SAGAR CEMENTS LIMITED

SCL:SEC:NSE:BSE:2021-22

19th May 2021

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

Symbol: SAGCEM
Series: EQ

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

Scrip Code: 502090

Dear Sirs

Sub: Conference Call on Q4 and FY 21 financial results

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We are forwarding herewith the transcription of the Conference Call held by us on 14th May, 2021 in connection with the recently announced audited financial results for the quarter and year ended 31st March, 2021.

Thanking you

Yours faithfully
For Sagar Cements Limited

RANGASWAMY SOUNDARARAJAN
Digitally signed by RANGASWAMY SOUNDARARAJAN
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R.Soundararajan
Company Secretary

Encl: a.a.

Sagar Cements Limited

Q4 FY21 Earnings Conference Call Transcript

May 14, 2021

Moderator: Good afternoon ladies and gentlemen, welcome you all to the Q4 FY21 results conference call of Sagar Cements Limited. We have with us from the management Mr. S. Sreekanth Reddy, Joint Managing Director, Mr. K. Prasad, CFO, Mr. Rajesh Singh, Chief Marketing Officer, and Mr. R. Soundararajan, Company Secretary. We will start the session today with opening remarks from the management and then this will be followed by a Q&A session. I request all the participants to be on mute mode during the course of the call. I would now like to hand over the call to Mr. Gavin Desa from CDR India for his opening remarks. Over to you Gavin.

Gavin Desa: Thank you, Manish. Good day everyone and a warm welcome to Sagar Cements Q4 FY21 earnings call, as he said we have with us today Mr. S. Sreekanth Reddy - Joint Managing Director, Mr. K Prasad - Chief Financial Officer, Mr. Rajesh Singh - Chief Marketing Officer and Mr. R. Soundararajan - Company Secretary.

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

Sreekanth Reddy: Thank you, Gavin. Good afternoon everyone. Welcome to Sagar Cements, earnings call for the quarter and year ended March 31, 2021.

Let me begin the discussion with the sector related dynamics with respect to pricing and demand trends across our key markets post which I will move on to Sagar specific developments.

Volume growth during the quarter remained elevated owing to strong underlying demand. Higher Government spending and steady rural economy along with soft base aided demand sentiments. Consistent demand from individual housing in semi urban, rural region and a healthy pick-up in infrastructure activities helped in driving the volumes for the quarter. Volumes in Southern and Western regions to some extent were supported by a pick-up in Government led infrastructure projects.

Moving on to prices, a sharp rise in input prices necessitated price revisions during the quarter. Broadly though on a sequential basis, realisations remained more or less steady. Region wise, the price improvement in AP, Tamil Nadu and Telangana were offset by the decline in Karnataka and Kerala. Softness in Kerala was due to fall in demand ahead of state elections. Moving to West, Maharashtra – resumption of the construction activities and availability of workers led to improved realisation in the region after a long gap. Prices in East which were trending below the historic average, improved to some extent.

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

Moving on to Sagar specific developments, we are pleased with our performance for the quarter and the year as a whole. It was an extremely challenging year for all of us, which I am sure most of you would agree. But I am delighted and proud with the way we have dealt with it. I would like to thank our employees, dealers / distributors, bankers and all our stakeholders who have supported us throughout the year.

Before moving on to the financial performance for the quarter, let me just apprise you of the latest development with regards to our erstwhile subsidiary Sagar Cements (R) Limited ("SCRL"). As most of you must be aware the Board of Sagar Cements approved the proposal to merge SCRL with itself, just couple of weeks back. Given that it's a merger of a wholly owned subsidiary, it will not result in incremental share issuance by Sagar Cements. The rationale behind the merger was to lower the cost overheads and improve the overall efficiency. The amalgamation will result in efficient utilization of capital and an improved financial structure.

Moving on to the quarterly performance now, we have delivered a good revenues and profitability growth. Revenue growth was backed by good volumes on the back of strong underlying demand. EBITDA for the quarter grew by 133% over previous year, amounting to Rs. 104 crores. Profitability could have been higher but for the rising input prices. We have seen a steady increase in the input material prices be it pet coke, coal or diesel. As indicated in the previous call, we had low cost pet coke inventory which lasted till January, following which we had to shift to Australian coal. In addition to the low cost inventory, higher utilization levels / operating leverage resulted in softening the impact of rising variable cost and helped in normalizing the fixed costs. Going ahead, we believe the commissioning of Satguru and Jajpur plant will help us in further rationalizing our cost besides improving product mix.

Average fuel cost stood at Rs. 864 per ton as against Rs. 911 per ton reported during Q4 FY20. Optimization of thermal efficiency coupled with lower fuel prices resulted in lower per ton cost of fuel. Freight cost for the quarter stood at Rs. 742 per ton as against Rs. 713 per ton during Q4 FY20. Profit after tax for the quarter stood at Rs. 50 crores, as against profit of Rs. 1 crore reported during Q4 FY20.

On an annual base, revenue from the operations for the year stood at Rs. 1,371 crores as against Rs. 1,175 crore generated during the last year, increase by almost 17% YoY. EBITDA for the year stood at Rs. 400 crores as against Rs. 186 crore reported during FY20, up by almost 116% YoY. Profit before tax for the year stood at Rs. 281 crores as against Rs.50 crore reported during FY20. Profit after tax for the year stood at Rs.186 crores, as against PAT of Rs. 27 crore reported during FY20.

From an operational point of view Mattampally plant operated at 61% utilization level while Gudipadu and Bayyavaram plants operated at 88% and 73% respectively during the quarter.

As far as the key balance sheet items are concerned the gross debt as on 31st March, 2021 stood at Rs. 806 crore out of which Rs. 704 crores is long term debt and the remaining constitutes the working capital. The net worth of the company on a consolidated basis as on 31st March, 2021 stood at Rs. 1,258 crores. Debt equity ratio stands at 0.56:1. Cash and bank balances were at Rs. 254 crores as on 31st March, 2021.

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

Moderator: Thank you Sir, we will now begin with the Q&A session, reminder to all participants, you can ask your question by raise of hands in the participant tab of the zoom platform. We will wait for a moment for the question queue to assemble.

Our first question is from the line of Pritesh Sheth. Please go ahead.

Pritesh Sheth: Hi, sir. Thanks for the opportunity and congrats on the great year for Sagar Cement. My first question is, we saw Andhra government's cement sourcing, crossing 1 million tonne, which they had promised last year, which is a very good performance. I mean with very good ordering from their side. From here on, how do you look at it? Will, this trend continues. Obviously March might be because of being the last month. There might be some more push out in terms of orders, but from here on, how do you see this trend to continue?

Sreekanth Reddy: Good Morning. See, I think as committed, Andhra government has been consistently and steadily taking a lot of cement. We did suffer during the April month for obvious reasons, I think for the next couple of months, the scenario may not be very different. But given the commitments, to sticking to their political Manifesto, which they have given earlier, and what they have indicated in couple of meetings that we have had before the second wave really hit hard and the entire govt. machinery being busy with it, handling it. Yeah, we think that in the current year, the demand from government should be more than doubling, is what we think, so we don't see any major issues coming from the Andhra government offtake.

Pritesh Sheth: Right, and what do you see the impact of, impact post the elections in Tamil Nadu and Kerala, demand is going to continue again or might slow down a bit, After that?

Sreekanth Reddy: See, I have to go only with the historical trend, sir, I mean, our experience in the past is six months before and close to six to nine months, post-election, demand typically tends to slow down. But this time around, this is an unusual and very difficult times. So predicting how it will shape up would definitely be a challenge, coupled with the regime changes in Tamilnadu and the government coming back in Kerala, how the demand is going to shape up is anybody's guess at this point of time, given the second wave of pandemic, Pritesh, it's too soon for us to comment anything on the demand outlook for any of the state's, leave alone these states, for any of the states, it's likely going to be a big challenge kind of an environment now, and predicting any number also would definitely be a challenge right now. We may have to wait before we know the trend lines to certain accurate level. The only silver lining what we have seen is, the lockdowns did not really make the dispatches to zero. There were some dispatches, which gives us some comfort that it may not be as nasty or as bad as the COVID second wave itself is.

Pritesh Sheth: Thanks. So I think that was my second question as well, in terms of how are you seeing demand in terms of April and May, as the fallout being very drastic or it still 20 - 30% lower than the numbers we saw in January, February?

Sreekanth Reddy: I would never go with the percentage drop sir, the typical March, pre-March numbers will definitely be at an elevated levels compared to the Q1 numbers. But the real impact we have started seeing from 15th of April from then on, we started seeing a study slowdown in the overall kind of a demand. Yeah, the only thing that we are happy about is that it has not come to standstill or zero. There are some dispatches which are happening. But the real trend lines we will only know probably sometime later, with a hope that the impact of COVID would start tapering down quite drastically from here on.

Pritesh Sheth: Sir, it's not of that bad as last year.

Sreekanth Reddy: These are not comparable, like last year, it was complete, everything was caught out of surprise, this time probably some of the states did not impose lockdown so far and some of them have been doing in a staggering way. So far, it did not come to standstill, bit a slowed down quite a bit.

Pritesh Sheth: And one last from my side, it's on the cost. So have you seen a full absorption of whatever the cost increase that we have seen till now like pet coke reaching $130.

Sreekanth Reddy: In our case, we do fuel hedge for six months or two quarters ahead. So from last year to expected for the current quarter and the next quarter, we think the overall cost increase could be to an extent of 250 rupees, mostly due to the fuel prices.

Fuel when I talk, it includes both, the thermal fuel and also because of the diesel price hike. It's only a matter of time and the diesel also will hit century. So these two we think that we will start the overall kind of a cost increase by around 250 rupees per ton compared to the last year to the current quarter and the next quarter. That's what we think.

Pritesh Sheth: Compared to last year, not the last quarter

Sreekanth Reddy: Sir, for us it is weighted average. So if I have to compare with last quarter probably it could be only 175 to 200. But compared to last year, it could be 250.

But these are with an assumption that diesel price would slowly go up dramatically if it increases, then it could impact but, yeah, as it is, we think 250 rupees could be an impact for the next two quarters, relative to the last year.

Pritesh Sheth: Okay, thanks. I think that's it from my side. I will join back in que. Yes, if I have any. Thank You. All the best.

Sreekanth Reddy: Thank you.

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

Shravan Shah: Hi, Sir, can you hear me?

Sreekanth Reddy: Yes

Moderator: Yes. Please go ahead.

Shravan Shah: Yeah. Sir, just to reiterate, when you are saying that 250 rupees that is you are saying both combined power and fuel and freight costs increase for first and second quarter of this year versus last year?

Sreekanth Reddy: Yes, sir. You are correct.

Shravan Shah: Okay, I am now coming back to the debt level. Now we are at Rs. 800 crores level. So we were looking at a peak debt of Rs.775 odd crores. So what's the status there and how much capex left and how much planning to do this year and the next year for both the ongoing capacity

Sreekanth Reddy: Yeah, now, our net debt position is close to Rs.550 crores. we have another Rs.225 odd crores still left for the capex that includes both the projects as well as some of the capex that we do at Mattampally as well as Gudipadu. So, all in all we may have to do somewhere around 225 to 250 crores of capex during the current year, which is likely to be completed over the next two quarters itself, bulk of the capex would be completed during the Q1 and Q2 of this year with an assumption that the impact of COVID would start tapering down from now.

Shravan Shah: So, on the net debt or may be gross debt, how much peak that we can?

Sreekanth Reddy: I think at 800 we should be at peak out, we should be relatively lower, but I'm trying to have a conservative estimate that includes the working capital. So, we should be peak out at 800 which is the current financial year, the next year probably it may drastically fall because this is the first year post implementation of both the project so, we will be at peak and we have the moratorium. So, I think at 800 crores, we should be at peak on the debt side.

Shravan Shah: Okay. And last time you said both these plants would be operational by the end of September of this year.

Sreekanth Reddy: We are sticking to the same timelines.

Shravan Shah: I got the point. I'm trying to say that previously we said we can see around 50% kind of a utilization in the second half once it would be operational. So is it intact and if that is the thing and let's assume the COVID normalizes by that time and things will be normal, in the next year, because both these plants are in the high demand zone. The next full year we can see of 80, 90% kind of utilization in both the plants.

Sreekanth Reddy: Mr. Shravan, as I mentioned, if the impact tapers down. We should be commissioning by September. So that leaves six months of operation for both the projects but I don't think we will be operating at 50% Sir, 50% of that six months would effectively translate to full year 25% capacity utilization for the current year. So the guideline what we have given from a volume outlook perspective is last year we did 3.1 million Sir, for the current year what we have budgeted is around 3.6 million, where 3.2 million would be from the current assets that we have, the 0.4 million is what we are expecting from both these assets put together, with 0.2 million coming from each of the asset. So that gives a guidance of 3.6 million for the current year at a consolidated level for us.

Shravan Shah: Okay, Thank you and all the best Sir.

Sreekanth Reddy: Thank you.

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

Bala Murali: Good morning. I would like to have a bet on capacity level utilization of the existing assets.

Sreekanth Reddy: We would be more than happy sharing it out off- line Sir. In fact, the investor presentation, it does carry the utilization level plant wise. Mr. Bala Murali, I think it is already presented in the presentation, but just in case you need more, we'll be happy to share that.

Bala Murali: Thank you and one more thing. As I see, Actually, I'm looking this sector from fue days ago. And as I see that the power consumption cost to us spending on power is the main factor. So do you have any idea means any plans to shift to solar power and Coal generated power?

Sreekanth Reddy: Mr. Bala Murali, See, I appreciate if you look at the presentation, and the integrated report of last year, 80% of our power is from our internal sources, that includes hydro, that includes solar, that includes waste heat recovery, and also the captive power plants. Yeah, the cushion of 20% is always kept as an insurance kind of thing, just in case as a fall back. But as we speak, 80% of our power is from internal sources, or captive sources for ourselves.

Bala Murali: Thank you.

Moderator: Thank you, reminder to all the participants, you can ask your question, by raise of hands in the participant tab of the zoom platform. The next question is from the line of Jaspreet Singh, please go ahead.

Jaspreet Singh: Hi Sir, Good Afternoon and congrats on a very good year, despite difficult conditions. Sir my question was, based on the early trends in April and May, what are you seeing are the larger cities, the smaller cities, and tier three towns as impacted as the larger ones? That's one and within retail and institutional? Is it the same? Is it like the retail is more impacted? Because again, you know, that side of the pocket is getting more hit, versus the institution. So your comment on these two, please?

Sreekanth Reddy: Yeah, good afternoon Jaspreet, See Jaspreet, I think impact is across, I would not single out telling it's urban, rural or semi urban kind of, this time, it has been nasty, because I think it has touched all the near and dear.

The offtake in these difficult times typically tends to be more with the institutional rather than retail because lockdown and the understanding of how the schedule and all works did disturb some amount of retail, in the initial phases in some of the states where lockdown was imposed slightly ahead of the other states. But as we speak, the institutional sale looks to be higher than the retail one, Jaspreet. Yeah, I think like in the first wave or the first time last year, same time, it started with Urban, but I think it is slowly spreading. But this spread, this time was a lot more quicker and it has been across. So we did lose dealers, some of them lost life. The some of our colleagues did get impacted, they recovered some of them. It's an issue which is ongoing. So the real impact probably assessing that it's too soon. Yeah, we only hope and wish that it doesn't get worse than what it has so far done.

Jaspreet Singh: Okay. Okay. got it. Thank you. The other one is, Did I hear it correctly? We're looking at something like 3.6 MT versus 3.2. MT last year.

Sreekanth Reddy: Yes 3.1 MT Jaspreet, from 3.1 MT the budgeted number is 3.6 MT, out of which 0.4 MT is from the new projects and 3.2 MT is from the existing.

Jaspreet Singh: So my question was on that 3.2 MT, what are you building in? What are your assumption because the way situation is on the ground? Right. So how are you? What's your sense in terms of the ease out or you know, unlock, sector, sector? Q1, moving up to Q2, Q3, how much do you think you know, Q2 would be better versus Q1? Just to understand?

Sreekanth Reddy: Yeah, Jaspreet. Just to remind you last year, Q1 also was very low, in fact, April was zero. So we don't see a big challenge as we speak with an assumption that it would taper out. We don't see any challenges, we might follow the similar kind of a suit like how we have done last year, so we are not factoring a great number increase from the existing kind of an operation, though there was surge of demand during the second half last year, and especially Q4 was phenomenal. But we are not factoring any of that demand rises for the current year. Yeah, we are still trying to have a conservative estimate. So we don't see a bigger challenge achieving that 3.2 MT. But the caveat there is that, we not only optimistically but that has been the wish that the second wave impact should taper down from here on is, what is our assumption.

Jaspreet Singh: Okay, got it. Yeah. Just wanted to understand that if at all things remain as it is, or it improves, we should be surprised on the positive side on this number.

Sreekanth Reddy: That's the hope and wish but yeah, we cannot go on the hope alone. Right So, you know.

Jaspreet Singh: yeah, it's a quarter to quarter a dynamic situation. So yeah. Fair point. Yeah. Got it Sir. Thank you so much and all the best.

Sreekanth Reddy: Thank you.

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

Sanjay Nandi: Good afternoon sir.

Sreekanth Reddy: Good afternoon sir.

Sanjay Nandi: Yeah, hope you are safe, sir.

Sreekanth Reddy: Soo good so far sir, Thank You.

Sanjay Nandi: Sir, two questions from my side, like, what would be the synergies from the merger, what we have concluded on the month of April, like for the SCRL merger?

Sreekanth Reddy: Yeah, the major synergy comes from the fact that though the brand and the marketing team is highly synergized, but there is a lot of duplication when it comes to the compliance related especially you know the board meetings, the planning, it's an independent company. So most of the procurement has to be done very, very independently. So from an operational standpoint, though, the ownership is complete, but having two assets in the same business as an independent kind of a thing. We thought it may not make good business sense, the holding structure as such, it is 100% Wholly owned. Yeah, we never wanted to have too many step down. So we are trying to ease out on the structural issue from an ownership perspective also. Yeah, these bigger synergies come from the fact that, we are duplicating like purchase department, it's centralized, but raising purchase orders two independently, invoicing two independently and everything starts becoming You know, I'm sure you will appreciate, yeah it's kind of a duplication for the same team. So, that itself is a major synergy is what we see.

Sanjay Nandi: Sir, can we see any cost synergy going forward from this merger, if possible?

Sreekanth Reddy: Cost, I think from an operational perspective cost may not be a significant kind of a saver, yeah, one of the potential kind of thing is on the tax optimization. So, we don't see any other costs majorly getting saved because of the merger, it's more an operational.

Sanjay Nandi: Sir, just structural change basically,

Sreekanth Reddy: The structural and as well as the operational sir, these are the two major benefits that we see in the merger

Sanjay Nandi: Okay and sir, regarding the new capacities, which were announced basically for the Odisha and central India plants. So, we are starting from the September thing right.

Sreekanth Reddy: So, far, it looks like, it should be ready for the September, when the Satguru the Madhya Pradesh project when it had to take a complete stop 15th of April when the oxygen supply and everything was banned for the industrial use. Yeah, we had to take an abrupt stop at that point of time we're actually running ahead of time. Here now, with the stoppage we expect the oxygen supply slowly started getting restored and we expect that to come by first week of June. So we hope to go back to the same number of people who are working at the site, that happens and we wish it happens then we are due for commissioning in September. Now coming to the Orissa project sir, it did not get impacted so far because it's part of an industrial estate. We hope it remains the way it is. So that also is likely that we should we should commission much before September itself.

Sanjay Nandi: So combining these two things were estimating up like a volume to deliver in the quantum of 0.4 million tonne right for the second half.

Sreekanth Reddy: For these two new projects we are expecting a 0.4 million tonne addition to our existing assets, volumes that we will do from the existing assets that we have.

Sanjay Nandi: Sir, that basically comes roughly kind of 40% kind of utilization. So for this year, so

Sreekanth Reddy: No sir it doesn't come as 40 sir, it is much lower than 20 - 25% because what you're looking at is a 2.5 million tonne addition, 1.0 MnT at Madhya Pradesh and 1.5 MnT at Orissa. For 2.5 MnT we are talking about 0.4 MnT.

Sanjay Nandi: Okay. Sir going forward like what can we expect in the next year like if FY23 if the things the way they are shaping up?

Sreekanth Reddy: Yeah, we think 75 to 80% at Satguru is a possibility and 70% at Jajpur, Orissa is a possibility

Sanjay Nandi: And from the difference you just mentioned like we are still left over with 225 crore of capex, so, if you are standing at a gross debt level of Rs. 800 crores, so roughly 1,000 crores will be the peak debt sir right, Am I right?

Sreekanth Reddy: No sir, on a net debt basis we are only at 500 to 550 sir, so, Gross debt may not cross more than 800 is what we currently forsee.

Sanjay Nandi: after the payoffs,

Sreekanth Reddy: yes.

Sanjay Nandi: Okay, so thank you so much back in que sir.

Sreekanth Reddy: Thank you.

Sanjay Nandi: Thank you so much. Hope you stay safe, sir.

Sreekanth Reddy: Stay safe. Thank you.

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

Prateek Kumar: Yeah, good afternoon, sir. My first question is on cement prices. So, they have been like, attempts in of raising prices, like in April, then in the month of May. So, sir, how has been attempt that going through in the month of May? Have they been able to, has the industry been able to take price hike and as logistics now impacting the operations, which is helping the price as well.

Sreekanth Reddy: Yeah. Good afternoon, Prateek. I cannot comment about the industry. I can only comment about ourself. Yeah, that's our job sir. I mean, I think we have to realize whatever we think is the best possible thing that we can do. Yeah, the attempt is always there. In fact, the price regime took a slightly downward turn last year from January February, the prices slowly started inching up from March till April 15th, from March or from February exit to march exit, I think there is a 10 to 15 rupees per bag kind of an increase that we have seen for ourselves. From March to April 15th. We did realize extra 10 rupees that we could get, from April 15th onwards, though there is, since the volume started shrinking, the clear direction that was passed on to our marketing team is to recover fixed cost increases that are likely to happen. Yeah, but in reality, we would only get to know after some time sir, as the retail most of the retail kind of a regime is under pressure with the lockdown and handling the ecosystem, the real increase in prices, we will only get to know after some time, I think it's too soon for us to comment anything. But the general trend has been on upward compared to exit prices from March to April 15th to May entry, yeah we have seen certain increases, but the quantum and all we will only be in a much better situation to come in after some time.

Prateek Kumar: But at best, it would be rupees 10 or lower.

Sreekanth Reddy: I do not want to take any guess Prateek, I would rather wait because during this time, the challenge was to survive rather than to look at these things. So most of the marketing staff actually went back to work from home and some of the dealers did getting impacted. As I mentioned even earlier, we did lose a couple of dealers unfortunately for COVID. So at this point of time, the impact assessment is still going on but we will exactly be in a much comfortable scenario, probably end of this month we will be in a much better situation to comment on this. I do not want to make a wild guess on this. I'm sure you'll appreciate that.

Prateek Kumar: And just one question, you said that fuel, we have shifted our fuel to international coals what will be our fuel mix now?

Sreekanth Reddy: Prateek, we have been shifting from pet coke to Australian coal, from Australian coal now we will be shifting back to pet coke as well as US Coal. So that's the mix that we have right now. Yeah, this is a mix that is available for us for next six months or two quarters Prateek, so we have one shipload of pet coke that is arriving and we already have one shipload that has arrived from an US coal perspective. So we will be doing the blend of these two fuels over the next two quarters.

Prateek Kumar: And this factor is 175 rupees increase from Q4?

Sreekanth Reddy: Yes. You're correct.

Prateek Kumar: Thanks Sir, I'll get back to the que.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from Jashandeep Chadha. Please go ahead.

Jashandeep Chadha: Hi, this is actually Satya deep Jain from Ambit, I am using Jashandeep name. Good afternoon, Mr. Reddy. Just a couple of questions on power and fuel cost. Firstly, we are hearing of force majeure in some ports after the COVID. Sir as you see your Saudi shipments you've hedged, are you seeing any impact on this commitment from the force majeure?

Sreekanth Reddy: Fortunately, no. We have the entire US coal one shipload is already dumped at the port sir, the Pet coke is also due. I think, it's on sail. So far we have not had any of these force majeure issues popping up.

Satya deep Jain: Okay. Secondly, as you look at the current cost of Australian coal, US coal and pet coke on a per delivered cost on a per kcal basis, what's your sense of discount of let's say Pet coke to some of these prices? And as you're hedging, are you currently hedging for the next, you already have hedge position for the next two quarters? Are you layering in additional hedges beyond? Is it possible to layer in additional hedges beyond the six months? And what could be given prices? What could be the increase in cost beyond the next two quarters? So you already mentioned 250 rupees per ton increase in the next two quarters? How can we look at based on current prices? beyond those two quarters?

Sreekanth Reddy: No, I think see our stated policy has been to hedge up to two quarter sir beyond that we generally don't hedge because it's too much of a financial commitment. For our size, I think six months is comfortable for us to look at the holding beyond that it will become far too expensive in holding costs itself. So, now, coming to the futures, we are too small to analyze that, the current trend has been flattish, it went up by 15% and the trends are there it is more or less sticking to that. So far. Fortunately, we have not seen any incremental kind of cost increases on or the procurement cost increases on that beyond six months as we speak. But we will know this only a quarter ahead of time. Six months is too long a period for us to talk about what is likely to happen on the fuel side beyond that

Satya deep Jain: What could be on a relative basis right now, on a per kcal basis.

Sreekanth Reddy: I think we have indicated that in our presentation.

Satya deep Jain: Okay.

Sreekanth Reddy: But it's right now at Rs. 1.40 Sir, more or less pet coke, imported coal, Indian coal more or less, they are all in similar kind of a band. In our case, singareni coal still looks to be slightly lower. Yeah, we are even blending the domestic coal. For us, Fortunately, singareni did not react to the international prices so far. So over one year the prices of singareni coal remained flattish. So given that scenario, now, the pet coke, imported coal and domestic coal, more or less are in the similar kind of a band.

Satya deep Jain: Thank you. Thank you so much.

Sreekanth Reddy: Thank you.

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

Gaurav Birmiwal: Hello, sir. Thank you for the opportunity. Sir. I had one question on your realization. We are seeing a 4% quarter on quarter drop in realization, which is slightly higher than some of the pan India players, what they have reported. What can be the reason for this sir, is this a South phenomenon? Or is it a result of your trade mix or something else?

Sreekanth Reddy: Yeah. Good afternoon, Mr. Gaurav. Oh, yeah, this is a function of product mix. Market mix kind of thing. Mr. Gaurav, I don't think this is an Apple to Apple comparison. Yeah, the trend lines. As I mentioned earlier, the January and February the prices actually decline. But that alone was not the reason for the drop in the realization. In our product portfolio, we have GGBS, we have PPC, we have PSC, we have OPC and again, we have different market mix.

So it's a highly dynamic kind of scenario. Yeah, as mentioned earlier, there was a price drop during January and February, not only for us, but I think that has been the case with most of the markets, the markets that we operate and when we have to compare ourselves with most of the peers, it's highly unlikely that we have a similar kind of mix to do on the same either market mix or a product mix. I think it's a combination of various things, Mr. Gaurav.

Gaurav Birmiwal: Thank you.

Moderator: Thank you. The next question is from Bharat Sheth. Please go ahead.

Bharat Sheth: Hi, thanks for the opportunity. Sir, two question how much I mean, new capacity are we seeing in our core area, Andhra, Tamilnadu surrounding market, which is likely to come up with your next two three-year time?

Sreekanth Reddy: Yeah, two, three years is a long trend sir, let us look at what is likely to happen the current year. I think Ramco is due for commissioning. The grinding plants of Chettinad and the extension of or the expansion of the grinding plant of Penna in krishnapatnam, and the Chettinad grinding plant in Vizag, that are likely to happen in the current year in the regions that we operate. Orissa, I think we are due in September along with us there are couple of other grinding stations that would ramp up probably would be the last to commission but there is some ramp up possibilities in the Orissa regions.

Bharat Sheth: Okay. Second question. Now, some of the player I mean, from the south market are using, I mean a container or railroad for dispatching over a little longer distance. So, any comment on that? I mean, how we are seeing that trend developing?

Sreekanth Reddy: No, I think, logistics itself is a huge subject, sir. I'm sure people would use all the possible modes for transportation, typically in our experience sir, interregional movement, typically, we don't expect it to dramatically change. Yeah, some of the opportunities probably would make people to move from unusual kind of interregional movements, what I meant, that probably keep on happening, for it's a case to case and very specific to each of the companies, I don't think, I can make a comment much on those issues, the conventional interregional movements, I think those are, those have been and continue to remain what they have been yet sometimes we did see some players moving from south into the central markets, but that I think, is a very opportunistic kind of a scenario that keeps happening but that's a very, very small percentage and once in a while kind of an event.

Bharat Sheth: You know what you're doing, I mean to use the in digital for logistics and connecting the dealer and to bring everything all the time like I'm in real time. So, are we really are working on that.

Sreekanth Reddy: Sorry, Mr. Sheth, I missed out Can you can you repeat the question for me please.

Bharat Sheth: So, I mean, using a digital image tracking the demand and remaining in touch with our dealer on digital platform and even logistic also. So, to make it I mean more efficient and bring down the logistic cost also. So, what exactly is our thought process on that line?

Sreekanth Reddy: Sir, we are one of the most sophisticated cement plant in India, I do not want to comment anything more on it, yeah digitalization did help quite a bit, both in manufacturing side as well as on the distribution side. Yeah, we are one of those companies which are in forefront of usage of the technologies.

Bharat Sheth: Thank you very much.

Sreekanth Reddy: Thank you.

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

Rajesh Ravi: Yeah. Hi, sir. Good afternoon. Sir, I have few questions first on the employee costs was the spike up seen in the fourth quarter? Any specific reason for that or would this be a new normal given that your capacities are expanding and also if you could comment on the annual numbers non-current and current asset number last two years there has been a significant increase. So are they related to the ongoing expansions and they will get reversed in the FY22 and third one the debtor numbers which have come down significantly and what is your thought on that? I will come back for more. Thank you.

Sreekanth Reddy: Yeah, Good afternoon my deepest condolences Rajesh. I think the current assets, it's because of the ongoing projects, I would put it, the secondly on the debtor side sir. Yeah, there is a significant improvement with the government payouts happening during that time, the general debtors position has come down. And lastly, which is the usual practices the annual discounts for most of the entitlements of annual discounts sir, Yeah, there is a clear commitment from most of the people for fulfilling their payouts for being eligible for the discount structure. So these are the three reasons why the debtors position has significantly changed. Yeah, Rajesh, can you help me repeat the first question you asked me.

Rajesh Ravi: Employee cost number in fourth quarter has gone up to 23 crores versus QoQ 17.5 crore and you know, the first half also number was averaging at around 18 crores.

Sreekanth Reddy: Yeah, Rajesh. Two things have happened here. Typically, we had an incremental additional bonus that we had to pass on for the people. Because, as you seen, it's an appreciation for all the people who worked extremely hard in a very difficult time. There was one-month basic salary being paid as additional bonus that was given additionally to what normally we give, it was more a performance event kind of thing. Yeah, we wish it becomes a regular practice. That was done during the last quarter. That's the reason why there is a spike.

Rajesh Ravi: Okay, so in a normal subsequent quarter, this may come down, right?

Sreekanth Reddy: We wish it goes up, because it's a performance driven kind of a number. But in a normal situation, if you have to look like to like, it might come down, compared to Q4 and the same time most of the commission adjustments and all for the directors and all would happen during that time sir. So it's also coupled with that. So, it's within an annual, it's specific to Q4.

Rajesh Ravi: Okay, and sir on the net debt number. You know, we have done very well on the net debt numbers in FY21. Now, because you believe you mentioned that around 225 odd crores more capex is, you know, on the ongoing project is pending. So now, what are the net debt numbers you're looking at? Or you know, for it, which may peak out in FY22?

Sreekanth Reddy: Yeah, there are two factors one, we have to look at it, we are not assuming a great year current year, not that we don't believe it is going to be a good one. But conservatively we are planned that this year is going to be flat. If the year is going to be flat sir. Our net debt is at its highest should not cross more than 800 crores. This includes incremental working capital also, which is not yet factored for the new capacities that are coming, even factoring that we should not cross more than 800 crores.

Rajesh Ravi: That's all and hope to see great performance ahead.

Sreekanth Reddy: Thank you. Take care.

Rajesh Ravi: Thanks. Thanks for your wishes.

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

Sriram Rajaram: Sir, thanks for the opportunity. I have a few questions. Sir, firstly, what is the government volumes for us, if you can give the absolute number for a FY 21 it will be helpful. Secondly, sir, what was the industry capacity utilization for FY 21. And also the quarter ended FY 21. And further, you can just update on the absolute capacity additions coming up for Ramco and other players. And the third point is on the pricing. I missed your comment on pricing from March to now. So we are expecting an increase in prices. Am I right in my understanding.

Sreekanth Reddy: Yeah, Good afternoon Sriram, I think you asked a question, which I'm sure you'd appreciate that industry, average capacity utilization is way beyond my data sir, or comprehension.

Our capacity utilization was in the range of around 55% for last year, we have been an industry player, so may be majority of the players probably could be in a similar range. But there are definitely some players who did operate at 90%, and some of them did operate at 100%. But the average capacity utilization again, I'm only making a general historical kind of a trendline. What we have seen, we are at 55%. So we assume some, somebody similar like us would have also operated with a similar kind of a number, but somebody with an exposure to east or west, the numbers probably could be higher, who have exposure much more than us. But pure South, I think the industry number should be 55 sir, somebody has done more. Probably they were trying to squeeze that extra volume into the market.

Sriram Rajaram: I was referring to South actually

Sreekanth Reddy: Yeah, if you're looking at South our average capacity utilization very southbound is near 50 - 51%. We believe that's where it should be for the industry from a logical perspective because the installed capacity to that of demand, yeah is near 40 - 45%. So it should not be higher than that number from a logical perspective but our industry most of the time works on magic and less on logic sir.

Sriram Rajaram: okay. And so on the upcoming capacities,

Sreekanth Reddy: On the upcoming capacity I again I go with the disclose number sir, Ramco I think it's 2.5 million tonne integrated plant coming up. Chettinad I think is a 2 million tonne grinding plant and I think Penna also is a 2 million tonne grinding plant in krishnapatnam, these are the three projects which are likely to happen in the current year.

Sriram Rajaram: Yeah and lastly on pricing front

Sreekanth Reddy: See from March exit to April exit we have seen almost a 15 rupees' kind of a per bag increase Sir. From April exit to May, I would rather wait for me to keep my neck out about the real price increases, yet prices have gone up, but by how much and all probably I will take slightly longer period for us to do exactly know.

Sriram Rajaram: Thank you.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from Vaibhav Kapur, please go ahead.

Vaibhav Kapur: Yeah, good afternoon sir. Sir, I just wanted to understand about Satguru cement. So, you have a 65% stake, any timelines or understanding of when this will go to 100%.

Sreekanth Reddy: So, we are partner's sir. So, generally we don't discuss about their exit plan. The agreement has happened that we are at 65% and they are at 35%. If at all whenever they want to exit

Yeah, there is a valuation equation that is stated in that. On their insistence, we said that we would not discuss this for next three years, but I would be very happy to engage with the partner just in case he has any other plan. But as indicated Sir, we did not discuss any of the exit plans that they have.

Vaibhav Kapur: So, this is a long term, is from a long term understanding

Sreekanth Reddy: Sir, it's a relationship that is long term.

Vaibhav Kapur: So the second question I just want to understand with respect to you know, post the commissioning of your plants, what would be the principal payment and the interest schedule, some understanding that?

Sreekanth Reddy: We have a moratorium for one year from the COD sir. So for the next one year, we have a moratorium, after that its annual payout spread over 10 years, 8 to 10 years, I will put it.

Vaibhav Kapur: There, that's when the interest will start jump. The financial cost will start having an increase

Sreekanth Reddy: It start reducing see if you if you start looking at the current trends this year, it would be at its peak, because there is a moratorium and you will be paying interest even on the full amount. But from next year onwards, it will drastically start reducing the principal and so is the interest. So this will be our peak debt for the assets that we have. That includes the two capex that we are doing. Yeah, I think this year our gross debt would be at its peak, sir.

Vaibhav Kapur: Yeah and you will definitely get some cash flows that will come for this one Year.

Sreekanth Reddy: That's the only reason why we end up adding capacities.

Vaibhav Kapur: Thank you so much.

Sreekanth Reddy: Thank you.

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

Dhiral Shah: Good afternoon, sir. And thanks for the opportunity. Sir this 3.2 million tonne of target which you're expecting from the existing region of operation, this is because of post-election related slowdown, you feel in next six to nine months.

Sreekanth Reddy: Sir it is 3.1 million moving to 3.2 million sir. So we are looking at a growth we are not looking at negative. Yeah, the reason why we conservatively factor this is there are some new assets that are getting added up. So whatever is the likely demand increase. Obviously, they would also consume some of that. Right. So conservatively we are estimating 3.2 million for our existing asset.

Dhiral Shah: This also includes these post-elections related slowdown.

Sreekanth Reddy: Sir this includes everything. But one thing that we don't know the real impact of the COVID, as long as it actually tapers down and we wish it does in the Q1 itself, then our numbers we would stick to those numbers.

Dhiral Shah: Okay, Thank you so much. That's it from my side.

Sreekanth Reddy: Thank you, sir.

Moderator: Thank you. The next question is from Prateek Kumar. Please go ahead.

Prateek Kumar: Yeah, thanks for the follow up Sir, one question. Sir our profit per tonne, like profitability has been like sort of. I mean, earlier part of FY 21 benefited from prices. I mean, but on an absolute EBITDA basis, we did a phenomenally stable EBITDA in Q2, Q3 & Q4. Like going forward. I mean, price is very difficult to project but annualized profit per tonne, what is the right profit pattern you think would make you happy I mean, as an industry participant in a free market.

Sreekanth Reddy: Prateek, see last year also made us happy, we would have been even more happier if it was even more. So what makes us happy is the highest possible number that we can achieve. But we have to be realistic about what is likely to happen. Yeah, we did 400 crores with 3.1 million. Yeah, we hope to cross that even with an increased volume. But these are all conservative estimates that we look at it, yeah not for a minute, we are trying to assume that prices would come down or the volumes would come down. But these are the estimates that we generally work with, because your planning would be much better. But anything more than what we have done on a specific per tonne would keep us happier. And our intent is to go on to achieve those kinds of things. But that's not in our hands. It's a very, very dynamic and market driven, from a cost perspective, we are reasonably there, most of the effort, and it's an ongoing kind of an effort, where we feel that the blending would improve. So with the blending improvement, we think that our cost structure would become even more lower than what it has been so far. I am sure you will appreciate we are one among the lowest cost producer of cement, in spite of having a constraint of less than 45% being of blended cement. Yeah with these two projects, we think that our blending percentage would go up sharply. So with that our overall costs would further come down. So it might add up to our margins is what we strongly think, Prateek.

Prateek Kumar: Sir, my question was more in the sense that last year, when we in the first quarter we did near 1,600 EBITDA per ton.

Sreekanth Reddy: But that time, it was more optical, Prateek. Low volume and it was very, very narrow down to the close by markets and pricing was also very good. Yeah. and in Q2, prices were bad, but we started spreading out. So once you start spreading out, obviously freight, and everything would take away that margin so that as your volumes increased, we started spreading to all the markets, which we have historically done. So prices did come down. But that alone was not the contribution for the lower. Also, the freight increases and the market spread also was higher and even the product spread also was higher.

Prateek Kumar: sure sir, I'll take it offline.

Sreekanth Reddy: Sure. Thank you.

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

Ash Shah: Good Afternoon Sir first of all, congratulations. Second, I have two couple of questions. So first one is just the way we merged SCRL with the company. So is there any plan for merger of Jajpur going ahead at once the capacity is on line and its commission?

Sreekanth Reddy: Yeah, Good afternoon sir, the intent is very clear sir, that we want to keep the structure as simple as possible. So any opportunities that we have, we would rather consolidate. I mean, that's the stated kind of a thing. We want to simplify the structure from management, from a visibility, from all the stakeholder's perspective, it makes a lot more logical sense. So we would pursue that option, Mr. Shah.

Ash Shah: Okay. And second question is from the medium term perspective. So as you have mentioned in your presentation, also that you expect to become a 10 million tons by FY 25. So have you shortlisted on any location? Or if you could throw any light on? What is the next phase of capex, given that this is going to get over in the next six months?

Sreekanth Reddy: Yeah, just to give you a background, yeah, one of the group company is involved in the advisory side of the cement business sir, called RV consulting. They are very active in technical as well as the business side advisory of the business. So I would at this point of time, not like to comment, which is very speculative in nature. We do have a couple of options. But at this point of time, yeah, we are busy with this two capex that are coming up as and when they stabilize, I think we have time, right? Its a long term. I mean, it's a stated thing that we want to become a 10 million by 2025. I think by the middle of this year, the financial year, we should have commissioned at least from 5.75 to 8.25. yeah, we don't see a big challenge for us to come up with that capacity over next three and a half to four years. So we don't see that as a challenge. There are a couple of options that are being pursued, but none has reached a stage where we can we can start sharing with all the stakeholders and be rest assured we are those organizations which would be very happy coming to communicate as and when it reaches to a stage where you know, where it's due for decision making. We will be happy to come back to you and reveal as and when it is done.

Ash Shah: Okay, Thank you Sir.

Sreekanth Reddy: Thank you.

Moderator: Thank you. The next question is from Sanjay Nandi. Please go ahead. Sanjay, can you please unmute your line?

Sanjay Nandi: Yeah, Thank you sir for the follow up question sir. Sir, just two questions like just you mention like we have a blend thing which will get improved going forward for this Satguru and this Orissa plant which will again further improve our cost. So, can you please help us in getting to known like, what is the current blend ratio for the existing plant and what would be for the new plant like for Satguru and Orissa

Sreekanth Reddy: See now sir, I am sure, we would be very happy if you could, send the query to our CFO, he will be happy giving details about each of the units, each unit has its own different blends, because Vizag is right next to the slag. So, the blend ratio is very different at a console level as I mentioned, it is close to 44%. Now, Madhya Pradesh is in a place where we have the fly ash available in the market also as good demand for the blended. So there Our target is to be more than 80% blended and Jajpur, as you know that it is part of the steel industrial estate, Kalinga Nagar Industrial estate, where you have all these steel plants. So the target there also is to make the slag based cement either it is CC or the PSC. So even there the blending, there the target is to do only 100% blended cement. So, with these two assets coming on board, we think we should be crossing at a console level more than 50% of our product to be on a blended side.

Sanjay Nandi: Sir, if we are shifting from 44% kind of blend from overall console level to 50% kind of thing. So what kind of incremental or cost savings we can guide going forward. Sir any figures, if you have.

Sreekanth Reddy: It’s a tricky issue, cost would come down. But that may not directly translate into margin. These are two very independent kind of thing, costs will definitely come down because obviously, you're using low cost blended material. So cost would fall. Especially if you look at the power and fuel cost, the more you blend on a per tonne basis, cost definitely start coming down quite significantly.

Sanjay Nandi: Okay and the second question sir, from the Satguru plant like we are having a 1 million tonne integrate plant here, right. So what is the, prospect like from that plant to implement or increase the capacity, like what kind of limestone reserves we have for that plant?

Sreekanth Reddy: we have at 75 to 80 million tons of limestone? I don't think that current limestone mines would support more than what is already there, sir. As we speak, with the current existing holding on the mines that we have, I don't think we would be expanding because we believe on a long term deposit life. So I don't think we would be squeezing one more line in that particular location.

Sanjay Nandi: Okay, sir. That's it. Thank you so much.

Sreekanth Reddy: Thank you.

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

Sreekanth Reddy: Yeah, Thank you. As always appreciate your time and interest in talking to us. sincerely thank you for participating in our call. kindly stay safe, stay home. Let us hope we will come out of this pandemic at the earliest. As always, we will be more than happy, both at Sagar as well as CDR to address any of the questions that remain unanswered or if you're looking at any information from us. Please do connect. We would be more than happy, sharing whatever we would have. Thank you again, stay safe. Good day.

Moderator: Thank you all the participants for taking your time for this call. You may now disconnect. Thank you.