



Sagar Cements Limited

Earnings Conference Call Transcript

January 25, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to Sagar Cements Limited Q3 FY '18 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

Gavin Desa Thank you. Good day everyone and Welcome to Sagar Cements' Q3 & 9M FY18 Analyst and Investor Call. We have with us today Mr. S. Sreekanth Reddy – Executive Director; Mr. K. Prasad – CFO; Mr. P. S. Prasad – President (Marketing); Mr. Rajesh Singh – Vice President (Marketing); and Mr. R. Soundararajan – Company Secretary. We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A session.

Before we begin, I would like to point out that certain statements made in today's discussion maybe forward looking in nature and a note to this effect was stated in the concall invite sent to you earlier. We trust you have had a chance to go through the documents sent to you. I would now like to hand over to Mr. Reddy to make his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy Thank you. Good Afternoon everyone and welcome to Sagar Cements' Earnings Conference Call for the quarter ended December 31, 2017.

Let me start the call by highlighting the key trends prevalent across our markets before I move towards discussing the key operational and financial performance of the Company.

Realizations remained weak for large part of the quarter across our key markets on the back of a mixed demand. Prices continued to remain weak in Maharashtra on back of heightened competition. In addition, softening of housing demand further impacted the realization. Moving to South, while prices were lower for major period, we did see gradual pickup in prices towards end of the quarter. Demand wise, sand mining in Tamil Nadu negated the positive demand seen in AP and Telangana markets. Going forward, we expect the demand and realizations to pick up on back of Government's persistent effort towards improving the infrastructure level.

Moving to the Sagar specific development: We are making steady progress towards commissioning the grinding unit and the captive power plant. As mentioned in our earlier call, we have placed orders for the core equipment for both grinding as well as the captive power plant and expect to commission the grinding



facility by September 2018 and captive plant by March 2019 with a delay of three months for the captive power plant. Let me now move onto our financial performance for the quarter. On standalone basis, net sales for the quarter stood at Rs. 180 crore as against Rs. 142 crore generated during the corresponding quarter last year, higher by almost 27%. Revenue expansion was primarily on back of higher volumes, which in turn are due to the additional grinding station as well as the traded cement.

EBITDA for the quarter stood at Rs. 25 crore as against Rs. 16 crore reported during the Q3 of FY17, higher by almost 56%. Operating margins for the quarter stood at 14% as against 13% reported during Q3 FY17. The improvement was primarily driven by our recent cost controlling activities. PAT for the quarter stood at Rs. 10 crore as against a profit of Rs.2 crore reported during Q3 of FY17. Improved profitability was owing to overall improved operational performance. On a consolidated basis, net sales for the quarter stood at Rs. 249 crore, EBITDA for the quarter stood at Rs. 32 crore, and a PAT for the quarter stood at Rs. 3 crore.

Average fuel cost for the quarter stood at Rs. 917 per ton as against Rs. 864 per ton during Q3 FY '17 higher by 6% primarily on account of higher prices of imported coal. Freight cost for the quarter stood at Rs. 778 per ton as against Rs. 823 per ton lower by 5% owing to the overall reduction in the average lead distance.

From an operational point of view, Sagar's Mattampally plant operated at 58% utilization while Gudipadu plant operated at 70% during the quarter. As far as the key balance sheet items are concerned, the gross debt as on December 31, 2017, on a standalone basis is at Rs. 275 crore out of which Rs. 165 crore is a long-term debt and the remaining constitutes the working capital. While on a consolidated basis, gross debt stood at Rs. 513 crore out of which Rs. 367 crore is a long-term. The net worth of the company on a consolidated basis as on December 31, 2017, stood at Rs. 775 crore, debt-to-equity ratio stands at 0.47:1, cash and bank balances were at Rs. 76 crore as on December 31, 2017. That concludes my opening remarks. We would now be glad to take any questions that you may have. Thank you.

Moderator Thank you, Sir. The first question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri My question is regarding the demand in region of operation, how have you seen the demand in last quarter and the nine months and how do you see it going forward in the next year for key states of operation?

Sreekanth Reddy Demand as narrated, fortunately it is following the same trend as what we have narrated during our previous conference calls. AP and Telangana markets, we believe should see 15% year-on-year kind of a growth, it more or less remains in the same thing. For the last nine months, it is close to around 13%, so we do believe with the year coming close to an end with another two months to go and January also has been fairly okay, we believe that AP and Telangana should end at 15% year-on-year kind of a growth. Karnataka also is, we have indicated 5%, I think we are nearly there. The current nine months performance has been at +3%. Tamil Nadu in our belief was -10%, I think it should more or less be at a -10% kind of de-growth for the full year though for the first nine months, it is close to around (-15%), but we believe we expect going forward things should improve to an extent that it is still de-growing, but not as much as 15%, but it should end up with -10%. Kerala, we believe that it would also be a -10% kind of thing, fortunately for the



nine months, it is at -2%. We might end up year on a very flat note. Maharashtra, we have indicated earlier at (+10), the first nine months it has been close to 8%, we believe we should end up the year at close to +10% kind of a year-on-year growth. We only take one year heads up call and we believe similar trends are likely to continue even going into the next year. We do believe Tamil Nadu from a -10%, we expect it to grow at +5%, rest everything to remain in a similar fashion where AP and Telangana markets to grow at 15%, Maharashtra at 10%, Karnataka also at either flat to 5% kind of a thing is what we believe would be for the next financial year.

Anshuman Atri Kerala?

Sreekanth Reddy Kerala, as I told you it should be flat to 5%, sir.

Anshuman Atri Plus 5?

Sreekanth Reddy Yes.

Anshuman Atri Second question is regarding the cost, the fuel cost we have seen lesser increase for the standalone than the BMM, so how do we see this trend going forward in the next six months for the BMM the fuel cost, how do we see it?

Sreekanth Reddy At BMM, we actually are going through lot of Brownfield and debottlenecking in terms of the capacity, and at the same time, we are also trying to augment the capacity and streamline some of the operating parameters. We have almost concluded what we have already started. If you look from a quarter-on-quarter though the fuel prices have gone up quite sharply, the increase has not been that sharp. The increase at Gudipadu if you look at sequentially though fuel price has gone up sharply, the matching thermal fuel cost in Gudipadu did not move in tandem with the price, that is primarily on account of efficiency improvement. I think most of the work you would be seeing in the current quarter itself, the current Q4, BMM would have achieved very, very optimal. We were almost close to +1000 kind of thermal cost per ton of clinker. We do believe it should come down to below Rs. 900 from current Rs.1,100 to Rs.1,050 kind of a number, we expect it to come down to sub Rs.900. At the same time, we started using 100% Pet Coke even at BMM, so with that we expect fairly good amount of savings for BMM.

Moderator Thank you. The next question is from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

Abhishek Ghosh Sir, just wanted to understand one thing, what has been the impact of WHRS in the current quarter, has that also resulted in some amount of savings of power?

Sreekanth Reddy Yes, current quarter we have approximately around close to Rs.4 crore, if you have to really see a matching saving from the purchase cost of power to that of what we have generated, we have generated around Rs.4 crore of savings from waste heat recovery.

Abhishek Ghosh This should only improve in 4Q?

Sreekanth Reddy We believe the run over should improve and matching number should go up.

Abhishek Ghosh Sir, with the recent increase in the import duty of Pet Coke, what is the per kilo Cal differential between an imported Pet Coke and coal now?



Sreekanth Reddy I would still go with per kcal kind of a cost, the Singareni coal at this point of time is at Rs. 1. 20 per kcal on a landed basis with all the duties, taxes, and the freight inclusive of handling, the imported coal is around Rs. 1. 35, Pet Coke is close to around Rs. 1. 05. Effectively, it is seven paise impact on increased per kcal because of the increased customs duty, but still it is much lower vis-a-vis if we have to compare either with an imported coal or with Singareni coal.

Abhishek Ghosh Sir, just one more thing in terms of while you mentioned that exit prices have been much better than what have been the average prices for 3Q FY '18, so on a broad level for the month of January on an overall basis for South vis-a-vis the average of 3Q FY 18 prices would be up by what kind of a number?

Sreekanth Reddy I would keep my neck out for Rs.150 to Rs.200 on our blended basis, some states it is Rs.+200, but some states it is at Rs.75, but on an average we are up of almost Rs. 175 to Rs. 200.

Abhishek Ghosh This would include Maharashtra as well?

Sreekanth Reddy Yes, blended, Maharashtra in fact there is no improvement, so there is not much of an impact on that particular account.

Abhishek Ghosh Adjusted for that on a blended basis will still be Rs.150?

Sreekanth Reddy Yes sir, because Maharashtra it is more or less flat for us, so it is adjusted for that.

Abhishek Ghosh Sir, just one last thing from my side, in terms of the freight cost reduction whatever we have seen is because the lead distance and what would be that amount in terms of the lead distance reduction because of the BMM now pushing?

Sreekanth Reddy I would not take any credit for the BMM, it is purely because of our grinding station in Vizag as well as the traded cement in Maharashtra. There has been a significant reduction, because when you look at Q3 of last year, we never had both the facilities for us, what has happened is even with increased volumes, our lead distance remains the same that itself was the saving for us.

Abhishek Ghosh BMM also was to contribute to some amount of reduction in lead because of the supplies to TN, that is already in the number?

Sreekanth Reddy That is already in the numbers, Sir, because BMM was already existing even in last Q3, but bulk of the improvement is purely because of these two facilities.

Abhishek Ghosh The Bayyavaram and the Maharashtra one?

Sreekanth Reddy Yes.

Moderator Thank you. The next question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani Sorry, I just missed that number of volume growth that you said you are expecting for the industry for AP and Telangana for next year?

Sreekanth Reddy 15%.

- Gunjan Prithyani** Sir, more broader question, I think AP and Telangana have continued to register very good volume growth now for over 18 months and the guidance which you are giving for other markets like Maharashtra and all seems to be quite optimistic, but we have not really seen that translating into any favorable pricing, now what you think is the issue, does it mean that you know if the volume growth is high, we may not have the pricing power because you know everybody is just trying to get more and more volume share within the market, so what are your thoughts on that?
- Sreekanth Reddy** Now, when you look at Maharashtra, when we initially indicated that it would grow at 10%, everybody said it was optimistic, but I am sure for the first nine months it is close to 8%, so even going into the next year, we do believe it should be a 10% kind of a number. The reason is that still we are not gone to the historical highs, we probably at the best to touch those historical highs next year, but with these kind of growth rate. Price to that of demand, unfortunately, the cement market correlation also is with the supply equation. There were some incremental supply additions that have happened, rather ramp up has happened, they are not new but certain capacities got ramped up over last year to year-and-a-half in Maharashtra, so it was not like somebody who was trying to get an incremental market share, but somebody who is new to the market is also getting into the market, so all these things it was with more supply that we could not stabilize the prices. It is more with the heightened competition that the prices could not be stabilized, because there is incremental demand that price is not there. The price situation in Maharashtra was that even when there was demand, price was always weak.
- Gunjan Prithyani** Some sense on where this new... because there has not been a big capacity addition, right in Maharashtra?
- Sreekanth Reddy** It is more a ramp up especially most of the Solapur based grinding unit, they were in existence in terms of the capacity, but the ramp up from those units and even in Gulbarga started putting pressure on the Maharashtra pricing.
- Gunjan Prithyani** How about AP and Telangana, again there is not a very big commissioning which is there in that market, so at what utilization level you think that there can be more favorable pricing environment there?
- Sreekanth Reddy** The correlation is very difficult for us to establish, but given the scenario, I do not think we would be crossing more than 50% to 55% capacity utilization for AP and Telangana either way because the gap between demand and supply is so large. Now, how much this would happen, or the price increase or decrease is a very challenging kind of a number for us to establish, and the capacity utilization, there has not been a significant change over last many years, so last five years the scenario is almost the same.
- Gunjan Prithyani** Any big capacity additions in any of the markets you operate and you are seeing in the next 12 weeks?
- Sreekanth Reddy** For the current financial year, no. For the next financial year, we do expect KCP to come onboard and Shree also to come onboard. Shree's influence probably could be slightly lower, it might be pertaining to certain pockets of Telangana, but KCP is across, so these are the two major supplies we expect for the next financial year and a ramp up from the NCL which they have commissioned few months back.
- Gunjan Prithyani** Nothing in Maharashtra, in west that you see should have an impact?

Sreekanth Reddy Shree again is getting added up in Maharashtra or rather Gulbarga which should influence.

Gunjan Prithyani Sir, second question would be on this fuel mix, now you have been also using international Pet Coke quite widely, now if there were to be a ban on the imports, what do you think will be the impact and how would you counter, would you shift back to domestic or you look at international coal broadly?

Sreekanth Reddy Gunjan, we take a hedging call. As facilities, we are open to use all of them, in fact if you look at it, we tried during the last quarter switching over to 100% Singareni coal. At that point of time, supply and cost also was slightly lower than imported coal, so the overall impact at this point of time, there is a 10% to 12% price difference between Pet Coke to that of Indian coal where Indian coal is slightly higher, that would be the impact just in case of the ban, but we do not expect that to happen as long as you are fully complying with the guidelines that have recently, come up with. All our facilities are fully compliant with the new guidelines that they have come up with for the NCR region. If it gets spread to all India, as an organization, we are fully geared up to handle that.

Moderator Thank you. The next question is from the line of Maulik Shah from Ventura Securities. Please go ahead.

Maulik Shah Sir, I wanted your guidance on how do we see our tax rate because we saw provisioning of around 38% over the nine months and considering that we are coming up with new capacities, do you see some additional benefits and do we see a tax rate provisions coming down going forward?

Sreekanth Reddy For us, there are no incentives, I think we are into MAT and I think we will continue to be MAT going forward.

Maulik Shah Okay, so we are into MAT Sir, but for the nine-month of current year, we are seeing a provisioning of around 38%?

K. Prasad Yes that is including deferred tax adjustments.

Moderator Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah Sir, my first question is on the contracted capacity, how much is the volume that we did for this quarter?

Sreekanth Reddy For the first nine months, we did close to around 47,000.

Ritesh Shah Sir, for this quarter?

Sreekanth Reddy We did around 11,000 for the current quarter, but our industry is to do close to around 30,000 per quarter as a minimum.

Ritesh Shah The maximum can go to around 60,000?

Sreekanth Reddy As much.

Ritesh Shah Sir, secondly can you please just brief us again on the expansion plans that we have along with the timelines, so are we still maintaining the commissioning guidelines for Vizag and the power plant?

Sreekanth Reddy Vizag, we are running ahead of schedule, Sir. What we have indicated was September, so we should be a month to month-and-a-half ahead of schedule. CPP there has been a slight delay. We indicated December of '18, now we are talking of March of '19, I think more or less we should stick to that. On the CPP, the delay is on account of the new guidelines we had to make some small adjustments and amendments to the purchase order which we have done with Thermax. To make it fully compliant not only new guidelines or potential new regulations that are expected to happen, we increased the capacity from 15 MW to 18 MW and we changed it from water cooled to air cooled, and we also have a slightly higher pressure boiler and a turbine system than what we have earlier envisaged. That did impact the supply by almost three to four months that is the reason why our outlook for implementing that is from December we have changed it to March. As far as the grinding station, we are running ahead of schedule, we hope to commission it at least a month to month-and-a-half ahead of schedule by end of July to first week of August I think we should have commissioned the grinding station.

Ritesh Shah Sir, specifically on the power side you indicated the change of regulatory stuff, is it an industry wide phenomenon or is it something?

Sreekanth Reddy Yes Sir, it is industry wide phenomenon, the new NOx and SOx and the quantum of water that you could use, it is industry wide and it is on a telescopic, I mean if you are older, there are certain regulations. If you are brand-new coming up with now, there are newer guidelines. What we have done here is we just wanted to make sure that we would be slightly better than what they have indicated, so that at least we have lot more coverage than what we intend to because as a company we are looking into the sustainability aspects and we are also getting a green co rating for the company, so keeping all those things in mind we just changed some design aspects of the power plant.

Ritesh Shah Sir, secondly GGBS has been gaining market share, it is a very small quantum but do we have any plans to get either into GGBS or composite cement or is it too early?

Sreekanth Reddy GGBS is already there in our product portfolio, , like for last nine months, we have done roughly around 25,000 tons of GGBS. Now, that is roughly close to around 30% of our grinding station's capacity, the current capacity of 0.3. Once the ramp up happens of course I do not expect a similar kind of a ramp up, but we are definitely there in the product. We are one of the active players in those markets on that front.

Ritesh Shah Sir, how should one look at the market opportunity over here and how does the economics work out, so is it like EBITDA, if you could broadly explain on economics over here, it will be quite useful?

Sreekanth Reddy In our case if you look at it though people look at as a total blended kind of an EBITDA per ton, but that includes almost 25,000 tons of GGBS. The margin there would vary anywhere between Rs. 250 to Rs. 400 per ton because most of the people merely look at it as a conversion, so we would have margin of anywhere between Rs. 250 to Rs. 400 per ton.

Ritesh Shah Sir, on the market opportunity?

- Sreekanth Reddy** Market opportunity again it is more to do with certain institutional sale and also the, the market at this point of time we are specifically looking at North Coastal markets of AP. There is demand, but we have to keep track of it before we can conclude in any direction. Currently, the demand for it is actually rising because the building code book everything is getting modified for aggressive usage of GGBS even in concrete, so the more revisions that we would have I think the higher demand for the GGBS would happen.
- Ritesh Shah** Sir, on composite cement?
- Sreekanth Reddy** Composite cement, at this point of time the margin is not that strong, and the conversion ratio from a clinker to cement also is not that favorable though we have ability to do that, but that we can only do it in Vizag because there we have fly ash as well as slag. Today, our preference is more for PSC than OPC at this point of time.
- Ritesh Shah** Sir, lastly on pricing what we have seen is this quarter basically after Ultratech's results, I think Jaypee ramp up has been there, so is it also one of the variables which has impacted pricing in AP and Telangana region?
- Sreekanth Reddy** I do not think singling out one would be right thing, but I think the overall the demand was there so everybody tried to stretch, so that has probably impacted the pricing. In a normal course mid-November, prices should have started improving, but this time it happened only end of December. We hope those whatever increments have happened, we will be able to sustain during the Q4. I mean historically if you look at it Q1 and Q4 of Indian financial year are the strongest in terms of pricing and demand, so most of the time the pricing would be very healthy during these two quarters unlike of course in the past there were one or two Q1s and Q4s that have failed, but majority of the time, these are the two good quarters. For the price to stabilize, ideally it should have picked up middle of November, but this time it has happened only end of December, that is the only impact that we see on the pricing front going forward for the current quarter.
- Moderator** Thank you. The next question is from the line of Prateek Kumar from Antique Finance. Please go ahead.
- Prateek Kumar** Sir, my first question is on sand mining issues across the four southern markets, Sir are they improving, are they deteriorating further, are they all in the base, so how do you see that?
- Sreekanth Reddy** At this point of time, commenting about the sand is very difficult because we are just going through a lot of churn in terms of the Government regulation. We have seen for the first time in India, sand import has happened from Malaysia into Karnataka and Karnataka Government started marketing branded sand with the Mysore Sales, which is a Government organization. They started selling sand as a branded product. Even in Tamil Nadu, also similar kind of a trend is expected, but if you look at Andhra most of the sand-related regulations have been in place because Andhra was probably one of the first states in India which actually looked at these sand regulations much more aggressively, but this alone was not impacting the demand. If you have seen the demand outlook, Andhra was still growing at 15% year-on-year and I would not blame sand alone for degrowth in Tamil Nadu, the base impact the sand issues did impact the demand in Tamil Nadu but that alone was not the reason. We hope clarity on those issues should help us have a much better demand than what we are expecting.

- Prateek Kumar** Sir, in terms of acceptability of the mechanized sand in all these markets and why they are regulations?
- Sreekanth Reddy** Usually whenever there is a change, it takes time. In our own assessment actually what we call as manufactured sand offers much more higher strength to concrete than the river sand from a technical perspective, but usually whenever there is a change, the acceptability takes some time, but large institutional players and large contractors have already adopted it, so I do not see it as a challenge. It is only matter of time when the machines and the acceptability will become much more higher which is also environmentally much more friendlier. In fact, we are also hoping that slag sand also would start, the usage of slag sand also would improve quite rapidly on that particular front, so that is much more environmentally friendly because you are actually using a byproduct of steel manufacturing which also has similar properties as sand.
- Prateek Kumar** Is it equally penetrated in the retail HB segment?
- Sreekanth Reddy** It is still in its infancy but we hope it will catch up quite soon.
- Prateek Kumar** Sir, regarding the price trends as we have seen pickup only now and what has been happening last two years, steep decline which happens in March again so although it is speculative again, but we should expect similar correction margin again a price increase like following May, April?
- Sreekanth Reddy** I believe in statistics more than anything else, so if that is the trend we should expect, but the reality is since this time the price pickup happened slightly lower, I do not expect the drop to be as sharp in March, that is my personal belief but I do not know.
- Prateek Kumar** Sir, in the last call you were highlighting the similar thing of price pickup from mid-November, so the quantum of increase of Rs. 150 to Rs. 200 per ton on an average which has happened, so is it in line with the expected increase or it would have been higher?
- Sreekanth Reddy** We expect much higher, but I think that has not been a bad increase, the only thing is it should have happened slightly earlier, it happened a month later, so that is the only difference. The quantum of increase what we expected has already happened. Of course, Maharashtra and Orissa the prices are still on a lower end, but for most of the southern markets barring Karnataka where Karnataka pickup is not as high, but rest of the other South markets like Telangana, AP and Tamil Nadu, the price pickup was fairly good on a relative scale. Of course, we do expect it to be much higher, but Karnataka did not happen in same quantum, it slightly lower but it has happened. We hope it gets sustained, so that whatever we lost with that one month, we hope that March if price remains, we should end up gaining that.
- Prateek Kumar** Sir, my last question on the Pet Coke, so in terms of international Pet Coke, what was the current landed cost and versus the peak landed cost in Q3 including impact of import duty?
- Sreekanth Reddy** The customs duty got increased, more or less the price trend was anywhere between 2% to 5% was the incremental increase that we have seen in the Pet Coke pricing from Q3 to now, but in our product blend we have hedged cost, so for us it may not be specifically directly hitting us because our purchases happen six months ahead, but the general trend is that it has increased Q-o-Q by almost 3% to 5%.

Prateek Kumar Over and above the import duty increase?

Sreekanth Reddy It is inclusive, Sir.

Moderator Thank you. The next question is a follow up from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

Abhishek Ghosh Just wanted a sense also around the Orissa market because that is also something we will be catering to with the grinding unit getting ramped up, right?

Abhishek Ghosh Just wanted to get your sense how do you see underlying growth?

Sreekanth Reddy East historically has been growing at a much higher number, Sir. We believe going forward, it should grow at a minimum 10% year-on-year. In our case, very specifically we intend to cater bulk of our volumes would be getting into South Orissa where we are already there and the biggest challenge there is the pricing because there we have to compete with different products, but in our case it is PSC and our lead distance is going to cut quite sharply, so we hope for us as a company, the margin improvement to happen, price is too early for us to take a call. Historically, it has always remained low. There was not even a single situation where we could have seen a price increase and sustenance of the price increase, so far it has not happened, so at least for the next six months we believe expecting a price increase would be too optimistic, but in our own case we expect cost to handle those markets would come down because we would be switching over to the PSC as a product and too much closer grinding station to service those markets.

Abhishek Ghosh Sir, just one more thing you mentioned about the thermal power plant redesign and renegotiated, is there any CAPEX cost increase because of that,?

Sreekanth Reddy That we have indicated, earlier when we were talking of 15 MW, we were talking of Rs.75 crore, now it is Rs.95 crore project because it is an 18 MW, but that also has an FGD, that is, flue gas desulfurization system also is there but we also opted for a high-pressure system.

Abhishek Ghosh Sir, just one more thing, we would also be doing a debottlenecking exercise for the BMM by about 0.25 million tons?

Sreekanth Reddy Yes sir.

Abhishek Ghosh When would that be ready by?

Sreekanth Reddy We have already initiated that process over last one year, Sir. We have currently producing almost 2,750 as the clinker capacity. There is one other major event that we have to do during the Q1 of next year where we are changing the cooler. With that we should be, I think end of Q1 of next year we should have completed the entire upgrading and debottlenecking of the BMM, but from an efficiency perspective we are already there Sir, I think from the current quarter itself, we would be seeing cost structure improving quite sharply.

Abhishek Ghosh Sir, just one last question from my side is what would be the realization gap between a trade and a nontrade in AP and Telangana probably and how has the trend been?

Sreekanth Reddy Sir, I think that question is a very tricky question because in general, there should not be any realization or margin gap between both of them, sometimes nontrade tends to be higher and sometimes trade tends to be higher in terms of the margin, though the gross realizations look to be very, very different purely because of the billing structure and the freight approach that one has to take, but in reality the margin gap is not much.

Abhishek Ghosh I was more referring from the point of view of pricing rather than margin because margin will obviously be a function of lot of things, but if somebody was to sell...?

Sreekanth Reddy But pricing again, it is more how you do the gross billing and the assuredness of the order, sometimes we tend to get slightly lower margin but the gap is not much.

Moderator Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga Just a follow up on the prices what you were mentioning that AP, Telangana and Tamil Nadu appears to be good compared to this January compared to last quarter because the quantum that like what percentage should be there?

Sreekanth Reddy Sir, if you have looked at October to December, the average retail price was hovering around Rs. 260 to Rs. 300 for all the brands put together. Now in January, it has moved anywhere between Rs. 15 to Rs. 20 over and above that, so the band is almost Rs.280 to Rs.320,.

Giriraj Daga This is for the AP Telangana?

Sreekanth Reddy This is typically Hyderabad, similar matching would have had at different, different places.

Giriraj Daga What about Tamil Nadu?

Sreekanth Reddy Tamil Nadu also is matching kind of a number has improved.

Giriraj Daga Rs. 15 to Rs. 20 per bag?

Sreekanth Reddy I would go with the same number of Rs.25; Bangalore is the only place which is close to Rs. 10, whereas Hyderabad has improved by almost Rs.20 to Rs.25, Chennai is in the range of Rs.25 to Rs.30, but Bangalore is in almost Rs. 10 to Rs. 12 kind of a band.

Giriraj Daga My next question is related to cost on a like-to-like basis what amount of cost per ton we have witnessed in this quarter so far versus last quarter average?

Sreekanth Reddy If you look at costs, in fact we had substantial savings both at Mattampally as well as BMM. Mattampally on account of waste heat recovery plus some optimization and BMM purely because of the coal mix that we have changed it because we started using the imported Pet Coke, so there has been almost, though the coal prices on a quarter-on-quarter went up by almost 6% to 8%, overall coal cost per ton of clinker only moved by 2% to 3% at BMM. If you see year-on-year, the average blended cost has gone up by almost 25% for the coal or the fuel landed cost, but we just moved up by close to around 6% up,. On the electrical power, of course we have the waste heat recovery which we mentioned also. The last

quarter there is almost Rs.4 crore kind of a saving that we could achieve at Mattampally, more or less the cost has been very flat, Sir, for us.

- Giriraj Daga** In terms of freight?
- Sreekanth Reddy** Freight, because there are two additional assets that we could add up from within a year's time in the grinding station and all, with incremental volume almost if you look at the overall volume increment on a year-on-year, we have moved by almost 20%, but our freight remained same.
- Giriraj Daga** You are more comparing on a quarter-on-quarter, let us say March quarter to a December quarter, what kind of freight increase we can witness?
- Sreekanth Reddy** It is more or less flat, for us.
- Giriraj Daga** It will be flat despite the diesel prices and others going up?
- Sreekanth Reddy** That I think it should start impacting us in Q4.
- Giriraj Daga** Q4, we should expect how much higher like.
- Sreekanth Reddy** That would be a challenge, but I will keep my fingers crossed, hope that our internal target is to remain flat, but we should expect around anywhere in the vicinity of 5%.
- Moderator** Thank you. The next question is from the line of Urmil Chhaya from India Nivesh Securities. Please go ahead.
- Urmil Chhaya** Sir, just one question since CPP will have a FGD, will you be allowed to burn Pet Coke or the ban still remains?
- Sreekanth Reddy** Whether we will be allowed to burn Pet Coke, the system has an ability to comply with the norms, but we have to see, we are good one year away from implementing it, we have to wait for the regulation, Urmil, for us to really look at it. The system can run on 100% Pet Coke, but we have to see the regulations of the day at that point of time.
- Moderator** Thank you. The next question is a follow up from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah** Sir, you indicated debottlenecking from 2,750 tons, this will increase to what and Sir, how much is the CAPEX pertaining to this?
- Sreekanth Reddy** This, we started almost a year back, when we took over the asset it was almost 2,000 tons per day is the nameplate capacity up to clinker in BMM and a million ton at the grinding. Over last one year, we slowly started ramping up. Currently, we are producing around 2750 clinker. We have made modifications to pre-heater and we have also changed the burner. We have also augmented the kiln system. We are changing the cooler during the Q1, with that we are hoping to be at 2900 tons is the expected clinker output. The grinding capacity is already there in the system, so with that we should comfortably move almost up to 1.5 million, but since the market mix is only up to 1.25 that is what we are limiting ourselves to. The overall CAPEX we have indicated that we would be spending Rs.15 crore, which is part of the maintenance CAPEX that is what we have always done, going forward inclusive of



the cooler change and all, we expect the CAPEX at BMM for the next year to be around Rs.20 crore, that includes the maintenance CAPEX inclusive of the cooler change that we expect next year it to be around Rs.20 crore.

- Ritesh Shah** Sir, my second question is you indicated on slag, GGBS margin are 250 to 400, this is assuming what slag prices and where do we procure it from?
- Sreekanth Reddy** We source it only from a single source which is Vizag steel plant, it is Rs. 675 to Rs. 700 is the landed cost of slag at our plant.
- Ritesh Shah** Sir, are this price volume-locked contracts or how?
- Sreekanth Reddy** There is a telescopic saving that we achieve, if we achieve at 130% of the contracted value, we get some discount.
- Moderator** Thank you. The next question is from the line of Girija Shankar Ray from SPA Securities Limited. Please go ahead.
- Girija Shankar Ray** I have one question related to lead distance, so I just wanted to know like how exactly we find out the lead distance, let us say we have a plant in Mattampally, from there we are sending cement to Orissa and we have BMM plant?
- Sreekanth Reddy** Sir, it is weighted average, what we do is for each plant, the lead distance is calculated separately, for each unit it is calculated separately and it is done on a weighted average, but in our invoicing system we obviously each invoice has a distance also, so we also do the overall weighted average.
- Girija Shankar Ray** Can you tell me like when we are sending the cement to any C&F or any state, so what is the truck capacity, how much ton of cement we can send in a truck?
- Sreekanth Reddy** The truck again you have various truck forms, but in our case the most popular one is 28 tonner, the tar weight, I am talking of net carrying capacity what it can do.
- Girija Shankar Ray** The cost it comes like one-way charge or two-way charge?
- Sreekanth Reddy** It again depends on the routes, like if you look at Vizag from our Mattampally, it is a two-way. If you look at a bulker, it is actually one way is multiplied into two because it has to come empty, so it is actually again for very popular destinations where they have for three-fourth of the distance they have a return load, it is negotiated in that way.
- Moderator** Thank you. The next question is from the line of Abhinav Ganeshan from Canara Bank Securities. Please go ahead.
- Abhinav Ganeshan** Sir, just wanted to understand how will AP and Telangana shape up in the next say six quarters, can you just throw some light on that regarding the projects, how they are shaping up and how the government policy is supporting you?
- Sreekanth Reddy** Last year, we have grown by, if you look at from year-on-year kind of a growth number, Sir, from last year to this year we would be close to 15%. The project we expect there are lot of continuity of the current projects, so we believe even going for the next year, we are likely to sustain similar kind of a 15% year-on-year kind of a momentum because both the states are gearing up for the election, Sir. This actually, demand drivers are multiple, it is large ticket irrigation projects, RWS



works, that is, Rural Welfare Scheme works, low-cost housing, and the private spend. These are all the combination which we expect to drive the demand by almost 15% year-on-year.

- Abhinav Ganeshan** This Amaravati project?
- Sreekanth Reddy** We have not factored anything of it, Sir, it could be a positive surprise if something is happening on that count.
- Abhinav Ganeshan** Amaravati by when we are expecting?
- Sreekanth Reddy** I have no idea sir, we have been waiting, but in our outlook for the next year we have not factored anything there, whatever happens there would be a bonus for us.
- Abhinav Ganeshan** How is Maharashtra shaping up for you, price wise?
- Sreekanth Reddy** Price wise it has been very bad, sir, it remained flat at a very low level.
- Abhinav Ganeshan** Sir, Orissa we have made an entry or we are still?
- Sreekanth Reddy** We have been there for last 30 years, Sir, the only thing is volumes have been increasing year-on-year, so it is not a new market to us. It has been an established market for us, the only thing is we are switching over to a different product. Earlier we used to supply OPC and PPC alone, now will also have PSC also added to the portfolio.
- Moderator** Thank you. The next question is from the line of Vibha Batra from Fair Connect. Please go ahead.
- Vibha Batra** I just wanted to know next year when our CAPEX is complete by March '19, what kind of savings can one expect per ton basis?
- Sreekanth Reddy** One of the effort actually its split between two things, one is the waste heat recovery which is already done and the captive power plant we expect additional saving assuming that fuel cost would be a pass through. We expect around Rs.7.5 crore as the additional savings from the CPP, but we are also spending some CAPEX for volume increase at our grinding station. From there, we are expecting around Rs.35 to Rs.40 crore incremental EBITDA, so all in all if you accumulate savings from the process as well as incremental EBITDA, we are expecting anywhere between Rs.65 to Rs.70 crore incremental EBITDA for the CAPEX what we have done.
- Vibha Batra** What is the CAPEX?
- Sreekanth Reddy** The overall CAPEX has been running over last three years, for the current year the CAPEX has been around, we have spent so far in first nine months Rs.120 crore. We expect the year to end at around Rs.175 crore, the next year at Rs.130 crore, and the subsequent year, the last year was at Rs.135 crore, so all in all it is close to around Rs.350 odd crore.
- Moderator** Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.



- Anupam Goswami** Sir, I got to know from your investor presentation that in Q3, there is no dispatch by rake and even road dispatch, any kind of reason that you provided dispatch like that?
- Sreekanth Reddy** It is all to do with what is the most optimal freight to an end destination Sir, so probably there was a destination where it was a fixed destination where we had very limited handling cost and probably rake was making more sense than road, but most of the time with the increased Railway freights that was happening year-on-year, road is making sense and for the lead distance that we do, we are typically below 400, we probably are touching around 360 kilometers as the lead distance. Rail dispatches are only to those places where still where rake makes commercial sense to us.
- Moderator** Thank you. The next question is a follow up from the line of Prateek Kumar from Antique Finance. Please go ahead.
- Prateek Kumar** Sir, just want to check on this lead distance you mentioned that year-on-year obviously, there is a decline in freight cost related to the increased volume from the two units this year, but on a Q-o-Q basis the lead distance would have come down because of the ramp up of these two units further?
- Sreekanth Reddy** I think between last quarter to this quarter, there has not been a big change, volumes are more or less are very similar to us, Sir, so the lead distance also more or less remained similar. Year-on-year, yes, but quarter-on-quarter not very significant.
- Prateek Kumar** Sir, you mentioned about this contracted unit sale of around 47,000 till date in which 11,000 was for current quarter?
- Sreekanth Reddy** Yes, sir.
- Prateek Kumar** You mentioned about target of 30,000 per quarter?
- Sreekanth Reddy** There is no target, we want to do as much, but that is in our mind, every month 10,000 is the minimum thing that we are expected to do, but unfortunately the prices in Maharashtra are not supporting as much.
- Moderator** Thank you. The next question is a follow up from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.
- Anupam Goswami** Sir, I just wanted to know if what kind of progress is happening in AP and Telangana in terms of affordable housing and low-cost, how is that benefiting you guys?
- Sreekanth Reddy** I think as I told you sir, this is an ongoing process, which government has been doing consistently over last two years that is going very stable. We expect it to improve even further going forward, that is the reason why we have factored an additional 15% year-on-year kind of a growth that is along with most of the irrigation project. The affordable housing, in Telangana you have an additional thing called which is two-bedroom scheme, so that also is going very well, Sir. Other than housing-for-all scheme, there is an additional scheme in Telangana which is a two-bedroom scheme.

Moderator Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh Just one question on this FGD that you mentioned, so who have we given the contract to?

Sreekanth Reddy Thermax.

Sagar Parekh What is the cost of installation of the FGD?

Sreekanth Reddy For our capacity, the kind of fuel that we are looking at Sir, its a Rs.6 crore project.

Sagar Parekh So Rs.6 crore FGD for 25 MW, right?

Sreekanth Reddy 18 MW, Sir.

Moderator Thank you. The next question is from the line of Manish Raj from Dolat Capital. Please go ahead.

Manish Raj My question is that you had stated that in Maharashtra you had a higher volume of traded cement despite the prices being lower, what was the rational of going for the traded cement?

Sreekanth Reddy Yes, because we are saving on the freight, if we were not doing it probably would have made lot of losses, if you were to do that material from Mattampally, we would have lost much more with the given pricing scenario.

Moderator Thank you. The next question is from the line of Amit Khimesra from Prabhudas Lilladher. Please go ahead.

Amit Khimesra Can you just tell me the Pet Coke prices for Q3?

Sreekanth Reddy See for us it is a hedge, we keep continuously buying, we may not end up using during the same quarter, Rs. 7900 per ton on a landed basis, that includes the customs duty also.

Amit Khimesra How much it was in Q3 last year?

Sreekanth Reddy Rs.6000, , but the caveat there is it could be different type of a Pet Coke, it could be Saudi, here it could be US, so there could be a difference.

Moderator Thank you. The next question is from the line of Paresh Raj from Catalyst Global. Please go ahead.

Paresh Raj Sir, I just want to know what is the remaining life of the limestone mine and are we considering anytime participating in the auction if it happens or maybe what is the or are we looking at some inorganic growth of a virgin mine in case if it is in and around the?

Sreekanth Reddy Sagar is blessed with huge resources, on record what is prospected and what is applied, we have 750 million tons of limestone reserves spread between three mining leases. The first mine lease would expire in 2034, second expire in 2035,



and the last which has almost 600 million would expire in 2065, and in BMM we have 150 million which would expire in 2065.

Moderator Thank you. The next question is a follow from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah Sir, just one small question, so if you could provide some color on the pricing differential between say Tier-1 brand and Tier-2 brand specifically in AP and Telangana region?

Sreekanth Reddy I do not know what is Tier-1 and Tier-2, Ritesh, but unfortunately the market has classified A, B, C category. The typical gap is anywhere between Rs.10 to Rs.15 from each of the block. If you are in B, C is (-Rs.10) to (-Rs.15), and A would be (+10) to (+15), but there are also some places where it is also in A+, one of brand could be Rs. 20 could be the gap.

Ritesh Shah Sir, if we had to look at Apple to Apple, has this differential changeover on a sequential basis?

Sreekanth Reddy Yes sir, it has changed, the gap has narrowed down.

Ritesh Shah Okay, it would be like Rs. 10 per bag right now?

Sreekanth Reddy Again on a Retail, it could be, Wholesale gap could be slightly lower.

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

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

