"Orient Cement Limited Q1 FY-23 Earnings Conference Call"

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MANAGEMENT: MR. DEEPAK KHETRAPAL – MD & CEO, ORIENT CEMENT LIMITED.

MODERATOR: MR. KRUPAL MANIAR – ICICI SECURITIES LIMITED.

Moderator: Good morning ladies and gentlemen. Welcome to Orient Cement Q1 FY23 Results Conference Call hosted by ICICI Securities. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Krupal Maniar from ICICI Securities. Thank you and over to you sir.

Krupal Maniar: Thank you, Seema. Good morning and a warm welcome to everyone. On behalf of ICICI Securities, we welcome you to the first quarter FY23 Earnings Call of Orient Cement Limited. On the call we have with us Mr. Deepak Khetrapal – MD & CEO of the company. At this point of time, I will hand over the floor to Mr. Deepak Khetrapal for his opening remarks, which will be followed by interactive Q&A session. Thank you and over to you sir.

Deepak Khetrapal: Thank you Krupal. Thank you very much. Good morning, everyone and warm welcome to our investors call that we host every quarter now. And thank you for sparing your time to come and listen to us. I just need to inform you that today Soumitra Bhattacharya our CFO has not been able to join me on this call, because he actually is in a hospital and he is undergoing some small surgery. So, I am here and Manish Aggarwal from our company, he's here with me on the call.

To start with, let me say this time, we are doing a call with the day or weekend break, because I had some of the board meetings in the meantime. And I'm sure you've had ample time to go through the results of our Q1 that we announced on Thursday. And I'll take this opportunity to provide some perspective on the numbers. But before that, I would like to touch upon, the most exciting development that has happened in just last few days and on the day of the board meeting, we also announced that to stock exchange, all of us have been waiting literally with bated breath for the our mines in Rajasthan to be restored to us which has been a matter of not quite litigation, but a matter of some disagreements on how the modalities should work and what kind of charges are payable. I'm delighted to inform all of you that the Rajasthan mines are being restored to us. Exactly on the terms that we wanted, there is a simple change of name from Orient Paper Industries Limited to Orient Cement Limited, there is no transmission, transfer, no transmission, no fee, no charges, nothing at all. And that's how we wanted it. So, fortunately, that is now back with us.

Congratulations to all our shareholders on having the opportunity to enter, one of the most robust cement market in the country. We do need to complete a few steps I need to travel to Udaipur or Chittorgarh area where the mines are, do the supplementary, mining leases, the paperwork required has to be completed, but parallelly with that we are already beginning to get up for the initial activities that we need to do. As I guess, all of you are aware, we have got the mining lease back but there was no land that we required because it's long ongoing dispute.

So, the first challenge for us in any case is to start acquiring the land and parallelly identifying the land on which the plant will come up in the area of mines and start applying for the necessary environmental clearances and all the other authorizations. So, we are going to start work on that. But the good news is, earlier which was looking like a something which is keep getting delayed because of the attitude that the Rajasthan government had shown in the past, I am delighted that delay is over, mining lease is back and it's now up to us how quickly we can complete the land acquisition and the environmental clearances and start the construction of the Greenfield capacity. But we are very excited at Orient Cement to get this opportunity because we know, many of our investors have been concerned about our rather narrow exposure to the markets in India and typically the markets which had a huge supply overhang. With this capacity, as soon as it comes up, we would have gained a major goal of diversifying our market and a plant in Rajasthan as good as you can get. So, congratulations to all our shareholders, huge value add to what we have in terms of our capacity to keep generating the good results in the future.

So, with this mines coming back, does it change our direction of growth, that would be the obvious question. As I said, we still have to complete some papers please, give us some time to assess the time needed for acquisition of land and for obtaining the necessary clearances and approvals to set up the capacity. We are of course tempted to put everything else on the slow burner and put the Greenfield capacity in Rajasthan on top priority, which it should be. But the practical challenges of a Greenfield capacity need to be factored in. And that's why I'm saying, give me a little more time and I'll maybe come back to you with better timelines and also what will take the top priority and how do we move from here.

Coming back to Q1:

It's certainly been a quarter that we at Orient Cement also don't like and I'm sure all of you also don't like, having had the highs of let's say the same quarter last year 188 crores EBITDA there about and Rs. 1370-1380 per tonne of EBITDA, coming down to, by 45% to overall EBITDA that we earned last year, it's certainly not something that we can ever feel happy about. So, we've been hit badly by obviously the realities in the market. The markets that we address have not been supportive at all in terms of demand volumes and when the demand and volumes don't look at the pricing always becomes very difficult in terms of passing on our increased cost, because cost have kept rising so we've not been able to pass on the costs and even the operating leverage has not come to rescue us from the thin margins that the current costs give to us now. As you know, South overall and Telangana, Karnataka, AP markets particularly have had a very lean quarter. And given the very, very heavy and excessive rains in this markets again, even July has seen soft volumes. So, obviously it's now in the throes of a very heavy monsoon season. And in the absence of demand triggers in the southern markets like the Kaleswaram phase two that we've been expecting to be brought up. But now, it may happen with a little bit of delay only once the Telangana government is able to rustle up the resources that it needs. It's a project that they're committed to, whenever that gets triggered to be a major boost to the demand in our market. Any other major project is not looking likely to come up and that's been a bit of a dampener on the southern markets.

I'm sure if we go by the results that have been announced by the rest of our industry colleagues, there are some parts of the country like North for example, Center for example, even in the Western markets like Mumbai, Gujarat, they have some really good tailwinds in terms of market demand. And obviously, the pricing improvements many companies have reported significant growth volumes in growth and also significant gain in the pricing that they've been able to realize from the market, which is a good sign for everybody in the industry. But unfortunately, we've been caught in a market where this support was missing. And we do need to catch up with the demand uptick and thereby have the opportunity to recover the increased costs from our customers.

Besides the lack of demand momentum, as we know which has been regional challenge, it's not been a pan India challenge because as I mentioned some of the markets have seen very robust demand growth. The challenge for the industry across our country is the heightened cost of fuel and several other inputs. When variable costs are pushed up like this, and the market lags the demand momentum of volumes. As we know the opportunity to pass on the increased cost to the market gets severely constrained. The results announced by many big companies clearly reflect this pain, even people with very, very large increase in volumes with significant gain in pricing. Even they have had to report a decline in the overall profitability, which is worrisome because if large volumes and decent price increases also are resulting in drops in EBITDA over last year we all need to be concerned about but I guess it's a function of the prices, taking a little bit downward trend that needs to bail us out. And the good news is that the last few weeks we have all learned and we also keep hearing through all the analyst also who keep track of what the markets are. The fuel prices seem to have softened a little bit over the last few weeks. $10, $15, $20 a tonne depending on what's the source of the fuel that we are trying to import. And that is a good sign and as we eat into the inventories that we have piled up as of now, that improvement in cost will start kicking in. But would they very quickly fall to levels which were a few months ago that's unlikely because even if they fall, by the time that cheaper fuel starts flowing into our operations, there is always a lag because we obviously cover fuels in advance.

Given the markets that we are in, at Orient Cement we can't wish away the reality that we have in front of us. And we've had results which leave us disappointed as much as I'm sure they leave all the shareholders, analysts disappointed. As you know we've had nearly 1% growth in volumes over first quarter last year, which looks quite honestly under par even for our markets, could we have done some more volumes, perhaps we could have. But then the challenge was that this be additional business that we would have booked would have come even more from the B2B side where the prices were not giving us enough joy to do business. And similarly, there are some markets that we do farther South for example, or even towards the Central markets. The costs that we have and the pricing that were available there did not allow us to even use of the some thin opportunities which are available in markets, which were there but not quite remunerative. So, it's one percent goes as a function of partly the markets being sought partly our own, as in the strategy that we've been adopting for last many quarters, are doing only a business where a threshold level of realizations and therefore contributions is available.

Despite sharp increase in cost, the blended realizations for us as you guys have seen has been a very modest just over 2%. And even sequentially, it's the increase is less than 5%. Our total costs are higher by 20% year-on-year and nearly 11% over Q4. The thing to note here is that if we look at our total costs over same quarter last year, while the total cost per tonne are higher by around Rs.743 a tonne out of that everything excepting maybe Rs.100 over R.640 odd coming straight out of just power and fuel increase. While over last year it looks large, but we have to also factor in the fact that even today our power and fuel cost are just over Rs.1600 a tonne is perhaps amongst the best in the industry is seen because I'm seeing many companies reporting power and fuel cost well above our cost, despite the huge increase that we've also suffered. We seem to have managed these costs relatively better, comparatively speaking. But, like I said, there's no joy when you start seeing the cost of only power and fuel being higher than the total cost of clinker that we've had a few quarters ago. So, it's a worrisome scenario for the markets. But I guess that's a function of what's happening globally on the energy prices. The Rs.100 odd the gap that I said which is other cost increase include the increments to people that includes our investments and brands that we've obviously done a little more than what we had done in the previous two years of COVID. So, that always kicks in.

One of the other I would say challenging features of the Q1 has been that the slowdown in the trade segment, or the B2C segment in our markets has been much sharper and if you have been able to gain some volume increases over last year, that's come largely through the B2B business and B2B business also, which is towards large projects where the OPC component tends to be higher and when the OPC component is higher it does tend to impact your power and fuel cost per tonne. So, when we are reporting increase over last year, let's also factor in the fact that it's also because we sold OPC in this quarter compared to what we did either in the last quarter same year, last year same quarter or even the previous quarter to this quarter.

Our EBITDA as you people have seen has dropped from 188 crores to 103 crores with the very similar volumes, and EBITDA per tonne from 1384 last year it has come down to 750. As I said, what can be more disappointing than this, but like I said, we are in business and the one quarter does not make or mar us so we have to keep working. But all of us would concede, like I said earlier last year's EBITDA and EBITDA per tonne it didn't look sustainable. None of us expected that to continue. But even then I have to admit that the numbers for the quarter are disappointing, there is no getting away from it and I am the first one to acknowledge that.

We are trying our best to as I said to cope with the situation which seem to have got only worse due to extremely heavy rains in the month of July in all our markets, which are obviously putting pressures on not just volumes but resultantly even on prices already. Just a quick summary of the highlight numbers, volume up 1% over Y-o-Y and drop of nearly 12% quarter-on-quarter. Revenues are up by 3% down 11% sequentially. The saving grace is that our premium product Strongcrete actually has been doing steadily and in the last quarter we have despite poor B2C demand, we still manage to keep pushing the more expensive product that is Strongcrete to the market. And the percentage remains around 14, 15 which I think is steady now.

To secure the fuel safety, we obviously have had to invest more in our inventories, and also not just trying to store more fuel even trying to sort of, even looking at the inflation in price per tonne. Even if we had similar volumes, the prices are a lot higher so on our books, the inventories look a lot higher, not just of raw materials and fuels but we also had large inventories at the end of June, because we had more clinker, than we started the quarter with. So, obviously there is a little bit of inventory impact there and the higher B2B sales has also been affected, which I thought I'll call out. But that also means that compared to the trade segment, B2B sales always involve a longer credit period in the markets. And the overall pressure we've had, therefore on our working capital, has finally led to our having to borrow money once again from the banking system with the working capital requirements which for last many I don't remember when we borrowed money on working capital from the banks, but we've had the facility, we've had the limits and we started drawing on that, making sure that we remain secure about number one, the fuel inventory and number two, also that we are able to service the demand that exists in the market. So, as a result of that, on the debt front the plans that we had to very quickly repay the entire term loan that we had, they obviously have not proceeded at the pace that we would have wished if the cash flows had remained around the level that we've had in the past many quarters. And in the meantime, as we know the entire cash generation that we were having we have been prepaying, even in the month of December we prepaid a very large amount of the total project debt we had. So, when the working capital needs come in, we have not been carrying free cash with us. So, as a net result, 30th June our project loan which was the term loan while that has come down to 259 crores. But we also had to borrow on net basis 160 crores from the banking system on the working capital limits side. So, that's the debt position.

As I mentioned, the relief is in the form of the fuel prices, which are beginning to look a little soft, although it's too early that it stays as the demand for energy in Europe and other Northern hemisphere in the world comes to the winter demand for heating starts coming up. Let's see what happens on the supply position of energy from Russia, because that's a big if right now, and how that impacts the energy prices, we can only talk about what the current prices are looking like. In the meantime, we continue to consolidate and redefine our customer base and channel base as we've always been reporting to you. Brand presence through more effective innovative communications, advertising we are doing and as I said this quarter, with the same quarter last year part of the cost increase is also coming from higher investment in advertising and brand building. Our ground level services we have to keep strengthening and that we keep doing in terms of opening more depots improving our service everywhere. But despite all that, because of the B2B market being more robust than the consumer or the trade sales market, the Q4 blended cement has slipped slightly to just under 60% and the B2B obviously has been a little over 40%, which must have been the 2%, 3% swing from a B2C to B2B side, which leads to higher cost and higher credit in the market.

In terms of market mix, is it fairly steady, but a little bit because there was more opportunity in certain markets in the West, especially markets like Mumbai, which I touched upon earlier, we do have a very small presence in Mumbai. We are trying to take advantage of that. Although it's like I said, we're not as competitive as many other companies who have closer proximity to Mumbai, and they're able to become more competitive given their more moderate logistics cost. So, as a result overall, in the West, we've done in Q1 55% of our volume South have been 36%, of Central about 9%.

The railroad mix, which again it's all on people's mind all the time. During this particular quarter, all of you are well aware of the pressures that railways have been to move coal from the coal mines to the power plants because the central government, state governments everybody put pressure on them, availability of rakes became a major issue and even if the rakes were available, the terms on which they were making the rakes available by levying really punitive demurrages and wharfage charges huge penalties. So, we also have been trying to see how do we moderate that and compared to let say 25% of our volume that we moved by rail in the preceding quarter Q4 of last year, this quarter it has come down to 19%. The same as it was in the same quarter last year, which I guess would be a seasonal phenomenon because whenever there's extreme summer and the country needs more power to be produced and more coal to be available, we'll keep having this interventions from the government authorities to move actually make the rakes available to the other industry but little less than what the rest of the year might be, let's wait and see. But for the current quarter that I'm reporting on, it's been a little bit of setback on the railway rail mix also.

Fuel mix for us, has obviously swung very largely in favor of petcoke. Or let say domestic coal, basically coal in these entire fuel mix has been just about 45% most of it from the domestic suppliers, a very small residual quantity we imported through that we had coal that we had we consumed. And the petcoke has risen to 42% and AFR is at 17% the alternate fuels that we keep talking about. On the other item which always is in your interest for people, especially the analysts who are trying to create a model of how the cash flows might be. Given all the challenges that we have, given all the low-capacity utilization that we have, we've not pushed our investments as fast as perhaps we were hoping that we will do. And they certainly had indicated that projected for FY23 around 800 crores total CAPEX including maintenance CAPEX, we might run short on that, because we still haven't really taken the decision to start the actual physical construction activity for the Brownfield capacity that we had spoken about. We are watching the markets very, very carefully and we obviously will lose no time at all, in putting the capacity when we have a very clear visibility and conviction that the additional investments that we make in CAPEX will get utilized well, will get absorbed by the market. So, we are just watching the market and being a little cautious that maybe a little slow.

But at the same time, there is something which we have not indicated earlier. As soon as we are able to complete the paperwork with the government of Rajasthan, obviously, we'll start the acquisition of land parcel in Rajasthan for the mines that are coming back to us, that might start needing some bit of investment in procurement of land. So, that obviously, will be that's beyond what you are saying we will invest in CAPEX in the current year. So, it's a little bit of slowdown on CAPEX here, but we might need some cash not as much as cash because land acquisition as we know in India these days has become very, very difficult, we'll be able to buy land in a hurry and spend a lot of money there. I personally won't expect it although we will try our best but I don't think land will come that quickly. It is land which is under private occupation. And we have to start the process using the right, I would say means at our disposal start acquiring the land.

So, that's the overall summary, I would say of Q1 that we've been through. And I'm sure there'll still be some questions which are unanswered and I'll wait now and hand it over to Krupal and all of you to ask me questions and let me see what more I can provide you in terms of information. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Rajeshkumar Ravi from HDFC Securities. Please go ahead.

Rajeshkumar Ravi: Sir, I have a few questions congratulations for getting this Rajasthan mines. So, first question is relating to this only. What is the total mining capacity and annual throughput which is possible from this mine and what timelines you're looking at all, I understand land pooling you already said will take good amount of time, but any ballpark numbers?

Deepak Khetrapal: Rajesh the total capacity when we did the assessment of the limestone there is in the region of 120-150 million tonnes as has been assessed, and that's why we have said that, in all probability we end up setting up a line of about 2 million tonnes a year which should give us a life of more than 50 years for the plant. But here, I must say that almost it's true of almost every mine that whatever are the initial estimates of limestone reserves, in actual usage, when you start doing mining, you get a lot more of that, right. And that's to everyone. So, I'm giving you the current time, that's why the current plan to maybe put about 2 million in capacity there. In terms of timelines, all of us keep hearing based on what information comes to us through all the people like you, that a Greenfield project people do say that it takes as long as five years to put up if we are starting completely from scratch. We will try and see because obviously, they are going to be pressures from Rajasthan government to start the project faster. So, we will need to expedite the every single process to put up the capacity very quickly. Can that happen within two years' time, I don't think that's practical, let's acknowledge that, but somewhere around three, three and a half, four years that would be our target. But lots of things need to fall in place for that to happen, and we'll be trying our best for that.

Rajeshkumar Ravi: Sure. And this being a Greenfield, the costing should not be less than 800 crore, I mean 1600 crore plus CAPEX if at all 2 million needs to be setup and being a Greenfield?

Deepak Khetrapal: See there's are couple of things there one, obviously land has become more expensive towards procurement so obviously, investment in land will be a little higher. But the saving grace there might be that we do not need any more given the overall power situation in the country, we may not need to put up a CPP that much. And I think, our railway siding investment may not be very large because that area is fairly well developed and the distance of private railway siding that we build may not be. So, there are few of these details that need to obviously be factored in. Ballpark everybody does believe that a Greenfield 2 million project should cost you about 1500-1600 crores, you're right.

Rajeshkumar Ravi: Okay, this is one. And you mentioned that your CAPEX for the Brownfield for Devapur is not progressing, you are going slow and cautious on that. So, for FY23, what are the status on the Tiroda plant, Devapur and also on the 10-megawatt WHR?

Deepak Khetrapal: The two plants, I would say the cost saving projects as we call them, the waste heat recovery plant is proceeding on schedule and we seem to be doing well and we will finish, we will commission that plant within Q4 of this financial year. And that should start benefiting us from the first quarter of next financial year, that's what we are sticking to that. Similarly for to improve our costing and also availability of fly ash at Chittapur which in the past we have suffered because of the close by plants shutting down. The rake handling system for fly ash is also under construction as per schedule. And that also will be completed within this financial year, when I talked about the other CAPEX which is more towards capacity expansion. So, which is the Brownfield at Devapur which has to support the grinding unit at Tiroda. We want to have obviously a clarity on the Tiroda execution first, because if we put up a line four at Devapur, it's largely to be able to address and support another grinding unit. There's no point in putting up additional clinker line ahead of the grinding capacity. So, from that perspective, the Tiroda clearances are still work in process. While some of the permissions have already come in, like we have for the railway siding we got some approval. We also got the approval from the power authorities to consume power during time of construction. So, there are many, many approvals required. One of the key things that we're waiting for is the permission for subleasing of the MIDC land on which the Tiroda unit has to come. So, these are unfortunately the prerequisites before starting the construction of the grinding unit there. And we are all working on that. But, as you would agree, because to meet my current requirements around the markets, my current clinker capacity is good enough. I think all of you would agree that our capacity expansion in line four at Devapur should happen coinciding with the grinding unit becoming available.

Rajeshkumar Ravi: I agree sir. Anyway because you already have surplus capacity so these delays won't hurt your near-term growth for sure. So, now what are your financial year 23 targets for CAPEX number any number that you're looking at?

Deepak Khetrapal: I have not looked at because like I said, from the time the Rajasthan mining lease has come, I was just busy in various board meeting and AGM so I'm just finishing that, the next two, three weeks you'll get a better idea and then I will, rather than shooting for a number just like that. Let me just take time from all of you and then revert with that information.

Rajeshkumar Ravi: And one last question on the costing of fuel, if you could share what was the per kilo Cal costing for you in Q1, and how did it fare against March quarter performance?

Deepak Khetrapal: The entire cost increase that we reported in the power & fuel costs has actually come from per kilo Cal, it is blended cost of the calories consumed obviously, there's nothing else not that in terms of our efficiencies, in fact we've been better than the previous quarter. So, the entire increase that you see you calculate the percentage over last year you have the percentage, because last year it was 1000, this time we are at 1600 tonnes, it's nearly 60% increase there. Blended cost I don't have in front of me and plantwise I have but I don't share plant wise cost.

Rajeshkumar Ravi: No, I don't need plant wise, blended just because, if you could give where do we stand in Q2 versus Q1 on the fuel costing, because fuel cost last three, four months have been only going up and the recent cool off will have a positive impact in subsequent quarters. But Q2, is it fair to assume that cost inflation will continue quarter-on-quarter?

Deepak Khetrapal: Quite honestly Rajesh, the way our current costs are looking high, even if I'm not saying they will soften over the Q1, I don't think Q2 is likely to see any noticeable increase that's not the.

Moderator: Thank you. The next question is from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: So, my first question is around the Rajasthan unit. You mentioned the potential 2 million ton capacity. So, is that a clinker capacity are you talking about or the cement?

Deepak Khetrapal: No, I'm talking about the cement capacity there.

Amit Murarka: But 120-150 million tonne limestone, shouldn't there be like a 3.5-4 million tonne kind of a cement capacity that should be visible?

Deepak Khetrapal: Look, always as I mentioned, when you start doing the actual mining, this is your exploration, are estimated reserves, if it does become viable to have a larger capacity, we can always add one more line. Rather than assuming the reserves and suddenly putting up large capacity than being disappointed, the more cautious approach might be that we build up a smaller plant and add another line if we think we have enough limestone. Let's not forget it also we are entering a new market in the market where there are very large competitors already there, it gives us time to find our footing, start gaining the market share in a market which obviously is not going to be easy for us to get market share from so, if we make investments in smaller phases, even if it looks a little more expensive investment per tonne. But in terms of utilization and return on capital, it might turn out to be a better strategy that's what my view is.

Amit Murarka: That makes sense, on the top, proven that you've received for the transfer is there some timeline by when you need to start the limestone mining there, like is it three years, four years, is there's some timeline attached to that?

Deepak Khetrapal: I'll be honest with you; I haven't signed anything with the government yet they have just passed an order saying those mines are being restored to Orient Cement. Typically, we know and when I like I said in the next couple of weeks, once they have done their internal paperwork, we will be signing a formal agreement with the government based on the order which has been already passed by the Minister. I do believe that from their side, they will try to put pressure on I'm expecting it to be over three years. But we've had this discussion with the government authorities. And they have said that, if we see your serious intent to put up the plant in terms of how much progress we have made on every front, we will be flexi around it, although they will not put it in writing. But they said that if we see that you've already committed and you're making large investments, we could be a little flexible, but right now, there will be a constraint of I think maximum three years, they will allow us.

Amit Murarka: Okay. And lastly on this Devapur expansion. So, earlier timeline was March 24 so should we say now that it will be difficult by March 24 and possibly we should look at maybe six months to 12 months delayed than that?

Deepak Khetrapal: When we say possible, we perhaps putting it as if we are not able to do it. I'm saying we are choosing not to do it. So, there's a little bit of difference, it's a question like are we making a conscious choice or are we running into a problem that we can't meet the FY24, the deadline we could have met of the Q4 line Brownfield expansion. But unless I'm 100% sure of my new grinding unit becoming available to me to consume the additional clinker. We think it might be wiser to first have a full fix on the grinding unit, and then parallelly in parallel build the clinker capacity. We could delay it, how much time again as of now, I'm still waiting to get a clearer thing, because the grinding unit construction time will be 15 to 18 months we know that right. We haven't even started the basic work there. And that's why I'm saying by FY24 or, in fact, I was thinking that maybe in FY24 last quarter maybe the grinding unit will already be available and parallelly my clinker capacity will come up. That is looking really doubtful, because all the necessary approvals that we need for which we're working along with Adanis. They're trying to help us as much as they can, but some of these processes are taking longer. Maybe at this moment, my own guesses that maybe six months beyond what my original estimate was not more than that.

Amit Murarka: Got it. And last question from me like we have seen so much of inflation on the fuel side of things, but for some reason the pricing has actually not moved up in the last almost four, five, six months. So, why is that so, like one would generally expect it to be passed on at least partly, if not fully?

Deepak Khetrapal: Amit, if we see the parts of the Indian market, which have seen demand growth, the costs have been passed on to the customer to a very large extent. It's only in the markets where the demand has been very, very sluggish, there the markets push you back and then what happens is that each one of us wanting not to lose operating leverage, we want to book some volumes, and we start booking business at a price without the cost being passed on because if we don't do that business we will be hurt even more. So, it has to be accompanied by some bit of robustness in the demand. But with the monsoon which are looking very good right now, the normal sense that we've seen is post a very good monsoon normally we see a good demand pickup. So, let's hope that once the monsoon gets over and the project work start again, it will give us the opportunity. But without the demand being there, it's very difficult to be able to pass on these costs.

Moderator: Thank you. The next question is from the line of Vaibhav Jain from ithoughtpms. Please go ahead.

Vaibhav Jain: So, just a few questions from my side. So, in the last couple of years our EBITDA per tonne has been around, Rs.1000-1100 thereabout, so ignoring the quarterly impact that we had in this quarter and Q1 last quarter, is this sustainable, and what is driving the sustainability of EBITDA per tonne?

Deepak Khetrapal: In the previous nearly two years that you are talking about, the EBITDA became possible largely from the pricing that the market offered to us. As you've seen, although we are saying prices have been under pressure, they have not gone down and cement industry we have seen times when even the prices have gone down from the previous times. So, as of now, as I mentioned to the previous question, the demand that we see in the market normally should be reviving in a couple of months' time, a few weeks' time once the monsoon gets over. With the demand increasing obviously, our effort will be to be able to pass on these increased cost to the market and the moment we are able to do that, whatever costs are already being incurred, they have been booked, any increase from the market that we're able to get on pricing will straightaway come to the bottom line. So, the only thing which we are missing right now to sustain our performance, on every other parameter that we have internally in the company with efficiencies, any KPI that you pick up we are getting better all the time. Only thing which has gone missing is the pricing that we need to pass on this cost. Let's hope that if not in this particular quarter that we are in Q2 which would remain impacted by the monsoon overall. I'm hoping that the next quarter onwards we will start seeing an uptick in prices because look the fact is structurally whichever segment of the market in India today has seen good demand. You've also seen good pricing there. So, that correlation we need to sort of get back, the demand has to come, and that should give us an opportunity to recover our costs.

Vaibhav Jain: Okay. Sir, I was asking more from a perspective of, we have this strategy change that we've done to push more of Strong Crete. But, just also on that I wanted to know, over the last three or five years how has the mix of trade and non-trade moved and what is the sustainability of the same?

Deepak Khetrapal: As far as from non-trade to trade, we actually were a company which are doing close to 60% in non-trade, and 40% in trade, which over a period we reversed that completely and even in a bad quarter like this, I've reported 60% trade and 40% non-trade, which is the reversal even in a bad quarter. Otherwise, we started going up to there, have been quarters we've done 64%, 65% in trade, and obviously the balance in B2B side. So, that strategy is playing out. The premium product, as I mentioned Strong Crete is done well enough for us to gain further confidence. And that is one product on which while earlier, I don't know whether you were in those calls, many of the people on this call had known that we were charging a premium of Rs.35 on our PPC cost on Strong Crete. We've been encouraged by the market response and in fact, fairly recently that pricing premium has moved up from Rs.35 to Rs.45, because that's a product which is now established in the market, consumers know the merit of using that product and how it benefits their overall construction. So, we are beginning to get better there, but in a quarter when B2C demand total falls, the total obviously and then we have to make up for some capacity utilization using the B2B segment which otherwise we may not have looked at. So, we are not in a seller's market, let's face it, we have to live with the reality of the market.

Vaibhav Jain: Right. Sir just one last question, in your last few con calls, you had mentioned that to change the two kilns in Devapur so that it can use petcoke, it won't be viable to incur that CAPEX. Just wanted to understand the economics of that, like what is the CAPEX and what is the kind of payback period we're looking at and why it's unsustainable?

Deepak Khetrapal: I will tell you that, there is some confusion let me try and clarify it. Devapur' s advantage is, it is very close to coal mines. So, the landed cost of coal at Devapur is so low that for pet coke even from domestic market going to be transported to our plant is uncompetitive. So, that is one challenge, because challenge itself is an opportunity, when the domestic coal is available in abundance, it's the best benefit you can have. But in that sense to equip and to increase CAPEX on the kilns in Devapur to consume petcoke, when it is a more expensive fuel, how does that make sense. Only if petcoke turns out landed cheaper at Devapur then we must make the investment. So, when you are talking about CAPEX, the limitation comes in the form of grinding capacity, the coal mills that we have because coal mills have a certain capacity to grind. Petcoke comes with a different hardness and different reaction to grinding, if we want more petcoke to be used we may have to actually replace our coal mills, which is not a small investment at all. And for what purpose because petcoke is not even cheaper. So, that's the whole logic.

Moderator: Thank you. The next question is on the line of Aashav Patel from Molecule Ventures PMS. Please go ahead.

Aashav Patel: Congratulations on getting mining lease. My question is that, as you explained Devapur Brownfield may take some more time. So, can we might also meanwhile have thoughts about setting up a Greenfield capacity at Rajasthan. So, can we see a situation where in because of the fact that we already have slightly excess capacity at our Devapur clinker capacities we can sort of like exit the plan altogether of Devapur expansion and focus only on the Rajasthan new Greenfield capacity?

Deepak Khetrapal: No, I don't see the possibility of Rajasthan replacing the need for the expansion at Devapur. I don't expect that to happen. Sequentially, like I said, my wish list would be if I could do Rajasthan faster. I would anytime**.** But replacing that, we have enough limestone and the markets that our Devapur plant in Telangana serves will also have the growth and having the limestone mines with you why would you not want to use them over a period of time. So, we will not give up on that expansion, no.

Aashav Patel: So, in sense of timeline first, it would be Devapur even if, because meanwhile we will need some time to complete with the land acquisition and stuff?

Deepak Khetrapal: Yes, see it's like this. Devapur is something that we can start at our discretion anytime. As long as I'm sure that there's a grinding unit will consume it, I have no problem in starting Devapur expansion plan. In Rajasthan also, the plan is we will try and ask the government to support us in land acquisition, we will try for that how much support we are able to elicit from the state government will determine how quickly we can put up the new capacity. And that's why when the question was being asked, I did say that give me a couple of months' time in which I'll be able to assess what kind of support is available to us from the government side also, because having given us the mine they also want the mineral to be used and they want the royalties to be earned on that. In case we would try and leverage that and get some support from the Rajasthan government even in acquisition of land.

Aashav Patel: Sure, so sir if year or two down the line what happens if we are able to commence both the project simultaneously Greenfield and Brownfield capacity, won't that put some strain on our balance sheet, now that we have worked really harder to clean the balance sheet and reduce the debt substantially. So, we would sort of need to re-lever it?

Deepak Khetrapal: Look there are two ways of doing that. One is obviously sequencing the expansion plan and investment in the manner in which the current balance sheet does not come under stress that will remain the top priority, two not bring the balance sheet under stress. But if, let's say both the investments look lucrative, there are other ways of further strengthening the balance sheet, its' not that if you need so much that you only bring in debt, there's always an option for us to increase the net worth, the capital base of the company by infusion of capital. There are many ways of doing that. So, to assume that anything is impossible, I don't quite believe because always ways of addressing a problem, addressing more than a problem this is now a question of addressing an opportunity. If the option is lucrative, we would find ways and means of meeting of utilizing the opportunity without creating risk for the balance sheet.

Aashav Patel: Sure. So, with time you might see also an possibility of maybe if we don't want to take a debt anymore beyond a point then we might think of diluting some equity, but even at this very lucrative valuation the stock is trading at relative compared to the industry. So, do you think even dilution could be a viable option?

Deepak Khetrapal: Dilution will be done only if it's a viable option. You are putting the question, why would we do diluting if it's not a viable option, then we will not do it.

Aashav Patel: Sure. So, at current valuation dilution doesn't make sense right sir?

Deepak Khetrapal: Absolutely not. At the current valuation certainly not. And when we talk about dilution, let's not forget one of the ways of not creating dilution is to raise the money through rights issue. Whenever, even if the right issue goes at a lower price the existing shareholders will benefit from it. So, there are many ways to address that.

Moderator: Thank you. The next question is from the line of Rajeshkumar Ravi from HDFC Securities. Please go ahead.

Rajeshkumar Ravi: I wanted to discuss a few question which the earlier participant asked on the balance sheet because we're looking at a net worth of around 1500 crore currently. And the Devapur and Tiroda project and the WHR and all would be around 2000 crore, even if it is phased out to some extent. This new project also in Rajasthan would cost you anything between 1500 to 2000 crore depending upon the contour of the CAPEX. So, for next FY23, maybe next four years, we are looking at 4000 crore CAPEX. So, what sort of equity infusion could be factored in or rather, my question is what type of net debt to EBITDA number as a company you would be comfortable with, and that is how your CAPEX should we factor it?

Deepak Khetrapal: So, Rajesh I would reiterate what we have said earlier board mandated policy is very clear, when we want to make any CAPEX, we are not allowed to exceed debt equity of 1.5. And debt EBITDA to be contained within three.

Rajeshkumar Ravi: On a group level / on company level?

Deepak Khetrapal: At the company level yes.

Rajeshkumar Ravi: So, would that not be, either it is supported with a good amount of big infusion, if it is infusion or staggering the CAPEX beyond over next six to seven years?

Deepak Khetrapal: Yes, that's a possibility. Let me not rule out any possibility right now. That's why earlier when you was asking me questions, I did tell you that give me give me some time. So, all the answers can't be ready when the scenario in terms of, when will the investment is required is not clear right now. It will happen, what kind of timeline it will happen with that unfortunately, Rajasthan coming in, Tiroda clearances not being in hand, that's become a little uncertain and that's why I sought time from you people.

Rajeshkumar Ravi: Agree. And last question on the regional competitive intensity currently given that in Maharashtra and the nearby, Maharashtra market we have three new capacities ramped up utilizations for next 12 months, Shree Cement, Birla Corp, Dalmia, how is that shaping up the Maharashtra market and even I understand Birla Corp plant in close proximity with Telangana market whereby they can service non trade markets also to ramp up their utilization. What impact are you witnessing because of this, is it impacting for incumbents like you in terms of your volume growth or is the pricing getting constrained because of the same and by when do you see things normalizing?

Deepak Khetrapal: Well, this last part, let me answer straightaway, the things will normalize when the demand growth meets what the new capacity has come in. So, that's the ultimate, that's the basic economics. There is no getting away from that. In the meantime, in the market when any new player comes in, obviously they would try and take some market, they invested a large sum of money, and they use their own method which they find appropriate at this time to gain market share, even if they do it at a loss. A player like us who's been well established, we will remain very careful about not diluting the brand positioning of ours because in a short-term competition we start diluting a price that you've built up over a long period of time. That's a very, very long-term damage to the company. In the meantime, we are obviously struggling on both the fronts of not being able to do as much volume as we would have done if they were not there. At the same time, we would have also been able to get better pricing if they were not there which is a reality, which is all about the competitive markets. So, we are obviously having to cope with the impact of new capacities that are coming up in our neighborhood, which is which is like I said it can never be ruled out anything in life. But we are also not wanting to make sure that everything stays okay and the price completely crashes and we lose our market positioning the brand positioning. It's a very tightrope walk, very balanced walk that we have to keep doing.

Moderator: Thank you. Ladies and gentlemen, we'll be taking the last question that is from the line of Ashish Kejriwal from Centrum. Please go ahead.

Ashish Kejriwal: It's possible to provide the CAPEX guidance for FY23 and 24. And as well as you talked about the Devapur plant, but about this Tiroda plant have we ordered the machineries or Tiroda plant also will get delayed, so I need to ask by FY24 and can we see any of the plant coming in Tiroda as well as Devapur grinding unit?

Deepak Khetrapal: As I just mentioned, they might be a couple of quarters delay in that unless the clearances for the Tiroda plant do not come very, very quickly. So, there is some chance because as I mentioned, the new even it's a Greenfield grinding unit. It is subject to many approvals if they get delayed for whatever reasons, so there is no way we can start construction. And unless Tiroda grinding unit construction starts there is no point in our starting construction at Devapur, because it's related that is a related investment. So, there could be some delays as I've already indicated, I'm not saying there will be delays but there could be I'm not ruling that out.

Ashish Kejriwal: Okay. So, Tiroda plant grinding unit as well as the Devapur grinding and clinker unit, all these will be, there is a possibility of delay. So, if this is a situation, what can be our estimated CAPEX for FY23 and 24?

Deepak Khetrapal: I would not give it back to you unless I also have, how much money I will be putting at Rajasthan in the short term. So, that's why at the beginning itself, I said to assess that give me some time, I will call you back again if not earlier, at least next quarter we will give you much clearer picture on that, because we need to assess to give you a number without knowing where Rajasthan might be by FY24, it may be misleading right or premature.

Ashish Kejriwal: But sir, at least in FY23, can you give some guidance because if you have to start the process of acquiring land also something has to be put in and you will delay the process in Tiroda as well as Devapur there could be a possibility of some spillover in CAPEX which we have guided earlier?

Deepak Khetrapal: Yes. That's why I already have mentioned we had said that our CAPEX in this year might be about 800 crores, it would be smaller than that for sure as it looks right now. How much it will be would it be 500 crores, 600 crores at best perhaps, if that happens but definitely nowhere close to 800 crores.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Krupal Maniar for his closing comments.

Krupal Maniar: Thank you Seema. On behalf of ICICI Securities, we would like to thank the management of Orient Cement for providing us this opportunity to host the call. And thank all the participants for joining the call. Thank you, Seema. You may now conclude the call.

Deepak Khetrapal: Thank you, everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.