"JK Cement Limited Q4 FY-22 & FY22 Conference Call"

May 23, 2022

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MODERATOR:	**MR. VAIBHAV AGARWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the JK Cement Q4 FY22 & FY22 Con-Call of hosted by PhillipCapital (India) Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vaibhav Agarwal from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Vaibhav Agarwal: Thank you, Inba. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, we welcome you to the Q4 FY22 & FY22 Call of JK Cement Limited. On the call we have us Mr. Ajay Kumar Saraogi – Deputy Managing Director and CFO, Mr. Sumnesh Khandelwal – Deputy CFO and Mr. Prashant Seth – President (Business Information & Investor Relations).

I would like to mention on behalf of JK Cement Limited and its management that certain statements that may be made or discussed on the conference call may be forward looking statements related to future developments on the current economy. These statements are subject to number of risks, uncertainties and other important factors which may cause the actual developments and the results to differ materially from the statements made. JK Cement Limited and the management of the Company assumes no obligation to publicly alter these forward-looking statements whether as a result of new information or future events or otherwise.

I will now handover the floor to the management of JK Cement for their opening remarks which will be followed by interactive Q&A. Than you and over to you, Saraogi sir.

Management: Thank you Vaibhav. Good evening. The board of directors met on 21st of May to review the working for the quarter ended 31st, March '22 and for the year ended 31st, March '22.

The major highlights for the fourth quarter:

The revenue from operations during this quarter was Rs. 2,269 crores as against Rs. 1,940 crores in Q3, an increase of 17%. The operating expenses were at Rs. 1,886 crores vis-à-vis Rs. 1,570 crores, an increase of 20%. The EBITDA during this quarter was Rs. 383 crores as against Rs. 371 crores, an increase of 3%. The other income was Rs. 41 crores as against Rs. 26 crores. The depreciation was Rs. 76 crores as against Rs. 72 crores. The finance cost was Rs. 69 crores as against Rs. 65 crores, an increase of 5% and the profit before tax an exceptional item was Rs. 279 crores as against Rs. 260 crores. The profit after tax and exceptional item was Rs. 86 crores as against Rs. 167 crores.

The EPS during the quarter was Rs. 11.15 paisa as against Rs. 21.66 paisa. The EBITDA margins during the quarter was 17.21% as against 19.49%.

(inaudible) 3.39 for the whole year during this financial year:

The revenue from operation was Rs. 7,679 crores as against Rs. 6,328 crores, an increase of 21%. The operating expenses accordingly were higher by 29% at Rs. 6,197 crores as against Rs. 4,814 crores. The EBITDA was Rs. 1,482 crores as against Rs. 1,514 crores, a drop of 2%. The other income was higher at Rs. 143 crores as against Rs. 113 crores, an increase of 26%.

The depreciation was higher for the year at Rs. 282 crores as against Rs. 245 crores. The finance cost was higher at Rs. 249 crores as against Rs. 223 crores, an increase of 12%. Profit before tax the was lower by 6% at Rs. 1,094 crores as against Rs. 1,159 crores. Profit after tax was also lower by 3% at Rs. 964 crores as against Rs. 992 crores. The EPS was Rs. 81.61 as against the Rs 78.02. The EBITDA margins during the year was 19.68% as against 24.29%.

During this fiscal the Company also made an extraordinary provision for the Fujairah plant of impairment of Rs. 130 crores which was as compared to what the impairment was also made in the previous year of Rs. 166.86 crores.

The Board of Directors also recommended to the shareholders a dividend payout of Rs. 15 per share.

The gross debt standalone as on 31st March, stood at Rs. 2,850 crores as against Rs. 2,841 crores. The consolidated gross debt was Rs. 3,434 crores as against Rs. 3,232 crores. The net debt was Rs. 2,150 crores as against Rs. 1,475 crores.

The net debt to EBITDA was 1.45 as 0.96 consolidated. The net debt-to-equity was 0.51 as against 0.40.

The work on the Panna expansion is in advanced stage and we have already, the erection work at **(Inaudible) 7.05** has started and it is expected that the plant would be on stream in this fiscal '22-23. These are the major highlights. If you have any questions please let us know. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Shravan Shah from Dolat Capital Market.

Shravan Shah: Couple of questions; first one on the some of the numbers, data points, trade share, OPC share, lead distance, road mix, fuel mix for this quarter.

Management: Trade was 68%, and the rail movement is 17%, lead distance was 457 kilometers and fuel mix were around 50% of pet coke and balance 20%-25% imported coal, balance is the alternate fuel.

Shravan Shah: And OPC share was?

Management: It was 62%, the blending ratio PPC-PAC 38% was OPC.

Shravan Shah: Post March how much pricing increase we have taken?

Management: Post March the price increase has been in the range of Rs. 25 to 35 a bag, especially in the north but not in the south.

Shravan Shah: Any further expectation of hike in remaining months of this quarter?

Management: Yes, the efforts are there but presently the demand is low and there are cost pressures and to meet that it has to be passed on to the customers but the Company will see the how the market takes shape.

Shravan Shah: The last time we said that in terms of the costing, particularly on pet coke front, so 13,000 was our costing for third quarter, so what was this quarter and we were expecting around 15% kind of increase which has not happened? So, is it fair to assume that for now the increase would be 20%-25% increase on power and fuel would be there in this quarter and when do you see the things to taper down on power and fuel particularly?

Management: Basically, like as far as pet coke is concerned the prices have gone up by 15% but because of fuel mix, in our case AFR in main coal mix has improved substantially. Because of that the overall fuel cost has not gone up to that level.

Shravan Shah: So, broadly how much we expect the petcoke prices or the power and fuel cost to increase for this quarter for Q1 FY23?

Management: This will mainly depend on how the market behave but as far as fuel is concerned like the prices as petcoke prices have already gone up by around Rs. 4000 to 5000 a ton basically if you compare to February and March. On conservative basis we can assume like at least there should be increase of 15% to 20% as far as petcoke price is concerned, average petcoke price.

Shravan Shah: For our consumption costs for fourth quarter or the overall cost or fuel cost, consumption cost was how much for fourth quarter?

Management: If I talk on average fuel mix like previously as we told its 13,078 was the petcoke price, this went up to 15,027. But overall, again 13,078 it was 8,720 average fuel mix cost was there which has gone up from 8,720 to 9,308 which roughly works out to 7% to 8%.

Shravan Shah: Last question is particularly on the UAE. As far as, if I am correct last quarter of this FY21, so 1 year before we said that when we took a write off last year, so we said now we don't expect further more write-off in UAE operation. This quarter we have taken a write-off 130 odd crores, so total in 3 years around 475 crores kind of a write-off we have taken. Couple of questions, one how much more write-off can be expected? Second how much till now we have invested in terms of the equity, preference share, loans, debtors whatever form, so how much value is still left? Is there a thing that we are looking at to sell this plant or is it possible to sell this plant? If so, what kind of value can we get?

Management: As far as the impairment is concerned and yes it was based on, we had projected that the profitability would improve and we have been able to get the top line numbers. However, the costs have increased substantially which could not be passed on to the customer and we don't see in the present scenario that at least for the next maybe about a year, it would be difficult to pass on all the cost increases. Based on that and the revised projections were made on which we felt that the valuers said that it would be fair to do further impairment, this led the true value of the investment. Therefore, the impairment of 130 crores was done. Definitely we feel that maybe going forward there should not be any requirement of impairments but it will depend upon how the market scenario remains. As far as the investment in Fujairah is concerned, the total investment is 972 crores. We have already made an impairment of 453 crores up till now. You said on selling a plant, no as per our business plan we don't feel that Company should think of divesting this plant as it would adversely affect the white-cement operations in India or so. And looking to the future of the white cement, it would be better for the Company to hold on to the plant as revise and growth in the white market and we would need to import white cement from Fujairah.

Shravan Shah: Lastly on that CAPEX, how much for FY23-24 on Panna and even the maintenance, so total CAPEX number for FY23 and '24?

Management: '23 we are expecting CAPEX of the similar number in the Panna like we have done around 1,150 crores, so similar amount. Our normal CAPEX will be to the tune of 300 crores. Besides we will have like another 150 crores of investment in the paints and maybe the other opportunities of the grinding unit, the initial expense of 100 crores. We are expecting around the 1,700 crores of CAPEX in '23. '24 will be the spillover CAPEX of Panna which will be in the range of 400 crores, CAPEX again will be 300 cores and 100 crores for the paint and then maybe if we take up the grinding unit then the expense of 250 to 300 crores on that account. In that case overall it will be 1,100 crores.

Moderator: The next question is from the line of Navin Sahadev from Edelweiss.

Navin Sahadev: On this AFR front, I just wanted to confirm, you said 50% was petcoke 20%-25% is imported coal which means almost about 25% is AFR for the quarter.

Management: Yes, this is by volume Navin, not by TSR, thermal substitution rate is around 9% but volumetric consumption is like that. You can actually take, we have used 50% petcoke and 50% coal and AFR, exact details we will not be able to share.

Navin Sahadev: I was just taking because even in calorific value terms how much could like AFR go up to is what my question was? Though you have a 2030 target but I'm trying to just understand AFR can be how much percentage in energy equivalent terms.

Management: That we have shared that, it is the 9% and our 2030 target is 35%.

Navin Sahadev: Second you mentioned there is a possibility of some grinding units we might take up next year. You just responded to the previous question. Towards that I just wanted to understand have you identified any locations in UP/MP or maybe in the Eastern region for this because grinding units typically takes much less time. We are just 6 months away probably some of the clinkers to start at Panna. Where are we on the additional grinding units that you just spoke about?

Management: We have already identified the locations in MP and UP for the proposed grinding locations. We would be concluding one MP we have already finalized the land and we shall be finalizing the land shortly in UP also. Once we do that and closer to when we are about to commission Panna, we will take up to the board and see whatever the plans for the grinding expansion.

Navin Sahadev: Is there a plan to put up go to the Eastern region also, as in Bihar kind of a location for grinding unit, is there a plan on those lines?

Management: Not immediately but definitely we are working out on our next phase of expansion in that it may come up but immediately the next we have only plans for if we talk about FY23, the current fiscal and the next fiscal we are talking about the grinding, two grinding stations.

Navin Sahadev: My last question regarding this fuel mix. You said petcoke is about 50% and imported coal is around 20%-25%. If I look at the most recent prices, imported coal seems to have shot up very significantly in excess of $350 plus. Whereas petcoke if I'm tracking the dollar rates correctly it's still stable around $250 odd. Is there a way we can increase the petcoke usage because I would like to believe it is comparatively cheaper? So, correct me if I'm wrong but if it's comparatively cheaper is there a way we can increase the petcoke usage significantly and do away with petcoke, is that kind of availability there of petcoke in the market?

Management: Again, what we have used imported coal because the procured imported coal on per 100 GCB was cheaper than petcoke. We always use fuel which is cheaper, definitely we are not going to use imported coal which is costlier than petcoke. It is not a need that we need to use so much of imported coal as a part of our fuel mix. Yes, we will be seeing that going forward it would be mainly petcoke and AFR as our fuel combination. Unless we see that there is coal available which is cheaper in terms of GCB and we can take advantage of it in cost.

Moderator: Our next question is from the line of Rajesh Ravi from HDFC Securities.

Rajesh Ravi: First question on the realization front, we see that the margins would have come off sequentially across both grey cement and the white cement business, is that understanding right versus December quarter?

Management: Yes. In this quarter yes.

Rajesh Ravi: But why would that has happened assuming that there was some price improvement which have happened and the cost inflation also was not expected to balloon versus what is the scenario in Q1? What's specific things led to this correction across both the segments?

Management: No, Rajesh if you see the price increase was in the later part of the quarter. So, we have seen the improvement is the margin. Overall if you see for the quarter as a whole, it was not there because the pressure of cost increase was higher than the increase in the prices what was witnessed this quarter. So, if you talk about the Q1, yes there has been significant price increase in the north but cost pressures are definitely there. As we said that in the petcoke pricing, we are still looking at like 50% type of increase which is likely to come up, not fully in this quarter but some part in the quarter and partly in next quarter. So, overall, yes, realization is there but actually that has meet out the cost escalations. So, it has not led to any significant improvement in the margins.

Rajesh Ravi: Are you looking at the margins improving versus Q4 to Q1 or would you expect the same to be remaining or there are further pressures?

Management: Marginal improvement is expected.

Rajesh Ravi: In both grey and white you're looking at?

Management: Yes, we talk about combined because we don't talk about grey and white.

Management: Company as a whole we should see a marginal but otherwise there's a lot of pressures. One, increase in petcoke prices, increase in other prices, the rupee devaluation. Again, we are not seeing more than a rupee devaluation is going to also have an impact on both the businesses. We import lot of chemicals and for there the freights have gone up, rupee devaluation will have its impact. So, all the input costs are going to increase and it is not possible in the current market to pass on everything. The efforts are being made to pass on the cost increases for the grey cement has seen some price increase. Also making a spurt in white cement so all that we see that marginally yes, there should be some improvement but again the volumes in Q1 would be lower than Q4. So, that will also have an impact.

Rajesh Ravi: Talking about the white business for FY22 as a whole if I look at while the volumes have improved year-on-year 11% on a standalone basis, the realization number which you shared that number has come off 2% given that there is significant cost build up which was happening since second half of the financial year. So, how do we read into this with, is it all of competitive pressure as you have said earlier, was there something else to it?

Management: Again, we have not been able to pass on everything in the white business in the previous fiscal and we would see that though efforts are being made. I think with all around we have to see how the competitors behave. But yes I think in case of white cement all the import prices are also increasing, should be actually help us in passing on at least a major portion of the cost.

Rajesh Ravi: But you are saying import prices are imported white cement prices are coming down or going up, what are you saying?

Management: It has increased. That's with import of white cement has become costlier, so that will help us in increasing the white cement pricing in India also.

Rajesh Ravi: Any number that you may have like what inflation would have gone and imported cost price how much would have they gone up by?

Management: One, 5% because of rupee devaluation and also about 5% increase in pricing, 5% to 7%. So, overall, 10%-12% is the increase of imported white cement in the country that will help us in increasing the white cement pricing in India.

Rajesh Ravi: UAE operations you are also looking to expand into the African continent, how is that playing out if any, have you seen any traction over there?

Management: African continent, yes, the demand has built up, we have seen. But the problem what we have faced is we are not able to send the material because of the high ocean freight and non-availability of the containers. Initially there were problems relating to COVID and all that but afterwards there was a good demand. But yes we could not take out that opportunity because of the problems faced in the transportation.

Rajesh Ravi: On balance sheet front on a consol basis if we look at the net debt; for this financial year we closed with around 2,800 crores net debt. We have as you mentioned 1,700 crores CAPEX this year and 1,100-1,200 crores next year. Are we looking at the debt to further expand maybe by another 1,100-1,200 crores net debt over the next 2 years?

Management: So, as far as net debt is concerned, the consolidated net debt as on 31st March is 2,150 crores.

Rajesh Ravi: No, consol.

Management: This is consol.

Rajesh Ravi: Total debt including working capital.

Management: Yes, working capital is not a debt. You cannot take a working capital…

Rajesh Ravi: No, short-term borrowing and all which is there reported in your numbers. I am factoring in those numbers together.

Management: Again short term borrowing with the increase in business will also increase to some extent.

Rajesh Ravi: I'm just looking at for a comparative purpose.

Management: I will comment on the long-term borrowing.

Rajesh Ravi: Please do comment that.

Management: Long term debt is 2,150 in the net debt long term consolidated. For the Panna expansion we have to take a loan of about 1,700 crores. We have taken 450 crores loan for Panna as on 31st March. That itself was about 2,150 crores new debt has to be taken. With this 2,150 would be a new debt. There would be a definitely a repayment of about 300 odd crores. That net debt position may increase about 1000 crores. Around 1000 crores maybe plus minus 200 crores whatever.

Rajesh Ravi: That depending upon the operating cash. Last question on that fuel cost you mentioned, could you just give the number in Q4 on a blended basis what was the cost inflation quarter-on-quarter and as we stand today first half of the quarter, what has been the cost inflation quarter-on-quarter fuel cost inflation?

Management: As Sumneshji has already answered these points I'll repeat that. The average fuel cost was in the range of Rs. 9,300 as against the Rs. 8,700 of previous quarter and we have seen increase mainly in the petcoke prices which is around Rs. 2000 per ton in this quarter as against the previous quarter.

Rajesh Ravi: So, in Q1 you have seen Rs. 2000 increase in the petcoke, so on a blended basis how much would that lead to an increase?

Management: Not in Q1, this I am telling you Q4.

Rajesh Ravi: 8,700 to 9,300 that was inflation we have seen in Q1 versus Q4 what sort of number you are looking for?

Management: We are expecting that because of the increase in the prices, the fuel cost should again go up by Rs. 100-150 per ton.

Rajesh Ravi: From 9,300 you are looking at only 9,500.

Management: No, this is 9,300, I'm talking about now per ton of cement. Rs. 150 per ton of cement.

Management: This is also on the lower side because we still have some inventory.

Rajesh Ravi: Because the spot prices are much higher.

Management: So, if you look at the present cost of procurement and replacement cost, the cost will definitely be higher by Rs. 400 to Rs. 500 a ton.

Rajesh Ravi: That may start hitting into QOQ numbers because you may be continuously build to improve your inventory?

Management: We would start in that in Q2.

Rajesh Ravi: Just last question pitching because Q2 number for most player would start reflecting in the current elevated spot prizes. Any thought on pricing given that we would be also entering into the monsoon period and where the prices do come under pressure. So, are we looking at a double whammy where you will have a significant cost inflation and realization may also come off despite subdued margin in Q4 and Q1 also not meaningful expansion?

Management: Again, effort would be to increase the price, it will depend upon the market but our efforts are today also it is not that when you give the benefit of inventory. Today we would like the pricing to be on the present replacement costs because inventory benefit is very temporary. It's not available with everyone.

Moderator: We'll take a next question from the line of Sanjay Nandi from Ratnabali Investment Private Limited.

Sanjay Nandi: Can you just highlight like what for we raising 500 crores of entities?

Management: This is only an enabling resolution which we do it every year. It's not that because we are going to the shareholders. It's only an enabling resolution in case for business you need to raise some funds, you can have an option to raise via debentures also, it is the cheaper mode. There is no plan to raise any debentures as of now.

Sanjay Nandi: What kind of inventory do we have for this quarter like from the exit of the March quarter? What kind of inventory we have the petcoke inventory as we stand from the exit of March?

Management: We would have petcoke inventory as of March of around 3 months inventory. Sanjay, do you have any other questions?

Sanjay Nandi: Can you please guide us on the cost per ton inflation like as we stand here from the exit of March quarter on overall basis?

Management: When you talk about inflation vis-à-vis March if you see the petcoke prices and other prices have increased since March. When we say petcoke March exit was around 220 or something which has gone up to 250-260. Also there has been an increase on other input costs and rupee devaluations since March is around 5%.

Moderator: The next question is from the line of Mangesh Bhadang from Nirmal Bang.

Mangesh Bhadang: Firstly, is on the white cement business, so recently India has signed a free trade agreement with UAE and I assume that because of that the import duty on white cement would be cut to nil from 10% that is it currently. I just wanted to check wouldn't imported prices of white cement actually come down by that percentage. If so, it benefits us also because we do send some material to in the southern part of the country, so overall this cut in import duty isn't beneficial for us or you think that the pricing could actually come down because of that?

Management: No, it should not come down because of that. It will have benefit because going forward the imports into India from Fujairah would also increase. Today with the growth in demand the capacity in India is almost operating at full capacity. Birla White is already operating at full capacity. We are also close to a full capacity. All the incremental demand will have to be met mainly from imports and import into India coming from UAE only.

Management: Just to add to Saraogi ji like this 10% reduction will take time, it is like basically 10 years' timeline, by this it will get reduced. For first 4 years it will like 0.5% only every year which will not be substantial, like it will be very minimal amount.

Mangesh Bhadang: Basically, you mentioned the 10% increase, so generally that should flow through margins going forward, right? On the earlier question that we had mentioned because of rupee devaluation there was rise in the white cement prices?

Management: Rupee devaluation and then is different, if rupee gets further devaluated then the imported white cement will be costlier in India.

Mangesh Bhadang: So, we will have import parity prices for white cement?

Management: Yes, that is fine.

Mangesh Bhadang: Second question is on the grey cement pricing you mentioned Rs. 25 to Rs. 30 rise from northern operation, so overall is it enough to maintain the margins at current levels, the price rise compared to the cost of inflation that we are seeing?

Management: No, we are half way through.

Mangesh Bhadang: We need some more but currently because of the demand we are not able to pass it.

Management: The total increase has to be between Rs. 50 to Rs. 60, whatever is the cost pressure, this is the increase. So, we have got Rs. 25 to Rs. 30 so we are just halfway through. We would need similar increase.

Moderator: Our next question is from the line of Ritesh Shah from Investec Capital.

Ritesh Shah: Two questions, one is any update on the paints business.

Management: On the paint business as was last approved by the board, we have with now initiated actions. The Company has been formed and we are looking for the land and we will go on as per the plan to commission the plant by March '24 and scale up the business and the investment would be made as approved by the board in the next 3 to 4 years' time.

Ritesh Shah: Anything on the dealer network. I think it's still some time away, right?

Management: No, it's not some time away, we are already working out on the dealer network for the expansion and we have already opened up many markets and within next 3 months' time, we would be in a position to mostly open up all the markets.

Ritesh Shah: The reason I asked on the dealer network is to our understanding the market leaders on the paint sides, they're actually very aggressively going after cement dealers. Does it impact our positioning or the gain which we had envisaged our placement in the marketplace?

Management: As far as, see at this point to say on the dealer network for paints, it is a bit too early. But definitely we will start on the dealer network for the paints exact maybe sometime beginning of next year because the production is likely to come by March '24. At this point of time to make a dealer, discuss with the dealer and then promise him that you will be given paint after 2 years, will not be advisable.

Ritesh Shah: My second question is on wall putty. The market leader in cement, they have bought a certain stake in RAK which we understand used to supply to a converter in India which indirectly used to supply to the paint companies. Now given the market leader in cement will have a right of first refusal on the volumes which come-in in the country by RAK. Does it improve our market positioning or how should one read into the competitive intensity given the larger paint players might find it difficult to secure putty in the marketplace?

Management: No, I didn't follow.

Ritesh Shah: My question is, the cement market leader they have bought around 30% stake in RAK, UAE. RAK used to supply to an unlisted Company in India which indirectly used to supply it to likes of Asian, Berger and Nerolac. Now I think Grasim or UltraTech basically they might have the right of first refusal on the volumes. When it comes to the competitive intensity in the space, does it improve our bargaining power in the market place given we have everything captive with us?

Management: Yes. UltraTech has got a stake and maybe going forward they would take over the entire RAK because they will do an open offer and will get the control of the management also. But as far as paint guys are concerned, they may buy from RAK. We have two sources where we can supply. Today also they are not exclusive suppliers to all the paint guys because they always sourced material from two-three sources. We have definitely it will give us more opportunity to increase our volumes.

Ritesh Shah: Is my understanding right that under putty capacity in the country, basically from a supply standpoint or sourcing of white cement, you have one particular **(Inaudible)** (43.25). They will find it difficult to source volumes and it actually give better, giving some market place?

Management: No, I didn’t follow.

Ritesh Shah: Probably I'll take it offline.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand over the conference to Mr. Vaibhav Agarwal. Over to you sir.

Vaibhav Agarwal: Thank you. On behalf of PhillipCapital (India) Private Limited I would like to thank the management of JK Cement for the call and many thanks to participants joining the call. Thank you very much sir. Inba you may now conclude the call. Thank you.

Management: Thank you Vaibhav and thank you everyone for participating and joining us today and showing interest in the Company. I on behalf of my colleagues, Sumnesh and Prashant, give hearty thanks to all of you. Thank you.

Vaibhav Agarwal: Thank you sir.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.