“Conference Call of Shree Cement Limited Hosted By ICICI Securities to Discuss the Recent UAE Acquisition”

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**Management:**
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**Moderator:**
- **Mr. Krupal Maniar** – ICICI Securities Limited
Moderator: Good Day Ladies and Gentlemen and Welcome to the Conference Call of Shree Cement Limited hosted by ICICI Securities to discuss the recent UAE acquisition. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Krupal Maniar from ICICI Securities. Thank you and over to you.

Krupal Maniar: Thanks, Margaret. Good Evening everyone. On behalf of ICICI Securities Limited, we Welcome you to the conference call of Shree Cement to discuss the recent UAE acquisition. On the call, we have with us Mr. H. M. Bangur and the other senior management team. At this point in time, I would like to hand over the call to Mr. Bangur for opening remarks and then will be followed by the interactive Q&A session. Over to you, Sir, for opening remarks.

H. M. Bangur: Good Afternoon everybody. Recently, as is it was in the news Shree Cement has agreed to acquire about 93% share of Union Cement Company. Union Cement Company is the biggest cement company in UAE and it is the most profitable as well. UAE management, it was of the Government itself and the Government thought that it will be right step to come out of business and they should concentrate on governance, so as a policy they wanted to sell, and at this point of time we entered and negotiated with them and got the deal. The details of the deal is with you and now I am ready for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Raj Gandhi from SBI Mutual Fund. Please go ahead.

Raj Gandhi: Sir, here just what amount of cost improvement can be done in your assessment?

H. M. Bangur: It is too early, but our team has visited once and we think that there is some scope of improving production. We can improve production by 8% to 10% without much capital expenditure. It may take three months or so to upgrade the things, but 10% improvement in production is possible. Other things which is there is cost of coal, so energy cost right now, there is small scope of improving as we are talking to various suppliers that we want low-caloric coal with high ash, high ash coal will be a suitable fuel for very rich grade limestone, so there should be some scope of saving there, but more than that at this point of time before we take over, it will not be possible.

Raj Gandhi: Sir, when you mentioned you can improve production by 10%, you are saying you can lower the cost by 10% or the production of that plant itself can be increased by 10%?

H. M. Bangur: No, only the production can be increased by 10%.
Raj Gandhi: Any, because you have been known to operate plants at much higher than rated capacity, so any debottlenecking potential here versus the 4 million ton which was the rated capacity there?

H. M. Bangur: It is too premature, we have seen, and our team had visited the plant, but for this going above the rated capacity you require deeper knowledge of the plant and which we will acquire once we are in operation for three months or so because every parameter has to be understood much better.

Raj Gandhi: Sir, is it possible to give a comparable clinker cost that you incur there and what will be the costing for you let us say if you were to get the clinker from there to the West Coast, what will be your landed cost here?

H. M. Bangur: The clinker cost there is around US $29 per ton. This includes fixed cost also, that is, depreciation and interest, management cost and everything, so net costing is about $29 and selling price of the cement is $52 and cost of cement is $40. Clinker is sold at about $36, so $7 per ton in clinker and $12 per ton in cement is the existing margins.

Raj Gandhi: Okay, so you mentioned clinker cost at 29 and cement cost at 40, and if you were to get it here what would be the current shipping and freight and other port, any assessment done their?

H. M. Bangur: There is good market there, the plant is running, the clinkerization is at 100% of the capacity utilization and we are not planning to bring anything to India in the immediate future. Once we are able to increase the production and it is not being absorbed in the traditional market, then only we will look at India, otherwise, from this plant we are not going to get anything to India.

Raj Gandhi: Okay, so that is not even a remote?

H. M. Bangur: It is a remote chance, not an immediate chance.

Raj Gandhi: The market of the West Coast of Indian is not even there in your mind, it will be an optional if it works out, that is not the main purpose of this acquisition?

H. M. Bangur: Not all, it is a zero purpose, but if we are able to increase the production by 40% to 50% and it is not absorbed there, then only we will look at India.

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

Akshit Gandhi: Sir, couple of questions, if you could please tell us what is the total capacity of cement in Middle East, how much is the production and how much is exported out of Middle East?

H. M. Bangur: Middle East is a big thing. In UAE, which is the country from where we are operating, total clinker capacity is 27 million tons, it may be 27.2 or .3 I am saying in the round number, so 27 million ton is the clinker capacity and full clinker production is there. The utilization is almost
100%, 27 million ton is the clinker production. Consumption of cement is around 9.5 in UAE, the rest is exported to Gulf countries and East Africa. Clinker export is roughly 13 million tons from the Gulf countries, so half is exported, half is used for production of cement.

Akshit Gandhi:  
Sir, one question would be from the current 4 million ton over next two to three years once we complete this deal, what kind of capacity expansion we are planning in this company?

H. M. Bangur:  
Right now, it will all depend after taking over, what will be the additional cost for increasing the production. If it is a low hanging fruit, we will go faster, but we think that between from 4 million ton of cement and 3.3 million ton of clinker by small expenditure of about $30 a ton, we should be able to reach up to 4 million ton of clinker, from 3.3 to 4 as our initial visit and initial confidence is there, but this also we will wait for some time till we get the grip on the things, maybe after eight months or six months of takeover, we should be able to guide you our next expansion program there.

Akshit Gandhi:  
Sir, we did look at the acquisition of Ultratech which was done of ETA Star in 2010 and we believe the valuation which you have paid is very decent and we congratulate for that, however, one question is, can this region really be a big growth market, because this company has been there for four decades and after that also they have only been able to reach up to 4 million ton, so is there really a big growth market or growth opportunity, which we wanted to understand like how we have built in India, can that be really a big over next let us say five years or 10 years?

H. M. Bangur:  
Your question about growth is very much relevant for India, but that is almost mature market. The cement growth there is roughly 2% per year, last five years data I have, CAGR of cement consumption growth, production growth is 2% only, so compared to Indian market, it seems very low, but ultimately even without growth, we are ensuring a profit of 22% EBITDA on sales which turns out to be 11% on the capital employed. On equity basis, it may be same or more depends on how the structuring is done, so we are happy with the 11% market and any upside which comes with time, which comes with efficiency will be a bonus.

Moderator:  
Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani:  
Sir, just want to understand the strategic intent behind the deal and how does this change the expansion plan in India, also how you look at future capital allocations?

H. M. Bangur:  
As far as the strategic part is there, the deal gives us 11% return in dollar terms pre-tax because there is zero tax there, so it is after tax also 11%. Now, if I take hedging cost here around 4% then it becomes 15% ours and if I take taxation also, then it becomes around 22%, so 22% return in Indian rupee terms is the strategy which forced us to go there as the deal was coming at these returns. Secondly, your very relevant question, how it will impact our Indian growth story, it will have no impact because in India we are growing at 10% or so, our capacity expansion per year.
Indian market is growing at 6% to 7%, we are growing at around 10%, that is the story of last so many years and this should continue. As far as outside strategy is there, we will not like to go outside as that will not be the main focus, but if we get very good returns, possibility of very good returns, we will like to invest outside, but that also only after we settle here, see the working, get the profit, so nothing before two years, one-and-a-half years we can go outside and that also only if we get a very decent deal. Return on capital employed will be the thing which will force us to go anywhere.

Amit Premchandani: Finally, Sir, on who owns the limestone which is used for clinker in the market that you have expanded to?

H. M. Bangur: There are independent Government-controlled companies and with which we have tied up limestone, agreement for next 50 years.

Amit Premchandani: The pricing etc. is kind of decided?

H. M. Bangur: Pricing is decided, it will be lower of the lowest amount at which they are selling to anyone or lower than the inflation.

Amit Premchandani: Sir, do you plan to set up any grinding unit in Africa or other Middle East market where you will supply the clinker from this plant?

H. M. Bangur: No, right now there is no plan, right now this will be the only capital expenditure and depending on the increase in production, getting a feel of the unit, if we are not able to sell or again setting up a unit in Africa will be at least one-and-a-half years to 2 years away and then also if it gives a much decent return compared to our Indian capital expenditure.

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

Krishna Prasad: You spoke about the returns from this acquisition, but you know outside of the financial parameter, what took you to the Middle East market because that rational is not very clear to us?

H. M. Bangur: I think the rational is very clear that excellent return, we want to remain in cement, India was not able to absorb as much as money as was being generated. Acquisition prices in India is around $110 to $120 a ton and with this kind of money expenditure, the return is almost similar, so here my return will be at least 60% to 70% more than the Indian returns and that only drew us there. It was not our natural choice, but the sheer economics forced us to go there.

Krishna Prasad: Sir, I understand that point between employing this money in India versus employing this money in Middle East, but if I add a third option to this, which is returning the money to the shareholder, do you think this Middle East option still works better?
H. M. Bangur: Of course, I feel returning the money to the shareholder means 7% return pre-tax because that is what a shareholder’s money is expected to run in the individual’s hand. Here till I am able to give you a decent return of 15% pre-tax minimum, here I have just explained it will be around 22%, which is roughly 3 times, then you can decide whether giving it to the shareholder will increase the shareholders value or decrease it.

Krishna Prasad: No, this thing for the risk that you are also taking because it is a new market, some of those aspects also would be taken into consideration, right?

H. M. Bangur: It is very right that anything new, risk is said. When we started from North to East, a big risk was supposed to be there, then when we are going to the South now it is all proven, again a risk was added, so obviously your apprehension about going to a new place means risk, but there is enough compensation for that risk, that is our risk return if you say is 22% instead of risk free return of 7%, so I think 15% of pre-tax is a good compensation.

Krishna Prasad: Sir, I am also kind of surprised with your assessment of the opportunity in India, at least the valuation and so on because even our own expansion plan to 40 million tons in next two to three years all of this suggest that there is enough opportunity in India and there is enough scope to redeploy money here, should one have a rethink on that or you think this is a one-off thing and?

H. M. Bangur: It is one-off is another thing, of course it is a one-off thing, it is not a permanent feature, till we start getting very good confidence that they start generating enough money as was being thought, it will be the second option, but at the same time company had enough reserves of 4000 crores, out of that 2000 crores or a little less is being spent here, still there is money in the bank which needs to be deployed. Normally, I am charged with that you are not utilizing the money, now it is a new charge at present that I am deploying the money in a 20% return.

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

Antariiksha Banerjee: Sir, I had a couple of questions, firstly with regard to this market that you are talking about, so you are exporting to other markets in the Gulf and East Africa whatever, can you tell us a little bit about the competitive scenario in those markets and what are the kind of returns that peers make there?

H. M. Bangur: There is a great opportunity of increasing the pricing in UAE. In the UAE, price is around $50 to $52 as I had just said. The GCC countries that is Oman, Kuwait, and Saudi Arabia, Saudi Arabia is a different story, in those countries, the prices are around $60, so $10 differential is already there, so there is scope of increasing the prices there. In the East Africa, the prices are competitive because for them competitive or getting it from any country is equally good or bad, so there they are selling at competitive rates, so there is with small difference in competitive prices, unlimited market is there.
Antariksha Banerjee: What about margins?

H. M. Bangur: Margins is as I have just said around $12 margin is in cement…

Antariksha Banerjee: For all the countries?

H. M. Bangur: Yes, for all the countries. Secondly, this company, I had not said, the good margin is there in oil well cement, they are producing oil well cement which is selling at around $100 a ton.

Antariksha Banerjee: Can you explain what this is exactly, what this product is?

H. M. Bangur: This is a oil well cement, it is a cement with special qualities which is used for, when you draw the oil, this normal cement will not work in the oil well for drilling oil you have to dig the well and for those wells to create the wall, you need a special type of cement.

Antariksha Banerjee: You are saying it is sells at $100, but the margins are the same or is it the?

H. M. Bangur: The cost is almost same and the margins are very good, it is a niche market, so the quantity will be only limited, till the oil market picks up, if the oil market picks up more operations are there, demand also is expected to increase.

Antariksha Banerjee: Right now, it is a very small portion of the mix.

H. M. Bangur: Yes, right now it is a small portion.

Antariksha Banerjee: The other thing since you came to oil and you are moving to this geography, are you ready to take on the risk of crude oil on your balance sheet because right now till today you knew Shree Cement as a pure cement player who understands the cement business and that is all. Now you have all these other macro risk such as oil and all, of course if it goes up it is good for this, but if it goes down you have also got to worry about it, right?

H. M. Bangur: We are not taking any oil risk, we are far away from the oil market. As in the any economy you go, you are not taking a risk on anything except on the gross economy because we have…

Antariksha Banerjee: This economy depends on oil only, right?

H. M. Bangur: Economy depends on 200 things, economy will depend on many, many things in India as well as in the global thing, so to that extent I am taking risk on everything. Secondly, to put it in the right perspective, 50% is in the local market, 50% is exported so on the export side also, there will be various kind of risk, it may not be oil risk.
Antariksha Banerjee: The other question I had was how are you looking to fund this entire thing, are you going to deploy your funds from your India that you had your net cash or you are going to take loans from outside?

H. M. Bangur: Right now, we are not going to raise any capital or raise any loan for this, so it will be basically our deployment of our own funds.

Antariksha Banerjee: So, you are going to pull out money from Indian bank accounts and put it over there?

H. M. Bangur: Yes.

Antariksha Banerjee: In that case, could you just explain the return that you are talking about, this 22% sorry I just missed that?

H. M. Bangur: I just said 11% on our capital employed is the dollar return, 4% is the hedging cost for dollar to rupee, so it will be 15% in rupee terms that is also nominal because 4% may go up or down, so 15% nominal rupee return post tax, which will be equivalent to roughly 22% pre-tax.

Antariksha Banerjee: The other last thing is, you said the Government companies are in charge of limestone contracts over here, right?

H. M. Bangur: Right.

Antariksha Banerjee: What is the kind of reserves that as a country, the Government companies over here have, is there any upside risk to the cost in limestone if the demand picks up or something like that?

H. M. Bangur: The company has billions of ton of limestone, not one billion but billions of ton, for there is no scope of limestone being finished in next 200 years and we are talking of only 50 years.

Antariksha Banerjee: Fine, so that should not be an upside risk?

H. M. Bangur: Right, as I had explained the prices are fixed by the present prices less part of the inflation will be covered, part will not be covered or if the prices fall down at whatever rate they are supplying to any of the person, the lowest cost whichever is lower.

Antariksha Banerjee: Currently, what is the fuel mix that these plants operate at?

H. M. Bangur: They are using a South African fuel principally.

Antariksha Banerjee: You cannot shift that to coke or something like that, is it?

H. M. Bangur: No, because there the limestone is very rich, you need more ash and Pet Coke has no ash, so Pet Coke will not be the desired fuel there and it will prove to be costly.
Moderator: Thank you. The next question is from the line of Manish S. from Pine Bridge. Please go ahead.

Manish S.: Sir, just couple of things from my side, first could you just tell us the process of this M&A, how long were you involved in the discussion, who are the other bidders, like what we were bit surprised was the total value, the last that we heard about acquisition in Sri Lanka was like at a crazy value, we had these Chinese guys coming in, so there was no presence of any Chinese guys or how did the process take place, how long were you involved in the discussion?

H. M. Bangur: I think it is not relevant, we have to move ahead, we are not going to move backward about the process of acquiring. I would like to discuss only the forward movement.

Moderator: Thank you. The next question is from the line of Mihir Jhaveri from Avendus Capital. Please go ahead.

Mihir Jhaveri: Just wanted to understand one thing, what is our current utilization of cement?

H. M. Bangur: The re, the capacity utilization of clinker is 100%, for last three years around 98% and cement is around 65%. In the current nine months up to September, they had produced 1.9 million ton of cement.

Moderator: Thank you. The next question is from the line of Amit Nigam from Essel Mutual Fund. Please go ahead.

Amit Nigam: Sir, I have two questions, first is, is the limestone which is available is it good for white cement is or is it only for grey cement?

H. M. Bangur: Very relevant, there they have every kind of limestone, so very good limestone for white cement is there which the company is not buying at present as they are not in the white business, but the government company has all the grades of the cement, in fact whatever limestone is needed for steel which is the best available, very high purity that also comes from that country.

Amit Nigam: Second question, a lot has been discussed on the capital allocation, but it is that we in India and specifically the investors with Shree Cement, we have been spoiled for growth, so when we hear that the growth opportunity out of this asset attribution is low, we see a bit disappointed?

H. M. Bangur: I will say it this way that Indian growth story will be as intact, and this acquisition is not going to dilute it anyway. This is the additional return money which was lying at 8% is being deployed at a higher percentage. The Shree Cement growth story we are not taking any money from outside, so the growth is one part, but even if I take 15% growth every year on the Indian asset then also buying at $120 will give me similar returns after five years, so here the return is available on day one and obviously we expect some growth with our efficiency.
Amit Nigam: I said if there was a longer-term roadmap which you can share with us where this asset can actually grow faster than what you said, so for example, importing clinker into India or something like that, it would be really exciting or maybe a quarter down the line or six months down the line if you can do another call and tell us that?

H. M. Bangur: We will definitely talk to you once we are in the saddle and maybe six months after we are in the saddle. Right now, importing from there to India, because most of the valuation or most of the profits will be taken away by the freight, we do not want to do it. Indian market is quite mature, we have surplus cement here. Cement should normally go to where it is in deficit, so all the Eastern Africa and GCC countries are in deficit, there is enough market. Over the last three years, its capacity utilization was 100%, that gives a indication, 100% not only for this company but for UAE as a region also, so whatever extra we produce, we should be able to sell.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, my question is when you look for any such opportunities outside India, would you like to give some criteria to use while selecting that particular geography, that is number one? Number two is, particularly in that market if you can tell us how basically that market is structured in terms of the top 10 players, what is the market share and over last five to 10 years, how that industry has behaved, that would be good?

H. M. Bangur: Number one, regarding the opportunity, if we have very good return compared to India then only we will look at outside India, our first love will remain India. For slightly higher returns, we are not going to go outside. We will be going outside only if the returns are quite decent. Secondly, there are eight players in the market of the region that is not only UAE but Gulf included and Union Cement is the biggest unit in UAE and not the biggest in Gulf, but second biggest in Gulf. Its market share in the Gulf region is 10% and UAE it will be around 18% to 20%.

Rajesh Kothari: Last 10 years, that market share would have evolved and what is the industry growth in that region?

H. M. Bangur: Industry growth is 2% around in that region for the last five years I have seen, 10 years I will not be able to comment.

Rajesh Kothari: The market share of these companies?

H. M. Bangur: The market share is almost constant, it is around 10% in the full GCC region, the company is also growing continuously, small amount of growth, 2 percentage, very small.

Rajesh Kothari: From the operating cost per ton, can you just give some color in terms of where do you think that will grow from the current levels over the next two to three years?
H. M. Bangur: It is very premature question in the sense that till we be on the seat, till we drive it for six months, then only we know and we have a feel that where the possibilities of savings are, but we feel increase in production from the existing unit will naturally result in specific consumption of energy coming down because the losses of the energy is almost constant, but if you take more production then those losses are distributed on higher volume resulting in lower energy cost per ton, so that is one thing we are very confident about and the rest when you are there in the seat as we have improved Shree Cement in stages, no one big shot improvement was there, continuous improvement, same thing will be there.

Rajesh Kothari: My last question is out of the total turnover, is it catering only to the domestic market or bulk of it also exports?

H. M. Bangur: 50% is domestic market and 50% is export.

Rajesh Kothari: Exports are largely driven to which country?

H. M. Bangur: Here, I will say GCC that is Kuwait and Oman also is taken as exports as well as to East Africa, so most of the export is to the nearby countries only, some export is to East Africa.

Rajesh Kothari: Are you planning to further increase the capacity of this company considering that there might be good Africa opportunity?

H. M. Bangur: The question is if I am not considering good opportunity right now, once we are there we will see, but without capital expenditure if improvement in capacity which is 10% on the first cut I am speaking that will be achieved immediately with small capital expenditure or small changes. Major change in capacity has to wait for some time, nothing is going to be done immediately.

Rajesh Kothari: India cement industry, do you see any improvement or do you think the sluggish phase is going to continue?

H. M. Bangur: In India, the question itself does not sound very good to me because right now I do not think any sluggishness is there. Our last quarter’s number does not show any sluggishness, the return is healthy, return on capital employed is healthy, some volume growth is there, so even if such market continues it is fine, but market has to improve as the cost push is being done. Internationally, energy prices are increasing, so cost increase has to be passed on to the consumer, it may take two to three months, but sluggishness is not there. Governments infrastructure orders are in place and they are coming.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Franklin Templeton. Please go ahead.
Krishna Prasad: Sir, can you talk about the integration process for this acquisition in terms of the local management there, what kind of management bandwidth will be involved from the India team, can you talk about that and you know how long will the integration take essentially?

H. M. Bangur: For very long, Shree Cement is continuously keeping 15% to 20% extra manpower in both commercial and technical side. This additional manpower helps us in providing management width to the new acquisition and the way we are growing, we continuously need more hands, so most of these hands are already have been trained in our mother factory and new employment is done in our own unit. Here also, we expect on the first step we are sending three to four persons from here before we take over, three persons will be there to familiarize themselves and understand the thing, what will be the management width needed. In six months’ time, whatever management width is needed will all be possible here, but already 50% of the people working in the unit are either Indian or Pakistani, 30 nationality people are already working there, so there should not be any problem and we will invite them also to learn our process. The integration process will be very smooth. There we do not have any doubt.

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

Antariksha Banerjee: Sir, thank you for taking my follow up, I might be sounding a little immature but I still wanted to understand your logic for this math, you are talking about the 11% return, so if I do my numbers it comes to you are making something around 35 of EBITDA and your deal is of 305 million?

H. M. Bangur: Perfectly right, you are absolutely correct.

Antariksha Banerjee: After that, if I take out depreciation cost, it comes out to something around 7% to 8% ROC without interest, so since you are not taking a loan I can give that, but how you are arriving at 11%?

H. M. Bangur: 11% is the EBITDA and when we are saying this is EBITDA level only 22%, depreciation is a very long cost. In Shree Cement balance sheet, we are taking very fast depreciation, otherwise it is normally 30 years, so 2% to 3% of the capital employed may be the depreciation. That should be the normal depreciation, so the depreciation cost is not very high and this is a historical plant, 30 to 40 years old, so almost the plant’s book value is not very high.

Antariksha Banerjee: Okay, so you are going to follow this accelerated depreciation policy over here also, that is what you are saying?

H. M. Bangur: No, there it may not be needed and we will value the local culture there, we will not be very aggressive in the first or second year, only after integrating ourselves fully with the local culture, we will like to change it if it is needed. Secondly, when you are saying apart from the return, the other thing was cultural fit as it was in Dubai where Indian culture and that country’s culture is
Here, we are ready to put there, suppose this same unit was in Argentina, there our culture or integration was much difficult, I would not have taken the plunge, so the plunge is also taken looking at the returns as well as the ease of management.

**Antariksha Banerjee:** Just to clarify on this integration process, are you planning to have a separate head for this business in the UAE?

**H. M. Bangur:** Of course, this is a big business, it requires separate head, right now the head of technical there is a Parsi gentleman.

**Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.

**Dheeresh Pathak:** Sir, what is the current, let us say the last fiscal year what was the limestone purchase price that you paid to that government company?

**H. M. Bangur:** Earlier, it was 14.8 Dirhams per ton was the limestone purchase price and it was paid by the one government coming to another, and this year after our takeover they have agreed to tone it down a little, so to say 14.5 from 14.8.

**Dheeresh Pathak:** Okay, per year you are saying the formula can you explain that because I think that is a major?

**H. M. Bangur:** Right, that is a very important thing. The formula will be less than the inflation number one or at the rate at which they are selling, whichever is lower.

**Dheeresh Pathak:** They are selling to other government companies or they are selling for?

**H. M. Bangur:** They are selling to Gulf Cement, Rak Cement, and they are selling roughly 50% of the limestone leaves the area, so it will be at a competitive price.

**Dheeresh Pathak:** But for your expansion, if you were to expand further, limestone would have to come from these government bodies?

**H. M. Bangur:** The government has said that as much limestone you need, they will be able to supply, unlimited limestone is there and it is part of the contract to supply as much as we want.

**Dheeresh Pathak:** Government will not get into this business of making cement anymore?

**H. M. Bangur:** Government does not seems to be, but they are already in the business of Rak Cement, they can come into the business, other people will come into the business, it is a premarket where protectionism will definitely not be there.
Dheeresh Pathak: Even if Government companies were to make cement, the limestone mining companies of government would supply them at arm’s length and they would match prices to us, is what you are saying?

H. M. Bangur: Yes, they will definitely either we will be of the same price or only lower, we cannot be higher in any case.

Dheeresh Pathak: Do you think this is a major Government risk that you have taken in that asset in that capital allocation that you have done?

H. M. Bangur: I have not understood the question in what way it is a Government risk?

Dheeresh Pathak: Government has given a commitment to match prices and provide limestone for future expansion and Government, I am not sure at least you know in that region, how change of Governments and how Government policies change?

H. M. Bangur: In fact, this is not logical, anything can be imagined which cannot be questioned, but till now they have not relegated on any of their contact in last 40 years, 50 years history, so anywhere there is a history of taking the mines back in our country, but I have not heard anything there, so there the government is much stronger and we believe it fully, so there is always a risk in anywhere you go whether it is US or Europe, you always take a risk on the local government. Here the risk is no more.

Dheeresh Pathak: Sir, one question, you explained that if you were to invest in M&A opportunities in India at $120, your returns would be similar, also there is some argument that is made that the EBITDA per ton in India because of the higher growth that may come overtime may much higher than what we are seeing because of low capita consumption and all those things, which is not there in a mature market like UAE, so that optionality of better returns in future years that also you are not anticipating and not excited about?

H. M. Bangur: No, I am not. What I will be doing that we take over only helps in decreasing the time. We are creating enough of our Greenfield capacities, which we will continue to increase. I will not be buying at the rates which are not giving me good returns at present, so we will be looking at least nice return at present and fantastic return in future, but at present very low return in the hopes of future returns, we will not be interested.

Moderator: Thank you. The next question is from the line of Raj Gandhi from SBI Mutual Fund. Please go ahead.

Raj Gandhi: Sir, just on the capital allocation wherein you said India cannot take so much of cash flow, so let us say just assuming as we grow in size, we have been growing faster than the market, so we will keep growing in size and today we are talking of cash flow when EBITDA per ton is Rs. 1000 which has been there for the past 10 years, so hopefully sometime that EBITDA level moves up,
so in that sense the capital allocation problem will only increase, right going forward, so how will you tackle it?

H. M. Bangur: There is no increased capital, this is never a problem, this is a pleasant situation.

Raj Gandhi: Right, but from a capital allocation perspective if you are not able to deploy them in India right now, it will be even more going forward?

H. M. Bangur: One thing is we always have the option if we are not able to utilize it gainfully, I can always return it to the shareholders. Certainly, there will be some opportunity of others in India in the Greenfield and Brownfield because whatever limestone we have taken our reserves in Chhattisgarh is very good, our reserves in Karnataka as well as in Rajasthan is very good. For these three reasons, we can put depending on the demand as much capacity as needed as limestone is sufficient in these three regions, that should take care of our immediate problem in India for expansion. Now, if good returns are available in the friendly neighborhood locality, we can look at it, and as you grow time to time whatever was 10 years back is not to now, maybe in future if excellent returns are there, we can buy capacities at $110 also. Right now, I have a better option than to invest at $110 that is why we are doing there. If there is no other option left, then that may be the good option in future.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani: Sir, the cement utilization you indicated is about 65% right?

H. M. Bangur: Right.

Ajit Motwani: And clinker is about 90?

H. M. Bangur: About 95, it is close to 100.

Ajit Motwani: Okay, so is the clinker production far higher than the cement production?

H. M. Bangur: Yes, it is far higher and clinker is being exported and sold to some of the grinding units.

Ajit Motwani: There are clinker sales as well in this company?

H. M. Bangur: Yes, very good quantity of clinker sales. Last year they sold 1 million ton of clinker.

Ajit Motwani: In a case where you are saying there is a deficit in African market and unless and until UCC does not have a distribution network there then there is a substantial amount of value addition that this company is losing?
H. M. Bangur: I will not go into this, there may be possibility because we have not studied the East African market whether how does sale will take place, that is a positive observation you have, but we have not taken it into account.

Ajit Motwani: Basically, you are saying that any value addition that is…?

H. M. Bangur: That will be a bonus, that I have not accounted for but definitely marketing can improve, but for that whether you have to put a grinding unit outside or the marketing itself, what is the core dynamics, what is the local dynamics we are little away from it.

Ajit Motwani: At present, what is the margin differential between these two sales let us say of 2.5 or one million ton sale just in clinker in the one-and-a-half cement, what is the margin differential?

H. M. Bangur: About $12 per ton is the margin difference between cement and $7.5 in case of clinker.

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

Akshit Gandhi: Sir, two questions, the oil well cement business, it is in a subsidiary called Norcem?

H. M. Bangur: No, it is being sold from that subsidiary, the production is with the company, long back Heidelberg Cement gave the technology to this company to make oil well. At that time, an agreement was done that a company special purpose vehicle will sell the oil well cement to the world market, 60% of that company is hold by the Union Cement, 40% by Heidelberg, so that oil well cement only marketing business is there and EBITDA which we are talking is has already been discounted by 40%, their margin has been taken out.

Akshit Gandhi: One last question from my side, I looked at the last nine-month numbers of Union Cement Company and if I look at the domestic numbers and the export numbers, the export has grown pretty fast, but the domestic has degrown, so any reasons for this specific thing?

H. M. Bangur: Degrowth is, I do not have any such thing, but it may be a very minor number, otherwise more or less, the cement and the ratio is maintained. Do you have the number of domestic sale in the last nine months?

Akshit Gandhi: Yes Sir, for September 30, 2017, nine months, the number is 216 million AED and it was 234 in the corresponding period, so it is 8% degrowth while the export has grown from 171 million AED to 225 million AED, so that is kind of a 32% growth?

H. M. Bangur: That is fine maybe with the prices, I will not be able to comment.

Moderator: Thank you. The next question is from the line of Jimesh Sanghvi from Principal Mutual Fund. Please go ahead.
Jimesh Sanghvi: Sir, is there any pricing regulation out there in the Middle East market or it is again a free-trade market like any other country?

H. M. Bangur: Good, you have come out with this, there is lot of misinformation that this region has pricing control. In fact, zero price control is there in UAE or the Gulf countries. It is a free market, everybody is able to sell all products free. Now, why this conception has come, it is because of Saudi Arabia. There the cement production is highly inefficient, so the Government of Saudi Arabia is giving subsidies to the cement companies in the form of energy cost and other things, that is why only in the Saudi Arabia, cement prices are controlled because the government is giving subsidy. One upside is that the present Saudi regime is thinking of doing away with subsidies and if that comes, the regional prices will increase further, that we have not taken into account, so the control is there by the Saudi Arabia at a much higher price whereas we are selling in UAE at a cheaper price, so for us there is no price control.

Jimesh Sanghvi: Sir, since the plant is pretty old, will we be required to take any modernization on upgradation immediately once we take it over because it is almost a 40-year-old plant or has it been upgraded over the years, so how should one look at that?

H. M. Bangur: The company is around 40 years old, the kiln line number one and two which were 40 years and 35 years old has been discarded altogether. There are now only two units, number three and number four lines. Number three is also closed and what I am talking of 3.3 billion ton is only for kiln number four which was put in 2006, so all the other units have not been taken into account. In fact kiln three is not there, we will study whether this kiln can be revived or not. If it can be revived that much more capacity will be there, otherwise, we have taken it out for our present calculation.

Jimesh Sanghvi: Do we also need to take some kind of environmental clearances and other things in these markets as well to ramp up our production?

H. M. Bangur: On those markets all the environmental clearances are there and the government there wants more efficient increase, environmental clearances are not required and if any clearances are required, it will be done pretty fast.

Jimesh Sanghvi: Sir, on the limestone quality, is it good enough to even produce white cement and any plans of Shree Cement to venture into white cement and planning to export it into India or something of that sort?

H. M. Bangur: Right now, there is no plan to produce white cement. First of all, for the first six to eight months, we would like to consolidate our position by creating more efficiency here. Then only we will look for growth. Secondly, as far as raw material is there, very good quality better than Indian white cement grade limestone, the raw material is available, good technology is available, so white cement production is possible whether we are envisaging it, it is no, but unlimited white
cement can be produced there. The company also has the space as I was saying line number one and two has been discarded, so that space is there in the company, we will not be utilizing it for the white cement.

Jimesh Sanghvi: Sir, can you give us a number or per ton capacity of the kiln number three which has been discarded and not being used right now?

H. M. Bangur: It was 1500 PPD, which is roughly half million ton, which is discarded and not taken into account.

Jimesh Sanghvi: Sir, secondly will the UAE market be largely an OPC market or PPC market?

H. M. Bangur: There is no fly ash available there, so 90% plus it is OPC market only, some slag cement may be introduced there in the future as UAE is a very big global market of slag, but right now slag cement is not being produced.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Krupal Maniar for closing comments.

H. M. Bangur: I have to add one correction, I had said that the head of technical was a Parsi gentleman, it is a Pakistani gentleman.

Krupal Maniar: Thanks everybody. On behalf of ICICI securities, I would like to thank the management of Shree Cement for giving us the opportunity to host this call and also many thanks to all the participants who joined in the call.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.