Sagar Cements Limited

Earnings Conference Call Transcript
July 31, 2017

Moderator Ladies and Gentlemen, Good Day and Welcome to the Sagar Cements Limited Q1 FY18 earning conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. I would now like to 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 FY18 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 call with opening remarks from the management after which we will have the floor open for an interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's discussion maybe forward looking in nature and a note to this effect was stated in the con call invite sent to you earlier. We trust you have had a chance to go through the documents of 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 morning everyone and welcome to Sagar Cements earnings conference call for the quarter ended June 30, 2017. Before I move towards discussing the key operational and financial performance of the company, let me start the call by highlighting the key trends prevalent in our market. Volumes for the quarter remained relatively steady despite concerns surrounding the possible disruption caused by the GST implementation. Demand in our key markets remain strong especially in Maharashtra on the back of better infrastructure and rural demand, situation in South was slightly mixed, as strong growth in AP and Telangana was negated by the softer demand in Tamil Nadu. Steady volumes and demand also resulted in improved realizations for the quarter especially in the Western region which saw a significant price revision. Going ahead, we expect the demand to remain steady on the back of a normal monsoon and government's focus on infrastructure and affordable housing.

Moving on to Sagar specific developments, the key operational development was commissioning of the 6 MW waste heat recovery plant at the Mattampally unit in Nalgonda district of Telangana. The commissioning of this plant would ensure greater control over power and fuel cost.

Let me move on to our financial performance for the quarter, net sales for the quarter stood at Rs. 301 crore as against Rs. 229 crore during the corresponding quarter in the last year, higher by 31%. The revenue expansion was primarily on the back of improved volumes and realization. EBITDA for the quarter stood at Rs. 43 crore as against Rs. 26 crore reported during Q1 FY17 higher by almost 65%. Operating margins for the quarter stood at 14% as against 11% higher by 300 basis points. The improvement was primarily driven by our recent cost-controlling measure. Average fuel cost for the quarter stood at Rs. 923 per ton as against Rs. 817 per ton during Q1 FY17, which was higher on account of greater usage of imported coal. Freight cost for the quarter stood at Rs. 805 per ton as against Rs. 573 per ton during Q1 FY17. This increase in freight expense was primary owing to higher prices.

PAT for the quarter stood at Rs. 10 crore as against a loss of after tax of Rs. 26 lakhs during Q1 FY17. Improved profitability was owing to overall improved operational performance. From an operational point of view, Sagar's Mattampally plant operated at 56% utilization level while the Gudipadu plant operated at 64% during the quarter. As far as the key balance sheet items are concerned, the gross debt as on June 30, 2017, on a standalone basis is at Rs. 224 crore out of which Rs. 169 crore is long-term debt and the balance constitutes the working capital. The net worth of the company on the consolidated basis on June 30, 2017, stood at Rs. 773 crore, debt equity ratio stands at 0.48:1. The cash and bank balances were at Rs. 99 crore as on June 30. That concludes my opening remarks, we would now be glad to take any questions you may have. Thank you.

Moderator The first question is from the line of Mangesh Bhadang from Nirmal Bang. Please go ahead.

Mangesh Bhadang Sir, my question is regarding freight, the freight cost seems to have risen substantially, is it because of higher dispatches or lower ex-factory sales?

Sreekanth Reddy It is primarily on account of both. the dispatches are higher and at the same time it is a lower Ex Works sales, which we were organizing ourselves post-GST regime and we have done less Ex Works sales and mostly everything is on FOR

Mangesh Bhadang In terms of percentage, how much would be FOR now compared to earlier?

Sreekanth Reddy Close to 90% would be on FOR sale, , but that is something which we have to see. It again depends on if the non-trade sale especially during the monsoon, usually non-trade sales tends to be higher but we have to see how the choice of the customer is whether he would want to go with an Ex Works or an FOR, sale also it is a choice of the consumer, not our choice alone.

Mangesh Bhadang Sir, second question is regarding BMM, so despite good pricing and relatively better utilization, the profitability seems to be a tad lower and as we sell the blended cement from BMM, so when do we expect that BMM's performance to be at par or better than our existing operations?

Sreekanth Reddy As you are aware, we are actually going through a Brownfield expansion at BMM, so as stated earlier also there is a slightly higher fuel cost because there is a frequent start stop that is happening at Gudipadu unit. We hope to work on this over next two quarters because we are about to place order for the new cooler, we have already placed the order for the burner and few of the associated equipment. We are not taking a longer shutdown, but what we are doing is we are taking a frequent shutdown to add each of them. Over next two quarters, we are more than hopeful for it to get aligned. From 2,000 tons per day clinker, we are more than hopeful that would be more than 2,800 tons per day clinker would be achieved over next two quarters that would also amount to lowering the overall fuel cost for us.

Mangesh Bhadang Sir, lastly on the pricing, how is the current pricing compared to the average that we have seen in the last quarter?

Sreekanth Reddy From a Q1, of course we are about to do the first month of the Q2 and what we have to remember is usually Q2 and Q3 are depressive months from volume and from a pricing perspective. There is a slight correction on a per ton basis, we see that anywhere between Rs. 100 to Rs. 150 on a realization reduction is what we have seen for the first month.

Moderator The next question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri My question is regarding Sagar versus the industry, have you seen any gains in market share and what is your outlook for the area of operations in terms of volume growth?

Sreekanth Reddy Sir, what one has to keep in mind as far as our company is concerned, the base was lower, there is increase in traded cement and also the Bayyavaram unit was non-existent same time last year, so we have grown in line with the market, the overall market footprint area has grown close to 10%, so we are no different, we have also grown close to that number. The difference is there are some additional volumes that have come with the newer capacities that got added up to us, but for that I do not see any change in our volume outlook or volume increment that would happen from us, but for the market gains that is happening across all the players.

Anshuman Atri Sir, your outlook on various areas like AP, Telangana, and TN?

Sreekanth Reddy I have stated before, I think yearly outlook is what we generally state, not the quarterly one. We believe the AP and Telangana should be growing up of 15%, Tamil Nadu and Kerala we expect it to be by minus 5, Karnataka plus 5, and Maharashtra and Orissa by plus 10.

Anshuman Atri How is this quarter in terms of AP and Telangana?

Sreekanth Reddy We should not look at quarter-on-quarter, this quarter last year if I have to compare with the previous Q1 to the that of last Q1, the volumes more or less are flat to slightly negative, but one has to keep in mind, not the Q1 of FY 17, the volumes in April and May were phenomenal in AP and Telangana. Compared to that, we ended up the quarter with a minus 2% or minus 3% reduction because most of the growth last year happened front ended, but this year we expect it to be lot more uniform.

Anshuman Atri Sir, lastly on your fuel and freight, so with this WHR and also the production ramp up you talked about, how much can we see on a sequential basis or decline on a per ton basis?

Sreekanth Reddy That is something which we have to wait and watch, if coal prices remain where they are, we expect per quarter around Rs.4.5 to Rs.5 crore reduction thanks to waste heat recovery.

Moderator The next question is from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal Sir, two questions from my side, first on the prices if the prices are Rs. 100 to Rs. 150 down on per ton basis, so we have heard there has been some price correction because of impact of GST, so is it fair to assume that on per-bag basis for a consumer, the price decreases more than what you have stated right now meaning for your realization the decline?

Sreekanth Reddy That is what I stated is on the realization which is on Ex Works naked realization, so it could be slightly higher, slightly more than what I stated, but what we have seen is GST, post monsoon, all of them clubbed together we have seen on an average decline anywhere between Rs. 7.5 to Rs. 10 per bag across the markets that we operate.

Indrajit Agarwal Second question, Sir, we have heard about availability of sand being an issue in some markets in South, how do you see the situation right now and how…?

Sreekanth Reddy I think it is monsoon time Sir, so all the rivers would be filled. The usual sluggishness in the month cannot be attributed to one singular item, in different market at some point of time we had some issues. In Tamil Nadu, during the last Q1 itself, we did hear that market was subdued because of the availability of sand, but for this quarter and even in next quarter, the availability of sand is an issue purely because most of the mining areas would be flooded or inundated, but that is part and parcel of the monsoon kind of a thing, but I would not like to attribute one singular item for the demand the way it is, I think it is all combination of all of them.

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

Gunjan Prithyani Sir, two questions, firstly on the market outlook that you have shared for AP and Telangana 15% and Tamil Nadu and Kerala minus 5%, I am just trying to understand this 15%, what is driving the optimism, have you really seen a big change on the ground, I can understand there is a base impact seen in 1Q, but overall have you seen any improvement on the ground coming from let's say the government off-take because we also hear that government has started taking volumes, so is there anything that you have seen change, and secondly, on Tamil Nadu minus 5% seems to be a fairly low number coming after a muted FY17, so is there a lot of conservatism in this market, if you could just share some thoughts on the growth outlook that you have given?

Sreekanth Reddy From a market outlook perspective, AP and Telangana market, one, the base, second, most of the demand drivers have been active, so we have not seen any let down nor a let up in the current spend that both the governments are doing on either side of both Telangana and AP, we have not seen any letdown in terms of the expenses or the projects, low-cost housing, irrigation projects, and also the rural spend, especially there are lot of spend that is happening at panchayat level and most of the spend is happening and which is getting diverted to concrete roads, so there has been a consistent kind of spending that is happening on those. That is what is making us feel that this time the market would be close to 15% plus compared to the last year. Now coming back to Tamil Nadu, we do not cover all the parts of Tamil Nadu, see whenever we talk of our outlook, our outlook is primarily to those markets which we service which are mostly north Tamil Nadu.

Chennai in spite of having the drought conditions and all had some immunity because it is mostly urban market. From a minus 5, I am hoping that it will be close to that has been our experience in the past, I would not be surprised even if it is lower than that, but currently still we are holding onto that minus 5% at this point of time because we have just done three months into a year for us to do any revision, probably you need to assess those markets much more closer for slightly longish period of time.

Gunjan Prithyani Sir, the government off-take, I am not talking about the usual, but there was this contracted rate, has there been any progress on that?

Sreekanth Reddy The movement is happening even on the contracted rate and even the non-contacted government movement which we supply to contractors, movement is on all the sides for the government or government related. Now panchayat, I do not know where to classify, but we would put the part of the governmental push itself, because they contribute from EWS or the rural kind of a thing, there is no contract but that is the case to case for each panchayat to panchayat we are doing. There are some panchayat works which are on a contracted rate, even that is moving.

Gunjan Prithyani Those are essentially roads, right?

Sreekanth Reddy Most of the time, the panchayat are spending on the rural roads because that is easily monitor able and measurable and employment generation also is usually demonstrable, so most of the time they are spending only on roads, but of course there are some small one or two classroom buildups or small rural health centers and all are being made but that is very, very lower portion compared to the road networks, and even the drainage and check-dam works are also happening, but those proportion is slightly smaller compared to the concrete roads that they are building. When we talk of concrete roads, the contribution from Central government also is slightly higher because of the Swachh Bharat and even the rural ministry and Pradhan Mantri Rojgar Yojana and also the Sadak Yojana all of them get clubbed if it is concrete road, so they will have a much bigger budget if they have to spend on concrete roads.

Gunjan Prithyani Secondly Sir, on this WHR which has become operational recently and you have the grinding unit coming through, what will be the kind of cost savings that will flow through in let us say next 4 to 6 quarters?

Sreekanth Reddy The grinding station is good one year away from commissioning, so I would not like to put any cost savings pertaining to that, but for waste heat recovery, we have commissioned during the last month, it is ramping up and ramping up pretty fast. During this current quarter, we may get around Rs. 2 to Rs. 3 crore as saving for the entire quarter, but going forward we expect Rs. 100 to Rs. 125 per ton reduction in terms of the electrical power saving because of waste heat recovery. Overall, this quarter it should be Rs. 4.5 to Rs. 5 crore per quarter is what we are expecting to save from waste heat recovery.

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

Prateek Kumar Sir, my first question is on pricing, you mentioned about the reduction of Rs.100-Rs.150 per ton, so as I understand it would be probably from exit pricing of Q1, Sir would it be possible to elaborate on the regional prices which you generally share for your brand like in the markets of Hyderabad, Bangalore?

Sreekanth Reddy I don't have the data with me at present, will share it post the call.

Prateek Kumar Sir, with respect to the fuel cost, how competitive is now one versus the other in terms of Pet Coke and coal for you?

Sreekanth Reddy For our own Mattampally plant, we are close to 95% with Pet Coke, for Pet Coke is still most optimal solution for us because the gap between Pet Coke and coal is almost 15 paisa per kcal at this point of time.

Prateek Kumar Sir, on BMM plant, would it be similar?

Sreekanth Reddy BMM plant, we are still using imported coal because we are just about to change the burner, probably a quarter from now there we will start using Pet Coke even for the cement plant. Power plant we are still using Pet Coke, but for the cement plant probably we are one quarter away before we start using Pet Coke at BMM. We are incurring extra 15 paisa per kCal at BMM that is the reason why there is a difference in terms of the fuel cost other than frequent starts off, the fuel cost at BMM is 15 paisa per kCal higher compared to Mattampally at this point of time.

Prateek Kumar Sir, post this stabilization of the clinker expansion, debottlenecking which we are doing expecting saving of Rs. 100, we maintain that in over next two quarters?

Sreekanth Reddy Over next two quarters, we are more than hopeful to save close to these numbers, maybe slightly higher also.

Prateek Kumar Sir, what would be your debt repayment expected for the current year?

Sreekanth Reddy On a consolidated basis it would be Rs. 40 crore of principal would be out go for the current financial year.

Prateek Kumar Excluding the incremental CAPEX, which you are doing in your various projects?

Sreekanth Reddy Yes Sir, though there is some debt for it, overall it is Rs. 40 crore per year for the current year because we are still not yet out of moratorium for the Gudipadu unit.

Prateek Kumar Sir, in terms of your volume expectation you last time had indicated for rough volumes around 2.6 which we are looking at, 15% to 20%?

Sreekanth Reddy Our outlook is still the same, we are planning to do 2.6 million for the current year,.

Prateek Kumar Sir, one final question on GST, have you started seeing or industry has started seeing any benefit on this closedown of state check posts and all that or general logistics related savings?

Sreekanth Reddy It is too soon, Mr. Pratik, so we would want to wait before taking a call as far as the check post are concerned. The government has started removing the check posts, the real visibility probably it will take some more time before we could take a call on that.

Moderator The next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi Sir, you talked about this wastage recovery saving which is to be on a recurring basis Rs. 4.5 crore per quarter, right?

Sreekanth Reddy Yes, correct

Rajesh Ravi So that would be around Rs. 70 and this BMM debottlenecking would lead to on a total basis around Rs. 30 to Rs. 40 saving is what we can factor?

Sreekanth Reddy No, I think it should be higher, these two should not be looked at together, both are independent, the waste heat recovery should contribute Rs.4.5 to Rs.5 crore per quarter. Now coming to BMM, we are hoping to save slightly higher than Rs. 30 per ton because there are two things that are expected to happen there, one the overall specific heat rate would come down and at the same time, the product mix also would be changed, product mix from a fuel mix perspective. Currently, we are running on imported coal, we hope to switch to Pet Coke once the burner and the cooler is changed, which we hope to do over next two quarters.

Rajesh Ravi Sir, what is the CPP this grid or open access purchase cost in AP/Telangana currently, I just want to understand incremental versus the CPP, what sort of savings could be there?

Sreekanth Reddy We are spending currently around Rs. 6 per kilowatt from the grid.

Rajesh Ravi How is open access availability there, Sir?

Sreekanth Reddy Open access is roughly around Rs. 4.85 to Rs. 5, but there is surcharge which one has to keep in mind, so that is also inclusive of the surcharge.

Rajesh Ravi Sir, also just want to understand that can you do a large part of as open access purchases, is it possible or?

Sreekanth Reddy That is what we are doing right now Sir, our sourcing of fuel, electrical power is 50% from BMM, 40% from IEX, and 10% from the grid.

Rajesh Ravi Then your blended basis it is working at around Rs. 6?

Sreekanth Reddy The average is almost Rs. 6.10 to Rs. 6.15, because I am also including the fixed cost.

Rajesh Ravi When your CPP comes into place, you would be seeing more than a rupee saving?

Sreekanth Reddy The 50 paisa is our assessment sir, again the variability there is on the fuel cost, so if I have to keep the fuel cost on a pass through, we are hoping to save minimum of 50 paisa per unit.

Rajesh Ravi Sir, when you are talking about demand, recently Ultra Tech said that they would be ramping up the JP capacity across India wherever they required and there is Balaji which operates in similar market which has a 5 million ton capacity, so what would be your understanding of the current utilization and what sort of incremental volatility can happen, if they start ramping this capacity to 60 to 70%?

Sreekanth Reddy In our understanding, even Jaypee earlier between Balaji and Andhra Cement put together, they were operating anywhere between 45% to 50%, post-takeover you know that Jaypee brand still exists because they have the Andhra Cement where the brand is coming, so whatever was coming from their Balaji unit probably would automatically get replaced, so would market get disturbed? I would be the last person to presume that market would get disturbed. Secondly, I think the market as we have stated the neighboring market is growing, so as and when the ramp up would happen, I am assuming that it would be a smooth transition, it would be very, very disruptive and it is coming from UltraTech Sir, so we have to respect their market play is very, very different from most of the other players.

Rajesh Ravi Lastly, in addition to the waste heat recovery which we have done in CPP, is there any solar power plant also in pipeline?

Sreekanth Reddy We are about to commission probably in the first week we would be announcing the commissioning of our 1 MW solar plant, but that is primarily from a compliant perspective, would it really contribute, it would contribute, but may not be significantly to the EBITDA or any of that.

Rajesh Ravi What would be the CAPEX in this?

Sreekanth Reddy We have spent around Rs. 4.75 crore for that 1 MW.

Rajesh Ravi Lastly, the total CAPEX outgo guidance for FY18 and 19 based on the projects which are undergoing?

Sreekanth Reddy Our outlook is roughly around Rs. 275 crore.

Sreekanth Reddy Both put together inclusive of maintenance CAPEX also.

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

Jaspreet Singh Arora Sir, carry on from this earlier question, if you could just breakup, if you have it handy, in terms of number of projects, the Rs. 275 crore CAPEX?

Sreekanth Reddy The Rs. 170 crore is the grinding station at Vizag, close to Rs. 99 crore is on CPP, Rs. 10 crore between both BMM as well as Mattampally unit for the operational CAPEX or maintenance CAPEX.

Jaspreet Singh Arora A chunk of it would be in the running year or it is more back loaded in FY19?

Sreekanth Reddy If you look at the grinding station, it is one year from now, bulk of it would be 12 months from now which mostly falls in this year, but the CPP is more distributed between next year and three-fourth of it would come in next year and one-fourth in this current year, so I would say half to half, half this year and half next year.

Jaspreet Singh Arora On the outlook, Sir, that you shared, I missed out on the Karnataka State, what is the outlook you mentioned, AP and Telangana you said plus 15 and TN and Kerala minus 5, on Karnataka what did you say?

Sreekanth Reddy It is plus 5.

Jaspreet Singh Arora Would you have a similar outlook on the other three states that we operate, Maharashtra, Orissa, and Chhattisgarh?

Sreekanth Reddy Maharashtra and Orissa our assessment it is plus 10.

Jaspreet Singh Arora Maharashtra and Orissa have picked up off late, I believe they were flattish till couple of quarters back, so that is giving us the confidence, especially Maharashtra?

Sreekanth Reddy See one has to be mindful of from where we are coming, the base was flattish in Maharashtra, we are assume it to come back to normalcy, it is not like when we talk of strength I know most of the people would assume that it is going to be runaway 10%, but what we have to remember is the base was getting eroded because Maharashtra was de-growing in the previous few years. It has been consistent in terms of growth so that is what actually makes us look at this outlook.

Jaspreet Singh Arora This moderate correction of Rs.100 to Rs.150 per ton would it be prevalent across West, East, and South or it is more of the southern region?

Sreekanth Reddy Again, I have to keep my caution there, it is mostly on in our market footprint areas.

Jaspreet Singh Arora Including Maharashtra and Orissa?

Sreekanth Reddy Yes, when we talk of Maharashtra, we are hardly present in Maharashtra and that too for our price band.

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

Abhishek Ghosh Most of my questions have been answered, just wanted to get one clarity in terms of for our focus markets, what is the kind of supply addition that we are seeing over the next 12 to 18 months?

Sreekanth Reddy I would keep 24 months as logical for me to address that issue. We are expecting NCL to commission their plant probably in Q3, we assume that it would be an incremental million, then we expect 12 to 15 months KCP to come on-board that is 1.5 million ton integrated plant. In between, we expect a grinding station of Shree Cement coming up in Gulbarga, probably in Q3 or Q4 of this current year, integrated plant over next either Q4 or Q1 of next year, I mean these are the three incremental volumes that we are noticing over next 24 months. Other than our own grinding unit, which is expected during the Q1 of next year, it is 1.2 million ton incremental.

Abhishek Ghosh All in about 6 to 7 million tons kind of number for our focus market?

Sreekanth Reddy What one has to be very careful here when we talk of the numbers, these are spread across three regions and spread over wider canvas, so all of them may not come into South. If you look at our grinding station and Shree's grinding station, it is either Eastbound or Westbound, I would assume safely around 2 to 2.5 million to get added up in South over the next 18 months to 24 months.

Moderator The next question is from the line of Sanjay Satapathy from Ampersand Capital. Please go ahead.

Sanjay Satapathy Sir, just wanted to understand from you that the RERA or this GST, etc., and the farm loan waiver, there are so many things happening right now, so is that going to extend the negative impact of the demonetization demand for some more time before it really recovers?

Sreekanth Reddy Sir, the impact of demonetization, the impact of GST, I think it is a mixed bag; demonetization is almost good six or seven months passed, has it influenced the demand, AP and Telangana has been growing at 15% consistently, I would safely assume that the impact of which was negated or there is also a thought process that because of that instead of being 20, it is at 15 but it would be very difficult for somebody like us to really assess the real impact of it. Now, if you look at Tamil Nadu, is it demonetization or is it the government spend, it would be a challenge for us to really segregate, I think it is a dynamic economy, so we have to keep all the variables, which variable has nearly impacted what would always be a challenge, especially for our size and for our understanding, I would like to safely assume how much it impacted and all, I would like to pass on that question rather than try to keep my neck out to address it.

Sanjay Satapathy Sir, the better way to put this question will be that while it was high base, but were you disappointed by the kind of growth that you saw in some of your market in June quarter?

Sreekanth Reddy Sir, I am happy with what is happening, internally we had the same outlook for past few quarters, so it was not very different, so being disappointed would be a wrong statement. Ideally, we expected that initially we thought we were very conservative with our outlook, but it turned out that we were reasonably close to being realistic about what we expected, so that is where I would like to comment.

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

Ritesh Shah Sir, I wanted to take the prior question forward on incremental capacity addition, how do you see JSW Cement basically they are importing clinker, has it already started, is it impacting the market, some flavor on this would be quite helpful?

Sreekanth Reddy Good afternoon Mr. Ritesh, JSW footprint we are not in the same footprint area Sir, so we unfortunately do not track as much as we should. In our footprint areas, JSW's incremental capacity addition has not happened because we have one Nandyal plant of this and one grinding station in Vijaynagar, I think both the locations the actually rely on their own internal clinker or there import.

Ritesh Shah Sir, have you been hearing any clinker imports by any other players beside JSW?

Sreekanth Reddy Not in the regions that we operate.

Ritesh Shah Sir, secondly my question was on Pet Coke, we do use Pet Coke so what is the blend of Pet Coke between Saudi and US, I am just trying to understand is there a significant differential, I understand the differential has narrowed between…

Sreekanth Reddy From a commercial perspective earlier Saudi was discounted almost 30% to 35%, now that discounting structure has narrowed down. The challenge with the Saudi Pet Coke is it is with very high sulfur, so in our case we are using 100% Saudi Pet Coke at this point of time but there were few days in last quarter where we had American Pet Coke also with us.

Ritesh Shah Sir, how much is the discount right now between Saudi and US?

Sreekanth Reddy Hardly anything, Sir, even talking of 5% to 10% also is something which, each has its own pros and cons. Saudi is right now available at $4 to $5 lower than the American Pet Coke.

Ritesh Shah Sir, has this widened over the last two months?

Sreekanth Reddy No, not that we have known Sir. We started chasing Russian Pet Coke, so we have an additional new variant to the Pet Coke itself.

Ritesh Shah Sir, how much is the sulfur content for Russian Pet Coke?

Sreekanth Reddy Again, you have multiple choices but what we are chasing is around 2% to 4% kind of number that we have heard of.

Moderator We have follow up question from the line of Mangesh Bhadang from Nirmal Bang.

Mangesh Bhadang Sir, the question is regarding GST, so you mentioned post-GST, the preference is shifted towards more FOR sales, I just wanted to understand is the incidence of tax higher under Ex Works, ideally it should not be, right?

Sreekanth Reddy The incidence of getting input credit is higher with FOR, I would not put it in terms of taxing higher, but the input credit if it is done on FOR it is higher compared to and it is pretty straightforward whereas with an Ex Works sales it becomes tricky because the freight has a different service tax, so the way it needs to be excised, we have multiple agencies to get involved whereas with an FOR sale, it is pretty straightforward. It starts and the input is straight away taken.

Moderator We have a follow up question from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar Sir, I have just one related question to the previous question on this freight cost, so earlier we see used to get this input credit on the 4.5% duty on the freight, so it seems that has been removed now, so the industry is not able to take the credit now on the usage of freight services.

Sreekanth Reddy It is not duty Sir, it was service tax that we were paying and it was being taken as an input credit. I would not tell that it is removed, but it has become slightly complex in terms of how it needs to be done because if it is an Ex Works sales, the responsibility of the company is done on an Ex Works, so it is mostly the customer who has to get the input credit where he has to coordinate with his transport contractor because the responsibility is with him and his transport contractor, because contract is not with the company so he has more agencies and all that are getting associated because service tax and you know that it is mostly for any input credit to happen, the overall filing has to happen systematically, so each transport contractor has to file and get the things done, I do not think it is removed but there is lot more paperwork associated with getting that input credit at this point of time.

Prateek Kumar Sir, one last question, recently there was a coverage on the pollution board putting some regulations in the South India cement plants, many cement players where the names of like the bigger, I think Sagar Cement, India Cements and lot of broader companies were also there…

Sreekanth Reddy You are referring to one news article where Sagar is not there Sir, we were fully compliant much before. That was pertaining to certain old regulations which they were chasing as a follow up, so we are fully compliant, I do not think we are there. Probably, there is one company of ours which is closed down which is Amareswari which was reflecting there, but not Sagar Cements.

Prateek Kumar Okay but that was due to some pollution regulatory norms?

Sreekanth Reddy The Company is merged and that unit is closed, so the issue of compliance does not arise because that asset is itself closed, so it was pertaining to January 1, 2017, they were upgrade of most of the pollution control equipment was supposed to happen, replacement of bags because there was PM50 and all those regulations came up for which industry had to upgrade its ESPs and the bag filters. Sagar did much, much long time back so we are fully compliant, we were not part of the notices that they have given. Secondly, there was some regulations that have come pertaining to the Pet Coke, even from that perspective we are reasonably compliant as far as that is concerned, both at Gudipadu as well as Mattampally unit.

Moderator The next question is from the line of Akshay Ajmera from Nirzar Securities. Please go ahead.

Akshay Ajmera Sir, my question is regarding your opening remark where you said that demand volume was steady GST implementation, so post the GST implementation how do you see the this coming up, can we assume that GST tax has been well settled and sales have been normalized especially in the southern part?

Sreekanth Reddy I will share our experience with that Sir, the initial first four days to a week's time, the market was trying to understand the overall paperwork that was required, so we did suffer or the dispatches were not in line with the averages that we do, post that scenario most of the dispatches were in line with the averages even pre-GST, but I think I will keep my fingers crossed because the first filing would happen August 20, so we have to work on to really assess the real impact in terms of the paperwork filing and all. From a sales perspective, I do not think we have any reasons to worry about the implementation of the GST. It has been as smooth as when from a sales tax to VAT regime it has happened, it has happened in a similar kind of a line.

Akshay Ajmera As you mentioned that preference has shifted from network sales to FOR sales that might have helped the sales to normalize?

Sreekanth Reddy I do not think it would change the volume, it is only the type of sale that got changed, but the demand per se would not answer just because it is an FOR or Ex Works.

Moderator Thank you. The next question is from the line of Vasu Kabra, an Individual Investor. Please go ahead.

Vasu Kabra I have three questions for you, the first question is what has been the replacement cost of your plant?

Sreekanth Reddy That is a tricky question because it again depends on from where to where we are trying to move, though the industry for some strange reason as a fixation, $100 or $130, but I think it is very, very specific to each of the asset, in our own experience for a Brownfield we have done it at $70, but that definitely I would not assume as a standard but there were lot of other associated infrastructure which was readily available, that is the only reason why we have done it at $70, it is a case to case. There is nothing called thumb rule or specific kind of a thing for that would run across the board suitable to everybody, it is a very case to case very specific kind of cost that get associated with Brownfield or replacement kind of a thing, there is no thumb rule that at least what we have understood or what we have experienced so far.

Moderator Ladies and Gentlemen, this was the last question for today. I would now like to hand over the floor to the management for their closing comments.

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