SAGAR CEMENTS LIMITED

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Symbol: SAGCEM
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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

We are forwarding herewith the transcription of the Conference Call held by us on 31st January, 2019 in connection with the recently announced un-audited financial results for the third quarter and nine months ended 31st December 2018.

Thanking you

Yours faithfully
For Sagar Cements Limited

R Soundararajan
Company Secretary

Encl: a.a.

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Sagar Cements

Q3 & 9M FY19 Earning Conference Call
January 31, 2019

Moderator Ladies and gentlemen, good day and welcome to the Sagar Cements Q3 and 9 months FY19 Earning Conference Call. . Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

Gavin Desa Thank you. Good day everyone and welcome to Sagar Cements Q3 & 9M FY19 analyst & investor conference call. We have with us today Mr. S. Sreekanth Reddy – the Joint Managing Director, Mr. K. Prasad - Chief Financial Officer and Mr. R. Soundararajan - Company Secretary. We will begin this 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 certain statements made in today's discussion maybe forward looking in nature and note to this effect was stated in the concall invite sent to you earlier. We trust you have had a chance to go through the results communications. I would now like to hand over to Mr. Reddy to make his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy Thank you. Good morning and welcome to Sagar Cements earnings conference call for the quarter and nine months ended December 31, 2018. Let me start the discussion with a quick word on the demand and pricing trends across our key markets post which I will move on to Sagar specific developments. Beginning with South, demand continues to remain strong especially in Andhra Pradesh and Telangana. Kerala as well has started showing signs of gradual pick-up in demand post the floods in the previous quarter. Despite, healthy volume growth though, the realizations remains somewhat soft. Moving on to West, while sluggish housing demand in Maharashtra impacted overall demand in the region prices though improved on a sequential basis. Going ahead, we expect the demand and pricing environment to improve on the back of pick-up in private and public CAPEX activity.

Moving on to Sagar specific developments as most of you are aware we announced the Companies' Boards approval for the proposal to invest a sum of Rs. 150 crore in Satguru Cement Private Limited for setting up a Greenfield cement plant of a million tonne capacity along with waste heat recovery in Madhya Pradesh at a total cost of Rs. 426 crore and an investment of Rs. 108 crore in Jajpur Cement Private Limited. Jajpur Odisha to acquire and also to set up a Greenfield 1.5 million tonne grinding capacity at a total cost of Rs. 308 crore. The incremental debt for both the activities will be amounting to Rs. 475 crore, funding for which has been secured at a cost of around 10.25% to be repaid over 12-year time frame. These acquisitions will not only help us strengthen our capacities and product mix but will also help us widen our reach and meet this demand of the faster growing markets. In addition to the above of our recent strategic initiative, enhancement of waste heat recovery plant, setting up of captive power plant and acquisition of 8.3 megawatt of hydro power plants will further help us lower our cost and improve the overall profitability of the business. Also the excess power from SCRLs captive power plant which is now getting directed towards Sagar Cements, mother plant at Mattampally is also helping us lower our operating expenses.

Let me now move on to our financial performance for the quarter on a consolidated basis. The net sales for the quarter stood at Rs. 319 crore as against Rs. 250 crore generated during the corresponding quarter last year. The revenue growth of almost 28% for the quarter was largely volume driven. EBITDA for the quarter stood at Rs. 31 crore as against Rs. 33 crore reported during Q3 FY18 - higher input cost and benign realizations resulted in lower profitability and margin compression during the quarter. Average fuel cost stood at Rs. 920 per tonne as against Rs. 917 per tonne reported during Q3 FY18. Higher price of imported pet coke and coal resulted in higher average fuel cost per tonne for the quarter. The average freight cost for the quarter on a consolidated basis moderated to Rs. 733 per tonne as against Rs. 778 per tonne during Q3 FY18 owing to better rationalization of lead distance. Loss for the quarter stood at Rs. 3 crore as against the profit of 3 crore reported during Q3 FY18.

From an operational point of view, Mattampally plant operated at 59% utilization level while Gudipadu and Bayyavaram plants operated at 81% and 54% respectively during the quarter. As far as the key balance sheet items are concerned, the gross debt as on 31st December, 2018 on a standalone basis stood at Rs. 319 crore out of which Rs. 178 crore is a long term debt and the remaining constitute the working capital. While on a consolidated basis gross debt stood at Rs. 556 crore out of which Rs. 373 crore is the long term debt. The net worth of the company on a consolidated basis as on 31st December, 2018 stood at Rs. 770 crore. Debt equity ratio stands at 0.48:1. Cash and bank a balance is were at Rs. 19 crore as on 31st December.

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

Moderator Thank you very much, sir. First question is from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani I have couple of questions sir, firstly, I would like to hear your thoughts on how should we think about really pricing for the industry because I think what we have seen is the best in terms of volume growth. I do not think it gets better than this. We have seen very high cost inflation but none of this really is giving us any pricing power. So, any thoughts on this how should we approach it? Is it just the demand structure is changed a lot, is this the expectations in terms of EBITDA per tonne that has seen a meaningful reset from the industry? How the next 12 to 18 months should pan out?

Sreekanth Reddy Now coming to the pricing in terms of our last, at least 3 years the demand especially in AP and Telangana has seen a significant kind of a jump. But if you look from a reality perspective, we actually reach back to what we were a decade back. I mean, that is the reality but if you actually look at what we are seeing on year-on-year, month-on-month or a quarter-on-quarter kind of a number, yes it has significantly growing. Ideally or rationally they should have been a correlation between demand and pricing. Even in the past there was absolutely no correlation. So going forward, expecting to have some correlation with that would be again irrational. Having said that I think the current pricing environments in the markets that we operate are sub-par. I do not think, it would be feasible for any of the industry player. Keeping that in mind, barring some few months were because of the election year there could be some pressure at the market place. Yes, we expect the prices to slowly inch up and go to a reasonable level where we could get some margin, that is what is our internal view and we believe that the prices at the current level are not sustainable any longer. Prices are expected to go up when and how is a matter of time and especially we are just about, due for the elections in all the major states and especially at the national level. After which we expect a huge sustenance to happen in the pricing though there are, at every possible opportunity we are trying to increase the price. But because of the competitive intensity at the market, none of them have sustained. As far as we are concerned, we have started increasing our prices because as mentioned earlier the prices are not sustainable at the current level for us, so we started increasing. We hope it to sustain and at this time what we are trying to do is we are not trying to splash our product into the market. We are trying to ensure that we would only sell at places wherever we would get the reasonable pricing. That is the stands that we have internally taken. With this we hope pricing to come back sooner than later.

Gunjan Prithyani Sir, what kind of price increases you or industry have taken if at all in the month of Jan and also on demand do you think the kind of growth trends that South has seen in last 2 years is that going to sustain in F20? Anything you would want to share on the projections for F20 on the growth outlook across …

Sreekanth Reddy Yes, I think we stated even in our previous call. Our view is that this year has been exceptionally good. If you look at AP and Telangana has been growing almost close to 40% year-on-year. In fact, we did the last year complete volume in the first 9 months itself. So, that itself looks like the kind of growth that AP and Telangana had. Now would it be sustain, I think we are getting into the election and for most part of the coming year, I think we would be in the election year period. That is one. Before the election and usually one or 2 quarters after election we usually seen a slowdown. That is what we are also seeing in Telangana, right now. If that, the similar kind of a, year-on-year kind of a growth number may not be sustainable but we are sure that AP and Telangana will continue to be on a growth part may not be at the same growth percentage but slightly lower it should grow. Now, going to the other states Karnataka is always has consistently grown year-on-year. So, I think even this time around it may not be an exception. That is one state in South which continuously if you look at more than a decade also it has grown minimum 5% year-on-year. So, we do expect even going forward Karnataka to have a minimum 5% to 6% kind of a growth year-on-year. Tamil Nadu except for the national elections it is not due for any local elections. Same is case with Kerala and the events that have happened in Kerala should push volumes though it is not happening at a pace which most of us expected but the trends have changed. So, we do believe that Tamil Nadu and Kerala should grow may not be at the same huge percentages but with similar kind of a number. We expect Tamil Nadu and Kerala to grow in a meaningful single digit kind of a number for sure going forward.

Gunjan Prithyani And on prices if you could just tell me what was the action taken in Jan?

Sreekanth Reddy See, I think Jan is too late. There was, literally no price increases that are going to happen in Jan because we have seen a huge surge in the volume and we expect volumes to slowly dwindle down with the possibility of giving the notification for the election. In anticipation of that as a company we have taken a policy to start increasing the prices from February. Our view was that we would go back to best of the pricing what we have seen last year. So, we are actually going back to the best price that we have seen last year is what is the call that we have taken.

Gunjan Prithyani How much hikes have been taken?

Sreekanth Reddy Yes, Hyderabad right now the prices are hovering anywhere between Rs.230 to Rs.240. So, we have taken a call that we should take a minimum to around Rs.285 to Rs.290 as far as we are concerned.

Moderator Thank you. Next question is from the line of Jaspreet Singh Arora from Systematix Shares. Please go ahead.

Jaspreet Singh Arora Just taken that question forward, sir, besides Hyderabad the other markets what is the expectation from 1st Feb onwards or some?

Sreekanth Reddy As I stated, we as a company what we have taken is that we would go back to the best of the pricing what we have seen last year. The last year was fairly better pricing compared to what we have seen so far in the current financial year. So, it on an average amounts to around anywhere between Rs. 45 to Rs. 50 is what we have to take across the market that we service.

Jaspreet Singh Arora And would this be, I mean we do not cater entire South but based on your interactions would this be true for most other place in operating most parts of South?

Sreekanth Reddy I can't comment on behalf of other players. We are trying to take very independent view. But we have taken this price across and my belief is that all of us are very similar. So, each of us might have taken a very similar kind of a stands of taking the incremental price to whatever they were good. Yes, this is a call that we have taken at our levels. So, I cannot comment about everybody how they are going to react but my belief is that everybody is similar, so they might have taken similar kind of a stand.

Jaspreet Singh Arora And just secondly on the fuel mix, I noticed we have moved a bit and obviously because your Gudipadu plant is now 100% pet coke. So, the pet coke prices are there, so if you could just give the broad fuel mix between indigenous imported and pet coke at the company level?

Sreekanth Reddy See, we are 100% pet coke at both the plants as far as cement plant is concerned. We are only using imported coal for our power plant. Gudipadu most of the pet coke is domestic pet coke that we are sourcing from CPCL. And bulk of the pet coke at Mattampally is imported and we have indicated the price hovering on a landed basis.

Jaspreet Singh Arora There is 9,840 for Q3 average?

Sreekanth Reddy Yes, sir.

Jaspreet Singh Arora That is a mix between the Company level between imported and indigenous domestic source?

Sreekanth Reddy Yes sir. It is a mix between both indigenous and domestic and there is marginal gap. But what if you would understand is the freight cost between for Mattampally and Gudipadu from a fuel perspective is very different, sir. Gudipadu is closer to the port compared to Mattampally and it is closer to CPCL, so naturally the landed cost at Gudipadu is going to be relatively slightly lower on a landed basis, sir.

Jaspreet Singh Arora What would be the current pet coke average prices as of now in the month of let us say till yesterday if clarify.

Sreekanth Reddy If you look at the average last quarter cost sir, it is Rs.8,742, for Gudipadu. Rs.9,800 for Mattampally, but Mattampally the price is going to come down because this is with the old, yes since we have forward. So, prices are expected to come down for Q4 compared to what it is in Q3 for Mattampally.

Jaspreet Singh Arora So, has it corrected somewhat in the month of January is what I am trying to understand given …

Sreekanth Reddy Yes, sir. It has corrected quite a bit because most of the pet coke prices have come off only during the last week of December. If we have to compare with the December to January, yes they have come down by almost 5% to 6% it has come down.

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

Indrajit Agarwal **Sir,** I have two questions. One on pricing again, so the kind of quantum of price increases that you have mentioned, do you think that at the current utilization the market has the ability to absorb this price increases, because in the past we have seen price increases being rolled back quite quickly after the increases.

Sreekanth Reddy See, what you have to remember is what you are talking is what is happened over the last few months, sir. But if you see over a longer horizon we would want to sell only if there is a price. So, that it the stand that we have taken and we would want to wait before any changes to happen. So, keeping that in our mind we are hoping that whatever is the incremental prices that we are intending to take should sustain and we are hopeful for this time to come around because we are also trying to take a call that unless I get the price I do not want to supply. That is the stand that we have taken, so we want to try this time around. Yes, this is what we have done even in the past where I would not say every time we were successful for most of the time we were successful getting that but for the last year. But for the last year if you look at our decades time, yes whenever we put an effort where we try to take we have decided to supply only if the price comes with that stance most of the times we could get the incremental prices. So, even this time though in the last few months what we tried is trying to take the price increase but we were supplying whatever market was asking. So, this time we believe that strategy of ours did not work out. So, this time we wanted to calibrate our supply. Our supply only if whatever intended price is expected to come, only then we wanted to supply. This is the strategy change that we have done. Yes, we hope to get the price increase this time. Are we going to be successful? Only time will tell but if you look for a last 8 year or a 9-year horizon for most part of the time, whenever we have applied the strategy it worked out. Yes, we could have done similar kind of a thing over last few months. But unfortunately, our reading of the demand was not correct. So, probably we read the demand lot higher than what it is on the ground. We ended up supplying much more, so that is one of the reasons why we could not get the prices. And secondly the exposure to the Government which is at the fixed price was also high. Now, going forward we believe that the exposure to the Government orders from our side could dwindle because the governments are getting up for the election. Usually during the election time, the off take for the government related projects usually comes down. So, that should also help us take price slightly higher than few months or few quarters that we could not achieve. We hope to achieve this time around.

Indrajit Agarwal Second sir, how much inventory do you maintain for fuel may be pet coke and coal? What I am trying to understand is the current lower price of pet coke, when does it kick in?

Sreekanth Reddy Usually we are one quarter ahead, sir. so that is the hedge because we are getting one ship load. One ship load for us typically last for 2.5 to 3 months. So, that is the coverage that we have.

Moderator: Thank you. Next question is from the line of Nikunj Mehra from ASK Investments. Please go ahead.

Nikunj Mehra Sir, firstly I would like to understand more on a demand perspective from the recent acquisition which we have announced more of from the Central and the East. What is your sense in terms of demand outlook in that region?

Sreekanth Reddy See, East has been growing 10% year-on-year for over a longish period kind of a time, sir. We believe the demand in East should be around that number, there may not be a significant change. Though our worry in East is more a supply issue rather than a demand issue. We are going back to Central, we are in MP, sir but it would not be correct if I have to say that you would be catering to the Central market because our asset is primarily South of Indore. We are not part of the Satna cluster. When we are South of Indore, yes though we would be catering to MP which is part of the central, bulk 80% of our intended volumes are expected to be in MP alone. MP primarily Indore, probably Bhopal also would be a far stretch for us because it is too far. Yes, the market that we service we expect those places to grow anywhere between 7.5% to 10%.

Nikunj Mehra And secondly sir, how to see the demand ex-infra or ex-government spending the other part of a demand in the near term. We understand because of election this demand can be volatile but other part of demand how to look at in the near term?

Sreekanth Reddy See, usually pre-election surge would push the infrastructure spend and Government spends slightly higher. But that higher does not displace the one of the single largest demand drivers which is housing. It fluctuates anywhere between 60% it comes down to 55% and then usually when the infra and the government spend narrows down, the housing occupies 60% of our demand kind of a pie-chart. Now housing when people look at housing its rural housing which is a significant portion of the housing components, sir. Urban housing is a smaller percentage. Now our short term-view, mind you our short term is 3 years, sir. We believe housing usually has been strong. We believe it is expected to remain very strong. Though if you look at last 2 years Government spend especially in our region I am not talking of all India, sir especially in our region the Infra and the Government component was significantly driving the demand. So, housing actually has come down from 60 it has actually come down to close to 50% to 55%. Yes, once the Government related spends slows down which was the case even before, the housing actually comes back to 60%. Now this is the percentage but in terms of the growth on an average in the regions that we operate, sir it was going at a good pace of anywhere between 7.5% to 9% kind of a number. We hope same trend to continue going forward.

Nikunj Mehra And just lastly, on your proposed acquisition in Satguru cement, can you just help us with your rational of promoter putting in 35% and Sagar Cements 65% contribution?

Sreekanth Reddy Sir, promoter is not putting 35. What we are trying to do there is we are not buying out the promoter's stake. We are infusing the additional equity. Our additional equity along with the borrowing should help the plant reach a million tonne capacity along with the waste heat recovery. Yes, the promoter's contribution is contribution to the resources it has in the neighborhood. That is inclusive of the mining leases and all. And also, the plant land along with the colony and the associated assets that it given, sir.

Nikunj Mehra And this is lastly sir, can you just help us with your after post this acquisition or in the near term say 3 years post what about your peak debt can, we can build in terms of Saga Cements?

Sreekanth Reddy I think the peak debt in our view what we have assumed in terms of the demand supply kind of an equation. Yes, we believe that our peak debt would not exit more than Rs.800 crore, sir.

Nikunj Mehra Consolidated, right?

Sreekanth Reddy Yes, sir consolidated with all the assets inclusive. This includes working capital also. This includes working capital and the long-term debt put together.

Moderator Thank you. Next question is from the line of Navin Sahadeo from Edelweiss. Please go ahead.

Navin Sahadeo Sir, I just had a question on the utilizations of clinker for you as well as for the region, since the demand as you said is going at over 40 odd percent year to date. So, if you can just throw some light as what are these utilizations for you as well as for the industry, sir?

Sreekanth Reddy Yes, for us specially at clinker BMM as stated we are running at, clinker level we are running at 75% at BMM. And, at Mattampally, yes we are running almost close to around 65%, sir.

Navin Sahadeo And should that then be similar like since yours is 65%, is the industry also operating at a similar rate for utilizations of clinker? Should …

Sreekanth Reddy I cannot comment about the general industry, sir. I mean, some of the assets actually also have the clinker supply to their grinding stations which are outside the Southern region. So, they might be operating at a much higher capacity utilization. There are some players who are primary focused at South, yes their capacity utilization could be lower. So, the canvass is very wide and have lot of divergence in terms of how they operate. This is what where we are operating for the current quarter.

Navin Sahadeo And since quarter was 65% and January usually sees a pick up, so what sort of …

Sreekanth Reddy Usually Q4 is one of the largest volume kind of a thing. I have to keep my fingers cross this time because if the election notification comes March may not be as strong as it has been in the past. But I have to keep my fingers crossed. Utilization levels at the clinker level should increase for the current quarter, sir.

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

Rajesh Ravi Sir, I have few questions. Firstly, on the structure of demand that you discussed upon like trade versus non-trade when we are talking that the industry or rather we may talk about you that we may look to increase prices because obviously we are at very fragile profit levels. So, how do you see that in the non-trade section, can they also observe the price increases even in partial or and if at all or it will only be in trade there you see the price growth opportunities better.

Sreekanth Reddy Yes there is a committed price for us for Government supply, sir. So, there the expectation is not very high because we ourselves have committed that we would be supplying till end of March. So, there may not be a significant change as far as that component is, the rest non-trade, yes we are hopeful. Yes, it may not be at the same pace as the rate but it should follow.

Rajesh Ravi And what would be the composition sir, in terms of the total demand in AP, Telangana per say or to be which would be the committed government demand which …

Sreekanth Reddy I think committed demand would be close to around 20%. The rest has to be at trade and non-trade combination, yes what is committed could be 20% as we speak but there is a possibility that it might slow down in the anticipation for the notification for the election. But as we speak it is close to 20%, sir. That is the committed kind of Government supply at a differential pricing.

Rajesh Ravi And sir, trade share would be how much broad understanding, sir?

Sreekanth Reddy Rest everything you could constitute as trade for some. For others it is a mix and match. But if you ask us, yes we are at almost 65% trade for us and 35% non-trade but 35% also constitutes are government supply.

Rajesh Ravi So, broadly we can say that 70% of the sales volume could see a price improvement, whereas the 20% to 25% with the Government …

Sreekanth Reddy That will not be wrong, sir. We would not be wrong if we have to go with that assumption.

Rajesh Ravi And sir, you were also discussing on the production utilization. So, like in terms of clinker I just missed the discussion where what sort of clinker utilization various south markets would be operating at from 9 months perspective this …

Sreekanth Reddy Sir, across south it is very difficult for me to address, sir. As far as we are concerned our clinker utilization levels at a group level is close to around 65% year to date.

Rajesh Ravi But for like AP, Telangana, I understand you may have some broad understanding at where the market would be operating at, could it be around 70% or because cement utilization what we understand would not be more than 60%.

Sreekanth Reddy Sir, if you have to arithmetically put AP, Telangana supply put together is close to around 87 million, sir. Demand is close to around, yes we might touch current year at 30 million. Now, that equation does not work in that way because there are lot of supply from Andhra and Telangana also services the neighbouring states.

Rajesh Ravi Yes, production would be more than what is being consumed in Chennai.

Sreekanth Reddy So, now having said that it would be a challenge if you have to factor AP alone does not work but at a broader level, AP and Telangana average capacity utilization should be hovering close to around 65% to 70%, sir.

Rajesh Ravi On clinker basis or grinding you are saying?

Sreekanth Reddy No, clinker basis is always a challenge because there are some large players whose clinker actually, they produce clinker in AP and Telangana for servicing the grinding station which in turn would be servicing the other markets of either south or eastern market, sir. So, that would be a challenge, I am specifically speaking about Sagar's kind of a thing only …

Rajesh Ravi And I have few questions related to Sagar performance. Sir, would you quantify the WHRS benefits, how they are helping you in terms of fuel cost and also this quarter was there any cost inflation in the raw material side and if so what lead to that?

Sreekanth Reddy Yes, see if you specifically look at wastage recovery sir, on an average we are operating at a PLF we have generated, if I have to quantify in terms of financials we are getting a Rs. 5 crore benefit per quarter, sir with waste heat recovery. And from an inflation perspective sir, I would count on 2 different ways because our product mix has change if I have to compare with the previous year to now. Our blended cement has significantly increased not its percentage but in terms of volume. So, the matching raw material cost would have gone up because our purchase of slag and our purchase of fly ash is higher and at the same time with grinding unit becoming operational our clinker cost to reach that market also gets tied up to the raw material cost because it is the landed cost that I have to factor. So, these 2 issues would have led to our raw material cost going up but in reality the cost of each of the material has not significantly altered for us.

Rajesh Ravi So, blend would be how much sir? OPC, PPC, slag …

Sreekanth Reddy See I think the OPC we are close to around 64%-65%, the rest is the blending sir.

Rajesh Ravi Mostly PPC currently?

Sreekanth Reddy No sir, it is half PPC and half PSC, sir.

Rajesh Ravi And this maybe for 9 months basis, not on quarterly basis?

Sreekanth Reddy Yes, this is for quarterly basis, I would put it because most of our operational asset that is the grinding section has come into action only during the middle of Q2 or end of Q2, sir. So, I would limit myself because Q3 was a significant terms of the volumes coming out of grinding station. So, going forward this number would alter quite significantly because as and when the volume flow from Bayyavaram significantly go higher, yes the blending percentage also would move up quite sharply for us.

Rajesh Ravi And sir one last question, when you mention there is a peak debt to be hover around Rs.800 crore. So, like these 2 announce CAPEX Jajpur and Satguru additions, how would like what are the timeline that you are expecting on those?

Sreekanth Reddy Yes, we are expected to commission by March 20-21.

Rajesh Ravi No because total of around Rs.700-800 crore of debt plus equity …

Sreekanth Reddy No sir, the current debt for us is hovering around Rs.500 crore at a console level as we speak. Additional Rs.450 crore would get added up. So, out of Rs.950 over next 3 years the payout on an average per year would be around Rs.70-Rs.75 crore would be payout per year, sir for the existing debts. Out of Rs.800 odd crore, sir I think working capital would remain, so the term debt would significantly come down for the existing kind of term loans but the working capital at both the places would be remain sir. The base is that we should be around Rs.800 crore would be our peak debt at a console level.

Rajesh Ravi So, this Satguru work when would that start, sir? Or like what progress level we are in at current year?

Sreekanth Reddy Yes, we just initiated, sir. We are hoping to start the ground works from Q1 of next year both Jajpur and Satguru would be starting in Q1 of coming financial year, sir.

Rajesh Ravi And if I may take one last question, this Satguru if you could explain, see the incremental you would be bringing in the equity of Rs.150 crore and Rs.275 crore debt, it will be on console level for you as well as the promoter together Rs.275 crore of debt?

Sreekanth Reddy That Satguru is going to be a subsidiary of 65% stake from Sagar into Satguru. So, the debt of Rs.275 crore is coming into Satguru, sir. No, it is not coming into Sagar, but that the consolidation would happen fully, so that Rs.275 crore would get reflected though Sagar.

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

Ritesh Shah Sir, I am looking at how should one look at the market share of the company given you indicated that we will be looking at price increases even if it means that if we have to push for less volumes, very clear on that. Sir, my question is how should one look at the market share for the company going forward?

Sreekanth Reddy Sir, we have never given importance to the market share. Yes, from a volume perspective if you have noticed sir, our share has gone up quite significantly in AP and Telangana in line with the market growth in these places, sir and what we are expecting is the market may not grow as strongly as it has grown. Though it might grow, so we are aligning ourselves to that, sir. So there may not be a significant change at the market place is what is our belief. That is what I would like to comment at this point of time.

Ritesh Shah But sir, do you think that the same comments or same thought process would be reflected by other players, otherwise we could end up sacrificing volumes at the cost of hopes of chasing price.

Sreekanth Reddy Ritesh, i can’t comment on what others may do, I mean, I can only speak for myself, our call is to take that thing to ensure that we get feasible margins for ourselves, would others follow, yes we hope and wish for that..

Ritesh Shah Sir, let me put it the other way. You indicated for us 65% is trade and 35% is non-trade. So, could it be a scenario that we try to push more volumes into non-trade and then basically on the trade side the volumes could be lower and hence there is room for price increases? Sir, where I am coming from is month’s back we were quite a negative overall on the space. So, is either like our expectations on the demand side have come down, what you indicated earlier and hence we are actually looking for a price increase across for us. So …

Sreekanth Reddy See that is also one of the reasons and at the same time the movement from trade to non-trade, see we are expecting the typical volumes to come down in non-trade itself Mr. Ritesh. So, expecting to move from trade to non-trade looks quite irrational because typically the Government is part of the non-trade. So, we are expecting some amount of slowdown on the government spend on these projects in anticipation for the election preparation. Having said that I do not think we would move from trade to non-trade, yes we are expecting our more push towards the trade rather than non-trade and at the same time the other non-trade other than non-governmental, yes we are hoping, we want to supply only if there is a price that we are looking for.

Ritesh Shah Sir, how much is the trade, non-trade gap right now? So for non-trade what would be the prices you indicated Rs. 230 per bag in Hyderabad market in the trade segment.

Sreekanth Reddy Sir, at NCR level, again gross is very grossed up but at an NCR level sir typically there is a difference of around Rs. 150 to Rs. 200 per tonne because there is a committed price to Government at this point of time. If have to remove that sir, the gap is not very wide, sir. Gap could be as low as Rs. 50 only. Non-trade also is higher than trade, so please keep that also in mind, sir.

Ritesh Shah And sir, this price commitment is for what duration of volumes or what duration or is there any volume quantum which has associated and is it same for us?

Sreekanth Reddy For Government supply, we as a company are committed up to 31st of March, sir. So, we did not commit any volume, ideally we would supply whatever they would take, yes the price commitment was up to 31st of March for sure.

Moderator Thank you very much. Next question is from the line of Ravi Purohit from Securities Investment Management. Please go ahead.

Ravi Purohit Sir, this is more, relating to your capital allocation right. So, if I look at our net worth today is about Rs.770 odd crore and if the company really aspires to make about 12%-13% ROE which means we need to make about Rs.90 to Rs.100 crore in reported PAT. We have not made that number many years and yet we have kind of gone ahead and announce a new CAPEX. So, in terms of I am just kind of trying to look at does the company have any ROE threshold when it announces CAPEX or is it that it is like a treadmill that you have to keep doing CAPEX in the industry even if you make sub-par ROEs.

Sreekanth Reddy See, let me address this, our short term is 3 years, sir. Our mid-term is close to 10 years and we look beyond that. What we look at is on a long term, we expect minimum 18%, IRR basis which we go ahead with most of the CAPEX call. For a very short term the typical CAPEX costs would be the return on the EBITDA and the CAPEX that we do. The EBITDA that we expect from each of the investment that we have done is giving an average of around 15% to 18%. So, that is what is the short-term call that we take. Historically if you have to look at it sir, our ROE on a compounded because we would be completing almost 38 years is slightly more than 15% to 16%. So, we hope to make this on a longer time horizon. We are in a sector which is largely CAPEX driven and CAPEX incentive we wish to get ROEs up of 20%. But fortunately, or unfortunately those numbers on a short-term look to be challenge and I do not have to say this but it is a cyclical kind of thing, especially when you are looking at the down cycle and expecting those returns would be very rational. And if you start looking that and not taking any call you would be out of business. So, you have to take a balance kind of a view on a longer time horizon sir, the sector as well as, if you look at our balance sheet also, we have always got those returns. We intend to make those kinds of returns on a longer time horizon, wish is to make even on a shorter term but that looks challenging as we speak

Ravi Purohit So sir, it becomes the challenge for us to understand whether we are actually in a down cycle right now or in an upcycle right now, in the sense if you look at volume numbers it looks like a pretty healthy market right now, right?

Sreekanth Reddy That is what you are supposed to look at it, sir. See, I mean the cycle is it based on your balance sheet or your P&L or is it on demand. For industry players it is always demand, sir. So, we believe that we are in middle or start of the upcycle that is what is our belief.

Ravi Purohit So, you would expect over the next 3 to 5 years, cement consumption growth to be around 8%-9%? That would really define a proper upcycle right? …

Sreekanth Reddy Yes, sir that is what is our expectation, that is what we are preparing our capacity for.

Moderator Thank you very much. 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 the Tamil Nadu region. So, in previous commentary we generally were sort of more conservative on Tamil Nadu growth, looking at probably declines for ‘19. So now, we are now looking at, I mean we are now looking at more confident in growth in Tamil Nadu specifically. Some stance changed there?

Sreekanth Reddy No, I would, if you revert back to my previous call, sir yes, we were neutral for the current year, we were positive for the next year, sir. So, it is the same stance that we are maintaining but for Kerala since we add up Tamil Nadu and Kerala both together, earlier our chance was that both should grow at close at 5%. Now, we believe it should go close to around 7.5% to 10% that is the only change that in our internal assessment.

Pratik Kumar Our current year should also grow at a similar range for Tamil Nadu plus Kerala.

Sreekanth Reddy Our outlook was that it would remain flat. So far year to date both states put together have grown close to around 6%-6.5%, sir.

Pratik Kumar But for Q4 we maybe we are seeing like some moderation that is why we are still forecasting flattish growth.

Sreekanth Reddy Q4 is only couple of months away, sir.

Pratik Kumar Yes absolutely.

Sreekanth Reddy No, we focused it much earlier sir. Probably, initially we start up with a flat, probably we are wrong and positively wrong. So, that is what I would like to highlight.

Pratik Kumar And regarding this price trends you also said in Maharashtra, Odisha, so the expecting sir similar hikes in Maharashtra, Odisha also or what would be the quantum of hikes and spends these reasons?

Sreekanth Reddy Currently our strategy is in place for south, sir. Maharashtra and Orissa we are still trying to understand the market since we are also establishing our product, PSC in a big way in Orissa. It would take some more time before we come out with something similar to what we have done in South. In Maharashtra we are trying to assess the market probably we hope to get some price increases may not be in a similar quantum as what we expect in the current markets. But we are also hoping for a similar kind of a trend to happen in Maharashtra.

Pratik Kumar And sir, regarding your, now what should be the lead distance as of now its sub 250 kind of lead distance we have?

Sreekanth Reddy I would keep my neck sub 300 as we speak, sir. We might be 10-12 kilometers lower. To be precise for the current quarter we are probably are at around 285, sir.

Pratik Kumar And sir, regarding our power now we have WHRS, we also looking at CPP like by next 6 months. So, what is now the percentage captive consumption in terms of power requirements our own plants?

Sreekanth Reddy See our requirement is to tune of around 60 megawatt sir, at a console level. Our captive capacity as we speak before the commission the 18 megawatt, we should be close to around 45 megawatts, sir because we also have hydro, we also have solar, we also have waste heat recovery. Whose PLF cannot be at par with the CPP, sir. Effectively we would be close to 70% captive and 30% would be the open market and the grids, sir.

Pratik Kumar So but post expansion we should be like 100% self-sufficient?

Sreekanth Reddy No, sir. I am talking of post expansion. At the best again, it depends on the capacity utilization at 100% capacity utilization of all the plants, we should be close to around 70%-75% captive. If it is lesser but all in all with these 18 MW becoming operational and the given market trends we believe that we would be around 85% to 90% captive, sir.

Pratik Kumar And sir, just one last question, regarding the industry supply. So, do you see all of them on track or some of them getting delayed so, there was this recently one more expansion which was announced by our competition. So, do you see all of them on track or they are, I mean how are they placed?

Sreekanth Reddy I think KCP is already commissioned, Shree also is commissioned. So, the only two that are still in construction is the Penna at Boyareddypalli and Chettinad, sir and both look to be on time. But again 6 months to 9 months away from we are speaking right now as we speak, they look to be on time.

Pratik Kumar And sir, just last question on your demand assessment let us say, we are hypothetically have not looking to have some prices based on some demand in which we are focused it. So, let us say demand slows down for whatever reason?

Sreekanth Reddy I have to see, I stated that internally we believe that there is hardly any correlation because of the past performances. There is hardly any correlation between demand and pricing, sir. We want to supply only if we get the price is the stance that we have taken, so that has nothing to do with the demand equation either way is put out, sir. I may have to rework the prices the capacity utilization comes down basis which we would put the price appropriately because we need to get minimum feasible margin for our self.

Pratik Kumar So, basically if demand slows down, we may rethink, I mean significantly slows down, not like only marginally deviation from our estimates. Or if it significantly goes haywire versus our estimate then we might deal with the consumption?

Sreekanth Reddy We will take one at a time, sir. So, at this point of time demand is healthier. So, we are hoping to get the price. Once we achieve that I am sure trying to recalibrate a price should not be a major challenge. We may not get everything that we are looking for but we may not be very fast from what we intend to.

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

Swagato Ghosh Sir, I had a quick question, can you please help me understand how is the demand exactly impacted due to elections? Because from what I understood the larger projects would not be impacted even if the code of conduct kicks in, so …

Sreekanth Reddy No, usually what happens, sir the pay outs have come down because most of the Government coffers are running empty. You are true, so the allegation of funds was a major challenge. We have seen most of the contractors were not paid for quite some time. So, their ability to buy cement actually comes down. So, that would impact the supplies to some of the large projects, sir. But whereas this RWS works and all, yes those would be on hold during the notification time and during the election year, sir.

Swagato Ghosh So, both the larger projects because of unavailability of funds and newer incremental projects would be halted during the election time?

Sreekanth Reddy I do not expect any new projects during this small election period window but the availability of funds was a challenge, sir. So, some of the contractors have slowed down.

Swagato Ghosh So, typically then after the election period, do we see a spike or it takes time to then normalize …

Sreekanth Reddy Usually it will take time, sir. How much time, only time has to tell but our past experience. Again, this is only the past experience, sir. That may not hold good all the while but our past experience is that it typically takes 3 to 6 months even post-election or it to come back to normalcy.

Moderator Thank you. The next question is from the line of Ashish Jain from Morgan Stanley. Please go ahead.

Ashish Jain Sir, I have only one question. You said that the contract with the Government on pricing expires in March.

Sreekanth Reddy Sir, it is not a contract, sir. It is a commitment, sir.

Ashish Jain So, will that be kind of renewed? Are they already kind of reassessing that and discussing with the government how should.….

Sreekanth Reddy I think it is too soon, sir. So, we will wait till 31st of March gets over then probably we will revisit each of it based on their off take.

Ashish Jain And how and what are the level of pricing for that commitment versus let us say the Rs. 280 number that you are citing for …

Sreekanth Reddy The large projects, Polavaram, Kaleshwaram these projects we have committed Rs.240-Rs.250 per bag kind of a pricing.

Ashish Jain At an NCR level?

Sreekanth Reddy No, at FOR level, sir?

Moderator Thank you. Next question comes from the line of Romi Mehta from ICICI Direct. Please go ahead.

Romi Mehta Sir, just one clarification actually I wanted to have regarding the power and fuel cost. Like in our presentation we have mentioned that the power and fuel cost per tonne around Rs.920 per tonne.

Sreekanth Reddy It is only for fuel, sir. There is no power in it, sir. It is average fuel cost. It is tonne of clinker, sir. It is not per tonne of cement it is per tonne of clinker, sir.

Moderator Thank you very much. The next question comes from the line of Abhishek Pamecha from Vibrant Securities. Please go ahead.

Abhishek Pamecha My question is regarding the waste heat recovery systems. So, what is the average cost per megawatt of waste heat recovery system?

S. Sreekanth Reddy Yes, the industry thumb rule is it is Rs.10 crore per megawatt, sir.

Abhishek Pamecha And sir, what is the minimum plant cement size for viability of waste heat recovery system?

Sreekanth Reddy No, it has no limitation,. The only thing is that per megawatt it slightly inches up plant is smaller. But as such there is no limitation for the size for putting up a waste heat recovery. The smaller you are the higher specific cost per megawatt but from a technical perspective there is no limitations like.

Abhishek Pamecha And what is the payback period for us for this recent waste heat recovery system which we have putting in?

Sreekanth Reddy Sir, we invested close to Rs.70 odd crore for around 8.5 MW, sir. It is giving Rs.5 crore per quarter kind of a payout. So, on an average annually Rs.20 crore, so we expect it to be 3.5 to 4 years as a payback, sir simple payback.

Abhishek Pamecha That is at the current utilization level? If the utilization increases the payback is going to be less.

Sreekanth Reddy Marginally, sir because our waste heat recovery is tied to kiln 2. So, kiln 2 average capacity utilization would be 75%. So, if it goes beyond that 75 it would be slightly more but given market condition, we do not expect it to cross more than 75% or 80% either way, so.

Abhishek Pamecha And sir, what is the waste heat recovery potential per million tonnes of cement capacity?

Sreekanth Reddy It again depends on the size, sir but the average again thumb rule is anywhere between 3.5 MW to 4 MW.

Abhishek Pamecha And secondly, sir what are the international prices currently of pet coke and coal, right now?

Sreekanth Reddy Yes, the pet coke what we have seen the Saudi pet coke is hovering around $94, sir. The American is $2 to $3 higher. When you talk of coal, it has huge divergence in terms of RB 1, RB 2, RB 3, RB 4. The ball park number for a typical RB 3, RB 2 is running anywhere between $97 to $98. These are hovering around $85, sir.

Abhishek Pamecha Sir, from the peak they have corrected by 10% to 15%?

Sreekanth Reddy But Rupee also corrected itself, sir.

Abhishek Pamecha Yes, Rupee also but in Dollar terms they have corrected 10% to 15%?

Sreekanth Reddy Yes, 10% for sure, sir.

Moderator I now hand the conference over to the management for closing comments. Over to you.

Sreekanth Reddy We would like to thank you once again for joining on the call. I hope you got all the answers you are looking for. Please feel free to contact our team at Sagar Cements or at 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.