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26th October 2022

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: Submission of transcription of Conference Call under Regulation 30 read with Part A of Schedule III of SEBI (LODR) Regulations, 2015 on Q2 FY 23 financial results

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Pursuant to the above said Regulation, we are forwarding herewith the transcription of the Conference Call held by us on 20th October, 2022 in connection with the recently announced un-audited stand-alone and consolidated financial results for the second quarter and half-year ended 30th September, 2022.

Thanking you

Yours faithfully
For Sagar Cements Limited

R.Soundararajan
Company Secretary

Encl.

MANAGEMENT: Manish Valecha - Anand Rathi Securities
Gavin Desa - CDR India
Sreekanth Reddy - Joint Managing Director

ANALYSTS: Shravan Shah
Rituparna Gosh
Arun Narendranath
Abhisar Jain
Parth Bhavsar
Viraj Kulkarni
Rashi Shah
Rajat Setia
Debotro Sinha
Prakhar Porwal
Jashandeep Chadha
Rajan Shah
Ramakrishna
Vincent Andrews

Presentation

Manish Valecha: Good afternoon ladies and gentlemen. Welcome you all to the 2Q FY23 Results Conference Call of Sagar Cements Limited. We have with us from the management Mr. Sreekanth Reddy, Joint Managing Director; Mr. K. Prasad, CFO; Mr. Rajesh Singh, CMO; and Mr. R Soundararajan, the Company Secretary. We will start the today's session with opening remarks from the management and then will be followed by a Q&A session.

I would now like to hand over the call to Mr. Gavin Desa of CDR for his opening remarks. Over to you, Gavin.

Gavin Desa: Thank you, Manish, and thank you for introducing the management. I just like to add that some of the statements made in today's discussions may be forward-looking in nature. And a note to this effect was shared in the inviter, as I shared with you earlier. We've emailed the communications adviser you've received them.

I'd now like to now hand over to Mr. Reddy to make his opening remarks. Over to you, Sreekanth.

Sreekanth Reddy: Thank you, Gavin. Good afternoon, everyone and welcome to Sagar Cements earnings call for the quarter ended 30th September 2022. Let me begin the discussions with a brief overview of the market in terms of the demand and pricing, post which I will move on to Sagar specific developments.

Overall external environment for the business remained a bit challenging, while Q2 is seasonally a soft quarter given the monsoons. The business had to operate in an inflationary environment. While the demand momentum was expectedly soft, we did witness some revival towards the end of the quarter aided by pickup in infrastructure and low-cost affordable housing segments.

As far as pricing is concerned, while the same remain relatively steady across our key markets, we couldn't undertake requisite revisions to offset the rising input prices amidst benign demand. As far as the trend between trade and non-trade segment is concerned, prices were relatively stable in the former rather than the later. However, we are witnessing some softening in prices of key raw materials, whether the trend would continue going forward or we will once again see firming up of input prices only time will tell. But as far as realizations are concerned, we expect the same to improve with the pickup in demand over the coming months and quarters.

Moving on to Sagar specific developments. Our revenue for the quarter stood at ₹475 crores as against ₹369 crores during the quarter higher by almost 29% on a YoY basis, driven largely by volumes following commissioning of the new capacities. Average realizations remained largely stable during the quarter. Overall demand as I mentioned was relatively softer largely owing to monsoons. However, we did witness some pickup towards the end of the quarter.

The EBITDA for the quarter stood at ₹6 crores as against ₹61 crore generated during Q2 FY22 lower by 91%, largely owing to higher input prices. Margin for the current period stood at 1% as against around 16% reported during the corresponding period last year. Raw material prices were fairly stubborn during Q2, which resulted in margin compression of almost 1,500 basis points. We have seen an unprecedented surge in prices of key raw materials, which were aggravated following the Russia-Ukraine crisis. Although the prices of few raw materials have started to trend lower, one needs to see if the moderation continues in coming months.

Average fuel costs stood at ₹2,066 per ton as against ₹1,263 per ton reported during Q2 FY22. Elevated prices of coal and coke resulted in higher per ton cost of fuel for the quarter. Freight cost for the quarter stood at ₹797 per ton as against ₹795 per ton during Q2 FY22. Loss after tax for the quarter stood at ₹49 crore as against the profit of ₹20 crore reported during Q2 FY22.

From an operational point of view, Mattampally plant operated at 50% utilization, while Gudipadu and Bayyavaram, Jeerabad and Jajpur operated at 93%, 64%, 30% and 10% respectively during the quarter. Overall capacity utilization at the group level stood at around 49%. As far as the key balance sheet items are concerned, the gross date as on 30th September 2022 stood at ₹1,486 crore out of which ₹1,275 crore is long-term debt and the remaining constitutes the working capital.

The net worth of the company on a consolidated basis on 30th September 2022 stood at ₹1,581 crore, debt equity ratio stands at 0.81:1, cash and bank balances were at ₹308 crores as on 30th September 2022.

To conclude, I would just like to reiterate the rising raw material prices may pose near-term challenges with regards to profitability. In long run, though we believe the anomality will correct with pickup in demand and improving realization. As far as Sagar is concerned, we believe our diversified presence, higher scale, better product mix and strong balance sheet positions help to create a value for our shareholders over a long-term.

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

Question-and-Answer Session

Manish Valecha: The first question is from Shravan Shah. Please go ahead.

Shravan Shah: Sir, the first question is with regards to our guidance. So, 5 million volume guidance that we've gave and that took 3.5 million to 3.6 million tons from the existing and the remaining from the new plants. But if I look at till now, our old plants these days is giving a better volume. So, do we maintain the same 5-million-ton volume guidance and in terms of the share from the new plants both the MP and Odisha plant can be slightly lower?

Sreekanth Reddy: Good morning, Shravan. See now talking about the overall target, I think we achieved 2.22 million for the first half. For 5 million for the overall year, probably it is too soon for us to rule out, it looks high probability. Having said that, we are maintaining the same stance for Satguru plant that is the MP plant at close to 0.6 million, but Jajpur looks to be difficult. We have indicated around 0.4 million, probably we should be doing close to around 0.25 million.

Having said that the other assets did perform reasonably well. So, we would want to take the corrective steps or know exactly what you do end of this current quarter, that is the end of Q3, we will be in a better position. But worst we expect that we'd not go below 4.75 million at this point of time, Shravan.

The bigger challenge is on the EBITDA. Yeah, it looks like the possibility of close to ₹400 odd crores that we have indicated at the start of the year could still be a challenge. The numbers we'd probably revise downward by how much we viewed probably take some more time before we could guide it, but we definitely expect the EBITDA generation to be a lot lower than what we have indicated.

On a volume front as I mentioned, I think we should be very close to 5 million. But I think end of the current quarter we'd be in a much better situation to narrate the numbers that are likely to happen in the current financial year.

Shravan Shah: Yeah, sir I was about to come on the EBITDA part. So, as you mentioned, it is difficult to offer any guidance, but still in terms of the power and fuel. The increase seems to be a significantly higher because last time we said it should not be up that much. So now how do we see this Q3 in terms of…?

Sreekanth Reddy: No Mr. Shravan, now let me reiterate what we have indicated at that point of time. The drop-in fuel prices are expected middle of this current quarter. So, we are more than hopeful that we should definitely save around ₹250 per ton on the power and fuel alone for the current quarter, because the mix what we have indicated earlier where the domestic coal and pet coke was 50:50. Now, we started firing at 60:40. So, we are more than hopeful and we do have the domestic coal pipeline with lot more clarity, and we are very sure that we'd be saving around ₹250 rupees per ton only on the fuel for the current quarter itself Mr. Shravan.

Shravan Shah: And this will further increase in the fourth quarter in terms of the savings hopefully for…

Sreekanth Reddy: See, I think let us take one quarter at a time, because as I mentioned even in my opening remarks, those some of the pet coke prices have been, they trended down for a very brief, again they are trending upward. So, at this point of time, our inventory for the fuel is for the current quarter, we know with lot more clarity about what we can do for the current quarter. So, we are very sure that we would be achieving around ₹250 per ton on a power and fuel this thing for the current quarter at ₹250 for minimum saving is possible for the current quarter alone. The next quarter I think we will take it as we come close to those.

Shravan Shah: Yeah, and just to reconfirm in terms of the net debt of ₹850 odd crore that could be the operational net debt that guidance we will maintain and…

Sreekanth Reddy: Yes, sir. I think on the balance sheet items, I think the narration remains very similar to what we have maintained even in the past so.

Shravan Shah: And sir, any update on the Andhra Cement NCLT because last time we said mostly September, October?

Sreekanth Reddy: Yeah, I think we did mention that it is end of Q3 I think we are hopeful that it should get resolved before the end of Q3 sir. So, we are maintaining the same stance.

Shravan Shah: And then to a couple of points, what was the trade share for this quarter and in terms of the post September and have you seen any price increase in any of our markets?

Sreekanth Reddy: Yeah, the trade sale got reduced for the current quarter, obviously, because of the monsoon. So, there was a bit of more a non-trade sale. We are maintaining around 55%, 57% is the trade and the rest constitutes the non-trade. Going forward again we will revert back to 65:35 kind of a trade non-trade mix.

Now, coming to the realizations, there has been good uptick again on a relative scale across the markets that we service. Hyderabad market alone we have seen almost ₹18 to ₹20 kind of a jump per bag. Vizag is around ₹15, Bangalore is ₹25. Yeah, we have not seen major shift in North Karnataka markets. North Tamil Nadu and South Tamil Nadu is around ₹25. Maharashtra markets we have seen ₹20 kind of an increase for ourselves. Odisha, we have seen close to ₹10. Indore we are yet to see any major shifting our realizations.

Shravan Shah: Okay, so this is from the September I guess.

Sreekanth Reddy: Yes sir, it is exit of September to the first 15 days of October.

Shravan Shah: Okay, that's it from my side.

Manish Valecha: Thank you.

So, the question is from Rituparna Gosh. Can you please elaborate your fuel mix going ahead? Are you exploring Russian coal, if so how is it affecting in terms of production and kindly give your views on thermal versus pet coke usage?

Sreekanth Reddy: Yeah, see I mentioned we are primarily using the domestic coal along with the domestic pet coke. We did receive an imported pet coke shipment recently, but as you have noticed us probably what you're seeing is that the imported pet coke prices slowly started going upward. The last shipment that we received close to around a month back or close to 20 days back, the landed cost was around $169. Now we are seeing the spot prices and the one-month November deliveries are already at $195. So, we are again going back to the domestic pet coke. The mix as indicated will be 60% domestic coal and a 40% pet coke. We are not using any Russian coal, basically sticking to the domestic coal along with the domestic pet coke at this point of time.

Yeah, we did indicate even in our presentation the prices, typically the landed prices at Mattampally though that's not our cost. The indicative spot prices, which we have estimated part of our presentation, where we did indicate the imported pet coke prices per Kcal to the domestic and imported, yeah, it's on slide number what we have indicated here. Yeah, we have indicated that imported pet coke is at ₹2.53 per Kcal on a landed basis, Indian pet coke is at ₹2.20, imported coal is at ₹3.37, domestic is at ₹1.82 on a landed basis at Mattampally. I mean these are more indicative prices just to sum up some of the questions that you have had.

Manish Valecha: The next question is from Arun Narendranath. Apart from Andhra Cements are you targeting any other inorganic acquisition?

Sreekanth Reddy: Yeah, it is too soon for me to comment sir. Yes, we did identify a couple of assets. But we would want to take one step at a time. So currently, we are more focused on Andhra. Yeah, the outcome of that would decide for the other options that we have. The target is to reach to 10 million. Based on the progress of Andhra, we would want to pursue the other options that we have. Yes, we do have at least another asset in our radar. But the outcome of Andhra would decide how we would progress on the other one.

Now, there was also another question from the same gentlemen on the PIL. I think there is no PIL sir, it is Dalmia who has given the thing and there is no stay on the process, there is a stay on voting. So that I think is for the state -- the outcome of that would be known only end of this month. But for that I cannot comment anything beyond that. We are more than hopeful that, at an NCLT, the Andhra transaction should get concluded or there is a possibility that it should get concluded before end of Q3 is what is the impression that we have.

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

Abhisar Jain: Sir, just continuing from your comments on the realization part, as you mentioned that you're seeing some uptake in some of the markets so. As things stand today sir, what kind of realization per ton improvement do you expect on a quarter-on-quarter basis for Q3?

Sreekanth Reddy: See, we just know the last 15 days trend Mr. Abhisar. I didn't read out the indicative gross prices at the retail level. If you knock off close to around 30% odd of that, that should get added up again on a weighted basis, but it's too soon for us to comment on that.

Fortunately, except for Indore, where it remained flat and we are opening the realizations to more even there. The realizations have been in range of anywhere between ₹15 to ₹20 on an average per bag. So ₹200 to ₹250 per ton can be expected if it remains in a similar kind of a thing, but this is not enough. Yeah, a lot more has to happen. But the first 15 days trend is that it is around ₹15 to ₹20 on an average per bag increasing realization is what we have observed.

Abhisar Jain: Understand, and on the cost side while you mentioned that the savings from the power and fuel what you're expecting on a sequential basis for the other cost line items including freight and RM, do you expect to drive any savings for H2 versus H1?

Sreekanth Reddy: See, raw material again is a question of blending, per se did not increase our cost, but since the blending -- blended cement portfolio went up, which is a good sign for us. That much increase in raw material is seen. The offsetting price reduction power and fuel cost reduction also is likely to happen going forward. Freight as we have indicated in the presentation. Yeah, we are slowly coming down and with the more volumes ramping up both at Jajpur and Jeerabad likely that the freight costs should come down well for us. So, by how much is only time will tell, but definitely they would be trending down for us.

Abhisar Jain: Sir, actually, I just wanted a little bit understanding that where should the freight stabilize when we really read that 5 million and then for the next year 5.5 million kind of run rate, because you have added new plants, which will ramp up, okay. And I think now, you must be seeing some trends of the fuel prices stabilizing, which impact the freight costs. So, if any indication and versus today's level of around ₹800 per ton. Where do you want to see?

Sreekanth Reddy: See right now we are at ₹797 sir. I mean, this is -- we don't know if diesel prices would stabilize, but the current trend what we're looking at it. Yeah, it remained at ₹797, there was a small increase that purely because of small increase in the lead distance, but once both the assets ramp up, we are reasonably sure. From earlier ₹300, we have indicated that we'd be going close to around ₹280, I think that is where we might land up.

How much potential saving we would have. Again, diesel remains where it is probably we should expect around ₹50 to ₹60 per ton kind of a saving, but that is very subjective. Yeah, it again depends on the route maps and the tollages and all, but the indicative number is close to around ₹50 saving should be expected once all the new capacities get ramped up in its full shape.

Abhisar Jain: Sure. And sir, just the last thing on the Andhra asset under overall debt number that we have of around ₹1,170 crore. Just wanted to get the right sense on exactly how much of that is earmarked for the Andhra asset and maybe deposited by us?

Sreekanth Reddy: Yeah, ₹500 crores is what we have earmarked for acquisition sir. So that is what you need to exclude from the overall kind of a long-term debt of what we have.

Abhisar Jain: Right. And sir you have indicated in the past that if at all in a unforeseen scenario of this asset not coming to you by because of any whatsoever reason, I'm not going into that litigating matter and Dalmia coming into the picture etc. But for any reason whatsoever if it doesn't come through and you're saying it will get decided within this quarter and what's the equity upside on this ₹500 crore that you may have?

Sreekanth Reddy: Sir, I cannot comment anything on those issues what -- see there is always a possibility that the asset could go to any one of us. How much, what and all only time will tell sir. So, it is too soon for us to comment on that. We'd be very happy coming back to you as soon as we reach to a point where we could disclose those numbers.

Abhisar Jain: Okay. But sir only one clarification if it were to go into a bidding sort of a thing. Are you…

Sreekanth Reddy: Yes sir, it is in that process only sir. So, it is not, it would. It is actually into that process sir.

Abhisar Jain: Okay. And so now you have the option to of course increase your bid or walk away is it?

Sreekanth Reddy: Sir it is -- the process is ongoing sir. So, nothing is concluded as we speak. So, the issue of uplink or downlink doesn't arise. We are still part of -- we are part of the process.

Abhisar Jain: Sure, sir. Understood.

Manish Valecha: Thank you. The next question is from Shravan Shah.

Shravan Shah: A couple of things, first in terms of the finance costs. So definitely this is increasing because of the ₹500 crore update that we have taken from Andhra. So, for the third quarter also, we will see the same run rate. And from the fourth quarter, let's say if it materializes.

Sreekanth Reddy: It's a subjective issue. See, we have earmarked ₹500 crores for the acquisition sir. Yeah, if it materializes, that bit of portion will get reduced and the reversal would happen. So that's what I would like to highlight, Mr. Shravan at this time.

Shravan Shah: But at least for third quarter, at least 1.5 month, two months of the finance costs.

Sreekanth Reddy: Yes sir. I think it's a subjective issue, as I mentioned, for the outcome of the event. Yeah, it is basis that outcome. We are hopeful that we should conclude this by end of Q3, if that happens, yeah, I think the interest and the debt structure would get transformed accordingly.

Shravan Shah: Okay, and Second question sir, our Capex for the first half is ₹63 odd crore, I can see from the cash flow, but we were looking at only ₹30 odd crore. So, what's the new number for the full-year FY23?

Sreekanth Reddy: No, I think we have indicated the same sir, it is because partly rollover of both the assets. That's what got indicated here, but we are sticking to ₹30 crores for our maintenance Capex.

Shravan Shah: So, in the cash flow, though it is a ₹63 odd crore on a consolidated basis.

Sreekanth Reddy: Yeah, majorly it is because of the rollover that has happened from last year. Sir when we have commissioned not everything has been capitalized. So those capitalizations have happened even in the last quarter or the first half. So basically, so, but maintenance Capex would not definitely not cross more than ₹30 crores, Mr. Shravan.

Shravan Shah: Okay, and my third question in terms of the pet coke, whatever the percentage we are having so currently 65%, 66%. So, in that 70% odd would be the domestic one. Is it a fair way to look at?

Sreekanth Reddy: Yes, we definitely got one ship load of 50,000 just 15 days to 20 days back. The landed cost is at around $169, that includes the raising cost and everything. But for that rest everything is domestic pet coke. Yeah, if you look at Jeerabad, that is the Madhya Pradesh, the entire thing is domestic, it is coming from IOCL Koyali that is the Baroda plant.

Shravan Shah: Okay. Thank you, sir.

Manish Valecha: The next question is from Parth. Please go ahead.

Parth Bhavsar: I just had one question. So, like I wanted to know like, what is the optionality at each of our five plants that we have like from there on from current capacity? Is there any room for to increase our capacity?

Sreekanth Reddy: Yeah, see each of our asset, again Mattampally and Gudipadu has ample scope for. Mattampally has huge scope. We have net fairly large limestone resources. Gudipadu, we could comfortably triple. Satguru, there is scope for small increase at least to an extent of 0.5 million on the cement side. But clinker, we are uncomfortable if it is less than 40 years or 50 years of deposit life. So, clinker scope is very limited at Satguru, but in Mattampally as well as in Gudipadu as I mentioned, in Gudipadu we could from a million, we could comfortably go up to close to 4 million.

In Mattampally, scope is huge, but we have taken a conscious call that we would only do it after some time because given the South adding a Brownfield or a Greenfield in South not only would put pressure on us, but also on the market.

Parth Bhavsar: Sir, basically we can add like, we would want to add at Gudipadu like rather than Mattampally.

Sreekanth Reddy: Sir if at all if you have to add. The first priority would be at Gudipadu itself.

Parth Bhavsar: Gudipadu. Fair enough. And sir just like wanted to understand what would be the Brownfield Capex cost at current?

Sreekanth Reddy: Sir it is very, very difficult to address that. It is a -- it could be anywhere between $80 to $100 at this point.

Parth Bhavsar: $80 to $100.

Sreekanth Reddy: It's an elevated kind of a level. So, is the services costs sir.

Parth Bhavsar: Okay. And so just like to quantify number at Mattampally would be how much like optionality?

Sreekanth Reddy: Sir. It's huge sir.

Parth Bhavsar: So, it's basically the land and everything is like everything is bought. Limestone availability is there.

Sreekanth Reddy: Yes, sir.

Parth Bhavsar: Like you just to still put a number like if possible?

Sreekanth Reddy: Sir. I think, see we have indicated close to around 420 odd million tons of limestone is there, which is readily available. With the potential increase, it could go up to 800 million. So, with the 800 million limestone, you can see to what extent we could go so.

Parth Bhavsar: Fair enough. Done sir. Thank you so much. That's it from side.

Manish Valecha: Thank you. We will take few questions from the chat window, so what is your lead distance for the quarter railroad mix? And what is the demand potential from Telangana and Andhra Pradesh? And what is the fuel inventory?

Sreekanth Reddy: The current lead distance for Q2 is at 271 kilometres. The railroad mix, yeah, we did indicate the Jajpur movement is mostly by rail in terms of the outward. So, but for that, except for the clinker moment, we have not done any rail movement on the outward freight. Only, the inward, which is primarily to do with the clinker and all is going only by rail both to Jajpur as well as 80% of it to Bayyavaram went by rail, coal inward of course from Singareni mostly it is by rail. So that sums up.

Now looking at our own volumes in terms of -- for each of the state's sir, yeah, we did close to 1.04 million out of that close to 50 odd percent is for AP and Telangana. Yeah, we did close to 16% into Tamil Nadu, 9% into Karnataka, 6% into Maharashtra, 7% each for Orrisa and Madhya Pradesh and there is a 1% to all the other remaining states where we would have supplied SRC Cements sir.

Manish Valecha: Sir, one more question, what is the fuel inventory that you're carrying now?

Sreekanth Reddy: Yeah, the fuel inventory, we are running it for the full quarter we have the inventory sir. This includes both domestic as well as imported and domestic pet coke. We are running with one quarter.

Manish Valecha: Okay sir. Sir next question is from Viraj Kulkarni. Our Indian coal mix was 30% for this quarter. Despite this, the power and fuel cost were in excess of ₹2,000 per ton, which seems to be quite high compared to the others who have reported.

Sreekanth Reddy: I cannot compare with the others. In our case, the power and fuel costs got elevated purely because the CPP, which consume coal there we had to go for expensive coal. We have taken a conscious decision to switch off the CPP and go back to the grid, because it was costing close to around ₹12 odd per unit, that also has increased the overall kind of power and fuel costs.

We hope that the trend lines would put us in a better state in terms of the coal availability as well as the pricing. That is not the case, sir. So that probably has pushed us to be slightly higher compared to some of the peers. Also, you have to look at the blending ratio, though we did slightly higher, but still we are close to 50:50. I think the minute we get aligned, which is not very far that once we get aligned with most of our peers in terms of same blended cement ratios as they would, our power and fuel cost also would be looking at a lot lower than the other sir.

But in our case, it definitely impacted power and fuel costs for the last quarter, did impact the overall kind of the coal usage and the availability did impact the overall kind of a cost. But we have made those decisions now and we are more than hopeful that in the current quarter itself we are expecting a ₹250 saving on the account of power and fuel costs sir.

Manish Valecha: Okay. Got it sir. Sir, the next question is from Rashi Shah. Sir can you please give us the volume breakup between the existing and the new units?

Sreekanth Reddy: Yeah, we did close to 0.25 million between both the unit's sir, around 70,000 odd tons from Jajpur and 190,000 tons from Madhya Pradesh for the first half. Yeah, the Madhya Pradesh unit for Q2 is 77,000 and for Jajpur it is 35,000 tons from Odisha units.

Manish Valecha: Okay, thank you sir. The next question is from Rajat Setia. What is the Capex left to be done and by when this will be complete? How much capacity expansion will happen because of that? And also, what is the capacity that we are looking to add from Andhra Cement?

Sreekanth Reddy: Yeah, the Capex as indicated sir, for both the assets it is completely done, that more or less concludes the Capex spend on the assets that we have at both Odisha and Madhya Pradesh. The only small operational Capex that we are doing is around ₹30 odd crores, I think we did close to ₹10 odd crores, another ₹20 crores probably would add up in the next six months on this, because there is a large shade that is under implementation at Mattampally, so that is what we are looking at -- in this point of time.

Now, from a diligence perspective about what we have looked at Andhra Cement sir, it's a 2.6 million ton. That's what we are hoping to get added up as soon as it gets fructified in our favour.

Manish Valecha: Got it sir. So, last time you had mentioned about Singareni coal that was -- there were some certain issues on supply. So, have they been sorted now?

Sreekanth Reddy: Yes, sir. They have been more or less sorted, though the rains are still troubling a bit. But from a connectivity perspective, we did receive good volumes in the last month and we are hoping the -- most of the FSA Singareni to start fulfilling the entire FSA obligations from their end going forward.

Manish Valecha: Got it. Sir, your view on the new capacities that are getting added plus the M&A activity that is happening in the Central region, per se. Do you think that over a period of next one to two years, you might see a lot of Capex there with also older plants getting revived and things like that that might add pressure to the Central region?

Sreekanth Reddy: Yeah, I think the Central region more so UP, because that's where the action is in terms of. Yeah, we are expecting a huge demand to pick up in UP. Fortunately, the demand looks to be far higher compared to the potential supply that is likely to happen. See, a lot of people assume that the JP is not working, but the factories that JP is working probably at a lesser volume. So, the incremental volume that is expected from ramping up of that is probably should get absorbed in no time, because the demand looks to be in a very, very high scenario.

Of course, Amethi and JK's plant both are likely to happen probably in the coming year. But by the time these assets come up, we believe that demand should be in a good situation to absorb whatever is adding up. Usually, the supply and demand equation in Central was always favouring more demand and less supply, probably the gap probably will get narrowed down when all these things get commissioned. But from the way the UP demand is shaping up, we think that the old trends might probably continue even with the new supply, things look to me more promising than ever before Mr. Manish as far as Central region is concerned.

Manish Valecha: Got it. Sir, any particular segment that is driving demand there?

Sreekanth Reddy: I think it is government spending mostly on infrastructure side.

Manish Valecha: Okay. Next question is from Shravan.

Shravan Shah: Sir, just wanted to understand the discount structure being a slightly modified by the large players or some of the competitors in your region?

Sreekanth Reddy: I think it's an ongoing affair. People keep changing the names of those discounts. But the reality is that some amount of the RD, PD or whatever people would call, some amount of rationalization, I would put it. Yeah, a lot of knocking out has happened on those fronts. But it's not just now, it was a case for last couple of quarters now. We are seeing some reductions on those RDs and PDs in our region too.

Shravan Shah: Okay, that's it, sir.

Manish Valecha: The next question is from Debotro Sinha. Under the Gati Shakti master plan of Government of India is launching the Unified Logistics Interface Platform, which promises to reduce the overall logistics costs by 10% to 12%. What is the impact of on Sagar Cements freight costs and cement industry as a whole?

Sreekanth Reddy: Sir, I think it's a great platform and a great policy document, but it's on the overall kind of a logistics, what kind of impact it will have on cement, I think it is very limited sir. In our own case, we are not expecting that to save in a big way. Because it's a multi-modal. The problem is not with the freight alone, but the problem is with the handling costs. So, in a multi-modal scheme, typically if you have a greater number of handlings, it may not come to our rescue. So, we would rather -- see we have been looking at it, I would not say that we have looked at it completely, but we would want to take some more time before we could make a conclusive kind of a remark.

But from the brief overview that we have had and some discussions we've had with the experts in that particular segment. In our sector the bigger challenge is at the handling side sir. So, on that front, yeah, we are not expecting a major saving for ourselves. I cannot speak about the industry. Yeah, there are some things that we have seen with the cargo, the bulker transport, container transport with the rake and all, yeah, we do think that there is some saving, but we have not really done calculation for ourselves, because that may not be a fit case for us.

At the industry level, we do believe like Bharathi just launched one of its kind of a model basis that I am sure if they have launched, my assumption is that it definitely has some advantages that's the reason why they have launched. In our own case, we do not have assets which would add value from that perspective at this point of time. So, from our side, it has -- I don't think we have, it adds value to us at this point of time. That's what we would like to comment on that.

Debotro Sinha: Thank you sir.

Manish Valecha: Sir, the next question is from Nikhil, what is the outlook on demand, especially in the South region?

Sreekanth Reddy: Sir outlook on demand, typically, again, I have to go back to the history, two years before the election it peaks. So, we are just getting into that second year from next year onwards. So, we do believe that we are in good time as far as demand is concerned, even but for the rain for the current year sir, most of the states have actually performed 20% higher than last year. We do think that by next half, next year first half, we should be crossing three COVID kind of levels for demand in most of the southern states.

Manish Valecha: Sir, the next question is a follow-up from Rajat Setia. For Andhra Cement acquisition, how are we looking to finance that and if it was to come to us?

Sreekanth Reddy: Sir, I think we did raise equity as well as a debt. I think that should more or less help us with the internal accruals acquire the asset sir. So, we are reasonably fully funded for a potential acquisition. And more so from an Andhra perspective, I think we are fully funded from that perspective. We took a ₹500 odd crore of structured debt. We also raised a ₹350 crore of equity from Premji Invest, and we do have some internal accruals. I think these three should help us acquire the assets.

Manish Valecha: Okay. Sir, does that mean that the current debt levels should be at the peak?

Sreekanth Reddy: Yes sir. More or less, yeah, more or less the debt levels are fixed sir, because there is a ₹500 odd crore of debt, which is more for an acquisition that we have borrowed. So that should help us get the target.

Manish Valecha: The next question is from Prakhar Porwal. Please go ahead.

Prakhar Porwal: Sir, like you mentioned demand outlook in South India. So, basically, I had a follow-up question regarding that like as we have seen in the last decade, demand in South has been stagnant and not has increased on an overall economy level. So, just wanted to know like whether capacity utilization that Sagar currently has a 49% overall in India. So basically, the current consolidations that are happening, how does Sagar aim to like what actions or what has a thought to maintain or to increase those utilizations and make this stagnant demand in South India?

Sreekanth Reddy: See, I think what you're looking at 49% is very specific to the last quarter. The reality is we will be operating anywhere between 45% to 65%. Let me take one year forward, not go beyond that. Yeah, we do expect more or less the capacity utilizations to remain where they have been for last few years. We are not expecting a major shift in that purely because there is an incremental demand. See, contrary to what most of the people think South did grow sir, it's not that it remains stagnant, but supply also had caught up with it.

So, given the supply position at this point of time, for at least next year, we do believe that the capacity utilization more or less will be very, very similar to how it has been for last few years. Beyond that, we do expect an incremental kind of a demand, unless some unusual supply comes into the market, there is a likely that there could be a small surge or increase in the capacity utilization. But I think 80% capacity utilization is 100% near 100% in South at any given point of time.

Just to reiterate sir, in FY11-12, the demand in South was 65 million. Pre-COVID that is FY19, the demand reached to 81 million. So, it's not that it remains static, it grew, but so is the supply. So that's one of the reasons why a capacity utilization more or less remained static, not that demand was bad. But supply was more than the demand that got added up. And we do believe that next two years, we should go back to the peak number that we have witnessed at around 81 million, probably, if not this year, at least by halfway through next year, we should start seeing those numbers is what we think, because that was the trend.

Looking at the historical patterns. A year -- two years before the elections, most of the supply starts, demand starts picking up quite sharply. So that's what we are expecting even this time around.

Prakhar Porwal: Okay. Thank you.

Manish Valecha: Sir the next question is from Arun. Does the upcoming Delhi, Mumbai expressway near Dahod helps Satguru plant to supply cement at the lower cost for the catchment area?

Sreekanth Reddy: For sure sir, but I think our footprint area has Indore and Baroda and Ahmedabad are also not far sir. So, it will definitely help. We don't see challenge with the demand in those regions. It's a question of realization. We are not seeing any issues with the demand for our asset, because it's just a million-ton plant. And the capital markets are reasonably strong there. So, this will definitely add up. Will it make a difference? Yes. But to what extent is a question to our self.

Manish Valecha: Thank you. Sir the next question is from Rajat. Do we have any target for rail dispatch mix, lead distance, blended cement mix for the next two to three years?

Sreekanth Reddy: Yeah, we do not have a target for the rail dispatch mix, but we definitely have a target for the lead distance as indicated. We are targeting 275 kilometers for us to achieve that number. Fortunately, the current assets with even the road mix should help us reach that number. From a blending perspective sir, we were always sub 40 all these years. Yeah, we are looking at a 70-30 kind of a mix where 70% will be the blended over the next couple of years. 70% will be the blended cement and 30% will be the OPC.

The reason why we believe that OPC will still be there is because some of the large institutional buyers would still prefer an OPC for them to do the blending. So that's one of the reasons why we are not holding out completely the OPC. Our internal target is to achieve 70% blended with the 30% OPC mix.

Rail dispatch again is subject to the markets that we service and the overall kind of logistics cost that it is likely to save. So, we go with the overall kind of a cost not fixated on the rail dispatches. Most of the markets that we are servicing and the assets that we have, I think rail is not a big option for us sir.

Road typically has given us the best kind of a freight rates into the market. That's one of the reasons why we are one of the lowest cost freight operators in India for the cement.

Manish Valecha: The next question is from Jashandeep Chadha.

Jashandeep Chadha: I just wanted to ask and understand what sort of limestone reserves are we getting with? Also, on the basis of the land package that we are getting in limestone reserve, what sort of Brownfield optionality do you see in Andhra Cement?

Sreekanth Reddy: Yeah, Chadha we are yet to get it. So, we are one of the other persons who has bid for it. Andhra, as indicated has close to around 165 odd million tons of limestone sir.

Jashandeep Chadha: Okay, thank you, sir. Thank you so much.

Sreekanth Reddy: Thank you.

Manish Valecha: Thank you. The next question is from Rajan Shah. What is the market share of Sagar Cements in India?

Sreekanth Reddy: Yeah, our assumption is that we are 5 million on it, 425 million supply, sir. Is it supply driven or a demand driven, I've never understood. But yeah, we would be close to 5 million with close to around 0.9% to 1% kind of share in the overall kind of a demand.

Manish Valecha: Sir the next question is from Ramakrishna. With the improving road infrastructure across the country, have you seen consistent efficiencies coming in way in terms of overall logistics cost?

Sreekanth Reddy: Sir, I think the issue there is the efficiency has helped us, turnaround times have come down quite heavily. That obviously indirectly helps us to reduce the overall kind of freight costs. But what one has to keep in mind is most of this infrastructure is happening with tollages sir. So, there is a net negative effect on the overall kind of cost even on that.

Turnaround times definitely have come down sir. Earlier, when I started my career it used to take close to around 15 hours from our plant to Hyderabad, which is 200 kilometers away. Today, it takes less than five hours to reach. So, there is a huge, huge kind of -- the carrying capacity definitely has gone up from what was sub 20, 25. Today, people are talking of near 50 to 60 ton carrying capacity. So, these things would definitely add up.

But unfortunately, on a shorter term, the infrastructure built up also is happening with the tollages, so that more or less is negating the overall kind of costs. But this could be a short term, but medium to long-term, we definitely think it will save quite a bit.

Manish Valecha: Sir the next question is from Vincent Andrews. How much would be the cash outflow for Andhra Cements towards acquisition and subsequent CapEx on that?

Sreekanth Reddy: Sir, it is too soon. So, we are in the bidding process. We'd be very happy as soon as it reaches to some point, we'd happy discussing that.

At this point of time it is -- it's in the bidding process. So, it's too soon for us to comment on that.

Manish Valecha: Thank you. I would now like to hand over the call to you for your closing comments, please.

Sreekanth Reddy: Thank you. We would like to once again thank you for joining on the call. I hope you have had all the answers you are looking for. Please feel free to contact our team at Sagar or CDR should you need any further information or you have any further queries. We will be more than happy to discuss them with you. Thank you and have a good day. Thank you, Manish.