SAGAR CEMENTS LIMITED

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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 Q2 and FY 21 financial results

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We are forwarding herewith the transcription of the Conference Call held by us on 22nd October, 2020 in connection with the recently announced un-audited stand-alone and consolidated financial results for the second quarter and half-year ended 30th September, 2020.

Thanking you

Yours faithfully
For Sagar Cements Limited

R.Soundararajan
Company Secretary

Encl: a.a.

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Sagar Cements Limited

Q2 FY21 Earnings Conference Call Transcript

October 22, 2020

Moderator: Ladies and gentlemen, good day and welcome to Sagar Cements' Q2 FY21 earnings conference call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India.

Gavin Desa: Thank you. Good day everyone and a warm welcome to Sagar Cements' Q2 FY21 Analyst and Investor Conference Call. We have with us today Mr. Sreekanth Reddy – Joint Managing Director; Mr. K. Prasad – Chief Financial Officer; Mr. Rajesh Singh – Chief Marketing Officer and Mr. R. Soundararajan – Company Secretary.

We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A session. Before we begin, I would like to point out that some statements made in today's discussions may be forward-looking in nature and a note to that effect was stated in the con call invite sent to you earlier. We trust you have had a chance to go through the result communications and documents.

I would now like handover 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 September 30, 2020. Trust all of you are safe and healthy.

I will begin the discussion with key highlights across our key markets in terms of demand and pricing trend following which I will discuss Sagar specific developments.

Starting with our key markets – Demand has remained more or less steady. Obviously, we have seen some softening in demand compared to Q1 but that's largely owing to the seasonality / monsoon factor. Demand though has picked up pace again with monsoon receding and resumption of construction activity. Also, while rural demand continued to remain strong, we are witnessing pick-up in demand from Metro regions. Government demand as well especially in TN and AP markets is gathering momentum. Noteworthy being demand under the YSR Nirman projects. Payouts as well are on time from the Government. Demand in Western markets though was understandably soft during the quarter given lockdown and monsoon. However, things are gradually picking up following lifting of lockdown and favorable weather. Moving to East, volumes have been largely stable during the quarter, however we expect the demand to pick up in the region post the festive season.

In terms of realisations, prices have remained relatively consistent across our markets. Both trade and non-trade prices did soften with latter getting affected relatively more. As far as

Sagar is concerned though, our focus primarily remains on the trade segment. Going ahead though, we expect prices to improve following resumption of construction activities and better availability of labour force.

Moving on to Sagar specific developments, our performance during the first half has been relatively steady especially when one considers the current macro environment. Revenues and profitability both have improved. Our recent strategic initiatives – CPP, Waste heat recovery system have started to make meaningful impact on the operational efficiencies of the business. Further, improving operations on cooler installations at Gudipadu optimal fuel mix, close proximity of the units to coal mines and ports collectively have started to boost our operating efficiency.

Another noteworthy development has been that the company has successfully achieved the standards as required for the following level of certification under the GreenCo – Green Company Rating system and received **Green Co platinum Certificate Award** from Confederation of Indian Industry (CII) for its best practices and also achieved **National Award for Excellence in Energy Management 2020,** by CII for its grinding unit located at Bayyavaram.

A quick word on our on-going projects at Satguru Cement Pvt. Ltd & Jajpur Cements Pvt. Ltd – work on both the projects has been progressing as per schedule after the initial delay owing to covid-19 related challenges. Completion of the above projects will not only help us diversify our regional mix and provide a foothold in faster growing markets, but will also help us in rationalizing our freight expenses even further.

Moving on to our financial performance for the quarter on a consolidated basis revenue from the operations stood at Rs. 326 crore as against Rs. 265 crore generated during the corresponding quarter last year, higher by 23%. Better realisations and steady volumes resulted in driving the growth. EBITDA for the quarter stood at Rs. 105 crore as against Rs. 42 crore reported during Q2 FY20, up 147% Y-o-Y, owing to better realisations and cost management. Average power and fuel cost stood at Rs. 844 per ton as against Rs. 1,171 per ton reported during Q2 FY20. Optimization of thermal efficiency coupled with lower fuel prices resulted in lower per ton cost of fuel. Freight cost for the quarter stood at Rs. 769 per ton as against Rs. 696 per ton during Q2 FY20. Profit after tax for the quarter stood at Rs. 50 crore, as against PAT of Rs. 5 crore reported during the Q2 FY20.

From an operational point of view Mattampally plant operated at 44% utilization level while Gudipadu and Bayyavaram plants operated at 61% and 45% respectively during the quarter.

As far as the key balance sheet items are concerned, the gross debt stood at Rs. 527 crore out of which Rs. 414 crore as a long-term debt and the remaining constitutes the working capital. Cash and bank balances were at Rs. 76 crore. The Net Debt is at Rs.451 crores. The net worth of the company on a consolidated basis stood at Rs. 1,168 crore. Debt equity ratio stands at 0.35:1.

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

Moderator: Thank you, sir. We would now request all the participants who may have a question you can indicate us by raise of hand on the zoom chat platform. We will wait for the queue to assemble.

The first question is from the line of Badri Vishal Bajaj Please go ahead. Vishal Bajaj, if you may have a question, please unmute your line and go ahead.

Badri Vishal Bajaj: Yeah. Good morning. Hello.

Moderator: Yes, please. Go ahead.

Badri Vishal Bajaj: Yeah. I am Bajaj from Hyderabad only. And good morning to all and giving me the opportunity for participating in quarterly con call. And I congratulate the operational efficiency put in trigger and revenue collection, as well as profit, which is record and record EPS of about 21 rupees itself gives that we have put all our efforts post COVID and realized our targets. Now. I have two questions. One is the liability expenses still around 500 crores. And though your cash book is much better and healthy, so cash flow statement if you see. So how do you reduce the liability during coming two quarters? And how do you envisage next two quarters and giving financial year 21 turnovers? Much better than this quarter? Thanks a lot, sir.

Sreekanth Reddy: Yeah, good morning Badri ji. Thank you for the good words you have.
I think the initiatives that we have taken for last couple of years in terms of the cost management definitely has helped us show much better margins than most of our peers. Of course, realization has been one of the core reasons for extremely good EBITDA generation, but not to forget the cost initiatives did add up to a very good realisation for us to handle a very, very difficult scenario when it comes to the demand. Now going back to the liability from a debt perspective, yeah, we are reasonably sure that no doubt debt looks close to 500 which may inch up all the way up to 800. With the capex that is happening at this two projects should take us to 800, one of the important things that we have done in our overall financial planning is, we have ensured that the payout for servicing this debt in form of interest in principle, yeah at its peak it would not be more than 160 crores in any year sir, which is likely to be FY 23. But beyond that, again it starts reducing so, from that perspective, we are more than confident that even if market has to be any different from

what it is right now, and if it becomes even more difficult, we should comfortably address the overall debt that we have. So, that gives reasonably good confidence for us to address this going forward, we would be more than happy to share the numbers, the interest and the principal payouts that are likely to happen over next five years, we would be extremely happy sharing that, just to summarize, it will not be more 160 crores at any given point of time.

Badri Vishal Bajaj: Nice nice, sir. About two our scheduled project Jajpur and satguru as you said in your opening speech that they are on schedule, but post lockdown and Corona this one. So did you face what are the challenges and which you resolve that to beyond our other state where migrant labourers and controlling that cannot do that? Can you highlight on that and congrats for giving interim dividend even post COVID lockout. So I may presume that you are the first company post lockout. So you have given the interim dividend Congrats Sir.

Sreekanth Reddy: So thank you Badri ji, see as stated before, even in our earlier call, and as disclosed, both the projects are due for commissioning in September 2021. Yeah, we did revise the commissioning date by a quarter we shifted by a quarter. That is primarily on account of the COVID impact. Yeah, we did struggle. Most of the contract workman especially the civil related workman did leave the works for the months of April and May. We were having close to 700 people working at the site when the Covid hit us. Except for 100, Rest of all the people went back to their homes. Fortunately, the contractors and the workman returned to work, end of June to early part of July. Now we have more than thousand people working at site in Satguru.

Jajpur, we did face some delay because of the COVID as well as the monsoon. But both these projects, we have sufficient number of people to ensure that work. Both these projects would get commissioned by September 2021. We are more than hopeful that we will be commissioning due, except for the labor availability. We did not face any other issues.

Badri Vishal Bajaj: Yeah. Thank you.

Sreekanth Reddy: Thank you.

Moderator: Thank you Sir, we will take the next question from the line of Madhav. Madhav, please go ahead with your question.

Madhav: I thank again for your time. So if you could just share your outlook on the demand for each of the regions in South and also pricing, which has been very strong. Just your sense on how it could be for the next one or two quarters.

Sreekanth Reddy: Yeah, our call, still we are not in a position to give a very detailed kind of an outlook Sir, we still think that for the markets that we operate, we have internally factored a 15 to 20% kind of a drop in numbers compared to what we have done last year. Last year, we did close to around 3.2 million. So our outlook or internal kind of an estimation for us to do the volumes is around 2.75 million.

Yeah, this emanates from the fact that last year base itself was lower for the few months, but subsequently it actually shot up starting from early part of November last year, each month on month numbers were extremely good. So whatever little low base that we had is more or less covered with October. So given that scenario, unless we grow quite sharply, we may not be in a position to really catch up with last year number itself that looks unlikely for us. So we think that we could still have a 15 to 20% drop on year on year numbers, in our view that itself is a good number given the macro environment that we are in. Now coming back to the pricing regime. Q1 had extremely good price. Yeah, it got diluted. Fortunately, the dilution is not very, very severe sir. We think it's a very seasonal kind of correction. Yeah, the drop looks to be less than 5 to 10% from place to place, especially on the trade, though there are some instances where the non-trade prices did drop quite sharply. But fortunately, in our case, we do not have such a large focus on to those market segments. So price drop, in our case up to end of September, as we marginally is what I would like to put. Now going forward, how it is going to be, we strongly think that we are still not out of woods when it comes to COVID. And as you have seen, we thought monsoon has receded completely. But unfortunately, there are some pockets in our key markets, where we are seeing heavy rainfall and even a flood like scenario, which we have not seen this for a very very long time. So we are trying to believe that demand may not really shape up for short term.

And pricing probably may not get disturbed beyond what it has already during the current season. We strongly also think that coming year we should be doing much, much better than the current year. Yeah, the momentum has been steady so far. But we strongly think that the next year could be even better than what we have seen up to now. I think that's a vague outlook that we have at this point of time, we would want to wait till at least some more time before trying to have a firm kind of an outlook for the markets that we are in.

Madhav: And any specific state wise trends that you would like to share any place where we are seeing a very good recovery or demand where it is because just some commentary will be really helpful.

Sreekanth Reddy: I think recovery is a relative term. So obviously from April month on month we have seen most of the markets that we are in, irrespective of which state we are in all the markets have been doing very well on a month on month. Again, it's a relative term sir, I cannot compare with the year on year kind of a number, right now Tamil Nadu is doing extremely well. But the monsoon season in Tamil Nadu is yet to Kick start sir. So it is due in November. But for that all the other states are actually received exceedingly good monsoon.

But for the season, these markets would have done a lot better. But since season is very good, we expect going forward things to be even more exciting because agriculture has been extremely strong. Yeah, the tempo that we have seen in non-metro markets.

We strongly think that going forward, all of them to resume post this monsoon season to kick start a positive kind of a thing, but these are all relative term, sir. So month on month, we are seeing improvement. See, we hope it to sustain, probably next year is what when we see the real growth, that's what we strongly think at this point of time.

Madhav: Got it sir and last question, any new capacities, I am sure some of them would have been delayed, but which are the capacities that commissioned in the next 12 months in South India and other regions where you operate.

Sreekanth Reddy: See, I think the only two units are due for commission sir. The other two are already commissioned quite some time back one is Penna and the other is Chettinad in Guntur. Both the units have been commissioned quite some time back, in fact Penna is close to a year now and Chettinad is close to six months now. The units which are due for commissioning is Ramco's Kurnool unit and same Ramco's jayanthipuram clinker line is due for commissioning and Chettinad grinding unit at Vizag. is also due for commissioning. But we don't know the exact timeline but they are due. We think that Q3, it may not be possible but probably Q4 to early part of Q1, they are likely that they would commission. But the other units, probably the ramping up is due. So we think that post festive season, along with the demand ramping up. Some of these new capacities also could ramp up in line with the demand.

Madhav: Thank you so much for time sir.

Sreekanth Reddy: Thank you.

Moderator: Thank you. A reminder to all the participants, you can ask your question by raise of hand in the participant tab of the zoom platform. We will take the next question from the line of Pritesh Sheth. Pritesh, please go ahead.

Pritesh Sheth: Yeah, thanks for the opportunity. Am I audible?

Moderator: Yes, please go ahead.

Pritesh Sheth: Okay. Hi, Sreekanth Sir, so first question is on your volume growth. 2% volume growth in a very challenging quarter. And I guess your markets basically South India must have declined at least 10 to 15% in this quarter and given that decline still you are being able to report 2% growth, there surely a market share gain, which you are seeing, but has the competitive intensity overall reduced in south as in, are you seeing smaller players not able to operate their plants or to utilize, I mean to optimum utilization, given the challenges in the profitability as they change? So, it is market share gains could we see as a structural change for your company?

Sreekanth Reddy: Yeah, Mr. Pritesh, let me clarify, I don't think we have gained any market sir, this 2% is very optical, because last year base is very, very low. So, beyond that we have not done anything new in the marketplace. We are staying put at the volumes, what we have been doing consistently across, these 2% is purely because of the fact that last year, September numbers were extremely low because of the weather related scenario. And also Telangana, if you remember sir, was going through the elections during that time. So our volumes in last September, the base impact is what I would put it we have never gained any market share. Yeah, the bigger small is again, a perception sir. I think there are very small players who are very large in some of the markets.

Is it structural? I doubt sir. I don't think these are the times where somebody is stretching. Of course, there are one or two players who are trying to stretch themselves beyond what market is to offer. But that's very, very specific to some of them. In general, I don't think there is anything that has changed structurally. Yeah, as indicated sir, our operating rates are sub 50%, even during the whole of the Q2. In fact, if you have to look at H1, it is even lower. So I don't think there is something which has changed during these times, we generally don't chase the markets sir. Market share is not an important KPI for us. That's what I would like to clarify.

Pritesh Sheth: Great sir, for the detailed answer. Now, you highlighted two points in your initial commentary about Andhra, Telangana both governments or both markets doing good. I just wanted an update from your side. How has the government order traction have been from the Andhra governments side specifically? Just follow up on your last quarters comment. So last quarter, you had said that volumes from government have been to the tune of approx. three lakh tonne in maybe in month of May and in June. How is that progress in this quarter?

Sreekanth Reddy: I think Andhra government consumption is going steadily. In fact, even during the difficult months of COVID, as well as monsoon I think they have consistently had been taking material. Yeah, we did supply approximately for the first half at 7,20,000 that we have done, you have we are close to 60,000 tones is what we have supplied, which is close to around an 8 odd percent.

We think that once the you know the seasonality comes back to normal, yeah we do strongly believe that Andhra government to consume aggressively on various projects that they have initiated. And I would encourage you to look at YSR Nirman's portal, which should give you day to day or weekly kind of an update about what projects are consuming, how much that's the portal on which we are also dependent to give the outlook on that, that has been healthy sir. So I would actively encourage you to look at YSR Nirman to look at what's happening on the government consumption side, it is extremely healthy. At this point of time, we are going through the seasonal kind of seasonality related issues. But still the run rate is more than 400,000 for each month that Andhra government has been consuming. Yeah, one of the heartening things is the payment is up to date. So that itself reflects that they are very serious about the works that they have initiated.

Pritesh Sheth: Great, great. That's very helpful. One last question on your expansion. So how much of pending capex would be there over the next one year. I mean, until the completion.

Sreekanth Reddy: The overall capex, this includes these two projects and something internally, we had an outlook of close to around 900 odd crores for three years out of that we have already spent around 350 crores in the previous year. Yeah, this year it's likely that we would be completing another 350 odd crores and the residual will be spent in the next year.

Pritesh Sheth: So, do you, I mean, last two quarters the EBITDA combined, I mean, for the first half have been around 200 crores a little more than that. Do you think there is a need to raise another 300 crore of debt or at some point in time you think that if profitability sustains at this level, your internal accruals would be enough to fund those capex.

Sreekanth Reddy: See Pritesh I think, as stated, sir. Yeah, those two projects, we have done the financial closure and we have indicated that at its peak, it would be at 800 crores on a net debt basis. Yeah, these increased cash flows should minimize the overall kind of debt outflow. But that's too soon for us to take a call. We are still some time away from the drawals and we more than hope and, wish for the sustained kind of a cash flow. Yeah, that should reflect in the overall kind of a net indebtedness being much lower than what we have indicated at 800.

Pritesh Sheth: Okay, great. That's it from my side. Thank you for your answers. And congrats on the wonderful set of results.

Sreekanth Reddy: Thank you.

Moderator: Thank you. We will take the next question from the line of Saurabh Shroff, please. Go ahead, Saurabh.

Saurabh Shroff: Thank you for taking my question and congratulations on a great set of numbers. I just have one question. I want to understand how we should think about margins going forward. So you have mentioned that volumes are not going to get back to last year's numbers understandably so, but how much of this cost saving is sort of permanent or structural? And how we should think about margins for I guess the remainder of the year and going ahead.

Sreekanth Reddy: yeah, I wish I had a handle on these issues which are with inflation, yeah, on there is two side story sir, one is the energy consumption parameters and the other is the energy landed costs. Yeah, we have done structurally a lot of development on the consumption side, we are reasonably sure of sustaining them that probably would have contributed close to around 50% of the overall kind of cost savings so far that we have seen, the other 50% is on the pricing scenario or the landed cost basis.

On those issues, we usually have a six-month hedge in terms of we buying fuel, primarily pet coke and secondly the coal that is required for the captive power plants, we usually have a six months' forward kind of a purchase policy. So far we could manage our fuel is available all the way up to January, the low price landed cost fuel is all the way available up to January.

we have been advised by one of our key suppliers who are associated with us in this to wait till middle to end of November for us to take the purchase decisions pertaining to Pet coke.

There is some indication that it is likely to come down how much is a question sir. So I would not know by how much it is likely to come. The second major cost element is for us is in the freight. Yeah, as indicated sir, most of our assets are reasonably located close to the markets. But any price hike in diesel will have its own impact. If you have seen from Q1 to Q2, the freight itself has gone up by 8 to 10%, which is exactly in line with the diesel price hike that has gone up.

Some of the cost items are very well managed, which is in control well within the teams that is at the plants. But there are some costs which are again dependent on the landed costs of each of it, Yeah, on those issues, there is some effort that is happening, yeah substituting the thermal fuel with the alternate fuels, yeah are the progress of which is again subject to availability of them. Right now, we do have around 3 to 5% substitution of the pet coke with the alternate fuels, we hope to increase this to at least 5% by the end of the year itself sir. That should also help us mitigate some amount of the cost increases that are likely to happen. But all in all, increased volume should help us in fixed cost reduction. So one cost should balance the other cost increases. So we are reasonably sure that for the current year, yeah cost is likely to sustain or be better than what we have done for the last year. But by how much and all I think it's a function of time. But we are reasonably sure that cost may not be a major issue going forward.

Of course, realisations is so that that is something which we wish remains where it is, if not be better.

Saurabh Shroff: Okay, thank you very much and wish you all the best.

Sreekanth Reddy: Thank you.

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

Sanjay Nandi: Yeah, Good noon, sir. Yeah am I audible.

Moderator: Yes, please go ahead.

Sanjay Nandi: Yeah, So, I have two questions like what you mentioned in the power and fuel costs front like the Pet coke prices have shifted up significantly. So, what is your outlook going forward? like are we thinking of using some like international coal replacing the Pet coke or we are still thinking of fixing on pet coke.

Sreekanth Reddy: So, we use the fuel whatever offers the lowest cost option for us in the past, we used coal when pet coke was higher and vice versa. So we, as told in the previous question.

We do have low cost fuel, a relatively low cost fuel up to January. Yeah, we would, want to see how each of the landed costs are going to shape up. And we are more than geared up to for any dynamically to change the fuel mix to optimize on the overall costs, it's a very dynamic kind of a setting that we have, we are more than happy to change to the fuels, which could offer low cost options at any point of time, at this point of time, still the imported coal and important landed pet coke cost on a per CV, the gap is very minimal sir. So that ways is both of them look to be very, very similar. It's not that coal did not go up as much as pet coke went up. So net net both the costs have come back to be at par right now. So given this scenario, we probably would like to continue to use the Pet coke but if it Coal comes down or Pet coke comes down we will be dynamically switch to whatever fuel that offers the best option that on the cost side.

Sanjay Nandi: Okay, and sir which category like we belong to like we belong to B category right in the areas of operations?

Sreekanth Reddy: we belong to cement category sir.

Sanjay Nandi: Sir, one thing is very like you I wanted to know like in the fy 20 we just managed to register a PAT of roughly 30 odd crores but in the first half of the fy 21 we have already posted like 90 odd crores which is why because of the realisation like thing only so are we thinking of some improving our premium quality of thing or so that the margins get sustained going forward? or that would be?

Sreekanth Reddy: Mr. Sanjay we have not changed any of our product mix we have not changed any of our premiumization, we believe that the EBITDA margins is a function of realisations as well as cost.

realizations definitely helped us to have better margins. But that alone did not help us to have good EBITDA margin or PAT sir, it's a combination of both. Yeah, ideally, we would want to increase the realisations, but something which is market related, if it was in our control, obviously, we would have done it a long time back.

Sanjay Nandi: So, are we selling any premium kind of cement?

Sreekanth Reddy: We have a portfolio, in our portfolio, we do have the perceived premium product we do have sir.

Sanjay Nandi: Okay. So what is the percentage of that in the total mix?

Sreekanth Reddy: less than 1% sir.

Sanjay Nandi: So, are we thinking of increasing that percentage so as to grab the market share or?

Sreekanth Reddy: Yeah, we don't believe in market share. Sir. What I would like to tell you is we would do whatever it takes to increase the margin, we are more than happy to do what it takes that premiumization product alone, as I mentioned before, we are barely 1% sir. So, by having it 1% we could reach this far. So it implies that that alone would not solve so many other issues that is there, but we would be happy doing whatever it takes to increase that margin. That's what I like to tell.

Sanjay Nandi: Got it. Got it sir. So did we take any price hike in the first week of October, or in the 20 days of October?

Sreekanth Reddy: I think the price hike is a function of related transfer pricing that we do to our customers or the dealers that there is some optimization that is happening, where the discounts are being adjusted the invoice price more or less remained there. So we did optimize some amount of the transfer price into our dealers.

Sanjay Nandi: Okay, so can we quantify that amount? Sir, if possible?

Sreekanth Reddy: I think October is too soon, sir. We just completed 15 days, so we would rather wait for some more time for taking a call on that.

Sanjay Nandi: Okay sir thank you so much. Wish you all the best and I will be back in the que sir.

Sreekanth Reddy: Thank you.

Moderator: Thank you. We'll take the next question from the line of Agam Shah. Please go ahead. Agam, please go ahead with your question.

Agam Shah: Sir, thank you for the opportunity and congratulations for good set of numbers, just a quick question most of my questions have been answered. Now what will be the peak net debt post this acquisition?

Sreekanth Reddy: Net debt, we would believe it to be 800, but we did not factor the current cash flow scenario Sir, we are still going with a conservative estimate, it should be at its peak be 800 crores is what we think somewhere around FY23.

Agam Shah: Sir, just one more question on EBITDA per ton, but this time the cost savings generally have done, would it be the sustainable number for the longer periods.

Sreekanth Reddy: Yeah, Mr. Agam, I wish I had a very direct answer to that question that you had.

Agam Shah: In an alternative number or something whatever you can give

Sreekanth Reddy: see, bulk of it actually has been a contribution from realization it directly means that we are assuming certain price for it to be at there, I think it is very safe to assume that we may not be lower than thousand for the entire year, I would leave it there on a very very conservative estimate for full volume, it will definitely be not lower than thousand rupees, is what we strongly think for which I can keep my neck out and mind you it's a very very conservative estimate.

Agam Shah: Thank you and all the best.

Sreekanth Reddy: Thank you.

Moderator: Thank you. We will take the next question from the line of Rahul Jain. Rahul please go ahead.

Rahul Jain: Thanks for the opportunity and congratulations for a good set of numbers. Sir, firstly you spoke about the next year will be much better than this year. So I'm presuming we are talking about with regards to the volumes. So, if you could share some more details in terms of what kind of volumes are looking for next year, because next year, you will have the expanded capacities also coming in hopefully by September 21 as provided by you.

Sreekanth Reddy: Sir, now, let me take this in two parts sir, one is for the existing assets that we have, yeah, we think that it is likely that we are going to go back to last year's number that means we are going to be anywhere between 15 to 20% higher than the current year.

We think that this COVID scenario has actually taken our markets by at least two years behind.

So, the first thing that is likely to happen is to go back to last year is what we think is likely to happen. So, year on year we think it could be anywhere between 15 to 20% higher than the current year that we are in. Now as you are aware, we are indicating September 21 commissioning for both these projects, but this needs to be ramped up right. So, we are factoring approximately around another additional half a million to 0.75 million for the next year from these two assets put together. So it's a simple addition sir. So, likely target is going to be 3.2 million from the current assets and anywhere between half a million to 0.75 million from those two assets for the next year.

Rahul Jain: Sir, with regards to the East India, a lot of capacities are coming there and it is becoming a very competitive market comparatively. So, what is your view on the east market now?

Sreekanth Reddy: Our view on this market is already competitive. So, there is nothing new that is likely to happen. There is additional supply that is expected to come along with us after us and definitely few before us. Yeah, East is a very big market from a volume perspective. Sir, it has been growing consistently at 10% year on year. The one thing that we have seen is that by the time we commissioned our internal assumption is that from what is about 90 to 95% capacity utilization, likely that for a very short period it might drop to 70 to 75% capacity utilization for new players like us, it may not be true for somebody who is already existing there. But overall, we do expect the overall capacity utilization to drop and demand to grow by 10%. But the pricing regime in East has been extremely poor sir.

Unfortunately, with such a high demand regime, prices there somehow has been non-remunerative, short term we don't expect a major change. But over a year, year and half we do expect the prices to come back to something which we think is going to be feasible. So these are the two scenarios that we definitely expect and sincerely hope for it. One is the overall capacity utilization of most of the players likely to come down and especially for the newer ones it could be it may not be as what it is right now. That is for sure we know that is going to happen for a very short term.

We do expect pricing regimes to start, becoming better. Our basis for this assumption is purely because most of the new capacities that are coming up needs to service those markets with clinker coming from far off places. So, that pushes everybody, will start looking at some remunerative pricing in those markets, right now, I think everybody is trying to look at market shares, that may not continue forever, because that's not the right way to look at any market, leave alone East. So, that is pushing us to believe that there could be a drop in overall capacity utilization, but better pricing regime is what we believe is likely to happen, it may not happen in immediate future, but beyond a year, we do expect things to happen in those directions.

Rahul Jain: So, last question on the rural demand. Yesterday ultratech also mentioned the rural demand has been quite strong, you also talked about it and we are talking about that demand was very good in quarter one at the same time in quarter two also it has been quite good given the good rainfall, government initiatives in terms of reforms. sir, in your assessment, how sustainable this demand is number one, number two, when we talk about the rural doing extremely well. So, with based on the past historical experience over the last 5, 7, 10 years, whenever rainfall has been good. So comparing that period with today's period, the rural pickup or the ruler demand is at what level? So, what I'm trying to understand is suppose in good periods of rural economy, the demand has been x today have we reached that x level or is it 1.1x or 0.8x so that we understand how sustainable this rural demand?

Sreekanth Reddy: Yeah Mr. Rahul, let us not increase the complexity which it is already, the non-metro market has done exceedingly well in Q1. Okay. The reason why it has done exceedingly well, again, it's all differential sir. Yeah, the metro market actually, at least in our region that we operate like, all the key Metro markets were shut because of the COVID scenario. So on a relative scale, the non-metro market did exceedingly well.

But coming to Q2, unfortunately, the COVID did not remain itself in the metros, it started spreading. And at the same time, the most of the metro markets were slowly opening up. What it did, it actually evened out in terms of the demand in Q2 itself. What I would like to highlight at this point of time is without getting into too much of complexities about rural urban, in our experience, whenever there is a good monsoon. And the subsequent year, most of the people usually end up doing some capital asset formation on the rural side, especially the housing. Yeah, historical experience has been a good monsoon and a good pricing for the grains that they come up with, usually have pushed cement demand to the next step. That's what we strongly think it is going to happen. And secondly, if you look at some of the state governments which are spending aggressively on the infrastructure side, bulk of it actually comes from the rural segment itself.

Because if you look at the canal network or the concrete roads, bulk of it actually gets spent in those regions. And not to mention the low cost housing and bulk of low cost housing also is from that particular segment, we do expect a very, very strong focused kind of spent from both central government and state governments going forward, with one intent that it will generate huge employment. It is the case after agriculture, construction sector is one sector which actually absorbs a lot of people. So it definitely is one sector where I am sure government would be spending a lot of money to increase the employability and all, recently we started hearing that even they would want to come up with something like work guarantee scheme even on the urban side. So all in all, we do expect things to shape up exceedingly well, but this rural urban or rather, I would look at it as a metro, non-metro markets.

I would not like to look at this as a something which is very structurally things have changed. They remain what it has been in the past sir, yeah off late because of the covid impact and since it impacted Metro markets, more in the initial face. So people started looking at this but India is more rural than urban. So it goes without saying that bulk of any commodities market is actually rural than urban sir. So cement being what it is, rural is actually 60% of our market. So, a healthy monsoon would invariably give a good comfort for us that the consumption is going likely to be much, much higher with a good monsoon and good pricing for all the output that they would have would definitely increase the demand for our product. That's what we strongly think Sir. Yeah now quantifying rural urban.

Now, what is this rural and urban Sir, I mean, for us, you have large towns, which are big urban cities, so they will also be doing exceedingly well. So it's a more issue of Metro and non-Metro rather than a rural or urban market.

Rahul Jain: Sure. That's very helpful. So just last thing on this point, are you seeing some kind of traction in housing demand both in metro and non-metro markets? I would rather now put metro and non-metro not rural and urban.

Sreekanth Reddy: I think it is too soon, sir. The one thing that it's very heartening is your interest on the housing loans are at its lowest, probably, but people are still just coming out of the COVID. So, I am sure given this scenario, it's highly likely that people would want to start building their houses.

But it's too soon for us to factor any of that for the current year. But I think a year from now, things could start actually paying out in a very, very good shape.

Whether it is urban or metro or non-metro markets, that’s what we very strongly think.

Rahul Jain: Thank you so much. That's very helpful. And I wish you all the best.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Ravi; Rajesh please go ahead.

Rajesh Ravi, please go ahead with your question.

Rajesh Ravi: Yeah, sorry. Yeah, Hi Sir, congratulations on great set of numbers on the first side, employee costs to this quarter has significantly jumped you know, what could be the reason for the same?

Sreekanth Reddy: Yeah, there are two reasons sir, one as mentioned even in my earlier calls, we have deferred the appraisal decision for the current year to September which we have done. So, our appraisal was due from 1st of April 2020.

So, old arrears and at the same time lesser volume both of them are actually per ton has been gone up and absolute number also has gone up sir, because we have taken the appraisal fully implemented for the current year, since it was taken for the first six months in the current quarter itself, it is looking higher, but as it spreads roughly around we have taken anywhere between 9 to 10% hike is what we have taken.

Rajesh Ravi: Okay, so if I take the first half average 18 crores that would be the normal run rate sir, until the new projects get commissioned?

Sreekanth Reddy: and it is very safe to assume it is 9% higher than last year.

Rajesh Ravi: Okay. Okay, sir. Yeah. Oh, yeah. That's all from my end sir. I'll come back into que. Thank you.

Sreekanth Reddy: Thank you.

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

Pradnya Ganar: Yeah, hi, sir. Good afternoon. Sir, my question is more on the industry. And please pardon my ignorance, but I just want to understand this concept of premium cement and its acceptance in the market. So, actually, how these products differ in their strength and various aspects and is the market actually willing to give that premium given the commodity nature of cement as such,

Sreekanth Reddy: The industry believes that there is some premium product and it gets that additional premium. Our internal view is that it's more a marketing Blitz rather than anything, because there are restrictions for how, BIS actually specifies these products. So, we need to slot any product that we call in premium in one of these slots, that is OPC 53, 43 grade, and PPC and PSC. So irrespective of whatever premium products that we would call needs to be position in any of these four slots, other than this specialty cements, I am sure there are some products which definitely offer uniqueness like waterproofing or some of them. It's still in evolution stage is what we think.

It needs a very, very careful and detailed study. Yeah, some of the major players have done. So I strongly believe that there is a reason for them to do.

But at this point of time, our primary focus is to is to look at some of the products, the way they are in terms of the regulatory kind of framework, we have to slot it to one of those four more popular products, it needs to be positioned. So there are some people who actually position telling that it's a faster setting, higher strength and all, but all of them have to comply with one of these four sets. So given that scenario, it needs some more experience before trying to qualify, is it really offering that extra premium in terms of to the companies or the customers, it's too soon, because there are some people who actually ended up launching the same product in a premium packing. So whatever is the margin, the premium packing itself would have consumed. But there are some who actually gave a premium product. But market is taking time to appreciate. I mean, it's kind of a mixed bag. But we would wait for some more time before you know having a better view on that. It's too soon for us to comment beyond what I've already commented. I'm sure you'd appreciate.

Pradnya Ganar: Yeah, that was very helpful. Thank you so much. Thanks a lot.

Sreekanth Reddy: Thank you.

Moderator: Thank you. We'll take the next question from the line of Indrajit. Please go ahead.

Indrajit: Hi Mr. Sreekanth, Good afternoon. I have one question on your slide 12, the Pet coke price as a tree, which is 6,298. So this is the booking price, right? Not the purchase price?

Sreekanth Reddy: This is the landed cost, sir. Yeah, you're correct. It's a booking price that includes the freight and all the associated handling costs, landed at each of our sites.

Indrajit: And at spot pet coke prices and spot rates, what would be this equivalent number? So this 6,298 and what would be in dollars

Sreekanth Reddy: It would be roughly around $65.

Indrajit: 65$ and the spot price is somewhere around $95? Is that right?

Sreekanth Reddy: No, yeah the right now spot price is the equivalent of that, is 90 odd dollars, okay.

Indrajit: And has there been any change in the sea freight rate as well or that has been broadly stable,

Sreekanth Reddy: Sir honestly, we don't track as much we only try to listen to people because for us, at the end of the day, we are buying it from them. So they blame either on the basic price or the freight that keeps changing from month to month. So, the last that we have heard is not much of a change, not much of a change on the freight and the freight did go up a few months back. So from there we did not hear freight being any different from what it was.

I think the landed cost, what we have seen is few dollars less for the last week. And we have been advised to seriously start taking some procurement calls only middle to end of November not before. We are eagerly waiting for that and we would be happy to share that information whether the freight or the basic product price itself.

Indrajit: Thank you so much. That's all

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

Prateek Kumar: Hello, yeah good afternoon sir. My first question is so we operated around probably 50% during the quarter and probably in September also, which is I think is lower than like let's say what we operated in June, primarily on monsoons. In fact, so, how is the October utilization? How did the utilizations in October if we can have some news

Sreekanth Reddy: I think we just completed 15 days of October, see it may not truly reflect the overall outlook for the Q3 but in our experience, 60% of average sales would happen between Q1 and Q4, 40% typically happens between Q2 and Q3 because the seasons have not been very very similar on a month to month kind of thing if you look at last year, the season actually was late, but it was reasonable. But this time season started early in terms of the monsoon season and it was heavy throughout and we thought it receded but if you look at last few days' sir again it restarted. So given the scenario, few days, few weeks should not matter. But I think Q3 should be very similar or slightly better than Q2 is what I would like to highlight when it comes to the volume.

So the capacity utilization may not significantly be different. Right now we are at 48 probably at the best we could touch 50 to 55% and the best for Q3 that's what we think is likely to happen for the markets that we service.

Prateek Kumar: Right. And you mentioned in the opening remarks, there was some price dilution in trade and non-trade segment higher being in non-trade. So in October while you said that a recalibration of discount has now the price which is realized by company now taken back to like original levels, pre-dilution?

Sreekanth Reddy: It's still work in progress. I think the because the festivities are due for the end of this week. I think the whole of this month will still go ahead with work in progress kind of a scenario where there is an inch up. Yeah, we have not covered the lost ground completely.

Prateek Kumar: Right. That's it for myself. Thank you.

Sreekanth Reddy: Thank you.

Moderator: So we'll take the next question we'll take which is from the line of Rajesh Ravi, Rajesh please go ahead.

Rajesh Ravi: Yeah, on the non-current assets. This is largely on account of capital advances, which is going up in September quarter?

Sreekanth Reddy: Yes, sir. It is purely on account of that.

Rajesh Ravi: Okay. That's all Sir. Thanks.

Moderator: We will take the next follow up from Mr. Rahul Jain. Rahul, please go ahead.

Rahul Jain: Yeah, sir, I just want to check sir on your new project. So, how have we tied up the limestone and what mine life do we have, and details on that? And also generally on the industry, how do you see the situation you know, going forward with the auctions and all these things?

Sreekanth Reddy: Sir I think auctions have very limited comments to offer at this point of time. When it comes to us. There are two projects one is grinding station in Orissa. So there we do not have any limestone requirement per se.

The other one is a million tonne plant at Madhya Pradesh, say, its a million tonne. So it effectively needs around 1.3 million tons of limestone for its operation, we have close to 80 million tons of reserve there. So that should last close to around 55 years for sure.

Rahul Jain: Right, generally under how do you know your competition and others? Are Is it easy to get limestone reserve or the situation getting tighter?

Sreekanth Reddy: Life is not easy sir. I'm sure it is it's a mixed bag, I would put it these limestone auctions are becoming expensive by the day.

But they are not impossible, that's what we strongly think. But there are some auctions which have become extremely expensive. Probably it's very specific, because somebody is desperate, desperately looking at those locations. So that's one of the reasons why the auction in those locations looks to be extremely, extremely high.

Rahul Jain: Right and sir also, people who have got the reserves, what I understand is that not much work has happened. And so can you like I mean, why there is such a time lapse in getting the mine and starting the work

Sreekanth Reddy: That our plant is due for commissioning in September 2021. So we will be opening the mine three months before the plant gets opened up.

Rahul Jain: I'm not talking about us, I am talking about generally other people who have taken these mines what we find is that you know, the commissioning

Sreekanth Reddy: I have no idea sir, this is very very case to case kind of a thing, so I have nothing very specific on those issues.

Rahul Jain: Okay, do we have to pay a premium on that on limestone?

Sreekanth Reddy: Sorry?

Rahul Jain: we have to wait any premium for those.

Sreekanth Reddy: For the mines that we have got the currently what is in our portfolio, we don't have to pay any premium to any of our limestone at any of the assets that we have. Sir these are done.

Rahul Jain: Prior to amendment?

Sreekanth Reddy: I would not call prior, but we don't have to pay any premium to any of the limestone except for the regular royalty.

Rahul Jain: Thank you so much.

Sreekanth Reddy: Thank you.

Moderator: Okay, we will take one more question from the line of Karthik Chellappa. Karthik, please go ahead

Karthik Chellappa: Thank you very much for the opportunity. Sir. I only have one question. If we look at the lead distance this quarter of about 319. It is actually up year on year, and is at a five quarter high. What would explain this?

Sreekanth Reddy: Yeah, it's primarily because most of our market from Q2, it shifted to, from Q1 it shifted to market, which is slightly far off. Yeah, we were servicing more of Tamilnadu. Sir that's the only reason why it actually slightly went up compared to the previous quarters.

Karthik Chellappa: Sir does that mean that as we go into election season, because Tamil Nadu also goes in to elections in another six, seven months' time, and if demand continues to remain strong there this should be at a 300 kilometer distance plus from the point of view of your logistics cost.

Sreekanth Reddy: Mr. Karthik, I think this is something which is very specific now, because we were active in the monsoon in the neighborhood market. So probably, there is a material which got shifted to Tamilnadu, where the monsoon will become active in due course of time. But I think this should be the higher number.

But we will definitely not cross beyond that. because most of the markets, which are in the neighborhood are actually under the monsoon. And the far off market was serviced because this is from a season and from a demand perspective, that was more conducive at this point of time.

Karthik Chellappa: Okay, thank you very much wish you and your team of the very best.

Sreekanth Reddy: Thank you.

Moderator: Thank you. We'll take our next question from the line of Shivam. Shivam Please go ahead.

Shivam: Sir, congrats for the quarter results. Sir, as you said earlier, that market share is not a way think about business growth. Can you expand on this?

Sreekanth Reddy: Can you repeat the question Mr. Shivam?

Shivam: Am I audible?

Sreekanth Reddy: Yeah, please. Yeah.

Shivam: Sir, as you said earlier, that market share is not a way we think of business growth, can you expand on this sir?

Sreekanth Reddy: That we look at sustained markets or we don't look at opportunistic kind of a scenario to increase the share and reduce the share, we look at our model to be very, very straightforward and simple. We look at market for a very, very long term, we don't look at one singular opportunistic kind of scenario to go and grab market shares and be happy about it.

I think, when the entire industry supply demand equation, is it something Yeah, we try to get along with that. Because if you try to put more volumes than what market is absorbing, we strongly, have experienced and seen this in the past that it amounts to erosion of value. So we avoid that kind of a scenario. That's what we meant when we were not chasing the market shares.

Shivam: Okay sir, I have one more question. Sir, are we below the industry utilization levels?

Sreekanth Reddy: I would say we are at par. But this answer of mine needs some bit of explanation. We are at par because we service markets. See if you have to compare with my neighbor, it may not be true. But you have to look at the whole holistic kind of a scenario. So we are at par with the industry.

Shivam: Okay, sir thank you.

Sreekanth Reddy: Some of my neighbors operated close to 90%. We don't because probably their market, their volumes are lower. The markets are narrower. In our case, we are at 50% in line with most of the industry peers who are similar to ours.

Shivam: Okay, so thank you.

Sreekanth Reddy: Thank you.

Moderator: And the next question is from the line of Amit Murarka, please go ahead.

Amit, please unmute your line and go ahead with your question.

Amit Murarka: Hi, good afternoon everyone, just on this NGT, recently there is some order on the kaleswaram project, has been highlighted. Do we expect that to have some adverse impact on our demand in the medium term?

Sreekanth Reddy: Good afternoon, Mr. Amit, I think you should have read the order as clearly it's a project which is already done. So we already supplied so there is nothing due, except for small finishing work. And there is not much of work that is left on the market.

Amit Murarka: Okay, sir. So in terms of let's say on General activity on the infrastructure side, both in AP, Telangana so you see the outlook being good. I think you have mentioned that generally the activity has been decent in the last few months.

Sreekanth Reddy: Yes, sir. I as mentioned to one of the query before I think Andhra government has been aggressively consuming cement. And I would actively encourage you to look at YSR Nirman site that should give you the portal that should give you a real heads up on what's happening on the government consumption. Yeah, there they have displayed which project is consuming how much and it's updated quite frequently so its consumption is going on very, very strongly. Telangana Of course, the monsoon, since we are going through the monsoon kind of seasonality sir, not much has been done so far. Yeah, there is general sense and the hope and expectation that even the Telangana government to kickstart some of the I would not call shelf but some of the infra projects which are going slow, especially the collectrates built up in each of the district and the market yards, which the government has promised, there was some activity that started pre COVID.

Post COVID. We are yet to see some traction on those we do believe that post the seasonality, something to kick start on those fronts also, but those projects should have some consumption on a relative scale sir Telangana government at this point of time has no large infrastructure project which should consume cement. Unlike Andhra, where there are quite a few projects we had there is a demand that is likely to happen from them.

Amit Murarka: Sure, thank you.

Moderator: Thank you, as there are no further questions, we would now like to hand over the call to Mr. Reddy for his closing comments. Over to you, sir.

Sreekanth Reddy: So I would like to thank each one of you again, for joining on the call. I hope most of the queries are addressed. If not, please feel free to connect with us or CDR. We would be more than happy to come back with specific answers to your satisfaction. Thank you again. Have a good day.

Moderator: Thank you. You may now disconnect your lines