



## Sagar Cements Limited

### Q1 FY17 Earnings Conference Call Transcript

July 29, 2016

---

**Moderator** Good day, ladies and gentlemen and welcome to Sagar Cements' Q1 FY17 Earnings Conference Call. Please note that this conference is being recorded. 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** Good day everyone and welcome to Sagar Cements' Q1 FY17 Analysts and Investor call. We have with us today Mr. Sreekanth Reddy – The Executive Director; Mr. K. Prasad – Chief Financial Officer and Mr. P. S. Prasad – President-Marketing.

We will begin this conference call with the 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 some statements made in today's discussions may be forward-looking in nature and note to this effect was stated in the con call invite sent to you earlier. We trust you had a chance to see them and go through the documents about the financial performance.

I would now like to handover to Mr. Reddy to make his opening remarks.

**Sreekanth Reddy** Thank you. Good morning everyone and welcome to Sagar Cements' Earnings Conference Call for the quarter ended June 30, 2016. I will start the discussion with a brief overview of the key sectorial developments following which I will move on to our quarterly performance.

Pricing remains somewhat subdued across our key markets for the quarter when compared with the previous period. In addition to soft demand, realizations have also remains a bit subdued for the quarter. Pricing though appears to have been stabilizing however the period in review it continues to remain lower than the previous period.

The situation though appears to be improving on the ground and the expected pick up in government infrastructure projects coupled with good monsoons demand and pricing is expected to improve even further going forward.

Moving towards Sagar's quarterly performance Q1 was a challenging quarter for the company with overall macro conditions remaining weak characterized by the soft demand and over realizations we request you to review the results in context of the aforesaid environment.

Let me briefly mention the key operational developments before I move on to the financial highlights of the quarter. As you all must be aware the company's board



has given an in principle approval for the acquisition of a grinding unit of 181,500 tons per annum owned by Toshali Cements Private Limited. The acquisition of this unit which is located in Bayyavaram, Vizag district of Andhra Pradesh is expected to cost Rs. 60 crore inclusive of the transaction cost.

Post the acquisition we plan to scale up the capacity to 300,000 tons per annum. The acquisition will help us lower our logistics costs and help us introduce slag cement to serve the markets in North and coastal districts of AP namely Visakhapatnam, Vizianagaram, Srikakulam and some parts of South Orissa.

Moving on to the financials. Net sales for the Sagar during the quarter stood at Rs. 136 crore as against Rs. 185 crore during Q1 FY16. While on a consolidated basis the overall sales for the quarter stood at Rs. 197 crore. EBITDA for Sagar stood at Rs. 13 crore as against Rs. 38 crore during the same quarter last year while on a consolidated basis the same stood at Rs. 26 crore.

EBITDA margins at a consolidated basis stood at 13%. Average fuel costs for Sagar during the quarter was at Rs. 779 per ton as against Rs. 801 per ton. This is slightly lower owing to imported coal and also better efficiency from the plant. The average fuel cost for BMM for the quarter stood at Rs. 818 per ton. Freight cost for Sagar stood at Rs. 558 per ton as against Rs. 651 during the same quarter last year. Lower expenses primarily are on account of the reduced leads distances.

Freight cost for BMM stood at Rs. 615 per ton for the quarter. PAT for Sagar stood at Rs. 5 crore as against Rs. 23 crore during Q1 FY16 while on a consolidated basis loss after tax stood at Rs. 26 lakhs. From an operational point of view Sagar's Mattampally plant operated at 57% utilization level while BMM operated at 62% during the quarter. Of the total sales approximately 55% of the dispatches on the consolidated basis were made in markets outside of Andhra Pradesh and Telangana.

With Tamil Nadu, Maharashtra and Karnataka being the top 3 markets for us during the quarter.

As far as the key balance sheet items are concerned the gross debt as on 30 June 2016 on a standalone basis stood at Rs. 195 crore out of which Rs. 118 crore is long term debt and the remaining constitutes the working capital. While on the consolidated basis the gross debt stood at Rs. 440 crore out of which Rs. 335 crore is the long term.

Net worth of the company on the consolidated basis as on 30 June 2016 stood at Rs. 549 crore. Debt-to-equity ratio stands at 0.61:1; cash and bank balances were Rs. 6 crore as on 30 June.

That concludes my opening remarks. We would now be glad to take any questions that you may have.

**Moderator**

Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Nitesh Jain from Axis Capital. Please go ahead.

**Nitesh Jain**

Sir, I have two questions. If I look at your presentation slide 9, for the Mattampally plant, the drop in realization on a Q-o-Q basis it is like much sharper than the drop for the BMM plant. So can you explain like the majority of price correction



happened in the Telangana or the Coastal Andhra region this time around in this quarter? And how is the situation now like as far as the Mattampally Sagar Cement is concerned? Are we back to the Q4 realization level?

**Sreekanth Reddy**

Yeah, coming back to the question about the realizations in the Northern part of South yeah, they have been very depressive during the most part of the last quarter. As stated earlier even during my previous conference call the prices declined starting from February 15, 2016 onwards up to May 15 more or less the prices were very, very subdued. From May 15 onwards we are started seeing some increase in prices. But we only started realizing the increased prices we started seeing only from middle of June. We would like to state that most of the prices have reasonably come back to the old prices. But this impacted mostly the markets of Telangana, North Karnataka and North Coastal districts of AP. Fortunately the other parts of South barring very small dilution most of it remains fairly stable across all the timelines what I have mentioned.

**Nitesh Jain**

And sir, the secondly on your comment on the pricing situation for Maharashtra market. If I look at the same slide 9 the Maharashtra realization you mentioned and it appears to be very low like Rs. 2,750?

**Sreekanth Reddy**

In this case most of our sale is on an ex-cost basis or an ex-godown basis. So the price tends to look low. Of course it is low but not as low as this cannot be compared Apple-to-Apple. Because it is on the most of the sale has happened on an ex-godown or an ex-plant kind of a thing.

**Nitesh Jain**

And sir, lastly if you can share what are the current retail prices for us or broadly in the major cities like Hyderabad, Chennai, Bangalore right now?

**Sreekanth Reddy**

Hyderabad has come back to Rs. 280 kind of a level. We exited the quarter were somewhere around Rs. 250 odd but for most part of the Q1 quarter was hovering anywhere between Rs. 200 to Rs. 220. Now most part of the July the average price is around Rs. 280 in Hyderabad. Now Bangalore more or less remained at the same bracket of around Rs. 325 to Rs. 340 kind of a range. Chennai also is in the same vicinity of Rs. 335 to Rs. 345 kind of a range which was also the exit time for us during the Q1.

**Nitesh Jain**

So it appears sir that Chennai prices have come up like I remember they used to be like Rs. 380, Rs. 400 few months back?

**Sreekanth Reddy**

No I think Chennai prices for us at least they have remained more or less on a similar kind of a number. Yeah our reading in April was around Rs. 345. So typically during these times it is slightly down but we are almost reading Rs. 340 to Rs. 345 kind of a range. Even Bangalore was around Rs. 320 during the April-May more or less that slightly got consolidated at Rs. 325. Hyderabad what was around Rs. 200 to Rs. 225 slowly inched up to around Rs. 280 number by the end of May to early part of June. June and July we are more or less realizing around Rs. 280 kind of a number.

**Moderator**

Thank you. The next question is from the line of Pratibh Agarwal from Reliance Mutual Fund. Please go ahead.

**Pratibh Agarwal**

Couple of questions sir, first one regarding your Toshali acquisition. So what I wanted to know was the current capacity utilization of that unit?

**Sreekanth Reddy**

The current capacity of the unit is 0.1815 million. The utilization is almost in the range of around 70%.



**Pratibh Agarwal** And sir, regarding that your ramping up to 3 lakhs tons so when can we expect that to happen?

**Sreekanth Reddy** During the Q4 of this year itself. Because we are shifting one of the idle equipment that we have in the Sagar Mattampally unit.. We expect it to commission somewhere around early part of Q4.

**Pratibh Agarwal** Also, that Rs. 60 crore acquisition amount so how will it be sourced?

**Sreekanth Reddy** The internal accrual is in the range of around Rs. 20 crore to Rs. 25 crore and the rest is a debt.

**Pratibh Agarwal** And sir like have you say that it would be increased and the capacity would be expanded by quarter 4 so what kind of capacity utilization it will touch in FY18?

**Sreekanth Reddy** 70% sir, we are looking at a minimum of 70% utilization for that particular asset.

**Pratibh Agarwal** In FY18 also, sir?

**Sreekanth Reddy** Yeah for FY18 itself we are looking at around 80% because the current year we are barely going to run it for maybe two or three months. So it would be difficult for us to talk about the capacity utilization for the current year but next year we expect it to be north of 70%.

**Pratibh Agarwal** And sir, just I have one more question regarding that consolidated depreciation number in this for the quarter 1. So it is around Rs. 11.3 crore. So sir, I just wanted to know that this kind of figure would continue in the subsequent quarters also or is there any one off element for this quarter?

**Sreekanth Reddy** I think it is a continuity and we should expect it to be in that range.

**Pratibh Agarwal** As I was comparing it with FY16 number that depreciation number that is Rs. 33.6 crore so just wanted to know whether it seemed to be a bit high. So just wanted to know whether is this a normal or has a one off this Rs. 11.3 crore for quarter 1 in FY17 the June quarter?

**Sreekanth Reddy** See what has happened during the last year there was a capitalization of few of the capital works in progress that has happened during that time. So it was done for the half year and subsequently it got rationalized. Now we expect it to continue at Rs. 11 crore for quarter-on-quarter.

**Pratibh Agarwal** And sir, just if I could ask one more question regarding that power and fuel per ton consol number. It seemed to be a bit still high like at Rs. 1,121 per ton. So sir, could we expect this to go down in future?

**Sreekanth Reddy** See what one has to look from a context of what is the kind of product mix that we make. It is 60% OPC and 40% PPC. Now so you have to look at up to clinkerization we are sub 50 electrical units per ton. Of course we are putting enough effort to optimize on the consumption. And at the same time as and when the waste heat recovery would get commissioned over next 15 to 18 months we do expect a sharp drop going forward.

**Moderator** Thank you. The next question is from the line of Murtuza Arsiwala from Kotak Securities. Please go ahead.

- Murtuza Arsiwala** Two questions from my side sir, one is in terms of the demand trends we are getting sort of conflicting views on the government demand which is coming in but there is not enough data to sort of corroborate. Could you give us some sense of how that demand is shaping up and overall how you are seeing demand sort of shape up in the near term to medium term?
- The second is on the acquisition you mentioned that you are going to ramp up the capacity in a very short period of time and you also mentioned that you are just going to shift some of the equipment which is there at the existing plant. So what would be the CAPEX involved then for something like this just shifting the equipment etc I mean is there any meaningful CAPEX involved?
- Sreekanth Reddy** From a demand perspective, if we have to compare with the last year same time yeah the demand is much higher. But last year during the same time the demand was very, very subdued. Most of the demand for last year has come during H2. If we have to compare with year-on-year, the demand is looking on uptick especially for the states of Andhra Pradesh and Telangana and flat-to-upward bias in Karnataka, slightly negative-to-flat in Tamil Nadu and very negative in Kerala. But if we have to see as I mentioned that the first half of last year was very, very subdued probably was the lowest in lowest H1 in almost 6, 7 years.
- But if we have to go back and compare with similar kind of quarterly performance with the previous years more or less it has come back to normal. But our assessment again we do not take a very long term view but for the current year our reading is that AP and Telangana could move in the range of 5% to 7.5% incremental growth. Karnataka we are looking at 2% to 2.5%. Tamil Nadu and Kerala put together we expect it to be almost by drop by minus 5%. That would be our take on the market. Overall if we have to club the entire South with AP, Telangana, Karnataka, Tamil Nadu and Kerala more or less our assessment is that combined volumes could be flat.
- Murtuza Arsiwala** Thank you sir and on the CAPEX?
- Sreekanth Reddy** Commenting on the capacity expansion in the acquired unit yeah, what we are doing is we are shifting a mill which is idle in Sagar. We have factored around Rs. 3 crore CAPEX for shifting cost and the installation cost there. What you have indicated is the total Rs. 66 crore which includes the acquisition cost plus the CAPEX and some small additional land all inclusive we have factored around Rs. 66 crore of CAPEX for acquisition and expanding to 300,000 tons per annum capacity.
- Moderator** Thank you. The next question is from the line of Manish Valecha from Anand Rathi. Please go ahead.
- Manish Valecha** Sir, my question was on the freight front, what would be the total lead distance the consol lead distance that we would be doing today?
- Sreekanth Reddy** See this general reading for us changes from month-to-month but for each of the plants what we are trying to target is sub 400 from each of these locations.
- Manish Valecha** Which would have reduced after BMM acquisition, right?
- Sreekanth Reddy** Yes sir.
- Manish Valecha** What was earlier sir?

**Sreekanth Reddy** This includes at a consolidated level we are targeting the sub 400 kind of a lead distance. Earlier on a standalone it is hover anywhere between 450 to 500 kilometers from Sagar alone. With the BMM acquisition and with the railway line installation the overall target plus the acquisition of Bayyavaram grinding unit from each of the locations our average yield distance will be sub 400 kilometers.

**Manish Valecha** And sir, how much savings would we do from the railway siding that is started in the last quarter?

**Sreekanth Reddy** Yeah, we just start the initial target still remains intact about Rs. 10 crore per annum kind of a saving primarily which is accounting from an inward freight cost saving rather outward. The same outlook continues.

**Manish Valecha** And sir, on the CAPEX so there is about Rs. 65 crore for Toshali and waste heat recovery how much we would be spending?

**Sreekanth Reddy** Yeah, wasted recovery also is similar Rs. 60 crore. Overall if you have to look at it at Sagar it is Rs. 105 crore inclusive of the grinding station. Next year we expect it to be around Rs. 60 crore as it stands.

**Manish Valecha** And on the BMM front so we are doing close to Rs. 870 to Rs. 880 EBITDA per ton we did in the first quarter roughly. So what is the status currently are the realizations above the Q1 average?

**Sreekanth Reddy** No, more or less in that footprint area the average is more or less is looking same. There could be a small fine tuning to the tune of around Rs. 900 to Rs. 950 is what we assume could be our EBITDA per ton at the BMM level.

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

**Gunjan Prithyani** I just wanted some sense from you on how you are looking at the demand outlook in AP and Telangana specifically which are the schemes that are driving this growth of 5% to 7% that you are looking at for this year?

**Sreekanth Reddy** See the issue here is we are not specifically looking at any of the schemes at this point of time because though there is lot of discussion about lot of these schemes becoming active but some of them they just kick started but nothing much substantially is visible. But bulk of the 5% outlook that we are doing is with the ongoing Mission Kakatiya in Telangana and some of the rural spent that we are seeing especially with the Panchayati Raj and all. That is what is actually making us assume that the demand would grow at 5%. The low cost housing and the big ticket irrigation projects we believe might start may be in H2 in a small fashion but they might start contributing in a bigger way in the coming year, may not be in the current year. That is what is our internal assessment.

**Gunjan Prithyani** Sir, on the irrigation projects specifically because it is discussed so much. Is there any contract or tendering which has come to cement industry already?

**Sreekanth Reddy** No, I think none of these contracts are taken by the cement industry but we are already with the existing contractors. See most of the irrigation projects have already been tendered and given it to lot of construction companies. But we have not seen any of these construction companies placing orders for cement at this point of time though they are in still discussion but nothing concrete has evolved so far.

The other small demand driver at this point of time is there is this Krishna Pushkaralu every 12 years like Kumbh Mela in the first half we have Godavari and in the second half we have Krishna river Pushkaralu. So both the government are spending Rs. 1,500 crore to Rs. 2,000 crore each for improving the bathing ghats and the infrastructure hovering around that. That also is holding up the demand for the current few months.

**Gunjan Prithyani** So sir, just to be clear on this. What you are saying is the demand that you are seeing right now is eventually driven by the low base of last year and secondly you are seeing some spending on the rural side of the roads and the Panchayati roads which you have indicated. The big ticket schemes which is the irrigation and the low cost housing is yet to really pick up, right?

**Sreekanth Reddy** Yes, correct.

**Gunjan Prithyani** And just coming to the pricing side. I noticed that there has been a sharp decline in the realization in your outside of AP. So why is that I mean what's driven that decline and how are they trending now?

**Sreekanth Reddy** See if you have to look at it if you are commenting about Maharashtra and Chhattisgarh most of the sale is on ex-cost or an ex godown basis. So there the prices in those areas have been slightly different. But there has not been a significant change on a quarter-on-quarter or a month-on-month as far as those areas are concerned. The prices in Sholapur, Nanded and all are hovering somewhere around Rs. 240 to Rs. 250 kind of a range even in the past. Even now the prices are in the same kind of thing. The biggest impacts for us happened in Telangana and Northern parts of AP and northern part of Karnataka where during the Q1 last year Hyderabad was in the range of around Rs. 305 to Rs. 320. So average for Q1 for the current Q1 was hovering anywhere between Rs. 200 to Rs. 225. Same would be the case in North Karnataka places like Bidar and all they were also in a similar bracket.

**Gunjan Prithyani** But this Rs. 225 average is now back to Rs. 280, right?

**Sreekanth Reddy** Yeah, now it is come back to Rs. 280 but that happened only in the first week or second week of June onwards.

**Gunjan Prithyani** And how do you see the current trend you will see further strengthening to these levels or we may probably see again see some correction as we are in to the monsoon season?

**Sreekanth Reddy** I think it would be very difficult to keep my neck out about the pricing at this point of time. So far in July it held up. So we hope and believe that it could the trend could continue but you would never know about the pricing.

**Gunjan Prithyani** And same is the case with North Karnataka that the exit pricing would have been much better than the average for the quarter?

**Sreekanth Reddy** North Karnataka still remain subdued but it is okay. Just the incremental increase is not as visible as it is here. But it is in upward trend.

**Gunjan Prithyani** So that is at around Rs. 300 levels?

**Sreekanth Reddy** No, North Karnataka is sub Rs. 250 level.

**Gunjan Prithyani** Okay and sir, if I look at your slide on the coal prices. Now again there our mix has been changing a lot quarter-to-quarter and I see the domestic is really been very low this quarter. Why is that so the price strength does not indicate that the domestic should be that low?

**Sreekanth Reddy** If you look at our coal prices in terms of domestic coal prices for us there has not been any drop or increase but the mix has come down quite substantially purely because of the pricing. The imported coal offers a much more cost advantage to us when compared with the domestic one on a per K/cal basis.

**Gunjan Prithyani** Okay so we expect this at we are not seeing this narrowing as such with the prices trending up somewhat on the imported coal side as yet?

**Sreekanth Reddy** No, the gap is quite substantial. So though it has narrowed a bit but still the gap is still wide.

**Moderator** Thank you. The next question is from the line of Neeta Khilnani from Ventura Securities. Please go ahead.

**Neeta Khilnani** Sir, I have a couple of questions. One is on the power side. The latest results of cement companies that we have seen many of them have reported EBITDA margins expansion purely on the basis of lower power and fuel cost. However, Sagar on a consolidated basis I understand you mentioned earlier about your product mix. But if I only look at BMM's power cost is about 38% of total sales which still seems high especially since BMM has a captive power plant. So any insights on that?

**Sreekanth Reddy** Yeah, the tariff what has been factored in BMM is aligned with the PPA what we have which you said Rs. 5.40. Now if we have to make it as a simple pass through then it would be substantially lower. That is the only difference. From a product mix perspective is the only difference compared to the other players but not at the units consumed per ton of cement that we make. I think that would also get aligned so this tariff now has come down. So with this we see that we believe and assume that the power cost going forward should come down quite substantially.

**Neeta Khilnani** You mean in the next immediate couple of quarters?

**Sreekanth Reddy** Yes.

**Neeta Khilnani** So this was another question that I had. You had earlier mentioned that your margin profile for 2017 would more or less remain at FY16 levels. Do you still stand by that stand?

**Sreekanth Reddy** Yes I think we would still stick to that purely because if we have to see during the last Q1 people are comparing with the last Q1 with that of this one. But the single biggest difference is during last year Q1 we had BMM sales also included in Sagar because BMM was still not yet consolidated in to Sagar. The acquisition of BMM happened only in end of August. We are reasonably sure and more than hopeful that from a financial perspective the performance would be at par with what we have done last year in terms of the margins. We are hoping that volumes could be slightly better than what we have done last time.

**Neeta Khilnani** And sir, how is the underground construction activity in Amravati? Have things actually picked up or it is only still talks in the ear?

**Sreekanth Reddy** I think it is too early for us to take a call on that. So far I think it is more in on paper. I do not think for the current financial year we would see anything on ground for the current financial year. Some progress could be expected in the coming financial year. I think AP government has already come out with a scheme I believe they have come up with a swift challenge and are about to enter the entire contract or job work to some Singaporean firms. But that still it is in discussion. So we hope to see something moving on to the ground in the coming financial year.

**Neeta Khilnani** And sir, do you have any sense of how many road projects that are now been awarded cement based roads and how much would be determined. So any sense on that?

**Sreekanth Reddy** I am sorry Neeta, on that count bulk of the contracts happened in areas which are beyond our market footprint. Unfortunately, we don't track as much as what we should. In our footprint area from whatever we have agreed to supply to the Ministry of Roads around 15,000 tons of cement were sold from what we have listed so far.

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

**Anshuman Atri** My question is regarding the various costs initiatives you are taking. you have quantified how much you will save from railway but with the new Toshali coming in you have more blending ratio improvement and blending ratio waste heat recovery should come. With all these can you quantify how much savings you can make going forward in next year?

**Sreekanth Reddy** See waste heat recovery is relatively easier because it is highly measurable. But coming back to the other blending ratios and all on a standalone for Bayyavaram grinding unit the priority is going to be PSC. So we are working to have reasonably good EBITDA margins start contributing from the next financial year from that particular asset. But it is very difficult for us to quantify at this point of time.

Coming to the waste heat recovery as and when it becomes operational we expect an incremental Rs. 15 crore to Rs. 16 crore EBITDA addition as and when it become operational.

**Anshuman Atri** And secondly, you have mentioned that there is some inflow of cement from western region to south. So generally it has over the past couple of years it has been the other way around with Andhra Cement flowing in to the west market. So what is that with better monsoon do you expect this trend to stop?

**Sreekanth Reddy** Yeah, I think it is all to do with the price differential on either side of the border. Whenever there are better pricing in this side of the Telangana or Karnataka the material rather than flowing out which was west bound still remain in AP. The lot of cement that will get sold in the borders of Maharashtra what they do is they unload in that godown and come back to start selling because it is the same brand which is available on either side of the border. So that's what we call as the infiltration. It is not that somebody is coming from western zone into these markets but most of the cement that gets on its way towards the west sometimes get remained here or in the border areas it gets into that and then people will start buying it from the other side because hardly there would be a gap of there the difference will be very short so people go and shop there and come back. Whenever the delta is more than Rs. 30 to Rs. 35 per bag we keep seeing this happening and that is what you are seeing at this point of time.

- Anshuman Atri** And lastly, so what kind of inventory you have built on the petcoke and what do you expect what is the current ratio of petcoke?
- Sreekanth Reddy** See for us petcoke is more an insurance cover because even today the imported coal is still offering that bit of viability incremental additional benefit for us. We do have petcoke stock with us. Currently we are using only petcoke for the coal based captive power plant in BMM. As far as cement is concerned still we are going with the imported coal.
- Moderator** Thank you. The next question is from the line of Mangesh Bhadang from Nirmal Bang. Please go ahead.
- Mangesh Bhadang** Sir, my first question is regarding the coal auction that some of the CIL companies are offering for linkages. So is SCCL also going to offer the coal through linkages and through auction route? And if yes, then whether we will be participating in it and how much cost saving it will do?
- Second question is when I look at your volume number for this quarter we have seen a substantially higher growth rate for AP and Telangana. So whether it is a Sagar phenomena or whether most of the other AP, Telangana based companies would have seen similar growth numbers? That is the two questions I have.
- Sreekanth Reddy** See coming to the coal auction so far Singareni Collieries did not come back and discussed about these issues in terms of the coal auction. Fortunately or unfortunately over the last two years the offtake from what we have, we already have linkage and we also have an FSA with them we are just paying a small penalty for not taking it rather than getting engaged. Sagar incidentally also has an additional what we call as costless linkage even that we have not fulfilled.
- Now at this point of time we don't know I mean what is deficient. But historically whenever imported coal prices have gone up the domestic coals have come from Singareni was always price advantageous. So what we have generally done is we have kept that insurance cover as the linkage we have kept alive. Would we participate in an auction, I think as an and when it would come we would like to evaluate and take a call at that point of time. So far Singareni has not come up with any of those auctions in terms of auction or trying to offer any additional linkages.
- Mangesh Bhadang** And about the growth that you have spoken?
- Sreekanth Reddy** Yeah, now going back to the demand in terms of I think it is more a sectorial play. It is nothing to do with Sagar alone. It is more to do with the sectorial play. We would have seen the demand in AP has got incrementally increased year-on-year especially with that of last year during the same time. That is what the incremental volume increment that we have seen whatever is the demand that has gone up similar kind of a percentage has gone up in Sagar.
- Mangesh Bhadang** Because Telangana at least in this quarter your volumes are up 59%, Andhra it is up 40% and similar numbers are there for BMM. Anyway BMM came from a low base but I am sure for Sagar these are really impressive.
- Sreekanth Reddy** You should combine all of them see I think instead of pushing more volume into AP and Telangana from BMM we are doing it from Sagar. So that is the reason why and whatever was supposed to go into Bangalore and Chennai from Sagar has been pushed to BMM. That is the realignment. But if you look at the total number and try to see what has been our volume so I think we are in line with what the market is to offer. It is not just Sagar phenomena alone.

**Mangesh Bhadang** And sir lastly, when would WHR be commissioned?

**Sreekanth Reddy** Yeah, somewhere around the scheduled commissioning date is September 2017.

**Moderator** Thank you. The next question is from the line of Manish Raj from Dolat Capital. Please go ahead.

**Manish Raj** Sir, I have just two questions for you. First of all, I just wanted to understand that you have highlighted that Karnataka has been growing positively in the quarter. But still our sales are down 7.5% on a YoY basis? Secondly, Tamil Nadu you highlighted that market is subdued over there. But we did grow by 16.9% on the consol basis. Could you please share some light on it?

**Sreekanth Reddy** Yeah, see what you have to look at is from what the price is also on offer. The northern part of Karnataka the prices have been subdued so we did not push as much as we should compare to what we have seen in Tamil Nadu. I think that is the only reason why the shift of lower in Karnataka and slightly higher in Tamil Nadu.

**Manish Raj** Sir, do you see that same trend will follow for the other companies also in terms of volume de-growth?

**Sreekanth Reddy** See I think it is we are uniquely placed in terms of our distribution pattern. So we are equally spread among four Southern states and Maharashtra. So I do not know if the same trend would be followed by all the players who are there in the current markets.

**Moderator** Thank you. The next question is from the line of Bhumika Nair from IDFC. Please go ahead.

**Bhumika Nair** Sir, just wanted to understand you mentioned inflow of material from Maharashtra into Telangana or AP region. So just wanted to understand how is the demand situation in Maharashtra and how is it looking going forward now?

**Sreekanth Reddy** Honestly we do not really look at the entire Maharashtra but for the footprints but we generally take really if you have to look at last Q1 the average consumption is around 7.6 million. Now if I have to compare the same with the current period it is very similar. So we believe that the trend line so far has been very flat.

**Bhumika Nair** And what is it looking I mean what is the outlook that you are seeing going forward now?

**Sreekanth Reddy** We are looking at sub 5% demand growth in Maharashtra for the entire year.

**Bhumika Nair** And similarly sir, you also I mean there is a very small proportion that you sell to East. So if we could just get some trend in terms of demand out there as well?

**Sreekanth Reddy** Yeah, I think we do not go beyond Orissa. Orissa has been consistently growing at around 8% to 10%. That is what we believe would happen going forward.

**Bhumika Nair** But any specific projects which are driving this demand growth and which will continue?

**Sreekanth Reddy** See our understanding about this specific market for our volume we are primarily based out of South Orissa and we cannot comment about some specific projects

which are contributing to the demand overall as Orissa as a state. But some projects primarily are to do with the industrials and the infrastructure.

**Bhumika Nair** Sir, also moving on to our power costs how is imported fuel cost has started moving up. So what kind of an impact can we see going forward?

**Sreekanth Reddy** See if you really track us we have a forward cover of almost 6 months for our fuel. We are kind of insured to certain extent about the inflationary increase on that particular account. But as such the imported coal for us though there is a nominal increase still there is a huge gap between what is available locally to that of imported coal.

**Bhumika Nair** Sir, what would be the difference right now on a K/Cal basis? What would be the broad gap?

**Sreekanth Reddy** Yeah, around Rs. 1.20 is the domestic coal. It would be Rs. 0.90 would be the imported coal for us.

**Bhumika Nair** And so what you are saying is because we have a six months we have blocked our coal for six months so would it be fair to say just on fuel prices you should not see any escalation in power and fuel cost going forward for the next two quarters?

**Sreekanth Reddy** We feel that the cost for this current financial year we believe cost on account of energy that includes both electrical and coal. We assume that it would remain similar without any major increase for us. Because we are more or less covered for 9 months for the entire year. I mean 9 months in this year is covered for us. So that is the reason why we believe that the cost associated with that would be more or less flat.

**Bhumika Nair** And sir, if I were to take spot prices then how if assuming one were to consider spot prices how much is it annual for?

**Sreekanth Reddy** I think spot prices may not be relevant for our size of the company because we do not really require huge ship loads we still buy it from our traders. So again the type of coal that we buy probably is not part of the index itself. We usually buy RB2, RB3 kind of coal. We do not buy Newcastle or we do not buy the index kind of thermal coal pricing. The quality of coal that we buy usually would be around \$10 lower than most of the index coals that you see.

**Bhumika Nair** But on current prices of this coal that you buy how much would it be versus what you have already booked?

**Sreekanth Reddy** See I think it is same trend what we have indicated on slide 10 that we are clearly indicated about at what price we are buying if we have to look at it from Q4 of last year to Q1 of this year it has actually come down for us. Now this come down is purely because probably it is also do with the quality of coal that we have done. Probably we have used more RB1 in the last quarter and RB3 we have substantially used for the current Q1. So we more or less optimized based on the landed price. We are covered to that extent that we believe that it is going to be remain flat for us for the entire financial year.

**Bhumika Nair** And sir, what would be our fuel consumption now?

**Sreekanth Reddy** Yeah, we would be in the range of around Rs. 690 to Rs. 695 K/Cal clinker.

**Moderator** Thank you. The next question is from the line of Navin Sahadeo from Quant Capital. Please go ahead.

**Navin Sahadeo** This is Navin here. Sir, one question regarding your acquisition Toshali Cement. The clinker for this grinding unit will come from your Mattampally unit or it will continue from the existing arrangement if at all this plant is operational?

**Sreekanth Reddy** It would come from Mattampally unit of Sagar Cements.

**Navin Sahadeo** And slag I believe will come from your Essar Steel plant or is there any other source?

**Sreekanth Reddy** Essar Steel plant, it is right next to it. It is around 25 kilometers from the Vizag steel plant.

**Navin Sahadeo** So Toshali has one more unit in Orissa which is again just let us say 150 odd kilometer distance from the Andhra plant?

**Sreekanth Reddy** Yeah 180 kilometers sir, it is in Ampavalli.

**Navin Sahadeo** So is there a possibility that the promoters may be willing to sell off that because I am asking it from a perspective that slag cement as a market I think is more I think a developed market in Orissa State rather than Andhra or you think Andhra also has a decent market in slag now?

**Sreekanth Reddy** Yeah, now I cannot comment about the current owner's interest to exit from that particular unit. I have absolutely no idea. I think we only negotiated for this asset so I would like comment only about this asset. I have absolutely no idea about their willingness to part with that. Secondly, commenting about the PSC market. Yeah, PSC market so far in Andhra has been a non-trade market, primarily in Vizag and to certain pockets of East Godavari. Bulk of the PSC starts from Orissa, so that has been the distribution pattern for those existing units there and which is this unit also is no different.

There is a market for PSC in Vizag which is close to 50,000 tons per month.

**Navin Sahadeo** 50,000 tons per month?

**Sreekanth Reddy** Yeah, the potential for PSC in North Coastal Districts of AP is around 50,000 tons per month.

**Navin Sahadeo** Do you see importing clinker has a feasible option because Vizag port and?

**Sreekanth Reddy** See I think at this point of time, taking it from Mattampally is lot more viable and lot more economical than looking at imported clinker cost given the handling cost that exists at the port level.

**Navin Sahadeo** I am sure you would have then done that arithmetic around that to landed cost from Mattampally will be still currently cheaper than importing?

**Sreekanth Reddy** Yes, at this point of time given the dollar pricing and also the port handling cost and also the CIF ties indicated by Chinese the quality of clinker that comes from China at least what we are seeing your percentage of clinker in PSC is much higher with Chinese than what you could do it from India. So in India we believe we can mix with the quality of clinker what we have around 55% to 60% slag though we have

not really taken the Chinese sample but the general information is that you may have to go 50:50. So in that differential if you have to count in it is lot more viable for us to use clinker from Mattampally unit rather than an imported one.

**Navin Sahadeo** And sir, my last question. Can you just repeat the CAPEX numbers that we will looking at for FY17 and FY18 at consol level?

**Sreekanth Reddy** Yeah, this fiscal we are looking at around Rs. 100 crore and the next fiscal we are looking at somewhere around Rs. 45 crore.

**Navin Sahadeo** And this Rs. 100 crore in FY17 includes Toshali?

**Sreekanth Reddy** Yeah, this includes Toshali and also a part of wastage recovery.

**Moderator** Thank you. The next question is from the line of Ujwal Shah from Quest Investment. Please go ahead.

**Ujwal Shah** I just wanted to have your views about some newer capacities coming in the AP belt. So your thoughts about the same, smaller companies like KCP, NCL coming up with their plants in the AP and Telangana belt. Does this also mean on the second thought that the prices could again soften when these capacities come in?

**Sreekanth Reddy** See I think when we look at the capacities we only count what have been announced so far. Coming to NCL I think what they are doing is they are adding only a clinker unit to supplement their current one. Not much of contours are known to us. KCP is yet to announce but we believe that they are due for announcing. But bulk of these capacities are expected to come 2 years from now. Other than this there is not much of any other discussion about any other cement plant coming up so soon. So for next 2 years if whatever is announced is small addition from NCL and there is a talk of KCP which we are not very clear about. But even if they announce that we believe it would happen 18 months to 24 months from now. So for next two years there is not much of capacity additions that is expected to happen in these part of the world Now KCP actually it is in Andhra, it is not in Telangana.

**Ujwal Shah** And NCL would be in Telangana, right?

**Sreekanth Reddy** Yeah, NCL is in Telangana. Now the impact of these on the pricing I think it is too early for us to take a call. We have to see how it would shape up and what would be the demand supply gap at that point of time based on that only we would exactly know the real impact on the prices.

**Ujwal Shah** Sir, also you mentioned that Tamil Nadu and Kerala would possibly be negative 5% in FY17. So we were hoping that post elections probably with first few months going by probably second half of FY17 we might see good demand coming in and considering that initial first two months of this financial year we actually saw some demand in Tamil Nadu as well right sir, so what makes you feel that the demand scenario would remain so tepid in these two markets?

**Sreekanth Reddy** See now commenting about what has happened in the current three months, usually our experience is that whenever there is a state government has gone for election and they come back the first year would be generally subdued. Because most of the time they are busy once they have come back. Now what is happened

in last quarter vis-à-vis to this thing it is slightly negative, it is flat to negative in Tamil Nadu. But it has been largely negative in Kerala. So we usually what we do is we mix up Tamil Nadu and Kerala and try to see what is happening it is negative for the Q1 combined.

- Ujwal Shah** How much would it be negative combined?
- Sreekanth Reddy** Yeah, combined negative. it would be almost 2% to 2.5%.
- Ujwal Shah** And sir, can you just give me some broad base ideas on petcoke prices in the current prevailing one and what was there for 1Q17?
- Sreekanth Reddy** See I think the petcoke prices is also directly proportional to what type of petcoke one has to look at it. Yeah, there is a domestic petcoke which is more or less hovering around 61 to 65 kind of dollar range. Secondly the imported petcoke which is the American which is also more or less the Indian petcoke gets adjusted to the American. Saudi petcoke the availability has been an issue over last few months. So since there is no availability usually people do not talk prices when it is not available. Yeah, that is with high Sulphur. The last that we have seen was around \$50 odd. But after that the availability itself was challenged so not much is known about their pricing.
- Moderator** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah** Sir, would it be possible for you to give some color on the net realizations what you have given state wise on slide number 9 in your presentation?
- Sreekanth Reddy** Yeah, that would be a challenge for us we will work out and we will revert back to you, Mr. Ritesh.
- Ritesh Shah** Sir, second question is more related to this so I was just screening through our sales mix on the standalone operations. Sir, last year we had AP, Telangana which was around 33% it has increased to 55%. So I wanted to understand basically how do you look at it when you look at it from an NCR perspective versus our sales mix distribution going forward?
- Sreekanth Reddy** See Mr. Ritesh, this is a function what we generally see is from NCR optimization to that of all these markets. How when you are actually running it sub 60% or around that number capacity utilization our target is not yet to optimize the NCR but to look at optimizing the volumes where we get the maximum out of it. Now AP, Telangana is at 55% at a standalone in Mattampally but if you consolidated it is sub 45%. Now the idea here is to look at the overall markets what was supposed to be serviced from BMM into AP market and from Mattampally to Karnataka market there is an exchange.
- That is the only reason why you are seeing a slight surge in AP, Telangana from Mattampally, slightly higher. But I think this is the product mix that it is more or less standardized for us barring few basis points here or there which is to do with the margin optimization. But we believe that even going forward for next year or so more or less similar trends are expected to happen. Of course some amount of increase is expected to happen in Orissa going forward for the next half with the acquisition of. Bayyavaram

But for that more or less the trend lines the absolute numbers and the percentages are expected to be in similar lines.

**Ritesh Shah**

Sir, my second question is would it be possible to highlight by when you see this irrigation projects actually coming through? What I am coming to is FY18 how do you look at it? Basically for the current year you had indicated flattish volume growth for full South. But if one assumes those numbers then how are you looking at FY18? So definitely on the supply side still?

**Sreekanth Reddy**

See even earlier when people asked for the outlook for the AP, Telangana we clearly indicated that we are expecting it to be 5% to 7.5% for the current financial year. And we expect it anywhere between 10% to 12.5% for the next year. And beyond that we generally do not take a call. It is just too soon for us to take a call on that. The reason for this outlook is primarily to account for not see some of them probably could be grounded but they may not start consuming in same fashion from day one. So that is what has been factored when we have come up with this outlook of 5% to 7.5% for this year and 10% to 12.5% for next year.

**Ritesh Shah**

Sir, when we say 10% to 12.5% does it include the demand coming from the various irrigation projects or the housing schemes?

**Sreekanth Reddy**

It includes all of them. The only problem has been that there are some which is actually say in irrigation projects probably could offset lack of demand in probably the rural segment especially the rural housing. So it is a mix and match is what we have taken a call on the outlook. Because it would be a big challenge for us to really predict precisely which demand driver is really going to contribute to that segment.

**Ritesh Shah**

And sir, for full of South how much will be the demand growth rate that we will look at in FY18? Say for AP, Telangana you highlighted 10% to 12%, for South it would be how much?

**Sreekanth Reddy**

That will be expected to be anywhere between 2.5% to 5% maximum.

**Moderator**

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

**Sanjay Nandi**

Sir, I have one question from the realization front. Sir, I just want to know that from the Mattampally plant and BMM plant you are catering to the same markets of Andhra Pradesh, Karnataka, Telangana?

**Sreekanth Reddy**

No sir, we do not sir. Obviously we do not service, we avoid servicing the same markets from two different locations. From BMM we are servicing Rayalaseema markets of Andhra Pradesh whereas the Mattampally we service Telangana and we service the North coastal districts of Andhra Pradesh.

**Sanjay Nandi**

And that same is also means repeating for other states as well, sir because you are catering to different parts?

**Sreekanth Reddy**

Yes sir. From BMM we service South Karnataka and from Mattampally we service North Karnataka. Yeah, Tamil Nadu of course we service Chennai from both the locations. Primarily we differentiate on the type of the products. Some parts of Tamil Nadu get serviced from BMM and the other parts gets serviced from Sagar.



**Sanjay Nandi** And sir, the next question from the Petcoke front you have just mentioned that you are feeding the BMM captive power plant with the Petcoke, right and for the cement plant you are using imported coal, right?

**Sreekanth Reddy** Yes, sir.

**Sanjay Nandi** Sir, going forward is it possible to use petcoke for the cement plant as well?

**Sreekanth Reddy** Yeah, the plant is equipped to use petcoke. Today coal is offering a much more economical solution. That is the only reason why we are using coal in cement and petcoke but, both at Sagar and BMM, both the plants are capable and equipped to handle petcoke even for cement manufacturing. But just coal is offering a much more economical solution that is the only reason why we are using coal.

**Sanjay Nandi** And sir, one question the change in accounting policy most of the cement companies have reported that type of accounting standards they are changing their accounting policies. Sir, can you throw some light on that thing?

**Sreekanth Reddy** Yeah, even in Sagar our Q1 results are in line with the Ind-As standard and that is what we have also done for the current quarter.

**Moderator** Thank you. The next question is from the line of Aveek Mitra from Aveksat Equities. Please go ahead.

**Aveek Mitra** I had a question for my understanding basically that your revenue from your Sagar is Rs. 136 crore and from BMM is Rs. 62 crore and vis-à-vis the EBITDA is almost same. So is it because the BMM is running at a higher capacity or is it because?

**Sreekanth Reddy** No sir, it is purely because of the realization difference. If you see the slide 9 the differential in the realization is what is actually contributed to the similar EBITDA in spite having one-third the capacity. The contribution from BMM has been significant purely because of those footprints areas had a better realization.

**Aveek Mitra** Sir, another question is regarding this your loan in this BMM Cement that is Rs. 216 crore what is the loan conditions and what is the kind of repayment period for this?

**Sreekanth Reddy** Yeah, it has an NCD of around Rs. 150 crore coming from IFC, Washington. It is a 10-year loan with a two-year moratorium and 8-year repayment. Yeah, that is there is 11.6% fixed interest it's an INR loan. Then we also have around Rs. 50 crore from Yes Bank then we have another Rs. 90 odd crore coming from SBH and Corporation Bank. Yes Bank also has the same tenure of around 10 years with a 2-year moratorium and an 8-year repayment. Whereas the other Rs. 90 crore is spread over next two years' time.

**Aveek Mitra** So your average composite interest rate for your BMM Plant would be how much?

**Sreekanth Reddy** It is around 12%.

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

**Sreekanth Reddy** Thank you. 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 if you have any further

queries we will be more than happy to discuss that with you. Thank you and have a good day.