"JK Lakshmi Cement Limited Q2 FY20 Earnings Conference Call"

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MODERATOR: **MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day. And welcome to the JK Lakshmi Cement Q2 FY20 Conference Call, hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. 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, sir.

Vaibhav Agarwal: Thank you, Stanford. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q2 FY20 call for JK Lakshmi Cement. On the call we have with us Mr. Shailendra Chouksey – Whole-time Director, and Mr. Sudhir Bidkar – CFO. I will now hand over the floor to management of JK Lakshmi Cement for opening remarks, which will be followed by interactive Q&A. Thank you and over to you, sir.

Management: Good afternoon, ladies and gentlemen. And welcome to Q2 con-call for JK Lakshmi Cement. Broadly, just to recap the results, you would have seen our total production of cement was 17.45 lakh tonnes in the quarter, and sales was 20.60 lakh tonnes, which included clinker sale of 1.32 lakh tonnes. The figures, broadly sales were at Rs. 935 crores for the quarter, was about 10% higher than the corresponding quarter of last year. Operating profit for the quarter stood at Rs. 149 crores. And including other income of Rs. 155 crores. And after providing for interest which at Rs. 38 crores was almost 22% lower than what we had I the corresponding quarter of last year. The cash profit for the quarter was Rs. 116 crores and PBT for the quarter stood at Rs. 73 crores and tax were Rs. 27 crores. Cash for the quarter stood at Rs. 46 crores.

In this quarter we also commissioned the Orissa grinding unit. So, with that our total cement capacity has gone up from 10.9 mtpa to 11.7 mtpa, that together with 1.6 of Udaipur, we have got total capacity of about close to 13.3 or thereabout. Then the results you would have seen that we have also given the balance sheet and the cash flow which has become mandatory, the consolidated results have also been announced. What is important is that our debt equity is now below 1:1 on a gross debt basis on a standalone. On a net-net basis it is down 0.77 as of 30th September. And including the subsidiary, which is Udaipur, which is having a debt of about close to Rs. 500 crores, our debt equity as of 30th September stands at 1.34 on a gross consolidated basis, and 1.12 on a net debt basis on a consolidated basis.

Broadly, these are the opening remarks. Now I throw the floor open for the question answers.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: First of all, on the few housekeeping numbers that you gave. What would be the RNC revenues in this quarter?

Management: RMC, there has not been any significant change as such, but RMC revenue for the quarter is about Rs. 38 crores, Rs. 39 crores, around the same as the corresponding quarter of last year.

Rajesh Ravi: Okay. And sir, if you see the realization this year this quarter, sequentially we believe we have seeing a significant improvement, 2% sequential improvement in realization, when the industry overall saw sequential cool off in the realization. So, what drove our pricing improving sequentially? And on the cost front, if you could throw some light on how has been the fuel trend and this logistics consultancy expenses that we see and all, what is the status from those in Q2? Then I will move forward to the balance equations, please.

Management: Enterprising value compared to the corresponding quarter last year, there has been some improvement in the pricing, especially in the North India which helped us. And also with the help of some of the measures which we had taken, which we had conveyed in the last and previous two meetings we have been talking, they have also given us some advantages in terms of reduction of our freights, in terms of higher sell in trade, and also in bringing down the utilization, etc. So, I think these measures have also contributed. And other is the price increase. So, compared to previous quarter, there has been a marginal fall in the pricing. But I think by and large the pricing remains the same where it was for last two quarters.

Rajesh Ravi: Okay. No, I was referring to June versus September quarter, there is in sequential improvement in the realization. So what drove this improvement? Because the market, we understand, because of the heavy monsoons there is a pressure on both state and non-trade pricing, obviously seasonal pressure.

Management: Yes. Basically some of the measures that we have taken contributed to the sequential increase in the prices in the realization.

Rajesh Ravi: Okay. So this could be taken as a sustainable pricing, assuming the market prices remain where they are?

Management: Yes, they should be.

Rajesh Ravi: Okay. And sir on the trade, non-trade mix in this quarter, how would that be?

Management: See, we have been making improvements quarter-on-quarter, this quarter sequentially there is only a minor change of about 1% improvement in our trade. Considering the fact that second quarter the demand was very, very low. And especially in the east where we suffered maximum volume fall, because of the Orissa sale going down on account of Fany cyclone. And then the Chhattisgarh, our main markets failing on account of heavy rains. So there we had lost some volumes. So because of the volume fall, the levy to choose bet trade and non-trade, I mean, being selective doesn't work. That's why we have been sort of not able to make substantial growth there. But now we are operating at about 65% trade which is fairly good in the east market.

Rajesh Ravi: Okay. 65% on total basis?

Management: Not on total basis, total would be about close to about 57%, 58%.

Rajesh Ravi: If I may take one last question on the balance sheet, sir this quarter like the half yearly cash flows that we have seen, there is an increase in working capital and the inventory primarily I would want to understand and also on the ICD, what was this related to?

Management: Inventories and receivables are normative increase which does happen always in the second quarter. ICD is basically investment out of the treasury corpus only, it gets repaid in less than a year's span.

Moderator: Thank you. The next question is from the line of Niteen Dharmawat from Aurum Capital. Please go ahead.

Niteen Dharmawat: My question is about the demand and pricing scenarios, especially in central India. I heard some time back in the last quarter that MP Government was having a zero cement orders, so what is the situation now with respect to the demand scenario?

Management: Presently demand is pretty tough from the beginning of the current financial year. And that's why in six months if I see, if I combine north and east, the overall market has gone down by about 4% to 5% there is a fall. And if in these two zones if I take out the states where we operate, then the cumulative fall is about 7% to 9%. That is the fall. And now that is mainly on account of the fact that the previous year the mainstay of the demand was the infrastructure, the government led expenditure. This year it has got very badly impacted. The first quarter got affected because of the election, because the government departments are working only on that budget. And even after the government formation, so far not much funds have been released to the infrastructure. So, I think that is where we are. And of course, real-estate continues to remain in difficulty. So the only area where there has been a scope to increase the consumption is a private collection, private housing. But that this year has got very badly impacted on account of heavy rains in most of our markets. So, we have now quite hopeful that with all these things over, the government should also get to the targeted road building, etc., the demand should be very good in the remaining five months. But there is only right now the expectation. These things will get clarified more so in the next fortnight or two to three weeks' time.

Niteen Dharmawat: My second question is about this thermal power plant that we commissioned during the last quarter. So, what is the capital utilization now, has this got to the stability of the operations there?

Management: The stability is there, but unfortunately now with the ban of pet coke, we are required to use coal. So there obviously, the saving which we had originally envisaged using the pet coke, those are not there. Stabilization is there, but it is working out to be expensive. So, maybe once we get that linkage next year, then it will throw basically some savings in terms of the power and fuel cost. Otherwise, it is not that very viable as far as the coal cost is concerned as it stands today.

Management: All the rid prices get increased. Then relatively it becomes cheaper.

Niteen Dharmawat: Okay. My final question is, what is the consolidated debt level?

Management: Consolidated debt on a gross debt basis as of 30th September is Rs. 2,100 crores. And net of that is Rs. 1,750 crores.

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

Madav Marda: Sir, just one quick question. Wanted to understand about your expansion plans, if there is anything that you all are planning, brownfield or greenfield? And if we have any limestone available for any expansion in any other part?

Management: We have capabilities at all the three locations, Udaipur, Sirohi, as well as for brownfield expansion. So we maybe in six to nine months' time we will announce some projects, brownfield only. Greefield, we don't have any plans.

Madav Marda: Okay. And what is the scope for the brownfield expansion, given the limestone that's available at each of the locations?

Management: So we can have one line at each of the three locations, including that new expansion, the limestone reserves are adequate for another 30 to 40 years at all the three locations. So, depending on the demand supply in various zones we will announce that.

Madav Marda: And how much would be the cost typically for brownfield expansion?

Management: Brownfield would be anywhere between $85 to $95 per ton.

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

Gunjan Prithyani: I just had follow-up on this volume growth, you mentioned about the region volume growth put together for your regions. Could you give sense on how did north fared separately and how east fared? And where are we in terms of utilization levels for these two markets?

Management: We are not normally giving the figures separately for North and East. But as far as the general market sense is concerned, because we are majorly confined into Chhattisgarh and Orissa, we had quite a steep fall in yields because of this cyclone as I mentioned earlier, Fany, in Orissa and heavy rains in Chhattisgarh. So, the east was more impacted in terms of volume than the nort.

Gunjan Prithyani: But north what would have been, I am not specifically asking your volume, how was the split, but I am just trying to get sense how positive was the volume growth as per you in the north region?

Management: Q2 was lower even in North, combined all the states there was a fall of about 4%.

Gunjan Prithyani: Okay. And the other follow-up I had was on the EBITDA per ton or the cost difference, whatever you can share between the East and the North operations now.

Management: That we generally don't give separate cost or EBITDA per ton. Overall for the company, you are aware.

Gunjan Prithyani: No, but I am just asking on the cost side how much is a variation between the East operations and the North operations?

Management: Cost wise basically Durg is slightly higher as of now because of that coal cost and all that. But differences just narrowed down, because the efficiency parameter what we have been able to get in Durg are also close to what we have in Sirohi. So cost difference has not been much, hardly Rs. 100 to maybe Rs. 120, that's all.

Gunjan Prithyani: And there are no additional cost leavers which you expect should play out on these operations further?

Management: No, frankly no as of now. But once some saving could come, but that is still a year later when that conveyor belt gets the commission and all that. That's all. Other than that, there is no specific further cost advantage compared to Sirohi.

Management: Your questions is, what are the headroom? Then I think the obvious is that there is certainly a volume run in the coming quarter in the east, which we suffered heavily. So I think that situation will be better, so then your cost per ton obviously gets reduced.

Gunjan Prithyani: And just last question, I am not sure, there was this cap, right, on the prices? Is that still applicable? I mean, of course, the market prices may be probably lower than that, I don't know. But is that cap still applicable or that's been done away with?

Management: Like we said that the prices are lower than what caps at one time was. So therefore, no one has really not worked on the new government to see that such a cap does not exist. But I think currently the situation is, how do we really improve the pricing situation, and that will happen as a corollary to the demand increase which we expect will come out. If that then I am very sure we can work towards removing the artificial barrier.

Moderator: Thank you. The next question is from the line of Jimesh Sanghvi from Principal Asset Management. Please go ahead.

Jimesh Sanghvi: Sir, if we can throw some light on your power and fuel cost on a per ton basis, that has seen an increase on a sequential business. So, any particular reasons why it has gone up? And probably the pet coke and coal prices are softening in the domestic market.

Management: This quarter we had taken some shutdown because of the clinker inventory. So as a result, our WHR consumption or the generation was lower, that resulted in the cost going up. Otherwise, it will be back to the earlier quarter going forward.

Jimesh Sanghvi: So can you put a number to that, as such what could be the hit?

Management: Back to the first quarter number.

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

Sanjay Nandi: Sir, can you just guide us on the current volume growth scenario prevailing in these last month of October?

Management: We have seen some volume growth in the month of October. But I think the full impact will come in November and December, because October also has the Diwali impact. So while there is an improvement in the volume, but I think it is only indicative, in real terms may not be very substantial because of the valley there is almost three to four days of very poor infrastructure, the trucks don't come.

Sanjay Nandi: okay. Sir, do you see like in the second half was much better compared to the first half?

Management: Certainly, second half was better, barring this Diwali period.

Management: Traditionally also we always see the second half better than the first half. So we hope that this year also it will be the same.

Sanjay Nandi: And sir what is the pricing outlook, like the prices are holding the exit price of first half or they are just cracked in the month of October?

Management: No, the prices have by and large, there was a minor fall in the prices of the market in October, September. But I think thereafter they have been holding. And once the demand picks up we are very hopeful that some price correction will take place.

Sanjay Nandi: Okay. And sir, how long will that pet coke price fall will be priced in our power and fuel cost? Like this time we have captured the thing, or it will again be reflected in the second half as well?

Management: It will get reflected in the second half as well.

Sanjay Nandi: Could you just quantify the amount, like what kind of figure that might get implicated in the per ton costs?

Management: Already there has been a reduction, you would have seen in the current quarter we were at 7,500 as compared to 8,700 in the corresponding quarter last year. And if one were to see on a sequential basis, in the first quarter it was 7,800, that is already down by 300. So, there may be a marginal drop thereafter also in the coming quarter.

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

Swagato Ghosh: Sir, for this quarter how much was premium sales as percentage of total?

Management: Premium sale was more or less about, we are currently at about 8% to 9% of our total volumes in the premium, that we are maintaining.

Swagato Ghosh: Okay. Which brands should fall under premium?

Management: ProPlus.

Swagato Ghosh: Okay. And sir, what was this number, say, two, three years back? Like, I am just trying to understanding if we have improved from those levels?

Management: We introduced this around four years back, gradually we have ramped up. So if we are to see say last year's number would have been about 6% and year before that would have been 5%, so every year we are making an improvement there.

Swagato Ghosh: And sir, that BCG project on the logistics cost optimization, I think that BCG work is done but we have not realized the advantages, is that fair? Or have we already…

Management: See, we have realized. The project was only from logistics cost was for overall improvement of the efficiency. Logistic was the last piece that we were undertaking. So, what we are had only said last time that there will be some benefit still to recruit more out of this. So, it will be around, so assume that there has been no impact since the last quarter, we have got gains out of that project. And we will continue to gain every month something or the other.

Swagato Ghosh: Okay.

Moderator: The line for Mr. Ghosh has dropped. We take the next question from the line of Pritesh Sheth from CRISIL Limited. Please go ahead.

As there is no response, we take the next question from the line of Pratik Kumar from Antique Stockbroking. Please go ahead.

Pratik Kumar: Sir, my first question is, so this 1.3 lakh clinker sales, this was in which region of operation? Or is it in both the regions?

Management: Majorly into North, but some quantity in East also.

Pratik Kumar: Okay. And sir, as you said, so we had like a 3% decline in volumes, that is correct, 2.06 million volumes? And on comparison, we have seen some growth in October, that's what you said.

Management: Yes.

Pratik Kumar: Okay. And regarding there was this questions was discussed previously, like we have a sequential improvement in pricing of around 2%. So did that had a meaningful impact of Gujarat pricing where we also sell some 20%, 25% volumes?

Management: In fact, Gujarat prices have slightly affected. In terms of volume increase, I think we will see the full impact in November and December. There was a subdued impact in Gujarat as far as volume is concerned. But now we are very hopeful that, I am talking about October, compared to October, November-December are usually much higher because the Diwali impact is highest in Gujarat.

Pratik Kumar: No sir, previous quarter I was asking, the benefit of the higher realization quarter-on-quarter. Because we said also there was a slight dip in trade segment sales also, despite that we had an improvement in last quarter on a sequential basis. region which added to growth?

Management: Yes, we could increase I think everywhere, including Gujarat and North, both.

Pratik Kumar: Okay. So it was company specific initiatives, probably not industry specific?

Management: Right.

Pratik Kumar: Okay. And sir, our logistics cost has now fallen to below Rs. 900 per ton, which was like we used to have around in FY17 sometimes. So this reflects that benefits of BCG consultation?

Management: Partly yes, and partly also because our clinker sale is going down. So when the clinker sale is only on zero freight, it is mostly sold on ex-factory basis. So when you see the numbers, the clinker freight gets added, and therefore on the total volume the impact of clinker sales going down also is seeing in the amount of the trade.

Pratik Kumar: Okay. And sir, what was our consolidated volumes for the quarter, for like 1H period?

Management: Consolidate for six months… you want for the quarter or six month?

Pratik Kumar: Sir, both of them, quarter as well as previous quarter as well. Current quarter as well as Q1 as well.

Management: For this quarter for JK Lakshmi was 20.6 lakh tons, 6 lakh tons was for Udaipur, so 26.6 lakh tons was there on a consolidated basis for the quarter. And for six months they had 43.88 lakh tons, including Udaipur also almost 9.98, 10 lakh tons. So 43.9 lakh tons is consolidated for JK Laksmi standalone, and 10 lakh tons for Udaipur.

Pratik Kumar: And just one last question. Your fuel mix for the consolidated operations. And is there any real difference between North and East?

Management: We are almost 90% pet coke here in the North, and we reduced Klin operation and there it is around 65%.

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

Anupam Goswami: Sir, my question is, what is your outlook on the realization for the whole year? I have seen you can sense that for the first six months demand has been pretty weak in the industry. So how the demand would outfold in the next half and how the realization will stick out? If you can give some ideal on that.

Management: So we are expecting that in the next six months there should be a pickup. So while it may not still come to the level of last year second half, but it certainly would be better than the first half of this year. So normally the first six months constitutes about 40% to 45% of the yearly, and 55% to 60% is the volume CLR So I expect the same sort of ratio would be there this year too.

Anupam Goswami: And on the realization front, how do you see for the whole year?

Management: Well, realization is only guesswork, and also if you ask manufacture part of it, wishful thinking is also there. So I think if I were to look at very broadly, I would expect certainly the second half to be better by same, if not anything, could be Rs. 100 a ton higher than the first half.

Anupam Goswami: And sir, you mentioned East has seen sharp drop in the demand. So how is it going to recover from the second album? Or have you seen any recovery from the October month itself?

Management: Yes, we saw some recovery from about 1st of October to 25th of October. But thereafter Diwali there was almost. So if you see the gross monthly figure, you may not see much improvement over like-to-like or year-to-year where last year the Diwali was in November. So I think one will have to see a combine of October-November this year versus October-November of last year. Then I think we may end up with very close to that number. So, there may not be actually a growth of over the last year, but there certainly would be a growth compared to the previous six months.

Anupam Goswami: Sir, if you can quantify the drop you have seen the East for you?

Management: No, I can only tell you about the market, we have experienced an overall minus 9% to 10% in the volumes there as far as general market is concerned.

Anupam Goswami: 9% to 10% drop in the east in the market?

Management: Yes.

Moderator: Thank you. The next question is from the line of Rishikesh Bhagat from Kotak Mutual Fund. Please go ahead

Rishikesh Bhagat: Sir, what will be our CAPEX for this year? And secondly, can you help us with the likely debt figure at the end of the year for standalone as well as Udaipur?

Management: The CAPEX for this current year in the first six months we spent about Rs. 50 crores, and other 25-30 will spent because all those projects are over there, there won't be any project related CAPEX only, normative CAPEX is there. So that is as far as the CAPEX is concerned. And to answer your question regarding the debt, we will see a further reduction of about Rs. 125 crores to Rs. 130 crores debt, both on consolidated as well as on a standalone basis. So figures whatever we have just reported, debt will be lower back about Rs. 130 crores to Rs. 150 crores.

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

Ritesh Shah: Sir, my question is, how should we look at the balance sheet ratio? So, you did indicate that we are looking at Rs. 130 crores of net debt reduction. But you also said like in six months we will be looking at certain expansion, a brownfield one. Sir, so how should we look at the balance sheet in context?

Management: When I say we will be announcing some project, so on the date of announcement we don't contact the loan, immediately note all in there. So I don't see any first drawl of loan for the new CAPEX which we may announce towards the year end. So that Rs. 150 crores reduction would be there as of the March 2020 figures of the debt.

Ritesh Shah: Sir, is it fair to assume like we are looking at around Rs. 1,600 crores of debt, end of the year Rs. 1,650 crores of debt end of the year, and that will be peak debt for us?

Management: Peak has already happened two years back, but now Rs. 1,600 crores is on a consolidated basis, you are right. On a standalone it will be about Rs. 1,100 crores. So, after that maybe next year we will may contract some loan for the new project expansion.

Ritesh Shah: Okay, that's helpful. Secondly, if you could quantify how much is the inter-company seals for clinker and cement between USW and JK Lakshmi? And how is it helping on the cost side, because I understand there is clinker moving from UCW to JK Lakshmi's grinding units in Gujarat. So what are the benefits? And I think at a point in time, long back you had stated that a premium grade cement will only be pushing from UCW plant. Sir, if you could please help us understand this part a bit better.

Management: Basically, the idea of production rationalization is to reduce on the logistics cost. So if Udaipur is to sell some product in Gujarat, they might as well procure it from our grinding unit. And instead of moving cement there, move only the clinker. So that is only production rationalization is happening. Vice versa for JKL, if they were to sell more in the North they may do it from Udaipur.

Ritesh Shah: Okay. Sir, can you quantify the linker movement and the cement movement over here?

Management: I don't have the figure, we can take that offline. I don't have the figures ready.

Ritesh Shah: Sir, last question, what is a trade, no-trade price differential right now in northern markets and in the eastern markets?

Management: You are talking about the difference in price in trade and non-trade and both these markets?

Ritesh Shah: Yes sir. Because normally when the differential is very high, we typically see prices actually go down. So just wanted to understand where the differential is right now.

Management: While the trade prices there is a pattern, and non-trade prices the individual order is very substantial. So, it's very difficult to generalize that, there are orders in Rajasthan which have gone to as low as even Rs. 190 or Rs. 200. While by and large what we are giving there is about Rs. 240. So while the trade would be anywhere around Rs. 275 to Rs. 280. So in North, the price difference between the trade and non-trade would be easily about Rs. 30 to Rs. 40 a bag. In East it will get slightly lesser, there would be difference of Rs. 20 to Rs. 25 a bag.

Ritesh Shah: This is helpful. And last question, which are the additional capacities that we expect to be commissioned over next six to 12 months in our northern markets and the eastern markets that we cater to, including the grinding units?

Management: True capacities which have come for clinkerization, And I am sure you are aware of it, one is JK and other is vendor in the North. And in the East it is Dalmia Cement who got in Orissa. Other than that there is no capacity which are expected to go online in this financial year in both these markets. As far as grinding is concerned, both JK and Wonder, their grinding capacity there is still a gap. JK's Aligarh grinding unit is expected to come, that's what we believe from the market, is expected to come in about two months' time, while Gujarat unit is going to take some time to come, about six months' time. In case of Wonder, they are planning a grinding unit in Haryana, which to our mind will not take less than 1.5 year. The other is in Madhya Pradesh which will take another about six to eight months. That is the position of the north. In the East, I am not aware of any fresh grinding capacity immediately coming up, except for those which are pending commissioning in Orissa. We have commissioned, Shri is yet to commission, and Ramco's capacity expansion in West Bengal has already taken place. But Maha grinding capacity in Orissa is yet to come.

Ritesh Shah: Correct. That's very helpful. Last one questions, will we be looking at inorganic growth going forward?

Management: We are currently looking only organic growth by way of brown fielding, and Mr. Bidkar can explain on the three ways. Then yes, for any inorganic growth, either I develop or I bypass the limestone right through an e-auction, which have not yet materialized. Secondly, our acquisition. So, while we are constantly on the lookout for acquisition, but currently the pricing being demanded in the right market we find this pricing to be not justified.

Moderator: Thank you. The next question is from the line of Amit Murarka maraca from Motilal Oswal. Please go ahead.

Amit Murarka: Just a couple of questions. One, the East unit that you have commissioned. So as you also highlighted and what we also understand, there's too many grinding units coming up in East. So how do you think the competition will be in the region and how do you plan to ramp up your utilization in this unit as well as generally speaking?

Management: I think the utilizing ramp up would be comparatively slower than Orissa at this point of time, because of the number of units coming up. You are right. But that does not mean that you will not get the benefits of the new grinding units, as the freight saving would be considerable there. So I think any price fall, if at all, because of the excess capacity coming up should be more than justified by the freight saving. Secondly, the prices there are already at such a low level that there is not much headroom for prices to come down still lower without the people selling below their variable costs. So that's why I am not unduly pessimistic about the Orissa grinding unit.

Amit Murarka: Okay. No, why I ask there also because Shri is going to commission again, and then obviously Dalmia is also coming up, and all of these are aggressive players in the market. So just in that context wanted to understand like what would be the strategy or how do you think utilization will pan out over there.

Management: As I already mentioned that because of the excess capacities coming there Orissa margin is a challenge, but what that only means is that as Orissa becomes a hub for supply to other markets, the neighboring states or the ramp up would be slow where whatever price it will keep you cannot supply more than the demand of the market.

Amit Murarka: And how much will be the fixed cost addition because of this grinding unit, I don't think it will be much, but still?

Management: There won't be much.

Amit Murarka: And lastly on the tax rate, like have you decided about whether you will be continuing with the old tax rate or how is it?

Management: We would continue with the old tax rate because of the MAT credit entitlement which is sitting in the balance sheet of about Rs. 180 crores, which in the event of you opting for a lower tax gets lapsed. So it doesn't make sense to switch over as of now. We will exhaust that first and then take a call thereafter.

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

Madhav Marda: Sir, just a basic question on the industry as a whole. In East India or regions like East India where there is a lot of slag of fly ash and these kind of materials available, were blended cement as a concept is picking up in a big way. Is really that important for making cement in India anymore? Because we have heard blending up 50%, 60% in the cement, so will clinker be as important as it was say 20 years back versus today?

Management: You are right. Gradually the blending cement ratios would get improved. But I think the fact that you still require on a weighted average basis, on slag basis about 50% and on PPD basis about 70% clinker, there is still a lot of relevance for clicker. Secondly, the freight and the rate of these materials, sometimes when they realize that you are overly dependent on fly ash or slag, their cost goes up. We have experienced that in the East, the cost of the slag went higher than the cost of the clicker. So while clinker is your own production, you have some handle on the cost. But when you are buying from an outside source, especially slag, then you do have handle and the price can go up anytime.

Second issue is the location. Most of the plants in the North are only dependent on the fly ash. Now we all are experiencing the fly ash shortage from time to time, either because power houses are not having adequate coal, or because that utilization must be low. So I think it's dependent on so many factors. So therefore the relevance of clicker cannot be erased fully.

Madhav Marda: Yes. So I agree with you, incrementally do you think the blending ratios could go higher from here or you think we have reached the peak of blended cement or the clinker factor as we call it?

Management: Yes, the attempt is to increase your conversion factor, I mean, reduce your clinker dependence. But the fact of the matter is that there are certain markets in the non-trade cement which are still dependent only on locality. In Gujarat, even if you have slag of Hisar, there is hardly sale or any sale of slag cement there. And much lower than most of the other states. So, OPC still constitutes of very high percentage. We are present in Gujarat; we have a slightly lower conversion factor than the other pan-India players.

Madhav Marda: Got it. Sir, maybe I just ask one last question. Why are certain non-trade markets or government projects demanding OPCs rather than blended cement, is there a particular reason in terms of product quality or something that that suits their project more?

Management: I think it's more a matter of mindset than the quality. In Gujarat because it has suffered two earthquakes, immediately after the earthquake the government mandated use of OPC in the earthquake prone areas. So the mindset is that they have to use only OPC for a solid structure. So while industry and worked a lot on removing that sort of belief, but it's really it carries on in their mind.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we will be able to take the last two questions. We take the next question from the line of Nitesh Shah from OHM Portfolio. Please go ahead.

Nitesh Shah: Sir, you indicated the growth debt at 2,100 for a consolidated entity. Can you indicate for standalone how much is the gross and net?

Management: On a standalone basis gross is 1,560 and net is 1,234 as of 30th September.

Nitesh Shah: Perfect. And generally you are looking for brownfield expansion, what typical size we will look at for 2.5 million ton, 3 million ton brownfield expansion?

Management: Around 2.5 million ton.

Nitesh Shah: That will be on cement side, right?

Management: Yes.

Nitesh Shah: Okay. And what you indicated 85 to 90 would be for, when you indicated brownfield expansion will cost 85 to 90, that will be for integrated plant?

Management: Yes. For the 2.5 million.

Moderator: Thank you. The next question is from the line of Simran P. from India Ratings. Please go ahead.

Simran P: Sir, I would like to know about the industry outlook for the coming six months based on your expectations how has this gone…

Moderator: This is the operator. Simran, maybe we request you to use your handset please. We couldn't hear the question.

Simran P: Sir, what is your expectations as far as the industry outlook is concerned? Like, will it go up and perform better than the last year second quarter, like, the second half, or is it going to remain the same?

Management: I am not expecting industry to perform on volume term in the second half, it would remain below last year second half, but certainly better than the first half of the current year, I am talking in terms of volume.

Simran P: And realizations, it's going to remain sustainable?

Management: Yes, we are expecting that the pricing should remain sustained for the simple reason that the volumes have to move up from the first half, then the propensity to drop the prices is not there.

Simran P: So you are saying that the volumes will not drop, right?

Management: Yes, right.

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 would like to thank the management of JK Lakshmi for the call. And also many thanks to the participants for joining the call. Thank you very much, sir. You may now conclude the call, Sanford. Thank you.

Management: Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.