Keshav CEMENT

Shri Keshav Cements & Infra Ltd.

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Date: 23/11/2023

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

Dear Sir,

<u>Sub: Analyst/Investor call Audio Transcript for the Quarter ended 30/09/2023</u>

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 ended 30th September, 2023 conducted after the meeting of Board of Directors held on 10th November, 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: 2023.11.23 13:25:37 +05'30'

Venkatesh Katwa
Chairman
00211504

"Shri Keshav Cement and Infra Limited

Q2 FY '24 Results Conference Call"

November 21, 2023

MANAGEMENT: **MR. VENKATESH KATWA – CHAIRMAN – SHRI KESHAV CEMENT AND INFRA LIMITED**
MR. VILAS KATWA – MANAGING DIRECTOR – SHRI KESHAV CEMENT AND INFRA LIMITED

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

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Results Conference Call of Shri Keshav Cement 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gopal Chandak. Thank you and over to you, sir.

Gopal Chandak: Thank you. On behalf of Kirin Advisors, I welcome you all to Shri Keshav Cement and Infra Limited Q2 FY24 conference call. From the management side, we have Mr. Venkatesh Katwa, Chairman, and Mr. Vilash Katwa, Managing Director.

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

Venkatesh Katwa: Good afternoon, everyone. This is Venkatesh Katwa. I'm the Chairman of Shri Keshav Cement and Infra Limited. I extend my heartfelt welcome to each one of you joining us for this conference call of Shri Keshav Cement and Infra Limited today, where we aim to dwell into the financial performance of Q2 FY24. But before we get into the specifics of Q2 and H1 of FY24, please allow me to provide a concise overview of our company and its business model. Shri Keshav Cement and Infra Limited is engaged in the manufacture of cement and solar power generation in the state of Karnataka.

The cement plants are located at Bagalkot district in Karnataka and solar plant is also located in Koppal, which is in the north of Karnataka. The cement is supplied in North Karnataka, coastal Karnataka, and Goa and some parts of Maharashtra. Regarding cement, the company has a network of over 350 cement distributors with over 600 plus sales points and over 14 to 15 solar power consumers.

Since April 2018, the company has been meeting 100% of its energy requirement through renewable solar power energy. The cement plants of Shri Keshav Cement are the only – likely the only and the earliest cement plants in India to run on 100% green power, resulting in nearly 75% to 80% reduction in the power cost. Currently, the company is increasing its cement production capacity from 350,000 metric ton per annum to 1 million metric ton per annum, and which is basically an expansion and modernization of the cement plants.

The total project cost is about INR125 crores, out of which around INR46 crores is raised by in preferential allotment in April, May 2023. The plant's current utilization capacity is around 63% to 64%. Regarding solar, the plant capacity is 37 megawatt, and last week the government of Karnataka has given us permission to increase the capacity from 37 to 40 megawatt solar plants.

This project is entirely funded by the suppliers with a payment duration of over four years to five years. Now, to talk about the dynamics of the industry, India is the second largest producer of cement in the world. It accounts for more than 8% of the global installed capacity.

The cement demand in India is expecting a CAGR of 5.65% from 2016 to 2022. As India has a high quantity and quality of lime stone deposits throughout the country, the cement industry promises huge potential of growth. India has a total of 210 large cement plants.

Nearly 32% of the cement production capacity is based in South India. As per ICRA, FY22, the cement production in India is expected to – sorry, in FY24, the cement production is expected to increase 12% year on year, driven by rural housing demand and government's strong focus on infrastructure development, providing three cases of cement with abundant opportunities for growth. Navigating this dynamic landscape, our strategic expansion of cement plant and solar plant ensures that we're all well prepared to capitalize on high development prospects in all the segments of the cement industry.

This commitment positions us to thrive in the evolving automotive service real estate landscape, ensuring sustained growth and success of our company. Regarding the results, in the Q2, FY24, the revenues from the operations was derived predominantly from cement sector, contributing to around 77%, while remaining 20%, 23% was contributed by solar energy and other sources. We are enhancing our cement capacity to 1 million tons, and orders of machinery have now been – already been placed.

The capacity advanced – addition with advanced machinery, which will help in de-bottlenecking and increasing the capacity. The main objective of this expansion is to cut down on the fuel consumption and the power consumption per ton of cement manufacturing. The current cement plant is – was a closed unit, which was purchased in 2007.

The cement plant itself belongs about 30 years back with the old technology baggage. So, the current expansion is basically going to not only de-bottleneck, we will optimize the cement plant with a new kiln and a new breeder tower, and a new cooler, basically bringing down the fuel cost as per the industry standards. Even the solar plant is expected to add another three megawatt of capacity, which will certainly boost our profits.

As mentioned earlier, the cement outlook is positive, and demand normally picks up post monsoon. So, the second half of current year will be more opportune in bringing healthy expansion into financial performance. Furthermore, the rise in cement capacity will not only expand the top line, but also boost our profitability at an exponential rate, owing to cutting down on the cost, variable cost of manufacturing of cement.

So, taking you through the Q2, FY24 and H1, FY24, in the second quarter of this financial year, Keshav Cement reported an income of INR25.76 crores, with EBITDA of INR7.95 crores. With EBITDA margin of INR30.84 crores. During the first half of FY24, the EBITDA is around INR18.22 crores, which is almost comparable to H1 of the previous year. The EBITDA margin of 31.68% is achieved, which is almost one of the highest EBITDAs per ton of cement in the industry, only owing to the solar renewable power captive plant.

The financial picture further revealed a net profit of around INR2.75 crores for the H1, FY24, translating a net profit of around 4.78%. EPS for the same period stood at 1.84, indicating a positive trajectory for the company's financial performance in the first half of the fiscal year. Looking ahead to the second half of FY24, Shri Keshav Cement has an optimistic outlook, which is grounded in strong Q2 performance and strategic initiatives geared towards industry prominence.

The company's consistent growth and financial stability position is favorable and continued success in the dynamic market landscape. In summary, Shri Keshav Cement and Infra Limited's financial performance in FY24 coupled with strategic initiatives highlights its dedication to excellence. The company continues to be a preferred supplier, emphasising its commitment to deliver top quality products in the market.

Before we dive into the question and answer session, I would like to express my sincere gratitude to all our stakeholders for being an integral part of our growth journey. Your support and involvement has played a crucial role in our success, and we genuinely appreciate your valuable contribution.

So with this, I would like to open the floor for questions and answers. Thank you once again for your presence and continued support. I look forward to questions going forward.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hemant, who is an individual investor. Please go ahead.

Hemant: Sir, I wanted to know about the current capex going on. So what is the current status of it?

Venkatesh Katwa: So what I'll do today is I will, you know, our MD, Mr. Vilas Katwa is overlooking the expansion directly. So I will let him address this question so that we all can have a correct picture on what is going on. Over to you, Vilas.

Vilas Katwa: Okay. Hi, good morning. Could you just repeat the question because I just missed it for a second when you asked me the question?

Hemant: Sir, I wanted to know more about this capex. What is the current status of this capex?

Vilas Katwa: Currently, the capex, like they said that we are now expanding to 1 million ton capacity. All major equipments have been ordered. So I would say 95% of the equipments have been ordered. Only non-critical equipments and official items like, you know, instruments and wires, they have not been ordered yet.

I mean, because they will be required at the very last moment. Rest all has been happening. And the whole suite progress is on time. And I expect this whole thing to get over by June next year.

Usually, this kind of expansion takes 16 to 18 months. But we started in July. I think July 3rd was the first installment payment we got from the bank and we started from that day.

It should take at least December next year. But I think we should be done and going by June of '24. So that's the current situation.

Hemant: So we can start our commercial production by 1st of July.

Vilas Katwa: June? Yes, July. Yes, we should start the commercial production by July. Yes.

Hemant: Okay. Sir, once this expansion is there, do we require any other approvals from government?

Vilas Katwa: No, thankfully, no. We have taken all the approvals.

Hemant: Okay. All were there. Once everything is ready, we can start the commercial production?

Vilas Katwa: Absolutely, absolutely. What we usually do is, only one thing is required, is consent for operation. So consent for expansion is already given. Consent for operation, what we do, just before a month, before we start the operations or maybe two months before the operation, we apply it and we get it. It doesn't take more than 15-20 days to get the permission.

Hemant: Sir, one thing, once this machine is ready at your plant, a new machinery, so when you are changing this machinery, how many days plant will be stopped?

Vilas Katwa: That's a very good question. You mean to say the interconnection?

Hemant: Yes, yes. Whatever new machinery you will be adding.

Vilas Katwa: Yes, yes. So what we have done is, we are trying to make sure the interconnection time is minimal. So it should take not more than, not less than 25 days. So 20-25 days, there could be a disconnection, but that would not stop our dispatches because what we'll do is, we are trying to now maintain our inventory so nicely that at the time of 25 days shutdown of that interconnection, we will have our clinker ready to keep grinding and going, and the business is always going like that. Okay, okay. So that's when this will happen, sir.

This should happen in the month of, I think, maybe, we are trying to do it such a way that it's going to be a rainy season because that's the time it's a lull period and cement period. So maybe in the month of June beginning, something like that, we'll take a little quick shutdown and then we'll interconnect it. By June end, we should be done with the entire expansion process.

Hemant: Okay, okay. So once this expansion is there, we will have almost three times the current capacity. So are we having any plans for marketing in different regions or expanding distributors? Can you throw some light on it?

Vilas Katwa: Yes, I think, Venkat, do you want to throw a light or?

Venkatesh Katwa: Yes, yes. So typically, as of now, the existing market itself, once we go deeper, will allow us to sell the entire one million ton capacity. In fact, the only reason why we're not able to go above and beyond right now is because of our restricted EBITDA margins because of very high consumption of coal and electricity at this point in time.

Apart from that, we will also try to go into other bigger markets like Pune and Bangalore, which we feel may not be required because the existing market itself is big enough to consume 1 million ton capacity. In cement industry, 1 million ton capacity is not very significant. So we are very confident that with the addition, we will venture into industrial projects, government related projects, and we should be able to sell the entire quantity.

Hemant: Okay, okay. So for these industrial projects, do you have sufficient manpower and sales team to go and meet these people on a regular basis?

Venkatesh Katwa: Absolutely. Basically, what happens is when we talk about industrial projects, and also these infrastructure projects, we will have to give a vision on the pricing for them for a longer period of time. So with the kind of capacity that we will have, we will be able to provide that, which we are not able to provide today.

As in, there is a huge road project going on, or a huge canal work going on. We will not be able to bid for the entire project or a part of the project with a longer vision on the pricing, which of course will be possible with the new capex.

Hemant: Okay, so we already have the sales people, so you are planning to hire some new people?

Venkatesh Katwa: No, we will have to hire more people. We will have to hire more people in sales, in marketing, different departments will be created to address, go down to the smallest retail points. So there is going to be some addition of manpower.

Hemant: Okay. Because that is the only area where we will be focusing.

Venkatesh Katwa: Everything else is taken care of. To sell the additional capacity is something which we are going to be extremely focused on. Please go ahead, Hemanjit.

Hemant: Sir, actually now our capacity, whatever existing capacity is there, we are doing 60%-65% of it. So why we are not taking few sales people now as a pilot project and we are trying to engage with these people, because we have another 30%-35% still left in the current capacity itself. So why we are not doing that?

Vilas Katwa: So basically, we are restricted because of our lower EBITDA margins. Since our production cost is very high, I have to be selling with a certain profit margin itself, which is why we are not able to concentrate on giving any kind of media discounts. And that has been a constant problem in the last five years for us, which is why, again, like I said, we are not able to go beyond a certain point. So now, in spite of that, this next quarter, we will be expecting a higher capacity utilization. So capacity utilization is not a problem at all. Because of our restricted EBITDA margins, there is a restriction in how much we can sell outside. And with this capex, that is the exact thing what we are addressing. We will cut down the production cost by nearly 25% to 30%. And that is going to give a big boost for us to compete in the market.

Hemant: Okay. Sir, my last question is related to the solar. Once this capacity, new capacity is there, I think most of the power will be used inside our organization only. So in that case, how do we cater to existing solar customers?

Venkatesh Katwa: What we have done is we have not signed any long-term PPA with any of the customers. Going to the fact that we knew somewhere in the future, we are going for expansion. So what we are selling is, due to the incentives what we have got from the government of Karnataka, we are able to sell the power literally to anyone who gives us the best price. So, and with the condition that it is not going to be long-term. So once our 1 billion ton comes up, we will either stop supplying or only supply only 4% to 5% of the solar power. Because the rest will still be consumed in the cement plant.

Hemant: Okay. Yes. Thank you so much for all the answers. That's it from my side.

Venkatesh Katwa: Thank you, Manju.

Management: Thank you.

Moderator: Thank you so much. The next question is from the line of Chinmaye Rane from Kojin Finvest. Please go ahead.

Chinmaye Rane: Thank you so much for the opportunity. Sir, my first question is, what is the rationale behind increasing the solar capacity by 3 megawatts? And what is the capacity you are planning to spend on it?

Venkatesh Katwa: Okay. I could not hear the question properly. But did you ask what is the capacity we are increasing in solar plant?

Chinmaye Rane: Why we are increasing? What is the rationale behind it?

Venkatesh Katwa: Okay. The rationale behind it is, what is happening currently is, after almost five years of existing solar plant, there is a certain amount of degeneration what happens in the solar panels. And we already have the existing land, plus the transmission line, everything, and the common infrastructure like office, manifold remains the same. So adding will just add additional units for us. And since we are selling the power, since we are selling the power at around INR6.80 to INR7, it is giving us a very high ROI, which is why we thought of adding the 3 megawatts.

Chinmaye Rane: Okay. But that means we already have the infrastructure in place, and it could have been more than the 3 megawatts, and that could have been added to our EBITDA and towards our profitability?

Venkatesh Katwa: No. Currently, the available land within the existing plant premises allows us to add only 3 megawatts. And not only that, we are also restricted by, since the permission has been taken on 20 megawatts and 10 megawatts EC capacity, we are not allowed to change the transformers. To change the transformers, we will have to go for a certain other kind of clearance from the Government of Karnataka, which will not avail us those kind of incentives. So what is happening is we are only adding a DC capacity, which means what technically happens is only between 12.30 or 11.30 to 12.30 at the peak level, if there is a completely sunny day, certain generation is lost. But we require a significant generation from morning till 11.30 and 12.30 up to evening. So that ROI, based on generation specs, the ROI appears very positive.

Chinmaye Rane: Okay. Sir, my next question is with regard to the cement capacity. I just want to understand, like we have seen our mechanism from usage of the coal to the pet coke. We are doing lots of things. But then for past few quarters, we have not seen that tangible impact on the EBITDA margin. So what is the reason behind it? Where -- what is going wrong in case of improvement in EBITDA margin?

Venkatesh Katwa: So typically what happened was when we changed, I think last year somewhere in June, July 2022, we changed from coal to pet coke. We slowly progressed to 100% pet coke in a quarter or so, maybe September 2022 or so. So what happened was even though the pet coke is costing much lesser than the coal, but overall cost of pet coke also increased. It is less expensive compared to coal. That is the only fact. So had we been using coal by now, our profit margins wouldn't have been as it is right now.

And secondly, what happened was even though pet coke prices have come down in last three months to four months, but due to the FIFO method of calculation in accounting, we technically are consuming coal -- pet coke, which was bought at the highest cost. So Q2 typically showed the results where cement pricing is the lowest because cement pricing is shown on the Q2 results as it is. Whereas the consumption of raw material is depending on FIFO method.

So technically the cost of raw material what you see in the books accounts for the pet coke what has been purchased three months to four months back, which is when it had reached its peak. So that is why we are not able to see the figures on the financials as of now. But since the pet coke prices have come down, the lower cost pet coke, you will see the consumption in the next quarter, next couple of quarters. That is when the results are likely to appear.

Chinmaye Rane: So from Q3, can we see some better results?

Venkatesh Katwa: Yes, I mean, assuming that everything, assuming if we had, assuming if we just save quantity in Q2, what we do in Q3, results are going to be much better because due to FIFO method, we would have been utilizing the pet coke of lower cost.

Chinmaye Rane: Okay. And the last question is that how has been cement prices? I understand the cement prices during the monsoon and even the reported quarter has been stable or maybe comparatively on a downward. So what is the trend now you are seeing for the cement prices? And have we taken any price hike in the last few months?

Venkatesh Katwa: Yes. So typically, monsoon is the baddest region. In fact, Q2 compared to the previous financial year Q2, the prices have gone down about 2% to 3%. In fact, even the dispatches have gone up by around 7%. In spite of that, we were not able to enjoy the benefits of the increased capacity.

And secondly, like I said, the cost of raw material increased due to the FIFO method of calculation. Technically, Q3 is much better and Q4 is generally the best. So, and even on a larger scale, H2 is generally better compared to H1. So for this financial year, we already crossed the bad times. Q3 and Q4 are likely to be better as we can be seen in all the previous financial years.

Chinmaye Rane: So you expect some cement prices rise in the Karnataka region?

Venkatesh Katwa: Yes, it has hiked last month. So technically, at the end of October. And this month, yes, we have enjoyed the benefit of the hike. And we have hiked the prices as seen in the market.

Chinmaye Rane: And what was the quantum of that hike, sir?

Venkatesh Katwa: So quantum, on average, about INR300 to INR400 is what we are seeing in this month.

Chinmaye Rane: Okay. And what about the current capacity utilization?

Venkatesh Katwa: In H1, it has been around 63%. So I think Q3 has been 63%. Overall could be a little higher than that. And H2, we are expecting a little higher condition because obviously, since prices will come up, EBITDA margins go up, we are able to offer discounts and able to increase the capacity utilization too.

Chinmaye Rane: So with this increase in the capacity utilization, we are already using only the 60% to 70%. So do you think after increasing the capacity from 0.35 million tons with the granting increase and granting capacity to the overall capacity increase to the 1 million tons, do you think that we can see some better capacity utilization? How is the demand standing over there?

Venkatesh Katwa: So definitely, yes. So what the way we have projected this first year, we have shown only 50% to 55% capacity utilization, because it is a sudden jump in the overall capacity. Our biggest take in this capex is that our cost of production will go down drastically, which will allow us to go dig deeper, which will allow us funding into better marketing and sales budgets. And based on those activities, and also with better EBITDA margins, we can approach bigger contractors and give better payment terms. Based on all these factors, we are confident that we will achieve the required capacity utilization.

In fact, in 2016-‘17, our capacity was 0.1 million tons, and we increased the capacity to 0.35 million tons. It just took about one and a half years to reach around 63%, 65% capacity utilization. So yes, as we have a bigger capacity, we can approach bigger customers, institutional buyers, and then give better payment terms. And based on that, we can expect the capacity just to go higher.

Chinmaye Rane: Perfect. With this, we've been having an increase in the overhead. So how it will have an impact on EBITDA margin? Do you think that there will be a good improvement in EBITDA margin? Will this increase overhead reaching to the higher territory?

Venkatesh Katwa: So the reason why we are going to increase the EBITDA margin significantly, let me put it this way. Now, other cement plants are enjoying about INR800 to INR900 EBITDA margins in the last year. Otherwise, technically, cement enjoys around INR1,100 to INR1,200 EBITDA margins per ton of cement. If you look at us, if I consider the power which has been utilized, if you look at our balance sheet, it will show almost INR1,400 EBITDA margins per ton of cement. But that is not accurate because that includes a very low cost of power.

Now, if I take off the power, assuming the power we have consumed at the market price, our EBITDA margin is at around INR150 to INR200, whereas industry is generating EBITDA of around INR900 to INR1,000 per ton, considering power at the market price itself. So that huge difference is only because our fuel consumption is around 1,100 kilocalories per ton, opposed to industry standard of 700 kilocalories. So that saving of 400 kilocalories at a cost of INR1.60 per kilocalories, we'll save around 600 kilocalories to 650 kilocalories just on fuel consumption.

Even the power, we are consuming almost 110 kilowatt ampere hour or k units per ton of cement. Industry is consuming about 60 units. So with this capex, we intend to reach around 65 units. So typically, you save about 55 units of power into the market price of around INR7. You save around another INR380 per metric ton. So 680-plus what is going to happen is there is no significant addition of labor in the plant itself. Other than the interest and the sales, increasing sales, no other power, no other additional fixed cost is there.

So fixed cost is increasing by hardly about 20%, 25%, whereas the capacity is increasing by almost 300%, which means that your fixed cost per ton of cement also is going down. So all put together, we're expecting reasonably to generate around INR900 EBITDA, INR900 to INR1,000 EBITDA per metric ton. Plus, you always have that solar EBITDA of about INR35 crores to INR36 crores adding to the books. So that is the whole objective and the plan behind this capex, which is why the management is confident to achieve the EBITDA margins like we discussed.

Chinmaye Rane: Sir, my last question is regarding the raw materials prices, we do not have any natural mines with us. We are buying it from the market. So, with this increase in the capacity by almost 3x, do we have a sufficient supply of the limestone or would there be any problem with?

Venkatesh Katwa: So, as of now, we are the only buyers of limestone with around about 15-20 suppliers of limestone mine owners over there. So, as such, we don't foresee any challenge. In any case, limestone is one of the lowest cost contribution among the raw materials, even though by quantity is very high.

But yes, all the mining lease put together, they have over 100 million tons of reserves, not 100 tons, more than 100 million tons to 200 million tons of reserves. And we are the only limestone buyer, only plan to buy limestone. So, as of now, we're spoiled for choice, but we don't foresee any challenges with the purchase of limestone is concerned. We have been doing that in the last 25 years, in any case.

Chinmaye Rane: Sir, I may ask one more question. Basically, the Canara bank I believe, for the expansion plan. Sir, what is the rate of interest, we could get it from them?

Venkatesh Katwa: So, currently, we're getting the rate of 10.45%. But we are expecting to go down by about 50 to 60 basis points. That is what they showed over the phone. So, we're hoping to get the clarification maybe in another couple of weeks.

Chinmaye Rane: And for any brand development expenses, you are targeting?

Venkatesh Katwa: In what?

Chinmaye Rane: Brand development expenses?

Venkatesh Katwa: That is a continual process which we are doing in any case. But the significant part will come once we come close to commissioning. So, three months before commissioning, we will have a very hard-hitting marketing and sales promotion happening.

Chinmaye Rane: Okay, sir. That's it from my side. All the best.

Venkatesh Katwa: Thank you, madam.

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

Aman: Yes, thank you, sir, for having my question. And first of all, I'm very new to the company. So, I have only three questions. First, I'm going to join the queue. Sir, the first question, you had discussed in the initial speech about the geographic expansion, that you are not just seeing Karnataka, but seeing Bombay, the Maharashtra side, and the other northern states, like that.

Sir, if you can just give the rationale of expanding beyond Karnataka, because our capacities are less. And the second part of this question is, with the enhanced capacities in June, which may be commissioning, are we on the track for commissioning to the June date?

Venkatesh Katwa: Sure. So, there are only two questions I have regarding geographic expansion of sales and then capex project, are we on track? Right?

Aman: Yes, sir. Then I'll ask a question. I'll follow the answer.

Venkatesh Katwa: Sure. So, regarding geographic expansion, the management feels that the existing sales geography that we are going through, which is South Maharashtra, Goa and North Karnataka is sufficient to address our one million ton capacity expansion to do it. So, when I meant to say, we could reach Pune and Bangalore, it meant to say that, with the kind of capacity that we have, we can always have a better marketing in these towns, since the logistics costs are very high here, but it can be consumed because of the improved EBITDA margins.

So, generally, when you have a bigger market area, the sales capacity utilization becomes much more easier compared to now. So, we may not, of course, go up to Bombay, but I think we could reach Pune and Bangalore if there is a need. Now regarding the project, definitely yes, the project is definitely on the track and as has been assured in the previous calls, as of now, the supply position of the suppliers and the construction of civil, everything is going on time. If anything comes up, we will be the first person to inform the shareholders. Otherwise, as of now, we don't see any delay happening.

Aman: Perfect. Sir, my second question was on the matrices, when we are having such a capex of 3x, are we seeing any future because our balance sheets ratio, which is inventory receivables are on a very healthy note. Do we see it to go to adverse because inventory cycle of the working capital cycle is 60 days to 70? Are we seeing any larger cycles when the capex increases for the capacity? How are we looking at the matrices going forward with balance sheet means?

Venkatesh Katwa: So, typically I expect ratios to improve. See, in fact, this year, the ratios are already improved. Maybe if you look at the balance sheet, you can see typically what happened was in the previous years, we invested heavily into solar. We almost spent about the last five years, we spent almost about INR200 crores in expand, putting a 37 megawatts capacity.

Now with solar plant, what typically happens is it also since we're utilizing a bit captive and very, the amount of sales generated from a 37 megawatts solar plant is very low compared to the investment. It does agonize the ratios because with the high depreciation comes high losses. Then of course, the deferred tax liability, which is not a cash loss, translates into cutting down on the retained earnings, which is when your equity will start, diluting or coming down. It's all in these adjustments, which has got nothing to do with the production or this thing.

Since we are seen as a cement plant, whereas the adjustment is happening due to the high depreciation of solar plant, for a few years, it appeared that the ratios have gone astray, but actually in reality, it had not. It is only because of the Ind AS adjustments, due to high concentration and high level of depreciation, we lost on deferred tax liability, which affected our retained earnings and hence the equity base.

But now in cement with the capex, what will happen is the depreciation, there is going to be certain depreciation, but then the top line is also going to increase. Whereas we didn't generate sales as far as solar is concerned, compared to the amount of depreciation has debited. So, our ratios are likely to be going better going forward compared to when we installed the solar plants.

Aman: Sir, you had mentioned that when marketing efforts will be started three months prior to the commissioning. Just I wanted to get a broad sense from you, is it going to be B2B or you are directly going to approach the consumers, the builders or the people or how is it going to be? Is it going to be organizational tie-ups or what kind of setup are you looking to support the enhanced infrastructure?

Venkatesh Katwa: So, currently we are working with a few consultants and as such we don't have an accurate way on which direction we are going to go. But typically, the way we will be looking at on a broader picture is increasing the retail points, increasing the number of sales executives, also have a new marketing executives and have a new marketing plan put in place and approach the institutional and the government buyers for our bulk orders.

So, that is where we are going to be looking at. And we have got clearances from all the government projects, any government project that we have done, we have got the quality clearance and everything else. It's just that we are not able to fulfill the requirements because the capacity is generally very huge.

Aman: Sir, one part I have seen in the presentation as well and in the company, Portland Cement, the sludge, if you can just give us a broad sense of how is it going to benefit circular economy which is going coming out in a larger way or are we a part of that play or how are we going to support because roads are now are becoming more sustainable rather than just mining and limestone is one of the depleting resource and other oxides and other resources. Are we into those plays or do we have the capacities to support sustainable roads as well or infrastructure coming up with?

Venkatesh Katwa: So, if you are talking on a physical matter, basically yes, I mean as a country grows, I mean we are one of the lowest consumers of cement on per capita even in SAARC countries, leaving Pakistan. We are still Sri Lanka and I don't know about Sri Lanka now but a lot of other SAARC countries are ahead of us when you talk about concrete consumption or cement consumption per capita.

So, as we go, there is an expected possibility based on the positions given by the government of India that our cement, see in India the current capacity is 500 million tons, utilization is 375 million tons. Around 70% is the average utilization in the entire country and it's mainly because the monsoon season cuts down on this thing and secondly, by 2028 or 2030 around another 400 to 500 million tons is expected to be added, which will take our capacity or consumption of cement per capita to around about 150 kgs compared to almost 500 kgs, which is the world average.

So, with that, yes, we are expecting cement sales to be improved and better. There is not going to be a significant competition like in the past with the improved government participation in purchases and then there's the overall process to growth. Cement is going to be a key product to address the infrastructure requirement.

Aman: Perfect. Perfect. Sir, I just want -- last thing I just wanted to get from your side because very rich experience and very rich profile of all the promoters. Any such -- in this financial year or the previous year and also we have seen the capex cycle every three years or this time it has been delayed to five years.

I wanted to get from your sense that any two opportunities that you had planned and it all gone out very well and two setbacks or two or three setbacks which you have seen or you had planned in but it was a setback due to any reason. If you can just share your experience throughout this financial year or any earlier experience and going forward how are we looking optimistically more to be our business side?

Venkatesh Katwa: So typically, the biggest setback was in 2008, 2009 when we purchased the cement plant. So what we did not know was even though we had taken the consultants and looked at cement plant was shut down for almost 25, 30 years. So that cement plant what we purchased had a kill which could produce only 200 tons per day. That we modified to increase it to 450 and now it is increased to 700 tons of clinker ration per day. But it's like a Mercedes car. Beyond a point you cannot refurbish the engine.

So now what we are doing is we are all together changing a new car itself or maybe putting a more advanced, removing the old engine and putting the most advanced engine which will cut down on fuel consumption and power consumption. So most of our failures came in 2008 to 2014 when we struggled with the project with the old kiln very high, extremely high. Today we are talking about 1100 kilo calories but there was a time when we were consuming around 1500 to 1600 kilo calories. Even the power we were consuming 200 units per ton. But that is all the past. We did a lot of modification, modification.

Solar power investment became a huge advantage to us. The moment we installed solar power in 2018 that jumped our EBITDA from INR7 crores per year to directly INR30, maybe INR25 crores in the early stage. Nowadays it is INR37 crores and it will continue to be over INR40 crores this year or so. So that gave us a, not only gave us a benefit, it started getting a lot of cash flow source. Which is why we are able to do this capex now. In fact, the kind of modernization, demodulation, what we are doing right now has been done by other cement plants, all the major plants in India way back in 2010, 2015. So we are just doing the same thing over 10 years later. But yes, we…

Aman: And just a broad, yes, I was just going back to you. Just a broad sense of view after the capex coming in. Any revenue projections or EBITDA because you said that the EBITDA will be significantly increasing because we will be not only reducing the cost by energy consumption, but the cost by other raw materials or transportation per unit cost will come down. Just I wanted to get a sense of how is the road looking going forward in terms of revenue, top line and bottom line for probably one year and three years perspective?

Venkatesh Katwa: So since the project is expected to be commissioned in June 30th or let's say July 2024, FY'24 will not see a significant jump in the thing because Q1 would have been already with the old capacity and Q2 will have to, we have to adjust towards what we call is the teething issues of the plant. In the beginning, plant always tries to, give initial issues. So we are expecting subdued 50% to 55% capex utilization and expected top line is most likely going to be about 200 CF or maybe around about 175 and or 200 and above.

EBITDA certainly will improve. Till the plant stabilizes, we will have a difficult terrain. But still, EBITDA is going to be better than what it is right now. FY'26 onwards is going to be a capacity with 100 percent new machinery, 100 percent, optimized plant. So three years down the line, yes, we are expecting over, see currently we are generating EBITDA of around 30%, 31%. So and with the capex, we are expecting EBITDA to even increase itself. So putting the math with INR300, INR350 cores or even if you take INR300 cores as a top line, our EBITDA should be expected around 35%, 36%. So but the math itself says the more INR100 cores is what we should realistically expect EBITDA, assuming all the parameters fall in line.

Aman: Okay. Sir, and the final thing, all the pressure is on little bit PAT as well, because of finance cost. How are we looking with to, down two years down the line? Is it repayment of like accruals will be repaid or are we planning on any infusion of capital further going forward? What is your vision on the finance cost as well?

Venkatesh Katwa: Absolutely. So what we are planning right now is, if you look at the finance cost, it is going down year-on-year. In fact, this quarter, if you look at the finance cost compared to the last year, in the last year, most of this yearly, where there was an yearly requirement of to account for the finance cost, we saw a spike in the finance cost in Q4. If you look at all previous years.

This year onwards, all those things have been adjusted for the quarter level. So overall finance cost is going to be less than the last year. And there is not going to be any spike in Q4 financials, like what we have seen in the previous years. And very honestly, if they, based on what is going on right now, we will likely to repay the bank earlier than what has been projected.

Aman: Got it.

Venkatesh Katwa: Unless of course, there is a new opportunity, new expansion, companies are not going to just sit on funds and either there is going to be put into something which is going to improve the share as well. If not, then we'll just repay it and look for some other, cut down on our liabilities.

Aman: Okay, understood. So there is no currently any plan for infusing in say six months, like any of the buy rights or by any of the mean market or debt, because we have taken current loans as well. So probably you said the average cost of borrowing is around 10% to 12%. So probably we can lose a little bit, that's why I had asked that question?

Venkatesh Katwa: So currently 10.35 is the percentage. Recently, we have taken a loan for this capex. INR80 crores loans have been sanctioned. Out of INR80 crores, about INR15 crores have been disbursed, as on September 30th. So the balance INR65 crores will be disbursed by the end of March 2024. So that will show up on the balance sheet by the end of this year. But that is purely for capex.

Aman: For purely for capex. Understood. And the turnaround, as you said, that will be much faster and the repayment will be faster. Okay, sure. Thank you, sir. Have a nice journey.

Venkatesh Katwa: Thank a lot.

Aman: And just I just have one request to make, please follow this conference, please call us regularly. And yes, yes, sure.

Venkatesh Katwa: Thank you, Aman. We will, yes.

Aman: Thank you.

Moderator: Thank you. The next question is from the line of Jainam Shah, who is an individual investor. Please go ahead.

Jainam Shah: Yes, hi, sir. Thanks for the opportunity. Sir, how do we plan to capitalize on brand awareness?

Venkatesh Katwa: So typically, in cement, typically there's a Tier 1, Tier 2, Tier 3 markets. Tier 1 brands are the ones which are PAN India, all over India, every region you get it. Tier 2 a typically you have more than one or two regions, but not all over India. So Tier 3 typically are those brands who are have a presence only in a certain region in a certain area itself, like ours. These are the plants like ours, which we have smaller capacities.

So the moment we reach 1 million ton capacity, we technically know, enter into a Tier 2 branding where the pricing also is better. So typically, what happens is with the improved EBITDA because of the lower variable cost because of savings on power and fuel. So obviously, we're going to be investing in brand equity and hire the top notch consultants who will improve the brand awareness. And it's already a well-known brand in the region.

It's just that because of our restricted EBITDA and variable cost, we are not able to supply to wherever it is required. But yes, with the capex, when the cost goes down, our brand equity, we will be improved by investing that. And, the result is going to be improved capacity utilization.

Jainam Shah: Okay. And sir, how do we just address any challenges that we face with the raw material prices fluctuation? Because the raw material prices would be fluctuating every day, I believe?

Venkatesh Katwa: No, the quantity...

Jainam Shah: For every quarter, I guess.

Venkatesh Katwa: So typically cement, almost 90% of the cost comes from only these three things. Limestone, which contributes to around 10% to 15% of the cost. You have fuel, which contributes to around maybe 50% of the cost, and then 50% to 60%. And balance is power, which again, contribute to about 30% of the cost, 30% of the cost. So it is only the fuel which varies. Otherwise, the Limestone and power is our own.

It's only the fuel cost which varies. And it had gone significantly higher last year. So last year, the petroleum coke was almost in the range of INR2.50 paisa per kilo calorie. And now it is about INR1.60 paisa. So that 90 paisa, INR1 savings translates into saving almost, a significant amount for cement plant. But typically what happens is when the power fuel price goes up, there is a tendency of all the cement plants to increase the price.

Jainam Shah: Okay. Okay. Thank you. All the best.

Venkatesh Katwa: Sure. Thank you, Mr. Shah

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Gopal Chandrak for closing comments.

Gopal Chandak: Thank you, everyone for joining the conference call of Shri Keshav Cement and Infra Limited. If you have any queries, you can write us at info@kirinadvisors.com. Once more, thank you everyone for joining the conference.

Venkatesh Katwa: Thank you.

Moderator: Thank you. On behalf of Kirin Advisors, that concludes this conference. Thank you for joining us. You may now disconnect your lines.