



## “JK Lakshmi Cement Limited Q1 FY18 Conference Call”

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**MODERATOR: VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA) PVT.  
LTD.**

**Moderator:** Good day, Ladies and Gentlemen and Welcome to the Q1 FY18 Conference Call of JK Lakshmi Cement Limited, hosted by PhillipCapital (India) Pvt. Ltd. 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 this 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) Pvt. Ltd. Thank you and over to you, Mr. Agarwal.

**Vaibhav Agarwal:** Thank you, Margreth. On behalf of PhillipCapital (India) Pvt. Ltd, we welcome you to the Q1 FY18 conference call of JK Lakshmi Cement. On the call, we have with us Dr. Shailendra Chouksey – Whole-time Director, and Mr. Sudhir Bidkar – CFO of the company. At this point of time, I hand over the floor to Mr. Bidkar for opening remarks, which would be followed by interactive Q&A. Thank you and over to you, Bidkar Sir.

**Management:** Thank you, Mr. Vaibhav. Good afternoon, Ladies and Gentlemen, for this Q1 con-call for FY18. We had the Board meeting yesterday when the Board approved the results. Primarily you would have seen but I will just repeat a few key numbers before we throw the floor open for question-and-answers.

Our sales for the quarter stood at 22.85 lakh tons, which included 3.5 lakh tons of clinker sales. Total turnover was Rs. 1,003 crores and net of excise it was Rs. 901 crores. And after providing for the expenditure, PBITDA before other income was Rs. 120 crores, which was about 2% higher than what we had in the corresponding quarter of last year. But as compared to the immediate preceding quarter it was 68% higher. Including other income, the PBITDA stood at Rs. 130 crores as against Rs. 128 crores against 2% higher, but 33% higher than immediate preceding quarter. And after providing for interest of 49 and depreciation of Rs. 43 crores, the PBT for quarter for the company was Rs. 37.44 crores, which was about 7% lower than the corresponding quarter last year, but considerably higher than what we had over Rs. 5 crores in the immediate preceding quarter.

After tax, the PAT was Rs. 28.3 crores, which was almost flat versus Rs. 28.6 crores odd in the corresponding quarter, but about 36% higher than Rs. 20 crores of PAT which we had in the immediate preceding quarter. Overall, operating margins were 13%, 14% for OE and separately about 11%.

The results could have been better but for the increase in the fuel costs which went up as much as by about 35%, last year our average was 4,900 this time it was 6,700. So, that really eroded the margins considerably for us.

As regards the ongoing projects, we have two ongoing projects which are on, one is the waste heat recovery project of 7 megawatts at Durg which is likely to be commissioned by October 2017. And another one of 20-megawatt thermal power plant which is slated to be completed by October 2018.

So, that is where we stand as far as the company is concerned. I will now throw the floor open for question-and-answers, please.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Dheeraj Pathak from Goldman Sachs. Please go ahead.

**Dheeraj Pathak:** Sir, for the Durg operation what was the EBITDA per ton for the quarter?

**Management:** We do not share that number separately for East and West operation, but it was a +11% margin.

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

**Rajesh Ravi:** Just wanted if you could share the RMC sales for the quarter and north and East volume breakup that you give?

**Management:** Sorry, come again.

**Rajesh Ravi:** The RMC revenue for the quarter and this north and East volume breakup for the cement?

**Management:** Cement, north was about 16.63 and East was 6.22.

**Rajesh Ravi:** Clinker sales?

**Management:** Clinker sales, out of 3.5, 3.17 happened from northern operations and 0.33 from the eastern operation. As regards the RMC sales for the quarter, it was about Rs. 138 crores for the last whole year, this quarter was about Rs. 38.67 crores.

**Rajesh Ravi:** And sir, last year same quarter it was how much?

**Management:** It was flat. In the immediate preceding quarter it was Rs. 34 crores.

**Rajesh Ravi:** Okay. And sir, this purchase of traded goods this quarter has jumped up from Rs. 67 crores to Rs. 81 crores, so what has this jump lead to?

**Management:** Basically, material which we are converting, basically that only.

**Rajesh Ravi:** So, this is related to your Udaipur Cement sales?

**Management:** Udaipur and a bit of the outside also, we have some outsourced guiding also, it is a combination of that.

**Rajesh Ravi:** Okay. And sir, how is Udaipur Cement ramping up and what should be the volume growth we should be looking at on standalone basis?

- Management:** Udaipur, this was the first quarter, it is too early to see that, but by fourth quarter it should be almost fully utilized.
- Rajesh Ravi:** Okay. And for the standalone basis JK Lakshmi, what sort of volume growth we should factor in, sir?
- Management:** That depends on the demand, this quarter we had an 8% volume growth, so this current quarter would be monsoon impacted and also because of the GST being in place there may be some hiccups. But after October, hopefully with good demands we should see good volumes.
- Moderator:** Thank you. Our next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri:** My question is regarding the region wise demand growth, say in East and West, during the quarter and how do you expect it during the second half?
- Management:** The demand in the West side was fairly low, in fact we have registered a negative growth of almost -4% to -5% as far as the western market is concerned. In East we could do, north was slightly better in the sense, it was about -2% or -3%. East was definitely positive and the states where we are operating the growth was nearly 10% to 12%.
- Anshuman Atri:** Okay, sir. How do you expect this in second half after say monsoon?
- Management:** After monsoon in the next two quarters I am looking at a positive growth of at least about 5% to 6% in the northern and the eastern I am looking at about 8% growth. I am talking about the market **0:09:03.7**
- Anshuman Atri:** And in terms of the Durg operations, so we have already done a EBITDA margin of 11%, so with this commissioning of the new projects of WHR and CPP, how can we see the margins improving further going forward?
- Management:** It must depend on the type of prices that one can witness. You know in Chhattisgarh there was a restriction on the prices which were imposed by the state government and since we have a fairly high percentage of our distribution in Chhattisgarh itself to cut down the logistic cost, there currently the prices are fairly low compared to the other eastern states like Orissa, Bihar or Jharkhand or Bengal.
- Moderator:** Thank you. Our next question is from the line of Manish Jha from Modi's Analytics. Please go ahead.
- Manish Jha:** Sir, you gave the sales numbers for this quarter, right, could you just reiterate that again?
- Management:** Sales for the quarter were 22.85 total, which included 3.5 lakh tons of clinker sales.

- Manish Jha:** And vis-à-vis last quarter, corresponding quarter for last year?
- Management:** Last year corresponding quarter was 21.18 which included 3.43 lakh tons of clinker, so 8% growth.
- Moderator:** Thank you. Our next question is from the line of Sameer Desai from Finco Capital. Please go ahead.
- Sameer Desai:** The current quarter EBITDA per ton was around Rs. 524, so any guidance for going forward what will be the EBITDA per ton for next two to three years, can you guide something?
- Management:** Two to three years, that depends on the demand basically and demand will drive the pricing and pricing will drive the EBITDA. But importantly, with the various initiatives which we are taking, especially with the Durg installation of waste heat recovery by October 2017 and the 20 megawatt thermal power plant by October 2018, we should see our operating cost going down, EBITDA will be a function of pricing. So, it is difficult to put a guess to that, but we are trying to control our cost going forward.
- Sameer Desai:** And what will be the capacity utilization going forward?
- Management:** Capacity utilization was about 92% in this quarter in Durg and 74% for the existing operation, overall we had 79% which is much higher than the average of the industry. We hope to do better than the industry going forward as well.
- Moderator:** Thank you. Our next question is from the line of Sanjay Mandi from Ratnabali Capital. Please go ahead.
- Sanjay Mandi:** I am telling that with the introduction of GST from 1st of July, is it possible that all transportation cost would come down? So, is it possible to move some extra distance, like to increase the lead distance which is 415 kilometers right now to enter into some new markets?
- Management:** Transportation cost I do not see because of GST it should come down. But yes, depending on whenever we want to travel extra mile to sell we always see that whether it makes sense, net of the freight, ex-factory realization if it is higher we do travel. So, if it makes sense we will do that as well going forward.
- Sanjay Mandi:** Sir, suppose at a given point of time if you get a good realization then what would be the maximum distance you can travel by road, like if we assume the 450 kilometer as the average distance?
- Management:** Yes, we can increase that distance, the 450 kilometer is the average lead, so we can increase that so long as my net ex-factory realization is, we do that.



- Management:** Introduction of GST also would be in the logistic cost would be low another couple of months, whether we can reduce our growth is talking points, whether the borders would be actually absolutely free right now till such times the eWay bills are implemented right now there is a checking on the weight, etc. So the timing has not yet gone down drastically anywhere. But once it does then there would be a possibility of what you are saying, some reduction and therefore leveraging the saving into the longer lead.
- Sanjay Mandi:** Yes, like the time that we will be saving, the cost that would be get saved, so using that as a leverage so you can afford to move some more.
- Management:** Yes, but then it is a bit early in the day to really come to those numbers as yet, it will take some time.
- Sanjay Mandi:** Okay. Sir, if you can finally guide me like what sort of distance you can afford, like if you get a good pricing in a particular market, is it possible to go beyond 600 kilometers on road, will that be cost accretive?
- Management:** It all depends on what is the price like, today Jammu is more than 1200 kilometers but sometimes we go there because it makes sense, the net realization, the price regime is very high and even if the freight high the net realization if it works out then there is no boundary for us in that sense.
- Sanjay Mandi:** Right. And sir the second question is, you just mentioned that in the West there has been a negative growth of -4% to -5%, but in the western markets like Maharashtra in the last quarter the realizations hold pretty good. So, sir, how come that happened sir?
- Management:** We do not operate much in Maharashtra, except the Vidharba region which we move from Chhattisgarh, there yes because we cater to a very small market and a bit of in this market for us, there the prices are good. But as far as the western part where we operate from Sirohi is Gujarat, the western part of the country. And there we are being continuously witnessing a fall in the demand. But still why the prices are better is because the prices had reached to a level which were probably six or seven years lower. So, some correction in the price has taken place, it is not as if the price has really improved drastically. There has only some correction taken place because last practically whole of the year the prices in Gujarat were very, very low. So, some correction was long overdue which started somewhere in the month of February, March and the demand picked up. Unfortunately, in April again the demand in Gujarat went down, but somehow the prices held on for some time.
- Sanjay Mandi:** So, basically the market is Sirohi at Gujarat, the western market?
- Management:** Yes.
- Sanjay Mandi:** Okay. Sir, do you have any plans to move into the Maharashtrian market or do you have any plan to sell some part if the relations hold there in future?



- Management:** See, we do go to Bombay with some quantity, but it is not a very big quantity in that market. And now with the Surat grinding unit having been commissioned, we have recently started in the adjoining districts of Maharashtra like Thane or some very close, not up to Nasik but before that. So, there are some pockets where we are going but it is a very small quantity right now.
- Moderator:** Thank you. Our next question is from the line of Jinal Fofalia from Alfaccurate Advisors. Please go ahead.
- Jinal Fofalia:** Sir, is it possible to get market share as per your region, like what is your northern market share, Asian market share?
- Management:** Listen, we will have to take out that state wise and I cannot combine the entire north because we are not there in the entire north. But say on an average, in the northern states we are about 6% to 7% in the cement market, we would have a higher market share as far as the Gujarat and Rajasthan are concerned where we are holding, in Rajasthan we are holding about 8% and in Gujarat we are holding about 10.5% market share.
- Jinal Fofalia:** Sir, any numbers on eastern side?
- Management:** In the eastern side in case of Chhattisgarh we are about 16% to 17% market share.
- Jinal Fofalia:** Sir, and how has industry grown in Q1 FY18, what was the overall industry growth?
- Management:** Overall, so far in the first three months the industry has registered a negative growth of 2.9%, that is the figure which was raised by the government yesterday, so I am going by that figure only.
- Jinal Fofalia:** And sir how do you see overall industry growth in FY18, any ballpark numbers?
- Management:** I think every time we are pegging a number we are going in all our projections, so I am a bit vary of that. But I certainly expect that in Q3 and Q4 we should see a growth of 5% to 6%.
- Moderator:** Thank you. Our next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.
- Shekhar Singh:** Sir, I just wanted to know what is the total capacity and what is the total gross and net debt on the books?
- Management:** Our total capacity is about 10.9 million tons.
- Shekhar Singh:** And if you include Udaipur?
- Management:** Which includes 2.7 million tons in the eastern side and 8.2 million tons in the northern side. And if one were to add that 1.6 million tons of Udaipur, then it becomes 12.5 million tons. And as

far as the gross debt and net debt is concerned, we have total gross debt of about Rs. 2,200 crores and net debt is about Rs. 1,700 crores, on a standalone basis Rs. 525 crores is the additional debt for Udaipur.

**Shekhar Singh:** Okay. And sir, in the last year's annual report there was a mention of brownfield expansion which can take the capacity up to 20 million tons. So, if you can just talk about that, how much CAPEX will that entail and what is the timeline for that?

**Management:** Since we have just completed this expansion at the testing location, both at Durg as well as at Udaipur, that 20 million journey can happen by a brownfield expansion at all the three location. So, we can have another 2.5 million at Sirohi, 2.5 million at Durg and may be 2 million at Udaipur. We will like to consolidate it at the existing level and may be in 12 to 18 months take a call depending on the demand, which site to go first. And most likely it would be, may be north first. So, with these all the three locations we can reach 20 million through brownfield expansion.

**Shekhar Singh:** And roughly, how much will be the CAPEX?

**Management:** About \$70 - \$75, because it will be brownfield. So, issue is that since land is available, environmental clearances are in place and it is only a question of reserves, limestone reserves are adequate, so it will be just a question of ordering. So, implementation will be pretty fast at a much lower capital cost as compared to a greenfield.

**Shekhar Singh:** And sir, just lastly, what is the CAPEX for the current year and what is the repayment schedule?

**Management:** Repayment, we are repaying every year Rs. 200 crores of debt, that is happening as per schedule, unless we go for some rescheduling to basically reduce the burden on the cash flow. The second question was CAPEX, CAPEX in the first quarter we had done only marginal 15 - 20 normal CAPEX with some CAPEX of the waste heat recovery. Going forward in this year we expect about Rs. 150 crores of CAPEX which will primarily be the expenditure on the thermal power and the waste heat recovery apart from the normal CAPEX.

**Moderator:** Thank you. Our next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

**Rakesh Vyas:** Can you just give the breakup of the clinker production between north and East?

**Management:** Clinker production breakup, I have given the numbers of clinker sale, you want production now?

**Rakesh Vyas:** Yes, sir.

**Management:** Clinker production was about 12.37 million tons in the existing north location which is Sirohi and 4.03 million tons for the Durg plant, 16.4 million tons was the total clinker production for the quarter.



**Rakesh Vyas:** Secondly can you just highlight the status of this price cap in Chhattisgarh and also elaborate on our realization difference between north and East currently?

**Management:** As it exists today?

**Rakesh Vyas:** Yes, sir.

**Management:** There is a difference of about Rs. 200 a ton currently in our realization between the East and the north combined. And as far as the price cap is concerned, we have been advised to keep our prices below Rs. 230 a bag as far as Chhattisgarh is concerned, which earlier were prevailing at about Rs. 260 a bag.

**Rakesh Vyas:** And there has been no change in the stance by the government yet on this, right?

**Management:** Well, we are in dialog with them, we have brought to them the knowledge that these prices will become undernarative, so hopefully I believe that they are able to see what we are trying to convey. So I hope the things would get sorted out within this month.

**Rakesh Vyas:** Got it. And sir what would be our cost difference between these two operations now?

**Management:** As far as cost difference is concerned, for this quarter because primarily the difference is emanating from the fact that we do not have any captive power in the north. So, as of now frankly speaking, it is not comparable but still our Sirohi is lower by about Rs. 100.

**Rakesh Vyas:** And if I remember correctly two power plants should effectively reverse almost Rs. 150 to Rs. 200 kind of cost?

**Management:** Yes, because even when we say north operation, while Sirohi does have captive the grinding units that are located to Jhajhar and Kalol and Surat, they are banking entirely on the grid cost which is Rs. 7 plus. So, while yes at Sirohi at the existing mother plant we have fully equipped as far as captive power is concerned. But these grinding units we do have to source from the grid. So, while in Durg the entire grinding is happening at the Durg mother plant, once this power plant comes in their cost may work out to be lower.

**Rakesh Vyas:** And lastly, can you just highlight what is their utilization level at the new Surat grinding unit?

**Management:** Surat, currently we are doing about 60,000 tons - 65,000 tons per month.

**Moderator:** Thank you. We have the next question from the line of Ritesh Shah from Investec. Please go ahead.

**Ritesh Shah:** Sir, my first question is on the preference shares at USW level, sir just wanted to understand why we are doing a preference share over here as compared to probably basically lending from the parent to the subsidiary, just wanted to understand the thought process over there?

- Management:** Basically direct lending from parent to the spring would unnecessarily increase the debt going forward. So, already that is having out of the total project cost of about close to Rs. 800 crores, Rs. 525 crores is the debt. So, we did not want to burden it further with the debt. The preference share would be optionally convertible.
- Ritesh Shah:** Correct. Sir, it is priced at what levels?
- Management:** It will be based on SEBI, because these are preferential issues these will be as per the SEBI formula only, has to be as per the SEBI formula.
- Ritesh Shah:** Sir, my second question is specifically on the state of Chhattisgarh, what we are hearing is that there are certain overloading issues. Sir, is there any truth to this?
- Management:** I think the overloading now no more would be prevalent anywhere, except that in Chhattisgarh they have gone one step ahead where the local movement itself and cities like Raipur, Bilaspur they have permitted not more than 1 ton in the smaller vehicle which is bound to increase the local logistic cost of secondary logistic cost and that we are trying to now offbeat by moving the smaller vehicles from the factory itself. But yes, in the short run it may increase the secondary transportation cost.
- Ritesh Shah:** That helps. And sir my last question is, if you could please give cement and clinker capacity for our Chhattisgarh plant? And earlier we had mentioned about scope of some contracted grinding unit in some eastern state, either West Bengal or some other place, any update over here?
- Management:** Well, we have started contracted grinding unit in Kharaghpur recently. and I think in next two, three months it should stabilize to about 9,000 tons to 10,000 tons a month.
- Ritesh Shah:** 10,000 tons a month, so is it a 1.2 million tons - 1.6 million tons, sir?
- Management:** No, 9,000 tons to 10,000 tons per month would mean only 1.2 lakhs, so 0.1 million.
- Moderator:** Thank you. Our next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Two questions from my side, firstly, you mentioned that the capacity utilization in East is fairly high, at 91% - 92% levels. And you then mentioned that there is Brownfield expansion whenever you look at it you would start off with north.
- Management:** It may start off with north first, depending on the demand-supply scenario.
- Gunjan Prithyani:** Since you are at such high cap utilization in east and you do have scope for Brownfield expansion there, is that not something which you would be considering in the next 12 to 18 months and going past as well?



**Management:** Basically depends on the realization in these market and the demand going forward, realization in north is still higher. And depending on demand supply, our chances as things stand today are higher that it may happen first in Sirohi, northern operation, but it could depend in a year or 15 months or 18 months' time, if there is a dramatic change in the demand-supply scenario in the East we might take that as well.

**Gunjan Prithyani:** Sir, because I am just looking at the numbers that you said that price gap between your East and the north is about Rs. 200 per ton and the cost difference is about Rs. 100 per ton. And then you also did mention that when the power plants and all these CAPEX that you are looking at, the reduction would be close to about Rs. 150 to Rs. 200 a ton. Then both your operations of East and north would come largely at par, right?

**Management:** Yes.

**Gunjan Prithyani:** So, in that case you would look at expansion in East, is that a fair assessment?

**Management:** I do not want to commit anything, as I mentioned I will take a call closer to the timing.

**Management:** I think another factor in favor of north is that the new capacities which are coming are much lower in north as compared to the East. So, it is going forward, if I have to draw a scenario in about two to three years then right now north looks a better bet. But then as Mr. Bidkar rightly pointed out, it is very difficult to come at this stage, we first have an issue of consolidating whatever capacity that we have created, then taking a pause and looking at that time as to where it would make a greater sense.

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

**Ankit Fitkariwala:** Sir, my first question is on the demand pricing scenario that you highlighted in the West. So, a couple of competitors have been saying that the western demand has been fairly well, and as we know the prices have been very good. But you seem to suggest some different angle in Gujarat and Maharashtra, can you please just delve a bit more on that?

**Management:** We are operating basically, when we say West we are basically operating only in the Gujarat market, we are not operating in Maharashtra market at all, I mean in a meaningful manner. We do operate from East in Vidharba, but not much. So, when we said that demand has been poor that is why based on whatever little market that we supply we do not find any good demand in Maharashtra. And again Maharashtra has seen a considerable dip in the prices, so that would surely be an outcome of the lower demand basically. So that is what our concern is as far as the West is concerned. We also have seen the figure all India which is -3% and considering that in East there has been a growth of nearly 8% to 10% obviously most of the other regions would have been negative. So, that also get corroborated by this extrapolation.



- Ankit Fitkariwala:** And as you mentioned, in Gujarat the volumes have anyways been bad, only the pricing has rebounded from the lows that were unmanageable prices, right?
- Management:** Yes, that correction has taken place but still there is a lot of headroom, but of course there is a headroom everywhere in the price because the costs have gone up very steeply for almost all the manufacturers, not just for the pet coke users. The fares also have gone up in the last quarter.
- Ankit Fitkariwala:** Sir, secondly on the cost side, two questions. So, basically on the power and fuel side are we expecting any more increases to come in the next few quarters, because I guess the pet coke prices have been close to 7,000-odd at least right?
- Management:** Yes.
- Ankit Fitkariwala:** So, basically do you have inventory levels which will help you going forward in a couple of quarters or you see the increases coming? And secondly on the other expenditure side, it seemed to be a tad higher in this quarter, so can you highlight if there is any difference?
- Management:** Basically, we believe that there may not be much increase as far as fuel cost is concerned, unless dramatically they go beyond that. So, those have almost peaked at about Rs. 7,000 which was average for us for the quarter. Other expenditure will be normal, that should be the level we should see in this year.
- Moderator:** Thank you. Our next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.
- Akshit Gandhi:** Has our net debt increased by Rs. 100 crores quarter-on-quarter basis?
- Management:** Actually, I was just seeing that figure, it is may be Rs. 40 crores - Rs. 50 crores only, actual cash in hand is not Rs. 500 crores - Rs. 550 crores, so net debt may have gone up by only Rs. 50 crores because of some buyers' credit, etc., which we keep taking. So, it is a normative one, nothing alarming on that.
- Akshit Gandhi:** Sure. And one question on our eastern operations, we have generally majority of the grinding units which are in the eastern region carry lot of incentives. So, do we have any such incentives on our East capacities?
- Management:** Can you repeat our question please?
- Akshit Gandhi:** Sir, when we look at the grinding capacities which are setup in the eastern region, they get sales tax, VAT incentives, etc. So, do we have any such incentive on our Chhattisgarh capacities?
- Management:** Yes, Chhattisgarh state does not offer any incentive, no state incentive is there in Chhattisgarh. The states which are offering incentives are Bengal, Bihar and Orissa, we as of now do not have

any grinding unit there. Once we are able to setup our grinding unit in Orissa then we will get some incentives there.

**Moderator:** Thank you. Our next question is from the line of Sanjay Satpathi from Ampersand Capital. Please go ahead.

**Sanjay Satpathi:** Sir, can you please clarify this point that you were talking about some price control in Chhattisgarh?

**Management:** Well, I would not say it is a price control as such, but then what has happened is that the government there chose to direct the companies there to keep the prices at the level which it had reached in January. In January post-demonetization everywhere the prices had dipped considerably and Chhattisgarh was very badly hit. So, there the prices had gone to as low as Rs. 210 - Rs. 215. And when the prices got resumed in April - May when they got corrected to about Rs. 250 - Rs. 250 level, there probably the government got a feeling that the manufactures have jacked up the prices by Rs. 40 to Rs. 50 which actually was nothing but a correction of the prices to the level of October, November, the pre-demonetization level. So, I think that is where we pressed our accelerators on all front that you cannot have prices more than that. So, anyway we gradually tried to sensitize them as to what our concern there is and how these prices are in practice. And eventually they came down to a price of about Rs. 230. So, we have kept that prices for about 1.5 months and we have initiated the dialog with the government once again that these prices are absolutely un-remunerative for the industry and these are the prices that which were prevalent even three years or four years back, it may not hold today good. So, let's hope that these things will eventually get settled out.

**Sanjay Satpathi:** Sir, basically I mean this thing can happen in India in some states, that is the bottom-line?

**Management:** Yes, of course. It can happen anywhere; it can happen in India also. And it can happen in any commodity, why only in cement, it can happen in any commodity.

**Sanjay Satpathi:** And sir, the other thing just wanted to clarify, you were just mentioning that the overall difference in price between East and north for you is only Rs. 200 per ton because given the kind of numbers you just mentioned it looks like it should be little bit more than that?

**Management:** No, it is about Rs. 200 only.

**Moderator:** Thank you. We have the next question from the line of Rajat Jain from Principle Mutual Fund. Please go ahead.

**Rajat Jain:** Just two questions, one is this Chhattisgarh thing. So, this government demand to bring the prices 210 is as regard to supply to government or in the trade segment also?

**Management:** See, initially that is what impression was that they are only talking about the government, but actually they then enlarged the scope to all the prices. And they made it uniform to Rs. 230 for

all the segments. So, that is where we stand today. But as I mentioned earlier, I think we should be able to explain to them and communicate to them, that dialog has started.

**Rajat Jain:** And if I just second a small question, you mentioned about incentives. Sir, in this post GST rollout still government would be able to offer incentives, I thought after GST it would be difficult for them to offer the differential incentives?

**Management:** Most of the states have some or the other industrial promotion scheme in a bit to get the industry in their states. So, even when the VAT was implemented the same thing was emphasized that there will be no more incentives. But eventually there is a competition among the states to attract the investment. And that is the basis on which they are able to do that. So, I do not think that this is likely to be stopped. The incentive might take a different name, different shape, but eventually there will be some sort of attraction, we will have to offer attraction to the industries to come and setup there.

**Moderator:** Thank you. Our next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.

**Dhiresh Pathak:** Sir, can you share the state wise mix of the north volumes which were 16.6 lakhs?

**Management:** I am not sure whether we are giving these numbers, but then primarily almost 60% of our supplies are sold within Rajasthan and Gujarat combined and the remaining 40% are distributed in the remaining five, six states that we have.

**Dhiresh Pathak:** Which is north maybe, the NRC region is it?

**Management:** Among the rest major in Haryana, because we have a grinding unit there and some quantity in the western part of UP, Delhi, Punjab, that cost will be remaining and some quantity in Bombay.

**Dhiresh Pathak:** Okay. Sir, you said Rs. 200 is the price difference between North and eastern operation...

**Management:** The realization, yes.

**Dhiresh Pathak:** And Rs. 100 is the cost difference, so the EBITDA difference between the two operations is Rs. 300, is it?

**Management:** Yes.

**Dhiresh Pathak:** So, then if you make the assumptions and you back it out, the north operations at Rs. 600 per ton EBITDA, if my numbers are right, that operation also looks like below average compared to what the industry in that market would have shown this quarter, or this is as per industry norm, 600 that you are making in the north operations?

**Management:** You are right, our fuel cost has gone up because of the increase in the fuel prices, specially the pet coke prices. That is one of the reason and sourcing power from the grinding unit is another one.

**Dhires Pathak:** For Gujarat operation?

**Management:** Gujarat as well as Haryana.

**Dhires Pathak:** And that is not going to change in the near future, right?

**Management:** As of now I do not see that changing dramatically.

**Moderator:** Thank you. Our next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

**Rakesh Vyas:** Sir, two quick questions. First, can you just give the fuel mix in north and East now?

**Management:** North is primarily 80% - 85% is pet coke whereas in the East we have started using coal also in a bigger way. So, it would be about 60% - 65% pet coke and balance coal.

**Rakesh Vyas:** And have we got any linkage in auction?

**Management:** Yes, auction we have some in the eastern side.

**Rakesh Vyas:** Okay. And we have started to receive the coal through auction as well?

**Management:** Yes.

**Rakesh Vyas:** And secondly sir, any update on the lead distance between the East and north, how much does it lease today?

**Management:** Lead of coal you are talking or lead...?

**Rakesh Vyas:** No, sir, lead of cement.

**Management:** It was 450 kilometers in the north and about 300-odd kilometers in the eastern side.

**Rakesh Vyas:** So, that has not changed actually?

**Management:** No. About 280 kilometers it is in the East and about 460 kilometers in the north.

**Moderator:** Thank you. Our next question is from the line of Ayush Sharma from Investec. Please go ahead.

**Ayush Sharma:** I have two questions, first is, what is the grinding capacity in East and is there any scope to add more grinding units?



- Management:** Grinding capacity is 2.7 million tons in the East which is entirely located at the mother plant in Chhattisgarh, Durg. We have in the pipeline the Orissa grinding unit of about 6 lakh tons. Plus, we have, as Mr. Chouksey has mentioned earlier in reply to one of the questions, there we are trying to outsource some grinding units in the eastern side.
- Ayush Sharma:** And is there any update on the railway siding, does it add to the MoU with BSP?
- Management:** We are doing that but for the existing capacity it is not required, but going forward when we go for the expansion that will be required. So, we would be taking appropriate action in due course for that.
- Moderator:** Thank you. Our next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.
- Rajesh Ravi:** Could you just explain why the employee cost and depreciation expenses had gone up this quarter, and even the interest cost?
- Management:** Depreciation and interest have gone up as compared to the corresponding quarter primarily because of the Surat Grinding unit which got commissioned during October. So, last time it was part of the capital now it is charged as a revenue. And employees also is normative increase as well as this cost of employee for the Surat grinding as well would have...
- Rajesh Ravi:** Sir, this would be the recurring number for subsequent quarter?
- Management:** Should be, yes.
- Rajesh Ravi:** And this interest expense if I see on QonQ basis it was Rs. 47 crores now gone to Rs. 49 crores, so this would also continue?
- Management:** Basically yes.
- Moderator:** Thank you. Our next question is from the line of Vincent Andrews from Geojit Financial Services. Please go ahead.
- Vincent Andrews:** I have only one question regarding the pet coke, prices have increased currently at 7,500 I think. So, what is your guidance going forward in the next quarter?
- Management:** You see in the north we continue to use pet coke in a big way because in terms of kilo-calorific value and based on location of our plant it does still make a sense at this cost of pet coke to use more of pet coke. But eastern, as we mentioned, we have started using coal, so that is what we would like to do going forward, unless there is a dramatic change in the pricing scenario either of coal or of the pet coke. We have the multi-fuel applicability at both the locations, so we can always switch over.



**Moderator:** Thank you. Our next question is from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.

**Murtuza Arsiwala:** Sir, two questions from my side. One is, what would be the pet coke cost which would be billed average pet coke cost in the current quarter? And how much is that the peak or can it move higher? Second is, under the new GST regime how does the previous incentive which were molding to sales tax, etc., how does that shift happen or is there any clarity on the same?

**Management:** As far as incentives are concerned, we are not having any incentive in either the East or north operation. But yes, in Udaipur we do have that. As of now the clarity has not come how that will go in the post GST regime. But our belief is that it may we will have to pay upfront and then take either a refund or they may grant some industry loan. As of now they have not clarified how it will happen and in what form it will happen. And pet coke prices have almost peaked out in the last quarter, we were not getting any inventories of any low cost pet coke as such in a big way. So, that should be the scenario in the current quarter as well.

**Moderator:** Thank you. Our next question is from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

**Abhishek Ghosh:** Sir, just two questions from my side. The first one is, the capacity augmentation that we saw at eastern operations of about 0.9 million tons in the last quarter, so that seems to suggest that it has already ramped up to fairly good amount of utilization. Is that the right reading?

**Management:** Yes, you are right, absolutely.

**Abhishek Ghosh:** So, at a price pushing volumes into the market in Chhattisgarh has not been a constraint from that perspective?

**Management:** No, it has not actually been a constraint. And also because we have been able to develop a very good market presence in Chhattisgarh and in the adjoining state of Vidharba and Madhya Pradesh.

**Abhishek Ghosh:** And sir, just in terms of what is the status on the conveyor belt?

**Management:** Conveyor belt should be in place in this financial year hopefully, there is just 0.5 kilometer because the land issue is there that is why this timeline is getting shifted every time when we speak on call. Unfortunately, that is something not in our hand but we are trying our best to get it sorted out.

**Abhishek Ghosh:** And sir just last one from my side, what will be the PPC OPC mix in the current quarter?

**Management:** We did about 52% or 51% of OPC and 49% PPC as far as the Sirohi is concerned, but cumulatively for the company it is slated about 43% OPC and 53% as PPC and about 4% slag.

**Moderator:** Thank you. We will take one last question from the line of Milind Rajendra from SBICAP Securities. Please go ahead.

**Milind Rajendra:** Sir, this was about some line item of this purchase goods that we do and you said that that has been on higher side. So, is it because of the volume or was it the pricing?

**Management:** It is only the volume, not the pricing. But some portion could be there for pricing as well because the pricing has been slightly higher in the current quarter as compared to that in the immediate preceding quarter if we are comparing that with that. But yes, it is a combination of both.

**Milind Rajendra:** Sir, and this is essentially happening in the north operations, is that assumption correct?

**Management:** Yes, you are right, essentially in the north.

**Milind Rajendra:** Sir but if we do the math then north our volume is more or less on a flattish trend on a year-on-year basis, is that a fair assumption to do?

**Management:** No, about 3% growth in the northern operations.

**Milind Rajendra:** Okay. So, within north we have gone, the share of purchase probably this has gone on a higher side?

**Management:** Yes, this quarter it was higher.

**Milind Rajendra:** Okay. The second question is, on the eastern operations is it that we will be restricted only to the road transport in the East operations because of the lack railway siding?

**Management:** No, we do have excess to our siding which is at a distance of about 12 to 15 kilometers, but the basic reason is not that we do not have a siding, we can always use the siding though it becomes a bit expensive because of the two handlings involved. But also because we have created a good market as I was mentioning in the state where we are present, and also because we are able to supply good quantity in our neighboring part of the neighboring state. So, that makes it our lead remains within 300 kilometers. And if the lead is 300 kilometers then the movement by rail becomes actually costlier.

**Milind Rajendra:** Exactly, so I was just trying to get that is it because that Railways are not available we are only on the road, that was only the doubt, so you clarified that. And sir, in terms of the restrictive pricing in Chhattisgarh, are you getting a feeling that in some other states this is happening or is it only restricted to Chhattisgarh?

**Management:** See, some other states I believe in South had initiated this dialog, but there they were satisfied with the prices in some of the government projects, say government like Telangana or Tamil Nadu had asked. So, there I think only this issue was raised and nowhere else, and it is obviously not in keeping with the free market economy that we are propagating.

**Milind Rajendra:** But our key markets we are not seeing any other state doing this?

**Management:** No. Even in the states I am sure things will get sorted out soon.

**Milind Rajendra:** And sir lastly, continuing with the East operations, can you just throw some color on Orissa, the Orissa grinding, I mean...

**Management:** Yes, the Orissa grinding as Mr. Bidkar was mentioning we are not in a great dire need now because we have created the capacity here itself, but then there is always a price arbitrage once we have the grinding unit. And looking at the local operating conditions we thought it will be more prudent to move in a normal pace rather than expediting. So, we are quite hopeful that by this financial year end we should be able to commission the grinding unit.

**Moderator:** Thank you. Ladies and Gentlemen, due to time constraints that was our last question. I now hand over the conference over to Mr. Vaibhav Agarwal for closing comments.

**Vaibhav Agarwal:** Thank you. On behalf of PhillipCapital (India) Pvt. Ltd, I would like to thank the management of JK Lakshmi Cement for this call. And many thanks for the participants joining the call. Thank you, Margret. You may now conclude the call. Thank you very much, sir.

**Moderator:** Thank you. On behalf of PhillipCapital (India) Pvt. Ltd, that concludes this conference. Thank you for joining us and you may now disconnect your lines.