



SAGAR CEMENTS LIMITED

SCL:SEC:NSE:BSE:2016-17

8th February, 2017

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

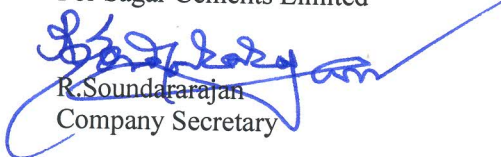
Dear Sirs

Sub: Conference Call on the quarterly financial results

We are forwarding herewith the transcription of the Conference Call held by us on 30th January, 2017 in connection with the recently announced financial results for the third quarter / nine months period ended 31st December 2016.

Thanking you

Yours faithfully
For Sagar Cements Limited


R. Soundararajan
Company Secretary

Encl: a.a.



Registered Office : Plot No. 111, Road No.10, Jubilee Hills, Hyderabad - 500 033

Phone : +91-40-23351571, 23356572 Fax : +91-40-23356573 info@sagarcements.in www.sagarcements.in

CIN : L26942TG1981PLC002887



Sagar Cements Limited

Q3 & 9Months FY17 Earnings Conference Call Transcript January 30, 2017

- Moderator** Good day Ladies and Gentlemen, and welcome to the Q3 and 9M FY17 earnings conference call of Sagar Cements. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, Sir.
- Gavin Desa** Thank you. Good day everyone and welcome to Sagar Cements Q3 and nine month FY17 earnings call. We have with us today Mr. S. Sreekanth Reddy – the Executive Director; Mr. K. Prasad – Chief Financial Officer; Mr. P. S. Prasad – President (Marketing); Mr. Rajesh Singh – Vice President (Marketing); and Mr. R. Soundararajan – the company secretary. We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A session. Before we begin, I would like to point out that some statements made in today's discussion maybe forward-looking in nature and a note to this effect has been stated in the con call invite sent to you earlier. We trust you have had a chance to receive and go through the documents on financial performance. I would now like to hand over to Mr. Reddy to make his opening remarks. Over to you, Sreekanth.
- Sreekanth Reddy** Thank you. Good afternoon everyone and welcome to Sagar Cements earnings conference call for the quarter and nine months ending December 31, 2016. Let me start the call by highlighting the key trends prevalent in markets across before I move towards discussing the key operational and financial performance of the company. While the initial consensus was for a sharp contraction in volumes and prices for the quarter given the announcement of demonetization, the actual situation was not as bad as envisaged at least in the markets wherein we primarily operate. Volumes and prices both remained relatively stable in the southern markets as the region. Prices remain steady on the back of institutional demand in the region that we operate. In the West, contrasting situations prevailed in the region with the price contracting in the Gujarat while Maharashtra witnessed price improvement during the quarter. The overall impact was mainly in terms of receivables and the working capital cycle, which got stretched. We are, however, seeing the environment normalizing and our long-term outlook remains positive on the back of government trust on developing infrastructure and affordable housing schemes.
- Moving to Sagar specific development – the Company's board recently completed the allotment of approximately around six lakh preferential shares to promoter and a non-promoter group at an issue price of Rs. 800 per share. Further, we have also completed the acquisition of a grinding unit located at Bayyavram.



near Vishakhapatnam as announced earlier. The acquisition should help us lower our logistics costs as well as enable us to reintroduce the slag cement in parts of AP and Orissa. We also have plans to scale up the capacity of the grinding unit in a very short term to 3 lakh tons per annum and we have also placed order for the core equipment for expanding the grinding station to 1.5 million. Further, the commissioning of waste heat recovery unit also is due as stated earlier by September 2017, and the rail has been operational for more than a year. With this, we expect further improvement in our operational capabilities. Taking cognizance of the improvements, the operational and financial performance, CARE rating recently upgraded are long-term and short-term, bank facilities a notch.

Let me be more specific on our financial performance for the quarter:

Net sales for the Sagar during the quarter stood at Rs. 142 crore as against Rs. 130 while consolidated basis overall sales stood at Rs. 221 crore. On a nine-month basis, Sagar sales stood at Rs. 438 crore as against Rs. 529 crore while on a consolidated basis, the sales stood at Rs. 671 crore. EBITDA for the quarter stood at Rs. 16 crore as against Rs. 14 crore during Q3 FY16 while on a nine-month basis, the same stood at Rs. 42 as against Rs. 70 crore. The average fuel cost for Sagar during the quarter was at Rs. 819 per ton as against Rs. 757 per ton higher on account of greater usage of imported coal. Average fuel cost for BMM during the same quarter was slightly higher compared to the previous quarter. Freight cost for Sagar stood at Rs. 775 per ton as against Rs. 596 during Q3 FY16, higher primary on account of increasing diesel cost and also incremental freight rates. Freight costs for BMM stood at Rs. 929 as against Rs. 725 for the same quarter during last year. PAT for Sagar stood at Rs. 2 crore as against Rs. 3 crore during Q3 FY16 while on consolidated basis, the loss after tax stood at Rs. 53 lakh. From an operational standpoint, Sagar's Mattampally plant operated at 43% utilization level while BMM operated at 64% during the quarter. Of the total sales, approximately 56% of the dispatches on a consolidated basis was made in markets outside of Andhra Pradesh and Telangana with Karnataka, Tamil Nadu, and Maharashtra being the top 3 markets for us during the quarter.

As far as the key balance sheet items are concerned, the gross debt as on December 31, 2016, on a standalone basis stood at Rs. 219 crore out of which 165 crore is a long-term debt and the remaining constitute the working capital. While on a consolidated basis, gross debt stood at Rs. 483 crore out of which Rs. 395 crore is a long term. The net worth of the company on a consolidated basis on December 31, 2016, stood at Rs. 598 crore. Debt equity ratio stands at 0.66:1, cash and bank balances were Rs. 7 crore as on December 31. This concludes my opening remarks. We would now be glad to take any questions that you may have. Thank you.

Moderator

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Anshuman Atri from Haitong Securities. Please go ahead.

Anshuman Atri

My question is regarding demand for various regions in which you operate sir, if you could elaborate on what is the expectation for next year, and what kind of a growth will Sagar do as compared to the industry, and lastly, in the demand environment, is there any restriction put forward by AP and Telangana government on usage of cement from particular state or anyone else can participate in government tenders?

Sreekanth Reddy

Thank you for your interest. The first question was pertaining to the demand, for the current year, our assessment is that AP and Telangana should be growing close to around 12% to 14%. Last year volumes were around 16.75 million. We do



believe for the current year, it should be close to around 19 million. Though the first half looked fairly aggressive with approximately around 20%+ kind of thing is getting reflected, but I believe the January was subdued purely because this time, the inauspicious dates extended all the way till the end of January. We do believe that the overall year might end up 12% to 14% kind of an uptick for the current year. Going for the next year and the subsequent year, we do believe the market should grow anywhere between 15% to 20% on a sustained basis. Tamil Nadu more or less has been positive, but the year might end up being flattish and our outlook for the next two years again very specifically to certain markets that we operate in Tamil Nadu, we do believe that Tamil Nadu market could be flat for next two years. Karnataka has been growing at 2% to 4% for the current year and we believe the outlook for the next two years is to grow by 5%. Kerala has been slightly positive like Tamil Nadu, but we also believe that it could be flat for the next two years. Maharashtra has grown again to the pockets that we supply has degrown by almost 5%-6%, but we expect Maharashtra to grow by 5% for the next year and subsequently to be very close to 10%. Orissa again has been negative for us to those pockets what we service. Our outlook for the next two years is for it to grow by 5%-10%, 5% for the next and 10% the subsequent year. The overall South, we believe it did grow close to 5% to 6% so far. I think it would get sustained in a similar number for over next two to three years' time. Now coming back to the next part of your question, about the government tenders, I think all the market actors irrespective of the origin state are allowed to participate and that is how it is structured so far. We have never seen anything very differently from what has been the case in the past. Even now, we do believe all the market actors would get proportion to their market share are entitled to participate around that, maybe higher, maybe lower, but we have seen in the past more or less when it comes to the government tenders everybody gets to participate irrespective of the state of origin.

Anshuman Atri

Last question is regarding the fuel, what can be expected in terms of increase in average fuel cost for the next quarter and what are other initiatives being taken by Sagar to lower the fuel cost?

Sreekanth Reddy

The plant as such is reasonably efficient, so barring waste heat recovery, we do not have any major operational kind of an upgrade. The regular effort to optimize is work in progress, so having said that, it is not very specific to Sagar. In general, we have seen almost 18% to 20% uptick in terms of the imported coal cost and matching slightly higher numbers for pet coke prices moving up from last quarter to this quarter. As far as we are concerned, we have a reasonable coverage till end of the year, so we have not seen a major shift. The only thing that what we started doing is, we have aggressively started using the pet coke that we already have in our stock or in pipeline. Right now, as we speak, we are 100% on pet coke. Earlier, we used to use 100% imported coal. Over last few months, what we started doing is we started using 50% pet coke with 50% Indian. Now we are actually running on a 100% pet coke, but all that we try to do is to achieve the most optimal fuel cost per ton of clinker. At this point of time, since we had some old stock of pet coke, which is at a slightly lower price, we are using 100% pet coke.

Moderator

Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar

My question is on cement pricing, as you said, the pricing has been relatively stable despite the demonetization announcement. Last year, we witnessed like some steep correction in month of March ahead of like year-end closing, which led to a sharp jump in volumes in March and April, do you envisage for industry something similar or how do you see the pricing during the quarter in general?



Sreekanth Reddy For the current quarter, the entry price in October was around Rs. 300 in Hyderabad. There was some pressure on the price, it narrowed down to 280. Right now, as we speak, there is some pressure because the demand for January was very, very subdued. We are more than hopeful that the prices should correct themselves upward and more or less stabilize close to around Rs.280 to Rs.290 is what is our belief. For the entire quarter, we expect the prices to more or less remain very similar. Bangalore and Chennai has been fairly stable, Maharashtra prices there has been an increase actually.

Prateek Kumar What is the increase in Maharashtra market?

Sreekanth Reddy Sholapur what we have witnessed somewhere around Rs.260, right now is hovering anywhere between Rs.280 to Rs.285.

Prateek Kumar This is in December, the increase which you are talking about?

Sreekanth Reddy We are talking from December what is happened in January also. There has been an increase, exit price for December was around Rs.260, right now we are anywhere between Rs.275 to Rs.285.

Prateek Kumar My second question is with regard to capacity including your capacity expansion, so how would you see the industry adding capacity specifically in the South region over next two to three years, both in terms of grinding and clinker kiln additions?

Sreekanth Reddy From whatever little information that we have captured, the only expansion that is expected over next one year is NCL, which is expanding their project. Subsequently, KCP would be adding up and also Shree which we expect over next two to two-and-a-half years' time. Our grinding addition is primarily meant for East. It is actually in the northern part of the South or very northern tip of South which is in Vizag, so if you want me to add that, we would be adding close to a 1.2 million, which is spread over next 18 months' time. Then My Home is expected to operationalize their grinding plant in South Tamil Nadu close to Tuticorin that is expected over next three to four months' time, this would be the expansions that we know of in the southern region for next two to three years' timeframe.

Prateek Kumar This adds up to around 10 million ton?

Sreekanth Reddy You cannot simply add up purely because again if you look at Sagar's 1.2 million, only a fraction of it would be South bound and the rest has to go into East. If you even look at Shree's addition, it is in Gulbarga. Historically, Gulbarga cluster typically has serviced 60% to 70% into Maharashtra, only the residual portion actually was South bound.

Prateek Kumar Do you see JSW adding slag cement capacity in South or we should not count it either because it is a slag cement based capacity?

Sreekanth Reddy We should add anything that is cement that is coming into South, but I think what they have announced is a marginal expansion in Vijayanagar, that is what we know of in South, rest everything is either West or East.

Moderator Thank you. The next question is from the line of Indrajeet Agarwal from Goldman Sachs. Please go ahead.

Indrajeet Agarwal Just one question on the infrastructure housing related project in AP and Telangana, how is the prices for those project as the government acquires directly

versus the current prevailing rates and how do we think the blended realizations will work out for you over the next one and one-and-a-half years as a result of that?

Sreekanth Reddy

These are two different aspects in terms of what we realize. In Telangana, the agreed price is at Rs.230-Rs.240 and in Andhra it is Rs.240-Rs.250 or more or less in the same adjusted for the freight that has been agreed for the low-cost housing supply from the industry. Now, how much portion of it would be, we would be less than 2% of our total volumes would be focused on these projects, so the influence of them on the overall blending realizations would be miniscule up to only to that extent.

Indrajeet Agarwal

Just one clarification, this Rs.230-Rs.250 is including freight or excluding freight?

Sreekanth Reddy

It is inclusive of freight to the godown.

Moderator

Thank you. The next question is from the line of Gurpreet Kaur from Systematix Shares. Please go ahead.

Gurpreet Kaur

I had two questions. One is that if you could talk about the clinker production for the third quarter as well as the third quarter last year and 2Q as well for Sagar?

Sreekanth Reddy

Gurpreet, we would be very happy to share that offline, but just to give you the number, total clinker produced during Q3 is 2,50,943 in Sagar, last year Q3 is 2,55,130.

Gurpreet Kaur

For the 2Q?

Sreekanth Reddy

This Q2 was 3,72,428, last year Q2 was 2,91,215.

Gurpreet Kaur

Another question I had was regarding AP industry-demand that you are talking about, so if you could share more about where exactly is the demand coming from and some more information on the project of what exactly?

Sreekanth Reddy

Singling out one project for the entire demand would always be a challenge. It is a mix of all of them, bulk of this 60%-65% of it typically comes from as always the housing side, IHB and the conventional housing side. What we have noticed historically when infrastructure especially the irrigation site started moving up, the regular housing tends to be 50% of the overall kind of a demand. We are yet to see that, but I am sure going forward, we might witness irrigation project in the low cost housing and increased kind of an activity there would reduce as a percentage to this to 50% and the 50% would be constituted with low-cost housing and in the irrigation project both on either side of AP and Telangana.

Gurpreet Kaur

Basically in Amravati, the work for government housing and all that, has that started really?

Sreekanth Reddy

On the ground, only the road works has just started. The other building projects and all, we expect them to start somewhere around next half of next year, but much before that most of the other, stalled or the irrigation projects which were going slow and the low cost housing, we expect an uptick in an offtake from these two things much before Amravati would kick start the further demand increases.

Moderator

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



Gunjan Prithyani You mentioned in your remarks that demand has been subdued in January, is it anything to do with the base effect or you also seeing on a monthly basis the volume offtake is reducing because I thought it should be higher in March quarter given it is a seasonally strong quarter and whatever limited impact that we saw of demonetization in December quarter would have to some extent been addressed by now?

Sreekanth Reddy January demand is usually subdued because the number of working days that are available for us in this part of the South where there is a festival and incidentally this time what has happened is the *Shunyamasa* or the inauspicious time usually gets over immediately after *Sankranti*, but this time it is still the end of the month.

Gunjan Prithyani It is more to do with the inauspicious days or lesser number of working days then it being a trend as such?

Sreekanth Reddy Usually the Q4 quarter is a good demand quarter. I do not think there would be any change to that. It is only that most of the time the demand is pent up only in February and March not before. Overall it could be flat for January, but quarter we expect still to be slightly lower than the last year quarter purely because March was phenomenal last year.

Gunjan Prithyani It should be on a YOY basis, lower versus last year purely because of base?

Sreekanth Reddy That is what we are trying to factor, we hope that is not to but in all likelihood if the March gets repeated, then the demand would shoot up to almost 20+% on a year-on-year kind of a mark.

Gunjan Prithyani On these government schemes where there was this tender which was floated, is there any off take which has happened or it is still just on a piece of paper and the price decided?

Sreekanth Reddy The tender everything got closed, all the volumes have been distributed to all the companies, the prices have been agreed. The volumes just started trickling in during Q3, but we expect them to kick start in a big way from now because of again the auspicious time and all influences those startups, so we do expect big offtake to happen on those projects starting from now.

Gunjan Prithyani Lastly, in terms of the double-digit growth that you are seeing, what are the key projects that are driving this, from what you are suggesting that these flagship projects which the government irrigation project which is there that has not really seen a big off take yet, so what is it that is driving the demand?

Sreekanth Reddy The 60% of it has been the general housing demand, the rest 40% has been contributed by all these projects though the big name projects are yet to kick start in a way to drive demand to a next level, they are yet to start. Their offtake has been slightly sluggish so far, but we do expect them to kick start the next round of incremental demand to happen from them. Like, if you look at some of the projects, though they have restarted or going in a slower fashion those have been consistently contributing to the current demand.

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

Abhishek Ghosh Just wanted to understand on a per kilo cal basis, what would be differential between pet coke and imported coal costing?

Sreekanth Reddy Right now, our landed pet coke not specific to Sagar but in general what is available and it is \$84 odd is the current ongoing pet coke. For the distance that we have specific to Sagar, the landed cost is hovering around 92 to 94 paisa per kcal, unadjusted for moisture, unadjusted for ash, and imported coal is roughly around Rs. 1.15, Indian coal also is very close to that number singerani.

Abhishek Ghosh You would have good 20-25% differentials still on a per kilo cal?

Sreekanth Reddy At this point of time, for sure, yes.

Abhishek Ghosh Last time around, we had mentioned that now that we are entering the Odisha market, so how has been the experience and how is the slag market looking out there because is there a lot of competitive intensity, so just wanted some flavor on that?

Sreekanth Reddy Abhishek, we have been in Odisha market for the last 30 years.

Abhishek Ghosh Yes, but the slag cement part of it now that the Vizag thing?

Sreekanth Reddy Vizag slag cement we just started getting small quantities into Odisha market. The market has been very competitive there, the price scenario is slightly different, so it is no different whether with slag, OPC, or PPC. We only cater to the southern part of Odisha, not the entire Odisha.

Abhishek Ghosh Just lastly in your commentary, you mentioned that Maharashtra has been kind of declining, but going forward we expect this volume for Maharashtra region to at least for the focus markets to increase at 5%-6%, anything that you would like to point out that makes us confident that growth will come back in Maharashtra?

Sreekanth Reddy The government investments have been very, very subdued in the regions that we operate, though there are lot of announcements that have come we expect the state government would be gearing up for reactions two years from now, so that is what actually prompt us to think and for the first time after many years, Maharashtra has actually degrown by as much, so we believe it is a one-off kind of an impact. We are more than hopeful that it comes back to normalcy.

Moderator Thank you. The next question is from the line of Navin Sahadeo from Religare Capital. Please go ahead.

Navin Sahadeo First is just a follow up question on the pet coke prices, you said current prices CIF India are about \$84, so just a clarification there, has it come off recently like by a few dollars or this remains?

Sreekanth Reddy That bank for over last two months has been more or less in the same thing by 1\$ plus or minus, it is in the same band. It took an increase of almost 25% to 30% few months back, after that it has more or less been stable at those prices.

Navin Sahadeo I am sure another participant did ask this, but I just wanted to clarify, you said January has been slow due to the inauspicious period this year round, but will it be negative because we are almost to a month end now, so do you expect it to be negative or it will still be some growth?

Sreekanth Reddy You are talking of year-on-year?

Navin Sahadeo Year-on-year or month-on-month, I mean whichever way you look at it, absolute volumes in January, will they be lower?

Sreekanth Reddy It could be flat if I have to compare with the previous month of December, now if you have to compare year-on-year, it will be huge jump because last year January was only 14 lakhs, so year-on-year it is all the trend line that we are talking but not so depressive. Last year January also was very weak, it was only at 14 lakhs, so this time we expect it to be very close to how December was, December was roughly around 15.5 lakhs, so we expect this January also to be very close to that number.

Navin Sahadeo Year-on-year it will still be a very good growth?

Sreekanth Reddy Year-on-year, the last year bulk of the growth happened only in February and March.

Navin Sahadeo My last question, regarding these government projects which are on tendered basis, now I just wanted a clarification that when these tenders are like distributed, you definitely said that all companies are free to participate, but when the final allocation is made is it purely competitive bidding?

Sreekanth Reddy Mr. Navin, I have to clarify, it is not a tender. The price has been agreed upon. Now once it is agreed, there is no competitive bid, it is actually discounted to the market, so government called the entire industry together and negotiated for one price from all of us. Typically once the government themselves have called the entire industry, their assumption is that all the participant have to contribute to their thing. They usually sometimes because of some breakdowns or some constraints for each of them, that gets distributed in proportion, so usually this distribution is only on proportion.

Navin Sahadeo Proportion of capacity or proportion of the market share?

Sreekanth Reddy It is proportion of the market players, because whatever sales tax each of us contribute, that is the distribution they take as a percentage and end up distributing this.

Navin Sahadeo For example, let us say a company has huge capacity concentrated into these two Andhra and Telangana put together, but currently would be selling far below because it dispatches to other states?

Sreekanth Reddy Yes, it is all to do with the sales tax payment, it is nothing to do with the install capacity, which more or less what we call as a market share distribution. I am sure if the sales tax is in proportion, it exactly means the market share.

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

Ritesh Shah Two questions, first one is what is our OPC, PAC, PPC mix and secondly in the regions we operate, how do you think will be the OPC, PAC, PPC mix at the industrial level?

Sreekanth Reddy Now each state is very, very different and some of the pockets, now if you ask me for AP and Telangana, it was 55% OPC, 40% PPC, and the 5% would be slag, and all of us whoever has slag, would be operating similar, who does not have would be 60/40 kind of a ratio.

Ritesh Shah In the other markets, likes of Tamil Nadu, Orissa, Maharashtra, and Karnataka?

Sreekanth Reddy We do not sell any slag in Maharashtra. We do not sell any slag in any other state other than AP and Orissa. At the same time, if your market mix is also mostly into the institutional sales, most of the institutional sales would be more OPC driven than blended cement driven.

Ritesh Shah At an industrial level for the entire South?

Sreekanth Reddy That would be a typical challenge, but it would be very similar. It should be 60% OPC and 40% PPC.

Ritesh Shah Ok, Sir my second question is would you have a number for how much is the cumulative RMC market in South, what I am trying to understand is how much is the actual cement consumed by RMC as a route to market in South?

Sreekanth Reddy It will be less than 2% to 3%, the overall cement gets into RMC, so I am assuming that would be the proportion. When I am talking of RMC, I am talking of commercial RMC, I am not talking of captive RMC, that you have to keep in mind.

Ritesh Shah Lastly any update on the Polavaram Dam?

Sreekanth Reddy Yes, it is progressing, the work has started, earthwork was going on. The cement just started picking up right now. A month and month-and-a-half back is what most of us started supplies to it. Earthwork has been progressing for quite some time.

Ritesh Shah How much is the tonnage that one can expect out of this over next three years or four years, when you have a cumulative number?

Sreekanth Reddy I think it should be 0.5 million per each year, that should be an average number.

Ritesh Shah That will go on for four years?

Sreekanth Reddy I think that is a difficult question, but as per their plan, it should be over in next two years' time.

Ritesh Shah Lastly, on our incremental CAPEX for next two years?

Sreekanth Reddy We could roughly estimate Rs.135 to Rs.140 crore for next two years for sure. That has been the case even for the current year. When we talk of the current year, we have included the acquisition cost also, so it is averaging anywhere between Rs.125 to Rs.150 spread over next three years, one-third of it is already done for the current year. The next one-third for next and the subsequent also would be matching.

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

Rajesh Ravi One question on this freight cost where you have reported, the last two quarters it has been steadily increasing by around Rs. 570 to Rs. 830 between June and December, so where exactly is this increase coming from, change in market mix?

Sreekanth Reddy There are two things. One is the freight cost in general has gone up because the diesel prices has gone up almost 4x over the last three months or may be more,

maybe 5x or 5.5x, that is one. Secondly, the lead distance typically during an off season tends to get itself stretched, but we believe it is optical now with Bayyavram and BMM and Sagar all the three of them working in tandem, the lead distance has sharply come down for us. The overall outlook is that the freight costs are bound to come down for us as we progress.

Rajesh Ravi If diesel prices remain stable, we can see some moderation in this number going forward?

Sreekanth Reddy Yes. Also there are two of rates that we have ended up sending, so that has also added to the freight cost, but I believe it is only optical for a short term. Going forward, we are reasonably sure that our freight cost would get optimized on a downward side.

Rajesh Ravi Broadly discussed the pricing in AP and Telangana, in January you saw some pressure over there, so if demand picks up you are hopeful that the prices can recover?

Sreekanth Reddy Yes, we are more than hopeful that the prices are expected to come back to normal what was at Rs.300+ pre-November, we are hopeful that we should start seeing them reasonably soon though the current prices are under pressure purely because the trade volumes are under stress typically, so we are more than hopeful that the price to go back to where it was in October.

Rajesh Ravi This incremental government projects which have been already allotted to companies, so broadly it should be distributed across all companies?

Sreekanth Reddy All the market players in proportion to the sales tax they would have paid over few years. Usually people do not want because it is perceived to be a low cost, so what government has come up is that it will be in proportion to the sales tax contribution what we would have done, so same thing. Since it is not a competitive kind of a tender, since it is a low-cost kind of for housing and all, government insisted and they called entire industry together and there was a full consensus as to how it needs to be supplied and it is distributed to the overall sales tax contribution to each of the state.

Rajesh Ravi As you said that it is just 2% to 3% of your current total sales, so that would be across for the industry less than 5% for most of the participants?

Sreekanth Reddy It is all to do with the market shares of each of them in each of the states, for us, we are at 4%, so each state we have to give 2% each.

Moderator Thank you. The next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala Sir, I missed your initial comments, so just wanted to know that what kind of growth have we seen in the third quarter across South region and specifically some color you can give on the states as to percentage growth in Q3?

Sreekanth Reddy Specific for Q3 would always be a challenge because Q3 is a monsoon quarter for Tamil Nadu, but what we have noticed is overall as a South, we have grown at 5% systematically year-on-year and I would not say quarter-on-quarter but so far YTD also at South it is at 5%. Probably, AP and Telangana has grown slightly more, if you look at last year quarter to this year quarter, the last year Q3 was very, very

depressive in AP and Telangana, , but year-to-date it is close to 21%-odd, but we might end up at 12% to 14% at end of the year for AP and Telangana.

- Ankit Fitkariwala** South as a overall region, you are saying, it is growing?
- Sreekanth Reddy** Growing at 5% to 6% year-on-year.
- Moderator** Thank you. The next question is from the line of Sahil Shah from Ocean Dial Advisors. Please go ahead.
- Sahil Shah** I just wanted to check on your CAPEX plans, as per your presentation you highlighted that every 10 years you would like to double your capacity with this expansion that you are doing, you will be doubling your capacity next five years by 2020, so what is the plan, post this how do you look at expansion, would you look at utilization or if opportunities come you would pursue them?
- Sreekanth Reddy** Mr. Sahil, I have to make a small correction, we double every 10 years, but the last expansion that we have done was in 2007-2008. We were at roughly 2.5 million, by same virtue by 2017-2018, we should be close to 5 million, which we would be reaching that part. From here again, it might take another 10 years for us to double ourselves from the current position. The internal stated policy is by 2025, internally, we are working towards becoming 10 million, (+/-5%) here or there, we should be close to 10 million by 2025. Up to 2020, we are more than hopeful that we should be 5.75 to 6 million, part of that there is some small debottlenecking that we are doing in BMM, currently a million ton plant, Yes we should see 1.25 to 1.5 million happening there. We have recently acquired a grinding station which is 0.2 to 0.3 million ton, we are also expanding to 1.5 million there which is likely to complete by December '18. With this, we should be reaching 5.75 to 6 million. The overall CAPEX envisaged was roughly around Rs. 450 odd crore, spread over three years out of which we have already incurred around Rs. 132 crore for the current financial year. The rest of the amount close to Rs. 300-odd crore would be spent over next two years. This includes 15 to 18 megahertz captive power plant also at Sagar and also the expansion of Mayavaram plant from a 0.3 to 1.5 million, and also small debottlenecking or brownfield whatever people might call in BMM, all inclusive, we are yet to incur close to Rs. 300 crore. This also includes the waste heat recovery system, so waste heat recovery system is due for commissioning before September of this year. All in we need to spend good Rs.300 crore going forward. We have to spend Rs.150 crore each for which plans has been announced, preferential capital has already been raised and we are also looking at another fundraise part of which QIP and other equity fundraising exercises are being looked at. This round of funding should help us achieve good 6 million and beyond that we would like to see how the assets are shaping up based on which we would like to call but we believe internally that we are not leveraged and internal accrual should take us close to 10 million. That is the internal belief that we have and we hope that we would be close to that number.
- Sahil Shah** On your expansion in Toshali, which markets you would be basically looking to sell from there?
- Sreekanth Reddy** It is 80% Odisha plus East and 20% would be Andhra Pradesh.
- Sahil Shah** But East has seen quite a lot of sort of capacity expansion, so how do you see?
- Sreekanth Reddy** All grinding stations, we are part of that expansion.

Sahil Shah Right, what I am saying is that how do you see demand in this because there is already quite a lot of expansion coming in East, so why add in East?

Sreekanth Reddy Now, when people look at East, they look starting from Chhattisgarh all the way up to West Bengal, bulk of the expansions that have happened so far has happened in Chhattisgarh, but we know for sure that matching grinding stations would be coming up in Odisha. Our expansion is also part of the same scheme of things in terms of the market. Market has been consistently growing at close to 10%, barring the current year where it did suffer year-to-date, it is slightly negative but we hope and we believe that the market would grow close to 10% that was the case historically, so we also believe the market would be growing close to 10% year-on-year. Now, the markets that we cater in East and very specifically at the South of the Orissa, where we do have enough market presence. With the grinding station in Vizag, we are more than hopeful that the volume should get sold. Having said this, we do believe that the average operating rate for that grinding asset probably should be hovering around 70% for next three to four years' time, not more. It is primarily because of capacity additions that are expected to happen and though the market is growing at 10%, but we internally believe that the operating rate for that grinding station could be in the range of 70% to 75% not more, and we also factored stiff pricing regime though we hope that prices could be better, but that has been factored in our overall scheme of things but fortunately we are blessed with slag cement. With that though the average realizations could be at par with them, but since it is slag, we are confident that the internal business plan what we hope to achieve with a typical IRR returns that we expect anywhere between 15 to 20 as a minimum, we are more than hopeful and reasonably confident of achieving them.

Sahil Shah Lastly on your cost of debt, what is it for the one-half including your....

Sreekanth Reddy It was 12% so far, but we are more than hopeful to get it on a lower side. It should be 11% for the next year. For this year, it was average at 12, for next year, we are hopeful that it should be at 11.

Moderator Thank you. The next question is from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar Just on freight cost, as you are now spreading in terms of your grinding capacity expansion in East, so what would be your current lead distance and how do you expect it to move down post all this expansion ending December 2018?

Sreekanth Reddy Our primary reason for expansion is to mitigate on the lead distances other than trying to come up with the slag. Historically, Sagar's lead distance was in the range of around 450 to 500. With BMM acquisition, we are sub-400, now with the Bayyavram coming in, we are more than hopeful to consolidate somewhere between 350 to 375 at a consolidated level.

Prateek Kumar The Toshali one in Odisha?

Sreekanth Reddy Toshali right now it is of a small capacity, it is below 100. To be precise for this month, it is at 109, last month was 88.

Prateek Kumar That is substantial, keeping the diesel prices?

Sreekanth Reddy Once the grinding station expands itself, see current capacity is only 0.2, which is expected to be 0.3 before the end of this quarter, with substantial expansion, probably that would also come in the range of around 300. When you do the

average, we are hoping it to be anywhere between 350 to 400 overall. BMM is sub-350, Sagar right now is very close to 400. Once grinding station expands itself, we are also hoping that it would be close to 300, so overall we should be somewhere around 350 to 375 number.

- Prateek Kumar** You are primarily focused on the road transport as of now, so you would be with the grinding capacity also looking at rail?
- Sreekanth Reddy** We look at all the modes, whatever offers the most optimal way, we tend to look at that. We are also keeping our fingers crossed as to how the rail freight. We do have train access to both the grinding station as well as the Sagar plant, but the deciding factor would be on the rail freight. What offers the most optimal is what we end up using it.
- Moderator** Thank you. The next question is from the line of Abhinav Ganeshan from Canara Bank Securities. Please go ahead.
- Abhinav Ganeshan** Just wanted to know on a consolidated basis, what would be your capacity utilization BMM and the other one put together?
- Sreekanth Reddy** 55%.
- Abhinav Ganeshan** Do we expect it to go northward towards the 70 mark maybe in the next say four quarters?
- Sreekanth Reddy** I doubt it touching 70. We do expect demand to move up, but we do believe that over next 12 to 18 months, we expect it to touch 60, but not beyond.
- Abhinav Ganeshan** One more thing, you were talking about some heat recovery capacity which is coming up, so I think it is a novel idea for you guys, I think it is the first thing you are trying this out?
- Sreekanth Reddy** No, I think it a very established kind of a thing, it is a waste heat recovery system.
- Abhinav Ganeshan** Just wanted to know how much cost saving will happen because of this?
- Sreekanth Reddy** It should contribute around Rs.15 crore per year at an EBITDA level, per annum minimum Rs.15 crore it would be contributing.
- Abhinav Ganeshan** That was helpful, and one more thing, just wanted some color on this new parliament and all this approach roads, how are the projects taking off, especially in Andhra Pradesh?
- Sreekanth Reddy** Are you talking of Amravati?
- Abhinav Ganeshan** Yes Sir.
- Sreekanth Reddy** The Amravati what we have seen is the current infrastructure, they just kick started. All the lateral roads and important roads are under constructions right now, they just started. They have given out the contract and on ground also we have seen some work. I think it would be good six months to seven months before the actual start could happen, but bulk of the demand from expansion of that state, that new capital we expect it to start contributing Q3 next year onwards not before.

Abhinav Ganeshan Okay, and how about Hyderabad metro, is that seeing some push?

Sreekanth Reddy Hyderabad metro is reasonably constructed, so I do not think it has any new cement consumption. It is in the final trial. Of course, there are last phases still under construction, but that was happening over last seven to eight years.

Abhinav Ganeshan That is like almost through?

Sreekanth Reddy It is almost through for the first phase, I think it is only matter of time. People are talking of somewhere around April for it to start. They are only waiting for the auspicious day to happen, and in all likelihood, it should happen for the *Ugadi* day.

Moderator Thank you. The next question is from the line of Navin Sahadeo from Religare Capital. Please go ahead.

Navin Sahadeo What is the price difference between the slag cement and PPC and OPC in the markets where slag is there, for example, in Orissa as you said I think you are largely looking at pushing slag sales there?

Sreekanth Reddy Typically, in East it is slightly different from South. South it is Rs. 15 gap from each of the product. Between OPC and PPC, typically is Rs.10, between PPC and slag also, it is also Rs.10-15, but we generally look at Rs.15 each for a gap between OPC to PPC and PPC to slag. In Orissa, it could be Rs.10 each.

Navin Sahadeo Rs.10 each in the sense OPC to PPC, so slag remains the lowest even in Orissa market also?

Sreekanth Reddy Yes, it is Rs.10 each, but there are some pockets where people do not talk of OPC at all.

Moderator Thank you. The next question is from the line of Kartik Subramaniam from Go Advisory Services. Please go ahead.

Kartik Subramaniam Just wanted to ask about the Vishakhapatnam grinding unit and the preference shares which has been raised this year, and also the demonetization effect which is going to happen in the coming months, if you can elaborate on that?

Sreekanth Reddy Now, let me first put the CAPEX planning as I stated earlier, it is a three-year plan that we have embarked on out of which one-third is already done, so going forward we need Rs.300 crore, out of which Rs.50 crore has already been raised with the preferential capital, we are looking at ranging anywhere between Rs.125 to Rs.150 crore of equity further for which company also completed the stakeholders engagement in terms of an EGM resolution and all have been received, so we are working on that. As a contingent, we are also looking at raising a debt just in case we are not in a position to get the equity at a value which is optimal for the company. We also are planning for a 50 crore internal accrual so that should complete the overall CAPEX. CAPEX includes the expansion of grinding station in Vizag from 0.3 to 1.5. It also includes 15 to 18 megawatt CPP at Matampally plant, the mother plant of Sagar.

Kartik Subramaniam And sir, regarding the demonetization?

Sreekanth Reddy Demonetization, as stated even in my remarks, from a volume perspective and even from a price perspective, we have not seen a big impact on that particular account, now would we get impacted going forward, I think so far the impact has

been minimal, so logically speaking it should also be minimal going forward, but we have to keep our fingers crossed in that regard. The only impact that we have faced is the credit limits and everything gets stretched a bit even that also is coming back to normalcy.

Moderator

Ladies and Gentleman, that was the last question, and now I hand the conference over to the management for closing comments.

Sreekanth Reddy

We would like to thank you once again for joining the call.