



Sagar Cements Limited
Q2FY19 Earnings Conference Call
October 30, 2018

Moderator: Ladies and gentlemen, good day and welcome to the Sagar Cements Limited Q2 FY19 Earning Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. I would now like to hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you Mr. Desa.

Gavin Desa: Thank you. Good day, everyone and welcome to Sagar Cements Q2 & H1 FY19 analyst and investor conference call. We have with us today, Mr. S. Sreekanth Reddy – the Executive Director; Mr. K. Prasad -- the Chief Financial Officer; Mr. Rajesh Singh – Vice President, Marketing 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 certain statements made in today's discussions may be forward-looking in nature and a note to that effect was stated in the 'Con Call Invite' sent to you earlier. We trust you had a chance to go through the documents and financial performance.

I would now like to hand over to Mr. Reddy to make his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy: Thank you, Gavin. Good morning, everyone and welcome to Sagar Cements earning conference call for the quarter and half year ended September 30, 2018. Before we begin our discussions today, as some of you may be aware, with great sadness I share with you that Sagar Cements mourns the loss of its leader and the Managing Director, Late Shri Sammidi Veera Reddy Garu who left for heavenly abode on September 28th. Mr. Veera Reddy's humble yet high value creating life continues to be a source of inspiration to all who knew him and percolates to all the members of the Sagar Cements family. Sagar Cements continues to be guided by Mr. Reddy's vision and value system. His commitment to excellence, determination, can do spirit and commitment to the group will inspire and stay us with always

Let me start the discussion about the sector and Sagar specific trends and the development. Starting with the sector first:



We saw steady demand across our key markets. Demand in south especially in Andhra Pradesh and Telangana continue to remain high. Kerala though was soft owing to the floods. We are seeing signs of demand reviving in Kerala. Prices in the region remain steady on a Q-o-Q basis while its down almost 10% on an annual basis.

Moving on to the West:

Monsoon and higher competitive intensity impacted the realizations in the region. Going ahead though on a longer timeframe we do expect the demand and pricing environment to improve on back of government efforts and a pickup in corporate CAPEX cycle.

Moving on to the Sagar-specific developments:

As most of you must be aware, we have been undertaking various cost savings and efficiency improvement measures which should result in higher profitability going forward in addition to commissioning of the grinding unit commissioned three months ahead of schedule. We are also working towards commissioning of our captive power plant which we expect should happen by March 2019. Further, the benefits of the grinding unit at Bayyavaram has now started to get reflected in the financials. Freight costs are moderating, we are also saving on the power cost as the excess power from SCRL captive which was earlier sold to Andhra Pradesh Genco is now getting directed towards Sagar Cements mother plant. We also undertook some modernization at Sagar Cements (R) Limited with cooler replacement modernization of the kiln. The plant was under shutdown for around 50-days higher than what we expected, we initially expected it to be 40-days to complete this activity. Post this modernization activities, the clinker capacity has been increased from 2,000 tons per day to 3,000 tons per day. We expect such synergistic benefits to increase in size going forward.

Let me now move on to our Financial Performance for the Quarter:

On consolidated basis, net sales for the quarter stood at Rs.258 crore as against Rs.236 crore generated during the corresponding quarter last year, growth of almost 9% on back of higher volume. EBITDA for the quarter stood at Rs.22 crore as against Rs.38 crore reported during Q2 FY18. Higher input cost and lower availability of BMM plant resulted in lower profitability and margin compression during the quarter. Average fuel cost stood at Rs.980/ton as against Rs.926/ton reported during Q2 FY18. Higher imported pet coke and coal prices coupled with acute rupee depreciation resulted in higher average fuel cost per ton for the quarter. Freight cost for the quarter on a consolidated basis stood at Rs.826/ton as against Rs.840/ton during Q2 FY18 as higher average freight cost for SC(R)L was negated by a better optimization of lead distance and higher fuel efficiency for Sagar.

We would like to highlight that during the shutdown of BMM, some volumes were shifted from the mother plant which also resulted in a slightly higher freight cost, but for that we would have had a higher savings in the freight cost on an overall basis. Loss for the quarter stood at Rs.8 crore against a profit of Rs.8 crore reported during Q2 FY18.

From an operational point of view, Mattampally plant operated at 61% efficiency level while Gudipadu and Bayyavaram operated at 56% and 23% respectively



during the quarter. We would like to highlight the Bayyavaram plant capacity has been substantially increased from 0.3 to 1.5 mn during this timeframe.

As far as key balance sheet items are concerned, the gross debt as on 30th September 2018 on a standalone basis stood at Rs.318 crore, out of which Rs.175 crore is a long-term debt and the remaining constitute the working capital, while on a consolidated basis gross debt stood at Rs.549 crore out of which Rs.371 crore is long-term based. The net worth of the company on a consolidated basis as on 30th September 2018 stood at Rs.773 crore. Debt-equity ratio stands at 0.48:1. Cash and bank balances were Rs.19 crore as on 30th September.

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

Moderator: Thank you very much. The first question from the line of Girija Rai from SPA Securities. Please go ahead.

Girija Rai: Sir, firstly we know that we have a 25 MW captive power plant which is 100% pet coke BMM, right, and the power what we generate in BMM that was used in BMM as well as Mattampally plant, now are we using the same power in our Vizag plant that's my first question?

Sreekanth Reddy: The plant that we have in Gudipadu is 25 MW sir, we used to use 100% pet coke, but due to the regulation shift, we are 100% coal on that. As you are aware, the Supreme Court has banned the usage of pet coke for the power generation. We are currently using 100% imported coal for generating it. Secondly, in the past we used to have AP Genco one of our customers but for last six months we are supplying the power to self-consumption, Mattampally as well as small portion of it is being supplied to IEX. As far as the power source for the Vizag grinding station is concerned, currently it is with the hydro assets that we have acquired close to six months back and the grid is the current source. Since it is a grinding plant, the load is not constant, so it would be sub-optimal if you were to source power from our CPP at Gudipadu sir.

Girija Rai: I just wanted to know like at what rate we sell the power to grid? And if in case like we are taking out from grid what is the average pricing for industrial use that grid sell it to the industry?

Sreekanth Reddy: We have not supplied any power to the grid for the current year. Earlier there PPA used to be with the grid which for the current year we do not have. The power that we source is energy cost and it is divided into two parts – One is the energy cost and the other is the contracted maximum demand charges. These two together currently in Telangana, we pay close to around Rs.5.35 would be the energy cost, again the energy cost changes by the hour of the day because there are peak, sub-peak and normal working hours for each, the energy cost is very different but on an average the energy cost works out to around Rs.5.35-5.50 at the energy level and inclusive of contracted demand it will be hovering around Rs.6 sir.

Girija Rai: My last question is like we can see we have a very huge impact from power and fuel cost. So. I just wanted to know what is the current pet coke price? Do we have any hedging sources for the future like keeping in mind that where INR is depreciating and any increase in import duty if in case? What is the cost per unit to generate the power in BMM unit?



Sreekanth Reddy: So, we usually source and hedge our fuel to almost around 4-5-months' time, that is the hedge that we have, those are the pipeline orders. As the time progress, we wanted to increase it to six months. At this point of time, the pet coke price had been indicated in our presentation sir. We have two sources of pet coke – one is the domestic and the other is imported. The imported is hovering around \$120 at this point of time. We use both the American as well as the Saudi pet coke. The domestic Indian pet coke is hovering around Rs.9,000 on a landed basis.

Moderator: Thank you. We will take the next question from the line of Pratik Kumar from Antique Finance. Please go ahead.

Pratik Kumar: Sir, just to start with, can you just guide us on your guidance which you generally give for like region wise Kerala, Tamil Nadu, AP, Telangana, Karnataka and Maharashtra, change in any view on like region wise, expectation for FY19 and if possible any forward-looking for FY20 initial remarks, state wise, you generally share?

Sreekanth Reddy: The general outlook what we have shared still remains but just for the convenience sake, let me repeat once again; AP and Telangana we expected year-on-year demand to grow by 15%, Karnataka by 10%, Maharashtra by 10%, Tamil Nadu and Kerala our initial outlook is at -5% to flat, same thing we are holding. Though the first half look very-very aggressive in terms of some of the states have actually did much better and we wish the market demand beats it but since there are early elections announced in Telangana and some of the states would be preparing for the election during the early part of Q1 next year, we believe the outlook would remain more or less similar to what we have projected sir. Going to the next year sir, it is too soon for us to comment because there is an all India federal election as well as some of the states are going for the election, I am sure you would agree it would be too early for us to comment anything for the next year.

Pratik Kumar: What were the growth for H1 in these regions? As you said some of the region is much higher, so

Sreekanth Reddy: So. far if you look at south less Maharashtra sir, the average growth has been to the tune of around 12-13%.

Pratik Kumar: With the higher contribution from south then Maharashtra in terms of growth?

Sreekanth Reddy: Yes, Maharashtra so far to our assessment has grown close to around 4% whereas the south in general has grown at a very healthy, close to 18-19% sir.

Pratik Kumar: Sir, regarding price trends, if you can highlight, are they looking up now... post Diwali, should they look up, post-November they should look up?

Sreekanth Reddy: Exit price I cannot comment on how they are expected sir, in our internal assessment we believe that the price trend would more or less remain similar, that is what we have internally factored though the exit prices from September to October, Hyderabad, there is a small dilution of Rs.5 whereas the rest of the places more or less the trend remain very similar.

Pratik Kumar: Sir, regarding Tamil Nadu, Kerala, how are the prices in Q2 versus Q1 and like post Q2 as well – are they lower or flattish as per your assessment?

Sreekanth Reddy: Kerala, we do not track as much sir, but if you look at Hyderabad prices sir, they have more or less remain flat between Q1 and Q2, even the Bangalore prices more



or less except for a small dilution between Q1 to Q2, the dilution has been around Rs.5-7 in Bangalore, Chennai the price dilution also is in the similar range, Tamil Nadu to a greater extent, Maharashtra more or less the trend has remained flat sir between Q1 and Q2.

Moderator: Thank you. We will take the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: So just continuing with Pratik's earlier question, so Q1 to Q2 commentary you gave prices, from Q2 to now, where we stand in time, what is the trend?

Sreekanth Reddy: Sir, we just did close to around 25-30-days of operations. As indicated, except for Hyderabad, where there is a small dilution, rest of all the places more or less remain very flat sir.

Dheeresh Pathak: From Q2 average to prices that are now only Hyderabad is marginally down, other regions are flat?

Sreekanth Reddy: Yes sir, but that would be a typical case, if you look at between Q2 and Q3 sir, more or less the season is an off-season because of the monsoon and auspicious days usually are very few, so most of the kick start would happen only post-Deepavali.

Dheeresh Pathak: Just to understand in BMM, if we look at the realizations Q-o-Q, there is about Rs.100 correction. So. why is that?

Sreekanth Reddy: BMM we have not seen any change in the realization front sir. YoY, yes, we have seen close to around 6% but on QoQ we have not seen any realization drop sir.

Dheeresh Pathak: But if I just do a console minus standalone, that would be reflection of BMM?

Sreekanth Reddy: No, you cannot do that sir, because there is a huge volume differential between both. We have seen QoQ realization drop only at Sagar by 3% but whereas at BMM we have not seen any sizeable except for a marginal Rs.10 drop in terms of per ton, we have not seen a significant change in the realization front sir.

Dheeresh Pathak: No, I am just trying to get the accounting right, just to get to the BMM numbers, if you do a console minus standalone, would that not reflect BMM financial?

Sreekanth Reddy: But BMM would also have Power Plant operations part of it, sir, so you may not exactly get, it has to be a proportion, but we would be very happy to share those breakup numbers between all these.

Dheeresh Pathak: Sir, just wanted to understand there was one slide where you had mentioned the prices of indigenous coal versus the imported average. So. I just want a better understanding that imported prices have increased much more versus domestic prices. So. the domestic pricing, is it linkage coal or is it e-auction?

Sreekanth Reddy: It is a linkage coal from Singareni sir.

Dheeresh Pathak: So. that linkage coal does not come up for pricing renewal or how is it that contract?



Sreekanth Reddy: Fortunately, so far there have not been changes sir, but they keep changing from time-to-time, in these operational timeframes, there has not been a change from Singareni.

Dheeresh Pathak: But as per the contract wording, it comes up for renewal when?

Sreekanth Reddy: No sir, the contract is only for the volume, but not for the price, price is nominated and it keeps changing sir.

Dheeresh Pathak: So how much volume you have tied up with linkage coal?

Sreekanth Reddy: At this point of time, we have contracted for 100,000 tons of coal per annum.

Dheeresh Pathak: You are getting that quantity or you are getting less?

Sreekanth Reddy: It is a function of time. We have to see how it will shape up over next half. The first half has been good sir.

Moderator: Thank you. We will take the next question from the line of Mudit Agarwal from India Nivesh Securities. Please go ahead.

Mudit Agarwal: Sir, I have two questions: Sir, this is pertaining to increase in raw material cost if I look at QoQ. I wanted to understand why there is a sharp increase in raw material cost sir?

Sreekanth Reddy: I think what you have to please remember is that the product mix is changing for us. With the Vizag grinding station becoming operational, the slag procurement from RINL would add up to the material cost sir. This should negate itself in due course of time on freight, power and fuel cost.

Mudit Agarwal: Even with the power and fuel cost QoQ has increased; right now collectively power and fuel is coming out to be Rs.1,246 per ton as against Rs.1,019 per ton.

Sreekanth Reddy: It is on two counts sir: One, as stated, the freight cost and the inward freight cost have gone up, thanks to diesel and at the same time the fuel cost also had gone up, this has impacted us and at the same time the last quarter was one-off because the BMM power plant was sub-optimally used because for more than 50-days the BMM plant was shut for the upgrade, the power plant load was not at its optimal level sir and it also went through some of the shutdowns because of which the quarter is a one-off aberration and as we speak it is getting normalized, sir, I am sure there should be a reasonably sharp decrease in the overall power and fuel cost going forward.

Mudit Agarwal: So. I can safely assume that there is no change in the heat rate for the kiln, right?

Sreekanth Reddy: In fact, it has come down, sir, with the BMM, with the cooler change, almost 60 kCal has come down, I am sure going forward it would get reflected, we are generating as I stated before from 2000 tons per day almost producing 3000+ tons per day and at the same time the efficiency of the pyro system in BMM has gone up quite sharply and we would not hesitate to tell that it is even more efficient than our own Mattampally plant.

Mudit Agarwal: Sir, what is the current debt of long-term maturity sir?

Sreekanth Reddy: The maturity is over a 10-year horizon sir, but we would be happy to share the schedule independently for each of the units if you could connect off-line.

Moderator: Thank you. We will take the next question from the line of Vinay Menon from Centrum Broking. Please go ahead.

Vinay Menon: Sir, I just have a couple of questions: One is sir what is the capacity utilization for the industry as such in Karnataka, AP, Telangana and Tamil Nadu for this quarter?

Sreekanth Reddy: You should look from perspective of what has been the cumulative demand for the first half; around 38 million tons has been the demand sir, if we have to extrapolate it should be ending up close to around 72-73% for south, but there is some amount of material that goes out, effectively around 60-65% capacity utilization, should be the right number for the southern cement space, this is for the H1 sir.

Vinay Menon: Like if you have to give any color on that like state wise?

Sreekanth Reddy: State wise we would be happy to share the numbers if you could connect.

Vinay Menon: Sir, what is your CAPEX guidance for FY'19?

Sreekanth Reddy: Right now, the only long term CAPEX that is running is the captive power plant sir, which we are hoping to commission by March. The amount that is still due for spending is to the tune of around Rs.70-odd crore, it includes around Rs.15 crore of maintenance CAPEX also sir.

Vinay Menon: Rs.70 crore is the incremental CAPEX you are saying which is remaining for FY19?

Sreekanth Reddy: Yes sir FY19, also to some portion of FY20 also because sir the Power Plant is getting commissioned only in March, so there could be some rollover, so the long-term CAPEX as stated would be Rs.70-75 crore till Q1 of next year.

Vinay Menon: At what utilization do you feel sir like the pricing power will return in the industry in the south as such because prices have been subdued for some time?

Sreekanth Reddy: I wish I had a straight answer to what you have answered. I think correlation between capacity utilization price if we look at the past data there was very little correlation sir. I believe the correlation may not be apt even for the capacity utilization. Our view is that the industry as such is reading the demand slightly higher than what is on the ground hence the prices have stayed the optimal kind of a route. So. most of us are going to read higher demand than what is on the ground. So. probably we are putting more material than what market would need, hence the price has been very-very fluctuating and trending lower.

Vinay Menon: Because sir in the first month of this quarter, already the cost structure look similar, so there is no savings in terms of cost, that is why I am asking if there is any kind of price which is expected in maybe November also, October is almost over, so are there any kind of price hikes going to be announced or already announced in the southern region?

Sreekanth Reddy: Historically, post-Deepavali is when we expect the prices to shape up sir, but we have elections also due, so we are keeping our fingers crossed as far as Telangana is concerned, but the current cost pressures should push us for a better

pricing going forward and we hope Deepavali should be a trigger point for us to start looking at a better pricing going forward.

Moderator: Thank you. We will take the next question from the line of Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir, I missed your commentary on the QoQ increase in the power and fuel cost which is the key reason for the EBITDA miss. So. if you could give the comments there, you said that there was some maintenance activity in the plant, so if you could just resay that thing?

Sreekanth Reddy: I think the power and fuel cost has not gone up QoQ, sir, it was one-off event during the quarter we have taken a shutdown of the plant at Gudipadu which is the BMM which also had an impact on the captive power plant located there. So. that did impact the miss on the EBITDA and the miss on the EBITDA primarily because we have also shifted some amount of material from our mother plant to the BMM markets, obviously for those months we could not have kept those markets starving. So, these events actually did impact on our EBITDA generation.

Pritesh Chheda: So. on a normalized base, your EBITDA would have ideally been similar on QoQ?

Sreekanth Reddy: Yes, sir, without hesitation, even the realization drop is -3% but that realization drop is primarily because of some movement of material for a far off location to service the BMM market for Mattampally, but for that we would have remained very flat sir on QoQ.

Pritesh Chheda: Now with the BMM capacity expansion what is our total clinker and grinding capacity?

Sreekanth Reddy: 3.8 mt would be our clinker capacity and 5.75 mt would be our grinding capacity between three units' sir that is Mattampally, Gudipadu as well as Bayyavaram.

Pritesh Chheda: Now what is the CAPEX plan for next two years?

Sreekanth Reddy: Two years is long sir, I think what has been announced, we would be completing the bulk of the announcements what we have done over last two years. With the commissioning of the CPP by end of this financial year, we should have completed the large CAPEX announcements what we have done three years back we would be concluding that. The other long term investment over next six months I think we would be happy to come back to the market as and when we would be firming up on those long term plans.

Pritesh Chheda: Does this CPP provide any additional saving in the power and fuel cost?

Sreekanth Reddy: In our view we are expecting around Rs.15 crore EBITDA saving as and when the CPP would get commissioned sir per annum.

Pritesh Chheda: My last question is obviously on pricing. Your comments there because last 12 months have been fairly different from what the longer history has been for the industry. So, any comments there on the pricing side?

Sreekanth Reddy: Our comment on the pricing is we are exactly tracing FY14 number. So. it is not that something which is new. FY14 we had a similar issue when there was some additional capacities that were coming in the market and demand also was slightly



better than the previous year, we have seen the prices being under pressure but post-Deepavali, we would be in a better situation to take a call on the pricing. At this point of time, QoQ has been flat sir, but YoY it has been -10%.

Moderator: Thank you. We will take the next question from the line of Pratibh Agarwal from Reliance Mutual Fund. Please go ahead.

Pratibh Agarwal : Regarding this election and like I have reading a lot about 2 BHK program by Telangana government and these irrigation projects being pushed by AP government and although they are 100% central government projects, even though funding is not coming from central government, state government is pushing funds like later they can reimburse. So. I am just little apprehensive about after the election, how would be the push by the government into these projects because they will eventually affect the volumes that AP, Telangana has been doing?

Sreekanth Reddy: I wish I knew the answer to the question what you have asked, "How the government would push?" Right now if you have to look at between Telangana, Telangana bulk of the spends is what we call as the water to each home, it is called Mission Bhagiratha and one large irrigation project called Kaleshwaram and two bedroom houses, sir, this is the spend. I think the budget support is not primarily from the central government alone sir, it has also been partly funded by the state as well as the central government. Now going forward post these issues, would they continue? I would keep my fingers crossed sir. Mission Bhagiratha probably would be coming to conclusion over a year's time. The Kaleshwaram project, the two BHK I am sure if I have to read the manifesto given by all the parties that includes the TRS as well as Congress it is highly likely that they might continue. But our past experience is immediately after the election, usually there would be a slowdown and it would ramp up two years before the election sir that is what we have seen. But fortunately, the government driven demand is only 50% of the market sir, the other 50% is private. The current growth I think is a mixed bag between government as well as the private. We hope the private should continue especially the real estate and also the announcement of new districts in Telangana and coming up with the mini secretariats at each of the place and some of the small towns which are expected to become district headquarters, we expect the real estate to continue but for a very short-term, six months to a year post election, past experience show that there could be a typical slowdown during that horizon. But having said that it may not be complete negative kind of growth, it could be a slowdown in growth sir, but still there could be a growth. If you look between what has happened between 2010 all the way up to '15, it has been degrowing very aggressively YoY sir. Post that scenario, we have seen both the states of AP and Telangana have grown quite aggressively. If I may have to add, we exactly reach that or crossed the number exactly what we have touched 10-years back. All said and done, we expect growth to slow down but there may not be a degrowth in the demand either sir.

Pratibh Agarwal: Like what you are answering to the earlier participant you said FY14 thing would repeat, so can we see this like when the volume growth would not be so high, there could be a scenario where pricing discipline would be more probable to come back?

Sreekanth Reddy: Sir, I wish I have the number, but what we have seen is volumes are very similar to what we have done 10-years back is what we are doing in both these states sir, but during last 10-years but for two years, rest of the time the prices were not volatile sir, they were steady and most of the time the margin was there except for FY14, rest of all the other years there was some margin, of course, we were never happy with the margin that we were making but there was some margin during that time in



spite of degrowth in the demand. So. going forward we do believe the margin protection has to happen because industry cannot afford to for a very long period not having any margin at all because cost pressures are going up. So. keeping that rationale and logic, we believe that the current year could be under some pressure in terms of the pricing but this may not be forever sir, that is what we believe. Looking at past, we believe that it is very similar to FY14, FY15, FY16, FY17, FY18 had been good, so we do hope except for this year, the rest of the years to be as good or better than what we have seen in the past.

Pratibh Agarwal : A few small questions, like just wanted to understand your Maharashtra exposure like you said you are 3% QoQ down regarding Sagar realization, so does it have impact of Maharashtra exposure also like because...?

Sreekanth Reddy: I think it is a collective, sir, in our case, there were some volumes as I told earlier, some volumes we have moved from our mother plant to the regions of BMM where we have incurred higher freight, that also was partly responsible for small erosion in terms of QoQ realization but the overall realization for us we have a spread between Maharashtra and Odisha where the prices have not been good sir, but I would always say that it is not negative EBITDA but on a relative basis it was on a lower EBITDA per ton compared to the other states that we service. Maharashtra and Odisha usually have been lower EBITDA per ton compared to most of the other southern states sir.

Pratibh Agarwal : How much is the exposure in Maharashtra in terms of percentage?

Sreekanth Reddy: It is changing sir because now with the Bayyavaram grinding station coming up, we are close to 8-9% of our volumes actually move to Maharashtra market, but going forward we hope to have around 15% of our volumes into Maharashtra, our target is to have equal distribution among all the states that we do so.

Pratibh Agarwal: Just clarifying on this point like you just iterated like shifting your volumes from Sagar to BMM, you said it deteriorates your realization?

Sreekanth Reddy: But it is a one-off event sir, because we were servicing those markets which we were being serviced from BMM because BMM was under shutdown, we did factor 40-days of shutdown but it actually happened to 52-days to be precise, so those volumes we have to service the customer, obviously we had a commitment, so we had to fulfill, so we moved with an extra freight to those markets from Mattampally sir, it is a one-off event which happened during the last quarter.

Pratibh Agarwal: Ex freight your realization was down, otherwise BMM being servicing to the southern state should be better in terms of realization?

Sreekanth Reddy: Yes sir, if you look at our Q1, BMM EBITDA per ton was up of 750+, this quarter at cement level it has come down to 200 purely because of the maintenance shutdown sir or else we would have been at 750 kind of a number. At a console level, we were close to around 500 up to Q1, because of this overall impact even at standalone we are close to that number sir, but because of the BMM shutdown it has come down to close to around 350 kind of a number sir.

Pratibh Agarwal: Basically your BMM like the shutdown had hampered your efficiency, before that your BMM trying to get converted in order to use pet coke, you are doing some overhauls, so what you are saying is now over like your BMM story whatever pains it has to go through regarding ability to use pet coke and overhaul, now they are shut down, ?



- Sreekanth Reddy:** As stated before, I do not mind repeating that, yes, BMM we were upgrading it not in a single stroke sir, it happen in a phased manner, now with the replacement of the cooler last month, all the initiatives what was supposed to happen for upgrading the plant from an efficiency perspective as well as from production perspective is done sir, that is behind...
- Pratibh Agarwal:** All the upgradation, everything now it starts showing efficiency in the numbers from?
- Sreekanth Reddy:** Yes, sir, we are more than hopeful of that.
- Pratibh Agarwal:** Per kCal number if you could share for different fuels at current?
- Sreekanth Reddy:** At Mattampally we are at 700, at BMM we are at 680 with post replacement of the cooler, at CPP we are at 3050 kCal per MW.
- Moderator:** Thank you. We will take the next question from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.
- Swagato Ghosh:** I had a question, but I joined a bit late sir, so if it has already been discussed I can take it offline. So. can you tell us about the clinker utilization in your operation regions?
- Sreekanth Reddy:** That I think we would be very happy to share offline because it is a complex kind of a number because it varies for each cluster, in South it is different for different, different places, sir, like if you look at specific for the H1 I am sure the Gulbarga cluster overall not only clinker but cement also is up of 90%, the overall south we believe at cement level it is close to +60%, very specific to clinker sir, some units are operating at near 100% because they would end up servicing some of their grinding stations outside southern region, either in east or western region, but would be very happy to share that number offline.
- Swagato Ghosh:** One follow up, this is a slightly longer-term question, this excess clinker amount to other regions, do you think that distance is gradually increasing with maybe innovative ways of transporting it and the price differential being more attractive, is that happening, or do you see that happening gradually?
- Sreekanth Reddy:** At the end of the day sir, I think the southern market in terms of the demand/supply equation is still skewed more towards supply than the demand. Given the scenario, most of the companies which have growth ambition, some of the rationale companies are looking at markets which are outside south and some of the places like Odisha and all, the ability to develop clinker there is minimal because of the availability of limestone, so inclusive of us we are looking at grinding stations there and we have to take the clinker out of southern plants that we have. Some of the people have been very innovative using the coastal ways, some of us are away from the coast, so we are using all the transport means to ensure that our capacity not only the utilization, but the margin enhancement may not be at EBITDA per ton, but in absolute EBITDA we are expecting growth to happen with these kinds of initiatives.
- Swagato Ghosh:** One last follow up to this is on the eastern side as you mentioned Odisha is where you are targeting. What the other regions maybe on the other directions are like where you can go after maintaining like say certain profitable this thing?

Sreekanth Reddy: I think this split location grinding unit there are only two for most of the southern players sir, it is either east or west, I think north the opportunity is very limited but going for an integrated plant, for somebody to put up a grinding station in north, trying to service clinker from here, may not be a feasible option from a freight perspective. So. the only places which give that option is the western and the eastern market because of the coast or the proximity of these markets, sir.

Moderator: Thank you. We will take the next question from the line of Kunal Shah from Yes Securities. Please go ahead.

Kunal Shah: Sir, this Kaleshwaram project which you were mentioning the Rs.80,000 crore project, I just wanted to understand what kind of demand that it can generate for Telangana as a whole?

Sreekanth Reddy: It again depends on the progress of the project, the overall last two years on an average it is hovering anywhere between 1.5-2 million per year sir.

Kunal Shah: It can ramp up going ahead as well, right?

Sreekanth Reddy: It again depends on how the government is going to spend sir. It is a very long-term project because it is only the first of the main project in terms of the dam is done but the distribution and the connectivity and all, with the tunneling and all, is still over a period of time it needs, so it again depends on how the government is trying to spend over a period of time.

Kunal Shah: I just wanted to understand the run rate of 1.5-2 mt can be...?

Sreekanth Reddy: That project has a potential to consume over 6 million. How fast they will do? Will decide from here on. As around it has the potential for further 6 million sir, but it is a function of time.

Kunal Shah: The other question with respect to the demand in Maharashtra that you are expecting by 10%. But recently the government has come on to the statement that more than 50% of the regions is going to face a drought like situation. So. do you still maintain the 10% growth which you have mentioned earlier?

Sreekanth Reddy: Maharashtra, bulk of the demand actually comes from Pune and Mumbai sir which is bulk of its demand and surprisingly some of the few district headquarters also had huge run up because if you look at the past it was one of the largest markets in India, during last three years it did suffer the demand because government spend and most of the private spend was in sideline. But over the last two years, the demand ramp up has happened quite sharply. Now would the drought impact? Yes. But by how much? I am keeping my fingers crossed sir. Even during the drought phase, during those months we did not see a substantial drop but we have seen the drop in demand primarily because the ability to sustain the investment in urban did impact the demand, may not be as much in terms of the agricultural season impacting the demand sir.

Kunal Shah: But sir, our dispatch to the Vidarbha and Marathwada region, how much would that be as in?

Sreekanth Reddy: Our usual run rate is 25,000-30,000 tons per month to the neighborhood Solapur market sir. We have been very consistently supplying those kind of volumes into those markets, sir.



- Moderator:** Thank you. We will take the next question from the line of Ravi Purohit from Securities Investment. Please go ahead.
- Ravi Purohit:** One is if you could just share an update on new capacities coming on-stream in the southern markets in your like home markets in the next say 6-12-months? The second was on the price outlook, I think I joined the call a little late, so I do not know whether you mentioned anything on the price outlook front?
- Sreekanth Reddy:** First, let me address the last question first. From a price outlook, yes, at this point of time, on QoQ, we are seeing flattish trend in terms of the price. In our past experience, we have seen post-Deepavali price hikes to kick in. We are hopeful that the price increase should happen from Deepavali, but it is an election year. By how much and quantifying that would always be a challenge because the election in Telangana is due in first week of December. The new capacities that are expected sir, at this point of time, KCP is due for commissioning, we expect in the current financial year it is 1.5 mt plant. We are expecting Penna and Chettinad to come up with their capacities over next 12-15-months, then we have Shree Cement in Gulbarga about to commission or due for commissioning in the current quarter itself. There are some more announcements, but we are yet to see them anything grounded, sir. So. I will keep my fingers crossed before taking a call and any other announcements that have happened.
- Ravi Purohit:** Sir, if one were to set up a new Greenfield cement plant today, because I think people have been talking about rates ranging from \$100 to \$150 per ton but in your assessment what is?
- Sreekanth Reddy:** I will address this slightly differently, you have to bear with me, I am not trying to be cynical or any of it. Yes, there are large companies which inform the market, that it has commissioned a plant at \$85. Now when they have announced, the dollar was a different price to what it is right now but in our experience sir, yes, in Indian rupee, which is a lot more static, I will keep my neck out anywhere between Rs.5,500 to Rs.7,500 per ton on an installed basis with an integrated facility it should cost, but there is no thumb rule sir, it again depends on what kind of asset that they are trying to create and how far or how near they are to the utilities either in terms of the substation to the major highways to railways would decide and at the same time even your debt-equity ratio also would be a major deciding factor when it comes to this CAPEX sir. If somebody has to do with 100% equity, we have seen CAPEX being very aggressive plus in our experience even if it is on 1:1 debt-equity ratio, close to around Rs.550-700 could be the interest during construction itself. So. these are all some of the issues one has to take. Broadly there is no thumb rule for it sir, one has to be very specific and to look at asset-to-asset when it comes to this.
- Ravi Purohit:** So. let us say Rs.550 crore to Rs. 750 crore per mt fully integrated, so do you also include a captive power plant here or you do not include a captive power plant here?
- Sreekanth Reddy:** That is a catch there sir, it again depends, sometimes some people do include, some people may not include. What is the size of the captive? Would you have waste heat recovery? In our experience sir, we have commissioned a plant good five year back with the waste heat recovery at \$85.
- Ravi Purohit:** So. Rs.550 crore to Rs.750 crore is your broad range?



Sreekanth Reddy: Yes sir, but you have to be mindful sir, the caveat there is again it depends on various elements, so it again depends on the debt-equity ratio and all, it is a very broad range, could be there.

Ravi Purohit: If that is the case, then if someone were to kind of reverse calculate that, what kind of cement pricing would one need to make even 12% ROE in this industry now?

Sreekanth Reddy: Sir again, you have to please be cautious there, it again depends on the operating rates, it again depends on the markets that you are servicing, so it is not a simple number sir, though people would want an average kind of a number, but it will always be a challenging kind of a scenario. In our experience sir, the cement asset would give 15% ROE IRR, we have to look at a stretch period of 10-12-year kind of horizon. If you are in a up market, usually your returns look very high, but you have to prepare yourself for the down market because historically the cement has been a very-very cyclical in nature.

Ravi Purohit: Where are you in assessment cycle?

Sreekanth Reddy: If you are in North, you could be in an upcycle or down cycle, if you are in South, it could be vice versa. Right now, would be happy to share on a sideline graphical or a pictorial kind of a thing which should help you to decide where we are, again, it depends on the region where you are, so we will be very happy to share that working sir.

Ravi Purohit: Whom should I get in touch with that for?

Sreekanth Reddy: Our CFO, you could get in touch with any of us, we would be very happy to share whatever it will be.

Moderator: Thank you. We would take the next question from the line of Binod Modi from Reliance Securities. Please go ahead.

Binod Modi: Can you share your trade wins data and how has it moved sequentially and YoY comparison?

Sreekanth Reddy: Good morning, Binod. Can we do it on a side line because these are all in numbers if I read out it may not make, but we would be very happy to share that you.

Binod Modi: Is there any sort of saving because of the higher axle load norms?

Sreekanth Reddy: It is too soon that regulation in its full shape is not yet grounded and started implementing, sir. So. we would still wait for some more clarity in terms of the regulation and most of the transport contractors really adopting that.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs.

Dheeresh Pathak: Sir, from the BMM plant, can you give a broad state wise volume mix?

Sreekanth Reddy: Usually we do 40% into Karnataka, 30% each, into South AP and Tamil Nadu.

Dheeresh Pathak: What will be size of the CPP plant at BMM?

Sreekanth Reddy: 25 MW.



Dheeresh Pathak: How much is sold in a normal year - captive and how much is sold to third-party?

Sreekanth Reddy: We do not have any third-party contract at this point of time. Earlier, we used to sell around 22% to the grid, right now close to around 7% to 7.5% we are putting it IEX, but it is a function of time, the IEX prices would decide on how much we sell, but rest of it is actually self-consumed, around 12 MW would be the requirement at BMM and the rest actually goes to Sagar Mattampally plant.

Dheeresh Pathak: On the consolidated segment data where you show power revenues and EBIT and segment assets, so that is all BMM's captive power plant, right or some other asset there?

Sreekanth Reddy: No, we have only the BMM power plant as we speak, rest everything is captive in terms of hydro and solar and waste heat recovery, so it goes into these things, because there is a sale to Sagar and also sale to IEX, hence it is reflected that way sir.

Dheeresh Pathak: So. in that segment results, power revenues of Rs.18 crore this quarter that would represent sales to the IEX that you would have...?

Sreekanth Reddy: No, not only IEX, but also the mother plant here, sir, because it is a...

Dheeresh Pathak: You have the intersegment elimination?

Sreekanth Reddy: Yes sir.

Moderator: Thank you. We would take the next question from the line of Pratik Kumar from Antique Finance. Please go ahead.

Pratik Kumar: Have you seen any moderation in pet coke prices in last fortnight or so?

Sreekanth Reddy: It is too soon sir, I think we would wait for some more time before looking at price. So. far the prices remained steady.

Pratik Kumar: By some \$20 or something?

Sreekanth Reddy: I think they have adjusted it for the rupee depreciation, but for that we have not seen a sizable kind of a thing. In our own case, we restarted directly importing a ship, so for us there is some small arbitrage instead of buying it from a trader, but for that the general trends have more or less been steady sir.

Pratik Kumar: Competition had some comment on there is some antidumping duty in one of the geographies, China I guess, because of that there is some excessive plan and there is some cooling off of crude which has resulted in cooling of pet coke prices in a very sharp manner?

Sreekanth Reddy: As I told you we hedge the fuel for a quarter in advance, for us probably we have some more time before we start deriving the benefit out of it, but as such the quoted price remains very-very steady, we have not seen any significant change in that.

Pratik Kumar: Related to the question from Dheeresh, on segmental information, how do we split the depreciation between the two line-items?



- Sreekanth Reddy:** We can share that detail with you off-line.
- Pratik Kumar:** Last question regarding the projects which you have mentioned in Telangana on the 2BHK Scheme, recently there was a news flow on that the state contractors because they have not received some payments from state government because of state running deficit, that is why they have sort of stalled whatever work they are doing. Is this a real news because the cement dispatch ideally should slowdown immediately for that project?
- Sreekanth Reddy:** We are gearing up for the election, so some amount of slowdown was expected and is also happening on the ground. Some of the contractors' payments were not honored in a certain timeframe, I think there are some overdue, they are expecting anytime to be paid out. The information that you have received, all of us have received looks to be true.
- Moderator:** Thank you. We take the next question from the line of Mudit Agarwal from India Nivesh Securities. Please go ahead.
- Mudit Agarwal:** What is the cost of maintenance for these 52-days?
- Sreekanth Reddy:** It is a replacement of the cooler itself. We have projected maintenance CAPEX of around Rs.15 crore if you look at our previous narration. We ended up spending close to Rs.20 crore for not only the cooler replacement, but for all the other kiln upgrade and strengthening of all those issues. Yes, it costed at BMM close Rs.20 crore from earlier Rs.15 crore what we have indicated.
- Mudit Agarwal:** How much incremental freight for moving from Mattampally to BMM market?
- Sreekanth Reddy:** For a quantity of close to around 18,000 tons, we had to pay twice the freight, freight was 750 from BMM, we have incurred close to around 1350 to 1400 for Mattampally.
- Moderator:** Thank you. The next question from the line of Girija Rai from SPA Securities. Please go ahead.
- Girija Rai:** Just to follow-up the question, like recently the Kerala flood, although we cater very less to the Kerala market, but do we see any like substantial demand from the Kerala?
- Sreekanth Reddy:** From the market narration, our exposure to Kerala market is limited I would put it as very limited, but what we have heard, and the market information is also that the assessment is more or less done in terms of the impact which has been quite high, it has been a very-very impactful kind of a flood. We also expect the reconstruction and rehabilitation everything works to start, but usually takes over a period of time, because of that we do believe that there would be a huge incremental demand from Kerala market.
- Girija Rai:** Sagar is going to cater to Kerala market little bit more?
- Sreekanth Reddy:** No, it is very limited exposure, we do less than 2,000 tons into those markets, I think our exposure to the market would be limited to that extent only, it is not a very feasible market for us to service from any of the locations that we have.



- Girija Rai:** Just wanted to understand like we have incremental capacity in Vizag unit, so 0.3 to 1.5 right. How do you see the demand scenario in Odisha market?
- Sreekanth Reddy:** Odisha demand has been growing at 10% YoY, so that is what we believe and it is a 10% incremental demand is what we are expecting at least for good two to three years from now.
- Girija Rai:** I can see like we have kind of volume is really great volume growth, YoY basis 19% and I can see the realization has dropped to 8.5% YoY basis. So. exactly like which are the regions we have catered more with this volume like 19.2%?
- Sreekanth Reddy:** Our studying the market, there has not been a significant shift in terms of our exposures to the states that we have been servicing, between AP and Telangana, we are close to 50% and we have 15% on an average each between Tamil Nadu and Karnataka and we have close to 10% to 12% exposure to Maharashtra and the residual goes to Odisha, I mean, that exposure shift is not a significant one, the realization drop from QoQ perspective as I indicated earlier it has been flat, but in YoY on an average most of these markets that we are servicing had a similar kind of a drop in the realization. So. that is how it impacted our realization by close to around 9% across the markets that we service. I cannot single out one state where the drop was higher and some other states where the price has gone up. It has been more or less very uniform across the markets that we service.
- Moderator:** Thank you. We would take the next question from the line of Devansh Nigotia from Securities Investment. Please go ahead.
- Devansh Nigotia:** I just wanted to confirm few numbers relating to the capacity of cement, clinker and power plant, the standalone cement grinding is 3 mtpa?
- Sreekanth Reddy:** I will give you the exact breakup. We have Mattampally plant at Telangana 2.8 clinker and 3 million grinding, we have SC(R) which is the formally BMM, which is Gudipadu, Anantapur in Andhra Pradesh, it is 1 million clinker and 1.25 grinding, we have Sagar Cements Bayyavaram Unit which is in Vizag, Andhra Pradesh, it is 1.5 mt grinding capacity.
- Devansh Nigotia:** The Vizag 1.5 mt capacity has come on line?
- S Sreekanth Reddy:** On June 10, 2018 we have commissioned the plant from 0.3 we have increased it to 1.5. So. now we have 3.8 million at a consolidated level clinker and 5.75 mt grinding capacity on console basis.
- Devansh Nigotia:** Relating to power plant?
- Sreekanth Reddy:** We have waste heat recovery of 8.8 MW in Sagar Cements Mattampally, we have a solar plant of 1.25, then we have CPP at BMM 25 MW, then we have two hydro stations which are attached to Sagar Cements, but primarily catering to the grinding station at Bayyavaram, 8.3 MW cumulatively and we have 18 MW under implementation at Mattampally, all put together we would be having 61.35 MW by end of this financial year.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for their closing comments.



Sreekanth Reddy:

We would like to thank you once again for joining on the call. I hope you got all the answers you are looking for. Please feel free to contact our team at Sagar 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.

