Date: 29/05/2023

To,
The General Manager,
Department of Corporate Services,
BSE Limited,
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai - 400001.

Dear Sir,

Sub: Analyst/Investor call Audio Transcript for the Quarter/Year ended 31/03/2023

Ref: Scrip Code: 530977
Scrip Name: SHRI KESHAV CEMENTS AND INFRA LIMITED

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find the attached Earnings call transcript of analyst/investor call for the quarter/year ended March 31st, 2023 conducted after the meeting of Board of Directors held on May 25th, 2023, for your information and records.

Kindly take the above intimation on record.

Thanking You,
Yours truly,
For **SHRI KESHAV CEMENTS AND INFRA LIMITED**

VENKATESH HANAMANTSA KATWA
Digitally signed by VENKATESH HANAMANTSA KATWA
Date: 2023.05.29 10:34:11 +05'30'

Venkatesh Katwa
Chairman
00211504

"Shri Keshav Cements & Infra Limited Q4 FY-23 Earnings Conference Call"

May 26, 2023

MANAGEMENT: **MR. VENKATESH KATWA – CHAIRMAN, SHRI KESHAV CEMENTS & INFRA LIMITED**

MODERATOR: **MR. GOPAL CHANDAK – KIRIN ADVISORS**

Moderator: Ladies and gentlemen good day and welcome to Q4 FY23 Results Conference Call of Shri Keshav Cements and Infra Limited hosted by Kirin Advisors.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note this conference is being recorded.

I now hand the conference over to Mr. Gopal Chandak from Kirin Advisors. Thank you and over to you sir.

Gopal Chandak: Thank you. Good afternoon, everyone. Thanks for joining the conference call of Shri Keshav Cement and Infra Limited. I would like to welcome Mr. Venkatesh Katwa – Chairman of Shri Keshav Cements and Infra Limited. Venkatesh sir, over to you.

Venkatesh Katwa: Good morning, everyone. My name is Venkatesh Katwa. I'm the chairman of Shri Keshav Cement and Infra Limited. I would like to extend a warm welcome to all of you for Q4 FY2023 conference call of Shri Keshav Cement and Infra Limited. Keshav Cement and Infra Limited is a Karnataka based cement company with two business verticals, mainly it is cement which operates two cement plants with a manufacturing capacity of 0.36 million tons per annum and a solar power of 37 MW out of which 12 MW is commissioned last financial year.

For this quarter, we would like to share about the cement and solar performances. Q4 has seen a cement demand being little subdued mainly on account of Karnataka state elections. Sudden government-related projects slowed down in the areas of our market. Also, we are a niche player in Karnataka specifically serving the this segment. We are well positioned in this area based on our past in-depth dealer's network. So, in spite, apart from subdued the cement market, the financial cost increased due to the increase in MCLR rate which is linked to the repo rate. The average fuel cost even though started reducing in Q4, but it was still higher compared to the quarters of the previous financial year.

To begin with, we have identified three key advantages that will continue to contribute for our success. There is an abundant limestone supply in the close proximity of our plants, allowing us to procure it at economical prices. In all power consumption completely eliminates the need for us to rely on external resources. We are probably the only cement plant in the country to run power generation from our internal resources. We will be meeting the rising demand in our area of operation resulting in saving some freight cost due to the available ready market.

To support our growth plans, we are expanding our cement capacities threefold to reach 1 million tons from 0.36 million tons currently. While focusing on an EBITDA; the EBITDA standards of cements today the larger players are having over Rs. 1000 EBITDA margins whereas our average EBITDA for the last couple of years has been around Rs. 300 on account of the modernization which we have not undertaken yet in the past. So, this significant increase in the capacity will improve the EBITDA and lead to a substantial jump in EBITDA margins per metric tons and the revenues. We are highly optimistic about the demand outlook and well prepared to leverage the opportunities arising from this strong market. To fund this expansion we have conducted a preferential issue of 45.98 crores on a preferential basis which was successful. In terms of industry outlook the cement demand will continue to grow up to 9% in 2024 financial year, primarily driven by continuous government infrastructure spending. The housing sector which typically contributes to around 60% to 65% of India's cement consumption will remain a key driver. Additionally, substantial investments in road infrastructure projects will further fuel cement demand. The Government's commitment to infrastructure development is evident through initiatives such as construction of 12,000 kilometers highways in 2023 alone. With similar movement expected in 2020 and '24 onwards. Moreover, union budget of 2024 has allocated significant funds for the creation of safe housing, clean drinking water and sanitation and the improvement of road and telecom connectivity which are amongst the initiative's government has allocated a substantial amount of budget towards urban housing shortages.

While the outlook for the cement sector appears promising from most of the current financial year, it is important to address the concerns regarding the rising cost of fuel. As seen in the past, the fuel prices peaked in Q2 and Q3 of the last financial year. The Q4 saw from slowing down or the cost coming down. Now, currently Q1 has further seen the cost of fuel coming down. We are currently in the process of increasing our cement capacity to 1 million ton by implementing the modernization which is process improvement and incorporating some latest upgraded equipment. Our focus will continue to reduce the power and fuel consumption cost while improving EBITDA per metric ton of cement to align with the industry standards. We expect substantial improvement in the revenues through cost saving measures and profit optimization. The kind of modulation that we are doing right now has already been implemented by many majors maybe about 10 years back. So now we will be implementing it in the current financial year.

To give a summary of performance during the Q4 and FY23; revenues from operations amounted to about 32.42 crores for the Q4, EBITDA stood at about 8.5 crores with a EBITDA margin of 26.22 crores. For FY23, revenues were up 8% to 125.37 crores. EBITDA recorded around 37.02 crores with an EBITDA margin of 29.43%. PAT amounted to 2.91 crores with a PAT margin of 2.32 crores. During this period, our solar business contributed to around 26.64 crores and cement business contributed to 93.20 crores. In terms of profitability, the solar business contributed 4.35 crores while the cement division profit contributed by 8.27 crores. It is important to know that during the year we capitalized on our solar investments which we were capitalized last year. Due to Ind-AS adjustment deferred tax of 24.79 crore was shown in Q4 FY23. Please bear in mind that this is a one-time adjustment and not an actual liability to be going out of the books.

We maintain a very optimistic outlook for future growth, primarily driven by strong demand in the housing and infrastructure for the current year. So, with this I'll be more than happy to address any questions you might have. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We take a first question from the line of Yashwanti Khedkar from Kojin Investment Private Limited.

Yashwanti Khedkar: I just wanted to understand that we have seen that the cost has impacted our profitability. So how petcoke and coke has been for the reported quarter and even for the whole year?

Venkatesh Katwa: So typically, what happened last year was a bad year where we changed from coal to petcoke last year. The coal price, of course, increased drastically. Then we made certain modifications which were to petcoke. But even the petcoke prices kept on increasing till Q3. It started softening in Q4. But due to the FIFO calculation, we were consuming petcoke that was purchased in Q3 which meant that the cost of production appears very high on the books, typically, if the cost of fuel continues to decline the way it is declining right now, we should expect the cost to go down drastically and we will probably have better performance compared to the earlier quarters.

Yashwanti Khedkar: Were you able to quantify what was the petcoke price till third quarter and how are you seeing and what you had seen it in Q4?

Venkatesh Katwa: The petcoke prices in third quarter which we use in Q4 was typically in the range of 2.4 to Rs. 2.5 per kilo calorie or if we calculate in rupee terms around Rs. 18,000 to 19,000 delivered at our plant. Today the petcoke price as of May has come down to around 14,000, Almost a reduction of Rs. 5,000 and almost more than 50 to 60 paisa per kilo calorie reduction. Another 20% reduction would mean that we would reach the same price what was there in Q4 of FY 22.

Yashwanti Khedkar: So Q1 of FY24 seems to better.

Venkatesh Katwa: Absolutely. Now that the fuel costs have come down which is majorly impacting us has come down. Secondly, the financial cost which you see also will go down drastically in Q1 because this year only because almost 24 crores of the promoter's debt which was earning interest is converted to equity. There is a reduction of almost 36 crores in total borrowings compared to last year.

Yashwanti Khedkar: What price it has been converted into equity?

Venkatesh Katwa: Come again?

Yashwanti Khedkar: What price it has converted into equity?

Venkatesh Katwa: Even though the equity has been converted in April, the last week of April but due to Ind-AS standards it has been shown in balance sheet as of end of March but the interest saving will start from April 2023.

Yashwanti Khedkar: One more question on your expanding capacity. So, what is the capital outlay you are talking about for expanding this capacity? Secondly I just want to understand that you are increasing your capacity almost threefold. So how is the economies of scale or any benefit to coming to improve upon EBITDA?

Venkatesh Katwa: Absolutely. See the whole purpose of this capacity expansion was basically with the idea of modernizing the plant. So, most of the machinery will remain intact, only certain machinery like kiln and the pre-heater which are consuming power, the power consuming and the fuel consuming centers are modernized or a new equipment has been installed. The capacity increases will be threefold from 0.36 to 1 million tons and the CAPEX is 125 crores, out of which 45 crores has been raised through preferential issue, which has been successful. The remaining bank has already sanctioned and is beginning to disburse it. So typically, with this once the fuel cost goes down, currently we are consuming around 1100-1150 kilo calories whereas the top class (Cement) industries are consuming less than 700 kilo calories. But for our scale we are targeting between 750 to 760 kilo calories per ton of clinker which typically would mean that we would save more than Rs. 500 per ton of cement. Additionally, apart from this, due to installing high class grinders, the power consumption will also go down which will again contribute to another 300 to 400. So typically, from current EBITDA margins per metric and cement we are expecting to save around Rs. 800 to 1000 once the expansion comes online.

Yashwanti Khedkar: The new funding which is coming up around 100 what will be the cost of fund going forward?

Venkatesh Katwa: So, the cost of fund as of now based on current MCLR is around 10.3%. With the possible review going to be happening by end of October and another 50 to 75 basis points is what is reasonably expected to be saved from that point onwards.

Yashwanti Khedkar: You are the leader in the area under which we are present. So now with this increase in capacity will you be targeting the other regions?

Venkatesh Katwa: Yes, typically with the improved EBITDA margins, with the improved cash flow we will be not only going in depth increasing our market share in the existing market, we will also be able to reach the bigger markets like Pune and Bangalore whose consumption far outstrips our production and more than 10-20 times.

Yashwanti Khedkar: But by then your freight cost would be another cost item which we would add in the cost structure?

Venkatesh Katwa: Yes, freight cost would add but then it will be supported by higher EBITDA margins which we are not able to achieve right now.

Yashwanti Khedkar: And when you think this EBITDA margin going forward?

Venkatesh Katwa: The groundwork has already begun with as we speak today. Sorry. Please come again.

Yashwanti Khedkar: After this expansion where do you expect your EBITDA margins, EBITDA per ton to go?

Venkatesh Katwa: So, based on current, assuming the current fuel price remain as it is as on today, so EBITDA margin this year has been less than Rs. 100. If the expansions were complete today our EBITDA margins would have been in the range of Rs. 1100 to 1200.

Yashwanti Khedkar: So, you will come up with the matching with the industry standard?

Venkatesh Katwa: Correct, absolutely. So, what we are doing right now is nothing new or nothing miraculous. It is just that what others have done about 10-15 years back we are doing it now. In fact, now we have a better technology and better understanding of machinery. So, we are entering even though it is late but now finally we are putting those machinery and modernization to improve EBITDA margins.

Yashwanti Khedkar: How is the demand outlook in Karnataka? How is this shaping up?

Venkatesh Katwa: Only because of being in the election, pretty much like we had elections in the first week of May. Typically beginning February onwards, we saw that since the cement industry employs lot of labor and lot of rural labor or daily wage labor who were difficult to find which is why there was slowdown. And this typically happens in every election year or a quarter before the election year. So that is what we suffered through. But now everything is done and dusted with. This year we have a bright outlook on cement demand. With the stable government, with full majority we expect cement demand to improve significantly in our area.

Yashwanti Khedkar: So, after expanding and coming to the industry margin of around 1200 and where lots of consolidation is also happening. Are you planning to sell the cement segment and focus on the solar business?

Venkatesh Katwa: Nothing of that sort is on the board right now. Currently the focus is very clear that we need to modernize the plant and improve our EBITDA margins and generate sufficient cash flows to reduce the debt. That would be the next possible thing happening, so start repaying the debts ahead of time.

Moderator: We take a next question from the line of Hemani Oban from Suraj Enterprises.

Hemani Oban: My question is please share production and sales volume of cement for Quarter 4 FY23 and FY23.

Venkatesh Katwa: You want the sale of the quantity, is it?

Hemani Oban: Yes.

Venkatesh Katwa: Just give me about 10 seconds and I'll just open up my record here. We're looking only for the quarter wise. So Q4, quarter of FY23, the sales quantity was 56,000 metric tons. Similarly, if you were to look at the previous Q4 of 2022, it was around 69,000 metric tons. So, we lost about 14,000 here only on account of because of the election time and the slowdown of government delayed projects.

Hemani Oban: Please explain reason for falling EBITDA margin. What do you expect going forward?

Venkatesh Katwa: So, EBITDA margins fell down drastically only on account of increase in fuel cost. Mainly driven by due to that Ukraine war. It kind of peaked in Q2 and Q3, the increase but then it started softening in Q4. So as of now the prices are only about 20%-25% higher than the base prices before this increase started. So, if this trend of falling down continues so as a company we are in a much better position because coal is generally about 20% to 30% more expensive compared to petcoke and company was using coal in FY22 even though we switched over to petcoke in FY23 but the cost of petcoke also increased, even though coal price was much higher, since we were using petcoke the impact was not very severe. But now with the petcoke prices going down and the company using 100% petcoke; company is very confident that this is going to be towards the benefit and again increase in EBITDA from in the ensuing quarters.

Hemani Oban: What is the quantum of price hike taken?

Venkatesh Katwa: Quantum of price hike in cement?

Hemani Oban: Yes.

Venkatesh Katwa: So, if you compared to previous year there has been, the previous year average realization was of Rs. 3,990. Did you want year-on-year or did you want quarter-by-quarter?

Hemani Oban: Quarter.

Venkatesh Katwa: This Q4, our average realization is Rs. 4,210 whereas Q4 of FY22 the average price was around Rs. 3,930. So, there was an increase in the pricing and realization. That is because of the intense marketing and now we are going in depth at increasing our through some media representations we are increasing the brand equity too. So typically, yes there was an increase in realization but again that we could not enjoy the realization because we lost significantly due to the increase in fuel cost.

Hemani Oban: And what is the cost difference between petcoke and coal?

Venkatesh Katwa: So as on today if you look at, I can give an example. So today if you look at it the cost of petcoke is Rs. 1.78 paisa per kilo calorie as of May 2023 and the cost of coal is around Rs. 2.60 paisa per kilo calorie. So, coal is generally always very higher. So the average cost of petcoke in '21-22 was less than Rs. 1.60 paisa but we were not using the petcoke at that time. But at that time when we were using coal the average cost of coal was around Rs. 1.70 paisa. So today the fuel cost has come to what we were doing in FY22 only because we switched over to petcoke.

Hemani Oban: And what was the marketing spending during the year and what we are targeting for next year?

Venkatesh Katwa: So, this year marketing spending we did more on digital platforms while continuing to do the marketing budget on the engineers meeting and the dealers meeting. But this year since the cost of petcoke has gone down there will be suddenly additional budget for us to work on sales and marketing promotions. Which is why they're confident that this year we should be having better sales by way of quantity as well as by amount. The sales as well as the quantity should improve going forward.

Hemani Oban: And by when new expansion will be operational?

Venkatesh Katwa: Typically, our project of between 12 to 14 months was the implementation time. The project has already begun to be implemented from April onwards. So, we are expecting to commission it by June 1st, 2024, which was earlier March because of the fundraising which was supposed to be completed in December-January, it finally got completed in April which is why a couple of months the extension in the commissioning. So now the funds are all committed. The expansion work has already begun. Management is pretty confident to commission the plan by 1st of June 2024.

Hemani Oban: And how preferential allotment is done to investors?

Venkatesh Katwa: Come again? The preferential allotment was done and we successfully raised the funds too. In fact, the promoters had loan in the books which was also converted into equity at the same price what the preferential allotment was given. So, the net effect is that the debt also has come down drastically from this year onwards.

Hemani Oban: And what is the capital expenditure for plant?

Venkatesh Katwa: The capital expenditure for this expansion is 125 crores. Out of 125, 45 crores are raised through preferential allotment and the rest bank has already sanctioned the amount and began to disburse the amount too.

Hemani Oban: My question is what is our EBITDA per ton? Is it still low compared to industry standards?

Venkatesh Katwa: Absolutely madam. Industry standard is around 1,000-1,200-1,300. Ours this year has been less than Rs. 100. Last year it was at least around Rs. 350 because of the increase in the coal prices that last year our EBITDA margin cement has gone down whereas EBITDA in solar has gone up. The total EBITDA has remained almost the same compared to the previous year only account of the new solar plant being implemented and commissioned.

Hemani Oban: And money has received from investors?

Venkatesh Katwa: Yes. All the commitments from all the investors have been 100% received.

Moderator: We take the next question from the line of Deepika Chadda from Kojin Research.

Deepika Chadda: So how do you guide investors for improvement in EBITDA per ton?

Venkatesh Katwa: So, management has taken like mentioned earlier has taken a decision to modernize the plant basically with the focus to reduce the fuel consumption and reduce the power consumption per unit. To give an example we are consuming around Rs. 1,100 to 1,150 kilo calories per ton of clinker whereas the industry is consuming around 700 kilo calories. So, this difference of 400-450 kilo calories at the current fuel price of around Rs. 1.78 paisa is nearly coming up to around Rs. 700 per ton difference between ours and the competitors. Same thing with power. Our power consumption is almost 30% to 40% higher than the industry standards. With this modernization we'll cut down the power cost too. So, both put together will improve our EBITDA margin from current less than Rs. 100. It will add about 1,000 to 1,100 EBITDA to the current EBITDA. So that is how we are looking once the expansion is complete but till it is completed this year, we are already seeing the softening of fuel prices which will definitely improve the EBITDA margins compared to the last year but not equivalent to the industry standard what we will look up, what we hope to achieve once the expansion is completed.

Deepika Chadda: Who are the key competitors in our market?

Venkatesh Katwa: So typically, even though there are multi brand region cement goes in three Tiers. Tier-I-Tier-II-Tier-III. Tier-I generally command the highest price and all PAN-India typically case is an UltraTech. So, everyone else who is 1 million and above is Tier-II market whose pricing is around almost Rs. 400 to 500 per million ton higher than ours which is Tier-III. Among Tier-III we are the market leaders because the other players in Tier-III typically follow our pricing and marketing model. So, we tend to compete with most with Tier-II brands right now. So, once we achieve these 1-million-ton capacity, we are hoping to get into Tier-II brand. Of course, our pricing is likely to be improved. So, names will be like JK, Dalmia are brands in Tier-II which we see very often here.

Deepika Chadda: Today we are selling solar power. After expansion would it be possible to sell solar power? How would it impact our margin?

Venkatesh Katwa: No in fact my cost of solar generation is less than Rs. 2 right now. Whereas the cost of power is around Rs. 8 in the open market. Even if someone has to buy power from the third party, they're selling it at around Rs. 7. In fact we ourselves are selling power at Rs. 7 the excess power. With this expansion since our expanding by nearly three times but the power requirement will only go up by two times. So hopefully after this expansion, at around 80%-90% capacity utilization, we would be using 90% of our existing captive generation. So even in spite of the expansion we will still be self-sufficient in power.

Deepika Chadda: Who are the other Tier-III players?

Venkatesh Katwa: The other Tier-III players are very small brands. Like there is someone called some Padma Cement or Ratna Cement. They are only Tier-III because they are less than 1 million tons.

Deepika Chadda: What is the price difference between you and Tier-II players?

Venkatesh Katwa: Almost Rs. 400 to 500 per metric ton right now. And with Tier-I players we're almost Rs. 600 to 700 per metric ton difference. So, we are hoping to get into Tier-II branding once we expand this capacity.

Deepika Chadda: Any plans for solar expansion?

Venkatesh Katwa: No, not at this stage. Once we commit and commission this our cement plant, we will be again looking forward to increasing our solar capacity definitely.

Moderator: We take our next question from the line of Om Prakash Yadav, an individual investor.

Om Prakash Yadav: What are the opportunities and challenges in the cement industry in India? And how does a company position itself to leverage these factors?

Venkatesh Katwa: So typically, India is still one of the lowest per capita consuming countries amongst SAARC countries itself. In fact, our average consumption is still less than I say 200 kgs whereas the world average has reached over 550 to 600 kgs with China going much higher than that. With the current Government's focus on infrastructure and affordable housing, we expect the cement demand to keep improving. For example, our cement capacity, average cement capacity utilization in the country is around 70% right now or 68% to 70%. And even though our capacity is around 450 million tons FY23 cement sold was around 390 million tons which is expected to reach 430 million tons in FY24. Whereas lot of other countries if you take an example of China, they have a capacity of 2,000 million tons and India is practically projected to reach around 800 million tons in FY28. So, with this kind of a growth trajectory, I see a huge opportunity for cement industry particularly in a country like India where the focus is squarely on infrastructure and development. So as far as the challenges is concerned, I don't see a significant challenge other than any kind of geo-political situation going bad like what we saw in the war; only in that case we expect the fuel price to go up. Other than that, we are very optimistic and confident about the cement industry in the next 5 years.

Om Prakash Yadav: So, what is the outlook for Karnataka, your key market?

Venkatesh Katwa: Once we see the cement growth Tier-III what we are in right now will also continue to enjoy the benefits of it. The most benefit takers will be of course Tier-I and Tier-II but once we expand to 1 million tons, we will also get into the Tier-II mode. So, with Tier-II mode which means that we have a better EBITDA margin, better capacity to sales and market promotions and better capacity to reach out to the institutional buyers and long-term buyers whom we are not able to supply currently. So, I'm very optimistic and very confident that with the kind of growth trajectory that we are seeing in cement and related projects, the cement industry for Tier-III or Tier-II everyone is bound to enjoy the benefits of this growth.

Om Prakash Yadav: So, what is the strategy for further reducing the debt?

Venkatesh Katwa: So now last year we reduced the outside debt from 168 to 148 crores. That is only pure land repayment and conversion of standard debt to equity, we reduced around 36 crores last year. So, this year since the fuel cost has already come down and if it continues to come down, we will wait till the end of the financial year and if it continues to generate extra cash, the management is looking forward to cutting down the debt ahead of the schedule.

Moderator: As there are no further questions from the participants, I now hand the conference back over to Mr. Gopal Chandak from Kirin Advisors for closing comments. Over to you sir.

Gopal Chandak: Thank you everyone for joining the conference call of Shri Keshav Cements and Infra Limited. If you have an enquiry, you can write us at vastupal@kirinadvisors.com and once more thank you everyone for joining the conference call.

Venkatesh Katwa: Thank you. You all have a nice day today.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Kirin Advisors that concludes this conference call. Thank you for joining us. You may now disconnect your lines.