



“Star Cement Limited
Q1 FY2019 Earnings Conference Call”

July 27, 2018



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Moderator: Ladies and gentlemen, good day and welcome to the Star Cement Q1 FY2019 Earnings Conference Call, hosted by Centrum Broking 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 telephone. I now hand the conference over to Mr. Rajesh Ravi from Centrum Broking. Thank you and over to you Sir!

Rajesh Ravi: Thanks Mamta. Good afternoon everyone. On behalf of Centrum Broking we welcome you to Q1 FY2019 earnings call of Star Cement. We have with us today Mr. Sanjay Gupta, CEO and Mr. Manoj Agarwal, CFO of Star Cement to discuss the results. I now hand over the call to the management for their opening remark, which will be followed by the Q&A session. Thank you and over to your Sir!

Sanjay Gupta: Good afternoon everyone. I am Sanjay Gupta, CEO of Star Cement Limited. I would like to welcome you all at this earning call for Q1 FY2019. I have with me Mr. Manoj Agrawal, the CFO of the company who will take you through the quarterly numbers. After that we will open the floor for an interactive session where you will be able to ask questions and we will be happy to reply to those questions. I will now request Mr. Manoj Agrawal to take you through Q1 numbers. Over to Mr. Agrawal!

Manoj Agrawal: Very good afternoon. I on behalf of Star Cement Limited welcome you all to our conference call for Q1 FY2019. Starting from clinker production during the quarter ended June 2018, we have produced 5.88 lakh tonne of clinker as against 6.10 lakhs same quarter last year. In terms of capacity utilization, it is close to 93% in this quarter as against 96% same quarter last year. So far as cement production is concerned we have produced 7.14 lakh tonnes this quarter as against 6.58 lakh tonne same quarter last year, physical production in capacity utilization front.

Now I will take you through sales volume. During the quarter we have sold 7.13 lakh of cement and 0.94 lakh of clinker as against 6.62 lakh tonne of cement and 0.48 lakh of clinker same quarter last year. There is a growth of 8% in cement and 14% in clinker sales. This is as far as cement and clinker sale is concerned.

As far as the geographical distribution of cement is concerned in Northeast we have sold around 5.14 lakh tonne as against 4.44 lakh tonne during same quarter last year with a growth of around 16% and as far as outside Northeast is concerned we have sold 1.9 lakh tonne of cement this quarter as against 2.17 lakh tonne same quarter last year. In terms of blend mix it is almost 18% is OPC, 2% PSC and the rest is PPC. These are the quantitative numbers.

I will take you through to the financials. The total revenue figures this quarter is around Rs.518 Crores as against Rs.451 Crores. That revenue figure including of excise duty of three month from April to June and if we take out that excise figure to have an apple-to-apple comparison with the current year figures then the last year revenue figures will be around Rs.429 Crores.



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That means there is a growth of more than 20% over the same quarter last year. As far as EBITDA figure is concerned, this quarter we have done an EBITDA of around Rs.132 Crores as against Rs.159 Crores last year. PAT after minority interest is Rs.90 Crores as against Rs.108 Crores last year. On the per tonne EBITDA front it is Rs.1635 Crores during this quarter as against Rs.2242 Crores same quarter last year. The difference is mainly on account of expiry of our freight subsidy, which ended in January 2018. This is what our quarterly and year-to-date numbers are.

Now I request to all of you if you have any query you can ask the same and I will Rajesh the moderate the query wherever it requires if queries are coming. Thank you.

Moderator: Thank you. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Akshay Lahoti from Individual Investor. Please go ahead

Akshay Lahoti: Sir can you please explain the rise in other expenses for the previous quarter in the consolidated?

Manoj Agrawal: What item you want other expenses comprising of so many expenses, so what do you want to know specific what you want to know?

Akshay Lahoti: Why has it grown so much? In what component of these other expenses has grown so much?

Manoj Agrawal: What happened because previously we are selling most of sales are happening from the expected sale. Now we have converted after expiry of this year we have made into the FOR basis, so that is why you see sales price increase and the freight has also increased in that and there was also some increase in power and fuel cost.

Akshay Lahoti: What is the plan for the next quarter? How are you planning to bring it down?

Sanjay Gupta: Akshay, overall increase in the cost will primarily as the volume has gone up so the overall number will increase right that is one. Second is because as Mr. Agrawal explained to you the freight cost will look elevated and also the sales numbers will also look elevated because we have converted lot of sales from X factory to an FOR model right because of the transport subsidy, which is not available with the company. There are some cost increases, which are also there. The other expenditure number includes all these numbers. In terms of how do we want to bring it down in terms of fuel cost definitely we are working to make sure that the procurement of coal, which we are doing in Meghalaya, we do procurement only up to March and oxygen starts after that. We hope that in the next season time, which starts from October we will be able to procure that 4 lakh almost the similar levels at the same as we have been doing last year, but till last March the first was a little elevated, which is now getting reflected in the quarterly numbers.

Akshay Lahoti: Thank you.



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Moderator: Thank you. The next question is from the line of Pratibh Agarwal from Reliance Mutual Fund. Please go ahead.

Pratibh Agarwal: Good afternoon. Few questions that I wish to ask is like your power and fuel and raw material cost if I look at them together so there is small increase QoQ, but I was just considering that in the last quarter they was a DMF provision that must have gone away this quarter plus if this quarter your clinker production is a little less so like I consider that limestone cost is more than your procurement of fly ash cost, so if you have sold more clinker your material cost should have gone little down because you have not procured that much of fly ash, so considering these two points of DMF and less usage of fly ash why your raw material cost is still showing an increase? I just wanted to know a little more on that?

Sanjay Gupta: I think the overall cost numbers, which are there the production is only down by around 3% the clinker production, but if you look at the cement production, which is already up by around 8% to 8.5% to 9% right. The overall cement production for this quarter as compared to the corresponding quarter last year it is up 8% to 8.5%.

Pratibh Agarwal: I was talking about QoQ actually more of QoQ that I wish to know the reason?

Sanjay Gupta: In terms of QoQ numbers the raw material and the power and fuel numbers are almost flat. There is some increase. There is a slight increase as I said. This quarter whatever inventories we have created for the coal that purchase has happened at a higher price levels. Now that has started impacting. The normal trend is that we buy coal for almost six months because during monsoons the mines does not operate, so we buy coal ahead and then we consume in Q1 and Q2 and then again the procurement starts in Q3 and Q4, so the last procurement season, which we had the size of the coal was higher by around Rs.400 to Rs.500 a tonne. That had an impact on the overall power and fuel cost. In terms of DMF we had made the provisions of DMF and that provision of DMF is still continuing. We have not done away with the provision of DMF.

Pratibh Agarwal: You mean to say like last quarter it was around Rs.8 Crores 80 million how much is it like in this quarter, DMF provision?

Manoj Agrawal: I will need to check that number. If you can send us the query separately we will be able to. We do not have the minute details available with us as of now. You can send the query to us and we will be able to reply to that.

Pratibh Agarwal: Sir if I was doing the breakup of other expenses like I have removed freight and power and fuel cost from there I see drop in other expenses QoQ so just wanted like may around by 150 to 200 just wanted is it because this quarter more clinker is sold, so you have spend less on your promotional expenses or other expenses that come up with advertisement and all those things, so it is like that just wanted clarity on that other expenses removing freight and power and fuel?



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Sanjay Gupta: I think what happens are the other expenses includes a lot many things. It includes all kind of repair maintenance to making material to discounts to sales promotion. There will be some expenditure, which has gone up, but yes, one expenditure, which has clearly gone up, which is the advertisement and sales promotion. In this quarter, the advertisement and sales promotion expenditures are almost about Rs.100 a tonne. They are higher because we had taken a big event this year in Northeast that is Bagh Northeast Bagh as a campaign, so it was a marathon, which we organized on April 1. Most of the expenditure has been booked in this quarter, so advertisement and sales promotion expenditure are at elevated levels for the quarter. We expect them moderate over a period of time. There are other expenses, which are lower like employee cost is lower as compared to other areas and few other costs. There is some decrease in inventory also. That is there and retirement expenditures are down. There will be some expenditure, which are down and some expenditure, which is up so probably that will be the reason, but the two main increase in the cost, which has happened is one on the power and fuel and the second is the advertisement expenditure.

Pratibh Agarwal: Sir just finally just wanted to know 1650 of EBITDA per tonne should we consider it as the base for the rest of the year and for quite some time like as you say your transport subsidy has been removed and it is that impact that is showing in this 1650 drop in from 1800 last quarter so is that the base or will it improve to a better level this 1650?

Sanjay Gupta: I have always said that post transport subsidy we were expecting to maintain an EBITDA of around Rs.1800, so it is around Rs.150 lower than what our expectation. This 1635 is having an impact of clinker for this quarter. This quarter the clinker sale, we have sold around 15000 tonne extra clinker. That may have impacted the EBITDA. It does not impact on that. There is an impact as I said on sale promotion and also on the power and fuel. We hope that at least the clinker and if not power and fuel for the second quarter power and fuel expenditure, I do not think there will be any rationalization, but I think for Q3 and Q4 there should be some rationalization as soon as the coal cost start coming in. I think the coal cost should come down, so that is the expectation, which we are having. Clinker impact and the extra expenditure on advertisement and sales is like to moderate over the next three quarters, so we are still maintaining that we will be able to do an 1800 kind of an EBITDA for the full year.

Pratibh Agarwal: Sir lastly you were talking about clinker so just wanted to know the extra sales that you have made this quarter as well as last quarter there was sales to Nepal, so just want to understand this trend of clinker sales? Will it continue the sales of clinker too far off places like Nepal or it is just like few quarters or till your cement sales in Northeast comes up till a better level, so how should we read this trend of clinker sales?

Sanjay Gupta: We will keep on doing these clinker sales. We have extra clinker available with us. We will keep on doing clinker sales till such time our Siliguri plant comes up, so we are working on Siliguri plant. As soon as the Siliguri plant comes up, we will not have surplus clinker with us and lost demand is at a healthy level of 8% to 9%. In this quarter also it has grown at around 8%. I am expecting this quarter to be of almost at around same levels. Last year it has completely grown at



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around 8% to 9%. The total full year volume has grown at around 8% to 9%, so my view that the Northeast is 8% to 9%. We will be in a position to cater. Extra clinker we will keep on selling on till the Siliguri unit comes up.

- Pratibh Agarwal:** That will come up at the end of FY2020 is at the same timeline or has it changed?
- Sanjay Gupta:** We are expecting it to be almost at 15 months from now 15 to 18 months from now so may be the December quarter FY2020.
- Pratibh Agarwal:** Sir I will come back in the queue if I have some more questions.
- Moderator:** Thank you. The next question is from the line of Tanuj Makhija from Bank of America. Please go ahead.
- Tanuj Makhija:** Thank you for taking my question. The first question was if I look at your volumes have decline on a YoY basis outside of Northeast can you give key reasons for decline in volume? Is the underlying market weak or has cement lost market share?
- Sanjay Gupta:** Outside Northeast volumes on a YoY basis definitely they are down, but if you see them through a quarter-on-quarter they are up by around 8.5%, so let me give you a background. In 2017-2018 after the expiry of transport subsidy, we had started rationalizing our dispatches to the far off destinations, which were uneconomical to cater from the Northeast plants, so that moderation activity we had undertaken in 2017-2018, so 2017-2018, the volumes has taken a hit. We have started concentrating on the market, which actually makes sense for us primarily on the North Bengal market, East Bihar market and these markets and looking at the upcoming cement plant, which we are going to commenced in Siliguri we had zeroed in on certain markets, so Q4 our number was 183000 tonnes. This quarter we have done 199000 tonnes, but yes year-on-year basis there is a decline.
- Tanuj Makhija:** Understood and could you also comment on the underlying demand in your target markets of say Bihar and Bengal?
- Sanjay Gupta:** The markets in Bengal and Bihar are growing at a healthy pace I think this quarter they must have grown at least 10%. Northeast has grown at around 8% to 8.5%, so both the target markets in terms of demand they are behaving pretty well and **(audio break) 18.16** grew to around 10% if not in Q2 may be on Q3 and Q4 and even the Bihar market the problem of sand, which was prevailing has been somewhat sorted out, so the Bihar market is giving the kind of growth, which it is expected to give and we have seen that this 10% growth is sustainable for at least two to three years.
- Tanuj Makhija:** Understand and Sir my final question is on the capacity announcements or capacity expansion announcements by some of your peers particularly in East India if you can just give your



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thoughts on the upcoming supply and what could be the potential supply addition over the next three years?

Sanjay Gupta:

As far as the overall demand supply scenario if you see I am not talking about northeast just look Bengal, Bihar and Jharkhand these markets, the overall supply demand there is still a gap. There is still a gap of at least I hope 5 to 7 million tonnes. The capacity, which has already been announced, if I consider the capacity, which has already come up like Emami Cement, like JSW Cement, Shree Cement is talking off adding. The work is going on for order of 2 million tonnes and so that is there. I think with these capacity coming up may be Shree and other plants and our plant is coming around 2 million tonnes, so the equilibrium will be maintained, but these markets are growing at a healthy pace of 10% right, so still there be some catch up in terms of capacity addition still to be done and in three years time the market will be up by around almost 30% to 35%. These three markets are somewhere round 40 million tonne market right, so growing at 10% 10 to 13 million tonnes in the coming year. We do not see so much of capacity addition happening in these places at this point of time, so our expectation from this market is the prices will remain a healthy level and the demand supply gap for the next two to three years will continue.

Tanuj Makhija:

Sir you mentioned about demand being above 10% for the next two to three years not so much supply coming up in these three states why would not prices go up? Why are you being cautious on prices?

Sanjay Gupta:

It is unlike Northeast side these markets are well connected from other market, which is Jharkhand. All the markets are connected with the major cement producing area like Chhattisgarh and MP, so I think the prices will be stable to firm. There will be an upward bias, I do not deny that, but I am saying that because there will always be a tendency of supply coming if the prices go up. The supply comes from Chhattisgarh and MP, which is as compared to these markets, is a low price zone. That is why the persistence comes in, so our view the prices will remain at this level and definitely there will be an upward bias on prices.

Tanuj Makhija:

Sir at what price levels does transferring cement from MP and Chhattisgarh become attractive?

Sanjay Gupta:

Anything above 350 plus kind of a range 350 to 360 it becomes really attractive to send cement from that market.

Tanuj Makhija:

Thanks a lot for answering my question in detail.

Moderator:

Thank you. The next question is from the line of Sayantan Maji from Credit Suisse. Please go ahead.

Sayantan Maji:

Many thanks for giving me an opportunity. Sir talking of prices I wanted to understand what are the prevailing prices in Northeast and where do you see the demand in Northeast? What is the key contributing factors that will drive up cement demand in Northeast?



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Sanjay Gupta:

Let me tell you what is the total demand. The total demand last year was around 8 million tonnes. The overall capacity in Northeast is around 11 million tonnes to 11.5 million tonnes, but the effective capacity in Northeast is only 9 million tonnes because the capacity, which is around 2 million tonnes they are all small grinding units where they do not have clinkers with them and till maybe last year these grinding units were able to operate and survive because of the lower capacity utilization of the clinker producing plants in Northeast. In Northeast today at this point of time, the clinker capacity is only 7.5 million tonnes right, so if you convert that with 1.3 kind of or 1.25 kind of a trend because mostly the PPC is produced, slag is not available, so it can affectively make around 9 million tonnes to 9.5 million tonnes kind of a cement and last year the demand was almost 8 million tonnes, growing at around anything between 8% and 9% and there is no cement plant in pipeline under implementation in Northeast, so even if a cement plant has to come up it will take at least three to four years for cement capacity to build. Anybody even the existing player wants to build at least he will take three to four years. The new players will take at least four to five years. So our expectation is that by that time the demand will go to around 11 million tonnes to 12 million tonnes. It takes up very well for the existing players who are there in Northeast. In terms of price at this point of time the prices are somewhere around Rs.373 to Rs.380 in Guwahati as compared to Bengal or even say the Siliguri prices are somewhere around Rs.360 and Kolkata prices, which comes to around Rs.350. It has always been a trend that Northeast prices always remain elevated to around Rs.20 to Rs.25 from these markets.

Sayantana Maji:

In terms of additional demand what are the sectors, which will contribute to additional demand if there are more like housing projects being financed by the government? What are the biggest sectors, which help drive the demand that you are expecting from 8 million to 11 million?

Sanjay Gupta:

Usually the demand in Northeast is driving by largely by the retail segment. Retail is a very big chunk of it, almost 70% of the demand, which comes in Northeast is coming from the retail. Of late in the last I will say last five to seven years the government has a clear focus in development of infrastructure so there are large road projects. There are projects, which are border road projects, railway held projects are there, there are a lot of tunnel works, which is going on, other infrastructure projects like airport and others are also there, so they are contributing to the demand, but it has not taken up the demand to a significantly higher level. It has not changed the mix in that strength, so it still continued to be a 30% of the overall market. In terms of housing project, we have not seen much of housing projects, which is affordable housing and things like that. We are seeing one or two projects, but I think it will take some more time in terms of actually people start implementing housing projects in a big way, so that is there, but yes other normal contract work, which is there that is also there. EPC contracts, which is there, there are a few airports, which are there. Rural development, there is some work, which is going on. The overall it is supporting the demand. It has not I will say it has not run away demand. It is coming the infra projects, but they are maintaining it and we hope that in the last three to four years there will be a lot of things like payments, there is award of contracts and these difficulties, which have been cleared now. We expect in going to the next two to three years there will be some more demand in infra side.



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- Syantant Maji:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ayush Sharma from Investec. Please go ahead.
- Ayush Sharma:** Thank you for the opportunity. Sir my first question is can you please give us a breakup of the power, fuel and freight expense for this quarter?
- Manoj Agrawal:** Power and fuel for this quarter is Rs.76.53 Crores.
- Ayush Sharma:** Freight expense?
- Manoj Agrawal:** Pardon.
- Ayush Sharma:** Freight expense?
- Manoj Agrawal:** Freight is Rs.128.57 Crores.
- Ayush Sharma:** Thank you. Sir on the freight rationalization side with EBITDA per tonne at 1650 right now do you think there is more benefit that we are expecting in future quarters or the entire thing is now into implementation and no more benefit expected from freight rationalization?
- Sanjay Gupta:** Freight work has already been completed. Whatever is supposed to come must have come by this quarter. There will be some benefit flowing in terms of freight cost, which is axle load increase by the government. There can be some reduction in freight, but it is primarily on account of axle load reduction and the fuel cost is at alleviated levels, so there are likely to get compensated, but rationalization is almost complete.
- Ayush Sharma:** Sure Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.
- Pratik Kumar:** Good afternoon Sir. Sir my first question you mentioned about your coal procurement and season to season and the recent coal procurement was at higher rate by Rs.400 to Rs.500 per tonne, so can you just quantify the absolute prices on this season versus the previous year of procurement?
- Sanjay Gupta:** The earlier season the procurement used to happen at somewhere round Rs.4800 to Rs.5000. Now the price has moved up to say Rs.5300 to anything between Rs.5500, so there is an increase of around between Rs.400 and Rs.500.
- Pratik Kumar:** Sir sequentially if we just do this calculation from your sales by volumes so realization looks like down by around 3% on a QoQ basis primarily I guess for the fire clinker sales as you suggested, so on a cement to cement basis how would be the prices QoQ for you?



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- Sanjay Gupta:** The prices have remained flat. There is no increase or decrease in prices. The prices remains flatter on the QoQ and you are right when you say that while enlightening other things there is an impact of higher clinker in this quarter, but overall cement prices have remained flat.
- Pratik Kumar:** Sir how are the prices shaping up in July and let us say in monsoon how do you expect them to be on a seasonal basis? Do we see correction?
- Sanjay Gupta:** We hope there will be some. I think the July has gone okay that is not the volumes may be doing at least 15% to 20% growth in northeast in terms of volumes, but I am saying that the prices have remained again stable. They have not gone down, but the rains have picked up a little late this year, so now it has started raining heavily. I hope that in August and September there can be some correction in prices, but as soon as the rains tapers off our expectation is that the prices will again come back to the same level.
- Pratik Kumar:** Sir regarding the subsidy receipt of around Rs.430 Crores any expectation saving like very soon or it can be backhanded as per your expectation?
- Sanjay Gupta:** We have said that I think we are expecting around Rs.150 Crores further in this year. We are expecting somewhere by may be by the end of September or December where after that the central government will go into election mode, so after that I do not think there is going to be anything happening in this year and the balance we expect in next year.
- Pratik Kumar:** Sir just one question on this as you suggested regional dynamics of northeast so how is the ramp up of the new plants, which came in the region? Has there been ramping up or they have been slow in terms of pushing their brand?
- Sanjay Gupta:** I think there is only plant, which has come up in the last one and a half year that is Goldstone Cement. I think those guys have also been selling cement and they have already ramped up to some level, but the capacity availability is only there with three companies, which is Star, Dalmia Cement and also with this new plant and there is no capacity addition happening and most of these other smaller plants, which are having clinker capacity this is the season time they almost operate at 100% level. Any incremental demand, which will come, will come to the people who are having some headroom as far as the capacity utilization is concerned, so even the new guy will also have a better capacity to utilization going forward.
- Pratik Kumar:** Sir one question we understand this Siliguri unit is expected by December 2019, the clinker debottlenecking has it been changed from 1Q 2020 guidance?
- Manoj Agrawal:** I have already said that the clinker debottlenecking is continuing we will be by the end of this year we should be in a position to do that.
- Pratik Kumar:** All the best. I will get back to the queue.



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- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Thank you. Sir what is the ground field potential that we would have our clinker site like how many extra lines can we add and what is the mine reserves and land availability?
- Sanjay Gupta:** As far as the availability of land is concerned, plenty of land is available. If I want to put say another 25 million tonnes capacity I can still put right, so I have got land to afford those capacities. The only question is does the region need that kind of a capacity addition and the second is as you said in terms of limestone availability we have almost 1000 hectare of mines with us where we will have around 700 million tonnes to 800 million tonnes of limestone reserve with us. Even if I double my clinker capacity today, which is around 3 million to 6 million, I have got at least 70 to 80 years of reserves with me already, so that is not a constraint.
- Dheeresh Pathak:** This land you said is in your position already the 1000 hectares and mining land as well as the plant land where you said you can?
- Sanjay Gupta:** Yes. It is in the position of the company.
- Dheeresh Pathak:** Sir, this clinker that you are selling, you are selling to Nepal? Where are you selling this clinker?
- Sanjay Gupta:** We are selling some clinker in Bengal. We are selling some clinker in Nepal.
- Dheeresh Pathak:** What is the ex-factory price of clinker?
- Sanjay Gupta:** I do not see that I will be able to give ex-factory price, but I think overall Nepal prices were hovering around I think for the full quarter it should have been somewhere around Rs.5500 to Rs.5600 landed at Nepal.
- Dheeresh Pathak:** You get the freight reimburse from party?
- Sanjay Gupta:** Yes. We are supplying it on FOR basis.
- Dheeresh Pathak:** What is the freight component from plant to Nepal?
- Sanjay Gupta:** Freight will be somewhere around it depends right, today the freight will be Rs.2000, sometimes it is Rs.2500.
- Dheeresh Pathak:** Okay, at least Rs.3000 we are getting ex-clinker right is that?
- Sanjay Gupta:** It looks to be I need to check those numbers.
- Dheeresh Pathak:** Okay and what is the subsidy per tonne that is there in the EBITDA that you report now?



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- Sanjay Gupta:** We have stated that the transport subsidy have already one, now the only one subsidy which is there, which is GST benefit, which we have, but GST subsidy will be somewhere around Rs.300, Rs.350 a tonne now, but this subsidy will be available to the company, for one plant it is going to be available 2023, for other plant it is going to be available up to 2027, there is a fair amount of time.
- Dheeresh Pathak:** In terms of accounting, you show it as in the revenue line item this money you are supposed to get from the government or how do you show it in the accounting?
- Sanjay Gupta:** In accounting, I will ask Mr. Manoj to reply.
- Manoj Agrawal:** Accounting, we are booking as an accrual basis, because we cannot do in a cash basis, so it has been included in the profitability.
- Dheeresh Pathak:** No, you show it in the revenue line item?
- Manoj Agrawal:** Revenue, because GST is in revenue line item.
- Dheeresh Pathak:** Okay, so if let us say hypothetically this was not there, per tonne realizations would be lower by Rs.200 that is the way to think right?
- Manoj Agrawal:** Yes.
- Dheeresh Pathak:** Okay, the one plant for which it is available to 2023 what is the capacity of that plant?
- Manoj Agrawal:** That plant is 2.5 clinker is available and 2 million is estimate. It is available to both the plant up to 2023 incur as well as cement and balance 1.2 million which is available up to 2027.
- Dheeresh Pathak:** Understood, okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Jimesh Sanghvi from Principal Mutual Fund. Please go ahead.
- Jimesh Sanghvi:** You have guided for an EBITDA of around 1800 to 1850 for the full year. So where do you see it coming from largely from price increases or some other cost declines, which could be there?
- Sanjay Gupta:** Two, three things. First of all, as I said the advertisement cost, which has impacted the quarter, I think it will get moderated over a period of time over the next three quarters that is one. Second will be the cement sale will be better, the clinker cell will be tapering off in the coming quarters, because in off-season normally the cement sale is subdued, so there is a clinker sale, so that impact margin, so I think going forward in Q3, Q4 primarily the cement sale will be better. We are seeing a better demand appearing from northeast as I said in the month of July also we have seen a 20%, already seen 20% kind of growth in the volumes. So I am saying that the volume increase in northeast to be better and our EBITDA margins are much better in northeast than as



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compared to outside northeast. So I think that will support the margins. Coal cost which has been elevated our view is that as soon as the new mining starts in the month of September and October that should also help us in those two quarters. So we hope that pricing is one thing that this kind of demand there will be an afford balance to the prices. So overall we hope that we will be able to report those margins.

Jimesh Sanghvi: Okay, fine Sir and on the northeast market, is it a conscious decision to cut down on the volumes going for ahead or how should one look at that?

Sanjay Gupta: We are not going to cut down the volume, the cut down on the volume in FY2017-2018 was primarily on account of rationalizing the dispatches and coming out of the market which were non-profitable and which will not be possible to services from our existing plant, but we are coming out with this plant in Siliguri from there we are going to cater to these markets and please also understand that we have a small grinding unit already in Siliguri to which I was paying at a very high level of the processing charges. As soon as Siliguri plant comes up there will be a saving on that, as of now we are selling 80% EPC so we are hauling all the fly ash, which is coming from Farakka, Talegaon all the way up to Guwahati and then it is again mixing it up and then again bringing it back to these markets, so there is a lot of cost saving, which are going to drive the volume and they are going to come to this, so there will be no reduction in the volume in these markets. On the contrary, the share of these markets is going to increase in the overall dispatches of the company.

Jimesh Sanghvi: No, but your Siliguri plant is likely to come by December 2020?

Sanjay Gupta: Yes.

Jimesh Sanghvi: During this timeframe if the demand in the northeastern market keeps on going up, will it not be prudent enough to move more into the more material into the northeast market vis-à-vis say the eastern market?

Sanjay Gupta: Please understand that we have a cement capacity of 3.8 million tonnes in northeast, last year we have sold cement of 2.4 million tonne only right. So whatever demand comes in they are going to supply, there is no problem as far as the capacity is concerned and also there is under no circumstances, the company is going to compromise on the volume of northeast at the cost of the outside northeast volume, because the margins in the outside northeast are almost doubled in the margin which we enjoy there, and then we have capacity which is already there around at 4.4 million tonne at this point of time taking the two grinding unit, which we had hired grinding unit. Cement is not a problem to be supplied whether for northeast or for outside.

Jimesh Sanghvi: Okay, fine Sir. Thank you.

Moderator: Thank you. The next question is from the line of Anupam Goswami from Stewart And Mackertich. Please go ahead.



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- Anupam Goswami:** Good afternoon. Just wanted to know what is the power fuel mix, do you use pet coke on coal linkage?
- Sanjay Gupta:** As we are using 100% Meghalaya coal and we are not using pet coke, yes we did use some pet coke in between when the prices are pretty low and just to test the plant and make sure that all the plant is ready for consuming pet coke, but 100% dependent on Meghalaya coal.
- Anupam Goswami:** And you gave your power and fuel per tonne and freight cost also per tonne, is that on cement volumes?
- Manoj Agarwal:** No, I have given you the total absolute number. I have given freight outward Rs.128.57 Crores okay and power and fuel is Rs.76.53 Crores is the absolute number okay and if you take it out per tonne number, which is dividing all cement and all it is coming to 1592 and power and fuel is 948.
- Anupam Goswami:** And your EBITDA can you give any guidance on a EBITDA margin for this financial year like last time itself quite high and quite impressive, so guidance from this year how would like you to discuss Q1 was a bit low on the margin side?
- Sanjay Gupta:** I have already said last year full year EBITDA margin was Rs.200 a tonne, which included transport subsidy of around Rs.350 to Rs.400 a tonne. We said that there will be some rationalization of dispatches and will be able to maintain and recovery some of the costs from there and that rationalization will help us recurring some freight cost, so that will take us to EBITDA margin, so we have guided about EBITDA margin of Rs.1800 to Rs.1850 for the full year in FY2019 and we still maintain that.
- Anupam Goswami:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Why are you not adding capacity because you said it will Brownfield players like us will also take three years to get new capacity and as per the numbers we are sharing by three years the clinkers will become shortage in the northeastern market?
- Sanjay Gupta:** We have a plan and it is not that we are not thinking for adding capacity. The capacity addition at this point of time we have clinker capacity, which is we have around 2.6 million tonne debottlenecking will take it to 3 million tonne, so 3 million tonne we will easily be able to manufacture at least 3.7 to 4 million tonnes of cement and we have only sold 2.4 million tonnes last year. This year with the 15% volume growth, which we are targeting, the volume will reach around 3 million tonne, so we have sufficient capacity to grow at this point of time definitely from two, three years from now we will need clinker, because we are coming out this Siliguri unit also a 2 million tonnes grinding will also need clinker, so we will be putting up around 2



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million tonne clinkerization plant, but still there is time away yes, I have started into environment clearance and things like that and definitely the clinkers plan will come to support the grinding, because with this 2 million tonnes Siliguri grinding, the total grinding capacity of the company will be 6.5 million tonne and clinker will be only 3 million tonne, so definitely we will have more clinker capacity coming up in north east.

Dheeresh Pathak: You said it will take you three years from the point of time you start groundbreaking right, why will it take so much time?

Sanjay Gupta: No, I am not think three years from the point of time of the groundbreaking happens I am saying today somebody starts it will take at least one year for environment clearance and two years to set up the plant right, so that is what I am saying it will take both three years time.

Dheeresh Pathak: Why two years for setting up the plant?

Sanjay Gupta: Until and unless you have environment clearance with you, you will not be able to do other things, so as soon as the environment clearance comes up and after that you place the order, get the machineries and implementation of project I think 24 months is a time value unit, northeast definitely is a terrain, it takes at least little more time for and till land you may be you can save about and it rains a lot in northeast all those factors, do impact the implementation schedule in northeast.

Dheeresh Pathak: Just to confirm you are saying you have already started the environment clearance work on 2 million tonne expansion?

Sanjay Gupta: We are starting the environment clearance on that.

Dheeresh Pathak: Thank you.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Good afternoon Sir. You mentioned that the effective capacity in northeast is 9.5 million tonnes and already last year we did 8 million tonnes, when do we start to see this big traction, because as you mentioned that big players like you they are still looking at lower capacity utilization vis-à-vis with one of players. So what is your sense from which quarter to be start seeing a big traction in our volume and pricing as far as northeast market is concerned for us?

Sanjay Gupta: As I was saying right so volume growth I think has started coming in, for the company also if you look at this quarter also we did around at the same level of 8% for northeast volume has grown. I told I mentioned you the July has also grown at around 20% in northeast. So I am saying this as an early sign of better volume growth, which will come to the company because as the off-season tapers off, in season time most of these smaller players will be operating at almost



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100% of their capacity, so the rest of the demand, which will be there because even if it is going to 8%, 9% it will be around 9 million tonnes. So our view is that this year we will see a good growth as far as the northeast expansion.

Sachin Kasera: If you take the numbers that you quoted effective, last year the industry utilization was almost like 80%, this year should be 87%, 88% whereas you know last year if you look at I do not know 4 million we produced 2.4, so we were at almost like 60%, when the demand goes to 9.5 over the next two to three years of the incremental 1.5 million should be significantly higher, is that arithmetic correct?

Sanjay Gupta: Sachin, I am not getting into the number, but I am saying that yes, that is how it looks like, that is how it is saves and definitely you can say that the demand for the other guys, say other guys are operating at higher capacity utilization than what we are operating, there is no doubt in that right and they have a limitation as far as the capacity is concerned. It is obvious that the volume will go to the people who have some headroom in capacity. So directionally I am okay, this is what is going to happen, but what is the number going to come in definitely time will tell, but directionally I am with you on that.

Sachin Kasera: Finally Sir on this now that the debt has become very low apart from this Siliguri Greenfield are we also any plans in terms of earning growth you are looking either in northeast or outside debt?

Sanjay Gupta: There is cash flow available with the company, it has got a stated dividend policy of distributing 30% of profits to the investors after than definitely whatever the cash will be available with the company that will be definitely utilized for the growth of the company. We are looking for some inorganic opportunities in the market and anywhere we operate.

Sachin Kasera: So this inorganic opportunity is also available in the northeast or for that we will have to look at mostly out of northeast?

Sanjay Gupta: It will be difficult on my part Sachin to comment specifically on what, but I think any where we are operating, we are looking at inorganic growth.

Sachin Kasera: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Girija Shankar R from SPA Securities. Please go ahead.

Girija Shankar R: Thank you for this opportunity. I have two questions. I just wanted to know like we have 51-megawatt of power plant, so we are using some for our own uses we are using the power as well as we is selling some powers also, so how much revenue actually we are generating from the power, selling the power and to whom we are selling those power surplus power?



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- Sanjay Gupta:** The total capacity is 51-megawatt and out of that we operate the full plant we produce around 40 megawatt or 42, 43-megawatt after the organic consumption and the PLF factors we should take into account. We utilize almost around 28, 30-megawatt and then we sell around 7, 8-megawatt which is available 8 to 10 depending on what is operating and what is non-operating sometime 7- to 10-megawatt we supply, so normally what we do is we have either we sell it to as you know that once the company only owns about 51% of this power plant, the 49% is held by others, which is listed entity with the Sam Century Service Limited with some power sold to them and lot of power is banked with the state grid and the banking power, so what we do is there is coal available in the season time, we operate the plant at the full capacity and off season time in the plant with coal availability become low, we operate only required capacity and then we take from the banking, which we have done. In case of depending on whatever the price scenario there we also sell to the ferro alloy companies.
- Girija Shankar R:** Fair enough. The second question is like just wanted to know what will be the capex for FY2019 or FY2020? Do we have any capex?
- Sanjay Gupta:** We have two capexes. Overall capex will be somewhere around Rs.450 Crores for next two years to come. One is for Siliguri and another is debottlenecking exercise which we are doing, so with this 450, I think you can split it in the fact that it will be 150 in this year and balance will be next year right.
- Girija Shankar R:** Thank you Sir.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Rajesh Ravi for closing comments. Thank you and over to you Sir!
- Rajesh Ravi:** Thanks everyone for joining the call Sir. Gupta Sir would you want to make some closing comments before we close the call?
- Sanjay Gupta:** I would like to thank everybody participating in the call. We hope that we have been able to reply to your queries. In case you have any other queries, you can send us your queries by mail we will be happy to reply. Thank you everybody. Thank you for participating in the call.
- Moderator:** Thank you. On behalf of Centrum Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.