



THE RAMCO CEMENTS LIMITED

Corporate Office:

Auras Corporate Centre, V Floor,
98-A, Dr. Radhakrishnan Salai, Mylapore,
Chennai – 600 004, India.
Phone: +91-44 28478666, Fax: +91-44 28478676
Web Site: www.ramcocements.in
Corporate Identity Number: L26941TN1957PLC003566

16 November 2022

National Stock Exchange of India Limited,
Exchange Plaza,
Bandra-Kurla Complex,
Bandra (E), Mumbai – 400 051.

Scrip Code: RAMCOCEM

BSE Limited,
Floor 25, “P.J.Towers”,
Dalal Street,
Mumbai – 400 001.

Scrip Code: 500260

Dear Sir,

Sub: Transcript of the Audio Recording of Conference Call - 2QFY23 Financial Performance

Ref: Disclosure under Clause 15(b) of Para A, Part A of Schedule III, read with Regulation 30 of SEBI (LODR) Regulations, 2015.

In continuation of our letter dated 9th November 2022, providing you the weblink of the Audio Recording of Conference Call with respect to 2QFY23 Financial Performance held on 09.11.2022, organised by B & K Securities, we attach the transcript of the conference call and the same is also made available at –

https://ramcocements.in/cms/uploads/BK_Sec_Ramco_Cements_09_Nov_2022_fac36c85ea.pdf

Thanking you,

Yours faithfully,

For THE RAMCO CEMENTS LIMITED,

K.SELVANAYAGAM
SECRETARY



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“The Ramco Cements Limited
2QFY23 Earnings Conference Call”

09 November 2022



1347249166 0001



MANAGEMENT: **MR. P.R. VENKETRAMA RAJA – MANAGING DIRECTOR –
THE RAMCO CEMENTS LIMITED**
**MR. A.V. DHARMAKRISHNAN – CHIEF EXECUTIVE OFFICER –
THE RAMCO CEMENTS LIMITED**
**MR. S. VAITHIYANATHAN – CHIEF FINANCIAL OFFICER – THE
RAMCO CEMENTS LIMITED**

MODERATOR: **MR. AMIT SRIVASTAVA – B&K SECURITIES**



*The Ramco Cements Limited
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Moderator: Ladies and gentlemen, good day, and welcome to The Ramco Cements 2QFY23 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing 'Star' then 'Zero' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Srivastava from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, Sir.

Amit Srivastava: Good afternoon, everyone. On behalf of B&K Securities, we welcome you all to the 2QFY23 Earnings Conference Call with the management of The Ramco Cements. We have with us from the management; Mr. P.R.V. Raja, MD; Mr. A.V. Dharmakrishnan, CEO, and Mr. S. Vaithyanathan, CFO. We would like to start the call with the opening remarks from the management, which will be followed by Q&A. So over to you, Sir.

P.R. Venketrama Raja: Good evening, everybody, and I warmly welcome you all to the earnings call of The Ramco Cements to discuss the unaudited results of 2QFY23. Thank you for taking the time to join us for this call. And I am sure all of you have already seen our results, and I would like to highlight a few of our performances. We will start with the highlights of our performance of the second quarter.

Our revenue increased YoY from INR 1,501 crores to INR 1,793 crores for 2QFY23. EBITDA has dropped YoY from INR 402 crores to INR 193 crores. And EBITDA per tonne stood at Rs 582 tonnes, which is one of the lowest in the last eight years. Profit after Tax stood at INR 11 crores during the quarter. The main reason for the drop in profitability in the current quarter is due to the margin pressure in view of drop in cement prices amid higher fuel prices.

The business environment continue to be uncertain due to rapidly changing economic environment in view of prevailing stress in geopolitical situation across the globe. This has put a strain on the fuel cost due to its high volatility. Usually, the short-term visibility of the business are much clearer. But this time, it is the other way around. The situation may continue for a few quarters, considering the prevailing uncertainties. However, we are optimistic about long-term prospects and opportunities in this business.

In spite of all such challenges, we continue to keep our focus firm on critical business parameters, such as improvement of EBITDA per tonne, premiumisation of our products, productivity increase, pricing and a lot of emphasis on R&D, and completion of all our capacity expansions, which we had initiated before the challenging times started. We are more committed to continue our good efforts to do a much better job going forward.

Now let me give you a market scenario and outlook. The current demand for cement is good in the individual house builder markets as well as the infrastructure segment, thanks to improving economic activities after the pandemic amid easing of supply chain bottlenecks. The resilience of cement demand in the medium-term is also encouraging in view of promising factors like good monsoon,



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good water levels in the reservoirs, focus on infra spend by the government and the upcoming elections.

Having said that, with the continuing consolidation of the cement industry, coupled with increased addition of fresh capacity could lead to increased appetite for market share among the players, which may put pressure on margins in the near future, especially due to the uncertainty in fuel prices. Though, there was some respite in the spot CIF prices of pet coke in August and September, the spot prices, again sharply increased in October 2022. Any further surge in pet coke prices could affect the margins adversely in coming quarters. The continuing volatility in fuel prices, faster rupee depreciation, hardening interest rates are worrisome factors. We remain watchful on these parameters.

Now let me also give you the status update of our expansion plans. The green field cement plant in Kolimigundla, Kurnool district with a capacity of 1.5 million tonnes of cement grinding commenced commercial production on September 2022. The Honourable Chief Minister of Andhra Pradesh Shri. Y.S. Jaganmohan Reddy inaugurated the operations of the unit. The modernisation of our R.R. Nagar plant will be commissioned before March 2023. With regard to expansion of dry motor capacities, two units of Tamil Nadu are ready for commissioning and market trials for products are in progress. The remaining two units in Andhra Pradesh and Odisha will be commissioned during the financial year 2023-24.

The company propose to increase the grinding capacity of Haridaspur plant in Odisha by 0.9 million tonnes per annum at a cost of only INR 130 crores since other infrastructures are already in place, thereby doubling its capacity to 1.8 million tonnes per annum. During the current quarter, the company has incurred INR 504 crores towards capex. The company's net debt as on 30-09-2022 is INR 4,741 crores. The average cost of interest borrowing for the current quarter has increased to 6.42% from 5.47% of the corresponding previous quarter. This is a brief update on the performance of this quarter and the situation in the company. We are now open to take your questions. Thank you very much.

Moderator:

Thank you. Ladies and Gentlemen, we will now begin with a question-and-answer session. The first question is from Mr. Shravan Shah from Dolat Capital.

Shravan Shah:

So before asking questions on operational aspect, I want to first understand on the date and the capex front. So the date in the last six months has increased by close to INR 900 crores. And now this year also we are planning to do a capex of INR 1,717 crores, and next year also, the capex will be INR 892-odd crores. First of all, why such a significant increase in capex in this year? Because last quarter, we guided an INR 850-odd crores capex. So with this, how do we see our net debt by FY23 and FY24?

Management:

The capacity has gone up because in the Kurnool plant, even for second line, we made many preparatory works for expansion. So when we put up the second plant, the cost of putting up the



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plant will be very less. Take, for example, Odisha, although first line cost is around INR 700 crores. The second 1 million tonne, we have to put only INR 130 crores. So while putting up the second line, we thought many of the silos, many of the common facilities we created now itself, so that we can complete the second line quickly since already ECs in place we want to have the commissioning time very less, and we can go for the production at the earliest. That is the main reason.

The last two quarters, the cash flow is affected because of cost increase, which we have not anticipated. In the third quarter, definitely, we expect a good cash flow. Fourth quarter, we are yet to see. So there may not be a significant increase in borrowing in the third and fourth quarter.

Shravan Shah: So broadly, we can see the same level of debt?

Management: Sorry, the working capital has gone up because for the high value of pet coke, now the price is 3x. Therefore, the working capital has also gone up because of the increase in value rather than volume.

Shravan Shah: So we broadly expect the current INR 4,700 crores net debt to remain by end of March?

Management: Yes, yes.

Shravan Shah: Second, on the Orissa 0.9 MTPA, the new one that we have said today, when the commissioning will be there, COD will be expected by...

Management: May be max 12 months from now. Yes, we want to commission before nine months because already civil work have been commenced and also we placed orders for the equipment and within nine to 12 months, it will be commissioned. Only commissioning of the equipment is needed, as all other infrastructure is available. That is why we are confident that we can commission in nine to 12 months.

Shravan Shah: Now on the operational aspects, first, in terms of the pricing. Post September, where and how much, if you can specify in terms of the state-wise how much price increase we have taken?

Management: In Tamil Nadu, the price has gone up by almost INR 15 to INR 20 in the month of October. November also, we announced some price increase, but we are yet to see it in the market. In Andhra Pradesh, there is no price increase in the month of October. In Kerala, there is a price increase of INR 25 to INR 30. Now another INR 15 increase in the month of November. Karnataka increased the price by INR 20 to INR 25, and we increased the price by INR 5 to INR 10 now. Odisha, the prices are already very bad, and we increased the price by INR 10 to INR 15. The prices in the month of October was only INR 270 to INR 275. So in the month of October, we increased the price by INR 40 to INR 45, but only INR 10 to INR 15 we were able to hold. In west Bengal, the price is around INR 310 to INR 315 in the month of September and in the month of October INR 10 to INR 15 we were able to increase the price. Now we are attempting another price hike of INR 10. You have to reduce the GST portion to understand the realisation.

Moderator: The next question is from the line of Mr. Nitin Arora from Axis Mutual Fund.



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Nitin Arora: Yes. So Sir, just on the capex part, you gave your reasoning of preparatory work at Kurnool, but 4Q, we guided for some Rs 700 crores. Last 1Q call, you said that, okay, let me take the capex higher to Rs 900 crores, and suddenly you double that capex because of the preparatory work you have done at the Kurnool plant. But I am assuming these forecasts what you do would not be a function of 15, 20 days decision, right? I mean that preparatory work or whether a Kurnool has to expand, you would have taken that call six months back. Can you explain that?

Management: You should not be very sarcastic. When the competition is picking up, and others are consolidating, we should also consolidate in faster pace, rather than in slow pace. So do not think that we do not know how to plan it. We also have good plans on all these things. Sometimes, when the big players are coming, we should also prepare to face the challenges.

Nitin Arora: Sir, my question is not on the planning. What I am trying to ask you is that competition will further increase, right? In our industry, competition never goes down, right? As you always told, we have learned from you that competition is something will always be there in the system. I need to work on the viability of the project. Now even you talked about Maharashtra expansion. So would that come in next quarter announcement? Or how we should look at it that this is the number?

Management: Maharashtra expansion, whenever it is finalised, it will be announced. For example, Odisha I have not told you before. Unless the board approves it, I cannot inform you. Based on the Board's approval on a particular date, I can give the capex plan. Today, my Board has approved for go ahead of this project because it was kept on hold. Now the demand is good. We have grown by ~ 55% in the first quarter. We have shown another highest growth of 22% in the second quarter. In Odisha, we have already achieved 100% capacity and there is a good demand for our product. You should also appreciate that I cannot say certain things without approval of my Board. Whenever my Board approves my Maharashtra project or Karnataka project, definitely we will inform.

Nitin Arora: I got your answer, Sir. Can I go for the second question?

Management: Yes.

Nitin Arora: Sir, what is the primary reason for the working capital increase? Because I remember whether in the last two quarters, you were saying that you had inventory of low fuel cost because it would not hit us so much as compared to the industry?

Management: Yes, we were having very low inventory. Now with the lot of uncertainties, I have to build up my inventory. When the prices were going ups and down, we thought we could wait for some more time. For example, the pet coke prices were US\$ 180 to US\$ 190, and then suddenly it dropped to US\$ 160. Then last week again, it had gone up to US\$ 185. We do not know what is going to be the price for the next month. Depending upon their dynamics, I have to see whether I should build up the stock or not. Normally we source pet coke from BPCL; it went for maintenance shutdown for one month. Therefore, I have to build up the inventory in the month of September.



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Moderator: The next question is from the line of Mr Vinay an Individual Investor.

Vinay: My question is for the Chairman. Sir, first, I would like to highlight that I am a very old investor in The Ramco Cements, and I have immense respect for, Sir, what you and Mr. AVD have done in creating shareholder wealth in this company for the last decade. Sir, having said that; however, if I look into the last couple of years, I have noticed that Sir, we as a group have taken up huge debt. Be it Rajapalayam Mills which has nearly INR 1,000-odd crores net debt, Ramco Systems INR 70 crores and now even The Ramco Cements, I think is at its all-time high debt of INR 4,700 crores. So, Sir, given this situation of our group and we all know that The Ramco Cements is really the cash cow in this entire group. So having given this background, I wanted to know that as a group, how we are going to manage this challenge of high debt. In addition, as a shareholder of The Ramco Cements, I wanted complete assurance from your end that the cash cow, which is The Ramco Cements, we use the funds only to deleverage The Ramco Cements and to take care of the capex. And if possible, not use it in other way. That is my first question Sir.

Management: Yes, we will not use this anywhere else. We do not do that.

Vinay: Sir, my next question is regarding two of our associates. So I was just going through today this related party transaction, which has come out. So there is this Madurai Trans Carrier. Now I see we have spent almost INR 36 crores, which is huge in first half of '23. So I wanted to understand why is this such a large number? And what is the spend for what service are we taking?

Management: Madurai Trans Carrier, they were owning two aircrafts and one helicopter also. We used to hire them. Then now, one helicopter and one aircraft were sold. You know, the aircrafts were owned along with other entities for joint usage.

Vinay: So, Sir, this 36 crores that we have spent this year, like for the full year, we have any figure because like our quarterly, this quarter's PAT is INR 12 crores, and we have spent almost INR 36 crores here. So is this part of core operating business or what is it and if you can control this spend?

Management: I told you that the expenses would be controlled.

Vinay: Lastly, Sir, there is The Ramco Cements associate lynk logistics, there is not much information about what this company does. But just if I go through the annual report last year, it made an INR 20 crores loss and this year, almost INR 36 crores loss. So what is the strategy here? And like what exactly is the business that we are trying to do? And how will FY23 turn out to be for this associate? Thank you.

Management: See, the company was originally started by Mr. Abhinav for last mile delivery. Then while doing that business, we are able to understand that the models should be little different and there is no big scope for that last mile delivery; we had many learnings from that business. Now we are doing e-commerce, tech-based distribution of FMCG for the kirana stores. They are connecting the brands to the kirana



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stores. Now Lynk have taken distribution rights for almost 25 competing brands and they have common facility and tech-based system for the distribution of goods to kirana stores. They buy goods, store goods, also deliver goods and collect payment from them. Now they are doing around INR 600 crores turnover per annum.

Vinay: Sir, just last, my statement, not a question, Sir, I am an investor in The Ramco Cements, and I understand cement business. Now this new logistics is in completely some unrelated business, it is making losses, and the losses are just growing. So if we can take some decision, keeping in mind the shareholder, would be really appreciated

Management: Last one year, there is no investment from The Ramco Cements.

Vinay: Sir, that is really comforting. Thank you, and all the best, Sir.

Moderator: The next question is from the line of Mr. Amit Murarka of Axis Capital

Amit Murarka: Regarding the Odisha GU expansion, while it is appreciated that it is a low-cost expansion. I was just wondering about the rationale for the same because a couple of quarters back actually, you were saying that East is not making much money. And even now, I don't think the situation is too different, particularly with new capacities coming in. So what are the thoughts around further expansion into East India?

Management: I told you it is not making much when compared to South. I never told you that it is not making money at all. We have large limestone reserves in Andhra Pradesh and to use that, definitely, we have to be in the Eastern market. The nearest market is Odisha for us to grow. We are seeing how to reduce the cost and increase the profitability there; we are making all the efforts. Now almost we achieved 100% capacity in Odisha plant, there are many inquiries for our new products mainly from the infrastructure projects. So that is why we are embarking upon this expansion. It may not be as profitable as South market, but still it is profitable. We are not incurring loss.

Amit Murarka: And also in your presentation, there is a comment that you moved some clinker from Andhra Pradesh to the Tamil Nadu plant. So this is only a short-term arrangement, right?

Management: Yes. It is a one-off item. We took maintenance of two plants in TN at a time. We don't want to lose market share in Tamil Nadu and Kerala.

Amit Murarka: Could you provide any update on the auction, the limestone auction in Tamil Nadu?

Management: It is put on hold currently.

Amit Murarka: Any idea by when will it be revived on...

Management: I have no idea; we have to wait until the government publish it in the gazette



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- Moderator:** Thank you. The next question is from the line of Mr Prateek Kumar from Jefferies.
- Prateek Kumar:** My question is on your fuel cost. So based on data on the presentation, in second quarter this quarter, basically, we have realised US\$ 199, last quarter we said US\$ 178. And in the fourth quarter '22, we also said US\$ 199. So actually, versus fourth quarter '22, our fuel cost has sort of not increased. But our like-for-like power and fuel cost looks INR 500 higher at least. So there is a disconnect there...
- Management:** Sorry, Sir, can you repeat?
- Prateek Kumar:** So there is a data on your presentation, where you talk about blended fuel consumption per tonne of material during the quarter, during the last quarter and every quarter we give this data. So in current quarter, we have given that as US\$ 199, last quarter we gave that number as 175-odd...
- Management:** It was US\$ 164...
- Prateek Kumar:** Sorry.
- Management:** 1Q it was US\$ 164, 2Q it is US\$ 199...
- Prateek Kumar:** Okay. Your presentation suggested something else. So 2Q, it said US\$ 199, in 1Q it said US\$ 174
- Management:** No, see that. 1Q is US\$ 164 and 2Q is US\$ 199. See half yearly is US\$ 181. Q1 is US\$ 164. Q2 is US\$ 199.
- Prateek Kumar:** How about 4Q last year, same number 4Q last year, same number?
- Management:** 4Q last year, okay. Just let you know. We do not have it readily with us. I will give you, before end of this call.
- Prateek Kumar:** So in first quarter call, you are expecting around 5% to 6% kind of inflation in 2Q, while our fuel inflation seems like...
- Management:** That was expectation, but unfortunately, it fluctuates so much. My last purchase price of pet coke was US\$160. Now again, it had gone up to only US\$ 180 in a matter of 25 days.
- Prateek Kumar:** For 2Q expectations, you talked about fuel inflation halfway through...
- Management:** Yes, because we did not have more than 45 days stock. We changed the fuel to imported coal depending upon availability while conserving pet coke.
- Prateek Kumar:** And so moving forward is this US\$ 199, which we have realised in this current quarter, how should we expect it based on current set of inventory?



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- Management:** 3Q may come down by US\$ 10 to US\$ 15, but 4Q, again, it may go up. That is the current trend as of today. Tomorrow it can change...
- Prateek Kumar:** My second question is on capex. While we completed this capex of a new unit, we have closed this capex probably at INR 3,000 crores, which first of all, is it INR 3,000 crores? Or is this still like sort of ongoing?
- Management:** This will not exceed that amount. We have enlarged the scope of the project. Besides, during the execution of project, the steel prices had sharply increased.
- Moderator:** Mr. Kumar we may request that you return to the question queue. The next question is from the line of Mr. Sumangal Nevatia from Kotak Securities.
- Sumangal Nevatia:** The first question is more on a medium-term outlook on our capacity. If we are to five years down the line, I mean the – what is the ambition in terms of increasing the capacity from 21, 22 million tonnes. And the second question is on the debt side. I mean what is the comfort level of debt, both absolute and in terms of leverage. I mean, do we expect next one or two years to focus on de-leveraging and reduce to some comfortable level or we continue with our expansive plan, our growth plan.
- Management:** Firstly, our cash flow has been affected by INR 400 crores to INR 500 crores during the first six months. So that really made you to be uncomfortable, otherwise whatever I committed earlier, we might have met our commitment. Secondly, we have taken up R.R. Nagar project one year ahead of the schedule since our Kurnool project was delayed, we thought we can make up by saving in R.R. Nagar project. That is why; we have taken a little ahead of this schedule. Otherwise, we wanted to take up RR Nagar project only six months or one year later.
- See, as far as 2022-23 is concerned, we are expecting 25% to 30% growth definitely. As on today, our growth is around 33%, and year-end definitely I will maintain the 33% growth. Then next year, we will review and there are many expansion programmes on the drawing board. But depending upon the cash flow, depending upon the debt equity ratio, dividend declaration, we'll decide. As and when the Board approves, we will inform you. We have many expansion plans on the drawing board. Whenever the cash position improves, then definitely we will take the approval from the Board and we will inform you.
- Sumangal Nevatia:** Sir, any level, which we are looking where we can again resume and expansion plan?
- Management:** This is comfortable level. So even in 2010, we had almost INR 3,000 crores borrowing for the capacity of 7 million tonnes and successfully, we were able to make zero debt company in 2014-2015. Therefore, this is not very alarming. At the same time, okay, now because of uncertainties, we have to be careful too.



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- Sumangal Nevatia:** And Sir, again, in terms of the medium-term expansion plan, I mean, what are the new regions we could enter? Or is it more will be consolidation and expansion in our existing regions?
- Management:** The existing region, still we are seeing a lot of opportunities because now the infrastructure and a lot of spending is there, we are able to feed that market. So previously, we used to concentrate only on trade, now we are interested in non-trade also particularly infrastructure projects. In Karnataka, there is a lot of scope. The infrastructure market itself would take care of our expansion. Whatever growth we wanted, if we feed the infrastructure, then definitely we can market it.
- Moderator:** The next question is from the line of Mr. Rajesh Kumar Ravi from HDFC Securities.
- Management:** Before that, someone asked about the Pet coke consumption cost. 1Q was US\$ 85, 2Q was US\$ 97. 3Q was US\$ 149, Q4 for US\$ 199. This year, 1Q was US\$ 164, 2Q is US\$ 199. This is the consumption rate. Sorry, you can proceed with the questions.
- Rajesh Kumar Ravi:** While you mentioned the blended fuel costs on a per tonne basis, I believe on a per kilo cal this number may vary significantly because of the different calorific mix. So would it be prudent if you could share what was the fuel cost on a per kilo cal...
- Management:** Per kilo cal will be around INR 2.70
- Rajesh Kumar Ravi:** And 1Q, what was the number?
- Management:** INR 2.65
- Rajesh Kumar Ravi:** So this is confusing to most of us, Sir
- Management:** This all depends upon fuel mix
- Rajesh Kumar Ravi:** What I'm saying is from INR 2.60 per kilo cal on consumption basis. So from INR 2.60 to INR 2.70, there is hardly any jump while if I see – if you see the input cost or the – it is almost gone up by INR 400 crores to INR 500 QoQ, which has dented the numbers. So how do we explain this? Because if it was from 2.2 to 2.7, how do we reconcile this
- Management:** We will give you the accurate figures a little later. These figures are based on the consumption cost and it depends upon mix.
- Rajesh Kumar Ravi:** But I am asking on the blended total consumption on a per kilo cal basis.
- Management:** No. What I have given it to you is the cost of my pet coke I have given to you
- Rajesh Kumar Ravi:** But that is not the blended fuel cost, right? That is only your pet coke cost which mix is changing every quarter because the market is volatile when we are optimising our sales mix.



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- Management:** We will give you the details
- Rajesh Kumar Ravi:** For the next question, pertains to this capex number, sorry if I missed in your earlier remarks. What has led to the INR 800 crores to INR 900 crores increase in the capex number versus 1Q estimates?
- Management:** R.R. Nagar modernization and limestone beneficiation plant are not included earlier since the board did not approve it at the time. I can give you the guidance only if the capex is approved by the Board.
- Rajesh Kumar Ravi:** And you mentioned that on the leverage side, you are comfortable. Therefore, if I look at net debt-to-EBITDA is already at 4.7x...
- Management:** Do not take this quarter. This quarter is one of the worst quarter in the last 10 years. Kindly check what my EBITDA was before. Based on one quarter, do not judge the ability to meet the obligations
- Rajesh Kumar Ravi:** So where I'm coming from is that next two quarters, you are mentioning that the fuel inflation will remain sharp and elevated only, you're looking at sharp and cool down and next quarter, it will again. So the earnings may remain impacted, and you will have ramp-up costs also for the Kurnool project.
- Management:** Ramp-up cost of Kurnool production is already included because we started producing clinker
- Rajesh Kumar Ravi:** But ramp-up in 2Q will be only for 8 to 10 days because Kurnool was commercialised on the back-end of the quarter?
- Management:** No. We started producing Clinker from June.
- Rajesh Kumar Ravi:** So this Kurnool clinkerisation cost inflationary impact is built into the numbers.
- Management:** Yes.
- Moderator:** The next question is from the line of Mr. Ritesh Shah from Investec.
- Ritesh Shah:** Sir, two questions. Firstly, power & fuel cost is definitely something, which is beyond our control. But Sir, if I had to ask you what are the variables that the company is focusing on when we can actually optimise on the cost. This can be any of the variables on the logistic cost or any other cost or discount structure to retain the GST benefit as part of the discounts where the companies cannot claim. Is that variable under our control?
- Management:** Whatever discounts we are giving, is GST adjusted, Okay. To that extent, we do not lose GST on discounts. We do not give any discounts outside GST. Since our volume has gone up almost by 37% for the first six months, every other element per tonne has come down...
- Ritesh Shah:** Okay. Sir, my second question is on capital allocation. During the call, you indicated a couple of reasons for going in for incremental expansion. Firstly, you indicated energy balance and hence, basically, we are announcing incremental capex. Secondly, you indicated lower capex intensity and



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thirdly, you indicated that the change in market order. Sir, basic question is, when we are looking at growth, and you indicated Maharashtra expansion potential scope over there. So the question is, what is the minimum hurdle rate minimum ROC that we look at when we are announcing any incremental capex?

Management: Yes, ROC expecting minimum 15% to 16%.

Ritesh Shah: This is post tax, Sir?

Management: Yes.

Ritesh Shah: Sir, then if I have to just remind a couple of years back and look at the situation in Eastern India right now, do you think we are able to cover that? And if at all, we had to go into Maharashtra, will we be able to cover up for 15% to 16% ROC?

Management: See, when I started operations in West Bengal, my profitability was much more than what we used to get in Andhra Pradesh. For almost seven years, EBITDA per tonne in the eastern region was much higher than EBITDA per tonne from Andhra Pradesh region. The situation can change at any time. These are very dynamic. We have seen the lowest price. Kerala price is even lower than Karnataka for one or two months. Now the prices are better than Karnataka. These are very dynamic. Based on one quarter or one year, we cannot take the decision. We have to see the long-term.

Ritesh Shah: Sir, I just wanted to squeeze one particular variable. Sir, what I have seen in all the expansion that we have, we do not have any fiscal incentives from the state government. However, the competition also has that. So they are always better equipped on ROC given pricing is there, cost is there, those variables are there, but they have a structural advantage over us when it comes to fiscal incentives. Any particular reason that why we have not been able to extend this out of state governments...

Management: Unfortunately, we are doing our operations in the developed states. For example, in Tamil Nadu, industries are much developed than other states and Tamil Nadu do not want to give any incentive. Andhra Pradesh provide some incentive but we are not eligible to avail it. Our grinding unit in West Bengal may get some benefit but it is not notified. In Odisha, the cement grinding units are in red category and we are not entitled for it. Whereas Madhya Pradesh, Rajasthan, Gujarat and even Karnataka provide some sales tax benefit. When I put up the plant in Karnataka, I will be entitled for it. However, as on today, I am not getting sales tax benefit from any of the state governments. Based on sales tax benefit alone, we cannot put up the plant because it is available only for limited period.

Moderator: The next question is from the line of Mr. Satyadeep Jain from Ambit Capital.

Satyadeep Jain: A couple of questions. On the detail – thank you for all the details on the capex. On that, there is a mention of capex for the limestone mine at Jayanthipuram. Can you please explain what is going on there?



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- Management:** In Jayanthipuram, we got a big mining lease, almost 100 million tonnes of limestone reserves which is situated 10 to 15 KMs away from our plant, now I am entering into an agreement with railways for 10 years to avail 50% concession in railway freight for transport of limestone from mines to my factory, which is a dedicated line. I have already a railway siding. We have to create railway facilities like loading, unloading facilities at my mines. This will definitely reduce my logistics cost in the long-term. The cost of transportation limestone from the Budawada mines, to the plant will be low.
- Satyadeep Jain:** On the Karnataka one, I guess the limestone block is so close to Bengaluru, which is why it seems the land acquisition cost is so high, which is also reflected in the land acquisition that you're budgeting for the next one-and-a-half years. Is there a risk that, given the location, the capital cost may end up being higher and is good environmental approvals also being slightly more difficult given the location it is so close to a main city, which is somewhat rare for a cement plant.
- Management:** It is not near Bengaluru. It is near Wadi only. It is a vast area. It is not a grinding unit. It is an integrated plant. Therefore, we would buy land for the mines as well as for the factory. We have to buy around 2,000 acres. We will plan the capital cost very carefully and provide you guidance.
- Satyadeep Jain:** Lastly, if I can squeeze one question on the GU expansion that you are outlining for Odisha I would imagine the clinker is between the integrated unit at Jayanthipuram, Odisha, and Vizag. I would imagine there is no spare clinker in Jayanthipuram. Would I be right in imagining that some of the spare clinker from Kurnool would be sent to Jayanthipuram for this?
- Management:** No. Currently, Jayanthipuram is supplying to some of the Rayalaseema areas. These are very near to Kurnool plants. Hence, Kurnool will supply to some of the Andhra Pradesh markets going forward. Therefore, these spare clinkers will be used for Odisha grinding. That will be sufficient.
- Satyadeep Jain:** So you are saying there is spare clinker at Jayanthipuram for the GU in Odisha. Right?
- Management:** Yes.
- Moderator:** The next question is on the line of Mr. Sanjay Nandi from Ratnabali Investments Private Limited.
- Sanjay Nandi:** Thank you for the opportunity, Sir. My most questions are answered. Thank you so much, Sir. Thank you.
- Moderator:** The next question is on the line of Mr. Hiten Boricha from Joindre Capital. Please go ahead.
- Hiten Boricha:** Thank you for the opportunity, Sir. So, my question is on the premium product specifically. So, currently in this quarter we have about 25% of our sales from premium products. I just wanted to understand what is the total capex we have spent on this premium product and what would be our revenue potential from this?



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- Management:** We have spent around INR 200 crores as capex towards creation of the new Silos, packing plant and others infrastructures. The revenue projection is around 30% to 35% of our topline.
- Hiten Boricha:** 30% to 35% of the topline. It will be done in over the next two to three years period.
- Management:** Yes. Possible...
- Hiten Boricha:** I just wanted to understand on the asset turnover of this capex.
- Management:** More than the asset turnover, you would see the brand image. Nobody gives cement for different applications. That gives us a lot of mileage in the brand also. That is why our growth is much faster than other companies are.
- Hiten Boricha:** The reason I am asking this question is because this product has higher margins around 25% to 30%.
- Management:** No, it is not 25% to 30%. It is Rs 25 per bag. It is almost 8% not 25%. I told you it is 25% to 30% of my top line.
- Hiten Boricha:** No, Sir. What would be the EBITDA margin for this product?
- Management:** EBITDA margin will be 2% to 3% higher than the normal product. This will give you a lot of brand image. In addition, growth can be faster than other companies because I have specific products for specific applications. Therefore, that is picking up well.
- Hiten Boricha:** Okay and what would be the price difference compared to a normal product?
- Management:** It range from INR 15 to INR 25 depending upon the products. Again, the INR 25 will not be fully realized because I have to provide special packing that will cost me around INR 5 more. Definitely, it will give me higher price than normal one. It also improves our brand image and accelerates our growth.
- Hiten Boricha:** So actually, I read somewhere the revenue potential from this is around INR 200 crores to INR 250 crores.
- Management:** That is for our Dry Mix plant.
- Hiten Boricha:** And that contributes around 10% to our revenue?
- Management:** No. I told you that are four plants around INR 250 crores, this is only the beginning. We can put up plants in many places. Each plant will contribute around INR 80 crores.
- Hiten Boricha:** So how many plants do you have of this...



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- Management:** Now we have commissioned two plants. For two more plants, we have placed orders and the construction is going on. That will be commissioned next year. R&D is going on to develop the value added products for the market and the channel will be different. We have to carefully market it. We cannot market this in normal channels.
- Hiten Boricha:** So just a clarification, INR 80 crores, you mentioned revenue potential from, one plant, right. Per plant INR 80 crores?
- Management:** Yes.
- Moderator:** The next question is from the line of Mr. Kamlesh Bagmar from Lotus Asset Managers.
- Kamlesh Bagmar:** Just on the part of the capex, like as we had mentioned that we are going to have the enabling facilities where we have already spent for Kurnool and these locations. So when can we expect the second line at Kurnool because we are already spending a part of that?
- Management:** I will wait for the Board approval. Once my Board approves, I will definitely keep you informed.
- Kamlesh Bagmar:** But can we expect in over the next couple of years?
- Management:** Let my board approves and let my cash position improve, definitely we keep you informed.
- Kamlesh Bagmar:** And Sir, secondly, on that Karnataka grinding unit, like say, a quarter back, we had mentioned that we would extend roughly around INR 350-odd crores on that grinding unit and also was expected to start in a six months' time?
- Management:** So in the meantime, what we have done, we had revived our old Mathodu plant as grinding unit, which was shut down earlier. Now, we are dispatching 1,000 tonnes from that unit. We have plans to increase the capacity to 2,000 tonnes by minimum capex from INR 10 crores to INR 15 crores. We got Mining lease also, then we have to decide, whether I have to go there or we can do something in Mathodu to increase the capacity that we are internally deliberating.
- Kamlesh Bagmar:** But the clarity on that expansion of the capex would be there in the next six months' time?
- Management:** The next six months, definitely can get...
- Kamlesh Bagmar:** But that would be within that range of INR 300 crores to INR 350 crores.
- Management:** It can be lower than that also. It all depends upon what are the facilities that we would like to have and what is our expansion plans in the future. In Odisha, we initially projected to have the expansion programme in the future and that is the reason we spent money for preparatory work to accommodate second line. Now second line is possible with INR 130 crores. May be, the next 1 million ton can be deployed lower than this.



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Kamlesh Bagmar: But then the proposed spending on that Karnataka grinding unit, would that be on the Board, or as of now, it has been put on hold, what is the status?

Management: We are keeping the option open. With the Mathodu plant as well as with the grinding facilities available in Kurnool, definitely, we can market the clinker produced from the Kurnool plant reasonably. However, it is not going to enhance my market share in certain parts of Karnataka. So that grinding unit would be useful. During the last two quarters, cash position is not that good and we are thinking at what point of time, we should get there. Otherwise, already, we identified the area.

Kamlesh Bagmar: And Sir, for this Bommanahalli project, INR 350 crores land acquisition, which we have mentioned in our presentation. So eventually, like what will be the timeline for that Greenfield plant or like say the commitment with the state government for coming out with the plant or the expansion on that particular location.

Management: Now just last week only, we made application to the state government because the Karnataka procedure is different. Even before buying the land, we will take the approval from the state government. We will let you know the progress. Anyhow, we have to complete the project within four years.

Moderator: The next question is from the line of Mr Shravan Shah from Dolat Capital.

Shravan Shah: Yes. Just two things, first, what was the trade share in 2Q?

Management: 69%

Shravan Shah: And Sir mentioned, correct me if I'm wrong, Sir, mentioned that for the full year in terms of volume, we can see the same 30% kind of growth and the next year 23%, is it...

Management: Yes, you are right.

Moderator: The next question is from the line of Mr. Rajesh Kumar Ravi from HDFC Securities.

Rajesh Kumar Ravi: On this volume growth, while you are delivering phenomenal growth, would it be because the market will not be going in these two places at even half the rate. So what is your thought in terms of the implications on the pricing and margins?

Management: Pricing is very dynamic. I am just hoping on a lot of infrastructure spending, so that is why I am projecting this increase because during the last six months, we are able to get a lot of inquiries from NHAI and other infrastructure projects. What we are getting, is much more than what we expected. That is why we are confident we will grow by 30% in the next six months also. Our volume will not put any pressure on prices.

Rajesh Kumar Ravi: No, Sir, if trade versus non-trade, how does the margin profile differ Sir?



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- Management:** No, it is almost same. There is no big difference. The advantage in non-trade is the savings in logistics cost. There is no need for any stocking since product goes to the site directly from the factory. There is no post discounts, gold scheme and the price is fully realizable.
- Rajesh Kumar Ravi:** And two more questions. First is, this year capex would be around INR 1,700 crores. So fair to assume that subsequently, even your Karnataka project will also come into progress the work on Karnataka project may start. Therefore, INR 1,500 crores to INR 2,000 crores annual capex run-rate is what you would be looking at...
- Management:** No, it will not be that much. Definitely, it may not be INR 1500 crores to INR 2000 crores.
- Rajesh Kumar Ravi:** Because currently only for next year your target is around INR 700 crores, INR 800 crores.
- Management:** Yes. With the current cash flow and capital expenditure approved by the Board, that is the projection.
- Moderator:** The next question is from the line of Mr. Dharmesh Shah from Emkay Global.
- Dharmesh Shah:** So, Sir, we see FY23-24 earlier capex guidance, we have almost increased by INR 12 billion. I am just trying to understand the figure because we do not include the INR 500 crores for R.R. Nagar plant, INR 130 crores for Odisha, INR 160 crores of Budawada and INR 350 crores for Bommanahalli. So if you see this INR 1,200 crores is mainly because of increase in this. So do we have to factor in any material figure for the preparatory work for the second line of Kurnool?
- Management:** Yes, I told you. It is included. My second line in Kurnool can be put up in not more than INR 550 crores to INR 600 crores.
- Dharmesh Shah:** Sir, I am just trying to understand this incremental INR 1,200 crores, mainly because we are spending in this project. In addition, it seems that we are not materially factoring any capex for the second line of Kurnool?
- Management:** Many silos that has been built will accommodate the second line. In addition, the railway siding has been built will take care of the second line. Many of the infrastructure also we have extended that will take care of the second line. The foundations for the second line is also already ready.
- Dharmesh Shah:** So can we get the figure like how much capex we are already factoring for the second line?
- Management:** Around INR 650 crores, already, we have mentioned in our annual report.
- Dharmesh Shah:** And Sir, second question is, just trying to understand from a capital allocation perspective, like in such an inflationary environment, why we are already spending for the second line, given that we already have a high debt in the books. So I am just trying to understand the reason for spending or porch spending for the second line?



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- Management:** Dharmesh ji, please go through your reports every day. What are all the expansions announced by other competitors, please go through that. What is announced by us also you can go through that, whether we are conservative, or we are very aggressive, you also can put it in your report.
- Moderator:** The next question is from the line of Mr. Prateek Kumar from Jefferies.
- Prateek Kumar:** This follow-up question to earlier question. So you talked about the fuel consumption cost in fourth quarter last year and current quarter, which is actually same at US\$ 199, so why our reported power & fuel cost per ton is higher by like INR 500 per ton over the same period?
- Management:** Yes. See, there are two things. One is exchange rate. The exchange rate has depreciated, that is why we had told in dollar terms. So rupee depreciated by more than 12%. Also, consider OPC/PPC cost due to change in mix.
- Moderator:** Ladies and gentlemen, that is the last question. I now hand the conference over to Mr. Amit Srivastava for his closing comments.
- Amit Srivastava:** Yes, thank you very much, Sir, for your valuable inputs, and clarification around capex. And that concludes this conference call for today. Thank you everyone for joining us.
- Management:** Thank you, Amit Srivastava. The call is nicely arranged. Thanks for all the participants. The questions are very insightful for us.
- Amit Srivastava:** Yes, thank you, Sir.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference call. We thank you all for joining us. And you may now disconnect your lines. Thank you.