Q3 & 9M FY15 – Earnings conference call Transcript
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Moderator: Ladies and gentlemen, good day and welcome to the Sagar Cements Limited 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. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of CDR India.

Gavin Desa: Thank you and good afternoon everyone. Welcome to the Sagar Cements Q3 & 9MFY15 analyst Investor Conference Call. Today we have with us from the Company; Mr. Sreekanth Reddy – Executive Director; Mr. K. Prasad – Chief Financial Officer; Mr. P. S. Prasad – Vice 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 interactive question and answer session.

Before we begin, I would like to point out that certain statements made in today's discussions may be forward-looking in nature and a note to that effect was stated in the con-call invite sent to you earlier. We hope you would have had a chance to review the documents on financial performance and also would have had a chance to go through them. I will now hand over the call to Mr. Reddy to make his opening remarks.

Sreekanth Reddy: Thank you. Good afternoon everyone and welcome to Sagar Cements Earnings Conference Call for the third quarter and for nine months-ended 31st December, 2014.

Let me briefly share with you some insights with regard to the sector:

The demand environment continued to remain sluggish during the quarter, primarily due to tight liquidity and limited order flow from the government. That said, with a view to achieve a healthy economic growth in the coming years, the Government is trying to kick start stalled infrastructure projects which in turn can be expected to trigger demand for the commodities such as cement. The realizations are firm currently and we expect it to hold for the balance part of the year with a gradual pickup going forward.

On the operating cost front, decline in coal demand from the developed countries has resulted in lower international coal prices. This combined with the falling crude prices augurs well and we hope for this to play out from Q1 FY16. Overall, better demand outlook, moderating cost pressures and firm realization should enable healthy margin expansion going forward.

Moving on to our financials:

Net sales from operations for Q3FY15 stood at Rs. 124 crore, up 6% compared to the corresponding quarter last year. EBITDA was higher at Rs. 6 crore and reflects the increase in gross realization per tonne which improved from Rs. 4,623 to Rs. 4,771. PAT for the quarter stood at Rs. 1.14 crore.

From an operational perspective, we are encouraged by our high capacity utilizations for cement at 49% and clinker at 57%. This to a large extent is a result of improved offtake in the markets that we operate. During the quarter, we sold approximately 63% of our production in markets outside of Andhra Pradesh and Telangana. These markets mainly comprise Karnataka, Tamil Nadu, Maharashtra and Orissa.

We continue to use a mix of domestic and International coal. During the quarter, we procured approximately 60% of our coal from our linkages at Singareni while the balance was sourced from Indonesia and South Africa.

For the quarter, fuel cost per tonne stood at Rs. 929 as compared to Rs. 902 in Q3 FY14. We are monitoring the price trend for both domestic and International coal closely and the mix going forward would be dependent on these factors. Freight cost per tonne of cement for the quarter stood at Rs. 683 compared to Rs. 771 in the same period last year, lower by almost about 11%. The decline in cost primarily is on account of lower fuel cost. and also higher volumes towards places where the freight cost typically tends to be lower.

As far as key balance sheet items are concerned, the gross debt as on 31st December 2014 stood at Rs. 216 crore, out of which Rs. 151 crore is a long-term debt and the rest constitutes working capital. The Networth of the Company as on 31st December 2014 stood at Rs. 504 crore. Debt-to-equity ratio stands at 0.3:1. Cash and bank balances were almost Rs. 217 crore as on 31st December.

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. First question is from the line of Giriraj Daga from Insync Capital.

Giriraj Daga: Sir, my question is with regards to the cash balance. In the last quarter we had cash close to Rs. 325 crore. In this quarter, except for dividend there was not much cash outgo. In spite of this, our cash balance stands close to only Rs. 100 crore?

Sreekanth Reddy: It is actually an advance that is paid out as part of the agreement with the BMM.

Giriraj Daga: What is the amount that has been paid?

Sreekanth Reddy: Around Rs. 65 crore. The balance is primarily to do with the stock positions what we have.

Giriraj Daga: Is there visibility with respect to that asset? For example, was the asset about to get the mining lease deed signed? So have we got the visibility?

Sreekanth Reddy: Our target as indicated earlier was 1st of April. This schedule looks fairly good for us to takeover. The Company did receive the environment clearance from MoEF. There are few other steps that needs to be followed. They look good so far.

Giriraj Daga: Also, in terms of our CAPEX on the railway line, are you still confident about by starting it by April to June?

Sreekanth Reddy: Yes. We are almost in the concluding part of the construction. Most of the material is already on the ground. Even the main railway line is expected by middle of March and we are in sync with the progress of the main line.

Giriraj Daga: How much was spent out of Rs.123 crore?

Sreekanth Reddy: Rs. 75-80 crore was already spent up to the December quarter.

Giriraj Daga: On the market side sir, are the other markets of Karnataka and Tamil Nadu, seeing a similar amount of price increase as what we are witnessing in Andhra? Are they a bit lower or bit higher?

Sreekanth Reddy: If we have to look at it today, most of the markets are with similar price trends. In some places, the increase is quite steep. In some places the increase has happened. But more or less all the areas are witnessing decent price increases from the past. Somewhere ahead, somewhere behind, but at this point of time most of the markets are in line with the price.

Moderator: Next question is from the line of Sumangal Nevatia from Macquarie.

Sumangal Nevatia: Sir, if you could you share your views on the demand front? Are there any green shoots visible in the demand or it is still dragging?

Sreekanth Reddy: As I stated, the demand at this point of time in our internal estimate looks fairly flattish till end of this current financial year. The only good signs that we are seeing is that most of the Government related projects which got stalled in Andhra Pradesh and Telangana, people are expecting that the old payments which are due to them are getting released along with the price escalation what they are looking for. So keeping that in mind as and when the first payout would happen, we are expecting most of this stalled work at least to start. We are also expecting the so called first full budget from both the States. So that should actually give quite a bit of direction. There is lot of expectation, but I think I would still wait till the budget announcements would come before taking a call. But most of the contractors whose projects are halfway through, are talking to us, looking at a possible as and when the advance is paid out or the old arrears are cleared, they are talking of taking the material. So that is giving us a sense of positive expectations in terms of the demand.

Sumangal Nevatia: What is your internal estimate with regards to demand in FY16?

Sreekanth Reddy: I would still like to hold on for some time, but as it looks we are expecting 5% demand growth in States of Andhra Pradesh and Telangana. We are expecting a very flat trend in Karnataka and a small decline in Tamil Nadu.

Moderator: Next question is from the line of Jaisheel Garg from IndiaNivesh Securities.

Jaisheel Garg: Sir, my question is regarding the imported coal. What kind of the contract you were doing and at what price you maintained average on that?

Sreekanth Reddy: We usually do not contract it out for a very long term. We usually buy it from the traders because our volume does not prompt us to go for a big shipment in a single purchase order. So currently what we have been doing is based on the receipt we keep on buying 15 days to one month ahead. Those rates are around \$76-\$77 per tonne on RB1 and RB2 type of coal from South Africa.

Jaisheel Garg: This is cost to the Company at \$76 or additional trade and other charges?

Sreekanth Reddy: No, it is actually the cost at the sea plus the transportation.

Jaisheel Garg: How much is the transportation for that?

Sreekanth Reddy: Around Rs. 800 a tonne.

Moderator: We have next question from the line of Paresh Jain from Max Life Insurance.

Paresh Jain: Why has the imported coal average gone up significantly on a quarter on quarter basis?

Sreekanth Reddy: Because it is looking up as an advantageous. Right now more than Singareni on a per tonne effective use, imported coal looks to be much more beneficial than the local coal.

Paresh Jain: No, my point was that if I look at your presentation, it has gone up from Rs. 5,405 per tonne in Q2 FY15 to Rs. 6,626 per tonne in Q3 FY15.

Sreekanth Reddy: This is because, we have reduced the usage of Indonesian coal and increased South African coal.

Paresh Jain: Is that a higher calorific value?

Sreekanth Reddy: Yes, it is a higher calorific value and also with lower moisture.

Paresh Jain: Also your current prices i.e. whatever you would have seen in January, how much higher are they vis-à-vis the overall average that we have seen in Q3?

Sreekanth Reddy: Q3 is a very broad number. What we have been seeing in general like if you have seen somewhere around October, the prices were in the range of around Rs.330 in Hyderabad, close to that number Rs.330 to Rs.340 in October. They actually came down all the way up to first week of December; it came down to almost Rs.320 - Rs.315 kind of a number. Then starting from December, again it started moving up all the way up to Rs. 340. Now today as we speak, it is at Rs.350 to Rs.355.

Paresh Jain: And similar trend can be seen in other markets also?

Sreekanth Reddy: Yes. The other markets like typically if you have to look at Chennai or Bangalore, the fluctuation like what we have seen in November was in a place like Bangalore, average it was around Rs.300 odd. In October, it was at Rs.315 - Rs.320, it came down to Rs.300, then started rising only during the second week of December. Now the average is at around Rs. 340.

Paresh Jain: Today?

Sreekanth Reddy: Yes, today and we are speaking about our brand. So there is always that delta.

Paresh Jain: What would be the similar price today in Chennai?

Sreekanth Reddy: Chennai also more or less in the month of October, it was around Rs.285 – Rs. 290. Now we are looking at around Rs.330-Rs.340.

Paresh Jain: Have we seen the entire benefit of fall in freight cost or is it likely to continue?

Sreekanth Reddy: The freight cost has been a very tricky scenario. Though the diesel price has come down, most of the people had expectation that the freight cost would fall in a similar fashion, but unfortunately in our specific case we have seen that there were some toll taxes which actually went up. The reduction in diesel price did not directly translate into that much reduction. There has been a reduction but not as much.

Paresh Jain: What has been the lead cost reduction that you have seen?

Sreekanth Reddy: As I stated earlier, in terms of the overall freight cost for last one year if we have to look at it, there has been a reduction of almost Rs. 90 a tonne. Now Rs. 90 a tonne is primarily not only on fuel cost reduction but also due to higher selling taking place in the zones where the freight cost is lower than the other areas, because now with the increase happening all across, there is a scope for us to do that arbitrage. So that also is an advantageous kind of a scenario.

Paresh Jain: But do you see your freight cost will be maintained at these levels or is it likely that can come down further?

Sreekanth Reddy: Now for this coming quarter, we do not see a big change but I think going forward once the BMM starts getting assimilated**,** there could be some small shift but for the coming quarter we do not expect things to be very different.

Paresh Jain: Your average fuel cost per tonne is actually moved up despite you increasing your coal procurement from South Africa and Indonesia.

Sreekanth Reddy: No, I think that impact we will get to see only in this current quarter. Usually we are almost a quarter ahead. In fact if you have to compare on a quarter-to-quarter, it has come down. If you have to see our first quarter, the average was at Rs. 973. Then the second quarter was Rs. 967 and the third quarter is at Rs. 929. So it is coming down but usually the impact would be seen only in the coming quarters. We do expect a significant change. This is exactly to the clinker; it is not on cement. Our reflection is usually on OPC as well as clinker. We only reflect our fuel cost on a clinker basis only not on the cement.

Paresh Jain: Do you see your Q4 volumes being a little higher than Q3?

Sreekanth Reddy: I would not like to comment on that. We are hoping to sustain the past volumes.

Moderator: Thank you. We have next question from the line of Chockalingam Narayanan from Deutsche Bank.

Chockalingam N.: On slide No. 3, you have mentioned that prices have been higher by about anywhere between Rs. 60-85. Rs. 85 is what you have mentioned in your key markets and you said there was volatility put to the earlier question that there was about Rs. 25 lower during the month of November and December. So effectively there should have been about at least Rs. 1,200 improvement at a gross realization level but when I look at the net realization, the increase is only about Rs. 150 odd at the Company level. Now where is this remaining portion lost? I understand there is an excise duty and sales tax component but where is the balance portion lost?

Sreekanth Reddy: We are talking of a broader month-month kind of a number. Now if you actually plot the graph and try to look at it, for example Bangalore to be very precise it was always flat anywhere between, if I have to tell in April it was at Rs. 265 the whole month. May also was Rs. 265, June it moved up to Rs. 295, remained flat. In July, it actually moved from first week it was Rs. 295, the second week it moved up to Rs. 316, third and fourth also remained same. Whole of August, it remained flat. Now in November, first week it actually came down to Rs.300. Now it remained more or less same till the second week of December. Now in the second week of December, it moved to Rs.313 to Rs.315, remain there. Only in the last week it actually moved to Rs.345. So though the price is moved up now from what is the start date and what is the entry and this thing that we need to be very careful. And same I would say in Chennai, though Chennai actually started slightly ahead of Bangalore, but most of the price increases in Chennai happened only during the second week of December. So we could not really get the benefit for the whole quarter. So we have seen the price increase only during the last but if you look at the entire quarter, October and November were lesser than September pricing.

Chockalingam N.: So, if one were to understand if prices were to stick here, then what will be the realizations improvement over Q3?

Sreekanth Reddy: As I told you, see the challenge here is now Q3, for most part of Q3 in all markets like Chennai and Bangalore remained subdued. Bulk of this increase happened only end of December. So if I have to take that number, it will be effectively on a gross side on a per bag basis. We are seeing anywhere between Rs. 60 – Rs. 75 increase. Now if the same price continues what it is between January and February and March, you should effectively see what you have said Rs. 1,200-1,400 at a gross level increasing per tonne basis.

Chockalingam N.: And at a net level, what would that number be sir?

Sreekanth Reddy: It should be around Rs. 500-550.

Chockalingam N.: What is the proportion of excise duty plus sales tax? It is about 26%- 27%?

Sreekanth Reddy: It is usually 30% odd.

Chockalingam N.: And balance Rs. 150 odd would go where sir, is it in terms of is it freight?

Sreekanth Reddy: Dealer margins and all because most of the time it is on a percentage driven. So if the percentage increases, the margin also gets increased for them.

Moderator: Thank you. We have next question from the line of Abhishek Ghosh from IDFC..

Abhishek Ghosh: In the similar manner for the prices you could also give for West as to how it was in Q3 and what are the current prices?

Sreekanth Reddy: Our footprint in West is limited to the most western part that we go is Aurangabad. The trend there looks to be very similar but not with such a steep increase. The increase is only negligible.

Abhishek Ghosh: Are the prices sticking in South. How has the demand been in January month so far?

Sreekanth Reddy: I think on a demand side, it has remained more or less very flat. So far we have not seen the usual kickup it would happen post the Christmas season and Pongal season here. I think demand side so far though people are talking but we have not really seen it very effective on the ground. I think most of the demand indicators would start getting reflected closer to the budget or post budget kind of a scenario.

Abhishek Ghosh: Is there any change in the import duty structure from whatever coal that we are importing from Indonesia?

Sreekanth Reddy: No. At least the coal that we are getting, there has not been any change in the duty structure that we have paid out.

Moderator: Thank you. We have next question from the line of Girish Raj from Quest Investments.

Girish Raj: The freight cost per tonne improvement of Rs. 90, how do we look at the cost per tonne per kilometer or is that not how it should be looked because you said there are a few areas where the fuel cost per tonne per kilometer would be different?

Sreekanth Reddy: Yes, correct. The biggest challenge here is see we go with general trucks. The freight for bulker is different. Bulker usually we have to pay up both return as well as forward for the same material and for the open truck, the general truck, the challenge is again it goes on the destination. There are some destinations where the price is slightly aggressive if they have the possibility of getting the return load. Now there are certain places which are close to the plant where the return load should not be expected, the turnaround time sometimes is in a cusp so per tonne per kilometer would look very high. So generally we do not look at this as a key metric in terms of per tonne per kilometer, we compare it for equivalent distance. So if the distance is longer, per tonne per kilometer would look lower compared with if it is in close by.

Girish Raj: But if it is very far what kind of per tonne per kilometer would be?

Sreekanth Reddy: No, again it depends. See if I have to go to Chennai, it is far but Chennai offers a return load to our Company in terms of imported coal as well as some gypsum. So there it is usually less than Rs. 1.75 paisa to Rs. 1.90 paisa but in normal course if there is no return load, then it could go all the way up to Rs. 2.10 paisa to Rs. 2.15 paisa.

Moderator: Thank you. Next question is from the line of Vineet Verma from Nomura Securities.

Vineet Verma: My question is related to your average coal cost for the domestic. I could see it is around Rs. 4,300 per tonne. I cannot reconcile these numbers because if I see the Coal India realization of the coal is somewhere around Rs. 1,300 – Rs. 1,400 per tonne. So if you could just help me clarify this why the coal cost per tonne of domestic is so high?

Sreekanth Reddy: See what you have to please look at is there are almost 9-10 different varieties of coal in domestic itself starting from A grade all the way up to G grade. Now again we do not source our coal from Coal India. We source our coal from Singareni. Now the price what we have indicated here includes the landed price that means it includes the freight from the mine that we get. And the general coal that we buy is either C, D, E and we have a mix of linkage and what we also have is another 50, it is actually half-half. We have a linkage coal and we have what we call as a cost plus arrangement. So there is certain specific mines which are in our vicinity of the plant around 200 km from our plant where it is a cost plus kind of an arrangement where the cost is arrived at on a longer term and over that there is a margin that we pay to them. What I would request is if you could send across your query, I think we would be more than happy to exactly give out the breakup of how the indigenous coal cost is arrived in our place. We would be happy to share the general price list in linkage and what kind of coal that we source and the quality of coal. We would be more than happy to give you the breakup and how it has been arrived at.

Vineet Verma: Earlier in the conference call, you were talking about the demand trends for Tamil Nadu and Karnataka. So you were referring like Tamil Nadu could decline and Karnataka could be flattish. So for what time period you were talking about this for this quarter or what is the time period?

Sreekanth Reddy: We usually talk about the coming year, half year, coming next year first half.

Moderator: Thank you. We have next question from the line of Navin Sahadeo from Edelweiss.

Navin Sahadeo: Sir. You mentioned that in the March quarter, the freight rates will not see any further easing, so into that I just wanted to ask diesel prices like the decline accelerated more towards the middle of the quarter and even in January, there was some further drop which happened. So you said part of the drop which we see for the December quarter is due to fuel. Now fuel has seen a further easing .So do you not think some bit of further saving should come from the fuel cost, your lead distance aside and I am not talking about your lead distance and your destination, those mixes are fairly dynamic and I do understand that but purely from the fuel angle, is there a scope to see some further easing or that is incorrect?

Sreekanth Reddy: Naveen, I think the fuel as you would have noticed the real decrease did not happen though it was notional; the excise duties have actually got increased locally. Now if you look at Telangana, excise duty has gone up. So there is no reduction at all. The local VAT has been increased, so there is no decrease for us as far as fuel cost is concerned in Telangana. You are correct as far as fuel cost is concerned but we have to keep in mind the seasonality that is related with the transport business also. See in a harvest time or during certain which is the case right now usually in Q4, the trucks availability is in question because most of it is used for the grain transport. So during that time, the freight just get elevated purely to make sure that the truck is available to us.So net-to-net whatever the notional saving that we expect out of the fuel reduction, in our assumption would be tapered out with the possible increase in the overall kind of freight that we have already seen in the second half of January itself. The general freight we add up 5%-10% to make sure that the availability of trucks and all would be taken care.

Navin Sahadeo: So, in the busy season, you are saying even the freight rates move up?

Sreekanth Reddy: Yes, that is the case. That has been historical. In our understanding also fuel contributes only 50% of the cost in the overall transport business. Whatever saving that we expect, there has been a 10% reduction in the fuel price if you look at certain timeframe. Yes, half of it should get reflected as 5% but this 5% during Q4 is usually higher because to make sure that the trucks are available for us which gets eased out in Q1 because by then truck availability and all would automatically get improved because the grain movement by then would have completed.

Moderator: Thank you. We have next question from the line of Swagato Ghosh from Jefferies.

Swagato Ghosh: Would it be possible to give us an indication of demand break up between infra & housing and rural & urban for your markets?

Sreekanth Reddy: I think that's a question which I would always bank on some good inputs from people like you. Historically what we have seen though it is not exact or accurate. We still assume that it is 60% housing and around 20%-25% would be the infra and the balance goes into the other structures but if you ask me honestly. I have to admit that it is difficult for us to track because 80% of our end consumer is a dealer and it has been a big challenge for us to track what happens after that line but I still go with the most consensus number of 60-40 and in that 60% in our case as far as housing is concerned, we bank on close to 70% on rural housing and only the rest would come from urban. It comes from the fact that in Hyderabad for IHBs and all, we are there, most of the cement that goes from the local is sourced; but if you look at most of these organized big real estate companies, bulk of their cement requirement incidentally is sourced from the neighboring state because they have an advantage of getting it on a C form. Like most of the big real estate builders who have access to the C form would source their material from Gulbarga cluster because that they can source it on a C form which comes at only 2% compared to 14.5% from the local purchases.

Swagato Ghosh: What is the trend in demand in 70% rural that you are saying?

Sreekanth Reddy: As I told you that actually kept us floating so far. Well when the infrastructure and most of the organized real estate is not doing very well, the biggest contributor has been that segment. That segment trend has always been positive. If I have to tell that is it growing year-on-year? Yes it is growing but by how much again it is a guess, it has been fairly growing at more than 10%-15% year-on-year.

Swagato Ghosh: So that is the trend that you are witnessing even now? There is no change in that.

Sreekanth Reddy: It is the same deduction because most of the other demand drivers were not behaving. But when the other thing is keeping us afloat, I say we have to assume that, that has been the contributor.

Moderator: Thank you**.** Next question is from the line of Sunny Agarwal from Aditya Birla Money.

Sunny Agarwal: There was a recent media article which states that the Government is planning to do auction of coal linkages also. So just want your thought on that. How that will pan out and will it lead to the increase in domestic coal prices for all the cement players?

Sreekanth Reddy: The information pertaining to the linkage coal getting auctioned, I am sorry we have not received that information but if it amounts to that, yes it would definitely lead to increase in domestic prices. But what we have to keep in mind is the domestic price especially in our markets is now higher compared than the imported coal. So would it really propel people going for a very high price in domestic coal price that might put pressure at the auction not upward, may be on a downward kind of a thing. That is what we feel if it is true and if it has to happen today, I think there is a better coal available from imported market. So given that scenario even if linkage has to go for an auction, it may not really lead to very large price increases. But what you have to please keep in mind is we are speaking about our area, we are not generally commenting because in our area Singareni is there not Coal India.

Sunny Agarwal: My second question pertains to this affordable housing scheme with the Central government and recently that will pass by the PMO and nearly 2 crore affordable housing will be constructed. So in that case is there a possibility that government will invite bid from all the cement player and the guy who supply at the cheapest rate will get, top 5-10 player will get a benefit out of it, so any thoughts on that?

Sreekanth Reddy: So far what we have experienced is that the Ministry of Roads actually invited for the bids where we all participated. Now would housing, follow the same? I think what we have to keep in mind is such that housing is more a state subject. I think the central government would assist the state governments to come with these low-cost housing schemes. Now in the state in the past what has happened is they used to go for the tenders and everybody used to participate. We expect similar things to happen and that was happening in the past also. Even for last 6-7 years, there was the modus operandi local housing boards used to call for the tenders and cement used to be supplied. So we expect same to happen going forward.

Sunny Agarwal: In that case, at what EBITDA per tonne we are comfortable supplying in such centers?

Sreekanth Reddy: Comfort is always there at Rs. 2,000 a tonne, but I think it is an issue of how viable it is at that point of time, I think the decision would be made. We cannot generalize because if the market has picked up and there is a better demand elsewhere, yes we might ask for a higher pricing at these tenders. If the outside demand is subdued, then probably we might compromise for a lower EBITDA per tonne.

Sunny Agarwal: But looking at historical trend, is it fair that even in such tender, the margin tends to be lower by 20%-25%?

Sreekanth Reddy: Again margin at a gross level could be seen like that but at net-net level, they may not be very different because most of the time, we tend to get carried away with what is at the market price. So with the market price, you have cost to reach the market that includes the credit lines, that includes the dealer margins and all. So once you remove that and try to see it on a very pragmatic basis on an ex-works basis or on a naked cement realization, most of the orders may not be that different.

Moderator: Thank you. Next question is from the line of Chockalingam Narayanan of Deutsche Bank.

Chockalingam N.: To an early question I think you mentioned that you would like to maintain the volumes in the current quarter but if I was looking at the last year Q4, there was a steep jump in volumes, so how should we understand that? Are you looking at that sort of an improvement in the volumes or how should we understand?

Sreekanth Reddy: See, there are two aspects to it. What we have clearly indicated is that we would be maintaining more or less same volumes or maybe slightly better. Given that scenario, it definitely indicates that we may have to catch up. That is what usually happens. Now when you look at the overall year-to–year demand, we are telling that it is flat. So if that has to happen, the increase in volumes would happen during Q4 and we expect that to happen.

Chockalingam N.: If I am not wrong, last year Q4 you did pretty much double the volumes of what you have currently done in Telangana in Q3?

Sreekanth Reddy: Yes, the Telangana and AP market if you look at combined, the local market looked subdued. So we more or less caught up with the rest of the market. So we hope to continue the same trend.

Chockalingam N.: No sir, my question was last year you did about 240,000 sort of volumes in AP, Telangana both put together. This current quarter you done about 124,000. So are we to look at that sort of an improvement in terms of volumes?

Sreekanth Reddy: No, see we never meant that we would be doing that kind of volumes in AP and Telangana alone. Overall we will do a matchup but Telangana and AP if you have to look at it, last year same quarter we did 142,000 compared with that in the current quarter we did only 124,000 but if you look at last year overall combined volume, we did 327,000 but now in this quarter we did 335,000. So for each region, yes there could be some depression but overall we are more than confident that we will be doing same or slightly better compared with the last year.

Chockalingam N.: Even in the March quarter?

Sreekanth Reddy: Even in the March quarter but that does not mean that in AP we are going to increase the volume. It is the overall level.

Chockalingam N.: At an overall level, you are saying you should be able to do close it to 450,000.

Sreekanth Reddy: Yes correct, like if you look at Maharashtra alone, last year we did 52,000 and this year we did 72,000 for the similar quarter.

Moderator: Thank you. We have next question from the line of Mayur Gathani from OHM Group.

Mayur Gathani: Just wanted to check on the NHAI tender that you mentioned for cement, is it region specific?

Sreekanth Reddy: The NHAI tender was very generic. They wanted us to quote on an ex-works basis. So that is what we have quoted for.

Mayur Gathani: You just said that usually ex-factory, the prices are not much different if you keep the dealer commission and freight cost.

Sreekanth Reddy: Yes, it is usually logical that when you look at a gross side on a trade and you compare that with a non-trade or you compare with the institution on an ex-basis or a naked cement realization, the difference would be very miniscule.

Mayur Gathani: This is the first time that NHAI is taking out tender for cement because I think the government is mentioning to NHAI.

Sreekanth Reddy: It is Ministry of Roads. It is not NHAI. Yes, this we have done it for the first time because the government actually started looking at increasing the concrete roads. So in that regard the tenders were called for. So we are one among those 30 companies which have participated in the tender.

Mayur Gathani: When do we intent to start supplying it, any timeline is given or something?

Sreekanth Reddy: I wish I get to know that reply. So to be very honest we are still waiting for the order.

Mayur Gathani: But this does help increase our utilization at least to the South market. I mean it is a big positive.

Sreekanth Reddy: Yes, any gram of cement addition would help us. So this definitely would help us increase our output.

Moderator: Thank you. We have next question from the line of Saurabh Ginodia from Stewart & Mackertich.

Saurabh Ginodia: Sir I would like to know what would be the consolidated debt on balance sheet post the consolidation of BMM cement?

Sreekanth Reddy: Our expectation for consolidated debt is that it should be in the range of Rs.500 crore.

Saurabh Ginodia: Rs. 500 crore and from which quarter onwards you will be publishing the consolidated results?

Sreekanth Reddy: The expected takeover of that asset would be from 1st of April. So I think next year Q1 or Q2, the consolidated results, balance sheet and everything would come out.

Saurabh Ginodia: What is the capacity utilization currently at BMM cement level?

Sreekanth Reddy: I think it is around 15%-20%.

Saurabh Ginodia: Once it is consolidated, then we are comfortable at what capacity utilization at BMM?

Sreekanth Reddy: Comfort is different but we are expecting it at 50%.

Moderator: Thank you. We have next question from the line of Jaisheel Garg from IndiaNivesh securities.

Jaisheel Garg: Just want to understand the consolidation phase is going on in the cement industry like on account of the recent acquisition has been done by many companies. So what's your view especially in South and Andhra regions and all that? What do you see?

Sreekanth Reddy: Our view on consolidation is that it is slow. Do we expect some more consolidation, it is something which I think in the market place there are a lot of sellers and very few buyers. Given this scenario and the valuation expectations from a buyer and seller, there is a huge difference. Looking at these two, we do expect consolidation happening in a much slower pace than what normally would have been the scenario in up-market. Today, the market is just in a sluggish kind of a demand scenario, I am sure buyer is not willing to pay more than what could be justified in his balance sheet and seller obviously would be looking at maximizing and you would not like to sell below the viability for himself. Now there is a huge gap between both of them. With this, we do not expect much of the consolidation happening going forward. You could still have one or two kind of acquisitions but that I would not like to count as consolidation at the sectoral level.

Jaisheel Garg: At what price you will be comfortable in going forward if you see that?

Sreekanth Reddy: For buying or selling?

Jaisheel Garg: Both.

Sreekanth Reddy: Selling, I think I will be very comfortable if I get $300. I think it is very specific from asset to asset. There are some assets where our willingness to pay could stretch all way up to $100 but there are some assets even if they are offered at $60, we may not be interested in looking at them.

Jaisheel Garg: What are the key things you look on asset?

Sreekanth Reddy: When we talk of an asset, it is primarily to do with the limestone resources available, and the proximity to the market is what we definitely look at. These are the two key things that we look at in any of our acquisition.

Moderator: Thank you. We have next question from the line of Ashish Jain from Morgan Stanley.

Ashish Jain: Early in the call you had said that there are a lot of stuck up projects in AP and Telangana. So are these projects where work was already happening on the ground and half bit of the physical thing is done and they are stuck up at that level which means that work would start much faster or these are more at planning stage at this point of time.

Sreekanth Reddy: Yes, I think it is all mixed bag. There are some projects which are stuck at half. There are some projects which are stuck at three-fourth, then there are some projects which are only on paper, so it is a mixed bag. What I would like to tell you is between combined state, there was Rs.200,000 crore to be spent for irrigation. The government spent only up to Rs.120,000 crore when we last heard few years back. Now that actually points out that there is 80,000 crore of investment that is required to complete the projects in their agenda. Now that both the states are split, would the government pursue the same projects with the same rigor as done previously is a question mark. So I would like to wait till the budget for us to exactly know what kind of direction they would take on each of the project but there are some projects which are almost three-fourth done which demands the payouts to happen and some small areas or what they call us the additional claims. If those things are settled, I am sure most of these contractors would be happy doing them so that they would have all their money coming out of it.

Ashish Jain: Secondly in terms of capacity, are we seeing anything incremental in your region basically apart from Dalmia Cement and Orient which we know is it is pretty much there.

Sreekanth Reddy: There is one Ramco grinding station. I think these are the only three that are due and effectively could come in next 2 years. The rest there are not many things that we expect in next 2 years.

Ashish Jain: So that is till Fiscal 2017 you mean?

Sreekanth Reddy: Yes, Fiscal 2017 or calendar 2017.

Moderator: Thank you. As there are no further questions from the participants, I would now like to handover the floor back to the management for their closing remarks. Over to you sir.

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 are 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.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Sagar Cements Limited that concludes this conference.
