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 the quarterly financial results

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We are forwarding herewith the transcription of the Conference Call held by us on 29th January, 2020 in connection with the recently announced un-audited financial results for the third quarter and nine month period ended 31st December, 2019.

Thanking you

Yours faithfully
For Sagar Cements Limited

R.Soundararajan
Company Secretary

Encl: a.a.

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Sagar Cements Limited

Q3 & 9M FY20 Earnings Conference Call Transcript
January 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to Sagar Cements' Q3 & 9M FY20 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' Q3 FY20 Analyst and Investor Conference Call. We have with us today Mr. Sreekanth Reddy – Joint Managing Director; Mr. K. Prasad – Chief Financial Officer; Mr. P. S. Prasad - President-Marketing; Mr. Rajesh Singh – Vice President-Marketing and Mr. R. Soundararajan – Company Secretary.

We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A session. Before we begin, I would like to point out that some statements made in today's 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. Good morning everyone and welcome to Sagar Cements' earnings conference call for the quarter & nine months ended December 31, 2019.

I will begin the call by briefly discussing the key demand and pricing scenario across our markets post which I will move on to Sagar specific developments. Starting with the demand, while slow pace in standstill of infrastructure activities impacted the demand in South. State elections in Maharashtra weighed down the demand in the West. Prices to continue to be weak in line with the demand across both Andhra Pradesh and Telangana.

Prices in East remain soft on the back of higher competitive intensity and weak demand. The pricing environment has improved marginally at the end of the quarter with better price realizations witnessed across most markets after being under pressure for the major part of the year following slow down in the government projects, the prolonged monsoon and the liquidity crunch we expect the demand as well to pick up in the coming months.

Moving on to Sagar specific developments, while the challenging environment during the current quarter did negate our overall good start to the year we still manage to deliver a healthy growth during the first nine months of the fiscal. On the year-on-year basis Revenue and EBITDA grew by 2% and 59% respectively during the aforesaid period. Further, despite the muted topline growth for the quarter we have been able to maintain overall operational profitability partly owing to lower input costs and partly owing to our recent strategic cost rationalization initiatives.

We expect cost efficiencies to further improve on back of optimization of the CPP and also of logistics enabling the improved alignment with the market. Lastly the completion of the ongoing projects at the company's subsidiaries Sadguru Cement and Jajpur should help us further improve our efficiencies.

Moving on to our financial performance for the quarter on a consolidated basis revenue from the operations for the quarter stood at Rs. 262 crore as against Rs. 319 crore generated during the corresponding quarter last year. EBITDA for the quarter stood at Rs. 20 crore as against Rs. 31 crore reported during Q3 FY19 owing to lower sales realization.

Average fuel cost stood at Rs. 797 per ton as against Rs. 920 per ton reported during Q3 FY19. Optimization of thermal efficiency has resulted in lower per ton cost of fuel. Freight cost for the quarter on a consolidated basis moderated at Rs. 714 per ton as against Rs. 733 per ton during Q3 FY19 owing to better optimization of the lead distance. Loss for the quarter stood at Rs. 9 crore as against loss of Rs. 3 crore reported during the Q3 FY19.

From an operational point of view Mattampally plant operated at 44% utilization level while Gudipadu and Bayyavaram plants operated at 66% and 50% respectively during the quarter. As far as the key balance sheet items are concerned the gross debt as on 31 December 2019 on a standalone basis stood at Rs. 281 crore out of which Rs. 163 crore as a long term debt and the remaining constitutes the working capital.

While on a consolidated basis debt stood at Rs. 489 crore out of which Rs. 324 crore is long term based. The net worth of the company on a consolidated basis as on 31 December 2019 stood at Rs. 1,002 crore. Debt equity ratio stands at 0.3:1. Cash and bank balances were at Rs. 15 crore as on 31 December 2019.

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

Moderator: Thank you very much. The first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Sir, first question is with respect to some specific color on demand trends which you shared. Wanted to understand is there any green shoots visible in Andhra, Telangana or it continues to be a drag on the overall South India demand more specifically how you see next coming quarter shaping up? And with respect to Maharashtra, do we expect it to continue to grow at say mid single digit what has been the case in the last few quarters or any growing concern with the change in government there?

Sreekanth Reddy: See if he has to talk about the demand in AP and Telangana, if I have to compare with the last year the demand so far de-grew by almost close to 17%. But there has been an improvement if I have to see on a month-on-month starting from

September. September was the lowest that we have seen which actually were 50% of what it was in the previous September. From September which was close to around 1.4 Million which came down from close to 2.6 Million the earlier year. From 1.6 Million it gradually moved all the way up to December to 2.5 Million.

Having said that but the earlier year the demand was reasonably close to around 3 Million for each of the month previously. So there has been an improvement month-on-month but on a year-on-year basis the overall market actually de-grew by 17%. But if we have to compare with a year earlier to the previous year, yes I think more or less the demand is slightly better but if I have to compare with the previous year it has actually de-grown by 17%. Coming to Maharashtra, yes the elections did impact the demand on a Year-on-Year kind of a basis.

But so far year-to-date the growth what we have noticed in Maharashtra is close to 5%. Yes we believe that the election part is behind and probably we should achieve close to 5% kind of a demand is what we believe in Maharashtra. Now going to the South, the other places like Karnataka more or less is flat. Tamil Nadu has grown at close to 3%. Kerala is minus by almost close to 5% to 7%. So the overall South number is close to minus 7%. I think AP and Telangana demand actually dragged out the overall South demand because the other three states more or less have remained positive or above the flattish kind of a trend.

But I think Andhra and Telangana demand did drag the overall South demand. The current our assessment is that it is at close to minus 7%, 7.5%. Now would the same trend continue, yes at the start of the year we have indicated that the market to remain the overall South market to be positive. We believe that given the demand scenario in Andhra and Telangana I think overall South probably could be flat to close to minus 5%. This is primarily because of the Andhra, Telangana demand.

Sumangal Nevatia: So sir, say this year we touch say around 25 Million tons in Andhra, Telangana. So is it safe to assume that this would be the bottom end of this base we should expect some mid-single digit growth from this region next year?

Sreekanth Reddy: That was the assumption that we had but I would still be cautious. I think we would like to wait till middle of February to see if both the governments would start paying out the contractors. Then we do not see it has a challenge for us to start growing at least to a reasonable single digit kind of a number. But the key factor there is that usually the growth for Q1 is seeded in the Q4 that has been the historical kind of an issue. Unless we see a reasonably sharp U-turn during the current quarter talking of good growth for the next quarter would still be a challenging kind of a take.

So I would still wait for somewhere around middle of February because State Governments have been promising the payouts which has been long overdue. Once that happens we do not see it has a challenge but first that has to happen. So I will keep my fingers crossed. Till such time I will go on a very cautious tone as far as AP and Telangana is concerned.

Sumangal Nevatia: Second question with respect to our cost. We have seen almost Rs. 2,000 cost reduction on Petcoke getting factored in our 3Q numbers from say last year. So is there any further benefit on spot basis which you can see which will flow in the coming quarters?

Sreekanth Reddy: See as narrated earlier we generally do not take a spot call because ours is a weighted average kind of a thing. So the benefit started trickling in. We do not expect any major kind of a cost saving but we are good all the way up to middle of May. So till middle of May I think we are reasonably stocked up with a reasonably good pricing petcoke with us and we have also started seeing few dollar price increases on the petcoke.

So I would be cautious to take a further reduction on petcoke. I think only during the month of December we started seeing the low cost petcoke started kicking in our account. So I think this trend should continue all the way up to middle of Q1.

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

Indrajit Agarwal: Two questions. One, you touched upon the pricing trends. When we look at your realization it has fallen 8% sequentially. That is on a Quarter-on-Quarter basis. Do you think this broadly reflects the trend in the region as well or you were slightly worse off than the region as a whole? And as a follow up to that, when you mentioned the prices have increased since the end December, how do you see the spot prices versus the quarter average?

Sreekanth Reddy: See I would not like to comment on the overall kind of all the regional players having a similar impact because our product mix in terms of the geography mix is slightly away from most of the regional players because we do service Maharashtra, we also service Orissa and you look at the position of our assets are slightly away from most of the other regional players. So I would not like to are we worse off, are we better off, I think I would wait for all the results to come.

So I would not like to place the same color across all the regional players. But Andhra and Telangana I think the price impact has been fairly high. So whoever is primarily focused on Andhra should have a similar kind of an impact is what we believe. Now coming to the pricing, starting from October that is the exit of Q2 to the entry of Q3, October started typically anywhere between Rs. 215 to Rs. 240 kind of a price bracket to Hyderabad. Yes it slipped to Rs. 200 in December which in our view on a relative scale is probably the decadely low pricing in December.

If we have to normalize to the inflationary kind of an impact. January we have seen an increase of close to around Rs. 10 to Rs. 15 increase across the month but bulk of the increase has happened only during the middle to the end of January. That is the trend. But if I have to talk about Chennai and Bangalore, the increase is not as much because it did not slide as much.

So there is on an average for our market footprint area yes we are counting at Rs. 10 per bag increase. On an average from previous quarter to the whole of January. But bulk of the impact we felt only during the second half of January.

Indrajit Agarwal: And specifically for Sagar, if you look at the other expenses on line items so from here what are the avenues we have to reduce this cost, the other cost line item? Understand power and fuel freight is more external factors driven but what are the controllable cost factors we have here?

Sreekanth Reddy: See in others it is also involve with the marketing related cost. So it is a variable cost. I do not think that is something which we have control on. It is more to do with the discount structures, and everything added up. On a cost side on a variable side I think scope always exists, but I do not think there is a huge scope on that particular account.

Moderator: Thank you. The next question is from the line of Manish Valecha from Anand Rathi. Please go ahead.

Manish Valecha: Sir, just wanted to understand the status of the CAPEX both at Satguru and Jajpur now? So I believe you have ordered the plants, are we on schedule for March 2021?

Sreekanth Reddy: Both the subsidiaries the order placement is complete. The civil works we are more or less completed 25% at Satguru. Jajpur I would count only 5% to 10% but Jajpur is relatively a small infrastructure project because it is just a grinding station. Right now our assessment is that Jajpur would be on schedule by March 2021 for commissioning. Satguru right now we are running couple of months behind schedule so we would be reasonably confident of achieving the commissioning by June of 2021 as we speak.

Manish Valecha: So we will be having at least 1.5 Vizag, 1.5 in Jajpur and 1 Million ton of Dar which will be non-AP servicing market apart from BMM, right? So that reduces our AP share to how much post once we commission the two plants?

Sreekanth Reddy: I would simply safe six months to nine months for the ramp up at both the locations at Jajpur as well as Satguru. Yes, these are exactly outside South so it is not just AP and South issue it is I think AP we will come down from close to 50%, 52% right now on an average. I think it should push us down to less than 40% to 45%.

Manish Valecha: In terms of volumes?

Sreekanth Reddy: When the complete ramp up happens I think AP and Telangana would be less than 40% of our overall kind of a market mix.

Manish Valecha: And sir, the next question was on peak debt we will be hitting peaked at next year, right? So what would that level be?

Sreekanth Reddy: I think we would be hitting the peak debt probably not the next year but the year after. We are assuming the net debt to be close to around Rs. 800 crore on higher side.

Manish Valecha: This will include CAPEX for both these plants?

Sreekanth Reddy: Yes, this includes the CAPEX, and this also includes the working capital.

Manish Valecha: Sir, one last question on fuel consumption. On waste-heat recovery are we running it at full capacity so savings from there are completely exhausted or is there is some more scope?

Sreekanth Reddy: See I think as commissioned it was at 6.5 subsequently we ramped it up to 8.4. Yes, right now we are running close to 8.6. So we believe that technically we have reached the roof. Except for the running hours we do not expect any other saving in any other form from the waste-heat recovery. Yes, the other potential saving that we are yet to realize this CPP, yes CPP is being ramped up.

The only problem is the capacity utilization. I think we went through a rough patch over the last two quarters. So we could not run the CPP at its potential. I think going forward that should help us with additional savings as and when the CPP starts running at a much higher capacity utilization.

Moderator: Thank you. The next question is from the line of Andrey Purushottam from Cogito Advisors. Please go ahead.

Andrey Purushottam: Actually most of my questions have been answered. I just wanted for you to elaborate on the trends that you see going forward behind the expected price realization improvement. What are the factors that might cause that just could you elaborate on the previous answer?

Sreekanth Reddy: See I think we have hit the decadal low pricing. I think at this point of time most of the industry is below water. When we are talking of below water I think some of the players did lose did not get even EBITDA during the current pricing. So it itself should push the prices up. And from a demand perspective I think we have had an extremely good monsoon. Coupled with that the historical trends always point out the first 6 to 9 months. Post-election the demand to take a backseat slightly because most of the governments would even if the government which comes back usually tries to take the time to recuperate and come back in to the infrastructure built up mode.

That also should help us try to look at some demand recovery. In the same time if you look at the market though bulk of the government spent was missing. Non-governmental spent has been growing. Is it healthy, I think it is reasonably healthy with almost 15% to 20% drop in overall kind of a demand without any government spent. My belief is that non-governmental spent probably would have grown that is the only reason why the demand did not collapse completely. Those trends typically point out to two things.

One, worst of the demand is behind us and potentially the price also should take a better shape because probably the industry players panning because it did not behave in line with their expectation. Though the demand from 50% of average capacity utilization it will only to close to 40% but probably people panic because they were expecting the demand to go up from 50% to probably 60%, 65%. Instead of going up when it started coming down I think people panic at the market place.

Andrey Purushottam: And that is true to North as well?

Sreekanth Reddy: The North is too far from it. That may not be true because North probably is a better position. I think the demand trends there they were still growing. I do not think there was a negative growth in any of the regions except for South. So the trends probably could be different, but I think that market for us we do not track as much as we generally do.

Moderator: Thank you. The next question is from the line of Girija Ray from Dolat Capital. Please go ahead.

Girija Ray: Just wanted to know the raw material cost has been increased just wanted to know like is there any impact is this because volume has grown or any slag price increased?

Sreekanth Reddy: No, it is more than the price. If you have noticed the blended material percentage as the overall kind of a product mix has gone up. So the relevant correction in raw material has happened. So we have not seen any major price changes in any of the products over the last couple of quarters.

So the rise in the raw material is primarily on the account of change in the product mix or rather increased blended material as pass through. So that has impacted two things. One, the overall power and fuel cost it helped us slightly reduce. I would not call the matching impact in the raw material but relevant correction in the raw material price has improved. It is mostly to do with the slag increased slag usage as well as the fly ash usage.

Girija Ray: Slag price what is the price right now, slag and fly ash?

Sreekanth Reddy: Yes we will be happy to share that if you could because again we have three locations and for each location the fly ash as well as slag price landings are different. So we will be more than happy to share that. If you could send an email we will be extremely happy to share that.

Girija Ray: But comparatively slag and fly ash price has been increased, right you are saying?

Sreekanth Reddy: No, slag and fly ash landed cost have not changed. The only the usage has gone up. The percentage of material that we have consumed has gone up. Prices have not changed over last two quarters.

Moderator: Thank you. The next question is from the line of Sanjay Nandi from Ratnabali Capital. Please go ahead.

Sanjay Nandi: Just wanted to know a few things. Like you just mentioned in the first answer of your just con call like the demand over in Andhra and Telangana region which was roughly 2.6 in the month of September 2018, right sir?

Sreekanth Reddy: You are talking of September 2018?

Sanjay Nandi: Right sir, in September 2018 it was roughly 2.6, right?

Sreekanth Reddy: No, it was close to 1.6 Million in 2018. It was 2.6 in 2019. And it was close to 1.3 Million in 2020 for September month.

Sanjay Nandi: So sir, this decline is mainly because of the government like drop in the government projects mainly?

Sreekanth Reddy: I think during that month monsoon was still active. So we do not know what was responsible but during the same time yes most of there is a slowdown in the government projects. The sand regulatory issues was about to get resolved but still it was in that midst of those issues. And more than these two issues even the monsoon was very, very active. So we do not know what percentage of each of it has impacted but it was impactful.

Sanjay Nandi: So sir, this is the industry demand on a month-on-month basis, right?

Sreekanth Reddy: Yes, this is the demand of this state. Both the states of AP and Telangana together.

Sanjay Nandi: Okay and sir, in the con call answer you have guided like the Polavaram dam project just kicked off in the recent month. So can you just update on that thing any update from your end?

Sreekanth Reddy: I think the realignment in terms of the contractor is complete. The cement demand just started off probably the late end of December, but we expect some uptake to start happening only from middle to end of February in a significant volume because the contractor has changed so he is trying to realign the entire thing to his requirement. So we believe that the real uptake though there are some small quantities that have started trickling in but I think the real volume uptake will start probably from middle to end of February.

Sanjay Nandi: And sir, also you mentioned the petcoke prices are increased a bit from the exit of Q3 FY20. So what is the current petcoke price as of now like what quantum the increase happened we just wanted to track that?

Sreekanth Reddy: Yes, this part we actually required from 69 I think we are talking of 74 for end of February landing prices, the US petcoke price. These are US petcoke prices.

Sanjay Nandi: So currently it is $74 per ton?

Sreekanth Reddy: That is for the February receipt at Krishnapatnam. There has been a $4 to $5 kind of an increase from the earlier quarter to the current spot price.

Sanjay Nandi: And sir, the last question is basically this Satguru and Jajpur plants roughly the cost of the project is roughly Rs. 800 crore so what would be the quantum of like funding from debt of these projects?

Sreekanth Reddy: 50:50 I think both it is on a 1:1 kind of a debt equity. So roughly around Rs. 400 crore to Rs. 450 crore is the debt and the rest is the equity plus internal advance.

Sanjay Nandi: And sir, what is our current pricing scenario in the Eastern part of the country their prices are literally battered, and so do you feel like once these things comes into the project because Jajpur thing will be mainly catering to the Eastern markets. So do you feel with that low pricing scenario with this kind of debt coming into the books we would be able to sustain our bottom line?

Sreekanth Reddy: See what we have factored is the current pricing scenario is not a very healthy one. So we did not factor any differently. We expected two things to happen there. The current operational capacities for most of the Eastern players is up of 85%. So in our own case we are factoring close to around 70% to 75% capacity utilization. On a pricing front we do not expect it to be any better. So these are the two issues that we have factored in our business plan. So basis that we went ahead. The project is a Rs. 310 crore project. And we were expecting close to around 70% capacity utilization. On that front we are expecting an EBITDA contribution of anywhere between 35%-40% per year not more. So basis that we feel the project should be viable on its own.

Sanjay Nandi: So sir, this 35% EBITDA is from that Jajpur thing?

Sreekanth Reddy: Yes, we are talking of Jajpur EBITDA.

Sanjay Nandi: For this?

Sreekanth Reddy: Yes.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Franklin Templeton. Please go ahead.

Swagato Ghosh: I wanted to understand in a scenario where AP, Telangana demand remains subdued which all states can be disrupted from AP, Telangana supplies?

Sreekanth Reddy: See I think the historical alignment in terms of what we call as the inter-regional movement is more or less fixed. So just because the prices in Andhra and Telangana are subdued I do not expect a major disruption to happen to the other states. If you have noticed the Hyderabad pricing slid more than Bangalore and Chennai. So that itself is a reflection that the impact would be there, but it may not be something which would be so impactful that will start impacting the other states.

But the usual connected states are Karnataka and Tamil Nadu and to certain extent South Orissa. I mean these are the more connected states with Andhra and Telangana. But for us for some of the clustered player like Nalgonda cluster player obviously would not move out in a significant volume just to service the other better markets because it is too far for them to move and start servicing far off markets. Yes, it could be a very opportunistic kind of a thing, but it may not be very, very impactful.

It could be very-very marginal impact could happen to those places where the prices are relatively better or there is a margin on a relative scale to Andhra and Telangana. That impact could be only marginal. I do not think it is something which the other regions. More or less that interregional movement is established over quite some time. We do not expect anything new to happen. I mean if we have seen the Q3 the December pricing is decadely the lowest that we have seen. So that still the other places there is not much of a change or they did not get as impacted as Andhra and Telangana prices have been.

Swagato Ghosh: But you are saying that the states like say Maharashtra or slightly on the northern side central market they have never been disrupted from AP Telangana supplies?

Sreekanth Reddy: See I think it is too far I mean see if you look from a Nalgonda cluster to move even to Maharashtra you have to cross one more cement cluster where the prices are already established for them. So if we have to really go and compete which is reasonably lower price now, if we have to go cross that and try to go and service them I think you would still lose more margin than what you are already losing in Andhra and Telangana.

So that is one of the reason why it may not be as impactful as what people generally think. See even in Andhra and Telangana prices most of the industry players during the Q3 probably would have lost EBITDA purely servicing the Andhra markets. If they further wants to lose money only then they will be crossing all these clusters. So in our experience that people usually would not be so adventurous. People do not try to in a margin they might want to lose some margin but in larger nobody wants to make a less loss. That has been the logic there.

Swagato Ghosh: And sir, on ground AP Telangana are there smaller players who are currently like not operational because of the cash losses they are making like I am talking about say in the third quarter?

Sreekanth Reddy: I think we have been as mad as we have been in the past. Nobody shuts down because see it is not a transactional kind of a market. It is more a relationship. See especially when non-trade is not doing well and you have to service the trade market and trade market you cannot switch off just because we are making losses because it is more to do with the relationship.

So you would not want to antagonize the dealer who have been dealing your products and you switching it off at this point of time would not make commercial sense or business sense. What we have seen is they probably would slowdown but I do not think they would completely switch off.

Swagato Ghosh: And sir, one last question is the petcoke price increases that you have spoke about so is it already factoring in the freight increase because of the low sulphur well usage by the shipping companies or do you think?

Sreekanth Reddy: So we are talking of the same we are again talking of the US petcoke on a landed basis. So I am assuming that they would have already factored most of these Baltic sea freights and the associated low sulfur fuel usage for the transportation and all. Yes, though in our case we do not really monitor so granularly to each of those cost elements but probably it should have impacted to that extent.

Moderator: Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.

Jigar Shah: My question pertains to the sustainability practices implementation in cement sector and for your company. So what are your thoughts on this because there are lot of discussion going around at least globally on the climate change and the carbon reduction and cement industry has an important job to do over there? So if you can give an idea into what you are doing about it and what are your thoughts in general?

Sreekanth Reddy: Yes I think it is a very ongoing kind of a topic though the marketplace people keep speaking to them on and off. Yes if you look at the Kyoto Protocol which the Government of India signed quite some time back yes part of that scheme there is something called PAT Scheme. It is called Perform, Achieve and Trade Scheme where each mid to large players have already gone through couple of cycles in that PAT cycle. Each PAT cycle is a three year cycle. For each of the cycle yes we have to demonstrate the efforts beyond doubt about cutting the overall energy metrics be it the transportation fuels, be it the thermal energy in the form of coal or petcock or in terms of electricity.

Yes, each of the industry has to demonstrate 5% reduction for each of the cycle end. Like from one cycle to the other cycle we should have put an effort and demonstrated beyond doubt the reduction in terms of 5%. And the energy is measured in terms of MTOE. Everything is converted into ton equivalent of oil. In this scheme if you are better than what you are supposed to be you have an option for a trade. If you are worse than what you are supposed to be you are supposed to buy the credit. So this platform is being monitored by BEE and part of the IEX trading platform you are supposed to trade I mean either positively or negatively.

Those are the guiding principles though the trading is not very, very active but in general cement industry in India has made a huge, huge progress on that particular account. But that is only a measure on the energy. Yes the CO2 the cement industry is one of the I would not call it largest but one of the large emitter of CO2. The technology to capture the CO2 and put it to use is still in its infancy but the Indian Cement Industry probably is making lot more strides than any of the major other cement industry in trying to offset the CO2 by aggressively adopting the alternate fuel usage.

Some of the companies have already signed up towards technologies which would help for a capture but the reuse of CO2 is still at work. I mean it is still at the lab face on a global front so not much of progress is being made. So some of these technologies were extremely expensive so over last couple of years we have seen the overall cost the CAPEX and the OPEX that are associated with CO2 have been coming down. Now this is in general. Coming back to Sagar very specifically yes we have been one of those very few companies in India which have adopted the technologies as they come.

Yes we have made significant progress in terms of the capture from identifying the technologies which are likely that we will start getting the things done. But internally there is a target by 2030 we are hoping to cut 20% CO2 per ton of cement we would want to cut by 20%. And I think over the next few months we should be ready to sign on and start probably 15 to 18 months from then on but we would have implemented a project to show a definitive 20% reduction in the CO2 over the next 18 months.

We are reasonably sure that we should have signed up and started implementing the project. What we are also doing internally is to get the company ratings done so we have done our product ratings on the GreenPro and at the same time yes we have also done the GreenCo Certification for our units. One of our unit we already received gold yes which is being done by CII.

Yes that itself reflects that the efforts that we have been putting are progressing very well and at the same time we are working towards disclosure on what we have done on this particular fund so for the 2020 year that is the current financial year yes we will be publishing the integrated report from our company which also has the sustainability piece in it.

Yes we have made tremendous progress from where we were to where we are going to be and at the same time there is an aggressive roadmap for us to be one of the strong green company where emissions and the energy management and everything is going to be on a world class kind of a level. We are partly European owned company so we are obligated not just for our society here but we are also clearly committed towards the investments which have come into Sagar so there is a clear cut roadmap.

Yes, we have been working on this over last 7 years. So it is not something which we started last year. Our assets at each of the location that we are they are world class not only from an efficiency perspective even from a green perspective. Yes we have become water positive two years ahead of schedule so we do not draw any water from the ground. In fact we actually have more water than what we consume. We have been extremely efficient in terms of the fuel usage we are slightly behind on alternate fuel usage but there is a roadmap that we should start reaching to the best of the number in India.

We are not far from being one of the greenest cement plant in the country. That is the roadmap we have and there is a large technological team which is working on the technical options that are available across the world. They have been evaluating and we are not far from firming up on one of them and probably we are only 18 months away from implementing such solution so that we could demonstrate the cut in the CO2 emissions. Probably we will be one among the first in India to reach to those numbers. That is what I would like to highlight at this point of time.

Jigar Shah: That was very useful. Thank you so much. I just want to understand one more thing on this. So whatever you mentioned in terms of the carbon capture and other activities what kind of additional cost you are incurring for that?

Sreekanth Reddy: At this point of time the idea is to be neutral on the cost. So that is where we are trying to evaluate various technologies. Yes some of the working technologies unfortunately they are adding quite substantial cost so it would be margin reduction. So we were not opting at this point of time. Some of those technologies were more suitable where there is a penalty for the CO2. It was helping them to offset that.

That was not financially feasible for us here. So we were not opting for them. If we were to opt for them probably by now we would have implemented such solutions but unfortunately as we speak we are trying to be neutral on the cost side. That is the reason why we are taking slightly longer to firm up on the technical solution side.

Jigar Shah: And do you think any acceleration on implementation of this in India any push from the government or states or anyone else?

Sreekanth Reddy: Yes, I think what we have to understand that the cement industry in India is fairly matured from a technological usage and the cost of the cement is very, very sensitive. In spite of being heavily taxed and duty yes this probably is the lowest cost commodity because this is the most viable building material. Historically any governments across the worlds have been very, very sensitive to this building material where they do not want to accelerate the cost increases which would impact the overall GDP itself.

So what our government has been doing in the past even now is that they are incubating these ideas in a very, very systematic way. Industry also in our opinion is progressing very well because some of these issues since they are very, very technical in nature the aggression may not be actually contributing to the saving. It may be counterproductive so some of these technologies are still in lab scale so adoption probably we need some breathing space which I am sure the regulatory people understand this more than us because they are also watching this very, very closely.

But I am sure that Indian Cement Industry like in the past like if you look at the energy efficiencies probably the Indian industry is above the curve on a global scale. The adoption was fairly thick. But that was more to do with the saving. In this case the saving is purely from an environment perspective but as and when the CO2 can be used efficiently and for a product I am sure the industry does not need a push. It is actually an income source also so they would be adopting even much faster I mean that is what we strongly believe.

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

Ritesh Shah: Sir, you did explained that there could be some cost curve support and it would help pricing in the Southern region. Sir, given we are expanding in Eastern India I think the cost curve also would not be very different and the pricing probably at par or worse than what you are seeing currently in South. So just I wanted to check do we have any color on the incentives for both the plants that we are setting up right now to make sense of the return ratios?

Sreekanth Reddy: See we are very sure of incentives that we are receiving in Madhya Pradesh which is close to 40% capital subsidiary subject to a maximum of Rs. 150 crore for us to be received over 7 years time from the implementation date. Yes, we are very clear in Madhya Pradesh. The Orissa project it is still in negotiation so we have not yet reached to a point where we are sure of what we would receive.

But our usual practice is to look at incentives as a separate, so we ensure that our investments are self-sustaining in terms of the viability. Incentives should add up to the return ratios but as such excluding them we were not expecting a huge, huge kind of a windfall kind of a return. But we were expecting close to around 15% to 18% kind of a return ratios basis which we took an investment call in both of those assets.

That was excluding the incentive. I think these incentives should add up to the margin that we were expecting. Probably Orissa might take another 6 months before which we would get to know the real incentives. Madhya Pradesh we already received the government order pertaining to the project. As indicated it is Rs. 150 crore on a Rs. 480 crore kind of a project.

Ritesh Shah: Rs. 150 crore and sir, this would be in the form of SGST setup or like 50%, 100%?

Sreekanth Reddy: It is a capital subsidy to be paid over 7 years. So roughly around Rs. 20 odd crore per year is what we would be receiving as an incentive form. It is not offset against the GST.

Ritesh Shah: Sir, secondly in the presentation slide I see that there has been moment of cement via rakes and it was not there last two years. I think from Q1 19 I have not checked your prior presentations. So sir, what happened in the market place like the demand was weak and you did indicate in the initial comments that competitive intensity was high. Sir, can you help with some color over here please?

Sreekanth Reddy: Yes, we just did one rake from our Vizag grinding station towards the Orissa market. So we had some special products that we had to supply to certain portion and we were also looking at at that point of time the availability of trucks towards the East from regions that we operate was becoming challenging so we sensed that and we moved the rake. Yes it was also testing the infrastructure at that particular circle. It is one off kind of an event. Probably we might continue but that was more on a trial basis that we have moved the rake from Vizag grinding station towards the Orissa market.

Ritesh Shah: Sir, so one should not correlate this with any industry trends like the rakes actually moving into AP, Telangana?

Sreekanth Reddy: As always I think inter regional movement trends are fixed. So there could be one off event but usually in the past at least over the last 1.5 decade I have not seen a major shift in the inter-regional movements so far. So this is one of kind of an event that we have done. But Vizag typically moves the material towards the Eastern market. So that cannot be assumed that it is something very unusual. We only switch the transportation mode, but the same material was moving earlier by truck, we moved it by rakes. That is the only difference.

Moderator: Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: I have a few questions. First on the sales mix. Would you share what will be our state wise sales mix even on a broad basis? That would be helpful.

Sreekanth Reddy: Yes, we will be happy to share that if you could email we would be happy.

Rajesh Ravi: And secondly, on the CPP which is just ramping up. So what sort of cost substitution it will be cost reduction it will be helping it with?

Sreekanth Reddy: I think on a gross sum there are two things. Right now we are running the it is an 18 megawatt CPP. We are running close to around 7.5 to 8 megawatt. It is mostly to do with the demand and the running of the units. If it is completely run, per month we are expecting Rs. 2 crore additional savings on account of CPP.

Rajesh Ravi: So would it be replacing grid power and that is why this Rs. 2 crore run rate saving you are looking at?

Sreekanth Reddy: We could cut the CMD charges from the grid and it will replacing the grid power.

Rajesh Ravi: And you are also factoring in the additional fly ash that you will be getting in from this CPP?

Sreekanth Reddy: That is very small quantity. Yes, it has come but in a very small quantity.

Rajesh Ravi: And sir, on the debt front you mentioned Rs. 800 crore net debt. So that also includes your working capital?

Sreekanth Reddy: Yes, it includes the working capital, it includes all the term and the working capital across all the subsidiaries also.

Rajesh Ravi: And sir, then CAPEX outflow for between FY2021-22 how would that be structured because first half we have not done much total CAPEX on console basis if we look at?

Sreekanth Reddy: I think the bulk of the cash flow should start starting from April onwards. So bulk of the CAPEX you will start seeing in the coming two years. Out of Rs. 800 crore so far we have spent around Rs. 150 odd crore. So close to around Rs. 650 crore would be equally spread between next two years. It could probably slightly skewed more towards next year that is when the civil construction should have completed in the coming financial year. So we expect close to around Rs. 350 crore to be spent next year and the rest will be spent in the subsequent year.

Rajesh Ravi: And sir, in addition this Rs. 800 crore what other CAPEXs would be pending?

Sreekanth Reddy: Yes we usually do a Rs. 30 crore kind of operational CAPEX. The maintenance CAPEX what we call. Yes that is assumed for the other operating asset. That is a usual number that we factor in.

Rajesh Ravi: And lastly, in terms of working capital, do we see by March end we will see some reduction in our working capital number which has gone up versus March level in September?

Sreekanth Reddy: Wait till middle of February before taking a call on that because that is subject to government putting their money into the long over dues so that help us cut the number of credit days. Till that happens we do not expect a major change to happen in terms of our working capital cycle.

Rajesh Ravi: And lastly, on the warrants conversion. We have done half of the warrants I believe is already converted?

Sreekanth Reddy: By Q1 we should have converted the residual.

Rajesh Ravi: Okay so even FY21 the residual 1.5 Million shares will get converted. So that would be a good sign for the investors further.

Sreekanth Reddy: Yes.

Moderator: Thank you. The next question is from the line of Kunal Shah from Yes Securities. Please go ahead.

Kunal Shah: Sir, just one question from my side. Talking to dealers in AP Telangana what they indicate is there is a categorical change in stands where few players with clear priority being volume dispatches over pricing. Now can you share your view on the same and if that is the case what can be a sustainable price because it has been quite volatile lately. So are the Q2 level sustainable?

Sreekanth Reddy: See I think we believe that the Q3 pricing was one of the worst that we have seen over a decade. The exit prices of Q3 at Rs. 200 in Hyderabad though it looks slightly better compared to Rs. 190 but from a margin perspective yes Rs. 200 price in Hyderabad probably is the worst that we have seen in a decade. If some of the players which we have our assessment was not as depressive as probably your conversation with dealers was. Yes, at these prices we do not expect a major push for volumes from any players because I am sure it is totally a washout kind of a pricing.

From December end where we have seen Rs. 200 kind of a price in Hyderabad middle to end of January right now we are looking at Rs. 220 kind of a price reading in Hyderabad. Here if somebody is trying to push for volume, (a) I think the demand naturally should absorb some amount of volumes, incremental volumes from Q3 to Q4. That may not to a great extent impact the pricing. If somebody is trying to push far more than what the market is accepting yes then the price impact could be felt.

But I have to keep my fingers crossed on that particular thing. I do not know at least we are very, very clear that we would not want to transact unless we get the viable price. And so far our movement did not get impacted. So our assumption is that there is an acceptance for slight price increase than what we have seen. We would have got resistance for our volume if it was contrary to what we think. So there is some gap but ideally we would want like last year from January to February there was an Rs. 80 price increase.

If we were targeting that kind of a number probably the resistance could be even higher. In our belief reaching Rs. 250 we do not see it as a challenge at all. I think that is the minimum viable kind of a price. The pricing scenario is I think in our interactions with most of the dealer network and the consumers and retail networks is that somewhere around Rs. 280 to Rs. 300 there is not much of a resistance. I think it is a more kind of market outlook and the liquidity flow should push us towards that price. It could take some time, but we are hopeful that it should be reached there.

But we are cement guys so there is always this urge to do more during the end of the quarter yes that is the only risk that we would like to slightly mitigate in due course of time. But that is the risk that it is sitting on top of us at this point of time.

Kunal Shah: Yes because you know even in December the prices were subdued but what we hear is few of the companies have done the higher sales in Hyderabad. So what the sense that we were getting is that there were attempts to hike the prices but then it eventually get sold by. So just wanted to?

Sreekanth Reddy: See as I told you yes, December was a milestone for some of the years in terms of the year end, the financial year end. Same could be the case in March but we are good 1 to 1.5 month away from people getting excited about the yearend milestone. So there is hope so I am only taking the leaf out of what has happened in the last year. So my belief is there is likely that we could do what we have done in the last year.

Kunal Shah: So basically the sustainable levels would be somewhere between Rs. 240 to Rs. 250 where we can sort of….

Sreekanth Reddy: I think between Rs. 250 to Rs. 280 should be sustainable. Beyond that it always is a challenge. The sustainable band again it depends from company to company. I think that is more a sustainable band. It probably would start getting pressurized probably end of March. From our side we started putting efforts to solely take the price up in our own case because we have to similarly work towards it. From December to January we have seen Rs. 10 effective hike for ourselves. At the retail we have seen close to Rs. 20 increase.

That went reasonably okay. So another effort of trying to increase by at least we want to reach up to Rs. 250 on our own reasoning. If there is any resistance we would be more than happy to come back to you in due course of time. But we would need time middle to end of this month before we would end of February before we want to know how successful we were trying to take the price up the way we want to take it up.

Moderator: Thank you. The next question is from the line of Subrata Sarkar from Dalmia Securities. Please go ahead.

Subrata Sarkar: My question has been answered. Thanks for that.

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

Pratik Kumar: Sir, my first question is regarding our BMM pricing. So when we just do like the mathematical thing of consolidated minus standalone operation yet the BMM pricing is like higher by 4% Quarter-on-Quarter versus like standalone pricing looks like 12% declined Quarter-on-Quarter. So is there some change in market mix?

Sreekanth Reddy: No, see the whole challenge is from Mattampally we would be servicing Orissa and Maharashtra markets. Whereas from BMM we are servicing Karnataka, Tamil Nadu and Rayalaseema markets. On the realization front, yes there is some realignment because there is some product mix that there has been a change. I am sure we disclosed this close to two quarters back about PSC also doing manufactured from BMM and the blending ratio has gone up at BMM also.

And at the same time the Rayalaseema market there is some realignment in terms of the market reach even in Andhra. Yes Chittoor and Nellore markets have been more serviced from BMM compared to Mattampally so that probably realign and made the realization look up and we have also increased our presence in Tamil Nadu to the far off markets than the Northern markets of Tamil Nadu.

That probably would have shown up in the realization at a positive kind of a contribution. But in general the overall market trend was negative. But for small realignment in terms of the product as well as some of the markets it is reflecting but that is more an internal realignment rather than market realignment.

Pratik Kumar: And sir, any specific reason for Kerala market in disarray versus like AP Telangana is understandable why is this Kerala market is on a turmoil in terms of demand?

Sreekanth Reddy: We are not even a marginal player there so I cannot comment much on those market. Our know of market is very, very limited because we do not service Kerala market from any of our assets at this point of time. So our know on the ground is very, very limited. So I cannot really add any value so I would like to pass the question that you have for me on that.

Pratik Kumar: And you said WHR has been ramped up completely but in current quarter we had only 50% utilization so?

Sreekanth Reddy: Utilization is low because Mattampally operated less than 44.

Pratik Kumar: Yes right so why should we say that which ramped up full so saving should be more if we have high utilization from that plant?

Sreekanth Reddy: Capacity went up, but the utilization came down, so it is a very simple math Pratik so. We are producing more whenever it is running but we ran it for less number of time because kiln was down for most of the time.

Pratik Kumar: But some of the efficiencies during the quarter would have got impacted because of pure utilization in general in terms of power plants?

Sreekanth Reddy: I think the real saving potential you would see in Q4. We hope to run it for more so the savings number would start magnifying because all the things would have run at a reasonably optimal level. That includes CPP, that includes basic recovery and that includes the kiln itself.

Pratik Kumar: So my question was more on kiln that kiln efficiency would have got impacted because of lower utilization?

Sreekanth Reddy: That should get factored even more in because Q3 we did not run enough. I mean as disclosed we were close to 40% odd so from there if we start going up things should start getting reflected more. The whole of October it is literally we were not operating. So there was no contribution during October.

Pratik Kumar: And just last question on the regional capacities which generally talk about. How they have they hit the market already the new capacities which were expected in FY20?

Sreekanth Reddy: Not yet fully except for Penna I think Chettinad though their grinding station is operational but their clinker line is not yet operational. I think it should be Q1 of next year. But at the real market position I think market was down so we do not track each of the individual companies so soon. So we do not know how each of them have behaved. So market was down so we have not seen any new volumes coming into the market during the Q3 hitting the markets.

Pratik Kumar: Even Penna is delayed to FY21?

Sreekanth Reddy: No, I think Penna is operational but Penna it was more meant for servicing the eastern and the other markets than the southern market so if you look at their clinker line probably got commissioned and their grinding station in Krishnapatnam and their ships are supposed to service the other non-sourced markets. So I think they became operational. I do not think there is a there has been a delay but I think they became operational now.

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

Pritesh Sheth: Just firstly on the demand. So you have given how was the trend year-to-date state wise. Can you break it out for this quarter?

Sreekanth Reddy: I think quarter will be a challenge. I can comment the last month. Quarter we will be happy to share that numbers but yes the December month AP was minus 15%. Couple of months back it was minus 30% so it has come down to minus 15%. And mind you the previous year was the best year ever. So we breach this we were close to around 31 odd Million. So comparing with that last year would always be slower because preceding immediately the following year of the election it always has been that.

But if I have to compare with the same month the earlier year it was only 20.5 Million. During the December FY18 if I have to compare with FY19 it was 29 Million. If you compare with FY20, it is 25 Million. Now if I have to compare with last year it is minus 15%. If I have to compare with a year before that, we are plus by almost 20%.

Pritesh Sheth: And so now with the policy being laid out of three capitals for Andhra Pradesh, so do you think the awarding will be more now from the government side and would that push demand?

Sreekanth Reddy: I think you have to bear with us. We have not factored even in the past anything associated with capital so in our assumption we are reasonably ignorant about what is likely to happen on the capital issue. So we have not factored anything out of that. So our outlook is minus the capital. So capital could always be surprise. Since we have not factored it cannot be negative. If it is anything positive it will only add up to our outlook it will not be negating our outlook.

Pritesh Sheth: And so how much does the Polavaram project used to contribute in terms of demand monthly?

Sreekanth Reddy: It is a very small number. It adds up but it is a relatively small number.

Pritesh Sheth: But the industry is very positive about that project being re-awarded so just wanted to check?

Sreekanth Reddy: Given context we are happy about every bag that gets added up. So we are not ignoring that but yes it is not something which is very, very sizeable as we speak. Probably when it peak probably it should start contributing close to around 100,000 tons per month. Right now it is getting restarted so as we speak probably for coming month and probably before this year end we are not factoring too much out of Polavaram. Probably next year onwards for each of the month from the next year onwards it should probably make 100,000 per month kind of a contribution.

Pritesh Sheth: And so right now the only issue is with the contractor payments so if that restarts all the projects would start kicking in?

Sreekanth Reddy: Yes, I am sorry I just want to clarify that is not the only issue but that is an important issue.

Moderator: Thank you. The next question is from the line of Jignesh Shah, as an individual investor. Please go ahead. Sorry it seems the line is on hold. We will move to the next question that is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: One last question. Sir, which are the incremental capacity additions that we are expecting in Eastern and Southern India over the next 6 to 12 months?

Sreekanth Reddy: Yes, East is a big number. We will be happy to share that. South we are only expecting in Q1 the Chettinad Clinker line in Dachepalli to come up. And probably by Q2 we are expecting Ramco Kolimigundla in Rayalaseema, Yerraguntla cluster I will put it.

Moderator: Thank you. Ladies and gentlemen, that will be the last question for today. I now hand the conference over to the management for their closing comments. Thank you and over to you.

Sreekanth Reddy: We would again like to thank you again for joining on the call. I hope you had all the answers you were looking for. Feel free to contact our team at Sagar or Citigate 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.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Sagar Cements Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.