“Star Ferro and Cement Limited Q1 FY17 Earnings Conference Call”

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MODERATOR: **MR. RAJESH RAVI – CENTRUM BROKING**

Moderator: Ladies and gentlemen, good day and welcome to the Star Ferro and Cement Q1 FY17 earnings conference call hosted by Centrum Broking. 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 for an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajesh Ravi from Centrum Broking, thank you and over to you.

Rajesh Ravi: Good afternoon everyone. We welcome you to the concall with the management of Star Ferro and Cement to discuss Q1 FY17 results. I now hand over the call to the management of Star Ferro and Cement to discuss the results, over to you sir.

Sanjay Gupta: Good evening friends. I am Sanjay Gupta, CEO of Star Ferro and Cement Limited. I would like to welcome you all in the earning call for Quarter 1 FY17. I have with me Mr. Dilip Agarwal, CFO of the company. He will take you through the Quarter 1 numbers and then after that we will open the floor for any questions on the numbers and we will be happy to reply. Now I hand over the floor to Mr. Dilip Agarwal.

Dilip Agarwal: Hi friends. Very good afternoon, this is Dilip Agarwal, CFO, Star Ferro and Cement Limited. I welcome all the participants in this interactive session. We will be discussing the numbers of Q1 FY17 of Star Ferro and Cement Limited.

To keep you informed that we will be discussing historic numbers and this is not an invitation to invest. Having said that, I will take you through Q1 FY17 numbers starting from clinker production we have produced 6.48 lakh tons of clinker during the Quarter 1 FY17 as against 5.83 lakh tons same period last year. So far as cement production is concerned it is 6.23 lakh tons as against 5.79 lakh tons. So this was on the production side. So far as cement sale is concerned it is 7.55 lakh tons this quarter, on Y-on-Y basis last year it was 6.17 lakh tons. These are the broader quantitative numbers.

Now I will take you through the financials. Top line is 449 crores as against 408 crores same period last year. EBITDA is around 92 crore as against 123 crore last year and PAT is 23.60 crores as against 42 crores last year.

These are the numbers. I would request our CEO, Mr. Sanjay Gupta to interact with all of you. I would request Rajesh to open the floor for interactive session and in case of any clarity and doubt on business perspective our CEO will give you the right perspective. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Hemant Nahata from IIFL Wealth. Please proceed.

Hemant Nahata: My question was regarding the capacity expansion that we are planning in the next few years. Just wanted some clarity on that?

Sanjay Gupta: There are two things, the expansion which we are planning in Siliguri; we are still awaiting the land clearance. Unfortunately, we have not got the land clearance from the government. But as soon as we get the land clearance the groundbreaking will start. Because we had only planned for about 1 million ton in Siliguri, that's the only expansion plan which we had apart from whatever debottlenecking we have done last year and maybe we will be doing some debottlenecking in the existing plant. Last year we did a debottlenecking of around 0.3 million ton of cement in Guwahati grinding unit, this year we will be trying to do a debottlenecking of around 0.3 million ton of clinkerization debottlenecking that will happen. Apart from that the only project was Siliguri which is stuck in the land clearances from government of West Bengal.

Hemant Nahata: My second question will be this consolidation that we are planning to do. By when can we expect all the clearances and all things to be done?

Sanjay Gupta: We hope to complete the entire process within six months.

Moderator: The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please proceed.

Kashyap Jhaveri: Siliguri which you mentioned it's going to be only grinding unit, right?

Sanjay Gupta: Yes, it is a grinding unit, correct.

Kashyap Jhaveri: I was looking at the earlier presentations but I can't find the fuel and freight expenses for FY16 and if you could give that number for Q1 this year and Q1 last year, separately power and fuel and freight?

Sanjay Gupta: I will ask Mr. Dilip Agarwal to give these numbers.

Dilip Agarwal: This year the power and fuel number is around 67 crores as against 57 crores last year. This year freight is around 78 crores as against 109 crores last year.

Kashyap Jhaveri: If you could give this number for full year FY16?

Dilip Agarwal: Full year number so far as freight is concerned is around 296 crores. Power and fuel is around 215 crores.

Moderator: The next question is from the line of Hitesh Jain from Axis Capital. Please proceed.

Nitesh: My name is Nitesh from Axis Capital. I have two questions. Number one, if you can tell us the cement pricing scenario in the North East market? I guess the cement prices are weak for the past few months and whether there has been some recovery, this is my first question. I will ask my subsequent question later.

Sanjay Gupta: You are right that the prices in North East had actually taken a hit in the Quarter 1 also. Prices have come down approximately by Rs. 25-30 a bag. But what is happening is that the overall demand has grown at around 7.2% in this quarter also. In terms of volume our North East volumes have increased actually. But again that volume increase can also be attributed to the pricing scenario which is already prevailing in North East. If I look at it my North East volumes are…..we have done a cement growth of around 22.3% to be precise. The market has also grown at 23% and the rest of East has grown around 21-22%, so that is how the situation is. But going forward definitely, yes, in coming quarter we don't expect prices to improve but we are also not expecting the prices to go down in Quarter 2 but third quarter onwards definitely we are expecting that there will be some price uptick which we are looking forward and we hope that the prices which were prevailing maybe in Quarter 4 are restored or maybe whatever Quarter 1 prices had dropped we expect that to improve by Quarter 3 and 4.

Nitesh: My second question is the quantitative details which you shared so I see the clinker production and the cement production is almost similar. So my question is, we are not doing any blending or like is it predominantly OPC?

Dilip Agarwal: So far as blending is concerned we are doing mostly PPC and we are doing OPC also. The blend is OPC is 23% and rest is PPC and a small part of PSC.

Nitesh: For this quarter the clinker production is 6.5 lakhs and the cement production has also like 6.3, so we are accumulating clinker inventory it means.

Sanjay Gupta: Yes, we have a lot of clinker inventory because annual maintenance we have taken in the month of July, so there is a good amount of inventory which is there with us to sustain shutdown period.

Nitesh: If you can share the gross debt at the consolidated level and net debt figure?

Dilip Agarwal: 570 our long term borrowing, end of the quarter.

Nitesh: And working capital, short term borrowing?

Dilip Agarwal: It is around 280.

Nitesh: Is there any cash on the Balance Sheet, like cash and cash equivalent?

Dilip Agarwal: I can share those numbers subsequently; right now I don't have those numbers in front of me.

Nitesh: What is the status of the subsidy receivable? Are we getting the money because I guess there is some change earlier it was like Planning Commission which has been dissolved now it is NITI Aayog, so what is the status of the money actually being received from the government?

Sanjay Gupta: Let me elaborate on it. We have subsidy receivable from Central government. Let me also clarify this that all the subsidies have been duly sanctioned and they are just awaiting disbursement of fund from Central government. Earlier the modus operandi for disbursement of fund used to be that earlier Planning Commission used to disburse the funds to DIPP for these subsidies because all these schemes are related to DIPP, which is Department of Industrial Planning and Promotion and they used to disburse these subsidies to the disbursement agency which is NEDFi which is North Eastern Development Finance Corporation and they used to give these subsidies to the eligible units. But unfortunately when the new government took over they had decided to dismantle Planning Commission without having any alternate recourse being arranged. So once that was dismantled, it took 18 months for them to at least form a NITI Aayog and formally the NITI Aayog when it started functioning we have started receiving some subsidies. So as soon as the NITI Aayog was formulated, I think earlier Mr. Amitabh Kanth was the DIPP Secretary; he is now the Secretary for NITI Aayog, so we have seen the first light in the tunnel. We have just got 25 crores of subsidy in the last quarter. There was money which was there. This money has come and there was an in principle decision which has also been taken or what we have been given to understand that the Central government has taken an in principle decision that this is a committed liability of government of India and they have to make the payment. So we expect that the balance fund, so first 25 crores we have received, it's a small amount as compared to whatever is the outstanding but I think still the money has started coming in. We expect in at least one or two quarters, maximum of two quarters we should be able to receive substantial amount from subsidy outstanding.

Moderator: The next question is a follow-up question from the line of Kashyap Jhaveri from Capital 72 Advisors. Please proceed.

Kashyap Jhaveri: This Siliguri Plant, if I heard correctly there is land clearance which is still awaited?

Sanjay Gupta: In Bengal there is something called a 14Y clearance. So we have not got that 14Y clearance as yet. Once we get it we will start the construction.

Kashyap Jhaveri: For the plants in North East for extension of the subsidy period on both freight as well as the taxes we are supposed to do expansion for the extension in 2017 towards fag end, right?

Sanjay Gupta: What has happened is earlier our original plant which was a 0.8 million ton of clinker and the cement manufacturing company which is Star Cement, our original plant, the excise exemption was expiring on May 17 but there is a clarification which we have got from the CBDT, Government of India, we had done a second expansion of that particular unit in 2010. On that second expansion the excise duty reduction is going to be available to us and what we are looking at this is that means the excise exemption for the original plant of 0.8 million tons of clinker gets extended from May 2017 to July 2020, so we will get additional four years there. Yes, if we again further expand the capacity we may still get an extension for another 10 years but we have to complete that expansion within March 2017 if the policy is not extended further.

Kashyap Jhaveri: So where are we on that?

Sanjay Gupta: As I said, there is some debottlenecking thing which we are working on. As of now I am unable to say anything on that but we are working on certain debottlenecking in the existing plant.

Moderator: The next question is from the line of Vinay Rokadia from White Stone Financials. Please proceed.

Vinay Rokadia: Can you share with me the current capacity and capacity utilization?

Dilip Agarwal: So far as clinker is concerned it is 2.6 million and cement capacity is around 4 million tons which includes our hired arrangement.

Sanjay Gupta: And capacity utilization?

Dilip Agarwal: This quarter our capacity utilization clinker was around 102% and the cement capacity utilization is 74%. This is on the basis of capacity which we have the bottlenecked in this quarter.

Moderator: The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please proceed.

Raj Gandhi: If you could just highlight the coal situation there post three years of coal mining ban being there?

Sanjay Gupta: The coal situation which is already there in North East, North East is a state which is under 6th Schedule of the Constitution. At the time when the ban was announced there was approximately 8 million tons of coal which was over ground, out of that over ground coal on phased manner, the coal miners have been allowed to at least dispatch up to something between 3.5-3.6 million ton. Still that 4.4 million ton kind of coal is still over ground. Meghalaya consumes almost about 1 million ton of coal in totality, all the cement plants and everything put together and they are going to continuously allow this gradual so the over ground coal is consumed. So that is the situation as far as the availability of coal is concerned. In terms of statutory thing how to do it, Government of Meghalaya has already prepared a mining plan for these mines and which has already been submitted to MOEF and Coal Ministry. They are already working on it and the final coal mining policy is going to get submitted to the NGT and NGT has already said that once that mining policy is submitted we will be happy to open that mining. So this is the status on the coal.

Raj Gandhi: If you can highlight let's say North East prices today as in what's the differential between the mainland eastern markets and closer market and how much have they been historically? Just to get a perspective of today's pricing?

Sanjay Gupta: I will take Guwahati most of the time as a benchmark pricing for North East because other prices in North East vary because of the distance and the terrain which is there, they may not be as comparable as to the rest of the country prices or maybe practically the East side of it. So if I take Guwahati as the benchmark Guwahati prices have come down to the level of around Rs. 320 almost and if you see the North Bengal prices they are still in the range of I will say Rs. 310-315. So still there is a gap and historically if you look at it North East prices, I will say the Guwahati as a benchmark price during the off-season it will come down to around Rs. 10 kind of a gap and then during the season time the gap increases to around Rs. 20-25 a bag. So presently the price gap is almost around Rs. 10 a bag, if I take North Bengal prices as compared to Guwahati prices.

Dilip Agarwal: There was a questions from Kashyap Jhaveri regarding breakup of power and fuel and freight, so the numbers which you have noted for same quarter last year just correct the number actually I could give those numbers for last quarter Q4, so I am giving you the numbers again, power and fuel was same period last year 55.35 crore and outward freight was around 70 crores, so please correct those numbers.

Moderator: The next question is from the line of Amol Kotak from Principle India. Please proceed.

Amol Kotak: Firstly, can you please tell me the volume again for the quarter?

Dilip Agarwal: Production volume clinker was 6.48 lakhs for Q1 FY17. Cement production was 6.23. Sale is 7.55.

Amol Kotak: What was it last year?

Dilip Agarwal: Cement sale same quarter last year it was 6.17 lakh, clinker production was 5.83 and cement production was 5.79 lakh metric ton.

Amol Kotak: My second question is what is absolute subsidy receivable as of March 2016?

Dilip Agarwal: It is around 700 crores total subsidy including capital subsidy as of June.

Amol Kotak: Could you spell out your CAPEX program for the next two years?

Sanjay Gupta: As I said the planned CAPEX which we have for the next two years is about 1 million ton Siliguri unit which we are planning to set up. That is getting delayed because of land clearances from Government of West Bengal. Apart from this planned CAPEX we will be definitely doing some debottlenecking, last year we did a debottlenecking of increasing of 3 lakh tons of cement capacity in our grinding unit and this year we will be doing some more debottlenecking in clinker. We are also working on some debottlenecking in one or two units of cement also but we are not sure at this point of time, maybe in coming quarters we will be able to share those details.

Amol Kotak: How much of each of these will cost? Broadly if you could share some range of CAPEX for the next two years?

Sanjay Gupta: The debottlenecking largely is actually you have a capacity at one side which is one equipment is of a higher capacity and then you try to improve mostly on performance parameters and also you try to see that whatever is the performance guarantee parameter and you achieve those things by maybe reducing the size of the input and all, so that is there. Yes, there are certain equipment which are required at some point in some of the debottlenecking. The cost is not going to be significant. Whenever we do a repair and maintenance we do a shutdown, so we are doing a shut down now. So whenever we replace certain equipment during the shutdown we are also trying for some debottlenecking capacity, we install a higher capacity equipment there to give us more volumes there. So the incremental costs are not much. I think they will be more or less in line with whatever expenditure we do in repair maintenance.

Amol Kotak: Only Siliguri would be CAPEX intensive?

Sanjay Gupta: Main CAPEX will be Siliguri only.

Amol Kotak: That would be about 150 crores?

Sanjay Gupta: That will be about 150 crores, correct.

Amol Kotak: Of your total capacity today 4 million ton, how much is hired?

Sanjay Gupta: 0.7 is hired, balance 3.3 is our own.

Amol Kotak: Also could you give me the state wise mix of your sales?

Sanjay Gupta: The state wise mix as of now in Quarter 1 within Northeast and outside North East; within Northeast it was 61%, outside it was 39%.

Amol Kotak: This would remain same more or less going forward.

Sanjay Gupta: The corresponding quarter last year it was 60-40. We hope that it will be somewhere around 60-40 kind of a thing.

Amol Kotak: Northeast and East?

Sanjay Gupta: East correct.

Amol Kotak: What would be your average lead distance?

Dilip Agarwal: Average lead distance should be on a blended kind of thing around 275 to 300 km.

Amol Kotak: On your incentives; when do we expect you have transport as well as excise so if you could just elaborate more on it?

Sanjay Gupta: Let me handle transport subsidy side; the transport subsidy in the units is getting expired on January 2018 and excise duty as I said in my existing plant is July 2020 for old plant, the new plant which is going to be January 2023.

Moderator: Thank you very much. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please proceed.

Pratik Kumar: We recently had heavy monsoon rains in your region specifically; hear about lot of flooding in your region. Is there a specific impact or it exactly coincided with your plant shutdown, maintenance shutdown?

Sanjay Gupta: The floods have nothing to do with the maintenance shutdown. We normally plan the maintenance always in the month of July because we understand that the rains actually start picking at this phase. Yes, Assam is under severe flood, lot of districts of Assam. Even some part of North Bengal this time I think first time in the history, after a long-long time Cooch Behar and Jalpaiguri these districts are also under flood, Bihar is also under problem so that is there. But certainly the demand was down in this period and so we normally coincide our annual shutdown along with the dip in demand. But at plant level we don't have any problems.

Pratik Kumar: My second question is regarding with the pricing is in the Northeast region. As I believe that the pricing has been weak for past few months and it probably coincided with the ramp-up of one of the competitions in your region. Previously as we understand there was lot of inflow of material from the Eastern players like ACC or Lafarge also used to sell there some quantity. At current prices are they still selling, volumes are still flowing from Eastern region to your region?

Sanjay Gupta: The volumes have reduced drastically for the player who are coming from outside. Earlier they used to be somewhere around 17%-18% of the total market. But now I think they have come down to around 11%-12% so they have lost a lot of shares on this market because of the prices which have corrected.

Pratik Kumar: Which probably would be a temporary phenomenon as we were saying that prices should recover in second half of this year?

Sanjay Gupta: There is a threshold limit of price where till such time in the prices. I think for next Rs.20-30 if there is the recovery in coming Quarters 3 and 4 I don't see any because during Quarter 3 and 4 normally the demand picks up in all across. Most of the material in this part of the country starts flowing only from Durgapur region and maybe some from Chhattisgarh region. So once the demand also picks up there I think there are less chances of that same material flowing and if the recovery is within that level it doesn't look like that there will be increase from the outside players. But yes if the recovery is beyond that there will also be working on marginal cost so if they have better realization definitely material flow will increase.

Pratik Kumar: Last question on your fuel mix at this moment.

Sanjay Gupta: We are only completely based on coal; there is no pet coke in that region.

Moderator: Thank you. The next question is from the line of Praful Kumar from MSD Partners. Please proceed.

Praful Kumar: Can you just tell me how much will be the difference in terms of profitability of that hired unit that is for 0.7 million ton and since you are bottlenecking you will reduce this 0.7 over next two years or when your grinding in Siliguri comes up, what's the plan here or you want to add more to that?

Sanjay Gupta: Unfortunately, these are part and parcel of the same operation so we don't make separate calculations for grinding units and we don’t have those numbers as of now ready with us that is one. But in terms of overall strategy of hiring we are looking at this model. It is a good model for us. It has worked well for us and debottlenecking which is happening is mostly happening in within North-East so that will cater to the demand which is getting created in Northeast. Siliguri will others will start catering to Bengal, Bihar and Jharkhand where our growth is much faster than whatever we are growing in Northeast. So that will be there.

Praful Kumar: The ballpark what will be the difference between an EBITDA per ton four a hired unit versus what you manufacture and sell yourself?

Sanjay Gupta: Until and unless I look at the numbers I will not comment on it.

Praful Kumar: Can you now talk about given the fact that the industry benefited tremendously for the last one year especially using pet coke unfortunately we have only access to coal, any initiatives that you have taken in terms of sourcing or any cost saving initiatives that will talk about that should play out over next two years from your power and fuel side?

Sanjay Gupta: pet coke, first of all that since Meghalaya is land lock place but when pet coke prices went up to $35 or $40 we definitely made lot of initiative for bringing pet coke there. But I think by the time we could at least resolve logistics issues and do that and two months' time the pet coke prices and three months' time they were again back to the same level. So today the landed cost of pet coke whatever we have it there, the coal is cheaper than the landed cost of pet coke and then what is also getting is that there is coal availability in that region which is a very good quality of coal. Its 5000 GCV coal which but a very reasonable price. So yes, we may have other players, the players who are in the mainland definitely would have got some benefit of pet coke which we did not get.

Praful Kumar: You source anything from Coal India as well?

Sanjay Gupta: We have not been sourcing anything but I think recently in last one or two months we have started participating in certain coal auctions which are happening at their base premises. We have started participating in it but there is nothing significant as of now.

Praful Kumar: To talk about some corporate restructuring in terms of subsidiary and the parent company. Can you just give us some update on what is the thought and process there now?

Sanjay Gupta: As you all aware of it Star Ferro and Cement Limited is a holding company of the earlier subsidiary name was Cement Manufacturing Company Limited. The name of that subsidiary has been changed from Cement Manufacturing Company Limited to Star Cement Limited. Presently Star Ferro and Cement Limited holds 70.48% stake in Star Cement Limited. Star Ferro and Cement Limited does not have any other business except his holding so it's a pure holding company. In order to simplify the structure and holding, the board has approved reverse merger of Star Ferro and Cement Limited into Star Cement Limited so with that reverse merger each shareholder of Star Ferro and Cement Limited as against one share of Star Ferro and Cement they will get 1.33 shares Star Cement Limited. We are going ahead with the filing with the exchanges. We hope to complete the process in six months.

Praful Kumar: Any plans over next two years or maybe near for any inorganic expansion in the region that we operate in a small capacity or something?

Sanjay Gupta: We are looking for certain expansions but I don't have anything concrete at this point of time to talk about it. But if any opportunity comes in we will definitely look at it.

Praful Kumar: But plan will be to be in Northeast and East for the next few years at least?

Sanjay Gupta: Yes, all India we will definitely consolidating only in East.

Moderator: Thank you. The next question is from the line of Abhishek Verma from Fidelity. Please proceed.

Abhishek Verma: When can we expect the contribution of Siliguri plant to the top line, which fiscal year?

Sanjay Gupta: We are looking at timelines of 15 to 18 months to complete the plant from a zero date now today I don't know.

Abhishek Verma: At least by FY18-19?

Sanjay Gupta: If I expect that I am going to get clearance maybe in the month of August then you can calculate the 15 months' timeframe from there and then work the numbers.

Abhishek Verma: Once you receive the receivables for subsidy so you're going to pay down your debt, right?

Sanjay Gupta: Yes correct. Substantial part of that debt will go towards repayment of debt

Abhishek Verma: The amount of subsidy that you have to that will be receiving roughly to the debt that you have on the balance sheet.

Sanjay Gupta: We are looking at as much as we get. Basically what we are looking at is that we are hoping that will at least get 400-500 crores so that is how we are…

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please proceed.

Ritesh Shah: Could you highlight the incremental capacities which are expected in the Eastern region? Secondly if you could please give us a state wise sales mix of your volumes?

Sanjay Gupta: Let me take your first question first. In Northeast there is only one capacity which is expected to come that is Goldstone Cement Limited. They've come; it's a 0.5-million-ton kind of a plant. So that will go on stream maybe on third quarter or fourth quarter kind of a situation that is the only plant which is there and there is no capacity in pipeline in entire Northeast. That is the situation as far as the capacity expansion in Northeast is concerned.

Ritesh Shah: In East?

Sanjay Gupta: East I think if you look at it Eastern capacity in Bengal yes, there are few capacities which are planned. Emami is coming out with a grinding unit. There is talk of sub-expansion in Dalmia in their own plant which is there. So I'm looking at these two capacities which looks that these two are going to come in. In Bihar Sri is talking of I think they have already done it or they are at the verge of doing it of increasing their capacity of Aurangabad Plant. So these are the capacities which we expect they will hit the overall demand supply situation in this part within this year that's what our understanding is.

Ritesh Shah: Before you go into answer the next question, how would ACC…

Sanjay Gupta: Can you repeat the second question?

Ritesh Shah: Any idea about ACC…

Moderator: Thank you. We will take the next question which is from the line of Milind Raginwar from SBI Cap Securities. Please proceed.

Milind Raginwar: Out of the subsidies that our receivable are these clear or is there any disputed one among this?

Sanjay Gupta: No, as I said all the subsidies have been duly approved by the respective state governments and have been pre-audited and they are lying for disbursements at central government.

Milind Raginwar: It's more or less only the procedural delays that are actually getting to this kind of thing.

Sanjay Gupta: Correct.

Milind Raginwar: We said that there were certain excise duties extensions on the new plants. Is this kind of a subsidy available on de-bottlenecking also or it has to be a new this thing?

Sanjay Gupta: No, it is available on the de-bottlenecking also but what has happened is earlier there was an ambiguity around that whether you do an expansion… because the word which was mentioned in the notification was expansion not the 'expansions', so you know these government authorities how they interpret things. So we had done expansion in our old plant in 2010 and we were already debating it with the government department that we must get an excise exemption up to 2020. So that which they were not accepting it but there is a clarification which has already been issued by the government of India about a month back and last budget so they have clarified that very clearly that it is available on expansion also, so we will get approved till 2020. Apart from that also even if we do any other further expansion, so over that if I do for the expansion I will still get it. But if I have to complete that expansion by March 2017 if I do that I will still get the excise exemption up to 2026. In 2016 I will get up to 2026 so that is the…

Milind Raginwar: In our earlier interaction we were conveyed that we are also looking for something in Chhattisgarh Star Cement, so is that plan on now maybe at a later stage?

Sanjay Gupta: We have a plan for it; it's a five-year horizon which I must have spoken about. Yes, definitely we are looking for because ultimately we have a plan for setting up a unit in Durgapur or those plants are definitely at the drawing board level. So they are all five years perspective kind of plant.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please proceed.

Ritesh Shah: If you could please elaborate state wise sales mix, you gave numbers for East and Northeast if you could please detail it further?

Sanjay Gupta: I don't have that number ready with me state wise. I will come back to you if you can just post that query through an e-mail we will reply to you.

Ritesh Shah: How do you see this mix changing given there are lot of new capacities that are coming up in East and there is lot of material which is moving from South into East?

Sanjay Gupta: I don't think the South East movement is still as of now is happening because the prices in South are very good at this point of time. I do not know what capacity constraint they are operating but for us what we feel is that we are operating at 60-40 kind of a thing. We think that is going to be over a period of time it may become 50-50 kind of a thing. So we are looking at that but definitely northeast going to remain a major chunk of our business and we will definitely be growing our Northeastern business also.

Moderator: Thank you. The next question is a follow up question from the line of Praful Kumar from MSD Partners. Please proceed.

Praful Kumar: Any plans to change the product mix to increase blending? if we look at Dalmia today, they are close to two in terms of cement clinker, so any plans for you to change the product mix, maybe do more slag base because….

Sanjay Gupta: It will lot depend on what kind of material availability we have in the region in which we operate. As of now most of the plants are in and around fly ash sources. We do have an hired unit so presently if I look at it my OPC is only 23%. But definitely we don't want… nobody wants to produce OPC, everybody wants to produce blended. So we will definitely look forward for utilizing and improve our blending ratios from here.

Moderator: Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please proceed.

Gunjan Prithyani: If you could just give us a sense on what is the pricing in the East market and have you seen any pressure because of the new supply which is coming in that market?

Sanjay Gupta: As of now I will divide into two sides, one is Northeast and the rest of East which is Bengal, Bihar, Jharkhand. We have seen pressure in prices in the rest of East also. I think the prices must have come down by around Rs. 15 this quarter. But I think whatever capacity which are going to come in as of now they have not started. I think they will be getting added maybe in next 2-3 quarters. But I think still there is in eastern India the overall demand is still more than the installed capacities which are there in the East. Going forward pricing will be a function that how much supply these units are able to give at what point of time.

Gunjan Prithyani: Because ACC it is already operational, you will have Emami. There are of course plans from other companies as well. So is it that structurally East is always been a very high-capacity utilization market but with these supply coming on stream you could see oversupply and hence prices don't increase from this level or probably they continue to stay under pressure for a while. What are your thoughts on that?

Sanjay Gupta: There are two things to it, one is definitely Emami is coming. I don't know whether Shree is planning to enter possibly, so I accept this point that yes supply is increasing. But you look at what is the total demand of these 3-4 states. If I include Bengal, Bihar and Jharkhand, Bengal is at around 15-16 million, Bihar is at around 12-13 million tons and Jharkhand is 5 million. So if you add that in 11 million of Orissa, if you add it around 45 million ton. But if you look at it in Bengal or Bihar, Bihar has still got 4 million ton, even if I add Shree cement 3.5 million ton and 2 million ton UltraTech it's not even 5-5.5 million ton and the state demands are almost at around 12-13 million ton. Even Bengal 15-16 million ton even if the add this capacity there will be somewhere around 18 million ton. This East is growing faster than the rest of the country; it is going faster than any other region in the country today. Last year also it had grown at around 6%-6.5%. We hope that it will grow at around 7%. There is money it is going to come to the East of coal block auctions so I think there will be more money in the hands of this Bengal Bihar and Jharkhand governments to spend on the infra and other things. So being an underdeveloped area the demand will be sufficient to take care of these additions. I'm not expecting any decline in prices in this market.

Gunjan Prithyani: You shared this number of 6%-7% demand growth in the East, what would this be for Northeast?

Sanjay Gupta: Last year it was 7.4%, to be precise this quarter it is 7.2%. I expect it to be somewhere around 8% to 10% because we have started seeing some infrastructure projects kicking into Northeast and then government spending has improved. BJP government is already installed in Assam which is the largest state; we hope that the flow of money should continue from the central government to state government, so all these factors will add to demand.

Moderator: Thank you. The next question is from the line of Hitesh Jain from Axis Capital. Please proceed.

Hitesh Jain: Can you share what is the current total installed capacity in the Northeast region and the total demand?

Sanjay Gupta: Northeast installed capacity taking all mini-cement which are there is somewhere around 10.5 to 11 million ton. The demand last year was 7.25 million tons.

Hitesh Jain: It's about 70% utilization?

Sanjay Gupta: This also includes about 2 million ton of small grinding units which does not have a clinker source.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from Ridaan Securities. Please proceed.

Dipesh Mehta: Our profit that is OPM that is operating profit margin of 20.38 vis-à-vis last year June 29.69%, what is the one single reason for the drop in profit?

Sanjay Gupta: One single reason is the drop in prices.

Moderator: Thank you. The next question is from the line of Rashesh Shah from ICICI Direct. Please proceed.

Rashesh Shah: How much was the freight subsidy per ton during the quarter if you can quantify?

Dilip Agarwal: It depends, between Rs.350 to 400.

Moderator: Thank you very much. As there are no questions, I now hand the conference over to the management of Star Ferro and Cements for closing comments. Over to you.

Dilip Agarwal: Thank you very much all the participants for this interactive session and finding time to ask questions and listen our replies to that. We will keep on interacting like that every quarter and thanks very much for participation.

Sanjay Gupta: Thank you all.

Moderator: Thank you very much members of management. Ladies and gentleman, on behalf of Centrum Broking, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.