"Star Cement Limited's Q4 FY'21 & FY'21 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to the Star Cement Q4 FY'21 Conference Call 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 this conference call, please signal an operator by pressing '*'then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Thank you, Janis. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q4 FY'21 & FY'21 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 their opening remarks which will be followed by interactive Q&A. Thank you and over to you, sir.

Sanjay Kumar Gupta: Good evening, everyone. I am Sanjay Gupta, CEO of the company. I would like to welcome you all to this earning call for Q4 and for the Financial Year '21. I have with me Mr. Manoj Agarwal, CFO, of the company. He will take you through Q4 numbers and the full year 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. I will request Mr. Manoj Agarwal to take you through Q4 and Full Year Numbers. Over to Manoj.

Manoj Agarwal: Hi, Friends. Very good evening. I on behalf of the Star Cement welcome you all to our concall for discussing numbers of Q4 FY'21 and full year numbers of FY'2021. I would like to clarify that we are discussing on the historical numbers and there is no invitation to investors.

Having said that now, I will just take you through the Q4 number followed by full year number. Starting from clinker production, during the quarter ended March '21, we have produced 6.30 lakh tons of clinker as against 6.14 lakh tons same quarter last year. So far as cement production is concerned, we have produced 8.99 lakh tons this quarter as against 7.78 lakh tons same quarter last year, that is a growth of around more than 15%.

Now, I will take you through Sales Volume. During the quarter, we have sold 9.01 lakh tons of cement and 0.05 lakh tons of clinker as against 8.43 lakh tons of cement and 0.31 lakh MT of clinker same quarter last year. There is growth of around 7% in cement and degrowth in clinker. Growth will be more if there was no restriction on movement of trucks imposed by state government due to the collapse of bridge at Shilong Bypass as we have already told you in the last meeting.

As far as the geographical distribution of cement is concerned, in Northeast we have sold around 7.46 lakh tons as against 6.45 lakh tons during the same quarter last year. And as far as the outside Northeast is concerned, we have sold 1.62 lakh tons of cement this quarter as against

2.28 lakh tons same quarter last year. In terms of blend mix, it is almost 8% with the OPC and the rest is PPC. These are the quantity numbers of the quarter.

Now, I will take you through the financial. The total revenue figure this quarter is around Rs.602 crores as against Rs.548 crores same period last year. As far as EBITDA figure is concerned, this quarter we had done an EBITDA of around Rs.113 crores as against Rs.132 crores last year. PAT after minority interest is Rs.85 crores as against Rs.86 crores in the same period last year. On the per ton EBITDA front, it was Rs.1,243 during this quarter as against Rs.1,509 same quarter last year. This decrease in EBITDA on account of increase in transportation cost of clinker due to the collapse of that bridge. This is what our quarterly numbers.

Now, I will take you through the full year numbers. During FY'21, we have produced 19.11 lakh tons of clinker as against 22.15 lakh tons last year. So far as our own cement production is concerned, we have produced 25.04 lakh tons in FY'21 as against 26.47 lakh tons last year. As far as full year sales volume is concerned, during FY'21, we have sold 26.44 lakh tons of cement and 0.54 lakh tons of clinker as against 28.7 lakh tons of cement and 0.76 lakh MT of clinker last year. The total revenue for the whole year is around Rs.1,718 crores as against Rs.1,840 crores during last year. As far as EBITDA figure is concerned, total EBITDA this year is Rs.361 crores as against Rs.424 crores last year. PAT after minority interest is Rs.187 crores as against Rs.285 crores last year due to the charging of exceptional items of Rs.64.57 crores during this year and loss of sales in first two months on account of COVID pandemic. On per ton EBITDA front without exceptional item, it is Rs.1,337 during this year as against Rs.1,434 of last year. These are the quarterly and full year numbers.

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

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: My first question was around demand. So like while the industry this quarter has delivered a 20%-plus volume growth generally speaking and you also had a new grinding unit that got commissioned in Siliguri. So, in that context, why has the proportionate volume growth be lower at your end?

Management: There are two things which I will highlight. Practically, the FY'21 as a financial year was really marked by lot of one-off. So, April and May obviously everybody else faced the same problem which we had because of pandemic and the lockdowns which we have faced. But a few things which has impacted specifically our volume is the damages of the two bridges which were connecting Meghalaya to Assam. And as you know that all our clinker facilities are there in Meghalaya. Assam is the 60% of our total volume. So that has actually taken about four months' time in terms of getting it complete and a new bridge have already been constructed now which is already operational. So that has largely restricted the movement of clinker to our grinding units which had an adverse effect on the entire cement production itself. So, that is one of the major reasons as far as the reduction in overall volume in FY'21 is concerned. Yes, in terms of demand, I think Northeast also has witnessed a good demand even in spite of the pandemic and in spite of the lockdown which FY'21 has seen. I think the overall cement demand has grown by at least 7% in FY'21 as compared to FY'20.

Amit Murarka: Also, there has been a sharp jump on the cost front in 4Q versus 3Q. What is that attributed to?

Management: If you look at the cost increase which we had seen is largely on account of trade. And that can also be attributed largely towards the raw materials cost freight increases which has happened because there only some small supplies which were moving from a separate bridge and the cost was tremendously high approximately in the month of November till the month of January. So, in those three months' time, we have seen unprecedented increase in freight cost. Whatever clinker we could avail, we had to service the market because the dealers have to be serviced in whatever amount of quantity of cement we can supply. So that has impacted the freight cost. The second most visible cost pressure which we have seen is largely on the PP Bag. PP Bag prices have also been skyrocketing. So there has been a cost pressure on that. But I think from April onwards most of the things have normalized barring the fuel price hike which we have seen over a period of time, normal freights have already started kicking in and even the supplies have been restored. So we hope that going forward these cost pressures will normalize.

Amit Murarka: Last question is on the pricing front. Generally, we have seen weak demand in the last two months but prices will be holding on. So could you elaborate on the trends that you are seeing in your Northeast market as well as Northern Bengal?

Management: Largely, the prices have been stable. In April and May, some weakness has been witnessed but prices are holding on. Yes, I think in the first 10-days of June, we have seen some reduction in prices in some pockets of Bihar and Bengal but Northeast prices are stable.

Amit Murarka: Has the demand also improved in the first 10-days of June?

Management: Same trend continues whatever was prevailing in the month of May because certain states in Northeast have extended the lockdown till 15th of June, even in West Bengal, the lockdown is continuing till 15th of June. They are getting relaxed but I think the pace of the relaxation it will take a little bit of time. Towards the end of June, the things are restricted to become more normalized.

Moderator: The next question is from the line of Raj Nahar from Mini Consultants. Please go ahead.

Raj Nahar: My just one question is that about the coal. Are you importing the coal, where are you getting the coal and how much pressure is there on the price increase?

Management: All our coal requirements are from Eastern Coalfield. We have not seen any price increase unlike the imported coal price increase which has happened. So for us the prices of coal remain stable.

Raj Nahar: What is now blended cost, can you disclose?

Management: It is somewhere between Rs.7,500 to Rs.8,000.

Moderator: The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I just have a couple of questions. Can you tell us the utilization levels for the quarter and for the full year?

Management: For the quarter, cement was around 68% in this quarter and full year was around 58%.

Shikha Mehta: Could you also comment on the new capacities coming up in the Northeast and in Eastern region?

Management: In Northeast, immediately there is no capacity addition taking place. We are going to set up a 3 mt clinkerization plant. That will take at least three years' time from now. In between three years, there is no capacity which is under pipeline. As far as the East is concerned, in next two to three years' time, the plant capacity will be somewhere around 12 to 14 mt.

Shikha Mehta: Within your capacity addition in Eastern regions, do you think the supply were stronger than the demand for at least a certain period of time?

Management: Doesn't look like because even in FY'21 Northeast cement demand has still grown at 7%, East India overall cement demand in spite of the pandemic and in spite of the lockdowns and everything else, FY'21 has seen an overall cement growth of around 5% to 6% as against all India cement demand growth of flat to around 1% or 2%. So we hope that overall cement demand growth in Eastern India will take care of the supply which will get added in next two, three years.

Shikha Mehta: Can you comment on our capacity addition plans over the next three years?

Management: We have two things. As you know that we have already commissioned our Siliguri clinker grinding 2 mt plant. Now, we are working on 3 mt clinkerization plant in Meghalaya. Along with that, we are setting up a 12 MW WHR plant. So, in a horizon of two to three years, these two plants are going to come up.

Moderator: The next question is from the line of Milind Suresh Raginwar from Centrum Broking. Please go ahead.

Milind S Raginwar: My first question is in the Siliguri grinding unit in the fourth quarter, did we see some utilization there or was it still under the trial run?

Management: No, we have already commenced the commercial operations of Siliguri grinding unit but in the first two months, we did faced lot of teething problems there, the utilization were pretty insignificant in these two months. We hope to see the full capacity utilization coming up in FY'22.

Milind S Raginwar: As of date, the first quarter also we see negligible capacity utilization from Siliguri?

Management: No, in the first quarter, the Siliguri has already come back, but we are having at least 40% of capacity utilization at this point of time. But now the demand is also an issue because we have seen rains already have started picking up in the North Bengal part of it and also in the North East. So, that is restricting the capacity utilization but from plant perspective, the plant is fully ready to produce at 100%.

Milind S Raginwar: But fourth quarter it was not available, that's what we can say, right?

Management: For the quarter itself, I think we have only done about 1 lakh ton of production.

Milind S Raginwar: I am just trying to get, was it possible to buy clinker from local partners in East and ramp up the volume that we have foregone in the fourth quarter, that was my limited point there?

Management: I don't think that opportunity was available to us and as I said we could only produce about 1 lakh tons of cement in the entire quarter from Siliguri plant.

Milind S Raginwar: Second question is about the coal auction at Meghalaya. Has that restarted and is it auction or is it at the old rates only?

Management: It is going to be auctioned. There is auction process which is getting imparted now. The total quantity of coal is somewhere around 3 lakh tons there. But that is taking its own time. So, we are not banking on that and we are still sourcing the coal from Eastern Coalfield. But as and when it comes, and if it is within our estimated price range, we will definitely participate in that.

Milind S Raginwar: Currently, we are sourcing 100% from Eastern Coalfield, is that understanding correct?

Management: We are sourcing 100% coal from domestic auctions.

Milind S Raginwar: Sir, on the capacity side, just wanted to understand enhanced capacity post delivery on the cement side would be 5.4, 5.5, is that the correct understanding?

Management: As of now, our total grinding capacity stands at 5.7 lakh MT.

Milind S Raginwar: Including Siliguri?

Management: Including Siliguri, correct.

Milind S Raginwar: The backup clinker for that would be around 3 mt including Lumshnong and CMCL unit?

Management: Yes, that's 3 mt.

Milind S Raginwar: The clinkerization unit what we understand is the last time commentary was it will be commenced by fourth quarter of FY'23 but now the commentary is that probably it will take three years for sure. So, is there any delay on that side on the new clinker expansion?

Management: The new clinker expansion, we are looking at around 3 mt capacity to put up there. So, we are just doubling the capacity of clinkerization what we have in Meghalaya. We have been trying to get that environment clearance as quick as possible because without that we will not be able to do any ground breaking. So that is taking time. I think that is only piece which is beyond our control. Once we do the ground breaking, I think within 24-months we will be able to complete the plant.

Milind S Raginwar: That ground breaking would maybe another two to three quarters away, is that a fair assumption?

Management: At least two quarters away from now.

Milind S Raginwar: Then do we see that there will be some clinker shortage in the coming period probably in FY'24?

Management: We will be definitely having some clinker shortage because as we ramp up the capacity utilization of cement. We will be looking towards the Eastern players, there are few supplies which is available in Chhattisgarh and M.P. and we like to source it from there.

Milind S Raginwar: Sir, on the line item again back to this other expenses, also have some escalation there on a run rate base. So any new that is being in other expenses?

Management: Apart from the power, fuel, freight cost, they are certain because the elections are there in the Bengal and Bihar. So there is a one-off item of around Rs.9 crores or so. Freight cost has increased towards that because of the bridge collapse, material movement was restricted and that's why you are seeing around Rs.9-10 crores.

Milind S Raginwar: No sir, even if I adjust to that, the run rate is coming to about Rs.75 crores vis-à-vis the normal run rate of Rs.62 crores. I may take that offline then.

Management: Okay.

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

Ritesh Shah: Sir, my first question is how much was the capital and transport incentives that was realized during the year and how much is the outstanding right now?

Management: Transport subsidy we have got the whole thing. GST is a normal thing which we are paying every quarter.

Management: There is no transport subsidy outstanding at this point of time.

Ritesh Shah: Was there any subsidy received during the year?

Management: During FY'21, I don't have the number as of now with me.

Ritesh Shah: What is the fly ash cost right now for us? What is the sourcing arrangement? Is there any cost inflation of fly ash sourcing?

Management: There is no cost increase in fly ash. In fact, the cost of the fly ash we are expecting it to get moderated because the railways and power plants are allowing with a condition fly ash to be transported which we have already started. I that will have a positive impact as far as the fly ash cost is concerned.

Ritesh Shah: In the prior question, you indicated Rs.7,500 to Rs.8,000 per ton. Is this the landed costing? And what is limestone corresponding to this coal?

Management: Yes, that is landed cost of coal. The pricing value is going to be somewhere around Rs.5,000 to Rs.5,200.

Ritesh Shah: You indicated that we are waiting for the Unit-III. Is there any approach from locals or any village approvals, something which is required, we are waiting for that and hence the process is getting delayed?

Management: All these approvals actually take time. There are certain approvals which we have to take it from the local community. We have one or two approvals already there. There is something called **(VACA) 26:05** permission which we need to make. So that will take time. So we are expecting that to come up in about a month's time from now and then we will take it up.

Ritesh Shah: Do we already have limestone corresponding to this clinker, like all the approvals already in place of that or is there something which is pending?

Management: No, we already have limestone with us. I think existing mine which are operational mines will become around 200 mt.

Moderator: The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: On the 4Q revenues, are there some other non-cement revenues also booked in because sequentially if you look in the realizations there, it was significantly higher both YoY is 12% higher and QoQ. So can you explain what is driving that?

Management: The realization is up by only 2%, 3% and that is reflecting in the price increases which would happen but there is no other income which is having any impact on this.

Rajesh Ravi: In the fourth quarter number sir?

Management: In the fourth quarter number also, the price increase is only 4%, 5% but we did not get any reflection on the EBITDA or any margin because of the fact that in the first quarter also we have seen freight cost increases because of the transportation of clinker.

Rajesh Ravi: No, no, that is okay, but purely on realization, the reported numbers appear higher 12% QoQ. So what is the actual price increase that you witness in your market? That would not be more than 2%, 3% I suppose.

Management: Q3 versus Q4, there is no other item, that is the price increase which will go on.

Rajesh Ravi: Is there any provisions which have been written back in fourth quarter, any discount structure and all because volumes were subdued overall and all?

Management: There is nothing like that.

Rajesh Ravi: Can you share what is the trade and non-trade mix and similarly production mix?

Management: This quarter trade is around 86% and 14% is non-trade. PPC 92% and OPC around 8%.

Rajesh Ravi: This number for the year FY'21?

Management: The same 86% and 14%. PPC is 91%, 0.1% is PSC on a yearly basis, so it is 91% is PPC and 9% OPC.

Rajesh Ravi: The clinker debottlenecking which was to be completed by 0.2 lakh tons capacity increase which was due. What is the status?

Management: We just came out of a shutdown. Whatever remaining job we have already completed it. Now the plant is ready to give us 3 mt.

Rajesh Ravi: This was completed in May 1Q or earlier?

Management: Most of the jobs we have done it earlier in the last shutdown, only remaining thing we have just taken a shutdown in the month of April and there we have completed the remaining part.

Rajesh Ravi: So, in terms of our clinker requirement with this 3 mt, obviously, when you want to ramp up the Siliguri, would you be requiring to buy clinker from market because even if I look at the fourth quarter, which is a clinker production, we have already touched 90% utilization in fourth quarter, so what is the strategy and what is the costing that you would be looking at when you are buying clinker to operate the Siliguri plant?

Management: I think at this point of time, speculating these things is not a desirable. We will look at buying clinker when we come to that. Last year we have only sold 2.6 mt of cement and with 3 mt of clinker even if I go at 1.4 or 1.5, I will be able to do at least 4.2, 4.3 mt cement. Once we reach there, then only the question of buying clinker will come.

Rajesh Ravi: Lastly, on the cost line items, we see almost all cost items have gone up sequentially, input cost have inflated and even freight cost and other expenses. I understand you explained conditions were there. But even if we adjust for that, then also the cost per ton numbers are inflated. So is it because of the Siliguri stabilization not done during fourth quarter and that is why the numbers got impacted?

Management: Please understand this. There are three cost line which definitely has an impact. One is as I said freight cost. Even after the normalization of bridge which has been commissioned, fuel price increase which is happening all across and that is going to impact the freight cost. That impact will definitely help. The other impact which is significant is the PP cost has gone up through the roof. Overall material cost that is having an impact. There are certain one-offs as Mr. Manoj was explaining because election was there in Assam, election was there in Bengal. And these are the areas where we operate at. So there have been some one-off in terms of flood donations. Barring all that, we do see the significant change in the cost line. Going forward, we hope that at least the freight cost line increases will get moderated and we have to still wait and see how the PP prices behave in coming quarters.

Rajesh Ravi: Any guidance in terms of volume for FY'22 what numbers you are looking at? And how has been the impact of COVID on 1Q number so far?

Management: We are looking at, at least a double digit kind of growth in Q1.

Rajesh Ravi: QoQ what kind of impact you are looking at?

Management: Overall, yes, there is an impact in the month of May. April was smooth, but I think in the month of May, there is an impact of lockdown even in Northeast also, in East also still it is continuing because most of the states have actually extended the lockdown period. And we are going to see the impact through entire … because May was already impacted, by the time they come out of this lockdown it will be end June, so there will be an impact but hopefully going forward as last year full year we have reported at around 7% to 8% volume degrowth. On the full year basis, I can only tell you that we will be at least reporting a double digit kind of volume growth.

Moderator: The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar: You mentioned about some price cuts in month of June. So can you quantify that number in the month of June?

Management: We have started seeing in the month of June of around Rs.5 to Rs.10 especially in Bengal and Bihar markets.

Prateek Kumar: We have given away those hired grinding units. Who takes up those units now or are they defunct now?

Management: I have no information. I don't think that there will be defunct. They will be doing some grinding jobs for somebody else.

Prateek Kumar: Can you give split of other expense for the quarter?

Management: Freight cost is Rs.116.14 crores, power and fuel is Rs.117.45 crores.

Prateek Kumar: Nepal lockdown has been there right now for some time because of COVID cases there. So is it something which impact Northeast industry and for which there can be some pressure on prices or there have been some industry pressure in the market?

Management: Largely, the Northeast player used to sell clinker in Nepal, right. As the capacity utilization in Northeast has improved over a period of last two, three years, there is hardly any clinker available in Northeast. I think the dependency of Northeast players in Nepal is actually reduced, it is really insignificant at this point of time.

Prateek Kumar: There was recently the mine incident also reported in Meghalaya. Again, is it something which impact coal availability or some regulatory issue? We are now anyway preparing from COVID things.

Management: As far as the **(Inaudible) 39:12** mining is there, that will still continue. There is no respite in that. It doesn't impact us because we already sourcing all our coal requirement from Eastern Coalfield.

Moderator: The next question is from the line of Hiten Boricha from Joindre Capital. Please go ahead.

Hiten Boricha: I just missed the sale volume number for this quarter and the last quarter. Can you please repeat cement sales volume number?

Management: Cement sale is 9.01 lakh tons and clinker is 0.05 lakh tons, total 9.06 lakh tons this quarter.

Hiten Boricha: For last year same quarter?

Management: Cement was 8.42 lakh tons and clinker was 0.31 lakh tons, total is 8.73 lakh tons.

Hiten Boricha: My question is on the CAPEX front. As you mentioned we are spending 3 mt on clinker plant and 12 MW of WHRS plant in next two to three years if I am not wrong. So, what will be the total CAPEX we are spending on this?

Management: Total CAPEX we are going to spend on this is around Rs.1250 to 1300 crores.

Hiten Boricha: This will be spent in two years, right?

Management: Yes, majority of it will be spent in two years because the clinker plant will get three years. The implementation of WHRS groundbreaking has already happened. I think we will be able to complete in 15 to 18-months.

Hiten Boricha: Majority of the CAPEX will be spent in this year itself?

Management: WHRS CAPEX majority will be spent in this year, but that CAPEX is approximately Rs.125 crores only.

Hiten Boricha: For the clinker plant sir?

Management: It is going to be somewhere around Rs.1,150 crores.

Moderator: The next question is from the line of Uttamkumar Srimal from Axis Securities. Please go ahead.

Uttamkumar Srimal: How was the sale of premium cement doing this quarter out of the total sales?

Management: Premium cement in Q4, I don't have number as of now with me ready but I think it was somewhere around 4% of the total volume.

Uttamkumar Srimal: Coming to the price per bag of cement, what is the difference there that we sold in Northeast and in Bengal area?

Management: Northeast also has dozen states, right. So it is very difficult to give you a number that way which state has got its uniqueness in terms of prices, because somewhere the transportation cost is higher, so price itself looks higher, right, it is very difficult to give you a number that this is the Northeast number or a blended number kind of a thing because that will not be true reflection of what the prices are. In North Bengal, the prices are somewhere around Rs.390. In Bihar, prices are around Rs.370 as of now.

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

Vaibhav Agarwal: Thank you very much, sir. On behalf of PhillipCapital (India) Private Limited I would like to thank the management of Star Cement for the call. And also many thanks participants for joining the call.

Moderator: On behalf of PhillipCapital (India) Private Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.