"Orient Cement Limited Q2 FY23 Earnings Conference Call"

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MANAGEMENT **MR. DEEPAK KHETRAPAL – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, ORIENT CEMENT LIMITED**

MODERATOR: **MR. HARSH MITTAL – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Orient Cement Limited Q2 FY23 and H1 FY23 Earnings 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, please signal an operator by pressing "*" then "0" on your touch tone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Harsh Mittal from ICICI Securities. Thank you, and over to you, sir.

Harsh Mittal: Thank you, Melissa. Good afternoon and a warm welcome to everyone. On behalf of ICICI Securities, we welcome you to the second quarter and first half of FY23 Earnings Call of Orient Cement Limited. On the call, we have with us Mr. Deepak Khetrapal – MD and 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 an interactive Q&A session. Thank you, and over to you, sir.

Deepak Khetrapal: Very good afternoon to everyone. And I join Harsh Mittal in extending a very warm welcome to all of you. Thank you for sparing the time, thank you for investing your time with us. And for those of you who are investing with us, even financially, thank you for investing in us and believing in us. Thank you so much.

Where do I start this call, in the sense that we all know, the kind of quarter we've had. But even then, let me at least start with some of the positive things that have happened during the Q2. And I'll obviously come to the hard numbers in a minute, I won't take too long over it. But a few good things that I certainly want to point out to people who are interested in us. One, for those of you who've seen that in social media and all, Deloitte does run a global program called Best Managed Companies all over the world, and in India, this was the second edition. And they have a very robust process through which the Best Managed Companies are actually selected. And they take us through a 4-stage evaluation cum screening process, in which we need to make detailed presentation of our strategy and communication and implementation capabilities. And innovation is another pillar, culture and commitment is one pillar, and obviously, governance and financials.

So, based on that, before we finally were selected amongst a handful of companies to have the title of Best Managed Companies. So, that's something that we are very proud of because it was a fairly tough competition and very robust evaluation process. Otherwise, all of us are aware these days, how awards are actually being given out or how they are being received. So, this one is special because it's actually come through a very, very professional evaluation process. So, that's something which I thought some of you would be interested in knowing.

The other thing, a very important thing is that we in this quarter which actually was a lean quarter, we managed to actually migrate from SAP ECC volume to SAP S/4HANA on cloud.

So, we are using Google Cloud platform to host our data. I mean we are told that we are perhaps the first cement company to have done this migration. And also, we take pride in the fact this migration, which typically is considered 6 to 9 months project, we did an insanely short-time of just 3.5 months, not about 3.5 months is what it took us from starting the work to going live. So, again, a very important step, not in terms of just how quickly we did it, but we are the first cement company who've done it. We also have done it to keep our progress on the digitalization and to become more and more a company which is driven by data and data analytics and decision making which will be largely based on the data that we have with us. So, it's not just a technical migration, it's a complete migration. And the reason to choose Google Cloud as a partner along with SAP S/4HANA is because Google Cloud has the reputation of offering the best analytics capabilities, in the way we can create data lakes and data oceans and things like that. So, we are all set and so that's I would say positive in terms of building the backbone of the company so that we managed to complete.

And the third important thing I would like to just mention, again, it's been there in social media for some of the people who might be in the markets we have launched, it's a very small launch as of now, but we actually launched a new brand. As most of you would remember, our Strong Crete as a brand is really been doing well and we are very delighted about this performance. We've actually launched another premium cement where we actually have launched in the brand name Orient Green. And why we're calling it Orient Green is simply because this cement has about 15% less carbon footprint than the industry norms. And obviously, we are positioning it as a green cement, as environmentally responsible cement. And the byline also is 'responsible cement for the responsible you'. That is you could be a house builder, you could be the contractor, you could be, let's say, a consultant or an architect. So, responsible cement for the responsible you and the brand is Orient Green. Like if you remember our Strong Crete is today priced at Rs. 45 higher than our PPC. Orient Green is priced at Rs. 23 higher because some of the customers have been telling us they're finding Rs. 45 premium to be a little too steep, that's why we are right now at where we are, I'll give you the numbers. And Orient Green is another option from our stable where we are offering something which is in the middle of our PPC cement and the Strong Crete and leaving the choice to the customer how much more they want to pay. But we are sort of strictly speaking, Orient Green has been focused on that segment of the market where people are actually becoming environmentally conscious. It's not just environmentally conscious and the simple way of how we produce the cement, it's also for example in the amount of water they need to do while curing the slabs and the casts and things like that. So, there are obviously benefits for consumers there. And the price, as I mentioned, is Rs. 23 is higher than our PPC. So, that's the other launch and initial response has been rather good. We're very happy, I think almost every day. We've currently launched it only in a few districts of north Karnataka. Largely we're sorting out the availability of bags and when you start launching a product, a lots of things need to come connected. So, we started with north Karnataka, which is as it is a little more difficult market, but it's closer to our Chitapur plant where we are producing the cement for now and we plan to roll it out. But within the north Karnataka market, our average per day, we are actually casting 3 to 4 slabs every single day from the time we've launched it. So, for a small market, for a product which is completely positioned differently, we are happy with the initial response. And we will obviously keep supporting our customers who buy this product with our technical services to actually train them how to use it well to have the full benefits of the product. So, these are, I would say the good things from the recent past that I wanted to sort of place before you.

Now coming to Q2. As I'm sure all of you have seen that, Q2 actually has been, I'm naming it as a brutal year for the industry. It's really been brutal on us. We too have had our own share of grief. And the grief has come more from the fact that we've had absolutely unprecedented rains in our catchment areas. To give you an example, and as you know, we would be selling in 300 km, 400 km around our plants. So, our mother plant, which is Devapur in Telangana, that plant, as it is, it's a very high rainfall area, about 900 millimeter is the rainfall that we receive every year. This year, we've already crossed 1550 millimeter and the rain obviously is not happening only on our plant, it's happening in the entire region there. Just to give 1 data point how heavy rainfall is, and when rainfall happens, not only does the construction slows down, it also the mining of coal slows down, the gypsum availability goes for a toss, you get fuel which is wet. The alternate fuels that we are using more and more during monsoon is very difficult to use them when they come wet. As it is, the calorific value is low. And when they come in the wet form to you, it becomes very difficult to use them. The liquid hazardous waste that we were consuming became very short supply in these 3 months of monsoon. It's been people are talking only about sales being hit, but I think equally important is the impact on the availability of various materials and the costs. So, that's been a negative for us for sure.

The overall on this, for example, for our Devapur plant, we always buy our coal from Singareni coal mines, the domestic coal. And when you're buying that coal, this particular quarter, we've seen a very strange phenomenon of rakes being not available. So, we're having to transport coal from Singareni mines to our plant using trucks by road. And obviously that adds to the freight cost, the input cost of domestic coal itself goes up not because the coal itself is that much more expensive, but also because the freight costs have gone up. So, these are the impacts of I would say the heavier than normal monsoon that we felt.

So, first, we were looking for, as I say, cover from the rains that we were getting. And I think when we had declared the results, I'm ducking more cover from our investors because obviously they are unhappy with the results. And I can assure all of you and all of the investors that we are very, very frustrated because no matter what we've tried, we still are, let's say, significantly lower, more than 70% drop in EBITDA whether on absolute terms or per term basis. At the PBT level, we actually have gone minus although it's a small loss, but frankly, having a red at the PBT level is a matter of great embarrassment to all of us. But since I don't have the luxury of hiding, being a listed company, here I am, talking to all of you and trying to explain as to what all hit us.

So, disappointing as they are, the hard numbers. Most of you have seen it, but I'll perhaps have a little more detail than the numbers that you've seen so far. Our net sales, as you've seen, are down 1% Y-o-Y, and sequentially they're down 14%, I'm talking rupees of course. The volumes in this particular quarter have been at 12.36 lakh tons, 1.24 million as many of would be quoting, which is nearly 3% down over last year. But if we remember that last year in Q2, we had sold about 24,000 tons, 25,000 ton of clinker, and this year, clinker sale was out of question because the coal supplies were so uncertain, we would never use our coal and make another cement manufacturer have our clinker at all. So, we didn't sell any clinker at all. So, we exclude that purely on cement, the drop is 1.4% over last year. And sequentially, the drop in our cement sales in volume is about 10%.

On H1 basis, on the face value, it seems that we are flat 26.37 lakh tons vis-à-vis 26.39 tons last year, but again last year had 24,000 tons. So, from that perspective whereas we will have nearly 1% growth in H1 over last year. Realization in Q2 has been somewhat better. We have realization which is 4% higher year on year. But on sequential basis is down 4%, which is like I said, not something that we have liked. But between Q1 and Q2 which is the heavy monsoon season, the drop in price perhaps was par for the course, excepting that the costs behaved very differently. So, that's where the pain is, not so much in the volumes per se, like I said, volume were being lower by 1.4%. And let's say the prices being higher than 4% year on year, it won't look so bad. But the results are bad purely because of the costs that we've had to incur to produce the cement. So, heavy rains and the slow markets all across in our markets at least, when the markets are not supportive with all the increases in costs that I'm going to narrate to you, the ability to pass on these costs to markets have not been fruitful at all and that's where the pricing has really, really hurt us or rather the costs have hurt us because we couldn't pass it on to the markets.

In the markets that we are operating especially when we talk about Telangana and especially when we talk about Karnataka, there are no mega projects. In any cement cycle, we do need the support of some large government sponsored projects in our area of operation to maintain the volumes. Now they have not happened. Despite that, the volumes that I'm quoting are where they are, which I believe are not so disappointing, although we wish they could be better.

In the in the absence of demand from south, we actually have done somewhat better. Actually, Maharashtra has supported us rather well. So, as a result, our sales in, if I look at Maharashtra and the west as a whole, they're close to 55% against the normal 50%, 51% that we have. So, Maharashtra, we've been able to sell more because demand was there. The other impact of heavy rains is that the larger project who have the infrastructure to continue construction despite rains, because they have more mechanized equipment, they have better labor camps, they have everything, they consumed a lot more of cement. And this particular quarter, our B2B sales or the non-trade sales as the industry calls it, has actually risen to 45% which was 39% in the same quarter last year, which have gone up to 45%. What that does is that basically because B2B market is a lot more I would say favored towards the customer because they're all large customers who negotiate very, very hard and almost volumes being attractive, almost every cement manufacturer tries to book that order. So, we get prices, which are challenged and also they consume more of OPC, which as you know, being unblended costs us more to make. So, the impact could cost us higher, it also takes into account the higher proportion of non-trade sales and higher proportion of OPC sales.

Another dynamic which is important to remember is as I mentioned, the markets in south have been a little soft. So, the impact has been that the capacity utilization in this quarter at our

Chitapur plant has been a lot higher than the capacity utilization at our older plants at Telangana. Now, what that does is now as I think most of you would again know, our Telangana plant uses domestic coal which we buy from Singareni coal mines. They may become a little more expensive because of the freight costs by road. But petcoke costs have been at a completely different level. And for Chitapur, even at the cost that we've incurred, Chitapur, the lowest cost fuel even today is petcoke. Because from Singareni, or elsewhere, if you transport coal all the way, the landed costs of coal at Chitapur become unaffordable. So, we've been using more of petcoke. And petcoke, as it is, has suffered the highest inflation. So, if in an overall fuel mix, one is overall clinker production mix, Chitapur's contribution for the company is a lot more than Devapur. There we use more expensive coal. So, the entire fuel mix for the company as a whole has got driven in a way where the heavy costs or high inflation in the cost of petcoke has hurt the overall power and fuel costs.

And if you actually look at now, all these dynamics, more OPC, more production at Chitapur, even then I'm sort of looking at my power and fuel costs, I'm sure you will agree although they look 61% higher than last year at Rs. 1647 per ton of cement, to my view from whatever results I have seen, they're still amongst the lowest power and fuel cost in the industry. Maybe just 1 or 2 other companies would have a slightly lower power and fuel cost Otherwise and this all the negative factors I have already counted in front of you. And this is despite the fact that Chitapur is actually more efficient plant, but it's dependent on petcoke purely because of the landed cost there.

The other element in power and fuel cost also which has hurt is that at Devapur, we did not get enough of the higher quality domestic coal and for running the production to the extent that we ran, we have to use some of our very expensive imported coal, which normally we use only as a sweetener to the domestic coal. To make sure that we keep producing and keep delivering to the markets, we also had to use some of the inventory of sweetener coal, which is a lot more expensive, imported coal being so much more expensive. We had to use more of that at Devapur also.

But the aberration, I'm calling aberration and hopefully they're just transitory that when the capacity utilization at our Devapur plant starts getting better in terms of how it used to be in the past and Chitapur sort of keeps producing well. So, all these aberrations in terms of higher OPCs than our norm, higher utilization of capacity at Chitapur compared to Devapur, hopefully, they should blow over. And we should sort of get back to normal fuel mix for the company as a whole. Just to give you, in the previous quarter when I was doing the investor call, some investor had asked me for the fuel cost on a million-calorie basis. That can give you some idea of how the costs have been. So, in Q2, pet coke for us, our consumed cost has been Rs. 2,568 per million kilocalories. Just to set the perspective, it's from Rs. 1,500 last year, is Rs. 2568, that's the pet coke cost at Chitapur, you can see the difference. The domestic coal also for various reasons, including the fact that the Indian miner also have been jacking up the price, those of you who could see the profitability of Coal India limited if you saw given the increase in their volumes and sales increased their profitability obviously mean that they have tended up their prices obviously taking advantage of the fact that international prices of coal are very, very high.

So, even domestic coal, in this quarter has been around the Rs. 1,900 per million kilocalorie from about Rs. 1330 year-on-year. In this atmosphere when the other fuels are expensive, even the alternate fuels, they nearly doubled in cost over last year because everybody saw the opportunities. And the irony is that even when you go for renewable power because coal is expensive and power is expensive, even the renewable power generators, they have increased their prices of renewable power, although they have had no cost escalation at all, but taking advantage of the higher price of other power sources, they've also increased their price. So, there's been a beating from all possible quarters.

I would say overall fuel cost actually, if you want to know, so I've given you how each of the fuels was there. But overall, for us in the last quarter, we had the fuel cost at Rs. 2,379 as the weighted average cost per million kilocalories of fuel that we've had, which is up from Rs. 1,336, I'm giving you now a blended cost after having given you the pet coke and domestic coal and those costs. And for the H1, the blended fuel cost for us is Rs. 2,358 per million kilocalories versus Rs. 1,296 of last year. That gives you some idea of inflation in the fuel costs. The saving grace quite honestly for us, has been the renewable power that we've used, which actually has reached in the overall mix that is 18% of renewable power, both at Jalgaon and at Chitapur where we're buying the renewable power at these plants. Telangana, even today makes the renewable power a lot more difficult to use, because of the State rules as you know. So, outsourcing power from elsewhere is driven by the State the way they want their grid and their power generation companies to perform.

With the waste heat recovery project at Chitapur which is under construction and which, as said earlier, we will be commissioning towards the end of the financial year. When that comes in, obviously, waste heat recovery again is more or less a renewable power because we are not burning any fuel to generate that. So, obviously, this percentage will go up even further.

We continue to be extremely efficient as we've always been, there's no gap there. And as a result of that, if you see, despite the fact I'm telling you how much is the increase in fuel costs, and this fuel cost I'm talking about it has increased both for kilns and also for our CPP. But the power and fuel cost per ton is not looking as high simply because we managed to increase renewable power, we managed to increase to the extent possible, I mean we've been handicapped a little bit by availability challenge on the alternate fuels, but even then we have used alternate fuels. And therefore the overall cost is not looking as high as perhaps the landed cost of fuel is. So, that's again, I would consider an achievement.

So, what next? I can give you all the reasons, but the fact is that I'm feeling extremely frustrated and disappointed as all of you would be with what the quarter we've had, as a result of which EBITDA is as I said from Rs. 157 crore in the quarter last year, we are down to Rs. 37 crore and per ton basis, we've come to about Rs. 300, which is again, more than 72% drop over last year. It can't be anything which is more frustrating, but we have to live through these times and hope that some of the transitory challenges will get over.

The blended realization, I've already told you, where they've been total cost per ton largely because of it. The one thing which I certainly want to highlight to you, one is the variable cost of power and fuel cost. Some of you would obviously be seeing our total costs. I'm not talking about fixed costs, looking a little bit higher than what perhaps they should have been given our track record and on that again, I'd like to just share a little more information with you, which is that when we compare our fixed costs in Q2 this year vis-a-vis Q2 of last year, there are few things which are I would say distorting the equation.

To begin with, for example, last year, in Q2, we had reversed some of the provisions, which had been made earlier for variable pay to our employees. And last year when after seeing how the year was progressing during the second quarter itself, we are seeing the signs so we had some part of the variable pay, we had actually reversed in Q2, which obviously depressed our people costs last year, which was not really a reduction and just a provisioning. In the previous quarter, we had higher than last year, this quarter they got severely depressed. So, that is nearly Rs. 4 crore is impact of reversal of provisions of variable pay last year in Q2. We had some very old cases, when I'm talking about old cases, this go back to year 2005 and before, sales tax cases on the freight costs, which were in dispute with the State government because at that time sales tax was used to be a state subject. With that many years gone, I think even government was a little bit keen and Telangana government I'm talking about, Telangana government had actually floated a one-time settlement scheme saying you pay, I think they were saying 40% of total claim and no penalties, no interest, nothing, and we'll just close all the files rather having to go through the assessments all over again, and we took advantage of that. So, these costs pertain to very, very old time. So, we have taken a hit of about Rs. 1.8 crore maybe on account of one-time settlement in the old sales tax cases, but to that extent, the balance sheet becomes more clean.

Then I mentioned to you that we also migrated to the next version of SAP and incurred all the costs, that cost itself is about Rs. 2 crore, which obviously had to be incurred when we were doing the project. And also in this quarter, we quite didn't expect the rains to be as heavy as they are. So, we had already planned out some campaigns on our brand building, which again over compared to last year, we spent about Rs. 2 crore more. So, nearly Rs. 10 crore in fixed costs are which are looking a little higher than last year same quarter, they are more a distortion rather than apple to apple comparison. So, I just thought I'll place that for you in case that provides you a little bit better insight into why the results are where they are. They could have been perhaps, if this Rs. 10 crore is not there on the, there obviously could have been Rs. 70, Rs. 80 per ton difference in costs.

Coming to the balance sheet now, obviously we have paid another Rs. 37 crore toward project debt in this quarter, total in H1 becoming Rs. 74 crore So, and we today, our let's say the project debt is now down to Rs. 236 crore and our working capital borrowings at the end of the quarter or at Rs. 172 crore, which makes it a total debt of Rs. 408 crore. This Rs. 408 crore is a debt which I would call interest bearing debt, but this also has been helped by the fact that in the quarter, we managed to receive Rs. 38 crore from Karnataka government under their industrial policy where we were supposed to get interest-free loan against the earlier VAT, and then after that it becomes state GST. So, we got Rs. 38 crore interest-free loans. So, if you add that also, then the total debt will look like Rs. 446 crore. And that debt is like I said interest-free for 10 years and after that also is payable over 4 equal yearly installments, so it's maybe a 14 year debt which is coming to us interest free. So, debt including that will be Rs. 446 crore, but the debt bearing as I said Rs. 408 crore, for those of you who would like to estimate our financing costs.

Other things we continue to do excepting one more negative in this particular quarter has been that rake shortages has been a big problem. As much as rake shortages, also the railway authorities, I think managed their shortage of rakes. They have actually been very, very, I would say unfair to the industry by increasing their demurrage charges to 400%, 500% if it crosses a certain number of hours. And when we started seeing that that was beginning to hurt us, we obviously rearranged our logistics. So, as a result of that from a 20% share of our volume that we moved using rakes last year, has actually fallen to 15% in this quarter this year. So, there's been a drop. Even in the preceding quarter, it was 19%, but this quarter it's just fallen to 15%.

The CAPEX obviously has been slow. We haven't started beyond the waste heat recovery plant and the flyash handling system, we've not started any major expansion plant, Brownfield or anything. And we didn't see the need because the demand is so low the capacity utilization is so low. And there's no urgency as far as we are concerned to start construction and increase capacity because we are still are at a fairly low capacity utilization compared to let's say what we need to have.

So, those are, I would say, other things that I keep reporting to you, we keep redefining our customer base channel this brand presence. As I said even in a poor year, poor quarter, we still invested more to create the awareness of our brand. And our ground services and delivery I think we'll keep improving them almost every day that we work.

So, that's in a nutshell the complete summary of Q2 as I see it. But I'm quite conscious of the fact that no matter how much detail I share, there will still be more questions. So, here I am. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. we have the first question from the line of Abhishek Maheshwari from Skyridge Wealth Management Proprietorship.

Abhishek Maheshwari: Sir, you have very beautifully explained about the previous quarter and its financials. Sir, could you give some feelings about H2 also, and how the Q3 is progressing because we are hearing that coal and everything is coming down price wise.

Deepak Khetrapal: So, in terms of cost prospects, it does seem that the costs are beginning to see some softening for sure. The good news that we have is that we already have gotten the ship, actually we're just offloading our pet coke. We've imported 1 shipload of about 55,000 tons of pet coke, which is beginning to now reach our plant and obviously if I told you that in Q2, our cost of pet coke was about Rs. 2,500 per million kilocalorie, this ship that we bought the cost is coming to us at under Rs. 2,300, which is still much higher than what we're traditionally used to, but that Rs. 2300 is a lot lower than what we've recently been incurring. More importantly, from the time we confirmed the order till now, the prices have moved up again. So, we had a I would say a sweet slot which was available to us towards the middle of September. We took the call to book at that time rather than waiting a further fall to happen. And now in hindsight I can tell you it seemed to be a brilliant call because we book at perhaps the lowest price of petcoke that was available and after that the prices again moved up $20, $25, $30 a ton. So, certainly that's one softening. And I'm also hoping that as this softens and I am also hearing in the last 1 week or so, the South African coal again due to lack of interest from European Union, lack of interest even let's say from China and all, is beginning to soften. If that softens, then obviously domestic miners like Singareni or Coal India will also have to because they all work in line what the global price trend is.

So, on pricing, certainly, we believe it will be softening. Our alternate fuels availability will also improve, which will again help our fuel mix towards cheaper fuel. The big question that I think all of us are still waiting for an answer to is how will the volumes be in Q3 and Q4. Unfortunately, the month of October gives no indication because we can't have an apple-to-apple comparison because last year we had one major festival which was Dussehra in the month of October and Diwali was in November. So, the hit on the business which happens around Dussehra-Diwali, was split over 2 months. Today, my view is that October over last year perhaps has been subpar for most of the industry because when 2 festivals comes and these 2 festivals actually cover all of India. Otherwise Dussehra in some parts is celebrated more, Diwali in some other part, Durga Puja in some other part. But this October, with all the festivals being in 1 month has slightly distorted the picture, but October has been subpar in terms of volumes. Although in terms of pricing, we have seen small improvement but some improvement over the Q2 prices certainly we've seen in October. In the month of November, we were hoping that the volumes will start picking up post Diwali, post Chhath puja also got over towards the end of October.

But as of now, quite frankly, we're still waiting for the kick in the demand that is overdue now to come in and the only reason it seems to be for some reason the availability of labor still seems to be, I mean earlier it used to be around Diwali, then it became Chhath Puja, this time I don't know how you people are doing, even in a city like Delhi where I'm trying to get some small repair work and some labor to be available, labor is just not there, which is perhaps holding back the growth in demand which should happen around this time. And especially, with such extensive rains in our catchment areas, it's for nothing else, there is need for cement to complete the repair works itself, which itself becomes significant demand after very high rainfall.

So, we're still waiting for the signs to appear. And again, do we have some improvement in the price over October-November again, yes, there is some improvement right now, but still too small for us to start talking about and we don't even know whether this will sustain and build up further, which it needs to, given the cost that we have. So, it's a double-edged sword. On the cost side, I'm sure there will be some will some savings, but unless we get the opportunity to sell number 1, more volumes and also sell at a better price. The relief that we are all seeking in terms of significant improvement I think is dependent on those 2 things.

Abhishek Maheshwari: And my second question is regarding your future expansions. So, balance sheet is in a very good state right now. Regarding your future expansions, do you have the land and environmental clearances already in place or is that an ordeal that you'll have to go through before getting to financial closures.

Deepak Khetrapal: I have the land and environment approval for my fourth plant at Devapur, that's completely in hand, okay. There we're only waiting for the demand to look better before I start putting up more capacity because utilization has been low. Chitapur have all the land and the environment approval process is on, but that's a simpler environment approval process, somehow it won't take too long because it's in the middle of so many other plants , it'll come through very quickly. But Devapur, we already have. In Rajasthan, we don't even have the land.

Abhishek Maheshwari: Because land acquisition has become a very difficult process for any Greenfield expansion.

Deepak Khetrapal: It is difficult but still I'm sure, we are getting our new Greenfield capacity coming up. And we have to find a way, we'll have to be smart about how we go about it, but we'll get there. Rajasthan is too lucrative an opportunity for us to pass up because of difficulties. We'll have to find a way.

Abhishek Maheshwari: And sir, third question. Sir, what kind of savings can be brought about by the WHRS in value terms?

Deepak Khetrapal: See, as I've been saying earlier also, if you take the ballpark cost of Rs. 100 crore to put up a 10 megawatt waste heat recovery plant, the payback is just about 3 years, okay. So, now you can calculate, we are actually talking about Rs. 30 odd crore of saving on power coming per year from the time we start commissioning and on a per ton basis you can calculate whatever it is but at least for Chitapur plant we know that specifically we're going to get because this power comes practically without any operating cost.

Abhishek Maheshwari: That's very good savings, sir.

Moderator: We have the next question from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.

Rajesh Kumar: I may have missed in opening remarks, but could you share what is the CAPEX timeline for by when this WHR and this Chitapur flyash unit are expected to be commissioned.

Deepak Khetrapal: I told you by the end of this financial year, both will be commissioned.

Rajesh Kumar: Both will be commissioned, okay. And sir, on the Tiroda, what is the progress?

Deepak Khetrapal: Tiroda, unfortunately, we still have not been able to make progress there because while the environment clearance application is under process, there is one document that we need which still has not come through. But the good part at least what I can share with you that all of us have been anxious and have been sharing my own anxieties that with Adani now owning both Ambuja and ACC, that is they would still want us to put up a grinding unit and compete with their own plants, but fortunately for us, they have once again reconfirmed their intent to have our grinding unit in Tiroda plant. So, it's a question of now time how quickly can we move the environmental application, but it's a bit delayed than more than what we would have liked, but it will happen. Exact timeline, the moment I have that Rajesh and the availability of the document based on which we'll move the environment application, I'll let you know. But right now, I have no line of sight even if I say 1 more quarter, 2 more quarters.

Rajesh Kumar: Agree, sir. And coming to demand and the competitive intensity, sir, with the 3 companies ramping up volumes, Birla Corp, Dalmia and Shree Cement in your markets, how is that impacting the volume for the incumbent players?

Deepak Khetrapal: Well, again, Rajesh, is the impact there? Certainly, it is there because obviously when more capacities come, every new incumbent who put up a large CAPEX in an area, they will want to do something. So, Dalmia, they have invested money. As you said, Birla Corp has invested. So, they are beginning to push volumes. The challenge that we're having is do I start matching the low prices that they are offering in the market to defend my volumes or do I defend my brand for the longer term saying, I'm not going to match their prices, I'm going to stick to my brand positioning, it's a tossup. Currently, currently our Board is saying, no, keep staying on with your branding because if you see, as I mentioned earlier, narrowing the price gap between us and the market leader because I'm not benchmarking myself with other brands excepting the market leader. If I start chasing every new competition which comes in front matching the prices, my brand strategy and positioning will go for a toss. So, currently we are suffering and that's why I mentioned that our Chitapur capacity utilization has been a lot higher than our Devapur largely because the new capacities that you are talking about are coming around the older plant, right? So, we are still sort of believing that the way we have introduced branding and the power of branding to a small manufacturer like our company is the right way for us to survive because if you remain a commodity forever with these kind of capacities, you will never, never, never be able to sort of get good. So, it's the cost of pressure. We are sticking to our prices right now, not reducing them at all. When your competition starts selling product at Rs. 20, Rs. 25 per bag lower than yours, I mean I would rather not sell.

Rajesh Kumar: It's a good strategy rather.

Deepak Khetrapal: In the short term it is cost pain, Rajesh.

Rajesh Kumar: Correct.

Deepak Khetrapal: And that patience you need to have and let's see how it all pans out, but currently you are right. And mind you, the new brands which are coming, the brands that you named and I have named, are largely retaining these B2B market with very low prices, right, so which is not a game that we at Orient Cement would want to play anymore. We've done that in the past, we don't want to do it anymore.

Rajesh Kumar: Sir, would you share what was the clinker production in 1H?

Deepak Khetrapal: I don't have the number in front of me. Can I share that separately? But like I told you, for H1 more or less at par in terms of volumes of cement. And clinker because of this adverse product mix towards the OPC, obviously clinker production perhaps would have done a little more than what the sales reflect, right, because the clinker is more in OPC. But not too big a difference between that number.

Rajesh Kumar: And sir, coming to the cost metrics, if I look at quarter on quarter on a per kilo cal, could you share how much was the cost in June quarter per kilo cal? Blended total would be more useful.

Deepak Khetrapal: I'm just trying to look some of the data, my memory is not that sharp, I'm an old man. The blended is not in front of me right now. For H1, it's Rs. 2,358, that I have.

Rajesh Kumar: And Q3, you said was how much?

Deepak Khetrapal: Q2 I had told you, the blended overall fuel cost Rs. 2,379. Last year, I gave you. Y-on-Y, I gave Rs. 1,336.

Rajesh Kumar: Q2, sorry, I couldn't get your numbers.

Deepak Khetrapal: Rs. 2,379

Rajesh Kumar: And H1 is also 2358, right?

Deepak Khetrapal: Yes.

Rajesh Kumar: So, your fuel cost is broadly stable quarter-on-quarter. Is that understanding right?

Deepak Khetrapal: Yes. I mean it's about 1% more.

Rajesh Kumar: Yes, this is okay. Given that players are reporting 10%, 20% surge in fuel cost quarter-on-quarter.

Deepak Khetrapal: But this is the cost. Don't forget that our mix has changed for me, right, because I've used more Chittapur capacity using more pet coke and more OPC has been sold than normal. Some impact will be there, but this is a very small variation but broadly you are right. I have Rs. 2,379 for Q2 and Rs. 2,358 for H1.

Rajesh Kumar: And there would be slight moderation which you are expecting for Q3 from these numbers?

Deepak Khetrapal: Yes. As I told you, the new pet coke which has just about started arriving would be under Rs. 2300 against the pet coke, only pet coke was Rs. 2,568 in Q2, which will be at least a 10% plus saving.

Rajesh Kumar: And sir, with 1.5 months almost complete, how has been the pricing in your markets, quarter-on-quarter?

Deepak Khetrapal: Again, we come back to the same questions. I said in October, we gained something over last quarter. In November also we gained some small, I mean I'm talking just a few rupees for that. So, October had a slight gain over the last quarter. November with further slight gain as of now in the first few days in the month of November also.

Rajesh Kumar: So, from quarter to-quarter, do you expect the realizations should improve?

Deepak Khetrapal: They must. Otherwise you know what kind of trouble we'll get into.

Rajesh Kumar: I agree. They are going to obviously, but so far, have you seen an improvement quarter-on-quarter, if prices were to stay where they are currently?

Deepak Khetrapal: I've just answered that to you, Rajesh. I don't know how much detail can we share on 1 call where lots of people are waiting for their questions. I have already said that there is some improvement in October over last quarter, and November, there is further improvement.

Rajesh Kumar: Versus quarter, if you have mentioned that is okay. That is what I wanted to know.

Moderator: We have the next question from the line of Uttam Kumar Srimal from Axis Securities Limited. Please go ahead.

Uttam Kumar: Sir, can you please tell me what has been our blended ratio this quarter and premium cement sales out of trade sale?

Deepak Khetrapal: In this quarter, yes, I forgot to give you the number, 15%, that is the highest ever.

Uttam Kumar: That is of premium cement.

Deepak Khetrapal: Strongcrete, only Strongcrete.

Uttam Kumar: **Only Strongcrete, a**nd what have been total, if you calculate total premium cement sale out of total trade sale?

Deepak Khetrapal: The other brand we launched very, very early in this month, it was not there last month, 15% premium sales.

Uttam Kumar: And sir, what has been our blended ratio this quarter?

Deepak Khetrapal: Oh God, how many details every time somebody will ask me a question for which I don't have a ready answer. I will get back to you. Blended ratios are a function of your OPC/PPP mix, right? If I stored more OPC, obviously my blended ratio has worsened this quarter. It's a bit simple math. That number I'm not giving you, but I gave your number that actually my OPC from about 39% year-on-year, has gone up to 45% and that number I have given you. So, OPC is unblended, right. PPC which was 61% last year is down to 55%, which has that blending. So, obviously that ratio has worsened although I don't have the numbers right now.

Uttam Kumar: And sir, what kind of CAPEX we're looking for in FY23 and FY24, because earlier you had guided for some Rs. 500 to Rs. 550 crore in FY23 and some Rs. 900 crore to Rs. 1000 crore in FY24. So, is there any change in that CAPEX amount?

Deepak Khetrapal: See, the fact that in this particular year, we have not been able to start any work at all. So, obviously, in this year, we would perhaps be spending a lot less that what we're expecting. But given the fact that we also want to be getting on with our expansion plan, it will get bunched up. So, my own guess is at least FY23, perhaps we would like to spend about Rs. 850 crore to stay on track with our growth ambition.

Uttam Kumar: In FY24?

Deepak Khetrapal: FY24.

Uttam Kumar: And sir, can you give the figure for rail and road mix?

Deepak Khetrapal: I've just given, 15% rail. I said because of all the reason of rake availability and all railways dispatch is 15% in the quarter, down from 20% in the same quarter last year.

Moderator: We have the next question from the line of Dhiral from Phillips Capital. Please go ahead.

Dhiral: Sir, for Q2, what was the fuel mix blended overall?

Deepak Khetrapal: So, for Q2, the pet coke has become as high as 58% because more capacity use at Chitapur, so that's 58%. Domestic coal has actually fallen to 28%, which used to have between 35%, 40%, that's 28% in Q2. And as I mentioned imported coal usage also has been a lot higher because of the good quality domestic coal we just couldn't lay our hands on. So, I think 5%, 6% of imported coal would be, that's rough mix, balance would be AFR all put together.

Dhiral: And sir, how many days of inventory we are holding right now?

Deepak Khetrapal: I've just said we bought shipload of coal for us. At Chitapur plant, it'll be nearly 3 months of inventory and we are holding in the sense that we received at the port, it's being shifted to our plant. At Devapur, we're keeping right now inventory between 2 to 3 weeks because the mines are close by, we pick up from there and then they go to our plant. We don't stock more than that.

Dhiral: And sir, any volume growth guidance for FY23?

Deepak Khetrapal: Your guess is as good as mine guys. So, till the markets start showing some indication. I can throw any number, but there is no basis that I have. I can only tell you my ambition that as I mentioned despite all the festivals getting over, we're still not seeing the demand traction which we expect in this time. Early November, we thought October has not been good. November should start showing some traction because all festivals are over, but we haven't seen the growth as of now. So, till we actually start seeing some strength, it's very difficult to have a guess.

Moderator: We have the next question from Bajrang Kumar Bafna from Sunidhi Securities. Please go ahead.

Bajrang Kumar: Sir, can you give us some sense on the Devapur expansion plant? When do we expect this to get completed? You indicated something about Tiroda, but can you guide something on the Devapur also, the fourth clinker line?

Deepak Khetrapal: Let me clarify, because you obviously don't have the information that earlier I've been sharing. Devapur expansion is linked to Tiroda grinding unit. Unless I have the grinding unit, I already have enough clinker at Devapur to keep feeding those markets, right? So, till Tiroda construction actually starts, starting Devapur too early would only be locking up the capital without any prospective utilizing the capacity, right? So, they are interlinked, Tiroda and Devapur are interlinked. Tiroda has to start first and then immediately because Devapur has, as I said, I have land, I have environment clearance, I have everything. I can start putting it up in 1 year's time and have the clinker ready, but if I don't have the grinding unit ready, what will I do with the clinker. So, I'm just being the same, just being practical say unless I am able to dispose of the clinker in a new grinding unit, it may not help us by putting up the line 4 in Devapur.

Bajrang Kumar: And some sense on the Rajasthan side in terms of regulatory clearances and how do we see that expansion plan goes in the future?

Deepak Khetrapal: See, I think even to start the construction there it will take about 3 years quite honestly.

Bajrang Kumar: And sir, is there a possibility that till we start the construction in the Rajasthan site, the limestone that is there with us, can we expect some sale from there, some sort of outright sale? Is it possible?

Deepak Khetrapal: I would never do that.

Moderator: We have the next question from the line of Surya Naik, an investor. Please go ahead.

Surya Naik: Sir, regarding the demand scenario, what you have painted during your opening remarks, that in your catchment area, so you see a lower demand and you are in fact, craving for more of the government projects to come in to fill up the demand what you say that is currently going on. So, in that light, just want to understand why we are so much protective of the (inaudible) into non-trade sales at least to utilize more capacity to establish the markets when the newcomers are coming into our area. So, at least to have a presence felt there because unless and until we see improvement in the utilization happening in Devapur, we will not think of setting up the grinding unit in Tiroda. So, it is a quite linking project. So, just to understand, why we are so much protective of these segments, why we are not opening it for the non-trade activity?

Deepak Khetrapal: I am selling to non-trade; my proportion already is 45% from 39% as I mentioned. Only thing is I am not wanting to sell my product as cheap as some of the manufacturers are selling. I never said I'm not doing B2B, 45% of my total volume this quarter has been B2B. So, I am selling but I am choosing my customer carefully where my prices are good, it does not hurt my brand. There are multiple things that we have to consider. Only volumes if I want to do, I will never have a long term strategy to improve from where we are. Nowhere did I say that I am not selling to B2B, I am provided the price is the price that I want.

Surya Naik: So, sir, going forward, you may say, when we will be looking for more of the government projects, then obviously we'll have to sell more of the OPC rather than PPC. So, any other specialized event. So, in that case then our composition would be to sell more of the OPC to the non-trade area rather than the trade area. So, if you say the realty sector goes for some kind of slowdown because of the interest rate scenario because already this is quite apparent. So, my sense is that now unless and until we attain a capacity utilization of at least 75% to 80% at Devapur, we will not think of expanding the Greenfield at Tiroda, that is the linking project. So, why we cannot think of?

Deepak Khetrapal: I think there is some confusion in your mind. I never said Tiroda will hold back. I said Tiroda, we will **(Inaudible) (0:56:07)** for that we will need clinker at Devapur, right? So, that's a different strategy. Strategy about not trying to sell too cheap around Devapur where some new competition are trying to gain market share in B2B segment by selling very cheap. That's where I am saying given my cost that we had, even as it is our EBITDA is barely Rs. 300, would you be happy if I sold 20% more volume in intraday loss, would you be happy with that as a shareholder? You have to answer that question and in previous few quarters, this quarter that is not visible, but previous quarter we've had some companies which sold a lot more volume and they declared a lot more, let's say, decline in EBITDA and decline in profitability. We want to sell volumes, but we don't want to buy volumes in terms of profitability. It's a slightly different approach. I think there is some confusion in your mind that which I am not able to clarify.

Surya Naik: Sir, what is the utilization level we are targeting at least for FY24? FY23 could be nearly similar to last year what I feel around 66%. So, is there any chance to increase the utilization, overall utilization of Devapur and Chitapur put together.

Deepak Khetrapal: Yes. We are very much trying, have the capacity to do that without sacrificing capacity. Please understand the strategy that we are talking about. I want to sell as much volume as possible. I would want to sell 80%, 90% of my capacity, but not at the cost of profitability. That's the differentiation I'm making.

Surya Naik: But less we utilize the kiln we'll be able to get lesser of the waste heat recovery for power, that is also there.

Deepak Khetrapal: Waste heat recovery is linked to a different investment. I need payback on that investment also. I can't invest Rs. 100 crore and reduce the cost and pass it on to my B2B customers. Then who will recover the Rs. 100 crore cost. Increase in capacity is not coming free, please understand, that requires investment. All the reduction I'll pass on to the customers, then what will the shareholders do to me.

Surya Naik: At least in the interim 1-2 year, we may sacrifice for the sake of attaining utilization level of let's say 80% or so, so that we can think of improving the situation overall economically.

Deepak Khetrapal: Yours is not a question, yours is a suggestion to me. I'll take note of the suggestion. Let me take that. That was not a question. Your suggestion I will take. Thank you.

Surya Naik: Sir, another suggestion would be sir, because we are actually going so much digital, we have gone into SAP HANA and all, so my request would be to at least give a detailed presentation after each quarterly result of highlighting all the KPIs, that would be nice, sir.

Deepak Khetrapal: How many hours do I need to spend on doing this call? If you need detailed presentation on S/4 HANA, it takes me 3 hours when I go through the presentation.

Surya Naik: I'm not linking to HANA, I'm talking of detailed presentation highlighting the KPIs of the company.

Deepak Khetrapal: I don't need to give you detailed presentation. All I can tell you is after that you won't ask for it, in this company today if I just give you some indicative KPI so that your curiosity is satisfied, I can't make a detailed presentation here. But all I can tell you is that my power consumption and tell me another company in the industry who does that, my power consumption per ton of cement is at about 63. My heat consumption is about 680. What better can we do than this.

Surya Naik: So, I'm just taking whatever in the industry the peers are doing.

Deepak Khetrapal: In the investors call, I am not going to lay out all that I do for my competitors to imitate me. I will not do it. I can give you the number and the outcome, but how I do it, I am not going to tell. There are enough competitors who attend this call. I am giving you the outcome. As a shareholder, you're entitled to know the outcome. I am telling you my power consumption, my heat consumption is amongst the absolute best in the industry. I am giving you the number, 63, 680. Try to find this too many companies would do that. How I do it is I am not going to make explanation or presentation on that, I am very clear. I do it with a huge amount of hard work and innovation and all kinds of things and suddenly to lay it out in investor call for everybody to come and listen and go and do it, why would I do it. Clear, no.

Moderator: Thank you for your response sir. Ladies and gentlemen, that was the last question and we will not close the question queue. I would like to hand it back to the management for closing comments. Thank you.

Deepak Khetrapal: Thank you, everyone. I hope I have provided enough information. I can never provide say that I am providing you all the information that all of your curiosity might have as to if I am doing S/4 HANA, how does it benefit, where did this get. Those details obviously are not fair for me to share publicly especially on these calls. But anything which enables you to assess the quality of our operations, the quality for diligence through the outcome that we're presenting to, I am more than happy. I hope I provided you all the information. In case there is something missing, do reach out to my colleague, Manish Aggarwal, who is also on this call. So, write to us and if the information can be made public, we will share that with you or put it up on or website. Is that fair? Thank you very much once again for your time.

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