SAGAR CEMENTS LIMITED

SCL:SEC:NSE:BSE:2021-22

07th August, 2021

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

Symbol: SAGCEM
Series: EQ

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

Scrip Code: 502090

Dear Sirs

Sub: Conference Call on Q1 of FY 2021-22 financial results

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We are forwarding herewith the transcription of the Conference Call held by us on 29th July, 2021 in connection with the recently announced un-audited financial results for the quarter ended 30th June, 2021.

Thanking you

Yours faithfully
For Sagar Cements Limited

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Sagar Cements Limited

Q1 FY22 Earnings Conference Call Transcript

July 29, 2021

Moderator: Good afternoon ladies and gentlemen, we welcome you all to the Q1 FY 22 results conference call of Sagar Cements Limited. We have with us from the management Mr. Sreekanth Reddy. Joint Managing Director, Mr. K Prasad, CFO, Mr. Rajesh Singh, Chief Marketing Officer and Mr. Soundarajan, the company secretary. We will start today's session with the opening remarks from the management and this will be followed by a Q&A session. I request all the participants to be on 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. Over to you, Gavin.

Gavin Desa: Thank you, Manish. Welcome all to the Sagar Cements Q1 FY 22 earnings call. As Manish mentioned, we have with us Mr. Sreekanth Reddy, the Joint Managing Director, Mr. Prasad, CFO and Mr. Rajesh Singh, Chief Marketing Officer; besides Mr. R. Soundararajan, the company secretary. Before we begin, I would 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 con call invite sent to you earlier. We trust you have seen the communication and presentation on the results and I would now like to handover the proceedings 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 for the quarter ended June 30, 2021.

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

Volumes during the quarter were understandably low given the impact of second wave of pandemic. Utilization levels along with restriction on material movement resulted in lower sales during the quarter. However, demand and volumes started improving by end of the quarter following relaxation of restrictions in light of ebbing of the second wave. Despite lower volumes, realisations though remained largely steady, in turn helping to offset the impact of lower volumes. In terms of demand, starting with South, while retail demand was largely benign, demand from real estate players and Govt.

projects especially in Hyderabad, remained steady. In terms of West as well, pick-up in demand from non-trade segment negated the impact of lower retail sales. Demand in Eastern market as well improved following easing of the restriction. In terms of pricing as I said, overall trend in realisations was positive. While southern and eastern markets witnessed a steady pick up in realisations, pricing environment in western markets was largely steady during the quarter. One of the key reasons behind the improved realisations trend was the persistent increase in the input materials prices, which in effect warranted a price hike.

Going ahead, we remain positive on the business and believe the steady demand from housing, industrial and infrastructure provides a strong visibility both in terms of demand as well as pricing trajectory.

Moving on to Sagar specific developments, we are pleased with our performance during the quarter, especially when one considers the challenges one had to operate in given the second wave. While large part of the quarter was disrupted owing to the second wave, we did see things improving by end of the quarter following relaxation of restriction; which in turn helped us deliver steady growth in our revenues and profitability. Volumes were understandably lower during the quarter; however supportive pricing environment helped us to offset the impact of lower volumes. EBITDA for the quarter stood at Rs. 107 crores higher by 23%; however, margins declined by (600) bps owing to the higher input prices. As indicated in the previous call, the prices of most of the input materials, namely thermal fuels i.e., coal, pet coke, diesel have been trending upwards over the past few months, in turn impacting the margins. Furthermore, lower capacity utilization levels during the quarter, as well contributed to margin compression. Irrespective of the price movements of key input materials, we remain focused towards improving efficiencies and rationalizing our expenses.

Average fuel cost stood at Rs. 1,138 per ton as against Rs. 802 per ton reported during Q1 FY21. Increase in fuel prices have resulted in higher cost of fuel. Freight cost for the quarter stood at Rs. 762 per ton as against Rs. 704 per ton during Q1 FY21. Profit after tax for the quarter stood at Rs. 50 crores, as against profit of Rs. 36 crores reported during Q1 FY21.

From an operational point of view Mattampally plant operated at 56% utilization level while Gudipadu and Bayyavaram plants operated at 78% and 59% respectively during the quarter.

As far as the key balance sheet items are concerned the gross debt as on 30th June 2021 stood at Rs. 844 crores out of which Rs. 731 crores is long term debt and the remaining constitutes the working capital. The net worth of the company on a consolidated basis as on 30th June 2021 stood at Rs. 1,308 crores. Debt equity ratio stands at 0.56:1. Cash and bank balances were at Rs. 172 crores as on 30th June 2021.

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

Moderator: Thank you. We will now begin the question and answer session. Anyone who wants to ask a question may raise their hands on the Zoom platform. We'll wait for a moment. The first question is from the line of Shravan Shah, please go ahead.

Shravan Shah: Sir, first of all, congratulations on good set of numbers. A couple of things. First is if you can elaborate more in terms of the pricing first, if possible in the state wise, AP, Tamil Nadu, Karnataka, how it was and now in July are the prices versus average for the quarter is this study or have you started seeing a decline? So, that is first and then I will have a second question.

Sreekanth Reddy: Yeah, thank you Shravan. See, let me address the first question, from Q4 exit Hyderabad was at 350 it steadily increased to almost 360 in April and by May it reached to 370, June of course, there is a small compression primarily owing to the monsoon and seasonality, yeah, it is at 365. I'm talking about the retail price. Now Bangalore the exit price for the Q4 was around 350, yeah, it slowly increased to 370 and 385. Yeah Same is the case we see for our brand at 380 in Bangalore, Yeah, Chennai again we look at Tamil Nadu in two parts, that is the North Tamil Nadu and South Tamil Nadu. Yeah, the Chennai, which is in the north Tamil Nadu, the exit price during Q4 was 375. Yeah it increased to 385 - 395, Yeah, right now our reading is, by the end of June to middle of July is around 390 prices.

Shravan Shah: Okay. Secondly, in terms of the, two things the volume, what we last time guided in terms of the 3.6 million tonne and the Satguru in the presentation, we mentioned it is commissioned. So first clarification when the actual commercial production will be starting and is there any upgrade, even if the marginal upgrade in the volume guidance that we are looking at? And also secondly, on the gross debt, we were looking at peak debt of 800 crores but now marginally, is this higher at 844 crores, the Q-o-Q 38 crores has increased. So how do we see the gross debt now?

Sreekanth Reddy: Yeah, thank you, Mr. Shravan. See our guidance for the current year stays at 3.6 million with 3.2 million coming from the existing plants and 0.40 MnT is what we have factored from both Satguru as well as Jajpur, yeah both the plants are in advanced stage of commissioning. We would be commissioning before end of this September and most of the work especially the packing side of the Satguru is already commissioned close to a month back. So, we are in the trial stage. By August 15. We are hoping to start the first dispatch, the first commercial invoice to start from 15th of August. But the full commercial production, as mentioned would be for the end of September for both Jajpur as well as Satguru. Going specifically back to the gross debt scenario, as mentioned, there has been an overrun for the Satguru project for various reasons, we see the gross debt close to around 850 to 875 crores but that includes the working capital also. Yeah, the net debt should be close to around 700 crores, at least for the short period of time and we see that getting lower in the coming Q1 of next year. I think it should start coming down rapidly because there would be quite a few payouts for the existing debts, Mr. Shravan.

Shravan Shah: Sir, lastly on the power and fuel, I understand data, what we last time told is slightly higher than what we were expecting per ton on power and fuel. So, how do we now see when we will continue to maintain, two quarters of inventory and what the change in terms of the fuel mix. So we were looking at once again, starting the US coal and pet coke also, so now what's the fuel mix? And how do we see from 1,138, will it remain at this level or can we see further about 50 rupees increase per ton for at least next two quarters?

Sreekanth Reddy: Yeah. Now, Mr. Shravan as told before, our hedging is for the two quarters, we know for sure from exit of Q1 to the entire Q2 we are expecting an increase of almost 100 rupees on the account of power and fuel, purely because the high cost fuel is being consumed. For Mattampally, of course it is a pet coke plus domestic coal combination. We would be using it for the current quarter. So, for the current quarter we see a increase of close to 100 rupees incremental cost increase on the account of power and fuel. But that needs to be looked from a context that there is some amount of product mix changes, as you would have seen from Q4 to Q1, the blended cement ratio has gone up. So that should also help us offset some amount of it. Our bigger worry is on the diesel price though it looks like it has stabilized as long as it remains here we don't see major kind of a cost changes from Q1 to Q2. But internally we think that diesel price might move slightly higher, which would in turn start putting pressure on some amount of input material costs also, because inward freight also there are some corrections that are being made to the freight, all said and done internally we have factored 150 rupees both on account of fuel, freight and the other input material costs to move up from Q1 to Q2.

Shravan Shah: Sir, last just a clarification in the presentation second last page key enablers. There is a significant decline in terms of the limestone reserves for Mattampally from 800 million tonne to 440, Is it a printing mistake or anything to be clarified?

Sreekanth Reddy: Yeah, Mr. Shravan, this is purely on account of MMRDA Act. As you would know, we were sitting on what we call as the mining memo, though it is sub judice now, but in our case cautiously we have put that kind of a reserve outside thing because as you would know the MMRDA Act cancelled most of the mining leases which were not executed, you know, if mining lease is not executed, yeah, most of that was cancelled. But in our case we actually crossed beyond that. The local government did not end up executing the mining memo for more than 10 years. So, it's a legal issue. So we would not like to comment, so as a cautious kind of thing we have reduced that much of limestone reserves from the earlier statement, Mr. Shravan.

Shravan Shah: Okay, thank you, sir and all the best.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from the line of Mangesh Bhadang, please go ahead.

Mangesh Bhadang: Good afternoon, sir and congrats on good set of numbers and the amazing annual report that you published. Sir, I have a couple of questions. First one is on the demand side. So if you can touch base on how much has been the FY 21 demand in the states that you operate in, and what is the outlook for FY 22 in terms of growth, provided that no further setbacks are there? That's the first question. And second one is, sir, you mentioned that because of the cost push, you have increased the prices, and which is what we're hearing from most of the management, but it has actually resulted in increased margins. So is it that you expect that the cost will actually catch up and that's the reason in the ongoing quarters and that's why the price hike has been taken already to cover that. So, do you see margin contraction here on because of the cost that we have seen?

Sreekanth Reddy: Yeah good afternoon Mr. Mangesh. Now, let me first address, yeah our annual report is an integrated report. Sir, it is the second integrated report that we have published. Thank you and appreciate that you have liked it. The second part of the question was regarding the demand, the states that we have operated did contract by 15% from previous year to last year. Yeah, Q1 as you know is a mixed bag with most of the Q1 was under strict lockdown in most of the markets that we operate. So, we are not giving any guidance at this point of time. Yeah, because COVID third wave is impending at least, we wish and hope that the impact of it is very very negligible. Given that scenario, our internal assessment is that it could still grow by 2% last year, because last year it self, de-grow by 15% a year before. So, but internally for our own estimations as indicated earlier, we did close to 3.15 million from the current operations that we have. So, we are only going up to 3.2 million, we did not factor much internally, not that we are anticipating COVID three to be very severe, but some amount of supply also, is there in the market and there is a ramp up and if demand remains the way it is, we cautiously tried to estimate the similar kind of demand for ourselves like last year for the markets that we serve, Mr. Mangesh. Now, the other part of the question was regarding the increased price adding to the margin, I do not think the increased price added to the margin sir. If you look at year on year kind of margin, there was a compression. Yeah, it is true that quarter on quarter, there is the optically it looks like there is a margin increase, but it is only optics. The reality is that input cost is going up phenomenally high. Fortunately, the market supported us to pass on the incremental kind of a costs. We wish and hope similar kind of trends continue. Issue is not that it added up to the margins. That is not true that it did not add up to the margin. It is only optics make you think that it is added. It's only from Q4 to Q1, you think that margin got increased. But if you look from a year on year number it actually contracted by almost 600 basis points.

Mangesh Bhadang: Right, and sir just one more if again squeeze in. Do you think that with the horde of capacity coming in the eastern region and large part of it also clinker backed. It's heading like the South way in terms of the utilization in East. Do you foresee that or do you think that demand is going to take care of the increased supply that is coming in?

Sreekanth Reddy: Yeah Mangesh, as mentioned even earlier, our outlook for East is that, East consistently has been growing for more than two decades or one and half decade consistently on 10% year on year. So we strongly think that, east growth would continue. Yeah, it's true that a lot of supply is due, but most of it is not backed by clinker. Again, yeah only some portion of it is backed by the clinker, but all said and done the supply is likely to get increased. Our own internal assessment is, it should match up with the demand increase, but for ourselves since we are for certain parts of East we are going for the new, internally, we did factor some amount of lower capacity utilization for the asset that we are coming up with. But I think it's only going to be a short term kind of a phenomenon. But over the next couple of quarters, or may be next year, same time or a few quarters there on, we think that the demand supply equation still would be skewed more towards demand rather than supply, especially in the eastern side.

Mangesh Bhadang: Thanks a lot, and congrats once again.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from the line of Gaurav Birmiwal. Please go ahead.

Gaurav Birmiwal: Hello, sir, thank you for the opportunity and Congratulations and good cost control. Sir, I had two questions. One, you mentioned that we expect 100 rupees' impact from higher fuel costs going forward. So this 100 rupees' factors in the price that you locked at earlier or is that from spot.

Sreekanth Reddy: It is from our cost, Mr. Gaurav. Spot looks scary, because if you look at the imported coal or pet coke, yeah the sea freight is actually moving extremely fast. So, this is purely on the account of the price that is locked in by us.

Gaurav Birmiwal: Any assessment on what the number will be versus spot, I know the number will be quite scary, but any assessment on what the gap will be spot versus Q1 FY22 average consumption?

Sreekanth Reddy: You're talking about the current spot price versus Q1 FY22, it is up by almost 15 to 20%, Mr. Gaurav.

Gaurav Birmiwal: Fair enough sir, second question. Can you throw some light on what this inventory adjustment is like in your consolidated number you have 16 crores of stock adjustment? What does that stand from? That's the stock that you produced, but we're not able to sell at the end of the month or is that mark to market of some commodity that you have?

Sreekanth Reddy: No, sir. It is very simple, straight forward. The closing stocks to the incremental stocks that get added up is actually adjusted there.

Gaurav Birmiwal: Okay, fair enough. Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Sheth. Please go ahead.

Pritesh Sheth: Yes, thanks for the opportunity and congrats on the great set of results. Firstly, can you repeat the utilization for each of the plant you highlighted in the initial part of the Commentary.

Sreekanth Reddy: Yeah, we were close to around 56% at Mattampally, 78% at Gudipadu and 59% for our Vizag grinding station for Q1 FY22.

Pritesh Sheth: Yeah, thanks and my question on demand. So what were the very trend you noticed in Q1 across the states that you cater to? For sure. This does indicate that for you Andhra market did quite well, because from the competitor’s results, what we have seen till now, Tamil Nadu and Kerala were not as good. So can you highlight that trend, across the states you saw in Q1?

Sreekanth Reddy: Yeah, Mr. Pritesh, I think irrespective of the other cement companies, I think it's a fact that some states in South went for a very deep, kind of restrictive kind of thing. It again depends on what kind of exposure each of us have to those states actually is reflecting on the current supply that we have done to those markets during Q1. If you look at the today's press, Kerala is going for very strict weekend lockdown, because they are seeing some spike of COVID. So our exposure to Telangana and Andhra is close to around 55 to 60% of our volumes, both the states were relatively under less pressure because they were less restrictive compared to Tamil Nadu, Kerala, Karnataka. So that probably is making you think that we did more our volumes are higher. It's purely because of each state's restrictions that were imposed during the Q1.

Pritesh Sheth: Fair enough, but just in terms of what would the underperformance be for the states the Tamil Nadu and Kerala.

Sreekanth Reddy: Sir, our exposure is limited. So it did get impacted you look Q4 FY21 of our volumes was more than a million sir. That itself shrank by 15%. So my assumption is that the other states probably had that kind of an impact. But please be mindful of the fact that our exposure to Kerala is very, very minimal. So that should not be translated in any which way, the current statement that I'm making. For somebody who has a bigger exposure into Kerala, I think the restrictions were a lot more severe there. So probably the that kind of supply probably would have not happened for people. In our case we don't have so, in our case it was 15% lower for some it was more than 30%. So that's how it is, Mr. Pritesh.

Pritesh Sheth: And one last one on the pricing. So, we have already seen prices reach at a multi-year high, obviously, given the cost increases. So, for now, we are seeing 150 rupees per tonne further an increment in the cost and then looking at this was spot prices, there is another 100 to 150 per tonne pressure if they hold on to this level. So is the market ready to accept a further hike in prices?

Sreekanth Reddy: Yeah, Mr. Pritesh, See, I think what we should understand is when we talk of multi-year high Sir, it is not true. Yeah, if you make an inflationary adjustment, I don't think we are anywhere close to the prices where they need to be. Some of us margins might make you think that the prices have reached a very high, but it's primarily on account of cost management and the effort that has gone in terms of the capex and all to manage that sir. But prices per se, if you make the inflationary adjustments, they are not anywhere close to where they need to be or they should be. But the reality is here, so far, we were fortunate that market did absorb though there was some amount of compression on the margin, we shall hope that the margin compression would go away and whatever is the additional cost that is likely to go up, we shall hope to pass it on to the markets, will it take is something which we would want to wait and watch. But we are more than hopeful that at least a portion of it market should absorb. I don't think cement is a single commodity, which is into the similar kind of a thing. It is across the commodities. And in fact, the cement is still at the lower end in terms of the inflationary price passed through into the markets. And if you look at steel, if you look at any product, copper, aluminum, I mean most of the commodities have gone up much ahead of curve, cement is still in the early part of that curve is what we think because this product is bulk product, it's such a low cost product and the inflationary impact on cement is much higher compared to any other bulk commodity or rather heavy commodities like steel and all, because for us it's a transportation is a very key cost item. And you know, the inflation impact on that the diesel price is just going up one way. We are not even tracking how much percentage it has gone up year on year, though it remained steady for a couple of years back. But that's not the case. I think it's an everyday it is going up so we still see some gap where the market should absorb the incremental cost that is happening, Mr. Pritesh, that's what we think. But from what we think to what we want to what market would behave, it is something which is strange, but last quarter was comfortable from a pass through. So we hope and wish similar thing is should happen and likely to happen in the coming few quarters.

Pritesh Sheth: And lastly, when would be your next set of fuel ordering will happen like already happened?

Sreekanth Reddy: It's a continuous process sir. See it's we are doing quite a bit of hedge. Yeah, we just paused because the price is moving up quite sharply, but alternate fuel arrangement is being made like, we are increasing the higher domestic coal consumption now. So it's a continuous process. Though, we have paused for some time on the imported coal and the Pet coke. But we need to make the decision quickly. So that the hedging formula or the principle that we follow comes back to normal. Yeah, we just paused for 15 days to 20 days. So but I think we should be comfortable making it over. The hope was that some amount of sanity would come in terms of the price. But unfortunately, the sea freight is just moving one way up. But fortunately, the domestic coal in our case still is holding up. So we are looking at a possibility of increasing the domestic coal consumption going forward.

Pritesh Sheth: You have stopped reporting, this pet coke and coal mix, you used to report two quarters back?

Sreekanth Reddy: Yeah, I don't think it was a deliberate attempt, it was miniscule pet coke sir, it is 100% imported coal. Since it was just a fraction or close to zero, Yeah, we would be happy sharing it, Mr. Pritesh.

Pritesh Sheth: Yeah, I will take it offline.

Sreekanth Reddy: It was all imported coal for the last quarter.

Pritesh Sheth: Sure. Thank you. Thanks for answering my question. All the best.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from Ritesh Shah. Please go ahead.

Ritesh Shah: Hi Sir, thanks for the opportunity, sir. First of all, congratulations on integrated report. Honestly, it's setting a new benchmark on disclosures, big positive overall for the industry as well. Sir, I have two questions. We have indicated our expansion plans to 10 million tons by 2025. Any sense on how should one look at the geographical footprint that you are looking at going forward? And do we have any aspiration to have say percentage of our capacity or sales, which will be x south and east? If one has to look at say three years, five years out?

Sreekanth Reddy: Yeah. Good afternoon, Mr. Ritesh. Thank you. sincerely appreciate your appreciation for the integrated report. Yeah, that I think our journey into the ESG reporting has been quite long. Thanks to the IFC participation with us for more than a decade. Yeah, that's an in house work. The team did work hard for the disclosure side; we would be very happy to improve for any feedback that you might have for the further improvement. Now, going back to the, we did state our ambition to be a 10 million company by 2025 and every 10 years to double their on. Now, we are color blind from the perspective of green, brown, organic, inorganic or region it should not matter, at this point of time, we are not looking at North-east, but any other region which offers us for the growth and the cardinal rules that we follow. Yeah, we would end up doing in those regions. Yeah, we do not have any policy to have regional kind of a presence sir, I think it is very asset driven. Yeah, for each of the asset, we are very conscious of the movement of the material not going beyond certain distance. So it's asset specific and region specific, but we are not averse to be in any region at any given point of time. The only thing is that north-east is something which we are not looking at this point of time. We are regional and color agnostic is what I would like to point Mr. Ritesh.

Ritesh Shah: Sure Sir. Sir, any color on the incentives of the expansion plants, which are the plants which will get commissioned and the incremental expansion plants that we have, any color on the incentive trajectory. Have you already negotiated with the state governments? How should one look at this variable?

Sreekanth Reddy: Sir, I think for our size, the issue of negotiation doesn't arise. The stated incentive plan is what we have followed. Madhya Pradesh, we are very clear, Madhya Pradesh state we did sign the agreement which would kick in as soon as the COD is done, but as indicated, it is 150 crore incentive which is capped to the total investments that we have done for that particular asset to be paid over seven years, seven years would be compensated, and there are some small incentives in form of the electricity duty exemption. In Odisha, the incentive is in transit. So, the day we commission, Yeah, that is when we need to go and apply and whatever is applicable incentives at that point of time will be given out to us, the incentive as given by the state is still under preparation. So by, I think first week of October, that is when we would be reaching out So, we will have a lot more clarity for the incentives in Odisha Sir.

Ritesh Shah: Perfect and sir last one question any scope or plans to increase stake in Satguru? Do we have the optionality to or when will we consider this?

Sreekanth Reddy: At this point of time, sir, from a clinkerisation perspective, I don't think we see a big scope because the limestone more or less in the neighborhood is between us and Ultratech. So we don't see anything new happening. Of course, there are few mines which are still open. But given that scenario, we don't see a big, in a short to medium term, we don't see a big opportunity for us to grow in Madhya Pradesh on the clicker side, though we do see some opportunity for us to go for incremental cement kind of a thing. It is purely based on the blending sir. So that gives a 0.25 million incremental kind of a supply, for incremental supply possibility, right now we have given it as a 0.99 million tonne capacity, there is a possibility that we might increase cement capacity going forward it purely based on the product mix. We see that happening, but that we don't see it happening over the next one year, probably beyond that once we stabilize the operations, we see a possibility on incremental capacity on the cement side at Madhya Pradesh and in Odisha yeah, the layout permits us to add up double up, but that I think we will take a call, once we reach to a certain distance in this particular asset sir, though the other assets that we have at Mattampally and Gudipadu offer a huge opportunity for us to double. But we have always been more than double. We have always looked at market wise kind of a scenario. So we don't see that happening for next two years for sure. But we do look at options that are available in the neighborhood, if any of them come at a reasonable price. We don't mind looking at them very very closely, Mr. Ristesh, in an in-organic perspective.

Ritesh Shah: Sure Sir, thank you so much for the answers.

Sreekanth Reddy: Thank you.

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

Rajesh Ravi: Yeah, hi, sir. Good afternoon and congratulations on good set of numbers. My question pertains to all the two capex; how much has been spent in this Q1 toward those two expansions.

Sreekanth Reddy: 75 crores would be the right number. Mr. Rajesh, but what you have to mindful is there has been a slowdown, as you know, because of the COVID second wave. Yeah, another 150 crores needs to be spent. Yeah, which will happen in the current quarter itself. So because both the projects are due for commissioning before end of September.

Rajesh Ravi: Okay, this is 75 crores spent in Q1 FY22 and the pending 150 crore, will all get completed in September quarter right?

Sreekanth Reddy: Yes sir.

Rajesh Ravi: Okay and secondly, what was the impact on the employee cost number, because of these two expansions, what sort of impact it will have.

Sreekanth Reddy: Yeah, I think Sir, it's a usual practice for us is to take 8 to 10% incremental hike every year, I think Q1 is not yet factored, that kind of a thing. I think going forward that is additional, but what you have to be mindful is that Q1 the was way below so the spread was not very high. Going forward, I think that spread should give us the similar kind of a number, though there could be absolute number increase, but per ton number probably could be something very, very similar.

Rajesh Ravi: No, I was asking for the new two plants, are the employee expenses already part of the P&L.

Sreekanth Reddy: Yes, I think the recruitment is already done for all the plans for commissioning. But it will be capitalized pre-commissioning, and post-commissioning. It will start getting reported in P&L.

Rajesh Ravi: Sir, broadly, how much of that number being capitalized sir in P&L.

Sreekanth Reddy: Sir, I think it is too soon for us to comment. I think a couple of quarters later, we should be in a much better situation to report. The reason is absolute numbers we do have, but specific per ton, I think it will take some time.

Rajesh Ravi: Okay. And the on demand for Q1 is also still in terms of extended lockdown. And so, you know, if we had to look at from a perspective of a normal quarter, so what sort of volume loss would have been there? No, I'm just trying to understand how it's September Quarter.

Sreekanth Reddy: But Mr. Rajesh, I think given the pandemic impact and likely kind of still it is not so I would not like to keep my neck out for any soothsaying when it comes to demand, Yeah, there is nothing called normal sir. So, we have we have seen when in abnormal times volumes did move and in normal times volume shrank. So it would be a challenge for us. As stated earlier, we are not having any specific guidelines for market in general, yeah our internal assessment is similar kind of number what we did last year for the assets that are in operation already.

Rajesh Ravi: Okay, Sir last year September quarter numbers is what you're looking at that can be achieved in this September quarter?

Sreekanth Reddy: But the caveat there is again we need to be watchful of how the impact is going to be sir.

Rajesh Ravi: Sure, that is likely impact it may go lower but at least that much is achievable if things remain where they are at this point in time.

Sreekanth Reddy: We are giving only annual outlook, Mr. Rajesh, it should not be quarterly outlook. Please be mindful of that.

Rajesh Ravi: Thank you, sir.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from Amit Murarka, please go ahead.

Amit Murarka: Hi, good afternoon Sreekanth and everyone. So, a few questions firstly on the debt. So I understand that the debt has gone up in this quarter versus March. And so one I wanted to understand the reasons, I believe one would be inventory, but is there any other reason for the debt expansion?

Sreekanth Reddy: Debt expansion? See, I think it's, we're talking of inventory costs or the debt expansion? Debt expansion is primary on account of the money that we are spending for the projects.

Amit Murarka: No, sir but we have generated good cash flows of like, I mean 100. So, from that point of view that debt like is still?

Sreekanth Reddy: Sir, you are taking from the cash flows, so as mentioned earlier sir, the inventory pile up itself is to tune of an additional 37 crores So, it's all in the inventories. so, the cash that got generated most of it is also into the inventory and as well as receivables. Just for the clarity, Q4 is usually the time when most of the dealers would want to give away the entire outstanding, because of the annual incentives that they would have, Q1 onwards slightly the receivable day’s go up, so it's a usual practice. So it's a combination of inventory plus the total quantum of receivables would have pushed some amount of overall cash flows being slightly lower, Mr. Amit.

Amit Murarka: Okay. So, what will be the peak debt number now, like earlier, I remember you guided for 800 crores so.

Sreekanth Reddy: I think it is 850 is what we are looking at sir, this includes the working capital provision for both the new assets and we should be anywhere between 850 to 875. But that number probably would be for a very short period of time, because we do have pay out for the existing debt. So, we should peak out at 850 to 875 on a gross side.

Amit Murarka: Sir, and off late like we have seen a couple of announcements made even in South like Dalmia made an announcement and so, what is your view on the capacity expansion like as we see cashflows actually improving for the industry? Better margins we are seeing? Like, are you seeing next wave of capacity additions happening in the space?

Sreekanth Reddy: Mr. Amit, they never stop sir, they pause. So let us keep that in mind. So, are they are going to come. Yeah, I think at this point of time, it will be too soon for me to comment much. Yeah, because the announcements are just announced. So, we would want to review before taking any comments on that.

Amit Murarka: Okay. And also like on the M&A side like you see too many, many opportunities now left in the space because I believe all the larger assets have been taken out. So what is your Outlook or view on the M&A potential in the sector now?

Sreekanth Reddy: I think M&A potential always existed sir, we have seen the Ambuja and ACC, to merge in a sense, they became part of the same parent. So nothing can be ruled out. There are lot of assets in this space. So we don't know when who would want to make a sale or who would want to buy. So opportunities do exist. Fortunately, even the new IBC regime also prompted some of those assets which actually were closed either for want of working capital or because of any of that. Here we see some of the revivals keep happening in those markets they so. so it's a work in progress. So opportunities do keep coming will they happen is something which we have to be mindful of. Usually when the market is euphoric about the margins and the cash flows. We see a lot of discussions about them. And when market is under some stress and especially the market prices are under stress, people don't talk but it's always work in progress.

Amit Murarka: Okay, Sir understood and just on the power and fuel side, if I understood you correctly, you said that the spot prices are basically 10 to 15% above the Q1 of the numbers.

Sreekanth Reddy: I'm not keeping my neck out. I think even 20% is not a bad number, but it's true what you're looking at, see it's exactly what fuel you're looking at. But for sure the overall 15% is the overall increase in the thermal fuel, both the imported coal and the pet coke.

Amit Murarka: Sir, I remember in the earlier calls, you mentioned that you switched to US coal now, I mean now. So from that point you are using US Coal,

Sreekanth Reddy: We are back to Pet coke, because US coal is exhausted and the price of it also has moved similar to pet coke. So we moved back to pet coke and we are also looking at a possible blend of domestic coal with the pet coke.

Amit Murarka: Okay, okay. But isn't Pet coke on a calorific value basis is still higher compared to Let's say some of the other coal grades.

Sreekanth Reddy: Mr. Amit, if you look at our presentation we did indicate on a per Kcal.

Amit Murarka: Yeah, I saw that yes. Yeah.

Sreekanth Reddy: So yeah, it's pet coke is higher, but what it offers is if you can blend with the domestic coal because the when we talk of domestic coal in our case it is Singareni, the quality of our domestic coal is reasonably lower. So blend with pet coke would overall reduce the per Kcal kind of a cost for us. So that's what we are planning to do now.

Amit Murarka: Okay, okay. Thank you. Best of luck. Thanks.

Sreekanth Reddy: Thank you.

Moderator: Thank you, the next question is from Sanjay Nandi. Sanjay Nandi, please go ahead.

Sanjay Nandi: Sir, thank you for the opportunity. Sir, what would be the debt repayment for this current fiscal.

Sreekanth Reddy: I mean, Principal plus interest put together would be 185 crores.

Sanjay Nandi: Okay. And so, just you mentioned like, we have a potentiality of doubling our capacity for the Jajpur plant, so, which is currently 1.5 million tons. So, what would be the clinker supply for that thing if we go for the planning for the expansion things.

Sreekanth Reddy: Yeah, we are only talking about the layout potential Sir, we are not talking, looking at that for some more time as at this point of time, yeah we have enough clinker to support 70% capacity utilization at Jajpur, 70% capacity utilization at Vizag and 65% capacity utilization at Mattampally. So any configuration changes we would be short of clinker. so till there is a clarity on our clinker this thing, I don't think we would be in any situation to increase the capacity of Jajpur.

Sanjay Nandi: Sir, currently we are feeding the clinker for Jajpur?

Sreekanth Reddy: From Mattampally plant Sir.

Sanjay Nandi: From Mattampally plant right for both the Jajpur and Vizag plant and we are going with the sea route sir right.

Sreekanth Reddy: No sir we are going by land route itself sir. it's by rail and by road.

Sanjay Nandi: So, Vizag, we are feeding by rail right or road?

Sreekanth Reddy: By road and rail Sir. Jajpur will be feeding by rail.

Sanjay Nandi: Jajpur will be feeding by rail. Okay. And sir, what is the outlook for your Jajpur and that Satguru plant going forward in the FY 23 like what kind of utilization levels we are buying in to?

Sreekanth Reddy: we are looking at 75% capacity utilization at Satguru because that would be the first full year. So, we still are trying to look at the market. So, we are not in a hurry to push too much of material till the brand is positioned well. Jajpur, we are looking at 60 to 65% for the coming years. A year later, we are looking at 85% for Satguru and close to 70 to 75% for Jajpur.

Sanjay Nandi: So this, I mean to say for FY 23 right,

Sreekanth Reddy: yes.

Sanjay Nandi: Okay got it and what is the current scenario? Sir, like we from the considered from the exit of Q1 FY22 like there has the demand improved in the southern parts already you mentioned like.

Sreekanth Reddy: Mr. Sanjay, I think it is too soon, we are still assessing and this is a season where you have monsoon impact. So, it would be too short for us to take any call in any which way sir, yeah, let us look at the annual kind of an Outlook. As stated earlier. Yeah, we are looking at something which is very similar as last year. In our own case, though, the market could grow a bit, but we are just trying to be cautious because we are trying to make provision for the incremental supply that is expected from some of the people either by ramped up or some new commissions that are likely to happen.

Sanjay Nandi: Okay, thank you so much, sir. Wish you all the best.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from the line of Mudit Agarwal. Please go ahead.

Mudit Agarwal: Hello. Hi, good afternoon, sir. My question is related to this Panyam cement, which was recently the resolution plan submitted by RV consulting and Sagar power limited which was approved by the NCLT, just want to know your comment. Is there any anything related to the Sagar cements, because RV consulting and Sagar power is the promoter group of Sagar Cements. So any comment you would like to do?

Sreekanth Reddy: Mr. Mudit, I think as stated, I think, if you would have seen the press release pertaining to that also, it's a consulting assignment sir, it has nothing to do with Sagar cements. RV does build a lot of capacities for others. So it is part of that. Sagar cements has nothing to do with Panyam cements.

Mudit Agarwal: And by any chance we are looking for that company, you're trying to get this company, the Panyam cement?

Sreekanth Reddy: As stated we have nothing to do with it sir. If you had to get it probably Sagar would have bid and got the asset right. So we are not looking at that asset at all.

Mudit Agarwal: Okay. Thank you, sir.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from Indrajit Agarwal. Please go ahead.

Indrajit Agarwal: Hi, sir. Thanks for the opportunity. One question I had is the inventory buildup that you have? Is it more finished goods inventory or fuel inventory in terms of pet coke?

Sreekanth Reddy: It's a combination of all sir. Now, where do I place clinker is a question. So we it's a clinker plus finished goods along with the fuel and the other raw material.

Indrajit Agarwal: So the finished good inventory that has been built up is it higher than what we see in the first quarter, a normal course of action.

Sreekanth Reddy: If you remember, March quarter, we did close to a million, so most of the stocks were close to zero. So the built up typically happens for this time, even the clinker levels and everything was very, very negligible for the closing of Q4. So from then on, it's only built up. So that's the difference, Mr. Indrajit.

Indrajit Agarwal: This entire thing will be drawn down in the rest three quarters. I mean, effectively, there should not be any stress on working capital in a full year basis

Sreekanth Reddy: I think it's a function of how the cement industry behaves. Yeah, we typically run for 330 days, the blocks of two 15 days or 18 days' blocks are for the maintenance. So those schedules are appropriately planned where we need to build the inventory for the shutdown, which would happen for 15 to 18 days for each of the kiln. So it is in anticipation sir and the end of the year, everything will come back to similar kind of situation.

Indrajit Agarwal: Thank you so much for the answers.

Sreekanth Reddy: Thank you.

Moderator: Thank you. Ladies and gentlemen, if you have a question, you may indicate by a raise of hands.

I repeat, anyone who has a question may indicate by raise of hands.

Sir as there are no further questions. We would like to hand over the call to Mr. Sreekanth Ready for his closing comments.

Sreekanth Reddy: Thank you, Manish. As always, we would like to thank each one of you for participating here and joining in our call. I hope you have got all the answers you were looking for. Please feel free to contact our team at Sagar or CDR should you need any further information or you have any further queries and we will be more than happy to discuss them with you. Thank you and have a good day and stay safe. Thank you again. Appreciate your time and interest in us. Thank you.

Moderator: Thank you, we may now disconnect. Thank you