

Dalmia Cement (Bharat) Limited
Quarter Two Earnings Conference Call, Financial Year - 2010
October 29, 2009

- Moderator: Good afternoon ladies and gentlemen. I am Triveni H.S, the moderator for this conference. Welcome to the Dalmia Cement Investor Call for the quarter and half year ended 30th September 2009. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. Now, I would like to hand over to Ms. Nidhi Aggarwal, Head, Investor Relations. Thank you and over to you ma'am.
- Ms. Nidhi Aggarwal: Thank you Triveni. Good afternoon ladies and gentlemen. Thanks for joining in. We would like to share and discuss our first half year financial results for September end 2009. I would hand over the mike to Mr. Puneet Dalmia, our Managing Director. We are also joined in with Mr. Somnath Patil, our Group CFO. Over to you Mr. Dalmia.
- Mr. Puneet Dalmia: Thank you Nidhi. I welcome all of you to our second quarter and first half call. Our gross sales for this half of the year was Rs. 1211 crores, up 23% year on year; our EBITDA was Rs. 309 crore, up 25% year on year; and our net profit was Rs.112 crore, up 24% year on year. We also have an additional profit from the activities of our associate company OCL, which is an additional Rs. 20 crores at PAT level, which will take our consolidate numbers to Rs.132 crores on a first half basis. So, overall the company is growing at about 25%, both in top line and bottom line. We are also seeing that our margins are reasonably flat as compared to last year, operating margin is 28% and PAT margin is 10%. In the cement business, we have two or three headline points to report this quarter. Our plant in Ariyalur got commissioned and we are doing trial runs for clinker. We are very happy that all our major CAPEXs in the group are now complete. We took a very big step 2-1/2 years ago of doing CAPEXs of about Rs. 2,500 crores across the group in the cement business, Rs. 1,600 crore in Dalmia Cement and about Rs. 800 crore in OCL, and we are very happy that this phase of the CAPEX is now complete. Our focus now is to ensure that we are intensely focused on ramping up all the capacities that have now come on stream, which makes us at a consolidated group level 14 million ton player across two regions. We are also happy that despite the fact that we did face pricing pressure this quarter, margins have been fairly stable because of the correction in the cost structure on a year-on-year basis because of excise duty reduction and reduction in coal cost. So, despite the downward pressure on the pricing environment in our cement business, we are able to maintain margins at a reasonable level.

If I come to the sugar business, we are seeing a very big shift in terms of profitability. Our prices are at an all-time high. We are seeing a very favorable macro environment for the next 18 to 24 months. So, for the first half the EBITDA was about Rs. 40 crores as compared to Rs. 1 crore in the previous year. So, the sugar business has turned the corner and is expected to contribute significantly to the company's profitability this year. The second headline in the sugar business is that we are seeing directionally a very favorable indication in the regulatory environment. The cane pricing policy and the power pricing policy in UP is signaling to us that the government is starting to think about deregulating this sector and although the eventual implementation of how this deregulation will happen is yet to play out, we think that this signal is a very important signal for the sector and we believe that the overall sector attractiveness is going to improve in the long run and this deregulation will reduce earnings volatility.

So, overall we are happy with the results and we are seeing good environment in both our core businesses. I am open to any questions now.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. The first question comes from Mr. Siddharth Purohit from Span Capital Service. Over to you sir.

Mr. Siddharth Purohit: Hello sir.

Mr. Puneet Dalmia: Hello.

Mr. Siddharth Purohit: Sir, can you give the region-wise breakup of Dalmia Cement sales in south?

Mr. Puneet Dalmia: It is on page 18 of the presentation. Basically 50% of our sales is in Tamil Nadu.

Mr. Siddharth Purohit: Yes sir.

Mr. Puneet Dalmia: 25% in Kerala.

Mr. Siddharth Purohit: 25% Kerala.

Mr. Puneet Dalmia: 11% in Karnataka, 9% in AP, and 4% in other states.

Mr. Siddharth Purohit: Sir, do you see further any large infrastructure project planned by the government which can help the cement industry in south, particularly in Andhra Pradesh?

Mr. Puneet Dalmia: Yes, actually if I look at the demand outlook for the first half of the year...

Mr. Siddharth Purohit: Yes.

Mr. Puneet Dalmia: ...even though India grew at 12%, South India grew only by 4%.

Mr. Siddharth Purohit: Yes.

Mr. Puneet Dalmia: If I further break south India down, Tamil Nadu and Kerala grew at 12% and 7% respectively...

Mr. Siddharth Purohit: Yes.

Mr. Puneet Dalmia: ...while Andhra Pradesh and Karnataka were both flat or marginally declined. So, we believe that partly the flat demand growth in Andhra Pradesh and Karnataka is due to the IT effect, the IT sector was exposed globally a lot more than other sectors and there was a lot of uncertainty regarding the global meltdown, but now we are seeing that the IT sector is starting to recruit back again and there is a sense of stability in the sector. Infosys, Wipro, TCS, all have announced big recruitments and they are going back to campus. So, we are seeing that hopefully the demand growth in the second half of the year in both these states is likely to be better than the first half. Also, there was political instability in both the states in the first half and hopefully with a better political environment, we might see an up-tick in infrastructure projects, but in Andhra Pradesh, I still believe that the political situation in terms of leadership is still fluid. So, once that is decided, I think the infrastructure projects might get delayed one or two quarters depending upon how soon the leadership is decided.

Mr. Siddharth Purohit: Okay sir. Thank you, that's all.

Moderator: Thank you very much sir. Participants who wish to ask a question are requested to press * followed by 1 on your telephone keypad. The next question comes from Mr. Rahul Adukia from Darashaw & Company.

Mr. Rahul: Hello...

Mr. Puneet Dalmia: Yeah.

Mr. Rahul: Hello...

Mr. Puneet Dalmia: Yes.

Mr. Rahul: Yeah, just wanted an update on this...in terms of your capacity addition, you had announced in the past about the 10 million ton

capacity which you had planned, so just want an update about how are you progressing on that front?

Mr. Puneet Dalmia: We have achieved debt closure on that capacity. So, we have about two-thirds of the capital in terms of debt lined up. We are also ready with land, environmental permits, and mining leases. However, we have still not started construction at any of these sites and we are going to take a call on how to start these projects in a phased manner during the course of this year. So, right now, the decision is there is gradual progress and we are keeping the projects ready to kick off, but the exact timing of when to kick it off is still being debated and it might be a couple of months away.

Mr. Rahul: But where exactly are you planning to put this in terms of...are you planning to put it in south or in the different regions of India?

Mr. Puneet Dalmia: I think we are not ready to give any locational calls right now until it is approved by the Board, but largely I would say that we will deepen our regional footprint and we might explore entry into some new regions. So, we have projects all over the country, but I think which project we will start at what time is something which is undecided as of now. So, I think until the Board approves it, we are unable to make any firm comments on that.

Mr. Rahul: One more thing, also some of your peers have announced a large number of ambitious plans about capacity addition, so as you have announced 10 million ton. Just wanted to ask that what are you betting upon in terms of the long-term demand growth in India, are you betting only infrastructure or the real estate recovery, what is your rationale behind adding such large capacities?

Mr. Puneet Dalmia: I think our belief is that India is going to continue to grow at 8% over the long term in terms of cement demand.

Mr. Rahul: Okay.

Mr. Puneet Dalmia: And we are definitely betting on infrastructure. Government has big plans on putting 500 billion dollars in this plan and then another trillion dollars in the next Five-Year Plan. So, even if the government does 60-70% of this number which has been the past record of the government, I think these are very large numbers and I think one long-term bet is on continued demand growth in the sector. The second long-term bet is on improved discipline in this sector in terms of pricing discipline. So, I think as consolidation happens in this sector and more rational players have control over large shares of capacity, we believe that this sector will behave in a more rational way than it had behaved in the past. So, I think those are the two directional bets that we are making. Also, we are seeing that as compared to the global economies, Asia is the only region and India and China in

particular which are showing growth. So, I think staying here we feel that there are volatilities and blips along the way, but overall I think globally looking at things this is a very good place to be and we want to take full advantage of the fact that we understand the local market very well and we have 70 years of experience in this market and given the nature of this industry which is backed by domestic consumption, I think local player has a competitive advantage which we really want to leverage over the next decade.

Mr. Rahul: And in terms of capacity addition, what are the capacity additions which you are expecting in this year for the remaining second half?

Ms. Nidhi Aggarwal: Nidhi here. We are expecting about 25 million tons.

Mr. Rahul: Sorry...

Ms. Nidhi Aggarwal: 25 million tons...

Mr. Rahul: Okay.

Ms. Nidhi Aggarwal: ...at an all India level and about 10 would be probably in down south.

Mr. Rahul: 10 million?

Ms. Nidhi Aggarwal: Yeah.

Mr. Rahul Dugga: Okay. And if you can just tell me for FY11 as well, if you have any idea about that?

Ms. Nidhi Aggarwal: Which one, sorry...

Mr. Puneet Dalmia: FY11.

Ms. Nidhi Aggarwal: FY11 would be more close to like 20 to 25 million tons in our opinion at this point in time.

Mr. Rahul: Okay. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Anubhav Bansal from Aadhar Securities. Over to you sir.

Mr. Anubhav Bansal: Yeah, a question on sugar segment. How has the cane procurement been and what is the kind of pricing you have been paying for the cane for the coming season?

Mr. Puneet Dalmia: We haven't yet started crushing, but we expect that the prices that we will have to pay will be significantly in excess of the SAP which was just announced at 165 rupees a quintal.

Mr. Anubhav Bansal: And what will be the impact of the new sugar cogen policies going forward, especially during the off season?

Mr. Puneet Dalmia: I think directionally there are two things. One is the existing power which is generated during the season will get sold at a higher price than our existing PPA and we are very happy that the government has taken cognizance of the demand-supply shortage in the power sector and revised the PPA prices upwards. So, the new price is 3 rupees 92 paise per unit as opposed to 3 rupees 5 paise. Secondly, I think during the off season the government has allowed coal-based plants to operate and they can sell 50% of their generation on a fee basis across the state. So, I think both these factors will increase the capacity utilization of the cogen plant and this will also improve realization. So, I think both in terms of volume and realization, the news is positive.

Mr. Anubhav Bansal: Okay. Lastly, any inventory...sugar inventory for the quarter ended?

Ms. Nidhi Aggarwal: For the quarter ended September, we have an inventory of about 41,000 tons of ready sugar and about 25,000 tons of raw sugar.

Mr. Anubhav Bansal: Okay, thanks. I will come back for more.

Moderator: Thank you very much sir. The next question comes from Mr. Hitendra Gupta from SPA Securities. Over to you sir.

Mr. Hitendra Gupta: Good afternoon sir, good afternoon Nidhi. Sir, I would like to know the recent FRP policies, can you just enlighten us with what kind of policy it is and how it is going to benefit us in the long term?

Mr. Puneet Dalmia: I think...let me just compare it with the earlier policy. The earlier policy was that we had to pay the higher of the state advised price or the centrally advised price in terms of cane.

Mr. Hitendra Gupta: Okay

Mr. Puneet Dalmia: And the state-advised price at least in UP was largely motivated by political considerations and it was going north...irrespective of how the sugar prices were behaving. Now, the situation is that the Central Government has fixed what they call a fair and remunerative price...

Mr. Hitendra Gupta: Okay.

Mr. Puneet Dalmia: ...and they have said that if the state government's price is higher than the F&RP which is the fair and remunerative price, then the state government will have to foot the difference to the central government and the sugar mill will not have to pay that price. So, effectively this means that the fair and remunerative price is the final price that the sugar mills will have to pay and if the state

deviates from that number, it is at the cost of the state exchequer. However, the exact implementation of this policy and how this will work is yet to be understood and I think therefore in this season it is not likely to create a big impact...

Mr. Hitendra Gupta: Okay.

Mr. Puneet Dalmia: ...but it is a big signal value in the long run of how the industry regulation is going to shape and how the most critical component of the cost structure is going to behave. So, I think we see it as a signal to depoliticize cane pricing and I think that is a very welcome move.

Mr. Hitendra Gupta: Okay. So, FRP price would be same for all, pan India, am I right?

Mr. Puneet Dalmia: Yes.

Mr. Hitendra Gupta: Okay. So, what do you think, like the FRP price would be beneficial and how it would be overall impacting our profitability, like at what...mainly I want to ask like what is the current cost of cane then?

Ms. Nidhi Aggarwal: Currently, the cane cost has not been announced as such. So, it has been mentioned that it is possibly going to be around 165 rupees per quintal.

Mr. Hitendra Gupta: Okay.

Ms. Nidhi Aggarwal: But whether that would actually be applicable or not...I am talking of UP numbers.

Mr. Hitendra Gupta: Okay, okay.

Ms. Nidhi Aggarwal: Whether that will actually be applicable or not is yet to be seen. If FRP comes in, then we might actually see a lesser number than this.

Mr. Hitendra Gupta: Okay, it will be less than this?

Ms. Nidhi Aggarwal: Hopefully.

Mr. Hitendra Gupta: Okay. Are we importing any raw sugar?

Ms. Nidhi Aggarwal: We did. In the first six months, we have actually contracted about 40,000 tons of raw sugar.

Mr. Hitendra Gupta: Okay. And how much we are expecting in the next half?

Ms. Nidhi Aggarwal: We are evaluating the rate and as and when it makes economic sense, we will contract.

- Mr. Hitendra Gupta: And this 40,000 tons, at what price we have imported?
- Ms. Nidhi Aggarwal: The first lot was more like 20 rupees and the second was slightly higher at about 26.
- Mr. Hitendra Gupta: I didn't get the number, first lot was?
- Ms. Nidhi Aggarwal: 20 rupees.
- Mr. Hitendra Gupta: 20 rupees, okay, okay. And regarding any capacity addition in sugar segment?
- Mr. Puneet Dalmia: Right now basically all our focus is to ensure that the existing capacity is fully utilized...
- Mr. Hitendra Gupta: Okay.
- Mr. Puneet Dalmia: ...and we are able to utilize the cogen plants also in view of the new regulation, but we don't have any announced CAPEX plans to increase sugar capacity as of now.
- Mr. Hitendra Gupta: Okay, okay. For cement, what is the CAPEX plan now then?
- Mr. Puneet Dalmia: As I have already said, we are happy that this phase of CAPEX across the group is completed with the commissioning of the Ariyalur plant...
- Mr. Hitendra Gupta: Okay.
- Mr. Puneet Dalmia: ...and right now we are focused on ramping up volumes across the group in Andhra Pradesh, Tamil Nadu, and Orissa.
- Mr. Hitendra Gupta: Okay.
- Mr. Puneet Dalmia: And we will implement the projects in Dalmia Cement Ventures which is our 100% owned SPV in a phased manner.
- Mr. Hitendra Gupta: Okay. So, when it would be started?
- Mr. Puneet Dalmia: As I said earlier in the call, we are going to evaluate the timing of the start during this year and we will make an announcement when the Board has approved the project.
- Mr. Hitendra Gupta: Okay. So, how big this project would be capacity wise?
- Ms. Nidhi Aggarwal: 10 million tons.
- Mr. Hitendra Gupta: 10 million tons, okay. So, right now...just a book keeping question, like what is the debt right now as on September?
- Ms. Nidhi Aggarwal: It is in our earnings release.

- Mr. Somnath Patil: About Rs 2300 crores.
- Mr. Hitendra Gupta: Okay.
- Mr. Puneet Dalmia: You can see all the data is available in the earnings release.
- Mr. Hitendra Gupta: Okay, okay. I have still not received sir, that's why...okay, not an issue.
- Mr. Puneet Dalmia: Okay, we will make sure that you get a copy. If you can give your email to Nidhi, we will put you on the mailing list.
- Mr. Hitendra Gupta: Okay, not an issue.
- Ms. Nidhi Aggarwal: And it is also, by the way this is for your information, on our website.
- Mr. Hitendra Gupta: Okay, okay, thank you. Thanks a lot and I will join back the queue.
- Moderator: Thank you very much sir. The next question comes from Mr. Nimesh Munver from Ventura Securities.
- Mr. Nimesh Munver: Hello sir. When we expect to start the crushing? Hello...
- Ms. Nidhi Aggarwal: Yeah, Nidhi here.
- Mr. Nimesh Munver: Yeah, yeah, hello, how are you?
- Ms. Nidhi Aggarwal: We will start crushing in third week of November most likely.
- Mr. Nimesh Munver: First week of November?
- Ms. Nidhi Aggarwal: Third, third week.
- Mr. Nimesh Munver: Okay. And one more question. The Bhargava formula is now proposed to be dispense with, right?
- Ms. Nidhi Aggarwal: Pardon.
- Mr. Nimesh Munver: The Bhargava formula is now proposed to be dispensed with.
- Ms. Nidhi Aggarwal: I am not very familiar with this formula, what is it about?
- Mr. Nimesh Munver: No, if the mill earns additional profit, some of the profits have to be returned back to the farmers no?
- Mr. Somnath Patil: That is not implemented as of now.
- Mr. Nimesh Munver: Okay.

- Mr. Somnath Patil: And in our case, it is not applicable.
- Mr. Nimesh Munver: Okay, okay, okay. And sir, this rest of the six months as far as cement is concerned, all India products, capacity expansion you are expecting at 25 million tons, out of that in south 10 million tons which is a fairly large proportion of the addition and even though the IT segment is again back on the track, on the roll, how do you see the pricing moving forward in south?
- Mr. Puneet Dalmia: I think we are seeing downward pressure on pricing.
- Mr. Nimesh Munver: Okay.
- Mr. Puneet Dalmia: But how much, for how long remains to be seen. However, I think our view is that given the fact that the cost structure has also corrected quite significantly, this downward cycle may not have as big an impact on margins as some of the earlier down cycles have had.
- Mr. Nimesh Munver: Okay. That's it from my side. Thank you.
- Moderator: Thank you very much sir. The next question comes from Mr. Ruchit Mehta from HSBC. Over to you sir.
- Mr. Ruchit Mehta: Hi. Just in terms of the capacity add, we are at 9 million metric tons standalone if I am not mistaken?
- Mr. Puneet Dalmia: Yeah.
- Mr. Ruchit Mehta: And along with OCL...what would be the OCL capacity that will get added, I mean which you would control?
- Ms. Nidhi Aggarwal: OCL has a 5.3 million ton capacity.
- Mr. Ruchit Mehta: Okay.
- Ms. Nidhi Aggarwal: And our stake in OCL is 21.7% as of now...
- Mr. Ruchit Mehta: Sure.
- Ms. Nidhi Aggarwal: ...for the company.
- Mr. Ruchit Mehta: And in terms of the new plan capacity, we are looking at roughly 10 million metric tons?
- Ms. Nidhi Aggarwal: Right.
- Mr. Ruchit Mehta: So, can you just walk me through the funding because if I am not mistaken you seem to have tied up the debt portion of it and secondly, if so then, what is the plan on the equity fund, would we

need to go in for a dilution or a...

- Mr. Puneet Dalmia: I think we have a variety of options on equity which we are still in the process of exploring. You know, one option is for us to do an offering in the listed company and dilute. The other option is that we can raise capital at the SPV level and get private investors in an unlisted entity and the third option is clearly that we can continue to fund the projects through our internal accruals during the next three to four years. So, I think we are still evaluating what are the best ways to go about that and as and when we are ready with any announcement on a transaction we will let you know.
- Mr. Ruchit Mehta: What would be the total CAPEX for this 10 million ton plan that we...
- Mr. Puneet Dalmia: This is going to be about a billion dollars, out of which debt is about 650 million.
- Mr. Ruchit Mehta: Could you spell it out in rupees crore, I mean with the volatile rupee, it becomes difficult for our Indian investors to get a sense as to what exactly in rupees crores you are investing?
- Mr. Somnath Patil: It is about Rs 4500 crores...
- Mr. Ruchit Mehta: Okay.
- Somnath Patil: ...for which debt will be around 3100 crores.
- Mr. Ruchit Mehta: Sure. Okay, thank you.
- Moderator: Thank you very much sir. The next question comes from Mr. Puneet from Enam Securities. Over to you ma'am.
- Mr. Puneet: Hello...
- Ms. Nidhi Aggarwal: Hello...
- Mr. Puneet: Yeah, hi, this is Puneet. Just actually one question, firstly sir in terms of our cement sales if you can split it up between trade and nontrade?
- Ms. Nidhi Aggarwal: Yeah. Trade is about 70%.
- Mr. Puneet: Okay.
- Ms. Nidhi Aggarwal: And nontrade is the balance.
- Mr. Puneet: Okay, okay, sure. Just I mean a macro question, I mean there is a lot of capacity in Andhra Pradesh, for that matter as you mentioned I think Dalmia's plant is expected to be commissioned

in probably Q1 of next year. There is Zuari, there is, you know, a host of companies. You know, what sense I am getting is, you know, in a place like Hyderabad, cement prices are almost, you know, rock bottom at 150 rupees a bag. So, a lot of guys would land up dumping a lot of cement into Tamil Nadu and, you know, places like Maharashtra, so I just wanted to get your sense on, you know, what do you anticipate in terms of, you know, the markets down south, even though, you know, we would see some sort of revival post stabilization of government in Andhra Pradesh and, you know, things like that?

Mr. Puneet Dalmia: I think it is very hard to forecast where the prices will be in the future. You know, we have always said that we expect downward pressure on pricing because of an excess supply situation for a short period of time.

Mr. Puneet: Sure.

Mr. Puneet Dalmia: And if the demand growth continues as we have forecasted and the government, you know, gets the economy to grow at 7% to 8%, I think this phenomenon should not last more than 18 to 24 months.

Mr. Puneet: Sure, sure, okay. And sir, in a place like Tamil Nadu where, you know, almost 50% of our sales in terms of cement go, where do you see the demand coming from in probably, you know, the next three-four quarters?

Mr. Puneet Dalmia: I think we are seeing a strong real estate sector. We are seeing, you know, a lot of focus on rural housing. We are also seeing government demand in government construction. So, I think all sectors, all components of demand are doing very well in Tamil Nadu.

Mr. Puneet: Right, right. And sir, what about, I mean the pricing per bag for H1 in terms of Tamil Nadu, what were the prices in the range of?

Mr. Puneet Dalmia: They were in the range of about 250 rupees a bag.

Mr. Puneet: 250, alright, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Nikhil Agarwal from Kim Eng Securities. Over to you sir.

Mr. Nikhil Agarwal: Good afternoon. Sir, I just wanted to know why was the freight cost so high in the last quarter?

Mr. Somnath Patil: Yeah, that is because one is the mix changed, railroad mix has changed quite a bit, that is point number one, more in favor of road and the dispatches from Kadapa happened mainly by road, so therefore that freight is higher than rail and secondly even the

rail freight was increased considerably during this period.

Mr. Nikhil Agarwal: Okay. So, going forward what do we expect, the same increase in freight cost?

Mr. Somnath Patil: Not increase, I mean it will continue at these levels it looks like.

Mr. Nikhil Agarwal: Okay.

Mr. Somnath Patil: Yeah.

Mr. Nikhil Agarwal: Yeah, thank you very much.

Moderator: Thank you very much sir. The next question comes from Ms. Sushanta Bhattacharya from Gupta Equities. Over to you ma'am.

Ms. Sushanta Bhattacharya: Thank you sir. Almost all my questions have been answered, but I would like to know one thing, what I got from your presentation is that the CC ratio has come down to 1.29, is it right sir?

Mr. Puneet Dalmia: That's right.

Ms. Nidhi Aggarwal: Yes, that's right.

Ms. Sushanta Bhattacharya: Is it year-on-year basis?

Ms. Nidhi Aggarwal: Yes.

Ms. Sushanta Bhattacharya: Okay. What is the CC ratio in sequential basis, like last quarter FY10?

Ms. Nidhi Aggarwal: Last quarter was about 1.31.

Ms. Sushanta Bhattacharya: 1.31. So, like now it is again down compared to the sequential basis, but then we don't see that impact on the RM cost if we compare it with as a percent of sales, like if I take it as a percent of sales, the RM cost has not decreased.

Ms. Nidhi Aggarwal: Okay. I think what we have to see here is basically our OPC blending has gone up...

Ms. Sushanta Bhattacharya: Okay.

Ms. Nidhi Aggarwal: ...and that has also impacted our power and fuel cost a little bit.

- Ms. Sushanta
Bhattacharya: Yeah, sure.
- Ms. Nidhi Aggarwal: So, it is reflected there.
- Ms. Sushanta
Bhattacharya: Yeah.
- Ms. Nidhi Aggarwal: And that is the reason why the margins are lower for the cement segment. In terms of raw material costing, we have given a split on the segment side and the numbers that you would probably be looking at are from the public result which also incorporates the sugar result.
- Ms. Sushanta
Bhattacharya: Okay.
- Ms. Nidhi Aggarwal: So, you would not really be able to compare the numbers.
- Ms. Sushanta
Bhattacharya: Okay. Okay, thank you, that's it from my side.
- Moderator: Thank you very much sir. Participants who wish to ask a question are requested to press * followed by 1 on your telephone keypad. The next question comes from Mr. Jamil Ansari from Nomura Securities. Over to you sir.
- Mr. Jamil Ansari: Yeah, hi, good afternoon. I am sorry if I am repeating this, but can we have a breakup of Dalmia's cement sales across regions, as to what are the broad regions that we sell into?
- Mr. Puneet Dalmia: 50% in Tamil Nadu, 25% in Kerala, 11% in Karnataka, 9% in AP, and 4% others.
- Mr. Jamil Ansari: 11 in Karnataka, 9 in AP.
- Mr. Puneet Dalmia: Yeah.
- Mr. Jamil Ansari: And is it possible to just give a rough sense as to how pricing has been in your key markets, Tamil Nadu, Kerala, and Karnataka?
- Mr. Puneet Dalmia: Tamil Nadu and...
- Mr. Jamil Ansari: On a Q-on-Q basis.
- Mr. Puneet Dalmia: Sorry...
- Mr. Jamil Ansari: On a Q-on-Q basis if you can give a sense.
- Mr. Puneet Dalmia: On a Q-on-Q basis, prices have basically been flat in Tamil Nadu and Kerala and they have dropped a bit in Karnataka and Andhra

Pradesh.

Mr. Jamil Ansari: In Karnataka and Andhra Pradesh. Roughly sir, is it more than 10% or so?

Mr. Puneet Dalmia: No, no, no, like 2-3%.

Mr. Jamil Ansari: 2-3. And secondly on your sugar this thing, I know it is early days, but what is the sense in terms of where is the production, cane production looking like for the current season?

Mr. Puneet Dalmia: I think we can't give you a guidance on that number, but we believe it is going to be better than last year.

Mr. Jamil Ansari: Okay, better than last year. You are not sharing any numbers in terms how much better than last year.

Mr. Puneet Dalmia: No.

Mr. Jamil Ansari: Okay, fine. Thanks a lot sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Rahul Adukia from Darashaw & Company. Over to you sir.

Mr. Rahul: Just a followup question, how have the coal prices behaved in the last quarter, just wanted to get a figure on that?

Mr. Somnath Patil: Coal cost has been at about 5600 rupees per ton.

Mr. Rahul: Okay.

Mr. Somnath Patil: Yeah.

Mr. Rahul: And sir, what is the coal mix actually, the fuel mix which you are using, is it completely 100% imported or there is some other fuel also which you are using?

Mr. Somnath Patil: The coal is completely imported.

Mr. Rahul: Okay.

Mr. Somnath Patil: And we are blending some amount of pet coke with it.

Mr. Rahul: Okay.

Mr. Somnath Patil: So, about 25-30% pet coke is being blended.

Mr. Rahul: So, effectively 70% is the imported coal right?

Mr. Somnath Patil; Yes.

- Mr. Rahul: And you are taking this coal from exactly where sir?
- Mr. Somnath Patil: From South Africa mainly.
- Mr. Rahul: Okay. And any sort of volume guidance in terms of cement which you would like to give us for this year?
- Mr. Puneet Dalmia: We don't give any future guidance, so I think you will know the monthly numbers, quarterly numbers, you can pro rate it and add some ramp-up to that.
- Mr. Rahul: Okay, thank you.
- Moderator: Thank you very much sir. The next question comes from Ms. Parul Patel from Almonds Capital. Over to you ma'am.
- Ms. Parul Patel: Good afternoon sir. How much could the blending ratio for the industry as a whole change so that the effective supply is much lower than the end of period capacity over the next say 15 to 18 months, so in a way the industry can help reduce the pricing pressure by doing so, so how much in your opinion can this reduction suck off the excess supply from the industry and to what extent and how easy it is to do this?
- Mr. Puneet Dalmia: I think if we look at the last five-year trend, the OPC mix came down from 66% to 33% from 2002 to 2007.
- Ms. Parul Patel: Alright.
- Mr. Puneet Dalmia: I think we can go back to 66% OPC from a current 33% level. I think all plants have that flexibility and it is to do so in the manufacturing process.
- Ms. Parul Patel: Alright.
- Mr. Puneet Dalmia: However...and if this is done, all the excess capacity in the industry can actually disappear. However, these are decisions made by local plants and depending upon their raw material access and the contracts they have to lift fly ash, etc. So, I think we still have to see how it eventually plays out, but I think this is certainly a lever to ensure, you know, that the excess capacity is sucked out for a few years.
- Ms. Parul Patel: Alright. So, I mean the only constraint one would have would be on the raw material front, otherwise it is just a strategic decision to be taken right.
- Mr. Puneet Dalmia: That's right.
- Ms. Parul Patel: Alright.

- Mr. Puneet Dalmia: I think even on the raw material front, I mean basically to the extent that companies have long-term contracts to lift fly ash...
- Ms. Parul Patel: Alright.
- Mr. Puneet Dalmia: ...they are bound by those contracts. But other than that it is pretty much governed by local management decisions.
- Ms. Parul Patel: Alright, alright.
- Mr. Puneet Dalmia: And every plant has flexibility to make that change on a literally daily basis.
- Ms. Parul Patel: Alright. Thank you sir and all the best.
- Moderator: Thank you very much ma'am. The next question comes from Mr. Jinesh Gandhi from Motilal Oswal Securities. Over to you sir.
- Mr. Jinesh Gandhi: Hi, good afternoon sir.
- Mr. Puneet Dalmia: Hi Dinesh.
- Mr. Jinesh Gandhi: My question is on your, you mentioned that fly ash cost has gone up quite substantially, about 30% on Y-o-Y basis, what would be it on quarter-on-quarter basis, would it be as high as 30% or how it is?
- Mr. Somnath Patil: Quarter on quarter, it has gone up from 475 to 525, so about 10%.
- Mr. Jinesh Gandhi: Okay, okay. And is it that availability of fly ash is a problem or why there is an increase in fly ash cost or is it that sourcing distance is increasing?
- Mr. Puneet Dalmia: I think as new plants are getting commissioned, initially we saw that there was, you know, slight increase in the, you know, demand for fly ash and because both...there were new plants which got commissioned in Tamil Nadu and the Tamil Nadu market was growing at about 12%.
- Mr. Jinesh Gandhi: Okay.
- Mr. Puneet Dalmia: So, I think it is a short-term issue. Overall, we expect fly ash prices to become more stable or generally hedged out.
- Mr. Jinesh Gandhi: Okay, okay. And coming to our expansion plans, would you update on your Andhra Pradesh plant, I actually joined in a bit late.
- Mr. Puneet Dalmia: Can we do that offline?
- Mr. Jinesh Gandhi: Surely. And third, on the pricing environment in South India which

has been under severe pressure, how would be your current realizations vis-à-vis your second quarter realizations of 3800 rupees?

Ms. Nidhi Aggarwal: I think we have faced a little bit of pressure in October if that is what you are asking.

Mr. Jinesh Gandhi: Yeah, I mean what magnitude of pressure it is?

Mr. Puneet Dalmia: I think the numbers are still to be seen, the month is not yet closed, but overall we would say prices have come down by about 2-3%.

Mr. Jinesh Gandhi: 2-3%, okay. And would your sales in Andhra Pradesh market at current AP price would be profitable?

Mr. Puneet Dalmia: Yeah, yeah, very profitable.

Mr. Jinesh Gandhi: Even at 150-155 rupees a bag?

Mr. Puneet Dalmia: I think we are not selling in Hyderabad. We are really selling in southern Andhra Pradesh and Karnataka.

Mr. Jinesh Gandhi: Where price decline...

Mr. Puneet Dalmia: Prices in southern Andhra Pradesh are still holding up at about 190-200 rupees a bag.

Mr. Jinesh Gandhi: Okay, okay. And post commissioning of our Ariyalur plant, our market mix will change in favor of AP market, would that be a right assessment?

Mr. Puneet Dalmia: No, it will change in favor of Tamil Nadu and Kerala market.

Mr. Jinesh Gandhi: We won't be selling as much in local market?

Mr. Puneet Dalmia: I think overall long-term mix is expected to be what you saw in the first half because the Kadapa plant is also going to ramp up...

Mr. Jinesh Gandhi: Okay.

Mr. Puneet Dalmia: ...and Ariyalur plant is also going to get ramped up. So, the long-term mix is not going to be materially different from what you have seen right now.

Mr. Jinesh Gandhi: Okay, got the point. Okay, thanks a lot.

Moderator: Thank you very much sir. The next question comes from Mr. Sameer from Asit C. Mehta. I have opened the lines, you can go ahead with your question now.

- Mr. Sameer: Thanks. Hi sir. What would have been the freight cost for coal for shipping from South Africa?
- Ms. Nidhi Aggarwal: It would be about 17 to 18 dollars.
- Mr. Sameer: 17 to 18?
- Ms. Nidhi Aggarwal: Yeah.
- Mr. Sameer: What would they have been during the same period last year and say Q1, Q4-Q1?
- Ms. Nidhi Aggarwal: It has gone up to about 40 dollars at peak time.
- Mr. Sameer: Okay.
- Ms. Nidhi Aggarwal: But I think it has been mainly stable for the last two quarters.
- Mr. Sameer: Okay, great. Thank you so much.
- Moderator: Thank you very much sir. Participants who wish to ask a question are requested to press * followed by 1 on your telephone keypad. I repeat, participants who wish to ask a question are requested to press * followed by 1 on your telephone keypad now. Next in line, we have Mr. Niraj Agarwal from CRISIL.
- Mr. Niraj Agarwal: Hi sir. You said your freight cost has gone up because of change in your mix as you said, can you tell me what is the mix in the current quarter and how was it in the corresponding previous quarter?
- Mr. Somnath Patil: It was 47.53.
- Mr. Niraj Agarwal: Okay.
- Mr. Somnath Patil: It was 48.52 last time, now it has come down to 43.57 at the rail to road.
- Mr. Niraj Agarwal: Rail to road. And sir, can you tell me, I mean what will be the impact of shift from rail to road, I mean in terms of per ton basis, the cost?
- Mr. Somnath Patil: It is about 110 rupees.
- Mr. Niraj Agarwal: 110 rupees.
- Mr. Somnath Patil: Okay, thank you sir, that's all from my side.
- Moderator: Thank you very much sir. Participants who wish to ask a question are requested to press * followed by 1 on your telephone keypad. The next question comes from Mr. Rakesh Arora from Macquarie.

Mr. Rakesh Arora: Good afternoon sir. My question is on your, you know, demand forecast, I think we had this discussion some time back also, meaning why is it so conservative at 8%, bulk of the economists around are forecasting GDP at around 8% and with India getting into this kind of a hyper mode on infrastructure, don't you think it would be a multiple of around 1.3-1.4X if not more?

Mr. Puneet Dalmia: I think at an all India level, we have seen a very healthy demand number of 12% which has positively surprised us, but we are also equally surprised by what has happened in Karnataka and Andhra Pradesh in the first quarter, in the first half.

Mr. Rakesh Arora: Right.

Mr. Puneet Dalmia: So, I think our view is that, you know, India will go through some of these uncertainties at a state level and the leadership at the political level may determine year-on-year swing. So, when we say 8%, we are talking about a long-term 10-year trend and we are not talking about a short-term year-on-year number, but I think also when we do capacity planning, we don't want to do it on a very optimistic demand level. So, we want to keep some upside in the pocket and some positive surprises will always help the profitability, but from an overall CAPEX planning, I think we want to take a balanced view on how quickly India can grow because at the end of the day we are a democracy and it takes time for us to get things done. So, yes, on a general level, I think GDP multiplier of 1.3 is eminently possible and, in fact, at the stage at which we are in, I wouldn't be surprised if the GDP multiplier for cement demand could be as high as 1.5-1.6 because the new roads will be probably cement roads, lot of urban infrastructure consumes a lot more cement than it had been earlier like if I see the Delhi Metro, Delhi Metro alone will consume about 6-7 million tons of cement, that is one project. So, I think the intensity of cement consumption is likely to go up. Our global forecast...our per capita numbers are significantly lower than global per capita numbers. So, I would not be surprised if this number is higher, but the question is how soon will this number happen is something which remains to be seen.

Mr. Rakesh Arora: And secondly sir, have you seen any fresh orders for cement plants, meaning in the last six months, eight months, have you noticed any activity on that side because if the demand continues to grow at around 12%...

Mr. Puneet Dalmia: Yeah.

Mr. Rakesh Arora: ...possibly we will reach the balance much earlier than what people think and can we have a similar kind of scenario which we saw in the last two years unfolding again in two years' time?

Mr. Puneet Dalmia: I think our answer is we are generally bullish in the long term, but we are a little cautious in the short term.

Mr. Rakesh Arora: So sir, you haven't ordered anything on the 10 million ton that you were proposing under SPV?

Mr. Puneet Dalmia: Rakesh, as I said, we are going to do these projects in a phased manner and we are going to make announcements as and when the Board decides.

Mr. Rakesh Arora: Correct. So, that is what I am saying sir, meaning we aren't seeing any major orders coming in...

Mr. Puneet Dalmia: At least from our side, we have not taken any major step as of now except putting more momentum behind these projects.

Mr. Rakesh Arora: Alright. And finally on Andhra, what is your thought, meaning are we done with the price cuts and all?

Mr. Puneet Dalmia: No, I think the situation is fluid and when the market is fluid, it is hard to predict how down it will go and how long it will stay for, I mean for how long it will stay at different levels and I think our view is that no matter how much you try, you cannot forecast these events. So, it is best to be prepared for the worst and hope for the best.

Mr. Rakesh Arora: Right. Thank you.

Mr. Puneet Dalmia: Thanks.

Moderator: Thank you very much sir. Participants who wish to ask a question are requested to press * followed by 1 on your telephone keypad. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Puneet Dalmia for final remarks. Over to you sir.

Mr. Puneet Dalmia: Overall, I think we are very happy with the way the company is developing. Despite a difficult year at a global level, I think the company has still grown 25% in top line and 25% in bottom line, so we are happy that our continued top line growth is also parallelly supported by profitable growth. We are also seeing a very good environment for the sugar business and we are happy about it because we made large CAPEXs in this business two-three years ago and they were a drag on the profitability for a couple of years. We also are forecasting a tough second half in terms of prices as far as our cement business is concerned, but we believe that part of that downside will get offset by the volume increase that will come through in the company because of the large capacities that we have commissioned. So, I think overall we can still promise a healthy growth in top line and bottom line for continued period and we have a good growth pipeline of

projects which we have incubated, which will enable us to utilize the capital which the...the cash which the company is generating to continue to build momentum in our process. Thank you very much for your support and we continue to look forward to this interaction. Somnath, you want to make any comments?

Mr. Somnath Patil: No, I mean added to that is the good economic environment that we are seeing in sugar and that should add significantly to our bottom line and also act as a buffer to some kind of cement price correction which we anticipate.

Mr. Puneet Dalmia: I also want to make one more point which we have shared in our investor presentations. We were ranked 9th in the Indian Manufacturing Industry in the Best Employer Survey done by Hewit. So, it is a recognition for all the effort that we have put in in terms of building a strong human resource focus in the company and I think we will continue to put more and more efforts behind this very critical area in the company in the years to come because this is critical for strengthening the continued growth which is going to delivered by the Group. Thank you very much.

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx's conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.
