"JK Lakhsmi Cement Limited Q1 FY-21 Earnings Conference Call"

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Moderator: Ladies and Gentlemen good day and welcome to the Q1 FY21 Conference Call of JK Lakshmi Cement Limited, call 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 sir.

Vaibhav Agarwal: Thank you, Stanford. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q1 FY21 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: Good afternoon everyone and thanks for joining in today's con-call. You would have seen the results and I think it would be better that we go straight for the Q&A, so the floor is open for your questions. Thank you.

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: I have three questions, so first on the revenue, could you throw some light on what are the norms in the revenues that we booked because I see from the annual numbers, norms in revenues other than cement would constitute more than 10% of the total revenue. so what are these, one is the RMC, what else just clubbed into that and how had those two non-cement revenues performed in this quarter?

Management: Our total turnover for this quarter is about a 25 crores and out of that the non-cement is about 29 crores, so it is less than 5%, it is not 10% as is being talked off.

Rajesh Ravi: No I am seeing FY19 revenues.

Management: FY19, we are talking of I thought first quarter here.

Rajesh Ravi: On an annual breakup basis I'm asking that if I see there are other numbers 520 crores which was reported in FY19, so I'm just asking you is only the RMC which is there or we have the blocks also, AAC blocks….

Management: One is this RMC, then there is AAC plus POP and also some solar power.

Rajesh Ravi: So this AAC and POP, how much would they be in terms of annual basis and also in this quarter what would have been their performance?

Management: What we have done in this quarter, this was a quarter in which it was impacted by the shut down due to COVID and if one were to talk of in the preceding quarter, out of the total turnover of about 1061 crores in the preceding quarter about 77 crores was pertaining to the non-cement items which is again less than the 10%.

Management: The other businesses are very badly impacted due to COVID, there was pent up demand from cement, these products did not have any kind of demand but there operations also started later than that of the cement.

Rajesh Ravi: So not only in RMC even in this AAC and POP you witnessed very poor demand that would have impacted your performance this quarter?

Management: Yes.

Rajesh Ravi: On the cost item what portion of your cost you expect to be low recurring in terms of the cost control that we have seen in this quarter, particularly other expenses coming down by 26% while volumes declined 18%?

Management: Other references which are come down is basically from saving in the fixed cost because in the corresponding quarter last year we had 20 crores straight on account of the BCG fees, consultancy fees which we had paid to another consultant who had been advising us earlier. So that has not come. Other than that there is some marginal saving in the other fixed overheads because of the lockdown.

Rajesh Ravi: There was 5 crores political donations also which knocked them off, we have seen slight corrections. So this is a more of a civil number which you expect to continue?

Management: I don't think there was any 5 crores donation last year. In the large overall there was some donation which we had done in this last year, primarily on account of our hospital and the University. A political donation last time, maybe one-off one during elections we may have done about 1 crores but nothing post that. this year we have done about 75 lakhs to the PMCARE and about another 50 lakhs odd by way of contribution to the various states where we are operating.

Rajesh Ravi: And lastly on the fuel cost, how was the Q1 quarter for you landed fuel cost changing and what is the outlook as we stand?

Management: It was about 6700-6800 this quarter as against about 7800 in the corresponding quarter and 7000 in the immediate preceding quarter.

Moderator: The next question is from the line of Subrat Dwivedi from SBI Life.

Subrat Dwivedi: Just wanted to know the gross debt and net debt positions and how much are the total debt repayments in this year and next financial year?

Management: As of March we had the total debt of about close to 1500 crores that remains there because there is some repayment in the long-term and plus some increase in the short-term. But on a net debt basis because of the increase in the cash surplus we are down to about 800 crores of net debt as against about 1000 crores as of March, so there is a reduction of 200 crores net debt as of in the three months period. Going forward we expect another 200 crores will get repaid in this year and another 200 next year.

Subrat Dwivedi: So almost 500 crores odd of cash could be there now?

Management: Come again.

Subrat Dwivedi: In terms of cash position it will be around 500 crores now?

Management: Today it will be around close to about 700 crores.

Subrat Dwivedi: And these will be passed in what overnight funds or what kind of investments?

Management: These are not in overnight funds, it's only liquid or liquid plus basically and some instruments which were already there, you can have a look at the balance sheet which classifies as of March we had a figure of about 450 crores. It has gone up to about 700 as of June.

Subrat Dwivedi: So this is at the standalone level, at a consol what will be the debt position?

Management: We have to add another 550 crores there, both in the gross and net debt.

Moderator: The next question is from the line of Sanjeev Singh from Emkay Global.

Sanjeev Singh: I have two questions; first can you give some sense on the profitability of other segments. So looks like there would have been some impact in RMC and other segments which looks like that it has impacted the profitability of overall company, so can you give some sense on cement segment profitability on QOQ basis?

Management: As far as the OPM is concerned there was hardly any OPM from this in this quarter but otherwise 5% to 6% normal they are running in the non-cement segment, OPM.

Sanjeev Singh: And secondly in interest cost, so it has come down because of reduction in debt or there are some other component so that because if I see the interest has come down on a QOQ basis so what has led to this?

Management: It is basically due to reduction in the debt, repayment of debt.

Sanjeev Singh: So, then we would not have availed any moratorium, we don't require to do that, right?

Management: Frankly speaking when we started, first moratorium was offered on 31st of March. We did avail something and then others which did not avail anything. So we have out of the total 120 crores which was to be paid, we had avail a moratorium of about 65 crores.

Sanjeev Singh: Third question if I may squeeze in, can you give some sense on how demand is panning out in your core market because last year I believe that Gujarat was impacted because of monsoon, this year monsoon does not look to be so severe, so how is it panning out for you and how do you expect it to be in the next few months?

Management: The demand has been quite good in the month of June and July and July mainly because you are very right, nowhere we have experienced very severe monsoon so far in our marketing areas except for some days in the 30 odd in Orissa. So Eastern operations are slightly impacted but in the Northern where so far we have not hit any demand constraint on this account. However Gujarat was suffered this time not because of the monsoon but because of this severity of the Corona there. Most of the cities of Surat, Ahmadabad, Baroda, Rajkot and some part of Suarashtra was very badly impacted on account of Corona where even the dumps could be opened, or offices had to be closed and so on. So therefore Gujarat was suffered on account of specially May and June, it suffered on account of the severity of the Corona. But once that gets normalize the than I would expect the improved demand situation as far as Gujarat is concerned.

Sanjeev Singh: Any capacity expansion plan, we were talking about expansion plan in the north region, so any consideration for that?

Management: Election announced and the coming quarter also.

Sanjeev Singh: So that is on the line, right?

Management: Yes, we should have done that in the March quarter but because of COVID we put it temporarily on hold, but we may announce it maybe next quarter.

Management: So it all depends on the Corona scene actually pans out in the coming quarter.

Sanjeev Singh: But this will be clinker plus grinding, right?

Management: Yes.

Moderator: The next question is from the line of Sumedha Srinivasan from ICICI Prudential Asset Management.

Sumedha Srinivasan: My question is on the waste heat recovery 10 MW which was announced. I just wanted to understand where it's coming up and what is the timeline for that?

Management: It's going to come up in Sirohi plant at our Jaykaypuram factory, the original factory. And we expect it somewhere around second quarter of FY22, it will be on stream hopefully. There has been some delay in this quarter because of the non-availability of migrant labor and all that. So there could be a delay of 2-3 months but other than that it should be there in the second quarter of FY22.

Moderator: The next question is from the line of Keshav Lahoti from Angel Broking.

Keshav Lahoti: Can you please throw some light on how has been your volume in June and July months compared to last year, what sort of degrowth has happened?

Management: Both June and July have been as good as last year. In fact July would have been slightly better only compared to the last year.

Keshav Lahoti: As you are saying that the cement demand is picking up, June and July has been doing good, so I wanted behavior trend, is it due to pent up demand or going forward also we should expect the same kind of number provided if no lockdown happen?

Management: You will have to look at it actually segment wise, you may not have a very concrete answer in what I am going to tell you. If I were to divide into more three major segments, so in the urban we have lot of the organized real estate which clearly has suffered and even the individual housing in urban has suffered because of the COVID in the last 2 months. But now it is gradually coming back in the month of July except for the real estate. The other has been rural which continues to be very robust because of the various stimulus package, whatever the funding has increased, the MNREGA expenditure, the various developmental schemes, the Aawas Yojna all that has in fact got much more funds to them then what was originally planned. And the fact that labor has gone back to their places they have also taken lot of construction jobs in their respective houses or in their villages. So as of result there has been a good demand. So pent up demand, some new demand contributed to rural and that is expected to be there for—my own vision is that—it will be there for the entire year which is the major driving force. The other third segment which is very important is the infra. Infra has suffered on account of the immigrant labors. So once the immigrant labor comes back totally then it should pick up. But when will that happen is exactly a question mark, by September or it will happen after Diwali, so that's a question mark which is there. Though there is generally now the labor is coming back, some projects have started. But none of them have started in the full swing which they could have done otherwise. So this is the broad scenario. Overall if I were to sum up I think now from Q3 definitely one should expect the normal demand until and unless the Corona, something very drastic happens on that front otherwise I think it will be a normal demand from Q3-Q4 with some improvement correction for the as in the past inadequate consumption. That is what my belief is.

Keshav Lahoti: One last question from my side how has been the pricing month on month in July and August and how do you see the pricing to play out in the near future?

Management: Pricing, the first quarter was actually very close to what was the January-March quarter, it was very good otherwise. I'm talking about the market that we operate in. South has seen some very good price increase which did not happen in the North or West to East. Here we have seen some decline in the pricing which is the normal seasonal phenomena which invariably happens in the monsoon because of the declining demand. So we are experiencing that particular phenomena, prices have slightly slipped from July onwards and I won't be surprised they slip further in the month of August-September. But then the correction should again come in the month of September. That has been the usual phenomena. But there has been no major changes in the pricing unlike South.

Keshav Lahoti: So possibly something like Rs. 10 decrease might have happened in July, right?

Management: Some decrease yes; whether its Rs. 10 depends on the segment we are stocking because there has been more decline in the non-trade segment, trade has not seen that. Then every market has room, the quantum of decline is very domestic to states. So it all depends on where you are distributing this segment, you are choosing it from.

Keshav Lahoti: What would be the difference between trade and nontrade?

Management: That has gone up considerably, some states it has gone up as high as Rs. 70 to 80 a bag and in some states, in the East it is about Rs. 30 a bag, so there is a whole spectrum every state has its own current scenario. But average would be about Rs. 40 to 50 a bag.

Moderator: The next question is from the line of Sanjay Nandi from Ratnabali Investments.

Sanjay Nandi: Can you just clarify why we took a hit in the realizations front like most of the companies in North operating; they just have posted some numbers with the good boost on the realizations front YOY basis. But we saw some dip in the realizations, is it because of we missed out in the product mix or if you can clarify that thing?

Management: Actually this quarter we saw higher than normal percentage of our clinker sales.

Sanjay Nandi: Can you please come once again?

Management: We have sold higher quantity of clinker in this quarter there is a normal say that we do.

Sanjay Nandi: What is the pricing scenario in the month of July-August in North and East if you can separately tell us?

Management: I think I have spoke at length on the pricing right now and except there is the pricing difference between trade and nontrade was very high in East otherwise the pricing scenario is what exactly I told you that the demand has been good in the rural, there the price have been more stable, in the urban where the demand has been lesser the prices have been more fluctuating and there has been a decline in the pricing in the month of July compared to June in most of the markets which is the usual seasonal phenomena which we experience every year was the monsoon starts.

Sanjay Nandi: What is the current utilization in this first 2.5 months of next Q2 versus last year?

Management: We will just tell you, in the meanwhile if you have any other question you can ask. Its 67%.

Sanjay Nandi: Sir you mean to say it's same compared to last year, right?

Management: Yes, would have been about the same. July there is no change compared to last year.

Sanjay Nandi: Its same as last year, so we can conclude like this, we will be exiting in utilization versus last year in Q2 '21?

Management: It is very difficult to predict even one month hence from now, for the simple reason now that we are experiencing COVID starting in the rural areas. That demand buoyancy that we saw because of the rural may get impacted. So it's very difficult to predict in very confident major but if one were to look at it as a normal then we as we would be slightly better off than the last year Q2.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: Can you give us some specific volume numbers; firstly what was the cement production in this quarter, standalone?

Management: Cement production in this quarter was 14.31 lakh tonnes.

Swagato Ghosh: What was the clinker sale this quarter?

Management: Clinker sale in this quarter was 3.01 lakh tonnes.

Swagato Ghosh: What was the same clinker sale numbers last quarter?

Management: Corresponding quarter clinker sale was only 1.12.

Swagato Ghosh: For the combined as in solve volumes adjusted for the inter-company material transfer, what is the cement sale?

Management: Our combined if one were to sell then total sale was 20.7, after knocking off 2.09 for the inter-unit sale.

Swagato Ghosh: So 20.7 was after knocking off?

Management: 20.7 is after knocking off, yes you are right.

Swagato Ghosh: This clinker sale, I just want to understand, was it exports or was it to other players, the higher percentage that we do this quarter?

Management: It is not export. We do a very little export because we supply it to Nepal which is not really treated as export but it is outside customer. It is a transfer from we are giving to the outsourced units where we grind cement and there is a substantial quantity which has gone in this contract to outside parties also.

Swagato Ghosh: By outside party do you mean like other cement players?

Management: Yes, many cement players of other cement players.

Swagato Ghosh: And this quarter what was our trade and nontrade mix?

Management: We were 61% trade.

Swagato Ghosh: And what was this number last quarter?

Management: 59% was the last quarter.

Swagato Ghosh: Just wanted to clarify one thing, other companies have shown a significant increase in the trade makes whereas ours has remained the same, can you just help me understand because generally in the market overall the trade mix has improved?

Management: There was some nontrade which was still working. Then what also happened is that in our case though there is sale in the rural market to the nontrade sales, many of them sell through their dealers though at the same rate as the nontrade but I assume that they would have been classifying it as their trade sales because it's going through the dealers. While we are trying to sell to all these parties even the franchise directly buy from us and we do not book the sale through the dealer, we only pay them the commission as a commissioning fee. So that could possibly have a difference because I know for sure that some people sell it through their dealers. They first sell it to the dealers and then dealers sell to the franchise and since the sale to rural has been a big quantity in most of the markets that could possibly the reason.

Moderator: The next question is from the line of Madhav Marda from Fidelity Invesments.

Madhav Marda: My question was basically on the demand side, if you could help us out on the government spending. How do you see that in North and East India, do you think that new projects are still being announced or once the current project end we could have a slowdown in demand?

Management: The government funding has been mainly on the spending on the labor oriented projects and they have the smaller development activities in the Panchayat for village labor where there has been a major demand. I think this has been all a part of the stimulus package also. So, so long the furlough and package there and the stimulus package gets exhausted this is expected to continue at least for this year.

Madhav Marda: What about the rural side couple of companies have been highlighting some slowdown because of spread of COVID in the rural parts of the country? Is it restricted to Eastern part of India or even Northern part are we hearing of similar things?

Management: Most of the states in the Northern are comparatively bigger size where we operate, be it Rajasthan or Gujarat, so there you have pockets where the rural markets have been affected. But in East we have seen in the recent times lot of impact in the rural and what has also happened is that in the immediate after the lockdown that is in the month of April and May, the lockdown is for comparatively relaxed in the rural areas. Now most of the rural markets in the East have clamped down the lockdown very seriously even in the rural market. So the shops are not opening like to do only our two states where we operate mainly in East that is Chhattisgarh-Orissa, the shops were all closed down 23rd onwards and this time they ensured very strictly. So it impacted our demand in these two states for last—now practically—11 to 12 days very seriously. While in the North it has seen in certain pockets wherever there is more impact of the COVID in the villages.

Madhav Marda: On the fixed cost side, are there going to be any structural or sustainable cost cuts that we will be making post COVID on the fixed cost overhead or largely by FY22 it will all come back to the similar levels as earlier.

Management: There may be some marginal reduction as compared to last year because last year had this some consultancy fees and some donation etc. But otherwise broadly that would be in line with the last year, no major change for these two items.

Moderator: The next question is from the line of Kishan Gupta from CD Equisearch.

Kishan Gupta: So want to know what is the volume growth you are targeting for the year.

Management: It difficult to answer the question. Without COVID we would have done good target but COVID has obviously changed all that. So forgot in the Quarter 1 itself in a many good manner and Quarter 2 with COVID, it's very difficult to spell out numbers. I think we are able to maintain.

Kishan Gupta: To maintain last year?

Management: Yes.

Kishan Gupta: And how much was last year full-year volumes?

Management: 9.3 million for the entire year.

Kishan Gupta: 9.3 million you did last year, full-year?

Management: Yes.

Kishan Gupta: Going by your rhetoric it appears that you people are bit hesitant to enhance capacity, so towards the primary reason for that?

Management: I won't say we are hesitant, but we have not been overly aggressive. We waited for our debt to come to a reasonable level first. Having done that and we know that we have a potential to grow in the existing site itself which will take much lesser time than what would we taken in a Greenfield project, we did not hurry up. But as Mr. Bidkar has mentioned earlier in one of the questions that we expect to come out with an announcement sooner than later and it will be in the existing site only which will be much less time. So I won't call it very apprehensive about adding the capacity.

Kishan Gupta: How much of the capacity can be increased through debottlenecking at the current stage?

Management: Whatever we will get now is now from debottlenecking that has all been done. If you have been attending our call, you would have heard that we had increased by debottlenecking at Durg last year. Now whatever we will add will come through a new line.

Kishan Gupta: So when you are saying existing it would be more Brownfield, right?

Management: Yes.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: What was the RMC revenue this quarter?

Management: RMC generally we have been doing about 40-45 crores, this quarter it was only 12 crores.

Swagato Ghosh: Our sales mix, did it increase? I know we do not give a breakup of East and North but just wanted to understand directionally, did it increase materially the mix of East sales?

Management: There has not been a very material change. In this quarter it may appear slightly because of the lower volume in the North and otherwise directionally that remains the same. The ratio remains the same.

Swagato Ghosh: So the ratio in June quarter was similar to March quarter?

Management: No, there would be some distortion in the June quarter because the operation in East started earlier while the North started bit late.

Swagato Ghosh: Would it be fair to assume that East profitability is lower than North?

Management: Yes of course.

Swagato Ghosh: One slightly longer-term question, I understand we have Brownfield capacities at all our locations. But what is the plan after that although it might not be needed for some time but we might have to prepare from an earlier time point, so have they given a thought that beyond the three Brownfield locations what options we have for longer term growth?

Management: Currently we do not have any mining lease in hand to talk about outside plan. But then we have participated in some of these auctions and we are still trying in some of them. Nowadays I think we have more guided as to where the limestone can be made available rather than having the chance to fused one amongst the various options. Secondly when we realize that we have options to add additional line at all the three locations we have not been overly aggressive in our bidding and that's why we may not have been successful in getting in the mining lease so far in the auctions.

Swagato Ghosh: For the Brownfield expansions, do we have all the necessary environmental clearances for the mining etc.?

Management: In most of the places we don't foresee that to be a problem. Somewhere we have clearances there, somewhere some addition has to be done.

Swagato Ghosh: Our engagement with BCG, is that done, is it completed?

Management: Yes, it is nearly completed.

Swagato Ghosh: So will we reengage them for some other projects or like maybe continuation of the same project, what are we thinking?

Management: So we will take a call in Q4, right now we are finishing our current engagements. Once that is done we will take a call.

Moderator: The next question is from the line of Milind Suresh Raginwar from Centrum.

Milind Raginwar: Can you please share the clinker production number?

Management: Clinker production in this quarter was about 9.25 lakh tonnes.

Milind Raginwar: You just mentioned that there was one BCG expense was about 20 crores in the base quarter of June. So if we adjust to that then our other expenditure, the savings there, do you think that we could have done more in this quarter given the volume adjusted to clinker is about 28% down or even on a clinker base we have 20% down. Was there any more headroom for savings in the other expenditure?

Management: Actually we don't do it based on the actual cost incurred, the pro-rata allocations we estimate for the year as a whole and instead of loading in the actual quarter in which it is incurred the pro-rata portion is over the four quarters as far as the fixed cost is concerned, barring those abnormal expenditures like the donation or the BCG fees etc. So it may not look in line with whatever actual cash outgo which has happened or the shut down which has happened during this quarter. But broadly it will be around that proportion next three quarters

Milind Raginwar: What would be the proportion of fixed cost in the other expenditure?

Management: Come again.

Milind Raginwar: I would like to know what would be the variable cost proportion in the other expenditure.

Management: In the published results we have already shown the two major hikes separately which is the power and fuel which is about 21% of our total cost and then freight and logistics cost as separately. Other than that there is only the store spares and repairs etc. which is only other than that.

Milind Raginwar: On the trade, nontrade mix you indicated that it is 61 and 39, can you just indicate how was that in North and East?

Management: North and East we don't give separately but generally in East we are much higher in the trade.

Milind Raginwar: And in North we were higher in the non-trade segment?

Management: Compared to the East and North, East a slightly higher as far as state number percentage goes.

Milind Raginwar: And last question is on the ICD that we issued to our holding company. I think coming to an, it was an one year kind of a lending, so by August is the money coming back or is it likely to be renewed?

Management: Basically this is a part our treasury operations which we are doing. I would like to clarify for the benefit of other participants on the call that this is an ICD which we have placed of 40 crores to a group company out of our treasury corpus. The primary reason therefore was last year when we originally did it, there were some concerns expressed about the defaults which had started happening in the mutual funds and specially some of the funds I don't want to name it, six schemes have closed down and even in FMPs there were delays. So we decided that at least a small portion, not more than 40-50 crores can be put in some ICD within the group which is far more safer and two it is going to yield a return higher than what we are otherwise getting from the market. So that ICD was placed out of our treasury corpus of about 450 crores last year to one of the group company for a period of one year. That is going to come back that company Bengal and Assam to be precise have already confirmed to us that they wanted to pay back and that will come back. But now that the treasury corpus has gone to about almost as of June to about 700 crores, we may consider possibly putting the same amount redeploying it somewhere within the group again for a period maximum of one year, so that we get the money, it is rotated and not more than 40-50 crores. That is the cap which we have put for ourselves which we can do. For it being one high yielding instrument and two, being much more safer than what we otherwise are doing in the market. So that money whatever we had done last year, is definitely going to come back. They have already confirmed to us. We have informed our board but simultaneously if the opportunity comes, if there is some requirement we may do that placement again with this company or some other company, maximum for a period of 12 months and at a rate which is higher than what we are otherwise getting in our treasury operations from other instruments. That answers your question.

Moderator: The next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah: You highlighted in terms of the expansion that we will be announcing next quarter. Just trying to understand in terms of the overall CAPEX required for that and the size. So I think last time or maybe the before quarter we have spoken about 1.5 million clinker and 2.5 million tonnes grinding with a 1200 to 1400 crores CAPEX. So will it more or less would in the same range or would be a drastic difference?

Management: That will broadly be in the same line here, you are absolutely correct or as far as the numbers are concerned, both in terms of capacity as well as CAPEX. So broadly on the same lines, there would not be any dramatic change in that.

Shravan Shah: But in terms of the place whether Sirohi, Udaipur or will be announcing in the next quarter and not sure right now?

Management: Yes, will do it in the coming quarter. That is for sure that it will be not in East but we will announce that going forward.

Shravan Shah: And the time period would be about close to 22 to 24 months?

Management: Absolutely, you are right.

Moderator: The next question is from the line of Kamlesh Bagmar from Prabhudas Lilladher.

Kamlesh Bagmar: Just one question on the operation side. So if you see last 3 odd years, our EBITDA margins have been broadly in the Rs. 800 range and if you see our region like say Gujarat or even say North, the way the transition has happened on the margins across the players. So they have moved to the range of like Rs. 1100-1200 per ton and even if we take into consideration that we have put up WHRS, CPP in our Durg plant and even in the Durg like say cost had come down because of the debottlenecking and higher scale available. So but are we hopeful that this trajectory of margin is going to improve to Rs. 1000 per ton or is it going to be similar levels given the logistics disadvantage we have?

Management: See basically you are right. In Northern the EBITDA margin people have been able to cross 1000. In fact if one were to see and closely to do an analysis of what we have done at our Udaipur plant which is exclusively a North player as opposed to JK Lakshmi where 25% to 30% of our output is in the East; where the realization per se are much lower and we talk of the consolidated EBITDA per ton. Udaipur has done (+1000) for your information. So it's only basically because of our operations in East where because of the subdued realizations, we on a consolidated basis you are seeing a better margin of about Rs. 800 per ton. So we are operating in the same market where others are operating and there is no reason for anybody to believe that our EBITDA is not in tandem with what other players in this North market we are achieving.

Kamlesh Bagmar: Lastly in case of Udaipur, when are our incentives are going to expire?

Management: Sorry?

Kamlesh Bagmar: When is a sunset for incentives in Udaipur plant?

Management: That will be in '21-'22, that whatever benefit which we are availing that would go.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: This is on continuation with the previous question where you said that one of the reasons why our non-trade, trade mix has not changed compared to what competition is seen. Is that there is some material that goes and gets sold in the non-trade segment but eventually, actually ends up in the trade side. I thought that this was a general practice for most companies but companies try to protect that both the segments do not get mixed and if that was the case, is there a chance that this benefit which many other companies are seeing and probably could even continue for a couple of more quarters because trade is the one which is selling; but for us this benefit might actually not come through?

Management: No, since trade it will be sold as and what I only said that when you see the number of trade and non-trade there is a different way of giving it a normal feature. The realization mix remains the same, that doesn't get altered. It is not that it is being sold as trade and coming to market as non-trade or the vice versa, no. Whether we are billing it directly or whether we are billing through the dealers that's all I have been saying.

Pulkit Patni: No, sir it's not actually very clear because in which case then the trade mix should have gone up, right?

Management: Sorry?

Pulkit Patni: It's not clear. What I mean is most of your competition has seen at least a 15% to 20% higher trade mix in this particular quarter. So why is the same not visible for us? That's what I'm trying to understand.

Management: There is an improvement maybe because we had improved earlier. So the network that we have qualified for about this much sale is what all I can see.

Moderator: The next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: I have a question, earlier there was a question around the treasury operations. My question was considering we have a debt on the balance sheet, why don't we just take the cash to repay the debt instead of doing an inter-corporate deposit? Wouldn't that be better from the company's perspective?

Management: No, I don't think because if we have got a 600-700 crores of the treasury corpus, first my return from treasury corpus is higher than the cost of the debt; that is number one. So I have an arbitrage of about 1%-1.5%, number one. Number two, tomorrow when we go for expansion the figures which we are talking of anything between 1200 to 1400, I need to invest about 300 to 400 crores as the part of the promoter's contribution. So if I use my treasury corpus now to pay-off the debt then tomorrow for the entire funding of 1400 I need to borrow. So as that will doesn't make sense; you have to plan for your future growth also. So to keep cash in the balance sheet and then plan for the expansion rather than using entire corpus for paying off the debt.

Moderator: The next question is from the line of Ashish Jain from Macquarie.

Ashish Jain: I had just two questions, one is for all the expansion that we are planning either Udaipur or its UP. Is it in a land acquisition that needs to be done or we are good from a land point of view?

Management: Land, no additional land would be required. So of our mines as well as the land for the plant is adequate at the existing location both at Udaipur as well as Sirohi; even for that matter at Durg also.

Ashish Jain: Any update on the conveyor belt in East that we have been planning for some time now?

Management: Yes, there has not been any major progress there in, but we are working on it. This is unduly taking lot of time but because of the…

Management: Corona has delayed it.

Management: But apart from Corona which has impacted the further, delayed that project but fact remains that there are some issues which are held up at the various governments and state as well as central level. So that is taking time, beyond what we had originally thought of, we have been updating you time and again on conference call quarter but unfortunately it has taken much longer than what we had set out for ourselves, the timeline.

Ashish Jain: So now shall we seeing that as of now there is no visibility in terms of time frame or you would want to put a time frame to that?

Management: We would be happy if I get the consent to go ahead in this next 2-3 quarters. After that it is about 9 to 10 months to put it in place.

Ashish Jain: And just lastly, I just want to confirm the volume numbers. I actually joined the call late, can you just tell me what is the standalone external sales volume including clinker and separately only cement as well?

Management: Total sales for the quarter is 19.05, including 3.01 lakh tonnes of clinker and on a consolidated basis I have given the figure of 20.70, after knocking out 2.09 for the inter-unit sales.

Moderator: The next question is from the line of Swagato Ghosh from Franklin Templeton.

Swagato Ghosh: Can you just help me understand how are we making a positive spread over a cost of debt? How much is the cost of debt currently and what is the yield on the treasury cash we have?

Management: We are getting because of two things; one, there is not in one instrument as I mentioned earlier. This is some is in the FMPs and some is in the funds which are locked in for almost more than 1 year, we threw some taxation benefit. So on a pre-tax basis, our rupee cost of borrowing is about 8.3 and we are able—on a pre-tax basis able—to garner, a return of over 9.5% taking in rate on the indexation benefit etc. So that gives an arbitrage of about 1 to (+1.5) this inter-corporate deposit is yielding us 9.75, that 40 crores which you had given, which would come back by August end. So overall, my return on the investment both pre-tax to pre-tax basis for the cost of the funds is 8.3 and about 9.5 is for the returns on this treasury corpus.

Swagato Ghosh: This 8.3 is for the entire debt or is it the current rate?

Management: This is for the current debt, whatever means entire debt which is today outstanding 1500 crores in the balance sheet and it doesn't include any foreign currency borrowing, so it's all rupee loan and that is the cost.

Moderator: Ladies and gentlemen due to time constraints we will be taking the last two questions. We will take the question from the line of Uttam Srinath from Axis Securities.

Uttam Srinath: My question is regard to the blended cement sale that we have done this quarter?

Management: Our OPC is 22% and blended is 78%

Moderator: We take the last question from the line of Sanjeev Singh from Emkay Global.

Sanjeev Singh: Just wanted to understand how is the ramp up happening for Cuttack grinding unit?

Management: The plant is fully established, it's now only a matter of demand and the ramping has been very adversely impacted by the COVID. By March we had come to a fairly good level of operation, the first 15 days. Thereafter the Corona has impacted and now the frequent lockdowns that we are experiencing in Orissa and Chhattisgarh is affecting it. So once this normalcy gets back the Cuttack unit I expect to get back into operations fully very soon, once the normalcy comes back from Corona.

Sanjeev Singh: But had we reached a utilization rate of 60%-65% at some point of time or we did not see that type of utilizations?

Management: We have seen about 60% capacity utilization.

Sanjeev Singh: And the profitability of selling cement will be higher than selling clinker if I am correct?

Management: Yes always.

Management: Had that not been the case everybody would be only selling clinker.

Sanjeev Singh: Earlier we were selling clinker into East region, right? Some ports on a clinker which we will convert into cement now?

Management: Yes.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Vaibhav Agarwal for closing comments.

Management: Thank you. On behalf of PhillipCapital I would like to thank the management of JK Lakshmi Cement for the call and many thanks to the participants joining the call. Thank you very much sir. Stanford you may now conclude the call. Thank you.

Management: Thank you Mr. Vaibhav.

Moderator: 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.