"JK Lakshmi Cement Limited Q1 FY19 Conference Call"

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MANAGEMENT: **DR. SHAILENDRA CHOUKSEY – WHOLE-TIME DIRECTOR**
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MODERATOR: **VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Good day, Ladies and Gentlemen and welcome to the Q1 FY19 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, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, Mr. Agarwal.

Vaibhav Agarwal: Thank you, Margreth. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to this call for the Q1 FY19 call of JK Lakshmi Cement. On the call we have with us Dr. Shailendra Chouksey – Whole-time Director, and Mr. Sudhir Bidkar – CFO. At this point of time, I hand over the floor to the management of the company for their opening remarks, which will be followed by interactive Q&A. Thank you and over to you, Sir.

Management: Welcome all the participants. Thank you, Vaibhav. Our results are already there known to the people. But I think as a precursor I must tell you that as a part of our drive to weed out the non-remunerative and non-trade sale we have suffered a bit in terms of our volume that is why we are seeing a flattish volume despite the growth in the overall demand in the markets that we operate in. But if we were to really see then we have been able to make a progress about 4% combined cement sales, while in clinker we lost out mainly because the wagons required for clinker movement were not sufficiently available. We could have done much higher volume, there is no issue on to that, but I think the non-trade price, I think this has been one of those rare quarters where the demand has been good, but the prices have dipped. The non-trade price in this quarter in the north have reached five-year low. And as a result, we thought it would be wise and prudent to sacrifice some of our volume for not losing out on the EBITDA. That is why we are seeing a flattish in terms of volume.

Some of these measures that we have taken would hold us in the good strength in the coming quarter. And this decision to withdraw has also enabled us to now have in our kitty only those orders of non-trade which are giving a better realization and better EBITDA.

\ So, I think with this opening remark, of course, we all are aware, and I think most of the participates are aware that the cost increase that has been witnessed in the last quarter, especially in terms of fuel, there has been fairly steep, both pet coke and coal price have been high. The diesel prices have been moving up, as a result the logistic cost have gone up. But I am very happy to report that in our own logistic cost we have been able to reduce by about 20-kilometer. As a result, we say about Rs. 40 a ton. But what we see in the way the accounting is done, because now most of the buyers of clinker want us to do the billing on the FOR basis which was earlier was being done on the ex-works basis, because that enables then to get the GST credit for the freight as well. Therefore, what we see is a high freight figure. But to that extent, on the top-line the figure goes up.

So, I think this is the sum total, on one hand we have had the pressure of cost increase, on the other hand the prices did not commensurate with the demand growth that we have seen. But the positive fact is that the demand has gone up and hopefully it will remain on that trajectory. And with that note, I think we are quite optimistic that prices would soon pick up, not in the immediate quarter of the monsoon but certainly thereafter.

Management: Now we throw the floor open for question-and-answers please.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Before I follow with questions, I just want to understand the normal figures that you shared for clinker and cement production and sales volume for the north and the Durg plan, please?

Management: We actually now share only the company's figures, and the company had a total volume of 22.87 which included the clinker sale of 2.84.

Rajesh Ravi: And clinker production is how much for this quarter?

Management: This is same, 2.84.

Rajesh Ravi: No, production, this is the sales which is included.

Management: You want clinker production also?

Rajesh Ravi: Yes.

Management: Clinker production for the quarter stood at 15.57.

Rajesh Ravi: And sir, this RMC revenue?

Management: Rs. 42 crores.

Rajesh Ravi: Fuel mix as you said, any change in your trade / non-trade mix as well as on your fuel cost impact, what was the landed fuel cost for this quarter?

Management: This quarter we had a total of about 8,100 landed cost, which was almost 20% higher than 6,750 which we had in corresponding quarter of last year.

Rajesh Ravi: And Q4 it was 7,500?

Management: Yes, you are right.

Rajesh Ravi: And trade / non-trade mix you said you have been less aggressive in the non-trade segment. So, how has been your trade / non-trade mix this quarter?

Management: The trade was about 54%.

Rajesh Ravi: So that improved by 4% versus 50%?

Management: Yes.

Moderator: Thank you. Our next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani: I just want to get more clarity on this non-trade pricing pressure you mentioned, could you give some more clarity on what these non-trade projects are? Is it institutional, is it housing related, is it government PMAYG, or is it infra related, any color on the quality of these projects?

Management: Non-trade is a widely used term for all the institutional and industrial sales. And when I say institutional it could be infrastructure, it could be a real-estate.

Gunjan Prithyani: So, by real-estate you mean the builders when they procure for their projects, right?

Management: Yes, beyond and above a certain minimum threshold quantity.

Gunjan Prithyani: And this does not include the government lead programs, like Prime Minister Aavas Yojna or any of the affordable housing projects?

Management: It depends on the PM Aavas Yojna, in case of PM Aavas Yojna mostly buying is by the individuals, but where there is an agency who is trying to set up the house for people like your low cost housing projects are there, then it would come as a non-trade. But otherwise majorly it is into the trade.

Gunjan Prithyani: I am just trying to understand it better, because a lot of the incremental demand growth that we have seen in the industry is coming from these non-trade segment….

Management: The growth drivers have been those who fall in non-trade segment.

Gunjan Prithyani: Exactly. So, if the growth is still coming from those segments and we do see pricing pressure in those segments then how do we look at the second half? Because you did mention that post monsoon we should see some hike, but if the quality of the projects and the growth is going to be non-trade or institutional then there is going to be pricing pressure which will persist in second half as well.

Management: I think at a very macro level what we are trying to do is that the overall pie is fairly large, so even if the market is on an average about 50%-50% it is not a great deal for a player like us who does not hold more than 10% or 12% market share to increase by a leverage of our network by gaining another 5 - 6 point further in our trade sales.

Gunjan Prithyani: What is the trade / non-trade mix right now?

Management: I think I conveyed it in the reply to the previous question that last quarter we had a trade of about 54% and this quarter we are hopeful that we will do 56% plus in case of trade. So, every quarter we are going to inch and make some progress. Besides the housing project as I was mentioning earlier which is one of the big growth drivers currently, there a lot of buyings are also by the individuals who buy from the dealers. And therefore, they are into the trade segment. It is only when they are in the organized builder or agency who is constructive for them then it comes into the non-trade. So, I think it is not to believe that the trade segment is not growing at all. But the major growth here comes from the non-trade, but then we will have to look at only those non-trade which gives us a good pricing.

Gunjan Prithyani: And second question is on the supply that you are seeing in the north market, is there a lot that you see in the next two to three years and besides the new supply also there will be impending ramp ups from the Binani assets that you see. So, how do you see the supply panning out in the market for the next two, three years?

Management: With about even conservative 7% or 8% growth in this market where we operate is about close to 80 million tons. 8% would mean almost 6-million ton additional growth. And we are not seeing that sort of a capacity adding into the system. You are right, eventually once the Binani gets taken over and the profession gets stabilized, currently we are doing about 2.5 lakh tons a month and later on they will be in a position to do 5.5 lakh tons a month. So that is only 3 lakh tons per month which would mean only about 3 million tons in a year. So we are not seeing a great oversupply situation as far as north is concerned. In fact, if anything, the demand supply situation would become favorable in the coming years.

Moderator: Thank you. Our next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: Sir, can you help me understand what was the profitability difference between trade / non-trade, ballpark, this quarter?

Management: See, normally it varies from state to state, so it is very difficult to consolidate. But on an average if I take the net sales realization there is a difference of about Rs. 400 a ton in the trade / non-trade prices.

Moderator: We seem to have lost his line, so we will move to our next question, which is from the line of Abhishek Poddar from Kotak Securities. Please go ahead.

Abhishek Poddar: Sir, sorry to take you back on that trade issue. I just wanted to understand on the trade side how is the demand situation there, what was the growth on a YoY basis for trade sales? And also, in which states you are seeing good growth and which states are not doing well?

Management: See, we do not get the figures for everybody in trade / non-trade, so it is difficult to answer that question. The overall demand growth we have seen is about 8% in overall market and there we have seen good growth coming from Rajasthan, Haryana, some parts of UP, but not so much from like of Gujarat or Punjab or Delhi. East last quarter was in fact lower growth than what was witnessed earlier, still they would have done about 67% growth in the market. And again in the east when I say, I am not able to generalize the entire east, because our market spread in east is confined to basically the western Orissa and majorly Chhattisgarh.

Abhishek Poddar: So, in east what kind of volume growth would have happened for the market as a whole?

Management: As I said, to our mind, Chhattisgarh did not require any growth in this particular quarter. Coastal Orissa, Orissa overall recorded a 5% to 6%, Bihar and Jharkhand recorded a good growth, good growth means there would be clearly there is 8% to 10%, but West Bengal was subdued. So, overall, this quarter we did not witness a good growth. While in the earlier quarters they were witnessing a double-digit growth.

Abhishek Poddar: Sir, any specific reason you would attribute this to?

Management: I would not fathom much because the demand in these states is largely driven by the government spending and maybe it will usually get lost by the time money gets released into the system. So that could be one reason I think.

Abhishek Poddar: Second question was regarding the Udaipur Cement Works, what is the stage of ramp up there? And how do we see FY19 and FY20 for that particular unit?

Management: This year in the fourth quarter we have been able to achieve 80% capacity utilization and we hopefully should have that consistently happening over the entire fourth quarter in the coming years. So, overall, for the year it would be around 60% but whole quarter last quarter was about 80%. So, that is how we expect that to happen.

Abhishek Poddar: And sir should it go back to that 80% - 85% next year in FY20?

Management: It will be 80% in this year itself.

Management: When it was talking about 60% he was talking about the calendar year.

Abhishek Poddar: Okay. And last question, if you could give us the detail of pet coke consumption, what was the percentage?

Management: 81% was pet coke, 13% was coal and others was 6%.

Moderator: Thank you. Our next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: So, I was just wanting to know on an EBITDA per ton level was the non-trade sale that we gave up, were those negative EBITDA per ton?

Management: What we left out was the negative. And obviously whatever we did was… or at least a positive contribution.

Swagato Ghosh: And the strategy that you kind of adapted in this quarter, in the last quarter, do you see other companies also showing similar restraint and hence this non-trade gap probably narrowing, do you see that scenario playing out or do you see other players nevertheless pushing incremental volumes in to the non-trade segment?

Management: I think every player has their own strategy, I do not think any segment was left probably, somebody would have filled the gap.

Swagato Ghosh: But from your understanding are those smaller players who are filling this gap or even the larger ones just opportunistically pushing volumes even at a very low profitability?

Management: Yes, some of the even larger players did that.

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

Antariksha Banerjee: Sir, firstly, I just wanted to ask the comment you made about the non-trade prices being abysmally low. So, what would be an average difference between the trade and non-trade prices on a per bag basis?

Management: See, it was varying from market to market, but I think Rajasthan saw the highest gap of over Rs. 50 – Rs. 55, up to Rs. 60 a bag. Some of the markets were about normally Rs. 25 to Rs. 30 is the usual…

0:20:36.3-22.05 (Audio Disconnect)

Management: What I was telling you that the normal price gap is about Rs. 25 – Rs. 30 a bag. And in some of the markets in this period we have seen the gap widening to even Rs. 50 – Rs. 55.

Swagato Ghosh: But on an NSR basis you said the gap is only Rs. 400 per ton.

Management: As I was mentioning to you, in the case of trade you are giving certain discount, etc., while in the case of non-trade it is a direct price. The net price difference is about Rs. 25 a bag, depends on market to market these gaps are different.

Swagato Ghosh: And since you adopted the strategy of rationalizing volumes and going for trade, did your lead distance improve in this quarter?

Management: Yes, I think I also answered that in one of the earlier questions. In the preamble itself that we have reduced our lead by 20 – 25 kilometers.

Swagato Ghosh: So the entire increase in freight cost is based on fuel price hikes?

Management: No, I think you missed out on the initial. I said that our clinker sale is mostly on FOR basis which earlier used to be ex-works basis. And the result for obvious reason they are able to get a higher credit of freight as well on the GST.

Swagato Ghosh: And the other is regarding the Orissa grinding unit, can you just explain at what stage of progress it is currently and what other capacities are coming in at the time or maybe shortly after your commissioning of the Orissa grinding unit?

Management: Orissa grinding unit we see ourselves commissioning in the fourth quarter of FY19. And that would cost us about Rs. 150 crores. As of now we have incurred about Rs. 80 crores on that, we have not availed any loan, maybe during the next two, three quarters we will avail some loan. So that will take our capacity from 12.5 million including the subsidiary to over 13 million.

Swagato Ghosh: And do you see any other players commissioning capacity in that region in the same time frame, in the next one or two years?

Management: Yes, same time frame Shri is also likely to commission their grinding unit there.

Swagato Ghosh: Are the prices supportive in Orissa currently? I mean, compared to non-trade prices of north obviously I understand it will be better, but in general in profitability terms once you ramp up you think you will be able to match north EBITDA per ton over there, from the grinding unit perspective I am saying?

Management: Yes, normally the coastal Orissa which this grinding unit will mainly cater to, because the Western Orissa would still remain a little bit amenable from the mother plant. The coastal Orissa which we are not gong presently and which has a higher price point normally should support the reasoning for having this grinding unit there

Swagato Ghosh: And on an overall basis, since you are obviously focusing now more on trade, so are you spending something on brand building or advertisement which you were not doing earlier, and increased higher allocation maybe?

Management: Yes, we were doing earlier also, it is not that we are still selling about close to 50% of our volume in trade. So, obviously we have built up brand over a period of time. And of course, we will keep on sustaining it, whatever activities we are doing.

Moderator: Thank you. Our next question is from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Sir, I had two questions. First one was on the demand, something that I have been trying to understand is like you mentioned we have had 8% demand growth this quarter and it has been good for the last few months. But we are coming off a weak base of demonetization, etc., last year, so do you think that this demand growth sustains early next year or beyond elections, because right now I am assuming government is also heavily spending on infra and housing. How should we think about demand growth for six months, beyond the next six months?

Management: Most of the projects that have been started are long-term. The highway and the freight corridors I am sure, irrespective of the elections these figures are quite well committed. So, I do not really have a doubt that there is a chance of their discontinuing. But yes, there are lot of demand which accrues when the overall economic situation is good. And that is why I took quite some time for the demand to really pickup. But now having picked up I personally feel that instead of 10% or 12% what people are talking, at least 7% to 8% growth should be feasible in the coming two years at least.

Madhav Marda: Sir, the other question was, on the CAPEX side how much are we expecting to spend in 2019 and 2020, given the other efficiency CAPEX that we are doing?

Management: Right now what is remnant is only the Orissa grinding unit and the thermal power plant. So, we do not have much CAPEX lined up in the current or next year, only we would be doing about Rs. 100 crores each year.

Madhav Marda: And given that our plants are now running at about 80% plus utilization, clinker I think is almost near the peak. And in the last call you had mentioned we have about 7 million tons of brownfield scope as well. So, when do you envisage that coming on stream?

Management: 7 million we will not take up immediately, but we will evaluate demand and supply position in different regions and then take it one by one. But not earlier than at least 18 months we would like to consolidate at the existing levels and then take a call thereafter.

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

Ritesh Shah: Sir, my first question is on composite cement, in the prior call you had indicated that we had launched it and we are doing some volumes. Can you please provide some color on the pricing and the volumes that we are clocking right now?

Management: Our new products are getting gradually accepted and consolidated in the market. So, right now, the figures for the quarter would be, because we started only last quarter, I think the figures currently, it may not be prudent to give those figures and they are not very substantial also. But I think going forward their percentage would definitely increase in the overall mix.

Ritesh Shah: Sir, can you help me with what is the OPC, PSC, PPC mix for us for north and east separately, if it is possible?

Management: 65% is PPC and remaining 35% is divided in OPC and the composite.

Ritesh Shah: Sir, would you like to highlight specific cost mitigation measures that we are taking, even power and fuel costs are also moving up and freight cost is also moving up. So what we hear is on the axel load do you see this as one of the variables which will reduce our costs going forward or anything specific? So we are already having the benefit of WHR, incrementally how should one look at this?

Management: Going forward we certainly are saving on logistic cost for sure, what exactly would be the full impact would only be known once the axel load notification is out. We do not even know currently to what age of the vehicle this axel load would get implemented. And then we will have to take roll call on the trucks which are plied by different transporters and then we will be able to tell you the exact impact. But certainly, as a starter, we have already reduced our road freight cost by about 3% to 5% in different markets. And once this notification comes we will get more clear visibility on the exact template. But having said that, we are going to be **(Inaudible) 32.02** lead for sure because we are increase our trade sell and cutting down on the non-trade. So that will be the second factor. Third, of course is the cost of power at the Durg where besides the waste heat recovery which has already been commissioned, we are also setting up a thermal power plant as you know, and that should get commissioned by the end of third quarter or beginning of fourth quarter. So, I think that will also bring us some saving as far as Durg is concerned.

Ritesh Shah: Sir last question, earlier you had indicated that we were moving material to the Vizag region wherein the pricing was higher. So, are we still continuing with that trend?

Management: Yes, I think we are doing that, but the volumes are not very substantial, besides the prices there also have taken a bit of a hit so we have not been able to move much. But yes, we are moving certain quantity there.

Moderator: Thank you. Our next question is from the line of Kamlesh Jain from Prabhudas Liladher. Please go ahead.

Kamlesh Jain: Sir, just one question on the part of this Durg waste heat recovery, how much was the generation and how much savings we got from that particular commissioning?

Management: The savings, this is about 7-megawatt power plant and we have a saving of about Rs. 100 per ton there for that volume.

Kamlesh Jain: Sir, but how much was PLF in that particular unit in this quarter?

Management: Sorry?

Kamlesh Jain: What was the generation, like how much we were able to utilize that?

Management: I do not have that figure right now, I will give you offline.

Kamlesh Jain: And secondly on the Udaipur Cement Works, even in this quarter based on the reported numbers we reported a loss of roughly around Rs. 8 crores odd and even if we assume 80% utilization it is doing roughly around Rs. 60 EBITDA loss per ton. So, I believe 80% is a reasonable level to reach, at least EBITDA breakeven should have been done. So, how are the earnings going to pan out in the unit going forward?

Management: We see improvement in the utilization, utilization have been low so that should also improve going forward. We are also going to reduce once the waste heat recovery gets fully stabilized and the capacity utilization and the claim picks up. So this will help us to reduce cost and will help us to improve EBITDA going forward. So this was in fact not a negative EBITDA, there was about Rs. 200 they made this EBITDA in this quarter also.

Kamlesh Jain: Because I was just looking at the numbers which were reported by the company.

Management: Same numbers I am also talking about.

Kamlesh Jain: And lastly on the part of this Orissa grinding unit, so it has refined 6 million tons, but even if given the numbers the way the prices are there in that particular market, would we be able to have sufficient margins given the fact that it would be one of the smallest unit in the entire region after Shiva Cement and there would not be any significant cost of savings, scale benefit at that particular unit. So, is it more an investment just to save that particular land area or the land which we had caught, or it is more of a strategic investment? Because the way the investment is going to be made it is very insignificant given the fact that the way the capacities are coming up in that particular market.

Management: We always have the option to increase the capacity, we have the land there. I think what we are trying to first do is taste the water, that is a new market for us, we are not going much into the Coastal Orissa. And as I said earlier, the coastal prices of Orissa are higher than the ones where we operate in. And it will certainly reduce our freight cost. As it is totally a PPC market or a slack market, so we have to only transport 35% - 40% of clinker. The rest will be sourced locally from there. So, I think to that extent the savings that we will accrue out of the freight, the higher prices that are expected in coastal Orissa that should be sufficient to allay that fear of revenue not becoming very profitable.

Kamlesh Jain: And lastly, how much was the EBITDA per ton which we used to share on the Raigarh unit, how much we had made EBITDA per ton there? So has it improved significantly vis-à-vis last year or QonQ?

Management: We do not now give any separate EBITDA for east or west.

Kamlesh Jain: And lastly, what is the reason for fall in interest costs year-over-year as well as quarter-on-quarter?

Management: Two reasons, one, our borrowings had peaked up, so we are now in the process of deleveraging. You would have seen our debt equity having come down from 1.57 last year to 1.39 this year on a gross debt basis. And on a net debt basis down from 1.2 to 1.08. And secondly, per se, we have been able to negotiate better rates with the banks. And today whatever term loans are there all are first to be tied and almost all are at around close to their MCLRs or marginal spread. So, our effective cost is around 8.7% which is one of the lowest in the industry. So that is the reason as to why it has been coming down. Going forward we may not see that happening, for the simple reasons interest rates have continuously been increased in the last two Reserve Bank policies, so that will have a cascading effect on us because all our loans, barring some NCDs which have been issued, are on a floating rate basis with the banks. And secondly, we would also be borrowing for this Orissa grinding and the thermal power plant which we had not done so far. So, it may not remain at that level, but it has bottomed out, it should now go up now. But whatever repayment happens that will have the impact of the reduction.

Kamlesh Jain: So, how much is the net debt now at the end of Q1?

Management: We have a total gross debt including working capital was Rs. 2,000 crores as of March which has come down by Rs. 50 crores in June quarter. And that is gross, about Rs. 450 crores of cash is in the balance sheet, so net of that is around Rs. 1,550 crores to Rs. 1,600 crores.

Moderator: Thank you. Our next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain: Sir, just firstly, I missed the volume numbers, can you please repeat that, volume sold for east and north and clinker volume?

Management: East and north we do not give separately now, it is total volume for the company which was 22.87 for the company as a whole for the quarter which included 2.84 for the clinker.

Ashish Jain: But sir can you at least indicate have grown both in north and east?

Management: Yes, we have grown at both the places.

Ashish Jain: Sir, secondly, if I look at the per ton fuel cost, the power cost, it has actually come down on a sequential basis in-spite of the pet coke prices going up. What is driving that?

Management: Sequentially I do not see it has come down.

Management: I do not think it has come down.

Ashish Jain: Sir, maybe I can take that offline. Sir, can you just share the clinker production number for March quarter?

Management: It was 15.57.

Moderator: Thank you. Our next question is from the line of Gautami Desai from Chanakya Capital Services. Please go ahead.

Gautami Desai: Sir, I have done just a comparison for some simple calculation, like for power if I, I mean I want to find out the cost of per ton fuel which could be pet coke, coal, whatever. I did that mathematical equation and the power cost which I am getting, and when I worked backwards the cost per ton I am getting for JK Cement is much higher than some other companies, like for you I am getting some Rs. 8,500 per ton. Similarly, I tried to work out price per bag, I just divided your sales with your number of bags, so there again I am getting the lowest the lowest for JK Cement in your grey cement. So, there also my question is, once you get your trade / non-trade right will you be at par with some of the larger companies in your area?

Management: I do not know what number you are dividing, because until and unless you take the mix of different states on what basis are you dividing I am not able to get that.

Gautami Desai: Sir, I am taking the company level only.

Management: Then obviously the freight would vary from state to state.

Gautami Desai: Sir, I am doing with freight, I am just doing sales divided by your volume.

Management: Yes, but every company you will have to take separately trade and non-trade. The price of the bag you are taking the trade price or the non-trade price? Then in case of non-trade price it will be FOR while in case of trade it will be ex-works. So, I do not know how, we can discuss offline how you have done the calculation. Similarly, for coal you do not have to work backwards to arrive at the cost of Rs. 8,500, the cost of coal as Mr. Bidkar had informed you in this quarter came to about Rs. 8,000 a ton. It is not only the pet coke, there is a bio mass also, there will be a coal also and there is pet coke.

Moderator: Thank you. Our next question is from the line of Naveen Sahadeo from Edelweiss. Please go ahead.

Naveen Sahadeo: Sir, my question was about your Udaipur cement facility, I think Mr. Bidkar did mention that for the June ending quarter the utilization for this plant was at about 80%, is that correct?

Management: Yes.

Naveen Sahadeo: But did you say that for this calendar year you are looking at about 60% kind of utilization?

Management: That is what we mentioned. Last year in the first three quarters of the first year of operation from April 2017 to December 2017 it was around 60%, that is what we mentioned. Going forward it will be at the present level of capacity utilization, if anything, should improve only.

Naveen Sahadeo: Fair. And as you rightly pointed, the EBITDA per ton is more like Rs. 200 per ton in the quarter. But my question was that since it is like a subsidiary, is it not possible to sell this cement under our own premium brand name, since we are focusing on trade and I think there is a marked difference between the realization that this entity gets versus what JK Lakshmi gets, is it possible then to sell this material under the premium brands that we sell in the trade category, because utilization are fairly good here, there is no real volume push that is required, that can really help improve the EBITDA per ton for this entity. Is that a correct way to look at it or there are challenges there?

Management: Irrespective of the brand that we are using, the realization of Udaipur is no way less than that of Lakshmi Cement. What only varies is the percentage of trade and non-trade. Since in this particular brand we started supplying Gujarat only in this quarter, so initially the non-trade was higher, now we are bringing down to the same par as Lakshmi. So, you will not find any difference in the realization in the two entities.

Naveen Sahadeo: So, once this waste heat recovery plant stabilizes and as you said the issue of non-trade hire in Gujarat stabilizes too, should we expect profitability…

Management: Non-trade in Gujarat does not give you a negative EBITDA which the north is giving, that is still positive. There I think we will have some challenges of cost etc., that we are attacking, and we are very hopeful that there too things will get streamlined soon.

Naveen Sahadeo: Yes, because I think from a cost perspective initially there was a plan to move the power plant from Sirohi some capacity or supply power from there, but you said last quarter that there are challenges there with pet coke cost going up or not being allowed in power plants any more, that is no longer an option. So how do you see cost coming down for this unit?

Management: Majorly would come through the improvement in the efficiencies. Number two, waste heat recovery plant would get totally stabilized, that would contribute. And of course, there we have a lesser lead to operate in, because the produce from Udaipur is basically being supplied in Gujarat only.

Naveen Sahadeo: Lastly, just to confirm, you are saying Champion is the brand of this particular cement here?

Management: No, it is Platinum.

Naveen Sahadeo: So, Platinum brand and our trade price you are saying the realizations are same for these both the brands?

Management: Yes.

Moderator: Thank you. Our next question is from the line of Milind Raginwar from Nirmal Bang. Please go ahead.

Milind Raginwar: In the numbers what we see is the traded goods purchase has come down very sharply, any specific reason for this?

Management: You see the traded goods is basically wherever we are giving clinker and converting into cement. That quantity has come down. As I mentioned to you earlier that clinker movement has been a bit of a challenge, as a result the traded good also has come down. Secondly, when the whole Udaipur started their clinkerization unit we used to grind, we used to sell clinker to them and buy cement from them, so even that quantity has come down. So, you see a drop in the volume QonQ in the traded goods.

Milind Raginwar: So, is Udaipur a significant factor or is it the other units where we could not move the clinker?

Management: Udaipur is a factor, but then there are other units also where we have brought down. The other unit was in the north where the prices have been rather low, so we have purposely also reduced our traded goods and those areas where the realization has not been good.

Milind Raginwar: Staying on cost, if I am not adjusting the inventory, our pure raw material cost on a per ton basis is showing a 9% to 10% inflation year-on-year. So, any specific reason for that that we are looking at?

Management: You have to adjust for inventory also, first and foremost. And then the normal increase is the increase which is emanating because of the increase in commodity price and the diesel cost for the movement of these raw material from the source to the plant.

Milind Raginwar: And third question is regarding, sir indicating that Punjab and Delhi markets were relatively non-remunerative, so is it because they are not offsetting our logistic cost to the grinder unit or is it that the market themselves are not price remunerative?

Management: That is why I mentioned that demand has not been keeping pace with the other states. And there I mentioned likes of Punjab and Delhi and Gujarat where the demand has not been as good. The other is that in the north because of our higher lead and the prices remaining low obviously they become less remunerative for us. Not to say that all the markets there are unremunerative or that we are exiting, what we are only saying is that there too we have selected the markets where need to operate in.

Moderator: Thank you. Our next question is from the line of Harsh Jhawar from Elara Capital. Please go ahead.

Harsh Jhawar: I just wanted to know about the status of conveyer belt in our Chhattisgarh plant?

Management: Conveyor belt is one project where we have taken more time than what we had initially thought off. The reason as we continue to talk on each conference call is the small piece of intervening land which is there where some government approval is required. It is a BSP land, that is taking time. Unfortunately, we are not able to put a timeline to that. So, that is getting delayed, it continues to remain the same status as it was there last quarter.

Moderator: Thank you. Our next question is from the line of Manish Raj from Dolat Capital. Please go ahead.

Manish Raj: Sir, I just wanted to understand, you suggested realization is at par with JK Lakshmi realization but our channel check in the Gujarat market suggests dealers are positioning Platinum as a low category brand. Are you doing something to counter that dealer perception?

Management: Yes, number one, we are there in very small market as yet, so the markets where we are not present I would not blame them for treating a low placed brand. But the prices that we are keeping are at par with Lakshmi, so there is no reason, once we are able to spread our wings there and go to more markets then I think it would get clear there.

Moderator: Thank you. Due to time constraints we will take last two questions. Our next question is from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.

Murtuza Arsiwala: My questions on the trade versus non-trade that you highlighted previously, our math suggests a blended EBITDA of roughly bout R. 410 per ton which incidentally is around the differential that you said is between trade and non-trade. Does that mean that we are not making any EBITDA on the non-trade even in the current numbers the 46% sales which is happening? And if that is the case and given that JK Lakshmi is a fairly efficient sort of cost producer, would that mean that maybe monsoon or at least post monsoon you could see a strong revival in prices even for the non-trade segment?

Management: You asked two questions, one, in terms of the consolidated market the EBITDA of non-trade is not that all is negative What we are saying that we exited from those markets where the EBITDA was negative.

Murtuza Arsiwala: Right. But if I were to look at the numbers of this quarter, I know you do not break the numbers down, but if you were to tell me what is the profitability, EBITDA per ton that you are making on trade then the EBITDA per on non-trade, what would that number look like for the reported numbers?

Management: See, on a consolidated basis if you take for instance Gujarat where the prices are relatively higher, there EBITDA of the non-trade would be as good as the trade EBITDA of some of the other markets. So, it is not that we are operating the entire non-trade is negative EBITDA, no. If I have given that impression, it is incorrect.

Murtuza Arsiwala: What I am trying to understand is, you said that there are certain markets where you are actually not making an EBITDA, so is it that there would be some which are not making EBITDA and you are happier just staying out of that market or that segment? But even the others, is it fair to assume that the EBITDA per ton in non-trade is fairly low and that could prompt an upward revision in the quarters to come?

Management: Yes, it would certainly, because I do not expect the prices of the non-trade also to remain at that level for the whole year.

Murtuza Arsiwala: Because what holds true for you would possibly hold true for most players in that segment, no one would be making money on the non-trade in those markets?

Management: Depending on what your lead is from that particular market.

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

Pratik Kumar: Sir, just wanted to check on the proportion of your JK Pro premium product sales and your overall sales mix now versus let's say in FY18?

Management: For the trade it would be about 20% plus, but if I were to take the consolidated, about 12% to 13% of the overall.

Pratik Kumar: So, is that proportion going up with higher…

Management: It is improving every quarter.

Pratik Kumar: So, similar number like 12% to 13% what would be like in FY17?

Management: FY17 figure I do not have ready, I can give you offline.

Moderator: Thank you very much. Ladies & gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.

Vaibhav Agarwal: Thank you. On behalf of PhillipCapital, I will like to thank the management of JK Lakshmi Cement for the call. And also many thanks to the participants for joining the call. Margreth, you may now conclude the call. Thank you very much, sir.

Moderator: Thank you very much. On behalf of PhillipCapital (India) Private Limited, that concludes the conference call. Thank you for joining us. And you may now disconnect your lines.