"Star Cement Limited Q4 FY19 Results Conference Call"

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MODERATOR: **MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Good day ladies and gentlemen and welcome to the Q4 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 and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vaibhav Agarwal: Thank you Margaret. Good evening everyone. On behalf of PhillipCapital (India) Private Limited we welcome you to Q4 FY19 all of Star Cement Limited. 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 followed by interactive Q&A. Thank you and over to you Sir.

Management: Good afternoon everybody. I am Sanjay Kumar Gupta, CEO of Star Cement Limited. I would like to welcome you all to this earning call for 4th Quarter for FY19. I have with me Mr. Manoj Agarwal – CFO of the company. He will take you through Quarter 4 numbers and the full-year numbers for FY19 after that we will open the floor for interactive session where you will be able to ask questions and we will be happy to reply. Over to Mr. Manoj Agarwal.

Management: Thanks guys. A very good afternoon. I on behalf of Star Cement Limited welcome you to the con-call for the number of Q4 and financial year 2019. I would like to clarify that it will be more on we are discussing on the historical numbers and there is no invitation to invest.

Having said that now I will just take you through the Q4 number followed by the yearly number. Starting from Clinker production:

During the quarter in this March 31st 2019 we have produced 5.43 lakh ton of clinker as against 6.16 lakh same quarter last year. So far as our own cement production is concerned we have produced 7.35 lakh tonnes this quarter as against 6.72 lakh tonnes same quarter last year. That means there is an increase of around 9%.

Now I will take you through the sales volume:

During the quarter we have sold 8.06 lakh tonnes of cement and 0.34 lakh tonnes of clinker as against 7.42 lakh tonnes of cement and 0.61 lakh of clinker same quarter last year. There is a growth of around 9% in cement and there is some de-growth in clinker sales. This is as far as cement and clinker sale is concerned.

As far as geographical distribution of cement is concerned in Northeast we have sold around 6.14 lakh tonnes as against 5.58 lakh tonnes during same quarter last year with a growth of around 10% and as far as outside Northeast is concerned we have sold 1.92 lakh tonnes of cement this quarter as against 1.84 lakh tonnes same quarter last year. That is a growth of around 4%.

In terms of blend mix it is almost 16% we have OPC, 2% PSC and the rest is PPC. These are the quantitative numbers.

Now I will take you through the volume positive number of the year:

During FY 2019 we have produced 20.37 lakh tonnes of links as against 20.57 lakh tonnes last year. This is mainly on account of the breakdown of our gearbox. So far as our cement production is concerned we have produced 24.58 lakh tonnes in FY19 as against 21.70 lakh tonnes last year. That means an increase of more than 13%.

Now I will take you through the sales volume:

During the FY19 we have sold 27.06 lakh tonnes of cement and 1.52 lakh tonnes of clinker as against 24.04 lakh tonnes of cement and 2.01 lakh tonnes of clinker last year. This is a growth of around 12.5% in cement and there is some de-growth in income. This is as far as cement and clinker sales volume is concerned.

As far as geographical distribution of cement is concerned for the whole year; in northeast we have sold around 20.44 lakh tonnes as against 17.52 lakh tonnes last year. That is a growth of around 17%. And as far as outside Northeast is concerned, we have sold 6.61 lakh tonnes of cement this year as against 6.53 lakh tonnes last year which is more or less a flattish growth. In terms of blend mix on a whole year basis it is almost 18% of OPC, 2% of PSC and the rest is PPC. These are all the quantity numbers.

Now I will take you through the financials:

The total revenue figures this quarter is around 532 crores as against 523 crores same period last year. That means there is a growth of 2% over the same quarter last year. As far as EBITDA figure is concerned this quarter we have done and EBITDA of around Rs. 130 crores as against 147 crores last year. This is mainly on account of expiry of our transport subsidy which was available till January 18. PAT after minority interest is 90 crores as against 108 crores in same period last year. On per ton EBITDA basis front it is 1561 during this quarter as against 1835 per ton same quarter last year. This is what our quarterly number.

Now I will take you through the whole year number. The total revenue for FY19 is around 1826 crores as against 1606 crores in FY18. This means there is a growth of more than 13% over last year. As far as EBITDA figure is concerned during FY19 we have done and EBITDA of around 455 crores as against 526 crores last year. PAT after minority interest 299 crores as against 331 crores last year. On per ton EBITDA front it is 1591 during FY19 as against 2080 per ton last year. So this as I already said is mainly on account of expiry of transport subsidy which was regular last year up to January 18. These are the quarterly and year-to-date number.

Now I request all of you if you have any queries you can ask the same and I will ask Vaibhav to moderate the queries wherever is required if queries are coming.

Thank you all. Now I will hand over the line to Mr. Sanjay Gupta, if anybody has question then they can start their query sending.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Keyur Shah from Emkay Global.

Keyur Shah: I wanted to know what is the subsidy amount that we received in this quarter and my second question would be what is the status of the capacity addition in Nepal?

Management: There is no subsidy which was available in this quarter, specifically the transport subsidy. There was no transport subsidy in Quarter 4. Corresponding quarter last year definitely the subsidy was only available up to January 2018. So when you compare the Quarter 4 over the corresponding quarter last year you need to take that into account.

Keyur Shah: There was no subsidy in this quarter, right?

Management: Right.

Keyur Shah: What is the status of the capacity addition in Nepal?

Management: There are two capacity additions which we are working on. One is that we are putting up this Siliguri grinding unit. That is going to come up on stream by the end of December 2019. There is going to be a small debottlenecking exercise which we will start during the annual shutdown period in the month of July. That will get computed by end of August.

Moderator: The next question is from the line of Anupam Goswami from Stewart & Mackertich.

Anupam Goswami: I see your material’s cost has gone up and your gross margins have come down sharply, so what is the reason behind that?

Management: You’re comparing from the last year, YOY basis?

Anupam Goswami: Yes. YOY, is it because of the freight subsidy you have included?

Management: Yes that is because of freight subsidy.

Anupam Goswami: Can you mention your power and fuel cost and also freight cost this quarter and for the whole year?

Management: You want the number for the whole year or this quarter?

Anupam Goswami: If it is okay quarter and whole year.

Management: Quarter this freight element is 104.84 crores and power and coal it is 74.39 for the quarter.

Anupam Goswami: Full-year?

Management: For the year the freight is 362.94 and power and fuel 258.72.

Anupam Goswami: Apart from Star anyone else coming out with capacity expansion in the Northeast region because last time we spoke that Star and only Dalmia has the capacity, other are almost at full capacity running, so any expansion with the other players in the Northeast?

Management: The capacity there is nobody who is adding capacity in Northeast as of now. When we say that only Star and Dalmia has the capacity that means both the companies do have some headroom in their capacity because our capacity utilization is still quite low. The other cement plants which are there in Northeast are already utilizing their capacity to the fullest which will be they will be operating at somewhere around 90% to 95% of their installed capacity. Only Star and Dalmia are operating at the capacity which is lower than their installed capacity, so they have the headroom to increase the production going forward.

Anupam Goswami: What would be the total active capacity in the Northeast region right now?

Management: The total capacity in Northeast is around 11 million tonnes.

Anupam Goswami: All are active?

Management: No, the active capacity in Northeast will be 9.5 million tonnes.

Moderator: The next question is from the line of Saumik Doshi from Greshma Shares & Stocks.

Saumik Doshi: What is the cash on the books right now?

Management: The total cash on the books is 350 crores as of now.

Saumik Doshi: Any plans of any buyback or dividend or any plans of giving back to the shareholders?

Management: In the last board meeting the board has not taken any decision as such. But in the future board meetings there can be some decision in this regard. A large type of this cash we will also like to preserve for the ongoing projects which we are implementing. But yes the board's decision for either a buyback or a dividend cannot be ruled out.

Saumik Doshi: If there is a chance of buyback can you like hint that how much would the board be even willing to consider?

Management: I don't think it will be appropriate on my part to comment anything on this aspect at this point of time. I think whenever our company will takes a decision we will be intimating to the exchanges.

Moderator: The next question is from the line of Ankit Agarwal from Light House.

Ankit Agarwal: Just wanted to understand the timeline for the Meghalaya clinker project.

Management: The Meghalaya in this FY20 we will be only doing a debottlenecking exercise which is clinker debottlenecking from 2.8 million tonnes to 3 million tonnes. That will get completed within a 30 to 35 days of 40 days shut down which we normally take and that should get completed within that particular period. We do not have any other plans for increasing capacity in Meghalaya in FY20.

Ankit Agarwal: But our capacity utilization is pretty high, so what is the future plan on the clinker side? Because in the future you're planning to put up the Siliguri plant.

Management: Yes. The present in stored capacity of grinding after the Siliguri will be 6.3 million tonnes for the company and we will have only clinker of around 3 million tonnes. We do plan to set up a 2 million tonnes clinker plant at Meghalaya for which we have already applied for the necessary environment clearance. We hope to start those 2 million tonnes clinkerization plant by FY21.

Ankit Agarwal: By FY21 may be at the fag end, right?

Management: Yes.

Ankit Agarwal: Just to understand the subsidy part, so even the Siliguri plant will get some VAT refund. How does that typically flow into our P&L like what is the impact of EBITDA per ton when we sell through the Siliguri plant?

Management: At this point of time it is very difficult to quantify that amount. We have made applications to West Bengal government. But there is still clarity to emerge from West Bengal government how the VAT subsidy is going to get passed on to industry after the implementation of GST. So we are still awaiting clarity on that.

Ankit Agarwal: Currently the various other subsidies also we get, can you just quantify that? So transportation subsidy is gone but what are the other subsidies and when do they sort of fall off? I know there is one which falls off in 23 and one in 27.

Management: The only subsidy which is left in the books which the company is still receiving is the GST refund which we are getting. For once the total impact of that GST refund is somewhere around Rs. 300 to Rs. 350 a ton. But both these plants are other than GST refund, one plant is going out of that GST refund in 2023, other plant is going out of GST refund in 2027.

Ankit Agarwal: Would we have anything which will go out also in FY21?

Management: No, FY21 when there is nothing going out.

Moderator: We moved to the next question which is from the line of Deepesh Shah from Investec Capital.

Deepesh Shah: Can you highlight certain cost saving initiatives that we were working on, whether it has fructified and the incremental cost savings? Coupled with this if you can indicate the lead distance last year and this year for our operation?

Management: This year FY19 it was 275 km and in FY18 it was 283 km.

Deepesh Shah: On the cost saving initiatives including railway siding, other initiatives that we have taken if you can just update all that.

Management: The railway siding project at Guwahati plant is already operational. We have started this railway siding loading from there in the month of February 19. The other cost saving initiatives which we are talking is about setting up of a waste heat recovery plant. That is going to come up along with the new clinker…

Deepesh Shah: I was asking on the cost saving initiatives. You've talked that WHRF being set up along with the new clinker line.

Management: I think these are two notable cost saving initiatives which we will be taking a. I think the railway siding project which has been kicked in February, 2019. That will entail some cost saving in FY20. There will be other smaller cost saving initiatives which are going to be in various raw material working and other things. I think those are not significant to be mentioned here.

Deepesh Shah: What kind of cost savings can we expect from the railway siding that we have commissioned at Guwahati? Will the fly-ash cost or some raw material in born freight cost will reduce on back of the…

Management: We have been loading and unloading this at another railway siding which is around 3 km away from our site and this is inside the plant. So we used to spend around anything between Rs. 80 to 100 on fly-ash and also loading of cement which is going outside. So we expect some part of that will get saved during the current financial year.

Deepesh Shah: I had three more questions. One is the outstanding subsidies how much does it stack up right now and by when do we expect that to fructify?

Management: The outstanding transport subsidy is 68 crores as of now but we only expect this 68 crores to come to the company only in the second quarter of next financial year.

Deepesh Shah: Any update on the coal situation? In the last quarter the call you had indicated that we will change our sourcing pattern, so if you could highlight how much is the locally sourced coal versus what we are importing from other states and how the costing is right now and can it improve going forward?

Management: In the coal front the situation at the local coal availability will still remaining the same. We're still importing most of our requirement. 80% of the coal we're using is imported, only 20% we have been able to source it from the fuel supply agreement with Northeastern Coal Field and auction from Eastern Coal Fields. That will continue. There is a cost impact of imported coal which is being utilized. This quarter has seen a cost impact of around Rs. 100 a ton. We expect further because we had our older stock so I think the whole impact of the cost increase has not come in this quarter. We expect about Rs. 100 further cost impact going to come up in the next financial year.

Deepesh Shah: Can you quantify the on our rupees per kcal basis, how much has it come to on imported coal versus domestic coal?

Management: Basically the cost is because the kilo-calorie wise the price difference is almost that we are getting a coal at around Rs. 10,000 a ton. The earlier cost was around Rs. 5000 a ton. But there is kilo-calorie difference we used to get 5000-5500 GCB coal, now we are getting 7200 GCB coal and then the usage also changes. I think it will be very complex in terms of knowing one-to-one because the Sulphur is lower in the imported coal and Sulphur used to be higher so it will have an impact on output. So overall our estimation has been that this change in the coal is going to impact the company about Rs. 200 a ton or Rs. 150 in the longer term.

Deepesh Shah: CAPEX and guidance for CAPEX what we incurred for this year, how much do we see it for next year and guidance on volumes and EBITDA per ton if you would like to provide for next year?

Management: The Siliguri unit, the CAPEX was 400 crores. We have spent around 75 crores during this year, so there will be a 325 crores going toward this Siliguri project. The de-bottle exercise will cost us around 25 to 30 crores. So in totality there will be 350 crores of CAPEX which is going to be spent in this FY20. As far as the volume understanding about the next financial year we hope that we are going to have a top-line volume, at least a volume growth of 15% in FY20. We hope to maintain the EBITDA margins which we have in this FY19.

Moderator: The next question is from the line of Manish Agrawal from Edelweiss.

Manish Agrawal: I understand the year-and-year growth in the raw material cost was because of the freight subsidy. But on a sequential basis also like there is around this Rs. 650 per ton impact on raw material cost, so could you please explain the reason for that?

Management: There is no Rs. 650 impact. I think when you read the raw material thing there are 3-4 items in the published results like you have to take a stock increase-decrease which is there. So you need to factor all those things. As far as the per ton cost of raw material is concerned it remains more or less same as compared to the last quarter.

Manish Agrawal: So you are saying whatever difference we see is just because of the inventory management?

Management: Yes, it should be because a lot of inventory changes are there in this particular quarter.

Manish Agrawal: About the clinker plant you said you have applied for the approvals and so within 4 to 6 months after we receive the approvals will start ordering, right?

Management: Yes.

Manish Agrawal: And 2 years from then we can expect the plan to come up?

Management: Correct.

Manish Agrawal: And for currently when our Siliguri plant comes up do we have any arrangements for clinker for that plant in place?

Management: At this point of time at least for next 2 years we do have capacity and also the clinker because as I said the clinker capacity will be 3 million ton for us. With 3 million ton even at 1.3 we will have a capacity to produce 3.9 to 4 million ton of cement. My present volume for this particular financial was 2.7 million ton. So even if I grow my volume at 20% for next two financial years I have sufficient capacity to grow.

Moderator: The next question is from the line of Ronith Ramesh from Pantomath Fund Advisors.

Ronit Ramesh: I just wanted to know how are the cement prices in Northeast as of now and what are the difference maybe a year back?

Management: The prices in Northeast in this quarter have remained stable. We have seen some movement in prices of Rs. 5 to 10 in this particular month. As far as the East is concerned there has been a movement in price in April. The prices must have gone up by around Rs. 25 to 30 specially in Bihar, Bengal and Jharkhand markets.

Ronit Ramesh: The EBITDA per ton for this quarter should it be the same going forward or it will increase or this is just an abnormal because of your inventory?

Management: The full-year EBITDA for us this year has been 1590. We expect the EBITDA to be somewhere around the same level at around Rs. 1600 a ton.

Moderator: The next question is from the line of Pratibh Agarwal from Reliance Mutual Fund.

Pratibh Agarwal: You said that 75 crores of amount has been spent already for that Siliguri unit. So is that reflective in CWIP because CWIP is exactly 75 crores so just wanted to know where this amount spent is reflected actually in the balance sheet.

Management: Yes, some amount would have got reflected in CWIP, some amount would have been there and advances. So I don't think that CWIP is entirely because of…the 75 crores figure matching maybe coincidental. But there will be something which will be lying also in advances.

Pratibh Agarwal: That GST refund that you said is around Rs. 350 per ton, so the 350 per ton is on a particular unit like you said like there are 2 units and that GST refund will expire in respective years 2023 and 2027, so 350 is on total volume produced irrespective of which unit you had?

Management: This Rs. 350 is on the basis of the number which on a particular unit. If you take a global number it will be coming somewhere around Rs. 200 to Rs. 250 a ton.

Pratibh Agarwal: Higher other expenses, is it because of yearly advertisement expenses that you do or is it something else also?

Management: Can you repeat the question again?

Pratibh Agarwal: This quarter that other expenses are higher, so is it just that a quarter yearly advertisement expenses that you do or is it something else also?

Management: There will be some expenditure which are related to marketing, there will be higher other expenses in this quarter will be some repair maintenance expenditure. So, it will be combination of lot of expenditure which has come up. I won't be able to give you exact detail about which expenditure. In case you need the detail, if you can send us the query, we will reply to it.

Moderator: The next question is from the line of Devansh Nigotia from SIMPL.

Devansh Nigotia: From which mines are we procuring our limestone?

Management: We have our own mines in Meghalaya and we are procuring limestone for our own mines which the company is having.

Devansh Nigotia: Is it that the government is not giving out new rights for limestone in Northeast?

Management: No, there is nothing like that. As of now the government has not formulated, they have not started auctioning of thing but there have been a lot of mining leases have already been executed.

Devansh Nigotia: Are there any new cement players who are looking to bid for it of something that we know as on today?

Management: At this point of time there is no other cement player who has even applied for a single window clearance in the state.

Moderator: The next question is from the line of Deepesh Shah from Investec Capital.

Deepesh Shah: Can you breakup the Northeast mix state-wise, I am specifically asking because you have indicated that there has been a significant price increase in Bihar and Jharkhand?

Management: The overall number I can share with you, so Northeast number in this quarter we have sold around 75% in Northeast, outside North East sales are around 25% and the full year the total sale the Northeast is 72% and outside Northeast is 28% and in case if you need state, I am not carrying the state -wise numbers.

Deepesh Shah: Can you help with the trade and non-trade mix?

Management: Trade and nontrade during the quarter, the trade is 82% and non-trade is 18% and for the full year, it is the same number as for the full year, 82% and 18%.

Deepesh Shah: Last year- full year was how much trade, non-trade any improvement?

Management: Last year- full year the trade, non-trade was 79% and 21%.

Deepesh Shah: Specifically, the price increases that we have seen and the market that you have indicated Bihar and Jharkhand, Chhattisgarh hasn't seen any price increases so is it that the demand is actually improving or is it more of inventory management that is happening on the ground?

Deepesh Shah: Bengal and Bihar there has been some increase in Chhattisgarh also but not in line with the increase of Bengal and Bihar. The demand in Bengal and Bihar has always been in the entire year has been better and the March month has definitely seen some inventory and because of the volume pressure, there has been a lot of material which have been sold in the market and price increase was evident even in the month of March but it could not take effect so that is why this prices have gone up and the demands remain strong in Bengal and Bihar at least.

Deepesh Shah: If it's purely on lack of demand so we haven't taken any production cut unlike what we hear for the rest of the industry?

Management: No, we have not taken any production cut.

Deepesh Shah: Can one expect this price increase is in Northeast even demand supply is far more favorable in Northeast as compared to the state that you indicated? Is there some scope?

Management: Our view at this point of time the prices are likely to remain stable with some upward buyer.

Moderator: The next question is from the line of Keyur Shah from Emkay Global.

Keyur Shah: What is the operating cash flow for the year?

Management: I think I need to come back to you on this number so if you can just send us the query, we will reply it to you.

Moderator: The next question is from the line of Ankit Agarwal from Light House.

Ankit Agarwal: On the tax rate, this year was about 8.9%, what is the tax rate going to be in the future, we are guiding?

Management: Our average rate of tax will be coming to around 8% to 8.5%.

Ankit Agarwal: This will be expected even for the next couple of years?

Management: Yes.

Ankit Agarwal: Just wanted to understand the transportation cost because whenever the Siliguri plant comes in we are planning to supply the clinker from our Meghalaya plant?

Management: Yes.

Ankit Agarwal: So, what would be the roughly the transportation cost per this thing?

Management: The total transportation cost for the clinker from the plant from Siliguri to Siliguri is going to be somewhere around Rs. 1400 to 1500 a ton.

Ankit Agarwal: Currently our transportation cost because right now it is minimal for the current plant in Meghalaya to Guwahati?

Management: There whatever we are selling in North Bengal and this market we are bringing, so what is happening we are bringing it cement from the Guwahati plant so we are bringing clinker from Meghalaya plant to Guwahati and then grinding it and then bringing it back. So, in any way cement is coming so ultimately that fly ash is going all the way from say Farakka or Kahalgaon in Bihar to Guwahati. It is getting mixed with the PPC and then again back to the market. So, after Siliguri plant coming up all the grinding will take place in Siliguri so only clinker will come up and 30% so we are going to save on the fly ash cost, the cost of fly ash will get saved because it will only get transported up to Siliguri and get sold in Bengal and Bihar.

Moderator: The next question is from the line of Manish Agarwal from Edelweiss.

Manish Agarwal: As you said that East region has actually seen a Rs. 20-25 price increase but like in the Northeastern region we have very good demand-supply scenario where you are saying the fringe players are actually operating at a 100% utilization and the demand is strong. So whereas in East there is so much of competition coming from Centre and North as well, so in general if we go by the demand-supply scenario there should be much more commensurate increase in the Northeastern region. What is stopping the pricing scenario out there?

Management: There is nothing stopping at this point of time. What happens in Northeast, the problem, the monsoon onset is much earlier in Northeast than in any part of the country. When the monsoon will come up in other part of the country, somewhere in the end of June and July we are already seeing a good amount of rain in Northeast. So, the demand actually drops significantly in the month of May-June itself.

Manish Agarwal: Which is the storm rain that you are talking about that hit the Northeast.

Management: It's not only storm rains, storm rains are there. Even if before the storm rains, you can see the North-west monsoon which comes up is actually, the rains start in somewhere in the middle of April in the Northeast and they continue up to September. The rainy period is a little elongated as far as the Northeast is concerned. So, there will be a dip in demand, there is already a dip in the demand which we are seeing at this point of time so we do not see the prices to go up from this level. We hope that over a period of FY20, the prices will be as a stable and they will have some upward buyers in maybe second half of the current financial year.

Moderator: The next question is from the line of Girija Rai from Dolat Capital.

Girija Rai: Just wanted to know what is the WHRS capacity, what is the megawatt?

Management: If you are looking at least a 15 megawatt kind of a WHRS capacity but this will be definitely be kept coupled with the new plant also coming up. So we are going to start the existing clinker plant also and the new plant also.

Girija Rai: What is that average slag price?

Management: We are only manufacturing; the slag is only 2% of our volume so it is very-very minimal. We are only doing it in our leased facility at Durgapur and the price at this point of time is around Rs.1300 a ton.

Moderator: The next question is from the line of Ronith Ramesh from Pantomath Fund Advisors.

Ronith Ramesh: Can you repeat the volume figures for the year as well and for the quarter?

Management: You want a sale figure?

Ronith Ramesh: Yes, sales volume.

Management: Volume 8, cement 8.06 lakh and clinker is 0.34 lakh tonnes. Altogether is an 8.40 lakhs.

Ronith Ramesh: And for the year?

Management: For a year it is 27.06 lakhs cement and 1.52 clinker.

Moderator: The next question is from the line of Pradnay Ganar from Motilal Oswal Securities Ltd.

Pradnay Ganar: Just to continue on the slag prices, however the prices FY18 a year back?

Management: It has gone up to 1800 to 1900 somewhere around that prices but it has again because the most of the plans which are in Durgapur region started making manufacturing cities in cement so that is why again the demand was now lower the prices has come down a bit.

Pradnay Ganar: What kind of outlook do you see; you think they will further go down?

Management: It will remain same as stable like that, same level.

Pradnay Ganar: Because as far as I can see a lot of capacity is coming in the eastern region and I am sure a considerable amount of that will be slag-based so that can increase the demand for slag so what are your views on that?

Management: Normally what happens that as soon as the slag prices go beyond a cost levels of the cement plant, they normally switched to PPC cement and there is a lot of fly ash availability also in that particular region. That was one of the reason and then what happens is during the off season the demand will slowdown and then people will like Emami, the people like who does not have, they have a lot of grinding capacity but not matching clinker capacity. So during the off-season they, they will prefer that they will go into a PPC because the PPC prices will be a little lower and the fly ash prices would be a lot lower than this but I think to a level of Rs.1000 to 1200-1400 people will still continue to produce PSC cement because the PSC demand in south Bengal, the PSC is the preferred cement over PPC.

Moderator: The next question is from the line of Girija Rai from Dolat Capital.

Girija Rai: Just to understand about the transportation subsidies; you said outstanding is 68 crores as of now?

Management: Yes.

Girija Rai: In Q4 FY19 we haven't got any transportation subsidies?

Management: No, I think that you have missed it. The transport subsidy as a scheme got expired in January 2018. In FY18 it was available up to January '18 and for this entire financial year we never had transport subsidy. Whatever subsidy outstanding which was there in the books is the outstanding subsidy from the government which is at receivable from the central government. We have been continuously receiving this subsidy out of which 68 crores is still receivable.

Girija Rai: And that we are expecting on Q2 FY20?

Management: Correct.

Girija Rai: Regarding this coal, imported coal, from where we get the imported coal?

Management: There are various sources of getting imported coal. Sometimes we get it from South Africa, sometimes we get it from Australia, sometimes we are getting from Indonesia, sometimes we are getting from USA, so there are various sources for coal. It depends what point of time which coal is economical to us we utilize that coal.

Girija Rai: Right now, which coal is economical, US coal or Indonesia as per kcal basis?

Management: US coal at this point of time.

Girija Rai: US coal.

Management: Yes.

Girija Rai: On kcal basis what is the per ton price right now? Landed cost?

Management: Per ton kcal at this point of time will be somewhere around Rs.1.65.

Moderator: The next question is from the line of Deepesh Shah from Investec Capital.

Deepesh Shah: What are the incremental capacities that you are expecting in the Eastern India market, if you can specifically highlight something like Shree or Dalmia and the timelines that you expect over here?

Management: We only expect some capacity to come up in Bengal that is largely Shree Cement and there is a capacity which will come around stream of Dalmia. There is one Ramco is also, there has been some talk of Ramco putting up another capacity and the JSW is also looking up for setting up capacity but we do not expect any of these plants all put together will be adding more of less 5 to 6 million tonnes in at least next 24 months, not next 12 months I will say next 24 months. But the demand in Bengal and Bihar is very good. I think it is in double digits and I hope that this kind of capacity additions, the demand will be able to take care of it.

Deepesh Shah: This is specifically for the Bengal, how about Chhattisgarh market?

Management: Chhattisgarh market there is over capacity as compared to the demand of Chhattisgarh market but large part of that capacity is actually entering the various places like Bengal and it’s going to some parts in Orissa and even in some part in Bihar. So, most of the cement which is being produced in Chhattisgarh is not getting consumed in Chhattisgarh.

Deepesh Shah: Specifically given we have a significant cash on books, are we open to Inorganic growth or any change in thoughts even we have received a sizable subsidies already?

Management: We will be looking for Inorganic growth in the area where we operate so if anything to our interest comes up to us, in Bengal, Bihar, Jharkhand and Northeast market we will be looking at it.

Deepesh Shah: So, this will be only grinding unit will be open even for kilns or integrated units?

Management: If it fits we will be definitely be interested even in the integrated plants.

Deepesh Shah: Have we started to use the waterways more, I think we had one shipment from NTPC plant all the way till Assam? Have we done more of it in the recent past or how should one look at that?

Management: At this point of time the fly ash is fully available so I don't think that bottom ash is there and not getting that much utilized but maybe in future we cannot say anything about how it is going to get utilized but fly ash availability is pretty good at this point of time.

Deepesh Shah: Are we using it to dispatch cement?

Management: There will be some usage. We are using it in some parts like from Guwahati to Dhubri and some part but after the monsoon, before monsoon the water level are there down. We are expecting something to work in during also because the water level will go up and there can be some movement at the point from Guwahati to Dhubri. But we, other than that we don't think any other sector getting opened at this point of time.

Deepesh Shah: What we get to hear a CRH has been putting material into this market using waterways. Have you heard anything of this sort and are other players also looking to exploit this?

Management: We have not heard anything about CRH putting up material investment.

Moderator: The next question is from the line of Pratik Maheshwari from Ambit Capital.

Pratik Maheshwari: The power cost is about 74 crores this quarter, was it about 71 crores last quarter in December?

Management: It was around 71 crores.

Pratik Maheshwari: Effectively power cost per ton has declined quarter-on-quarter per ton so I was thinking would it be an increase, why would be a decrease quarter-on-quarter?

Management: This is because of a change in the inventory because what happened is there is a lot of change in the inventory so if you calculate the change in inventory because that gets absorbed with the inventory. If you calculate that inventory change into account you will see some increase in the price cost.

Pratik Maheshwari: Even the freight cost was higher despite the rail siding quarter-on-quarter per ton so would the more effect come up in the coming quarters and is less reflective in the fourth quarter?

Management: The freight cost looks higher because of two reasons; because the transport subsidy is gone away it is not net of subsidies for these quarters. I think from next year onwards when you will start comparing without subsidy numbers it will look similar because and then there has been rationalization of dispatches also that has also having an impact. So that is why the freight cost looks little elevated.

Pratik Maheshwari: I missed the clinker production numbers for the full year as of FY19 and FY18, just the clinker production number?

Management: The clinker production for FY19 was 20.37 lakhs and for FY18 it was 20.57 lakhs.

Moderator: We will take the last question from the line of Rajesh Ravi from HDFC Securities.

Rajesh Ravi: I see the blending ratio has improved in this financial year around 1.42 so would that be a sustainable number or because last 2 to 3 years we have been hovering around 1.25-1.3, can we take that this 1.42 cement to clinker ratio is more of a sustainable number? And second the volume growth outlook for FY20 because after growing for almost 20% in the Northeast in the past 3 quarters, this quarter though it is a 10% healthy growth that what are your thoughts process in terms of your volume growth outlook?

Management: Taking your first question Ravi, in terms of the clinker to cement ratio I hope that 1.4 should be a healthy thing which you can take it for the future also and in terms of the volume growth which we have reported in FY Quarter 4 it is 10%. There has been a small…we could not sell the material which we wanted to sell because of less availability of clinker in this particular quarter. That is why you must have seen that there has been a lot of change in inventory. There was few unplanned shutdowns at one of the clinker units so that has impacted the volume otherwise would have sold at least 80,000 to 1,00,000 ton more in this quarter. Going forward our view is that this year, full year we have able to around 12% growth in terms of volume. Northeast growth was definitely better. We hope that for the full year we have talked about that, the volume growth of around 15% on the conservative side. Once the Siliguri plant comes up and gets into stream roughly then we may get a better number also but to be conservative I am expecting a volume growth of 15% in FY20.

Rajesh Ravi: 15% for Siliguri you are expecting in December quarter so what quarter there would be only marginal contribution from that plant, so this is pure cement volume which is like 13% in FY19. That is what you are expecting to continue in FY20?

Management: Yes. At this point of time I am only guiding that. We will see because what happens in this particular year there are 2 months in April and May, these are all almost election months. You will not find a similar kind of growth coming in and that will also have some impact on overall growth numbers going forward. So, the 2 months are good out of 12 months you have 2 months we will not see the same growth which we have seen in the last quarter.

Rajesh Ravi: On a y-y we will be saying this growth Q1, even the monsoon quarter Q1 and Q2 there should be a healthy growth that you are expecting?

Management: We will see healthy growth but there is an impact on demand as far as the April month is concerned and we expect that to also there will be a demand will get also impacted due to ongoing elections across the lot many states. Bengal is seeing a 7-phase elections, Bihar is seeing a 5-6 phase election. This will also have an impact because the labor and the other thing and industry, they normally go for their polling date. So, there will be some impact in demand.

Rajesh Ravi: Is it fair to assume that the external clinker sales that you are doing, they will continue to drop further?

Management: We are guiding that we are going to maintain the clinker sales which we had last year but yes from FY20 after that definitely there will be no clinker sale.

Rajesh Ravi: Because you will be requiring them for your own Siliguri plant?

Management: Correct.

Rajesh Ravi: What is the debottlenecking clinker expansion that you are expecting during the Q2 quarter the debottlenecking you are targeting?

Management: As of now we will be doing some debottlenecking in our HCML plant and that will add up around somewhere around 300 to 400 tonnes capacity and that we are going to get complete in the month of July or August.

Rajesh Ravi: Its 300 ton per day?

Management: Around 400 tonnes per day.

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

Management: Thank you. On behalf of Phillip Capital I would like to thank the management of Star Cement for the call and also many thanks to the participants for joining the call. Thank you very much.

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