



“Star Cement Limited Q2& FY19 Earnings Conference Call”

November 13, 2018



**MANAGEMENT: MR. SANJAY KUMAR GUPTA – CHIEF EXECUTIVE OFFICER
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PRIVATE LIMITED**



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Moderator: Good day, Ladies and gentlemen welcome to the Q2 FY19 Conference Call of Star Cement hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Thank you, good evening everyone. On behalf of PhillipCapital I would like to welcome you to the Q2 FY19 Call of Star Cement. On the call, we have with us Mr. Sanjay Kumar Gupta – CEO and Mr. Manoj Agarwal – CFO of the company. At this point of time I will hand over the floor to the management of Star Cement for opening remarks which will be followed by interactive Q&A. Thank you and over to you, sir.

Management: Good evening everyone. I am Sanjay Gupta – CEO of Star Cement Limited, I would like to welcome you all to this earning call for Quarter 2 FY19. I have with me Mr. Manoj Agarwal – the CFO of the company. He will take you through to Quarter 2 number and half yearly 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 request Mr. Manoj Agarwal to take you through to Q2 numbers. Over to Mr. Manoj Agarwal.

Management: Good evening gentlemen. I, on behalf of Star Cement Limited, welcome you all to this conference call discussing the Q2 19 numbers and half year ended September 19 numbers. Starting from clinker production during the quarter ended September 2018, we have produced 3.04 lakh tons of clinker as against 2.82 lakh ton same quarter last year that is growth of around 8% over the last year. So, far, the cement production is concerned we have produced 4.86 lakh tons this quarter as against 4.09 lakh tons same quarter last year that means increase of 18%.

Now I will take you through the sales volume:

During the quarter we have sold 5.48 lakh tons of cement and 0.08 lakh ton of clinker as against 4.38 lakh ton of cement and 0.35 lakh ton of clinker same quarter last year. The growth of 25% in cement and de-growth in clinker as we sold just a clinker due to shutdown of clinker plant. This is as far as cement and clinker sale is concerned. As far as geographical distribution is concerned in Northeast, we have sold around 4.21 lakh tons of as against 3.32 lakh ton during same quarter last quarter with a growth of around 27%. And as far as outside Northeast is concerned, we have sold 1.27 lakh ton of cement this quarter as against 1.06 lakh tons same quarter last year there is also a growth of more than 20%. As far as grind mix is concerned it is almost 17% is OPC, 2% PSC and rest is PPC these are the quantity number as far as concerned. I will take you through the financials the total revenue figure is around Rs. 361 crores as against 281 crores same period last year that means there is a growth of more than 28% over the same quarter last year.



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As far as EBITDA this figure is concerned, this quarter we have done an EBITDA of 69 crores as against 78 crores last year. PAT after minority interest is 36 crores as against 26 crores in the same period last year that means there is a growth of more than 41% there. As on per ton EBITDA front it is 1249 during this quarter as against 1645 per ton same quarter last year. The difference is mainly on account of expiry of our freight subsidy which ended in January, 2018 and also on account of longer shutdown period this quarter. This is about our quarterly number.

Now I will take you through the year-to-date numbers:

The total revenue figure for the half year ended September 18 it is around 78 crores as against 707 crores same period last year that means there is a growth of more than 24% over the same period last year. As far as EBITDA is concerned, during half year ended September '18 we have done an EBITDA of around 201 crores as against 237 crores last year. PAT after minority interest is 127 crores as against 132 crores in the same period last year. On the per ton EBITDA front this is 1477 during the half year ended September '18 as against 2003 per ton same period last year. These are the quarterly and year-to-date half year numbers.

Now I will request all of you if you have any queries, you feel free to ask questions and I will request Vaibhav to moderate the questions whenever it is coming through.

Moderator: We will now begin the question and answer session. The first question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: Sir I just missed the cement sales production volume can you just repeat again?

Management: Cement production our own production is 4.87 lakh tons.

Anupam Goswami: And sir clinker?

Management: Clinker production is 3.04 lakh.

Anupam Goswami: Sir I was asking about the sales.

Management: Cement sale?

Anupam Goswami: Yes sir.

Management: Cement sale is 5.48 lakh tons.

Anupam Goswami: And clinker was?

Management: Clinker is 0.08 lakh.



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- Anupam Goswami:** My next question is sir I see your tax percentage has gone down and it is significantly low what is the reason of low tax rate?
- Management:** That is because of deferred tax asset is also there and the we are MAT credit entitlement and it is extended to 15 years so that is also incremental because we are putting up a new plant and all this so that ultimately MAT credit entitlement has also been taken into consideration so that is why you are seeing a tax rate is bit lower.
- Anupam Goswami:** Should we assume what kind of tax rate we should assume for the whole year?
- Management:** Whole year maybe it is 6% to 7%.
- Anupam Goswami:** Of PBT?
- Management:** It is also including deferred tax adjustment even that part of annuity.
- Anupam Goswami:** So, 6% to 7% is on sales are you saying?
- Management:** 6% to 7% is income not sales.
- Moderator:** The next question is from the line of Mahavir Jain from Aditya Birla Capital. Please go ahead.
- Mahavir Jain:** Can you quantify the impact of lapse in subsidy on EBITDA per ton?
- Management:** See the transport subsidy which is there it used to be around Rs. 300 to Rs. 350 a ton that has gone out in this quarter as well as in the entire half year because the transport subsidy has expired in the month of January 2018. So, on the previous year number which you are seeing they are having an impact of transport subsidy and the current year subsidy does not have the impact of transport. The overall impact you can understand is somewhere between Rs. 300 to Rs. 350 a ton.
- Mahavir Jain:** Earlier we have given a guidance of around Rs. 1800 per ton EBITDA kind of thing so where do we see the revised guidance?
- Management:** Overall guidance which we have given is that we had an EBITDA of around Rs. 2000 in FY18 for FY19 we had guided around Rs. 1750 to Rs. 1800 post the transport subsidy withdrawal. This quarter we have reported an EBITDA of Rs. 1250 almost. This quarter the EBITDA has been impacted because of two adverse events which has happened one is definitely the plant in this quarter the shutdown period for the plant we had unexpected breakdown of a gear box which has taken a longer time in terms of again putting it back. This quarter the shutdown period the total shutdown period was somewhere around 72 days in this quarter the impact is now 65 days the corresponding period last year the normal maintenance shutdown was around 140 days for approximately about one month extra has been utilized in this particular quarter so this is already



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having an impact on the overall margins of the quarter just to compensate the loss of clinker there we have purchased around 30,000 tons of clinker from outside. So, overall that is also having an impact on the margins of this quarter, but we still standby our overall guidance in terms of full year EBITDA margin guidance of Rs. 1750 to Rs. 1800.

Mahavir Jain: Any guidance on pricing how do we see the pricing now and moving forward in Q3 and Q4?

Management: We have not seen any price increase or decrease I will say. There has been some slight decrease of anything between Rs. 3 to Rs. 5 in this entire quarter. The prices have been more or less stable I will say. Going forward during the season time we are entering the second half of the year. We hope that the prices will be at this level only with some upward buyers.

Mahavir Jain: Any light on availability of slag how it is that?

Management: The slag availability is not there in Northeast. We are only operating a small lease facility in Durgapur there we are getting slag and we are utilizing some part of capacity as slag output. In Northeast the availability of slag is not there.

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

Ritesh Shah: Can you please highlight our expansion plans along with the timeline and whatever existing capacities are for clinker and cement including the contracted grinding unit?

Management: See as of now the total capacity for cement is we had our own capacity of 3.8 million ton and we have about 0.5 million ton of capacity which is a least capacity. So, this is the grinding capacity. In terms of clinker capacity after this shutdown which we have taken we expect the clinker capacity to at least increase a little bit. We have still some more work to be done on the clinker front of some debottlenecking exercise. We have done some exercise in this particular shutdown. So, we had a capacity of around 2.6 million ton of clinker. We hope that after this shutdown it will be around 2.8 million ton that will be there. So, total capacity for clinker you can take it 2.8 million ton for the clinker and 4.3 million ton for cement. Going forward as you are aware that we are setting up a grinding unit in Siliguri about 2 million ton grinding unit we are already under filing work part of our equipment and everything is already in place. We expect that plant to be commissioned in FY20 almost somewhere by December next year we will be commissioning that plant.

Ritesh Shah: And sir what do we do with the lease grinding unit then do we still continue with those arrangements?

Management: We have two lease facilities one is in Durgapur and another in Siliguri. At this point of time, it will be very difficult to stipulate that, but definitely I think Siliguri because since we have our



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own capacity that will be prudent to take out that lease capacity we can give up, but I think we will still continue Durgapur plant.

Ritesh Shah: Secondly can you please highlight the benefit of freight rationalization what we have been indicating over last couple of quarter along with that I think we were working on some captive railway side if you could highlight on the status over there as well?

Management: Let me come to you about the rationalization of freight. See there has been rationalization of freight which we have already done, but the impact of that is getting realized in some part. We are seeing in places like Nagaland, Manipur where the dispatches were earlier happening from Guwahati, we are started dispatches from our Meghalaya plant so that has definitely saved us on freight cost. We are getting those benefits coming in, but overall number wise since I have guided about the EBITDA margin which we had around Rs. 2000 and Rs. 350 transport subsidy taking away it could something around Rs. 1650. So, we are still saying that it is going to be around Rs. 1750, Rs. 1800. I think on a full year basis that impact will be felt and the freight impact which is there we have not seen any axle load freight impact as of now in Meghalaya or other Northeastern state because lot of government have still not passed that order in terms of they are not acted on that particular Central government order we are hoping to act in next two quarter. So, that impact still we have not seen, but definitely rationalization impact is already being felt in the freight cost which we are incurring.

Ritesh Shah: On railway siding?

Management: The railway siding project is on stream we hope to commence this railway siding either in the month of January or February.

Ritesh Shah: Lastly on the subsidy outstanding what we realize during the quarter your guidance for rest of the year and there was certain concerns post GST certain states basically streamlining the subsidy if you could please throw some color over there?

Management: See the transport subsidy is already over. The outstanding with the government as of now is around 400 crores out of that we expect around 150 crores to be received in this particular year within the next two quarters the rest we will receive in the next year. As far as the GST benefit which we are having already there is no cloud whether they will be passing on GST benefit or not. The Central government has already announced the GST emission which is there on the basis of overall CGST and IGST calculations which we do normal. So, there is a percentage based on 29% of IGST and 58% of CGST benefit we are already getting. So, we have already started getting that refund earlier we used to get this refund on monthly basis. The only difference today is that the Central government has started giving this refund on a quarterly basis. So, there is a cash flow land that is there, but we are getting these payments and then the government has further facilitated these refund process and they have just now notified that all these refund will



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be processed electronically. We have to electronically we have to file our refund and we will get these refunds electronically. So, that will also speed up the process.

- Moderator:** The next question is from the line of Siddhi Sawant from NVS Brokerage. Please go ahead.
- Siddhi Sawant:** I had got a couple of questions the first question is to do with the total debt I can see a total debt has actually drastically reduced is there any plans to go debt free in this year or next year sir?
- Management:** I think net of cash if you look at our total debt will be somewhere around the long term is 50 crores only.
- Siddhi Sawant:** Yes, the long-term is 50 but total short term plus long term is around 80 crores sir.
- Management:** And there will be some cash on the balance sheet also. So, net of debt I do not think we will have around more than 50 crores. We have a subsidy receivable of around 400 crores is still to come in and then the business is already generating we have reported an EBITDA of half yearly basis of 200 crores. Business is already generating and we will definitely be repaying the debt which we have in balance sheet. We have paid almost everything and some amount of long term debt you can say relationship cost is a bank also does not want to close down all the relationship where you have a leave a part about 1 crores or somebody or 2 crores with somebody. So, that may be another consideration, but I think we have already paid down these debt to 50 crores we will definitely pay down some more in coming days.
- Siddhi Sawant:** For the full year can you give any kind of guidance if possible because if not mistaken last year your capacity utilization was around 55% you did about like 24 lakh tons of sales on the capacity so any guidance for this year?
- Management:** So, we have already guided that there will be topline volume at the volume growth will be approximately around 15% for the half year this quarter we have done a top line growth of in terms of volume it is already 15% even if I take clinker into account. If I do not take clinker into account the volume growth is 25% on half yearly basis the top line growth is almost 15.3% so we are on track to do that and we hope that we will be able to achieve that guidance.
- Siddhi Sawant:** And the last question which I have on a very broad perspective because the company has a dominant presence in Northeast, can you just give a broad perspective how the cement industry would span across over next two, three, five years' timeframe especially Northeast?
- Management:** I think the number which Mr. Agarwal has mentioned for the Northeast it is evident that on this quarter Northeast volume has gone up by 26% on a half yearly basis the volumes are up by 18%. So, Northeast volumes are doing good. This actually confirms our thinking about that most of the cement plant in Northeast are already operating at the smaller plants are already operating at almost the full capacity utilization. Since there is no plant which are in pipeline the cement



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capacity in Northeast is only the total clinker capacity in Northeast is 7.5 million tons. As against 7.5 million ton can produce 9.5 million ton of cement in all the companies. Last year the total demand in Northeast was around 8 million ton. The cement demand for the half year has already grown at around 10% to 11% almost in the first half. We hope that we will end up the year at least 12%, 13% which will be almost a double digit anything between 13% to 15% growth is possible in Northeast this year. So, that is also there and most of the smaller plants have already exhausted their capacity. So, whatever volume growth comes up in Northeast is going to come three bigger companies Star, Dalmia, there is third brand Topcem who has got headroom as far as the capacity utilization is concerned.

- Moderator:** The next question is from the line of Pratik Maheshwari from Ambit Capital. Please go ahead.
- Pratik Maheshwari:** Can you give me the breakup for the quarter for our freight cost and power cost and also same quarter last year?
- Management:** Power in fuel cost was in this quarter was 37.04 lakh as against Q1 number.
- Pratik Maheshwari:** Q2 last year.
- Management:** Q2 last year it is 30.32 and freight is 63.03 this quarter as against 40.76 last quarter.
- Pratik Maheshwari:** So, what do you say for this quarter?
- Management:** 63.03 crores.
- Pratik Maheshwari:** Sir what was our product mix between PPC and OPC?
- Management:** It is almost 81% is PPC and 17 odd percent is OPC and the balance 2.24% is the PSC.
- Pratik Maheshwari:** Since our clinker sales have drop down to 0.8 lakh so, have we stopped exporting to Nepal or other regions?
- Management:** I think we have temporarily stopped that because of the shutdown of the plant, but I think we will again resume it because we had excess clinker capacity as of now and we will be definitely resuming it.
- Pratik Maheshwari:** And sir the least unit at Durgapur what is the capacity there?
- Management:** The capacity is 0.3 million ton there.
- Moderator:** The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.



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- Rajesh Ravi:** Sir, on the debottlenecking clinker the capacity expansion is 0.2 or 0.4 million ton and what is the relationship?
- Management:** As of now there has been some debottlenecking exercise is the long run exercise so you cannot get capacity at one point of time because you change some equipment, you change certain part of the machineries so you cannot all the capacity at one point of time. So, we see that we have done some debottlenecking in this particular period in this shutdown. So, we hope that we will at least we will get around say 200 tons of additional output should come and then after that if there are some more work to be done in the lieu and the balancing of the equipment will still require so we will achieve that in next shutdown.
- Rajesh Ravi:** This railway siding project you are talking about would you please explain what is that project?
- Management:** We have the Guwahati plant we are having a railway siding which was a little away from the plant and now that we are bringing that railway siding inside the plant. So, that project is already under implementation and we hope to complete it in the month of January or February.
- Rajesh Ravi:** So, total CAPEX for this financial year would be how much sir all projects together?
- Management:** We must have spent the total cost of the project was somewhere around 18 crores and I think we must be spending almost everything in this year itself.
- Rajesh Ravi:** Total including this debottlenecking and other something would also go towards the Siliguri?
- Management:** Siliguri project I am not including these 18 crores is towards the railway, debottlenecking must have cost us around this particular period it will cost somewhere around anything between 15 to 20 crores and the other Siliguri project most of the equipment and everything would arrive in the next year, but this is project which is a having a project cost of 400 crores. We are expecting around anything between 100 to 150 crores will be spend this year and the balance next year.
- Rajesh Ravi:** So, when you sell clinker on the realization how are they different versus your cement sale realization sir?
- Management:** Overall realization of clinker this year was not bad because in Nepal the clinker likely was good, but I will still say that in Northeast cement realization will be somewhere around 2500, 2600 so you do not get that kind of realization, but definitely you will get around Rs. 1500 kind of realization you will see net realization I am talking about.
- Rajesh Ravi:** On the blended realization for September quarter of Rs. 6300 odd per ton this is on blended cement, so purely if you just take the cement and clinker separately what would be the difference in the sales realization?



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- Management:** I think calculate that number Rajesh Ravi and then come back to me.
- Rajesh Ravi:** No issue I will take it offline. Just wanted to understand when there is a sharp change in clinker sales the realization in cost books becomes volatile from that perspective?
- Management:** As I said right if you look at it the overall sales per ton of net sales then look a little better this quarter, but the prices have not gone up. So, largely it is because that of the cement realization is better than the clinker realization. So, this quarter the cement we have sold more and the clinker contribution to the overall realization is lower so that is why you are seeing that there is increase in per ton realization.
- Moderator:** The next question from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** How much did you indicate for the railway siding CAPEX?
- Management:** 18 crores.
- Ritesh Shah:** And for debottlenecking you indicated 15 to 20 CR right?
- Management:** Yes.
- Ritesh Shah:** And Siliguri 400 crores and FY19 CAPEX 100 to 150 and FY20 200 crores.
- Management:** 250.
- Ritesh Shah:** And how much would be the maintenance CAPEX over here or it is already included?
- Management:** The maintenance has already been charged off in this quarter itself.
- Ritesh Shah:** And how much is the maintenance CAPEX run rate on an annualized basis?
- Management:** See as in this quarter the impact of that maintenance CAPEX is more because of the shutdown for a larger period and in this quarter the maintenance CAPEX was somewhere around I need to again check that number. So, we will give you this number just give us a little bit of time.
- Moderator:** The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami:** Sir if you can say what are the other big cement plant in Northeastern clinker capacity and also your market share among the whole market size?
- Management:** The top three players are Star, Dalmia and Topcem has got a capacity utilization is almost that is the plant we already operating at 80% almost. The capacity which is left is with Star and



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Dalmia. So, together all these three top players they have almost 70% of the capacity with them and largely the top two players will have around 60% of capacity. It is a million ton plant. And the capacity utilization for top two players that we are operating last year we have operated at around 55%, 60% and this year we expect that we will be operating somewhere around 65%, 70%. So, and then we have further headroom to go up in next year.

Anupam Goswami: What will be the total cement size in the Northwestern volume term?

Management: See the Northeast side as I said the total clinker capacity Northeast is 7.5 million tons and 7.5 million ton the total cement which can be produced in Northeast is 9.5 million ton. The total demand for last year was 8 million ton in Northeast. This year half yearly the market has already grown by almost 10%, 11% so we expect this demand to be 9 million ton this year itself.

Anupam Goswami: Sir should I assume around 60% of share would be from the Northeast market?

Management: See the total sales volume which we have if you break my sales into Northeast and outside Northeast. So, in this quarter we have done around 76% in Northeast and only 25% outside Northeast. Last year full year basis we have done around 68% within Northeast and 32% outside Northeast, but definitely Northeast is a market. So, we will continue to grow in Northeast market we have said that we are going to grow top line 15% in terms of volume, but over a period of time definitely we see that Northeast will come to somewhere around 65% and outside Northeast will become 35%.

Anupam Goswami: EBITDA margins since you are sticking towards earlier guidance of 1800 per ton, so EBITDA margin in second half should you are expecting to improve significantly?

Management: I see the impact which we had in this quarter about as I said during this quarter the EBITDA got impacted because of this unexpected shutdown by around Rs. 250 and then there is a purchase clinker impact of around Rs. 100. So, this quarter it should Rs. 300 a ton EBITDA in fact is already there which will not be there in next two quarters coming in. So, we hope that we will still be able to do it 1750, 1800 on a full year basis.

Moderator: We take the last question from the line of Girija Roy from SBI Securities. Please go ahead.

Girija Roy: I have few questions coming back to freight cost I can see if I see per ton basis freight cost there is a year-on-year jump up 32% somewhere so just wanted to know about the reason behind this freight cost even though we are having a factory shutdown for 72 days or almost as you mentioned like I just wanted to know about this freight cost first question. Second question is per ton basis raw material if I see there is a jump of 33% so that is my second question and third question, we have generated some revenue from power selling so if you can put some color on that power revenue that will be there?



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Management: Let me take you on freight cost first. See the freight is going to be higher because earlier we used to get subsidy on the freight cost right transportation. So, on an average the freight is somewhere around Rs. 1000 and the subsidy was Rs. 300 to anything between Rs. 300 to Rs. 350. So, it was almost 30% of that freight. So, every quarter because the subsidy has gone away so you will see a jump in the freight cost because the last quarter numbers are without subsidy, they are with subsidy this quarter numbers are without subsidy that is one. Coming to your question of raw material the raw material this quarter cost is elevated because there is an impact of purchase of clinker which is there right. So, there is a raw material and purchase of traded goods it will be all includes the purchase of clinker there. So, they are not exactly comparable to the corresponding quarter last year there were no purchase of clinker this is with purchase of 30,000 tons of clinker during the quarter. So, that is having an impact on that number and third question you had power revenue. The power revenue is we have sold some power because as it was a shutdown and we were not needing that power so much for a cement production so we have sold this power to Shyam Century Ferrous Limited which is an associate of Meghalaya Power Limited and that is how.

Girija Roy: If I see last quarter means like Q1 FY19 I can see like 133 million of revenue we have generated from power so this time okay I can understand like because of factory shutdown we have produced very less power and we have sold it, can I assume like going forward is there any jump in power like 133 same kind of base I can assume the power revenue going forward?

Management: See normally we will not resort to power selling because we have an arrangement with the state government for power banking so we could sell power in that sense. This month itself we have put some power to IEX to taste that market because IEX power at Rs. 8 or Rs. 9 and you are getting that kind of currency pricing right. So, that is not a stated business objective of the company in terms of variable the banking power the state government is not taking power on banking and we are still producing and we do not need that power there we will have to go to selling. So, it cannot be taken as a line of business for the company.

Girija Roy: So, if you are selling to IEX, how much is the per unit cost we sell it to IEX?

Management: As I said right this month, we may have sold some units of 8 lakh, 10 lakh units just to tell that market. So, those are just to understand the market how does the IEX Power market work and how do we these kind of opportunities come up and we are not in position to bank that power government definitely we will like to sell that power because power is something which I cannot support.

Moderator: The next question is from the line of Romil Mehta from ICICI Direct.

Romil Mehta: Sir, could you just provide me with a clinker production and sales number?

Management: The clinker is 3.04 lakh ton.



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Romil Mehta: That is production or sales.

Management: It is a production figure.

Romil Mehta: And sales was?

Management: Clinker sale is 0.8 lakh ton.

Moderator: The next question is from the line of Girija Roy from SBI Securities. Please go ahead.

Girija Roy: Just want to know the figure for traded and non-traded percentage for this quarter?

Management: Trade in this quarter is 83% is trade and 17% is the non-trade.

Moderator: Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.

Vaibhav Agarwal: Thank you on behalf of PhillipCapital I would like to thank the management of Star Cement for the call and also many thanks to participants for joining the call. Thank you very much sir.

Management: Thank you everybody for participating the call.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us and you now disconnect your lines.