



Sagar Cements

Conference Call Transcript

May 22, 2015

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. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India.

Gavin Desa: Good Day, Everyone and Welcome to Sagar Cements Q4 & FY15 Analyst and Investor Conference Call. We have with us today Mr. S. Sreekanth Reddy -- Executive Director; Mr. K. Prasad -- Chief Financial Officer, Mr. P.S. Prasad -- Vice President Marketing; Mr. Rajesh Singh -- AVP Marketing, and Mr. R. Soundararajan -- Company Secretary. We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A Session.

Before we begin, I would like to point out that certain statements made in today's 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 trust you have had a chance to receive and go through the documents on financial performance and also would have gone through the same. I would now like to hand over to Mr. Reddy to make his opening remarks.

S. Sreekanth Reddy Good Afternoon everyone and welcome to Sagar Cements earning conference call for the quarter and the year ended 31st March 2015. Let me briefly share with you some insights with regards to the sector. Demand for the quarter continues to remain soft owing to the lower Government spending and sluggish growth in the real estate and construction sector. Further, unseasonal rains and consequent crop damages impaired the rural demand. Pricing in the region though remained reasonably strong. On the operating cost front, declining Coal and Energy prices should help us contain the production cost, in turn enabling sustainability of profit margins. On the whole, with the improving demand outlook and softening of input prices, we hope of delivering consistent growth going forward.

Moving on to our Financials: Net sales during Q4FY15 stood at Rs.191 crore, up 30% from Rs.147 crore generated during the corresponding quarter last year. Higher EBITDA for the quarter at Rs. 42 crore with a margin of over 21.8%, which was primarily owing to improved gross realization and better cost efficiency. Gross realization per ton improved from Rs. 4,195 during Q4 of FY14 to over Rs.5,064 during the present quarter. PAT for the quarter also stood at Rs.22 crore. From an operational perspective, capacity utilization for the Cement and Clinker improved significantly for the quarter. Approximately 71% of our dispatches during the quarter were in markets outside of AP and Telangana. In terms of percentage, Tamil Nadu, Maharashtra and Karnataka constituted the top three markets for the quarter. Further, the business continue to accrue the benefits of falling International coal prices, majority of the Company's coal requirements for the quarter was met with the International coal. Domestic and International coal mix for the quarter was 34% to 66%. Domestic coal was procured from linkages at Singareni. The average fuel cost per ton stood at Rs.829 per ton during Q4 of FY15 as against Rs.833 per ton during Q4 of FY14. In addition, declining diesel prices resulted in lowering freight costs per ton to Rs.676 per ton during the quarter as against Rs.721 per ton during the corresponding period last year, in turn aiding the operating profitability. Declining freight cost was also partly on the account of higher volumes towards Maharashtra State wherein freight cost for us is slightly lower as compared to the other OAP States.

As far as key balance sheet items are concerned, the gross debt as on 31st of March 2015 stood at Rs.216 crore, out of which Rs.145 crore is long-term debt and the remaining constitute the working capital. The net worth of the Company as on 31st March 2015 stood at Rs.527 crore, debt-equity ratio stands at 0.27:1, cash and bank balances were Rs.196 crore as on 31st of March. That concludes my opening remarks. We would now be glad to take any questions that you may have.

- Moderator:** Our first question is from Amit Srivastava of B&K Securities.
- Amit Srivastava:** What kind of trading volume can we expect from the BMM. Also, what kind of margin profile would be there?
- S. Sreekanth Reddy:** The ramp up is happening. As the Company had earlier given the disclosure about the arrangement what we had, it only started somewhere around middle to end of April. The current volumes are slightly lower purely because we are getting over the approval process. This is because I believe from the BMM whatever volumes we have to do to the entire warehouse network what we have, for each warehouse we need to get the approval step-by-step. So we are going through that process. We are not expecting a big shift from the trading volumes. We expect post ramp up, we hope to conclude most of these registration process by the end of this month. But in the interim we are doing around 15,000 tons for the whole of this month so far. But once it gets stabilized, we hope to do anywhere between 35,000 to 40,000 tons.
- Amit Srivastava:** When is this process expected to be completed?

- S. Sreekanth Reddy:** We expect the registration process to be concluded by end of this month.
- Amit Srivastava:** As we are planning to cater more of like Karnataka and Tamil Nadu market from the BMM plant, so going ahead is there a possibility that our mother plant will have to compromise on our volume or either on a margin because we will have to go out if we want to push more volume?
- S. Sreekanth Reddy:** I think there are two steps that we have taken here. Yes, definitely there is going to be some shift of volumes from Sagar's Mattampally unit to BMM to those markets. Instead of servicing those markets from Mattampally, we will be servicing this from BMM. The volumes that are getting shifted, if you have seen over many quarters, we have strategically been moving material from Mattampally to markets outside of this region, so that shift more or less has happened. So, we are not expecting any drop in volumes, but we would see shift of volumes moving to primarily Maharashtra and Odisha and Chhattisgarh markets. Whatever volumes that was being moved to Karnataka, especially South Karnataka, and some parts of Tamil Nadu, would get shifted from Mattampally to BMM, and whatever is getting shifted from Sagar, those differential volumes will be moved to Maharashtra and Odisha.
- Amit Srivastava:** Profitability wise, how is it placed?
- S. Sreekanth Reddy:** As the freight was very high, so we do not expect a big shift in the margin. There could be a small shift but we are hoping that the other markets also would catch up on the prices. So it is subjective at this point of time.
- Amit Srivastava:** If we complete the process by May end, so will our first quarter result be including the BMM?
- S. Sreekanth Reddy:** Whatever the Traded Cement that would happen before 30th June, it would definitely include..
- Amit Srivastava:** But, the BMM plant and everything will take time to merge with Company?
- S. Sreekanth Reddy:** I think we are not looking at a possibility of merger in a short term.
- Amit Srivastava:** But the consolidation part?
- S. Sreekanth Reddy:** Yes consolidation we should expect as and when the CP process is completed i.e the Condition Precedents are done and we complete the financials. So the entire transaction as and when it would be done, the consolidation would be done not from a merger perspective but from being a wholly-owned subsidiary of Sagar.
- Amit Srivastava:** On a volume side, as the South has de-grown, but our volume is encouraging, so any specific reason for that?

- S. Sreekanth Reddy:** No, I think if you have seen the volume, there has not been a big shift in our volumes. There was a drop in the previous quarter that we caught up in Q4, but that is a one-off kind of event and please do not expect going forward the volumes to be any different. As I told you we were more aligning for the BMM quantities that we caught up, but from a demand perspective we are no different, we are not insulated from the market, we would exactly behave very much in line with the market behavior.
- Moderator:** Our next question is from Bhavin Chheda of Enam Holdings.
- Bhavin Chheda:** In the Presentation, you have given your AP, Telangana Cement prices. So can you update what was roughly in Tamil Nadu, Maharashtra, Odisha, and your other markets?
- S. Sreekanth Reddy:** Typically, Bengaluru in the months of January-February-March, the price was ranging anywhere between Rs.360 to Rs.370 for our brand. In Chennai it was ranging between Rs.345 to Rs.360. Maharashtra is a big world, so I would talk of the primary market which is Sholapur for us, where it was ranging between Rs.275 to Rs.310 Also, again we do not get into Bhubaneswar and all as the big market is Berhampur where it was ranging anywhere between Rs.260 to Rs.275.
- Bhavin Chheda:** Has this price sustained going into April-May? This is because we heard there is some weakness in the prices in North and West India. So what is your take on it? South India is sustained. So what about the Sholapur market and the Odisha market?
- S. Sreekanth Reddy:** For Sholapur there has been a drop of almost Rs.10-15 which we have seen for April and May. The exit price for us in March was somewhere around Rs. 265. So now on an average we are anywhere between Rs.240 to Rs.245. For Odisha, more or less there is Rs. 5 drop from the exit price and it is not a significant drop because our footprints are fairly limited to Southern Odisha.
- Bhavin Chheda:** Bengaluru and Chennai have sustained in April-May?
- S. Sreekanth Reddy:** Yes, barring Rs. 2 or Rs. 3, that gets fluctuated like in any market, more or less for us the entry and exit prices currently are holding up.
- Bhavin Chheda:** What would be your trade and non-trade mix?
- S. Sreekanth Reddy:** Sir, I think that is something which we have to be cautious about. The way we do it currently would significantly change going forward. This is because there used to be more CSA sales. Internally we classify CSA sale as trade. If we have to classify CSA sale as trade, almost 65% is trade, and 35% would be nontrade.
- Bhavin Chheda:** In each of the markets, how your brand would be classified between tier-1, tier-2, tier-3, if you can give us an update on that?
- S. Sreekanth Reddy:** That is all perception, but I have to live with the market and address this issue. In Bengaluru market, we are anywhere between C and B. In

Chennai market we are also very close to B, but we are a part of C-category. In Hyderabad and all the other markets we are at B-category. Rest of all the other markets say in Berhampur, Sholapur and all, we are in B-category.

- Bhavin Chheda:** Roughly, how much is the price difference between Category-A brand and Category-B?
- S. Sreekanth Reddy:** Again for each place the delta would be different.
- Bhavin Chheda:** But average would be between 15...?
- S. Sreekanth Reddy:** Rs.10 to 15 is what most of the market speaks of, but that gets offset with the discount structures and the other associated cost hovering around it. What we generally look at is the realization and we feel the realization delta from A-category to C-category in any of the markets may not be significantly different.
- Bhavin Chheda:** On demand uptick, are there any signs? I think again April-May was weak, but what do you feel was it better than Feb-March and how do you see it going forward?
- S. Sreekanth Reddy:** Usually Q4 and Q1 months are very stable months. The so-called uptick would never be seen because Q4 and Q1 tend to be higher consumption quarters compared with the other quarters. "Now month-on-month, is there any shift?" I would say that the demand has been very low, but how much low is again very subjective and therefore I would not like to comment. So we are seeing some positive trends but we are yet to overcome the so-called real peak uptick where we can start telling that demand started moving up. Now I would say it is more like a flattish kind of a trend with the negative bias.
- Bhavin Chheda:** What would be the kind of new capacity is coming up in Southern India in FY16 & FY17?
- S. Sreekanth Reddy:** For FY16, there are two plants which are getting commissioned in South India, but I think most of their volumes are supposed to look towards Western India. This is because both the large commissioning is happening in Gulbarga cluster. That cluster typically is 60% more towards Maharashtra and 40% would be more South bound. One is Dalmia in North Karnataka, which I believe has already started and commissioning is done and the other one is Orient, which is expected any time now.
- Bhavin Chheda:** After these two plants, is there any other in the pipeline?
- S. Sreekanth Reddy:** There is one grinding plant of Ramco. There is a million ton grinding plant in Vizag which also I believe is ready for commissioning any time. But it should not really alter, because I think it is a grinding station being serviced from Jayanthipuram. So we do not expect that to incrementally put lot more pressure on the market because it is not a new volume, it is only trying to relocate from a cost perspective, it could alter for the Company, but from a market perspective it may not significantly alter.

- Moderator:** Our next question is from Rahul Veera of Edelweiss.
- Rahul Veera:** A couple of questions on BMM acquisitions. The kind of payments that we have already made; I believe by April 15th you are supposed to make some Rs.50 crore additional payment. Has that been made?
- S. Sreekanth Reddy:** I would put it straight. The enterprise value that has been agreed for this transaction is at Rs.540 crore. A part of that structure, we did pay close to Rs.100 crore of advance; Rs.25 crore as equity advance and the balance Rs. 75 crore as an unsecured loan that we have given it to BMM. Now after that we also extended another Rs.50 crore as an unsecured loan. All in all we have paid Rs.150 crore as advance towards the transaction.
- Rahul Veera:** What would be the payout outgo for the railway siding? I believe out of Rs.120 crore that we have lined up, a flow of around Rs.80 crore was done till December?
- S. Sreekanth Reddy:** We have made an outflow of close to around Rs. 92 to Rs. 93 crore so far, that includes even the months of April and May.
- Rahul Veera:** What would be the BMM's current capacity utilization?
- S. Sreekanth Reddy:** At this point of time we just took the responsibility of trying to get Traded Cement from them. So I would not try to count on what we have done so far, it is in line with the market at 50%.
- Rahul Veera:** What kind of volume and CAPEX guidance will you give us for FY16?
- S. Sreekanth Reddy:** I think the market and demand what we expect is going to remain flat, so we are not seeing a big shift from what we have already done. I think the same trend we expect to continue, so it would be the same volumes as what we have done in the previous financial year which is around 1.6 million from Sagar, and close to 0.5 million in BMM. CAPEX, from the budgetary approval from a Board perspective what we have taken for Sagar is around Rs. 6 crore.
- Rahul Veera:** What will be the expected debt levels currently?
- S. Sreekanth Reddy:** As stated, at the end of March it was at Rs.216 crore, out of which Rs.145 crore is long-term debt.
- Moderator:** Our next question is from Rajesh Kumar Ravi of Centrum Broking.
- Rajesh Kumar Ravi:** My question is with respect to the BMM expansion. The mining permit which was due, has it been received?
- S. Sreekanth Reddy:** Not yet. We are waiting for it. It is one of the conditions precedent for us to conclude on the transaction, still that is pending.
- Rajesh Kumar Ravi:** So far the Clinker is purchased from third-parties?
- S. Sreekanth Reddy:** No, Limestone is purchased from the third-party.

- Rajesh Kumar Ravi:** You are purchasing limestone and converting into Clinker?
- S. Sreekanth Reddy:** Yes.
- Rajesh Kumar Ravi:** In the CAPEX, the ongoing expansions in South you said, I suppose there is a Zuari expansion also which is due which is both Clinker as well as Cement Grinding Unit?
- S. Sreekanth Reddy:** In South, they did ground breaking for their Gulbarga plant, but I think from ground breaking to commissioning for the next two years, we are not expecting the commissioning of that plant in the next two years.
- Rajesh Kumar Ravi:** So the production would only happen in FY18 onwards?
- S. Sreekanth Reddy:** If they are going ahead with the construction we assume that it would definitely take 24-months. From what we have heard is that they did the ground breaking, but the work has not yet started. But, of course, they are commissioning their grinding station in Sholapur that is what we know.
- Rajesh Kumar Ravi:** The grinding capacity is 1.25 million tonne, right?
- S. Sreekanth Reddy:** I don't know the exact capacity. We know that it is close to a million tons, to be up of million. Probably your information could be correct.
- Rajesh Kumar Ravi:** On your linkage coal prices that you have shared, it can be seen that sequentially the prices for the last two quarters has grown by almost 10%. So is it on some landed cost basis or is it that the linkage coal prices itself has gone up?
- S. Sreekanth Reddy:** The linkage coal prices have gone up, those are the list prices with which we have to buy.
- Rajesh Kumar Ravi:** Any further prices hikes which are expected in this quarter vis-à-vis Q4?
- S. Sreekanth Reddy:** So far we are almost half way through, so we have not seen any increase with them, but either way we are more dependent on imported coal.
- Rajesh Kumar Ravi:** What would be your total CAPEX look like in FY16, including the BMM acquisition?
- S. Sreekanth Reddy:** There are two separate issues; one is the CAPEX at Sagar Mattampally plant is around Rs.6 crore...
- Rajesh Kumar Ravi:** That is inclusive of the railway unit?
- S. Sreekanth Reddy:** No, that does not include railway unit. On the railway unit we have more or less covered all the costs, it is a non-long-term project Rs.86 crore. At BMM, it is Rs.540 crore acquisitions; it is partly debt and partly equity plus quasi equity, so we are expecting Rs.300 crore of debt and Rs.240 crore of equity plus quasi equity.

- Rajesh Kumar Ravi:** How much amount you would be spending on Railway siding in FY16?
- S. Sreekanth Reddy:** May be another Rs.5 to 6 crore, not more.
- Rajesh Kumar Ravi:** Rs.120 crore is the total CAPEX for the railway....
- S. Sreekanth Reddy:** We have already completed Rs.92 crore.
- Rajesh Kumar Ravi:** Rs.92 crore, out of which you said you have done in April and May also. So how much would be spent till end of FY15?
- S. Sreekanth Reddy:** You please add another Rs.5 crore more, though the project is Rs.123 crore, we are not doing the last set of investment because we would like to see how the market is going to shape up, but with this we could get the train into the plant.
- Rajesh Kumar Ravi:** Part of this Rs.123 crore may spill over even into FY17?
- S. Sreekanth Reddy:** Yes .
- Rajesh Kumar Ravi:** On demand, you are saying that overall things have not picked up much?
- S. Sreekanth Reddy:** We feel that the market is going to remain flattish.
- Moderator:** Our next question is from Nirav Shah of GeeCee Investment.
- Nirav Shah:** Though you have shared your views on the demand for southern region in FY16. My question is more specifically to Tamil Nadu which is now 20% of our volumes. With the change in leadership, do you see any sign because FY15 was a negative growth for Tamil Nadu and next year is an election year? So just for that particular market do you see any Government projects being announced or some traction happening over there?
- S. Sreekanth Reddy:** I think we have to wait and watch what is going to happen. But in our internal assessment we have taken a very cautious view of market being flattish which in itself is a big uptick from last financial year. If you have to see Y-o-Y, there was a decline of almost 7%. So, from there we are taking a very flattish view. Therefore, instead of going for a further drop, that itself is an uptick for us.
- Nirav Shah:** You see upside just to that number, flattish or this is your base case?
- S. Sreekanth Reddy:** I think this is probably the base and the best case.
- Moderator:** Our next question is from Murtuza Arsiwalla from Kotak Securities.
- Murtuza Arsiwalla:** What is the kind of savings that you could get from this railway siding and when would you actually see it getting operational? Secondly, if we have the kind of run rate that you have seen in the current quarter in terms of the earnings performance and not much of a CAPEX commitment, would that mean a higher payout ratio?

- S. Srekanth Reddy:** The first question is pertaining to the railway line. For railway line we have already received the train, but it is the first train, after that we are just going through the safety checks and we expect full commercial operations end of July. The expected savings what we have factored is on two counts; one is the inward, which we know for sure because that is easy for us, and it is non-subjective. Also, there we expect almost Rs.10 to Rs.12 crore p.a. savings with the inward freight. The outward freight is very subjective. It again depends on how much volume we are able to move and what kind of margins we are able to realize. But there is 15,000 tons per month which we expect to move by train. The cost savings from what we have been doing in the past years to now, we expect around Rs.400 per ton savings on those 10,000 tons to 15,000 tons, which we currently take it to the station and then we incur on the freight as well as the double handling. We expect savings on that particular account, which probably should translate to another Rs.5 to Rs.6 crore. The second question which is in terms of higher payout; I would like to be cautious on that. I think we have to see how the BMM acquisition is shaping up before committing anything on the higher payout, but we have an asset which needs specific focus, and we would like to take a call once we have absorbed the entire asset and watch it for a few quarters before making a comment on the payout ratio.
- Moderator:** Our next question is from Pritesh Chheda of Emkay Global.
- Pritesh Chheda:** You gave a fair assessment of yours on the demand in the regions which you operate. If you could give some assessment on how do you see the pricing trends for FY16?
- S. Srekanth Reddy:** I wish we know that, but so far it looks good. Yes, we take one month at a time as far as price is concerned. We hope the price trend would continue at least till middle of July, beyond which we generally do not take a call more than a month.
- Pritesh Chheda:** We have some presence in Odisha and all. Could you give some assessment with respect to the demand in the Eastern side?
- S. Srekanth Reddy:** Our footprint area is only South Odisha. Demand in Odisha has been fairly good on a relative basis compared with the Southern markets. We have seen anywhere between 5% to 7.5% growth in the markets that we operate in Odisha. I believe that the State as a whole has been very positive in terms of its demand growth.
- Moderator:** Our next question is from Jagdishwar Toppo of Axis Capital.
- Jagdishwar Toppo:** Out of this Rs. 540 crore of payment, how much money we have paid to the BMM promoters?
- S. Srekanth Reddy:** We have given Rs.25 crore as advance to the promoter. This is because the way Rs. 540 crore has been structured, the current secured loans are running around Rs.200 crore. So out of Rs. 340 crore, there is Rs.190-odd crore of unsecured loan from the promoter, and the rest is the equity value.

- Jagdishwar Toppo:** So effectively, including the unsecured loan from the promoter, how much money would have gone to the existing promoter?
- S. Sreekanth Reddy:** So far, whatever money which we have given as unsecured loan, more than the promoter it has gone to the institution. We have paid only Rs. 25 crore as advance to the promoter. The rest of the money though it is paid into the Company as unsecured loan, most of it was used primarily to reduce the liabilities and also liabilities from a Banking perspective and the other small liabilities what they had.
- Jagdishwar Toppo:** So can we safely assume that the existing debt on the BMM balance sheet was somewhere around Rs.500 crore?
- S. Sreekanth Reddy:** No sir. I think that would be exaggerated. It should be anywhere between Rs.400 crore to Rs.425 crore.
- Jagdishwar Toppo:** Secondly, can we expect the same capacity utilization like the same run rate, subject to the seasonal variation for the Company?
- S. Sreekanth Reddy:** We are expecting an average 50 to 55% capacity utilization for both BMM as well as Sagar.
- Jagdishwar Toppo:** So this quarter is like 70% kind of utilization?
- S. Sreekanth Reddy:** No, I think that is one-off kind of an event, you should not expect this. You have to look at on an average, in the previous quarter i.e Q3 it was very low. So that was made up in Q4. It was a one-off kind of an event. But on an average we were at 50% to 55%. I think, that is what we would like to maintain. We would be happy to go up, but I do not think the market is in a position to absorb higher volumes.
- Moderator:** The next question is from Abhishek Ghosh of IDFC.
- Abhishek Ghosh:** I just wanted to get your sense on the AP, Telangana market. Now as the split of the State has been done, so has the funding been tied up for incremental infrastructure projects and other things? What is your opinion on that and will that spur some kind of Cement demand in the next 12-18-months?
- S. Sreekanth Reddy:** We are not aware of the fund tie-up for the project. The budgets what they have announced have been very huge. Independently it was at Rs.1 lakh crore, collectively they have become Rs. 2 lakhs crore. So from that perspective we have very high expectations going forward. But typically when the State is settled, we do not expect big offtake from Cement perspective because the usual process that gets involved is, once the announcements, then the budgetary allocation, and then the engineering side of designs and all happen. So, we are also hoping that the trend with the announcements continue and the same progress is also shown in the implementation side, which we do expect, but it is only a question of time. For the current year, we are only hoping that something gets accelerated. There are some discussions about the low cost housing, and we expect them to get fructified over the next few months. But for the first half, I think more or less, we are expecting same as how H2 of previous year was. Only in

H2 we expect some of the projects to really start shaping up and start consuming, only then we would be in a position to really give you a sense of a direction of how the progress is related to the Infra projects what you have asked.

Abhishek Ghosh: Just continuing with the same question, AP and Telangana markets were declining maybe at an odd 15%-20%. Now that decline rate has got arrested and it must now be declining at a lower rate. Is it a right assumption to make or just wanted to get some sense on that?

S. Sreekanth Reddy: What we have seen over the last four to five years is like if you have to look from FY13 to FY14, there is almost 12.5% drop and from FY14 to FY15 it is a single-digit drop of around 7%. So statistically it looks like the trend has been arrested. But you never know, we have to wait and watch how we expect. But looking at it, we had taken a position that overall Southern market could remain flattish, it was (-5%) on a collective southern market compared to the previous year and for this year we expect it to come back to zero.

Abhishek Ghosh: In your presentation, the gross realizations which you have mentioned in terms of the increase for AP and Telangana market units which are to the tune of about Rs. 468 per tonne. So on a per bag basis, adjusted for the taxes it comes to about Rs.33 per bag. Is it lower than what the actual prices have increased and is it because of higher discounts?

S. Sreekanth Reddy: What you are seeing is an average number. The average number includes the freight to different destination. So though at some place there could have been Rs.70-Rs.80 increase and some places it could have been Rs.20-Rs.25. Most of the people try to benchmark to Hyderabad and Hyderabad usually would be the lowest price in the entire AP, so there the increase might look like Rs.80-Rs.90, but typically Rayalaseema markets the prices would be Rs.30-Rs.40 higher than Hyderabad. So there the increase is not as substantial as it is in Hyderabad. That is where you do not get to see same shift happening in all the places.

Abhishek Ghosh: What would our lead distances look like currently vis-à-vis last quarter?

S. Sreekanth Reddy: We do not monitor, it is not an important number for us. It is a moving target because with BMM becoming operational there could be some shift but it could be skewed, we don't look at it. We only look from the margin perspective. We are ready to go up to Timbuktu if it gives extra Rs.1.

Abhishek Ghosh: If you can just help us with the recent increase in diesel prices on last couple of occasions, has that already translated into higher road freight cost and if yes, what would be the broad quantum like?

S. Sreekanth Reddy: In our case, our freight management system automatically takes from the next day itself whenever there is a diesel price shift, there is an algorithm which takes over and increases the freight cost. Fortunately, for certain markets, we could increase it by Rs.1 or Rs. 2 i.e whatever the diesel price impact has happened.

- Abhishek Ghosh:** So you are trying to pass on the increase in freight cost in terms of pricing is what you are trying to say?
- S. Sreekanth Reddy:** Yes sir.
- Moderator:** The next question is from the line of Jaspreet Singh Arora of Systematix Shares & Stocks Ltd.. .
- Jaspreet Singh Arora:** On the utilization part, if you could highlight the Clinker and Cement utilization for the Q4?
- S. Sreekanth Reddy:** We had almost 80% Clinker and 70% Cement.
- Jaspreet Singh Arora:** In terms of the State wise mix which has over the quarters reduced its exposure to AP and Telangana. Now with BMM coming in ,I believe it is more towards Karnataka, Tamil Nadu, and Maharashtra as you highlighted?
- S. Sreekanth Reddy:** The percentage wise, we have already realigned expecting BMM to come in place.
- Jaspreet Singh Arora:** With incremental volumes now coming from BMM like throwing much greater volume, so can there be a greater shift towards Karnataka or Tamil Nadu?
- S. Sreekanth Reddy:** I think 20-20% what we have done, as you know, over last 4-5 years we are systematically trying to spread on the geographies which we have more or less achieved. With BMM probably there could be a small shift in number but on a broader sense it would be same.
- Jaspreet Singh Arora:** The FSA charges related to power for earlier years is no more coming in the quarterly P&L now?
- S. Sreekanth Reddy:** Now, we have already done with it. So the old headache of FSA is already addressed. So whatever is current, we are current. The costs have already been factored in the current quarter. That is the reason why for some time the comparison was very difficult because we were trying to address the deferred payments. Now, the FSA getting sorted out, I think we will get aligned with the rest of the other cement players on a comparable cost basis.
- Moderator:** The next question is from Anshuman Atri of Espirito Santo.
- Anshuman Atri:** This is a question regarding the freight cost. Given that our volume mix from 53%, went down to 28% for AP and Telangana. So I assume that the lead distances would have increased, but still the freight cost declined. So can you give how much was a decline in the cost of freight on a road on a per tonne, per kilometer basis?
- S. Sreekanth Reddy:** The problem what you are looking at is that the AP volume has come down. But AP is a very big State, so if we have to reach to the every corner on each side, it is as good as going to a few States on to the left or right. From a distance perspective, we have not significantly

changed. The freight cost got reduced for two things – one, the overall optimization of the distances and at the same time fortunately the diesel price reduction also has happened during that time. Most of the time we were operating in the off season for the logistics because in an agricultural season, the freight tends to be higher. So that also has helped us to overall optimize on the freight cost. But just because AP volumes have come down in percentage terms, does not directly translate to an increase in lead distance.

- Anshuman Atri:** But what was the decline in the freight prices on a percentage basis?
- S. Sreekanth Reddy:** It was around Rs. 700 odd for the earlier quarter, it has come down to Rs. 676. So, effectively it was close to 8-9% drop in the overall freight cost for us.
- Anshuman Atri:** If you could share the State wise demand for FY16 i.e whatever projections you have made?
- S. Sreekanth Reddy:** I think for the markets that we are looking at, we are expecting on an average, it is flat. If you specifically look down again AP and Telangana put together we expect the market to be somewhere around in the range of 0 to (-2%); Karnataka, we are expecting it to be flat; Tamil Nadu we are expecting it to be flat with a negative bias; Kerala also flat with a negative bias; Maharashtra, we are expecting around (+5%); Odisha also we are expecting (+5%).
- Moderator:** The next question is from the line of Giriraj Daga of SKS Capital. .
- Giriraj Daga:** This year our CAPEX looks to be very high. at about Rs.92 crore this year. So how much we have spent on the railway line this year?
- S. Sreekanth Reddy:** Rs.92 crore is the total CAPEX what we have done. Rs.86 for Railways and Rs.6 crore is for the vertical pre-grinder that is VRPM.
- Giriraj Daga:** My second question is with respect to this Rs.150 crore of advances.If I look at our short-term loan advances it was about Rs.148 crore. So where we have included this Rs.125 crore of loan and advances in Rs.25 crore of equity?
- S. Sreekanth Reddy:** Rs.25 crore of equity is given as advance against the equity, it is again reflecting in the advance itself and Rs.100 crore of first advance what we have given in the last financial year. In the current financial year we have given an additional Rs.50 crore, but in the earlier financial year we have only given Rs.100 crore and, Rs.25 crore is equity.
- Giriraj Daga:** Rs.50 crore will come in the September quarter balance sheet?
- S. Sreekanth Reddy:** Yes, it is reflecting in short-term loans and advances.; Rs.75 crore to BMM and Rs.25 crore to the promoters.
- Giriraj Daga:** On railway line siding, you said that on outward you are having about 15,000 volumes per month then the saving can be higher, around Rs.5-6 crore?

- S. Sreekanth Reddy:** It is Rs.1 crore per month from here and another Rs.1-1.25 crore with the outward. So overall we are expecting anywhere between Rs. 20-25 crore.
- Moderator:** The next question is from the line of Rajesh Kumar Ravi of Centrum Broking. .
- Rajesh Kumar Ravi:** Regarding the BMM power sales arrangement, would you let us know what sort of contract is this and what is the sort of the profit that the Company is currently making?
- S. Sreekanth Reddy:** I cannot comment about the profitability, because still we are yet to take the full control of the Company. The arrangement is 25 MW captive power plant which has a self-consumption ranging anywhere between 8 to 9 MW and there is a 15 MW PPA with the APTRANSCO. APTRANSCO tariff is Rs.5.45.
- Rajesh Kumar Ravi:** So this is fixed for how many years?
- S. Sreekanth Reddy:** It is annual. Each year, we would be exhausting the current term by end of 30th May and we have a new PPA from 1st of June for one year i.e from June 2015 to May of 2016 we have at Rs.5.45.
- Rajesh Kumar Ravi:** The contract would be revised at?
- S. Sreekanth Reddy:** It is an annual event. So the tariff is only known for the next year, beyond which again we have to wait for the next...
- Rajesh Kumar Ravi:** Secondly, on the prices as you had mentioned that it is more or less holding on. With the commissioning of Gulbarga unit, Dalmia selling more volumes, UltraTech's plants now getting stabilized and with Orient may also coming into the same market, there is sort of price discipline which is holding on prices despite demand being on the downward side. So, what sort of price and stability could creep into those Karnataka, South Maharashtra market?
- S. Sreekanth Reddy:** I cannot comment on how disciplined they are going to be because I am sure they are very large players, very established players. Our call is we take regards to price, each month we expect at least up to middle of July we expect the price tend to continue. Beyond which we would like to take a call on a wait-and-watch kind of a policy. Who is going to be disciplined, who is not going to be, we know for sure we would not like to make a sale making losses as long as it is a feasible and a possible option. Whether others would follow or not, I cannot comment. I think you asked the right question but to the wrong person.
- Rajesh Kumar Ravi:** When you are sharing the demand outlook numbers that you are factoring in for various markets, you said Karnataka would be flattish, Tamil Nadu flattish to marginally negative, what is your outlook estimates for AP and Telangana?
- S. Sreekanth Reddy:** Flattish to negative.

- Rajesh Kumar Ravi:** So overall you are expecting only the Maharashtra and Odisha market to drive your volume growth?
- S. Sreekanth Reddy:** We are not expecting any volume growth as far as Sagar is concerned, our internal assumption is that we would remain flat.
- Rajesh Kumar Ravi:** On an overall basis excluding BMM? And BMM would contribute around 50% utilization?
- S. Sreekanth Reddy:** Yes.
- Moderator:** The next question is from the line of Akshay Agarwal of Edelweiss.
- Akshay Agarwal:** You had mentioned that your current PPC as a percentage of total sales is around 30-35%. With your sort of demand shifting toward Maharashtra and Odisha, how would that change or will that change?
- S. Sreekanth Reddy:** I think our target is to be in that 30-35% range because we feel the realization difference between an OPC and PPC is not that significantly different. So for us the product mix is only what we would achieve and when you are running at close to 50% operating rate, our push towards the blended cement is not very high. Except for the long-term sustainability kind of a thing we look at more operating benchmark for the product mix to happen. But the internal number still remains at 35% irrespective of our reach out to those markets also.
- Akshay Agarwal:** Is there any plan of BMM also to sort of come into the PPC?
- S. Sreekanth Reddy:** BMM is typically 50:50; our target is to do 50% OPC and 50% blended Cement. So we would be getting aligned in that regard, it is more to do with the markets that we service from each of the location, but the markets that we service from BMM tends to have a higher blended Cement percentage.
- Akshay Agarwal:** Currently, is BMM doing any PPC?
- S. Sreekanth Reddy:** Yes, it is, the same ratio as 50:50.
- Akshay Agarwal:** My next question is with respect to the power consumption. I think in your last annual report you had mentioned a figure of 92 kWh/kg of your OPC Cement. What is the current number?
- S. Sreekanth Reddy:** It is around 88.
- Akshay Agarwal:** Is that number expected to stabilize there or on what basis...?
- S. Sreekanth Reddy:** It will come down because we are about to commission the vertical pre-grinder. With that we expect another 3-4 units coming down from there.
- Akshay Agarwal:** How will the vertical pre-grinder help?
- S. Sreekanth Reddy:** It is like half of the grinding would be done before it enters the ball mill.

- Akshay Agarwal:** In your current results, I just did not understand one of the questions was regarding FSA charges. So, is there some one-off cost saving in the power in this Q4?
- S. Sreekanth Reddy:** There is no savings. What has happened is that there are some FSA charges which are being posted which the Companies have been paying for the past three earlier years also. That has got spread all the way up to Q4.
- Akshay Agarwal:** In Q4, primarily the saving in power is due to... ?
- S. Sreekanth Reddy:** Because we aggressively went for the power exchange purchases.
- Akshay Agarwal:** So your tariff of purchase was lower?
- S. Sreekanth Reddy:** Yes, compared to the grid cost it was lower, so that is where the savings were achieved.
- Akshay Agarwal:** What sort of rate you where you are purchasing at with respect to last quarter and April and May?
- S. Sreekanth Reddy:** In January we paid the power exchange cost at an average Rs.3.34. In the month of February it was Rs.3.76, March it was Rs.4.39, for the April month it is around Rs.4.65, May is a current month, it would be more or less very similar to how it is in April. The average for the whole year is in the range of Rs.4.40. Compared with that, our grid cost is soaring around Rs.6-6.05.
- Akshay Agarwal:** Last year you have paid in the range of Rs.5.5 also?
- S. Sreekanth Reddy:** If you look at the April of financial year 2014, we have not bought anything. But in the month of August 2014, we bought it was Rs.5.95.
- Akshay Agarwal:** That is substantial cost saving there?
- S. Sreekanth Reddy:** No, we only buy as long as the availability is assured and the prices are lower than the grid, that is when our algorithm runs to buy from the exchange.
- Akshay Agarwal:** But these prices can be volatile or these are like you expect...?
- S. Sreekanth Reddy:** In October last year the price was also for Rs.7.24. Also, there are some instances for example in January we paid only Rs.3.34. It is an average month but there are some instances where we paid Rs.2. Also, there are some instances where we have paid spot rates of around Rs. 9 also.
- Akshay Agarwal:** My final question is regarding the Limestone. If you could share some details on what kind of approval is this and which ministry it is pending and where is the mine and what is the reserves?
- S. Sreekanth Reddy:** The entire mining land of around 1200 acres is already with the Company. It is right next to the Company itself i.e at 2 Kms and also

has the conveyor belt. We already got the environmental clearance. Establishment and operations are also given by the local PCB. The only thing that is pending is execution of the mining lease which is pending with the Government of A.P.

- Akshay Agarwal:** What do you expect the timeline is going to be?
- S. Sreekanth Reddy:** We are waiting; we were expecting it to happen before 31st of March, now we expect it to happen before 30th of June.
- Akshay Agarwal:** Current plant of BMM is lying in Telangana?
- S. Sreekanth Reddy:** No, it is in Ananthapur district of A.P.
- Moderator:** The next question is from Ujwal Shah of Quest Investments.
- Ujwal Shah:** What would be the average life of both the mines?
- S. Sreekanth Reddy:** Sagar has close to 1.2 billion tonnes of Limestone reserve and BMM has a reserve of around 150 million tonnes. So in the current operations it is fairly large. If you have to look at a million tonne plant, with the clinker at around 0.9, we would need around 1.2 million tonnes p.a. at BMM. That would roughly translate to 110-115 years. At Sagar, we are close to 2.3 million tonnes of clinkerisation, our requirement is close to 4 million tonnes, close to 250-odd years.
- Ujwal Shah:** Secondly, I wanted to know regarding the website INAM-PRO which the road minister has come up. Are we also participating in it?
- S. Sreekanth Reddy:** Yes, we did quote. We are also one of the participants and we are also getting some orders from that side.
- Ujwal Shah:** So some orders have started trickling in?
- S. Sreekanth Reddy:** Yes, in fact, if you reach to the website it would also reflect what kind of supplies we have done pertaining to the pending orders. It is a very good and very informative website.
- Ujwal Shah:** I just wanted to also to know on this website, if the prices at a level change then it also ...?
- S. Sreekanth Reddy:** No, even the prices are disclosed on the website. It also states the details of what we have quoted and how much of the pending orders are there for that price...
- Ujwal Shah:** For example, next month prices in certain markets rise, does that also get reflected over there or there is some time lag over there or how it works?
- S. Sreekanth Reddy:** It is a fixed price what we have quoted for one year. Even if prices go up or come down I think the price is more or less fixed. It is logical that if prices go down then it would be obvious that the contractor would not buy from there and would buy it from the market. If it is higher he would

obviously buy it from there. But from our commitment, we have given it to the Government for one year. Fixed prices are defined there.

Moderator: Ladies and Gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

S. Sreekanth Reddy: Thank you for joining us on the conference call today. I hope you got all the answers to your queries. Please feel free to contact our team at Sagar or CDR India if you have any further information or queries, we will be more than happy to discuss it with you. Have a good day.

Moderator: Ladies and Gentlemen, on behalf of Sagar Cements Limited that concludes this conference.