JK LAKSHMI CEMENT Ltd.

JKLC:SECTL:SE:23
5th September 2023

1 **BSE Ltd.**
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001
Security Code No. 500380
Through: BSE Listing Centre

2 **National Stock Exchange of India Ltd.**
"Exchange Plaza"
Bandra - Kurla Complex
Bandra (East)
Mumbai – 400 051
Symbol: JKLAKSHMI, Series: EQ
Through: NEAPS

Dear Sir/ Madam,

Re: Conference Call organized by PhillipCapital (India) Pvt. Ltd. on 4th September 2023 at 4:00 P.M. IST

In continuation of our letters dated 30th August 2023 and 04th September 2023 on the above subject, attached herewith the transcript/minutes of the aforesaid conference call. This is for your information and record.

Thanking you and assuring you our best co-operation at all times.

Yours faithfully,
For **JK Lakshmi Cement Limited**

AMIT CHAURASIA
Digitally signed by AMIT CHAURASIA
Date: 2023.09.05 16:39:33 +05'30'

(Amit Chaurasia)
Company Secretary

"JK Lakshmi Cement Limited
Conference Call to Discuss the Outcome of E-Voting"
September 04, 2023

MANAGEMENT: **MR. SUDHIR BIDKAR – CHIEF FINANCIAL OFFICER – JK LAKSHMI CEMENT LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to JK Lakshmi Cement Limited Conference Call to discuss the outcome of e-voting at the recently held Annual General Meeting 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 star then zero on your touch-tone 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: Yes, thank you, Yashasvi. Good evening, everyone. On behalf of PhillipCapital India Private Limited, we welcome you to this exclusive call of JK Lakshmi Cement to discuss the outcome of e-voting at the recently held AGM. On the call, we have with us Mr. Sudhir Bidkar, CFO of the company. I will now hand over the floor to Mr. Bidkar for his opening remarks, which will be followed by interactive Q&A. Thank you and over to you, sir.

Sudhir Bidkar: Thank you, Mr. Vaibhav and good afternoon, ladies and gentlemen, for this call which is especially being held to share with you the company's point of view of the various resolutions which were put to revote in the just concluded AGM and which was passed barring one resolution with overwhelming majority by the shareholders and the investors.

We take this opportunity of thanking each and every individual investor for having voted based on their recommendation which they have got from their either proxy or from their internal team on various resolutions.

With this call, the idea of having this call was basically to have a good corporate governance, one, from the point of view of the company, you should understand the point and the logic on which the resolutions were proposed, and two, from the management point of view, also wanted to understand your concerns for the resolutions which you had any reservation for based on which the voting was against one of the resolutions.

So we will go item by item. I would like to share the first item was basically for the adoption of the annual accounts which was passed with overwhelming majority. In fact, one of the proxy advisors had made some comments on some of the observations of the auditor's report, CARO report, but when we shared with them the correct report, it was then reversed by SES on two things

One was the internal financial controls and other was on whether there was any qualification. They understood SES proxy advisor, they changed their recommendation, therefore. The second resolution was for the dividend which was again passed with overwhelming majority. Third resolution was regarding the reappointment of our chairman as director liable to retire by rotation.

Here, while SES has initially given a negative recommendation, but based on the representation made by the company, they understood the company's point of view and reversed their recommendation from against to for. Only ISS had recommended a negative voting and the logic which they gave was since they have two directors, Mr. Ravi Jhunjhunwala and Mr. N. G. Khaitan, who had longer association with the company prior to the enactment of the company in 2013.

But you would appreciate the shareholders that company law itself allows any director to continue for a term of two terms of five years each and they will step down after their term vacates and get vacated in 2020. So that was the logic.

Next resolution was for the payment of remuneration to Mr. Bharat Hari Singhania Chairman. He stepped down as the Executive Chairman in October 2021 and has not been drawing any salary, but he has been devoting full time. So the Board decided in the FY '23 to give him a commission of INR2.5 crores, which since it was higher than more than 50% of the total commission paid to the other Non-Executive Director, it was put to vote by way of a special resolution.

Here also, SES as based on the explanation given by the company, reversed their initial recommendation from against to forth, but ISS continued to have a negative recommendation. And the logic which they gave ISS especially was his commission which you gave of 2.5 was exceeding the total remuneration of Executive Director Mr. Shukla, which you paid INR2.4 crores. But what they forgot to realize that the remuneration of Mr. Shukla was of INR2.4 crores for a period of eight months only, which is from 1st August 2022 to 31st March 2023.

So if one were to analyze that, then it comes to be 3.6 and the remuneration or the commission which was paid to the Chairman was much lower than the salary paid to the Executive Director. So obviously, most of the shareholders and investors like you voted for favourably and this resolution was also passed with overwhelming majority.

Next resolution was for the payment of remuneration to the cost auditor, which was passed unanimously by all the shareholders who voted in favour. The next two resolutions were regarding increasing the borrowing limits of the company from INR4,000 crores to INR7,000 crores. Here were also initially SES advisers that recommended a negative voting, but after the company's representation that the company does use a lot of non-fund-based facility which doesn't get captured in the annual balance sheet which talks of only the fund-based limit.

They also requested a favourable voting and both this resolution for increasing the borrowing limit and also for the creation of charge therefore of 7,000 was passed with overwhelming majority. The only resolution which some of the investors had reservation was primarily to increase the limit for making investment or giving guarantees or securities from the limits prescribed under Section 186 of the Companies Act to about INR10,000 crores.

As per Section 186 of the Companies Act, a company is eligible to make investment, give loans or offer guarantees or securities up to an amount of 60% of its paid-up share capital, free reserves and security premiums or 100% of reserves, whichever is higher. In our case, the figure was about INR2,650 crores and the amount was almost fully utilized.

At the time the board recommended this resolution to the shareholders, the company was evaluating an acquisition opportunity which was having an enterprise value of close to about INR6,000 crores to INR6,700 crores, which was though because of the confidentiality, the company did not disclose the name of the entity, but it was in the interest of the entity or the target asset which the company was looking at.

That was the reason as to why the company had proposed a resolution for increasing the limit. If one were to bid that, we would have had to make an investment, one, in the equity capital of the target company and two, the company would have had to require to give the corporate guarantee for the substitution of the high-cost loan which the target company was carrying. So, about INR4,500 to INR4,000 was the key value and about INR2,000 crores of loan was sitting in the target balance sheet.

So, this together would have required the company to have sufficient limit in place based on which this resolution was proposed by the board and since all the three proxy advisors, IAAS, SES and ISS had recommended negative vote, this resolution though passed with a simple majority, garnered 71% voting and was not passed by way of a special resolution which was required.

So, just wanted to explain, we have given that explanation to the TSC also based on some news item that the shareholders have struck down this resolution, but we would like to mention that basically this resolution was required since the company was evaluating that opportunity. Now, since that opportunity did not materialize, thus we did not pursue aggressively.

I just wanted to explain that point of view and wanted to understand from the investors their concerns based on which negative voting was done for this particular resolution. So, I hope the company has explained its point of view.

And with that I will throw the floor open for question-answers if any of the investors have any to understand from your point of view or your concerns on the various items which were proposed about this AGM, just concluded AGM. Over to you the investors. The floor is now open for question-answers, please.

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

Keshav Lahoti: Sir, thanks for hosting the call. So, just want to understand one thing. You said that you wanted to acquire a company at 6,000 to 6,500 EV. Have I heard it correctly? Because what we understand, the company was bought at much lower valuations. So, that's a bit going off-sync.

Sudhir Bidkar: Yes, we were evaluating at that value. But obviously, the final offer which we would have made would have been much lower. But to be sure, we wanted to take an extra limit for that. Because apart from the acquisition, the opportunity which we are looking at, the company is also required to do two things.

One, you would know that the company has acquired some mines in Nagaur in Rajasthan. And those limestone mines for which the company is now presently in the process of doing land acquisition have been awarded in our subsidiary. The subsidiary is Hansdeep Investment Limited. And for them to acquire land, we have to give continuously the advance to them. So, that was another purpose for which this limit was to be used.

And secondly, you would know in our con call after the quarterly results we have mentioned that the company has made an arrangement for sourcing power from a third party under the captive route for sourcing about 40 megawatts of power in the state of Chhattisgarh for our Durg Cement Plant. Now, under the captive mode, you are required to make an investment up to 26% of the capital of that company which is producing power to be qualified as a captive user. So, this limit was partly to be used for that as well.

So, that was the reason as to why we had to have the sufficient cushion for keeping and getting…

Moderator: Thank you. Ladies and gentlemen, to ask a question, please press star and one on your phone now. Participants, who wish to ask a question, may please press star and one on their phone now.

Sudhir Bidkar: Mr. Vaibhav, if there are no questions, we can…

Moderator: Sir, we have one question. Should I take it now?

Sudhir Bidkar: Yes.

Moderator: We have a question from the line of Fatema Pacha from Mahindra Manulife. Please go ahead.

Fatema Pacha: Hello, sir. Sir, is this a call only for queries regarding the AGM or can we ask business questions right now?

Sudhir Bidkar: Yes, sure. I am not restricting it to that. Idea was to keep it for the AGM but I would be happy to answer if there are any questions on the business.

Fatema Pacha: So, sir, basically, obviously, we have a full year guidance on how EBITDA per tonne trajectory is moving and how company will transition. So sir, what are your thoughts on what happened in the last two quarters on the general change in the movement. Obviously, the entire industry has had some issues, but -- no one's EBITDA per ton had such a big drop. Everybody would have not had the expansion that we were expecting.

But no one -- like very few companies industries would have had such a big drop, say, from Q3 EBITDA per ton as a way of funds any -- if you could throw any -- whatever your light on that particular thought process? And when will we come back to trajectory because that's a big deceleration for the trajectory that you are looking at?

Sudhir Bidkar: You are right. First quarter was likely a difficult for us primarily on account of the fact that we sell almost 70% of our reuse of the [inaudible 0:15:07] state of Rajasthan and Gujarat, which was rains in the month of June. So, that impacted us more than anybody else. And that was the reason our volumes were much lower than the industry volume, resulting in our fixed cost being amortized over a lower sales volume. But we are sure, as we mentioned in the last on-call after the quarterly results, we should bounce back from the next quarter onwards. This, obviously, current quarter is a monsoon-impacted quarter, but there also the growth has been there. And from quarter onwards, we should be able to bounce back in line with the industry.

Fatema Pacha: And, sir, when is the new capacity expected? I think it's coming from Udaipur, right? The UCW capacity is coming. Our own capacity will be at a year away, right?

Sudhir Bidkar: Yes, Udaipur capacity clinker is coming on which is next or third by 20. The next year, we are sure. I'm saying the Udaipur clinkerization line will be on a stream in the next quarter, which is the third quarter of FY24. And its cement capacity of 2.5 million would be towards the end of the second quarter of FY25. So, those are the timelines which we are talking.

Fatema Pacha: So, right now, we'll be operating on full utilization, right? So, incremental growth, say, would be very difficult, right?

Sudhir Bidkar: Incremental growth will come from the additional clinker and cement capacity coming up. Clinker is a line, as I mentioned, will come in third quarter. So, that will give us additional volume for both clinker as well as cement in the coming quarters. And then when the cement capacity comes, that will fuel further growth.

Fatema Pacha: Fair enough, sir. And, sir, is the pricing part back in the industry right now? Or is it yet a volume growth game?

Sudhir Bidkar: Sorry, come again?

Fatema Pacha: Is the pricing part, in a way, are the players looking to take price hikes or yet it is a volume market share game?

Sudhir Bidkar: This quarter is a monsoon-impacted quarter. But still, as we see, every year there is a drop in the monsoon. This year, there has not been. On the contrary, we have been able to increase some prices in July, especially in the northern and the western market. And in September, in the eastern market also, because the rains have now disappeared almost. So, hopefully, we should see good growth in demand going forward.

Fatema Pacha: Okay, sir. Thank you so much.

Moderator: Thank you. We'll take the next question from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Good afternoon, sir. Just a few questions. So, on the acquisition front, like you had highlighted, now, you know, if some other kind of opportunity comes up in the future, then the same question would arise. So, is there any plan B that you would go for to acquire? Or, you know, after this, you know, this approval not getting passed through. So, what is the management strategy, you know, considering the acquisition related expansions?

Sudhir Bidkar: This was an opportunity which we were evaluating based primarily for two reasons. One, it was making a strategic sense for us. And two, it was coming, it was in the same marketing zone where we had. Three, it was coming again at a place where we ourselves have got the mines in Kutch, and so mine, and this opportunity would have given us the ready facility without going through the rigmarole of first acquiring land and going for environmental clearance, and then putting a facility which would, in any case, take seven, eight years.

That was the basic idea. Otherwise, our roadmap for reaching a 30 million tons capacity by 2030 is very clear. From 18 million, which would be after UCWL expansion, we have two brownfield projects, one in Durg, another in UCWL of 3 million each. Then two greenfield opportunities at Nagor and Kutch, another 3 million each, would take us to 30 million by 2030. But going forward, if some opportunity comes, we are open to that. If it comes, makes strategic sense, comes at the right valuation, we are open to that.

We'll seek shareholders approval as and when required if there is any such opportunity in future as well. But this turning down of a resolution does not dissuade us from exploring the possibility or evaluating any growth opportunity in an inorganic way in any manner. Our investors, once they appreciate the real logic, reason they are rational, I'm sure they will support that as well in future.

Ronald Siyoni: And in terms of balance sheet, like consolidated debt was almost around INR2,000 crores last quarter. So management would be comfortable to how much debt levels are you considering any net-debt-to-EBITDA kind of figure or debt-to-equity kind of figure having in mind, with respect to acquisitions or organic expansion?

Sudhir Bidkar: Generally, we have a threshold of having a net debt not exceeding 3.4x. That is, we have informal guidance, which we keep in mind, against which is almost on a very low level as of now, as you rightly said, only INR2,000 crores of consolidated gross debt and that on a EBIDTA of close to about 800, 900, around 2x. But you see, when you go for an expansion or an acquisition, for a year or so, that ratio is diluted, ratios get diluted. Like in case of UCWL, you would see that today their beta is INR150 crores and they are in the process of putting this expansion. So their existing debt is INR500 crores.

They are taking a loan of INR1,100 crores for the expansion. So in the current year, they are expecting a INR200 crores EBITDA. So against a INR200 crores EBITDA, their target, their total debt before the expansion EBITDA comes in would be INR500 crores-plus INR1,100 crores, INR1,600 crores, almost 8x. But the moment that commensurate EBITDA from the expansion comes in of around INR300 crores, then obviously this ratio looks much better, healthier. INR500 crores of EBITDA and INR1,600 crores of debt, which is within the normative norm of less than 3.5x.

But initially, before the expansion EBITDA comes in, that looks very high. So also, same thing happens in an acquisition. Moment you do an acquisition for a year or so, that figure of net-debt-to-EBITDA may look higher. But moment you factor the commensurate EBITDA, which comes either from expansion or from acquisition, this gets normative and comes within the normal range of 3.5x to maximum 4x net-debt-to-EBITDA. So that is the guidance which we have, and we'll continue to follow those going forward, whether it is organic or inorganic growth.

Ronald Siyoni: And for some inorganic expansion, the target company should be towards the north and eastern or north-eastern regions or open to another central or southern regions as well?

Sudhir Bidkar: We would be keen to do the acquisition in the place where we operate, which makes strategic sense, makes synergical sense for us. To go to a new place where we have not been, we will be thinking twice before we're taking a call on a place like where we are not operating.

Ronald Siyoni: Okay, sir. And so last question was on the demand front, like July had, I think, as far as cement data from various rails or VIPP, July was a weaker month. Well, August a little bit better. So September onwards, you are seeing good demand from channel checks. We are seeing that eastern and north-western central regions are seeing price hikes. So if you can quantify, like, how much price bag, because eastern region has specifically suffered in terms of weaker prices post quarter 1. So how much that portion has been recovered or how much incremental pricing action you would have been taken in the eastern region specifically?

Sudhir Bidkar: Yes, your observation is right. July was a subdued month, but still there was a growth as come the corresponding month of the last year. August, because the rain suddenly had disappeared. So there was almost a growth. September also we expect a similar growth. Eastern side, we expect in the current, after the rains have gone, because it was impacted by rains in the eastern region, we are talking of a price hike. I'm saying in the month of September, we are talking of a price increase of INR10 to INR12 per bag in the eastern market. Since the rain has now stopped there and the demand is good.

In the northern and the western market, an increase of about INR10, INR5 to INR7, INR8 is expected in the western region, about INR10 in the north region, including Rajasthan.

Ronald Siyoni: Okay. And just I could not hear the August and September demand growth, which you mentioned.

Sudhir Bidkar: July was subdued, you rightly heard that. But in July, still, though it was subdued, but as compared to the corresponding month of the last, there was a growth. In August, it was almost a 10% growth. September is expected to be even better.

Ronald Siyoni: Okay. Thank you very much, sir. Thank you.

Sudhir Bidkar: Thank you.

Moderator: Thank you. We will take the last question from the line of Rajesh Ravi from HDFC Securities. Please go ahead.

Rajesh Ravi: Yes. Hi, sir. Good evening. My first question pertains to, with the Sanghavi Industries now getting acquired by a bigger hand, do you see the risk in terms of market getting -- the non-trade market getting disturbed because of the volume push from the full operations of the Sanghavi assets, which were operating at low utilization in subsequent quarters?

Sudhir Bidkar: Not so much, because for two reasons, the increase in capacity or the capacity utilization in the target asset will -- and not the entire will come in the Gujarat market. They, because of their coastal jetties, etcetera, would also be serving other markets, which they have talked of. And the demand is good enough to absorb that additional volumes which in come. So it may not have a material impact on the pricing, because the demand is quite robust in the west and north.

Rajesh Ravi: How much of your console volume would be getting sold in Gujarat market, sir? About 14 million ton-odd, which you sell?

Sudhir Bidkar: About 40% in Gujarat market, from whatever we produce in Sirohi and Udaipur, and 30% in Rajasthan.

Rajesh Ravi: Okay. 40% and 30% is the northern production you're seeing is sold over there.

Sudhir Bidkar: In these two markets, Gujarat and Rajasthan.

Rajesh Ravi: Okay. And, sir, this upcoming clinker expansions to Udaipur, this will target which market? The, you know, commodity…

Sudhir Bidkar: In Gujarat and in northern market.

Rajesh Ravi: Okay. That will feed growth in the northern market.

Sudhir Bidkar: Yes, Yes. Plus something in Madhya Pradesh, UP also.

Rajesh Ravi: So, okay. So you're not targeting the Gujarat market from the upcoming capacity?

Sudhir Bidkar: No, we are very much, because 40% of that in any case goes to… If one were to do it, at least 40% in Gujarat market will definitely go there. 30% will go to Rajasthan, and balance in northern and other MP market.

Rajesh Ravi: Sir, out of this, you mentioned 40% of the northern production. On a total company basis, how much would that be?

Sudhir Bidkar: It is almost means out of the total capacity of about 14 million before the expansion, we have 3.5 in the eastern market and 10.5 in the northern market. So when we talk of 70%, it's 70% of 10.5.

Rajesh Ravi: Okay. And, sir, last question, your current plans of two ground fields and two green fields will already take you to 30 million ton by FY29-30. Yes. So, you know, and organically, you would be having a much better balance sheet, well below 2x. So why, you know, why are you looking to go at a leveraged balance sheet whenever you go for inorganics? You know, anything north of 2.53x net debt to EBIDTA. Don't you believe that that could have a, you know, negative reaction from the minority shareholders?

Sudhir Bidkar: Hmm. No, basically, as I mentioned, because of the time lag, when we were to put up, we are going to take seven, eight years to put up a Kutch cement plant, and this was a ready facility that was coming. We would have certainly slowed down our pace of our brownfield expansion had that asset come to us. But obviously, your point is right. Brownfield comes at a much lower cost. But because of the time value of money, we were evaluating the opportunity.

Rajesh Ravi: Okay. Great, sir. That's all from my end. Thank you.

Sudhir Bidkar: Thank you, Ravi.

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

Vaibhav Agarwal: Thank you. On behalf of Phillip Capital, we'd like to thank the manager of JK Lakshmi Cement for the call, and many thanks to the participants for joining us. Thank you very much, sir.

Sudhir Bidkar: Thank you, Mr. Vaibhav, and thank you, ladies and gentlemen, for joining us on this special call. I hope the company has been able to convey its point of view. Thank you very much.

Moderator: Thank you. On behalf of Phillip Capital India Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines. Thank you. Thank you.