Sagar Cements Limited

Q1-FY19 Earnings Conference Call Transcript
July 20, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to the Sagar Cements Limited Q1 FY '19 Earnings Conference Call. As a reminder, 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. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, Sir.

Gavin Desa Thank you. Good Day everyone and a warm Welcome to Sagar Cements' Q1 FY '19 Analyst and Investor Conference Call. We have with us today Mr. S. Sreekanth Reddy – Executive Director; Mr. K. Prasad – Chief Financial Officer; Mr. P. S. Prasad – President – Marketing; and Mr. R. Soundararajan – Company Secretary. We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A session.

Before we begin, I would like to point out that certain statements made in today's discussion maybe forward looking in nature and a note to that effect was stated in the con call invite that was sent to you earlier. We trust you have had a chance to receive and go through the documents on financial performance. I would now like to hand over to Mr. Reddy to make his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy Thank you. Good Afternoon and Welcome to Sagar Cements' earning conference call for the quarter ended June 30, 2018. Let me start the call by highlighting the key trends in terms of demand and the prices prevalent across our key markets before I move on to discussing Sagar specific development. Demand in South especially in Andhra Pradesh and Telangana remain strong. Realizations as well improved marginally on a sequential basis on a back of steady demand. Moving onto the West, pickup in infrastructure projects and lower base have been improving the demand in the region. Prices as well moved in sync with the demand improving on a sequential basis. Going ahead on a long-term basis, we do expect the overall demand and pricing environment to sustain on the back of Government's persistent effort towards including infrastructure.

Moving onto Sagar specific development, as you must have seen in our quarterly presentation, we have commissioned the expanded capacity of our grinding unit located at Bayyavaram, Vizag, ahead of schedule. Work on the captive power plant is progressing smoothly and we expect to commission it by

March 2019. We are hopeful of improving our product mix and the conversion ratio along with lowering our lead distance post completion of these projects.

Let me now move onto our financial performance for the quarter. Net revenue from the operations for the quarter stood at Rs. 275 crore as against Rs. 258 crore generated during the corresponding quarter last year. EBITDA for the quarter stood at Rs. 37 crore as against Rs. 43 crore reported during Q1 FY '18. Operating margins for the quarter stood at 13.5%, margin compression was largely owing to higher input prices, slightly lower realization, and at the same time shutdown of the wastage recovery plant for upgrading purposes. Average fuel cost remained inched up a bit higher as it stood at Rs. 878 per ton for the quarter as against Rs. 923 per ton of clinker during Q1 FY '18 and stabilization of Gudipadu plant resulted in lower fuel cost on a consolidated basis. Freight cost for the quarter on a consolidated basis stood at Rs. 793 per ton as against Rs. 805 per ton during Q1 FY '18. This is primarily due to optimization of the freight itself and also resulted in a lower lead distance in spite of higher fuel cost.

PAT for the quarter stood at Rs. 6 crore as against a profit of Rs. 10 crore reported during Q1 FY '18, lower profitability also partly owing to shutdown of our wastage recovery plant for upgradation purposes.

From an operational standpoint of view, Sagar's Mattampally plant operated at 65% while SCLR operated at 80% during the quarter. As far as the key balance sheet items are concerned, the gross debt as on June 30, 2018, on a standalone basis stood at Rs. 312 crore out of which Rs. 174 crore is the long-term and the remaining constituted the working capital. While on a consolidated basis, debt stood at Rs. 550 crore of which Rs. 370 crore is a long-term debt. The net worth of the company on a consolidated basis as on June 30, 2018, stood at Rs. 785 crore, debt equity ratio stands at 0.47:1. Cash and bank balances were Rs. 18 crore as on June 30th. That concludes my opening remarks. We would now be glad to take any questions that you may have. Thank you.

Moderator Thank you. The first question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar Sir, just wanted to understand your outlook on generally South demand which you usually share in terms of volume growth for different states and agency operate?

Sreekanth Reddy Good Afternoon. The outlook did not change from what we have narrated during the previous call, just let me repeat once again AP and Telangana, we believe it should grow at plus 15%, Tamil Nadu by minus 5%, Karnataka by plus 5% and Maharashtra by plus 10%. Though for the first quarter if you have to look at it, some of the states have grown. We were very positively surprised with what is happening in Tamil Nadu and Kerala, which have also been positive very high single digit has been the growth so far, we hope it gets sustained, but the outlook that we internally believe highly likely is like plus 15% for AP and Telangana and plus 5% for Karnataka and minus 5% for Tamil Nadu and Kerala put together and plus 10% for Maharashtra.

Prateek Kumar In Tamil Nadu and Kerala, we expect the growth to like meaningfully moderate over the next nine months to bring it to let us say minus 5%?

Sreekanth Reddy I do not know, we are positively surprised, but we have to see how it would shape up because the usual monsoon for Tamil Nadu is actually Q3 and early part of Q4, so we have to see how that holds. If everything is good then probably our assessment could go wrong, which we would be very happy about.

Prateek Kumar Sir, Maharashtra and Eastern markets would be like 10% plus as you have highlighted earlier?

Sreekanth Reddy Yeah, East also is at plus 10% as we speak, Maharashtra has been fairly consistent at plus 10%.

Prateek Kumar Sir, regarding your volume growth specifically during the month of June numbers moderated significantly to sort of flat growth, so any specific reason for I mean Sagar Cement growth?

Sreekanth Reddy I think you should not look at month-to-month. I think overall if you have to see as we have indicated earlier, our outlook for our own volumes for the current year is at 3.2 million, I think we should do it, we should be very close to those numbers if everything goes right.

Prateek Kumar Sir, just one question on imported Pet Coke, do you hear any potential ban on imported Pet Coke as per recent news suggests?

Sreekanth Reddy If you track what is happening in the case, so far the discussion is primarily looking at the NCR region and one of the main contestant called EPCA, they have absolutely indicated that they have no issues in usage of Pet Coke for cement plant. I think the debate there was more about banning the imported Pet Coke rather than banning the Pet Coke usage itself, but you wait for the final outcome before...

Prateek Kumar Sir, exactly so banning the imported Pet Coke I am talking about, so that can potentially happen because?

Sreekanth Reddy The availability of Pet Coke per se itself is very low, in India so banning Pet Coke may not really viable from an availability perspective because the domestic Pet Coke I am sure as and when the Reliance gets into the gasification of the Pet Coke, whatever is little available even that also would become even more lower, so I do not know how feasible it would be to ban imported Pet Coke, but that is our view Sir, but we have to wait for the final outcome of the court hearing.

Prateek Kumar Sir, last question, you mentioned WHR expansion you are undertaking at Mattampally because of which it was shut down temporarily, so this is a new thing which is the expansion?

Sreekanth Reddy What has happened is the performance of the something which goes with the process, Sir, when we have commissioned 6.4 it was done when our output was only 5500 tons per day of the clinker output from our Kiln-2 for which we have implemented the waste heat recovery system. Kiln-2 with whatever little Brownfield additions that we have done has been fairly consistent above 6200, so with that there are additional gases, so we also wanted to make use of it. There was an opportunity for us to do a small upgrade with some technical adjustments, so for that reason we have shut the waste heat recovery plant in the month of June, we re-commissioned it, 6.4 currently is consistently producing around 8.5, we are hopeful that it should touch 8.8 MW getting into couple of quarters from now.

Prateek Kumar How much did that impact the cost if that is possible to quantify?

Sreekanth Reddy We are producing extra 1.5 MW, so 1.5 MW roughly translates to anywhere between Rs. 15 to Rs. 20 per ton up to clinker, Sir, additionally it will contribute more.

Moderator Thank you. The next question is from the line of Anuj Makhija from Bank of America. Please go ahead.

Anuj Makhija Sir, you mentioned that the demand was surprisingly strong or continue to remain strong in Andhra Pradesh, so despite strong demand, the cement prices in South India were flat fourth-quarter FY '18 versus 1Q FY '19, in fact the price hike taken in April was rolled back in June, can you throw some light on the pricing outlook for South India?

Sreekanth Reddy Good Afternoon, Sir. Thank you. We are not surprised with the demand in AP, I think we were surprised with the demand what is happening in Tamil Nadu and Kerala, coming back to the pricing scenario, i wish there was a correlation between the demand and price, it is more driven by the market forces. One of the reasons why we believe that prices should have ideally moved in a positive territory because Q1 is supposed to be a very good quarter for the industry in general. During those times, we have historically seen prices holding up or improving. For the first time, we have seen prices more or less remain flat. One of the reason is I think as an industry we probably misread the demand. There were more volumes coming in to the market then what market was accepting and everybody was pushing for more volume than what market was accepting, so the problem was that the price took a backseat. We wish things to turnaround, but it is too late for us look at any improvement in the price even for this Q2. We believe that middle of Q3 onwards, this price probably could take an upturn that is what we understand from what is expected to happen.

Anuj Makhija Sir, can you please share the exit price and current price in Hyderabad, Bangalore, and Chennai?

Sreekanth Reddy I would rather give you a price of exit and entry that is easier because as we speak today's price may not be very relevant, end of June we are taking an exit price of around Rs.280 in Hyderabad. Even now, our reading is that it is more or less similar, it is plus or minus Rs. 2 delta and this price is specifically for B category where we are there. Bangalore, our reading was Rs.295, Bangalore there is a slight improvement of almost Rs. 5 as we speak, and Chennai was Rs.295, Chennai actually there was a decrease of Rs. 5 from June to July.

Anuj Makhija Sir, on the supply side, the last conference call you give us very detailed supply addition outlook of the Southern India for instance Chettinad, Penna, KCP, and upcoming Shree Cement plant. In the last three months have you seen any more announcements by competitors for increasing capacity in Southern India?

S. Sreekanth Reddy There are quite a few talk, but the thing that we have discussed even in the earlier call, more or less they are the things which are on ground. Like what we have mentioned KCP is expected anytime, probably a quarter away from now, same is the case with Shree probably a quarter away which is in Karnataka. Chettinad we do believe probably nine to twelve months, they should become operational and probably fifteen to eighteen months away is Penna's clinkerization plant in Boyareddypalli. These are the things as of now, and TANCEM cement plant in Tamil Nadu also should be one quarter to 2 quarter away from a million ton commissioning. Nothing new has been announced so far and nothing new has been grounded for us to discuss that in the current scenario.

Moderator Thank you. The next question is from the line of Sanyantan Maji from Credit Suisse. Please go ahead.

Sanyantan Maji Can you throw more light on how optimization of load capacity has resulted in lower state cost and how do we see the implication of the recent Government regulation of increasing the weightage in the trucks driving this down further?

Sreekanth Reddy Sir, there are two things that we have to look from an optimization of freight. Earlier, the quantities from Gudipadu were slightly lower than what we expected. If you have noticed the plant at Gudipadu that is the subsidiary company of Sagar, used to operate at close to 65% to 70%. Now, we have increased the capacity utilization here, the bulk of the South volumes have been optimized from Gudipadu compared to Mattampally and at the same time, our grinding station at Bayyavaram also started increasing the volumes to those markets which were going from Mattampally where we were having a lead distance of additional distance of close to 500 to 600 , there is a saving there, so all these three things put together it got optimized, quantifying them would be a challenge because the diesel price has been going up, Sir. Every week almost there is a Rs. 1 to Rs. 1.5 kind of an increase that is happening on the diesel prices. Now, coming back to the regulation on the additional load on the axle, we are still waiting for the clarity, Sir, still though they have given, is it valid for an existing truck or it would be valid only for new trucks that is something which we are waiting. As it happens, Sir, we believe that the carrying capacity of trucks would increase by 10% to 15% and we hope to get some benefit out of it, but we would still have to wait for the final clarity to come. If it is for new trucks then probably it will benefit, will only accrue over a period of time, for that we are still not yet got the clarity on that.

Moderator Thank you. The next question is from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.

Jaspreet Singh Arora Sir, just besides this 18 MW CPP project in Mattampally, any other project in the pipeline and if you can quantify the CAPEX for this year and next year?

Sreekanth Reddy As defined, for a three years' CAPEX, I think we would be concluding with 18 MW CPP, beyond that we only have maintenance CAPEX at both the Gudipadu as well as Mattampally. Of course, at Gudipadu as stated earlier, we would be taking the shutdown of the plant starting from 20th of this month for 40 days for cooler replacement which has been indicated earlier. With that CAPEX, we would only have maintenance CAPEX at least for another two years from now, nothing new is planned at these two places as we speak.

Jaspreet Singh Arora Okay, sorry you said 40 days starting when, Sir?

Sreekanth Reddy Starting this month, but it should not really impact our dispatch for the commercial, we have enough clinker volumes as well as the cement dispatches would continue.

Jaspreet Singh Arora Obviously, that means that is discounted in your target of 3.2 million tons for the current financial year?

Sreekanth Reddy It is already committed.

Jaspreet Singh Arora On this 18 Megawatts CPP, how much is spent so far and how much is left, Sir?

Sreekanth Reddy We have spent close to around Rs.55 crore, another Rs.45 crore is left to be spent.

Jaspreet Singh Arora This Rs.40 crore and maybe another Rs.30 to Rs.40 crore on maintenance per annum, so is that how we should take it?

Sreekanth Reddy What you should look at it, you should count some of the maintenance expenditure has already been incurred what we have indicated earlier. What we have indicated earlier was BMM almost Rs.15 crore of additional CAPEX, out of that I think we have almost spent close to around Rs.7.5 to Rs.8 crore already and at Mattampally probably we may not spend what we have indicated earlier as then, we probably would have spent it on Rs.4 crore on them that is mostly to do with the maintenance CAPEX what we called, so Rs.45 plus another maybe Rs.15 at the max you could count with all the plants put together, so Rs.60 crore probably would be the CAPEX that we may have to spend for the next few months, whatever is left for the current financial year.

Jaspreet Singh Arora I saw the mix changing from in the domestic versus international sharply on a Y-O-Y basis, so you think this is what how it may end up being for the next couple of quarters given the prices prevailing in the market, I mean 64:36?

Sreekanth Reddy But that is very dynamic, Jaspreet, it is too early for us take a call on that. As we speak like BMM is running with 100% Pet Coke, Sagar we are moving between domestic Singareni coal to Pet Coke.Right now in the monsoon season usually and even in the summer which went by, the domestic coal availability would become slower. Also looking at the cost Pet Coke vis-a-vis to the domestic coal, so the gap is narrowing down so based on whatever given the most optimal kind of a cost, we would like to use them. At BMM, we are mostly with Pet Coke as we speak and fortunately it is all domestic Pet Coke.

Jaspreet Singh Arora Sir, in Sagar you mentioned you are moving from Singareni to Pet Coke there?

Sreekanth Reddy For the current month, yes, but last quarter we were mostly with Singareni coal, so we ended up using it.

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

Ritesh Shah Sir, first I wanted to understand how tricky is the cost inflation right now and what is it that we are doing, so you did indicate on the 18 MW CPP, so we have been ahead of curve, against the industry benchmark on the cost side, so how is it that one should look at it?

Sreekanth Reddy I think the cost inflation at this point of time is a challenge because though people talk of 10% inflation normally, but our cost inflation is on an uptick and which is much higher, but predicting a number at this point of time is going to be a big challenge, primarily because the diesel price what shape it is going to take, we are not very clear and sure of it, Sir. Secondly, coming back to the fuel prices, they have been fluctuating and we have seen a sharp uptick, now more or less it looks flat, but I do not know how long this will continue, but in our case what we are trying to do is we are trying to optimize whatever is given, so wastage recovery there was an opportunity for us to further expand that is what we have done and now with the Bayyavaram grinding station commissioning and ramping up, we do believe that the product mix should help us try to manage cost as much as possible and unfortunately even slag prices have not been what they have been. There has been an uptick even on that count, but we are putting all the efforts to optimize on that. Beyond that talking of inflation to what extent it is going to be, it is going to be a challenge as we speak.

Ritesh Shah Sir, as we look at the variables right now on a sequential basis, the cost curve would have moved up by like what 2% to 3% on a sequential basis as compared to the prior quarter average?

Sreekanth Reddy I think in our case it will be a challenge, Mr. Ritesh, because in the last quarter we took a major maintenance shutdown, so bulk of it was from the stock consumption, so our cost might look like we have reduced drastically, though we have reduced the cost, but overall if I have to look at like to like kind of a scenario, cost should have ideally gone up by just 5%, Sir, but in our case of course it is a one-off kind of an event where bulk of our consumption has happened from the inventory and the inventory was from Q3 and Q4.

Ritesh Shah Sir, secondly you indicated about change in product mix, so post Vizag view, if you could help us with whatever OPC, PSC, PPC mix is and how will that look like as we ramp up the GU?

Sreekanth Reddy Vizag grinding station are 80% or 90% of our product is going to be PSC , there is going to be GGBS also, but we are going to have some specialty cements also being made at Bayyavaram, which is nothing but OPC or rather similar to OPC like SRC or 53S . We believe that the mix is going to be if you look at only Mattampally, the mix more or less is going to be similar to like how we have been. Vizag grinding station would be around 70% to 75% would be the PSC, the slag and the rest is going to be OPC itself.

Ritesh Shah Sir, how much is GGBS right now for us?

Sreekanth Reddy So far it has been very negligible because we had very small capacity. We were doing around 10,000 to 12,000 tons per month. Going forward, we believe that should double up minimum.

Ritesh Shah Sir, my second question is overall for South, how will be the OPC, PSC, PPC mix be like, I am more trying to come from a cost curve angle because…?

Sreekanth Reddy It is 60% OPC, because it is mostly Government driven then 40% would be the blended.

Ritesh Shah Sir, how should one split this 40% between PSC?

Sreekanth Reddy PSC, there are very few players, but for them everything is PPC.

Ritesh Shah Sir, lastly would it be possible for you to quantify how much is the total cement and clinker production overall for South, so that is the first question Sir?

Sreekanth Reddy That would be a challenge, Sir, I think South also exports quite a bit of cement outside, but would be happy to share off-line, Ritesh, we need to do some work before I could give you that number, give us some time we will revert back to you on that.

Moderator Thank you. The next question is from the line of Mudit Agarwal from India Nivesh. Please go ahead.

Mudit Agarwal Sir, basically I want to ask like going forward, what will be the utilization of the Vizag plant, what shall we expect?

Sreekanth Reddy Our indication was at 70%, Sir, so we would stick to that.

Mudit Agarwal Sir, can you just throw more light on the Orissa market like what is the price structure going on and what demand?

Sreekanth Reddy Sir, we service only the South Orissa market.

Mudit Agarwal From Vizag, we will be catering to Orissa account?

Sreekanth Reddy So far also we have been servicing South market, even with the Vizag grinding station also, for some more time before the real ramp up would happen, still we would be servicing the South Orissa market. Those markets are hovering anywhere between Rs. 270 to Rs. 280, which is very low because the cost to reach these markets are very high.

Moderator Thank you. The next question is from the line of Akhil Garg from Clix Capital. Please go ahead.

Akhil Garg Sir, my question is from an overall growth perspective in terms of the maintenance CAPEX and the 18 MW plant that you earlier explained, but are there any inorganic expansion or aspirations like the one you have done historically, do you foresee any such event for Sagar Cements in the future?

Sreekanth Reddy We are always continuous on the lookout, so beyond that I cannot comment much on what you have asked me.

Akhil Garg Okay, from a geographical diversification point of view because right now the focus is…?

Sreekanth Reddy Our interest is always to look at some areas where we could make a meaningful kind of a contribution, so we are always on a constant lookout. As and when it happens, we would be more than happy to update you on that.

Moderator Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga Two questions from my side, first you gave about the Tamil Nadu and Kerala was a bit of surprise, any particular reason which you observed during this period, like there was some project or the housing demand or the road demand?

Sreekanth Reddy I think there are two things, again I am not very close on ground as far as both the states are concerned, their volumes are also not as significant, but sitting from far from one of the thing is that the base impact is one and there was lot of no activity for a sustained period of time, usually we see some activity because it is a great place, I mean it cannot stay idle for a longer period of time that could be one of the reason, and I think there are some easing of some of the regulations like the sand availability and all, those issues also should have given that increase kind of demand or volumes in the market.

Giriraj Daga My second question is a clarification on the prices what you gave, you said in Chennai Rs.295?

Sreekanth Reddy Yeah, that is very specific to our branch, Sir, I am talking of Chennai Rs. 295 to Rs. 300 would be our pricing.

Giriraj Daga Normally the difference between the Hyderabad and Chennai used to be about Rs.50 plus, right?

Sreekanth Reddy Sir, this is a mix of both trade and non-trade kind of price for ourselves. Retail, we believe that there would be a gap of almost Rs. 30 to Rs. 35 which exists, but in our case it is a blended prize, which includes the non-trade as well as the trade prices put together. If you look at the trade price, probably we should be reading around Rs.325 in Chennai.

Moderator Thank you. The next question is from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

Abhishek Ghosh Sir, could you help us with the lead distance for Sagar Cement in this current quarter?

Sreekanth Reddy You are specifically looking at Mattampally unit or consolidated level?

Abhishek Ghosh Consolidated level?

Sreekanth Reddy Around 360, 357 to be precise.

Abhishek Ghosh What would be the lead distance for the corresponding quarter last year and also for 4Q FY '18 if you could help, Sir?

Sreekanth Reddy We would be happy to share that number, we will revert back to you on that because we do it on a month-to-month kind of a number, so I need to quantify on a weighted average, we will revert back to you on that number.

Abhishek Ghosh But this should have reduced?

Sreekanth Reddy This has reduced, Sir.

Abhishek Ghosh Sir, just coming to looking at your presentation, if I look at the fuel cost that you gave, so quarter on quarter basis there is reduction but not a very sharp one, so has the power cost come down for us sharper than that of fuel cost, is that a right assumption or how should one look at it?

Sreekanth Reddy Sir, it has come down when all the costs are going up, that itself is a big thing, I know the slide does not usually look, it is mostly on fuel because the Gudipadu plant, SCLR is doing exceptionally well on the coal front, so it was not as efficient a year back, so that is also one of the reason why there is a downward kind of trend.

Abhishek Ghosh Sir, just one last thing in terms of the Bayyavaram expansion that we have done in which will be largely catering to your the Orissa market, given the lead distance and given the underlying prices in those markets, should the profitability of that operations look substantially different from what we currently do for a consol operations?

Sreekanth Reddy I think singling out would always be a problem because we are displacing it, some of the volumes what was going from Mattampally would be moving from Bayyavaram. It is natural that there should be some saving on the freight, but at the end of the day what we are trying to do it, we are trying to make a product mix change also, so there is a realization difference always between an OPC and PSC or PPC and PSC. Net-net what it would do is, it would sort of margin side it may not be significantly different, but from a real absolute number it is going to be quite significant.

Abhishek Ghosh Sir, one last thing, now that we are almost something like 5.8 million tons and maybe 6 from that 4.3 now that we have gone what is the next plan of expansion which we want to first settle out, how are you looking it from 18 to 20 months perspective?

Sreekanth Reddy Our expressed intent for long-term by 2025 is to reach to 10 million, Sir, and we are reasonably working towards it and we are confident that we would be reaching that goal by then.

Moderator Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar Sir, one question on this freight cost you mentioned was of this axle load norms change, I mean is there generally although it can vary from player to player, but generally overloading in cement and steel sector would be how much in as per your view, because there had been lot of discussions happen over last two to three days where industry participants seem to suggest that cement, steel, all the bulk sectors used to do most overloading versus container or any other sectors?

Sreekanth Reddy Pratik, what you have to remember here, South especially combined AP was one of the first states to ban the overloading of truck, most 99% of the trucks are plying in these combined states overloading was banned five years back, so now with this axle change, we do believe once there is a clarification I expressed even earlier that the only confusion is that is this also applicable for the old truck, if this is going to be applicable and we believe that the trucks carrying capacity would straightaway get increased anywhere between 10% to 15%, now how much of that would directly translate to a cost reduction is something which we have to wait and watch. It helps in fixed cost reduction, but at the same time, this is variable cost especially the tire consumption and everything, we have to be mindful. It is not that straightaway 10% cost reduction would happen, but we have to wait and watch how it would shape up. I will keep my fingers crossed till some of the clarifications would come before addressing potential saving or what we should expect out of this kind of a regulation.

Prateek Kumar Sir, these are like your hired fleet or something, which you do for your outward and inward phase?

S. Sreekanth Reddy In our case everything is hired, it is an authorized transport contractors that we have, they are the people who ply the trucks. Company does not own any trucks.

Prateek Kumar Sir, can you give that trade and non-trade mix for the quarter, has it changed materially from 65:35 you gave in last quarter?

S. Sreekanth Reddy More or less similar, Sir, because the market trend has been very same, there is the demand I would not say majority but bulk of this demand has been from the Government, so the trade and non-trade mix remains same.

Prateek Kumar At 65:35?

S. Sreekanth Reddy Yes, Sir.

Prateek Kumar Sir, one last question, at the BMM plant we had already fired like Pet Coke 100% in like last quarter Q4, obviously it has remained similar this quarter, but despite that we have obviously done great in savings on a Q-O-Q basis also, so Sir, how should we look at it, I mean any specific reason, further efficiencies which came in this quarter versus Q4 also?

S. Sreekanth Reddy Sir, I think, more or less we hope to sustain this number going forward, but subject to prices remaining same.

Prateek Kumar Sir, this was related to old cost inventory or some more efficiency?

S. Sreekanth Reddy As I stated earlier, Sir, during the last Q1, BMM was frequently start and stop, so each of the time there is a start and stop, there used to be a huge consumption of coal which we used to do in the start itself and at the same time, it was blended. It was not 100% Pet Coke last year same time. We started giving the Pet Coke usage in BMM only from Q3 onwards, Sir.

Prateek Kumar Correct, so I was asking that is why from Q4 onwards so there is further I think?

Sreekanth Reddy From Q4 to Q1 to Q2, Sir, they may not be a significant kind of a change. The major change is expected only during Q3 and Q4 we expect some changes to happen because we are going for a new cooler, so it might offer extra Rs. 10 to Rs. 15 kind of a saving per ton of clinker, because of coal savings.

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

Anupam Goswami Sir, just one question, I found on the consolidated basis that your raw material cost has jumped up a lot, so any particular reason why is that?

Sreekanth Reddy I do not think there is a significant change, the only change is that our slag, now the bought out item of slag would start increasing, Sir, so the material cost might slightly improve, but for that there is no change in the overall cost landing.

Anupam Goswami Sir, in your presentation also, you have mentioned that your freight cost per ton and power and fuel cost also per ton has remained flat or in fact has decreased in fact, so what contributed to this saving because the whole industry is suffering from the cost hike, what saved you in this?

Sreekanth Reddy On fuel cost, I have to admit that we were higher last year, purely because of our subsidiary plant was sub-optimal at that point of time, we fine tuned it, so on a relative scale definitely there has been an improvement, Sir.

Anupam Goswami So can we assume that this is going to be a sustainable if not further rise?

Sreekanth Reddy As stated before, BMM was constantly being upgraded, Sir. Last year Q1, we were almost at Rs. 1,235 fuel cost per ton at BMM, it got reduced to Rs. 850, that is, Rs. 400 reduction has happened. Now, if you look at Mattampally alone, it was Rs.812, it got increased to Rs.897, so when you look at a consolidated basis, it is at Rs.923, it has come down to Rs.878. We hope to sustain this kind of a number going forward, Sir.

Anupam Goswami Sir, your fuel cost per ton, that is really great, but can you give your Pet Coke also?

Sreekanth Reddy What is that you need, Sir?

Anupam Goswami In your presentation you have given like your average imported coal cost per ton in your presentation you have given that both imported and indigenous, I was just wondering what would be the Pet Coke level for the Pet Coke?

Sreekanth Reddy When we talk of imported coal, Sir, it is actually imported fuel that is for the Pet Coke itself.

Anupam Goswami Sir, last thing what is your non-trade and trade price difference?

Sreekanth Reddy Sir, you are talking of net realization or you are talking of gross realization?

Anupam Goswami Gross.

Sreekanth Reddy Gross, it might look there could be a gap, we will revert back to you but we usually do not maintain a gap when it comes to the net realization, Sir, but for the Government, there is a clear-cut discounted price to the Government project that we supply both for AP and Telangana. The non-trade prices typically are very similar to the trade prices, but for the Government supply.

Anupam Goswami Sir, last thing, if you can give any guidance on the realization and the cement prices going forward maybe from?

Sreekanth Reddy I wish I knew, Sir, but in our belief even for Q2 we expect similar kind of a price as Q1 to more or less maintain, we expect a slight improvement to happen middle to end of Q3 onwards.

Moderator Thank you. The next question is from the line of Devang Bhatt from ICICI Securities. Please go ahead.

Devang Bhatt Sir, just wanted to know, there was an increase in your debt by around Rs.75 crore from Q4 to Q1, what was the reason and what would be the sustainable debt say in FY '19?

Sreekanth Reddy With the commissioning of the grinding plant, Sir, we have drawn the loan what was sanctioned for the grinding station as well as the CPP is under implementation, so at the end of the implementation period, that is end of March, I think the overall debt profile would be very, very similar, because by then we would have paid out some amount of loans, so more or less we would be very close to Rs.550 odd crore of outstanding debt by end of March '19.

Moderator Thank you. The next question is from the line of Milind Raginwar from Nirmal Bang. Please go ahead.

Milind Raginwar Couple of questions, one earlier you used to share about the state wise contribution in terms of the five states that we cater to, can I get that?

Sreekanth Reddy Sir, we would be happy to share it, but the complication that we have is, we would be servicing it from two different plants, each of the plant would have a different kind of contribution, we will try to share whatever we can in the off-line, but we need to really be very clear like, for example, Karnataka, we will be servicing both from Mattampally as well as from

Gudipadu, so each has its own distance freight rates which are very different and some of the markets that they service also have a different kind of pricing.

Milind Raginwar The second thing is regarding the coal pricing, you said it is narrowing, so can you on Kcal basis indicate as to what would be the price differential for coal vis-a-vis Pet Coke?

Sreekanth Reddy Sir, what you should remember is when we talk of coal, coal is a very open ended kind of a statement. Sir, in our case we go with typically C and D grade coal of Singareni, compared with that with the Pet Coke what we are currently buying which is a Saudi Pet Coke, on a Kcal basis, the differential is anywhere between 5% to 7.5%.

Milind Raginwar What was that probably earlier?

Sreekanth Reddy The gap was quite significant, Sir, it was almost close to 30%.

Milind Raginwar So 30% has narrowed to about 5%?

Sreekanth Reddy The reason is that Singareni did not make any changes to their pricing, Sir, but Pet Coke went up.

Milind Raginwar Our Singareni contracts will be long-term or they like they are …?

Sreekanth Reddy It is a two-year kind of a contract though we have a long-term FSA, but that is every two years we need to renew it.

Milind Raginwar At what point will we look to shift, what I am trying to get is at what point we will look to shift from the costlier to the cheaper coal, whichever it may be?

Sreekanth Reddy Sir, it is all to do with the availability and we are absolutely flexible. If you have seen as a company we would be very happy to look at the recipe which would give us the low cost. Each of it has its own pluses and minuses because if you look at Pet Coke, we can use more low grade limestone also, in our case it is not an issue, but the availability of the Singareni coal is always a challenge because it is not same across the year, they usually do not supply during middle of Q1 all the way up to end of Q2, they do not supply because their priority actually shifts to most of the power plants during that time, so we need to keep stocking position, so with this kind of a price gap, we would be happy to use either of them, it is only an issue of availability.

Milind Raginwar Now this price gap is the landed cost, right?

Sreekanth Reddy We measure everything on a landed price basis.

Milind Raginwar Third is regarding the guidance that you are looking at, you had outlined something like you are targeting about 3.2?

Sreekanth Reddy Yes, Sir, we are looking at doing 3.2 million tons for the current year.

Milind Raginwar You also said that you are targeting 70% for the new grinder that has got commissioned?

Sreekanth Reddy 70% capacity utilization. The grinding unit when we have done the estimation, Sir, was supposed to run only for half the year and for half the year at 70%.

Milind Raginwar Sir, this got commissioned in the June quarter, right?

Sreekanth Reddy Yes, it was commissioned on June 10^{th}.

Milind Raginwar Have we booked something on the depreciation or the interest in the quarter?

Sreekanth Reddy Yes I mean whatever we have to, we have done that, capitalization has happened.

Milind Raginwar Okay, because our numbers on that are not, I mean still the interest cost is coming down on Q-O-Q basis also, so I was just trying to understand?

Sreekanth Reddy But the normal payouts are also happening for the CAPEX, Sir, I mean for the borrowing and that part of the main balance sheet itself.

Milind Raginwar Same with the depreciation also is it?

Sreekanth Reddy Yeah, same with the depreciation. We just got very negligible because we have commissioned only during middle of June, Sir, so we would have hardly got any major substantial kind of a depreciation happening on that.

Milind Raginwar Lastly, the tax rate for the year would be or roughly?

Sreekanth Reddy We are in MAT, Sir.

Moderator Thank you. The next question is from the line of Kamlesh Jain from Prabhudas Lilladher Private Limited. Please go ahead.

Kamlesh Jain Sir, just wanted to know one thing that, how easy is to increase prices in non-trade vis-a-vis like say trade market?

Sreekanth Reddy Increasing price is always a challenge, Sir. Most of the non-trade in our own case bulk of it is to the Government supplies, so there is a clear-cut commitment in terms of at what price we need to supply, so I do not think we have that much flexibility or any of price increase is concerned. Now, going to large institutional kind of a thing, it is more contractual kind of a thing as and when the contracts gets renewed that is when the price negotiations keep happening, sometimes we will have an opportunity to increase based on the input cost, sometimes we may have to reduce based on the competition intensity also, but it is never easy to increase the cost, I mean price.

Kamlesh Jain Sir, like say in case of wholesale market you have some like discipline in terms of prices, but in non-trade which is more of a opaque market, so do we have like that high-intensity among the players?

Sreekanth Reddy Kamlesh, I mean when it comes to the pricing power, I think it is more to do with the demand-supply, Sir, whether it is wholesale, retail or non-trade, I think similar kind of options exist everywhere. There are some large consumers with whom we are working for a very long-term, it is not a pricing power, it is mostly to do with the relationship, sometimes it is the new customer to me, challenges could be as, but there is nothing called opaque or transparent as far as that is concerned, Sir. Same market players exist whether it is trade or non-trade, so that is what I would like to.

Kamlesh Jain Lastly, in the election year normally we do feel some pressure from the Government in terms of keeping the prices lower, not hiking the prices very sharply, so do we expect this to happen?

Sreekanth Reddy I think these are all in market forces, in our experience Government always wants it very close to free, but at the end of the day we have to look at the feasibility and the viability of it, it is more a demand supply equation rather than, Government also would ideally excise the options to put pressure on us to reduce the prices, but in reality I think at the current prices I do not think we have any further facility to reduce any further and sell, and we have seen, margins are in low single digit now, so we believe that we have bottomed out as far as the price is concerned.

Moderator Thank you. The next question is from the line of Kritika S. from IIFL. Please go ahead.

Kritika S. Sir, just wanted to understand the kind of slack procurement arrangement that we have in Bayyavaram and how has fly ash and slag prices been on a Y-O-Y basis?

Sreekanth Reddy The slag prices so far are trending up, Madam, the slag prices what we have seen is there has been a Rs. 250 per ton increase on a quarter on quarter. Only in the last quarter they have increased, the whole year it did not change much. Only during the last quarter, they have increased it by Rs. 250.

Kritika S. Sir, on an absolute basis on a per ton what are you seeing slag at?

Sreekanth Reddy I am talking of per ton Rs. 250 there has been an increase, Madam.

Kritika S. That is the increase, Sir, but as of now what is the price per ton of slag?

Sreekanth Reddy Again, when you look at the slag, there are two types of slag, one is the fresh slag which is at Rs. 650 per ton and the other is Rs. 450. The other one is a slag which has been lying with RINL that is the Vizag steel plant in the yard for more than eight years, Madam, so that is at. If you look at our average, we go with 60:40 kind of a mix or sometimes 75:25 kind of a mix is at 550.

Kritika S. Sir, with respect to fly ash, are you seeing any significant inflation there?

Sreekanth Reddy No, so far no Madam, except the inflation is only on the transportation.

Kritika S. Sir, one more thing in the regions and the states that you operate, would you please help us with respect to the peers expansion in those states and are you seeing new capacities coming up at a fast pace?

Sreekanth Reddy I do not know fast pace, but I told this in the earlier but I do not mind repeating. If you need more specific details, we could connect off-line but what we are seeing is in AP and Telangana, KCP is due for commissioning their 1.75 to 2 million ton kind of a plant, they expect it over Q3 and Q4 of the current year, same is the case with Shree plant in Karnataka, this is a 3 million ton over next one to two quarters, we expect them to become operational. Chettinad in Andhra is expected over next nine to twelve months which is 3.5 million ton plant which is in Guntur. Penna, we believe it is 15 to 18 months from now the 3-million ton plant, but I think it is mostly a clinkerization plant because it is more designed for the grinding that also is a 3 million. Then we are expecting a grinding plant of Ramco in Vizag, an additional million in an existing location of their, and Tamil Nadu there is TANCEM, it is a million ton plant, we expect it over Q3 and Q4 of the current year itself.

Kritika S. Sir, we heard of one more expansion of Chettinad in Mellacheruvu, is that right or?

Sreekanth Reddy Anjani I think still we have not yet seen it on ground, so those are quite a few announcements that have happened, but what I have told you so far are with projects which are already grounded and the work is significantly happening. Of course, Anjani they wanted to double adding another 1.5 million ton is what they have indicated, but public hearing is yet to take place, so we do not know what is the current status of that.

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

Anupam Goswami Sir, just another question, yesterday I think it was on the news that Mr. Nitin Gadkari has said that about bringing cement industry under Essential Commodities Act and capping it prices, how do you see that implementing?

Sreekanth Reddy Yeah, we would be very happy with that as long as there is clear-cut pricing guidelines and margin assurances, I do not see any challenges to that.

Anupam Goswami Will it not hinder of any price hike later on?

Sreekanth Reddy As long as there is assurance for margins, why I should be worried about the price cap, Sir.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Sreekanth Reddy We would like to thank you once again for joining on the call. I hope you got all the answers you were looking for. Please feel free to contact our team at Sagar or CDR should you need any further information or you have any further queries, and we will be more than happy to discuss them with you. Thank you and have a good day.