



## Sagar Cements Limited

### Q3 & 9 Months FY16 Earnings Conference Call Transcript January 29, 2016

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**Moderator** Good day, ladies and gentlemen and welcome to the Q3 & 9 months' FY16 Earnings Conference Call for Sagar Cements. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

**Gavin Desa** Good day everyone and welcome to Sagar Cements' Q3 & 9 months' FY16 Analysts 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 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 certain statements made in today's discussions may be forward-looking in nature and a note to this effect has been stated in the concall invite sent to you earlier. We trust you had a chance to receive and go through the documents on financial performance. I would now like to handover to Mr. Reddy to make his opening remarks.

**Sreekanth Reddy** Good afternoon everyone and welcome to Sagar Cements' Earnings conference call for the quarter and nine months' ended in December 31st 2015.

Let me start with discussion by briefly mentioning the key sectoral developments before moving in to Sagar Cements' specific performance for the quarter. Demand situation for most part of the quarter continued to remain challenging given the sluggishness in real estate and the government spending activities. Lower demand also resulted in softening of prices across the regions, with North being the worst affected followed by West and East. Southern prices too witnessed interim disruptions. However, the situation is not all that gloomy and we are in fact seeing green shoots happening in certain pockets on the back of consistent government efforts towards reviving the investment climate. We are hopeful that such actions should translate into improved demand and pricing environment in the future.

Moving on to our performance, let me first start by stating that we are pleased to have concluded the BMM acquisitions during the quarter following the receipt of the mining lease from Government of Andhra Pradesh. BMM Cements have also executed a formal mining lease deals with the appropriate authorities under the Government of Andhra Pradesh. Execution of mining lease will provide the subsidiary Company with uninterrupted access to quality limestone reserves.



From a financial perspective, net sales for the quarter remained fairly steady and stood at Rs. 121 crore as against Rs. 124 crore during Q3 FY15. While on nine months' basis our revenue grew by 29% and stood at Rs. 498 crore versus Rs. 385 crore during nine months' period FY15.

While revenue for the quarter were fairly stable on annual basis, operating profit though, increased sharply and stood at Rs. 14 crore as against Rs. 6 crore. On a nine months' basis as well the operating profit more than doubled and that stood at Rs. 70 crore as against Rs. 18 crore during 9 months' FY15.

EBITDA margins also progressed and stood at 12% and 14% during Q3 and nine months' respectively. Improved operational profitability was primarily aided by lower input cost as indicated by declining average fuel and freight cost per ton. Average fuel cost for the quarter stood at Rs. 761 per ton as against Rs. 929 per ton during Q3 FY15. While freight cost per ton stood at Rs. 561 as against Rs. 683 per ton during Q3 FY15. While decreasing imported coal prices and change in fuel mix helped lower fuel cost, decrease in fuel prices and lead distance aided in lowering freight cost.

PAT for the quarter stood at Rs. 3 crore as against Rs. 1 crore during Q3 FY15. While on a nine months' basis the same stood at Rs. 35 crore as against Rs. 275 crore. However, the point to consider is that the previous year nine months' included a net gain of Rs. 276 crore following the stake sale in the joint venture. Excluding that, nine months' FY15 reported a loss of Rs. 9 million.

From operations point of view, cement plant operated at 44% utilization level during the quarter. Of the total sales approximately 55% of the dispatches were made in the markets outside of AP and Telangana. With Maharashtra, Tamil Nadu 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 31<sup>st</sup> of December 2015 stood at Rs. 250 crore out of which Rs. 170 crore is the long term debt and the remaining constitute the working capital. The net worth of the company as on 31<sup>st</sup> December 2015 stood at Rs. 556 crore. Debt-to-Equity ratio stands at 0.32:1; cash and bank balances were Rs. 4 crore as on 31<sup>st</sup> December 2015.

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

**Moderator** The first question is from the line of Giriraj Daga of SKS Capital& Research..

**Giriraj Daga** Sir, would you be able to share some data on BMM, like what was the revenue or EBITDA for BMM last quarter?

**Sreekanth Reddy** For the first 9 months' specific BMM volume numbers are around 292,309 would be the volume for the BMM for the first 9 months'.

**Giriraj Daga** So would it be fair to say we are not reporting BMM numbers at this stage?

**Sreekanth Reddy** The only issue is it is still not yet audited. I mean we are just going through the consolidation of these issues. We would be glad to share these numbers as and when the BMM audit numbers would be out, which we expect during the second week of February.



**Giriraj Daga** The next question is, if we see the last month, December, BMM did a capacity utilization of (+50%). So do you expect this thing to continue for the next 3, 4 weeks going forward?

**Sreekanth Reddy** Yes, we can safely assume because we are in a good season. Going in to Q4 we expect it to be if not better the same numbers is likely to continue.

**Giriraj Daga** Ok, and what is the debt in BMM?

**Sreekanth Reddy** See debt is in transition stage but once it gets concluded which we hope to complete by end of February, it will be Rs. 300 crore inclusive of working capital.

**Giriraj Daga** And sir, just coming back to on the prices of industry, have you seen any improvement in Maharashtra prices in the last month or so?

**Sreekanth Reddy** Yes, there is a slight improvement. Again coming from an off-season in to the season we have noticed around Rs.10 to Rs.15 per bag at a retail level there has been an improvement.

**Giriraj Daga** In Maharashtra market sir?

**Sreekanth Reddy** Yes, in Maharashtra market. Again when we talk of Maharashtra market our stretch is only up to Sholapur so we have noticed this in the markets that we are servicing in to Maharashtra.

**Giriraj Daga** Ok and what about the rest sir, are we seeing similarly trends in the Southern market as well?

**Sreekanth Reddy** Southern markets the prices are more or less been stable through the quarter. So we have not seen any upsurge but it has been consistent with the price has been maintained.

**Giriraj Daga** My last question sir, is on our demand side, like although we have been hearing for long time and day-by-day that picture is getting clear on the demand side. Have you started seeing the green shoot on the ground in terms of demand picking up?

**Sreekanth Reddy** See what has happened. One, the seasonality did impact; we are yet to come out. Usually the season will start for us post Pongal. Post Pongal, we are seeing the uptake to be slightly better than what it was previously. We hope to sustain it but we just completed Pongal close to 14 days back. So these are very early stages. But we do hope the overall annual numbers to be very close to what we have done like last year at a state level. I am not talking of Sagar, I am talking in general. AP and Telangana the total volume we expect it to be very flat like last year.

**Giriraj Daga** Any internal estimate for FY17 growth, any industry numbers where you are comfortable?

**Sreekanth Reddy** AP and Telangana we believe that there could be a 5% to 7.5% kind of a demand increase.

**Giriraj Daga** Isn't that a very conservative number like in you base case?



**Sreekanth Reddy** See I think people have far too much expectations but we believe the ramp up is going to happen but it is going to take time.

**Moderator** The next question is from the line of Gunjan Prithyani from JP Morgan.

**Gunjan Prithyani** I had couple of questions. Firstly, just following up on the demand, so is there anything you have seen in terms of on the ground execution, in terms of the new state creation? We have been hearing lot of things around land acquisition, funding and things like that. But is there anything on the ground around that?

**Sreekanth Reddy** See usually whenever the announcement is made before anything starts on the ground, the initial paperwork associated with the land acquisitions and the approval process. I am sure the Environment Ministry has to give quite a few clearances before something can start on the ground. We believe and we have heard, we have met quite a few bureaucrats to ascertain the progress. Though the expectation is that things are moving very fast but I do not think we have an issue what is happening and by the time we see something physically moving on the ground, I think it could be another six months to nine months.

**Gunjan Prithyani** But in terms of processes?

**Sreekanth Reddy** Process has been initiated so they have all been started. So the best part is they have all been started but we have to keep our fingers crossed as when they will get concluded for the real physical work to start on the ground.

**Gunjan Prithyani** But are there any tenders which are coming out in terms of requirement for the cement demand or the tenders are also yet to come out?

**Sreekanth Reddy** Now when we talk of new capital tenders, I think it is too early. But when you look at the tenders pertaining to the works that have been initiated other than the capital works in both the states, there have been quite a few discussions with the government pertaining to the low cost housing. There has been quite a few discussions happening on Telangana side both for housing as well as few projects which they have initiated in the last budget. Like Mission Kakatiya and Mission Bhageeratha. For them we have had few rounds of discussion with them. We hope to conclude them probably in next few weeks for us to initiate and we do hope some amount of volumes to start trickling in the current financial year itself.

**Gunjan Prithyani** Okay, so is it fair to say that at least F17 may be not first quarter but in F17 we should see demand coming through on the back of all these moves which are happening?

**Sreekanth Reddy** That is what is our assumption. That is where we are trying to factor a 5% to 7.5% growth is what we are expecting for AP and Telangana.

**Gunjan Prithyani** So sir, that gets me to the second question that you are saying that 5% to 7% increase I mean this market has been consistently coming down for the last five years and it has been a sharp degrowth especially in Andhra Pradesh from what it used to be a couple of years back. So from that low base, isn't 5% to 7% increase conservative, especially so much policy movement is happening and there is lot planned in terms of CAPEX. I mean I understand that it is going to take time, but so what I want to understand from you is, if it is 5% to 7% increase next year, how do you see next three years? Do you see a significant increase from these levels?

**Sreekanth Reddy** No, as I told you earlier, from policy statement for it to really get translated to a situation of starting the cement consumption, usually there will be a time lag. That is the reason why we are trying to factor a 5% to 7.5% for the next financial year which is FY17. FY18 we expect it to touch double-digit at least a lower double-digit. Post that of course we do expect somewhere in between 15% to 18% kind of a demand. Hoping that government sustains their policy what they have stated.

**Gunjan Prithyani** And second question sir, on the news reports that has been there, that you are looking at Andhra Cement. So anything that you can share in terms of your thoughts around in these acquisitions? Are we looking at more acquisitions in the market and if yes, which are the markets that we will be targeting?

**Sreekanth Reddy** See we have clearly clarified that we are not looking at that effect.

**Gunjan Prithyani** Yes sure I do understand that but I just wanted to get your sense in terms of strategy, are we looking at acquisitions in the market and if so, which are the markets that we are really targeting?

**Sreekanth Reddy** We just completed one. We are just extending the one which we have acquired. If we look in future for sure yes I mean I am sure we would like to grow. But at this point of time at least for the current financial year I think we are busy with what we have acquired.

**Gunjan Prithyani** So next year FY17?

**Sreekanth Reddy** I think that is good two quarters away from looking at any other options. I think we just are consolidating the current acquisition. Once we have consolidated this I think we would start looking at the other options. We primarily have been looking at South and East as potential target areas for us.

**Gunjan Prithyani** South and East?

**Sreekanth Reddy** Yes.

**Gunjan Prithyani** And sir, last question on your this railway siding. I just want to get a sense that when does it get operational and if once it is operating, how will our rail and road mix change from how it is currently?

**Sreekanth Reddy** The railway line we have completed all the operational level clearances. We hope to see the first train coming in the current financial year itself. Now the rail and road mix is primarily depend on the market. If the East prices and West prices remain the way they are and hoping that the Railway Budget there would not be any further railway freight increase. We hope to do around 15% to 20% by rail and 80% by road. But again it is something which is very ambiguous even for us because earlier anything more than 400 kilometers rail was tending to be lot more economical.

But with the railway freight going up almost close to ~30% over last three years, now the lead distance tends to have increased beyond only 600 kilometers it is making economic sense for us to use rail. Because rail is not just the freight but the associated handling and the quantum of material that one can take to the place where we are intending to. So keeping these issues in mind, we approximately estimate if there are no significant changes in the railway freight going forward we believe we could go all the way up to 15% to 20% on the outward side.



**Gunjan Prithyani** And any broad idea on how much cost savings we can see on this account in terms of our freight cost?

**Sreekanth Reddy** I think as I said with the current rail freight, I do not think there would be major cost saving, but the only logistical advantage more than cost saving. Because diesel also has come down quite significantly for the railway freight also was not a bad option so far. So I think we have to take it as we go forward. And I am sure by Q1 next year we should have lot more clarity on how the mix is going to be and what the potential savings could be.

**Moderator** The next question is from the line of Rajesh Ravi from Centrum Broking.

**Rajesh Ravi** Sir, on the demand front you said that FY17 we should be growing at around 5% industry perspective. In FY16 how is that number for South market as a whole?

**Sreekanth Reddy** South market as a whole is almost like minus 3% so far sir.

**Rajesh Ravi** Minus 3?

**Sreekanth Reddy** Yes sir. But when we look at 5% we were very specific to AP &Telangana market if not for South market.

**Rajesh Ravi** So from minus 3% and this is for whole of South? This AP Telangana would be how much?

**Sreekanth Reddy** It would be flat,.

**Rajesh Ravi** And like when you are saying 5% growth so which of these sectors that should be contributing this all government led demand?

**Sreekanth Reddy** Yes, I think most of it we are factoring that it would be purely government led purely because the housing side, with the failure of the monsoon and the weather impact, we believe some amount of degrowth is expected in the housing related issues primarily the rural housing. So we hope to offset it with the governmental led demand primarily the low cost housing as well as the irrigation and the other associated off take to offset for the shortfall that we expect in the housing demand.

**Rajesh Ravi** And coming back to your company specifically what is the total CAPEX for FY16 that you will be incurred except for the amalgamation of this BMM?

**Sreekanth Reddy** I do not think we have incurred anything new other than what we had initiated earlier. So most of it we just concluded last quarter. If you have noticed sir our depreciation has gone up because we have capitalized all the projects what we have initiated. Primarily the railway siding as well as the other small optimization related investments we have only ended up capitalizing. So there was no new CAPEX that was done during the FY16.

**Rajesh Ravi** So all the incrementally CAPEX and this total CAPEX number that you may be having in FY16, that would be how much? This railway siding and all you may be?

**Sreekanth Reddy** We only capitalized during this time this is a small incremental kind of a thing but I could revert to you with very specific number as to how much it was done during the current financial year.

**Rajesh Ravi** And this BMM you said this is Rs. 300 crore of total debt on books?

**Sreekanth Reddy** Yes.

**Rajesh Ravi** So this is a total debt that you will be bringing on board for this acquisition?

**Sreekanth Reddy** At a consolidated level, yes.

**Rajesh Ravi** At consolidated level?

**Sreekanth Reddy** Yes, at a consolidated level this would get added to Sagar. But in Sagar what we have stated so far also has a small bridge loan so when the entire refinancing would happen Sagar loans will get reduced to around Rs. 130 odd crore plus BMMRs. 300 crore. The cumulation would be in the range of around Rs. 450 crore on a net debt basis.

**Rajesh Ravi** Okay this is on a net debt basis, Rs. 450 crore is what you will be having

**Rajesh Ravi** Okay and this consolidation will be in this fourth quarter or FY17?

**Sreekanth Reddy** Yes, it will only happen from Q4.

**Rajesh Ravi** Okay so next financial year we will be having the consolidated numbers?

**Sreekanth Reddy** Yes sir, for each quarter also you would have the consolidated numbers between BMM and Sagar.

**Rajesh Ravi** Okay and lastly on the realizations data that you have reported. In South you have reported when the AP, Telangana market you have reported 5% dip in realization sequential basis. So but you were saying the realization has mostly remained flat in South market. So is it specific to you that you have seen a decline any change in the sales pattern?

**Sreekanth Reddy** See when you look at the market, we have exposure to AP as a complete kind of a thing. The prices in North Telangana and Hyderabad was fluctuating which we have stated even in my opening remarks. Not that it was very stable it was fluctuating so that fluctuation is what got reflected in our realization specific to certain markets of Telangana.

**Rajesh Ravi** And this outside AP, Telangana market realization dip is 11%. Is it because of the market mix change outside AP, Telangana, you have sold more in?

**Sreekanth Reddy** That is purely because of the market mix because Maharashtra and Orissa were not as strong as the other things and Bangalore was mostly serviced from BMM not from Sagar.

**Rajesh Ravi** So in this quarter you have not included the BMM numbers?

**Sreekanth Reddy** See till last quarter we were doing trading sales from BMM. See once it became a wholly owned subsidiary the sale volume got into BMM. Earlier we were forced to buy and then sell. That is the reason why you would see a dip in volume but when you look at the consolidated numbers we are not as bad as the numbers speak at standalone basis at Sagar.



**Rajesh Ravi** See even your purchase of traded good number it is just Rs. 4 crore where if you see the production and the sales volume number difference it is around 20,000 tons. So this is just an inventory number change that is there?

**Sreekanth Reddy** Yes sir.

**Rajesh Ravi** There is no BMM number which is included here in December quarter numbers?

**Sreekanth Reddy** See BMM you only required 17,000 tons.so that Rs. 4 crore reflect only to those specific 17,000 tons that we have acquired from the BMM during the current quarter.

**Rajesh Ravi** So this quarter you will be only reporting your own? Okay now this quarter onwards we will be reporting consolidated numbers?

**Sreekanth Reddy** Yes sir, for Q4 anyhow you will have a consolidated number.

**Moderator** The next question is from the line of Bharat Seth from Quest Investment Advisors.

**Bharat Seth** I wanted to ask on this AP and Telangana market, I believe 5 years back the market size was almost 20 million plus, correct if I am not mistaken?

**Sreekanth Reddy** The highest so far what the market had seen is around 24 million.

**Bharat Seth** Ok, now it has come down to what level and when do you expect that again market to be back on that kind of size?

**Sreekanth Reddy** The market right now is at 16.5 million.

, Now it is anybody's guess when it will go back, but I think for the current year we are hoping it would sustain at what it was like last year at 16.5 million. For next year we are going with a 5% to 7.5% incremental growth so beyond which again the subsequent year we are hoping it to be a lower double-digit kind of a growth.

**Bharat Seth** Do you expect over longer term the kind of initiative that government is taking it should bounce back?

**Sreekanth Reddy** Sure sir, it is a cyclical commodity so it has to go up. We are just hoping to come out of this down cycle fairly quickly. Once we are out of it I am sure we should go back to those numbers, and we should cross them also. That is what is our internal belief but it is a matter of time.

**Moderator** The next question is from the line of Devang Bhatt from ICICI Direct.

**Devang Bhatt** Just a clarification sir. The Karnataka volume has dipped by 50%. So is that because that you have serviced it from the BMM or there is something else to it?

**Sreekanth Reddy** No, it is purely because of the BMM.

**Devang Bhatt** Okay and that is why there is a dip of your utilization levels from 49 to 44?

**Sreekanth Reddy** See there are two issues what we have to keep in mind. It is not that the shift has happened from Sagar that is the reason. If you have to look at combined numbers



also the average utilization has been below 50%. It is purely to do with the seasonality we hope to catch up in the coming quarters.

- Dewang Bhatt** And sir, after this consolidation, what would be your capital structure look like, you have some quasi equity also so can you help me out in that?
- Sreekanth Reddy** You are looking at BMM or you are looking at Sagar?
- Dewang Bhatt** BMM and Sagar consolidated?
- Sreekanth Reddy** See in Sagar I do not think there will be any change in the capital structure. In regards to BMM it is a Rs. 550 crore kind of an enterprise value. So what we are looking at is it is Rs. 78 crore would be equity, Rs. 172 crore would be quasi equity the CRPS which Sagar Cements has subscribed.
- Dewang Bhatt** Rs.172 crores?
- Sreekanth Reddy** Yes and Rs. 300 crore would be the debt at BMM level.
- Moderator** Thank you. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund..
- Rakesh Vyas** . Can you just highlight what do you expect the South India demand to be like I mean next year and if you can? So you are highlighting more on AP, Telangana, I was just wondering?
- Sreekanth Reddy** We assume that it would be more or less very close to flat.
- Rakesh Vyas** Despite you thinking AP, Telangana growing by 5% to 7.5%?
- Sreekanth Reddy** Yes, Tamil Nadu is due for election and half way through this year. We do believe that there could be some small dip purely because most of the government machinery would be busy with the elections in Tamil Nadu. So that is what we assume in our outlook that South as an overall could be flattish with a slight negative bias. Though AP and Telangana we are expecting the demand to go up, but overall in the South we assume it to be flat with a slightly negative bias.
- Rakesh Vyas** Okay so effectively in South the capacity utilization level for industry in general will not improve?
- Sreekanth Reddy** Yes may not be significantly different from the way it is because there is no new supply.
- Rakesh Vyas** And secondly, I was just wondering effectively most of the players in the South are operating at around 50% kind of utilization levels. For us non-South also it is reasonable volume market. So why is that our utilization levels are still lower? So is it that on the incremental sales the marginal contribution on non-South is not much given the pricing? Can you just highlight?
- Sreekanth Reddy** No, what you are looking at is a very specific quarter which is coming out of a off-season. So I think you should look at the year-end kind of a number which we believe we would be aligned with it. Our operating rate could be in the range of 52% to 55% just to reflect that there is a spread for us even outside South.



**Rakesh Vyas** So effectively if one were to look at the combined entity now, post the acquisition, what is the utilization level on average would one expect the 55% or higher than that?

**Sreekanth Reddy** For the current year because BMM is only for.

**Rakesh Vyas** No, the next year I am asking?

**Sreekanth Reddy** Next year we have as a combined kind of a thing we believe that it will be at 55%.

**Rakesh Vyas** And any thoughts on how do you see the Maharashtra market because that is the large market for us as well.?

**Sreekanth Reddy** Maharashtra also we believe that it is going to increase by 5%. Again we are very specifically looking at the market where we service in Maharashtra. We are not talking Maharashtra in general. So we believe the market footprints area we are factoring at 5% incremental demand growth.

**Rakesh Vyas** And my last question is some time back we were cutting down the linkage coal consumption this quarter again we have increased. So I am just wondering has the SCCL prices come down because I thought the imported price are still significantly cheaper compared to linkage coal?

**Sreekanth Reddy** What we are doing is the compulsion to take some coal from Singareni at the same time the quality of supply has improved tremendously.

**Rakesh Vyas** Okay so per K cal basis the pricing is okay?

**Sreekanth Reddy** Yes, since we are coming to the close of the year because first two quarters we absolutely did not pick any material.

**Rakesh Vyas** Is there a take or pay , minimum guaranteed off-take which you have to do with SCCL Singareni or it is just to maintain relationship?

**Sreekanth Reddy** No, it is Singareni sir, we have an FSA with them. So which has its own obligations on either side.

**Rakesh Vyas** So effectively if one were to think of it then minimum 20% kind of number of supply from Singareni can be expected on an average for a year?

**Sreekanth Reddy** No, either you pay the penalty or you pick up. So we preferred to pick the coal rather than pay penalty because the quality of supply has improved. So that is what we ended up optimizing.

**Rakesh Vyas** No, I am just trying to understand on the landed basis I thought even today imported coal on per K Cal basis will be cheaper than Singareni coal even after we improve?

**Sreekanth Reddy** Yes, that is what we have indicated. It is true but we were only trying to optimize the commitment what we had.

**Rakesh Vyas** So that will be around 20% of the overall requirement the commitment in general?

**Sreekanth Reddy** It's complex kind of a calculation.

**Rakesh Vyas** Ok I will take in off line

**Moderator** The next question is from the line of Arjun Goyal from Motilal Oswal Securities.

**Arjun Goyal** My question is with regards to BMM. Sir, I believe we acquired it so that we can supply to Tamil Nadu and Karnataka right?

**Sreekanth Reddy** Karnataka and Tamil Nadu, North Tamil Nadu and South Karnataka markets are in the proximity of the plant.

**Arjun Goyal** Okay so right now is there any supply coming in from Sagar reserve Matampally Plant to Tamil Nadu?

**Sreekanth Reddy** Yes, sir, because there is a limitation in how much I can supply from one plant but bulk of it is actually going from BMM but there is some quantity which is going into Tamil Nadu. And coming to Karnataka, North Karnataka material will go from Sagar and the South Karnataka is going from BMM.

**Arjun Goyal** Okay so how much could be the reduction in freight cost once BMM fully supplies towards its intended market?

**Sreekanth Reddy** I think we have already done it. If you look at the current quarter it is more or less we have reached to those optimality. You can see the freight cost coming down significantly because the lead distance has come down.

**Arjun Goyal** So this would be the optimal sort of freight cost?

**Sreekanth Reddy** Close to optimality, sir. I am sure the seasonal adjustments need to be factored but we are not very far from reaching.

**Arjun Goyal** Okay and also regarding the realizations from BMM I think Sagar was purchasing it from BMM at about Rs. 4,800 or so per ton, right? So right now would you say that it is realizing the same in the outside market as well?

**Sreekanth Reddy** See we are not purchasing anything from BMM right now. If you have seen in the current quarter the Q3 we did only 17,000 tons. Now pertaining to the realization, see our market footprint areas did not change. Whatever BMM was sending we were only trying to structure because at that point of time the company was not on Sagar. So we weren't doing that or else the market footprint area of the realization will not be significantly different from what it is right now.

**Arjun Goyal** Any comment on the profitability of BMM, is it significant at an EBITDA level?

**Sreekanth Reddy** At this point of time it is early sir, because we have not yet concluded the audit of that particular company. But we would be happy to revert to you probably in the coming month by which we are hoping to complete the audit and complete the Board meeting. So we would be more than happy to share it as and when it is ready.

**Moderator** Thank you. Next question is from the line of Sumangal Nevatia from Macquarie..



- Sumangal Nevatia** Just one question. If you can just share how the indigenous coal cost has increased by Rs. 700, Rs 800 quarter-on-quarter. Any specific reason for this?
- Sreekanth Reddy** You are looking at the imported coal cost going up?
- Sumangal Nevatia** Yes, sir on slide 11. The domestic coal price has increased by almost Rs. 800.
- Sreekanth Reddy** ,It is purely because of the quality of the coal that we have been buying. But Rs. Rs. 700, no sir it is coal cost for FY16 has not significantly changed. Are you looking at a Q2 to Q1 kind of a number?
- Sumangal Nevatia** Yes.
- Sreekanth Reddy** But in Q3 from Rs. 3,678 to Rs. 4,500 that is what we are trying to refer to. That is purely to do with the quality of the coal. We were earlier buying an upgrade, we were also trying to optimize for the coal fines coming out of ceramic companies. So but as such the quantity was negligible during that time. If you look at Q2 we have hardly used 2% indigenous coal, but that is not Singareni that is a combination of that is only the coal finds that are coming out as a reject from most of the ceramic plants.
- Sumangal Nevatia** Okay sir, lastly if you can just share your outlook on capacity addition beyond FY'17 in South and other market East and West as well?
- Sreekanth Reddy** We usually don't track beyond the footprint areas of ours. But coming back to FY17 we do not expect a major capacity supply coming in. In South for sure there is no and the East I have my reservations about any capacity happening in FY17. But for sure we do expect some capacity addition happening in FY18 in East for grinding. South I do not think there is anything at least up to FY19 nothing has been started so nothing would get commissioned in the next two to three years.
- Sumangal Nevatia** Can just share your views on the industry capacity addition as well?
- Sreekanth Reddy** See that is a large canvas. Sir, we usually do not track what happens in North as much as we should but we usually do not track it so I do not have any outlook pertaining to the Northern market.
- Sumangal Nevatia** In South specific sir?
- Sreekanth Reddy** South I do not think there is anything that is getting added up for next three years.
- Moderator** The next question is from the line of Abhishek Ghosh from IDFC.
- Abhishek Ghosh** Sir, in various media articles we have been hearing about AP, Telangana government these initiatives about affordable housing and they are looking to tie up about 3.5 million tons kind of a cement volume on account of that. Just wanted your thoughts on the same in terms of what can be the potential volume tie up for this affordable housing? As you mentioned there could be some off take beginning in this financial year but just wanted to get some sense around what can be the potential volume out of that?
- Sreekanth Reddy** See when these discussions happened with the government sir, they actually called all the industry together. They presented for 18 months in Andhra, I am talking specifically in Andhra. Around 3 million tons spread over 18 months. But

generally what happens from what they said to what happens it is again how much discount you have to upload. In our internal estimate we assume in the past the run rate was half of what they would generally happen. So that is what we have factored when we are talking of a 5% to 7.5% outlook for the coming year for AP. Similarly the matching number was there in Telangana, so we have factored around 3 millions for both the states instead of looking at spread over next 18 months.

**Abhishek Ghosh** So basically when we are talking about 3 million tons each in AP and Telangana so about 6 million tons for the entire?

**Sreekanth Reddy** No, see that is what government is talking but generally what happens is it is at half.

**Abhishek Ghosh** So for annual consumption you are only taking 50% of that?

**Sreekanth Reddy** Yes.

**Abhishek Ghosh** And just one more thing. What would be the average prices in Sholapur today because what we understand is prices in Maharashtra have corrected a lot and southern prices are still holding up. So are we kind of seeing some kind of reverse migration happening because if the Maharashtra players come and sell in south, they still are better offs. So are we seeing that kind of putting some pressure in the southern places, is that a phenomena that is panning up?

**Sreekanth Reddy** When you look at who are the players who are servicing Maharashtra, who have a potential to get into south, yes it is the same players. Instead of putting in Maharashtra they stop putting into Maharashtra and start putting in south. That is the only reason why Hyderabad prices and North Telangana prices is slightly under stress unlike the other southern markets where it was fairly stable. But I do not think somebody from Gujarat who services Maharashtra would come in to South. That looks like a logistical challenge.

But people who are supposed to service Maharashtra by being in South primarily from Gulbarga or Nalgonda cluster or Chandrapur cluster there is some amount of volumes that keep coming either as a back loading what people call. See what most of the people do is if you look at across the border, like a district like Medak which is affecting Maharashtra. Material goes into Maharashtra there are some smart dealers who would like to come back and put that material back here. Such events do happen whenever we are in transition where Maharashtra prices were a lot lower than the prices on this side. But I think that is what it is getting aligned. We hope that that is what keeps happening in an off season. But we expect the prices slowly to catch up. Rather than prices coming down on this side we expect prices going up on the Maharashtra side. The reality we will know only over next few months.

**Abhishek Ghosh** And sir, just one more thing. If you look at your realization there is a drop of almost about Rs. 440 per ton on a sequential basis and if we look at AP, Telangana prices are down only about Rs. 200 and Rs. 240. So rest of it is being contributed by outside AP. So which is these, is it Maharashtra which is largely lead the sharp price decline that you are seeing in your realization?

**Sreekanth Reddy** No, see what you have to remember is the good markets of Bangalore and Chennai are being serviced from BMM. So what remains in Sagar is Maharashtra and Orissa not that prices have dropped.



- Abhishek Ghosh** Okay but a weighted average. Okay got it.
- Sreekanth Reddy** Yes, if you look at the distribution itself gets realigned. The reality is that once BMM gets consolidated I am sure you will not have many of these issues coming up.
- Abhishek Ghosh** And just lastly if you can just help us because the fuel prices that you gave out in your presentations are because if you change the grade of coal it does not adjust. So just on a per kilo cal basis if you could just help us what must be the decline in imported coal prices on a sequential basis? Will that number be handy?
- Sreekanth Reddy** Yes, I think what I would do is I could do that in an offline kind of scenario because it is quite a big number crunching. So I think we would be happy to share those specific details as to what is the landed GCV that we have received and divide it by the total we would be more than happy to share it off the line.
- Moderator** The next question is from the line of Prateek Kumar from Antique..
- Prateek Kumar** Sir, my first question is regarding the pricing in AP, Telangana market. You mentioned that there is some improvement in Maharashtra market by around Rs. 10 to Rs.15 per bag. So there have been some moderation and fluctuation which were there in Q3 in AP and Telangana market during January?
- Sreekanth Reddy** See we are coming from an off season, so January is before 14<sup>th</sup> and after 14<sup>th</sup> things usually keep changing because our peak season starts only after 15<sup>th</sup> of January.
- Prateek Kumar** Okay so after 15<sup>th</sup> the price have stabilized?
- Sreekanth Reddy** It is too early. Now we have hardly completed so I would be lot more pragmatic trying to go with. The fluctuations would start narrowing down from now all the way up to July.
- Prateek Kumar** Okay and sir regarding the government projects which we keep reading in the newspapers regarding the pricing which Minister which have been trying to fix the pricing at around Rs.240, Rs. 250 per bag for the new incremental projects in the South market and what is the industry's take off of around Rs. 300?
- Sreekanth Reddy** What we have to remember here is that government has called the entire industry, of course they had their own issues with the price. But there has been a clear cut agreement that has been arrived between the industry and the government pertaining to the low cost housing. That is for government of AP. The Vijayawada and the neighboring markets of Vijayawada would be with Rs. 250 a bag and the far you go, there is an incremental freight with subject to a maximum of Rs. 280. Okay that has been the agreement that has been arrived at. Now when you compare that price with the retail price obviously it looks like a huge gap but when you look at it from a naked cement realizations what won for the companies of the net cement realization that company would have. Yes, there is some small discount but it is not significantly very different.
- Moderator** Thank you. The next question is from the line of Sandipan Pal from Motilal Oswal Securities.
- Sandipan Pal** Sir, so far you have been talking about AP, Telangana combined, so I was just looking for one data point. I mean how that total demand in AP and Telangana



separately and do you think that the demand growth in both the region will be very similar, I mean the 5% to 7.5% band or one region might actually see faster turnaround given the progress which has been happening in the ground?

**Sreekanth Reddy**

See the numbers usually so far statistically also have been collected as a combined kind of a thing. Now would it be very different, historically it has not been the case. So going forward only time from now when we start compiling the data we would get to know exactly the details. But given the outlook of both the governments we believe they are going to be in tandem and both would be at par. Telangana is slightly bigger market purely because of Hyderabad. Or else the usual division is only half-half but just because Hyderabad is on this side and Hyderabad is almost 4 lakh to 5 lakh tons per month, slightly Telangana demand tends to be at least looks to be higher. Given that scenario we assume that the trend lines could continue in a similar fashion.

**Sandipan Pal**

And is there any understanding like whenever any particular region will have some demand so the plant situated in that state will be kind of supplying to that or it can be?

**Sreekanth Reddy**

You are looking at specific to Sagar or you are looking at generally?

**Sandipan Pal**

I mean overall?

**Sreekanth Reddy**

No, I am sure sir. I think it is not that everybody has presence in both the states or one could be in one state. I think it is do with the natural distribution pattern sir. Somebody is close to the market probably they will have much more advantages than somebody who is very far from the market. See AP is very big. If you look at AP Northern States to the Southern tip of AP, it is almost more than 800 kilometers. If you look at (49:20) around the cluster, if it has to supply to Vizianagaram or Srikakulam if demand is in Srikakulam I am sure though the plants are in AP they may not be in advantageous situation compared to somebody who is in Nalgonda side of Nalgonda cluster where the market reach is half. So they might be reaching lot more at a lower cost because of the freight.

**Sandipan Pal**

And sir just one more thing on specific to Sagar. So the slide 12 where you gave the coal cost, so that is on the landed basis or?

**Sreekanth Reddy**

Yes, it is purely on landed basis.

**Sandipan Pal**

Okay so your imported coal average is coming higher than your domestic, right?

**Sreekanth Reddy**

Yes because of the caloric value, sir. See if my domestic coal comes at Rs. 4,800 that comes at almost 6,000.

**Sandipan Pal**

Okay and do you use pet coke also?

**Sreekanth Reddy**

So far we have not used because for us imported coal is making more commercial sense than pet coke though technically we can use but imported coal at this point of time is offering lot more commercial advantage over the pet coke.

**Sandipan Pal**

Right but technically no issues, I mean you can use your plants are viable of using pet coke right?

**Sreekanth Reddy**

Yes, sir.



**Moderator** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking.

**Rajesh Ravi** Two questions sir. First one your other income. On your other income, could you throw some clarity on how this number changed once the consolidation happens?

**Sreekanth Reddy** Sir, bulk of the other income is an interest that BMM was paying Sagar for the money it has lent to it. So almost 90% of that other income would get vaporized once it gets consolidated. And as such once the financial structuring happens I do not think there is any money that Sagar would be lending it to BMM because it would be self-financed.

**Rajesh Ravi** Okay and second on the East expansion you say the industry that there are no major difference in the Emami Cement which is coming in?

**Sreekanth Reddy** That is in central sir.

**Rajesh Ravi** So this credit that is in Chhattisgarh the plant is there in Chhattisgarh right?

**Sreekanth Reddy** Yes sir. Some people structured Chhattisgarh in central some people in East but in our reckoning it is more a central market than the eastern market.

**Rajesh Ravi** Okay but what is your view on their expansions? What is the progress?

**Sreekanth Reddy** I am not aware of that sir. I wish I knew everybody. It is very difficult to keep track of ourselves.

**Moderator** Thank you. The next question is from the line of Girish Chaudhary from Spark Capital.

**Girish Chaudhary** Sir, basically most of my questions are answered. But still have one. Basically if I see your state wise dispatches, in your AP and Telangana I see a 13% growth YoY in this quarter. So how should one read this basically is that demand relatively better in AP and Telangana than other states in south?

**Sreekanth Reddy** No sir, it is purely because of the consolidation that has happened between BMM and Sagar you are seeing that adjustment or else there is no change in the outlook. The market itself was stable as such, there is no way that we could have grown. It is purely because of the consolidation. Impact because some amount of BMM what it was supposed to service into AP we did service from Sagar.

**Girish Chaudhary** Okay, so that BMM would have sold much lower?

**Sreekanth Reddy** Yes much lower into AP and more into Karnataka. So it is kind of an exchange mechanism. That is what we have always spoke off in terms of optimization of volumes to the nearby markets. That is what we have done or else we have not gone in the AP market.

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



**Anshuman Atri** My question is regarding your other markets. Sir you have given details on south and Maharashtra, how do you expect it in the Eastern markets in terms of the demand like Orissa?

**Sreekanth Reddy** We are not there in East other than South Orissa at this point of time. When you talk of east it is like Bihar, Jharkhand.

**Anshuman Atri** So in your market what do you expect?

**Sreekanth Reddy** In our market our market footprint is very, very compact. We only service to the southern parts of Orissa where historically we had a presence because we had a grinding station close to that market. That market has been growing anywhere between 10% to 15% year-on-year.

**Anshuman Atri** And the second question is regarding the BMM as well as the Sagar expand in brown fields. When can we expect say at what utilization levels you will start looking at brown fields and what is the potential capacity for both BMM as well as Sagar?

**Sreekanth Reddy** Sir both the states are blessed with very good reserves of limestone. Layout also permits huge expansion potentials. But I think we have to go with the market wise kind of a scenario rather than just to grow. I think we only look at a very short term view of three years, I do not think we would be doing anything for next three years at both the locations. And beyond which I think we would take a market related call rather than anything else. The potential is there, capability is there and financing is available but I think we usually take a call on a market wise kind of a scenario.

**Anshuman Atri** Okay and another question is on the Maharashtra and Karnataka markets. Are we seeing any increased pressure because of ramp up of new capacities which have been added?

**Sreekanth Reddy** See fortunately the Karnataka though the two plants got commissioned in Karnataka it is primarily the bulk of the market from where they have put up the plants has to be in Maharashtra. South market is much bigger than the North market. Of course North market is under some stress because these capacities have come. But Maharashtra what it has come we believe the market is going to grow which should absorb these incremental kind of a volume. So net-net for an existing player the market may not grow. The overall for a sector the new players, their incremental volume should comfortably get absorbed.

**Anshuman Atri** Okay so you are seeing any kind of discipline coming in from the newer players or they are still ramping up?

**Sreekanth Reddy** I am sure everybody would like to extract the best possible prices value.

**Anshuman Atri** No, I am saying in terms of in the south market you are seeing a discipline in terms of volumes?

**Sreekanth Reddy** Because I do not think we are seeing any differently anywhere sir. South if you look at Sagar we only sell, there is a viability and there is some margin for us or else we do not sell. Is it going to happen in Maharashtra, I do not know we do the same in Maharashtra, whatever we get we take purely because of the freight we are getting a lower realization.



**Anshuman Atri** And lastly on the brandings for BMM as well as Sagar. When can we expect under a single umbrella in selling these products together or will it be?

**Sreekanth Reddy** We have already started close to six months back sir I mean from April onwards since nine months' that is where we were doing as a traded sale. It is only one brand that we have been doing it since we have taken over it is only one brand sir, it is only on Sagar.

**Moderator** Thank you. The next question is from the line of Dhruva Bhimrajka from Cresita Investments..

**Dhruv Bhimrajka** My question is regarding the other operating income which has shown in your Quarter 3 results. We see a significant jump year-on-year. It was around Rs. 3.74 lakhs last time to Rs. 1.64 crore this time. So can you just explain what has been the reason for this significant jump in the other operating income?

**Sreekanth Reddy** See the other operating income is more like a transfer of some of the useful inventory at BMM which has been transferred from Sagar to BMM.

**Dhruv Bhimrajka** Of Sagar to BMM?

**Sreekanth Reddy** Yes, sir.

Some of the material we were optimizing between Sagar to BMM so that is the shift that has happened in the other operating income.

**Dhruv Bhimrajka** And regarding the finance cost also, it has risen significantly. If you see it is now Rs. 10.62 crore from year-on-year Rs. 4.7 crore. So any reason behind it?

**Sreekanth Reddy** Yes, the reason is you are talking of the overall financial cost right?

**Dhruv Bhimrajka** Yes, in the quarterly result this has been?

**Sreekanth Reddy** Yes, because we have capitalized the almost Rs. 100 crore got added up in the current quarter.

**Dhruv Bhimrajka** Sorry capitalized?

**Sreekanth Reddy** We have capitalized close to Rs. 100 crore of work in progress. So the interest and everything started getting adjusted to it. And you will see a matching increase also in depreciation.

**Dhruv Bhimrajka** And one more thing. How do you see the revenue guidance for FY16 in consolidation with BMM?

**Sreekanth Reddy** See I think our operating would be at 50% with a slight increase in EBITDA per ton purely because of the advantage that we would get. So we would leave it there. I mean you see this is for anybody to guess and our outlook for the coming year is that most of the time price is expected to be similar to what it has been so far.

**Dhruv Bhimrajka** Okay, so the growth trend tends to be similar on a consolidated level if you see?

**Sreekanth Reddy** Yes sir, conservatively we believe that is what we should expect.



**Dhruv Bhimrajka** Okay and for the railway siding how much CAPEX has been incurred till date and how much more is remaining?

**Sreekanth Reddy** Sir, it is Rs. 100 crore sir. Though we are looking at the overall project was Rs. 120 crore we have deferred the other Rs. 20 crore. We will only take a call once the market improves not before.

**Dhruv Bhimrajka** Okay so Rs. 20 crore of investment still remains for the railway siding?

**Sreekanth Reddy** Yes sir, but I do not think for the coming financial year we would be incurring that because we have deferred it.

**Dhruv Bhimrajka** So will it be operational in the current financial year?

**Sreekanth Reddy** Yes, it is expected to be operational in current financial year.

**Dhruv Bhimrajka** Okay and what are the CAPEX plans going forward for FY17-18 if we see on a two year basis?

**Sreekanth Reddy** See I think that is too long term but for the coming financial year we are assuming a Rs. 10 crore to Rs. 15 crore between both BMM and Sagar put together.

**Dhruv Bhimrajka** Okay and one more thing if I missed it. You said the net consolidated debt would be around Rs. 450 crore for Sagar and BMM, right?

**Sreekanth Reddy** Yes.

**Dhruv Bhimrajka** And what would be your average cost of debt as of now?

**Sreekanth Reddy** Around 11.5%

**Moderator** Thank you. I now hand the conference over to the management for their closing comments.

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

