“Star Cement Limited’s Q2 FY’21 Earnings 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 Q2 FY'21 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 the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vaibhav Agarwal: Yes, thank you, Inba. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited we welcome you to the Q2 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 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.

Management: Good Evening, Everyone. I am Sanjay Gupta, CEO of Star Cement Limited. I would like to welcome you all to this earning call for Q2 FY'21. I have with me, Mr. Manoj Agarwal, who is CFO of the company. He will take you through Q2 numbers and Half Yearly Numbers. After that, we will open the floor for an interactive session where you will be able to ask questions and we will be happy to reply.

I will now request Mr. Manoj Agarwal to take you through Q2 numbers. Over to you, Mr. Manoj Agarwal.

Management: Hi! Friends. Very good evening. First of all, I would like to greet everyone a Very Happy Diwali in advance. Now, on behalf of Star Cement, I welcome you all to our discussion call for discussing our Q2 number FY'2021. I would like to clarify that 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 Q2 number followed by half yearly numbers.

Starting from clinker production, during the quarter ended September 2020, we have produced 3.61 lakh tons of clinker as against 4.14 lakh tons same quarter last year. So far as cement production is concerned, we have produced 5.76 lakh tons this quarter as against 5.64 lakh tons same quarter last year.

Now, I will take you through sales volume. During the quarter we have sold 6.34 lakh tons of cement and 0.18 lakh tons of clinker as against 5.99 lakh tons of cement and 0.04 lakh tons of clinker same quarter last year. There is a growth of around 6% in cement and **(4x) 2:45** growth in clinker. 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 4.78 lakh tons as against 4.60 lakh tons during same quarter last year, with a growth of around 4%. And as far as outside Northeast is concerned, we have sold 1.56 lakh tons of cement this quarter as against 1.39 lakh tons same quarter last year, with a growth of more than 12%. In terms of blend mix, it is almost 11% of OPC, 2% of PSC and rest is APC. These are the quantitative numbers of the quarter.

Now I will take you through the financials. The total revenue figure this quarter is around Rs.402 crores as against Rs.382 crores in the same period last year. As far as EBITDA figure is concerned, this quarter we have done EBITDA of around Rs.86 crores as against Rs.72 crores last year. PAT after minority interest is Rs.60 crores as against Rs.45 crores in the same period last year. On the per ton EBITDA front, it is Rs.1,313 during this quarter as against Rs.1,195 per ton in the same quarter last year. This is what our quarterly number.

Now, I will take you through the "Half Yearly Number." The total revenue figure for the half year ended September '20 is around Rs.694 crores as against Rs.842 crores same period last year. As far as EBITDA figure is concerned, during half year ended September '20, we have done an EBITDA of around Rs.157 crores as against Rs.192 crores last year. PAT after minority interest is Rs.104 crores as against Rs.129 crores in the same period last year. On per ton EBITDA front, it is Rs.1,424 during the half year ended September '20 as against Rs.1,440 per ton same period last year. These are the quarterly and half yearly numbers. The half yearly figure have an impact of loss of sale on account of COVID pandemic.

Now I request all of you that you have any query, you can ask the same and I will request to moderate query wherever it is required as queries are coming. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Aneek Das from Mount Intra Finance. Please go ahead.

Aneek Das: Can you please repeat the number of EBITDA per ton for this quarter?

Management: It is Rs.1,313.

Moderator: Thank you. Our next question is from the line of Pradnya Ganar from UTI Asset Management. Please go ahead.

Pradnya Ganar: Could you just comment on the availability of coal in your region and what is your current fuel mix?

Management: In Northeast, the coal ban still continues. So, we are sourcing all our coal largely from the Coal India which is Eastern Coalfields or Northeastern Coalfields. So, there is some part of imported coal also, but I will say around 90% of coal is from Coal India and only 10% is imported.

Pradnya Ganar: And any guidance on the sustainable EBITDA per ton going forward and how is improving demand and pricing?

Management: So, you have put into two, three questions; one is definitely the sustainability of EBITDA, as we have been saying it from last many quarters that the sustainable EBITDA in our kind of business will be around Rs.1,500 a ton. And I think half yearly, we have done an EBITDA of Rs.1,425 a ton or something. So hopefully, in the next six months and on a full year basis, we will still be able to maintain that Rs.1,500 per ton of EBITDA. As far as the demand is concerned, the demand in Northeast is around 6% in this quarter, but, year-to-date there is still a negative growth of around 14%, 15% in Northeast that is also reflected in our number, for half year we have a negative growth of around 16%. October has been pretty good as compared to the corresponding month last year, November is still going okay. So, we are thinking that the second half will be much better than the first half. And there is an expectation that we will be able to meet a large part of the degrowth which we have seen in the first half. As far as the price is concerned, we have seen a decline in the price in this quarter, of anything between Rs.10-15 in North and we have seen a decline of around Rs.20, 25 in East, but in the current month we are seeing some improvement in prices in Northeast also as well as East.

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

Prateek Kumar: My first question is regarding the expansion projects. If you can talk about the Siliguri grinding the Meghalaya, anything improved there? And the clinker debottlenecking which we are looking to close during this monsoon?

Management: I will start from Siliguri. Siliguri is I think we all be starting either end of this month or maybe first week of next month. Siliguri is absolutely on track, so that plant we will start. As far as the small debottlenecking which are left over in Meghalaya, we have still not completed in this monsoon, we are expecting that it is going to be completed only in the next monsoon because we are expecting some supplies to receive from vendors. Because of this COVID problem, some material has not been able to come. And during this season time we will not be taking any shutdown to do that and we will be taking the shutdown in next monsoon. So, approximately in the month of maybe June, we will complete that. And as far as the clinker at Meghalaya is concerned, we are looking for certain clearances, but we have not received clearances as of now. Largely the environment clearance and the clearance for mines in Meghalaya once that comes up, that particular project will again be fast-tracked.

Prateek Kumar: And our current clinker capacity would be how much, 2.8 mt?

Management: Yes, current clinker capacity is 2.8 mt.

Moderator: Thank you. Our next question is from the line of Deepayan Ghosh from ICRA. Please go ahead.

Deepayan Ghosh: We see in standalone numbers there have been a sharp decline in EBITDA margin quarter-on-quarter or year-on-year, but somehow the consolidated numbers are reflecting. Is that because of higher clinker cost being purchased from other group company sir?

Management: I need to look at that number individually. You can send us the query, we will be happy to reply. I do not have the ready numbers available with me.

Deepayan Ghosh: On the part of CAPEX also, when bottlenecking can be finished?

Management: I said that we were expecting certain material to come from vendors. Because of this COVID issues there is a delay in receiving that material. We will be completing that in next monsoon maybe June, July.

Deepayan Ghosh: Once the Siliguri grinding unit starts by November, December, sir, what is the target that you have set? And what would be the employee cost then going forward given the capacity of about 2 mt? What would be the utilization levels likely in 2022, 2023 going forward?

Management: I have only been able to part heard your questions because the voice is not absolutely clear. You have asked about Siliguri plant. We have been only operating that plant for three, four months. But in next full year of operations, we will at least be able to achieve around 60% to 65% of capacity utilization for Siliguri alone.

Deepayan Ghosh: What is the difference in let us say Siliguri and other Eastern markets on a per ton basis or per bag basis because I believe Siliguri market the price is a little lower than the Northeastern markets, sir, any number that you can put, how much will be second half or something of that sort

Management: It is very difficult to put unit wise EBITDA. Yes, definitely, EBITDA margins in Northeast and EBITDA margin in the eastern region are definitely different. But it will be very difficult on my part to put a number on unit wise EBITDA margins. But I can only say that the blended EBITDA margins which we have been saying will be around Rs.1,500 per ton, on a full year basis that we continue to stick to that guidance.

Deepayan Ghosh: Currently, what is the landed price of coal for all the facilities given that we have been acquiring most of it from CIL and subsidiaries -- would it be around Rs.8,500, 9,000?

Management: The landed cost of coal is somewhere around Rs.7,800 to Rs.8,000 per ton.

Deepayan Ghosh: So that has come down from last year February, March level?

Management: Yes.

Moderator: Thank you. Our next question is from the line of Bhoomika from IDFC Securities. Please go ahead.

Bhoomika: Sorry, I joined a little late. I do not know if you touched upon the demand and price trends that you are seeing in both East and Northeast, how are they moving sir post the quarter which is October and November?

Management: So, October, November demand scenario is good in both Northeast and East. Only one month-on-month basis the growth should have been at least in double digits. Even in an Eastern region, I think the growth will also be there, that is in double digit at least in October. November demand is also looking to be heading towards a **(Inaudible) 17:21** kind of growth.

Bhoomika: Have you seen an improvement in terms of infra activity, etc., from government projects?

Management: Yes, there is an improvement in government projects, both in Bengal and also in Assam, because both the states are in line to go for next elections, Bengal elections are due in May 2021 so as Assam, and we are seeing a lot of infra activities in both the states. And also, the hydel power projects activities which were stalled for a long time in Northeast. We had been awarded a contract of around 1.5 lakh tons of cement for NHPC. Now they have been lifting the material and actually demanding more material to be supplied to them. So, the activity has actually commenced in these infra projects. And even the road projects are also seeing a good pickup in demand. So infra is contributing to the demand scenario presently.

Bhoomika: If you can comment on how is the pricing in October and November versus average of say second quarter?

Management: So I will say that the second quarter prices were actually down in both East and Northeast. But October, we have seen some price improvement although marginal. But hopefully if the demand scenario continues in the double digit in coming months, we definitely some price increase is going to come in, in both East and Northeast.

Bhoomika: On capacity addition in the region, how are you viewing that, are you hearing a lot of capacities getting delayed, etc., and what is your sense on what kind of capacity will likely get added in the next one to two years in both our markets of East and Northeast?

Management: So Northeast, we are finding any capacity addition coming up in next at least a year or two. Our clinker capacity will be the nearest. That is still at least 24 to 30 months away in Northeast. Outside Northeast, yes, definitely there are at least around 10 to 12 mt of cement plant which were in pipeline. But I think because of the COVID, there is a delay in it. Two mt is our Siliguri unit which is starting. But I still hope that 60% to 70% of that capacity will definitely come onstream in next year to 18-months time.

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

Milind Raginwar: During the quarter, the initial commentary is that the coal issue is still unresolved. So, overall cost savings in the power or the energy cost is driven by what sir?

Management: The power cost saving which is I think is largely on the coal prices. The pricing of the coal has been lower in the quarter. So, that is one of the reasons for lower coal prices. Otherwise, there will be some marginal improvement even in utilizations also in terms of usage of coal per ton of clinker. So, both combined together is reflected in this power saving.

Milind Raginwar: Can you please share the landed cost for the coal in the quarter vis-à-vis the September '19 quarter?

Management: As I said, that coal cost in this quarter has been at around Rs.7,800 to Rs.8,000 per ton landed. I think the corresponding quarter last year number should have been somewhere around Rs.9,500.

Milind Raginwar: And these are all kCal basis price, right?

Management: These are all per ton coal landed prices at our plant.

Milind Raginwar: In the September quarter, the freight cost on a per ton basis has dropped. Any particular reason for that? In fact, if I calculate it on a sequential basis, there is a sizable drop. So just wanted to understand if you can throw some light there?

Management: The freights have actually not gone down in that proportion. But overall, there has been some change in the mix where the supply is. That has contributed to a little bit reduction in the overall freight cost. But I think all that is going to get evened out and fuel prices is already increasing. So, I do not think that the freight cost reduction which is we have seen is going to be sustainable in next half year.

Milind Raginwar: Lastly sir, in the sales number, how much does incentive contribute?

Management: We only have one incentive which is still left which is GST refund, and that will be somewhere around Rs.200 a ton.

Moderator: Thank you. The next question is from the line of Chintan Shah from Investec. Please go ahead.

Chintan Shah: Sir, what would be the trade mix for the quarter? And also now since you are seeing some improvement in non-trade demand, how is the pricing shaping up over there versus the trade segment?

Management: Trade-non-trade mix for the quarter I think is 86% is trade and 14% is non-trade. As we see that there is an improvement in non-trade demand. So as far as the Northeast is concerned, the price gap between a trade and non-trade is not large; it is somewhere anything between Rs.25 and 30 a bag. Yes, in the Eastern side, the price gap ranges anything between Rs.30 and Rs.50 a bag. But in Northeast 75% overall sales and 25% in East. So we are largely Northeast-driven company. To that sense, even if we improve our non-trade supply, it is not going to be much on us.

Chintan Shah: These numbers are historical average or right now there is a change in the differential?

Management: See, trade, non-trade used to be always 80-20 for us, right. It has become 85-15 only because of the fact that initially we had lower supply. So we will always like to cater to a trade demand, not to the non-trade demand. So that has led to this trade segment going up to 85% and balance is going to be a 15%. But yes, definitely going forward, as the things continue to normalize post-COVID, we will move towards maybe even 70-30 kind of a ratio, because in Northeast the non-trade prices are even better than trade prices of East. So, it is not that in Northeast non-trade prices are lower. So there will always be our tendency to sell more material in Northeast. Yes, definitely, Siliguri will start in around 20-days to about a month away from us. But Northeast will continue to drive the volume both in trade and non-trade.

Chintan Shah: Sir, secondly, UltraTech on its concall did mention that they are opening up offices in Northeast. Suppose the UltraTech enters this market, so how do you see the economics changing in the medium-term?

Management: I think UltraTech is already there in the market. There is nothing new that UltraTech was not there in the market. So, on an overall demand of around 10%-12% always used to come from outside Northeast. Say in this year, the material which has come from outside Northeast will be more, anything between 15%. That increase is only because of the fact that in the month of April and in the month of May the various plants have operated on a different timelines, right; so some states have opened the plant earlier, some states have opened up a little later. I think all that has impacted and at that point of time wherever the material was available, people have been able to sell that material, right. That may have given a little bit of more market to outside Northeastern players. We do not see there is going to be any significant change in UltraTech entry to Northeast because I still think that it is a very small market. And they have to cater these plants largely from their plant which is near Kolkata where freight cost is going to be a big deterrent for them.

Chintan Shah: Lastly, what would be your CAPEX for this year and next year?

Management: As I said, the Siliguri project is almost complete; maybe the last Rs.25, Rs.30 crores must have been left out in Siliguri, so that will be done. And as far as clinker is concerned, we do not see much significant CAPEX in this year because we are still waiting for environment clearances. Once we receive the environment clearance, after that we will be going ahead and placing orders for the main machinery, right. So CAPEX in this particular year going to be anything between Rs.30 crores and Rs.40 crores at the max.

Moderator: Thank you. The next question is from the line of Amit Murarka from Motilal Oswal. Please go ahead.

Amit Murarka: I joined the call a bit late. Just wanted some projects update. On Siliguri, like what is the commissioning timeline now?

Management: We will be starting the plant either end of this month or maybe early next month.

Amit Murarka: The Meghalaya clinker, like you have said that EC is getting done and you have said that possibly by end of FY'23 it will come. So, is the timeline still holding up?

Management: I do not think so. Because of this last six months whatever has happened, there is nothing much progress which have been done and neither an MoU in other places, it will definitely get pushed by at least six months.

Amit Murarka: So let us say by December 2023 then is it still looking likely then?

Management: Looks to be at this point of time.

Amit Murarka: EC is not done, right?

Management: No, it is still not done.

Amit Murarka: Is land required to be acquired for the project, what is the status on that?

Management: Acquisition of land and mines is fully complete. The company is already having 400 hectares of land with us and then we have around 1,000 hectares of mines with us, right. So mining land and the plant is no concern. But yes, definitely, we are waiting for clearances, MoU for the plant and certain mining approvals which are there for mining operations. So, these are two things which we are waiting. The sooner we get it, we will be going ahead with the project.

Amit Murarka: And generally, like what will be the capacity utilization in the region now given that the demand has been doing well and no new capacity have come up?

Management: If you are looking at an overall utilization level, as I said, it will still be around 70%, 75%.

Amit Murarka: And also, there was WHR which you are planning to start to work on. So what is the update on that as well?

Management: Yes, we are working on WHR projects of 15 MW. So that project we are on stream for doing that work. So we will be placing orders and we are in the stage of negotiation with the vendors. And I think within a month or so, we will place orders for that project.

Amit Murarka: And then it will come up by when?

Management: It will take around 18-months for us to complete that project from the date of finalization.

Amit Murarka: Also, in the last call you had mentioned that the operating costs have been lower and by 3Q maybe normalization will happen, cost cuts were done post-COVID. Has that already happened or will we see some cost decreases?

Management: Whatever cost cuts which we have seen, they have definitely normalized to some extent, but I think the full impact will be definitely felt even in second half of this year. Full normalization we will only be able to see in the fourth quarter of this fiscal year.

Amit Murarka: On the Meghalaya coal auction, any progress on that front like you had mentioned it is going to come up?

Management: They have already notified that the coal action is going to take place. I think the date of the coal auction has still not been declared. But yes, the government is very keen in terms of auctioning 2 lakh tons of coal and they have around 3.5 mt of coal to be auctioned and they are going to do in tranches; the first tranche is going to be 2 lakh tons. We are hoping that maybe within this month or maybe early part of the next month, we will see the coal auction taking place and we will also be participating in that auction.

Amit Murarka: And your fuel mix is still imported coal 40, domestic coal 60, is it at the same level?

Management: Availability of domestic coal was pretty good in last six months. We have been sourcing most of our coal requirement from domestic; Eastern Coalfields and Northeastern Coalfields. So, as of now it will be around 90% from the domestic and 10% imported.

Moderator: Thank you. The next question is from the line of Dhaval Joshi from Sundaram Mutual Fund. Please go ahead.

Dhaval Joshi: Sir, my question is just continuation of what the previous candidate has asked on the competition part of UltraTech. Sir, even dealer check has also suggested that including UltraTech and Ramco has started selling in Northeast. So do you really see now because of the extra capacity addition in the East, people might come to Northeast and we may see some competition and hence pricing to come down a bit?

Management: We have not seen any impact on the prices as of now, number one. Number two is as I said, yes, there is an increase in inflow from outside Northeast. Birla White which has become UltraTech again, they were already having a good amount of presence in Northeast. Yes, their volumes have actually increased in first half of the year, primarily on account of two, three reasons; one is definitely in the month of April, May, and some part of June, Assam government and even the Meghalaya government has not opened **(Inaudible) 37:06.**

Moderator: Thank you. The next question is from the line of Uttam Kumar Srimal from Axis Securities. Please go ahead.

Uttam K Srimal: Could you give freight number for this quarter?

Management: I think freight was Rs.73.15 crores.

Uttam K Srimal: Power, fuel and transport?

Management: Rs.69.4 crores.

Uttam K Srimal: What was this figure last quarter?

Management: Power and fuel for Q1 FY21 was Rs.50.65 crores and transport was Rs.55.47 crores.

Uttam K Srimal: We are also selling some premium products. So could you give some color on what is the current percentage of we are selling in trade?

Management: We are selling Star Anti Rust Cement. As of now, it will be around 5% of our overall volume. But definitely there is a focus on it and we hope to improve this in coming quarters.

Uttam K Srimal: What is the price differential between premium cement and normal cement?

Management: Approximately Rs.25-30 a bag.

Moderator: Thank you. The next question is from the line of Dhaval Joshi from Sundaram Mutual Fund. Please go ahead.

Dhaval Joshi: Sorry, the line got disconnected when you started your answer. When we do dealer check, even Ramco has also started selling at around Rs.340. So I am just asking is there anything which we can foresee?

Management: We have also seen that as I said, right that volume from outside has actually increased in this particular period. But I do not think that is going to be a sustainable business thing. And only reason is the largest contribution as of now is happening only because as I said April, May and June their supplies were more if I look at the entire number, but their month-on-month supplies are not there has to be, they are only 10%, 12% higher as of now which is normal, right. And another thing which is helping them out is one is at this point of time the availability of rake is no issues, so there are a lot of rakes are available, otherwise the normal busy season time they do not get rakes to supply cement, that is second and the freight is also helping them because from September onwards there is always a busy season surcharge which is implemented by the Railways, which was not been implemented in this year because of the COVID thing. And then as I said that initially there were a lot of price gap between these places, but once our plants have started operating fully, that has got corrected and the retail prices is still not there. So, yes, other than these, few have also come, even Emami has supplied at certain rates at certain points. But we are not finding this as a sustainable trend.

Moderator: Thank you. The next question is from the line of Deepayan Ghosh. Please go ahead.

Deepayan Ghosh: You mentioned that going forward 2022 you expect to operate the Siliguri unit at about 65% utilization. Current cement production is reaching about 2.1 mt. So if I add another 1 lakh, 3.9 mt, you will be requiring roughly 2.8 mt of clinker. So right now, your clinker capacity would have come down in case the utilization go down because the maximum capacity of clinker is 2.8 mt right now. So what is …?

Management: Yes, correct. So as I said that the debottlenecking will be complete in next May, June, July, so that will take our capacity to around 3 mt. And as of now, definitely we will be looking at improving the blending ratio which we have at this point of time. So, I do not think that clinker, again not for current year, even FY’22 it should not be a problem. Yes, definitely FY’23 we may still face some shortage of clinker which we will be able to meet it from the various plants and we are looking at certain other options also to get clinker for Siliguri because we will needing clinker at Siliguri. But till FY’22, we do not think clinker is going to be a constraint.

Deepayan Ghosh: In FY’22, given your plants outside clinker would not be required but having said that the company will not be averse to buying clinker from outside right, sir which has not been the case till now I think?

Management: Correct, if you look at it, we are still selling some clinker, right, in this quarter also we sold around 20,000 tons of clinker, correct. If you look at it, we have been only producing around 2, 2.1 mt of clinker. In past also we have operated even our clinker plant at 110%, 115%.

Deepayan Ghosh: On the fuel mix for Siliguri, will we expect OPC, PPC, fly ash and some others?

Management: Siliguri will not produce any OPC. It will only produce PPC and we are looking at some options of having slag also there if we can get that slag.

Deepayan Ghosh: So you are saying PPC variant, right in Portland Slag Cement which will be produced in Siliguri?

Management: Yes, and then what will happen is we are still producing certain amount of PPC in our Durgapur hired grinding unit. That will get converted into 100% of slag. That will again improve the utilization.

Deepayan Ghosh: And sir, Siliguri hired units, what has happened to that sir, now that you have your own…?

Management: As of now, we have not taken any call. Probably going forward depending on what kind of market we have been able to capture and looking at what are the cost economics which are going to come up, we are going to take a decision on it.

Deepayan Ghosh: The hired units still continue?

Management: As of now, it is still, yes, yes, yes.

Moderator: Thank you. I would now like to hand over the floor back to Mr. Vaibhav Agarwal for closing comments. Over to you, sir.

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

Management: Thank you.

Management: Thank you.

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