



SAGAR CEMENTS LIMITED

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8th November, 2016

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

The Secretary
Bombay Stock Exchange 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 27th October, 2016 in connection with the recently announced financial results for the second quarter / half-year ended 30th September 2016.

Thanking you

Yours faithfully
For Sagar Cements Limited


R. Soundararajan
Company Secretary

Encl: a.a.



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Sagar Cements Limited

Q2& H1 FY17 Earnings Conference Call Transcript October 27, 2016

Moderator Good day ladies and gentlemen and welcome to the Sagar Cements Q2 and H1 FY 17 earning conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. I would now like to hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you sir.

Gavin Desa Thank you. Good day and welcome to Sagar Cements Q2 and H1 FY17 analyst and investor conference call. We have with us today Mr. S. Sreekanth Reddy-the Executive Director, Mr. K. Prasad- the Chief Financial Officer, Mr. P. S. Prasad-President Marketing and Mr. R. Soundararajan- Company Secretary. We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A session.

Before we begin I would like to point out that some statements made in today's discussion maybe 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 receive and go through the documents of financial performance. I would now like to handover to Mr. Reddy to make his opening remarks.

Sreekanth Reddy Thank you. Good morning everyone and welcome to Sagar Cements earning conference call for the quarter and half year ended 30th of September, 2016. Let me start the call by highlighting the key trends prevalent across the industry before I move towards the key operational and financial performance of the company. Demand during the quarter remained a bit soft partially on account of seasonal weakness but also on account of lower government offtake. The pricing environment remained a bit volatile with prices in west languishing at lower levels for major part of the quarter picked up during latter part of the period. In our core market of South, prices remained more or less steady during the quarter. Demand situation is expected to improve following the revival in the rural region after normal monsoon and the anticipated pickup in the government spending on infrastructure, individual and low-cost housing. Government focus on rural housing is also likely to help us on this particular front.

Moving onto company specific highlights; the company's board of directors recently gave its approval for setting up a coal based captive power plant at our Mattampally unit besides approving the expansion of our just acquired grinding unit at Bayyavaram in Andhra Pradesh. We are contemplating to commence the production of slag cement from this grinding unit. In addition, board also approved proposal to raise additional funds to meet the funding requirements of the proposed projects. The overall goal of the business continues to remain expansion of capacities without compromising the debt equity balance we are hopeful that the above-mentioned plants coupled with our ongoing efforts of commissioning a 6



megawatts waste heat recovery unit and the railway siding operations that is fully operational should help us lower our cost and improve our operational efficiencies even further.

Let me now move on to our financial performance for the quarter; net sales for the quarter for Sagar stood at Rs. 138 crore as against Rs. 199 crore while on a consolidated basis overall sales stood at Rs. 229 crore. EBITDA for the quarter stood at Rs. 13 crore as against Rs. 18 crore during Q2 FY16 while on consolidated basis the same stood at Rs. 29 crore. The EBITDA margins at a consolidated basis stood at around 13%. The average fuel cost for Sagar during the quarter was at Rs. 866 per ton as against Rs. 784 per ton, this is on account of slight increase in prices and at the same time increased inventory levels. The average fuel cost for BMM during the quarter was at Rs. 866 per ton. The freight cost for Sagar stood at Rs. 733 per ton as against Rs. 688 during Q2 FY16, higher primarily on account of slight increase in fuel prices and also with the marginal increase in the lead distance. The freight cost for BMM stood at Rs. 783 per ton for the quarter. PAT for Sagar stood at Rs. 3 crore as against Rs. 9 crore during Q2 FY16 while on a consolidated basis the profit after tax stood at Rs. 4 lakhs. From an operational point of view Sagar's Mattampally unit operated at 44% utilization level while BMM operated at 71% during the quarter. Of the total sales approximately 63% of the dispatches on a consolidated basis were made in markets outside of Andhra Pradesh and Telangana with Tamil Nadu, Karnataka and Maharashtra being the top three markets for us during the quarter. As far as the key balance sheet items are concerned the gross debt as on 30th September, 2016 on a standalone basis stood at Rs. 225 crore out of which Rs. 158 crore is a long-term debt and the remaining constitutes working capital. While on a consolidated basis the gross debt stood at Rs. 488 crore out of which Rs. 393 crore is a long-term debt. The net worth of the company on a consolidated basis as on 30th September, 2016 stood at 549 crore. Debt equity ratio stands at 0.72:1, cash and bank balances were Rs. 21 crore as on 30th September. That concludes my opening remarks. We would now be glad to take any questions that you may have. Thank you.

- Moderator** Thank you very much sir. We have first question from the line of Anshuman Atri from Haitong Securities. Please go ahead.
- Anshuman Atri** My question is regarding the demand and your regions where you operate, largely AP and Telangana. Since you have been most accurate in terms of the projections, so what are your expectations from demand in the South as well as in the Western regions which you operate in?
- Sreekanth Reddy** If you look very specifically about Q1 and Q2 I think Q1 has been extremely good and Q2 though it's a monsoon month has not been bad so far. Going forward would it get sustained? We believe for Q3 and Q4 usually are good months for demand offtake though the first month of Q3 is again slightly depressive but from November we do believe that the offtake in both states of Telangana and AP is expected to rise.
- Anshuman Atri** Any estimate in terms of volume the 5%-6% for AP, Telangana?
- Sreekanth Reddy** We don't go for a very long term kind of an outlook. But for the current financial year where we have already completed the H1 and we do expect H2 to be much stronger than the H1. Having said that we do believe that the demand on a year on year basis is expected to be anywhere between 5% to 7.5% for these two states.
- Anshuman Atri** And for the South overall?

- Sreekanth Reddy** South has been a mixed bag; Tamil Nadu has been reasonably flat though I am personally satisfied with that performance. Initially we expected it to be slightly negative but so far the market held up. But Q3 in Tamil Nadu would be a challenge because that's when the actual monsoons would be in Tamil Nadu. The overall year we expect it to be flattish with a positive bias as far as Tamil Nadu is concerned. Kerala has been negative so we do believe that Kerala for the current year also is expected to be probably de-growing compared to last year. Karnataka, we expect it to be at 5% year-on-year kind of a growth number for the current financial year.
- Anshuman Atri** And second question is regarding the pet coke since you have inventory, so how much of increase do you expect in the next quarter for the BMM and this combined on the whole in terms of the average fuel cost?
- Sreekanth Reddy** Here we do have inventory but small quantities of pet coke. As we speak the pet coke price has been steeply getting increased month on month, in fact day on day. The very short-term outlook for few months is that the pet coke price is very high, it more than doubled over the last six months. The general imported coal prices there has been a small increase but not a substantial one. Our outlook for the current financial year as far as the coal cost for us is concerned, we expect it to be anywhere between 2% to 5% higher than what it has been last year.
- Anshuman Atri** And lastly on this new plant which you are starting, so what margins can we expect once it stabilizes?
- Sreekanth Reddy** Margin outlook, it's too early for us to comment on the margin and its very small size as we speak. We are talking of anywhere between 10,000 to 15,000 tons per month. The product of course is PSC; the bulk of the market is also in Orissa where the prices have been depressive so far. The markets that we are expected to service in AP side that is the north-coastal AP has been fairly strong. Given the scenario we expect good margins on two accounts, one because of the realization, two also because we are also going to optimize on the overall freight reaching those markets. But trying to arrive at the margin I think it is too early for us to take a call. We expect margin contribution to be much better than what it is currently. But quantifying them at this point of time it's too early.
- Moderator** Next question is from the line of Mangesh Bhadang from Nirmal Bang. Please go ahead.
- Mangesh Bhadang** My question is on the pricing in Maharashtra. So, we hear that the price increase towards the end of the quarter was around Rs. 30. I just wanted to know whether it was a broad base rise or in few pockets?
- Sreekanth Reddy** Our observation of course we are not there in all parts of Maharashtra. But our observation in some of the areas where we are there and some places which are big like Solapur by end of September there has been a good increase. The increase has been in the range of around Rs. 50 odd. Mumbai, Pune also the similar kind of an increase or slightly better increase than what is in Pune has been observed. But that happened only during the last two weeks of September and more or less the price is able to sustain for last few weeks of October but volumes have been depressive purely because of monsoon. So, we do believe that this time the price could sustain even if there is a small dilution it will be a very limited dilution. That's what is our belief as far as Maharashtra market is concerned.
- Mangesh Bhadang** Historically we have not used pet coke in the past so with this buildup of inventory I think that is the reason why there is a huge negative number in the change in

stock. So, is there a plan to basically I know it will depend on the firing cost of which fuel would be ideal at that time for you, but is there a work going on in terms of increasing the or probably starting off with the pet coke usage across the plant?

Sreekanth Reddy

Mr. Mangesh we have even in the past used pet coke of certain percentage. But we usually follow the model where the average cost of fuel we optimize at fuel level not at the type of the fuel. At this point of time though we have inventory and at the same time even in the BMM we used pet coke in our power plant. This again is on what gives the most optimal and efficient kind of a price that's what we end up using. If you look at the cost that you have seen over the Q1 to Q2 what you have to notice that is purely because of inventory the price looks higher because most of the time the metric is fuel cost divided by the average sale that has been done. But the reality is if you actually do with fuel cost to the clinker that we have produced that cement that we have produced I don't think it has been any increase, it is actually flat. I have stated even earlier our hedging cost in terms of fuel we don't expect it to substantially move up going forward because we do have decent inventory and we are covered for at least one quarter forward. So, the only impact that we might see is in the last quarter and having said that what we are also trying to see is we are trying to look at all the fuels that includes domestic as well as imported inclusive of pet coke to see if there is any possibility for us to mitigate or reduce the cost going forward.

Mangesh Bhadang

At current prices obviously pet coke would be expensive for you compared to imported coal, right?

Sreekanth Reddy

Yes at the current coal prices and even except for Saudi pet coke even in the past the American pet coke and some of the Indian pet coke was slightly expensive on a landed basis for our location. Not that our plant cannot fire 100%, our plant is all equipped to fire 100% of pet coke. But on a landed basis it was expensive but for the Saudi pet coke. But unfortunately, the Saudi pet coke availability as well as the cost has shot up quite substantially so if Saudi pet coke is available still Saudi pet coke offers bit advantage compared to most of the fuels but the availability has been a major issue for us.

Mangesh Bhadang

On the railway siding how much would our dispatches be it rail probably based on your assumptions would increase to?

Sreekanth Reddy

Mr. Mangesh what has happened is we are facing two challenges here with the rail. One is the quantity of material that we have to sell it to single location for example in the past there were few locations where we used to sell bulk of our material. So today if you look at Sholapur and all, our reach is one rake so in that one rake we tend to compare with the road freight and availability of trucks. Today road actually is offering a much better advantage compared to the rail but at the same time there were places where we have sold only by train especially to Berhampur in Odisha and as well as there was almost 25,000 tons last quarter where we have moved material to Pathankot. It's a DGS&D order which was purely rail movement that has happened. Now how much more, I think it is all to do with the market and the way we are going to arrive so I would not be probably in the situation to really quantify how much it is going to be. We are doing it purely based on what actually is giving us the best advantage. But the usage of rail has increased in inward movement of coal especially we did move to rakes of coal over last one-one and half quarter from Krishnapatnam the imported coal we did move two rakes and we also moved one rake from Singareni by train. So, it's a kind of decision which we are trying to take from time to time based on what would be the most optimal one for us.

Moderator

Next question is from the line of Pratik Kumar from Antique Stock Broking. Please go ahead.



Pratik Kumar

My first question is on pricing, so you mentioned it has been fairly stable after the hike towards the end of September in Maharashtra. I believe so it is the same case with AP, Telangana as well. What's your view on there have been several times commentary which comes from the government in terms of bringing down the pricing or the regulatory way because the price are at Rs.350 and so there is a commentary from government which comes at that you have to reduce the price to make them affordable for a affordable housing and infra projects, any view on that which you can share?

Sreekanth Reddy

Mr. Pratik I would like to quickly coment that we believe that prices are decided by the market forces so we have very little control on where the prices are. Now secondly as far as the government asking for the lower price for their own projects especially the low-cost housing and their own infrastructure projects, there were quite a few discussions that have happened especially in AP and Telangana where the government discussed with the entire industry asking them to supply at a certain price for low-cost housing and for few specific infrastructure projects. All the time for last two-two and a half years the government was always negotiating and there was some agreement that has happened in the past also. But unfortunately, the off take did not happen so far. Yes we do believe that going forward the government would start initiating the construction of both these low-cost housing as well as infrastructure projects for which though government agreed at certain price last year now again they have called us trying to asking us to revise some pricing, its work in progress. So I do believe that we should reach to a common ground which would be a win-win situation both for the government as well as for the industry. We don't see it as a constraint but we see it as a constructive way of looking at it about this overall feasibility for us to supply. At the same time we are also as conscious that for certain projects which are related with the social related issues we probably might look at trying to look at a price which is good for both the parties. That's how the discussions are. See for most of the press articles that have come they have come when government has invited and asked us for looking at certain places where the price was higher asking us to rethink what was agreed previously. AP Government called us two weeks back. We also expressed where it was feasible and where it was not. I'm sure the decision would be made in a way which is good for both the parties. That's where I would like to stick. In general, I don't think the current prices are at its historical high. If you look at the general retail prices I don't think in any of the market that we have seen, nowhere I think the prices are at its historical high, for example what we see in Hyderabad the prices hovering especially for a typical brand of ours. Currently it is hovering anywhere between Rs. 300 to Rs. 320 as we speak. The historical peak was somewhere around Rs. 360 to Rs. 375 few years ago. Same would be the case with most of the places where we have presence. I don't think prices are unreasonable that's where I would like to highlight.

Pratik Kumar

So considering the volume offtake from the specific projects which government is looking that we don't think that it will be price dilutive for us or for industry for that matter.

Sreekanth Reddy

Price dilute I would not like to comment because it's a different kind of a sale, it's a direct sale that too with the government what we call as a bulk sale. Though it is bag it is called a bulk sale. You have ex-works and ex-godown kind of a sale that would happen. Obviously, it is not pegged with the market in terms of the retail pricing. It is slightly discounted but I'm sure we are hoping that government would also support us. Not that we would make a huge margin but our only request is to make it viable price. As an industry and as our company we would be more than happy to address to the government request of servicing specific demand at a price which is good for both of us. What we are looking at is a lakh tons in a month as a minimum for an 18 million market it's not a big percentage though given operating

rate it looks quite substantial. But the reality is it's a lakh ton out of 15 to 18 lakh market for the combined state of AP and Telangana.

Pratik Kumar

There is recently been this Singareni coal linkage auction so it seems that the participation from cement sector including yours probably is very limited. Any specific reason because the international coal prices have been increasing and even pet coke is increasing, so domestic coal probably you find some space now in cement sector but still the participation seems very low.

Sreekanth Reddy

Mr. Pratik I have to clarify one position though our usage of domestic coal is very low but if you look at our inventory is we are maintaining decent stock from Singareni. So our participation I don't know how you have come to know that we have not participated, we have definitely participated and we are taking the material. I stated earlier because we need to optimize the fuel cost so whatever offers the maximum benefit for us we end up using it though for the last quarter our usage was less than 0.5% but going forward if the same trend continues in imported coal price I don't see a reason why the percentage of domestic coal usage going up from here on.

Pratik Kumar

So we have the inventory at lower...

Sreekanth Reddy

We are maintaining our linkage and we are actively getting material from Singareni, of course may not be in same proportion as it used to happen in the past but we have been very active.

Pratik Kumar

One last question on demand which you highlighted on outlook on southern states; any outlook which you can share on Maharashtra and Southern Orissa which you generally also share?

Sreekanth Reddy

Our expectation is on two things expectation is on two things, one the general year-on-year kind of a number and on quarter-on-quarter. Quarter on quarter makes very limited difference because obviously, we are coming out of a very weak quarter because of seasonality so it's definitely going to be better. But on a year-on-year we do believe Maharashtra maybe very flattish.

Pratik Kumar

For full year, Sir?

Sreekanth Reddy

Yes for the full year compared with last year, Odisha could grow anywhere between 5% to 10%.

Moderator

We have next question from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

Abhinav Bhandari

Sir, if you can walk us through the expansion plan in terms of the capacity additions that you are doing and I guess there was some acquisition as well earlier. So, if you can help us out in terms of overall capacity for Sagar that we are seeing from a 2-3-year perspective? What's the expansion plan and what's the route via which you are looking to raise the funds that the board has taken a decision on?

Sreekanth Reddy

End of last financial year our capacity was at 4 million, with 3 million at Sagar Cements and 1 million at our BMM Cement plants. What we did two and a half months back, we announced an acquisition where grinding Station which is primarily to make a PSC, it's a 0.2-million-ton grinding station-based out of Bayyavaram which is right next to Vizag in north coastal Andhra Pradesh. Our stated objective is to reach to 6 million by end of FY18. What we would like to do is



to do capacity increase from a 0.2 to 1.5 million in the grinding Station and do a small brownfield and debottlenecking in BMM to reach from 1 to 1.5 million. So, that should take us to 6 million by end of FY18. For this we identified overall investment to be in the vicinity of Rs. 250 crore odd for which board yesterday has given an approval for us to raise this with the equity increase. The overall CAPEX though we are looking at Rs. 250 crore with the fund increase we are expected to raise a minimum of Rs. 200 crore. The rest we intend to go with internal accrual as well as with whatever little debt that might be required to fulfill the overall CAPEX requirement spread over next two years. For the fund increase there is a very specific route that we are trying to take, we intend to go through preferential allotment for which board has specifically given approval up to 6,11,986 shares as preferential allotment and the rest we intend to do it by QIP.

- Abhinav Bhandari** I just missed that number, preferential allotment of how many shares?
- Sreekanth Reddy** Around 6,12,000 shares.
- Abhinav Bhandari** And this Rs. 250 crore would be inclusive of this captive power also?
- Sreekanth Reddy** Yes sir, we are also trying to look at 15 megawatt coal based captive power plant at Sagar and of course we are also implementing the 6-megawatt waste heat recovery system. That was the CAPEX planning which was done earlier so overall objectively we are trying to become a 6-million-ton company at a consolidated level with an installed capacity of 40 megawatts for coal based power plant and also a 6-megawatt waste heat recovery system. This would be the short-term up to FY18 end growth plan.
- Abhinav Bhandari** There was some payout of Rs. 60 crore if I'm not wrong on account of the acquisition that number is also inclusive of this Rs. 250 crore or that is over and above?
- Sreekanth Reddy** That is over and above. That's the CAPEX which has been approved even earlier. So, this is over and above the acquisition cost of around 66 crore that has been indicated earlier.
- Moderator** Next question is from the line of Nilesh Bhaiya from Yes Securities. Please go ahead.
- Nilesh Bhaiya** Sir, on your lead distance you said that it has increased a bit this quarter probably that may be because of lower sales from the near market Andhra and Telangana, so do we expect that to reverse it in the next two quarters?
- Sreekanth Reddy** Usually what happens during this weak seasonality of monsoon months we generally tend to spread much more than the nearby markets. From our internal assessment, the lead distance has gone up from Sagar by around 70 km odd. Now would it come down, for sure it would come down but at the same time this lead distance also has gone up purely because there was 25,000 tons of cement that has gone to Pathankot which is a one-off kind of an event which may not be a continuous kind of a thing. It's only an opportunistic kind of a thing which we keep doing during an off-season. We definitely are looking at objectively trying to be below 500 km as a lead distance from each of our unit, so definitely we expect it to come down. For the Q2 the average lead distance for that around 524 Km from Sagar.
- Nilesh Bhaiya** The unit that we have acquired in Vizag from Toshali Cement, currently we are booking the sales or the acquisition has not yet been done?

Sreekanth Reddy It is not yet consummated; we are expecting the entire transaction to be completed end of this month or maybe by first week of November.

Nilesh Bhaiya So that plant will also contribute for six months?

Sreekanth Reddy Definitely contribute for five months.

Nilesh Bhaiya What will be the utilization level at that plant?

Sreekanth Reddy It's a very small plant; we expect that capacity to be operational anywhere between 75% to 80% over the next five months. And also, we are trying to marginally increase the capacity from a 0.2 to 0.3 because we are shifting one of the mill so that would also is in progress. So now it would be a challenge for us to state what would be the operational rate purely because in between midway through few months there would be change in capacity itself. Overall we do believe that, that would contribute anywhere between 60,000 to 75,000 tons for the current financial year which is marginal.

Nilesh Bhaiya So maybe in FY18 it may contribute a bit more that will be a full year and maybe at a higher capacity?

Sreekanth Reddy Yes that's a full year but again it's only at 0.3 million. But we expect that plant to operate anywhere between 70% to 75% for the next financial year.

Nilesh Bhaiya On the power cost when we are setting of the captive power unit so as you mentioned that in FY18 we will be having a captive power capacity of 40 megawatt at that level what is the decline in cost that we anticipate for Sagar I mean the power cost per unit?

Sreekanth Reddy There are two things that we generally do the 25 megawatts what we have out of 40 is at BMM; it's in a different state compared to the mother plant which is in Telangana. So, what we are trying to do is I don't think the power cost per se at BMM would get reduced because as such it is on CPP. Now a Sagar the overall requirement is close to around 28 megawatts, out of that we are only going with 15 megawatts from CPP and 6 megawatts from waste heat recovery. We do expect an EBITDA per unit at CPP in Sagar to contribute anywhere between 65 paisa to Rs. 1 per unit but that is subject to the coal prices on that day. But what is very important is today we are incurring a sizable fixed cost for maintaining connectivity with the grid which has gone up very sharply over last nine months. What was at Rs.250 per KVA per month has actually shot up to Rs. 390 per KVA per month. So, we do expect minimum of Rs. 6.5 to Rs. 7 crore saving with the waste heat recovery and CPP coming up only on fixed cost count and obviously, we do expect some saving to happen on the tariff but quantifying that at this point of time would be a challenge purely because how the coal price is going to evolve. Yes of course we have done some analysis but we would only get to know the real quantification would happen once it is commissioned and once we start becoming operational, but specific to that particular project we expect 60 to 75 paisa per unit minimum EBITDA.

Nilesh Bhaiya On this 15 megawatt plant that we would be setting up what will be the arrangement for the coal?

Sreekanth Reddy As such Sagar has the linkage from Singareni.

Nilesh Bhaiya So that will be sufficient...

Sreekanth Reddy Yes I think it's a kind of mixed bag fuels that we might use to optimize the overall kind of a thing. We have linkage for 50% of our overall requirement with cement plant and CPP which is up to 50% for sure. Suppose if imported coal is being used only for cement plant 100% linkage could be used for Singareni for the power plant. But having said that it again depends on the fuel cost on that day.

Moderator Thank you. Next question is from the line of Gunjan Prithyani from J. P. Morgan. Please go ahead.

Gunjan Prithyani I have a couple of questions sir, not sure if you have already addressed them. I just wanted to get a sense on what is the total CAPEX that you are looking at for this expansion of 4 million tonne to 6 million tonne which you mentioned a while back.

Sreekanth Reddy See, I think, we have to look at two things. One is from 4 million to 6 million and the other is to set up the energy sources for us. We are not just spending our CAPEX for capacity increase but also for putting up a coal base captive power plant also. The overall CAPEX that we intend to do is at Rs. 250 odd crore out of which Rs. 167 crore is for increasing the capacity from 0.3 million to 1.5 million at the grinding station and around Rs. 75 crore for the 15 megawatt CPP, Gunjan.

Gunjan Prithyani And sir, this 0.3 to 1.5 grinding unit increase that you are talking I mean what will be the source of clinker for this?

Sreekanth Reddy Yes, it is from our mother unit which is at Mattampally where we produce close to 2.75 million tonnes of clinker.

Gunjan Prithyani But I thought you are also undertaking some expansion there so, is the clinker, I mean I just want to get a sense on what is the clinker capacity and will that support the expansion both at the mother plant as well as the new grinding unit?

Sreekanth Reddy Yes, Gunjan, see the plant we have been investing consistently over last few years to do some augmentation of the capacity at the mother plant. The clinker capacity what was close to 2.25 million few years back got ramped up to 2.75. so, there is no new CAPEX that is required for us barring the usual maintenance that we keep doing from time to time which we limit to a maximum of Rs. 10 crore per year. But we have reached a capacity of around 2.75 million at a clinker level at mother plant. Now, the stated capacity of the mother plant is 3 million at cement and our usual conversion factor for the typical blend that we have between 60-40 kind of an OPC-PPC, our conversion factor is 1.25. For every 1 tonne of clinker we are producing around 1.25 tonnes of cement that leaves enough clinker for us, even at 100% capacity utilization both at mother plant as well as at the grinding station.

Gunjan Prithyani Okay, got it. And I also wanted to get some sense from you on this noise which is made around irrigation project in south that a lot seems to be happening on ground. I mean it will be great if you share your thoughts to what is happening on the ground, are there any tenders which has been floated by the government and what kind of off-take these sector can see on back of these projects?

Sreekanth Reddy Gunjan, I think, for last quite few years there are two things that are happening. One, a lot of people have too much of expectation getting into this. No doubt, these projects are for real but have they started so far they have just started not in a way where we can start celebrating but we do expect going forward most of these things to start happening not only on the irrigation but even on the low-cost housing. Some of these projects are projects which are in construction or in planning for quite many years. Some of them have been tendered, some of them have been realigned, some of them have been renamed. But most of these

projects has been in planning stage for quite some time, some of them are in construction but some of them are in a pace which is okay, some have absolutely slow-down. Now, have there been tenders, I think at least 60% of most of these projects are half way through the construction. So there is no new tendering requirement per se. Some of them have been realigned so, for those I think tenders have already been called for, contractors have been finalized but I think they are just waiting for money to be mobilized from both the sides one from the contractors as well as for some advances. Telangana government has clearly stated that they are not going to pay any mobilization advance going forward. So, some of the contractors are trying to make those arrangements, financing arrangements for them to kick start. We do believe that over next few quarters to the coming year we should start seeing and off-take from those projects. Currently, the off-take from those projects have been very-very minimal.

Gunjan Prithyani

Okay. And Sir, you mentioned in a reply sometime back that on the government tendering there has been about 1 lakh tonne of cement per month versus the industry size of 18 million tonne now this 1 lakh is specific to a certain project that they have floated or they are engaging with the industry. I just want to get sense on what this 1 lakh number is.

Sreekanth Reddy

No, Gunjan, see, at different timelines government has indicated the total demand that they expect over next year to 18 months from some of the projects. Like for example, AP government has indicated that it would be close to 2 million tonnes will be the requirement for low cost housing as well as for some of the key irrigation projects that they intent to undertake. And similar number was indicated from Telangana government but because of the historical facts what we generally do is we go with a 50% discount about this becoming fructified in a very short time. Like that we have arrived at a 1 lakh to 1.5 lakh but per se there is no specific tender that has been called for such a large quantity. It is only an indication that they have come up with.

Gunjan Prithyani

Okay. And sir, it is a last question from my side, on the absolute price trends that you are seeing in your markets in Maharashtra now versus what it was and versus the average for the last quarter? I just want to understand the kind of increase which has happened.

Sreekanth Reddy

No, I mean Gunjan, if I have to just tell you Solapur, in April we have seen Rs. 240, in June we have seen Rs. 245, in August we have seen Rs. 230, in September we have seen Rs. 270 so, we have seen it is a Rs. 40 increase between August and September. Fortunately, even into the two weeks or three weeks of October also the price more or less remained stable there. I hope, I could address what you are looking for.

Moderator

Thank you. Next question is from the line of Indrajit Agarwal from Goldman Sachs. Please go ahead.

Indrajit Agarwal

Just wanted to understand which all avenues do you think this demand is likely to pick-up from? As we mentioned that irrigation projects not much is happening neither in low cost housing. So, do you think road sector will play a big role especially in AP and Telangana or which are other avenues do you think

Sreekanth Reddy

See, it is kind of a basket which historically has been factual. Housing historically did contribute close to 60% of our demand and rest of all the things contributing the balance 40%. But there were times when irrigation projects picked-up the housing came to as low as 50% but what we generally factor is the overall basket to remain in similar kind of position, sir. What I stated is the irrigation projects and

low cost housing did not do much for last six months of the current year. We do expect these to start going up, going forward. Now talking of these road project, sir, I think road projects I need to segregate into two one is the what most of the people talk about NHAI roads and concrete roads, I mean concrete roads which are more with a rural flavor and then urban in it. We do believe that the NHAI in our markets is not a big contributor for or our business because most of the infrastructure build up especially on the road is there barring very few projects, most of these projects are either in eastern India or northern India not many of them are in our foot print areas so, I would not like to comment anything on that. But the rural roads especially the concrete roads which have been significantly contributing for cement consumption especially in AP and Telangana, we do believe they would continue to contribute in a similar fashion. How much percentage it would always be a challenge from month-to-month from company-to-company it keeps varying, sir. But what we do except going forward is that other than housing the irrigation, low cost, housing and this rural road should contribute strongly going forward for especially AP and Telangana.

- Moderator** Thank you. Next question is from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah** Sir, my first question as a clarification, in the earlier question you answered about the expected growth in AP and Telangana at 5% to 7%, sir is that for the full year that what you are looking at?
- Sreekanth Reddy** Yes, sir, we are not looking at, we are looking at a much higher number but we do believe that it should be in that vicinity that 5% to 7.5% for the full year.
- Ritesh Shah** Okay. And sir, how much was it for the first-half of the year the actual growth?
- Sreekanth Reddy** See, first-half of the year it is almost close to around 18%-odd.
- Ritesh Shah** Okay. So, we are looking at this growth to actually go down in the second-half?
- Sreekanth Reddy** No, see Mr. Ritesh, again I have to very carefully it is not that it will come down but what has happened is most of the demand for last year has come back-ended sir, because there has been a huge surge of demand in February and March and this time what has happened is there was a roll over about the same trends that have happened from Q4 of last year on to the Q1 of this year. See, unfortunately what happens if you look at year-on-year these numbers very alarmingly high, because the base impact over last year Q1 and Q2 and Q3 were pathetic, there were historical lows and if you see the last March was historical high so, that is where we feel that the numbers looks upside at this point of time purely because of the base impact but we do expect the demand to be strong at 5% to 7.5% for the current year as we are coming after very long time. Over last six years the market has been de-growing, sir. So, last year was first year when the demand slowly started into the positive territory from then to 5% to 7.5% itself is a big-big growth sir.
- Ritesh Shah** Correct, that helps. Sir, my second question is there are other players in south India who are actually now targeting UP and MP markets so, how do we look at that proposition and secondly how would you fit this with the new grinding unit that we have acquired so, what was the rationale, is it more on cost savings or is it the higher realizations so, what was the rationale behind that? So, first question is entering into UP markets, MP markets, is that something that we are considering?
- Sreekanth Reddy** No, Ritesh, I think our stated policy at this point of time is that at short-term. We are looking at increasing our presence in eastern market and especially into Odisha.

So, it is too early for us to start talking about any other states other than what we have already stated. And the rationale is very simple, I mean rationale is to optimize and at the same time historically that same asset was owned by Sagar Cements so, we have seen an opportunity when it was available we wanted to take it because it is also adding up to our market reach and at the same time it is also helping us to increase our margins and also get the product which we feel is also going to start making a significant difference for us on a long-term basis. So, that is one of the reasons why we have acquired. And we also tried to increase the capacity to a size which we thought would make a meaningful sense for us because we do have presence in southern parts of Orissa, to those markets currently we are servicing with the product which is in minority in most of the those markets, sir. If you look at most of those Orissa and eastern markets, the majority of the markets are service with PSC but whereas we have been currently servicing with OPC and PPC so, we just wanted to change to a product which is in majority in Odisha. At the same time optimize on the freight so, that was the only reason and thirdly, most important is we are growing sir. So, given the scenario what we are also conscious is that we are not trying to add capacities in markets which are already overcrowded so, with that we try to look at this kind of investment addition but this is more I would say what we are going to do for next two years to three years, long-term Yes, it is too early for us to take a call on that.

Ritesh Shah Correct. Sir, I am just touching upon cost savings you earlier indicated on the power side. So, how do we see freight cost savings coming through after the expansion in the grinding unit in Odisha?

Sreekanth Reddy See, absolute freight savings it is always a challenge to quantify. But what is happening in our case is it is not just freight saving alone sir, we are also changing the product mix. So, quantifying just a saving on freight would always be different but what we are trying to do is for a given clinker we are trying to maximize the total cement and today southern Orissa plus North coastal AP Yes, we have almost 40,000 tonnes of cement that is getting into those markets. With the grinding station for next year and, year and half the substitution is less than half of it sir.

Ritesh Shah Sir, lastly a book keeping question. Sir, on one of your slides you have given average prices for indigenous coal and imported coal. Sir, what is the calorific value for each of the averages that you have given?

Sreekanth Reddy I think that is going to be a big challenge of course we do have, we will be more than happy to share it on offline because it actually amounts to quite a bit of homework that we have to do because that is a bit complex because there are some coals with higher ash, lower moisture, there are some coals with higher moisture, decent calorific value. Yes, it actually varies 4,500 kcal to almost 7,000 kcal on an ADB basis again. We would be more than happy to share with on an offline rather give a number because it is a bit complex for me to share it over this call.

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

Rajesh Ravi Sir, this government projects you discussed upon and obviously as you said that this is not a big project. But is it true when you are negotiations with the government for these off takes, you and other players in the AP, Telangana at 1,10,000 per month odd, could there be also be possibility that the government may ask the other projects where contractors are doing the projects for the government and not directly going to the government there also you may have to sell them at a lower price compare to what the market price is?



Sreekanth Reddy See, Mr. Rajesh at this point of time what we know is that government is looking at certain specific projects where they wanted price support from the industry that we are aware. As per the other projects I am sure there is nothing wrong in asking but would it feasible is a question mark.

Rajesh Ravi Okay. And normally sir, at ex-rate level would there be much difference compare to what you would generally...

Sreekanth Reddy Definitely, I think, definitely I would be at certain discount compared to the retail but at a margin level definitely sir, I think for what government has asked to what industry is also willing to do it Yes, it may not be exactly the same as what normally the market realizations would contribute.

Rajesh Ravi Okay. So fair to conclude that if I trade around 18 and that would be 1 - 1.5 almost 10% of the demand would at best will be coming from these government projects?

Sreekanth Reddy No, I would not go for the at best sir, we are expecting a minimum of 10% that is the right statement that I have to make. It is something which we have to factor because that would put a bit pressure on the margin but one good thing that is happening is that is an incremental volume that we have.

Rajesh Ravi Right, utilization will go up.

Sreekanth Reddy So, overall what we feel, what government has asked for I would not call it as very unreasonable but what our believe was that it should not go and hit the bottom-line so, we are trying to intercept on the government. From the previously agreed prices if they are asking more here we are only trying to impress the government that even the earlier price was a place where it is only a breakeven, purely we are trying to able to service that because of incremental volumes that what was our plea to the government and that is what we are trying to do even now.

Rajesh Ravi Okay. And lastly on this funding, for this Rs. 250 crore could you just explain this preferential allotment of 6 lakh shares that would be around Rs. 40 crore - Rs. 50 crore odd which would be bring in the promotor equity?

Sreekanth Reddy Yes, it will be close to Rs. 50 crore anywhere between Rs. 45 crore to Rs. 50 crore would be preferential is what we are looking but what we are trying to objectively look at is the minimum of Rs. 200 crore to Rs. 250 crore as the overall kind of fund raise. So, what we are very certain is the preferential allotment happening and that should get a minimum of Rs. 45 crore to Rs. 50 crore in the company. The rest we are trying to get it from QIP.it again is a function of the market and the timing that we are looking. So, that should get us overall around Rs. 200 crore to the equity increase, the balance Rs. 50 crore we are trying to get it from internal accrual and if at all if there is more small shortage by the we will probably might look at a small debt if warrants for it.

Rajesh Ravi And lastly you know sequential freight increases by around Rs. 170 odd so, there you see the number again moderating towards the normal level?

Sreekanth Reddy See, here it has gone up by Rs. 180 on a year-on-year.

Rajesh Ravi On a Q-on-Q basis if you could...

Sreekanth Reddy On a Q-on-Q in fact it has come down from Q2 last year to last Q1 it has come down to Rs. 615 then surged up to Rs. 713 for Q2 the reason being that lead

difference, there are different lead distances for each of these quarters sir, and at the same time there have been certain small increases in the fuel cost, not small but quite substantial ones.

Rajesh Ravi

Okay, impacting your...

Sreekanth Reddy

Yes, but what we are trying to assume is that definitely the overall freight could come down from the current cost assuming that fuel prices do not go up from here because the general lead distance that we try to optimize is sub-500 but whereas for the Q2 it was at 524. So, we do expect it to come down and similar impact we expect but one of the biggest variable which we have not control is the fuel cost itself.

Moderator

Thank you. Next question is from the line of Abhishek Ghosh from Motilal Oswal. Please go ahead.

Abhishek Ghosh

Sir, the gross realization that you have mentioned in the slide those are the average gross realization for the quarter?

Sreekanth Reddy

Yes, sir, these are average gross realization for the quarter.

Abhishek Ghosh

Okay. Since the price hikes were kind of effected closer to end of August and September, the exit prices would have been far higher than the average prices?

Sreekanth Reddy

Yes, sir. You are correct, sir.

Abhishek Ghosh

Okay. And that should help us in the 3Q because you mention that the current price...

Sreekanth Reddy

If it gets sustain sir, it should help us.

Abhishek Ghosh

Sure, thanks. And sir, in terms of the grinding capacity which is a PSC base thing that I understand and you are going to be increasing it from 0.2 to about 1.5 how has the slag arrangement for that being done?

Sreekanth Reddy

See, currently slag is available in good quantities in the neighboring steel plant which is the Vizag steel plant sir, because the per se the slag usage the grinding capacity is there, there is ample slag that is available and it is telescopic it is primarily incentivized on usage so, we feel confident and the availability of slag we do not see it as a challenge.

Abhishek Ghosh

So, you are not tying up or anything on that?

Sreekanth Reddy

We would tie-up sir, but we are 18 months to 20 months away, there is available per se in general so, we do not see it as a challenge.

Abhishek Ghosh

Sir, sometime back you had mentioning there is power tariff rationalization that can be done in BMM plant, so any developments there and also I think BMM prices were a little better discount to what Sagar sells so, we were also looking at rationalizing those prices.

Sreekanth Reddy

I think for last one year, there is no BMM brand it is only Sagar which is getting sold at both the places. So, as such if you would have noticed the realization sir, it is purely because of the freight where BMM gets a higher realization on the gross side then Sagar because it is the same brand so, I do not think there is any different



brand that is going for BMM. Secondly, the tariff realization would happen at Sagar but not BMM because the captive power plant is already at BMM so, there is nothing new that we should expect barring the flow through of the fuel prices whatever gets through that is the kind of benefit that BMM would get either which way.

Abhishek Ghosh Sure. And sir, just lastly what is the kind of capacity addition that we are seeing in the southern market for next say about 18 months because what is the visibility?

Sreekanth Reddy What we expect for next six months is zero, in next 12 months also we expect negligible, I would put it because I am not very sure of the timing. But I think, 12 months to 18 months we expect one capacity of NCL. Then between 18 months to 24 months we do expect KCPs next capacity to come in.

Abhishek Ghosh Okay. Nothing beyond this at the moment.

Sreekanth Reddy That itself is quite substantial sir.

Abhishek Ghosh Both combined would be about, what will be the combine capacity?

Sreekanth Reddy I mean, I think it would be a big challenge for me to state a capacity. Whatever is in public domain is available sir, I have no specific knowledge about their individual capacities at this point of time.

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

Manish Raj Sir, my question was on the front that you have stated that you will be doing expansion on the BMM front also. And BMM capital expenditure have increase from 1 million to 1.5 million tonne, if you could state the CAPEX number for that?

Sreekanth Reddy See, Mr. Manish, it is something which we would like to do to the base on the product mix, rather than any large CAPEX under account because so far we are only going with the OPC and PPC kind of number and there are sustained investment that are happening which we have stated earlier in terms of the maintenance CAPEX that was happening that should take us to 1.5. Every year we spend anywhere Rs. 7.5 crore to Rs. 10 crore is what we have mentioned earlier. We would like to state again that similar numbers would be happening over next few years that should take us to 1.5 million sir, because what we intend to do there is to mix GGBS which is third party bought out item which would get mixed and will become a PSC and a very small limited CAPEX is required for us to handle PSC manufacturing at BMM that is what we intend to do there.

Manish Raj So, that means that our CAPEX for the next two years should not increase more than Rs. 335 crore, Rs. 250 crore for the stated capacity expansion in power plant.

Sreekanth Reddy Yes, other then that what we generally do is per annum we do Rs. 10 crore to Rs. 15 crore in Sagar and similar Rs. 10 crore in BMM over the next two years to three years sir, so that also you should add up. But that is more to do with the maintenance CAPEX because those maintenance CAPEX should help us reach to the numbers which I have stated.

Manish Raj So, that means broadly over the next 18 months our CAPEX will not be more than Rs. 350 crore?



Sreekanth Reddy Yes, sir, you are absolutely correct.

Moderator Thank you. Next question is from the line of Sanjay Nandi from Ratnabali Capital Markets. Please go ahead.

Sanjay Nandi Can you please tell me sir, what is the current cost of pet coke prevailing right now?

Sreekanth Reddy See, the pet coke, the current negotiated prices are ranging anywhere between \$86 to \$92.

Sanjay Nandi Sir, in future what were your plans suppose if that is \$100 or more than so, then do you...

Sreekanth Reddy Sir, even today we are not sourcing much of the pet coke sir, we optimize on what are the fuels that are available in the market. Try to see whatever offers the most cost advantageous we end up doing it.

Sanjay Nandi Okay. And sir, how long can you store the pet coke, sir?

Sreekanth Reddy See, I think the advantage with the pet coke is it is not very volatile so, the shelf life is fairly long with the pet coke.

Sanjay Nandi Okay. Sir, can it be stored for more than two quarters or something like that?

Sreekanth Reddy More than a year you could store it, sir. We do not see it as a challenge.

Sanjay Nandi So, do you have facility like if you could store at \$86 per tonne to \$90 per tonne so, you can...

Sreekanth Reddy I would definitely not store pet coke at \$86 - \$90 sir, if it comes down to below \$60 then we will start storing more. But at this price we would not buy any pet coke either way.

Sanjay Nandi Sir, previous also you use to use pet coke, no, so when the prices use to hover around....

Sreekanth Reddy Yes, we have pet coke where we bought sub \$60.

Sanjay Nandi So, do you store at that time, sir?

Sreekanth Reddy We have some stock of the pet coke which we have bought it at \$60.

Sanjay Nandi Okay. So, how long that stock is going to last sir.....

Sreekanth Reddy We are not using so, it has been there for last six months so, we expect but it will be a challenge for long it will be there, it can be there technically, it has no problem for a long storage as far as pet coke is concerned.

Sanjay Nandi Okay, sir. Sir, do you anticipate any further rise in your power and fuel cost right now which is Rs. 850 per tonne?

Sreekanth Reddy See, today it is a Rs. 866 on two count because this number has been arrived based on the quantity that we have sold, not on quantity what we have produced.

What has happened during the Q2 is that we produce more and we have a huge inventory, we have an inventory of more than 100,000 tonnes of clinker so, the overall fuel cost looked high but that got divided by a lower dispatches, it looks high and when you do the proportionating it is very flat, sir.

Sanjay Nandi

Okay. So, it means that in current pet coke did not impacted your power and fuel cost?

Sreekanth Reddy

We are not using pet coke, sir. So it did not impact for us either way but there is a small marginal increase on coal price, we have inventory sir, so, usually our inventories are for two quarters, so, after Q3 we do not anticipate any big significant changes in the fuel cost. Q4 is something which we started looking at it is too early for us to comment on Q4 but for Q3 I think our fuel cost is hedged.

Sanjay Nandi

In Q3 your fuel cost is hedged, right?

Sreekanth Reddy

Yes.

Moderator

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

Gurpreet Kaur

I just one query about pet coke just to elaborate the question a little further from the last question. Basically, in case of pet coke we saw a low of about \$45 last year to now it is close to \$92 and all the con-calls from all the participants that we have been hearing I mean it is like that they say there is no problem from the supply availability basically. So, what my question is basically that if there is no issue from the supply side then why are we not able to strike at balance at a particular cost basically, what I am trying to say is why is the cost increasing, is the demand like much higher the supply in which case we can say that there has been some supply issues also in the past, and how do we analyze this in that case?

Sreekanth Reddy

No, I think pet coke you have to be clear on two counts. One, pet coke very specific to what we have seen, there are two things, one the Saudi pet coke which has very high sulfur and the typical American pet coke and most of the time the Indian pet coke suppliers pegged their price against the American pet coke which usually the higher one. Now, today the American pet coke is available but Saudi pet coke per se the availability is in question. Now there are various reasons people keep attributing for the price increase, we are a very small player so, we are not usually into really looking at that very-very seriously about what is happening but from the here say what we have heard is that earlier there were some restrictions in China where they could not use high sulfur pet cokes. So, that I think got eased out so, now the Saudi pet coke, earlier it was only Indian markets today they have a much larger canvas to supply. So, with that people say and claim that the Saudi pet coke the quantity is limited but with a much bigger markets than what it was available earlier and they started increasing the price. See, what was available at 50% discount to the American pet coke today is discounted only by 10% to 15%.

Gurpreet Kaur

But like we take our benchmark as American pet coke is not it?

Sreekanth Reddy

No, there is no benchmark per se, I mean you have to be very pragmatic here that benchmarks usually have certain issues so, we have no issues to use Saudi pet coke. The only problem is it is not available anymore, either because most of the traders never wanted to discount it so much or they have other markets which started consuming that. The American pet coke was always competing with the South Africa and Australian coal, so, we were looking at what was the cheaper and most of the time the Australia and South African coal was a lot cheaper than the

American pet coke. When the Saudi pet coke came into the market that is when the whole market started looking at a pet coke but specifically to Saudi pet coke but Saudi pet coke slowly inched back from sub \$40 today even that is quoting close to \$80 - \$85.

Gurpreet Kaur

And in this circumstance I mean we in this particular backdrop of evens are we not considering domestic pet coke like from Reliance or Essar?

Sreekanth Reddy

No, that is usually pegged again the American pet coke cost so, if American pet coke is at \$90 most of the Indian suppliers also peg their cost accordingly. But in our case, see today I think imported coal is a lot cheaper than the pet coke. So, there is no point in looking at pet coke the minute it breaches \$90 I think it is far more expensive than most of the South African and the Australian coals. And at \$90 and even if imported coal price goes up from here I think the domestic coal prices start becoming a lot more feasible even the import coal price. But most of the time the traders are smart enough to look at all these issues to calibrate accordingly.

Gurpreet Kaur

In terms of price you are saying?

Sreekanth Reddy

Yes, ma'am.

Moderator

Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the floor to the Sreekanth Reddy for their closing comments. Over to you, sir.

Sreekanth Reddy

Yes, we I would like to thank each one of you for joining the call. I hope you got all the answers you are looking for. Please feel free to contact our team at Sagar or Citigate, should you need any further information or you have any further queries on and we will be more than happy to discuss then with you. Thank you and seasons greeting and Happy Deepavali. Thank you.