and in value terms Rs. 200 crores. PAT has grown by Rs. 87 crores. Last year there was a negative PAT, so we have not calculated the percentage growth. In terms of volume, the volume growth is around 39% as compared to last year. If we compare quarter on quarter; this quarter and last quarter, the volume growth is 50% and in terms of value growth; it is around Rs. 2900 crores. So these are the important numbers which has got reflected in our quarter to quarter results and year on year results. I would request Mr. Gupta to take you all for rest of the business perspective.
- Sanjay Kumar Gupta:** I think the opening remarks are already there and in terms of the broad numbers; the broad numbers have been shared by Mr. Agarwal. I will request that the floor should be open in terms of having an interaction and we will be happy to answer questions on these numbers and while replying to your queries, we will be definitely taking you through also the overall business perspective, so we can start with the questions, if anyone has.
- Moderator:** Thank you very much Sir, Ladies and Gentlemen, we will now begin the question and answer session. We have first question from the line of Rajesh Kumar Ravi from Centrum Broking. Please go ahead.

- Rajesh Kumar Ravi:** Good evening Sir and congratulations on good set of numbers and reporting consistent strong EBITDA part on performance. Would you just share your sales break-up across various markets that you are operative, during the quarter, and for the year as a whole?
- Dilip Kumar Agarwal:** This year our growth was; in North- East, the pie of the total sales volume was 69%, around 70% and outside was 30%. So 70-30 ratio, they are so far as geographic volume is concerned.
- Rajesh Kumar Ravi:** For Q4 also, you do not have similar numbers, right?
- Dilip Kumar Agarwal:** Q4 is slightly changed but it is around 67 and 33.
- Rajesh Kumar Ravi:** And Sir on your EBITDA per tonne performance in this quarter and the year is more than 1900, could you just give us a flavor in terms of how much is the contribution that you have in this EBITDA just form on account of the State incentives that you have, that has been there in this year?
- Dilip Kumar Agarwal:** This year, if we talk FY15, it is around Rs. 400 of contribution so far as subsidies are concerned. And this year, full year subsidy was EBITDA per tonne was Rs. 1850.
- Rajesh Kumar Ravi:** So out of this, Rs. 1850, this Rs. 400 is coming from your State incentives.
- Dilip Kumar Agarwal:** Right.
- Rajesh Kumar Ravi:** And on a like to like basis, in FY14 how much was that, similar number Sir?
- Dilip Kumar Agarwal:** FY14 it was around, the per tonne incentive was almost Rs. 350 and EBITDA per tonne was around Rs. 1350.
- Rajesh Kumar Ravi:** What is your gross debt currently that is standing on book, Sir?
- Dilip Kumar Agarwal:** Gross debt, long term is around, 691.
- Rajesh Kumar Ravi:** Okay and short term and all, up to now, debt on books?
- Dilip Kumar Agarwal:** Short term, you can add another Rs. 190 crores.
- Rajesh Kumar Ravi:** Okay, so this is the total gross debt that we have?
- Dilip Kumar Agarwal:** Right.
- Rajesh Kumar Ravi:** And average cost of debt that is currently working out Sir?
- Dilip Kumar Agarwal:** Around 9.5% to 10%.

- Rajesh Kumar Ravi:** In working capital also, there is some subsidy that you are getting under the annual payment fee, so ....
- Dilip Kumar Agarwal:** It is very minimal and very insignificant so there is nothing significant into that.
- Rajesh Kumar Ravi:** Okay. And Sir these numbers that you have shared, EBITDA per tonne benefit from the State incentives, NELP benefits; this is all those 3 elements; excise, sales tax, and credit cost benefit, all 3 are included?
- Dilip Kumar Agarwal:** See sales tax you know, sales tax we do not compare because sales tax incentives are almost there in all the states. So when we discuss incentives, sales tax incentives we will not consider, right?
- Rajesh Kumar Ravi:** Right Sir. So this is primarily, excise and freight benefits that you are getting.
- Sanjay Kumar Gupta:** Let me clarify, Ravi to you. See this is practically, if you take the total excise and transport subsidy, it will be somewhere around Rs. 750 a tonne. And all other is, in terms of what Mr. Agarwal was referring, is about the sales tax, the exemptions, which is only in one State right, it is not in other States. So in rest of the country, outside Northeast, we are paying VAT and in all other States also we are paying VAT, right? So only in Assam, we are not paying, we are having VAT exemption, and that is also a limited quantity and that will also be there in case of all other cement industries we are operating. And others will also have various incentives. So that is at par with them but in terms of excise and transport subsidy, it is around Rs. 750, out of Rs. 1850 of EBITDA, which is there for entire year 2014-2015.
- Rajesh Kumar Ravi:** So out of Rs. 1850 total, you are saying; the incentive benefit would be how much, Rs. 750?
- Sanjay Kumar Gupta:** Rs. 750.
- Rajesh Kumar Ravi:** So of that, based on the total sales that you are doing, right?
- Sanjay Kumar Gupta:** Correct, that is on global basis.
- Rajesh Kumar Ravi:** Okay and similar number last year would be how much Sir, FY14?
- Sanjay Kumar Gupta:** Similar number last year would be somewhere around Rs. 700 almost, out of that Rs. 1350 which Mr. Agarwal talked about.
- Moderator:** Thank you. We have next question from the line of Ankur Kulshrestha from HDFC Securities. Please go ahead.
- Ankur Kulshrestha:** Basically, just wanted to understand, Sir what is the total amount that we can claim the subsidies on. So I understand, it is constrained by the total investment that we have done. So

what is the upper limit on; if you could share category wise or a total number across categories?

- Sanjay Kumar Gupta:** No, you are talking of the revenue subsidies which we have?
- Ankur Kulshrestha:** Sir for example, the excise subsidy, the transport subsidy. So what is the maximum amount we can claim, cumulative amount that we can claim?
- Sanjay Kumar Gupta:** See in excise, there is no upper CAP, right? It is for a period, it is for a period of 10 years, we have exhausted 2 years; we have 8 more years to go.
- Ankur Kulshrestha:** Okay, excise there is no CAP.
- Sanjay Kumar Gupta:** There is no CAP. Even in transport subsidy, there is no CAP. It is available for a period of 5 years, out of which 2 years we have already utilized and 3 years are yet to go.
- Ankur Kulshrestha:** So for VAT that you have exemption in Assam, there would be some CAP.
- Sanjay Kumar Gupta:** Right.
- Ankur Kulshrestha:** Sir could you share that amount?
- Sanjay Kumar Gupta:** We will have, say it is, 200% of investment in Plantain machinery and that amount will be somewhere around Rs. 350 crores, as far as what I remember presently, but that is over a period of 7 years.
- Ankur Kulshrestha:** So ball park, Rs. 350 crores is the...
- Sanjay Kumar Gupta:** Correct.
- Ankur Kulshrestha:** And if you could just share the volume numbers for the quarter and the year.
- Sanjay Kumar Gupta:** See totality, the cement volume was, full year it was 21.7 lakh tonnes and for the quarter the total cement was 7.34 lakh tonnes.
- Ankur Kulshrestha:** Right Sir, if you could share the comparable quarter and the previous quarter?
- Sanjay Kumar Gupta:** The full year 13-14, EBITDA it was 16.31 lac tonnes, it has grown from 16.31 lac tonne to 21.7 lac tonnes; as I said it is a growth of around 36 %. Quarter on quarter, it was 5.15 lac tonnes, it has grown to 7.34 lac tonnes, which is a growth of around 46%.
- Ankur Kulshrestha:** So this is Q4 of FY14, is 5.15 lac tonne, say.

- Sanjay Kumar Gupta:** Q4 FY15 over Q3 FY15, right. If you say, year on year on similar basis, quarter four corresponding period last year, we had number from 5.36, there is a growth of 37%
- Ankur Kulshrestha:** Sir and no clinker sales or should we have some....
- Sanjay Kumar Gupta:** There is some amount of clinker sales of around; the total clinker sales will be approximately. You can continue with other question, I will give you the clinker number.
- Ankur Kulshrestha:** No worries sir, I will probably get that separately. In terms of the CAPEX plans, what are we looking at in future having done the expansion?
- Sanjay Kumar Gupta:** As I said, if you look at it in terms of volumes and the capacity which we have, we have already 3.4 million tonne of capacity returns. Presently in terms of cement, if I look at it, the inflation has been around; around March we must have utilized on 67% on totality. So we have only one CAPEX plan which is, we will be setting up a unit in Siliguri, is a 1 million tonne cement grinding unit that we are planning. That will take about 18 months from now, so we have necessary clearances and other things available for that site. So we have to yet to grounds it but in about next quarter maybe we will expect to start along...
- Ankur Kulshrestha:** Sir what is the expected CAPEX there?
- Sanjay Kumar Gupta:** That will be around Rs. 160 crores to Rs. 170 crores.
- Moderator:** Thank you. Next question is from the line of Vinod Malviya from Flowering Tree. Please go ahead.
- Vinod Malviya:** I just wanted to understand the demand scenario in the Northeast region like, going forward what would be the major growth drivers over there; would be the infrastructure or housing or, also can you just mention some of the major projects which are happening in the Northeast region?
- Sanjay Kumar Gupta:** The Northeast demand is growing on 2-3 accounts; one is the retail side of it, as you know that in Northeast there are 7 States, these States are primarily having all the States' capitals, Assam is the large part of the State. It is approximately around 50% of the entire Northeast but the entire region is dominated by small cities. Assam is the only state I think which will have 5-6 Commercial Airport than any other State in the country. If you know it, this is a slightly more rain prone area so if you have heard of it Assamese people used to call it is an Assam type house. See mostly, if you look, is go back, earlier in Assam in time Northeast people used to only make houses which were Assam type houses, which are largely built by wood and the GIC fitted top of it. And over a period of last 10-15 years that has been changing. We have seen that changing because earlier Northeast used to have some problems in terms of insurgency and other things, last 10-15 years of stable Government, it had improved drastically in Northeast and people would always have money in Northeast but they were afraid of

spending, so lot of money is going into individual housing segment and 10 years back when you go to Guwahati, you would not find even a good quality vehicle plying in the roads of Guwahati. Today you go to Guwahati, you find Audis and BMWs on the roads of Guwahati. So things have changed, you would be seeing good demand in terms of, there is a growth in you can say, you will find now Multiplexes, Malls, although of a smaller magnitude but they are definitely there. So the retail growth is there and Assam has an economy were also, State economy was also doing better than the rest of the country so this is driving the retail side of it. In Institution side of it, there are lot of work which is going on, I think Government of India has got a very focused approach towards the growth of Northeastern region. They have 3-4 things to be highlighted there, Government of India has got a, the kind of focus Government of India is evident from the fact that there is a separate Ministry for development of Northeastern region which is called 'DoNER'; it is headed by a Union Minister and that is not from this Government, this was earlier from last Government itself. And there is a mandate to this Ministry saying that 10% of all State, all Ministry allocations has to be spent in Northeastern region. And if unspent, that goes to a non-lapsable pool account. So that is the kind of focus which is there from the Central Government. This is, lot of focus in Arunachal Pradesh in terms of developing a Hydel Power Project, putting up a road infrastructure, even at least 3000 kilometers of road infrastructure has been built in Arunachal alone. I do not know, it is less reported in papers but there are 4-5 Airports; strategic airports are getting built into Arunachal. So there is a huge work which is going on, Arunachal is considered to be the Hydel Power house of the country where Government has estimated that around 50,000 MW of Hydel power capacity can be created even if I leave that and only talk about the capacity on this, some work is going on, that will be around 10,000 MW to 12,000 MW where which has Subansiri 1, Subansiri-II, upper lower Subansiri, Dibang and all that and on that itself pans out in next 5, 7 years. It will bring a demand of around 8-10 million tonnes of cement for Northeast alone, so that is Hydel. There are lots of road projects which are also there in rest of the Northeast, there is a conversion of 2-lane highways happening, some 4-lane highways and I will just share an example with you in terms of, when we used to drive down to our factory in Meghalaya, maybe 2 years back I used to take around 8-9 hours, today we take 4-4.5 hours, now that has happened because The Shillong-Jorabat highway has been converted into a 4-lane highway, there is a 60 kilometers of Shilling bypass has been created which is connecting again to the highway NH-44. So that itself has reduced the time by half, so most of the Northeast is mostly connected with Roadways, Railways very poor connectivity. So in totality there are around 8000 kilometers road projects which are there is Northeast. In Railways, Government has decided that they will connect all 7 State capital of Northeastern region with the railway connectivity. So there is a lot of railway work which is also going on. So all this, on both the sides, the demand for cement is good and we expect that to continue to be good in coming 2, 3 years.

**Vinod Malviya:**

So it would be fair to assume that the growth rate would be mostly in the double digit nearly, so can you also just provide some light on the expansion which are coming in the Northeastern region, in the cement expansion basically, any major capacity expansion?

- Sanjay Kumar Gupta:** There is no capacity addition which is happening in say Northeast, there is only one small capacity of 0.5 million tonne which is expected to come in next 12 months' to 15 months' time but that is surprising, the best part of, for the people who are already having capacity, the advantage is that there is no capacity in pipeline in Northeastern region. So existing players who have space and who have a lower capacity utilization or who have copulated capacity recently will be able to have a better capacity utilization as soon as the demand picks to that range.
- Vinod Malviya:** Also, can you just provide the pricing like, how was the pricing in the end of Q4 and now in the month of May how has been the prices moved so far?
- Sanjay Kumar Gupta:** The prices have been stable, prices have with an upward bias, the prices have been stable and even at the end of Q4 also, we are not seeing any, the prices have not gone down. So as compared to last year, definitely the prices have been little better, I will not say they are hugely better but they are better as compared to the FY13-FY14. And we expect the prices to remain stable owing to demand which is going to come in, in next year or in next 3-4 years.
- Vinod Malviya:** Right now, the current demand over there is around 6-7 million tonnes, right?
- Sanjay Kumar Gupta:** The total demand as of now is around, last year it has grown to, we have as far as what our numbers have, and accordingly that has grown at around 7.5% that is what it looks like. And the total demand is around 6.5 million tonne at the end of FY15.
- Vinod Malviya:** When you say, 6.5 million tonne is the demand of the Northeast region; can you also provide the number? How much is imported from the Eastern region or let us say, some other regions outside the region?
- Sanjay Kumar Gupta:** The total import from outside the region will be somewhere at around 15%, kind of a thing. That is the total import which is happening from outside the region. The market is very clearly signified, if you look at the 3 top players, they had account for around 51, somewhere between 51% and 54% of the total market and the top 3 players which is Star and Dalmia and Topcem, the balance is there are other players which account for almost 1.5 million tonne of next capacity, having capacity ranging from 0.5 million tonne to 0.4 million tonne to 0.3 million tonne and then the rest of there, lots of smaller players who are having only grinding units, so there are big chunk of grinding units which are local grinding units and they are supplying, so that segment is definitely at a low price segment but again they are catering to that demand.
- Moderator:** Thank you. The next question is from the line of Ashish Shah from Budhrani Finance. Please go ahead.
- Ashish Shah:** I have few questions; you mentioned that the demand for Northeast region was 6.5 million tonne and that grew around 7.5% on a Y-0-Y basis and what would be the total. I missed the total industry supply for the Northeast region Sir, what would be the total number be?

- Sanjay Kumar Gupta:** If you look at it installed capacity wise, it will be around 10 million tonnes to 10½ million tonnes; that is the installed capacity for the region. But as I said, the top 3 players will account for almost 60% of that, so top 3 players have got 60% capacity, so 6 million tonne approximately is the capacity of top 3 guys and the next 4-5 people will have around 1.5 million tonne and then the balanced capacity is fragmented, which is there in with the small grinding units.
- Ashish Shah:** Sir for the current financial year, you mentioned that our volume growth was 2.1 million tonne, right? Can I get the numbers right?
- Dilip Kumar Agarwal:** No, it was not volume growth.
- Ashish Shah:** Sorry, the volume number for the entire financial year.
- Sanjay Kumar Gupta:** The volume number for the entire financial year was 21.7 lac tonnes.
- Ashish Shah:** 21.7 lac tonnes and hence on a Y-O-Y basis, we witnessed 30% volume growth and you mentioned that the region has grown at only 7.5%, is it fair to assume that we eat away lot of market share within the region, correct?
- Sanjay Kumar Gupta:** See in totality, the region is growing at around as I said, 7%, 7.5% and on an overall, on quarter on quarter basis, the total growth is around 33% on year on year basis that is what we said. On year on year basis but there is a growth which is happening in the outside Northeast also, so we are also present outside Northeast in some parts of Bengal and Bihar.
- Ashish Shah:** And Sir, a lot of our supply is who are our main customers? I mean, you mentioned this thing earlier on the call that it is predominantly housing which is driving these demands, so is this a lot of our sales is on retail in nature or ...?
- Sanjay Kumar Gupta:** The total trade and non-trade sales for us, is approximately, I will say 80-20 might be the ratio; 77-23% kind of a thing on a full year basis. So we have a lot of retail presence, we sell mostly in retail, that is the main stay for us, so we are selling most of the metal in retail, we have a huge network in Northeast and even we have created, we are trying to create the similar network in East also and wherever we are present.
- Ashish Shah:** Hence this entire demand is predominantly housing revenue, is it? Are we getting it right in that sense?
- Sanjay Kumar Gupta:** Yes, predominantly housing because retail is on that side only.
- Ashish Shah:** So all the infrastructure projects that you mentioned about; whether it is road, infrastructure or the airports or the Hydrel, is it fair to assume that as of now our contribution coming from such projects is negligible or we have very minimal presence to something like that?

- Sanjay Kumar Gupta:** I will say, right. Our total sales, in total sales institution, which is railways and highways and these are only constituting to around 23%, 24%. So only 24% of the volume is going to that side and because we have a huge dealership network of around 2,000 dealers in entire Eastern region that is why we have been able to put this mostly in trade so that we are mostly a trade focused player then a non-trade focused player.
- Ashish Shah:** And so what kind of receivables would we having currently end of the year from the subsidies?
- Sanjay Kumar Gupta:** See the subsidies in totality we will have somewhere around 500 crores.
- Ashish Shah:** And when do you see this coming back to us, sir?
- Sanjay Kumar Gupta:** See I think what we are expecting is that out of which there is a capital investment subsidy which is receivable that will be somewhere approximately 200 crores that is a one-time subsidy which we receive from Central Government and the transportation subsidy which has accumulated over a period of time. So we expect out of this approximately 300 crores to 400 crores will be received in this year itself.
- Participant:** Okay. And sir any thoughts on this cash on books that you will get over the next 12 months since you mentioned your CAPEX plan is negligible, what is the cash utilization policy or any early thoughts on that?
- Sanjay Kumar Gupta:** See as going forward definitely we have some amount of cash getting utilized towards the CAPEX plan which I spoke about. But definitely we will be trying to distribute some amount of dividend I think in this year numbers we have said that the subsidiary which is a cement operating company had already declared a dividend, right. Although that has not been recognized in the main company because the AGM has not happened for the subsidiary company but the dividend has already been declared by the operating subsidiary and that will be recognized in Star Ferro. So we continue to say that we will be distributing dividends to the shareholders.
- Moderator:** Thank you. Next question is from the line of Rajesh Kumar Ravi from Centrum Broking. Please go ahead.
- Rajesh Kumar Ravi:** Sir this CAPEX that we are doing the grinding unit in Siliguri that will suffice your volume growth till FY-17. So beyond FY-17 if you could guide us how you are looking forward to maintain your growth target or your volume growth strategy so where which markets you are targeting to grow into, that will be helpful?
- Sanjay Kumar Gupta:** Right, what we are looking at as I said we have already 3.4 million, we are adding a million as rightly put by you that will be sufficient up to FY-17-FY-18 but after that, I think the three years' perspective we are already there so the capability is there but in a five years' perspective definitely we are looking at the East side of it more aggressively that what is we have set our

goal that we want to be an East India player and we will continue to be in next five years concentrate only on Eastern side. So we are looking few market very closely the Bengal market, the Bihar market. We are looking at some opportunity so the business will throw a good amount of cash going forward. So we will be looking for utilizing that particular cash for organic and inorganic growth in Bengal and Bihar that is the main stay for the company. And that is what we look that the future is there because our belief is that East is going to grow faster than the rest of the country that is what we feel as a company. And what we are looking at it in terms of whatever focus the government is having even other side of it. This is an underdeveloped reason of the company it has not grown the way the rest of the country has grown and so we look to build capacity into these regions and maybe try to take the entire capacity to around 7 million tonne - 8 million tonne in next five years.

**Rajesh Kumar Ravi:** Okay. And other question, just discussing on the subsidy number that you shared Rs. 750 odd per tonne. You said is the total subsidy benefit that you have accrued for this financial year for FY-15. What could be the break-up in excise, VAT, and freight if that would be possible, sir? Because the freight subsidy will continue to you till FY-18, right?

**Sanjay Kumar Gupta:** Right. See the 750 will be broken in to the 400 will be transports and 350 will be excise that is what the break-up is.

**Rajesh Kumar Ravi:** Excise and sales tax?

**Sanjay Kumar Gupta:** Excise and the TS – the transport subsidy. These are the two subsidy which are there. So 750 is accounting for these two, out of which 400 as I said 400 will be transport and 350 will be excise.

**Rajesh Kumar Ravi:** Okay. So sales tax is in addition to this you are saying?

**Sanjay Kumar Gupta:** Yes, definitely but as I said Rajesh because in terms of overall sales that is very negligible we do not see it separately.

**Moderator:** Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

**Ronald Siyoni:** Sir, only book keeping question. What are the volumes for the quarter one and quarter two FY-15?

**Dilip Kumar Agarwal:** Total volume in Q1 was 5.34 and Q2 it is 4.51.

**Moderator:** Thank you. Next question is from the line of Navin Jain from JM Financial. Please go ahead.

**Navin Jain:** Sir just had a small query actually, so can you please share in FY-14 what was the mix of Northeast and outside Northeast in our volumes?

- Dilip Kumar Agarwal:** So around 87% was Northeast.
- Navin Jain:** So obviously this year we have grown quite rapidly in markets outside Northeast.
- Dilip Kumar Agarwal:** Yes, because you understand that we have penetrated this outside Northeast this year only and in Northeast we have been for last so many year so naturally volume if you compare two regions volume then East volume will naturally grow more faster as compare to volume growth in Northeast so, far as our total volume is concerned.
- Navin Jain:** So I mean outside Northeast you started selling only in FY-14?
- Dilip Kumar Agarwal:** Yes, little volume in FY-14.
- Navin Jain:** Sir other thing was sir in terms of cost savings – are there potential savings on the cost side or any particular efficiencies that we are looking at where there could be some reduction in cost in any element going forward over the course of next one or two years?
- Sanjay Kumar Gupta:** Already we are the least variable cost company so what will happen is I can only see one thing that in terms of once we start ramping up the capacities because we have around 64% of capacity utilization. As soon as we start increasing the capacity and when the capacity utilization increases it will throw a lot of economical scale for us in terms of operating side of it and also on the non-operating side it. So we see that helping us in next three-four years.
- Navin Jain:** Sir also going back to the outside Northeast strategy so going forward do you see the share of that outside Northeast component increasing even further?
- Sanjay Kumar Gupta:** Yes, outside Northeast component will definitely increase. What we have seen that Northeast and outside Northeast mix is around 70-30 as of now so, maybe going forward it will be outside Northeast will improve. Definitely it will grow faster than the Northeast. In Northeast we are already there at a particular level but a lot of will also depend on what kind of demand growth also picks-up, right? I think my view is that Northeast demand growth will be faster than the even the East growth so that will help in terms of even driving the Northeastern growth also. But in terms of absolute numbers and other things yes, definitely I feel that because we are very small player as far as the outside Northeast is concerned and so there the growth will be coming a little faster than Northeast.
- Navin Jain:** Sure, sir. We also understand that in West Bengal as well as Bihar in particular there are a lot people who have entered in the recent time and yourself Shree Cement. So how is the scenario there in terms of competition and in terms of pricing there, if you can throw some light?
- Sanjay Kumar Gupta:** See we have just entered, in last year may be '13-14 we were there but a very small quantities. In Bihar also we are not a very aggressive player. We are not looking for volumes. We are very clear that we do not want to be a very big volume players. We do not have ambitions for doing

that, right. We have as I said, we are very focused company that we want to be there in East only. And even in Bihar when we enter the market and even Shree Cement has just I think four months back and in four months of their launch and I am there for about a year in Bihar. So let me tell you how our strategy a little different from Shree. Yes, Shree has come in, this is the only plant I think which is there in Bihar and in last four months Shree Cement has been able to cross my volumes also. But essentially Shree Cement sells Rs. 30 to Rs. 40 cheaper than me in Bihar, right. So their strategy is a volume strategy and ours is a price kind of strategy. So we are selling at par with Lafarge although our volume will be a little lesser. So that is the main difference. Bihar has been growing as a faster pace. The cement demand has been growing in Bihar in much-much faster pace than the other parts. And we expect that going forward also in Bihar the demand will also be growing at a better place than the Eastern India. Even in West Bengal also we are largely if you look at my volume things and other we are mostly present in the North Bengal part of it than South Bengal. So North is my focused area the place above Durgapur and going up to Siliguri and Cooch Behar there also we are again as I said we are selling at par with UltraTech and here also we are only looking for the quality growth in terms of we are not compromising on prices and that is where we are differentiating that we are creating a brand so we are not getting into a commodity side of it so we are looking at selling a brand not a commodity.

- Navin Jain:** And sir out of this 30% that is sold outside of Northeast, how much would be West Bengal and how much would be Bihar?
- Sanjay Kumar Gupta:** See if you say that, the West Bengal will be around 20% and Bihar will be 10% only.
- Navin Jain:** Got it sir and so going forward your share of even again this component will increase because it will benefit your markets?
- Sanjay Kumar Gupta:** Yes, what will happen is definitely it will increase but once again in the next 18 months when we are going to come out with the Siliguri plant the consultation will definitely be there and that will essentially cater to Bengal and Bihar markets.
- Moderator:** Thank you. Next question is from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.
- Shubhankar Ojha:** I miss the one data point, sir. Can you share the gross debt number, the long-term and the short-term?
- Sanjay Kumar Gupta:** Long-term debt is around 690 and short-term is 190.
- Shubhankar Ojha:** And sir in terms of the CAPEX for the Siliguri plant, how are we going to finance it and what is the quantum for this 1 million tonnes which you talked about?

- Sanjay Kumar Gupta:** The entire CAPEX will be around somewhere around 150 to 170 crores and that will be financed for a mix of debt and equity.
- Shubhankar Ojha:** Okay. And what is your repayment schedules sir out of this 690 crores of long-term debt that you have? So I mean what I try to understand is what debt-equity is not going to go up because of this expansion?
- Sanjay Kumar Gupta:** No, see my repayment liabilities are around 180 crores per year. You need to look at it from two angles – the long-term debt is going to go drastically down because of the fact that the way the capital investment subsidy we are going to receive and because we do not have much of CAPEX the large part of the subsidy receivable will go towards to the repayment of debt. And I have a repayment liability also for around 180 crores so, debt levels are going to be really muted.
- Moderator:** Thank you. Next question is from the line of Ujawal Shah from Quest Investment. Please go ahead.
- Ujawal Shah:** I just wanted to understand considering there are mix of institutional business is quite low and the amount of project that are planned in the region are so high. Do we plan to aggressively enter this part of segment and probably change the mix towards institutional side because on the retail side anyways we have a huge dealer network?
- Sanjay Kumar Gupta:** See we are going to be quite choosy as far as entering into the institutional side of it. We will be really selective on that. Price will be the sole driving sector for us in terms of getting into that even the institutional side of business. We like to focus and continue to focus only on retail side of it largely on retail side of it. We will leave the institutional space for our friends in the industry.
- Ujawal Shah:** And sir secondly, once we start getting into the other regions basically Bengal and Bihar obviously, the rates over there would be very different from the good rates that we enjoy in the Northeastern region. So going forward as the share in the revenue mix changes and inches towards these markets to certain extent, do we see our EBITDA per tonne getting affected by the same?
- Sanjay Kumar Gupta:** I do not feel so, if you look it I think the geography wise if you look where is the focus? The focus is, if you just have a look at geographies of Northeast the entire Eastern region if you see most of the cement plant in Bengal are there near to Durgapur, right. If you drive down from Durgapur to go to Siliguri and Cooch Behar you will hardly any plant, only one plant which is Ambuja at Farakka, right. Now what is happening, even if you go to Bihar the only plant which has come-up is Aurangabad which is mostly a Western Bihar side of it and if you drive form all the way from Siliguri and drive up to Aurangabad you will hardly get any cement plant, right. So there is a huge area which has been left open and if you look the prices because we are only focused on these region right so I think we have been able to see it more

granularly than any other cement player. So we see the prices in these regions are not that bad as compared to the rest of the country. So the prices here are also holding up see. Just to give you flavor, the prices in Siliguri are very good prices then which are there in Calcutta, obviously right. So in these part of if you look a 400 kilometer drive you will hardly have cement and most of the cement is all the way coming from Durgapur or from Chhattisgarh and Satna incurring huge secondary transportation cost. So we see that this pricing even the pricing at these part of the country will definitely hold and that is a much-much better than any other part so I do not think that is going to have an impact on the my EBITDA margin. And secondly, my EBITDA margin will also get a boost because of my low utilization levels as of now except of the fixed cost which is there I am only at 65% so I am not getting the spread of fixed cost and even the operating advantage. So going forward, we feel that will also help so I think that we will be able to maintain these margins.

- Navin Jain:** Sir just a couple of bookkeeping questions, do you we have captive power plant to support our **(Inaudible-50.09)**?
- Sanjay Kumar Gupta:** Yes, we have a captive power plant.
- Navin Jain:** What could be the capacity over there, sir?
- Sanjay Kumar Gupta:** We have around 51 crore of captive power plant.
- Navin Jain:** That will be more than enough. So you will be selling it outside rather?
- Sanjay Kumar Gupta:** As of now what we are doing see for us it is helping us in two accounts we have coal availability there so whatever fly ash is getting generated that is getting mixed with the cement, right. So we are getting that that is one. And second is we are utilizing power as much as we are requiring in the cement business and we had a Ferro Alloy Unit we got demerged from April 1<sup>st</sup>, 2014, whenever that unit used to require we use to give it to them or maybe we reel it to our Guwahati grinding unit plant also at some time and otherwise if it is possible sell in the grid definitely we will sell but largely it is on captive side only.
- Navin Jain:** Finem sir. And sir, what is our fly ash blending ratio?
- Sanjay Kumar Gupta:** In totality we will have somewhere around 26%.
- Navin Jain:** And sir average lead distance would be?
- Dilip Kumar Agarwal:** Around 400 kilometers.
- Moderator:** Thank you. Next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

- Ronald Siyoni:** Sir, quarterly volume figures which you shared 5.34, 4.51, 5.15, 7.34 they totally add up to 22.34 lakh tonnes. So any change in the number has happened?
- Sanjay Kumar Gupta:** Give us a moment we will come back to you on exact numbers.
- Moderator:** Thank you. Next question is from the line of Kamlesh Jain from Prabhudas Lilladher. Please go ahead.
- Kamlesh Jain:** Sir, just wanted to get the breakup between the plants we have in the Northeast in terms of cement capacity. I do know that you have a 2.86 odd million tonne of cement capacity and 2.54 million tonne of clinker. But it would very helpful if you can provide the breakup between the units in terms of capacity?
- Sanjay Kumar Gupta:** So we have clinker units in Meghalaya – one unit is 0.8 million tonne and another unit 1.8 million tonne. So, these two if we put together the clinker capacity is 2.6 million tonne. In terms of cement, we have one plant of 0.8 million tonne and so in Meghalaya we have two plants so you would like to line wise also or?
- Kamlesh Jain:** Yes, it would be helpful if you can provide the line wise sir.
- Sanjay Kumar Gupta:** So line wise number is one unit we have 0.6 million tonne and one unit we have 0.7 million tonne. Than Guwahati grinding unit which is having install capacity of 1.6 million tonne. Apart from that we have this higher capacity of 5 million tonne in West Bengal.
- Kamlesh Jain:** Okay. So West Bengal unit is fully operational sir?
- Sanjay Kumar Gupta:** West Bengal units basically we have lease agreement with these two plants and there are a long-term lease agreements and the total capacities is around 0.5 million tonne.
- Kamlesh Jain:** And sir lastly, about these subsidies like the experience which we have in case of like HP Himachal where the like ACC, Ambuja all these guys have been like has been facing issues in terms of realizing that subsidies which the government has promised to them. So same case, are we realizing in this Northeast market as well in terms of getting the money from the government?
- Sanjay Kumar Gupta:** Let me share past data which will help you to understand this. First of all, let me tell you two regular subsidies one is excise, right. So this is recurring subsidy, I do not have to pay excise. I do not pay excise duty, the money where is there I take a sales credit of that, right. So I pay in the first month and after that I do not pay. So there is no question of realizing it, right which is already realized. So there is one thing which is left to the government which is transport subsidy. We have two old plants also as I was talking 0.8 million tonne of cement and the other cement units which are there in Meghalaya also we had transport subsidy. All the transport subsidy of those particular units are fully received there is no outstanding with the government.

I also had a few since we have taken the smaller expansion into those units the capital investment subsidiary on small capital investment subsidy have also been received in those units. Whatever the subsidy which is outstanding it is not outstanding for the earlier plants, it is only outstanding for the plant which we have started in 2013-2014, right. So, in that sense the subsidiary realization have been quite good and we do not see any problem whatsoever in realizing the subsidies.

**Moderator:** Thank you. Next question is from the line of Rajesh Kumar Ravi from Centrum Broking. Please go ahead.

**Rajesh Kumar Ravi:** Sir could you discuss what sort of savings that will incur from the Siliguri unit because currently you would be sourcing the fly ash from West Bengal for inward into Meghalaya unit production cement. When we will have your Siliguri unit operational as you are currently doing it on lease, what sort of savings you are seeing from that?

**Sanjay Kumar Gupta:** See on a ballpark basis I think we will be getting a savings of minimum Rs. 500 per tonnes on fly ash itself because I do not have to haul the fly ash up to Guwahati, okay. Since we have a grinding unit here itself. See today what is happening we are taking this fly ash all the way from Farakka and Khelgaon and these places to Guwahati, mix with the cement and then again brining back it to Bengal and Bihar markets, right. So once our unit will be there in Siliguri we only have to take the fly ash up to Siliguri and the material will get sold in Siliguri only. So we will have around saving of around Rs. 500 tonne.

**Rajesh Kumar Ravi:** So that saving would have also started now in Q4 only?

**Sanjay Kumar Gupta:** Some part of it because we have some hired facilities so, some part have already started.

**Rajesh Kumar Ravi:** And sir the trade receivables has gone up in this year based on numbers that are available what exactly is that for versus if I see last year my trade receivables as a percentage of net sales that was around 12% of the total net sales this year it is around 22%.

**Sanjay Kumar Gupta:** See lastly it you take the volume which has gone up and that last quarter volumes have been much-much significant, right. So I think that is only one owing to that.

**Rajesh Kumar Ravi:** So where should that number stabilize to as a percentage of net sales or a number of days your trade receivables?

**Sanjay Kumar Gupta:** It should be around 15% of overall.

**Rajesh Kumar Ravi:** Any tax rate level what sort of incentives benefits that you have? Currently your tax rate is negligible that we are seeing effective tax rate that we could factor in full persistence in Northeast?

- Sanjay Kumar Gupta:** See Northeast operations as I said we have 80-IE exemption we are subject to MAT only right so that is also for a period of 10 years.
- Rajesh Kumar Ravi:** So like effectively for full year there are hardly any taxes that we have paid. So if I on an effective basis what would be your tax outgo on a percentage much lower than MAT rate?
- Sanjay Kumar Gupta:** See we are subject to MAT so we paying 21% MAT, right.
- Rajesh Kumar Ravi:** Okay. But you may have some deferred taxes allowances also that you may be....
- Sanjay Kumar Gupta:** There was a deferred tax asset was supposed to get accrued but as a prudent accounting policy we do not recognize deferred tax assets into the books. We do not recognize as prudent so, those assets are not being recognized into the books. The effective rate of tax will be subject to MAT and since this income tax exemption is for the period of 10 year I think the same rate will continue.
- Moderator:** Thank you. As there are no further questions from the participants I would now like to hand over the floor to Mr. Radhakrishnan for his closing comments. Over to you sir.
- J Radhakrishnan:** Yes, I would like to thank the management for providing opportunity for this call and all the participants on this call. Sir would you like to make any comments?
- Sanjay Kumar Gupta:** No, thank you all. Thank you all for coming and participating in this interactive session. We have our course of achieving whatever we have set in for our self. Going forward also we expect the similar kind of things to go on. We have always said that we will continue to see at the top-lines we will keep on growing at around 20%-25%. So that is what we aim to achieve going forward also. Thank you everybody for joining in.
- Moderator:** Thank you very much, sir. Ladies and gentlemen on behalf of IIFL Capital Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.