# SAGAR CEMENTS LIMITED



## Investor / Analyst Presentation

## Q2 FY14

# Industry Overview

- Performance in Q2 FY14 is a reflection of weak volume growth due to healthy monsoon and consequently subdued prices
- New capacity additions not seen to be lucrative due to sub-optimal utilization rates, increasing capex requirements and rising cost of capital
- The demand in India is expected to be incrementally better in H2 FY14 consequent to election led spending, impact of current good monsoon and low base effect
- Given such a situation, the effective utilization rates are expected to bottom out and improve gradually to ~75%
- Capacity utilizations in Southern markets however are likely to remain subdued at 55 - 60% due to demand-supply mismatch in the region
- Further aiding performance is the uptick in pricing across regions

# Industry Overview

**Perspective on Cement Prices**

## West

- Cement prices increased by ~ ₹ 30/bag
- Prices in Mumbai & Pune stood at ₹ 325 and ₹ 300 per bag respectively in the first week of October
- Average prices in the region stood at ₹ 315/bag in October 2013

## South

- Prices in Hyderabad rose by ₹ 50/bag and stood at ₹ 310/bag from ₹ 260/bag in October 2012
- Average prices in the Southern markets were at its all time high in the first week of October 2013 at ₹ 330/bag

# SAGAR CEMENTS - PERSPECTIVES

# Highlights

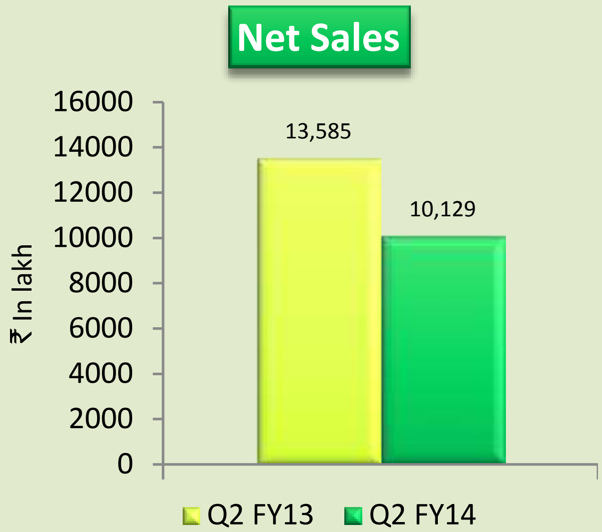
## Performance Highlights (Q2 FY14)

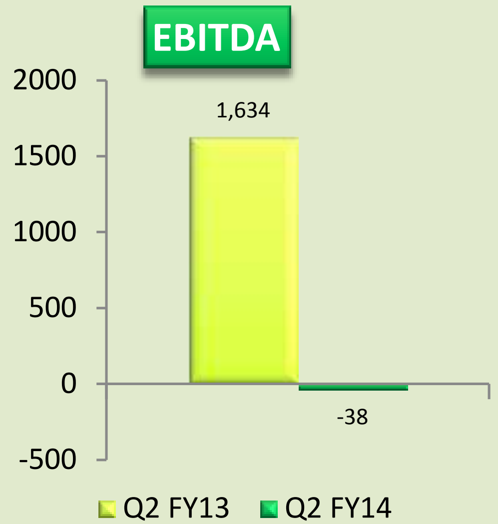
- Q2 FY14 Net sales decreased by 25.4% to ₹ 10,128.5 lakh
- EBITDA decreased to ₹ (37.5) lakh
- PAT at ₹ (114.6) lakh
- Plant operated at around 42% capacity

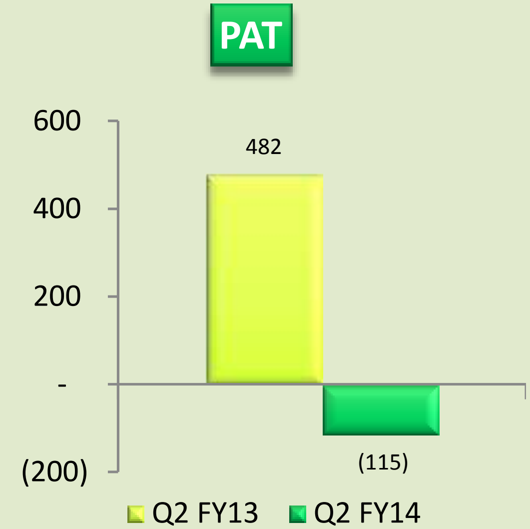
## Performance Highlights (H1 FY14)

- H1 FY14 Net sales decreased by 21.5% to ₹ 22,424.2 lakh
- EBITDA decreased to ₹ (381.0) lakh
- PAT at ₹ (583.5) lakh
- Plant operated at around 47% capacity

# Q2 FY14 Performance Review

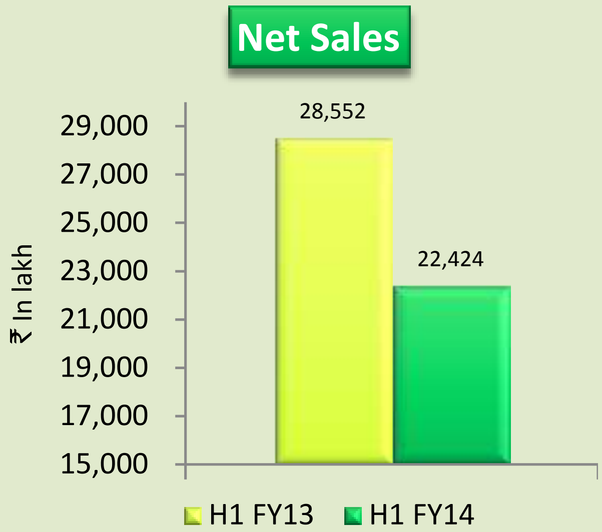


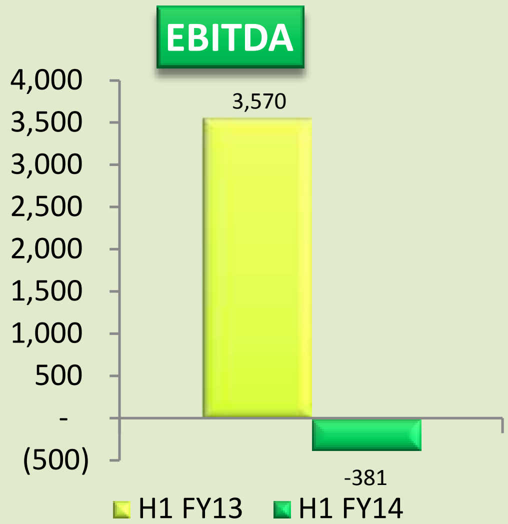



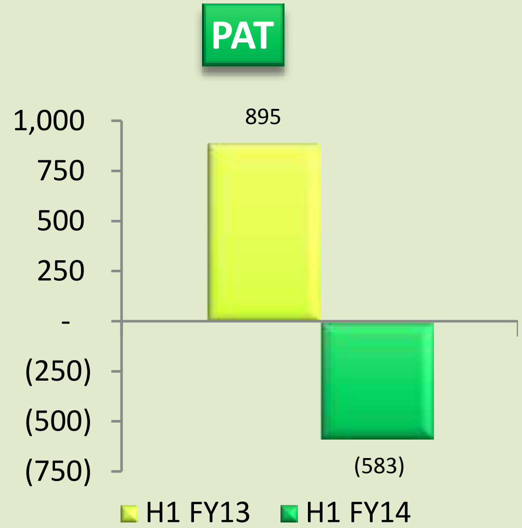




- Net Sales decreased by 25.44% to ₹ 10,128 lakh from ₹ 13,585 lakh in Q2 FY13
- EBITDA decreased to ₹ (38) lakh from ₹ 1,634 lakh in Q2 FY13
  - Operating margins for the quarter at (0.37)%
- Net Profit stood at ₹ (115) lakh compared to ₹ 482 lakh on a corresponding quarter basis
- EPS (not annualized) at ₹ (0.66) for Q2 FY14

# H1 FY14 Performance Review




- Net Sales decreased by 21.46% to ₹ 22,424 lakh from ₹ 28,552 lakh in H1 FY13
- EBITDA decreased to ₹ (381) lakh from ₹ 3,570 lakh in H1 FY13
    - Operating margins for the quarter at (1.70)%
- Net Profit stood at ₹ (583) lakh compared to ₹ 895 lakh on a corresponding quarter basis
- EPS (not annualized) at ₹ (3.36) for H1 FY14

# Executive Director’s Comment

**Commenting on the performance, Mr. Sreekanth Reddy, Executive Director of the Company said,**

*“The second quarter of this financial year continued to be challenging for cement companies in the South. Utilization levels remained low due to an over supply situation. However, the demand outlook for the second half of the year is better given improved farm output and consequent increased infrastructure spends.*

*On the inputs side, we have been able to source more Singareni coal this quarter which is leading to an overall decrease in our coal costs as the mix is slowly shifting towards domestic coal and we are able to proportionately avoid high international coal prices and the impact of rupee depreciation.*

*At Sagar, we continue to make strides with a new railway line. We are well diversified with Cement over 50% of the Cement dispatches to outside the home state of AP.*

*Lastly, we were able to ramp up production and sales at our JV plant at Vicatsagar and are making significant progress there. We are determined that our strong balance sheet and dedicated work force will pave the way for growth going forward.”*

# Realisation & Utilisation

## Matampally Plant

| Gross Realisations (₹/tonne) | | | | |
|---|---|---|---|---|
| | Q1 FY12 | Q2 FY12 | Q3 FY12 | Q4 FY12 |
| Overall Average | 4,668 | 4,560 | 4,628 | 4,665 |
| AP | 5,007 | 4,996 | 5,174 | 5,165 |
| OAP | 4,164 | 4,085 | 4,027 | 4,148 |
| | Q1 FY13 | Q2 FY13 | Q3 FY13 | Q4 FY13 |
| Overall Average | 4,865 | 4,678 | 4,476 | 4,230 |
| AP | 5,097 | 4,762 | 4,685 | 4,343 |
| OAP | 4,619 | 4,602 | 4,261 | 4,099 |
| | Q1 FY14 | Q2 FY14 | | |
| Overall Average | 4,429 | 4,655 | | |
| AP | 4.554 | 5,363 | | |
| OAP | 4,298 | 4,142 | | |

| Utilisation (%) | | | | |
|---|---|---|---|---|
| | Q1 FY12 | Q2 FY12 | Q3 FY12 | Q4 FY12 |
| Cement | 61 | 60 | 56 | 64 |
| Clinker | 59 | 68 | 89 | 48 |
| | Q1 FY13 | Q2 FY13 | Q3 FY13 | Q4 FY13 |
| Cement | 60 | 54 | 54 | 68 |
| Clinker | 59 | 65 | 60 | 67 |
| | Q1 FY14 | Q2 FY14 | | |
| Cement | 53 | 42 | | |
| Clinker | 68 | 48 | | |

# Coal Prices

## Availability of Coal

### Q2 FY13

- Singareni coal: Significant quantity sourced.
- Indonesian coal: 42% of coal used with high moisture content
- South African coal: 12% of coal was used

### Q3 FY13

- Singareni coal: Large quantity sourced.
- Domestic : International coal mix was 45%:55% compared to 34%:66% in the corresponding quarter in the previous year.

### Q4 FY13

- Domestic : International coal mix was 55%:45%
- Singareni Coal: Reasonable quantity sourced

### Q1 FY14

- Domestic : International coal mix was 60%:40%
- Singareni Coal: Reasonable quantity sourced

### Q2 FY14

- Domestic : International coal mix was 70%:30%
- Singareni Coal: Reasonable quantity sourced

**Coal Cost (₹/Tonne.)**

| | Q1 FY12 | Q2 FY12 | Q3 FY12 | Q4 FY12 |
|---|---|---|---|---|
| Indian Average | 3,638 | 3,689 | 3,811 | 3,633 |
| Imported Coal Average | 3,851 | 4,359 | 5,067 | 5,496 |
| | | | | |
| | Q1 FY13 | Q2 FY13 | Q3 FY13 | Q4 FY13 |
| Indian Average | 3,849 | 3,908 | 4,613 | 4,558 |
| Imported Coal Average | 5,350 | 5,022 | 4,967 | 4,498 |
| | Q1 FY14 | Q2 FY14 | | |
| Indian Average | 4,618 | 4,582 | | |
| Imported Coal Average | 4,273 | 4,850 | | |

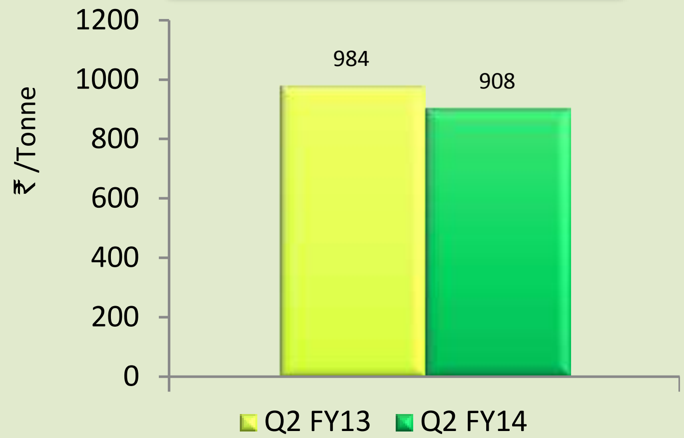
# Operations Overview

| Production (MT) | July | August | September | Total |
|---|---|---|---|---|
| Clinker | 140,240 | 15,000 | 83,380 | 238,620 |
| Cement | 94,480 | 90,681 | 94,725 | 279,886 |

| Description | Cement Sales ('000'MT) | Value ₹ Lakh (net of excise & VAT) | Net Realization ₹/Mt |
|---|---|---|---|
| Q2 FY14 | 280 | 10,129 | 3,614 |
| Q2 FY13 | 372 | 13,585 | 3,650 |
| *% Shift* | *(24.7)* | *(25.4)* | *(1.0)* |
| H1 FY14 | 640 | 22,424 | 3,504 |
| H1 FY13 | 771 | 28,552 | 3,702 |
| *% Shift* | *(17.0)* | *(21.5)* | *(5.4)* |

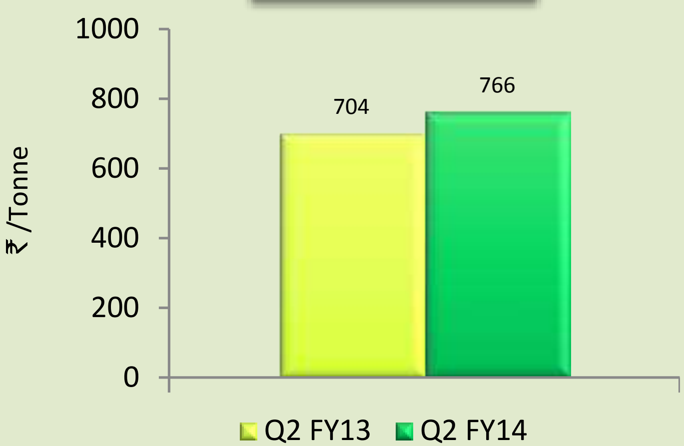
# Cost Overview

### Average Fuel Cost Per Tonne



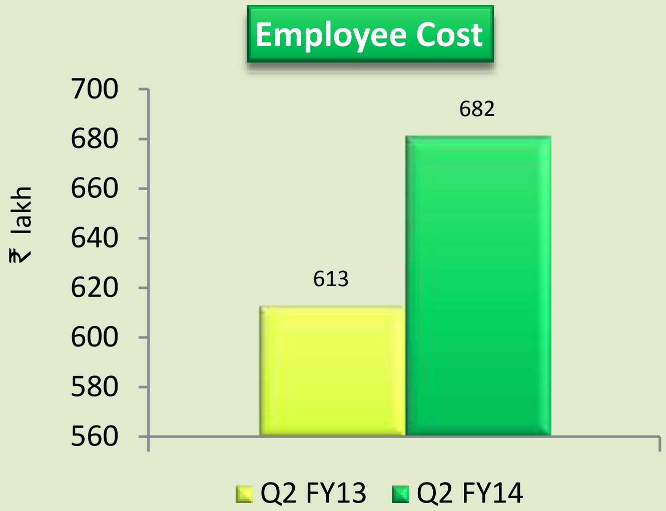

- More domestic coal used during the quarter
- Average fuel cost per tonne of clinker production during the quarter at ₹ 908 as compared to ₹ 984 per tonne in the corresponding quarter in previous year

### Total Freight Cost

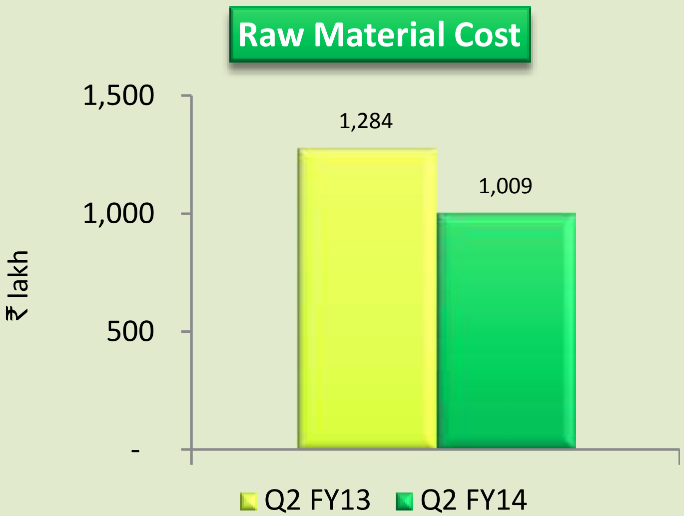



- Higher diesel prices prevailing during the quarter
- Total freight cost per tonne of cement for the quarter stood at ₹ 766 as compared to ₹ 704 in the previous corresponding quarter

# Cost Overview




- The increase in Employee costs is primarily due to increments and other benefits

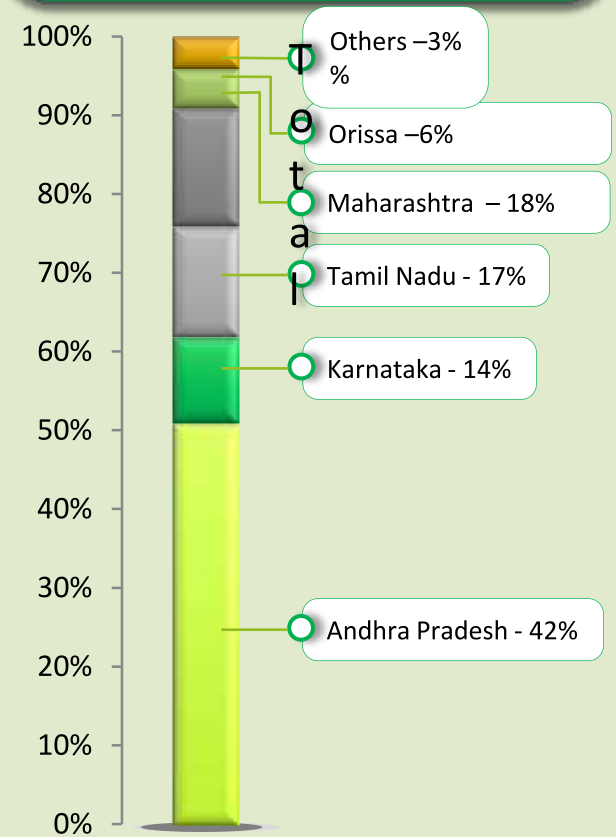



- Lower raw material costs consequent to lower production

# Plant Highlights

- During Q2 FY14, the plant operated at reasonable utilization levels
- 238,620 tons of clinker and 279,886 tons of cement were produced
- Utilization levels for clinker: 48%
- Approximately 58% of cement dispatches was to various markets outside the home state (Andhra Pradesh)

Sales (280,244MT)




# Dispatches in Q2 FY14 vs. Q2 FY13

| | Q2 FY14 | | Q2 FY13 | |
|---|---|---|---|---|
| Markets | Quantity (in Tonnes) | % of Total Sales | Quantity (in Tonnes) | % of Total Sales |
| Andhra Pradesh | 117,694 | 42.00 | 177,084 | 47.57 |
| Karnataka | 39,697 | 14.17 | 62,729 | 16.85 |
| Tamil Nadu | 48,215 | 17.20 | 56,164 | 15.09 |
| Maharashtra | 51,117 | 18.24 | 51,937 | 13.95 |
| Orissa | 15,730 | 5.61 | 11,909 | 3.20 |
| Others | 7,791 | 2.78 | 12,449 | 3.34 |
| **Total** | **280,244** | **100.00** | **372,272** | **100.00** |

# Dispatches by Road & Rake

| DISPATCH DETAILS | | | | | |
|---|---|---|---|---|---|
| **TPT** | **Q1 FY13** | **Q2 FY13** | **Q3 FY13** | **Q4 FY13** | **TOTAL** |
| BY ROAD | 391,173 | 366,627 | 350,200 | 441,557 | **1,549,557** |
| BY RAKE | 13,226 | 5,050 | 2,669 | 18,504 | **39,449** |
| **TOTAL** | **404,399** | **371,677** | **352,869** | **460,061** | **1,589,006** |
| **TPT** | **Q1 FY14** | **Q2 FY14** | | | |
| BY ROAD | 360,863 | 277,970 | | | |
| BY RAKE | - | 2688 | | | |
| **TOTAL** | **360,863** | **280,658** | | | |

**New Railway Line**

- Total Investment for new railway line – ₹ 120 crore
- Completion of the new railway line will lead to better efficiencies and savings in costs once operational
- Dispatches by rail expected to go up by 20%
- Project Completion - FY15

# Key Balance Sheet Items

- Gross debt as on 30th September, 2013 stood at ₹ 19,589 lakh out of which ₹ 11,589 lakh is long term debt with the remaining constituting working capital
- The Net Worth of the Company as on 30th September, 2013 was ₹ 26,061 lakh
- Cash & Bank Balances held by the company at the Balance Sheet date was ₹ 577 lakh
- Investments stood at ₹ 8603 lakhs
- Debt:Equity Ratio as on September 30, 2013 stood at 0.44 : 1

# Vicat Sagar JV

| 1st Phase | |
|---|---|
| Capacity | 2.75 million tonnes |
| Project Cost | ₹ 1,680 crore |
| Capital Contribution | ₹ 500 crore |
| Sagar Contribution | ₹ 86 crore |
| Equity Stake | 47% |
| Commencement of production | January 16th 2013 |
| Q2 FY14 Production | 231,577 tonnes |
| Q2 FY14 Sales | 240,330 tonnes |

# Sales Outside AP

## Historical trend cement sales OAP

| | | | Q2 FY14 | Q1 FY14 |
|---|---|---|---|---|
| **OAP Sales** | | | 58% | 49% |
| | | | | |
| | **Q4 FY13** | **Q3 FY13** | **Q2 FY13** | **Q1 FY13** |
| **OAP Sales** | 46% | 49% | 52% | 48% |
| | | | | |
| | **Q4 FY12** | **Q3 FY12** | **Q2 FY12** | **Q1 FY12** |
| **OAP Sales** | 49% | 48% | 48% | 40% |
| | | | | |
| | **Q4 FY11** | **Q3 FY11** | **Q2 FY11** | **Q1 FY11** |
| **OAP Sales** | 34% | 30% | 20% | 23% |
| | | | | |

**Sales in regions OAP have increased over the last 2 years**

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***Safe Harbour :***

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