Sagar Cements Limited

Q4-FY 18 Earnings Conference Call Transcript
May 30, 2018

Moderator Ladies and gentlemen good day and welcome to the Sagar Cements Limited Q4 and FY18 Earning Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you Mr. Desa.

Gavin Desa Thank you. Good day everyone and a warm welcome to Sagar Cements Q4 and FY18 Analyst and Investor Conference Call. We have with us today Mr. S. Sreekanth Reddy- Executive Director, Mr. K. Prasad - the Chief Financial Officer, Mr. Rajesh Singh – Vice President, Marketing and Mr. R. Soundararajan- Company Secretary. We will begin this conference call with opening remarks from the management following which we will have the floor open for an interactive Q&A session.

Before we begin I would like to point out that certain statements made in today's discussions maybe forward-looking in nature and a note to this effect was stated in the con-call invite sent to you earlier. We trust you have had a chance to receive and go through the documents of financial performance.

I would now like to handover to Mr. Reddy to make his opening remarks. Over to you Sreekanth.

Sreekanth Reddy Thank you. Good morning everyone and welcome to Sagar Cements earning conference call for the quarter and year ended March 31st, 2018.

Let me start the call by highlighting the key trends prevalent across our key markets before I speak about our key operational and financial highlights.

Demand in South was more or less mixed during the quarter as strong demand in Andhra Pradesh and Telangana was negated by relatively weak off-take in Tamil Nadu which was largely impacted by the sand unavailability and the political uncertainty as a result of which realizations remained fairly soft in the area. Moving to the west demand was relatively steady although one did witness higher off-take in nontrade segment; prices as well remain more or less stable compared to the previous quarter. Going ahead we expect the demand and realizations to pick up on back of Government's persistent efforts towards improving infrastructure.

Moving onto Sagar specific developments; we continue to make significant headway towards improving operational efficiencies of the business during the year; some of our key strategic initiatives include acquisition and expansion of the grinding unit at Bayyavaram, setting up of waste-heat recovery plant and also the captive power plant. We are confident that these initiatives will help us improve our product mix, lower the lead distance and also improve our conversion factor. It will also translate to a better operational performance and profitability in the ensuing years.

A quick update on the status of the grinding unit and the captive power plant before I move on to the financials; work on both the projects is progressing well and in fact we are actually hopeful of commissioning the grinding unit in the month of June itself which is three months ahead of schedule. Captive power plant is expected to be commissioned by March 2019.

Let me now move on to our financial performance for the quarter; revenue from the operations for the quarter stood at Rs. 295 crore as against Rs. 271 crore generated during the corresponding quarter last year, higher by almost 8.9%. Revenue expansion was primarily on back of higher volumes. EBITDA for the quarter stood at Rs. 40.5 crore as against Rs. 27.2 crore reported during Q4 FY 17, higher by almost 49%. Operating margin for the quarter stood at 13.73% as against 10% reported during Q4 FY17. Improvement was primarily driven by our recent cost controlling activities.

Average fuel costs were more or less steady as it stood at Rs. 904 per ton for the quarter as against Rs. 909 per ton during Q4 FY17, as higher cost of imported pet coke and coal was negated by lower fuel cost at Gudipadu plant. Freight cost for the quarter stood at Rs. 794 per ton as against Rs. 636 per ton during Q4 FY17, higher owing to slight increase in lead distance as well as the fuel cost. Profit after tax for the quarter stood at Rs. 5 crore as against loss of Rs. 3 crore reported during Q4 FY17. Improved profitability was owing to the overall improved operational performance. From an operational point of view Sagar's Mattampally plant operated at 69% utilization level while BMM operated at almost 84% during the quarter.

As far as the key balance sheet items are concerned the gross debt as on 31st of March, 2018 on a standalone basis stood at Rs. 261 crore out of which Rs. 166 crore is a long-term debt and the remaining constitute the working capital. While on a consolidated basis gross debt stood at Rs. 478 crore out of which Rs. 363 crore is a long-term based. The net worth of the company on a consolidated basis as on 31st of March, 2018 in stood at Rs. 779 crore, debt equity ratio stands at 0.47, cash and bank balances were Rs. 58 crore as on 31st of March, 2018. That concludes my opening remarks. We would not be glad to take any questions that you may have. Thank you.

Moderator Thank you. We take the first question from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda Just had one question on the industry; there have been a lot of these capacity announcements which have come through in the last few months across regions. So just wanted your commentary on how are you looking at it from an industry point of view, utilizations haven't really improved a lot, but players are adding capacity, so is there something that worries you at this point?

Sreekanth Reddy We are part of an industry where the long-term is very-very optimistic, so people take a call looking at a very long-term, short-term sometimes it definitely worries us. But looking at the opportunities and a possible kind of demand scenario spread over longish period, we take comfort only on that front, but on a short-term it looks scary though.

Madhav Marda I mean South also there have been players who sort of wanted to at capacities despite utilizations not improving that seems a little challenging.

Sreekanth Reddy They are lot more optimistic than some of us who are not as optimistic, so there have been few plants which are due for commissioning over next two years and there are some which are likely. If you total it up it looks big number but if you look at the timelines we do believe in Karnataka - Shree is expected probably few months from now. Then there is KCP which is expected probably couple of quarters from now, then there is Chettinad and Penna which is likely to come in a year and a half to two-year time kind of a horizon. And same is the case for Ramco which is slightly longer by additional two or three quarters more than them. Then there is one TANCEM which is a million ton plant which is likely in the end of the current financial Year.

Madhav Marda My second question was the recent capacity which have been added by the industry players, the replacement cost or the new capacity addition cost for them sort of seems to have come down compared to the $110-$115 it seems that people are adding $90 etc. What is in you view would be then….?

Sreekanth Reddy I think it is very specific to the location and the plants that they are adding, I would not like to generalize.

Madhav Marda It's still broadly at the same level, it hasn't changed, it just depends on maybe land was cheaper etc. possible.

Sreekanth Reddy The investment though there is a benchmark but as such I would not give too much of weightage on that. I think it is very specific asset driven rather than generalize kind of numbers.

Moderator We take the next question from the line of Gunjan Prithyani from JP Morgan. Please go ahead.

Gunjan Prithyani Firstly on this related point which Madhav asked on the new expansions, what are the new announcements that you've seen in the last one year because there seems to be a lot more noise in last couple of quarters, so if you could give us some sense in your regions which are the new expansions coming through?

Sreekanth Reddy Just let me list down by state wise that I think should be helpful. In Karnataka I think Shree just due for commissioning anytime now. Then we have Chettinad a 3 million ton plant, in Andhra in Guntur district which we expect somewhere around Q2 of FY20. Then we have Penna Q3 FY20, we have KCP Q2 FY19. These are things which are already on ground where the work is happening. Then there are few announcements like Ramco is talking of an expansion at their Jayanthipuram for the Clinkerization unit and also looking at Greenfield line at Yerraguntla cluster. Then there are quite a few other announcements that have happened where we are really sure of the timeline.

Gunjan Prithyani And Penna is how big?

Sreekanth Reddy Penna is in Boyareddypalli where the groundwork has already started. We expect them to commission by Q3 of FY20.

Gunjan Prithyani How big is the size, is it 3 million ton?

Sreekanth Reddy 2.5 million ton Clinkerization line.

Gunjan Prithyani 2.5 million-ton Clinkerization and where would be the GUs for this clinker?

Sreekanth Reddy They are building a grinding unit in Krishnapatnam which is already commissioned, the first phase I believe is already due for commissioning and they are also talking of that doubling it up. But what is in public domain is that they are looking at packing terminals across east and south.

Gunjan Prithyani And KCP what's the size, its 1.5 million ton?

Sreekanth Reddy 0.5 million at least that's what we are aware.

Gunjan Prithyani The second question was that was the typical market wise outlook that you gave out. How would you look at it for FY19 now for the respective regions?

Sreekanth Reddy I think AP and Telangana we are still sticking to the 15% for the FY19 minus 5% for Tamil Nadu and Karnataka and in Kerala. Karnataka we are looking at 5%+ and Maharashtra also its 10%+.

Gunjan Prithyani Slightly surprised with your outlook for Tamil Nadu because the recent noise or recent results have just indicated that there is some kind of revival in that market with sand mining easing.

Sreekanth Reddy It was -10% for the current year.

Gunjan Prithyani You don't think that it should be probably flat or low single digit growth kind of a scenario in F19 for TN?

Sreekanth Reddy I'm just trying to be cautious. It could be opportune sometime but our internal assessment we are looking at -5%.

Gunjan Prithyani But would you agree with that there has been a revival in the recent months in that market and it is something that could last through the year?

Sreekanth Reddy I keep my fingers crossed. I'm hopeful but I'll still wait for some time before I keep my neck out of that.

Gunjan Prithyani Last question is on the realizations, now of course Q4 wasn't that great but post Q4 there have been some pricing hikes in the market. If you can give us some sense where are we in terms of pricing and is it adequate to cover the cost and how are you looking at the realizations now from an industry perspective?

Sreekanth Reddy First let me give you these price outlooks, of course we increased the prices, but they were not as sustained as what we have expected. Hyderabad the exit from Q4 was at Rs. 260, today the price is hovering anywhere between Rs.275 to Rs.280 so there has been an increase. Though initially we increased it to Rs.300 but it scale down. Chennai and Bangalore, we increased but more or less it remained stable at the exit price of Q4 itself.

Gunjan Prithyani What was the exit price?

Sreekanth Reddy We are talking of our brand position. It was at Rs.310, more or less it remained in the similar range. Same is the case with Bangalore, it was almost the similar kind of a bandwidth. Sholapur of course the exit price was Rs.235, right now it is almost Rs.270 to Rs.275, so it has seen a jump in those markets.

Gunjan Prithyani What has been the challenge in terms of because clearly in Hyderabad the price hikes taken initially were far higher and if I'm not mistaken even in West the initial announcements was the bigger number but what's been absorbed by the market is lower.

Sreekanth Reddy West is okay but Hyderabad yes of course I think market players assessment of the demand itself probably was not in order. That could be one of the reason for that.

Gunjan Prithyani So is it the demand issue or is it just the high competitive intensity, what is the challenge because demand clearly has been holding on in that market fairly well for long time now?

Sreekanth Reddy Higher competitive I don't think there is any new player who has come in the market. I think it's really now the market itself was not in place.

Moderator We take the next question from the line of Giriraj Daga from KM Visaria. Please go ahead.

Giriraj Daga You had mentioned about the Q4 exit prices, Q4 exit was more or less similar compared to fourth quarter average?

Sreekanth Reddy Yes. It is basically look at some small price drops but more or less the pricing pattern was similar. Like January to March the prices were sliding in Hyderabad. January entry price was Rs.270; March exit price was at Rs.255.

Giriraj Daga In terms of cost, like looking at the macro the coal cost and the diesel cost, so is that the current price hike what we have taken is enough to mitigate that cost and if you can also give the cost?

Sreekanth Reddy The price increase what we wanted to do would have adequately covered. Right now we are not fully covered.

Giriraj Daga You're talking about fourth quarter average, right?

Sreekanth Reddy Yes.

Giriraj Daga In terms of cost hike per ton if you can guide us on number?

Sreekanth Reddy As I told you the price hike from Hyderabad, if you look at the exit price was at Rs.260 for Q4 where we increased it to Rs.300 but more or less the average close to around Rs.270 to Rs.275. There has been a Rs. 15 per bag kind of an increase which roughly translates to Rs. 300 per ton, roughly its Rs. 150 effective margin addition. Now if you negate the freight and the tax structure that should cover the cost restrict with one in the market but if you look at an average we are slightly better. But we wish Q1 is supposed to be much more remunerative than the other quarter. From that perspective we are not fully covered as yet.

Giriraj Daga In terms of volume growth for particular Sagar, so should we look at the broad South industry as a whole or should we look at more focus on AP, Telangana?

Sreekanth Reddy In our case we are with the market, so the only difference is there were some assets which were nonexistent before, so that added to our volume increases or else if you look at we have grown in-line with the industry itself. Going forward of course as stated in my earlier opening remarks, our grinding station is due for commissioning in the month or just coming month so that should help us get some additional volumes.

Moderator We take the next question from the line of Abhishek Ghosh from Motilal Oswal Securities. Please go ahead.

Abhishek Ghosh Just wanted to understand one thing, if I get it correctly you mentioned the Chennai prices are closer to Rs.310 and about Rs.275 to Rs.280 for Hyderabad, is that right?

Sreekanth Reddy Yes correct.

Abhishek Ghosh So has the gap between Hyderabad prices and Chennai prices narrowed significantly over the last 12 months, is that a right…?

Sreekanth Reddy No, I think the gap more or less is very similar; the pattern has always been same.

Abhishek Ghosh So the gap used to be closer to that Rs. 30-35 per bag?

Sreekanth Reddy No, it was always in the range of Rs.40 to Rs.45. I think it still remains in the same bandwidth.

Abhishek Ghosh So we are not seeing any change in pattern there?

Sreekanth Reddy So far no. It is more to do with the freight to the market.

Abhishek Ghosh So that remaining constant my understanding was that there is some kind of narrowing of price gap between Hyderabad and…..

Sreekanth Reddy Logically it should not and it has not. So it is more the freight difference rather than anything else.

Abhishek Ghosh Recently Dalmia has announced significant capacity addition in the East which also mean some amount of capacity addition for the Orissa market and since our one of the units will largely be ramping up by pushing more volumes to the Orissa market. So how do you look at the prospects of Orissa market given this capacity addition?

Sreekanth Reddy The Eastern market—I would not restrict myself to the Orissa alone—the Eastern markets have been growing, growing close to 10% as a number. As long as that growth pattern gets sustained I don't see a major challenge. The only inference has been the price in East also has not been very high. The alignment in terms of the demand supply equation to that of price somehow still is not yet fully you get in those markets for a very long time. So we believe that volumes are all possible but any possible price increases it looks to be challenging at this point of time. I think volume should get absorbed but would it really translate into price increases I have my doubts on that.

Abhishek Ghosh So you would expect stable pricing not much improvement in the number.

Sreekanth Reddy I expect and hope that prices don't dilute from where they are even with increased capacities so that's what we believe that is going to be.

Moderator We take the next question from the line of Prateek Maheshwari from Ambit Capital. Please go ahead.

Prateek Maheshwari We have been hearing that the prices of imported coal has been on the rise and wanted to understand from you the same that what is the reason and what will be the impact on our company and players in South? And another question is what is your outlook on pet coke, so pet coke we have been hearing that there is a ruling that has to come in June where there could be a ban on import of pet coke, so what is your thinking on that front? So that were my two questions. Other than that if you could give me your lead distance for BMM and your Company plus your mix between OPC, PPC and PAC?

Sreekanth Reddy Now our view on cost why it is going up? I wish we knew the right reply but the general assumption is that when the crude goes up most of the fuel costs also typically tend to tag along with that. So that's standard reply that we keep getting from most of the suppliers, so that's what we believe could be true to certain extent. We are not really sure of why the imported coal prices are going up.

Prateek Maheshwari Anything on the supplier front in terms of any decrease in the supply?

Sreekanth Reddy I don't think because there is enough volumes that are available. It's more of an issue of trying to capitalize on the opportunity of the increase prices on the crude side which would also impact the sea freight, so that also probably could be one of the reasons why the imported coal prices have been steadily going up. Secondly when we talk of pet coke, at this point of time we are keeping our fingers crossed as to how it could shape up. The ambiguity is not that would ban the pet coke but the likely scenario could be restriction or potentially a ban on imported pet coke. We are keeping our fingers crossed, especially if you look at scenario where they are going to put a restriction on imported pet coke I think we will face that very strange situation where the domestic pet coke may not be as available as current demand is. How that is going to shape up is a question which we have in our mind but yes, we have to face it. How it will shape up, what scenario it will have I think we have to face it only then we will exactly know.

Prateek Maheshwari The impact would be more on the South player than the overall industry because usually I understand even the domestic pet coke price will increase because of the supply?

Sreekanth Reddy Pet coke usage in terms of if you look at from a sector perspective, it is more in North and less in South.

Prateek Maheshwari South majorly imported coal then?

Sreekanth Reddy Either majorly imported coal or from Singareni or these kind of sources.

Prateek Maheshwari Also if you could share on your OPC, PPC mix. Is there any issue with the fly-ash availability?

Sreekanth Reddy It is more a market issue, I don't think there is an issue in terms of the availability. From time to time sometimes it would happen with any of the material, so this is no exception. But per se I don't see a major challenge with the availability on blending material but it's more to do with the market itself. When most of the markets are exposed to the government related demand those are typically OPC kind of market, so we are no different from that. Currently ours is 60% OPC and 40% PPC kind of a product mix that we have. Now with the grinding plant becoming more operational and the expansion becoming more I think our PAC portfolio also is going to increase going forward.

Prateek Maheshwari How much of impact, what was our OPC last year versus 60% this year?

Sreekanth Reddy It is similar, this pattern is very similar.

Prateek Maheshwari So FY17 was also 60%?

Sreekanth Reddy Yes.

Prateek Maheshwari And no issue in terms of like you may be taking fly ash for the farther distances?

Sreekanth Reddy No nothing like that. Fly ash as such whatever is available there has not been a significant change in the supply side as far as the blended material is concerned.

Prateek Maheshwari How would have your nontrade mix changed, so the OPC demand in the government demand is high so non-trade must have increased?

Sreekanth Reddy It is very stable over last couple of years, so there has not been a major shift in terms of the trade, nontrade kind of a mix. We are close to 65%-35% kind of a trade and nontrade kind of a mix.

Prateek Maheshwari 35% is nontrade?

Sreekanth Reddy Yes. But the only challenge is when it comes to that there could be few dealers would have supplied to government but most of them would have routed through the dealers. But if you look from a demand perspective here government has been very significant, so some portion of the government demand probably our dealers would have serviced. So in our record it will still record as a trade supply but in reality it could be 60%-40% or may be 65%-35%, it's kind of a mix which is very difficult for us to address but that's how it is.

Prateek Maheshwari And last one on the lead distance for both the plants, BMM and yours?

Sreekanth Reddy The BMM acquisition is almost close to 3 years so the lead distance is more or less established. On an average we are close to around 375 Km, at a consolidated level we are at 375 km.

Prateek Maheshwari And what was this last year, so 375 Km is for the year, right?

Sreekanth Reddy For the last year.

Prateek Maheshwari And for FY17 it would be?

Sreekanth Reddy Close to around 400 Km – 410 Km kind of a number.

Moderator We take the next question from the line of Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar My first question is regarding your FY18 numbers for industry, so you highlighted FY19 numbers so what would be the estimated numbers for FY18, industry for South?

Sreekanth Reddy The overall South volumes for FY18 have been close to 67.5 million. You want the breakup?

Prateek Kumar I want breakup and general growth number which you told about for 'FY19 like 15% for AP, Telangana and the similar numbers for 18 and if you can share the volume number also.

Sreekanth Reddy AP-Telangana for FY18 has grown at (+19%), Tamil Nadu and Kerala put together is (-10%), Karnataka is (+5%), Maharashtra is at (+11%).

Prateek Kumar And regarding this sand mining issue which still remains pertinent in fact the recent resolution also, so what is your general take on that you're in Tamil Nadu market?

Sreekanth Reddy I think most of the markets are if you look at the mining side significant regulatory changes have happened. So some states are ahead, some states are behind but all said and done we believe that sand mining issue for most of the southern states is behind now.

Prateek Kumar So despite that we are not looking at a growth in Tamil Nadu for '19?

Sreekanth Reddy If you look at from minus 10%, we are looking at minus 5% that itself is a very significant change.

Prateek Kumar Our fuel mix in the current quarter changed towards domestic, so what would that attribute to?

Sreekanth Reddy We primarily look at what is available to, what is the price advantage that we have. At this point of time the domestic coal is also offering a reasonable rate…if you look at Mattampally 50% of our fuel is coming from the domestic sources whereas in BMM we are almost at 100% pet coke.

Prateek Kumar When you say domestic sources it would mean coal only?

Sreekanth Reddy Yes.

Prateek Kumar Overall pet coke makes in overall consolidated operations would be how much?

Sreekanth Reddy That I think end of the quarter we will be in a much better situation. At this point of time we are firing 100% pet coke in BMM cement plant and half of that source is coming from domestic source which is BPCL.

Prateek Kumar Your Mattampally your firing like 50% pet coke and 50% Singareni?

Sreekanth Reddy Yes.

Prateek Kumar Regarding the prices which you mentioned for all the regions, specifically in AP-Telangana because lot of low cost housing work is happening, so the price there still remains like Rs.220-Rs.230 that government booked price?

Sreekanth Reddy If you look at it, AP and Telangana it's a committed price so Rs.230 and Rs.240 yes that remains. That is more or less fixed for low-cost housing.

Prateek Kumar We also have like 60% OPC mix so the remaining price which we sell at also would be lower band because OPC demand would be more of government demand and so rest of the government demand is also at Rs. 240.

Sreekanth Reddy No, Government demand is not yet Rs.250, it's only for whatever we supply to government for certain low-cost projects it is at discounted prices, rest everything is at the market price, market price as nontrade price, not market price as retail price but as a nontrade price.

Prateek Kumar You mentioned about couple of capacities from Chettinad and Penna so you said Penna capacity of 3.5 clinkerization?

Sreekanth Reddy Penna capacity what we are stating is 2.5 million ton.

Prateek Kumar And this is clinkerization and similarly Chettinad you said 3 million ton clinkerization, so grinding would be higher?

Sreekanth Reddy Chettinad is cement.

Prateek Kumar Last question on your CAPEX, what would be the number FY19-20 CAPEX we are looking at in terms of numbers?

Sreekanth Reddy Both years put together its roughly Rs.120 crore, current year is Rs.120 crore so we will complete bulk of the major CAPEX plan what we have initiated is going to be concluded in the current financial year.

Prateek Kumar FY18 was Rs.120 crore and similar number in FY19 also?

Sreekanth Reddy Yes.

Moderator We take the next question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi First on the pricing the trend that you discussed about, so if I see the pricing this year versus last year we are still sharply down across markets like AP-Telangana would be Rs. 25 to Rs.30, similarly Tamil Nadu would be down to around Rs. 40 odd.

Sreekanth Reddy No Mr. Rajesh you have to be slightly more cautious when you look at the prices because entry-exit prices, only at the end of the year we will know how the trend has been because last year bulk of the good prices started in Q1 and there was lot of taper off at the end of the year. But you look at the average price of last year we were slightly better with the current two months. First two months have been better than last year average but that doesn't give any comfort either which way because till we conclude we don't know whether we would be better off or higher or lower.

Rajesh Ravi I was referring to versus last year Q1 average pricing.

Sreekanth Reddy Last year Q1 was the best of the pricing for the whole year.

Rajesh Ravi So now what could be the trajectory given the cost pressure is substantial and impacting everyone. It's not only that a selective there should be impacted.

Sreekanth Reddy It is market price, so I don't think it is selective prices for any of them. All of us are market players so it is similar pattern.

Rajesh Ravi In terms of the CAPEX number that you mentioned, this Rs.120 crore would be only for the ongoing projects or this would include your normal routine maintenance across both the units?

Sreekanth Reddy It is both inclusive but close to Rs.100 crore would be for the larger projects which we have announced so that should get concluded in the current year, Rs.20 crore is a typical annual kind of regular CAPEX that we do which is likely to continue even for the coming year. We are not announcing any new other major project.

Rajesh Ravi So next year onwards and until new projects are announced we would be running at Rs.20-Rs.25 crore maintenance CAPEX.

Sreekanth Reddy That Rs.20-Rs.25 crore should be what we call as an operational CAPEX.

Rajesh Ravi On this industry capacity expansion, this Chettinad, this is 3 million ton, when is this plant expected?

Sreekanth Reddy Our assessment is by Q2 FY20.

Rajesh Ravi This is just integrated or grinding unit?

Sreekanth Reddy Large integrated plant which has waste heat recovery also.

Rajesh Ravi The employee cost in this quarter any specific adjustments that went into?

Sreekanth Reddy Usually bulk of the cost in terms of the commissions and all to the directors and all would get adjusted for the current quarter.

Rajesh Ravi It's generally done in the last quarter that is what….

Sreekanth Reddy Because it is on a variable side, so we have to wait for the full results to come so those adjustments have happened. Rest of all is apportioned appropriately expect for this onetime kind of a thing.

Moderator We take the next question from the line of Devang Bhatt from ICICI Securities. Please go ahead.

Devang Bhatt Just wanted to know what kind of sale can we generate from the grinding unit that will be set up and freight cost?

Sreekanth Reddy That's very subjective because there is going to be a change of product also, so the only thing is right now we are addressing the entire Orissa market from the current location. Once the expansion get concluded in the grinding station bulk of the Orissa sales would be shifted to that. The freight difference itself is going to be close to the tune of around Rs. 500 to Rs. 600 differential but would it get accrued to the bottom line, that cannot be done purely because there is going to be a shift even in the product mix because right now we are doing OPC and PPC there. Once the expansion gets concluded in the grinding station then we are going to shift the entire product to PAC. So it's going to be twofold kind of a thing, one is the freight reduction as well as shift in product.

Devang Bhatt Bottom line it would flow what around 10% of that?

Sreekanth Reddy If prices remain stable we could safely take that call. But it's highly variable kind of a scenario.

Devang Bhatt And the CPP plant that will be done that will save around what Rs. 100 per ton approx?

Sreekanth Reddy I think at an EBITDA level it should contribute close to around Rs.15 crore to Rs.20 crore additional.

Devang Bhatt This working capital that you have in your balance sheet, is it for the 1.2 million ton capacity?

Sreekanth Reddy For all the consolidated operations.

Devang Bhatt So FY19 will be Rs.120 crore CAPEX and FY20 will be same?

Sreekanth Reddy FY20 would be at this point of time there are no other major CAPEX plans, it should be around Rs.20 to Rs.25 crore.

Devang Bhatt So there will be a scope for repayment of debt?

Sreekanth Reddy Yes, it's an ongoing kind of a thing. But most of our debt is structured for a very long-term.

Devang Bhatt So there won't be any repayment as such.

Sreekanth Reddy There is but it is not very significant.

Devang Bhatt What kind of effective tax rate would be there?

Sreekanth Reddy We are in MAT.

Devang Bhatt This BMM plant, is it cash positive on standalone basis.

Sreekanth Reddy Till at least half of last year it was not, from second half it has become cash positive.

Moderator We take the next question from the line of Kabir Rai from India Nivesh. Please go ahead.

Kabir Rai My question is the incentive that we are going to receive from the Vizag plant is limited to the CAPEX net of land cost or it is the total CAPEX amount?

Sreekanth Reddy It is for 7 years and whatever is the sale that we do in Andhra it is restricted to that. I think there is a limitation, but it is for 7 years. I don't think we would recover the complete CAPEX either which way because it is restricted to the sale amount what we do in the net taxes that we pay. It's a quarter of GST, for whatever sale that we do in Andhra alone and is valid for 7 years for the incremental capacity and from the date of commissioning.

Kabir Rai But the incentives are linked to the CAPEX as well, right?

Sreekanth Reddy At this point of time the indication is that it is 100% of the CAPEX.

Kabir Rai Inclusion of land cost?

Sreekanth Reddy No.

Moderator We take the next question from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami Just wanted to know that what's your price expectation going ahead in this financial year like would there be a price increase somehow that we have seen in the first few months of this year will that be continued?

Sreekanth Reddy We generally don't keep our neck-out for the pricing. I think on the margin we expect the margins will be very similar to this.

Anupam Goswami If you can give your conversion ratio clinker to cement?

Sreekanth Reddy That's a tricky number for us. Past we could you but going forward the grinding station would alter the entire clinker factor. Right now, our clinker factor is at 1.2. But that is only for the past, once the grinding station gets commissioned it would significantly alter that because grinding station is going to do PAC so that would alter it quite significantly.

Anupam Goswami Any outlook on the real estate market in South India, how is that shaping?

Sreekanth Reddy That's a challenging thing for us. We don't cover our own universe so talking about the other markets would be a challenge. We are very pocket driven in terms of for certain markets, we do keep track of how the outlook is but beyond that we are very limited kind of….

Anupam Goswami How is that Amravati shaping up?

Sreekanth Reddy Amravati has not been factored-in in any of our outlook. It's more a time-consuming thing and it's more a long drawn and we look at 2-year kind of a horizon and we have not factored what kind of volume coming from it.

Moderator Next question is from Prateek Kumar from Antique Stock Broking. Please go ahead.

Prateek Kumar You mentioned about the demand from government projects besides low-cost housing. So wanted to understand that is pricing power better in trade segment or non-trade segment government projects or government project doesn't guide any pricing power that matter.

Sreekanth Reddy There are specific government projects where there is a specific price that has been committed, so that remains at Rs.230 – Rs.240 kind of a price but that is fixed. The other government projects it is aligned with the market but that is part of the nontrade, so they are not comparable. But usually in our case the margin difference between a trade and nontrade is very-very low so more or less the trade and nontrade margins are very similar. On a gross side it might look very glossy for a trade but at the end of the day the margin more or less remains very similar.

Prateek Kumar So it's nothing about like nontrade segment pricing power is lower and as a result margins could be lower, so in the context that infra demand is growing, so margins could be under more pressure than usual?

Sreekanth Reddy No, if the demand is more logically it should be higher. But most of our pricing and demand have never followed the rational pattern.

Prateek Kumar And regarding fuel cost question again, so what would be now the landed cost for you for the three sources Singareni Coal, imported coal and imported Pet Coke?

Sreekanth Reddy I think our presentation carries if you look at slide #9 of our presentation it clearly indicates what is our cost Q-on-Q.

Moderator Next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi Just wanted to the discussion that you did about this Bayyavaram cost savings once it is fully operational, could you just tell again in terms of like cost reduction that you are seeing?

Sreekanth Reddy I would not talk of cost reduction. There is going to be a shift in the product, significant shift because from OPC-PPC we are also going to add PAC. Right now, we are servicing Orissa market with OPC and PPC whereas the market still absorbs PAC and currently we are servicing those markets from Mattampally, which has quite significant distance compared to the grinding station. Typically, in our experience the margin for OPC,PPC and PAC would be very similar. But for a given clinker you know that we can make more cement PAC so that's what would add up to us and obviously the freight difference would also we are more than hopeful for it to get accreted to the bottom line.

Rajesh Ravi And on the incentive that you discussed 7 years, some broad numbers in terms of if you are able to fully utilize the incremental capacity that would accrue how much in terms of….

Sreekanth Reddy But I think we should get it close to around Rs.100 crore to Rs.110 crore kind of a benefit spread over next 5 to 7 years.

Rajesh Ravi So like it may be piling up on the balance sheet?

Sreekanth Reddy Yes.

Rajesh Ravi On the regional sales mix FY18 could you throw some light and how are we placed now across markets?

Sreekanth Reddy The pattern more or less is going to remain similar except for East is going to slightly increase, so that would have an offsetting kind of an impact. If you look at sheer volume we believe the overall South market to remain at close to 5% incremental, so in proportion the current mix should be very-very similar. Geographic mix should be very similar in the 5%, whatever is the East addition will alter the equations in those fractions.

Rajesh Ravi Any volume guidance that you're looking at for FY19 like we did around 23% growth in FY18?

Sreekanth Reddy We are looking at around 3.2 million for us for the FY19.

Moderator We take the next question from the line of Kunal Shah from Yes Securities. Please go ahead.

Kunal Shah In terms of BMM is there any further efficiency improvement we can expect in terms of fuel cost?

Sreekanth Reddy Yes, because in the coming quarter we are due for changing the cooler, so we are more than hopeful to save around Rs. 25 per ton at the clinker level.

Kunal Shah What is our internal volume target for the incremental Bayyavaram in FY19?

Sreekanth Reddy All inclusive, from a current 2.7-odd million that we have done in the last financial year, for the current financial year we are hoping to 3.2 million.

Kunal Shah Because 3.2 million it sounds a bit conservative if we just see your first month volumes.

Sreekanth Reddy I think Q1 and Q4 usually are good volumes.

Kunal Shah But without the incremental capacity you have done good volumes, so with that…

Sreekanth Reddy What one has to be very careful on this account is our market reading is that the overall South market is expected to grow anywhere between 4% to 4.5% plus for second half when we will fully ramp-up that is what we are trying to add or else nothing new is expected to happen.

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for their closing comments.

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