# "KCP Limited Q3 FY19 Earnings Conference Call"

**February 19, 2019**

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| **MANAGEMENT:** | **MR. GN MURTHY – CHIEF FINANCIAL OFFICER**<br>**MR. RAMACHANDRA RAO – VICE PRESIDENT (FINANCE)** |
| **MODERATOR:** | **MR. APOORVA SHAH – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED** |

**Moderator:** Ladies and gentlemen, good day. And welcome to the KCP Limited Q3 FY19 Earnings Conference Call, hosted by PhillipCapital (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 assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Apoorva Shah from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

**Apoorva Shah:** Thank you, Stanford. On behalf of PhillipCapital (India) Private Limited, I welcome you all to KCP Limited Third Quarter Results Conference Call. I thank the KCP limited management team for giving us the opportunity to host this call. We have with us today management represented by Mr. GN Murthy – Chief Financial Officer, Mr. Rao – VP (Finance). Without further delay, I now hand over the call to the management for their opening remarks. After which we shall open the floor for a Q&A session. Thank you and over to you, sir.

**GN Murthy:** Good afternoon, everybody. This is Murthy from KCP Limited. I will start with saying that, though we have done well in terms of volumes, though there is growth in our flagship segment, that is cement, the quarter was not good in terms of financial numbers. The profitability took a beating after a long gap we had to register a loss of Rs. 8.5 crores compared to a profit of almost nearly Rs. 20 crores of last year. But silver lining is, we have improved our performance by registering lower losses in our engineering. And cement with improved volumes, but reduced prices. There was a loss in cement segment. And other segments performed more or less similar to last year, with exception of cement taking a beating. And the engineering registering higher, I mean, lower losses but expectations are much better than that, but it could not perform in line with the expectation.

And coming back to other than financial matter, we have started on our expansion, commercial production started, yesterday it was started. Some trial runs took place before. And with stabilization of technically the plant for operations, commercial production, consistent commercial production, we started the unit. And only two minor facilities are to be completed, packing plant and silo, fly ash silo which will not hamper any commercial activities. But which would be complete in about two months time.

And we are also planning to, as a measure of cost reduction, we are planning to start a grinding unit in south of Andhra Pradesh, nearer to border between Andhra and Tamil Nadu, which would cost about Rs. 70 crores to Rs. 80 crores. And we have already made a tie-up for the financial terms, we are going to commission that in about one year’s time. So with that, probably, we will reduce the freight cost, logistics cost would be lower for the markets nearer to that place, that is we are starting the grinding unit construction in Nellore of South Andhra Pradesh.

This is what we have for this quarter and the plans. Thank you.

**Moderator:** Thank you very much, sir. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Devansh Negotia from Securities Investment Management Private Limited. Please go ahead.

**Devansh Negotia:** Sir, can I have the volume numbers in the current quarter year-on-year and quarter-on-quarter?

**GN Murthy:** Surely. Current quarter we sold, cement volume I suppose you are looking at?

**Devansh Negotia:** Yes, cement volumes.

**GN Murthy:** In Q3 of current year we sold 6.1 lakh tons compared to 5.7 lakh tons of last year, that is an improvement of 8% in the current quarter.

**Devansh Negotia:** And last quarter?

**GN Murthy:** Over last quarter, more or less similar with 6.17 lakh tons versus 6.1 lakh tons. And Q2 to Q3 there is not much improvement. But compared to last year there an improvement.

**Devansh Negotia:** Okay. And sir since we have come in with cement, the second expansion that we have done, so what would be the total CAPEX that we have incurred till now on that?

**GN Murthy:** We are totally expecting to incur Rs. 370 crores against the Rs. 470 crores we initially indicated. Out of Rs. 470 crores we have not taken up railway siding which costs about Rs. 65 crores. And some facilities we could save on the CAPEX, so we are likely to incur Rs. 370 crores, we have incurred already about Rs. 330 crores. And we have drawn necessary loans for it from State Bank of India as per their sanction terms.

**Devansh Negotia:** Okay. And sir I just wanted a reclarification of a capacity, since now we are 4.3 MTPA, so this is an integrated cement plant where we have our own clinker capacity, right?

**GN Murthy:** Yes.

**Devansh Negotia:** And the extra 0.5 MTPA is only grinding where do not have our clinker?

**GN Murthy:** That is right.

**Devansh Negotia:** So total capacity would be around 4.8 MTPA, okay. Sir, my next question was actually…

**GN Murthy:** See, you may add up numbers, but you cannot exactly do that because once you take away clinker unless you do for some kind of fly ash enhancement you cannot add up cement grinding numbers. 4.8, theoretically correct, yes, but you are restrained by clinker.

**Devansh Negotia:** Yes. And sir since like what has changed in the supply/demand scenario in the area where we operate in? In past we have never been negative EBITDA and less than 20% ROC in our cement division. So can you just elaborate, because other expenses have increased by 3% as a percentage of sales and freight cost has also increased by 0.5% as a percentage of sale. So it is like Rs. 20 crores, Rs. 30 crores difference quarter-on-quarter and year-on-year, so if you can just throw some light like how prices have fallen?

**GN Murthy:** Yes, in fact prices is the main issue on which we have lost in this quarter compared to corresponding period of last year. The margins have fallen, the net we get in our hand have fallen by about Rs. 200 per ton of cement. So that works out most of the differences, I mean, most of the difference is arising from there. And since I am saying net realization, that freight increase is also built into that. Freight increase naturally happens because of the diesel and other increases over years, we have not enhanced these rates, but we had to because of the diesel price. So probably with easing of some diesel prices we might get benefit coal prices also. Second thing is coal prices, coal price also have increased by about corresponding to last year, by about per ton of coal we imported, Rs. 300 increase is there. So, on that about 15% is the consumption, that itself would come to another Rs. 50 at the rate of about Rs. 60, Rs. 70 on 6 lakh tons. So that is a major impact.

**Devansh Negotia:** Sir, but other expenses have increased, what would be attributing to other expenses, operating and manufacturing as well?

**GN Murthy:** Operating and manufacturing, manufacturing expense only.

**Devansh Negotia:** Yes. But coal would come in power and fuel, right?

**GN Murthy:** Correct, power and fuel it would come.

**Devansh Negotia:** So what would be in operating and manufacturing expenses?

**GN Murthy:** Operating costs also have increased, because of these general increase in prices of diesel there is operating cost has increased, mining operations would increase so naturally corresponding cost increased there. Otherwise it is not…

**Devansh Negotia:** But that will come in freight cost, increase in the diesel prices?

**GN Murthy:** No, when you on your machinery that will also come into the play.

**Devansh Negotia:** Okay. And sir can you share a few data points for sugar business, like nine months volume realization and EBIT per ton?

**GN Murthy:** Sugar?

**Devansh Negotia:** Yes, for sugar business.

**GN Murthy:** For sugar we are not publishing on quarterly basis, we can elaborate at the end of the year.

**Devansh Negotia:** Okay. And what would be our trade and non-trade mix this quarter?

**GN Murthy:** Sorry, I could not get it.

**Devansh Negotia:** Trade and non-trade mix of cement.

**GN Murthy:** Cement, see most of our cement goes into trade only, 80%, non-trade would be 20%.

**Devansh Negotia:** Okay. And if we see our engineering and hotel business, so I think for a long period of time they have been loss making, so how are we seeing these two businesses, as in plan to monetize them, de-merge them or if there is any chance for turnaround, if you can just throw some light on it, as management how you are seeing it?

**GN Murthy:** First point is, from the reverse I would answer. There is no plan to monetize as of now any of these two units, though they are loss making. Second point, the hotel unit you must have seen is making progress consistently, and we are almost going to make it a cash profit making unit, the hotel, it wouldn't depend for any cash. But of course, definitely we have to make ultimately profit. But definitely it will improve further next year. And coming to engineering, the orders, a handsome order book is there with us, about Rs. 140 crores. Corresponding period of last year we had about Rs. 100 crores and current year we have about Rs. 140 crores. But important thing is, despite whatever growth is happening in the country, the competition still is bothering us and margins are under pressure. So with lower margins, very sharp margins it is not meeting only contribution, we are taking the orders. So that is continuing to happen. Every year we are looking at making profit in this engineering, but you can see it in our construction of new cement plant which we constructed at a very-very competitive price which you would not have seen, which itself means equipment suppliers are giving at lower price. So, similar trend is prevailing in engineering also. That is the main reason, but we are looking at ways and means of improving further, because people are coming to us with order book position, we are trying to look at where new mixes where profit could be a little better and where our efficiency lies, expertise lies. We are looking at it, but definitely it is not a promise that we are going to make of amazing turnaround next year, but we are planning to make at least a marginal profit number next year. I remember that last year I made a similar statement, but still we couldn't make it. So the conclusion is, hotel would grow and engineering there is an ample order book.

**Devansh Negotia:** Okay. And do we plan to become like 8 MTPA cement business few years down the line, I mean, is there any specific target that we have?

**GN Murthy:** No plans as such. I forgot to mention in your previous question, there was substantial steep increase in steel prices which is a major, major material input for engineering, steep increase. Now there is slight easing of steel along with oil prices. And coming back to your current question, we do not right now plan at 8 million or anything like that, we would like to look at this new capacity of 4.3 million tons in total to operate and make some money. And look at, the industry itself looks because many players have come in and pumped lot of money in the area where we are operating, large capacities are getting added. So we have to look at strategically whether where we can invest in the core competence area, I mean, geographically diversified.

**Moderator:** Thank you. We have the next question from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

**Viraj Kacharia:** Sir, can I have the current debt and cash on the balance sheet?

**GN Murthy:** Current debt I will give you as 31 December, we have total debt excluding cash credit of about Rs. 440 crores, maybe Rs. 3 crores, Rs. 4 crores this side that side.

**Viraj Kacharia:** And cash on balance sheet?

**GN Murthy:** That will be about Rs. 5 crores.

**Viraj Kacharia:** And these are the consol numbers, right, or standalone?

**GN Murthy:** These are standalone.

**Viraj Kacharia:** Okay. And sir, one question was relating to sugar business do we plan to get dividend from the subsidiary and then repay the standalone debt or the cash flows of the sugar business, we intend to expand our capacity over there?

**GN Murthy:** The capacities in sugar business have already been expanded.

**Viraj Kacharia:** So the whole idea would be to get dividend in the standalone and then read the standalone debt, is that the right way to interpret it?

**GN Murthy:** See, I will tell you. Last year we got a dividend of 2 million, then that 2 million was used primarily for paying the dividends in the country, so there we got benefit of about Rs. 4 crores in dividend distribution tax, because it is under Income Tax Act. It is a good tax planning measure. That means we have not used any of that money for domestic investment. But before last year, yes, we got 6 million and we used it for current expansion to some extent. And balance we use for dividend distribution of double-digit that we declared at that time.

**Viraj Kacharia:** But given the profitability that the sugar business is making, 6 million, 2 million, isn't that they are very small in terms of amount?

**GN Murthy:** Sugar?

**Viraj Kacharia:** No, given the profitability they are making and then the dividend of 2 million or 6 million, isn't that too less if we see it from the point of reducing standalone debt?

**GN Murthy:** No, what you are saying is if they are making Rs. 50 crores, Rs. 60 crores why not they distribute a little higher dividend is your question so that you can meet the domestic CAPEX as well as debt repayment obligation.

**Viraj Kacharia:** Yes, sir.

**GN Murthy:** I take your point, but all these years they have been expanding from 7,000 combined crushing capacity to 10,000 they expanded. And co-gen plant also, they have set up. So naturally they have their CAPEX requirements, probably in future we can look at what investors are suggesting.

**Viraj Kacharia:** Okay. And sir relating to, all throughout the calls that you have been hearing in the area that we operate that Rs. 15, Rs. 20 per bag price increases have been taken from January, February. So, is that how we are looking at? Have we also taken price increases? And if it, how much would…

**GN Murthy:** There is a price increase from February 1st, not in January. After January prices have crashed and not good at all up to January. February, there is an increase about Rs. 30, Rs. 40 we also did that.

**Viraj Kacharia:** Rs. 30, Rs. 40 per bag, right?

**GN Murthy:** Yes. Still it has to meet the cost, yes, there is an increase, yes.

**Viraj Kacharia:** Okay. And sir, regarding the fall in GP margin that you have witnessed this quarter, so all of that would be attributed to the fall in the realization per ton?

**GN Murthy:** Not all. Your previous investor asked the question about turnout of Rs. 20 crores what is the percentage, about Rs. 12 crores only, and cost increase is about the balance.

**Viraj Kacharia:** So that would be increase in raw material cost, right?

**GN Murthy:** Yes.

**Viraj Kacharia:** If Rs. 12 crores is the fall in prices…

**GN Murthy:** Yes, that is also there.

**Viraj Kacharia:** Okay. So what kind of raw material increase are these?

**GN Murthy:** Raw material and coal, I mean fuel, foreign fuel, our fuel is coal. Both have increased, about Rs. 300 per ton of coal there is an increase, and other costs have increased. And now they are slightly better now.

**Moderator:** Thank you. Our next question is from the line of Sameer Shah from Value Quest. Please go ahead.

**Sameer Shah:** Sir, can you tell me in terms of this new capacity coming up, what kind of fixed cost would we be incurring with this new capacity?

**GN Murthy:** You want me to generally explain or per ton, that is that?

**Sameer Shah:** Yes, so basically in terms of employee or whatever fixed cost that we will have to incur.

**GN Murthy:** We are not planning to add any new employees, except for some marginal strength. For example, if there are 100 people in old line, there could be 10, 20 in the new line. So overall it will be 120, 130 in percentage terms.

**Sameer Shah:** Right. But in absolute terms we might be capitalizing some expense, pre-operative expense which now will start hitting the P&L, right?

**GN Murthy:** Correct.

**Sameer Shah:** So how much would that be?

**GN Murthy:** No, that would not be major. The cost of production is likely to be in the same lines as now it is happening.

**Sameer Shah:** It will be in the same line, is it?

**GN Murthy:** Yes, same lines, because you have depreciation and other things hitting. And definitely interest you have.

**Sameer Shah:** Right. And how much time will it take this line to stabilize in your opinion?

**GN Murthy:** No time.

**Sameer Shah:** So it will be up and running?

**GN Murthy:** Yes. Unless it is technical effect, we do not run the plant, we do not take chances. So it is fit and we hope to run it as per market demands.

**Sameer Shah:** Understand. And sir, in terms of now cost of production, like you said prices are not in our hands and this quarter specially EBITDA has suffered meaningfully because of the cost. So, what kind of cost mitigation is possible?

**GN Murthy:** No, most of the net realizations are suffering because of the cost enhancement, apart from fall in prices. One is freight, freight we are trying to distribute the grinding capacities to nearer to the market. That is a major initiative we can take, because instead of taking hauling 1 ton of cement better to haul 0.6 ton of clinker and grind there with locally available fly ash, incur no cost in input raw material. So from there you transport cement. So it will greatly reduce, if per bag Rs. 70, Rs. 80 if you are incurring, you will save 40% of it.

**Sameer Shah:** So that is when the clinker unit comes up, but before that because when we compare it to the industry the increase in our cost of cost-per-ton is much higher than what we see in some of the other players.

**GN Murthy:** Can you tell me that in terms of numbers? Because I want to look at the numbers you calculate so that I will also have a look at it.

**Sameer Shah:** Okay. So we are basically taking the cost that are being given every quarter in the quarterly result, and dividing by the volume.

**GN Murthy:** Cement volume?

**Sameer Shah:** Yes.

**GN Murthy:** Okay, I got it. I will have a look at that.

**Sameer Shah:** But in terms of cost say whatever was last quarter from that fuel prices or this overloading that is allowed, is there any kind of benefit or coal price, what kind of benefit say QonQ on cost you think and come?

**GN Murthy:** I think coal prices are easing by about $5. On that about Rs. 50, Rs. 60 reduction could come. And correspondingly if there is an improvement in transportation cost due to fall in diesel prices, so we are hoping it should come to us in future. Other than this we are already energy efficient plant, all other parameters are very low cost, except…

**Sameer Shah:** So basically, apart from this Rs. 50, Rs. 60 the prices only have to go up for EBITDA per ton to go up?

**GN Murthy:** Yes, you are right, otherwise I am not seeing… you may reduce cost of production by Rs. 10, it does not matter.

**Sameer Shah:** Right, it will not make a significant impact.

**GN Murthy:** Yes.

**Moderator:** Thank you. Our next question is from the line of Kshitij Bansal from Albatross Capital. Please go ahead.

**Kshitij Bansal:** All my questions actually just got answered, gentlemen. Thank you very much.

**Moderator:** Thank you. Our next question is from the line of Avik Mitra from Aviksat Financial Services. Please go ahead.

**Avik Mitra:** My question is, on engineering business we are made to understand during the AGM that this year you will be having no-profit-no-loss kind of situation. So now we are sitting on an operating loss of Rs. 9 crores, what would be kind of stuff we can expect by the year end?

**GN Murthy:** You want me to give guidance on engineering?

**Avik Mitra:** A little bit of idea would be preferable, specially because I think your segment asset has increased from Rs. 128 crores to Rs. 145 crores. So, I think there is a rise in inventory on engineering business.

**GN Murthy:** You are right, you have done correct analysis. There is a rise in inventory which should get converted into sale by the end of the year. And second thing is, why it is happening, abnormal price increase in steel caused one shock, it was double almost compared to last year, increase in steel prices. This caused an alarming impact on our operations, other than that we have not increased 1 paisa anywhere in the cost, except outside raw material, scrap and other steel metals we buy. But we have ample book, we could have made a profit, I mean, at least break even by now. But for this is mainly coming from steel. And second thing is, what is the guidance for the year end? We are hoping not to add any further loss.

**Avik Mitra:** Okay. And do you think that in future you have a pass-through kind of thing for steel price increase in engineering?

**GN Murthy:** Already steel prices are southwards for the past two months, and we are hoping that it would not impact much in future. And moreover, we quote the tenders whenever they come considering the current prices.

**Avik Mitra:** But you do not have any pass through mechanism for the commodities associated with engineering business?

**GN Murthy:** Yes, but we except that we buy as and when we go there, there is no other mechanism, because these type of orders we take which are not escalatable for prices.

**Avik Mitra:** Okay, so you will always be at vagaries of commodity increase?

**GN Murthy:** Yes, receiving end only. But if there is favorable increase we will also get the benefit.

**Avik Mitra:** Okay. And my second question would be on the overall this, your volume growth is happening but the price is not coming up, and that is not for you that is across industry in that operating area.

**GN Murthy:** Correct.

**Avik Mitra:** Yes, so what is your long-term view on that? Is it going to continue, because I think a lot of capacities are also being added, like you are also adding capacity, so will you expect itself to push down the price further?

**GN Murthy:** I think post mid-2019 the things will settle down. And we hope to see the demand again coming in, because our location of the plant is in Andhra Pradesh, where there is growth. So, post mid-2019, rather elections, we would see a considerable demand. And combined with the image you continue with our organization, we hope to have a good edge over others, hopefully. And we definitely hope to do with fully capacity we can utilize our operations. And definitely outlook is demand should be good the area in which we operate.

**Avik Mitra:** Sir, my quarter is, though you are capable of maybe having a very good capacity utilization because of your nicely made plant, but will it put further pressure on the adjoining market, on the price or can you expect stability of price?

**GN Murthy:** I think price I may not be able to precisely predict, as nobody could do that, nobody could do it for past few years, it is going up and coming down. But of course, it is only southward cycle for past 1.5 years, mind you, 1.5 years is only southward. For last maybe September 2017 after the price was always looking down, except for occasional burst, it is only going southwards. I am not in a position to predict but I think senses will prevail and prices might stabilize. But leaving apart the price forecast, with enhanced volumes of 4.3, i.e. 1.5 million tons we add, hopefully that would help us in additional revenue generation. With the fixed cost remaining same we hope to get additional inflows.

**Avik Mitra:** But what would be addition to interest cost for commissioning of the plant?

**GN Murthy:** Yes, there will be, Rs. 250 crores is the addition. And simultaneously you are seeing reduction and interest cost now for the past two years.

**Avik Mitra:** Yes, so now I think another Rs. 5 crores, Rs. 6 crores will be added per quarter for fresh interest cost, because otherwise you are capitalizing that?

**GN Murthy:** Correct, another Rs. 5 crores, Rs. 6 crores will get added. And if we repay debt probably to that extent it will.

**Avik Mitra:** And what would be your yearly repayment burden from next year?

**GN Murthy:** I think next one year repayment holiday is there for this expansion, after that only it will kick in.

**Avik Mitra:** Sir, my last question is regarding discussion which we made in AGM that there will be some bridge coming up which will reduce your freight cost. So, any progress on that? I think some bridge or something is coming up on the river, so that is going…

**GN Murthy:** Yes, bridge on that has happened, whatever it is.

**Avik Mitra:** You were saying that there is some possibility of huge cost reduction in the freight cost due to some reduction in the transport distance and stuff like that. No, that bridge has not taken place, but the thing is river transportation there is a talk by the government to introduce. So if that happens we would, the barge transportation of the trucks across the river, that might help. That possibility is there, we are exploring that.

**Moderator:** Thank you. Our next question is from the line of Saurabh Shah from AUM Advisors. Please go ahead.

**Saurabh Shah:** Sir, question was regarding the current quarter, in terms of cement how are you seeing, any change in the environment on pricing and realization at all?

**GN Murthy:** Yes, there is an increase from February 1st, already previous question we answered, there is an increase.

**Saurabh Shah:** To what extend sir?

**GN Murthy:** About Rs. 40.

**Saurabh Shah:** Sir, on the engineering side any change any change in the dynamics or spread, because as somebody mentioned earlier this business on neutral basis has not happened in spite of us believing that this could happen slightly earlier. Where are you in current quarter on that?

**GN Murthy:** Current quarter we are trying to make it a neutral year, without any further addition of losses.

**Saurabh Shah:** Okay. Any concrete kind of results yet or still unsure?

**GN Murthy:** No, I did not get you.

**Saurabh Shah:** So any concrete efforts, any concrete matrix which had changed which lead us to believe that there is a higher probability of it becoming EBITDA neutral or still not clear if it actually becomes one?

**GN Murthy:** No, it could become natural quarter because the inventory which we are holding will get converted into sale. With that it should be neutral. Not any abnormal event happened, not that we got anything abnormal.

**Saurabh Shah:** Sir, so exactly we have the inventory at higher cost as of now, right? So we must have switched earlier and the steel prices went southwards?

**GN Murthy:** Correct. See, it is not 100% completed. 100% will be completed in later parts and will complete in the later parts.

**Saurabh Shah:** And on the engineering side how are our contracts basically, is it cost plus variable or at fixed basis?

**GN Murthy:** Fixed, there is no cost plus in this sector.

**Moderator:** Thank you. Our next question is from the line of Jaspreet Arora from Systematix. Please go ahead.

**Jaspreet Arora:** Sir, I missed the volume numbers you shared at the start of the quarter, how much have you done for the quarter?

**GN Murthy:** I said that 6.1 lakh tons versus 5.7 lakh tons of last year.

**Jaspreet Arora:** Okay. I believe we still continue to be 90% of more in our core market, which is Andhra and Telangana, is that correct?

**GN Murthy:** Correct, you are right.

**Jaspreet Arora:** But for the balance 10% where are we servicing in Tamil Nadu and Karnataka, have we taken price rise of Rs. 40 a bag there as well?

**GN Murthy:** It is not so much in Tamil Nadu, it is lower than that, maybe below Rs. 30, but there is an increase. There was shrinkage of about Rs. 30 in Tamil Nadu and about 10% we sell here.

**Jaspreet Arora:** Okay. And in terms of what you mentioned about on the cement side, the capacity we are at about 4.3, what is commensurate clinker capacity?

**GN Murthy:** 3.5.

**Jaspreet Arora:** I believe we are already operating at over 90% utilization, I mean, that was there on the old capacity and now that we have added the new one, 1.66, I think given the good demand that is there in our region and the lead time to establish a new plant, by when would you be planning the capacity, be it in terms of brownfield project or greenfield?

**GN Murthy:** When we can achieve 100% or 90%, is that your question?

**Jaspreet Arora:** Yes. I mean, I think we are already at 90% utilization for the old one.

**GN Murthy:** Correct.

**Jaspreet Arora:** And the new capacity may take maybe about two years for us, maybe 2.5 or max 3 years, and that is precisely the lead time in terms of putting up a new project. So by when do you think you would be able to start walking or announcing the details of the new project?

**GN Murthy:** Further investments, we are not ready, made any plans, so I am not able to tell you when we are going to announce further additions. See, primarily you should look at line stone deposits, you cannot keep on adding grinding capacities everywhere. If you have limestone ownership mining lease permit, there you can have your cement making. Grinding, how long, same 3.65 you can add, keep on grinding, forget your existing grinding capabilities. We have to look at it in completely different way, there is a limitation on how we make those plans.

**Jaspreet Arora:** Sure. So this 3.65 is suffice for, I mean, the limestone deposit that we have will suffice for how many years?

**GN Murthy:** It will go for many, maybe three, four decades. It is more conservative, it is very conservative.

**Jaspreet Arora:** And based on your assessment and your experience of cement price hikes that have happened in the past, and given the demand momentum do you think this round of price hike that you have taken from 1 February is there to stay or do you think it is a fluid situation and it can change week after week?

**GN Murthy:** No, nobody can comment on this question because for long time the prices were very low, all cement companies are making losses with these kind of prevailing price, that you must be seeing, every operator is making losses. Losses mean real good losses. So, the price is whether they stand. The increase they have taken is Rs. 30, Rs. 40, but with sudden increase how long it will sustain like this is beyond anybody's prediction. But unless prices sustain at reasonably levels and not at Rs. 40 or Rs. 30 extra, the company should not make any profit, till one day that economic theory will come in and I think prices will stabilize in longer tenure. Not in two, three months' time whether these prices hold or not, definitely I am not in a position to predict.

**Jaspreet Arora:** But is there a commensurate decline in volumes because the feedback that we have got is volumes have taken a hit?

**GN Murthy:** No, there is no decline.

**Jaspreet Arora:** And this Rs. 40 is in line with industry hike? Because we have heard that there are some players who have taken hike as much as Rs. 60 to Rs. 70 per bag, any comments?

**GN Murthy:** It depends on the players, on an average it is around Rs. 40.

**Moderator:** Thank you. Our next question is from the line of Devansh Negotia from Securities Investment Managers. Please go ahead.

**Devansh Negotia:** Sir, when we were upwards of 2 MTPA capacity it was easy for us to operate at 90% utilization, is it going to be relatively difficult for us to operate at similar utilization right now with 4.3, 4.5 MTPA capacity. So which areas do we target to sell the cement or will we sell it in the same area that we operate?

**GN Murthy:** First point is, cement is prone to logistics cost. You cannot carry it to longer distances. If you are carrying to longer distance you will make lesser profit, if there is profit. So you have to enhance in the areas you operate nearer to you, which is Andhra Pradesh, Telangana, Tamil Nadu, North. So we have to maximize our sales there. So, how do you maximize? Either you have to take additional fees in the exiting demand or you should be presented with additional demand in the areas you operate. I feel the Andhra Pradesh and Telangana there would be additional demands positively. And that should help in operating the plants are reasonably good levels. There is no need to share the existing demand itself, there is likely to be additional demand. And moreover, some research organizations are predicting 8% growth in demand in two, three years. So there should be an opportunity.

**Devansh Negotia:** And is it possible for you to share the breakup of the cement division in terms of realization per ton, power and fuel per ton, freight cost per ton, other expenses, and EBITDA per ton?

**GN Murthy:** Right now I am not holding that kind of data.

**Devansh Negotia:** Can I take that offline?

**GN Murthy:** You can call me at your comfort, but I will have to look at those numbers. Give me a day or two.

**Devansh Negotia:** And sir, one thing which I was not able to understand that I asked earlier was that other expenses that have increased by 3% on sale of Rs. 273 crores, so since of course there has been increase in coal cost and all, but that will be attributed to the power and fuel cost as a percentage of sale?

**GN Murthy:** Other expenses increased 3% is primarily packing material, it includes selling related expenditure, packing and others. That is no additional cost.

**Devansh Negotia:** As in, packing material, can you just elaborate more on that?

**GN Murthy:** I think packing material is not forming part of the raw material, so it is in other expenses. When there is increase in volume automatically there will be increase in other expenses.

**Devansh Negotia:** Sir, but as a percentage of sale that has increased by 3%, so if the volume increase, I mean, as a percentage of sale I am asking it has increased, so…

**GN Murthy:** You are talking as percentage terms…?

**Devansh Negotia:** Yes, so if I see it quarter-on-quarter it was 12.6%, year-on-year it was 15.3% and now it is 15.5%. So sequentially that has increased by 3%. So that was my question, because if volumes increase even simultaneously the cost has increased by more than that.

**GN Murthy:** I got that. But I am seeing my data in front of me, it is mostly related to packing only, there is no other increase I am seeing. I have to calculate like you the percentages. You can call me separately, but I am not seeing any other increase, except selling expenses and packing expenses.

**Devansh Negotia:** Okay. And sir what would be the EBITDA per ton for this quarter?

**GN Murthy:** I mean, it had taken a beating, about Rs. 100.

**Devansh Negotia:** And can you share the number for quarter-on-quarter and year-on-year?

**GN Murthy:** Q3 was 640 of last year, and last quarter about 450.

**Moderator:** Thank you. Our next question is from the line of Pratik Kumar form Antique Stock Broking. Please go ahead.

**Pratik Kumar:** Sir, can you share the segment wise EBITDA details? You shared for cement, so for engineering, power and hotel?

**GN Murthy:** Cement I can tell you per ton, but what I do with engineering?

**Pratik Kumar:** Sir, reported EBITDA, as in rupees million or crores?

**GN Murthy:** You have published results with you, right?

**Pratik Kumar:** Yes, but those are PBIT numbers.

**GN Murthy:** Okay, you want me to give EBITDA of engineering, like that?

**Pratik Kumar:** Yes, sir.

**GN Murthy:** Engineering EBITDA, i.e. earnings before interest, depreciation and taxation, in Q3 2.39 in current year versus 2.18 last year.

**Pratik Kumar:** This is rupees crores?

**GN Murthy:** Crores.

**Pratik Kumar:** So it is a gain of 2.39 crores?

**GN Murthy:** Yes, marginally there is gain, yes. No, no, 2.39 minus versus 2.18 last year. Minus and minus, improvement in minus.

**Pratik Kumar:** Okay. And for power and hotel?

**GN Murthy:** Power, we have an EBITDA of Rs. 5.4 crores in the current year versus Rs. 7.94 crores in the last year, it is coming from CPP which is coal price increase. But otherwise hydel and others have done well.

**Pratik Kumar:** Okay. And sir just last on hotel segment?

**GN Murthy:** Hotel, the current year it is plus 0.59 versus last year 0.5.

**Pratik Kumar:** Okay. So we are like EBITDA positive on hotel segment, only EBITDA negative on engineering segment as of now?

**GN Murthy:** Correct. All others EBITDA positive only.

**Pratik Kumar:** Okay. And sir you mentioned about your clinker capacity as 3.65 million tons, so there is an increase of 1.5 million ton in clinker as well, post expansion?

**GN Murthy:** Correct.

**Pratik Kumar:** So sir, what do you say that we would be constrained on clinker for the split grinding unit which we are planning, so 3.65 at 1.3cc ratio can give like 4.7 million tons kind of production.

**GN Murthy:** Correct. See, basically you have to look at combination of OPC and PPC. We are looking at 100% OPC means probably you will get like that, but we have in Andhra OPC is preferred grade.

**Pratik Kumar:** Sir what would be our OPC, PPC mix?

**GN Murthy:** 60:40 or 70:30, it ranges. PPC will be between 30% and 40%, balance is OPC.

**Pratik Kumar:** And so that is why basically that satellite grinding unit is pure grinding unit, there is no additional capacity for the company as such?

**GN Murthy:** No, only grinding.

**Pratik Kumar:** Okay. And sir you shared volumes for the quarter, 0.615, what would be the nine months volumes for this year and last year?

**GN Murthy:** Nine months 2018-2019 is 1.8 in current year, last year was 1.6.

**Pratik Kumar:** And sir full year volumes last year would be around 2.7?

**GN Murthy:** No, full year last year must be…

**Pratik Kumar:** Sorry, 2.2.

**GN Murthy:** Yes, must be. I do not readily have, but it must be around 2.2.

**Moderator:** Thank you. Our next question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

**Viraj Kacharia:** Sir, my question was regarding fall in GP market, what I was not really able to understand was that there have been sequentially fall of 5%. So I just forgot, how much would you attribute to fall in prices and how much would be towards increase in raw material?

**GN Murthy:** About 60% is only due to fall in prices. And the increase in prices is the balance.

**Viraj Kacharia:** But these raw material cost would be limestone, right?

**GN Murthy:** Limestone, of course. Raw material is power, fuel and raw material and raw material balance.

**Moderator:** Thank you. Our next question is from the line of Kshitij Bansal from Albatross Capital. Please go ahead.

**Kshitij Bansal:** Sir, if you can give some guidance on the cement volumes for next quarter and for next entire year, please?

**GN Murthy:** We are not expecting any significant fall in volumes from the current quarter. We maintain the volumes. And you can add for year end.

**Kshitij Bansal:** Okay. So for next year as well you are planning to clock close to 2.2 million to 2.3 million tons a year, is that should be the takeaway?

**GN Murthy:** 2020?

**Kshitij Bansal:** Yes, FY20.

**GN Murthy:** No, last year it was 2.2 and this year it is around 2.4, so next year cannot be less than that.

**Kshitij Bansal:** Okay. And even if we expanded capacity, that would be our achievement? That would be our target?

**GN Murthy:** Expanded capacity, we get additional volumes.

**Kshitij Bansal:** How much would that be, sir?

**GN Murthy:** Overall since the growth has been substantial over last few years, probably we may get another 15% increase over current, overall.

**Kshitij Bansal:** So, then you are hinting more towards like 2.6, 2.7 million for entire year?

**GN Murthy:** Around 2.7 million we are hoping.

**Kshitij Bansal:** And also could you just throw some update on the sugar prices abroad?

**GN Murthy:** This I would be able to talk in annual review. Like prices have not, I mean, in the recent past they have not fallen much, though there is small decline, but not alarming.

**Kshitij Bansal:** And sir also just piece of advice, for future conocalls just have your cost analysis ready, because these are the basic questions the investors and investors would like to know.

**GN Murthy:** Sure.

**Moderator:** Thank you. Our next question is from the line of Pratik Agarwal from Reliance Mutual Fund. Please go ahead.

**Pratik Agarwal:** Sir, just a couple of questions that I have. Just wanted clarification on the Nellore plant that you just mentioned, that is a grinding unit that will come in future?

**GN Murthy:** Correct.

**Pratik Agarwal:** And its cost would be around Rs. 70 crores?

**GN Murthy:** Correct.

**Pratik Agarwal:** And what would be capacity, like rough timeline if you have?

**GN Murthy:** One year it will take from now. And about 0.5 million tons is the grinding capacity.

**Pratik Agarwal:** So 3.65 million tons of clinker would be sufficient for this 0.5?

**GN Murthy:** Yes, it will meet the demand.

**Pratik Agarwal:** Okay. And sir, out of 370 crores around Rs. 330 crores have been spent, so the rest of the Rs. 40 crores is basically for fly ash and packing plant that you mentioned?

**GN Murthy:** And balance payments of already completed facilities, last day payment will be there.

**Pratik Agarwal:** Okay. And sir, reduction from Rs. 470 crores to Rs. 370 crores, basically all of it is due to railway siding getting chugged off from the plant?

**GN Murthy:** Rs. 65 crores is from railway siding, balance is from the current project only. That is only savings, no removal of any facility.

**Pratik Agarwal:** Sir, long back, maybe six, seven months back you mentioned that your trade mix is basically 90%, today you mentioned…

**GN Murthy:** Yes, now you have to enhance the exposure, you have so many projects coming up, you have to go into non-trade areas, you are getting so many projects happening in Andhra Pradesh, so you have to necessarily sell there also. We have to enhance capacities, we have to sell in Andhra also.

**Pratik Agarwal:** Understood, sir. Sir, what I was coming to was that basically the region in which you operate had seen a big price fall this quarter, Q3. So sir, in addition to that was the shift from trade to non-trade in your mix, was that also a reason for a bigger fall for you?

**GN Murthy:** No, the shift has taken place in the year itself, so there is not any impact in the current quarter.

**Pratik Agarwal:** Okay. Just that clarification I wanted. And about the coal inventory, just wanted to know how many months or weeks that inventory you keep? So just to understand that in case we have not benefitted from reduction in power and fuel cost in Q3.

**GN Murthy:** Normally we keep month's stock, one month's stock.

**Pratik Agarwal:** So that means that some of the benefit of the reduction in fuel and prices will come up in Q4?

**GN Murthy:** Correct.

**Pratik Agarwal:** Understood sir. Sir, few more questions, if I can. You said that the new line would be almost at the same operating cost as the older line. So wouldn't there be any savings just because of the fact that the plant is new?

**GN Murthy:** There would be. But they are offset by whatever increases are there, normal increases would also be absorbed. See, salaries increase, 5% increase, that will also be absorbed by additional capacity because of non-increase of manpower. There will be always annual increases, all these will get absorbed. And you have depreciation coming in, full deprecation. And it may be non-cash cost, but if you operate at 100% capacity probably there will be advantage.

**Pratik Agarwal:** Sir, just to have a number, if it is handy with you. Sir, what is the cement cost per ton for you? because we just calculated from the numbers that are published, so just wanted to know where does it lie right now? I can tell you my numbers, like according to my calculation it is around Rs. 3,800 per ton in Q3, so it seems to be very high, the previous participant also asked.

**GN Murthy:** Rs. 3,800 you are calculating?

**Pratik Agarwal:** Yes.

**GN Murthy:** Including interest?

**Pratik Agarwal:** No, not interest, including freight and basically raw material.

**GN Murthy:** You have added, right.

**Pratik Agarwal:** Yes.

**GN Murthy:** With freight it seems to be correct.

**Pratik Agarwal:** So it's Rs. 3,700 to Rs. 3,800?

**GN Murthy:** Yes, with freight it is correct.

**Pratik Agarwal:** So basically like if we compare to other peers…

**GN Murthy:** Freight means you have included outward freight?

**Pratik Agarwal:** Yes.

**GN Murthy:** Correct, you are right. Outward freight is only visible to you, correct.

**Pratik Agarwal:** So basically like comparing with peers, so the main difference is just due to freight or other manufacturing cost is also a little high for KCP?

**GN Murthy:** Manufacturing costs are not high for KCP.

**Pratik Agarwal:** So basically you mean to say it is basically freight that is pushing it?

**GN Murthy:** Freight and fuel. Fuel has substantial part, large value comes from fuel, about Rs. 1,000.

**Pratik Agarwal:** Okay. And it is basically due to the plant because the fuel mix you must be optimizing it?

**GN Murthy:** We are optimizing fuel, we are also trying to optimize domestic versus imports, we are trying as much as possible, but we do not use pet coke and other materials.

**Pratik Agarwal:** Got it. And currently you must be using more of international coal, maybe around 80% or so?

**GN Murthy:** Correct, you are right.

**Pratik Agarwal:** And sir this steel cost that you mention has gone up, so out of the total engineering cost what percentage does steel cost constitute?

**GN Murthy:** About 40%. I am not certain but its possibly about 40%

**Pratik Agarwal:** Understood sir, just wanted a rough figure. And lastly I just wanted to know, you mentioned your OPC mix is around 60% to 70% in AP, Telangana, when you sell in Tamil Nadu I think from the Nellore plant you will be planning to sell more in Tamil Nadu.

**GN Murthy:** Because Tmail Nadu is PPC only.

**Pratik Agarwal:** That’s what I wanted to know. So it will be 100% PPC from Nellore plant?

**GN Murthy:** It has to be, otherwise no point.

**Moderator:** Thank you. Our next question is from the line of Avik Mitra from Aviksat Financial Services. Please go ahead.

**Avik Mitra:** Sir, just one more question. It is a question in continuation to the previous guidance which you gave about volume. So you said that 2.4 million you have done this year, but you are adding a new capacity of 1.77, so the 15% volume growth guidance you have given is something I couldn't just make out. So if you can explain that?

**GN Murthy:** Power and current.

**Avik Mitra:** Yes, but your new capacity will add substantial volume, right?

**GN Murthy:** But 100% of that we cannot operate, once volume comes. I can operate today 100%, but market should take it.

**Avik Mitra:** So you expect only about say what, 20%, 30% capacity utilization for the new plant going ahead for next year?

**GN Murthy:** Capacity utilization, arithmetically yes.

**Avik Mitra:** So the thing is that you do not expect, you can technically go there from your engineering perspective or plant capacity perspective, but you do not expect the volume ramping up because of lack of demand of the new capacity?

**GN Murthy:** Correct, commercially, technically we can do.

**Avik Mitra:** Okay. But you do not have any plan of increasing that to make sure by going further distance or something like that?

**GN Murthy:** That is why we are going for grinding unit, we can go further down.

**Avik Mitra:** And another question, I think when your freight cost is higher by your competition, so it will be a regular factor, it will always be like this or how you think? Because when the prices go down also your competitor's price per ton will also go down as far as outward freight is concerned.

**GN Murthy:** Freight, yes, it will be in this level only. But if volumes go up probably we can look at the freight cost. But normally freight cost is uniform.

**Moderator:** Thank you. Our next question is from the line of Jayesh Parikh from JMP Capital. Please go ahead.

**Jayesh Parikh:** Sir, you have I believe some surplus land in engineering division, any plan to monetize those surplus land?

**GN Murthy:** No, we have to put it to better use than selling it.

**Moderator:** Thank you. Ladies & gentlemen, that was the last question. I now hand the conference over to Mr. GN Murthy for closing comments.

**GN Murthy:** Thank you very much, everybody. I would say that with enhanced capacity, with better, higher utilization, by not adding any additional fixed cost, if we can really operate at higher levels we hope that the cost of production should be better than now, subject to capacity utilization. And by next year with elections behind, with governments position, we are hoping that demand should improve. And with that improvement in demand on an average we hope to perform better than, I mean utilization in cement better than now. And we hope to encash on the enhanced demand which is projected. And also on engineering with the improved economic scenario we hope to also diversify our mix of the industry which we serve from engineering, that we hope that our losses should decline or we should be positive in the next year. And hotel, it will be cash positive, there would be cash profit. We wish to make cash profit. And we are not thinking that it would make net profit in FY20, but it is improving. And with the initiatives of freight reduction by setting up grinding units, overall we hope to do better. And with this, I thank you all for joining me in this call. Thank you very much.

**Moderator:** Thank you very much, sir. Ladies & gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.