



“JK Lakshmi Cement Limited Q3 FY19 Conference Call”

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Moderator: Good day, Ladies and Gentlemen. And Welcome to the Q3 FY19 Conference Call of JK Lakshmi Cement Limited, hosted by PhillipCapital (India) Private Limited. As a remainder, 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, Margret. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q3 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 will hand over the floor to the management of the JK Lakshmi Cement for their opening remarks, which will be followed by interactive Q&A. Thank you and over to you, Sir.

Management: Good afternoon and thank you for joining on our concall. I think without wasting any further time the results have already been seen by everyone I am sure, so we can take questions.

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

Rajesh Ravi: Sir would you please first share the cement and clinker production and cement and clinker sales number for this quarter please also their RMC revenue?

Management: The clinker production for the quarter was 15.64 and cement production was 20.24 lakh tons and sales was total sales cement is 21 lakh tons and 2.05 is our clinker sales is 23.5 and coming to the RMC revenue it was about 41 crores.

Rajesh Ravi: How did the East do this quarter in terms of utilization and all?

Management: It was fairly good.

Rajesh Ravi: In terms of conveyor belt which was pending in the East what is the status on that sir?

Management: That continues to be pending because that land acquisition of that half kilometer of land is taking time. So in land issue and some government approvals are required so that is the reason as to why it is taking time it has got inordinately delete. So right now, we are moving and using the road for moving the limestone from the mines to the factory.

Rajesh Ravi: And if you could throw some light on the other expenses this quarter there is a sharp increase if I see on a Q-on-Q basis and given on a YoY basis?

Management: Basically yes you are right your observation is right other expenses have gone up primarily for two reasons. One there has been some consultancy charges which have been provided in this

quarter which would be there again the next quarter about 6, 7 crores of that and rest is on account of the shutdown expenses which you have taken for one of our claims.

Rajesh Ravi: So is it like September quarter generally most of the shutdown happen in September quarter, so this time you said this happened?

Management: It was one-off we took it in this quarter.

Rajesh Ravi: So other than that, it should normalize in March quarter?

Management: March quarter as far as the kiln shutdown expenses are concerned that should get normalize, but some consultancy would still be there in the fourth quarter.

Rajesh Ravi: And lastly like volume growth guidance for next year what would that be and where do you see the growth coming from?

Management: We expect a healthy growth because we do not visualize any market growth to get subdued because the growth which is coming is mainly from the infrastructure segment and which are of a long term in nature. So I think those are likely to continue and therefore we do not expect any slowdown in our volume in the next year we expect a healthy growth.

Rajesh Ravi: Healthy growth that is what you are expecting. No, I was asking from the point of view that our kiln utilization would be on the higher side 95% to 100% so volume growth will be driven from what Udaipur cement volume should be added up into growth number how we should see in that?

Management: It will come from two, three sources one is that our Udaipur clinker availability will be full. In JK we were in any case using (+90%) clinker that will get further increased. Durg 100% utilization will come from there also means they are also changing gradually and there may be some OPC and PPC that should help us and another source from where we will get this help in volume that we were earlier selling every year about 5 lakh to 6 lakh ton of clinker that we can convert into cement and selling. So these are the various means which you will all contribute towards giving us a healthy growth in cement next year.

Moderator: The next question is from the line of Jiten Parmar from Aurum Capital. Please go ahead.

Jiten Parmar: I wanted to find out what is the EBITDA per ton number for this quarter and the previous quarter I think it is around 440 if I am right on this and this has not changed much from Q2 that is why some input cost coming down, can we expect some reason to it that is my first question. Second is basically power plant has started in those so when do we see the effect of that?

Management: As far as your first question is concerned regarding EBITDA per ton we have talked of 400 yes you are right because of the other expenses going up and some saving in that power and fuel has helped us. As regards your other question regarding our power plant in Durg that should get

commission in this quarter and we should see the benefit of that flowing in the first quarter of FY20.

Management: I would like to clarify that the full benefit of cost softening pricing softening of coal, etc., has not yet fully been captured in this quarter which will be done in the coming quarter possibly.

Jiten Parmar: What is the price situation any increased it has been increased in our market I heard to that morning that there will be some softening of prices is that true?

Management: The prices have more or less been at previous quarter level and gradually when the demand-supply situation eases then only some change might take place currently the prices are almost at the same level as the previous quarter.

Jiten Parmar: So it is a bit surprising because capacity utilization across 80% but we are not seeing any price increase is a bit something would you be able to assert any reason for this I mean in the past cycle we have seen whenever this situation happens prices have risen, why is that not happen this time?

Management: I think the overhang of supplies continues. Though the gap has reduced but I think the overall in the country as you would be knowing that it is almost 30%, 35% surplus towards the capacities extra over the demand. So I think that bridge is taking place time and so long that demand supply situation remain in that zone is difficult to increase the price.

Moderator: The next question is from the line of Kshitij Bansal from Albatros Capital. Please go ahead.

Kshitij Bansal: Sir if you can please shed some light on the trends of the realization that you have seen in the last quarter and this time and also if you could give us some guidance on the same going ahead.

Management: As I was mentioning have remained more or less fairly static not too volatile the only change that we have seen is that some nontrade prices which had gone down to very low level have got some correction done, but in the open market the trade prices have more or less remained where they were. I have already answered about the way forward in response to the previous question that the over above supply continues, but as you go forward and we are noticing that the we are noticing a good demand growth and the capacity not increasing to that extent therefore I think one would expect a demand supply situation to be more favorable in the coming quarter and then pricing power with the industry comes back and hopefully then at least the cost which have grown up we should be able to compensate to some extent towards those cost.

Kshitij Bansal: Actually my apology I missed that because I kind of lost your voice for a little while so you must have answered it that time and sir also from a trade mix perspective between trade and nontrade if you can please shed some light on the current quarter and how the mix you believe is going to stay in the coming quarter?

- Management:** See we have been constantly making efforts to reduce our nontrade component and we have been fairly successful there. So barring Gujarat we are mainly in the trade almost we are today operating at about 70% of our supply are in trade and 30% is nontrade and we do not expect to change this mix in the near future.
- Moderator:** We will move to our next question which is from the line of Sajjan Didwania from Frontline Capital Services. Please go ahead.
- Sajjan Didwania:** Can I get the gap details as on 31st December 18?
- Management:** Yes basically our total debt was about 1900 crores JKLC basis and about 400 crores of cash so net debt is 1500 crores.
- Sajjan Didwania:** And including this JK Udaipur?
- Management:** Udaipur is separate which is about 560.
- Sajjan Didwania:** Earlier as on 31st March 2018 it was 2597 gross debt?
- Management:** Yes about 100 crores lower now.
- Moderator:** The next question is from the line of Manish Somani from Frog Investment. Please go ahead.
- Manish Somani:** I have two question my first question is that there is one line item reported purchase of stock in trade so what is the nature of this purchase of stock in trade, is this a cement purchase or clinker purchase?
- Management:** Primarily it is clinker purchase some cement also. We are converting selling clinker and buying cement so that is what it is both.
- Manish Somani:** And what is the lead distance North and East separately?
- Management:** We have been able to curtail our lead by another about 14 kilometer in this quarter.
- Manish Somani:** So what is the total lead distance of North?
- Management:** North is about 460 odd kilometer I will give you the exact number during the course.
- Moderator:** The next question is from the line of Milind Raginwar from Nirmal Bang Securities. Please go ahead.
- Milind Raginwar:** Just before some line items our raw material cost per ton for the quarter is on a slightly higher side so is it related to higher clinker production or how should we read this?

- Management:** Basically, we are buying clinker so that is the reason as to why raw material cost is higher which has not been the trend in the past.
- Milind Raginwar:** No, I am not including the purchases here I am just looking at the raw material cost per se inventory adjusted?
- Management:** That is including that raw material cost whatever we have reflected in the results includes the purchase clinker.
- Milind Raginwar:** Okay so you are indicating the clinker purchases were higher?
- Management:** Yes.
- Milind Raginwar:** Is this specifically for this quarter or is it like they have been doing this for some time?
- Management:** Yes, specifically for this quarter.
- Milind Raginwar:** That is because of the kiln being shutdown?
- Management:** Yes.
- Milind Raginwar:** Is that the right way to look at it?
- Management:** Yes.
- Milind Raginwar:** The next thing that I wanted to know is regarding you indicated that debt at about 1900 crores so what would be the debt repayment for FY20 according to the schedule?
- Management:** Would be about 200 crores. We are repaying about 200 crores in this every year in JK Lakshmi, Udaipur there is no repayment. It is getting replaced whatever our dues so 200 crores we should see our debt levels coming down every year over the next two, three years.
- Milind Raginwar:** And third question is regarding the market sir especially in the western market post the incremental capacity utilization that we are seeing from Binani after it has changed hands are we having witness any pricing pressure or the competition becoming severe in the Central Gujarat or the South Gujarat market?
- Management:** No we have not yet witnessed any very serious aggression or enhancement in the competition because earlier Binani was also selling not very different quantity. So I do not think there is any reason to be worried on that score because even on a 8%, 9% growth of market the capacity which is now is less than that. So there is not really much of a fear on that account.
- Milind Raginwar:** And volume of including the clinker of about 2.35 what would be our Durg facility contributing?
- Management:** We do not share that region wise details.

Milind Raginwar: And lastly sir within the freight cost on a per ton basis which is showing a decline if I have done my calculations how much of this will be because of the incremental axle loads that are I mean how much of that is getting reflected here?

Management: No, it is mainly coming from the lead reduction average compared to the corresponding quarter last year we have reduced by about 31 kilometers in the North West while there is some increase about 15 kilometers in the Durg. So overall we have been able to reduce by about 15 to 16 kilometer lead as a company and that saving get reflected in the reduced freight cost.

Milind Raginwar: So are we to read that the axle load benefits are yet to be reflected and that can reflected?

Management: The axle load reduction has already taken place partly the Q2 and only very small actually the gain has come because if petroleum prices also have compensated for that sort of axle reduction load which would have reduced the freight.

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

Ritesh Shah: Sir first I wanted to get this number right if I heard it right are you indicated 1900 crores of debt and 400 crores of cash was standalone and UCW it was 560 crores of debt is that correct?

Management: Right you are right.

Ritesh Shah: And sir the debt repayment schedule is at 200 crores per year correct?

Management: Right.

Ritesh Shah: Sir how should one look at the CAPEX for FY20 and FY21 and if you can please split at project wise specifically how much we have already incurred for power plans in Jio?

Management: Basically, whatever we have incurred as far as current year is concerned we have already done a CAPEX of about 160 crores which includes normal CAPEX of about 25 crores Durg the Orissa we have done about 50 crores and 80 crores in thermal plants. So going forward in this last quarter of the current financial year we would do another 70 crores so 220 odd we will end up the year. Next year we do not have project on hand other than only the normal CAPEX normative maintenance CAPEX would be there throughout 30, 40 crores next year FY20.

Ritesh Shah: Sir, we are not looking at any incremental expansions we had a railways siding which was earlier planned I think that was the only project which actually has in mode rest of the stuff has been taken care of, so how should one look at this?

Management: Railway siding will do when we do the next expansion at Durg right now we are moving entirely by the road only and as we have commented in our earlier con-calls that we would like to pause for a year to consolidate the deleveraging of the balance sheet bring down the debt and then

embark on the fresh expansion. So FY20 maybe the year of consolidation and FY21 is the year when we take a call on the expansion.

Ritesh Shah: Sir do we have any specific balance sheet ratios in mind before we go ahead with the debottlenecking projects at Durg or any other growth project?

Management: Generally, we would like to love to see the debt to be closer to 1:1 before we embark on fresh expansion and is on gross debt basis.

Ritesh Shah: And sir I just wanted to understand do we have incentive recorded in this quarter?

Management: No we do not have other than some interest fee loan which we keep getting on our Jhajhar units other than that on a P&L basis we do have any incentive.

Moderator: The next question is from the line of Anshuman Atri from Premji Invest. Please go ahead.

Anshuman Atri: My question is regarding the savings which is expected from captive power plant and waste-heat by next quarter how much of the savings overall, we can see and for the next full year?

Management: We should see about Rs. 60 to Rs. 70 of saving coming from the thermal power plant. The waste heat recovery has already working full for the last one year now. So that is given us a saving which is already factored so incremental saving would not be there from waste heat, but from the thermal power Rs. 50 to Rs. 60 saving would be there and first quarter FY20.

Anshuman Atri: That will be for the entire?

Management: For the Durg and some saving through the price softening that is separated, but purely from the thermal power plant would be 50 to 60 only.

Anshuman Atri: And sir how do you see the coal level availability with government increase focus on supplying it to power plants the trade power plant, are you seeing any issues?

Management: We have linkage in the Eastern side so that we are able to meet most of our requirement from there and rest we are importing.

Anshuman Atri: And sir secondly how do you see price in the East region especially Chhattisgarh earlier there was a cap and when it was removed but with the change in government, but do you see the price is becoming more rational then fixed price of 230?

Management: While the cap is not there the price obviously will be determined by the demand supply in Chhattisgarh there is still considerable overhang of supply over the demand that is why it is taking time for the prices to pick up.

- Anshuman Atri:** And in the off late in the north region are we seeing better pricing with the uncertainty around Binani going away so has the nontrade prices also inched up?
- Management:** Yes there has been some correction in the nontrade prices, but the trade prices the market price remained whether they were in Q3 not much change so far.
- Moderator:** The next question is from the line of Jaspreet Singh Arora from Systematic Shares and Stock. Please go ahead.
- Jaspreet Singh Arora:** Just little bit of details on this collaboration that we have done with FarEye what is the kind of expenses in old and what kind of benefits you see from there?
- Management:** FarEye project is still going on where we expect to have some saving in our overall logistic cost. The overall logistic cost reduction has two, three strengths to it one is about the overall lead reduction which is more of a marketing effort to sell at nearer year. The other is putting the GPS charging on the actual distance travel so that projects are underway, and I think from Q4 partly definitely from Q1 of the next year we should see some advantages of that project.
- Jaspreet Singh Arora:** Sir from Q2 of next financial year?
- Management:** I said partly in the current quarter there is a Q4 and fully from Q1.
- Jaspreet Singh Arora:** And it seems like it is largely related to outbound distribution cost related to the cement is that correct or is there something involving the inward raw material cost as well the freight involve there?
- Management:** Eventually it will involve the inward also.
- Jaspreet Singh Arora:** And is there some expense related to this that has been part of the other expense sorry you were talking about some other expense beyond the regular maintenance expense?
- Management:** Mr. Bidkar had talked about some expenses towards the consultants part of that is there.
- Jaspreet Singh Arora:** And so this would continue for maybe two to three more quarters?
- Management:** Yes at least two more quarters.
- Jaspreet Singh Arora:** And the other is related to the regional growth that you had shared last quarter wherein you had spoken about East growing at 11% and in Gujarat growing at 15% and the other market in mid-single digit that was second quarter is third quarter largely the same or any changes at a regional level?

- Management:** Yes, we have seen good traction as far as Rajasthan is concerned and most probably other states have been a single digit growth and in East both Chhattisgarh and Orissa where supplies about a single digit growth, but high single digit growth 7% to 8% growth.
- Jaspreet Singh Arora:** And if Gujarat now coming off from double digit to high single digit?
- Management:** Yes Gujarat also has been a high single digit.
- Jaspreet Singh Arora:** You said prices have been flat, but we believe there was some hikes in the region of East so could you clarify if you were taken any price hikes in the Eastern region?
- Management:** You see there our span is quite small. We are basically operating in Chhattisgarh and some quantity in **(Inaudible) 28.47** there we have not witnessed much of any noticeable price change.
- Jaspreet Singh Arora:** And just lastly on the petcoke sir how are the prices last quarter you mentioned some 8,700 level at company level while 9,300 in Northern region what was the situation in third quarter and in the month of February?
- Management:** It is now 8,500 for the company and we should see that softening in the coming quarter.
- Jaspreet Singh Arora:** Was it similar same 8,500 for the third quarter as well was it higher?
- Management:** We talked about Q3 only.
- Jaspreet Singh Arora:** 8,500 was Q3 and how is it as of today sir?
- Management:** There are some softening there.
- Jaspreet Singh Arora:** We heard that there was some uptake in the last 10 odd days about 5% to 7% have you also witnessed the same?
- Management:** See there is always a time lag between the prices go and down or impact on us because there is some forward booking. So we expect this quarter at least to be lower than the previous quarter.
- Moderator:** The next question is from the line of Sajjan Didwania Frontline Capital Services. Please go ahead.
- Sajjan Didwania:** Sir I just want to know you have said in one question that you had bought some clinker and in previous question you said that you are selling also 5, 6 million ton clinker, so we are buying this clinker only just when our kilns are shut down?
- Management:** Yes mainly and we are not selling 5 million, 6 million in the whole year we are selling about 6 lakh ton of clinker.
- Sajjan Didwania:** And another question sir how we procure this petcoke internationally or locally?

Management: There is a combination of both.

Sajjan Didwania: Another thing sir can I get some update on this JK Udaipur?

Management: What sort of an update you would like?

Sajjan Didwania: About this 9-month working?

Management: There we have seen a good traction in our volume and very soon we should be able to reach 100% capacity utilization there also.

Sajjan Didwania: What type of this bottom line?

Management: You see bottom line because of the not too remunerative prices in the market where they operate, they have been under pressure.

Sajjan Didwania: So is it incurring into loss?

Management: We should see it being cash breakeven in this quarter and there after start making profit in the next year.

Management: In the previous three quarter yes there has been a bit of negative, but now we are seeing sort of a breakeven situation.

Moderator: The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Taking on this follow up on Udaipur what would be the sales volume in Q3 and 9 months?

Management: Sales would be about 3 lakh tons sale was there in the fourth quarter and in the 9 month period we would have done you want sales.

Rajesh Ravi: Yes sales volume in 9 months?

Management: 9 month we would have done about 10.6 lakh.

Rajesh Ravi: Sir out of this Udaipur sales how much is what JK Lakshmi would be reporting in standalone numbers?

Management: I am not sure.

Rajesh Ravi: 9 months also would be helpful just to understand how much of the volume growth?

Management: In any case in consolidation it will get knocked off.

Rajesh Ravi: That is true when we are seeing the standalone number the growth.....



Management: I do not have right now we can take it separately.

Rajesh Ravi: Total volume you said is 13.05 or 50 lakh?

Management: Sorry come again.

Rajesh Ravi: Total sales for the quarter you said 23.5 lakh or 23.05?

Management: 23.05.

Moderator: We will take the last question from the line of Manish Somani from Frog Investment. Please go ahead.

Manish Somani: Sir as explained earlier in purchase of stock is 41 crores as told by you that it is pure cement and clinker which was purchase through.....

Management: Yes, I want to correct there is basically cement only. Purchase of clinker is factored in the raw material.

Manish Somani: So what is the volume of the traded goods including in 21 lakh ton sales?

Management: Basically, it is a cement and some POP which we are doing trading.

Manish Somani: The 21 lakhs ton which we have sold in this quarter whether this is included the traded volume also.

Management: Yes it is total sales.

Manish Somani: So, what is the volume of the traded goods?

Management: It would be 90,000.

Moderator: The next question is from the line of Pratik Maheshwari from Ambit Capital. Please go ahead.

Pratik Maheshwari: Sir I wanted to understand since the trade mix has improved to about 70% how would have our blended cement sales mix would have improved and consequently clinker ratio has improved?

Management: In this quarter we did about 40% of OPC and blended cement of about 60%.

Pratik Maheshwari: And sir if you could share how would blended clinker?

Management: It is 34 and 66.

Pratik Maheshwari: And how was this sir same quarter last year?

Management: 32, 68.

Pratik Maheshwari: Okay so we are at similar level in terms of blended sales compared to last year and sir on the RMC revenue of 441 crores what would be the EBITDA margin there or the absolute EBITDA number?

Management: EBITDA margins for RMC you are talking.

Pratik Maheshwari: Yes, sir I wanted to actually take out cement margins?

Management: Basically, it is very low their margins are not very high around 4% to 5% is there and sorry OPC-PPC you are asking. In the corresponding quarter last year was 39 OPC that 32 was in the preceding quarter.

Pratik Maheshwari: 32% was preceding quarter.

Management: It has gone down from 39 to 44 in one-year time. 32 what we talked of was in the immediate preceding quarter.

Pratik Maheshwari: And sir nontrade in Gujarat will be around in volumes it would be around 50% or it could be higher?

Management: It is almost 60%.

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: 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. Thank you very much, sir.

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.