



Sagar Cements Limited
Q4& FY20 Earnings Conference Call Transcript
June 1, 2020

Moderator: Ladies and gentlemen, good day and welcome to Sagar Cements' Q4 & FY20 earnings conference call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India

Gavin Desa: Thank you. Good day everyone and a warm welcome to Sagar Cements' Q4 & FY20 Analyst and Investor Conference Call. We have with us today Mr. Sreekanth Reddy – Joint Managing Director; Mr. K. Prasad – Chief Financial Officer; Mr. Rajesh Singh – Chief Marketing Officer 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 some 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 go through the result communications and documents.

I would now like handover to Mr. Reddy for his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy: Thank you Gavin. Good afternoon everyone and welcome to Sagar Cements' earnings conference call for the quarter & fiscal ended March 31, 2020. I hope all of you and your loved ones are safe and well.

Also, we would like to express our deep appreciation for the lifesaving efforts of medical, social and other frontline workers during the COVID-19 pandemic.

At a Company level, we have implemented stringent policies and measures to minimize risks for those who continue to work in our facilities and offices. Infact despite permission to operate being granted, as a matter of precaution we continued to keep our facilities shut until the first week of May and thereafter too have been operating at minimal levels. Our various initiatives towards automation have helped considerably in these times,

With that, let me begin the call by briefly discussing the key demand and pricing scenario across our markets post which I will move on to Sagar specific developments.

Starting with our key markets – demand on an overall basis was relatively steady pre-Covid basis however things did change materially post the lockdown announcement which resulted in a virtual standstill of construction activities across the nation. Further, unavailability of workers and logistic challenges aggravated the situation even more for the Infrastructure projects. Pricing environment which remained more or less steady is now showing some semblance of improvement though it is too early to comment on whether the trend will remain the same. The only positive development for the sector has been the moderation in input prices. That in a way has helped us offset the impact of lower operating leverage.

Going ahead though, the near term outlook does appear challenging – one doesn't know exactly how long this situation will persist. On the other hand what can be controlled are factors like costs and that's what we are working towards. Irrespective of the current situation, our efforts are always largely directed towards lowering the operating cost and improving our overall efficiencies. In the long term though, once things stabilizes, and the focus once again shifts towards growth and development we believe the sector will see improvement both in term of demand as well as pricing.

Moving on to Sagar specific developments, the second half of the fiscal was challenging which in a way negated the good start we have had to the fiscal. Speaking specifically about the quarter, things obviously weren't ideal for growth. Demand off-take was lower amidst the outbreak of Covid-19 pandemic, which further got aggravated post the announcement of nation-wide lockdown. Further, exodus of labour from construction sites also impacted the demand sentiments. With limited visibility on demand side, we focused our attention towards lowering our costs, which helped us soften the overall impact. The completion of CPP and expansion of Bayyavaram unit have helped us lower our fuel and freight expenses in recent years.

Presently the ongoing projects at the subsidiaries Satguru Cement Pvt. Ltd. and Jajpur Cements Pvt. Ltd. which were progressing at good pace upto 3rd week of March, 2020 got impacted due to COVID-19 induced lockdowns announced by Govt. of India, which is yet to gain momentum even after relaxations made by the Govt., due to exodus of labour from construction sites. As a result of these unforeseen circumstances delay of around 3 months can be anticipated in completion of these projects. Post commissioning, these projects should help us further improve our efficiencies.

Moving on to our financial performance for the quarter on a consolidated basis revenue from the operations for the quarter stood at Rs. 306 crore as against Rs. 367 crore generated during the corresponding quarter last year, down by 17% YoY . EBITDA for the quarter stood at Rs. 47 crore as against Rs. 63 crore reported during Q4 FY19, down by 25% YoY, owing to lower sales volumes and realization. Average fuel cost stood at Rs. 712 per ton as against Rs. 822 per ton reported during Q4 FY20. Optimization of thermal efficiency has resulted in lower per ton cost of fuel. Freight cost for the quarter on a consolidated basis marginally increased to Rs. 714 per ton as against Rs. 709 per ton during Q4 FY20. Profit before tax for the quarter stood at Rs.11 crores as against Rs.29 crores reported in during Q4 FY19. Profit after tax for the quarter stood at Rs. 1 crore, after providing deferred tax asset reversal amount of Rs.6.69 crores on account of revision in income tax rates in case of wholly owned subsidiary M/s.Sagar Cements (R) Ltd, as against PAT of Rs. 19 crore reported during the Q4 FY19.

On an annual base, revenue from the operations for the year stood at Rs.1,179 crores as against Rs.1,220 crore generated during the last year, down by 3% YoY. EBITDA for the year stood at Rs. 190 crore as against Rs. 152 crore reported during FY19, up by 25% YoY. Profit before tax for the year stood at Rs.50 crores as against Rs.23 crores reported in during FY19. Profit after tax for the year stood at Rs.27 crore, after providing deferred tax asset reversal amount of Rs. 6.69 crores on account of revision in income tax rates in case of wholly owned subsidiary M/s.Sagar Cements (R) Ltd, as against PAT of Rs. 14 crore reported during the FY19.

From an operational point of view Mattampally plant operated at 51% utilization level while Gudipadu and Bayyavaram plants operated at 76% and 57% respectively during the quarter.

As far as the key balance sheet items are concerned the gross debt as on 31 March 2020 on a standalone basis stood at Rs. 251 crore out of which Rs. 148 crore as a long term debt and the remaining constitutes the working capital. While on a consolidated basis debt stood at Rs. 488 crore out of which Rs. 347 crore is long term based. The net worth of the company on a consolidated basis as on 31 March 2020 stood at Rs. 1,021 crore. Debt equity ratio stands at 0.34:1. Cash and bank balances were at Rs. 13 crore as on 31 March 2020. That concludes my opening remarks. We would now be glad to take any questions that you may have. Thank you.

Moderator:

Thank you very much. Now we will begin the question and answer session. You can ask your question by a raise of hands in the participant tab, or alternatively type

your question on the chat window of the zoom platform. We will wait for a moment for the questions please. The first question is from the line of Amit Murarka. Please go ahead.

Amit Murarka: Thank you. So just quickly on the demand situation. So now that, May month seems to have been better, and people have a lot of hope around the volume pick up in June and normalizations going ahead. So how do you see the demand situation currently?

Sreekanth Reddy: Yeah, I think during April, we did some volumes, though for most of the time or for most part of the month, we were in a lockdown scenario. There were some emergency orders which government wanted us to execute so that's what we have done and coming into May, volumes relatively were much better compared to April. But if you look at April and May of this year compared with the previous year, we are exactly at half on a cumulative basis. Slightly lower than half of what we were, on a year on year basis. Now going forward, how this scenario is going to shape up. Yeah, we strongly believe that up to September, things might be on and off kind of an event, because, we have to see now that the lockdown is lifted, how the impact of COVID is going to shape up to decide how the volumes are going up, the demand is going to come up. So given the scenario, we strongly feel that it is too soon for us to really make any comment pertaining to the demand going forward, we would like to reach to September before taking a call as to how sustainable the May month demand has been.

Amit Murarka: And are you also sharing the estimates for the year that you used to do every year around, the state wise estimates?

Sreekanth Reddy: Right now it is too soon. So we wanted to wait up to September before we coming back to the outlook that we would want to give, we are still in a stage where the market just opened up. The field people are still not yet on ground. Most of the people have been working from home, so till they actually come back and start working closer onto the ground and connecting with the people till such time, giving an outlook, we thought may not be a good idea or it may not mean much till the entire economy opens up in its true fashion.

Amit Murarka: Sure. And just lastly on realization, I mean, you had a wonderful improvement sequentially in realization. And what we understand, the pricing has been good so far this quarter as well. So how would you assess the realization trends currently?

Sreekanth Reddy: Yeah, I think the, the sales volume has been absolutely much lower than 50%. Given the scenario, of course pricing, what started off during the entry of q4 of last

year, or to an entry of q1 this year. Yeah, there has been a substantial improvement because what I have to mention here is the last q3, we actually were touching decadal low in our markets, the decadal low prices in our markets. From that scenario to q4 the realizations actually moved up from q4 to q1 for that the realizations have moved up but that happened on a relatively very low volumes. So will they sustain? Will there be an uptick in pricing? It's too soon for us to come and hope they remain, but it is too soon for us to comment because volumes are much lower than 50%. So, once volume starts increasing, only then we can comment on the pricing scenario. What we would like to state is that the realizations there has been a reasonably good uptick from exit of q4 to entry of q1, from exit of April month, to now more or less the prices remained at an elevated level compared to q4 Yeah, will they remain there? I think we will wait and watch and it's too soon for us to make any comments on that.

Amit Murarka: But will we be able to share currently.

Sreekanth Reddy: See, it's, it's actually close to 750 to 1,000 rupees, at what we call as an NCR, which we call as the net sales realization, you should add GST to that. So that has been an increase, right from exit of q4 prices to entry of this, more or less we could we could get 750 to 1,000 rupees at an NSR level.

Gunjan Prithyani: The next question is from the line of Gunjan Prithyani. Please go ahead. Firstly, on the demand side, which you mentioned 50%. Is it possible for you to talk about where is really the demand coming from? And secondly, have you seen that the normalization towards the second half of May is better than what you see? So the early part of the month, because the feedback that we're generally getting from some of the other cement companies is that things have been incrementally improving quite a lot towards, You know towards the second half of the May if you can share your thoughts on that and secondly any regional divergence that you're seeing in terms of you know, Maharashtra and you know the South markets, is Maharashtra something which is still taking time to see improvement

Sreekanth Reddy: I think the demand uptake has been very gradual I will not talk about the first half or second half because the lockdown as you know started getting lifted so as the lockdown started getting lifted the and some of the red zones becoming green or orange our volume started flowing out in proportion to the number of green zones that have been coming by so it's natural that the volumes in the second half of month were relatively better compared to the first half, are they sustainable going forward? Yeah, that's one question which we would wait for some more time before making comment when compared to April, May month was obviously much better because April month, as you know has been for most of our markets were

under serious lockdown. Now, May month from first fortnight to the second fortnight definitely volumes got increased. The mix of the customers was not very different from earlier though I have to tell that some amount of direct government orders started flowing in, what have been promised by Andhra government, especially for what they call as school education department works. At company level, we did receive close to around 20,000 tons of orders from the Education Department of Andhra government. That's a direct order that we received, but for that rest, all the other mix for us has been very similar. So for us majority is trade. More than 60 to 65% of our volumes usually keep coming from the trade that has been the case even now. Now, is it for inventory filling or is it for the market? Yeah, as mentioned, I think we would need some more time before we can really comment on the mix of the end consumers. But at this point of time our mix continues to be similar to how it has been in the past. But that doesn't mean that the trade volumes have picked up, we would wait for some more time before putting any comment on that or any color on that, going into the markets of Maharashtra, see our presence in Maharashtra is limited to certain pockets of Maharashtra, which fortunately are not in the red zones. Our exposure to Pune and Mumbai is very, very negligible. I think those are the biggest markets of Maharashtra. So on those counts, we generally hear that Maharashtra market are most part of the key Maharashtra markets are. In our own case, our markets where we operate are more or less close to the normal At this point of time.

Gunjan Prithyani: And the second question I had is more broadly from an industry perspective given what we are going through is pretty unprecedented. Do you see any case of more stress, any, any stress coming through into the market and you see scope for any M&A or acquisitions or some opportunities, which, you know, come up in this environment?

Sreekanth Reddy: I think it is too soon to talk. Right? For the most part of the lockdown period, it was more of an existential issue. So not many people knew how it is going to shape up. And I'm sure not many people know how it is going to shape up at least for short term. So given this scenario, M&A at this point of time, commenting anything on it would be too soon. I am sure I think it would have impact across so I don't know who the buyers are going to be. There could be a lot more sellers but who the buyers are going to be? It is too soon for us to comment on that.

Indrajit: So on freight, can you share, how much is your current freight mix in terms of road and rail? And are you facing a lot of issues in our road for truckers right now?

Sreekanth Reddy: We are completely on road sir. We don't have even a single rake during this pandemic time, especially for the current quarter. Though we did try a few rakes during the q4 that's when we were trying to reach to the eastern markets and we were trying to get into the newer markets through train. But during the current quarter, the April month and May month, we did not use any rake.

Inderjeet: Are you facing difficulties in terms of truck availability? Has that improved?

Sreekanth Reddy: I think it is part of the impact. There were some outstanding orders, which we had which we could have probably delivered it. But for the logistic issue, it's not just the drivers alone. But the issues that you had on the end customer side, probably did impact some amount of material flow. And it is, it's just opening up, some of the pockets just got opened up. So, you know, preparing, the unloading of the truck, and the availability of the drivers and allowance of trucks into those areas. These are all part and parcel of the impact that we are seeing, but they are relatively much better compared to the earlier part of the last couple of months.

Inderjeet: Do you have any dedicated freight? Or is it completely outsource?

Sreekanth Reddy: No, we don't have any trucks owned by the company. Everything is outsourced. But they are the fleet, which has been in existence, which is as old as the company itself. So it's as good as dedicated for us.

Inderjeet: In your opening comment you mentioned about input costs being lower. Can you quantify it? What were the coal costs for the fourth quarter? And what is the current purchase price?

Sreekanth Reddy: I think what would be relevant, because we have quite a bit of stock up positions. One to two quarters ahead. Yes, from the previous purchase to current purchase, we are actually doing it and close it. Compared to what we have done during the last years, the average procurement cost of our coal is almost 15 to 20% lower than what we have done previously. So to start in terms of the consumption I'm sure this will start getting reflected the from q2 onwards, but the average procurement cost has come down by 15% 20% on an average compared to the previous purchases what we have done

Inderjeet: In terms of our capex guidance for this year, have you deferred any capex plans?

Sreekanth Reddy: I would not comment on the deferment Sir, as such we are expecting a delay of three months. So, I think that's about it. I think the overall capex planning probably

might get deferred between three to six months. But at this point of time, it is too soon for us to comment on that because most of the workforce the civil contract work is progressing very well, especially in Satguru, where we would have completed by September most of the civil works. We were running almost with 800 odd people working at that site. Right now. I think we are left with 150 people. So we hope to get them back very soon. But we are not very sure how faster that could be. So given that scenario, we are estimating that the delay could be three months as a minimum, but we will be happy to come back to you if it is any different.

Inderjeet: Sure, lastly, on government projects, not just for you, but for the contractors as well. Have you seen any expedient in terms of payment from the state governments or it is delayed?

Sreekanth Reddy: Sir, I cannot comment much because the interactions have been very few for obvious reasons that the communication with most of the people could not happen as they were busy trying to access the impact and get over that. But what we have seen during these times is people were pushing some of the projects because either in anticipation of onset of monsoon or outflow of the contract labour, or migrant labour especially, we have seen some amount of work being done faster. Is it going to remain like this forever, I think we have some reservations, but that was the case. We have also seen some amount of payouts given by the government. At this point of time, we are not exactly sure how much that is. But what we have seen is some of these contractors usually were credit days that they were using. But one of the good things that have happened during this Covid impact is that we made it cash and carry. I am not sure whether the contractors received money for making that or they've actually put their own money. Happy to get back to you as soon as we get to know on how the credit days are for the new shipments.

Mangesh Bhadang: My first question is there have been disruptions on both the demand side as well as supply side. So demand side because obviously because of loss of labor and economic activity being slowed down to the lockdown, but even on the supply side, there are problems being faced by cement companies because they're not able to dispatch or probably because of labor availability not being able to restart their plants. So my questions are demand obviously, it's anyone's guess, and probably we'll have to wait and see the next data sets in terms of to understand where it will go up. But on supply said, When do you expect that you know, in terms of availability of freight channels as well as labor, when do you expect that, to normalize? And the reason I asked it because I think post that there would be some changes in pricing.

Sreekanth Reddy:

Now, I wish I had a correct answer to that, but what I could comment is in April, obviously we faced a lot of issues because it was in a lockdown scenario. So there were some orders which we could not execute during that time. From that perspective, first fortnight of May got eased up. Yeah, things were relatively, see these are all relative speaking. So things shaped up much, much better from the end of April kind of days. Now, how fast we will solve all the issues? Yeah, I wish we had a good answer for that. It's anybody's guess. Yeah. And the onset of monsoon. And what we have seen is a lot of people emotionally got disturbed with this. And people still perceive a lot of this. So drivers coming out openly like how they used to do pre Covid days. We think it is going to take at least good four to five months before things can or would come back to normalcy will it anyway really impact the supply. The markets that we are servicing. I'm sure you've been tracking it for quite some time, historically have operated close to 55 to 60%. Now, for us to go back to even that level, yeah, we think it will take another three to four months' time. That impact from a supply perspective, we see a lesser risk than the demand risk at this point of time. So, given that ramp up might take slightly slower, more or less the order fulfillment side there could be very few orders which might be left unfulfilled at this point of time, given the difficulties in the availability of the transportation related things. But we have to face it, I mean, they remain where they are. Will they improve? Will they become worst? It is anybody's guess. We have seen some areas where all of a sudden they were put order but they went into containment zone so it's not just supply issue. Yeah, there was a demand but we were not able to service because it was a containment zone so all these given things I think the ramp up could be slower. The only silver lining is that it is not as bad as we started off with because when the COVID induced lockdown happen, we were absolutely unsure as to when it would get lifted. Now all the governments have come back and started lifting and it has been sequential. Given this scenario, we feel that we might come back to near normalcy during the second half. That's what we would like to state.

Mangesh Bhadang:

Okay, so one more question. It's on the capex. I'm sorry I missed the timelines of the Satguru and Jajpur Plants. So what are the new timelines and have you contemplated delays in those capex.

Sreekanth Reddy:

See the delays is as much as the delay in terms of the restart. Right now, we believe that there is a definitive three months delay in the overall implementation of the projects. So, capex exactly will follow the same patterns. So there is a delay of three months. So, capex also should follow the same pattern. At this point of time, we are only expecting the delay to be three months, but it is subject to the

migrant labor coming back and restarting the work. We strongly believe the contractors have assured that within a month, month and a half, they would like to restart and take it back to where we were pre Covid time. We are keeping our fingers crossed. But at this point of time in our planning, we have factored three months delay.

Moderator: Thank you. I will now take a couple of questions from the chat window. The first question is from the line of Pritesh Seth. The question is, can you give us FY 20 volume growth or decline number in your markets? And can you update us on the upcoming capacities in your markets?

Sreekanth Reddy: See, I think we would not like to give any outlook for the current financial year, given these difficult times doing any prediction or forecasting any of that would always be a challenge. Though internally, as a best case scenario, we did factor a drop of 25% from what we did last year, but that is with the caveat that we would come back to the market sometime during September for us to exactly state the position. Now coming back to the next part of the question about the supplies that are expected to come. Yeah, we have Chettinad Clinker line and of course there cement grinding station was commissioned during the last financial year, their Clinker line in Dachepally which is in Nalgonda cluster near Guntur in Andhra Pradesh is likely to come in a time now I think they have completed the project it's only a matter of few regulatory approvals that are required. Penna Boyareddypalli which I believe is already commissioned during the last year so we are not expecting anything new, Ramco Kalim kurla which is near Kurnool, I have no exact knowledge of their current status. But we were expecting them to commission sometime in the q3 or q4 of this year, likely that they might come during the same time. These are the three major supplies that were due to come into our region. Those are the status Sir.

Nitin Gandhi: The next question is from the line of Nitin Gandhi. Please share your view on q2, q2 of this year?

Sreekanth Reddy: See, we don't have any view on q2 as I told you q1 and q2, it's not that we are trying to play safe but it has been a challenge. We don't know if the demand what we have seen from April to May is sustainable. With the lockdown getting lifted, we feel that the Covid impact could be slightly inching up at least for a brief while and then start moderating or getting down. Given that scenario taking any call on q2 would be difficult sir, and we believe that this time monsoon also is expected to be normal. So, given that scenario, if it is a normal, medium to long term, it's a very good news, but short term usually a good monsoon will have demand impact on

the cement given that scenario. We would not like to have any comment on the outlook for both q1 and q2 for the current financial year.

Mayur: The next question is from Mayur. 8.25 million Tonne likely by 2021. What is the likely peak debt? Post the expansion of your Plants?

Sreekanth Reddy: The numbers, looks close to being Rs.800 crores. Gross at the peak, but what I would like to state here is our leverage position would not be very different from how it has been in the past. Yeah, especially on the debt equity side, or the debt to EBDITA side, we probably would be at peak in FY22 at 0.60 and gradually come down to sub 0.50 in a reasonably quick time. That is on debt equity ratio and debt to EBDITA, Yeah, probably we might peak during the FY 21 at close to 5 and slowly taper down to sub 2. The way the debts have been structured is to ensure that even difficult times we would fulfill our obligation. Yeah, we probably would pick up close to it on a gross side at 800. The net side it is too soon for us to comment but on the gross side we would not cross more than 800.

Thank you, sir. Follow up question from **Pritesh Seth**. How did your markets performed in FY 20? Wanted to ask for volume growth or decline.

Sreekanth Reddy: Yeah, the volume did declined by almost 6%, during last year, that is FY 20.

Prateek Kumar: The next question from the line of Prateek Kumar Hi, Sir Good afternoon. The first question is on your volume in the month of May. So you mentioned that, during first two months the year on year decline on a combined basis is around 50% April was around 80 to 90%. So can we interpret probably like a 20 to 30% kind of decline in May? And probably only 10% by latter half of the month. Is that correct assessment?

Sreekanth Reddy: Mr. Prateek just completed the month yesterday, which is a Sunday so I don't have very specific numbers, the broader numbers look like we are close to 50% down on a consolidated, between April and May, compared to the previous April and May Sir the specific numbers as you know that we just completed the month yesterday. Yeah, the godown consolidation and everything probably could take a couple more days, but we would be happy to share that number as and when they are available

Prateek Kumar: You mentioned that government orders have started kicking in, Andhra Pradesh. So it is that 12 million annual demand which was foreseen originally.

Sreekanth Reddy: Yes, sir. I mean, just to inform all the audience. There was a meeting with Mr. Jagan Mohan Reddy, the honorable Chief Minister of Andhra Pradesh, just before the lockdown during the first week of March, where they have indicated that they would be consuming close to a million tonne per month for all their key government projects. So part of that we did receive some orders during May month and most of the orders have been from education department. And we started receiving during the last week of May itself, some additional orders for the village Secretariat. We only know what we have received. I am sure that must be the case with most of the other industry players. We received close to around 20,000 for the month of May the indicative orders that we have received during the last month, it is on their Portal so we are just extracting it. Yeah, we are made to believe that we should expect close to around 35,000 to 40,000 tons for the month of June. So if you look at that trend, sir. It may not be a million a month as an industry, but it's not a bad number, even during these difficult times. That's what I would like to state. But we'll be more than happy to come back to you with specific numbers as and when things open up and the communication channels becomes a lot more clearer. Yeah, we'll be very happy to share our internal expectation was that it should be a minimum of five to six million for the current financial year. That's what we have factored for the full year that was pre Covid. But with this Covid, would it have impact on that? Again, we would want to wait and have interactions with the government to know how they're going to really perceive the impact and the mitigation pertaining to this. But given the employment related issues, and we strongly believe that construction sector is one of the key drivers for the employment generation, we feel that government might accelerate and be close to what numbers that they've counted. So that that's what you'd like to state at this point of time. And is there some projects government project from Telangana market also, like, there are some the last piece of Kaleshwaram did consume during the Covid times in fact, we did supply during the April month only for those projects, some of them got commissioned during the Covid times itself, so there are some finishing works. Those works are likely to consume cement even for the current financial year, quantifying them would be too soon at this point of time, but there is some amount of consumption that is expected during this time.

Prateek Kumar: One question on your labor migrant labor problem, which you highlighted for capex, so, you as a company, generally are in touch with the migrant laborers or is there the contractors who is in touch?

Sreekanth Reddy: We are the principal employer, Sir. So, I would not say that we are in direct connect, but we are in a known of things how they are shaping up. Though the contractor has committed that he would get all the numbers back probably within a month's time, his commitment is somewhere around the middle to third week of

June. But all likelihood that we might end up getting somewhere around first week of July is what we strongly believe. Would we go back to those numbers? Highly unlikely, but from 800, we came down to 150. Yeah, there is likelihood that we might go back to 400 odd at least to start that's what we strongly think for one project. The other project is still in early stage Sir, so there, in fact, it is in East. So there are a lot of people who are discussing that labor would be available. But it has always been as challenging even there.

Chirag Singhal: Yeah, thanks for taking my question. So just one question on the capex side. Can you give me the numbers on what's the total capex for those two expansions and how much have you already incurred?

Sreekanth Reddy: Yeah, there are two projects Sir one in Madhya Pradesh which is called Satguru Cement Private Limited. that's a million tonne integrated plant. The overall capex plan is Rs.485 crore Then there is one Jajpur Cements Pvt. Ltd., which is one and a half million tonne grinding plant in Orissa is a Rs.310 crore for the top line capex and so far what we have incurred for Satguru we have incurred close to Rs. 120 crore and for Jajpur project around Rs. 80 crore these also includes the opening of letter of credits to the suppliers, half of them probably would have not been in cash because most of the equipment is still to be received.

Moderator: Thank you. I will now take a couple of questions from the chat window. The question is from the line of Nikhil Desh Pandey, what is the current capacity utilization?

Sreekanth Reddy: Yeah as stated Sir it is anywhere between 25 to 30%. We have reached 50% of what we were last year, which effectively translates to anywhere between 25 to 30% capacity utilization as we speak. Thank you.

Risith Shah: The next question is from Risith Shah, along with the shrinkage in demand by almost 50% are we also seeing supply side constraints due to labour unavailability or supply chain disruptions? And the second question is what the monthly or quarterly fixed cost are? And what is the kind of minimum capacity utilization necessary to meet the fixed cost?

Sreekanth Reddy: I think supply side constraints I did said before just for convenience sake, let me repeat, yeah, there are some issues, but they are not that difficult given the demand scenario. So, at this point of time, there are very few orders that are left unfulfilled. There are but there are very few and going forward with the lockdown restrictions getting lifted. We feel that those issues will become even lower than what they were, the next part of the question is pertaining to the most optimal

capacity utilization. One thing that I would like to say it here is the south as an industry, the cement industry has been operating sub 60%. So, industry started leaving with a scenario where most of the moderation did happen over a period of time. What is minimal subject to the realization, but with the given realization what we have right now Sir at 25 to 30% capacity utilization, we should break even, probably it is too soon for us to talk about the margin. But I think with the current pricing scenario, even at a 30% capacity inflation, we should break even it may not be an existential issue. It's a question of survival issue. So how well we are going to survive is going to be decided by the pricing because we don't expect the operating rates to be any better than what they are already a time soon at least till September. So, if the prices remain the way it is, pricing environment remains where it is. Yeah, I think we should come out with minimal bruises for us to survive. Yeah, we are not talking about margins either way. So we are talking of more breakeven, kind of. Thank you.

Madhav Marda: The next question is from Madhav Marda, can there be pent up demand in urban India like in rural India?

Sreekanth Reddy: Sir, I cannot comment about the pent up demand. Yeah, there are a lot of discussions that are happening, there were some of the instances where we knew that labour would go out in a certain period of time. So, there was some amount of acceleration that we have seen. So, if that is factored as pent up demand, yeah, that I think that option is slowly getting exhausted. The next part is pre monsoon, usually there is some surge. The last but not the least, and most important is Yeah, there were some good amount of sales happening at a very good price I would not call it as hoarding from the dealers during the Covid times. So most of the inventory at the dealer places were exhausted during the Covid times. So they were in a hurry to fill them back. And usually when you have relatively a better margin, people tend to overstock than what they normally would have done. These three things probably would have pushed demand or the supply to a slightly higher side than what it normally would have been. Sustainability of that is in question. The sustainability can only come in after sometime. Yeah, as you know that for last three months bulk of the lockdown restrictions, and most of the cases are in the urban areas in comparison to rural areas. Will it remain like this? I have no idea, Sir because at the moments who things are happening I wish it doesn't get spread, but I'm not in exactly know of it. That's what I would like to say from an urban rural kind of scenario at this point of time.

Naveen: Thank you for the opportunity sir. So, given that, we are hearing that bulk of this current demand is driven by the rural side of the states. So wanted to get a sense first of all for us at Sagar Cements, what is the urban rural mix, if at all, you can get

them out of there and just stretching it further at the state level, because I'm sure you have a great, like, you know, understanding of how the state's demand is. So at the state level down south, what is the broad urban rural mix of the total consumption?

Sreekanth Reddy:

I think, most of the markets that we have supplied during the current last two months, part of it was government, sir. So most of the works were happening at the government at the rural side, especially the irrigation side, and as well as the education department. So it's logical to assume that the consumption was more diverted towards rural and urban. And in last two months, most of our, more than 60% of our urban markets were shut. So, again, the bulk of our supply actually got diverted to the rural side. In general, by definition, sir rural and urban we count it as even semi urban should I take it into rural? Yeah, that would be a challenge, because you have some of those big Category A towns which are part of the demand places or this part. So, segregation is always a challenge. So, I would not like to take a position telling that bulk of us is rural or urban, but whenever government consumes sir, bulk of it actually is diverted towards the rural side. Going forward, we think that once the Andhra government starts consuming majority of what probably might be diverted towards the rural side the village Secretariat's the name itself states that it is in village. So, it is rural. Now, urban infrastructure built up in our own portfolio again and commenting for Sagar in our own portfolio is less. So our general customer list, portfolio is more towards the rural side. So we remain rural even in the past this is nothing new. Yeah, our supply towards the large RMC players has been minimal. And of course, we have some of them, but that was mostly towards Vizag. So they continue to be one of our key customers, but what I would like to state is Vizag. was under lockdown till yesterday. So that did not contribute much. So currently our supplies have been close to 70 to 75% has been towards rural sides. But on average, we generally are 55 to 60% towards the rural side.

Naveen:

Understood, thank you. And so also just some sense because again, from a state wise perspective, just to get a sense which states are more heavy or more dependent on these migrant laborers in the construction segment, so to say I'm not talking about cement company Because I'm sure, wizards like you have obviously mastered the way of automations. And how to operate companies at much, much lesser labor availability as well. But on the construction side, you still I think automation can't be possible to that extent. So just your sense again, as to state wise, which states according to you see a lot of labor influx. So to say in the current scenario could see a little higher a dent on demand versus others. Thanks.

Sreekanth Reddy:

I think on the automation front, Sir, I think the average cement industry, if you look at it, we are supposed to be one of the most sophisticated sector across the world. The Indian cement sector has been in the forefront of automation and digitalization for quite some time. So I'm not trying to single out alone on the supply side, especially on the manufacturing side. We see minimal disruption during Covid times because the supply side that is required for manufacturing especially the raw material input side and all is fairly narrow and it is most of it is available at least for a short period of time. So, on that count we are not probably we may not face big challenges. Now, the biggest challenges as you rightly pointed comes from the end consumers of ours, which is the large construction sites be it large infrastructure projects or the real estate projects, yet their status it is too soon for me to comment how the availability and where the availability has been. I would like to quote some good friends like you have always shared the labour and I am sure so far the mapping of the source of the labor for most of them have not done so far, but they might start looking at going forward. But in general, our past experience and what we have seen is that most of the southern states for large irrigation projects and the large infrastructure and large real estate projects Sir, the dependence is extremely high on the migrant labour. That has been the case, historically. Are all the sides facing this issue? I strongly feel it may not be the case. But most of them for sure are, how long they're going to face. I think that also is something which we cannot comment. At this point of time. It will take some more time before we know. But what I would like to highlight is there are some portions of migrant labor, who would have anyhow gone during these monsoon times during the monsoon time for the work on their own farms. So that also probably added to the problem. That's what we would like to highlight this.

Rashesh Shah:

The next question is from the line of Rashesh Shah, Please go ahead. Yeah, hello. So thanks for giving me an opportunity. So one, question. There are many small players operating in your region, especially in the AP and Telangana. Do you see any possibility of consolidation, due to this ongoing financial stress? And second question is, what was their overall share in the demand for FY 20? If you could throw some light on this?

Sreekanth Reddy:

Good afternoon, when you said small, small in capacity is what my belief is Yes, Small doesn't mean small in size of the balance sheet or the health of the balance sheet Sir, so small doesn't automatically qualify to be bad. I know a lot of people have liking for big but sometimes small also is beautiful. So we, at this point of time, it would be too soon to comment anything on the consolidation. There could be one of acquisitions, but that doesn't mean to be a big consolidation kind of a thing. And some of the players though, they are small in size in terms of the capacities

that they are usually bigger in some of the markets that they operate. , that's how we roughly have close to 43 players in south, the smallest being less than half a million largest being the largest in one among the largest in the world. So, I don't think this COVID times would alter that equation in a big way. The general acquisition might make one or two guys go off the radar irrespective of the size, but there could always be a few other guys who might come and join the bandwagon. That's what we keep on seeing, when I started my career close to 20 to 25 years back, the number was only 27. So now it has become 40. If you look at number of players, so though on a capacity side market share, some of the large guys probably had a few basis points higher, but the number of players we have never seen the numbers getting reduced anyway, because the product that we deal in has been very kind to people who work in it. So that makes people keep coming regularly. So I cannot comment much on the consolidation side, it's too soon would Covid push some people into despair. It might be the case for the larger ones, medium ones and the small ones so they you cannot single out there. We strongly believe that the product never pushed anybody into fatality. Probably struggle could be more. But as I mentioned, the product has been extremely kind to all of us. So that we are hoping that it may not push somebody into death. Yeah, we might struggle but we may not die that that's what we strongly believe in.

Moderator: Thank you. I will now take a couple of questions from the chat window. This is from Ankit Gupta. How much is the rural market contributing to our overall sales on an Average

Sreekanth Reddy: If you look at historical Sir 55 to 60% would be on the rural side. Yeah the last couple of months we believe it is more than 75 to 80% but that will look to be very momentary. But when we talk of rural Sir, we closely eliminate all the Category A towns out of the sale. So, that one should mind so, we have fairly less exposure to the large metros.

Moderator: The next question is from Mudit Agarwal. What is the warrants outstanding as on 31st March 2020. Would it be converted into equity shares in FY 21?

Sreekanth Reddy: Yeah, it is 1.2 million share warrants still outstanding, Sir. The last day as per the statute is middle of July. We are more than hopeful that everything would be getting converted by then.

Sumangal Nevatia: Good afternoon, Sir. Thanks for the chance. So one question. I mean, you have already bottom of intelligence of all the state wise demand environment. Of course, sharing your outlook is extremely difficult. But on a relative basis, any particular region or states which you think will outperform post this Covid, keeping in mind

the Covid impact the state finances, the state level politics, among whatever regions we operate.

Sreekanth Reddy: Yeah, we strongly believe Sir, again, we do have fairly large exposure into the both Telugu States. We strongly believe that these two states from what we have seen in the past, their ability to spend on those government projects to initiate employment generation is extremely high. So given the scenario and the current outlook, we strongly believe that these two governments should be spending aggressively trying to generate employment and also create infrastructure. It doesn't mean that the others are not going to do but honestly, we are know of these two governments. So we can speak more about them. The other governments, for us, our exposure is fairly limited. So, we cannot comment much on that. East we have seen, specially the Orissa government has been fairly consistent in their spend on to the infrastructure side. So that also we strongly believe to continue to spend as much but what I would like to state here is in our experience, we have been seeing what is happening elsewhere in the world, especially the Chinese. Yeah, we have seen the Chinese government has come up with such a large infrastructure push that they are ending up constructing highways, parallel highways and parallel airports, I believe there was not much of a need so immediately, but just to ensure part of the mitigation of the Covid impact, the government has been spending aggressively so as to put money back into the people's hands who matter. So we also strongly believe that our government, both the Union as well as State governments would start doing that. But it's only a matter of time, because in our experience, from the announcement to the ground, it typically is a two to three quarter kind of an affair. So we also strongly believe that our governments also would start doing similar steps here. So that should kick start the demand from medium to long term, much, higher than what we thought even before the pre Covid times, but it's only a matter of time. That's what we strongly believe.

Sumangal Nevatia: The next question if I may just one last. I mean, there's been some sort of discomfort expressed by a few forums with their associations with respect to the prices. Do you think this is like a normal thing? Or, I mean, anything serious to keep a track on this?

Sreekanth Reddy: Yeah, Mr. Sumangal, we don't like prices to be abnormally high. I mean, that's a stated fact from us as a company and generally in industry. I mean, nobody would want to do hoarding. And the complaint, it's again from our own customer, whom we have always been and he has always been with us. So I would not like to react to their complaint. We always feel that everybody has the right to, complain on others business. But we strongly would not like to react to that, sir. But it's a question of

existence for us, so what we have done is to, to ensure that our support systems or specially, our own team, our own families have to survive. So we, as a matter of principle, much before the government has told not to take away jobs or to fulfill their salaries, we strongly believe that it's important that everybody gets his dues it is even more important during these difficult times. Now, just to give you a simple impact, the usual salary bills runs to around 300 to 350 rupees per ton. In a normal course of business. If you are operating at 50% of the time, it is logical to assume that it would double up so that alone on a per bag basis would impact anywhere between 20 to 25 rupees per bag and I'm reasonably sure that the price increases were more to survive, rather than to talk about the market. So given that scenario, there were some of the associations which complained to the government. And some of the government did call for the meeting to discuss the scenario, we explained that position similarly as a company, and collectively as an association, we gave our workings and, and we were very, transparent as always trying to explain our position to them, this is part and parcel, Sir, we have seen even in the past. People still keep complaining, whenever the prices happen to increase. One, thing that I would like to highlight, specially the complaints from the real estate people, we know that It's not good. If any of the input costs go up. But this time, or even in the past, either because of low operating rates, or because of these difficult times, only then prices have always gone up, though they keep branding and talking about things which I cannot comment but the reality is for everybody to look at it. Yeah, the EBITDA margins for most of the other players related to us is for you to see, we're not even close to a quarter of their EBITDA margins, our influence, our products influence on their overall selling prices is not even 2%, So that's what I would like to highlight, and this is what we have presented to the government about our plight rather than try to highlight the others complains here we only highlighted our issues and fortunately, governments have been kind to us. Yeah, because at this time, it is not abnormal, if you are operating at less than 50% of normally what you do, the overall fixed costs flair up to such an extent that we were only talking about breakeven at an operational level, and it's more an existential issue so far, the response has been very kind. We hope things would continue to be like that. That's what we think.

Pritesh Seth: Can you break out 6% decline for FY 20 which you said for your key markets in South, Maharashtra and East?

Sreekanth Reddy: My assumption is that where did we lose the volumes in terms of the markets? Yeah, we effectively lost 4% in Telangana almost 18% in Andhra Pradesh 10% in Karnataka however, we did get some additional volumes from Odisha, Tamilnadu and Maharashtra Sir. Overall we lost 6%. So that's what our understanding is.

Debasish: In this scenario of high orders from government, do you face downward price negotiation happening and government and infrastructure companies are not comfortable with current cement prices? And they're mentioning that in various public forums, what is your thought around that?

Sreekanth Reddy: So our statement is very simple Sir, we are with them. But we have no choice. That's what I would like to highlight. That has been the case in the past. It's a question of existential issue and a survival issue. So given this, I'm sure we asked for their understanding for this scenario. I think it's a case to case scenario Sir. The prices are always under pressure. Because, it goes without saying that government prices were negotiated. Yeah, there were instances in the past specially if you look at between q2 and q3 of last year. The agreed government prices were higher compared to some of the institution prices. Right now, the institution prices look to be higher than the government prices, but that was the case before. So, one thing for sure, pressure on the prices are always there, irrespective of from where they come from.

Jigar Walia: What has been the trade non-trade mix for FY 19 and FY 20? Is this expected to change meaningfully in FY 21?

Sreekanth Reddy: Yeah, we are reasonably close to around 55% trade and 45% non-trade for past many years. But one should be mindful that when government is active, your non-trade numbers look higher. That is one of the reason why we tend to look higher on a non-trade. Will they remain same? It again depends on how the government are shaping up. But historically we are at 55 to 60% trade and anywhere between 35 to 40%. Non trade said will remain there as long as government demand is there, Sir, most probably we might remain very, very close to those numbers.

Amit Murarka: Now, you mentioned the volumes are down 50% between April and May. So you meant average of April & May. It has been far better in May in that case, I believe April was down close to 75 to 80%.

Sreekanth Reddy: So it is too soon because we are still trying to do the number crunching, the outline numbers looks like May definitely is much better compared to April, I can keep my neck out it is more than double for sure. The real numbers will be known probably in next couple of days, I am sure you are aware that we just closed the month yesterday. And it's too soon for us to exactly know the last numbers for next couple of days because we have godown sales and consolidation of sales will take some time. So I'm sure you will appreciate that we would need some more time before being very specific with any of these numbers. That's one of the reason why

we usually come with monthly disclosure. But this time due to difficulty we could not come out with the monthly disclosure even for April or for May Sir. So we are only trying to ensure that all the communication channels come back for us to start disclosing those numbers. But we see it as a challenge at least for the first half, for us to start discussing on a month on month because the communication channels are becoming much more challenging because most of our team members are working remotely, so consolidation is taking longer. So that's one of the reason why we are not in a position to discuss it as quickly as what we used to do before. Thank you.

Sanjay Nandi: Sir please share the gross and net debt numbers, current East India market outlook and third what is demand supply scenario currently post Covid?

Sreekanth Reddy: Yeah, as stated Sir, post COVID demand supply scenario we would take some more time before we can start commenting anything on that. Pre and post, gross debt position, we have given it part of our commentary, but just for convenience sake, our gross debt is at Rs.488 crores at consolidated level. East India as I mentioned the outlook for any of the states at this point of time, we would like to take some more time before putting any commentary on the outlook, on the current markets, it is always challenging for us to keep an eye on how the market is going to shape up. Thank you.

Rajesh Ravi: Why is there a sharp jump in non-current assets from 14 crore to 87 crore. Also how much loan for the two projects have already been drawn?

Sreekanth Reddy: Some of the orders we have given for the capex got reflected under the non-current assets so that's one of the reason. The current spent as indicated earlier Sir, we have spent close to Rs. 120 crores for Satguru cement and Rs. 80 crores for Jajpur cements, in terms of debt drawn on account of those two projects is Rs. 50 crores on a consolidated basis. Thank you

Moderator: As there are no further questions, I would like to hand over the floor to Mr. Reddy for his closing comments.

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

