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25th October 2023

The National Stock Exchange of India Ltd.,
"Exchange Plaza", 5th Floor
Bandra – Kurla Complex
Bandra (East)
Mumbai – 400 051

The Secretary
BSE Limited
P J Towers
Dalal Street
Mumbai – 400 001

Symbol: SAGCEM
Series: EQ

Scrip Code: 502090

Symbol	**SAGCEM**
Series	**DEBT**
ISIN	**INE433R07016**

Dear Sirs,

Sub: Submission of transcription of Conference Call under Regulation 30 read with Part A of Schedule III of SEBI (LODR) Regulations, 2015 on Q2 FY 24 financial results

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Pursuant to the above said Regulation, we are forwarding herewith the transcription of the Conference Call held by us on 20th October 2023 in connection with the recently announced un-audited stand-alone and consolidated financial results for the second quarter and half-year ended 30th September, 2023.

Thanking you

Yours faithfully
For Sagar Cements Limited

R.Soundararajan
Company Secretary

Encl.

MANAGEMENT:	Gavin Desa - CDR India Sreekanth Reddy - Joint Managing Director K. Prasad - Chief Financial Officer Raja Reddy - Company Secretary
ANALYSTS:	Shravan Shah Rajesh Ravi Pritesh Chheda Amit Murarka Mangesh Bhadang Sanjay Nandi Keshav Lahoti Krutika Vispute Sumangal Nevatia Vishal Periwal

Presentation

Manish Valecha: Good morning, ladies and gentlemen. Welcome you all to the Q2 FY '24 Results Conference Call of Sagar Cements Limited. We have with us from the management Mr. Sreekanth Reddy, Joint Managing Director; and Mr. K. Prasad, CFO. We are also joined by Mr. Raja Reddy, he is the Company Secretary. We will now start the opening session with the management with a brief opening remarks from the management and then will be followed by a Q&A session. I request all the participants to be in a mute mode during the course of the call.

I would now like to hand over the call to Gavin Desa of CDR. Over to you, Gavin.

Gavin Desa: Thank you, Manish, and thank you for the introduction. Welcome, everybody to the call. We'd just like to add that as some statements made in today's discussions may be forward-looking in nature and a note to this effect was stated in the con call invite sent to you earlier. We trust you have had a chance to go through the financials and the communication sent along with it.

I would now like to request Mr. Sreekanth Reddy to commence with his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy: Thank you Gavin. Good morning everyone and welcome to Sagar Cements' earnings call for the quarter and half year ended September 30, 2023.

Let me begin the discussion with a brief overview of the market – in terms of demand and pricing post which I will move on to Sagar specific developments.

Overall, we have seen demand remaining more or less steady across the regions during the quarter. Volumes as well have remained buoyant amidst good demand from housing and infrastructure segments. Pricing, which was somewhat soft during recent times, has seen some improvement across specific regions towards the end of the quarter. Input prices as well have been somewhat benign although we did witness some spurt in fuel prices during the quarter. Utilization levels as well remained elevated, reflective of the on-ground demand, that coupled with lower input prices should result in better profitability and margins for the industry. Going ahead, while the visibility with regards to demand and volume off-take remains high, a sustained improved pricing environment is needed to help counter the vagaries of input and freight costs.

Let me now move on to our quarterly performance, we have seen a good recovery during the quarter. Profitability in the previous quarter as many of you may recall was impacted by low volumes owing to maintenance shutdown and high inventory cost. Volume growth during the quarter was aided by steady demand in housing and infra projects. Pricing environment, as mentioned earlier was better on a sequential basis. Higher volumes and better realisations resulted in revenues of Rs. 587 crores during Q2 as against Rs. 475 crores during corresponding quarter of last year and Rs. 540 crores during sequential previous quarter, higher by 24% & 9% respectively.

EBITDA for the quarter stood at Rs.60 crore as against Rs. 6 crores generated during Q2 FY23 and Rs. 31 crores garnered during the sequential previous quarter, higher by 955% & 97% respectively. Margins for the current period stood at 10% as against ~1% reported during corresponding period last year and ~6% generated during the sequential previous quarter. Profitability and margin improvement during the quarter was largely on expected lines. As mentioned earlier, Q1 EBITDA was impacted by lower volumes and high fuel inventory cost. We expect the margin and profitability trend to continue in the second half owing to benign input costs and better volume growth on account of ramp-up of Andhra cement and MP and Odisha plants. Also, our strategic initiatives towards increasing the share of green power, usage of electric trucks and wheel loaders and increased usage of alternative fuels, bodes well for rationalization in operating costs over medium to long term.

In terms of key operational activities, as mentioned earlier, our efforts are directed towards improving the overall efficiencies and ramping up the utilization levels of our recently acquired units. Jeerabad and Jajpur units are performing as per our expectations and we believe we will be able to achieve 80% utilization levels for the former and EBITDA breakeven for Jajpur during this fiscal. We are also positive of attaining our volume guidance of 6.2 mn MT during this fiscal.
Average power & fuel cost stood at Rs. 1,626 per ton as against Rs. 2,062 per ton reported during Q2 FY23. Freight cost for the quarter stood at Rs. 848 per ton as against Rs. 797 per ton during Q2 FY23. As mentioned earlier, we have seen moderation in fuel and freight cost on a sequential basis. Loss after tax for the quarter stood at Rs. 11 crores, as against loss of Rs. 44 crores reported during Q2 FY23.

From an operational point of view, Mattampally plant operated at 62% utilization while Gudipadu, Bayyavaram, Jeerabad, Jajpur and Dachepalli plants operated at 87%, 60%, 65%, 26% and 22%, respectively, during the quarter.

As far as the key balance sheet items are concerned the gross debt as on 30th September 2023 stood at Rs. 1,533 crores out of which Rs. 1,305 crores as a long-term debt and the remaining constitutes the working capital. The net worth of the company on a consolidated basis as on 30th September 2023 stood at Rs. 1,628 crores. Debt equity ratio stands at 0.80:1. Cash and bank balances were at Rs. 152 crores as on 30th September 2023.

In summary, we believe that our efforts towards cost rationalization, better product mix and presence across established and faster growing regions, positions us well to create value for our stakeholders.

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

Question-and-Answer Session

Manish Valecha: Thank you. We will now begin with the Q&A session. The first question is from Shravan Shah. Please go ahead, Shravan.

Shravan Shah: Yeah, the first question is, you mentioned 6.2 million volume that we are looking for this year. In presentation, it was 6 million. So just correct me and also help me how are we looking at in terms of the third quarter and the fourth quarter volumes. So last time we talked about 1.8 million in third quarter and 2 million in kind of a fourth quarter.

Sreekanth Reddy: Yeah. Mr. Shravan, the small downward revision from 6.4, we revised it to 6.2. I think there is a typo in the presentation. We believe that we should be achieving close to 1.75 million in Q3. This is taking into account the election notification in Telangana. And at the same time, we are targeting at doing 2 million for the Q4, Mr. Shravan. So that would be the breakup between both the quarters. So we did close to around 2.5 million for the first half. We are targeting at growing around 3.7 million to 3.75 million for the next half, Shravan.

Shravan Shah: Got it. Second, in terms of the pricing. So if you can help us in terms of from Q2 average. So now so we understood that in East also, that is close to ₹50, ₹55, the kind of a price hike got absorbed in September and in South also ₹30 to ₹50 price hike is going on. So just wanted to understand, from Q2 average, how are the prices in East and South, particularly, till now whatever we have taken.

Sreekanth Reddy: No, I think rather than talking about Q2, let me talk of the exit prices from September to October. Of course, in South, the price increase, we could realise only from the second week, though we initiated price increases in the 4th to 5th of October, but the real price increases started for us only from second week onwards, Mr. Shravan. Hyderabad, we have seen almost ₹35 per bag kind of an increase. I would not call a exit of September alone, but from middle of October, we could start looking at a ₹35 increase per bag. We are looking at Vizag almost the price increase is to tune of around ₹35 to ₹45.

Bangalore, we have seen around ₹20 to ₹25 per ourself. Chennai, we have seen ₹40 to ₹45 per ourself. Sholapur, we have seen ₹20. When it comes to East, this we could see from end of August itself, we could see almost ₹30 kind of an increase from September to October. And October, we could only get an additional ₹5 over that timeline. Indore, one of the markets that we have seen yeah, we have seen a plus ₹15, kind of an increase in past.

Shravan Shah: Indore, you said or how much?

Sreekanth Reddy: Plus ₹15. It is from exit of September into the October or at this point of time, we have seen a plus ₹15 per bag.

Shravan Shah: Okay. Got it. So now, if you look at in terms of what we were looking at EBITDA of ₹400-odd crore for this year?

Sreekanth Reddy: I think that is achievable, Mr. Shravan. So our outlook, we are very clear that we should be very close to that number.

Shravan Shah: Okay. So just trying to further understand that because in the first half, we did ₹91-odd crore. So we need ₹310 crore kind of a number going second half.

Sreekanth Reddy: We are talking of around ₹800 to ₹850 on a very conservative scale. Given the operating leverages that we have and the current fuel price trends, which we believe current fuel prices might remain more or less flat in our case, we are looking at around getting ₹800 only per ton on an average for ourselves.

Shravan Shah: Okay. For the second half, we are looking at ₹800 to ₹850 kind of numbers. That's great. Second, on the expansion plans last time we have talked about three plants that we are having and maybe we'll be sharing the details in this con call. So from currently 10 million to 12 million, so 0.75 in Andhra, 0.25 in Gudipadu and 0.5 in Jeerabad. So any update on that?

Sreekanth Reddy: We are just waiting for the clearance from our investment committee, which we should have over the next 15 days clearance. As soon as we get the clearance, we'll be happy to revert back.

Shravan Shah: But broadly, that number will remain in?

Sreekanth Reddy: That number would remain -- the target is to reach to 12 million by end of FY '25, for which we need to initiate as soon as possible. So we are just waiting for approval from our investment committee to share it with all of you.

Shravan Shah: And even for the debt also though it has increased by close to ₹120-odd crore in 1H, we were looking at ₹1,200 crores, ₹1,250 crores kind of a net debt for next two odd years.

Sreekanth Reddy: I think on the debt, we would remain committed to not crossing on the gross side at ₹1,500 crore, and on the net side, somewhere around ₹1,250 crores to ₹1,300 crore, we would not cross those numbers either way. We are committed to keep that number stay there even with the growth plans.

Shravan Shah: Okay. And lastly, on the CapEx, 1H, we have done ₹130-odd crore. So how one can look at for this year at least?

Sreekanth Reddy: Yeah, we only have the maintenance CapEx, Mr. Shravan. So at this point of time, that is the only approval we have, and that is what we have committed to spend. As we have mentioned, Mattampally went to a very deep shutdown because after 15 years, kiln and preheater went through some modifications to handle much higher foot of alternate fuels and also demanded some maintenance. So that is the only CapEx that is earmarked for the next six months. But for the medium-term kind of a CapEx for which we are awaiting for the investment committee to approve. We would only do the maintenance.

Manish Valecha: Thank you. The next question is from Rajesh Ravi.

Rajesh Ravi: Yeah. My question pertains to, first, the margin guidance which you gave for full-year and this is second half around ₹850 versus ₹360 achieved in H1. So what are the cost levers are you looking at out of this ₹450, ₹500 improvement in second half, how much of this would be cost driven? And fuel prices apparently seems to have bottomed out. Correct me if I'm wrong.

Sreekanth Reddy: Yeah, Mr. Rajesh. I think in our case, it's a combination of operating leverage. As we have mentioned, we could only operate for -- we only sold 2.5 million for the first half where we intend to sell close to 3.7 million, that itself should add ₹100 to ₹150 overall cost reduction on the operating side. We don't expect major changes to happen on the power and fuel from what we have achieved in the Q2. The reason is obvious that the pet coke and coal prices went down aggressively actually came back from 100, again, they came back to 140 to 150 kind of dollars. So we don't expect things to be a lot more different.

But we may have to review at this point of time, we do have inventory all the way to middle of Q4. But with the geopolitical issues that is happening in Middle East, we would want to keep track of it. But having said that, power and fuel costs, we expect it to remain flat. The balance will come from the realisation jump and as mentioned, the breakeven at both the EBITDA breakeven at both Jajpur and Dachepalle have already happened. So given the scenario, we definitely expect the margins to improve, to more than double, Mr. Rajesh from the first half.

Rajesh Ravi: Okay. So this versus Q2, the 400 extra margin that you're looking at out of which around ₹150 is operating leverage driven and rest ₹200, ₹250 you're looking at from realisation improvement?

Sreekanth Reddy: Yeah. I think that conservatively is our estimate.

Rajesh Ravi: Okay. And this Andhra, what is the current clinker and cement capacity, 1.8 and 1.65?

Sreekanth Reddy: The current Andhra's capacity is to tune of around 1.85 million is the clinker capacity, and 2.25 million is the grinding, Mr. Rajesh.

Rajesh Ravi: Okay. And you're expected to take this to 2.3 clinker and 3 million in grinding.

Sreekanth Reddy: 3 million grinding by FY '25.

Rajesh Ravi: So 1.85 clinker will become 2.3, and 2.2 grinding will become 3 million tons by next. Okay, great. I will come back in the queue. Thank you.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Pritesh Chheda.

Pritesh Chheda: The incremental ₹450, ₹500, which you are mentioning, isn't it a bit conservative considering that even if one takes ₹25 per bag that it shall be the ₹500 extra EBITDA for that.

Sreekanth Reddy: That is gross, you have to remove the GST.

Pritesh Chheda: So you're saying at the gross level. Okay. That was my clarification. And the volume that you mentioned for the full-year is how much?

Sreekanth Reddy: Yeah, we are talking of 6.2 million?

Pritesh Chheda: And you have got 2.5 in the first half, right?

Sreekanth Reddy: Yeah.

Pritesh Chheda: Okay. Thank you very much. And what's your peak debt after the expansions?

Sreekanth Reddy: Yeah, we are talking about 1,500 on a gross side, Mr. Pritesh.

Pritesh Chheda: Okay, thank you very much.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Amit Murarka. Please go ahead.

Amit Murarka: So on Andhra Cement, I was just checking the numbers. So the EBITDA per ton seems to be same as Mattampally but with a lower realisation. So just to understand, like how come, is it lower cost? Or could you just explain those numbers a bit better?

Sreekanth Reddy: Yeah, it's a more operating leverage, Mr. Amit, because at Andhra, we could produce more clinker. So there was a sale of clinker along with the sale of cement. So the operating leverage helped us to have a better margin in Andhra for the last quarter Mr. Amit.

Amit Murarka: So the sales volume that you have mentioned So that would include clinker or not?

Sreekanth Reddy: No, usually it doesn't include clinker.

Amit Murarka: And how much was the clinker sale there?

Sreekanth Reddy: No, that was one-off because as mentioned, Mattampally was under maintenance. So we shifted some amount of clinker, but it's safe to assume that it would be a combination. I would not say included at this point of time, again, depends dynamically on the market conditions, Mr. Amit. On the overall revenue, it is, but on the sales number, we are sticking to the cement sales.

Amit Murarka: Okay. Understood. Fine. But still like the EBITDA that is mentioned there, like could you just give a sense about how much of that EBITDA was from clinker sales just to kind of understand the cement numbers better?

Sreekanth Reddy: Yeah, I think you should take it half, half, if I'm not mistaken, Mr. Amit. But we will revert back to you with the specifics on that.

Amit Murarka: Got it. And like the capacity utilisation then was about 40-odd percent, right? The cement utilisation in the quarter, like based on the 2.25 million tons?

Sreekanth Reddy: You're talking of consolidated numbers Amit?

Amit Murarka: No, this is Andhra. Again, Andhra, I'm talking about.

Sreekanth Reddy: See, Andhra, clinker utilisation was slightly more than the cement utilisation Mr. Amit. So we also had to shut down because we couldn't handle the clinker beyond a point. So we had to take a forceful shutdown. Let us look at the full-year number because the first half, as you know, only the Q2 was the reasonably operated kind of a quarter. August month, we actually were very near to 85% at clinker level utilisation, Mr. Amit. But that was only for August, not for September. So it is fluctuating because we couldn't handle the excess inventory, so we had to take a forced shutdown there.

So that may not truly reflect the operating rates for the first quarter. Full-year, our target is to achieve around 0.75 million. I think we are keeping that target for the cement sale at 0.75 million from Andhra for the full-year.

Amit Murarka: Okay, sure, sure. Thank you very much.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Shravan Shah. Please go ahead.

Shravan Shah: Just to clarify, when we are saying Andhra 2.25, so that includes the Vizag?

Sreekanth Reddy: No, it doesn't include Vizag grinding.

Shravan Shah: Okay. And regarding the Vizag land sell, any update or?

Sreekanth Reddy: We have time as clarified last time we are talking about 18 months, so out of that three months is done. So we believe that we should conclude some transaction well within those coming 15 months.

Shravan Shah: Okay. Not even a broader range in terms of the market value.

Sreekanth Reddy: It is work in progress. So we completed only a small portion of this or probably out of four steps, we completed only one step. So we have three more steps to complete. Once we complete two or three steps only then we will start engaging with potential buyers, because the scope of conversion and everything we are trying to keep it for ourselves. Before that, we need to get the land records and everything structured and then convert the land and then seek the government permission for potential sales.

So these are all the steps that are involved. We only completed the record bookkeeping and everything to be in order for us to proceed with the next two steps. It will definitely take 15 months is what we strongly think. We are very happy to come back to you with the status on it once we have crossed each milestone, Mr. Shravan.

Shravan Shah: But broadly, ballpark, the ready reckoner would be a kind of a 2.5, 3?

Sreekanth Reddy: The ready reckoner, as we have mentioned earlier, yeah, that remains at 4 crore per acre that remains. So that has not changed from earlier quarters. That ready reckoner is something which we are looking at the government. Government is yet to revise any of those ready reckoner rates.

Shravan Shah: Okay. Got it. Trade sale for this quarter was how much?

Sreekanth Reddy: It should be close to around 65%. So there is a government component. As you know, most of the governments are gearing up for the election. So trade is close to around 65%.

Shravan Shah: Okay. Got it. And the green share, for this quarter was how much. Last quarter was 27%.

Sreekanth Reddy: See, this time, it is very close to that number because I think full operations, we will only be able to do it in the second half, Mr. Shravan, because Mattampally was under maintenance. So that component remains reasonably close to that. So most of our inventory was used, so that would not have changed. So for the second half, we are talking of close to around 30%. So we should reach to that 30% in the second half.

Manish Valecha: Thank you. The next question is from Mangesh Bhadang. Go ahead, Mangesh.

Mangesh Bhadang: Firstly, any impact on demand after the price increases that were announced? And secondly, with the election dates being announced, do you feel that demand could turn out to be lower, which would actually drive pricing lower because of lack of demand?

Sreekanth Reddy: Mr. Mangesh, our experience from past 1, 1.5 decades, especially on this price to volume, there has never been a correlation. So I cannot comment much. Secondly, demand definitely doesn't move with the increase in price. I think as mentioned previously in my earlier calls, too, the cement per se would not be a major cost component in any of the construction activities are the end users fragment. Especially on the housing, if you look at low-cost housing, it is less than 3%. So luxury housing, it is definitely less than 1%. But most of the infra projects, it is less than 5%. So given the impact of cement costs in the end-use requirement, I don't think the price of cement would be influence in a big way the demand. Usually, it will be a keen jerk reaction to slow down just in case if it surges up, but this price increase is not that steep for demand to really contract.

In Telangana, of course, the election schedule for two states where we are present is for Madhya Pradesh and Telangana. Telangana, the government consumption is limited. So the demand, we have not seen any major contraction so far. Madhya Pradesh, we are watching so we would be in a much better situation to comment on the election schedules influence on the demand probably a couple of weeks later. As we speak, so far, we have not seen any shrinkage on demand Mr. Mangesh, either because of price increase or because of the election announcement.

Mangesh Bhadang: Okay. Thanks, and that is helpful. Secondly, on the Andhra Cements expansion. So during the expansion, do we have to take a prolonged shutdown from this facility? And if that is so, when would that be?

Sreekanth Reddy: See, this we are building a brand new creator in parallel, so it doesn't demand a major shut down. At the best, it might need a 30-day shutdown, that is likely to happen 15 months from now. And that can be managed with the inventory management rather than an absolute break in the complete kind of dispatches. It may not really influence the sale. To a certain extent, it might influence some cost-related issue 12 to 15 months from now.

Mangesh Bhadang: Understood. And lastly, if I may ask, after the increase, have you seen the interregional sales, like now, basically the inputs from other regions increased in Andhra or other region?

Sreekanth Reddy: No, fortunately, most of the contiguous regions, it's not the same, but similar kind of a price increase. So that would not really push volumes. But we are just two weeks into this. So we will be in a much better situation to understand and revert back to you probably it would take another couple of more weeks before we could start getting to know the interregional movements. But so far, most of the continuous regions had similar kind of increases, that typically doesn't prompt in a big way the changes in the interregional movement or something.

Mangesh Bhadang: Understood. Thank you and best of luck.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Sanjay Nandi. Please go ahead.

Sanjay Nandi: Good morning. Thank you for the opportunity. What has been the utilisation for the clinker for this exit quarter of Q2 on a consolidated basis?

Sreekanth Reddy: I think we are close to around 65% at a group level, Mr. Sanjay.

Sanjay Nandi: 65%. Okay. And last question is like what is the average holding rate for pet coke inventory? Like did we book something when the price was $110 per quarter?

Sreekanth Reddy: We do it irrespective of the price. The only time that we held back was it was a very, very elevated level, then it was about 200 plus, but now we keep buying systematically. Our historical holding was almost close to six months that got revised to four to four and a half months right now. So we are still stick into that, because we believe there are any changes we may not be in a situation to get benefit out of it. So we have limited ourselves to four to four and a half months range.

Sanjay Nandi: Okay. Thank you so much. That's all from myself. Wish you a happy Diwali.

Sreekanth Reddy: Thank you. Wish you the same.

Manish Valecha: Thank you. The next question is from Keshav Lahoti. Please go ahead.

Keshav Lahoti: I just want to understand, Andhra Phase 2 was expected to start in H2. But you stated only maintenance capex would occur this year. So whether that would be delayed and…

Sreekanth Reddy: No, Mr. Keshav, let me again for clarity sake, we are talking of maintenance CapEx at all the places. Investment committee is reviewing the proposal what we have circulated as far as Andhra is concerned. That if we get approval, we should kick-start it at the earliest, but that may not lead to huge CapEx, because its only in initial phase it doesn't consume much its more to do with the advances, Mr. Keshav. So that should not delayed. We are just awaiting for the investment committee to give the clearance. That's what we have committed.

At this point of time, since we are waiting for the investment committee to clear, we have committed only for the maintenance CapEx at the rest of places. Once the investment committee clears, we would be happy to come back to you with the year CapEx plans, but it may be very, very small for the current year. That should not delay the overall kind of CapEx spend, because we are only going to pay 10% to 15% of the overall CapEx, the expansion or the modification CapEx, 10% to 15% is going to be the commitment for this quarter. That may not be much. That's what we have said, and that's what I'm trying to clarify Mr. Keshav.

Keshav Lahoti: Understood. Broadly, the understanding is the CapEx would be something like ₹300 crore. So maybe ₹30 crores, ₹40 crores might be incurred in this year and balance next year. And this project will be completed by FY '25?

Sreekanth Reddy: I'm waiting for the clearance, we'd be happy to come back. but it would broadly in similar kind of a lines as we have mentioned it.

Keshav Lahoti: Okay. Understood. And Andhra clinker was like 1.65 what I remember, but today you mentioned 1.85.

Sreekanth Reddy: It is always 1.85. Grinding was 1.65. It was limited to 1.65. There was investment made by the earlier management itself of pre-grinder and all which they did not commission. We ended up commissioning that during the takeover and the ramp-up. So with that, the clinker capacity remains at 1.85, but the grinding from 1.65 moved to 2.25.

Keshav Lahoti: Understood. One last question from my side. What was the Jajpur sales volume in quarter two? And are we on our target to achieve 40% utilisation for this plant in this year?

Sreekanth Reddy: So for the first half, yeah, we did close to around 0.14 million. Our target is to do 0.4 million. So I think we should end up achieving those targets at Jajpur.

Keshav Lahoti: Okay. Thank you. That's it.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Krutika Vispute. Please go ahead.

Krutika Vispute: Yesterday, there was an announcement wherein you had referred a shareholders agreement with AvH resources and there were some special rights mentioned. So what exactly does that mean?

Sreekanth Reddy: See, it is pertaining to getting shareholders' approval for entering into shareholders agreement with AvH who have been investor for over 15 years. So we are formalising the relationship by entering into a shareholders agreement with them.

Krutika Vispute: Formalising as in what sense?

Sreekanth Reddy: Yeah, there was never a shareholders agreement between Sagar Cements and AVH. So we are entering into a shareholders agreement with them right now. As they all close to 19.8%. So we are getting into a shareholders agreement with them.

Krutika Vispute: Okay. And what are the special rights that the announcement that was for?

Sreekanth Reddy: Sorry, I missed out your voice is very feeble.

Krutika Vispute: Yeah. I'm saying what are the special rights that the announcement referred to?

Sreekanth Reddy: Well, there is nothing, it is exactly on a similar lines as we had entered previously with the previous large investors like Premji. It's like appointment of nominee directors, and see we are a listed company. So you know these things are pretty clear. So it's more specifically formalising the shareholders agreement with them.

Unidentified Analyst: Okay. Thank you. Yeah, that was my question. Thanks.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Shravan Shah. Please go ahead Shravan.

Shravan Shah: Again, clarifying what's the current total grinding capacity? Is it 10.85 Mn ton?

Sreekanth Reddy: It is 10.85 Mn ton, Mr. Shravan.

Shravan Shah: Okay. Because it is actually not tallying, so that is some…

Sreekanth Reddy: Yeah. I'm sure there are some small gaps in this 10.85 Mn ton, Mr. Shravan.

Shravan Shah: Okay. Got it. Thank you.

Manish Valecha: Thank you. Anyone who has a question may indicate by raise of hands. In the meanwhile a couple of questions from my side. So what is the current status in ramp-up of both the plants, both in Dhar as well as in Jajpur?

Sreekanth Reddy: Yeah, Dhar, our capacity utilisation is up of 85%, Mr. Manish. So the run rate is very good except for the last couple of months where the season will be back, the run rate is up of 85% capacity ratio. As far as Jajpur is concerned, as you know, these prices have improved. And the merger is complete with both these events. We are ramping up the capacity utilisation is near 50% at Jajpur.

Manish Valecha: And in terms of break even, we were...

Sreekanth Reddy: We already broke even during the middle of last quarter itself at EBITDA level. So we are talking of Jajpur. Jeerabad, of course, it is more than break even. And we are also very happy to announce that the Madhya Pradesh government approved the incentives. So it was 40% of the certified CapEx, which should have been ₹150 crore whichever is lower. So it should have been ₹180 crores. But since the cap is at ₹150 crore, so we got a sanction for ₹150 crores incentive to be paid over seven years. It will be equally paid at 21.5 kind of a number per year for next seven years. We did receive the sanction of incentives also at Jeerabad plant.

Manish Valecha: Okay. So that's approximately like ₹200 a ton and…

Sreekanth Reddy: Slightly more than that number.

Manish Valecha: Okay. Got it. And from the demand perspective, can you give your usual commentary on state-wise demand outlook?

Sreekanth Reddy: Yeah, I think I would rather stick to the south demand would definitely be up in a very high single digit, which we stated. The reason why we are talking about a single digit is election notification has come for Telangana. Given that scenario though we don't expect a major slowdown, but it would definitely impact the labour availability and all for some time. So given that scenario, we believe that the entire South, which so far has moved close to 12% to 13% for the first half.

Yes, we believe we might end the year with a very high single digit or maybe very low double digit kind of a number for South. Rest of all the other places, we believe like Odisha would be high single digit. Madhya Pradesh, we expect again from a double digit, we recalibrated to single digit again because of the election notification, Mr. Manish.

Manish Valecha: Got it. Thank you so much. The next question is from Sumangal Nevatia. Please go ahead.

Sumangal Nevatia: Yes. Thank you for this chance. I joined the call late. So if it is repeated, please excuse me. One is, on the Andhra cement, we are holding 95% holding. So what is our plan? I mean what is the compulsion as far as the regulation is concerned? And how do we plan to dilute over the next one, two years?

Sreekanth Reddy: Yeah, the regulation is for us to reduce it to 90% first, less than 12 months from the day of listing. That means we should reduce it by 5% before April '24. And within three years' time, we have to reduce it to 75%. And we are gone by those regulations. So we would invariably fulfil those obligations at the right time, Mr. Sumangal.

Sumangal Nevatia: Okay. And any initial thoughts as to what is our preference in terms of route of valuation?

Sreekanth Reddy: See our approach is not to sell Sagar shares, but to go for a capital increase as we are a growing organisation. So we believe that there is CapEx and there is a requirement. So we generally don't go for a very high leverage, so we would like to balance that. So our preference is to go for a capital increase at Andhra for this compliant with the regulation. So that's clearly stated. Yeah, we should initiate probably a month, one and a half month from now about looking at those options, at least we want to complete the first step first. So we should start the work pertaining to that for the next couple of months, Mr. Sumangal. We are more than hopeful to fulfil those things ahead of time from a regulatory compliance, Mr. Sumangal.

Sumangal Nevatia: Got it. That's very useful. Second question, I mean at a 12 million ton capacity, what sort of maintenance CapEx should we expect? And next year, to reach to 12 million ton, what sort of CapEx broadly for FY '25 are we looking at?

Sreekanth Reddy: Yes. Mr. Sumangal pertaining to reaching to 12 million ton, the CapEx we’d revert back to you, except for the maintenance CapEx, yeah, we are awaiting for our investment committee to clear the CapEx plan. So we are expecting anytime now. So as soon as we get, we would be happy to share that. From a maintenance CapEx perspective, when we reach to 12 million ton, you should expect ₹50 crore per year on an average.

Sumangal Nevatia: Got it. And last question, given that this year for Andhra, we'll be at less than 1 million tons volumes and with the capacity of more than 2 million tons. So next year, incrementally, could we look at another year of very strong volume, irrespective of a normalised year as far as industry is concerned, given very low utilisation both at stand-alone and Andhra?

Sreekanth Reddy: Yeah, Mr. Sumangal, the current year, the outlook is to do 0.75 million from Andhra for the current year, because we only started during the Q2. The operations generally started only in Q2 so we only had 3/4th of a year. Next year, we expect the volumes to move to anywhere between 1.25 million to 1.5 million basically. So we'd be doubling at Andhra from 0.75 million outlook, our target is to achieve 1.5 million for next year, Mr. Sumangal. So that adds up along with the ramp up at Jajpur.

So rest of all the other assets, we believe that we should be doing very similar kind of a run rate given the next year is going to be a big election year, Mr. Sumangal, both in Andhra as well as in the central government and some of the operating areas, we do have the election. So given that scenario, we believe the other assets other than Jajpur and Andhra Cements to perform exactly like this year. We do expect volumes to slightly be more relative to this year from Andhra and Jajpur, Mr. Sumangal.

Sumangal Nevatia: Okay. Ballpark, 7.5 million to 8 million is what we should pencil in for next year?

Sreekanth Reddy: I would be around 7.5 million on the higher side, Mr. Sumangal.

Sumangal Nevatia: Okay. Got it. Thank you so much. And all the best.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Rajesh Ravi. Please go ahead.

Rajesh Ravi: Hi, this incentive from MP government. This will be a capital subsidy or will it flow through P&L revenue?

Sreekanth Reddy: Yeah, it will go through P&L, Mr. Rajesh.

Rajesh Ravi: And this is irrespective of volumes or it is...

Sreekanth Reddy: It has nothing to do with the volumes, Mr. Rajesh. It is to do with the CapEx, but structured in a way where it will go to P&L. So it is based on volume. This fixed ₹150 crores to be paid over seven years. So it's going to be lump sum 21.5 kind of number for each year irrespective of volume.

Rajesh Ravi: And you will start accruing this Q3 onwards?

Sreekanth Reddy: We should start accruing from the current year onwards.

K. Prasad: Rajesh, we are going to account based on the receipt, so…

Rajesh Ravi: Based on receipt. Okay, that's great.

K. Prasad: Yes, whenever we are going to realise the money then we're going to…

Sreekanth Reddy: Only then we're going to...

Rajesh Ravi: Okay. There's no accrual you're following over here.

K. Prasad: Yeah. And for the disbursement, there is a limitation on the capacity utilisation. So the limitation is that 70% capacity utilisation. If it is below 70%, proportionately they're going to…

Sreekanth Reddy: Proportionately they are going to organise the…

Rajesh Ravi: Okay. And that will be paid off later when the utilisation…

Sreekanth Reddy: See 150 is fixed, it has to be paid over seven years, so is that we have to operate it minimum at 70%.

Rajesh Ravi: And this volume guidance, 6.2 first half we have 2.5 which you have done around. If I remove the Andhra, which is around 2.4 million and next six months, you're looking Andhra to volumes to contribute another 0.65 million. So ex-Andhra, the remaining assets like the stand-alone, you are not looking any volume offtake?

Sreekanth Reddy: We should be cautious in, we stated that even before Mr. Rajesh, that the existing assets, we only factored in 2.5% to 3% kind of a growth. So that remains at that level. Given that a small supplies that have come in to the regions that we operate. And the demand is likely to grow only in single digits. So we have pencilled in not much of a growth for the existing assets. The bigger ramp-up is happening both at Jeerabad as well as Dachepalli. In the coming second half, we are expecting a 1 million to 1.1 million to be contributed by only these two units.

Rajesh Ravi: Yeah. Okay. And just one last question. when we see the stand-alone three or two subsidiaries performance where they have reported almost ₹700, ₹800 margin. Is it most of the fixed cost is getting reflected in the standalone entity that would have also kind of benefited the other two entities…

Sreekanth Reddy: No, I think what you should understand is the Mattampally, which is one of the largest in the stand-alone was for maintenance. So first half is one-off kind of an event that has happened Mr. Rajesh. So but for that, I don't think there is any anomaly in it.

Andhra is an exception, because Andhra, we had clinker sale and cement sale, and most of the footprint areas of Andhra remains in a close proximity, so the realisation is not higher. But for that, I think it is across very, very…

Rajesh Ravi: Okay. So just one follow-up on this, because if you look at this Andhra where such low utilisation, they have delivered healthy margins. And when you're looking at much higher volumes in the second half, obviously, will have a better operating leverage. And…

Sreekanth Reddy: Yes, I think that is one of the reasons why we are talking of almost 3x the number for the second half compared to the first half.

Rajesh Ravi: Correct. And the stand-alone where you had maintenance impact in the first half, even that should be…

Sreekanth Reddy: Yes. I think this is what is making us very clear about the outlook when it comes to margin Mr. Rajesh, along with the realisation increase, so we did factor around ₹100 to ₹150 to come from the operating leverage itself, because we don't have any major maintenance issues or this thing that is likely to come up for the second half. So that itself should help us add up ₹150 on cost side or rather reduce ₹150 from cost side, which would add up to the margin. And the rest is what we are expecting from the realisation, Mr. Rajesh.

Rajesh Ravi: My thought was that would not be operating leverage on the cost benefits would be much higher given that both the stand-alone on the portfolio…

Sreekanth Reddy: We are in cement. So I need to be cautious because we need to factor many things. And we are into the election year. So any notification or any of that, and at the same time, geopolitical issues would always impact the power and fuel, which is very, very sensitive to those events.

Rajesh Ravi: Great. Thank you and all the best.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Vishal Periwal. Please go ahead.

Vishal Periwal: Yes, thanks for the opportunity. Now cement demand seems it has been strong, and now we have taken industry-wide the price hike has also happened. Historically, given your past experience has both these things gone parallelly for a consistent period of time or one comes off like after a brief taking a strong seasons.

Sreekanth Reddy: Again, I have to go back and give you a historical kind of impact. Over the last 13, 14 years, since the South supply has been 2x of demand, we have seen price increases, coupled with reduction in demand. Sometimes we have seen price increases with increasing demand. So we have seen various permutations and combinations. There is never a one single rule that was applicable. But there were instances where price increase was coupled with increase in demand. So nothing can be ruled out.

Vishal Periwal: Okay. So for absorption of the price hike, typically, you will wait for how many weeks to say that, okay, things are sustaining?

Sreekanth Reddy: Two weeks. Typically, we have to wait for the two weeks, which we just completed. So that's what makes us think that this price is at least would sustain in the present shape. Though this hike is not the highest, I don't think we are at such a high prices that we have seen in the past. And most of the people are excited with this price increase. But I think this price increase just manages most of the cost from small single-digit EBITDA margin, I think we'd be reaching to 15%. But the real requirement is up of 18%, EBITDA requirement for all of us to survive and service the stakeholders. There is a gap. So we believe that prices still have to move up, since the last year and a half to two years, we struggled to increase the price, so we would want to go cautious on these issues.

And coupled with the election, if this current price increase sustains, it would give some relief, but this alone is not enough. It should go up further by, in our view, another 2% to 3% at gross level for industry to have a reasonable margin for it to sustain and service all its stakeholders.

Vishal Periwal: Okay. That's all from my side. Thank you.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Shravan Shah. Please go ahead, Shravan.

Shravan Shah: This incentive on the MP, so first to clarify, do we have any other incentive apart from MP, which we currently are booking or likely to get?

Sreekanth Reddy: We only book on receipt. We have quite incentives that needs to come. So none of them are booked like especially in Andhra and Telangana we have close to ₹75 crore to ₹80 crore of receivables from the government as incentives, but that has been due for more than a decade. So till we receive, we generally don't book. So other than this ₹150 crore is available from Madhya Pradesh. That also is due over the next seven years, Mr. Shravan.

Shravan Shah: Yeah. And there, just to clarify, we are looking at close to 0.4 million ton volume this year.

Sreekanth Reddy: In Madhya Pradesh, we are looking at 0.8 million, the target is to be at 0.85 million. So I think we should be fulfilling the targets there in Jeerabad. So we did for the first half. We did more than 0.37. So for the next half, also, we are looking at slightly more than this number at 0.45 million or 0.5 million. I think that is definitely achievable there, Mr. Shravan.

Manish Valecha: Okay. Thank you. So as we don't have any further questions, may I hand over the call to Mr. Reddy for his closing comments.

Sreekanth Reddy: Thank you, Manish. We would like to once again, thank you. Thank you all for joining us on the call. I hope you have got all the answers you are looking for. Please feel free to connect with us at our team in Sagar or CDR, if you need any further information or if you have any further queries. We will be more than happy to discuss with them. Thank you, again. Happy Dussehra, and Happy Deepawali. Thank you. Have a good day.

Manish Valecha: Thank you. We now conclude the call. You may now disconnect. Thank you.