"JK Cement Ltd. Q2 FY23 and H1 FY23 Conference Call"

November 14, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY23 and H1 FY23 Call of JK Cement hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes.

Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. 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 Steve. Good evening, everyone. On behalf of PhillipCapital (India) Private Limited, I welcome you to the Q2 FY23 and H1 FY23 Call of JK Cement Ltd.. On the call, we have with us Mr. Ajay Kumar Saraogi – Deputy Managing Director and CFO, Mr. Sumnesh Khandelwal – Deputy CFO and Mr. Prashant Seth – President (Business Information and Investor Relations).

I would like to mention on behalf of JK Cement Ltd. and 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 Ltd. 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 hand over the floor to the management of JK Cement Ltd. for their opening remarks which will be followed by interactive Q&A. Thank you and over to Saraogi Sir.

Ajay Kumar Saraogi: Thank you Vaibhav. Good evening and welcome to Q2 results. The board of directors met on 12th of November to review the working of the results for the Quarter ended 30th September 23 and for half yearly and then September 22.

The major highlights:

The revenue from operations during this quarter was 2,152 crores as against 1,836 crores an increase of 17%. Other income was lower at 23 crores as against 48 crores. The operating expenses were higher by 22% at 1,846 crores as against 1,507 crores.

The profit before tax was 167 crores as against 249 crores. The profit after tax was 135 crores as against 169 crores a drop of 26%. The EPS was Rs. 16.16 paisa as against Rs. 21.85 paisa. The EBITDA during this quarter was 303 crores as against 359 crores in the previous year. EBITDA margins was 14.49% as against 19.95% last year.

If you look at the performance for the 6 months April to September the revenue from operations had increased by 24% at 4,308 crores as against 3,469 crores. The other income was lower at 45 crores as against 75 crores. The operating expenses was higher at 32% at 3,611 as against 2,741 crores. The EBITDA was 707 crores as against 761 crores. The profit after tax was 306 crores as against 377 crores. The EPS for the 6 months was Rs. 39.60 paisa as against 48.48. The EBITDA margins for the 6 months was 16.8% as against 22.38%.

The gross debt as at 30th September stood at 2,686 crores as against 2,850 crores as on 31st March 22 and the net debt was 1,709 crores as against 1,606 crores. The net debt-to-equity was 0.38 which was same as last year. The consolidated gross debt was 3,953 crores as against 3,434 crores and the consolidated net debt was 2,939 crores as against 2,150 crores. The board also approved increase in the cement capacities by 5.5 million tons over next two years. This was by adding grinding capacities of 5.5 million tons by revamping the grinding capacity of existing units as Mangalwar, Muddapur, Jharli and Aligarh which would result in increase of 2 million tons by setting up a Greenfield cement grinding capacity in Ujjain at Madhya Pradesh with a capacity of 1.5 million tons and also to setup a Greenfield grinding capacity in UP at Prayagraj of 2 million tons besides increasing the clinker capacity at Panna for present 8,000 TPD per day to 10,000 TPD per day. This would be at a total capital outlay of 1,161 crores at about $26 per ton.

These are the major highlights if you have any questions please let us know. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir the first question is on the pricing front on the gray realizations we are seeing close to 6.8% QoQ decline in this quarter, any specific reason why the decline seems to be slightly on the higher side versus the peers and post September how do we see the increase how much increase we have seen in our regions where we operate?

Management: So, if you look at the pricing see more the pricing in the North has been under pressure as compared to other regions. Since major of our exposure is in the North we are seeing a marginally higher dip in the realizations. As regards post September there has been some price increase in the Southern region and the Western region. However, there was no increase in the pricing in the Northern region up till October, some price increase has taken place in the North now only two, three days back and we have to see whether the prices are sustained or not.

Shravan Shah: Broadly if we want to quantify in terms of how much hike would have been?

Management: South is about Rs. 15 to Rs. 20 a bag and Western region is for Rs. 10 and so is the Northern region, but for North we have to wait and see whether we are able to sustain the price in North.

Shravan Shah: Now, our Panna would be starting so 2 MTPA we started and rest clinker and 2 MTPA will be starting by this quarter, so how do we see in terms of the volume from this 4 MTPA particularly in third and fourth quarter and the next year in terms of the ramp up?

Management: We have already planned the ramp up and as a part of the existing we had opened up the various markets which are to be served from Panna and started supplying those markets from North. So, part of the volumes North also included some sales in the North of Panna markets and we are hopeful that we would be able to ramp up this capacity over next 6 to 9 months time and initially yes we will start may be around immediately after the month or so around 15,000, 16,000 tons monthly and gradually ramp up additional volumes as we go out each month including some sale in the nontrade segment. So, gradually the volumes would pick up, we are confident about that we have already done our all-initial working with respect to the market, appointment of dealers etcetera that has been done.

Shravan Shah: And this new 5.5 MTPA we have mentioned everything in terms of the where capacities will come, but in terms of the broad deadline in terms of the starting though we are mentioning two years, but if you want to quantify by FY24, so all debottlenecking likely to be starting by next year FY24?

Management: So, the 2 million debottleneck which is at the existing plants that will get completed by March 23 itself and the new grinding unit of Ujjain that should come somewhere by March 24 and the grinding at Prayagraj sometime by the end of first quarter or the second quarter of FY25.

Shravan Shah: In terms of the CAPEX then last time we mentioned this year around 1,700 odd crore and next year 1,100 crore, so now in the second half how much in the next year and maybe in FY25 you can broadly guide in terms of the CAPEX and debt level previously we mentioned that in terms of the debt 3,300, 3,400 crore that we look at, so how do we see that?

Management: So, CAPEX this year will be now increased to 1,900 crores in next year also will be 1,400 crores looking to the investment in these grinding units and we have already done this year like around 1,000 crores in the Panna expansion plus the normal CAPEX so 1,200 crores have already been spent and as regards the borrowing we have achieved the peak borrowing level by March or say June next year and that will remain because we will take some fresh borrowings for these grinding units, but repayments will be there. So, peak level will remain at that level.

Shravan Shah: So, that number would be how much 3,500 odd crores?

Management: Yes within that.

Shravan Shah: Lastly on the data points on the fuel mix Kcal cost of the power and fuel for this quarter, lead distance, rail road mix?

Management: For the fuel mix our petcoke consumption was 50% in terms of the volume and on the Kcal basis our fuel cost has gone up by around 20% from the previous quarter.

Shravan Shah: So, this quarter it would be?

Management: This quarter it was close to Rs. 2.40 paisa and the lead distance was 477 kilometers and what else you asked.

Shravan Shah: Road rail mix?

Management: It was 19% rail.

Shravan Shah: So post this Panna once it will become fully operational so structurally can we see in terms of the lead distance can significantly can come down by let us say FY25?

Management: So, lead distance will come down once the Panna is fully operational because some of the markets this will help us we will save some markets will be set from Panna. So, we are expecting that there should be an overall reduction in the lead distance after Panna comes in and after the new grinding units even at Ujjain.

Shravan Shah: And the power and fuel cost in the third quarter can we see further marginal reduction?

Management: Very difficult to say I mean because there is some fuel saving, but again the petcoke prices are again on the increase. So, it could be some marginal variation, but we do not going to see that in the third quarter there will be any saving in terms of power and fuel because still we have a mixture of some old inventory of petcoke. So, any saving in power and fuel would only be visible in the last quarter and that too it depends on going forward there is no substantial increase in the petcoke pricing.

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

Keshav Lshoti: So, just want to understand this quarter UAE performance has improved so what has led to this performance and how should we see the UAE business going forward?

Management: There is marginal improvement in the UAE performance in this quarter and going forward we are hopeful of improved performance on account of the various initiatives that we have taken by setting up the facilities in the Africa and tapping the African market. So, because of the COVID actually all those efforts could not fructify and now we are hopeful that in the coming months those things are on track, demand is good and we are able to supply also now because in the previous quarters because of the very high container freight and all we were not able to feed the demand was there. So, this is something positive about the UAE business.

Keshav Lshoti: And what is the update on paint business, how is it going, is it running as per the plan?

Management: So, we are planning out all the activities for the paint business and by may be within this calendar year we will be able to have a definite timeframe for entering the paint business.

Keshav Lshoti: One last question from my side earlier you have guided for 10% volume growth in FY23 still it holds same guidance?

Management: Yes that we have already we have a volume growth of first 6 months in the same region and we expect that to continue.

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

Amit Murarka: Just on the capacity expansion announcement so with this 5.5 million ton expansion our capacity will increase to close to around I think 24.2 million tons whereas the clinker will be like 14.1 million tons so that implies about 1.7x cement clinker ratio and capacity whereas on volumes our ratio is I believe 1.5 to 55x, so how do we kind of reconcile this gap is there a plan to add a further clinker capacity later on as well or do you think you can reach that kind of a blending ratio in terms of volumes?

Management: No see we can reach because we have run an upgradation in the kiln capacity at Nimbahera and as a result and because of other efficiency improvements of the clinker factor has also been booked. We are presently seeing that we are not in a position to operate two of our kilns on a regular basis because we have sufficient clinker available with us and the idea to ensure that we maintain the market share we are increasing the grinding capacity as we have already sufficient clinker available and in case of Panna to meet out the additional cement grinding capacity we are increasing the clinker capacity from 8,000 tons to 10,000 tons with the kiln has that potential to go up to 10,000 tons.

Amit Murarka: No after taking all that the clinker capacity will be 14.1 million ton right?

Management: It will be close to 14.5 million tons and Amit if you see the overall because capacity the actual production remains in the range of say 85% to 90% of the capacity so that will meet our thought and as a part of our ESG initiatives we are continuously working on reducing the clinker factor also. So, we are hopeful that in the next two years' time with more split grinding units will have the better clinker factor. So, we can produce around say 22 million tons from their 22, 23.

Management: What happens actually you always keep clinker the cement grinding capacity for the optimal demand and to have an average capacity utilization of say 85% you need to operate in certain months at 100% capacity and if you do not have that capacity you will not be able to get an average of 85%. We have been operating at 85% to 88% to 89%, but that average is coming it is an average of the whole year.

Amit Murarka: Now that we are close to commission of Panna like by when you think we can achieve optimal utilization of let us say 75%, 80% of that plant?

Management: It is a Greenfield plant it will take two years because trade market we are broadly working on the trade market it takes time as it happens the first year of operations of every plant is around

50%, 55% so the first year of full operations would be in that region may be we can reach up to 60% if we are very successful, but it would be we will not give any picture that in first year and yes by end of second year the exit should definitely be close to 75%, 80%.

Amit Murarka: And in the initial period is it right to think that nontrade will play a bigger part in the ramp up phase?

Management: No, nontrade would be there, but this will not play. We are concentrating on the trade, trade is our plan, but definitely as you know even the incremental demand is coming in the nontrade segment. So, nontrade would remain, but our major portion and our major sales and as we have a target to maintain above 65% and close to 70% as trade, nontrade ratio we will try and maintain that ratio across whole company.

Moderator: Thank you. The next question is from the line of Yash Patil from Choice Equity. Please go ahead.

Yash Patil: Sir just a small question can I know the sales volume number for this quarter?

Management: Sales volume number.

Yash Patil: Yes.

Management: It is 36.44 lakhs.

Moderator: Thank you. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir, just wanted to clarify this Panna subsidiary in terms of the merging with the standalone entity so in the last time we talk about that it will be done, so just wanted to know by March this year will it be merged?

Management: In all probabilities the matter is pending before NCLT, and we have a hearing so we are pursuing it and we are hopeful that within this fiscal the merger should take place.

Shravan Shah: Second Karnataka, Muddapur 20 megawatt WHRS so that would be commissioned by when?

Management: By March 24.

Shravan Shah: And in terms of this post this on a maintenance CAPEX you mentioned the 1,900 and 1,400 crore CAPEX for this year and next year just trying to understand in terms of the FY25 number so maintenance CAPEX would be 300 crore?

Management: It would be in the range of 300 crores.

Shravan Shah: And in terms of the rupees basis fuel consumption cost last time was 10,000 per ton Kcal you mentioned 2.4, but on rupees basis what was the number for this quarter?

Management: So, it is 20%.

Shravan Shah: So, around 12,000?

Management: Yes.

Shravan Shah: So, anything you want to mention so this Panna for this quarter third and fourth quarter so it would be now in the phase of stabilization, so how do we look at in terms of the extra cost that because once it is in the stabilization mode normally we see the higher cost, so how do we see that either in terms of the absolute or per ton basis, how one should factor?

Management: So, initially yes stabilization course the first full quarter would be the January, March for Panna and yes it will have first because the plant would be operating at a lower capacity as the market seized up things get stabilized the way power plant will only commission as end of Marc or something. So, with all those means the potassium cost would definitely be higher I mean for the first quarter I mean January, March as well as even though April reduce, but even in the April, June quarter the cost should be higher as compared to what a day should normalize in the first quarter of next fiscal and thereafter we should see the cost advantage also coming from Panna.

Shravan Shah: And in white cement this time we have seen a sizable increase in terms of the realization particularly so for this number is it sustainable in the third quarter also because this time the Diwali was in October normally this time it is in November, so how do we see this number particularly on a white cement realization is it sustainable or can we see some dip in this quarter particularly?

Management: No, we should not see a major dip yes there is tough competition. We are trying to pass on the cost increase and it would be marginally lower because again September month was the best month in terms of closure to the festival that is a peak month, but we are still hopeful that broadly we should be able to compare to the second quarter.

Moderator: Thank you. The next question is from the line of Mudit Agarwal from Motilal Oswal Financial Services. Please go ahead.

Mudit Agarwal: Sir I just have a one question regarding the cash flow from operation our cash flow from operation in the standalone is around 1.46 billion while in the consolidated it is around 2.8 billion, so there is a difference of around 1.9 billion, can you throw some highlights like what is leading the later difference because in the last year during the same period the difference was not as high as compared to this year?

Management: You check the number I think the difference should be on account of the investment in the Panna which we have done from JK Cement which is to the tune of 200 crores in this quarters.

Mudit Agarwal: But that should be in the CAPEX part sir I was asking about cash flow from operations?

Management: We will check and revert to you the numbers.

Moderator: Thank you. The next question is from the line of Tejas from Citigroup. Please go ahead.

Tejas: In earlier calls you had mentioned that there are some additional marketing expenses because you are servicing the market that will be service by the Panna plants from your existing plants right now, so could you quantify how much cost benefit can come once the plant is finally commissioned?

Management: So, if you see the cost benefit will come in terms of early seating of the market why we have incurred and we have to have one finance. So, this sale of demand going forward will be under one brand only. So, whatever we have done the seating from the existing plant of the new markets that will help in early setting of the Panna plant otherwise when we have just commissioned the plants we should be able to even in trade segment in the normal month we should be able to get a volume of 40,000 tons, 50,000 tons. So, that would not have been possible if we are not seated the market.

Tejas: So, what would be the additional expense that is there on a quarterly basis on account of that right now?

Management: We can say yes may be around see marketing expenses and office total it may be around 10 crores a quarter.

Tejas: And lastly on the paints business, has there been any CAPEX that has been spent so far in this fiscal and what is the target for this entire fiscal?

Management: No major CAPEX has been done till now and we are analyzing everything and the major CAPEX and the total plan would be in the last quarter only.

Moderator: Thank you. The next question is from the line of Uttam Kumar Srimal from Axis Securities. Please go ahead.

Uttam Kumar Srimal: My question has already been answered.

Moderator: Thank you. The next question is from the line of Parth Bhavsar from Investec India. Please go ahead.

Parth Bhavsar: Sir, I had just one question that you have earlier mentioned that this 3.5 Greenfield expansion that you have announced at Ujjain and Prayagraj, so you said that it would have a sufficient clinker that you will be able to supply in the clinker unit would operate at 80%, 85% utilization, but still wanted to have some idea that at Panna we have like 2.5 million tons of clinker capacity currently which would like go and increase to 3.2 and we are announcing 3.5, so how are we going to manage the 3.5 incremental?

Management: Panna expansion is not 3.5, Panna expansion is only 2 million tons further expansion. The Ujjain grinding of 1.5 million will come from the existing plant because Ujjain is spread from Nimbahera, Mangalwar and not from Panna.

Parth Bhavsar: So, it will come from Nimbahera, Mangalwar and the UP front will be service from where?

Management: The Hamirpur will be serviced from Panna and Prayagraj also will be serviced from Panna.

Moderator: Thank you. As there are no further questions I now hand the conference back to Mr. Vaibhav Agarwal for closing comments. Over to you, Sir.

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

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