



Sagar Cements Limited

Earnings Conference Call Transcript

October 30, 2017

Moderator Ladies and Gentlemen, Good Day and Welcome to the Sagar Cements Limited Q2 FY '18 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 from CDR India. Thank you and over to you, Sir.

Gavin Desa Thank you. Good day everyone and Welcome to Sagar Cements Q2 & H1 FY '18 analyst and investor conference call. We have with us today Mr. S. Sreekanth Reddy, Executive Director; Mr. K. Prasad, Chief Financial Officer; 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 invite sent to you earlier. We trust you have had a chance to go through the documents of 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. Good Morning everyone and Welcome to Sagar Cements' earnings conference call for the quarter ended September 30, 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.

Demand remained relatively mixed across our key markets in what is seasonally a weak quarter. Aside from the monsoon, demand in Tamil Nadu was subdued due to local issues as well as sand mining; this though was partially negated by the strong offtake in AP and Telangana. Demand in Maharashtra though was impacted owing to the season. Moving onto the prices, while they were more or less steady in South, we did see some softening in Maharashtra on account of the factor stated above. Going ahead, we expect the demand to remain steady on account of Government's persistent efforts towards infrastructure and affordable housing.

Moving on to Sagar specific development, we have successfully commissioned the 6 MW waste heat recovery system as well as 1 MW solar power plant at our Mattampally unit in Suryapet district of Telangana. The commissioning of the two should ensure greater control over electrical power cost. The other key development was placing of orders for the core equipment for our grinding unit and also for 18 MW captive power plant. We expect to commission the grinding unit



located near Vizag in Andhra Pradesh by September 2018, while the captive power plant is expected to come on stream by December 2018.

Let me now move onto our financial performance for the quarter. Net sales for the quarter stood at Rs. 235 crore as against Rs. 191 crore generated during the corresponding quarter last year higher by 23%. Revenue expansion was primarily on back of improved volumes and realization. EBITDA for the quarter stood at Rs. 38 crore as against Rs. 29 crore reported during the Q2 FY '17 higher by 33%. The operating margins for the quarter stood at 16% as against 15% reported during Q2 FY17. The improvement was primarily driven by our recent cost controlling activities. The average fuel cost for the quarter stood at Rs. 926 per ton as against Rs. 866 per ton during Q2 FY17. The increase was primarily on account of higher prices of imported Pet Coke as well as coal. The freight cost for the quarter stood at Rs. 840 per ton as against Rs. 753 per ton during Q2 FY17; increase in freight expenses was primarily owing to higher fuel prices as well as slight increase in the lead distance.

PAT for the quarter stood at Rs. 16 crore as against profit of Rs. 2 crore reported during Q2 FY17. Improved profitability was owing to overall improved operational performance. The Board also has recommended an interim dividend of Rs. 2.50 per share. From an operational point of view, Sagar's Mattampally plant operated at 52% utilization level while the BMM operated at 63% during the quarter. As far as key balance sheet items are concerned, the gross debt as on September 30th on a standalone basis stood at Rs. 251 crore out of which Rs. 171 crore is long-term debt and the remaining constitute the working capital. While on a consolidated basis, gross debt stood at Rs. 496 crore out of which Rs. 372 crore is a long term debt. The net worth of the company on a consolidated basis as on September 30, 2017, stood at Rs. 778 crore. Debt-to-equity ratio stands at 0.48:1, cash and bank balances were at Rs. 100 crore as on September 30th. That concludes my opening remarks, we would now be glad to take any questions that you may have. Thank you.

Moderator

Thank you. We take the first question from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri

My question is regarding the pricing environment, so how has the pricing changed in region of operations in the month of October and what kind of pricing do you see going forward, and has the demand started to pick up after the weak season?

Sreekanth Reddy

First, let me address the demand side, Sir. I think we are just coming out of the off-season or what you call as a weak season. It is too early for us to comment on that. October more or less typically followed the September month pattern except for few markets slightly being subdued. The markets of Tamil Nadu and Kerala have been subdued though Tamil Nadu's season is yet to start, it is expected in the coming months, but AP and Telangana have been fairly strong on a relative scale and Karnataka has been more on a flat in line with what we should expect during the off-season. Coming back to the prices from August, September to October, September to October the price erosion was in the range of Rs. 5 in AP and Telangana markets. Bangalore more or less remained stable. Chennai also is off by another Rs. 5 to Rs. 10. Maharashtra has been slightly disturbed; they are off by almost Rs. 15 to Rs. 20 from August and September kind of months that we have seen.

Anshuman Atri

Lastly, on this waste heat recovery, you had mentioned you could get around Rs.4 to Rs.5 crore savings, so by when can we expect these savings and what are the



savings can we expect with all these power plants and grinding units being commissioned?

Sreekanth Reddy Let me specifically address the waste heat recovery. Waste heat recovery was partially commissioned few months back and fully commissioned close to a month, month-and-a-half back. Every month, it gives Rs.1 to Rs.1.5 crore that we started realizing from the first month itself. Now, coming back to the grinding station, the grinding station currently is operating at 0.3 million with almost close to 60% to 65% capacity utilization. We expect by September '18, the plant to commission and increase its capacity from 0.3 to 1.5 million. With that, we would be reaching to the Eastern markets primarily to Odisha where we are not in a position to address that right now. It would be difficult for us to extend the savings because the product that we would be servicing from there is more PAC, which we do not make from the current location at Mattampally.

Anshuman Atri The Rs.12 to Rs.15 crore per year is what we can see from waste heat?

Sreekanth Reddy Yes, Rs.15 to Rs.18 crore would be conservative estimate.

Moderator Thank you. We take the next question from the line of Kunal Shah from KR Choksey Shares and Securities Pvt. Ltd. Please go ahead.

Kunal Shah Sir, my question is on the BMM unit, now as you are expanding the capacity, what is the demand outlook in Karnataka over the next two to three years, now considering historically 50% of our dispatches have been in Karnataka, so how do you plan to utilize that particular capacity in the most optimum way?

Sreekanth Reddy There are two things, one what we are expanding is mostly on a Brownfield, so the incremental increase is to an extent of quarter million. BMM primarily caters to South Karnataka, Tamil Nadu, and Rayalaseema market. From an outlook perspective, we clearly stated that the overall South market, we expect the current year to be almost close to 5% and the going forward also we expect it to be in the range of 7% to 7.5% and the subsequent year to reach to 10%, so that is our outlook. Now, coming back to how we are going to use the capacity utilization, as stated earlier some amount of readjustment in terms of the volume that go from our mother plant has to happen. We are targeting at 70% capacity utilization for the BMM unit. With this Brownfield expansion, we are expecting to do two things there. One, to optimize the fuel cost where we will be switching over to the Pet Coke with the recent investments that we have done. Right now, we are using imported coal, so we expect some savings on that particular account as well as an increase in terms of the output, so those two things should contribute reasonably well for the savings to the company on an overall console basis.

Kunal Shah Can you quantify the EBITDA per ton that we can reach at in the BMM unit because it has drastically dropped from Rs.910 last year to around Rs.300 now?

Sreekanth Reddy I think we should reach back to those numbers if prices remain where they were. In a normal course, what we have seen is almost a drop of Rs. 300 per ton, increase in cost is what we have expected. We hope to recover more than that and try to add another Rs. 100 is our internal estimation.

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



Ritesh Shah Sir, my first question is volume growth that we have reported, what is the contribution from the contracting arrangement and the volume growth that you have given for '18 and '19, I think you indicated 5%, 7.5%, and 10%, so what percentage of it would come from the contracting arrangement?

Sreekanth Reddy what we expect in the current quarter is roughly around 25,000. What we have done in the past is more or less similar to 25,000 tons.

Ritesh Shah Sir, how these number can play out going forward if one has to look at it around the annualized basis?

Sreekanth Reddy The target was to do around close to 200,000 tons in a phased manner. , For the current year since we have started in June, so ramp up is happening. We do expect around 200,000 to 250,000 to reach to those numbers six to seven months from now.

Ritesh Shah That is encouraging. Sir, my second question is you indicated 5%, 7.5%, and 10% volume growth guidance, how would those numbers look like for the industry if one has to look at South?

Sreekanth Reddy That is for the South. Now, the market if you have to see in our assessment again, the overall South demand was close to last year was around close to 65 million, so we expect 5% for the current year from 65 million you just add up 5% and from thereon it should I now take 7% to 7.5% in the coming year and subsequent years to be close to 10%.

Ritesh Shah Sir, we will be following basically industry volume growth?

Sreekanth Reddy I do not think we are away from that. In very specific case what one has to be mindful of is, our base was lower and because some of the arrangements were not in place if I have to compare, so if you start taking out and try to look at it, I do not think we are very far from the industry, we are very much an industry player.

Ritesh Shah Sir, last question, any sense on Jaypee assets, basically they would have ramped up recently, what is the kind of impact that we are seeing in the region, any sense on utilization levels over there?

Sreekanth Reddy That would be challenging for us to be specifically looking at what has been, I think ramp up is happening and it has been fairly stable at the marketplace because both the brands exist, it is not that they were straight away replacing Jaypee with UltraTech, because Jaypee also has brand coming in from their cement plant which is in Guntur as well as in Vizag, so it is not that it is one-to-one kind of replacement. I think ramp up so far at the marketplace since it happened at a season, which is relatively weak, but still we have not seen a huge impact per se coming from UltraTech which was not expected also,

Ritesh Shah Sir, is it fair to assume that the utilization level of this assets would be lower than the industry benchmark?

Sreekanth Reddy That would be a challenge for me to address at this point of time, Mr. Ritesh, after some time, but at this point of time still it is too early for us.

Moderator Thank you. We take the next question from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.



- Indrajit Agarwal** Sir, just one quick question on the industry, if you can lay down your guidance for each of the markets for FY '18, '19, and '20 in terms of growth rate and also which sub-segment, for example, is it infrastructure, is it housing that you expect the demand to pick up over the next three years?
- Sreekanth Reddy** It would be a challenge for us to really look at subset, it is a combination of all of them. What happens is there is a catch up, one is offsetting the other, but it is fair to estimate overall market state by state. AP and Telangana we expect it to be in the range of 12% to 15% for the current year, Tamil Nadu minus 5, Karnataka plus 5. When we talk of Tamil Nadu, it is Tamil Nadu plus Kerala put together. Maharashtra is plus 10.
- Indrajit Agarwal** Anything on the following years, as you said what all for South; do you think all the markets will grow at the similar levels 7% to 7.5%?
- Sreekanth Reddy** Yes 7.5%, we expect Tamil Nadu and Kerala to start becoming positive and AP and Telangana to be slightly more than what we expected, and Karnataka to be similarly on a flattish plus 5 flat kind of a trend because Karnataka is due for election, so that is what is making us give this kind of an outlook. The subsequent year is always a challenge, but we do believe that it is going to be close to 10%, but how each state is going to pan out, it would be a challenge for us to give the breakup at this point of time.
- Moderator** Thank you. We take the next question from the line of Gautam Trivedi from Nepean Capital. Please go ahead.
- Gautam Trivedi** A quick question I had was regarding the sand mining issue and has that been resolved and of course a lot of that also is also connected to the political climate, so is there a longer term solution to it or is this a temporary solution? Secondly, just to get a sense of how fast things are moving with the development of Amravati, the new capital of Andhra and how are you benefiting from that as a result?
- Sreekanth Reddy** The large question first, I think Amravati is still work in progress, so it is still plan in progress I will put it, nothing much has been grounded. Now, would it really benefit individually our company, yes, to certain extent because we are part of a cluster, which Amravati is being built in the neighborhood, so you have close to 30 odd million tons of capacity in its neighborhood, so all of us would be equally benefited. I think it is too early for us to look at the benefits coming out of them. We do expect them to start reaping fruits for us probably a year and year-and-a-half from now in a slow fashion to be ramped up only after some time. Now, coming back to the first question, the sand mining issue I think is it resolved, at this point of time I do not think it is yet to be resolved, but in monsoon time usually the sand mining takes a backstage because most of the rivers would be swelled, so I would think it is a temporary kind of a phase and specifically in Tamil Nadu I think it is political decision has been made to regularize most of those mining, it is only a matter of time it should get resolved, that is what is our assessment.
- Gautam Trivedi** Is there an alternative for sand mining or until then our business comes to a standstill?
- Sreekanth Reddy** There are alternative options like the manufactured sand, it is not like because of the mining ban issue that entire thing came to a standstill, so there were some alternative options which people did not look for. They may not have substituted completely, but there was some amount of substitution that has happened from here.

Gautam Trivedi How would think this impact on Tamil Nadu based?

Sreekanth Reddy I think it would impact the market, so whoever is dependent on the market would definitely get impacted.

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

Gunjan Prithyani On the fuel mix, could you give us some sense as to what is Pet Coke now at and does it still makes sense to continue using it, any thoughts on that and has there been any easing in the cost of Pet Coke at the margin?

Sreekanth Reddy At Mattampally plant, we are using 100% Pet Coke. The reason why we use that is it is more economical for us to use Pet Coke at this point of time vis-a-vis the imported coal and also the local coal.

Gunjan Prithyani What would be the cost benefit versus the imported coal?

Sreekanth Reddy It is close to around 7.5% to 10% would be minimum kind of savings in terms of cost per kcal.

Gunjan Prithyani Sir, you gave this out of Telangana and AP share typically in your presentation which I do not see it in this quarter, could you share that number?

Sreekanth Reddy We will be happy sharing it off the line.

Gunjan Prithyani Last thing, I wanted to get your thoughts on was this low-cost housing scheme which is essentially the Pradhan Mantri Awas Yojana-Gramin, now we have been incrementally hearing a lot of positive traction on this particularly in some states in East is that something that you have also seen in your market that this scheme is gaining some traction on the ground?

Sreekanth Reddy Yes, Gunjan, what we have observed is the low-cost housing had shifted gears in these two states also though it is called differently in each of the states, in Telangana it is low-cost housing and the two-bedroom scheme. The off-take for that has been fairly strong over last year and we are seeing the same tempo even in the current year in both the states of AP and Telangana.

Gunjan Prithyani Any sense on what could be the volumes you could see from these segments, any sense on because you are giving this 7% guidance for next year?

Sreekanth Reddy That is South as a whole.

Gunjan Prithyani Yes, but let us say for AP/Telangana when you talk about the growth outlook, which are the key demand drivers and is this something which makes you?

Sreekanth Reddy It is combination of infrastructure, low-cost housing, and the private investments. It would always be a challenging thing for us to really give the breakup, but it has always been those three of them in tandem. One might take a higher percentage in certain years and the other might take a backseat in terms of percentage, but all the three in tandem has been growing, that is the only reason why AP and Telangana has been posting strong double digit growth.

Moderator Thank you. We take the next question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi Sir, just wanted to two-three things, first on the fuel mix like in AP plant you are now running 100% on Pet Coke and you are seeing cost benefits still to be there and BMM you have mentioned will be slowly ramping up the Pet Coke, but in terms of post the recent increase in fuel prices Pet Coke and all, at BMM also do you see their viability in terms of cost metrics?

Sreekanth Reddy The increase has been across the fuel, it is not just with Pet Coke but also with imported coal. In Mattampally plant which is in Telangana, we have been with 100% Pet Coke for more than several quarters now. In BMM, we would be switching over in the coming few weeks where we were also waiting for the GO, which we have received now. The Government did issue the GO for the usage of Pet Coke on the cement kiln side subject to the compliance which we have always been in terms of the environment. We see the Delta, earlier it was 20% now that got narrowed down to 5% to 10% kind of savings, savings are still with Pet Coke.

Rajesh Ravi Secondly, on this Pet Coke only recently north courts issuing ban on Pet Coke, so what is your thought like in terms of is it really the pollution levels?

Sreekanth Reddy It is very specific to NCR region, people probably are reacting to that specific kind of a thing, but cement kiln would be one of the most ideal places to burn the Pet Coke because it is done at a higher temperature as well since there is CO2 involved, most of the fast emission gets captured as part of the process. In fact cement kiln is best suited to burn Pet Coke, so I do not think it will add to the pollution, that is our technical view, but I think it is very specific to NCR region where earlier it was very specific to NCR, but now they have also expanded that to NCR region with districts coming from various states. From a CME also, there was a very specific kind of thing where they were asking for clarification, is it to only those districts in the NCR region or for the entire state, I think some amount of clarity has come that it is only pertaining to few of the districts in the neighborhood, not to the entire state, that does not really impact the cement industry in general.

Rajesh Ravi What we understand in Rajasthan and UP?

Sreekanth Reddy But those are only the few districts of Rajasthan and UP, not the entire.

Rajesh Ravi Could you also throw some light, your understanding of new expansions which are happening in the Eastern market like from Vizag you would also be targeting markets in the East, Odisha and all, so what sort of new expansions you are witnessing in maybe Odisha and further north, what is the demand supply dynamics you are seeing over there?

Sreekanth Reddy Our reach in East is only, we limit ourselves to Odisha and two pockets of West Bengal, so these markets there are few capacities that are coming up. The only integrated plant expansion that is coming there which they have indicated is from OCL, we do not know the exact capacity and Shiva is also looking at some expansion, but which is not that impactful, but most of the other units are grinding units that are coming there. I think earlier the gap between demand and supply, supply being smaller and demand being more, I think it would turn around post this expansion two years from now, that is what is our belief.

Rajesh Ravi Like Ramco, Emami and all this, do you see any major impact on this in terms of pricing for all the players?

Sreekanth Reddy I think that is too early for us to talk about the pricing, but definitely when the gap narrows down, historically, there is always some pressure, but that never followed in East in the past, so we are hoping that expansions would come, but prices would not drop, but that is our expectation.

Rajesh Ravi For South market what are the capacities which are lined up for this calendar year?

Sreekanth Reddy NCL is almost commissioned anytime, KCP is probably due in Q1 next year, so is the case with Shree cement, these were the stated. There have been one or two orders that have been placed from Penna for a 2 million line in Boyareddypalli, but that is mostly for clinker lines. From our understanding, I believe it is more for clinker supply to the grinding station in Krishnapatnam which should be East bound because the grinding plant is on the coast, they are trying to take it to the other markets other than South, that is what is our understanding, two years away from now.

Rajesh Ravi The Penna capacity would be at least two years from now?

Sreekanth Reddy Yes, year-and-a-half to 2 years would be safe estimation.

Rajesh Ravi There is no Penna like this there is some grinding expansion which they are doing?

Sreekanth Reddy That could come, but the clinker is from the same source, so that may not really impact the market.

Moderator Thank you. We take the next question from the line of Nitesh Jain from Axis Capital. Please go ahead.

Nitesh Jain Sir, just to taking the discussion away from this infrastructure-driven demand or be it like Amravati or the low-cost housing, what is the general I would say the scenario which you are witnessing in the broader housing market in your region, when I say broader housing market means, basically the individual house building or the large builders, or normal uptake in non-government housing spend, have you seen any rebound there or has it deteriorated post 12% GST implementation?

Sreekanth Reddy It has been fairly going strong, that is one of the reason why the demand has been growing consistently in these markets of AP and Telangana. We did see some kind of subdued kind of happening in Tamil Nadu and Kerala. Karnataka has been mostly into Bangalore and the Government's pet project of low-cost housing is also going very aggressively with Nirmithi Kendra off-take also picking quite sharply in Karnataka. Hyderabad very specifically, the commercial real estate is doing fairly well, the residential always Hyderabad market has been in oversupply, so it would be too soon for us to take a call. I do not think we have seen any deterioration. All the demand drivers have been working in tandem, that is one of the reason why we are slowly reaching back to the peak demand that we have seen in '8-9, '9-10.

Nitesh Jain Sir, my second question is on Sagar specifically, once you complete your ongoing project in BMM stabilization, what is the plan for this company like say five years' time, would you be adding a larger Brownfield line at Mattampally or will it be in BMM?

Sreekanth Reddy I do not want to sound boring, , but I think it is a stated policy that we would like to double once in every 10 years and we would do it in all combination of Green, Brownfield. We are aiming to be a 10-million company by 2025, so I think targets



are there. Even in our corporate presentation which we have posted, we have clearly stated that, so we are sticking to that plan as we speak.

- Nitesh Jain** In Mattampally, we have sufficient limestone to support one more line?
- Sreekanth Reddy** Yes, we have close to a billion tons of limestone reserve there Mr. Nitesh, one line is too small. In case of BMM, we have enough limestone resources for adding much larger capacity than current capacity even at BMM location.
- Moderator** Thank you. We take the next question from the line of Madanagopal Ramu from Sundaram Mutual Fund. Please go ahead.
- Madanagopal Ramu** Sir, I joined a bit late, did you give what was the growth in volume in the T.N. and AP market for you?
- Sreekanth Reddy** For us we are in line with the market, Sir, we have grown close to, Tamil Nadu I think we have been slightly negative, if you have to look on a Q-o-Q. We are almost 20% when the market has de-grown by 22%, we have degrown by almost same matching number. Karnataka, there has been a slight drop in the current quarter by almost 3%. AP and Telangana market we have grown close to around 30% to 35% purely because of the base impact, Sir, because we never had a grinding station in the past, so that got added up or else market has grown at 20%, we have grown almost 2x of that primarily on account of the grinding station.
- Madanagopal Ramu** On Tamil Nadu front are you seeing any improvement at this point or still continuing to decline, Sir?
- Sreekanth Reddy** It would be too early for us to take a call on that. We need to wait because most of the time the trigger point is the Deepavali and for Tamil Nadu and Kerala, it is only in January we will get to know because we are getting into especially Tamil Nadu because of the monsoon time. Fortunately, I think this time rains have been better than previous year, so we hope the rural markets and semi-urban markets to pick-up going forward because of the better monsoon that we have seen.
- Madanagopal Ramu** Sir, how are pricing in each of these markets compared to Q2, average?
- Sreekanth Reddy** There has been a drop of around Rs. 5 to Rs. 10 across the southern market, Sir. Maharashtra, the drop has been at Rs. 15 for the month of October over Q2.
- Madanagopal Ramu** Any price increase we can hope only in Jan in southern market now?
- Sreekanth Reddy** It is case to case in the market, Sir. I think we are coming from an off-season. Historically from an off-season to on-season the price we hope to go back to what we have seen in Q1. I am keeping my fingers crossed as to whether it would be in January or it would November-mid, but we hope the price recovery happens fairly quickly. Tamil Nadu could take first or second week of January, but the other markets probably like AP, Telangana, and Karnataka, it could be much earlier.
- Madanagopal Ramu** You said 30% drop in price in Maharashtra, sorry I missed that?
- Sreekanth Reddy** Rs. 15.
- Madanagopal Ramu** Rs. 5 to Rs. 10 or 5% to 10% in southern?



- Sreekanth Reddy** It is Rs. 5 to Rs. 10 in the other market of South.
- Madanagopal Ramu** Even the Kerala and core Tamil Nadu market also saw this price fall?
- Sreekanth Reddy** Kerala has been quite sharper, but we do not service that market as much so our information is as little as we could, but Chennai market the drop is close to Rs. 10, not more.
- Madanagopal Ramu** Sir, do you expect this Pet Coke ban in the northern market, overall the price itself can come down that has been a very problem for?
- Sreekanth Reddy** One of the clarification, it is not banned in the Northern market, it is banned in the NCR region with some of the districts also falling in them from Rajasthan and UP states, but I do not think there is any cement plant in that region barring grinding station, so the real impact of it may not be felt and on a technical ground, cement kiln is the best kiln for firing this because it would not really impact the environment, cement kiln is best suited for Pet Coke firing.
- Moderator** Thank you. We take the next question from the line of Ankit Fitkariwala from Jefferies. Please go ahead.
- Ankit Fitkariwala** Sir, my first question is on the Maharashtra market, if you can give a bit of sense like Maharashtra as you said has seen pricing decline by Rs. 15 and I believe most of the hikes that were taken in May-June is like now would have subsided, so how is the market shaping up and what do you see going forward?
- Sreekanth Reddy** It is too early for us see how it will shape up because we are just coming out of the off-season, we expect the prices to start becoming stronger as you progress. Going forward, from a market demand perspective, we expect Maharashtra to grow by 10% which it has in last few quarters barring the last quarter which is expected to be weak so there are no surprises there. The pricing also took slightly more beating but on a year-on-year, we are in much, much better situation. If I have to compare the prices last year same time, they were even worse. The prices deteriorated from a sequential quarter, but not on a year-on-year kind of basis, so we expect Maharashtra prices to remain much stronger than what they were in the past and they should start getting stronger as we get into a better season on the year.
- Ankit Fitkariwala** Sir, my second question is that when you gave the growth numbers state wise like AP and Telangana is 12 to 15, Tamil Nadu and Kerala is minus 5, this was for FY '18 over FY '17, right, that is your expectation?
- Sreekanth Reddy** Yes, Sir, you are correct.
- Ankit Fitkariwala** Basically, in the second quarter how has the states been on a Y-O-Y basis or a Q-O-Q basis whichever number?
- Sreekanth Reddy** It would not be that meaningful or logical for you to look at it, it again depends on how much rains we have received during that time and for how many months. If I see the quarter on quarter, if you look at overall South market, it is close to around minus 2, minus 3%, but we are more than hopeful to catch up and go to positive side in the current and the next quarter itself because that is how historically it has always been.
- Ankit Fitkariwala** So you are saying this is minus two, minus 3 for the second quarter?

Sreekanth Reddy Full first half for the South market, on a YOY basis, but because there are some states where the demand was front tended, the demand was not more in the first Q1 and Q2 last previous year, but here the demand has been mostly on a spread out kind of a kind of thing, so end of the year we expect the overall South market to be close to plus 5%.

Moderator Thank you. We take the next question from the line of Prateek Kumar from Antique Stock. Please go ahead.

Prateek Kumar Sir, just to clarify on these industry numbers, you said minus 2%, minus 3% now for the first half, so this includes let us say 20% to 22% decline in Tamil Nadu for Q2?

Sreekanth Reddy It includes all of them, AP and Telangana has grown at plus 8, Karnataka has been flat, Tamil Nadu is close to 20% negative, Kerala has been minus 8.

Prateek Kumar Is there any lingering effect of GST in terms of migration of dealers or distributors?

Sreekanth Reddy We have not seen any of them, you have seen the volumes post even Q2, Q2 has been fairly consistent, so we have not. The impact probably is there, it may not been a main way for them to impact on our business.

Prateek Kumar Sir, in the price trends you mentioned in terms of some softness we have seen, was it versus Q2 average or Q2 exit prices?

Sreekanth Reddy I am talking very specific to October over the Q2. It is on an average, October over Q2 because monsoon season got extended all the way to middle to second fortnight of October also, but that is more to do with seasonality than anything else.

Prateek Kumar Okay Sir, that means Q2 average the comparison?

Sreekanth Reddy I would still not do an average, but I am talking of August-September and October Sir, to do the average you have to be very careful because the GST came in only in July, so the next question would be that but I would take August-September and October kind of entry-exit prices.

Prateek Kumar Sir, there is some increase in working capital debt during the quarter, so is it something specific to GST?

Sreekanth Reddy It is very specific to the volumes and the spread that we had.

Prateek Kumar Okay, so debt repayment schedule?

Sreekanth Reddy Everything is intact, everything is in line with stated kind of a thing and we have a long way to go.

Prateek Kumar At Rs.40 crore let us say FY '18?

Sreekanth Reddy Yes, Sir, because we are still in moratorium at the BMM level.

Prateek Kumar Sir, on this BMM debottlenecking, any update on that?

Sreekanth Reddy At the end of this quarter, we should have done the entire debottlenecking. Of course, there is large phase which we will be doing during the Q1 of next year, but

bulk of that would be completed, we are hoping to complete the end of next month itself, but end of this quarter, we are sure that we would have done most of the work.

- Prateek Kumar** Sir, the capacity will increase from...?
- Sreekanth Reddy** From 1 to 1.25, but that would slowly change. From an optimization perspective, we should have done by end of next month, but from a capacity perspective, it would be incremental to reach to 1.25 by Q1 next year because we need to change the cooler, we have placed the order, so that is expected in Q1 of next year, but rest of all the other changes would have happened by then.
- Moderator** Thank you. We take the next question from the line of Sanjay Sathpathy from Ampersand Capital. Please go ahead.
- Sanjay Sathpathy** Sir, I have basically two questions, one is that post GST, this lignite prices benefit is something which it looks like it is coming in, is that something which is going to help you?
- Sreekanth Reddy** No, we do not use lignite, lignite is too far for us, we only use Pet Coke coal.
- Sanjay Sathpathy** Even that coal prices are not seeing any benefit because of these tax changes?
- Sreekanth Reddy** The tax changes are not impactful as far as that is concerned. We used mostly 100% imported Pet Coke or imported coal.
- Sanjay Sathpathy** The next thing I just wanted to understand is that while the monsoon etc. is an issue for the pricing and demand for some part of the South, what could be the reason why Maharashtra is seeing this weakness?
- Sreekanth Reddy** It is also because of monsoon,. It is same season for most of, except for Tamil Nadu, for rest of the entire South is very similar to Maharashtra, so it is all because of the monsoon season.
- Sanjay Sathpathy** I am saying that why October prices have fallen?
- Sreekanth Reddy** Sir, monsoon lasted till third week of October.
- Sanjay Sathpathy** You are basically saying that the real new pricing for the?
- Sreekanth Reddy** Typically post Deepavali only all the good things, it is also because of the official dates and also would match post Deepavali. Historically, from mid-November onwards things should start improving.
- Sanjay Sathpathy** Sir, basically this is a stale data that we are just looking at this point of time?
- Sreekanth Reddy** I cannot comment on the stale data, but that has been seasonal kind of.
- Sanjay Sathpathy** In general, what is your outlook for Maharashtra particularly, primarily the reason why I am asking is that while there is so much talk about infrastructure, probably the housing continues to be a big thing?

Sreekanth Reddy It is all a combination, , Maharashtra has been fairly growing. If you look at the first half, it has grown in strong double digits. We expect the year to end with almost plus 10%, it's all combination because one, last year base impact was very, very poor, so everything starts looking up.

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

Giriraj Daga Sir, my first question is related to the demand on AP and Telangana, you said FY '19 looks to be better compared to FY '18, so would you put a growth number let us say between 15 to 18, 18 to 20, like what is the number you are seeing?

Sreekanth Reddy Right now, our outlook for the current financial year is at almost 15%. We would place it anywhere between 15% to 20% for the subsequent year and plus 20% or close to 20% in the subsequent years.

Giriraj Daga Here also, you have lot of irrigation projects also from the government?

Sreekanth Reddy It is all combination of irrigation, RWS works, low-cost housing, and the private investment, Sir, it is all combination of all of them.

Giriraj Daga Sir, my second question is related to the cost side, so what was the average our second quarter Pet Coke cost?

I am talking Pet Coke landed cost basically?

Sreekanth Reddy It is around Rs. 7,600 on all landed cost basis.

Giriraj Daga What would be the cost right now?

Sreekanth Reddy It is almost around Rs. 50 to Rs. 60 higher per ton on a landed basis.

Giriraj Daga Rs. 50 to Rs. 60, you are talking about the 7600 becoming 7700, that kind?

Sreekanth Reddy That kind of a thing, Sir.

Giriraj Daga So not material increase?

Sreekanth Reddy In our case, Sir, what you have to understand is our fuel hedging is slightly on an elongated basis, so the impact of this would be seen in three months or four months from now because most of this fuel has been hedged quite some time back.

Giriraj Daga The recent increase what you have seen in Pet Coke will be visible let us say fourth quarter or in the first quarter of next year?

Sreekanth Reddy we have fairly strong procurement on Pet Coke for next six months so I do not think we would be seeing this impact. There are two things that have happened for us, one, even from control perspective there has been a significant progress, so that should help us tide all the way up to Q1 of next year.

Giriraj Daga For clarification, you said T.N. was negative 20% during the first half?

Sreekanth Reddy Yes, correct.

Giriraj Daga Okay, and you expect it to be about minus 5% for the full year.

Sreekanth Reddy It is TN plus Kerala put together and not standalone.

Giriraj Daga Maharashtra was also flat, but you expect 10% growth for the FY '18?

Sreekanth Reddy Maharashtra has actually grown plus of 20% year-on-year, for first half.

Giriraj Daga Okay, but still that prices have actually declined there?

Sreekanth Reddy Yes, Maharashtra could be a surprise because our outlook is at plus 10, but it could be more.

Giriraj Daga Just last thing, Sir, like November will we see like obviously the festive season has gone by, so how is the pricing and I am looking for let us say November?

Sreekanth Reddy We are hoping since the monsoon months have been bygone for most part of the region except for Tamil Nadu, we do expect some amount of price corrections on a positive side going forward. Tamil Nadu probably could take end December or early part of January, but the other regions we expect price to become stronger as we would speak. Now would it happen in the first week or second week, only time would tell but we hope most of the price corrections on a positive side to happen before end of November itself, if everything holds good.

Moderator Thank you. We take the next question from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain Sir, my first question was on the demand outlook that you gave, you are already factoring in any gains from Amravati and all as in for 19-20 whatever outlook you have spoken?

Sreekanth Reddy Yes, but they are very miniscule.

Ashish Jain Once Amravati comes in, the number could be significantly higher?

Sreekanth Reddy The outlook definitely captures the point of what we expect is for next two years we do not expect much and subsequent, yes.

Ashish Jain Sir, secondly on Maharashtra pricing, I understand your point that it is partly seasonality and all, but in spite of that the kind of demand growth that we are seeing is seasonality spinning all of it or you are also seeing increased competitive intensity and all in Maharashtra?

Sreekanth Reddy It is a combination of all of it, last year the pricing was very poor compared to that we are in a much better comfort zone. Once it has increased, people are not comfortable when there is a drop, so that is where people get panicked, but it is not in a bad scenario. In fact to compare on a year-on-year pricing, for a place like Sholapur last year same time the Sholapur price was very poor, we were at Rs.230, now we are almost at Rs.260 -RS. 265, so I do not think we should complain.

- Ashish Jain** After the Rs. 15 to Rs. 20 drop?
- Sreekanth Reddy** Yes, because from April-May it was Rs.285, so we are complaining that it has come down to Rs.260 but if I have to compare with last year same time, we are almost plus by Rs. 30 to Rs. 40.
- Ashish Jain** Sir, in terms of capacity, can you just repeat whatever you spoke about in terms of South capacity, the pipeline that we are seeing?
- Sreekanth Reddy** South though I count Shree because there is some portion of it that is expected to come into South which is being commissioned in Gulbarga, we expect that in either Q1 or Q2 next year, which is 3 million ton plant. NCL, I think is commissioned which looks like 1 million ton incremental capacity especially on the clinker side. KCP is expected during Q1 next year, which is 1.5 million and these capacities are stated by them so the caveat is there, we do not know the exact capacities yet.
- Moderator** Thank you. We take the next question from the line of Madanagopal Ramu from Sundaram Mutual Fund. Please go ahead.
- Madanagopal Ramu** Sir, the 6 MW WHR that we have put would lead to how much of savings for us?
- Sreekanth Reddy** Monthly around Rs.1.5 crore is a conservative estimate.
- Madanagopal Ramu** Sir, you mentioned about the capacity coming in South, there were no new orders placed in the Southern market at this point?
- Sreekanth Reddy** There is one which is from Penna and there is also discussion about Chettinad, but Penna is only for the clinker line because already their grinding station in Krishnapatnam is due for commissioning sometime end of this year to early part of next year, but in our belief and as stated by them, I think it is more eastbound rather than South bound. Chettinad also plays, but there is some clarity that is required before committing anything on it. They have also placed the order, but we do not know the timelines pertaining to, the claims for 2 or 2.5 million ton integrated plant in Guntur, but we do not know the timelines.
- Madanagopal Ramu** There were some expectations from UltraTech, Ramco that is still on the, it is not ...?
- Sreekanth Reddy** Timelines are ambiguous, though they have signed the MoU quite some time back, but so far timelines we are not aware of.
- Moderator** Thank you. We take the next question from the line of Sanjay Nandi from Ratnabali Capital. Please go ahead.
- Sanjay Nandi** Sir, I just want to know like you mentioned in Tamil Nadu region that it registered a de-growth of 20%, so can you please state the reason for that acting as a hindrance for that?
- Sreekanth Reddy** Tamil Nadu is one state where it is consistently grew in South over last 10 years, the base impact is one. Secondly, there has been a lot of ambiguity with the political leadership with unfortunate death of Mrs. Jayalalithaa, the political decisions were not made during that time, so whenever there is a void in that scenario most of the investment also remains in the sidelines, so that could be one of the reason, but I would also put that the base impact has been one of the main

strong reasons because the state cannot sustain a continual kind of growth, so at some point of time it slows down. Added to that the political instability and before that the Government's focus was more on social issues which were not cement-demand drivers, so most of the state's focus was on social-related issues which unfortunately did not consume cement. These are probably one of the few points which contributed to the current scenario of cement demand.

- Moderator** Thank you. We take the next question from the line of Ayush Sharma from Investec Capital. Please go ahead.
- Ayush Sharma** Sir, I just want to know the regions in which we operate, is it possible to quantify the capacity and demand in those regions state wise?
- Sreekanth Reddy** Sure, would be more than happy doing it if you could send an email, we will be happy to share the data.
- Moderator** Thank you. We take the next question from the line of Rohit Gupta, an Individual Investor. Please go ahead.
- Rohit Gupta** Sir, what is the reason behind for the falling profitability of the BMM plant,?
- Sreekanth Reddy** The reason is that we are trying to optimize, Sir, the fuel prices are the main reason and we were not in a situation to fire Pet Coke so far, so we actually have taken quite a bit of, I would not call maintenance, but the ramp up is happening in a phased manner so there were frequent start-stops so that also has impacted the profitability. We are hoping to complete most of the optimization issues by end of November for sure before the end of this current quarter with which we hope to recover most of the lost ground in terms of the cost-related issues?
- Rohit Gupta** Sir, it looks like the power and fuel cost, the BMM plant had a captive power I suppose?
- Sreekanth Reddy** Yes, Sir, it is 25 MW captive power plant there.
- Rohit Gupta** Why is the power and fuel cost higher even compared?
- Sreekanth Reddy** It is purely because of coal, not because of power because coal prices have been going up, so that definitely has reflected on higher cost. Secondly, we were not in a situation to use Pet Coke there, which we hope to use it going forward.
- Rohit Gupta** Sir, what is your total capacity addition plan and what is the CAPEX amount remaining for all the plants you have?
- Sreekanth Reddy** I will be quick but we have shared this in the past, Sir, in the sense we have a corporate presentation posted on our website as well as that, that should give you much more accurate information, but let me just give you; currently, we are at 4.3 million, Sir, with close to 25 MW coal-based power plant and 6 MW wastage recovery and the 1 MW solar. We would be ramping up the capacity close to 5.75 to 6 million by December 2018 and you would also ramp up, we are adding an 18 MW CPP. All of them inclusive of wastage recovery, the overall CAPEX was Rs.350 odd crore, out of which we have already commissioned the wastage recovery system. The grinding plant is consuming around Rs.170 crore and close to Rs.95 crore would be the CPP.



Rohit Gupta For the expansion at the BMM plant, how much will that require?

Sreekanth Reddy That was part of the normal operating CAPEX. which we have indicated at Rs.5 crore, we might end up at Rs.7.5 crore, Sir.

Moderator Thank you. We take the next question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi Sir, you just mentioned on the CAPEX number which I was about to ask, so like total basis for FY '18 and '19, what could be the CAPEX outflow that we would be seeing on console basis?

Sreekanth Reddy On a console basis, I think we are hoping to commission before September '18 itself the grinding station and by December the CPP. If you look at '17 and '18, and 18-19 all put together we should have completed the entire CAPEX, it is close to Rs.275 crore to Rs.300 crore.

Rajesh Ravi This is the total incremental that is left, you are saying?

Sreekanth Reddy Yes, correct.

Rajesh Ravi For the WHR, what was the amount spent in this financial year, Sir?

Sreekanth Reddy It was completely spent in the last year most of it, and this year partially. Overall, we ended up at Rs.65 crore.

Rajesh Ravi Lastly, maintenance CAPEX would be how much, Sir, on annual basis?

Sreekanth Reddy Yes, Rs.5 crore each at both the plants, but we might end up with additional Rs.2.5 crore at BMM level because of we changed the burner which we did not anticipate to start with, but the Pet Coke prices and the gas we have accelerated that, so we would be ending up at Rs.7.5 crore in BMM and close to Rs.5 crore in Sagar.

Rajesh Ravi Lastly Sir, on this sand mining issue in Tamil Nadu, you mentioned that problem may get resolved?

Sreekanth Reddy It will get resolved, should get resolved, any state cannot afford to keep such an important issue in aberrance.

Rajesh Ravi This local supply itself would start to improve?

Sreekanth Reddy I am sure, Sir.

Rajesh Ravi Sir, out of this 20% decline, would you believe large part of that gets sorted out in terms of, I just want to understand most of the fall is only because of sand non-availability or is it also because of the other factor?

Sreekanth Reddy I think it is all combination, it is easy to blame on sand alone, but I think it is a combination of various things. We hope the year to end much stronger than what it has been so far, so far it is at minus 20, but we hope bulk of recovery should happen.

Rajesh Ravi You are pegging at negative 5% for Tamil Nadu?

Sreekanth Reddy Conservatively, yes.

Rajesh Ravi With this sand availability improve and demand starts improving, and that is where you expect that prices from January should firm up in Tamil Nadu markets?

Sreekanth Reddy Yes, but we are getting into the monsoon side of Tamil Nadu for next two months, so post that we expect price recovery as well as demand recovery.

Moderator Thank you. We will take the next question from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain Sir, on AP demand you also highlighted that we are seeing recovery in private CAPEX as well, what kind of segments we are seeing it happen, can you elaborate anything on that?

Sreekanth Reddy What has happened especially in Telangana, 20 odd new districts have been found, so what was small urban town started becoming district headquarters, so there is lot of activity on those segments.

Ashish Jain These are like small-scale private investment, these are not like anything on industrial side or something?

Sreekanth Reddy Sir, industrial side yes there are, but all of them together would form, like Kia motors is building up a large plant in Anantapur and there is lot of development that is happening in Sri city in Nellore, so these are all part and parcel of it.

Moderator Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for 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 were looking for. Please feel free to contact our team at Sagar or Citi gate 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.