



“KCP Limited Q2 FY2018
Earnings Conference Call”

December 04, 2017



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Moderator: Good day ladies and gentlemen and welcome to the KCP Limited Q2 FY2018 Earnings Conference Call, hosted by Nirmal Bang Equities 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 assistance during this conference call, you may signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Julie Raphael from Nirmal Bang. Thank you and over to you Madam!

Julie Raphael: Thank you. Good morning everyone. On behalf of Nirmal Bang Institutional Equities, I would like to welcome you all to the Q2 FY2018 earnings call of KCP Limited. From the management today, we have Mr. G. N. Murthy, the CFO with us in the call. Now, I would hand over the floor to Mr. Murthy for his opening comments post which we will have the Q&A session. Mr. Murthy, over to you Sir!

G. N. Murthy: Good morning everybody. This is G. N. Murthy, CFO from KCP Limited. I have with me, my Deputy General Manager also. To start with the first half year of the current year is much better compared to the corresponding period of the last year and the company made a profit before tax of 83.59 Crores and profit after tax of 60.13 Crores compared to last year’s profit before tax of 19 Crores and profit after tax of 14 Crores respectively. That looks a substantial improvement, but this profit of first half year and also Q2 includes a dividend of about 38 Crores we received from our subsidiary abroad. Considering that even without dividend also performance is much better.

Coming to the segment wise the cement unit has done much better than last year even in Q2 and Q1 also and the total half-year it did better and the hotel performance started improving, occupancy rates have gone up compared to last year and the engineering unit continues to perform more or less similar to last year if we compare the bottomline and these are the three major units and power side, the major though the performance on quantitative terms are better the problem is with the international coal prices, which have knocked out the bottomline. Even in the cement industry, the bottomline would have been better, but for the international coal prices, which have gone up substantially up, but overall and financial number, first half year is better and also Q2 is better overall. Thank you. That is my starting point.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Srinath V from Bellwether Capital Private Limited. Please go ahead.

Srinath V: Sir, congratulations on the good set of number. I just wanted to understand our current capacities in the cement space and how much are we going to add and can you give us a timeline when are the new capacities coming up on stream?



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G. N. Murthy: Currently we have two units in Andhra Pradesh, one unit at Muktyala that is nearer to new capital of Andhra Pradesh is having 1.8 million tonnes of capacity of cement and we have 0.8 million tonnes at another location nearby Macherla we call it in Andhra Pradesh near Nagarjuna Sagar dam that is 1.8 plus 0.8. Then we are adding about 1.5 million tonnes in the first unit where we have currently 1.8 million tonnes, which may expect 3.3 million tonnes and the second unit, which is an older unit the larger capacity unit is the five to six year old plant whereas the other unit is 0.8 million tonne is very, very old unit and has been appropriate maintenance is being done. There we are not adding any capacity. So 3 plus 0.8 after expansion, so about 4.2 you can take after expansion.

Srinath V: What are the likely timeline Sir? Where is the project current status at?

G. N. Murthy: It is progressing very well and the official time given is October 2018, the completion date. The financial closure and all that we have done already long-term back and we have been drawing the appropriate loans and one-fourth is being funded through our internal generation and is on schedule and it will be done on schedule.

Srinath V: When do you expect revenues from this plant to start hitting or profit and loss accounts Sir, rough estimate?

G. N. Murthy: The scheduled commissioning is October 2018, before that we expected to hit the balance sheet.

Srinath V: Sir, could you specify what are the cost at which we did this capex Sir, per million tonne?

G. N. Murthy: In fact the total expansion as I told you 1.5, you can make appropriate calculation. For that cost estimation we do not make it per million tonne what is the cost is not like cost of production, but I will tell you the total cost. The total cost is about 500 Crores, which includes railway siding of about 60 Crores that railway siding would cater to the entire unit because it is new railway siding being commissioned there. So if you remove the commission at that railway siding it is about 430 Crores per 1.5 million tonnes and it is a Brownfield expansion. There are certain facilities common at mines level, so which we are not adding though even otherwise it would not cost much, but we have not adding much at the mining level.

Srinath V: Do we plan to add any further capacities in this 3.3 million tonne plant going forward or are we going to take a pause in reassess the market demand?

G. N. Murthy: Right now we do not have any plans.

Srinath V: Just wanted to understand our engineering business, what is the kind of outlook and could you specify what is the order book that we are sitting on right now?



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- G. N. Murthy:** In fact, I am happy to say that unlike earlier we are sitting on an order book of about 100 Crores, things started looking up. Last time in the similar call I was starting around 80 Crores. Now that with the Make in India concept of the government, foreign companies are also trying to outsource some of their facilities to India, in that process we started looking up, I mean the order book is started looking up, so we have an order book of 100 Crores and in future the unit should look better though I have been stating on the similar lines last year also due to natural calamities and something or other happening and various other economic front taken by the government. Some events did not take place as we planned, but now that everything is behind like either from government or from our side, we hope to do better from the next financial year.
- Srinath V:** Sir, one last question at what critical sales level in this division would we start breaking even at an operating level Sir?
- G. N. Murthy:** 85 considering the current level of margins and stiff competition say 85 Crores we should breakeven.
- Srinath V:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Ravi Purohit from Securities Investment Management Private Limited. Please go ahead.
- Ravi Purohit:** Thanks for taking my call. I appreciate our company continuing to post conference call. It is a good platform that it provides to investors to communicate with the management every quarter. Coming to the question Sir, what is the outlook that we have, how is the demand situation on the ground for cement in AP, Telangana and how is the work going on for the new capital and will our commissioning of the new capacity coincide with the starting of work with the new capital?
- G. N. Murthy:** Three questions you have asked, one on demand first. The demand continues to be good in the areas we operate. The realizations are stabilizing rather they were not as good as they were in the Q1. But demand side, number side the quantity is good. Second the construction of capital so far nothing happened on that side to give us a demand on cement. The third question is whether we produce in time for construction of capital? Yes.
- Ravi Purohit:** Sir if you could share what has been the volume growth in this quarter, just the growth in volume if you could share?
- G. N. Murthy:** Yes. Our percentage growth is about 20%.
- Ravi Purohit:** 20% volume growth?
- G. N. Murthy:** Cement yes.



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Ravi Purohit: Sir we saw that hotel YOY losses reduced this quarter at the EBIT level, so what is our immediate and medium term goal on the hotel unit? I think we had mentioned in one of the AGMs that we will be opened to selling it out? This being a noncore asset is it something that we have on the pipeline or is the management kind of looking at it sometime down the road or if you could just share some answers as the Joint MD is also there on the call today. It would be nice if we could hear from the MD also?

G. N. Murthy: That he can address separately. The first question is why hotel has reduced the losses. It is improving on its occupancy level substantially compared to last year, substantially. It is nearing almost between 45 and 50 and if we make like that, it would improve further and that is on the performance level of the hotel. Operationally, it is meeting its expenditure except the interest part and one or two municipal taxes. Second on the management's idea of getting out of the noncore that such a statement you said that was made in the AGM.

Ravi Purohit: Two years back?

G. N. Murthy: Yes two years back and after that there is no such statement from any of the management and we have not really thought of anything on those lines. On record, there is nothing and even otherwise there is no such thing as of now.

Ravi Purohit: Fair point Sir. Sir any update on the capex in Vietnam in the outlook for Vietnam business?

G. N. Murthy: Vietnam their capex as I told you transfixed to 8000 you are aware it is already done and it is already on stream and the further capex will be completed as I have been saying in FY2018 in the sense FY2018-FY2019 it will be done most likely by the end of calendar 2018 and then that would be from 8000 to 10000 and it is only debottleneck in certain facilities and Cogen at 8000 stage I was telling that there is a Cogen unit of 35 megawatts, which should be synchronized with the grid and we have done that already and that would give us some revenue and the third point is the outlook. The outlook is in line with the outlook of the world whatever is happening over globally on the sugar is happening there only. Prices are slightly easing and I think that will be the status that easing of prices will be there.

Ravi Purohit: So this dividend that we received in this quarter was from Vietnam right?

G. N. Murthy: Yes.

Ravi Purohit: So now most of the capex for the Vietnam subsidiary is behind us right?

G. N. Murthy: Correct.

Ravi Purohit: So one should expect dividends like these to come to the parent company virtually every year because we have not really announced any capex plan as of now?



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- G. N. Murthy:** Correct that should without any other financial performance and we have some capex for the 8000 to 10000.
- Ravi Purohit:** How much will that be in terms of quantum?
- G. N. Murthy:** Quantum of dividend.
- Ravi Purohit:** No quantum of some small capex that you said you are still left with in Vietnam how much will that be?
- G. N. Murthy:** 8000 to 10000 it would cost me about Rs.70 Crores let us say. They would be spending that only. Just will just spread across up to December 2018.
- Ravi Purohit:** Fair point. Thank you so much. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Swarn Agarwal from Axis Bank. Please go ahead.
- Swarn Agarwal:** Good afternoon Sir. There was a news article suggesting that in Vietnam quotas will be eliminated and tariffs will be reduced for all sugar imported from other Asian countries from 2018? Do you see tariff pressure and the price pressure because of this policy or any update on this policy?
- G. N. Murthy:** The first thing is the policy of any government is dependent on the trade talks. So whatever policy they declare is in line with those talks, so from here we cannot comment on those policies of the government, but if there is such a thing definitely there will be pressure on any domestic industry, but India also we have such a trade policy such a policy and trade talks in line with that we also have the restriction eased, but domestic industry is not facing much issue. So we have to compete.
- Swarn Agarwal:** If this policy comes do you have any clue by when will it come because the article suggests it will come in 2018?
- G. N. Murthy:** No I do not have any clue Sir. I am also reading similar articles.
- Swarn Agarwal:** Sir I understand that 80% of your cement sales are in AP and Telangana what will be the breakup of the rest 20%?
- G. N. Murthy:** The major portion of the balance goes to Tamil Nadu. We make profit.
- Swarn Agarwal:** Maharashtra will be what proposition?
- G. N. Murthy:** It is negligible. I cannot even calculate percentage.



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- Swarn Agarwal:** It is not economical to sell it in Maharashtra because of the distance?
- G. N. Murthy:** We can at best go to the western borders of Telangana max, but even that with very, very pressurized margins. If we have demand available locally why do I go faraway places? I have demand. If I want to make sales to any non-trade, I can do that at better prices.
- Swarn Agarwal:** Sir you have given a breakup of your capex. You said that other capex apart from railway side is Rs.430 Crores?
- G. N. Murthy:** Correct.
- Swarn Agarwal:** You have a broad breakup between clinker capex and grinding unit capex?
- G. N. Murthy:** Right now, on hand I do not have Sir, at least these numbers broad numbers.
- Swarn Agarwal:** Sir what is the share of OPC, PPC, and PSC?
- G. N. Murthy:** OPC and PPC we make only in one plant that is the larger plant in Muktyala, which is nearer to capital. It is about 30% to 35%, 35% we can say.
- Swarn Agarwal:** The rest is PFC or what?
- G. N. Murthy:** OPC.
- Swarn Agarwal:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Srinath V from Bellwether Capital Private Limited. Please go ahead.
- Srinath V:** Sir just a suggestion. It would be nice if you could give a consolidated accounts half yearly, so that we get a better sense of the sugar operation too Sir?
- G. N. Murthy:** I take your suggestions and put it up across to the management.
- Srinath V:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ravi Purohit from Securities Investment Managers. Please go ahead.
- Ravi Purohit:** Sir two questions, one is on pet coke usage how much pet coke do we use if at all?
- G. N. Murthy:** First question you want me to answer?



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- Ravi Purohit:** Yes.
- G. N. Murthy:** We do not use pet coke. We have some stock of negligible percentage, which we bought quite some time back. We may be mixing that, but it does not count in any percentage terms.
- Ravi Purohit:** So we are basically very, very negligible on pet coke?
- G. N. Murthy:** Negligible. We are not proposing to buy further and that will be line with some kind of direction of proceeds of exports I suppose.
- Ravi Purohit:** Correct it makes sense actually, it is a polluting component?
- G. N. Murthy:** Apart from that our equipments do not support it.
- Ravi Purohit:** Sir second question is on this quarter if I see the distribution cost the other expenses shot up quite significantly, so if you could just share your thoughts as to why did we have a sharp increase in our other expenses?
- G. N. Murthy:** Other expenses. I have the answer.
- Ravi Purohit:** If you see our freight and forward expenses I meant?
- G. N. Murthy:** Freight?
- Ravi Purohit:** Sorry freight and forwarding expenses?
- G. N. Murthy:** I was wondering you would ask me that freight only.
- Ravi Purohit:** Sorry my mistake. I was referring to freight and forwarding expenses is Rs.47 Crores as opposed to Rs.26 Crores last year?
- G. N. Murthy:** Correct. After GST we started including our invoicing with freight. Earlier we were not invoicing the dealers were directly paying. Now we are including in the gross sales prices and also paying the freight. It is not that we have increased the freight expenditure in top and bottomline both.
- Ravi Purohit:** Okay. I am not very clear...
- G. N. Murthy:** Let us say if last year Rs.1000 is selling price and freight would have been zero. Now Rs.1100 is the selling price, it is only hypothetical I am saying, Rs.1100 is the price, 100 is the freight, so 1100 minus 100, 1000, same price.
- Ravi Purohit:** Okay. Got it Sir. Sir third question is on the power division. What is the outlook on the power division? We have small unit and we have some hydel unit and some thermal unit, rainfalls this



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year have been good in Tamil Nadu, so if you could just share your outlook on the power because they have been losing about couple of Crores every quarter – sorry I mean we have not made money as opposed to what we have making Rs.3 Crores to Rs.4 Crores every quarter earlier?

G. N. Murthy: The main issue is the coal prices. We have thermal, wind, all kinds of power solarized. We have 8 megawatts of hydel, 18 megawatts of thermal and 1 to 2 megawatts of other power. The main are thermal power plant and the hydel power plant. Hydel power plant was not doing anything because of the scanty rains and the rains of Tamil Nadu have no relevance to us. We are Andhra unit. Company is three states company. There are rains and Nagarjuna Sagar is reasonably full and now they are discharging water. We can generate power there in the AQ3 and that would be one thing. Second is thermal power plant why we are losing couple of Crores. That is the major source of loss, not because of its performance, performance is exceedingly good, but the problem is input cost. What the coal price was sometimes during the end of last FY2017 was around \$48 is now around \$80, there is a substantial increase in the coal price, so that is affecting the operations, otherwise performance wise, similar if is not better, operating cost wise we are okay, and our concern is the coal price.

Ravi Purohit: Sir one housekeeping question. Can you just share the gross debt levels as of September quarter, September half and cash and investments that we have in the book, so just wanted to understand how much net debt do we have as of September?

G. N. Murthy: We have around Rs.350 Crores of term loans outstanding as on September not considering about Rs.35 Crores of working capital.

Ravi Purohit: So both put together is Rs.385 Crores?

G. N. Murthy: You can say Rs.380 Crores.

Ravi Purohit: Rs.380, Crores total loans all in?

G. N. Murthy: Total including working capital.

Ravi Purohit: Yes and how much cash and investments we will have?

G. N. Murthy: It will be about Rs.25 Crores.

Ravi Purohit: Rs.25 Crores, so net debt is about Rs.355 Crores or so?

G. N. Murthy: About Rs.350 Crores you can say.

Ravi Purohit: Rs.350 Crores and this Rs.38 Crores we would have received in this quarter or we are receiving it, so this is adjusted for the dividend that we received in terms of the cash adjustment?



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- G. N. Murthy:** We received the cash.
- Ravi Purohit:** Okay and Sir how much capex do we have planned so between now and let say next year we have 12 months during which our capacity will also get commissioned so how much capex plan do we have in the next 12 months and what do you think will our debt grow, I mean debt do you think we will be drawing in the next 12 months?
- G. N. Murthy:** Up to September 30, 2017 the main capex is on the expansion, which is planned at Rs.500 Crores. As of September, we have already incurred about Rs.135 Crores, and out of that we borrowed about Rs.93 Crores from banks and balance is internal. After Rs.133 Crores if you take only main expansion not considering the railway siding, it comes to about Rs.430 Crores. So Rs.430 minus Rs.133, we are supposed to borrow Rs.300 Crores, borrow or internally generate. Out of Rs.300 Crores, we might borrow about Rs.200 Crores. Rs.200 Crores then should get added to the debt, if you add Rs.200 Crores to whatever number you have Rs.350 Crores minus about by the time we had been repaying about Rs.50 Crores of the current debt, from now on we are talking.
- Ravi Purohit:** Right. Correct.
- G. N. Murthy:** About Rs.50 Crores if we eliminate the balance would be debt, so 200 Crores minus 50 Crores plus 350 Crores.
- Ravi Purohit:** About Rs. 500 Crores is what we will hit the peak debt?
- G. N. Murthy:** Yes, 500 to 550 max.
- Ravi Purohit:** Max, okay and from there on?
- G. N. Murthy:** That is the assumption at this stage, not discussing the railway side. If we start railway siding also, then another Rs.30 to Rs.40 Crores will get added.
- Ravi Purohit:** But broadly between Rs.550 is where we will peak at subsequent to that in the subsequent years that should start coming off?
- G. N. Murthy:** Yes.
- Ravi Purohit:** Okay. Got it Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pranav Sachdev from Pren Holding. Please go ahead.



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- Pranav Sachdev:** I just had the quick question regarding the demand situation taking into account our new capacity should the development in the new city Amaravathi slow down will still be able to optimally utilize a new capacity?
- G. N. Murthy:** Yes, in fact certain segments we have not explored which are there for us for taking. So apart from Amaravathi, we can explore those segments like non-trade segments we can address. So far our business is on mostly cash and carry type of activity. If we look at non-trade where there will be a credit sale also probably we can enhance the sales apart from the demand from Amaravathi that is new capital of Andhra Pradesh. Once new capital of Andhra Pradesh comes we hope to get some additional governmental related demand.
- Pranav Sachdev:** All right Sir. Thank you so much Sir.
- Moderator:** Thank you. Next question is from the line of Harshit Dhoot from Nirmal Bang. Please go ahead.
- Harshit Dhoot:** Good morning Sir. Congratulations for good set of numbers. I got answer of my rest all questions I just have two questions. First question regarding the volume numbers, will you please share the current quarters volume numbers and last quarters volume number of cement sector?
- G. N. Murthy:** I can share you the percentage terms. The volume number that is growth about 20% right now 20% increase is there in Q2 as compared to Q2 of last year.
- Harshit Dhoot:** Okay. Can you please share the absolute numbers?
- G. N. Murthy:** Right now I do not possess the absolute number. I kept to the percentages.
- Harshit Dhoot:** Second question from my side is as you know that pet coke has been banned in North India, so various players may move to the international coal, which may increase to the cost further, so this increase in the operating cost will be passed on to customers by increasing in cement prices per bag, or what will be the plan?
- G. N. Murthy:** If I can pass on every cost I incur, where is the theory of demand and supply of economics. It depends on demand. I can pass on if I have only monopoly supply I can pass on anything I want, it is the demand supply situation based on that only we can pass on. I cannot arbitrarily increase the prices. If I have to incur losses, I have to incur losses. It depends on the demand only Sir. There is a free product.
- Harshit Dhoot:** Okay Sir. Thank you Sir.
- Moderator:** Thank you. As there are no further questions on the participants, I would now like to hand the conference over to Ms. Julie Raphael for her closing comments.



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- Julie Raphael:** Thank you Mr. Murthy. Thanks to the participants of bearing time to join this call. Mr. Murthy, do you have anything to say?
- G. N. Murthy:** Nothing much. I thank all the participants for these questions and also I hope I have satisfied their questions. Anything they will have, they can call me separately. If they have any queries, any participants or anybody, any investor or anybody and second thing is I request Nirmal Bang to send the transcript portion on the website.
- Julie Raphael:** Sure Sir we will do that. Thank you Sir and have a good day.
- Murthy:** Thank you very much. Bye-bye.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Nirmal Bang Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines.