



Sagar Cements Limited

Q1-FY20 Earnings Conference Call Transcript

July 25, 2019

- Moderator:** Good day, ladies and gentlemen and welcome to the Q1 FY20 Earnings Conference Call of Sagar Cements Limited.
- Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.
- Gavin Desa:** Thank you. Good day everyone and a warm welcome to Sagar Cements' Q1 FY20 analyst and investor conference call. We have with us today Mr. S. Sreekanth Reddy – Joint Managing Director; Mr. K. Prasad – Chief Financial Officer; and Mr. R. Soundararajan – Company Secretary.
- We will begin this 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 this effect was stated in the con call invites sent to you earlier. We trust you have had a chance to go through the results and communications.
- I would now like to request Mr. Reddy to make his opening remarks. Over to you, Sreekanth.
- Sreekanth Reddy:** Thank you. Good afternoon everyone and welcome to Sagar Cements' earnings conference call for the quarter ended June 30, 2019. Let me start the discussion with a quick word on the demand and pricing trends across our key markets post which I will move on to Sagar specific developments.
- Beginning with South: The pricing environment remains steady despite gradual slowdown in demand momentum following the water shortages, project cancellations and sand mining issues. Further the extended election activities also muted the demand momentum.
- Moving on to the West: Price in the region especially Mumbai saw an improvement over the previous period. Pricing in rest of the region benefitted from the higher prices in South.
- Moving on to East: Price in the Eastern region more or less remains steady. Going ahead we expect the demand and pricing environments to improve on the back of sustained efforts from the part of the government towards improving the infrastructure capacity.



Moving on to Sagar specific developments: We have had a good start to the year as you can see by our quarterly performance. Revenue growth was owing to our diversified presence and better pricing environment prevailing across our major markets.

Further margins and profitability growth for the quarter were largely driven by benign raw material prices. Our recent measures towards containing costs also helped to drive our profitability for the quarter. Ramping up of our waste heat recovery power plant and we are also expecting the commissioning of the captive power plant by end of this month that is the end of July coupled with savings in logistics costs on account of relocation of sales should further aid our operational performance going forward.

Lastly, the acquisition of Satguru and Jajpur Cements should further help us in a long run in widening our reach and helping us to establish our present technology fast growing markets.

Moving on to our financial performance for the quarter on a consolidated basis:

Revenue from the operation for the quarter stood at Rs. 346 crore as against Rs. 275 crore during corresponding quarter last year. Revenue growth of around 26% was driven by both volume and value.

EBITDA for the quarter stood at Rs. 80 crore as against Rs. 37 crore reported during Q1 FY19. Higher profitability for the quarter was achieved owing to lower input costs and lower operating expenses. Average fuel cost stood at Rs. 823 per ton against Rs. 878 per ton reported during Q1 FY19. Lower fuel cost was on account of stabilization of Gudipadu plant and better optimization of the thermal efficiency.

Freight cost for the quarter on a consolidated basis moderated to Rs. 732 per ton as against Rs. 793 per ton during Q1 FY19 owing to better optimization of the lead distance. PAT for the quarter stood at Rs. 30 crore as against a profit of Rs. 6 crore during Q1 FY19. From an operational point of view Mattampally plant operated at 49% utilization level while Gudipadu and Bayyavaram plants operated at 69% and 53% respectively during the quarter.

As far as the key balance sheet items are concerned the gross debt as on 30 June 2019 on standalone basis stood at Rs. 275 crore out of which Rs. 170 crore was a long term debt and the remaining constituted the working capital. While on a consolidated basis, debt stood at Rs. 500 crore out of which Rs. 355 crore is long term. The net worth of the company on a consolidated basis as on 30 June stood at Rs. 1,019 crore. Debt equity ratio is at 0.37:1. Cash & bank balances were at Rs. 24 crore.

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

Moderator: Thank you very much. The first question is from the line of BV Bajaj From Bajaj Shares & Securities.

BV Bajaj: Couple of questions sir, though the revenue in cement segment has reduced from Rs. 365 crore to Rs. 344 crore quarter-on-quarter basis , but profit has gone up from Rs. 46 crore to Rs. 63 crore.



Is it the reason for price realization per ton or any other thing means saving on the waste power heat generation there we have saved about Rs. 75 lakhs this quarter. and second question is there is an entry in our accounts unallocated liability of Rs. 570 crore. Just give the breakup of that please?

Sreekanth Reddy: I think from a quarter-on-quarter perspective sir, if you looked at it, there is a volume reduction. That is what is normal. Q4 to Q1, Q4 would be one of the best quarters for us and it is followed by Q1. So, there has been a volume reduction. That is one of the reason why the turnover has come down. Talking from a profitability perspective sir, there has been some saving but it is also to do with the realization.

There has been an improvement of realization by almost additional Rs. 350 per ton. There is an incremental realization that we could get in Q1 compared to Q4 and at the same time there has been some savings that we could get compared to Q4 to the current Q1. That is one of the reasons for the increased profitability.

BV Bajaj: And that second question on liability of about Rs. 570 crore a break up on that, and throw some light on that sir?

Sreekanth Reddy: It belongs to the subsidiary companies. The term loan, the deferred tax liabilities is roughly around Rs. 45 crore. Long term borrowings is Rs. 349 crore. The loan from the Group companies and everything the current borrowings and everything they all accumulate for Rs. 570 crore.

Moderator: The next question is from the line of Madhav Marda from Fidelity Investments.

Madhav Marda: Sir, if you could you know share your state wise demand outlook that you usually do on every call, that would be very helpful, what growth rate and volumes are you expecting for the year?

Sreekanth Reddy: The outlook what we have mentioned did not change from the previous call, so our belief is that AP and Telangana market could be flat to 2% to 3% drop in the demand for the current financial year. Tamil Nadu and Kerala, we expect a 5% growth. Maharashtra, we expect close to 10% kind of demand growth for the current year.

Madhav Marda: Tamil Nadu we are hearing a lot of water issues there, do you think that could be a problem or we have alternatives available?

Sreekanth Reddy: See I think it is more a seasonal issue at this point of time. I am sure it must be very significantly impacting at this point of time, but we strongly also believe that it is a more a seasonal issue rather than anything else.

Madhav Marda: And secondly on the pricing sir, what is your outlook on the pricing going forward for the different parts of the region?

Sreekanth Reddy: We do not track all parts of India. I think our focus in India are in the markets that we are in. The prices what were reasonably high during the Q1 that we started seeing them because they were long drawn kind of an electioneering and also these two states went for election back to back over last six months the elections were happening at both the places.



So, it has its own impact on the demand and there have been lot of outstanding's to the contractors who have been servicing the Government projects. Keeping that in mind, the demand as indicated is slacked out, due to which we have started seeing some pressure on the pricing and more so in non-trade.

Though the trade prices have dropped anywhere between Rs. 5 to Rs. 10 per bag, non-trade we keep hearing if you are chasing some large institutional order, we keep hearing there is a large drop. Fortunately, in our case we do not have such a large exposure to those big non-trade orders sir. In our case what we have seen from the exit time of the quarter to now rather from middle of June to now we have seen roughly around Rs. 10 per bag reduction on an overall for us.

Now going back to the outlook, I think these are two difficult quarters that we would get because of the seasonality. So, we hope that prices do not erode from what it has already done but internally we did factor a Rs. 5 to Rs. 10 further drop as a likelihood and these prices to go back to normalcy by start of Q4 sir.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda: Sir, your demand outlook for AP, Telangana of minus 2% is especially factoring in whatever changes on construction projects and other changes which the state government has announced is after considering those and second when you are giving the incremental price drop of Rs. 5 to Rs. 10 per bag versus what it is today, and eventually going back to normalcy so for that that normalcy in your opinion is the Q1 pricing that you would realize is the normalcy or Q4 pricing that you had realized was the normalcy?

Sreekanth Reddy: I think there is not much of a gap between Q4 pricing to Q1 pricing because the only difference is that during the Q4 the prices picked up only end of January and it started picking up from February and went for slightly incremental in terms of March, stabilized in April and May. So, I would assume that by Q4 what is prevalent in Q1 is what we are expecting. And going back to the demand sir, yes, we did factor sir.

What we have to be mindful of is there is lot of discussion in the press and as well as the general discussion about cancellation of orders and all. Our information about cancellation of orders are those orders where advance has been paid and not much of progress has been made. So, as such they were not contributing in any which way to the demand. So, those projects were canceled because there was not much progress on the ground.

Pritesh Chheda: Okay, and whatever currently that we are hearing on price drops, that in your opinion is not happening in trade, it is basically outside the trade segment is what is happening?

Sreekanth Reddy: I shared with you what we are experiencing now. So, we have seen that trade prices did not get diluted as much as what most of the people are making it out or what you keep reading in the papers. The price drop has happened, but not in significant volume, as I told you in our own case the overall price drop is anywhere between Rs. 5 to Rs.10.

Pritesh Chheda: Okay and lastly in the markets in East wherever you are supplying, if you have a comment on the volume growth and the pricing there?



Sreekanth Reddy: Sir, we are only servicing the southern part of Orissa at this point of time. Except for the seasonality the demand has been very, very stable.

Pritesh Chheda: And on the pricing side?

Sreekanth Reddy: Yes, prices have always remained where they have been. There has not been an up movement or a down movement there.

Pritesh Chheda: Okay and lastly on this waste heat recovery plant which will get operational in the end of Quarter 2, what kind of benefit per ton that you should realize once it gets fully operational?

Sreekanth Reddy: It is not a waste heat recovery plant, it is a captive power plant, coal-based power plant that should get operational by end of this July itself. We expect a minimum benefit of per year around Rs. 20 crore on an annualized basis as a minimum. So, since we are going to be operational for good seven to eight months, we expect a proportionate kind of benefits out of that for the coming year, for this year actually, for this financial year.

Moderator: The next question is from the line of Tanuj Mukhija from Bank of America Merrill Lynch.

Tanuj Mukhija: Sir, my first question is on Maharashtra, you guided for a 10% Y-o-Y demand growth so which factors in a weak 1Q FY'20. So, could you please explain what would drive such a sharp volume growth in Maharashtra in FY'20?

Sreekanth Reddy: Election.

Tanuj Mukhija: And so on the back of that, obviously price in Mumbai have done well. Do you expect the entire Maharashtra to see probably a next round of price hike in the next construction season?

Sreekanth Reddy: See I would not factor any further price hikes. I would be extremely happy if it gets sustained. I mean that is our internal assumption. We would be extremely happy if the price gets sustained the way it is. Except for whatever little seasonal correction we do not expect a major dilution to happen in Maharashtra.

Tanuj Mukhija: And sir last question if you look at the coal and pet coke prices they have come off significantly in 1Q FY'20 versus fourth quarter FY'19. So, I am assuming with a lag of 3 to 6 months it will also reflect in your cost. So, what could be your savings aggregate savings from let us say lower fuel prices along with the investment in captive power plant?

Sreekanth Reddy: See I think our captive power plant is dependent only on the domestic coal so we are more driven by the domestic coal prices because we are right next to Singareni. Now going back to the pet coke prices sir, our fuel prices are hedged for 6 months, so for 6 months I do not think we would have any impact in terms of the pricing itself and whatever price reduction that we have seen our assessment is that it is going to be only momentary because the crude prices are going to in whatever way that they are going to change would also obviously impact that.

Though the spot prices now on a relative scale look to be slightly lower than what they were probably a quarter or two quarters before, but we did get the benefit out of it because we actually from the earlier seasons where we used to buy it from



most of the retailers, we started importing ships ourselves. So, our efficient price was way below the current spot prices also.

Tanuj Mukhija: And this last question from my end on your freight cost. Can you please remind us what is your lead distance and how have you optimized lead distance and freight cost?

Sreekanth Reddy: We have three manufacturing facilities, and we also have a fourth facility from where we source the material for the market. So, we could realign over last few years we were working on it. With the Vizag plant still, that exercise is not complete because Vizag plant ramped up. Vizag is still close to 50% capacity utilization. We are hoping to optimize or to reach to at least a minimum of 65% to 70%.

When we were doing that, we were actually relocating those markets reassigning the markets with a lower distance, they were going from the plants which are closer to them. So that itself, has helped us to reduce the lead distance. We will be happy sharing that number sir in fact it is disclosed as part of our investor presentation, it has come down to sub 300 kilometers. We are close to around 285 kilometers now.

Moderator: The next question is from the line of Kunal Shah from Yes Securities.

Kunal Shah: Sir, on this Andhra thing, you know so apart from these government projects the demand has been also hampered due to the sand mining issues so unavailability of sand. So, when do you think that issue getting resolved anything in the near term?

Sreekanth Reddy: See we stated again the sand issue was something which cropped up as soon as the new Government came in. They changed the or rather they banned the sand mining and they took time for them to come with a new policy. It is slated for 5th of September that the new policy would start coming into enforcement.

As an interim also they clarified that anybody need of cement should approach the Collectorate and get the appropriate paper work done for their immediate requirement. But during this time usually in the monsoon time it will always be a challenge to take the sand out because most of the rivers and the rivulets should get overflowed so it will be a challenge to extract the sand itself.

It is more a seasonal issue rather than anything. Probably we have lost month, month and a half of the peak season because of the sand issue. It did impact some of the projects, but in our overall kind of an outlook, we did factor all these issues to come up with the overall outlook for the market at being flat to slightly negative for the AP and Telangana demand. But the biggest problem is not these issues, the biggest problem is these outstanding's of the contractors who have done the Government projects.

I think it has been long overdue even the expectation is that by October things should become relatively better compared to what they are right now. So, that also is giving us confidence that probably this quarter and the next quarter could be a challenge but things should start improving from end of Q3 itself. That is what our belief is.

Kunal Shah: Correct and sir on the other part of our input cost in the presentation as well the coal prices mentioned are down significantly. So, what I do not understand is would it not be we signing in the contract at these prices, as in obviously six months down the line will not we be seeing the impact of the same as in the benefit?



Sreekanth Reddy: But that is our fuel hedging policy. We might get benefit, we might not but it is being tapered off. So, the advantages are taken and even sometimes you might have expensive fuel coming in. The advantage for us is we are evening it out. We are making a very average kind of fuel price reasonably close to what we think is the lowest. And the current spot price so what we have bought also is lower than the current spot prices Kunal, so that is what I would like to highlight.

Kunal Shah: Okay, but we can expect the same apart from the CPP, we can expect the same trend to continue for the year you are saying?

Sreekanth Reddy: No, what we have factored is similar kind of a pet coke pricing with a slight 5% kind of an incremental price but even the consumption has come down thanks to the modernization of the plants even the consumption also has helped us save it, not just the fuel cost alone but even the consumption has come down because of the efficiency measures that we have adopted at the plant.

Moderator: The next question is from the line of Ritesh Shah from Investec Capital.

Ritesh Shah: Couple of questions sir, if you can help us with the differential in the trade and non-trade prices, in each of the regions AP, Telangana, Tamil Nadu, Kerala how it is right now and if you could give a broad view on how it was around say Feb, March?

Sreekanth Reddy: Ritesh, I think the question that you have asked is a big challenge because there is no one price for non-trade, because non-trade is more a price between the Company and some of the institutional buyers. I can only talk of what we were buying which may not truly reflect the market pricing. See in our case our average non-trade prices were hovering somewhere around Rs. 275 to Rs. 280 and trade prices were hovering close to Rs. 300.

Now if you ask me where they are right now, the average dilution in the trade price is anywhere between Rs. 5 to Rs. 10 lower and non-trade prices are also similar for us because our portfolio in terms of non-trade is coming down so we did not really chase those orders where the prices were coming off quite significantly. So, that is where I would like to narrate and get the things done.

Ritesh Shah: Okay but sir is it possible that the non-trade prices would have gone down for a few brands given demand is a problem in this?

Sreekanth Reddy: That I am not aware of but if I have to go with the same narration what you people hear it is the same news that we hear. It must be to some people who were more dependent on the government orders. The minute it stopped and then they had to chase other non-trade orders.

There could have been one or two of cases but broadly though the press reporting and everything is very, very significant it may not be as high drop but I am sure there must be some drop on that particular account. But it is a case to case, it cannot be a broad based kind of a thing.

Ritesh Shah: Right, and sir how was the differentials in Tamil Nadu and Kerala just a broad sense on how it is?

Sreekanth Reddy: Our exposure is very limited Ritesh, so I cannot address that issue because we are mostly into trade in those markets.



Ritesh Shah: Okay sir secondly on the timelines for Satguru and Jajpur I think we were earlier indicated March 2021?

Sreekanth Reddy: We are sticking to the same schedule even now Sir, it is March 2021 probably we could be a few months ahead in Jajpur. The ground work has already started, all the orders have been already placed, so we would like to keep the same timeframe at this point of time. We are maintaining we are more than hopeful to come up in the given stated timeframe.

Ritesh Shah: And sir Satguru what is the status, you said the orders have already been placed?

Sreekanth Reddy: Orders have already been placed, even the network has already started.

Ritesh Shah: Okay and lastly can you indicate what is the total market size for AP, Telangana together, Karnataka, Tamil Nadu and Kerala separately state wise and specifically our regions of exposure including say Orissa, what will our market share be like say for FY'19 or for Q1 '20?

Sreekanth Reddy: See the market sizes if you have to look at just concluded quarter or the last year, last year is more appropriate. Last year AP -Telangana close to 31 million.

Ritesh Shah: Okay sir Karnataka, Tamil Nadu, Kerala, Orissa?

Sreekanth Reddy: Karnataka close to around 20.5 million, Tamil Nadu is 20 million, Kerala is close to 9 million, 9.5 million, Maharashtra is 32 million for last year sir. Orissa for us is around 12 million, that is what our reading is.

Ritesh Shah: Okay and sir lastly on the CAPEX side, given we have these two sizable things Satguru and Jajpur how should one look at the CAPEX and the peak that over next year or two?

Sreekanth Reddy: Sir, I think the ideal way is I think the debt would be drawn over next two, two and a half years, bulk of the debt would be drawn over probably next year and the subsequent year and some fall through into the subsequent year. In our view by the time we commission the peak debt should be hitting Rs. 800 crore. It could be at that level for a very short time because we have a payment schedule for the existing debt so that should reduce the overall kind of a thing.

Ritesh Shah: Okay and sir we converted 1.5 million warrants, right?

Sreekanth Reddy: Yes, we should be converting those warrants. We have received the money we would be converting because we just got the Board approval only yesterday.

Ritesh Shah: Okay and sir are there any further warrants which are there or?

Sreekanth Reddy: See out of 3.1 million warrants you are talking of warrants or the borrowings?

Ritesh Shah: Sir warrants. I think 1.5 was at Rs.730 and the balance is also there, when does our balance expire or when does it come into the

Sreekanth Reddy: The expiry is almost good another 15 months it is due.

Moderator: The next question is from the line of Navin Sahadeo from Edelweiss.



Navin Sahadeo: Sir, just a couple of questions. One is on the volume growth for the quarter, we have seen a 11% sort of a year-on-year volume growth and versus the industry which was I think flat or even negative for that matter. So, how is first of all the industry or let us say again not even generalizing it your markets would have grown at what percentage and then how do we see in that light a 11% sort of a growth, what is driving it? Only expansions or we have been given market share?

Sreekanth Reddy: No, I do not think we chase the market share that has been a stated policy. So, I would like to repeat once again we do not look at market share as a KPI for ourselves. What we have indicated even like last year we did 3.3 million. We are very clear even in the earlier call that we have indicated that our expected volume outlook for the current year is around 3.6 million.

The view was that the existing markets what we have been servicing would remain static, so we do not expect any major changes to happen in that. The incremental 300,000 was from those markets which was being serviced would be serviced from the grinding station in Vizag which is primarily to do with Orissa, so that is where this 11% has come for us.

Navin Sahadeo: Okay got it, and my second question then was on the cost part of it. In your presentation Slide 11 you give these thermal coals like the fuel prices basically coal as well as pet coke. So, just wanted to clarify these are the existing market prices? These are our average prices what exactly are these?

Sreekanth Reddy: See these are our prices, these are not existing prices.

Navin Sahadeo: No, that is the average for the quarter so again so the average that is accounted in the sense the numbers that we look at per ton basis?

Sreekanth Reddy: As billed on a received basis by us sir.

Navin Sahadeo: Exactly and that same is there in the P&L also or in the P&L it will come with a lag?

Sreekanth Reddy: No, it will be exactly seen there would be a slight lag because we are sitting on huge inventory.

Navin Sahadeo: Yes, because I was just trying to see in your like the per ton numbers that you gave in the presentation again itself that cost on a per ton basis versus previous quarter as in March, that does not change whereas here what we see is that pet coke prices and both coal have been consistently?

Sreekanth Reddy: It is also to do with the consumption, there you are looking at the landed cost. Here it is also amounting to per ton of clinker or cement my consumption could have varied no.

Navin Sahadeo: Exactly so consumption is on a per ton basis the number should be comparable right because your volumes could be obviously different absolute consumption of fuel will be different but your per ton number?

Sreekanth Reddy: From Rs.897 it has come down to Rs.807 in Sagar and in if you look at Gudipadu it has come down from Rs.850 to Rs.706. So, when we have indicated the thermal fuel cost, it is on an average across the organization. We have multiple units so each of it has its own dimension. .



- Navin Sahadeo:** Fair point sir and lastly you mentioned this huge gap which is there between trade and non-trade prices. So, from that perspective how much are we currently now dependent on the non-trade segment for sales?
- Sreekanth Reddy:** Not as much as we used to be earlier. Percentage is too soon but we are not as dependent on non-trade what we used to be depend earlier but that must be the case for the industry also going forward because Government orders are shrinking so which amounts to that.
- Navin Sahadeo:** Yes, precisely at the broader industry level also we are seeing that this exposure to non-trade should have seen a material drop because the Government orders have been shrinking, right?
- Sreekanth Reddy:** Yes, but some people would have waited for this quarter to pass by before getting into the trade sir, we started this much earlier.
- Navin Sahadeo:** And Lastly, in response to the previous question you said, Andhra, Telangana as a state last year the demand size would have been close to 31 odd million tons. And I am assuming then in that sense second half probably would have been far better, second half would have been far higher in terms of volumes.
- So, going by the current demand scenario that we are seeing, second half in that sense can possibly see a much higher decline year-on-year and in that sense that 2% decline or a flattish decline might be far more optimistic?
- Sreekanth Reddy:** Still we are maintaining that sir, with an assumption that from October onwards we think that most of the current issues of payments, sand related issues, water related issues we are hoping that they would be resolved and things to come back to normalcy because we have given a yearly outlook, not a quarterly or a monthly outlook.
- So, at this point of time still our marketing team feels that the outlook should be maintained. It did not wear out very, very aggressively unlike what most of the people are making out. So, that is what we would like to maintain that 2% to 3% drop is what we are expecting at this point of time as an outlook.
- Moderator:** The next question is from the line of Amit Khimesra from Prabhudas Lilladher.
- Amit Khimesra:** Just wanted to have a feel on what you have said in the last quarter that there is some incentives to be there in the Satguru unit. So, can you just give some update on that?
- Sreekanth Reddy:** It is work in progress. We would be happy to revert back. It is still a work in progress, because we have applied, so Government has called us for the meeting which is yet to take place, so we are just awaiting for those meetings to happen for us to clearly state what are the potential incentives that we are expecting from there. We have asked for lot of things but we are just awaiting for the clarity. As soon as we receive them, we will be happy to revert back to you sir.
- Amit Khimesra:** And can you just tell us how the pet coke prices have been faring post this Q1 quarter?

Sreekanth Reddy: See, the prices are more or less flat on the spot prices \$ 90 to \$ 91 is what we are hearing at the market, around Rs. 85, landed for us you should add up another Rs. 1,000 for it to land at our site.

Amit Khimesra: Okay and how much was the last quarter pet coke prices?

Sreekanth Reddy: Close to around \$ 88 to \$ 90.

Amit Khimesra: \$ 88 to \$ 90 so now it is \$ 85? And last year do you have any figure of last year Q1?

Sreekanth Reddy: They touched \$ 120 and above it is peak, the lowest that we have seen was around \$ 92, \$ 93.

Moderator: The next question is from the line of Mudit Agarwal from India Nivesh Securities.

Mudit Agarwal: Couple of questions sir, One is related to the cost of change in inventory for the same quarter in the last year same quarter it is on a higher side. So, any specific reason about this sir?

Sreekanth Reddy: These are mostly to do with the clinker management. Sometimes you produce and then stop so it is more to make the adjustment for it. So, nothing unusual on that but this time around we also have pet coke with us as an inventory so we are relatively at a higher inventory level of pet coke during this quarter compared to the Q1 of last year.

Mudit Agarwal: Sir, the presentation show total average fuel cost per ton for cement so I just want to know the power and fuel cost per ton for the cement sector?

Sreekanth Reddy: It should be close to around Rs. 1,150 to Rs. 1,200.

Mudit Agarwal: Rs. 1,150 to Rs. 1,200 and last quarter last year sir same quarter?

Sreekanth Reddy: Sir, current quarter is Rs. 1,060 last Q4 was Rs. 1,205, last year same time it was Rs. 921.

Mudit Agarwal: And that is mainly higher side because of the pet coke prices?

Sreekanth Reddy: No not only that, it is also to do with the waste heat recovery, the number of hours of operation and all. Year to year comparison will be more appropriate, you know current year I think we would be a lot more comparable. It is also to do with the cost and the number of hours of waste heat recovery running during that time. End of the year I think we should be normalized and it should reflect the overall correct picture for you.

Moderator: The next question is from the line of Devansh Nigotia from Security Investments Limited.

Devansh Nigotia: Sir, my question was basically related to a headline that Nitin Gadkari shared two months back regarding unsustainability of price hikes that were taken. So, since then the cost of pet coke has been flat sequentially and on demand side or for AP and Telangana, we seem to be sound a bit bearish. So, if you can just throw some light that any new communication that we have received from the Government regarding the same and what is our view on pricing?



- Sreekanth Reddy:** Prices have eroded from what we have seen from the Q1 to this month itself we have seen a slide of Rs. 5 to Rs. 10 per bag.
- Devansh Nigotia:** No, that Rs. 5 to Rs. 10 per bag only that was but I mean hikes were like around Rs. 45, Rs. 50 per bag so I mean?
- Sreekanth Reddy:** It is very different for each market. Even in AP Telangana for different, different markets it was very different. So, I have to speak on an average itself right. See from last December to January, yes there was a drop. From January to February there was an increase of almost Rs. 25. From January to March there was plus Rs. 5, then by April it was another plus Rs. 2 to Rs. 3, May there was plus Rs. 2 but these were like fluctuating during all these times. Right now if I have to compare with June month to now, trade is minus Rs. 5 to Rs. 10 at this point of time.
- Devansh Nigotia:** Okay and any outlook I mean these would sustain, what is our view?
- Sreekanth Reddy:** It might slide down a bit for the coming two quarters but might come back to the same situation as Q1 by Q4 is what we believe.
- Devansh Nigotia:** And sir in our employee cost, the volumes have actually dropped but there have been improvement in employee cost per ton. So, any initiatives if you can just elaborate on the same?
- Sreekanth Reddy:** There are no initiatives sir during that time probably we would have taken a one off kind of a cost so that is the reason why it is reflecting. Please do not look at these costs on a quarter-to-quarter, you should look at year-to-year.
- Moderator:** The next question is from the line of Sanjay Nandi from Ratnabali Investment. .
- Sanjay Nandi:** I just wanted to know one thing sir, like you mentioned in Andhra, Telangana the growth would be likely tapered in the days coming ahead. So, Andhra and Telangana would like see a de-growth of 2% to 3%. So, currently our company is running at 57% utilization on a console basis so what kind of utilization levels do you feel overall South India should run at?
- Sreekanth Reddy:** South India I do not know sir, our Company we believe that at a console basis we should be running anywhere between 60% to 65% for the current year is what is our belief.
- Sanjay Nandi:** 60% to 65%, sir do not you feel that with that kind of utilization level the scenario what is prevailing as of now so the prices are going to just crash from these levels?
- Sreekanth Reddy:** We believe that prices would erode a bit going into Q2 and Q3 because these are seasonally difficult quarters coming two quarters and should come back to what they were in Q1 by Q4. That is what our belief is.
- Sanjay Nandi:** And in the thermal and fuel prices presentation page, page number I think it is 17 mostly, so there you mentioned that pet coke prices will be Rs. 9,036 per ton, right?

Sreekanth Reddy: Yes. It is landed price, landed at our units.

Sanjay Nandi: Okay so that would roughly account to number that is roughly \$120, \$130 per ton, right?

Sreekanth Reddy: Yes, because there is a freight, there is a duty structure, there is everything added on that sir. It also includes the handling cost. See most of the time what people dictate is on the CIF basis of any port sir. So, you need to add up all of that that would come to a similar kind of a number.

Sanjay Nandi: So, what is the actual price can you please just throw some light on that like removing all those freights, handling charges everything?

Sreekanth Reddy: Handling would be roughly around Rs. 450, we applied GST of 18% roughly it comes to around \$91.

Sanjay Nandi: And we have procured it from US or it is from the?

Sreekanth Reddy: In the quarter one ship from US and one ship from Saudi.

Moderator: The next question is from the line of Anubhav Goswami from Stewart and Mackertich.

Anubhav Goswami: Sir, if you can throw some light on the capacity additions that is going to take place in the southern region in FY'20 and in FY'21?

Sreekanth Reddy: Sir, I think two capacities are going online now which is Penna which is 3 million-ton Clinkerization line along with a grinding station in Krishnapatnam. I think it is anytime now that they would be due for commissioning. There is also a similar kind of a capacity which is expected to go online from Chettinad in Guntur. The other capacity which is due. There are two capacities actually both from Ramco. One is the clinker line in Jayanthipuram, and the other is the integrated line in Kurnool. Again, it is as per the record that we have gone through I think it is another eighteen months away from now. Those two or at least one of the lines is due for commissioning. These are the only capacities which are expected over next year and a half sir.

Anubhav Goswami: Any limestone constraint now that the capacities are coming up and do you feel that there would be any shortage from the limestone reserves?

Sreekanth Reddy: There is enough limestone, so I do not think limestone has been a constraint in at least some of the markets here. Of course, limestone is a challenge in southern parts of Tamil Nadu and some pockets, but I think in Gulbarga and some of the clusters in Andhra, I would not say there is huge reserves but there are enough for additional new capacities to come up also.

Moderator: The next question is from the line of Anand Shah from Raj Trading.

Anand Shah: Couple of questions sir, can you give me a price realization for this quarter? And second question I wanted to know is that the AGM for the resolution which we have passed. I think if I am correct 50% of our shareholding will be pledged for the Satguru Cements loan we are taking. So, can you throw some light on that how much of the total Sagar Cements holding would be pledged?



And as I am seeing your capacity utilization for this quarter is around 50%, 51% in three plants. And you are saying for the full year it will be 60% so will we seeing the capacity utilization ramping up in the last quarter or maybe in the Q2, Q3?

Sreekanth Reddy: Coming back to the pledge I have to clarify we are not pledging Sagar Cements shares sir. We are only pledging what Sagar Cements owns in Satguru 51% of what Sagar Cements would own in Satguru is being pledged sir.

Anand Shah: So, what would be the holding on the console level that will be so Sagar Cements holds around 65% right or?

Sreekanth Reddy: Yes, sir out of 65%, 51% is pledged.

Anand Shah: Okay and can you give me the pricing for this quarter pricing per ton?

Sreekanth Reddy: Yes, it will be done over next three quarters mostly bulk of this think would pick up only from end of Q3 onwards because Q2 and Q3 usually are subdued. So, bulk of the capacity expansion would happen in terms of the capacity utilization expansion would happen only during the end of Q3 all the way up to Q4 sir.

Anand Shah: And can you give me the price realizations for this quarter price per ton?

Sreekanth Reddy: Our net realization is Rs. 4,210 for the Q1. This would be excluding the taxes but inclusive of freight.

Moderator: The next question is from the line of Dhiral Shah from ASit C Mehta Investments.

Dhiral Shah: Sir, in terms of revenue mix from channel wise, so what is the contribution from trade and non-trade?

Sreekanth Reddy: For the quarter we ended at 52: 48.

Dhiral Shah: 52 trade?

Sreekanth Reddy: 52 non-trade and 48 trade.

Dhiral Shah: Okay and this contribution from the trade, is it going up, so what was the last year?

Sreekanth Reddy: You are talking of percentage of trade?

Dhiral Shah: Yes sir.

Sreekanth Reddy: Trade has gone up. See what you have to remember is whole of last two years the Government was one of the largest demand drivers, so naturally the non-trade percentage was higher. In our case we were also reasonably focused on trade but it definitely has gone up over last two years and even during the current quarter also it has gone up compared to the last quarter also. That is from Q4 to Q1 also it has gone up and we expect this to go up for two reasons. One the Government itself is consuming less and we are also consciously pushing more into the trade because we are going into the newer regions. When it comes to Orissa.

Dhiral Shah: Okay and sir you were talking about Government orders are shrinking. So, this is for a near term or you may see this kind of an issue overall in FY'20?



Sreekanth Reddy: I think it is for current year issue. I would not talk of only one or two quarters. In the current year because most of the Government was gearing up for the election and they have spent and their fiscal situation is not in such a scenario. I am talking of State Government, both they may not be able to sustain the investments they have done till last year. Like what they have done last year we do not expect that in the current year because good part of Q1 was lost in the electioneering itself.

So, you have only three more quarters left. Out of three quarters two quarters are either way they are slightly difficult from a seasonality perspective. And in Andhra new government has come so I am sure they would consume some time before getting a hold on the administration. And by the time they start getting it, it could be probably end of Q3 to Q4 kind of a scenario. So, it is natural for us to believe that the Government orders for the current year would definitely shrink because of those reasons.

Dhiral Shah: Okay so spending will be lower?

Sreekanth Reddy: Yes.

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

Sreekanth Reddy: So, thank you. I hope we have addressed most of the questions and some that people wanted some specific kind of a data they have asked for if they could email we will be more than happy addressing that. We would like to thank you once again 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 Citigate, 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.

