Sagar Cements Limited

Q1 FY16 Earnings Conference Call Transcript
July 31, 2015

Moderator Ladies and gentlemen good day and welcome to the Q1 FY16 Earnings conference call for Sagar Cements. Please note that this conference is being recorded. I now hand over the conference ~~over~~ to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa Thank you and good day everyone and welcome to Sagar Cements' Q1 FY16 analysts and investor conference call. We have with us today Mr. Sreekanth Reddy – Executive Director; Mr. Prasad K. – Chief Financial Officer; Mr. P. S. Prasad – Vice President – Marketing; Mr. Rajesh Singh – AVP-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 interactive Q&A session. Before we begin I would like to point out that certain statements made in today's discussions may be forward-looking in nature and a note to that effect was stated in the concall invitee sent to you earlier. We trust you have had a chance to receive and go through the documents and financial performance. I would now like to handover to Mr. Reddy to make his opening remarks. Over to you, Sir.

Sreekanth Reddy: Thank you. Good morning everyone and welcome to Sagar Cements Earnings Conference call for the quarter ended June 30, 2015. Let me briefly share with you some insights with regard to the sector. The demand situation in general continue to remain soft as sluggish housing demand, weak rural demand and the late pick up in the government spending weighed down the demand for the quarter. Pricing environment on the other hand remained more or less stable in our key markets during the quarter.

Moving on to the expense declining coal and fuel costs should help us lower our operating overheads thereby enabling higher accretion and sustainability of the margin. On the whole while there are signs of things shaping up favorably for the economy and sector, given the persistent efforts of the government it will be a gradual process.

Moving on to our financials net sale during the quarter increased to Rs. 195 crore up 44% from Rs. 135 crore reported during the Q1FY15. EBITDA for the quarter improved substantially for the quarter and stood at Rs. 38 crore as against Rs. 42 lakhs generated during the corresponding quarter last year. Higher gross realizations and better cost efficiency primarily drove the improved operational possibility. Gross realization per ton improved to Rs. 5,259 from Rs. 4,302 during Q1 FY15.

Profit after Tax for the quarter stood at Rs. 23 crore as against a loss of Rs. 8 crore during Q1 FY15.

From an operational perspective cement plant operated a 65% utilization levels of the total sales of approximately 67% of the dispatches were made in markets outside of AP and Telangana, Tamil Nadu, Maharashtra, and Karnataka remain the top three markets for us during the quarter.

Moving on to the expenses average fuel cost per ton for the quarter stood at Rs. 801 as against Rs. 973 for the similar quarter last year. Reductions in expenses were primarily on account of higher usage of imported coal given the declining international coal prices and change in coal mix. Domestic and international coal mix for the quarter was 14:86. Freight cost per ton for the quarter stood lower at Rs. 651 as against Rs. 729 during Q1 of FY15. Due to decrease in fuel price and also the lead distances.

Decline in the freight cost was also up partly on account of higher volumes towards Maharashtra wherein the freight cost for us is slightly lower at compared to the other states outside Telangana and AP markets.

As far as key balance sheet items are concerned the gross debt as on 30 June 2015 stood at Rs. 176 crore out of which Rs. 137 crore is the long term debt and the remaining constitutes the working capital. The net worth of the company as on 30 June stood at Rs. 544 crore. Debt-to-equity ratio stands at 0.25:1 and the bank balances were Rs. 93 crore as on 30 June.

That concludes my opening remarks. We would now be glad to take any questions that you have. Thank you.

Moderator Thank you very much, sir.

We have the first question from the line of Anshuman Atri from Espirito Santo Securities.

Anshuman Atri Sir, my question is related to the cement sales, how much of it was ex-BMM?

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Sreekanth Reddy See I think in the first quarter there is around 35,600 tons is the traded sale, what has been from BMM.

Anshuman Atri So out of this 435,000; 35,000 is from BMM?

Sreekanth Reddy. Yes, correct.

Anshuman Atri And second is in terms of what is your expectation in terms of growth going forward in this full year for Sagar as well as for the South industry?

Sreekanth Reddy I ~~will~~ can comment ~~about~~ on Sagar. We are not expecting a significant shift in terms of our incremental volume increases. We do hope to sustain what we have done in the current quarter for the next three quarters. I think that is the outlook that we have going forward for the current financial year.

Anshuman Atri Around 10% to 15% growth?

Sreekanth Reddy No, I don't think there is 10% to 15% growth but similar volumes what we have done in Q1 barring the incremental volumes that would add up from BMM, more or less trend line looks to be very similar.

Anshuman Atri And what would be the ramp up for BMM?

Sreekanth Reddy I think BMM it is now more or less fully operational aligned with most of the sectorial averages which is at 50% to 55%, we are aligned with that. During the Q1 of course we took middle of April and there were some statutory clearances that required. It took close to two months or so. But now the ramp up is more or less complete as far as the volumes BMM is concerned.

Anshuman Atri So this will be the run rate around 35~~,000 tons to 5,000~~, 000 tons?

Sreekanth Reddy Close to that number. I am sure probably in another week to ten days we will be updating the monthly system we should be around that number.

Anshuman Atri One last question is on the demand side. Are we seeing any government spending or what are the factors which you see on the positive note?

Sreekanth Reddy See I think there were a few initiations that have happened still none of them have fully got fructified. There were two tenders that were floated, one by Telangana government other by the AP government. I would not say tender but request for the proposal.

Anshuman Atri And just one last thing. If you could share like last time you had given your expectation of growth of in various markets wherein you operate?

Sreekanth Reddy See as I stated before this so I have to combine all the markets different areas for us. We are not seeing a significant shift at least for the coming few quarters. There is a balancing act we do expect certain volume incremental slight upsides in both Telangana and AP. Tamil Nadu, Karnataka we are looking more like a flattish trend and Maharashtra we do hope to start seeing what was the downward trend to come to positive or a flattish kind of a scenario. And then to start turning positive for the may be two quarters down the line.

Moderator Thank you. The next question is from the line of Rahul Veera from Edelweiss Securities.

Rahul Veera Sir, just a quick question. Have we received the mining clearance for BMM?

Sreekanth Reddy Not yet. I think that is what we are eagerly waiting but I believe lot of files started getting cleared. We are positively hoping that the BMM mining lease also is in the similar kind of file status so we do expect the month; month-and-half the clearance has to come by.

Rahul Veera And sir, what was the cash balance you mentioned earlier?

Sreekanth Reddy Rs. 93 crore.

Moderator Thank you. The next question is from the line of Vaibhav Khurana from Laburnum Capital Advisors.

Vaibhav Khurana: If we look at your financials over the last five, six years the EBITDA has generally been quite compressed in line with other South Indian players because realizations have been quite poor. Now in the last year a couple of things have happened. One is there has been a little bit of demand uptake in the South but I think more importantly there has been better pricing discipline in the South. Now the South is conventionally regarded as a fragmented market with much worse price discipline than elsewhere in the country. Are there any reasons you think that prices in the South might continue to stabilize at these high levels or given the low level of capacity utilization and the fragmented nature of the industry should we basically expect prices to come back down to where they have been earlier?

Sreekanth Reddy I cannot comment on prices been very high. I think prices are as remunerative as it should be for any industry so we are no exception. Secondly, I think we have been very pragmatic and cautious about not selling below certain remunerative price. So that is probably has reflected in our performance over last few quarters. Earlier there was a push or there is an urge for us to look at higher market share. From the urge of going for a higher market share now we are trying to look at the health of the balance sheet to which we at Sagar have decided not to really get in to the market share related issues but to be more cautious about those markets which would be more remunerative we are only servicing to that which obviously impacted the overall capacity utilization. We prefer an optimal mix of trying to sustain at certain EBITDA levels rather than at a higher market share for the higher capacity utilization. This is what we have reached. We believe there could be few challenges on the way but I think that is the only ~~choice that have~~choice that has left with us. Is it sustainable? ~~we~~We do believe it should in the interest of the sector and in the interest of the company we believe it is few months or few quarters it might be tested but we are very pragmatic about our efforts. We believe that that is the way forward till the market really picks up and we start going back to the higher operating rates. We at Sagar firmly believe that we would not tell unless we realize these kind of EBITDA margins.

Vaibhav Khurana: And what are you seeing from your competitors from the South are they being aggressive in cutting prices? There are two parts that question. One, are you seeing greater or reduced aggression in terms of people cutting prices and being willing to sell at any price and two, the capacity addition that was happening in the South as many small plants tries to get to minimum viability threshold. Has that basically died down so can we say that in the next two, three years we are likely to see very little fresh capacity come on?

Sreekanth Reddy No, I think let us try to not trap all the things together. What we see is next three years we do not see a big capacity addition not that people have no interest or trying to put up but usually as you know that this sector takes 3 to 5 years for making the ground breaking or an idea to some concept to commissioning now it is 4 to 5 years kind of a horizon. If somebody who is in some stage it is easy for us to estimate when they will come. Given it is a reasonably transparent kind of a sector we do not expect any new capacities that are getting added up in South as such barring one or two which are in advance stage of commissioning or probably through trial run and we are not expecting any new fresh capacities adding up in this sector in this area. That is one. The second is usually it is cyclical commodity. I think it has always behaved the same. So whenever there is a gap in demand and supply when there is more demand and less supply there is a rush for capacity addition. And whenever there is higher supply and lower demand people generally shrink in adding up the capacity. I think between 2005 and 2010, rather 2011 we went through a scenario where everybody was rushing for the capacities. Today it is other way around where we are only trying to wait for the demand to catch up so that operating rates would go up this is the current scenario. And for next three years we do not see a big shift in terms of demand supply scenario. Going for possibly that the gap would narrow down. Given that scenario not much capacity is getting added up and exactly that is what is happening on the ground.

Vaibhav Khurana: And what about competitor aggression on pricing?

Sreekanth Reddy See I think here this commodity is basic commodity so here people generally though perceived that everybody is a competition I think competition here is more about how you sell yourself rather than trying to look at how others are doing. Given the scenario as far as Sagar is concerned as I stated before we are not aggressively perusing the option of going for a market share and we believe most of the rational players there are many of them we also believe that everybody also will be thinking on similar lines.

Moderator Thank you. The next question is from the line of Pratik Shah from Antique.

Pratik Shah Sir, I have one question regarding your sales mix. You have reported if I just add up your volume for AP, Telangana, Karnataka and Tamil Nadu and compare it like-to-like with year-on-year so it gives a 5% growth. This was negative 4%, negative 5% for last two quarters. So is this I mean just an optical thing or there is a pickup in growth which we are seeing?

Sreekanth Reddy I think what you are trying to look at is the right numbers. In our case the uptake is purely because of some incremental volumes that we have done for BMM which is a new addition for us which was not existent in the previous quarters.

Pratik Shah Okay, so it is purely due to the new additions and not due to like-to-like if you compare like-to-like numbers?

Sreekanth Reddy Yes, I do not think you can compare like-to-like in terms of the volumes. It is purely because of small additions that has happened in from BMM. Going forward you might look at a higher addition but that is purely because of the ramp up that is happening in BMM. Net-net I do not think there is a big shift in the market but for the arithmetic addition of BMM getting aligned in to the Sagar's consolidated number. So I think that is the only change that we are trying to give as an outlook for the next few quarters.

Pratik Shah And sir, on the power and fuel cost your proportion for the imported cost continues to move up. So is there further scope of moving it to 100% level?

Sreekanth Reddy See I think we are taking it as always based on day-to-day kind of a basis. Probably there could be a shift as long as it is very positive in terms of this international coal prices being the way they are. Yes, there is a possibility that it might inch up higher than what it is currently.

Moderator Thank you. The next question is from the line of Vineet Verma from Nomura Financial Advisory & Securities.

Vineet Verma Sir, my first question is your guidance for the next three to four quarters. Does this take in to account the rainfalls in some parts of South as well, as in the West has been quite below the normal. So if you can just share your thoughts on that I mean how it could impact the demand? And secondly, on your domestic coal price I understand it is a gone up quarter-on-quarter which would be because of the freight cost but is that the Singareni coal mines have started charging for the DMF on the coal as well? If you can give clarity on that. And my third question is I mean given the lucrative pricing in the South compared to the other regions are we seeing more amount of cement coming in to the South from the other regions? These are my three questions.

Sreekanth Reddy The first question I would like to address is the coal related issue. Yes, there has not been a significant shift in terms of the domestic coal prices there has not been any increased per se in the last quarter. The only small shift that has happened in terms of the current Q1 is purely because we have also sourced some amount of domestic coal very little quantity from other than Singareni coal. There were some coal fines that we have received which was slightly of a much better quality than what usually we take it from Singareni. That is where it is reflecting. But there has not been a shift in terms of the average landed price from Singareni is concerned in to Sagar.

Next is the market related issue. See our outlook what we have stated even in the last quarter for the current financial year we have not expected any shift in terms of demand outlook we expect it to be as flat or very similar to how it has been last year. It definitely takes in to consideration there are some areas in South where there is a deficit rainfall and there are some areas where it is higher than expected. But net-net the rural demand we expected it to be subdued purely because there were untimely rains in some parts due to which we did factor in our internal assessment that would definitely impact some amount of demand. Having taken that in to consideration we are assuming that more or less the demand outlook for the areas that we operate on an average would be flattish with slight positive bias but it would be more or less flattish.

Vineet Verma And sir, in terms of the question was about because the pricing in South is quite lucrative as compared to the other regions. I mean aren't we seeing some bit of reversal flow of cement coming in from the other region in to the South?

Sreekanth Reddy Yes, see this I think the pricing being lucrative is only on differential basis. I think there is a huge freight cost that gets added up when somebody wants to shift from inter regional movements as to happen. We do see some opportunistic kind of players keep coming once in a while but that is very, very miniscule. That keeps happening on inter regional movements whenever there is a slight arbitrage in terms of slightly higher margins. But that is very, very miniscule. You have to look at the overall market size to watch such an opportunistic kind of volumes come from a different region is very, very limited or negligible I would put it.

Vineet Verma But sir, I understand that but clearly based on the current pricing the gap is almost like Rs. 100 to Rs. 120 per bag?

Sreekanth Reddy But I think it is to do with the freight also. See if you look at the freight fortunately or unfortunately the price as well as the freight has a great correlation. It is not very straight for central region to get in to high price or so called high priced South market because there are markets like Maharashtra and Northern Telangana and Northern AP which are not exactly as high as what would see in down South purely because of the freight adjustments. So given that scenario it is not easy for anybody to get in to those markets barring very negligible quantities because you need to have a network you need to have some presence there to service those markets. And it cannot happen for somebody who wants to do it in ad-hoc or one off kind of a scenario.

Moderator Thank you. The next question is from the line of Murtuza Arsiwalla from Kotak Securities.

Murtuza Arsiwalla My question was pretty much on the lines with the previous participant. Essentially on the price differential between the various regions and you have seen players in South also looking at either Central or West where the price differential is much more. So how do the economics essentially work out for you let us say if you are looking at more sort of participation in the Western markets the prices are not as lucrative as your South and how much is that freight differential let us say for a player from South when he is looking at West or Central and likewise for a player from North when he is looking at the Western market. If you could just elaborate on this entire scheme as to how one should look at it?

Sreekanth Reddy It is to do now let us take Gulbarga as an example which is actually in the transition zone between West and South. Now best parts of Southern markets where the prices are very good is reasonably far off from Gulbarga than the western market. Something like a Sholapur to compare with a Bangalore from Gulbarga' Sholapur is probably half the distance compared to Bangalore from Gulbarga. So you have very limited choice of how much material that you could take to Bangalore it is not like you would be diverting what goes to Sholapur you divert it to Bangalore just because price is high. Once you start doing it I think the NCR what we call as the Naked Cement Realization at the doorstep of the plant may not be significantly different servicing Bangalore markets that of Sholapur market.

Murtuza Arsiwalla But typically if for instance and your own example in that case what would is sort of price differential at which point it does not really make a difference to your?

Sreekanth Reddy Yes, I think we look at what is the kind of margin that we make. If you follow us we actually put some materials in Sholapur as well as in Bangalore. Yes, when prices are decent enough like how it is in Bangalore right now the EBITDA per ton differential would be anywhere between Rs. 200 to Rs. 400 by servicing Bangalore. But again we have a limitation of how much material I can put in Bangalore because my network and my bandwidth in Bangalore is fairly limited to the volumes that I have been doing it.

Murtuza Arsiwalla So it is not alone a function of the price differential you may have like to sell more in Bangalore but you cannot?

Sreekanth Reddy I would prefer to sell right after my gate from the plant but there is a limitation in terms of how much market would accept my brand alone. I mean there are quite a few other people so we have to optimize on those issues. For example today by selling in Andhra I might make around Rs. 1,500 EBITDA per ton but I may make only Rs. 400 or Rs. 500 EBITDA by selling in Sholapur. Since fortunately I am making some EBITDA margin so I have to spread to all the markets wherever I am making EBITDA. And there are some places where we may not make EBITDA we made just breakeven but purely because of strategic value see these are all not fixed forever. So we need to sell our cement and we need to be having some brand presence everywhere so we try to optimize our presence based on strategic value from short-term, medium term and long term planning and accordingly we try to distribute.

Murtuza Arsiwalla If it is something that comfortable could you give an indication or let us say you are present in Bangalore you are present little bit in Maharashtra; you are present in Andhra obviously. Could you sort of give an indication as to what is the EBITDA differential for your plant that you are making today?

Sreekanth Reddy We probably make around Rs. 800 EBITDA to Bangalore from Sagar same thing we make from BMM around Rs. 1,500 purely because of the freight difference. For Sholapur alone if I have to look at it not like Maharashtra as a whole probably we will make around Rs. 400 or Rs. 500 EBITDA purely because the price in Sholapur is lower. Freight to Sholapur is lower compared with Bangalore and the current realization in Sholapur is lower than Bangalore purely because the selling price in Sholapur is lower.

Murtuza Arsiwalla Essentially, we are trying to get a sense of obviously South as a region obviously it is different pockets it is sort of fully to generalized the whole region as one. But just trying to get a sense of you have seen prices in West be weak far more than the South which is possibly because both players from Karnataka; from Andhra etc looking to sort of get a share of that market whether there are incremental capacities are up and not also which are looking at parts of Western India. And you have seen the kind of prices come off in West meaningfully so I am just trying to get a gauge as to how much more downside risk they could be to prices in those regions essentially.

Sreekanth Reddy Yes see, it is a function of market so if you have to rationally analyze I think it has no meaning in any of the statements that we make purely because if there is so much demand supply gap the price should have not been what it has been anywhere for that matter either in South or for Maharashtra. So we hope every player servicing each of the market becomes rational to take a meaningful realization out of the markets that they servicing just for the survival not for any other thing. So we hope everything gets aligned to basic function of trying to do business for the sake of doing business not for the sake of getting market share.

Moderator Thank you. The next question is from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda Sir, just a couple of questions. Have the prices sustained in July compared to the exit in June in all the markets where you are present mainly Maharashtra, Orissa, AP, TN?

Sreekanth Reddy See we had not seen a significant shift. There is some erosion but not as significant as it should be expected purely because monsoon is on and off so there is some amount of ambiguity as to whether dealer stock in or not but barring that we are not seen a big change.

Bhavin Chheda Because the Maharashtra market had seen some decline in May, June particularly so has those prices recovered as compared to Feb, March levels?

Sreekanth Reddy See our footprint Maharashtra is primarily towards the eastern part of Maharashtra and prices more or less have remained stable I would put it because in the areas that we operate not much of a shift is there. They are as such very low so.

Bhavin Chheda And sir, other question particularly on the AP market if I am seeing your last four quarters' volume it has improved from 1~~,20,000~~, 20,000 to 1~~,24,000~~, 24,000 to 1~~,37000~~, 37000 to 1~~,57,000~~, 57,000 in the current quarter so can I assume that there has been an industry growth pick up in a similar manner in the last four quarters or you could have gained more market share than the industry?

Sreekanth Reddy No, see I think there are two issues. One, our quantities had gone up there come down. If you have to compare with Q1 of FY15.

Bhavin Chheda Yes, on YoY it has come down sir, I am trying to compare sequentially?

Sreekanth Reddy You know in quarter-to-quarter the only shift is on BMM capacity getting added as such nothing we do not chase the market share. As a company we do not chase the market share it is purely because of BMM incremental additions.

Bhavin Chheda So BMM volumes were how much in the AP volumes? I think you have reported AP volumes of 157,000 this quarter, right AP and Telangana?

Sreekanth Reddy Yes ~~in Telangana~~ it is 157,000.

Bhavin Chheda So BMM should be how much in that?

Sreekanth Reddy I would say around.1000~~20,000 to. 25,000.~~

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Bhavin Chheda So excluding that you are saying that there is under substantial growth?

Sreekanth Reddy There is no shift that much I can tell you there is absolutely no shift. In fact we have been coming down quarter-on-quarter if you are looking at us for last five years our geographical spread has been very uniform and we have been consciously reducing the dependence on one single state..

Bhavin Chheda Yes so, actually I was coming to the second question on that only so yes, I see your Y-o-Y numbers in three years numbers you are down. So in terms of two to three years you have lost market share but the AP, Telangana pricing has been strong so now it is not possible to shift your other market volumes to this market volume, right? It disturbs the pricing pattern?

Sreekanth Reddy Sir, it is very simple. As I stated before in my call we do not chase the market share. And for your information there is no shift in our market share. Market itself shrank.

Bhavin Chheda Okay, so your saying your three years' market share would have been more or less similar plus, minus?

Sreekanth Reddy It may be slightly lower but the overall market also shrank as much. So we are more or less aligned with the market sir. There is no great change. If you have to look at quarter-on-quarter also more than AP and Telangana markets see our outside AP market if you have to compare for last 14 quarters or rather 13 quarters we have been significantly dropping AP and Telangana share in our overall sales trend has been coming down quarter-on-quarter. I do not know if you are really tracked but in Q4 of last year it was 29%. It has just shifted by 4% that too only because of BMM mentioned not because of any other thing.

Bhavin Chheda And sir, what would be your CAPEX for this year and next year if any?

Sreekanth Reddy See this year we take there are two types of CAPEX sir, one is the medium term CAPEX as such we are coming out of the railway project and the other optimization project so there is no big plan when it comes to medium term. As far as Sagar is concerned. So we are doing the regular kind of a thing which would be somewhere around Rs.7 crore to Rs.10 crore for the current financial year.

Moderator Thank you. The next question is from the line of Giriraj Daga from SKS Capital.

Giriraj Daga Sir, my question is related to how much we have paid to BMM till now till 30 June?

Sreekanth Reddy We have paid Rs. 150 crore as advance.

Giriraj Daga And how much is pending now from like once the deal will be closed?

Sreekanth Reddy I think the equity and unsecured loans cumulatively we should factor up somewhere around another Rs. 100 crore to Rs. 110 crore. But it also amounts to some amount of debt restructuring that we have to do from the current lenders there is some small adjustments that we are trying to do. We are moving over from some banks and trying to get it aligned with our current bankers.

Giriraj Daga And then we will be taking out another Rs. 280 crore of debt from that?

Sreekanth Reddy Yes, sir.

Giriraj Daga And normally like assuming this quarter if you would be able to close the transaction from the second half we can reach to that 50% to 55% kind of utilization for BMM?

Sreekanth Reddy Yes, it will be very safe to assume.

Moderator Thank you. The next question is from the line of Akshay Agarwal from Edelweiss.

Akshay Agarwal Sir, my question was regarding this shift from you are saying the BMM is currently running at a capacity of only 14% I mean you have given that 35,000 cement has been produced there?

Sreekanth Reddy See we just took under the management contract for buying the cement and selling it in Sagar. We just started end of April so that number is not appropriate reason if you have to factor the capacity utilization. Subsequent to that there is an alignment which we had to do with the tax registration authorities that itself took us more than a month, month-and-half. So ramp up I am sure in the current quarter itself it would get reflected and it will get aligned with all the sectorial players in the region.

Akshay Agarwal And sir, going forward I think the hypothesis of the entire transaction was the fact that BMM is more close to the down south market than AP, Telangana so if the BMM ramp up happens will more and more capacity or more and more sales happen Karnataka and Tamil Nadu vis-à-vis Andhra Pradesh and Telangana?

Sreekanth Reddy No sir, I think if you look at it yes, there is slight shift that could happen on a consolidated basis it would get negated with some shift that was already happening from Sagar would probably be routed from BMM. Yes that would go in to the other places. So it would net-net mean that the overall sales mix in terms of percentage would remain very similar to what we have incurred so far. Absolute numbers what you are saying would be correct but in the overall kind of percentages the market mix for us would remain similar.

Akshay Agarwal But sir, if your overall volumes are going up and more volumes are going to Karnataka, Tamil Nadu market where the realizations are not that high as AP, Telangana then can we expect the average realization to be slightly lower going forward?

Sreekanth Reddy No, can I make a correction, see I think the realization per se Karnataka and Tamil Nadu from Sagar to be lower but when it gets to aligned to BMM it would be as far as slightly better.

Akshay Agarwal Okay, because of the saving in freight cost?

Sreekanth Reddy Saving in credit nothing unusual but it is theoretical in same meter.

Akshay Agarwal And sir, this quarter the freight cost has been reported as Rs. 650 so this is all the function of the fuel cost or again some part of BMM?

Sreekanth Reddy See I think it is more to do with the market mix in terms of geographic mix and very limited portion can be attributed to reduction in fuel cost because there was only one the instance of reduction in fuel cost. But it is more to do with the market alignment and there is a shift towards BMM so that is what has happened. Instead of material going from Sagar all the way to Bangalore BMM started pushing 35,000 tons is not a small quantity. It is close to 10% to 12%.

Akshay Agarwal My last question is I think just related to the previous participant on the CAPEX. So you said sir, the CAPEX had been around Rs. 123 crore has been already spent in the railway siding or you don't plan to sort of go ahead with it what the understanding of it?

Sreekanth Reddy No, we have spent close to Rs. 100 crore on the railway project. There is another Rs. 20 crore that is still left in railways which we have decided to shift because that is more to do with the automation. We thought the idea was to ramp up and get going. So that kind of a CAPEX there is a shift which we for sure I am not going to do any in current year. Even if you had to do it will be a small number not a bigger number. So all in all the planning is to restrict the CAPEX in the current financial year between Rs. 7 crore to Rs. 10 crore.

Akshay Agarwal And any CAPEX required in BMM?

Sreekanth Reddy Other than the enterprise value what we have decided sir, there is not much of the CAPEX value other than Rs. 5 crore to Rs. 6 crore which we have to do on an annual basis to sustain the running of the plant. There is no big investment that is required even at BMM.

Akshay Agarwal And sir, further this transaction would you be requiring some sort of approval from the CCI just kind of…

Sreekanth Reddy No sir, I do not think but that was checked much in advance. I do not think there is any requirement of CCI's approval for going ahead with the transaction.

Moderator Thank you. The next question is from the line of Rahul Soni from Baljit Securities.

Rahul Soni Sir, you said in your opening remarks that the margins has been improved due to the fall in the fuel cost and which is evident from the power and fuel cost which has gone down from Rs. 58.8 crore in June last year to Rs. 43.6 crore in the last quarter. Sir, but when I look at the Slide #No. 10 where you have mentioned the coal cost rupees per ton in June quarter 2016 both the indigenous and imported coal price average has actually gone up slightly on Y-o-Y basis. So I am not able to understand how this power and fuel cost actually go down?

Sreekanth Reddy Yes, it is purely because the actual quantities have come down because there is a shift in quality of coal that we started buying. The South African coal what we call as RB1 is of a such superior grade so the quantity of coal that is actually consumed has come down and the process as we have been making investments in to the process optimization so those things also started yielding results. That is the reason why there is a shift in specific fuel cost has come down though the average coal acquisition price has gone up.

Rahul Soni So this is a strategical move to shift to higher mix of international coal?

Sreekanth Reddy I would not say strategic move sir, it is a commercial move so it was making more sense to go for imported coal at this point of time.

Rahul Soni So but if I see the data financial year 2014 and 2015 actually the imported coal prices are more volatile?

Sreekanth Reddy Yes sir, now it is actually see what we are only seeing is the cost but for the given cost the quality of imported coal also has shifted quite a bit. See what we used to get RB2, RB3 today we are getting RB1. See what we used to get 5200 GCV for this type today for same price we are getting 6,000 odd GCV coal. So that also we have to keep in mind.

Rahul Soni So at lesser price you are getting higher calorific value?

Sreekanth Reddy Probably for the same cost we are able to get a better quality coal.

Rahul Soni And sir, can you give the region why sales break up for the last quarter and corresponding quarter?

Sreekanth Reddy Yes, it is there in our presentation. If you look at Slide #15. But just in case if you are looking for something more than what you have presented please we are just more than happy address that. But as such we have given it in Slide #15 of the presentation.

Rahul Soni And sir, you have any plan to cut your debt more in the current financial year?

Sreekanth Reddy Yes, as such debts are low. These are all long term debt it is with the schedule so I think we would be following the path that we have chosen quite some time back.

Rahul Soni And sir, one last question. What is the installed capacity as on date?

Sreekanth Reddy At Sagar it is 2.75 million at BMM It is 1 million.

Rahul Soni And at Sagar is including that Vicat portion?

Sreekanth Reddy No sir, there is no Vicat portion anymore it is already sold out close to two quarters back. And we never used to consolidate that either issue.

Moderator Thank you. The next question is from the line of Rajesh Kumar Ravi from Centrum Broking.

Rajesh Kumar Ravi Sir, on your standalone basis if I see there is a 7% volume growth on your production number so that is driven by on account you have been like overall is there any improvement in market or this is a moderation in the decline that you have seen?

Sreekanth Reddy No, it is purely see what we have been doing is if there is a dry season we end up producing slightly higher and this incremental is purely because of BMM addition or else there is not much of a shift in the overall production plans. See if there is an increase probably it will get offset in this current quarter because we have postponed some amount of maintenance that was there that was to be done in last quarter to this quarter purely because this being a monsoon month so we will instead of trying to run with a wet weather we preferred to close down in the current we prefer to close for more number of days in the current quarter compared with the previous one.

Rajesh Kumar Ravi So what I understand is the BMM production was around 35,000 that you have sold as purchase of traded goods; is that correct?

Sreekanth Reddy Yes, BMM we did around 35,600.

Rajesh Kumar Ravi So if I net that off on a Y-o-Y basis still there is a growth there so you are saying you have produced you have sold more assuming that you will have a production shutdown?

Sreekanth Reddy Yes, we in anticipation that we will have to take a longer shut down for the current quarter yes, we ended up running for more number of days there in the previous quarter.

Rajesh Kumar Ravi So but how was the demand scenario if I missed it in the earlier part of your comment?

Sreekanth Reddy That is again strictly our outlook is that there is not going to be any shift from how it has been for the previous year.

Rajesh Kumar Ravi So you expect to see a sharp decline again in double digit that we have seen in last year?

Sreekanth Reddy No, I am not telling that it would be a decline we are seeing about the same volume what we have seen in last year we are seeing same number.

Rajesh Kumar Ravi Okay, so flattish?

Sreekanth Reddy Yes, flattish.

Rajesh Kumar Ravi And this BMM limestone mining is still not yet cleared. So far your BMM would be sourcing lime stone and making clinker, right?

Sreekanth Reddy Yes, correct

Rajesh Kumar Ravi So the cost of production would obviously be higher so once the BMM own lime stone mining starts you will have the benefit of that also coming through?

Sreekanth Reddy Yes sir, but it would probably get offset with certain other cost structure. See today the way we the arrangement is see we are buying BMM at a fixed price. So the margin is purely between what we buy and what we sell. See as and when BMM gets consolidated I think the impact would be very similar. Margin would go up in BMM.

Rajesh Kumar Ravi No sir, the clinkerization cost will come down once we have own clinker lime stone mining for BMM manufacturing?

Sreekanth Reddy Anyhow it is not our responsibility sir, we are buying it from the current management and in certain fixed price.

Rajesh Kumar Ravi No, not from the current perspective once like in by September you expect everything to get sorted out?

Sreekanth Reddy Yes sir.

Rajesh Kumar Ravi And secondly sir, on the debt numbers that you currently have as you said that there would be around Rs. 300 crore of debt of BMM that would come on board get reflected in your balance sheet on a consol basis. Then you have another Rs. 150 crore to be paid as equity to them. So what would be your peak debt on consol level that we can factored in?

Sreekanth Reddy Around Rs. 450 crore.

Rajesh Kumar Ravi As against current around Rs. 200 crore?

Sreekanth Reddy Yes around Rs. 176 crore become Rs. 450 crore on a consolidated basis. And these are long term debt 10 year tenure.

Rajesh Kumar Ravi So next two years what would be your total CAPEX at the consol level that you would see?

Sreekanth Reddy I think this year we can be sure that it will be somewhere around Rs. 10 crore to Rs. 12 crore not more.

Rajesh Kumar Ravi Okay, so in this quarter railways side how much you have spent sir in Q1?

Sreekanth Reddy Not much sir, because most of the spending has already happened. So we are just waiting for clearances to happen for the railway line yet to come.

Rajesh Kumar Ravi So as I understand even if we do not go for the automation portion the last CAPEX that your initial talking which you have deferred you would still get the benefit of the railway siding once that get connected?

Sreekanth Reddy Yes sir, it is.

Rajesh Kumar Ravi So what would be the savings that you would see from this?

Sreekanth Reddy So what we have factored is Rs. 1 crore per month around Rs. 12 crore to Rs. 15 crore kind of a saving on an annual basis with the….

Rajesh Kumar Ravi That still remains?

Sreekanth Reddy Yes, that still remains.

Rajesh Kumar Ravi And that obviously should come in at least from Q4 you should be seeing that even if things gets stabilized?

Sreekanth Reddy Yes.

Moderator Thank you. The next question is from the line of Nitesh Jain from Axis Capital.

Nitesh Jain Sir, i have two questions. Number one, this the entire plan of Chandrababu Naidu government on the new capital region. So basically how do you see that demand scenario changing? You think that there will be like paradigm shift in the demand as such and the Andhra Pradesh can again be like 20% kind of CAGR? This is my number one question. And secondly, what is your expectation will the government orders will they bifurcate or differentiate between the cement companies based out of Andhra Pradesh and based out of Telangana in the sense they would prefer taking more cement from Andhra and not from Telangana or this is like totally ruled out?

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Sreekanth Reddy There is no regional differences per se so I am addressing the second one first. But see as RFPs are floated so there is no singling out for the plans based on the region. The first question about the new capital region. See we are very positive about the outlook what both the governments have given. One probably is talking of a new capital the other one talking of an aggressive low cost housing. Net-net what we expect is most of these plans would get fructify over a time sir, it is not that it is going to impact in a very short term but we have factored that in our overall outlook and we reasonably believe that AP and Telangana would positively contribute compared to the other states in the region where we expect certain slow down in anticipation for the possible elections both in Tamil Nadu and Karnataka.

Nitesh Jain And sir, one more thing which is like I was very curious about the funding of this new capital region. I am sure that you may not be the truly a correct person to ask but still I am trying that. If you have any idea about how the Chandrababu Naidu government is planning to fund this entire thing but it seems like the entire Singapore plan and everything like a huge CAPEX?

Sreekanth Reddy I am sure they have certain plans on ground. Unfortunately I cannot comment. But I am sure see when it is coming from responsible government I am sure they would have had their own plans for the way it get funded. See the only cautious tone that we internally decided to take is that see the time frames. See somebody wants to achieve it in certain time frame we assume that it would be longer. So based on that only we try to plan our overall kind of market strategy. So we believe the plans will come up but probably it would be on a longish tenure than on a very short term time frame.

Nitesh Jain Because sir, looking at the central government support it looks like Rs. 1,500 crore or Rs. 2,000 crorewhat they have actually given?

Sreekanth Reddy So I think that will be good enough only for the half of the roads or a quarter of the roads the overall.

Nitesh Jain Sure, that is what it is.

Sreekanth Reddy There must be some planning hovering around it. As I stated I am not aware about it but I am sure there must be some planning behind it. We hope all these things shape up back quickly as possible so that we go back to the old glory of AP and

Telangana being the highest consuming states in the country. It was at one point of time so we hope to go back to that scenario.

Moderator Thank you. The next question is from the line of Vaibhav Khurana from Laburnum Capital.

Vaibhav Khurana Just two questions. One is a sort of follow up on regions and which regions you are going in to and if I gesterpose that reply was what you told me on rationality. So I am having a hard time here because on the one hand you are saying that you are being rational you do not want to sell for the sake of selling on the other hand you are saying you are willing to go in and strategically build the brand in regions even at suboptimal prices and to an extent you have to sell even at a Rs. 400 to Rs. 500 EBITDA. So if you could give us some color around how you draw the line between what you think is legitimate and rational brand extensions versus simply putting out capacity because you are forced cover cost. And the second question I had is the pricing in the sense is out of your control because it depends on demand which is not in your control and depends on competitive behavior which is also not in your control. You have greater control over cost structure than you do on pricing. And if I look at the cost structure in the last few years obviously there has been an improvement recently because of coal but I was just curious how do you see the cost structure evolving do you expect it to be stable by just look at say cost per ton should we expect them to be stable should we expect them to go up is there anything you could do to bring cost down? If you could just give us some sense how you look at cost because overall cost have been kind of flat for the last three years at Rs. 3,300 to Rs. 3,400 per ton I am wondering whether it would be sensible for us to extrapolate that in to the next couple of years?

Sreekanth Reddy Let me address the second one first which is easy because when you look at the costs; costs are of two types. One, which has huge inflation impact on it and the other is where we perceive that we have some control. But honestly 70% of the cost it is way beyond any company's control primarily because we are sourcing energy which has its own price control. If somebody has a captive power plant but still they may have to buy the coal from outside. And freight of course there is nothing much that company can comment on except for freight optimization. Coming back to the cost control what we have been doing we are only trying to get in to some investment mode and trying to optimize primarily with how much energy have to be consumed both electrical and coal per ton of cement or per ton of clinker. I think there we are there. I mean it is a continuous affair we more or less putting effort and in fact for last three years there is an investment consciously that we have done primarily on electrical power we had ball mills ~~(56:40)~~ now we added a pre grinder to the cement mill which is due for commissioning probably in a week's time it would get fully functional. With that we hope to reduce the electrical consumption that has to happen on that.

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Coal yes, we are there but again it is a continuous process as I stated. We are going through lot of CMD modeling and all we are hoping to save something but net-net we only have 30% of the overall cost under the management control for which we strive very hard to manage it and we are working towards that.

Going back to the outlook for the next three years it is very difficult but for the current financial year we hope that more or less the costs are in control. We do not expect a big shift in cost for the current financial year. After which we again have to look at how the coal and freight movement is happening or the diesel prices or the fuel prices the way they move would had their own influence.

Coming to the freight we are again shifting from currently a more or less 100% from road to the rail. Now once the rail comes in to some play unfortunately the rail freight has been shooting up year-on-year and quite significantly there also I cannot comment because you are only seeing the rail freight going year-on-year. The kind of cost control that we are trying to put effort I am that is the case with most of the sectorial players so we are no different. How much it could contribute we have to yet noticed that there is a Rs. 60 to Rs. 70 per ton reductions that have happened in areas where we had control. We hope that another Rs. 30 could probably come down where we have control. The rest everything the overall outlook for the cost we assume that for the current financial year would remain more or less similar to how it has been for last year. But for this Rs. 30.

Now going back to the overall kind of market mix we do not do what sales or we do not do put an asset for a very short term perspective. There are some markets which are very strategic for us which have been very high unfortunately currently on a relational basis they turned out to be lower. I cannot withdraw from those markets just because their margin contribution is lower because then it becomes very opportunistic. I cannot sustain my sales network there if I am on and off. It is more about the reliability and the trust that has to be built for the overall sales network. Like Maharashtra was though the price there has not been a shift but when the prices were very low in South our volumes in to Maharashtra actually saved to certain extent where they were contributed. So I cannot withdraw those markets just because some other markets are been more lucrative. So we take a balance view pertaining to those. Fortunately there are margins there it is not that we are losing money there is an EBITDA contribution. So that is how we sustain the market. Our footprints have been carved out based on those elements also.

Now when we looked at BMM when we took BMM over or taken the decision for that we know for user that some amount of markets have to be shifted from Sagar to BMM but that does not mean that we people producing less for selling less from Sagar. So some optimized volumes if you are suppose to go to those places have to be shifted to the other markets though on a relative scale they might be contributing less on a per tonne basis but at a consolidated level between BMM and Sagar I do not think we are compromising. I think these are the issues which one has to consider when certain markets that we have to service on a relative basis the margins could be lower but still we have to service.

Moderator Thank you. The next question is from the line of J. Radhahkrishnan from IIFL.

J. Radhahkrishnan Sir, just trying to understand again on demand sorry that again I am coming on demand. Sir, this AP and Telangana has floated request for Cement. Is there anything specific that from what point of time they will buy is that for this year or it is an open contract type? And it looks like after this floating of request also the demand expectation is not improving. Is this just an aggregation of what they buy on a short term basis or this is something above that what they normally buy through short term contracts?

Sreekanth Reddy The RFP has come after a very long time or after almost 2.5 to 3 years of these volumes were missing. So RFP was very generic it is not a contract it was very generic. Like for Telangana for example they were trying to look at for the housing. For Andhra Pradesh it was very generic from Panchayat Raj to irrigation department to the housing. The RFP was meant for the current financial year. AP government was looking at close to 2 million tons.

J. Radhahkrishnan And Telangana how much sir?

Sreekanth Reddy Telangana was close to a million ton. But in our internal assessment what we only factored is that only a small fraction of those things would come to reality because they floated these things very late if they were targeting it for the current financial year. So we assume around 0.5 million to from each of the state to get in to the current financial year.

J. Radhahkrishnan Okay, so this is not going to really move the needed for the current year even though it is for?

Sreekanth Reddy It is sir, every KG, every gram of it is moving the needle so this is not a bad thing which was missing so this is an incremental kind of to the demand.

J. Radhahkrishnan What is the AP plus Telangana demand for FY15 somewhere around?

Sreekanth Reddy 15 million tons.

J. Radhahkrishnan So 15 million ton and even if you are adding some one or two million tons. Whether the existing housing is not growing now at least because the negative sentiments what they are there previously that may not be continuing now. So housing may be at least reviving and whether it will overall boost the demand growth against the flat expectation?

Sreekanth Reddy See we are in transition so we do hope when you talk of housing you are talking of the general IHB, right you are not talking about of the apartment size. Yes, I think continues to grow or continues to sustain what it has been so far. Yes, that is the only reason why it still we are servicing that 15 million because there has not been a big shift in the first quarter also more or less trend lines look at this year also we expect both combined stated to be close to that number if not higher. So that only points that that demand which is from the IHB continues to remain where it is. This year expecting it to be incremental. That is the reason why we are telling there is a positive bias but overall if I have to arithmetically we add up all the markets footprint areas for us we expect it to be flat. But these two states we expect it to be slightly positive by how much again I would be cautious I will be probably wait for this current quarter to be over before we can see how much it would be positive.

J. Radhahkrishnan Sir, then if not this year at least can we expect that next year AP government and Telangana government may take entire quantity?

Sreekanth Reddy Yes, we are positively hoping that they would definitely take as much as they have indicated reasonably close to that number in the next financial year.

J. Radhahkrishnan And one more question sir. In fact yesterday in another company's concall they were telling about NOX and SOX compliance what the industry has to do. Is there any deadline for that and any ball park investment required for our company?

Sreekanth Reddy See I would not comment on NOX, SOX alone, there is something called by FY17 we were supposed to upgrade for below 25 Ng per NNQ emission standard ~~(1:05)~~ kind of a discharge. So for that we have been preparing over last year; year-and-half. Part of our CAPEX outlook was clearly indicated to both BMM and Sagar. Yes, we did factor an investment towards upgrading the pollution control equipment so that is already factored in our overall CAPEX planning.

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J. Radhahkrishnan How much that could roughly Rs. 5 crore, Rs. 10 crore types or it would be much better than that?

Sreekanth Reddy No, I think for Sagar we are expecting it to be below Rs. 2 crore and for BMM we are expecting it to be below Rs. 1 crore.

J.Radhahkrishnan Is there any recurring expenditure also on this or it is just a one-time investment?

Sreekanth Reddy See there are two parts to it. The bag~~d~~ quality needs to be changed in to bag~~d~~ filters but that is part of the regular OPEX so I would not try to see this type of bag~~d~~ needs to be changed so that we would adhere to the newer norms. Yes that is slightly more expensive than what it is right now. But in reality I think that the upgradation is more in company's interest rather than environment alone. Like if you upgrade your better bags for coal bag filter anyhow you are sustaining the fine grade coal for yourself.

J. Radhahkrishnan So roughly if I am taking based on your capacity then it is somewhere around Rs. 1 crore per million tons?

Sreekanth Reddy It can but there is no thumb rule what we have to please remember is that is the current equipment what we have is reasonably new we have been investing continually on each and every equipment. So that is very specific to us. There are some people probably who have build the plant recently for them it amounts to nothing. There are some people who are still in very old pollution control equipment it could be much higher. So it is very specific to each of the company.

Moderator Thank you. The last question is from the line of Vineet Verma from Nomura.

Vineet Verma I just want to get some sense I mean with the commissioning of the railway line do we see some benefit on the inbound logistics as well in the transportation of coal or gypsum or the flier?

Sreekanth Reddy , Our outlook is primarily based on only on input materials because the output is very subjective. So outward movement we have not really factored much but only the inward we have factoring close to Rs. 1 crore per month kind of a saving.

Vineet Verma So what proportion of your coal will be now coming through the rail I mean once it gets commissioned?

Sreekanth Reddy Yes, I think we expect at least 60% to 70% of the coal to come only by train as and when the railway line is fully commissioned.

Moderator Thank you. I now hand the conference over to Mr. Reddy for his closing comments.

Sreekanth Reddy Thank you once again for joining on our conference call. We would be more than happy to address if you have any further queries. The contact numbers and the connect details are given at the back of the invitee. So we would be more than happy between us and CDR we will be more than happy to address any further queries that you might have. Thank you again for joining us. Thank you.