



“Star Cement Limited Q2 FY18 Earnings Conference Call”

November 14, 2017



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Moderator: Good Day, Ladies and Gentlemen. And Welcome to the Q2 FY18 Conference Call of Star Cement, hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Thank you, Margret. Good morning, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q2 FY18 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 opening remarks, which will be followed by interactive Q&A. Thank you and over to you, sir.

Management: Good morning, everyone. I am Sanjay Gupta – CEO of Star Cement Limited. I would like to welcome you all in the earning call for Q2 FY18. I have with me newly appointed CFO – Mr. Manoj Agarwal. I will request Mr. Manoj Agarwal to take you through Quarter 2 financials. After that, we will open the floor for interactive session, and then you will be able to ask questions and will be happy to reply to those questions. I will request Mr. Dilip Agarwal to brief you about Q2 numbers. Over to Mr. Manoj Agarwal.

Management: Hi, friends. Very good morning. This is Manoj Agarwal. I, on behalf of the Star Cement Limited welcome you all on the interactive session to discuss the earnings for Q2 and YTD September 2017. I would like to clarify that these are all the historical numbers, and this is not an invitation to invest. Having said so, now I will take you through the Q2 number and YTD September numbers.

As far as cement production is concerned, we have produced 4.48 lakhs this quarter as against 6.01 lakhs last year. As regards sales volume is concerned, during the quarter we have sold 4.38 lakh ton of cement as against 6.01 lakh ton of cement same quarter last year. In terms of blend mix is concerned, the 30% is OPC, 3% PSC and rest is PPC.

Now, I will take you through the financials:

The total revenue figure this quarter is around Rs. 281 crores as against Rs. 311 crores last year. And on EBITDA front this quarter EBITDA is Rs. 78 crores as against Rs. 59 crores last year. There is a growth of 30% in EBITDA. PAT after minority interest is Rs. 26 crores as against Rs. 2 crores last year, there is a growth in PAT. On per ton EBITDA front it is 1645 during this quarter as against 969. This is what our quarterly numbers are.



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Now, coming back to YoY number:

On the cement side we have produced 11.05 lakh ton of cement till September 2017 as against 13.5 lakh last year. **(Inaudible) 3:32.3** is concerned, it is 50% as against 66% last year. This is after considering the 4.4 million ton expansion we have done putting up **0:03:43.2** project.

Now, coming to sales:

We have sold 11 lakh ton of cement up to September 2017 as against 13.55 ton last year.

Now, I am coming to EBITDA. The total EBITDA since September 2017 is Rs. 237 crores as against Rs. 152 crores last year for the same period. PAT since September 2017, Rs. 133 crores as against Rs. 37 crores last year till September. There is a growth of almost 56% over last year of the same period.

So, these are the broad numbers, gentlemen, so far Q2 earnings and YTD September is concerned. Now, the floor is open for interactive session. Thank you very much.

Moderator:

Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal:

Sir, first on volume front, the first half has been weak and Q2 there is a sharp decline as well. If you can highlight what is the reason for this and your full year guidance, now do we want to cut it down and what is the outlook there? So, the volume has been declining for some time now, so when do you think actually things will be positive? And on the raw material side I see a jump in the cost per ton, so why that is going up, if you can highlight that also it will be helpful.

Management:

Madan, in terms of volume, let me first say, quarter two numbers are down primarily on account of two, three factors. The flood in Assam and in the entire eastern region was very severe in this quarter, particularly in this season as compared to earlier quarters. Almost for around I will say for 23 days the entire Northeast was virtually cut off from the Bengal, so there was a bridge which got collapsed. So there was a very little movement that happened from Northeast to this part of the country for supply of cement. That is one. There was a disturbance taking place in hills, mostly in north Bengal hills which is Darjeeling and all and in this quarter the two months were disturbed because of Darjeeling agitations were going on. There was a severe shortage of sand which is there in Bihar market, which has impacted the volume. So, these are major reasons for decline in volume. But we still maintain that on a full year basis we still say that we will be growing at least 10% on top-line volume terms. We still hope that we will be able to get through that number. Normally it happens that in cement first quarter is almost 40% - 42% of the entire volume, the next quarter is normally around 55% - 60%. So we hope that and we have seen the volume has started picking up in this month,



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November being a better month because of no festivals in November, we hope to do much better in November. So, I think we will be able to pick it up.

Madan Gopal: So, you are maintaining your guidance for full year, 10% volume growth?

Management: Yes. So, I think we had to take about 10% volume growth in this year FY18 and we hope that we will be able to meet that.

Madan Gopal: That is like almost 1.9 million ton you need to be doing second half, it looks possible in your opinion?

Management: I think so, I think we will be able to do it.

Madan Gopal: And sir, did you lose market share in the first half?

Management: See, in Northeast we have not crossed the market the Northeast market in this quarter has only grown by around 1% - 2%. And there is a decline in overall demand as far as east is concerned. So, considering that, we have maintained our market share as far as the Northeast is concerned. But yes, definitely we have lost Assam market share.

Madan Gopal: Okay. In the Northeast our volume grew by lower single-digit, is it?

Management: Yes, the Northeast decline is only 3% - 4% in totality.

Madan Gopal: Sir, raw material cost seems to have jumped, so any reason why?

Management: Sir, as far as I see, the raw material cost has not gone up in that sense, the cost is completely maintained. There is some increase in the fly ash cost which is very negligible of somewhere around Rs. 95 to Rs. 100. But other than that, most of the raw material costs are either maintained or have a little, they have declined a little, not increased.

Madan Gopal: I am looking at per ton basis, sir.

Management: Even on per ton basis on this quarter the per ton raw material consumption cost is somewhere around Rs. 710 as compared to Rs. 730 and last year. So, I think it has gone down by Rs. 120 a ton.

Madan Gopal: Rs. 62 crores upon 0.47 million ton, I guess Rs. 1,200 performance ton, that means Q1 of Rs. 900?

Management: Madan, see, considering increase and decrease in inventories also, please understand that. This quarter the production was lower because, even the clinker production were much lower because we had annual shutdown as we normally do. But this year shutdown was little for a



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longer period as compared to the corresponding quarter last year. And we had a lot of clinker stock, so we have sold a lot of stock in that. So, there I think we are missing the number. In case you want to understand it a little in detail, you can send us a mail.

- Madan Gopal:** Sure. But it would be normally in this....
- Management:** Absolutely, no doubt about it.
- Moderator:** Thank you. Our next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Sir, what was the volume in Northeast versus last year?
- Management:** Northeast volume was 3.32.
- Dheeresh Pathak:** Versus last year?
- Management:** It was 3.63.
- Dheeresh Pathak:** And same numbers for 1H, if you can give, Northeast?
- Management:** Northeast, it was 790 as compared to 835.
- Dheeresh Pathak:** So, this decline is in line with industry for 1H?
- Management:** Yes, because ultimately see, the overall growth, whatever numbers we are getting as of now, I think there is only a growth of 2% overall.
- Dheeresh Pathak:** In Northeast?
- Management:** Yes.
- Dheeresh Pathak:** But we have declined?
- Management:** No, I am saying the overall industry has only grown by around 2% in Northeast in H1.
- Dheeresh Pathak:** No, but you said we have not lost market share in Northeast?
- Management:** I think may be some fraction of percentage points may have lost, but overall, we are maintaining that and we think that H2 definitely we will be able to recover that.
- Dheeresh Pathak:** Okay. Full year you expect Northeast to be 10% volume growth?



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Management: I think so.

Dheeresh Pathak: Okay. Where is the demand coming from, sir?

Management: See, practically, if you look at it, overall Northeast second half traditionally it has been very strong. We had been seeing an uptick in demand from October itself. And I will say that the retail demand will come very strongly after the serious floods which we have seen in Northeast, the floods have subsided, the rains are now not there. So, I think we see retail demand to come up. In fact, demand continues to be strong in Northeast and we have been seeing lifting starting right from the month of November itself. Normally, it used to happen that infra demand actually used to come for the month of December, but it is a little early. So, we hope that both retail and the infra demand will do better.

Dheeresh Pathak: Sir, what was the clinker production for 1H?

Management: The clinker production for 1H was 8.93 as compared to 11.

Moderator: Thank you. We have the next question from the line of Antariksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antariksha Banerjee: Sir, firstly, a little bit more on this Northeast. So, one of your key competitors in this quarter you have mentioned that Northeast have grown by 5% - 6% YoY and you are saying that the market has grown only 2%. So, this market share maintenance that exactly does not fit in the scheme of things. So, can you please elaborate a little bit on that, is there some player who is becoming aggressive or something, what is happening to the dynamics?

Management: No, I think as of now looking at whatever pricing scenario what we are seeing in the market in Northeast, they have been stable even if the volume were lower in this quarter, the prices have remained stable. So, we have not seen that anyone is becoming extra aggressive in the market. The top three players I think had been somewhat maintaining their market share, I am not talking about a percent here or there. But overall, in this first half the demand was subdued as compared to the first half of the corresponding period last year. So, that is our take on it. Our understanding is that it has only grown by 2%, I do not know if somebody else is talking about 6% growth. There has been some amount of cement which has gone, because the prices have been pretty okay as far as Northeast is concerned, there is some amount of material inflow which has happened from outside Northeast in some markets in Northeast. And there is some material which has come from Bangladesh also in Agartala markets. So, they may have gained a little as against us, so that is one factor whosoever has talked about a similar growth in Northeast, I think that is one factor which has also impacted the entire cement thing for us. So, our view is that since the floods have been pretty severe we will be able to pick it up on that. And then overall demand if it does not go back to normal growth of 7% - 8%, we hope that on a full year basis the Northeast demand should be somewhere around 6%.



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Antariksha Banerjee: Okay. So, if I look at your numbers from this quarter, the split between Northeast and east, so you have reduced your sales outside Northeast by almost 50 year-on-year.

Management: See, outside Northeast there are certain markets, we have been a lot of restoration in the outside Northeast markets. Certain markets which have been becoming mostly the implementation of rated load across Northeast and across many other markets, I think certain markets, we have been supplying to some markets in Jharkhand, so we have withdrawn some markets from Jharkhand. We are rationalizing certain dispatches in the other part of the Northeast.

Antariksha Banerjee: I just wanted your vision on say going ahead two, three quarters from here, so suppose the sand **(Inaudible) 17:32.3** happens in Bihar and Jharkhand is also not as lackluster as it has currently been. So, given your expiry in Q4 what would you rather want to do, would you like to concentrate more on Northeast given the pricing scenario and EBITDA over here is high? Or would you again start and sell volumes outside Northeast, go to Bihar, Bengal and all that, given your volume guidance of 10% also remains. So, what is going to be the strategy going forward?

Management: See, what we are looking at it is that we are going to maintain whatever we are doing in outside Northeast. So, growth, we are looking at mostly growing in Northeast till such time we come out with a capacity outside Northeast. So, going forward that is what we expect. So, we will concentrate definitely, heavily in Northeast. Outside Northeast we are just going to maintain the market wherever we are, wherever we are strong enough to hold that market, definitely in certain parts of north Bengal, east Bihar, and those are very, very home market kind of situation. So, we will be holding on to those markets. And we are not expecting these markets to grow at faster pace, so more concentration is going to come in Northeast.

Antariksha Banerjee: Okay. And the other query was regarding your receivable portion, so any additional amounts received from last quarter?

Management: No, this quarter we have not received anything.

Antariksha Banerjee: And you still expect to receive this Rs. 200 crores - Rs. 250 crores that you had guided in the beginning of the year?

Management: Yes.

Antariksha Banerjee: And what does the debt look like?

Management: Total debt, including short-term, is around Rs. 633 crores.

Antariksha Banerjee: I think it was Rs. 550 crores last quarter?



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- Management:** No, Rs. 550 crores is including loan from director I am considering if you take it out then it is around Rs. 600 crores.
- Management:** See, long-term debt is Rs. 425 crores, and the short-term is Rs. 250 crores.
- Antariksha Banerjee:** So, short-term has marginally increased?
- Management:** Yes, short-term has marginally increased.
- Antariksha Banerjee:** How much you said, Rs. 250 crores?
- Management:** Yes.
- Moderator:** Thank you. We have the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Sir, we had benefits of excise duty and VAT refund. So, now post GST, is any of these has to be reset, is the mechanism set now, are we behind those issues in terms of getting the refund and all those, still some state government intervention is required in some of them?
- Management:** Madan, the clarity is there that they are going to pass on and the benefits is going to continue in GST regime as well. They have come out with a circular on what are the modus-operandi of that going to be. That entails that there will be cash flow issues for us because earlier we used to get refunds, we used to normally do credits mechanism, so it was a self credit mechanism. In GST there is nothing called self credit mechanism. So, what they are talking about is that they are going to give us refund on quarterly basis. So, to that extent there is an effect on cash flow. And in terms of quantum, there is a direct impact that overall refund will go down but if I take into account all the CENVAT credits and the ITC which is available, which was not available to us earlier, there is no loss of refund. And we are talking with the government in terms of rationalizing the procedures as they were earlier. But still nothing has been done on that front and there will be some cash flow issues which are going to come out of this.
- Madan Gopal:** Okay. What is the impact in terms of say number of days that will be impacted here, in your opinion?
- Management:** See, earlier we used to get refund you can say on 30 days kind of thing. And now I think it will not going to be less than 90 days kind of a thing.
- Madan Gopal:** Okay. And in terms of Northeast and the eastern volume which you talked about, what is the full year expectation of mix between Northeast and east for you from earlier expectations?
- Management:** See earlier, Madan, we used to have around 65% of the volume in Northeast and 35% outside Northeast. The rationalization which we are doing in the markets, I think it will be somewhere



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around, it is already 70-30 as compared to in this quarter, if you look at the total number, it is already 70-30. And we hope that it will be somewhere around 70-30 or 75-25 kind of a rationalization will happen.

Madan Gopal: This itself will helpful on EBITDA per ton basis, right?

Management: Yes, obviously with the mix going in favor of Northeast it will have a positive impact on EBITDA.

Moderator: Thank you. Our next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri: My question is regarding the east volumes, so how do you see it going forward? We have heard news of sand availability improving in parts of Bihar.

Management: See, our view in the outside Northeast market is that we hope to continue with the markets where we are already operating. I think we are almost done with rationalization in market, barring a few markets in north Bihar. And we will continue to operate in this market. We do not intent to expand our presence outside Northeast until and unless we come out with a manufacturing facility either in Bihar or in Bengal. We have been trying from last about a year or so to put up a plant in Siliguri, that work is still under progress, so we are still trying to get our clearances from the state government. And once that happens, once we come out with the manufacturing facility we will expand our presence outside Northeast.

Moderator: We have the next question from the line of Ankit Fitkariwala from Jeffries. Please go ahead.

Ankit Fitkariwala: Sir, my first question is, it has been harped upon again and again on the Northeast volumes, just wanted to understand, in 2Q you did 3.32 in Northeast versus 3.63 on a YoY basis, right?

Management: Yes.

Ankit Fitkariwala: So, basically the decline is around 10% in the Northeast volumes in the second quarter?

Management: Yes, almost.

Ankit Fitkariwala: So, sir, just wanted to understand, in the first quarter also we were growing slower than the market in Northeast and in this quarter even if we assume that Northeast market has grown by 1% to 2%, still we are way below the Northeast volumes itself, whereas we are saying in our commentary that we are trying to rationalize towards Northeast more. So I am not understanding the gap that means what is going wrong, what is happening that the other players are doing more volumes even though we want to do more volumes but we are still much below the market. So, what is going wrong there?



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- Management:** See, as I said, overall Northeast volume because of our dominance in the market we can any time get into the volume more aggressively. But the prices always will be the casualty. So, at this point of time, I will say that this quarter decline I will attribute mostly towards lack of demand, and mostly the flood in the areas where mostly the demand used to be there. Assam has got affected, not other hill states, that is one of the reasons for this quarter's volume drop, but I think that will come back very strongly after the floods. So, I am not considering this volume drop as a very serious volume drop. I hope that this volume drop will get compensated in next two quarters. So, overall, our view is that it is not that somebody else...again, definitely, since we are more focused towards trade sales, we are not focused towards non-trade sale, so we will be look for putting more aggression towards non-trade sales in Northeast. So, that gives us, because our trade / non-trade competition as far as Northeast is concerned is also 80:20. And since there is a lot of focus from the government in infrastructure projects as far as Northeast is also concerned, so we will also be focusing a little more in non-trade in Northeast. So, that gives us the confidence that once we start doing that we will be able to grow at least 10% in Northeast.
- Ankit Fitkariwala:** Okay. Sir, when you say 80:20 what will broadly be the mix in the region say for Northeast as a market?
- Management:** See, it depends on every other company who does business. Say, for the nearest competitor whatever we track them, their volumes should be somewhere around 55:45, for other player it may be non-trade or more, so may be 60% of non-trade. So, it all depends on company to company who is more comfortable in selling in which particular segment of the market.
- Ankit Fitkariwala:** Okay. And how is the situation in Assam as of now?
- Management:** See, the floods are over and the rains have stopped. And October, because of the festive season the demand was, I will not say very good, it was okay. But November we have seen a very strong come back of demand in entire Assam and also in other parts of Northeast. If an early onset of demand so to say otherwise normal we see demand only coming back in month of December of January, that used to be the normal trend. But we are seeing this happening in November only.
- Ankit Fitkariwala:** Okay. And Assam will be what percentage of our Northeast operations?
- Management:** It is around 55% of our operations.
- Ankit Fitkariwala:** In Northeast?
- Management:** Yes, in Northeast. In Northeast volume, Assam is 55% of the volume.



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- Ankit Fitkariwala:** Okay. And sir just last thing where you are talking about CAPEX plans in Bihar, West Bengal, so what is already in planning or there is something that we are just having a vision going forward? So just wanted to differentiate, Siliguri is like already under planning as of now whereas the others we are just thinking about it where and all, how is the planning going on there?
- Management:** No, at this point of time we are looking at Siliguri positively, so that is one thing which we want to do. Other things are almost at a drawing board level only.
- Ankit Fitkariwala:** And sir, timeline for Siliguri?
- Management:** Next 18 months.
- Ankit Fitkariwala:** And CAPEX, CAPEX will be how much?
- Management:** Somewhere around Rs. 200 crores.
- Ankit Fitkariwala:** Okay. And for capacity and all if you can just give some details about that?
- Management:** Capacity will be somewhere around 1 million to 1.5 million.
- Ankit Fitkariwala:** Only grinding, right?
- Management:** Only grinding.
- Moderator:** Thank you. Our next question is from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.
- Abhishek Ghosh:** Just wanted to get one understanding, in terms of Northeast has there been a capacity ramp-up or any addition in the last six to eight months in that region?
- Management:** No, so we have increased our capacity by 0.5 million tons, that is additional grinding capacity. And there are not just much significant capacities which has come up, there is another plant which is a small plant which has come up, that was the last plant Gold Stone Cement, so that has come up, they have started manufacturing but volumes are pretty low. These are only two developments which are there.
- Abhishek Ghosh:** And over the next 18 months any other capacity that is likely to come into that market?
- Management:** No, there is no capacity in pipeline in Northeast.
- Abhishek Ghosh:** And sir just one more thing, just wanted to get some clarity over there was some notification regarding GST, that in the excise refund part of it only 60% of the value will be only allowed



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under the new GST. So, does that impact us or how should one read that, just wanted to get your sense on that?

Management: See, the notification which is there which has allowed, the excise refund will continue in GST regime also. The GST notification talks of about refunding 58% of CGST which we are going to pay and 29% of IGST. So, that is the refund which we are going to get. But that is a net refund which we are going to get. If I compare on a net-to-net basis, that means earlier there were certain taxes, certain transpiration, there were certain taxes which we are already paying, they were not part of refund like service tax, other thing. So, in GST regime we are going to get ITC for all that. So, if I take complete net-to-net basis, there is no loss of refund as far as we are concerned.

Abhishek Ghosh: Okay. So, for us it is a subsidy neutral thing to that extent?

Management: It is a revenue neutral thing, subsidy neutral thing for us.

Abhishek Ghosh: Okay. And sir just one last thing in terms of the power and fuel cost what will be our current fuel mix and given the current spurt in spot prices of fuel, how does that power and fuel cost trend look like in the next three to six months and what are the inventory levels there?

Management: See, we are mostly sourcing coal from local Meghalaya Coal only. And normally we are operating mostly on that, we are not using pet coke, barring about just the trial pet cokes which we may have used during the year. So, outside pet-coke prices and other things does not impact us much. So, the coal prices are more or less stable as far as the Northeast is concerned in that region. So they are not also impacted by the Coal India prices. So, as of now, we have stocks and I think from October onwards the coal availability will improve in Northeast. So we are yet to see the coal availability coming up in the market. But I do not see any problems in availability of coal there.

Abhishek Ghosh: Sir, but just to understand it a little better, these local Meghalaya coal that you procure, what are these prices benchmarked to, so they must not be a function of imported or Coal India prices, so how does that move, is it benchmarked to anything else or does it move on a demand, supply scenario in that particular region?

Management: It is more on the demand-supply scenario on that particular region. So I get 5,500 coal at somewhere around same rate of Rs. 5,500 per ton.

Abhishek Ghosh: And that has not moved up a lot in last three to six months, is it?

Management: No.



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- Moderator:** Thank you. We have the next question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.
- Rajesh Ravi:** Sir, just wanted to understand, the Siliguri CAPEX that you mentioned, could you repeat the number again?
- Management:** It will be somewhere around Rs. 200 crores, we are yet to finalize. See, we were talking of 1 million ton earlier, still there is some consideration which is happening that we may do 1.5 million also, but I am not still confirming it. The lowest part is 1 million and may be highest we can put 1 to 1.5 million. So, we are still working on it.
- Rajesh Ravi:** Okay. And the clinker debottlenecking would continue at this location?
- Management:** Yes, clinker debottlenecking will continue.
- Rajesh Ravi:** So, that we expect to do before FY19 itself?
- Management:** Yes.
- Rajesh Ravi:** And lastly sir, this tax GST related refund which you are saying every quarter, would you please explain it again, what exactly it is? You said it is neutral in terms of the amount which you will be getting net of all refunds, but the time lag has increased versus one month you are saying is three months?
- Management:** Correct. So, earlier what used to happen, Rajesh, there was no refund, so we used to collect excise duty and there was a credit system. So, whatever refund we were supposed to get we used to take credit for it and we never used to pay for it. So, there was no cash outflow from our profit. But now under the GST regime because the payment is already tagged with it, you have to pay for it and then only you get the credit, so that is the problem. So, the new provisions which the government has notified, as per those provisions we will get a refund, so there will be physical money which is going to come in from the government exchequer. And that will take approximately 90-day period, so that is what our expectation is. Earlier there was no lag, you can say hardly there was a lag of 30 days in totality. But now the lag is going to be at least 90 days.
- Rajesh Ravi:** So, every month you will be getting after a lag of 90 days?
- Management:** Yes, so for first three months we are not going to get anything because we have to keep on depositing. And we will start getting, it will be something like that.
- Rajesh Ravi:** So, October we started to get the same for July month?



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- Management:** As I am saying, we are continuing making payment of central excise, but we have not got the refund because that notification has just now come. And there is still a procedural issue at the central excise level to get that refund. We hope to get that refund may be in the month of November or early part of December.
- Rajesh Ravi:** Okay. And sir, there is a percentage of net sales, what would be that, 18% total amount or as percentage of revenue how much of that amount should get approved for 90 days?
- Management:** See, it used to be somewhere around Rs. 300 kind of a thing on a per ton basis, so if you can calculate that, I do not have exact numbers with me.
- Rajesh Ravi:** And any local inflationary impact on coal or fly ash over sequential basis that we are seeing Q2 versus Q3 or may be Q1 versus Q2?
- Management:** I said fly ash cost has gone up a little by around Rs. 90 a ton and the coal costs are still remaining as it is. It all depends on the kind of availability that we are going to see from October onwards. If availability is there in October onwards normally in season time the availability improves, but if the availability is not improving then we can have some impact on the coal cost going forward because then we may have to source coal from outside which will be little costlier than this. But it has never happened, we do have coal stock with us, so I do not see that is going to be a problem.
- Rajesh Ravi:** And sir lastly, as you are guiding that you remain firm on the 10% volume guidance which would imply second half volume growth could be north of 30%, second half in totality. So, this conviction is on account of you are saying that Assam which is almost 35% of your total sales market, there you are seeing the disruption in demand which you have seen last quarter. With that things recovering and that is where most of this normalization of demand you are seeing or will there be an incremental demand aggressiveness that Star would be following?
- Management:** Rajesh, even if do not follow an aggressive push towards the volumes, our view is very clear, see last quarter has had an aberration in terms of volume because of the floods, so I think that will come back in this quarter only. And even if the H2 is normally 60% of H1, so that itself shows that there will be 30% volume jump. So, if that is maintained, as I said we are mostly a trade focused company, so as we said that we are rationalizing certain markets outside Northeast, we will be able to focus continuously in Northeastern market and non-trade will be the area where we were not focusing that much. So, within Northeast we are going to focus in non-trade area also. So, that gives us confidence that we will be able to at least gain some market share there. So that will help us bring the volumes.
- Rajesh Ravi:** Okay. And do you expect prices to remain stable or there could be some pressure over next six months?



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- Management:** I'd see prices remaining stable.
- Rajesh Ravi:** Any increased opportunities because of the rise in cost?
- Management:** I do not see that because the prices are at healthy level. So, we do not see, there may remain some, that is what I can say.
- Moderator:** Thank you. We have the next question from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.
- Prateek Kumar:** Sir, just wanted to have your view on current pricing, I mean, as we said in the previous question that they are expected to remain strong. Sir, so there is no government intervention now as such in terms of pricing in Northeast market?
- Management:** So, Prateek, I think the prices have been stable in this market from at least four, five quarters. And the prices are still away from historical peaks which are there. There is no pressure as such from any government quarter. And we have been forthcoming in terms of passing on the benefit of when GST came in we were the first cement company from Northeast, the cement prices have reduced the prices passing on the benefit of GST reduction. So, we are not seeing any pressure from the government as far as the price is concerned.
- Rajesh Ravi:** Sure, sir. And sir, related to GST, is there any DMF provision reversal? Sorry, not related to GST, but generally DMF reversal which were taken during the quarter, like some of the other company in the sector?
- Management:** I did not get you, DMF, you are talking about...?
- Rajesh Ravi:** Like it happened in FY16, companies paid for prior period which now everyone has been reversing and benefit in other expense or raw material.
- Management:** No, see you are talking about district mineral fund, if I am not wrong?
- Rajesh Ravi:** Yes.
- Management:** We were not subject to that thing, right. Because laws in Meghalaya are different than rest of the country, Prateek. So, DMF is not applicable on us.
- Rajesh Ravi:** Okay. And sir, you mentioned about shut down was longer during the current year, so was there any extra cost, if you can quantify the cost on a year-on-year basis?
- Management:** Not really, there are no significant costs. As I said, we are trying to do some debottlenecking exercising, so that was also, the time increased because of that. But there is no significant cost incurred in the shut down.



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- Rajesh Ravi:** And sir, can you share external clinker sales during the quarter?
- Management:** This quarter we have sold 36,000 ton of clinker as compared to 13,000 corresponding quarter last year.
- Rajesh Ravi:** And sir, what would be the number in Q1 of 1H?
- Management:** 1H is around 83,000 tons as compared to 13,000 tons.
- Moderator:** Thank you. We have the next question from the line of Naveen Sahadev from Edelweiss. Please go ahead.
- Naveen Sahadev:** Sir, two questions. One, basically on realizations. So, sequentially I see that is there a realization increase that has happened on a QoQ basis for cement in our markets?
- Management:** No, Q-on-Q I do not see there is realization increase.
- Naveen Sahadev:** Okay. But you also mentioned that since the prices are healthy you are seeing some material coming in from Bangladesh and other markets. So, is it fair to imply that the current prices are in a way peaked and remunerative enough for players of the other markets to come, travel the distance, incur the freight and still sell it in our market in Northeast?
- Management:** See, I will say what happens is during this particular off season time when the demands are bad as far as the other part of country is concerned, even the Northeast demand were very bad this off season also. So, there is a tendency of a little more, see outside Northeast players still have got at least 8% to 10% of the market.
- Naveen Sahadev:** You are saying the player in Northeast the market share of player of outside of Northeast is 8% to 10%?
- Management:** 8% to 10%, correct. So, likes of Ambuja, Lafarge, UltraTech. So, they still have 8% to 10% of the market. So, what happens is the large part of this 8% to 10% actually comes during the off season times if the prices are healthy and they need to dump their material in some part of the country and whatever the price levels are. So, that may have happened in this but we do not see much of the material coming in. In certain pockets, yes certain pockets of lower Assam which are nearer to Bengal, it is not entire Northeast, in some pockets which are nearer to Bengal market do get impacted with this. But I think the trend is not something extraordinary trend that we are seeing.
- Naveen Sahadev:** No, not on volumes, I am not worried on volumes per say, I am only talking about theoretical sort of price gap, I mean these companies do not have freight incentive like the way we enjoy but we are still I am saying bringing in material. So, is it fair to assume that these prices which



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are remunerative, good enough at this point of time, but in a way sort of a peak, we cannot really expect them to move up significantly further.

Management: See, I will not deny there is some scope for improvement in price and it is definitely there, because they are still off from the peak levels. But that can happen may be on the peak demand season, may be in the month of January, February, March or something like that. But prices, they are still quite attractive. So, I will not say that has picked out, but I will say they are near to pick.

Naveen Sahadev: Sir, my second question was on your refund and previous participants have asked in detail about that. My only one clarification I am requesting, you mentioned that now we will be getting this refund on a quarterly basis instead of monthly. Whereas I am seeing more from outstanding incentives which are there lying in the balance sheets and I have been accumulating over the years. So, are we saying that going forward or let us say this incentive that we are talking about which we will receive we will get it on a monthly, quarterly basis which is there and at the same time the old money will also come in due time. I mean, my question is, these outstanding levels which are there in the balance sheet will not increase further from what they are.

Management: It will not increase, please understand this that the transport subsidy for the company is ending in January 2018, two months from now. So, there will be no further accumulation for the subsidy part is concerned. And we expect to receive around Rs. 200 crores in may be third quarter or fourth quarter within this financial year. And what will happen is that excise, it is nothing to do with, normally we are going to get refund in quarterly basis. And excise is mostly, if you look at it, earlier the refund was little more than what we are going to get now, because we never used to get a lot of input credit. So, as of now our payment itself will come down.

Naveen Sahadev: Pardon my ignorance sir, my question is, if earlier we were getting these refunds on a monthly basis then why has the amount accumulated over the year, why has this incentive amount accumulated if we were getting these incentives settled on monthly basis?

Management: Please understand, there is no outstanding as far as the excise duty refunds are concerned. So, outstanding in the books only denotes transport subsidy and capital investment subsidy. There is no central excise duty outstanding in the books of the company as of now.

Naveen Sahadev: Fair, that is helpful. Because I just thought if the excise amount is whether outstanding or not.

Management: No, there is nothing outstanding as far as excise is concerned.

Moderator: Thank you. We have the next question from the line of Ankit Fitkariwala from Jeffries. Please go ahead.



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- Ankit Fitkariwala:** Sir, just wanted to confirm one thing. You hinted on some clinker debottlenecking, so just wanted to know how much is the quantum and when is it expected?
- Management:** See, I will say that it will be completely within FY18 - FY19. And see normally we can do this debottlenecking working is only during shutdown period, we do not want to do separate shutdown, we do not want to take separate shutdown for these activities. So, some part we have done in this shutdown, some work we will do in next shutdown, so it is going to come somewhere in July 2018.
- Ankit Fitkariwala:** And how much will be the quantum?
- Management:** See, we are expecting it to add somewhere around 0.3 million tons to 0.4 million tons of clinker.
- Ankit Fitkariwala:** Okay. With the grinding capacity staying the same, only clinker debottlenecking, right?
- Management:** Yes.
- Ankit Fitkariwala:** And this is apart from the Lumshnong where we have gone from 0.7 to 1.05 already in FY18, right?
- Management:** Yes, that is the grinding thing which we have increased, there was no clinker in it.
- Ankit Fitkariwala:** And sir, secondly, since a lot of discussion has happened on this GST part, just last thing. You were explaining something on this 58% CGST the notice that had come on 29% IGST refund. So, can you just clarify a bit on that as well please?
- Management:** See, earlier what we used to get almost 75% of duty which we used to pay, central excise duty, and that we used to get as a refund, correct? Now there is no excise, so now the cement is 28%, IGST is 28% and state sales, CGST and SGST is 14%. So, what government has said that they are going to compensate us for whatever period is left still on central excise. So, out of the entire duty calculations they have made a calculation that they are going to refund 58% for CGST which we are going to pay and 29% of IGST payment which we are going to make to the government. So, if I make that calculation as compared to what we used to get and what we are going to get, there is no loss for revenue as far as the company is concerned.
- Moderator:** Thank you. We have the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Sir, what is the total subsidy pending receivable end of H2, transport and capital?
- Management:** It is Rs. 660 crores almost.



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- Madan Gopal:** Compared to beginning of the year, like March ending it was how much?
- Management:** March it was Rs. 625 crores.
- Madan Gopal:** And how we have done some debottlenecking both at the grinding, we are doing something on the clinker level also. So, currently what is the clinker capacity and grinding capacity for us?
- Management:** Presently we have 2.6 million tons of clinker and 4.7 million of grinding.
- Madan Gopal:** And debottlenecking clinker CAPEX is happening, 0.7 million is done?
- Management:** No, clinker debottlenecking we are undertaking, so it will be completely by FY19.
- Madan Gopal:** And then Siliguri will also come, so your clinker capacity as such will go to 3.1 tons?
- Management:** 3 million tons.
- Madan Gopal:** And grinding will go up to almost 6 million tons?
- Management:** Yes, grinding will go up by at least about 1 million ton or 1.5 million ton.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.
- Vaibhav Agarwal:** Thank you. On behalf of PhillipCapital, I will like to thank the management of Star Cement for the call opportunity. And also, many thanks to the participants for joining the call. Thank you very much, sir. You may now conclude the call, Margret. Thank you very much.
- Moderator:** Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.