HEIDELBERGCEMENT

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HCIL: SECTL:SE:2022-23

19 October 2022

BSE Ltd.
Listing Department
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai - 400001

Scrip Code:500292

National Stock Exchange of India Ltd
Listing Department,
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex, Bandra (E)
Mumbai - 400 051

Trading Symbol: Heidelberg

Dear Sir,

<u>Sub: Transcript of Earnings Call - Regulation 30(6)</u>

This has reference to our letter dated 17 October 2022 informing about conference call being organised by PhillipCapital (India) Pvt. Ltd. Further to our aforesaid letter please find attached transcript of earnings call with analysts and investors held on 18 October 2022 on Unaudited Financial Results of the Company for the quarter and half year ended 30 September 2022.

The above information is also available on the website of the Company at https://www.mycemco.com/financial-results

Please take the same on record.

Thanking you,

Yours faithfully,
For HeidelbergCement India Ltd.
RAJESH RELAN
Digitally signed by RAJESH RELAN
Date: 2022.10.19 17:03:34 +05'30'
Rajesh Relan
Legal Head & Company Secretary

Encl.: a.a

MATERIAL TO BUILD OUR FUTURE

"HeidelbergCement India Limited Q2 FY '23 and H1 FY '23 Earnings Conference Call"

October 18, 2022

MANAGEMENT:	**MR. JAMSHED NAVAL COOPER — MANAGING DIRECTOR, HEIDELBERGCEMENT INDIA LIMITED** **MR. ANIL SHARMA — CHIEF FINANCIAL OFFICER, HEIDELBERGCEMENT INDIA LIMITED**
MODERATOR:	**MR. VAIBHAV AGARWAL — PHILLIPCAPITAL (INDIA) PVT. LTD.**

Moderator: Ladies and gentlemen, good day, and welcome to the HeidelbergCement India Limited Q2 FY '23 and H1 FY '23 Earnings Conference Call hosted by PhillipCapital (India) Pvt. Ltd. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Pvt. Ltd. Thank you and over to you, sir.

Vaibhav Agarwal: Thank you, Steven. Good afternoon everyone. On behalf of PhillipCapital (India) Pvt. Ltd., we welcome you to the Q2 FY '23 and H1 FY '23 call of HeidelbergCement India Limited. On the call we have with us Mr. Jamshed Naval Cooper – Managing Director and Mr. Anil Sharma – Chief Financial Officer of HeidelbergCement India Limited.

I would like to mention on behalf of HeidelbergCement India Limited and its management that certain statements that will be made or discussed on this conference call may be forward-looking statements related to future developments and the current performance. These statements are may be subject to a number of risks, uncertainties and other important factors, which may cause the actual developments and results to differ materially from the statements made. HeidelbergCement India Limited and the management of the company assumes no obligation to update or alter these forward-looking statements whether as a result of new information or future events or otherwise.

Also, HeidelbergCement India Limited has uploaded a copy of the Q2 FY '23 presentation on the stock exchanges and its website. Participants are requested to download a copy of the presentation from these websites.

I will now hand this over to the management of HeidelbergCement India Limited for the opening remarks followed by an interactive Q&A. Thank you and over to you Cooper sir.

Management: Thank you, Vaibhav, for this organization, and thank you all the people who have attended this for our investors' call. Taking you, I suppose you would have received all the presentation, the entire presentation and you have gone through it. I'll run through it. So, for the September quarter has some of the highlights which I should express to you and mention to you.

You know for the first time our green share of green power has increased to 34 m and 34%, and in the future we are trying to see that this is maintained and increase further. So, in terms of our future security on power, we are working on this so that the company remains on a strong foothold on power because nowadays power and fuel is a very high element of share of the total variable cost. It is one of the highest today.

We continue to produce 100% blended cement, which is one again a very clear message that you we want to remain green and we want to remain clean. In terms of volume, yes, we have slipped on the volume by 19% on year-on-year basis and 10% on quarter-on-quarter basis. This is mainly, it should not have happened but, you know, we were unfortunate that in Central India, in the month of July, we had problems in the weather related to weather-related conditions in once in one month in UP and one month in MP, and there was again incessant rains and the crop has got spoiled. There was a flood-like situation. So, it is unfortunate that, you know, we had to suffer because we are focused more on Central India.

Now at this point of time, we possibly think that had we had some market share in Bihar, probably, we would have done better. But anyway, these are one off effects, which are not going to have a permanent impact on our results. So, it is we suffered because of this.

Prices have increased by 8% and a little bit down on the quarter-on-quarter basis, but the trend seems to be now that the prices seem to be the increase, and there are reasons for it to increase. We can discuss this later on. There is a significant increase in fuel costs. We all know that the fuel has gone through the roof. Power has not gone so much. So, in fact, we have been able to save on our power cost because we are now sourcing third-party power and green power so that makes us a little cost efficient on power, but fuel is something which we have to source from outside, and we are little disturbed because of the fuel also. But anyway, the future we see that the prices of fuel may come down.

We delivered an EBITDA of 476 per ton which is 50% lower. So, I think this is the bottom what we would have touched, and quarter going forward should be, you know, we should be able to recover back, bounce back, and the prices seem to be supporting that in the months to come.

We paid a dividend of 9 per share which is already been distributed, and the highlight, another highlight is that we continue to operate on negative net operating working capital, and our net debt stands at about 109 million as on date.

Taking you to the next slide, as we show you the whole chart, today we are at 34% as on September quarter, and you can see the graph which is there, which is moving in the positive direction. The trajectory is good, and I think this we can continue, and as time passes, and I think at least this is somewhere sustainable. We try to sustain it at this level.

Very happy to inform you that Ammasandra plant operates mostly on green power which is more than 90% of the green power, and it has worked out very well in our favor at Ammasandra. Similarly, we put up a power plant, thermal with this solar power plant in our Narsingarh plant, which we have already informed to you in the past.

Coming to the next slide, while we also make cement, we also, you know, continuously engaged with the local society, because we believe that corporate cannot succeed where society fail. So, believing in this we do a lot of CSR activities, and these CSR activities, a glimpse of that is shown here. We are doing classrooms, okay, for children development of Anganawadi. Then we are digitizing the classrooms of government schools, and we are also trying to see that, you know, we can provide an additional income, generate additional income by cattle breeding and cattle farming and little bit of helping the villagers to improve their tertiary or a third income or a secondary income to support them. So, this is what we are trying to do.

Coming to the results, which is on Slide #6, you can see the results. The biggest impact for us is the volume, which is negative, and the impact of it is significant impact of that happens on the EBITDA also. On cost side, it is not, we are not so bad, but it is basically the fuel which has killed us at this point of time.

Despite the efforts what we need to reduce our fuel consumption, today, we are quite low on fuel, but yes, now this gives us one more thought process that there is further room for improvement which we will have to really take up and reduce our fuel consumption further, and for that we are working on little bit of debottlenecking of our plant which will happen in the next year. We will do a debottlenecking of Line 2 and Line 3 both starting with Line 3 first and then go to Line 2. So, that is what we'll call for that and now we have taken it on the card.

The Waterfall Bridge what you can see on Slide #7 compared with the September quarter of last year, we delivered EBITDA per ton of 946. This time we had 381 per ton in terms of GSR is concerned. But you can see the entire whole benefit is taken away by the 670, 50% increase in the power and fuel cost, which, you know, really takes us downhill and lands us at 476 of, you know, other costs and freight costs are okay, but I think this is one of the elements we have to really work on now.

Next is our, you know, as we said we are operating on a negative working capital, but if you look at our balance sheet size, it is hovering now around 26,677, and I think this is the more reasonable place where we will stay. We will hover around this place. Until such time we start doing some investments which will come in the next year.

Some of you people might want to know what is our working capital situation and the cash and bank balances. So, we have provided this slide on Slide #9. You can see that Rs. 2.37 billion as on September '22. Out of it, the debt is 2.346. So, there is a minor net debt lower of 109 which I mentioned it on the first slide, the repayment schedule how it will happen, and this would have not occurred had we not paid the dividend. Okay. So, there is a dividend flow out has taken us the net debt to a little lower level, but this is a very temporary phenomenon. This will again pull up on this on the positive side, and as we make the payments, by that time we would have significant amount of cash surplus also sitting on the book.

Next. We, now going to Slide #10, happy to inform you that, you know, 55% of our premium products sales is now in the trade segment, and this is a significant improvement. We were hovering around 20 to 25. We introduced another brand which is called Mycem Primo, which is the mixed between the power and the basic bag and that has got good traction. So, the market is accepting it very well.

Coming to our sales volumes in terms of rail and road, it is 50-50. Coal is 31%. That is 70, close to 69, 70% is our petcoke consumption, and this blend of petcoke consumption has changed because the petcoke now is cheaper, was cheaper than as compared to coal. So, we have switched over. In the previous quarter, in the last September, you would have found the reverse of it. So, it is now the situation is reverse. Thanks to our technical team which is adept at changing the fuel mix at the very rapid state. So, they respond to these changes very frequently. 83% of our trade sales is there. So, that continues between 80 and 85 which remained. When the markets are soft, we go more little bit non-trade we can pump, but non-trade also this time we were not able to push because the sites of the monsoon, because of the unseasonal monsoon, sites have also closed many places so that our traditional loyal parties were also not taking cement.

So, the feather in the gap is on the Slide #11 where again, from time and again, we have been given the five star rating, and this time it was for our mines development by Hon'ble Minister Shri Pralhad Joshi. He has given us this award. And in Jhansi again on the second consecutive Apex India Safety Award, because we believe safety is our foremost priority. We want every person who comes to Heidelberg to work in goes back smiling home, because someone is waiting for them at home, and this slogan drives us to ensure that we achieve the highest level of safety and more towards zero harm. And we are happy to announce that as of date in last two years, we are almost there at the zero harm level excepting for some dispensary minor injuries which don't require, but they require first aid. We want to ensure that even the first aid part is totally eliminated. So, people go scratch absolutely scratchless in our company while working.

Now, so the outlook, how does the outlook look like? So, you know, the GDP, the forecast which had been made is 6.8, and I don't know, but as of now it seems to be still a good rate of GDP because if you compare it with anywhere part of the international arena, this is one of the best GDP country which has the highest growth rate. So, we should be proud that our India is delivering this sort of growth in an environment which is geopolitically very sensitive and it is in turbulence state where many countries are under a recession. The heart of India continues to throb and move forward in a positive manner.

Rising inflation, yes, major concern. We can see the repo rates going up, and the government is trying to contain inflation, but it seems to be a little difficult at this point of time. It affects consumer sentiments, and we will see this impact with the coming onset of Diwali, how the Diwali pans out. If the market for other period, the demand for other products does not seem to be low or the footfall in the retail counters and the retail malls are going to be strong, we have not too much of a concern to worry that people are worried about recession.

That means we have enough cash flow to continue, and housing being one of the important segments where roti, kapda aur makaan, so this should give continuously good traction to the housing construction needs also of the rural India, and the Tier-2 and Tier-3 cities. Tier-1 may be little surplus, but Tier-2 and Tier-3 cities, these are engines for demand growth.

The recession fears are there. I think this will remain. We cannot do too much about it. Government, this is another part where I am a little bit concerned. We are concerned about is we don't sell so much to government under, you know, infrastructure. We are on very low under non-trade, but yes, those companies who are supplying to government department, their share could be as high as 40% in the non-trade segments. When they find that the demand is not there in the government segment, okay, and the government demand is pushing down, I can tell you from the figures of government investment in infrastructure, we can see it tapering down very steeply. And if that happens, then this other material which is of our competitors which was going in to the market will find its way into the retail segment, and that could be a little bit of a push back, but to enter retail market is not easy. Your company has got a very strong foothold in the retail segment. So, we will be able to safeguard our shelf space and continue to deliver positive results.

Mentioned about uneven rainfall has affected kharif crop. So, this is a concern for us because in Central India it is more of an agricultural economy, and we are dependent quite a lot on this, but we will come to know just after Diwali how the market pans out in the coming 15 days, and then we will be able to figure out how the October, November and December look like.

I am not too much worried about this because there is spending happening in the rural area. So, people will continue to, you know, put money on to the housing sector, and another thing is post Diwali, we always expect some good demand. October month, you know, we saw both festivals fall in the month of October. Chhath is also there on the 30th. So, there will be three festivals almost in one month starting with Dussehra in the beginning first week, then now coming Diwali, so third weekend, and then the fourth week we are into Chhath puja. So, labor is a problem at the construction site but let us see how things move forward. This is all from my side. We have sent you this soft copy of our presentation.

Along with this next also our digital annual report, which you can have a look at it. These are some of the rare occasions. I don't think anybody is producing a digital annual report which is the snapshot, which is the summary of it. So, you can have a look at it. This is the second digital annual report which we have sent. I hope you appreciate, and if there are any comments, we are happy to take, and we can improve on this further. Thank you very much for your support, and any more question, any questions on that, we are happy to answer. Thank you.

Moderator: Thank you very much, sir. The first question is from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.

Rajesh Kumar Ravi: Thanks for the detailed presentation. Sir, I have a few housekeeping numbers. I see that the last year trade sales number has been restated from 83% declared earlier to 86% for last year Q2. And also, you mentioned that the premium cement share has gone up. So, what exactly went into, you know, increasing this almost doubling of premium cement share number? And third, landed fuel cost, can you talk on a per kilo cal basis the pricing, the convention cost in Q2? And how it changed versus Q1?

Management: Let me put it the non-trade component. You were talking about it has dropped from 86. So, you know, there is a little bit of change here. What we did is earlier what we were doing when we were doing sold rates, cement whole full sold rate, that time we were capturing it as non-trade supply. Now what we have done is, we have regularized it because we are supplying MRP bags.

Okay. Non-trade material by nomenclature is a bag which goes which is not for resale. It goes in a separate type of a bag. It is a very distinct bag. So, that does not penetrate in to the local market. So, these have a system of giving non-trade bag. This is a separate bag, and this trade bag is a total separate bag. Now we have classified this and corrected in our system that any material which is undergoing under an MRP bag will be considered as trade sales. So, whether it goes in bulk or whether it goes in anything which is not for resale, which is not in resale, and it is going to be resold, it will be classified. So, that is why the difference is coming there. Number one.

Number two, premium segment, so you are saying the premium sales has gone up. Yes, as I mentioned to you that we have launched a new product which is called Mycem Primo. That has caught up very well in the market because of its pricing status segment also because Mycem power is close to about Rs. 40 to Rs. 45 higher than the normal bag, and this bag is close to about Rs. 15 higher or Rs. 15 to Rs. 20 higher. So, it is price in between. So, there was an aspiration of many customers who wanted a box bottom bag but they did not want to pay this Rs. 40 a bag higher for a better quality packaging and better quality product or a much more, you know, which was managed better. So, they are now more going for this.

So, this intermediatery segment combined together has helped us push this volume into this segment. Gradually, this medium segment will keep moving towards the top segment and the top one, the power will keep moving up. So, our target is to increase the price of these, each of these bags by Rs. 5 to Rs. 7 every year. Beginning on Rs. 5 every year, this price should go up. So, we started with a very low base of Rs. 20. Today we are at Rs. 40 in four years. Now we will next year it will go to 45. Then this will go from 15 to 20 and 25 and then forward.

So, this is the strategy for us to put our premium, and one another thing which you asked and fuel consumption -

Rajesh Kumar Ravi: Per kilo cal.

Management: You know the fuel consumption cost for us is Rs. 714, about Rs. 700 odd is the cost of fuel per Gigajoule. Per kilo cal, Rs. 3.13. As compared to June quarter, there is slightly a reduction of softening of the coal cost as well as the petcoke prices. We considered it little bit now stable, and we are hopeful that it should reduce in the coming months.

Rajesh Kumar Ravi: So, do we expect this to fall, you know, much below Rs. 3 in Q3? Are we seeing that trend because petcoke prices have cooled off considerably?

Management: Petcoke prices, yes, little bit reduced during this quarter, but also like last one month we have seen further it is becoming little bit increased by the domestic players. We will see. We are hopeful that there should be little bit softening in the coming months.

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

Ritesh Shah: Sir, three questions. First is, sir, at the parent level, the name has moved from HeidelbergCement to Heidelberg Materials. How should we read what it means for the India operation? So, that's the first question.

Management: So, Ritesh, this is a global thought process which the group is pursuing that we were HeidelbergCement. Basically, we are not only as well into cement. We are into building materials, and we are into concrete and every sort of possible you can name it under the sun it is there. So, the group decided that, you know, it is high time that we are pushing the agenda of green. So, they said, let us make it more consumer-oriented company name, group name, and that is why right now also the HeidelbergCement as a group remain till there is no change in the name of the company at the group level also. But Heidelberg Materials is one of the umbrella which they have created for future and to promote an image of a green company and a green product. So, when you see the logo itself, there is element of green which has been brought into it, a leaf has been brought into it. So, it is a way of altering our, you know, I should say a perfection and image and to build an image of a clean and green company and more to do with as materials. And our slogan, one of the slogan is also there, material to build our future which we brought in last year, year-and-a-half back almost, two years it is now. So, it is in line with that. In terms of our India operations, we continue as HeidelbergCement India Limited. There is no change, and I don't think it is there is any plans to change it but may be our logo on top which you see HeidelbergCement we will start putting from 2023 onwards. We may bring in this logo for India also, but as a company answer is that it will continue to remain as HeidelbergCement India Limited.

Ritesh Shah: Sir, my question was more from an angle that the promoters or the parent's commitment to India. India remains very much given we are cement and we are the greenest of cement mill in the country so that that focus, that commitment is very much there, right?

Management: Yes.

Ritesh Shah: And sir, over here is diversification something that we are looking at given moving from cement to materials? Should we expect that the company will spread its wings under different product categories or is it we stick with cement what is core to us?

Management: Ritesh, you know that it is already on discussions that we will have to look at not only this, but yes, there were avenues. But again, you know, like a country where, you know, aggregates, RMC, it's a low entry barrier, and there is a high level of competition. There is nobody understands the technology of aggregates. Nobody understands for people it is here it is, you know, which is cheaper to buy. Nobody buys things on a scientific basis. So, this makes one of the reasons, you know, pushes those back that in a country where people are not buying cement or aggregates or materials on an engineered concept. So, it is they buy more of as a commodity. Then it does not really make sense for the company to start that business at the moment, but yes, I would say that yes, the time will get matured soon, because this will enable, there is nobody. There is no standard for these materials in our country also. Today, you can produce an RMC without any BIS specifications of anything. It is a performance-based product which delivers and the customer accepts it. Aggregates, there is no specification on aggregates. So, there is a time the India has to start thinking on bringing specifications, and then it will be the right time for Heidelberg to enter these markets or may be Heidelberg enters. I can say that I can plan and create, you know, standard for India to follow that these can be because we are the number one worldwide on aggregates. It makes sense, but I think right now there is a focus on cement and expansion on cement.

Ritesh Shah: Sir, quickly, two more questions. One is update on Gujarat expansion plan. Secondly, we have Gulbarga option under Zuari. Are we doing anything about it? And third, simplification of structure between Heidelberg and Zuari, so that's the second question in three parts. And the third question, sir, are there any changes to the discount structure in the marketplace given the conditions that we are in right now? Thank you, sir.

Management: So, three things you have asked. One is Gujarat. Okay. So, the Gujarat, now people have moved, and we are in the process of getting environmental work has started on this. So, this will take another I think at least till next May, June. It will take next May, June by the time we will have the environmental reports. So, this is on Gujarat is concerned, and then we take this further the next step after that.

Now coming to you asked about Gulbarga which is in Zuari. Yes, the Zuari is working on that particular thing of putting a plant there. So, the Zuari is working on that.

Coming to you said the third point you said between the, you know, unification of these two companies is concerned. Yes, that it also under card. We are working on it with the group. And the last thing you said was about the discount structure. Let me stretch here or stress here that we have a very, very, very, very transparent discount structure. Probably, you won't find this in any other, anyone in the country. We on 1st of January issue a discount policy giving each and every discount in writing to the dealer and the dealer acknowledges, signs the copy of it, and hands it over to us, which is put into our system for further. So, it is fully compliant. We don't change these discount structures and one fixed for the whole one year it is there for till 31st of December, it is no change in that scheme. So, we have a very, very transparent discount structure. So, I can only say that much. I just remember there is no change. So, there is nothing to think about it that we are, yes, I understand that you are referring to some news in the market about some PD given or some discounts given. That is not on our card. We don't believe in that. We absolutely don't believe in this giving PD. Our pricing is whatever we tell today is the price to the dealer. If there is any discount today, if suppose tomorrow some discount is to be given for a suppose a seasonal discount is to be given in case if it is demand to do with demand, that also circularly go to the dealer. Proper communication will go to a dealer in writing. It will be acknowledged by the dealer and kept in our records.

Moderator: Thank you. The next question is from the line of Sandesh Barmecha from Haitong. Please go ahead.

Sandesh Barmecha: Thank you, sir. I have two questions for you, sir. Given the demand in Central region got impacted by heavy monsoon in Q2, whether pent-up demand is expected in Q3, sir?

Management: So, Sandesh, the message is clearly that, you know, cement industry always sees a pent-up demand, and then it comes all of a sudden it blasts into the market. If that has happened in the past on several occasions, I would say that there is no reason why it should not repeat in the months of November and December, and I'm expecting that November and December should be really good months for cement, because we have seen July batch, August batch, September, lot of holidays. I think October, November, November, December should be better.

Sandesh Barmecha: Sir, how much as GST incentive amount have we booked in Q2, sir?

Management: GST incentive in Q2? One second. Every quarter we have around 50 million GST incentive. It is the normal amount in this quarter normally. It's about 5 crores.

Sandesh Barmecha: Around 5 crores, sir?

Management: Yes.

Sandesh Barmecha: And what is the CAPEX outlook for FY23 and '24, sir?

Management: The same thing we always say replacement CAPEX is 50% of our costs and our depreciation, and it is about 50 crores, and then we will take up another CAPEX is for line 2 and then line 3, I would say line 3 debottlenecking that will be there in this, and I think that there is very normal for us.

Sandesh Barmecha: So, around 50 crores in FY23 and FY24 will depend upon the cost per line. That's right, sir?

Management: Yes.

Sandesh Barmecha: Sir, any approx range you can give for FY24, sir?

Management: Same thing. You can consider (Hindi language 00:34:58).

Moderator: Thank you. The next question is from the line of Aman Agarwal from Equirus Securities. Please go ahead.

Aman Agarwal: Thanks for the opportunity, sir. Sir, firstly, on the quarterly performance, just want to ensure that my understanding is correct. Our realization has dropped around 3.3% on a sequential basis. So, how does it stand versus the other peers in the Central market? Have we saw it better because of premium product share is drastically increased during the quarter? Is this understanding correct, sir?

Management: No, I think, you know, let me clarify here. We were about 25, 30%, close to 30%, 25, 30% previously also under premium products. Okay. The premium products, the blend, it has nothing to do with the premium products. Okay. The price what we are getting, this will continue. This premium product, the premiums will continue. I don't think, you know, that the whole benefit which has come to us is because of the premium products purely. There is a price increase we have taken from time to time. There is a branding exercise what we did. We have taken little bit of premiumization in terms of pushing the prices other than for even small, the lower end products also. So, it is not purely because of premium products.

Yes. Same thing actually, his question was also with respect to comparison of realizations on quarter-on-quarter basis. So, quarter-on-quarter basis, I think, Aman, you should also appreciate this is the quarter where the impact is coming on account of monsoon, and generally monsoon we see a little bit dip, and that during this quarter this, the dip is not to that extent which we have seen last year September. So, we can say that the company has done good job, fairly good job with respect to pricing during this quarter despite all I think maybe the problem on account of flood and heavy monsoon in the state of MP and UP.

Aman Agarwal: Yes, sir, definitely, that was our understanding too. And sir, secondly, if you see RM cost, we see a good price or a healthy rise of around 11% on a per ton basis which is sequentially. So, is it only because of operating deleverage that we faced because of suppressed volumes or was there any pressure point that we witnessed during the quarter in RM cost?

Management: I think, Aman, when you see the RM cost, I think you should also factor this increase and decrease in the inventory. In the June quarter, the inventory increase was good because during that quarter we tried to build up more inventory of clinker and cement as a preparation of pre-monsoon work, and during the September quarter the inventory increase is not for that account. It is only 44 million Rs. 4.5 crore. So, if you factor those to, I think, inventory increase, decrease in the two quarters, there should not be significant increase in the raw material. That is my understanding.

Aman Agarwal: But, sir, essentially, the effect of inventory increase or decrease is already captured in the cost of material consumed, and anyway, not any issue with that. And lastly, sir, on a broad company level question, if we see the volumes for Heidelberg, we have not essentially grown much since FY15 at a time where the industry has grown at minimum 4% to 5% CAGR. So, if you can maybe make us understand where have we lost the market share in the overall scenario, sir?

Management: It is not a market share loss. I would say it is a temporary phase. As I said this quarter is a temporary phase. We will come back on this. See what has happened over a period of time, we have tried to sell a little bit of premium products, tried to build up the brand. See as I said, you know, sometimes you have to settle for certain things on a long-term strategic basis. So, if you have created a premium at a point of time and some volume has been lost, this volume is not going to be lost forever. It can be got back because the customers prefer nowadays certain behavior of customer behavior is towards they are inclining towards a certain method. So, we know that we are moving with the consumer trends, and I think the volume will come back. Not a problem at all for me. I think the next quarters we will be able to get these volumes back.

Aman Agarwal: But sir, actually, from a multi-year perspective, it was not on a quarterly basis. Now you see from FY15 to FY22, there is nothing much of a volume brought.

Management: I agree with you. You know, for us it was a question of that, you know, for some time we agreed that, you know, market share is not lost. Okay. Let me tell you the market has also in 2020, the market had derailed. So, you have to take that also into consideration. It's not market has not been a standard growth rate. We have tried to beat the market growth rate. Markets have also been little sluggish, and another yes, little bit of volume displacement has also taken place because another two, three brands from outside have started coming in. So, everybody has got the pinch of it, but we will get it back.

Aman Agarwal: And sir, lastly, just if you can slip in one another question in terms of power and fuel cost, it was very heartening to see that we have not registered, you know, much of a hike during this quarter on a per ton basis. Going forward based on the current inventory levels and current fuel prices, where do you see this power and fuel cost moving for high reserve in second half of this year, sir?

Management: We expect little bit of tapering down on little bit, I don't know, but even if it does not taper down, it will not seem to be shooting up sharply. We forecast that it should come down marginally, or it should stay at least at this level. That's my reading about it, but now today you are going to see the results of corporate which come in one after the other. You will see results which we are already seeing, and I am sure with the drop of EBITDA with this type of thing, the industry will have lost its absorption ability to continue with selling at these prices. Cost has to go down to the customer. You know, this has been the biggest pitfall of the industry for not having paid attention to the price and continue to sell volumes. The volume game is fine. Okay. Ultimately, it is the profit which you earn out of the business, sustainability of the cash flows. You know, today we are not understanding this very simple thing that compliances will grow. Okay, and compliances will require CAPEX, and this CAPEX is when you will have totally dried out on your cash reserves, then where will you go for this? It is high time the industry wakes up to this call.

Management: And Aman, just to add two specific features for our company, especially on power and fuel, one is that we are now less dependency on the outside power. 34, 35% we are our in-house or green power. So, we can say that any price hike in the power will not have much impact on us. And second thing, with respect to fuel, we don't carry significant inventory. So, whenever price increases, we impacted lot and whenever the price softening, we will get the benefit. So, we are hopeful that maybe the price will slightly reduce, and since we don't carry significant inventory on account of coal and petcoke, so we should get some benefits in the coming two quarters.

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

Prateek Kumar: Sir, my first question is on pricing as you mentioned about it, but like some of the other regions have seen some improvement in pricing since September and October. How are the prices changed like it's bottoming out in October, September in your region, Central?

Management: So, if you look at it on the GSR side, there is a dip over the previous quarter of June. Okay. And we are back to our March quarter prices GSR. So, this I don't think in Central India, there was a movement which really helps us the pricing improvement. I doubt very much the Central India players who have been playing in this market have seen any betterment on prices. Maybe on all India basis maybe I don't know, some players from south, yes, little bit of improvement, but I'm not very sure that, you know, the market has given us an opportunity to increase prices significantly. Maybe in October, but Yes, after Diwali we will definitely look up. You know, the prices have already, we have increased the prices. Last Sunday also we have increased the prices on 22nd of last month. We took up Rs. 1 or Rs. 2 increase on 1st also. So, Rs. 4, Rs. 5 has come into the kitty today as of now, okay, in this last 10, 15 days, 20 days. I think more will come. I think, in the near future, I am expecting that after Diwali there should be some good price increases we should be able to push through. And it all depends on the order books. You know, when we see the order books getting little overflowing, we will get, we increase the prices.

Prateek Kumar: And sir, a follow-up question there, some of the new capacities might be commissioning towards second half of FY '23. Have they started to have an impact on pricing in your region?

Management: Yes, definitely, they will impact the pricing in whatever manner they are there. Any new company comes into the market, it causes disturbance. It rocks the boat. So, we should expect that, you know, we should not close our eye and say that nothing will happen to it. So, we should be prepared for that, and we are prepared for that. Not a problem, but I always say that, you known, let us not be apprehensive that, you know, the competitor is always wanting to burn money. Okay. Competitor has put up a plant to earn money. So, I am sure they saw that Central India was a lucrative market, and that's why they have come here, and they definitely want to make money out of it. They will not be, you know, that aggressive or funny or stupid to bring down the prices. Okay. Everybody will lose if that is the approach. But I think, let me say that, you know, as season players of the market, the responsibility is more on the shoulders of the players who have been present and with a good foothold in the market to hold the market rather than, you know, get swayed away by chasing dream of somebody else at your cost.

Management: I think we should also appreciate one more point. In Central India, the total demand on market price is not less than maybe 55 million.

Management: Yes, 58.

Management: 58. And Prateek, our assessment that next year there should not be demand growth less than 8% or 8.5%. So, if you go by that thing, and one more thing that 2023 is maybe the last year before the election in '24 first half. So, we are hopeful that there should be some good demand growth, and even if we take the 8%, we are talking about 5 million growth in the cement in Central India alone so that 5 million is sufficient to appetite whatever the new capacity coming in as well as to consider the regional level growth for our company.

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

Hiten Boricha: Thank you for the opportunity, sir. Sir, my question is more on the longer term view. So, as we are seeing in cement industry, most of the players, mid, some of the larger players are into expansion mode for let's say 5 to 7 years or 10 years. So, do you have any plans to expand capacity let's say from 6 million ton currently to 10 or 12 million in the next 7 to 10 years or 5 to 7 years? Anything on that, sir.

Management: So, yes, you are right that, you know, people are expanding. We also are working on the debottlenecking and other things. Today also our capacity utilization is close to about 80%, 78%, 79%, and we are working towards to see that, you know, first, let us consume this, but also the debottlenecking project once it comes in, it will add some good amount of cement and clinker to our kitty. Plus, it will reduce our fuel consumption and other things. So, we are operating also are working on both sides. Another site is the Gujarat project which we are working on. So, the Gujarat project will be there in the long run. We are looking at also possible, you know, acquisitions if they come our way, and in the future we want to merge these two companies to make a bigger capacity and a bigger forum so that financial flexibility also occur with us the benefits which come into that. So, we are looking at that. All options are in front of us. We are looking at whatever possible even when there is a mine's auction, we are present in those mine auction, and we try to see that we can get some new mines also. In different regions also we would participate and try to put our foot there.

Hiten Boricha: Just a clarity on this. We are expanding in Gujarat. So, what is the capacity there? How much we are spending there?

Management: So, that will be about 3.5 million tons of capacity in the first phase.

Hiten Boricha: First phase. And what about phase two, sir?

Management: It will add another 3 million. It is always multiple of 3, 3.

Hiten Boricha: Okay, 3 million in phase two. And what would be the CAPEX, like total spending?

Management: About 200 million euros.

Hiten Boricha: 200 million euros.

Management: Little more than that.

Hiten Boricha: For this total 6.5 capacity, right?

Management: No, no, no, only for 2, for 3.

Hiten Boricha: Okay. The 200 million only for phase one?

Management: Yes.

Hiten Boricha: I have questions. I will get back in the queue, sir. Thank you.

Moderator: Thank you. The next question is from the line of Navin Sahadeo from Nuvama. Please go ahead.

Navin Sahadeo: Sir, just one follow-up question to the one which was previously asked about the outlook for the pricing in the region. So, will the dynamics tend to change if JP Assets were to be acquired or like, you know, the deal around the JP Assets tend to happen? Because as I see it, all these plants are really close to each other largely in and around the Panna district. So, with I think two capacities, ACC and JK coming up, and then if JP Associates plant also like gets sold for some reason, do you think the dynamics will change or it would still largely remain the same?

Management: Cement availability, Naveen, it is the same no, same even if JP goes in transact, the operator has changed. Cement availability remains the same. Clinker availability remains the same. May be a different brand will come. That's it. Again, they have limitations of their mines and things like that. So, you know, I cannot say how much of the difference will it make. What Mr. Sharma told you, Anil told you earlier that, you know, if we look at the market of about 16 million tons and grows at a rate of 8%, 5 million tons of capacity it will absorb any, every year. So, not to worry about it. I would say, you know, for me, competition is not a question of worry. Okay. For me, the worry is that how the competition sells its products in the market? And does it sell it at a throw away price or does it believe in competing or does it believe in the brand creation? Does it believe in value creation? For me, my neighbor's mentality is more important than the market size.

Navin Sahadeo: Understood. And would be also be interested because there is obviously this news of those assets being on the block. So, would we also be interested? Of course, at a price, but you think prima facie, because we have been looking to expand in the Central region for a long time and that's where I think since there was no opportunity, we are now focusing on Gujarat. But will we be interested at a price for these assets?

Management: Which Gujarat for JP Assets?

Navin Sahadeo: Yes.

Management: No, I don't think so.

Navin Sahadeo: Okay, and then any specific reason that you want to say that these assets are not good quality limestone is not there or?

Management: I will refrain from saying anything.

Navin Sahadeo: Okay. And second then, just a question just on the deal, because suddenly, the Central region is bugging with deals. So, there was this deal about Springway mine been acquired up by JSW. Again, is it because I'm sure since it's part of the same region, that mine being on the block could have been come to us as a deal. So, any, you think you could have bought it and looked it as a growth opportunity?

Management: Naveen, I think your questions are little sensitive in nature. And I seek for your pardon to not been able to answer to that. But I can talk to you on one-to-one basis.

Moderator: Thank you. The next question is from the line of Parth Bhavsar from Investec India. Please go ahead.

Parth Bhavsar: So, wanted to understand this worry is Gulbarga plant. So, what would be the size of the expansion? And also, what would be the cost of the same?

Management: I don't think we should discuss Gulbarga and Zuari here, because it is not a part of HCIL.

Parth Bhavsar: And just one other question. So, basically, sir, wanted to like have your take on LC3 cement, and how far like before, you know, it sees light of the day, like well stock, like when can we expect LC3 to materialize?

Management: So, LC3 is a product where you require Calcined Clay or a clay for certain nature. Now these clay reserve are not available easily. Okay. They are available in places at a very different locations, and bringing these clay here into such a long distances and processing and LC3 is not a viable solution to me. At least I can say that it does not make commercial sense. If you want to put up these clay mounds, there somebody puts up a kiln or anything and wants to take, make Calcined Clay Cement. Fine. LC3 you can make, but you will have to put up a plant closer to those clay reserves. You cannot, you know, unless if you bring it to long distances, again, on a Calcined Clay Cement, LC3, you have to have a lot of customer education where it can be used, the product can be used. Otherwise, you will in a country like us, you know, where the mason takes the call, they will put something or the other, and then you will reap the disasters of that later on. It will be a disaster. You know, LC3 cement has its application also differently.

Moderator: Thank you. The next question is from the line of Sriram from India Ratings and Research. Please go ahead.

Sriram: I just want to understand a couple of things. With respect to the interest expenses which has been included in the numbers, it was almost close to expenses 20.6 crores, right, as against 8.0 crores. So, there is information provided against remain that if you can provide some colors on that, it will be helpful for us to take it forward.

Management: So, Shri Ram, we have also given one note in our Company's result because the significant increase in interest expenses during this quarter as compared to last year as well as the June quarter, we have taken provision of around Rs. 10 crore during this quarter on account of one-off litigations, and this is the provision, and we will also appropriately account for this interest and all depending upon outcome of such matter in the Court of Appeal.

Sriram: So, whether the extent of this provision is likely to continue for upcoming quarters or else when does the judgment will be held upon, sir?

Management: Judgment came during this quarter. So, that's why we have taken the provision, and this has been going on for many years. This is old case.

Sriram: So, with respect to demand, okay, yearly reported as just about 2.1 million ton for H1 FY '23. So, for coming next half of the year, shall we expect that the things should cross about that just about 2.5 to 2.7 million ton of sales volume can we expect in the second H2?

Management: Right now, I would prefer not to give you any guidance on this.

Moderator: Thank you. The next question is from the line of Debotro Sinha from ICICI Securities Ltd. Please go ahead.

Debotro Sinha: Sir, what would be the lead distance for this quarter?

Management: Distance is close to about 20, 50, 350 only. It remains same consistent.

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

Uttam Kumar Srimal: Sir, you talked about debottlenecking of line 2. So, what would be the capacity that would be debottlenecked?

Management: It would be around, you know, about 3 lakh tons of clinker.

Uttam Kumar Srimal: And how much cement that we would be able to produce from this 0.5 to 0.6 million tons?

Management: Factor of clinker, factor of 1.6.

Management: Around 4.5 lakhs.

Management: 4.5 lakhs.

Uttam Kumar Srimal: 4.5 lakhs. Okay.

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

Rajesh Kumar Ravi: I just have a question. If you look at the Central region, you mentioned the new capacity, the current demand size is close to 16 million ton. This year alone we would be seeing UltraTech 2.7 million ton clinker, JK Cement 4 million ton, and ACC adding another 2 to 3 million ton capacity in that market. So, don't you think that would have an impact for companies like you? On volume growth also, will it impact your volume growth in addition to the regional pricing?

Management: I don't think there is so much of a concern because these all these capacities, you take it at one stage. You know, somebody says 3 million tons, 3 million tons does not come on the first day. Okay. First, we have the capacity comes is about 40%. Next time it comes to 60, 65, 70, and then it goes to 70, 80. Okay. At best even you can't operate a cement plant unless, you know, the market is really gone more than 80% normally under normal circumstances. It would be not correct to assume that all these capacities will stand any in our face from day one.

Rajesh Kumar Ravi: No, even if I take 40% utilization, there would be close to 4 to 5 million. So, all those incremental demand even if it grows 7, 8% would be consumed by these three company capacity.

Management: Yes, they will consume this same, this vacant, this vacuum which is created by the demand. They will fill up this vacuum.

Rajesh Kumar Ravi: And second, JP Assets, what we understand currently is they are operating at 25% utilization. So, to be acquired by some of the big names, would it be that the ramp up would create surplus capacity and hence further pressure in the Central market?

Management: Why are we operating, first, I will ask, why are we operating at 25%? So, I don't think they are operating at 25%. It could be a total misnomer. I should believe that anybody can operate a plant at 25% when the breakeven of the best plant in this country covered 34%.

Rajesh Kumar Ravi: So, what is your understanding, sir, to what level they can ramp up if it is well funded in terms of working capital and other financial constraints are removed from these assets?

Management: See, you can't make a cash flows, no, breakeven below you operate breakeven at 25, you will keep making, and it is better to close down the plant. I don't think somebody talks about this. No plant will be able to operate less than 50% utilization.

Rajesh, absolutely, somebody in the market, this type of rumors go on without even thinking that people say that, you know, they are operating at 20%. I can't believe it.

Rajesh Kumar Ravi: No. So, from their annual report of FY '22 JP Assets 2.5-million-ton volume on what we understand is having the 10-million-ton capacity. So, that is the basis of saying that the plants are operating at 25%. Sorry. I missed your last statement.

Management: I said, the capacity could be around 10 million tons. We are not capable of doing that.

Rajesh Kumar Ravi: So, the last question with the Adani's entry and overseas expansion plans and even the other major some big companies announcing large expansions, how does Heidelberg look forward to protect its market share particularly in the Central market, Central region?

Management: Without saying any too much on this, I would say that it's just only a change of entrepreneur from moving from a multinational to a local entrepreneur, and I would say that, you know, it will add value to the country. I can only say that much that, you know, knowing the business locally and doing things locally, the amount of money they have given and the shelled out Adani

Enterprises have shelled out for this is significant money. It's not small money, and they would like to, you know, while their volumes will stay there, but I am sure with the results once they come in the market, they would like to make some money out of it. I think the current methods of working will change significantly. That's my feeling about it because they are entrepreneurs. Adani family is totally a pure B2B businesses. Most of their business is their DNA as I understand. Okay. I may be wrong totally. Their DNA in most of their businesses, their margins, they are operating on products where the margins are more than 50%. How will they satisfy with margins of 16% and 18% here? I don't think they would like to be in such a state. I can only say this much as of now. I don't know the organization. I don't know their behavior in the other industries. So, I prefer that, you know, I am just making a small understanding of my own thought process I am placing before you. I am sure that, you know, the Adani Group would look at really stepping up steam to make money here. It's a very big price they have paid.

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

Shravan Shah: Sir, just to clarify, we say, the last time we said that for FY '23, we were expecting 6 to 7% volume growth, but this first half we have already declined by 12.5. So, for the full FY '23, can we see a 2 to 4% kind of a volume decline?

Management: Let us wait and watch for the full year, financial year. I have not yet clear, you know, how the demand pans from October and November onwards. So, I think, you know, there is upside. We will be able to pull up volumes in these in another coming two quarters significantly well. That's my belief. So, you know, it's not ending on a negative note.

Shravan Shah: Secondly, just to clarify on the debottlenecking, you said 3 lakh clinker and 4.5 lakh cement we can add. So, this is just from the one line or you mentioned line 2 and 3. So, both put together, this is the extra capacity that we will get.

Management: Both put together.

Shravan Shah: And this will be done in FY '24.

Management: Yes, you can say that.

Management: It will be in the, Shravan, it will be in two phases. So, we will start with the first phase in the FY '24 and then followed by the in second phase in FY '25.

Shravan Shah: And for the Gujarat plant, you said by May we will have a environmental clearance. So, just to clarify, last time you said it will take 1, 1.5 year, and post that we will order the plant. So, just to simple, from here on if things move as what we are expecting then the plant will start in FY '26 or FY '27?

Management: '27 you can say.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now and the conference over to Mr. Vaibhav Agarwal for closing comments. Over to you, sir.

Vaibhav Agarwal: Thank you. On behalf of PhillipCapital (India) Pvt. Ltd., I would like to thank the Management of HeidelbergCement for the call. And many thanks to the participants for joining on the call. Thank you very much, sir. Steven, you can conclude the call. Thank you.

Management: Thank you.

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