February 9, 2023

Bombay Stock Exchange Limited
New Trading Ring,
Rotunda Building, P J Towers,
Dalal Street, Fort
Mumbai-400001
Security Code: 535754

National Stock Exchange of India Limited
"Exchange Plaza", Plot No. C-1, Block G
Bandra – Kurla Complex, Bandra (East),
Mumbai – 400 051

Symbol: ORIENTCEM

Sub: Transcript of Investors/Analysts Conference Call for the quarter and nine months ended December 31, 2022

Dear Sir(s),

This is in continuation to our earlier letter dated February 2, 2023, sharing the audio link of the investors/analysts Conference Call, held to discuss the Unaudited Financial Results of the Company for the quarter and nine months ended December 31, 2022, on Thursday, February 2, 2023, at 4:00 PM (IST).

In this regard, please find enclosed herewith the transcript of the aforementioned investors/analysts Conference Call.

The said transcript is also available on the website of the Company, www.orientcement.com. You are requested to take the same on record.

Yours sincerely,
For **Orient Cement Limited**

NIDHI BISARIA
Digitally signed by NIDHI BISARIA
Date: 2023.02.09 12:40:42 +05'30'

Nidhi Bisaria
(Company Secretary)

Encl.: as stated

"Orient Cement Limited

Q3 FY '23 Earnings Conference Call"

February 02, 2023

MANAGEMENT: **MR. DEEPAK KHETRAPAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – ORIENT CEMENT LIMITED**

MODERATOR: **MR. HARSH MITTAL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Orient Cement Q3 FY '23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Harsh Mittal from ICICI Securities. Thank you, and over to you, sir.

Harsh Mittal: Thank you, Faizan. Good afternoon, and warm welcome to everyone. On behalf of ICICI Securities, we welcome you to this third quarter FY '23 earnings call of Orient Cement Limited. On the call, we have with us Mr. Deepak Khetrapal, MD and CEO of the company. At this point of time, I will hand over the floor to Mr. Deepak Khetrapal for his opening remarks, which will be followed by interactive Q&A session. Thank you, and over to you, sir.

Deepak Khetrapal: Thank you, Harsh, and thank you, everybody, who's found time to be on this call to hear us out today and get a little bit more nuances of the Q3 performance that we've had. Although I know you people have already done your numbers, you've read lots of reports, I guess. But even then, I think I'll take you through a few of the highlights for those of you who have not picked it up.

Well, as you would recall that when we were in the Q2 investors call, at that time, we were a little bit concerned because October had started off very slowly, given the fact that there were extended monsoons and also all the festivals fell in the same month of October. So, October was a little bit worrisome.

But fortunately, as expected, post-Diwali, post-Chhath Puja, slowly gradually the momentum started building and which actually gave us -- I think all of us, the entire industry, a lot of respite from the previous quarter, which was rather soft. And I guess if we add up the monthly data, which comes from DIPP for the core sector growth as a whole, the cement industry across India seems to have grown 10% Y-o-Y and 8% Q-o-Q in this year over the previous preceding period, as I mentioned.

In this 10% Y-o-Y 8% Q-o-Q, which is the DIPP data, we are happy that we, as a company, despite the soft Q2 and despite, like I mentioned, the soft start to the Q3, we ended up with a total sold volumes of 4.30 lakh tons (**Company clarification:** Please read 14.30 lakh tons), which obviously is in the region of about 17% Y-o-Y and just about there in Q-o-Q basis also.

So obviously, it's a growth which we at least are happy to see in the market and the capacity utilization at higher than 70% for the quarter is a relief because when you're in 60s, it's very different than when you start looking at 70%.

And hopefully, I think this momentum that we've seen in the last two months or more importantly last six weeks of Q3, we expect the momentum to continue. And if we see the general demand in the month of January, which has just closed, I do believe that we should see good growth, the momentum that we've seen. If 10% was Q3 growth for this industry, I think Q4, we could expect a similar, if somewhat higher, growth possibly. So that's where we see the growth continuing. And if we look at our Y-T-D volumes, we have the nine months done total volumes about 40.50 lakh, so 4.05 million.

Given the momentum, just as we would like to end the year with about 5.8 million tons of sales in volume, and we started the year with the ambition of 6 million. We obviously are not likely to touch 6 million, but we will be fairly close to it.

I mean, when you start this year and you are within 3% of what you had forecasted and especially with the kind of months we've had and a very soft Q2 also, I think we should feel happy at least. We believe that this quarter does what we expected it to do with the momentum.

So, in terms of volumes and sales, I think we have some comfort. Basic, I think, worry that we have in the cement industry and the investors would share with us that despite the strong momentum in the demand in the marketplace, the prices have not risen to -- for us to recover the inflated costs that obviously have been coming in over the last many-many quarters.

And as the costs remain high and the prices have not been able to sort of give us the leeway in terms of passing these costs on. So that obviously has been a challenge. Realizations, if we look at it per se, they are -- for Q3 for us have been a little over INR 5,100 per ton, which on a Y-o-Y basis, is just about 1% above.

And even on a Q-o-Q basis is 3% higher, which is very-very small compared to the overall inflation in -- the steep inflation actually, steep rise in the fuel costs that we have seen for the industry. I mean no player has been able to escape that, but the market prices are just marginally up.

For us, if you were to look at it, the power and fuel cost in Q3 Y-o-Y was over Q3 of last year, were higher by about 35% over last year, which is a huge-huge annual inflation. And this is despite the fact that we've had some respite in Q2 where the power and fuel costs are actually lower by 4% at our company in Q3.

And here, we have just sort of maybe, when I talk about the total volumes sold in Q3, we've had a little bit of a challenge in the form of the fact that bulk of this growth and the momentum that we see has actually been coming from our B2B markets, large projects, other B2B customers, the ready-mix players, which again supply to many larger, more organized markets.

There is a very strong growth in that market. But in the B2C side, we are actually seeing still a lot of softness, a lot of headwinds, if you want to call them. And what that does is that if we sell more -- and we definitely have sold more to B2B segment in this particular quarter compared to ever before.

I mean, this year, for the first time, I think we have -- the B2B sales in this particular quarter have gone to about 51%, which last year around that time was 41% only. And in Q2, also we're at 45%. So, we have seen a steep jump. And -- so while we have the challenge of prices from B2B segment, that's one part of it. But at the same time, it also means that when we produce more for the B2B segment, which largely buys more of OPC, it also means that our power and fuel costs per ton do go up.

So, when I'm saying overall power and fuel costs were lower by 4% over the previous quarter, if we factor in the fact that we had a OPC percentage going up, so the product mix getting a little adverse, that typically would mean the landed cost of fuel would have gone in by a slightly higher percentage compared to 4% that we see, and balance has gone into the adverse product mix.

So that's one thing which I thought I'll just bring it to your information. As to the inflation that we had suffered, obviously, is showing sound signs of a little bit benign thing. Let's go how it happens in future because as we've heard the availability of petcoke in India is dramatically going to fall as the largest producer of petcoke decides to use it domestically for gasification or whatever they want to do with it.

Even our total cost that we see, I think we are, nearly 5% lower sequentially over Q2, which is, I think, becomes relevant when we start comparing the costs now. While we, as I mentioned, we have had a 16%, 17% growth in physical volumes sold. But the net sales have actually gone up by 19%, both Y-o-Y and Q-o-Q, that's rupees in crores.

And as I mentioned, a large part of the growth has come from the B2B market. And the -- within the -- I mean, lots of people will come back to the question, so we've sold 51% to the B2B market, and our OPC has actually gone up to 47%. Typically, our blended sales, blended cement sales typically do remain much higher than what we have in this quarter of 53%. So, 53% blended, 47% OPC, which is largely unblended.

In terms of market mix, we have actually seen much better traction in the West markets for us, which have actually supported us rather well compared to the other markets, which largely are South for us. And the West markets in this particular quarter, we've seen the total volume sold in West at 56%, which is higher than the earlier quarters.

And I would say, the soft sentiment in B2C also impacted the total offtake as a percentage of B2C, even in StrongCrete, which is our premium brand. And as all of you know, our premium brand means INR-45 plus my price of OPC. That still hovers around 15%, but rather than being -- it's actually over 15%, this time it's slightly under 15%. So that's a little bit of nuance compared to what we were seeing as a rising trend in stock.

It's marginal hiccup. Hopefully as soon as the B2C demand picks up and our proportion of B2B, B2C that we've had traditionally, that restores. One, our operating costs will show that benefit, at the same time we'll also perhaps see a little bit more of the premium segment, that is StrongCrete, contributing more to our sales.

We do continue our philosophy of trying to basically go for recovering the price for our cement, which is justified by the quality that we give to the market. And any orders which do not meet our threshold of contribution per ton, we're happy to say no to and walk away from the business. So that remains the operating philosophy, and we have no intention of changing that.

So that's on the revenue and the sales mix, both in terms of the customer segments and also in terms of geographical markets. On the cost side, I think, again, like I mentioned, we do have some respite in total cost and, most importantly, in the power and fuel cost. In terms of fuel mix, as we've always been saying our Karnataka Chittapur plant, as we call it, in district Gulbarga that is largely run on petcoke only supplemented by the AFRs that we keep consuming in larger-and-larger amount whereas at our Telangana plant in Devapur, we actually run largely on domestic coal.

And again, whatever is not domestic coal is largely the AFR, barring maybe we had some imported coal, which was left over from the previous imports, just about 1% in this quarter. Otherwise, largely domestic coal at Devapur and, again, largely imported petcoke at Chittapur, that's our fuel mix. And overall, for the company, if we look at it, I think we would be perhaps equally divided between domestic coal and petcoke at about 40%, 41% or thereabouts domestic coal and imported petcoke. And the rest is largely AFR, excepting like I said, 1% of the leftover of imported coal earlier.

AFR, for us, in volumetric terms this quarter has been at 17%, which keeps improving for us. And that actually gives us a fairly large benefit on a quarterly basis of, I would say, in the region of about INR 10 crores in the whole quarter that we save by just using more of AFR compared to the fossil fuels that we as the cement industry are used to using.

Similarly, and obviously, while it gives us cost advantages, it also gives us more, I think, benefit in terms of sustainability because we are not burning any of the regular fuels that can be used whereas actually AFR is largely a waste coming from different activities that humans have including RDF as we call them or municipal solid waste, hazardous waste coming from pharma industry, beyond the biomass that everybody is used to using.

We're trying to use as much of these kind of AFRs as possible rather than using what is called an AFR, which is the carbon black, but slowly and gradually with the demand increasing for carbon black, we try, I'm not saying we don't use carbon black, but we try and use as lower quantity of carbon black vis-a-vis the other cheaper, I would say, and more sustainable AFRs. So that continues to be our fuel mix.

On the power side, as I have been mentioning earlier also, we had invested a small sum of little over INR 4 crores in putting up solar power capacity, which in Q3 actually supplied about 62% of total power at our Jalgaon grinding unit has actually come from the project, solar power.

And at Chittapur plant, we are again, the state government regulations enabled us to procure solar and wind power that is renewable power, at fairly competitive terms. So there also, we've been consuming a lot of renewable power. Company as a whole, once again, if I were to say, the total renewable power consumed by us in the quarter is as high as 18%, which is despite, as of now not having a waste heat recovery plant at any of our plants.

The waste heat recovery plant at Chittapur we expect to commission as scheduled. And the benefits of the waste heat recovery plant should start becoming visible from the first quarter of FY '24, that is just now, two months away. So, as it is and without, that also -- out of total 18% is being consumed, plus we'll add about 10 megawatts of waste heat power, which sort of makes us further green.

In terms of cost of fuel, lots of you always ask me about it, so I thought I'll prepare that information. Our total fuel cost of the entire mix for the company is well below INR 2,200 per million kilocalories.

And I would say this particular blended cost is nearly 40% higher over last year's same quarter. And you have seen the impact of that, I don't need to elaborate further on that. The petcoke, as of now or as we stand, I think from the last import that we made, we should be okay for the month of February, and we've also booked one more ship, which should be landing us, or reaching India within the month of February, which will cover us for our requirements of -- possibly up to May.

And the last shipment that we brought in is at a slightly higher cost compared to what we imported earlier, the higher cost on petcoke I'm saying, which is used at Chittapur plant. This particular ship has been booked at, in my estimate at the cost, which is higher by just under 3% over last shipment that we brought in.

So, marginal increase, but we had to book it. We couldn't wait any further because otherwise, we would have been running out of fuel. So that's been booked, and we're covered till May. Beyond that, now we will obviously need to wait for maybe eight weeks, maybe 10 weeks before we book the next ship and let's see how the costs come down further.

So, one of the expectations that some people may have that the fuel price is softening, when we have to book our fuel for, like I said, till May, we had to take whatever the market prices were. So, if the prices soften further, to our company, the benefit will start becoming visible only from the month of June 2023. So just thought I'll make that also clear, so that we know that savings of any softening of petcoke prices going forward will not be available to us, because the ship will need to be booked and it needs to arrive in India in a certain point in time.

Those are, let's say -- on the fuel mix, again, the questions that you people keep asking. So, net-net, power, and fuel cost per ton for us in Q3 is INR 1,578, which is 35% higher Y-o-Y. Obviously, as I mentioned, there are differences between why the blended cost of 40% and why the total power and fuel because that -- what I've given you is only the fuel cost.

Power cost, obviously, has not seen as much inflation as fuel costs have. So that's why there's a little bit of gap between what I'm reporting as blended cost inflation versus my total cost of power and fuel, which is 35% higher over last year.

From the numbers that I'm seeing of the rest of the industry, we would still be one of the lowest in terms of power and fuel costs this quarter too. And I think in terms of inflation, the problem is as the data is reported always, I think we are now getting into a zone where for the next few quarter our base cost of fuel would start looking higher. So as a result of that, the delta that we keep seeing -- the Government publishes the inflation numbers also, we forget that whatever inflation has happened in the past that stays. And when we say inflation has gone down, it is actually further inflation on the real level.

So that pain, even if it is softening, I'm not saying it's going away. It may look moderated because base will also be higher. And then we'll have some bit of softening of prices. So hopefully, the rate of inflation that we've seen in fuel costs should be behind us that we -- although the overall cost, like I said, we'll see how far they actually soften.

The -- whatever have been the cost increases in petcoke, we also need to keep in mind because the AFR that we use also was being, I would say, being bid by almost every player in the industry. So, at our company, we've seen more than doubling of the cost of even the AFR. But despite that, there's a significant arbitrage that is available by using AFR compared to the traditional fuels.

And that's exactly the reason why we keep using it more and more. Even if they are double, I think the arbitrage is just too large. And as I mentioned, on a quarterly basis, it would be as much as INR 10 crores a quarter with a company of our size. And we know we are -- our size is what it is.

Our efficiencies -- while we continue to maintain our, I would say, excellent levels of power consumption and fuel consumption, so that stays with us. So, as you can see our cost management, I think in terms of our strength, cost management remains a strength, at very, very solid grounds.

The challenge has been that despite all the key variables, variable costs pushed high and market seeing demand momentum. We just perhaps need an opportunity to be able to pass on the increased cost to the markets, which as of now are not visible. But obviously, we never know because we have seen in, especially in Q4 of the financial year, as the market starts needing more and more of cement, the momentum does build up in Q4.

If, thereby, we can find an opportunity to pass on these additional -- whatever we can of the risen costs to the market, obviously, that attempt will be made. We are not giving up, but are there signs visible as of now, I'm sorry to say no.

And despite all this, I would say, volume increase, managing the costs well, due to prices being where they have been in Q3, our EBITDA is at INR 91 crores for Q3, as all you would have seen, which is about 25% lower Y-o-Y, but largely driven by the fact that the cost increases have stayed with us on our P&L rather than being passed on.

But it does look wonderfully better than Q2, which was actually -- I wouldn't like to compare our Q2, which was -- the EBITDA has actually come down to just over INR 37 crores. So that -- it looks a huge rise, but quite honestly, we are not proud of that huge rise because on a per ton basis, we are still just about INR 640 a ton, which is not a good level to be, but let's see. I mean, who knows in the remaining, whatever, eight weeks of this particular quarter, if things turn around and pricing we get, we hope to be able to improve the realization.

And the only thing we can do is whatever we can realize higher from the market it just goes to our bottom line with the costs have been spent and they're managed well.

On the balance sheet side, we have paid another INR 37 crores, which have a quarterly repayment obligation under the term loan that we had for the projects. And then YTD, obviously, towards that INR 111 crores stands paid. Working capital as you would have guessed, that keeps coming under pressure, given the fact that the more you sell to the B2B market, the credit periods always are longer. So, we are still borrowing a much larger sum from our working capital limits from the banks, which we actually, until a few quarters ago, we were not borrowing at all on working capital.

The total debt for us as on date is INR 403 crores, including working capital, that includes our -- the interest-free loan that we got from the State Government in Karnataka. So out of INR 400-odd crores, the interest-bearing debt is only INR 365 crores, and the bank term debt out of that of the original projects at Chittapur, that's down to now INR 240 crores.

The -- again, like I said, when we now look forward with the demand momentum, which we are seeing with yesterday's budget being extremely pro capex, pro investments, pro I would say, focused on building more roads, more investment into railways, more investments into PM Awaas Yojana, all that affordable housing schemes. We do think a sustained period of good demand ahead of us. The cost regime seems to be getting a little bit benign, which is the good news. And if all things fall in place, we should be looking at much better, let's say, quarters going forward in the next financial year.

So that's where we, I think, we see how the things look. The rest of our strategies, as we've always maintained, how we pick our markets, how we choose which customer to sell to, those remain steady, and we keep pushing our efforts to reduce the price gap that we realize from the markets vis-à-vis our competition. And that I'm sure is visible to all of you when you see the improvement in our realizations relative to the rest of the industry quarter-after-quarter.

So, I think I'll stop here now, and let the questions flow and if there is anything I've missed out on this, maybe I'll try and answer the question if I have the information available, otherwise we'll get back. Thank you very much for your patience. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mangesh Bhadang from Centrum Broking.

Mangesh Bhadang: Hi, good afternoon, sir. Sir, a couple of questions from my side. So firstly, is on the volumes. So, you mentioned that West has seen a good traction this quarter, but we hear that at least Andhra, Telangana markets have also grown by almost 20%, 25% and even 20% growth is there in Karnataka. So, I just wanted to understand, have we seen similar growth for us in those markets? And what could be the reason for higher tractions?

Deepak Khetrapal: See, when we talk about growth that we are reporting today, one is the report that we have in terms of what we've done. And second is what we see in the ecosystem. The fact of the matter is that it's a matter of where we choose to sell, and how much in which market we choose to sell. That's -- so the two numbers could be a little bit different.

But as I mentioned earlier, the overall traction in demand is obviously being proved by the -- in the DIPP data that you have. Although that is pan-India, but it's still in a way gives you where the entire market is.

We certainly want our market share to keep rising all the time but not at the cost of prices. So, if you see a difference between the two, that's simply explained by the different strategies, different companies choose to whom to sell, right. So, I won't be able to reconcile the two, except in saying that we have our own business strategy in which market, and which product we would like to sell. And that is governed by how much contribution per ton we can make from any particular order. But demand is strong, traction is strong. The expectation going forward, the volume does remain strong across markets.

Mangesh Bhadang: Okay. So next I just wanted to ask, so last quarter you had mentioned that environment, demand environment was soft, you were not thinking about the capex. So, any thoughts on this now?

Deepak Khetrapal: Absolutely. No, that situation is always dynamic. It's not that we -- once we take a decision, we stick with it. Earlier, some time ago, we had thought we should expedite it, then we realized there's no market demand. Even today, the capacity utilization in this quarter is still just over 70%. We still -- I mean, we can easily go in one quarter as high as 90% or thereabouts.

So, there's no, let's say, immediate panic on that. But definitely, we have started relooking at our plans, which have always been with us for expansion. And a little bit of activity on that we're beginning to also make because, as I have been mentioning, at our Telangana, Devapur plant, we want to put up a Line IV, and there some investments are needed in terms of clearing some land. So those activities in terms of making sure that the land and site does become available for us to start the construction process. That's very much -- we are in readiness. We'll watch the situation. The demand if it sustains, obviously, we will once again push the pedal when it comes to capex.

Mangesh Bhadang: And so, after you take the decision, how much time you think you will take to commission that expansion?

Deepak Khetrapal: From the time we press on the pedal, it should be between 15 and 18 months.

Mangesh Bhadang: Great. Okay, sir. Thank you, sir. Last question if I may ask on freight. So, any impact because of the busy season surcharge that you have seen in the freight cost?

Deepak Khetrapal: Sorry. I couldn't hear you clearly.

Mangesh Bhadang: Sir question is on the freight cost. So, railway has started the busy season surcharge, but our freight cost has not increased in that proportion. So, I just wanted to understand what could be the impact there. And have we seen changes, nonetheless?

Deepak Khetrapal: No. Obviously, this is very, I would say, tactical on the part of railways always when they start levying these kinds of surcharges because our peak period starts, so they also believe it's their peak time to make money.

And then we try and optimize by, one, to relook at the mix of logistics that we have railway versus transport, because at the end of the day, we need to look at our P&L even when railways are trying to improve their profitability. So, it's a function of, again, whether we choose to supply by rail or by trucks.

And once again, if some markets do not look attractive enough net of freight payment, we obviously would not sell there and try to find sell more in the markets nearby.

But your question is absolutely valid. Freight is a concern, especially when railways are becoming, I would say, more difficult, but in Q3, fortunately, we've actually been able to use in the overall demand growth, and we also need to get the cement at the markets where they're needed.

So, in Q3, our railway component of dispatches is at 16% against 15% of the previous quarter, but still lower than what we had last year.

Moderator: The next question is from the line of Anupama Bhootra from Arihant Capital.

Anupama Bhootra: Yes, I had a question on capex. If you can throw some light on capex for FY ‘24 and also if you can give us the mix, the rail and road mix…

Deepak Khetrapal: Like I said -- Okay. On capex, I would just sort of like to share at this moment one -- just one piece of small data, which is earlier, we had said that we might have a significant capex happening in FY '23, which we were estimating could be even above INR 800 crores because we wanted to start making large investments in the grinding unit and in the Line-4. We haven't done that so in this particular year, our capex may be limited to just about INR 150 crores.

For FY '24, if you can allow me some time to reassess as the previous question also was there about what our plans are. When I speak to you in the month of April with full year results for this particular financial year, I'll be able to give you a little more granular picture on that. So just bear with me for a while. We are relooking the whole thing; we're trying to expedite the entire thing. So, we'll be able to give you a much better picture in April, please.

Moderator: The next question is from the line of Surya Narayan from Sunidhi Securities and Finance.

Surya Narayan: So, my question is that going forward, given all the publicity of approaching the market, relatively to the B2C and B2B and more demand is coming from the government side, the public expenditure side. So how we are going to tackle this scenario because in the 2024 again pre-election demands that will be again majorly towards the public expenditure?

So and the continuously the rate hikes will be there and which is like you know impact in the investment climate for the real estate is concerned. So can you what should be the trade off and how we, can there be any change expected because as we see the OPC Cement volume is rising and that is impacting our overall market profitability and all. So will there be any change in the strategy going forward near term?

Deepak Khetrapal: So again, the strategy, one point that I would certainly want to remind you all about is that we are quite capable of producing and delivering, I mean, quite frankly, even in excess of 18 lakh tons in a quarter, right. We can easily do that. If that demand comes in from both the sides, we would certainly like to make the best of both the markets. as long as they're giving me a certain level of contribution.

So currently there is no capacity constraint that we see at least, I mean if we are at about just over 70% and I'm saying we can comfortably exceed 85% of capacity utilization as of now, no matter what growth in demand we're talking about, I don't think we are actually going to be running out of capacity for the next two years for us to not participate in the markets. Then the question comes which market and which market is giving you more contribution at that point in time, correct.

Surya Narayan: Yes.

Deepak Khetrapal: The strategy is very simply maximize contribution, maximize EBITDA per ton, right. And not give up on a market as long as it's offering the margins. Do I have a capacity constraint in which I have to sort of start wondering not to supply. Capacity constraint will never be the consideration, but if my costs are at a level whereby selling I don't make enough contribution, That might be the strategy that we would like to pursue with

Surya Narayan: But because recent times the real estate demand has come down and we are traditionally B2C market rather than B2B. So obviously there could be some pressure to accept more of the government orders or let's say B2B orders to keep the utilization at a higher level rather than sitting at around 60% capacity utilization. So, and second is to understand that is part of part one and secondly to understand whether the due to more of the B2B demand that is creating an issue of raising the prices because the industry is unable to raise even five rupees per bag.

So in the two, I mean, by December end, at least in January middle, I mean, it was expected that at least five to 10 rupees per bag should have been increased. Because going by the past 20 quarters track record, quarterly share of 4 to 5% cost increase in the petcoke front. So what hinders the industry? Is it that now the more of the B2B that is a challenge for raising the prices?

Deepak Khetrapal: No, I personally don't think B2B per se is the challenge. The challenge, if you see, even in B2C the prices have not gone up. So if the challenge was from B2B side we should have been able to raise at least B2C prices but there also we are not finding the opportunity because there are other suppliers willing to sell their cement at a price which is much lower

Surya Narayan: So, which is the need, having B2B or B2C?

Deepak Khetrapal: Sorry?

Surya Narayan: Because at the industry level it is nearly 50-50. I mean you will say B2B and B2C. So which is taking the lead? Currently the lead is being taken by the B2C so that is why. I mean I am not seeing any leaders like Ultra Tech; they are not able to even raise the prices. So what will be the progress on the pricing front as we approach the peak season?

Deepak Khetrapal: I really can't answer that question because I really don't have an answer. We all try with every contract that we run, negotiate with every market that we are in, we do try to get somewhat higher price. But the choice is that if I am quoting a certain price and I am and not willing to reduce that, the customer always tries to go to another brand, another manufacturer.

So that is where we keep sort of in a way on a very dynamic, agile basis, we keep taking decisions of what customer is good for us, what customer is not good for us. And it's not so much about for me, not so much a preference between B2B or B2C, largely, in traditionally what has happened is B2C sales have always given us higher contributions because the cost of production of PPC is somewhat lower and the prices remain attractive on the cost for PPC. B2B is largely about OPC, right, and prices typically get negotiated by the large buyers very, very hard.

So it sort of always gives you a little bit less margins. What we're trying to ensure is that even when we are selling more to B2B, that we do not compromise on the margins or contribution. That is our call. How and when can the market price, Frankly, I am too small a player to be able to answer that question. I just take the prices as they are in the market. Within relative terms, I try to get better prices compared to other brands. But overall level of prices is what the market gives to us. As a company, the size that I am in, I really don't have much option to determine the price and sell my volume that I need to sell

Surya Narayan: Going by -- I mean, good to see that you have booked the petcoke up to May '24. So that is a good thing. So

Deepak Khetrapal: May '23.

Surya Narayan: Sir, I'm sorry. May '23. So, what is the scenario because of -- what I see is that petcoke prices will be remaining quite hard and it will not be softening. So, what is your outlook maybe 6 months down the line? Is the petcoke at all crack or it will be again rising?

Deepak Khetrapal: My own guess as of now is look there are two dynamics working here. One is the dynamic of only yesterday what we heard that the largest manufacturer of petcoke in India says I will not sell petcoke at all. So obviously on the one side the supply is going down. The second dynamic which is also relevant is that in the recent past although petcoke has not come down but the coal prices have been coming down, right. The coal prices coming down, as of now, they are still on million calorific basis, landed cost of US coal, South African coal is still higher than petcoke.

But if those prices keep coming down at a certain point, it will start making a lot more sense for people to use coal rather than petcoke, which is the time when the international prices of petcoke will also fall. Because end of the day, they are competing. Right now, petcoke has not softened because even at the current levels, they are still more competitive compared to coal prices. So we are always looking to the arbitrage. The moment the coal prices come down, we stop using petcoke and start using coal.

So that pressure of the constant basis, I am sure all of you are aware that the US coal prices or Australian coal prices have been coming down. If they keep coming down, either we switch to coal or petcoke people/ petcoke suppliers will have to reduce their prices. So I see a little bit benign climate for cost of fuel, let me put it, whether it's coal or petcoke in the next six months as you asked.

Moderator: The next question is from the line of Sanjay Nandi from Ratnabali Investments.

Sanjay Nandi: Yes. Sir, can you share the volume numbers because I missed your initial commentary?

Deepak Khetrapal: 14.3 lakh tons.

Sanjay Nandi: 14.3 lakh tons. And sir, what are our expectations for the Rajasthan mine which got clear due to -- any views around that, sir?

Deepak Khetrapal: Well, mine has come back but as I have reported earlier also, we are now in the process of identifying the key land that we need and the cost of buying the land because we haven't bought any land as I've always maintained because the mining lease was not with us, there was no point in buying the land and keeping it. So the process of buying the land, we have started, we have identified the pieces on which the plant will need to come up which is the first land that we need to have in hand.

Once we acquire that, we don't need to acquire the entire 1500 acres or thereabouts, but definitely the initial 100-odd acres we will need to buy based on which we will have to give the complete geolocation of the proposed plant to the Ministry of Environment and Forests for them to process our application. So Rajasthan is still, as I mentioned from the start, it is the minimum three-year project, not less than that

Moderator: We'll move on to the next question from the line of Aashav Patel from Molecule Ventures PMS.

Aashav Patel: Sir, congratulations for decent set of numbers despite very challenging times. My question is regarding Q4 volume numbers, there is some doubt on that. So, we expect on an annual basis for FY '23, 5.8 million ton of volume whereas in 9 months, we have done close to 4.03 million tons. Now if we expect Q-o-Q growth of 10%, next quarter should be around 1.5 million ton. But to achieve our target of 5.8 million ton, we'll need close to 22% growth in volumes, Q-o-Q, around 1.77 million tons. So, what are our estimates? Are we expecting a 1.5-million-ton number for Q4 or 1.77 million ton?

Deepak Khetrapal: We are expecting in the region of 1.7 million to 1.8 million for this quarter. We are working towards that rather than expecting or hoping we are working towards that. Irrespective of what the market growth is.

Ashav Patel: Ok, and sir, in 9 months FY '23, we have achieved close to INR 560 of EBITDA per ton. So, what would be annual guidance or our aspiration for this FY '23?

Deepak Khetrapal: Well, as I mentioned, we have most of the years we found an opportunity to get better prices from the market in Q4, right. So that is an expectation and hope. On volume, I told you that we are actually working towards that. On price, that is the hope that we will get some opportunity at some time in the remaining eight weeks to get better prices. But if the prices do not go up, that will remain a challenge.

And in that case, our EBITDA per ton, even if we take the operating leverage benefits and all, I mean, this quarter we've done about 640 or thereabouts that in this quarter it has the potential to with the existing prices be somewhere between 750-800 rupees a ton. Whatever that weighted does for the year. But also at the same time we are still not loosing hope that there might be windows for us to get a better pricing which I am not factoring into the EBITDA per ton that I just talked about.

Moderator: The next question is from the line of Dhiral Shah: from Phillip Capital – PCG.

Dhiral Shah: As of since we are entering into a pre-election phase in the regions we operate like Telangana, Karnataka as well as there is a Lok Sabha election next year. So what kind of volume growth guidance we expect for the next FY ‘24?

Deepak Khetrapal: Quite frankly, I mean, given all that we've heard in the budget speech of the Finance Minister this year, which, as I said, has been -- I mean, it's something which I see an extremely positive budget for the cement industry. And given the fact that we still are, as an industry, not seeing the kind of demand that we've seen in the pre-COVID times I would not be surprised that if FY '24 the industry continues to see growth well above 10%.

My own guess would be 12%, 13% should be expected with so much support coming from the government in terms of capex, I see no reason why -- and mind you, FY '23 will still be a modest base. I won't call it low but still a very, very modest base to work on, right.

And we just need to look back in good years what kind of volume the industry has managed to sell. So, I think we have enough room to expect a growth of well over 10%.

Dhiral Shah: So, we growing, sir, faster than the industry or we will be at growing at par with the industry growth?

Deepak Khetrapal: Look, every company would want to sort of do it faster than the industry. You have to see the track record. I think overall, if you see over the last five years also our track record has been that we've been able to grow at a rate higher than the industry, and that effort will continue.

But like I said, the volume growth for me is also a function of whether I keep getting the right kind of contribution to work with given the cost base. So -- yes, we certainly would think that if we are closing this year with the momentum I just spoke about, in that case, we would like to sort of -- why don't we target growth about 15% in FY '24, We have the capacity. We have the market presence. We have the ability to sell, I need the right prices, that's all.

Dhiral Shah: And sir, just lastly, sir, what -- with the commencement of the waste heat recovery plant, plus the alternative fuel that we are continuously improving and now the fuel inventory that we have, do you expect that our EBITDA per ton may again inch up to INR 1,000 in FY '24?

Deepak Khetrapal: I certainly would think so. But in EBITDA, we always have to remember, EBITDA there are two sides. One is the price realization, second is the cost. And in cost management, I think we can take a huge amount of pride in being amongst the best in the industry. To me, INR 1,000 for next financial year, to me looks like -- given the demand momentum that we see, I think INR 1,000 should be fairly achievable expectation. I would like to believe that.

Moderator: The next question is from the line of Kashvi Dedhia from Centra Advisors.

Kashvi Dedhia: So, my question is on WHRS side. First 10 megawatts of WHRS will be coming in Chittapur plant, so how much savings per ton will be done on account of that?

Deepak Khetrapal: See, earlier also I had mentioned that if you take the cost of that at about INR 100 crores and the payback of three years, per ton, you can keep calculating as the company -- because if savings will be only at Chittapur and there's only 10 megawatts, right. So, I'm expecting a saving of around INR 30 crores a year. Take that out and per ton basis whatever is the number. For me, it's the total [inaudible 0:48:15]. Yes.

Moderator: The next question is from the line of Girija from Systematix Shares & Stocks.

Girija: So, my question is pertaining to the pricing. So, do you think, or do you see any kind of pricing pressure because of new players entered in the market? As far as I know, there is an increase in direct sales from the factory. So -- previously, the retailers or dealers, they used to fill their-- ordering any -- if their order value was somewhere around 460-500 cement bags at a time, minimum order, but now the company -- few companies, they have reduced it and they are ready to deliver 260-300 bags to the retailers or distributors.

And a few companies, they are also shutting down their godowns to for a cost cutting purpose. So, in that way, do you see any kind of pricing pressure at this moment?

Deepak Khetrapal: See, pricing pressures have been visible. That's why you've not been able to raise our prices further. We guys are operating at a fairly, I would say, in a very fairly tight market where costs have not given us any relief and the [inaudible 0:50:02] on the -- they've been going up. On the sales side, we've not been able to pass on the cost.

So obviously, price pressure is existing. I mean, throughout this financial year, we have seen the pricing pressure. In terms of people choosing to start supplying smaller quantity orders, frankly, indirectly, that's a price pressure only because the moment you start supplying smaller quantities, your cost of logistics goes up, right. So, when we're taking a decision, we not only look at what the price per bag or per ton for us is, we also look at what's my cost of delivery. Right.

So -- yes, the players who are finding it, let's say, necessary. As far as we are concerned, what I can tell you is we do supply smaller quantity orders, but we are supplying them to only dealers or customers who are very close to our plants. We can't afford to supply very small quantities to dealers who are 200, 300 kilometres away, we just can't afford to.

Somebody within 30 kilometres-40 kilometres is there some markets, some customers, some dealers, we can look at that, yes.

Girija: And currently, what is the price gap between trade and non-trade?

Deepak Khetrapal: Million-dollar question. Depends on which particular market /which customer we talk about. But largely, I think at this stage, what's happening is that the -- with all the demand from B2B sector, we are actually seeing prices being -- they're being fairly firm.

In the sense that they are not at a -- they are not able to get away with much lower prices, especially because they're buying the higher cost cement also. So, price gap may not be there, but because of higher costs, the margins come under pressure there in B2B.

Pricewise, I think they -- today, I don't think they're getting a discount over B2C prices because we can't afford it.

Girija: And just -- Yes. So, this Q4 number will be mostly in volume-driven number, not a price realization. We cannot see much in realization front?

Deepak Khetrapal: Look, I --please understand what I said. I said there are no -- nothing line of sight which says prices will go up in this quarter. And that's why the numbers I spoke about, I spoke assuming that the prices have not gone up -- will not go further.

But I also mentioned that in Q4, most of the years you would see, we have seen prices improving in Q4. So, I'm not giving up on that hope. That's, for me, the bonus on top of the volumes that I've spoken of.

Girija: Yes, because January we do not see much price hike. It's all in the average price, it's more or less flat, so two months, I don't know?

Deepak Khetrapal: Yes. But as we -- I mean, if you look at historical trends, there is still hope. There's still optimism that in the remaining weeks, we may get a few weeks of good -- better pricing.

Deepak Khetrapal: Harsh, I think there are just three minutes left so if people have got all their answers, then we may be good for the day.

Moderator: Sir, we have two questions in the queue. Should we take that?

Deepak Khetrapal: Okay. Since you asked, it's okay. The last two then.

Moderator: The next question is from the line of Shouvik Chakraborty from Dolat Capital.

Shouvik Chakraborty: Sir, can you -- this is a database question. Can you just mention the per Kcal cost? I mean, blended cost?

Deepak Khetrapal: I did mention earlier.

Shouvik Chakraborty: Sir, I did not get that?

Deepak Khetrapal: That becomes a problem if the same question keeps coming back.

Shouvik Chakraborty: Was it below 2.2, sort of that?

Deepak Khetrapal: Yes, just about. I've actually delivered the number. I think it was lower than that. Yes, I said Well under INR 2,200. That's what I said. Yes.

Shouvik Chakraborty: Sir, and the lead distance for this quarter?

Deepak Khetrapal: Lead distance is always -- we've being a little over 300 kilometres, so some quarter, it comes down by five kilometres, some quarters it goes up. There's no major difference. I mean between five, seven kilometres, there's no variation from previous quarter. So, a little over 300 kilometres is what we keep telling the market.

We certainly are well below 350 kilometres. We are nowhere in the range of 350 kilometres. So that's another way of putting it. But precisely exact number, we've not been giving out. We generally give a range.

There were two questions, Harsh. So, is there somebody else also waiting?

Moderator: The next question is from the line of Surya Narayan from Sunidhi Securities and Finance.

Surya Narayan: Yes. Sir, just wanted to know what is the availability of the domestic coal so far as the G-3 or G-4 grade coal also our 6,000 plus Kcal grade?

Deepak Khetrapal: From the mines that we buy, we are not seeing that availability. That's a problem. G-5 onwards, we are getting adequate coal, and we are buying for -- when I mentioned that our Devapur, Telangana plant, we are largely dependent on domestic coal. It's a mix of G-5, G-8. And that's good enough for our production.

We top it up, given the price difference between G-2, G-3, and the G-5, G-8, we'd rather top it up with some petcoke as a sweetener rather than buying a very expensive coal where by the time the coal reaches you, you know the gaps that exist between what they say is the grade and what quality of coal we end up getting. So better off buying G-5 plus G-8 and using petcoke as a sweetener.

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

Deepak Khetrapal: No, I just -- I think I've provided all the information that the participants asked for or needed as required. And I once again would like to thank all of them, all the participants, once again for your interest in our company. You keep coming back to us, keep asking us questions, which enables us to let the rest of the world know through you people how our operations are going.

Thank you for your time. Thank you for effort. Thank you for your contribution. And some idea suggestions that come up, they're always welcome. Thank you, Harsh, and thank you, I-SEC, for again, once again, connecting this conference -- the call very well. Thank you.

Harsh Mittal: Thank you sir, for the opportunity. Thank you.

Deepak Khetrapal: Thank you.

Moderator: And thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.