"JK Lakshmi Cement Limited Q2 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 Q2 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 Q2 FY19 call of JK Lakshmi Cement. On the call we have with us Dr. Shailendra Chouksey – Whole-time Director, and Mr. Sudhir Bidkar – CFO of the company. At this point of time, I will 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: Thank you. Good afternoon ladies and gentlemen. And welcome to Q2 FY19 Concall for JK Lakshmi Results. Broad results you would have already seen, but just to recap quick last through the numbers. In this quarter July-September we had total sales of 21.27 which marked 13% increase over 18.9 what we had in the corresponding quarter of last year. In value terms of our total turnover was 851 about 10% higher than 776. The PBIT was about 106 crores as against 112 crores. This quarter the increase in pet coke and fuel prices impacted the profitability and after considering the interest and depreciation the PBT for the quarter stood at 12.09 as against 18.8 in the corresponding quarter of last year. Overall the operating margins were 11% as against 12% in the last year and 10% in the immediate preceding quarter.

The ongoing two projects which are presently the company in the process of implementing one is the 20-megawatt waste heat recovery project which will get completed by fourth quarter FY19 and so would be the Orissa grinding unit. There have been further improvements in the efficiency as has been mentioned in our press release by almost 5 units and other than that we do not have any major CAPEX we would like to consolidate at the existing level before we take a call on fresh expansion.

At this point, I will throw the floor open for question and answer please.

Moderator: Thank you very much. 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: I have few questions first on the region wise clinker and cement product and the cement and clinker sale and the RMC number that you shared?

Management: We do not share region wise, but broadly total sales was 21.27 which included clinker sale of 2.58.

Rajesh Ravi: RMC revenue for this quarter?

Management: RMC revenue for the quarter stood at about 39 crores.

Rajesh Ravi: And on the cost front employee cost last two quarter has been sequentially going up and freight cost this quarter per ton basis is seen a sharp reduction, so if you could throw some light on these two?

Management: Employee cost is basically the normative increase whatever is happening in the employees. Freight we have been reduce the distance basically and have been able to save their on basically despite the increase in the diesel prices.

Rajesh Ravi: Any saving from the axle load relaxation norm or is yet to flow in Q3 numbers?

Management: Not in this quarter, but we expect some reduction going forward. In the Eastern region we could make some 4 to 5% reduction but rest of the market it was not fully captured.

Rajesh Ravi: And any ex-factory sales is also there which would have gone up on a sequential basis?

Management: No, not much change on FOR sales.

Rajesh Ravi: Last question on your any capacity expansion that you are planning to undertake next few quarters?

Management: We will like to consolidate at the existing levels for a couple of years and deleveraging of balance sheet and then go for the expansion.

Rajesh Ravi: So CAPEX guidance for this two year this year and next year?

Management: This year whatever is remnant of these two grinding unit and thermal power plant that is the only remnant. Next year itself 19-20 we do not have any CAPEX other than the normal CAPEX. In the year 2020 we will take a call midway through the year.

Moderator: Thank you. Our next question is from the line of Pratik Desai from NMV Securities. Please go ahead.

Pratik Desai: I just wanted to ask I have seen realization of JK Lakshmi has improved over years so looking forward like for the next year like financial year 20 are we going to improve the realization further or we are going to like in the same?

Management: We have seen only presently the marginal improvement in the realization though the gross prices of cement have actually reduced in some of the markets, so we could improve the realization little bit by our improvements and we expect improvements to continue the next year, but I think the major change will come only once the price increase. And as I have mentioned in other fora that we are now expecting the prices will increase because I think every manufacturer across the industry has suffered on account of high cost, the cost increases notably increase of power and fuel so it has been our experience that once the cost impact everyone there is some price correction which automatically takes place. So going forward we are banking on the price improvement in the market.

Pratik Desai: I wanted to know like what your debt is going to reduce further going further like I am seeing a positive cash flow like after a span of 7 years, can you throw some light on that?

Management: Basically, our debt we are not contracting any further other than this these two projects which is the thermal power and grinding unit than there will be a moratorium of 1 year before we take a call and expansion 12 months to 18 months. So during this period only the debt will get reduced by almost 200 to 250 crores per year.

Pratik Desai: Sir and last question is related to capacity utilization sir for the year 2018 like if I include your subsidiary Udaipur so your capacity utilization is 62 and if I exclude Udaipur it is 74 so going further like it is going to improve excluding Udaipur?

Management: It is certain is likely to improve at both the places Udaipur last year was the first year of operation this year they should be close to 85 plus so also improvement will happen in our -JK Lakshmi both in the East as well as North. Durg is already improved considerably as far as capacity utilization is concerned. So the capacity utilization is certainly bound to increase going forward.

Pratik Desai: So it is going to increase like overall it is going to increase?

Management: At all the three locations it will increase.

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

Ritesh Shah: Sir my first question is what is our trade/nontrade mix, how much was it this quarter and basically at last year at same quarter?

Management: We have gradually reduced our trade price. In this quarter combined of all the regions it is around 45%-46% is the non-trade and the 55%-54% is our trade.

Ritesh Shah: Sir possibly if you can give us between North and East separately?

Management: Well I do not have those figures readily can talk offline.

Ritesh Shah: Sir, incrementally is our focus more on the trade side that is correct right?

Management: Certainly, barring Gujarat were the overall market itself is very high percentage of non-trades.

Ritesh Shah: Sir that is where I was coming from so how should one look at the Rajasthan market if one break the demand between trade and non-trade most of the demand has been on the trade side and trade side has been weak wherein most of the players are trying to focus then sir how should one look at it to increase basically prices because it might become difficult because supply is higher and everybody is chasing the segment?

Management: Yes I think those are the factors which have been in favor of non-trade that for last two years the major growth has come from infrastructure which are essentially nontrade, but now I think the sustained improvement in the GDP numbers we are seeing that the enough growth is taking place even other than the infrastructure segment gradually and going forward I am expecting that this will increase further and therefore I do not think it is very necessary that the sale in the trade cannot increase. Besides we are a small part of the overall pie of the trade so there is always a leverage which one can use to increase your own trade that is the reason why we with multiple brand that we have we are in a good position to set up higher percentage of trade.

Ritesh Shah: Sir how much is the trade/nontrade differential on a per bag basis in Rajasthan in the Northern market and how much was it say 6 months back has it narrowed down significantly?

Management: Yes it has narrowed down very significantly. The two quarters back the difference was about close to Rs. 50 a bag which has now come down to about Rs. 25 a bag.

Ritesh Shah: Sir just last one question are we okay to sacrifice market shares if one wants to actually increase prices given the sensitivity of prices is better on at EBITDA level so how should one look at it like are we okay to give away some market share to chase higher prices which will be good for industry as a whole?

Management: I do not think that is the good thing that one is asked to do. Why one sacrifices the quantity at times like we did in Q1 was essentially because we felt that there are pockets wherein supplying even in the trade segment, we are not getting any positive arbitrage. So when the prices grow below that level then only there is a question of sacrifice at the quantity otherwise if market overall improve then everybody is corresponding share increase so I do not think that is actually an equation which one looks for.

Ritesh Shah: The concern is that the demand is coming from the non-trade side that is where we do not have pricing and if you want a price increase I think if we restrict volume what we have been doing in Q1 and Q2 do you think that would make more sense?

Management: See as the demand is growing, we are witnessing a good growth in the demand. I think these gaps between the trade and non-trade will also narrow down.

Moderator: The next question is from the line of Girija Shankar Ray from SPA Securities. Please go ahead.

Girija Shankar Ray: If I am not wrong it is like 21.27 lakh ton in September 18 the production, right?

Management: Sales is Yes.

Girija Shankar Ray: And corresponding to this like September 17-18 is 118.82 right?

Management: Yes.

Girija Shankar Ray: If I see cost per ton total expense is somewhere it is flat I can say and I can see we have a great improvement in freight cost also in year-on-year basis per ton cost, so just wanted to know like what makes it kind of improvement I can see per ton basis we have improvement in freight, employee cost, other expenses even RMC cost also but still we can see kind of a problem with the figures, so what makes it to have a good improvement in freight cost?

Management: Basically, the freight cost are depended on your needs. If you are able to cut down on the lead then freight cost obviously goes down, but I think the immediate concern therefore is as you said in the nearby market whether you have good enough pricing there or not. We have seen that equation not really working entirely to our favor especially in the East because Chhattisgarh prices have been very low. So we have able to cut down our lead further in Eastern region, but unfortunately there were not in tandem with the Q2 of the last year that is why there is a bit of dip in our realization per ton compared to the corresponding quarter last year.

Girija Shankar Ray: So this realization has dropped by somewhere in between 3%, 2.5% correct?

Management: Yes about 2%.

Girija Shankar Ray: If you can give me a region wise breakup like the growth how the region is growing like Gujarat, Rajasthan if you can give me?

Management: Overall I think we have seen a growth in the Northern market where we are operating of about 67% and in this quarter Rajasthan growth was not all that good while Gujarat registered a good growth of almost 15%, 16%. If I look at East, East also had a good growth of about 11% otherwise the other markets of the North especially the Haryana, Delhi and Punjab the growth was at about 5% to 6%.

Girija Shankar Ray: How about UP?

Management: UP saw a good growth.

Girija Shankar Ray: But in terms of realization Chhattisgarh and Orissa was not up to that market it was kind of flattish you are saying right?

Management: Yes.

Girija Shankar Ray: Where did you find the realization where exactly it was good in this key market regions.

Management: I think we can improvise on our non-trade pricing in this quarter and that give us some benefit.

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

Nitin Bhasin: Can you help us understand the OPC, PPC mix right now for North India facilities and East India facilities?

Management: Well as far as East is concerned, we are almost 87%, 88% PPC.

Nitin Bhasin: Okay PPC or PSC sir?

Management: The PSC has gone down in fact because of the increase in the price of slag very disproportionately. Well last two quarter we have seen that the slag prices have gone up considerably then we have to reduce our slag production.

Nitin Bhasin: Sir in North India what is the OPC, PPC mix roughly?

Management: Well if I may to exclude Gujarat out of this then we are close to about 80% PPC in the absolute North, but in Gujarat the percentage of PPC only about 55%.

Nitin Bhasin: Sir, in terms of what happening to the availability of let say our prices of fly ash because now if everybody is facing the problem of slag prices going up what is happening on fly ash prices?

Management: Fly cash cost have been rising and there also related to the cost so when their input is going up there is a tendency to increase the cost of their fly ash and the corresponding cost of transportation. Therefore, there has been rise in the cost of the fly ash.

Nitin Bhasin: So roughly QoQ sir 10%, 15% increase or little more than 20%, 25%?

Management: We have not actually seen much of a growth but there is apprehension that it may go up.

Nitin Bhasin: Sir second question was in terms of elections coming up in Rajasthan because of that the impact of demand over this month and the month gone by which is October, November how is it looking like right now and the next one month?

Management: You see the election are at the end of November here in case of Rajasthan at the beginning of December. So November in any case takes a hit because of Diwali. So I think October was good. October we did not really see major fall in supplies there, but November of course we have been ahead and we expect that December after the 4 or 5th this thing stop then the normal supply should get to assume.

Nitin Bhasin: And sir the last one in terms of any initiatives on further cost reduction or improvement of let say go to market strategy anything that one can understand because as you had consolidating capacities are not expanding, what are the initiatives on the capacity utilization and EBITDA maximization you are taking?

Management: We have a captive thermal power facility coming up in Durg by last quarter and that will see some improvement in realization. We also expect our Orissa grinding to come which will shut down on our freight cost to Orissa and we are already continuing with our go to market strategy in our existing market all over and we have seen gain out of that. Those gains are also get further consolidated in the years. Right now, what we have got is some low-hanging fruits but gradually more improvement would come and I think next year all these improvements will get consolidated and we expect some selling out of this.

Nitin Bhasin: Sir in terms of availability of let say because the season is picking up and demand of cement is very good right now. Availability of logistics facilities whether it is rail, rack or whether it is truck so anything on that anything changing there or nothing there it is all smooth?

Management: Right now we have not had any major snags in the logistics, but then one is of course worried that once the capacity utilization of the industry crosses the 80% mark then one normally tends to face some logistic issues especially those relating to the rail because that is the time when lot of other movements takes place and lot of pressure on the railways for other material. So I think it is more of a seasonal phenomena, but I think everywhere the capacity is increasing I do not think any major bottleneck is one can expect in logistics.

Nitin Bhasin: Sir, where do you see most of the capacities in the country East or North where are you witnessing right now that in the near term in your strategy we think where is the capacity pressure is going to increase a lot more is it East, is it North is it more of Gujarat from the competition?

Management: We have a pressure more on the North the reason being that though we have a plant in the East, but we hardly cater to the major part of the East. We are only catering to a very small radius. So therefore with a view to contain our freight cost we had not expanded much. We are doing much of a pressure in East, but I think the demand pattern continuous we would have pressure for more supplies in the next one year beyond after one year or so.

Nitin Bhasin: Sir in North India what are the nearby capacities coming up according to you in the next 12, 15 months any new capacity that you have mapped around your capacity North?

Management: Normally you are better informed than us to my best of knowledge one is expecting the JK expansion to come at Mangrol in this financial year itself by last quarter or so that is what we believe then which have been followed by Wonder and then of course from the Banani matter get resolved. There is some headroom available for ramping up there. Beyond these two new and the ramping of Banani I do not find much capacity getting added in the North.

Moderator: We will move to our next question which is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: One really quick question as per your knowledge what is the current clinker capacity utilization for the North India market for the sector overall?

Management: Though I do not have access to very accurate figure on this, but then my own belief is that the clinker utilization is already about 75% to 78%.

Swagato Ghosh: This is for the September quarter or for the month of October where the volumes are much higher?

Management: I am talking about October it would have been about 80% capacity utilization in terms of the clinker capacity utilization in the industry.

Swagato Ghosh: What is the level because obviously Jan to June are like the peak month so I am guessing at that point of time the utilization level to be even higher than the 80% number, so then can we expect in that period the prices to go up organically because of this high level what is your take on that?

Management: Yes, we also are hoping on very similar lines that twice improvement must take place because I think all the potents are there for it to pick up one is the highest capacity utilization and on a sustained basis now for sometimes and then the cost pressure with the industry has been experiencing anyways actually seen no sign of commitment. So I think there is a very good case of price improvement but let us see.

Swagato Ghosh: And sir one quick on the Binani capacity like we all know where it stands but if I have to guess that this goes to UltraTech only, what is your take as a competitor is that a favorable outcome for you as a competitor?

Management: It is very difficult to answer that question but I think because both are fairly respected players in their respective areas the advantage of UltraTech is that they are already present in this region. So they do not really have to make very special efforts to create a brand or to create a full or creating a network in a bigger way. So these are some of my guesses I cannot really want for it. So to that extent the competition does not go awry new players sometimes tends to grow.

Swagato Ghosh: Sir, as per knowledge what is the current utilization for the Binani capacity say in the month of October?

Management: We believe that it is more than 3.25 lakh tons.

Moderator: The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Few questions. First on Binani itself this is a capacity that directly competes in our core markets per se and given that how we have seen UltraTech trying to ramp up utilizations within acquisition of 12 months, etc., after Jaypee capacity, how do you read that situation and do you think that market is in well positioned to absorb such ramp up or you expect some pricing pressure to come through?

Management: Again, it is very difficult to answer as to what would happen really. Good point is that Binani has not really left the core markets so whether they were doing 2 lakh tons or now of course they have been doing about 3 lakh tons and their core market has not been affected. So to that competition intensity there will not see a major change. Besides they have not now plants to almost I think 300 kilometers from one to another in this belt. So they will have ripple effect. I am sure they would like to retain their pricing in the core market, push the supplies of the plant which were lying here they will take it to their core market and so on. So there will be some shifting of their supplies will take place. So I am not really expecting a major impact on the market in these core markets. Besides I think when they were getting Jaypee or other capacity expansion absorbed in the market that time the demand supply equation was slightly different than what it is today, today is more favorable. So maybe it is my wishful thinking I may not have a very great impact and they may also not like to really create a great impact, but one will have to wait and watch.

Rakesh Vyas: Sir the freight cost per ton has declined we have seen quarter-on-quarter so is it attributable mainly to the change in lead distance and if you can just highlight as to how much we have changed in East or in North?

Management: Can you repeat the question please.

Rakesh Vyas: Sir the freight cost per ton we have seen a decline quarter-on-quarter in Q2 versus Q1 so is it largely attributable to the reduction in lead distances or is it also a benefit of axle load or anything that you want to highlight because the declines looks reasonably sharp?

Management: See it is a combination of manufacturers there is also an impact of the more loose cement transportation there is a lead reduction in some of the markets in the East market we could take the benefit of the axle load production which you could not take in the North. So then there was some shifting of when we reduce the nontrade supply we also reduce a little bit of effort pricing. I think it is a combination of manufacturers but yes lead reduction is definitely there.

Rakesh Vyas: Sir can you highlight as to much lead would have reduced in this quarter in both East and North?

Management: I won’t have separately with me, but the collective would be about 30 to 33 kilometer.

Rakesh Vyas: Sir also can you just highlight what is the fuel mix now for us separately in North and in East given how pet coke prices have moved up and we also here that you have been applying for coal linkage, etc., so coal supply availability on each side can you just throw some light how we should see this fuel mix moving from here on?

Management: In the North we majorly are having a back to pet coke and in East it is about 50-50, 50% pet coke, 50% coal.

Rakesh Vyas: What is the blended price of pet coke now sir?

Management: In this quarter North was higher at about 9,300 and about overall average was 8,700.

Rakesh Vyas: And if you can just comment on how you are seeing the coal availability in East because it seemed that Coal India has not been able to meet most requirement you are not facing such problems?

Management: Often on that is there, but we are also having the alternate availability of the pet coke especially in the Eastern side so I do not see that to be an issue majorly.

Rakesh Vyas: My last question sir if you can just give the split of the clinker production between East and North in the quarter?

Management: We do not give split in quarter and zone wise. Broadly as I mentioned out of total sales of 21.27, 2.58 was clinker sale.

Rakesh Vyas: And what was the clinker production if you can give total clinker production?

Management: About 15.87, 16 lakh.

Moderator: The next question is from the line of Vincent Andrew from Geojit Financial Services. Please go ahead.

Vincent Andrew: I have one question regarding the per unit cost of power, can you give separately for North and East and separately for PPC, WHR and billet?

Management: North we are self-sufficient as far as power is concerned. We have the waste heat recovery of almost 15 megawatt then we have thermal power of 54 megawatt. So marginally we are taking from the grid. In East we do not have other than the waste heat recovery which will be commissioned that thermal commissioned by fourth quarter in this FY. So broadly it will be in line both the cost.

Vincent Andrew: Sir I want to understand the per unit of cost of power differentiates from the grid what is the cost now?

Management: No I do not have that figure you can talk offline on that.

Moderator: The next question is from the line of Mayur Gathani from OHM Portfolio. Please go ahead.

Mitesh Shah: Sir what is our current debt and likely CAPEX for the grinding unit and captive power plant for the next second half?

Management: Our total long-term debt is about 1600 crore and about 450 crore is the short term so we have about 2050 crores of debt and the pending CAPEX in the remaining six month is about 150 crores.

Mitesh Shah: Any treasury cash bank available?

Management: We have about 410 crores.

Mitesh Shah: Net debt is around reducing by that amount.

Management: Yes you are right.

Mitesh Shah: And sir how much would be our maintenance CAPEX for FY20?

Management: About 30 crores we are doing every year.

Moderator: The next question is from the Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: Sir my question is I mean you mentioned about clinker sales of 2.58 lakh so this is primarily in North India?

Management: It is both the places.

Pratik Kumar: And regarding the fuel prices you mentioned like average 8700 for Q2 how are they placed after recent moderation in fuel prices?

Management: Sorry come again.

Pratik Kumar: So average fuel prices as you mentioned was around Rs. 8700 per ton in Q2 so we have seen recent moderation in pet coke process across the board and international coal as well, so how would be this price per ton in October?

Management: Preceding quarter it was about 8,100 so in fact it has gone up by about 700 in the second quarter. So we think it is almost peaked out.

Pratik Kumar: But we have already seen some reduction in October, November?

Management: It is marginal. It will not have any significant impact on the quarterly this thing, but maybe if that trend continuous in November and December then fourth quarter you may see depending on the trend in the coming months. There is only some marginal but that is not significant.

Pratik Kumar: Sir regarding as in now thermal power plant no one use pet coke we were using pet coke earlier in thermal power plant also in North so where do we procure our coal now for thermal power plant in North?

Management: Sorry come again.

Pratik Kumar: Sir where do we procure coal for thermal power plant in North?

Management: We do import.

Pratik Kumar: Regarding I mean there was this pricing government pressure in Chhattisgarh market on cement prices I mean how is that placed in price cap of Rs. 230 and all?

Management: Well, the markets have not picked much from there so we do not really know whether there is any gap today exist or not that is more than a year and half story and thereafter somehow the marketing forces did not allow the prices to go up. So one does not really know whether the lower price are due to cap or whether they are actually due to our own doing.

Pratik Kumar: And just one question on when is this Orissa grinding unit expected to commission?

Management: For Quarter 4 FY19.

Pratik Kumar: Sir one question on this Binani cement utilization you said they are doing around 3 lakh per month so they are operating at around 50, 60 which has probably improve from 30, 40 sometime back utilization.

Management: Yes.

Moderator: The next question is from the line of Vibhav Zutshi from JP Morgan. Please go ahead.

Vibhav Zutshi: I had a couple of questions firstly on the East and North market would you be able to share how does the EBITDA per ton difference between the two markets as of now or maybe just give us a difference on the cost, how are we fairing now?

Management: Cost price more or less the same now slightly a rupee higher, but once this thermal power comes in then it will be broadly in the same lines.

Vibhav Zutshi: I am not sure if you shared the utilization levels for both the region separately?

Management: We give total only.

Vibhav Zutshi: Second question was this CAPEX which referred to that you would look at CAPEX now if you were to look at the market where are you inclined to announce in addition would it be North or East?

Management: It is still 18 months away so we will take a call at an appropriate time. As of now we want to consolidate and then a call after in FY21 we will take a call.

Vibhav Zutshi: The decision to even announce is at least 18 months away?

Management: Yes.

Vibhav Zutshi: The third question was on the gap between trade and non-trade you did mentioned in your comment somewhere that it is narrowed, so if the cost side starts to trend down which we are seeing particularly on the fuel side and everybody is talking about freight reduction because of the axle norm, do you think if cost starts to come off will the institutional segment allow for price increase or we stay where we are because now cost is coming down?

Management: Prices actually not decided by the buyers. I think everybody is quite sensitize to the fact that the cost have been going up. So I do not see a great resistance on the buyer actually the over supplies has been the cost for this price not moving to the desired extent. We think growth continuing the manufacture seem to have a better pricing power in their hand than what they had 10 month back. So one can expect that at least to the extent of cost increase or partly mitigate at least cost increase which has been informed to us that should be recovered with the help of some prices.

Vibhav Zutshi: Where I am coming from that we have already had a combination of very strong volume growth as well as extremely sharp cost inflation event hen most players went in chasing volumes or there was very competitive intensity across the board. Now if the cost start to trend down there may not be an incentive for people to takes hikes yet because your profitability starts to improve incrementally because of the cost reduction itself.

Management: Price correction happens the day the price increase takes place it never happens that way, there is always a certain time lag involved. So when the cost of the fuel started going up the difference companies will have different level of existing inventories both at a particular level of price. So there is always a certain time lag, time lead between the cost going up and the price getting correct and the vice-versa.

Vibhav Zutshi: So you feel confident that 80% utilization level particularly for North that there is an incentive for industry to look at price hikes now?

Management: Especially when the cost increase is uniform. Uniform in the sense that everybody is getting impacted and hence there is actually no reason why one would not. If a particular segment is not giving the desired pricing then one will be left with no alternative but to reduce the supplies at that particular segment and that is the way the normal market forces act.

Vibhav Zutshi: Just lastly on Binani if there were to be a verdict out let say by end of this month but is there any time lag involved in ramping up those capacities or it could be pretty immediate because the plants are anyway operational?

Management: It is very difficult for me to answer because as we have not done any due diligence in Discoms, but one could believe that the capacity which has been not been utilized for fairly long period there would be issues in bringing the capacity utilization to 100% in a very short timeframe. So I still expect that there will be some time involved in bringing it to a full capacity utilization.

Moderator: The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Sir just wanted to understand this Orissa grinding unit slightly better so if you can highlight as to what is the total capacity, what is the product mix that we are looking in this period EPC or PSC or based on the current pricing what kind of delta in net plant realization we can expect post this commission of GU?

Management: It was earlier mentioned that we are expecting this unit to come in the last quarter. We have option to produce both the PPC and the slag when we start the comparative pricing of the two raw material decide whether how much percentage we will make in PSC and how much we will make in PPC. On the current that mean will be a higher percentage of PPC, but as I said it will depend on the pricing them. As far as the pricing is concerned normally coastal Orissa pricing are better than the Western Orissa where we are currently supplying. So we should have some margin gain in the pricing as well.

Rakesh Vyas: In the clinker we supply through road?

Management: At present it would be supplied by road. We don't have a captive siding as yet.

Rakesh Vyas: So that is why I am asking even after that you expect a benefit on net plant realization because you expect the price difference between Chhattisgarh market from where you will probably be shifting volume to Orissa will be better?

Management: See we are supplying also in Orissa we are supplying in Western Orissa. So one will take a call as to where the net realization is better after accounting for the increased lead and accordingly one will trade off. So essentially from the quantity in Chhattisgarh which are in the outer district might have to sacrifice a little.

Rakesh Vyas: One question which is on the brand strategy I just wanted to highlight so in the premium segment we had launched I guess Pro-Plus Platinum, now Sixer so I just want to understand as to why focusing on so many brands in a particular segment where volumes itself are relatively thin so if you can just highlight as to where we are thinking these brand position across our different brands to come?

Management: In premium brand the Pro-Plus has been very well taken by the market and has given us a good response. So I think the idea is to how do you cater to the various segment which are there in the market. We are normally not been seeing too many brand offering in the cement because ourselves treat cement as a one commodity one fit for all and there is a concept that we like to bring that each product has a special application. So we are trying to create niche market for each of our brand.

Rakesh Vyas: Sir if you can also highlight is to what is the total percentage of premium product sales in our portfolio today and where you expect this to be in two years' time?

Management: We are currently about 15% to 18% and I expect that we should touch 23%, 24% of our total supply.

Rakesh Vyas: This 15% to 18% is on the total trade sales or total volume?

Management: No it is on the total trade sales.

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

Sanjay Nandi: On 23rd August China has imposed some anti-dumping duty on US so which resulted in a pet coke price fall, so did you notice anything in the price of pet coke recently?

Management: We are seeing some marginal difference in the price of the pet coke, but normally booking yourself for two months requirement. Therefore, for one currently the drops are quite marginal. Number two if this gaps sustain then I think after that time lag to which extent you hedge yourself normally up to 3 month requirement then after it showing result in the result.

Sanjay Nandi: Sir, you just mentioned like the freight cost benefit the axle load factor that came in place in the Eastern region which resulted in 4% to 5% reduction in your cost?

Management: Yes.

Sanjay Nandi: Sir can you just verify like if that thing comes on a Pan India basis then what kind of benefit would you get in terms of cost per ton from the freight front?

Management: It depends on what is to the extent of headroom the transporter having a current operation, but I expect that it will impact anyway between 4% to 5%.

Sanjay Nandi: 4% to 5% between of total freight cost, right?

Management: Of the freight cost.

Sanjay Nandi: And sir do you feel like with the election coming upfront in the major regions of our operation like in the Central India Madhya Pradesh, Chhattisgarh and also in Rajasthan, so do you feel like volume growth might get impacted because of that next quarter like in the Q3 and Q4?

Management: I am sorry you have to again repeat your question.

Sanjay Nandi: Sir I just wanted to know like with the upcoming elections or like in Madhya Pradesh, Chhattisgarh, Rajasthan so do you feel like some volume growth might get impacted in the quarters to come like in Q3 and Q4?

Management: I think we touched that question earlier, but I will just repeat. We have had these elections are split in November as far as Chhattisgarh is concerned, we are a very small player in MP so we did not get impacted much. In Chhattisgarh the October supplies are not greatly impacted. In the month of November there has been some impact, but it also happens to be the month of Diwali when in any case some dispatches were normally are load for about 10, 15 days. So I think the dispatch impact on account of election got submerged with the normal fall because of the Diwali. So to that extent there has been a bit of saving. In Rajasthan the elections are on 7th of December so maybe in Rajasthan there will be some impact in the month of November but after the canvassing the stock from the 5th of December the supply should get resumed.

Sanjay Nandi: Sir, can you please quantify that in terms of numbers like what kind of percentage drop that happened like 5%, 2% like what kind of percentage?

Management: Well very difficult to quantify that number immediately the quarter is still on maybe we will be able to make that happen in the month of December. The overall impact may not be much the normal season fall in Diwali is about 5% to 7% in a quarter which will be there.

Sanjay Nandi: And from the reservation front sir the price what we have gained in Q2 19 so did the price improve from that in this current month?

Management: Not exactly so far wherein couple of places we have seen some improvement in the nontrade side in one or two market to Rs. 3 price increase but borrowing that no major change in the price has taken place.

Sanjay Nandi: And the prices are roughly flat?

Management: Yes in a way.

Sanjay Nandi: Sir, can you please share the volume for June 18 like preceding quarter sales volume?

Management: June 18 we have 22.87.

Moderator: The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: I just had one question can you share me the average capacity utilization in North India as well as East India?

Management: Well those numbers are not actually being shared by the industry. One has only a guess work and one of the earlier questions I responded at the capacity utilization currently was in same in October of the clinker utilization would have been around 80% and for cement would have been 75% which is an improvement towards what we have experienced in Q1, Q2 when the cement capacity utilization was only about 68%, 70% and the clinker utilization was about 71%. So we have seen an improvement I think to the extent of 3% to 4% from September onwards.

Moderator: Due to time constraints we will take on last question which is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.

Pratik Kumar: Sir just one industry question I mean in terms of I mean your discussion as in CMA president from JK Lakshmi, so how is the discussion on I mean government response on GST reduction rate reduction from 28% to 18% are they looking closely at it or it is just wish list of cement industry?

Management: Closely watching what GST reduction.

Pratik Kumar: GST rate reduction.

Management: Actually, the GST reduction the industry does not get much impacted by that except to the extent that one expect a better consumption of cement to grow in the rural segment where the alternate materials are being used. In any way if the GST goes down from 28% to 18% the prices will have to be reduced to that extent. So I do not think the industry has to very proactive in going all out to persuade the government to bring down the GST and we also realize that cement is a fairly major revenue contributed to the industry and therefore the chances of the reduction may not be very bright. So it will depend on once the overall revenue of the government increase shores up then only one can expect a positive move in terms of reduction.

Moderator: Thank you ladies and gentlemen due to time constraint 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 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.