“Orient Cement Limited
Q1 FY ’25 Earnings Conference Call”
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MODERATOR: **MR. NAVEEN SAHADEO – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Orient Cement Limited Q1 FY '25 Conference Call, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Naveen Sahadeo: Thank you, Aditya. On behalf of ICICI Securities, I welcome you all to the Q1 FY'25 Earnings Call of Orient Cement. From the management we have with us MD and CEO, Shri. Desh Deepak Khetrapal ji, so without any further ado, I hand over the call to Mr. Khetrapal for his opening comments. Over to you, sir.

Deepak Khetrapal: Thank you. Thank you, Naveen, and a very, very warm welcome to all of you who joined the call right on time. We were waiting for a few more people to come, but I think it's unfair to you people who already joined in to keep you waiting any longer.

Once again, as always, extremely grateful to all of you for the time that you find and show interest in our company. In terms of highlights, I'm sure all of you have seen the numbers that we published yesterday for the quarter. What has not come in the numbers, I'll mention upfront because that's always a positive for any company, and we are extremely proud of the fact that, in the recently concluded survey that was there for great place to work, which basically where many of the top companies are participating in.

Not only have we been certified once again as a great place to work for the fifth consecutive year but year-after-year, actually our trust scores have kept moving up, and we are. right now, at a trust score of 93, which is one of the highest that gets seen anywhere. And not just that, if we look at these across sectors, we are now in the top 50 companies with trust scores like this. Top 50 for a company like cement. I mean, we're talking about the survey, which is across all industries, the entire universe of the company than industry. We're in the top 50.

Within the cement sector, we are the only one in top 100 and in the building products and cement sector, again we are number one. So, like I said, it's a reaffirmation of the kind of company and the kind of culture we built in the company and perhaps that one culture of trust. Secondly, the complete sense of ownership by our team members is what sort of keeps enabling the performance that we keep reporting to you all the time. So that's an upfront thing.

Second thing, which I really don't know whether I should be talking about it, but since I am the spokesperson, I'll also mention that similar organization, a great place to work, along with Great Managers Institute, they have a process in which they pick up a few people from their process. It's not as big a list as the great place to work survey does, but a short list in which I personally have been given the title of Most Trusted Leader for the second year running.

Last year also I had got it and this year again, I've got it. So it's more for information than anything else. It does sort of make me feel good that whatever things I end up doing, my people, they trust me, and they let me do the / set the strategy, and they just follow it without questioning it. Thank you.

Coming back to the highlights for the quarter, I think the slowdown in the cement sector is visible from the fact that DIPP data also it has come out. It has actually shown a flat growth over last year. Now, this is for the country as a whole. But in terms of nuances, if we see obviously some regions have had more growth and some actually have degrown with fairly large numbers. Although the DIPP data doesn't get us that, but we do know that the markets in Telangana, markets in Karnataka, at least in our areas of operation, have been softer markets, not just now, for many quarters now.

What’s unusual about Q1 quarter this year has been the fact that even Maharashtra, total demand, including Mumbai city, the demand is down over last year. And that's more to do with, I'll tell you what the pan-India, reason, obviously, we know, there were the national level elections for the central government. There have obviously heat wave that we saw this year in May, especially was extremely intense, which in some of the districts actually the construction work had to be stopped by the local authorities, District Collectors, because it would be inhuman for people to be able to do outdoors work and construction is outdoors work.

Come June and the kind of rains this year we had in the month of June, across all our markets, across Maharashtra, Mumbai, all of you, I think, would be aware of that. Including, I would say, markets not just in, even in regions like Vidarbha for example, this year has got really really good rains. But that means that during the time when it’s raining so heavily, the construction activity does slow down.

So all that put together, obviously, has impacted the industry in terms of the total demand in our markets there has been a huge degrowth. And the slowdown I'm sure all of us remember, the slowdown had actually started somewhere in the middle of Q4 FY24 itself. And it has got worse with the extreme heat and the general elections and the other points that I made out just now.

In some markets like Pune, for example, there was a strike by the people who get aggregates to the construction industry, mind here, absent aggregates, again you can’t carry on construction. So multiple factors that the fact is that we have struggled and one thing that I would certainly like to point out is that this quarter has really been what I will call a real test of our grits and our commitment to our strategy of actually sticking to profitable business and not chasing volume at the cost of margins and loss of value.

I mean we are here to create value for shareholders but if we start doing business which loses value for the shareholders it is something that we don't subscribe to. And we try to defend our pricing even during the time when the prices were actually low. And that obviously has come at the cost of volumes being low. So while I have mentioned in our market, the demand has gone down, but in our degrowth of 15% over last year would certainly be seen as an unduly large degrowth even in our markets.

And as you know, with 13.5 lakhs, 15% de-growth, over Q4 it is 21% degrowth simply because Q4 always is much bigger. So there is a drop there. So 15% degrowth is unusual over last year.

And we obviously, in rupees crore also there is similar degrowth. Similar degrowth as volume basically indicates that our price realizations have actually been stable.

We've seen industry results. And I think any company which operates in our markets, if you look at, they have actually lost realizations per ton on the cement they have sold. We have more or less kept it stable. There is around 1% over last year, but sequentially keeping it steady around the same levels as I think I mean major thing, which is I take pride because we play with a decided strategy and this strategy is not new.

Most of the who are regular on the calls that we address every quarter, you will know that for the past many quarters, we've been talking about our strategy to shift our brand positioning upwards and not try to sell products which are cheap. Now I mean in a difficult quarter, you start lowering your prices in an immediate reaction to the pressure then the brand positioning that, in our case, still work in process, we haven't quite got there and brand position shifting -- brand position upwards takes a number of years.

We are well on the journey, and we didn't want to derail the journey at this juncture by dropping the prices and going the same way as everybody else was going. But that is the right reason behind we not being able to keep up with the volumes of the industry, but we are happy that we managed to maintain our sales. And maintaining the sales obviously -- sorry, the price realisation enabled us that despite 15% de-growth despite fall in prices in the markets, we managed to sustain our profitability. We are roughly the same as we were last year, which I think is something which I definitely want all the investors and analysts to take note of it.

It's not an easy strategy. It is a contrarian strategy to the rest of the industry. And I would say some would call it risky, but I call it a bold strategy to say, there is another model of running cement business within the industry, which is -- most of the people are following the same track and we decided that no, we are not following that track. We set up our own strategy, we stick to, if we maintain our prices.

Volumes will come when we start getting the, let's say, orders which give us the kind of minimum threshold of contribution that, I think this is perhaps, again, I'm just drawing your attention to the fact that last many quarters, we've been saying that we give up orders unless they meet our threshold level of contribution, net of everything. And in this quarter, we found many more orders which we had to refuse, and the result is in front of you.

The key nuance here is that even when we are saying that we give up volumes in our quest for pricing. We are not being silly in doing things which can actually hurt us in long run. What I mean by that is we realize that the consumer market our trade market, if you lose the market share, it's very difficult to regain the market share because the consumer sector is brand driven.

They are loyal to brand and things like that. And if we actually don't feed them and don't retain our market share, it becomes very difficult in the B2C market back to us. So we actually then aligning our prices with the trade sales -- with the industry leaders. We're not, obviously, aligning our prices with category B brands or category C brands.

We have come in the category of category A brands, and we are aligning our prices with them and staying competitive with them. And we obviously don't want market share by going to the price level of -- maybe category C brands or B minus kind of brands.

But when it comes to B2B business, we have realized that B2B customers, actually are not loyal to the brand, they are more driven by the right quality of cement, with the price being right. So at the current stage when we realize that the market prices in B2B are very, very low, and we're not happy with the net margins that we were getting those are the orders we refuse. So, obviously, the worry about losing market share in the consumer market should not be carried in the mind.

But B2B, yes, we give up volumes and we know when the time is right, either the cost come down, or the market prices become better. You go by the competitive prices and the B2B customer always, every order, every month is based on what somebody has quoted. I just wanted to assure all of you that it’s not our policy, which is without the nuance, which is necessary to believe.

I think from the results, which are published and many -- most of the companies, any company whose exposure to the market is similar to ours. I don't think there's any one company in the industry which would have reported an increase in EBITDA per ton over last year’s same quarter. And we were at about INR650 last year, we were around INR750 this year, which is I think something that I would like to point out to all of you and take note of.

B2C, I have told you that we have retained our market share that, those we are not losing. And I still believe that adding capacity, which I think some of the industry leaders have been very aggressive about it, I'm sure I don't need to name them, all of you know. So these large players, leading players who have been adding to capacity, I think their priority today seems to be increase capacity utilization or sweat the assets that they've got.

While we see that strategy on their part to sweat the asset and sell more volume in the market, their aggression to this more volume is keeping the pricing in the markets on the lower side, more so on the demand in any case, it's not robust enough.

So the only option for people like us then is to either succumb to the pressure of very low pricing and start losing money, literally losing money, or to follow their own strategy and policy of making sure that this business being done is not being done at a loss.

That's our philosophy at our company that we are following, and I just thought I’ll highlight that to you. We would like to make money on every bag of cement that we sell rather than losing even on one bag. While the market conditions are what they are, it's the fact that many other smaller players also like us, we are all struggling with the larger volumes, which are coming in now from the newly acquired capacity by the industry leaders.

And not just that some of them who have -- now have plants, which are closer to our core markets, we're beginning to see that from far away distances, the volumes are coming into our core markets, and they are selling at prices which are lower than ours. I won't name the brands, but there are some of the leading brands that we've always known in our life in the Indian cement industry, who in the market will be selling their cement at INR10 to INR15 less than the price of Orient Cement.

That is the reality. I can take pride in the fact that we have a positioning at which even at our prices we still sell -- but the strategy of some really premium brand historically selling at way down our own pricing is something that is a matter of concern for us certainly, but also shows how the situation of the market is.

Till date we have accepted the pain of lower volumes while defending our pricing and profitability. For us most important is also, as I mentioned, the brand positioning at what price are you available in the market, and that we don't want to disturb. As I said, that will dislocate or derail our long-term strategy, but at the same time I would like to also assure all of you that we are monitoring the market dynamics very, very closely and we will ensure, as any responsible management has to do, that in this process we don't create lasting risks for the company in terms of market presence that we'll maintain. Again, we keep talking about premiumization and keep talking about repositioning our brand. The fact of the matter is that despite whatever challenges we've had in the market in terms of overall demand, the growth that we are seeing in our premium products is once again an evidence that the products that we've created and what we've launched in the market at a fairly significant premium.

I think our premium in the market is the highest on our premium brands. Despite that price gap over our normal cement, which itself is a very good quality, in Q1 of this year the overall proportion of our premium cements put together has reached 23% and we are very close from the beginning when we started, our target initially was 10%, then we said we want to go to 25%, and 23% has already been achieved. I'm quite sure by the time we end this year we would hit the target 25% and we'll revise it upwards. Naveen Sahadeo is on the call right now.

I'd just like to remind him, when we were launching our first premium brand in 2018, Naveen's question to me was, what's your ambition for this premium cement? Because obviously premium cement at that time was something quite not expected in the cement industry. I don't know whether Naveen would recall, my promise to him was, my goal rather would be that Orient Cement actually should be selling only strongcrete and nothing else. Do you remember that, Naveen?

Naveen Sahadeo: I do.

Deepak Khetrapal: So, we are well on track. Let's see how long it takes us, but we are in that direction. We should be selling only premium cement. So we are not deviating from that strategy. It's not a new strategy. I'm not saying it because we've lost volume in this particular quarter. I'm saying it, I said it about six years ago, and that kind of a strategy needs execution, which is unwavering.

And we are glad that we are doing that, and we keep making progress quarter after quarter. Now coming to a little more detail that all of you are always interested in. In this Q1, our overall sales break up is like this. In the West, we have sold 68% of our Q1 volumes. And in South, it's been 24%. Obviously, West is even higher than what it was earlier.

The degrowth obviously is largest in our Southern markets, which is basically Telangana and Karnataka, where we sell most of our cement in South India, which is in fairly strong double digits, whereas Maharashtra also in terms of total, our sales to Maharashtra are although at 68% as a proportion of our total sales, but in which the degrowth in Maharashtra for us is 5.5% over last years, compared to high double digits in Telangana and Karnataka.

B2B sales in Q are sort of, in a way, slightly higher because the consumer markets in any case are at a very, very low level. And the OPC as a percentage of our total unblended cement continues to be between 45%-47% in that range. I think the last investors call, I had updated on that.

It was very early in May. I said that on 29th of April, the second phase of our waste heat recovery, the balance phase, also had been commissioned. And so, I'm happy to now report that with the waste heat recovery, which became fully operational and available to us in the two months, which is month of May and June, and the solar power that we've been receiving, our total, I would say, green power component in Q1 has reached a high of 24%, which is ever highest for us, which is a good position to be in.

The benefits from waste heat recovery in Q1 itself, despite the fact that part of it was available only for two months, and also the production was not, because waste heat recovery actually gives you a lot more benefit when you're running the plant full steam, you know, all the time, which obviously with low demand has not been possible. And we've had to take, shutdown in kilns also, but despite that, in the first quarter, the gain from waste heat recovery is close to INR9 crores.

And the, as I, solar has given us a net benefit of over INR2.5 crores. So, these are the benefits of going green at the same time, bringing value to shareholders. Our plans for expansion of solar powers, which we have taken the approval from shareholders some time back, at Jalgaon plant out of the 3.7 megawatts that we proposed, 3.4 is already operational, some small bit is left, which should get operational any day now.

The Chittapur thing that we were actually putting up about 17 megawatts, that unfortunately has been delayed a little bit for us, and that will come into operation, I think, maybe, I don't know, five to six weeks' time, by mid-September, we expect the solar at Chittapur also to start contributing. So once Chittapur also comes in and waste heat recovery, I think the proportion of green power that we're using will go up even higher. So that's the breakup on how we are doing power.

In Q1, the power and fuel costs for us are down to the INR1,337 per metric ton of cement, which is down from INR1,571 in Q1 of last year. So obviously, there's a significant drop. And sequentially, again, there's a little bit of gain there. In Q4 of last year, we were at INR1,351, which is now down to INR1,337, as I mentioned. And this, let me remind you, INR1,337 is despite the fact that we are doing in the high 40s as a percentage, OPC grinding, which takes a lot more power. Our product mix right now is adverse because the OPC sales are much higher than what we would like to happen.

The blended fuel cost for us has been in this quarter INR1,785 per million calories. And some people want to call it 1.785 per calorie, but we typically have been quoting a million kilo calories. So INR1,785, which last year in the same quarter was INR2,100. But on quarter-to-quarter, as we said sequentially, it's almost flat, the blended cost per ton of fuel. The fuel mix, all of you remain curious about, I get in questions later, so I will call out right now, its domestic coal is 40%, pet coke 42%, alternative fuels are 18%. Yes, so that's the mix that we have.

The fuel mix in TSR terms if you want to take it, the pet coal gives us a lot more of the calorific value per ton. So then it has become 31% coal and 56% pet coke in terms of calorific value consumed. But in terms of weightage as most of the industry reports, we are 40 and 42 with calorific -- if we go as per calorific value, 31% coal and 56% pet coke.

In terms of the total renewable power, I've already mentioned it's already 24%, and which was last year same quarter was about 12%. I've already updated you about the more solar power that will come in soon. A very small part left at Jalgaon, balance at Chittapur will come in September. That will be a very small part in this quarter, but thereafter it will start becoming available.

For us, the alternative fuels in this particular quarter have been slightly lower at 13% on TSR basis, which last quarter was 16%. But if we compare ourselves with last year, we were at 5% only. So from 5% to 13% is a huge jump and we keep increasing our efforts to maximize usage of alternative fuels.

So as I mentioned to you, the benefit that we have achieved from that has been very, very significant, as high as -- I'll come back to you, but there has been obviously more than double of what we consumed as alternative fuels over last year.

In terms of other metrics, in this particular quarter, overall heat and power has been similar, but some marginal increase in grinding power, simply because when the machines or mills are not running full and because of low volumes, there are lots of stops and starts which become due to some inefficiency. Some slight increase in the power total consumption to 62.7, which was sequentially up to 61.7. So lower volumes can thus give us more inefficiency. But in terms of heat consumption, we are marginally lower.

Like there's a marginal increase there. Heat consumption for the company as a whole has been 689 in Q1. Further breakup issue, people need power costs for us in this particular quarter has been at INR397 per ton of cement vis-à-vis Q4 that is sequentially the INR401. But if you look at last year, it was INR456 and below. It's down to INR397. Almost INR60 drop, largely coming in from the waste heat recovery that we installed at Chittapur.

Fuel cost per ton is -- I've given you the purchase price, current value, but I'm talking in terms of rupees per ton of cement. The fuel cost is down to INR939 from INR1,113 last year and INR950 in the preceding quarter.

So in all this, as you would see, in terms of efficiencies, we keep sustaining. In terms of promised renewal power and green power, we are doing our job. Alternative fuels, I've already mentioned, we doubled over last year. Our premium brand strategy seems to be panning out quite well. And we continue to follow our strategy of not trying to downgrade our brand in the markets.

That leaves me, I think, with some updates on the projects before I open to questions. Our project now -- last time I had mentioned that we were struggling with the application to be moved for environment clearance for our Chittapur plant, which has been overdue. The fact of the matter is, till the central elections, general elections got over, the new government got formed, somehow the minutes of the public hearings that we had already conducted, they were not finalized, but after that they have come in.

And based on all the paperwork, our applications for environment clearance for expansion of capacity there, and also for expansion of mining, both of them are already on the portal of Ministry of Environment for us. There are some delays here because, obviously, central government got formed recently, ministries and there's a lot of shuffle of bureaucracy that has happened.

We are still expecting that, hopefully, in the meeting that they will hold perhaps towards the end of August, our applications would be coming up before the committee for presentation. And all the paperwork has been done. So it's a question of now going through the process of presentations to the committees in Delhi, to Ministry of Environment & Forest, and thereafter a few more weeks before we get the approvals, which will enable us to then start taking further action for implementation of the project. So there is a progress there.

For Sarni, we are told that the one term which we wanted altered, we understand informally that the Board has agreed to our request, but we have received no formal intimation as yet. Only after the formal intimation is received by us, we'll make the necessary disclosures to the authorities. But right now, progress is there. It's looking promising.

But we'll wait till we get an official letter from the Madhya Pradesh Power Generation Corporation confirming that the terms are acceptable to them. So again, not too long, because the Board meeting got over about two weeks ago. So very soon the minutes should be out, and thereafter we should get a formal letter.

On the forest clearance for Devapur mines, again, all the process is over, the file has finally reached the Minister of Forest in Telangana government. So that Minister has to just now sign the file and send it across to Delhi to MoEF for evaluation by the central government of all the forest conservation measures and all that we put together. And that, again, is a very advanced stage of clearance now, because once it moves from Telangana government, like I said, the rest of the government is in process. It's with the Minister for her to forward it to Delhi.

So only thereafter we'll talk about the things. As I said earlier, the priorities remain Chittapur capacity expansion, because we keep seeing more and more demand coming from that. And also to improve the situation for capacity utilization of existing kilns itself, existing capacity of Clinker.

Sarni would be the next priority. There's no change in that priority. And in terms of capex, I think seeing that we're already in the month of August, and even if we take three, four months before we can start doing some activity, the capex that I keep promising to seem to be sort of something which keeps getting pushed back.

And I personally don't think there'll be too much of capex outflow on the projects at Chittapur. I mean, it could be just a couple of hundred crores or something when we start giving advances to people to mobilize and things like that. But the real investments will perhaps, most of them will come in the next year, because in the current year we certainly will start construction activity.

And similar thing I would think, Sarni also will take about six months for the grinding unit for us to start some activity. So the capex fund, I think we'll have a lot of cash with us by the time we start the heavy loading investment. But in the meantime, in any case, we are beginning to touch base with some banks to see whatever money we need to borrow to complete these two projects at a total cost, as we keep talking about nearly INR2,000 crores between Chittapur expansion and Sarni.

So we are ready now, but the delays in environment clearance have been delaying our project execution schedules, but unfortunately couldn't help it. And in the meantime, the demand has also not been that great, that we missed a lot by not being able to add more capacity. So that, to my mind, are all the updates that I wanted to share.

And I'll open the forum for questions, and we'll be happy to answer. Thank you very much, guys. Thank you for your patience.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Keshav from HDFC Securities. Please go ahead.

Keshav: Hi. Thank you for the opportunity. Sir, just want to understand Chittapur and MP expansion, which was earlier expected in H2 FY '26, now in all likelihood that will flip to FY '27, that is the right perfect understanding?

Deepak Khetrapal: Okay. It could be early FY'27 but I'm not able to say because I still don't have the clearance -- all the clearances aren't in hand. A big bit of uncertainty possibly. It is probable that, I know Chittapur certainly little bit is a the clinkerization and grinding all put together, Sarni is a simpler place because it is already in the inside the premises of power generation and the grinding it should normally take less time than a full integrated capacity. But yes, your anxiety perhaps is well placed because I still don't have all the clearances that I need to start construction activity.

Keshav: Understood. Got it. For few operating metrics number like trade share and lead distance for this quarter?

Deepak Khetrapal: Our lead distance as we keep saying is slightly marginally higher still, we continue to be in the range of 300 to 310, 320. We have not violated that at all. So there is not much difference in terms of the distance travelled and in terms of freight cost also, we are more or less straight, over the previous quarter. The question was sorry just repeat there one thing that you had mentioned.

Keshav: Trade share.

Deepak Khetrapal: Trade share for us -- I did mention that B2B sales is perhaps 56% and balance 44% would be Trade, yes.

Keshav: Okay. Understood. One last question from my side. I want to understand how is the demand now shaping up in Telangana market, which has been pretty weak. So we are seeing high double-digit degrowth. Any signs of pickup or when will it happen?

Deepak Khetrapal: Well, during the monsoons in any case the demand is further lower, I mean the fact of the matter is, what we've seen of this quarter so far, the demand actually continues to be very soft all across, not just in Telangana. But Telangana is a market, we still have to see real signs of demand picking up because of the necessary support and the atmosphere that needs to be there, for people to start doing more investments and thereby increasing the demand. As of now, signals are still to emerge. So continue to remain worried about Telangana demand.

Keshav: Understood. Got it. So what sort of volume growth you are guiding for this year? Earlier you were guiding 8% but that doesn't look now achievable. So what is the...

Deepak Khetrapal: If you permit me -- I think let me go through a bit more. We already had 15% degrowth in Q1, right?

Keshav: Right.

Deepak Khetrapal: Q2, as of now, I think we'll struggle to make the same as last year. So if the first half of the year does not give us the required growth, obviously, the full year forecast needs to be relooked at. I'm going to wait till the monsoon gets over because the advantage with, on a heavy monsoon, the intense monsoon the kind we are having right now is that post monsoon, the demand picks up very sharply. Now that is the normal trend that we've seen in the past.

The two things happen. One, there's a lot of pent-up construction which did not happen because there were intense rains, one is that. Secondly, the extensive rains also caused a lot of damage to infrastructure and housing. So a lot of demand comes from the repairs work itself, right? So while we would expect given the past trends, demand to pick up in the second half, but I'll perhaps hold my work up for now and see how the markets behave by the time the monsoon is ending. So next time, I can give a better idea right now is whatever I throw it'll be like a dart throwing on the board. There's no data that I have to base on to say, I'll go by this much in this year.

Moderator: Thank you. Our next question is from the line of Sumangal from Kotak Securities. Please go ahead.

Sumangal: Yes. Good afternoon, sir. Thank you for the chance. My first question is on this quarter's performance. Now in the opening remarks, we compared with the last year same quarter, but just wanting to know if that is appropriate because if memory serves us right, last year, we had something around INR25 crores, INR24 crores of impact because of extended shutdown at Chittapur. So that is around INR150 on a per ton basis…

Deepak Khetrapal: No, no. INR25 crores is never a cost of shutdown. Shutdown cost only around between INR8 crores and INR10 crores. Never INR25 crores.

Sumangal: Okay. But there were some adverse logistics and fuel mix because of the shutdown. So overall, I think the impact was around INR24 crores if our notes are correct?

Deepak Khetrapal: Sorry that is your calculation. I'm not privy to that.

Sumangal: Okay. But was there any shutdown in any sort of maintenance related activity this quarter?

Deepak Khetrapal: See some small maintenance activities have happened at both the plants, but not a full plant shutdown yet. But it's not that there is zero maintenance cost on when you're running the plants.

Sumangal: Okay. Okay. Understood. Sir, with respect to our mining lease in Rajasthan, has there been any start of land acquisition happening there? If you could just share some update on that?

Deepak Khetrapal: No, we have still -- we are in negotiations, but we've not closed any deals for the land in Rajasthan. Not till now.

Sumangal: Understood. And sir from the – as far as 2Q is concerned, is it possible to share how was -- how is the price environment currently in July? And I mean, year-on-year or should we continue to see volume decline given the adverse weather or we should now come back to growth from 2Q onwards?

Deepak Khetrapal: As I mentioned in – while answering the previous question, I did say that during monsoon, we have actually seen July also has been soft, very, very soft, both in terms of volumes and in pricing. August first five days same thing is continuing. I think today I was hearing from some of our markets that the rains are not there after many days because it's rained every single day, at times very sharp, at times not so sharp. But in our market, the rains has been persistent.

We obviously and I did mention that while monsoons always present a struggle in terms of volumes, and I have just said, in case you heard the previous answer, that we are struggling during the monsoon period and will perhaps struggle to meet what we did last year in this particular quarter. But the expectation is post monsoon, the demand has – post good monsoon demand has always been far stronger. I did say that just two minutes back. So I would repeat that again for you.

We do expect the demand to rise sharply once the rains stop, because the construction activity has been held up. There's a lot of pent-up, catch-up work that needs to be done, and there will be a lot of repair work necessary, which has been caused by the extensive and very heavy rains to roads and to bridges. So the repair work itself creates, generates its own demand for cement.

Sumangal: Understood. Sir, is it possible to quantify the pricing, how soft it is on a sequential basis in July?

Deepak Khetrapal: I would say it is in the region 2.5%, 3% in July over the previous quarter.

Sumangal: Understood. That's very helpful, sir. Thank you. And all the best.

Deepak Khetrapal: Thank you.

Moderator: Thank you. Our next question is from the line of Rajesh Kumar Ravi from HDFC Securities. Please go ahead.

Rajesh Kumar Ravi: Thanks, sir. Sir, my question pertains to, first on the expansion program. You mentioned that the clearances and all is delayed for Chittapur. So for FY '25 versus INR1,000 crores capex, which we had guided earlier. What are the probable capex, which will happen in FY 2025?

Deepak Khetrapal: Again, the first question sorry I just say a couple of maybe INR200 crores to INR300 crores not more than that. I don't …

Rajesh Kumar Ravi: So in that, you mentioned INR100 crores odd would go towards Chittapur and this MP what sort of capex you are building in the same?

Deepak Khetrapal: In FY 2025, I don't think that Sarni would be more than INR25 crores, INR30 crores not more than that.

Rajesh Ravi: Only INR25 crores. In Rajasthan nothing expected?

Deepak Khetrapal: Rajasthan, it all depends on the land -- but that we will parallelly we will keep trying and, in this year, as we had said. So land deals when they start, they can happen very quickly. So I'll still say maybe INR100 crores for Rajasthan, I am keeping with me, and we may invest in Rajasthan for the acquisition of land quickly.

Rajesh Ravi: And, similarly for Devapur you are not expecting anything to happen this year?

Deepak Khetrapal: No. Devapur, the moment stage one -- forest one clearance comes in that's about INR130 crores, INR140 crores that I -- in fact, I talked about more. I talked about typically in the INR150 crores thereabouts that we will have to pay to the government to finally get the stage 1 clearance converted into stage 2 clearance. That has to happen in this particular year. So it's very, very critical for us.

Rajesh Ravi: So that is around INR125 crores, you are building for this year?

Deepak Khetrapal: You can take INR150 crores.

Rajesh Ravi: INR150 crores. And if I look at just your brownfield expansion potentials at both the Devapur and Chittapur, what are the peak capacity potential at both these locations even if you do it gradually?

Deepak Khetrapal: No. As I mentioned, the plan is to put up another three-million-ton cement capacity at Chittapur. Same to what we have today, we would like to double that straight away, three to six. Devapur is divided in two parts. One is the Clinkerization at Devapur and second is the grinding capacity. So because at Chittapur we do entire grinding on site branding but at Devapur we are going to be putting up this two million tons grinding unit in Madhya Pradesh where we speak, Sarni is the name of the location we are going to be putting up. And to that extent, Devapur will do clinker expansion and only 1 million tons of additional grinding. That's the configuration.

And I would rather do Sarni first so that my existing utilization of clinker at Devapur right now is a little low. So, my hurry would be to go to a new market using Sarni as a grinding unit and increase my capacity utilization of the kiln at Devapur and parallelly, once that grinding unit starts functioning then come back to Devapur to do the clinker addition.

Rajesh Ravi: Correct. And the project cost, which you had earlier enumerated INR2,000 crores for MP and Chittapur combined will that remain or?

Deepak Khetrapal: MP and Devapur.

Rajesh Ravi: MP and Devapur. Sorry. MP and Devapur together is INR2,000 you are saying?

Deepak Khetrapal: No. I think that will be slightly higher than 2,000 because we did talk about Devapur putting a waste heat recovery plant also. We have to put up a wagon tippler, some of the infrastructure that Chittapur has adequate infrastructure, but Devapur will need more. But Devapur will come later. Right now, let's focus on Chittapur was INR1,500 crores and 500 for Sarni. So, then in terms of project, they are two different projects, the total capex will be about 2,000. So, when you were saying, I got a little confused because Chittapur and Sarni are not connected. But if for arithmetical addition, it will become INR2,000 crores between the two of them.

Rajesh Ravi: Okay. Devapur any number for the program that your clinker additional 2-million-ton clinker and 1-million-ton grinding, waste heat, and the tippler system that you're trying to ballpark, what sort of capex would be required?

Deepak Khetrapal: I think by the time we complete it, it'll be more like INR1,700 crores, INR1,800 crores. It'll become.

Rajesh Ravi: Okay. Great sir. I will come back in queue. Thank you.

Deepak Khetrapal: Thank you.

Moderator: Thank you. Our next question is from the line of Naveen from ICICI Securities. Please go-ahead sir.

Naveen: Yes. Thanks for the opportunity. Sir, couple of questions so first is on prices and I know that you never give the guidance on prices you said. You always maintain that stand. But since consolidation the likes that we are seeing in South, do you think there's enough consolidation that has already there to hope that prices should improve? Or in your view, what could be that one trigger, so to say or one event that can lead to an improvement in pricing scenario at a broader industry level?

Deepak Khetrapal: Naveen that's a very tricky question for me to answer because people who are doing the consolidation for, just have their strategy known to only themselves -- how do I answer that? I mean, look end of the day pricing in an industry where capacity utilization, pan-India still remains, struggles to get to even 70% on pan-India basis.

The only way prices become stable is when people accept the fact that trying to sell to the market more volume at a lower price does not help anyone. It does not help that company. It does not help the rest of the industry also.

Now, that's rational thinking. But when the business decisions start getting driven more by not so much by immediate profits but either a longer-term strategy of saying, I will win but in the short term I don't mind losing. As long as that approach remains it's very difficult to sort of in a way for somebody who's on the sidelines like me to comment on which will be that event in which people will regain the priority for profitability being the topmost priority.

And here, the worry is the industry leaders, and we know there are two large groups both of them are right now in the mode to acquire more and add to the capacity, even organically, I think they're building more capacity, right?

And when they build more capacity, if they decide to prioritize their volumes push higher, prices will always be under the threat, that's the fact. So, in this aggression on adding to capacity, both through acquisition and through organic construction and also to utilize all the capacity, when the industry is not growing at that pace would always be detrimental to pricing. That's what our learning is. A particular trigger, it's difficult to say what the trigger would be just the normal business sense is that if we're adding capital, see what many adding capacity, what are we doing, we are investing more capital of the shareholders.

If we say we are not so keen on improving the return on the capital, we are more interested in getting the market share and getting the volumes in. Then you're chasing a different target compared to what the shareholders would want. Shareholders want their investment to be profitable and accretion to their wealth, right? That’s the theory of business, which I have learnt and as far as I have seen that’s the only thing that finally works in the long-term.

But there are periods in the industry, in any industry or in the market where these things have given a go by in pursuit of some other business strategies, which may be rational from that company's perspective, I am nobody to criticize that because they're investors in their company. If they decide it’s ok for us to reduce the return on capital that I am employing, their strategy, then nothing that anybody can say about it. So in that battle between investing more capital and reducing costs, return on capital employed. So that is the strategy it can come only come by a loss to the entire industry, not to just one company.

Naveen: Understood. Sir, my second question then was about the -- like a strategy stance for Orient. And as you already mentioned that there are three sites that like our capex is being going to be pursued. First is, of course, Chittapur and simultaneously then Devapur and some -- along with the land acquisition and maybe a project is in sight in Rajasthan as well.

So from a strategy perspective, since these are like big-ticket capex planned, is there somewhere a thought that we can -- because there are companies who have done that, that we can monetize the limestone lease in the Rajasthan belt, which is not our core market as of now and gain or rather strengthen our market presence like we are doing like prioritizing Chittapur and then Devapur. So, is there a thought process that we can look to monetize the limestone in Rajasthan?

Deepak Khetrapal: Naveen I can only talk about the strategy as approved by the Board, which I think at a particular time, everybody was very, very concerned that we must try and diversify our market because we are too much in South and in Maharashtra. We should be -- and Rajasthan, is our only opportunity available to us at -- I would say, at no cost of having to acquire limestone mines in another market because today, these days, mines come through auctions, and they put additional costs on you. Rajasthan is our best opportunity to actually diversify our markets at costs which are not crazy. I don't think our Board is even considering the possibility of monetizing the Rajasthan mines, no.

Naveen: Understood, and sir, my last question is for the Devapur location, can you please remind if the limestone that we get there, the royalty is standard at par to the industry rate, or is it linked to some IBM-related formula now or for the expansion that we are looking at?

Deepak Khetrapal: No, Devapur mines are the same royalty as, royalty everywhere is the same, which is fixed by the central government and that's levied on the minerals. If, let's say, the new Supreme Court ruling, which has come recently, which has given powers to state government to levy more taxes, that will create, I think, state-to-state variation that might have a potential, depending on where the state wants to levy more taxes. But I'm telling you the situation as it pertains today. It is same INR80 per ton royalty on limestone mining that everybody pays in India, including us.

Naveen: Understood. That's really very, very helpful, sir. Thank you so much for responding.

Deepak Khetrapal: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Deepak Khetrapal: Thank you. I always sort of end by just thanking all of you to patiently hear me out at the start and ask me questions, which enable me to clarify your situations further. Thank you for keeping faith in us. I know we are playing with a contrarian strategy to the rest of the industry. And what we can promise to you is that every decision that we take, we are accountable to all of you.

We'll come back and keep explaining to you how we are doing it, why we are doing it. But the goal all the time is to make sure the long term of this company is being protected through whatever actions that we can take as management of this company. Thank you for support and trust in us. Grateful to you. Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.