



Sagar Cements Limited

Q2 FY16 Earnings Conference Call Transcript

October 30, 2015

Moderator Ladies and gentlemen, good day and welcome to the Q2 FY16 Earnings Conference Call for Sagar Cement. Please note that this conference is being recorded. I would now like to 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 welcome to Sagar Cement's Q2 & H1FY16 Analysts and Investor call. We have with us today Mr. Sreekanth Reddy - Executive Director; Mr. K. Prasad - Chief Financial Officer; Mr. P. S. Prasad - Vice President (Marketing); Mr. Rajesh Singh - AVP (Marketing) and Mr. R. Soundararajan - Company Secretary.

We will begin this earnings call with opening remarks from the management following which we will have our floor open for an interactive Q&A session. Before we begin I would like to point out that certain statements made in today's discussion may be forward-looking in nature and a note to this effect was stated in the con call invite sent to you earlier. We trust you have had a chance to receive and go through the documents on the financial performance.

I would now like to hand over to Mr. Reddy to make his opening remarks.

Sreekanth Reddy Good afternoon everyone and welcome to Sagar Cements' Earning Conference call for the quarter and half year ended 30 September 2015. Let me start the discussion by quickly running you through the sector development., demand situation continued to remain soft despite recent government actions while the monsoon did impact sales, lower government spending, subdued demand and a weak offtake from the real estate and infrastructure sector weighed down the overall demand. Pricing environment was more or less relatively stable prices while in the western region that was mostly on the downward trajectory.

On the expense side while moderating input prices did assist the business increase in limestone royalty expense following levy of additional mineral fund charge impacted the profitability of the business.

Moving on to our financials. Net sales during the quarter increased to Rs. 181 crore up by 45% from Rs. 125 crore reported during Q2 FY16. EBITDA for the quarter improved substantially for the quarter and stood at Rs. 18 crore as against Rs. 12 crore generated during the corresponding quarter last year. A growth of 50%. Higher operational profitability was primarily on account of greater gross



realizations and cost efficiency. Operating margin for the quarter stood at 9.8%. PAT for the quarter stood at Rs. 9 crore as against a profit of Rs. 282 crore. However, the point to consider is that the previous year's quarter included a net gain of Rs. 276 crore following the stake sale in the JV. Excluding that item normalized profitability for Q2 FY15 was at Rs. 7 crore.

From operations point of view cement plant operated at 49% utilization level. Of the total sales approximately 65% of the dispatches were made in markets outside of Andhra Pradesh and Telangana. With Tamil Nadu, Maharashtra, and Karnataka being the top three markets for us during the quarter.

Moving on to the expenses the average fuel cost per ton for the quarter stood at Rs. 784 compared with Rs. 967 during Q2 FY15. These expenses were lower owing to the declining in imported coal cost and change in the coal mix also. Lower international coal prices resulted in sourcing bulk of our requirement from outside which led to the domestic international coal mix of 2:98 for the quarter. Freight cost per ton during Q2 FY16 stood at Rs. 685 against Rs. 719 due to benign fuel prices and also shortening lead distance thanks to sourcing most of the material from BMM.

During the quarter the plant also took the annual maintenance so there is also a slight increase in maintenance related costs.

As far as the key balance sheet items are concerned the gross debt as on 30 September 2015 stood at Rs. 228 crore out of which Rs. 152 crore is a long term debt and the remaining constitutes the working capital. The net worth of the company as on 30 September 2015 stood at Rs. 553 crore. Debt to equity ratio stands at 0.27:1; cash and bank balances were Rs. 7 crore as on 30 September.

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

Moderator

The first question is from the line of Nitesh Jain from Axis Capital.

Nitesh Jain

Sir, basically on your slide 11 the coal data which you have shared so there is a sharp drop in domestic coal cost. So is this mainly because of the lower grade or Singareni coal has reduced the coal prices?

Sreekanth Reddy

It's only because of the lower grade and also when we talk of domestic it is not purely the Singareni that we have sourced this time. There were certain coal finds that we have taken from some of the refractory rejects. The cost looks lower but there has not been any shift in terms of the cost coming from the Singareni.

Nitesh Jain

And sir, my second question is there have been talks and news about the recent cement price hike in Andhra and Telangana by about Rs. 40, Rs. 50 so if you can share like what is the pricing situation in these state compared to the September how much it was fallen and how much it has gone up again it would be very helpful?

Sreekanth Reddy

Yeah, let me just give you a brief , see the entry prices for this Q2 were typically close to Rs. 300 in Hyderabad; it actually slipped down to all the way up to Rs. 250. The prices have actually rolled back to the entry price of this thing but that



happened only last two days ago. If you have to look at the July prices it was at almost Rs. 300 it slipped close to Rs. 250 till a week back. And over the last two days the prices has been increased back to the same Rs. 300 as the entry price for this quarter.

Nitesh Jain So this Rs. 50 price hike is already been accepted by the market and like the retail price today as we speak?

Sreekanth Reddy It is too early though prices have moved up by Rs. 20, Rs. 30 but the real impact we will get to know over next one week to ten days.

Nitesh Jain And sir, what about the pricing in Tamil Nadu and Karnataka markets they are quite steady or?

Sreekanth Reddy No, we have except for Rs. 5 which is a usual season, off-seasonal kind of a thing we have not seen a major dilution in the markets of Chennai and Bangalore.

Nitesh Jain So they are quite stable?

Sreekanth Reddy They are more or less very similar.

Nitesh Jain And on the Maharashtra market what is the scenario?

Sreekanth Reddy Currently there are not been any increase. The price for us somewhere around the entry of this quarter was at around Rs. 260 it has slipped to almost Rs. 240.

Nitesh Jain Basically the South Maharashtra or Sholapur kind of thing?

Sreekanth Reddy I cannot talk about the entire Maharashtra we have specifically because our markets are limited to the Sholapur markets so we are assuming that similar trend would have happened across the other markets of Maharashtra primarily Pune and Mumbai. So prices remained low with that Monsoon correction it is still remains there. We are expecting price increase to happen going forward but we have to wait for Deepavali to be done that is when the season would come back to normal from an off season. We hope to come back to the same exit of Q1 prices to come back even in those markets.

Nitesh Jain And lastly, have there been a new tenders from the Telangana government with regard to the housing or irrigation or any of the other work any new tenders?

Sreekanth Reddy No, there are no tenders as such. In fact the re assorted tenders itself are not yet been finalized. So there is the kind of price request for government was unrealistic from our perspective so it is not yet concluded. So we hope reasonably close to Deepavali the decision will be made regarding the prices. There is a difference in terms of expectation from the industry to that government. So still negotiation is on.

Moderator The next question is from the line of Giriraj Daga from SKS Capital and Research.

Giriraj Daga Sir, my question is related to like we have said in the presentation that we have acquired the 100% of BMM Capital. So now from now onwards we will be selling without the traded cement part under our own normal route is that the way?



Sreekanth Reddy Yeah, starting of this quarter the numbers would be clearly given out separately from Sagar and BMM. No more into the traded kind of numbers. Though we would do an annual consolidation during the last quarter only from the next financial year onwards we will be giving out the quarter-on-quarter kind of a number for both the assets. both would be given in a standalone and a consolidated basis only from the next financial year.

Giriraj Daga So like clarification if you look at the component prices of trade in the P&L and then if you divided by the overall traded cement from BMM what are the rate comes it is inclusive of excise duty?

Sreekanth Reddy Yes sir, it is all inclusive of the excise duties. Inclusive of freight and packing.

Giriraj Daga So what kind of EBITDA like we are making, is it close to 3% there?

Sreekanth Reddy Yeah, I think the mark up for different states is slightly different. For Tamil Nadu it is different from Karnataka and also to the AP market. On an overall basis it is around Rs. 200 to Rs. 250 kind of an incremental margin contribution is there from the sale.

Giriraj Daga Okay, which will be moving up in quarter 3?

Sreekanth Reddy Yeah, again it will not come as a traded cement but it will reflect as a standalone kind of a number from BMM.

Giriraj Daga Which will not come altogether in the numbers now. Is that a right way to look it?

Sreekanth Reddy No, it will actually sum up in a different way where in Sagar it would be like a standalone it will not get reflected but in a BMM it would get reflected in a consolidated obviously it will get reflected.

Giriraj Daga And you will not give the consolidated number for 3Q?

Sreekanth Reddy We would not be giving it for Q3 but we would be consolidating only during the Q4 but we would be in our presentation and in our monthly dispatches we will be disclosing the volumes and rest of the data will be given in a standalone basis at both the stages.

Giriraj Daga So what is our consolidated debt now including the BMM debt?

Sreekanth Reddy I think we are in transition, so the real debt will be known only once the real consolidation would happen because right now we are in transition. At this point of time consolidated debt is less than Rs. 350 crore.

Giriraj Daga Less than Rs. 350 crore?

Sreekanth Reddy Yeah, but it will move up to almost to Rs. 420 crore.

Giriraj Daga With the given number what is the BMM debt in the BMM books what is the total debt?

Sreekanth Reddy Yeah, right now the total debt is around Rs. 150 crore to Rs. 160 crore.



Giriraj Daga And any payment to be paid still to the existing owners?

Sreekanth Reddy Yeah, there is some outstanding which is roughly around Rs. 28 crore.

Giriraj Daga Which will be paid after once we get the mining lease clearance?

Sreekanth Reddy Yes sir, it is all to do with because there is some hold up we are expecting everything to be done before the end of this quarter. So by then all the liabilities and settlement of the real liabilities and everything will be done based on the adjustments to whatever is residual portion will be paid back to them.

Giriraj Daga Lastly, coming to the demand side of the scenario we were estimating in a significant ramp in Q3 and Q4. So is that still the right way to go by that may be month or two delay but does it still holds?

Sreekanth Reddy Yeah, our outlook remain the same as the previous quarter. We expect the current year to be flat for these states which would remain though there is slightly negative bias for Tamil Nadu and Karnataka; Maharashtra and AP markets have been reasonably flattish. So we expect the same outlook to happen. But usually what happens is your Q1 and Q4 usually are the volume months and Q2 and Q3 the Indian Q2 and Q3 usually are depressive because the monsoon overlap and because of the festival season these two quarters cannot be compared with the overall kind of a number. But at the end of the whole financial year I think we expect as a company to remain more or less flattish on its volume. For standalone at Sagar whatever is from the BMM would straightaway get added up to Sagar.

Giriraj Daga Last question like in terms of the way prices were above Rs. 300 which fell to Rs. 250 and now back to Rs. 300 what is it like non-traded prices has been there similar trend?

Sreekanth Reddy I think similar correction has happened across the board. I mean the same exaggerated number has happened across.

Giriraj Daga So the prices are back to the level of?

Sreekanth Reddy Yes sir, back to the level of entry of this quarter itself.

Giriraj Daga Which was almost peak price what we have seen till now?

Sreekanth Reddy Yes sir.

Moderator The next question is from the line of Mitesh Doshi, an individual investor..

Mitesh Doshi What can be the incremental demand from new capital city, Seemandhra for the sector?

Sreekanth Reddy Sir, I think what you have to look from a perspective of next 6 months for the current financial year we are not expecting any demand coming out of that capital because it is still in its drawing board stage.

Mitesh Doshi No, I am talking say two to three years down the line or may be?



Sreekanth Reddy At this point of time the overall number looks to be like close to 100 million square foot to be built over next 5 to 10 year kind of a horizon. But roughly it translates to around 30 odd million.

Mitesh Doshi 30 million ton over 5 to 10 years?

Sreekanth Reddy Yeah, 5 to 10 years. Now that is a big challenge as to how people would try to look at it.

Mitesh Doshi So it can be 2 million to 3 million at least per year going forward?

Sreekanth Reddy It could be I mean it is a difficult question but overall from the presentations what we have heard or what we have seen is that it is expected to be a 100 million square foot kind of a built up area for the capital. So now when it will start is something which we are eagerly and anxiously waiting for it. But we do hope sometime middle of next financial year we do hope that that demand also starts picking up.

Mitesh Doshi And this is including government and private?

Sreekanth Reddy I am talking of the new capital area, which includes everything.

Mitesh Doshi Ok and second thing, this kind of sharp fall of Rs. 50 and then rebounding by that same amount within a one week so is it this kind of volatility is I mean some it looks little worrisome? What is your view on that?

Sreekanth Reddy No, I think the reality is that see nobody wants the prices unfortunately with stagnant demand supply kind of a scenario and because of the festival season and no festival season is coming I would say Deepavali it is coming close by. For us to realize it may not happen overnight. So it will take another 15 to 20 days for us to really realize whatever is the incremental kind of a price increase.

Moderator The next question is from the line of Chockalingam Narayanan from Deutsche Bank.

Chockalingam N Just on this limestone mining rights, now is there any issue from the new Bill because does that pose any challenge or no?

Sreekanth Reddy Are you asking in relation to BMM or in general?

Chockalingam N Yes, in relation to BMM?

Sreekanth Reddy No BMM since it is not an asset sale, it is only a change of management we got the clarification that it would not impact in any way.

Chockalingam N Okay but the promoters are changing right so that does not?

Sreekanth Reddy See since the equity has changed, it is change of management not the change of assets. I think there is a clarification pertaining to that.

Chockalingam N both are under the same entity it does not impact?

Sreekanth Reddy Yes sir, since the company licenses everything remain the same, it will not been transferred to a new management. We got the clarification and it is clearly sorted out that there is no issue, when it comes to the change of management. Only when there is change of assets we need to go specifically back to the government to seek permission for that.

Chockalingam N Is it possible for you to merge it at some point in time or even that would not be possible?

Sreekanth Reddy Sir, I think merger through the court route also there are no issues pertaining to that.

Chockalingam N So, even that is not a problem?

Sreekanth Reddy Yeah, that also is definitely not a problem. We sort the clarity about it and it was clearly clarified with regards to this.

Chockalingam N And second thing was on this purchase of stock and trade that part, there has been a big increase on a sequential basis without too much increase in volumes. So how one should read this?

Sreekanth Reddy No I think Mr. Chockalingam, I am not very sure the question, but my understanding is that there has been a significant increase in number of volume. Like if you look at Q1 it was 35,600, in Q2 it is 81,823.

Chockalingam N No, I was referring to the overall volumes,?

Sreekanth Reddy No, the reality is that it is monsoon impacted so Sagar as a standalone there has been a shrinkage in the volume.

Chockalingam N Okay so that is the way to understand that?

Sreekanth Reddy Yes sir.

Chockalingam N And lastly on the demand outlook you mentioned that Maharashtra and Andhra both Telangana and Andhra are flattish and Karnataka and Tamil Nadu are weak?

Sreekanth Reddy I would not say weak but slightly on a negative tone.

Chockalingam N But all put together South as a market if you look at the 5%?

Sreekanth Reddy Yeah, we would be down by almost minus 5% to 7%, sir?

Chockalingam N And in terms of overall volumes what would be that number?

Sreekanth Reddy Can I revert back to you to the exact so that it's only we have done six months and we have still monsoon to happen in Tamil Nadu, which should start anytime middle of this month or in November. We will be more than happy clarifying those numbers to whatever has happened so far. We would be happy to share that number offline, Mr. Chockalingam.

Chockalingam N Sure sir and last thing on this imported coal. Have you moved from Indonesia to South Africa or petcoke?



Sreekanth Reddy We are primarily using Australian and South African high grade coals, so we have not used any Indonesian coal over last quarter, we are only using a blend of Australian and South African high grade coals.

Chockalingam N Okay because I think the imported coal on a per ton basis seems to have gone up?

Sreekanth Reddy Purely because of very high grade coal sir. We are using instead of RB3 we are using RB1 of South Africa and very high grades. Our grades range anywhere between 6400 to 6500 GCV value on ADB basis.

Chockalingam N And how much is imported coal cheaper for you versus Singareni today on a landed cost basis?

Sreekanth Reddy Close to 25%, sir.

Chockalingam N 25%?

Sreekanth Reddy But you have to factor many issues. We are talking of neck-to-neck on a per landed basis on a **(Inaudible) 22:23** cost negating all the moisture and ash corrections. Imported coal cost looks 25% better valued than Singareni coal.

Chockalingam N And this is for what sort of lead distances would these be between Singareni and this one?

Sreekanth Reddy No I think that is something which we usually do not factor because Singareni is right next door whereas imported coal has to come from a port so beyond which we generally do not measure the cost.

Chockalingam N So you do it from Krishnapatnam?

Sreekanth Reddy Yeah, we do it from Krishnapatnam and Vizag.

Moderator Thank you. Next question is from the line of Bhavin Chheda from Enam Holdings..

Bhavin Chheda At slide number 11, actually your coal cost per ton has gone up, so the calorific value has changed I believe because your overall power and fuel costs has come down?

Sreekanth Reddy Yes sir it is primarily to do with we bought a better grade coal so it cannot be seen that the cost has gone up, but the reality is that the quality of coal also we made the changes because the better quality coal also has become affordable and become feasible for us so we started using a better grade coal than what we used to use in the past.

Bhavin Chheda And overall if I see your overall realization it was down from Rs. 350 on a quarter-on-quarter basis close to Rs. 18 a bag. So you are saying in both the markets Maharashtra, AP the entire fall which happened during the quarter is back recovered almost in mid-October?

Sreekanth Reddy Sir if you have to see Slide # 10, we have clearly pointed out that there has been an increase in gross realization. The only drop happened in AP and Telangana that is what we have reflected from Rs. 6,000 it has actually come down to Rs. 5,800 in localized, but overall there has been an increase if you have to look from Sagar



there has been an increase of Rs. 190 odd increase in the overall realization for Sagar. Net realization for Sagar for Q2 actually has improved to Rs. 189.87 over the last quarter.

- Bhavin Chheda** So this you give only for one plant this is the Sagar Mattampally plant?
- Sreekanth Reddy** Yes sir because we are still not yet consolidated but this is not only for Sagar consolidated, it also includes the traded cement what we have done from BMM.
- Bhavin Chheda** Because what I am trying to see your blended realizations from your quarterly results that had actually fallen quarter-on-quarter, so is there a clinker sale or impact of that or something?
- Sreekanth Reddy** No, there is no clinker sale, we have not done any clinker sale.
- Bhavin Chheda** Because your blended NSR is falling on a quarter-on-quarter basis right?
- Sreekanth Reddy** No sir it has actually gone up.
- Bhavin Chheda** Because I was getting a number of Rs. 4,340 versus Rs. 4,700 may be some error there I think?
- Sreekanth Reddy** Yeah, actually in Q1 if you have to look at it, it is Rs. 4150 compared to Q2 it is at Rs. 4,340 so there is an increase of almost Rs. 190.
- Bhavin Chheda** And what will be your CAPEX plans sir?
- Sreekanth Reddy** For the current financial year there is nothing other than the general maintenance, we have not projected anything at Sagar sir. So we still remain with that Rs. 5 crore CAPEX planning for Sagar. And even at BMM we have projected around Rs. 10 crore, so it still remains at Rs. 10 crore for the year. So there is no significant change in our CAPEX planning for the current financial year.
- Moderator** Thank you. The next question is from the line of Rajesh Ravi from Centrum Broking..
- Rajesh Ravi** First on the limestone mines. Is the limestone mining started, there were some issues which needed to be sorted out, what is the current scenario now sir for BMM?
- Sreekanth Reddy** In BMM it is not yet started sir. We are just waiting for the paperwork is going on so we are hoping that on an earliest basis we are hoping the approvals to be in place, still it is not yet started out.
- Rajesh Ravi** Okay so by when that would be expected on a realistic basis sir?
- Sreekanth Reddy** I think it should happen before the end of this quarter.
- Rajesh Ravi** And till that time you are buying it from external sources.
- Sreekanth Reddy** Yes sir.



Rajesh Ravi How much would be the incremental cost saving, if you source? You are buying limestone separately right?

Sreekanth Reddy Rs. 300 sir. It will save additional Rs. 300 for us if we start our own limestone mines.

Rajesh Ravi Okay so that will be an incremental saving you will be showing in your numbers?

Sreekanth Reddy Yes.

Rajesh Ravi And second sir in terms of the acquisition cost and increase in gross block on a consolidated basis, FY 16 what would be the change in the gross block numbers broadly? End of 15 we are at around Rs. 550 crore?

Sreekanth Reddy On a consolidated basis?

Sreekanth Reddy I think we would be moving close to.

The gross block from Rs. 670 odd crore, it will be moving to Rs. 1,200 crore for the overall consolidated number sir.

Rajesh Ravi Okay so this new plant itself is more than the current capacities?

Sreekanth Reddy Yeah because the current plant is almost 35 years old.

Rajesh Ravi And sir in terms of gross debt that you said will move up to Rs. 420 crore, so that is you are saying net of the cash that you have currently on books?

Sreekanth Reddy Yes sir.

Rajesh Ravi So there will be a net of cash that will be the amount that you are looking at?

Sreekanth Reddy Yes sir.

Rajesh Ravi So accordingly interest and depreciation cost mixture would also go up?

Sreekanth Reddy Yes sir.

Moderator Thank you. The next question is from the line of Sunil Jain from Nirmal Bang.

Sunil Jain Sir my question relates to pricing. You said that Hyderabad prices has come down and again moved up. What was the scenario in Andhra region, was there a similar trend?

Sreekanth Reddy When we reflect Hyderabad, it genuinely reflects the states of Andhra Pradesh and Telangana because it is very difficult for each places to happen. But the move for most parts of barring some parts of Rayalaseema the north coastal and the coastal regions of AP and Telangana remain very similar.

Moderator Thank you. The next question is from the line of Sandipan Pal from Motilal Oswal Securities.



Sandipan Pal Sir my first question is can you throw some light about the differential EBITDA which you are getting between AP, Telangana or may I say Karnataka and Sholapur?

Sreekanth Reddy I think we will share offline Mr. Sandeepan because we do not have it offhand so we need to really pull out that number, we will be happy to share with you.

Sandipan Pal And after your BMM, I mean what could be the reduction in the lead distance and given that you have also the railway siding coming up so what could be the savings we can assume in the freight side?

Sreekanth Reddy See coming back to the railway line the only saving that we have usually factored is the inward savings that we expect from the invert movement into the Sagar cement which is expected to be around Rs. 10 crore of incremental savings per annum. Now going back to BMM, more than the lead distance the overall optimization could happen, we expect at an EBITDA per ton on a consolidated basis to move up by Rs. 200 to Rs. 300 on an average.

Sandipan Pal And if I just look into your this particular fuel cost, I mean given that you have increased the imported coal I mean mix this quarter I mean what is the current average price of the imported coal versus last year?

Sreekanth Reddy Same sir, what we have indicated is very similar like Rs. 5,700 for the landed imported coal price still remains even for this current quarter also.

Sandipan Pal And lastly sir, the volume you have shared that 0.416 million so that basically included the BMM volume right?

Sreekanth Reddy Yes, traded sale volume. There is a small difference where there is some direct sales from BMM but that is negligible. Barring that it includes the BMM quantity also.

Sandipan Pal What could be the quantity from BMM?

Sreekanth Reddy You could add another 20,000 tons to those volumes sir, it is a direct sale that happened from BMM.

Moderator Thank you. The next question is from the line of Chockalingam Narayanan from Deutsche Bank..

Chockalingam N The DMF related charge how much was it?

Sreekanth Reddy Around Rs. 3.5 crore.

Chockalingam N Rs. 3.5 crore and what part of it was pertaining to the previous period?

Sreekanth Reddy That we would revert Chockalingam. We have not made the exact break up but we would be. When you talk of previous we would give you the break up for the last financial year because it started from 12th of January 2015. So there are two years. One is in the previous financial year and one during the Q1 and Q2 we will be happy to share with you the quarterly and the annual breakup.

Chockalingam N Yeah, because just wanted to get Q2 recurring number.



Sreekanth Reddy Sure sir, we would be happy to share that and we will be doing that.

Chockalingam N And the other one was are there any further capacity additions at all in the pipeline in South?

Sreekanth Reddy The only thing that got commissioned during the last quarter was Orient and a quarter before was Dalmia. So barring that of course there is a grinding unit of Ramco unfortunately due to Hudhud I think the ramping up is only still happening. Barring these three we have not seen any other capacity neither the announcements nor additions. Probably that would be the case even for the current financial year and even the next financial year.

Chockalingam N But post that any likelihood has anybody?

Sreekanth Reddy So far no new announcements have been done except for one or two, nobody else is talking of any new capacity additions. But people might want to do it so far it is not announced. So only when it is announced we could reasonably predict when they are expected to come but nothing is expected to come on ground at least for the next financial year also, end of next financial year for sure.

Chockalingam N What are the because it is new states any industrial policy benefits that are being offered?

Sreekanth Reddy I think there are better incentives that have given out in both the states compared to what we had previously, but I do not think that they are so compelling for people to come and start up the cement units.

But I think though I have not really looked at those incentives because as I told you the overhang far more overweight the incentives we have not been very specific but the general impression and the perception is that it is far better than what we had till last year.

Chockalingam N Absolutely I understand that most capacities are running at absolutely low levels so nobody would plan?

Sreekanth Reddy 50% sir

Chockalingam N Understand sir, but you never know that out of the blue somebody could?

Sreekanth Reddy Sure but the only understanding that we have is from the day they announced and from the day they start the ground work, it would definitely take 18 to 24 months. So none of them are on ground for them to commission till the end of next financial year.

Chockalingam N And power situation has it improved in the state?

Sreekanth Reddy Yeah power situation right now there is availability, from the grid also but situation was that the local grids were fairly from an availability perspective either from the grid or from IEX lot of energy was available. But right now I think enough power is available even from the grid.

Chockalingam N So there are no shutdowns which are there?

Sreekanth Reddy Sir we are operating at 50%.

Chockalingam N No, I completely understand that but otherwise just to understand

Sreekanth Reddy Yeah there are one or two outages but that is part and parcel of our industry so that we cannot count it as any. We do not have R&R we do not have any restriction from a grid perspective.

Moderator Thank you. Next question is from the line of Devang Bhatt from ICICI Direct.

Devang Bhatt I had just two questions. What kind of profit are you making from BMM currently?

Sreekanth Reddy We are making around close to Rs. 200 to Rs. 210 per ton, sir.

Devang Bhatt And right now your utilization might be 30%, 33%?

Sreekanth Reddy Yeah we are in the vicinity of around 40%, 45% to 50%.

Devang Bhatt Okay so this trajectory will be continued over the next two quarters?

Sreekanth Reddy Our projection for the entire financial year is that at Sagar we should be doing 55% and at BMM we should be doing 50% but what you have to please remember is that the company got taken over only in end of August. So the next half year we expect the capacity utilization to be at 50%.

Devang Bhatt From next quarter only I was asking that you would be able to take it to 50%. And this Rs. 300 would be added the limestone mining that you might be doing after your getting approval?

Sreekanth Reddy Yes sir.

Moderator Thank you. The next question is from the line of Achint Bhagat from Ambit Capital.

Achint Bhagat I wanted to understand pricing from you sir, how has it moved in the recent months and what we did here from some of our checks was that there was some moderations. So how has it been in the last few weeks and months?

Sreekanth Reddy Achint, see like in Hyderabad in the entry of the quarter in July it was around Rs. 300 it actually slipped down to Rs. 250 till a week back. I would not say it has been gradual but it has been drastic from September to October it has fallen quite sharply. But it picked up over last two days, there has been an increase of around Rs. 50 so the price is more or less going back to the entry levels of the last quarter.

Achint Bhagat Sir, what triggered the price fall in the first place?

Sreekanth Reddy Demand sir, it is all to do with the demand and monsoon.

Achint Bhagat So you are saying that in the last week or so demand has still?

Sreekanth Reddy We are anticipating for the demand to come up sir. So we hope to get back the remunerative prices so that is where the prices started slowly moving up. But I think for us to really realize the entire expected lines, it could be another one week to 10 days. But prices started moving back. Because usually the demand picks up



post Deepavali, so in anticipation most of the price ramp up is happening. So it was more like a monsoon discount the price actually slipped down and it is slowly coming back.

Achint Bhagat

So it is seasonal you are saying?

Sreekanth Reddy

Yeah, but Chennai and Bangalore more or less has remained flattish. Of course there are some small Rs. 5 to Rs. 10 kind of a correction. Post-Deepavali and post-monsoon in Chennai we hope to get back to the old pricing fairly quickly.

Achint Bhagat

Just one nuance out here that do you think that even if demand let us say were to recover and your primary region of operations grow at 6%, 7% do you think there is further room for pricing growth or this is you are very close to the peak of pricing?

Sreekanth Reddy

Actually it is all to do with the input pricing see it is all demand supply kind of a gap. We always want prices to be sky high but the reality is that it is a market driven kind of a pricing scenario. Still we are another good Rs. 20, Rs. 30 away from the peaks that we have seen in the past. So we hope to go close to that, we may not cross that, we hope to go close to those numbers.

Achint Bhagat

Yeah, why I am asking this question is that sir after several years in the last couple of years if you would have seen input costs have been largely supportive. So coal prices have come off?

Sreekanth Reddy

No but there are some corrections not only coal the royalty actually more or less offset for those increases Mr. Achint, so that also needs to be factored in.

Achint Bhagat

Sir, my second question is more on the demand perspective that we have seen that the last one year industry has been hopeful but there have been some disappointments in terms of demand. So now what are the key sectors which you think are missing and where do you expect demand to recover from any sort of tenders and any specific government projects, any for example if there is some improvement in irrigation tenders or anything of that sort?

Sreekanth Reddy

Achint, the demand usually is made up of all these building blocks in terms of residential both rural, urban, organized real estate plus the infrastructure. But we are hoping that the housing sector to revive thanks to most of the efforts that all the governments are putting in. At the same time we are also expecting from infrastructure side. Especially to do with the irrigation related issues in AP and Telangana and at the same time the low cost housing also to kick in so that the demand would start moving up reasonably well. But for all of that to realize in a togetherness we expect that to happen only from middle of next financial year, not before.

Achint Bhagat

Okay and any on ground changes that you have seen in terms of a policy?

Sreekanth Reddy

I think policy wise, I think the budget is the big policy statement, they have been very positive. But usually we give close to 8 to 9 months before most of the budget statements are getting really transformed on to the ground. I think post this Deepavali season we do hope things to start slowly making change on the ground. What we have seen in both AP and Telangana governments are negotiating though there is a gap in terms of price expectation, but it looks that they are very serious to kick start this trend what got stopped few years back. I think both the governments looks to be very serious to kick start those issues. So the negotiations are still on. We hope those issues should get concluded and we start realizing



those trends to start moving on to the ground and we start seeing those cement getting bought, so we are anxiously and eagerly waiting for that to happen.

Achint Bhagat And what proportion of that do you think could be shaved off possibly because of rural income suffering?

Sreekanth Reddy I think it is a mix and match. Our outlook for the current financial year is that we are going to remain flat. We hope for these AP, Telangana and Maharashtra markets more or less are flat, but overall South if we have to see we expect it to be slightly negative. But for next financial year we expect the entire south to be flat. That is the only points that we are expecting anywhere between 5% to 10% incremental demand in AP, and Telangana and the subsequent year we expect it to at least go up to double digit. That is the hope purely because Tamil Nadu and Karnataka also to start in tandem with some AP and Telangana. We also hope that they would also pick up and we do hope the entire southern states over next two financial years to ramp up to double digit.

Achint Bhagat And sir, just one question on accountancy. So now with the IndAS would be accepted from next year onwards and we will have company changing their accounting structure. Do you think is there any item which would possibly where because of the reporting there would be a meaningful?

Sreekanth Reddy Not in our case sir. We are more or less reasonably close, I think it is more to do with the IFRS and all those. Internally we do not expect a major realignment in terms of line items.

Achint Bhagat Okay so you do not think because of that there should be any divergence in the way you are reporting numbers?

Sreekanth Reddy So far except for needs to be made some additional provision but that should be offset with the profitability, but barring that we do not expect a major realignment in our numbers.

Moderator Thank you. Next question is from the line of Raj Gandhi from Sundaram Mutual Fund..

Raj Gandhi I just heard of some uptick in irrigation orders and everything because and even in water at least we are seeing the pipe manufacturers getting lot of orders on the water front and all. So anything that you picked up there especially from Southern markets?

Sreekanth Reddy I think we are also expecting the pick up to happen post festival season. So we are expecting the government related investments to start picking in. So from a prospective perspective we are very positive on that. Is anything seen on ground not yet but we hope to see it from the current quarters end middle to end of this current quarter we hope to see them slowly started trickling in the southern markets.

Moderator Thank you. Next question is from the line of Rajesh Ravi from Centrum Broking.

Rajesh Ravi The current quarter EBITDA per ton is obviously diluted because of the traded-good numbers that you are reflecting. If you were to look on a consol basis adjusting for the impact of your buying and selling at a mark up price, where you are originating this Rs. 200, what would this number look like sir EBITDA per ton?



Sreekanth Reddy See I think there are two issues, Mr. Rajesh Ravi. See if you have to look at the realization front we are plus of Rs. 190) but on a cost front we are minus of almost Rs. -640) Now when you do the net off, we are minus by almost Rs. -450 when you net off in terms of it in the EBITDA level. In Q1 it was Rs. 860 EBITDA per ton compared to Rs. 426 for the current quarter. But if I have to go and add back those costs and try to see we are slightly better than Q1 purely because of realization. But the reality is that the costs are slightly higher purely because of maintenance related issues which we have taken up for the current quarter, because usually in the monsoon time we take up the maintenance. I mean most of the costs are slightly higher. If you see the operating costs are definitely lower, if you see the power cost and the freight cost have come down, but the other consumables and freights have gone up purely because we have gone for the maintenance.

Rajesh Ravi No, I was more referring from a point of view like in Q4 last year March when you were making around Rs. 860 EBITDA per ton?

Sreekanth Reddy I think it should be very similar, I think we cannot.

Rajesh Ravi BMM would be similar to number if I barring that Rs. 200 to Rs. 300 you are losing because of limestone purchases externally, your EBITDA per ton number are comparable to what the BMM would be?

Sreekanth Reddy Yes sir, I think the best of the season we should be very close if not better.

Rajesh Ravi Actually the Rs. 430 if I even write-back the impact of the DMF provisioning that you have made Rs. 60, Rs. 70 overall what you have in clinker?

Sreekanth Reddy Rs. 80 sir, our impact is Rs. 80 impact.

Rajesh Ravi Yeah total for three quarters yeah that would be them. So should we at least Rs. Rs. 800 plus?

Sreekanth Reddy We are hoping to be there.

Rajesh Ravi And the railway siding benefits do you see to accrue from the Q3 onwards because that is now operational?

Sreekanth Reddy Yes sir, we are in advanced stage so how best, how fast we can do it actually depends on the railways because the final paperwork though the trial run everything we have already moved one-and-a-half rake, but we are hoping most of the benefits to start accruing end of this quarter or maybe the Q4. But the real impact we will see only in the next financial year.

Rajesh Ravi So vis-à-vis Rs. 650 to Rs. 685 which you have reported in Q1, and Q2 on a per ton basis that should moderate assuming all other variables remain same diesel prices and all?

Sreekanth Reddy I would feel it may not moderate quite drastically because with the BMM in we have already that is what factored in the optimization in terms of the freight is already there. So I do not expect a major change because railway we usually have not considered so far about the outward movement of cement but more like an opportunistic kind of a thing which we will only get to know once we start running it in a full-fledged kind of thing because railway freight has been significantly moved

up so that also has its own impact. But we expect it to more or less remain similar to how it has been so far from a freight perspective.

Rajesh Ravi

Great and lastly are there any tax benefits that you have on books for BMM which will get reflected in your because currently you are paying almost full tax rate so?

Sreekanth Reddy

It is always safe there are some but we always believe that it is a full tax kind of scenario.

Moderator

Thank you. Next question is from the line of Ujwal Shah from Quest Investments.

Ujwal Shah

Sir, just wanted your views on the Tamil Nadu market. People were expecting with elections coming near we would see some amount of projects getting through and demand picking up but demand has been fairly sluggish over there. And secondly, your thought about Amma Cement as well, has it actually cannibalized the market over there or has it really grown the market size over there?

Sreekanth Reddy

No I think the Amma Cement is a value add because I am sure some people whoever needs it or deserves the lower price, I think it is being given. Coming back to the demand I think year-on-year Tamil Nadu has grown consistently when even the overall South market was doing fairly badly Tamil Nadu is one state which was doing fairly well it was almost growing at double-digit. So the base impact is also not helping us at this point of time it is showing slightly negative. Secondly, usually when the preparation for the election happens it definitely impacts on the demand. Though the government might kick start some of the social related spends, but this time around most of the social related spends are not the things which would start consuming cement. So that is definitely impacting the overall kind of outlook for Tamil Nadu but that is how any government whenever any state whenever it is going for the election, for six months to one year the demand slightly slows down and that is what we are seeing it in Tamil Nadu.

Ujwal Shah

And sir lastly in terms of BMM what kind of limestone reserves do we have?

Sreekanth Reddy

We have close to 160 million tons of limestone reserve in BMM.

Moderator

Thank you. Next question is from the line of Sanjay Nandi from Ratnabali Capital market..

Sanjay Nandi

I have one question like the BMM acquisition is for Rs. 540 crore right sir?

Sreekanth Reddy

Yes, on an enterprise value.

Sanjay Nandi

So sir, can you please tell me what is the break up and how you are planning to fund that acquisition?

Sreekanth Reddy

See for the Rs. 540 crore the way the company has finalized the thing is it is a Rs. 300 crore debt and the Rs. 240 crore equity that is quasi equity.

Sanjay Nandi

And that is what you have done in the current balance sheet of September we have seen that Rs. 78 crore of there are some non-current investments?

Sreekanth Reddy

Yes sir, but it is not yet fully transformed into that, it is on the process but what we have seen is in similar lines.



Sanjay Nandi And that cash balance also eroded by Rs. 214 crore and this is pertaining to that acquisition value sir?

Sreekanth Reddy Yes, it is primarily to do with the acquisition.

Sanjay Nandi And one thing sir, for the railway line status in the previous concall we came across that if the cost incurred for that one is Rs. 123 crore, right?

Sreekanth Reddy Yes, sir.

Sanjay Nandi And I think this line have been already completed but just the commissioning is left out right sir?

Sreekanth Reddy No, see what we have indicated is it is a Rs. 123 crore the overall CAPEX sir but what we have incurred is only Rs. 90 crore. We have deferred some amount of further investment, which is approximately Rs. 30 crore we have deferred it for next stage.

Sanjay Nandi So as on date you have incurred only Rs. 90 crore right sir?

Sreekanth Reddy Yeah, around Rs. 94 crore.

Sanjay Nandi And 30 crore deferred right?

Sreekanth Reddy Yes sir.

Sanjay Nandi And sir, Rs. 90 crore has been reflected in the balance sheet, right sir?

Sreekanth Reddy Yes sir, it is already it is fully capitalized there.

Sanjay Nandi That is capitalized under the segment of debt only right sir?

Sreekanth Reddy No, only Rs. 60 crore for that is debt sir.

Sanjay Nandi Only Rs. 60 crore is debt and rest is sir?

Sreekanth Reddy Yeah, rest is from the internal accruals.

Sanjay Nandi And Rs. 30 crore is still in WIP, right sir?

Sreekanth Reddy No, it is not work-in-progress we have deferred it, though we have projected it to be Rs. 124 crore, there are some additional investment that is required for automation and all and we have taken a call to do it subsequently.

Sanjay Nandi You have still deferred it for that thing?

Sreekanth Reddy Yes sir.

Moderator Thank you. The next question is from the line of Navin Sahadeo from Edelweiss Securities..

Navin Sahadeo Sir, while most of the questions are answered I just had one follow up question to confirm. About the South demand did you mention that the demand is down per se in the range of 5% to 7% in the market as a whole and sorry if I missed, if you have given any color on the state specific numbers?

Sreekanth Reddy As South overall we are expecting it to be anywhere between -5% to -7%, Navin.

Navin Sahadeo Which is so far year-to-date you are saying?

Sreekanth Reddy Yeah year-to-date and that is the outlook that we have for the current financial year.

Navin Sahadeo For the full year as a whole it will be still you think could still dip by 5% to 7% and within that I believe you see a higher negative bias towards Tamil Nadu and Karnataka?

Sreekanth Reddy Yes, sir.

Moderator Thank you. As there are no further questions from the participants I would now like to handover the floor to Mr. Reddy for his closing comments. Over to you, sir.

Sreekanth Reddy Thank you again for participating in our Investor and Analyst Conference Call. We will be more than happy to address if you have any further questions. You have all the contact details given part of the invite. Thank you once again.

Moderator Thank you very much, sir. Ladies and gentlemen, on behalf of Sagar Cements that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

