



“Shri Keshav Cement & Infra Limited
Q2 FY ‘23 Earnings Conference Call”
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MODERATOR: **MS. SUPRIYA MADYE - KIRIN ADVISORS PRIVATE LIMITED**

Moderator: Good morning, ladies and gentlemen. Welcome to the Q2 FY'23 Results Conference Call of Shri Keshav Cement and Infra Limited, hosted by Kirin Advisors Private Limited. As a reminder, all participant lines will be in listen-only mode, and there will be no opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Ms. Supriya Madye from Kirin Advisors Private Limited. Thank you, and over to you, ma'am.

Supriya Madye: Thank you. Good morning, everyone. On behalf of Kirin Advisors Private Limited, I welcome you to Shri Keshav Cement and Infra Limited results conference Call. I welcome management and all of you. We have today with us; Mr. Venkatesh Katwa, the Chairman of the company; Mr. Vilas Katwa, Managing Director; Mr. Deepak Katwa, Executive Director and CFO.

Now I hand over the call to Mr. Venkatesh Katwa for the opening. Over to you, sir.

Venkatesh Katwa: A very good morning to everyone. I extend my warm wishes for this festival season, a very post-happy Diwali to everyone. I welcome you all to our third conference call of Shri Keshav Cement and Infra Limited for quarter two FY '20 result discussion. Now to begin, I would like to brief about the company. Keshav Cement and Infra Limited is the public limited company, which was incorporated in 1993. We began with the 20 tonnes per day plant in 1994 and as of date, we are -- we have a capacity of 1,100 tonnes per day and 37-megawatt peak of (Inaudible)02:07 solar generation. So we crossed the milestone of INR100 crores in FY '22. SKIL is looking forward to the continuance of the growth story with strategies at place and promising sector outlook.

I will begin with speaking on the industry outlook. Cement is an important sector of the economy, and India is the largest -- or the second largest producer of cement in the world. However, the penetration is very low even compared to many other countries of SARC, we are probably on the bottom to list on per capita consumption.

Our current capital consumption is around 200 kgs to 250 kgs as compared to the world average of over 550 kgs. Leaving a huge scope for us to increase on the impact of the rising demand for the real estate and lot of pending infrastructure development in the country.

Demand growth is largely supported by the government spending and improved outlook from the real estate industry. Industrial and commerce sectors are also expected to rise by 5% to 6% during FY '22-'27 on a CAGR basis, while urban and rural housing is also expected to contribute around 8% during the same period.

Infrastructure continues to remain a major demand driver with expected rise of around 8% to 9% for the years '22 to '27. This is possible due to the strong support from the various infra-development schemes of the government like the Bharatmala project, housing for all, metro, airport development and a lot of irrigation projects.

This time, the delayed monsoon has been causing concern in our consumption and construction activity. We also need to see how the delayed exit of monsoon impacts the crops. Another very

important factor as far as the cement industry is concerned, the price of fuel that is coal and petcoke are very fluctuating. There was a certain silver lining when we saw petcoke price dropping down to around \$117 to \$118 but that wasn't for long and again, it started continuing going up.

The petcoke prices are again back to around \$200 to \$210 per metric ton range. Coal on per kilo calorific basis is higher compared to pet coke prices. No, mainly because of the geopolitical situations like war and issues going in the world. The outlook regarding fuel is always going to be a little fluctuating. And this is affecting all the industries. Although the fuel costs are very high for the overall industry, the positive side is that the demand outlook is extremely positive.

We have strategies in place to benefit from the strong demand, improving our profitability. And with the installation and working of our solar plants of 37-megawatt peak capacity, this company is saving huge energy costs, as company is currently utilizing its own power generation from solar plants for production cement, and we expected to save more in the future.

There is a little addition what I could meet here is because of the increase in coal costs, all the state governments and all the discounts are charging fuel inflation cost on to the consumer is roughly coming to almost INR1 per kilowatt hour, which, of course, even that part we say so some of these savings are not direct, some indirect services are happening because of increase in the coal prices too.

The cement demand is normally stronger after the festive period that is for second half. Typically, cement is a very cyclical industry with the first quarter and last quarter being the best. So the first quarter and third quarter being moderate and the last quarter being the best.

Now to look at the cement outlook, like discussed in the last phone call, the company has completely the technical feasibility study to optimize the cement operations and increase the cement capacity to 1 million tonnes per annum. By just adding the balance equipment. Typically, we are able to execute this project in around between \$25 to \$30 per metric ton, as compared to industry standard of around \$150. This is again mainly because of the fact that we don't have to purchase new land. There's no additional grinding equipment or raw material grinding equipment required. A lot of balance equipment has to replace, we just have to modify the mill section, which is -- what is going to bring us (Inaudible)07:02

The whole -- the focus is to reduce overall power actual consumption cost, and also incorporate alternative low-cost fuel usage. So with this modification, we would expect you to use the municipal waste and rice husk and other kind of fuel to certain percentage. And on the completion of this modernization, the company expects to improve the EBITDA per metric of the cement.

Our current last year's EBITDA per ton was approximately INR300 or less than INR300. With this modernization, we expect it to increase at least by over INR1,000 or so, which is pretty much what is the industry standard. And we are also promoting pozzolana slag cement that will

be effect to reduce the carbon load and per MT load of cement. These studies overall is being a three-fold increase in the top line but hardly 30% to 40% increase in the costing, because there is going to be a certain economy of scale that is going to play.

So let's go through the performance of the company during H1 FY '23 and for the quarter. The demand for cement this time was pretty moderate, because delayed in monsoons and other factors, the company could not -- the capacity utilization was almost similar to what was in the previous quarter. But what we did was, of course, we performed better because this time we could add more (Inaudible)08:43 and sell more of slag cement, which led to saves us in the cost, which can be seen on the financials. And solar power due to the installation of 12 megawatts was also a main growth driver.

Revenue contribution increased to around 18% on overall revenues of H1 FY '23 compared to the 7% in H1 FY '22. Just looking plainly at half year FY '20 results revenues of Q2 is INR58 crores compared to around INR50 crores to the previous half-year of FY '22. Revenues from solar generation increased to INR10.44 crores compared to INR3.54 crores, with a jump of almost more than 300%. And this is in line with our strategy thinking that with the installation of a new 12-megawatt peak solar plant, the revenues are showing up on this particular half year results, and this will continue to do so now.

EBITDA also increased by over 9% compared to earlier again because of pruning the cost, there is a constant follow-up on cutting down on the cost and operation efficiency. PAT was of course, increased. PAT was at INR27.61 crores. There is a very huge positive cash flow also from the operations.

For Q2 FY '23 revenue is compared to the previous quarter of the preceding year, revenue jumped by around 4.84% to INR24.84 crores. EBITDA for Q2 FY '23 is INR 8.96 crores, up by nearly 24%. EBITDA margins were higher by over 540 basis points to 36.07%. There is savings in finance costs of around 15% again on the continuous repayment company management correct repayment schedule.

Also, certain -- there is going to be further act on pruning interest costs, which the company is in discussion with the bank. The profit after tax is arrived after again, deferred tax liability of around INR 84 crores which remained at INR 1.16 crores. So these are the facts about what we look at, and these are the figures.

With this, I would like to open the floor for question and answers, and I thank you, all those who attended this call.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone wishing to ask question may please press star and one on their touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handset while asking a questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants, if you wish to ask a question you may

please press star and one. The first question is from the line of Raman Bharadwaj an individual investor. Please go ahead.

Raman Bharadwaj: So my question is regarding the expansion of the capacity you've already on the financial result. So first thing is, have you decided when the entire project activity will be taken up because I believe that will take approximately three weeks or three months -- three quarters for completion as for the last con call. So any date on the commencement of the construction?

Management: So typically as of now, we have decided to start the construction work somewhere in the mid of Q4 of this year. So January or February is what is expected. And the project time line from the first big to first bag is expected to be around 14 months to 15 months, I would say. So by FY '24, we should have completed the project. FY '25, we should have had the entire capacity in hand to begin.

Moderator: Thank you. We'll move on to the next question. That is from the line of Amey Desai, an individual investor. Please go ahead.

Amey Desai: So my question is, we have seen savings in interest costs. There are any prepayments of loans are done during the quarter? And what are the strategies that are going forward? And basically, what is the outlook for quarter 2?

Management: So the first question you asked is interest is going down, so whether it's going to continue. Is that what I hear?

Amey Desai: Yes.

Management: So yes, company, if you look at the entire past history, we have been very functional and discipline as well as repayments to the banks have been concerned. And with the kind of revenues and cash flow, what we are binding we are going to be expecting a better rating, which will eventually cut on our interest cost further, which, of course, may have already issued us on cutting to an interest -- so with the repayment and cutting down on the interest cost of funds, we can pretty much expect the interest. The finance part will continue to keep going down, which is, of course, one of the major cost in arriving at PAT.

And outlook, like we discussed what we are expecting in this expansion is cutting down the pure and power cost on per metric basis, which will increase the EBITDA margins. Once we have EBITDA margins in our favor, then we have bigger markets like Pune and Bangalore at our door steps to serve. So these strategies are expected to give us additional cash flow, which will help us to increase our reach to bigger towns and, of course, reach our capacity utilization of around 90%. So did I answer the question? I thought there was another question in between.

Moderator: Thank you. A reminder to the participants, anyone wishing to ask a question, may please press star and one. The next question is from the line of Harshit Toshniwal an individual investor. Please go ahead.

Harshit Toshniwal: Sir, few clarification. So right now, we have the capacity is around 36 million tons, if I'm not wrong. And we're seeing that

Moderator: Sorry to interrupt Mr. Toshniwal, your voice is sounding very muffled. We are not able to hear you clearly. Sir, can you use the handset mode while speaking and on the speaker phone?

Harshit Toshniwal: Yes. So I was asking that our total capacity right now is 0.36 million tons. And you are saying that by FY '24, that capacity can expand to around 1 million ton because of the incremental grinding unit.

Management: Correct.

Harshit Toshniwal: Okay. And I wanted to understand, sir, that for H1, what is the volumes which we have done? Volume of cement production for H1 and Q2?

Management: I can't H1 Q2, hold on.

Management: I have it right in front of me. So for Q2, we have been around 46,000 tons.

Harshit Toshniwal: And 46,000 tons.

Management: Yes. And for H1 is around 1,000 tons.

Harshit Toshniwal: How much, sorry?

Management: Sorry, 6000 tons. 106,000 approximately. I mean the accurate figure would be 105,850 tons.

Harshit Toshniwal: Sir, on a Y-o-Y basis, our H1 106,000 tons, that has not grown on a Y-o-Y basis?

Management: Correct. If you look at -- I would say not significantly grown compared to the previous H1 figures.

Harshit Toshniwal: Yes. And this is despite we having that capacity, we are right now running at roughly 60%, 65% utilization?

Management: Correct. So that was one thing. If we are not able to sell the entire capacity now, why is that they are going for an expansion.

Harshit Toshniwal: Yes, if you can help that, what are the levers to increasing this ?

Management: Correct.

Harshit Toshniwal: If we have 1 million ton and you plan to do a 60%, 70% utilization as you mean, then we'll have to scale our sales 3-x from where we are -- what we are doing now?.

Management: Definitely, so typically, what is being a prohibitive factor for us right now is being still a very small capacity, our reach is not happening beyond a certain geographical area because in the

limitations of our margins on the cement, logistic cost to be heavy cost on the cement because cement is a product with a very low weight rate ratio, which means that you need to have a sufficient EBITDA margins to push it further on geographical location, which we are -- it has been restrictive because the technology, what we are using right now is a very old technology, which is what we are planning to correct. In fact, in this particular quarter, out of EBITDA of around INR 8.96 crores, almost INR 8 crores is contributed by solar itself. So cement, I would say, unless we fix the operational efficiency issues given the capacity utilization also will remain a little restricted. So once we have a bigger market in our grass at our -- on your EBITDA margin growth, you can spend more on logistics, you can spend more on marketing. then producing cement is not a challenge. The challenge is to make sure that we get the right price and it gets distributed in the market.

Harshit Toshniwal: Sir, if you can repeat that in our H1 sales of roughly around INR 56 crores, INR 57 crores, how much was cement and how much was solar power distribution?

Management: So you're talking about H1, right?

Harshit Toshniwal: Yes. H1 sales, and also I would request, if you can give those numbers in the presentation because the volume -- the breakup between the two, at least on the topline on the EBITDA part?

Management: I can give a quick rundown on this thing. For the H1 our -- ones again. I'm just kind of looking at the figures here. For H1, the cement contributed to around it is -- okay, it is around hold on - - for H1, the cement contributed to around INR 2.8 crores and cement contributed to INR 2 crores, sorry, solar contributed to INR 10.45 crores, the rest coming from others

Harshit Toshniwal: And million EBITDA

Management: Yes.

Management: Solar has jumped from around INR 3.4 crores to INR 10.45 crores, almost a 309% jump mainly because, of course, we set up a new 12-megawatt power generation, which has commissioned the end of last financial year.

Harshit Toshniwal: And sir, if I try to compare the EBITDA for H1 for -- from cement and from solar?

Management: Yes, I can tell you that. So EBITDA, basically for, I think, give a rundown on that. For half year results, solar EBITDA is around INR 7.5 crores and around INR 1.5 crores cement EBITDA, cement EBITDA per metric ton is around INR 340 per metric ton for the half year. But only if you look at -- that is still less compared to a lot of industry standards, which is around INR 1,500. That is what we are trying to increase this time.

Harshit Toshniwal: Understood, sir. And, If you can give this number for cement itself or 42.8 million ton of revenue and 1.5 million ton of 1.5 crores of EBITDA. If you can just break between Q1 and Q2 because obviously, Q1 -- Q2, there is a higher inventory cost. So I just wanted to segregate that part?

Management: Okay. Come again. Do you say...

Harshit Toshniwal: Yes, I am saying this this INR 42.8 crores of revenue and INR 1.5 crores of EBITDA in H1, if you can break that into Q1 and Q2?

Management: Yes, sir, I can do that. So see the figures what I gave you is for HY 1, but if you go by -- sorry, I'll put it this way. Now for Q1 and Q2, cement EBITDA is INR 92 lakhs and around INR 15 crores, this is on Q2 separately

Harshit Toshniwal: INR 92 lakhs and -- so INR 1.5 crores was for H1, you said..

Management: No, it's for Q2. I think -- it's for Q2 actually.

Harshit Toshniwal: So INR 1.5 crores is for Q2

Management: I tell you, you can note down if you want. So cement EBITDA per is INR 92.44 lakhs in Q1 and INR 150. lakhs in Q2.

Harshit Toshniwal: So basically, H1 cement EBITDA is INR 2.42 crores?

Management: 2.42, correct. 244.08 lakhs in Q1 and 245.87 in Q2, together 15.89.89 crores

Harshit Toshniwal: Sorry, sir, if you can repeat it for solar, just one more?

Management: Q1, it is INR 844.08 lakh

Harshit Toshniwal: 844 lakhs, so 8.4 crores?

Management: Yes, 8.44. And this is 7.46 crores for Q2.

Harshit Toshniwal: Sir, but then we say add when it comes to around INR 15 crores for H1?

Management: Yes.

Harshit Toshniwal: 15,16,17, so our H1 EBITDA should be 17 got it sir. Understood. And if I look at the EBITDA per ton, so your EBITDA per ton has actually improved in Q2. So Q2, you have made INR 150 crores of profit. And 146,000 ton, whether in Q1, you made INR 92 lakhs for the balance around 50,000 ton. So what are the levers for increase in our -- because I think our cost of coal would have increased from Q1 to Q2. So how -- and what were the levers for the increase in EBITDA per ton?

Management: Very good question. Two main reasons, Harshit. One is we have increased the additive component, and we have sold more of portland slag cement. Slag is available at around INR 1,500 to INR 1,600 per ton, when it is known clinker, it of course produce cement. The more we are able to use a slag then lesser my production cost of cement is going to be, because cement - produce cement, I need clinker and slag. Clinker is an expensive material, which has to be

produced for limestone, use fuel, everything. But this time, the savings, what you see is mainly because what happens when you produce the clinker, there's always a slight variation in the quality of clinker coming out of the fill.

Major plans to have that in control because of the legacy systems, which we are going to implement in this modernization. But till then, what happens is in our kind of system, we segregate a very good quality clinker while it is coming out and utilize that clinker when we have to add more adhesives. This cannot be a generalized thing going forward, until we complete the modernization. So once we complete the modernization, we will be able to add higher adhesives and taking this to advantage. So this quarter, yes. It is not much because of the fuel. It is more because we could add higher adhesives.

Harshit Toshniwal: And this should continue even for H2? Or do you think that there are limits -- I mean this so I'll just give you the numbers. So in Q1, we did INR 184 per ton EBITDA in Q2 that increased to INR 326 per ton. And this is largely because you sold more PPC in Q2? And can this happen in even H2 also or '22 was a one?

Management: Very likely. So one thing is there, in H1, we used coal in H2, we are going to be completely shifting to pet coke. So those things are going to start playing a role now in this thing. And of course, yes, we -- unless nothing changes, assuming the fuel pricing is around the same, and you can expect the Q2 EBITDA per metram to continue in H2.

Harshit Toshniwal: And one more thing, sir. So when I look at the numbers, for solar, we are right now operating at a some where around. So you said that your EBITDA is around INR 7 crores, INR 8 crores -- so that is the range of EBITDA at which we are operating for solar. And now when we look at the solar, so this is a steady state number of using full of us. So this is something which should be very consistent going forward, INR 7 crores, INR 8 crores from solar plant?

Management: Yes. This is what I would think is.

Harshit Toshniwal: I'm just trying to...

Management: See what happened is the EBITDA -- yes, see what happen is, the EBITDA is, yes, it is going to be consistent with this now. There's not going to be any change over here, because I mean, we have solar plant one, two together 37-megawatt peak power producing at a high level. So EBITDA for solar will not significantly change plus some here and there but it will remain in this range.

Harshit Toshniwal: So at least at this scale and we are not adding any new solar plant right now. So INR 28 crores, INR 30 crores EBITDA annually, we get from solar plant. And from the cement plant, right now, we'll be making more around INR 5 crores to INR 6 crores of EBITDA per year. But going forward, once our capacity increases and then for example, even on the volumes, we can double it and on the EBITDA per ton from 360 levels, we can move to around 1,000. So that is where you see the delta I mean double from the volume?

- Management:** Yes. It's a cost arbitrage. That's what we are doing moderation for. In fact, we are going -- we are calling the capacity expansion only because with this modernization, the another outcome is increase in the -- so what basically is happening that fill will start producing more volume. So pumping the same amount of fuel. So when you have more volume out of the same fill, obviously, per tonne, your fill generation has gone down. So that's the entire idea behind this project. But you got it right
- Harshit Toshniwal:** Because if I look at it, I'm seeing that if we expand to around 1 million tonne cement production capacity by all the bottlenecking, et cetera. And even at a 60% utilization and INR 800 per ton, we are -- we might be able to do a INR 40 crores INR 50 crores of EBITDA from Cement business itself, which is where you are planning. And -- for that, you are seeing that incremental cost is moved for around 7 lakh tonnes. We'll have to invest around \$28, \$30 per tonne.
- Management:** Correct.
- Harshit Toshniwal:** So that would be, if I try to absolutely get that absolute cost
- Management:** The project cost is around INR 121 crores now, which is coming out around \$26.
- Harshit Toshniwal:** INR 121 crores.
- Management:** Yes.
- Harshit Toshniwal:** Okay. And right now, how much cash we have on books? And what is the debt?
- Management:** Debt is compared to last year, I think so the outside debt has reduced to around from INR 199 crores to INR 169 crores now
- Harshit Toshniwal:** To INR 169 crores, right? And how much cash -- because I think INR 121 crores is our total capital expenditure over the next one year, maybe around INR 20 crores is what we meet from our EBITDA but balance INR 100 crores will have to raise additional debt?
- Management:** Yes. Now we are negotiating with the bank and investors. We are looking at a couple of options. One could be the promoters have internal funds, which we will invest to the extent what is required to be infused into the system and the balance is going to be from the bank. So it is going to be maybe like 40, 80 or 50 70 or 39 90 split. Now that will depend on the further negotiations with the bank and closing the finance part of it.
- Harshit Toshniwal:** Okay. So you are saying that it is going to 70%, 80% of this incremental INR 100 crores, please correct me if the number is wrong because I think INR 20 crores would be internal cash flows. So I'm assuming that INR 100 crores is the additional fund requirement to bridge the gap of that 80% is going to come from promoters itself.
- Management:** No, out of the remaining okay, even if you see, we have INR 20 crores cash accruals now. So when I do a project of let's say, the project cost is INR 120 crores for the round figure. So I will have to ask for the bank's guidelines, I have to bring minimum over INR 35 crores or so. So

apart from the INR 35 crores can come from internal accruals plus additional equity or the promoter loan, it doesn't matter. But bank will fund only from the remaining part.

Harshit Toshniwal: So bank will fund the remaining part and around INR 30 crores, 35 crores is what our internal accruals and everything should

Management: Or we could go for some private equity or some placement -- so there will be some mechanism which we have not finalized yet, which will come into the play. And based on those, we will go to the bank and get the sanction.

Moderator: Thank you. A reminder to the participants anyone wishes to ask a question may please press star and one. The next question is from the line of Siddharth Ahluwalia, an individual investor. Please go ahead.

Siddharth Ahluwalia: Yes. My question is has demand shaping up in the area of your presence?

Management: Monsoon was pretty moderate. I wouldn't say it was very encouraging. But October has given a good change. So there is definitely on a very positive increase compared to a similar quarter in the previous year.

Siddharth Ahluwalia: Okay. And what is the outlook H2?

Management: Okay. For some reason, some disconnection in the voice. Did you say EBIT

Siddharth Ahluwalia: How you are seeing the demand for H2?

Management: Yes. like I said, there is already an increase in the pull of the cement. Since October, we are seeing the cement demand has gone up. The prices have gone up. This November, we expect the prices to go further. So demand has been very firming up very well. Outlook is very bright, which is very typical for Q3. And Q4 is the top class because in Q4, typically, the prices are the highest, the volumes are the highest. We are seeing the demand go up, which is pretty much expected due to this cyclical nature of the business.

Siddharth Ahluwalia: Okay. How we are seeing the distributors and sellers?

Moderator: No, we are selling it through distributors and if it is a small zone retail outlets. We don't have our own retail out. We sell it to either distributors or agents or directly to the infrastructure developers like the builders. -- we have a network of DVS basically.

Siddharth Ahluwalia: Any government Approval?

Management: From many government departments segregation, the road the national highway authority. So there are a lot of the same gardening. But again, like due to a small size to pricing considerations, we are focusing more on the rural market right now where we are getting the highest realization. But yes, we do have -- we already opened up in the government sectors in the time to come, we

will start working towards with them. In fact, this month, we started supplying to one major RMC firm who has contracted asset supply for entire three months.

Siddharth Ahluwalia: Okay. And have you expanded Moor in South Maharashtra

Management: Not significantly. So we are more focusing on the South Maharashtra, whatever market we have will continue to do that, particularly in Ichalkaranji Kolhapur regions. Otherwise, our focus has been our Tier 1 target area, which is within 200 kilometers like Belgaum, Hubli, Dharwad, Gadag or you know Kargil or some of that sort.

Moderator: Thank you. The next question is from the line of Sachin Shetty an Individual Investor. Please go ahead.

Sachin Shetty: From your con call, I come to know that the capacity expansion, the construction activity, we are starting from the quarter 4, say, for example, January February month. And it will be completed by next one year, say, for the FY '24-25.

Management: By March 2024 is what is targeted.

Sachin Shetty: Yes. Feasibly, we are setting for the last 6 months. So for this, we have order any equipment for this we have to start or yet to start the process.

Management: See, the basic work like, I would say, what is civil foundation work we have kind of started for some small areas which does not take a lot of time. We are awaiting the final RFQ from our technical consultants. Once we have an RFQ, we'll be giving you to all the potential suppliers who will be giving us the quotation within three to four weeks. So once we get that, the next step will be placing the orders, and we could build the civil -- we the major part of the civil work could start in Q4. That's the direction of what we're doing right now.

Sachin Shetty: Okay. Then from Q4 to next year for the process will start repayment Yes, yes. For the debt repayments, whatever the debt is outstanding 180 Cr. or something. So we have planned any to repay that debt something, some amount like 20%, 30%? To go ahead for the next capacity expansion for this 120 plus capex amount.

Management: No, we would not pay the debt ahead of time because that will unnecessarily utilize our cash flow -- so whatever cash flow we are generating, we will focus more on implementing the moderation as soon as we can. So debt will continue to keep coming down based on the current repayment schedule given by the banks.

I think around INR 20 crores a year, that will keep coming down. So that is what is likely to be continuing with. So at least strategy is there not to pay ahead of time, at least for the next year until our expansion is complete. So once we have sufficient EBITDA there is sufficient cash balance limited, then, of course, that is going to be the next line of that.

Sachin Shetty: So can I assume that our existing debt is 180 Cr. and fresh capex of almost INR 300 crores is a debt we have to recover on the books?

Management: No, that may not be factually correct. Typically, when we talk about debt, it has to be outside debt because promoter debt is will remain in the company until the entire debt is repaid. So it's the quasi equity by itself, given the interest will not be drawn generally, so which will remain in the company. So our outside debt has come down significantly now. I would say, by September 30, 2022, our outside debt was only INR 156 crores. There is only from the banks. This is including the additional INR 40 crores loan what we have taken for 12 megawatts outside. Our sanctioned debt...

Sachin Shetty: INR 180 crores debt is not there, INR 150 crores , is there, right?

Management: INR 156 crores is an outside debt. excluding working capital, but including all the term loans. So what you see in the audited results of the limited review results, including the debt from the promoter which is like a quasi-equity because of the IndAS requirements, it is shown as a long-term debt. However, that debt has to be treated as a quasi-equity. The only repayable debt is by September 30 is around INR 156.9 crores.

Sachin Shetty: Okay. And this additional INR 120 crores debt what will be utilizing for capex, it will come from

Management: We will not be expecting a debt of under INR 120 crores. Outside of bank right now, the way we're discussing between INR 70 crores to INR 75 crores is expected additional outside debt. But by the time let's say right now is 156 plus around 70. So you're talking about a debt of around INR 226 crores. by around, say, 50%. But of course, your capacity is increased by 3x EBITDA increased by 3x. That is what we are looking into this optimization plan.

Sachin Shetty: So out of this INR 120 crores debt for the capex when you told me just now you're talking that INR 156 crores for the outsiders and what would be the remaining?

Management: So remaining is the promoter loan?

Sachin Shetty: Promoter loan and that will come to the books after one year or two year whatever, right?

Management: No, I was talking to you about current -- what is happening is when you look at our limited results or the balance sheet you will see that debt figure higher than INR 156 crores what I'm mentioning. That is because promoter loan is part of the debt. So promoter loan by itself is not - - we would not consider it an outside is not repayable or promoters will continue to keep it unless the debt outside it is controlled. So typically, the company has an outside debt of only INR 156.9 crores as on September 30.

Sachin Shetty: Understood. Sir, my last question, just now you told that our solar EBITDA INR 7 crores for Q2 and cement is 1.5 crores So can I assume that solar is more profitable business than cement

- Management:** Definitely yes, without any doubt, that is what is happening. So we could not fix the cement problem earlier because of size and the cash flow issues. But now solar, giving that kind of addition cash flow in the muscle, now we are going for the jugular win of cement. The cement, what we are generating EBITDA Per metric ton 300 is too less compared to around 1,400 to 1,500 what major plants are achieving.
- And it is not a difficult thing to achieve. What we will do now is what was done by the major plants about 10, 15 years back. So the technology is going to be the same. In fact, we are entering at a mature technology, which is already established plus we are going in for alternative fuels, which will be something a little newer compared to our existing large cement plants across India.
- Sachin Shetty:** Okay. So last quarters, quarter one we have paid a tax -- deferred tax liability of INR 22 crores? So that for solar depreciation, we bought that INR 22 crores what the tax provision is not for the next whatever the tax gather -- so sir, why we paid tax this quarter, sir?
- Management:** Okay. What we are doing this quarter is the MAT actually. We since due to high depreciation for the solar industry given by the Government of India, we have a huge income tax depreciation loss carry forward, which is around INR 90 crores. So actual income tax, we would still not be in next four to five years is expansion in term maybe we can utilize it. So what do you see on the books is the MAT actually
- Sachin Shetty:** It's the MAT of INR 90 lakhs because that will be continue
- Management:** That will be refundable yes, adjusted against future taxes.
- Moderator:** Thank you. A reminder to the participants, anyone who wishing to ask a question may please press star and one. The next question is from the line of Sandeep Mane an individual investor. Please go ahead.
- Sandeep Mane** My question is in Q2 FY '23 margins were about 36% correct. Is it the higher share achieved by the company?
- Management:** EBITDA come again?
- Sandeep Mane:** Yes, EBITDA margin.
- Management:** Yes, EBITDA margin, most of it is contributed by -- That's the EBITDA margin on the books.
- Sandeep Mane:** Is it receivable?
- Management:** Of course, yes. We have solar to back it up, which no one can take away from us. In fact, when you send up a solar plant in 2018, the cost of production was around INR 4 because of interest and O&M costs. Today, the cost of production is less than INR 2.5, and that will continue to keep going down. So I'm pretty certain that EBITDA margin only because we have a solar plant, we will not only continue, we expect to improve it further.

- Sandeep Mane:** Sir, one more question. Have you started meeting for fund raising for expansion?
- Management:** Yes. We are discussing possibilities with few investors. But nothing has come to a point where I could discuss it or give it out in the first half now. But yes, discussions are definitely going on.
- Moderator:** Thank you. The next question is from the line of Aditya Kasera, an individual investor. Please go ahead.
- Aditya Kasera:** Sir, I just wanted to ask two questions. Firstly, once the additional capacity through the modernization process comes online, will be able to sell the excess solar power generated because currently, we are having a capacity of 3.6 lakhs tons per annum, and you are using 12 megawatt of our solar capacity to for captive consumption. So if you are going to create it to one million tons per annum. So are we going to use the remaining capacity for captive consumption or what?
- Management:** Yes. You're right. Once we consume everything capably we would not be selling solar outside. So solar EBITDA is area on the basis of the opportunity cost based on what size you are selling, yes, we will and that is our intent to eventually utilize the entire power for ourselves.
- Aditya Kasera:** Okay, sir. And the next question is, sir, we will start our modernization options or in next year, Jan or Feb. So during this modernization period, is the plan going to be operational or for some period given the modernization period, we won't be producing any event?
- Management:** No, plant will be 100% operational because plant, we will be working on two major aspects. One is adding a grinding unit which is independent of existing grinding unit. It's a new facility, entire new machinery, the new space of the plant. So why that has been adding up until it is commissioned, we don't have to switch off the old grinding unit at all.
- Regarding the yield optimization task what we have taken, which is done by adding one new preheater, building and preheater heaters along with the inline gas cylinders. Even while that is being set up, it is going to space next to our existing skill only. So until it is built up, come to a point, we will continue to operate.
- Only during the interconnection period once we've built a new preheater tower. So to take the raw metal through that instead of the old system, that time we expect about maybe 20 to 25 days shutdown. But that is insignificant because we would have sufficient stocks at that time not to, it won't hamper our sales in any manner.
- Aditya Kasera:** So just once our capacity increases, are you looking to set up a heat recovery system and utilize that power and sell it in the market or use it for our captive consumption? Any plans right now?
- Management:** So did you ask me if I could purchase a power from outside and continue to sell my existing power?

- Aditya Kasera:** No, So the heat recovery process where waste heat is used to generate power. So is there any plan once that capacity increases to use that power either after consumption or to see in the
- Management:** So okay, I know for some reason, I have a little patchy. But did you ask me regarding the waste heat recovery?
- Aditya Kasera:** Yes.
- Management:** Okay. So waste heat recovery is also a possibility but we have not included in this project as of now. Of course, it is going to be an important aspect. The way we are looking at it right now is cutting down. We're going for a 6-stage string connection preheater cyclone, plus most of the heat, what will come out, we want to utilize it to heat up the coal and pass it through the raw material and cement mills.
- So that is our first with that, what is going to happen is the tons per hour or the production capacity of the cement mill and raw mill is expected to improve. Once that improves, we can go for higher consumption. So waste heat recovery for now, we are not focusing on why other plants have done that is because they don't have solar power. What they have is the coal-based power generation units. So for them, it would make sense because that particular equipment, they can utilize it taking this into account..
- For us, since we already have a solar power, we want to focus more on the operational efficiency. So that's the reason we have not taken up in this project. But yes, we will always keep that in mind and see if that can be implemented in the future.
- Moderator:** Thank you. The next question is from the line of Siddharth Ahluwalia an individual investor. Please go ahead.
- Siddharth Ahluwalia:** Just a few follow-up questions for solar. Yes, sir. What was the average solar price for the quarter?
- Management:** Okay. I can give that accurately to you. My average price this quarter was INR 6.92 paisa, the previous quarter was INR 6.66. And the previous year was FY '20 was INR 6.28 paisa. So in fact last month, I sold it in average INR 7 like what I mentioned in my con call, due to fuel escalation going very high, discoms are charging additionally up to INR 1 on their next two bills. because of which we are able to increase our cost further. But the answer to your question is INR 6.92% paisa last quarter.
- Siddharth Ahluwalia:** Okay. So how much capacity was used for internal consumption.
- Management:** Internal consumption -- okay, that also I can give you an accurate information. For the quarter, we generated around 1.12 crores units of electricity for quarter 2 and capital consumption was around 46 lakh units.
- Siddharth Ahluwalia:** Okay. Any further capex plan? So that in near future?

- Management:** No, once we have a capex, the entire power is expected to be used captivity. We will not be able to sell it outside maybe some small percentage, maybe less than 5% of our generation we will be able to set it outside.
- Siddharth Ahluwalia:** Okay, what is the maximum turnover we can achieve?
- Management:** Come again?
- Siddharth Ahluwalia:** After capex, what is the maximum turnover we can achieve?
- Management:** After capex, debt, okay. If you run at 80%, 85% capacity, we are targeting around gross sales of around maybe INR 550 crores. The next is around INR 450 crores or so.
- Siddharth Ahluwalia:** Okay. And is the cement capex will improve margin further?
- Management:** Absolutely. The whole project is based on the strategy that once we do fuel and power efficiency, the margins are going to improve drastically on cement itself. So get there, again, our EBITDA is going to be higher than what we do right now. Our EBITDA margin damages you see.
- Siddharth Ahluwalia:** Okay. And what will be the per kg EBITDA?
- Management:** Percentage you're asking me?
- Siddharth Ahluwalia:** Yes.
- Management:** No, my CMI data shows it is going well above 40% to 43%. But I would not like to stick to that figure because two years done I don't see what -- I don't know what is going to be the power cost or I don't know what is going to be the fuel cost. But if we freeze on the existing assuming the power, nothing changes in the next couple of years, and we are actually going forward to 80% same, my EBITDA, I'm expecting 120 crores on around about INR 400 crore sales not INR 120 crores over INR 120 crores.
- Moderator:** Thank you. Mr. Ahluwalia you done with the questions? Reminder to the participants. If there are no further questions, I now hand the conference over to Ms. Supriya Madye for closing comments.
- Supriya Madye** Thank you, everyone, for being part of the call. If you have any more questions, please feel free to write at Supriya@kirinadvisors.com. Thank you once again, Thank you. Management We can conclude this call
- Management:** Yes. Thank you all. Bye-bye.
- Moderator:** Thank you, ladies and gentlemen. On behalf of Kirin Advisors Private Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you