SAGAR CEMENTS LIMITED

Ref:SCL:SEC:2023-24

15th May 2023

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

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

Symbol: SAGCEM
Series: EQ

Scrip Code: 502090

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

Dear Sirs,

Sub: Submission of transcription of Conference Call under Regulation 30 read with Part A of Schedule III of SEBI (LODR) Regulations, 2015 on Q4 FY 23 financial results

...

Pursuant to the above said Regulation, we are forwarding herewith the transcription of the Conference Call held by us on 11th May 2023 in connection with the recently announced audited stand-alone and consolidated financial results for the fourth quarter and year ended 31st March, 2023.

Thanking you

Yours faithfully
For Sagar Cements Limited

RANGASWAMY SOUNDARARAJAN
Digitally signed by RANGASWAMY SOUNDARARAJAN
Date: 2023.05.15 15:50:52 +05'30'

R.Soundararajan
Company Secretary

Encl.

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MANAGEMENT: Gavin Desa - CDR India
Sreekanth Reddy - Joint Managing Director
K. Prasad - Chief Financial Officer
Rajesh Singh - Chief Marketing Officer

ANALYSTS: Keshav Lahoti
Pritesh Chheda
Shravan Shah
Parth Bhavsar
Darshit Vora
Sanjay Nandi
Badri Vishal Bajaj
Ritesh Shah
Rajesh Ravi
Abhisar Jain
Navin Sahadeo
Vincent Andrews

Presentation

Manish Valecha: Good afternoon, ladies and gentlemen. Welcome to the 4Q & FY '23 Results Conference Call of Sagar Cements Limited. We have with us from the management, Mr. Sreekanth Reddy, Joint Managing Director; Mr. K. Prasad, CFO; and Mr. Rajesh Singh, the Chief Marketing Officer. We will start today's session by opening remarks from the management, and this will be followed by a Q&A session. I request all the participants to be on a mute-only mode during the course of the call. I would now like to hand over the call to Mr. Gavin Desa of CDR for his opening remarks. And over to you, Gavin.

Gavin Desa: Thank you, Manish, and thank you for the introduction. I would just like to point out that some statements made in today's discussions may be forward-looking in nature, and a note to this effect was stated in the conference call invite sent to you earlier. As always, we will start with Mr. Reddy's opening remarks, following which we will have an interactive Q&A session.

I would now like to hand over to Mr. Reddy for his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy: Thank you, Gavin. Good afternoon, everyone, and welcome to Sagar Cements' earnings call to the quarter and year ended March 31, 2023. Let me begin the discussions with a brief overview of the market in terms of demand and pricing, post which I will move on to Sagar-specific developments.

Overall, we have seen a good pick up in the volumes for the sector in general, aided in part by steady demand from infrastructure projects and IHB segment. The volumes would have been even better, but for the unseasonal rain and the labour shortage on account of the festivals during the end of the quarter. Strong volumes have resulted in higher operating leverage, which coupled with softening raw material prices, led to some improvement in operating profitability.

Prices, though, have remained steady, and we are hopeful that the same would improve with time. On the whole, we remain optimistic about the sector's prospects as we believe demand and pricing should improve on the back of government's infrastructure push coupled with the demand from urban housing.

Moving on to Sagar-specific development. FY '23 has been an eventful year for the company, a year wherein we achieved our stated objective of attaining 10 million capacity well before 2025, following the acquisition of Andhra Cements. We believe that this is a good addition to our portfolio as it not only helps solidify our presence in our core markets, but also helps in better serve our customers in a timely and cost-effective manner.

Contrast that is to our two assets, which we acquired earlier, that is Satguru and Jajpur, which helped us in not only diversifying our geographic and product mix but also facilitated entry into the faster-growing regions. Our efforts over the next few years will be directed towards improving the operational efficiencies and setting these assets.

Let me now move on to our quarterly performance. Our revenue for the quarter stood at ₹622 crores as against ₹502 crores during the fourth quarter in the previous year, higher by 24% on a Y-o-Y basis, largely driven by volume following commission of new capacities, infrastructure activities, along with the IHB segment I mentioned earlier, drove the demand resulting in higher offtake, realizations though remained more or less steady.

EBITDA for the quarter stood at ₹39 crores as against ₹61 crores generated during Q4 FY '22. Margin for the current period stood at 6% as against 12% reported during the corresponding period last year. While the margins have compressed on a year-on-year basis, the cooling off in raw material prices over the last few quarters bodes well for the business. Furthermore, we are hopeful that our investments towards strengthening our operational infrastructure in recent times by setting up WHRS, railway siding, etc., should also help us improve the margin profile and trajectory over the coming years.

Average power and fuel cost stood at ₹1,796 per ton as against ₹1,596 per ton reported during Q4 FY '22. Freight cost for the quarter stood at ₹834 per ton as against ₹776 per ton during Q4 FY '22. On a sequential basis, as mentioned earlier, we have seen moderation in fuel and freight costs. Profit after tax for the quarter stood at ₹98 crores as against loss of ₹19 crores reported during Q4 FY '22.

From an operational point of view, Mattampally plant operated at 73% utilization while Gudipadu, Bayyavaram, Jeerabad and Jajpur plants operated at 93%, 66%, 81% and 14%, respectively, during the quarter.

Overall capacity utilization at the group level stood at 65%. As far as the key balance sheet items are concerned, the gross debt as on March 31, 2023 stood at ₹1,472 crores, out of which ₹1,277 crores is long-term debt and the remaining constitutes the working capital. The net worth of the company on a consolidated basis as on March 31, 2023 stood at ₹1,689 crores. Debt equity ratio stands at 0.76:1. Cash and bank balances were over ₹210 crores as on March 31, 2023.

In summary, we believe that our efforts towards cost rationalization, better product mix and presence across established and fast-growing regions position us well to create value for our stakeholders. This concludes my opening remarks. We will now be glad to take any questions that you may have. Thank you.

Manish Valecha: A reminder to all participants, you can ask your question by raise of hand in the participant tab of the Zoom platform. We will wait for a moment for the question queue. Mr. Keshav, you can go ahead, please, with your question.

Keshav Lahoti: Hello, hi sir. Thank you for the opportunity. Just wanted to know about Andhra update, how is it going? Is it as per the plan, what you have said last time?

Sreekanth Reddy: Yes, good morning, Mr. Keshav. Yes, Andhra, as mentioned in the previous call, yes, we did operationalize the grinding side of Andhra Cements in the month of April itself. We could commission the mills and also start dispatches on 12th of April. The clinker line is due for commissioning in the middle of June in the current quarter itself. And we are more than hopeful that we should be a week before the stated time itself, Mr. Keshav.

Keshav Lahoti: How has been your trade share in this quarter? And how has been your regional mix for FY '23?

Sreekanth Reddy: Yeah, this quarter, I think we more or less remained very similar to how it was in the previous quarter, though we pushed ourselves slightly away from some of the markets during the fag end of last quarter. Because for the first time, we have seen deep south prices much, much lower than the north of south prices.

But having said that, still we had a robust growth during the full-year. We could have done something more even during the end of Q4. But for the unseasonal rain and as well as the kind of pricing regime that was existing in the deep south, pushed us to limit our volumes. But having said that, we more or less are at 60-40 kind of a trade, non-trade kind of a mix for the full quarter. I'm assuming that you have asked for the Q4, Mr. Keshav.

Keshav Lahoti: Yeah, okay. That is fine. One last question from my side. As we have seen your OpEx have increased quarter-on-quarter by 1% while others have reported 8% to 5% decline. The reason was that we have seen your freight costs have increased and also other expense. Can you please highlight on this effect?

Sreekanth Reddy: Yeah, Mr. Keshav, I'm sure you will appreciate. We are trying to ramp up the volumes into the markets. So we definitely had one-offs kind of sales expenditure, especially to do with the sales promotion, because we have a huge volume that is about to come up or has already started into the market.

And at the same time, some of the markets, the ramp-up was not as expected, especially the Jajpur. So the spends, I would say these are one-offs that actually went up in the current quarter itself. Freight, obviously, was higher because we had to recalibrate the product presence because as you would have seen, the realization for us, there was no drop in spite of a sharp reduction in the prices in the markets that we service, Mr. Keshav.

And at the same time, in part of some of the other expenditure, the acquisition and the legal-related expenses, which are again one-off also were reflecting in the current quarter, Mr. Keshav.

Keshav Lahoti: Just a follow-up on freight. As we are seeing your lead distance have also decreased quarter-on-quarter. So what exactly happened and whether rail and road mix have changed, or what exactly have changed for you?

Sreekanth Reddy: No, no, we more or less remain the same, sir. There are certain markets where we had to go through the go-down. So incrementally, there was an additional handling cost that we had to incur it, which is part of the freight, Mr. Keshav.

Keshav Lahoti: Okay, thank you. That's it from my side.

Sreekanth Reddy: Thank you.

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

Pritesh Chheda: Sir, I have three questions, one on the pricing scenario. And usually, every four years, we have seen price increases coming in southern market, which is FY '13, '16 and FY '20. And some of it have coincided a year before the -- some election year, either it is a state election or the national election. Do you see some of it happening possibly this year? That's the first question.

My second question is with the Andhra Cement acquisition. What is the peak debt that we might see for you, resurfacing or coming in FY '24 or FY '25? That's my second question.

And my last question is on the power and fuel cost, versus the exit of quarter four, what kind of reduction do we see happening? And for that reduction, what is the improvement in EBITDA per ton that we see versus the FY '23 number if the realizations are stagnant?

Sreekanth Reddy: Yeah, thank you, Mr. Pritesh. Let me address the same sequence as you have asked the question. This is regarding the pricing. Yeah, in fact, the years that you mentioned are the years when we actually suffered the most because the margin compression typically has happened during those years, sir.

So I cannot say that it is -- the trend lines in cement sector has always been very, very similar. But this time around, we were very surprised that the prices did not ramp up in line with the input prices that -- the price inflation that we have seen. We don't know what to blame, but one of the facts remain that there has been a huge ramp-up on some of the supplies that did come in the regions that we operate.

Or rather across India, we have seen most of the supplies picking up during this time. The demand, though has been extremely strong. Of course, the demand ramp-up typically coincides with the one to two years pre-election kind of years. So that we have seen. Yes, if you have seen South, we have seen almost close to 20-plus kind of percentage growth year-on-year number. And we are more than hopeful that the momentum to continue in the coming year.

Though probably the -- it may not be as strong as it has been in the current year from a number perspective, because all the elections are not bunched up. They are actually sequenced six months -- with a six months gap. Karnataka just went for an election. Then Telangana is due by December and then Andhra and some of the states that we service are due for election somewhere around June, July of next year.

So with this spacing, we believe it may not be as sharp as it has been in the current year at 20%, but we do believe it should be anywhere between 8% to 10% growth for the markets that we service for the current year. Coming back to the pricing, we are happy on one tone that in a normal case, the price would have deteriorated much more than what it has.

Realization was very flat in the markets that we service for most part of the year. But for the second half of last quarter, the deep south prices, which usually are strong, tanked quite a bit.

Bangalore and Hyderabad markets remain reasonably steady to -- with a positive bias. Though a lot of effort was put in between for price increases, they were very, very short-lived. Right now, from the exit of April, South Tamil Nadu prices still are under pressure. Bangalore remains steady. In Hyderabad, we have seen ₹10 to ₹15 per bag kind of an increase in the current months that went by post-exit of April, a few days that we have seen. Or middle of April to now, we have seen a ₹10 to ₹15 kind of an increase in Hyderabad in the surrounding markets, especially the Andhra markets, Mr. Pritesh.

Yeah, going back to the next question on the debt. Yes, what we are currently is at peak of the debt because we completed the transaction. So we should be somewhere around ₹1,200 crores to ₹1,250 crores of net debt at its peak, which we are in the current year. From here on, we should see the reduction happening quite sharply into the next few years.

The third is regarding the power and fuel cost. In our case, our inventory position is fairly strong. But of course, we moved on from the earlier six months kind of an inventory to a quarter of inventory. So for us, the transition to the low-cost pricing should start. The impact of it is going to be marginal for the current quarter, that is the Q1, but we would see a significant kind of saving getting into the Q2.

If I have to quantify, we expect a ₹50 kind of a drop on a power and fuel for the current quarter, and close to ₹100 kind of a drop for the Q2 onwards, Mr. Pritesh.

Pritesh Chheda: Thank you very much sir. All the best.

Sreekanth Reddy: Thank you.

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

Shravan Shah: Hi sir, first just coming on the volume front. So -- now if you can just help us in terms of the volume that we are looking at 6.5 million tons, how much are we expecting from the Andhra, from the Jajpur and the original plants? So that is the first question.

Sreekanth Reddy: Yes. Mr. Shravan, we are expecting an incremental 1 million from Andhra Cement for the current year. The rest of everything would come from the assets that we have. Yeah, we are not expecting a huge jump in Jajpur for the current year because we have been extremely cautious about the volumes to be done from there, obviously because of the pricing ratios.

We are not facing a challenge of sale, but we have been extremely cautious at what margin that we should do. So we try to limit our volumes in Jajpur. We expect a slight ramp up there. But we are expecting a good ramp-up at Satguru. Yes, there we have seen almost close to 70-odd percent capacity utilization to ramp-up to 80% to 85% for the full-year for the current year. And rest of the other assets, we expect more or less very, very similar performance like how it has been last year, Mr. Shravan.

Shravan Shah: So broadly around -- for the full-year, we can do 6.5 million tons plus kind of a volume.

Sreekanth Reddy: Yes, sir. That is the target that we have done for the -- or put for the current year, which is at 6.5 million, Mr. Shravan.

Shravan Shah: Okay. Secondly, in terms of -- we have mentioned in terms of the power and fuel cost decline. And also, you mentioned there were some extra one-off expenses in other. So if you can help us, so just trying to understand because relatively, if you look at our EBITDA per ton is much, much lower, so Q-on-Q decline. So just trying to understand on a full-year basis, how one can look at in terms of overall profitability, the way we are looking at ₹50, ₹100 power and fuel cost decline.

Sreekanth Reddy: Yeah, our budgeted number is ₹625 per ton. That includes the ramp-up costs and everything inclusive. On a conservative estimate, we are expecting around ₹625 per ton. Mr. Shravan.

Shravan Shah: And now in terms of the expansion also to increase the capacity for the Andhra from 2 million to 3 million tons of -- and the CapEx. So how it will be, so CapEx for this year, next year? And any change in timeline in terms of the start of the expansion at the Andhra?

Sreekanth Reddy: Sir, we -- as indicated, it's a 15 to 18 month process. We would like to start the CapEx pertaining to this only during the second half of the current year. And from then on, it should take 18 months, sir. That should help us save on the fuel.

Of course, there is a marginal upgrade. But given the market, we don't expect all the upgraded supply to come into the market in a short period of time. The very idea of going for that, I would not say is just increasing the volumes, but also updating on the cost-related issues that we should initiate during the second half of the current year, because we are due for commissioning in the middle of June.

So we would like to spend a quarter before we would initiate on the further investments into Andhra. On a timeline front, yeah, it should take 15 to 18 months from the second half of the current year, sir.

Shravan Shah: So by end of FY '25, Q4 FY '25, we should...

Sreekanth Reddy: Yes, sir, you are absolutely correct. By end of FY '25, we should be ready with the 3 million ton -- with a much more efficient preheater system at Andhra Cement, Dachepalli unit.

Shravan Shah: So in terms of the -- for this year and next year, broadly, the combined consolidated CapEx would be how much?

Sreekanth Reddy: Sir, it is ₹30 crores for the maintenance CapEx for all the other assets as indicated earlier. So the only CapEx that we intend to do is at Andhra, which is spread over 15 to 18 months would be somewhere around ₹275 crores to ₹350-odd crores sir.

But we would like to fine-tune by end of Q2, we would be happy to come back, because it again depends on how the ramp-up has been from a technical side. So we have earlier indicated close to ₹400 crores, but we feel that around ₹275 crores to ₹325 crores should be good enough for us to do the expansion CapEx, which should be spread over 15 to 18 months at Andhra level, sir.

Shravan Shah: Thank you sir and all the best.

Sreekanth Reddy: Thank you.

Parth Bhavsar: Sir, in your presentation, there is this slide on power and fuel cost where we gave the spot price is also the cost for the current quarter. So the thermal prices, if you see the first chart, it has declined quarter-on-quarter. But our cost, it has gone up. So what is -- which is the right chart that we should see?

Sreekanth Reddy: One is the general market, sir, and the other is specifically for us.

Parth Bhavsar: Rupees per Kcal would be the right thing to look out for?

Sreekanth Reddy: Yeah, again, this cannot be generalized. I can only write rupees per Kcal on a landed basis for ourselves, sir. I cannot write for the company itself. But in our case, there is a slight increase because it's averaged out kind of a number for us, coming from a few quarters back, and we do have an inventory.

So we have a reasonably good inventory position even now as we speak to the -- going into the next quarter. We have always strongly used the domestic pet coke as well as the domestic coal. But there has been a significant drop on the spot value over the last 15 days to 20 days, especially on the imported pet coke.

The last shipment that we got was at $160, which is due for the receiving end of this month. But I think going forward into Q2, we should have a significant saving as the current spot prices are at $130.

Parth Bhavsar: Okay and sir, one thing that since Jajpur starts ramping up, now we are supplying clinker from Mattampally, which also increases our lead distance. So is there any plans to set up a clinker unit around Jajpur...

Sreekanth Reddy: Sir, I wish we had that flexibility. The limestone availability in Orissa state is very, very limited. The advantage that we have is Mattampally still happens to be one of the lowest cost producer of clinker. Though it is 150 to 200 kilometers longer than Chhattisgarh market, but on a landed basis, still -- Mattampally still offers that much more cost advantage.

I'm sure with the -- in the current year, you would see a significant kind of changes in the cost structure. At this point of time, Jajpur remains as a wholly owned subsidiary, so there is an arm's length pricing issues. Jajpur is due for merger into Sagar, sir. So that should also put some cost on a landed basis much lower compared to what it is right now. So that should give us flexibility at Jajpur going forward. So we are just awaiting for the court order for the merger process to get done fully.

Parth Bhavsar: Okay. And sir, was there any shutdown taken at the Mattampally unit during the quarter?

Sreekanth Reddy: For the current quarter, yes sir. As indicated, yes, we took in -- as we have indicated for 18 days, but finally, we have taken 21 -- 22 days precisely. So Mattampally plant is back to normal.

Parth Bhavsar: Why was it taken?

Sreekanth Reddy: Sir, it is long overdue. It's -- if you look at last year, the plant ran for almost close to nine months without any stoppage. So it was due, so it was taken in the Q1 itself.

Parth Bhavsar: So wouldn't -- it would have been nice to take it in the monsoon since the demand would be low.

Sreekanth Reddy: Sir, it's always nice. See the typical spread for a cement kiln is 330 days, sir. That is 35 days of break. So it gets split between two parts. One, it has to stop for 15 to 18 days during the season, and the balance in the off season. But in our case, yes, we -- the kiln ran very well. So we wanted to optimize on the restart expenditures, so we could stretch ourselves. But that did not impact much in terms of the volume during that time, sir.

Parth Bhavsar: Sir the shutdown was taken after how long? I missed that part.

Sreekanth Reddy: Nine months, sir.

Parth Bhavsar: Nine months. Okay sir, done. Thank you so much sir.

Sreekanth Reddy: Thank you.

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

Darshit Vora: Yeah hi, thanks for taking my question. So I wanted to -- like how would your view of revenue and margins would be going forward in the next two, three years?

Sreekanth Reddy: Sir, I wish I could address that long. For the coming year, we are hoping to do 6.5 million tons with an EBITDA margin of conservatively at ₹625 EBITDA per ton. That should give us close to ₹400 crores plus kind of EBITDA, sir.

Darshit Vora: Okay. And any -- okay, so volume will -- what would be the translation of volume to revenue? Any basic, any ballpark view?

Sreekanth Reddy: Sir, typically, we don't look at top line in our sector, because it's a function of how far and which all markets you service. This should roughly be close to around ₹3,500 cores to ₹4,000 crores for this similar kind of a volume.

We are expecting ₹400 crores kind of an EBITDA for the coming year, sir. Two to three years is a very long-term view, we would be getting into elections and all. But yes, we think that this is something which is doable in our case.

Darshit Vora: Okay, thank you so much.

Sreekanth Reddy: Thank you.

Sanjay Nandi: Sir, thank you for the opportunity. Hello.

Sreekanth Reddy: Yeah, please go ahead.

Sanjay Nandi: Sir, you just mentioned like we incurred some additional advertisement cost in Andhra Cement. So will that be going for next quarter as well for the sales motion expenses.

Sreekanth Reddy: Mr. Nandi, as I mentioned, yes, this was kind of one-off where it was more like, I would not say just advertisement, but it's a promotion expenditure, because we are consolidating the markets that we are operating. So that's what -- it's a one-off kind of a number, Mr. Nandi.

Rest everything would be as spread as in the past, but we had close to around ₹10 crores to ₹11 crores kind of odd one-off expenditure in the current quarter, Mr. Nandi.

Sanjay Nandi: Okay. Thank you, sir. Sir, the next question is like what kind of volume growth you are like seeing in this current quarter, like already two months have gone from the exit of March quarter. So is it in the same trend that will happen in the March quarter?

Sreekanth Reddy: See, typically, Q1 and Q4 are the strong quarters, sir. So it is very, very similar to how it has been in Q4. But for unseasonal rain, we should have actually peaked out. But I expect a similar kind of volumes as Q4 and Q1.

Again, you have to please make the adjustments for some parts, there is election. So typically, what we have seen is two months before and two months later, the elections. After the elections, especially in Karnataka, things tends to be slightly slowed down. But in Karnataka, it's majorly Bangalore, sir. So that to a certain extent should negate. But we expect very similar kind of volume growth as Q4 of last year into the Q1.

Sanjay Nandi: Got it, sir. Sir, my last question is like in the power and fuel cost front, we have seen like no significant drop on a Q-o-Q basis. And you commented like we're having an inventory of three months going forward and with the prices dropping from to 160 as of now and right now it's 130. So what kind of cost pattern benefit we'll be having in the coming quarters?

Sreekanth Reddy: Yeah, let me repeat, Mr. Nandi. We are expecting ₹50 per ton kind of a drop on the account of power and fuel for the current quarter. And going into the Q2, we expect it to swell to ₹100 per ton into Q2.

Sanjay Nandi: ₹100 per ton. Thank you so much sir. Wish you all the very best.

Sreekanth Reddy: Thank you.

Badri Vishal Bajaj: Good afternoon, Sreekanth sir.

Sreekanth Reddy: Yeah, good afternoon Badri ji.

Badri Vishal Bajaj: Sir, congrats for targeting 10 million tons of cement production and revenue generation. And also private investment from friendly investment. It is good for our progressing and big CapEx, which you have undertaken, and we reached average shareholder value over a period of time it may grow.

Now I have two typical questions, sir. If I go by past three years performance on profit before tax or profit after tax. In 2021, we have made ₹186 crores PAT. In '22-'23, we have made -- I am sorry, '21-'22, we have made ₹59 crores, and this year ₹8.5 crores. So it is falling from ₹186 crores to ₹8.5 crores as a fact.

So this is the concern, but the margins have gone up, your sales turns have gone up. The revenue generation is 24% up, still margins are there. As you said in your earlier statement that there was some problem of labor or rain or uptake. So going forward, how you raise your margins, one thing sir.

Second is, the financing cost, which is increasing because of large CapEx, say in '21 it was ₹46 crores. '22 it has gone double to ₹92 crores, in '23 it is more than ₹200 crores. So when financing is needed, Premji investments, investments have come. And if I look at your equity, almost 85% is there.

So is it worth growing faster or growing slower so that you can help margins also as well as your target achieve? That is what the concern as a shareholder. And second question is the timeline for clinker commissioning at Jajpur, which we are taking from AP -- Telangana. These two questions, sir, please.

Sreekanth Reddy: Yeah, thank you, Badri Ji. Now let me again update you, sir. In FY '21, yes, we had started the ramping up and commissioning starting from Satguru to Jajpur to now Andhra Cement. So we have been in a growth phase for the last three years. Unfortunately, during the current -- the last three years, the input price regime has significantly gone up, but not the pricing. So that actually impacted us quite a bit on the margin front.

Coming back to the financing as the company was growing, See, I'm sure you will appreciate from FY '21 with a ₹5.75 million, we have reached close to near doubling to ₹10.85 million. So obviously, this has to come at a steep CapEx. So whatever was in our means, we tried to optimize.

But in spite of having such a large capacity, we strongly believe that the net debt at ₹1,250 crores is still manageable, even in a worst-case scenario like last year, yes, where the EBITDA generation significantly fell, we are in a situation to comfortably service that. So we are doing it with a mix of debt and equity. And we never cross more than 1:1 on a debt equity ratio.

I'm sure you are aware, let me again repeat it's at 0.76:1. In spite of such a huge doubling of capacity, we did not significantly over-leverage ourselves and which we don't intend to. Now the question is when margin is falling, should we grow. See, I think growth is a function of various parameters, sir. You cannot wait for margins to come for your growth.

Sometimes the increased capacity could wipe your debt in one to two years' time. So -- but what we have been extremely prudent is that we are not over-leveraging ourselves for any of the growth plans that we have. And we did not deviate from the earlier stated objective of doubling every 10 years.

Yeah, we did indicate that we want to reach to 10 million by 2025. I wish if we were to do it in '25 and we had a similar kind of an opportunity waiting for us, we would have definitely waited. But opportunities don't wait for us, so we have to grab it. So since Andhra was available in the horizon, so we ended up executing in current year.

That definitely took a toll on the overall kind of debt, but we are reasonably confident about the leverage position that we are in. And I'm sure the prospects for the cement sector has always been volatile. But one thing for sure is on the long-term trend, it has always performed extremely well, especially the balance sheet performance of Sagar has been extremely strong. and we intend to keep the same momentum going forward, Mr. Badri Ji.

Badri Vishal Bajaj: About Jajpur clinker.

Sreekanth Reddy: Yeah, Jajpur clinker has to be transferred for Mattampally. I think that's the best location at this point of time. It has to go from Mattampally itself, Badri ji. It's a simple grinding station in Kalinga Nagar, very close to Jajpur in Orissa. So the clinker has to move from

Mattampally. And I think Mattampally is in a very good situation to service that market. It's only a question of time.

Yeah, when the merger happens, we intend to save some amount from an arm's length pricing issue, so that should help us. And a small increase in realizations also would help ramp-up that capacity fairly quickly, Badri ji.

Badri Vishal Bajaj: Going forward, again simple query -- going forward, when the capacity is expanding and all margins are falling down, so do you support this type of philosophy by opportunity?

Sreekanth Reddy: Badri Ji, I think we are looking at what has happened in three years. Three years is a very, very short-term in sector. But if you have to look at a 10-year horizon on a CAGR, company's performance has been always extremely strong, and we believe that we will be back on track.

Just because of three years, we cannot take a back seat when it comes to -- we have to stay relevant to the market also, Badri Ji. We always want it to be at least 1x to 1.5x to that of demand. So it would compel demand doubled every 10 years historically.

So unless you double your supply during the same time, your relevance to the sector itself would be diminishing, sir. So you have to be conscious of that fact. At this point of time, since we are just coming through the growth, so balance sheet looks to be slightly on a leverage position. But it's only a matter of time when things should get normalized, Badri Ji.

And we are coming off one of the best years that the industry has seen in FY '21, which was extremely difficult for life, but it was one of the best years for this sector, especially FY '21. So we have seen almost 35% margins, which we have seen after close to around two to two and half decades of our existence. So comparing with that would always be a challenge. We wish every year is like that. Then I'm sure you will complain that we are going slow. But we cannot do -- stick to those kind of profitability for the growth metrics, sir.

What I can assure you is that the quality of the balance sheet has always been strong, and it will continue to remain strong. Okay. P&L is not a function with one company alone. It's also a function of market. So we have to be aware of it. And we are just coming through an expansion. And I'm sure it would take some more time before we look at further growth going into the next few years, Badri Ji.

And we have to double only 10 years from now. So we have some breathing space, and we could achieve two years of savings from what we have intended. So that also gives some breathing space for us to consolidate the current position that we are in.

Badri Vishal Bajaj: Sir, we have full confidence that you being the technocrat in cement industry. And the confidence we have seen for the past five years. What I suggest is as an investor, is it the time to invest more, like one has put -- for a normal investor to see the 10-year guideline as you are supporting. That is my suggestion only. That's all. Thanks sir.

Sreekanth Reddy: Thank you sir.

Manish Valecha: Thank you, sir. We'll take the next question from Ritesh Shah. Ritesh, you may go ahead with your question.

Ritesh Shah: Yeah, hi sir. Sir, a couple of questions. First, sir, can you detail on the pricing differences in the southern states in Q4? And how are we seeing the trends, say, April, May and going forward?

Sreekanth Reddy: Yeah, detailing, I would share offline, Mr. Ritesh. But the fact was that for the first time historically, we have seen north of south has been extremely strong compared to south of south, which is very unusual. It is the first time that we are facing this situation. Chennai and south of Chennai is very similar to Hyderabad markets, which is very, very rare.

From April exit to middle of -- from middle of April, all the way up to now, what we have seen is Hyderabad prices to be around ₹10 to ₹15 higher. Chennai prices are slightly negative as we speak. But I would say they tanked quite a bit and it remains more or less in that situation. Bangalore has been steady, Mr. Ritesh.

Ritesh Shah: Right. And sir, if I have to just take this question for, say, next six months or next three quarters, assuming where the thermal coal and pet coke prices are, the industry cost curve is going down. Would you assign a probability assumption that cement prices can remain at the levels where it is, or...

Sreekanth Reddy: Yes, Mr. Ritesh, what we have to look at is the price reduction in power and fuel may not directly translate to saving, because the clinker conversion factor has been going up steadily. So, given that scenario, there will not be a significant saving on this. What we have seen is a significant drop in pet coke, but not in the imported coal, as we speak. We feel that, that also should come up along with the pet coke price reduction. Only then we would see a significant changes to happen to the power and fuel.

What we have addressed is only specific to Sagar because we are not using any imported coal. We are dependent on pet coke and the domestic coal. Domestic coal, there is not a significant change or rather it is flat. The only difference is the pet coke saving. We are close to around 60-40 kind of a mix with 60% Indian coal and a 40% pet coke.

We exactly have touched the equilibrium point with the imported coal at 130 spot value right now. Another $5 drop should make it at par with the domestic coal price, in our case, on a landed basis, Ritesh. So I cannot comment much about the industry because how many of the cement plants are dependent on imported pet coke? Not many. So imported coal price drop should significantly add to the bottom line. That's our view.

Ritesh Shah: Perfect. And sir, just last question. Sir, when we say pet coke, what is the grade of pet coke that we are looking at, like is it 4.5%, 6.5%, 9%?

Sreekanth Reddy: In our case, again, I'm speaking for ourselves. Our kilns comfortably were absorbing high-sulphur coal all the way up to 6% to 8%, typically Saudi coal and some of the domestic pet coke, especially the CPCL and all, they are relatively higher compared to the U.S. pet coke and some of the Reliance and these guys.

We are used to 6% to 8% kind of sulphur content in pet coke. Our limestone was able to absorb that kind of sulphur, and we could lock in SO2 into the clinker itself. Not all the plants can handle up of 4% kind of sulphur, but some of the modern plants definitely have ability because they have those duct sizes, which should comfortably absorb sulphur cycle from clogging.

Ritesh Shah: Sure sir, this is very helpful. Thank you so much.

Sreekanth Reddy: Thank you, sir.

Manish Valecha: Rajesh Ravi, please go ahead.

Rajesh Ravi: Yeah, hi sir. Good afternoon. My question pertains to, first, this expansion plan, which you mentioned. The press release, which you mentioned, ₹468 crore proposed investments in ACL. And in the call, you mentioned around ₹270 crores, ₹280 crores. Where am I missing that?

Sreekanth Reddy: Yes, Mr. Rajesh, you heard it right. The earlier presentation was for ₹465-odd crores for the growth upgradation at Andhra. Yes, we are trying to take a fine-tuning some of the investments onto the cement grinding side, probably we might optimize.

So we would like to limit the overall kind of growth plan somewhere around ₹275 crores to ₹325 crores. But this, we would come back to you by middle to end of Q2 to exactly tell you the schedule, as well as the overall CapEx for the expansion plans at Andhra, Mr. Rajesh.

Rajesh Ravi: Okay. And sir, this quarter, you mentioned there was ₹10 crores, ₹11 crores of exceptional costs, operating cost number got inflated. If we adjust that EBITDA margin would come around ₹60, ₹70. And now for full-year, we have done close to ₹400 -- ₹300. So where do we see ₹300 margin jump? How do you construct, which segment you're looking at, which will drive this ₹300 margin expansion?

Sreekanth Reddy: In our case, we are seeing 1% to 2% kind of realization increase purely on account of optimization of freights with Andhra ramping up, Mr. Rajesh. But the cost -- the start-up costs, if you remember, and the kind of coal pricing that we have seen at the start of the year to now, that itself is the delta that we are seeing to add up to our ₹625 EBITDA per ton kind of a narration, Mr. Rajesh.

Rajesh Ravi: Sir, the quarterly per Kcal number, which you share, if I look at for the full year, broadly, correct me if I'm wrong, it seems that 60% would be your pet coke for the -- on an average for the full-year basis, 60% to 65% would be the pet coke consumption and 30 odd...

Sreekanth Reddy: No sir, it is actually domestic and 40% would be the pet coke, Mr. Rajesh.

Rajesh Ravi: Okay. No, group level sourcing of coal based on per Kcal. If I look at Q1, was around...

Sreekanth Reddy: I'm sure, Mr. Prasad should be happy to give you the breakup, Mr. Rajesh. But the mix has been 60% domestic coal and 40% pet coke.

Rajesh Ravi: Okay, so on a full-year basis, on FY '24 versus '23, you're looking at significant reduction in your per Kcal cost, and that would be a major driver for this expansion?

Sreekanth Reddy: Yes, sir. The expansion in terms of the margin is primarily on account of a 1% to 2% increase in the realisation and rest everything has to come from the cost itself, where the fuel cost itself also -- see for us, a couple of things would add up.

There were some one-off raw material purchases, which is one-off, which was very specific. And secondly, the major chunk would come from optimization of the fuel mix itself or the fuel consumption itself at Mattampally. During the last shutdown that we have taken, we have done some modifications and alternate fuel also should start kicking in, Mr. Rajesh.

Rajesh Ravi: Okay, sir, one last question. Could you -- what would be the quarterly run rate for your depreciation and interest in subsequent quarters, sir?

Sreekanth Reddy: Yes. Good question, Mr. Rajesh. I'm sure I will address this offline.

Kolluru Prasad: Rajesh, similar trend will continue. There may not be a big change in it.

Rajesh Ravi: Sure sir. Thank you, I will come back in queue. Thank you.

Sreekanth Reddy: Thank you, Prasad.

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

Abhisar Jain: Yeah, hi sir. Sir, can you just confirm the peak net debt that you are now looking at for our company? And at which quarter you will hit that?

Sreekanth Reddy: Yes, ₹1,250 crores.

Abhisar Jain: Yeah, okay. So sir, I think after the Andhra acquisition got completed in Feb, you had indicated a peak net debt of ₹1,430 crores and now this is ₹1,250 crores. So the difference is because of that CapEx difference which you are yet to finalize or something else?

Sreekanth Reddy: Yes, sir, it is the CapEx difference that we are yet to finalize, Mr. Abhisar.

Abhisar Jain: Okay, understood. Okay. And sir, on Andhra Cement, since the company has now got listed again on the exchange and congrats for that to both you as well as the minority shareholders who have been given that 5% there.

So now we have a target to reduce our stake going ahead, right, from 95% to maybe 90% and then to 75%.

Sreekanth Reddy: For the first 12 months, we have to reduce it from 95% to 90% and further to reduce to 75% before the end of 36th month, that is the third year. That is the statute.

Abhisar Jain: Also I wanted to ask what are the plans to execute that? And are you also looking to find strategic buyers for that? Or is there any plans that you can indicate? And also a ballpark that you would like to give?

Sreekanth Reddy: We're just into the transaction. We would be very happy to revert to you. The current focus is more to do the ramp-up. We are yet to strategize on the ways and means to get the things done. Of course, there are a couple of options, but we are yet to firm up. We would be extremely happy to revert to you as soon as some plans get concretized, Mr. Abhisar.

Abhisar Jain: Sure, sir. And sir, on the VCW plant of Andhra Cement, I understand that you have decided to shut down the operations there. So just wanted to check on the progress and then how far would we from -- we would be from an eventual land sale there which you had committed for.

Sreekanth Reddy: Yes. Mr. Abhisar, as indicated, which was part of the resolution plan was to shut the operations there, which we have done. What we have done is for the staff we have given settlement and relocated some of the people who intend to work in the Dachepalli unit. So with that, we could completely settle the full manpower that is available there.

We have disconnected from the power supply. In fact, it was earlier disconnected. So we are formally disconnected from the grid. Currently, the only expenditure that we are incurring there is pertaining to the security. We started applying for some of the clearances from the government that are required, right from monetization, which we believe should take 15 to 18 months timeline, sir. So we intend to get all the clearances before we would start sitting on the table for monetization pertaining to that, Mr. Abhisar.

Abhisar Jain: Sir, and any indication you can give for the amount that can be monetized from here.

Sreekanth Reddy: Yeah, Mr. Abhisar, as indicated earlier, it's 107 acres. The current government rate is at ₹4 crores an acre. We are yet to look at what are all the options that we have. It needs some more paperwork before we would start getting to know the exact counters. But at this point of time, the government rate is ₹4 crores per acre. As per the records, Mr. Abhisar.

Abhisar Jain: And sir, I'm just reconfirming you will not look at doing any JDA with any real estate where you would look for an outright sale here, right?

Sreekanth Reddy: Yeah, that's our first preference, sir, but we have to see how best we can maximize. But at this point of time, we are yet to sit. So I would not like to confirm or do any of that. At this point of time, we are only doing the paperwork that is required for us to start looking at all the options that would be available. So I'm not ruling out any of the options, not that we have something in our mind, but we are not into real estate development, which I can assure you. So we would like to take the first call whatever would be the best in interest of the stakeholders, Mr. Abhisar.

Abhisar Jain: Yes. Sir, last question on Andhra Cement startup, you have indicated a startup CapEx of some ₹70-odd crores. But just want to check, will there be any start-up costs which will be routed through P&L also for Q1.

Sreekanth Reddy: Yes, Mr. Abhisar, it should be very, very marginal. I would put it, maybe ₹1 crores to ₹2 crores. That is primarily to deal with what we cannot capitalize, but rest everything is part of the scheme itself, where the start-up ramp-up and everything is part of that ₹71 crores that we have indicated, Mr. Abhisar. But there could be the salary expenditure and associated ones, which would probably flow through P&L, but that should be limited to around ₹2 crores to ₹3 crores at max, Mr. Abhisar.

Abhisar Jain: Understood sir. Thank you so much sir and best of luck.

Sreekanth Reddy: Thank you.

Shravan Shah: Sir, just to clarify, when we mentioned in the previous participant answering that the EBITDA per ton of ₹625, what we are looking for FY '24, that we are looking at 1% to 2% increase in realization. So do you think that is also a possibility that we can see even minus 1%. So this number has...

Sreekanth Reddy: Mr. Shravan, whenever we do an outlook, we are going with an assumption that there will not be -- we have been conservative in our outlook for the realization jump. For us, the realization jump is only happening because of our internal optimization, sir, not that we are expecting it to happen from the market. So we are going with an assumption that there may not be a significant increase in the realization going forward. That is what we have kept in our mind.

So when I talk of 1% to 2% increase in realization, it's purely because of the optimization that we aim to achieve with some reorientation of material from one unit to the other. But for that, we have not assumed any market-related issues pertaining to the expansion of the margin itself, Mr. Shravan.

Shravan Shah: Yeah and secondly, just to understand, so now from 10.85 million tons to double by FY '33 in next 10 years?

Sreekanth Reddy: Yeah, we would still keep that as FY '35. So let me stick to that as FY '35. Because '25 was our number. Just because we have achieved savings here. It doesn't mean that we'll end up saving at the back end. We are just done with this, so we would rather come back to you with specifics as we would progress, Mr. Shravan, on that.

Shravan Shah: Yeah. But broadly structurally just trying to understand. So even if, let's say, if you want to expand -- so definitely, the immediate is the Andhra, 1.2 million tons will be additional that will come by FY '25. So just trying to understand the further expansion.

Sreekanth Reddy: Mr. Shravan, see, we have grown 70% of our volume over the last 1 to 1.5 decade with acquisitions. So I would rather wait and digest Andhra before coming back to you. We would be more than happy to come back to you if there are any options that we have. We have always been very, very open, sir.

The Mattampally unit, Andhra Cements as well as Gudipadu offer a huge scope for us to more than double, if you are looking at a brownfield kind of an addition. But we have always been very open for any of the options for our expansion plans. So these three assets do offer quite significant opportunities for us to grow, but we have always been market-wise. So we would continue to be market-wise where we don't intend to put pressure onto ourselves as well as the market with any of our growth plans, Mr. Shravan.

Shravan Shah: Okay, thank you sir.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Navin Sahadeo. Please go ahead.

Navin Sahadeo: Yeah, good afternoon sir. Two quick questions. Sir, one is, I think at the time of the deal with Andhra, there was this news about Vizag unit, the land there, like we'll not be able to use that unit, and there is a possibility of a monetization there. So what is the update on that front?

Second quick question then is post the CapEx that we are doing at Andhra, what is the savings that you would like to guide in the overall cost of production? And just one last question, if I may, current prices. You said, of course, you gave a flavour that Andhra is a little higher and Tamil Nadu continues to be pressured. But directionally, south would be at par or slightly lower as compared to March. Those are my three questions. Thank you.

Sreekanth Reddy: Yeah, Mr. Navin, let me repeat. Yeah, from Vizag works of Andhra Cement, we have taken a call to shut down the operations there in that unit because of the antiquity of the assets. Though it's very, very well maintained, but the location itself also is very complex because it is part of the city.

So the heavy truck movement, either inward or outward is restrictive because it's well within the city. So that actually has forced us to look at an option to close that asset, which we have done. The intent was to monetize, obviously, once you have closed the asset off, the other option is to monetize which we are closely looking at it.

But it definitely demands some amount of approval process from the government, which we have initiated. So that should take anywhere between 15 to 18 months is what our team has indicated. So we would want to see the progress on that front before sitting on the table of how do we monetize. So that's the current status of the Vizag related -- land related.

Now going to the CapEx at Andhra. As told earlier, yes, the earlier plan was to infuse around ₹450-odd crores to modernize the plant. I would say, modernize, upgrade and also increase the capacity because all of them are in tandem. We would want to take that call probably once we have commissioned, which is not very far from now, which would be a month from now, we should be in a situation to get into the commissioning mode.

So we would want to further fine-tune and study before taking an investment call. But as we speak, some amount of back-of-envelope calculations is telling us that around ₹275 crores to ₹325 crores of investment should do for what we intend to do. The potential savings -- the bigger CapEx in that portion is to upgrade the preheater itself. Currently, it is with the separate line 4-stage preheater with 5-stage calciner line. From there to move into a 6-stage itself should save anywhere between ₹200 to ₹250 per ton on the power and fuel, especially on the thermal fuel side, Mr. Navin.

But we would be happy to come back to you somewhere around middle to end of Q2, coming Q2, to further give clarity on the timelines and the CapEx plan and the potential savings that we aim to achieve from Andhra. But as we speak, it looks like just the preheater modernization should help us save anywhere between ₹200 to ₹250 per ton, primarily being a 6-stage -- new generation 6-stage preheater offers anywhere between 50 to 60 minimum Kcal saving per ton of clinker from the current position.

So even if you add ₹2, that should be anywhere between 120 to 130, but we would be very happy to fine tune as we progress. This also helps us increase the output. So combination of these two should give ₹200 to ₹250 kind of a per ton saving even with the electrical saving that is likely to come up with that.

Navin Sahadeo: Great, thank you. Thank you very much.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you.

Vincent Andrews: Yeah, good afternoon. Thanks for the opportunity. Only one question I have, rest of the questions have already been answered. See, for -- in the other income, can you please give the split up of redemption proceeds out of ₹181 crores?

Sreekanth Reddy: Yes. Mr. Prasad would be the right person to address that.

Kolluru Prasad: It's ₹168 crores out of the NCD redemptions.

Vincent Andrews: So going forward, other income will be how much in this quarter?

Kolluru Prasad: Yeah, it will go back to normalcy. Once you exclude that ₹168 crores, whatever is left that rate will continue.

Vincent Andrews: Okay, okay. Thank you.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. Sir, a couple of questions on the chat box. The first question is being election year, both at the state and the centre. What are the management views on CapEx spending? And how will it impact the cement sector?

Sreekanth Reddy: Like in the past, sir, which I did narrate for one of the questions, yes, we don't take a one-off year to postpone or prepone. But some of the small investment might get deferred because there is always the ambiguity about the demand. But at Sagar, we generally don't take that short-term view, sir. We have always taken a medium- to long-term view.

And I believe that's what most of the industry would do. And if you have seen industry has taken a significant supply calls during last one and half to two years, which also is one year before the election, sir. So nobody actually takes a view for the election.

People generally take a medium- to long-term view because it's a large capital-intensive kind of a sector. Sector has always been kind to all its stakeholders. So given that scenario, a small deferral for a quarter, purely because of availability of people might influence the decision, but not the return ratios or the expectations in terms of the demand. That has never influenced the decision at Sagar level. And I'm assuming that, that would be the case for most of the large sectorial players, too.

Manish Valecha: What's the revenue and EBITDA range one can expect for FY24?

Sreekanth Reddy: Which I did but let me repeat, the target is to do 6.5 million tons for the FY '24, with an EBITDA expectation of ₹625 per ton, which should translate to ₹400-plus crores of EBITDA for the current year, Mr. Manish.

Manish Valecha: Thank you. Sir, the third question is, are we on track to hit the EBITDA breakeven in Q1 FY '24 for the Jajpur plant and the green power share in FY '23?

Sreekanth Reddy: Yeah. I think the breakeven call for Q1 should be too soon, sir. I think in the current year, we definitely are positive about the potential breakeven for EBITDA at Jajpur because we were operating at sub 14%, 15% for the last year. So from that scenario, I think moving close to 30% should be far more realistic in the current year. That should help us reach the breakeven point in the current year rather than taking a Q1 call.

Because by the time we complete Q1, Q2 will be hitting us with the unseasonal kind of a scenario. So I would rather take a conservative view that the current year, we should be more than breakevening at Jajpur. The Green Power share is at 32% across the Group, sir. The waste heat recovery system at Satguru also is I would not say full optimization, but very close to the optimization, we are getting four megawatts. The intent is to get 4.5. So with that, we should be touching on an average at 30% to 32% green share in -- you're looking at FY '23, we are at 30%.

Manish Valecha: We are now like to complete the call. Any closing comments from your side sir?

Sreekanth Reddy: So thank you all for joining on this call. I sincerely appreciate your time for reaching out to us. If you feel any questions are unanswered, or if you have any further questions, please feel free to connect us at Sagar or CDR. We would be more than happy to revert at the earliest. Thank you again. Have a good day. Thank you, Manish.