"Star Cement Q3FY19 Earnings Conference Call"

February 5, 2019

MANAGEMENT:	**MR. SANJAY KUMAR GUPTA – CHIEF EXECUTIVE OFFICER** **MR. MANOJ AGARWAL – CHIEF FINANCIAL OFFICER**
MODERATOR:	**MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Star Cement Q3 FY'19 Conference Call posted by PhillipCapital (India) Private Limited. As a reminder, all participants' 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 entering '*' 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: Thank you, Melissa. Good afternoon, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q3 FY'19 Call 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 hand over the floor to the management of the company for their opening remarks, which will be followed by an interactive question-and-answer session. 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 the Third Quarter for FY19. I have with me Mr. Manoj Agarwal -- CFO of the company. He will take you through the Q3 numbers and the Nine Months numbers for FY19. After that we will open the floor for the interactive session where you will be able to ask questions and we will be happy to reply to those questions.

Management: Very good afternoon. I on behalf of Star Cement Limited welcomes you all to conference call for Q3 FY2019. Starting from clinker production, during the quarter ended December 2018, we have produced 6.02 lakhs ton of clinker as against 5.49 lakhs ton same quarter last year, that is growth of around 10% over last year. So far as cement production is concerned, we have produced 5.89 lakh ton this quarter as against 5.07 lakh ton the same quarter last year, that means an increase of more than 15% in our own cement production.

Now I will take you through sales volume. During the quarter we have sold 6.40 lakhs ton of clink cement and 0.15 lakh ton of clinker as against 5.63 lakh ton of cement and 0.57 lakh ton of clinker same quarter last year. There is a growth of 14% in cement and some degrowth in clinker. This is so far as cement and clinker sale is concerned.

As far as geographical distribution of cement is concerned, in Northeast we have sold around 4.96 lakh ton as against 4.17 lakh ton during same quarter last year which has growth of around 19%, and as far as outside Northeast is concerned we have sold 1.44 lakh ton of cement this quarter as against Rs.1.44 lakh ton same quarter last year. In terms of blend mix, it is almost 22% is OPC, 2% PSC and rest is PPC. These are the quantitative numbers.

I will now take you through the Financial: The total revenue figure for this quarter is around Rs.415 crores as against Rs.376 crores same period last year, that means there is a growth of more than 10% over the same quarter last year. As far as EBITDA figure is concerned, the quarter we have done an EBITDA of around Rs.123 crores as against Rs.142 crores last year, this is only on account of expiry of transport subsidy reduction is there. PAT after minority interest is Rs.80 crores as against Rs.89 crores in the same period last year. On per ton EBITDA front, it is 1,878 during this quarter as against 2,283 per ton same quarter last year. The difference is mainly on account of our expiry of freight subsidy which has expired in January '18. That is our quarterly quarter number.

Now I will take you through the year-to-date numbers. The total revenue figure for the nine month ended December '18 is around Rs.1293 crores as against Rs.1,083 crores same period last year, that means there is a growth of more than 19% over the same period last year. As far as EBITDA figure is concerned during nine month ended December '18 we have done an EBITDA of around Rs.324 crores as against Rs.378 crores last year. PAT after minority interest is Rs.209 crores as against Rs.223 crores in the same period last year. On the per ton EBITDA front 1,607 during the nine months ended December '18 as against 2,100 per ton same period last year. These are the quarterly and nine month period ended numbers.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer-session. We have the first question from the line of Anupam Goswami from Stewart and Mackertich. Please go ahead.

Anupam Goswami: Sir, what is the power and freight cost for this quarter?

Management: Power and fuel cost is Rs.70.76 crores and freight is Rs.77.77 crores this quarter.

Anupam Goswami: Do you use pet coke in your plant or coal?

Management: We are using coal only.

Anupam Goswami: Can you share some light on the pricing trend of the coal -- has it gone up now?

Management: I think this quarter we have seen some increase in the cost of coal, but it is more or less stable, there has been an increase of approximately around Rs.500 per ton kind of coal cost, that has gone up, because now the season will come to an end in the month of March, it has already started tapering off because we are already in the month of February. So the coal stocks are actually depleting. FY20 the prices will remain at the same level.

Anupam Goswami: What is the current price now?

Management: The current price will be somewhere around Rs.5,500 a ton.

Anupam Goswami: Is there a sale of Goldstone and MAX units in Northeast?

Management: No we are not aware of anything of that sort.

Moderator: Thank you. We have the next question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: On the volume numbers, could you repeat again, clinker I heard 6.02 lakh and cement production and sales data and this Northeast sales and all that you share please?

Management: Own cement production is 5.89 lakh ton. Total own plus purchase is 6.39. Northeast total sale is 5.01 lakhs.

Rajesh Ravi: This includes clinker also?

Management: 4.96 lakh ton only cement.

Rajesh Ravi: Outside Northeast cement sale is?

Management: Out of 6.40, the balance is outside Northeast.

Rajesh Ravi: Northeast you are growing in high double digit?

Management: Yes.

Rajesh Ravi: It is around 19% growth is right Northeast.

Management: Yes.

Rajesh Ravi: Sir, what would be the trade, non-trade, OPC and PPC mix this quarter?

Management: In percentage terms, the trade is 79% and non-trade is 21%.

Rajesh Ravi: This last year what was it?

Management: It was 76% and 24%.

Rajesh Ravi: September quarter was similar?

Management: September quarter was 83% and 17%. For nine months it is 79% and 21%.

Rajesh Ravi: And OPC, PPC slag?

Management: PPC 76%, OPC 22% and 2% is PSC.

Rajesh Ravi: Any traction sir like your volume is growing in Northeast almost 20% growth in nine months. How is the industry doing and what sort of your market share gain that you and maybe Dalmia would have seen as you have been talking about?

Management: I have been always saying this, the overall capacity in Northeast is constrained, there are no cement plants which are in pipeline. So if you look at overall entire capacity in Northeast, the total clinker capacity is somewhere around 7, 7.5 mt. Now with this kind of capacity in Northeast, the cement which can be made is around 9 and 9.5 mt. So last year Northeast we have seen around 8 mt kind of demand, this quarter the Northeast cement demand growth is somewhere around 10% and I think we are going to end the year at least in double-digit. This year the overall demand will be somewhere around 9 mt which is almost at the peak of the capacity. So people who have lower capacity utilization they have their head room to grow their volume, they will have more volume growing because other smaller cement plants have almost been operating at 100% or near 100% capacity utilization. So any incremental demand which comes in Northeast is going to come to the people with better headroom in volume.

Rajesh Ravi: So, this implies that you will continue to gain market share because obviously you have surplus capacity and the demand remains strong?

Management: Correct, in terms of cement our capacity utilization still remains on a nine-months basis we are somewhere operating around 60% to 65% still there, so we have a lot of headroom in terms of ramping up our volume. So looking at the demand, most of this demand will be catered by people like Star and Dalmia who have more capacity to supply in the market.

Rajesh Ravi: Sir on the cost front anything like sequentially you mentioned that there is some increase in the fuel cost, because diesel prices have corrected sequentially in Q4 I am talking versus Q3 and also how would fuel cost trend be for you in Q4 versus Q3?

Management: As I said that there is some increase in the coal cost which we have seen, I think that is going to continue because ultimately overall mining cost is also going up for the miners, right, we are seeing some increase in the cost and we expect this increase will continue. So that may have some impact, but over a period of time those costs will definitely get passed on. We have seen some increase may also come in statutory liability such as the royalty for sale and royalty for minerals has been increased from Rs.60 to Rs.100, so there can be an increase of around Rs.40 kind of thing that may come from the royalty front on the miner numbers.

Rajesh Ravi: How much -- Rs.40 per ton of coal you are saying?

Management: No, Rs.40 overall, it will have an impact of around Rs.10 kind of a thing on an overall cost in raw material.

Rajesh Ravi: Some impact, normal inflation in the coal you are saying?

Management: Absolutely.

Rajesh Ravi: Like your advertisement spend and all, do you see what level you see them -- would they increase or you may again see them coming off because the volume growth is strong?

Management: No, I think the advertisement spends this quarter also they have remain flattish as compared to the corresponding quarter the expenditure are more or less same, but definitely when we start the Siliguri plant there may be some increase in the advertisement, but that is going to come up may be in the third quarter of FY20. So the times we may see some increase in the advertisement, but that may be one off kind of a thing especially for one or two quarters.

Rajesh Ravi: Lastly, if you may want to continue on the CAPEX what are the projects which are there happening in terms of Siliguri timeline and railway siding at Meghalaya?

Management: As far as the railway siding project is concerned in Guwahati plant, the engine rolling has already happened. So we hope that within this month we will be able to start dispatching first batch, that is one. Siliguri project this on schedule. We had given timeline of November, December starting of commercial production. On the third quarter we are on track to achieve that.

Rajesh Ravi: Sir, debottlenecking at your clinker unit, is that already completed?

Management: We have done some part of the debottlenecking exercise. Some will definitely get in this shutdown.

Rajesh Ravi: So 0.2 million is the total expansion, is that the right understanding sir?

Management: Your can take that.

Rajesh Ravi: Lastly, any further major expansion plan that you have at Northeast or outside?

Management: As I said, whatever is there, that is there on the drawing board, we are looking for something to set up the clinkerization, but that has still not been finalized. So as soon as it is finalized we will definitely make that.

Moderator: Thank you. We have the next question from the line of Jaspreet Singh Arora from Systematix Shares and Stocks. Please go ahead.

Jaspreet S Arora: Just carrying on with that previous question of Rajesh, I thought debottlenecking you had mentioned last time when we had spoken was 0.4 from 2.6 to 3?

Management: No, that is definitely there, but that is the full debottlenecking. As I said right, the expenditure which we done in the last quarter and what we have completed. The debottlenecking will not happen at one go. It is a standard process. So some of the things which we have achieved. There will be an increase in production. So it will be fair to assume around 0.2 we would have already achieved it right and may be the balance will definitely we will take it up in the next shutdown, which is going to come in FY20.

Jaspreet S Arora: What you are saying is 0.2 is already done and the balance may be another 0.2 is possible let us say a year from now?

Management: Yes, correct.

Jaspreet S Arora: You had also mentioned about the next clinker project in Meghalaya 2 mt. The EC clearance, what was the bottleneck, and post that you would have gone ahead and ordered let us say by April, so are we now saying that we have kept it on hold or it is still subject to EC?

Management: No, it is still subject to EC. We have made application. I think once we get the clearances, then we will decide the timeline for setting up the project.

Jaspreet S Arora: On the news which had come about couple of weeks back from NGT where the coal mining was banned, so if you just help us give an update how does it affect us and to the industry at large in that region?

Management: Please understand this, the NGT coal mining ban is not new, it is there from 2014 right.

Jaspreet S Arora: It is the transport which was banned now?

Management: It has just been the transport and they have been allowing this transportation because there has been a lot of coal which is over-ground and it is lying in all across Meghalaya. Meghalaya has got 600 mt of limestone reserve state. So there is availability. The only question is there is a temporary ban on not to transport it, but over a period of time in last four years we have seen that the NGT or Supreme Court had been always allowing the transportation of coal which is already there right. So we do not see any problem as far as the availability of coal is concerned. We have also been sourcing certain amount of coal from eastern coal field, the small SSA which we have, also sourcing some coal from eastern coal field auctions. Those things are still continuing. We are also sourcing some coal from Nagaland. So all these are mix and match, is still continuing. So we do not see any major changes happening because of this temporary ban on the transportation.

Jaspreet S Arora: So, is there a case where we have some inventory and therefore we are not impacted as much or are you saying for us the transport element is not there because we are reasonably close to the mine, I am not exactly clear why it does not impact us at all?

Management: No, I am saying whatever the cost impact which I have told you, right, about this quarter; I think we have seen around Rs.500 kind of cost impact. It is not purely on price, it is also on transportation, some blended cost has gone up because of the transportation increase also. But I am saying is overall cost I still feel that maybe FY20 still will be around Rs.5,500-6,000. That is what the range we are seeing it. So, on that side, I am not saying impact on the cost side of it.

Jaspreet S Arora: I believe there is some news which says that there is a next hearing is on 19th of Feb from the Supreme Court and there will be clarity after that. So, is that the correct way to look at it and post that we will have the new arrangement as to where it continues or not?

Management: You are right, the hearing is on 19th. We always had good amount of inventory of coal we carry, but definitely on 19th Supreme Court has already allowed 2 lakh tons of coal to be carried, right and they have intermittently stopped that, I think they will still continue doing that. Because the state cannot run without coal and this is from local people it is bread and butter. So there has to be some ways found by Supreme Court in transportation.

Jaspreet S Arora: Just the last thing on cement prices. Are they flattish or they are slightly weaker than the current prices versus the last quarter average in our region?

Management: I think from last quarter to this quarter, there were some weakness because of the off-season being there. So we may have not seen correction in prices. But I think they are more or less I will say you ask me not going by QoQ and on nine months basis I will still say they are flattish to a little bit of an upward bias. I still feel that we see it continue to be flattish with some upward bias.

Moderator: Thank you. The next question is from the line of Devansh Nigotia from SIMPL. Please go ahead.

Devansh Nigotia: Can you elaborate on the existing capacity being used and the capacities that are coming up and the competitive landscape over there?

Management: Overall the clinker capacity for all the plants which are there in Northeast right, is around 7, 7.5 mt as of now. But if you look at installed capacity in Northeast it is somewhere around 11 mt. But out of this 11 mt, around 1.5 mt kind of installed capacity, there is a small grinding unit, right, who do not have a Clinkerization with them. So with 7.5 mt of clinker and the cement which can be made is somewhere around 9, 9.5 mt. And there is no capacity in pipeline right. So anybody who wants to set up a clinkerization plant, he will at least take three years to start the plant, right. This year the demand is going to be around 9 mt. So, if we look at in trend wise, the clinker availability to the smaller grinding unit is not there. So effective capacity is somewhere around 9, 9.5 mt only and by this year it will be 9 mt demand market. We see there is an equilibrium coming up as far as the demand and supply is concerned. So, if the demand continues to grow in double digit which we are seeing in last three quarters, we hope that it will be very good for the people who have still some headroom who are having some capacity still to supply in the market. People like Star, Dalmia, we are still operating around 60-65% of our cement capacity. So, we will definitely have some advantage.

Devansh Nigotia: Northeast, ballpark number, all of them would have the same utilization, right, around 60%?

Management: No, smaller players must be operating at almost around 90% now. That is what I am saying that any incremental capacity and that is reflected in our nine months results also. Nine months volume growth for us in Northeast is somewhere around 18%, 19%, right on the back of around 10% of demand growth, right. So this kind of growth which is coming up is primarily because of the fact that the smaller players are already operating at the peak of their capacity. So incremental demand is definitely coming to the people who are in a position to supply.

Devansh Nigotia: This is happening across India and maybe the volume growth is double digit but then the pricing power has not come. So, when are the cement players start increasing the prices, how are you really looking at it?

Management: In Northeast, I think the prices have fairly been stable and going forward when the demand overshoot supply, definitely there will be some pricing pressure which is going to come in, there will be some pricing upward movement we will see. As far as the other part of the East is concerned, like Bengal, Bihar, Jharkhand and these places, yes, there has been good growth vis-à-vis the last year because the last year definitely cement demand has suffered because of non-availability of sand and the issues of sand mining and other things both in Bengal and also in Bihar. I think those issues this year they are not there. So we are seeing a good healthy growth as far as the Bengal is concerned, but there has been some supplies also coming in, in Bengal, new plants are coming up. We will be starting a plant next year, right. But I think East we definitely feel that the way the demand are moving in Bengal and Bihar our view is that the prices will be more practically stable. We do not see any pricing pressure coming in. Demand/supply gap will definitely decide when the prices will move up. So we cannot exactly time when the prices will move up but with the demand growth we are happy about it.

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

Ritesh Shah: Sir, first is any update on outstanding subsidies? I think earlier you had indicated timeline of Rs.250 crores by March.

Management: Ritesh, the subsidy outstanding remains and it is around Rs.400 crores roughly. Yes, we are still saying that there will be something which is going to come before maybe somewhere around Rs.250-250 crores. We are still hopeful to get this amount within March. Whatever information we are getting from the central government this disbursement will take place before March, but it is all government. I can only tell you what we have been able to understand from the discussion which we had with the ministry.

Ritesh Shah: How do we plan to deploy the capital going forward given we are almost net cash, are there any debt on the book, are we looking at anything organic expansion something big or are we chasing inorganic growth?

Management: As I said, Ritesh, Siliguri unit is already coming up, so we will need cash there. There is a plan to set up 2 mt Clinkerization plant in Nagaland and in between there is some inorganic growth comes up and it fits our ticket size, we will definitely look at it. So, we are not ruling out any inorganic growth but as of now we are fully concentrating ourselves in setting up the Siliguri project and working towards getting the clearances for the clinkerization project.

Ritesh Shah: On inorganic side, will we look at Northeast or are we open to eastern region as well?

Management: We are looking at Northeast also and East in the sense we have a dairy of interest, for us Bengal, Bihar and Jharkhand, we are not going beyond this.

Ritesh Shah: Are you hearing up any NCLT assets actually coming to the market in Northeast, because lot of smaller players there are under lot of balance sheet stress right now. So what we are hearing is there could be two, three companies which would get to the market. So is it something that also of interest to us?

Management: As I said, Ritesh, there can be some companies which may come to NCLT but the size of those companies will be very small to get into any kind of an acquisition there. But if any company which comes up with size which suits us definitely we will be interested in that.

Moderator: Thank you. The next question is from the line of Pratik Maheshwari from Ambit Capital. Please go ahead.

Pratik Maheshwari: Sir, I actually wanted to get the numbers for the freight and power cost for this quarter versus QoQ and YoY?

Management: Power and fuel is Rs.70.76 crores this quarter and freight cost is Rs.77.77 crores. September quarter power and fuel was Rs.37.68 crores and freight was Rs.37.04 crores. For YoY power and fuel was Rs.37.04 crores and freight was Rs.63.03 crores. YTD December last year it was Rs.152 crores nine months. Power and fuel was Rs.141 crores.

Moderator: Thank you. The next question is from the line of Siddharth Jain from Anvil. Please go ahead.

Siddharth Jain: Sir, could you please once again explain the royalty expenses that you mentioned earlier?

Management: As I was mentioning that, there has been some royalty increase which have been announced by state government on sale play which we use in our manufacturing process which is around 18%.

Earlier the royalty for sale was around Rs.60, now it has been increased to Rs.100. So there can be an impact of 10, 15 on overall cost.

Moderator: Thank you. The next question is from the line of Girija Ray from Dolat Capital. Please go ahead.

Girija Ray: Just wanted to know cement sale and clinker sale for the quarter?

Management: Cement sale is 6.40 lakhs and clinker sale is 0.15.

Girija Ray: What is the sale in Northeast region?

Management: It is 4.96.

Moderator: Thank you. The next question is from the line of Vishal Periwal from Maybank Securities. Please go ahead.

Vishal Periwal: If you can give power and fuel cost for the third quarter of last year?

Management: Third quarter power and fuel was Rs.57.27 crores.

Vishal Periwal: Similarly the freight one?

Management: Freight was Rs.52.84 crores.

Vishal Periwal: Second, this pending subsidy of Rs.400 crores, is it primarily from the central government or any state government is also involved in this?

Management: It is a central subsidy.

Vishal Periwal: The last one is on price hike. I think that is one number probably all of us are looking. So have we taken any hike probably in January or February till now, any decision vis-à-vis December month, any upward or downward?

Management: We did some small increase of around Rs.4-5 in this February month started. Our view is that the prices will remain firm. Maybe some upward bias will definitely be there looking at the demand/supply situation which is in Northeast.

Vishal Periwal: Quarter-on-quarter there will be some kind of improvement in the fourth…?

Management: I think it will not be appropriate on my part to comment on prices how is going to behave. We will see as it comes.

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

Pratik Kumar: Sir, my first question is regarding freight cost, have we seen any benefits of change in axle load norms in our numbers till now?

Management: Most of the problem is that in Northeast the governments have still not issued notification as compared to increase in axle load and things like that. We are already talking and pursuing with most of the state governments, one government have already done it but others are really very reluctant to do it. That is something we have not been able to crack as of now. But we hope going forward definitely they have to abide by what the regulation have been set in. So, we hope in coming quarters that will definitely have been notified and we will derive the benefit from that.

Pratik Kumar: What would be our current net debt position?

Management: Net debt will be somewhere around Rs.20 crores, in the sense that whatever term loans and short-term borrowing which we have and net of fixed deposits, everything which we have and net cash.

Pratik Kumar: The split that you have cement and clinker, 6.4 lakhs for cement and 0.1 lakh for clinker, Northeast split also include clinker or it is excluding clinker?

Management: There will be some amount of clinker in Northeast also; total sale is 4.96 and 5.05, around 89,000 tons is there. Out of 15,000 tons clinker which we have sold, 8,000 tons have been sold in Northeast.

Pratik Kumar: The last year's number of Northeast and East was like around 0.418 mt and 0.202 mt in East. So out of these where is clinker included?

Management: Corresponding quarter last year we sold was 57,000 tons. No clinker sold in Northeast. Everything outside Northeast.

Pratik Kumar: So like-to-like cement number is actually flat in East; 0.14 versus 0.14?

Management: Correct, it is flat.

Pratik Kumar: Clinker capacity is 2.6. When you say that the industry cement capacity is 11 mt. So what is the implied capacity which you are taking for yourself and for let us say Dalmia?

Management: Our cement capacity in Northeast is around 3.8 mt. Clinker capacity presently we have around 2.8 mt. But cement grinding is around 3.8 mt. with us.

Pratik Kumar: But is it excess or is it in line with the clinker what you have?

Management: No, the cement capacity is still in excess of clinker capacity.

Pratik Kumar: Clinker equivalent capacity sir. How much would that be?

Management: Clinker equivalent capacity will be 3.5 mt. We have 2.8 mt of clinker as of now. So if we do 1.25 or 1.3, it will give you 3.6 or 3.5.

Pratik Kumar: My question was basically if everyone is making so much money in the market and everyone is earning full, why other players are not looking for expansion -- there are some issues or what are the general issues smaller players are facing. We have excess capacity.

Management: Please understand that there are two very significant players. In a 9 mt market, we are sitting with 3.8 mt capacity and Dalmia is sitting at around 2.6 mt capacity. So the top two players or one more player we are sitting with around 70% of the capacity in Northeast, right. So it will not be easy for anybody else to come in the region, that is one. Second, anybody who wants to come in this particular region will take at least five years to set up a plant. It is not that people are not looking at it. Dalmia came into the region, right. Dalmia was not the person who originally set up the plant, they are quite organic and then came to Northeast. There may be a possibility where people from outside look at this region. This year it has grown at around 10%. So there is nothing that people are not looking at this region. Going forward we cannot rule out anyone coming into the region.

Moderator: Thank you. The next question is from the line of Varun Basrur from AQF Advisors. Please go ahead.

Varun Basrur: I had a question regarding Bengal, Jharkhand market. This is mainly PPC?

Management: Yes, this is mainly PPC, some OPC and some PSC also.

Varun Basrur: But this is largely PPC market right?

Management: The different regions of Bengal has different markets for different cement. North Bengal is PPC, South Bengal is predominantly PSC and PPC. Bihar is Mostly PPC. Jharkhand is some PSC and some PPC.

Varun Basrur: Within PPC, what is the percentage of fly ash?

Management: The percentage of fly ash depends on the quality of clinker people are having. So we add around 30% of fly ash.

Varun Basrur: Once again coming back to North Bengal and Bihar. These markets demand growth is coming from IFD or coming from some other segments?

Management: Largely this quarter demand which is looking very good is on the back of very low numbers in the corresponding quarter of last year. So that is why the numbers are looking really robust. I think they are going to moderate over a period of time. Yes, most of the demand is definitely coming from retail segment, not from the institution segment.

Moderator: Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: My first question is why our volume is flat when the industry demand is so strong?

Management: Ashish, please understand that, we are setting up Siliguri units to cater this market, right. So we have been trying to focus on the markets which will over a period of time we are going to cater. Siliguri market will largely cater to North Bengal, East Bihar and little bit of West Bihar, not the entire Bihar, right. So, we are not pushing sales in this market till the new plant comes up because the lead distance from my Guwahati plant actually increases, right, and the pricing has not been very stable in last nine months, the prices in South Bengal practically and West Bihar have dropped actually and it increases my lead distance also. So we are not selling for the sake of selling and we will go whole lot in these markets once the Siliguri plant starts operating.

Ashish Jain: My question was more because our capacity utilization has lot of room to improve?

Management: I think we need to understand this. The capacity is mostly in Northeast, we do not have capacity in Bengal and Bihar, right. So catering to Bengal and Bihar markets, beyond a point is it is not feasible for us and hence we do not want to do that at the cost and at the expense of the margins and the markets which are there in Northeast.

Ashish Jain: Also, can you just share the volume for September quarter for us?

Management: September quarter we have sold cement 5.48 lakhs, clinker sale was 0.8 lakhs, put it altogether 5.56 lakhs.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Ashish Jain: Just refresh the subsidy understanding, how much you are getting right now and which line items you are showing it in?

Management: The transport subsidy what we have already got is not reflected in this year's number because the transport subsidy already expired in the month of January 2018. So the numbers which we are having for this quarter and even for the nine months period for FY19, they do not include any subsidy. And the transport subsidy was included in the corresponding period last year.

Ashish Jain: What about the excise, GST subsidy?

Management: Excise subsidy is common in both the quarters. As I have been saying we had excise on Rs.350 overall and transport subsidy of Rs.350. There was a subsidy of around Rs.700. Transport has already gone. Excise is still pending. Excise subsidy is shown in the operating income.

Ashish Jain: Revenue is higher by that amount, right?

Management: Obviously, yes.

Ashish Jain: This is continuing till 2023, right?

Management: Yes, one plant is going to continue up to 2023, another plant will continue up to 2027.

Ashish Jain: What is the capacity of the two plants where it will continue till 2023 and 2027?

Management: 2023 capacity is 2 mt and 2027 the capacity is 1.2 mt.

Ashish Jain: Outstanding Rs.400 crores subsidy, that is on account of a combination of both transport and …?

Management: No, this Rs.40 crores is towards transport subsidy which has already been booked. We are just waiting for the disbursement of the subsidy.

Ashish Jain: Capital subsidy also there is no outstanding na?

Management: We have already got all that.

Ashish Jain: This excise subsidy you are getting, there is no receivable on this, you are getting constantly from the government?

Management: We keep on getting every quarter.

Ashish Jain: Sir fly ash if you can share like what is the landed cost?

Management: Landed cost of fly ash at our Guwahati plant is somewhere around Rs.1700-1800.

Ashish Jain: Sir, this Siliguri plant, you will take clinker from Meghalaya, right. So the current market for the Siliguri catchment area is which market this service like North Bengal and East Bihar, is it?

Management: Primarily, North Bengal, but there will be some markets going in South Bengal also, like a market like Durgapur, Birbhum.

Ashish Jain: As of now that market is getting clinker from which region?

Management: As of now we have a small Durgapur plant, right. So we are catering slag into this market and they will be getting clinker all the way from Meghalaya only, right.

Ashish Jain: Not about you, in general, the market like other players, how are they servicing this market?

Management: Most of the units which are there in South Bengal market, they have their mother plants either in Chhattisgarh or M.P., so mostly this plant get the clinker from Chhattisgarh or from M.P.

Ashish Jain: So your distance of 700 Kms versus Chhattisgarh is lesser, is it?

Management: No, I think the freight cost will be more or less similar from our plant and from their plant, maybe Rs.100 or 200 more costly for us.

Ashish Jain: Then what is the advantage in that market by getting clinker from Meghalaya?

Management: We definitely compare the clinker buying pattern, right. Except the freight cost, if I am going to buy it and then give it, my variable cost per clinker is only Rs.1500 a ton. There is no comparison honestly. We do not have unit in Chhattisgarh or M.P. right?

Ashish Jain: No-no, I am saying, you will be competing with players who are getting clinker from Chhattisgarh, M.P. and you are saying your freight cost is going to be higher versus theirs and their marginal cost of clinker will also be closer to Rs.1500 like yours, so you do not have a clinker advantage or lead distance advantage. So what is the advantage that you have in trying to enter that market?

Management: What we are trying to do is, this is the unit which we possess. First of all, this is the lease unit. To service the entire market, we are going to have a plant in Siliguri. Siliguri plant we are going to get clinker. We are just going to get substantially at lower cost, #1. #2, the fly ash which we are catering as of now to these plants, landed cost of fly ash is going to be much cheaper for us into Siliguri, in Guwahati or anywhere else, correct. We are going to cater to this market from Siliguri. This particular Durgapur plant will continue to make Slag cement. Once overall our cost dynamics since we have as I said, as of now, in Meghalaya plant we do not have any railway siding. I was mentioning that in our Guwahati plant, there is a regular siding which has already come in, right. So as of now our cost of clinker is higher because it is a total TDC, right. So we are handling clinker in a siding which is not our side. So there is a loading/unloading cost and all that getting involved, right. So once we are going to have these things from ours, our cost of delivery of clinker is also going to be cheaper with the railway siding at Guwahati plant.

Ashish Jain: Railway siding is there at Guwahati plant, but not at Meghalaya?

Management: Not at Meghalaya, correct, but it is still not commissioned as I said. We just had engine rolling three, four days back. We are going to start it commercially within this month.

Ashish Jain: But Guwahati is just grinding unit, right, it is not clinker?

Management: It is a grinding unit, but we are going to supply clinker to this plant via railway siding.

Ashish Jain: This power and fuel, if you can just clarify again, so what is the sourcing right now, it is 100% coal from Meghalaya region, right?

Management: It is not 100%, it is predominantly Meghalaya but there is some amount of coal we are buying from fuel supply agreement from Northeast coal fields, there is some amount of coal we have got from ECL and there is some amount of coal which we are buying it from Nagaland and those are very small quantities, it is just because you watch the resource I told you.

Ashish Jain: Sir, the worst case if there is ban on this mining and you have to procure it from outside, so what is the cost increase that you incur?

Management: I think it has not happened as yet. I am not contemplating that kind of a scenario as of now, but nothing happens and everything has to be got in, I think I will have an impact of Rs.100-150 on cost.

Ashish Jain: So can you just give me like on a per kCal basis what is the cost right now for you if you were to import, so I can work that out?

Management: Practically, as I said, the cost of buying coal as of now is around Rs.5,500 which our expectation is going to be somewhere around Rs.5,500 to 6,000 a ton at this point of time.

Ashish Jain: Buy it from outside?

Management: No, if I want to buy it from outside, it will be definitely more, it is going to be somewhere around Rs.8,000 a ton.

Ashish Jain: That will impact you by Rs.150 a ton?

Management: Approximately.

Moderator: Thank you. The next question is from the line of Girija Ray from Dolat Capital. Please go ahead.

Girija Ray: Just wanted to know like in Northeast market the prices, is there any impact on the price per bag, if in case the Northeast region prices is higher than M.P., U.P., region per bag, is there any correlation between the price between the states?

Management: No, there is no correlation between the price.

Girija Ray: Q2 I was just going through that concall right now, if in case in Northeast prices are high per bag, then the supply more comes from the U.P. and M.P. region to the Northeast region. So in that way like there will be price decrease means players are bound to decrease the price in Northeast region, so just wanted to know like how…?

Management: The question is if there is a difference in price how much is the difference. If the difference is Rs.50, 60 a bag, it is not possible because the freight cost between these regions is around Rs.2,500 a ton which is around Rs.125 a bag. If the price difference increases to Rs.150 a bag, definitely there will be an impact. But we do not see that kind of a scenario prevailing. The price difference actually get created because of the various market movements. Sometimes even if the price in the Northeast are stable, the prices in M.P. and U.P. falls to the level and create that kind of gap, right. So if that gap comes up, definitely there will be some materials going to be come in. Either the prices in Northeast will go up or they will go down or the prices in U.P. and M.P. will go up or go down. If any situation if it is created beyond Rs.120 kind of a bag, definitely the prices going to come. There will be some cement flow which will come.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: I have just two follow up questions. On the railway siding, Assam you already have railway siding right and Meghalaya which will happen in February?

Management: No-no, there are two things, Rajesh. You are getting confused. There is a siding which is still away from our plant in Guwahati. This siding which we have created this is inside our plant. This is our own railway siding at Guwahati.

Rajesh Ravi: Meghalaya you do not have any such things?

Management: No, Meghalaya, there is no connectivity of railway.

Rajesh Ravi: On the incentives that you are talking about FY'23 and FY'27, end of '20 anything going away or they will be extended till FY'23?

Management: Nothing moving away in FY'20.

Rajesh Ravi: Rs. 150-odd per ton will continue till FY'23?

Management: It will continue till FY'23.

Rajesh Ravi: On the pricing in this quarter sequentially December quarter, what sort of like-to-like pricing correction versus September to December quarter in your average cement pricing?

Management: This is the off season I think we saw some very small reduction in prices about maybe Rs.100 or something.

Rajesh Ravi: Because the blended realization QoQ is a dip of 4%. Because your Northeast volume remains stable at 77%. There is a marginal increase in clinker sales. Obviously, that would have impacted the realization. But was there any like more than 2, 3% correction in your cement price?

Management: I am able to do that in some correction in some markets or markets like where we have not been doing significant volume also. In Northeast also, there are seven states, right. Some markets have some correction of about Rs.100 a ton must have been done. All those are due to seasonality. But I think we have already come back and then prices are absolutely stable. They are really-really being very stable to our supplies.

Rajesh Ravi: Lastly, when you are talking about the fuel cost this quarter may jump on a per ton basis of cement where Rs.100-odd. So, you or Dalmia may try to pass it on?

Management: Again, as I said, as of now, this is purely a hypothetical question that if something happens and then if we do not get anything from Northeast. That situation we are not contemplating at all.

Rajesh Ravi: Currently, your coal cost has not gone up. You are expecting that if you have to procure from outside, then your cost calculations may go up by that amount?

Management: Correct. That is the only thing which I said, but as of now we are just not contemplating anything of that sort.

Rajesh Ravi: Net debt number you said how much?

Management: Net debt is Rs.20 crores.

Rajesh Ravi: Because nine months we have made good cash profit if I see from the P&L and we have also received the incentive. So, you would still be lying around with the net debt number?

Management: There is Rs.20 crores net debt. We have been making investment in Siliguri project also and we have not borrowed anything from outside.

Rajesh Ravi: CAPEX outlook for next two years if you could guide?

Management: We said that Rs.350 crores amount is going to spend in next year. Some amount will go in the next quarter and then after that the balance will go in the next year. Further I will be able to only comment when we take a decision on clinkerization project when and what are the timelines for setting up that clinkerization project.

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

Pratik Kumar: On this CAPEX, just to clarify, what is the nine months CAPEX in FY'19 and full year number for this year and next year, I know you said Rs.350 crores that is going to be spent on Siliguri but the number including how much is the maintenance CAPEX?

Management: I need to get back to you on this exact number how much have we already spent in Siliguri and how much is going to be the balance number. There will be some debottlenecking expenses which is going to come up for the next shutdown also. Post the query to us by an e-mail. We will definitely reply to that query.

Pratik Kumar: Is there any GST subsidy or refund which is pending over and above Rs.400 crores of that freight subsidy or they are like received every quarter by quarter?

Management: Received every quarter.

Pratik Kumar: That just goes off like FY23 or '27?

Management: Yes, Rs.350 crores is the overall ballpark number for the overall quantity. One plant is going outside the GST refund network in 2023, another plant is going in 2027.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Vaibhav Agarwal for the final comments. Please go ahead.

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

Management: Thank you, everybody.

Moderator: Thank you gentlemen. 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.