



“JK Lakshmi Cement Limited Q3 FY 2018 Earnings
Conference Call”

February 02, 2018



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Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Q3 FY 2018 Conference Call of JK Lakshmi Cement Limited hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, you may signal an operator by pressing “*” then “0” on your Touchtone Phone.

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

Vaibhav Agarwal: Thank You, Margaret. Good Evening Everyone on behalf of PhillipCapital (India) Private Limited, we welcome you to the Q3 FY 2018 Conference Call of JK Lakshmi Cement. On the call we have with us Mr. Sudhir Bidkar – CFO and Dr. Shailendra Chouksey would be joining us during the midst of the call.

At this point of time, I will hand over the floor to Mr. Bidkar for opening remarks which will be followed by Q&A. Thank you and over to you, Sir!

Management: Hello. Good Afternoon, Ladies and Gentlemen and welcome to this Q3 FY 2018 concall. Sorry, I am running with a very bad throat. So instead of repeating any number, I would just inform as was mentioned in our results that only two things, one, our waste heat recovery project have now been completed for the Durg plant of about 7 megawatts. And second this quarter we were impacted through this ban on the pet coke. Numbers you would have seen I just want to just immediately throw the floor open for Question-and-Answers, please. Thank you.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: Sir, my first question is with regards some bookkeeping questions on like volumes for the Eastern plant for the quarter and RMC revenues?

Management: This time our volume has increased by 15%, last year in the corresponding quarter it was 17.34 lakh tonnes. This year we have recorded 19.95 lakh tonnes. And as far as our RMC turnover is concerned, it is Rs. 37 crores.

Pratik Kumar: Sir, can you give us volumes of East specifically as per East?

Management: In East, we recorded a production of 5.39 lakh tonnes.

Pratik Kumar: And sir, sales?

Management: Sales is also 5.39 lakh tonnes.

Pratik Kumar: Okay. And how have the cement prices I mean cement price trend versus Q3 average in like North, Gujarat and your Eastern markets in the current quarter in January?

Management: In the current quarter in January, last year as compared to the corresponding quarter of last year, our realization have been higher by about 9% and January it is slightly better than that.

Pratik Kumar: So sir, prices have improved in all three markets of yours?

Management: Yes, there was a cap in Chhattisgarh that is getting diluted from January onwards of Rs. 230 so that will have an impact in the coming quarter. That is why yes, slightly better.

Pratik Kumar: Okay. So sir, the cap which was there, now there will be a revised cap or there will be no cap from now onwards in Chhattisgarh?

Management: Hopefully there will be no cap.

Pratik Kumar: Okay. And sir, one last question on fuel cost, what would be the average fuel cost for last quarter and how is it like in the current quarter?

Management: Last quarter our fuel cost was Rs. 7,500. But it has increased further by about Rs. 500.

Pratik Kumar: So Rs. 7,500 has moved to Rs. 8,000?

Management: Yes.

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

Antariksha Banerjee: A couple of questions from my end. So firstly, to begin with, can you help me with capacity utilization your clinker facilities are currently running at?

Management: Come again, sorry.

Management: Clinker is almost 100% we are running and...

Antariksha Banerjee: At both North and East?

Management: Cement is of 73% company as whole.

Antariksha Banerjee: No, if I were to look at it region wise North specific?

Management: In North, our capacity utilization was 70% and in Durg, it was 80%.

Antariksha Banerjee: Okay. I am asking what is the clinker utilization in North versus East?

Management: Clinker is nearly 100% as far as North is concerned.



- Antariksha Banerjee:** Okay. And I were to follow-up on that what is your demand outlook in the North market and based on that how are you planning for your expansions?
- Management:** North we are expecting in this last quarter a growth of about 5% to 6%.
- Antariksha Banerjee:** So you are expecting 5% to 6% growth next quarter?
- Management:** If you are talking about April - June I think in that quarter too we would expect at about the same may be even degree better than January to March because that will be the pre-monsoon quarter. So I expect at least 6% to 7% growth on the minimum side.
- Antariksha Banerjee:** So I mean a little longer horizon if you look at it from a one year or two years perspective. We are looking at some 6% - 7% growth and respect of that what is your plan going forward since you are already learning at 100% utilization with clinker?
- Management:** But you see, we are currently selling clinker also.
- Antariksha Banerjee:** Okay. How much for that be the volumes?
- Management:** From Sirohi, we are selling about 2 lakh tonnes in a year.
- Antariksha Banerjee:** Okay. And in Udaipur?
- Management:** Udaipur practically none.
- Antariksha Banerjee:** Okay. So additional 2 lakh tonnes of clinker you have buffer?
- Management:** Yes.
- Antariksha Banerjee:** And you think that much will suffice for say next two years of growth in North?
- Management:** I think we have talked earlier also that we will be maintaining this growth tempo of 10% to 12% as far as our own Sirohi unit is concerned. And we always have that head way eventually to add to this clinkerization capacity both at Udaipur and Sirohi. But that is more dependent on the market maintaining a sense of our pace of growth that we are talking about for at least two quarters. We find that it is sustaining, and the prices also get improved because currently the prices are getting affected by the overhang of supplies and not to the extent of almost 30% - 35%. Once that quantity gets absorbed when we go on next two years - three years then we can always look at further rapid our clinkerization capacity as well.
- Antariksha Banerjee:** Okay. Sorry, just elaborate on that, what are you talking about the supply of 30% to 35%?
- Management:** The excess supply in the system in the North and West which is being catered by Sirohi.
- Antariksha Banerjee:** So there is 30% to 35% excess supply in the North Market?



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Management: Yes. Which is affecting the prices.

Antariksha Banerjee: Okay. What kind of prices are we selling at right now versus last quarter, in the North specifically I am saying?

Management: North we have seen prices going down slightly. Currently, the prices are in the range of 260 to 280 in different markets but the bigger damper as well as the non-trade price which earlier were lower due to the taxation arbitrage which was there earlier on the excise duty. After the GST that arbitrage is no more there. So what happens but the rates have not been able to improve. So the differential between the trade and non-trade is Rs. 20 to Rs. 30 a bag on a net side. So which means straight away and in North almost 50% of the market is non-trade because of the infrastructure emphasis of the Government. The major demand area is the infrastructure.

Antariksha Banerjee: Okay. And what would be our contribution I mean trade, non-trade mix in the North?

Management: Sorry?

Antariksha Banerjee: What is our trade, non-trade mix in the North?

Management: We were around 50% but now we are gradually bringing it down. We are currently at about 45% non-trade and balance it trade.

Antariksha Banerjee: All right. And the other question is with respect to the east cost savings operations. So you have mentioned that the waste heat recovery has been commissioned and the CVP is also on track. So how much per tonne impact are we expecting to see in that East operations?

Management: I think these number we have given earlier also. We are saving about Rs. 80 a tonne as far as waste heat recovery is concerned. When only thermals get commissioned then one can expect combined about Rs. 200 a tonne.

Antariksha Banerjee: That will kick-in from FY 2020 for sure?

Management: That will happen from December...

Management: December 2018.

Antariksha Banerjee: Yes, so FY 2020 for sure, the full year I was saying, okay.

Management: Yes, you are right. Full year.

Moderator: Thank you. The next question is from the line of Sanjay Nandi from Ratnabali Investments. Please go ahead.



- Sanjay Nandi:** Sir, can you please share the Y-o-Y basis East number like this quarter it is 5.39 lakh tonnes for the East operations. So can you please share the number for the last year December 2016 quarter?
- Management:** Offshore it was Rs. 4.17 crores.
- Sanjay Nandi:** Pardon, sir.
- Management:** 4.17 lakh tonnes.
- Sanjay Nandi:** 4.17 lakh tonnes. Okay, thank you, sir. And the second question is like the import duty on the pet coke has been hiked from 2.5% to 10%. So that the impact will be like coming from the next quarter like in the Q4. So can you please share some light on that thing, sir?
- Management:** Currently we are not importing, we are try to source mostly internal, domestic. But obviously, we will also possibly try to increase the price as the international prices increases on the landed basis. Currently, we have not heard from them whether they are increasing the price as the prices have already increased considerably.
- Sanjay Nandi:** So the prices are hovering around about Rs. 8,500 per tonne, right?
- Management:** Currently around Rs. 8,000 I would say.
- Sanjay Nandi:** Rs. 8,000. So what are the sources of the coals we are getting from? Like the linkage coal or?
- Management:** Mostly we are dependent on the imported coal as far as our Sirohi is concerned. As far as Durg is concerned, there have some linkages from the Central coal fields from there we are getting our coal.
- Moderator:** Thank you. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** On the sale side, on the Eastern market, would you be able to give a broad idea of which are the core markets from where are getting most of the sale, sir?
- Management:** We sell close to 60% of our produce in Chhattisgarh. And balance is distributed between Odisha (Orissa), Maharashtra and M. P.
- Mithun Soni:** Okay. And how is the pricing? So Chhattisgarh pricing is the lowest for us right now, is it?
- Management:** Yes, it is.
- Mithun Soni:** Okay. And what will be the realization pricing for Odisha (Orissa), Maharashtra, and M. P., sir?
- Management:** They are tad better compared to Chhattisgarh by almost close to 200 a tonne better.

- Mithun Soni:** Rs. 200 a tonne is higher than the Chhattisgarh market?
- Management:** Right.
- Mithun Soni:** And the Chhattisgarh market the regulated price, you feel it should start. What is the sort of increase you are expecting and by when, sir?
- Management:** We have already taken one increase last month and we expect to take one more increase this month.
- Mithun Soni:** So what will be the realization, how much increase you are looking to take? So what will be the net final realization you are looking at?
- Management:** We wish to bring it at par at least the realization at par with the neighboring markets.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** Sir, just wanted to check so in our Eastern plant, you had mentioned in the previous call that the difference is about Rs. 400 per tonne between East and North if I remember correctly because of the cost difference and the realization difference. So now that the cap goes away, and that cost will sort of become better. So from FY 2020, can we expect that East plants and North plants would be at the EBITDA per tonne broadly?
- Management:** See on the cost we will be able to equate at about the same as Sirohi. In fact, it could be even slightly better. But as far as the pricing is a concern, it is very difficult to hazard a guess because in the Northern operation also the prices of one market to another market do not move in instinct. Sometimes Gujarat is far lower than the Northern. Sometimes it is much better. Similarly, for East. So you see each market operates on a strong demand and supply equation. So it is very difficult to say the fact remains that the East is more surplus than the North. So the prices will be slightly subdued compared to North. But the other counterpoint is that East has been wresting a much better growth than the North. So it is very-very difficult to hazard that sort of guess. But on a macro level, you have set the after about a year or two years, both the working should be very similar.
- Madhav Marda:** Okay. And sir, could you just share I mean the net debt number would be for us at the end of the third quarter you have paid any debt in this quarter?
- Management:** Every quarter we pay off Rs. 50 crores of debt. Total annual repayment is Rs. 200 crores. So as of now, it is about Rs. 2,150 minus Rs. 450; so Rs. 1700 is the net debt on a standalone.
- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Sir would you please share the clinker break-up for North and East production, sir?

Management: In North, our clinker production was 12.88 lakh tonnes and in East, it was 3.33 lakh tonnes.

Rajesh Ravi: 3.33 lakh tonnes. North how much you said, sir?

Management: 12.88 lakh tonnes.

Rajesh Ravi: Okay. And sir, in terms of volume growth for the North I just discussed, what is your strategy in terms of the current clinker capacity, would you plan to increase that capacity going forward and how long would that take because we are already operating at 100% odd utilization in North.

Management: One needs to take that call putting up a kiln at Sirohi or at Udaipur in about 21 months - 22 months I think klin will be installed.

Rajesh Ravi: Okay. And that would cost how much for you that would be a Brownfield expansion?

Management: About Rs. 1,500 crores to Rs. 1,800 crores depend on the size.

Management: Around that Rs. 1,700 crores - Rs. 1,800 crores.

Rajesh Ravi: Okay. And this is for what capacity you are building in, sir clinker expansion?

Management: We have not yet firmed up any such expansion plan, but in the case as and when the requirement comes it will happen at about \$70 per tonne.

Rajesh Ravi: Okay, \$70 per tonne. This is only for clinker or you are saying an integrated expansion?

Management: We will have to have the integrated one. So long as it matches with our grinding capacity.

Rajesh Ravi: Okay. And is any clinker sale this quarter, sir?

Management: It was given in the beginning about 2 lakh tonnes of clinker was sold in this quarter.

Rajesh Ravi: Rs. 2 lakh tonnes?

Management: Yes, primarily from the North only.

Rajesh Ravi: Sorry, sir, did not get you.

Management: From North only primarily.

Rajesh Ravi: 2 lakh tonnes of clinker sales and 2.1 is the total cement sales? This is inclusive in that?

Management: Yes.

- Rajesh Ravi:** No, sorry. 2 lakh tonne of clinker is included in the total volumes?
- Management:** Yes.
- Rajesh Ravi:** Okay. And lastly, sir, on this investment in Hansdeep Trading Company, we have Rs. 110 odd crores of investment. So could you explain what is the business from this and what sort of returns JK Lakshmi generates from this investment, sir?
- Management:** Basically, when we were required to borrow money for Udaipur because of the BIFR we were not able to do any direct borrowing there. We have to do it through Hansdeep. So Hansdeep is basically another wholly-owned subsidiary we borrowed money through NCD's in that and then online to Udaipur. So earlier it's capital was only Rs. 1 crores and borrowing of about Rs. 525 crores which were very lopsided. So at that, we did Rs. 110 crores of equity induction. Now it is around 3.5 debt-equity which is acceptable not 500 is to 1. Basically, the funding of the requirement in the Udaipur.
- Rajesh Ravi:** Okay, great, sir. And lastly, if you could throw on Udaipur how things are ramping up on that plant and what was the utilization this quarter in terms of production sales number and all?
- Management:** Current quarter it will be peaking up to the rated capacity in the current quarter. Actually, this is the first year of operation, so we have been around 60% - 65% the last quarter.
- Rajesh Ravi:** Okay. So Q4 you are saying will peak in terms of it will cross 90%?
- Management:** Yes, it should.
- Rajesh Ravi:** And as you had earlier said that, cash breakeven may happen by when you target that?
- Management:** Next financial year we should see that happening.
- Moderator:** Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.
- Gunjan Prithyani:** Just this clarification on the clinker utilization level which you mentioned all of these numbers do not include Udaipur, right?
- Management:** No, it does not.
- Management:** Udaipur we give separately if somebody asked clinker is steady that is only the company alone. We have not started the practice of any consolidation so far.
- Gunjan Prithyani:** Okay. So the ramp-up in Udaipur will still continue to drive the volume growth? Right, I mean Udaipur you just mentioned is about 60% - 65% utilization levels. Okay. Just on this fuel mix if

you could give a sense on how does it look for North and East? Now, are we completely on imported coal in North and what is the Pet Coke usage in East?

Management: It is North we were really 90% in pet coke except during that period of the Supreme Court ban that came. And we will not place a subsequent order because of the uncertainty there. Since that ban has been lifted. We have gradually started using pet coke. But it will take a while before we come back to 90% till such time fresh supplied are received.

Gunjan Prithyani: Okay. And what is the difference in terms of per kcal cost between pet coke and imported coal now that you know you have used both recently? So what is the difference?

Management: The difference is about 20%. Coal is costlier as compared to pet coke.

Gunjan Prithyani: So it is still 20%...

Management: We have reached prices of about Rs. 8,000 for pet coke there is still giving off about 20% while using pet coke.

Gunjan Prithyani: And what is the pet coke usage in East operations?

Management: East we are consuming about 70% pet coke.

Gunjan Prithyani: And the rest would be essentially linkage?

Management: Yes.

Gunjan Prithyani: Okay. Sir, just now moving to this east EBITDA per tonne. Given that very big issue that you faced in past been this cap. Now that has been removed and you are of course cost initiatives will kick-in by December or maybe on a full year basis from Fy 2020. What is your internal expectation as to where we should see East EBITDA per tonne assuming prices remain let us understand that we cannot take a call on prices? But this just cap Rs. 200 per tonne if you were to improve in Chhattisgarh. Will the profitability match the North operations, any sense you can give in terms of EBITDA per tonne improvement that we can see in East operations?

Management: If you look at the cost side, there are two things that we are trying. Basically, both relating to power. One is your waste heat recovery which has since been commissioned. Now so that itself will bring in a saving of about Rs. 70 a tonne to Rs. 80 a tonne that happens immediately. From quarter get full advantage. The part two of this power saving will come from December so that is the last quarter of next fiscal when we will get that Rs. 100 a tonne. So that goes check to both this go straight to your EBITDA level, right?

Management: As far as the pricing is concerned, I think I mentioned in one of the earlier queries that we have already taken one increase. So I think that situation of not being able to correct the price is no more there fortunately but still we cannot just go absolutely on a very aggressive mode we cannot

increase the price that is the sort of understanding. So I think gradually we will ramp-up the prices correct the situation.

Gunjan Prithyani: And what has been the quantum of price increase that you have taken in the first round?

Management: We took about Rs. 10 a bag.

Gunjan Prithyani: Okay, Rs. 10 a barrel. Okay. And on the cost just the last clarification, now the East operations would be in terms of cost once this Rs. 180 turn improvement comes through will it be similar to the North operations?

Management: Yes. Because their efficiency norms are already at about the same or even better.

Moderator: Thank you. We will move to our next question which is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.

Akshit Gandhi: Just one question, including UCWL what is the consolidated gross and net debt levels, please?

Management: You have to add Rs. 550 crores to whatever numbers of the company figures are there both in the gross and net. Rs. 550 is the debt for UCWL.

Akshit Gandhi: Okay. And sir, one more question. If I look at it currently Bihar is facing a sand mining ban, more of the players from Chhattisgarh go ahead and send their clinker to Bihar and sell the volumes. Could there be more pricing pressure this Bihar ban goes out or we are confident that even if the Bihar ban is delayed still we will be able to take the pricing up in Chhattisgarh?

Management: Most of the players who are marketing in Bihar from Chhattisgarh have now put up their grinding units. So I do not think that situation will come when there will be backward pressure in this part of the East.

Akshit Gandhi: Okay. And any comments on the Rajasthan sand mining ban, anything do we see?

Management: Yes, that problem continues. You know all these bans actually result only in increasing the cost of the material. There is not that the construction gets totally stopped. In fact, despite the ban in January we are seeing a very good traction in Rajasthan demand.

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

Abhishek Ghosh: Just one question, what is the status on the Odisha (Orissa) expansion plan? Any progress there?

Management: Yes, we have made some progress there but since we have burnt our finger on a number of plans. So we do not want to be over-optimistic but we expect that in this calendar year or say in this financial year coming a financial year, this should definitely be on.

- Abhishek Ghosh:** Okay. So that will be the only grinding unit of about 1 million tonnes or 1.5 million tonnes?
- Management:** Yes, it is actually 0.6 million tonnes.
- Abhishek Ghosh:** Okay. And you will also have to then put up an associated clinker around or it or we will be able to debottleneck the Durg one and be able to feed that?
- Management:** Yes, this is what we are aiming at.
- Abhishek Ghosh:** Okay. And sir, just one more thing in terms of whatever power and fuel cost per tonne that is reported in the current quarter, while some of the impacts of imported coal would have already come in, do you see it further rising in the March quarter or because of the efficiency gains you think it will stabilize at the current numbers?
- Management:** I think, it should come down because partly the reason of that inflated fuel was because of the ban on usage of pet coke. Now, since the ban has been lifted so it will be a mix of pet coke as imported coal.
- Abhishek Ghosh:** But you still not moved into pet coke for Northern operations or the import?
- Management:** We have been permitted now.
- Abhishek Ghosh:** Okay. So now it is on imported pet coke as we speak?
- Management:** It is on domestic and imported pet coke.
- Moderator:** Thank you. The next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.
- Madhav Marda:** On the CAPEX if you could just help us with the guidance of F 2018, F2019, F 2020 if there is any change from before?
- Management:** There is no any major change for whatever numbers we had given earlier same stands
- Madhav Marda:** Sir, about Rs. 1,200 crores to Rs. 1,400 crores for each year is that the right number?
- Management:** Sorry.
- Madhav Marda:** Rs. 120 crores to Rs. 140 crores is that the right number to work with?
- Management:** Yes, not more than that.
- Moderator:** Thank you. We take the next question from the line of Pratik Maheshwari from Ambit Capital. Please go ahead.



- Pratik Maheshwari:** Sir, I wanted to ask about pet coke being used for power plants. So, sir, we heard from other companies that the State Governments are yet to give clarity on the rules whether pet coke can be used for the power plants. So sir, has there been any development that you know of with respect to this?
- Management:** See, there is no further clarity except for the Supreme Court decision which says that the pet coke has permitted for the cement kilns and for the lime kilns. So to that extent in our mind, they are quite clear that in the power it should not be used.
- Pratik Maheshwari:** Okay. For the power, it should not be used.
- Management:** But one can always take a center for some time that time anybody comes with an explicit circular that it cannot be used. One can possibly take that line but to our mind, that is not the correct position.
- Pratik Maheshwari:** So sir, currently the power units in Rajasthan would not be running on pet coke, right?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Naveen Sahadeo from Edelweiss. Please go ahead.
- Naveen Sahadeo:** Sir, two questions from my side. Sir, if you could just update what is the sand situation in the region? How much demand of the region is impacted because of this sand mining ban in Rajasthan?
- Management:** To my mind, nothing significant.
- Naveen Sahadeo:** Yes. So basically, is it the sand from other regions is coming and like fully compensating for the mining ban in the state?
- Management:** Both, sand coming from neighboring state and also sand being obviously available somewhere in the state. Third, Rajasthan has a three units - four units of manufactured sand and people are gradually turning to what we call to who manufacture sand so that is also to check this thing in place.
- Naveen Sahadeo:** Okay. So per se volumes even at the industry level are not impacted at all despite the ban?
- Management:** Not affected I would say.
- Naveen Sahadeo:** Okay.
- Management:** Sir, second question, it is just a continuation of the previous question somebody asked, how would the fuel cost be and you said, it could go down? But sir, I just wanted to ask if CPP's like



you know they are disallowed or they will not be allowed to use pet coke which then means they will run on either imported coal or domestic coal where on a kcal basis the cost is higher. And also the impact of the import duty increase on pet coke. So combining these two, should we not see a further increase in the fuel cost in the March quarter or you think the current numbers already factor in those benefits, those impact of these?

Management:

There is always an issue of demand and supply. Be it the imported pet coke or the domestic. And obviously, with the demand will go down at the power units don't take so to that extent the demand being low the supply would be excess. So this will balance out the impact of the increase in the customs duty. But that is my reading and maybe my wishful thinking.

Naveen Sahadeo:

Okay. And one last question. Sir, you said in North we operate at almost close to 100% clinker utilizations. But you said there is still headroom to grow as we see that we get a view about the industry level. So Udaipur volumes definitely intact and that could give the growth. But at the standalone entity also do you think there is headroom to increase volumes in North given that clinker there could be some debottlenecking or something like that possible or higher blending there?

Management:

I think for us the immediate opportunity that we reduce our clinker sale. In fact, it is already happening. Even if you see our last year also our clinkerization, clinker capacity utilization almost 100%. I do not remember exactly the percentage but not have been less than 94% - 95% in any case. So every year we use 100% capacity utilization of the kilns and the clinker has been we have been selling in the market. So now with our own cement demand picking up, we are gradually reducing our clinker sales. So quarter after quarter we are seeing a drop in our clinker sales. So that is the headroom that we have. So within a year, we have to sell 7 lakh tonnes of clinker depending on the growth that we are achieving in the cement, it will go down.

Naveen Sahadeo:

Okay. But sir, just correct me if I am wrong. Clinker sales was also to those contracted units from where we then buy readymade cement and shows as purchase of finish goods.

Management:

Naveen, you are right. The major buyer was Udaipur Cements. I understand that we use to sell it and then buy cement. But now with Udaipur having come up with their own clinkerization this year as you are aware that clinker sale to them has stopped which was being ground and was being packed in our bag. But now we are selling a major part of our clinker as clinker sale not only for grinding. We still have two units - three units outsource units. So we are selling clinker in the market.

Naveen Sahadeo:

Understood. And just one quick question, at the industry level in North what could be the clinker utilization, sir?

Management:

Very difficult because most of us sell clinker and that number does not really come. But we get the number as the cement capacity utilization which as you know is about 60% to 62%.

Moderator: Thank you. The next question is from the line of Krupal Maniar from ICICI Securities. Please go ahead.

Krupal Maniar: Any new planned additions expected in your region like in the North and East region, are we seeing any new plans being added?

Management: We believe Ambuja has started the work near Nagore. I think it is still a long way off. So I do not really see any Greenfield side coming in the immediate vicinity of next two years. Only the one company which keeps on adding the kiln is Shree as you know. So possibly they may add one kiln in these two years. Otherwise, there is no further capacity which we see coming. I am not counting on the grinding units because that will be depending on the same clinker which is available in the market.

Krupal Maniar: Like Dhar expansion or Pali expansion of UltraTech Cement would impact your region?

Management: Dhar is in Madhya Pradesh and they have enough capacity in North, so I don't think they will travel from Dhar to North.

Krupal Maniar: Correct. And in the East any plant or expansion coming on?

Management: Again that too only is the grinding except for capacity enhancement of Shree and then of Emami.

Krupal Maniar: Okay. So sir, like since the region is operating at a significantly high utilization, what is your view in terms of prices going ahead? Maybe 6 months to 12 months down the line do we expect prices to move up?

Management: Yes, there are no new capacities coming. And also we have been on down cycle as far as demand is concerned nearly four years, in fact. And you see, in last one year we have seen a significant jump in the cost because of the various factors of pet coke, the fuel prices, very mutedly the underloading and the overloading which has led to a lot of freight increase of all the players. The wagon availability we have been much poorer this year compared to the last year because the dependence on the road has increased, the roadside we found this underweight and underloading, overloading. So I think, we are seeing a significant jump in the cost side. It is the industry has not been able to pass it on. So I would definitely expect that we should see a traction in the prices.

Krupal Maniar: Correct. And sir, what margin or you know EBITDA per tonne, would you begin your new expansion?

Management: I see, we would like to be very sure on a sustained EBITDA of over Rs. 850 a tonne - Rs. 900 a tonne.

Moderator: Thank you. The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.

- Amit Murarka:** Just on this road movement when you say that the dependence on the road has been high. So how this e-WayBill that have been implemented just from this month. So how do you see that impacting I mean your logistics and all that, will it be a big hassle, how does it work?
- Management:** Eventually, this all IT driven. So it is all a matter of settling it once and then the number of bills really matter whether it is going by rail or road. So it is only the initially hiccups. And the hiccup is from the Government portal side. Even now they had to defer it because their portal is not yet ready, is not able to accept probably it was not designed for that sort of load. He is not able to take a load for more than two hours - three hours a day.
- Amit Murarka:** Okay. Are you facing issues because I guess it has been implemented since yesterday, right? I mean our nationwide?
- Management:** No, we have deferred it again in the night definitely because that portal is not working.
- Moderator:** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.
- Rajesh Ravi:** Just wanted to understand this purchase of traded good sales related to what sir that we are doing every quarter, Rs. 50 odd crores - Rs. 60 odd crores?
- Management:** It is basically the clinker that we are selling and then we buy back the cement.
- Rajesh Ravi:** Okay. So now just that the clinker sales is coming down but this number is largely flattish. Last if I take seven quarters - eight quarters it remains at Rs. 50 crores - Rs. 60 crores levels. So are we purchasing what sort of cement that we are purchasing from these third-party, sir?
- Management:** About 1 lakh of tonne cement per quarter.
- Rajesh Ravi:** Okay, this is on a per quarter Rs. 1 lakh tonne of cement is there. And lastly, if you could just break-up on the CAPEX plans for next two years project wise like you said Rs. 170 crores - Rs. 180 crores would be the total CAPEX for next two years. So if you could just break them into the various ongoing projects, please?
- Management:** Basically, we have about Rs. 70 crores - Rs. 80 crores to be spent on the thermal power and about Rs. 100 crores on the Odisha (Orissa) grinding unit, that is all.
- Rajesh Ravi:** Odisha (Orissa) grinding units Rs. 100 crores.
- Management:** That is the normal.
- Rajesh Ravi:** Okay. And normal CAPEX Rs. 50 odd crores per annum.
- Management:** Rs. 40 crores.

- Rajesh Ravi:** Rs. 40 crores, okay. And sir, this waste heat recovery this financial year how much was the CAPEX that went through, sir?
- Management:** We have completed that project at Rs. 90 crores.
- Rajesh Ravi:** Rs. 90 crores which was incurred this year?
- Management:** Partly this year, I do not have the exact number. Last year's sum would have gone maybe about Rs. 20 crores - Rs. 30 crores balance would have been....
- Rajesh Ravi:** Okay. And like last nine months if I see cash profits we would be done around Rs. 190 crores and every quarter you are paying Rs. 50 crores of your debt as well as Rs. 50 crores approximately is the interest outgo. So for this CAPEX and all would it require for us to increase our borrowings?
- Management:** Actually what has happened in the entire CAPEX which we have done so far we have entirely been funded internally. So whatever is the residual CAPEX to be incurred we may have to do commensurate borrowing.
- Rajesh Ravi:** Okay. And for the North, next FY 2018 or FY 2019, you do not see any major CAPEX growth in terms of clinker and all?
- Management:** Only some debottlenecking will happen but that is all.
- Rajesh Ravi:** And what sort of amount do you envisaging for next two financials?
- Management:** Financial will be covered under the normal CAPEX.
- Moderator:** Thank you. The next question is from the line of Hrishikesh Bhagat from LIC Mutual Fund. Please go ahead.
- Hrishikesh Bhagat:** The external clinker sales, third-party that we do including the sale to Udaipur, what is that figure annually?
- Management:** Actually, till last year we were doing to Udaipur because they do not have any clinkerization. From the current year which is from April 2017, the entire sale is for outside including some to our own borrowed this outsourced grinding unit. So then this year there is nothing to Udaipur. Entire clinker sale in that nine months period of about Rs. 7 lakh tonnes is entirely parties other than Udaipur.
- Hrishikesh Bhagat:** Third-party clinker sales, okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.



- Pratik Kumar:** Sir, my first question is, is there any recognition of DMS provision reversal during the quarter. Because we probably did not do it in Q2.
- Management:** We did not do in Q3 as well. We will take a call at the year-end.
- Pratik Kumar:** Okay. And sir, what will be the difference in profitability right now in your North and East operation during Q3?
- Management:** That 200 difference continues 200 plus maybe around in terms of profitability you are talking?
- Pratik Kumar:** Profitability, yes.
- Management:** 300 - 350 EBITDA per tonne difference is there.
- Pratik Kumar:** 200 due to cost, 150 on pricing?
- Management:** Yes.
- Pratik Kumar:** Okay. And sir, one last question on your clinker sales, what would be the clinker sale in North and East separately?
- Management:** It is entirely mostly from North only, we do not do much sales in East.
- Moderator:** Thank you. The next question is from the line of Pradnya Ganar from Motilal Oswal Securities. Please go ahead.
- Pradnya Ganar:** Just a small question. Sir, what would be our OPC, PPC mix?
- Management:** OPC, we are doing about 51% and overall, it is about 58% is OPC, rest is like slag. PPC is 57%.
- Pradnya Ganar:** Okay, thank you. And sir, whatever drop in realization we have seen is on account of lower prices in cap in Chhattisgarh or is there any kind of freight element to it?
- Management:** Yes, our realization in North has fallen to some extent because of the freight increase.
- Moderator:** Thank you. Due to time constraints, we will take last two questions. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** Yes. One question is with this Udaipur clinker coming in what is the savings in the lead distance you have got when you were servicing all your key markets from this Sirohi in the Udaipur front?
- Management:** We have not had any combined saving on the freight mostly because Udaipur is selling on a standalone on their own brand and mostly in Rajasthan. So we have not switched any sales of the outside of Lakshmi Cement from Udaipur for any saving because it makes greater sense for

us to supply all that we produce in Udaipur in Rajasthan. So there we are not able to do that fully as yet. So what we are doing is that some 35% of this produce goes to neighboring market of Gujarat and Madhya Pradesh.

Mithun Soni: Of the Udaipur plant?

Management: Yes.

Mithun Soni: Okay.

Management: Rest is all in Rajasthan.

Mithun Soni: And just wanted to reconfirm one data point you said that the total sales which we got above 19.95, total this would out of which about 5.39 lakhs was East, right? How much would be the Udaipur sales from out of 19.95 lakhs?

Management: First and foremost, sales is not 19.95. Total sales is 21.09.

Mithun Soni: Okay. My mistake.

Management: 9 of East and balance from the North. It does not include anything Udaipur, okay?

Mithun Soni: Okay. So Udaipur is over and above that?

Management: Right.

Mithun Soni: Okay. And you said OPC is 57% of our mix, right?

Management: 57% is the PPC.

Mithun Soni: Okay, 57% is the PPC.

Moderator: Thank you. We will take one last question from the line of Sanjay Nandi from Ratnabali Investments. Please go ahead.

Sanjay Nandi: Sir, can you just share the current pet coke price recently in the last quarter as well as currently prevailing in January month?

Management: We have a blended cost of 7,500 in the December quarter, which has gone up marginally in the current quarter about 8,000.

Sanjay Nandi: So what is the quantum increase in this current month, sir?

Management: It would be around close to around 8,000.



- Sanjay Nandi:** 8,000. And sir, just now you told in the concall like previously there used to be a gap between the trade and non-trade sales by Rs. 30 which has been because of the GST, sir. Sir, can you please state the reason for why was the gap previously there is to maybe the gap between that trade and non-trade sales?
- Management:** In the East?
- Sanjay Nandi:** No, overall. You just told there is a gap between the trade and non-trade?
- Management:** It varies in a different market. But if I were to take a weighted average of Gujarat and North, it should be around Rs. 25 to Rs. 30 a bag in the Northern operation, while in the East it is about Rs. 20 a bag.
- Sanjay Nandi:** So right now the two prices are leveled out after GST?
- Management:** No, the prices remain the same as they were earlier. So earlier realization was the same because there was differential in excise duty on the non-trade. Now since the GST is common there is no separate provision for the institution or industrial customers. Therefore, the price remaining the same, the realization has gone down.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.
- Vaibhav Agarwal:** Yes, thank you. On behalf of PhillipCapital, I would like to thank the management of JK Lakshmi Cement for the call and many thanks to the participants joining in the call. Thank you very much, sir. Margaret, you can now conclude the call.
- Management:** Thank you. Thank you.
- Moderator:** Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes the conference. Thank you for joining us and you may now disconnect your lines.