



“Star Cement Limited Q1 FY 2020 Earnings
Conference Call”

August 01, 2019



MANAGEMENT: **MR. SANJAY KUMAR GUPTA -- CHIEF EXECUTIVE OFFICER, STAR CEMENT LIMITED**
MR. MANOJ AGARWAL -- CHIEF FINANCIAL OFFICER, STAR CEMENT LIMITED

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



*Star Cement Limited
August 01, 2019*

Moderator: Ladies and gentlemen, good day and welcome to the Star Cement Q1 FY 2020 Conference Call hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone.

I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Sir.

Vaibhav Agarwal: Thank you, Stanford. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q1 FY 2020 Call for Star Cement.

On the call, we have with us Mr. Sanjay Kumar Gupta -- CEO; and Mr. Manoj Agarwal -- CFO of the company. I will now hand over the floor to the management of the company for their opening remarks followed by interactive Q&A. Thank you and over to you, Sir!

Management: Good evening, everyone. I am Sanjay Kumar Gupta -- CEO of Star Cement Limited. I would like to welcome you all to this earning call for quarter one and FY 2020. I have with me Mr. Manoj Agarwal, who is the CFO of the company. He will take you through quarter one numbers. And 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 to those questions.

I now hand over the floor to Mr. Manoj Agarwal for brief you about quarter one numbers.

Management: Hi, friends, very good evening. I on behalf of this Star Cement Limited welcome you all to this our concall for discussing our number of Q1 FY 2020. I would like to clarify that we are discussing more on the historical numbers and there is no invitation to invest.

Having said that now, I will just take you through the Q1 number.

Starting from clinker production, during the quarter ended June 2020 we have produced 6.18 lakh tonne of clinker as against 5.87 lakhs same quarter last year. There is a growth of around more than 5%.

So, far as cement production is concerned, we have produced 6.56 lakhs tonne of cement this quarter as against 6.47 lakh tonne of cement same quarter last year.

Now, I will take you through the sales volume. During the quarter we have sold 7.19 lakh tonne of cement and 0.08 lakh tonne of clinker as again 7.13 lakh tonne of cement and 0.94 lakh tonne of clinker same quarter last year. This is as far as cement and clinker sale is concerned.



*Star Cement Limited
August 01, 2019*

As far as geographical distribution of cement is concerned, in Northeast, we have sold around 5.7 lakh tonne as against 5.14 lakh tonne of cement during the same quarter last year. There is a growth of around more than 3%. And as far as outside Northeast is concerned, we have sold 1.88 lakh tonne of cement this quarter as against 1.99 lakh tonnes same quarter last year.

In terms of blend mix, it is almost 16% of OPC; 2% PSC and rest are PPC. These are the quantitative number of the quarter.

Now, I will take you to the financials.

The total revenue figure for the quarter is around Rs. 460 crores as against Rs. 517 crores same period last year, a decrease on account of lower sale volume of clinker.

As far as EBITDA figure is concerned, this quarter we have done an overall EBITDA of around Rs. 119 crores as against Rs. 132 crores last year. This is due to the lower sales of clinker.

PAT after my minority interest is Rs. 84 crores as against Rs. 90 crores in the same period last year. On per tonne overall EBITDA front, it is 1,643 during this quarter as again 1635 per tonne same quarter last year. This is what our quarterly numbers are.

Now, I request all of you that if you have any query, you can ask the same and I will request Vaibhav to moderate the query very-very simple, if 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 Rahul Veera from Abakkus. Please go ahead.

Rahul Veera: I just wanted to understand why the clinker sales was impacted?

Management: See, practically what has happened, we were not selling clinker in this quarter primarily because of the fact that we wanted to take a shutdown in the month of July. But what has happened is in the month of May and June, the kind of rains which we have seen in Northeast and largely in the North Bengal, Bihar and these regions, the overall volume of the cement was not as per our expectation. As a clinker accumulation was a little fast, we will now be taking our annual shut down in August, in the middle of the August. So, that were primary reason for not selling clinker. And at the start of the year, we never had a large clinker stock to sell in the market. So, the year before that, the corresponding quarter last year, we had good amount of clinker stocks as on March itself. So, we continue to sell the clinker in April, May, June FY 2019. So, that is the primary reason of lower clinker sale.

Rahul Veera: Okay. And sir, in terms of the progress for a buyback any update on that, sir?



*Star Cement Limited
August 01, 2019*

- Management:** See, in buyback, we have already written our submissions to Ministry of Finance and also SEBI. In respect of getting certain clarifications as far as the tax provision, which have been proposed in the budget, which has come in 5th of July where our record date has ended on 5th of July. We are still awaiting their clarification on the same. On our follow-up, we have been told that they are going to give us clarification soon. Once, we receive the clarification, we will be able to take a call on, how to proceed with the buyback?
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** A couple of questions. Sir, first was on the subsidy amount, I think end of prior quarter outstanding was upon Rs. 60 - Rs. 70 crores. Where does it stand right now by when do we expect it? That is the first question.
- Management:** Ritesh, I think, the total outstanding is around Rs. 52 crores, now, okay. And once the budget is already there so there is a provision in the budget towards the subsidies. We hope that maybe by the end of maybe quarter two or quarter three within next two quarters, we expect this amount to come in.
- Ritesh Shah:** And sir, can you help us with what is a net debt position right now?
- Management:** So, as of now, there is no debt in the company, net cash is around Rs. 350 crores.
- Ritesh Shah:** Sorry, for that. Sir, can you highlight on the power and fuel cost on a per tonne basis? How it has moved sequentially and given coal mining has got relax in Northeast. Can one expect lower power and fuel cost going forward?
- Management:** So, let me update you about what the supreme court judgment has been in the coal matter.
- Ritesh Shah:** The coal mining Supreme Court has allowed the coal mining in Meghalaya with certain riders. Supreme Court has also allowed coal stock of 32 lakh tonnes, which is 3.2 million tonnes, which is lying over ground and they have asked other agencies to get involved and get it auctioned, right. So, that process is going to get underway next about a month or so. So, this will have an impact on our first of all the coal availability in the region and also the price of the coal. In terms of our cost, this quarter cost has not got impacted large, there is no large impact on in this quarter. But going forward definitely, we have been buying coal from Eastern coalfields and also from imports. So, there will be some impact in the coming quarters. I have always been saying and we have been procuring around 80% of coal from outside and 20% was being utilized from the other sources which are near to the plant. The overall impact I have already been saying it will be somewhere around Rs. 150 a tonne to Rs. 200 a tonne. Once this coal mining thing which



*Star Cement Limited
August 01, 2019*

starts in Meghalaya, over a period of time we will definitely see this impact going away in coming quarters.

Ritesh Shah: Sir, how much was the power and fuel cost for this quarter in the prior quarter?

Management: I was asked Mr. Manoj Agarwal to reply to this question.

Management: Ritesh, because this year also there is a decrease in stock, okay. Because stock also includes the power and fuel cost a part of the power and fuel cost. If you take that out then it is around you can say Rs. 1,020 a tonne for fuel and electricity. And last quarter, it is also Rs. 1,000 kind of thing, if you eliminate the impact from the stock inventory level. So, more or less flat kind of thing.

Ritesh Shah: Sir, how much is the impact of this movement and stock that you are referring to?

Management: That is the last quarter it was Rs. 114 and this quarter it is Rs. 100.

Ritesh Shah: Okay. And sir, how much is the coal inventory that we have and if you can highlight, what will be the average costing of inventory that we have?

Management: So, largely Ritesh, we have almost done with our inventories which are old inventories along with which are local inventories, there will some amount of inventory, I do not have ready figures available with me. But largely we are now the imported coal and the coal which is presently being sourced from Nagaland and Eastern coalfields. That coal is available with us. In terms of overall number of inventories, if you can send us a query, we will differently be happy to reply to you, I do not have ready numbers available.

Ritesh Shah: Right. Sir, one basic question, you indicated that the mining will restart in Meghalaya. Who is going to mine it, is it the same locals who is going to mine it or Coal India will come in? What is the way forward and how smooth this is likely to be?

Management: See, mining of coal in its present form, the court has very clearly said that the ownership of mineral rest with the local tribal people who are there in Meghalaya. But if the one who mine there, they have to follow the normal rules which are there in MMDR and other applicable laws on the Mines Act, right. So, there is a process which the government of Meghalaya has been thinking about of making these coal mines into one particular block and then trying to mine it. So, they are already working on certain mining systems and they are already talking to a lot of coal miners, which will combine together and come in and then they will be preparing a mining plan and doing the mining. So, that is possible. But that is going to take a little more time. But till such time, I think the over ground coal of 32 lakh tonne which is already there, that auction is going to start about a month within a month's time. So, that coal itself is sufficient for say



*Star Cement Limited
August 01, 2019*

about 2.5 years to 3 years of the entire coal requirement of cement plants and power plants. And I think within that particular time, the coal mining will resume in Meghalaya.

Moderator: Thank you. The next question is from the line of Pritesh Sheth from CRISIL Limited. Please go ahead.

Pritesh Sheth: Two questions from my side. Firstly, on the pricing front, we are hearing that there has been Rs. 20 to Rs. 30 decline or rollback of prices in July. Sir, what has been the pricing like how are you looking at prices for you?

Management: In terms of the quarter which has gone by Northeast prices have been stable. There would have been a decline of in prices overall purely on the basis of discounts which we may have been offered. So, headline prices have not gone down, discount has increased due to the pressure on the volumes. So, that may have contracted so, the prices may have gone down by Rs. 3 to Rs. 5 in Northeast. Outside Northeast, the prices has been going down from last I will say middle of May, they have also come down in the month of July and there was a increase in the prices in Eastern segment. I think, all that increase have already been wiped out and we are looking at least Rs. 10 to Rs. 15 kind of decline in the month of July also.

Pritesh Sheth: Okay. On the follow-up, on the demand side, specifically in Kolkata, so, how has the demand been? I know that generally in monsoon it might be slow but from a full-year perspective, like how much growth do you expect? Do you see any impact on demand from the government side of the projects considering there has been slight instability?

Management: So, the overall cement demand in Eastern India was not very encouraging in this quarter. Even the Northeast, the overall cement demand has been more or less flattish and apart from Northeast, the other states like Bengal, Bihar, Jharkhand, they have seen a decline of around overall decline of around 10%. I am also hearing that the all India numbers are somewhere around 9% decline on the overall cement demand. So, demand has been bad and that was also been coupled with a lot of flood situation especially in Assam just like North Bengal, in Bihar and we have seen a lot of deaths happening. So, that is also dampening the overall cement demand. July has either not been very encouraging as of till now. And July there is a decline we are expecting in cement demand in the entire Eastern part. So, we are hoping that maybe second quarter if it is in fact flattish kind of thing then we can still look for overall cement uptake in next two quarters which are largely quarter three and quarter four and see somewhat positive cement demand. But if quarter two surprises us in the negative side, it will be very difficult for overall human demand to report on positive number. So, we are at best are hoping around 4% - 5% kind of a positive cement demand growth on a full-year basis.



*Star Cement Limited
August 01, 2019*

- Pritesh Sheth:** Okay, thank you, sir. That is very helpful. Just on the follow-up like on the expansion plans in East apart from Bengal like what are your expectations going forward? Are you applying for any expansion in Bihar, Jharkhand or Chhattisgarh?
- Management:** No, we are not applying for any expansion in Bihar, Chhattisgarh at this moment. We are presently executing our Siliguri project which are 2 million tonne. That is the project in hand. We will be doing some clinker project in Meghalaya that will be around 2 million tonne of Clinkerization which we have been always saying it. So, that we will be doing, we are already working on it. I think, we will start the activities on the ground maybe in the month of October and November.
- Moderator:** Thank you. The next question is from the line of Manish Agrawal from Edelweiss. Please go ahead. Manish Agrawal from Edelweiss, please unmute the line from your side and go ahead.
- Manish Agrawal:** Sir, just wanted to understand a couple of things. So, in the results will report inter segment cement revenue as well? So, inter segment power revenue, I understand something which the cement segment uses. But what would be the inter segment cement revenue?
- Management:** If you can take on your second question. We will come back to you on this again.
- Manish Agrawal:** Sure, sir. Also, sir like recently the Assam government has talked about the four limestone mines on the block for the year FY 2019. So, I was looking at bidding at any of them or is any competitive bidding for them?
- Management:** I think, in the one or two cases, the mines have already been allotted to few people who are not... So, the government has to do a lot of work as far as getting those mines back from those people. Government is also talking about the few mines are already with Assam Industrial Development Corporation which are having those mines. So, as soon as these mines as and when they come for the auctions, we will definitely have a look at them and as they suit us, we will definitely bid for them.
- Manish Agrawal:** Sir, if I am not mistaken the RFP was issued by the government for these four mines? Please correct me, if I am wrong. But these four mines, there was a presentation as well that the Assam government had put up on their website about for an RFP for these mines? Please correct me, if I am wrong?
- Management:** No, I have not seen the RFP as of now. I do not whether it is a recent development. We have not seen the RFP as of now. We will have a look at it.
- Manish Agrawal:** Sure, sir. Sir, also could you share the actual numbers of power and fuel and freight cost?
- Management:** I will ask Manoj to reply to this.



*Star Cement Limited
August 01, 2019*

- Management:** Yes, power and fuel is Rs. 81.49 crores.
- Manish Agrawal:** Sorry, sir, Rs. 81.49 crores?
- Management:** Yes, and freight outward is Rs. 88.40 crores.
- Manish Agrawal:** Rs. 88.40, okay. So, sir, like something, so the freight decline year-on-year would be because of reducing exposure to the East and after the transport subsidy? Am I right, sir?
- Management:** Yes, because the clinker sales are lower, so that is why the freight is lower.
- Manish Agrawal:** Correct, sir. Sir, and I missed out the cement production number you said was around 6,56,000?
- Management:** Yes 6,56,000, yes own production, yes.
- Manish Agrawal:** So, last year in June it was around seven like 7,14,000, right?
- Management:** No, last year it was 6,47, if you include, we are purchasing from our hiring arrangement then it is about 7.21 this as against 7.14 last quarter.
- Manish Agrawal:** Purchasing from whom, sir?
- Management:** Yes, that is we have grinding arrangement with two cement grinding units in Bengal. So, you take it into that account then it is 7.21 this quarter as against 7.14 last quarter.
- Manish Agrawal:** Okay. 7.21, this quarter. Okay.
- Moderator:** Thank you. The next question is from the line of Viraj Vajratkar from Validus Wealth. Please go ahead.
- Viraj Vajratkar:** So, just one small question only. On the Northeast India monsoon flooding, was there impact in June and it is still spilling over July - August as well?
- Management:** Okay. As of now I can reply till now what is happening. So, yes, it has spilled over to July also. It has impacted significantly in the month of July also. There has been a lot of range. Few parts of Assam is also getting flooded with the water which has been released by Bhutan from their dams. So, there has been an impact in this month also. But the rains have now stopped and we hope the situation to improve at least in next 15 days.
- Moderator:** Thank you. The next question is from the line of Chintan Shah from Investec. Please go ahead.
- Chintan Shah:** Sir, I wanted to know, what were the trade and non-trade mix of the quarter?



Star Cement Limited
August 01, 2019

- Management:** Yes, trade is around 82% and non-trade is 18%.
- Chintan Shah:** Okay. And sir, could you please highlight the cost-saving initiatives, any measures are we taking on that front?
- Management:** See, we have been working on a project of WHRB and we are looking for setting up a WHRB plant, and it is anywhere between 12 megawatts to 15 megawatts. So, that project we will be taking up in some time maybe in next two quarters you will definitely hear something on that from us. That is one thing which we are doing on power side. As per the raw material side is concerned, we have been utilizing there is something called a **(Inaudible) 24:07.8** which is available with us from our mines. So, that will have an impact on our overall cost reduction as the raw material cost is concerned. These are largely two initiatives which we are working on.
- Chintan Shah:** Okay. Sir, on the WHRS, what will be the cost around it and timelines if you could highlight?
- Management:** See, we are looking at a cost of around Rs. 125 crores for 12 megawatts to 15 megawatts of power plant, Rs. 125 crores to Rs. 150 crores for 12 megawatts to 15 megawatts, we are already under initial technical assessment of the entire requirement is going on. Once we freeze that we will be able to give you a timeline for that.
- Chintan Shah:** Okay, fair enough. Sir, could you guys help us timelines for the kiln and geo expansion is happening?
- Management:** See, as I said, we have not still got the environment clearance. We hope to receive the environment clearance by the end of next quarter. So, that we can commence the work in October and November and once we start the work, we will be taking around 24 months to 30 months to complete the project.
- Moderator:** Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Managers. Please go ahead.
- Rahul Veera:** Sir, then, for this financial year FY 2020, I believe the volume guidance has to be sharply lower, right? Like instead of 15% to 20% that we were assuming earlier, it will get down into the single-digits now?
- Management:** As of now in terms of volume, if I take onto cement only, we are almost flat, I am not taking clinker into that. So, when we give our guidance, clinker is always an incidental sale which happens depending on whether we have clinker stock or we do not have clinker stock. But the guidance is always in respect to cement. So, we have talked about a 15% annual cement volume growth. Till quarter one, we are almost flat. We are hopeful that in quarter two if it is flat to a little positive then we will still try to stick with them because our view is that as soon as this monsoon and everything goes away say in month of September and onward we will see a good



*Star Cement Limited
August 01, 2019*

strong demand coming back because ultimately whatever there will be a strong demand coming from all around, that is our expectation and we will be able to report those numbers. But if the second quarter disappoint definitely this guidance needs to be lowered.

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

Ritesh Shah: Sir, couple of questions. First is, the tax rate for the quarter and what should we look at it for the full year?

Management: Ritesh, it is taxes, right?

Ritesh Shah: Yes. Sir, tax rate for the quarter is at 11%. So, how should one look at it this number for this quarter, any specific reason for it to be low? And how much should one expect for the full year?

Management: Yes, you can take it 8% to 9% because this quarter because this clinker sale was lower. So, that clinker unit was exempted, okay. So, that clinker profit is lower, so the deduction MAT credit entitlement was lower in this quarter. So, average you can take 8% to 8.5% instead of 11%. This quarter it is very bit high due to the because lower profitability of the exempted unit.

Ritesh Shah: And sir, why is it significantly lower than the applicable tax rate? How should one look at the bridge?

Management: Because the clinker plant and Guwahati Grinding Unit are both under the 80-IE, okay. So, they are exempted. So, there is math credit entitlement that is a deferred tax asset generate, so that is why the net cash outflow is lower.

Ritesh Shah: That helps. Sir, secondly, you indicated about something about ferruginous soils, something of that sort. Sir, can you please highlight what that is?

Management: See, whenever we mine limestone, we get so, anything overburdened soil is actually called as a ferruginous soils. So, in our case, it has got some traces of iron into it, right? And we need iron for our manufacturing of cement. So, we are using this soil in place of iron, which is very cost-effective. And we started it, I think over a period of time it will go. But is not going to have very significant impact, but it will have some impact. Because the cost of iron landed there is pretty high. So, this will replace that.

Ritesh Shah: Right. Sir, any update on debottlenecking? You indicated we are awaiting EC for the kill but any plans you have, plans to debottlenecking, we had a CAPEX of around Rs. 30 crores. Sir, where are we on the spot?



*Star Cement Limited
August 01, 2019*

Management: See, we are taking a shut down from middle of this month, from the month of August. But I think, debottlenecking will because we are still awaiting some equipment from there. So, this shut down will not have an impact on that. I think, we will have to await for the debottlenecking because the equipment is going to arrive not more than before December - January. So, we will be waiting for one more shutdown to take place. That I am unable to predict at this point of time, because that be will be hit directly running into season time and getting a big shut down at that particular point of time is really impossible. So, we will still wait for that debottlenecking exercise to get completed.

Ritesh Shah: Okay. Sir, last question, earlier you had indicated our interest to venture into eastern India. Now, Emami is one asset which is on the block. So, how are we approaching the asset? And if you do not wish to comment directly on the asset, my second question would be, how should one look at the balance sheet ratios going forward? If that is a good opportunity for us to look at?

Management: So, I think at this point of time, it is very difficult for me to comment on something anything on Emami asset but they have plants in Chhattisgarh, in Durgapur, they have one plant in Bihar, they have large grinding capacities of around 7 million tonne existing and then 3 million tonne of clinker in Chhattisgarh, grinding capacities in Chhattisgarh also. So, there are people who are looking at assets differently and as far as whether we are doing anything on that it will be very difficult for me to give any comment on this.

Ritesh Shah: Correct. Sir, if not for a Emami, how should one look at the balance sheet ratios given we would definitely be interested for something inorganic given our balance sheet is pretty healthy and we are looking to expand into eastern India. So, to what extent should one look at the balance sheet say net gearing ratio? So, what is the comfort level that you have?

Management: See, internally say we have been, we have always said that we will be comfortable at least at one is to one kind of a ratio in the present environment. If there is anything which comes in front of us and it suits us and it gets fitted into the scheme of things which you are thinking for the east, we will definitely go for it.

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

Pratik Kumar: Sir, my first question is on cement prices. You mentioned that price have fallen by around Rs. 10 - Rs. 15 in July. So, all the prizes are now lower from their base price where they increase from like in April across the region?

Management: Yes, Pratik, they are lower than the base price of I will say March and April, they are definitely lower at this point of time.



*Star Cement Limited
August 01, 2019*

- Pratik Kumar:** By a same number you mean Rs. 10 - Rs. 15?
- Management:** I will say that, at least Rs. 10 they are lower.
- Pratik Kumar:** Okay. And you mentioned about generally volume growth on 4% - 5%. That was for industry, I guess not for company or maybe company would be similar in terms of cement if let us Q2 falter as well for industry growth?
- Management:** No, the 4% - 5% number which you are giving is maybe a full year number. If it say quarter two falters, then we still expect the demand to come back. But I do not think anything above 4% - 5% would be very difficult for the entire Eastern. So, I am talking of this Eastern growth. I am not talking all India demand. As far as we are concerned, if the quarter two falters, definitely, we have to revise down our overall estimate for the full year volume growth. But we are still hoping that maybe August and September, will do a better thing than what has been seen in the month of July?
- Pratik Kumar:** Okay. And regarding this coal mining which you mentioned, it is expected to come I mean, someone is supposed to sell. So, the pricing of this will be extremely competitive versus what we used to buy at originally, maybe six months back from them. I mean from local miner, six months or eight months back?
- Management:** So, I think, what is being planned at this point of time looks like that, this is coal which belongs to Meghalaya, right? So, maybe state government is thinking on that line is that okay, maybe last part of this coal will be mostly Meghalaya people will be allowed to take this coal. So, that will be having some impact on the price. So, prices will be I will say they are not going to be exactly the same what we used to get it but they will be a little better than whatever we are getting from imported and Eastern India. So, they will be somewhere in between of those two prices.
- Pratik Kumar:** So, in that case, we were estimating that Rs. 10 per bag impact that should not come in that case if we started procuring from here?
- Management:** So, at least, see, at this point of time Pratik, very difficult for me to comment on how the pricing is going to be, what are the auction prices, who are going to be the buyer, the government is also even talking about reserving some coal from cement industry. So, all those things are still to be played out and our hope is that, because it is not going to one day process, this 3.2 million tonne coal, it will require at least 2 year - 2.5 year, 3 years is sufficient for the entire cement consumption in entire Northeast largely for cement plant and power plant. So, we hope that maybe initially there will be prices maybe little higher but over a period of time, it will definitely have a cooling effect. And that will definitely help us in terms of moderating our pipelines at



*Star Cement Limited
August 01, 2019*

this point of time, whatever we have. So, for me to comment on whether it is going to be impactful get reduced by Rs. 5 a bag or maybe Rs. 7 a bag is difficult.

Pratik Kumar: Okay. And regarding that grinding unit at Siliguri is that expected by January 2020?

Management: At this point of time, the timeline remains the same. We are expecting it to be commission in the month of January.

Pratik Kumar: And clinker debottlenecking you said now we do not know that how much time it can take for that point 2 million tonne clinker which we are looking to expand?

Management: We have missed this shutdown opportunity, as I said. So, this is not happening probably it will go to the next shutdown, which is next year. But in between, if we get something and there is a possibility of doing it. Something which is offline, some work we will be doing offline also. But I think, it will be largely getting postponed to the next shut down.

Pratik Kumar: Okay, just one last question on prices in Northeast you mentioned, there could be like 3% to 5% rupees discount lead pricing fall in Q1. So, that been recovered it is still exist in Northeast?

Management: No, it is still existing?

Pratik Kumar: Still existing. So, that is there in the numbers in Q1?

Management: Yes, that is there in the numbers in the Q1.

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

Rajesh Ravi: Sir, on this WHRS, will it be coming with the new clinker line that you are planning or will it be on the existing clinker lines?

Management: See, Ravi we are actually thinking of doing some part of it with the existing line and that we are trying to do it earlier than what the clinker production is going to be in the next line. So, the we are hoping that okay, some part will be definitely trying to complete before the clinker line gets completed.

Rajesh Ravi: Okay. So, out of these 12 megawatts - 15 megawatts, part of it will be on the existing lines only?

Management: Correct.

Rajesh Ravi: Okay. And the Rs. 800 crores include the WHRS also, sir, or that is only for the 2 million tonne clinker?



*Star Cement Limited
August 01, 2019*

- Management:** No, that is only for 2 million tonne clinker. So, it will be around Rs. 125 crores to Rs. 150 crores more for this.
- Rajesh Ravi:** Okay. And Siliguri you said is on track. In January it will start commercial production?
- Management:** Yes, it is on track.
- Rajesh Ravi:** Okay. And what sort of utilization you are expecting it to, given that near-term demand scenario has been weakened. And second also on the fate of those all these units once your Siliguri plant becomes operational, what would happen to the current arrangement that we have?
- Management:** See, in Bengal and Bihar, I think we will be able to safely start with around 0.6 to at least 60% kind of a capacity utilization. We are hoping that in the first year itself, we will be least able to utilize 60% - 65% of this capacity with whatever footprint we have in Bengal and Bihar personally confident of utilizing that capacity. And I think, the scenarios which are prevailing at this point of time, in terms of prices and the demand side of it, we hope that after quarter two so there will be some demand coming from the reconstruction of which is after the major flood, there will be some reconstruction activities which will be picking up. So, we hope some demand is coming from that side also. Once the rains are good, I think the rural demand will also be better. So, probably quarter three and quarter four should be better and it will spill over to the next financial year also.
- Rajesh Ravi:** Okay. And sir, the leased units, would you continue to have it on board?
- Management:** At this point of time, we have not taken any decision on them but looks that we will be continuing with these lease units.
- Rajesh Ravi:** Okay. So, just last year on this leased unit, will it change your accounting lease accounting related anything for those on lease asset?
- Management:** No, because that has not impacted right now for the higher unit because the original agreement has already expired, okay. So, agreement in place. Now, it is a principal-to-principal basis, purchase sale agreement. So, that is why, they have not impacted the lease account, our balance.
- Moderator:** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Sorry, I missed your commentary around demand and pricing in both East and Northeast market, if you just briefly tell us?
- Management:** See, as far as the Northeast is concerned this last quarter, the demand was more or less flattish. And for overall Eastern side, I will say which includes Bengal, Bihar, Jharkhand, Odisha all



*Star Cement Limited
August 01, 2019*

there is a decline of around 10% in this in this particular market, right. The overall cement demand, there has been a decline. As far as whatever we have been able to gather, all India cement demand is also down by around 9%. But our expectation is that so quarter two, the July is also not looking any better than whatever was the quarter one. So, because the rains are still prevailing East is getting largely impacted because there has been rains, a lot of flood in Assam, Bihar, North Bengal and a large part of Eastern India. So, but still if our expectation is even if the quarter two pulls on to a level of maybe small growth or 4% - 5%, we hope, in quarter three and quarter four, the demand has to come back very strongly. Our expectations will come back very strongly. So, we still feel that maybe if that happens, yes, we will still report a positive cement demand growth in the entire Eastern side, which will be somewhere around 4% - 5%, that is what our expectation is.

Rakesh Vyas: Got it. And about pricing, sir, East I just heard, East you are saying that prices are now below what they were before they started increasing I mean, so, I think March pricing was probably the bottom and the pricing currently is lower than that? That is in the trade segment you are highlighting or this is both trade, non-trade put together?

Management: So, I think both the segment follows each other. So, I will say in both the segment, the prices are actually lower than what they were in the month of March - April.

Rakesh Vyas: Okay, got it. Where in Northeast except that small discount pricing is broadly still stable?

Management: Yes, the pricing is stable in north.

Rakesh Vyas: Got it. Can you also highlight, what will be our CAPEX FY 2020 and FY 2021? Based on your plans for WHRS and grinding unit all put together?

Management: So, I think we are completing this Siliguri. So, Siliguri, we will require around Rs. 250 crores to be spent from the second quarter onwards. So, there will be an expenditure of Rs. 250 crores in this year itself. And as far as the other is concerned, WHR once we get that technical assessment completed, we really expect on 25% expenditure to happen in this year. And as for the overall 2 million tonne Clinkerization, which we are also thinking of picking ground in the month of October - November, which is largely a season time. So, we expect around 10% expenditure to happen in this particular year.

Rakesh Vyas: And this Clinkerization will get completed by the end of fiscal 2021, if you start in October by March 2021?

Management: Yes. If we start, it will take at least 24 months to 30 months to complete it.

Rakesh Vyas: Okay. And what will be the estimated CAPEX sales, sir?



Star Cement Limited
August 01, 2019

- Management:** That is around Rs. 800 crores.
- Rakesh Vyas:** Rs. 800 crores, okay. And sir, my last question is, government is focusing a lot on these inland waterways specially connecting Northeast. So, anything that we have studied as to how we can use it for our volume push into Eastern India, etc., if you can highlight?
- Management:** No, we have been constantly in touch with this waterway development in across Northeast and also in eastern side. I think we were the first cement company to start transportation via river route from there is a place called Pandu near Guwahati and to Dhubri in Assam. So, that was flagged off by the honorable Minister Mr. Nitin Gadkari. But I think the government intent is there. But it needs a lot of raising activities in lot of rivers. So, it is going to take time, I am not very hopeful anything is going to happen in maybe 6 months or 12 months. It is going to take up a lot of time in terms of making it truly navigational, it will take some time.
- Rakesh Vyas:** Got it. And sorry, my last question, sir, of the east volumes that you sold, are you selling anything in Bihar currently or you are primarily focusing on West Bengal only because of the pricing that exists?
- Management:** No, we are selling some something in Bihar also. And in certain part of Bihar definitely we are present and we are seeding the market at this point of time. And once the **(Inaudible) 48:04.1** ones we will definitely be entering Bihar going to these markets full-fledged.
- Moderator:** Thank you. The next question is from the line of Vinod Modi from Reliance Securities. Please go ahead.
- Vinod Modi:** Sir, we had commissioned railway siding in the month of February 2019. So, if you can quantify the actual saving you would have realized in the last quarter, sir?
- Management:** I do not have these numbers of actual saving at this point of time.
- Vinod Modi:** Because anyway, we were anticipating kind of 100 per tonne to 150 per tonne kind of operational cost-saving at Guwahati level. So, that is what I was wondering.
- Management:** See, what happens is, see, as of now we are handling largely from the coal thing which is getting handled, we are getting fly ash by the rakes but quantifying the number I do not have number ready with me. If you can send me an e-mail on that, we will be happy to replay on that.
- Vinod Modi:** Sure, no issue, sir. And my second question pertaining to your Siliguri unit, sir I think the Siliguri unit this plant also entitle for GST benefits, right? So, is there any sort of clarity emerge? Because anyway, we are in discussion with West Bengal government and all for any sort of further clarity, there if you can quantify the kind of savings or maybe tax benefit that you will be getting from this plant?



*Star Cement Limited
August 01, 2019*

- Management:** See, the earlier policy where we had made our application for the new cement plant in the last policy of the government of West Bengal. That policy is already expired, there is no new policy which the government has come in as of now, right. So, it is really uncertain at this point of time committing anything, whether what will be the benefit and all that will all depend on whether the new policy comes or it does not come and even if it comes, what it comes with right at what kind of incentives and benefit. And government of West Bengal is willing to give it to the industry. So, this is really fluid at this point of time. It will be difficult for me to comment on this.
- Moderator:** Thank you. The next question is from the line of Manish Agrawal from Edelweiss. Please go ahead.
- Manish Agrawal:** Last year in the last quarter you were talking about there will be maybe Rs. 100 per tonne - Rs. 150 per tonne fuel cost impact because we have to now bring coal from outside Northeast. But I see actually raw material in fuel cost total has actually come down and are we seeing some efficiencies coming there?
- Management:** No, there is nothing on that side. But it is only because there has been an inventory adjustment, which has happened in this quarter. And that is only showing up and then we had some inventories for the old stocks and old stocks which has also impacted. But the cost increase is going to definitely come up maybe if it has not come in this quarter, they are going to impact us in coming quarter.
- Manish Agrawal:** So, sir, you are saying, the cost increase has not shown yet in this quarter yet. So, basically, in the next quarter as with Rs. 100 per tonne cost impact we can see in the sale cost?
- Management:** Yes, definitely. You will, see a Rs. 100 - Rs. 150 cost impact in coming quarter.
- Manish Agrawal:** Okay. And sir, one more question like you said that Northeast itself has not done great in volume turns, but it is largely flat right in this quarter as an industry. But sir, our volumes have declined sharply. So, is it like we are losing market share or we are supplying to selective customers, is there a change in strategy or something that we are looking at?
- Management:** No, we have not lost volume in Northeast, we have grown at around 3% - 3.5% in Northeast. So, our volume, as far as cement volume has not gone down in this quarter, on a overall basis also. The decline which you are seeing is only on account of lower clinker sale. So, we average almost sold around 19,000 less clinker in this quarter as compare to corresponding quarter last year. So, that is the only volume decline. But there is no decline as far as cement volume is concerned.



*Star Cement Limited
August 01, 2019*

- Manish Agrawal:** Okay, got that. So, sir, we are kind of currently maintaining the market share that we have or like because...
- Management:** Yes, absolutely we maintaining the market share correctly.
- Manish Agrawal:** And what would be that sir, like for that Northeastern market for us?
- Management:** As of now we will be having around 25% market share.
- Manish Agrawal:** 25%, okay.
- Moderator:** Thank you. The next question is from the line of Chintan Shah from Investec Capital. Please go ahead.
- Chintan Shah:** Could you please highlight the breakup of CAPEX again Rs. 250 crores, you mentioned for the year?
- Management:** So, the Rs. 250 crores is towards Siliguri and I said that maybe 25% of WHRS we will be spending in this year and around 10% of the clinker project will spend. So, overall, if you add it up, it will be around Rs. 350 crores, anything between Rs. 350 crores to Rs. 400 crores, we will be spending in this year.
- Chintan Shah:** Okay. And sir, are you looking for anything outside the Eastern region?
- Management:** No, at this point of time we do not have any offer available with us. If there is any opportunity which suits our size but it suits our business plan, definitely we will have a look at them.
- Chintan Shah:** Okay, great. And sir, one more thing, you mentioned Siliguri is to be commission in January 2020, right?
- Management:** Yes.
- Moderator:** Thank you. Ladies and gentlemen, we are taking the last question from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** A couple of questions. Sir, one of the prior questions did indicate about the inter-regional trade and you spoke about Pandu, Dhubri moment. Sir, if I look at the data for NW-1 and NW-2 to the cargo movement, that total cargo movement is upwards of 1.5 million tonne. Is it do you see inbound moment of cargo like besides after Farakka into Northeast, has that moment already started which is impacting pricing in Northeast?



Star Cement Limited
August 01, 2019

- Management:** No, we are not seeing any water-based movement into Assam or any part of Assam, that is still not seeing. So, that has not come as far as to our notice, it has not come anything like that. The inter-regional movement of cement is largely on account of from say from eastern India, the cement goes to Northeast, in some parts of Northeast depending on what kind of pricing scenario prevailing Eastern India and in Northeast So, that is one reason for some movement of cement which happened. So, that is only thing which is there. The other cargo movement, we largely do not track those cargo movements which are non-cement.
- Ritesh Shah:** Okay. Sir, my second question is I understand PSC is very small for us. But sir, how have the slack prices attended in the prior quarter versus say Q4?
- Management:** Slack prices are currently around Rs. 900 a tonne and maybe last quarter it was around, in March end result is around 1,200.
- Ritesh Shah:** Okay. And sir, what is our sourcing over here, any particular reason for the prices to come off?
- Management:** We do not see any reason because a lot of companies in the Eastern zone have 52 PPC, because the slag availability, because they cannot rely on the availability, entire availability on the slack. So, they have converted into PPC. So, that is why because we are hardly using because only one minute we are taking from hiring, which we have hiring arrangement, so requirement is less. So, that is why that demand has come down, the prices have come down.
- Ritesh Shah:** Okay. And sir, how about fly ash?
- Management:** Fly ash prices are currently around Rs. 300 tonne to Rs. 350 tonne at Durgapur.
- Ritesh Shah:** Okay. And sir, how much was it prior quarter?
- Management:** Prior quarter it is around Rs. 300 a tonne. Fly ash cost has increased that is why because many manufacturer have moved to fly ash. So, Rs. 25 - Rs. 50 it has gone up.
- Ritesh Shah:** Okay. Sir, if I am not mistaken, we did move cargo by inland waterways from NTPC all the way to our plant. So, is that trade still going on? Or was it a one-off trial thing that we had?
- Management:** I think, we only did a trial. So, we have not been able to again do it. So, **(Inaudible) 0:57:36.5** are continuing they say so. And we are absolutely in track with and we have been talking to inland waterway authorities and ministry and everything and lot many time ministry also comes and helps us. We also help them. So, we are in complete coordination with them. And whatever benefits comes out of this particular thing, so this is something which can have an impact on overall movement of cargo in the region. So, we will definitely have a look at it. But I think, the risk, it is very difficult for moving anything beyond the Guwahati because that is the only way



*Star Cement Limited
August 01, 2019*

you can reach Assam, right? And till that, a lot of dredging is required in this river and it is huge river, it is not a small river. So, our view is that, it is going to take some time.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Rajesh Ravi from HDFC. Please go ahead.

Rajesh Ravi: Yes, I missed your commentary on the slack prices. So, could you please what is the trend on the slack pricing Rs. 900 you had mentioned for Q1?

Management: Slack prices prevailing near Durgapur, it currently around Rs. 900 a tonne, which was in March around Rs. 1,200 a tonne.

Rajesh Ravi: Okay. So, from March quarter, it has come down significantly. Okay. So, that is heartening to know. And on the balance sheet front, just want to understand, if at all, we have net cash position and we also have to Rs. 2,000 crores net worth. Suppose we get to some strategic assets outside of Northeast, are we in a position to reduce the quantum of our Brownfield expansion in the Northeast?

Management: See, Rajesh, the point is the Brownfield expansions which are going to happen in Northeast are requirement for us in Northeast, we have to be there in Northeast and significant part of our business is there in Northeast and we want to maintain our dominant position as far as Northeast is concerned. So, there is no compromise going to happen as far as the Northeast is concerned. We do want to grow outside the northeast and limited to the eastern segment. In the East side, if there are opportunities which are available to us, which suits our business plan and which are within the ambit of overall the balance sheet stretch, we will definitely pick for those kind of assets.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now the floor back to Mr. Vaibhav Agarwal closing comments.

Vaibhav Agarwal: Yes, thank you. On behalf of PhillipCapital, I like to thank the management of Star Cement for the call and many thanks to the participants for joining the call. You may now conclude the call, Stanford. Thank you very much, sir.

Management: Thank you, everybody.

Moderator: Thank you very much, sir. 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.